Busting myths about price & promotions during the pandemic

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Agenda

Global & consumer landscape

Myth #1:
Price elasticities have generally increased

Myth #2:
Consumers are comparing products' prices more

Myth #3:
Discounts matter more

Whats next?

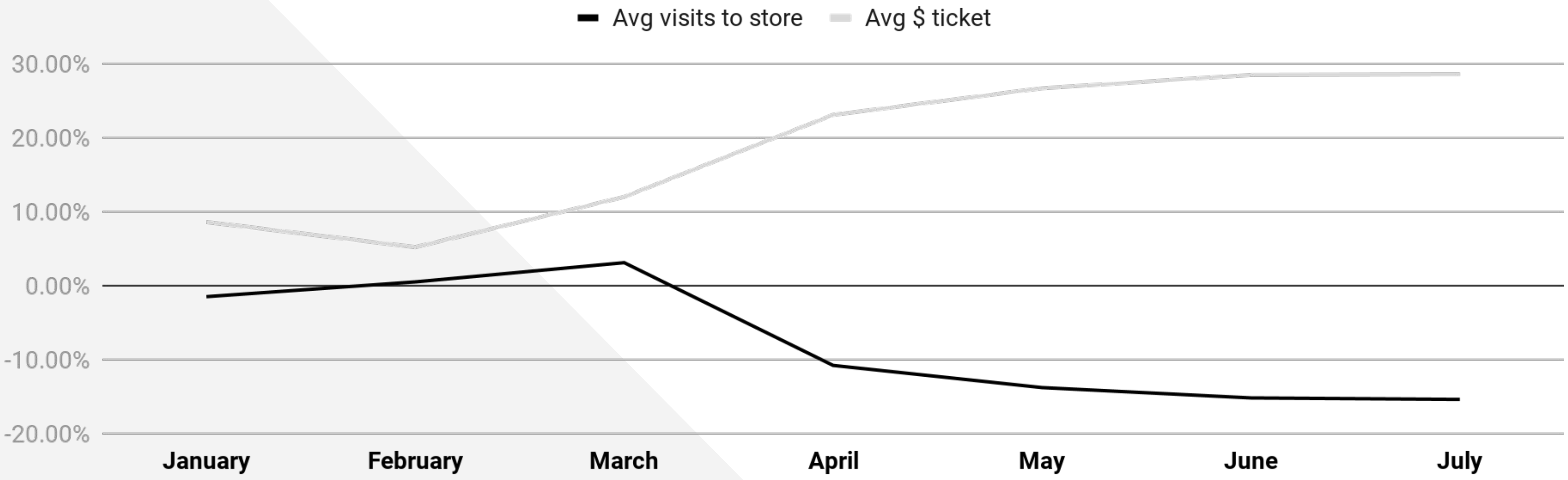
Global landscape: Changing consumer and market dynamics

NielsenIQ

There are fewer trips but larger baskets (LatAm)

To compensate for a lower frequency of trips, LatAm shoppers increased their basket size

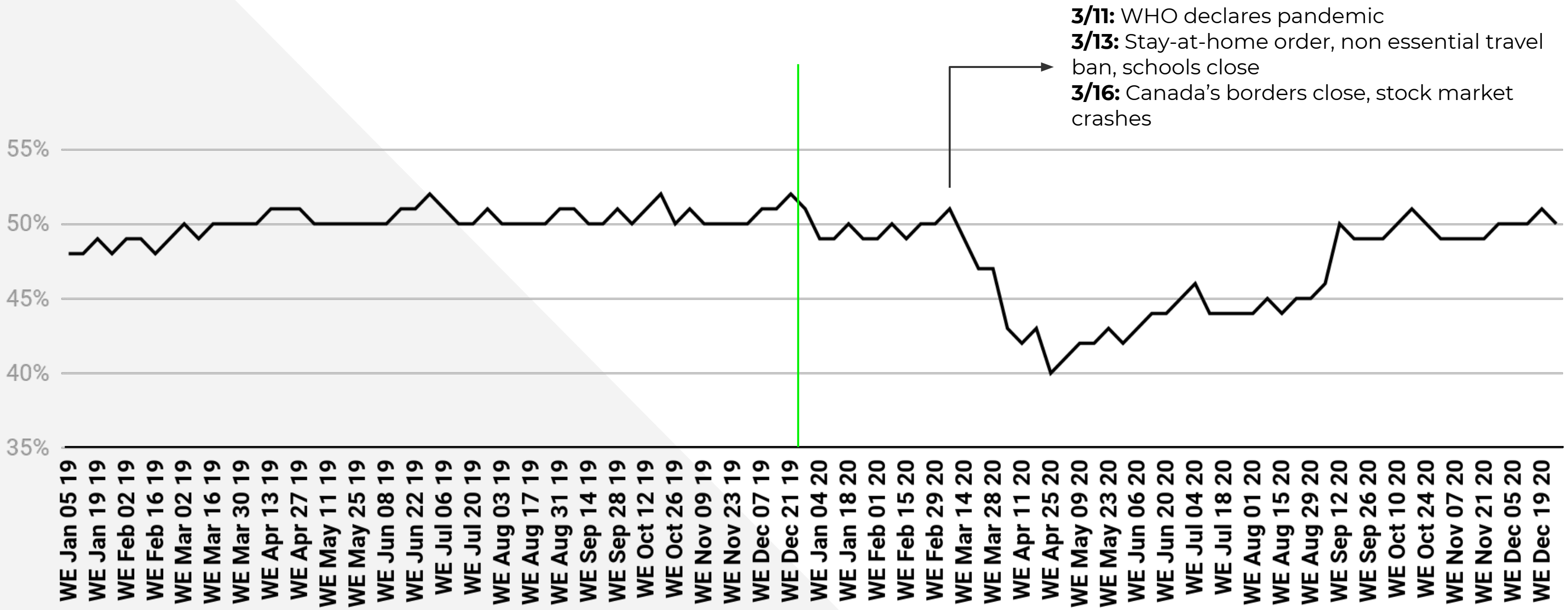
% Change vs same period YA of avg visits and avg $ ticket



Source: Nielsen CPS Julio: México, Colombia, Brasil, Chile

After lockdown, % of sales sold via promotion dropped dramatically (Canada)

Canada - total tracked sales - % of dollars sold on any promo



Source: Nielsen MarketTrack, NATIONAL EXCL NFLD GB+DR+MM, 104 Weeks Ending Dec 26, 2020

Large size products are more frequently purchased (LatAm)

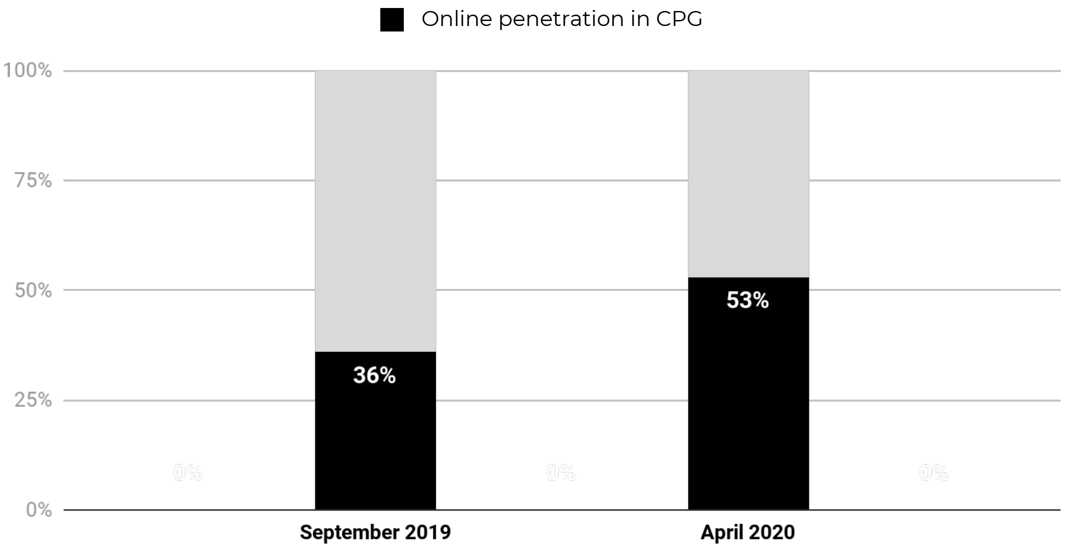
Consumers are buying more of large sized items to avoid frequent trips to stores

	December - February	April - May	July - August
Small sizes	42%	39%	37%
IMP VAL PROM LatAm			
Large sizes	25%	27%	29%

Source Nielsen RMS muestra de categorías más relevantes BRA 32 CAT, MEX 31 CAT, PER 24 CAT, COL 35 CAT, CHI 28 CAT, ARG 26 CAT, CR 27 CAT

Online purchases have skyrocketed (U.S.)

Satisfying a trifecta of motives — safe, economical, convenient



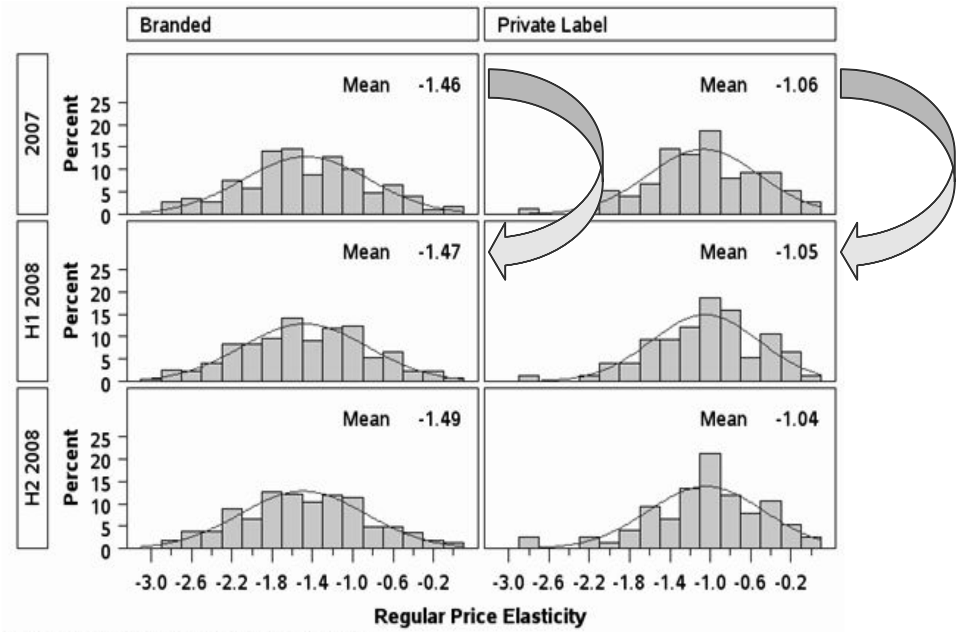
+47%

Everyday items purchased online increased

Source: Nielsen Omnichannel Shopping Fundamentals online survey fielded in nationally representative Nielsen Homescan Panel during Sept 2019 and April 2020 among 132 CPG categories.
Question: Which of the following categories of everyday items have you purchased online in the past 3 months?

Way back in the Great Recession, elasticities didn't change (U.S.)

Economic disruption certainly affects consumers, but perhaps not in the ways we presumed

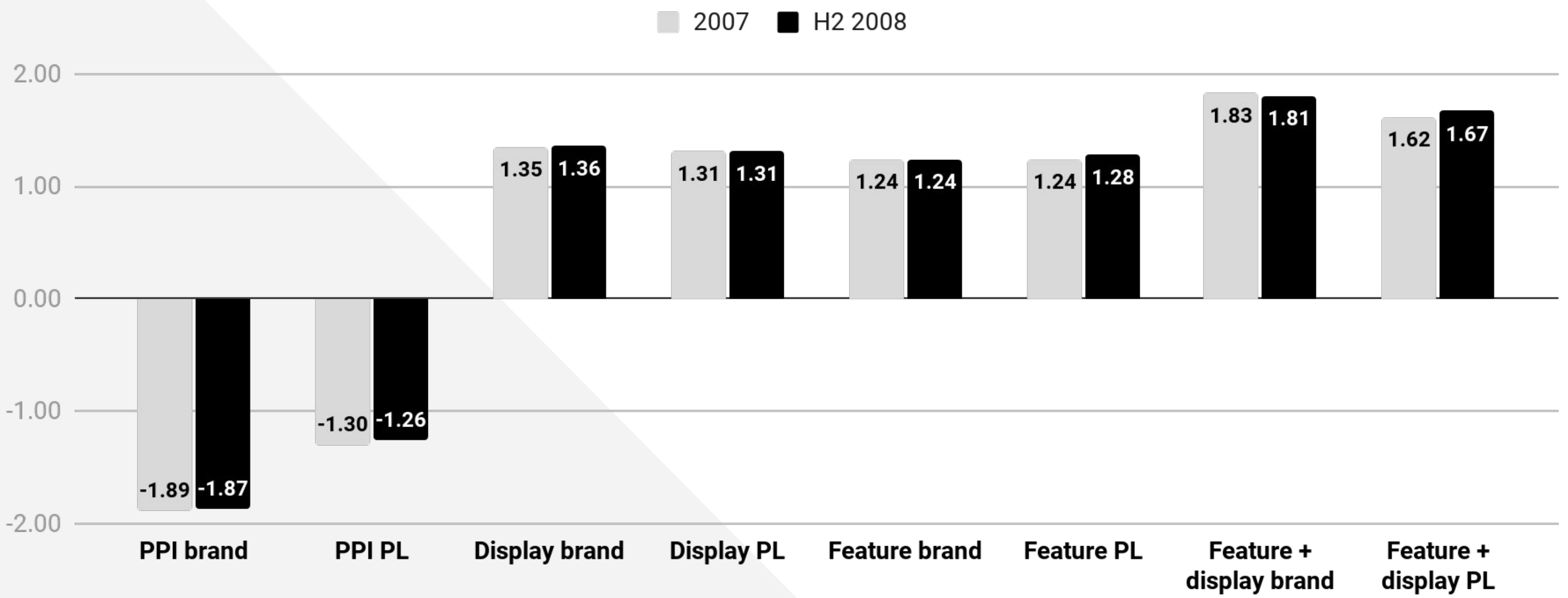


2008). 51 high selling categories. Target only models.

Macro elasticities unchanged for both branded and private label items

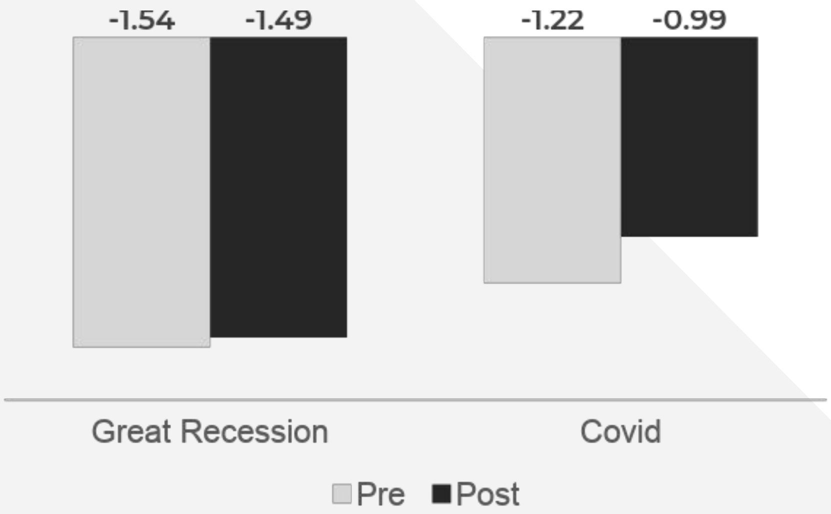
Promotion multipliers also didn't change (U.S.)

TPRs, ads, and displays were not more effective in the Great Recession



In economic distress, consumers make strategic & broad shifts

Price elasticities are not higher in economic hardship (Great Recession, covid) — consumers' price sensitivity is manifested in different ways



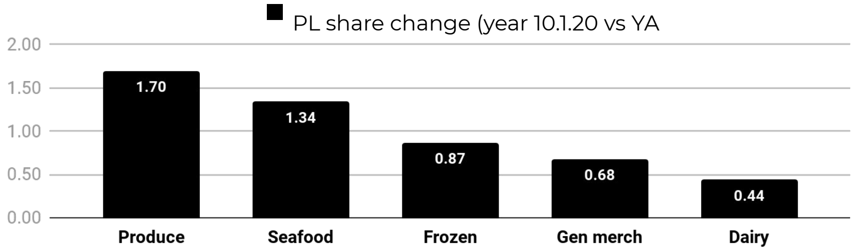
Note: Results based on sample of representative categories

Some consumers shift to private label

19.34%
PL share data ending Q3 2019.

19.52%
PL share data ending Q3 2020.

(Selective) shift to private label strongest in perishables



Consumers purchase necessities more

12%
Consumables (necessities) basket net change in % growth

7%
Non-consumables basket net change in % growth

Anchoring ourselves in the consumer

Many more eating, drinking, and usage occasions

Consumers changing shopping behavior (product type / price tier / size and store mission) to adapt

Channel mix changing: Bigger stores and e-commerce growth

But is response to price change increasing?

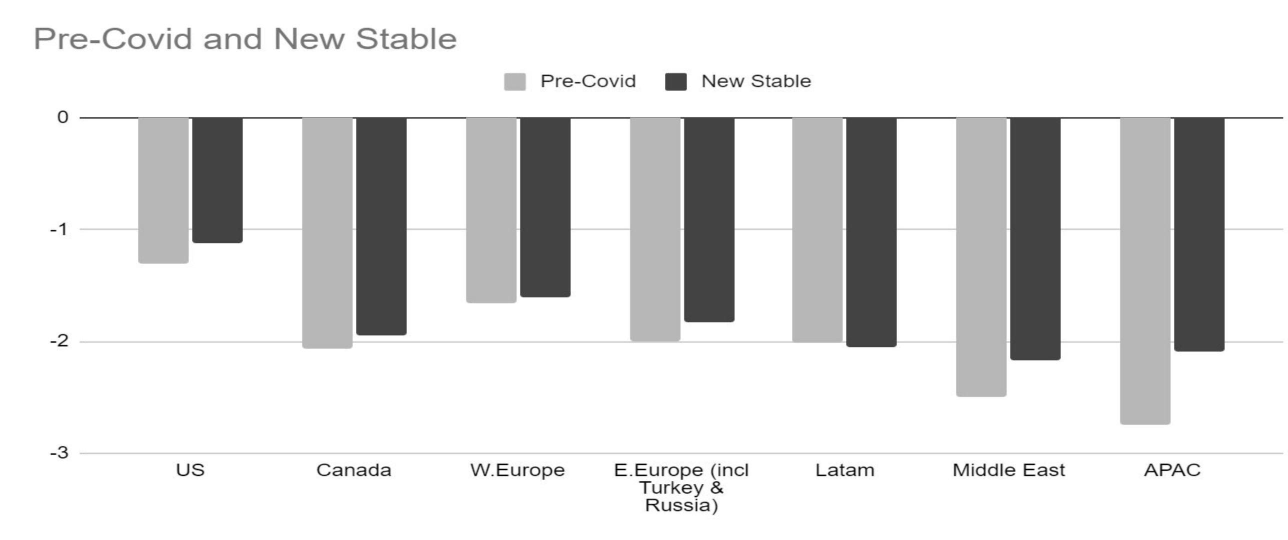
Myth #1: Price elasticities are increasing, as many are struggling economically

NielsenIQ

Average/macro elasticities are comparable (or lower) in pre-covid and "new stable" periods

This pattern is consistent across ~20 countries in six continents

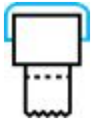
Regular price elasticity



However, at the PPG level, there is a fair amount of variation (with countries showing ~30% of items changing appreciably)

Note: pre-COVID is 2 years ending 2/20 and New Stable is mid May-1/21 (# of countries ranged from 20 in US to hundreds in Europe

Significant elasticity differences from pre-COVID “make sense”--leverage corresponding needs

Difference		***Implication/Reason***
	▲	Hardship increases sensitivity
	▼	Lower discounting lowers sensitivity
	▼	Cleaning quality critical (safety)
	▼	Yogurt: versatility/health are important
	▼	Food staples (“must haves”)
	▼	Pet food is essential
	▼	Don’t run out of household supplies

It’s a myth: Covid has generally increased price elasticities

Reasons everyday elasticities could be lower

- Other attributes more important
- Higher product demand
- Lower dealing/discounts
- Lower “competitive intensity”
- Residual fear of running out

Price elasticities metrics sensible

Consumers make strategic & lifestyle shifts in economic distress—examples:

- Eat out less
- Buy necessities more
- Buy selective private label departments

Category benefits matter more for how shoppers react to price:

- Quality, safety, health and convenience are key

Price elasticity not equal to price sensitivity

Different reactions based on issues of sensitivity vs. elasticity; in ecom study:

- Buy larger sizes
- Buy more private label/brands
- Pay less for same item
- React more to price changes

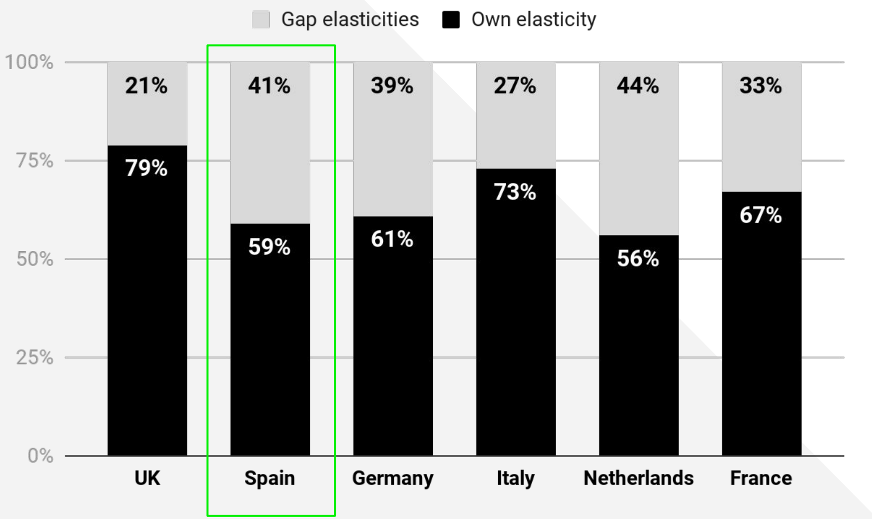
Myth #2: Price comparisons are more important now, in the new stable period

NielsenIQ

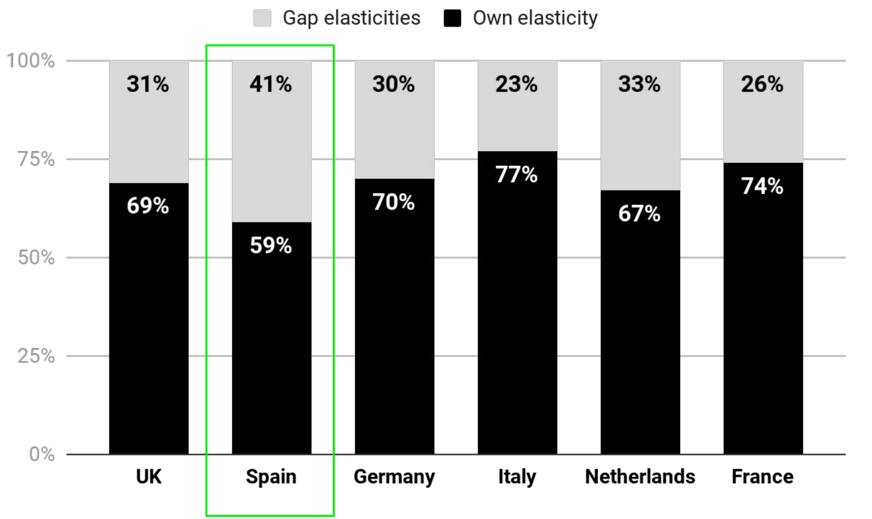
Consumers are largely driven by the own price of the product (Western Europe)

"Own" used if all products change together; gaps used if competition changes price and you don't

Own & gap elasticities in pre-covid period



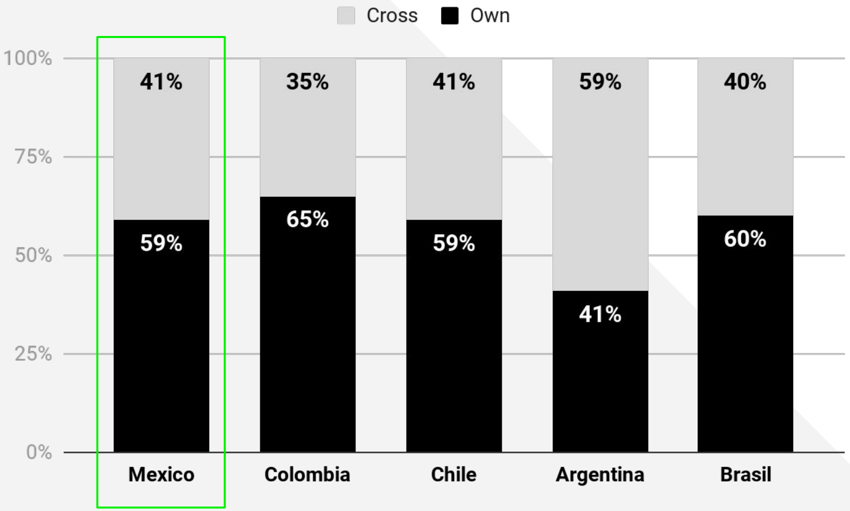
Own & gap elasticities in new stable period



Source: Nielsen Pricing Models. France: Enseignes HMSMUK: Total Coverage/Grocery Multiples/GB, Germany: LEH+DM o. Aldi, Lidl, Norma, Spain: Total Spain/ES, Italy: Hyper+Super, Netherlands: Excl Lidl, Aldi.
Pre-COVID: latest available week before lockdowns (Q1 2020 for France, Netherlands and Q4 2019 for UK, Germany, Spain and Italy). New Stable: Q3 for all countries

No evidence that price comparisons are more prevalent (LatAm)

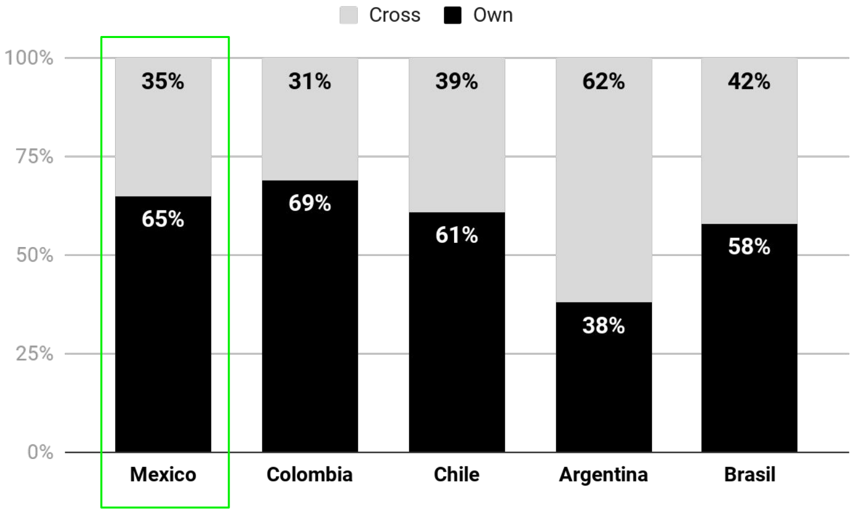
Own & gap elasticities in pre-covid period



Own & gap elasticities in new stable period

P.P. var composition vs pre-covid % of **own elasticity**

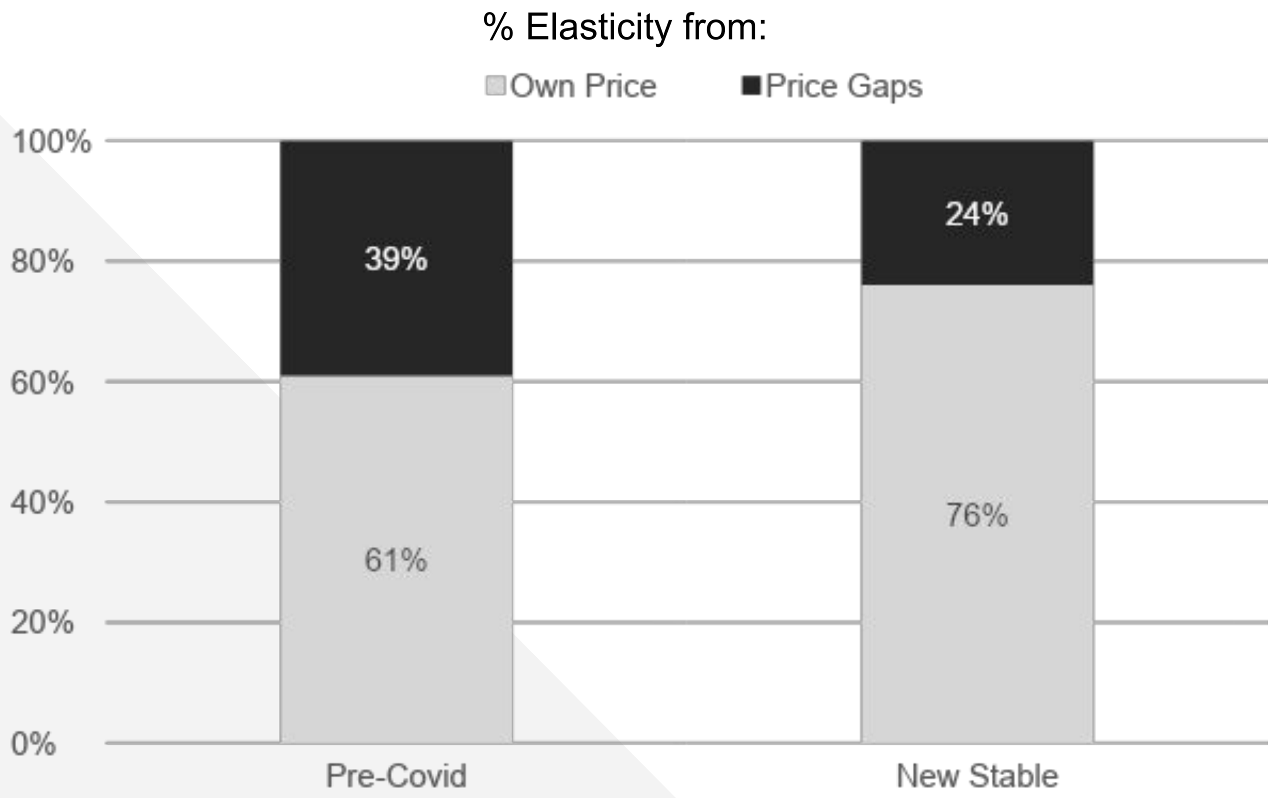
+6pp +4pp +2pp -3pp -2pp



Source: Scanning information from Every Day Analytics 2019 & 2020 in Mexico, Colombia, Argentina, Brazil and Chile
* Weighted Average of all Baskets

No evidence that gap contributions are higher now in US

"Own" used if all products change together; gaps used if competition changes price and you don't



Note; Pre-COVID is 2 years ending 2/15/20 and Post Stable is 5/15/20-12/1/20. 200+ categories

There is economic “polarization” of shoppers

Existing constrained

▲ private label should provide as good / better value than branded

▲ retailers should make it easier to access value products

▼ least likely to travel for promo, pay online delivery or subscription fees

Newly constrained

▲ shop across multiple off- and online retailers to get the best value

▲ easier search / compare, time saving shopping online

▲ want greater variety of quality, value products

Cautious insulated

▲ willing to pay more for higher quality

▲ willing to pay online subscription and delivery fees

▲ shop across multiple off- and online retailers to get best value

Unrestricted insulated

▲ willing to pay more for higher quality

▲ private label should provide as good / better value than branded

Source: NielsenIQ Unlocking Consumption global survey. Q. Which of the following do you agree/disagree with? Agree vs disagree index to global average. ▼ under-index ▲ over index

It’s a myth: Covid has driven consumers to make more price comparisons

Convenience is a ubiquitous need

Convenience overarching need (consumers “satisfice” not “optimize”)

Consumers in-out of store quickly. . . and are in fewer stores

Consumer differences matter

Constrained new consumers are a wild card

Cautious middle consumers are a bit anxious as well

Examine the fundamentals

What trade-offs do consumers make?

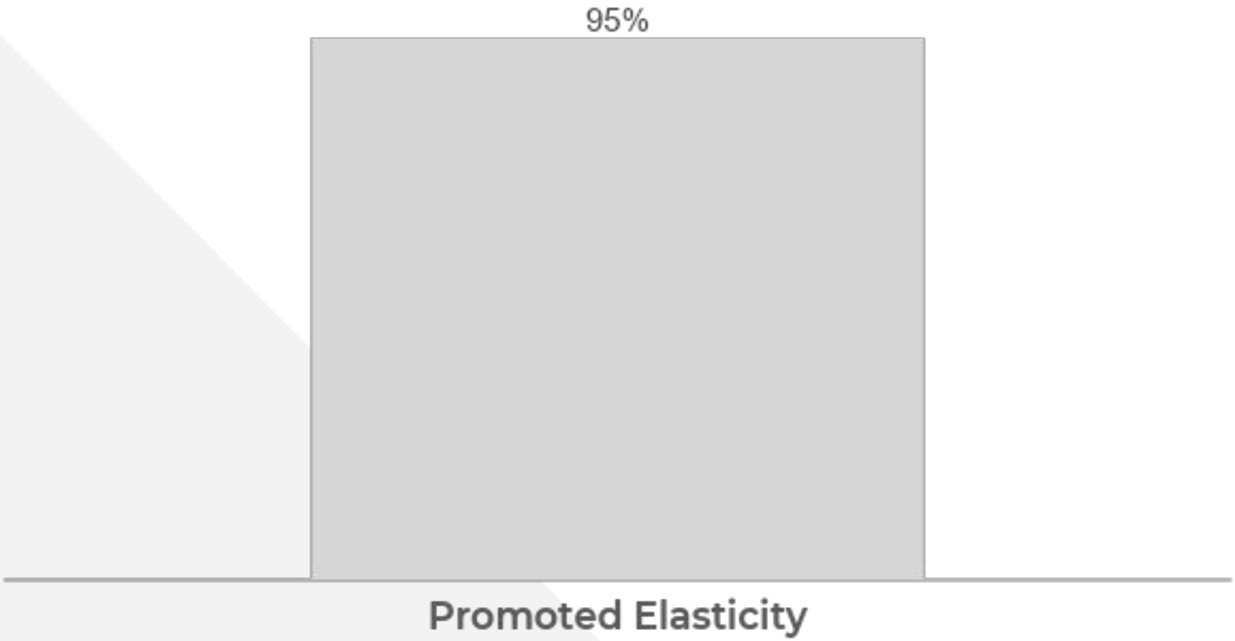
Need to understand price gap relations from consumers point of view, not ours

Myth #3: Discounts will drive a higher promotion response, as consumers seek to save more

NielsenIQ

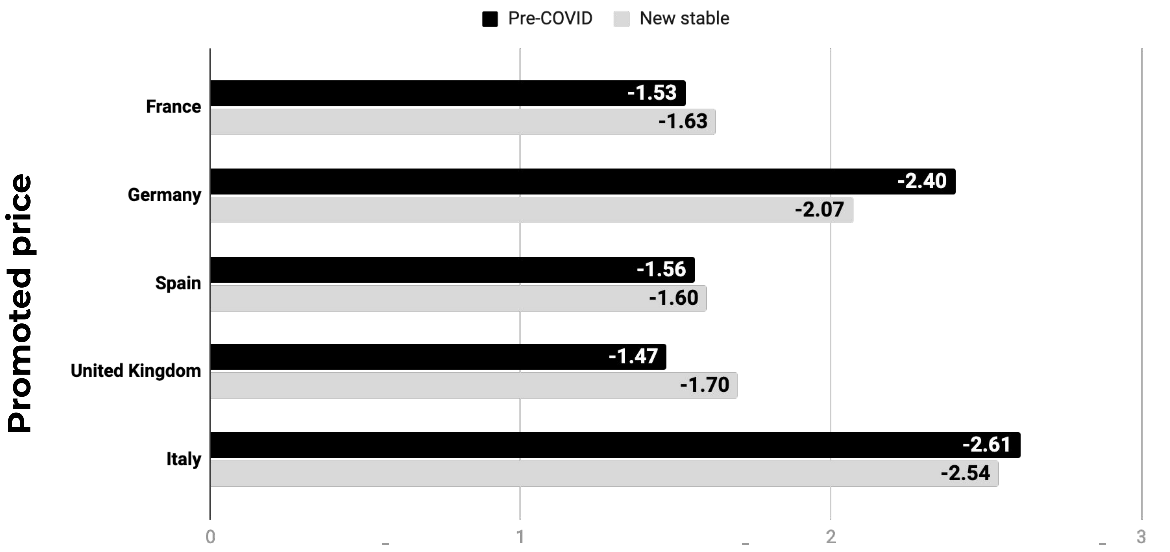
No evidence that promoted elasticities increased in the US

Promoted elasticity is 5% lower in new stable period



Promotional elasticities are essentially unchanged (Western Europe)

Comparing promotional elasticities in pre-covid vs. new stable

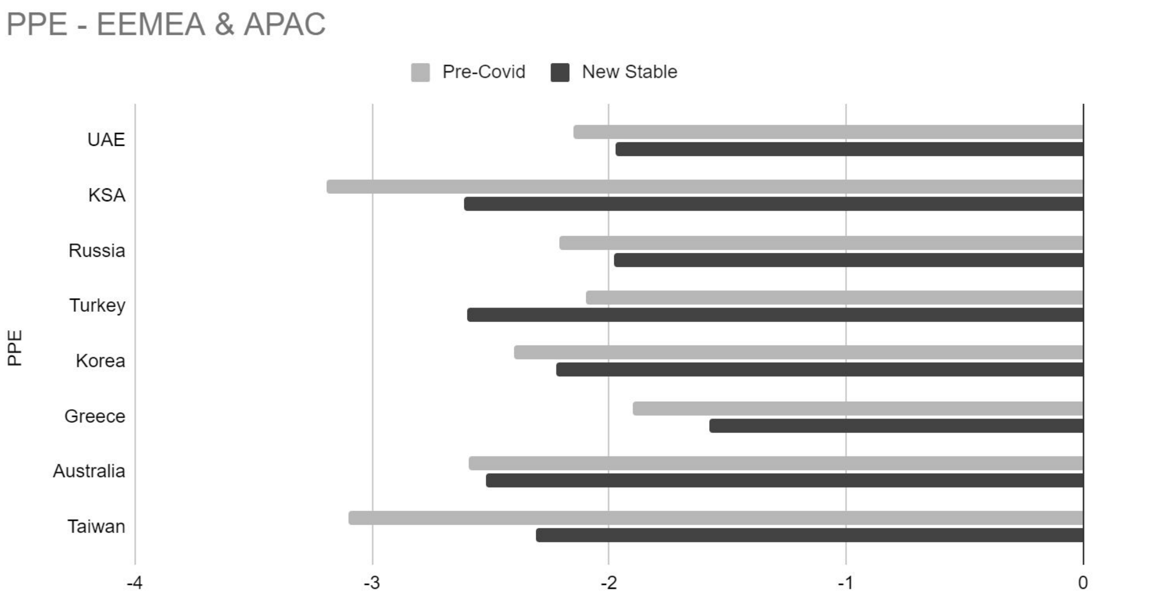


Source: Nielsen Pricing Models. France: Enseignes HMSMUK: Total Coverage/Grocery Multiples/GB, Germany: LEH+DM o. Aldi, Lidl, Norma, Spain: Total Spain/ES, Italy: Hyper+Super, Netherlands: Excl Lidl, Aldi. Pre-COVID: latest available week before lockdowns (Q1 2020 for France, Netherlands and Q4 2019 for UK, Germany, Spain and Italy). New Stable: Q3 for all countries

Price elasticities “pre-covid” versus “new stable” remain high

Promotional elasticities are essentially unchanged (Asia Pacific, Eastern Europe)

Comparing promotional elasticities in pre-covid vs. new stable



pain:
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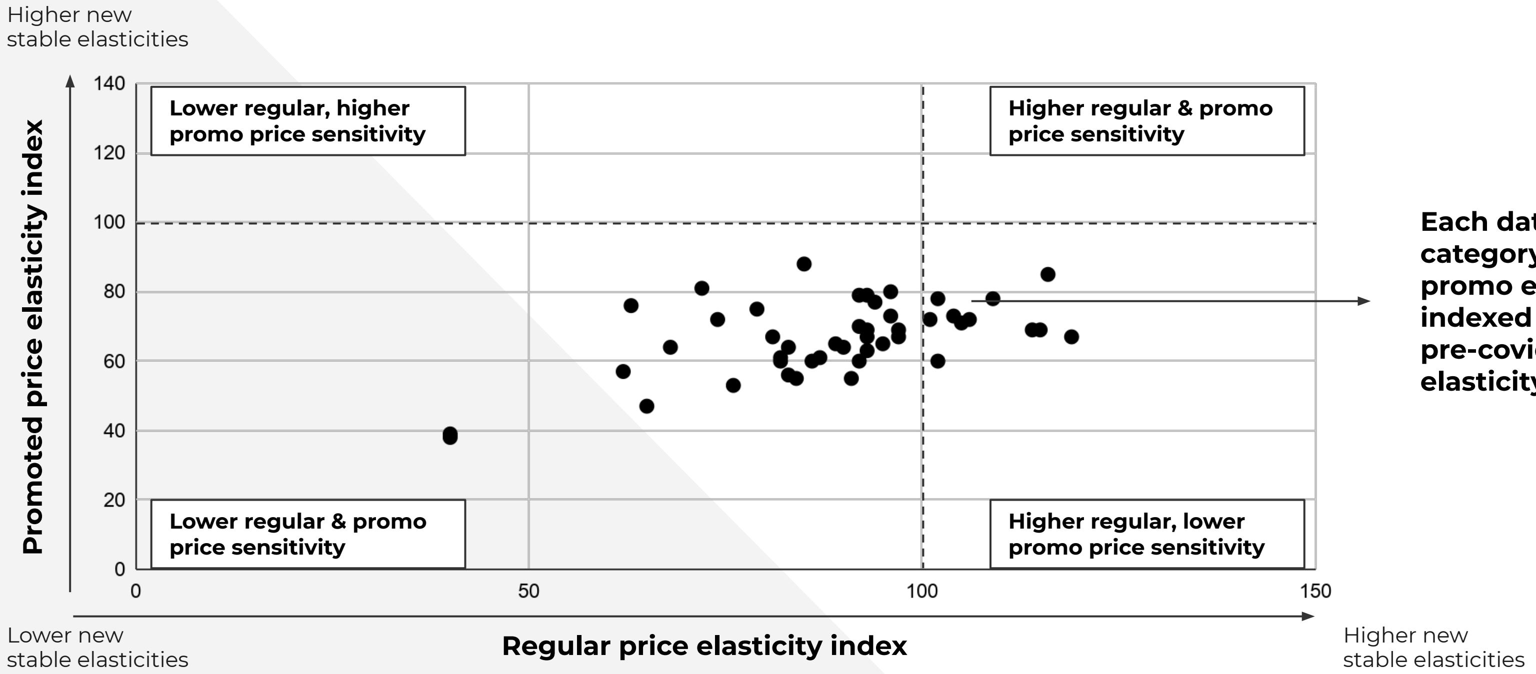
Price elasticities "pre-covid" versus "new stable" remain high

Promoted price elasticities decreased for all examined categories (Canada)

Cross category comparison of pre-covid and new stable elasticities



Each data point is a category: y-axis is promo elasticity indexed to pre-covid promo elasticity

Index = New Stable Elasticities/ Pre-COVID Elasticities * 100
Source: Nielsen Pricing Models, Canada, NATIONAL EXCL NFLD GB+DR+MM, 2 Years Ending Q2 2019 Legacy vs 2 Years Ending Q3 2020 CIP Model Results

It's a myth to believe covid has increased promotion lifts

Reasons why lower promo elasticities

- Discount level
- In and out
- Fewer trips
- More large pack sizes
- New priorities
- Constrained HHs
- OOS

Resetting the pick

Lower promotion effectiveness. . . but lower cost and possibly more brand equity and pricing power

Leverage new need States

- **Stock-up**: Trips are more plentiful; retailers need to win these now more than ever (e.g., promote more large size products)
- **Safety & health**: Use cleaning supplies & healthy products to drive traffic
- **Versatility**: Leverage increased relevance of products, such as yogurt and other healthy snacks/light meals
- **Fun**: Families need more fun, especially those with kids — pizza, tacos, etc
- **Variety**: Appeal to variety-seeking needs

What’s next: How should the marketplace evolve?

Some elasticities are down. . . but do you have pricing power?

What to do going forward:

Quantify risk & opportunity	Justify increase	Examine context	Mitigate vulnerabilities	Manage the message
First quantify risk and opportunity	"Justify" price increase (e.g., increase in consumer support, more innovation, more trade promoting)	Does the context support a price increase (e.g., COGs, adjacencies, price history, aisle inflation, consumer dynamics)?	Mitigate vulnerabilities (e.g., weak SKUs)	Any indications of being opportunistic?

Where are the opportunities ahead?

Understand other drivers of margin enhancement

- Increase volume from “upstream” categories and protect against “downstream” ones

  Explore other activities, such as “downsizing”, price tiering & price-pack architecture

Measure consumer fit with your products

- Higher pricing power for products over-index among insulated consumers (premium bourbon)

  Lower pricing power for products over-indexing among constrained consumers (energy drinks)

Reset promotion strategies

- Leverage current attributes (cleaning efficacy, food versatility, ample supply) and need states (stock-up, family fun) in promotions

  Evaluate “resetting promotion activities”

Recommendations

Thank you.