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Consumer Packaged Goods Practice

Rapidly forecasting demand and adapting commercial plans in a pandemic

US consumer goods companies must adapt to new consumer behaviors in response to COVID-19. A six-part plan can protect organizations and prepare them to emerge stronger post crisis.

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The coronavirus outbreak is a global humanitarian crisis that has affected millions of people. The economic impact of the pandemic can be seen across sectors, but it may be most widely visible in the consumer goods sector. News broadcasts and social media feeds are flooded with images of empty shelves that should house toilet paper and cleaning supplies. Consumers are shifting where they shop, what they purchase, and how much they purchase at an unprecedented scale and speed.

All US consumer goods manufacturers are urgently trying to determine the extent to which these changes in consumer behavior will affect their categories, channels, and brands during and beyond this crisis—and what actions they can take now. So how can executives adjust commercial levers now to improve business performance while also preparing for the new consumer behaviors that will remain post crisis?

Our analysis of prior economic recessions indicates companies that take thoughtful and swift action can build the resilience needed to weather the storm and emerge stronger. In this article, we share our research on what consumer spending habits, behavior, and sentiment will likely be in the aftermath of the pandemic as well as our six-part SPRINT re-plan approach to adjust commercial strategies in response to the crisis.

Tracking shifts in consumer behavior

Without a doubt, consumer behavior has changed across several dimensions: category consumptions, channel selection, shopper trip frequency, brand preference, and media consumption. These shifts, combined with forecasts for virus containment and economic recovery, are critical for commercial strategies.

Bifurcated category consumption

March 2020 sales data across categories revealed significant swings (Exhibit 1). While products such as toilet paper, beans, and cleaning supplies doubled in sales, consumers deprioritized goods such as cosmetics, appliances, and electronics.

Across categories, consumer goods companies should understand the factors responsible for growth in demand to determine whether people are actually consuming more or just pantry loading—that is, stocking their pantries in preparation. As manufacturers rethink their commercial plans, these insights are critical to forecast demand after the crisis. Four demand archetypes have emerged as a reaction to the pandemic:

1. *Pantry load and consume (consumption expands).* Consumers stock up because of shortage fears or health considerations, causing an increase in consumption during and likely after the crisis. Goods in this archetype include cleaning supplies, vitamins, and supplements.

2. *Pantry load and preserve (consumption does not change).* Individuals respond to fear of a shortage by initially purchasing more goods such as pet food and toilet paper. However, consumption does not actually increase during the crisis, resulting in post-crisis volume declines.

3. *Now at home (consumption shifts).* Work-from-home and shelter-in-place policies force consumers to shift on-the-go occasions for products such as coffee and alcohol from in-person food-service outlets to online retailers. The result is increased consumption of these products during and potentially after the crisis.

4. *Not now (consumption declines).* Declining consumer confidence and a focus on essential categories lead to a decrease in purchasing certain goods during the crisis—for example, beauty, food, and beverages for immediate use. Purchasing levels for these categories are likely to return to normal after the crisis.

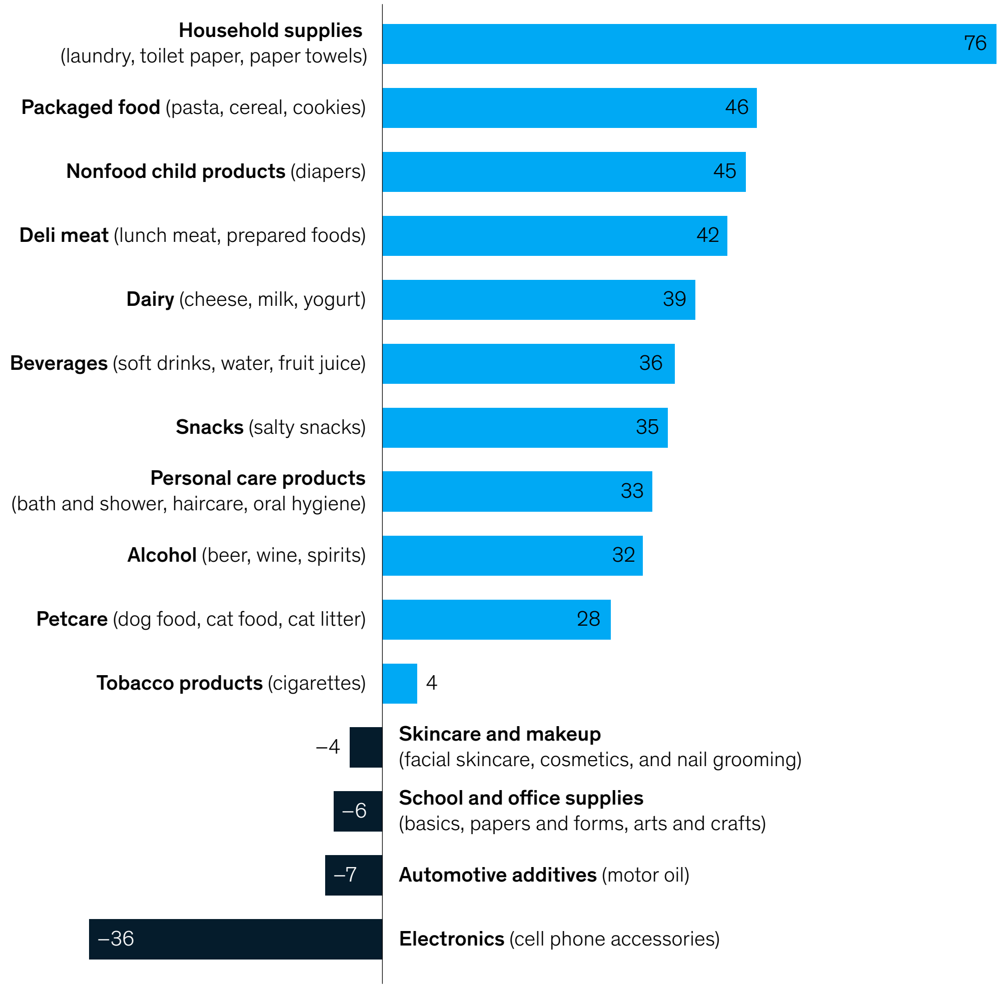
Changing purchasing channels

One of the most fundamental changes resulting from the crisis is where and how consumers are shopping. This impact depends on the specific channel. Foot traffic for large-format stores,

Exhibit 1

COVID-19 is having varied impact across categories, with most grocery-purchased categories seeing significant increases.

% change in sales ($) over 3 weeks[1] vs 2019



[1] March 1–21, 2020.

Source: Nielsen (all brick and mortar channels, except convenience and Costco)

such as grocery and warehouse, is up more than 30 percent, while the convenience store segment rose only 3 percent, with the impact varying significantly across geographies.[1] Consumers are also making 15 percent fewer shopping trips during the crisis. Combined with the uncertainty surrounding the crisis, the reduction in trips is resulting in most consumers buying enough groceries for two or more weeks per trip.

However, the most noteworthy change is the rapid shift from in-person grocery purchases to e-commerce. The grocery industry has historically seen relatively low online penetration, even though

[1] McKinsey analysis of data derived from Foursquare.

retailers and manufacturers have invested heavily in e-commerce channels. With shelter-in-place orders throughout the United States, many consumers have tried grocery delivery or click-and-collect for the first time. The result has been a significant surge in grocery e-commerce household penetration, from 13 percent before the pandemic to more than 31 percent in late March.[2] This shift could potentially be the breakthrough that online grocery buying needed to catch up with other categories such as electronics and apparel. Executives should be sure to monitor this trend going forward. Our sense is that with many consumers overcoming the trial barrier for the first time and with retailers further investing in e-commerce to support rapid growth, sales in this channel will see a sustained post-crisis increase.

A rise in product switching

The other important behavior change is the current level of product and brand switching. Our research found that 30 to 40 percent of consumers have been trying new brands and products.[3] Almost half of these consumer switches are because the desired product is unavailable, while an additional 19 percent decided to purchase cheaper available options. Of the consumers who switched brands, 12 percent expect to continue to purchase the new brands after the pandemic. Similar to how consumers have responded during hurricanes as well as after the Great Recession, we expect to see an overall flight to value and private-label goods. As a result, it will be important for manufacturers to refine their portfolio across categories to ensure they have the right product offerings and strategies in place to mitigate lost market share from customers who trade down.

More screen time, fewer ads

The last major consumer behavioral shift involves media consumption. With stay-at-home orders, consumers are spending more time watching TV and using social media. However, most advertisers believe that advertising's return on investment (ROI) will go down as consumer expenditures and confidence decrease (Exhibit 2). Furthermore, traditionally high-impact advertising opportunities around the world—such as the NBA season, the Olympic Games, and Wimbledon—have been postponed or canceled. As a result, approximately 65 percent of marketers indicate they will reduce advertising spending, with almost a quarter planning to significantly decrease it.[4] For most companies, the question is not if they should reduce spending but by how much and, more importantly, when and where they should redeploy it.

Economic strain on consumers affecting routines

Over the past several weeks, McKinsey has conducted surveys of US consumers in an effort to understand their current and evolving response to the COVID-19 crisis.[5] At of the end of March, following the largest unemployment filings in US history, consumers were earning less, spending less, and expecting the impact to their everyday routines and personal finances to last for at least two months (Exhibit 3).

A six-part action plan to manage the impact on revenues

In immediate response to the crisis, many companies focused on ensuring business continuity and protecting their employees and customers. Those efforts should continue. However, executives must also turn their attention to optimizing the business for the near term while considering what shifts in consumer behavior may remain post crisis and how to adjust their business accordingly.

This pivot requires a new type of planning. Most annual planning processes can take six to nine months, but in-crisis planning must be done in a fraction of that time. In addition, most annual planning processes do not need to account for the current level of uncertainty around the magnitude

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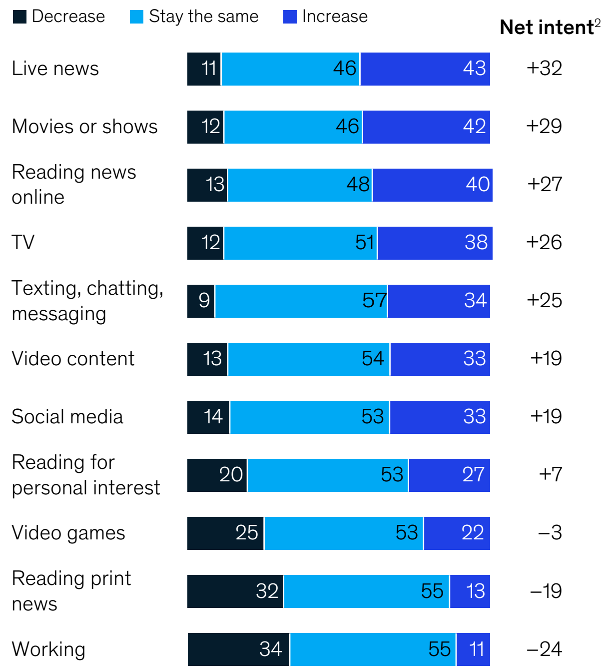
[2] Brick Meets Click/ShopperKitOnline Grocery Shopping Survey, conducted August 21–23, 2019, and March 23–25, 2020.
[3] McKinsey US Consumer Sentiment Pulse Survey, conducted March 23–29, 2020.
[4] McKinsey US COVID-19 Pulse Survey, conducted March 23–29, 2020.
[5] McKinsey US Consumer Sentiment Pulse Survey.

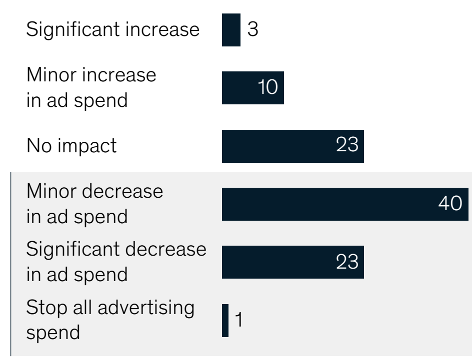
Exhibit 2

While most media consumption is up, projected lower ROIs have led several marketers to pull back overall spend.

Expected change time allocation over the next two weeks,[1] % of respondents



~65% of marketers indicate reduced ad spend given likely lower ROI,[1]
% respondents (n = 203)



[1] Media types most likely to retain budgets or be beneficiaries of budget reallocation are paid search and paid social media.

Source: Advertiser Perceptions, Advertiser Pulse Survey on COVID-19, 3/20/2020; Digiday; *New York Times*; Nielsen; OpenVault; McKinsey US COVID-19 US Pulse Survey 3/19–3/22/2020, n = 1,502 (sampled and balanced to match US general population at least 18 years old)

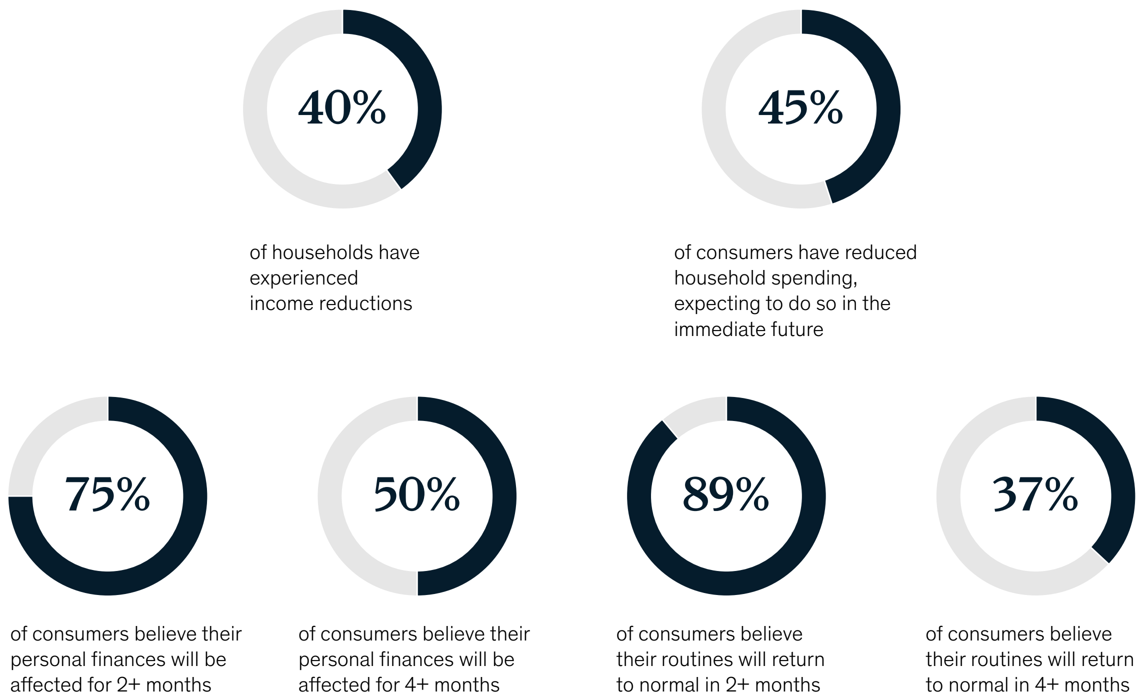
and duration of consumer behavior change. We recommend a SPRINT re-plan, which can be executed in four to six weeks depending on the size and scope of the business (Exhibit 4). Building this capability will give consumer goods companies the speed and agility they need to navigate the crisis and emerge stronger.

To successfully execute a SPRINT re-plan, consumer companies should consider launching a small but dedicated cross-functional team with a committed SPRINT leader. In parallel with several COVID-19 plan-ahead teams working to help position their company to emerge from the crisis in a position of strength, the SPRINT team will rigorously execute a six-part action plan.

1. Size revenue exposure at the most practical, granular level
Companies should use a deep-dive category review across customers, geographies, brands, pack sizes, SKUs, and price tiers to diagnose their category and channel exposure. An assessment of which demand archetype applies to each category can help executives calculate the revenue and profit pools at stake, understand the level of exposure by category,

Exhibit 3

Consumers are expecting a prolonged impact to their day-to-day finances.

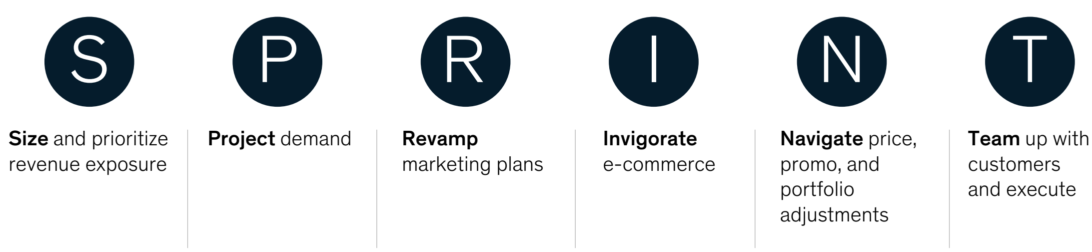


Source: McKinsey US Consumer Sentiment Pulse Survey

Exhibit 4

Navigating through crisis involves driving a SPRINT re-plan, followed by rapid and coordinated execution.

Revenue response



and identify additional opportunities. This granular assessment supports prioritization by category as well as specific brands, customers, and price tiers.

2. Project forward-looking demand for each focus area

Once companies have prioritized focus areas within a given category, they should then project future demand (see sidebar, "Forecasting the post-crisis landscape"). Given the importance of understanding both demand and actual consumption patterns that account for pantry loading, companies must be more sophisticated in their approach to forecasting than in the past.

Forecasting the post-crisis landscape

When considering how these consumer behaviors might evolve, it's important to start with a perspective on how the crisis might evolve. The McKinsey Global Institute has done extensive research and analysis to develop potential recovery scenarios.[1] These scenarios can help commercial leaders project when the crisis and economic pressure might ease and, as a result, when consumer behavior might revert back on some but likely not all dimensions discussed above.

[1] Susan Lund, Kweilin Ellingrud, Bryan Hancock, James Manyika, and André Dua, "Lives and livelihoods: Assessing the near-term impact of COVID-19 on US workers," April 2020, McKinsey.com.

Leading organizations are using advanced analytic models with multiple sources of insights (for example, point-of-sale data, primary consumer research, social listening, and online search trends) to understand how demand could evolve during and after the crisis at a granular level. In addition, the following questions can bring greater clarity:

— *Overall:* What is our view on overall virus containment and economic scenarios?

— *Consumer behavior:* What behavior changes will endure post crisis? What new requirements, such as higher e-commerce penetration, importance of value, and health and safety attributes, will consumers prioritize?

— *Categories:* What demand archetype applies to each category, and what are the implications?

— *Channels and customers:* How will channel and store traffic evolve amid changing customer behavior?

— *Portfolio and brand:* Where do new consumer behaviors and preferences require adjustments to the portfolio?

— *Price tier:* What is the plan if consumers embrace a flight to value?

3. Revamp the marketing plan

Executives should plan to rapidly adapt their marketing plans to reflect changing consumption patterns as well as consumer sentiment. Marketing spending should be reallocated based on reach, frequency, and ROI. Since the overall consumer outlook will vary depending on the stage of the pandemic response, executives must adjust the tone of their creative marketing, including ad copy and calls to action, to be in sync with the current mood. Changing patterns for entertainment and media consumption might also lead companies to consider shifting marketing spending in channels such as digital search and social.

All of these actions will benefit from real-time testing and measurement. Just because the crisis is unprecedented does not mean rapid testing should be abandoned. Companies can use it surgically to gather data on the effectiveness of ongoing marketing efforts and adjust campaigns accordingly given these insights.

4. Invigorate e-commerce

Executives should focus on several actions to quickly optimize the e-commerce channel. To augment existing capabilities, companies can partner with online retailers to boost the level of customer collaboration and joint planning—for instance, through ship-to-home and click-and-collect offerings. The volume of product going to e-commerce channels should be recalibrated in line with demand, with an emphasis on the fastest-selling SKUs. Companies should aim to reset demand forecasting daily, shift online assortment accordingly, and adjust logistics and distribution centers to meet online retailer demands.

Weekly reviews of all e-commerce promotions and advertising spending can enable companies to invest in categories with relatively stable demand while holding off on highly discretionary categories that may not be priorities for consumers. To rapidly expand category management capabilities, companies should dedicate resources to manage SKU-level detail, product images, and any merchandising tagging.

5. Navigate the three Ps: Pricing, promotions, and portfolio

Companies should adjust pricing plans and promotional budgets to align with the projected demand curve across their portfolio. New promotions tactics, such as bundling higher-demand and lower-demand SKUs, can support products whose demand curves have been negatively affected. Where projected demand curves are aligned with customer priorities, companies can build in a mix of actions such as assortment adjustments, reduced promotions, and execution support for higher-margin products. These moves can help counter the negative impact on other parts of the portfolio. In parallel, companies can maintain consistent value-tier offerings for affordability. Companies might consider rapidly refreshing their revenue growth management analytics (for example, price elasticities and switching indexes) to home in on the factors that have affected consumer buying behavior during the crisis.

A review of market analysis can assist companies in adjusting their portfolio innovations. For example, product launches could be rescheduled based on changes in consumer occasions and customer needs. These resources could then be reallocated as necessary. The collective actions on the three Ps will also shape supply-chain planning. Companies should ensure that optimal price, promotions, and portfolio planning reflect the evolving realities of their supply chain. By iterating plans across functions and understanding the integrated financial impact, companies can align supply-chain efficiencies with opportunities.

Companies should implement these pricing and promotion initiatives along two time horizons. In the near term, after the lifting of stay-at-home orders, companies should hold off on any price increases. Consumers will not be forgiving of organizations that appear to be exploiting the circumstances for their advantage. Instead, executives should focus on deepening connections with customers through carefully targeted and designed promotions. In the months that follow, companies will need to evaluate planned pricing and promotion initiatives in the context of deep market structural shifts. This exercise should consider consumers' shifting preferences toward particular brands or channels (such as e-commerce).

6. Team up with customers and execute

Consumer goods companies can maximize the impact of their new plans by collaborating with customers to refine and deploy the revamped commercial plans. Flexibility and compassion will be important elements in this collaboration. The pandemic has altered the retail landscape, especially for smaller outlets that may be hit harder. Making daily calls and adjusting payment terms as needed can set the right tone.

Sales techniques might need to be adapted as well. Companies could consider providing additional support and technologies to their sales force to improve virtual-selling techniques. Similarly, companies should reallocate field sales and brokerage resources to the channels, customers, and geographies that are experiencing high demand.

Executing the SPRINT

The SPRINT approach helps companies make rapid progress in reorienting to the crisis and beyond.

Over the course of four to six weeks, organizations can implement these steps to ensure their strategy is aligned with consumer purchasing trends.

This approach also requires companies to adopt a new way of working through agile, short bursts. In our experience, organizations benefit from establishing a re-plan war room and creating a dedicated, cross-functional team that sits together virtually. The team should be comfortable making recommendations and decisions based on the latest available data, even if the information is imperfect. Twice-weekly updates with executives can help ensure rapid decision making.

In addition to executing a SPRINT re-plan, which can help manage performance during and after the crisis, companies should consider bold actions that they can take now to fundamentally reshape the business. Our research on resiliency in a downturn suggests companies that dedicated energy to planning for and making bold moves emerged stronger as measured by total shareholder returns and performance of earnings before interest, taxes, depreciation, and amortization relative to other companies. While the types of bold moves will vary by company, past downturns led to M&A, partnerships, portfolio simplification, operational efficiencies, and new capabilities.

Companies that successfully execute these strategies will have a clearer view of how the market could unfold and will also position themselves to come out of the crisis ahead of their competitors. By contrast, executives who wait until after the crisis to think and act on these opportunities will be too late.

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