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Retail learnings from the COVID-19 outbreak in Italy

COVID-19’s effects on shopper spend and sentiment, and the brand and retailer response

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A review of COVID’s spread in Italy

A timeline of the virus's spread in Italy

Italy is roughly three weeks further ahead in COVID's progress than the US and UK

January 31
First Confirmed case in Milan with two Chinese tourists from Hubei province leaving from Milan Malpensa Airport.

February 3
56 Italian citizens are evacuated from Wuhan by the Italian Airforce – one of the nationals was later found to be sick.

February 21
16 cases are confirmed in Northern Italy, in the provinces of Lombardy (14) and Veneto (2).

That same day, the Ministry of Health passes a mandate obligating anyone in contact with infected individuals to enter quarantine. At the same time, the regional government of Lombardy passes an ordinance suspending all public events.

February 22
The following day, the government introduces a new decree imposing isolation of 55,000 people in 11 northern municipalities in Lombardy.

February 25
With the daily spread of the virus, the government expands the health emergency into Emilia Romagna, Friuli Venezia Giulia, all of Lombardy, Veneto, Piedmont, and Liguria. Nearly all public events are cancelled and school closed.

March 1
The government expands "red zone" of quarantine beyond Lombardy and into surrounding northern regions.

March 4
The government shuts down all schools and universities, followed by the mandated closure of all athletic arenas.

March 9
Prime Minister Giuseppe Conte extends measures taken in the north to the rest of the country and decrees a stop to all nonessential services and commerce.

March 21
The Prime Minister announces new measures that include mandated home quarantine and restriction on most movement.

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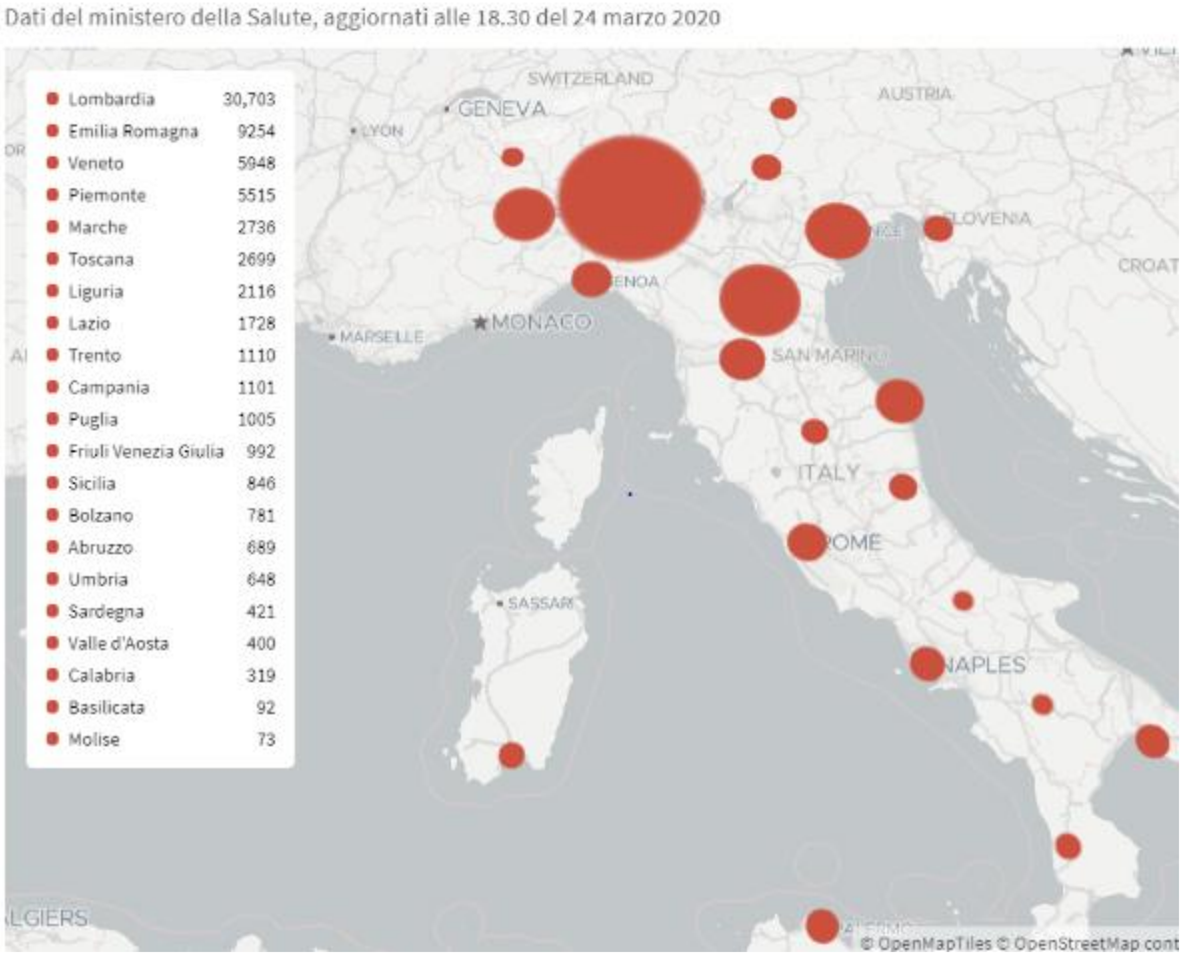
Source: ADNKronos, wired.it, Italian Ministry of Health

Tracking COVID’s geographic spread

- While the north (particularly Lombardy) has been hard hit, every region now has confirmed cases of the virus.
  - Neighbouring regions – Emila Romagna, Veneto, and Piemonte – are secondary epicentres for COVID-19.
- Regardless of province, Italians are mandated to remain inside and to leave home only for reasons of strict necessity.
  - Transport, public or private, is prohibited except for necessity relating to work or health.
  - Groups of any size are also prohibited.

Cases by region in Italy, as of March 24, 2020



Source: Italian Ministry of Health, La Repubblica

Italian society has entered quarantine…

Popular talk show Che Tempo Che Fa is now remote

#restateacasa ("remain at home") was trending globally on social media following the government's quarantine decrees

Milan, Italy’s economic engine, is now completely shut down

The city alone generates close to 10% of Italy’s national GDP

Source: RAI, milanotoday.it

How has shopping changed?

Signals on floor maintain distance, while employees are required to wear a mask and gloves, and work behind protective screens at check-out

Advisory signage on social distancing

As state of quarantine begins to affect mental states, the Ministry of Health is recommending Telehealth services

How might retailers in the US offer mental health solutions during COVID-19?

"Coronavirus emergency, services for psychological health in all regions"

Notizie

Emergenza coronavirus, i servizi di aiuto psicologico in tutte le regioni

Una mappa delle iniziative di teleassistenza psicologica a cui rivolgersi per affrontare un lutto o gestire ansia e stress da isolamento e da prolungata convivenza familiare tra le quattro mura di casa

Source: Salute.gov.it

The spread of the coronavirus, with no concrete indications as to when the crisis will end, has left both businesses' and shoppers' morale plummeting

Manufacturing confidence index

89.5 in March

vs. 98.8 in February

Business morale index

81.7 in March

vs. 97.8 in February

Consumer confidence index

101.0 in March

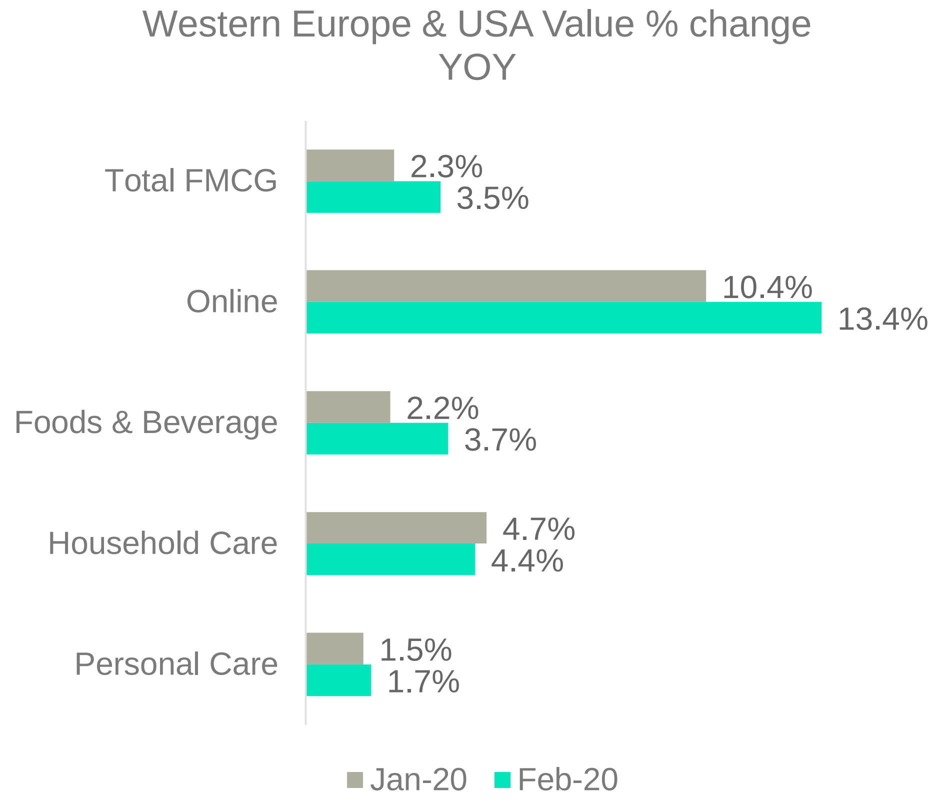
vs. 110.9 in February

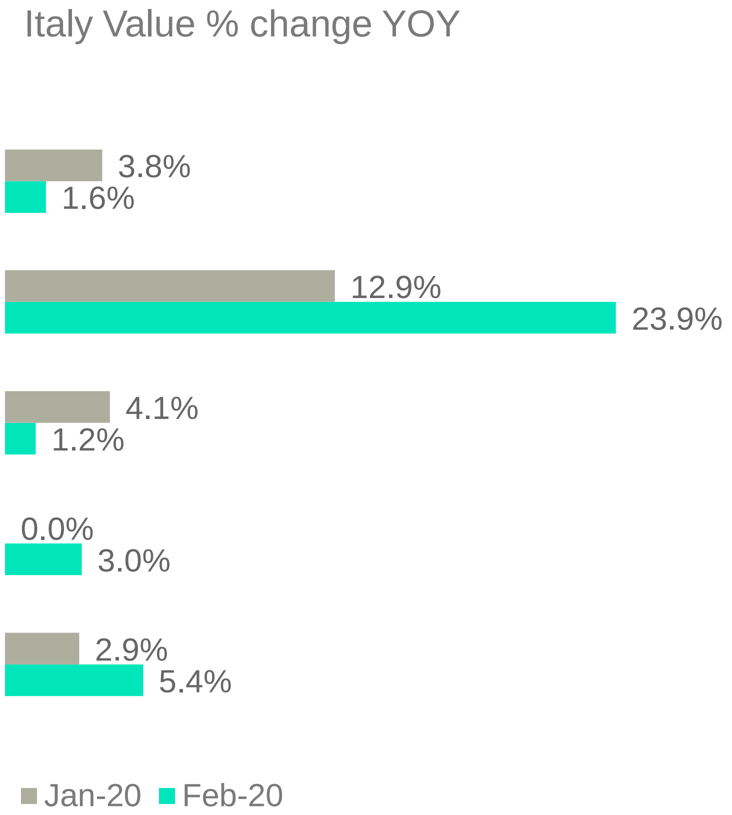
The composite business morale index (combining surveys from manufacturing, retail, construction and services) is the lowest since June 2013 according to ISTAT as all involved sectors' indeces dropped.

As far as the consumer confidence index is concerned, this value is the lowest since January 2015, and this value for March was generated in the beginning of the month before the very restrictive measures were imposed. This implies that we might be seeing the value nosediving even further as time passes and Italians spend even more time in complete lockdown.

2
How have Italian shoppers reacted?

Looking at the initial immediate impact of the pandemic even at the early days, there's notable growth in online shopping, as well as household and personal care as Italians started stockpiling those items





As Italy was one of the first European countries to be hit by COVID-19, and therefore quicker to switch to online, it outgrew the rest of Western Europe and the US on average.

This is particularly interesting given that eCommerce in Italy was still at emerging stage until now, with limited number of retailers having specific categories at their online offer.

Even more, due to infrastructural challenges, some areas of the country (especially in the South) couldn't be easily reached.

Retailers and brands have been trying to improve their capability to make their products accessible throughout Italy.

Source, Kantar, GfK and IRI for USA

Coop, the largest supermarket chain, released POS data between 2/24 and 3/8

Unsurprisingly, hand sanitizer saw the biggest increase; with group-based social interaction prohibited, beer and wine suffered notable declines; interestingly, snacks sales decreased despite Italians being stuck at home.

Hand sanitizer
+547%

Surface disinfectants
+197%

Hygienic wipes
+478%

Ethanol
+203%

Flour
+80%

Canned meat
+60%

Canned beans
+55%

Pasta
+51%

Bleach
+47%

Rice
+39%

Fish
Canned - **+26%**
Frozen - **+21%**

Wine
-20%

Soda
-10%

Beer
-7%

Snacks (baked goods)
-10%

Source: ilfattoalimentare.it

More broadly, Italian shoppers have moved beyond the initial panic of the COVID crisis and the associated stock-up trip. While still focused on maintaining stock for essentials, shoppers are also now prioritizing meal maintenance with the reality of daily meal preparation.

Week Ending 02/23/20	
Sector	
Rice & Cereals	26.7%
Fish/animal canned fd	25.1%
Pasta	19.2%
Cereal	17.5%
Tomato derivatives	17.1%
Fixed-Weight Meat	16.8%
Dressing & sauces	16.1%
Canned vegetables	15.9%
Prepared mix for meals	15.8%
Diet products	15.7%
Basic ingredients	15.5%
Champagne	12.8%
Fresh beverage	12.2%
Salami	11.0%
Milk & milk derivatives	10.8%

Week Ending 03/01/20	
Sector	
Rice & Cereals	56.6%
Fish/animal canned fd	46.4%
Basic ingredients	45.3%
Pasta	44.5%
Tomato derivatives	42.9%
Cereal	38.3%
Canned vegetables	32.7%
Prepared mix for meals	32.4%
Dressing & sauces	28.7%
Milk & milk derivatives	26.0%
Ethnic food	25.6%
Spices	24.9%
Other Drinks / preps	24.2%
Frozen Foods	21.7%
Fixed-Weight Meat	21.0%

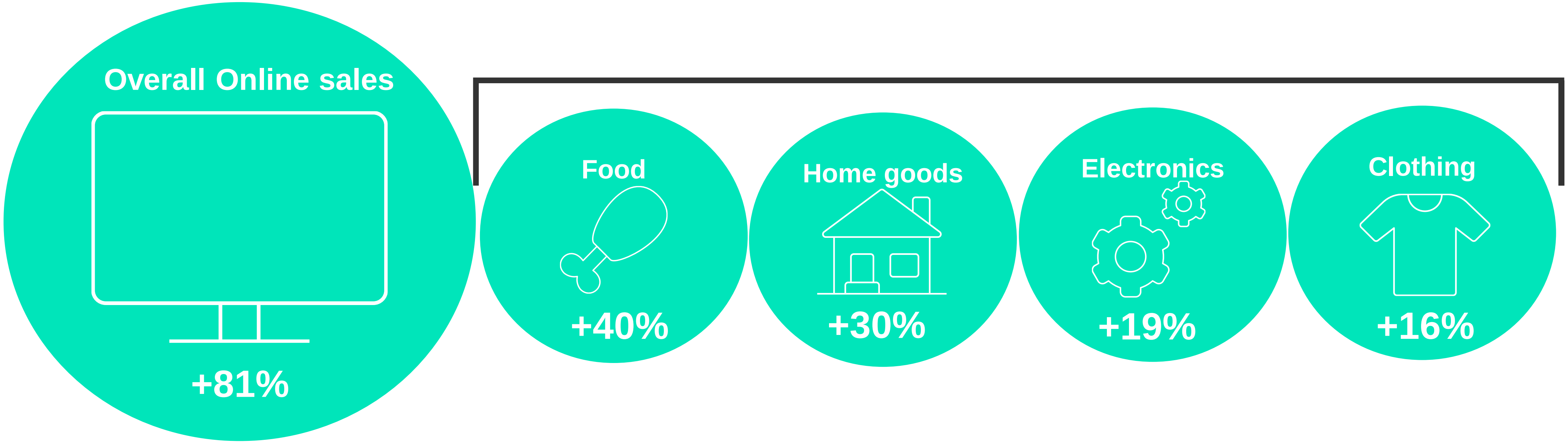
Week Ending 03/08/20	
Sector	
Basic ingredients	38.1%
Tomato derivatives	30.6%
Ethnic food	28.4%
Rice & Cereals	26.6%
Fixed-Weight Meat	24.1%
Dressing & sauces	22.8%
Pasta	22.1%
Fresh dressing	21.7%
Canned vegetables	21.7%
Spices	20.2%
Prepared mix for meals	20.0%
Cooked pork	19.8%
Cheese	19.2%
Fish/animal canned fd	18.5%
Eggs	18.1%

Source: IRI

As concerns over COVID grew and government introduced new restrictive measures, online sales experienced a boom

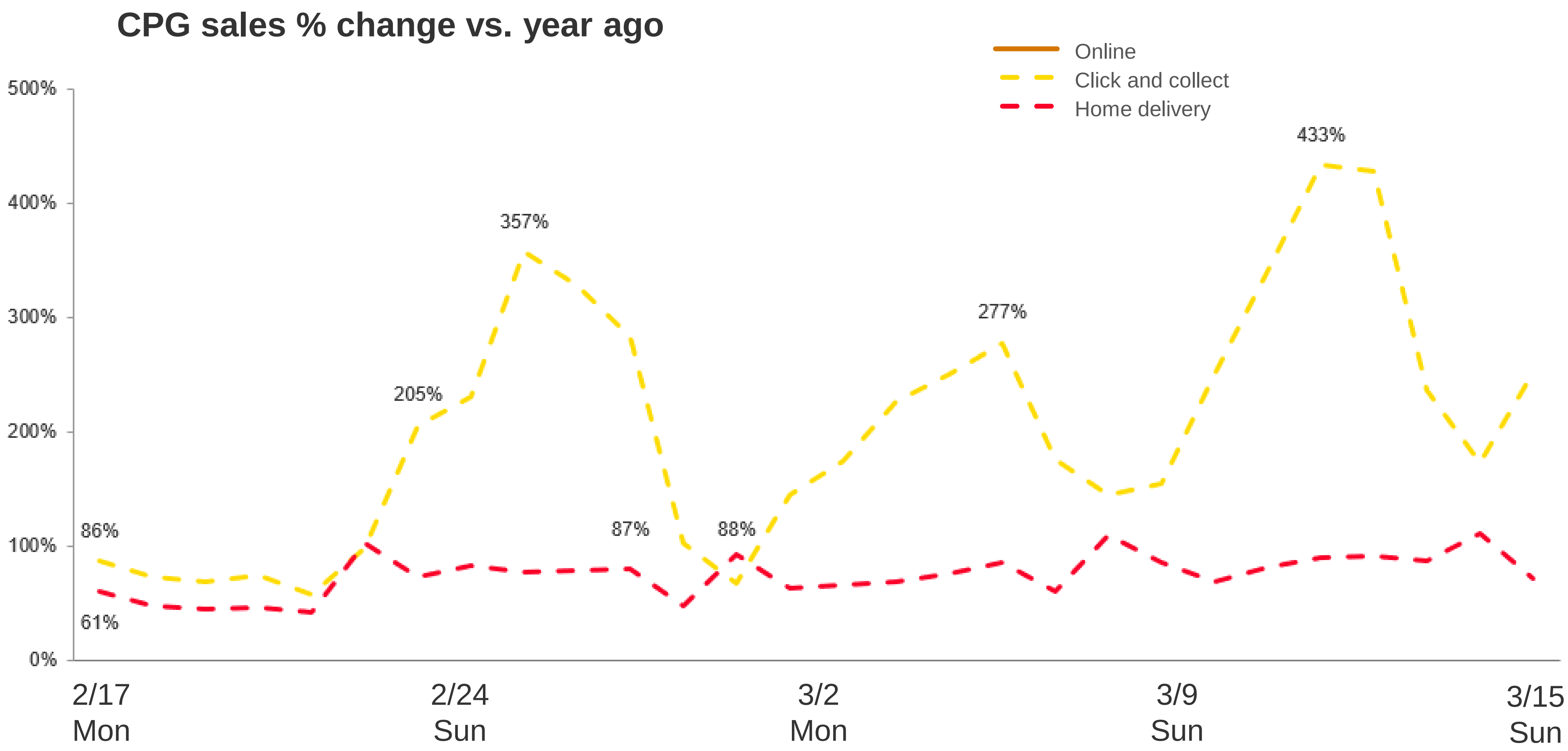
Use of click-and-collect is growing at an exponential rate

Sales between February 24 and March 1



As Italians adjust to new normal of quarantine, fulfillment services like online and click-and-collect are becoming more popular

How many of these habits will stick after the pandemic ends?



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Source: IRI

3
How are suppliers and retailers dealing with this disruption?

Supply chain is facing the biggest challenges as the spread of the pandemic globally is putting pressure on keeping shelves stocked

The initial panic buying phase that Italian shoppers went through, pushed retailers and suppliers to their limits. Retailers had to step up their communications to reassure consumers that there was sufficient inventory to maintain the country for at least 2 months if shoppers are buying normal amounts, and that supply chains would continue working with minimal impact.

As the country is settling in its new reality, s**uppliers are joining forces to ensure supermarket shelves continue to be stocked**. Federalimentare (leading manufacturer association) claims 75% of all raw materials are produced in the country and that sufficient imports of the remaining 25% are arriving to makeup the shortfall.

Scarcity is visible in some categories, especially those that Italy is a big exporter of, like pasta. With unprecedent demand for this stockpiling staple from the rest of Europe and beyond as more countries are being hit by COVID-19, Italian suppliers are struggling to keep up. However, as brands and retailers in the country are working together, essentials should not run low.

Beyond that, there are concerns around raw materials used for packaging of food and personal care products. Different government regulations around what products and industries are considered “essentials” during this time, dictate waiting times and costs in the shipment of these material. As the European Commission announced new guidelines for border management and introduced “green lanes” to ensure that EU-wide supply chains continue to operate, these issues are overcome and Italian manufacturing is regaining stability.

Source: Kantar, retailer websites

As the lockdown continues and consumer confidence decreases, retailers are adopting tactics to reassure shoppers

- As of Sunday 29/03, the government invited retailers to implement a further 10% discount for families facing difficulties across all their shopping needs. The three associations of the country's biggest retailers, Federdistribuzione, Ancc-Coop and Ancd-Conad have committed to that, and are required to absorb the costs and take a hit in their margins. Esselunga has increased the discount to 15%.

- Coop announced that it commits to no price increases for 2 months (ending May 31st). This includes all branded as well as private label products. The retailer explained that this would work both upstream (towards its suppliers) as well as downstream (towards shoppers) to protect both local producers and shoppers who are struggling.

- The same tactic has been adopted by Gruppo VéGé, the first and biggest modern distribution group in the country, representing 36 companies and over 3,500 retail outlets. Other retailers and cooperatives are gradually joining the initiative.

- Carrefour Express opened dedicated phone lines early on to connect senior shoppers to local stores for priority delivery. The service was originally available for 4 stores in Milan, through the end of April. Leader Price has also introduced this service.

- From the other side, brands and local producers are stepping in and acting as retailers through D2C. One such example is Coldiretti (the largest association supporting Italian agriculture) who organized delivery of food products directly from farmers. Similar initiatives are being observed in multiple regions of the country, as websites that offer home delivery for essential fresh produce directly from local producers, are emerging.

Source: Kantar, retailer websites

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Actionable insights

Actionable insights

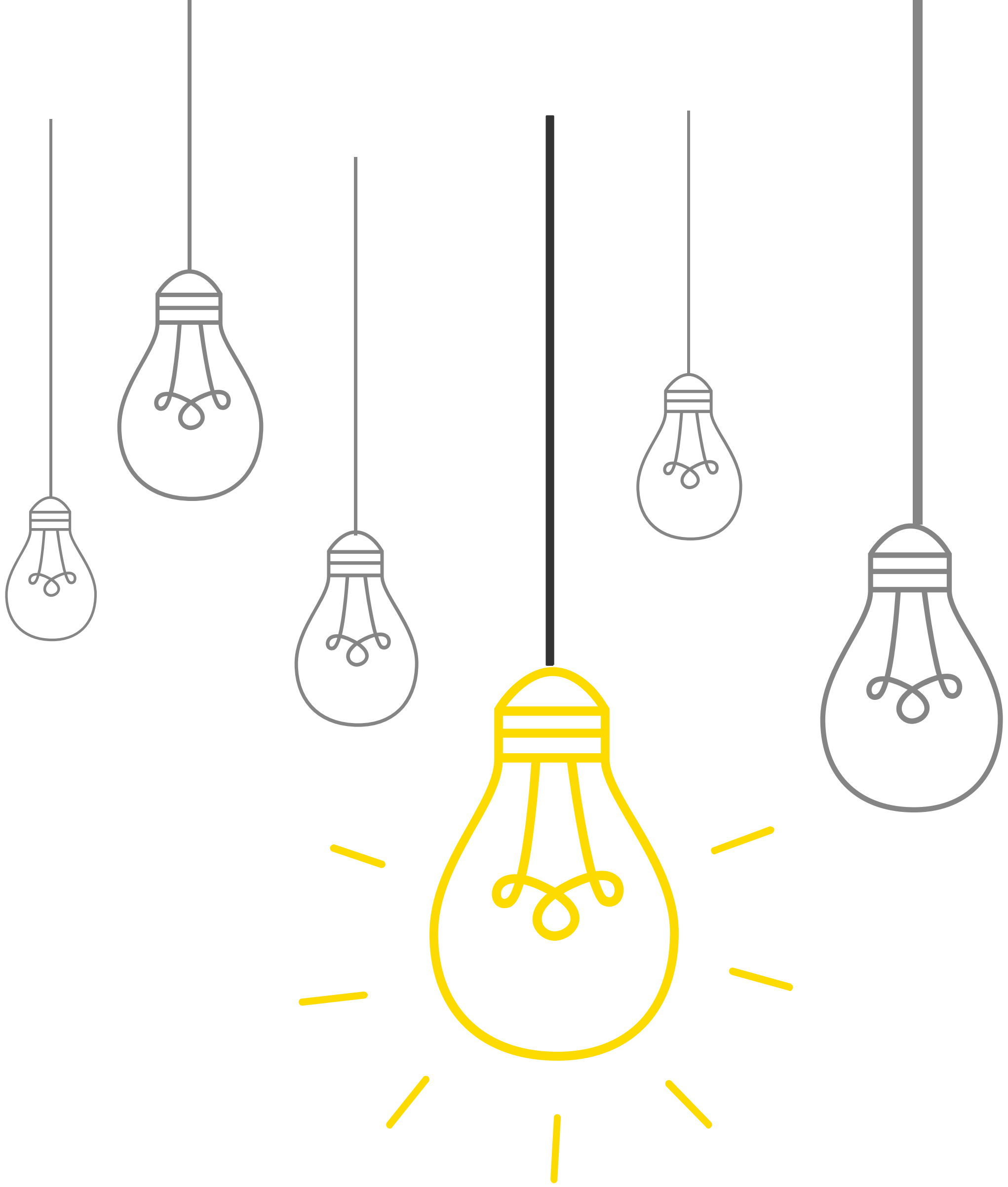
What can retailers and suppliers learn from Italy?

Prepare for shopper trips to change. As Italians have shifted from stock-up to meal maintenance, suppliers should expect and prepare for a similar shift as the rest of the world settles into quarantine and restructures their eating habits.

Expect an online boom. Online grocery has grown the most during the initial ecommerce boom in Italy. The challenge for suppliers and retailers will be maintaining inventory levels and ensuring that delivery is sanitary and satisfactory. Even after the COVID-19 emergency ends, many first-time online grocery users will likely continue to order online and rely on various forms of fulfillment.

Align with changing online habits. In the near term, whatever the near term is, what will be implications to more shopping moving online or click and collect? Specifically, think of how case configurations, packaging materials and packaging sizes could change.

Consider how the shelf may change. In Italy, smaller brands are already feeling the squeeze as retailers look to multi-national brands to support inventory. If retailers in other countries lean more on large multi-nationals given financial stability and supply chain expertise, what will happen to emerging DTC or regional brands at the "shelf"?

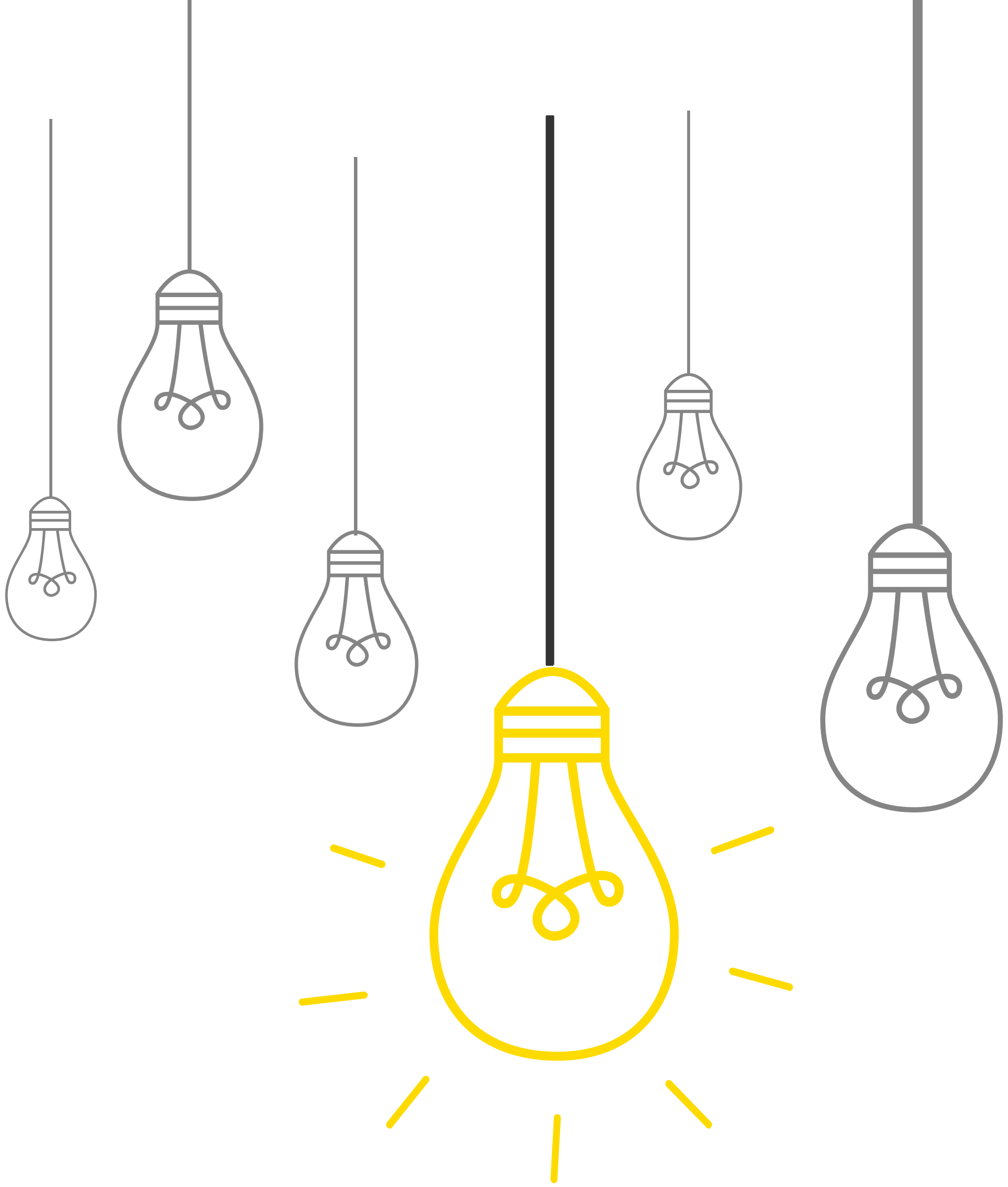


Actionable insights

What can retailers and suppliers learn from Italy?

Understand channel differences. For example, discounters are seen as facing huge OOS issues but this is because the stock big brands. In reality, discounters have very efficient supply chains and given their margin policies, are able to absorb price uplifts easily. Convenience stores are seeing a significant uplift, as people’s movements are limited and the local grocer becomes the preferred retailer to avoid crowds.

Be prepared for partnerships. Competition Authorities are relaxing measures to enable suppliers and retailers to work more closely, and retailers are finding service partners to better fulfill the needs of their communities. Understanding what’s applicable to your brand and finding the right partners, often by thinking outside the box, is key.



Source: Kantar

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