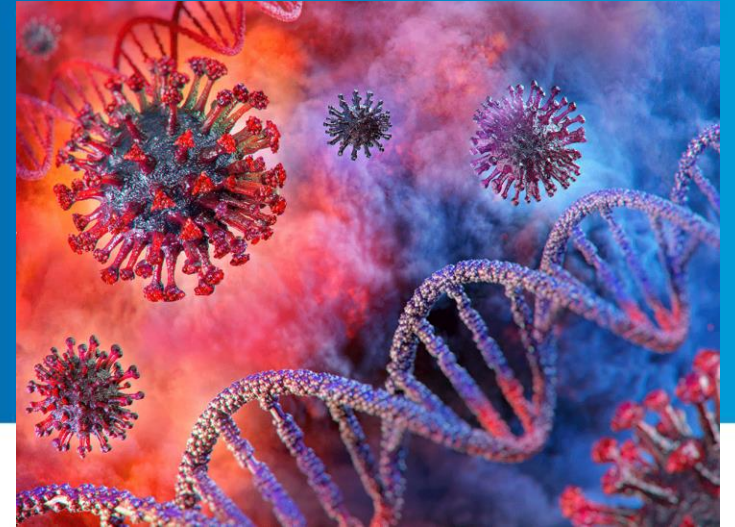

Covid-19 Range Impacts

Stephen Jacobs

April 2020



Headlines?

Smaller companies are being locked out

of a supply chain that can not satisfy demand.

Fast moving core SKU's recover distribution first

that were stocked in all stores.

With Private Label taking priority over brands.

Two new lockdown norms are emerging.

Categories that are settling between +10% and +20% up.

(Home cooking, home hygiene, BWS.)

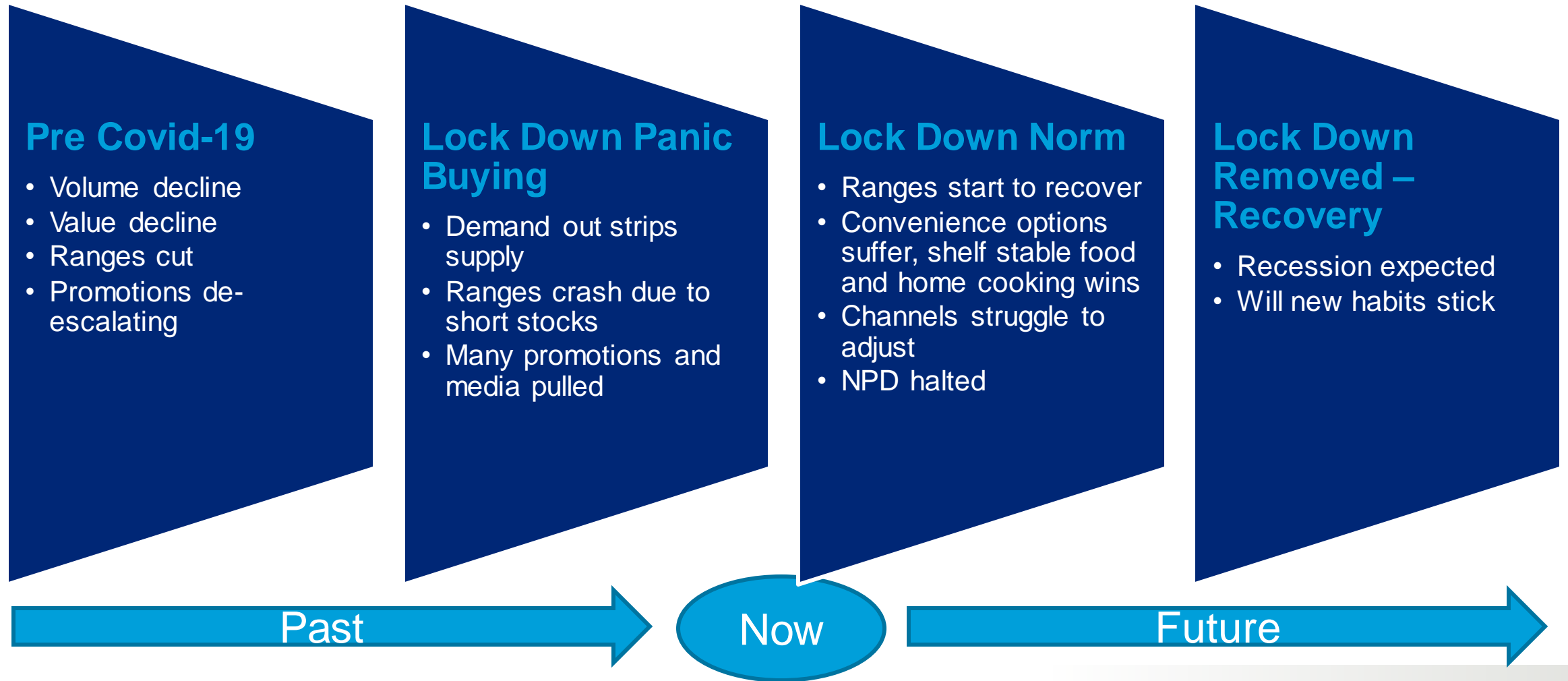
Categories in significant decline.

(Convenience and non essential)

Will retailers give preference in store and in the supply chain to the first group?

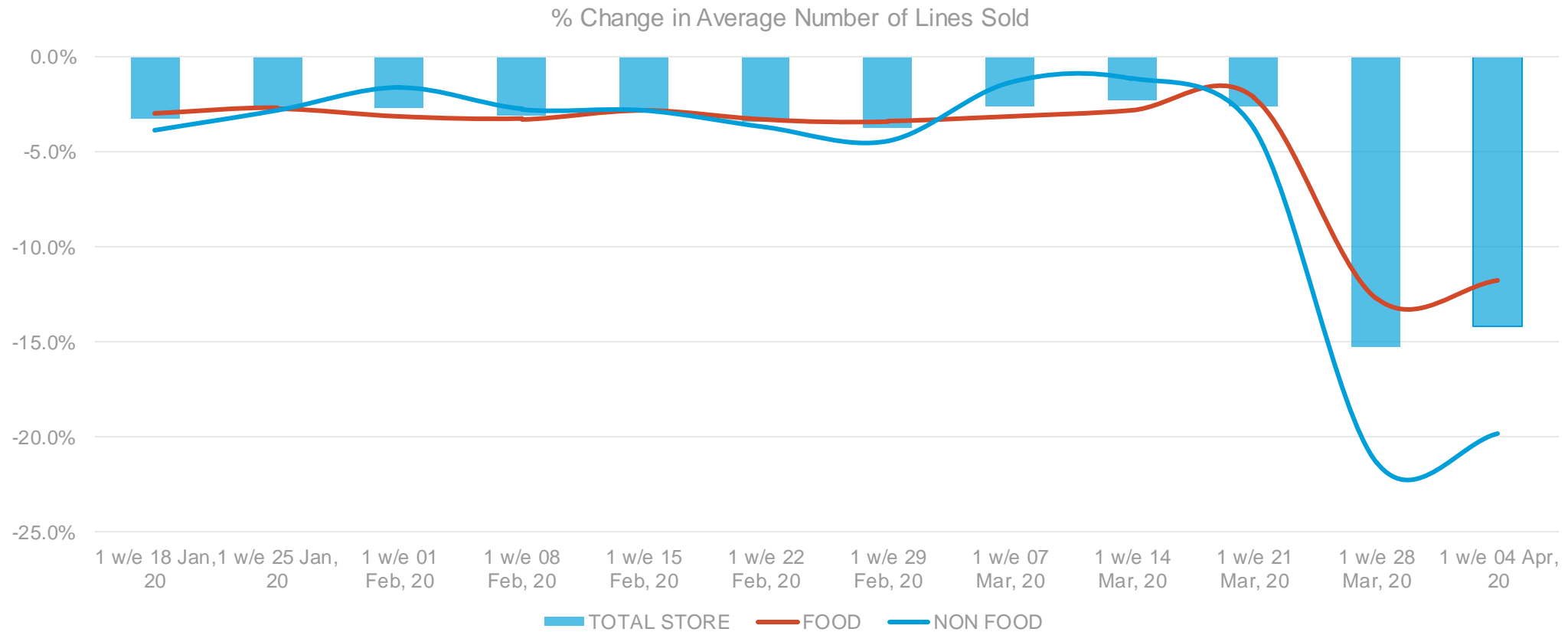
Where are we now?

The data we are looking at is transitioning between the 2nd and 3rd phase.



How have ranges changed across Sectors?

- With demand outstripping supply ranges have been reduced by -15% due to low stock, with a marginal recovery in WE 4th April 2020. Non-Food has seen a greater impact at -20%, compared to Food at -12%.

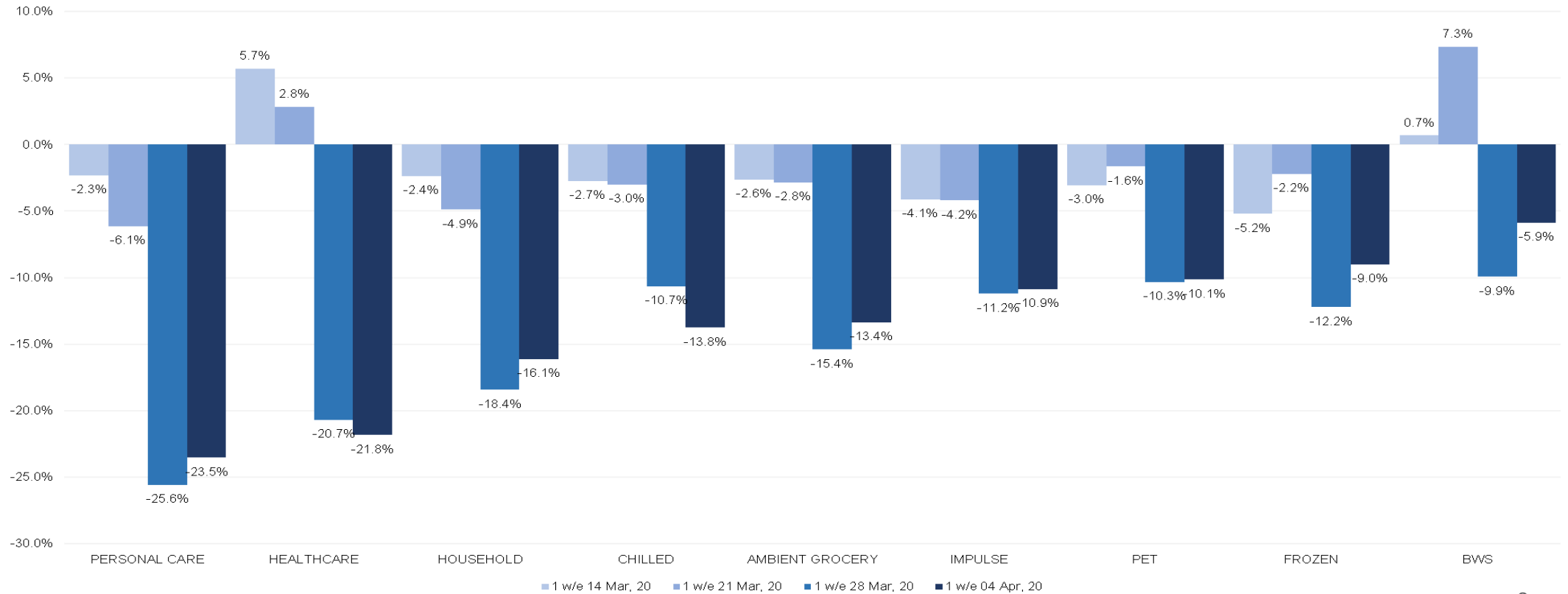


Source: IRI Total Store

How have ranges changed across departments?

- Non Food departments have been hit harder than food with little signs of a fast recovery. Given that pubs and restaurants are now closed it's not surprising that BWS ranges have seen the least reduction and the fastest recovery.

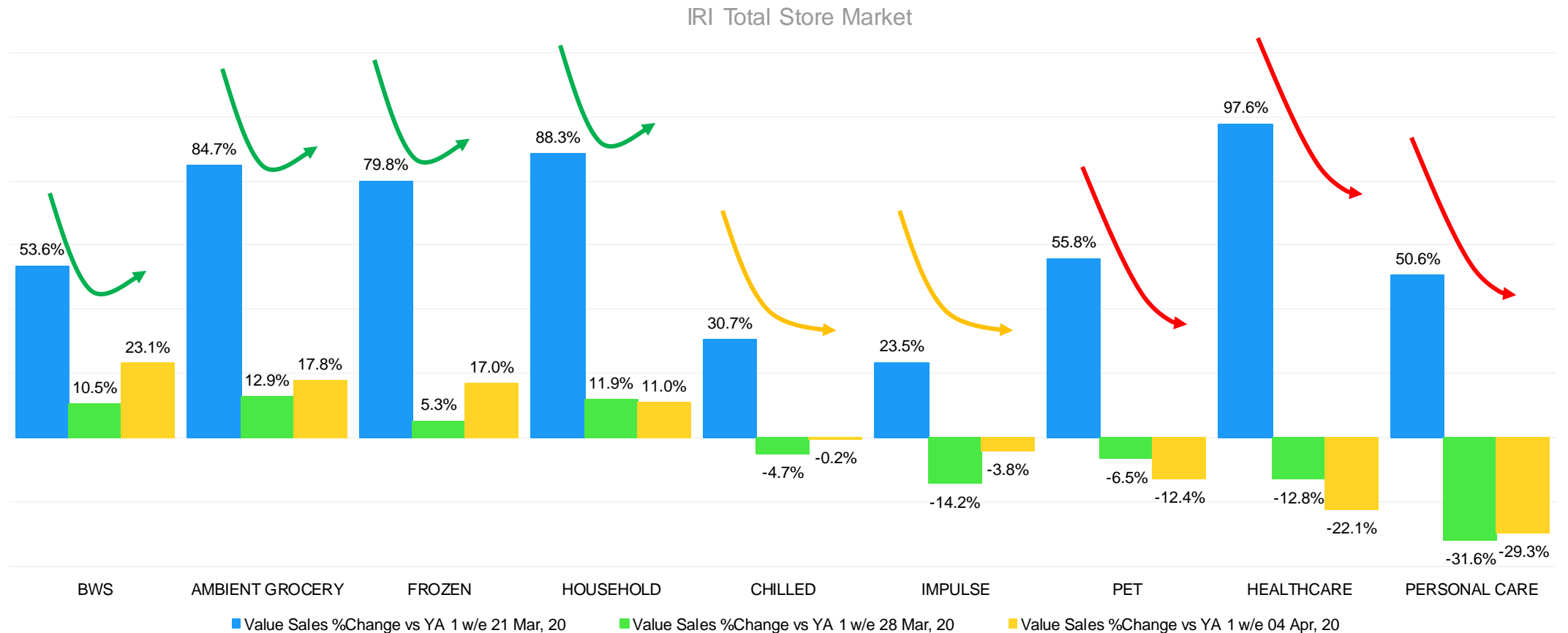
% Change in Average Items per Store Selling



Source: IRI Total Store

What do the new lockdown norms look like for departments?

- BWS, Ambient, Frozen and Household are all benefiting from the new lockdown norms and look to stabilize between +10% and +20% in the short term. Chilled and Impulse had less impact and look to have a small negative going forward. However Pet, Healthcare and Personal Care are now in double digit declines, this could be both a result of stockpiling and lower onward demand.

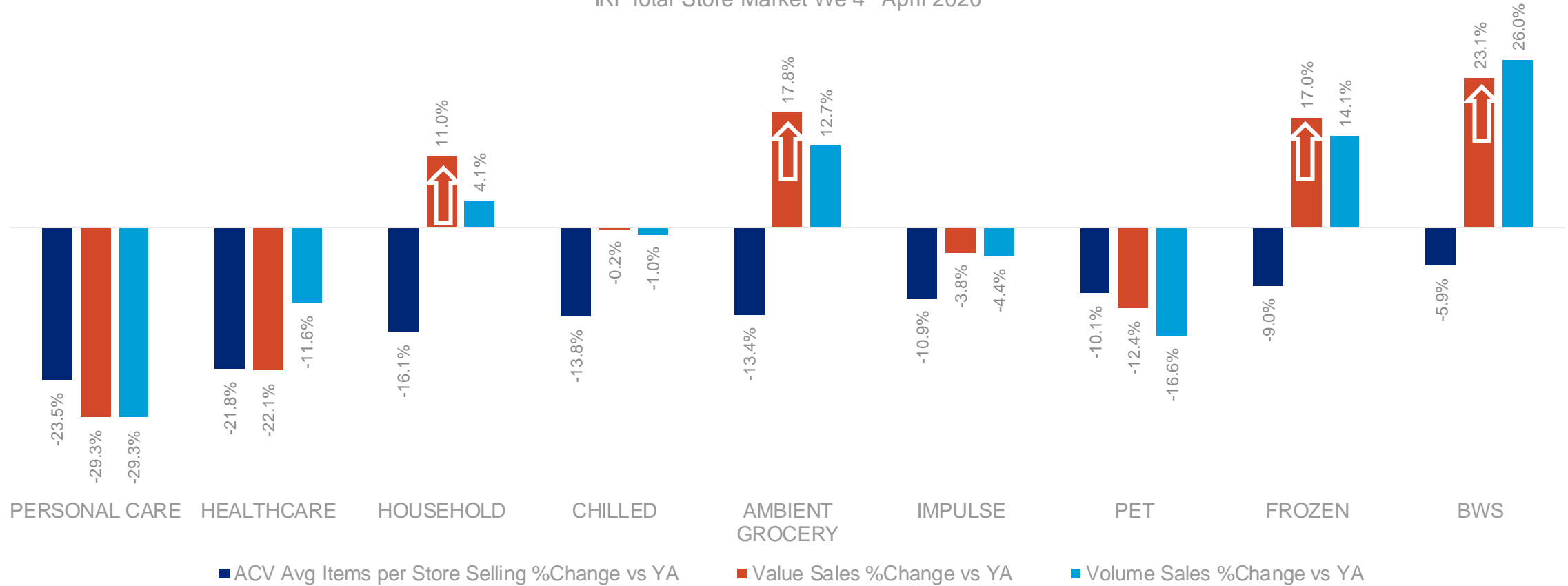


Source: IRI Total Store

How do range changes compare to performance across departments?

- Range has declined across the board, but 4 out of the 10 departments delivered a significant improvement in performance, while Personal care, Health care and Pet sales have slumped.

IRI Total Store Market We 4th April 2020



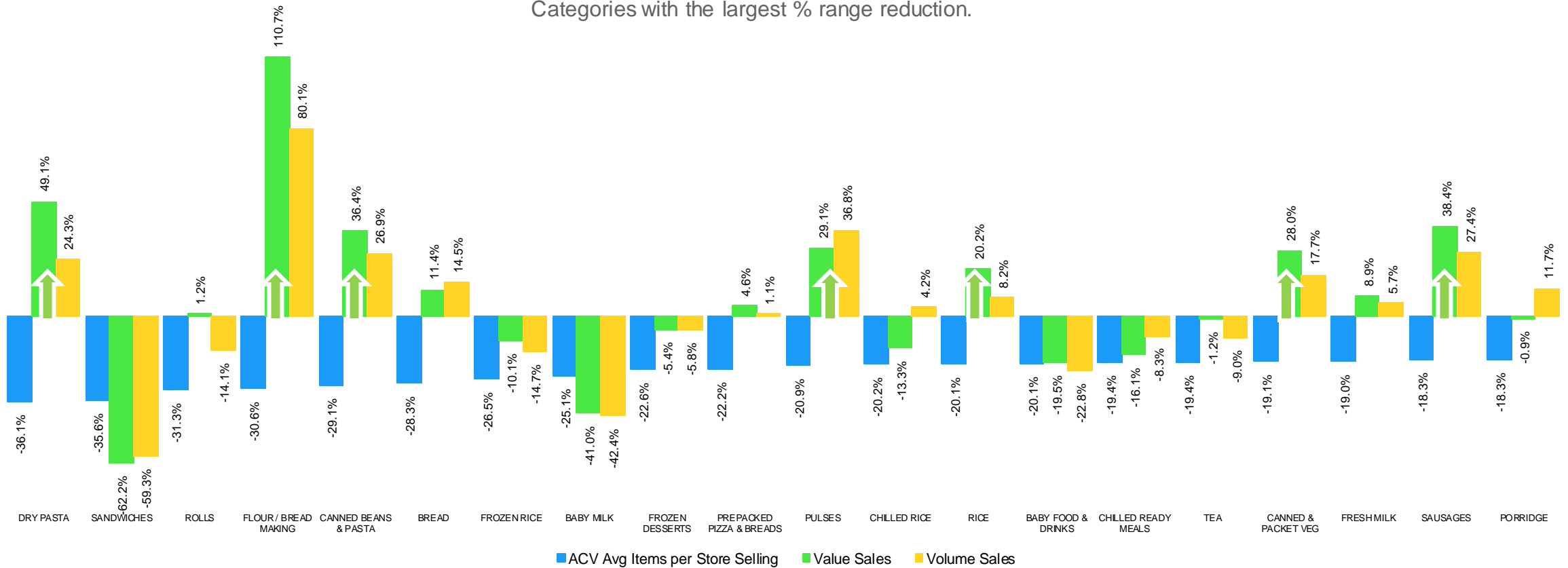
Source: IRI Total Store



How have ranges changed across Food Categories?

- Categories fall into two groups: Pasta, Flour, Canned Beans, Bread.... That have less range with much higher sales and Sandwiches, Frozen Rice, Chilled Ready Meals... that have less range and falling sales. Will retailers adjust their shelf space allocation and supply chain priorities in favours of the first group?

% Change on Last Year, IRI Total Store Market We 4th April 2020
Categories with the largest % range reduction.



Source: IRI Total Store

Tesco Pasta Range

Week Ending 4th April 2020

Top line – Ranges have not fully recovered and it looks like Tesco are building back the old range as fast as they can, giving priority to the core fastest selling ranges, with Private Label having priority.

Ranges are recovering with total numeric distribution down -38% on the period prior to the panic buying.

Tesco have prioritized their Own Label core SKU's over branded product.

Of the core range of 8 lines that are stocked in all stores, 3 are in almost full supply. The two branded line in this range have -64% less distribution now.

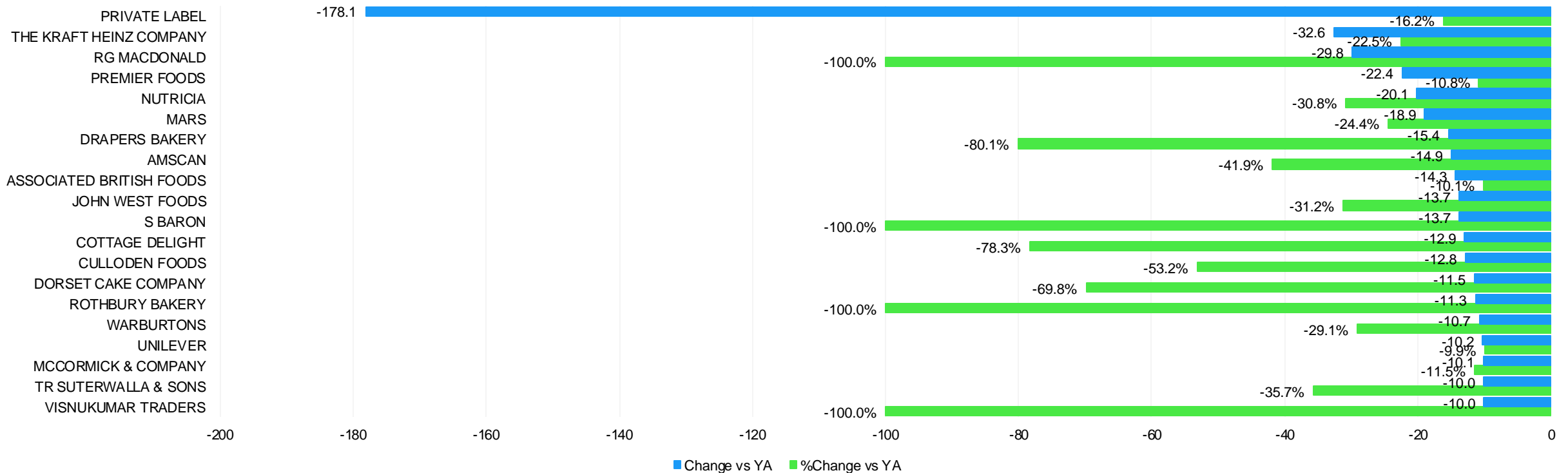
As you go through the breadth of the range that is sold in larger stores, it's clear distribution is much lower, with -41% less range available now, with 10 out of 53 line out of stock. The out of stock lines are made up of value and premium options like Organic, Whole-wheat.



How have ranges changed across Companies within Ambient Grocery?

- The bigger players are fairing better. While they are seeing some of the largest range reduction in number of lines stocked, they have broader ranges and are “staying in the game”, with their core fast selling lines. Smaller players see their smaller ranges cut by a few lines, but this translates into a 100% reduction, putting them on the side lines until the supply chain can recover.

Companies with the largest actual range reduction,
IRI Total Store Market We 4th April 2020



Note this slide has been replicated for every department on hidden slides.

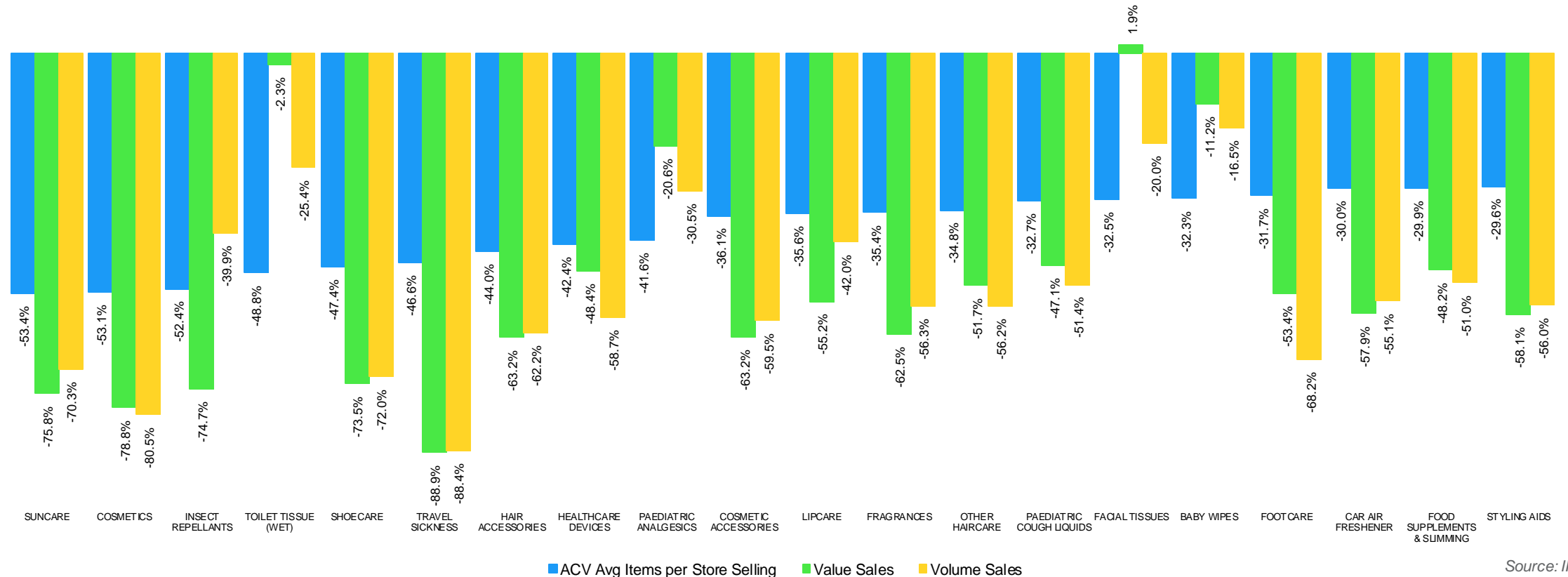
Source: IRI Total Store



How have ranges changed across Non-Food Categories?

- In Non Foods the picture is very different with most categories in a performance downturn, that is significantly greater than the range reduction. This could start a downward cycle of: lower performance -> less range -> lower performance -> less range.....

% Change on Last Year, IRI Total Store Market We 4th April 2020
Categories with the largest % range reduction.

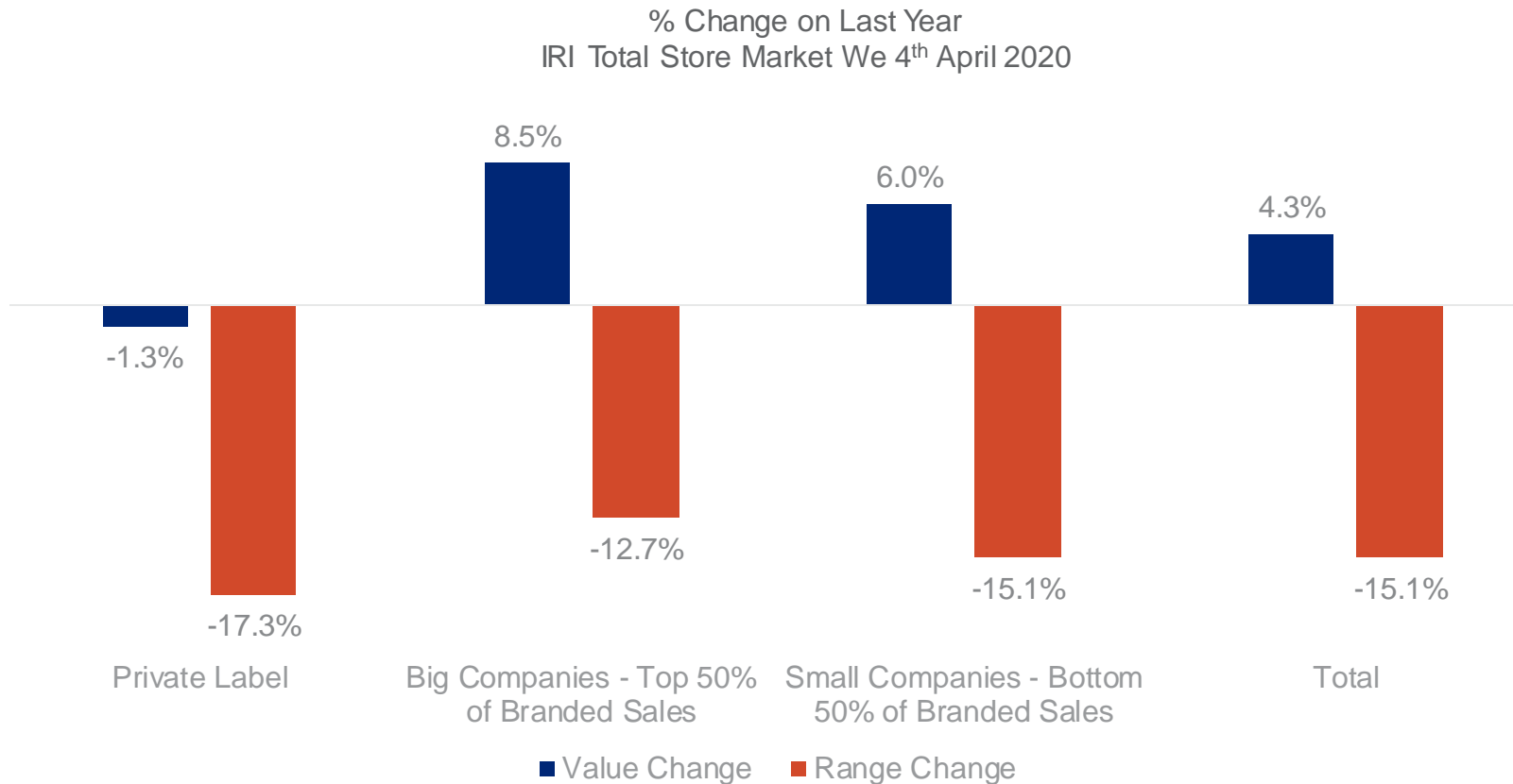


Source: IRI Total Store



How have ranges changed across Companies?

The impact in range reduction is broadly similar across the three groups with bigger branded companies slightly better off and Private Label worse off regarding range. Bigger branded companies are gaining most sales growth, with fewer promotions driving up value.



Source: IRI Total Store

Are customers trading up to larger packs?

The following categories are showing Volume growth ahead of Unit growth indicating customers are trading up to larger packs. These tends to be categories that are purchased with higher frequency or categories you would not want to run out of.

Categories with high frequency

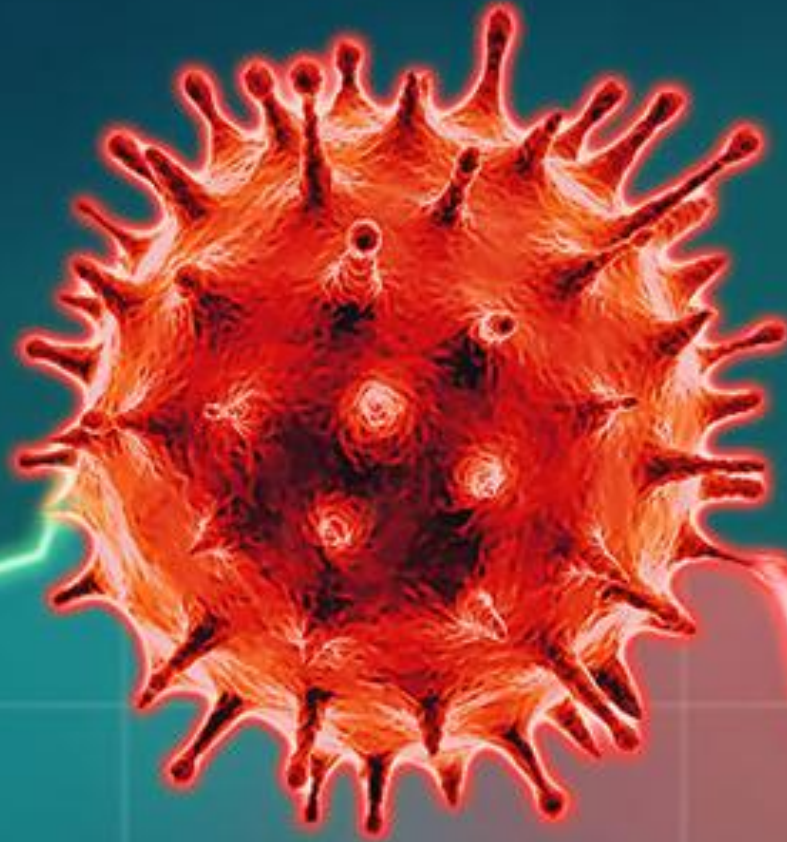
CRISPS, SNACKS & NUTS
SOFT DRINKS
CONFECTIONERY
BWS
FRESH MEAT
BISCUITS
AMBIENT DESSERTS
FRESH EVERYDAY MILK
SAVOURY FROZEN
FRESH FISH
CHILLED DAIRY & DESSERTS
BREAKFAST CEREALS
PETCARE
BAKERY
PRESERVES & SPREADS
SWEET FROZEN
CHILLED MEALS
HOT BEVERAGES

Categories you would not want to run out of

OTC SKIN TREATMENTS
INSECT REPELLENTS
VITAMINS & MINERALS (INC ANTI-TIREDNESS) AND NUTRITION
SUNCARE
CLEANING PRODUCTS & POLISH
HOUSEHOLD SUNDRIES
HAIRCARE
DEOS & PERSONAL WASH
OTC PAIN TREATMENTS



What changes have we seen in past recessions?



External measures

- Taxes Increasing (VAT).
- Consumer confidence is a key measure.
- Customers are looking for reliable quality brands with less focus on innovation and aspiration (IGD).

IRI Measures

- Own Label share improves.
- Brands promote harder.
- Food and Drink spend switches to in home.
- Increased price sensitivity.
- Prices increases are suppressed.
- Non Food sales hit harder with prices rising faster than food.
- Fewer NPD launched.
- Pack size reductions to hit key price points.

Source: IRI unless stated otherwise)

Conclusion

Things are changing like never before making forward trends hard to predict. We will not know the full picture until the supply chain recovers and most of the stockpiling has worked its way through the system allowing customers to shop again based on their new demand. This set of data gives the first indications of what the new lock down norms might look like. With a big shift towards home cooking and hygiene, as convenience is no longer the pull it was.

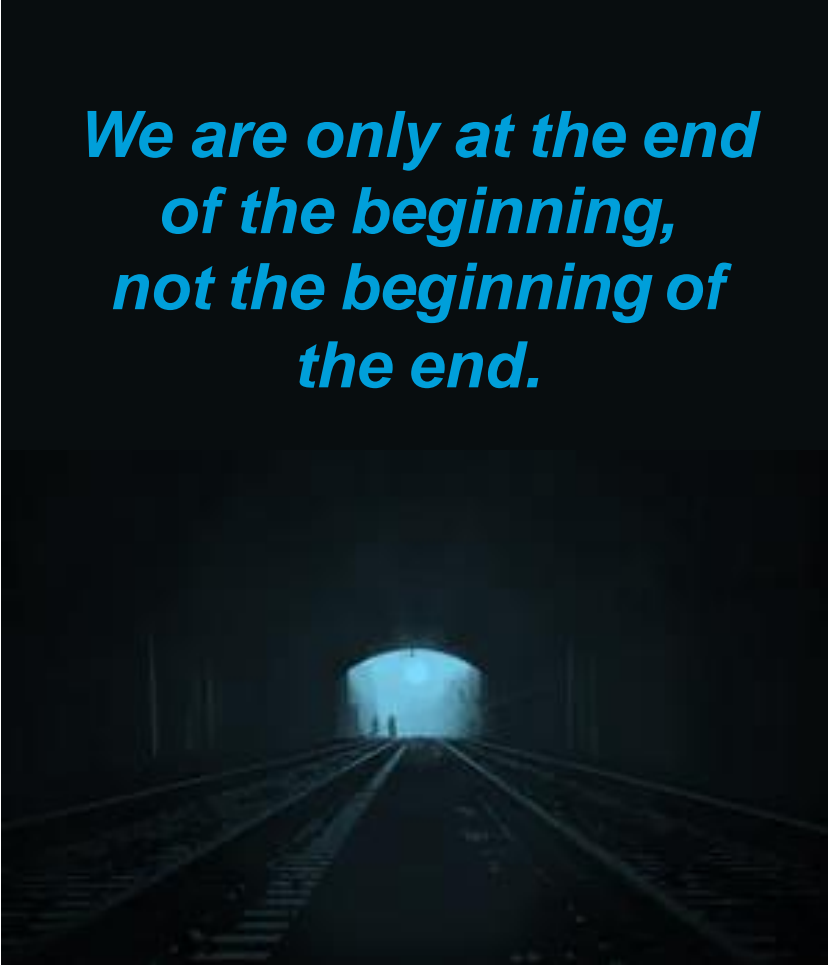
Range has moved towards the core range (easier to manage big volumes). With smaller players side-lined, they could be in a tough place not knowing if and when they might return to the fixture.

The immediate outlook is less about strategy and more about achieving the most with limited resource. With staffing levels low and in store movement restrictions in place capacity is limited, we could be operating at this capacity for some time.

NPD in the pipeline that delivers on convenience as a USP will be questioned, any NPD will have to be very convincing, if it is to find its way into the system with limited capacity.

If your brand falls on the side of a positive lock down trend your challenge will be meeting that new demand, but if you fall on the negative path tough decisions will need to be made, if you can survive the lock down being side-lined.

If the short and medium term challenges were not enough for brands to consider, things are likely to change again once the lock down starts to be lifted.



***We are only at the end
of the beginning,
not the beginning of
the end.***

Source: IRI Total Store