

Consumer Packaged Goods Practice

At the heart of a crisis: How consumer-health companies can lead in the time of the coronavirus

As consumer behavior continues to shift with ever-changing conditions, consumer-health companies must respond to the coronavirus pandemic with key stakeholders in mind.

by Shaun Callaghan, Martin Lösch, Stefan Rickert, and Warren Teichner



The consumer-health sector is at the center of efforts to control the current COVID-19 pandemic, which has already had sweeping effects on people and economies across the globe.¹ As consumer-health companies respond to the crisis, they must consider the needs and interests of their major stakeholders: consumers, customers, and employees. In the near term, consumer-health companies have critical decisions to make about each group—for example, how to communicate with and distribute products to consumers, how best to support their customers (that is, retailers and pharmacies), and how to help employees adjust to drastically different working conditions and norms.

The industry is uniquely positioned to lead in this crisis, given the trust that consumers place in its brands and their reliance on its products for self-care. While the situation continues to evolve, consumer-health companies should consider taking several steps to demonstrate clear public-health leadership during an uncertain time.

How consumer behavior is changing

As the COVID-19 pandemic has progressed across and within geographies, consumer behavior has also evolved quickly. Three broad phases of consumer behavior, linked to epidemiological phases and government responses to the crisis, are playing out: escalation, accumulation, and early recovery.

Each phase involves distinct consumer-purchasing behaviors. During the escalation phase, consumers tend to “pantry load” essential goods, such as shelf-stable foods, toilet paper, and cold and pain medicines. During the run-up to Italy’s lockdown,² a McKinsey analysis shows sales of grocery food and pharmaceuticals grew by 11 percent and 20 percent, respectively, year over year. Similar purchasing patterns have played out in the United States and in other affected countries. For example,

some consumer-health companies have reported an uptick in prevention- and immunity-oriented products during this phase, including a more than 40 percent year-over-year increase in sales of multivitamins.

In the accumulation phase, consumers brace for a sustained quarantine and purchase items for self-sustainment. During this phase in Italy, consumers purchased more everyday personal-care items, such as cleaning sheets and toilet paper, and continued stocking up on essential foods. Finally, in the early recovery phase—which has started to take hold in China—consumer sentiment rebounds: for example, a recent McKinsey survey in China found that 70 percent of consumers in tier-1 and tier-2 cities intend to return to the same (or even higher) levels of spending on consumer goods after the COVID-19 crisis has been resolved.³

Consumers have also chosen to buy their products through channels different from those they used before the pandemic. In Italy, online sales of grocery items increased by 20 percent year over year from February 23 to March 11, 2020. During this period, overall e-commerce levels were up more than 80 percent, including a two- to three-times increase in click-and-collect purchases. Likewise, as customers in China’s most affected areas were forced to close or experienced a reduction of up to 70 percent in foot traffic, the country’s already high e-commerce sales have risen. For example, JD.com’s year-over-year online fresh-food sales grew by 215 percent during the ten-day period ending February 2, compared with the same period last year.⁴ Similar channel shifts are already underway in the United States, where online traffic for certain categories, such as groceries, has increased by at least 25 percent.⁵

We expect the impact on consumer-health companies to vary by product type and by whether a

¹ Matt Craven, Linda Liu, Mihir Mysore, and Matt Wilson, “COVID-19: Implications for business,” March 2020, McKinsey.com.

² Data from February 23, 2020 (when the first coronavirus red zone was declared in Italy) to March 11, 2020, two days after the Italian government declared a country-wide lockdown.

³ The survey was in the field from February 21 to February 24, 2020, and included 1,249 responses.

⁴ “How Chinese are spending during the coronavirus outbreak,” February 8, 2020, jdcorporateblog.com.

⁵ From February 29 to March 13, 2020.

given product could help manage milder symptoms of the virus. In the consumer-health industry, there are four key product types:

- *Treatment mainstays.* These include over-the-counter respiratory and pain-relief products. Sales will probably increase during the accumulation phase as consumers stock up on essential items, including those they need to treat mild symptoms at home instead of visiting a doctor's office or hospital. According to the World Health Organization, most cases of COVID-19, while of concern, are characterized as mild, and some 20 percent of cases around the world are classified as either severe (requiring oxygen) or critical (requiring ventilation). As the strain on hospitals intensifies, more people will opt for—or be required to—follow safety measures such as self-isolation or community quarantines.
- *Prevention arsenal.* These include vitamins and dietary supplements that may support overall immunity. While such products do not protect against the transmission of COVID-19, some believe that they support overall immune-system health; they may therefore become part of a consumer's prevention regimen.
- *Lockdown essentials.* These include gastrointestinal remedies, allergy medications, oral- and eye-care products, and other items that consumers use regularly. Although these products might not be related to COVID-19, consumers are likely to purchase more of them if they think a quarantine period is highly likely.
- *Premium discretionaries.* These include certain cosmetic products (skin care, for example) that consumers may not purchase during uncertain economic conditions.

In many markets, including the United States, where COVID-19 has spread quickly, we have already observed significant demand for treatment mainstays and prevention-arsenal products. Demand is also high for some lockdown essentials,

depending on the local severity of the coronavirus outbreak and the government's response. We have also seen a channel shift and increase in e-commerce, following trends in China and Italy.

How consumer-health companies can support consumers, customers, and employees in the near term

Given the dramatic changes in consumer behavior, and more broadly, in societies and economies, it's critical that the industry moves quickly to respond to the coronavirus—and that they keep their key stakeholders in mind when making near-term business decisions. Consumer-health companies should take several actions to support consumers, customers, and employees during the pandemic.

Consumers

Consumers are understandably anxious and uncertain in the current environment, given the fast-developing nature of the COVID-19 crisis.⁶ As consumers look to known consumer-health brands and companies in times of uncertainty, these companies can do several things to help them:

- *Educate consumers.* Consumer-health companies have the credibility and reach to help consumers cut through misinformation about the coronavirus, as well as a role to play in helping to alleviate confusion among consumers. To do so, these companies can use their own communication platforms—their corporate or brand websites—to inform consumers about product usage, direct them to the relevant health agencies, and clarify fact versus fiction for certain products. To ensure that companies provide the right information, they should coordinate closely with the relevant government agencies and strongly consider coordinated industry-wide efforts to educate consumers.
- *Get products to people in new ways.* Amid social distancing, quarantines, and shrinking inventories, this is a unique moment for consumer-health companies to support consumers by providing access to important

⁶ "Survey: US consumer sentiment during the coronavirus crisis," March 2020, McKinsey.com.

products—waiving fees for home delivery, for example. These companies also have opportunities to partner with public-health organizations and private-delivery services to ensure that key products (including prescriptions) get to consumers when they need them.

- *Play a visible, purpose-driven role.* Since consumers trust consumer-health companies and brands about health-related issues, these companies have an important role to play serving and supporting communities affected by COVID-19. They can do so, for example, by expediting the manufacture of critical products and donating products to more vulnerable populations. Near-term public actions to support consumers can breed goodwill in the long term.

Customers

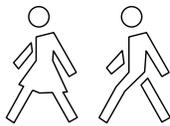
Customers are experiencing significant changes to their businesses and will continue to do so in the weeks and months ahead (Exhibit 1).

To help retailers and pharmacies manage these disruptions, consumer-health companies can take the following actions:

- *Enable flexible product flows.* As consumers stock up on treatment, prevention, and (potentially) lockdown products, consumer-health companies should work closely with customers to ensure that product inventories align with consumer demand. This means collaborating with customers' merchant and planning teams to reallocate or identify alternative product-flow strategies: moving

Exhibit 1

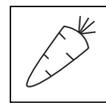
Customers are experiencing, and will continue to experience, significant changes from COVID-19 in the weeks and months ahead.



Changes in shopper traffic

-20% to -30%

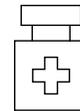
decline in foot traffic for highly affected trade areas in the US (eg, the District of Columbia, New York, Seattle); some stores with high tourist traffic report declines of $\geq 50\%$



Changes in fulfillment models

+600%

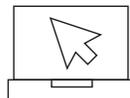
increase in fresh-food deliveries during the Lunar New Year in China¹



Category shifts

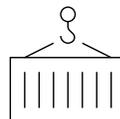
+150%

increase in sales of over-the-counter cold and flu drugs; 800% increase in protective equipment; 70% increase in nonperishables; 58% increase in emergency supplies



+25%

increase in online traffic and commerce (eg, for certain retail subsectors, such as online grocery)



-23%

decline in cargo volumes reported by the Port of Los Angeles for February



-5% to -15%

decline in sales of fresh-food categories in US grocery stores

¹Reported by Carrefour.

Source: Nielsen Retail Measurement Services; RetailNext

more inventory to online channels, for example, and making distribution centers more flexible. Consumer-health companies should also focus more on the accuracy of their inventories and the visibility of stock across omnichannel networks, since that will help minimize supply-chain or distribution disruptions as more consumers purchase products online.

- *Bolster the online presence.* As consumers increasingly purchase consumer-health products online, consumer-health companies should be ready to help customers make similar moves and meet consumers where they are. In many cases, this will require working with customers' planning teams or with online retailers to ensure that inventory levels are accurate and supply-chain logistics can keep up with the likely increase in online sales. In some cases, companies may want to accelerate direct-to-consumer sales through their own websites, though existing online channels are probably the most expedient way to meet consumers' needs in the near term.
- *Become a trusted, transparent adviser.* Consumer-health companies should maintain close contact with their customers about the availability of products and potential disruptions, particularly of the most needed products. The sales forces of these companies could be a powerful way to advise and support customers by ensuring that their shelves are stocked or by supporting pharmacists with product and treatment information.

Employees

Supporting the health and safety of employees is also vitally important—and all companies should monitor and incorporate guidance from national health authorities, such as the Centers for Disease Control and Prevention, as the coronavirus pandemic continues to develop. Consumer-health companies should take several actions for their employees' benefit:

- *Increase communication.* In this uncertain time, it's critical that consumer-health companies

communicate frequently and clearly with employees. These companies must balance the needs of the business with expectation setting and morale building, so employees know that their well-being is top of mind. Companies can do this in a more sustained way by establishing internal and external communications teams that reports directly to the C-suite and by aiming for frequent, transparent communications. The leadership teams at many companies have also been sending daily updates to help employees cut through the torrent of information on COVID-19.

- *Change working norms.* As of the time of writing, the ten largest global consumer-packaged-goods (CPG) companies had all implemented travel restrictions and advised employees in affected areas to self-quarantine. Other companies should follow suit and adjust their travel policies to permit only the most critical travel for business purposes. They should encourage remote work—universally if possible or by A/B testing remote-work-team models at all locations—and defining the labor strategy for a fully remote workforce. They should also discourage or postpone large in-person employee gatherings, such as training sessions and conferences.
- *Protect people's health.* To keep employees working safely and healthily, companies can communicate often and clearly about positive hygiene habits, applicable even if people work remotely. They should provide employees with health-related products, such as over-the-counter respiratory products and vitamins. And given the far-reaching effects of coronavirus, they should consider amending sick-leave policies to show compassion for employees whose loved ones have been affected by the virus or have been exposed to it themselves.

How consumer-health companies can mobilize for action

The need for consumer-health companies to respond to the coronavirus pandemic—and quickly—

is clear. But they must have the right organizational capabilities and mechanisms in place to do so. All CPG companies should follow a three-part plan (Exhibit 2), and there are two specific actions that are especially important for consumer-health companies to take.

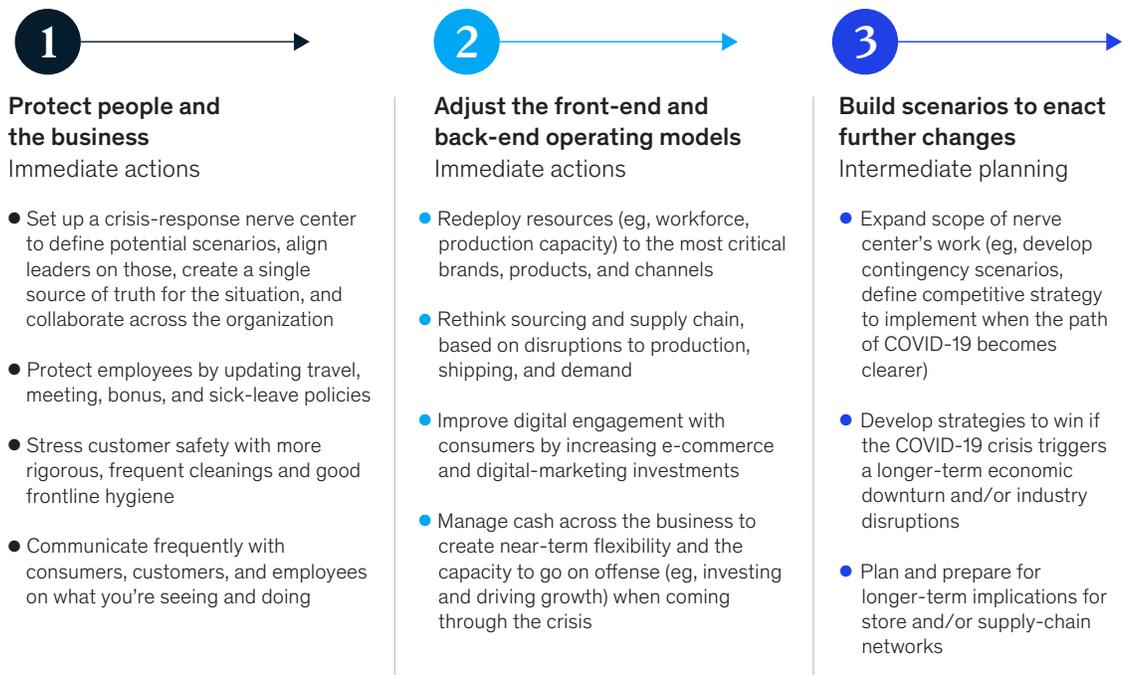
First, companies should move quickly to set up COVID-19 nerve centers—a flexible organizational structure that guides their work on the pandemic—to cover critical areas of the business.⁷ These include protecting employees, stabilizing the supply chain,⁸ financial stress testing, monitoring inventories and levels of working capital, and managing demand during the crisis—while preparing for recovery. Cross-functional coordination is critical in the current moment of

crisis response, and nerve centers, which break down organizational silos, can help consumer-health companies expedite their decision making and ability to act.

Second, companies need to focus immediately on their most critical products, especially those for treatment and prevention. This requires quick resource-allocation decisions to redeploy internal resources, including production capacity and head counts, toward those items. The nerve center can support rapid reallocation by bringing together the relevant leaders across supply chain, logistics, R&D, finance, human resources, sales, legal, and marketing. Likewise, consumer-health companies should consider their assortment of products. In other sectors, such as food and beverages,

Exhibit 2

Consumer-health companies should consider a three-part organizational response to COVID-19.



⁷ Mihir Mysore and Ophelia Usher, "Responding to coronavirus: The minimum viable nerve center," March 2020, McKinsey.com.

⁸ For more on the potential impact of the coronavirus on supply chains, see Knut Alicke, Xavier Azcue, and Edward Barriball, "Supply-chain recovery in coronavirus times—plan for now and the future," March 2020, McKinsey.com.

Long-term implications for the consumer-health industry

Beyond the immediate impact of the COVID-19 crisis, the global economy could be challenged for months to come. Although the outlook is uncertain, the consumer-health industry should keep certain implications in mind.

- *A constrained spending environment.* The pandemic and its economic impact could bring about lasting changes in consumer behavior—as well as a more challenging economic environment overall, once the current crisis passes. After the 2008 recession, consumers moved away from premium brands in some categories and didn't come back after positive experiences with more value-oriented brands.¹ One consequence of this shift was an expansion of private-label products in several markets. In the United States, spending on private-label over-the-counter products increased from 21 percent of all category sales to 30 percent between 2006 and 2012, according to Euromonitor—and these levels have stayed largely consistent since then. Coming out of the COVID-19 crisis, consumers may trade down and make more value-oriented purchases, which could mean a resurgence of consumption of private-label products in some categories.
- *A growing focus on prevention and self-care.* Consumers

are increasingly focusing on preventative care to boost their health and immune systems. For example, immunity-related dietary supplements are a \$1.8 billion market in the United States, and sales grew at close to 6 percent a year from 2013 to 2018, according to Euromonitor. Since the COVID-19 pandemic disproportionately affects people with underlying health conditions, consumers may be even more aware of their well-being and more likely to take proactive measures to maintain healthy lifestyles—a trend that may last well beyond the current crisis. Relatedly, current travel restrictions, tightening consumer spending, and growing use of online channels could accelerate the broader increase in sales of self-care products.

- *Reset in digital engagement.* Compared with other industries, consumer health—and over-the-counter (OTC) products in particular—generates a relatively low proportion of its total sales through e-commerce. According to Euromonitor, for example, only 3 percent of global OTC sales happen online. As consumers purchase more goods remotely during the pandemic, they may become accustomed to purchasing consumer-health products online, especially as delivery speeds

increase. That could lead to higher levels of online sales for OTC and other consumer-health products, potentially north of 15 percent, in markets such as the United States and Europe. The current crisis may also be the first time consumers use telemedicine services, other health-related online tools, or coronavirus-related apps (for example, alerts, case trackers, and some nascent screeners or tests). If patients become more comfortable using online tools for health-related purposes, consumer-health companies may have opportunities to partner with telemedicine services and other health-based online platforms.

- *The importance of a company's purpose.* If consumer-health companies and other private-sector businesses play a visible leadership role supporting communities during the pandemic, consumers may have greater trust and goodwill toward these organizations and brands going forward. McKinsey research indicates that younger consumers consistently prefer brands they perceive as authentic and having a strong purpose.² The coming weeks and months may therefore give consumer-health brands an opportunity to demonstrate clear public-health leadership and purpose, with potentially lasting effects.

¹ Betsy Bohlen, Steve Carlotti, and Liz Mihos, "How the recession has changed US consumer behavior," *McKinsey Quarterly*, December 2009, McKinsey.com.

² Bo Finneman, Julia Ivory, Sophie Marchessou, Jennifer Schmidt, and Tom Skiles, "Cracking the code of millennial consumers," March 2017, McKinsey.com.

companies have already significantly reduced SKU counts on the most needed items to maximize the speed of production. Consumer-health companies should do so for their treatment mainstays.

Consumer-health companies must prioritize the needs and interests of their consumers, customers, and employees in the near term, and follow a clear

plan for responding to the human and economic challenges ahead. But it's not too early to start thinking about the longer term (see sidebar, "Long-term implications for the consumer-health industry")—in particular, moving more business online, as both a distribution channel and a forum for interacting with consumers, potentially in new ways. They should also consider partnering with other stakeholders to find new ways to improve people's health overall and to mitigate future pandemics.

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