

# HOW COVID-19 HAS CHANGED CONSUMER PRIORITIES

Five actions companies  
should take to respond

The fog is beginning to lift on the shape of the world's recovery from COVID-19. Of course, a tremendous deal of uncertainty remains. With hopes for a V-shaped recovery fading, will the path forward look more like a U, W, or something else entirely? Will a vaccine be required to approach a return to normal? Which of any number of scenarios will take hold? The answers to these and many other questions remain unknown. At the same time, the directional shifts in consumer behavior, which we believe will take hold for the next 18 to 24 months, are starting to be defined.

Positioning to address these likely shifts in behavior now, while maintaining flexibility to amp the response to each shift up or down as the fog further lifts, offers consumer products companies the opportunity to thrive.

The most impactful changes to consumer behavior can be segmented into four areas: health, hygiene, home, and habits. Heightened sensitivity to safety will bring with it several shifts in consumer expectations related to the physical environments in which they consume products, services, and experiences. Health and wellness trends will accelerate as consumers strive to strengthen their well-being in the face of obvious vulnerabilities. Expectations that corporations act to protect people and the environment at large will be paired with these individual concerns.

A reluctance to enter public spaces will take hold for a material subset of consumers, leading to long term shifts in product and service delivery models.

The financial implications of the crisis, including the potential for a longer-term recession, will act to further bifurcate consumers along income lines and lead to dramatic shifts in what and where consumer spending occurs.

These shifts in consumer behavior have broad ranging implications: new consumer segments to target; sustainable adjustments to the cost structure; a need to fundamentally reevaluate top-line management and product portfolio strategy; and a recognition that digital capability development has become a higher priority.

# CONSUMER PRIORITIES

have fundamentally shifted: the four Hs

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**HEALTH**



**HYGIENE**



**HOME**



**HABITS**

## 1 HEALTH

The health and wellness megatrend will accelerate, and the on-going shift from curative medicine to a focus on wellness and prevention will gain even more traction. Nutrition will take a more prominent role in addition to exercise, sleep, and mindfulness in the overall wellness approach taken by consumers. The focus will shift to improving well-being to enhance protection against illness and disease. Early signs of this trend emerged in March as sales of immunity products (like vitamins, supplements, and probiotics) increased 199% and the number of consumers buying such products jumped 125%.<sup>1</sup>

Moreover, consumers, who already connect sustainability expectations and health and wellness, will place heightened importance on trust and expect that brands demonstrate accountability for the health and wellness of participants across the value chain, as well as environmental impacts.

1. IRI CPG Demand Index, April 27, 2020.

## 2 HYGIENE

Consumers will continue to be reluctant to be within crowded and unfamiliar places for some time. When they do, many will carry and expect companies to use and provide personal protective equipment and follow strict hygiene practices. Based on a recent AlixPartners survey, 30% of consumers expect to dine out less post COVID. And it is no surprise that about 70% of consumers indicate that sanitation practices will influence take-out and delivery restaurant selection. For some, a concern about virus exposure risk will be particularly heightened, bordering on the type of aversion previously exhibited only by only those members of the population who suffer from immune disorders. Traditional complements to travel such as planes, trains, and hotels will continue to experience soft volumes as consumers opt to stay local and near the home.

## 3 HOME

More than ever, the home will become the hub for work, school, exercise, entertainment, and dining. In fact, 35% of consumers expect to prepare more meals from home post COVID according to a recent AlixPartners survey. These nesting tendencies will also result in consumers seeking to improve the quality of at-home living and devoting a larger portion of their discretionary spending on renovation, landscaping, cooking, exercise equipment, and hobbies. Appetites for at-home bandwidth will also grow as consumers adopt collaborative tools like Zoom and Microsoft Teams, engage more with companies and content online, and expand their use of online ordering and home delivery. At-home living will likely continue to depress demand for health and beauty products, but we would expect certain DIY categories for nail and hair to remain strong.

## 4 HABITS

The economic hardships of COVID has not been even across the economy. The impacts have been different along geographic, income, and educational lines. According to a recent NBC/Wall Street Journal poll, job losses were 3 times greater for the poor working class than the upper class.<sup>2</sup> Similar differences are evident across geographies, due to industry concentration. For these impacted segments, discretionary spending has been disrupted tremendously, and stimulus checks have not adequately backfilled losses. A recent AlixPartners survey indicates that 86% of stimulus proceeds are devoted to non-discretionary essentials such as groceries, rent, utilities, and debt repayments. With this type of economic impact and the prospect of an economic recession on the horizon, consumers will be focused on stretching their dollars further. Private label offerings will gain in their share of categories and price sensitive consumers will migrate to value grocers and dollar retailers. When consumers spend, they will prefer to do so locally to support their communities and seek trusted, iconic brands as source of comfort, at the expense of start-up brands for the immediate future. A recent AlixPartners survey identified that 38% of consumers now favor local restaurants versus chains. Moreover, luxury and indulgent consumption will not cease but continue in those consumer segments not impacted by the economic hardship of COVID and any follow-on recession.

2. NBC/Wall Street Journal poll, April 13-15, 2020.

The impact to consumer behavior across these four areas—health, hygiene, home, and habits—will have significant implications for companies. Specifically, we believe there are five key implications that companies should be proactively addressing as we emerge from COVID-19 over the next 18 to 24 months.

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Changed consumer priorities demand new business responses



**TARGET NEW SEGMENTS**



**ADJUST COSTS**



**RETHINK MANAGEMENT**



**EVALUATE PORTFOLIO**



**DIGITAL ADOPTION**

# Five key implications

## 1 IDENTIFYING AND TARGETING CONSUMER SEGMENTS

As a result of COVID-19, we believe companies should think about identifying and targeting consumer segments along two dimensions: economic impact vs. health and hygiene sensitivity. This could also result in potential growth from new emerging segments.

For example, given consumer concerns associated with health clubs, some of our clients are seeing a significant surge in sales as consumers shift discretionary spending towards in home fitness equipment. With many consumers evaluating these purchases against an average annual gym membership of \$600, consumers are justifying larger investments (up to \$2,000) than they otherwise would have made. As such, the willingness to pay in traditional and mainstay categories has shifted, resulting in new market and segment definitions.

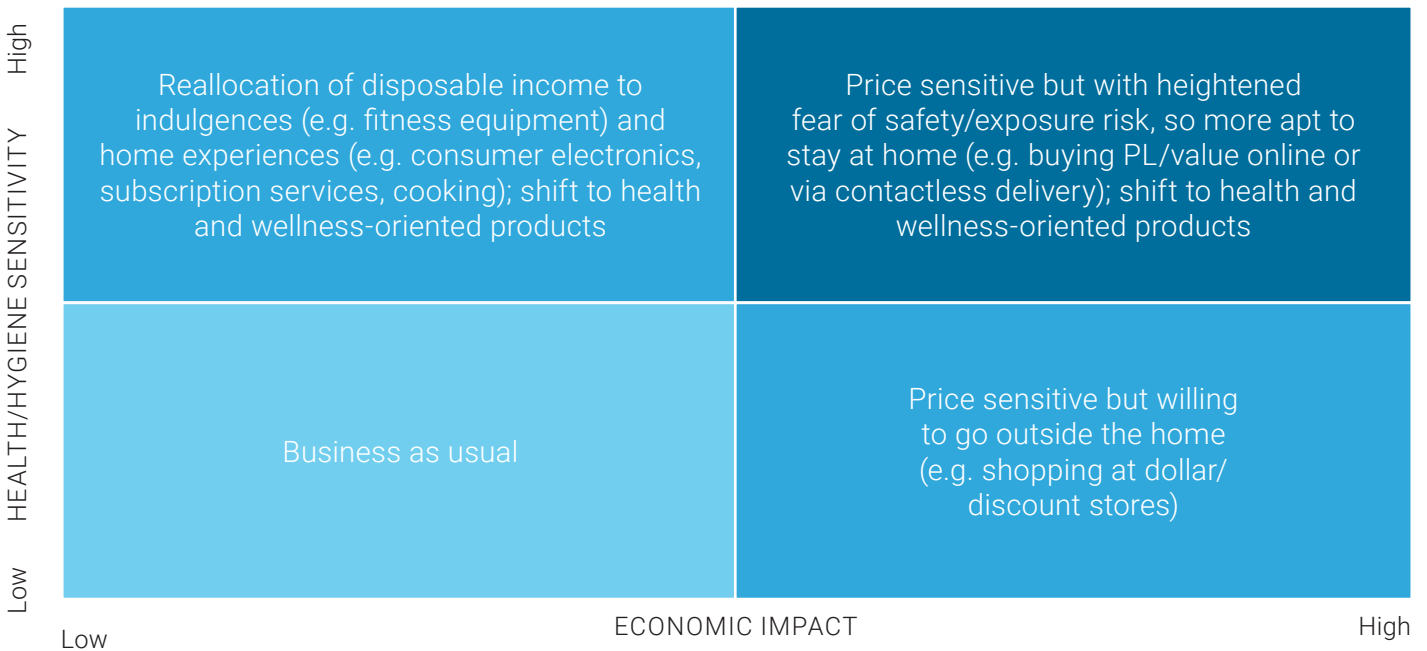
## 2 SUSTAINABLY ADJUSTING THE COST BASE

Companies need to proactively accelerate their approach to sustainably adjust the cost base to thrive in this new environment. This adjustment could take many different forms including scrutinizing sales and marketing spend (like rethinking event-driven consumption and marketing given cancellations or potential fan-less venues), assessing labor optimization opportunities (including potential for automation), transforming general and administrative expenses, accelerating procurement efforts (including demand management), and cutting discretionary spending.

Many of our clients are aggressively pursuing cost transformation programs, including:

- A multinational consumer products company with a diverse product offering that continues to assess, plan, and execute end-to-end continuous improvement programs throughout its global business.
- A household products company that, given how productive the shift to work from home has proven, does not need as many regional offices, allowing them to move forward with rationalization plans.

### Consumer segmentation changes dependent on economic impact and sensitivity to health and hygiene matters



### 3 RETHINKING TOP-LINE MANAGEMENT

Companies should not only focus on the cost side, but also reevaluate top-line priorities, given the impact to consumer behavior and the likelihood for channel shifts, preferences for value, and new emerging consumer segments. We believe this reevaluation needs to be holistic in nature, covering go-to-market strategy, product assortment, customer and product prioritization, strategic pricing, gross-to-net management, marketing effectiveness, and demand planning. Recently, a packaged food client has seen a sharp drop in foodservice demand, and as a result, is shifting some production to retail customers while also driving network consolidation.

### 4 EVALUATING PORTFOLIO STRATEGY

An overarching implication for companies is how they should view their portfolio from a strategic standpoint, looking at potential mergers, acquisitions, and divestitures. In the current environment, sellers have pulled back activities, while buyers are focused on shoring up their balance sheets. As we emerge from this crisis, however, we expect the market to begin to thaw. Brand strength will matter more than ever, and strong brands are best positioned to benefit from market consolidation. Companies with weak balance sheets or brands are unlikely to survive on their own. Indeed, large retailers are stronger companies and financial sponsors should focus on acquisitions that create scale, access adjacencies, or are opportunistic in nature.

On the flip side, companies should focus on divestitures for divisions that do not fit their strategy moving forward. Some of our clients have been exercising strong pricing discipline and patience when pursuing potential acquisitions in the current environment. We would expect many of these discussions to reactivate as we emerge from this crisis, with better line of sight on target companies' financial performance.

### 5 ACCELERATING DIGITAL TRANSFORMATION

Many of the impacts to consumer behavior including social distancing are driving faster adoption of digital tools and channels. We've already seen a dramatic increase in online grocery, with 48% of US consumers increasing online grocery shopping during COVID-19.<sup>3</sup>

This material change requires companies to accelerate their digital transformation. Key considerations include investing in improving supply chain infrastructure, increasing capabilities, revisiting online assortment, and focusing on engagement and conversion. Several of our clients are actively building out digital capabilities given this structural shift that will continue well into the future.

3. AlixPartners COVID-19 Demand Surge Consumer Survey, March 27-31, 2020

## PREPARING FOR THE NEXT PHASE

As we emerge from this crisis, it will be imperative for companies to shift from the day-to-day of crisis management to preparing for the eventual recovery. There will be several significant impacts to consumer behavior, some of which we expect to last 18 to 24 months. However, many of these changes will be more structural in nature and long-lasting—effectively accelerating trends which were already in place before the current crisis. As a result, it is critical for companies to address the five key implications that we have discussed in detail in order to thrive moving forward.



AlixPartners consumer survey data was taken from two polls of US consumers on March 27-31 and on April 20-24.

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## ABOUT US

For nearly forty years, AlixPartners has helped businesses around the world respond quickly and decisively to their most critical challenges – circumstances as diverse as urgent performance improvement, accelerated transformation, complex restructuring and risk mitigation.

These are the moments when everything is on the line – a sudden shift in the market, an unexpected performance decline, a time-sensitive deal, a fork-in-the-road decision. But it's not what we do that makes a difference, it's how we do it.

Tackling situations when time is of the essence is part of our DNA – so we adopt an action-oriented approach at all times. We work in small, highly qualified teams with specific industry and functional expertise, and we operate at pace, moving quickly from analysis to implementation. We stand shoulder to shoulder with our clients until the job is done, and only measure our success in terms of the results we deliver.

Our approach enables us to help our clients confront and overcome truly future-defining challenges. We partner with you to make the right decisions and take the right actions. And we are right by your side. When it really matters.

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