



ARTICLE

COVID-19: Impacts on the U.S. Food Industry

The rapid spread of COVID-19 and the equally rapid government response to confine the majority of the U.S. population have dramatically changed consumption patterns, which has rippled through the food and agriculture industry. The macroeconomic factors impacting a business will depend on the position of the company in the food and agriculture value chain, however, the response to these factors must be tailored to address short term realities, while preparing for the new steady state post-pandemic. Understanding these factors, then preparing and executing a focused response will enable companies in the food and agriculture industry to preserve cash flow and then thrive in the post-pandemic economy.

Changes in consumer purchasing behaviors are transforming the food industry

The key factor for food company success today is to understand consumer behavioral responses to COVID-19, then adapt the operating plan for the short-term changes, with an eye toward expected long term impacts on food consumption patterns. With the continuation of shelter in place restrictions, the food and agriculture industry will be impacted by changes in food buying behavior tied to fear, health policy and social distancing. As unemployment claims reach historic highs, the impact of a recession will fundamentally change consumer buying habits. Lower disposable incomes will increase consumer frugality, shifting to a combination of value and taste, which will result in higher purchases of trusted brands and comfort food.

Most consumer food buying behavior had been influenced by the long economic recovery period, which created a focus on high quality, organic, fresh, convenience, and new flavor profiles. Food consumption is now returning to a more traditional pattern where food eaten at home will be more than 50%, but not necessarily prepared at home, with greater emphasis on comfort, food safety and shelf life. In addition, consumers are increasing their use of online and digital technology to purchase from retail grocery and food service. This trend is leading to fewer SKUs, reduced new product offerings, more trips to the store with less time for the in-store experience of comparison shopping, leading to a marketing advantage for established brands.

However, the economic damage certainly will change consumers' food buying behavior after the US returns to

	BEFORE COVID-19	DURING COVID-19 (NOW)	AFTER COVID-19 (EXPECTED)
Processed & Frozen	Avoided processed and unhealthy foods; focused on fresh foods	Purchasing processed and comfort foods for a sense of security and indulgence; avoiding fresh produce, meat, poultry for a variety of reasons	Expanded palate for frozen vegetables, frozen and prepared meals, bakery, canned fruits and vegetables, easy-to-cook
Meals at Home	Significant percentage of meals away from home	Dislikes cooking at home ; buying frozen, center aisle, extended shelf life food	Will eat majority of meals at home , versus 60% away from home pre-COVID-19
Snacking	Heavy snacking rather than full meals at home	Starting to eat meals versus snacks, with breakfast being the largest beneficiary	Continued focus on meals at home, especially breakfast
Organic	Heavy focus on mindful connection of organic food and “free from” claims	Focused on branded and comfort foods previously neglected	Higher awareness of branded and ethnic products; follows claims supported by data
Value	Retail grocery is an indulgence and a form of conspicuous consumption	High demand for value buying which does not sacrifice quality	Balanced mix of convenience, quality, value
Marketing	Marketing influenced food buying patterns	Fast, “in and out” buying ; in-store marketing not effective	Dramatic reduction of in-store experience, shift to online, digital marketing

normal operations. The economic contraction is the greatest since World War II. When fear of the virus subsides, expect a gradual reopening of the economy, starting with returning to work but with social distancing and ending with large social gatherings such as sports, concerts and arts. The ability of companies to **adapt at speed** is a function of understanding the changes in consumption patterns and expectations for consumption after the virus has been controlled.

Summarized above are consumer buying behaviors before and during the virus outbreak, along with our expectations for the future.

Success or failure in the current environment is driven by adaptability speed

Winners and losers in the food industry will be a function of two factors: the business segment position along the food value chain (external factors) and the effectiveness of the company’s reaction to external factors (internal responses). A third dimension, which is extraordinarily important, is the speed at which a company executes internal responses to



external factors. The ability to rapidly adjust the business model will be the difference between financial success and hardship.

Food companies should be prepared for an extended period in which the consumer eats virtually every meal at home or through takeout/delivery. Given the current environment, expect that consumers will take 12 to 18 months before fundamentally returning to reasonable levels of eating food away from home. For companies with food service as a key element, the ability to pivot to takeout/delivery, even if not part of the ordinary business model, may be essential in the short term. Restaurants that remain open will focus on curbside pickup, delivery and drive-thru, as well as protecting the health of their employees. With less people in the kitchen, menus will be simplified, leading to a reduction in SKUs. Then, after all food service is re-opened, the consumer experience will likely require changes, such as disposable

menus, contact free ordering via tabletop kiosks, less tables per square foot, and servers with masks/gloves.

Food companies engaged in the production of retail groceries, particularly staples, need to be prepared to meet surging demand. Cooperatives and large conglomerates are likely to rationalize food brands (to generate cash and to focus attention on power brands). Similarly, the new entrant “innovators” will hit a brick wall bringing product to market and may need to be consolidated across segments (ethnic, frozen).

The largest food companies which produce trusted staples, have excellent supply chains, and typically have more family-sized packaging, will be the most successful. Processed food will outperform other categories because the consumer has a renewed focus on shelf life over “free-from” claims. Food manufacturers will need to rapidly convert plants that supported food service to supporting

Winners

- **Frozen** will replace center-aisle staples to some extent. Center-aisle basics are often stocked in the home pantry but not quickly consumed. Frozen is easy to cook with minimal preparation.
- **Processed Food** and Brands are back, especially if simple to cook.
- **Eggs** will continue to receive a surge in demand because they have a relatively long shelf life and are the easiest protein to cook.

Losers

- **Fresh** is the biggest loser across the board, due to short shelf life. Too many grocery trips, too much time required to cook at home. Health and wellness will be traded off for comfort foods.
- **Organic** is a big loser along with foods making dubious health claims not backed by science. Organic won't fit the “fast and frugal” nature of buying.
- **“Free from”** was a trend that assumed the consumer was skeptical of science. COVID-19 restores trust in science; expect a move away from generalized claims and certifications.
- **Startup brands** will struggle as consumers shift from print/media to digital ads. Survival depends on ability to build new product awareness digitally.

Mixed Results

- **Private Label** where the store has invested in a **trusted platform** like Great Value will win big during times of comfort and recession.
- **Private Label** where there is **no brand platform** will do poorly, as these products rely on in-store comparison. With quicker in-and-out shopping patterns, the consumer will shift to trusted brands.
- **Mindful Connection** or Sustainability will bifurcate between **value** buyers and **high disposable income buyers**, but consumers will want data, not claims.

retail grocery instead. These manufacturers will need to quickly rationalize the number of SKUs being produced to ensure customers have adequate supplies of fast-moving basic staples.

Summarized above are the market segments that will drive winners and losers in the food industry as the U.S. economy emerges from the impact of the virus.

Survive and succeed by adapting at high speed

There is little time to move ahead of rapid changes that will make or break a company in the food industry. The ability to move from a “peacetime” to “wartime” operating model will define the winners and losers.

The most important action that food companies can take in the short term is to form a focused and prioritized action plan that allocates appropriate resources to achieve the objectives in a time-sensitive environment. Food companies supplying retail grocery with staples must have exceptionally managed operations and supply chains. These companies will be required to boost and shift production while facing staffing challenges that include swings in labor availability due to illness, employee safety, changing work hours, supply interruptions from critical vendors, transportation interruptions, and SKU rationalization.

Summarized below are three key areas food companies should address in the short term, once they understand the impact of consumer purchasing behaviors on their business.

AREA	CRITICAL ACTIONS
<p>Supply Chain Operations</p>	<ul style="list-style-type: none"> – Over-communicate with suppliers regarding orders, ability to meet delivery, forecast expectations. – Sales, Inventory and Operations Planning (SIOP) needs to be revisited. – Monitor all critical suppliers and their ability for continued supply, especially ingredients and packaging. – Begin alternative supplier planning — activate secondary supplier programs. – Evaluate and proactively resolve logistics and transportation delays. – Establish a supply chain “War Room” with focus on demand, production, capacity and delivery. – Prioritize customer delivery and service levels, if not able to fill all orders.
<p>Plant Operations</p>	<ul style="list-style-type: none"> – Adjust production scheduling for volume reduction in certain SKUs; maximize production of high-margin/demand items. – Increase capacity based on type of production and plant capabilities. – Develop production-line flexibility to support shift in customer mix. – Determine alternative uses for excess capacity. – Develop provisions for increased biosecurity of the food, ingredients and/or animals at every manufacturing plant. – Discuss with USDA/FDA Inspectors changes to inspection coverage.
<p>Workforce Planning</p>	<ul style="list-style-type: none"> – Develop rapid response teams to parachute into plants with high illness rates that threaten to slow down or shut down production. – Model and develop contingency plans for potential labor shortages in the plants. – Cross-train employees, since many will have periods of absenteeism. – Reimagine labor needs and secure, especially if seasonal labor is required.

Evaluate resource capabilities and capacity to implement the short-term imperatives

Adapting to changes with a high degree of speed and effectiveness will be a function of capabilities and capacity. Companies need to objectively determine whether internal resources are adequate to achieve their goals in the time frame required. Companies need a bias toward action and faster results rather than slow and steady. This market will move faster than anyone has ever experienced in their lifetime.

We are available to provide an external perspective and experienced resources to assist companies to adapt, change and succeed.



KEITH F. COOPER

Senior Managing Director
+1 404.460.6265
keith.cooper@fticonsulting.com

RICHARD KOTTMAYER

Managing Director
+1 404.460.6200
rich.kottmeyer@fticonsulting.com

JOE DESANTIS

Managing Director
+1 404.270.1441
joe.desantis@fticonsulting.com

BILL STOTZER

Managing Director
+1 312.428.2679
bill.stotzer@fticonsulting.com



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