Special COVID-19 Series: Recession-Proof Your Business

PART 2 – MAINTAINING PRICING DISCIPLINE DURING A RECESSION

May 7, 2020

Coming Soon:
• How the 2020 Recession is Reshaping the CPG Demand Curve
• Building Brands in a Recession

Available Now: How the Great Recession Reshaped the CPG Demand Curve
Plan for the Recession: Use Pricing to Maintain and Strengthen Brands

**SHOULD WE CUT PRICES?**

- When not absolutely necessary, cutting price can have disastrous effects
- In the short-term, broad-brush price cuts will lower margins and erode price equity
- When the recovery comes, manufacturers that took price cuts may see their brands relegated to second tier status

**WHAT IS THE PATH FORWARD?**

- Focus on total value, whether during a recession or expansion
- Shopper needs may change, but price will not become the sole driver of decisions
- Tailor the value equation by knowing what products are not truly sensitive to pricing, and the tradeoffs shoppers will make among those that are

**HOW DO WE GET RETAIL ONBOARD?**

- Quantify what is in it for your retailer partners and what the cost could be from unnecessary cuts
- Offer non-price financial incentives for your retailers
- Pair the financial benefits with a positive impact on the most valuable shoppers

**HOW CAN IRI HELP?**

IRI’s Precision Pricing Solution, Portfolio Profitability Consulting and Segment-Specific Pricing Optimization

- The IRI COVID-19 Info Portal
- The COVID-19 Dashboard
- The IRI CPG Demand Index™

**EXECUTIVE SUMMARY**

Every recession varies in scope and duration, but COVID-19 will usher in unique behavioral changes, including heightened awareness of personal health and safety.

We're already seeing price inflation of food items, similar to what's been seen in past recessions.

Manufacturers will see pressure from both shoppers and retailers to cut prices.
In past recessions, manufacturers acknowledged shoppers want and need to spend less. Price cuts seemed like an attractive response.

What Message Does a Price Cut Actually Send?
Recessionary Purchasing Habits

Consumers cut back on non-essential grocery items, traded down in search of value, hunted deals by combed retailers’ circulars, clipped coupons and searched the store for the best deals.

For more information on How the Great Recession Reshaped the CPG Demand Curve and Price / Mix Growth, CLICK HERE.


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Entering a Recession, Manufacturers Want to be Considered an Affordable Choice

Price Cuts and Promotions Have Historically Been Go-To Tactics During a Recession

Increase Trade Spend to Temporarily Reduce Price
- Allows for highly targeted, flexible responses to specific geographies
- Provides additional volume gains due to the limited time nature
- Aligns retailers with a win-win, delivering additional income to both, if executed correctly

Offer Greater Trade-Up Discounts and Multiples
- Drives additional volume gain with less cost than typical promos
- Visibly improves total value proposition vs. competitors
- Reduces purchase frequency, limiting opportunities for price comparisons

Cut List Price to Provide a Better Deal for Retailers and Shoppers
- Reaches all retail banners, providing full coverage
- Meets needs of retailers, as well as shoppers
- Avoids potential cross-channel conflicts and cherry-picking of deals
**Increasing Trade Spend Exacerbates Both Everyday and Promoted Price Elasticity**

*Price Sensitivity by Level of Promotion / Grocery Channel, Historical Observations*

<table>
<thead>
<tr>
<th>Promotion Level (% $ on Merchandising)</th>
<th>Brand Count</th>
<th>% $ Sales Share of F&amp;B</th>
<th>Everyday Price Elasticity</th>
<th>Promoted Price Elasticity</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Promo (&gt;50%)</td>
<td>953</td>
<td>28%</td>
<td>1.78</td>
<td>2.17</td>
</tr>
<tr>
<td>Medium Promo (30% to 50%)</td>
<td>2,280</td>
<td>52%</td>
<td>1.48</td>
<td>1.89</td>
</tr>
<tr>
<td>Low Promo (0% to 30%)</td>
<td>2,310</td>
<td>20%</td>
<td>1.27</td>
<td>1.63</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>5,543</strong></td>
<td><strong>100%</strong></td>
<td><strong>1.52</strong></td>
<td><strong>1.95</strong></td>
</tr>
</tbody>
</table>

*Frequent Promotions Can Erode the Reference Price Shoppers Use When Evaluating if the Price is a Good Deal*

Source: IRI Revenue Management Database, Grocery Channel. IRI Strategic Analytics
Similarly, Financially Strained Shoppers Spend Less During Each Trip, Making Them Unlikely to Trade Up, Even for a Strong Volume Discount

Spend per Trip by Household Income Groups / Dollars, 52 WE 1/26/2020, All Outlets

Well Known Price Wars Between P&G and Kimberly-Clark Shed Light on the Implications of Undercutting Competitors

In 2018, P&G began heavily discounting its brands in an effort to boost sales and win back customers. This forced Kimberly-Clark to follow suit, but at the expense of its financial health. The company later would have to restructure its organization and lay off nearly 5,000 workers, 13% of its entire global workforce.

P&G and Kimberly-Clark have a long history of aggressive price wars, such as in the 1990s when P&G cut its diaper prices by 10%.

Common Outcomes Involve Both Companies Coming Out Weaker With Lack of Business Results to Show For it

In the tail end of the recession, Ralcorp initiated a price war to reclaim market share after an unsuccessful acquisition of the Post cereal brand. The aggressive price cutting resulted in poor performance for themselves and competitors.

<table>
<thead>
<tr>
<th>Company</th>
<th>2Q 2010 Sales</th>
<th>2Q 2010 Profit</th>
<th>Share Price Change¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kellogg's</td>
<td>-13%</td>
<td>-9%</td>
<td>-4%</td>
</tr>
<tr>
<td>Ralcorp</td>
<td>-8%</td>
<td>-20%</td>
<td>-6%</td>
</tr>
</tbody>
</table>

¹Former parent company of Honey Bunches of Oats and Raisin Bran

Avoid Unnecessary Price Cuts and Position Your Brand for the Recession

In-Home Consumption Will Remain at Elevated Levels, Even as COVID-19 Recedes

Takeaways on Simply Cutting Price

Shopper Uncertainty
IRI expects price / mix inflation for food as shoppers display greater price sensitivity during a recession:
• Shifting to different sizes, including smaller when they can’t afford bigger; and bigger when they can afford multi-use sizes for increased cost savings
• Spend on non-essential grocery items will decline
• Shoppers will shift from mainstream to value brands

Path Forward
• Avoid pitfalls and protect your brand and category: cutting price via promo, upsizing offers, or reductions in list often backfire
• Manufacturers should avoid price cuts unless absolutely necessary to maintain both margins and equity during the recession
Unilateral price cuts cause long-term damage to brand reputation. Stand by the strength of your brand, especially when consumers already perceive solid value.

What Impact Will a Price Cut Have on My Brand?
Categories That Support Meal Prep Thrive in Recessions

Shoppers Actively Ate Out Less Often, So Meal-Centric Categories Benefited by Capturing a Portion of the Foodservice Food Dollar

Impacts Varied Widely Across the Store, With Categories Focused On In-Home Consumptions Growing During The Recession

For more information on How the Great Recession Reshaped the CPG Demand Curve and Price / Mix Growth, CLICK HERE.
## Different Brands Illustrate Varying Levels of Price Sensitivity

### Price Sensitivity by Level of Promotion / Grocery Channel, Historical Observations

<table>
<thead>
<tr>
<th>Product Category</th>
<th>Premium</th>
<th>Mainstream</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Chocolate Candy</strong></td>
<td><img src="image" alt="Ghirardelli" /></td>
<td><img src="image" alt="Lindt" /></td>
<td><img src="image" alt="Dove" /></td>
</tr>
<tr>
<td></td>
<td>1.10</td>
<td>1.23</td>
<td>1.30</td>
</tr>
<tr>
<td><strong>Cold Cereal</strong></td>
<td><img src="image" alt="KIND" /></td>
<td><img src="image" alt="Kashi" /></td>
<td><img src="image" alt="Mini Wheats" /></td>
</tr>
<tr>
<td>Healthy Grains</td>
<td>0.87</td>
<td>1.24</td>
<td>1.42</td>
</tr>
<tr>
<td>Heart to Heart</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Ice Cream</strong></td>
<td><img src="image" alt="Ben &amp; Jerry's" /></td>
<td><img src="image" alt="Häagen-Dasz" /></td>
<td><img src="image" alt="Breyers" /></td>
</tr>
<tr>
<td></td>
<td>0.95</td>
<td>1.02</td>
<td>1.42</td>
</tr>
</tbody>
</table>

Source: IRI Revenue Management Database, IRI Strategic Analytics
Case Study: Higher Price Tier Beverage Alcohol Brands Tend to See Limited Impact During a Recession and Value Brands See Higher Elasticity Even into Recovery

% Change in Unit Loss from a 10% Increase in Pricing During the Great Recession and Recovery Later Selected Beer, Wine, and Spirits Brands, vs. Pre-Recession Level

<table>
<thead>
<tr>
<th>Brand</th>
<th>Recession</th>
<th>Recovery</th>
</tr>
</thead>
<tbody>
<tr>
<td>VALUE</td>
<td>25%</td>
<td>10%</td>
</tr>
<tr>
<td>MAINSTREAM</td>
<td>15%</td>
<td>10%</td>
</tr>
<tr>
<td>PREMIUM</td>
<td>10%</td>
<td>5%</td>
</tr>
<tr>
<td>SUPER PREMIUM</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Note: Pre-Recession defined as 52 weeks ending prior to September, 2007, Recession defined as 52 weeks ending February of 2009, Recovery defined as 52 weeks ending February of 2011

Source: IRI Revenue Management Database, IRI Strategic Analytics

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Case Study: Small Portion of Items in Baking Brand See Elasticity Increase, While Targeted Items are Less Sensitive

% Unit Loss From a 10% Increase in Pricing Before and During the Great Recession 2005 vs. 2008, All Else Being Equal

As the Brand Aligned With the Shift to In-Home Consumption, Only One Major Item Saw Elasticity Increase for the Recession

- Current UPC 1: 17% in 2005, 19% in 2008
- Current UPC 2: 17% in 2005, 17% in 2008
- Current UPC 3: 17% in 2005, 17% in 2008
- Current UPC 4: 17% in 2005, 24% in 2008

At the Same Time, New, Better-Tailored Products in the Assortment Mostly Proved Less Sensitive to Pricing

- New UPC 1: 7%
- New UPC 2: 7%
- New UPC 3: 10%
- New UPC 4: 10%
- New UPC 5: 18%

Average Unit Loss Among Previously Existing Items: 24%

Source: IRI Revenue Management Database, Disguised Client Example, IRI Strategic Analytics
Determine Brand Elasticity and Selectively Cut Prices Only Where Necessary

Framework for Determining if Price Cuts Are Truly Necessary

**SELECTIVE OPPORTUNITIES**
- Determine potential impact of a price cut on more critical, higher-selling items in the portfolio
- Offer price cuts on these items due to lower cost if they assist consumer perception

**RED ZONE**
- Shore up retailer price compliance to avoid cherry-picking across outlets
- Investigate alternative methods to improve value proposition beyond price
- Weigh full benefit vs. cost of cutting price for both you and the retailer

**MARGIN RETENTION**
- Leverage price increases here during retailer negotiations as a means to pay for potential price cuts
- Stay within desired competitive price position to avoid triggering broader skepticism among consumers

**FINANCIAL RISK**
- Avoid price cuts entirely due to high cost and low benefit
- Preemptively convince retailers to not give up price due to the low benefit they will see
- Trade with *Selective Opportunities* price cuts instead, or *Red Zone*, if necessary

Source: IRI Growth Consulting
Long-Term Pain for Companies That Aren’t Strategic About Price

% of Companies that Become Leaders When the Economy Improves
Based on Type of Response During the Great Recession

- 15% Maintain Strategy and Tactics
- 21% Cut Costs and Price
- 26% Invest in Marketing and R&D
- 37% Drive Operational Efficiency and Value Proposition

*Leaders Are Those Companies That See Sales and Profit Growth >10% Above Competition*

Artificial Intelligence and Machine Learning Make it Feasible to Take the Required Granular View and Avoid Those Broad Tactics

**IRI’s Automated Decision-Making Framework**

**Opportunity Identification (Watches)**
“Where are the most important areas to focus?”
- Flag retailer-specific price and promo actions based on continually evolving algorithms.
- Quantify impact of pursuing each opportunity.
- Prioritize price and promo moves that provide greatest sales and margin gains.
- Triggered via a set of user-defined, model-driven, and AI / ML-identified parameters.

**Opportunity Analysis**
“What else should I know about the landscape?”
- Understand trends, dynamics, and rationale behind recommendations.
- Integrate cost drivers and promo spend to determine feasibility.
- Provide instant feedback on recommendation relevance and accuracy.
- Seamlessly collaborate with others around key insights and decisions.

**Opportunity Optimization**
“How best should I take action?”
- Leverage best-in-class solutions to simulate impact of price and promo changes for both manufacturers and retailers.
- Test different strategies to find a win-win for both.
- Clearly understand impact to financial, consumer and competitive objectives.
- Balance short-term financial gains with competitive positioning.

**Opportunity Tracking and Alerts**
“Where do I have gaps in performance?”
- Measure results of price and promo shifts.
- Monitor core and / or custom metrics, including retailer compliance, competitive shifts across banners and products.
- Understand cause of variance from plan, and course-correct as necessary.
- Investigate employing contingency plans to close gaps.

Source: IRI Strategic Analytics
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Leverage a Granular View of Price Sensitivities to Optimize Revenue and Profit Growth

Takeaways on Price Sensitivity

VARIED RESPONSE
- A recession impacts each aisle very differently; not every manufacturer will see true pricing pressure from shoppers
- Categories aligned with at-home consumption will see an upturn

FOCUSED INVESTMENT
- Different brands will prove more or less durable to recessionary behaviors
- Responses have to account for the inherent brand equity and ability to maintain pricing, despite a contraction in shoppers’ wallets

PATH FORWARD
- Manufacturers need to know their pricing sensitivity at a granular level, allowing them to focus investments only where they are absolutely necessary
- A broad-brush approach to cutting price during a recession is least effective and hinders long-term growth
Before cutting price, manufacturers should investigate their total value proposition, capitalizing on other levers to appear as a stronger deal vs. competition.

What Strategies Improve the Value of My Brand?
Shoppers Weigh Purchase Decisions on Total Value and How Well a Brand Meets Specific Needs

Consumer Snacking Sentiment During the Great Recession / Example Snacking Category

During the Last Economic Downturn, Two Distinct Consumer Snacking Mindsets Emerged…

Healthy Eating

- 32% of consumers said snacks are an important part of a healthy eating plan throughout the day.
- Healthy snacking played a key role in eating for nutrition that would ultimately aid in diet goals and help save on medical expenses.
- Healthy snacks grew +3% in dollar sales from 2008-09, and +1% in volume.

Indulgence

- 60% of consumers said snacks are often eaten for enjoyment, not hunger.
- Indulgent snacking products helped fulfill a social and entertainment role, as well as a being thought of as a “treat.”
- Indulgent snacks grew +4% in dollar sales from 2008-09, and lost -1% in volume.

...and Consumers Made Decisions Based on Total Value Realization for These Two Mindsets

80% of consumers are actively looking for the best value when buying snacks.

“VALUE” is increasingly complex

Communicating value is critical to retaining customers who are looking to reduce their spend and trade down to cheaper goods.

How Brands Focus on Total Value to Grow Margins

Oreo has been particularly successful at driving up both prices and margins…

**Traditional Oreos**
The basic, classic cookie sells at $0.18 per ounce in Walmart

**Oreos Thins**
Capitalizing on the desire for a more healthy, portion-controlled alternative, Thins sell at $0.30 per ounce

**Fudge-Dipped Oreos Thins**
Responding to shopper tastes with a fudge-dipped variety increased the price to $0.56 per ounce (3x the price of traditional Oreos)

…while even brands that have had recent difficulties, like Hostess, are seeing key wins

**Twinkies**
The lunchbox mainstay sell at only ~$0.20-$0.25 per ounce

**Bakery Petites**
Similar products, with better packaging and frosting, sell at $0.47 per ounce

Source: IRI Growth Consulting analysis.
Package Messaging Plays a Critical Role in Value Proposition

Despite a Price Increase, the Brand’s Volume Sales Increased More Than 20% Since the Messaging Shift

When a manufacturer acquired a niche shampoo, the brand itself had grown stale, with only a few consumers recognizing its value…

“Controls flaking, scaling, and itching”

Most consumers who saw the messaging on a bottle thought…

“That just means it’s dandruff shampoo.”

“That doesn’t explain why it’s 3x the price of competitors.”

…but claims of treating causes, not just symptoms, drove premium pricing across OTC products.

New message:

“Kills the root causes of dandruff vs. many shampoos that just address symptoms.”

New messaging capitalized on examples of success across multiple OTC categories, and differentiated the brand from competitors.

Source: Disguised Client Example

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A Total Value Approach Works in Good Times and Bad

While the approach to value does not change, features and benefits shoppers value most are very likely to be different during a recession, requiring manufacturers to revisit their total value proposition.

Certain Manufacturers Were Successfully Able to Take Price During Recession Without Significant Impact on Sales

During the Great Recession, raw cocoa prices were on the rise, forcing many chocolate confectioners to increase prices on their products.

<table>
<thead>
<tr>
<th>Total Chocolate Category</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Price per Volume (% Chg. 2008 vs 2007)</td>
<td>6.0%</td>
</tr>
<tr>
<td>Unit Sales (% Chg. 2008 vs 2007)</td>
<td>-3.8%</td>
</tr>
<tr>
<td>Dollar Sales (% Chg. 2008 vs 2007)</td>
<td>2.2%</td>
</tr>
</tbody>
</table>

Others Were Able to Reformulate How They Provide Value to Grow Price / Mix During an Economic Downturn

Many confectionery manufacturers took the opportunity to boost value by entering the premium segment.

While companies like Mars provided value by launching other premium flavors like raspberry almond and mint chocolate.
Total Value Proposition Also Requires Attention to Product Development and Category Management

The traditional approach sees pricing enter the process in later stages...

1. Identify potential gaps in category offerings
2. Short-list which features / sizes / claims will fill those gaps
3. Test product concepts with those features
4. Finalize product design
5. Determine the price position for the product
6. Design marketing message and copy
7. Develop final price based on position, messaging, support, and retailer needs
8. Secure retailer support

...but a progressive approach introduces product development and category management almost from the beginning

1. Identify potential gaps in category offerings
2. Short-list which features / sizes / claims will fill those gaps, channel by channel
3. Quantify willingness to pay for each of those features, specific to brand and competition
4. Prioritize features with higher willingness consumers will pay for brand to avoid competitor’s simply copying
5. Ensure strong margins by comparing willingness to pay vs. cost to include
6. Finalize product design and acceptable price range based on meeting overall financial goals
7. Test final product at different price ranges, along with different messaging, pack size, and copy
8. Build out full package (price, messaging, etc.) based on business case impact across choices
9. Secure retailer support
Especially During a Recession, Strategically Cutting Manufacturing Costs and Passing Savings on Can Boost the Bottom Line

Premium Juice Manufacturer Case Study

Though often overlooked, many product elements substantially increase manufacturing costs...

- Lower-sugar variants $0.10 per 6-pack
- Convenience via a Sports Cap $0.60 per 6-pack
- 12oz vs. 8oz Bottle Size $0.20 per 6-pack
- 2 Extra Bottles per Package $0.40 per 6-pack

...but some, like the sports cap, had little impact on shopper perception, adding only $0.06 to their willingness to pay

Manufacturer saved $0.60 in production costs per 6-pack, and passed on a $0.30 price cut, both improving the value proposition and margins.

Overall approach of selecting desired product elements while eliminating unproductive ones allowed manufacturer to beat volume goals by 149% and profit by 50%.

Source: Disguised Client Example
Leverage Strategic Ways of Boosting Value that Don’t Include Price Cuts

Takeaways on Value Proposition

**TOTAL VALUE**

- During a recession, the vast majority of shoppers focus on the total value of an offering, not just price
- Total value includes key components like brand, level of indulgence / enjoyment and nutrition / wellness benefits, in addition to pricing and discounting

**BALANCED APPROACH**

- Growing the value proposition requires a balanced approach, making tradeoffs between product benefits, messaging options, pack size / format and pricing
- During a recession, the features and benefits shoppers value most changes, but the approach does not

**PATH FORWARD**

- Manufacturers need to investigate lower-cost product benefits and messaging options that will reduce price sensitivity before they consider cutting prices
- Cutting costs by streamlining features that drive less value will fund potential investments in either strengthening the benefits or, if still absolutely necessary, cutting price

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Above all, manufacturers must align with retailer partners to support total value proposition and maintain price compliance.

What are Best Practices for Maintaining Retailer Alignment?
Grocery prices are beginning to go up across departments...

...but increased costs are more than offsetting gains

Labor forces are growing exponentially to meet demand

Instacart plans to hire 300,000 new personal shoppers, while Amazon sees a need for 175,000 new workers and plans to spend the entirety of next quarter’s earnings on COVID-related expenses

Brick-and-mortar operations are seeing increased costs

Walmart is extending store hours for pickup and delivery, while Kroger rededicates existing stores for online pickup only

Online shopping still has its limits...for the retailer

With increased credit card use, fees to banks continue to erode margins, while high-margin impulse purchases are almost nonexistent

For more information, check out the IRI CPG Inflation Tracker™ by CLICKING HERE.
Retailers Grapple with Increased Costs, Often Shifting the Burden to Manufacturers

Retailer Responses to the Great Recession

Grew Private Label Assortment
- To maintain alignment with changing shopper spending patterns, retailers shifted shelf space to private label
- 810 new private label brands started during the Great Recession, many of which are still on-shelf

Cut Prices to Compete with Discounters
- Value-oriented outlets thrived, putting downward pressure on prices
- With already slim margins, the largest retail chains pressured manufacturers to cut list price

Drive Large-Scale Promo Events Storewide
- Retailers sought storewide themes to drive traffic and consolidate purchases in their banners
- Manufacturers had to invest more just to maintain parity with their broader category

Manufacturers saw more pressure to cut price and increase promo funding in the face of greater competitive threats and shrinking share of shelf during the last recession.

Source: IRI Growth Consulting Analysis
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Adopt a 4-Step Process to Avoid Retailer Price-Equity Erosion, Maintain Pricing Compliance During a Recession

IRI’s Approach to Maintain Retail Pricing Discipline

STEP 1: Identify Insensitive Products
- Take the Insensitive Portion of Your Portfolio Off the Table
  - Segment portfolio by level of elasticity
  - Calculate the impact to both your financials and the retailer’s from cutting price in each segment
  - Demonstrate the negative impact for both parties from cutting price on inelastic items

STEP 2: Find Alternatives to Just Cutting Price
- Drive Up Willingness to Pay or Pair Price Cuts with Cost Reductions
  - Investigate potential product and positioning opportunities to reduce price elasticity
  - Compare the benefit and effort of these positioning opportunities against potential cost reduction opportunities
  - Prioritize the best tradeoffs, and narrow the list where price cuts alone are still necessary

STEP 3: Prioritize Non-Price Negotiation Levers
- Provide Financial Incentive Without Hurting Price Equity
  - Identify key retailer concerns beyond price during a recession (e.g., payment terms, trade agreements)
  - Quantify the potential cost for offering alternative options against the cost of cutting price
  - Set up negotiating levers and contingencies

STEP 4: Drive Compliance
- Build Alignment by Telling Retailer Partners What’s in it for Them
  - Build a specific plan, retailer by retailer, across all three previous phases
  - Craft a compelling sell-in specific to each retailer, showcasing how the plan drives a broader strategy and vision
  - Showcase the financial benefit for them, including potential contingencies, articulating how you will help achieve it
### Approach Pricing Compliance from the Retailer’s Lens

**Narrow the focus on items that are truly price sensitive, as >90% of items may not play a substantial role in driving price image.**

<table>
<thead>
<tr>
<th>Brand</th>
<th>% of Retail SKUs Serving as Price Image Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brand A</td>
<td>2.5%</td>
</tr>
<tr>
<td>Brand B</td>
<td>3.9%</td>
</tr>
<tr>
<td>Brand C</td>
<td>5.4%</td>
</tr>
<tr>
<td>Brand D</td>
<td>5.9%</td>
</tr>
<tr>
<td>Brand E</td>
<td>6.2%</td>
</tr>
<tr>
<td>Brand F</td>
<td>6.7%</td>
</tr>
<tr>
<td>Brand G</td>
<td>7.3%</td>
</tr>
<tr>
<td>Brand H</td>
<td>8.9%</td>
</tr>
</tbody>
</table>

Note: Price Image Items are items proven to be price sensitive with substantial enough volume to set a brand’s overall price image with shoppers.

Source: Disguised Client Examples from prior IRI Consulting Engagements.
Key Tactic to Mitigate Price Cuts is Driving Up Overall Value Proposition

Reinforcing Price & Value: Improving the Value Proposition Does Not Necessarily Require Driving Up Costs

Not only did a brand of juice find that protein commands a premium, they determined how to maximize it...

- Ensure shoppers see the juice is opaque, like a protein shake
- Prominently display the word “protein” close to the brand logo
- Highlight exceeding the 25g threshold
- Speak of a “blend,” to demonstrate multi-source delivery
- Reiterate “No Sugar Added”
- Combine “blend” with images of non-dairy protein sources

Avg. Non-Promoted Protein Price: $3.59
Avg. Non-Promoted Smoothie Price: $3.19

...and a related 2014/2015 price increase still saw sales growth for the protein variant, while increasing profits >40% on its UPCs

### Annual Sales $ by Sub-Brand

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Protein Variant</td>
<td>$433</td>
<td>$74</td>
</tr>
<tr>
<td>All Others</td>
<td>$507</td>
<td>$608</td>
</tr>
<tr>
<td></td>
<td>$529</td>
<td></td>
</tr>
</tbody>
</table>

Source: IRI POS Database, CY 2013 vs. 2016, MULO+C IRI Growth Consulting analysis / Disguised Client Case Study
Often Manufacturers Must Balance Consumer Concerns with Retailer Opportunities

Just as Consumers Change Their Priorities in a Recession, So Do Retailers and Manufacturers Can Help Meet Their Non-Price Financial Needs

**PAYMENT TERMS**

Offer Lenient Payment Terms

If financial situation allows, offer lenient payment terms such as longer payment windows. A mutually beneficial way this can be achieved is through settlement discounts where retailers can receive a financial incentive for earlier payments.

**ONLINE ORDERING**

Better Facilitate Online Ordering

Consider offering more flexible and dynamic ways for retailers to sell your products. Ease some of their challenges of making the shift to online sales, especially for smaller retailers that could greatly offset the potential costs involved in going omnichannel.

**RETAILER DISTRIBUTION**

Use Retailer Distribution Services

The industry has been increasingly shifting toward a retailer-centric distribution model. Consider signing up for this service, allowing your products to be integrated into retailer supply chain and creating efficiencies for both parties.

Source: Launch, Grow, Joy; DotActiv. IRI Consulting Analysis.
Elements of a Successful Sell-In Story

**Category Essentials – What is changing?**
- Establish credibility as an expert in the evolution of the category, shopper, and portfolio
- Highlight potential for improvement and/or areas of misalignment

**Retailer Objectives – Why is it important to us?**
- Demonstrate understanding of overall retailer goals and initiatives and how the economy impacts them
- Link category/shopper/portfolio success to the broader department or chain during the recession

**Retailer Performance – What needs to change?**
- Sum up where current practices (even beyond pricing and offerings) are falling short
- Align on the opportunity areas, showcasing how current or desired tactics underperform for them, too

**Category Vision – What is the change?**
- Introduce the desired state, starting from the strategy and role for the category during the downturn
- Illustrate how the portfolio and the desired changes play their part in that overall vision

**Benefits Case – What’s in it for the retailer?**
- Articulate the financial and non-financial benefits for retailer and the overall category
- Share actions you will take to help the retailer realize these benefits

Source: IRI Growth Consulting Analysis
Present a United Front With Retail Partners; Demonstrate Where Price Cuts Will Hurt Them and Achieve a Win-Win

**Takeaways on Retailer Perspective**

### MARGIN CRUNCH
- As shoppers shift to online sales, retailers are seeing costs spike, offsetting any recent price gains
- Given their slim margins, retailers will pressure manufacturers to help fund the tactics they typically employed during past recessions

### UNIFIED FRONT
- Getting retailers aligned requires manufacturers to actively showcase where desired price cuts will hurt the retailer’s business
- As in times of economic growth, tactics for a recession need to align with an overarching strategy and vision, as well as drive a win-win for both the manufacturer and retailer

### PATH FORWARD
- Manufacturers should try to narrow the retailer focus just to those items that will actually drive benefit from price cuts and work to strengthen the total value proposition
- Just as critical as consumer needs, manufacturers can include financial incentives for retailers outside of cutting list price, such as extending payment terms, where appropriate

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Section 5
How IRI Can Help

IRI is well-positioned to help manufacturers adopt a total value approach and create a compelling case for retail.

Looking Ahead…
How IRI Can Help
IRI Offers Solutions and Services to Drive Pricing Discipline in a Downturn, from End-to-End Consulting to Automated Alerts and Granular Analytics

**IRI's Precision Pricing Solutions**
- Delivers a fully automated personalized decision-making platform
- Harnesses IRI’s advanced store-level price and promo modeling to determine granular, retailer-specific impacts
- Simulates full category results from pricing and promo actions
- Allows contingency and scenario planning, along with ongoing monitoring and tracking

**IMPACT**
- >5% growth in sales
- >10 ppts gain in trade ROI
- Up to 5% growth in margin
- 5-10% retail category growth

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**Portfolio Profitability Consulting**
- Provides end-to-end guidance to strengthen value proposition
- Chooses most profitable opportunities among pricing, pack size, messaging, and innovation
- Grows both top and bottom line while also driving market share
- Builds win-win for retailers and manufacturers to drive engagement and compliance

**IMPACT**
- >10% growth in sales
- 10-20% reduction in COGS
- >5% margin gains
- Up to 10% category growth

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**Segment-Specific Pricing Optimization**
- Enables more strategic pricing based on securing longer-term shopper loyalty
- Targets price and promo opportunities that resonate with most valuable shoppers
- Strengthens position as a strategic advisor to retail
- Decomposes price and promo elasticity across consumer segments

**IMPACT**
- 5-10% growth in sales
- 5 ppts gain in trade lifts
- 5-10% increased conversion
- Up to 10% gains in basket size
IRI Provides a Full Spectrum of Precision Pricing Solutions

AUTOMATED DECISION-MAKING PLATFORM

Setup & Management Interface
Subscribe – Personalize – On Demand

Question & Query Interface
Voice – Conversation – Natural Language

Collaboration Interface
Workflow – Prioritization – Feedback

Monitor Performance (Alerts)
Identify Opportunities (Watches)
Capture Value (Solutions)

Security & Permissions

Business Rules

Share / Sales Drivers
Price Intelligence
Post-Event Analysis
Segment-Specific Promotion Optimization

Price Mix Analysis
Price and Trade Planning
Promotion Planning
Innovation Pricing and Promotion

REVENUE MANAGEMENT SUITE*

INTEGRATED ECOSYSTEM
Infrastructure – Data – Science
Precision Pricing Solution Leverages Artificial Intelligence and Machine Learning Algorithms to Uncover Granular Pricing and Promo Opportunities at Scale

Alert notifications trigger the need for analysis and action across all revenue management levers…

...then organizes the output across all levers into a single view, prioritized by business impact
**Business Value Drivers:**
Diagnose Business Performance for Optimal Results

- Interactive dashboard to help pinpoint key growth and loss opportunities by geography and retailer
- Understand the source of dollar, volume and unit changes related to base and trade drivers or due-to’s
- Identify the impact of competitor (cannibalistic / synergistic) price, promotion and distribution activities on your own product and portfolio
Price & Trade Advantage:
Accurately Simulate and Determine Ideal Prices

- Simulate the volume, dollar and profit impact of various pricing and promotion scenarios
- Analyze own and competitive impacts
- Understand retailer price compliance and key price points
- Cycle through various scenarios and compare outcomes to determine the best tactics
Trade Planner:
Streamline Trade Planning and Improve Decision Making

Event Planning Calendar Module:
• Centralize planning for all trade events and accounts
• Immediately understand implications of trade activity
• Compare alternatives of plans and events to realize the best course of action
• Share plans between users and accounts to leverage and replicate success

Create Trade Plans that Maximize CPG and Retailer Goals and Apply That Success Throughout the Portfolio
Trade Planner:
Streamline Trade Planning and Improve Decision Making

Post Event Analyzer Module:

- Overlay measured incremental volume by trade condition from POS data
- Time align event dates and measured volume to calculate precise ROI
- Update cost components like Fixed Cost, Scan Allowance, OI Allowance etc., to see the impact on ROI

Analyze Trade Events and Calculate Manufacturer and Retailer Profitability and ROI
Portfolio Profitability Consulting Guides IRI Clients’ End-to-End, Making Tradeoffs, Selecting Most Cost-Effective Options to Strengthen Brand Value Propositions

Shift Price to Better Meet Needs
- Provides simplest and fastest option to alter value proposition
- Price cuts are most risky option, as changes are most visible to shoppers
- Price cuts, particularly going into a recession, will weaken recovery

Shift Pack Size to Alter the Occasion
- Softens the negative impact while still offsetting higher costs
- Needs additional primary research / simulations to predict impact
- Introduces additional risk to overall volume sales from consumption changes

Refine Positioning and Messaging
- Drives significant benefit without additional large investment
- Helps better tailor brand to the desired consumer segment
- Runs the risk of alienating existing loyal shoppers and consumers

Innovate to Grow Willingness to Pay
- Offers longer-term competitive advantages while improving margin
- Requires significant expertise and research to ensure correct decisions
- Delays benefit gain, which requires significant funds to stay the course
Segment-specific pricing optimization quantifies impacts from price and promo changes on the most valuable shoppers via loyalty card data.

Segment-level price sensitivities can determine price and promo impacts across brand loyalties...

<table>
<thead>
<tr>
<th>Incremental sales from promotions</th>
<th>Brand A</th>
<th>Brand B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loyals</td>
<td>26%</td>
<td>5%</td>
</tr>
<tr>
<td>NonLoyals</td>
<td>10%</td>
<td>17%</td>
</tr>
</tbody>
</table>

Target Brand Loyals to maximize lift and improve loyalty.

Target Brand NonLoyals to maximize lift and drive brand conversion.

Illustrative Examples:

- **Incremental sales from promotions for Brand A**:
  - Loyals: 26%
  - NonLoyals: 10%

- **Incremental sales from promotions for Brand B**:  
  - Loyals: 5%
  - NonLoyals: 17%

...as well as across generations or other demographics to target shoppers critical to manufacturer or retailer objectives.

**Volume Impact of 10% Decrease in Price Index vs. All Shoppers Base Price Change Category**

- **Millennials**:
  - Base Price: 84
  - TPR: 98
  - TPR + Feature: 104
  - TPR + Display: 106
  - TPR + F&D: 111

- **GenX**:
  - Base Price: 115
  - TPR: 122
  - TPR + Feature: 126
  - TPR + Display: 126
  - TPR + F&D: 126

- **Boomers**:
  - Base Price: 182
  - TPR: 182
  - TPR + Feature: 182
  - TPR + Display: 182
  - TPR + F&D: 182

- **Retirees**:
  - Base Price: 355
  - TPR: 325
  - TPR + Feature: 330
  - TPR + Display: 330
  - TPR + F&D: 330

**Millennials are less sensitive to base price changes but react strongly to merchandising, especially feature & display strategies.**
Insights and Strategic Guidance for Better Decisions

IRI’s Online Resources Include Real-Time Updates and Weekly Reports Which Track the Impact of the Virus on CPG and Retail

The IRI COVID-19 Info Portal
Includes COVID-19 impact analyses, dashboards and the latest thought leadership on supply chain, consumer behavior, channel shifts for the U.S. AND international markets

The COVID-19 Dashboard and The IRI CPG Demand Index™
Accessibile through the insights portal and tracks the daily impact of COVID-19. This includes the new IRI CPG Demand Index™, top selling and out of stock categories across countries, and consumer sentiment on social media.