

VinIntell

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COVID-19: The New Tomorrow & Normal
Will it be Very Different?

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INTRODUCTION

The easy part about talking about our future today is that at least we can say with accuracy that the future will be different - *it isn't what it used to be*. There will be changes in a lesser or more severe degree in all spheres of life as we knew and know it, from learning to agriculture to social interaction to entertainment to manufacturing and communication. It is also true that in this different life we are moving to there where all will be normal again. On what the new world will look like there is a scale from dramatic change globally on the one end to mostly a return to life as we knew it at the other end. In between, there is a range of theories and arguments. We read statements like a reverse of globalisation and urbanisation and increased distance between countries and among people. Others say the world will be safer and more resilient, but also less prosperous, stable, and fulfilling. In an opinion piece on this new future, Mark Lilla said social distancing and wearing masks will be less disrupting than we fear. Much like the sudden disruption of September 11, which indeed brought lasting changes (think travelling), he argues that life will soon feel normal once more.

Not everything will, however, be fine. Economic hardship, joblessness and less human contact is our new reality. What will this new world become and how will this impact on retail, consumer patterns, consumer behaviours, supply chains and various sectors such as agriculture, health and technology? This VinIntell will attempt to provide a view of the post-COVID-19 life. (The VinIntell March 2020 edition highlighted issues when the virus struck.)

BACKGROUND

The coronavirus pandemic has certainly compelled us all, consumers, economists, politicians and policymakers included, to revise any forecasts for 2020. Little could anyone know at the start of 2020 how the year would turn out. The 2020 pandemic is a truly global crisis. Not since the Great Depression have both advanced and emerging economies faced a recession. Countries are in various stages of lockdown and others like China are experiencing a second lockdown. Questions prevail about when the pandemic will end or when we will face the next pandemic. Trends that were already evident before the pandemic have been accelerated. These include the growth of the digital economy, regionalisation of supply chains (or deglobalisation) and nationalism (*us first*). There has been a rise of digital behaviours, such as online shopping, remote working and learning, telemedicine and delivery

services. No economic sector is left untouched, although some like services were impacted more severely than others like agriculture.

From a consumer side, consumers will be less likely to rebound because this is a health crisis and consumers may change spending behaviour to minimise social interaction. Also, financial pressure and uncertainty can lead households to curb spending. This was evident in China, one of the early exiters from lockdown, the recovery of the services sector, such as hospitality and travel, struggle to regain demand and suffer from lost confidence and trust. Indeed, trust has been identified as the backbone of social and economic recovery. Wearing masks, staying away from one another physically, feeling insecure and hesitant, refraining from hugs and avoiding crowded spaces is severely affecting mental health and trust. Managing people's mental health will be a priority to get people to spend again. Safe spaces must be created for people to function in, e.g. public transport, shops, workspaces, theatres, restaurants and schools and universities. Unless people feel safe and secure to go out and enter spaces, they will not venture out as before.

ECONOMIC REALITY CONTEXT

Globally the COVID-19 pandemic has, with alarming speed, dealt a heavy blow to an already-weak global economy. The world is facing the deepest recession since the Second World War, despite robust policy support. According to the World Bank, the effects will be more felt by emerging markets and developing economies due to several factors. These include larger domestic outbreaks, weaker medical response, greater exposure to international spill overs through trade and tourism, weaker macroeconomic frameworks and more pervasive informality and poverty. The South African economy already was under severe strain before COVID-19 and some views say that after an initial period of low inflation and even lower interest rates by the Reserve Bank, the picture will deteriorate toward the latter part of 2021 with higher inflation, unemployment (now estimated to be 30%) and demand for credit.

Although the World Bank's Global Economic Prospects report for June 2020 expects South Africa's economy to contract by 7.1% in 2020, the biggest decline in a century, local economists are more pessimistic. Some expect the economy to contract by 10% in 2020 leading to 2 million job losses (for a total of 12 million unemployed people) in South Africa. The pessimism is fuelled by factors such as a lack of fiscal capacity of the tune of R2 trillion to support the economy. Tax revenue has declined sharply and businesses are closing. Driving through towns and cities this reality is evident by the boarded-up shops and restaurants. Small businesses are not very creditworthy, so banks are unlikely to assist and will have to come from government and private equity and an upswing in demand will not be soon. On a positive note, financial indicators point to stronger prospects of a recovery than real activity suggests. Despite the recent correction, the S&P 500 has recouped most of its losses since the start of the crisis; the FTSE emerging market index and Africa index are substantially improved and portfolio flows to emerging and developing economies have stabilised.

From a consumer viewpoint, the economic realities have heavily impacted on consumer behaviour. The focus is undoubtedly on preserving cash flow and minimising payments against existing debt and bills. A TransUnion survey based on a survey of 1 100 adults in South Africa at the end of May 2020 indicated that the proportion of consumers saying they are negatively affected by Covid-19 has increased to 84% from 75% in April 2020. A point of concern is that more consumers are making only partial payments on their debts and bills and are negotiating payment options with companies where they hold an account. Auto, personal loans and credit cards are the top three products for which consumers have these arrangements. The survey also indicates that consumers are delaying purchases because of the crisis with the top three items deferred being holidays, home improvements and

spending on education and insurance and paying premiums. Against this reality of sudden change in how we work, shop, socialise and exercise, what can realistically be expected in the retail space?

RETAILING REIMAGINED

Globally, the retail sector has been hard-hit by the pandemic and retailers that have been around for decades, are filing for bankruptcy protection, whilst others are closing their doors with no intention to reopen. Psychologically people are scared and careful to venture out with a virus that is everywhere despite the ease in lockdown. Weaker wage and salary growth and job losses weigh on retail sales of all segments of goods over the immediate and long term. With various factors impacting on consumer behaviour, including social distancing and fear, for now at least, shopping no longer has a recreational aspect, and a visit to shops and malls has all but become brief. Spending that used to be directed at events, restaurants and entertainment has been directed towards meals at home to the benefit of food retailers. Window-shopping no longer exists as before, and malls became places to avoid. Wearing masks and shield and standing on a safe distance from one another, we peek at one another with hesitancy and lack of visible emotion. We are sprayed and ordered about. We are no longer trying on clothes and cashiers sit behind Perspex barriers and are hesitant to have others touch our shopping cards or pack our purchases. The public announcer is on repeat: *“We are limiting the number of customers in our show at any given time. Please for your own safety, buy what you need and leave the shop.”*

How different and impactful is this new reality from previous times where customers were encouraged to linger and browse and spend time in malls and encouraged to buy products they did not intend to buy. Some of the activities that will probably see a longer-term fall in demand are shopping in malls, eating at restaurants and going to the movies. More people now like to stay at home and are cooking at home and more work from home. Nielsen research indicates that this trend is more evident in South Africa than the global average. Although shoppers are returning to malls and as shops have reopened, a back to the old normal is doubtful in the short term. In-store shopping and commercial real estate, the automotive industry and the hospitality industry continue to be most adversely affected. Some consumer staple businesses perform relatively well, especially those that sell essential products and those that have a strong export component to their earnings. Globally, consumer behaviour adopted during the Covid-19 period is likely to translate into more permanent long-term habits. What are some of the leading consumer trends we could expect in living with this (and perhaps other) pandemic (s)?

The move online

Hard lockdowns and the temporary ban on non-essential products and services have boosted online shopping volumes and other online activities such as learning, gaming and working. Despite perceptions that Africa lagged in terms of online behaviour, it has seen profound behaviour changes with significant increases in the use of social networking, online reading, listening to music and video streaming.ⁱ Adoption and expansion of online shopping is boosted by the development of technology infrastructure and adoption. Where previously fashion, travel and entertainment categories were the frontrunners for consumers to enter the online retail sphere where grocery categories, particularly packaged and fresh goods, were slow to gain traction, the lockdown accelerated adoption of online shopping for some of these categories. Nielsen’s consumer research indicates that nearly 40% of South Africans are shopping more online, including groceries and medicines. This trend has a high adverse impact on commercial properties, real estate, malls and the like. We might see more consolidation in the retail space especially retailers with physical shops that were already struggling to compete with online shopping.

Click, grab and go

Driven by consumers' need to shop faster and safer, retailers are adapting to accommodate long-term shifts in consumer expectations and habits. Some prolonged changes are already noticeable in in-store and online shopping behaviour such as click, collect and go, automated online subscriptions and personal shopping. Large retailers in South Africa are rolling out contactless, click and collect drive-through shopping services at their shops in a visible shift to move items to the grab and go scenario. Restaurants have a click and kerbside service and pharmacies do the same discouraging people to visit the store. Deliveries have boosted the courier industry. The safer, faster shopper also buys different products. Rather than purchasing a big-ticket item, shoppers will buy smaller, better known and cheaper items. Existing online retailers have also quickly shifted their existing product offering to supply essential goods, e.g. a large e-commerce gifting platform expanded its offering to now deliver fresh produce. At the same time, out-of-work Uber Eats drivers now deliver groceries for retailers.

Purposeful shopping

A combination of fear, regulation and shops' discouragement of in-store shopping means that as consumers are venturing out less frequent, they buy for longer and faster and they are more focused and purposeful in the shopping behaviour. Nielsen research revealed that lockdown restrictions have resulted in shoppers buying bigger baskets of essential goods, but shopping less frequently within a shorter timeframe and closer to homeⁱⁱ. The purposeful faster buying also translates in a boost for known brands and quality as people do not take time to browse and experiment, but rather stick to what is known and trusted. Nielsen comments that the path to recovery means that retailers (and by extension wine producers) have an opportunity to revisit brand relationships to confirm or restore valuable consumer trust in their brandⁱⁱⁱ.

Eating habits

Consumers have adapted and changed their eating behaviours. Besides the fact that preparing and eating meals at home became the norm, snacking has emerged as a behavioural pattern to capture some normality and comfort. Biscuits and groceries like baking powder, in particular, have become more popular as we see more activity in the home. This shift in snacking behaviour is not unexpected. Nielsen research found that South Africa is the second most price-sensitive country in the world. With the pandemic broadly bringing about a drop in disposable income through job losses, retrenchments, salary freezes or even cuts, it makes sense that snacking behaviour will alter accordingly – and impact both modern and traditional trade (Nielsen, 2019). Consumers will continue to home cook and eat and entertain as long as they feel insecure to venture out to places where people gather (such as restaurants) and as long as they experience financial pressure.

Restaurants will have to revisit layouts, seating arrangements, frequency of bookings within the short and long term Covid-19 stipulations.

SUPPLY CHAIN LOCALISES

More inward-looking behaviours, diversification of suppliers and bias for local suppliers even at a higher cost, are expected trends in the supply chain. How businesses view supply chains will indeed be among the most significant changes in Covid-19. Home-bias and fear of the unknown will increase as we perceive higher risks. The further away the threat is from us the lesser the perceived risk. Supply chains, at least for the immediate future, will be local rather than global. Investors are also likely to revert to more investing closer to home and the inability to perform proper due diligence because of an inability to travel has a role to play. The expanded more local and regional supply chains require

speed and security of delivery. Communication between suppliers and retailers sharing chain processes remain important. Retailers' migration from offline to online must be seamless and communication re potential stock outages and advising of delayed delivery timelines must be effective. Consumers and users should also have access to online navigation tools first-time user support to keep consumers online. The move online has meant retailers have had to boost their online capacity to match the increasing online shopper traffic and maintain their ability to fulfil the demand from consumers which includes timely secure delivery. Online catalogues are being revamped, adding more items, shaping up the delivery and exchange service and making sure the supply chain is optimised.

WINE IN THE REIMAGINED FUTURE

In the context of changing consumer behaviour, two factors are essential in the immediate future for the wine industry: Shopping behaviour (online shopping) and the wine glut that was created by the global lockdowns. The pandemic has severely impact on the South African wine industry. The closing of restaurants, the reopening of domestic wine sales only on Level 3 of the easing and the on again off ban on wine exports have had a devastating effect. Especially those with more on-trade exposure have suffered over a longer period. The Wine Economist said on-trade sales have come to a virtual standstill, but off-trade sales have taken off again in South Africa as have online sales. Countless producers have had to close and thousands of jobs have been lost, many permanently. The threat of more waves of Covid-19 means that it will be a while for the restaurant business to return to a scenario even remotely similar to the pre-lockdown period. Buying behaviours is also undoubtedly changed and on-trade sales, in particular, are likely to be slow to recover as bars and restaurants struggle to both safely and profitably serve customers. Of all the channels online and direct to customer channels will be the most lucrative going forward, according to Rabobank. The challenges will be to keep wines personal, especially in the virtual space.

Globally, the Wine Economist warns against a new wine glut in the short term. Australia and Chile depend on China to buy much of their wine and China's growth has slowed significantly. New Zealand looks mainly to the UK and US markets, which are in recession. Argentina and South Africa have large domestic markets, but sales were severely impacted due to lockdowns and economic problems. The wine stock (glut) is certain to impact on pricing and trade patterns in the immediate future at a time when wine-producing countries are still calculating the social and economic impact of the COVID-19 pandemic. Be careful not only to blame Covid-19 for the wine stock level.

CHANGED WORKPLACE AND BEHAVIOUR



Figure 1: Reimagined office space (photo Dezeen)

COVID-19 has radically changed the topography of a typical work environment and workday. Some economists argue this is the most significant workforce shift since women began working en masse during WWII. Whether this change is permanent or partially permanent is unknown. What is known is that the workplace will be different, at least for the short term, mainly to limit infections. The previous way of working is not fit for the future we now face. Besides social distancing in the workplace, the health issue is a

significant challenge facing employers and employees alike.

Employers will have to manage the health of the workforce, as well as their fears and hesitancy including testing, quarantining, sensitising sessions, occupational health, shifts, distancing, deciding who can work offsite, meetings and conferences. Unknown factors will be the impact on innovation, productivity and efficient work and customer care of offsite work / nonphysical teamwork. Fear of people working close to one another in an enclosed space is a significant driver of this trend. Cubicles will return in the open plan office space and workspaces will need to reduce densities, widen walkways and remove almost all shared areas. Dividers are erected between desks in large open-plan offices in the short term, and cubicles will be widely reintroduced in the longer term. COVID-19 also put hot-desking at risk due to the infection possibilities. Other infection control measures are touchless doors, elevator controls, toilet partition doors and light switches will become more common.

The boost in online life and work, and the growing experience of staying connected without physically being with one another has given prominence to a hybrid model of work. Some companies have forgone office totally as remote work has taken off and office centrality is less important (at least for the time being) and in some cases permanently. Work schedules are also being revisited, e.g. shorter workweeks and going to the office only when you need to. Although we may venture out again, it is unlikely that the workday is going to snap back to the way it was pre-pandemic and smart (digital) technology will continue to play a decisive role in the workplace of the future. Examples of such technologies at work include Ford is trialling the use of Samsung smart watches which alert employees if they are too close to each other for an extended period.

The hybrid model of work necessitates a new approach to planning, organising and communicating from an employer perspective. Employees, on the other hand, have the opportunity to develop behavioural skills such as independence and assertiveness, as well as improve IT and social media skills.

HEALTH AND WELLBEING



Figure 2: Rise of telemedicine (Photo credit: The Medical Futurist)

A safe and affordable vaccine will become available for COVID-19, but until then it is up to us to take care of our personal health. There will be a rise in telemedicine and the use of digital technologies in self-care, diagnoses and interacting with health professionals. Health also extends to our eating habits and healthy lifestyles and people will be inclined to spend on products and services that guarantee hygiene standards. Food safety and healthy foods and health products will become paramount to consumers (Nielsen, 2020)^{iv}. There is a

high probability that even in a new business as usual scenario, a renewed consciousness about health, will prevail for some time.

CONCLUSION

The COVID-19 pandemic has undoubtedly ended one normal and is revealing a new normal. This new normal is a change from how we lived and worked and is significant and long-term in some respects, e.g. online behaviour and mild or short-term in others, e.g. certain consumer behaviour. This unusual usual will probably to prevail for quite some time; at least until a vaccine is on the market. Yet after that, the fear of equally destructive diseases lurking in the not too distant future will affect our insecurity and resultant behaviours. While certain old practices will prevail, a new future will demand of and enforce on us more radical adjustment of life and work as we knew it.

Longer-term and beyond the current steep economic contraction, the pandemic is likely to leave lasting scars on the global economy. These scars are mainly related to the consumer and investor confidence, human capital and supply chains. The recovery of industry sectors will vary from those that have the least impact like food retail to those that have the largest fall-out like air travel, tourism and arts.^v Depending on strategies adopted, economies could emerge from this crisis more robust and better prepared for the future. In this different life we are moving to, there will be normal again.

Finally, the pandemic has undoubtedly accelerated trends that were already present, such as the move to online shopping localised supply chains and the wide adoption of digital technologies like artificial intelligence. This momentum is set to last.

ⁱ Webinar on findings of Nielsen Covid-19 syndicated online survey in over 70 countries across the globe. <https://www.bizcommunity.africa/Article/410/168/204416.html>

ⁱⁱ Bid..

ⁱⁱⁱ Nielsen, 2020. Covid-19: Tracking the impact on FMCG, retail and media. <https://www.nielsen.com/us/en/insights/article/2020/covid-19-tracking-the-impact-on-fmcg-and-retail/>

^{iv} Nielsen, 2020. Covid-19: Tracking the impact on FMCG, retail and media. <https://www.nielsen.com/us/en/insights/article/2020/covid-19-tracking-the-impact-on-fmcg-and-retail/>

^v McKinsey, 2020. Navigating the post-COVID-19 era: A strategic framework for European recovery.

www.mckinsey.com/industries/public-sector/our-insights/navigating-the-post-covid-19-era-a-strategic-framework-for-european-recovery

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