

The Terror of the Black Swan

First a global pandemic
Now Inflation as a Future-Shaper

Ananda Roy, SVP Strategic Growth Insights, IRI International



IRI
Growth delivered.

- 1** **Imperfect inflation:** Why 2022 will be different
- 2** **Consumer Attitudes & Behaviours:** Rationality & Reality
- 3** **Category Demand & Response:** The street fight begins
- 4** **High-performance brands:** Taming blistering inflation
- 5** **Strategic Options:** Grow in inflationary headwinds

An Imperfect Inflation as a shaper of the FMCG Demand Curve in 2022 and beyond

- Not the 1st inflation, won't be the last, but there has never been such [a convergence of supply & demand side discontinuities](#) since the Great Depression in the 1920s. This is an imperfect inflation and it will be different.
- Balance of probabilities looking at forecasting & commercial realities is this will [not be a temporary blip](#).
- Consumers [don't recognise marginal increases in prices, it takes 'Sticker Shock'](#), and routinely 9-12 months before their shopping & consumption behaviours change
- This 'Sticker Shock' profoundly influences [what, where & how](#) consumer try, buy & consume.
- The [direction of travel in the consumer's ability to buy & willingness to spend](#) is a good measure of the amplitude of change we're likely to see in their shopper & consumption behaviour.
- [15 distinct shopper behaviours](#) provide marketers a robust & innovative arsenal to weather the inflationary storm
- Forecasting [the impact on key food & non-food categories](#) affected by a combination of consumer factors, shifting price elasticity & value elevation trends will help determine the shape of the demand curve to come
- [Premium, Mainstream & Private Labels are equally vulnerable](#): to different intensities, outcomes & end-games
- The [utter inability to use tried-and-tested forecasting models](#) gums up decision making and blurs actions manufacturers & retailers can take - but emerging category responses provide hints to
- [High-performance brands](#) that have delivered exceptional performance in inflationary headwinds apply counter-intuitive brand & business strategies; adapting short term actions without losing coherence with long-term strategy
- Manufacturers & Retailers retain [several strategic options](#) when they magnify & execute [the full skills toolbox](#)



Imperfect Inflation

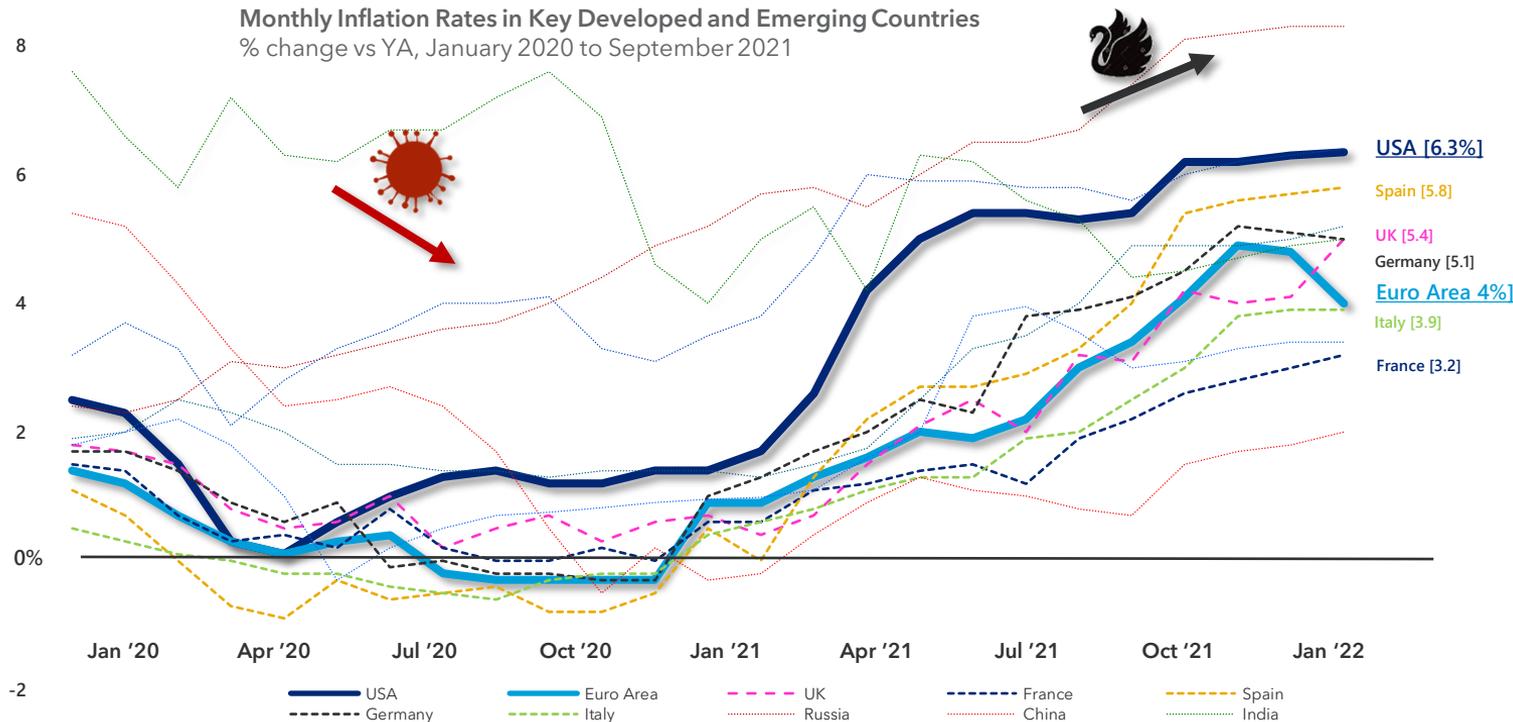
And why 2022 will be different



IRI
Growth delivered.

Inflation is growing across the world's biggest economies that is sure to reverberate globally; Yet it is understated in official statistics and uneven in its impact

Monthly Inflation Rates in Key Developed and Emerging Countries
% change vs YA, January 2020 to September 2021



CPI as a quoted metric does not include housing & commodity fuel prices, the latter of which has recently become volatile & difficult to predict.

Coming out of the pandemic, there are unique supply-side factors and uneven demand-side factors that make forecasting uncertain and drags business confidence.

Many manufacturers & retailers are still recovering from significant financial difficulties in 2020-2021 and there are COVID uncertainties to come over the winter, including measures that may disrupt recovery & growth.

Russia [8.3]
Mexico [6.4]
New Zealand [5.2]
India [5]
Australia [3.4]
China [2]

This is the not the first inflation, it wont be the last, but this one is very different

There has never been such a convergence of inflation-driving factors since the Great Depression in the 1920s



Commodity Prices Rising

Energy: Crude Oil, Gas
Non Energy: Beverages, Food (Grains, Oils & Meals, Fertiliser), Gold, Minerals (Iron, Copper)



Soaring Energy Prices

Volatile & Not Forecastable
Govt. not getting involved



Transportation Disruption

Skilled Driver Shortages
100,000 HGV drivers lost



Uneven Consumer Demand

Pent up demand or Fear
Disposable income inequality & Unemployment



Shipping Costs 7x

Capacity Gaps
9-12 months to fix



Covid Uncertainty

New lockdown measures drag mobility
Business Confidence



Seasonal Labour Gaps

Fruit & Veg Picker shortages
Anti-Immigration Sentiment



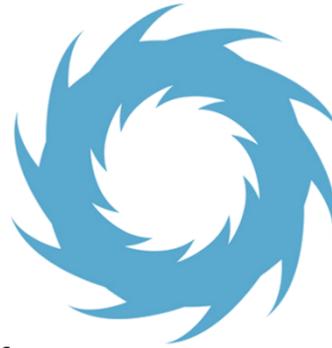
Govt support ends; Cross-border + begin

VAT holidays, farming subsidies & furlough end
New Brexit border hurdles & EU VAT Tariff Changes

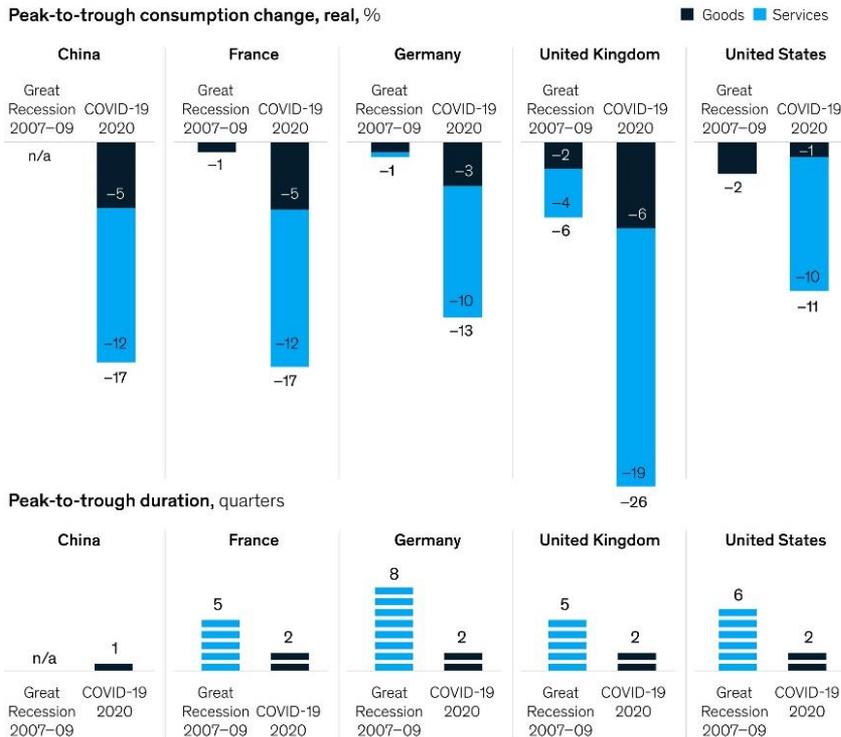


Prolonged unseasonable weather

Spring & Autumn Harvest
High spot prices for grains and oils



Still in the midst of a soft recovery from the global pandemic (as manufacturers and retailers try to repair their balance sheets) these inflationary headwinds are unwelcome



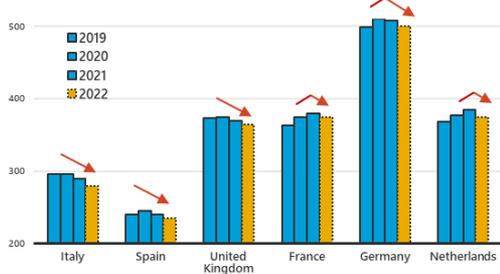
Source: McKinsey Global Institute

Note: Peak-to-trough based on quarterly consumption data. For Great Recession, dates vary across countries. For COVID-19, assumed peak in Q4 2019 and trough in Q2 2020 (Q1 2020 in China). Figures may not sum because of rounding.
 Source: Bureau of Economic Analysis; Bureau of Labor Statistics, retrieved from FRED, Federal Reserve Bank of St. Louis; Eurostat; NBS; Oxford Economics; McKinsey Global Institute analysis

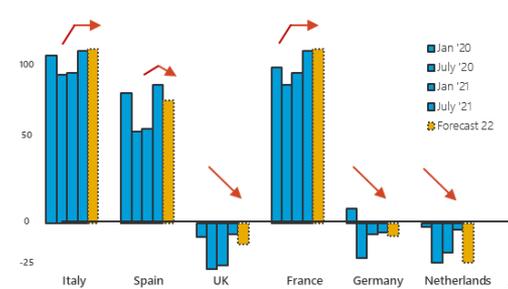


2022 outlook suggests the Eurozone is sailing into choppy macroeconomic waters

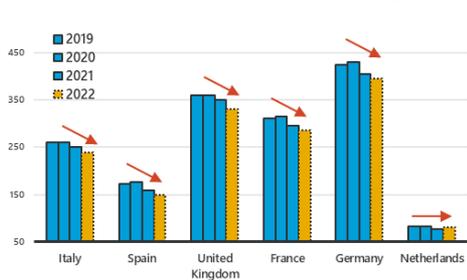
Disposable Income forecast to decline significantly by end of 2022 in key European Markets after rising housing rents, fuel, energy, transport, taxes & wage increases rising ahead of inflation



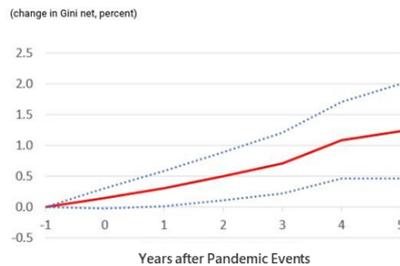
Consumer Confidence was lowest in mid-2020, rose by mid-2021 with mass vaccination & easing restrictions; **now forecast to decline in 2022** as uncertainty over new Covid measures, lower employment & disposable income erode confidence.



Consumer Spending that rose briefly on pent-up demand over the pandemic now cooling off and is **forecast to decline in 2022** due to declining confidence, uncertainty over new Covid measures & anaemic income growth.



Uneven income widened the gap between rich & poor – Those in stable jobs & able to work from home saved over the pandemic through spending on less on leisure, holidays & hospitality; yet many lost jobs, income and benefits



2022 Outlook across Eurozone markets



- **Supply-side discontinuities** due to soaring commodity prices, increased input & transportation costs, retail & business fuel price volatility which despite forecast to ease in Q2 '22 (will still be nominally 40% higher than a year ago)
- **Critical labour shortages** in certain skilled & low-skilled jobs that have GDP impact despite improving headline employment rates
- **Stagnant to small wage increases** in most Eurozone countries; with uneven impact widening the gap between rich & poor
- **Poor personal savings, high unsecured debt per capita** and the **threat of interest rate increases**
- **Disposable income dropping**
- **Consumer Confidence sliding**
- **All together constraining Consumer Spending** from transitory post-pandemic highs.

The question is less about 'if' and 'how severe' inflation will be; it is 'Is this inflation 'a temporary blip' or will it 'stick'?



The Forecast Reality

How many supply-side factors building inflationary headwinds likely to linger for longer

Shipping & Transportation capacity & costs not expected to change for 9-12 months

Ingredient & Component shortages continue for a year as APAC demand high

Wholesale Energy Price volatility till Q2 '22 but nominal prices remain high longer

Skilled & Unskilled Labour gaps difficult to fill short term without change to immigration laws - this is politically unlikely

Consumer demand difficult to forecast with uncertainty around '22 Covid measures

Uneven 'knee-jerk' wage growth, tax increases & end of subsidies muddy waters

Balance of probabilities hard to predict but underlying factors not likely to abate for 12-18 months at the minimum

Inflation 'sticks' longer



The Commercial Reality

Manufacturer gives Retailer notice of proposed price change (typically 3 months)

Retailer calculates the margin impact. Negotiations with Manufacturer begins

Negotiations conclude at a lower price increase

Retailer immediately places order for 3-months stock at the old price

Big Retailers holds price till stocks last or end of notice period to gain competitive advantage

Smaller Retailers often constrained to pass on the price increase sooner based on margin target & stock levels

Negotiated price increase finally passed on to consumer as much as 3+3 months after initial decision to increase prices

Inflation 'sticks' longer



The warning from history is clear: all periods of high sustained inflation appear temporary at first."

Economist Kallum Pickering
Berenberg Bank.

Where do you place your bets?
End of '22 or Mid '24

Consumer Attitudes & Behaviours

Perception & Rationality when inflation bites



IRI
Growth delivered.

The tension between consumer's rationality & reality will shape the Demand Curve in 2022



Perception

- Is 3.1% or 5% a lot or little?
- Who's afraid of 4.5% (or should I be?)
- "Will this last?" (Will it go higher?!)"



Rationality

- How do I feel about my income?
- Will this change in next 6 & 12 months
- And my spending now and later?



What am I going to do about it??!

**Willingness to spend
and ...**

**How did consumer
behaviours change in
previous inflationary events**

The Firm's Strategic Options

“ Is 3.1% or 5% a lot or little?!! ”

2022 Outlook
BOE Forecast Nov '21



BOE Inflation Target 2%

I am seeing no change frankly! This will blow over!

Wait, Wasn't 2% the target anyway?!!!

Honestly, this makes no sense!!!

Fearing inflation creates inflation!!! Haven't we learnt this?!

It's all a storm in a teacup. Lets go back to enjoying the summer!



Average UK HH on £24,600 Net Pay will be **-£583** worse off



Average UK HH on £24,600 Net Pay will be **-£1,111** worse off

7.1% Wage Growth needed to maintain current disposable income

April '22 vs Apr '21 IFS



Average UK HH on £24,600 Net Pay will be **-£2000** worse off

Especially as there is a yawning gap between their sunny optimism & imminent reality



Consumers feel their personal finances will be better over the next 6 months...

Across the biggest European markets[†]

68%
feel their personal finances will be **significantly, somewhat or generally better** over the next 6 months

92% in **China** 90% in **India**,
77% in **USA**
74% in **Australia, New Zealand, Spain**
71% in **UK**



...despite overwhelmingly feeling that the prices of good & services will go up

in those same European markets[†]

91%
expect prices of goods **to go up**

100% in **Russia**
86% in **USA & Australia**
80% in **China**
78% in **India**

2%
expect prices of goods **to stay the same**

8~10% in **India, China, Australia**

Inflation Rate (Forecast)
India **4.48%** (5.7%)
China **1.50%** (1.7%)
Australia **3%** (2.8%)

7%
expect prices of goods **to go down**

15.5% in **India**
9.5% in **China**
2% in **Mexico**
0% in **Russia**



Distinct optimism as the troughs of uncertainty and pandemic fears ease

(not dampened yet by latest Omnicron developments as no significant Covid measures have been announced before Xmas)

IRI International 'Black Swan' survey in 12 countries, Nov '21; n=3000

[†] European markets in survey: France, Germany, Italy, Spain & The United Kingdom

Other markets in global survey: USA, Mexico, Russia, India, China, Australia, New Zealand

“Who is afraid of 4.5% (or should I be?!)”

Consumers tend not to react to marginal price increases as much as they do to



If cost of butter goes up from £1 by 10p, inflation is 10%



If the grocery bill at the till was up by only 1% this month, & last few months; inflation was 12%



The Humble Loaf

- Bread Wheat† +27%
- Business Gas for Ovens* +40%
- VAT on Business Gas @20%
- Transportation Wages +15%
- Transportation Costs +17%

£2 by 50p, inflation is 25%

† At £255.40/tonne in Nov '21 vs Yago
 * At 406 per Therm for November, British Gas
 Business Gas prices by consumption
 Domestic VAT 5%, Business Gas is set at 20%

STICKER SHOCK



£60 to £77
 to fill a 55-Ltr tank in
 an average family car



£90 to £135
 to heat & light an average family
 home monthly on direct debit
 Ofgem** dials in +30% on
 minimum energy price cap

** Ofgem: UK Office of Gas & Electricity Markets



Shrinking Disposable Income
 after core inflation is added
 to taxes, energy & housing costs; & higher
 interest rates on unsecured debt



**It can take as much as
 6-12 months before
 spending habits cycle
 through to change in elasticity
 & demand**

The **STICKER SHOCK** may influence where & what consumers choose to buy as prices rise

At a supermarket till; consumers may find they've spent too much but are too embarrassed to return items



Buy less at their next visit, look for lower priced options or switch to another retailer altogether

When they go online* they see their total spend, and can make adjustments to stay within their budget without embarrassment.



Supermarkets mitigate this online by proactively offering

- lower priced private labels substitutes
- price comparisons on the basket against other retailers to show savings

And when consumers buy online, they buy well-known national brands or trusted local brands

Across the biggest European markets†



IRI International 'Black Swan' survey in 12 countries, Nov '21; n=3000
 † European markets in survey: France, Germany, Italy, Spain & The United Kingdom
 Other markets in global survey: USA, Mexico, Russia, India, China, Australia, New Zealand

* Also when consumers use scan-as-you-shop devices

Significant price increases may induce some consumers to seek & try a new brand[†]

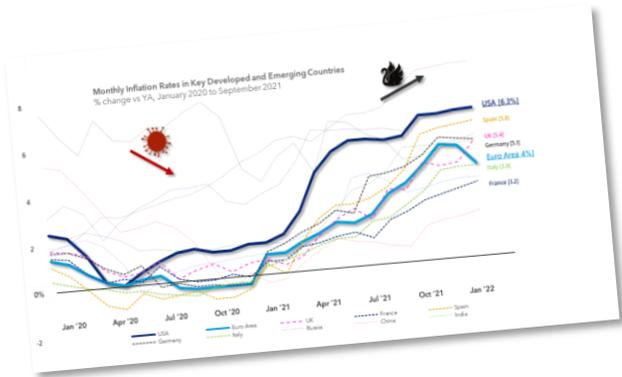
Among those who tried a new brand	1 st Reason	2 nd Reason	3 rd Reason
Always Available	31%	33%	36%
Has a price promotion deal	60%	25%	15%
Better for me	32%	36%	32%
Better for environment	12%	46%	31%
Plant-based alternative	23%	38%	50%
Socially Responsible company	14%	31%	55%

After price & promotions, **'better for me', 'better for environment', 'a socially responsible company' & 'a plant-based alternative'** have risen up the consumer choice drivers to try a new brand[†]

[†] Except when those purchases are online where a significant number of consumers pick trusted national brands first - over any other criteria



“OK so 5% is not good; but could it go even higher?”



2022
Outlook
BOE Forecast Nov '21

5.4%

- 28% Gas
- 22% Vehicle Fuel
- 19% Electricity
- 10% Taxi / Uber
- 6% Hospitality
- 4.6% Education
- 4.5% Rents
- 4% Rail Travel
- 3% Recreation
- 2% Alcohol
- 1.3% Food
- 1.2% Health

With the scale of inflationary price increases, several that are unlikely to come down for 12-18 months; you have to wonder **what is the BOE's headline rate forecast being offset by?!**

As mobility gradually makes a recovery to pre-pandemic levels, consumers are continuing to *cook fresh* at-home and for growing *out-of-home* occasions illustrating the desire to take control of their health and moderate expenses

Europe & Asia lead the return to mobility in workplaces, retail & recreation and transportation as stay-at-home restrictions have eased despite fears of new variants



Rolling 7-day average mobility in workplaces, retail & recreation sites, and transport hubs
Baseline is the average 5-week period from Jan-3 to Feb 6, 2020.

Data Source: Google Mobility Data



43%
still expect to
cook more at-home
fresh from the start

↑ 72% in India
63% in China & Mexico
45% in USA
37% in Eurozone
↓ 24% in NZ & Russia



20%
expect to
eat & drink more at-home
with frozen or packed foods

↑ 39% in India
13% in France
13% in Australia
11% in New Zealand
↓ 5% in Russia



22%
expect to
eat more out of home
with food cooked at home

↑ 52% in India
27% in China
17% in Italy & Germany
13% in UK
↓ 8% in Russia

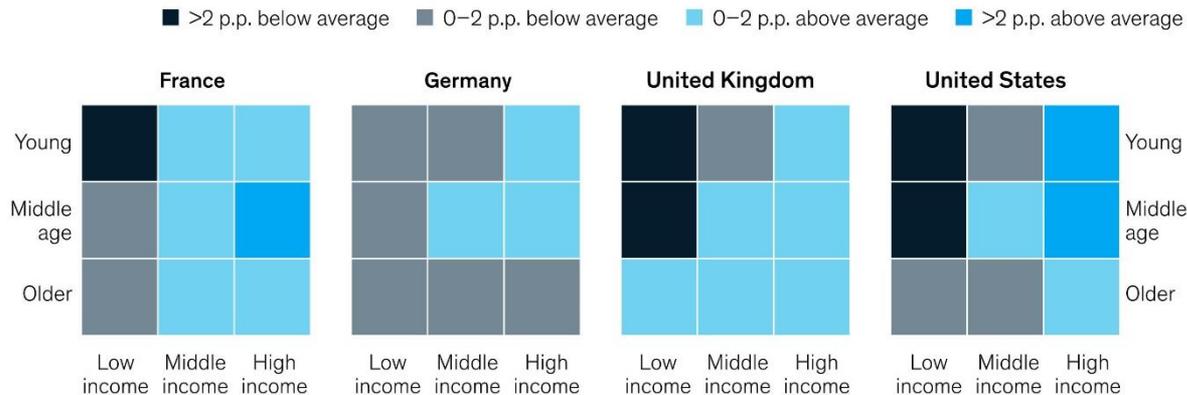


24%
expect to
eat more at restaurants
bars & cafes

↑ 43% in India
31% in Spain
25% in USA & Eurozone
11% in France
↓ 5% in Russia

The recovery in consumer spending is likely to be more uneven between income & age cohorts in the United States than in Europe

Recovery of consumer spending by segment vs aggregate (average) spending recovery in a given country, compared with pre-COVID-19 levels



Note: Segmentation differs across countries due to data limitations. We classify households into low income (Europe, 1st–2nd quintile; United States, below \$40,000 p.a.), middle income (Europe, 3rd–4th quintile; United States, \$40,000–\$100,000 p.a.), and high income (Europe, 5th quintile; United States, >\$100,000 p.a.). For age, we divided households into 3 groups based on head of household age: young (<35; United Kingdom, <30), middle age (35–64; United Kingdom, 30–64), and older (>65). For more detail see Box 1. Our macro methodology and key assumptions in Chapter 1.

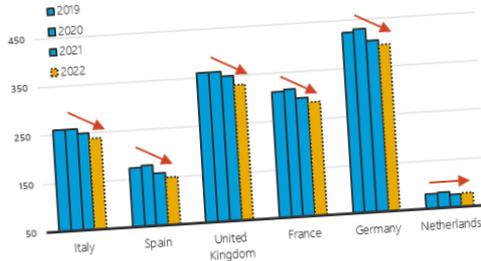
Source: McKinsey Global Institute analysis

Source: McKinsey Global Institute

So what are consumers going to do about it?

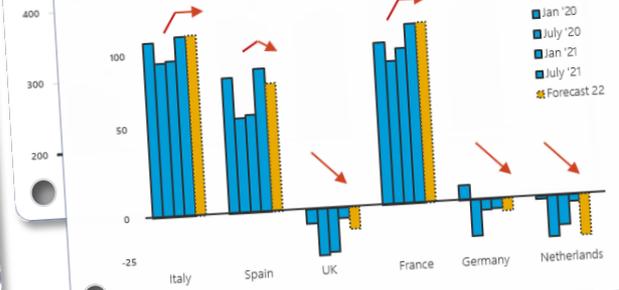
Uneven income widened the gap between rich & poor - Those in stable jobs & able to work from home saved over the pandemic through spending on less on leisure, holidays & hospitality; yet many lost jobs, income and benefits

Consumer Spending that rose briefly on pent-up demand over the pandemic now cooling off and is **forecast to decline in 2022** due to declining confidence, uncertainty over new Covid measures & anaemic income growth.



Disposable Income forecast to decline significantly by end of 2022 in key European Markets after rising housing rents, fuel, energy, transport, taxes & wage increases rising ahead of inflation

Consumer Confidence was lowest in mid-2020, rose by mid-2021 with mass vaccination & easing restrictions; **now forecast to decline in 2022** as uncertainty over new Covid measures, lower employment & disposable income erode confidence.



- Disposable Income ↘
- Unequal Income Distribution ↘
- Consumer Confidence ↘
- Consumer Spending ↘

It is no longer a matter of their 'willingness to spend' but also 'their ability to buy'

Value elevation* trends for FMCG food categories in large Eurozone markets such as the UK illustrate how they are likely to be affected based growth rates & consumer factors



Mobility returning to pre-pandemic levels except int'l air travel



At-Home Cooking from scratch continues



Hybrid Shopping in-store & online



Self-Care across Food, Beverages, Personal Care



Better-for-Me & Sustainability front of mind



School & University open normally



Family together again for holidays less out-of-home



Retail, including Discounters resume normal operations



Smart Deals good value-seeking

Likely to Stay Elevated

Value Elevation*

Categories	2020	L12
Yoghurt Drinks (Gut Health)	12	15
Sports / Energy Drinks	11	14
Flavoured Water Drinks	5	13
Savoury Snacks & Crisps	0	3
Desserts	8	7
Baby Foods (excl Formula)	10	16

Return to Normal

Value Elevation*

Categories	2020	L12
Ambient Ready Meals	-11	-2
Fresh Soup	-2	3
RTE Cereals	-5	-2
Sandwiches	4	21
Carbonated Water, Drinks	-1	5
Canned Soup	-8	-3
Frozen Meals	-1	1
Pre-packed Pizza	-4	0
Fruit Juices	1	10
Baby Milk & Formula	-3	8

Minimal Impact

Value Elevation*

Categories	2020	L12
Sauces, Ketchup & Mayo	-3	-6
Coffee	0	-5
Frozen Food & Vegetables	-11	-17
Tea	-4	-4
Chocolate & Season Gifting	1	1
Prepacked Cheese	-2	-5
Cereal Snack Bars	-1	-7

Likely to Worsen

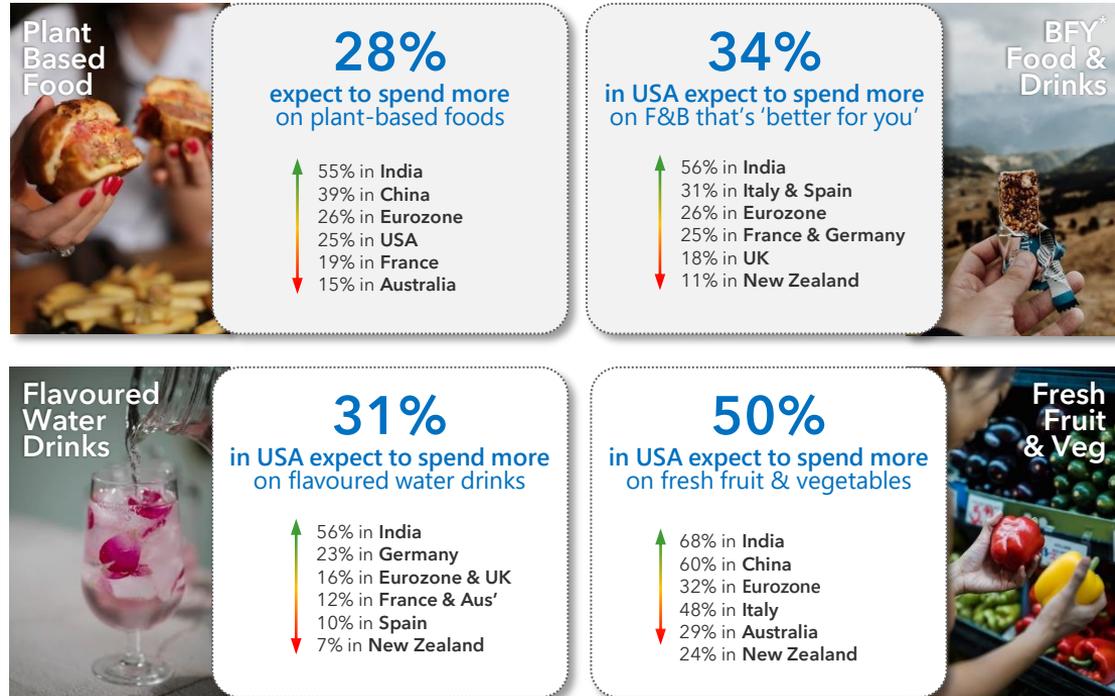
Value Elevation*

Categories	2020	L12
Frozen Desserts	12	-3
Pre-packaged Sandwiches	2	-3
Chewing Gums & Candies	3	9

* 2020 Value Elevation is calculated as ppt difference of CAGR 2017-2019 to L52 WE 2/21/21
 * L12 Value Elevation is calculated as ppt difference of CAGR 2017-2019 to L12 WE 2/21/21 ppt diff.
 Categorization based on IRI Data (as above), price sensitivity data, Panel & shopper and secondary research

Data: All IRI POS Data ending Oct 21; UK Price Sensitivity Model; Kantar & GfK Consumer Studies from Europanel

Consumers willing to spend more for plant-based, BFY*, flavoured water drinks & fresh food



* 'BFY' or Better for You includes functional food & drinks such as high-protein, vitamin fortified, or those supporting immunity & gut health. Does not include powdered food supplements

IRI International 'Black Swan' survey in 12 countries, Nov '21; n=3000

† European markets in survey: France, Germany, Italy, Spain & The United Kingdom; Other markets in global survey: USA, Mexico, Russia, India, China, Australia, New Zealand

Value elevation* trends for non-food categories in large Eurozone markets such as the UK illustrate how they are likely to be affected based on growth rates & consumer factors



Self-Care & Self-Managing Health
Immunity, Gut Health, Sleep Aids & Energy



Better-for-Me & Sustainability front of mind



Smart Deals
good value-seeking



Hybrid Shopping
in-store & online



Personal Care
evolving as needs & occasions change



Household Hygiene
remains elevated beyond clean



Retail, including Discounters resume normal operations

Likely to Stay Elevated

Value Elevation*

Categories	2020	L12
Cosmetics	8	22
Decongestants	-13	46
Healthcare	9	11
Hygiene Products	21	33
Anti-Diarrhoea	-1	31
Paediatric Analgesics	-21	61
Paediatric Cough Liquids	-13	141
Cough Liquids	-21	118

Return to Normal

Value Elevation*

Categories	2020	L12
Lip care	-13	1
Shampoo	-2	4
Laundry Detergents	1	6
Female Hygiene	-7	3
Facial Tissues	-15	4
Anti-tiredness / Energy	-4	6
Adult Analgesics	-8	3
Stomach Upset Remedies	-3	22
Smoking Cessation	1	4
IBS & Heartburn	-2	9

Minimal Impact

Value Elevation*

Categories	2020	L12
Skincare	4	0
Mouthwash	6	5
Toothpaste	-2	0
Hair Dyes, Colourants	-8	-7
Laundry Fabric Softeners	4	4
Sleeping aids	-3	-5
Food Supplements	14	15
Toilet Cleaners	-2	-1

Likely to Worsen

Value Elevation*

Categories	2020	L12
Hand care	-11	-24
Candles & Air Fresheners	14	-12
Fragrances	-6	-10
Personal Wash	-15	-19

* 2020 Value Elevation is calculated as ppt difference of CAGR 2017-2019 to L52 WE 2/21/21

* L12 Value Elevation is calculated as ppt difference of CAGR 2017-2019 to L12 WE 2/21/21 ppt diff.

Categorization based on IRI Data (as above), price sensitivity data, Panel & shopper and secondary research

Data: All IRI POS Data ending Oct 21; UK Price Sensitivity Model; Kantar & GfK Consumer Studies from Eurolpanel

Past periods of sustained inflation have shown consumption choices made by income cohorts based on price sensitivity & perceived value



Low to Mid Income Consumers

Trade down, Low-price Deals or Substitute

- **Frozen meals:** vegetable & meat/seafood
 - **Discounter Private label:** Ketchup, Mayo, Cereal
 - **Value ranges & packs** of national brands
 - **Impulse:** Frozen Desserts, Confectionery, Chocolate
 - **Price-Comparison Websites.** Coupons, Cashback schemes
- Loose Tobacco, Cigarettes or Vaping
 - Sparking Beverages, Water & CSD
 - Branded beers, ciders, & spirits
 - Mobile phone contracts
 - Game consoles, accessories & apps
 - Haircare, Cosmetics & accessories
 - Baby food, care & accessories
 - Leisure and Athletic Apparel & Footwear
- **Fresh fruit, veg and meat/seafood**
 - **Out-of-home hospitality** (except fast food & alcohol)
 - **Infant feeding (milk formula)**
 - **Household care** except antibacterial, analgesics
 - **White goods replacements**
 - **Insurance** incl. Health Insurance
 - **Discretionary Travel** & fewer foreign holidays
 - **Pandemic-bought subscriptions** Netflix, Spotify, Sports Cable

Consumption

Mid to High Income Consumers

'Smart Deals', Premiumise where justified

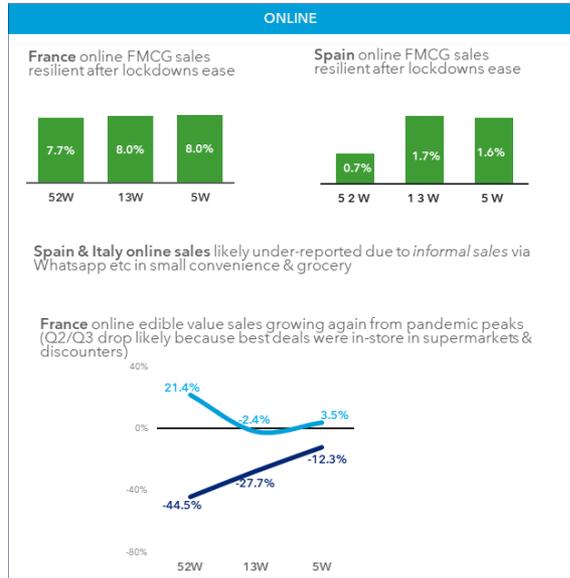
- **At-Home Indulgence** with fresh food, sauces
 - **Self-care BFY Functional Foods, Plant-Based F&B**
 - **Local 'Artisanal' Brands;** Local sourced foods
 - **Private Labels:** Mainstream range, some premium
 - **Private Healthcare** services & Insurance
 - **Impulse:** Premium chocolate, Fresh confectionary
- Modern Nicotine Products & Vaping
 - 'Better for you' Beverages
 - Supermarket label wine, spirits & mixers
 - Cosmetics & Personal Care
 - Mobile phone contracts
 - High speed broadband, data services
 - Baby food, milk formula, care & accessories
 - Comfortable Apparel
- **Foreign holidays & tourism**
 - **Out-of-home leisure & hospitality**
 - **Gym memberships**
 - **White goods, electronics, game consoles**
 - **'Green' products & services** except food



Consumption

The impact of online sales on FMCG categories cannot be understated

Online sales have been resilient even after stay-at-home restrictions were eased



And when consumers buy online, they buy well-known national brands or trusted local brands

Across the biggest European markets[†]

66%

would always or more often **buy well-known national brands**

↑ 85% in Italy, 87% in India;
↓ 46% in NZ

56%

would always or more often **buy a local brand**

↑ 79% in China, 63% in India;
↓ 44% in Russia

50%

would always or more often **buy a private label**

↑ 73% in India, 68% in China;
↓ 29% in Russia ~45% in Mex, Fra, Sp

55%

are less likely or would **never try a new brand**

↑ 68% in Russia less or never
↓ 37% in China, 18% in India less or never

Past inflationary events show how consumers change how they shop, buy & consume

Manufacturers & Retailers apply well-established revenue management principles to mitigate downtrading behaviour

Shopper Choice Behaviours



'Smart Deal'

'Better Value'

'Informed Choice'

'Trusted Brand'

Buy Smaller Pack or Portion 

Pack-Price engg.

All FMCG categories
Concentrated formula

Compare Prices 

Direct & Indirect Price, PPU
Added benefits, quality, upgrades, warranties

All FMCG categories

Purchase in other Channel 

Online / Digital Club, Discounters

Most edible FMCG
Beauty, Personal & Health care

Change frequency of consumption 

2-a-day, 'After School' XX

Snacks, Ambient Foods, Beverages
Functional foods & drinks

Upgrade or make no change 

Rationalise brand/tier choice
New benefits, good value

Better Quality, New Benefits,
Innovative, Functionally Better Offers

Buy Larger Value Pack 

Pack-Price engg.

All FMCG categories

Compare Quantity Needed 

Use less, waste less
Reuse or Lasts Longer

Laundry detergent, Wipes, Tissues
Washing up liquids

Change frequency of Purchase 

XX
XX

Laundry detergent, Washing up liq.
Toilet paper

Change quantity of consumption 

Use less
XX

Toothpaste, Shampoo
Sauces,

Defer purchase 

Alter price/value equation
Induce urgency

Designer apparel (rotation)
Limited Editions, Upgrades

Buy on Deals 

Innovate on Promotions
Optimise Frequency & Depth

All FMCG categories

Compare Equity 

Sustainability, Ethics
Local or National, Fairtrade,
Recycle, Circular Loop

All FMCG categories

Schedule Purchase 

'Before game, Holiday special, Off-peak, Subscription models

XX
XX

Change place of consumption 

Versatile product formats, packs, fits lifestyle

Resealable chocolate, At-home coffee delicacies,

Reassess or Leave Category 

Retention Strategies
Deliver Substitutes

Plant-based Meats, Dairy
No-sugar food, beverages

Source: Shopper panel studies (US) including IRI data; Kantar Research



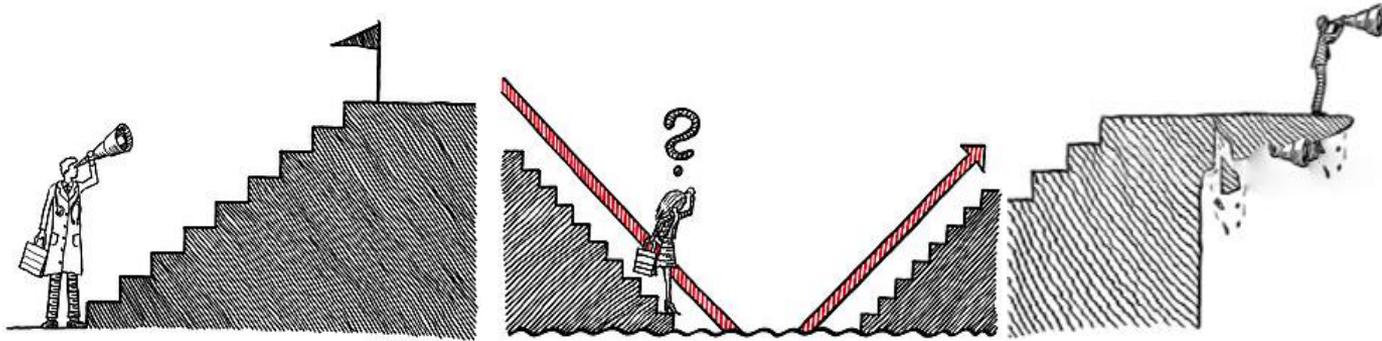
Category Demand & Response

The street fight begins



IRI
Growth delivered.

The utter inability to forecast demand creates uncertainty, slows down decision making and blurs effective actions. Category Forecasters & Industry Analysts have already factored in risk premiums. The category outlook is shaped by the response in the marketplace.



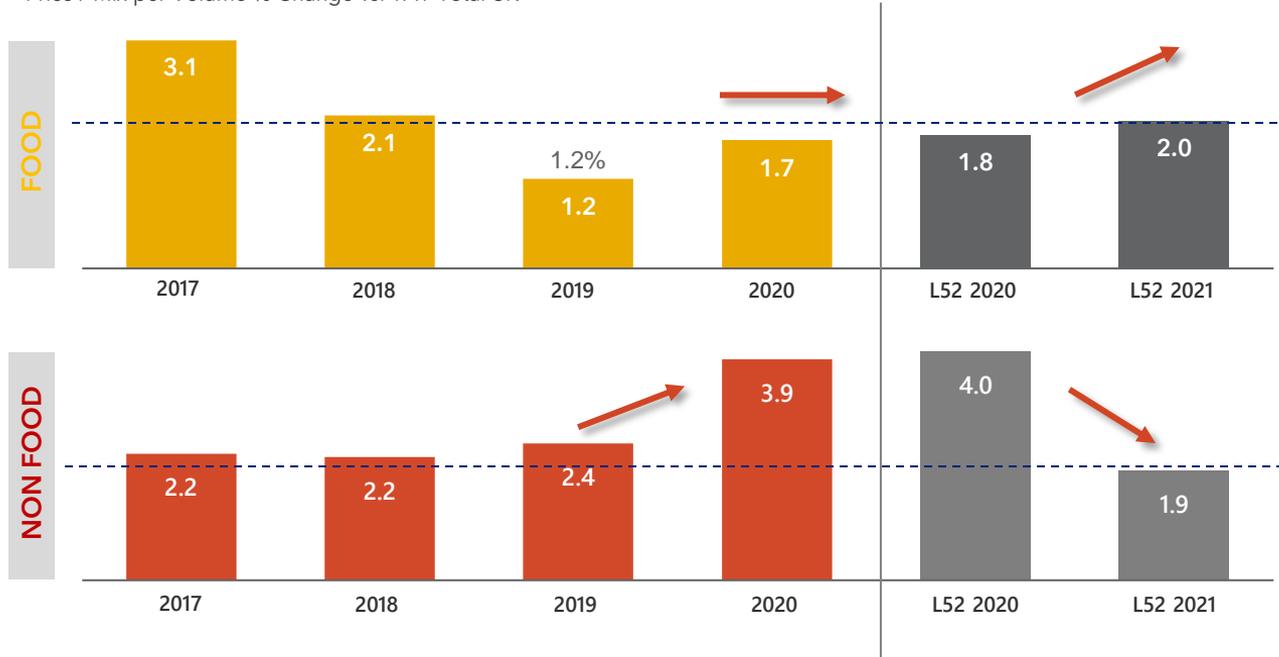
It is the Forecasting and the timing of those strategic interventions
(who goes first on price increases as an example)

Whilst UK Food & Non-food inflationary trends were broadly under BOE' 2% target for most of 2017-2020.

» 2020-21: Uncharacteristic inflationary trends over the pandemic, food* & non-food† trends being divergent

» 2022 outlook: Significant inflationary growth in food, less so in non-food** unless current supply-side disruptions worsen

Price / Mix per Volume % Change vs. YA / Total UK



* **UK Food Inflation** 2018-2020 was below 2% inflation target on back of aggressive EDLP & promotions in a hyper-competitive food-retail market. This has risen marginally in YTD '21 and is expected to rise significantly after the Xmas holiday period into 2022.

† **UK Non-Food Inflation** grew significantly in 2020 as retailers met peak demand for Home Improvement & DIY categories & withdrew promotions when stocks built up over H1 2020 were drawn down. It has since stabilised to pre-pandemic levels as restrictions have eased though some underlying categories (**Personal Care, Household Care) face greater inflationary pressures into 2022.

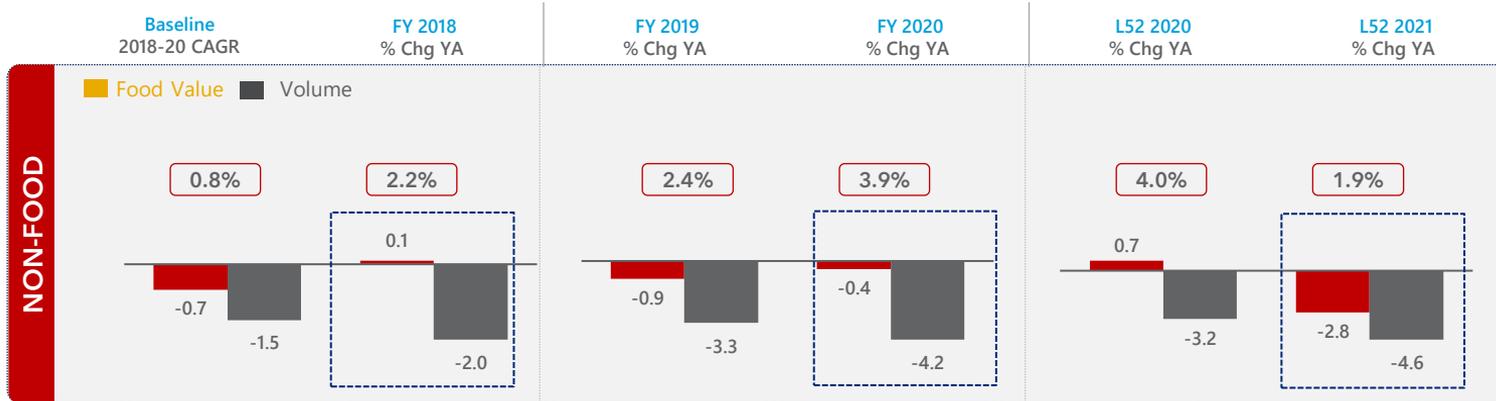
The Price Mix trend also illustrates the (discontinuity) effect the pandemic has had over 2018-2021

» Food: Premiumisation/Mix change had less effect on volume but in 2021 growing sensitivity is causing volume losses



The Price Mix trend illustrates the (discontinuity) effect the pandemic has had over 2018-2021

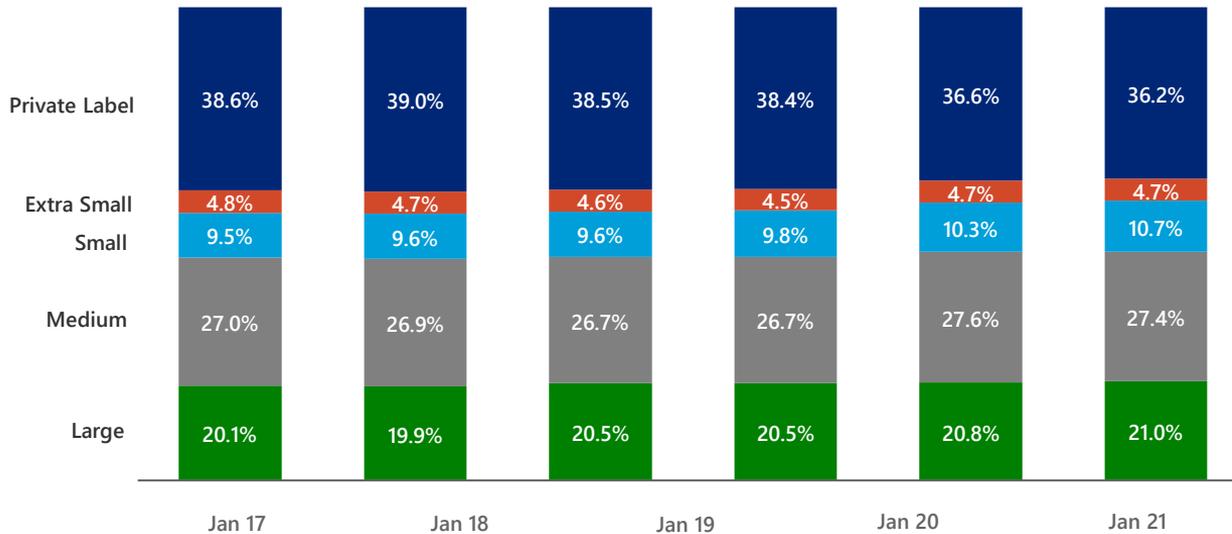
» **Non-Food: In 2021** Volume losses have deepened further on lower EDLP and more promotions



2022+ Demand Drivers

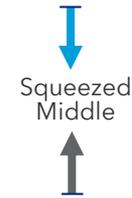
- ↑ Healthcare, Personal Care
- ↑ Price & Portfolio Optimisation
- ↓ Stagnant Demand in some categories (Baby, Home Improvement)
- ↓ Reduced Assortment due to supply-side constraints esp. Personal/Beauty

Inflationary trends will cool value sales growth among Large manufacturers if prices rise as planned potentially helping private labels recover value sales lost over the pandemic. The 'squeezed middle' tier manufacturers face margin erosion & value declines if they succumb to price wars



Exploit to recover pandemic declines

Unpredictable but margin erosion & scale effect likely



Stagnate on price rises

2022 Outlook:

- LARGE** €1B+ in L52W
 Value sales growth stagnate from pandemic growth levels as prices rise
- MEDIUM** €1B- €100M
 Greatest at risk of value sales decline as most exposed to supply side disruptions on low stock levels, inconsistent availability and threat of price wars
- SMALL** €100M- €11M
 The 'Squeezed Middle' along with medium sized manufacturers at risk of slide into value price and margin erosion as growth slows
- VERY SMALL** <€11M
 Difficult to predict but flat sales may grow marginally if 'local' & 'artisanal' brands justify premium. Scale effect may diminish value growth potential
- PRIVATE LABEL**
 Poised for recovery from declining pandemic levels, especially if retailers hold price rises by a couple of quarters & no new Covid-measures occur

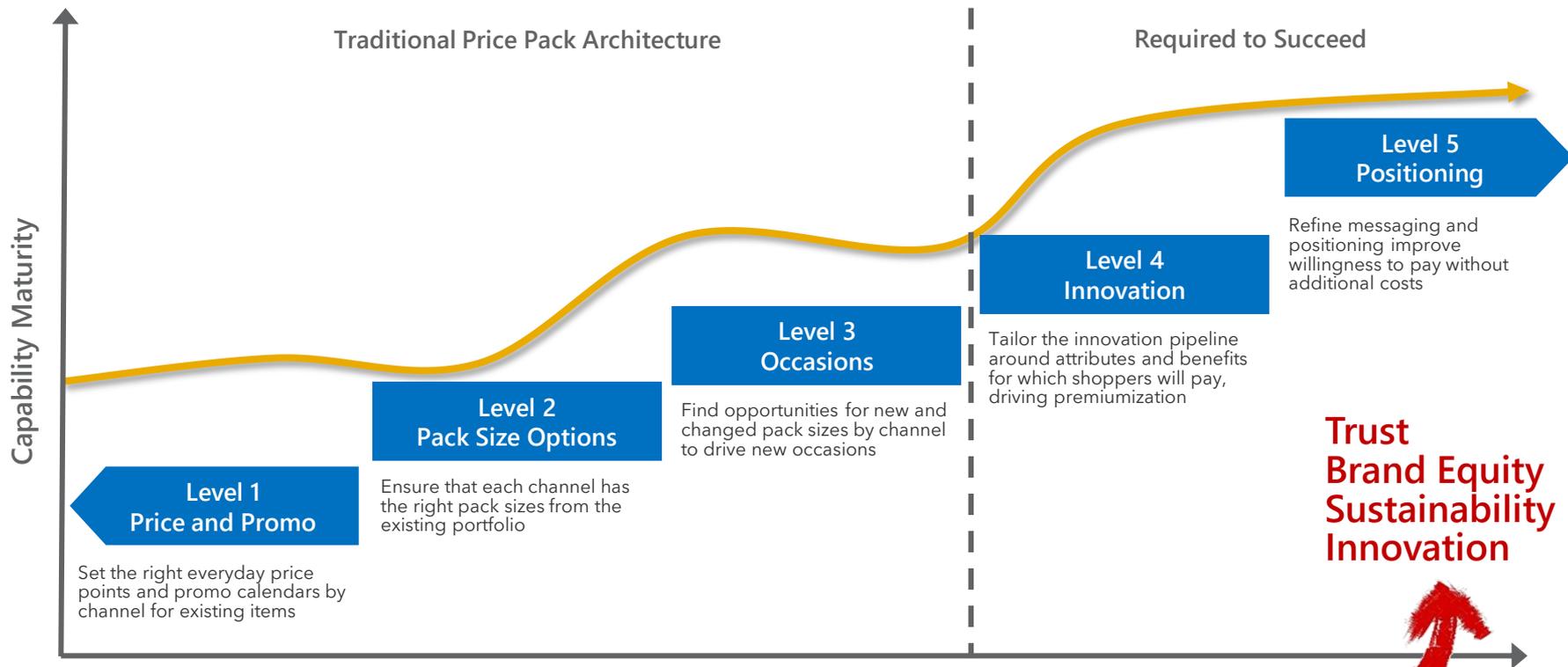
Note: Large: €1B+ in L52W, Medium: €1B- €100M, Small: €100M- €11M and Extra Small: <€11M. Source: IRI POS Database, Data ending 6 Nov, 2021, IRI All Outlets GB.

The uncertainty in consumer demand drivers & diversity of retailer pricing strategies in 2022 may alter the category growth trends over the pandemic

Category Price, Price Tier Growth / MULO / L4 Weeks Ending 10/3/21 vs. YA

	Category	Price per Volume % Change vs. YA	Price Tier Share	Share Change Vs YA	2022 Outlook	Driver
Private Label	Soup	4.3%	14.0%	-0.5	↗	Variety, Winter, At-home
	Fresh Soup & Pasta	3.8%	69.8%	-3.3	→	Ambient foods slow recovery
	Coffee	0.4%	12.3%	-0.4	→	At Home, Specialty
	Breakfast Cereal	3.1%	19.7%	-1.7	↗	Return to normalcy, whole grains
	RTE Cereals	2.4%	18.8%	-1.8	→	Breakfast occasions declining
	Breakfast Cereal Snacking Bar	3.5%	5.4%	-0.4	↗	All-day, High protein, Energy
	Waters	13.0%	21.4%	-3.4	↘	Flavored Water Drinks grow
	Deodorant	0.7%	0.6%	-0.2	↘	Working from home, Informality
	Sauces	3.9%	12.6%	0.6	↗	At-home cooking, Fresh
	Sauces-Chilled	0.7%	98.1%	0.3	↗	At-home & occasions
Mainstream	Soft Drinks	8.2%	34.7%	8.1	↗	Flavour & SF, Carbonation
	Yoghurts	7.2%	61.2%	2.8	→	At-home, cooking & occasions
	Laundry Detergent	10.7%	55.4%	29.6	↗	Return to normal
	Pediatric Analgesics	2.1%	3.1%	-0.9	↗↗	Inelastic, Birth Rates
	Adult Analgesics	-0.4%	1.4%	-1.4	↗	Value PL, formulations
	Topical Analgesics	-3.0%	0.2%	-6.4	→	Only chronic pain sufferers

Applying revenue management strategies such as pack-price architecture and extending beyond is crucial to begin thinking about the strategic growth options available



When was the last time you saw an inflation-busting strategy account for

Growth Insights, Priorities & Approach Of

High-Performance Brands

In Periods Of Intense Inflation, Market Uncertainty & Recession



IRI

Growth delivered.

IRI analysed 40 high performance brands* that grew in inflation (and following recessions) to identify their sources of high-performance growth



The [3] Priorities & Approach that help them identify & commercialise consumer demand



* Source: Company Investor Half-Yearly & Annual Reports, Analyst Views (Bloomberg), Trade Press & Brand Launch announcements (Campaign, Marketing Week)
 * Disclaimer: Any Interpretation of their strategy is based on public information and opinion and explicitly not informed by internal strategic presentations or IRI projects and author did not consult any client accounts teams for any input.

1

They approach consumer-obsession with greater precision



Think of inflation shocks as an opportunity because consumers are actively re-evaluating:

- their consumption of the category
- their relationship with existing brands & propositions
- Seeking better value & benefits



Invest in understanding changing consumer needs & behaviours that are likely to shift the demand curve and create new pockets of growth

- Increase Research & Insights activity
- Prioritise Product & Sensory research
- Grow marketing-sensing Social media research & ethnography
- Accelerate Innovation /commercialisation



Re-aligning marketing portfolio, pricing & revenue management, distribution & brand mix to adapt to the changed demand curve

- In the right markets
- For the right consumer (segments)
- With the right product
- At the right price
- With an optimised total marketing model

Their precision comes from asking questions that shape the consumer demand curve

A Observe how consumers interact with the brand and category



- » Do we track how consumer & shopper needs & behaviours have changed? In the same way as we did when business was usual?
- » How has our consumer & shopper segmentation changed to reflect these insights?
- » Do our research protocols & investments reflect the changing retail, online and consumer landscape?

B Identify the changes to the way consumers select, try, buy & use brands that have a material commercial impact



- » Which of the 15 shopper & consumption behaviours have we observed?
- » Have we identified those 'must-have' features today that were perhaps not critical yesterday?
- » Can & how soon can we add them to the offer without diluting the brand & product promise?
- » How has our strategy changed? Do we know what we are doing differently?

C Execute the strategy with impact



- » How do we deliver price to achieve revenue goals?
- » How do we commercialise the opportunity? What is the optimised revenue, price, portfolio & marketing mix?
- » Have new sub-segments or market opportunities arisen?
- » Where & When is the best time to launch product or promotion to maximise effectiveness
- » Are we measuring the right KPIs?

D Execute for Growth Lead the Recovery



- » What does success or category leadership look like?
- » Where? In which segments?
- » Are we positioned to maximise the green shoots of recovery?
- » What will we need?

They invest more, execute innovatively & never compromise on brand



Invest in the trough

- **Adapt short term** actions & execution but stay **coherent with the long-term** strategy
- **Fight their way with the complete marketing toolbox:** Pricing, Product & Promotion Innovations, New routes to market, New market & consumer segments, & price-pack architecture
- **Improve demand forecasting** capability



Deploy counter-intuitive strategies

- **Reduce innovations**, invest that part of the marketing budget in trade promotions. Phase innovation for recovery
- **Partner with adjacent businesses & rivals (via major wholesalers)** on transportation & distribution to cut costs
- **Identify new suppliers** willing to invest in acquiring their business



Never compromise on the brand promise

- **Deliver brand strategy (as much as the promotional strategy)** without diluting the proposition & equity – don't become part of the competitors strategy.
- **Quality, Trust & Ethical Corporate & Brand** behaviour are not replaceable
- Don't waver from **Sustainability goals**

3

They recognise Premium, Mainstream & Private Label brands are equally vulnerable

▲ To different intensities ▲ For different reasons ▲ To different end-games



Premium



Mainstream VFM



Private Labels

Price Tiers »

	Premium	Mainstream VFM	Private Labels
Objectives	<ul style="list-style-type: none"> Defend Value%, Protect volume (not growth rate) Invest in brand whilst delivering sales 	<ul style="list-style-type: none"> Protect Market share & Volume Manage margin pressures 	<ul style="list-style-type: none"> Maintain Margin % Maintain Sales Velocity
Challenges	<ul style="list-style-type: none"> Price increases forced by unpredictable factors Innovation costs money Multiple products in every segment 	<ul style="list-style-type: none"> Threat of price-wars Switch out to Private Labels Maintaining high levels of availability 	<ul style="list-style-type: none"> Anonymous brands, unknown quality Lack of premium range in the right stores
Key Strategy	<ul style="list-style-type: none"> Justify paying more (not being premium) Acquire switching consumers from rivals Identify new occasions & needs Aggressively optimise portfolio & ranging 	<ul style="list-style-type: none"> Escape The Squeezed Middle Retain current consumers over acquiring new Attract downtrading premium consumers Trade marketing promotions crucial 	<ul style="list-style-type: none"> Re-purchase mechanics / low-cost 'loyalty' drivers Premium Appeal & Driving Loyalty "Premium range" by location, category, velocity
Actions	<ul style="list-style-type: none"> Aggressive focus on input costs Delist poor-performing SKUs & innovations Targeted Availability by channel & segment 	<ul style="list-style-type: none"> Aggressive focus on input costs Attractive Trade Incentives - extend credit days, lower threshold for quantity discounts 	<ul style="list-style-type: none"> Maintain price gaps to EDLP on big brands Small format stores; Online click & collect Online promotions, collect in-store Experiment with store level promotions
KPI Measures	<ul style="list-style-type: none"> Brand spend as % of revenue Value share Incremental sales from NPD & Promotions 	<ul style="list-style-type: none"> Market Share & Volume (in std. units) Total Points of Distribution Base vs Incremental Sales (Tracking Effectiveness) 	<ul style="list-style-type: none"> Margin % ACV% of Stores Volume Selling

Strategic Growth Options:

Grow in inflationary headwinds



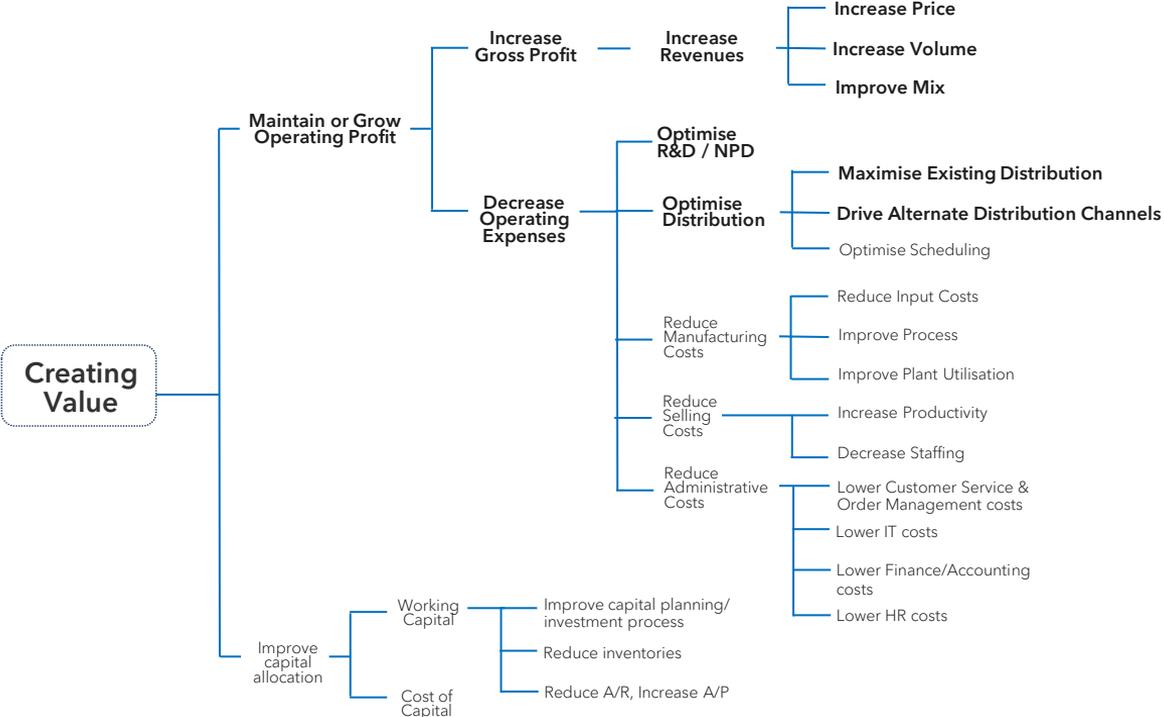
IRI
Growth delivered.

You must either
modify your dreams
or magnify your skills

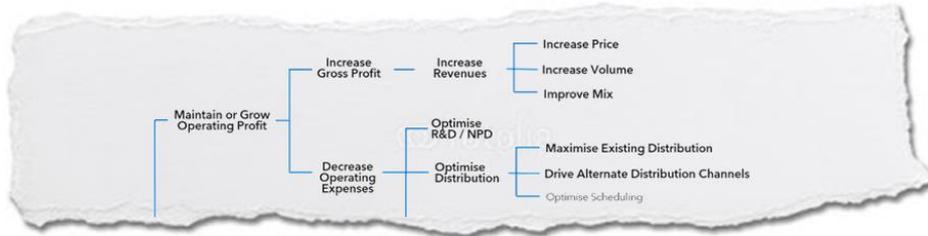
Jim Rohn



The skills playbook to create value in the midst of blistering inflationary headwinds has several strategic options



Opportunities & considerations to drive revenue & maximise effectiveness

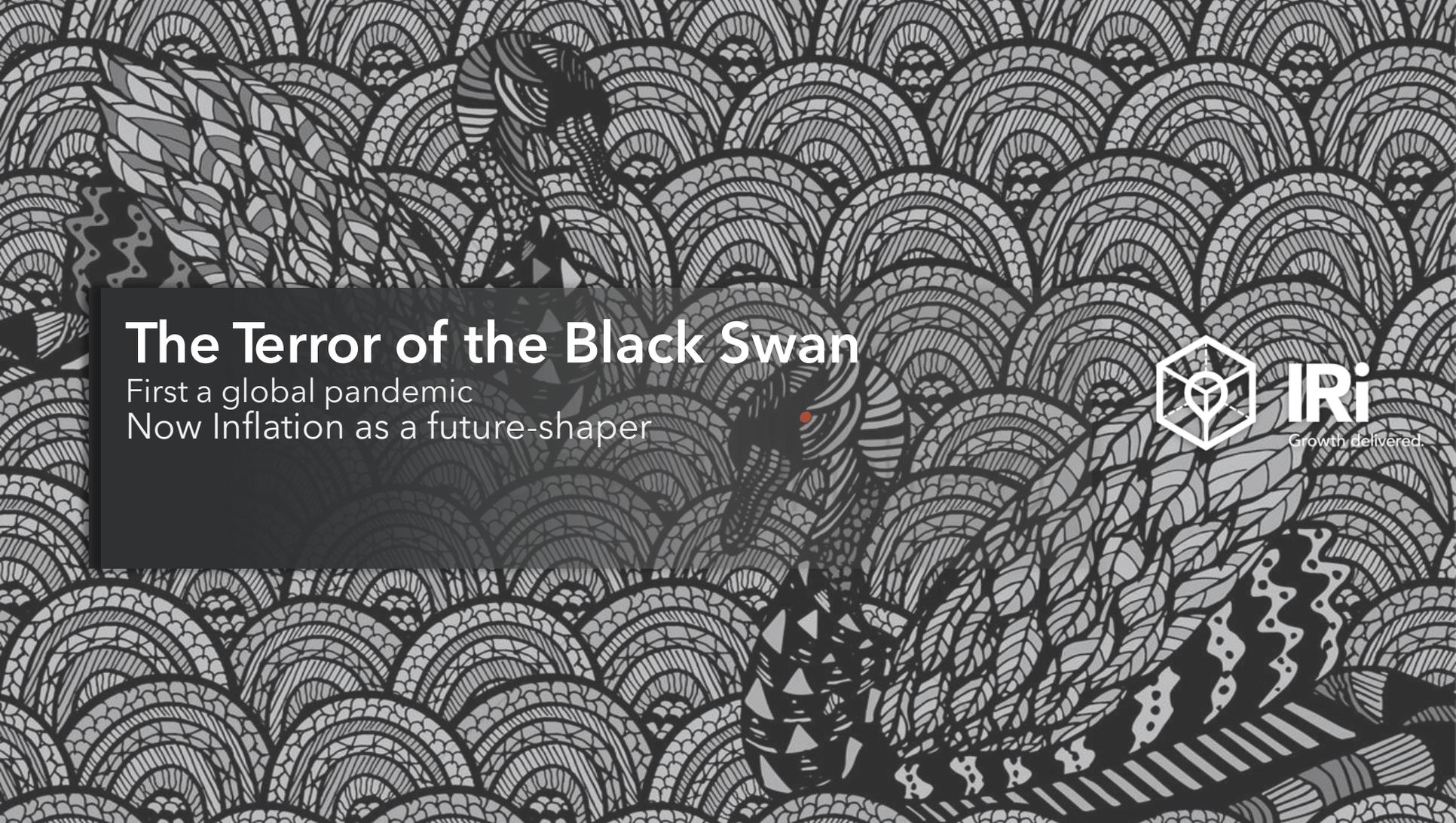


Some of Critical Business Questions arising:

- How do we drive **net price realization** (e.g., real-time optimization of price gaps, granular understanding of consumer price and promotion elasticity, targeted promotions)?
- How do we leverage **assortment** to drive growth in each channel (e.g., value and premium tiers, pack-channel range architecture)?
- How do we **evolve our portfolio** to win market share?
- What **emerging consumer needs** can we translate into NPD that justifies the premium (e.g., self-care, taste sensations, better for you)?
- How can we **optimise our marketing investments with emerging digital channels**, i.e., Online grocery pickup / delivery, Amazon, DTC, third-party delivery?
- How do we drive more **impulse opportunity** via **third-party** delivery apps? How do we capture **impulse** from returning **in-store** traffic?
- How do we win with winning channels and retailers (e.g., **Club and Convenience**)?

The Strategic Enabler

- How can we use **insights and analytics** to act quickly on **evolving demand patterns**?



The Terror of the Black Swan

First a global pandemic
Now Inflation as a future-shaper



IRI
Growth delivered.

An Imperfect Inflation as a shaper of the FMCG Demand Curve in 2022 and beyond

- Not the 1st inflation, won't be the last, but there has never been such [a convergence of supply & demand side discontinuities](#) since the Great Depression in the 1920s. This is an imperfect inflation and it will be different.
- Balance of probabilities looking at forecasting & commercial realities is this will [not be a temporary blip](#).
- Consumers [don't recognise marginal increases in prices, it takes 'Sticker Shock'](#), and routinely 9-12 months before their shopping & consumption behaviours change
- This 'Sticker Shock' profoundly influences [what, where & how](#) consumer try, buy & consume.
- The [direction of travel in the consumer's ability to buy & willingness to spend](#) is a good measure of the amplitude of change we're likely to see in their shopper & consumption behaviour.
- [15 distinct shopper behaviours](#) provide marketers a robust & innovative arsenal to weather the inflationary storm
- Forecasting [the impact on key food & non-food categories](#) affected by a combination of consumer factors, shifting price elasticity & value elevation trends will help determine the shape of the demand curve to come
- [Premium, Mainstream & Private Labels are equally vulnerable](#): to different intensities, outcomes & end-games
- The [utter inability to use tried-and-tested forecasting models](#) gums up decision making and blurs actions manufacturers & retailers can take - but emerging category responses provide hints to
- [High-performance brands](#) that have delivered exceptional performance in inflationary headwinds apply counter-intuitive brand & business strategies; adapting short term actions without losing coherence with long-term strategy
- Manufacturers & Retailers retain [several strategic options](#) when they magnify & execute [the full skills toolbox](#)

The Sequel in 2024



The Terror of the Black Swan

First a global pandemic
Now Inflation as a Future-Shaper

Ananda Roy, SVP Strategic Growth Insights, IRI International



IRI
Growth delivered.