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The Great British squeeze: Innovation special

Unlocking the power of possibility

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Inno-Vation nation

How brands are pioneering new products to satisfy shoppers' demands

Inflationary pressures spark creative solutions

How brands are innovating to win over consumers

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It is a truth universally acknowledged, though rarely as true as we might think, that we are creatures of habit. We supposedly stick with the products we know, the ones that have been with us through thick and thin, in good times and in bad. But sometimes — much more often than one might imagine — we reconsider our choices.

Such is the case in the world of fast-moving consumer goods, where the landscape is shifting again, and the pressures of inflation and economic uncertainty are pushing shoppers to reassess their buying habits.

In an environment where (increasingly) every purchase counts for penny-pushed households, we face a shopping metamorphosis of sorts. The industry is well and truly grappling with the complexities of shifting consumer preferences, rising inflation, and margins under pressure.

Frustratingly, the common narratives that have historically emerged during times of economic crisis are that new product development is less necessary or, for some, not necessary at all. History has proved this to be wrong. Those who innovate in tough times tend to come out ahead. And guess what, we're seeing that very dynamic play out again.

Under pressure

But first, some context: In May 2020, Kantar began tracking households through three lenses - we call them pressure groups - comfortable, managing, and struggling. These terms are how the households we measure describe their financial circumstances. We've continued to track them through the dark days of the pandemic and into 2023.

When we looked at the most recent full year of data on new products released into the market (2022), we found that struggling shoppers still represented a strong market for branded new products (NPD), even though they are looking for more private label (PL) in their lives.

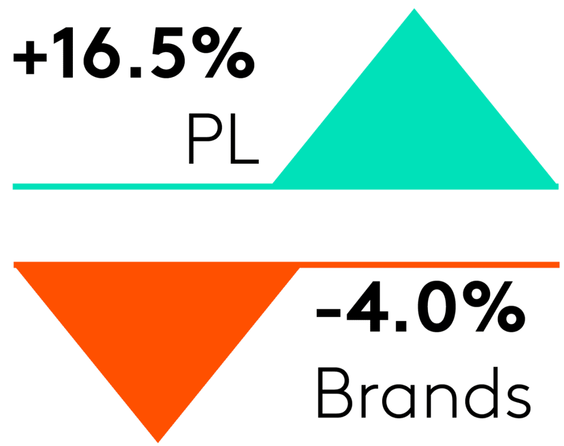
Yes, you read that right — struggling shoppers are willing to risk their hard-earned cash for new products. But brands have to get it right.

Struggling shoppers over-traded in seven out of the top 10 NPDs vs their comfortable and managing counterparts. Even premium propositions had a place for struggling consumers. This is a big deal.

But the reality of private label products and their continued rise is also a big deal. And very real. Private label products, often called own-label, have been handily outpacing branded products introduced to the market.

Growth remains possible

But that doesn't mean the end of the road for branded products. In some categories, such as toiletries, alcohol, and household items, branded innovation growth remains strong. This tells us there is still ample room for consumer goods brands to make their mark, despite the rising competition from private label products.
Perhaps unsurprisingly, we see those consumers who say they are struggling financially are more likely to gravitate towards private label products. While those who are comfortable or managing their finances prefer branded products. Brands, therefore, need to be able to cater to the needs of these different groups by adapting their strategies and product offerings accordingly.



YoY change in NPD spend (Excl NPD), 52 w/e 25 December 2022

Inflationary challenges

Rising inflation is another challenge that looms large, and is part of the innovation picture. As prices continue to rise, consumers become more price-sensitive and start looking for cheaper alternatives, often in private label.

In such an environment, brands that can offer value to consumers without sacrificing quality are often seeing success and mitigating the pivot to private label.

To create and expand on opportunities for growth, FMCG brands and retailers must focus relentlessly on several key areas. Firstly, they need to adapt their product offerings to cater to the different needs and tensions sitting inside consumer groups. Our struggling, managing, and comfortable pressure groups provide a sensible framework to follow. There are, of course, other forms of segmentation our teams commonly deploy. One crucial aspect to consider when adapting product offerings is identifying areas where private label credentials are strong enough to provide a palatable alternative to branded products. This strategy should be led by understanding where shoppers are willing to compromise or sacrifice, and where it would be wasteful to deny brands valuable shelf space. For instance, discounters struggle to crack the toiletries market because established brands dominate the sector. However, this isn't always the case; nappies are an excellent example of successful private label investment.

Overall, the key is to strike a balance between offering more private label products in certain categories while continuing to invest in branded innovation in other categories, always considering the consumers' preferences and the market dynamics.

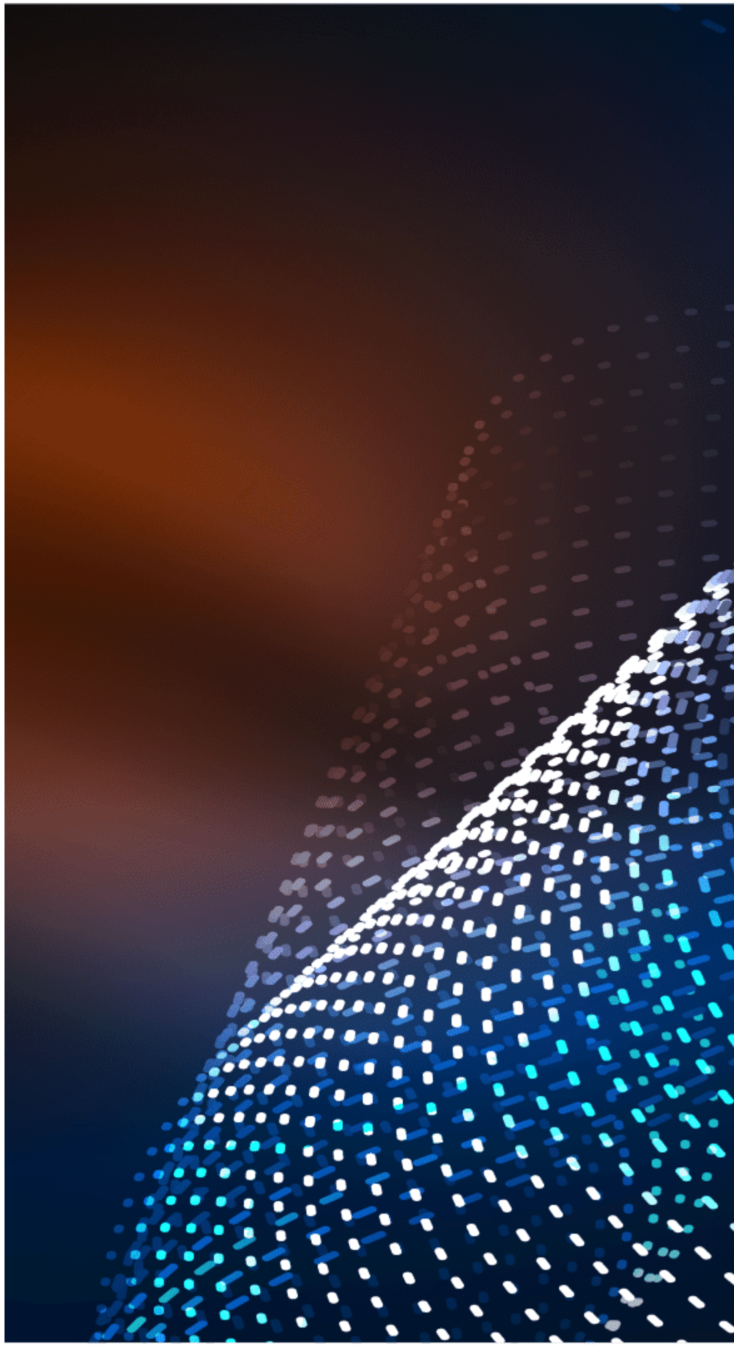
Secondly, brands and supermarkets need to find ways to offer different kinds of value to consumers. For example, this could involve providing products packaged in sustainable materials or providing clarity on the efficacy of the supply chain. Admittedly, sustainable products tend to be a more difficult sale in tough economic times, but remain appealing if the right price point and value exchange can be found. Additionally, brands need to communicate more effectively with consumers about the value they offer and be more transparent about their pricing. The price-sensitive shopper needs brands to remove risk from their considerations at the checkout.

Finally, embracing digital technologies has become a necessity for brands and supermarkets, rather than just an option. Investing in e-commerce platforms, developing mobile apps, and engaging with consumers via social media are now essential to meet consumers' expectations and helping them with their grocery spend. Notably, these digital platforms are more cost-effective than traditional media like TV, making them attractive to those looking to cut back on expenses.
However, it is worth mentioning that historically, businesses that continue to invest in advertising during recessionary periods usually emerge stronger in the long run.

In particular, food products have a unique opportunity to use media platforms to educate consumers about scratch cooking as a cost-saving alternative to eating out or buying ready meals. Brands can leverage digital platforms to provide recipe ideas, cooking tips, and tutorials to encourage more home cooking.

Similarly, in the health and beauty sector, companies can offer beauty tutorials that empower consumers to confidently downtrade from salon services to at-home solutions. By providing valuable content and engaging with consumers through these cost-effective digital channels, brands can also build longterm loyalty.

As the saying goes, if you don't like change, you'll like irrelevance even less.



A closer look at pressure groups

Shopper pressure groups

The Consumer Price Index (CPI) has experienced a significant increase since May 2020, starting at 0.5% and rising **to 10.1% by January 2023**. Interest rates have followed a similar trend, increasing from 0.1% to 4% during the same period. Interest rates have continued to rise since then. These economic indicators have put pressure on consumers, leading to shifts in the sizes of the Kantar pressure groups.

Kantar's pressure groups are households describing themselves in the following way:

Comfortable: I don't have to restrict my spending in any way and can afford most things.

Managing: On the whole, I can manage okay.

Struggling: I'm just making ends meet, or don't have enough to cover expenses.

Comfortable Group:
This group experienced a steady decline in size, from 44% in May 2020 to 33% in the latest data from 2023. This group was most affected by the rise in CPI, especially between April 2022 and October 2022, when inflation jumped from 9% to 11.1%. The increase in interest rates during this period may have further contributed to this group's shrinking size.

Managing Group:
The managing group has shown moderate fluctuations, starting at 41% in May 2020, decreasing to 39% in January 2021, and then increasing to 42% in the latest data off a high of 44% in October last year. This group seems to have partially absorbed the households leaving the comfortable group. The managing group's size changes have been less drastic than the comfortable group, indicating that they may have been better prepared or more adaptable to the changing economic conditions.

Struggling Group:
The struggling group has experienced a consistent increase in size, from 14% in May 2020 to 25% in the latest data, coming off a high in October of 27%. This group has shifted the most when viewed alongside the rising CPI rate and increasing interest rates. As inflation rates soared and borrowing costs grew, the number of individuals finding it difficult to manage costs has nearly doubled. Ballooning energy costs have also undermined spending power. As summer arrives, and energy costs subside, there may be some easing on this group despite grocery prices remaining high.

Britain by the numbers

Reporting Period	UK CPI % increase YOY	Kantar Grocery Inflation % increase YoY	Bank of England interest rate	Pressure Group	Shopper pressure groups
May 2020	0.5	4.4	0.1	**44%**	COMFORTABLE
October 2020	0.7	1.8	0.1	**43%**	
January 2021	0.7	1.5	0.1	**44%**	
November 2021	5.1	3.2	0.25	**41%**	
April 2022	9	5.9	0.75	**34%**	
July 2022	10.1	9.9	1.25	**33%**	
October 2022	11.1	14.7	2.25	**30%**	
January 2023	10.1	16.7	4	**33%**	
May 2020	0.5	4.4	0.1	**41%**	MANAGING
October 2020	0.7	1.8	0.1	**42%**	
January 2021	0.7	1.5	0.1	**39%**	
November 2021	5.1	3.2	0.25	**41%**	
April 2022	9	5.9	0.75	**44%**	
July 2022	10.1	9.9	1.25	**42%**	
October 2022	11.1	14.7	2.25	**44%**	
January 2023	10.1	16.7x	4	**42%**	
May 2020	0.5	4.4	0.1	**14%**	STRUGGLING
October 2020	0.7	1.8	0.1	**15%**	
January 2021	0.7	1.5	0.1	**17%**	
November 2021	5.1	3.2	0.25	**17%**	
April 2022	9	5.9	0.75	**22%**	
July 2022	10.1	9.9	1.25	**24%**	
October 2022	11.1	14.7	2.25	**27%**	
January2023	10.1	16.7	4	**25%**	

Note: Kantar grocery inflation is for four week periods across each of the referenced months

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Chapter 1 - **Aisle be there: Unpacking the new needs of shoppers**

Aisle be there: Unpacking the new needs of shoppers

If it's what's inside us that counts, then counting just became more important.

Consumer goods brands and retailers face the challenge of not only understanding the subtleties of consumer actions but also anticipating them, tailoring their strategies to forge emotional connections and instilling trust. In other words, it's not just about offering the right products, **it's about creating an emotional connection with consumers and convincing them that your brand is their brand, especially if it costs a little more.**

To achieve this, it's essential to travel beyond the obvious and explore the hidden drivers of human behaviour. Take, for example, the demand for certain premium products among struggling shoppers. At first glance, this might seem counter-intuitive - after all, when times are tough, shouldn't people be cutting back on non-essential items?

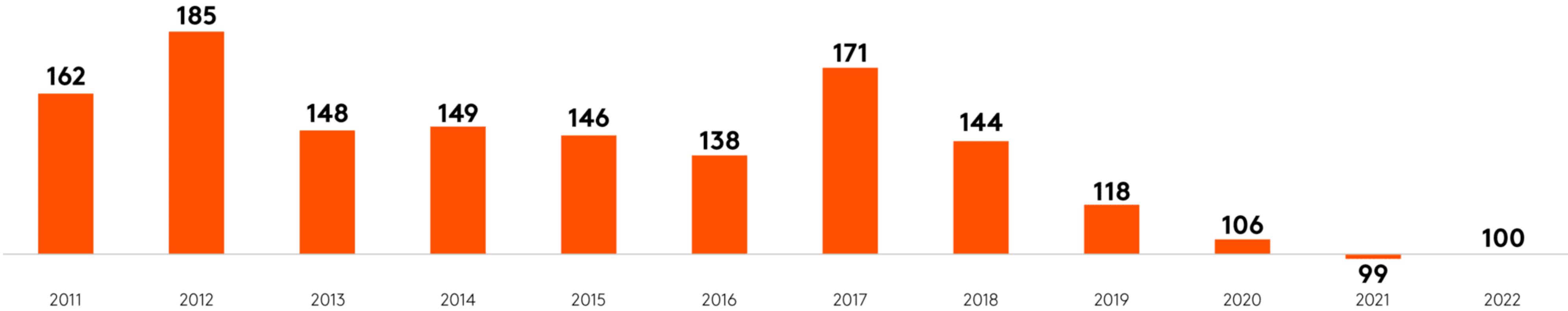
But the reality is more complex. Struggling shoppers are looking for ways to treat themselves, even on a tight budget. They might not be able to afford a fancy vacation or a night out, but they can still indulge in a premium feel beverage or snack.

This insight provides a roadmap for brands and supermarkets looking to tap into this growing market among those with an eye on price. By offering premium products at a well-justified price point, brands can cater to consumers who seek value in terms of both quality and price. Using targeted marketing to reach struggling shoppers where they are allows companies to establish an emotional connection with their customers and build loyalty in the process.

However, it is essential to understand that affordable pricing doesn't imply cheapness; instead, it means that the price feels reasonable based on the product's ability to address consumers' important needs, making it permissible. For example, a consumer may be willing to spend £5 on toothpaste if it effectively addresses gum recession, a critical issue they

18% fewer NPDs listed than pre-pandemic levels

of new NPD SKUs released over period, indexed vs 2022



Kantar, Worldpanel Division, Data up to 31/21/23 | Excludes EPD, periods based on calendar years

face. By delivering a high-quality product that meets a specific need, brands can justify the price, satisfy customers, and create lasting brand loyalty.
The same principles apply across the consumer goods landscape, from alcohol to household products. By focusing on the needs and preferences of different pressure groups, and by tailoring new product strategies accordingly, brands can create a competitive advantage in even the most crowded markets.

The reality is that innovative new products can sell well when done right. That said, the return to pre-pandemic NPD levels is a slow one.

In many ways, the numbers speak for themselves in terms of the trend: innovation levels are low and only just beginning to come back. But those who invest in new products that meet the evolving needs of shoppers can still win.

The top NPDs in 2022 were able to find ways of appealing to the growing number of struggling households. Seven out of the top 10 over-indexed with the struggling group. And interestingly, the managing group of households gravitated to what might be considered upgrades from the basics — to premium, or premium-feel, food and drink products. Madri beer, the top NPD of the year in Britain, was high on their list. Part of this success could be a reflection of taking an out of home beer and making it available for in-home consumption to save money whilst maintaining a premium vibe.

But it's not just about the products themselves. It's also about the way they are presented, packaged, and marketed. By investing in innovative packaging that enhances the product experience and provides added value to customers, brands can create a sense of excitement and anticipation around their products, and help to build an emotional connection with consumers. Madri beer is a great example because it also leaned on the flavour attributes to align with the Spanish provenance messaging to create a total user experience, despite the beer being manufactured in Britain.

And perhaps most importantly of all, it's about being agile and adaptable in the face of changing market trends and demands. By leveraging data and analytics to identify trends and opportunities for growth, and by adopting a test-and-learn approach to trialling new products and marketing strategies, consumer goods brands can stay ahead and create new growth opportunities even in the most challenging of times.

The consumer goods industry is facing a lot of challenges, but there are also a lot of opportunities. Brands that are able to adapt to changing consumer preferences and find ways to offer value to consumers are likely to be more successful in the long run.

Top 10 NPDs of 2022

	Top 10 NPDs	Kantar Worldpanel Shopper Group Index			Observations
		Comfortable	Managing	Struggling	
1	Madri Lager	**96**	**119**	**74**	Manufactured provenance beer – supposedly from spain, made in UK
2	Walkers Reduced Salt Crisps	**89**	**100**	**115**	HFSS compliant
3	Fairy Max Power WUL	**79**	**105**	**124**	Premiumisation
4	Stella Artois Unfiltered Lager	**76**	**113**	**112**	Change in flavour
5	Andrex C/C Mega Toilet Tissues	**144**	**88**	**63**	Sustainability – less packaging also mega pack
6	McVities Blissfuls Biscuits	**92**	**94**	**127**	Snacking/Treat
7	Flash Dust Magnet Dusters	**87**	**99**	**120**	Convenience
8	Cushelle Tubeless Toilet Tissues	**165**	**69**	**69**	Sustainability – less packaging
9	Walkers Wotsits Crunchy	**95**	**82**	**136**	Snacking/Treat
10	Heineken Silver Lager	**114**	**74**	**125**	Lighter flavour to appeal to younger shoppers

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Chapter 2 - **Unwrapping private label in the great "brand-scape"**

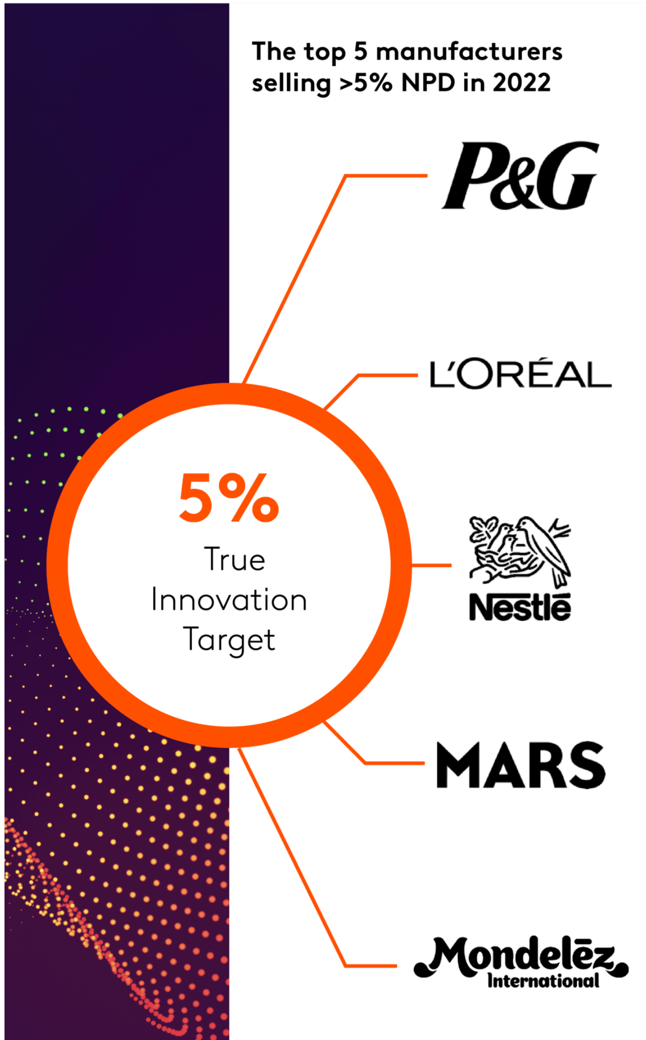
Unwrapping private label in the great "brand-scape"

The growth of private label products is one of the most significant trends in the consumer goods industry today. As Kantar's data shows, private label products have been growing faster than branded products overall. Of course, the trend towards private label products is not new, but in recent years, it has accelerated. Kantar data shows that private label innovation has grown strongly year-on-year (2022 vs 2021), outpacing branded NPD gains. In fact, of the top 100 manufacturers, only 18 had more than 5% of total sales come from genuinely new products. This presents a challenge for branded products, as they struggle to compete with the rising popularity and quality of private label products.

Top five manufacturers for new products

These major manufacturers were the exception rather than the rule. But why are shoppers turning to private label products? With inflation rising and many shoppers struggling financially, the price difference between branded and private label products becomes more pronounced in their decision-making. This, coupled with the fact that private label products are often perceived to be just as good, or 'good enough' in quality as branded products, makes them an attractive choice for price-conscious shoppers.

Interestingly, while struggling shoppers do prefer private label in a rising number of categories, they still show a relatively strong preference for branded NPDs if they can justify the purchase. While the struggling group is looking for ways to save money, they still want to feel good about the products they are buying. They may be turning to private label products for everyday essentials, but they are still interested in branded products that provide an emotional connection or a sense of luxury. The trick for brands is to not overly rely on their brand resonance as price still matters.



Kantar, Worldpanel Division, 52 w/e 26 Dec 2021 Excluding EPD

Retail realities

But the view is different depending on the retail environment, which raises the important question of assortment and the relationship between retailers and brands.

The success of branded products varies across different retailers, as shown in the table below. Asda is the only major store environment where branded innovation has grown vs private label. The table shows the percentage change in 2022 branded spend vs. 2021 by supermarket retailer.

RETAILER	TOTAL GROCERY	INNOVATION	RENOVATION	EXISTING
TESCO	-1.2%	0.4%	2.7%	-1.5%
ASDA	-4.1%	8.1%	-8.3%	-4.3%
Sainsbury's	0.1%	-3.3%	17.7%	-0.8%
Morrisons	-8.1%	-8.7%	7.4%	-8.9%
ALDI	4.9%	-21.9%	-4.9%	8.6%
LIDL	13.9%	-1.5%	11.9%	14.9%
co op	-2.6%	-4.8%	-2.8%	-2.5%
WAITROSE & PARTNERS	-5.4%	-4.0%	17.6%	-6.6%

Kantar, Worldpanel Division, 52 w/e 25 Dec 2022 | NPD = True Innovation (Excluding EPD)

Chapter 3 - **When the going gets tough, brands get innovative**

When the going gets tough, brands get innovative

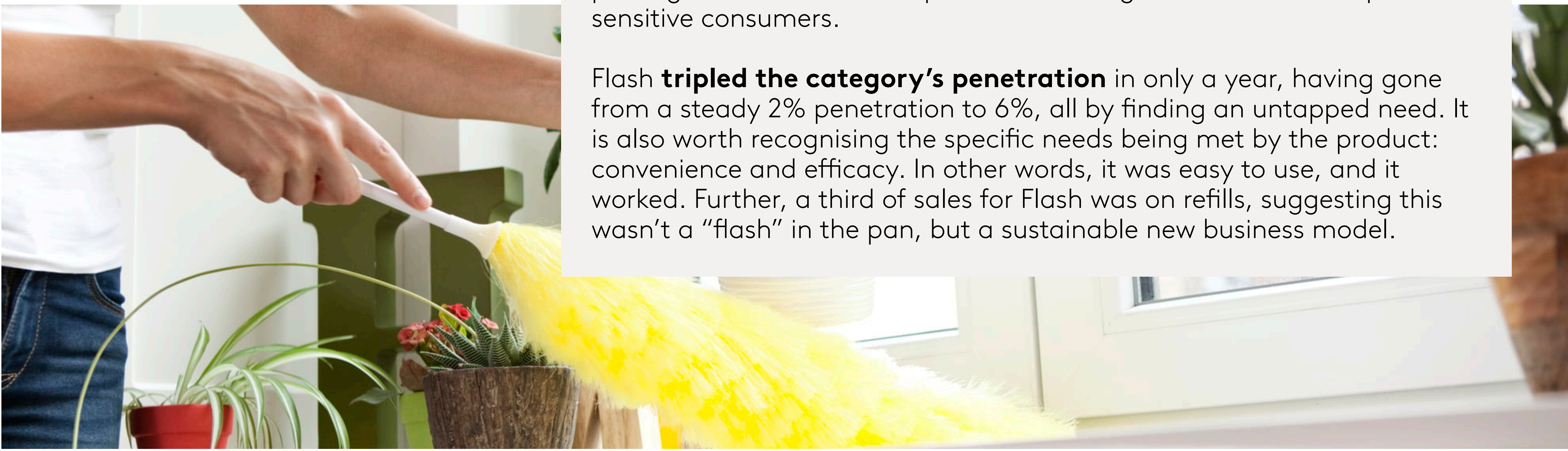
Innovation levels may be down but are far from defeated. Brands that thrived in 2022 leveraged unique and relevant ideas to outshine their competitors, and some even redefined their product categories. A perfect example of this success is Flash, a traditional player in the homecare sector, which introduced a game-changing duster.

Case study: Flash's category dust up

P&G's Flash Dust Magnet disrupted the duster category by tapping into an unmet need. This innovative product features thousands of fluffy fibres that trap and lock in everyday dust, hair, and allergens. It is designed to reach hard-to-reach corners and surfaces in a home, making cleaning more efficient and effective.

Through skilful innovation and marketing, parent company P&G managed to target a wide range of consumers, from young to old and from comfortable to struggling households. Within its first year, the Flash Dust Magnet and its refills generated nearly £10.5 million in sales, proving that a well-crafted premium offering can resonate with price-sensitive consumers.

Flash **tripled the category's penetration** in only a year, having gone from a steady 2% penetration to 6%, all by finding an untapped need. It is also worth recognising the specific needs being met by the product: convenience and efficacy. In other words, it was easy to use, and it worked. Further, a third of sales for Flash was on refills, suggesting this wasn't a "flash" in the pan, but a sustainable new business model.



Key trends and innovation insights

Winning with struggling shoppers

- 7 out of 10 top NPDs overtraded with struggling shoppers
- Fancy toilet paper innovations did not perform well with struggling shoppers, who typically default to private label

Decline in snacking NPDs

- Only three snacking products made it to the top 10 NPDs this year, perhaps an impact of new legislation on high fat, sugar and salt products
- This could be a reflection of HFSS regulations and shifting shopper priorities.

Emerging importance of beer

- Three out of 10 of the top NPDs, and number one in 2023, were beers.
- Faux provenance, more complex flavour, and lighter flavour were the different angles used for these beer NPDs.

Finding performance with shopper pressure groups

- Struggling shoppers overtraded with high-priced NPDs aimed at comfortable shoppers
- The right premium proposition can win with struggling shoppers.

Innovation checklist for retailers and brands (Part 1)

Opportunity	Diversify product offerings	Tailor NPD strategies	Monitor inflation and interest rate trends	Emphasize value propositions	Encourage repeat purchases	Develop agile supply chain
Action	Cater to the needs of all pressure groups by offering a mix of branded and PL products. But be realistic.	Develop products that appeal to the preferences of different pressure groups. Plan to support mental and physical availability. While some NPDs are a natural enough extension of the brand to require minimal advertising support, often expansion to a new target audience or occasion will require education.	Continuously track inflation and interest rate data to adapt pricing strategies and product offerings as needed.	Communicate the value of branded products to maintain customer loyalty, especially among struggling shoppers. Be sure to understand what shoppers perceive as "valuable".	Focus on creating products that build long-term customer relationships, such as refillable systems or loyalty programs. Of course, this is dependent on the product and the category. For some, penetration should be the priority.	Build an agile supply chain to quickly adapt to changing market trends and demands.

Innovation checklist for retailers and brands (Part 2)

By taking these actions, FMCG brands and retailers can better cater to the needs of different pressure groups and create growth opportunities in the ever-changing FMCG landscape.

Opportunity	Increase PL offerings	Expand channels	Monitor competitor activity	Test and learn approach	Prioritise sustainability	Focus on packaging
Action	Invest in private label offerings to capture the increasing demand from struggling shoppers.	Maximise sales channels, such as e-commerce or direct-to-consumer sales, to reach a broader audienc. Typically new products undertrade online because it's harder to change saved favourites but brands continue to pressure online sellers to make it easier.	Keep a close eye on competitor activity and adjust strategies accordingly to maintain a competitive edge.	Utilize a test and learn approach to trial new products and marketing strategies before investing heavily in full-scale rollouts. Taking learnings from Day 1 instead of reacting when de-listings are threatened is key.	Prioritise sustainability in product design and messaging to appeal to environmentally conscious shoppers. This is more difficult when wallets are pressured but is a strong long-term strategy.	Invest in innovative packaging that enhances the product experience and provides added value to customers.

Winner spotlight

Number 1 NPD in 2022

Madri won the wide support of those in the Kantar household pressure groups who consider themselves to be struggling.

The launch of Madri Excepcional tapped into the growing **Mediterranean style lager** trend and is a collaboration between Molson Coors and the Spanish La Sagra Brewery. It was launched in On Trade venues at the end of 2020, but its popularity exploded this year as it launched in Supermarkets.

Madri's appeal is driven by its well-timed launch and **Summer focused marketing campaign**. By April 2022 we started dreaming of sunny holidays abroad as the last Covid restrictions were finally lifted and Madri tapped into this consumer sentiment. Its multimillion-pound investment in the 'El Alma de Madrid' ad positioned the brand as an **escape to the heart of Spain** and made it easy to overlook the fact that the Beer is brewed right here in the UK.

The brand launched with 12 packs, 4 packs and single packs in both bottles and cans. It was first stocked in Asda and Morrisons but during the year has grown its listings in Tesco and in Sainsbury's. Through attracting the ever-difficult to recruit **affluent, younger shoppers**, Madri has managed to become the highly coveted top NPD of 2022 with £17.6m secured in 2022.

KANTAR

Uncover growth opportunities with our innovation solutions

NPD generates 15% of the sales for successful brands

Launch products drive real growth

The aim of new product launches is to drive growth for a brand and the category but also the manufacturer – who often hold the keys to success.

But does a new launch add revenue or is it just selling at the expense of other products?

With our understanding of shopper behaviour and consumption habits, right down to individuals, we can support you at every stage of in the innovation process.

From finding the white spaces through to evaluating the success and incrementality of your launches, we make sure you are making the right investment choices.

A shopper-led approach

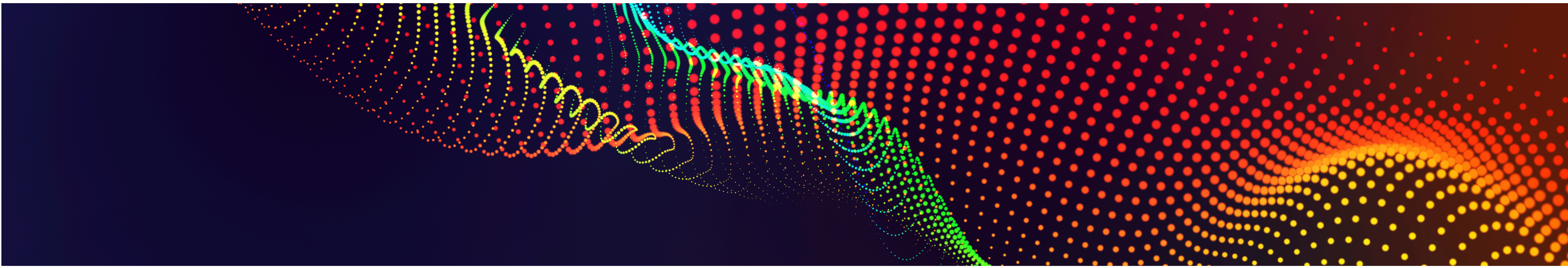
Individual shopper behaviour allows us to measure category incrementality, portfolio cannibalisation and competitor steal to reveal the true impact of your new product launches

Retailer agnostic

Plan launch strategies with confidence using our total market coverage with SKU-level attribution tracking all launches by customer across all channels.

Prediction of success

Simulate outcomes for incrementality and the potential scale of a new product to predict future penetration and frequency.



Our innovation solutions will support you at every stage of the process

Innovation incrementality

For every purchase of a launch, we can analyse pre and post purchase patterns to determine the most likely behaviour had the launch not existed. This allows us to quantify the true impact on brand and category sales.

Pre-launch Planning Simulator

Predict the outcomes for incrementality and scale of a launch to answer, ‘How realistic is your target?’ and ‘How can you maximise incrementality by adjusting price, promotions and pack sizes?’

In-market Trajectory Simulator

Predict future penetration and frequency based on current performance to compare how your launch to date compares to historic launches and predict the most likely year-end position.

Ideation

Understand the occasion your NPD is targeting, refine your marketing and assess which product has the best chance of success.

Concept checking

By talking to real shoppers of your category we can assess the viability of your launch. Uncover and solve barriers to success to create best-in-class listing arguments.

Guidance

Prepare for launch by uncovering the criteria to successful and incremental innovation

First 100 days

Identify and course correct by getting initial feedback from real buyers of your new launch to adjust your approach. We use this to predict where the NPD might end up at the end of year one based on performance to date.

Evaluation

Track the success of your new product and identify whether the sales have been sourced from and how much was truly incremental in order to defend your listings with the retailers.

Thanks for reading!

For more information, please contact

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