Perspectives on Covid-19 and implications for consumer and retail companies by McKinsey & Company in association with MMA

MMA Webinar Series

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In Partnership with: McKinsey & Company

MOBILE MARKETING ASSOCIATION

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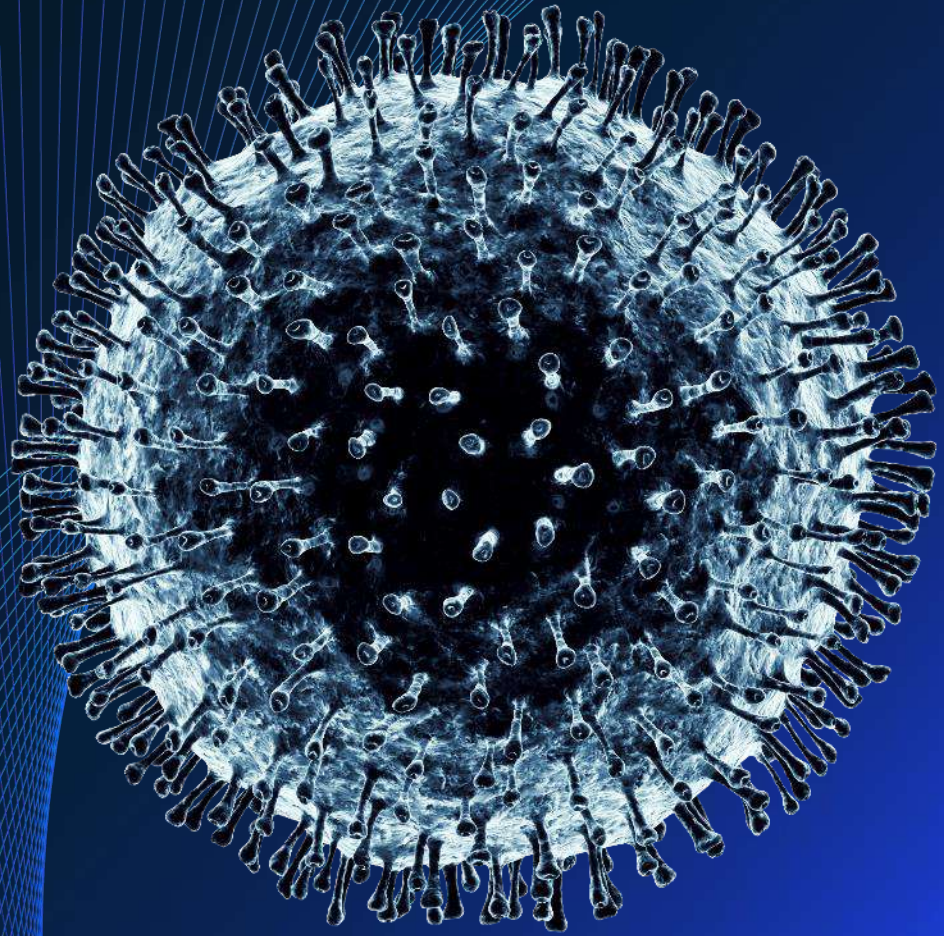
COVID-19: Retail & Consumer Goods Sector Implications and Action Planning

Webinar

April 8th, 2020



DOCUMENT INTENDED TO PROVIDE INSIGHT AND BEST PRACTICES RATHER THAN SPECIFIC CLIENT ADVICE

Disclaimer

These are suggested practices, in many cases adopted by companies across sectors.
We do not offer recommendations on sufficiency, adequacy or effectiveness of these measures.
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COVID-19 is, first and foremost, a global humanitarian challenge. Thousands of health professionals are heroically battling the virus, putting their own lives at risk. Governments and industry are working together to understand and address the challenge, support victims and their families and communities, and search for treatments and a vaccine.

Companies around the world need to act promptly. This document is meant to help senior leaders understand the COVID-19 situation and how it may unfold, and take steps to protect their employees, customers, supply chains and financial results.

We are happy to provide additional deep dives on topics of your interest.

Read more on McKinsey.com →

Agenda

What is happening?
Perspective on health and economic crisis

How is it affecting CPG and Retail?
Insights from Asia Pacific and Indonesia

What can you do about it?
Best practice actions of players

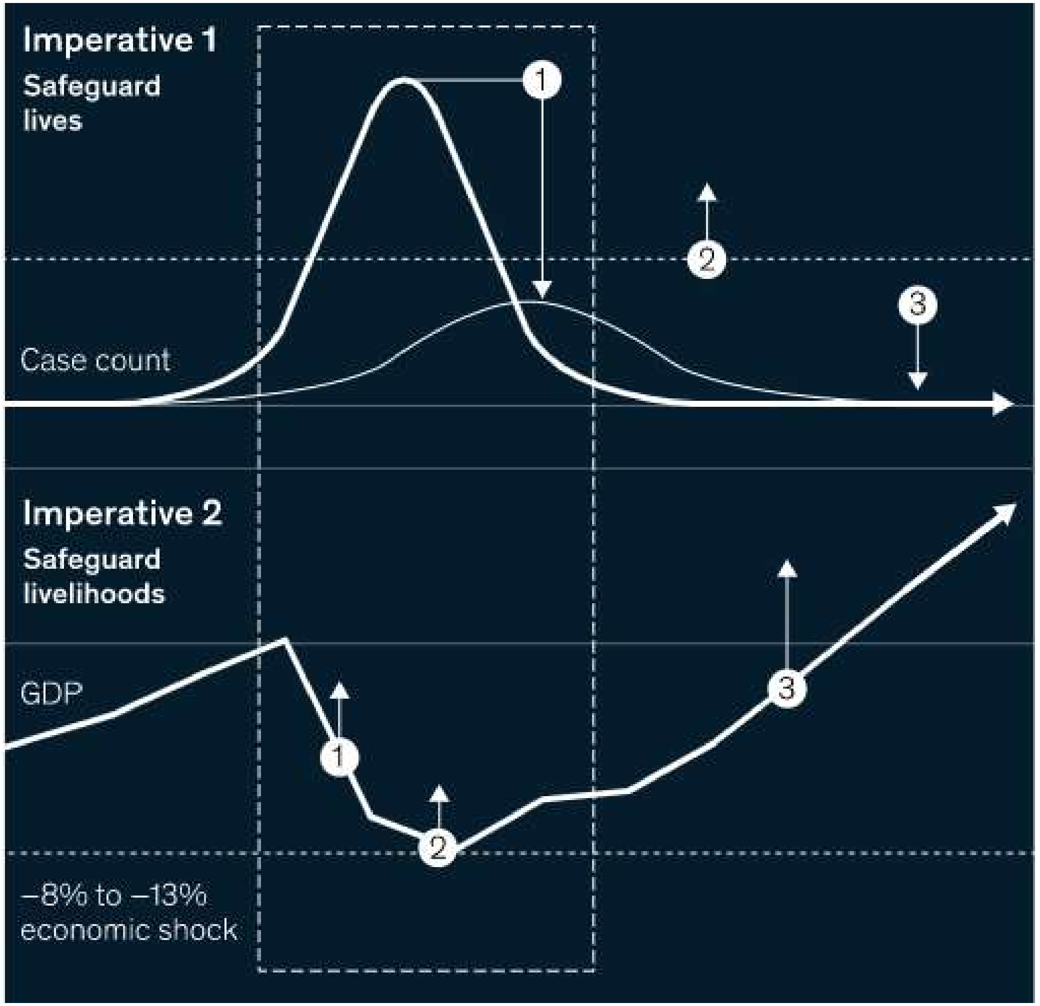
Agenda

What is happening?

How is it affecting CPG and Retail – in Indonesia and beyond?

What can you do about it

The imperative of our time



1. Suppress the virus as fast as possible
2. Expand treatment and testing capacity
3. Find better treatment, drugs, vaccines

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1. Support people and businesses affected by lockdowns
2. Prepare to get back to work safely when the virus abates
3. Prepare to accelerate a recovery from an estimated -8% to -13% trough

Source: McKinsey analysis in partnership with Oxford Economics

Scenarios for the economic impact of the COVID-19 crisis

GDP impact of COVID-19 spread, public health response, and economic policies

Virus spread and public health response

Effectiveness of the public health response in controlling the spread and human impact of COVID-19

Rapid and effective control of virus spread

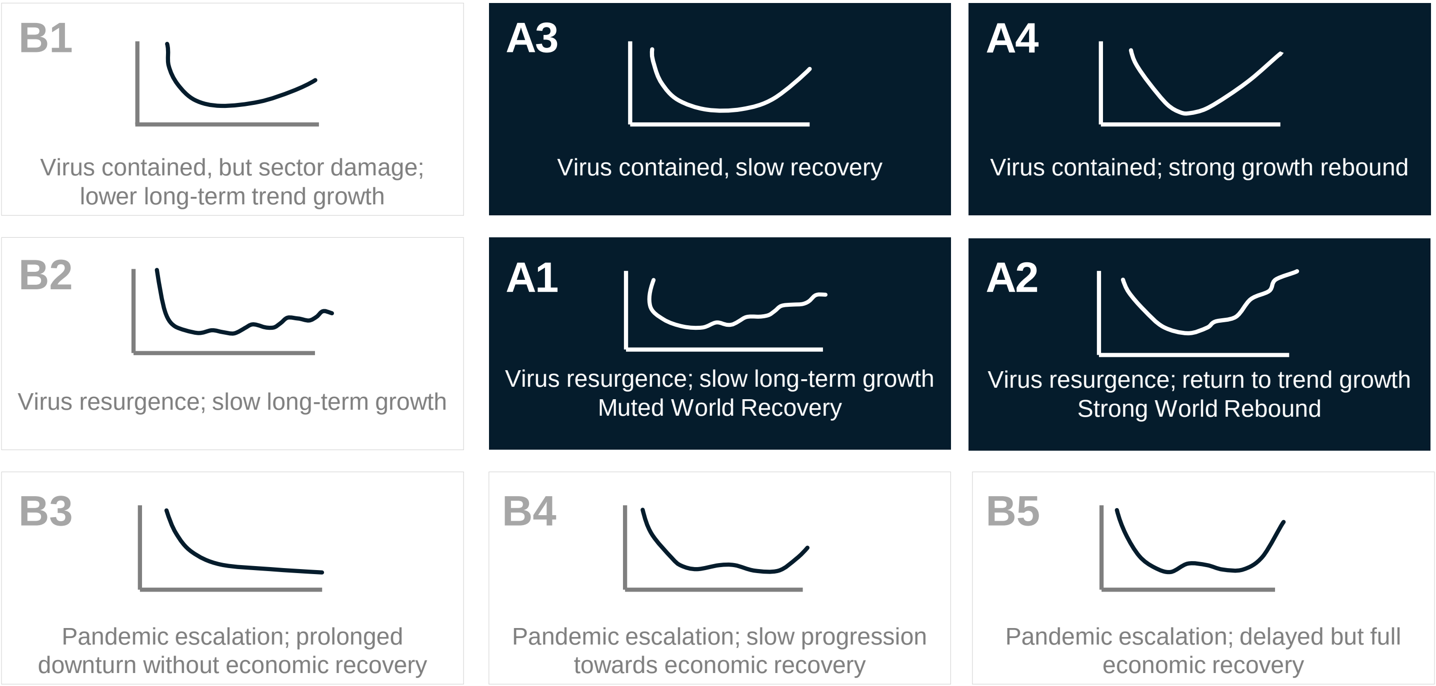
Strong public health response succeeds in controlling spread in each country within 2-3 months

Effective response, but (regional) virus resurgence

Public health response initially succeeds but measures are not sufficient to prevent viral resurgence so social distancing continues (regionally) for several months

Broad failure of public health interventions

Public health response fails to control the spread of the virus for an extended period of time (e.g., until vaccines are available)



Ineffective interventions

Self-reinforcing recession dynamics kick-in; widespread bankruptcies and credit defaults; potential banking crisis

Partially effective interventions

Policy responses partially offset economic damage; banking crisis is avoided; recovery levels muted

Highly effective interventions

Strong policy responses prevent structural damage; recovery to pre-crisis fundamentals and momentum

Knock-on effects and economic policy response

Speed and strength of recovery depends on whether policy moves can mitigate self-reinforcing recessionary dynamics (e.g., corporate defaults, credit crunch)

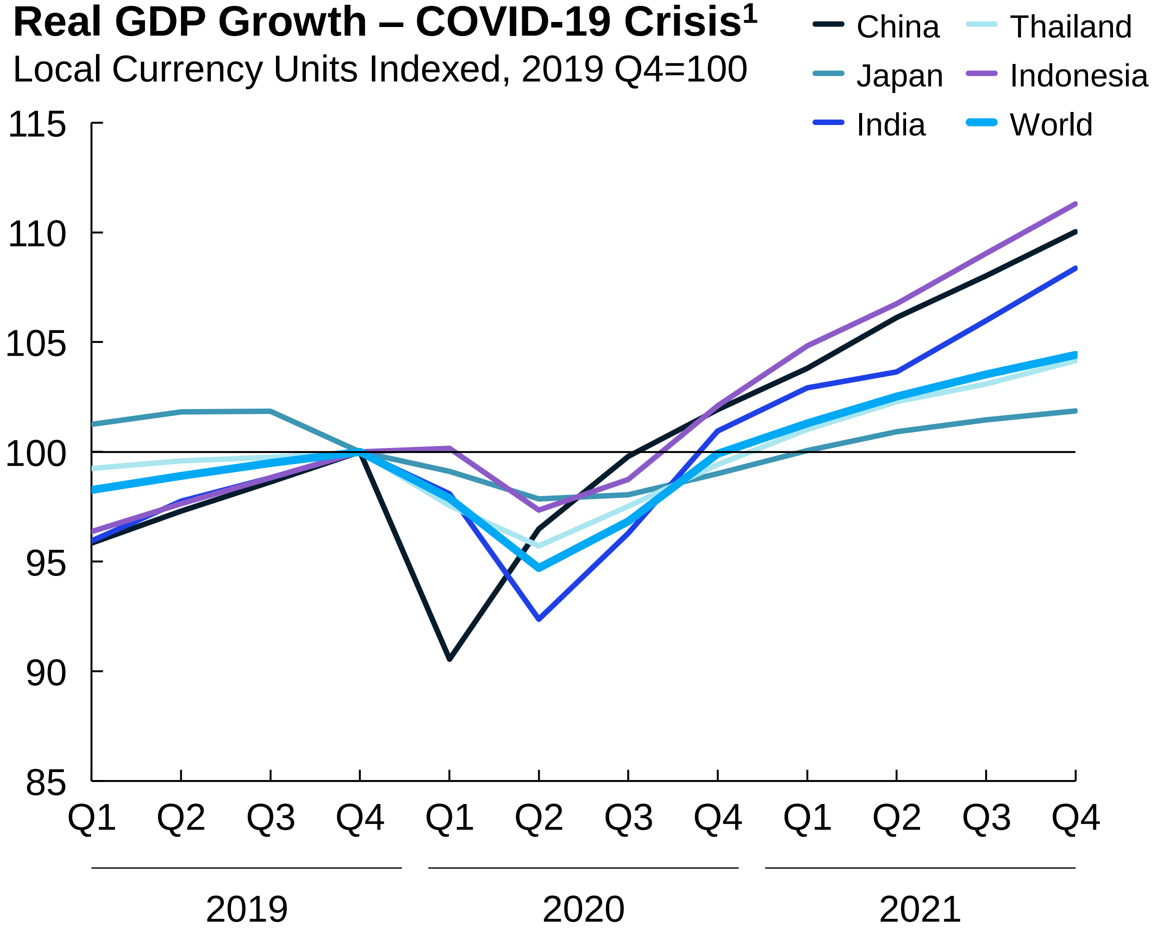
Source: “Safeguarding our lives and our livelihoods: The imperative of our time,” Sven Smit, Martin Hirt, Kevin Buehler, Susan Lund, Ezra Greenberg, and Arvind Govindarajan

Scenario A3
Virus contained

Real GDP, Local Currency Indexed

Real GDP Growth – COVID-19 Crisis[1]

Local Currency Units Indexed, 2019 Q4=100



	Real GDP Drop 2019Q4-2020Q2 % Change	**2020 GDP Growth** % Change	**Time to Return to Pre-Crisis** Quarter
China	-3.5%	-0.5%	2020 Q4
Japan	-2.1%	-2.7%	2021 Q1
India	-7.6%	-1.2%	2020 Q4
Thailand	-4.3%	-2.1%	2021 Q1
Indonesia	-2.7%	1.4%	2020 Q4
World	**-5.3%**	**-1.8%**	**2021 Q1**

1. Seasonally adjusted by Oxford Economics

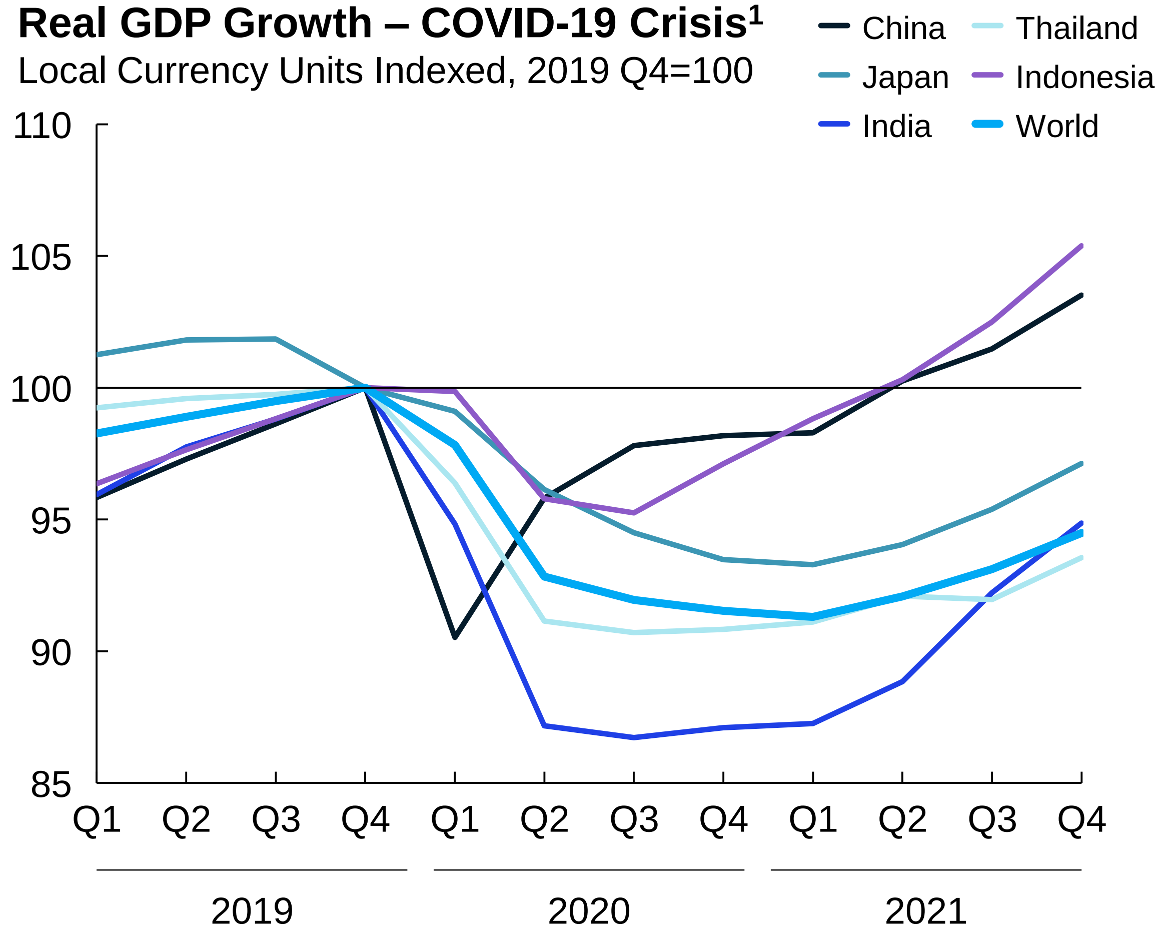
Source: McKinsey analysis, in partnership with Oxford Economics

Scenario A1
Muted Recovery

Real GDP, Local Currency Indexed

Real GDP Growth – COVID-19 Crisis[1]

Local Currency Units Indexed, 2019 Q4=100



1. Seasonally adjusted by Oxford Economics

Source: McKinsey analysis, in partnership with Oxford Economics

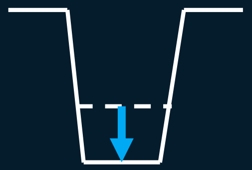
	Real GDP Drop 2019Q4-2020Q2 % Change	**2020 GDP Growth** % Change	**Time to Return to Pre-Crisis** Quarter
China	-4.2%	-2.3%	2021 Q2
Japan	-3.9%	-5.4%	2022 Q4
India	-12.8%	-9.3%	2022 Q1
Thailand	-8.9%	-7.3%	2023 Q1
Indonesia	-4.2%	-1.3%	2021 Q2
World	**-7.2%**	**-5.7%**	**2022 Q4**

○ Epidemiological indicator
● Economic indicator

What business leaders should look for in coming weeks

There are three questions business leaders are asking, and a small number of indicators that can give clues

Depth of disruption

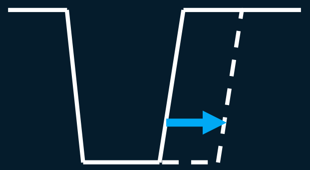


How deep are the demand reductions?

Indicators to monitor

- Time to implement social distancing after community transmission confirmed
- Number of cases – absolute (expect surge as testing expands)
- Geographic distribution of cases relative to economic contribution
- Cuts in spending on durable goods (e.g., cars, appliances)
- Extent of behavior shift (e.g., restaurant spend, gym activity)
- Extent of travel reduction (% flight cancellations, travel bans)

Length of disruption

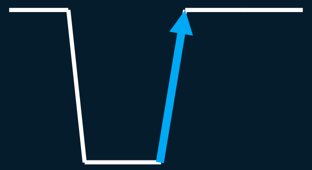


How long could the disruption last?

Indicators to monitor

- Rate of change of cases
- Evidence of virus seasonality
- Test count per million people
- % of cases treated at home
- % utilization of hospital beds (overstretched system recovers slower)
- Availability of therapies
- Case fatality ratio vs. other countries
- Late payments/credit defaults
- Stock market & volatility indexes
- Purchasing managers index
- Initial claims for unemployment

Shape of recovery



What shape could recovery take?

Indicators to monitor

- Effective integration of public health measures with economic activity (e.g. rapid testing as pre-requisite for flying)
- Potential for different disease characteristics over time (e.g. mutation, reinfection)
- Bounce-back in economic activity in countries that were exposed early in pandemic
- Early private and public sector actions during the pandemic to ensure economic restart

Agenda

What is happening?

How is it affecting CPG and Retail – in Indonesia and beyond?

What can you do about it

Please refer to our website for the latest consumer sentiment insights

Read more on McKinsey.com →

https://www.mckinsey.com/business-functions/marketing-and-sales/our-insights/global-surveys-of-consumer-sentiment-during-the-coronavirus-crisis

Contours of potential "next normal" starting to take shape – insights from across Asia Pacific

1. "Changing the Channel"

Accelerated shift to online and a potential longer road to recovery for dine-in

Acceleration of modern trade

2. "Shift to Value"

Short-term inelasticity, long term family income concerns and postponement of discretionary spend

3. "Healthy, Safe and Local"

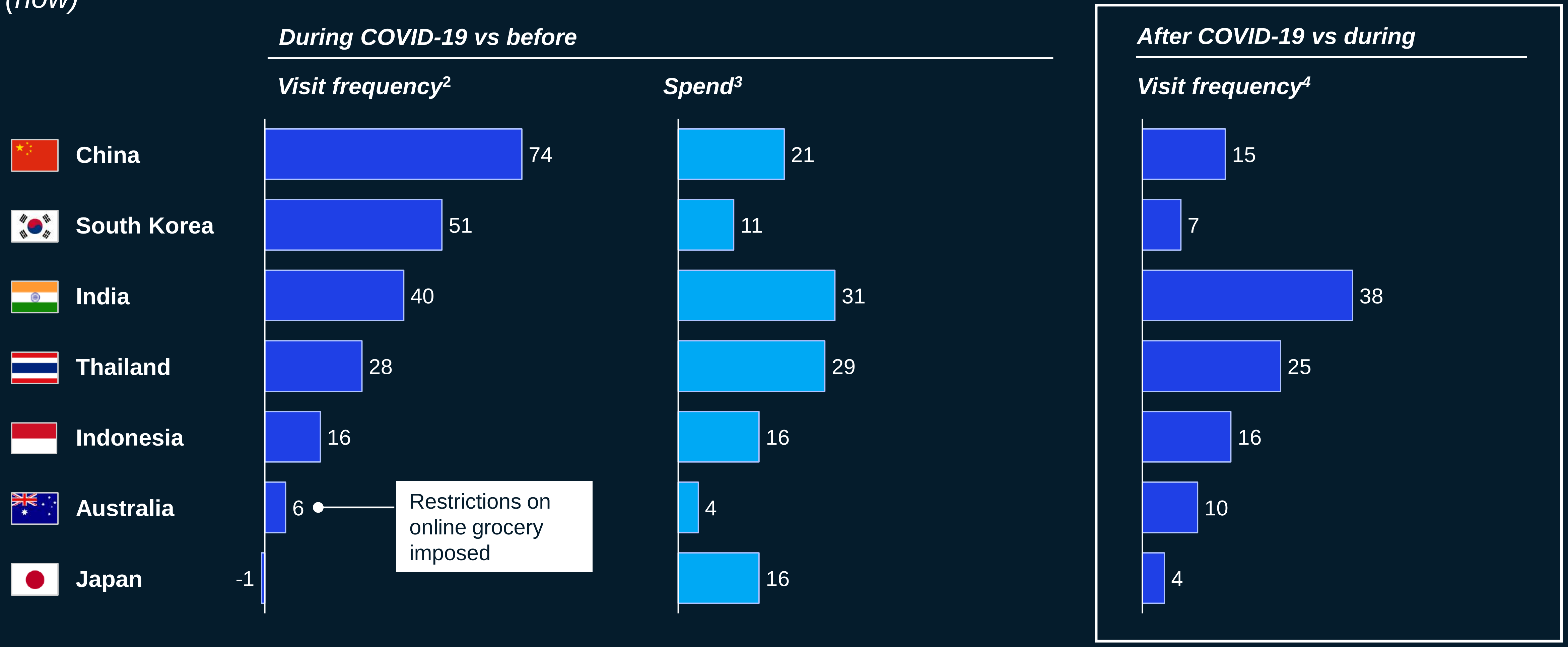
Increasing focus on improving health, paired with increased demand for fresh food, and clean shopping environment

4. "Shock to Loyalty"

Store and brand switching create new opportunities and risks

1. “Changing the Channel”: Acceleration of online grocery shopping

Online grocery channel net reported behavior during COVID-19 vs before; net intent for after COVID-19 vs during (now)[1]

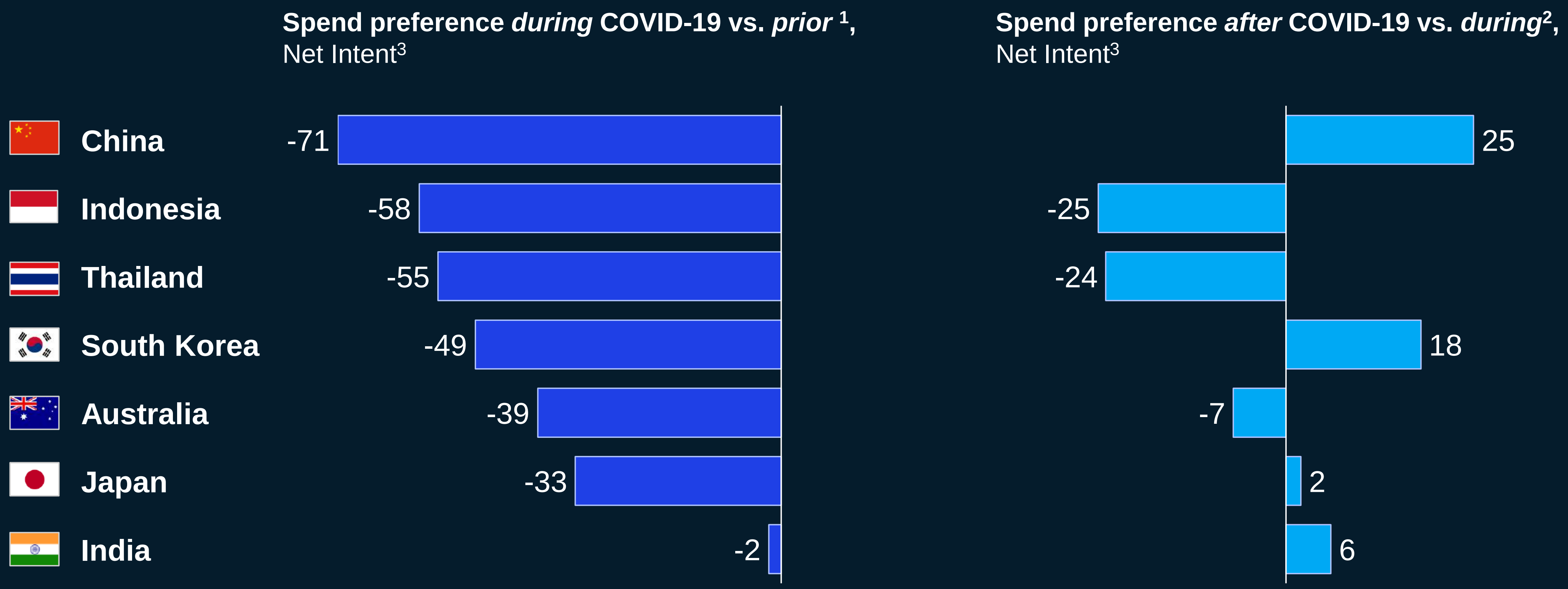


1. Net behavior is calculated by subtracting the % of shoppers in the channel stating they have decreased visit frequency or spending in the channel from the % stating they increased frequency or spending
2. Q: Among the below grocery shopping channels, which ones do you visit more/less frequently during the COVID-19 outbreak compared to before?
3. Q: Which store types have you increased/ decreased your spending per month during the COVID-19 outbreak compared to before
4. Q: Within the below store types, which ones do you think you **will visit more / less frequently** **after the** **COVID-19 outbreak** stabilizes?

Source: COVID-19 mobile survey, 3/21-3/25/2020 N = 5,013, sampled and balanced to match general population (except India, with higher focus on consuming class)

1. "Changing the Channel": Longer road to recovery for dine-in

Dine-in restaurants



1.Q: How has your spending per month changed during the COVID-19 outbreak compared to before the COVID-19 outbreak for each of the below items?
2.Q: How do you expect your spending per month to change after the COVID-19 outbreak compared to now (during the COVID-19 outbreak)?.
3.Net intent is calculated by subtracting the percent of respondents stating they expect to decrease/stop spend from the % of respondents stating they expect to increase/start spend

Source: COVID-19 mobile survey, 3/21-3/25/2020 N = 5,013, sampled and balanced to match general population (except India, with higher focus on consuming class)

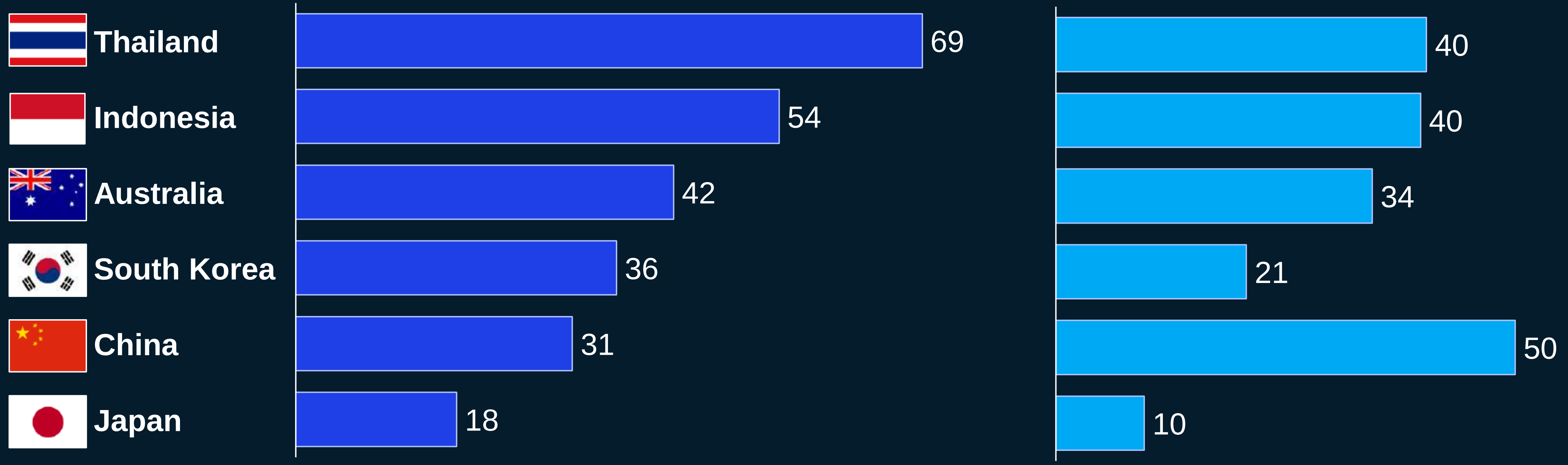
CURRENT AS OF APRIL 2, 2020

2. “Shift to Value”: Family income concerns, reduction in discretionary spend

% respondents who strongly agree/ agree

I am **very worried that my family’s income will be impacted** by COVID-19 situation to a level where I will not be able to make ends meet

I am **planning to give up something I was planning to buy** because of uncertainly from COVID-19



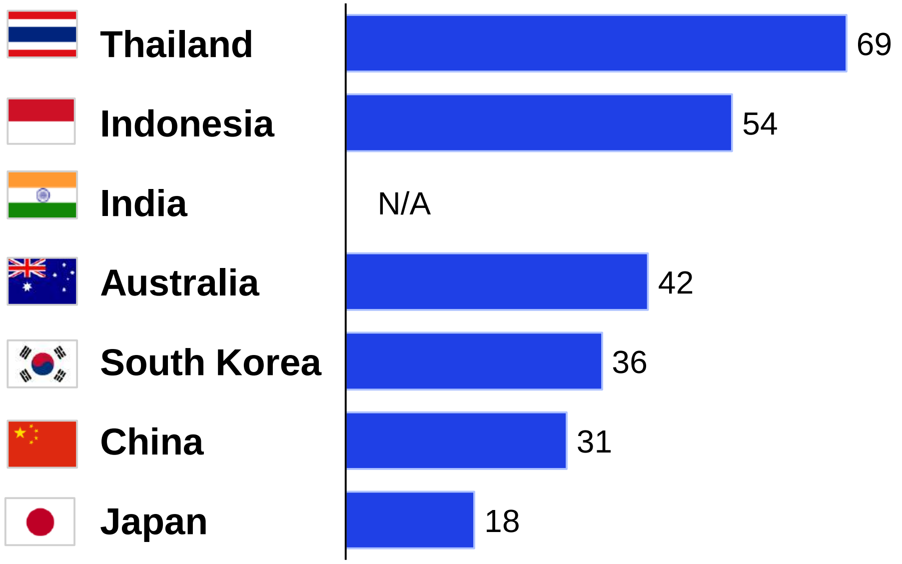
Source: COVID-19 mobile survey, 3/21-3/25/2020 N = 5,013, sampled and balanced to match general population (except India, with higher focus on consuming class)

3. “Healthy, Safe and Local”: Increased attention to health and fresh foods…

Increasing consciousness for healthy eating and exercise amidst crisis

“I am focusing on improving my immunity through exercise and healthy eating”

% respondents who strongly agree/ agree



Increased demand for fresh food, particularly in developing markets—that could be sustained post-COVID-19

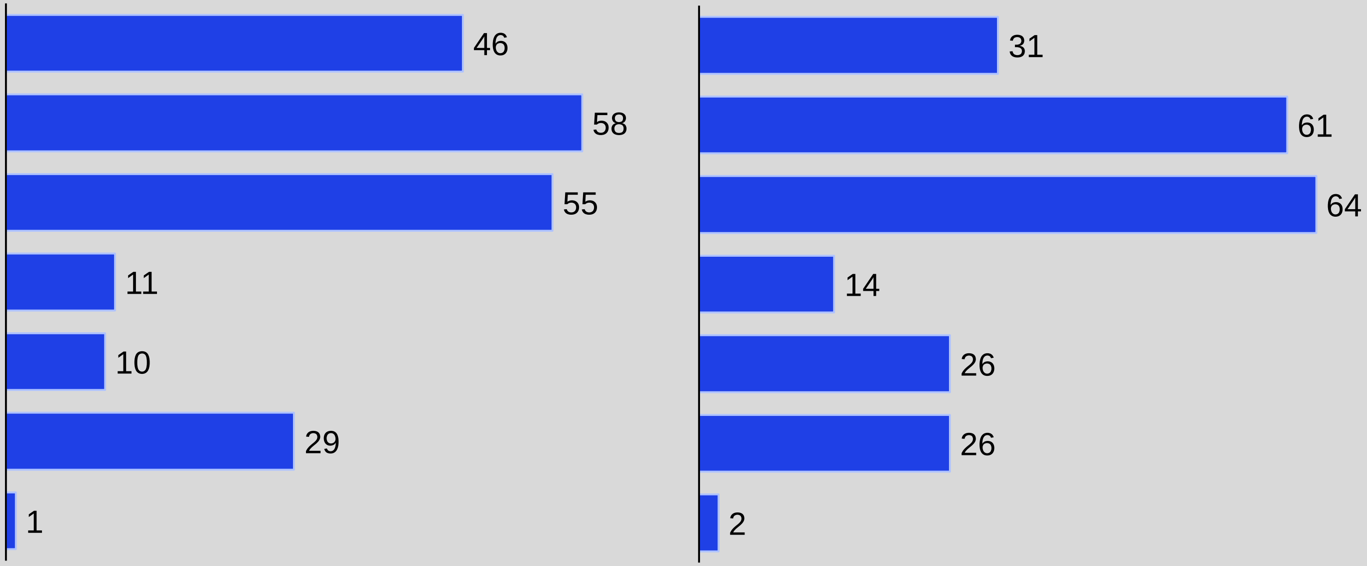
Reported spending change in fresh food during COVID-19 outbreak vs. before; and after COVID-19 stabilizes vs. during the outbreak[1]

During vs. before

Net increase, reported behavior[2]

After vs. during

Net increase, intent[2]



1. Q: How did you or your family’s spending per month change on this category during the COVID-19 outbreak compared to before the COVID-19 outbreak? How would you expect you or your family’s spending per month on this category to change after the COVID-19 outbreak compared to now (during the COVID-19 outbreak)?
2. Net behavior or intent is calculated by subtracting the % of shoppers in the channel stating they have decreased spending on the category from the % stating they increased spending

Source: COVID-19 mobile survey, 3/21-3/25/2020 N = 5,013, sampled and balanced to match general population (except India, with higher focus on consuming class)

3. "Healthy, Safe and Local": …And increased attention to safety and local products

Hygiene a main factor for driving in-store experience during the outbreak…

% respondents choosing main hygiene factor[1] as Top 3 drivers of in-store experience[2]

Attention for safety in most countries

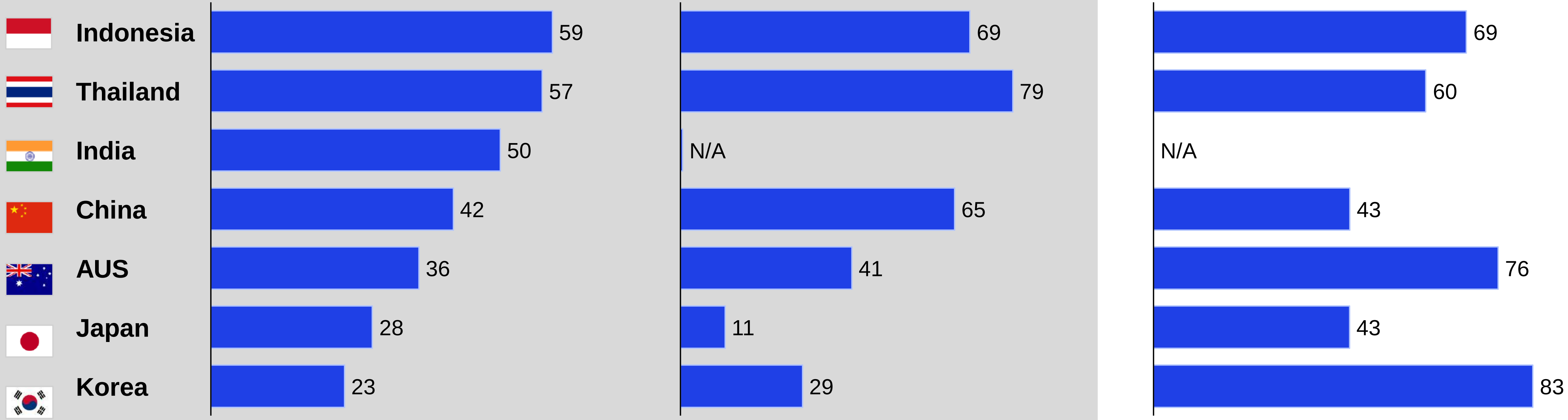
I will care more about product safety after COVID-19 situation

% respondents who strongly agree/ agree

Attention for local

I will buy more foreign grocery products after COVID-19 outbreak

% respondents who somewhat to strongly disagree

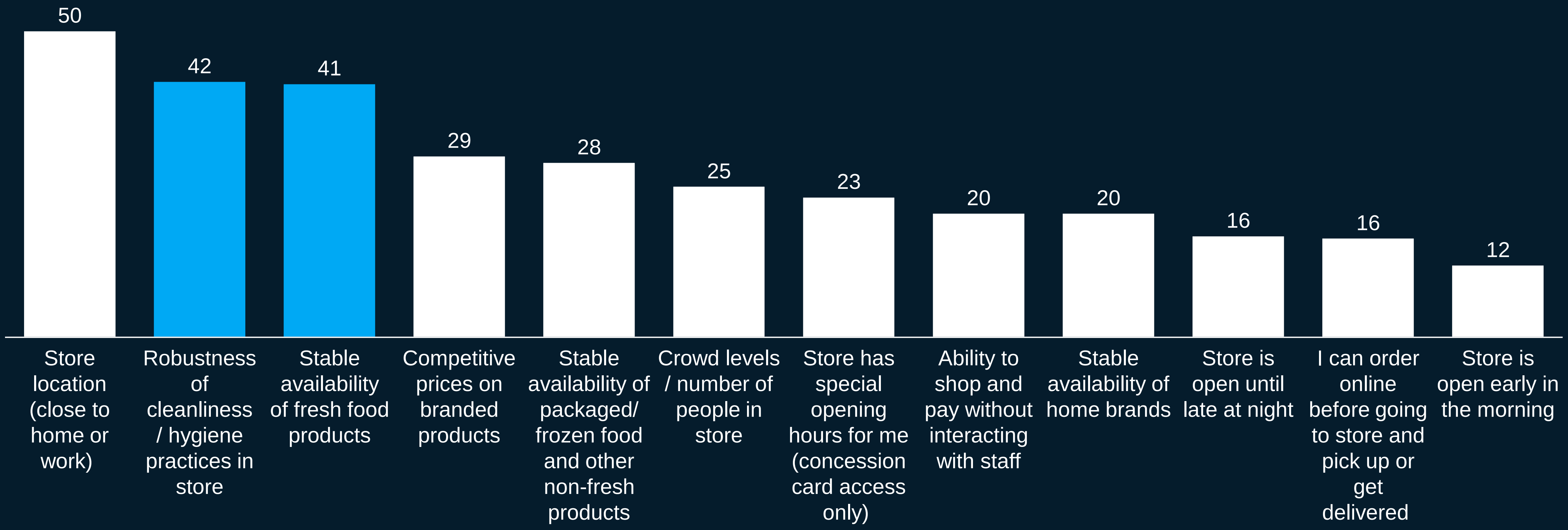


1. Proactive communication of store cleaning procedures/ policies, Availability of hygienic services for in-store use for customers, Store staff demonstrating cleanliness practices
2. Q: What have been the most important factors for creating a positive in-store grocery shopping experience during the COVID-19 outbreak?

Source: COVID-19 mobile survey, 3/21-3/25/2020 N = 5,013, sampled and balanced to match general population (except India, with higher focus on consuming class)

For the next 4 weeks, consumers say cleanliness and fresh food availability matter more than competitive prices

Most important factor in choosing a grocer to go to in the next 4 weeks[1],
% of respondents rating factor as top-3 most important



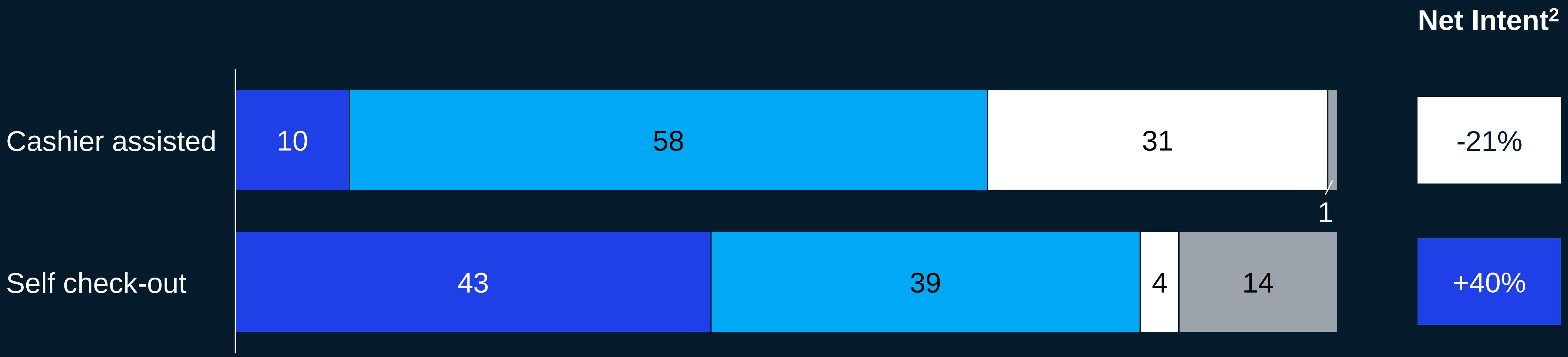
1. Q: What are the top 3 most important factors that will influence which physical store you do grocery shopping in during the next 4 weeks? Pick three

Source: McKinsey & Company COVID-19 mobile survey 3/20-3/25/2020 N = 570 Sampled and balanced to match ID gen pop 18-65 years old

Within physical stores, there is a shift towards contactless payment solutions

Increase | Stay the Same | Decrease | Never used this mode of transaction

Payment preference before vs. during COVID situation[1]



Grocery stores will likely need to evolve their operating model and requirements for self check-out to meet the evolving customer preference for contact less payments

1. Q: When purchasing groceries in store, how has your preferred mode of transaction changed during the COVID-19 outbreak compared to before the COVID-19 outbreak?
2. Net intent is calculated by subtracting the percent of respondents stating they expect to decrease time spent from the % of respondents stating to increase time spent

Source: McKinsey & Company COVID-19 mobile survey 3/20-3/25/2020 N = 570 Sampled and balanced to match ID gen pop 18-65 years old

Consumers generally preferred locally produced over imported products during COVID

Increased preference for locally-sourced products | No change in preference | Increased preference for products sourced from overseas

Changes in preference for locally- and overseas- sourced products during the outbreak vs. prior[1] , % of category consumers

Net preference[2], % of category consumers

Category	Increased preference for locally-sourced products	No change in preference	Increased preference for products sourced from overseas	Net preference[2]
Fresh Fruits	53	29	18	+34%
Eggs	50	36	14	+35%
Health Care	47	32	21	+25%
Personal Care	44	38	18	+26%
Bottled Water	46	38	16	+30%
Household Care	43	39	18	+25%
Household Paper Goods	42	41	17	+25%
Snacks	42	42	16	+26%
Dairy	42	38	19	+23%
Deli Meals	45	34	21	+24%
Packaged Food	43	39	18	+25%
Food Prepared in Stores	44	37	19	+26%
Beverages	39	43	19	+20%
Frozen Food	39	41	19	+20%
Baby	40	39	21	+19%
Pet Care	35	46	18	+17%
Non-alchoholic Bev	32	50	18	+14%
Beer	30	50	20	+9%

1. Q: How did you or your family's attitudes towards products' country of origin change during the COVID outbreak compared to before the COVID outbreak?
2. Subtracting the % of respondents stating their preference for products sourced from overseas increases during the outbreak from the % of respondents stating their preference for locally-source products increases during the outbreak

Source: McKinsey & Company COVID-19 mobile survey 3/20-3/25/2020 N = 570 Sampled and balanced to match ID gen pop 18-65 years old

4. "Shock to Loyalty": Channel and brand switches create new opportunities and risks

Store switching — Proximity main factor

	% respondents who have switched stores during COVID-19[1]	*% switchers lost*[2]	*Main reason for switching (% switchers)*
Indonesia	48	2%	*Proximity to home (60%)*
Thailand	45	8%	*Proximity to home (52%)*
Australia	41	12%	*Out of stock issues (12%)*
India	35	34%	*Proximity to home (70%)*
China	28	47%	*Availability of fresh products (29%)*
South Korea	11	27%	*Moved to online grocery (31%)*
Japan	9	40%	*Out of stock issues (20%)*

Brand switching — Availability main factor

	% respondents who have switched brands during COVID-19[1]	*% switchers lost*[2]	*Main reason for switching (% switchers)*
Indonesia	35	6%	*Usual brand not available (77%)*
Thailand	68	5%	*Usual brand not available (67%)*
Australia	43	8%	*Usual brand not available (84%)*
India	65	11%	*New option easier to consume (55%)*
China	32	20%	*New option easier to consume (45%)*
South Korea	17	39%	*New option is safer (28%)*
Japan	9	9%	*Usual brand not available (84%)*

1. Q: During the COVID-19 outbreak, have you continued to go to your regular/ primary store to shop for groceries?
2. Q: Do you plan to go back to shopping at your regular/ primary store after the COVID-19 outbreak?

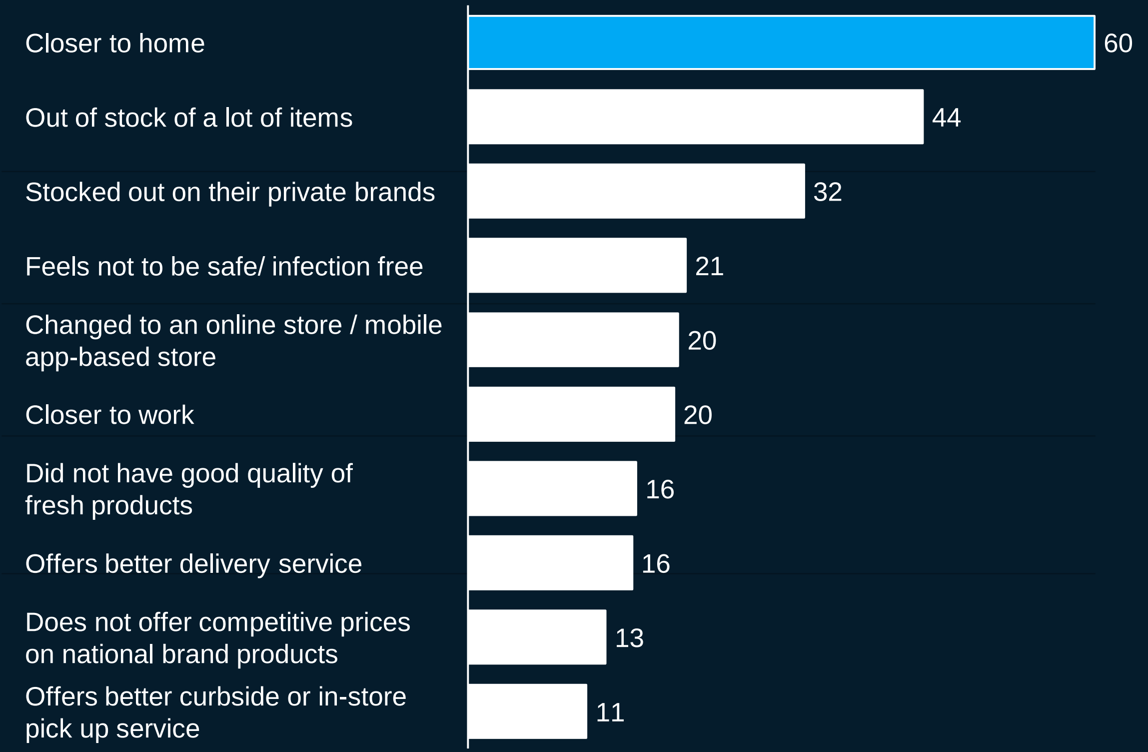
Source: COVID-19 mobile survey, 3/21-3/25/2020 N = 5,013, sampled and balanced to match general population (except India, with higher focus on consuming class)

Around half of respondents have switched from their regular grocer during COVID, but 98% of them plan go back

52% **of consumers are still visiting their regular/ primary store for grocery needs**

48% **of consumers have tried/ switched to a different store**

Primary driver for switching stores during COVID[1],
% respondents who have switched stores



Post-COVID situation[3]

98% of consumers plan to switch back to usual brand after COVID

1. Q: Why have you switched from your regular/ primary store for your grocery store?

Source: McKinsey & Company COVID-19 mobile survey 3/20-3/25/2020 N = 570 Sampled and balanced to match ID gen pop 18-65 years old

Product availability and availability of hygienic service are top drivers of in-store experience during COVID

Top 3 drivers for in-store experience during COVID situation[1],
% of respondents rating factor as top-3 most important

1. Q: What have been the most important factors for creating a positive in-store grocery shopping experience during the COVID-19 outbreak?

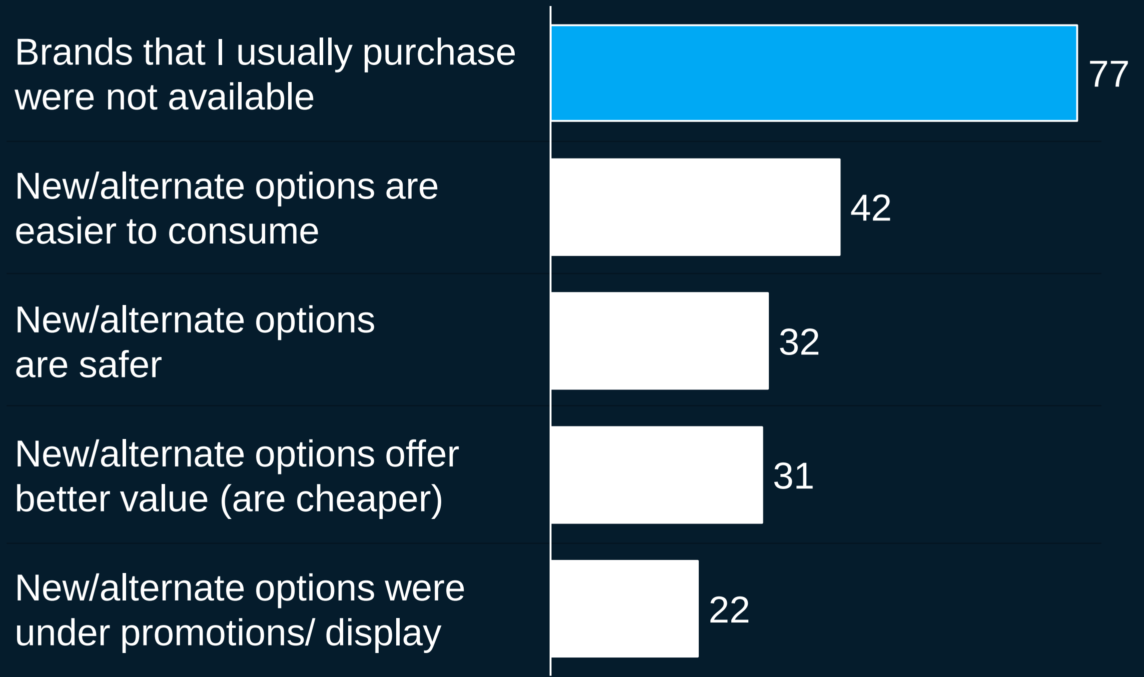
Source: McKinsey & Company COVID-19 mobile survey 3/20-3/25/2020 N = 570 Sampled and balanced to match ID gen pop 18-65 years old

35% of respondents have tried different brands due to availability, but 94% of them plan go back to their usual brand

65% **of consumers have not tried new/alternate product brands**

35% **of consumers have tried new/ alternate product brands**

Primary driver for switching to a new brand/product during COVID[2], % respondents who have tried new/alternate product brands



Post-COVID situation[3]

94% of consumers plan to switch back to usual brand after COVID

1. Q: If yes, why did you switch from the brands you usually purchase to new/ alternate options? Select all that apply

Source: McKinsey & Company COVID-19 mobile survey 3/20-3/25/2020 N = 570 Sampled and balanced to match ID gen pop 18-65 years old

Agenda

What is happening?

How is it affecting CPG and Retail – in Indonesia and beyond?

What can you do about it

Actions for Retailers

Actions Retailers should already have in place and focus on going forward

What should already be in place

- Set-up a nerve center on crisis response
- Protect customers and employees
- Establish a cash war room and manage financing

What Retailers should focus on now

- Safeguard supply chain – short term sourcing, supply stability & supplier management; start building a resilient supply chain for the future
- Build capabilities to proactively manage demand – advanced basket analytics for assortment, space, pricing and promotions
- Assertively push online and omnichannel
- Start planning for the rebound and boldly think about ecosystem partnerships and M&A

Actions for CPGs

Actions CPGs should already have in place and focus on going forward

What should already be in place

- Set-up a nerve center on crisis response
- Protect employees and enable them to work effectively
- Establish a cash war room and manage financing

What CPGs should focus on now

- Conduct scenario planning and mid-term strategy incl. disruptive moves
- E-commerce sales push and digital marketing
- Ensure supply chain and manufacturing remain operational
- Start planning for the rebound

Q & A

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- China Advertising story: During and After Covid-19
- Understanding the Changes in Consumer Behavior During a Pandemic
- China Martech

https://www.mmaglobal.com/webinars

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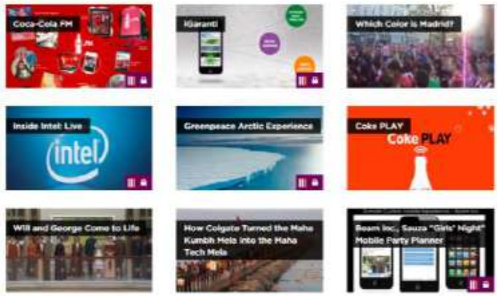

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