

# FORECASTING IN CHALLENGING TIMES

Considerations and actions before, during and after coronavirus

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# IPSOS VIEWS

GAME CHANGERS







## FORECASTING SALES IN 2020

COVID-19 has had a profound effect on the lives of people who have never before known scarcity, or been subject to restrictions in freedom of movement.

We have experienced changes in what we buy, where we buy, when we buy, how we buy, and who we buy for, even why we buy. Unique in our lifetime, this is a shared event with similar conditions imposed concurrently among the large proportion of the global population.

As we acknowledge changes in our own behaviour, the questions for marketers and researchers involved in innovation are multiple. For recent launches, are the plans set out prior to COVID-19 still valid – specifically can I rely on the forecasts and provisions made? If not, what needs to be done to better gauge the likely outcome? And for initiatives still in the development phase, with no consensus

on when normalcy will resume, do you 'stick or twist'? Is there value in continuing planning in a period of continuing disruption?

With the fight against COVID-19 already referenced as a war, the analogy can be furthered to consider planning in terms of strategic, operational, and tactical implications. All effects are subject to change as a function of events, but as in peace time, attempting to achieve as many 'known knowns' as possible is a worthwhile activity. Not just to arrive at the number, but also to provide a structured analysis of potential impacts. This will lead to a better dialogue between all stakeholders, and ultimately support better decisions.

In this paper, we therefore highlight variables to consider when planning, with a particular focus on a consumer packaged goods context.

## STOCKPILING STABLE GOODS IS NOT NECESSARILY IRRATIONAL BEHAVIOUR

The phenomenon of toilet paper stockpiling, which contributed to supermarkets imposing restrictions could be argued as selfish, but is otherwise understandable. That people with availability of time, storage space, and money should buy products they consider essential is a rational behaviour and even a manifestation of a desire to control. Further, as more people spend more time at home, increased usage occasions can also drive increased demand resulting in emptier shelves.

Marketers have long triggered a version of stockpiling behaviour through promotion and the resultant impact on short terms sales is an element of many marketing plans. The subsequent reduction in purchase frequency, i.e. the movement of goods from store to home, means reduced occasions to shop the category.

Likewise, increases in usage (for some categories) can be anticipated and therefore contribute to the overall impact on sales. Shift of size/variant preference, towards larger packs, can also mean less opportunity for impulse purchases and less variety seeking behaviour.

## CHOICE AT SHELF

The underlying propensity to try new innovation might be impacted in a period of uncertainty. 'Panic buying' implies less discrimination which means products with a strong presence on-shelf or online, or with strong equity (supported by clear packaging communication) may disproportionately gain.

What happens in terms of choice behaviour as a function of a new reality at shelf can be assessed through updated consumer research. This is relevant particularly if a fundamentally changed shelf set is expected to be a new long-term reality.

The impact of expected shorter-term change can be simulated. The more mechanical, macro effect of distribution can be accounted for through a changed marketing plan assumption. Additionally, forecasting approaches based on observing behaviour at shelf, can be leveraged to estimate the impact that lower presence at shelf has on reducing standout and trial. Furthermore, category price elasticities (built by modelling current choice behaviour as a function of brand preference, price, and other explanatory variables) can also play a role in fine-tuning simulations under different scenarios, up to a point.

## INCORPORATING THE STRENGTH OF YOUR INNOVATION

Stronger innovations are more resilient. They tap into underlying consumer needs and offer points of differentiation which ultimately drive distinctiveness and longevity. They therefore stand a greater chance of achieving the share of choice forecasted prior to COVID-19. Weaker propositions are inherently more susceptible unless their benefits happen to be more relevant to the changed consumer motivations brought about by recent events. In some categories, drivers of demand can be expected to change in the short-term and in certain cases, even long-term. A new soap with an emphasis on moisturising benefits, rather than hygiene for example, may be less relevant in 2020 than when tested in 2019.

Comparison to competition is an inherent part of the Ipsos research design. Simulating a change in the importance of category drivers and the subsequent impact on the appeal of the test proposition is a standard capability with Ipsos' forecasting tools. Furthermore, scenario planning the impact of changed positioning drivers through to a hypothesised re-positioning of the innovation and subsequent impact on trial and repeat is also possible. In fact, simulating the impact on existing forecasts is encouraged with all products scheduled for imminent launch.

## PLANNING FOR CHANGE

During a crisis, some innovations will do better because they reflect the sentiments of the time. Concepts perceived to be of good value were more likely to achieve a high trial potential during the 2008 recession compared to those perceived as premium<sup>1</sup>. Consumer confidence is a known lagging indicator that recovers slowly after the immediate crisis is over. Hard discounters for example have proven adept in the past in offering alternatives to brands. Existing forecasts which incorporate private label impact can already provide a view on source of volume and stock out behaviour in relation to the innovation and therefore offer a data source for simulating the risk of more aggressive store brand activity.

**Consumer confidence is a known lagging indicator that recovers slowly after the immediate crisis is over.**

**Figure 1** Ipsos' online virtual Simstore simulation is used to assess switching and stock out in every late-stage forecast



Source: Ipsos Simstore



## SCENARIO PLANNING EXAMPLE: UPDATING AN EXISTING FORECAST

New product success will continue to be determined by core principles relevant since the development of currency, markets, and choice. And accurate sales forecasting will continue to be governed by principles which have enabled leading providers to deliver consistently. In Ipsos' case, gauging consumer demand through triangulation of behaviour and attitudes, performance versus in-market competition, benchmarking, and continuous validation<sup>1</sup> remain key.

Forecasting in periods of uncertainty however requires more rigorous and flexible scenario planning. At the heart of the forecast is the consumer response to the innovation, relative to other choices available. If the competitive context is not substantially changing compared to the conditions of the test, and the underlying drivers of brand preference can be reasonably assumed to remain stable, existing survey measures of consumer appeal can be reasonably maintained. Ipsos has recently re-fielded in the April lockdown, 13 innovation concepts in the US which had been originally tested in January, and found high consistency with the

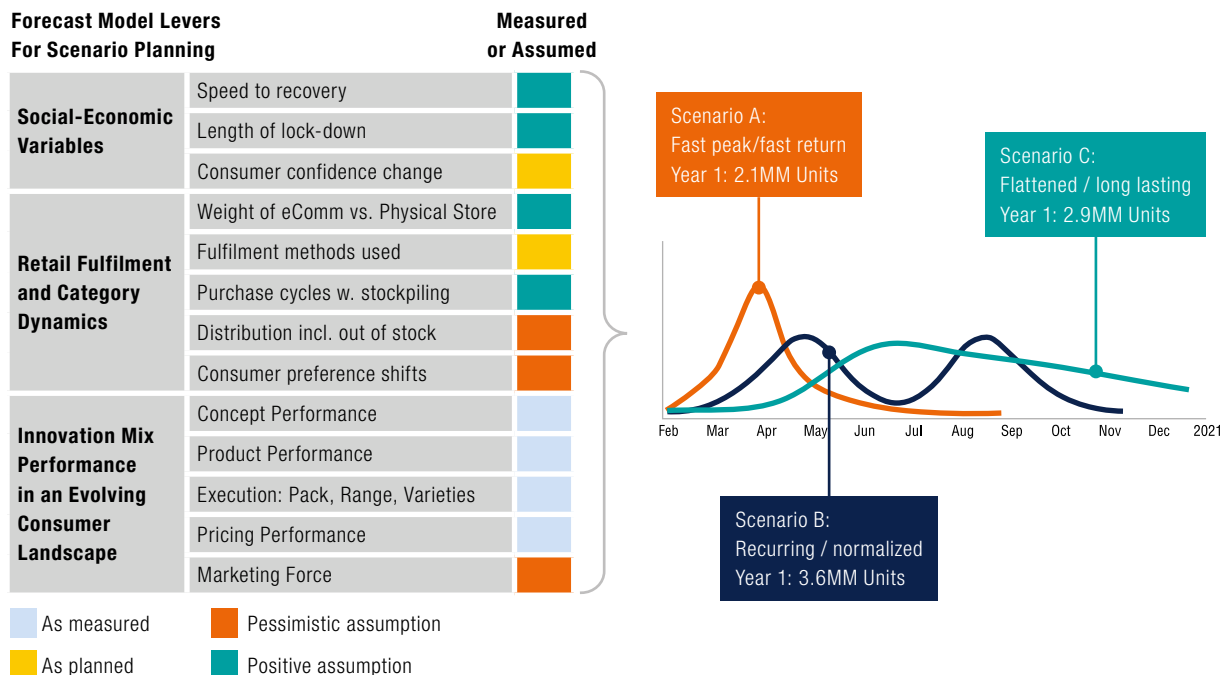
average trial index increasing from 112 in original study to 113 in the re-test.

More substantial change brought about by shifting consumer preferences (e.g. in respect to hygiene) may require an updated measure of concept appeal. And categories which are expected to fundamentally change might require a full re-evaluation from the consumer. This judgement call with regards to the consumer assessment though frustrating, is inevitable.

Planning for the most likely outcome in regard to external factors should be systematic and is a natural development of the process applicable in 'normal' times. Changing social and economic variables, new sales dynamics, and shifts in category buying behaviour drive the need for flexible scenario planning.

Ipsos can provide multiple types of simulation given the depth and breadth of issues considered. For a given marketing support plan, this may involve multiple considerations as in the below example:

**Figure 2** Forecast Model Levers for Scenario Planning



Source: Ipsos Innovation Forecasting

## PLANNING A CHANGE

Consumers remain open to innovation in changed circumstances. Though different in scale and impact, the success rate for new concepts in the post-2008 recessionary period was actually higher than the historical average<sup>2</sup>.

Manufacturers recognising an increased sensitivity to hygiene for example, will drive market development. Beauty brands in China are already moving into sterilization<sup>3</sup>. As hygiene becomes more significant, related benefits will inevitably become more sophisticated leading to segmentation and fragmentation directly impacting innovation potential.

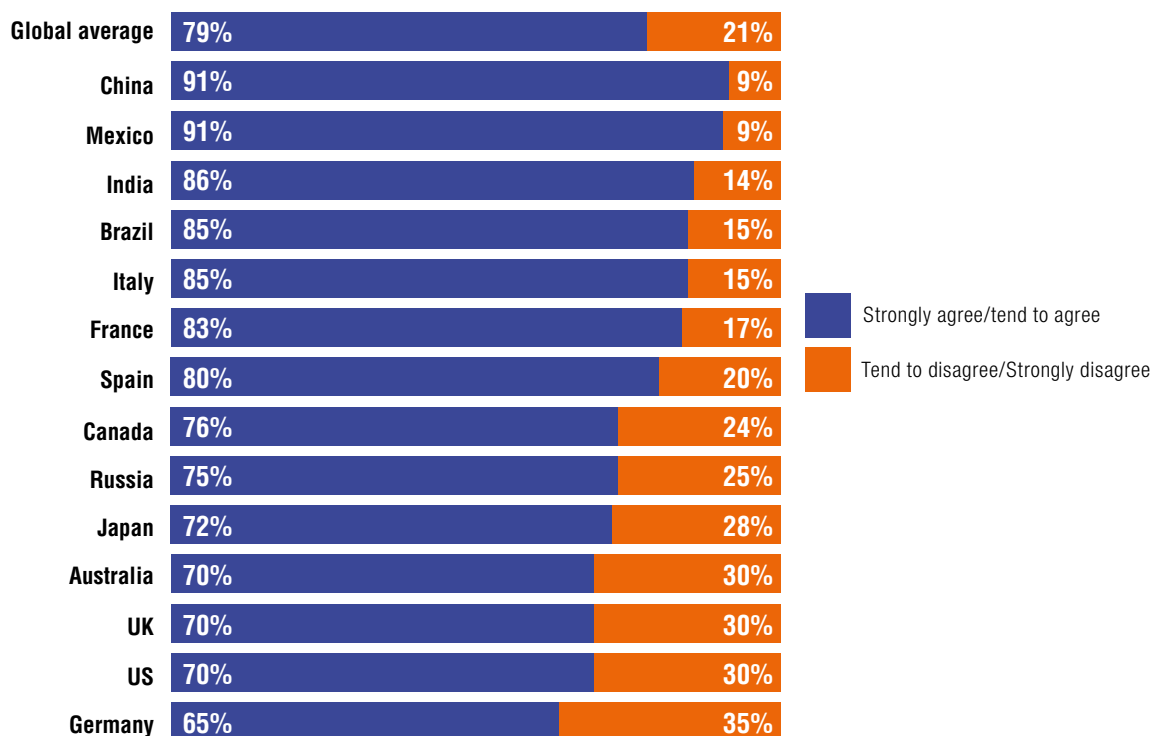
As well as changes at a category level, manufacturers will do well to recognise a dynamic in consumer sentiment. For example, regarding the long-term impact of the virus, 79% claim to be looking for healthier and environmentally better products.

In some sense, we have been here before. Where expressed concerns about the environment, plastics, and carbon

emissions are not associated with significant changes in personal behaviour – a classic example of the say-do gap<sup>4</sup>. But because COVID-19 has been so personally experienced, there is reason to assume a more profound effect in the longer term. Perhaps more important will be the impact of consumers' outlook on employment, their financial situation and their local economy – the Ipsos Expectations Index in April is four points lower than at any time in its 10-year history<sup>5</sup>.

Despite this complexity, the inherent advantage of understanding new CPG innovation through choice and comparison to competition is that the 'new normal' at that point in time can be captured and measured. Good practice entails research experiments designed to reflect that reality and promote closer to real experience, supplemented by respondent classification, for example, expectations related to employment and financial situation, which can act as a variable for later simulation and scenario planning. If categories are reasonably expected to be impacted, segmenting variables on issues like those described should be designed in from the outset.

**Figure 3** I will seek out products that are healthier and better for the environment



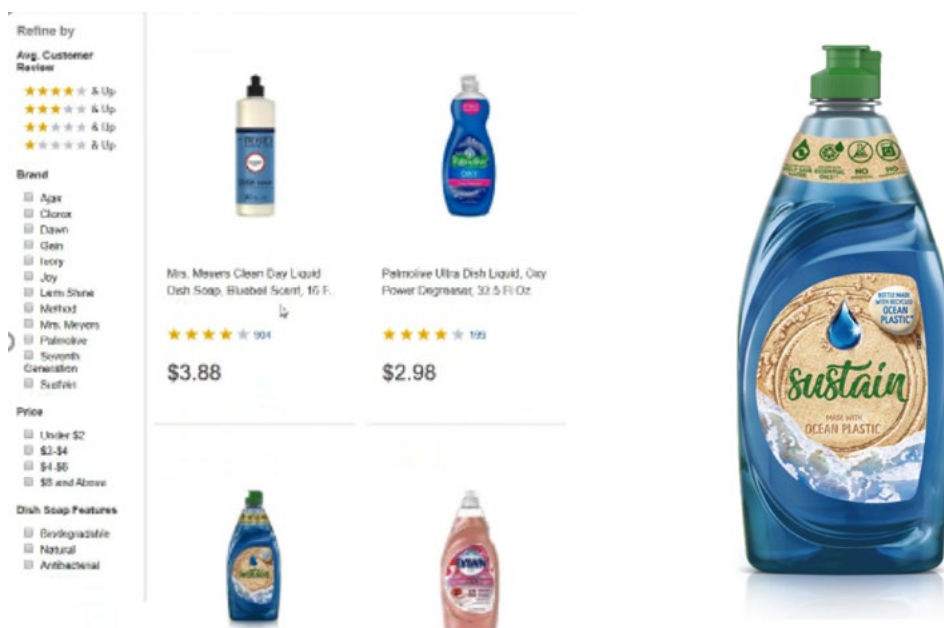
Source: Ipsos Global Advisor, Earth Day 2020, 28,029 online adults aged 16-74 between 16 to 19 April 2020

## APPLYING GOOD PRACTICE

An example can be highlighted in Ipsos research conducted in February 2020. Over 2000 US participants were invited to shop the dishwash category in a familiar looking eCommerce channel. A new brand 'Sustain' was introduced with two versions (1) no environmental claims (2) with environmental claims, led by 'ocean plastic'. Additionally, three price levels were tested. The research showed that at parity pricing, more consumers chose 'Sustain' when environmental claims were present<sup>6</sup>. However, with premium pricing there was no significant gain in trial.

Consumers therefore find the environmental claims attractive but only up to a point i.e. when there is no compromise needed. Adding a premium meant more limited trial potential – this despite strong recognition of a more environmentally sound proposition. As we enter a potentially long period of economic uncertainty, behaviour-based measures represent an important tool for marketers to reduce the uncertainty of the say-do gap.

**Figure 3** Ipsos Simstore trial for new environmental dishwash brand



Source: Ipsos Simstore research conducted Feb 2020

## KEY TAKEAWAYS

1

### **Forecasting is as important as ever**

In challenging times, robust business planning remains key. Sales potential can be different under a changed consumer landscape. Systematic review of likely impacts on knowable inputs is good practice in any situation, but particularly in times of crisis.

2

### **Adapt to new behaviour**

Review forecast through the lenses of the new consumer behaviour and market situation. Seek to model and adapt to new behaviour such as channel preference for eCommerce, new fulfillment models such as delivery and pick up, delayed purchase cycle, lower consumer confidence, by designing these elements into the approach.

### **Encourage scenario planning**

3

Be prepared to iterate and update, providing simulation capabilities for scenario planning using external variables beyond a marketer's control. A leave-behind forecast simulator provides the most flexibility for marketers.

## REFERENCES

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