

Is the price (pack architecture) right?

The art and science of portfolio optimization



NIQ BASES

Why U.S. Beer & Lager?

A discretionary segment with size differentiation and adjustment opportunities for constrained consumers

	Budget			Premium			Above Premium				
	6pk		30pk	4pk		30pk	6pk		24pk		
Out of pocket	\$6.39	-->	\$19.39	Out of pocket	\$6.19	-->	\$23.89	Out of pocket	\$9.79	-->	\$24.19
\$ / oz	.067	-->	.054	\$ / oz	.097	-->	.066	\$ / oz	.136	-->	.084

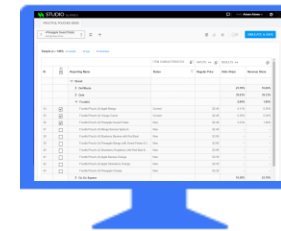
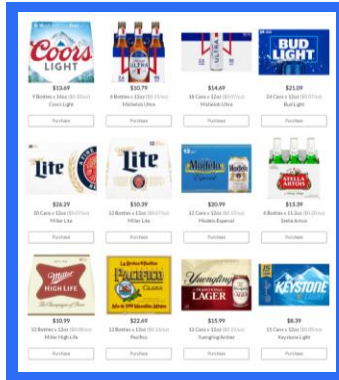
Source: NIQ BASES Line & Price R&D (2023)

Research questions for consideration

- **Question 1:** Do price increases become riskier when consumer behaviors adapt to an inflationary mindset?
- **Question 2:** How does consumer shopping behavior change when inflation is top of mind?
- **Question 3:** At what point do price increases become less-effective levers for growth?

Market-based conjoint to optimize future portfolio & price architecture* for FMCG products

- Category-level simulation tool to simulate future pack/price architectures
- Affords war-gaming and simulation of competitive price changes



- Collect virtual shopping behavior data on existing and future items and price ranges
- Category buyers select which/how many of each item they would buy the next time they shop the category
- 2,676 respondents & 32k shopping trips

- Modeled using advanced choice-based estimation techniques
- Fused with NIQ sales data, distribution, price & elasticity databases

Create simulation tool with:

- Input variables
 - Distribution
 - Shelf Price
- Output-Metrics
 - Unit Sales
 - Revenue Sales
 - EQV Sales

Simulation tool is available to run what-if scenarios

*Final price decisions are at the sole discretion of retailers

Set-up to assess inflationary behavior:

"Current State"

- This group followed our standard approach, where the current category shopper is primed on their past purchases for the category.
- Both sets of results for our other two sample groups were compared with those of this sample.

"Future State"

- The consumer sample is adjusted, in line with economic outlooks.
- Specifically, net incomes of the middle class are reduced.
- Prices of products are increased by 10%.
- This simulates there are **more people with less, and the impact on individual shopping behavior.**

"Crisis Primed"

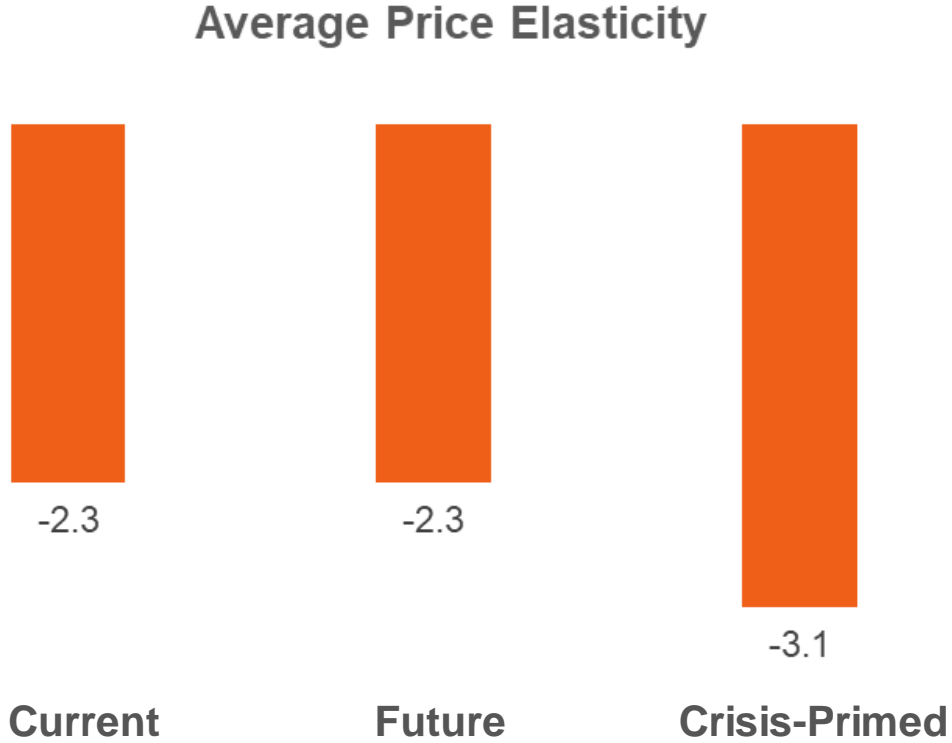
- Consumers are surveyed on current impact of inflation, their behaviors and their expectations for the next 6 months, before the actual shopping exercise.
- Before the shopping trips, consumer are reminded about their outlook, economic impact and expected impact on their grocery shopping.
- This is to get consumers in the right state of mind and **trigger shopping behavioral changes.**

Question 1

Do price increases become riskier when consumer behaviors adapt to an inflationary mindset?

Considering net income losses and price increases with the future-state sample, there was no change to price sensitivity

However, there was increased price elasticity when inflation was made top of mind



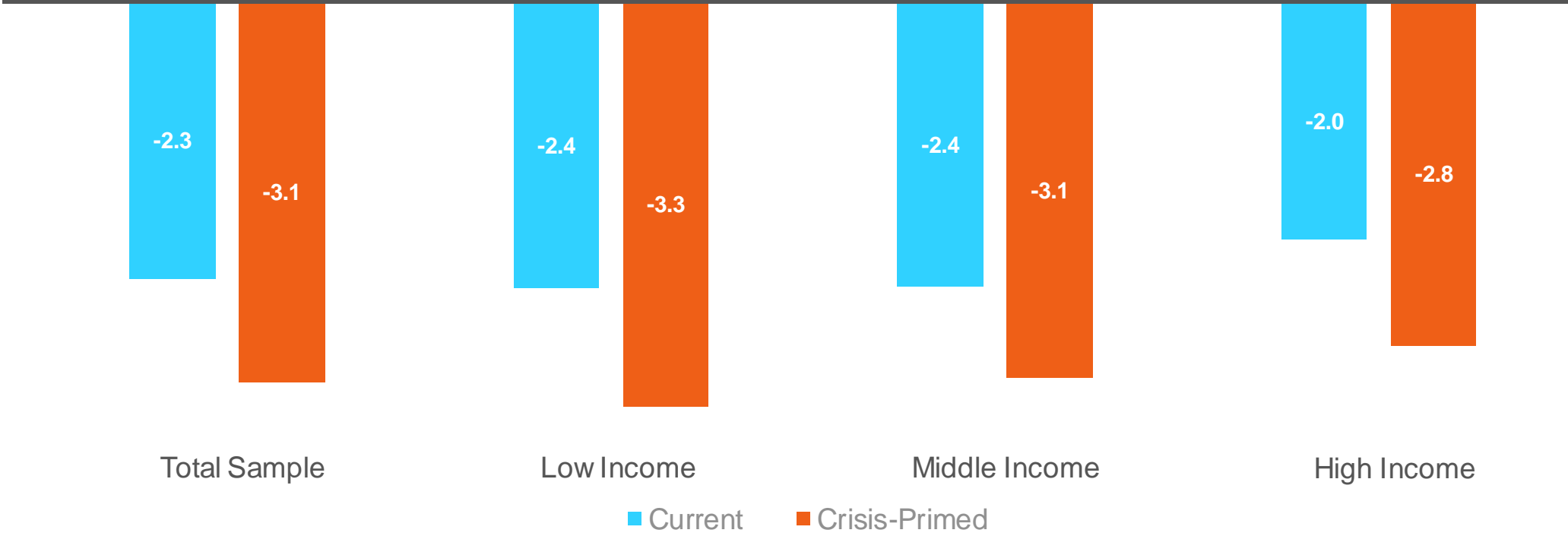
Source: NIQ BASES Line and Price R&D (2023)

With inflation front and center, consumer price sensitivity jumps dramatically

High-income consumers are less price sensitive, but still more sensitive than those in the future-state group

Crisis-Primed Shoppers

Price Elasticity by Segment



Source: NIQ BASES Line and Price R&D (2023)
Average Item Level Price Elasticities with all products at 100% distribution. Elasticities will be lower in actual business scenario simulations, due to line pricing, promotion activity and actual distribution

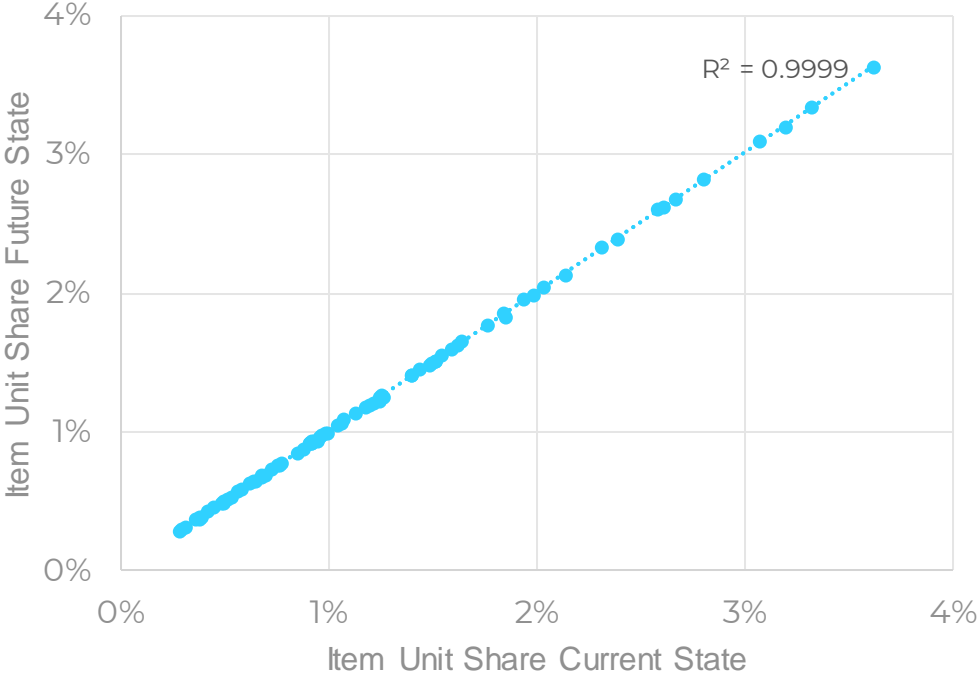
Question 2

How does consumer shopping behavior change when inflation is top of mind?

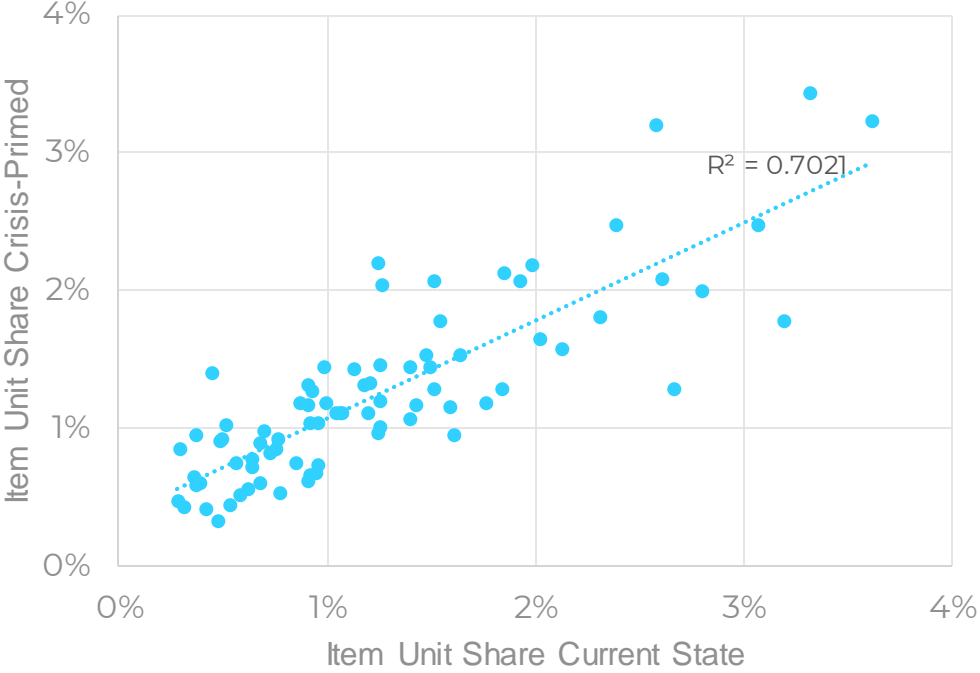
Net income loss (future-state sample) creates only marginal changes to item preference

However, there are big shifts in shopper choice when inflation is top of mind (crisis-primed shoppers)

Current vs. Future-State Sample



Current vs. Crisis-Primed Shoppers



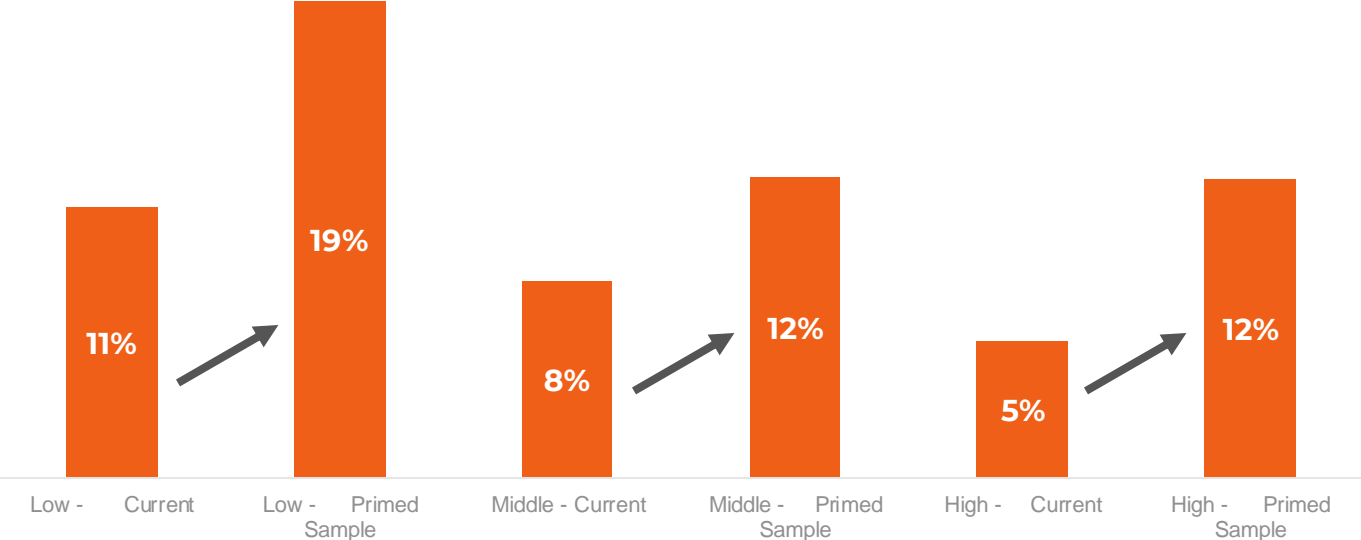
Source: NIQ BASES Line and Price R&D (2023)

Crisis-primed shoppers shift to lower-priced products

Migration to better value products occurs across all income levels

Budget beer

Price Segments Unit Share by Household Income



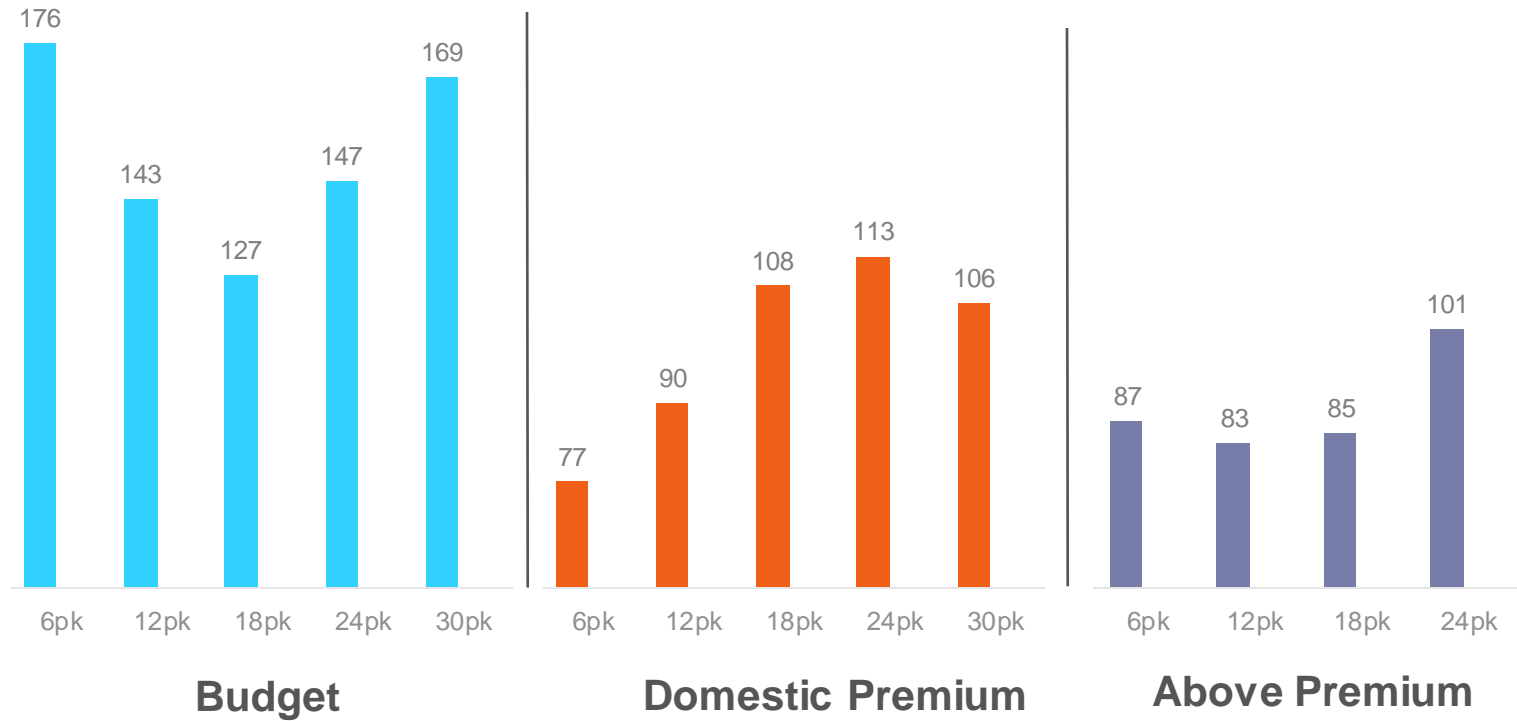
Source: NIQ BASES Line and Price R&D (2023)
All products at 100% distribution. Will slightly change in actual business scenario simulations due to POS execution, promotion activity and actual distribution

Shoppers spend
~5% less per
ounce

by seeking out multipacks or
trading down

Crisis Primed Shoppers

Unit Sales Index to Current – Multipack Size



Unit Sales Index 100 and market share change = Current State
All products at 100% distribution. Will slightly change in actual business scenario simulations due to POS execution, promotion activity and actual distribution

Question 3

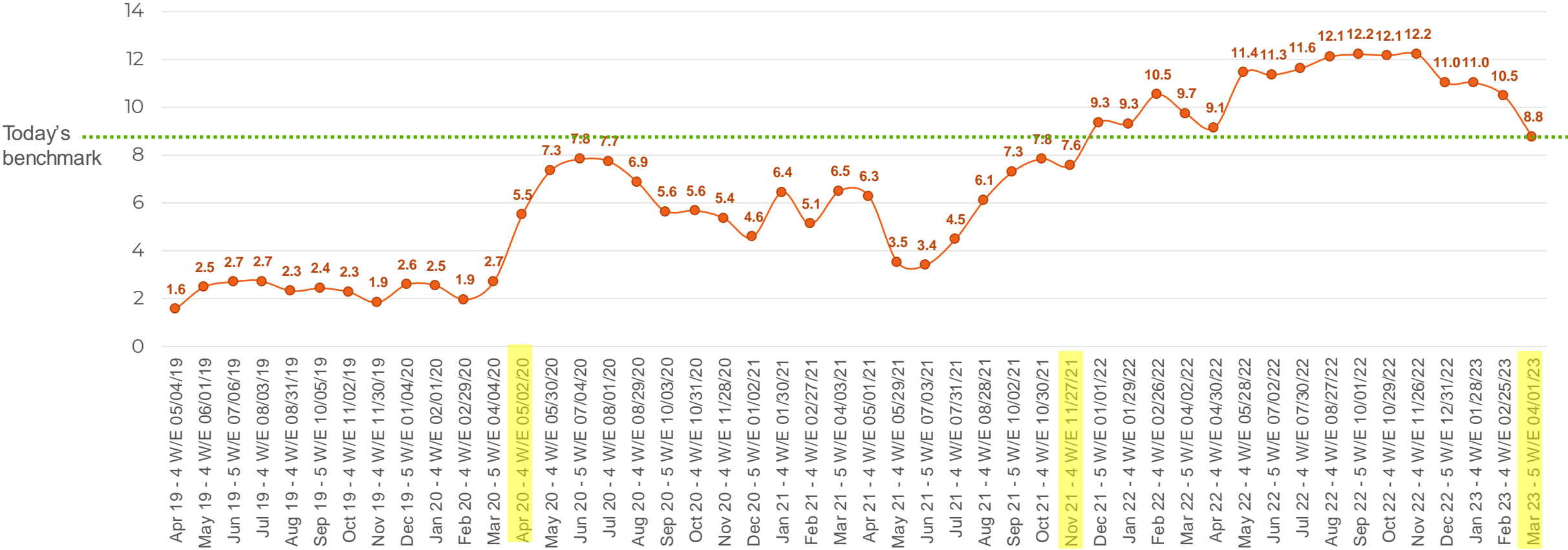
At what point do price increases become less-effective levers for growth?

"60% of the CPG companies [...] implemented multiple price increases in the last 18 months. But given the cost-of-living crisis, these measures may be reaching their practical limits."

"Five pricing moves for CPG in a cost-of-living crisis." <https://www.bcg.com/publications/2023/cpg-nrm-solutions-during-cost-of-living-crisis>

The long view back: CPG inflation has been plaguing consumers since April '20. We still have long road back to the "normal" 2-3% range

Total CPG Average Unit Price % Change



Source: NielsenIQ, Total US xAOC, 4 w weekly periods ending April 1, 2023

Understand your pricing power

A brand's pricing power can change when consumers have inflation top of mind. To compensate for a loss in pricing power, you must work with the full price mix.

Brand	Price Tier	Pricing Power Index		
		Current	Crisis-Primed	%pt Change
Brand 5	Above Premium	1.38	1.17	-21%
Brand 6	Above Premium	1.50	1.26	-25%
Brand 8	Above Premium	1.06	1.10	4%
Brand 9	Above Premium	1.21	1.14	-6%
Brand 10	Above Premium	1.21	1.32	11%
Brand 11	Above Premium	1.25	1.49	25%
Brand 12	Above Premium	1.89	2.14	25%
Brand 14	Above Premium	1.39	1.29	-10%
Brand 17	Above Premium	1.22	1.17	-5%
Brand 20	Above Premium	0.86	1.02	16%
Brand 22	Above Premium	0.81	0.87	6%
Brand 23	Above Premium	1.33	1.14	-19%
Brand 24	Above Premium	1.26	1.50	24%
Brand 3	Budget	0.64	0.57	-7%
Brand 4	Budget	1.00	0.81	-18%
Brand 13	Budget	0.51	0.64	13%
Brand 15	Budget	0.82	0.62	-21%
Brand 18	Budget	0.54	0.70	16%
Brand 19	Budget	0.73	0.74	1%
Brand 21	Budget	0.63	0.75	12%
Brand 1	Premium	1.70	1.38	-31%
Brand 2	Premium	1.48	1.30	-18%
Brand 7	Premium	1.08	1.13	4%
Brand 16	Premium	1.31	1.08	-23%
Brand 25	Premium	1.37	1.24	-13%

Pricing Power Index 1 = Brand is likely to maintain share if all increase price; the higher the more likely to gain share if all increase price
All products at 100% distribution. Will slightly change in actual business scenario simulations due to POS execution, promotion activity and actual distribution

Key Findings

- Price elasticities remain stable until inflationary challenges are top of mind
- Unit sales contract especially when consumers are reminded of their inflationary challenges
- Consumers across all income segments migrated to better value products when inflationary pressures were made top of mind
- If all competitors increase price, it may be relatively safe to do the same—but pricing power may change when inflationary pressures are top of mind
- Proactively managing portfolio actions, price-mix unit sales, and competitor shifts to product and PPA is key

Remember: Value is a spectrum.

**Focus on the right brand in the
right pack at the right price.**

What's next?

Contact your BASES representative for a one-on-one presentation with actionable recommendations.



NIQ BASES