

Ensure Price Pack Success

IRI Webinar

January 12, 2016



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1 Introductions

2 What is Price Pack Architecture?

3 Why is it critical today?

4 How can we leverage it?

5 Q&A and Contact Information

Who am I?



- Ray Florio is a Partner with IRI's Strategic Analytics, focused on our CPG, consumer healthcare, and retail clients. Previously, he held a leadership position in Accenture's Strategy Consulting Practice, working with clients across a number of demand-side issues
- His work, along with commentary on economic and market trends, has appeared in print, on television, and on the radio around the globe.
- He has led engagements on portfolio and brand strategy, pricing strategy, channel and sales strategy, new product development, advertising and promotion, customer segmentation, and customer and product profitability across six continents
- Select accomplishments include:
 - Drove a 5% improvement in basket sizes and significant jump in in-store conversion through category strategies that incorporated time-based shopping occasions for a leading retail pharmacy
 - Improved margins by over 3%, while also enhancing volume and customer loyalty through better pricing strategies at a multinational home goods retailer
 - Completely transformed brand image and price positioning at a leading automotive retailer, resulting in an incremental 10% improvement in top line sales
 - Achieved >\$300MM per year in incremental margins for a major Food & Beverage manufacturer through better pricing, improved retail compliance, and more sophisticated account planning
 - Led the development of a turnaround strategy for one of the world's largest high-tech companies, providing their first positive quarterly results in over 5 years
 - Captured an additional \$1.5 billion per year in annual margins for a leading oilfield services provider through more advanced sales and customer strategies
- Ray received a B.S. in Economics from the Wharton School of the University of Pennsylvania

Do any of these statements sound familiar?

- “More than ever, we are focusing on profitability, even at the expense of our topline revenues”
- “We went through rounds of cost-cutting, but there just does not seem anything left to trim without hurting our product and service quality”
- “If we don’t keep prices low, we’ll lose share as shoppers and consumers continue to shop for the best possible deal”
- “We have to invest more in promos every year to maintain the right price perception, as we keep getting lower returns from our spend”
- For manufacturers: “We can’t simply have an annual price increase any longer, as our retailers will push back or we’ll seem overpriced”
- For retailers: “We can’t simply pass-through manufacturer cost increases, as we are likely to lose shoppers”

If so, it may be time to re-assess your Price Pack Architecture

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When you think about Price Pack Architecture, what comes to mind?

- a. Properly distributing the products in our assortment across logical price point groupings
- b. Maintaining consistent brand and feature premiums across the category
- c. Finding ways to adjust prices relative to one another to improve our overall profitability
- d. Providing consumers with a viable selection of products that meet their needs at the price they are willing to pay, both through price adjustments to existing products and the introduction of new products

Beyond simply adjusting price points, true Price Pack Architecture ideas should leverage willingness to pay to drive innovation

Optimal Pricing of Existing Products

- What are consumers willing to pay for existing product features?
- What is the role of different pack sizes by retailer and channel?
- What is the right relative pricing across different pack sizes?
- What are appealing price bundles of existing products?
- What is the fair value shoppers place on our brands vs. competitive brands?
- How much of a discount is required for single-pack vs. multi-packs?
- What price points allow us to better manage shopper trade-up / trade-down decisions?
- At what prices do consumers switch brands and when do they switch retailers?

New Products with Assortment Implications

- For which product features will consumers willingly pay the highest premium?
- Will consumers pay an acceptable premium for a smaller pack size offering convenience?
- What pricing of new products optimizes my overall brand portfolio sales?
- Which consumers find new products most appealing?
- How do new products compete with my current portfolio?
- How do new products interact with competing brands?
- What level of cannibalization can I expect to my current portfolio sales?
- Will the new products grow the category or only help grow my brand share?

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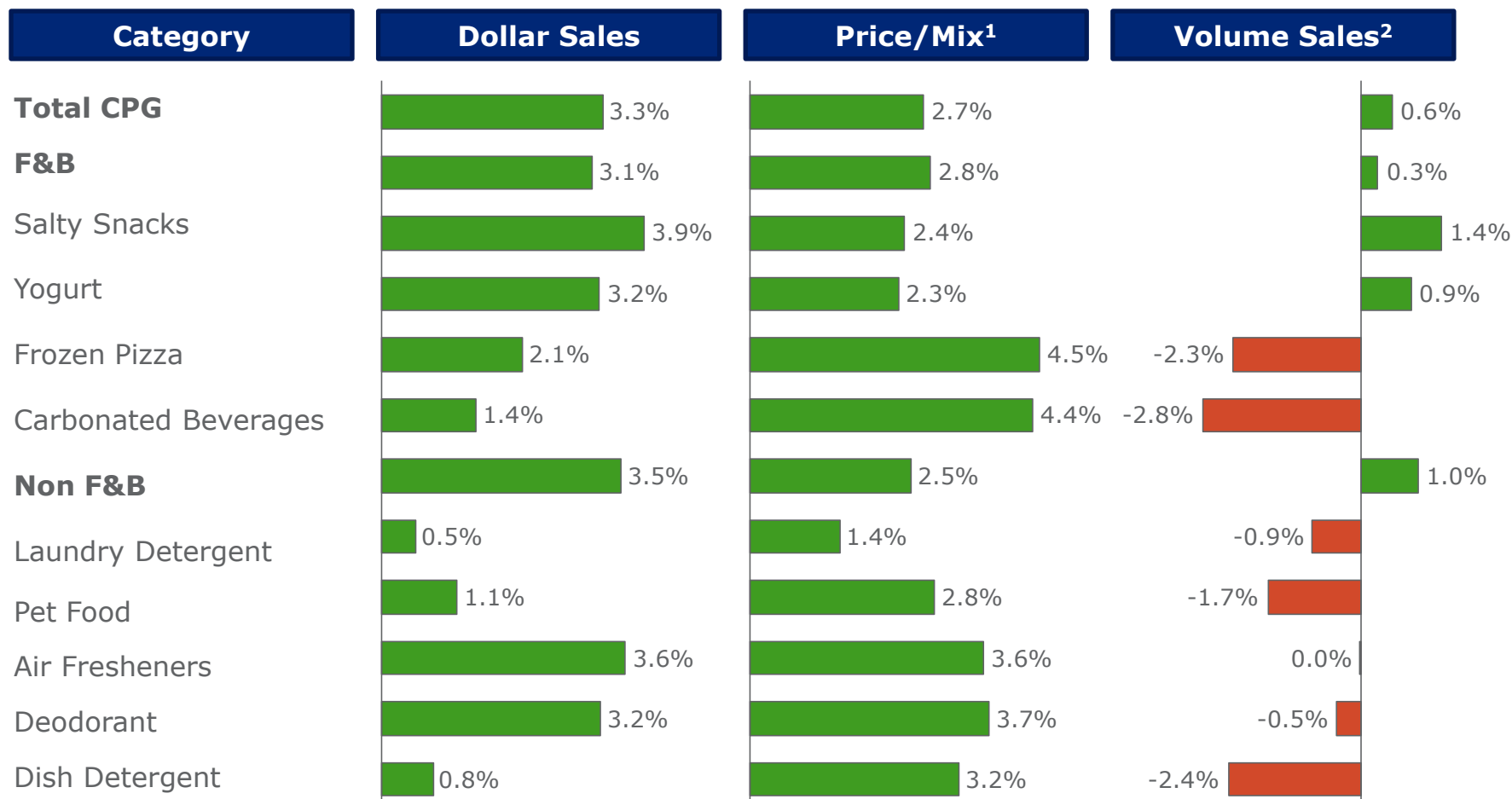
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In the current slow growth climate, many categories are driving growth primarily through Price/Mix as Volume grows slowly or declines

Sales and Price/Mix trends

% Chg. vs. YA, L52 Weeks Ending 10/04/15



Note: 1. For CPG, F&B, & Non F&B, Dollar-weighted price per volume change across categories. 2. For CPG, F&B, & Non F&B, volume estimated from \$ sales and PPV.
Source: IRI POS database, MULO + C, 52 Weeks Ending 10/04/15. IRI Consulting analysis.

However, taking an annual price raise is not so easy, with consumer transparency into market prices, cost cutting, and commodity shifts

"Mondelez International Inc. detailed progress in its cost-cutting efforts and plans for healthier products and more online sales, as the global snacks-and-sweets giant continues to retool its business under pressure from activist investors."

-Mondelez Offers Details of Cost Cutting Plan, Wall Street Journal, 9/10/2015

"As the avian influenza outbreak appears to be contained and the remnants of the drought in California have dissipated, food prices will stabilize in 2016..."

-What 2016 Food Prices can Tell Us about the Economy, The Street, 12/28/2015

"While 3G executives haven't said much about their plans—the firm said its managers were unavailable to comment for this story—they've made one big promise: They'll cut \$1.5 billion in annual costs from Kraft Heinz before 2018."

-Things Are About to Get Ugly at Kraft, Bloomberg Business, 8/20/2015

"A new mobile application called Basket wants to bring the same level of price transparency to consumers' weekly grocery shopping trips, while also helping them find unadvertised sales on their favorite products."

-Basket's New App Helps You Find the Best Prices on Groceries, TechCrunch, 12/12/2015

...but even simple, sustainable innovation has always served as a means to drive healthy premiums across CPG categories

Pepsi Mini Cans



Capitalized on the desire for smaller portion sizes as part of wellness trends

- 100% premium in price per ounce vs. standard Pepsi cans
- L52 Dollar Sales: \$40.5 MM

Perdue Perfect Portions



Provided less price sensitive, health-aware shoppers with portion control

- 84% average premium over other Perdue packaged chicken
- L52 Dollars Sales: \$90.6 MM

McCormick Recipe Inspirations



Delivered easy prep meal solutions for younger, smaller households

- 203% average premium per volume vs. spices and seasonings as a whole
- L52 Dollar Sales: \$1.1 MM

Chobani Flip



Combined natural ingredients into convenient, on-the-go protein

- 10%+ premium in price per ounce vs. traditional Chobani Greek yogurt
- L52 Dollar Sales: \$164.2 MM

Cascade Platinum Action Pacs



Shortened time spent on housework through single-use, disposable packs

- 200%+ premium in price per ounce vs. traditional Cascade Detergent
- L52 Dollar Sales: \$16.1 MM

Tide Pods



Made laundry a simpler, more convenient, less messy activity

- 40%+ premium per wash vs. Tide liquid detergent
- L52 Dollar Sales: >\$500 MM

Source: IRI POS database, MULO + C, 52 Weeks Ending 10/04/15. IRI Consulting analysis.

Across CPG segments, manufacturers and their retailers have grown revenues by 1-2% while improving margins up to 10% through PPA

Price Pack Architecture Case Overview

Leading Tobacco Manufacturer:

Leveraged **forecasting and discrete** choice to develop **consumer-centric pricing recommendations for new products**

Sun Care Products Company:

Drove brand turn-around via PPA, **delivering practical and actionable analytical recommendations** at a targeted and granular level

Spreads Manufacturer:

Recommended **breakthrough PPA ideas to reengineer product formats and drive growth through pricing**

Seasonings Manufacturer:

Created **retailer-specific category growth plans supported by a new price pack architecture**, driving strong activation and support at key retailers

Results/Value Created

- **Defined new game-changing heuristic** & price monitoring mechanism
- **Recommended state specific pricing actions** across product lines that would deliver ~\$50MM in savings with no share loss
- **Developed a segmented approach to brand growth** by targeting priority consumer segments with clear actionable recommendations on optimizing price, trade and improved targeting (media & retail)
- Recommendations estimated to deliver incremental revenue of 1.4% and increased profits by 2%.
- Delivered **recommendations across Packaging** (New pack sizes, changing existing pack sizes) **and Execution dimensions** (Pricing, promotion and mix)
- Recommendations **estimated to improve Penetration (+3.5 ppts.), Margin (+10 ppts.) and Dollar Sales (up to 17%)**
- **Built retailer interest in a category / aisle where it was rapidly eroding**
- Recommended price shifts that improved margins 2.5% and revenue 1% the manufacturer, with similar growth for the retailer

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Capitalizing on PPA opportunities means addressing a key set of questions from Ideation through to Commercialization

1

Ideation:

What are the opportunities?

- Current price pack architecture vs. competitors
- Drivers of success for competitors in entering the market
- Historical evidence of premiums customers have been willing to pay
- Learnings from other, similar categories

2

Validation:

How big are they and which should we pursue?

- Potential market size for target customers and channels
- Requirements for financial and commercial success
- Estimates of consumer demand through behavior-based tests and models
- Likelihood of cannibalization for existing products we and competitors offer
- Feasibility of meeting minimum success criteria and contingency plans

3

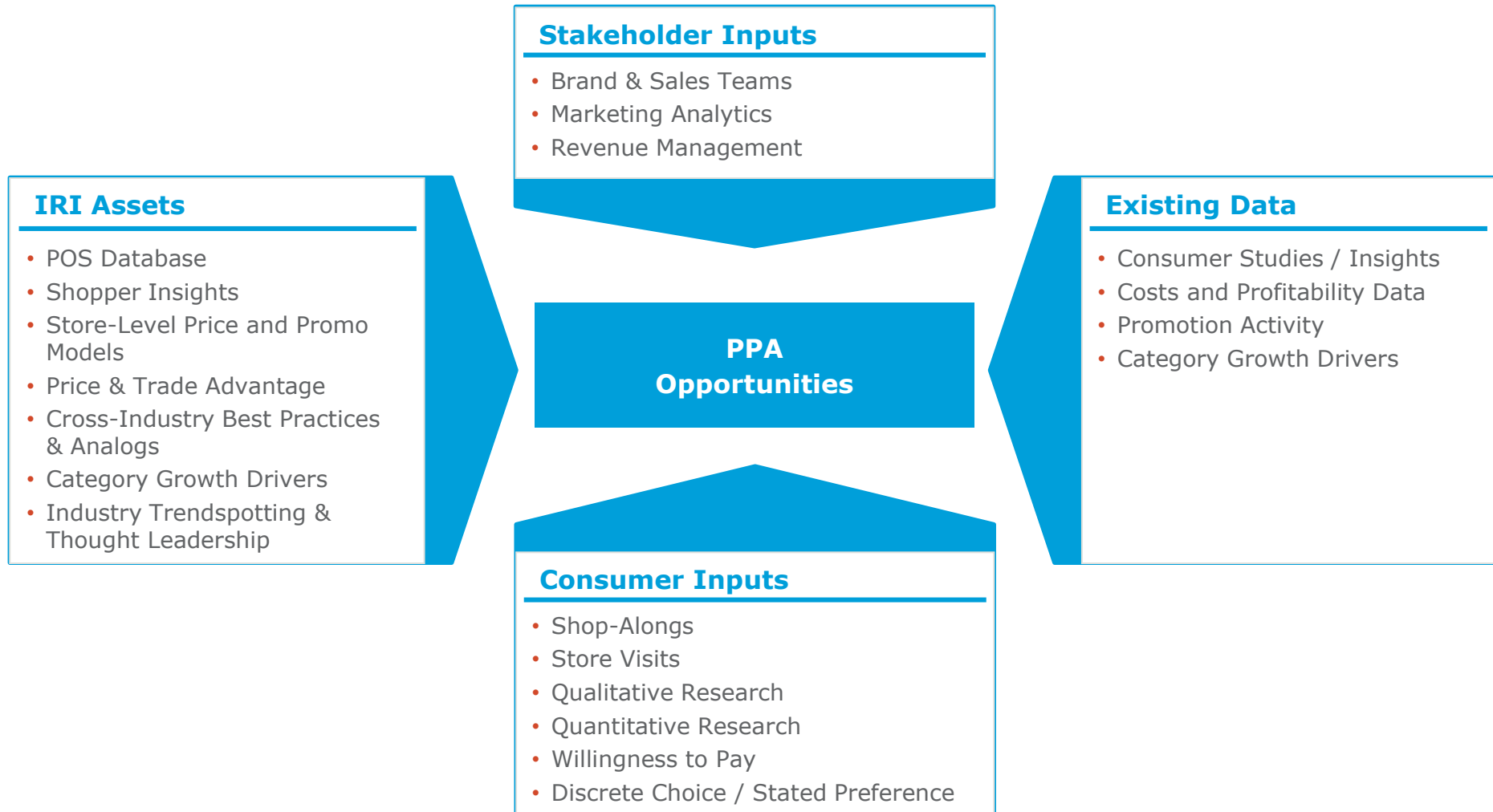
Commercialization:

How do we convince retailers?

- Objectives and performance concerns for specific retailers
- Alignment between our category vision and opportunities vs. retailers
- Support mechanisms retailers will expect



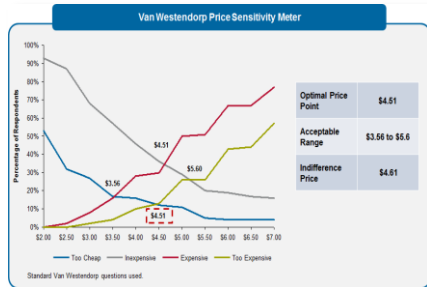
Ideation should leverage a significant foundation of data sources and inputs to identify valid price pack opportunities we can then test





For these tests, a suite of analytical techniques help understand price trade-offs, enabling fact based consumer-driven decision making

Assess Role of Price



Simple research approaches to understand the role of price and key product attributes:

- **Van Westendorp:** Assess range of acceptable price ranges and optimal price points
- **Max Diff Scaling:** Understand benefits sought from purchase and relative importance of attributes

Quantify Price Trade-Offs



Advanced analytical approaches to quantify attribute importance and willingness to pay:

- **Discrete Choice / Adaptive Conjoint:** Assess trade-offs between options / combination of attributes
- **Future Marketplace Simulations (FMS):** Evaluate purchase factors & simulate demand for different product and pricing scenarios
- **Elasticity-Based Price Simulations:** Calculate revenue, volume, and margin based on shifts in current SKUs

Fine Tune Price



Fine tune pricing of new products and packaging prior to in-store launch:

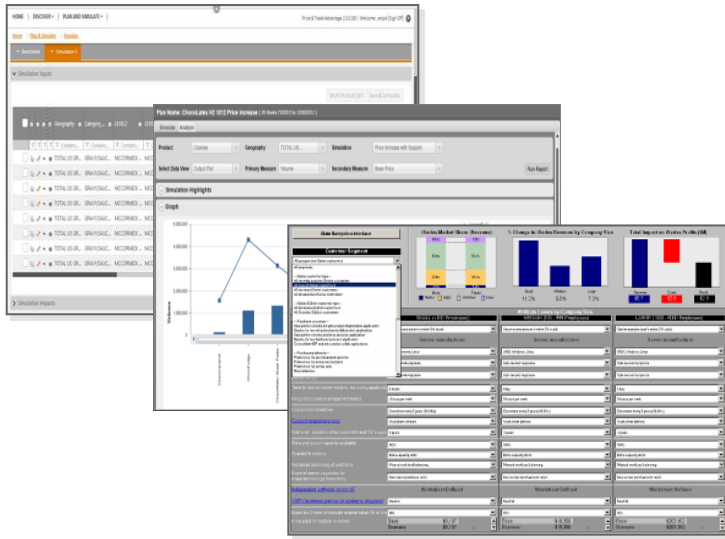
- **Virtual Testing:** Test narrowed down options in a virtual store environment
- **In-market Testing:** Carefully designed test vs. control markets to test products in-market before full launch

FMS best-suited for testing multiple product/pricing scenarios, assessing willingness to pay and price elasticities, portfolio cannibalization and incrementality of new products



Financial simulations leverage consumer research to calculate profitability under different potential scenarios

Simulation modeling establishes an initial size of the prize for qualified ideas...



- Leverages any **existing analytics where available**
- Incorporates **consumer research and trends** into new product innovations or existing products where data is poor

...helping narrow the list of ideas to test through validation

- Estimates **potential consumer response to price and assortment changes**, with the incremental revenue and margin they drive
- Quantifies **expected financial impact, breakeven volume, and requirements for success under different scenarios**
- Showcases financial and market share **impact of potential competitive reactions / responses**
- Calculates **market size and attractiveness** with target consumer segments
- Provides insight into **cannibalization and interaction with existing products**
- Highlights **customer, channel, and competitor risks** that can hinder financial success
- Identifies initial **fit / gap with target retailer goals and objectives**
- **Allows continued iteration and refinement** based on refinements and future findings



Finally, retailer-specific sell-in stories should leverage the team's insights and tell each account why the opportunity helps them

Sell-in stories provide retailers a burning platform and category vision...

Component

Key Questions

Category Essentials

- What are overarching trends in the category?
- What are the growth drivers and opportunities?
- How has the consumer and shopper evolved?

Retailer Objectives

- What are this retailer's overall growth objectives?
- How does pest control drive those objectives?
- What has the retailer tried in the category?

Retailer Performance

- How has the retailer performed against its goals?
- What resonates best with this retailer's shoppers?
- What resonates best with this retailer?
- What is this retailer's relationship history?

Category Vision

- How can this whole category best meet the retailer's goals?
- What is the short and long-term vision to meet them?
- How do our PPA opportunities play a role in driving this vision?

Benefits Case

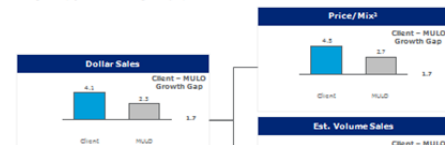
- What incremental benefits can new PPA drive?
- How much benefit does the retailer achieve?
- What must the retailer do to achieve it?
- How will we support the retailer?

...presenting a compelling, fact-based, cohesive story to win support

1. CPG Performance

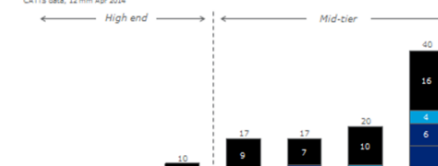
Client significantly outpaces the market in Q4 2014 for CPG growth, and despite higher price-mix, volume trends are at par

CPG scans tracked sales and price/mix trends
% CPG vs. 1A, Q4 - 13 weeks ending January 25, 2015



Consumers not trading up, but instead are trading down

Percent of Volume from In-switching by Sub-brand



Opportunity A: Financial impact

Measure	99% FF 2014			
	Non-Promoted		Promoted	
	Base	Scenario #1	Base	Scenario #1
# of Weeks CPGs on Promo	10	10	24	24
Total unit sales	552,793	464,759	1,638,882	1,484,321
Manufacturer Price per Unit	\$4.66	\$4.83	\$3.81	\$3.90
Manufacturer Margin	\$1.45	\$1.59	\$0.60	\$0.69
Manufacturer Revenue	\$2,347,679	\$2,230,895	\$6,122,855	\$5,790,831
Manufacturer Profit	\$730,501	\$738,822	\$958,343	\$1,026,161
Retailer Price	\$6.78	7% + \$0.99	\$3.29	7% + \$1.44
Retailer Margin %	31%	31%	28%	28%
Total Retailer Revenue	\$3,419,265	\$3,249,177	\$8,503,966	\$8,080,948
Total Retailer Profit	\$1,071,587	\$1,019,282	\$2,381,110	\$2,200,115

A comprehensive list of outputs will help take action on the high potential opportunities and win retailer support

Phase	Output
<p>1</p> <p>Ideation: <i>What are the opportunities?</i></p>	<p>Current architecture and key trends impacting the category Opportunity short-list, architecture, and execution footprint</p> <ul style="list-style-type: none">• Decision between a breakthrough product vs. shift in current architecture• Channel focus and initial case for change• Overall opportunities and customer or service specific recommendations
<p>2</p> <p>Validation: <i>How big are they and which should we pursue?</i></p>	<p>Size of the prize and financial impact</p> <ul style="list-style-type: none">• Preliminary success criteria• Target customer and channel refinement• Revenue and Margin Impact <p>Qualitative and execution feasibility assessment</p> <ul style="list-style-type: none">• Consumer test parameters, scope, and minimum required performance• High-level execution plans and timelines <p>Ideas ranked by benefits vs. effort / investment</p>
<p>3</p> <p>Commercialization: <i>How do we convince retailers?</i></p>	<p>Guidance/support to develop tailored sell-in stories for each retailer</p> <ul style="list-style-type: none">• Clear alignment with consumer category trends and retailer needs• Overarching category vision that appeals to each retailer• Simple articulation of retail requirements and the manufacturer's support for success <p>Refined packs and prices by retailer, based on sell-in stories</p>

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Please feel free to ask any additional questions you may have, or reach out to me in the future

QUESTIONS?

FOR MORE INFORMATION

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Growth delivered.