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SHOPPING AND EATING HABITS POST COVID-19: WHAT CHANGED, WHAT REMAINS?

New habits and the COVID-19 pandemic drive a shift in consumer markets

Study series Future Cities 4

SUMMARY

THE GOAL

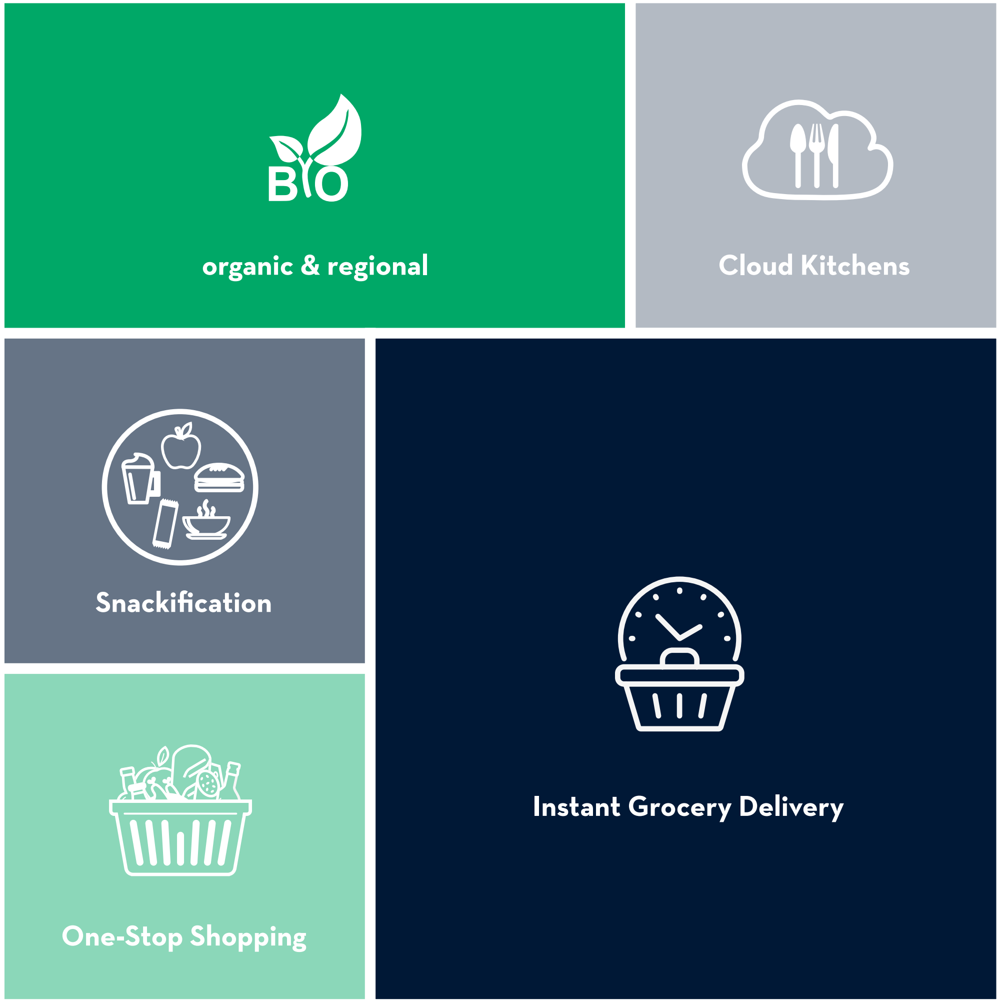
1. One third of German employees currently work from home instead of from the office. According to several surveys, this proportion will only fall slightly after the end of the pandemic. In addition to less eating out, this leads to an increased relevance of healthy and balanced nutrition.

2. Retailers and restaurateurs are taking up this change, developing new products and business models and exploiting synergies between delivery concepts and stationary business in inner city locations.

3. The use of digital channels will be of paramount importance for retailers and restaurateurs even after the pandemic and will open up new markets. Digital analytics tools can analyse customer behaviour, and optimise pricing and operational costs.

4. The examples shown in this study cannot be applied to every business model, they rather serve as inspiration in answering the questions: How can we outperform our competition? How do we express this?

5 DIRECTIONS FOR CHANGING CONSUMER BEHAVIOUR



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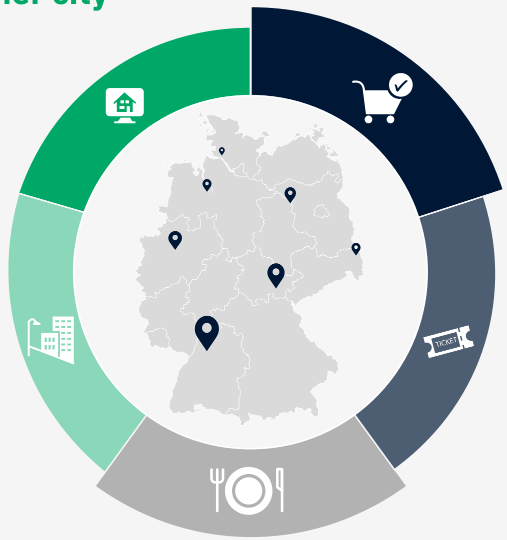
ABOUT FTI-ANDERSCH: FTI-Andersch is the leading restructuring consultancy in the German-speaking region. FTI-Andersch supports its clients in the development and implementation of sustainable future/performance and restructuring concepts. FTI-Andersch becomes active in situations in which companies have to deal with operational or financial challenges – or even well before that, in order to align business model, organisation and processes for the future at an early stage. A special focus is the preparation of independent decision-making bases for intended (re-)financing.

The client base comprises SMEs as well as corporations with international activities. FTI-Andersch is part of the global FTI Consulting Group (NYSE: FCN) with more than 5,500 employees.

1 RELEVANCE FOR GERMAN CITY CENTRES

Ecosystem inner city

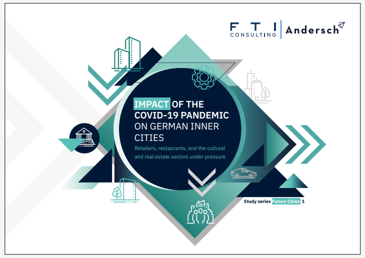


As Part 1 of our Future Cities series points out, German city centres are suffering under the consequences of the COVID-19 pandemic. Lower visitor numbers and the lockdowns have hit many players in the inner city „ecosystem" hard, including restaurateurs and retailers. In some areas, the pandemic is acting as an accelerant for previously smouldering developments.

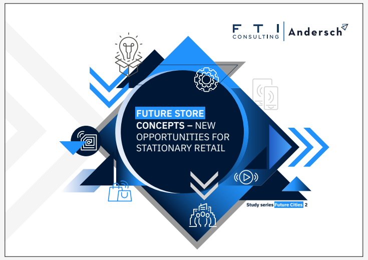
Before the start of the COVID-19 pandemic, ever larger parts of the city centre were related to food, while stationary non-food retail in particular had to contend with declining visitor frequencies. Following the motto „food is the new retail", space operators and landlords further encouraged this trend. In addition to the change from prime to secondary retail location, today delivery concepts of gastronomy and food retail contribute to a change in the use of space in inner city peripheral locations.

In this issue of our „Future Cities" series, we show the impact of changes in nutrition, consumption and shopping behaviour on restaurants and food retailers. These changes not only have consequences for city centres, but also implications for the beginning of the food value chain. Therefore, we also shed light on food producers, among others, and formulate recommendations for actions based on the developments shown.

Future Cities - back issues



Read Part 1: Impact of the COVID-19 pandemic on German city centres



Part 2: Store concepts of the future - new opportunities for the stationary retail trade

Part 3: Business model transformation in stationary retailing

Based on the trends, the following questions arise:

- What new requirements arise for the food value chain as a result of changes in dietary behaviour?
  - How can restaurateurs use the change in consumer behaviour as an opportunity?
  - What structural adjustments can food retailers make to better meet customer demands?

2 OVERVIEW

Cooking and eating habits

» Approximately one third of all German employees work from home instead of from the office in Mai 2021. This change means that a large proportion of Germans now no longer eat out, but more often prepare meals themselves at home. In addition, increasing attention is being paid to a healthy and balanced nutrition.

» The focus in the selection of the right food is changing significantly as a result. The consumption of meat and beer in Germany is declining, organic products will increase sales to around 22% compared to the previous year. Consumers are increasingly focusing on values such as sustainability and regionality and expect food producers to increase transparency in the value chain, among other things.

Out-of-home consumption

» Sales of the hospitality industry recorded a decline of 39 % in the year 2020 as a result of social restrictions. Future hygiene and distance rules are expected to continue to be a major obstacle to presenting the image of gastronomy of enjoyment and comfort.

» In addition, the construction of so-called „Cloud Kitchens“, which are specifically designed only for the delivery of meals by meal delivery services, allows restaurateurs to move from busy, expensive inner city locations with cost-intensive service staff to low-cost industrial areas with lower factor costs.

» The use of digital channels is of eminent importance for restaurateurs even after the pandemic. Digital analytics tools help to analyse customer behaviour and social media ensures an increase in reach.

Purchasing behaviour

» Food retailing enjoyed a record year in 2020. However, a closer look reveals that discounters, drugstores and small convenience stores close to city centres benefited less than average compared to full-range food retailers. Consumers are increasingly looking for a comprehensive and deep product range (one-stop shopping) with a focus on sustainability, regionality and the possibility of a digital offer.

» Expanding the level of digitalization at inner city as well as rural branches is becoming increasingly important to accommodate customers‘ newly learned digital skills during the crisis.

3 INITIAL SITUATION

Store and restaurant closures, the shift to home office work and reduced incomes have led to widespread changes in consumer attitudes and behaviour. In Germany, one observes significant shifts in shopping habits as well as in the products one buys and consumes. Inner cities have been massively affected by these changes. In March 2020, the COVID-19 pandemic led to selectively empty supermarket shelves for products such as flour, canned goods and toilet paper. However, according to the German Federal Statistical Office, consumer buying behaviour returned to normal in May 2020 and sales of these products are currently back at a normal level. Supply bottlenecks in food retailing and hoarding, as was the case at the beginning of the pandemic, are therefore no longer an issue. Nevertheless, the ongoing strains of the first, second and third lockdowns are having an impact on people's needs and fears as well as on their shopping, eating and cooking behaviour. The effects on the individual value-added stages of the agri-food industry are manifolding and some, such as the focus on organic farming and regionality, are lasting. The slump in sales in the catering and retail sectors are leading to acute liquidity bottlenecks, which, despite the implementation of new concepts such as Click&Collect are threatening the very existence of the industry. As a result of the restrictions of the lockdown and the socio-economic and socio-cultural changes, a new awareness of food - and of the work of those who produce it - has emerged. In the short term, however, not all stages of the value chain have been able to benefit from this trend, e.g. farmers through a collapse in producer prices. Freshness, quality and sustainability are playing an increasing role in food choices, which is why sectors such as food service and meat are facing profound changes in their business models. This document shows how the COVID-19 pandemic is changing the everyday life of Germans and their purchasing behaviour, which effects are temporary, and which will remain. In the areas of cooking and eating behaviour, out-of-home consumption as well as shopping behaviour, the long-term changes are shown, which will remain even after the COVID-19 pandemic.

The food retail sector achieved record sales of € 139.4 bn in 2020 while German farmers had to complain about a drop in producer prices of -9.1% within one year.

1 COOKING AND EATING HABITS

30% of German employees worked from home in May 2021. This circumstance leads to people spending more time at home, which inevitably affects eating habits. According to the BMEL nutrition report, 30% of consumers in the COVID-19 pandemic are more likely to prepare their own meals than before. Similarly, sharing meals with the family has also become more important, not just out of necessity, for example because restaurants, canteens and day-care centres had closed, but quite consciously. The change in cooking behaviour has also had an impact on eating habits. Consumers have been eating more consciously and healthier since the beginning of the crisis. During the lockdown, the vast majority recognised the value of a vital and sustainable diet for their own health. This healthier lifestyle, together with the social restrictions, has led to above-average sales of fresh fruit and vegetables in food retail for 2020 of +16.0% compared to 2019. In addition, the shift in alcohol consumption from out of home to in-home has led to significant sales increases in food retail. While wine as well as gin, vodka and whisky are benefiting more than above average from the increased trend towards higher-quality offers, consumers are spending comparatively less sparkling wine and beer due to the lack of social events and the absence of events.

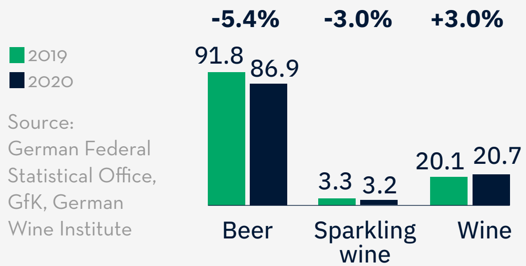
FOOD RETAIL

Sales development for selected products in food retail in 2020 compared to 2019 (in percent)

Fruit/vegetables	+16.0%
Bread/baked goods	+9.1%
Confectionery	+11.3%
Dairy products	+9.9%
Non-alcoholic beverages	+6.8%
Alcoholic beverages	+15.1%
Turnover food retail in total	**+12.3%**

Beverage industry

Per capita consumption of selected alcoholic beverages in 2020 vs. previous year (in liters)



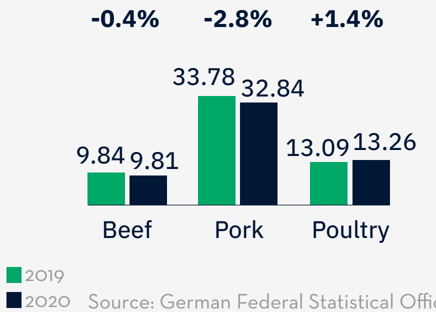
Source: German Federal Statistical Office, GfK, German Wine Institute

Declining sales for breweries and producers of sparkling wines in the wake of the absence of major social events

Wine as well as selected spirits such as gin, whisky and vodka benefit from a higher quality offer

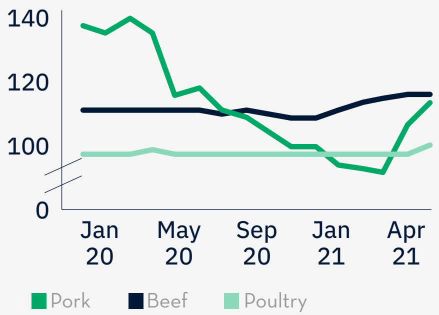
Meat industry

Change in consumption of selected types of meat compared to previous year (in kg/capita)

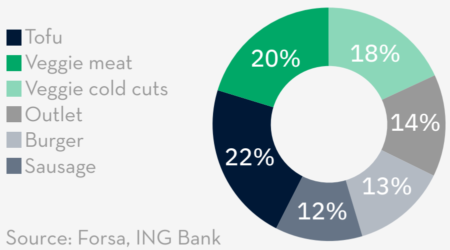


Source: German Federal Statistical Office

Development of producer prices for beef, poultry and pork (2015=100)

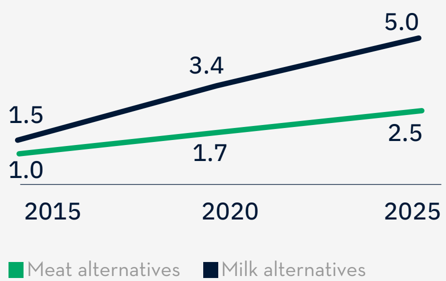


Which vegetarian or vegan substitute products have you already purchased? (N=1000; multiple answers possible; as of January 2021)



Source: Forsa, ING Bank

Sales of milk and meat alternatives in the EU and Great Britain (in € billion)



In addition, reports on working conditions in the meat processing industry, among other things, led to a significant increase in sales of meat substitutes. Generations Y and Z in particular are more open-minded and buy these products primarily due to curiosity, animal welfare concerns, climate protection or taste.

This trend even led the leasing sausage producer “Rügenwalder Mühle” to sell more meat substitute products than products of animal origin for the first time in 2020.

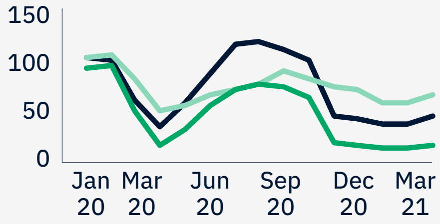
Traditional companies in the meat industry are therefore increasingly suffering from the changed market conditions. In 2020, per capita meat consumption of 57.3 kilograms per person is the lowest since record-keeping began in 1989. Pork producers in particular have been suffering since the outbreak of the pandemic due to the loss of sales opportunities and the outbreak of African swine fever. In addition, producer prices for pork in April 2021 decreased by 14.3% compared to the same month last year.

❷ OUT-OF-HOME CONSUMPTION

The temporary closure of a large part of the restaurant business led to a significant decline in sales. According to a survey of the University of Göttingen, only a third of all interviewed people visited a restaurant. Reasons for this are the requirement to wear a mask, the obligation to provide personal address data and the fact that that one has become accustomed not to go out. A visit to the gastronomy is increasingly characterized by hygiene and distance rules and does not correspond to the image of gastronomy of enjoyment, comfort and celebration. This poses a major danger to restaurateurs and business owners if society does not want to give up its new habits. In addition, restaurants without outdoor facilities have a lower frequency of visitors due to health concerns. This was a major disadvantage, especially in the colder winter months. To make up for the losses incurred during the crisis, many companies have decided to join a delivery service app. However, with a required commission of up to 30%, this is not a step in the direction of a digitized menu offer, but on the contrary leads to the generation of dependencies. In return, online delivery services are the big winners of the crisis, gaining market share, especially among high-income families in rural areas.

Hospitaly Industry

Hospitality industry sales from January 2020 to March 2021 by selected industry (2015=100)

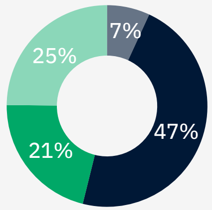


Source: Federal Statistical Office

Change in revenue development 2020 compared to previous year (in %)

Industries	Nominal	Real
Food-oriented gastronomy	-30.0%	-33.5%
Beverage oriented Gastronomy	-48.5%	-51.3%
Caterer	-32.7%	-34.2%

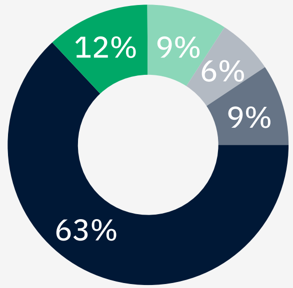
Would you still order food for delivery and pickup after restrictions are loosened? (N=1000; as of January 2021)



- Yes, because of the restaurant experience at home
- Yes, because of the quality delivered home
- Yes, because of health concerns at the restaurant
- No, I'm missing the hospitality from the restaurant

Source: Lightspeed

What type of dining establishment would you visit first after lockdown? (N=1000; as of January 2021)



- Restaurant
- Cafe
- Upscale gastronomy
- Bar
- Other

Source: Lightspeed

3 PURCHASING BEHAVIOUR

Profiteers

Full-range food retailer

According to calculations by the Institute for the German Economy, every German spent an average of around € 1,250 less on private consumption in 2020, partly due to a loss of income. This trend is likely to continue in 2021 because of the ongoing restrictions and economic turmoil. Nevertheless, it was not the price-conscious discount stores (+8.8%) that benefited above average in the food retail trade in 2020, but the full-range food retailers (+16.7%). This is due to the wide and deep assortment of the full-range food retailers which means that consumers can do their shopping in a time-saving manner and purchase something special for home as a substitute for missed restaurant visits. Butchers, bakeries as well as weekly and beverage markets were even able to record a stronger increase in sales than the food retailer since customers feel safer in smaller shops with access restrictions as well as in the open air than in the often-cramped spaces of the food retailer, especially in times of a potential risk of infection. In addition, the specialty shops also offer fresh and special foods.
According to a study by the University of Göttingen, consumers want to support the local grocery trade and also buy there again, in particular to check the quality of the products themselves. For Generation Y and Z in particular, the COVID-19 pandemic and the Lockdown have set in motion an intensified thinking about nutrition. The result is reflected in rising preferences for freshness, sustainability and regionality. Trade and manufacturer brands with a clearly sustainable orientation as well as with a clear value compass, which stand for regionality and freshness, show a high-growth dynamic. This is due to the fact that the younger generations see themselves not only as consumers, but also as active players in the effort to create a better world.

Preferences

Freshness, sustainability and regionality

In particular, the majority of young consumers attribute this to reasons of health, environmental benefit or the feeling of doing something good. This trend is not of short-term duration, but stems from societal upheavals, which are intensified by the COVID-19 pandemic, regardless of the economic situation. This means that in the future consumers will pay more attention to regionality, packaging and freshness, so that it will be important for retailers to offer brands that convey values such as reliability, truthfulness and coherence to the customer.

4 WHAT TO DO?

Trend

Snackification
Relevant for food production, food retailing and gastronomy

Current challenge

- Less, but more often. The return to a millennia-old dietary habit has practical and health reasons for many.
- These reasons include increased flexibility (e.g. due to the home office) and the simple need to cope with a day characterised by many tasks in different places.
- The move away from the classic three meals plan to several meals spread throughout the day is healthier for consumers and forces food producers, retailers and restaurateurs to change their offerings.

Traditional meal sequence

Breakfast 7–9 am » Snack 11 am » Lunch noon–2 pm » Snack 3 pm » Dinner 5–7 pm

Snackification

Meal 1 8 am » Meal 2 11 am » Meal 3 2 pm » Meal 4 4 pm » Meal 5 8 pm

What is to be done?

- Food producers will be able to offer even more snacks than before, i.e. smaller packaging sizes with fresh, innovative contents. Healthy food is replacing junk food. Listing in the various sales channels will thus become even more important for producers.
- Food retailers can also take advantage of the trend towards expanding their product range and marketing high-margin products in the private label sector.
- Restaurateurs have to adapt their offers in order to position themselves also in the area of snacks and to limit the migration to food retail and other outlets.

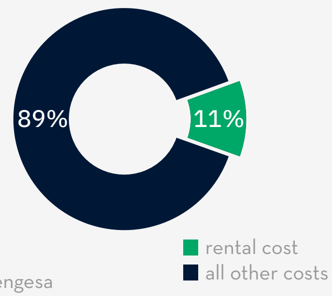
Trend

Cloud Kitchen
Relevant for gastronomy

Current challenge

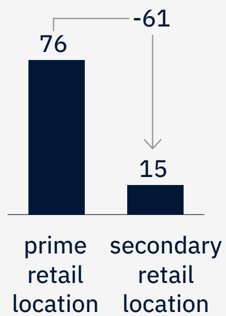
- Cloud kitchen, i.e. restaurants without a customer area, have been in vogue for several years, especially in large cities.
- The space and personnel cost advantage due to central non-city locations and the benefit of not providing personal service to customers will be economically interesting for many restaurateurs even after the pandemic.
- In addition, delivery services were able to attract and retain new customer groups during the pandemic.
- The trend is also supported by an increased willingness on the part of customers to pay for high-quality, and thus usually high-margin, delivered food.

Indicative share of rental costs in turnover in the catering industry



Source: bulwiengesa

€/sqm rent in retail in Germany total in 2020



What is to be done?

- The establishment of Cloud kitchens is of particular economic interest for chain restaurants with an already high proportion of deliveries in city centre locations.
- The analysis of the changing cost structure at constant sales volume is decisive for the economic consideration.
- In the medium term, the establishment of Cloud kitchens for various catering businesses is to be expected, especially in large cities. This will turn the gastronomy concept into a location-independent brand while simultaneously reducing production costs. Platform providers will be able to leverage synergies and build up significant market power.

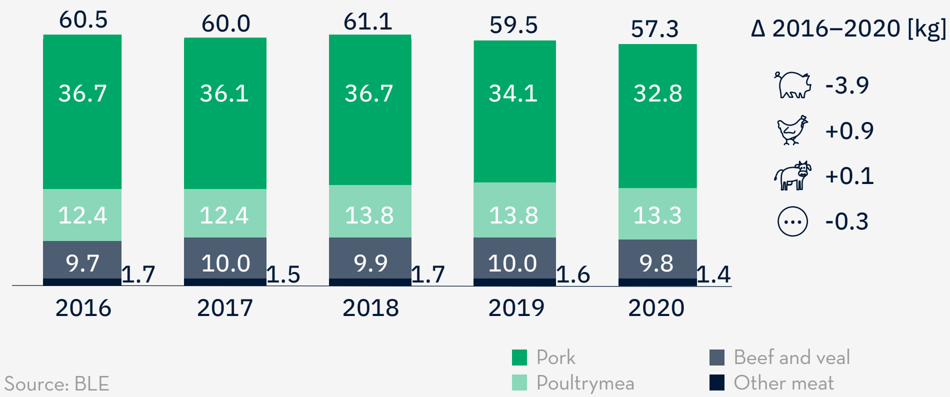
Trend

Organic & Regional
Relevant for food production, food retailing and gastronomy

Current challenge

- The COVID-19 pandemic led consumers to become more concerned with the food they purchase, in part through more frequent cooking.
- More and more often, the following applies: organic and regional food are compulsory, local is the highlight. Consumers want to know where their food comes from and increasingly make their purchasing decisions dependent on this.
- In addition, a further increase in health awareness as well as a partly significant decline in meat consumption in favour of alternative products have having an impact on the value chains.

Development of annual per capita meat consumption in Germany (human consumption) in kg



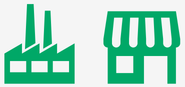
Source: BLE

What is to be done?

- Due to the increased need for transparency, producers and traders will have to invest even more in the traceability of their supply chains and expand existing quality management systems. In contrast, restaurateurs, who have so far only been marginally exposed to this need for transparency, will be able to offer the new, required transparency comparatively easily, as they are at the end of the value chain and are not affected by margin pressure to the same extent as the traders.
- Food producers are forced to continue converting their production to organic despite enormous cost burdens and to develop meat substitutes, which have experienced a real boom in recent years.

Trend

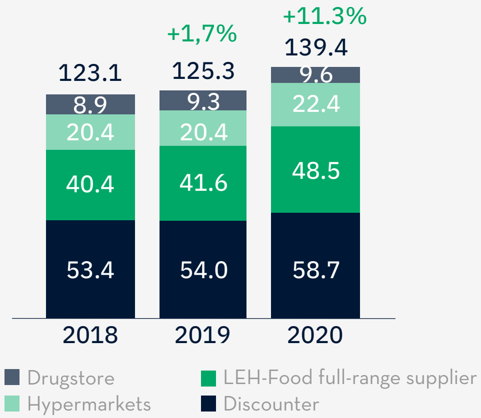
One-Stop Shop
Relevant for food production and food retailing



Current challenge

- Full-range food retailers were able to benefit more than average from the COVID-19 pandemic due to the possibility for customers to complete all their errands in one purchase.
- After the pandemic, it is above all the convenience advantage and the deeper product range that can bring added value for customers and retain them.
- Due to the lack of frequency, established convenience shops such as „Rewe to go“ came under pressure during the COVID-19 pandemic. This effect will be reversed by revitalized city centers and the advancing snackification.

Distribution channel share in food retail 2018-2020 (in € billion; excl)



Change in food retail sales in January-March 2021 vs. previous year (in %)

Source: GfK

What is to be done?

- The newly acquired customer groups represent a great potential for the full-range retailers. The focus must now be on continuing to convince these customers of the advantages. The strong focus on sustainability, regionality and locality helps. These approaches also support differentiation from the rapidly expanding food delivery services.
- The days of "hard discounting“ are over: The expansion of the discount range, which began years ago, must continue in order to keep pace with the full-range retailers. The threat of profile dilution and rising complexity costs can only be offset by further growth and efficient processes.

Trend

Instant Grocery Delivery
Relevant for food production and food retailing

Current challenge

- The delivery of groceries have skyrocketed since the COVID-19 pandemic began.
- Customers see the advantages of grocery deliveries, especially for convenience reasons and would like to keep them even after the pandemic.
- However, usual lead times of 2-3 days require customers to plan their purchases in advance and have a deterrent effect after the end of the COVID-19 pandemic.
- Customers want more spontaneity, i. e. deliveries at short notice and flexibility of delivery times.

Delivery promise: Maximum 10 minutes
Delivery area: City centre of the largest German cities
Logistics concept: Several small warehouses in good locations; delivery by bicycle couriers
Assortment: Comparable to a well-stocked kiosk or supermarket
Prices: Currently competitive with food retailers

What is to be done?

- Food delivery services must drastically shorten their response times while their market is changing from a supply market to a demand market. This is the only way to maintain and expand market share and to take advantage of the effects of the COVID-19 pandemic.
- This includes, in particular, the profitable development of a delivery infrastructure, i.e. locations and vehicles in city centre locations. It is also helpful to build networks and alliances with logistics providers and wholesalers.
- In addition to the response time, the product range must be successively expanded so that migration to the classic offline segment becomes uninteresting and irrelevant for customers.

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What happens next

Changing consumer habits and the associated structural change in the retail sector are also triggering processes of change in the commercial real estate market, which have recently been accelerated by the COVID-19 pandemic. Landlords are experiencing lower demand for retail space as a result of insolvencies and the reduction of store networks and are reacting with rent concessions, turnover rents or expensive reallocation measures. Landlords of hotel and office properties are also feeling the effects of the COVID-19 pandemic: Travel and contact restrictions have led to declines in demand in the hotel industry (cancellation of physical trade fairs and meetings, restricted tourism) and in the use of office properties (home office as the new normal). The next volume in the Future Cities series analyses current trends in the market for retail, hotel and office real estate and shows the challenges facing investors and financiers of commercial real estate.

Sources: Federal Ministry of Food and Agriculture, Bundesverband E-Commerce und Versandhandel Deutschland e.V., Comite Europeendes groupements de constructeurs du machinisme agricole (CEMA), Deutsches Weininstitut, European Institute of Technology, Forsa Institute of the German Economy, GfK, Handelsblatt, IFH Cologne, Ifo Institute for Economic Research, ING Bank, Lightspeed, Splendid Research, Federal Statistical Office, University of Göttingen, WirtschaftsWoche

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