

Winning in Grocery during and after Covid



OC&C
Strategy consultants

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Contents

- **Foreword**
- **What happened in grocery during lockdown?**
- **Which changes are here to stay?**
- **What will distinguish a winner long term?**

Foreword

Coronavirus triggered the most dramatic change in consumption behaviour the grocery industry has seen in a lifetime. Within a fortnight, online markets were catapulted to a size not expected until 2025, a decade of basket fragmentation was more than undone, promotional intensity dropped to uncharted lows, digital and physical retail blended in unprecedented ways, breadth of choice was constrained, the health agenda took on a new urgency, shopper confidence plummeted and the grocery channel reclaimed its share of calories lost to a growing casual dining market.

Three strategic imperatives that every supplier needs to win the future market

Until now, there has however been little clear evidence of the longer-term implications of this shock. Where will the longstanding trends that have shaped the industry return to

their previous trajectory, and where will we see coronavirus trigger a lasting change in how we buy food? Will households be reminded of the virtues of pre-planning and less frequent larger shops? Are convenience stores and online the new top-up channels? Will we see an acceleration in the march of health foods and scratch cooking? How will new adopter households shop online when moving around freely becomes normal again? What role will digital play in the physical retail channel? How will the increased economic uncertainty change shopping habits?

Through looking at the consumption habits and motivations of 18m UK shoppers before, during and on the recovery climb after Covid, Nectar360 and OC&C provide a read on the future of UK grocery shopping, and the three strategic imperatives that every supplier needs on the agenda to win in the future market.

What happened in grocery during lockdown?



What happened in grocery during lockdown?

The full UK Covid-19 lockdown (March - May 2020) brought significant decline in footfall to UK retail and leisure destinations, and associated swings in shopping behaviour towards fewer/larger shops, more home cooking and unprecedented digital uptake.

Decreased shopper confidence and job security meant this was complemented by an increased polarisation in shopper spend and behaviour.

The dramatic changes felt by retailers and suppliers during the period were driven by shifts in shopper behaviour both at a channel and category level.



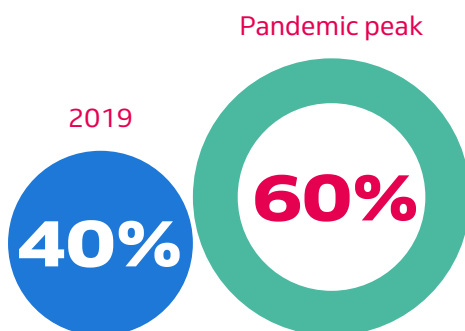
1. More eating at home

(at the expense of casual dining) driving overall grocery spend up and shifts in type of products purchased (more scratch cooking and home baking)

Category winners: Frozen, packaged, MFP and BWS.



20%+ increase in overall grocery spend¹

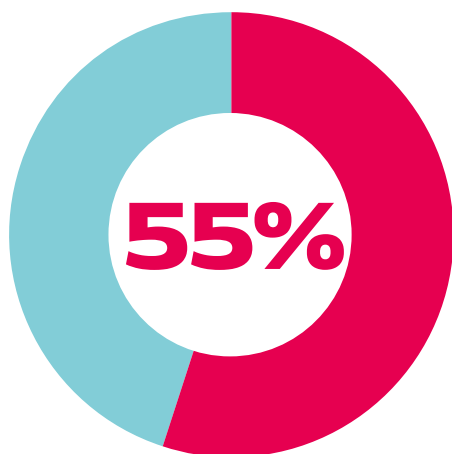


Difference in average basket size between High and Low affluence shoppers²

2. Polarisation of grocery spend

driven by disparities between the Covid 'winners and losers', implying a drive towards value for money (especially in core fresh categories).

What happened in grocery during lockdown?



Percentage of 16-34 year olds in the UK that were prompted to add more nutrients to their diet¹

3. An increased emphasis on health

and a surge in more premium health related products.

55% of 16 - 34 year olds in the UK state that Covid has prompted them to add more nutrients to their diet.

4. Larger baskets

(from less frequent visits) across all physical channels, as shoppers looked to reduce exposure to Covid risk – and associated more planned shopping behaviour.



Increase in average basket size



Decrease in basket volumes²



Increase in average basket size driven by 'food for later' missions³

5. Convenience as a channel for top up shopping

reflecting a new way of using the channel, and forcing the channel to rapidly adapt ranges and stock to new shopper demands.

What happened in grocery during lockdown?

6. Acceleration of online grocery and convenience

with the channel gaining
4-5 years forecast
growth in a matter
of months and new
shopper segments
trialling for the first time.



Online rising from 7% to 13%
share of grocery channel¹

50%+
of shoppers new to the channel¹

7. Increased role of digital in the physical retail experience

as shoppers seek a quick,
seamless shopping
experience with minimal
interaction.

+94%

increase in the number of
households using Smartshop²

Analysis Period
Trends: 6 JAN 2019 - 18 JUL 2020
This Year (2020): 29 MAR 2020 - 18 JUL 2020
Last Year (2019): 31 MAR 2019 - 20 JUL 2019
First 4 Week (P1): 29 MAR 2020 - 25 APR 2020 (Lockdown)
Last 4 Week (P2): 21 JUN 2020 - 18 JUL 2020 (Lockdown Easing)

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**Which changes
are here to stay?**



Which changes are here to stay?

Several of these shifts went against the underlying long-term shopper behavioural trends and have since proved to be temporary (though are likely to make at least a partial return in case of a second lockdown over winter). As footfall has gradually recovered (late June/July onwards), they have started to unravel.

However, a number of big changes are here to stay and will shape the grocery landscape over the coming years.

Acceleration of pre-Covid underlying shopper trends is proving highly resilient, as are trends that represent more structural shifts in the labour market.

1. Eating at home is still winning, but scratch cooking has lost a bit of steam



The peak Covid-19 period saw more eating and cooking at home (at the expense of casual dining)

The peak Covid-19 period saw more eating and cooking at home at the expense of casual dining, implying both an increase for UK grocery spend and a marked category shift towards scratch cooking products and home baking.

Grocery spend retains a portion of that share gain, driven by continued working from home (a shift that is likely to remain at least in part for the foreseeable future) and some remaining hesitance to dine out.

As shoppers spent lockdown experimenting with scratch cooking, meal solutions and other prepared food through the grocery channel took a hit, but we are now seeing a gradual reversal of this trend with convenient products back in the basket.

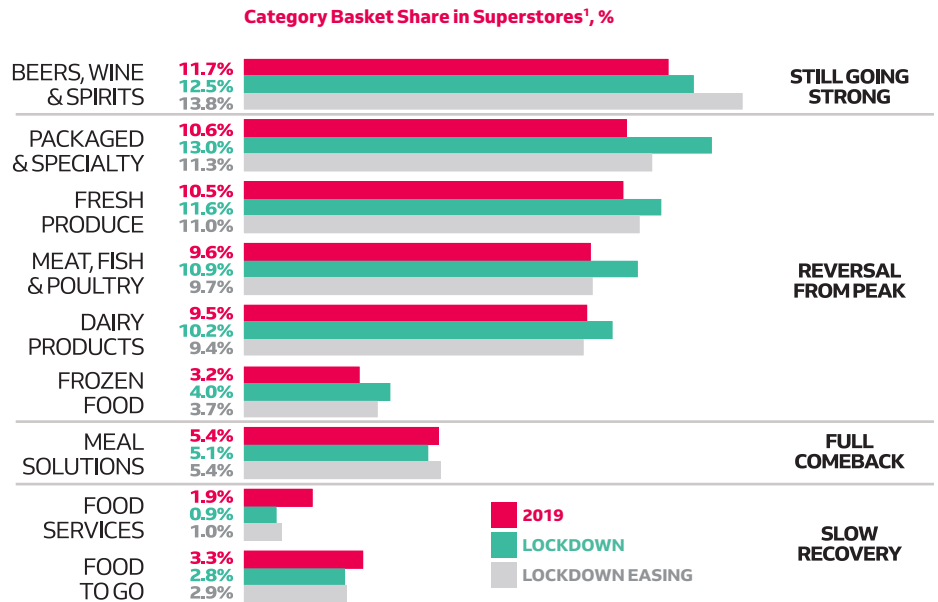
As socialising remains confined to the home for many, BWS continues to be the biggest category winner.

Which changes are here to stay?



BWS continues to be the biggest category winner

Products for scratch cooking were the Lockdown winners but convenience foods are gradually returning to the basket



2. The full picture of Covid winners and losers has not yet played out

The Covid period has seen polarisation of grocery spend and an associated drive towards value for money (especially in core fresh categories), driven by disparities in job security and shopper confidence between the Covid 'winners and losers'.

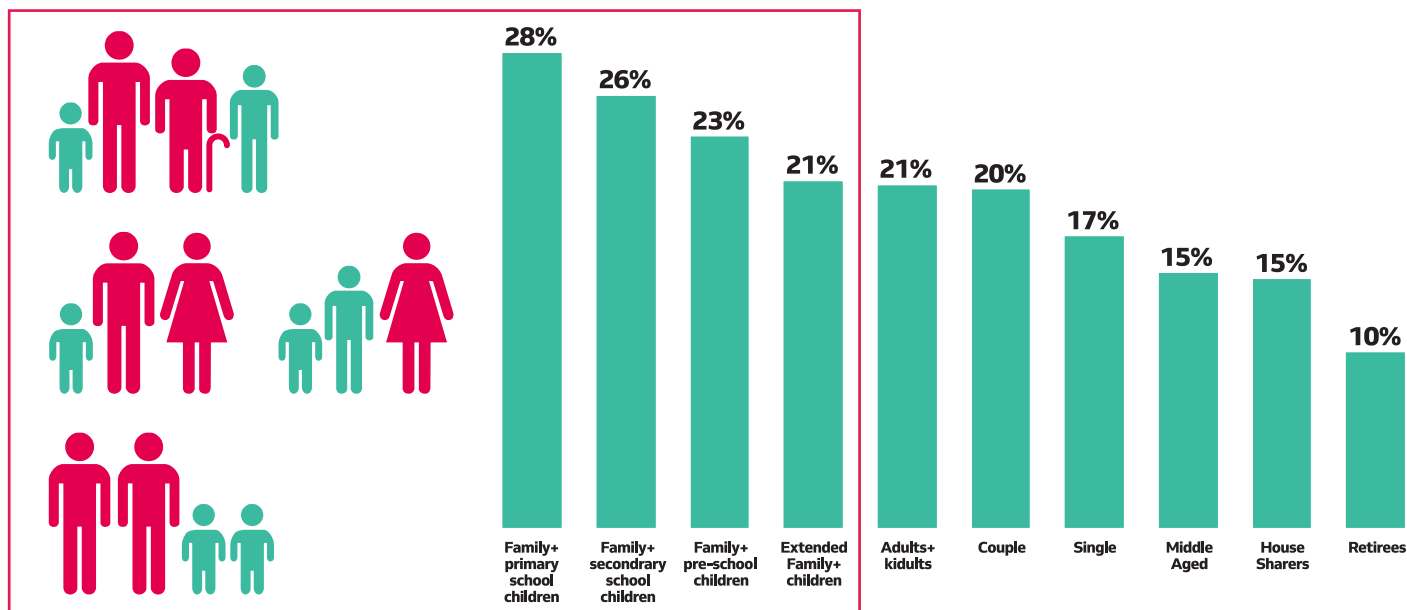
There are significant regional variances to this trend, with polarisation strongest across London, the South East and Scotland.

This trend is likely to be accelerated further as government support measures are unraveled but will hit unevenly - families with dependent children are taking the biggest hit.

Which changes are here to stay?

Families with children are the hardest hit by the Covid pandemic

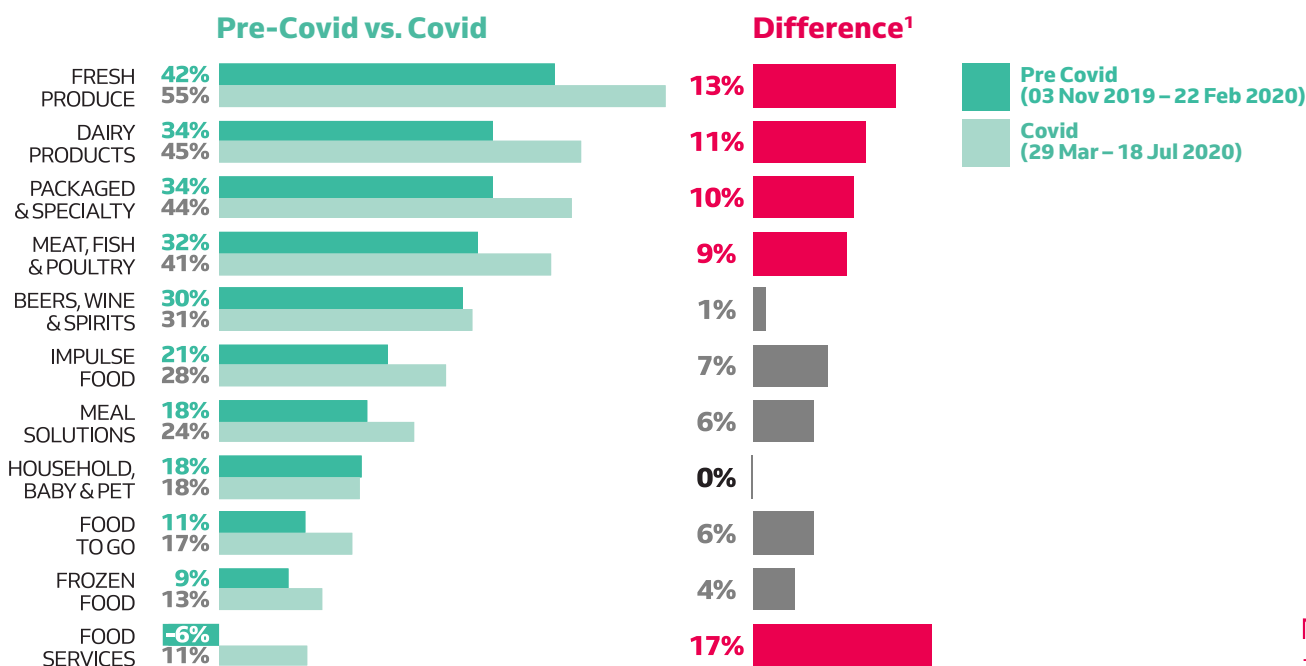
Growth in Spend Disparity between High Affluence and Low Affluence Households during Covid Period¹, %



1. Defined as average basket size difference 29 MAR 2020 - 18 JUL 2020 minus difference 03 NOV 2019 - 22 FEB 2020 across all grocery channels
Source: Nectar data

Faced with Covid hardship, shoppers are cutting back spend on core fresh produce and food services

Growth in Spend Disparity between High Affluence and Low Affluence Households BY Category during Covid Period¹, %



1. Defined as average basket size difference 29 MAR 2020 - 18 JUL 2020 minus difference 03 NOV 2019 - 22 FEB 2020 across all grocery channels
Source: Nectar data

Which changes are here to stay?



3. Health is key to winning (young) shopper hearts & minds

The Covid lockdown saw a surge in health-related products, driven by increased awareness of the connection between nutrition and health (particularly among

younger generations). This is evidenced both by a boost to fresh produce categories and an increased interest within categories in healthier choices. This interest in health food products appears to be sustained – especially among the younger generations, where the pandemic has accelerated an existing underlying trend.

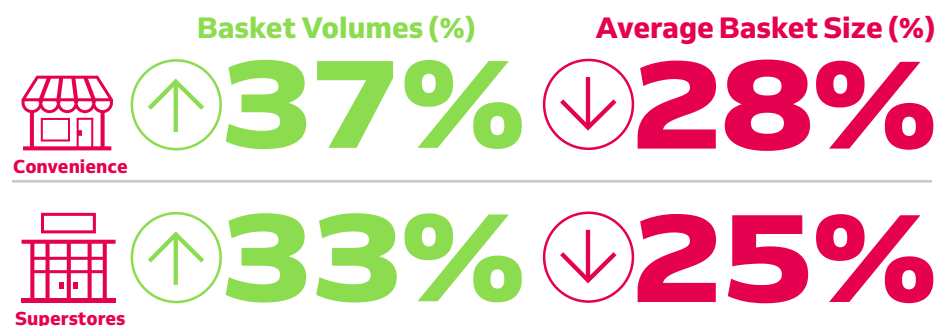
4. Frequent visits to the stores are back

Peak Covid saw a shift to fewer, larger shops across all physical channels, as shoppers looked to reduce exposure to Covid risk and access to both offline and online channels was capacity constrained – for shoppers this necessitated more planned shopping behaviour (including high demand for long-life products).

Shoppers have since returned to grocery stores at close to pre-Covid frequencies and have gradually reverted from the larger, highly planned baskets (in line with pre-Covid trends towards more frequent top up shopping).

As Lockdown eased, shoppers returned with renewed confidence

Comparison of Basket Volumes and Value between Lockdown and Lockdown Easing¹



1. Lockdown = 29 MAR 2020 - 25 APR 2020, Lockdown Easing = 21 JUN 2020 - 18 JUL 2020
Source: Nectar data

Which changes are here to stay?

 **13%**
increase for residential locations

Diverging convenience store sales

 **19%**
decrease for transient locations

5. The convenience channel is still about food for now

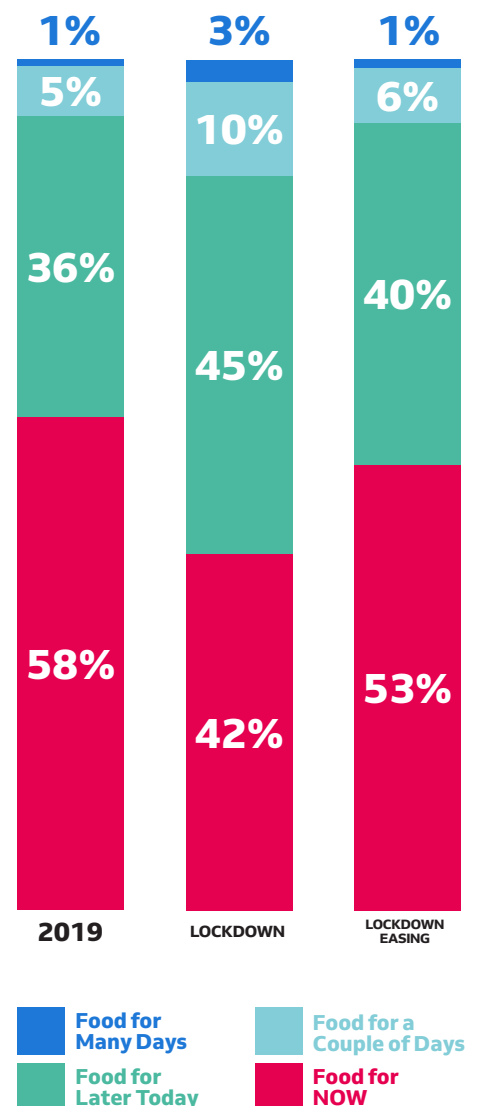
During lockdown, shoppers took to convenience in residential areas as a channel for top up shopping, reflecting a new way of using the channel, driven by capacity constraints in larger supermarkets and the perceived risks associated with them.

Convenience stores were forced to rapidly adapt their ranges and stock to new shopper demand. As shoppers have returned to supermarkets with more confidence, the role of convenience stores in top up shopping is now in decline, with shoppers instead returning for their pre-Covid immediate consumption and impulse missions.

The fortunes of the channel remain mixed, with residential convenience stores maintaining sales above 2019 levels in contrast to more transient locations.

The convenience channel is still primarily about serving immediate food needs

Change in Convenience Store Basket Missions Through Covid¹



Which changes are here to stay?



Over 50% of online shoppers during the pandemic were new to the channel

6. Shoppers are increasingly multichannel

A big talking point since March has been the acceleration of online grocery, with the channel gaining 4-5 years forecast growth in a matter of months and demand far outstripping supply (online % of grocery rising from 7% to 13%, driven by both growth in household participation and increased share of wallet; significant growth has been driven by an affluent retiree demographic now taking to online).

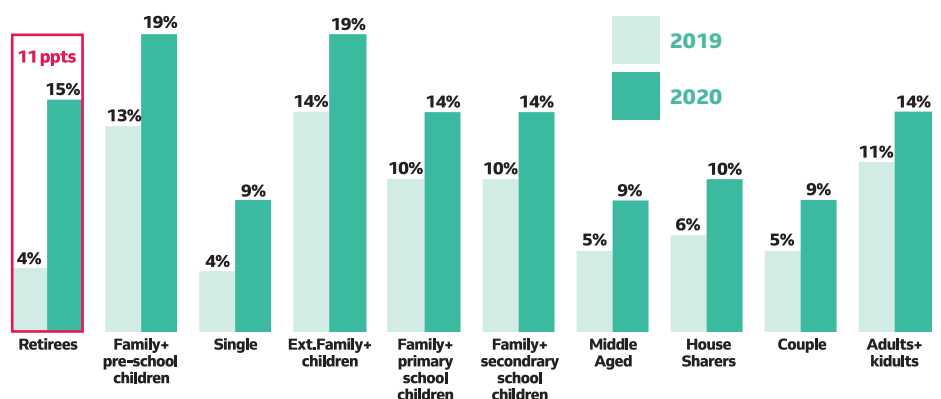
The landscape is increasingly complex: capacity constraints prompted shoppers to trial alternatives to their usual retailer, and online convenience emerged as a significant new battleground.

The online shift is here to stay (while physical grocery stores have jumped back, much of the excess spend in grocery now sits in the online channel), with basket volumes and basket sizes sustaining much of their Covid spike.

And even for the c.25% of new online shoppers who revert back to physical stores as soon as they can, this shift represents a boost to digital engagement with grocery, which has ramifications for how shoppers shop across all channels.

Shoppers are increasingly multichannel Most notable: Retirees taking to the digital space during Lockdown

Share of Households Shopping Grocery Online, 2019 vs 2020¹



1. 2019 = 31 MAR 2019 - 20 JUL 2019, 2020 = 29 MAR 2020 - 18 JUL 2020
Source: Nectar data

Which changes are here to stay?

+94%

Smartshop usage increased by +94% from 418K households to 808K households at the peak of lockdown and has maintained this level

7. Digital and physical retail are merging

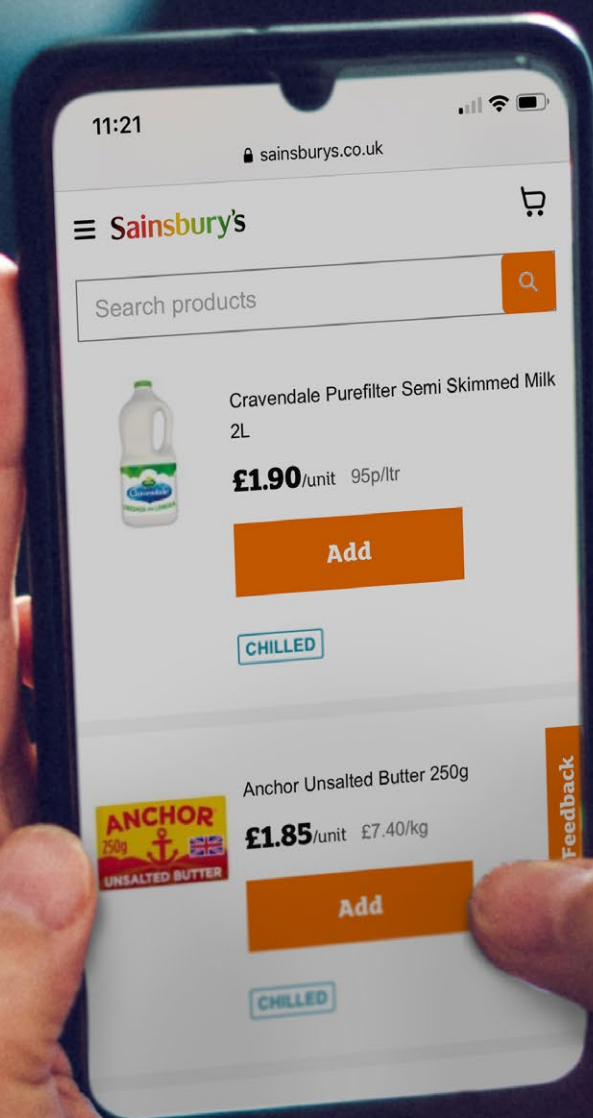
The pandemic accelerated the role of digital in physical retail, as shoppers sought a quick, seamless shopping experience with minimal interaction (evidenced by the increased uptake of digital check-out solutions such as Smartshop). In light of shopper hesitance at handling public tech during Covid, the winners have been solutions that require only the users own smartphone.

This trend is here to stay: having discovered the additional convenience shoppers are not looking back.

As part of this shoppers demand a seamlessly integrated omnichannel experience.

Category mix for Smartshop users is similar to other in store shoppers, but Smartshop uptake increases their spend with the retailer by over 20%.

What will distinguish a winner long term?



**What will distinguish
a winner long term?**

Long term strategic imperatives

The future is far from certain, but there are some universal truths that will distinguish future winners. The journey retailers, brands and their shoppers have been on during Covid – and the trends that have proven their staying power – clearly indicate a way forward.

**Significant
changes are
needed from
brands and
retailers**

These are not new ideas, but they are now a reality. Significant changes are needed from brands and retailers to meet shoppers in this increasingly digital and polarised world. Data and digital enable them to make these changes.

We have identified three strategic imperatives for brands and retailers looking to deliver value to shoppers in an increasingly complex and multichannel world.

**What will distinguish
a winner long term?**

1. Shopper fortunes are polarising – delivering value is now personal

Food price inflation accelerated during Covid, as shoppers were motivated by accessibility, convenience and brand trust over price.

Now a combination of fluctuating Covid fears and increased job uncertainty is driving a noticeable shift towards value, but shopper fortunes are polarising.

Brands must find out how to dial up brand equity in a more value-led market and to deliver affordability in a cost-effective way.

Personalisation is the only way to do this - brands and retailers have the opportunity to use data to personalise delivery of rewards and offers in ways not historically possible (typically through loyalty schemes), enabling them to significantly improve promotional economics.

The search for affordability is more fragmented than ever before

The search for affordability is more fragmented than ever before with some demographics hit much harder than others, and specific product categories the focus of their search for value.

**What will distinguish
a winner long term?**



2. Omnichannel is now a reality and digital the catalyst

Digital channels are
defining peoples broader
shopping behaviour.

**85%+
remains physical**

Covid has accelerated
online grocery, but 85%+
remains physical.

Nevertheless, the prize
of getting digital right
is significant: grocery
shoppers are more
digitally engaged than
ever and increasingly
influenced by online
content – offline grocery
journeys are researched
online and loyalty
transfers seamlessly
between channels if
done right.

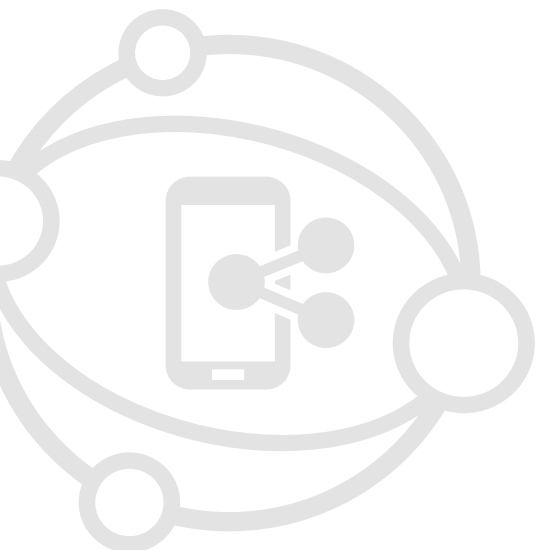
Different shopping
patterns online vs
offline have broader
implications as online

behaviour increasingly
impacts offline –
maximising the
shopability of the
online channel is key
to making the most
of the opportunity.

New segments have
entered the digital space
during Covid and even as
many return to stores,
they maintain a level of
digital engagement –
we have talked digital
for years, but Covid has
made it real.

This increased digital
behaviour can be
leveraged by brands
and retailers to win
new shoppers as well as
personalise shoppers
communications and
offers more easily, while
reaping the benefits
also offline.

Doing so effectively
means understanding
in detail how the
shopper behaves
across all channels.



**What will distinguish
a winner long term?**

3. Knowing the shopper is now both critical and possible

Brands and retailers must keep pace with shoppers in times of unprecedented changeability.

During Covid the battle for full wallet has become more complex than ever before with online browsing challenging traditional loyalties and a recession polarising shopper behaviour.

order to deliver a personalised and unique shopping experience.

In these uncertain times, the closer to real-time the better – shopper needs are changing overnight.

More than ever before, brands and retailers now have the ability to do this, thanks to increasing access to rapid and detailed data on how shoppers behave across categories, price points and channels.

Shopping is getting personal

These changes have happened at an unprecedented pace.

Brands and retailers must understand the value of individual shoppers and know how to identify their individual needs, in

What can Nectar360 do to help keep you winning during Covid?

To support longer term aims, Nectar360 has a suite of products and capabilities that bring clients closer to their shoppers and give brands the edge longer term.

Delivering shoppers value

A Digital Focus

We have built an ecosystem of digital capabilities that connect our first party data with our media channels, covering three essential territories; Brand awareness, Brand conversion and Brand Loyalty. For targeted brand awareness our

products span social, search and connected TV. For data driven brand conversion – we have built a custom Ecommerce platform driven by data, and for personalised brand loyalty – we can run offers through the Nectar app to retain and reward your loyal buyers.



Omnichannel environments

Online Shopper Decision Hierarchies

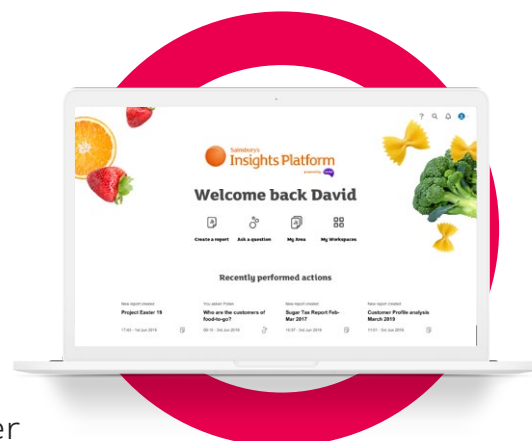
Just one example of how we provide insight on channels. Having compared in-store vs. online CDH's, on the whole, they are different. Online decisions are

largely split between brands and flavour, and driven by search terms. In store, the decision is more pack size and format driven, and then quality tier. We can help you understand this for your category and brand.

Knowing shoppers

Sainsbury's Insight Platform

We have built on over a decade of insight gathering to create a new solution – SIP. It delivers in-depth reporting and analysis, faster, in more detail, than ever before, enabling you to understand your shopper better than anyone else.



The collaborating partners

Covid-19 is the most significant event to impact a generation. So it seems right to think about what has happened, and the lasting impact on our industry during and after the pandemic. With this in mind, OC&C and Nectar360 collaborated to join together their expertise and deep-dive into the findings.



OC&C
Strategy consultants

OC&C is an international strategy consultancy who work on the most interesting and strategic projects for the biggest and fastest growing companies.

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Nectar360 owns and runs the UK's largest loyalty programme with over 18 million Nectar collectors. We harnesses this unrivalled data-set to help create valuable relationships between the UK's favourite brands and their shoppers.

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