



# Winning through the squeeze and on the other side

Portfolio, range & pricing strategy through the  
inflationary cycle

July 2023



uncommon sense™



## Context

- After a challenging period of heightened inflation as well as broader headwinds, **input cost deflation is now a live and very real phenomenon** in many spaces
- This creates **margin recovery opportunities** after a challenging period of margin compression, but **also risk as retailers ask for price back** and consumer expectations and behaviours continue to evolve at pace
- **Getting your portfolio, range and pricing strategy right will be critical** to navigating this complexity, with a wide range of levers available for those that seize the opportunity

## What's Next

### Get the Facts Straight

- After a period of turmoil such as that of the last c.3 years, **consumer preferences and behaviours have rapidly shifted**, category norms have been challenged and the interface between suppliers and retailers reshaped...
- ...so it is **critical to therefore build a refreshed view of these dynamics**, understand where category architectures have become out of shape, how elasticities have changed and the role your brands and products play in this "new normal" environment

### Identify the Right Mix of Levers

- Building clarity on these points will then enable you to understand where and how your portfolio and range needs **to evolve to stay relevant and optimised**...
- ... and the portfolio, range and pricing levers available to you to ultimately **protect / grow margins**
- However, the right mix of these levers depends on your start point, market position, as well as category and consumers characteristics

### Make the Sell-in Compelling

- Theoretical portfolio, range and pricing levers are all well and good, but **navigating the complexities of the retailer interface** (particularly given all that has happened over the last 12-18m) to ensure these levers can be deployed is critical
- **The story and sell-in narrative for retailers needs to position portfolio, range and pricing levers as additive** to the overall category, margin accretive, and positive for the consumer in terms of choice and/or value

**Context:** After a period of heightened inflation, input cost deflation is now a live and very real phenomenon in many spaces



**The eye of the storm...**

Very high inflation and broader headwinds – supply chain, labour, consumer behavioural shifts and beyond



**...the continued squeeze...**

Continued high inflation, but inflationary pressures beginning to ease



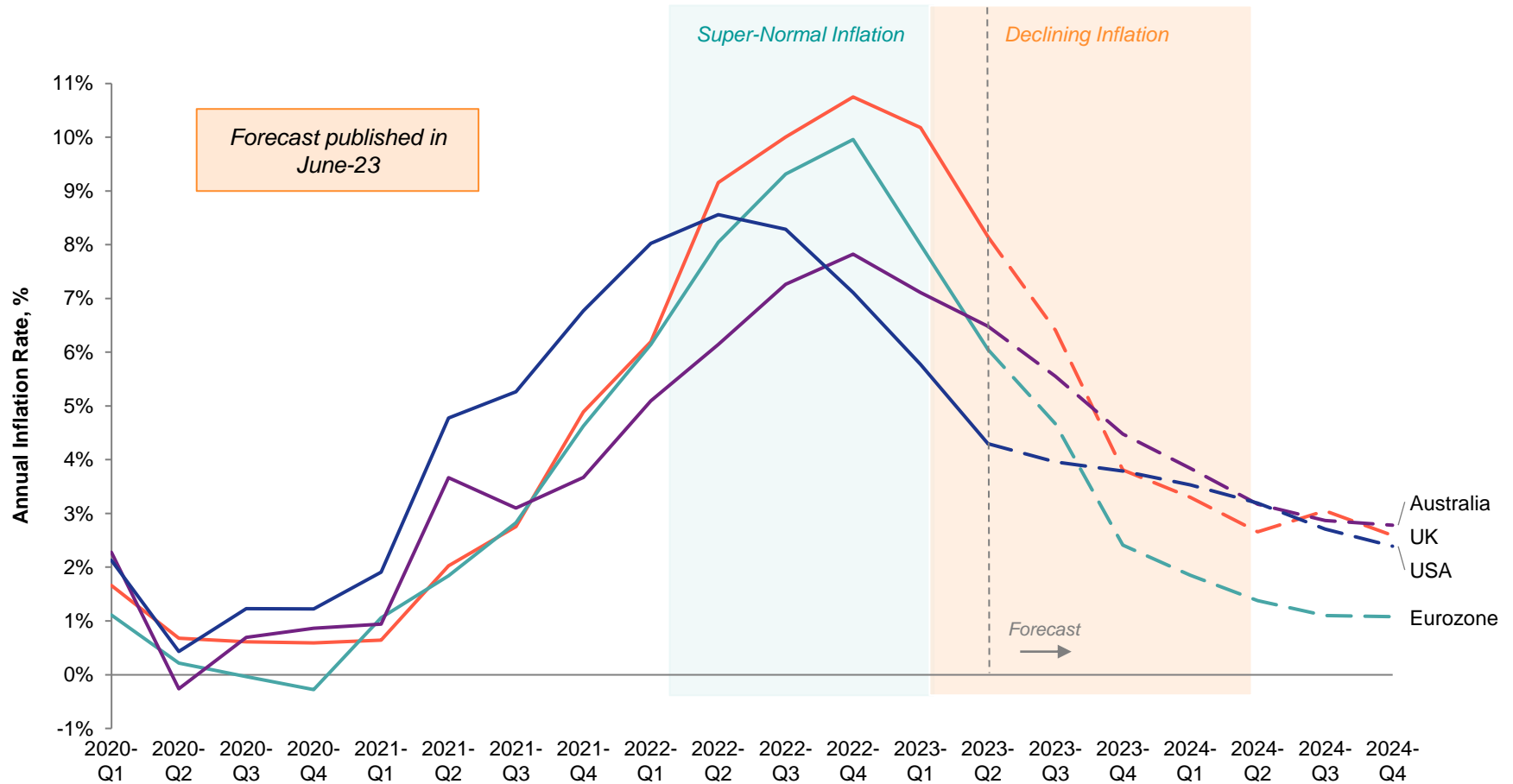
**...the other side**

A transition to input cost deflation, with real optionality about the strategic levers deployed to drive value

*We are currently at an inflection point as a period of super-normal inflation on input costs starts to transition to a period of input cost deflation in some areas*

# Inflation appears to have peaked across markets, albeit is still well above historical averages and is particularly sticky in the UK

Inflation Forecast UK, US, Eurozone, Australia  
Quarterly CPI % 2020-2024

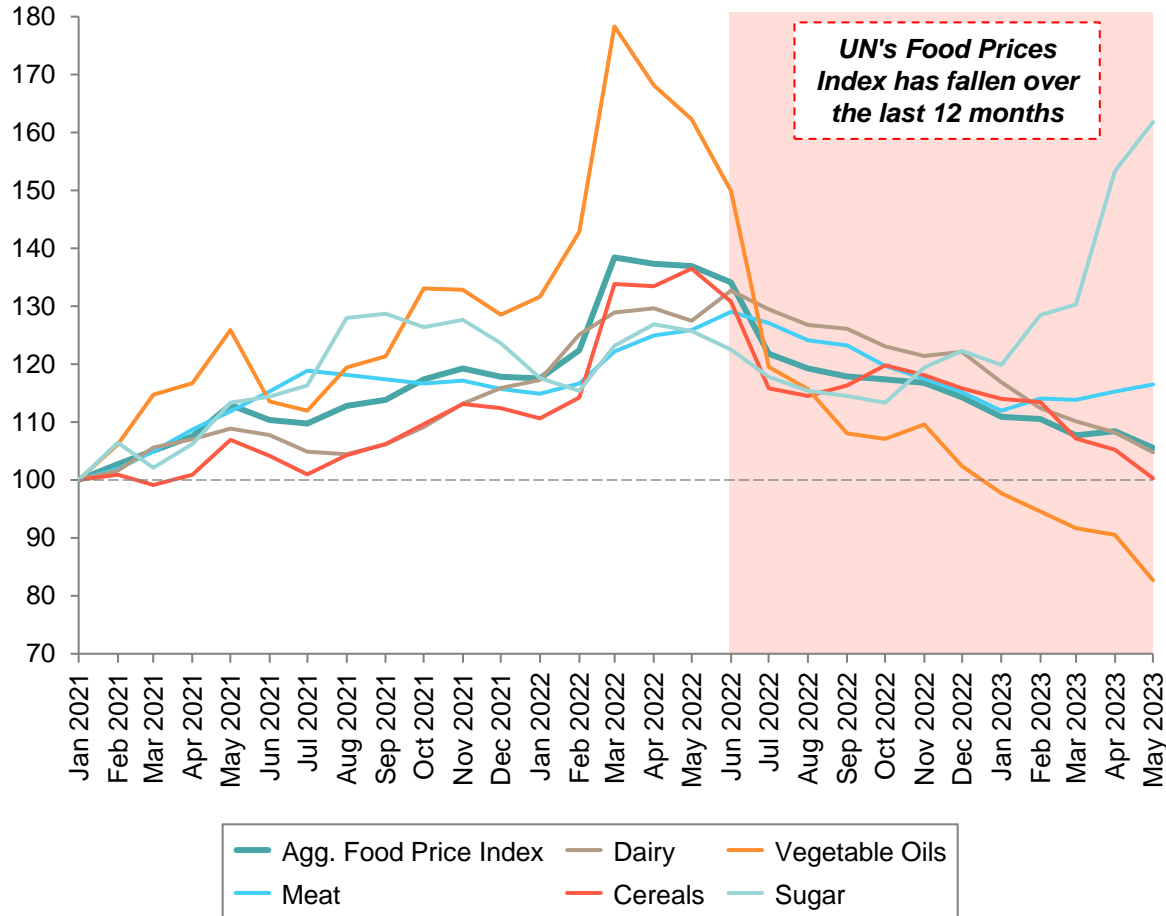


Context

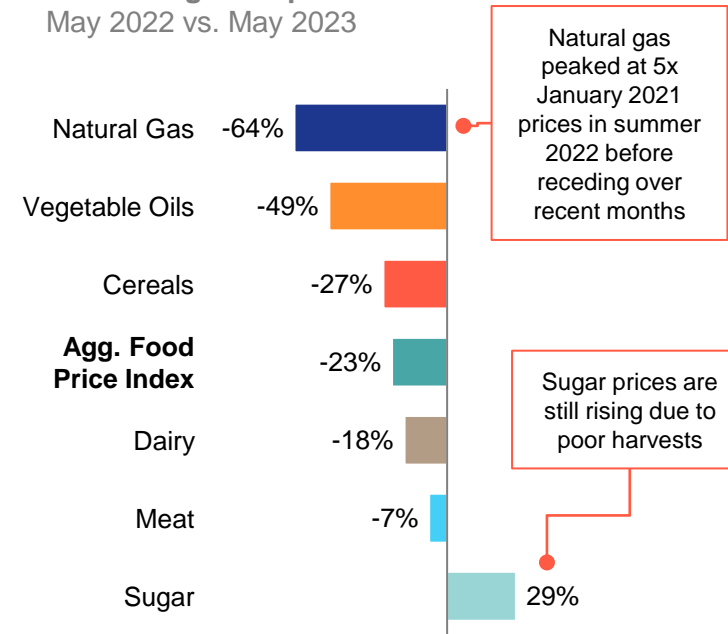
# Price pressures are easing in many commodities and there is a transition to input cost deflation; however, inflation in some other areas remains elevated

Food Price Index, January 2021 - May 2023

Indexed to 100 in January 2021



YoY Change in Input Costs  
May 2022 vs. May 2023



**However, core inflation remains high, particularly in the UK, and some costs are still increasing (e.g. labour) and so it is not all plain sailing...**

**..Whilst some of these costs are also harder to pass through and this is making the current environment even more complicated to navigate**



# Over this period, our client work has also highlighted some consistent themes in consumer behaviour

Example Consumer Themes / Dynamics From LTM

## Selected Examples

1 Resilient demand (and even premiumisation) in some spaces

2 Consumers making decisions beyond immediate substitutes – ‘trade-down’ can take many forms

3 Opportunity for new occasions and purchase motivations

4 Consumers continue to treat themselves, even if they’re seeking to do it more cost effectively

5 Accelerated ‘in-flight’ trends as pressures on disposable incomes have magnified pre-existing category dynamics

- **Affordable treats and indulgences** remain popular, even at a premium price...
- ...For example, **spend protected / increased** on many premium **BWS brands** for at home consumption, with a similar dynamic in some **personal care** categories (eg. haircare)

- Increasingly important role for **food and drink in gifting** (#2 most popular gift type vs #4 in 2019), as a **popular lower cost alternative**
- Growth in both **at home dine-in** and **packed lunch** occasions providing **pockets of growth**

- **Intensifying challenges in plant-based meats**, as increasingly price-conscious consumers recognise magnitude of price differential vs meat
- **Accelerated red meat to white meat switch**, as price becomes an increasingly important driver (vs health)

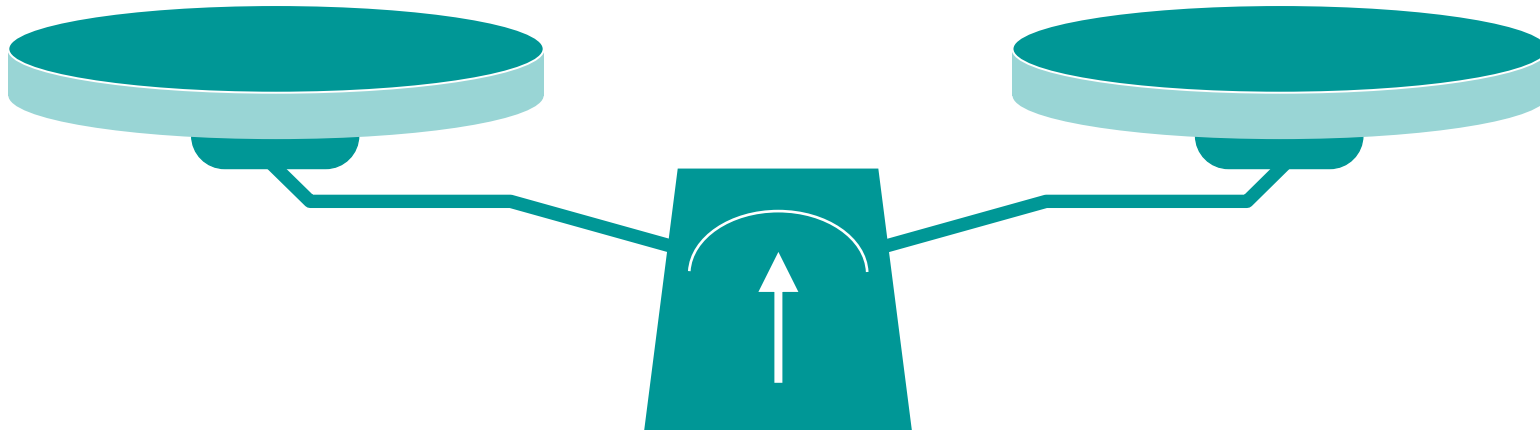
**Facing into this environment, consumer goods players need to develop a portfolio, range & pricing strategy that satisfies two competing needs**



**Protecting / recovering profit for supplier and retailers...**



**...whilst providing value to the stretched consumer**





# There are essentially 3 things consumer goods players need to do in order to meet this challenge

1

## Get the Facts Straight



- After a period of turmoil such as that of the last c.3 years, **consumer preferences and behaviours have rapidly shifted**, category norms have been challenged and the interface between suppliers and retailers reshaped
- It is therefore **critical to build a refreshed view of these dynamics**, and understand where category architectures have become out of shape, how elasticities have changed and the role your brands and products play in this 'new normal'

2

## Identify the Right Mix of Levers



- Building this clarity will help identify how **portfolio, range & pricing strategy needs to evolve** to stay relevant & optimised...
- ... and the levers available to **protect / grow margin**
- However, the **right mix of these levers** depends on the start point, market position and category & consumer characteristics

3

## Make the Sell-in Compelling

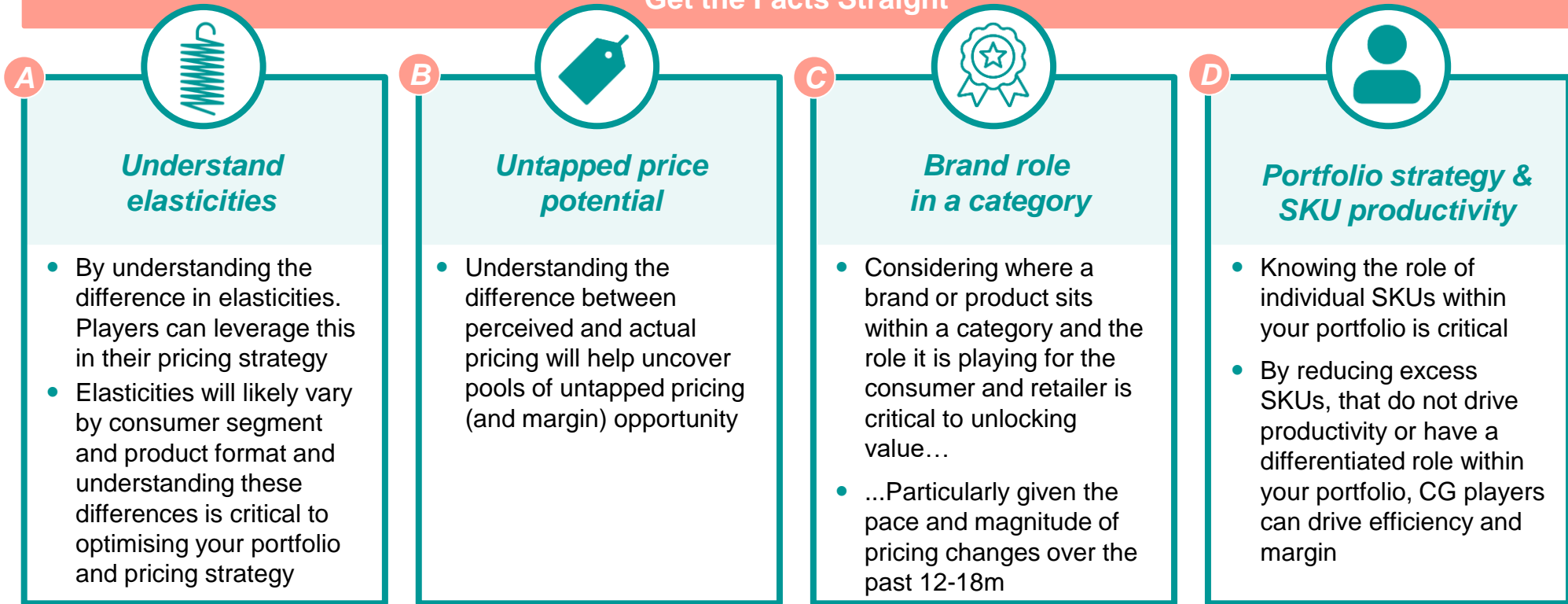


- Then it is critical to make sure the **sell-in** is:
  - **Grounded in the category growth story and outlook...**
  - **...and is data-rich and consumer-centric in nature...**
  - **...and importantly, shares value back with the retailer**
- And ultimately making it a **win-win for both sides**



# An accurate (and up to date) understanding of your consumers & categories is critical in identifying margin opportunities in the current environment

## Get the Facts Straight



A refreshed view of the above is more important than ever, given the current environment where consumer behaviours and preferences have shifted at an unprecedented rate, and category architectures and price-points have moved more in the past year than in the previous 5

# Once you get these facts straight, there are a range of portfolio, range and pricing levers available to drive value

Selected Portfolio, Range & Pricing Strategy Levers for CG Players



# These portfolio & range levers can be deployed in different combinations, but it is then critical to develop a compelling sell-in story to retailers

## Making the Sell-in Compelling

A

### Grounded in the category growth story and outlook

- Focusing the sell-in on the **overall category growth story** for the retailer...
- ...Rather than purely the implications for you and your brands / products



B

### Data-rich

- Backing up decisions and strategic moves with **up-to-date data** increases trust and credibility in proposed moves
- This will help **increase retailer openness to any more complex shifts** (eg. with operational implications for them)



C

### Consumer-centric

- Focus the sell-in story on how the portfolio and range levers you deploy are going to **provide additional value or choice to the consumer**...
- ...For example, enabling **trade-up to more premium products, driving category trial** and discovery through accessible price-points



D

### Shares value back with the retailer

- Ultimately portfolio and range levers should be utilised to **drive CG players' absolute margin pool**...
- ...But critical to ensuring these land with retailers will be **sharing some of this margin uplift back with retailers**...
- ...So that the changes are not just strategically coherent, but also **drive the retailers bottom and top line**



## In summary...

- A transition to an **input cost deflationary environment** creates **opportunity for margin recovery...**
- ...however, this environment also **creates risk** if not managed effectively, and **portfolio, range and pricing levers** are critical in **unlocking the opportunity** and managing the interface with retailers
- **To maximise the opportunity CG players need to plot a path to:**
  - **Deepen and refresh** understanding of **consumer preferences** and behaviours, and granular category dynamics
  - Identify the **right mix** of portfolio, range and pricing **value creation levers** available
  - Craft a **sell-in story to retailers** that demonstrates not only the positive implications for the consumer, but also the overall category growth potential and cash prize on offer for the retailer

### 3 key questions to ask now

? How exposed are you to input cost deflation, and where are you seeing most acute resulting pricing pressure?

? Do you have an in-depth and end-to-end view of how your consumers shop your categories in the 'new normal'?

? Are you utilising the breadth of portfolio, range and pricing levers effectively to protect margin?



Relevant OC&C  
Experience...

# We have extensive experience supporting clients on portfolio, range and pricing strategy; material margin uplifts can be delivered

## Examples of Pricing & Revenue Management Projects By Our Team

Pricing and Promotion	Leading soft drinks player	<ul style="list-style-type: none"> <li>Worked on E2E RGM process in selected markets, addressing pricing &amp; promo analytics, tools and organisational structure</li> <li>Complete channel mix including wholesale, horeca, traditional trade etc, as well as addressing sophisticated terms at modern / organised trade</li> </ul>
	Leading soft drinks player	<ul style="list-style-type: none"> <li>Supported development of framework for contractual terms and incentives investment to deliver strategic objectives (category &amp; mission type market share growth)...</li> <li>...to apply to multiple UK channel partners – leading retailers, foodservice, key wholesale players</li> </ul>
PPA	UK canned food business	<ul style="list-style-type: none"> <li>Developed an overall growth strategy with a major rev. management element at the heart of the plan</li> <li>Revenue management work translated consumer needs and shopper behaviour into clear revised pack price architecture and redesigned promotional mechanics to drive growth, along with new processes to manage on an ongoing basis</li> </ul>
	Leading UK pet food business	<ul style="list-style-type: none"> <li>Development of target pack price architecture and promotional strategy across the client's 2 leading pet food brands, as they faced into inflation headwinds over 2021</li> </ul>
SKU Rationalisation	Global home business	<ul style="list-style-type: none"> <li>Created a strategy for rationalising SKUs through identifying detailed SKU roles (for client's brand, retailer, consumer etc) and productivity benchmarks</li> <li>Optimised roll-out to enable multi-country implementation and realise material bottom-line savings</li> </ul>
	Global "big 3" beer business	<ul style="list-style-type: none"> <li>We optimised SKU mix, price ladders, promo plans by channel (with feedback into macro brand portfolio plans), piloted in test country and then rolled out o further markets</li> <li>Defined the target operating model to make the RGM opportunities happen, reshaping the overall Commercial process, responsibilities and KPIs</li> </ul>

