Shopping in times of inflation

Presentation for UBA
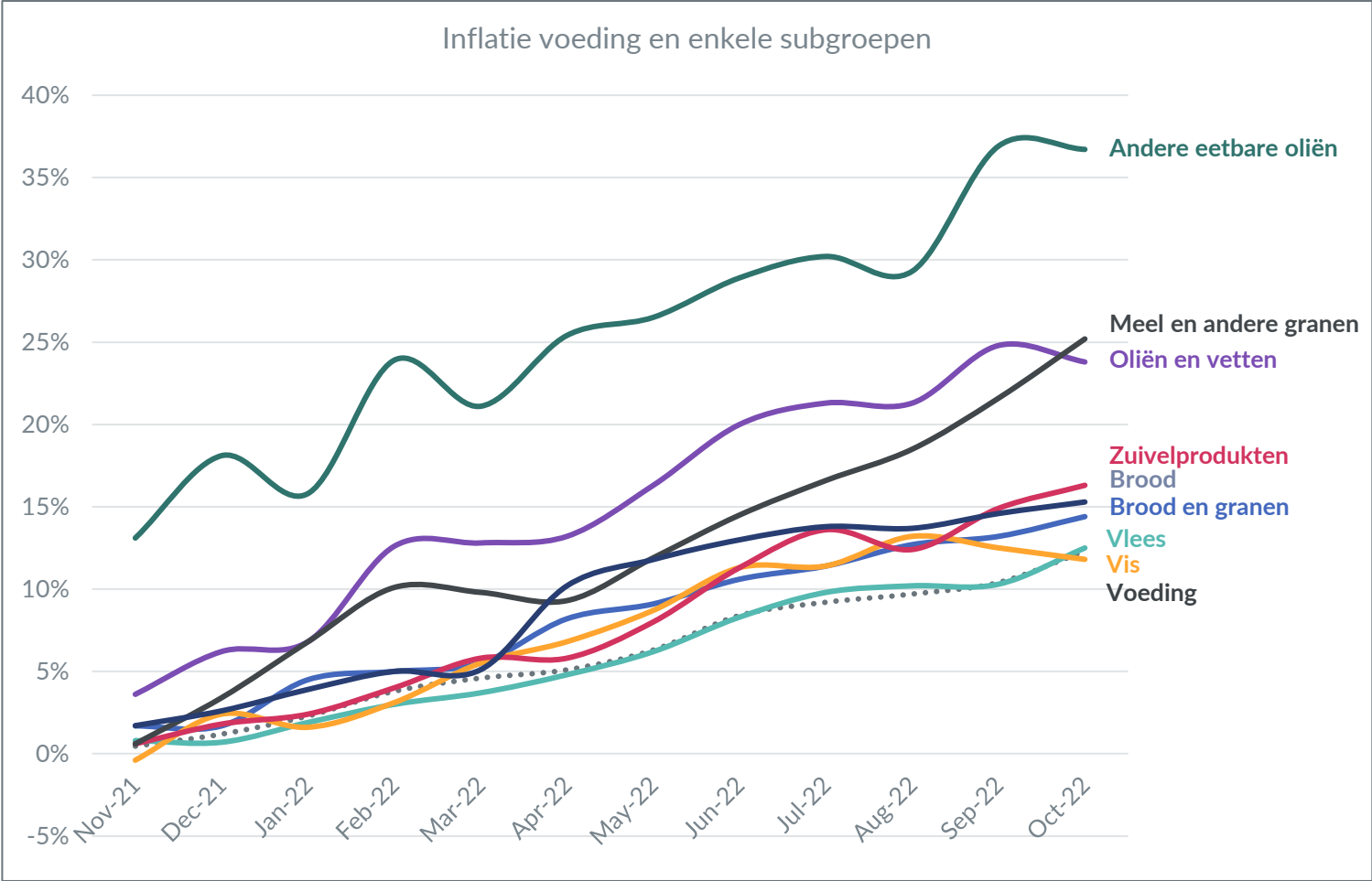
Tom Cornelis
GfK Belgium
16 November 2022

GfK
Growth
from
Knowledge

Belgian inflation passed the 10% threshold last September

Kerninflatie en inflatie zonder energie

12,27%
6,97%
6,50%

Inflatie (%)

● Inflatie   ● Inflatie zonder energie   ● Kerninflatie
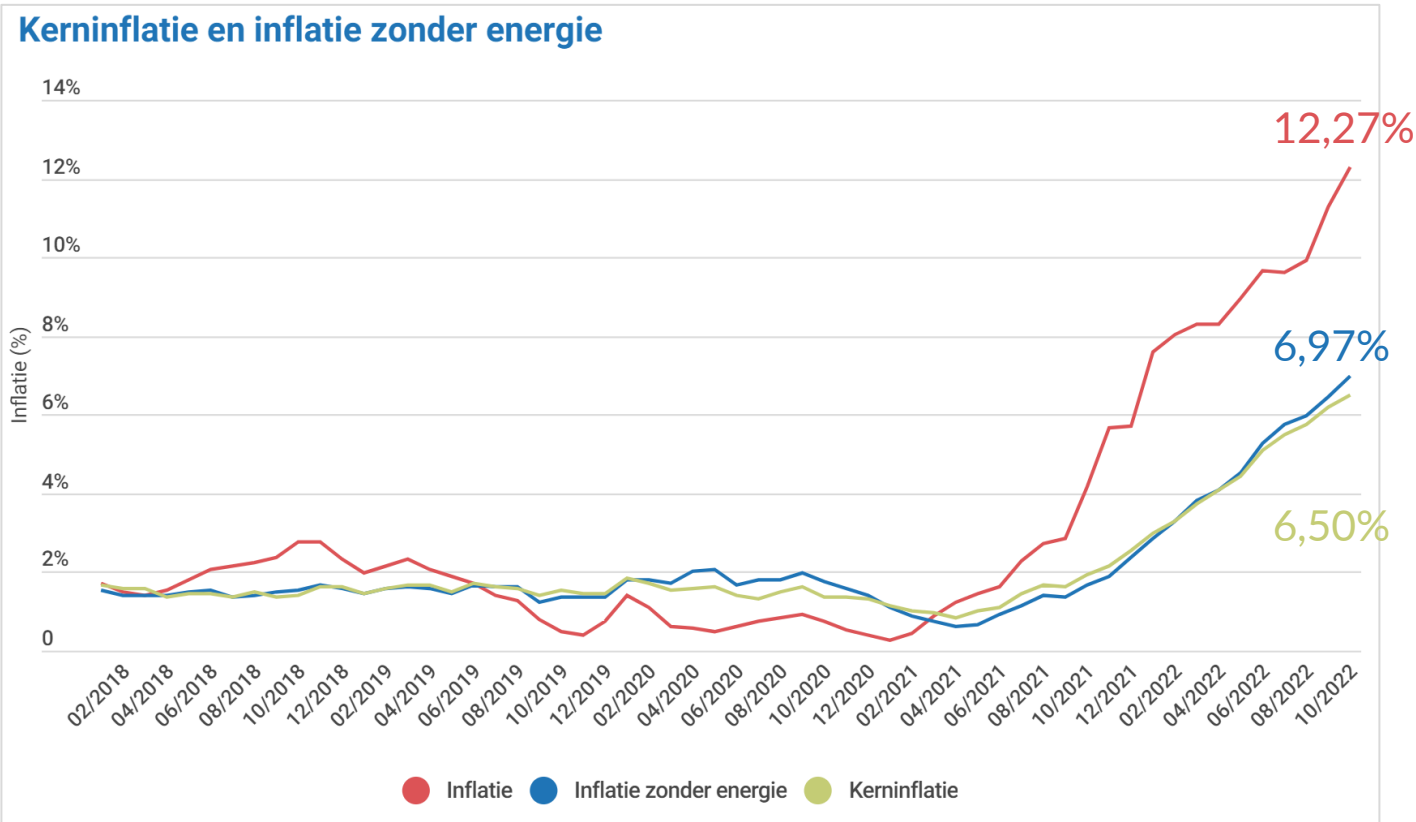
Source : Statbel

Food inflation has reached 12,3% (versus 0,47% last year)

Inflatie voeding en enkele subgroepen

- Andere eetbare oliën
- Meel en andere granen
- Oliën en vetten
- Zuivelprodukten
- Brood
- Brood en granen
- Vlees
- Vis
- Voeding

Rising food prices contribute to 18,5% of the current inflation level

Bijdrage tot de inflatie van de 12 hoofdgroepen (Oktober 2022)

Huisvesting, water, elektriciteit, gas en…	5,93
Voeding en niet-alcoholische dranken	2,27
Vervoer	1,73
Hotels, restaurants en cafés	0,54
Diverse goederen en diensten	0,49
Recreatie en cultuur	0,46
Meubelen, huishoudelijke apparaten en…	0,34
Kleding en schoeisel	0,25
Alcoholische dranken en tabak	0,16
Gezondheid	0,08
Onderwijs	0,01
Communicatie	0

Source : Statbel

Households are at risk of seeing their energy bills become higher than their annual FMCG spend

Annual Spend per Household

8.000 €
7.000 €
6.000 €
5.000 €
4.000 €
3.000 €
2.000 €
1.000 €
0 €

Jan-20, Mar-20, May-20, Jul-20, Sep-20, Nov-20, Jan-21, Mar-21, May-21, Jul-21, Sep-21, Nov-21, Jan-22, Mar-22, May-22, Jul-22, Sep-22

FMCG — Electricity* — Natural Gas* — Electricity + Natural Gas*
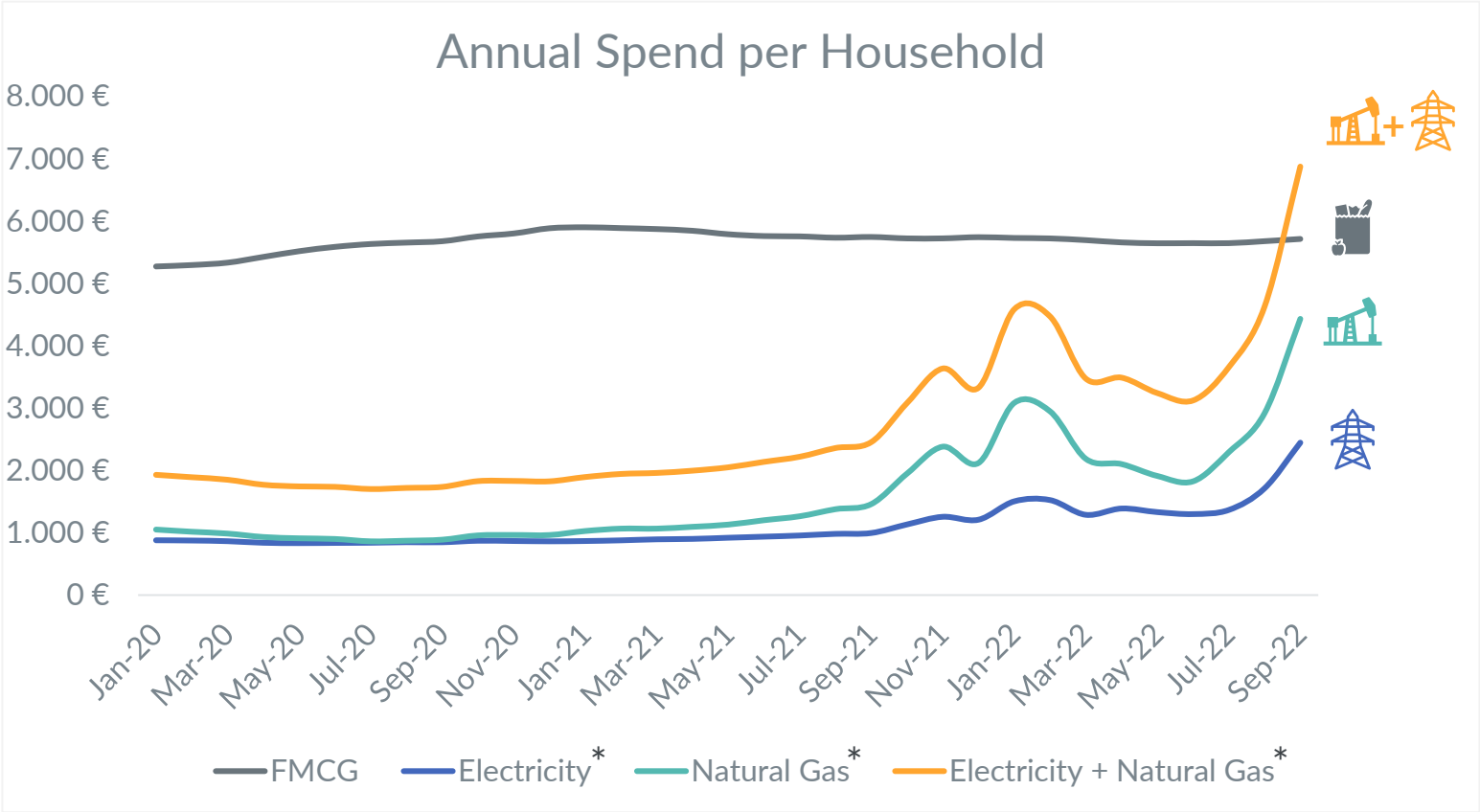
* Source : VREG – (average (expected renewal) spend for a HH (excl social tarief))

© GfK

5

The inflation gap with France and Germany further grows

HICP-CT

Inflatie (%)

Legend: ● België ● Duitsland ● Frankrijk ● Nederland

X-axis: 02-2015 ... 08-2022
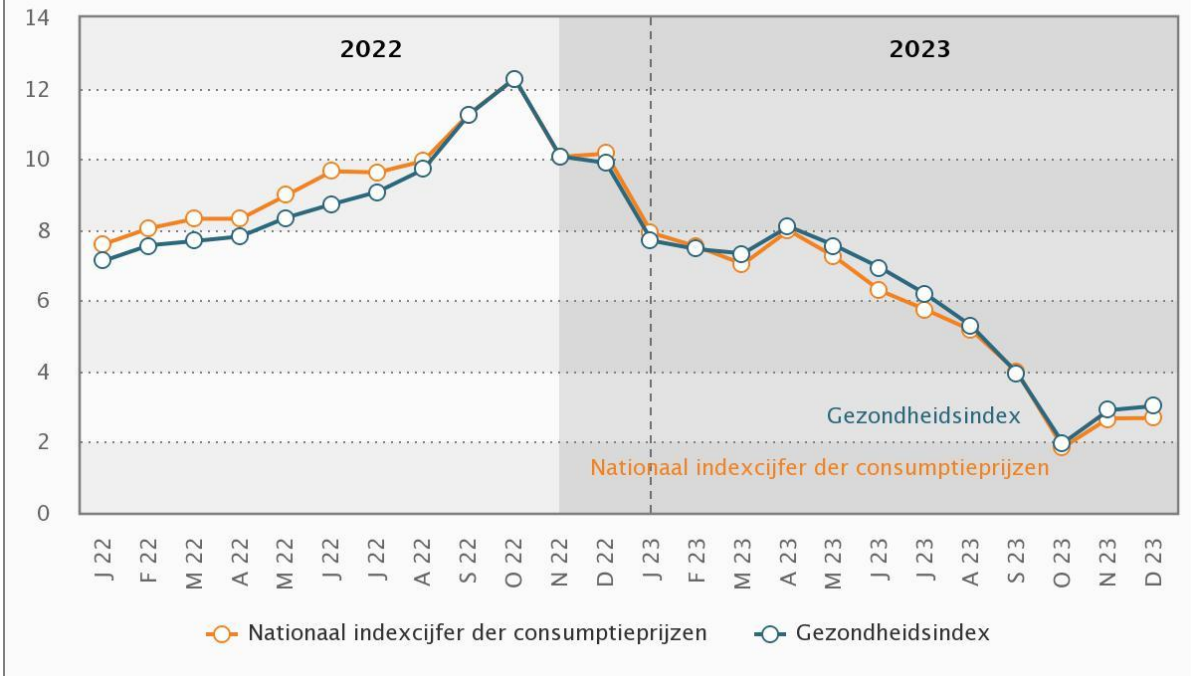Y-axis: -2% to 18%
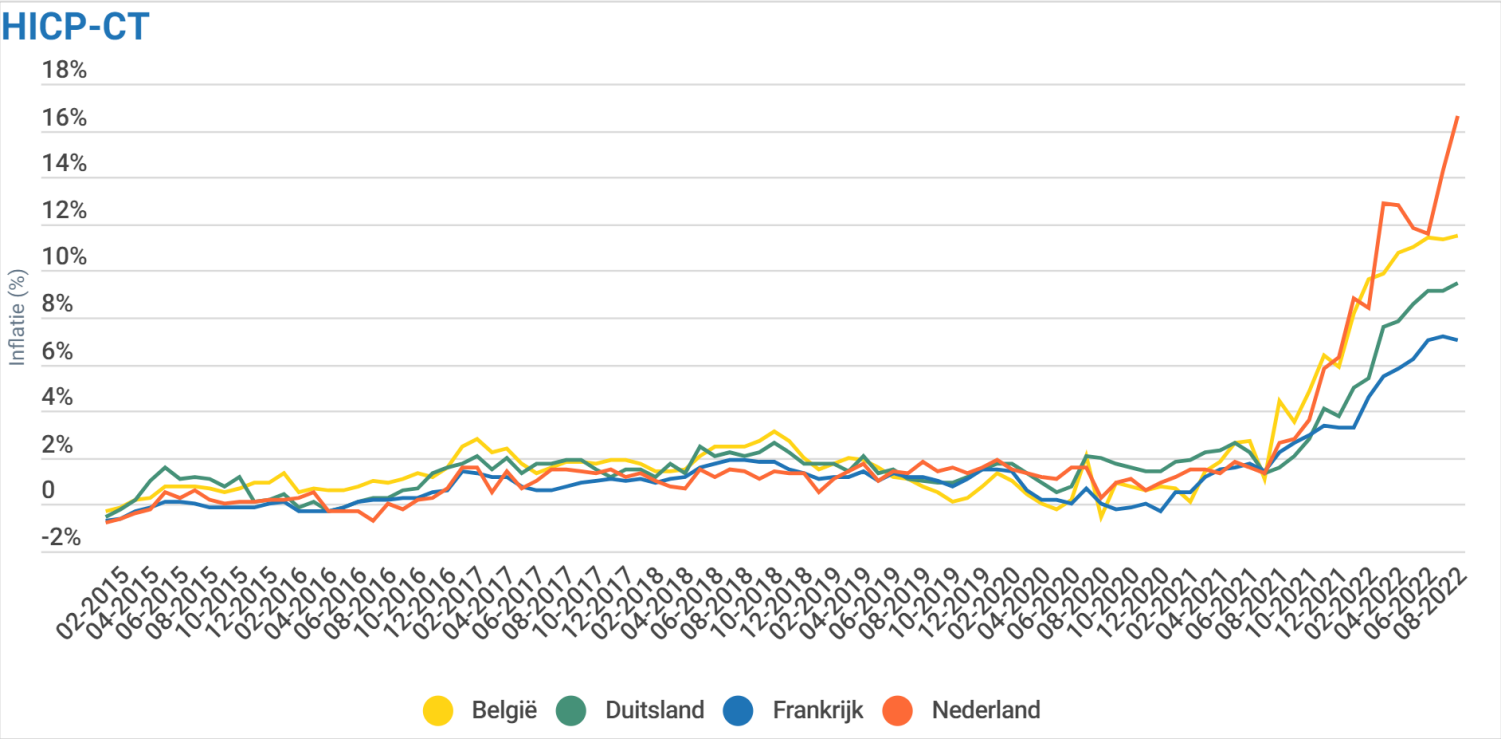
**→ Inflation outlook 2022 : 9,5% , 2023: 5,4%**

→ Health index 2022 : 9,1% , 2023: 5,6%

Maandelijkse evolutie van de inflatie

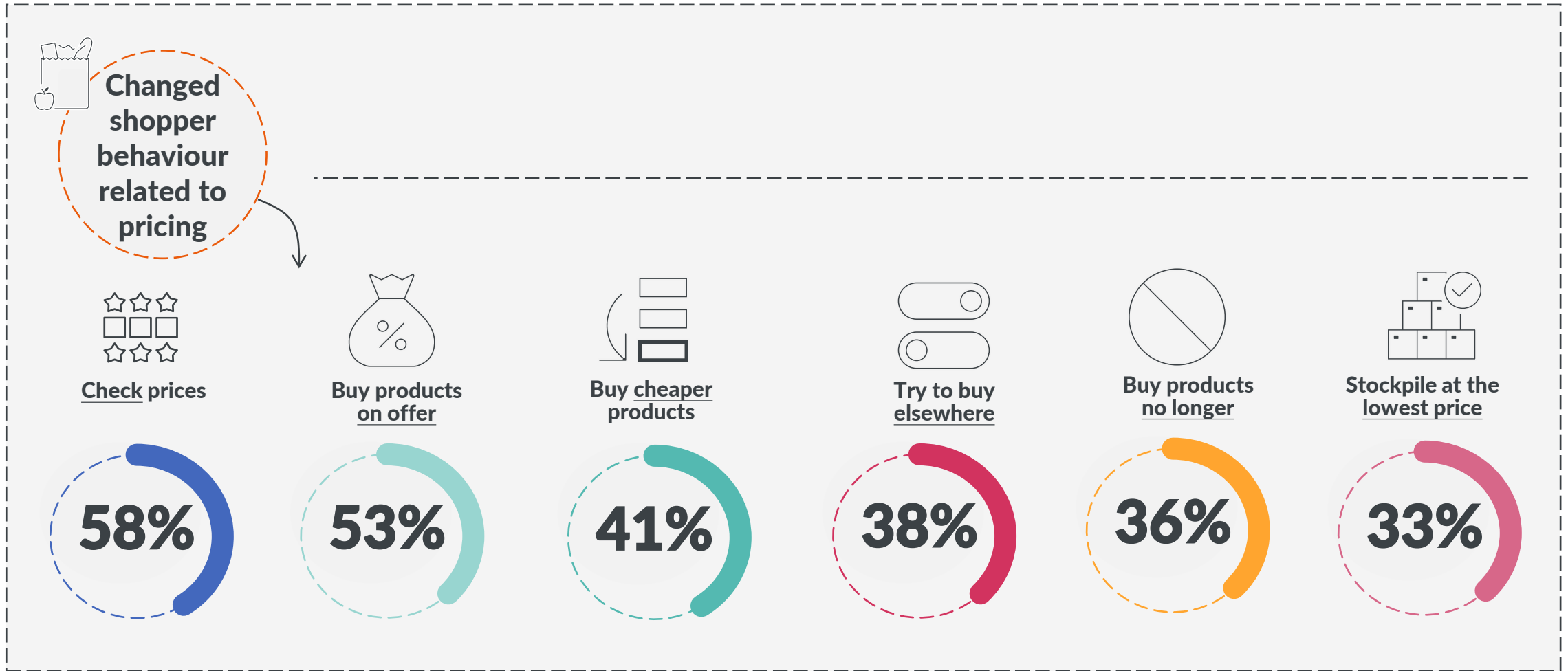jaar-op-jaargroei in %, waarden in de grijze zone zijn vooruitzichten

Gezondheidsindex

Nationaal indexcijfer der consumptieprijzen

—○— Nationaal indexcijfer der consumptieprijzen   —○— Gezondheidsindex

Location, lifestyle and price – factors impacting shoppers' behavior

Exposure factors & coping strategies
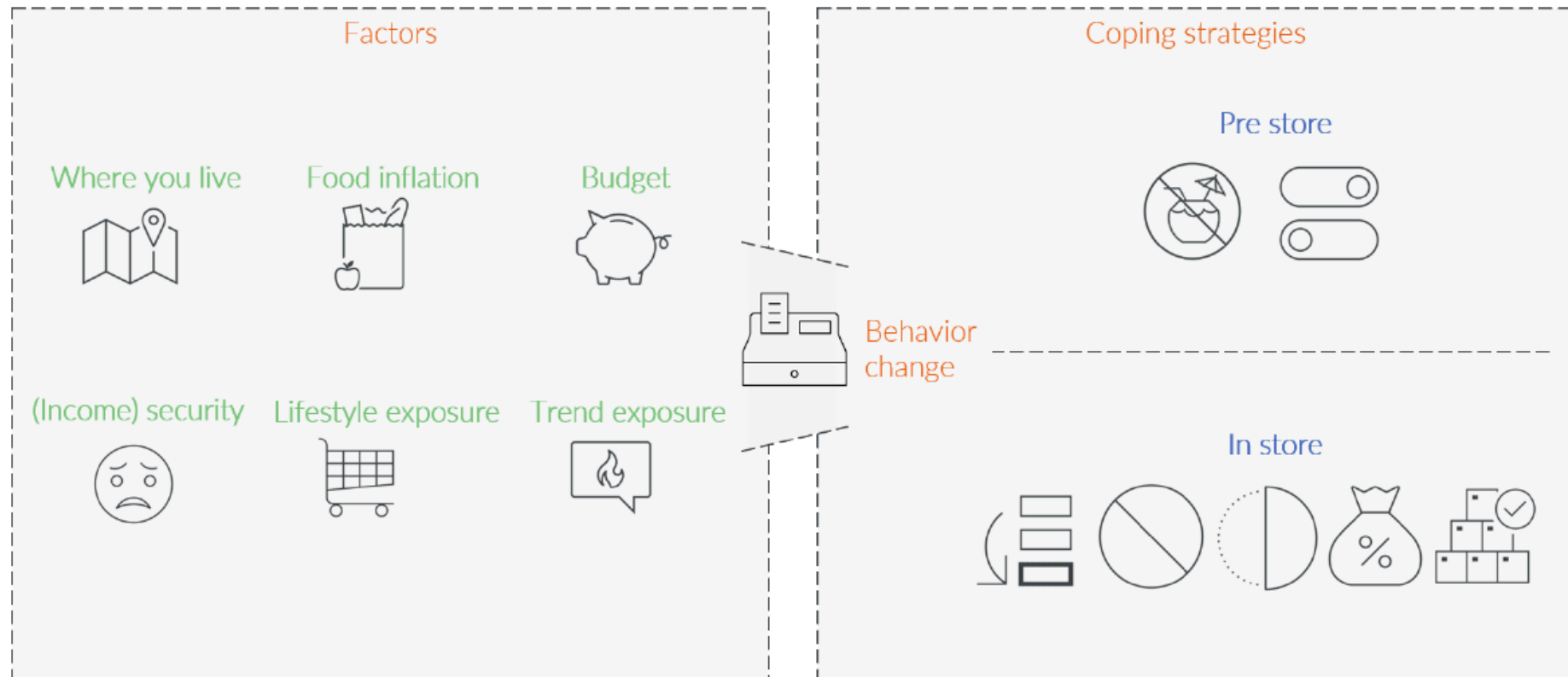
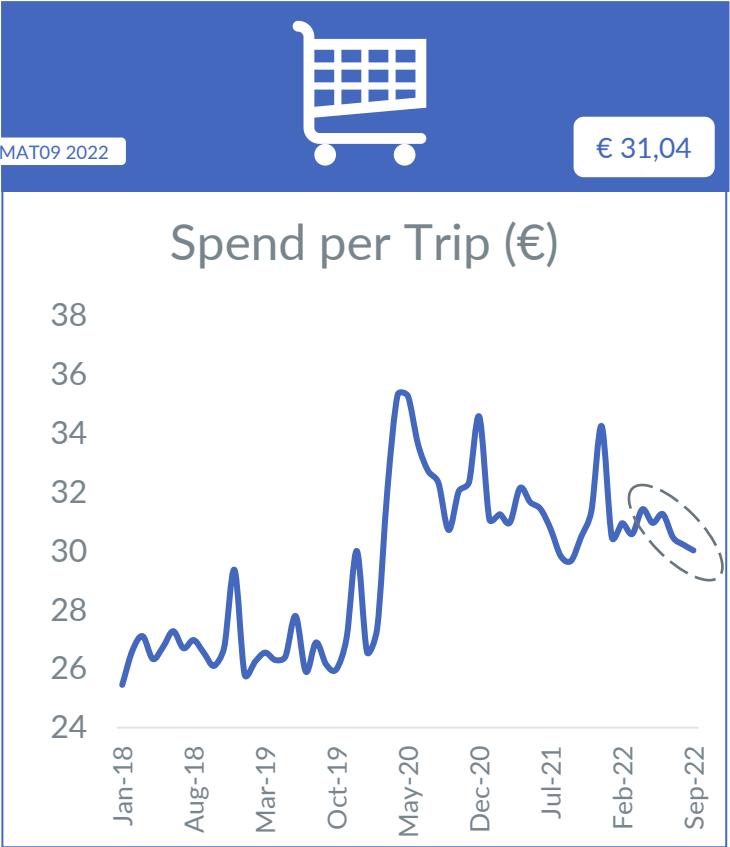# Belgian shoppers check much more on prices and offers

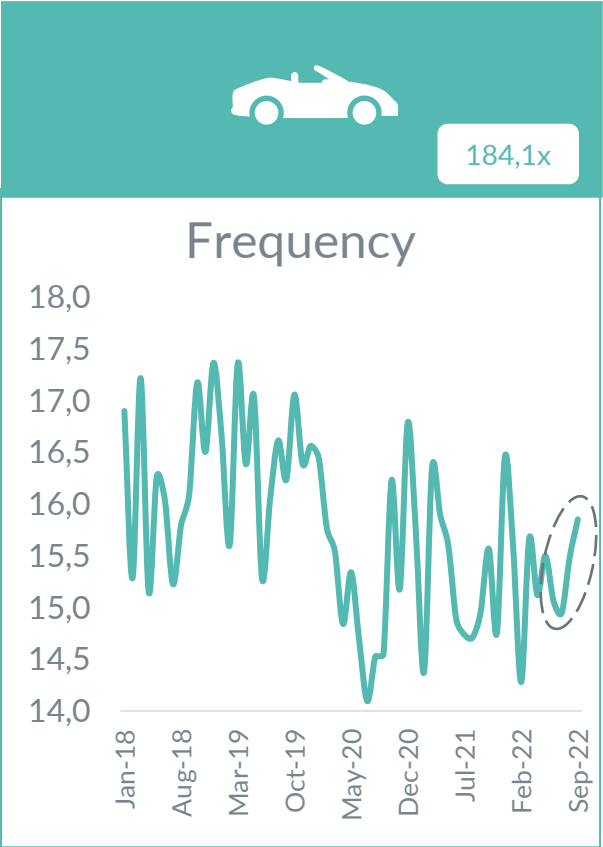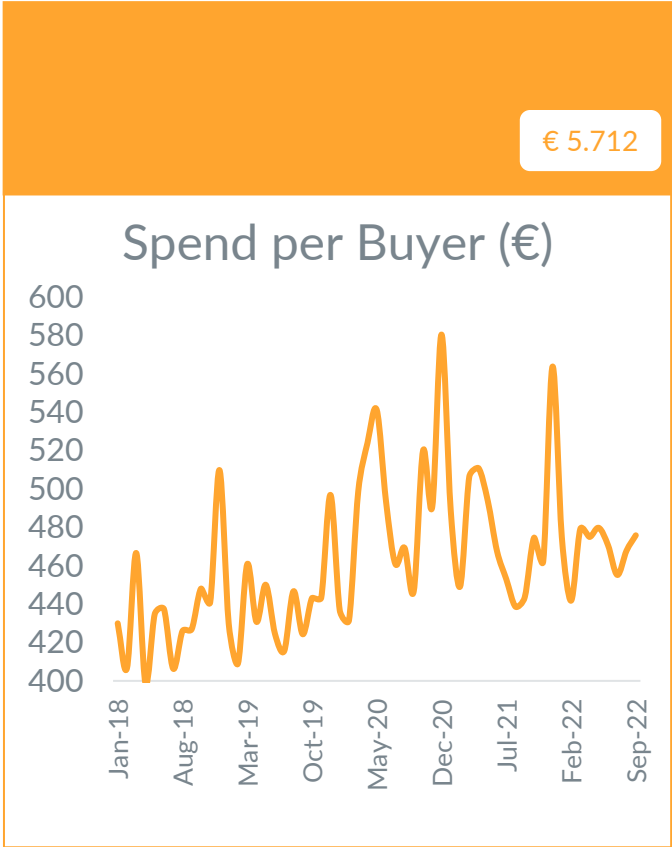Stated shopper behaviour change – More or much more in %

Changed shopper behaviour related to pricing

Check prices

58%

Buy products on offer

53%

Buy cheaper products

41%

Try to buy elsewhere

38%

Buy products no longer

36%

Stockpile at the lowest price

33%

Shopping behavior

Rising prices make shoppers pay more attention to how much they spend in the store

MAT09 2022
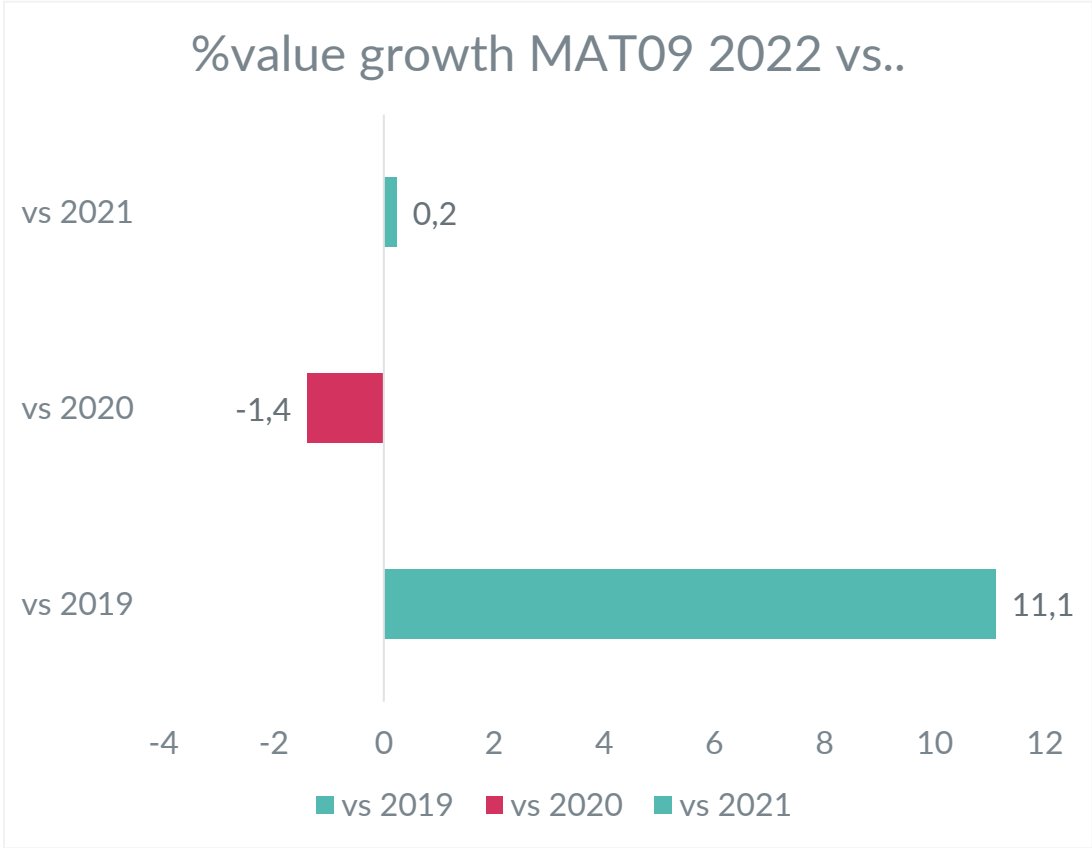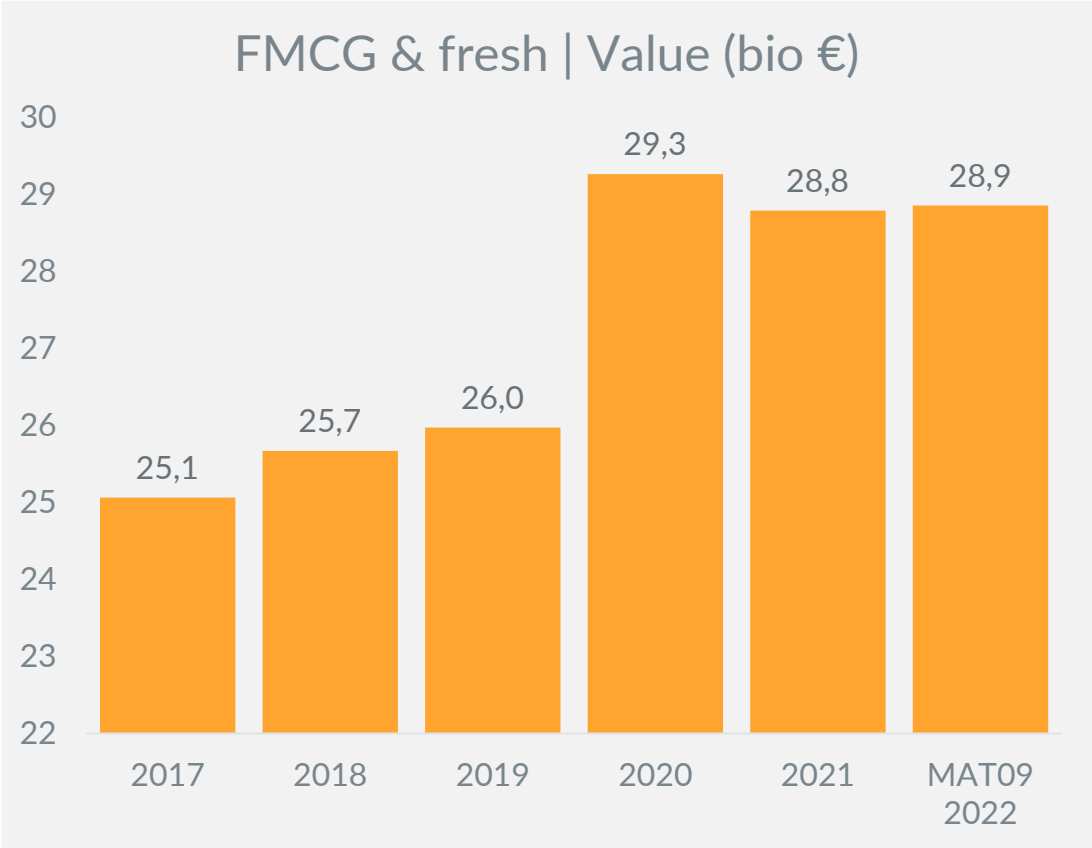
€ 31,04

Spend per Trip (€)

X

184,1x

=

€ 5.712

Frequency

Spend per Buyer (€)

Since July Belgians spend more than in the COVID times of 2020

FMCG & Fresh | Value (billion EUR)

- - - 2019 —— 2020 —— 2021 —— 2022

Value Growth vs. LY (%)

YTD: 0,3
3MMT: 6,0
Month: 8,5

© GfK   12
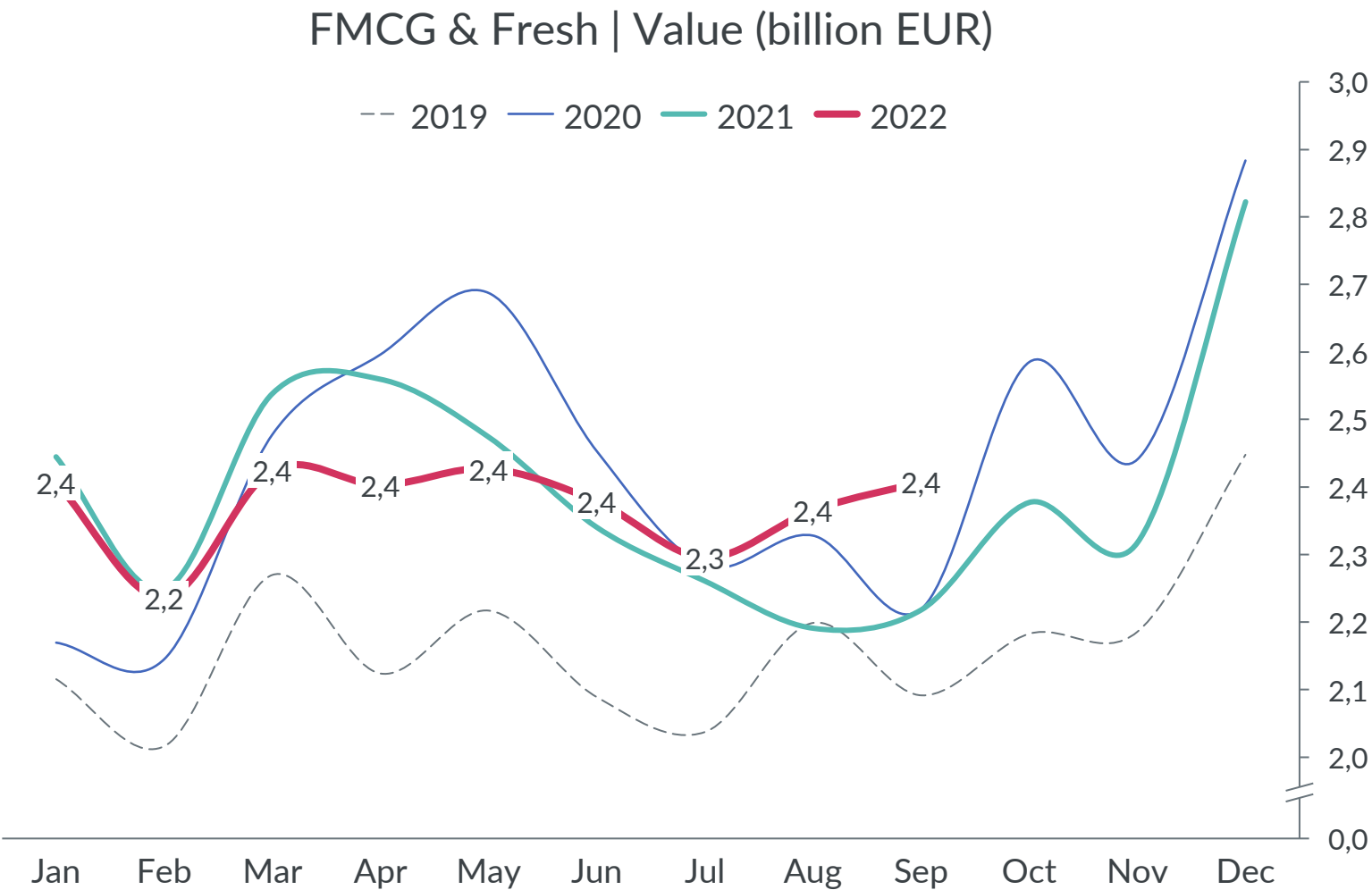
Today the annual FMCG spend is still at a high 28,9 billion euro

FMCG & fresh | Value (bio €)

Year	Value
2017	25,1
2018	25,7
2019	26,0
2020	29,3
2021	28,8
MAT09 2022	28,9

%value growth MAT09 2022 vs..

	%
vs 2021	0,2
vs 2020	-1,4
vs 2019	11,1

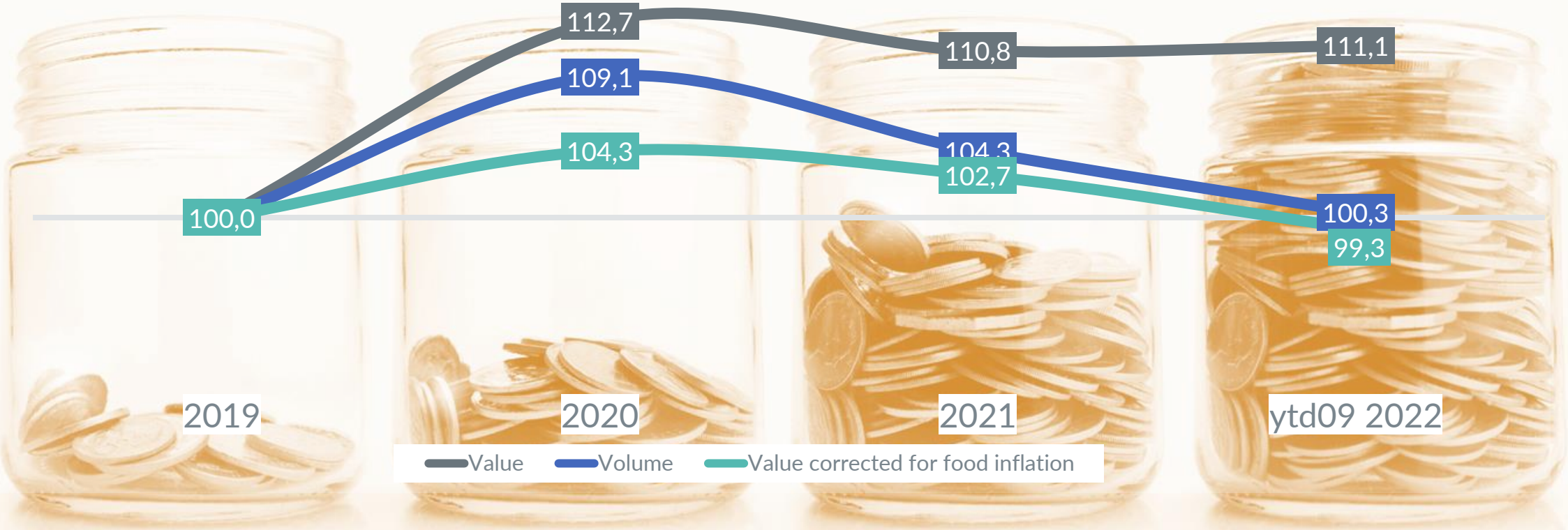■ vs 2019   ■ vs 2020   ■ vs 2021

But what is the impact of inflation on FCMG value growth?

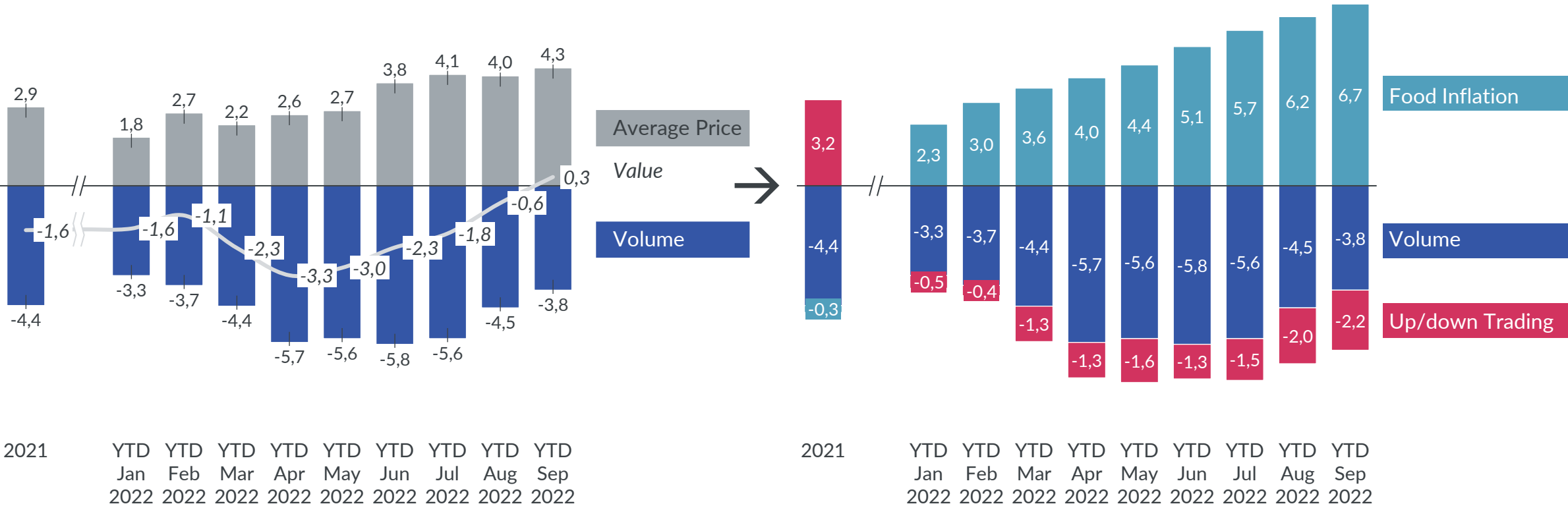# Belgian consumption has dropped to pre-COVID level. Sales growth is entirely driven by price increases

FMCG and fresh | Growth index with 2019 as basis (100%)

	2019	2020	2021	ytd09 2022
Value	100,0	112,7	110,8	111,1
Volume	100,0	109,1	104,3	100,3
Value corrected for food inflation	100,0	104,3	102,7	99,3

— Value   — Volume   — Value corrected for food inflation
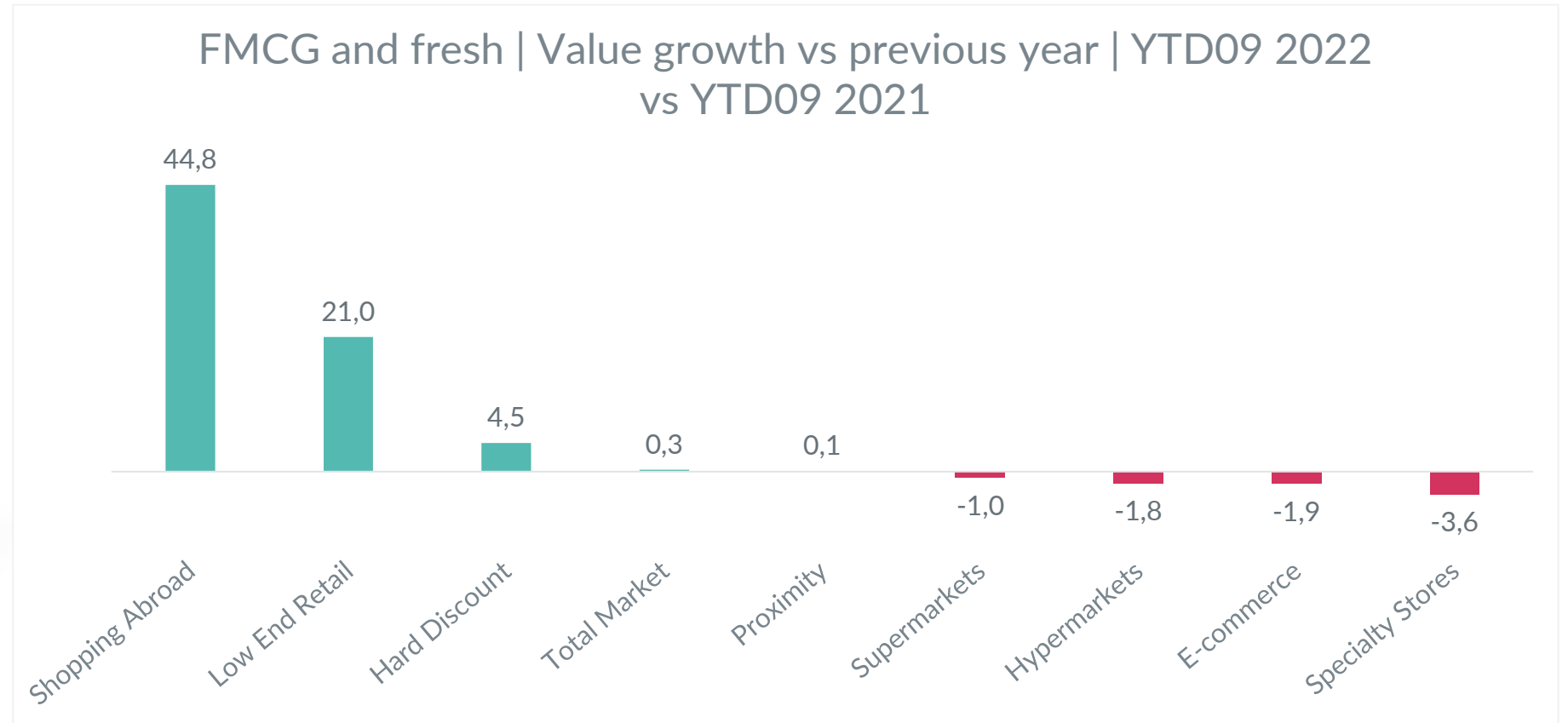
Channel choice

Channel Structure
Total Market

Supermarkets	Hypermarkets	Proximity	Hard Discount	E-commerce	Specialty Stores	Low End Retail	Shopping Abroad

Hard discounters manage to grow in these times of rising prices

FMCG and fresh | Value growth vs previous year | YTD09 2022 vs YTD09 2021

Shopping Abroad	Low End Retail	Hard Discount	Total Market	Proximity	Supermarkets	Hypermarkets	E-commerce	Specialty Stores
44,8	21,0	4,5	0,3	0,1	-1,0	-1,8	-1,9	-3,6

Hard discount sources from all channels except shopping abroad

FMCG & FRESH | YTD09 2022 vs YTD09 2021

Value Evolution (000 EUR)

Shopping Abroad
Low End Retail
Hard Discount
Proximity
Supermarkets
Hypermarkets
E-commerce
Specialty stores

Intensity Change   Switching

YTD Sep 2021   YTD Sep 2022

Shopping Abroad
Supermarkets
Low End Retail
Specialty Stores
Hypermarkets
E-commerce
Proximity
Hard Discount
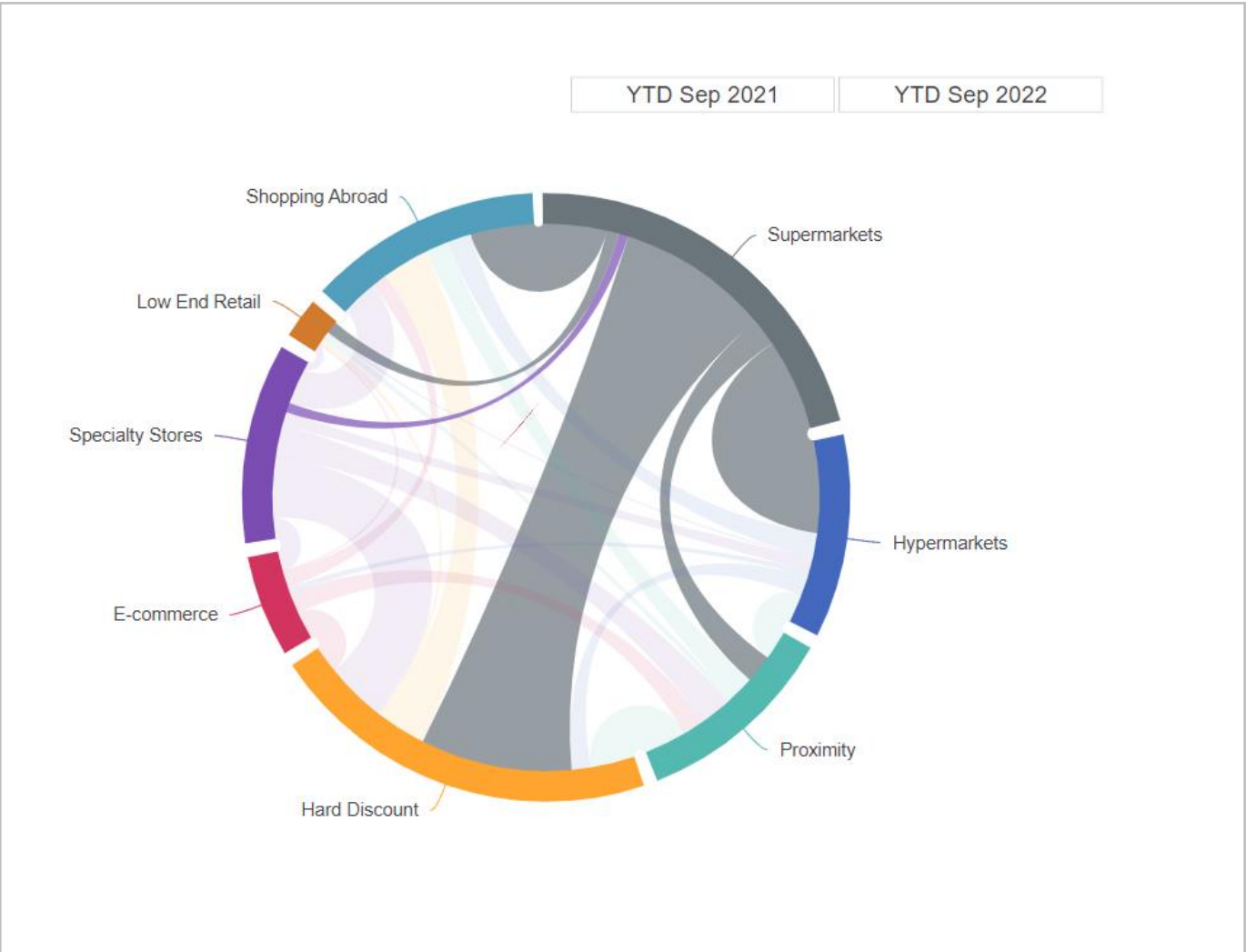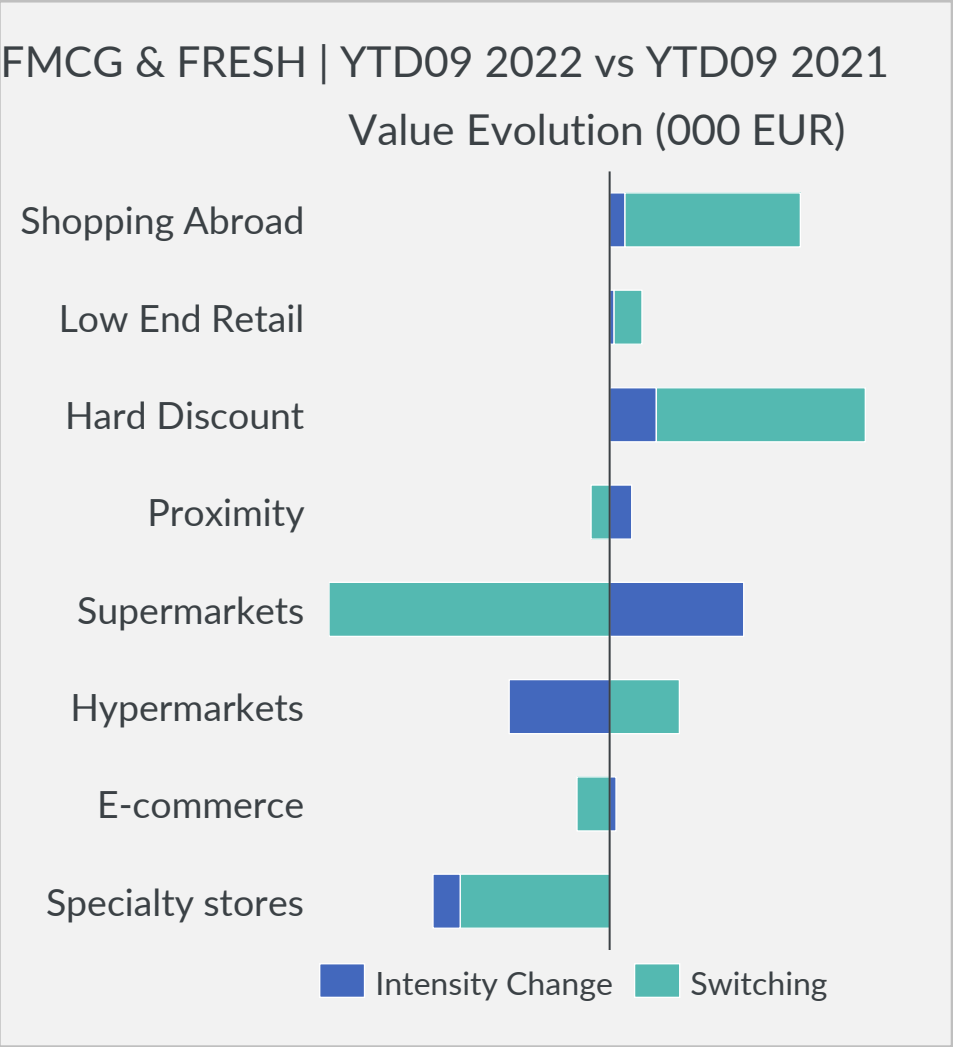
Hard discount share rises towards 19%

FMCG & FRESH | Value share

Category	YTD Sep 2021	YTD Sep 2022
Supermarkets	48,3	47,7
Hypermarkets	5,5	5,4
Proximity	9,2	9,2
Hard Discount	18,2	19,0
E-commerce	4,4	4,3
Specialty Stores	12,5	11,9
Shopping Abroad	1,4	2,0
Low End Retail	0,5	0,6
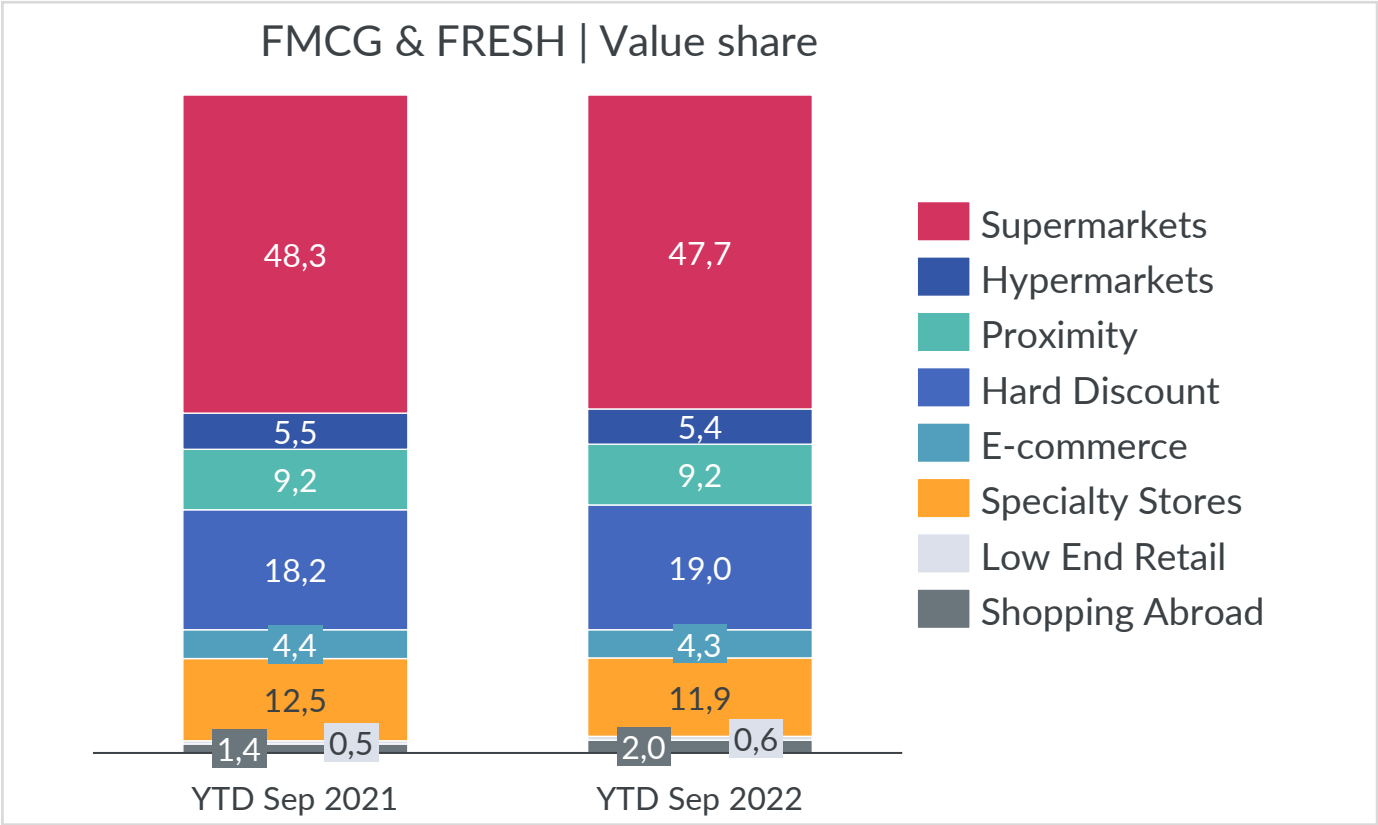
Shopping abroad has not (yet) returned to pre-COVID level..

FMCG and fresh | Shopping abroad
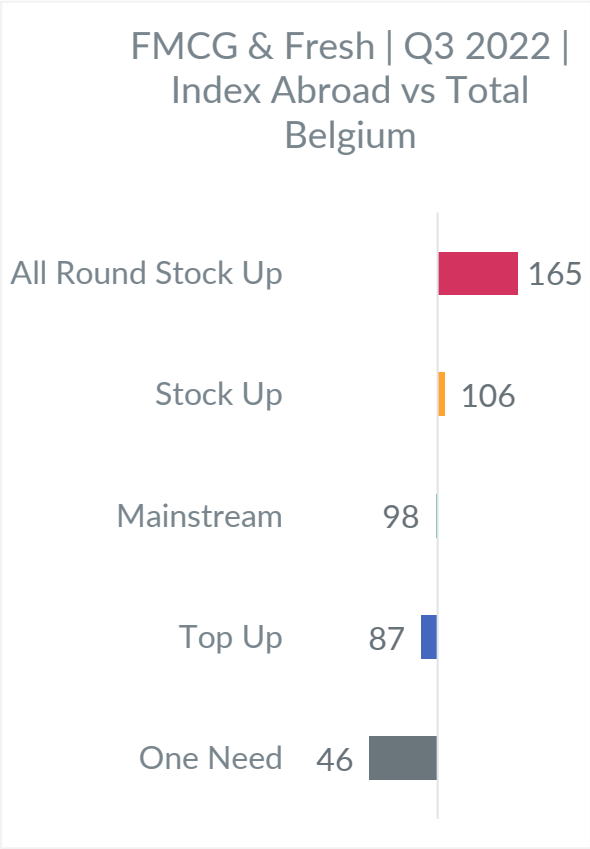Value share
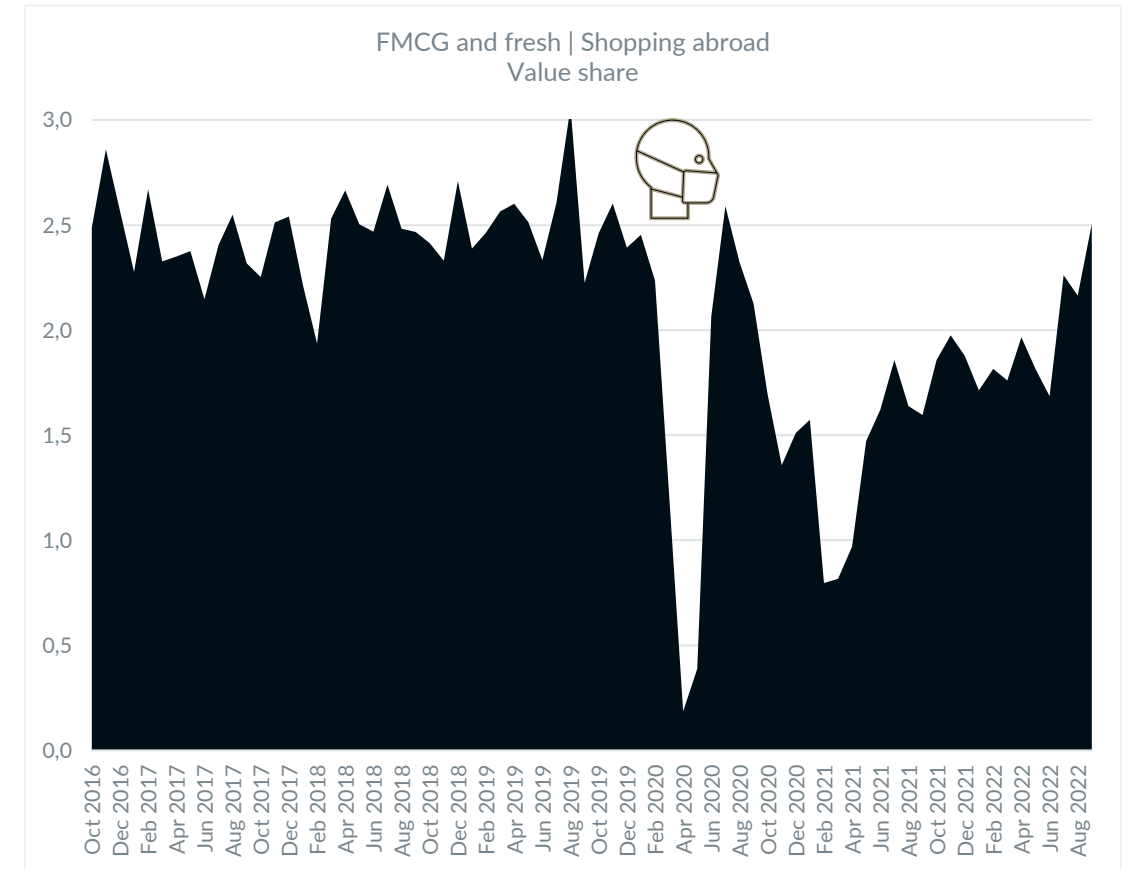
.. but shopping in France rises quickly in popularity among Belgian shoppers

FMCG and fresh | Value share

Legend: France — Luxembourg — Netherlands — Other Abroad
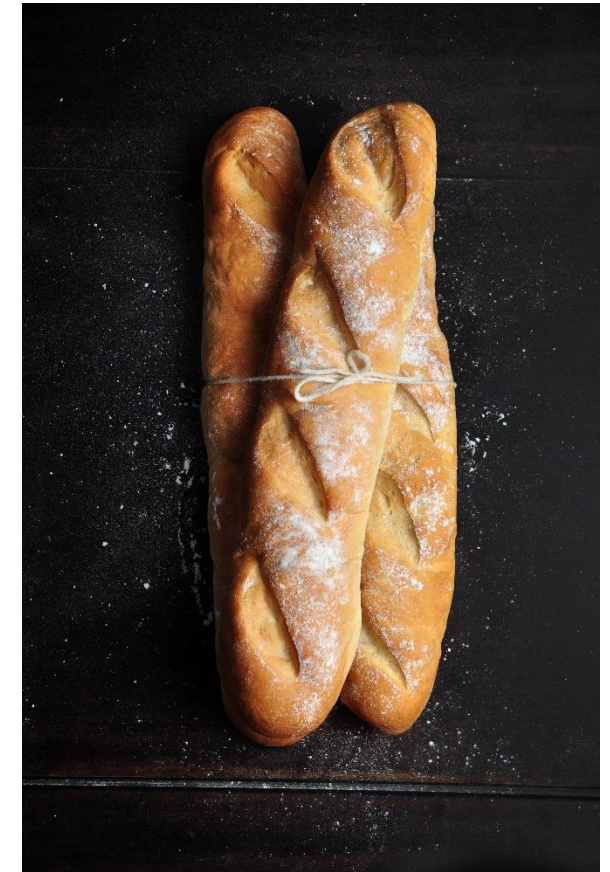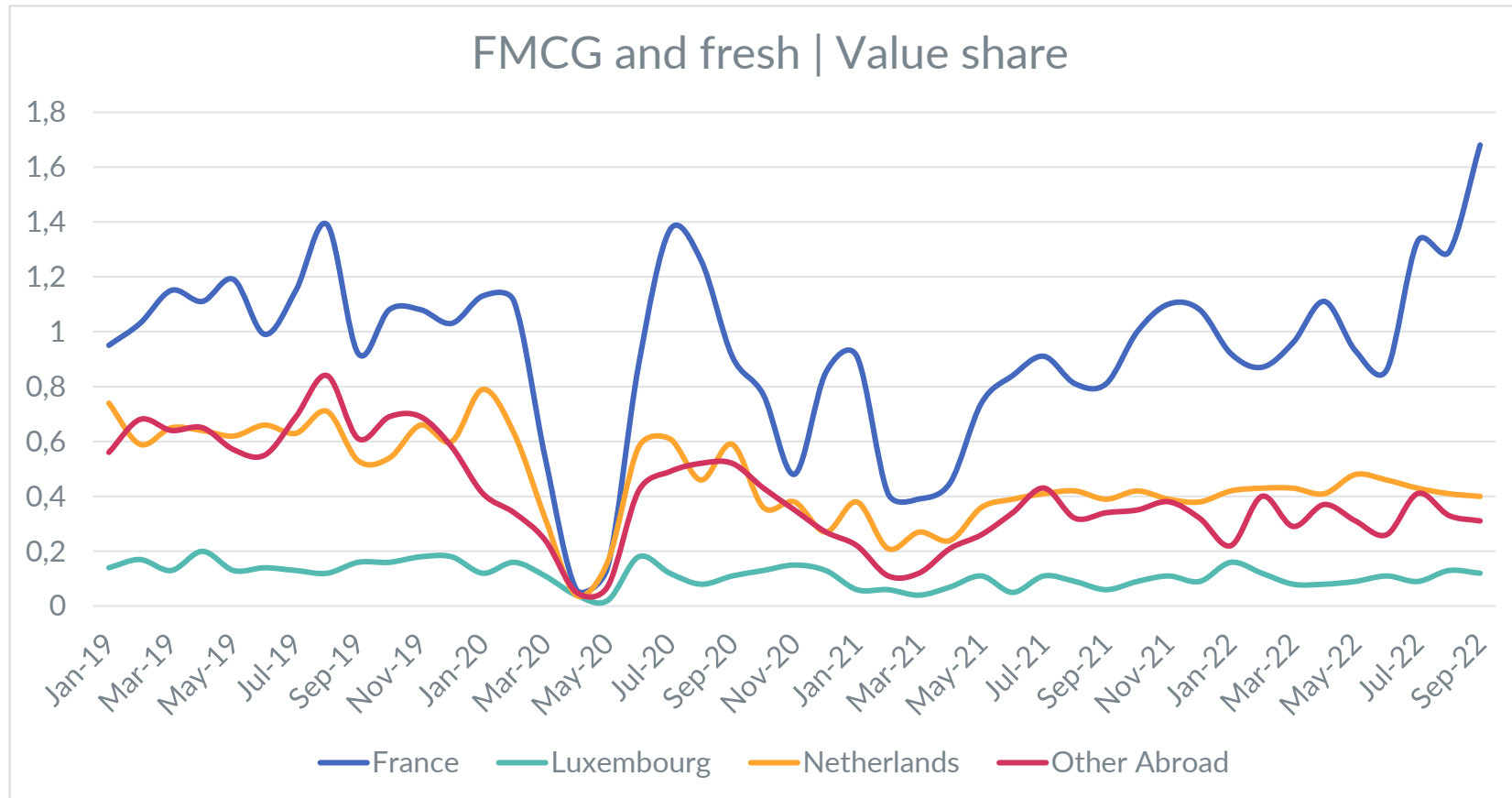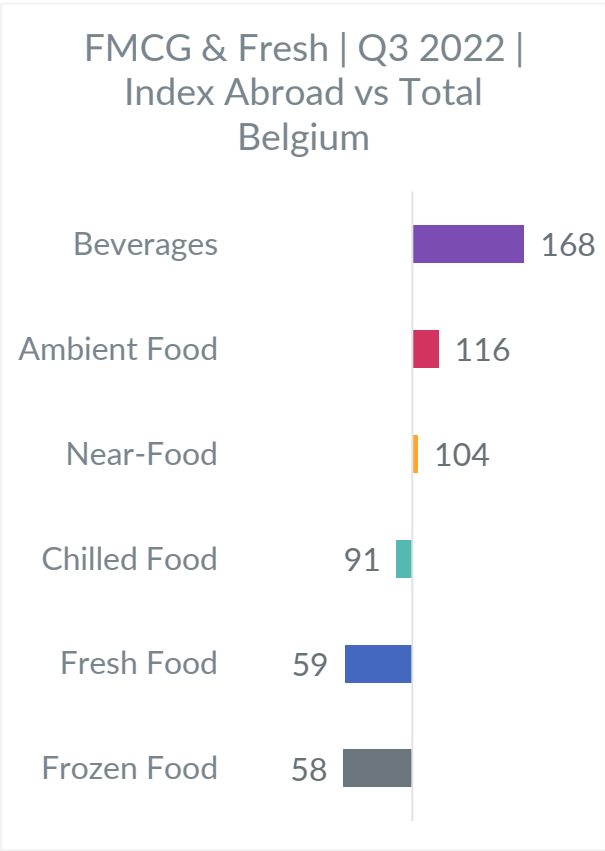
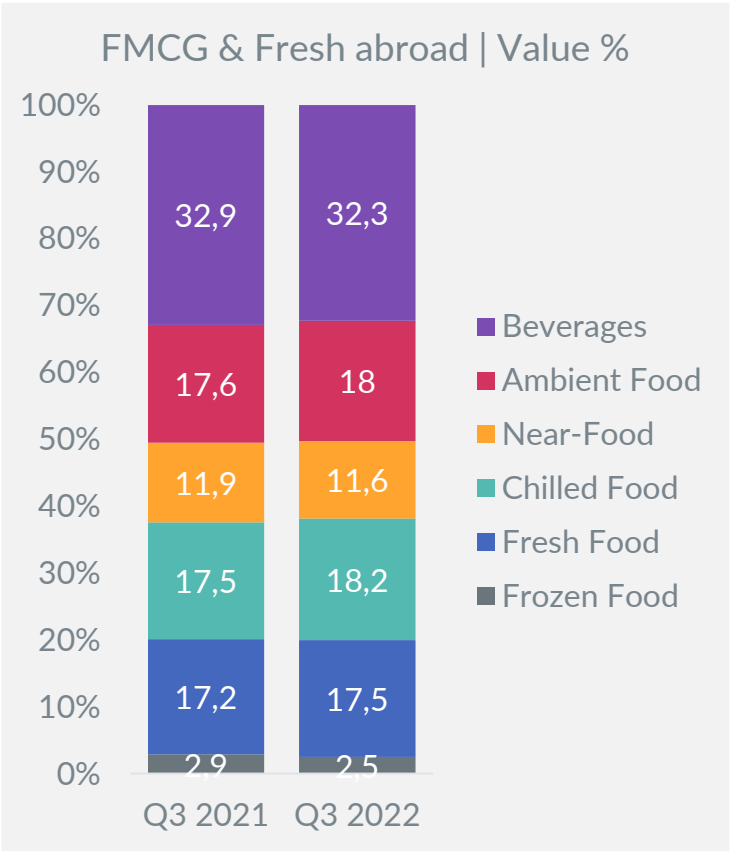# Rising fuel costs may prevent in particular lower social classes to go shopping abroad more often (note short term effects)

FMCG and fresh | Abroad
Value share

········ Total Population
—— CIM 1 - Upper
—— CIM 2 - Medium upper
—— CIM 3 - Medium lower
—— CIM 4 - Lower
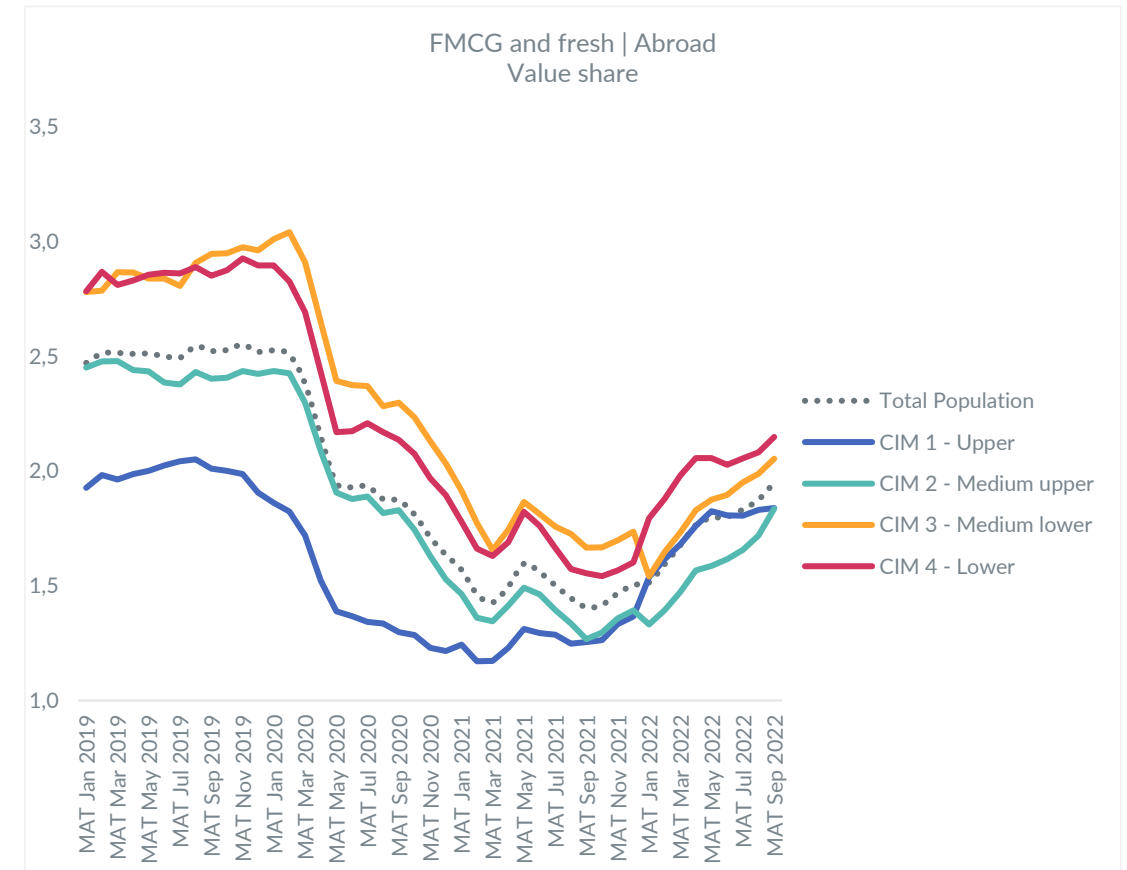
Households combine multiple categories when they shop across the border. The uplift in 2022 is fully going on in all round stock up trips.

FMCG & Fresh abroad | Value %

	Q3 2021	Q3 2022
All Round Stock Up (>23 categories)	21,1	25,7
Stock Up (10-23 categories)	26,1	24,8
Mainstream (7-10 categories)	26,5	26,4
Top Up (4-6 categories)	16,3	15,9
One Need (<4 categories)	10	7,2

FMCG & Fresh | Q3 2022 | Index Abroad vs Total Belgium

	Index
All Round Stock Up	165
Stock Up	106
Mainstream	98
Top Up	87
One Need	46
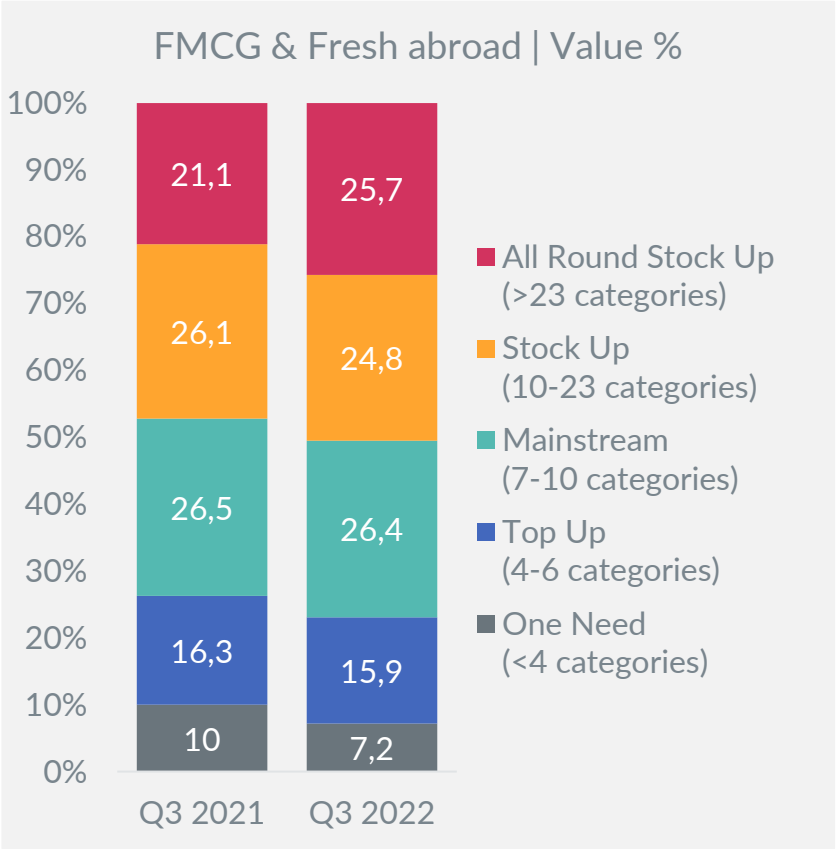
Beverages remains the typical category to purchase abroad, making up for almost a third of the turnover.

FMCG & Fresh abroad | Value %

	Q3 2021	Q3 2022
Beverages	32,9	32,3
Ambient Food	17,6	18
Near-Food	11,9	11,6
Chilled Food	17,5	18,2
Fresh Food	17,2	17,5
Frozen Food	2,9	2,5

FMCG & Fresh | Q3 2022 | Index Abroad vs Total Belgium

Beverages	168
Ambient Food	116
Near-Food	104
Chilled Food	91
Fresh Food	59
Frozen Food	58

The share of brands remains higher when Belgians shop abroad. Private labels however also increasing.

FMCG & Fresh abroad | Value %

	Q3 2021	Q3 2022
PL HD	9,1	8,5
PL OM	16,1	19
A brands	74,8	72,6

FMCG & Fresh | Q3 2022 | Index Abroad vs Total Belgium

PL HD	50
PL OM	86
A brands	151
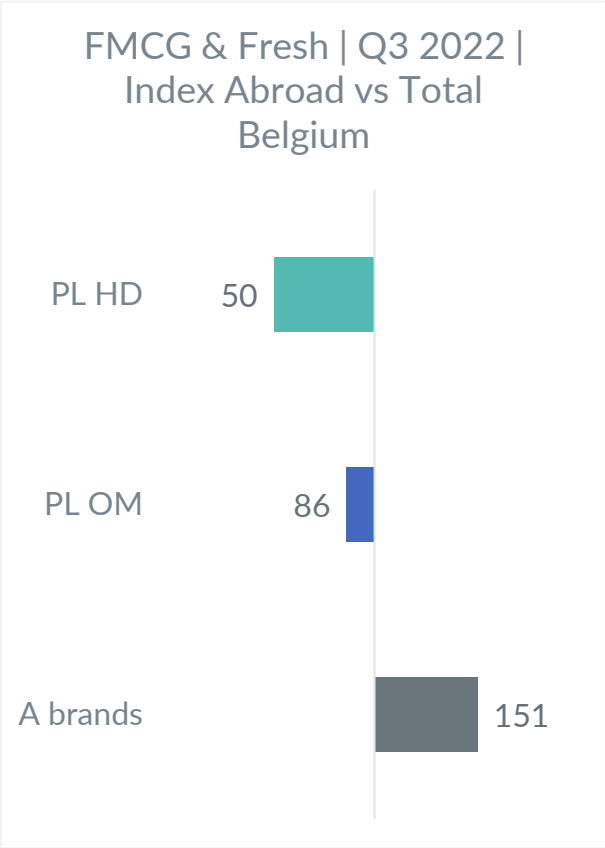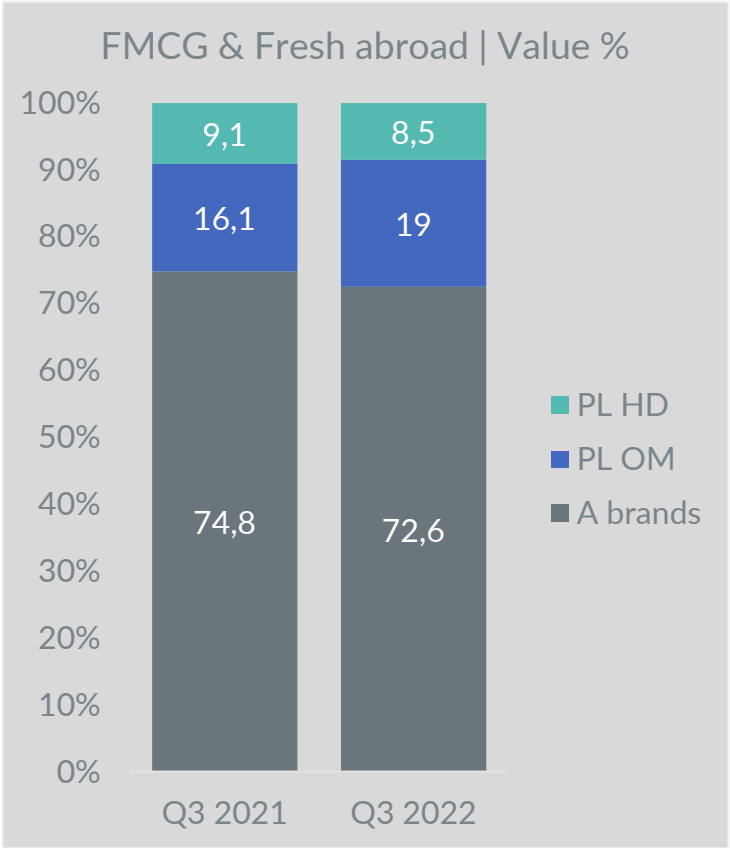
The growth of online FMCG shopping has come to a stop in Belgium

FMCG and fresh | E-commerce
Value share
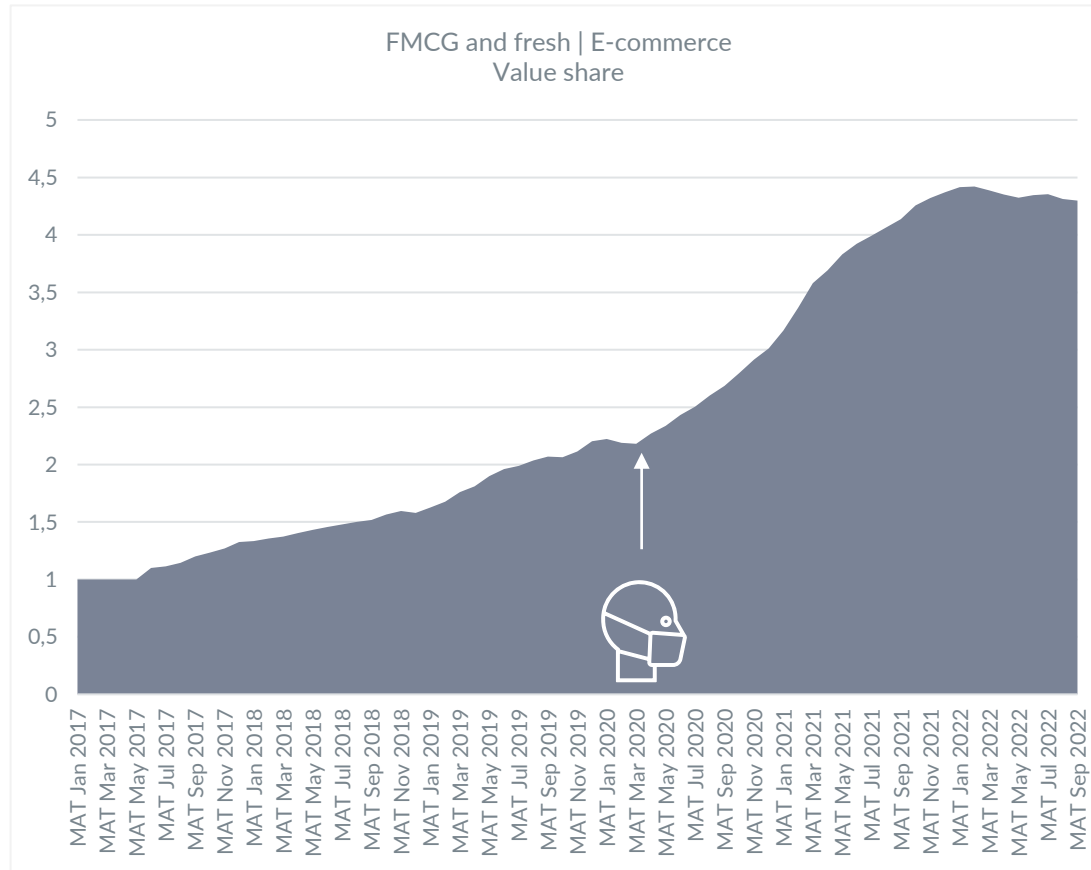
The drop in popularity of online FMCG shopping takes place among younger shoppers

FMCG and fresh | E-commerce
Value share

Legend:
- .... Total Population
- —— <30y
- —— 30-39y
- —— 40-49y
- —— 50-64y
- —— >65y
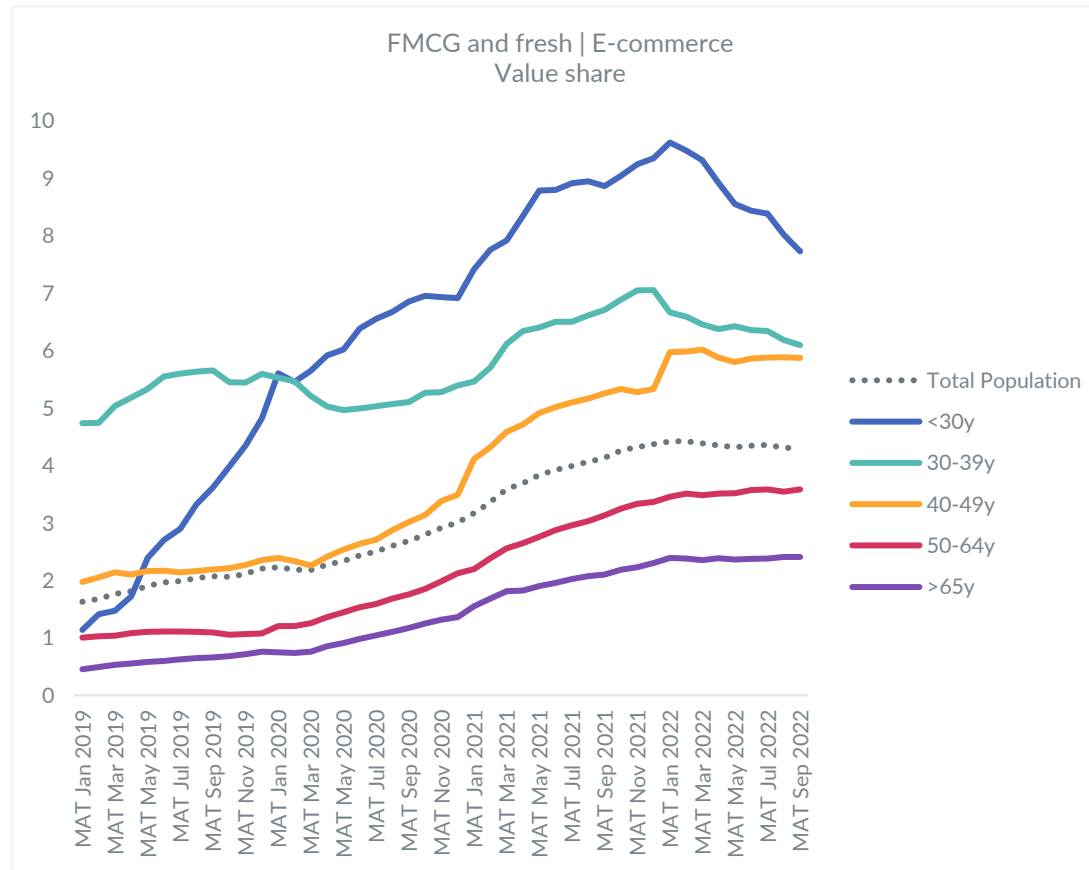
In times of budgeteering some shoppers shift away from meal kits

E-commerce | FMCG and fresh | Value growth | YTD09 2022 vs P-1

- Brick & Click: 2,8
- Pure Play: -1,6
- E-commerce: -1,9
- Other E-commerce: -6,0
- Meal Kit: -13,1

E-commerce | FMCG and fresh | Value share | YTD09 2022

- Brick & Click: 62
- Pure Play: 7
- Meal Kit: 21
- Other E-commerce: 10
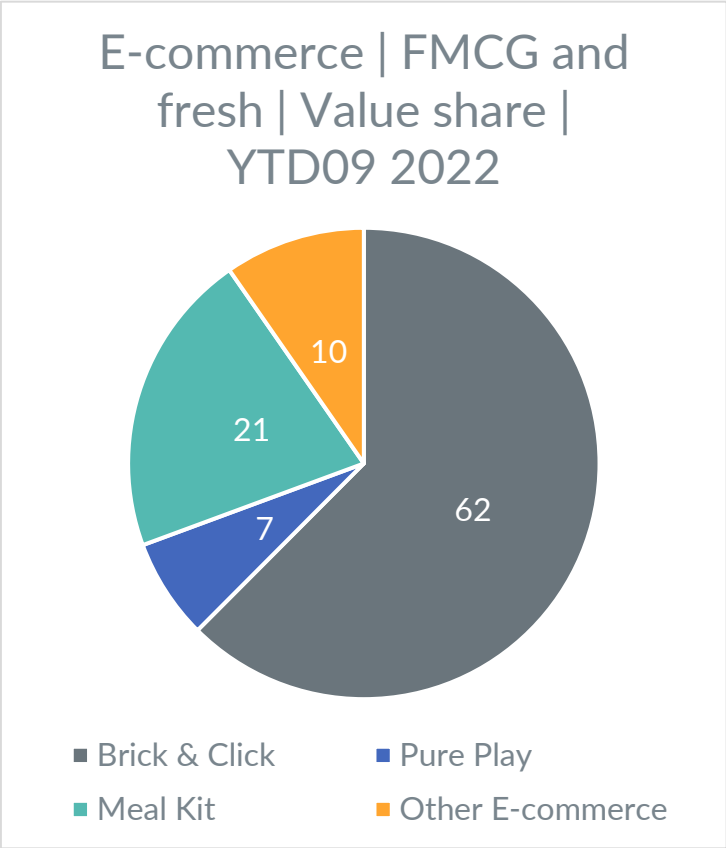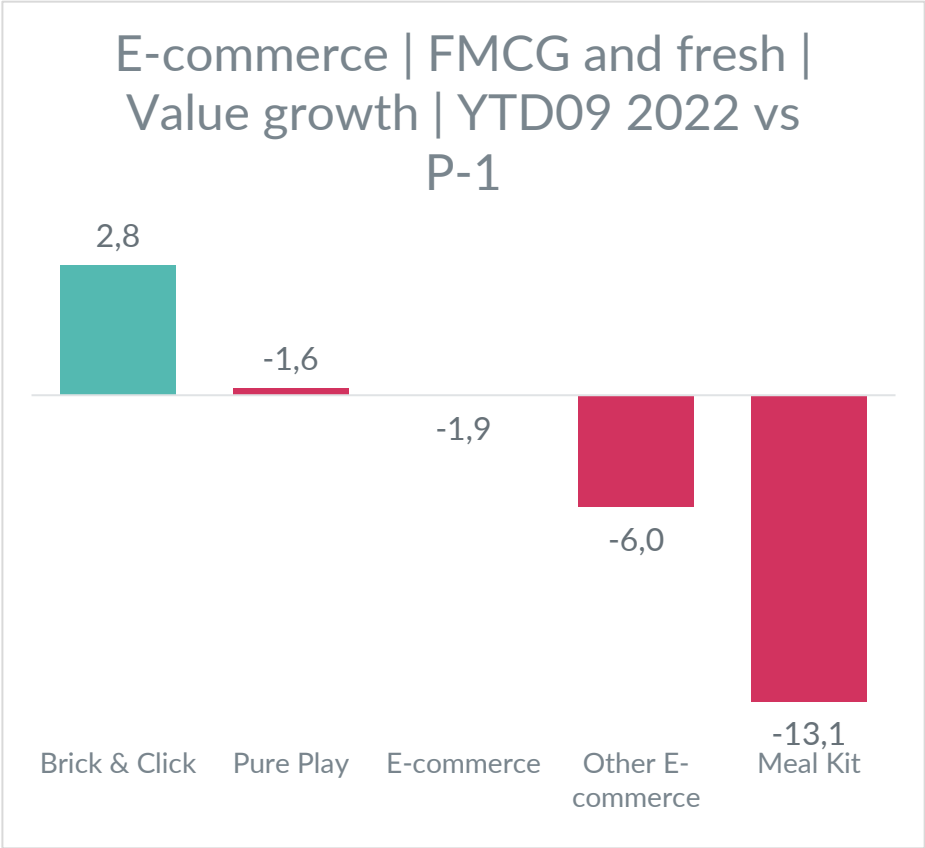
Product choice

Brand division (private labels not included)
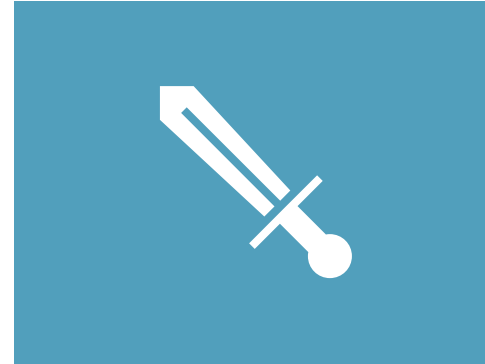
Definition

Market Leader

The biggest brand(s) that take(s) up at least 30% of the volume of the branded category* total across both years
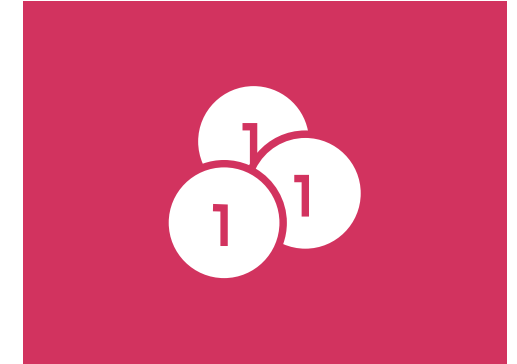
Premium Brands

Brands that are (on average) 40% more expensive than the branded category* average across both years

excl. market leaders

Market Challengers

Brands with an average price of 90% - 140% of the branded category* average across both years

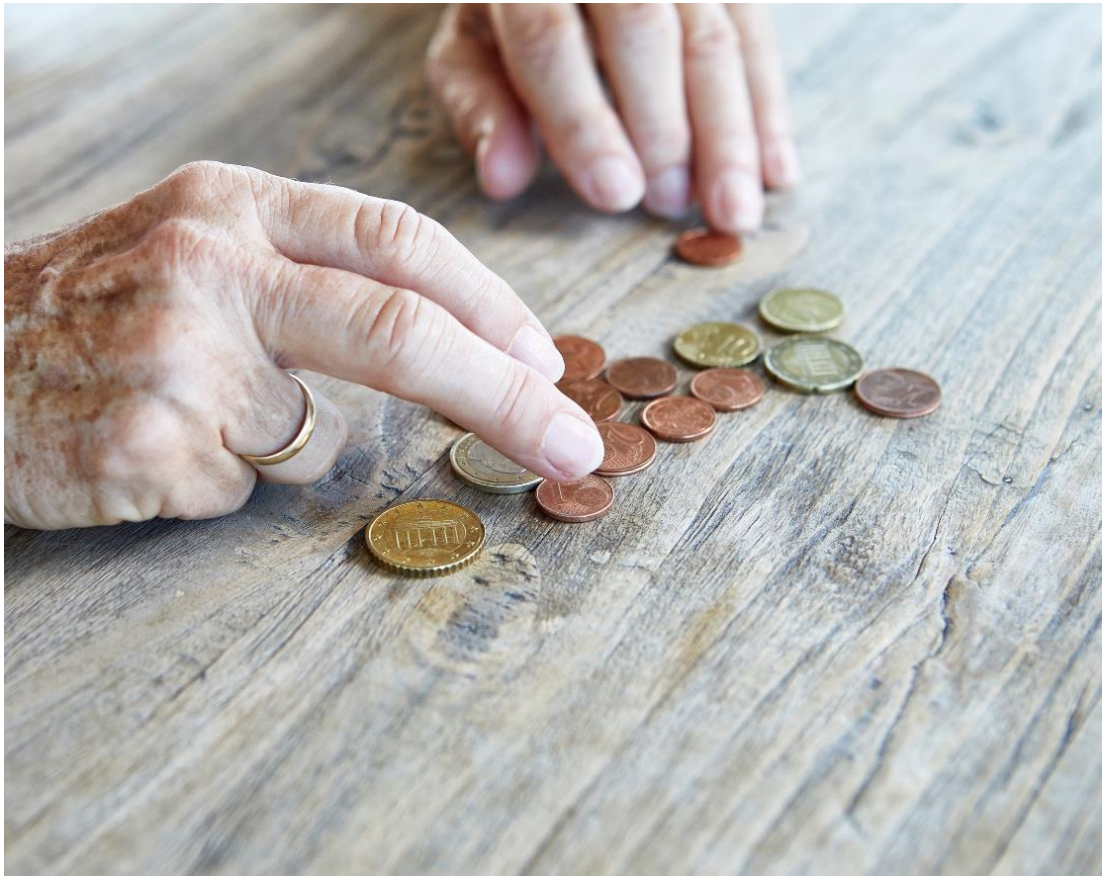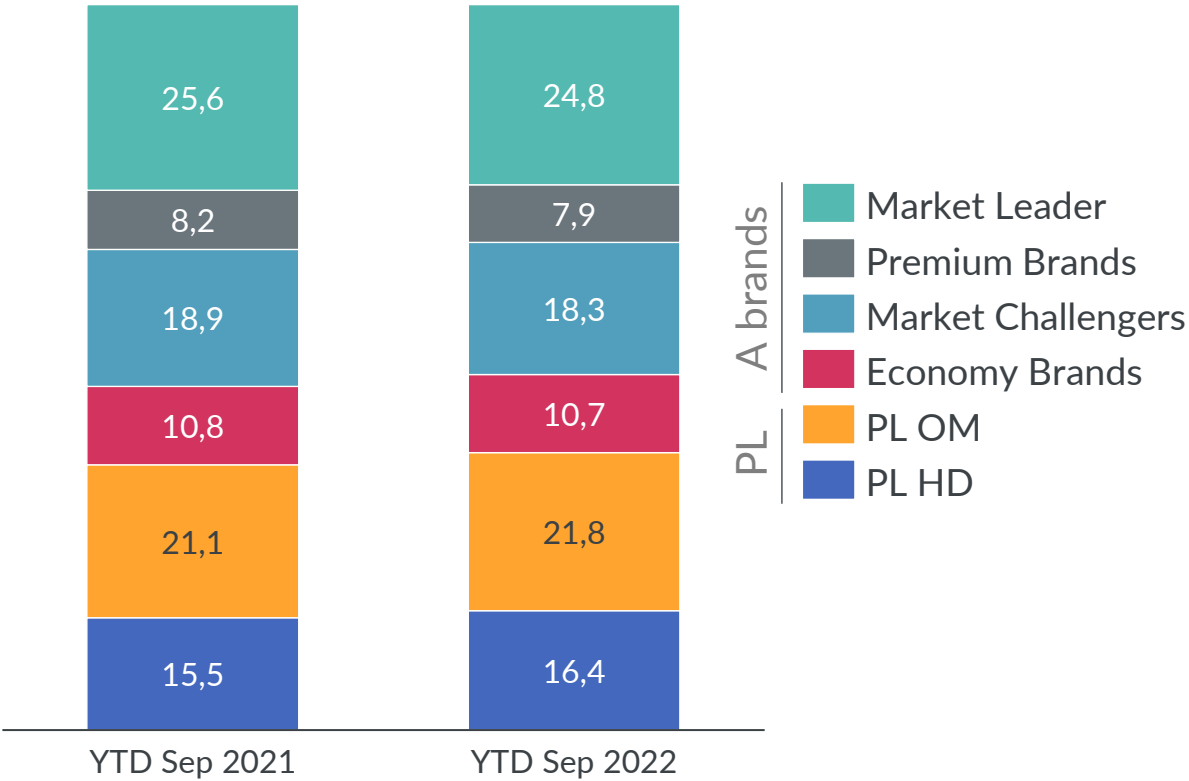*excl. market leaders*

Economy Brands

Brands that are (on average) 10% cheaper than the branded category* average across both years

excl. market leaders

Brand share goes down, with only economy brands not being under pressure.

FMCG excl. fresh | Value %

	YTD Sep 2021	YTD Sep 2022		
Market Leader	25,6	24,8	A brands	
Premium Brands	8,2	7,9		
Market Challengers	18,9	18,3		
Economy Brands	10,8	10,7	PL	
PL OM	21,1	21,8		
PL HD	15,5	16,4		

Legend:
- Market Leader
- Premium Brands
- Market Challengers
- Economy Brands
- PL OM
- PL HD

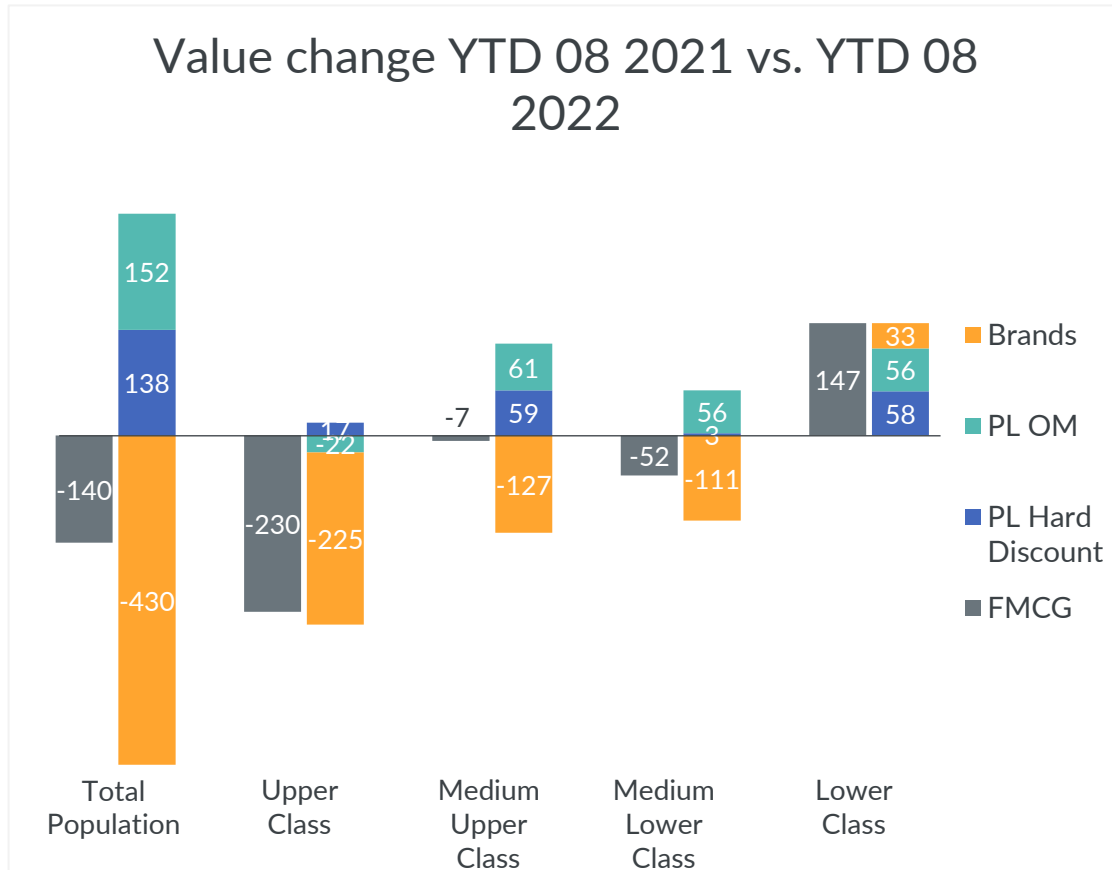# Households are trading down by shifting their spending mostly to cheaper alternatives. Private labels win, yet also Economy Brands source from other brand types.

FMCG excl. fresh | Value Evolution (000 EUR) | YTD09 2022

Market Leader

Premium Brands

Market Challenger

Economy Brands

PL OM

PL HD

■ Intensity Change   ■ Switching

PL HD

PL OM

Premium Brands

Economy Brands

Market Leader

Market Challenger
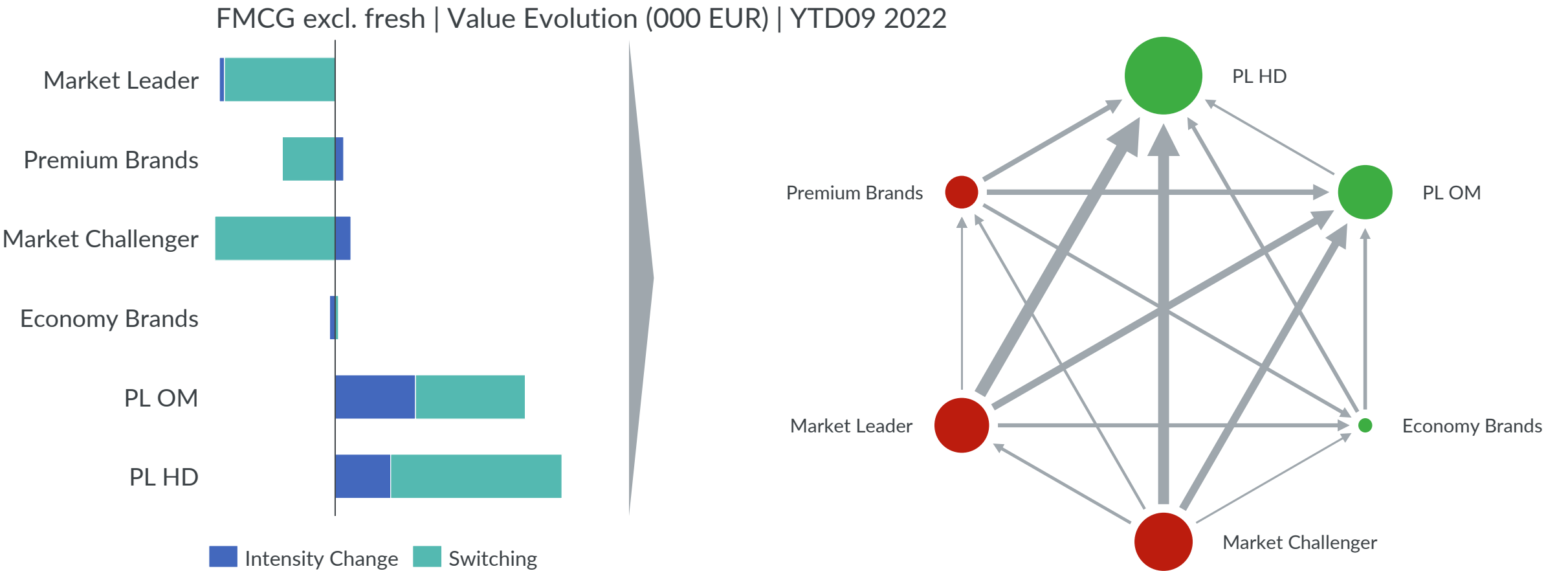
Private label <u>share</u> grows among all social classes.. however, upper class does not spend more on PL, they only decreases a lot on brands.

Value change YTD 08 2021 vs. YTD 08 2022

Total Population: 152, 138, -140, -430

Upper Class: 17, -22, -230, -225

Medium Upper Class: 61, 59, -7, -127

Medium Lower Class: 56, 3, -52, -111

Lower Class: 147, 33, 56, 58

Legend:
- Brands
- PL OM
- PL Hard Discount
- FMCG

Summary

Summary

1 Inflation will go down in the short term, but changes in shopping behavior will stick for much longer

2 Rising food prices and/or return to OOH makes Belgian families buy less in-home

3 Down trading confirms shoppers pay more attention to price..

4 ..but price perception is different in each category, for each shopper and changes over time => *have the finger on the pulse of your shopper*

5 More shopping trips offer more purchase opportunities, especially at hard discount

6 Better-off families spend less on brands; however they do not substitute these lost in-home purchases by private labels

7 Shopping abroad is on the rise, while online shopping loses share because of younger shoppers
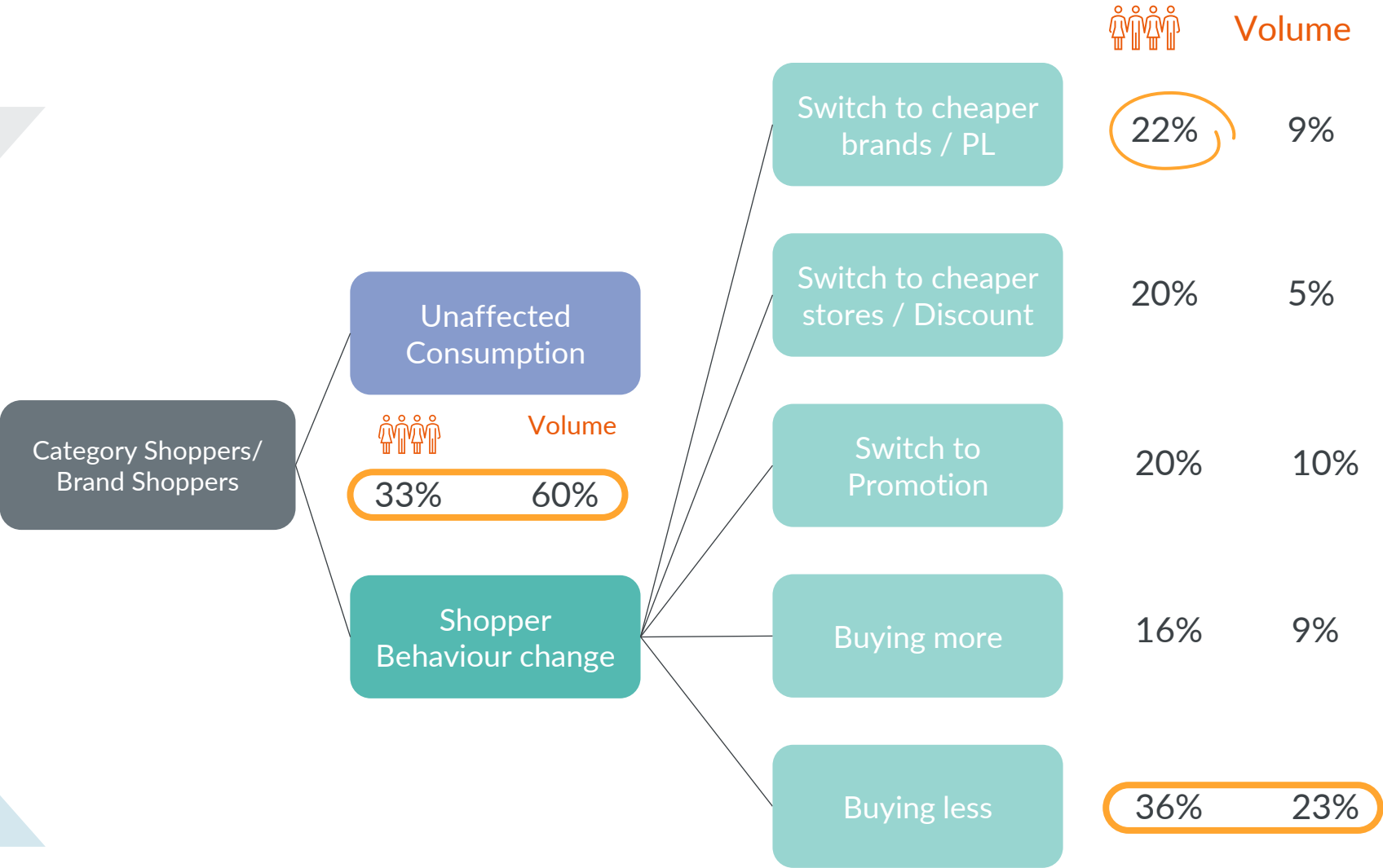
Insights on your category and brand

Track how inflation impacts the volume drivers of your category or brand

Volume

The **Shopper Price Sensor** tracks and quantifies who is changing their shopper behavior as a result of increasing prices. It decomposes different ways of shopping behavior. Ideal for a one-time picture of the situation today, or a long-term tracker.

Example right; 1/3 of shoppers with 60% volume are unaffected, but 36% buy less and 22% buy more in promotion

Category Shoppers/ Brand Shoppers

Unaffected Consumption

Volume

33%   60%

Shopper Behaviour change

Switch to cheaper brands / PL	22%	9%
Switch to cheaper stores / Discount	20%	5%
Switch to Promotion	20%	10%
Buying more	16%	9%
Buying less	36%	23%

Simulate different price scenarios on your brand's turnover or that of your competitors
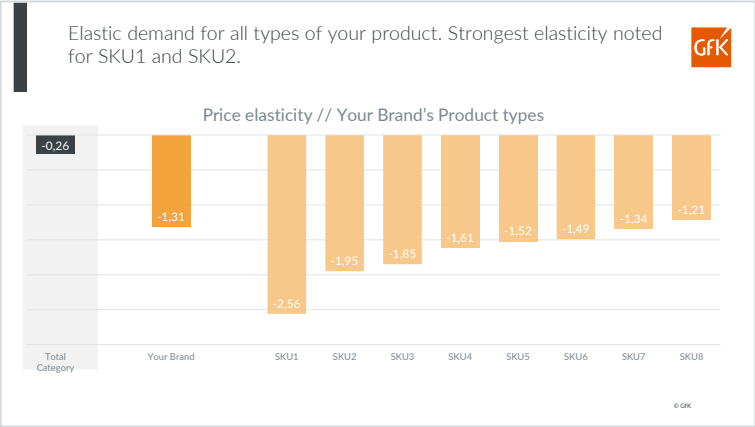
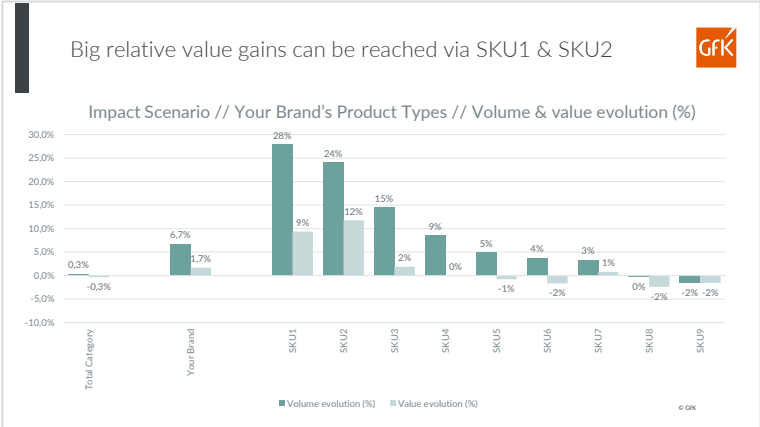The **Price Performance Planner** simulates the effects of different price scenarios within a category.

By understanding day-to-day product choices and price preferences of individual shoppers, the PPP model can estimate their reaction to alternative market realities.

The analysis helps to identify potential sales revenue or risks, should there be a change in the manufacturers and retailers price strategy!
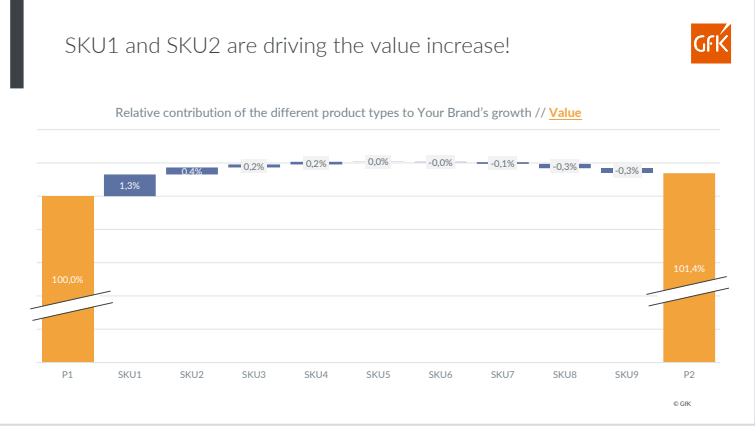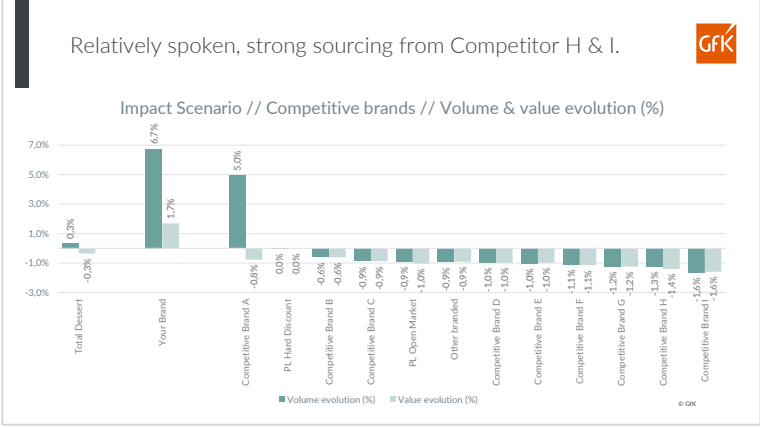
Output example: Price Elasticities

Elastic demand for all types of your product. Strongest elasticity noted for SKU1 and SKU2.

Price elasticity // Your Brand's Product types

Output example: Impact Scenario on your brand

Big relative value gains can be reached via SKU1 & SKU2

Impact Scenario // Your Brand's Product Types // Volume & value evolution (%)

Output example: Impact Scenario product contribution

SKU1 and SKU2 are driving the value increase!

Relative contribution of the different product types to Your Brand's growth // Value

Output example: Impact Scenario on your competitors

Relatively spoken, strong sourcing from Competitor H & I.

Impact Scenario // Competitive brands // Volume & value evolution (%)

Track your category's performance on a monthly base

"Now what does this mean for your category?"

The **Shopper Inflation Tracker** dives into the YTD performance of your category each month and aims to understand which types of households limit their category purchases.
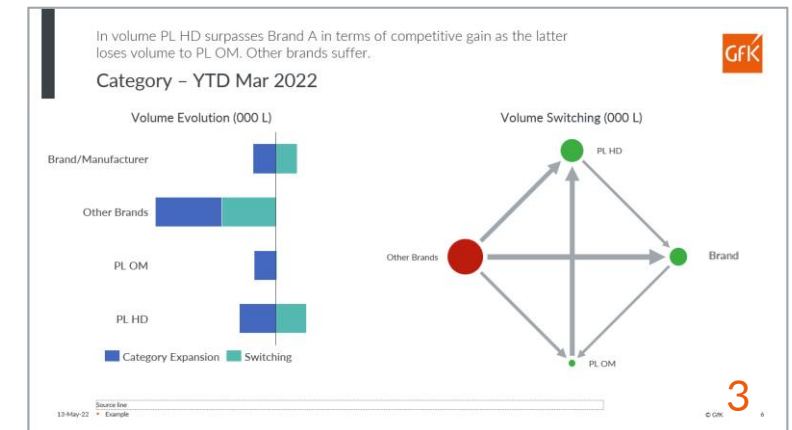
Total Package Offer:
5.000 EUR (excl. VAT)
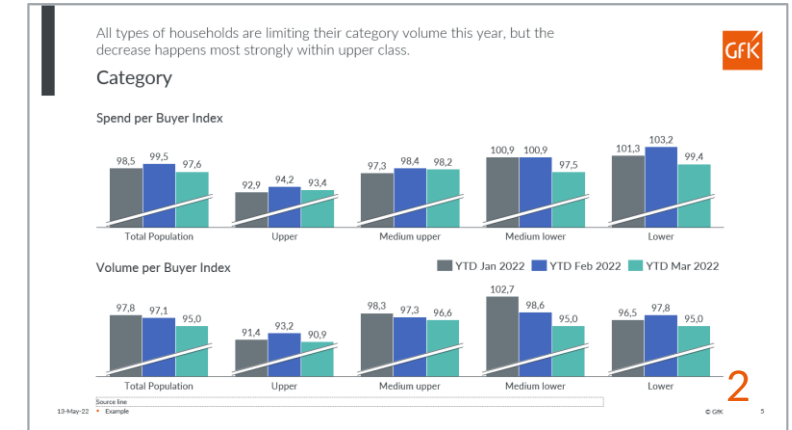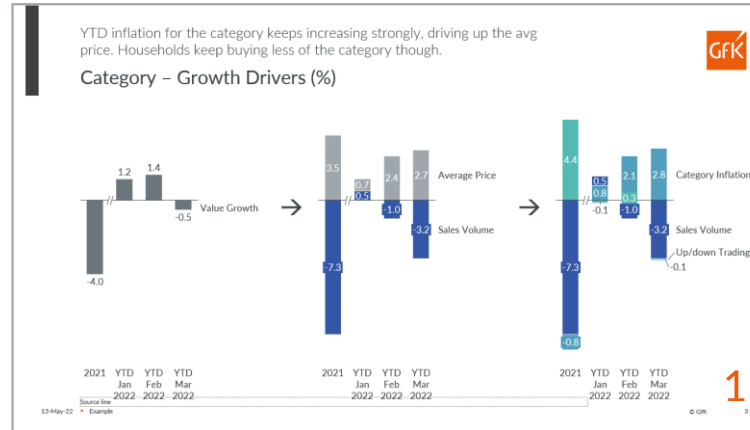
Different modules*:

1. Category Growth Drivers:
   1.250 EUR (excl. VAT)

2. Social Class Spend/Volume per Buyer Evolution:
   1.250 EUR (excl. VAT)

3. Harmonized G&L Analysis:
   4.250 EUR (excl. VAT)

monthly deliveries till data of December 2022

BELGIUM

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Memorandum GfK Consumer Panel

Belgium

Sample Structure

The household panel is designed as a stratified sample drawn from the population of private households in Belgium. The stratification considers the household criteria 'age of the reference person' and 'household size'.

The structure of the sample is based on the principles of optimal allocation.

Weighting Procedure

For reporting purposes, the resulting net reporting samples are weighted. The weighting procedure is based upon the design of the disproportional stratified sample. The variables that play a role in this procedure are:

- household size;
- age of the reference person;
- district;
- size of the municipality;
- presence of children below 3 years old.

Data on the structure of the target population are updated annually based on information from Statbel, the Belgian statistical office.

Moreover, the method of response weighting is applied to compensate for missing shop visits in the actual scanned purchase behavior. Improving trip coverage is based upon the combination of trip size and age of the reference person.

Data Collection

Panel members register their domestic purchase behavior regarding a defined range of FMCG products, regardless the outlet of purchase.

Registration of purchase behavior is done via a smartphone app or by means of an electronic device with an integrated barcode scanner. The registered data are transmitted to the research center using a wireless internet connection or the mobile telephone network respectively.

Projection

Data are levelled up from sample size to population size to become estimates for markets at a national scale. The development of the population size is taken into account to make these estimates.

For every reporting period within a year the population size is fixed to the expected number of households within that year. Based on updated time series, we expect about 5.065.000 private households in Belgium by 31/12/2022.