Demand Signals

FMCG’s Race for Resilience: Unlocking Growth

November 2023

Circana.

Executive Summary

Our latest Demand Signals report brings good and bad news.

The bad news is: two years after emerging from the pandemic, the FMCG sector remains a long way from normal.

Headline inflation may be dropping, but demand is not yet recovering. The gap between prices and unit sales continues to widen. More everyday categories are becoming discretionary. Private label keeps gaining share from brands. And inflation-fatigued consumers are coping by buying on deal and shopping at the discounters.

As global turmoil and uncertainty continue (as I write this, the war in Gaza is raising the spectre of higher energy prices which could, in time, bring yet more inflation), many of the challenging consumer trends and behaviours we have seen over the last two years are set to continue for another year.

The good news is: a return to volume growth is nevertheless possible, and a clear playbook is emerging for how to achieve it. Throughout this report we pinpoint how and where brands can find sources of growth and opportunity amid the permacrisis, particularly in the areas of innovation, sustainability and pricing, and boost their resilience to future shocks.

Creating new demand is far from easy right now, but our analysis shows it can be done. Take non-alcoholic drinks, which managed to defy the odds to become the only edible category to grow unit sales over the past year.

Smart, well-targeted innovation sits at the heart of the drinks success story. Despite the challenging macroeconomic climate, drinks brands (especially those in the sports and energy drinks segment) have continued to push hard on new product development (NPD), giving shoppers fresh reasons to engage with the category.

Other parts of the market can learn a lot from this. Our latest data reveals a 22% drop in new launches across FMCG over the past year – a worrying development, given that innovation was already down 16.5% the previous year.

What's more, the launches that do still make it to market have become increasingly cautious and derivative. Less than 1% of NPD in the EU6 now represents breakthrough, new-to-world or new-to-category innovation. As a result, entire categories are at risk of becoming 'innovation deserts'.

But stepping away from innovation is the wrong move at the wrong time. As our analysis reveals, innovation continues to be a resilient source of organic growth. The winning brands over the next 12 months will be those who invest in bold, agenda-setting NPD that responds to new consumer behaviours and consumption moments, not those who tinker around the edges of their portfolios.

Important lessons can also be learned from the success of the frozen sector. Once seen as cheap and not particularly cheerful, the category has completely flipped the script by cleverly flexing its marketing and strategy muscles.

Because let's be clear: frozen foods could easily have played on price for another 10 years. Instead, brands have started talking about nutritional value, shelf life, food waste and sustainability as well as good prices. In the process, they have transformed frozen and made it attractive to a wider consumer base. Today, frozen accounts for five of the 20 top-selling food categories in the EU6 – a remarkable turnaround in fortunes.

None of this is to suggest that success will come easy in the current climate. The trading conditions are undeniably difficult and will continue to be so for some time. But they are also exciting and replete with opportunity.

At a time when consumers are challenging their own loyalty to existing brands, products and categories, brands and retailers are having to genuinely rethink their businesses and strategies. The most enterprising of them are already zeroing in on the opportunity from the turmoil and finding new ways to drive demand.

Armed with the data and insights from this report, I look forward to seeing many more join their ranks in the next 12 months.

Ananda Roy

Senior Vice President
Thought Leadership,
CPG Growth Advisor

Volume sales are not recovering as expected

Headline inflation is dropping, but we are yet to see any good news on the demand side. Although FMCG value sales have soared by a further 10.1% year on year to reach €636bn, this is driven almost entirely by inflation. European shoppers are continuing to buy less: unit sales are down −1.3% over the past year.

While this is an improvement on the −1.7% unit decline we saw in 2022, it is no cause for celebration.

Inflation has eased considerably in recent months, which would normally be expected to drive a recovery in demand. That unit sales have continued to drop shows just how financially distressed consumers still are – and how fundamentally the cost-of-living crisis has changed their shopping habits.

Several factors explain why demand has remained unexpectedly weak. While business confidence and consumer sentiment have improved in the past six months, services inflation has started to kick in. Sky-high insurance costs, rents and mortgage interest rates are squeezing incomes in nominal terms.

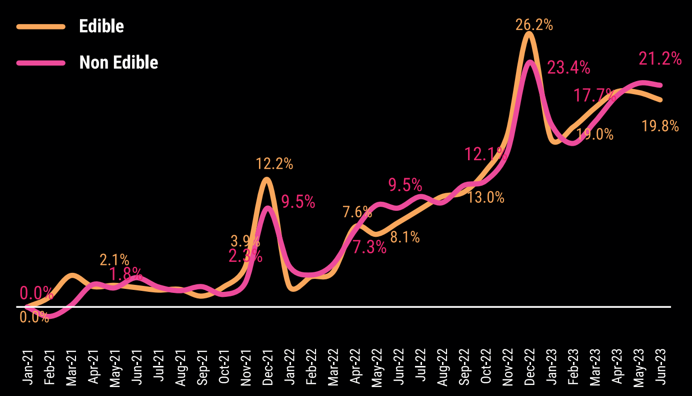
This means that recent news about food prices easing also needs to be put into context. FMCG price inflation is coming down, but prices remain much higher than they were in January 2021. As flagged in our previous Demand Signals report, ‘disinflation’ rather than deflation is driving category pricing. The net effect is that European shoppers continue to feel much worse off than they did two years ago.

Indeed, based on the latest macroeconomic indicators and Circana category data, and assuming current market conditions, we expect FMCG demand will struggle to recover before the second half of 2024.

Unit price inflation continues to be stubbornly high v 2021

CONSUMER WALLETS: UNIT PRICES INDEXED TO JAN 2021
shows have risen sharply and continue to rise in food categories

EU6 Unit Price Inflation– Indexed to Jan 2021



Shoppers remain extremely price sensitive

At a time when wage growth has converged with falling inflation across the euro area, disposable income has improved slightly and consumer spending is making a weak recovery. However, the general climate of permacrisis and uncertainty continues to leave consumers extremely price sensitive.

In the year to end of June 2023, prices went up by an average of 11.6%, which caused units to decline by −1.3%. Over the last six months, average prices across FMCG have inched up by one further percentage point, from 11.6% to 12.9%. This may seem a minor increase in the grand scheme of things, but it's hit consumers hard, especially as so much of it is focused on everyday food items. As a result, unit decline has worsened significantly, from −1.3% to −2.4%.

That a 1ppt increase in price has driven a −2.4% drop in consumption is noteworthy for a number of reasons.

At this stage in the cost-of-living crisis, shoppers have adopted a range of shopping behaviours to moderate the impact of rising prices: shopping around, buying smaller packs in food and larger packs in non-food, buying more from discounters and being smart about deals.

They are also highly price-focused when trying products. If a product is not on deal or available at an attractive price, consumers will buy another brand, switch to a private-label option or even switch retailer altogether.

We highlighted the rise of these price-aware, more strategic shoppers in our previous Demand Signals report and we continue to see evidence that these behaviours are becoming entrenched across the EU6.

However, these coping behaviours – buying more from discounters, switching to private label brands and buying only essential items – will only go so far. Continued unit decline means consumers are not just shopping differently; they are having to make difficult choices about what they can and can't afford every time they shop. Sometimes the only affordable option open to them is to consume less, particularly since inflation is still focused on everyday food items.

End of the stock-up shop

Polarisation around pack sizes has become more prevalent in the past six months. Consumers are opting for large packs when buying non-food items such as toilet paper – but they are increasingly choosing small packs when buying food and drink.

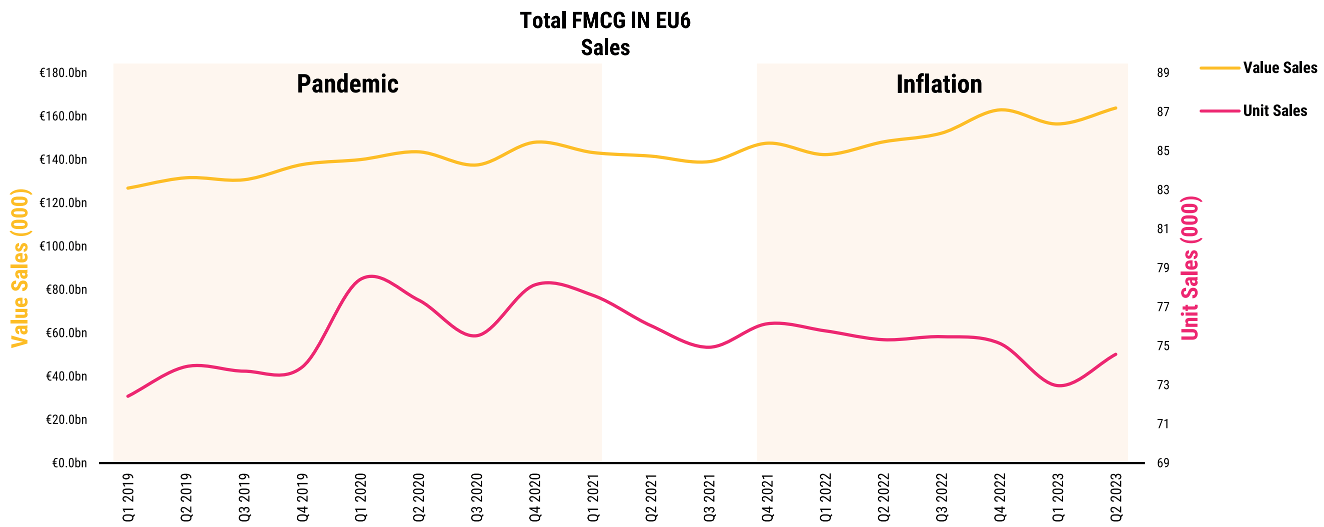
The majority of food and drink categories have seen unit growth ahead of volume growth in the latest data period, which suggests smaller pack purchases were popular.

European shoppers are moving away from stocking up their kitchen cupboards because average unit prices on key staples are now so high that multibuy promotions and buying in bulk have become less attractive. Instead, consumers are buying less and managing spend by opting for smaller packs, often to try and get the best price without having to give up buying altogether.

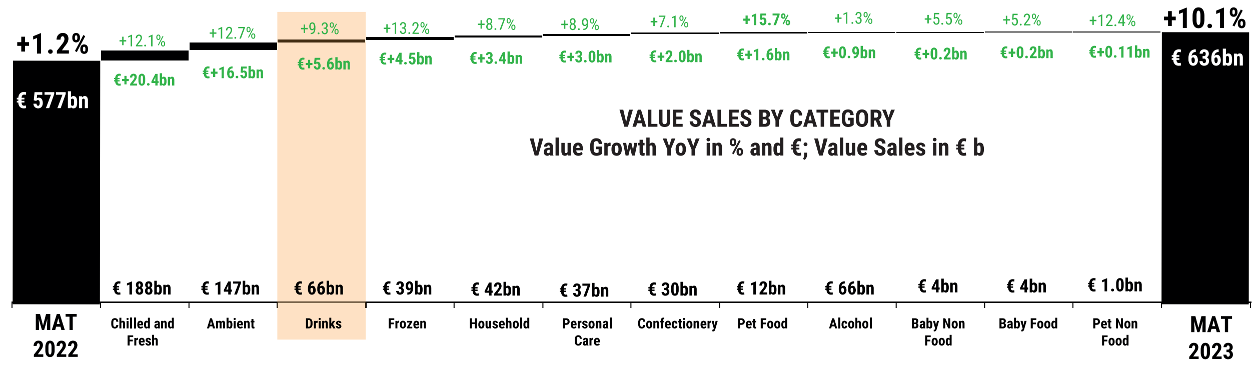
In some cases packs have become smaller because of shrinkflation and consumers are simply reacting to what's available on shelf. However, many are trying to moderate the impact of inflation by deliberately buying smaller packs. Opting for smaller packs also means less food waste – another key factor driving this trend.

Non-food is seeing the opposite because those purchases are discretionary, making it easier for consumers to defer their purchase until an offer becomes available on large packs.

The gap between FMCG value and unit sales continues to widen



Weakening unit demand across FMCG



	Chilled and Fresh	Ambient	Drinks	Frozen	Household	Personal Care	Confectionery	Pet Food	Alcohol	Baby Non Food	Baby Food	Pet Non Food
Unit % Change	2.0%	1.4%	+1.2%	2.2%	4.2%	+0.4%	1.0%	1.9%	1.7%	2.3%	2.2%	+0.1%
Price % Change	+14.5%	+14.3%	+8.0%	+15.8%	+13.5%	+8.5%	+8.1%	+17.9%	+3.1%	+7.9%	+7.5%	+12.3%

How drinks brands defied the odds to grow demand

At a time when unit sales are falling across the board, the non-alcoholic drinks category has managed to pull off an unlikely feat: it's actually grown unit demand – the only food and drink category in this report to have done so.

Unit sales of drinks rose by 1.2% in the year to the end of June 2023, while value sales increased by 9.3% to €66bn. Drinks grew across all channels, but demand proved especially brisk in convenience and drugstores, both of which saw double-digit increases.

Although unit sales remain down for the first half of this year (−2.2%), the fact that demand is starting to come back when you look at an entire year (to end June 2023) is highly encouraging – and smart branded innovation has a lot to do with it.

One of the product segments to have seen significant volume growth is sports and energy drinks, where brands have been busy reinventing how consumers hydrate themselves.

With fatigue a growing concern for many Europeans, caffeine is now central to innovation in beverage categories. Sports and energy drinks brands have capitalised on this, with successful new product development (NPD) including 'instant energy' formats as well as drinks that boost energy using natural and plant-based ingredients.

This strong focus on innovation, as well as years of investment in brand equity, makes the drinks category unusually resilient to disruption from private label. Although private label sports and energy drinks are on average 50% cheaper than branded products, brands continue to dominate the category. NPD also driven an increase in shelf space. While the overall drinks category has lost range over the past year, sports and energy drinks have increased their shelf space by an impressive 13%.

Flavoured waters, including functional fruit and herbal infusions, are also performing well. Thanks to social media trends such as #WaterTok driving interest, we expect flavoured water to remain an important focus for drinks innovation in the months to come.

Brands are losing more ground to private label

The last Demand Signals report flagged a 'tipping point' for private label and showed that European consumers increasingly perceive it as the quality choice. Six months on, the march of private label continues apace. What's more, private label is becoming increasingly premium.

Now accounting for 39% of grocery sales in the EU6, private label is worth €246bn to retailers, having grown its value share by a further 2.2 percentage points in the last year (to June 2023). Two years ago, that share stood at 35%.

Private label growth was especially strong in pet non-food (+4.2pp), household (+2.7pp), pet food (+2.6pp) and frozen (+2.3pp), while baby, confectionery, alcohol, non-alcoholic drinks and personal care proved relatively resilient as consumers remain loyal to the many strong national brands in these categories.

High inflation has acted as a catalyst for private label growth, but its success is not down to cheaper prices alone. If anything, private label has become even more premium in recent months. As a result, the price gap between private label and brands has shrunk and now averages 15-20% in food categories, down from 28-40% two years ago. This is the smallest the gap has been since 2019.

Private label has continued to win value and volume share despite becoming relatively more expensive because European retailers have completely transformed its role in the category, including by ramping up investment in innovative, differentiated and premium NPD.

What's more, price elasticity studies have shown that consumers are less sensitive to private label price inflation. As national brands have continued to increase prices, private labels have been able to fill the gap and yet remain the less expensive option.

More headroom for growth

And the rise of private label is unlikely to stop there.

In countries such as Spain and Germany, private label's share is already much higher than the 39% average. Close to half of the value share of the entire category comes from private label in those markets – and growth continues in double digits.

This suggests there is considerable headroom for private label, including in countries such as Italy, France and the UK. If current trends continue, it is not inconceivable that

55-65% of grocery sales across the EU6 could go to private label over the next five years.

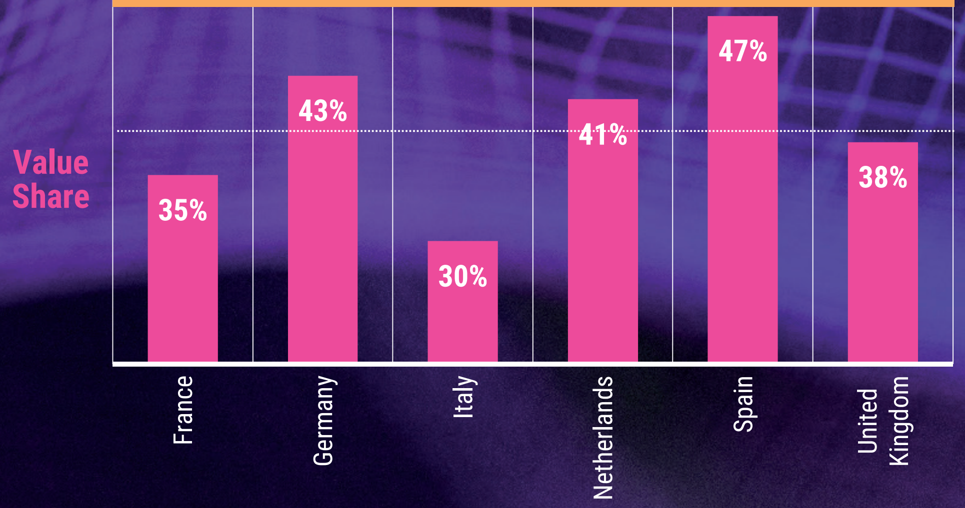
There also continues to be room for growth at a category level. While big categories such as fresh & chilled, ambient and frozen already have a high proportion of private label and are approaching saturation, others are far less saturated. Everyday staples in particular are vulnerable to continued private label disruption: if prices stay stubbornly high, private label penetration on staples will only keep increasing.

38.8%
Private Label Value Sales
+2pp vs YA
€246 Bn | +16.1%

Private Label Value Share in EU6 Markets

MAT and YTD Growth in %

	France	Germany	Italy	Netherlands	Spain	United Kingdom
MAT	16.2%	20.3%	16.6%	16.5%	15.8%	10.2%
YTD	18.1%	18.2%	15.2%	17.4%	14.6%	11.2%



- Highest penetration in Spain (47%), Germany (43%) and Netherlands (41%)
- Highest absolute value in Germany (€72 Bn) and UK (€51 Bn)
- Strong overall growth in all countries in MAT 23
- Share growth across all countries, highest in Germany (+3.4 pp)

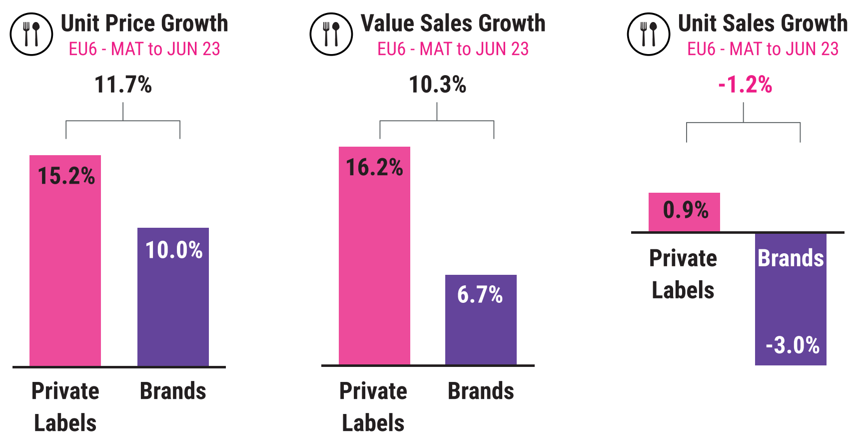
And still: retailers really value brands

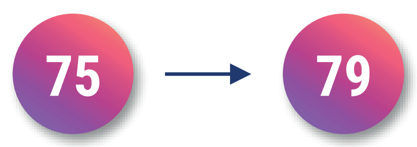
Even so, there will be a limit to private label growth. As combative as the relationship between brands and private label sometimes feels, retailers like brands. They are the biggest driver of value, innovation and footfall in European retail today. Retailers want private label to compete vigorously with brands, but they don't want brands to fail.

Even the discounters are increasingly looking to leverage the power of brands. During the last year, the average number of branded items in discounters increased by 6.5%, while private label fell by 2.3%. Discounters overwhelmingly stock private label, so brands are growing from a small base, but the increase nevertheless speaks to how valuable brands are perceived to be. Some discount retailers have even started teaming up with brands for limited-edition products.

All this means there will come a point when retailers will pull back from overinvesting in private label in order to keep brands viable – but brands should not expect this to happen anytime soon. Private label must be regarded as serious competition and brands must look to match retailers' investment in brand and product innovation.

Private label vs branded growth





Private Label Unit Prices
Indexed to National Brands

More everyday categories and behaviours are becoming discretionary

There is more evidence that categories, products and even out of home consumption once considered 'everyday' are now seen as discretionary by shoppers. This does not mean they are no longer bought at all. More typically, a product becoming discretionary suggests consumers are buying less of it, making what they have in their cupboards last longer or deferring their purchase.

Non-food, including household and personal care, has been hit especially hard by this trend, partly because food prices are so high that consumers have little money left for anything else.

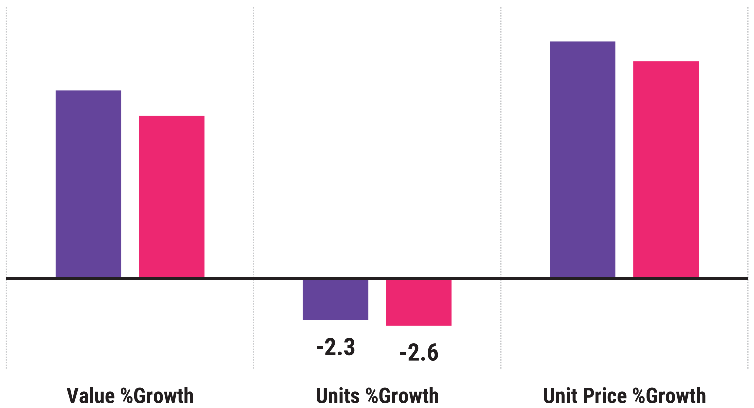
Although there has been comparatively less inflation in non-food, unit sales have dropped more dramatically than for food over the past six months (−2.6% vs −2.3%). In the process, products such as fabric conditioner and hair dye have started making it into shoppers' baskets less frequently.

However, it's not just non-food categories that are becoming discretionary.

Although fresh and chilled food continues to contribute the most value (30%) to the total FMCG market, underlying demand has dropped off more sharply than for other categories. Key parts of this category, including chilled desserts and ready-to-eat meals, are no longer seen by European consumers as 'everyday'.

There are also signs that some confectionery items and ambient meals are becoming discretionary as result of high inflation. Previously, these categories would have been considered much more resilient to price shocks.

Food vs non-food growth, YTD - Jun 2023



Frozen is one of the big winners

By contrast, the cost-of-living crisis has helped frozen food become an 'everyday' purchase for European consumers who wouldn't have considered buying it in the past.

Five of the top 20 biggest-selling food categories are now frozen: frozen potatoes, frozen meat, frozen snacks, frozen meals and frozen bakery.

The entire frozen market has become much more attractive to a wider consumer base because brands have successfully created a new category narrative around nutritional value, sustainability, waste reduction and the fact that frozen has a longer shelf life.

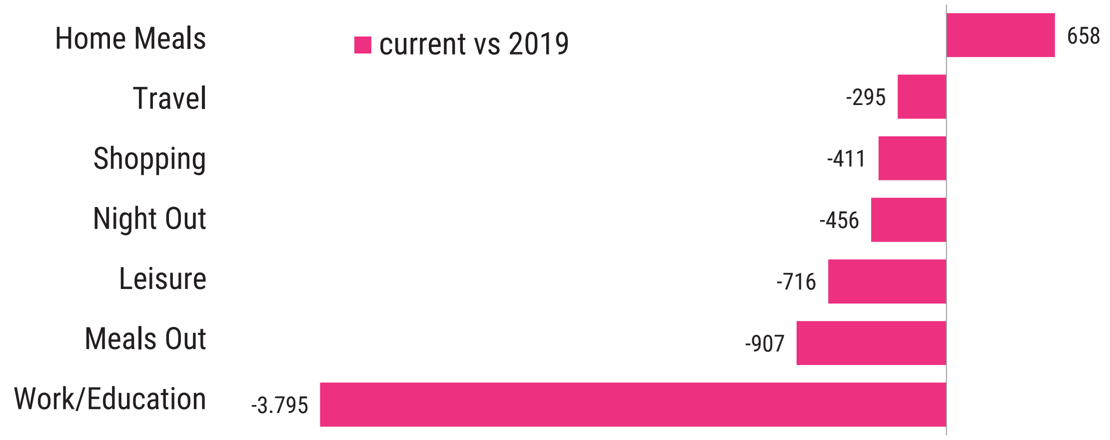
The recent growth in frozen snacks and meals is especially noteworthy and reflects a growing focus on home cooking and convenience. Frozen meals in particular appeal to shoppers because they can be heated in a microwave and are less expensive than cooking from scratch and with gas.

Consumers are also cooking more at home for out-of-home occasions, which processed and frozen meats have been able to tap into.

Top 20 biggest-selling food items

	Val Share	Unit Share		Price %Change
Mustard	0.1%	0.1%	26.3%	+31.0%
Mayonnaise	0.3%		26.0%	+24.6%
Cream	0.9%	1.4%	25.0%	+28.9%
Frozen Potatoes	0.5%	0.4%	23.5%	+24.7%
UHT Milk	2.0%	2.7%	20.8%	+21.6%
Frozen Meat	0.4%	0.2%	20.7%	+19.1%
Ketchup	0.3%	0.3%	19.8%	+20.3%
Sports & Energy	1.1%	1.7%	19.7%	+6.1%
Eggs	1.3%	1.1%	19.2%	+17.3%
Sugar & Sweetners	0.4%	0.6%	19.2%	+26.0%
Condensed Milk	0.0%	0.0%	18.6%	+20.3%
Cheese	6.0%	5.5%	18.5%	+19.9%
Breads	1.7%	2.6%	18.1%	+16.8%
Extrudes	0.3%	0.4%	18.0%	+12.1%
Poultry	1.2%	0.6%	17.9%	+14.4%
Frozen Snacks	0.1%	0.1%	17.5%	+15.3%
Frozen Meals	1.0%	0.7%	17.1%	+18.4%
Pasta	0.7%	1.1%	16.8%	+16.9%
Chilled Milk	1.7%	2.3%	16.5%	+21.3%
Frozen Bakery	0.1%	0.1%	16.4%	+16.6%

Visit Change by Situation in Millions - Big 5 Europe



Source: Circana, CREST Consumer Panel

Working from home drives eating at home

For the first time since the pandemic, consumer spend in European bars, restaurants and other foodservice establishments increased this year (to end August 2023), up 4% compared to full year 2019.

Yet, aligned with the cutbacks consumers are making in their grocery shopping, they are making fewer visits. This is most pronounced in the UK, where visits are down -19% compared to the same period in 2019, while Spain is down by just -4%.

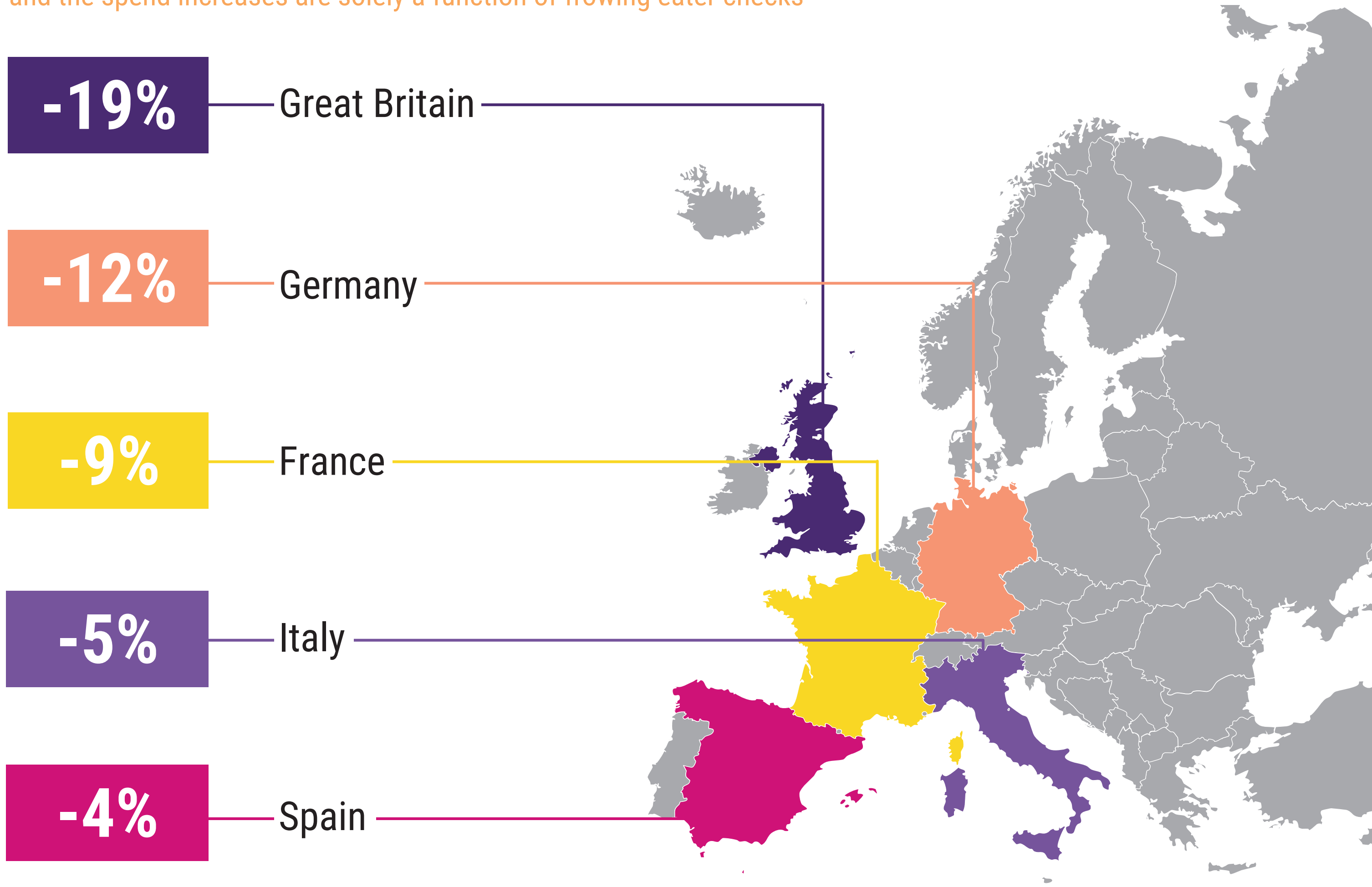
When consumers do eat out, they are managing inflationary pressures by consuming less; cutting out starters, deserts or alcohol for example.

Remote and hybrid working continues to have a big impact on the sector. The percentage of foodservice visits driven by work (eg work lunch) is down from 36% in 2019 to 33% in 2023. At the same time, the home has become an increasingly important place for consumption of ready-prepared meals and snacks.

European consumers are also opting to consume their foodservice purchases at home. Much of this is budget-driven: 57% of European consumers now say prices in restaurants have risen beyond what they can afford, up from 54% in February 2023.

As a result, grocery ranges offering chef-inspired ingredients and restaurant-style meals are becoming more popular with consumers. Retailers are often leading this innovation with their own private label ranges.

All countries are suffering from visit declines
and the spend increases are solely a function of frowing eater checks



Entire categories could become 'innovation deserts'

FMCG has long had a reputation for innovation excellence, but this reputation is fading fast. As inflation-hit brands continue to take the foot off the gas on NPD, entire categories are now in danger of becoming 'innovation deserts'.

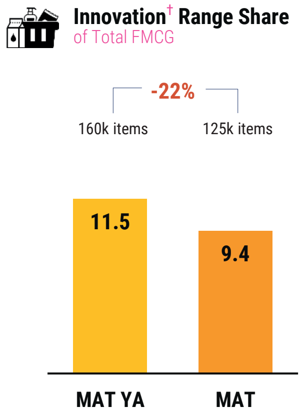
A 22% drop in new launches coming to market in the EU6 in the last year is a significant deterioration on the 16.5% decline highlighted in our previous Demand Signals report.

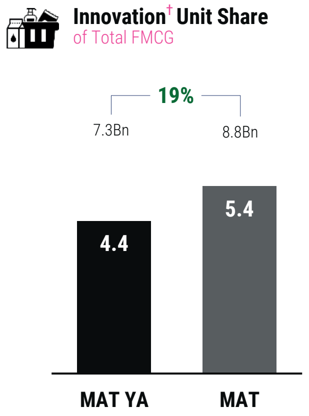
What's more, less than 1% of NPD launched over the past year represents genuine, new-to-market innovation. The overwhelming majority is existing products that have been renovated, reformulated, repackaged or – increasingly – shrinkflated and relaunched with new EAN codes.

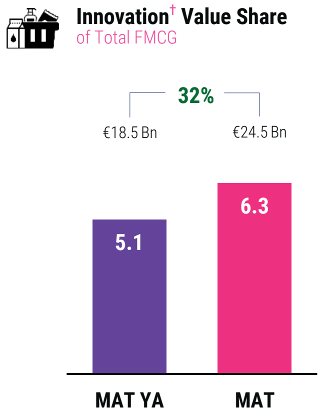
The figures are further flattered by a small number of innovation 'superstars' who account for 56% of value and 40% of unit growth generated by NPD over the past year. The UK in particular over-indexes on such superstars: 33% of all superstar launches in the EU6 in the year to June 2023 came from Britain and 44% of UK superstar launches were relaunches of previously existing, well-established items at higher prices.

While there can be good reasons for renovating and repackaging core products, such as the need to manage costs with smaller pack sizes, the lack of new-to-market NPD is cause for concern.

Innovation decline but continued strong value share







NPD is a proven source of new demand

Innovation is the lifeblood of FMCG and a proven way to create demand. Our analysis shows that new launches consistently outperform the wider category and deliver greater incremental volume than existing products. Over the past year, new launches have driven 6% volume growth at a time when the overall market is down by −1.3%.

Brands are understandably cautious about placing bets on risky, new-to-market NPD in the current climate. Ingredient shortages and transport disruption continue to be factors in some markets and few consumers are currently willing to pay a premium for new launches.

But retreating from NPD would be seriously short-sighted.

FMCG urgently needs more innovation, not least because shopper behaviours have changed considerably over the past two years. What drives today's shoppers to consider a product reflects new needs, new consumption moments and new shopping behaviours. As a result, there is still plenty of 'white space' for brands to go after. And those superstars that succeed can flourish, contributing up to 200% value growth for manufacturers well into the second year.

Winning innovation themes

	Theme	Enablers	Driver
	Sustainability Ethics & Social Conscience	Simple, Natural Ingredients Low-impact Materials Ingredient Sourcing & Traceability Better for Planet & Community	Verifiable
	Permissible Indulgences	Experiences New Skills Crafted Details & Sensorials Surprising Rewards	No Compromise
	Wellbeing & Self-Care	Whole Body Prevention & Improvement Science-Based & Natural Pro-level Benefits at Home	Empowered
	Resilience & Performance Boost	Enhanced Nutrition Hydration & Replenishment Convenient Formats Fits my diet & lifestyle	Control

New behaviours create new opportunities

Instead of focusing on their traditional breakfast and family markets, some cereal makers are successfully tapping into new at-home grazing occasions by targeting products at remote workers looking for convenient desk snacks.

And while sales of traditional spirits continue to decline (sales are down -1.6%), rum makers are finding new audiences through ready-to-drink cocktails, which are growing strongly (up +4.5%).

The importance of innovation cannot be overstated. Brands that continue to innovate have an opportunity to redefine who their market is and encourage consumers to reappraise their brand and category. By contrast, brands that play it safe on NPD will fail to reach their full potential – and ultimately have their lunch eaten by private label.

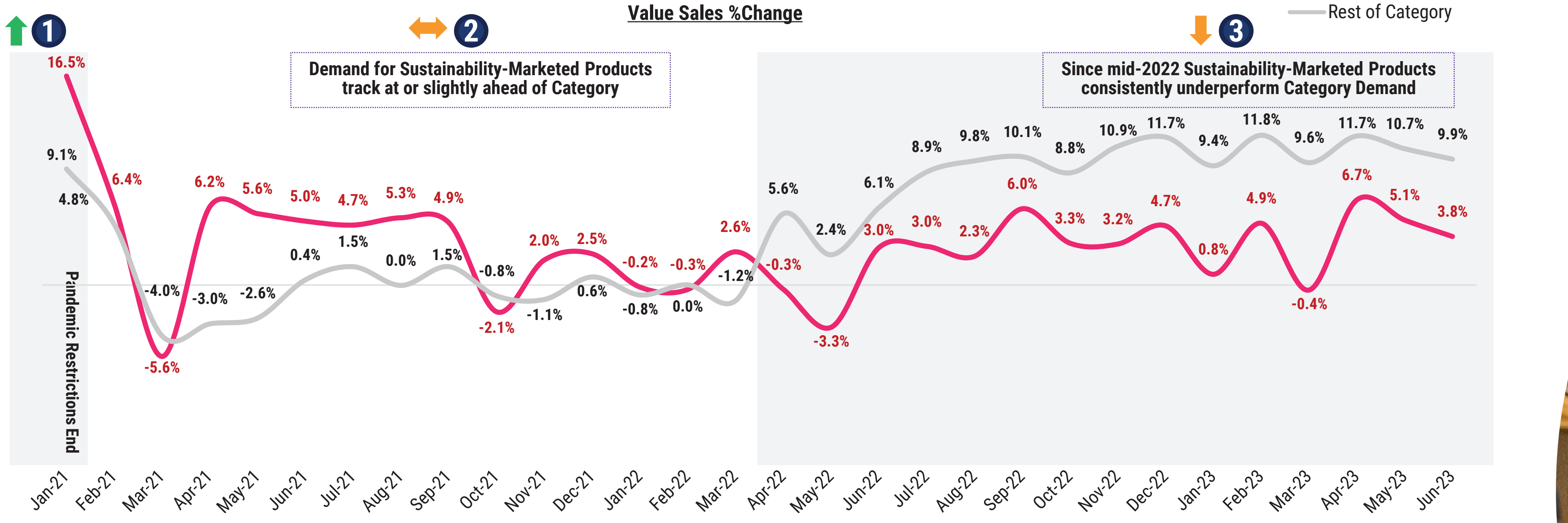
Brands face hard truths on sustainability

Products marketed as sustainable have consistently underperformed the wider FMCG category since mid-2022, our analysis shows. Previously, such products were either tracking at, or slightly ahead of, the market.

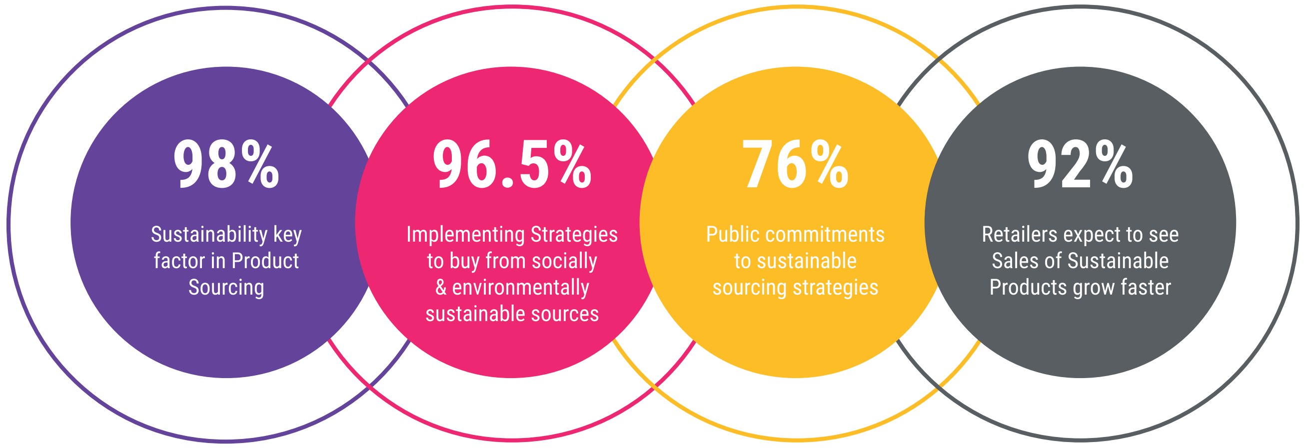
Demand has dropped off because budget-conscious shoppers have had to make difficult choices about how and where to spend their money, even when they really want to buy goods that are better for the planet. They have also tended to prioritise health over sustainability. Our consumer research shows that 'good for the environment' has fallen down the list of considerations for shoppers when trying a new brand, while 'healthier option' has moved up.

All this leads to some stark truths for brands: consumers aren't buying more because a product is sustainable. Sustainability can be a deal-breaker, but it is not a choice driver and consumers certainly won't pay a premium for it right now.

Sustainability-marketed products are underperforming



It's a retailer driven market for sustainable products



Brands should nevertheless make sustainable innovation a priority.

In the short-term, the demand for more sustainable products won't be driven by consumers but by retailers. New regulatory requirements such as the European Commission's Ecodesign for Sustainable Products Regulation (ESPR) will force retail buyers to ask tougher questions about the sustainability credentials of the brands they stock. Brands that want to continue to get listings – especially prominent listings – will need to show they're taking sustainability seriously. Whether the consumer demand is there or not, sustainability will be the cost of doing business in Europe. Interestingly,

ESPR will also create a financial disincentive around the destruction of unsold goods, so expect retailers to become very interested in better demand forecasting in 2024.

A new era for pricing

The latest Demand Signals findings are unequivocal: brands have hit a ceiling in terms of pricing.

Stubbornly high prices are now seriously undermining demand and eroding brand loyalty, with consumers already leaving categories in droves and going to private label.

To protect volume and return to unit growth, the time has come for brands to take a new approach to pricing. Crucially, they must avoid price changes that strip margin but don't deliver meaningful incremental volume.

As we flagged in our previous Demand Signals report, the risk of a price war is very real and brands have nothing to gain from setting off on a race to the bottom. Reducing prices is a zero-sum game – you lose loyal consumers and attract new ones who are driven only by price.

Instead, brands must embrace more sophisticated pricing strategies. Using pricing analytics, they should reassess current thresholds for prices, identify price elasticities and, in the process, pinpoint where pricing opportunities exist.

How smart brands use pricing to drive demand

Most brands already have some understanding of price elasticities, which is to say they understand the relationship between prices increasing and the impact on volume. The savvier among them look not only at category but also segment and brand-level elasticities.

Increasingly, however, an even more granular approach is emerging. Some of the most sophisticated brands operating in European FMCG today are now zeroing in on product attributes such as flavour as part of their pricing strategy.

Flavour has a surprisingly big influence on how consumers perceive a product's value and what they consider an acceptable price. Our pricing analytics show exotic or unusual flavours (say, cucumber) or combinations of flavours (cucumber and apple) or flavours with premium credentials (Madagascan vanilla, for example) allow brands to command a slightly higher price than competitors.

Understanding how specific product attributes affect price elasticities enables brands to be much more strategic about pricing and, ultimately, move the demand curve.

Good pricing is no longer just about looking at what competitors are doing and following that, or even going with retailer-recommended prices. Smart brands today are leveraging pricing analytics to ensure they are pricing and pitching their products for optimum outcomes.

Physical availability is crucial

48% Look for Products the next time they shop

>20% Search for the product if not available

23% Look for another product or brand like it

Avoiding the 'garden hose' approach to deals

As much as brands and retailers recognise they have hit a price ceiling, oversaturating shelves with deals isn't the solution either.

It's tempting to double down on promotions when you see volumes decline, but this is unlikely to yield the right results. Competitors, too, will look to leverage promotions, which means they are less likely to deliver significant incremental volume. What's more, promotions can provide a short-term boost, but they don't build long-term brand equity. Brands that rely heavily on deals to stimulate demand today will struggle to attract loyal shoppers tomorrow.

That's not to say promotions don't have a role to play in growing demand, but targeting and personalisation are key. The 'garden hose' approach to deals is fast becoming a thing of the past.

Whether it's retailer loyalty data, first-party data or point of sale data, brands now have access to granular shopper insights on an unprecedented scale. Instead of running blanket promotions, brands should use this data to identify the consumer segments and promotional mechanics most likely to drive incremental volume and sales.

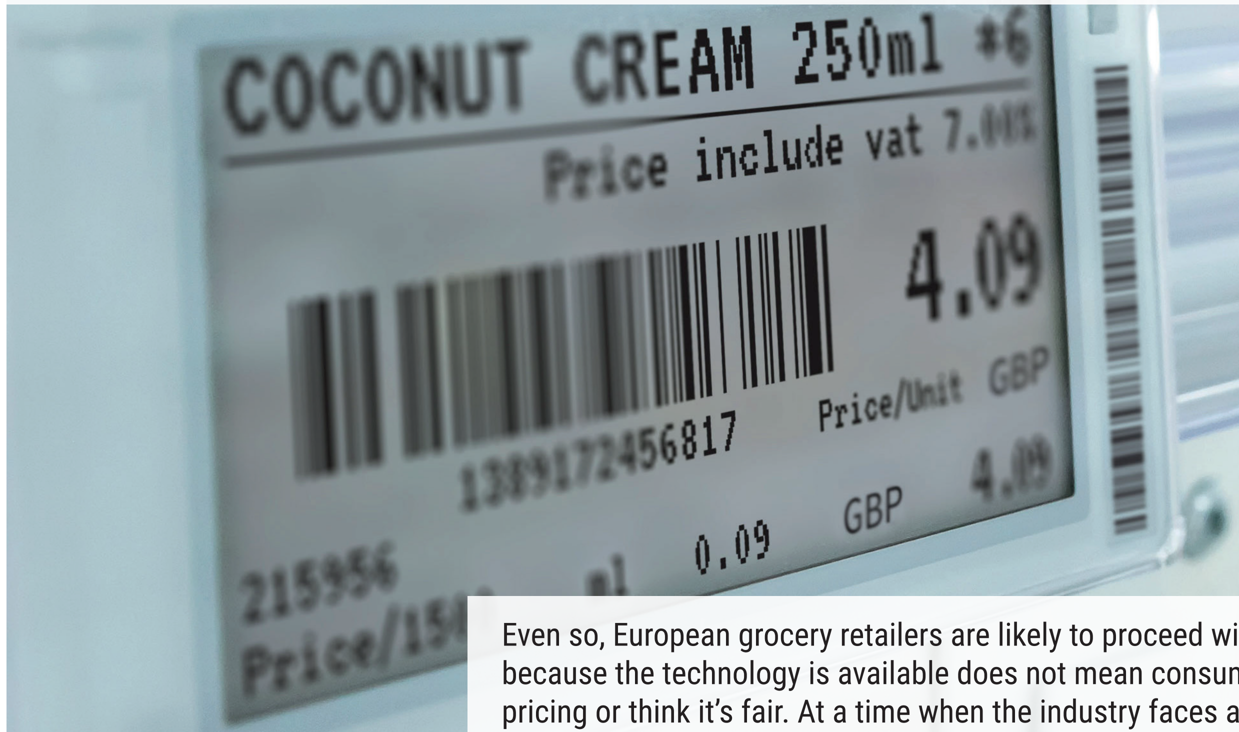
They must also keep a keen eye on availability. Circana consumer research shows physical availability remains crucial for shoppers, particularly when buying new products. In fact, it's the most important purchase driver after price and promotion. Less than 20% of shoppers will search for a product if it's not immediately available and 23% will look for another brand or product if they can't find what they're looking for.

The bottom line is: shoppers don't like seeing empty shelves. Brands with poor availability will miss out on repeat purchases and funnel shoppers to the competition – and no pricing or promotional strategy, not matter how smart, can change that.

Dynamic pricing is coming
– and convenience will lead the way

Dynamic pricing has been touted as a potential solution to grocery's inflation woes, allowing retailers to be more agile in setting prices and responding to local demand patterns.

From a technology perspective, this is certainly feasible. Electronic shelf edge label technology is now mature, widely available and affordable. Online shopping and loyalty cards have further lowered barriers to dynamic pricing. There are also precedents in adjacent industries: a large UK pub chain recently introduced higher prices during peak times to help cover costs.



Even so, European grocery retailers are likely to proceed with caution. Just because the technology is available does not mean consumers like dynamic pricing or think it's fair. At a time when the industry faces accusations of profiteering and 'greedflation', retailers will want to be very sure of the reaction from consumers – and regulators – before committing to a rollout.

Market-sensing is therefore the order of the day, with convenience likely to lead the way. Convenience ranges are much smaller and retailers have more control over merchandising. Consumers in convenience also tend to be more forgiving about prices, making c-stores an ideal testbed for dynamic pricing.

Consumer discontent is on the rise – but brands can help make shopping fun again

Retailers and brands have spent the last few decades training consumers to expect endless choice and variety at extremely cheap prices. That era has come to an end – and consumers are finding it difficult to adjust.

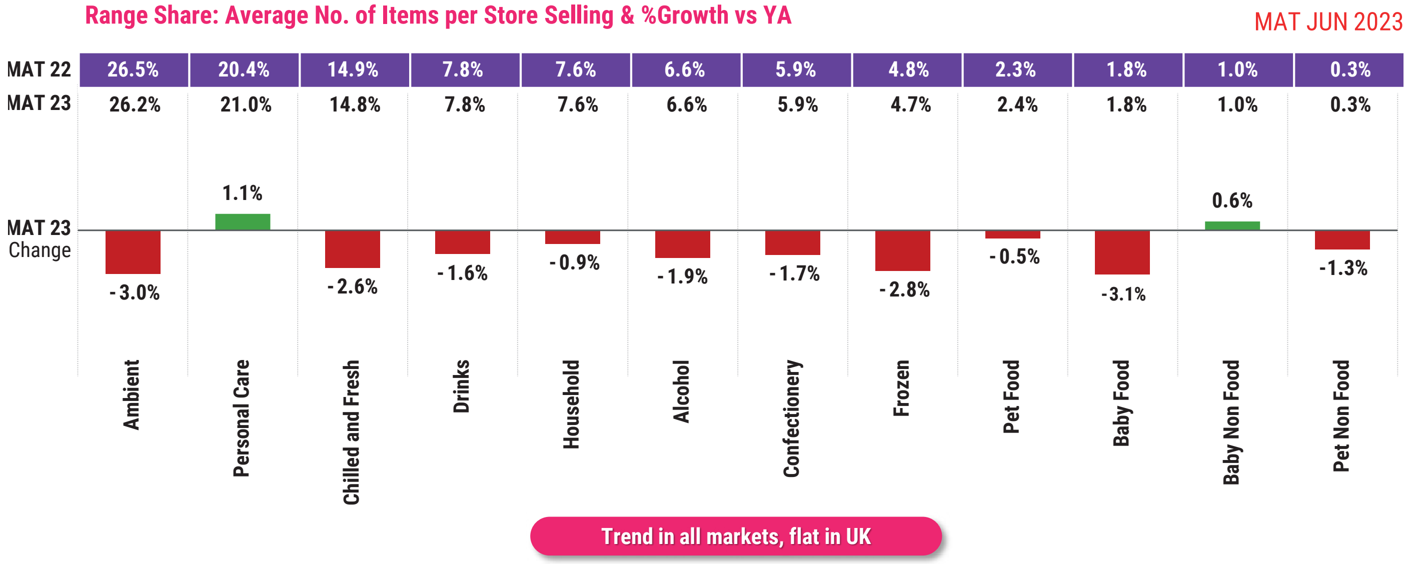
Confronted with high prices, shoppers are scrutinising products more carefully than ever. Packaging design and labelling are becoming crucial touchpoints across aisles, with consumers actively looking to justify premium choices.

Circana consumer research shows 41% of European shoppers now read packaging labels, 58% are comparing prices more often between similar brands and products, and 27% say they are reading more reviews of everyday products.

This hyper-aware, hyper-critical climate is creating consumers who are well informed and discerning – but also increasingly exhausted by the shopping experience.

Hard choices are hard work. Continual budgeting and price comparing are far from fun. Inflation has made the shopping experience very clinical. To generate fresh demand and return to volume growth, brands and retailers must work together to re-energise shoppers and make grocery shopping feel fun again.

Range Rationalisation



Smaller but smarter ranges

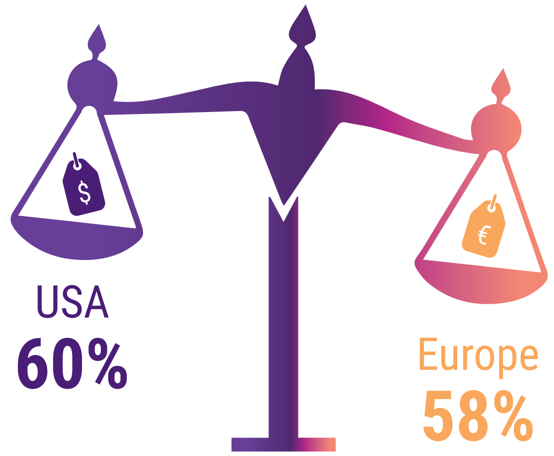
This does not necessarily mean investing in expensive store refits or experiential retail initiatives. Nor does it mean bloating ranges with products.

Over the past 12 months, retailers have continued to reduce the number of items they stock as they focus on core availability and range optimisation. This trend is likely to continue. However, smaller ranges can still deliver excitement, inspiration and fun for consumers.

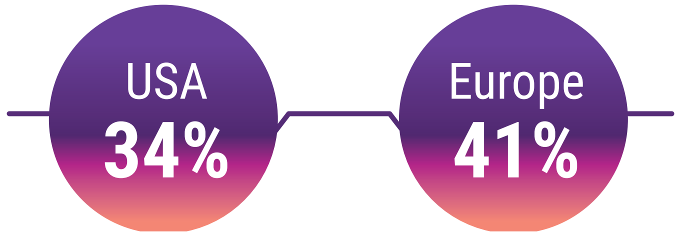
Something as simple as being able to find exactly what you need can make shopping a better, more fun experience. As retailers and brands look to re-engage shoppers, good range architecture and strong visual merchandising will be critical. Whether it's digital signage to elevate mood and create ambience, clear signposting of consumer needs, benefits and occasions at fixture or proximity storytelling, there is a lot brands and retailers can do to make the shopping experience feel more premium and take the pressure off shoppers.

Clear labels and on-pack information will also be key, especially for new launches. When asked why they did not purchase a new product, 71% of European shoppers named 'unclear packaging labels' as one of their top three reasons.

Consumers comparing prices more often



Consumers reading packaging labels more often



Versatility takes centre stage

Finally, inspiration and versatility remain as important as ever. 72% of European shoppers say versatility (i.e., combining the benefits of two or more products in one, or products that can adapt to different needs or consumption moments) is one of the first things they notice about a new product. Brands can tap into this by, for example, positioning their products as versatile ingredients that can be used to create exciting meals.

The past two years have been tough on shoppers, brands and retailers. Pricing and cost-cutting have understandably taken priority. But this approach has now run out of road.

To emerge from the crisis and start driving demand once more, the time has come for a different tack. What FMCG needs now is not more cautious range renovation and portfolio management, but bold innovation at fair prices combined with a great shopping experience.

Brands and retailers need to work together to send a clear message to consumers: Guess what? Grocery shopping is worth getting excited about again.

Circana, formerly IRI and NPD, is the leading advisor on the complexity of consumer behaviour.

Leveraging the vast data and expertise of its heritage firms and powered by the industry's most advanced technology platform, Liquid Data®, Circana tracks the purchase of more than 30 million consumer goods in 23 countries.

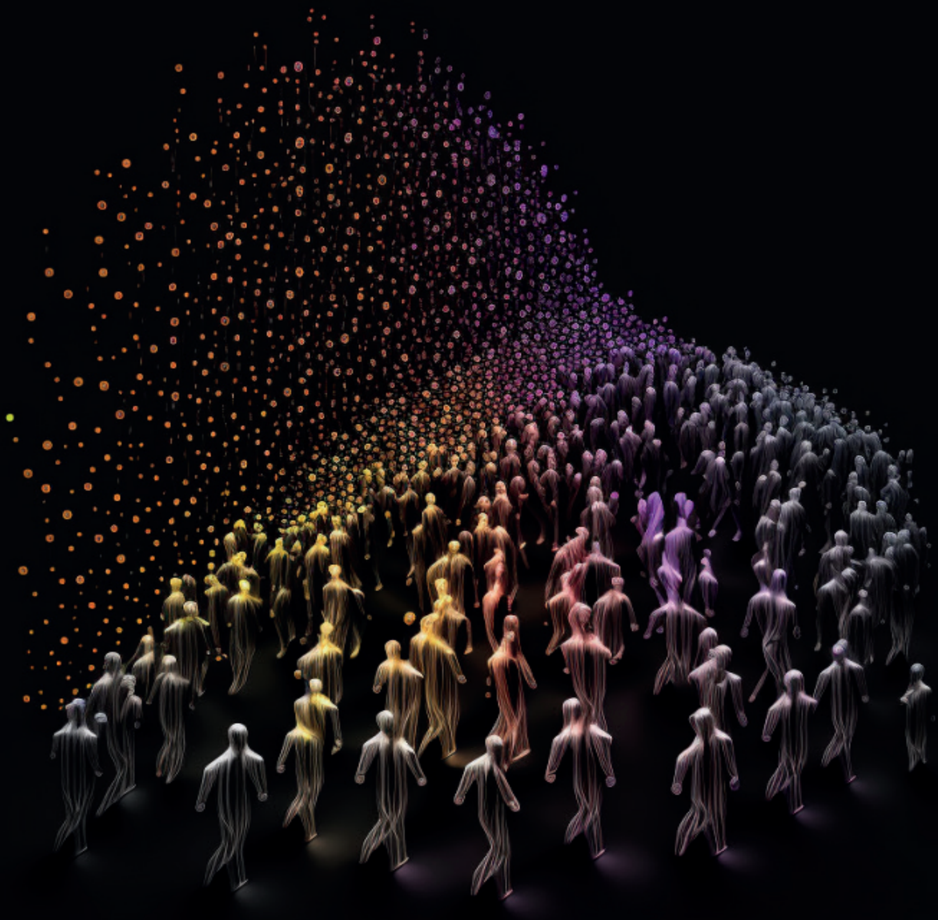
We understand more about the complete consumer and the complete store so that you can go beyond the data to apply insights, ignite innovation, meet consumer demand and outpace the competition.

Our unparalleled technology, advanced analytics, cross-industry data and deep expertise, provides brands and retailers worldwide with the clarity they need to take action and unlock business growth.

Circana's Demand Signals report unpacks the most commercially relevant FCMG trends and future outlook for growth. Tracking how consumer demand flows into value for FMCG brands and retailers across Europe's six largest markets (France, Germany, Italy, Netherlands, Spain and the UK).

This year's report is based on retailer sales data for more than 10 million SKUs over 230 food and non-food categories for the full year ending June 2023 compared to the previous year ending June 2021.

Circana's CREST panel data captures consumer information collected from Circana's online consumer panel in five European countries (France, Germany, Italy, Spain, and Great Britain) about commercially prepared meals, snacks, and beverages, and provides a detailed understanding about where consumers are eating, what they eat and how much they are spending. The data covers the year from January to end of August 2023.



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