The After-Bubble: Reaching Shoppers in a Post-Hyperinflation World

April 2023

As we come out of the price inflation that dominated the retail/shopper narrative in 2022 as well as the disruption of the previous 2 years, it is now time to foundationally reassess how we connect to a world of shoppers forced, by circumstance, to rethink their entire choice architecture in categories and brands.

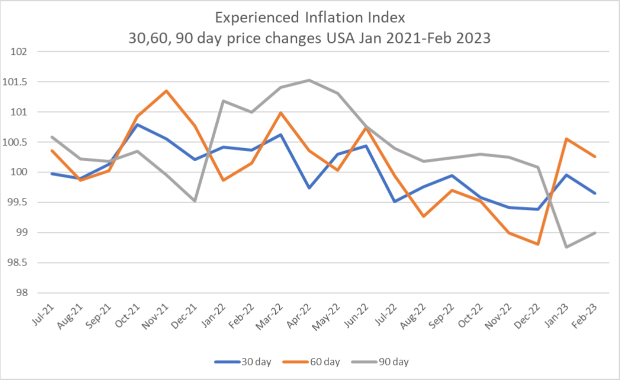
This confusion at first glance seems problematic, and over the last 12 months price-based promotions have dominated the discussion to reach cash-strapped consumers. But as inflation recedes in 2023 consumers will be able to apply the adaptability, they've needed to survive the last 36 months to making different and better choices instead of just trying to make ends meet and satisfy basic needs.

Omnicom Commerce Group is delighted to work with long term partner Bryan Gildenberg to ask him to share his views on the ways brands and retailers need to rethink reaching shoppers in the 'after-bubble':

1. The phenomenon of "Experienced inflation" based on purchase frequency.
2. Turning Disruption Into Advantage: Leveraging New Ways To Reach Shoppers With Solutions To Change Behavior.

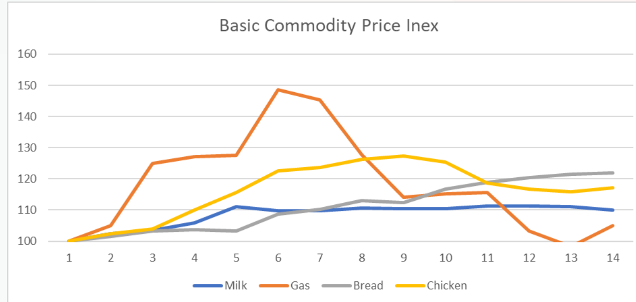
EXPERIENCED INFLATION

The narrative around inflation in the business and popular press is driven by year-over-year or annual rates of inflation. But that's not typically how shoppers (particularly highly price sensitive ones) experience inflation, which is very much as a relationship between the money they make today and the expenses they have today. Their price reference points aren't what the item cost 365 days ago, but what it cost the last time they bought it.

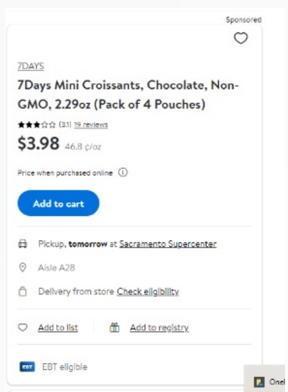


To that end, the team at Retail Cities have built a variety of EIIs (Experienced Inflation Indices – US data) – the 30, 60 and 90-day EIIs are charted in Figure 1 (read as if the number is over 100 shoppers are experiencing rising prices vs. the last trip 30, 60 or 90 days ago). As it shows, "Experienced Inflation" was under 100 for the 30 and 60-day metrics from the middle of 2022 forward.

The 90-day measure also remained above 100. So if inflation is still high year-over-year, but if it's coming down shoppers can actually experience a relatively low or even negative pricing environment (as the 30-day EII showed in February 2023).

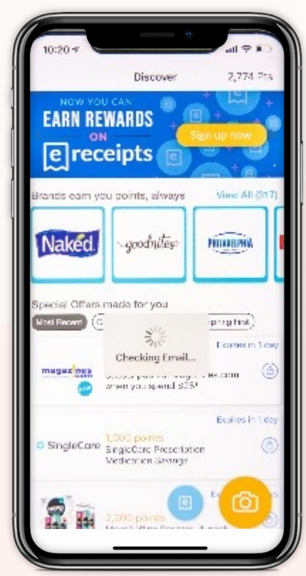


Branded products tend to be sticky as the price of input costs fall or as inflation abates. Therefore, it is useful to look at other products from a pricing perspective – products whose prices tend to move more in line with the commodity markets. The best way to see this looking at data from the "US Federal Reserve Indexing Prices" in milk, gas, bread and chicken. For example, on January 1 = 100 we can see that of the four commodities the price of gas has dropped after a sharp rise in 2022, and the price of chicken and milk has essentially flattened in the last quarter.



The one product that has increased in price is bread – which is 22% more expensive than it was in January 2022 and whose price has been steadily escalating throughout the end of 2022/early 2023 (though the rate of escalation is slowing). Possibly in response to persistent price increases in bread, Walmart has recently been accelerating the shelf space and presence of an extreme discount brand in the bread category called 7Days – sourced from Bulgaria, Walmart is able to get to some eye-poppingly low-price points in this key category.

Another option shoppers can use across categories is the ability for them to be their own "sourcing agents" – by using a wide variety of online tools and retailers. Via tech, shoppers can be incredibly adaptive to changing prices. The rise/evolution of the digital shopping ecosystem allows savvy shoppers more fluidity between outlets and within brand families to find the right value. This flexibility has enabled proactive switchiness as well as reactive behaviors amongst shoppers…some examples include:



1. Instacart and its multiple outlets including extreme value outlets like Aldi and massive pack-size-value like Costco.

2. Reward platforms like Ibotta and Fetch that have filled the value gap to some degree leading to the relative demise of paper coupons for encouraging price-based brand switching.

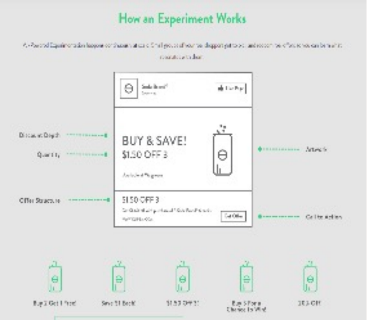
3. The ease of trading up or down provided by digital shopping.

CRITICAL CONCLUSIONS FOR COMMERCE MARKETERS

To anticipate and respond appropriately, manufacturers need to understand their product's price ecosystem:

- Cost drivers – the underlying product cost dynamics: where they are now, and where they are trending. Understand the relationship between rising costs and product prices… a few rules of thumb to aid understanding:

    - Prices rising slower than cost – will need a margin recovery strategy aimed at enhancing equity at shelf.
    - Prices rising faster than costs – will want to understand price gaps vs. brand and value competitors to ensure no share erosion.
    - Prices rising/stable, costs declining – the price gap between brand and private label will exacerbate.



- The online ecosystem becomes and remains a place to test and learn new price elasticities. For instance, Instacart went and acquired a retail time, AI-powered price and promotional elasticity testing capability with Eversight. So today, Instacart brands can understand precisely what type of promotional intensity and messaging is most effective and retailers can run price elasticity studies based upon real time point of sale trading data. This more granular capability moves price elasticity from the lab onto the shop floor as a dynamic commercial marketing strategy.
- Private label price competition will become more intense. Walmart in its Q4 earnings release cited the growth in their private label with a thinly veiled “encouragement” for brands to reduce their pricing in line with cost and supply chain inflation now moderating. Brands will need to relearn and rerun their private label price/pack architecture models as these pricing gaps intensify. Category management will become an increasingly difficult challenge – retailers will need more private label on the shelf to offset the cost of eCommerce and the narrower margins of an inflationary world.

This shelf pressure will force manufacturers to rethink product/price architecture, assortment strategy and even product innovation as shelf space for line extensions becomes scarcer

SWITCH 1: PRICE ARCHITECTURE AND PREFERENCE SHIFTING

TURING DISRUPTION INTO ADVANTAGE – FIND THE RIGHT “SWITCHES”

It is essential to remember that inflation is just the latest challenge shoppers are managing, having been subjected to years of difficult pandemic-induced in-stock conditions as well as price disruption in key categories prior to 2022.

Omnicom undertook research in 2021 which revealed a concept most American marketers already knew, which is that US shoppers are the “switchiest” in the world. US shoppers were nearly twice as likely to switch out of a brand due to out-of-stocks, or more expensive brands than non-US shoppers. (Future of Commerce: Navigating a World of Disrupted Basics, June 2022)

The result of this switchiness combined with the macro disruption outlined in section 1 is that consumer’s historic price/value relationships in many categories have been upended. They are often trying new brands or have become loyal to a new brand based on switching, so have less mental association with a single brand’s specific price reference point. Also, importantly, the price point they are paying in any given category is almost inevitably higher than the price point they were used to paying.

CRITICAL CONCLUSIONS FOR COMMERCE MARKETERS

For a wide range of brands, the shifting price architecture may present an opportunity to trade the shopper not down, but up.

- This begs the question: “What’s the right combination of promotional pricing and competitive brand targeting to enroll the consumer in a more premium category solution?”

  If, for instance, organic products are a higher margin for the supplier and retailer, what’s the right marketing/promotional cadence to get that shopper to trial and repeat on this solution at a price point that is either at, or not much more expensive, than the new price point they are paying for their more conventional brand solution? As an example, the infographic at right highlights a survey done in Texas in late 2021 revealed that though organic groceries are still more expensive their prices went up markedly less than non-organic grocery prices. Using inflation to permanently reset shopper preferences and routines can potentially turn inflation into a lasting competitive advantage (source: MagnifyMoney/US Department of Agriculture).

- In-aisle signage, display and category assortment can be designed and framed to make the premium choice look like the right option even in an inflationary environment.
- Digital content like A+ video content on Amazon can be used to both demonstrate the benefit of, and create, an emotional bond with a more premium solution.
- Media-to-cart connectivity can convert new mental availability into conversion at the drop of a hat.
- Clear and confident value messaging beyond price – like L’Oreal’s campaign with H.E.R. which describes value not as “the depth of your pocket, but the beauty of your spirit” is a nice example of pivoting from value to values to reinforce the brand’s core positioning.

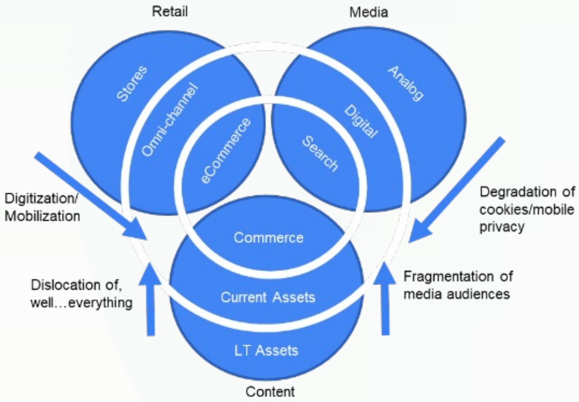
H.E.R. Shares Empowering Message for L’Oréal Paris’ Lessons of Worth Campaign: ’You Define Your Success’

”Your value isn’t determined by the depth of your pocket, but the beauty of your spirit and the freedom in your smile,” the superstar musician shares as part of L’Oréal Paris’ latest campaign

SWITCH 2: THE CONFLUENCE OF RETAIL MEDIA

ACCELERATING CONVERSION AND THE BLUR BETWEEN RETAIL AND MEDIA – THE GREAT CONFLUENCE

Because media-to-cart leads to the third major piece of the landscape is a dramatically different behavior than in the "pre-bubble; the rise of non-traditional search platforms that can create instantaneous demand for new products. As these platforms continue to grow in commerce importance helping brands close the loop here is clearly a critical part of commerce marketing.

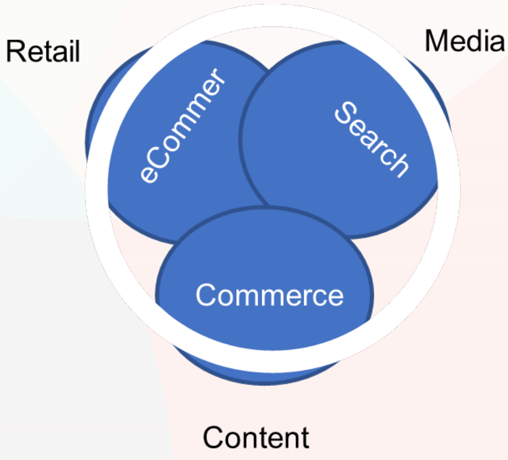


At the same time as media comes closer to retail, retail is continuing to evolve into a media platform as well. Amazon is one of the largest digital advertising platforms in the world and other omni-channel retailers are trying to follow their success.

Confluencer Commerce looks at these evolving ecosystems as taking place across 3 areas – retail/commerce, media and content – with that confluence happening in 3 waves. Each wave deals with an aspect of retail, media and content in the order of how "commerce centered" each wave is.

Wave 1 of this confluence involves the inner ring of the chart above – eCommerce in retail, search via media and commerce-centric content. Today, several brands manage this layer of confluence within the Amazon ecosystem in particular. Amazon teams within manufacturers typically grew up in a relatively standalone part of their company, and since the primary merchandising tactics on Amazon is search, it forced this confluence between retail and media.

The best-in-class Amazon solutions marry that basic confluence with commerce-centered content…the basics like product descriptions/keyword, product images, descriptions, and ratings/reviews.



COMMERCE MARKETING CRITICAL IMPLICATIONS

- Integrated planning becomes incredibly important when retail media money is being spent in the digital world.

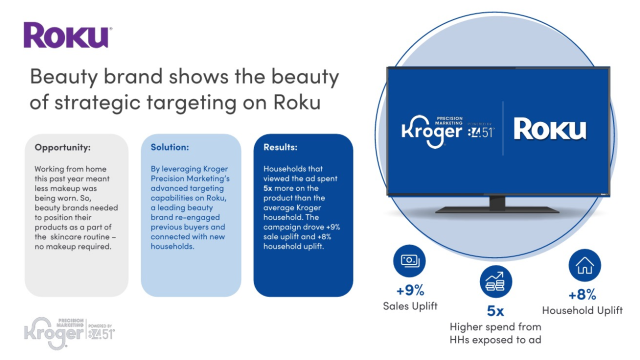
The example here from Walmart is taken from the case study of a body care brand trying to grow share through a Walmart Connect integrated campaign. The 6 steps here are much more about cross functional strategic alignment and collaboration than around tips to drive a better ROAS.

Source: https://www.walmartconnect.com/solutions

- Today, retail media has become an interesting potential landing place for disrupted performance marketing spend rendered less efficient by the privacy-related changes to the mobile marketing ecosystem. Brands should assess the money flowing into retail media from performance marketing to understand if its objectives can/should be broader than simple ROAS. Retail media provides the opportunity to amplify individual marketing efforts into broader campaigns that may have a bigger return. Marrying commerce marketing to performance marketing can be a powerful potential combination. In this example from Kroger, a beauty brand took a performance marketing approach to TV – through Kroger and Roku they were able to use TV in a very performance marketing-oriented way.

- Incrementality measures will become increasingly important – moving beyond ROAS to at least an iROAS calculation will be a critical next step to evaluating digital media effectiveness. iROAS involves campaigns that test for:

  1. Genuinely New To Brand (NTB) shoppers
  2. Consumers who were driven to purchase by the ad – not just consumers who purchased while the ad was running
  3. Truly incremental attribution



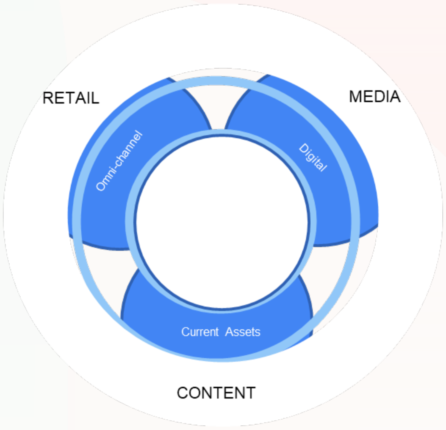
Source: 8451.com

In Confluence 2.0, brands must navigate pieces of the marketing system that are a little further apart naturally. For all the great effort that went into Confluence 1.0, the natural adjacency of these areas and the fact that the Amazon team itself is often a standalone part of the business enabled this confluence to happen faster.

Additionally, in Confluence 2.0 businesses need to integrate more complex and embedded internal processes as now the confluence extends to Omni-Channel retail, the digital media ecosystem and the "current assets" of the content ecosystem. Current assets are a way to think about content that goes beyond the basics of commerce but aren't major investments of time, money and planning.

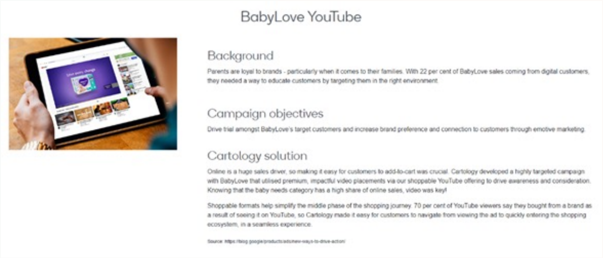
Examples of content "Current assets" include:

1. Social media campaigns
2. User generated content
3. Digital media campaigns

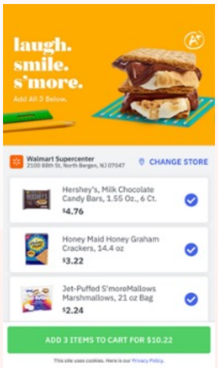


CRITICAL IMPLICATIONS FOR COMMERCE MARKETERS

- Confluence between Omni-Channel retail and Digital Media: The major non-Amazon retail media networks today all operate quite separately from the retail businesses they are connected to. So, best-in-class brands will lead the way on re-integrating this planning process.



This is an area where other markets like the UK and Australia might be outstripping the US retail media networks. BabyLove is a great example from Australia of a brand using Woolworth's as a precision audience generator – using both their demographic and behavioral data to identify rich potential targets for brand communication. Their loyalty card and media data network enabled an effective and measurable YouTube campaign using retailer data for closed loop attribution.



- Omni-channel retail and Content Current Assets – realizing this confluence creates a world of perpetual potential endcaps for shoppers. So, what are the right ways to embed shopability into content? As an example, Hershey powered by add-to-cart media technology is a good example of how this confluence can be brought to life. Taking an Instagram feed with multiple branded products within and enabling that whole bundle to be bought with one click on Walmart.com is a great example of a mobile ad performing the role a S'mores endcap would perform in-store – a one stop impulse shop for a mutli-branded proposition.
- Current Assets and Digital Media – understanding the role that these assets play in the shopper journey – particularly in product discovery – and leveraging these tools most effectively.

CONCLUSION: THE AFTER-BUBBLE

The shopper is navigating this challenging landscape by making new choices and increasingly using tools available to them in the digital world. Today, shoppers are proving remarkably resilient - using the adaptability they learned during the pandemic to keep demand for consumer products relatively strong and robust, even while they defer or trade out of more discretionary purchases.

This new environment creates an opportunity not just to adapt to pressure, but to proactively work to reshape consumer habits so that shoppers behave in more profitable ways.

The confluence between retail, media and content allows for a variety of ways to drive these outcomes, and this confluence will push brands to look beyond simple ROAS measures in the retail media world to look at broader, and more significant objectives and by integrating more campaigns to achieve those objectives. It's essential to ensure that commerce media incorporates holistic retail and customer know-how beyond media strategy and buying skills. More broadly, the "after-bubble" will continue to challenge brands to be sharper and more responsive to an increasingly adaptive and "switchy" consumer – but brands that can reflect and shape new consumer choices using the tools of a "confluencing" world will be well positioned to win.

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