



COVID-19 and
emergence of a
new consumer
products landscape
in India

15:27

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Executive summary

The COVID-19 pandemic continues to impact most industries at an unprecedented scale globally, including consumer products (CP) that has witnessed significant disruption over the past few months. Amidst widespread health concerns, travel restrictions and local movement limitations, several companies in India are already feeling the heat.

The crisis is impacting some categories more than others. Essentials (staples, packaged food, home and hygiene products) are less impacted, while economic concerns have reduced spending on discretionary goods like confectionery and appliances. The demand for alcoholic drinks and carbonated beverages declined due to restrictions on the on-premise consumption due to lockdown.

Indian CP companies face a multitude of challenges “now”, “next”, and “beyond”. We are currently in the “now” phase where most companies are facing a host of challenges such as labour shortages in factories, unoptimized production, restrictions in vehicle movement and inability to ensure essential products are available to consumers. In the medium term, or the “next” phase, where the government starts easing restrictions, companies will need to focus on bouncing back from the current situation. The pandemic will most likely follow a see-saw pattern of recovery and hence, companies must build an agile operating model to minimize future disruptions in the “next” phase. In the long-term “beyond” phase, they need to focus on transforming to succeed in a new business landscape.

To address the crisis head-on and ensure business continuity, companies must devise strategies for the “now”, “next” and “beyond”. The change will be multifaceted - from building permanent safety measure in office and on shop floors to gaining greater control over end-to-end distribution network. Companies must proactively anticipate and be ready to respond to new habits that consumers will develop after living through the crisis.

There will be increased focus on health and wellbeing and higher demand for value brands as consumers trade down. Hence, re-evaluating brand portfolio to win back consumers would entail re-adjusting pack sizes and pricing to re-define value proposition as well as taking an opportunistic stance by developing “categories of tomorrow” (such as, hand sanitizers, disinfectants, immunity boosters).

Social distancing has accelerated adoption of e-commerce and consumers will continue to embrace digital platforms for a variety of needs. Hence, companies should expand their relationships with third-party e-commerce platforms while also collaborating in new ways such as deeper data exchange or shared warehousing. At the same time, they should build and strengthen their own direct-to-consumer capabilities. It is imperative for companies to have a consistent presence online and offline.

Going forward, the ability of companies to digitize fast, optimize the use of data analytics and improve customer experience will be the biggest differentiator in the industry. Now is the time for companies to review their operations and invest in relevant technologies such as artificial intelligence, for creating demand-responsive supply chains to withstand any future disruption.



01

Indian consumer products industry in the wake of COVID-19



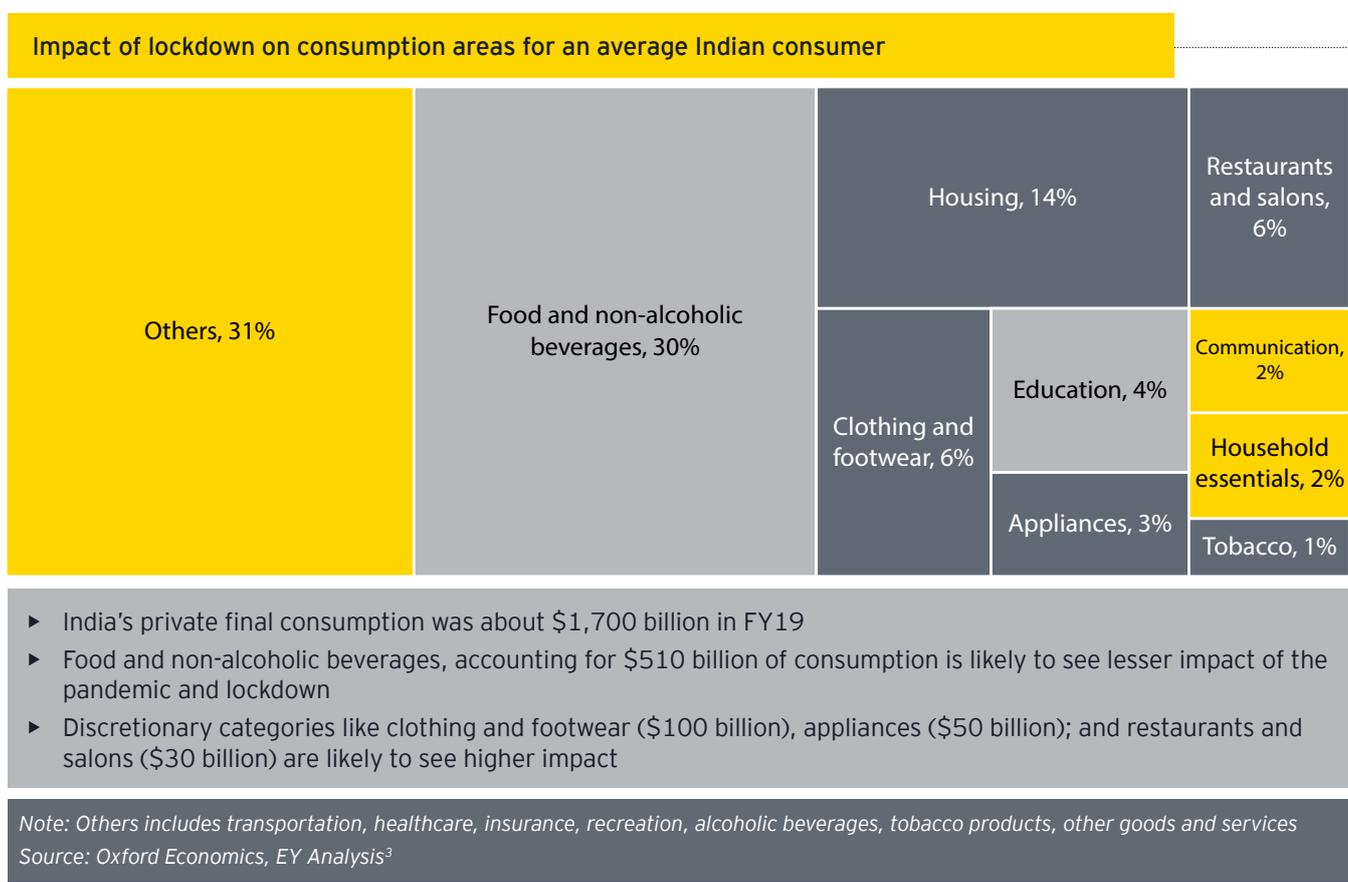
The sudden lockdown due to COVID-19, brought daily life to standstill and disturbed all economic activities. It restricted movement of people, induced labour shortages, impacted factory operations, disrupted logistics, led to outlet closures for non-essential products and food service providers, triggered panic buying among consumers for staples and left retailers with stock-outs in few categories.

Despite easing of lockdown from 4 May 2020, the movement of goods continues to be the pain point for CP companies that have drawn up plans to improve operations to 50-75% of capacity from 20-30% currently¹. Truck availability has improved to only 10% from 8% out of a total vehicle count of nine million pan-India during strict

lockdown². Shortage of manpower to work in factories as well as distribution centres continues to challenge industry players.

The Indian consumer products sector is in a flux. The industry has been facing demand pressure (especially from rural consumers) due to agri-slowdown, liquidity crunch and employment challenges. The already challenging market environment is now further exacerbated by the onset of COVID-19 pandemic.

The maximum effect would be seen in consumer discretionary categories, while consumer staples like food would see lesser impact.



This is also being reflected in what investors are expecting. After the onset of the pandemic in India, Healthcare is the only industry to have witnessed market cap expansion during March - April 2020. Consumer

staples is well protected from market cap erosion despite ongoing challenges in the industry, while consumer discretionary sector and various other sectors are facing a tough time.

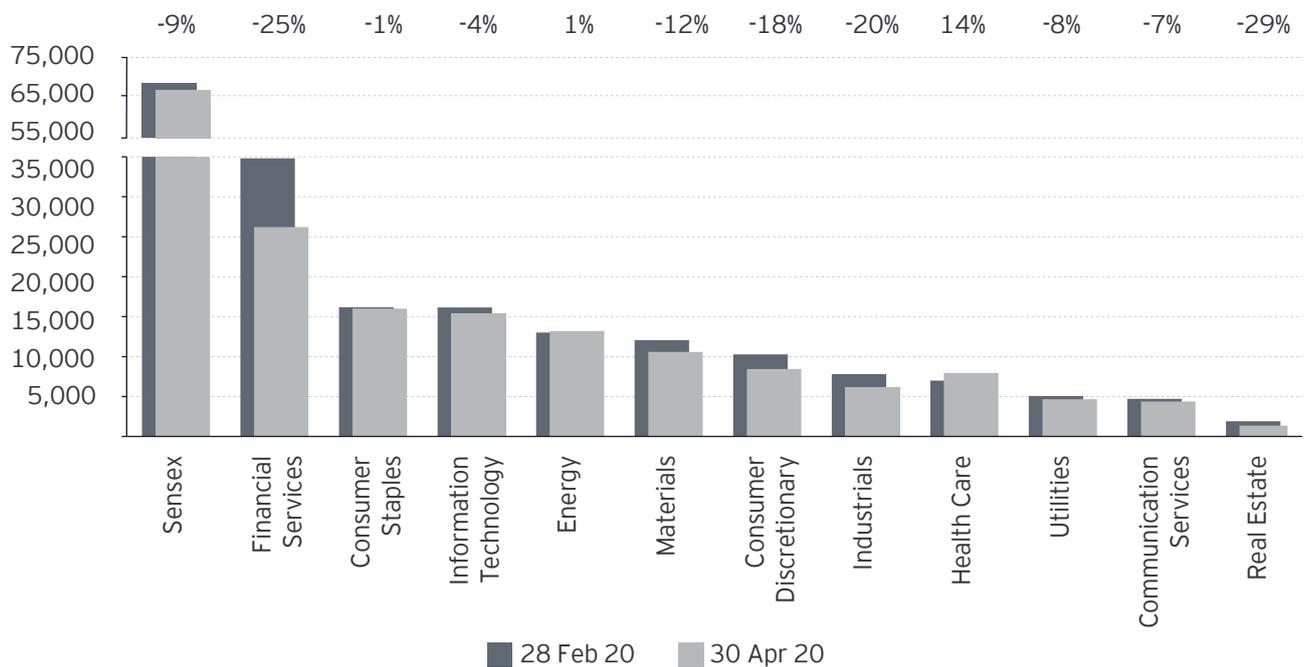
¹ <https://www.financialexpress.com/industry/post-lockdown-fmcg-industry-ready-to-scale-up-production/1920700/>

² https://www.business-standard.com/article/companies/despite-easing-of-lockdown-logistics-remains-a-pain-point-for-fmcg-firms-120050200492_1.html

³ <https://www.financialexpress.com/opinion/post-covid-19-the-impact-on-private-consumption/1926322/>

Investors pessimistic about most sectors except healthcare, consumer staples and energy

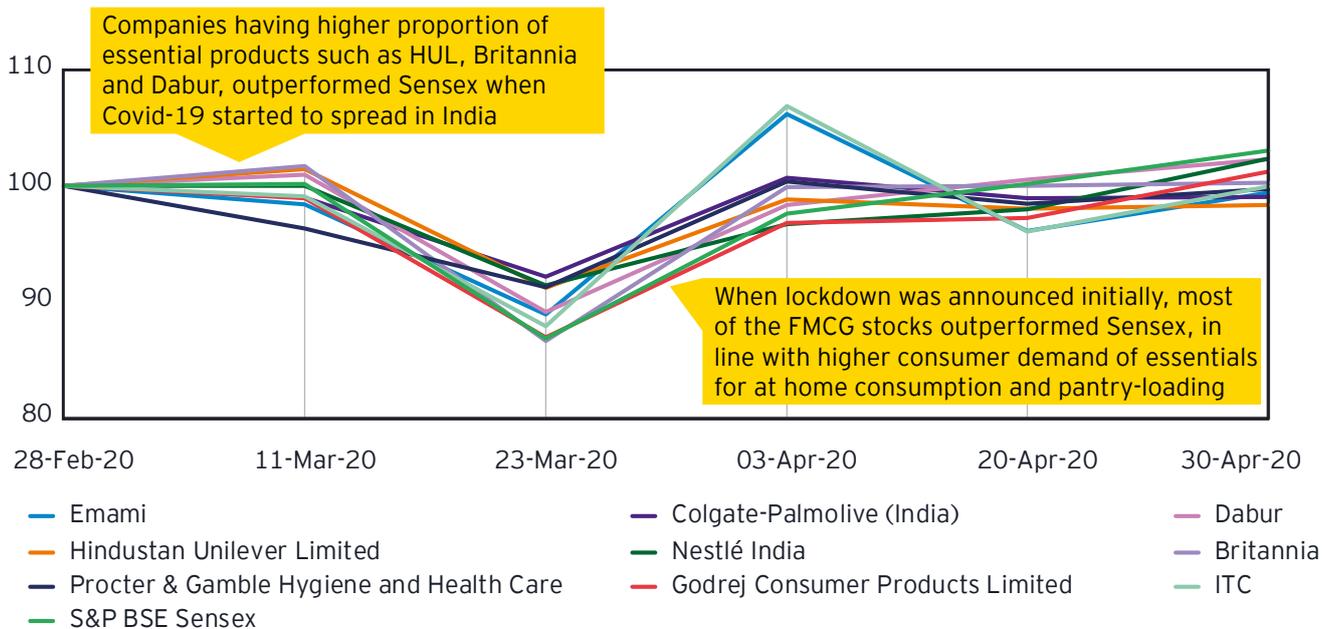
Market cap on 28 Feb and 30 Apr; Change in market cap between 28 Feb and 30 Apr ₹ billion, %



Note: Top 30 companies by market cap considered for each sector

Source: Capital IQ and EY Analysis

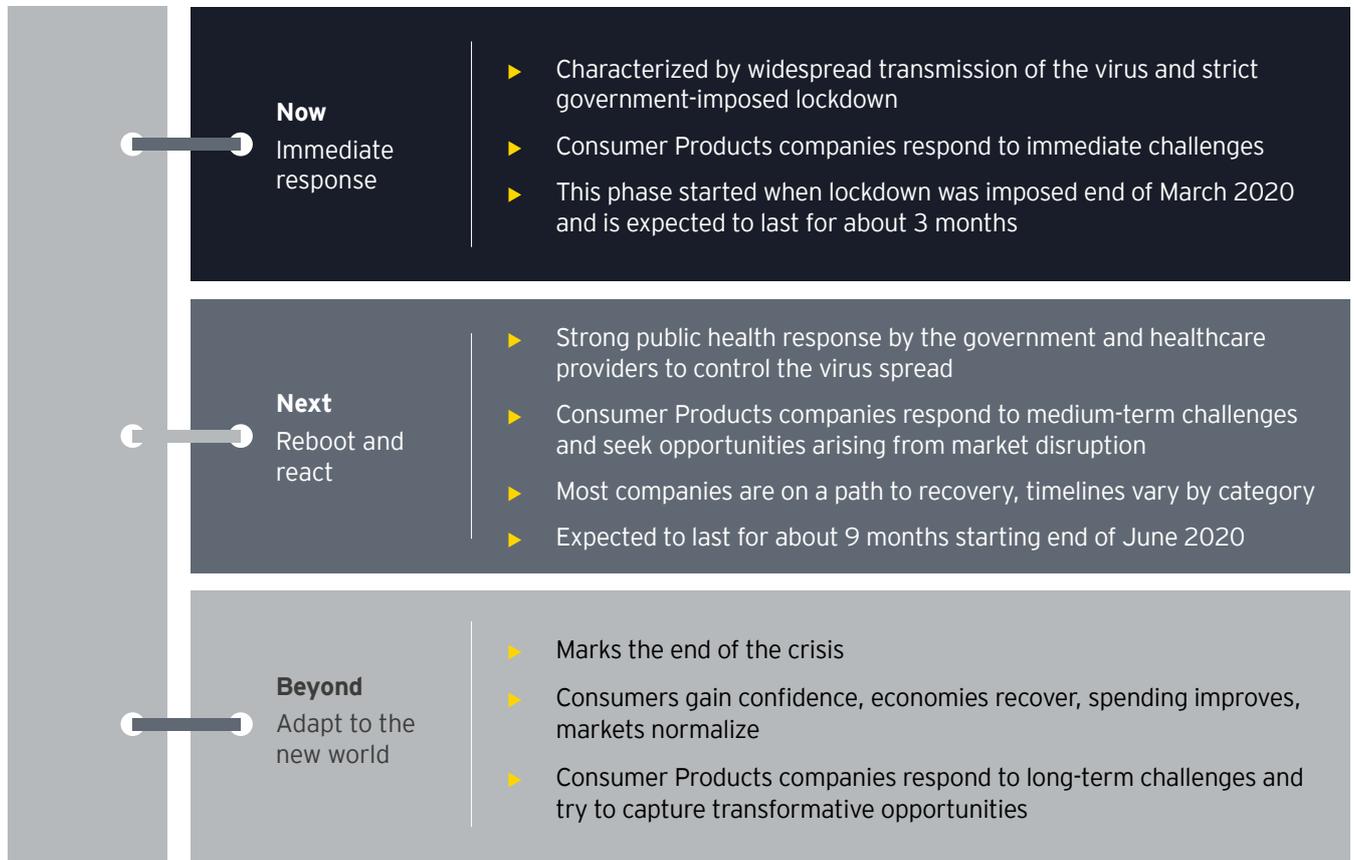
Share price comparison of Indian CP companies during 28 Feb to 30 Apr 2020



Source: Capital IQ and EY Analysis

As the pandemic is evolving, the restrictions are being gradually lifted, however, restoring normalcy will be a long-drawn process. During this time, we expect the market along with consumer products companies to navigate through three different phases.

The Now, Next and Beyond phases of the crisis



Source: EY Analysis

Currently, companies are in the 'Now' phase where they are grappling to understand upfront challenges, assess initial impact and decide immediate actions to respond to the crisis. In the 'Next' phase, companies will have to streamline operations to mitigate any ongoing challenges and seek fitting opportunities arising from the crisis. In the 'Beyond' phase, companies will have to consider strategic transformations and prepare to prevent similar future disruptions.





02

Key challenges faced by consumer products companies



Consumer products companies found themselves in an uncharted territory after the lockdown was announced. While consumption for categories like hygiene and groceries surged, companies were unable to quickly move production lines or ramp up manufacturing to match the demand. Online demand for products was rising, but companies were unable to rapidly adapt channel partnerships. Government regulations have been restricting full production in some regions, while other

regions are facing labour shortages. The uncertainty in the business environment is expected to continue for few more weeks.

To evaluate on-the-ground reality, we spoke with several consumer products companies, and from our conversations, we understand that the senior leadership is concerned about many challenges, ranging from near-term disruptions to long-term implications.

What consumer products companies are saying about the challenges they are facing?

EY enterprise resiliency framework areas	NOW Immediate response	NEXT Reboot and react	BEYOND Adapt to the new world
Employee well-being and workforce management	<ul style="list-style-type: none"> ▶ Protecting health and well-being of employees ▶ Diverting resources to critical issues ▶ Facilitating remote working ▶ Labour shortages in factories and for transportation; workforce is down to 25%, in some case even 15% 	<ul style="list-style-type: none"> ▶ Developing safer working environment in offices and factories ▶ Managing workforce expectations around rewards and compensation 	<ul style="list-style-type: none"> ▶ Inculcating remote working culture for business continuity ▶ Managing reputation risk in case of job losses
Consumer safety and brand protection	<ul style="list-style-type: none"> ▶ Making essential products available ▶ Communicating safety and hygiene of products 	<ul style="list-style-type: none"> ▶ Reviewing priority categories and pricing framework ▶ Losing consumers temporarily or permanently to compete due to stock outs 	<ul style="list-style-type: none"> ▶ Rebuilding trust in the brand ▶ Re-evaluate product portfolio
Supply chain and trade	<ul style="list-style-type: none"> ▶ Adjusting production lines and ramping up manufacturing of essentials. ~50% of Indian CP companies are concerned about production capacity shortage for in-demand and essential products ▶ Building new channel partnerships to make essentials available ▶ Non-essentials being majority of portfolio ▶ Ensuring raw material sufficiency. ~30% of Indian CP companies are facing challenges in sourcing raw materials 	<ul style="list-style-type: none"> ▶ Developing online capabilities ▶ Managing inventory in volatile times 	<ul style="list-style-type: none"> ▶ Understanding long-term supply chain risks ▶ Maintaining lean supply chains

EY enterprise resiliency framework areas	NOW Immediate response	NEXT Reboot and react	BEYOND Adapt to the new world
Funding needs and financial impact	<ul style="list-style-type: none"> ▶ Curtailing non-essential costs. ~30% CP companies in India are facing cash flow issues ▶ Ensure financial health of channel partners ▶ Managing stakeholder expectations 	<ul style="list-style-type: none"> ▶ Arranging for short-term financing ▶ Assessing long-term financial implications 	<ul style="list-style-type: none"> ▶ Building larger contingency fund ▶ Refueling growth
Business continuity and risk management	<ul style="list-style-type: none"> ▶ Responding to fast changing environment ▶ Resuming operations as soon as possible 	<ul style="list-style-type: none"> ▶ Building business continuity plan ▶ Understanding risks to business partners 	<ul style="list-style-type: none"> ▶ Safeguarding from potential future disruptions
Government and regulations	<ul style="list-style-type: none"> ▶ Complying with changing state and central government restrictions ▶ Working with state governments to classify products as essentials 	<ul style="list-style-type: none"> ▶ Assessing impact of force majeure triggers and tax implications 	
Technology and information security	<ul style="list-style-type: none"> ▶ Supporting work-from-home arrangement 	<ul style="list-style-type: none"> ▶ Protecting data and digital network 	<ul style="list-style-type: none"> ▶ Using technology for digital transformation to avoid future disruptions

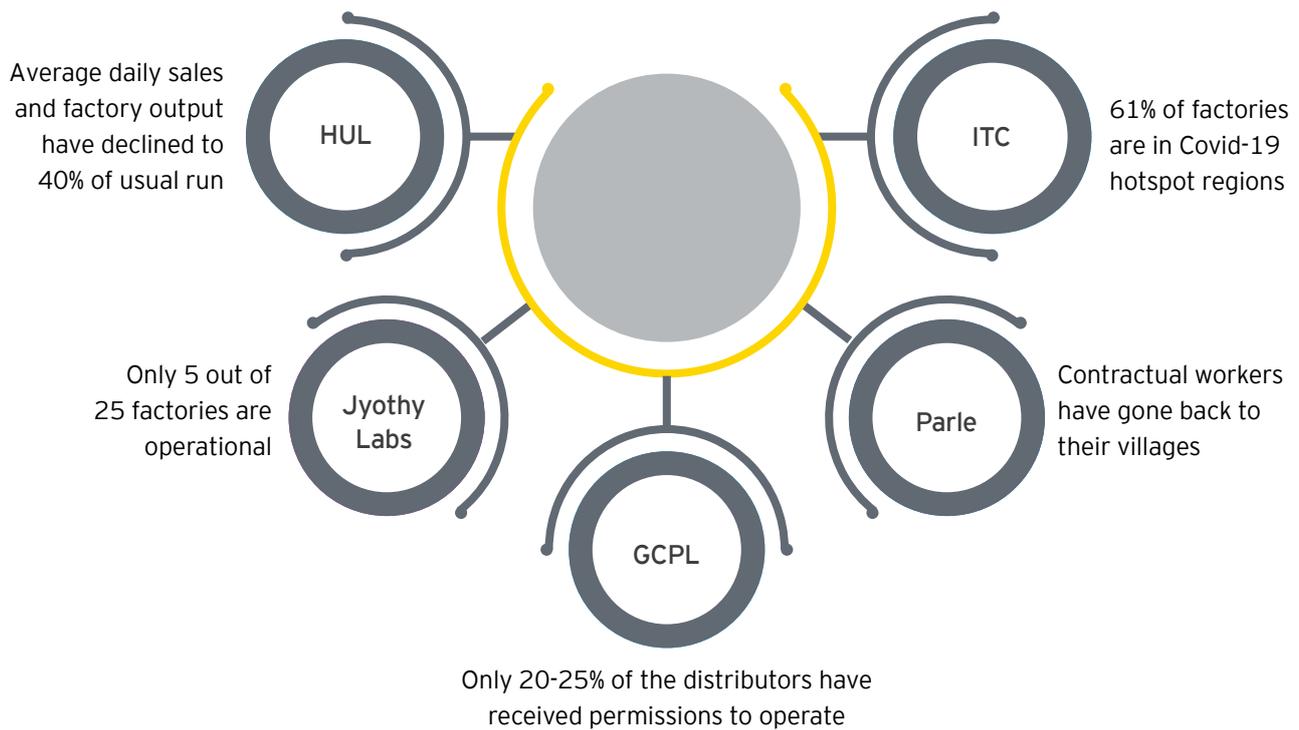
Source: EY Analysis⁴

Companies are acknowledging that the impact of the current crisis will fundamentally change the ways of doing business. It will redefine how we tackle matters around employee health, remote working, supply chain flexibility, risk mitigation, cashflow management and changing consumer behaviour.



⁴https://www.business-standard.com/article/companies/coronavirus-impact-fmcg-firms-struggle-to-keep-production-running-120032301769_1.html; <https://www.news18.com/news/business/coronavirus-impact-fmcg-firms-limit-operations-only-to-essential-items-adopt-work-from-home-2549791.html>; <https://economictimes.indiatimes.com/industry/cons-products/fmcg/fmcg-firms-moving-fast-to-restock-stores/articleshow/74765042.cms?from=mdr>; Nielsen estimates

Immediate challenges faced by consumer products companies during lockdown 1.0



Source: EY Analysis



⁵ <https://economictimes.indiatimes.com/industry/cons-products/fmCG/hul-sales-factory-output-40-of-daily-run-rate-due-to-disruptions/articleshow/75075153.cms?from=mdr>; <https://economictimes.indiatimes.com/industry/cons-products/fmCG/lockdown-to-impact-q1-of-fmCG-industry-gcpl/articleshow/74993848.cms?from=mdr>; <https://economictimes.indiatimes.com/jobs/retailers-e-commerce-fmCG-to-hire-migrant-workers/articleshow/75186051.cms>; <https://economictimes.indiatimes.com/industry/cons-products/fmCG/manufactured-in-india-fmCG-output-to-stay-low-as-factories-in-red-zones/articleshow/75311389.cms>



03

Evolution of the Indian consumer - shifting behavioural habits



A. Consumer behaviour during past crises

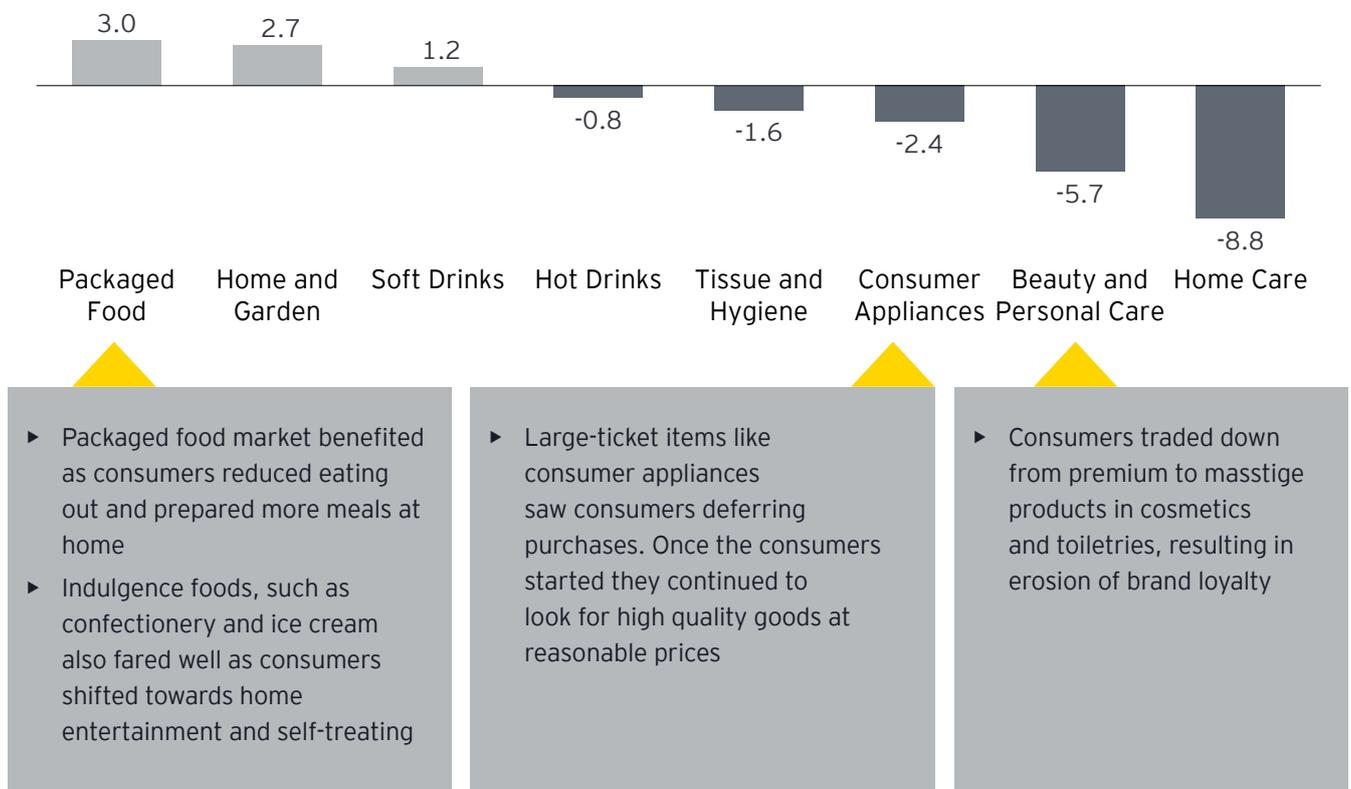
It is worth comparing consumer behaviour in previous crises like the Great Recession (2007-2009) to understand the consumer psychology during times of distress.

Consumers largely spent on essentials and trimmed down unnecessary expenses, but they splurged on

treats sporadically to beat the recession blues. Cheaper alternatives (especially private labels) saw expanded trials and adoption - challenging the incumbents. Eventually, there was a shift from rampant consumerism to savings, leading to a more frugal way of life.

Change in consumer spending habits in the face of recession

CAGR of CP categories in the US, 2007-09, %



Source: Euromonitor and EY Analysis

As a result, CP companies streamlined their brand portfolio, altered product development and marketing strategies to appeal to value-conscious consumers. Moreover, companies introduced more promotional tactics, including vouchers, markdowns, price bundling, multiple-unit pricing, and free gifts. For example: During

2009, P&G introduced several new products to compete in lower price tiers in the US, while also taking price cuts across part of its product portfolio⁶. Similar recession-like behaviours are likely to emerge in India as COVID-19 is impacting the economy.

⁶ https://archive.fortune.com/2010/05/06/news/companies/Proctor_Gamble_cheaper_products.fortune/index.htm

B. Comparability with Indian consumer and COVID-19

Consumers are concerned about multiple issues ranging from health and wellbeing of their family, availability of essentials like food and cleaning products, to how their life would be altered over the long-term. We believe

that impact of COVID-19 will influence all aspects of a consumer's life. Some areas would witness temporary effects where habits change for short duration and then go back to pre-COVID-19 ways, while other areas would face long-term consequences.

Impact of COVID-19 pandemic on consumer behaviour

Aspects of consumer's life	NOW Immediate response
Live	<ul style="list-style-type: none"> ▶ Obsess over personal hygiene and home cleaning; more than 90% households washed hands more often, close to 50% households cleaned toilets more often ▶ Keep social distancing; stop going out for shopping or entertainment ▶ Decline in food service and increased eating at home. Over 95% of restaurants shut during initial lockdown week and Zomato operated at 30% delivery capacity ▶ Curtail all non-essential spending ▶ Live under panic for health and wellbeing, availability of essentials, source of earning
Consume	<ul style="list-style-type: none"> ▶ Lower brand stickiness, purchase products that do the job ▶ Increase consumption of packaged, healthier, immunity boosting foods and beverages, and hygiene and cleaning products ▶ Increase intake of OTC medicines for cold & cough and vitamins ▶ Shift from on-premise consumption of alcoholic beverages to at-home consumption ▶ Curtail spending on beauty and make-up, and tobacco products ▶ Stop purchase of consumer appliances and electronics, and luxury goods
Stay healthy	<ul style="list-style-type: none"> ▶ Buy preventive products like masks, gloves, sanitizers to curtail the spread of infection ▶ Build immunity by consuming immunity boosting products and improve health by at-home exercises ▶ Consult physician on call
Shop	<ul style="list-style-type: none"> ▶ Stockpile the essential goods ▶ Increase online purchase and home delivery but minimum store visits. BigBasket recorded 2x growth in customer traffic during week ending 15 March 2020 ▶ Neighbourhood grocery stores gain relevance. 60% of consumers who visited local retail stores during 25-26 March 2020 claimed to buy nearly what they needed ▶ Surge in first-time online buyers for essentials like grocery, hygiene and cleaning products (for example older generations)
Use technology	<ul style="list-style-type: none"> ▶ Use mobile apps for online ordering, digital payment modes for contactless payments ▶ Use existing health apps, online learning platforms, video calling facilities, virtual gaming options ▶ Increased internet adoption for socializing by housewives, old and rural consumers
Work	<ul style="list-style-type: none"> ▶ Shift to work-from-home model for majority of the workforce in services sector ▶ Gig workers lose as volume of work reduces and permanent employees take over
Move	<ul style="list-style-type: none"> ▶ Avoid going outside unless critical ▶ Avoid public transport and parks ▶ Stop intracity or intercity movement; no international travel
Play	<ul style="list-style-type: none"> ▶ Use online gaming options, stream online video content. Users spent 12% more time on online streaming platforms during lockdown (20 March-3 April 2020) than before (13 January-2 February 2020) ▶ Avoid in-person, outdoor entertainment activities

Source: EY Analysis

These changes in consumer behaviour, be it short-term or long-term, do impact characteristics of products consumers buy, dynamics of product categories and operations of product companies.

	NEXT Reboot and react	BEYOND Adapt to the new world
	<ul style="list-style-type: none"> ▶ Habituate to increased personal hygiene and home cleaning, including in rural ▶ Continue to focus on social distancing; step out occasionally to visit safe places ▶ Reallocation of spend from travel and vacations to retail and dining; eat out occasionally at trusted restaurants ▶ Improve purchases during upcoming festivals (apparel/electronics during Diwali) but spending is judicious ▶ Rebuild trust, stock up essentials for extended period, build contingency fund 	<ul style="list-style-type: none"> ▶ Ingrain personal hygiene and home cleaning as part of living ▶ Lower the over crowding of public places and honour personal space ▶ Seek cleanliness certified restaurants ▶ Rethink spending habits, save more ▶ Stay prepared for future adversities and prevent panic
	<ul style="list-style-type: none"> ▶ Adopt value brands/private labels in more discretionary categories as shoppers trade down - impacting brand loyalty ▶ Choose preferred brand in essential categories (grocery, personal care) as availability improves ▶ Continue consumption of packaged, healthier, immunity boosting foods and beverages, and hygiene and cleaning products ▶ Maintain stock of preventive medicines for cold & cough and vitamins ▶ Increase spending on beauty and make-up, tobacco products, alcoholic and aerated drinks ▶ Defer buying of non-essential appliances and electronics, and luxury goods ▶ Rural consumers continue to live in survival mode 	<ul style="list-style-type: none"> ▶ Rise in conscious consumption ▶ Demand for products that offer proven-results around claimed functionality ▶ Seek stringent standards for hygiene and cleanliness and product traceability ▶ Increase adoption of fresh and Local, Authentic, Transparent, Traceable and Ethical (LATTE) products ▶ Pent up demand for electronics, apparel and other postponed purchases
	<ul style="list-style-type: none"> ▶ Continue to wear preventive equipment to avoid further spread ▶ Address possible mental health issues arising from stretched periods of social distancing along with physical health ▶ Rise in on-call consultation and telemedicine 	<ul style="list-style-type: none"> ▶ Adopt preventive lifestyle by investing in personal and home health care (personal health monitoring devices, smart home cleaning equipment) ▶ Increase in perceived value for products that guarantee better health and hygiene
	<ul style="list-style-type: none"> ▶ Maintain sufficient supplies of products ▶ Continue online buying of essentials, increase online buying of non-essentials ▶ Resume visits to stores which provide trusted safety but large store/mall visits still lower than earlier levels and are objective led / time bound 	<ul style="list-style-type: none"> ▶ Behavioural change in older generations and online becomes permanent ▶ Visit stores when offline is more convenient, seek cleanliness certified or trusted stores ▶ Seek new individual and digital retail experience
	<ul style="list-style-type: none"> ▶ Increase in penetration of digital channels for shopping ▶ Increase in use of online platforms that offer health, entertainment, upskilling and socializing options 	<ul style="list-style-type: none"> ▶ Embrace digital channels as the new normal for ordering and transactions ▶ Online learning experience transforms to include virtual reality and augmented reality (VR & AR) ▶ Rise in privacy concerns
	<ul style="list-style-type: none"> ▶ Continue work-from-home wherever possible ▶ Seek safer working environment for workforce where working-from-home is not an option 	<ul style="list-style-type: none"> ▶ Build sustained and agile working-from-home model to be face future such scenarios ▶ Demand for safety certified working environment in all sectors ▶ Benefits enjoyed by permanent employees will be extended to gig workers
	<ul style="list-style-type: none"> ▶ Daily routines (work, school) resume but with more caution ▶ Avoid public transport and crowded areas ▶ Loosen travel restrictions to allow supplies of goods; restrained intercity and international people movement 	<ul style="list-style-type: none"> ▶ Increase outside home movement ▶ Lift restrictions on people movement with renewed health advisory precautions; caution in international travel
	<ul style="list-style-type: none"> ▶ Continue to use online entertainment options ▶ Engage in responsible and occasional entertainment activities that maintain social distancing 	<ul style="list-style-type: none"> ▶ Blend online, AR/VR gaming with in-person and outdoor entertainment activities



04

Changing dynamics for product categories



The short-term changes in consumer behaviour are being reflected in sales of product categories. Increased awareness about personal hygiene has led to a jump in demand for hand washes and sanitizers. Emphasis on immunity boosting has led to a surge in demand for healthier foods and preventive products. Some categories like grocery, food and home-essential products, are seeing a surge in consumption. On the other hand, demand for more discretionary categories, such as non-essential personal care like beauty and make-up, large ticket

consumer durables and appliances as well as on premise-consumption of alcohol and carbonated beverages has been impacted.

In the quarter ended March, India's FMCG sector grew 6.3% (including e-commerce) in value terms, down sharply from the 13.8% growth in the same period last year. Demand for packaged foods and staples grew by 7.8%, while non-food categories grew by a mere 1.8% during the same period⁷.

Immediate impact on product categories



Hygiene products

- ▶ ~350% increase in demand for hand sanitizers in March 2020
- ▶ 60% increase in demand for hand washes
- ▶ ~25% increase in demand for floor cleaners

Immunity boosters

- ▶ ~80% increase in demand for Chyawanprash in March 2020
- ▶ ~40% rise in demand for turmeric
- ▶ 35% increase in demand for packaged health foods

Packaged food

- ▶ ~100% and ~10% increase in foods in modern trade and traditional retail respectively after lockdown declaration

WFH office equipments

- ▶ ~25% increase in laptop and phone accessories due to work-from-home



Confectionery products

- ▶ 25-35% decline in demand for confectionery, which is expected to continue till end of May

Alcoholic drinks

- ▶ On-premise consumption such as in bars, or restaurants paused

Consumer durables

- ▶ 55% y-o-y decline in sales of consumer durables in March 2020

Source: EY Analysis⁸

Going ahead, we believe that the short-term spikes in demand would stabilize over the next few weeks, and categories that witnessed stockpiling would see demand slowdown. As the economic fallouts of the pandemic, such as job losses or decrease in income levels, become clearer, we think that consumers would become more cautious

in spending, especially on discretionary products. It is estimated that ~54% consumers plan to decrease spends on luxury brands and leisure travel; 43% plan to defer spending more on fashion, personal grooming and home décor and 42% plans spend less on alcohol and tobacco products⁹.

⁷ <https://www.livemint.com/news/india/nielsen-projects-a-gloomy-year-for-fmccg-companies-11588268892802.html>

⁸ <https://www.afaqs.com/news/media/fmccg-consumption-trends-in-india-in-light-of-covid-19>; <https://www.bloombergquint.com/business/heres-what-indians-are-buying-during-the-virus-outbreak>; <https://www.mckinsey.com/business-functions/marketing-and-sales/our-insights/survey-indian-consumer-sentiment-during-the-coronavirus-crisis>; https://www.business-standard.com/article/companies/71-drop-in-fmccg-demand-due-to-covid-19-zero-orders-in-95-outlets-study-120042701313_1.html; <https://www.thehindubusinessline.com/economy/covid-19-impact-consumer-durables-sector-must-drive-digital-transitions-says-ceama-chief/article31287001.ece>; <https://www.thehindubusinessline.com/news/covid-19-impact-consumer-durable-firms-hope-for-revival-in-demand-by-may/article31285951.ece>; <https://economictimes.indiatimes.com/industry/cons-products/liquor/covid-19-impact-brewers-call-for-online-sale-of-beer/articleshow/75086844.cms?from=mdr;Nielsen>

⁹ Nielsen estimates

Considering the socio-economic impact of the pandemic, we believe that changing consumer behaviour will leave lasting impressions on category dynamics.

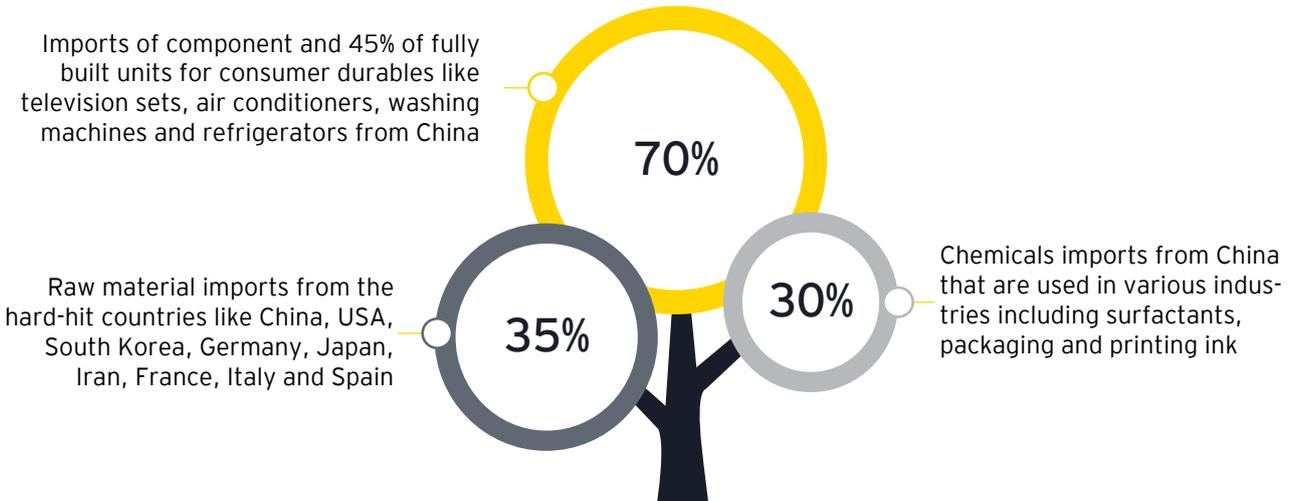
Key categories will exhibit different characteristics over short-term and long-term

Category	Market size, INR b,2019	NOW		NEXT and BEYOND		Remarks
		Household stocking	Consumer usage	Household stocking	Consumer usage	
Fresh Food	39,290	▲	◆	◆	◆	Higher demand for fresh fruits & vegetables; Aversion to meat and eggs, which accounted for 7% of fresh food value sales in 2019, impacted fresh food, but expected to bounce back to pre-Covid level in long term
Cooking Ingredients and Meals	2,208	▲	◆	◆	◆	
Alcoholic Drinks	1,703	▼	▼	◆	◆	Distribution and sales were ceased due to lockdown, but expected to recover to previous level in the long term
Dairy Products and Alternatives	1,651	▲	▲	◆	◆	
Snacks	1,293	▲	▲	◆	◆	With people staying at home and children staying indoors, demand for frozen snacks, namkeen and biscuits have increased, but will return to normal level in long term
Staple Foods	820	▲	▲	◆	◆	
Consumer Appliances	972	▼	▼	◆	◆	60% of consumers are expected to defer spending on consumer durables, appliances and large ticket electronic items, however, there will be higher demand during festivals like Diwali
Soft Drinks	500	▲	◆	◆	◆	
Home Care	436	▲	▲	▲	▲	Consistent efforts to increase awareness of disinfecting surfaces has resulted in overstocking. Habit persistence will accelerate growth in floor cleaners and toilet cleaners
Hot Drinks	301	▲	◆	◆	◆	
Bath and Shower	249	▲	▲	▲	▲	Growing awareness of maintaining high hygiene standards would lead to higher demand for bar soap and liquid handwash
Hair Care	246	▲	◆	◆	◆	
Tissue and Hygiene	147	▲	▲	▲	▲	55% of consumers intend to increase spending on hygiene and safety products
Skin Care	147	▼	▼	◆	◆	Focus on personal hygiene while beauty takes a backseat
Oral Care	134	▲	◆	◆	◆	

▲ Increase ▼ Decrease ◆ No change

Source: Euromonitor and EY Analysis

Supply constraints for imported raw material to impact companies



Source: EY Analysis¹⁰

Essential and non-essential product categories would face varied challenges and could offer unique opportunities as the pandemic evolves and the market responds.

Impact of the pandemic and changing consumer behaviour on category dynamics

Category type	NOW Immediate response	NEXT Reboot and react	BEYOND Adapt to the new world
Essentials	<ul style="list-style-type: none"> ▶ Surge in demand to stockpile sufficient supplies during lockdown ▶ Swift shift to online; attract many first-time users ▶ Choose functionality over brand name in short supply scenario ▶ Attract many first-time users for preventive and OTC consumer health products ▶ High concern around safety and hygiene of unbranded products due to multiple human touchpoints 	<ul style="list-style-type: none"> ▶ After stockpiling of essentials, there could be temporary slump in their sales ▶ Online buying continues, store visits resume ▶ Demand for fresh produce grown in guaranteed clean and hygienic environment rises ▶ Increased awareness of health and hygiene to sustain demand for vitamins, sanitizers, handwash etc. ▶ Accelerated shift towards branded perishables from unbranded perishables 	<ul style="list-style-type: none"> ▶ Return of brand stickiness; proven results for functional benefit required ▶ Demand for food traceability increases for fresh produce ▶ Opportunities rise in cleaning, hygiene, OTC consumer health ▶ Opportunities in branded perishables rise
Non-Essentials	<ul style="list-style-type: none"> ▶ Halt in sales of more discretionary products like beauty, make-up ▶ Drop in sales for beverages due to closure of on-trade channels and lower discretionary spending 	<ul style="list-style-type: none"> ▶ Revive discretionary buying of personal care and beauty products, in-stores sales continue to be hit ▶ Increase in sales of beverages for at-home consumption, on-trade channel continues to suffer 	<ul style="list-style-type: none"> ▶ Need-based spending may impact beauty products, stores need safety measure to attract footfall ▶ Online buying and engagement accelerates ▶ Sustained impact on out-of-home consumption of beverages as social distancing becomes more prevalent ▶ Demand pick up for healthy beverages

Source: EY Analysis

Given the anticipated changes in consumer behaviour and category dynamics, we believe that consumer products companies would need to take quick actions to respond to the 'Now' phase, alter operating model to address the 'Next' phase and then consider strategic transformations to build a resilient organization for the 'beyond' phase.

¹⁰ <https://commerce-app.gov.in/eidb/default.asp>; https://wits.worldbank.org/CountryProfile/en/Country/IND/Year/LTST/TradeFlow/Import/Partner/by-country/Product/28-38_Chemicals; <http://ficci.in/spdocument/23195/Impact-of-COVID-19-on-Indian-Economy-FICCI-2003.pdf>; <https://www.thehindubusinessline.com/news/covid-19-impact-consumer-durable-firms-hope-for-revival-in-demand-by-may/article31285951.ece>



05

Resilience strategy for consumer products companies

Despite the ongoing challenges, increased demand for hand sanitizers has led to category expansion and attracted 150+ new players in less than a month's time. Similarly, new entrants have been capitalizing on growing demand for packaged foods.

How companies are coping with immediate challenges

<p>Dabur</p> <p>Launched "Dabur Aashray" insurance scheme for its frontline staff, who are not covered by any State or corporate insurance scheme</p>	<p>Britannia</p> <p>Partnered with Dunzo, an online delivery platform, for contact-less delivery of essentials</p>	<p>GCPL</p> <p>Changed the practice of two drivers per truck to one driver per truck, thereby reducing the need of 50% of truckers</p>
<p>Tata Consumer</p> <p>Allowing employees to work-from-home w.e.f. 16 March</p>	<p>ITC</p> <p>Exploring adjacencies with focus on staples, essentials, health and hygiene categories</p>	<p>Marico</p> <p>Launched "Innovate2BeatCOVID" challenge, inviting solutions for low-cost ventilators and personal protective equipments</p>
<p>Coca-Cola India</p> <p>Plans to write-off the value of surplus inventory of its bottling partners</p>	<p>HUL</p> <p>Launched the '#BreakTheChain', a nationwide multi-media campaign to empower the general public with virus prevention strategies</p>	<p>Nestle India</p> <p>Partnered with NGOs to distribute essential groceries to the needy</p>

Source: EY Analysis¹¹

Every business crisis disrupts normality and pushes companies out of their comfort zone; it also offers opportunities to reinvent business models to make them fitter for the new world. While preparing for the resilience strategies, companies need to take hard look at their operations to cull out inefficiencies and reorient the business to drive future growth.

People

Establishing a constant connect with employees, especially factory workers, around their health and financial well-being during this time will enable them to cope better with the current crisis and bounce back with renewed motivation. For example, Dabur has reinforced several safety measures at its units, including thermal screening of employees during

¹¹ <https://m.economictimes.com/industry/cons-products/fmcg/lockdown-to-have-material-impact-on-production-sales-dabur-india/articleshow/75155839.cms>; <https://economictimes.indiatimes.com/industry/cons-products/fmcg/covid-19-marico-announces-rs-2-5cr-prize-for-innovative-healthcare-solution/articleshow/74886625.cms?from=mdr>; <http://everythingexperiential.businessworld.in/article/Marico-steps-up-to-aid-India-in-its-fight-against-COVID-19/07-04-2020-188455/>; <https://www.livemint.com/news/india/britannia-industries-partners-with-dunzo-for-delivery-of-essentials-11586239153524.html>; <https://www.thehindubusinessline.com/companies/itc-to-explore-a-djacencies-with-short-term-focus-on-staples-essentials-health-and-hygiene-categories/article31420817.ece>; <https://www.godrejcp.com/media/press-releases/6416-godrej-group-stands-in-solidarity-with-indias-efforts-to-ov>; <https://www.livemint.com/industry/retail/covid-19-crisis-may-lead-to-emergence-of-new-fmcg-products-gcpl-md-11585738917920.html>; https://www.business-standard.com/article/news-cm/tata-consumer-scales-down-operations-due-to-covid-19-outbreak-120032800531_1.html; <https://www.nestle.in/media/pressreleases/nestle-india-extends-its-commitment-indias-fight-against-covid-19>; <https://m.economictimes.com/industry/cons-products/food/coca-cola-to-write-off-unsold-indian-stock/articleshow/75281478.cms>

entry and exit at the security gate and restricting the number of employees travelling together in elevators¹². Moving forward, it will be imperative for companies to:

- ▶ Re-visit staffing models to develop dynamic workforce
- ▶ Optimize resources
- ▶ Re-design jobs and compensation models
- ▶ Re-think skill development and upskilling staff to transition to new digital ways of working

Consumer

Communicating safety and hygiene of products will be the first step in winning trust of consumers. In the long-term, companies should:

- ▶ Re-align brands towards purpose
- ▶ Review product portfolio
- ▶ Invest in developing new categories, such as hand sanitizers and disinfectants (if relevant). For example, Emami extended its flagship brand Boroplus into the hand sanitizer segment by launching BoroPlus Advanced anti-germ hand sanitizer with 70% alcohol base and natural ingredients¹³
- ▶ Review pricing and reset promotion strategies to win back customers

Operations

The immediate focus for CP companies is to keep their supply chain operational, including adjusting production as per demand fluctuations and channel partnerships for last-mile delivery. For example: HUL shifted to larger order sizes and direct shipping from factories¹⁴ and Marico launched 'Saffola Store' on food delivery platforms Swiggy and Zomato¹⁵. The next focus will be to:

- ▶ Enhance plant safety and capacity utilization
- ▶ Shift towards distributed manufacturing and digital integration with contract manufacturers
- ▶ Renew channel strategy - explore direct-to-consumer distribution channels
- ▶ Diversify supply chain - identify alternate suppliers across geographies
- ▶ Build demand-responsive supply chain using automation and predictive analytics
- ▶ Set digital internal audit or controls system

Finance

Companies must reassess immediate cash requirements using scenario modelling to mitigate working capital blockages including deferring non-critical spends. After that, companies must:

- ▶ Make provisions to extend financial support to channel partners. ITC, HUL and Cargill have extended credit and making early payments to kirana stores¹⁶.
- ▶ Conduct strategic portfolio reviews - acquire new and divest non-core/ low-margin brands

Risk

Companies must establish and empower emergency response teams to continuously monitor and mitigate emerging risks. While planning to resume operations after the crisis, it is imperative for companies to:

- ▶ Use scenario modelling to plan different response strategies
- ▶ Develop a Covid-19 checklist to monitor implementation
- ▶ Leverage analytics to uncover potential risks and timely management of disruptions

¹² <https://retail.economicstimes.indiatimes.com/news/food-entertainment/personal-care-pet-supplies-liquor/fm-cg-cos-stepping-up-production-under-eased-norms-but-labour-supply-chain-issues-impede/75266972>

¹³ <https://economicstimes.indiatimes.com/industry/cons-products/fm-cg/emami-forays-into-hand-sanitiser-segment-under-boroplus-brand/articleshow/75177326.cms?from=mdr>

¹⁴ <https://economicstimes.indiatimes.com/industry/cons-products/fm-cg/employees-facing-movement-restrictions-plants-not-operating-at-full-capacity-hul/articleshow/75270439.cms?from=mdr>

¹⁵ <https://www.moneycontrol.com/news/business/fm-cg-major-marico-ltd-ties-up-with-swiggy-zomato-for-delivery-of-essential-items-5106221.html>

¹⁶ <https://timesofindia.indiatimes.com/business/india-business/kirana-stores-find-it-hard-to-pay-for-stock/articleshow/74855578.cms>

Government

Companies must comply with the government directed emergency measures. To ensure that essential products reach low-income families, HUL is working with social organizations like the United Way and the United Nations Development Programme. It is also collaborating with public health authorities (in Maharashtra, Uttar Pradesh and Karnataka), to upgrade medical facility infrastructures in hospitals treating COVID-19 patients and is in the process of procuring personal protective equipment for the frontline medical staff at these hospitals¹⁷. Moving forward, companies must:

- ▶ Assess impact of regulatory changes and restrictions
- ▶ Utilize various schemes announced by government such as moratorium for repaying bank loans and job support subsidy

Technology

Companies should provide IT tools such as physical hardware (like laptops) and secure networking capabilities (like video calling apps) to enable remote working of employees (to the extent possible). Nestlé used an electronic shareholder portal for its Annual General Meeting held on 23 March, to enable shareholders to exercise their voting rights¹⁸. Going ahead, it will be imperative for companies to:

- ▶ Upgrade critical technology infrastructure
- ▶ Establish security protocols for cyber-attacks
- ▶ Invest in emerging technologies such as VR for remote product walk-throughs for B2B/B2C sales
- ▶ Digital tools to track real time-changes in consumer behaviour will improving efficiency



¹⁷ <https://www.hul.co.in/news/news-and-features/2020/committed-towards-combating-covid-19.html>

¹⁸ <https://www.nestle.com/media/pressreleases/allpressreleases/nestle-annual-general-meeting-2020>

Challenge areas	NOW Immediate response
People	<ul style="list-style-type: none"> ▶ Communicate safety measures and share best practices ▶ Provide full support when the workforce adjusts to new ways of working ▶ Stagger worker movement at factories to avoid gathering of many people at any time ▶ Protect jobs and salaries of workforce
Consumer	<ul style="list-style-type: none"> ▶ Capitalize on in-demand categories like cleaners, hand sanitizer, immunity boosting beverages and DIY grooming kits ▶ Leverage all media channels to communicate safety and hygiene of products ▶ Take ethical stance on pricing of in-demand and essential products ▶ Keep consumer needs ahead of profits ▶ Improve brand integrity by supporting wider response to the outbreak
Operations	<ul style="list-style-type: none"> ▶ Move production lines or ramp up manufacturing to increase supply of in-demand categories like hand sanitizer, hand wash, surface cleaners ▶ Optimize third party manufacturing and logistics for additional production ▶ Re-adjust pack sizes for in-demand and essential products ▶ Build new channel partnerships to make products available to consumers
Finance and transactions	<ul style="list-style-type: none"> ▶ Implement cost saving initiatives that render quick results (A&P, capex) ▶ Review cash flow position and capital allocation plan to assess potential risks ▶ Provide upfront support to channel partners facing liquidity issues ▶ Defer non-critical transactions ▶ Communicate short-term impact, business continuity plan with shareholders
Risk	<ul style="list-style-type: none"> ▶ Build cross-functional emergency response team to assess critical business risks ▶ Plan, review and course correct on a daily basis for business continuity ▶ Assess and manage risks and communicate to workforce and stakeholders ▶ Plan to resume critical processes once lockdown restrictions are lifted
Government	<ul style="list-style-type: none"> ▶ Comply with government restrictions ▶ Leverage central and state subsidies ▶ Work with local governments to allow manufacturing for essentials, get clarity on interstate transport, arrange for factory worker's commute
Technology	<ul style="list-style-type: none"> ▶ Provide technology (laptops, internet connectivity, video calling) to facilitate work-from-home for in-office workforce ▶ Enhance data security as work moves to remote locations

Source: EY Analysis

	NEXT Reboot and react	BEYOND Adapt to the new world
	<ul style="list-style-type: none"> ▶ Communicate safety measures and share best practices ▶ Provide full support when the workforce adjusts to new ways of working ▶ Stagger worker movement at factories to avoid gathering of many people at any time ▶ Protect jobs and salaries of workforce 	<ul style="list-style-type: none"> ▶ Use scenario modelling for better workforce planning ▶ Upskill talent force for the digitalized work space ▶ Review workforce structure and working environment model
	<ul style="list-style-type: none"> ▶ Develop emerging categories like hand sanitizer, surface cleaners, immunity boosting supplements or personal care appliances ▶ Tap into new opportunities e.g. at-home hair colours if consumers choose to stay away from salons ▶ Review pricing framework to regain profitability ▶ Win back consumers lost due to non-availability of products 	<ul style="list-style-type: none"> ▶ Strengthen brand trust by providing proof of results on the claimed proposition ▶ Review brand purpose to offer the value proposition consumers want ▶ Share proactively all information about the product including ingredient traceability, factory conditions etc.
	<ul style="list-style-type: none"> ▶ Build online capabilities (direct-to-consumer) to diversify channel partner base ▶ Digitally enable route to market ▶ Digital Integration with contract manufacturers ▶ Hold optimal inventory levels at each stage in the supply-chain to ensure business continuity ▶ Assess financial impact of the operational changes 	<ul style="list-style-type: none"> ▶ Conduct end-to-end supply chain risk assessments ▶ Implement real-time, demand-responsive supply chain ▶ Gain greater control over end-to-end distribution network ▶ Accelerate online capabilities which can withstand future outbreaks ▶ Build digital controls testing models
	<ul style="list-style-type: none"> ▶ Reconsider payment terms with vendors and customers ▶ Extend credit lines to address short-term liquidity issues ▶ Provide for potential defaults from customers ▶ Undertake brand portfolio review ▶ Identify potential acquisition opportunities 	<ul style="list-style-type: none"> ▶ Invest in business to refuel growth ▶ Prepare for longer term volatility beyond the outbreak ▶ Divest non-core, low-margin brands ▶ Acquire emerging start-ups at right valuation
	<ul style="list-style-type: none"> ▶ Review business continuity plan, build in flexibility to manage business volatility ▶ Work with suppliers and channel partners to evaluate risks across the supply chain 	<ul style="list-style-type: none"> ▶ Deploy simulations and leverage analytics to identify possible crisis scenarios ▶ Monitor and review business continuity plans for future crisis
	<ul style="list-style-type: none"> ▶ Work with governments to streamline supplies ▶ Assess impact of force majeure triggers, tax implications 	<ul style="list-style-type: none"> ▶ Build sustained and agile working-from-home model to be face future such scenarios ▶ Demand for safety certified working environment in all sectors ▶ Benefits enjoyed by permanent employees will be extended to gig workers
	<ul style="list-style-type: none"> ▶ Increase investments to safeguard from potential cyber attacks ▶ Improve security, performance and capabilities of remote working 	<ul style="list-style-type: none"> ▶ Invest in technology to support digitalization of the process transformation and organization ▶ Implement advanced technologies to track real-time changes in consumer behaviour and end-to-end supply chain ▶ Automate operations to lower dependence on manual labour and improved efficiency



06

A new industry landscape





The COVID-19 situation is still evolving, and it is difficult to quantify the impact on the CP industry.

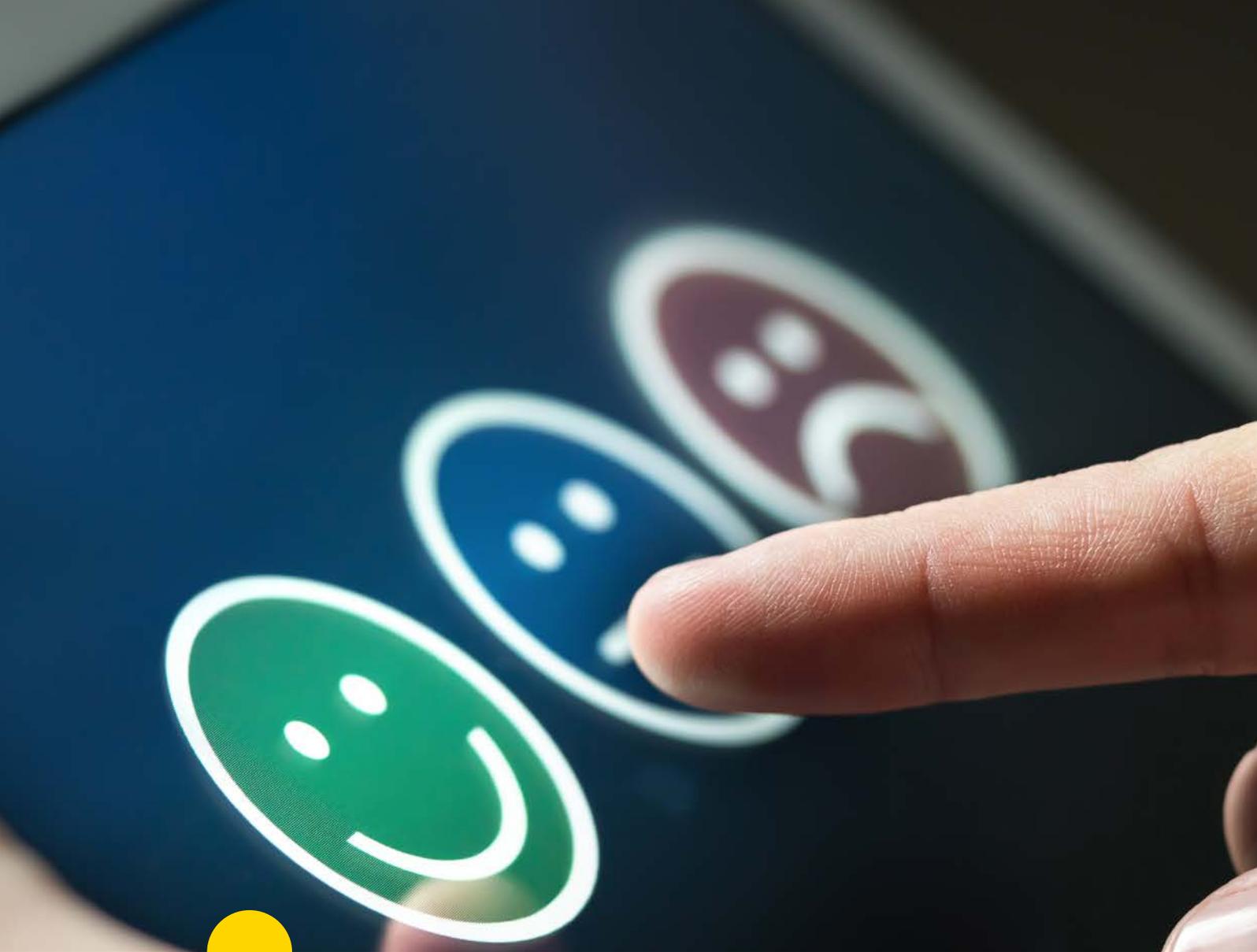
Consumers are re-allocating their budgets from non-essentials to stockpile essentials such as food, personal care and disinfectants. Companies that will evolve their portfolio of products built around health, immunity and protection - stand to gain in the future.

E-commerce and home delivery would assume a far greater prevalence in the buying pattern of consumers. The pace of digitalization of the future consumer will be advanced by years. Hence, companies that digitally transform their route to market and build robust direct to consumer capabilities, including e-commerce, will win in the long-term. This will entail a focused and coordinated effort to build more agile, transparent and responsive supply chain, from identifying alternate suppliers, flexible production management to digital inventory control.

Finally, this pandemic is a trigger for companies to invest in advanced analytics to understand the changing business environment and respond with agility.

COVID-19 is a reminder to the CP industry about the fragility in ways of doing business. It will be a game-changer for companies that will focus on evolving business models and transformational change with new and emerging technology.





07

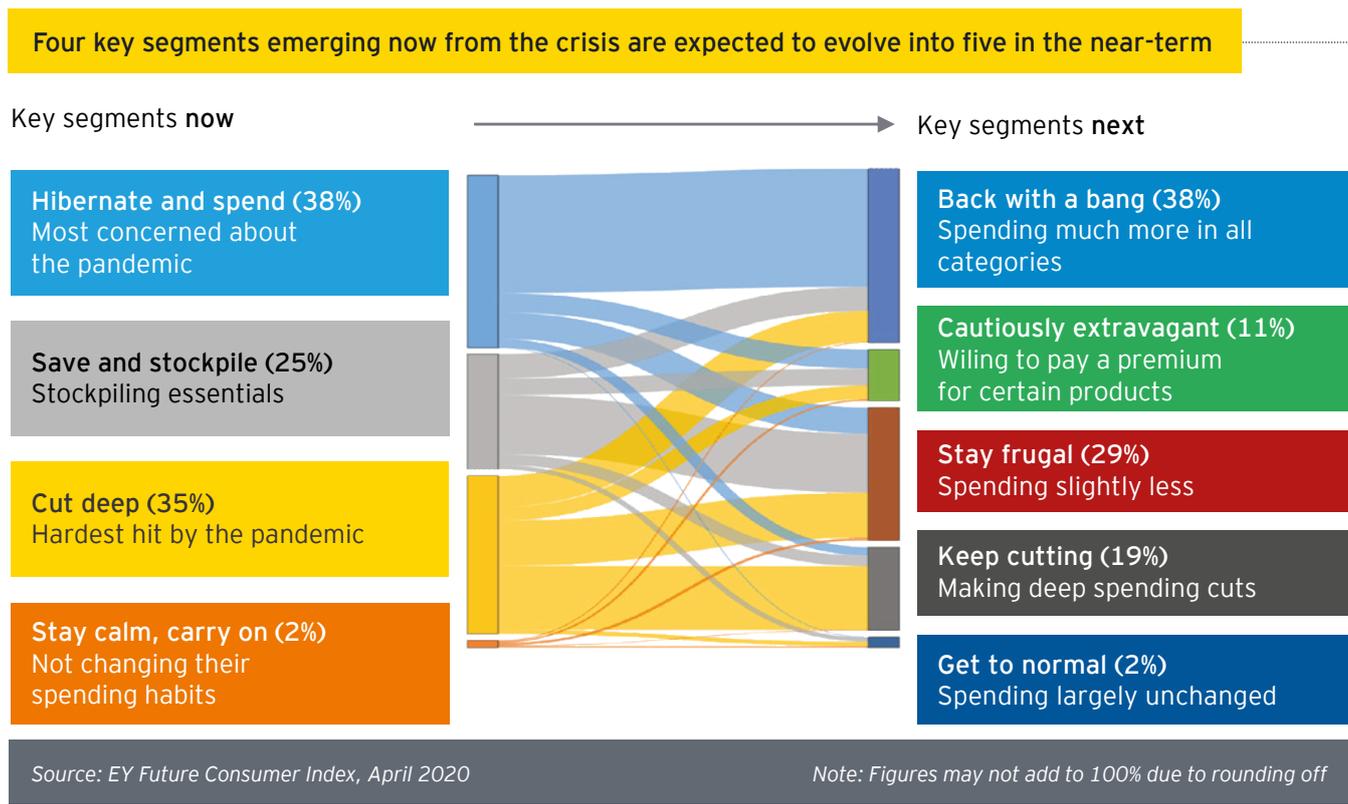
EY Future Consumer
Index – survey of
Indian consumers

To understand and track emerging consumer behaviours and sentiments, we have created the 'EY Future Consumer Index'¹⁹ by surveying consumers around the world. The aim is to continually track consumer behaviour and sentiments throughout the evolution of the pandemic. It will help us understand how consumer preferences are changing and how consumer products companies should respond.

The initial survey results of Indian consumers show that some consumers are making deep cuts in spending,

while others are continuing to spend as normal but are changing how they live in other ways. Looking across all the Index data, we have identified four segments of behaviour emerging now from the current crisis. →

We also asked consumers what they believe they will do once they feel the crisis is over. Based on the results, we feel that the four segments emerging now could evolve into five segments going ahead. It does not provide guarantee on what they will do, but it does enable us to track their changing expectations about the future.



A majority of the respondents belong to “Hibernate and spend” segment and are most concerned about the pandemic but are also the best positioned to deal with it. Hence, after COVID-19, most of them will migrate to “Back with a bang” segment as they are waiting to get back out and spend money on shopping.

By contrast, consumers in the “Cut deep” group are significantly impacted by the pandemic and have seen the most impact on their employment. Their purchase decisions will be influenced by pricing and most of them will either “Stay frugal” or “Keep cutting” their expenditure on all categories except groceries.

Consumers in “Save and stockpile” are worried about their families, and less optimistic about the future. Most of them are expected to remain frugal.

Consumers belonging to ‘Stay calm, carry on’ group are less impacted. They are expected to resume their old shopping behaviours as for them all things will be same as before.

¹⁹ https://www.ey.com/en_gl/consumer-products-retail/how-covid-19-could-change-consumer-behavior



Characteristics of consumer segments: Now

38%

Hibernate & spend

- ▶ Most concerned about the pandemic
- ▶ But best positioned to deal with it
- ▶ Optimistic for the future

74% are spending more on grocery delivery services

25%

Save & stockpile

- ▶ Stockpiling essentials
- ▶ Worried about their families
- ▶ Pessimistic about the long-term effects

55% are spending more on household and hygiene products

35%

Cut deep

- ▶ Hardest hit by the pandemic
- ▶ Most pessimistic about the future
- ▶ Spending less across all categories

Over 40% are spending more on grocery delivery services

2%

Stay calm, carry on

- ▶ Not changing their spending habits
- ▶ Not directly impacted by the pandemic
- ▶ Worried that others are stockpiling

Just 24% are spending more on grocery delivery services

Source: EY Future Consumer Index, May 2020

Note: Figures may not add to 100% due to rounding off

Methodology:

We surveyed 12,843 consumers across 13 countries such as the US, Canada, UK, Australia, UAE, China. Of those, the article above focuses on 1,046 India respondents mostly in urban areas. The survey questionnaire covered current behaviours, sentiment and intent.



Characteristics of consumer segments: Next

38%

Back with a Bang

- ▶ Younger and in work
- ▶ Spending much more across categories.
- ▶ Daily lives were most disrupted
- ▶ Now they're the most optimistic

69% expect to be better off with finances over the next one-year

11%

Cautiously Extravagant

- ▶ Middle to high income
- ▶ Health-focused but relatively optimistic
- ▶ Strong belief that recession is coming
- ▶ Will pay a premium for certain products

63% would pay a premium for products they perceive as having higher quality going forward

29%

Stay Frugal

- ▶ Spending slightly less
- ▶ Some deep cuts
- ▶ Trying to get back on their feet
- ▶ Very pessimistic about the future

59% say that the way they shop would change as a result of COVID-19

19%

Keep Cutting

- ▶ Least educated
- ▶ Least likely to be working
- ▶ Making deep spending cuts
- ▶ Changing what they buy and how

53% will give more importance to pricing once the outbreak is over

2%

Get to Normal

- ▶ Spending largely unchanged
- ▶ Daily lives weren't really affected
- ▶ Least concerned about the pandemic overall

48% see themselves coping well with the situation and are confident about the future

Source: EY Future Consumer Index, May 2020

Note: Figures may not add to 100% due to rounding off

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