Consumer Corner

COVID-19 and the Canadian consumer

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Alberta

Consumer behaviour during COVID-19

While consumer behaviour changes over time, the COVID-19 pandemic is forcing consumers to change their behaviours and lifestyles at a speed and scale unlike ever before.

Market research data provides insights on consumer spending patterns in key global markets during this pandemic. Some of these findings are shared in this issue to help Albertans and the Alberta agri-food sector to understand market changes and plan for what comes next.

Nielsen,[1] after analyzing global market data, has identified six key consumer threshold levels (Figure 1) that tie directly to consumer concerns around the COVID-19 pandemic. According to their analysis, as of April 9, 2020, Canadian consumers were in threshold number five, where living is restricted.

Alberta announced its first case of COVID-19 on March 5, 2020. Since then consumers in Alberta have gone through most of the phases. Phase three, where consumers started pantry stockpiling, was the most impactful for the food sector. Until the end of the third week of March, Canada was in phase three, where consumers were stockpiling their pantry with shelf-stable foods and a broader assortment of health and safety products. In this stage, store traffic increased significantly with bigger basket sizes.

During the time when Canada was in phase four, consumers were preparing for quarantined living. Consumer store visits declined and they began online stockpiling. That situation lead to more out-of-stock situations, which put additional strains on retailers and the supply chain. This also put logistical pressure on home delivery networks. The fact that major retailers such as Walmart, Loblaw and Save-On-Foods have been hiring thousands of employees to keep up with the grocery demand is evidence of this pressure.

Threshold five, 'restricted living', where Canada was as of late April 2020, has severely restricted shopping trips. Online fulfillment has also been limited. The current situation in the U.S. is the best example. On March 16, 2020, Amazon announced that they were investing in opening 100,000 new full and part-time positions across the U.S. in their fulfillment centres and delivery network to meet the surge in demand. The logistical difficulties and labour costs of fulfilling food shipments may have lead to increasing food prices in some cases.

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[1] Nielsen is a global measurement and data analytics company that provides views of consumers and markets worldwide.

Figure 1: Key consumer behaviour thresholds

#1 PROACTIVE HEALTH-MINDED BUYING	#2 REACTIVE HEALTH MANAGEMENT	#3 PANTRY PREPARATION	#4 QUARANTINED LIVING PREPARATION	#5 RESTRICTED LIVING	#6 LIVING A NEW NORMAL
CONSUMER BEHAVIOUR SHIFTS					
Interest rises in products that support overall maintenance of health and wellness.	Prioritize products essential to virus containment, health and public safety. e.g. face masks	Pantry stockpiling of shelf-stable foods and a broader assortment of health-safety products; spike in store visits; growing basket sizes.	Increased online shopping, a decline in store visits, rising out-of-stocks, strains on the supply chain.	Severely restricted shopping trips, online fulfillment is limited, price concerns rise as limited stock availability impacts pricing in some cases.	People return to daily routines (work, school, etc.) but operate with a renewed cautiousness about health. Permanent shifts in supply chain, the use of e-commerce and hygiene practices.
COMMON COVID-19 EVENT MARKERS					
Minimal localized cases of COVID-19 generally linked to an arrival from another infected country.	Government launches health and safety campaign. Local transmission and / or first COVID-19 related death(s).	Small quarantines begin, borders close more broadly. Often represented by accelerating cases of COVID-19, but not necessarily by deaths.	Localized COVID-19 emergency actions. Restrictions against large gatherings; schools and public places close down. Percentage of people diagnosed rises.	Mass cases of COVID-19. Communities ordered into lockdown. Restaurant closures, restrictions on small gatherings.	COVID-19 quarantines lift beyond region/ country's most-affected hotspots and life starts to return to normal.
NOTE: These represent TYPICAL markers of these stages, but are not always consistent, especially with the number of cases or deaths.					

Source: Nielsen
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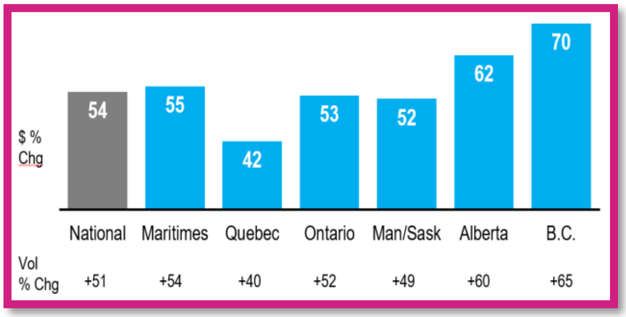
As observed in other countries, when consumers are progressing through these stages, their thoughts and actions may change. Nielsen's ongoing investigation into the pandemic has found shoppers are exhibiting signs that they may begin to steer away from products that travelled long distances with multiple human touchpoints. That means, products that come off factory lines or rely on distribution systems from some of the hardest hit countries could face challenges, and multinational brands will need to work to maintain consumer confidence.

Evidence from retail sales data

Nielsen's weekly retail sales performance summary reports provide evidence for their consumer behaviour model in Canada.

As stated above, Canadian consumers were in threshold number three around the third week of March 2020. According to Nielsen, the week ending March 21, 2020 recorded a record setting pace of sales of nearly three billion in Fast Moving Consumer Goods (FMCG). This category of goods includes food. Compared to the same week in 2019, this is a 54 per cent increase in sales. Regional data showed record sales growth for all Canadian provinces (Figure 2).

Figure 2: Regional sales growth for groceries during the week ending March 21, 2020



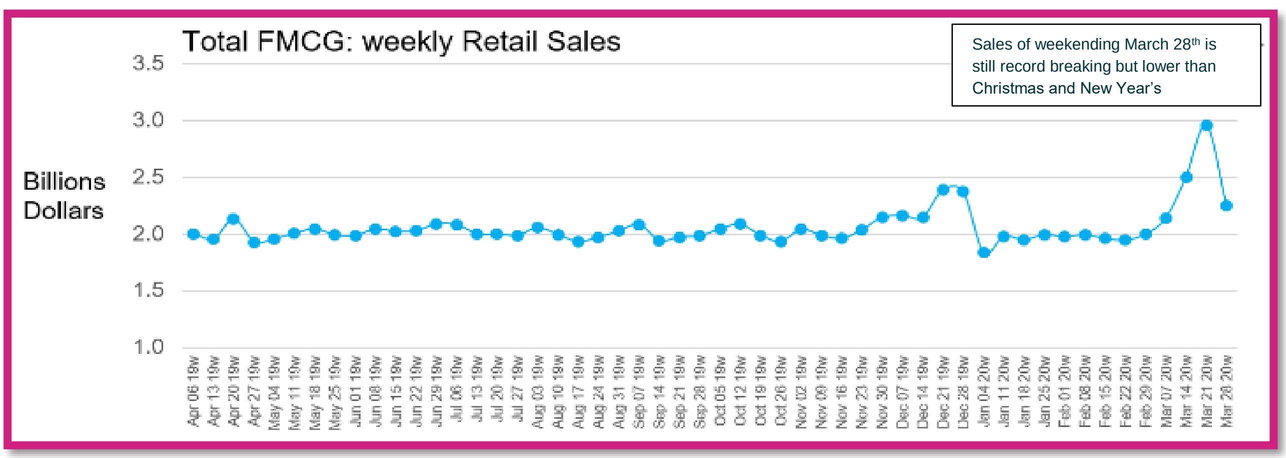
Source: Nielsen, MarketTrack, National All Channels, week ending March 21, 2020 vs one year ago
Total Tracked Sales including Fresh Random Weight

Corresponding to the next threshold (number four), during the last week of March 2020, FMCG sales reported a drop of $700 million from the previous week. However, this was still 18 per cent higher compared to the same week in 2019. As illustrated in Figure 1, reasons may include declining store visits and rising out-of-stock situations. The weekly sales of FMCG shows this trend clearly (Figure 3).

Quick surveys conducted by the Field Agent Daily Panel Check[2] reports some out-of-stock categories were observed by Canadian consumers during this period. Fresh produce, fresh meat and seafood, eggs, bakery, pasta/pasta sauce, milk products, rice and some frozen products are among the top out-of-stock food products in the physical supermarkets as well as in online grocery orders.

The sales data provided by Nielsen reveal the top 10 growth categories for Canada during March 2020. As illustrated in Figure 4, prepared foods, refrigerated/dairy and frozen foods topped sales with $348.0 million, $225.9 million and $196.6 million respectively. With limited options to dine out and consumers in the process of preparing for quarantine living, these patterns were expected. Increased sales of fresh meat and fresh vegetables may indicate more meal preparation at home.

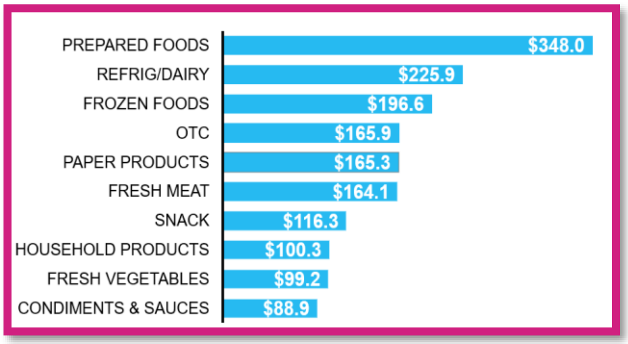
Figure 3: Weekly retail FMCG sales for the year ending March 28, 2020



Source: Nielsen, MarketTrack, National All Channels, week ending periods.
Total Tracked Sales including Fresh Random Weight

[2] Field Agent is on-demand platform for retail audits, mystery shops and market research.
https://www.fieldagentcanada.com/blog/daily-panel-pulse-check and https://ca.fieldagent.net/client/dashboard/#/results/job/32520

Figure 4: Top 10 growth categories in Canada- based on absolute dollar growth ($ millions)



Source: Nielsen MarketTrack and IQVIA, National All Channels – Four weeks ending March 28, 2020 - Total Tracked Sales including Random Weight Fresh

Figure 5: Canadian grocery category sales percentages growth during March 2020

COS Food		COS Non Food		Perimeter	
48.4%		23.1%		28.5%	
PREPARED FOODS	+77	PAPER	+87	MEAT & SEAFOOD	33
BAKING NEEDS	+67	HOUSEHOLD	+56	BAKERY	17
FROZEN FOODS	+43	BABY CARE	+41	PRODUCE	14
CONDIMENTS & SAUCES	+34	OTC	+38	-VEGETABLES	19
HOT BEVERAGES	+32	PET NEEDS	+26	-FRUIT	9
SNACK	+27	ORAL HYGIENE	+24	DELI	6
COLD BEVERAGES	+25	BODY CARE	+24		
REFRIG/DAIRY	+25	HAIR CARE	+13		
DESSERT	+16	SHAVING	0		
CONFECTIONERY	+11	COSMETICS	-22		

Note: Centre of store categories exclude general merchandise. Source: Nielsen MarketTrack and IQVIA, National All Channels – Four weeks ending March 28, 2020 - Total Tracked Sales including Random Weight Fresh

To put consumers' food purchasing patterns from groceries during COVID-19 into perspective, Nielsen Canada has put together sales growth numbers for centre of store food (dry, frozen and packaged/ bottled products), centre of store non-food and perimeter of store products (fresh products, bakery and deli) during March 2020. As illustrated in Figure 5, centre of store outperforms as consumer needs suddenly change. Prepared food (dry grocery), refrigerated, dairy, and frozen food category sales increased as consumers reduce trips to stores and favour products with longer shelf life.

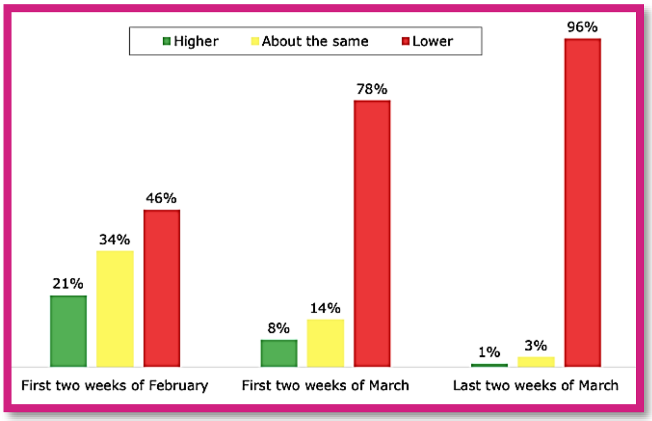
What is happening in the foodservice sector?

Due to expanded lockdown measures and heath authority recommendations, consumer access to food service remains limited. According to Restaurants Canada's latest Restaurant Outlook Survey,[3] restaurant operators saw their sales plummet over the course of mid-February to the end of March (Figure 6). At the end of March, lower revenues and social distancing measures imposed by governments resulted in 53 per cent of operators temporarily closing down their entire operation. While some restaurants remain open for delivery and takeout, many have laid-off workers or cut back staff hours. According to an industry advisor,[4] as of the end of March 2020, the industry was down by approximately $3 billion, representing a 72 per cent loss in sales and 800,000 lost jobs.

[3] Restaurants Canada. https://www.restaurantscanada.org/resources/impact-of-covid-19-devastates-restaurant-industry/

[4] Robert Carter of Straton Hunter, Foodservice industry analyst

Figure 6: Survey responses to the question: Was your total sales volume (on a same-store basis), higher, lower or about the same as it was during the same period 2019?



Source: Restaurant Canada's Restaurant Outlook Survey

According to Techomic Canada,[5] the future of the foodservice sector looks dim. They forecast a consumer foodservice spending contraction of 24 (best-case scenario) to 28 (worst-case scenario) per cent for restaurants in the year 2020. Travel and leisure related foodservice spending are predicted to contract 46 to 60 per cent.

Technomic also reports the number of innovative activities that the industry is taking to mitigate some of the risk. These include:

- Offering meal kits for their menu items
- Selling essential supplies (food ingredients and grocery items) from their pantries
- Using wait staff to deliver orders
- Adapting menu innovations, such as family meal offerings, streamlining menu items with limited options, etc.

They also predict that in the future, there will be fewer operations with industry consolidation. Demand will be higher for local/independent food services. More and more restaurants will be operating with streamlined menus and with their own delivery services.

[5] Technomic webinar: COVID-19's Impact of Canadian Foodservice

Implications of COVID-19 on the agri-food sector

As explained before, there is a significant shift in where consumers are buying food because of the pandemic. While food use in large-scale establishments, such as hotels, restaurants, sports arenas/stadiums and universities suddenly declined, the demand for food at grocery stores increased. The industry assures that there are no nationwide shortages of food. However, in the short-run there are cases where the inventory of certain foods at grocery stores are temporarily low leading to out-of-stock situations, before stores can restock. As mentioned above, surveys conducted by the Field Agent Daily Panel Check, reports some out-of-stock categories observed by Canadian consumers during early April 2020.

Also, as identified in Nielsen's consumer behaviour thresholds, there was a surge in demand for online ordering, home deliveries and takeaway foods. While the businesses who already have systems to accommodate such demand may be performing reasonably well, those who do not may be struggling.

The closure of many food service establishments has created additional issues. Some product orders originally destined for food establishments have now been cancelled. This situation has affected many food supply chains including some producers, processors and distributors. Industry sources say that supply chains are taking various measures to mitigate the disruptions. Some examples include diverting food products from food service destinations to grocery stores and increasing freezing and freezer capacities to store excess production.

Another short-term impact is the issues in food supply chains due to labour absenteeism and shortages. As of mid-April 2020, there were a number of cases where food-processing facilities, specifically meat processing plants, had to close or reduce shifts. This situation may lead to some shortages of food products and price increases in some cases.

Many global markets are still in the middle of the pandemic. However, there are some early signs that consumer long-term behaviour will be changed by COVID-19. Nielsen has identified three critical accelerators that affect consumer behaviour.

1. **Emphasize quality and efficacy**
   The pandemic experience will make consumers seek greater assurance that the products they buy are free of risk and of the highest quality. This may require manufacturers, retailers and other related industry players to emphasise quality and to clearly communicate why their products and supply chains should be trusted.

2. **Rise of local and be transparent about local origin**
   Locally produced products may fast become a necessity for consumers concerned about products originating from countries where COVID-19 has spread. More than ever, shoppers want complete transparency from farm to factory to distribution. They may want details of the measures being taken to assure food safety. Promoting a product's local origins could help manufacturers and retailers mitigate some consumer concerns.

   Local products and brands have been gaining popularity across the globe over the past couple of years.[6] Consumers have typically closely associated products of local origin with supporting local business, aligning with home-grown heritage or seeking fresh foods grown close to home. But as fears about COVID-19 spread, consumer thoughts and actions are changing globally which represents an opportunity for retailers and manufacturers to leverage the appeal of local to mitigate consumer concerns.

3. **Leverage technology**
   With lockdowns, limited access to physical store shopping and many people working from home, consumers will have greater motivation and fewer perceived barriers to actively seek technology-enabled solutions. Companies that can leverage technologies by meeting changing consumer demand online have the opportunity to earn consumer loyalty well after consumers' COVID-19 concerns subside. Experiences in global markets show that despite the challenges (unprecedented consumer demand outstripping the e-commerce delivery capabilities of retailers) consumers can quickly adapt their shopping behaviour when they need to.

According to a recent survey,[7] 30 per cent of Canadians are shopping online for groceries. This marks a 58 per cent jump from a comparable survey conducted just four weeks earlier, before the coronavirus was declared a global pandemic.

Key Takeaways

- The majority of consumers are concerned about COVID-19 and, therefore, consumer behaviour will continue to change affecting the agri-food sector in many ways.
- According to Nielsen's consumer behaviour thresholds, Canadians are under restricted

[6] Nielsen Insights. https://www.nielsen.com/ca/en/insights/article/2020/covid-19-concerns-are-a-likely-tipping-point-for-local-brand-growth/

[7] Grocery Business. Survey commissioned by PayPal. https://www.grocerybusiness.ca/news/57-spike-in-canadian-online-grocery-shoppers-report

living with severely restricted shopping trips, increasing online shopping but with some limitations to fulfilments and limited stock/out of stock situations.

- The retail sector reported record-breaking sales during March 2020 with prepared foods, refrigerated/dairy and frozen foods topping the list.
- Lock down measures and social distancing have severely affected food service industry operations. Consumer spending on foodservice are forecast to contract by 24 (best-case scenario) to 28 (worst-case scenario) per cent for restaurants in 2020.
- COVID-19 impacts on retail and the food service sector have trickled-down to other members of the food supply chain, such as producers, processors and distributors.
- There are some early signs that consumer food purchasing patterns may change permanently. As market data and research suggest, product quality and transparency, local products, and technology solutions for product purchases, are the most important factors for consumers. Agri-food companies who can leverage these factors will have a greater chance of performing well in these turbulent market conditions.