Medallia Market Research Suite

The Right Way to Understand Post-COVID Industry Trends

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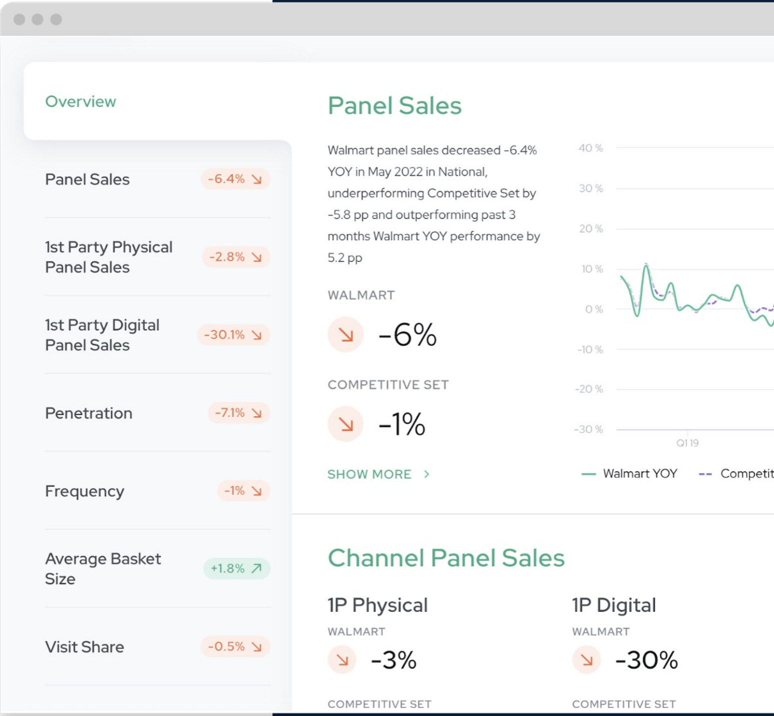

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Session Contents

The Right Way to Understand Post-COVID Industry Trends

- Where COVID left a lasting impact and what's the focus now
- Cutting out the COVID trends that are no longer relevant
- The ways behavior isn't *that* different from pre-COVID
- How should we baseline: vs. '19 or YoY?
- Reading performance trends with the right context

Why this topic?

Hard to make sense of public narrative: is the sky falling still / again?

From 2020…

It's the End of the World Economy as We Know It

Coronavirus 'grim reality': World economy to shrink by 3.2 per cent, new UN report projects

Retails sales plunge by record 16% in April as COVID-19 hit sales of clothes and furniture extra hard

U.S. Retail Crisis Deepens as Hundreds of Thousands Lose Work

How the Covid-19 recession could become a depression

Coronavirus is a global economic catastrophe.

To now…

CPGs grapple with uncertain consumer behavior

Most companies highlight elasticities below historical levels as spending patterns change

Michael Baudendistel · Wednesday, August 17, 2022 · 3 minutes read

Home / Investing / Stocks

Earnings Trends Become Clear as Retail Struggles

Trendspotting: Inflationary times are changing the way consumers shop

SOFT LANDING?

The US economy is in a better spot than naysayers believe

Portfolio > Economy & Markets

Is the Economy Going to Crash?

By Roger Wohlner

Why this topic?

Are retail trends in 2022 more stable and subtle, like pre-COVID, or is there volatility and concern like 2020?

?

2022

?

Like pre-2020

Like 2020

- Modest changes in sales, transaction volume, and $ per transaction
- Relatively stable trends from one quarter to the next
- Consistency in which brands are outperforming others

- Dramatic swings in sales, transaction volume, and $ per transaction
- Highly volatile trends from one quarter to the next
- Large shake-ups in which brands are outperforming others

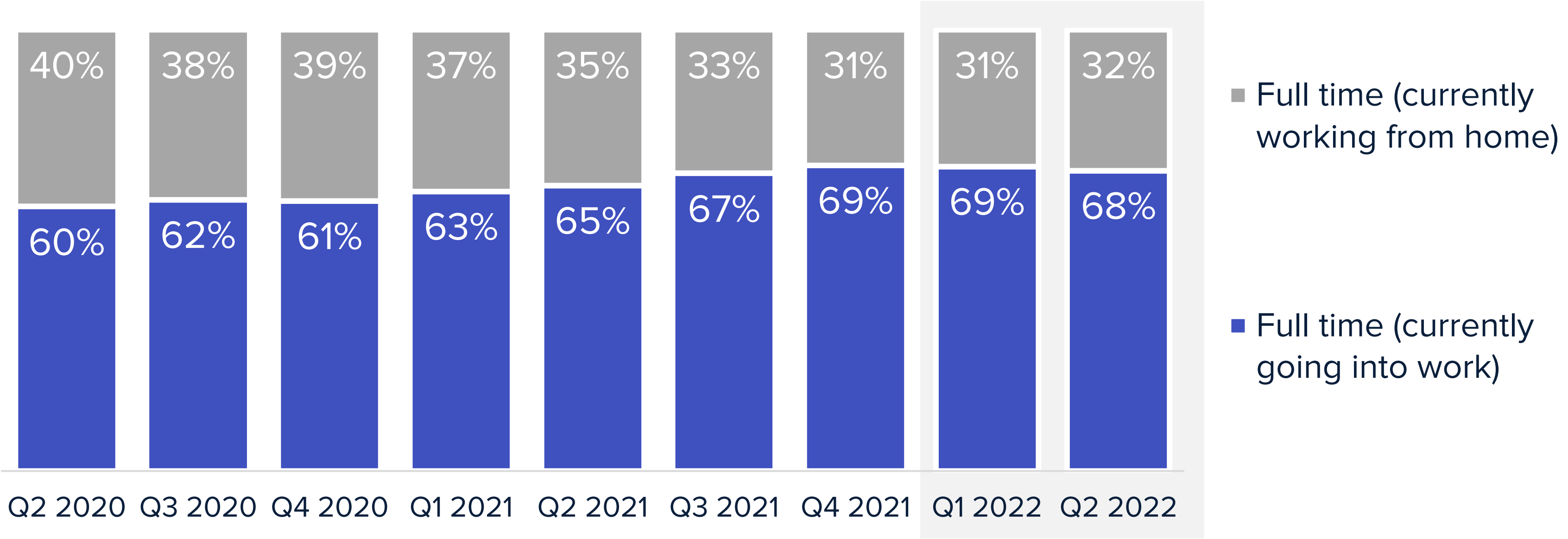
Where COVID left a lasting impact and what’s the focus now

The % of people working from home is still sizeable

The proportion of full time workers identifying as going into work (vs. working from home) has held steady since late ‘21 (but is up vs. early ‘21). Nearly 1/3 of full time workers still are primarily working from home.

Full time workers: split by working from home vs. going into work

Which best describes your current employment status? Among those fully employed.



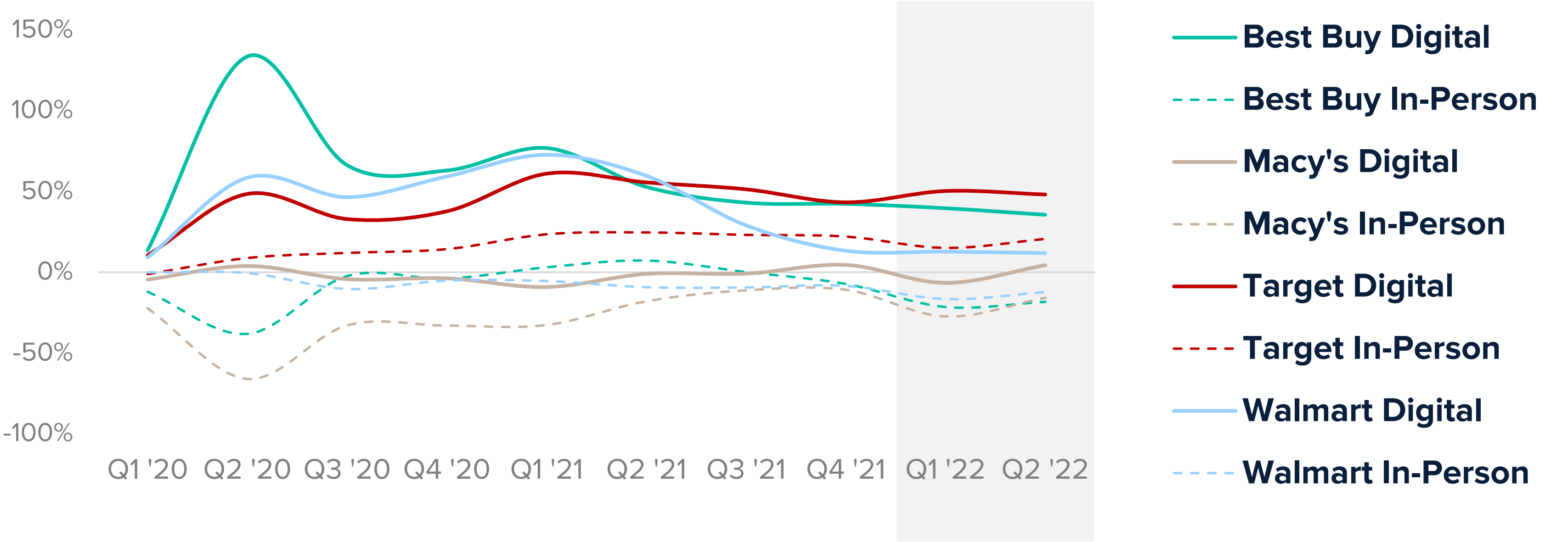
From Medallia Market Research Daily Food Diary (n = ~200 daily in US, collected since March 2020)

Digital channel growth still outpacing in-person for Retail

However, this select group of retailers shows trends are not of equal magnitude for all. Target is sustaining Digital sales volumes first seen in 2020 and 2021, whereas Walmart is not to the same extent.

Select retailer sales trend by order channel

Relative % change vs. equivalent quarter in 2019; US National



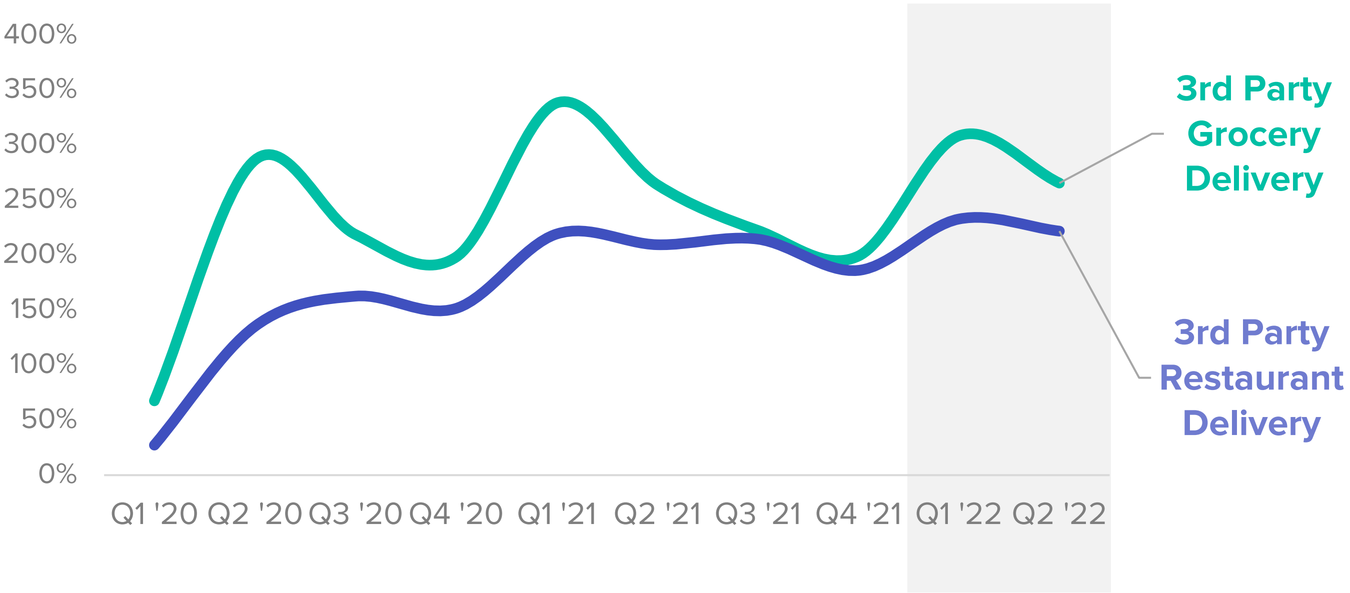
From Medallia Market Research Credit / Debit Transaction Panel
Digital = 1st party digital (excludes 3rd party order channels)

Use of 3rd Party Delivery is also holding steady

Though not further accelerating like trends seen in 2020 and early 2021, 3rd Party Delivery platforms for grocery and restaurant are holding on at roughly flat levels year-over-year.

Population spend on 3rd Party Delivery platforms, vs. 2019

Relative % change vs. equivalent quarter in 2019; US National



Although these platforms are holding steady in sales, **further growth is likely being stifled due to consumer resistance toward fees / tips.**

Not only is it the top reason why people don't use delivery, its frequency of being cited as the reason why not grew from 38% in Q2 '21 to 45% in Q2 '22.

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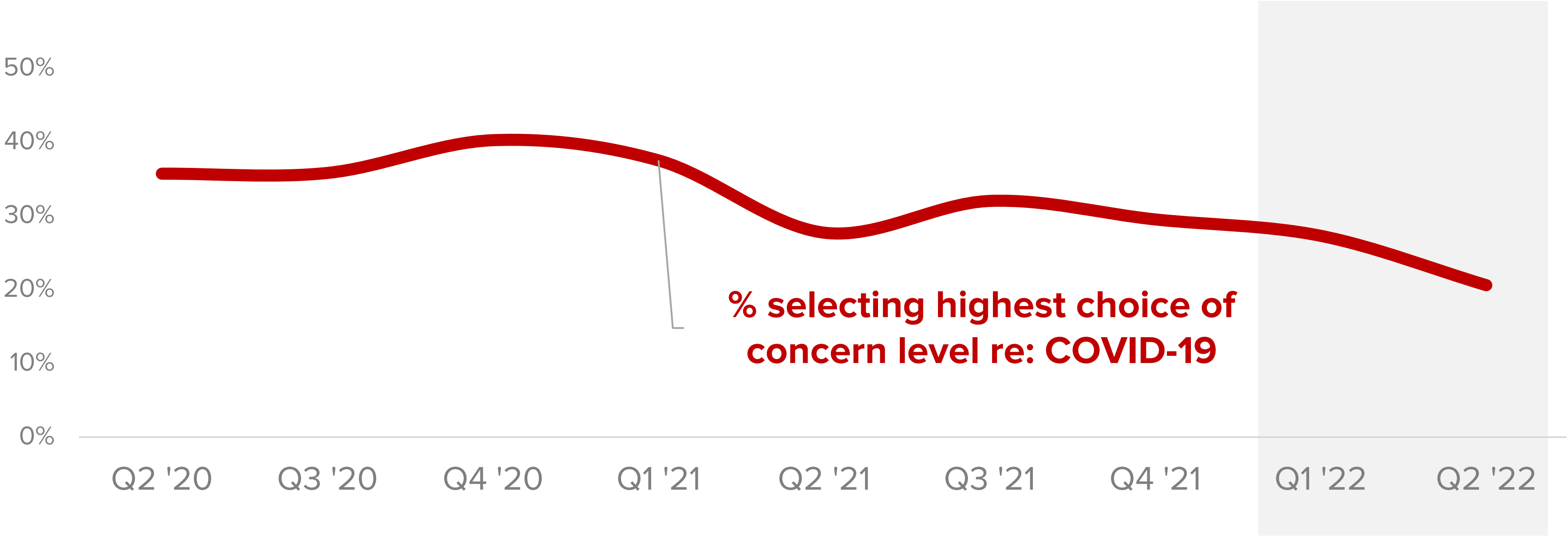
From Medallia Market Research Credit / Debit Transaction Panel

But now COVID fear is at lowest level of pandemic

Only about 20% of respondents are selecting the highest choice presented re: concern level. It is about half of the total that was selecting it at peak in Q4 ‘20.

COVID concern level trend

What best describes your current perception about coronavirus (COVID-19)? (Select one). 5 possible choices.



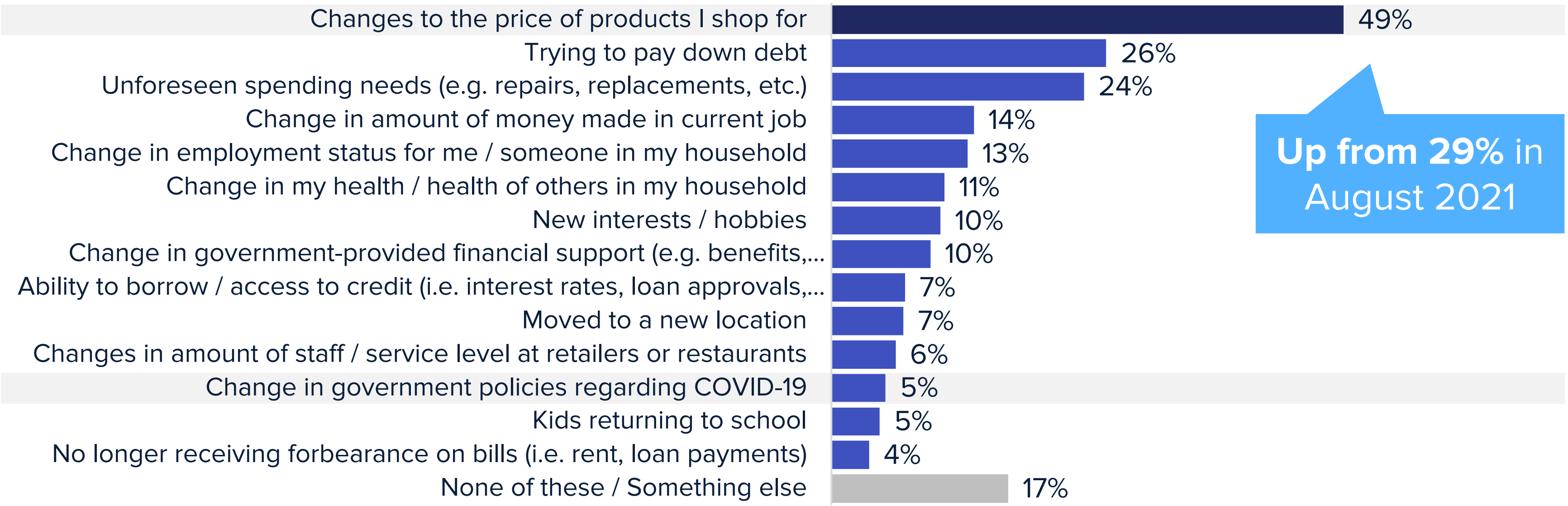
From Medallia Market Research Daily Food Diary (n = ~200 daily in US, collected since March 2020)

…and inflation matters much more to consumers

Consumers have substantially increased their selection of "changes to the price of products I shop for" as a top factor in household purchase decisions, and COVID-19 policies ranks toward the bottom.

Biggest factors affecting household purchase decisions

Which of the following, if any, have affected purchase decisions for your household the most over the last 3 months?



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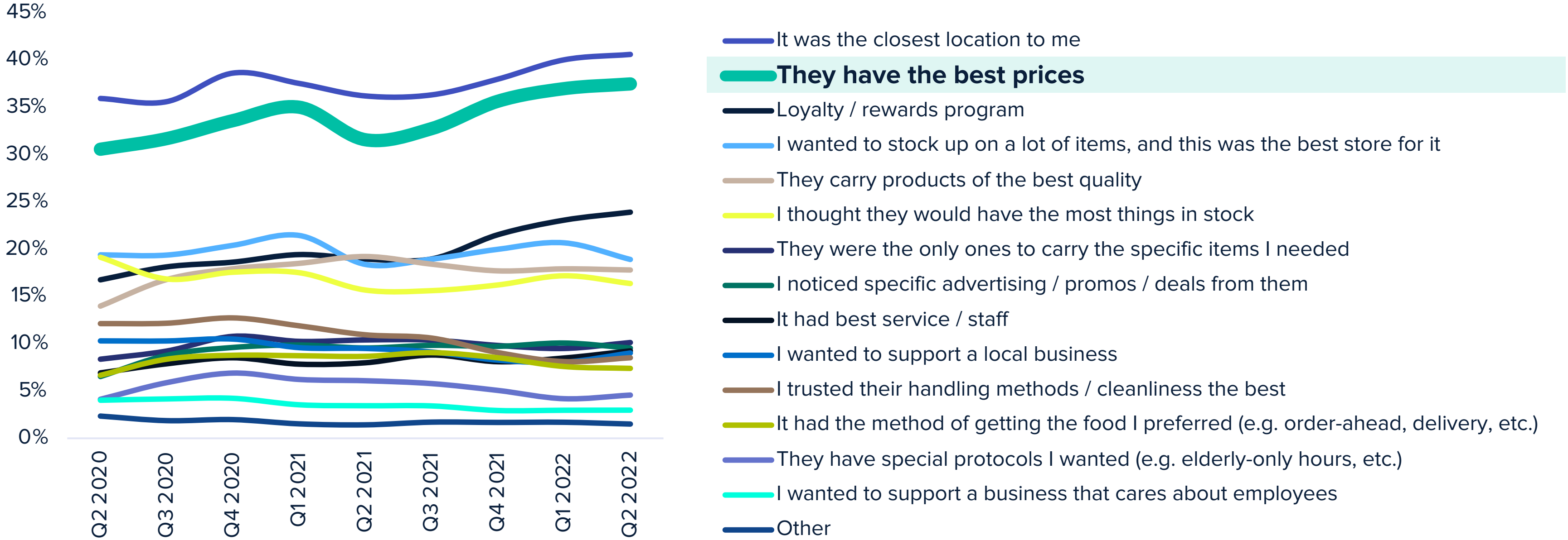
From Medallia Market Research July 2022 Ad-Hoc Inflation Survey (n = 4,035)

Worth noting: Price has *always* mattered, not just now

It is growing as a factor in consumer decision-making, but it didn't start at 0 before inflation hit.

Drivers of choice for food / beverage retailer

For food you ate yesterday, why did you choose the grocery / convenience store / online retailer that you did?
Respondents could select multiple answers.



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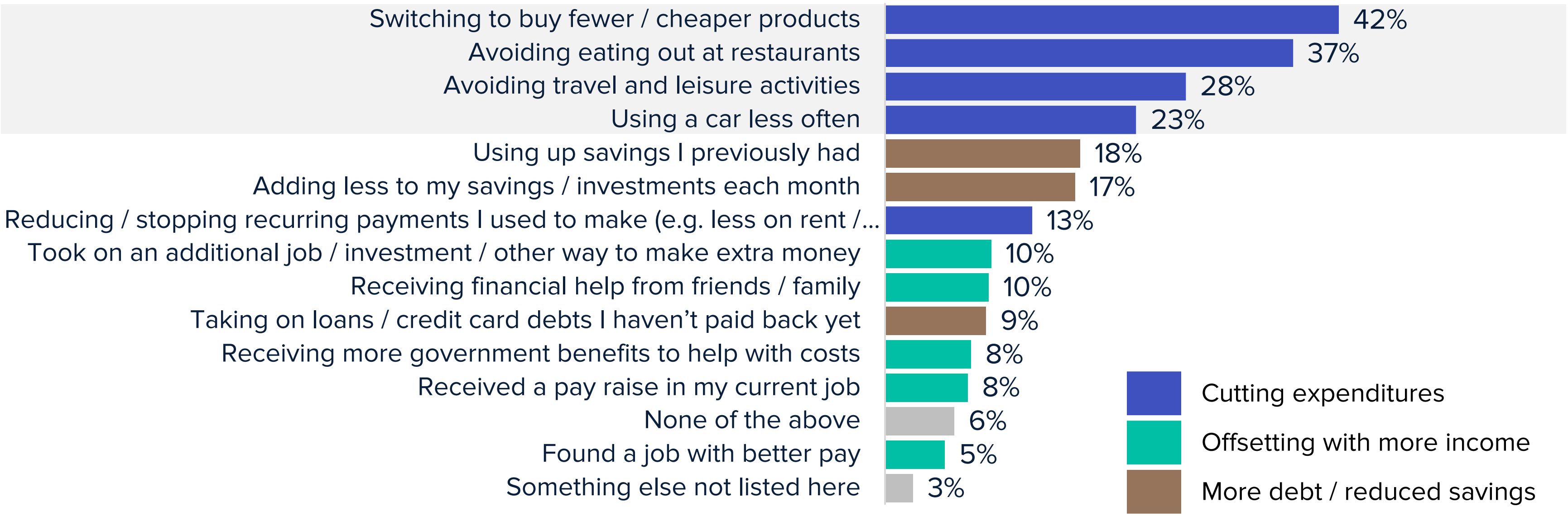
From Medallia Market Research Daily Food Diary (n = ~200 daily; collected since March 2020)

Cutting expenses most common to deal with inflation

Though some respondents have found ways to cope with inflation through more income or more debt / reduced savings, the most common actions include cutting back or trading down in consumption.

How consumers say they are adapting to the challenges of inflation

Which of the following most describes how you have handled price increases over the past year? Max 3 choices selected.



From Medallia Market Research July 2022 Ad-Hoc Inflation Survey (n = 4,035)

And thus many retailers are seeing declining txn trends

Although partially counteracted by higher basket sizes (primarily driven by inflation), sales are flat to slightly-down for many categories, especially ones like Office Supplies and Sporting Goods

Year-over-year spend, txn volume, and $ per txn by select retail category

Q2 2022 vs. Q2 2021 Relative % change; US National

	Spend	Transactions	$ per Transaction
Auto Parts (e.g. AutoZone, O'Reilly)	9%	-10%	20%
Apparel (e.g. Gap, H&M)	-2%	-4%	3%
Beauty Specialty (e.g. Sephora, Ulta)	-4%	-10%	6%
Electronics (e.g. Best Buy, Verizon)	-5%	3%	-8%
Department (e.g. Macy's, TJ Maxx)	-5%	-9%	5%
Amazon	-6%	-10%	4%
Home Improvement (e.g. The Home Depot, Lowe's)	-8%	-10%	2%
Office Supplies (e.g. Staples, Office Depot)	-15%	-15%	0%
Sporting Goods (e.g. Dick's, REI)	-16%	-17%	1%

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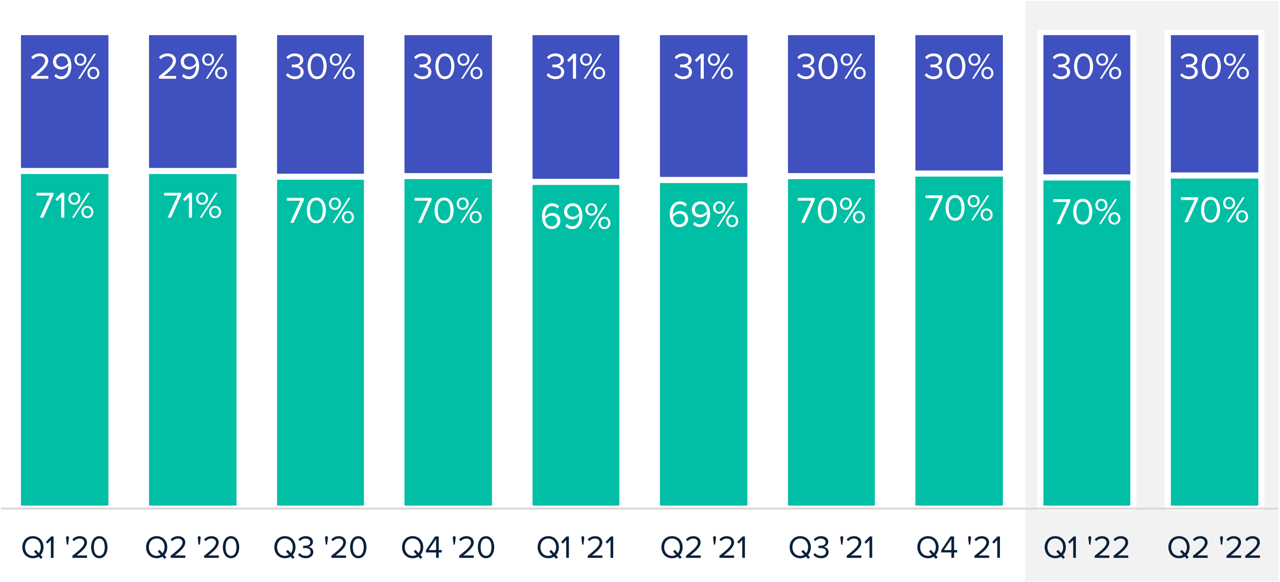
From Medallia Market Research Credit / Debit Transaction Panel

This habit isn't shaking up the food/bev landscape yet

The proportion of transactions going to food/bev-focused retailers vs. restaurants has held stable over the first half of 2022. Though not shown, this is also generally true in proportion of $ spent as well.

Share of transactions by food / bev sector

US National; % of transactions going each industry category listed



■ Restaurants

Includes direct transactions with Quick Service, Fast Casual, Pizza, Frozen Dessert, Casual Dining, and Family Dining chains, plus restaurant-focused 3rd Party Delivery platforms

■ Food & Bev Retailers

Includes direct transactions with C-Store, Mass, Club, Supermarket, Dollar, and Drug chains, plus grocery-focused 3rd Party Delivery platforms

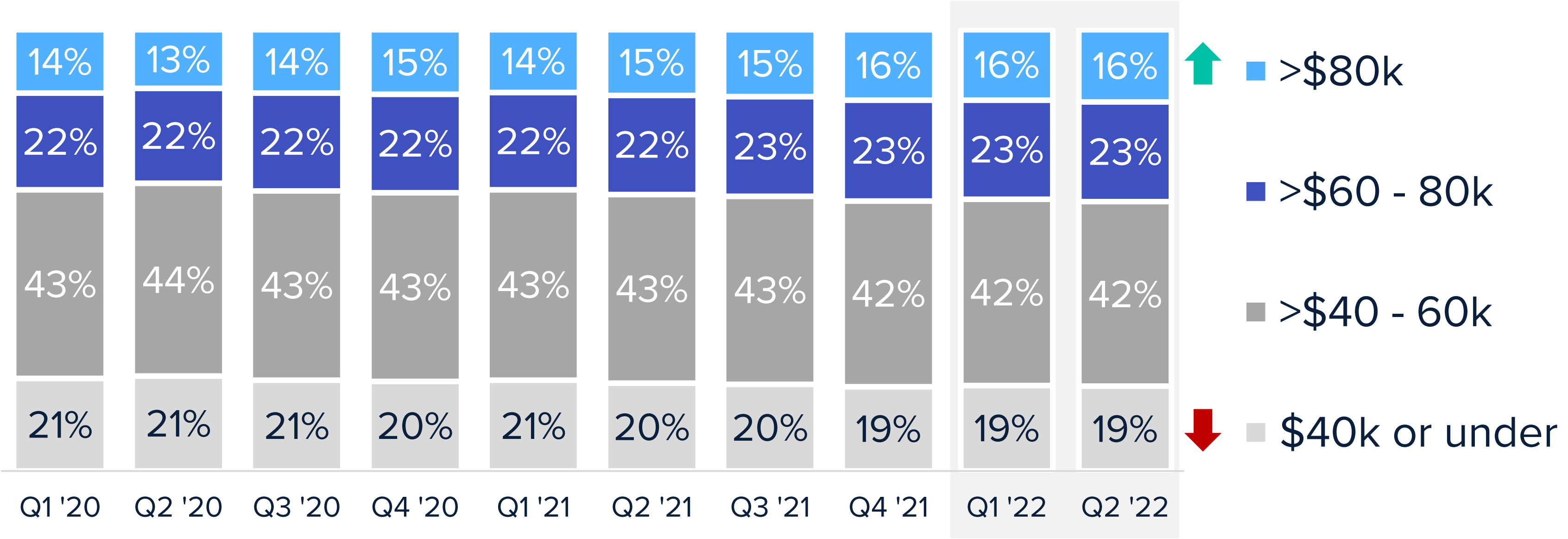
From Medallia Market Research Credit / Debit Transaction Panel
See appendix for industry category definitions. 3PD Restaurant = DoorDash, UberEats, GrubHub, Postmates, Caviar. 3PD Grocery = Instacart, PeaPod, Shipt, and FreshDirect

One change is low income are cutting out restaurants

The proportion of total restaurant spend that comes from higher income consumers has grown, with a corresponding decline in the proportion that comes from lower income consumers.

Distribution of restaurant spend by household income level

US National; by quarter



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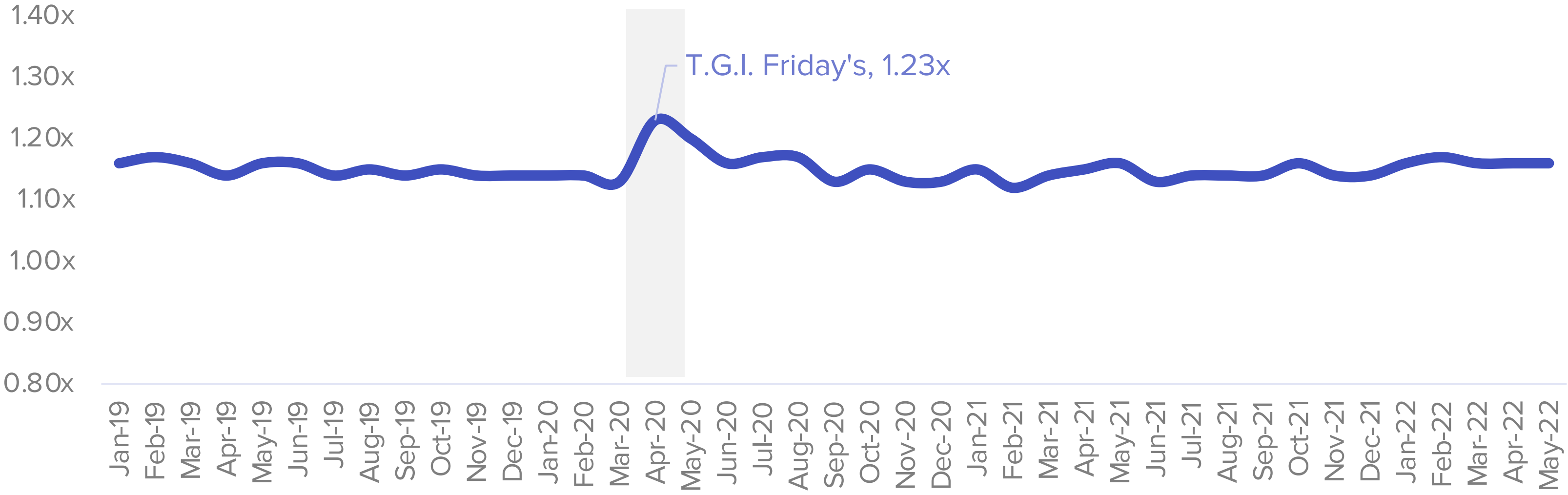
From Medallia Market Research Credit / Debit Transaction Panel.
Cuts by income level are non-standard metrics subject to restatement.

Going forward: cutting out the COVID trends that are no longer relevant

Is it reasonable to reference pandemic-era metrics to know what "good" and "bad" could be for your brand?

T.G.I. Friday's Monthly Average Frequency per Customer

National; Spend excluding 3rd Party Delivery



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*Based on Sense360 credit/debit transaction data

It depends on the metric and how it is calculated

For example, a metric that is calculated based only on the customers you have at that time may not be representative of the customers you typically have at other times

"Total" Metrics

examples

Panel Sales: Total amount of spend going to the brand, from all panelists

Penetration: Total amount of customers the brand has (as a % of the population)

"Per" or "Share" Metrics

examples

Frequency: transactions per customer, based solely on the customers you do have in that period

Visit Share or Share of Wallet: % of the total market your brand has. Based on the size of the market at the time – a brand's share can go up even if their sales go down, if market went down even more

Depends on the metric and how it is calculated

For example, a metric that is calculated based only on the customers you have at that time may not be representative of the customers you typically have at other times

“Total” Metrics

examples

When major shifts in these metrics happen…

customers the brand has (as a % of the population)

“Per” or “Share” Metrics

examples

…these can move in big ways as a result, and require additional context to interpret

Based on the size of the market at the time – a brand’s share can go up even if their sales go down, if market went down even more

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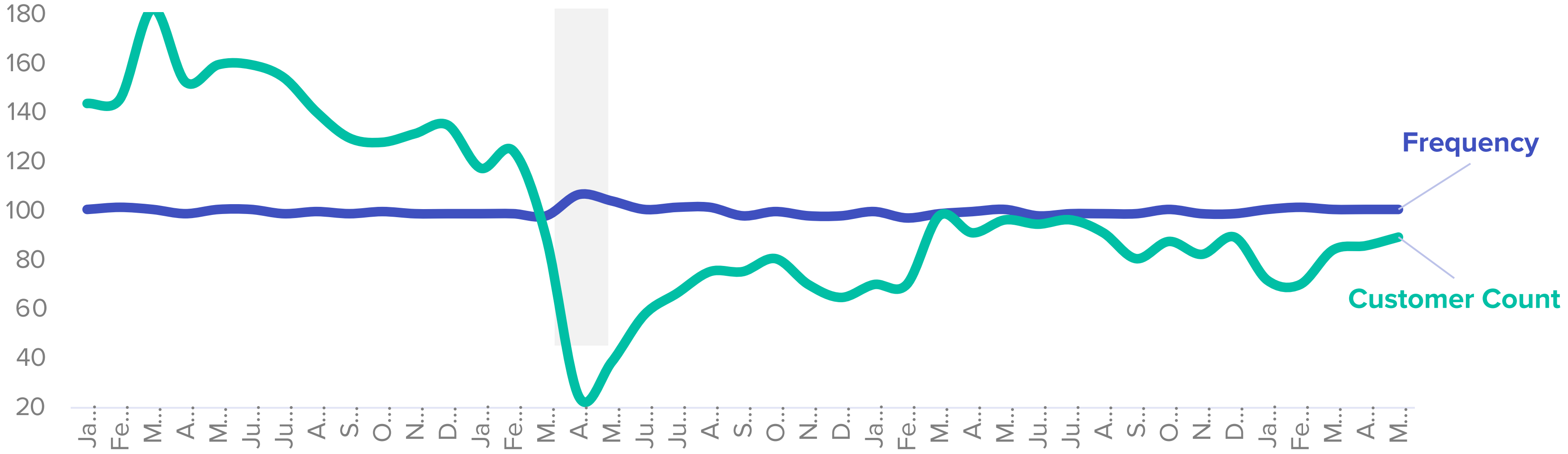
Is it fair to benchmark monthly frequency vs. April 2020?

Average frequency jumped because lower-freq customers stopped transacting entirely

T.G.I. Friday’s Indexed Monthly Average Frequency and Customer Count

National; Spend excluding 3rd Party Delivery; Index 100 = on par with full period average for each metric



*Based on Sense360 credit/debit transaction data

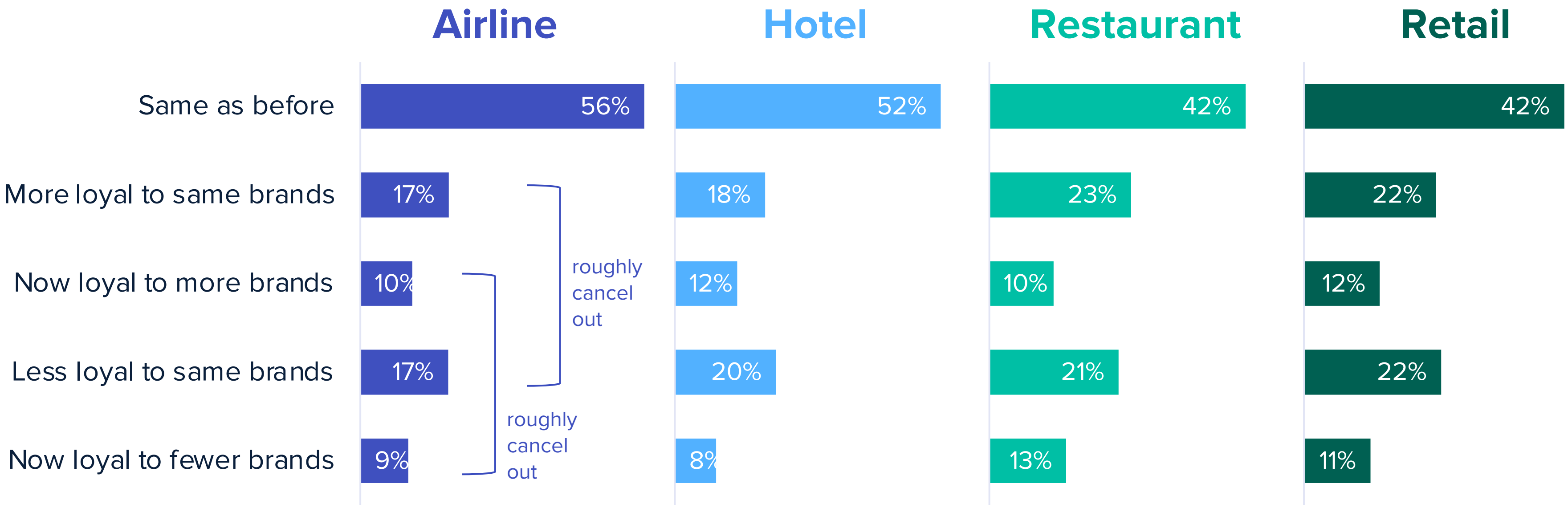
Acknowledging the many ways consumer behavior isn’t *that* different than pre-pandemic

Customers don’t feel COVID changed their brand loyalty

Self-perceived increases/decreases in loyalty to brands nearly cancel each other out.

Self-perceived Loyalty Changes from Pandemic

How did the COVID-19 pandemic change your views on the [category brands] you are, or may have been “loyal” to?



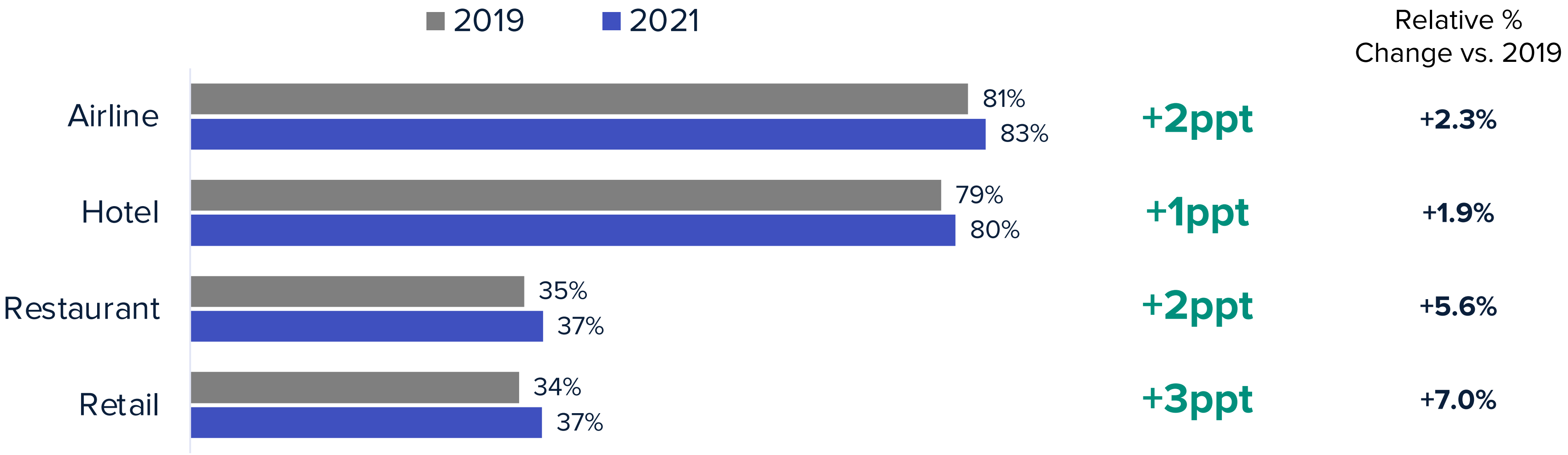
From Sense360 April 2022 Loyalty Survey (n = 5,146). 2 choices allowed per respondent.

Behavioral data shows it changed, but only slightly

Across each these 4 industry categories, average customer loyalty is up vs. 2019 but by only a couple of percentage points.

Average Customer Loyalty % by Category, 2021 vs. 2019

National; Loyalty defined as % of a customer's total category transactions that went to most frequently used brand



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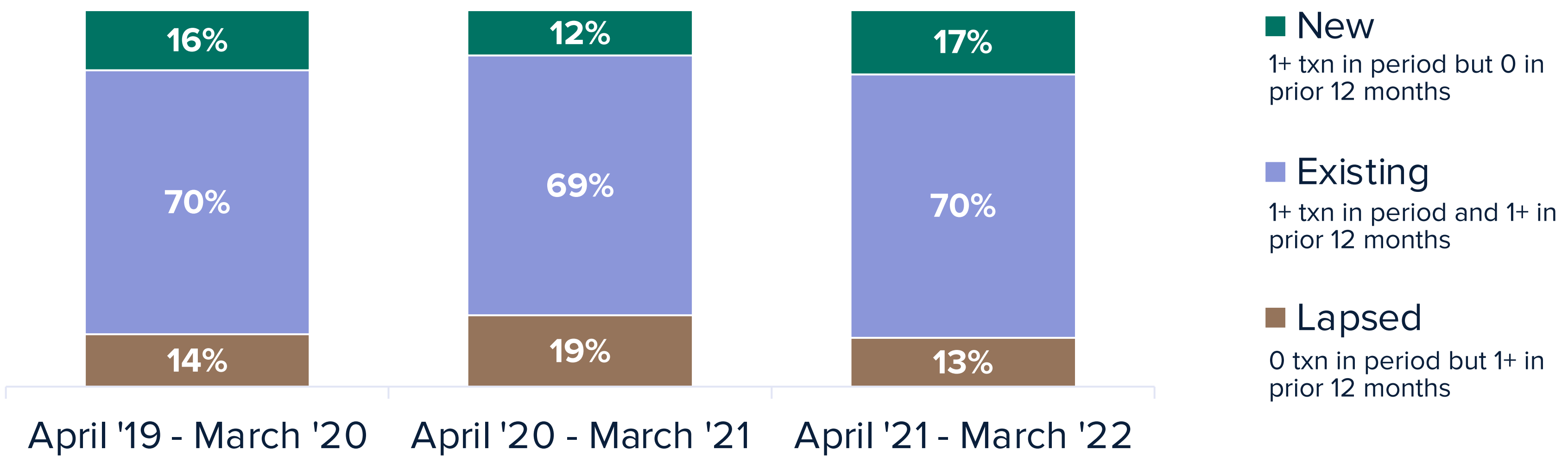
From Sense360 credit/debit transaction data

It's important to not overstate how many customers are migrating to or away from certain brands

As an example, the proportion of "new" and "lapsed" customers to Chick-fil-A in a recent 12 month period is nearly identical to a 12 month period pre-COVID.

Chick-fil-A: Customer base categorization by 12 month period

US National; based on direct (non-3rd party) transactions with Chick-fil-A



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From Medallia Market Research Credit / Debit Transaction Panel
From Intelligence Product: Customer Migration Module

So how should we baseline trends: Year-over-Year or vs. 2019?

Trending vs. 2019: The Pros and Cons

As regular year-over-year comparisons (now vs. 2021) still have some irregularities due to COVID, many wonder if trending vs. 2019 is still a better approach.

Pros	Cons
• Allows for trend comparison against a “normal” baseline without seasonal irregularities • Allows for a clear understanding of how the market has changed, and the extent change has been sustained, specifically with regard to COVID-19 impacts	• Compares to a period that in some ways will never exist again, delaying the acknowledgement of a “new normal” • Comparison to 3+ years ago subject to population change (1-2% higher*) and compounded consumer price index increases (15-16% higher**) that inflate trends much more than a year-over-year comparison would • More difficult to isolate the impact of each brand’s initiatives just over the past 1-2 years • Many reporting systems doing have the comparison built by default

* https://www.census.gov/quickfacts/fact/table/US/PST045221
** https://www.minneapolisfed.org/about-us/monetary-policy/inflation-calculator/consumer-price-index-1913-

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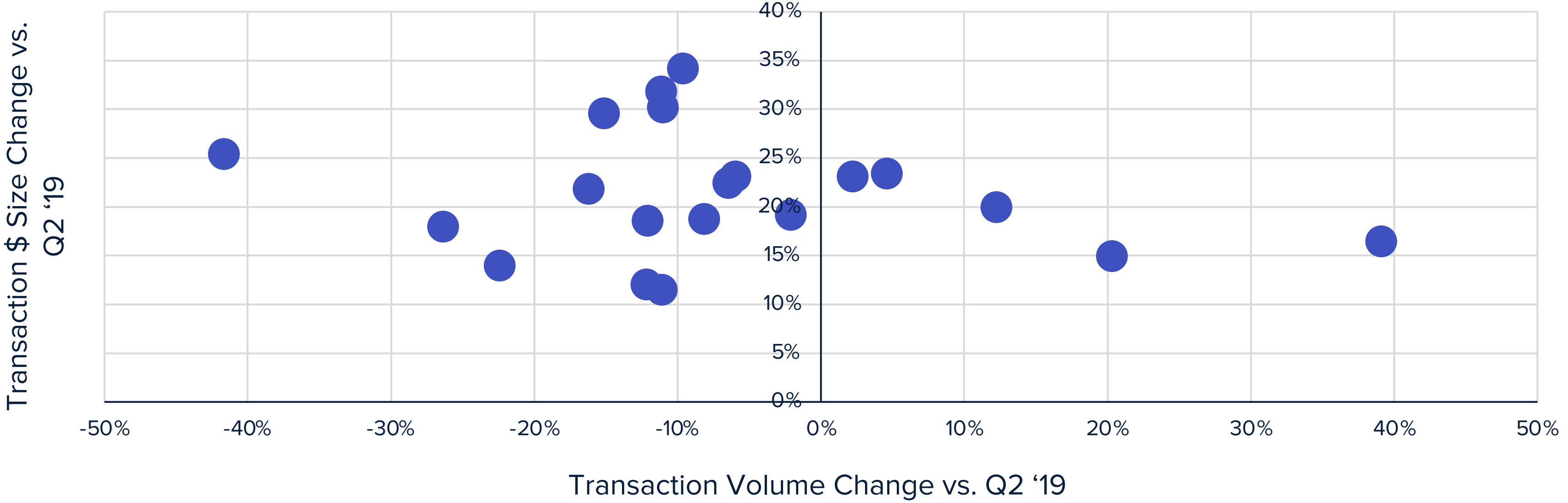
Vs. '19, everyone is *way* up in check size; txn is mixed

The magnitude of change in $ per transaction since '19 makes total sales comparisons miss the boat on how transaction volumes are trending.

Retail Categories: Changes vs. 2019

Relative % Change: Q2 '22 vs. Q2 '19; US National



From Medallia Market Research Credit / Debit Transaction Panel. Select Retail market categories include direct (non-3rd party) transactions for Apparel, Auto Parts, Beauty Specialty, Books, Club, Craft, C-Store, Department, Dollar, Domestic Merchandise, Drug, E-Commerce, Furniture, Home Improvement, Liquor, Mass, Office Supplies, Pet Specialty, Sporting Goods, and Supermarket each plotted as a single dot

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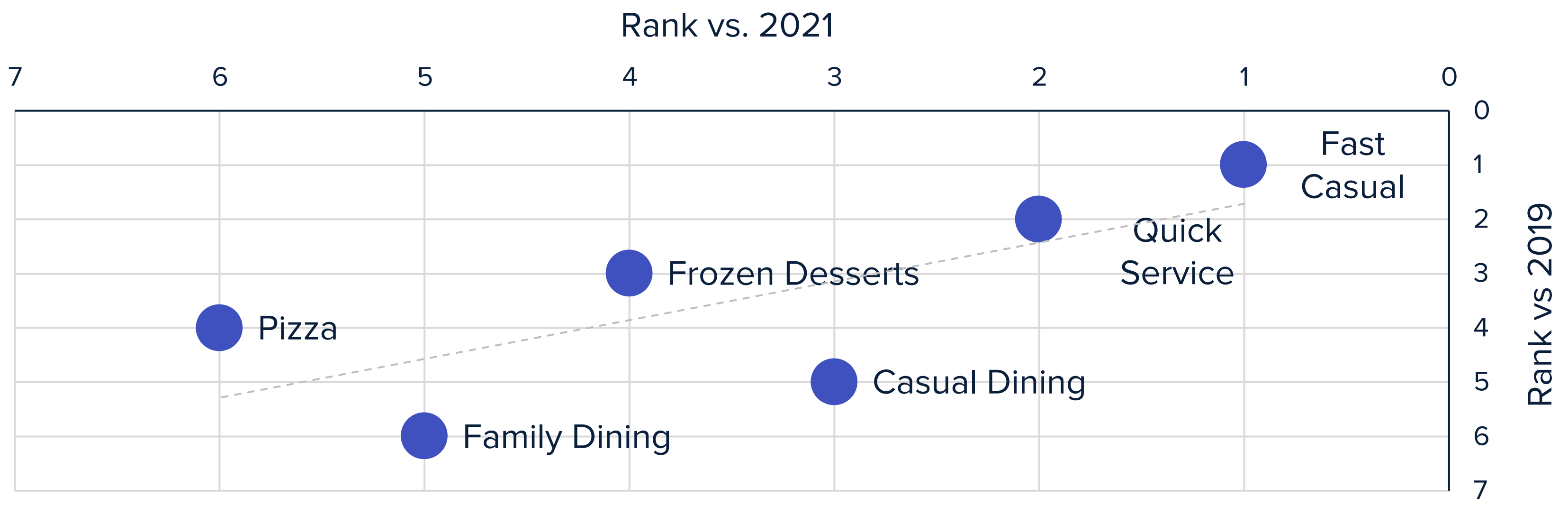
In some ways, trending vs. ’19 or vs. ’21 doesn’t matter

In some instances, like how each restaurant category is trending compared to the others, the trends of Q2 ‘22 vs. a ‘19 or a ‘21 baseline yield similar rank order.

Restaurant category performance rank: vs. ‘21 and vs. ‘19

Rank based on Relative % Change in Panel Sales during Q2 ‘22; US National



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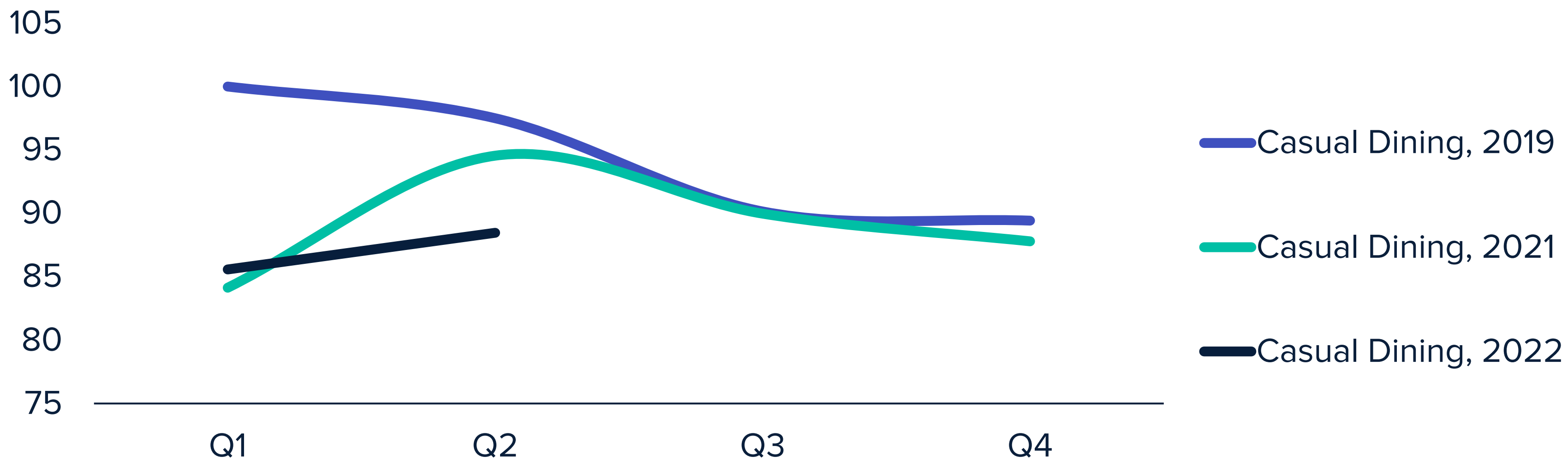
From Medallia Market Research Credit / Debit Transaction Panel. See appendix for market category definitions

The major consideration is momentum of trend

Mattering more than just a single year-over-year or vs. 2019 datapoint is the analysis of how that trend evolved from one period to the next (e.g. Q1 ’22 trend vs. Q2 ‘22 trend, both compared to earlier points in time).

Casual Dining Market: Indexed Sales by Period

Index 100 = on par with Q1 2019.



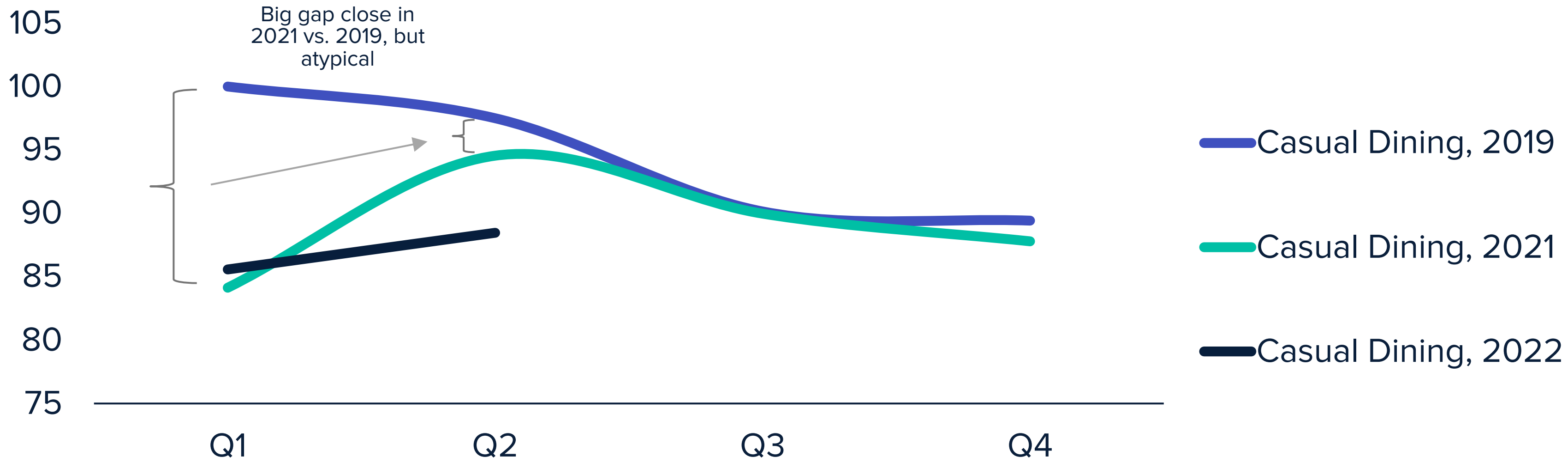
From Medallia Market Research Credit / Debit Transaction Panel. See appendix for market category definitions

The unique changes of Q1 vs. Q2 ‘21 impact momentum

The Casual Dining market serves as an example of how Q1 ’21 had many COVID-lockdown, pre-vaccine rollout characteristics that alleviated in Q2 ‘21. This affects a trend comparison where the reference is first Q1 ‘21 and then becomes Q2 ‘22.

Casual Dining Market: Indexed Sales by Period

Index 100 = on par with Q1 2019.



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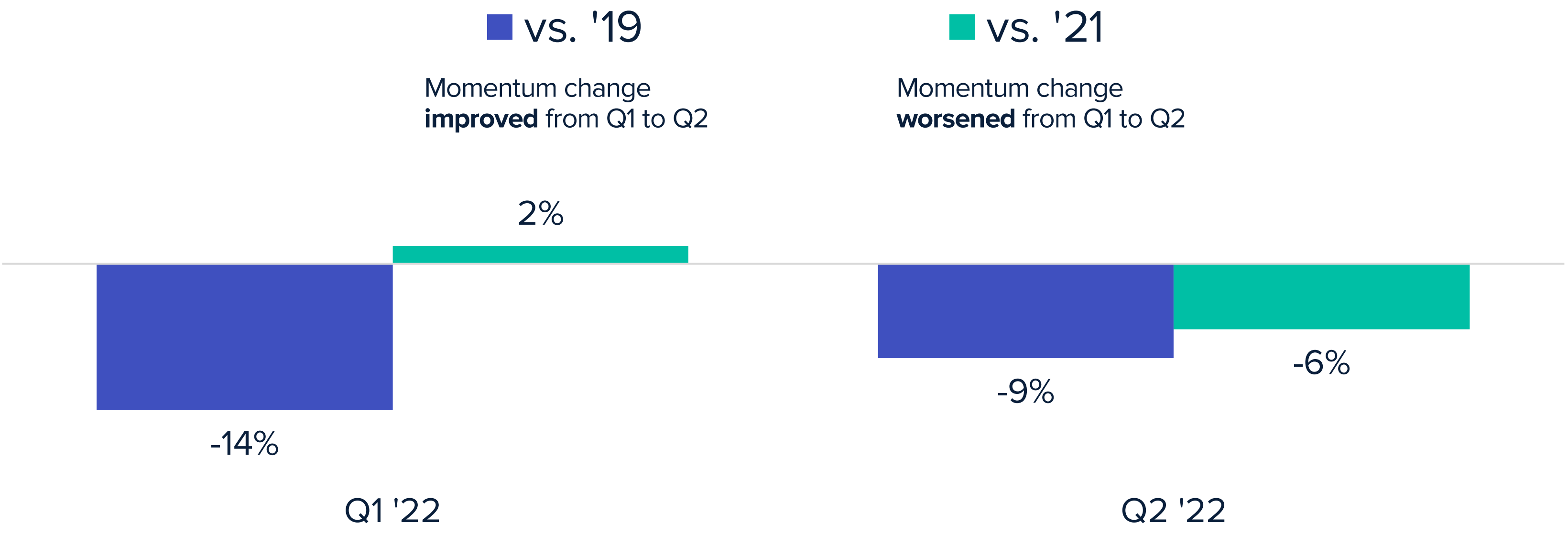
From Medallia Market Research Credit / Debit Transaction Panel. See appendix for market category definitions

This makes a comparison to ’21 have key nuances

Comparing to ‘21 would suggest Casual Dining’s momentum worsened from Q1 to Q2 of ‘22. But comparing to ’19 says differently. This makes the decision of which to compare to require extra context.

Casual Dining Market: % Change in Panel Sales

Relative % change vs. equivalent quarter of 2019 and 2021, respectively; US National



From Medallia Market Research Credit / Debit Transaction Panel. See appendix for market category definitions

Conclusion: Trend against ‘19 or against ’21?

It depends on what you want to convey, but by the end of this calendar year, in most cases it will be appropriate to just use year-over-year comparisons going forward.

Trend against ‘19 if…

- You are highlighting how a brand’s performance trends are evolving, i.e. how their momentum is moving, from the beginning of ‘22 up to this point
- The point of the trend is to illustrate how things became, and continue to be, different due to COVID-19 (e.g. highlighting growth of delivery use or some other major pandemic-driven change)

Trend against ‘21 if…

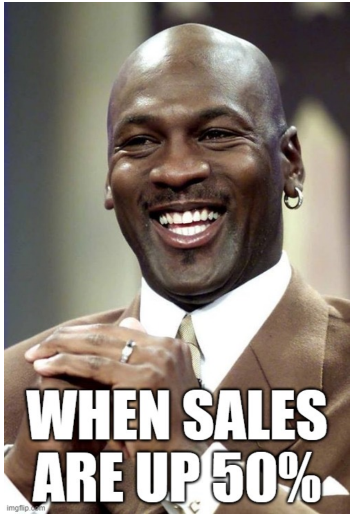
- The trend is reported as a single comparison of one time period to one baseline, not commenting on the evolution / momentum of the trend across multiple time periods
- The business analysis is meant for more than just an understanding of COVID-19 impacts – i.e. more recent initiatives and market events
- The report is one that will be recurring, especially into late 2022 and beyond (when early 2021 nuances become irrelevant for calculating trends)

Reading sales performance
trends now with the right context

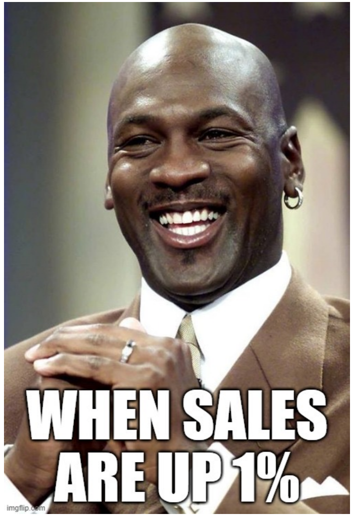
This shouldn’t be the way to react to trends, right?

The magnitude of change in brand performance now is not in the same ballpark as the height of COVID, so “the sky is falling” narratives should be tempered.

In 2020...



In 2022...



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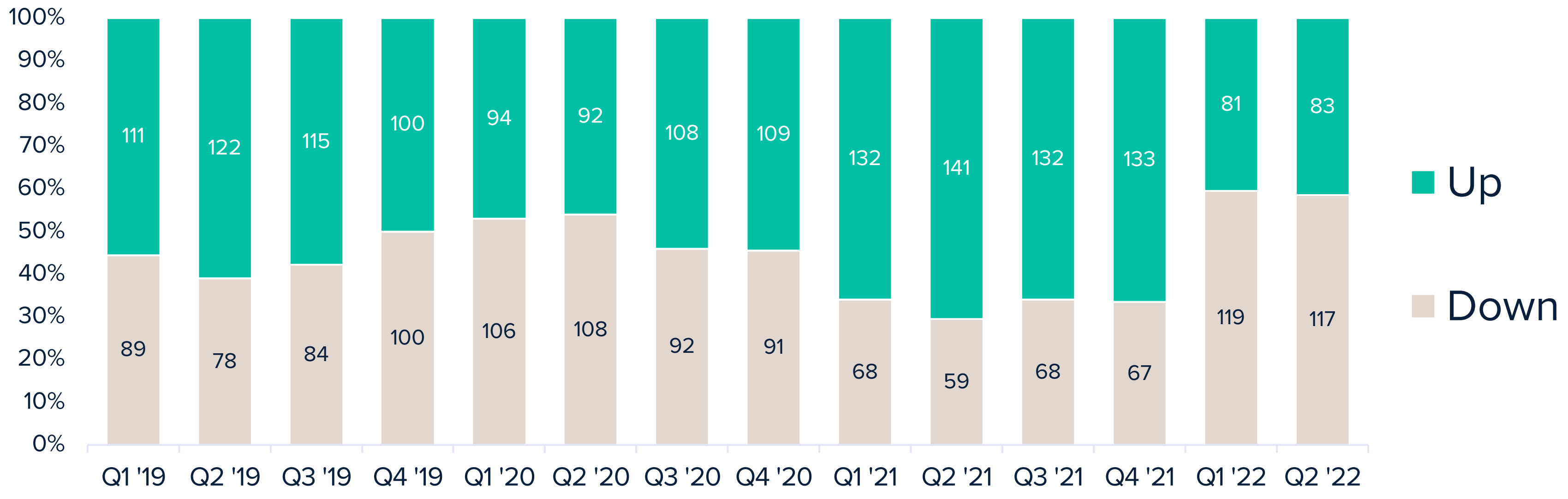
How well are brands doing now vs. the height of COVID?

In year-over-year terms, about as many food / bev retail and restaurant brands are seeing declining sales as were in the early parts of 2020.

Top 200 Food / Bev Retail & Restaurant Brands: Up or Down Year-over-Year

% of brands falling into each category of Panel Sales relative % change vs. equivalent quarter in prior year; US National



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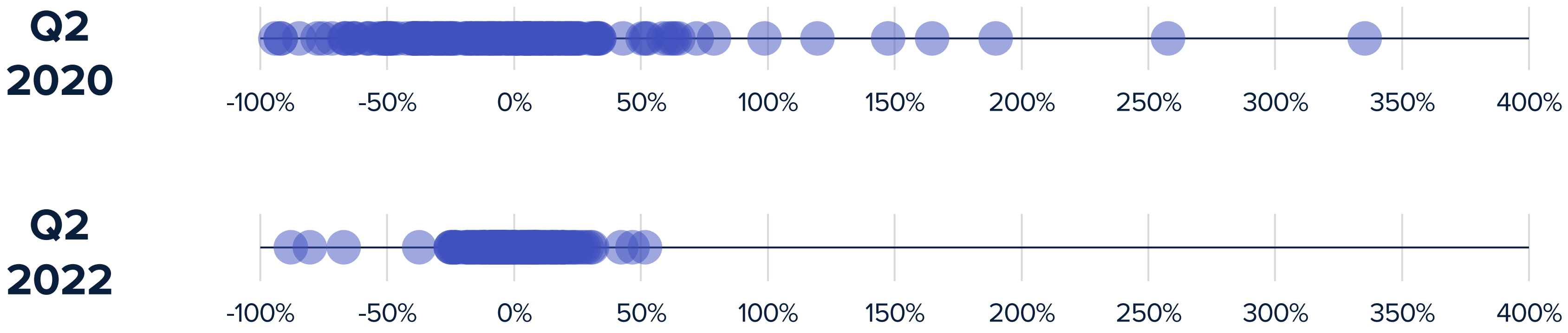
From Medallia Market Research Credit / Debit Transaction Panel. Top 200 Brands in Food and Beverage Retail / Restaurant Market based on prior 12 month Panel Sales.

However, the market is FAR less volatile now

Brands are clustered together in performance of being slightly up or slightly down much more than they were at this time two years ago. The trends are not overly drastic, despite inflation-related doomsday narratives.

Top 200 Food / Bev Retail & Restaurant Brands: Year-over-Year Change

Relative % Change in Panel Sales; US National; Each dot represents one brand



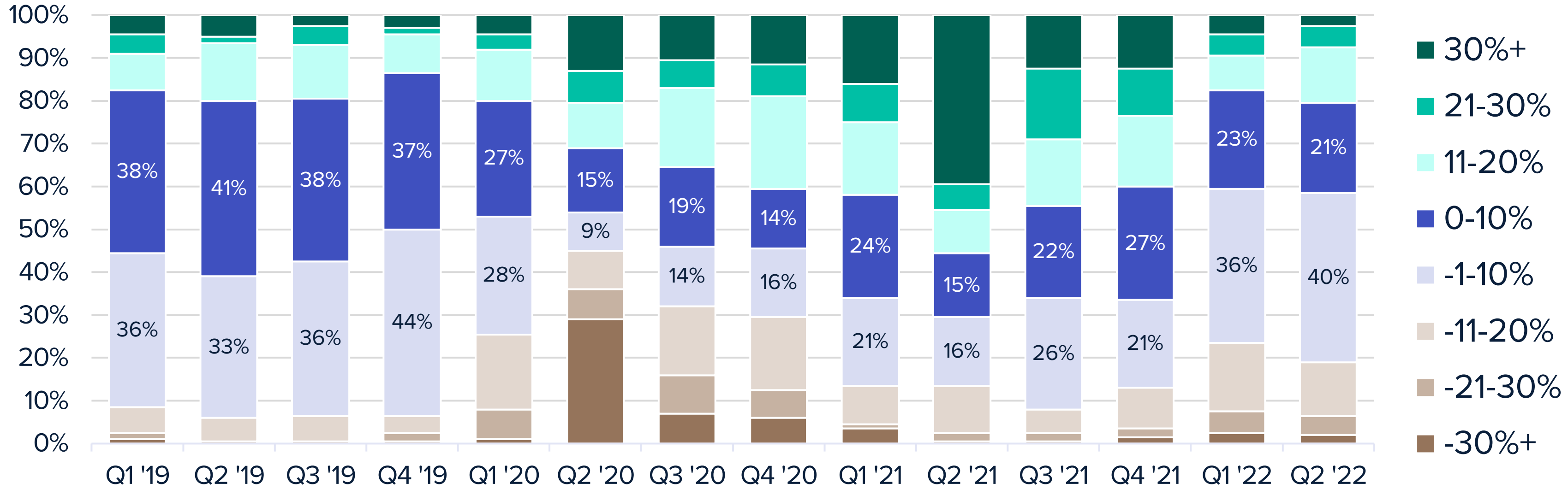
From Medallia Market Research Credit / Debit Transaction Panel. Top 200 Brands in Food and Beverage Retail / Restaurant Market based on prior 12 month Panel Sales.

Specifically, the proportion of all brands trending near flat YoY isn't far away from pre-pandemic levels

The percent of brands trending slightly above or slightly below 0 in YoY sales trends is much closer to the situation in 2019 Q2 than it is to 2020 Q2 or 2021 Q2

Top 200 Food / Bev Retail & Restaurant Brands: Year-over-Year Change

% of brands falling into each category of Panel Sales relative % change vs. equivalent quarter in prior year; US National



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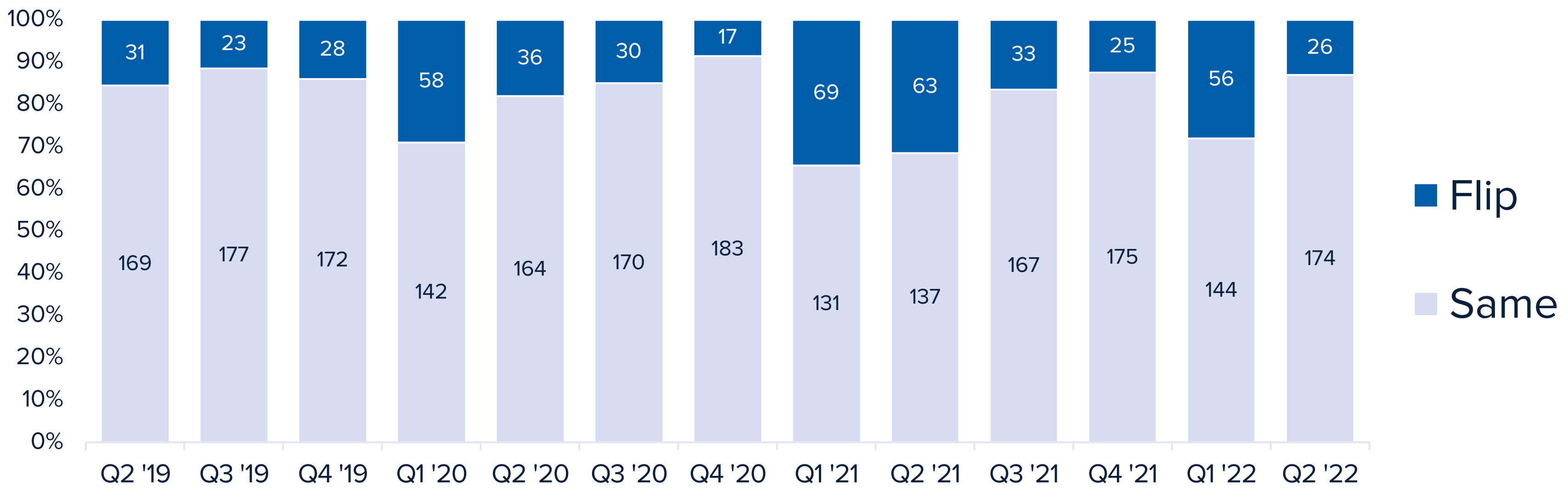
From Medallia Market Research Credit / Debit Transaction Panel. Top 200 Brands in Food and Beverage Retail / Restaurant Market based on prior 12 month Panel Sales.

How about momentum? Also generally stable.

The proportion of brands who from Q1 '22 to Q2 '22 experienced a "sign flip", going from up year-over-year to down (or vice versa), is also similar to Q2 2019.

Momentum change: Flip in + / - Year-over-Year Performance from 1 Quarter to the Next

% of the Top 200 brands falling into each category of Panel Sales year-over-year change; US National



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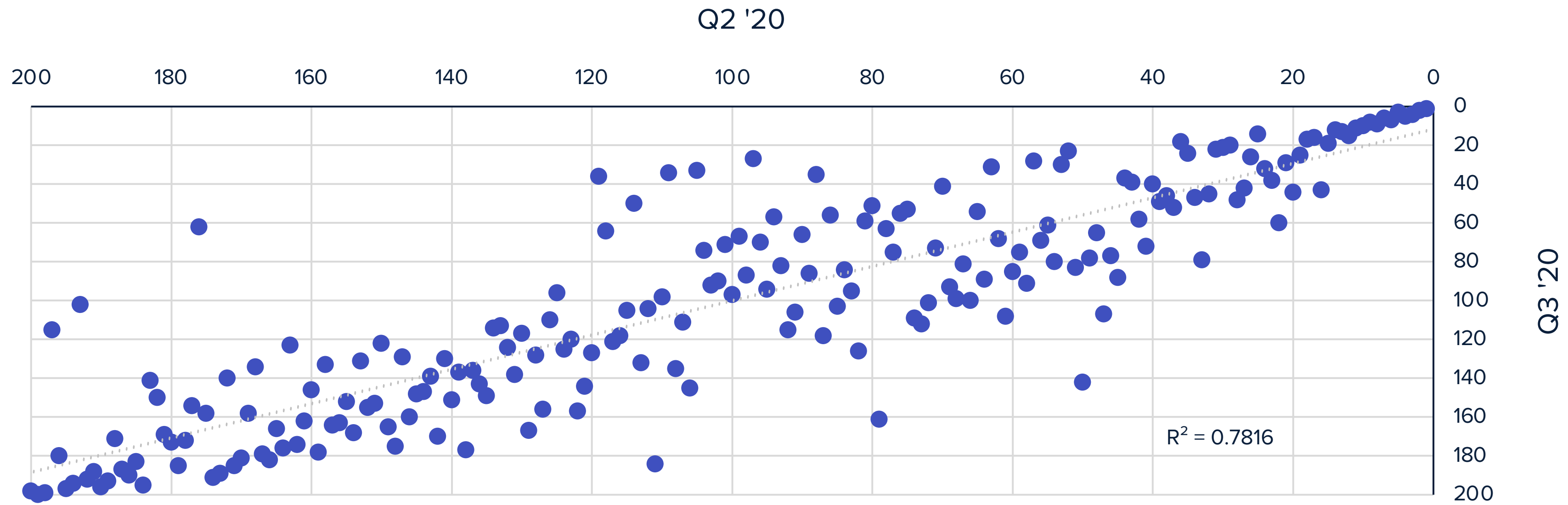
From Medallia Market Research Credit / Debit Transaction Panel. Top 200 Brands in Food and Beverage Retail / Restaurant Market based on prior 12 month Panel Sales.

In terms of stability from a competitive landscape standpoint, first look at performance ranks during COVID

A brand's rank in sales trends (vs. '19) was generally consistent from Q2 to Q3 '20, with a little volatility.

Top 200 Food / Bev Retail & Restaurant Brand Rank: Q2 and Q3 '20 change vs. '19

Rank based on Relative % Change vs. equivalent quarter in 2019 ; US National



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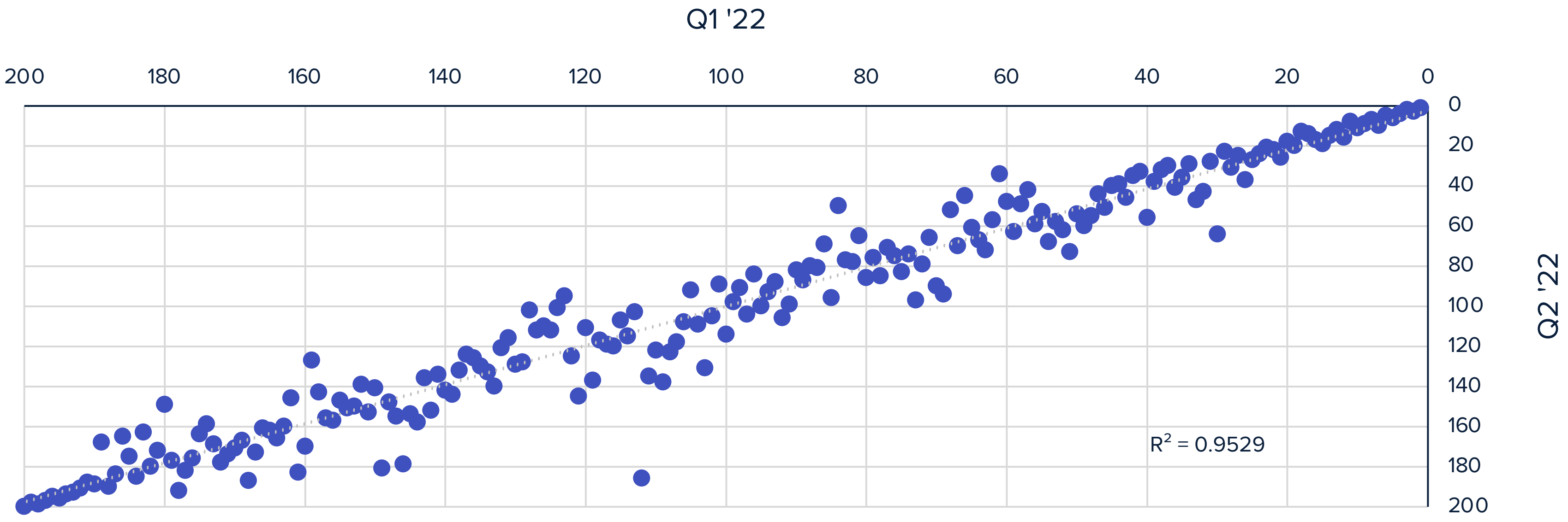
From Medallia Market Research Credit / Debit Transaction Panel. Top 200 Brands in Food and Beverage Retail / Restaurant Market based on prior 12 month Panel Sales.

Compare that to ‘22 so far, and its now less volatile

How brands ranked in sales trends (vs. ’19) was even more consistent in Q1 and Q2 of ’22 than it was during the peaks of COVID, suggesting this market has far fewer “shake ups” and instead more consistency.

Top 200 Food / Bev Retail & Restaurant Brand Rank: Q1 and Q2 ‘22 change vs. ‘19

Rank based on Relative % Change vs. equivalent quarter in 2019 ; US National



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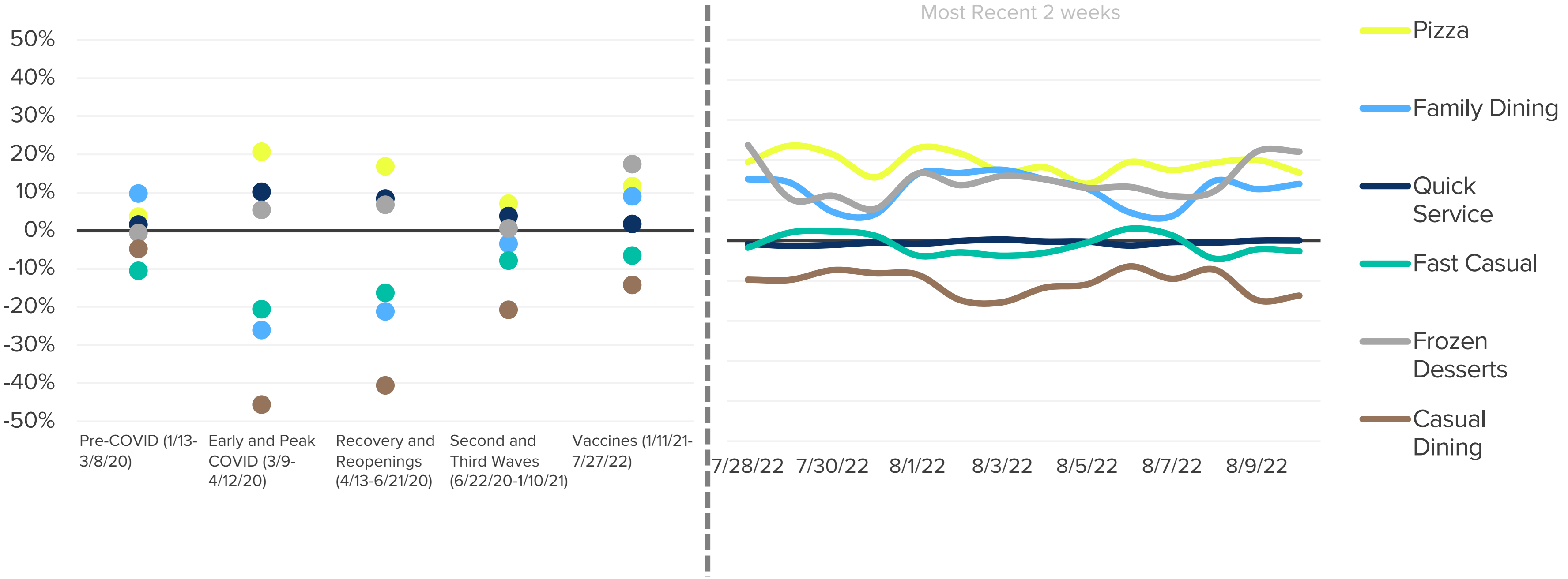
From Medallia Market Research Credit / Debit Transaction Panel. Top 200 Brands in Food and Beverage Retail / Restaurant Market based on prior 12 month Panel Sales.

There's also reliable day-to-day stability, using foot traffic market trends as an example

Change in Share of Restaurant Market Visits vs. 2019

National daily relative % change in share of Restaurant visits by subchannel



Market: National; Categories: Quick Service, Fast Casual, Pizza, Frozen Desserts, Casual Dining, Family Dining
Based on Medallia Market Research Smartphone Foot Traffic Dataset. Metrics subject to change

Recap

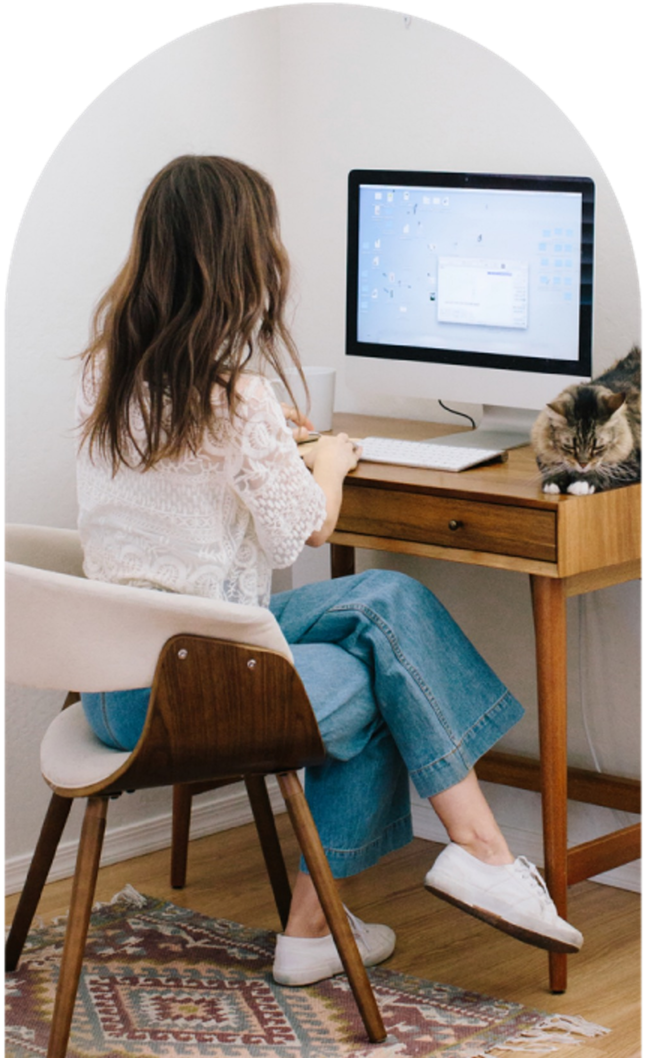
The Right Way to Understand Post-COVID Industry Trends

- With roughly 2.5 years underway since the start of COVID, and recent consumer sentiment plus public health guidance suggesting we're now in a "post-COVID" era, the changes that appear most permanent are a shift to working from home and making more purchases through digital channels. Some other changes once billed as permanent from COVID, like changing loyalties across brands and various retail / restaurant categories, are revealing themselves to be temporary or overstated.
- The main focus now on consumers' minds is inflation – and media narratives sometimes position this to be as impactful to consumer behavior and as risky to unraveling the economy as they did regarding COVID. While consumers have cut back on some expenditures and many retailers / restaurants are seeing transaction volume declines, the market remains much more stable than it was at the heights of COVID.
- In fact, many ways of measuring market stability suggest 2022, so far, has more closely mirrored 2019 than 2020 and 2021. Though not fully back to pre-pandemic levels, the percent of leading restaurants and retailers with year-over-year sales trends near flat (not heavily up nor heavily down) is more similar to how it trended in 2019.
- Other measurements, like the rate at which restaurant and food / bev retail brands trade rank with one another in sales trends, also indicate the market is much more stable than 2020 and 2021 and is closer to that of pre-pandemic normalcy despite the concerns of inflation and recession.
- Going forward, some key principles to get the best insight out of performance trend monitoring, is to:
  - Have a clear rationale for trending against 2019 instead of year-over-year. Year-over-year is likely going to be the more appropriate view from late 2022 onward, the major exception is following momentum that can be skewed by an abnormal Q1 '21 as a year-over-year comparison.
  - Recognize what metrics from the height of COVID aren't applicable to today as a comparison – especially those that are on a "per customer" basis when the customer composition of many brands was artificially skewed towards just the most loyal members at the height of COVID.

Our Next Monthly Webinar

Contact us at briefings@medallia.com

September 20, 2022	Understanding Gen Z



Questions?

Contact us at
briefings@medallia.com

Thank You

Food / Bev Industry Category Definitions & Example Brands

Supermarket	Kroger	SAFEWAY
Club	COSTCO WHOLESALE	sam's club
Mass	Walmart	TARGET
Drug	Walgreens	CVS pharmacy
Dollar	DOLLAR GENERAL	FAMILY DOLLAR
Convenience Store	7 ELEVEN	CIRCLE K

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Food / Bev Industry Category Definitions & Example Brands

Category	Example Brands	
Quick Service (LSR)	McDonald's	Starbucks Coffee
Fast Casual (LSR)	Chipotle Mexican Grill	Panera Bread
Pizza (LSR)	Pizza Hut	Domino's
Frozen Desserts (LSR)	Baskin Robbins	tcby the country's best yogurt
Casual Dining (FSR)	Applebee's	Olive Garden Italian Kitchen
Family Dining (FSR)	IHOP	Denny's

LSR: Limited Service Restaurants
FSR: Full Service Restaurants

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