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Consumer Packaged Goods Practice

# How consumer-goods companies can prepare for the next normal

Consumer-packaged-goods manufacturers must anticipate changes in consumer behavior and set up plan-ahead teams to guide and accelerate decision making.

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As the coronavirus pandemic spreads across the globe, threatening both lives and livelihoods, consumer-packaged-goods (CPG) manufacturers continue to play an important role: producing essential items we all rely on for our health and well-being. CPG leaders have focused on meeting this demand while guarding the safety of employees and customers.

At the same time, forward-thinking CPG companies have begun to think about the "next normal"—what the world may look like after strong virus-control measures are lifted. The measures in place are expected to lead to the largest quarterly decline in economic activity since World War II. An unprecedented 40 to 50 percent decline in discretionary spending will translate to a roughly 8 to 13 percent drop in GDP. (For our macroeconomic scenarios and latest insights, see McKinsey.com/coronavirus.) While many CPG companies have withstood the initial economic shock, all will need to prepare for the longer-lasting effects, including an erosion in consumer confidence that will drive recessionary behavior.

In this article, we describe five trends in the consumer and retail landscape that have emerged during the crisis and, we believe, will persist in the aftermath. We then recommend the creation of a plan-ahead team to equip CPG companies for whatever the next normal may turn out to be.

## Consumer trends and channel shifts

We map four horizons of the crisis and beyond (Exhibit 1). At the time of this writing, most countries around the world—with notable exceptions in Asia—are still navigating the crisis. The questions many are now grappling with include: What will the next normal look like? And how long will the intervening period of partial restrictions last?

It's increasingly clear that the intervening period will be lengthy. Consumers and retailers will need to adjust to ongoing physical distancing and travel restrictions. Outlets and venues where physical distancing cannot be achieved will be among the last to reopen.

Current sentiment, the trends we are seeing in Asia, and lessons from the last recession lead us to anticipate at least five behaviors to "stick" through the prolonged recovery and the next normal: increased price sensitivity, higher digital engagement, rise in attention to wellness and hygiene, "nesting" at home, and a redefinition of brand purpose. We also expect to see important channel shifts: a smaller food-service sector, retailer consolidation, the rise of value retailers, and Amazon's growth in grocery (a sector in which the e-commerce giant has historically had lower share).

**Economic insecurity, leading to price sensitivity**

Already, two-thirds of consumers are pessimistic or unsure about the pandemic's lasting effect (Exhibit 2). Despite their comparative optimism for economic recovery, 46 percent of US consumers and 28 percent of Chinese consumers said they plan to reduce spending in the coming weeks.[1] (For our latest surveys, see "Global surveys of consumer sentiment during the coronavirus crisis," on McKinsey.com.)

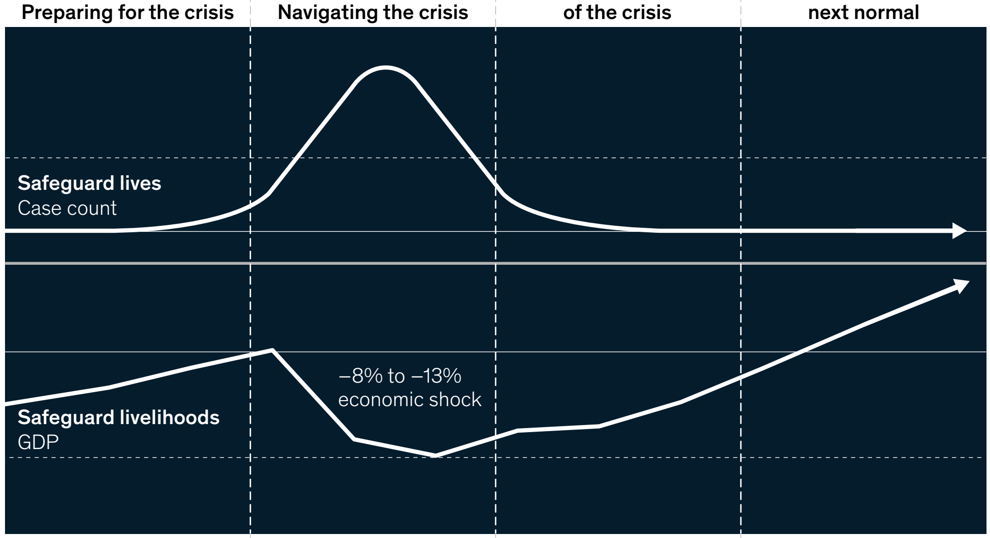
The 2008 recession is an imperfect analog to the COVID-19 crisis—which is more of a shock, with many governments introducing bold, unprecedented fiscal measures—but we believe it offers valuable lessons about how consumers behave under financial stress. That recession had a lasting effect on consumer confidence, which didn't return to prerecession levels until 2011 in Germany, 2014 in the United Kingdom and the United States, and 2017 in China.[2] Consumers reduced their spending in several ways:

— *Refocusing on home occasions.* Many consumers spent less outside the home; 55 percent of Germans and 63 percent of Americans said they ate out less.[3]

[1] McKinsey Consumer Sentiment Survey in China and United States, March 30 to April 6, 2020.
[2] Consumer Confidence Index, OECD, oecd-ilibrary.org.
[3] McKinsey US Consumer Sentiment Survey, February 2009; McKinsey Global Institute Europe Consumer Insights Survey, December 2008.

Exhibit 1

**Most markets—with exceptions in Asia—are navigating the crisis.**




| Horizon | Preparing for the crisis | Navigating the crisis | Coming out of the crisis | Managing the next normal |
|---|---|---|---|---|
| **Regulatory measures** | Closing down mass gatherings and food service | Closure of all nonessential retail; stay-at-home and distancing rules | Staggered easing of social distancing by risk group and reopening of retail with "safe stores" | Most likely full opening with risk of repeated measures if the virus recurs |
| **Consumer shifts** | • Pantry loading of packaged goods<br>• Beginning to shift online | • High demand for fresh food and ingredients, as well as continued need for hygiene<br>• Big shift to online grocery where available<br>• E-commerce only for nongrocery | • Lower spending, more saving<br>• Cautious return to retail with high hygiene and distancing expectations<br>• Continued increase in online ordering | Potential consumer shifts:<br>• Price sensitivity<br>• Higher digital engagement<br>• Attention to wellness and hygiene<br>• "Nesting" at home<br>• Redefinition of purpose |

Source: McKinsey analysis, in partnership with Oxford Economics

— *Cutting back on nonessentials.* Two-thirds of US shoppers said they cut back on high-end luxury goods; one-third cut back on cosmetics.[4]

— *Deal seeking.* Shoppers became increasingly promotion conscious. In the United Kingdom, the percentage of products sold on discount climbed from 26 percent in 2002–06 to 36 percent in 2011.[5]

— *Trading down.* Consumers switched to cheaper brands or private labels. UK private-label sales increased by 10 percentage points from 2008 to 2010.[6]

— *Shifting channels.* Many consumers began shopping at value retailers. Discounters now account for 10 percent of grocery sales in the UK market, up from 3 percent in 2006.[7]

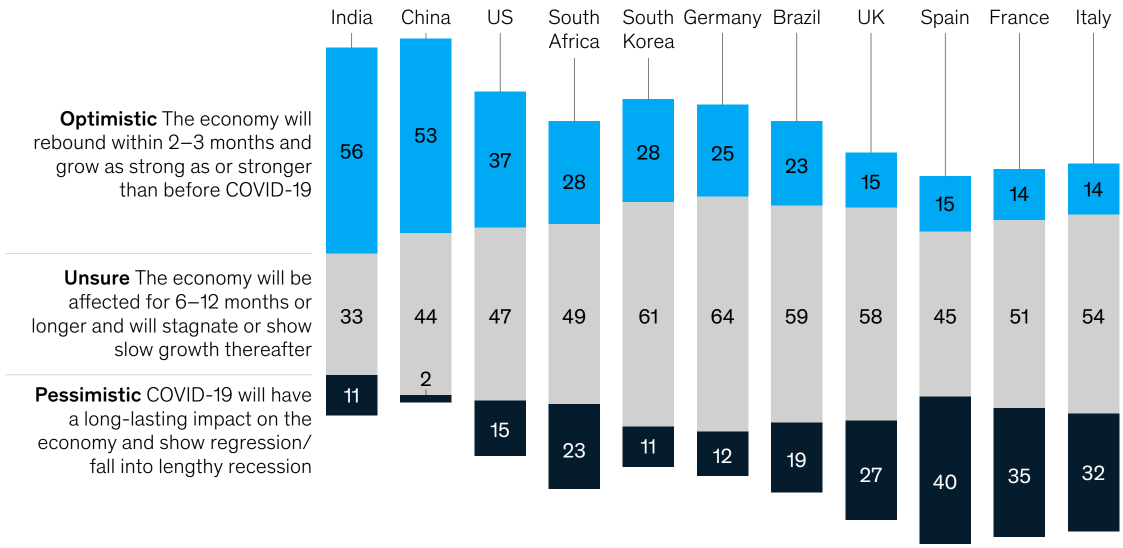
**A seismic shift in digital engagement**
Physical-distancing rules have increased consumption of online media and significantly accelerated e-commerce, particularly in markets

[4] McKinsey US Consumer Sentiment Survey, February 2009.
[5] *State of the nation 2012: A review of UK consumers and the grocery industry in 2011*, Nielsen, 2012; National Consumer Panel data on total purchasing.
[6] Euromonitor International data from 2008 to 2010.
[7] Euromonitor International data from 2006 to 2018.

Exhibit 2

## In most markets navigating the crisis, the majority of consumers are pessimistic or unsure about the economic recovery.

**Confidence in own country's recovery in after-COVID-19 economy,**[1] % of respondents




Note: Figures may not sum to 100%, because of rounding.
[1] Question: How is your overall confidence level on economic conditions after the COVID-19 situation?

Source: McKinsey COVID-19 Consumer Pulse Survey, 2020; Brazil (March 28–30) n = 1,311; China (April 1–4) n = 1,048 including Hubei province; France (April 2–5) n = 1,003; Germany (April 2–5) n = 1,002; India (April 3–6) n = 582; Italy (April 2–5) n = 1,005; South Africa (March 24–26) n = 535; South Korea (April 3–6) n = 600; Spain (April 2–5) n = 1,003; UK (April 2–5) n = 1,000; US (March 30– April 5) n=1,119

that already had a head start. In the United Kingdom, for example, where online's share of grocery shopping was 7 percent before the crisis, grocers are furiously increasing capacity to meet demand: the three largest grocers have added more than 500,000 new delivery slots—an increase of more than 30 percent.[8] For many discretionary categories, e-commerce has become *the* channel as stores have closed.

We expect this channel shift to endure to some extent, especially in countries where retailers had enough preexisting capability to offer a positive online experience. Early lessons from China suggest that three to six percentage points of online market share will be "sticky,"[9] driven by older generations newly comfortable with digital channels and by new consumer segments who have overcome barriers to trial (such as account setup). Also, in the medium term, we expect shoppers to prefer the "safe" experience of shopping online to the prospect of shopping in crowded stores.

Amazon is likely to build momentum in fresh food and packaged goods, especially in markets where the major grocers lack e-commerce "legs." In the month leading up to March 14—even before governments issued shelter-in-place guidance—Amazon US saw year-on-year growth of 41 percent in household goods, 25 percent in health products, and 23 percent in groceries.[10]

### Rise in attention to wellness and hygiene

The wellness trend has endured—and even gained strength—during the outbreak. "Healthy eating" has remained the highest priority of food shoppers

[8] Globaldata 2019 Food & Grocery; press searches.
[9] McKinsey Consumer Sentiment Survey in China (mobile), February 2020.
[10] Stackline data from February 15 to March 14, 2020.

across Europe: net sentiment (positive responses less negative) was 55 percent, rising to 82 percent in Italy.[11] Consumers are also investing in at-home exercise: in Germany and the United Kingdom, Amazon's fitness-equipment sales spiked by approximately 60 percent each week in March.[12]

We expect this upward trajectory to continue into the next normal. Hygiene will become a core element of wellness. The speed of the virus's spread has highlighted the level of connectedness in society—and the associated risk. Brands should consider the implications for their strategy and communications (for instance, reassessing manufacturing processes and packaging, as well as emphasizing health and cleanliness in marketing messages). The battle to eradicate COVID-19 will be a long one, and CPG manufacturers will need to prove their safety and trust credentials.

**Nesting at home**

Staying in is the new going out. Once restrictions are lifted, we expect consumers to continue spending more time at home, driven by a desire to save money, persistent safety concerns, and a newfound pleasure in nesting. Through the crisis period, many have invested in upgrading their homes and gardens or bought equipment for new hobbies and routines. Next to groceries, the category that saw the highest growth in US e-commerce in recent weeks has been breadmakers (652 percent growth). Other nonessentials, such as weight-training gear (307 percent), computer monitors (179 percent), and craft kits (117 percent) also made the top-100 list.[13]

**Redefinition of purpose**

Large CPG companies have prioritized crisis-related communications (such as announcements of new safety protocols and charitable donations). Digital-native brands have nimbly connected with their social-media communities about how they're helping people affected by COVID-19. Consumers may expect companies to continue this heightened emphasis on social responsibility after the crisis ends. In the previous recession, more than 75 percent of consumers agreed that "corporations should operate in a way that aligns with society's interests, even if that means sacrificing shareholder value."[14] That said, brands must be careful to strike the right tone. During this pandemic, 77 percent of consumers said they appreciate CPG companies communicating how their brands can be helpful in daily life, but an almost equal percentage said brands shouldn't "exploit" COVID-19 as a commercial opportunity.[15]

It will be essential for companies to balance existing focus areas with emerging consumer concerns. Sustainability, for instance, continues to be important to consumers in many markets (60 percent of UK consumers cited it as a top consideration when food shopping).[16] Yet consumers who have become more price sensitive or more concerned about hygiene may favor single-use packaging.[17]

CPG companies should examine the potential impact of these trends on the categories in which they play. Besides these, we are also monitoring two other trends, whose longevity is less clear: deurbanization and big-brand growth. With cities becoming COVID-19 epicenters, urbanites may move to the suburbs, or cities could see a significant reduction in traffic as people stay local. Big brands may benefit over the longer term, as retailers' current focus on high-volume SKUs will change the consumer decision set. (In the United States, for instance, large and midsize brands captured 60 percent of recent growth, compared with only 20 percent in previous years).

**Channel shifts**

These consumer trends will have channel implications, each of which will have varying impact on different countries and categories.

[11] McKinsey Consumer Sentiment Survey in France, Germany, Italy, Spain, and United Kingdom, March 27 to March 29, 2020.
[12] Stackline data for month leading up to March 28, 2020.
[13] Stackline data on United States for March 2020 versus March 2019.
[14] 2011 Edelman Trust Barometer, Daniel J. Edelman Holdings, August 30, 2011, edelman.com.
[15] "Brands in a pandemic world: Insights from Kantar's COVID-19 Barometer," WARC, March 27, 2020, warc.com.
[16] McKinsey UK Consumer Survey 2020 (part of *The Rise of Conscious Eating*, forthcoming summer 2020).
[17] Nielsen and McKinsey analysis of the last three weeks of March 2020 versus 2015–18.

Most significantly, food-service operators—particularly independents—will experience substantial contraction and consolidation as a result of physical-distancing restrictions and the recessionary environment. Food-service closures have accounted for 10 to 20 percent grocery growth in Western markets; when the food-service sector reopens, we expect a few percentage points to remain in grocery.

We also expect to see significant retailer consolidation, especially in sectors that were less well capitalized and struggling before the outbreak, such as small US quick-service restaurants. Some distributors will go out of business, creating route-to-market challenges for some CPG players, especially in the fragmented trade.

Amazon and other e-marketplaces were already growing by 25 percent a year from 2013 to 2018[18] but had previously struggled with the supply-chain complexity of fresh food and the economics of delivering CPG products. During the crisis, however, these players are likely to capture an outsize share of core grocery.

In offline grocery, discounters and other value retailers will benefit from the downturn, as they did in 2009. Major grocers will rationalize their assortments based on learnings during the crisis. They will also likely invest more in neighborhood proximity formats: in China, for instance, convenience-store sales were 8 percent higher in March than in January.[19] And grocers will ask CPG companies for support in making the economics of e-commerce work.

## Getting ahead of the next phase

By now, most CPG companies have well-established crisis-response teams monitoring the situation and reacting accordingly. Preparing for the next normal, however, calls for a distinct working group: a plan-ahead team tasked with planning across multiple time horizons. As our colleagues explain in a recent article, “Getting ahead of the next stage of the coronavirus crisis,” the plan-ahead team should work through five frames: a realistic starting position, scenarios, a broad direction of travel, strategic moves, and trigger points.[20] In the remainder of this article, we discuss CPG-specific considerations for each of these frames.

**1. Gain a realistic view of your starting position**

The plan-ahead team should review the company’s financial assumptions, ongoing initiatives, and strategic choices, and sort them into three buckets: “still about right,” “wrong,” and “unsure.” CPG companies should reevaluate their 2020 growth expectations and key drivers, including the markets, categories, and customers that will deliver growth; the role of planned product launches and campaigns in light of store closures and recessionary pressure; and the allocation of resources, including talent. This exercise will clarify your starting point and provide a clear picture of the challenges you need to address.

**2. Develop scenarios for multiple versions of your future**

Scenario planning for the next normal is a daunting task, with many macroeconomic possibilities, vast differences in markets (and even regions or cities), and only an early view of the consumption implications. “Bound the uncertainty” by considering at least four discrete scenarios—each covering country, category, and channel outcomes—underpinned by clearly stated assumptions about containment measures and financial aid.

**3. Establish your posture and broad direction of travel**

After a detailed scenario-planning exercise, it may seem odd to make macro choices—but they help to align companies on the direction of travel. CPG companies might consider their stances on the following:

[18] Data for 2013 to 2018 from analyst reports, Euromonitor International, Kantar, Planet Retail, and S&P Capital IQ.
[19] MIYA payment data for the four weeks after March 8, 2020, versus the four weeks before January 29, 2020.
[20] Yuval Atsmon, Chris Bradley, Martin Hirt, Mihir Mysore, Nicholas Northcote, Sven Smit, and Robert Uhlaner, “Getting ahead of the next stage of the coronavirus crisis,” April 2020, McKinsey.com.

**With customer decision journeys encompassing more digital touchpoints and increasing in complexity, shoppers will expect CPG companies to have a consistent presence online and offline.**

— *Global business.* Will you focus on your previous priority growth markets or review your segmentation based on new behaviors and economic outlook?

— *Portfolio.* Will you continue to prioritize at-home essentials or invest in rebuilding demand for products that consumers largely held off buying?

— *Value proposition.* Will you reposition premium offerings or prioritize cheaper brands?

— *Discretionary categories.* Is your primary aim to restart operations and manage your bottom line, or will you invest—for example, in marketing or direct to consumer (DTC)—to capture share?

— *Essential categories.* Will you focus on traditional retail partners or on growth channels, such as e-marketplaces?

— *Challenger brands.* Will you wait to bounce back or create a marketing and promotional growth plan?

Think about how to align your operating model with these stances and about which new "muscles" you might have to build. Establishing your posture and broad direction of travel will help you decide on strategic moves.

**4. Determine actions and strategic moves that are robust across scenarios**

The plan-ahead team can then draft and pressure-test action plans for each scenario. CPG players have a range of commercial, operational, and strategic areas to cover.

Accelerate e-commerce and digital marketing

The specific actions will depend partly on your posture and business model, but all CPG companies should deepen their relationships with third-party e-commerce partners and work with them in new ways, such as category captaincy, deeper data exchange, or shared warehousing. At the same time, avoid overreliance on the e-marketplace giants—strengthen your relationships with second-tier e-tailers and owned e-commerce (such as DTC websites, owned marketplaces or ecosystems, or partnerships in which you control your brand presence and own the consumer relationships and data.)

With customer decision journeys encompassing more digital touchpoints and increasing in complexity, shoppers will expect CPG companies to have a consistent presence online and offline. Capturing and managing data will be essential and can help deliver precision marketing at lower cost. Finally, despite the uncertainty, consider actively recruiting otherwise hard-to-come-by digital talent.

Revisit your channel strategy and customer segmentation

In light of the aforementioned retail dynamics, reset your channel strategy around both the enduring global trends and smaller, local shifts. This will in turn require a review of your customer-segmentation strategy and growth targets, and an understanding of the capabilities you may need for new partnerships. Rebase overall investment across tiers as needed and build up new priority customers with stronger ways-of-working agreements. Decide how you'll manage the trade spend you'd previously allocated to now-lower-priority customers, while maintaining those relationships and your fair share of sales. Also, decide how you'll support the return of food service, if it's important to your mix—especially in the difficult period immediately after lockdowns are lifted.

### Revise assortment and pricing

After the crisis, retailers are likely to want to reevaluate their category vision and assortment, which could be good news for CPG companies that play in multiple categories and price tiers. To prepare action plans, know your category consumer better than anyone else: test ranging and new promotional mechanics, revisit insights from the previous recession, and, later, supplement in-store learnings with primary consumer and shopper research to understand postcrisis perspectives.

Reprioritize your portfolio based on shifts in consumer and customer needs and on changes in sourcing and the supply chain. And get granular: one size will not fit all. Build shopper-, occasion-, channel-, and customer-specific plans.

### Strengthen your purpose orientation

A company's actions during times of crisis are written into its history and make a lasting impression on consumers. To lead with purpose, understand your stakeholders' needs and review the trade-offs in addressing them. Think about how to bring your greatest strength or "superpower" to bear, perhaps more creatively than before.

Communicate frequently and clearly, but you don't need to have all the answers—you can crowdsource ideas and involve your employees. Your jointly created purpose can then be a source of energy and renewal. Finally, use purpose as a filter for your action plans. If they don't stack up against your values, identity, and legacy, look for alternatives.

### Build a resilient supply chain

While the immediate need during this crisis is an operational supply chain, the next focus will be to build a smarter, more flexible, and, especially, more resilient one. Heads of operations and CIOs should review the strategy, footprint, assets, processes, and tools along the entire supply chain. They will have to decide whether efficiency and centralized footprints remain the answer to manage future risk. They will also need to determine whether legacy infrastructure and systems should be upgraded to autonomous end-to-end planning systems or to a combination of advanced analytics and end-to-end visualization solutions, for better complexity management.

Embed new ways of working based on lessons from the crisis. Complement monthly sales and operations planning (S&OP) cycles with weekly control towers, which help balance service, cost, and cash (that is, inventory). Last year's sales and traditional forecasts will be less valuable, so dial up planning across sales and operations and jointly make decisions about demand—for example, is a huge order a true uptick in demand, a one-time effect of new ranging, or the same demand pulled forward a week? For priority customers, short-term solutions (such as connected inventory or simplified routes from factory to store) could be leveraged on a more regular basis to manage new demand levels.

### Define the next level of productivity

Any short- to medium-term falloff in spending (resulting, for example, from store closures and

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travel restrictions) should be swept into updated budgets. Rigorously allocate all remaining funds toward the highest-ROI activities. Steer demand to customers and brands with excess supply, and functional capacity to more urgent needs.

Given COVID-19's immediate impact, planning for the next normal can feel like a real-time zero-based-budgeting effort. Analyze performance at the lower spend levels and then build back investment in priority categories, brands, and channels, with monthly monitoring of triggers to start "investment spend" as you emerge from the crisis. In the 2008 downturn, the top 20 percent of performers reduced costs more quickly and were faster to invest as the economy recovered.[21]

Accelerate the role of digitization and automation in supply chain, back-office functions, procurement, and even route to market. Done right, automation transformations can have an impact on both the top and bottom lines in as little as three months.

Stay abreast of regulatory changes

Pay close attention to government mandates and regulatory actions, which may become more interventionist in areas such as consumer health, control over national or local food ecosystems, and employee safety. If you lack an experienced public-affairs department, consider temporarily devoting resources to government relations and making it part of the crisis-response team's remit.

Scan for small-brand M&A

Consider updating your M&A strategy in the context of your posture—for example, buying rather than building new capabilities or reframing priorities (for example, resilience over pure efficiency). If you decide to look for complementary assets, focus on strategic acquisitions: brands that expand your portfolio, challengers within your major categories, or resilient adjacent players.

While industry players are balancing many challenges, private-equity firms are single-mindedly focused on preparing for transactions. Make sure that any asset-valuation work is risk-managed and rooted in your scenarios. Also, consider divestments of your own underperforming or less-strategic assets to free up cash and ensure longer-term resilience.

### 5. Set trigger points that drive your organization to act at the right time

Finally, time is of the essence. Lay out key indicators and set clear trigger points for each scenario; ensure that your teams have the data and processes to identify these trigger points as soon as possible. It's then up to the top team to give the go-ahead to execute the plans.

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The consumer trends that are crystallizing during the crisis and will most likely persist—recessionary behavior, greater digital engagement, attention to wellness and hygiene, nesting, and heightened expectations of corporate purpose—will affect every CPG category. By establishing plan-ahead teams and acting on the five frames, CPG companies can emerge stronger from the crisis and be well positioned to succeed in the next normal.

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[21] S&P Capital IQ and Corporate Performance Analytics by McKinsey data; performers defined as those in top quintile based on total returns to shareholders from 2007 to 2011.