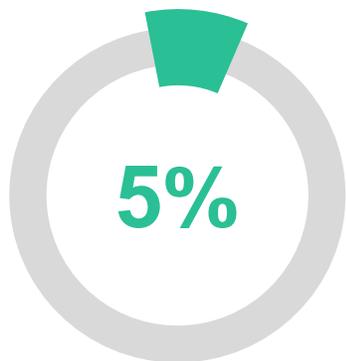


A woman with dark hair, wearing a dark blazer, is smiling and looking down at her smartphone. She is standing in a grocery store aisle, with shelves of products visible in the background. The image has a blue and green color overlay.

The Best Shopper First Strategies for Inflationary Times

ECR Community April 2022

Extraordinary inflationary times call for exceptional understanding of Shopper needs and buying habits



inflation = tipping point for shopper habits change

Two thirds

of shoppers feel their country's economy is weak

Nearly half

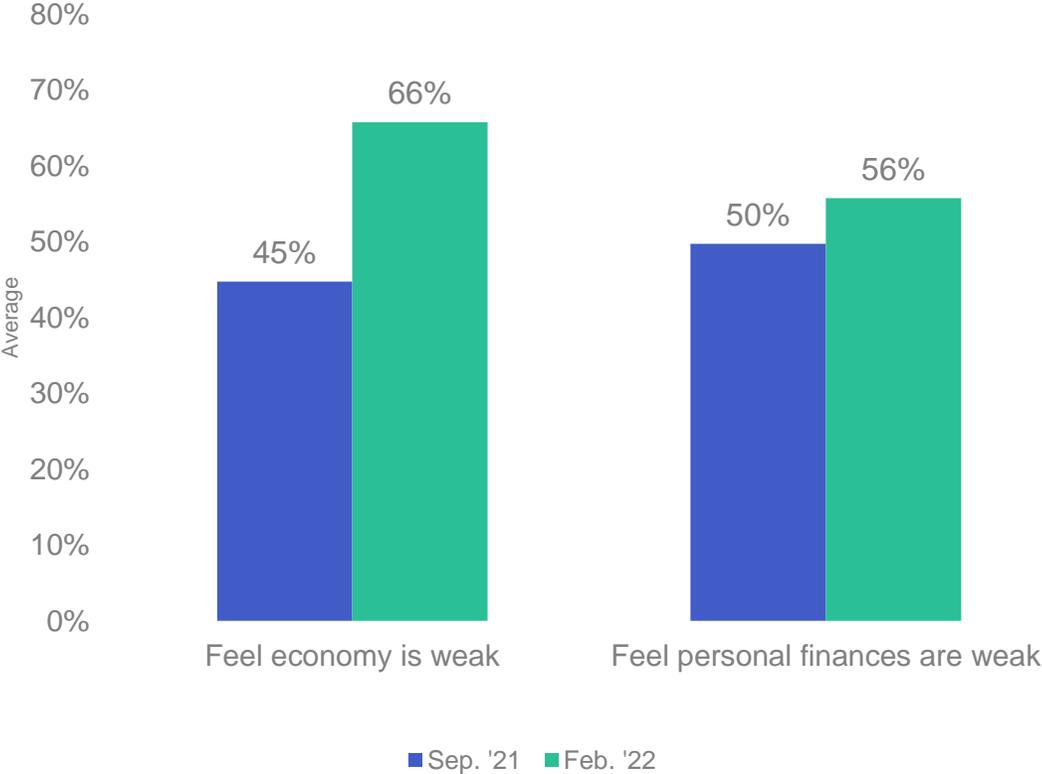
see their own personal finances as challenged

Value remains top of mind

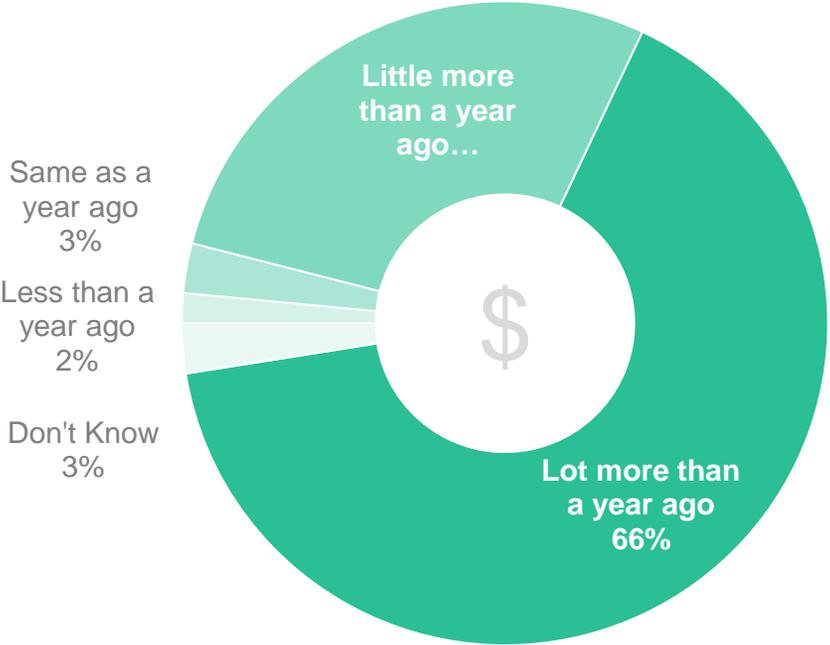
Value seekers far outnumber quality seekers. (60% vs 29% in Feb-22)

Economic pressures are building on people. Two thirds of Shoppers surveyed say food prices have gone up a lot.

Perception of Economic Factors



Perception of food prices last year vs. this year



Source: dunnhumby Consumer pulse report

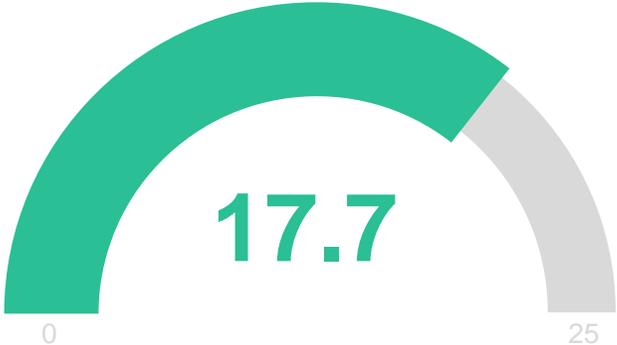
Perception is Far Worse than Reality

To quantify how much “a lot” is ... people were asked how much they felt prices had increased in the past year. They overestimated by nearly 11 points!

Actual Food Inflation Rate*



Perceived Food Inflation Rate*



How much higher do you feel prices are today than a year ago? Please provide your best estimate. _____% higher than a year ago.
People who answered “same as last year” or less than last year were set to 0.

* Source: Tradingeconomics.com

At times like these, it's never been more important for Retailers and Brands to **collaborate** around the Shopper

1. Refresh your Shopper Understanding & Strategy

- **Shopping Habits**
e.g., changes in frequency, spend, and loyalty
- **Shopper affluence**
e.g., changes in number and spending by price-sensitive Shoppers Shopping Missions
- **Changes in sales**
By format / banner or channel,
- **Attitudes, needs, and mindsets**
Resulting from the traumatic pandemic experience

Key questions :

- Are we still focussed on the right strategic group of Shoppers?
- How have price-sensitive Shoppers changed across brands and categories?
- Should we elevate any brand values knowing shoppers are seeking even greater value?

2. Focus on the right categories and products, according to Shoppers

Using the Category Management framework, informed by shopper science, it is business critical to:

Identify those categories that need the most focus

Understand items that need more space and distribution or where you can simplify the range

Reduce inventory to help reinvest in price or make way for new products

Know where stock levels and availability really matters

Solution

Category resets help retailers and brands mitigate passing inflation fully onto Shoppers

3. Ensure competitiveness on the right items to protect your value perception

- **Review and expand Key Value Items (KVIs)**
- **Deeper investment** on KVIs
- **Online channel** reflect in-store prices on KVIs
- **“Better value”** price activities
- **Good, better, best choice** across brand portfolio and category

We are seeing an increase in certain value-seeking strategies like using coupons and searching for sales:



Source: dunnhumby Consumer Pulse

4. Rebalance how prices and promotions work together to deliver real value

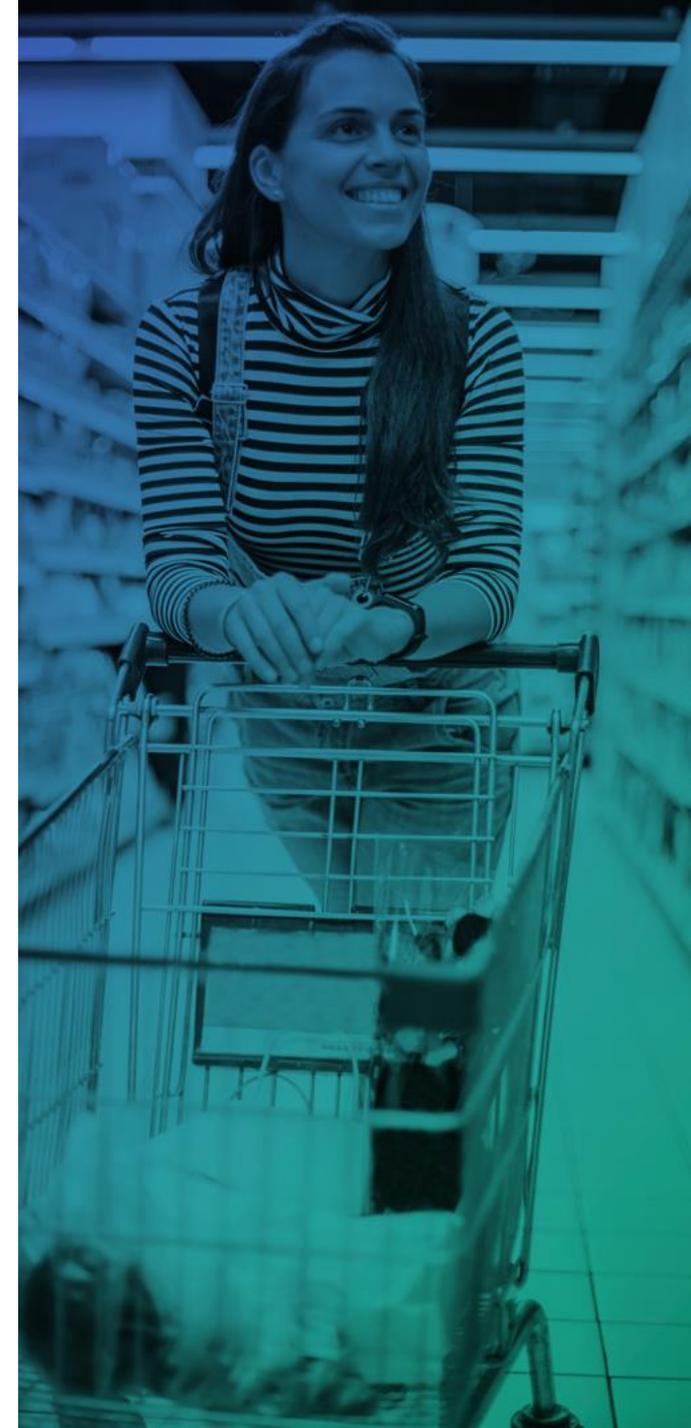
A highly-collaborative approach to pricing and promotions is essential:

Use science and data-led approach to identify right balance of price and promotion

Deliver fewer, more efficient promotions

Use personalised offers and targeted promotions to drive frequency and spending

Rethink Trade Planning with special emphasis on Events and Fresh



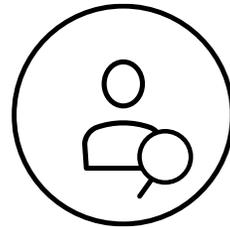
5. Help Shoppers find smarter and easier alternatives

Re-examine the holistic value perception drivers, particularly to:



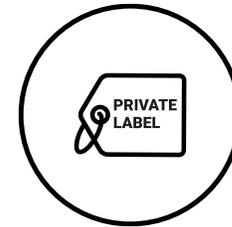
Make the store easier to shop and find Value

Apply substitutability science to make store fixtures easier to shop for Shoppers and meet their budgets



Help Shoppers find cheaper alternatives

Using the science of complementary product choices to enable personalised 'recommenders'



Highlight Private Brands

Expand range of own label items to provide more value choices

5 Shopper First business processes

How retailers and brands can save to invest rather than solely shifting the burden onto Shoppers via price increases.



New areas of collaboration



Simplify; reduce cost to serve



Reduce packaging costs



Helpful service trade-offs



New reward mechanics and subscriptions

Category Management during inflationary times – once again, back to basics

As has been the case in previous periods of economic challenge, Category Management continues to provide brands and retailers with the framework and a logical process to review and adjust overall go-to-market strategies and category level strategies and tactics to adjust to the changing consumer and shopper needs and expectations. Following these principles provides the “back to basics” roadmap to successfully navigate the current challenges.

Steps	Implications during inflationary times
Category Definition	<ul style="list-style-type: none"> • How the shopper buys has changed during Covid and is changing again with inflation at +5%. Understanding these changes requires understanding and activating shopper data. • Just like with COVID when consumers redefined some categories (e.g., broader definition of the “cleaning” category), similar changes could occur as consumers adjust their shopping to combat the impact of inflation. Examples might include “economy meal substitutes”. • Retailers should analyse shopper data to see where these shifts are most significant. Adjusting category definitions to be more in tune with these trends can be a major source of competitive advantage and positive consumer communication.
Category Roles	<ul style="list-style-type: none"> • Emerging new definitions of Destination, Routine, and Convenience roles considering more eating at home, supply volatility, greater value-seeking? And new roles i.e., price & promotional sensitivity, category price elasticity, substitutability are emerging from shopper data science. • In inflationary period, some categories will become more important to consumers; others less important. Current Category Roles should be reviewed and modified to reflect these changing levels of importance. • Another source for reviewing current Roles is likely to be the anti-inflationary strategies of competitors especially more price –oriented competitors.
Category Assessment and Performance Evaluation	<ul style="list-style-type: none"> • The competitive landscape has changed – growth of online, quick-commerce, discounters, etc. In inflationary times, more price- oriented retailers can capture market share. Updating SWOT analyses are especially important to determine any significant trends in terms of the retail channels and formats that are gaining market share in key categories. • Category shopping behaviour changes are also likely (including transaction sizes, frequency of category purchase, category penetration in the shopping basket). Category assessments should include these changes.
Scorecard Objectives & Targets	<ul style="list-style-type: none"> • While traditional sales and profit measure remain important, other measures should be included on the Category Scorecard to more directly measure the impact of inflation and actions taken to address it. • Measures include Category sales and sales growth, market share vs. key competitors, price index for key price image items (KVI’s) and key promoted items, category sales contribution to total shopping basket, private brand vs national brand pricing gaps, GMROI by shopper segment.

Category Management during inflationary times – once again, back to basics

Steps	Implications during inflationary times
Category Strategies	<ul style="list-style-type: none">• New discussions lately around range optimisation to liberate working capital (to invest in price), role of Private Brands in the mix, other 'value' levers (e.g., offer personalisation, shelf presentation and flow).• It is important to review and adjust the mix of strategies being used in categories. To positively impact consumer perceptions, strategies that focus on creating the right price image and the right value image become more important in inflationary times. Private brand products in the category can be targeted for these strategies. Transaction building strategies also become even more important to ensure that basket transaction levels are protected as much as possible.
Category Tactics	<ul style="list-style-type: none">• The right balance of price and promotion tactics become critical for success in inflationary periods to provide the consumer with an appealing value proposition.• Shelf presentation tactics must make key value products easy to see and shopper on-shelf communication must reinforce the value to the shopper.• The use of cross-merchandising (product bundling) will also create value as well as help protect basket transaction sizes.• Curating the assortment to reduce costs or better manage the supply chain is an even more important tactic in inflationary periods.
Implement	<ul style="list-style-type: none">• Current labour shortage pressures and higher employee costs in stores and supply chain issues need to be recognized and factored into category plan implementation programs.
Review	<ul style="list-style-type: none">• Rapidly changing business environment and assumptions require more urgent adaptation

A critical opportunity to better collaborate and drive mutual growth

1. Inflationary times present a big opportunity for Retailer and CPG Collaboration

- Was the industry making enough progress ahead of Covid and inflation?

2. Shopper-Centricity

- Better meeting shoppers' needs and wants requires elevating true collaborative mindsets and practices

3. Big Data

- Leveraging Big Data (by both CPGs and Retailers) requires more precision and sophistication in its use - and is advanced by strategic collaboration between Retailers and Suppliers

COOPERATIVE V. COLLABORATIVE

COOPERATION

- Mutual respect
- Transparency
- Shared goals
- Independent and dependent
- Loose network
- Short-term
- Sharing of ideas as a group
- Engagement

COLLABORATION

- Mutual trust
- Vulnerability
- Shared vision and values
- Constant state of interdependence
- Tight culture
- Long-term
- Generation of new ideas as a group
- Empowerment

Thank you.

dunnhumby