



Connecting Globally,
Inspiring Activation

BG20 Summit 2022

Higher prices,
Lower profits?



The 2022 Consumer Normal

The impacts of inflation
and the pandemic

Richard Herbert



FMCG in 2022 & 2023



Market Growth



Shopping



Choice



Covid



Inflation?

Setting the scene - Inflation Rates

France

— Total
— Food

Jul 21

Aug 22

8,4

6,6

Germany

15,5

8,8

Italy

10,7

9,1

NL

13,8

UK

13,1

9,9

Spain

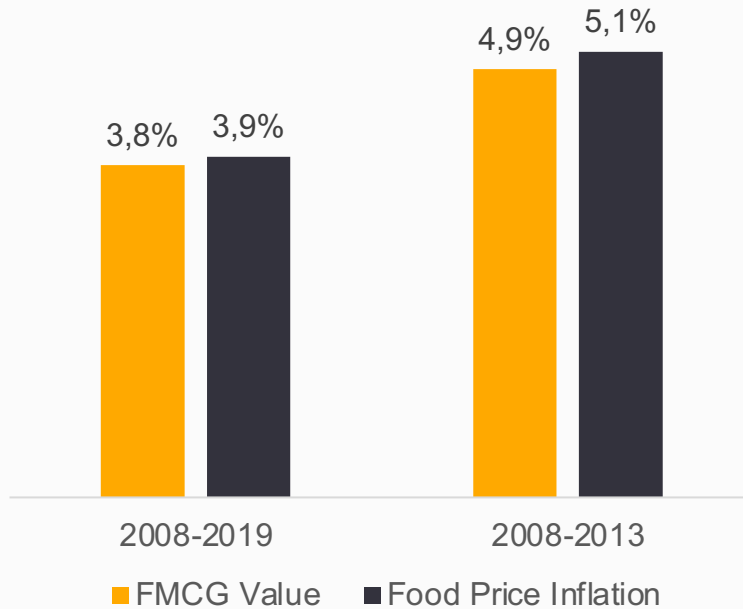
13,8

10,5

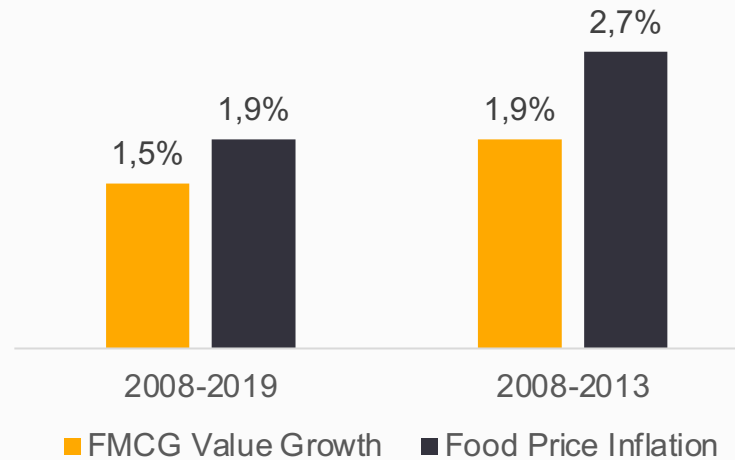


FMCG value reflects food price inflation

Global average monthly year ago % change



W Europe average monthly year ago % change



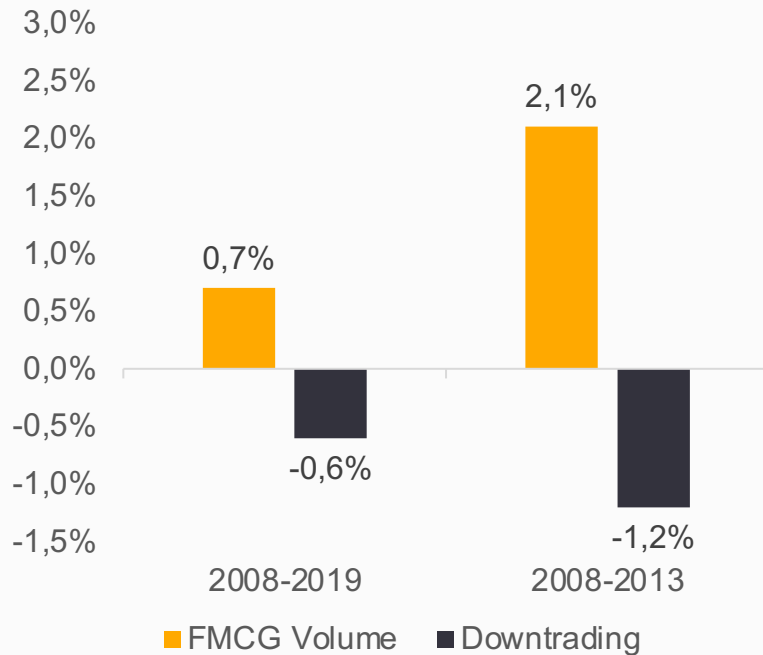
SOURCE: Europanel FMCG Barometer – 13 countries

©Europanel

- Long term, Food price inflation translates into FMCG value
- Less so when times are tough due to down-trading

FMCG volumes are strong in hard times

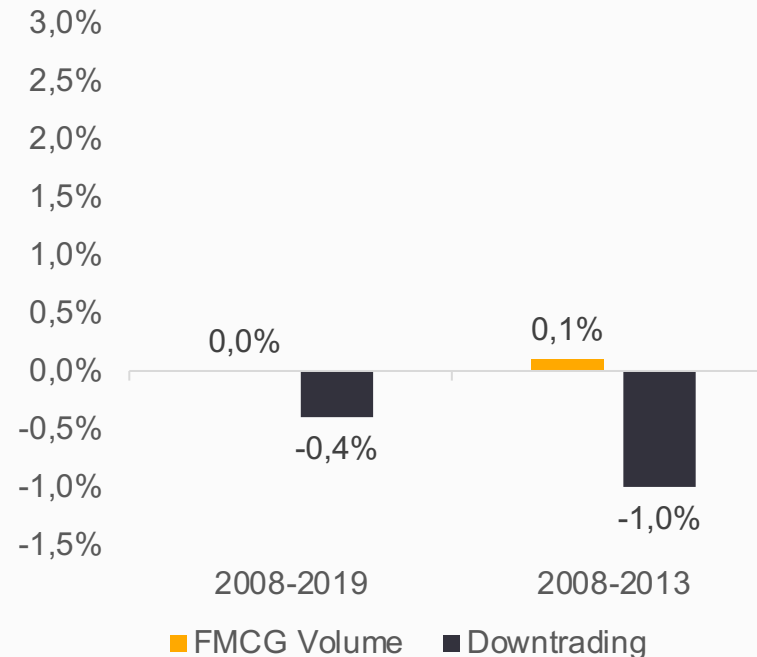
Global average monthly year ago % change



SOURCE: Europanel FMCG Barometer – 13 countries

©Europanel

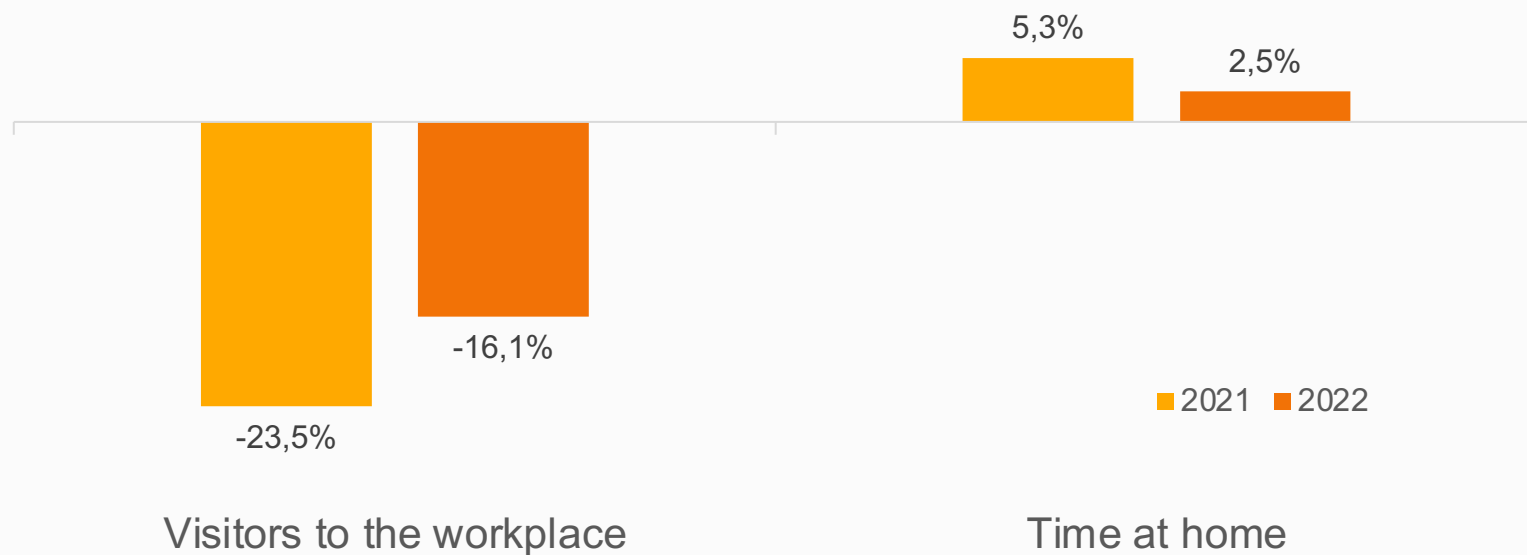
W Europe average monthly year ago % change



- FMCG volumes increase in hard times
- Choices being made elsewhere such as Out-of to In-Home
- But down-trading counteracts

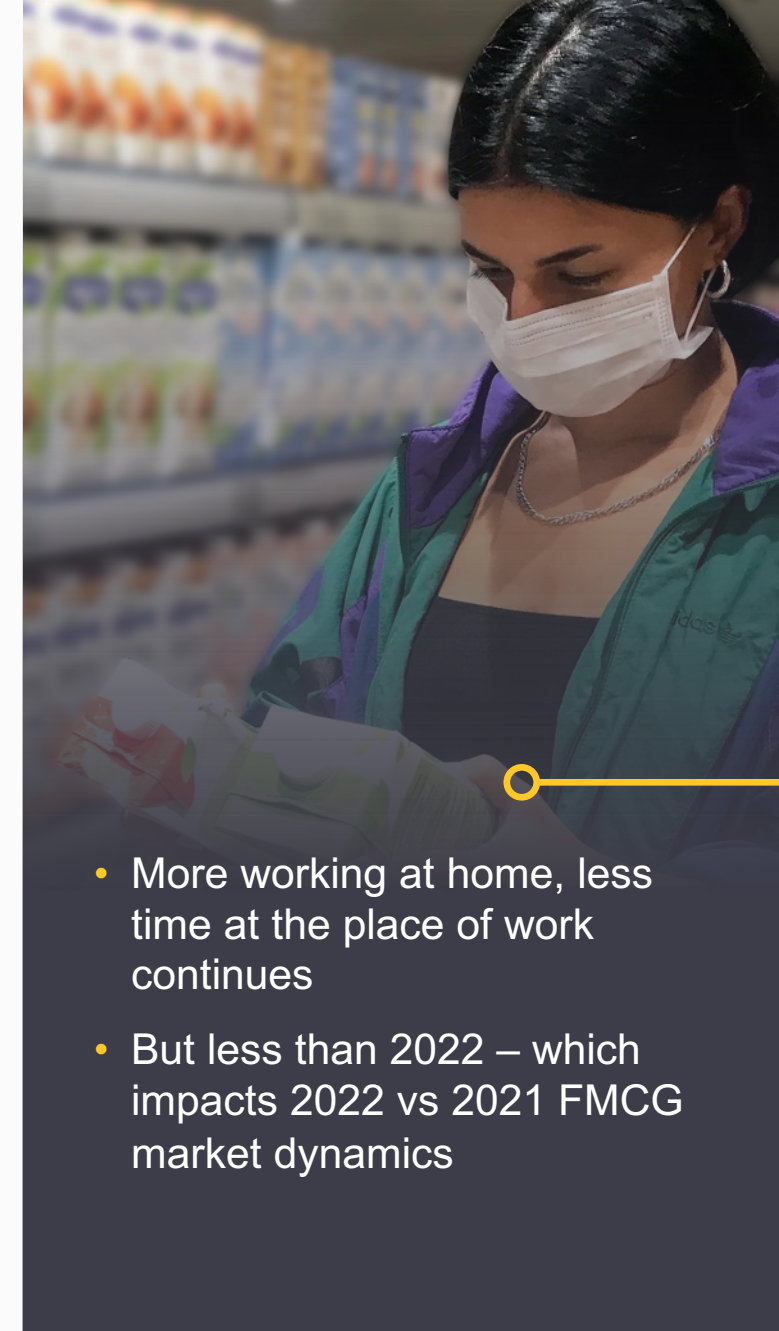
Continuing Covid effects

Time at home and at work vs pre-pandemic
Year to August



Source: Google Mobility trends from Our World in Data. – 9 European countries – Czechia, France, Germany, Italy, NL, Poland, Romania, Spain, UK

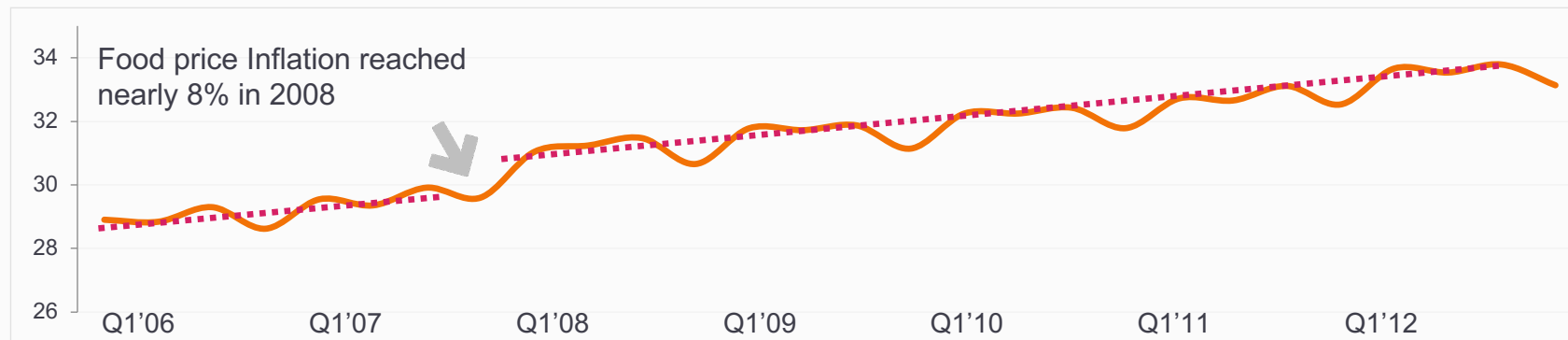
©Europanel



- More working at home, less time at the place of work continues
- But less than 2022 – which impacts 2022 vs 2021 FMCG market dynamics

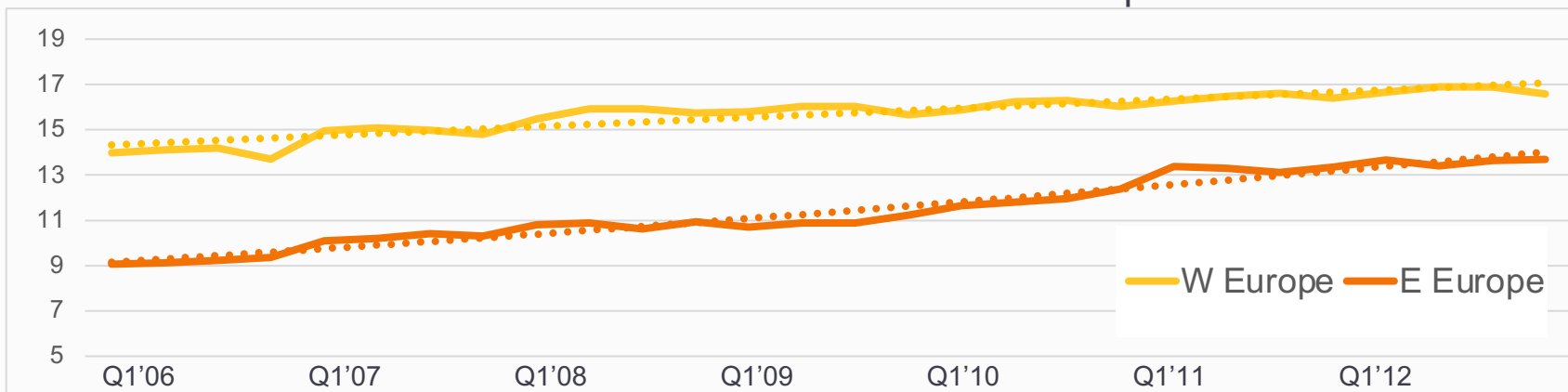
How does inflation impact choice

Private Label Value Shares Western Europe



Source: Europanel Consumer Index – 10 countries

Discounter Value Shares Western Europe



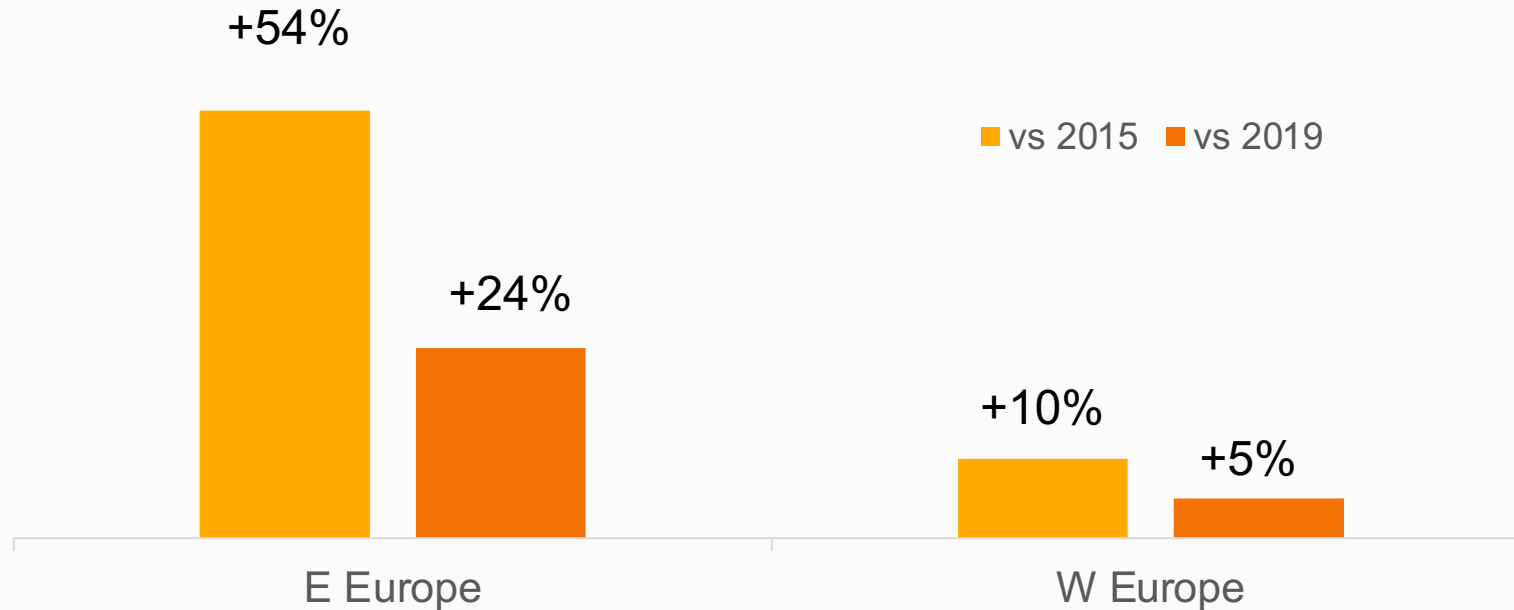
Source: Europanel Consumer Index - 21 countries

©Europanel

- 'High' levels of inflation increase importance of price in decision-making
- Similar effects from economic downturns
- All studies show that investment in brands is key
- ... but inflation isn't shown to influence store choice ... more down to store numbers

Despite Covid, Discounters continued to open stores

Number of Discounter stores vs 2015 and 2019



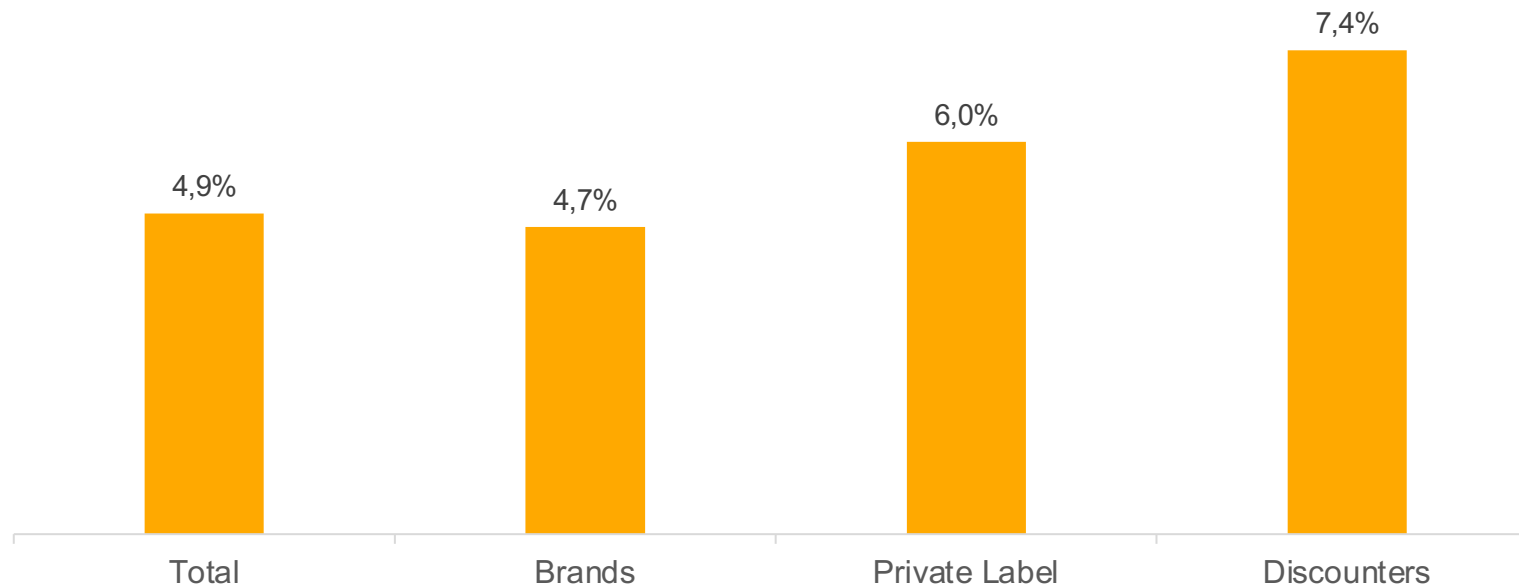
Source: Kantar Retail IQ – 19 countries

©Europanel



Price rises differ by type of product and retailer

Average increases in price paid – first half 2022 vs first half 2021



SOURCE: Europanel FMCG Barometer – 1000 categories in Germany, Italy, NL, Spain, UK

©Europanel

- Differential price increases are a factor in share change

FMCG in 2022 & 2023



Shopping



Choice



Market Growth



Covid

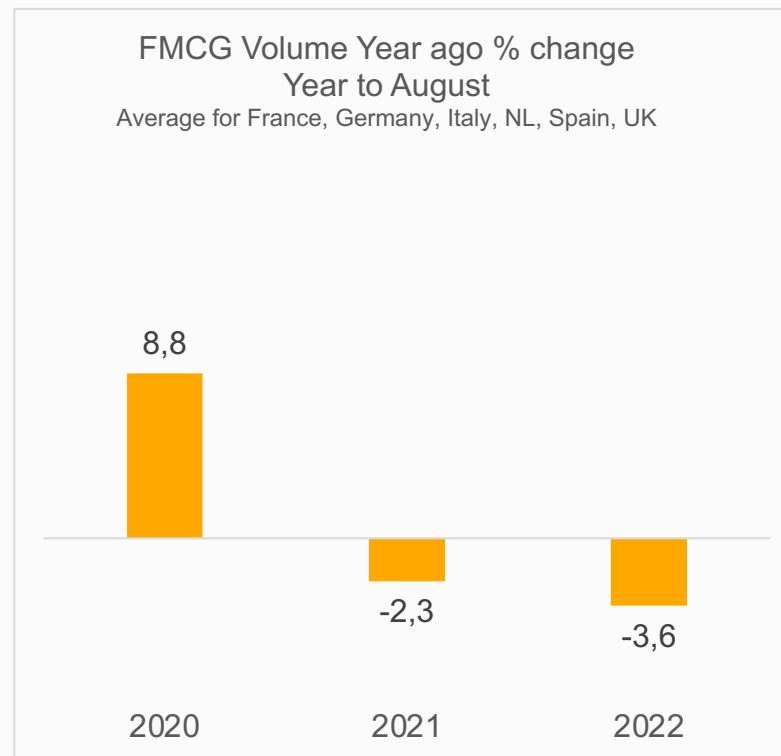
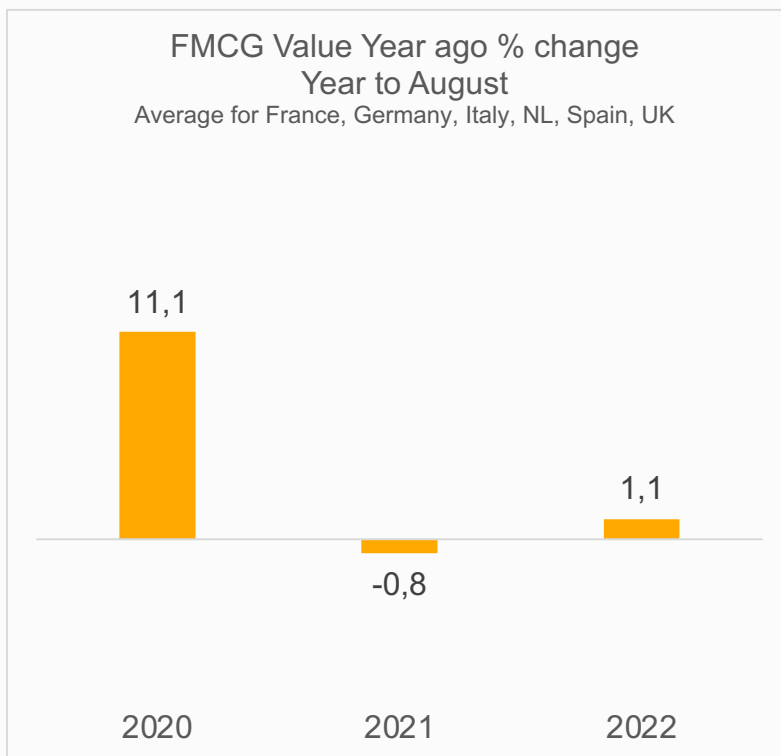


Inflation?



Year to August 2022 shows reductions vs 2021 but ...

Comparing with record highs – and less people working from home



Source: Europanel Barometer preliminary results based on 1140 categories in 6 countries * Our World in Data – Google Mobility trends

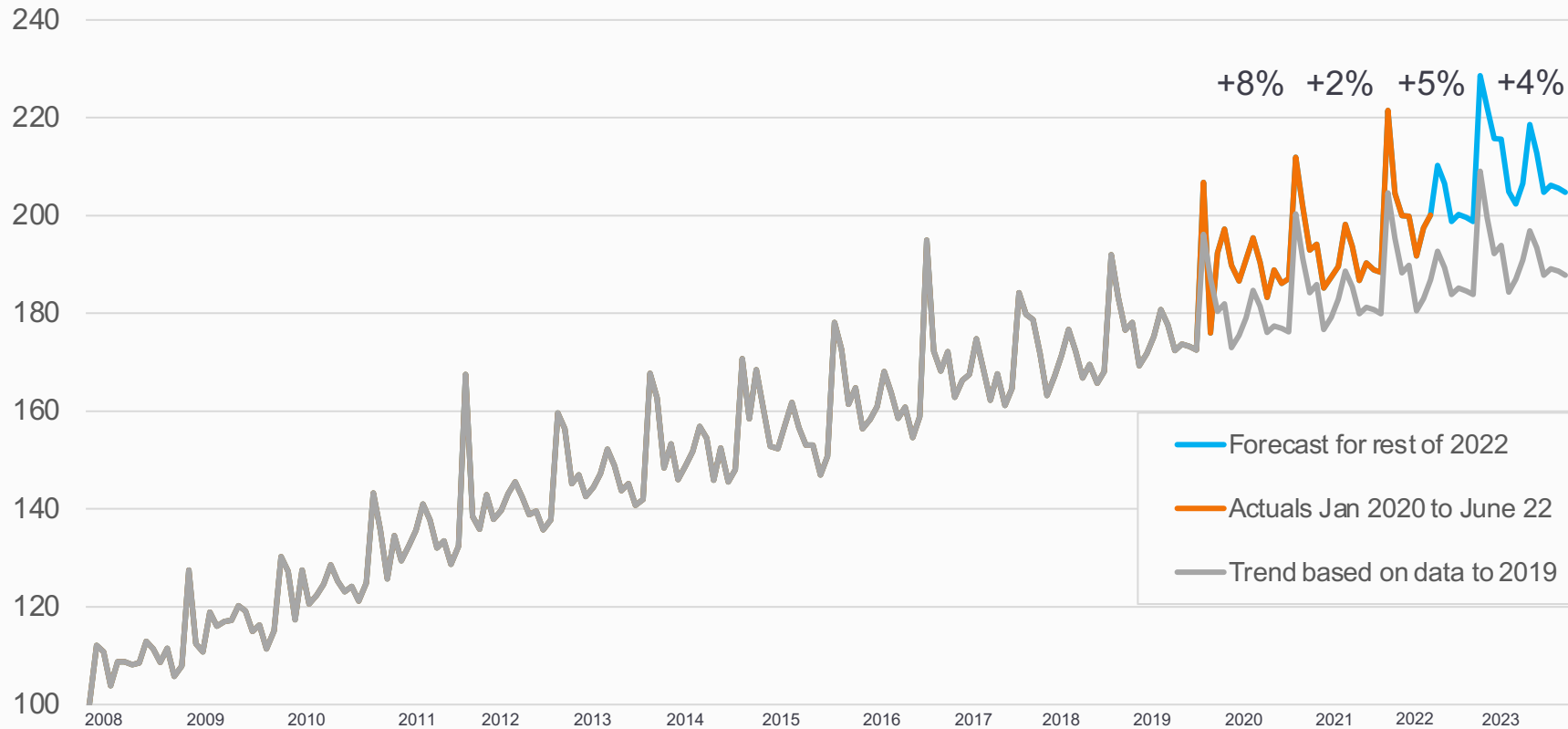
©Europanel



- Growth remains vs 2019
- People at home 5% lower than the first half of 2021 but still 4% higher than pre-pandemic*
- Visitors to the workplace have risen 14% since last year but remain 15% lower than pre-Covid*

FMCG value in 2023 will be nearly 20% higher than 2019

Global FMCG Value Index Monthly Trends and Forecast



Source: Euromonitor FMCG Barometer – France, Germany, Italy, NL, Spain, UK, Poland, Russia, USA, Brazil, Mexico, China, India, Japan (Intage)

©Euromonitor

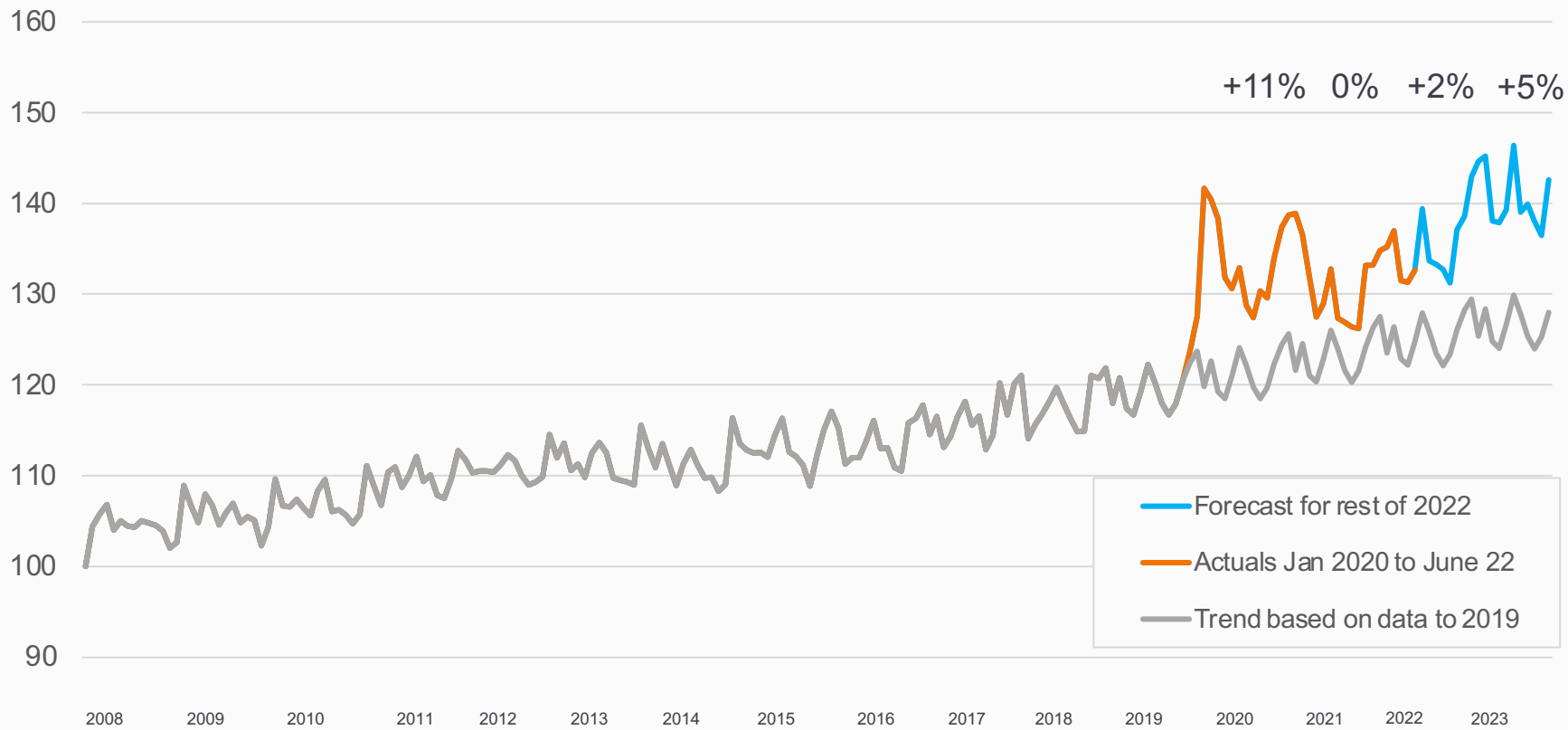
Insights



- Continuing Covid effects – working from home
- Inflation reflected in values
- Strong volumes
- Some downtrading

FMCG W Europe value in 2022 will be at least 13% higher than 2019

W Europe FMCG Value Index Monthly Trends and Forecast



Source: Europanel FMCG Barometer – France, Germany, Italy, NL, Spain, UK

©Europanel

Insights



- Continuing Covid effects – working from home
- Inflation reflected in values
- Strong volumes
- Some downtrading

Post-pandemic shopping behaviour continues to end Q2 22

But online share continues to drop back into late summer

Key Factors



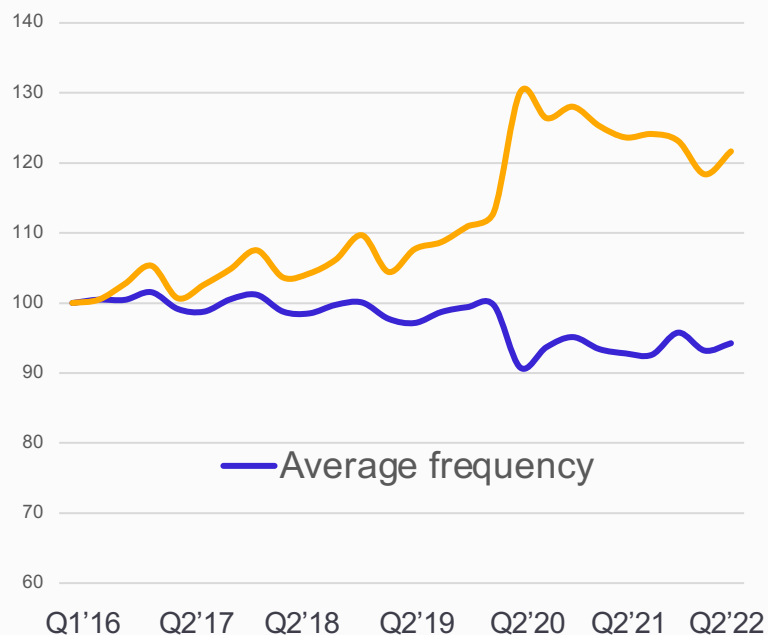
- Personal choice, fear
- Inertia

Outcome



- More categories being bought
- Need for variety
- Store choice

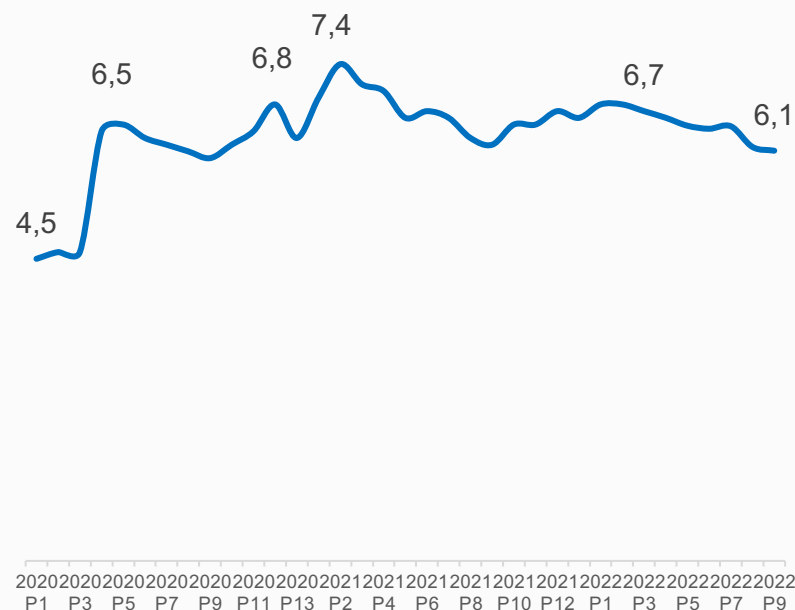
Average Shopping Frequency and Basket Size - Europe – index vs 2016 Q1



SOURCE: Europanel based 20 European countries

©Europanel

FMCG online share
Average 6 W Europe countries

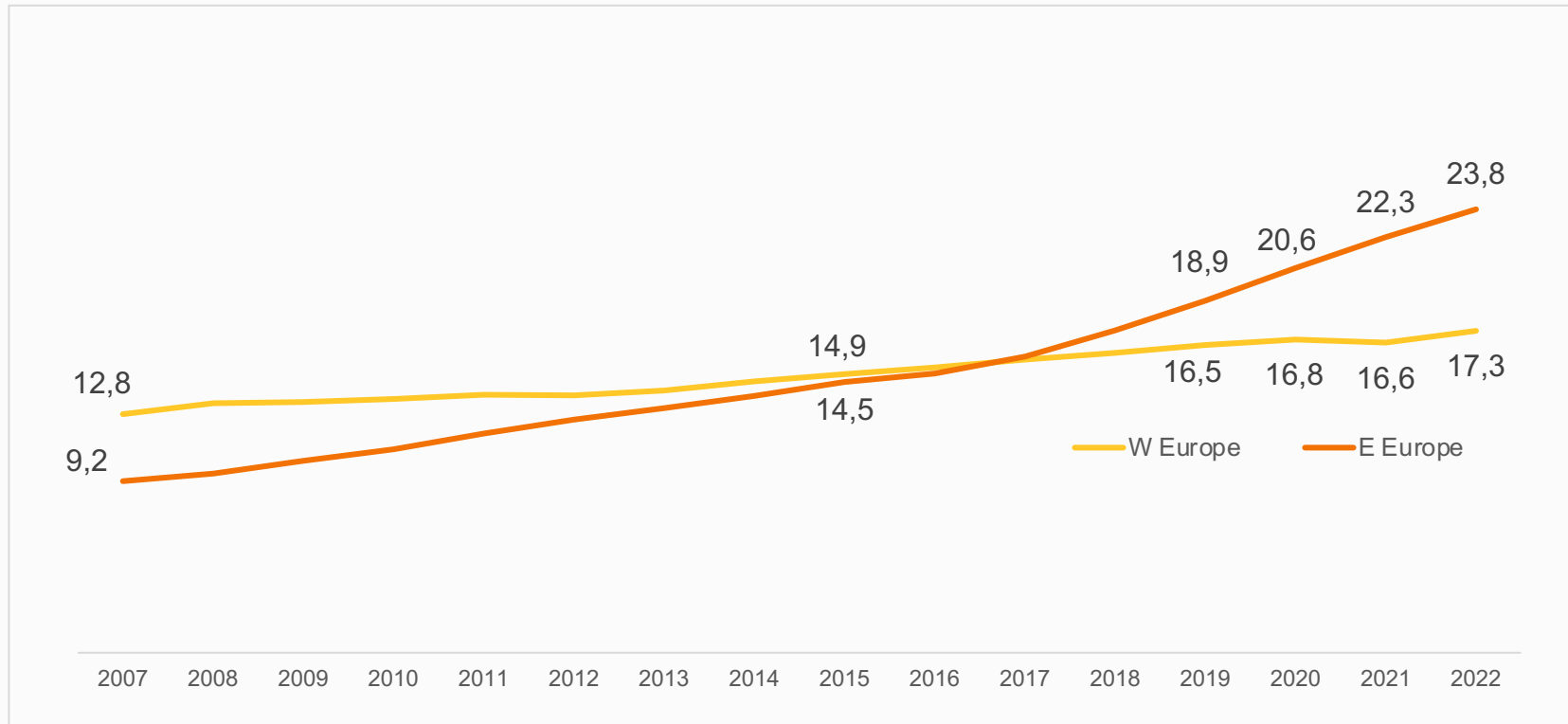


SOURCE: Europanel based on GfK and Kantar Panels – France, Germany, Italy, NL, Spain, UK

Behaviour change and store choice

Pandemic effects – and now inflation

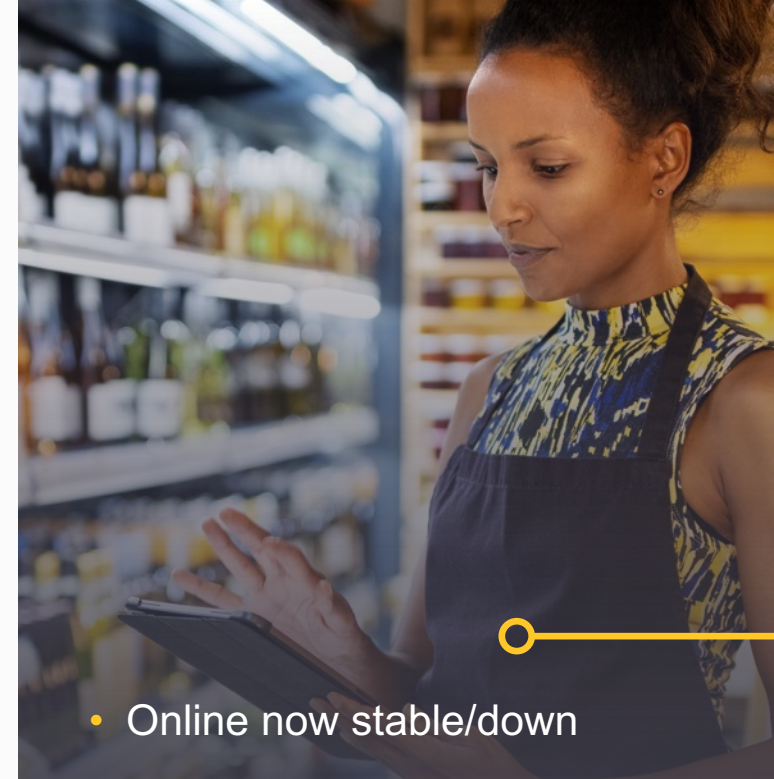
Discounter Value Share Trends MAT Q2 each year



Source: Europanel Consumer Index based on 19 countries

©Europanel

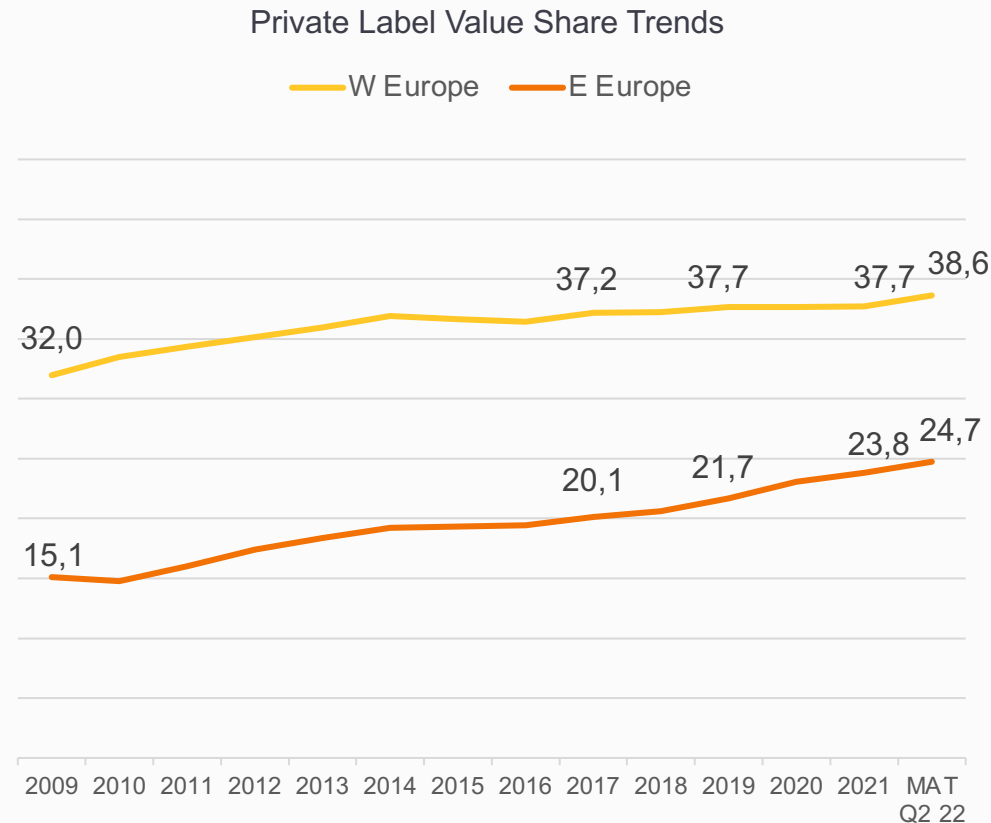
- Online now stable/down
- Discounters
 - Western Europe – online, less shopping around, big baskets – now taking advantage of new stores since 2019
 - Eastern Europe – less Covid behaviour change, store numbers
 - Prices rising faster than average



Behaviour change and product choice

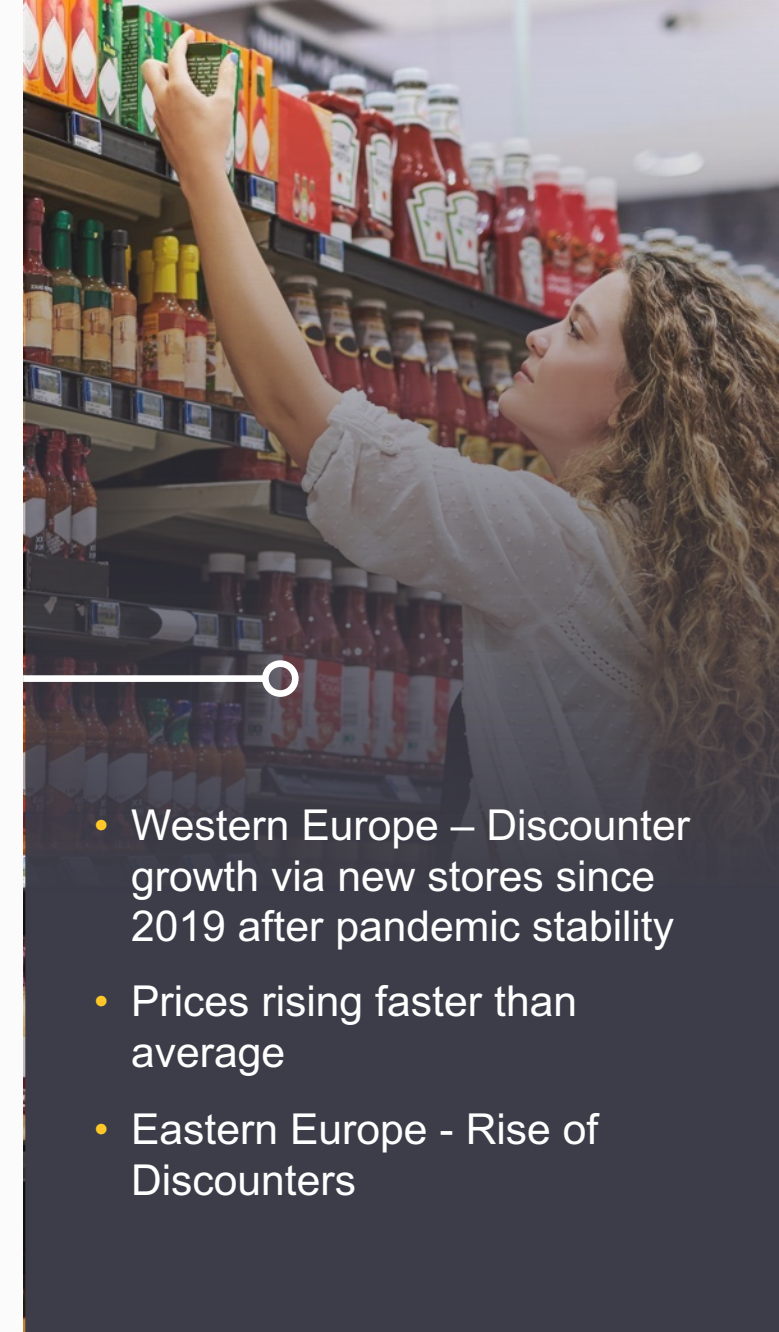
Pandemic effects – and now inflation

Country	Up/Down-trading Q2 2022
France	▼
Germany	▼
Italy	▼
NL	▼
Spain	▼
UK	▼
Poland	►



Source: Europanel Barometer and Consumer Index based on 16 countries

©Europanel

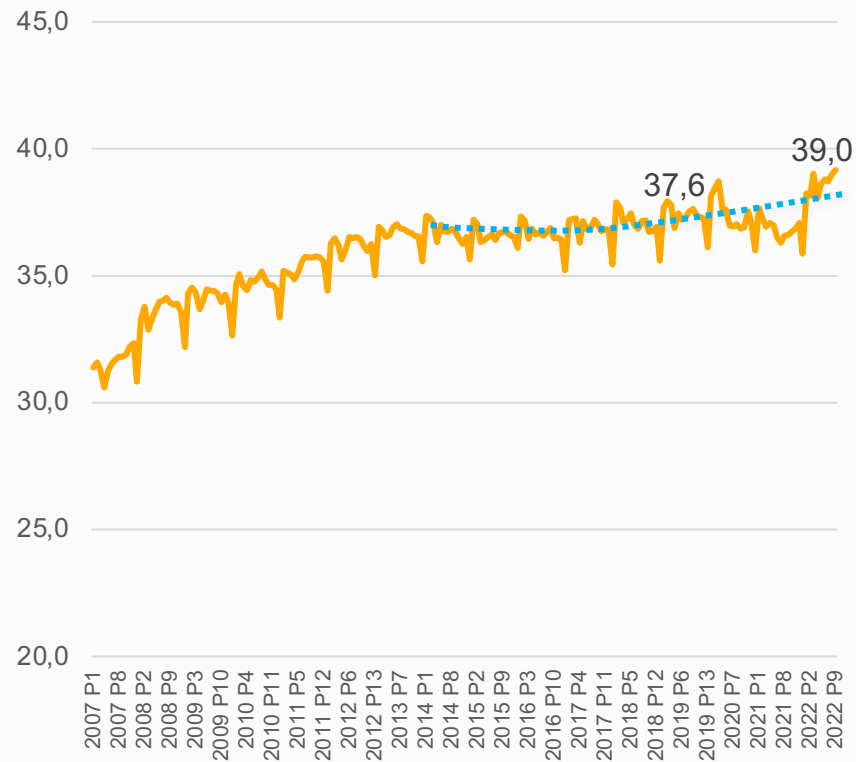


- Western Europe – Discounter growth via new stores since 2019 after pandemic stability
- Prices rising faster than average
- Eastern Europe - Rise of Discounters

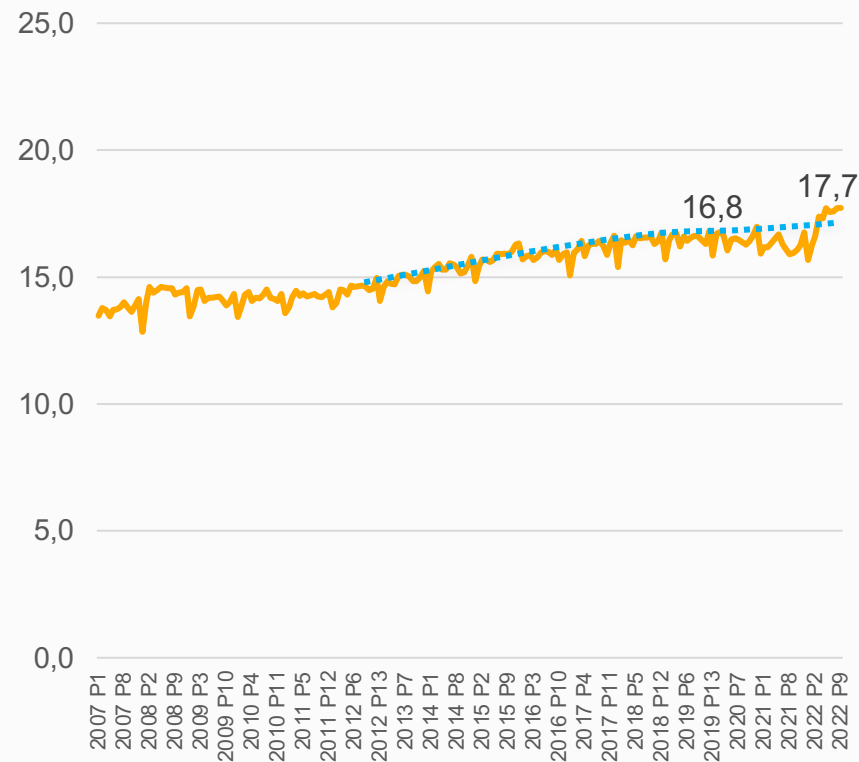
Behaviour change and choice

Pandemic effects – and now inflation

Private Label Value Share



Discounter Value Share



Source: Euromonitor FMCG Barometer based on France, Germany, Italy, NL, Spain, UK – preliminary results

©Euromonitor

- Online now stable/down
- PL
 - Discounter growth
 - Prices rising faster than average
- Discounters
 - W Europe – stable/down over Covid – now taking advantage of new stores since 2019
 - Prices rising faster than average

In summary



Take home FMCG market remains strong – and inflation is boosting



Category values largely reflect inflation



High and sudden inflation affects product choice esp. with rise of Discounters – investment is critical



Inflation no past impact on store choice but Discounters now rising due to new stores – it is key to work with discounters



Lower shopping frequency and large baskets continue





Household-level inflation rates: How they affect consumers and categories

Günter W. Beck | BG20 Summit | October 2022

Overview

- 1 Why looking at household-level inflation is worthwhile
- 2 How to compute household-level inflation rates
- 3 How different is inflation across households and household groups?
- 4 Do households with different inflation rates shop differently?
- 5 Inflation rate differences between and within categories
- 6 What drives brand performance in a high-inflation environment



1 Why looking at household-level inflation is worthwhile

What is inflation?

- Increase in the general price level
 - Decrease in the purchasing power of a given amount of money
 - Negative income effect

What is household-level inflation?

- Inflation (=purchasing power loss) that a given household experiences in a given period

Looking at household-level inflation rates helps us to distinguish

- Scenario 1: Households respond to inflation
 - Households with higher inflation buy less or choose different (cheaper) goods.
- Scenario 2: Household-level inflation rates reflect purchasing patterns
 - Households with higher inflation buy goods with higher inflation.



2 How we compute household inflation rates

Inflation is the increase in the price level of the basket of goods (and services) that a representative household consumes

However: **Different** households consume **different** baskets, and therefore experience different inflation rates which results in different income effects/shocks.

Household-level inflation is the increase in the price level of the basket of goods that a given household **actually** buys.

Methodology: Consider prices and quantities of all purchases of a household over a period of time and compute its price index using standard (advanced) methods (Fisher index = superlative index):

$$1 + \pi_{t,t+1}^{Fisher} = \sqrt{\left(1 + \pi_{t,t+1}^{Laspeyres}\right) \left(1 + \pi_{t,t+1}^{Paasche}\right)} = \quad (1)$$

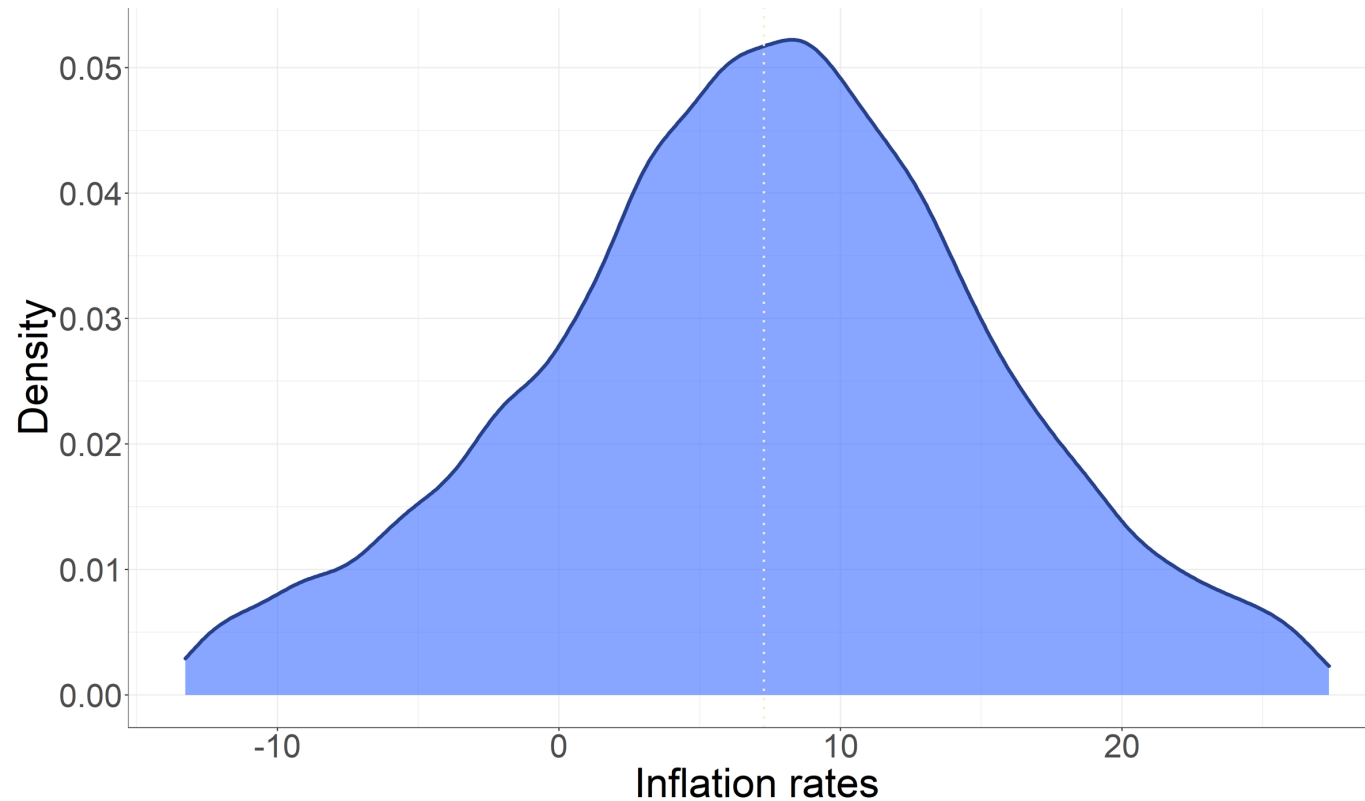
$$= \sqrt{\left\{ \sum_{n=1}^N s_{i,t} \frac{p_{i,t+1}}{p_{i,t}} \right\} \left\{ \left[\sum_{n=1}^N s_{i,t+1} \left(\frac{p_{i,t+1}}{p_{i,t}} \right)^{-1} \right]^{-1} \right\}} \quad (2)$$



3 How different are inflation rates across households and household groups?

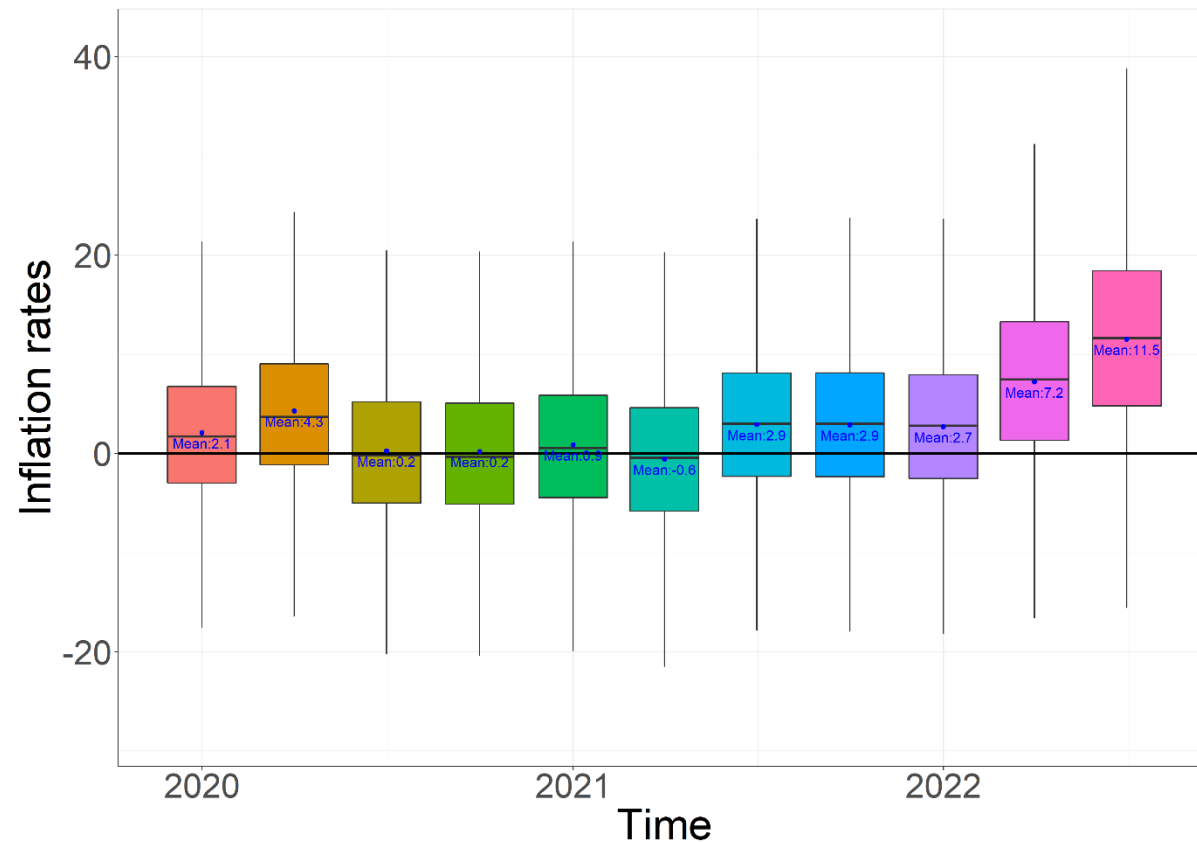
The variation of inflation rates across households in Germany is substantial

Household-level inflation rates in 2022 Q2



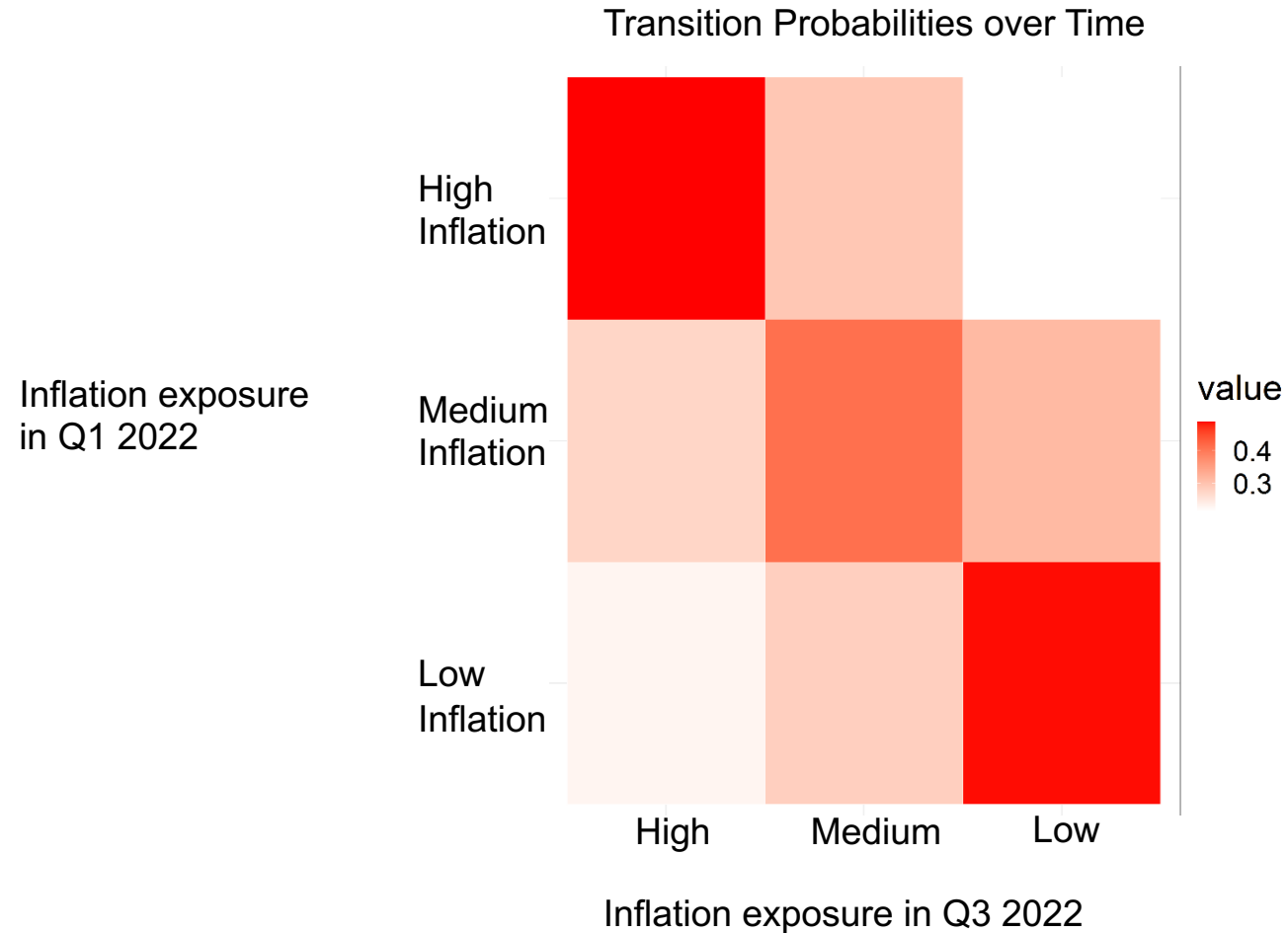
3 Both the level and the variation across households has increased

... from low, but scattered levels until mid 2021 to more than 10% (and more scattered) inflation for the average hh today



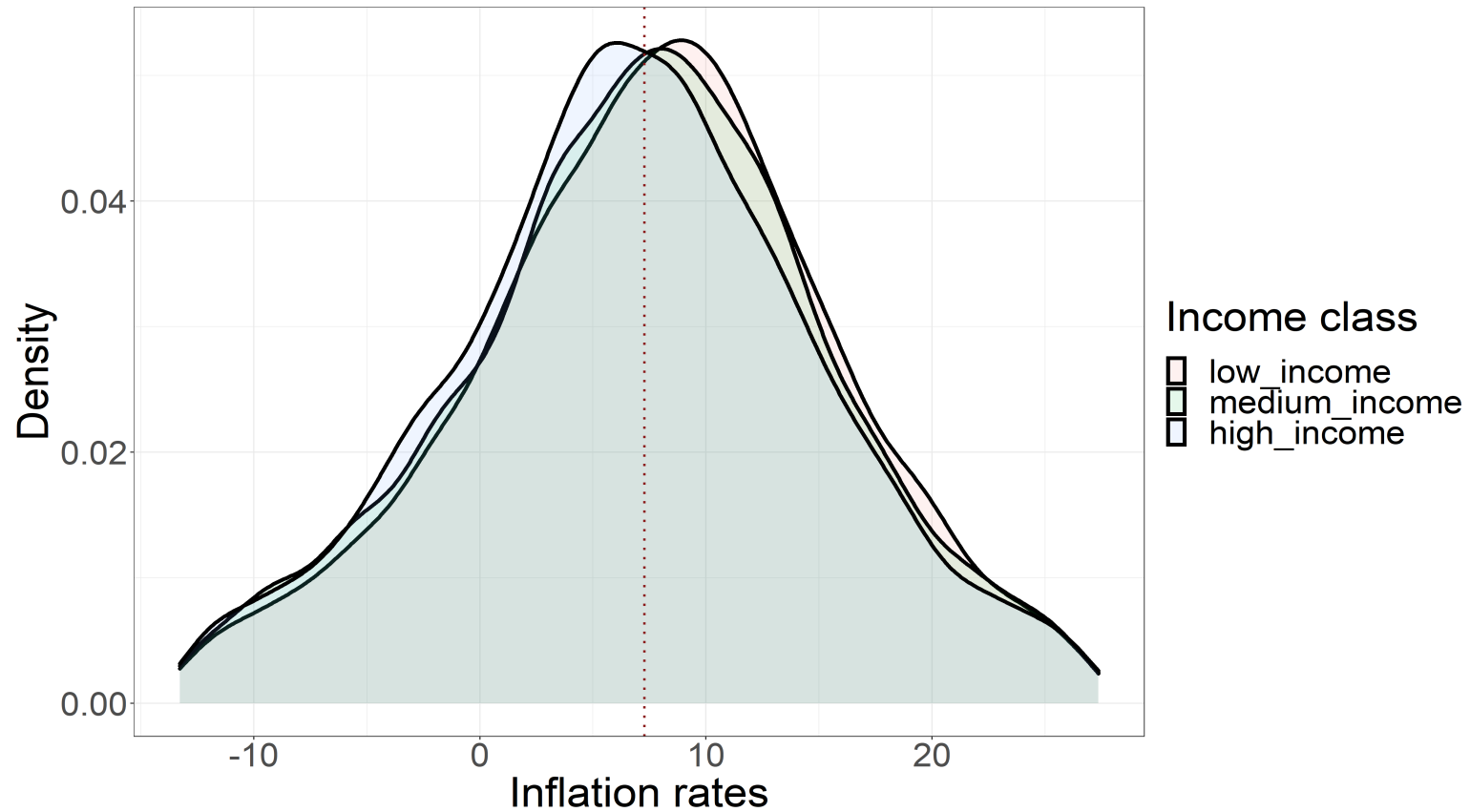
3 How persistent are inflation differences across households?

Most exposed households in Q1 likely to be also most exposed in Q3



3 Inflation differences across sociodemographic groups

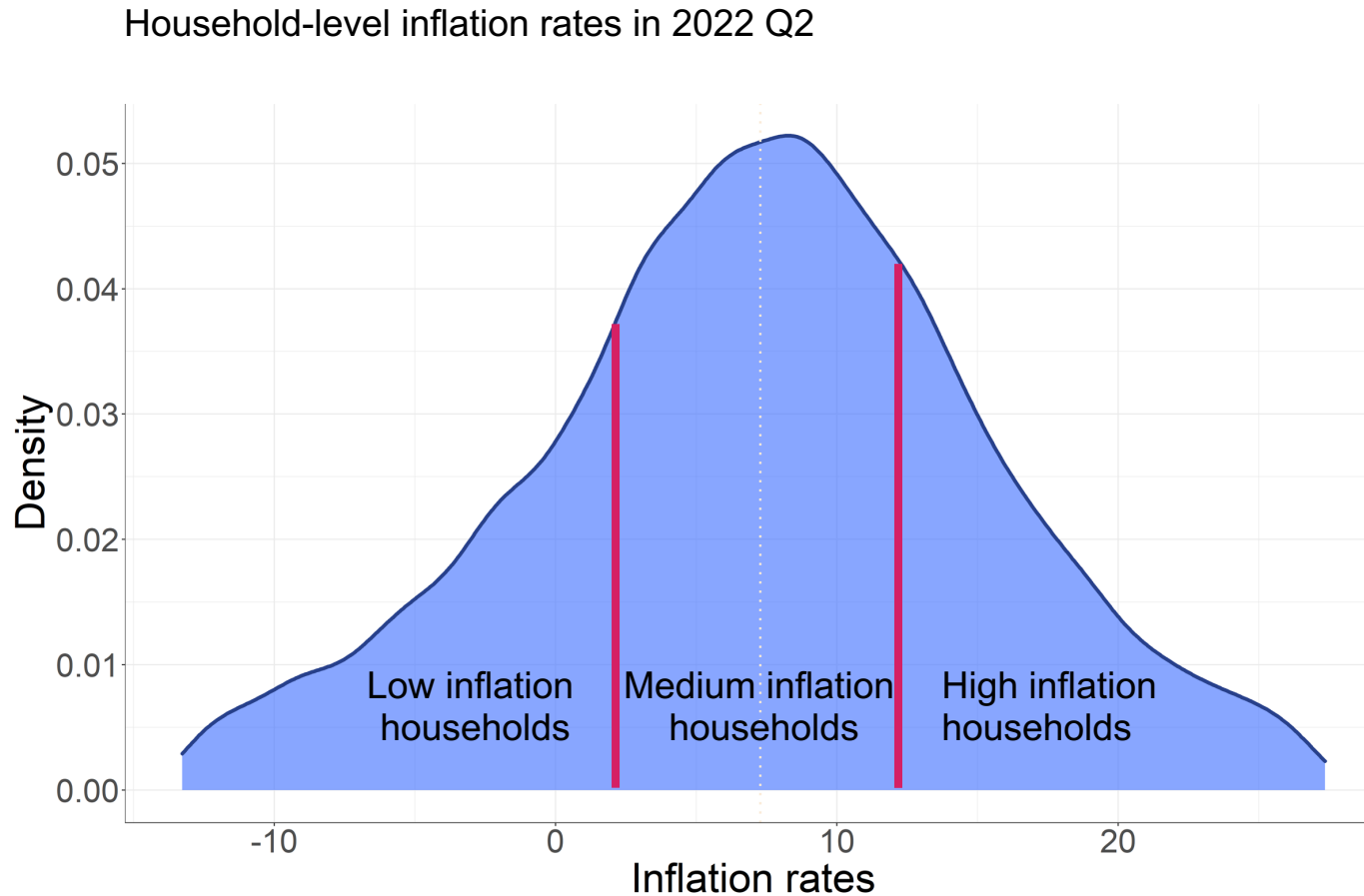
On average, lower income households exposed more to inflation



Also – we see that larger households are exposed more strongly

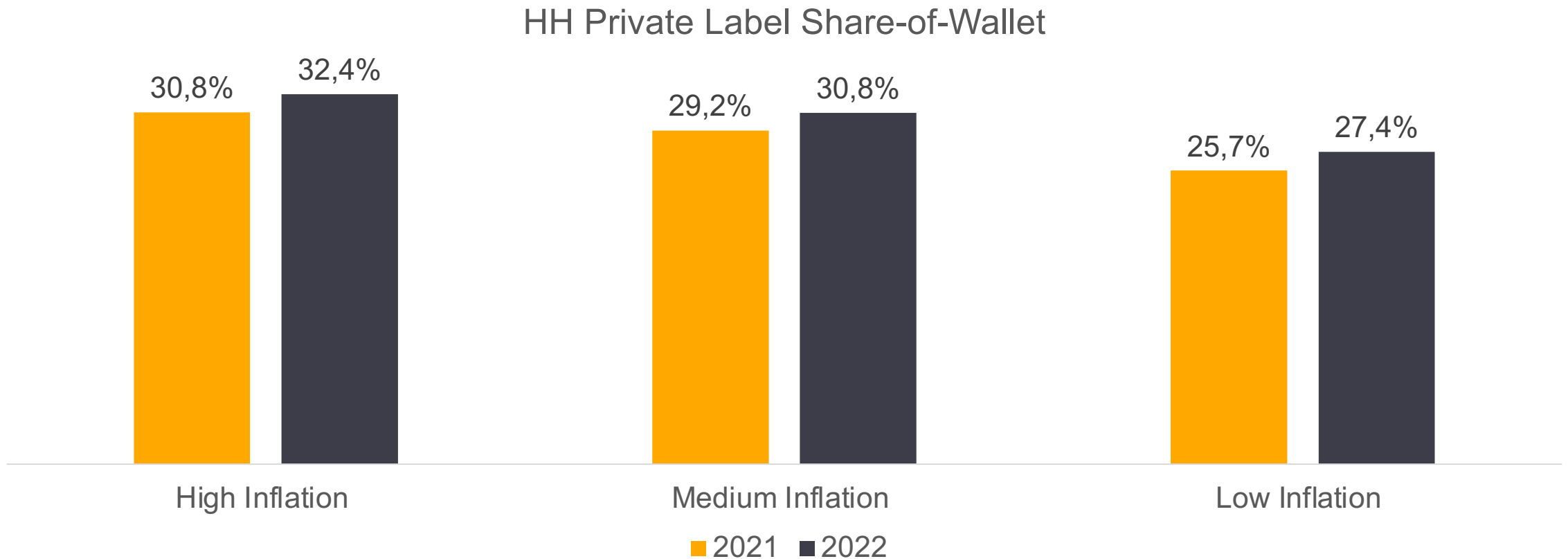
4 Do households with different inflation rates shop differently?

We split all households into **three equally sized groups** experiencing different levels of inflation.



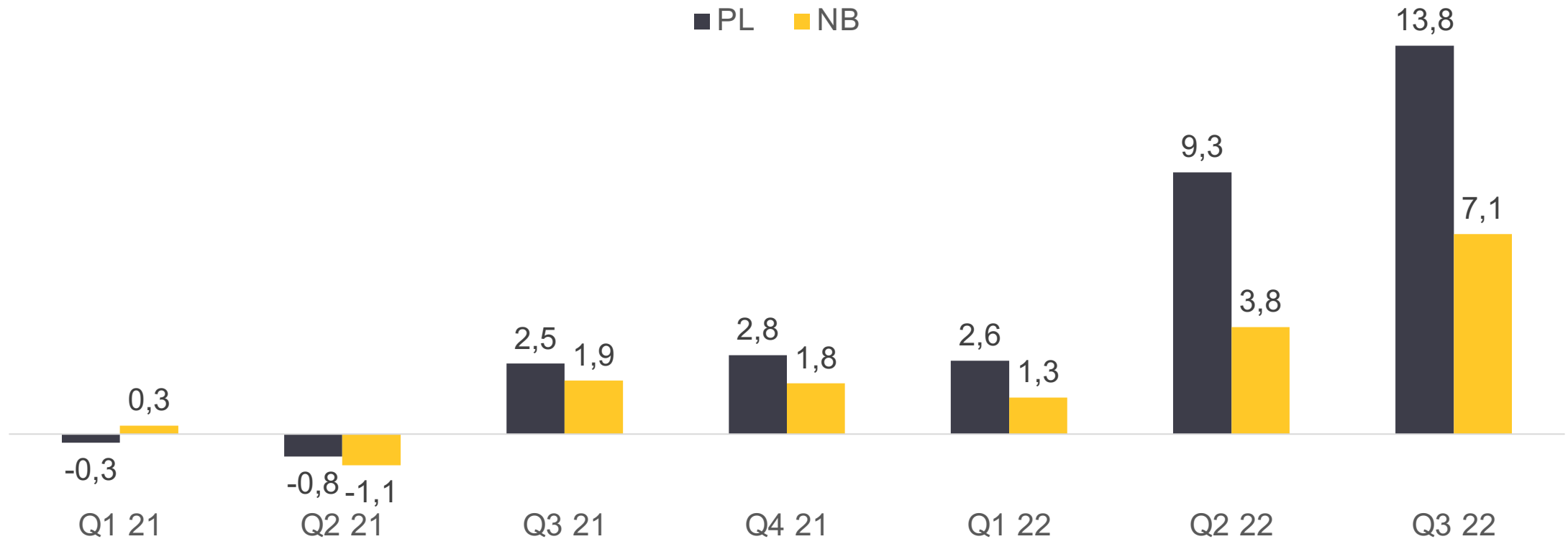
4 Do households with different inflation rates shop differently?

PL shares highest in high exposure households – but growth everywhere



4 Since Q2 2022 Private Labels have experienced much more inflation than brands

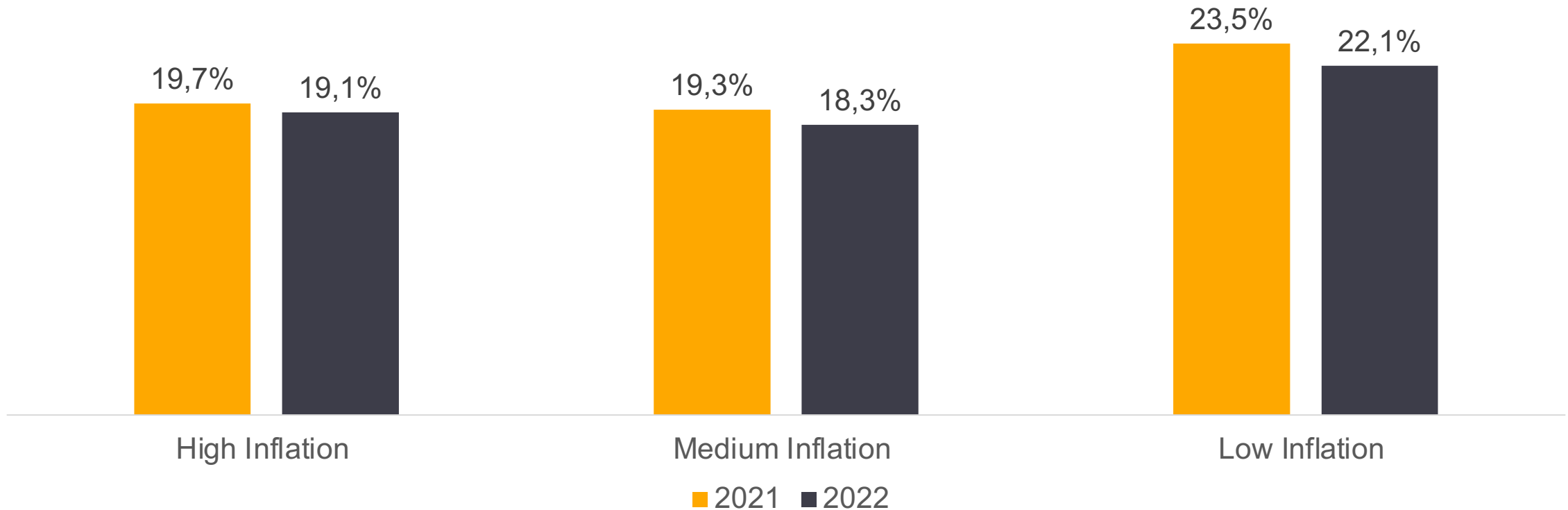
Inflation over Time for Brands vs Private Labels



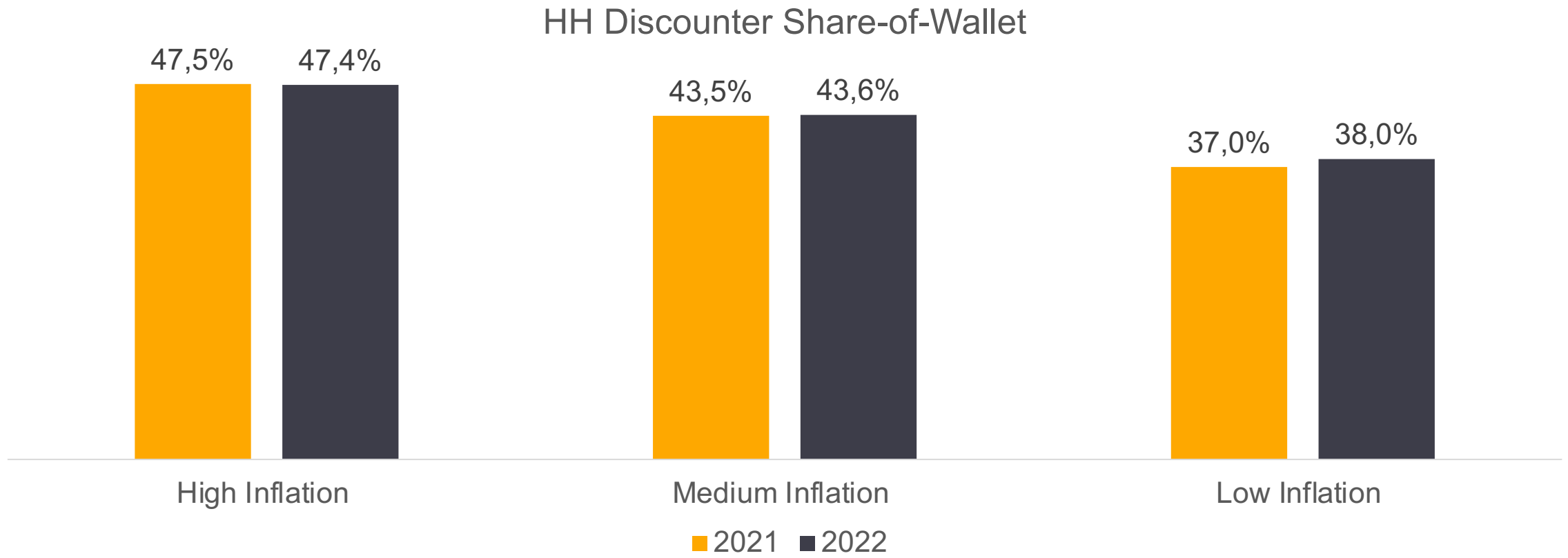
4 Premium buying (Index > 160) down, most among low inflation households

Across all inflation tiers, a noteworthy decline in choosing premium

HH Premium Goods (index >160) Share

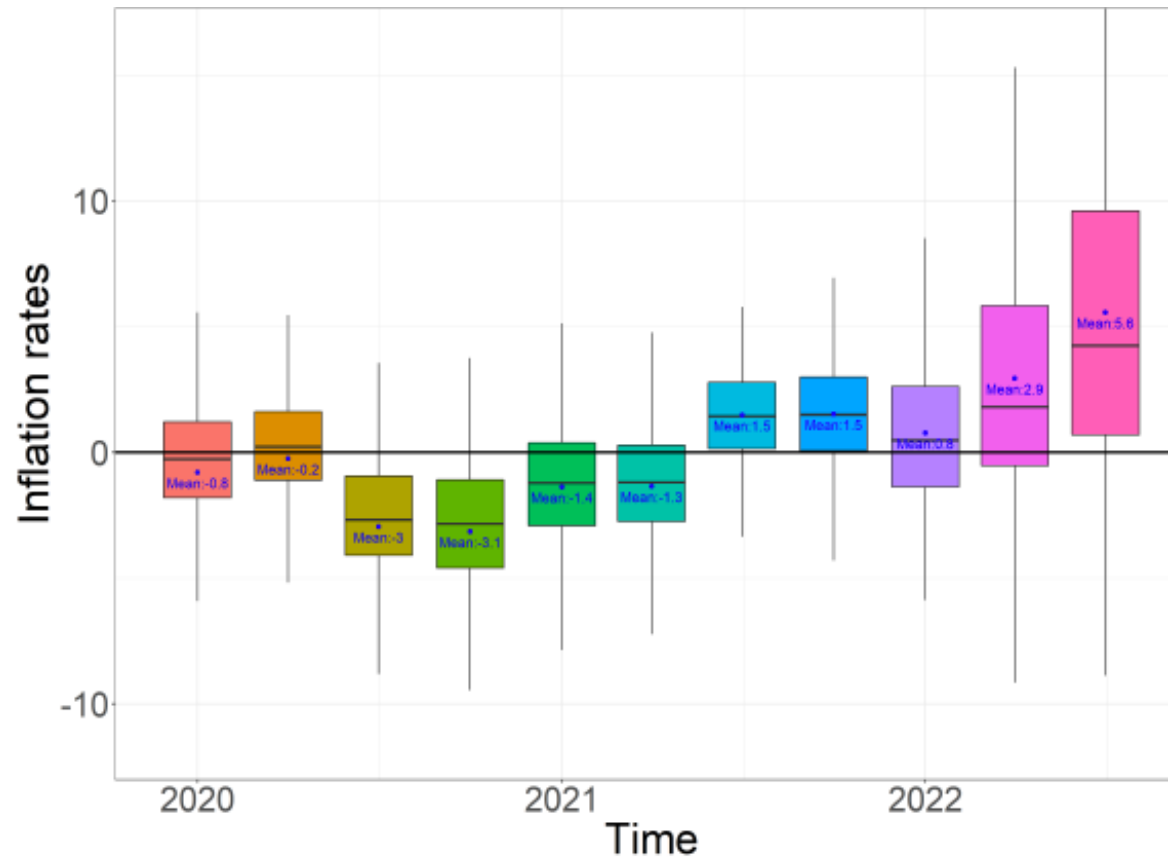


4 Discounter shares relatively stable, but up among low inflation households



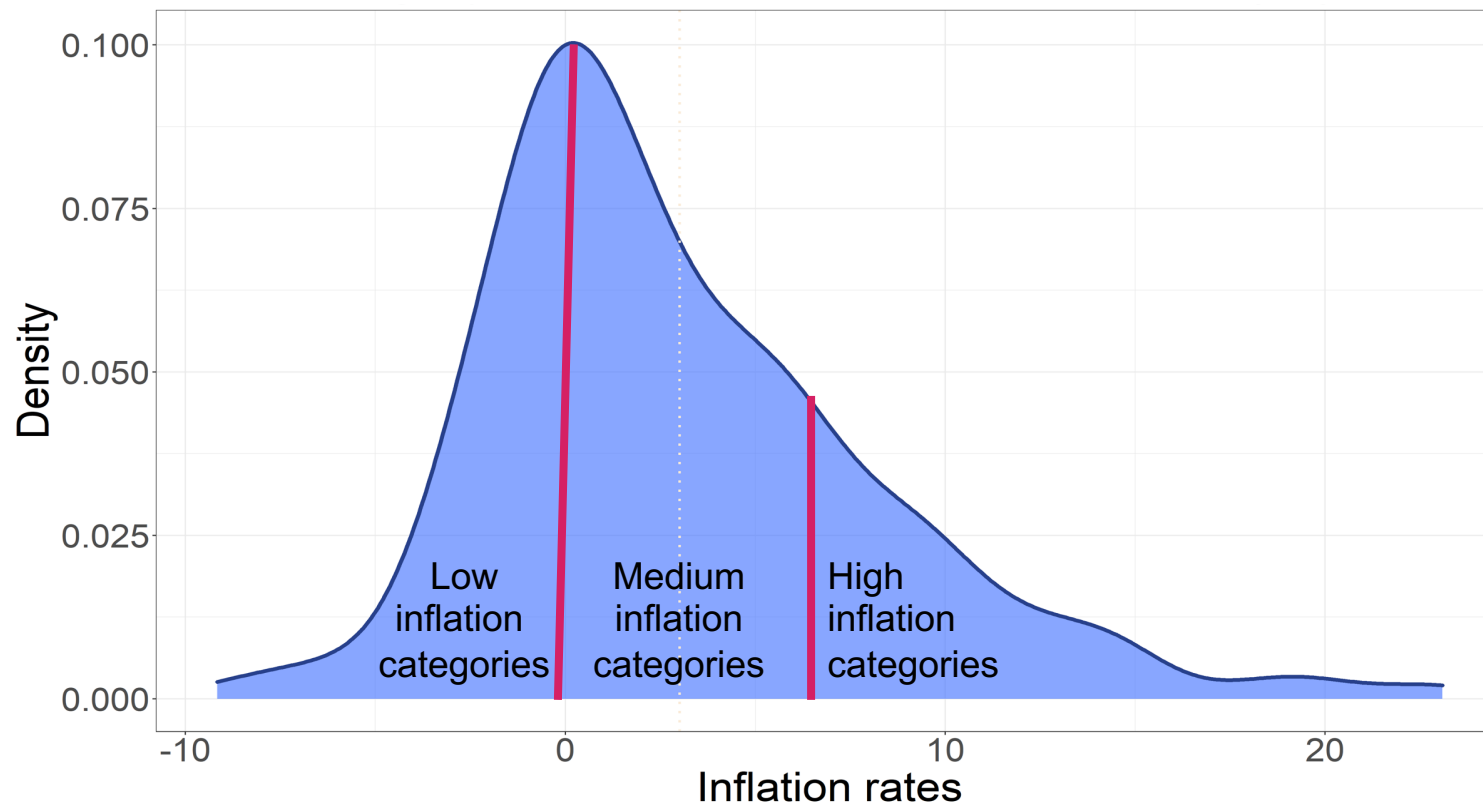
5 Variation across categories has increased massively

Inflation on average up with large variation between categories and selected (heavy-weight) “high-flyers”



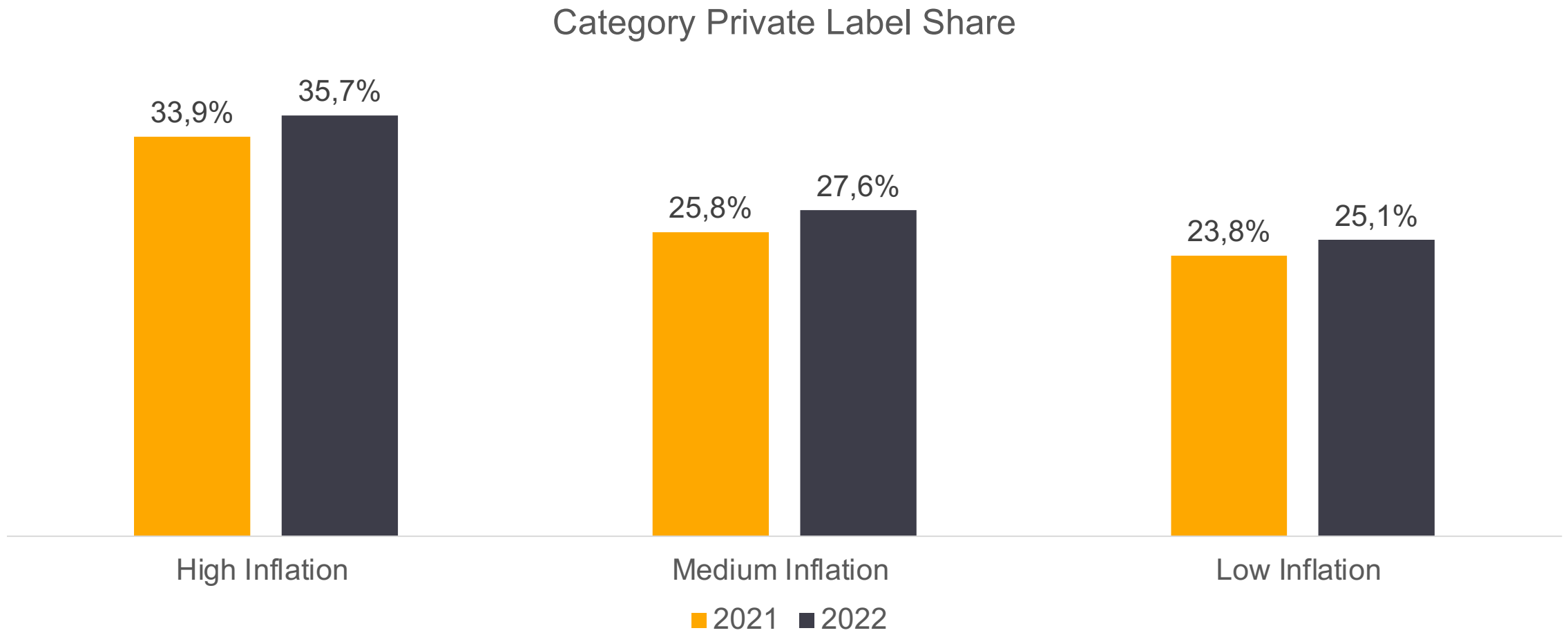
5 Massive category differences in inflation rates

Lots of categories experience price declines, some see price increases of 15% and more

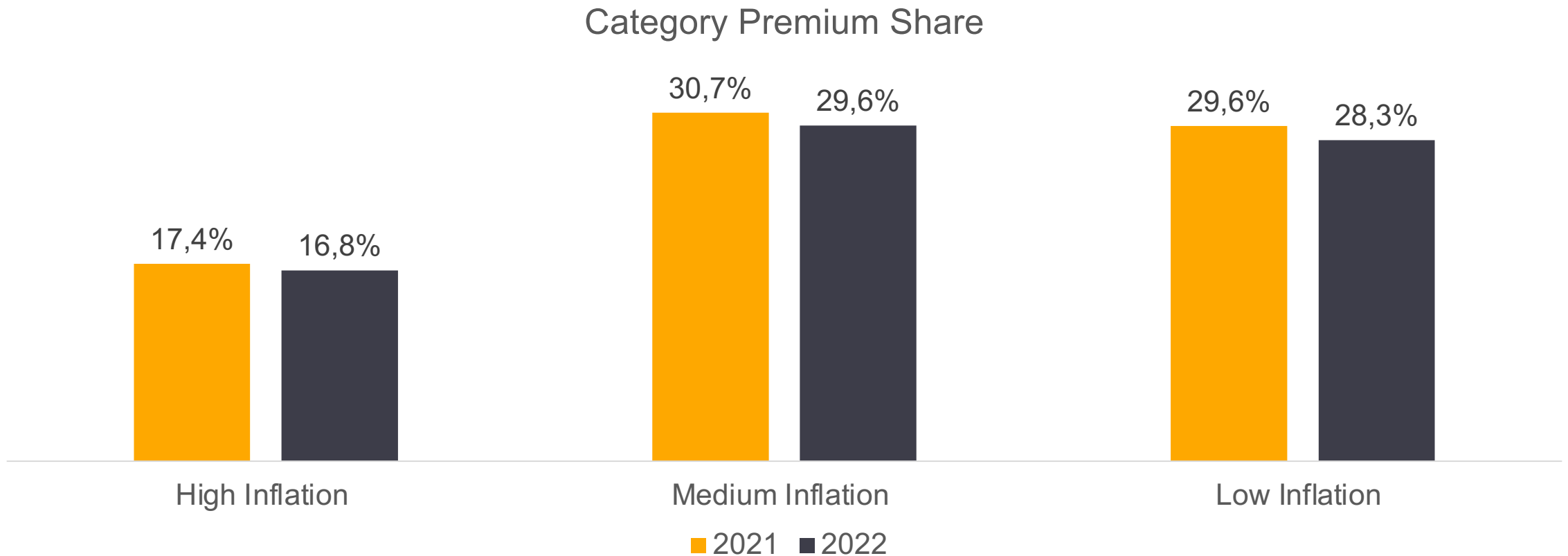


Again, we split all categories into **three equally sized groups** showing different levels of inflation.

5 High PL categories experience higher inflation, increases are similar



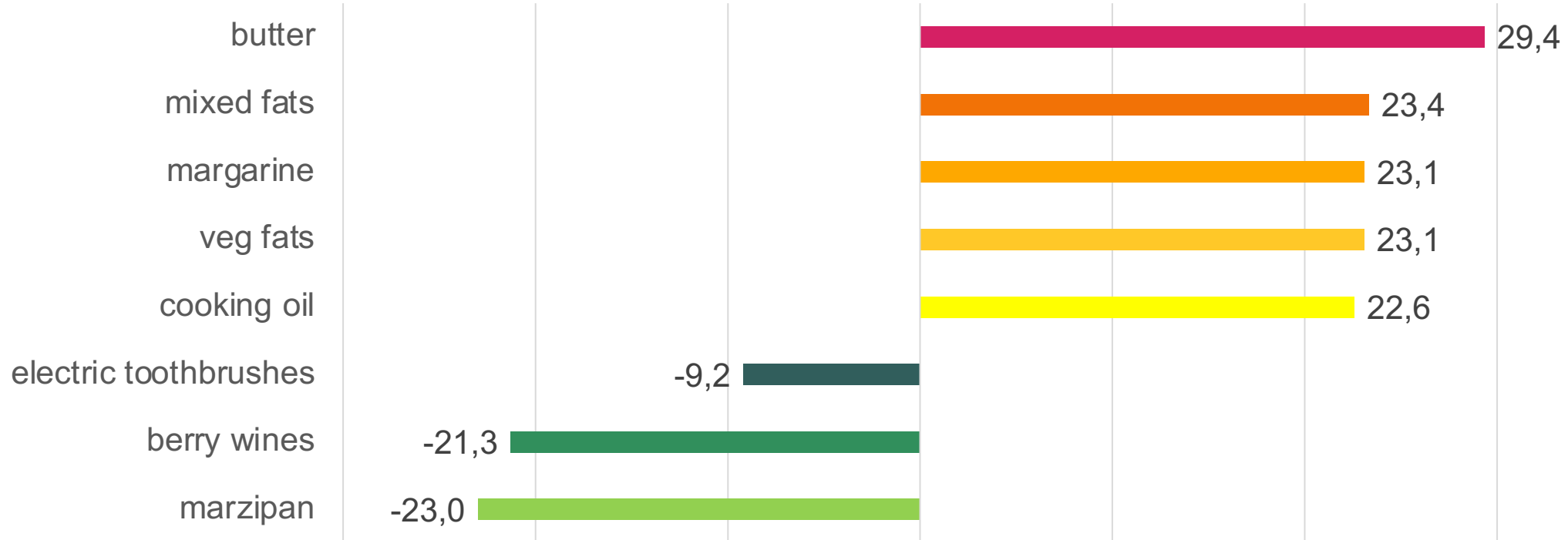
- 5 Drop in premium share most pronounced in lower inflation categories - already small in high inflation categories



5 Category-level inflation: Examples

Top-inflation group comprises “heavy-weights”, bottom-inflation group mostly “light-weights”

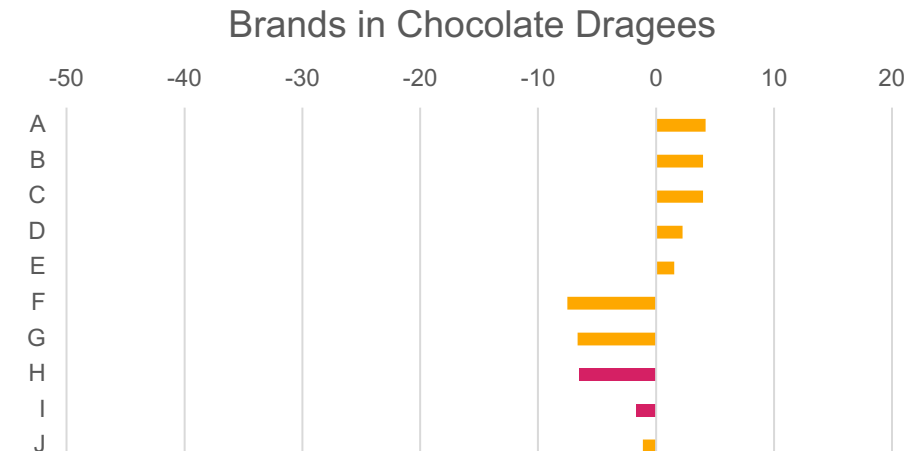
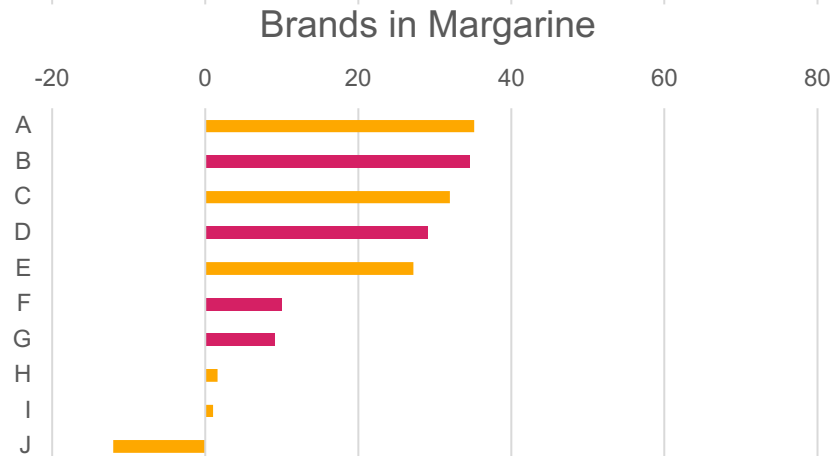
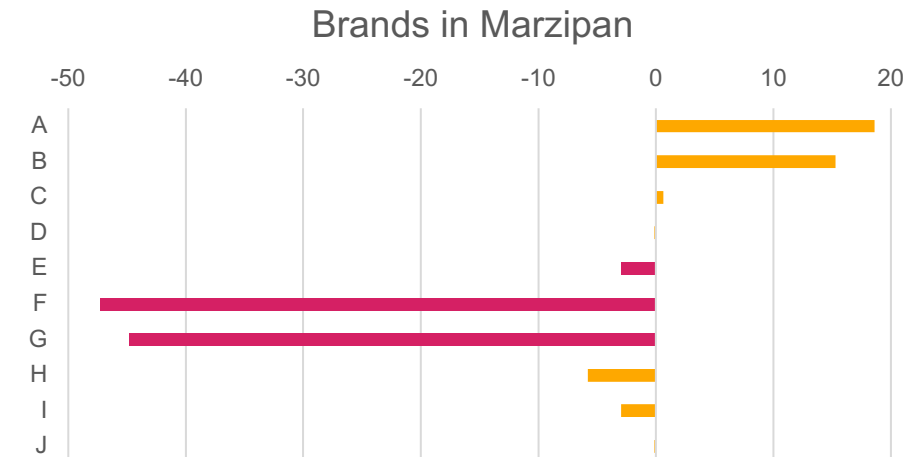
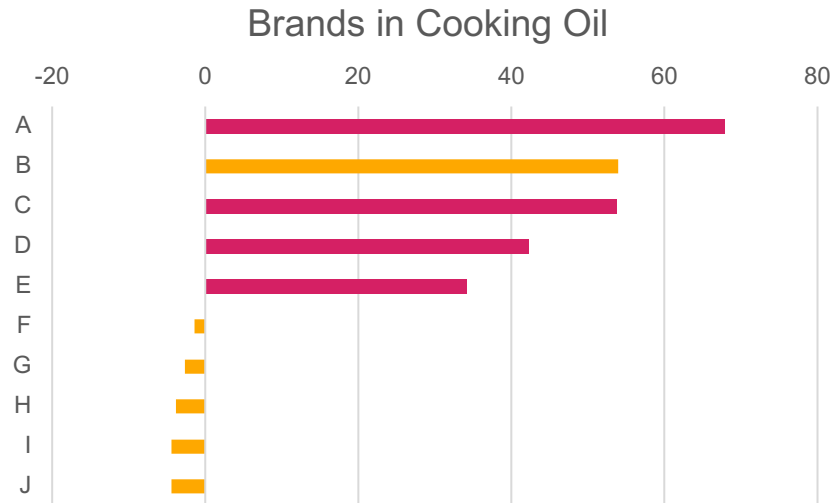
Selected Top and Bottom Inflation Categories 22 vs 21



5 Brand inflation rates in categories vary strongly

Relatively large brands

Relatively large brands often among the ones increasing prices most



6 Which brands win?

Larger brands and brands that increase prices

How winners differ from losers



+ Takeaways

Categories experience widely different inflation rates

Brands experience widely different inflation rates

Private Label (increase prices more) share-of-wallet differs



Households' exposure to inflation varies widely

Switching to PL reduces spend but heavy **PL buyers** experience more inflation

Increasing price is on average more common for winning than losing brands

Not every brand increasing price more/less is winning/losing



Understand your buyers and their exposure to inflation

We know inflation rates by shopper segment, buyers of specific brands, heavy/light category buyers, ...

A closer look at price and volume trends

Oliver Koll

What we learnt at school: Price and Volume are linked



SOURCE: https://saylordotorg.github.io/text_microeconomics-theory-through-applications/s11-01-market-supply-and-market-deman.html

What we also learned

(maybe)

- The slope of the curve (for both brands and categories) will differ (on an individual and an aggregate level)
- If there is choice (within a category or between) and price changes are not aligned, some consumers will switch

What we did not learn

(most of us)

- How we react if many/most prices go up and we have limited alternatives (as in some FMCG categories, and FMCG overall)
- How sensitive we really are to very different price changes (within and across categories)



Three Questions

#1 Can we confirm the established beliefs about price-volume relationships (higher prices relate to lower volumes)?

#2 What are characteristics of categories which match or do not match this link?

#3 How do price changes relate to Private Label success?

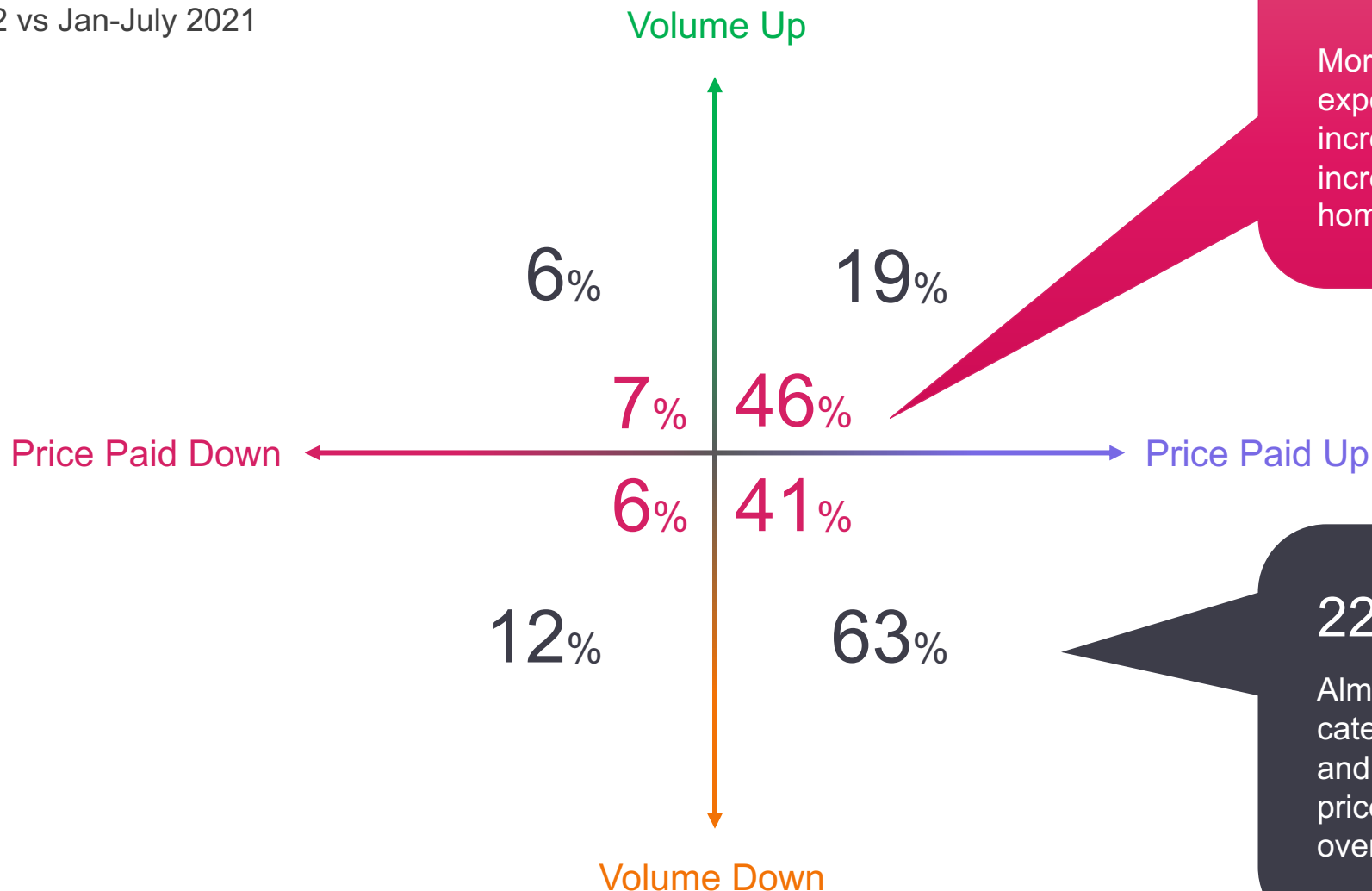
Our unit of analysis is the category (including an NB/PL split)

Our measures of interest are total volume, NB and PL share and prices paid (!)



Our Framework

Timing: Jan-July 2022 vs Jan-July 2021



22 vs 19

More categories that experienced a price increase and a volume increase (working from home)

22 vs 21

Almost 2 in 3 categories lost volume and experienced a price paid increase over the past 12 month

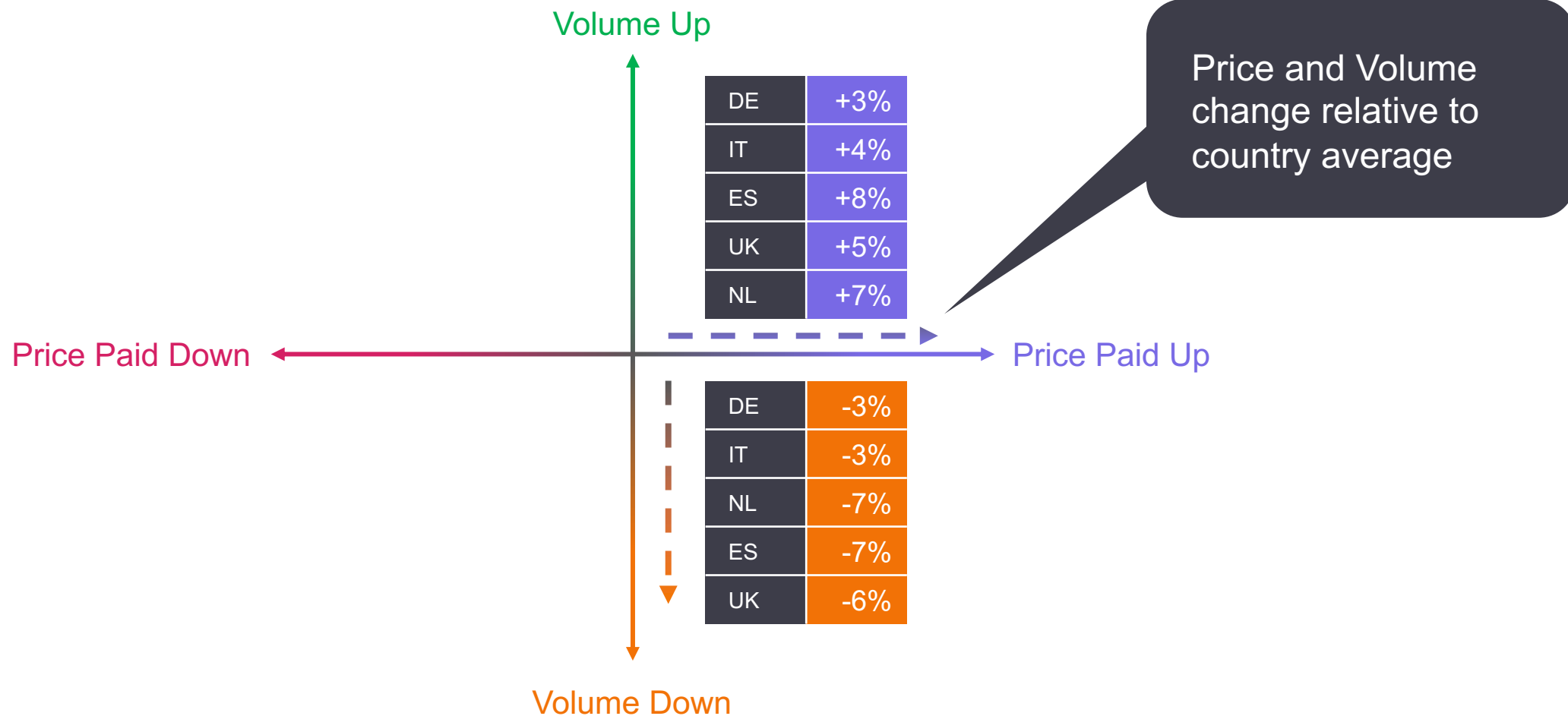
Country Scope

- UK (264 categories)
- Germany (289)
- Italy (126)
- Spain (118)
- NL (131)

→ 928 categories

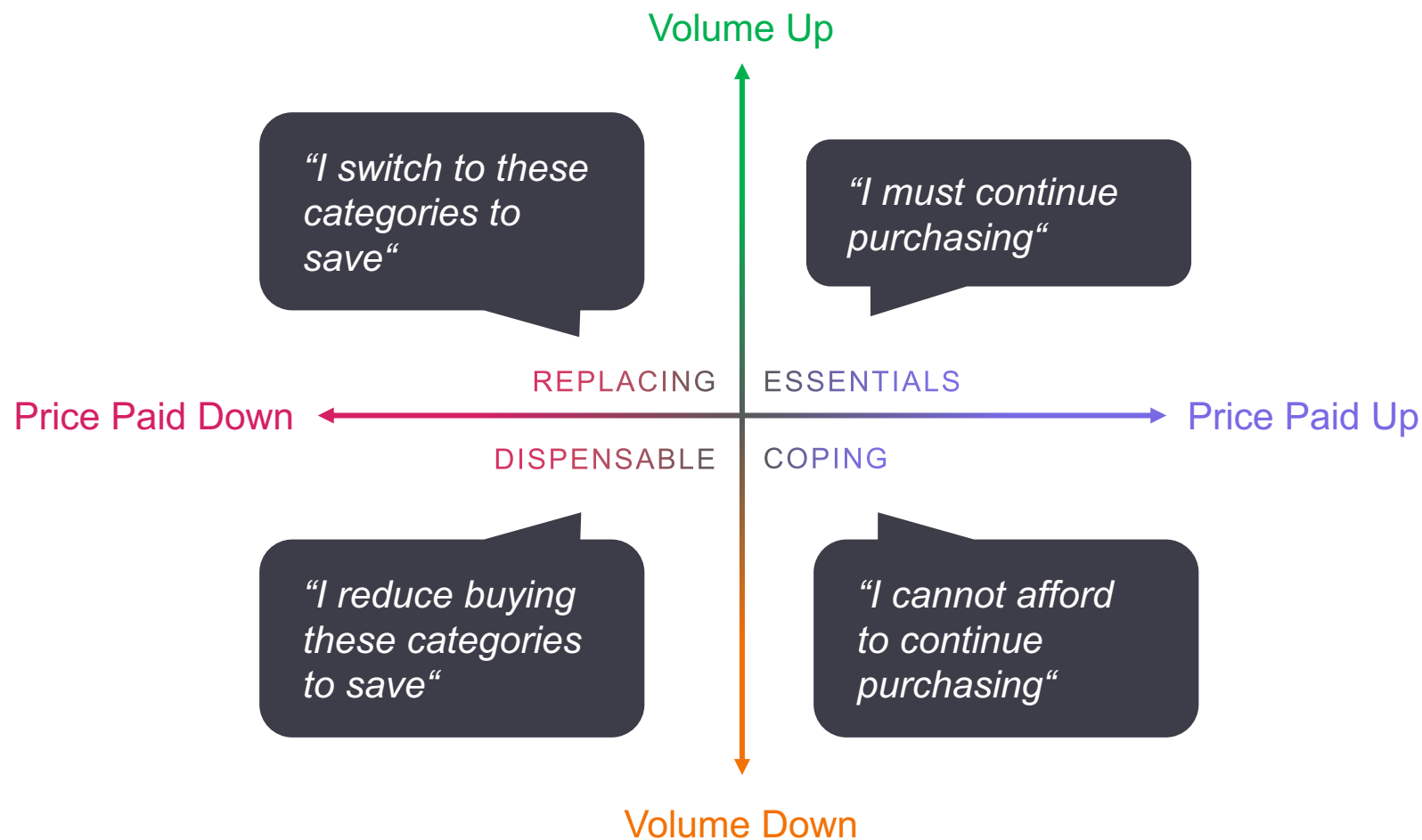
We move the goalposts depending on country situation

Timing: Jan-July 2022 vs Jan-July 2021



Source: 928 categories across 5 countries

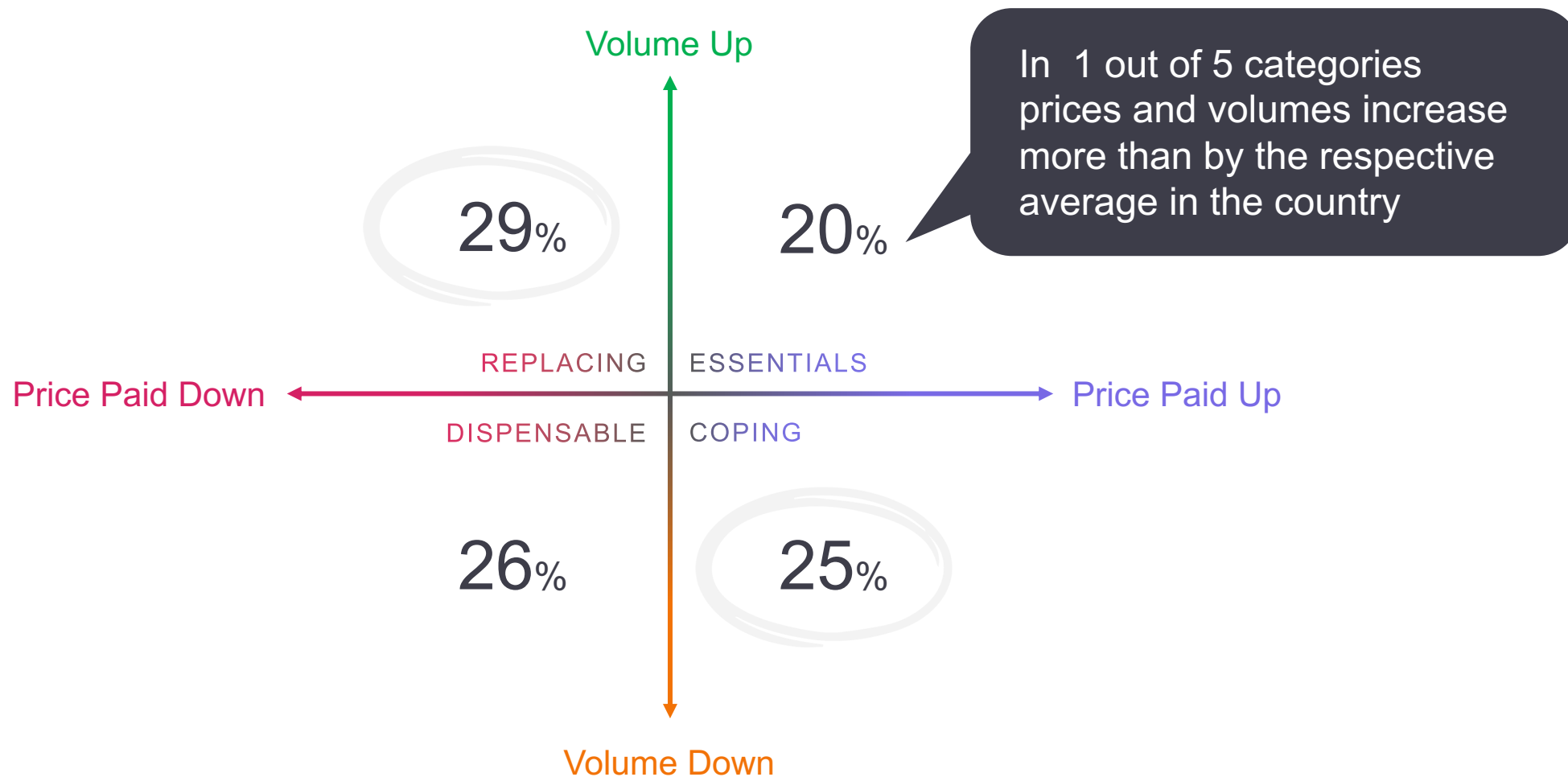
Four types of reactions



Source: 928 categories across 5 countries

Do higher prices relate to lower volumes and vice versa?

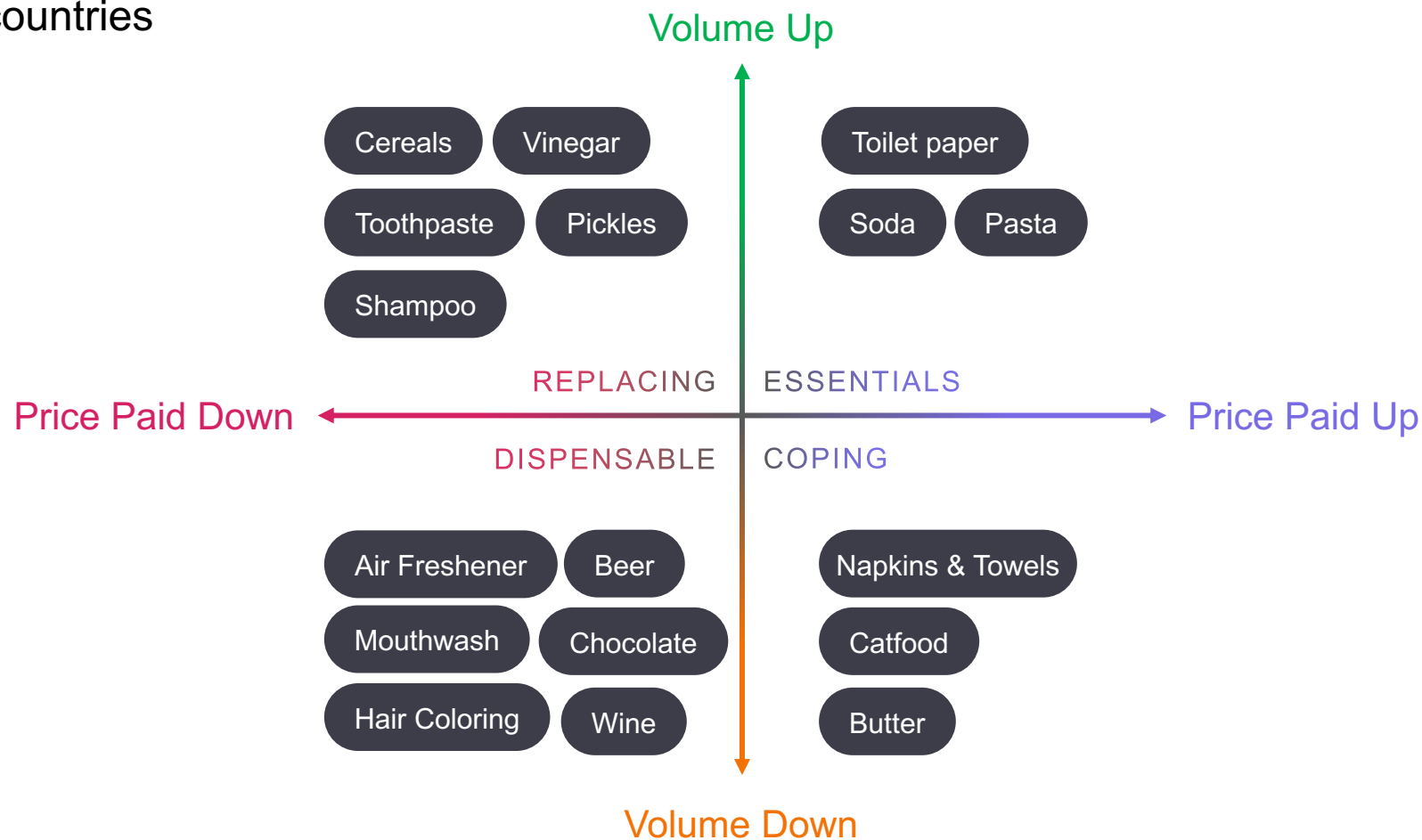
A little...



Source: 928 categories across 5 countries

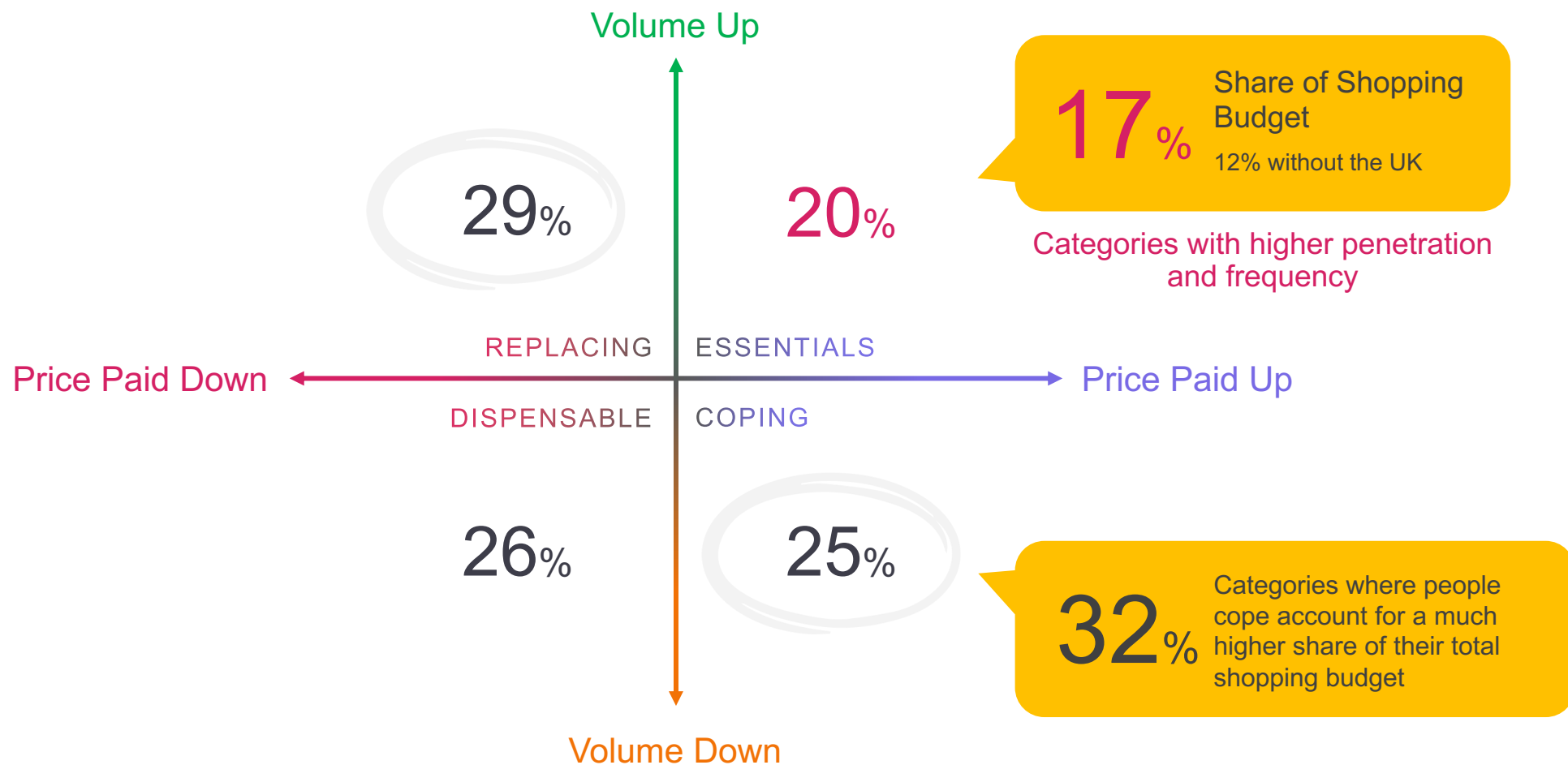
Examples of Categories by Quadrant

Category mentioned if present in at least three countries



Source: 928 categories across 5 countries

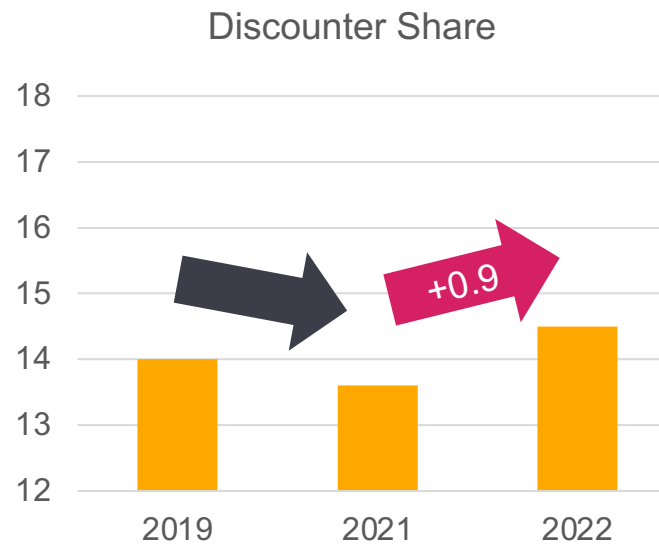
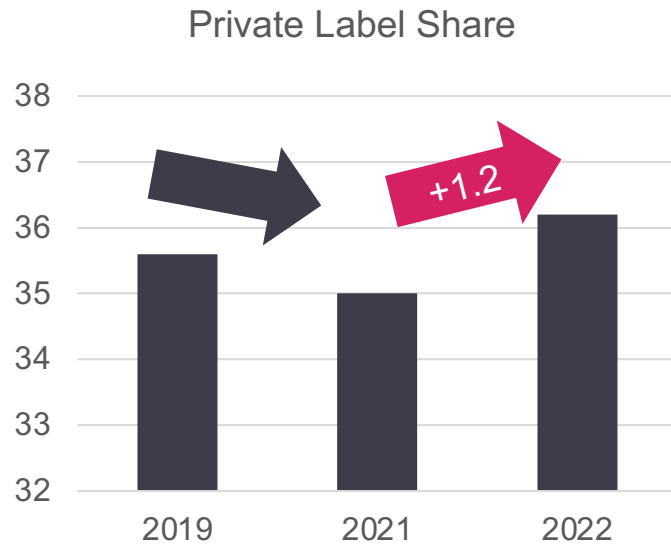
Essentials take up a lower share of shopping budget



Source: 928 categories across 5 countries

Finally: How have PL fared through this period?

Average of PL and Discounter shares across categories



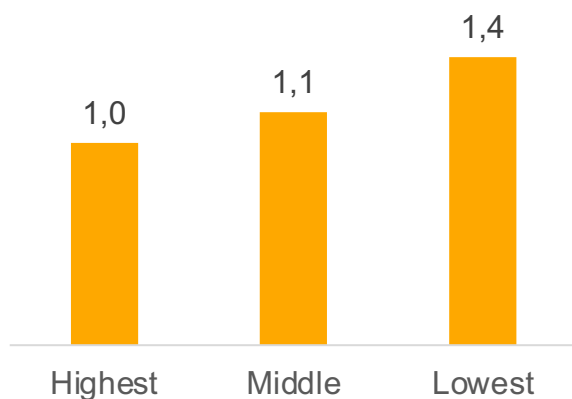
Lower than market total because of
discounter focus on larger categories



What impacts the change in PL share 22 vs 21

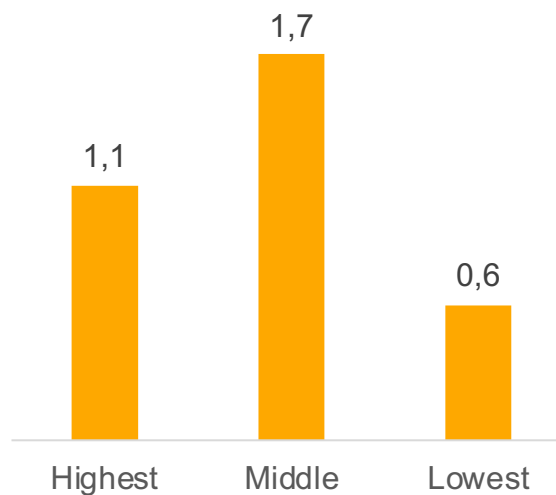
Higher category price increases not linked to higher PL share gains

Relative Category Price Change



Medium PL share categories experience higher PL share gains

PL Share 21

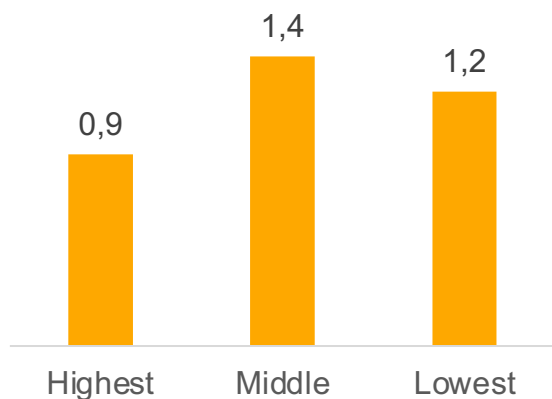


What impacts the change in PL share 22 vs 21

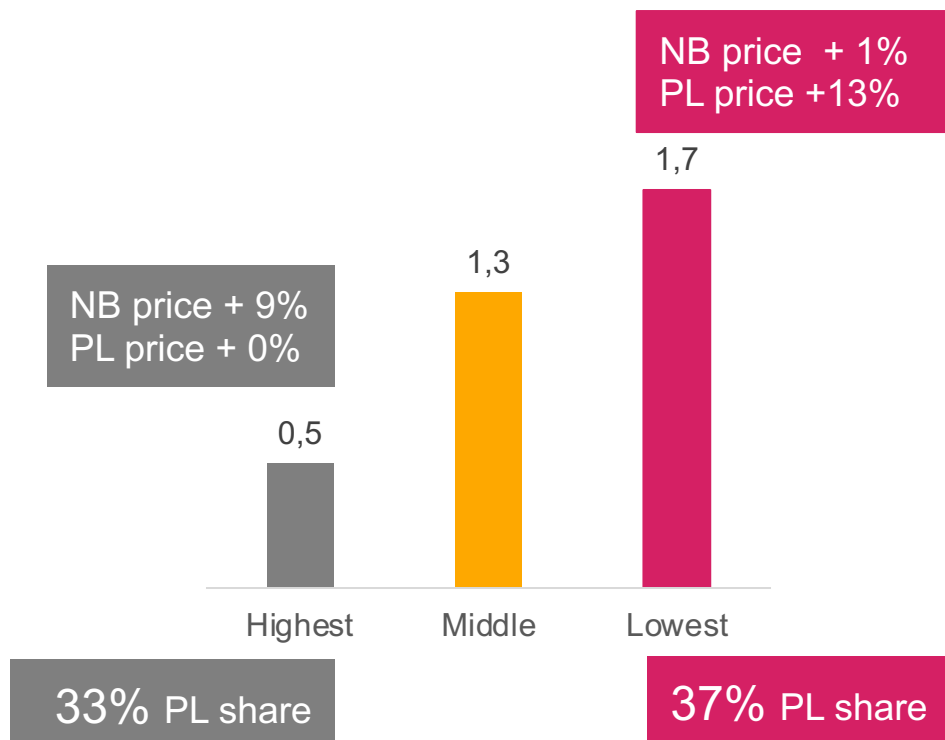
Where NBs are much more expensive
PL does not grow more

How NB vs PL premia have changed
impacts PL share **but not as expected**

NB PL Price Gap 21



NB PL Price Gap Change



Learnings and Takeaways

- Individual category price and volume changes vary, but overall consumer behaviour in FMCG roughly aligns with economic logic (higher prices, lower volumes)
- FMCG is not a „closed sytem“ - other substitutes competing for the same budget have become more expensive as well (eating out, travel)
- We believe that few consumers think about individual categories like we do – but adopt a “need to save” or “I am fine” attitude across all FMCG
- PL wins most where NBs are relatively weak
- Once again we find that high equity brands (and their categories) are best prepared to counter PL growth, also in uncertain times



A woman with dark hair tied back, wearing a green t-shirt, is looking down at a product label on a shelf in a grocery store. The background shows shelves stocked with various products and digital screens displaying information. The lighting is warm and focused on the woman and the product she is examining.

The evolution of sustainable products

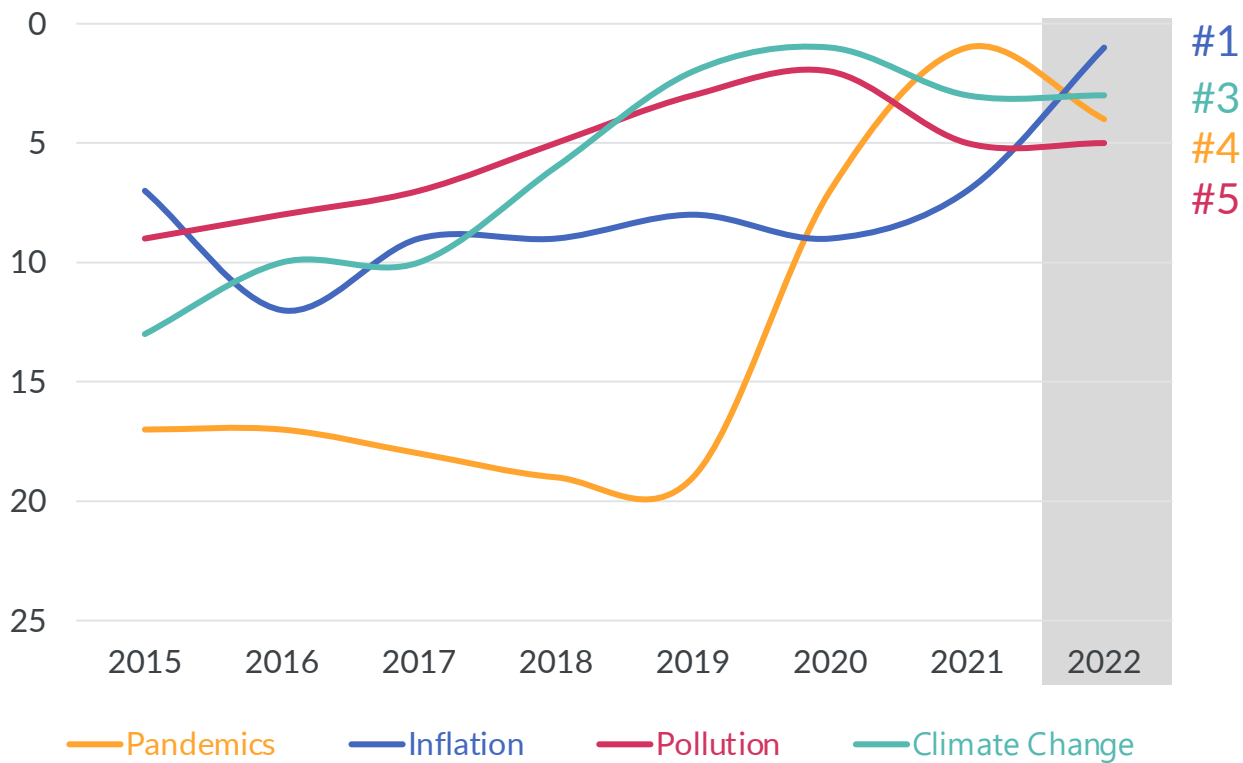
Right target with the right product

Lenneke Schils & Natalie Babbage

Inflation rocketed to the #1 societal concern, climate change stable in top 3 biggest concerns in Europe



Ranking of selected societal concerns | 2015-2022



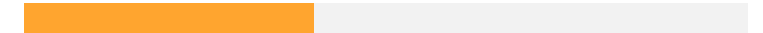
Cost of living crisis influence

Agreement in % | Top 2 Boxes



2/10

First comes economic security, then we can worry about the environment



4/10

Recently I have found it harder to act sustainably because of economic issues



6/10

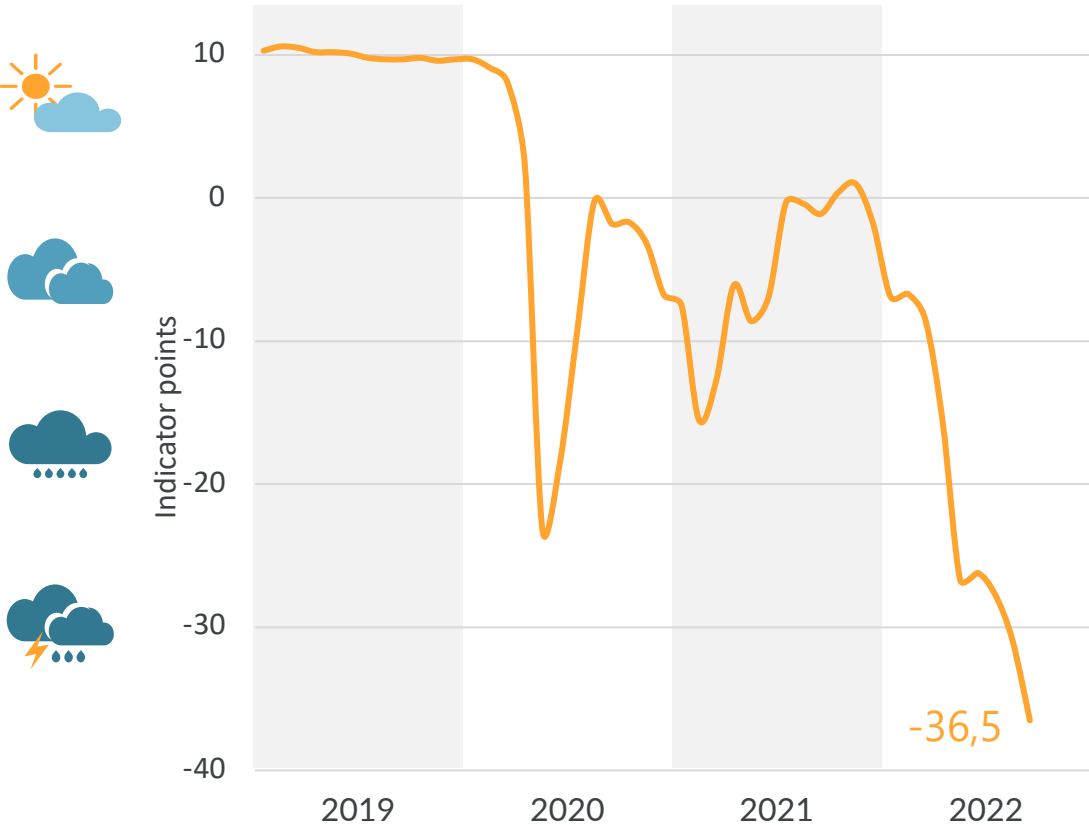
Environmentally friendly alternatives are too expensive



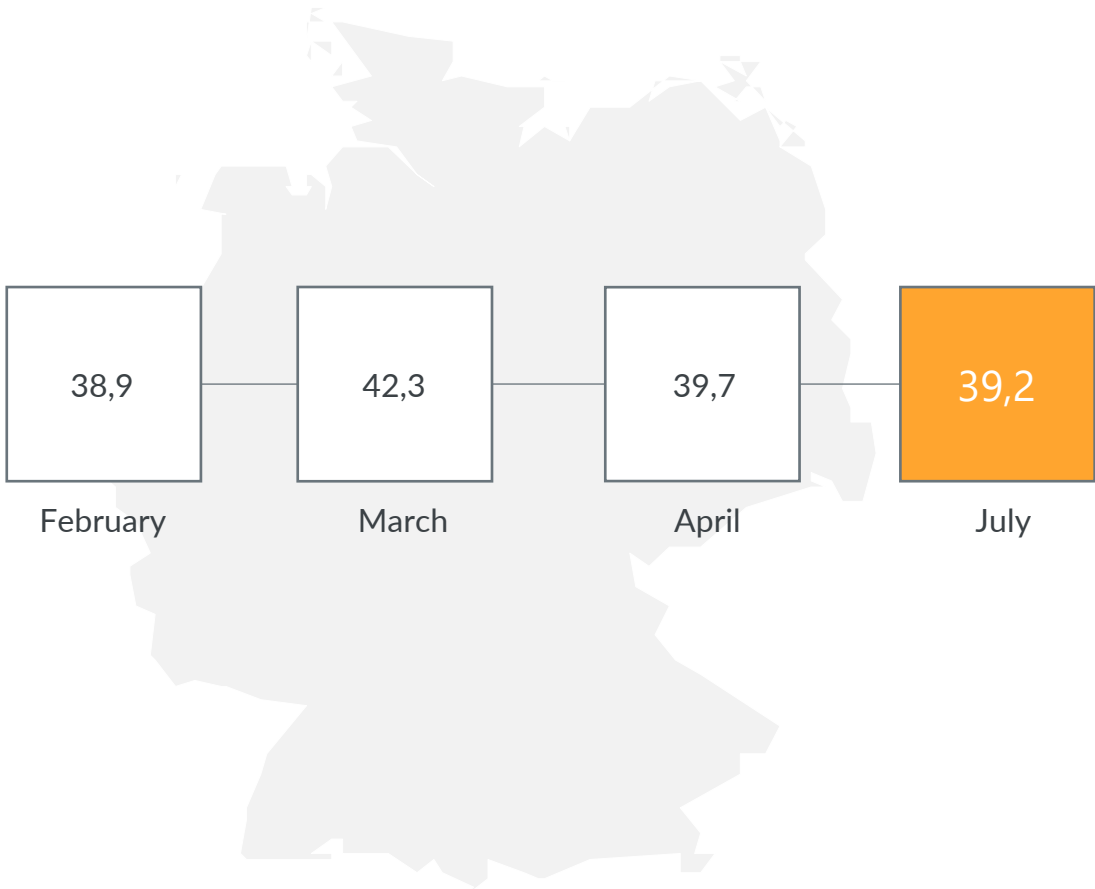
Despite declining consumer climate, consumers are still buying sustainably



GfK Consumer Climate Germany August 2022



GfK sustainability index Germany 2022



FMCG is the 'hot spot' for turning concern into action

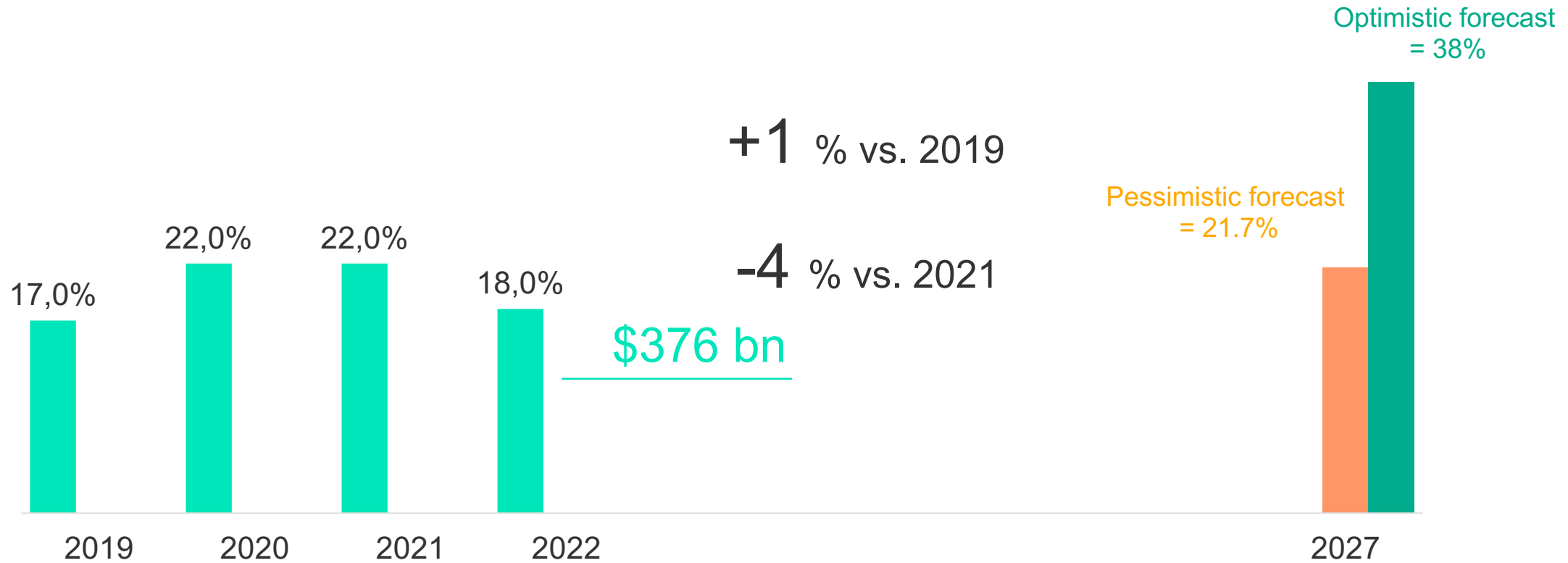
64% of consumers plan to buy **products for daily use** sustainably in the future

27% of consumers plan to buy **major purchases** sustainably in the future

Eco Actives could reach \$1.12 trillion in value in FMCG by 2027

We look towards the optimistic scenario as company and government pledges should ensure that we have innovation and regulation coming that will reignite momentum

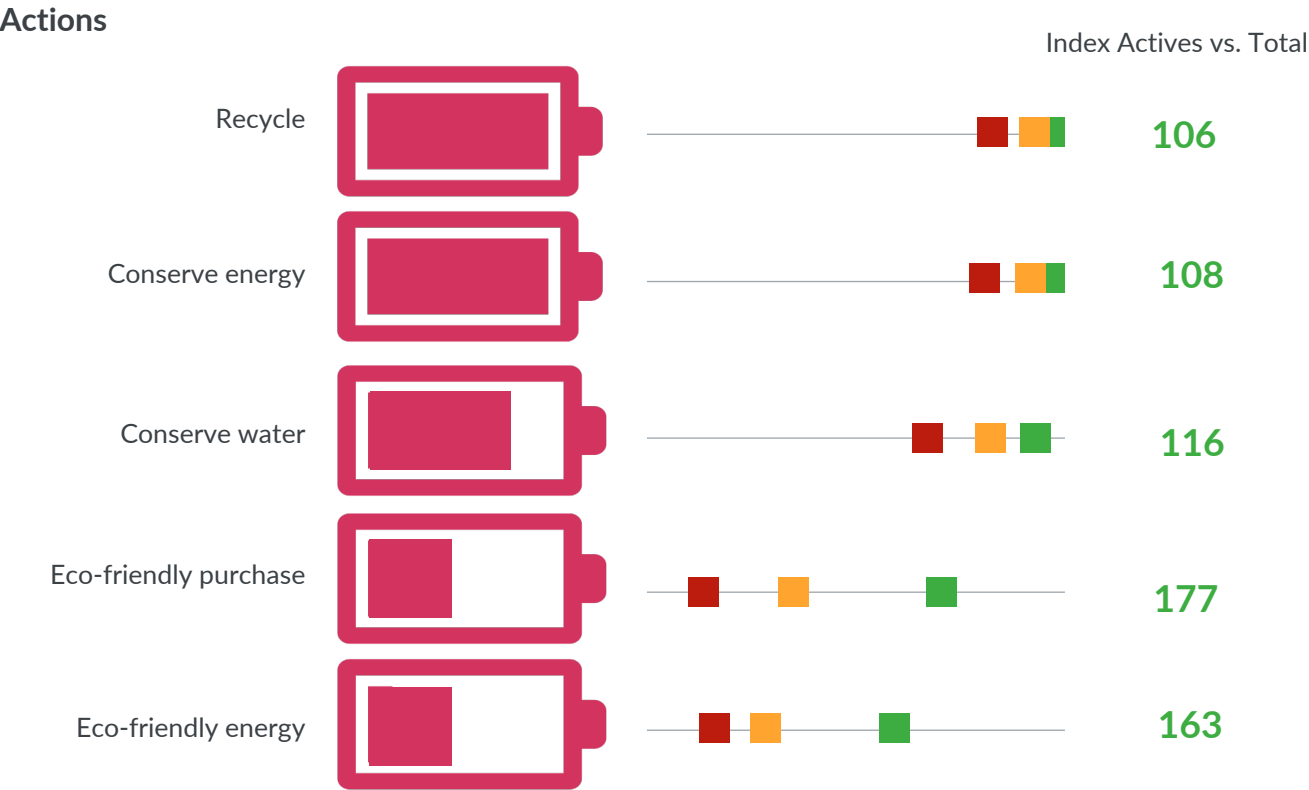
ECO-ACTIVES Household Population share - Projection based on 2019-2022 trend
GLOBAL AVG



Source: Worldpanel Division, Kantar, Europanel, GfK - Who Cares? Who Does? 2022

Many other sustainable actions still widely adopted

Environment-based purchasing most differentiating



Price overall the greatest barrier to eco-purchasing

Eco-actives need tools, eco-dismissers need reassurance



Barriers | Agreement Top2Boxes



Cost of living crisis has paused the higher growth of sustainable options

Prior to 2022, Eco-options were growing quicker than the category average. But this year performance is no better than the category average (but not weaker on average)

- Purchase quarterly year on year value sales change
- Europe – 24 categories / 7 countries

Eco-choice vs total category



Q2 2020-2021



Q2 2021-2022



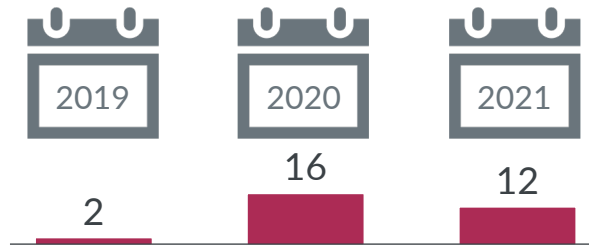
Yet sustainability bouncing back in Europe's greenest market

(Premium) private label as a trend driver in times of hardship

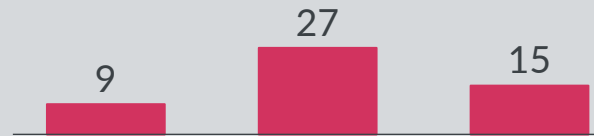
Germany | Value change in %



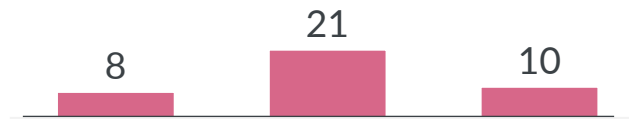
Convenience



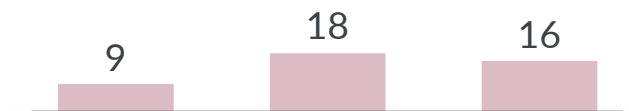
Sustainability



Health



Lifestyle & Premium



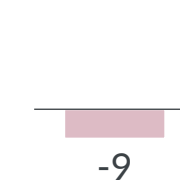
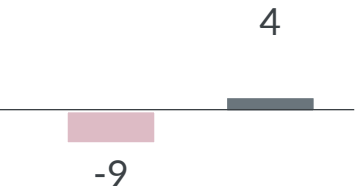
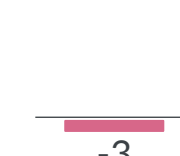
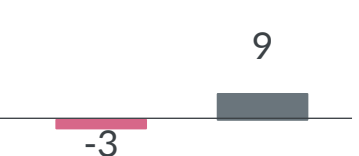
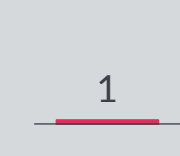
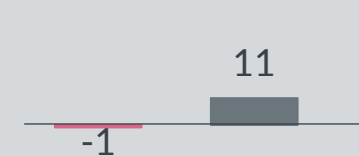
YTD April vs. PY



Premium Private Label



YTD June vs. PY

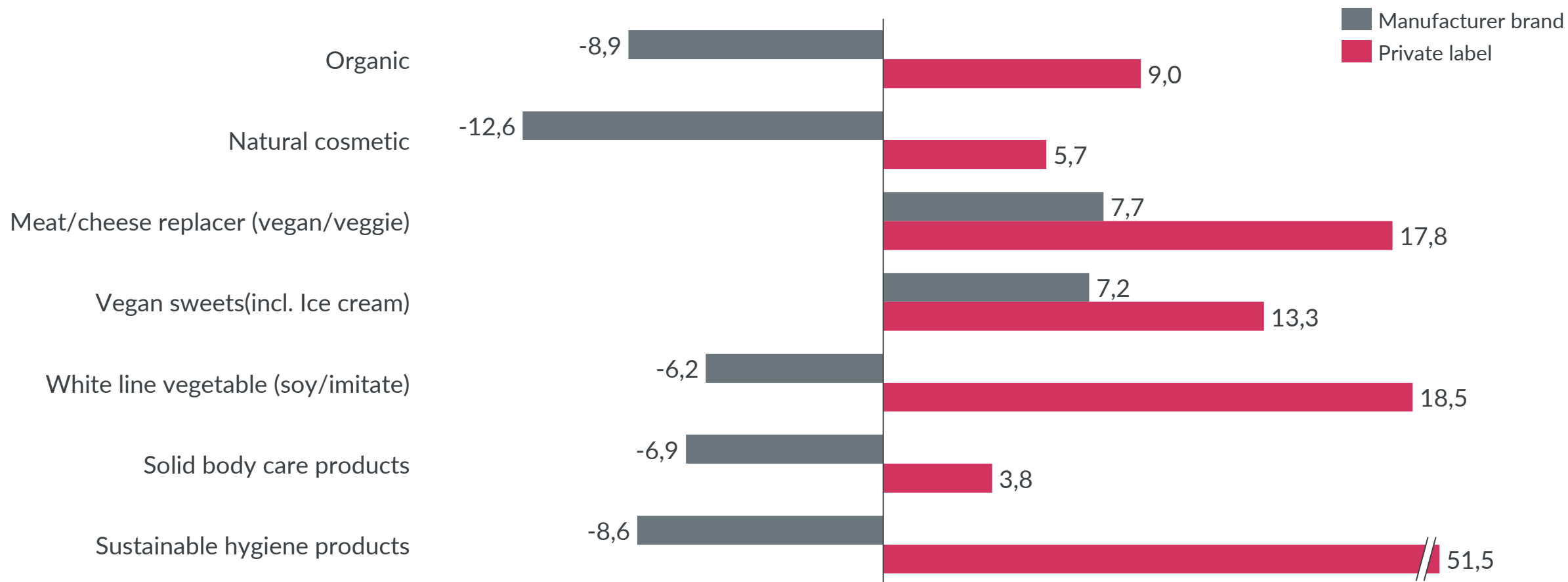


In 5/7 sustainability trends, A-brands develop negatively

Private label consistently positive



GER - Sales development YTD June 2022 to YTD June 2021, in %



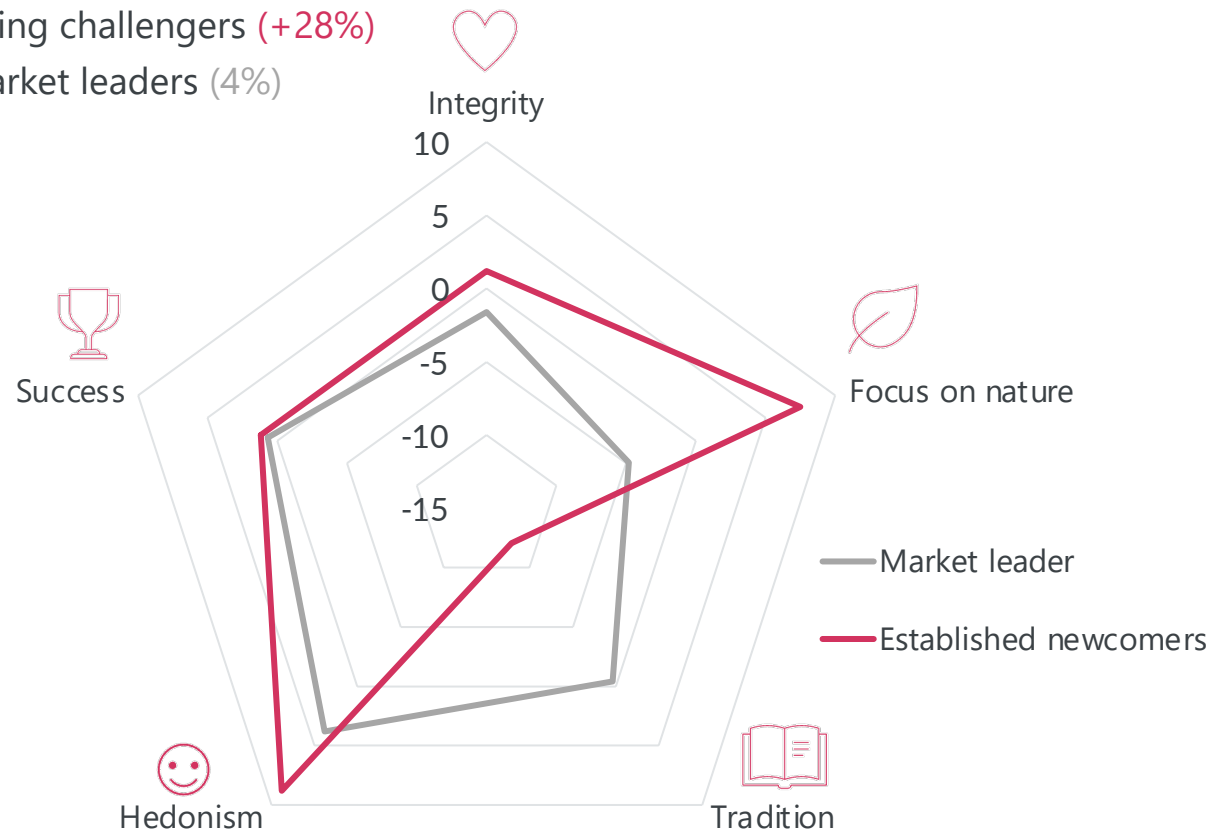
Winning challengers build brand identities that resonate

Functional focus alone does not cut it



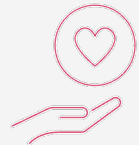
Germany

Winning challengers (+28%)
vs market leaders (4%)



Functionality

Necessary but no longer sufficient to thrive



Emotionalisation

Individual fun and indulgence are key factors, but less central



Responsibilization

Growing success factor when paired with emotionalization

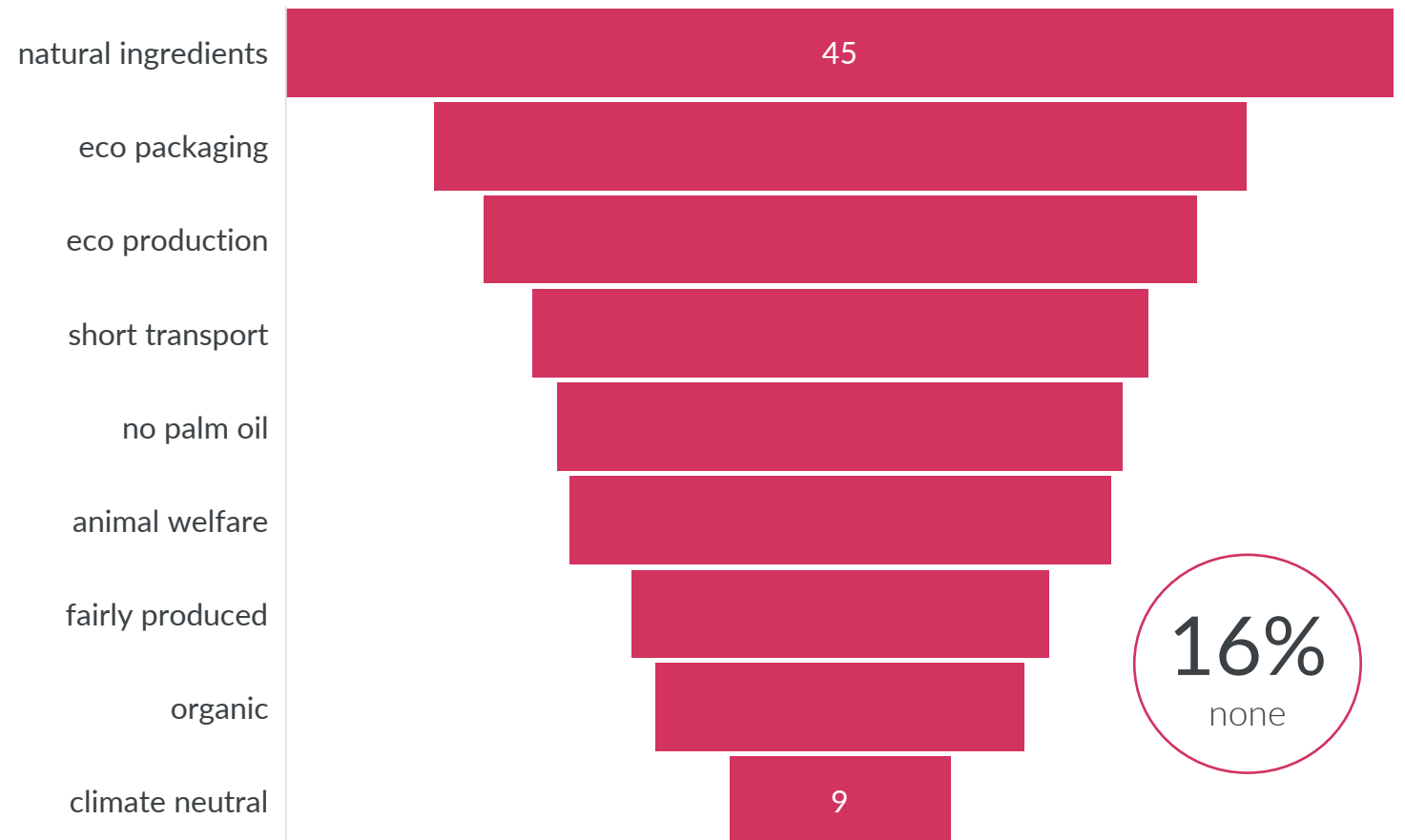


The right balance

No unlimited license from consumers to engage and speak up

Natural most premium-worthy

Top influences for products to put on the body or to eat/drink are natural (#2), sustainable (#3) and organic (#4), out of 10 influences globally



Case study Danke

Recycled, CO2 reduction



Key KPIs

HHT TPD

19% | 16%

CAGR penetration MATQ2 2018-2022

+3% | +5%

Exclusive buyers added to the category

#4/20 | #3/20

Top ranking optimal assortment

+6% | +9%

Eco-actives exclusive buyers added

What does the brand stand for?

- Good for me, good for nature
- Unbleached
- CO2 reduced & recyclable pack
- 100% recycled paper
- “Blue Angel” certified



Success factors

- Transformation via small (trans)actions - “Your small contribution” and brand name to feel good
- Packaging “speaks for itself”
- Incrementality: adds (exclusive) buyers to categories
- Reintegrating eco-actives, underrepresented in the category
- HHT: category penetration down 5%, eco-actives under-trading at index 90



The evolution of sustainable products

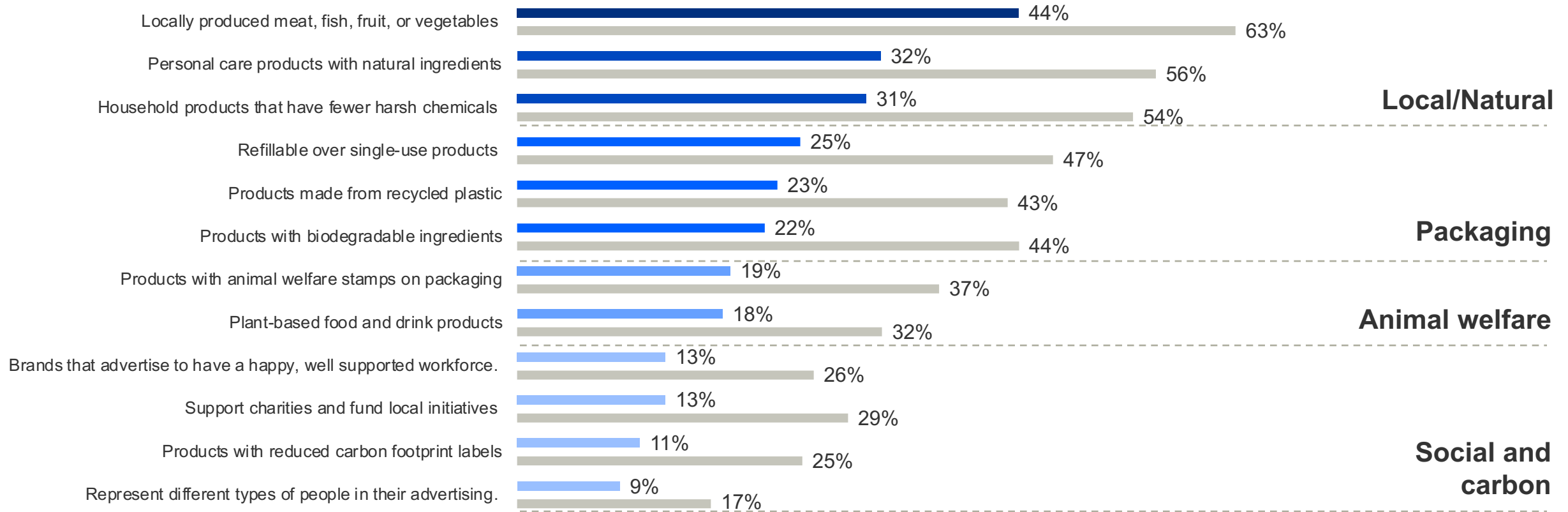
Right target with the right product



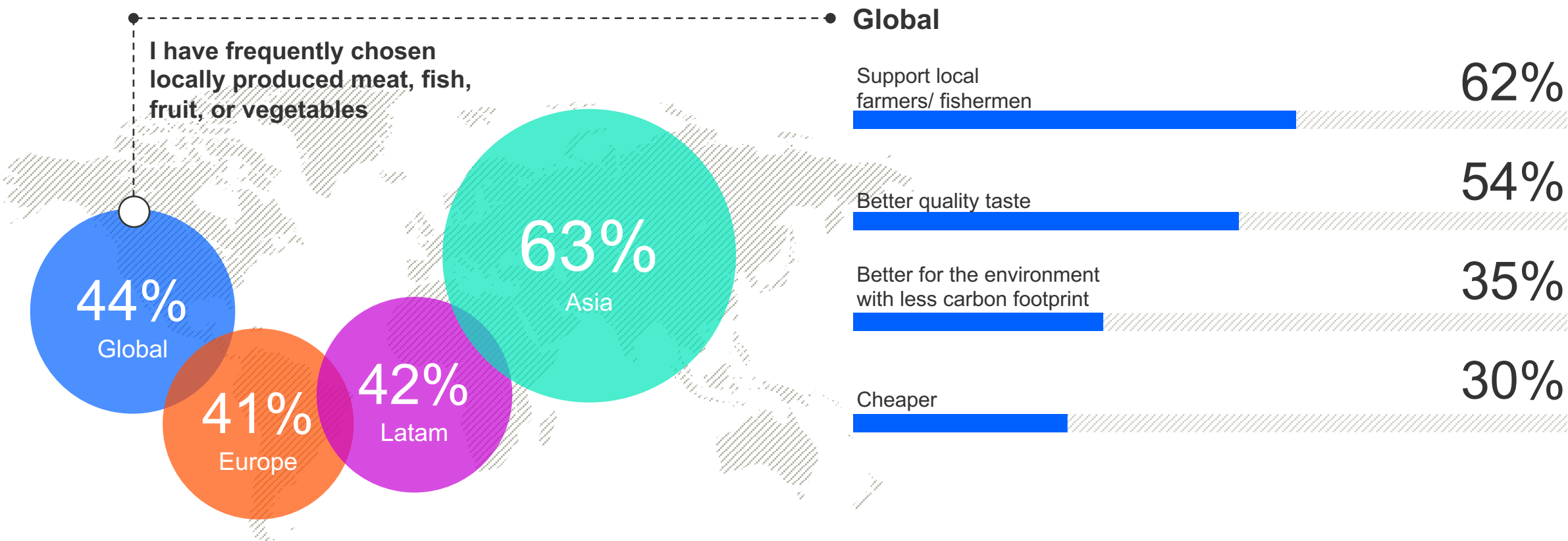
Local and natural needs are the most chosen and next is packaging to reduce virgin plastic and waste.

Eco Actives are more engaged in all the areas

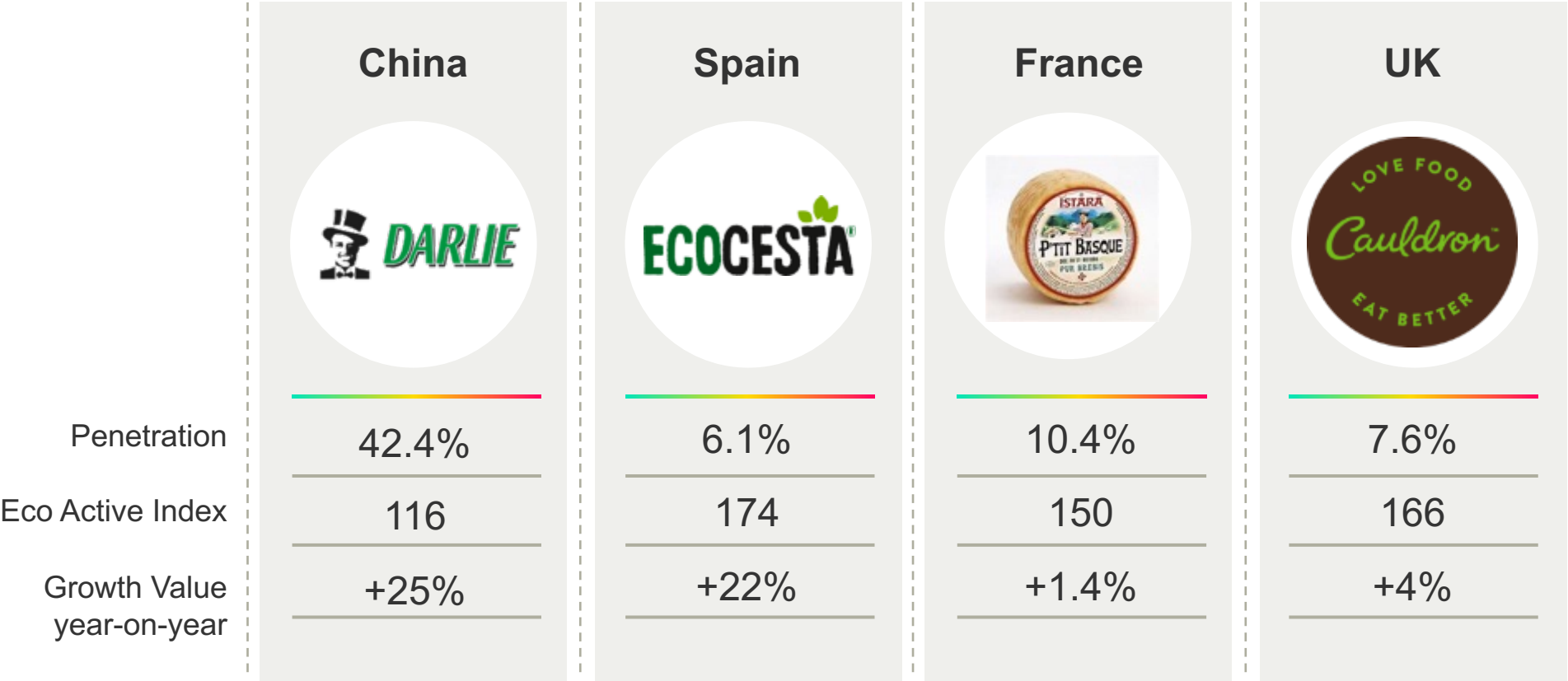
Products people frequently choose



Fresh local products are the most consistently chosen across the regions with supporting local producers and quality being top of mind

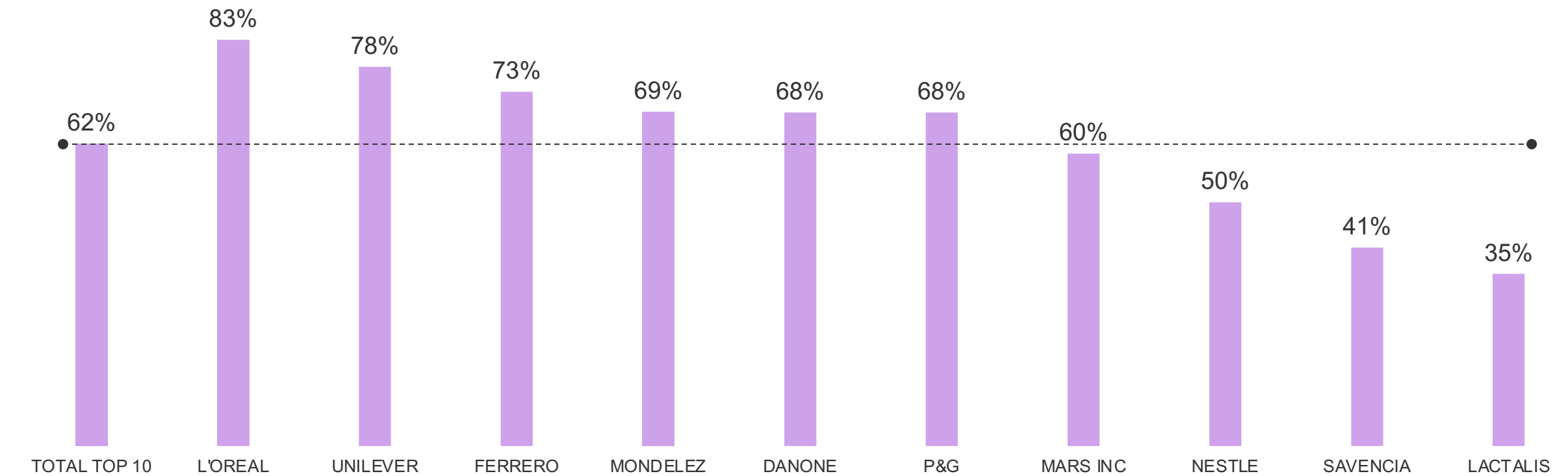


Local brands are over represented amongst Eco Actives across the world



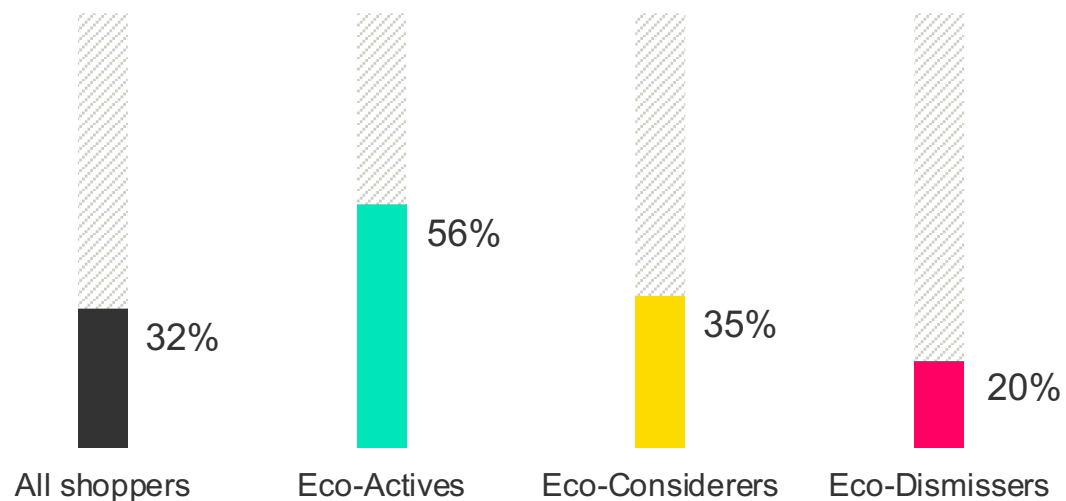
Multi nationals are generally less likely to appeal to Eco Actives and have some real opportunities to grow

% brands under-index with Eco-Actives
(top 10 manufacturers-France)



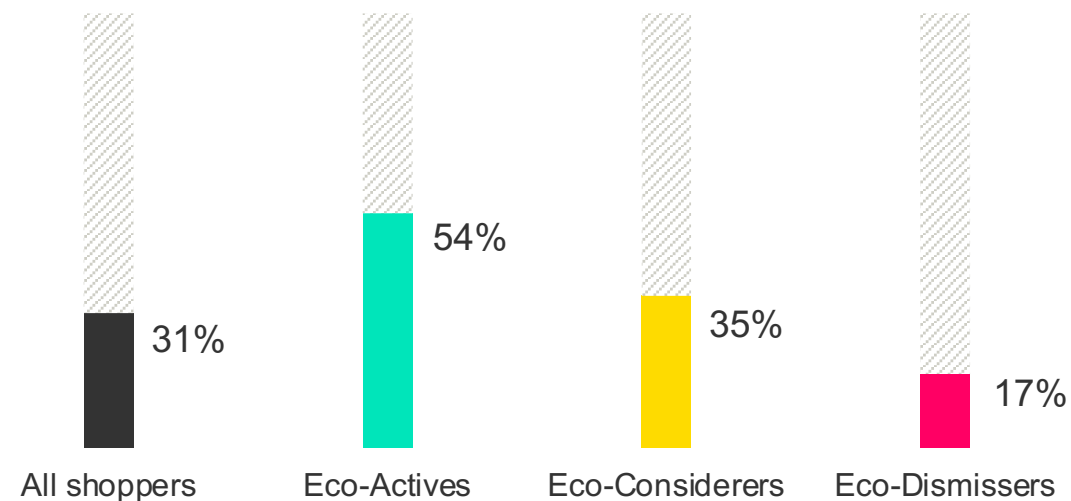
Eco Actives are most likely to choose personal and home care brands with natural positioning and ingredients

I frequently buy personal care with natural ingredients



China has the strongest affinity with naturals with >50% frequently choosing in both categories, followed by France

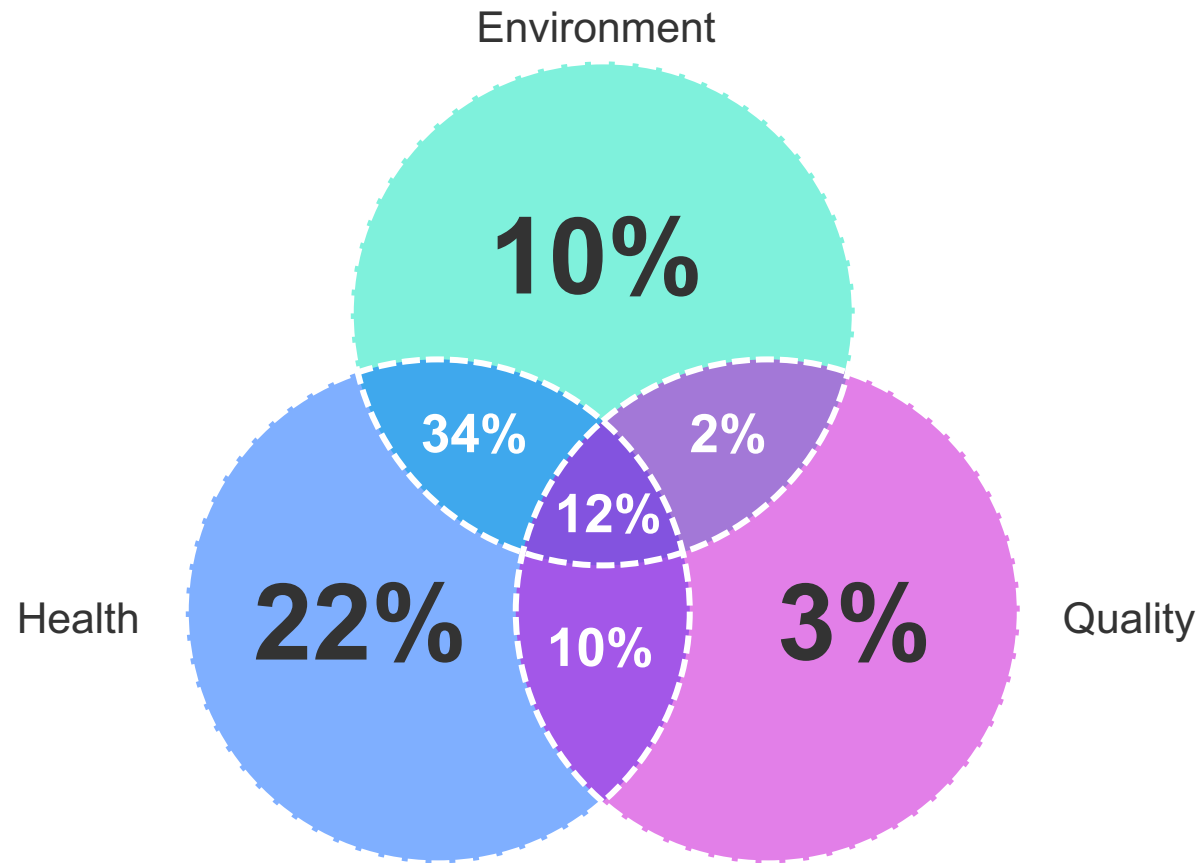
I frequently homecare with fewer harsh chemicals



Henkel had two brands in France's Top 10 over indexing brands with their natural toothpaste and laundry brands



**Health and environment are a powerful combination driving product choice.
46% of natural product choosers are doing so for both reasons**



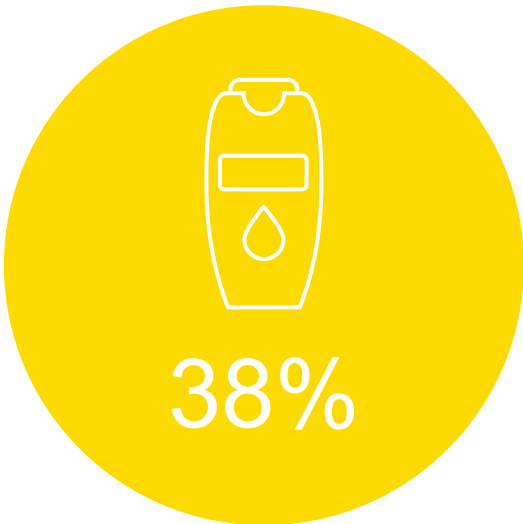


Shoppers see fewer chemicals in homecare and plant based foods as compromising on the main job

Why do you choose these products?
Quality/ Taste



Fewer harsh chemicals
in household products



Natural Personal Care



Plant based

Refills are another area where growth is slowing as shoppers have to compromise and they are often not easy, meaningful or rewarding



Easy

Online only



Meaningful

£4.69/ 1L
Refill

£5.70/ 1L
Non- promo

£4 for 2 500ml
bottles
Promo

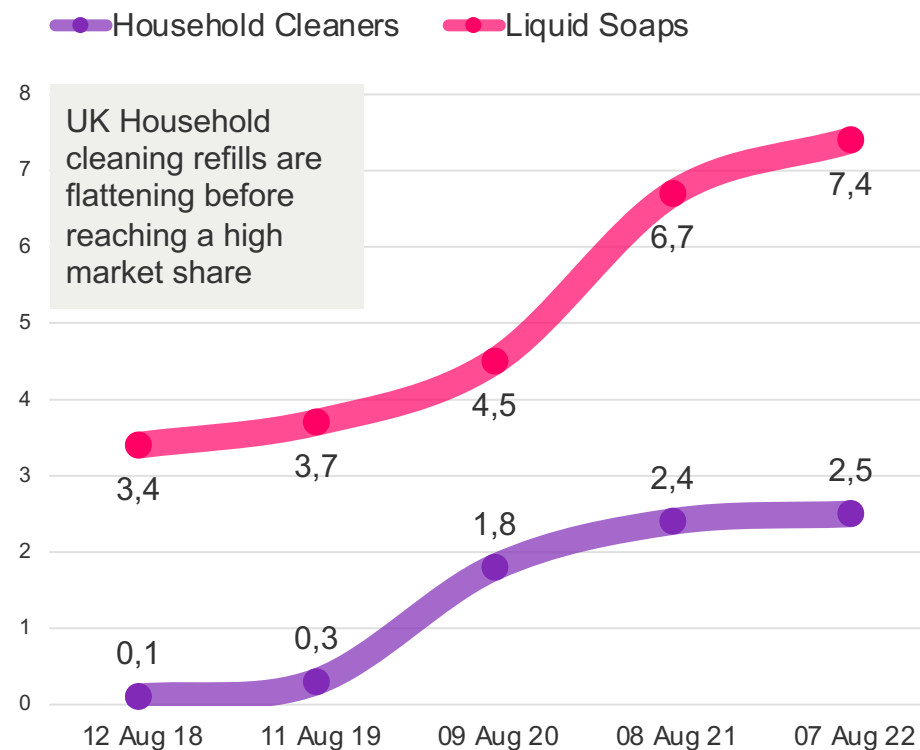


Rewarding

Not widely-
recyclable

Hard to remove
lid from bottle to
refill so waste
product

% packs sold by category that are refills



Innovation can be the way forward to expand this segment as new technologies emerge offer convenience and price benefits

Godrej Protekt – Mr Magic India

powder to liquid format +
a first, in the world of hand washes!

soothing aloe vera +
makes it gentle on skin.

over? refill! +
get a refill worth Rs.15 and make a full bottle of hand wash, all over again!

easy to make +
getting healthy hands is as easy as 1, 2, 3!



Penetration up 14%
year on year to 9.1%

- + **with neem**
which is tough on germs.
- + **extremely affordable**
compared to other hand washes in the market.
- + **make 200 ml of hand wash**
from a single refill!

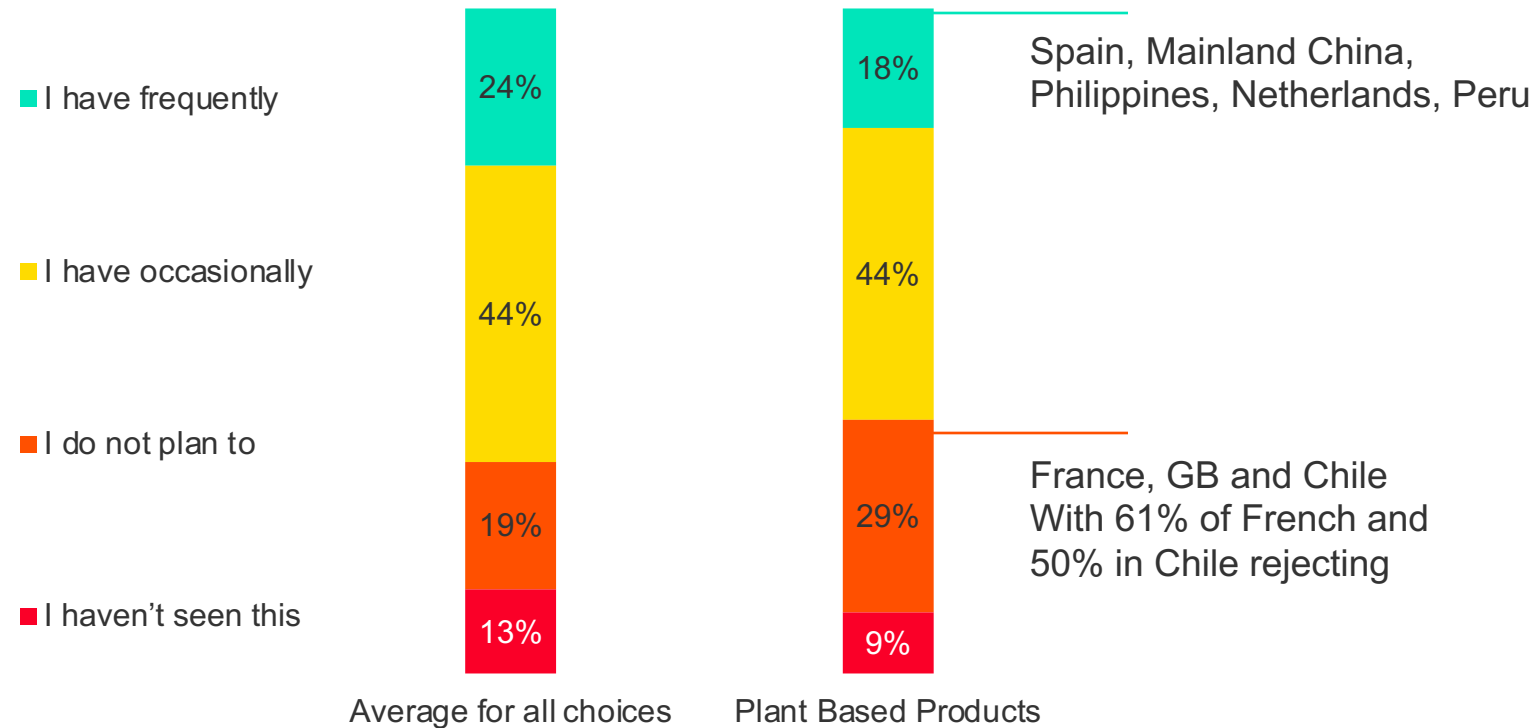
YVY Brazil



Capsules for
Homecare
without plastic

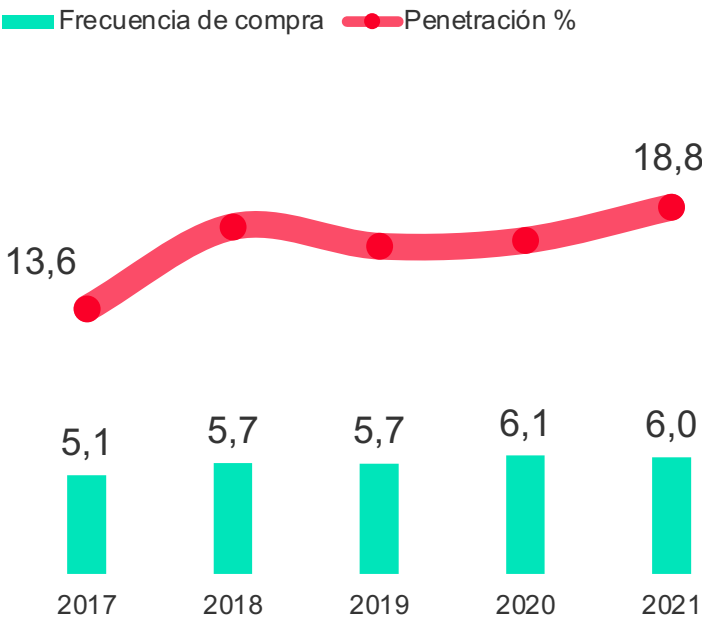
Plant Based products were chosen frequently by 18% of the global population, but this was the most polarising trend

Plant based products had the highest % of people saying they do not plan to buy



Spain and Philippines are two countries where strong local brands have helped create a growing market for plant-based alternatives to meat

Vegetable-based alternatives purchase trend



Heura
2.8% Penetration in 2022
(4.6% in Eco Actives)

Only major brand to also grow frequency



Local emerging brand

1

Don't put off change

Consumer action tied to the news cycle and availability, but concern runs deep meaning delaying action will leave brands exposed in future

2

Target your potential early adopters

Eco Actives love new brands and green innovation making them a group most likely to be receptive to your new ideas. Health x environment is a sweet spot

3

Innovate with value in mind

Compromises in product quality and price are blocking growth for eco products. Space for real innovation to stand out- especially at a competitive price point. Think beyond Europe here to not be left out

4

Increase your eco-feedback

Target both eco-minded and value-oriented shoppers communicating a clear win-win: helping one's wallet & the environment



Connecting Globally,
Inspiring Activation

BG20 Summit 2022

Higher prices,
Lower profits?





Connecting Globally,
Inspiring Activation

PICK OF THE WEEK

Grocery price inflation is a hot topic but how is this playing out at category level? And are price rises by category consistent across the different players?

Inflation is leading to a huge range of differing price changes by category

Increase in Prices Paid by Category
First Half 2022 vs 2021 – 5 countries, 957 Categories

Around the mean of a 4.9% increase in the prices paid in 2022 by category in Western Europe, there is a large range - from lower prices in some cases up to over 40% in others. Despite this FMCG volumes remain strong in the long term (See Pick of the Week 32/2022).

Source: Europanel FMCG Barometer – Germany, Italy, NL, Spain, UK

ep

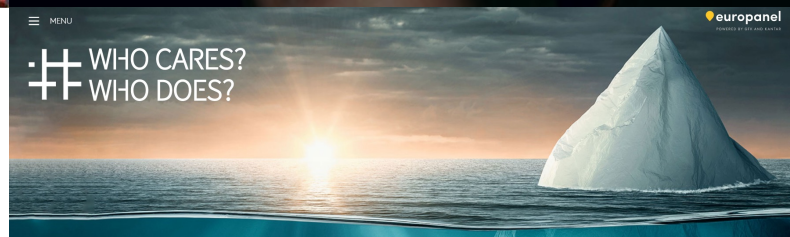
Connecting Globally,
Inspiring Activation

GfK

**FMCG Global
Barometer**
Q2 2022

europanel

KANTAR



**WHO CARES?
WHO DOES?**

Sustainability concern and action
What's changed since last year?

While COVID-19 has been dominating our lives, the majority of manufacturers and retailers have continued reducing their carbon emissions, their plastic usage and committing initiatives to improve social sustainability. Many of these companies are now looking for competitive advantage from their sustainable activations and our Who Cares? Who Does? study can help.

Provided in partnership between Europanel, Kantar and GfK, our third edition of Who Cares? Who Does? which has interviewed >88,000 households from 26 countries, has two updates.



Insights

Biceps or triceps?
We assume that retailers don't want shopping carts to reduce spending! But their design does not help. Pushing a shopping cart with a [...]

Category Innovation Down
As the Covid-19 pandemic continues many households have changed their shopping behavior to cope with the situation. We already showed that shoppers shop [...]

Private Labels increase their share of innovations
In our previous blog we showed a large drop in innovation activity at the category level at the start of the Covid-19 pandemic. [...]

How are product categories faring in this period of high inflation?
Although values compared with 2021 do not reflect the rises in price, long term trends remain strong. Whilst current beverages value trends [...]

Posted By: Oliver Koll | Date: Sep 23, 2022

... understand@europanel.com