CANADIAN GROCERY SECTOR

CANADIAN CONSUMER – PRE AND POST COVID-19

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Executive Summary

COVID-19 has forever changed the landscape of the Canadian grocery sector and how consumers go about their grocery shopping. Total grocery sales in Canada toped over $122B in 2019. Due to the pandemic, researchers project $40 billion to $50 billion in annual foodservice sales to shift to grocery stores this year.[1] As the world rallies to contain the spread of COVID-19 among populations, consumers continue to adapt to the new normal, and the retail grocery sector has witnessed a drastic shift in spending allocations. Just this past month, The Empire Company, the parent of Sobeys, announced that its same store sales surged 37% in the 4-week period starting March 8th.[2] Due to the uncertainty, consumers are decreasing their discretionary spending and are, instead, allocating more income to necessities.

This report was created by Food Distribution Guy to provide an:

1. Overview of the Canadian grocery sector – period ending March, 2020.
2. Overview of the Canadian consumer – Pre, Shock and Recovery stage.
3. Overview of the fastest growing food sectors during COVID-19.
4. Strategic recommendations to generate brand awareness and stimulate trial purchase with the new consumer.

Outlined below is a random sampling of the shopping changes Canadians have taken as a result of this pandemic:

1. "Consumers are responding to COVID differently largely driven by demographic, occupational, financial, and geographic situations".[3]
2. Safety and one-stop shopping are trumping everything now. As a result, shift from discount retailers to full-service traditional retailers.[4]
3. Only 11% of Canadians taking more than 1 trip per week to the grocery store.
4. On-line market share pre-covid was 1.2%. During 4-week period between mid-March to mid-April, online shopping increased 58%.
5. The demand for local origin products, be it for transparency, trusted ingredients, or just to "support local" will only grow in importance for consumers"

Executive Summary Cont'd.

Most categories in the Canadian food sector have at least 5 competing brands, including retailers' in-house brand. Prior to COVID-19, brands had up to 7-8 seconds to attract the consumer attention. With the shift to on-line which brings increased competition and consumers browsing less in stores, the need to generate brand awareness is that much greater. In addition to a brand's traditional social media presence (Twitter, Facebook, Instagram, Website), it is highly recommended you:

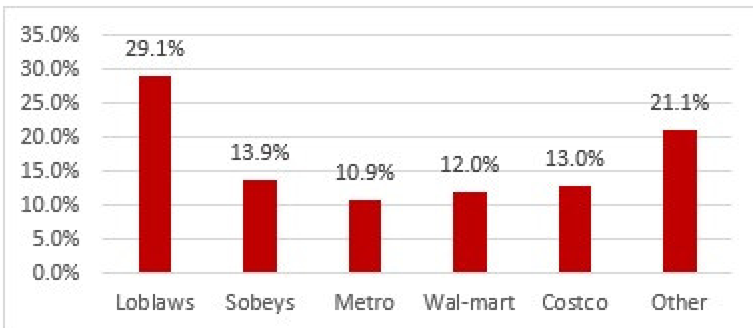
1. Create and execute influencer marketing campaign.
2. Undertake a sponsorship program.
3. Create introductory YouTube video.

CANADIAN GROCERY SECTOR

Market Share by Channel

- Traditional grocery controls 60.1% of the dollar market

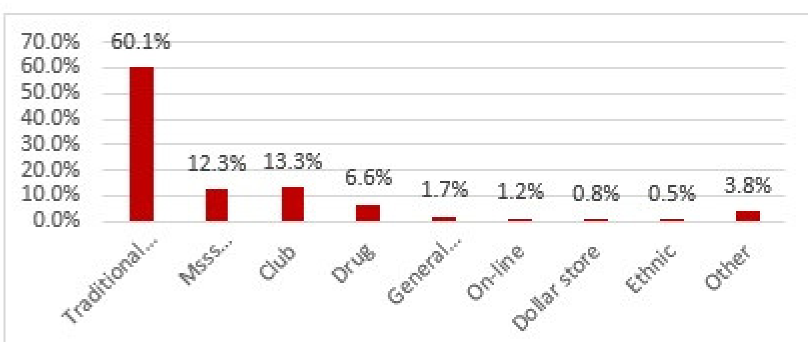
Channel Market Share by Banner – Period Ending March 28, 2020 [5]



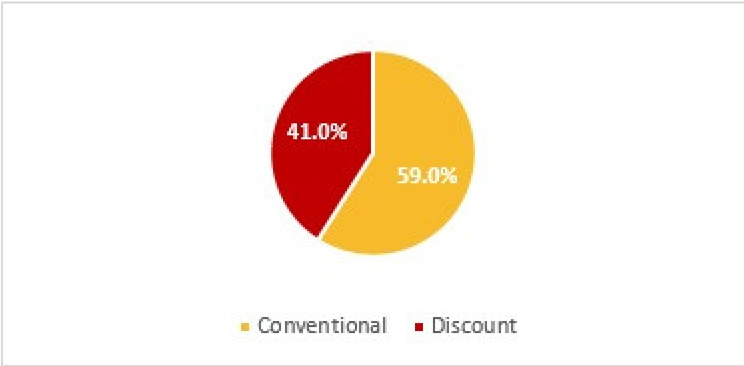
Top 5 Banners Market Share

- The top 5 chains control 78.9% of total dollar market share

Top 5 Banners Market Share in Canada – P/e March 28, 2020



Conventional vs. Discount Market Share



- In the first quarter of 2020, online sales grew by 44%, dollar store sales 14%, grocery sales 13%, mass merchandisers 11%, and drug store sales by 11%. [6]

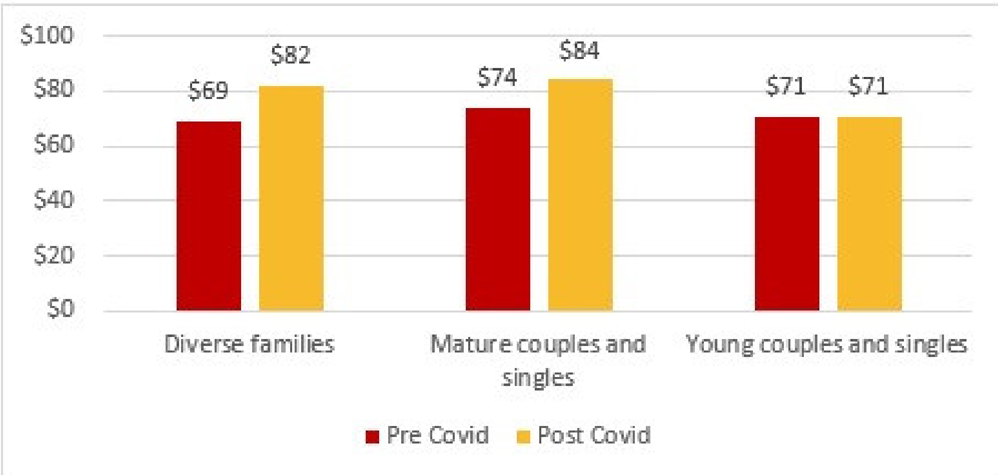
CANADIAN CONSUMER

Pre – Shock Stage, COVID-19

- Prior to COVID-19, 47% of consumers took more than 1 shopping trip per week to the grocery store. During this period, that figure dropped to 11%. [7]
- During COVID-19, only 24% of Canadians feel comfortable with the idea of grocery shopping. [8]
- Accenture study of the Canadian consumer as a result of COVID-19 [9]:
- 50% are shopping more health consciously.
- 45% making more sustainable choices.
- Canadians have taken to on-line shopping. In 4-week, period between mid-March to mid-April, on-line shopping increased 58%. [10]
- 39% of online grocery shoppers were first time grocery buyers. 81% of these consumers likely to continue shopping online. 43% of shoppers dissatisfied with online shopping.
- Online shoppers more willing to browse. [11]

	Grab + Go	Browse
Brick + Mortar	73%	20%
Online	59%	35%

Average Online Basket Size (All items), P/E: May 3, 2020 [12]



- March 2020, consumers have shifted more of their spending to conventional retail. [13]
- 75% of Canadians eating at home more, up 8% points prior to COVID-19.
- During COVID-19 the Canadian consumer:
- Willing to try new products.
- Driven by impulse.
- More willing to try different brands.[14]

- For the 4-week period ending March 28, 2020, consumer shift to private label from branded: +42% vs. +31%.[15]

- Sales of regularly priced items continue to rise over promotional sales.[16]

- Canadian made products are more important now than in pre/panic COVID-19 time periods.

- Consumers alike have become “risk averse” as a result of the crisis, with one likely outcome being that “value” could become the single most important factor for consumers.

- Millennials are shopping in stores more, 19% are vegetarian and 11% are vegan.[17]

- COVID-19 has made a vegan diet more appealing.[18]

- Consumers turning to healthier diets and healing foods to protect themselves from this pandemic.

- Consumers are more mindful of what they are buying. They are striving to limit food waste, shop more consciously and buy more sustainable options.

- “Sustainability and purpose in food companies are also becoming more important to consumers, who are looking less for brands’ “ethical credentials”, and more for producers to create social, environmental and economic value”. [19]

Recovery Stage, COVID-19

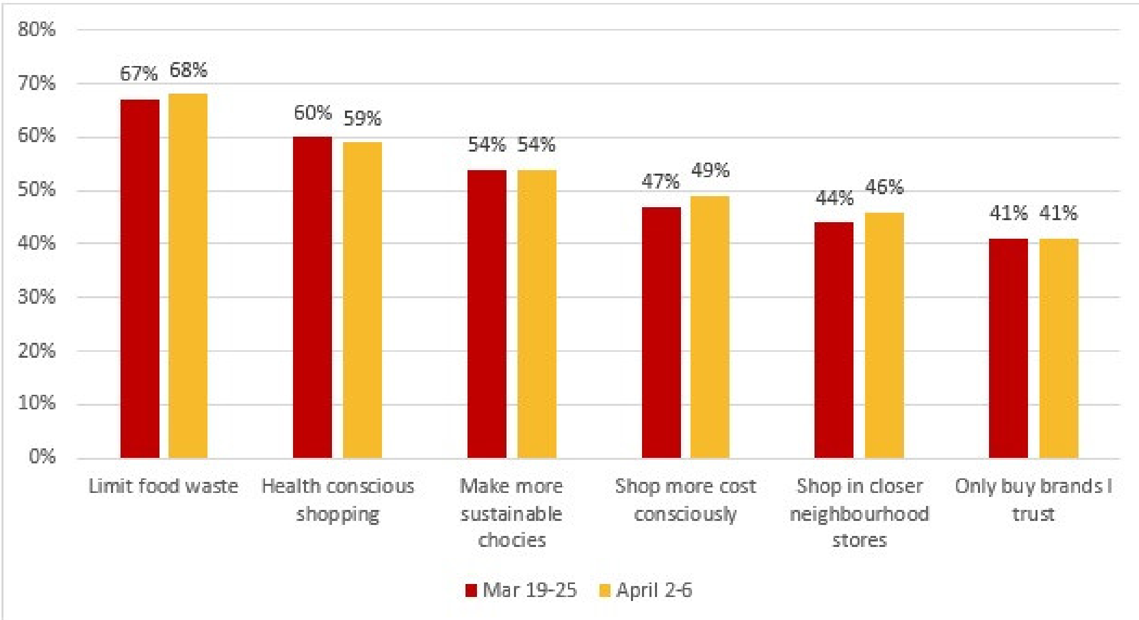
- “In 2019, almost 40% of shoppers looked at where a grocery item was produced, favoring either local/regional products, or products produced in their “home country.” During and after the pandemic, the demand for local origin products, be it for transparency, trusted ingredients, or just to “support local” will only grow in importance for consumers”. [20]

- Euromonitor International predicts that per-capita consumer spending will fall by approximately 5.2% in real terms this year, not returning to 2019 levels until at least 2022. [21]

- Consumers will seek products that are free of risk and of the highest quality and will demand to

- Understand the supply chain with complete transparency. Promote local origins. [22]

Consumers expect their shopping habits to change permanently.
Proportion that Agree with Statement and are Likely to Sustain This Post-Outbreak [23]



- More than three-quarters of consumers say that how a company treats employees and customers during the pandemic will be an important factor when determining whether to support them in a post-COVID world. [24]

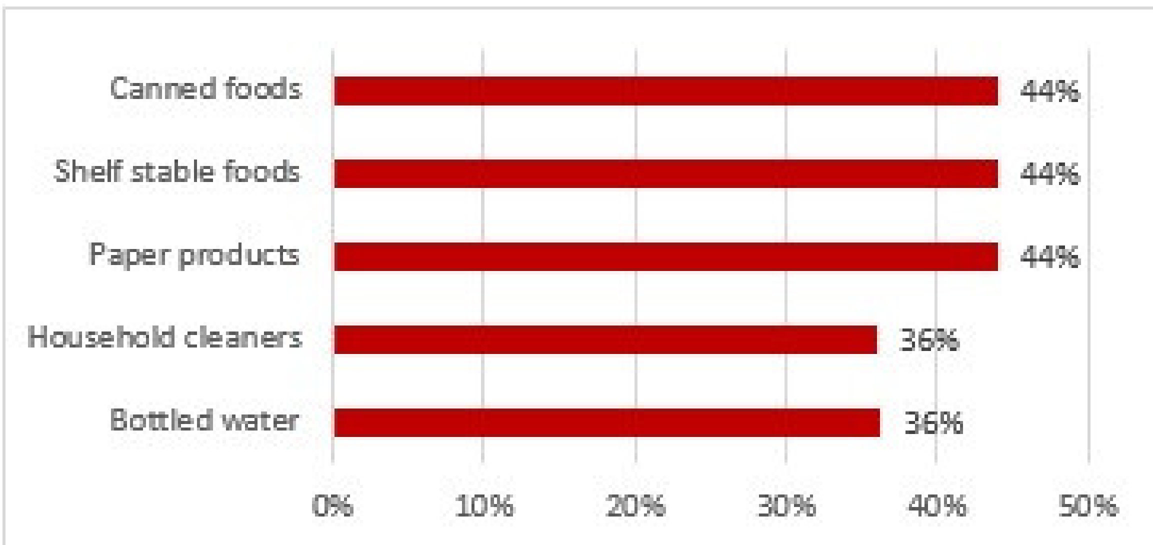
NIELSEN SIX CONSUMER BEHAVIOR THRESHOLDS OF COVID-19 CONCERN [25]

	#1 PROACTIVE HEALTH-MINDED BUYING	#2 REACTIVE HEALTH MANAGEMENT	#3 PANTRY PREPARATION
CONSUMER BEHAVIOR SHIFTS	Interest rises in products that support overall maintenance of health and wellness.	Prioritize products essential to virus containment, health and public safety. E.g. face masks	Pantry stockpiling of shelf-stable foods and a broader assortment of health-safety products; spike in store visits; growing basket sizes.
COMMON COVID-19 EVENT MARKERS	Minimal localized cases of COVID-19 generally linked to an arrival from another infected country.	Government launches health and safety campaign. Local transmission and / or first COVID-19 related death(s).	Small quarantines begin; borders close more broadly. Often represented by accelerating cases of COVID-19, but not necessarily by deaths.

	#4 QUARANTINED LIVING PREPARATION	#5 RESTRICTED LIVING	#6 LIVING A NEW NORMAL
CONSUMER BEHAVIOR SHIFTS	Increased online shopping, a decline in store visits, rising out-of-stocks, strains on the supply chain.	Severely restricted shopping trips, online fulfillment is limited, price concerns rise as limited stock availability impacts pricing in some cases.	People return to daily routines (work, school, etc.) but operate with a renewed cautiousness about health. Permanent shifts in supply chain, the use of e-commerce and hygiene practices.
COMMON COVID-19 EVENT MARKERS	Localized COVID-19 emergency actions. Restrictions against large gatherings; schools and public places close down. Percentage of people diagnosed continues to increase.	Mass cases of COVID-19. Communities ordered into lockdown. Restaurant closures, restrictions on small gatherings.	COVID-19 quarantines lift beyond region/country's most-affected hotspots and life starts to return to normal.

NOTE: These represent TYPICAL markers of these stages but are not always consistent, especially with number of cases or deaths

TOP FMCG CATEGORIES DURING COVID-19 [26]



STRATEGIC APPROACH TO LAUNCHING NEW BRANDS INTO THE CANADIAN GROCERY SECTOR

- Prior to COVID-19, brands had less than 8 seconds to connect with the consumer. During COVID-19, that figure may be a little lower as consumers seek to Get in and Out as fast as possible.
- 20% of consumers browsing in Brick&Mortar stores during this pandemic. Just over 1/3rd of consumers browsing online.
- Key objectives from a consumer perspective:
    - To create brand awareness and stimulate trial purchase.
    - To educate the consumer about the brands UPD and the products versatility.

Strategic Approach

Utilize 3rd party influencers and experts andearly adopter consumers to educate consumers about the brands POD and the products versatility

Research consumers where they are searching for such a product.

Identify like-minded partners; events; activations that will connect the brand with Canadian consumers.

Establish an online community of loyal brand enthusiasts.

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