UK State of the Nation 2024

Survive, Revive, Thrive

18 January 2024

Your presenters today

You will also receive a recording of today’s session, the deck of insights, and the Total Till Christmas Report.

Click on the feedback button to let us know your thoughts on today’s session.

NIQ

Host

Rachel White
NIQ
Managing Director

NIQ Presentation | 2023 and how it will shape 2024 | Retail Reset | Winning back the hearts and minds of the consumer

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Q&A | Expert Panel Discussion

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Adam Leyland
The Grocer
Editor in Chief

Mockingbird Raw Press | reckitt | The Grocer

Five

key take outs

Total Till for the four weeks to 30th December 2023

It was a **record-breaking Christmas** week with £4.8bn spent on grocery with strong growth (4.3%).

Volume sales increased in the two weeks of Christmas (WE 23rd and 30th December) - the first time in nine months!

Inflation was a key driver of growth as shoppers economised to spend on indulgences.

Star performers this Christmas were Discounters, M&S, Ocado, Sainsbury's and Tesco.

Retailers turned to **promotions** (26.5%) to combat price intensity with price and loyalty scheme discounts.

Source: NIQ Total Till WE 30.12.23

2023
in numbers

Inflation reached highest rates in over 40 years, driving shoppers to cut back and resulting in nominal growth

Total Store Value Sales

£196bn

Value Sales Growth vs Last Year

+7.0%

ONS CPI Annual Rate

+4.0%

Volume Sales Growth vs Last Year

-1.8%

Missed sales due to availability issues

£2.7bn

BRC/NIQ Food Price Index

+6.7%

Sources: NielsenIQ Scantrack, Total Store, Total Coverage incl. Discounters, 52 we 30.12.23 | NielsenIQ OSA, 52we 31st Dec 2022 | NielsenIQ QBN, 52we 31.12.22 | www.ons.gov.uk CPI Annual Rate to Dec 2023 | BRC/Nielsen IQ Food Inflation, December 2023

NIQ

2023 and how it will shape 2024

Katrina Bishop

Five years of retail disruption and changing shopper behaviour

2023 Survive, 2024 Revive, 2025 Thrive

← 2021
Pandemic disruption

2022
Inflationary pressure

2023
Cost-of-living Crisis

2024
Volume recovery

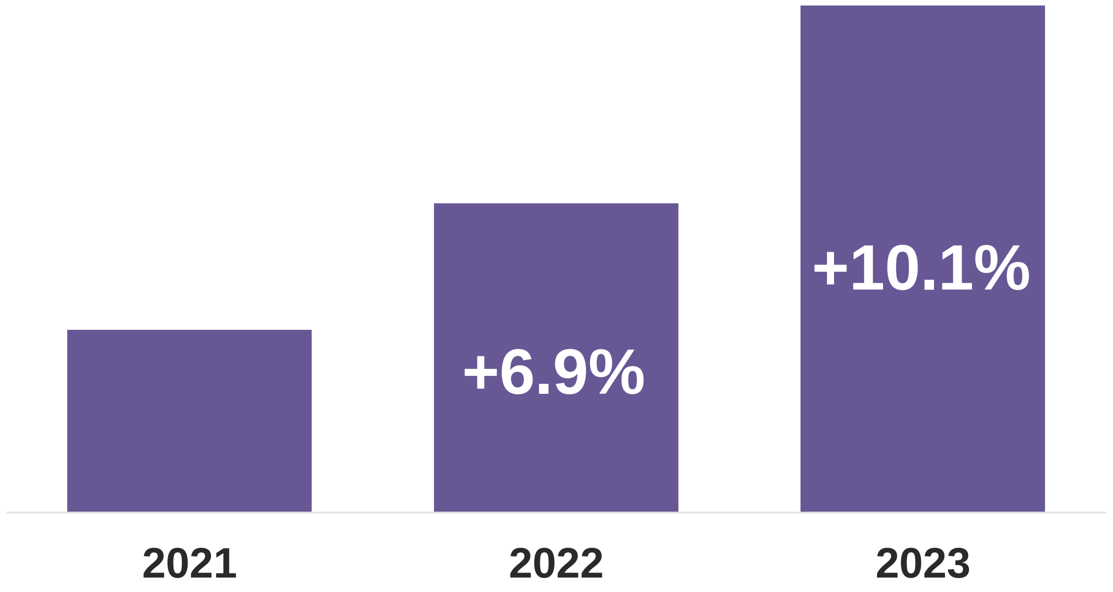
NIQ Prediction
We could finish 2024 with a value growth of 5%

2025 →
Next Normal?

https://www.bbc.co.uk/news/business-67505811 - families £1900 poorer
Energy bills go up in January +5%

The compounding effect of inflation is a reduction in purchasing power

Annual % Increase in prices on the overall shopping basket



£100 → £118 →

Consumers are spending

18% more on FMCG

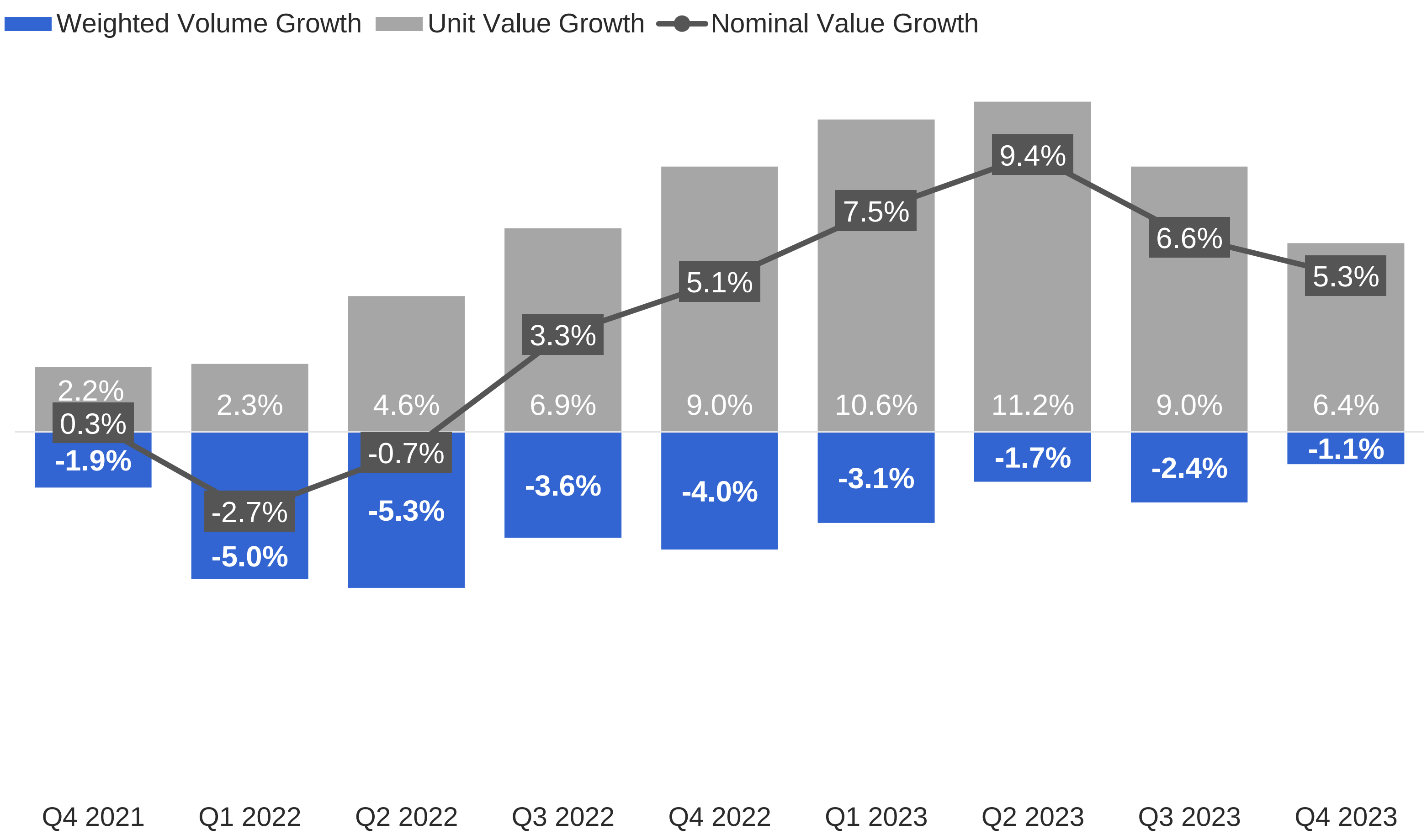
vs. 2021

Source: NIQ UK Scantrack | Total Coverage incl. Discounters | FMCG (excl. Tobacco and Non-Food) Price per Item % Change, Latest 52 weeks 30 December 2023

… leading to two years of falling volumes

Two-year trends

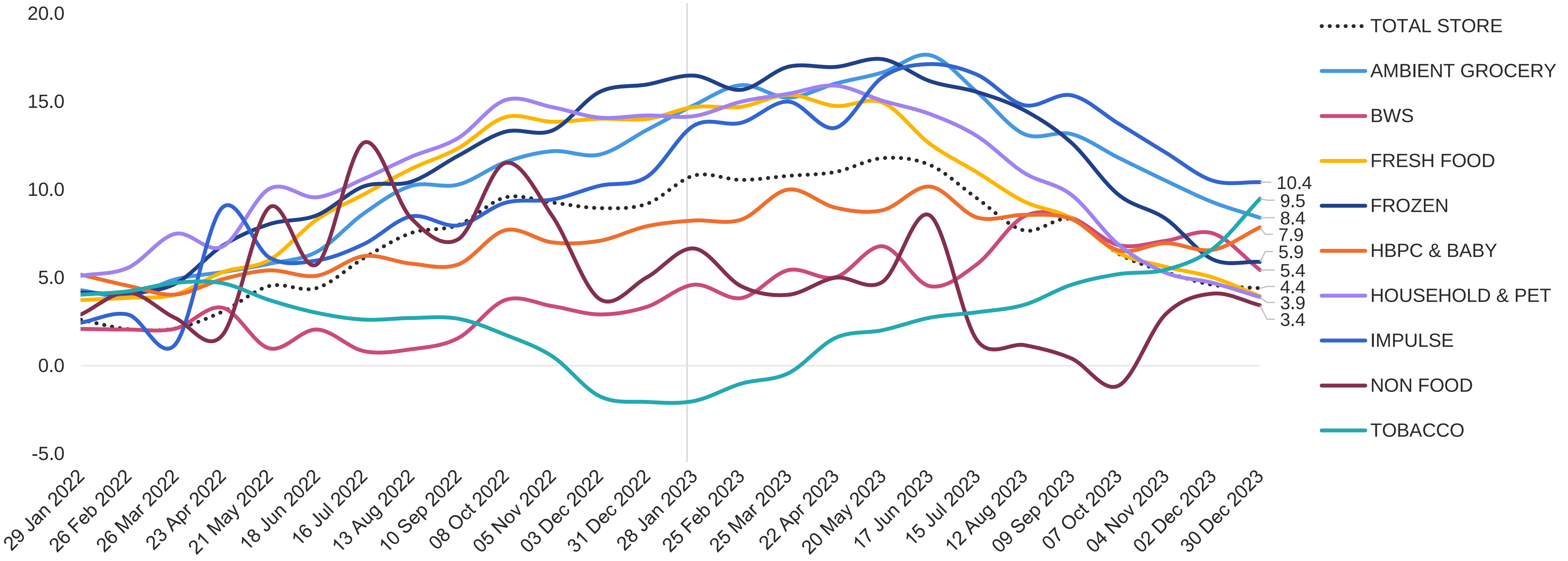
Nominal Value Growth - Total Store



Source: NIQ QBN (Scantrack Total Coverage + Discounters)

Food inflation is decelerating but prices are still high - and are higher than last year

Price per Unit % Change vs Year Ago by Super-category

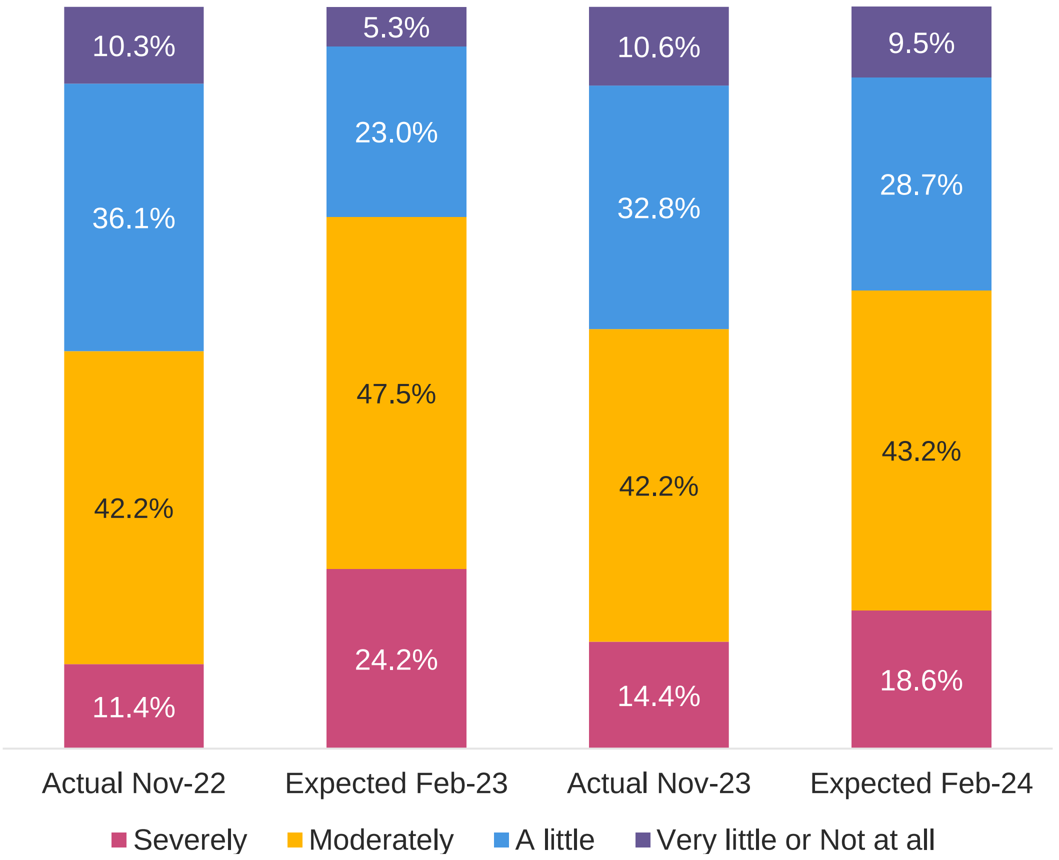


Source: NielsenIQ Scantrack | 4W rolling to WE30.12.23 | Total Coverage inc. Discounters

Consumer Confidence is still below -20* with most households still concerned about the cost-of-living increases in the months to come

Cost-of-living impact

% respondents



Q: How much do you think the cost of living crisis will be impacting you in 3 months time?, How much is the cost-of-living crisis impacting you at the moment? | Source: Homescan November 2022 and 2023 Survey | *GfK Consumer Confidence December 2023

57% of shoppers are moderately/severely affected currently

62% anticipate that in February 2024 they will be moderately/severely affected

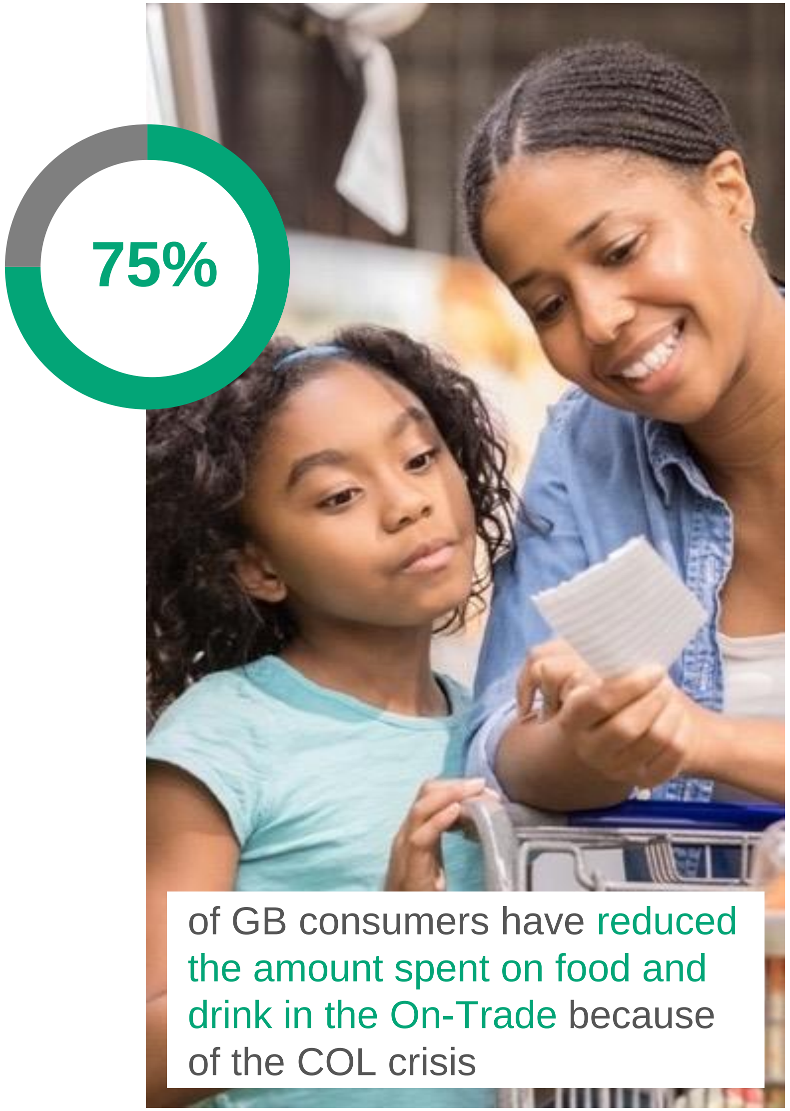
An NIQ Company

Consumers have adopted a range of strategies to manage spending

Which of the following actions are you currently doing to help manage the COL crisis?

% respondents

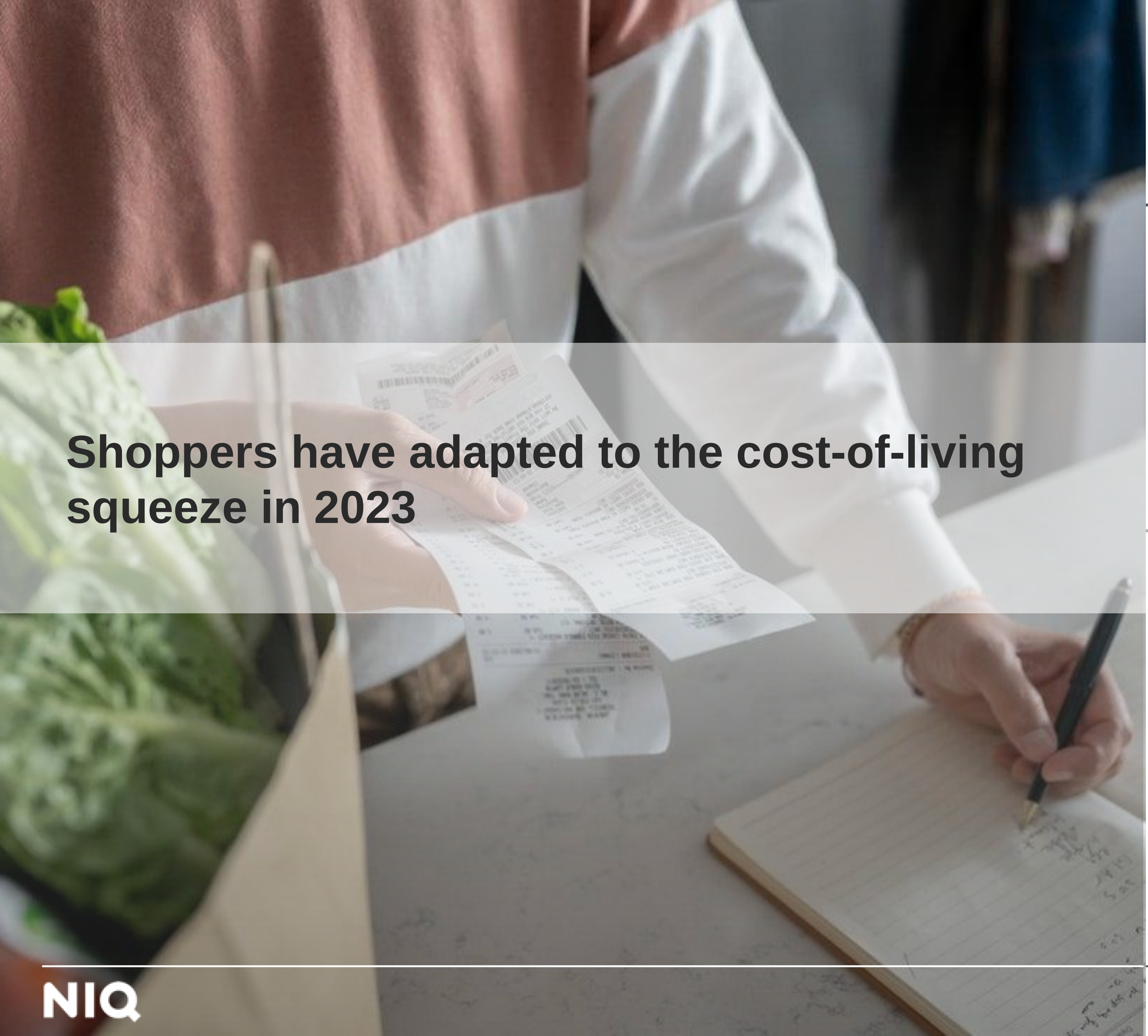
		Total GB	Severely impacted by COL	Moderately impacted by COL	A little impacted by COL	Very little or not impacted by COL
1	Cutting down the amount of heating used at home.	56%	72%	64%	48%	25%
2	Reducing electricity used at home.	52%	70%	59%	44%	22%
3	Reducing food wastage.	50%	62%	54%	47%	28%
4	Reducing spend on clothes.	47%	69%	56%	37%	14%
5	Not buying treats and non-essentials when grocery shopping.	45%	68%	54%	34%	12%
6	Reducing spend on takeaways.	44%	64%	50%	37%	15%
7	Reducing spend on meals out.	41%	59%	49%	33%	12%



Source: NIQ Homescan Survey Nov 2023 | Green = over index, red = under index

Retail Reset

Hannah Oakley



Shoppers have adapted to the cost-of-living squeeze in 2023

Economise and Reprioritise

- Buying less
- Reduced basket size
- Own Label alternatives
- Reprioritising spend

Shifting Spend

- Key attribute for store choice is price
- Helping to fuel Discounter growth
- Own Label spend movements within sub brand tiers
- Promotional activity shifted to loyalty price cut initiatives

The Considered Consumer

Frequency
193 Trips
+3% on YA

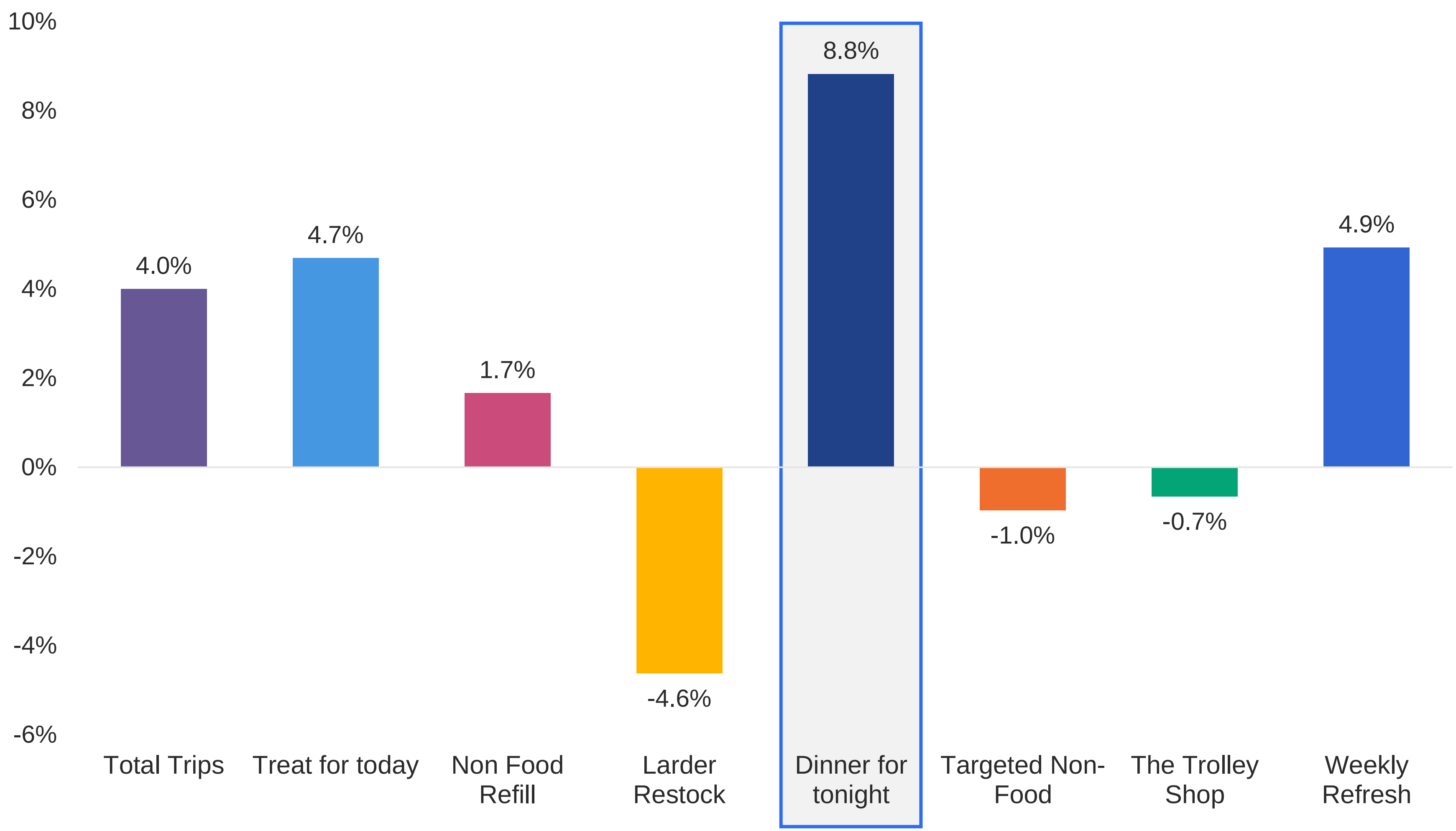
Spend per trip
£23.49
+5.1% on YA

Units per trip
12.2 items
-4.7% on YA

Source: NielsenIQ Homescan, Total Outlets, FMCG, 52we 30th December 2023

We’re seeing a changing dynamic in the types of trips shoppers are making

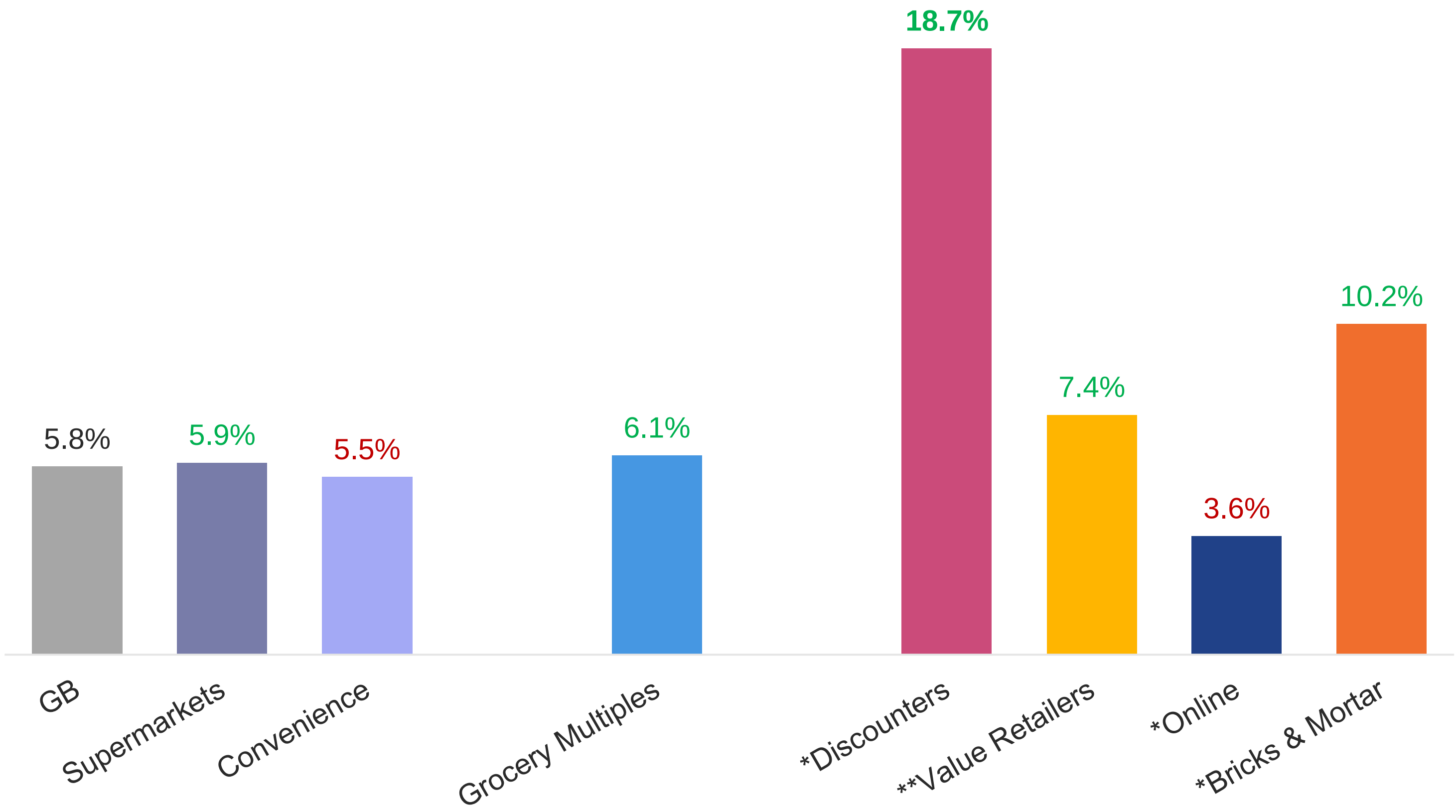
Trips by Mission % Change Total GB vs. Year. Ago



Source: NIQ Homescan Panel | 52we 30 Dec 2023 | NIQ Missions in Total FMCG | % Change I Trips by Mission Total GB vs YA

The Discounters outperformed the industry in 2023, helping shoppers manage budgets

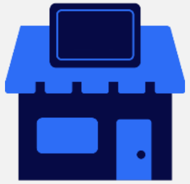
Total Store Channel Value Growth vs YA



Note: Supermarkets include dark stores and pick stores
Source: NIQ Scantrack total store read, *Homescan FMCG,**Homescan Total FMCG | 52we 30th December 2023

Channel % share | Share Change vs YA

Supermarkets
72.7% | +0.1pts



Convenience
27.3% | -0.1pts

Online
10.7% | -0.4pts

Discounters
20.8% | +1.6pts

Source: NIQ Scantrack, Nov 2023
NIQ Homescan Total FMCG, 52we 30th December 2023

Discounters prosper as shoppers navigate the cost-of-living squeeze

+4%

Aldi and Lidl were the only retailers to grow Larder Restock and Trolley Shop missions in 2023 (+4%).

36%

Over a third of additional FMCG trips in 2023 were made in Discounters.

100m

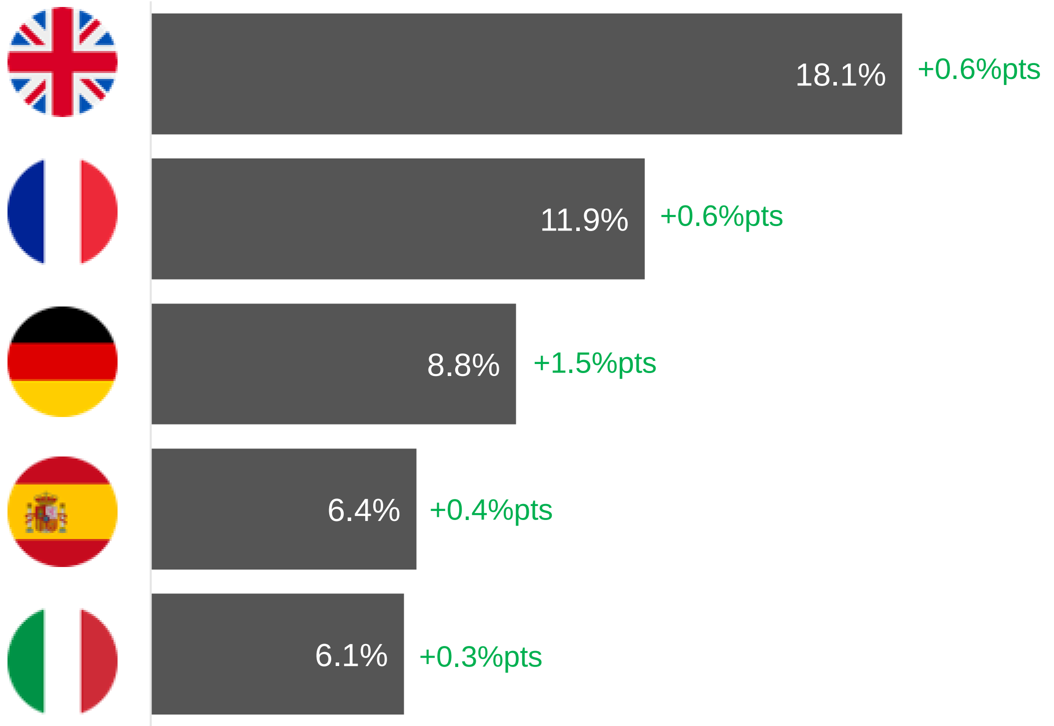
That's almost 100 million more trips in Aldi and Lidl than in 2022.

Source: NIQ Homescan | 52w/e 30th December 2023 vs. Yr. Ago, Change in Trips/Occasions, Aldi & Lidl in FMCG

Our broadest read of E-commerce – Omnisales, shows the additional potential for online growth via all online routes to market including Pure Players and DTC

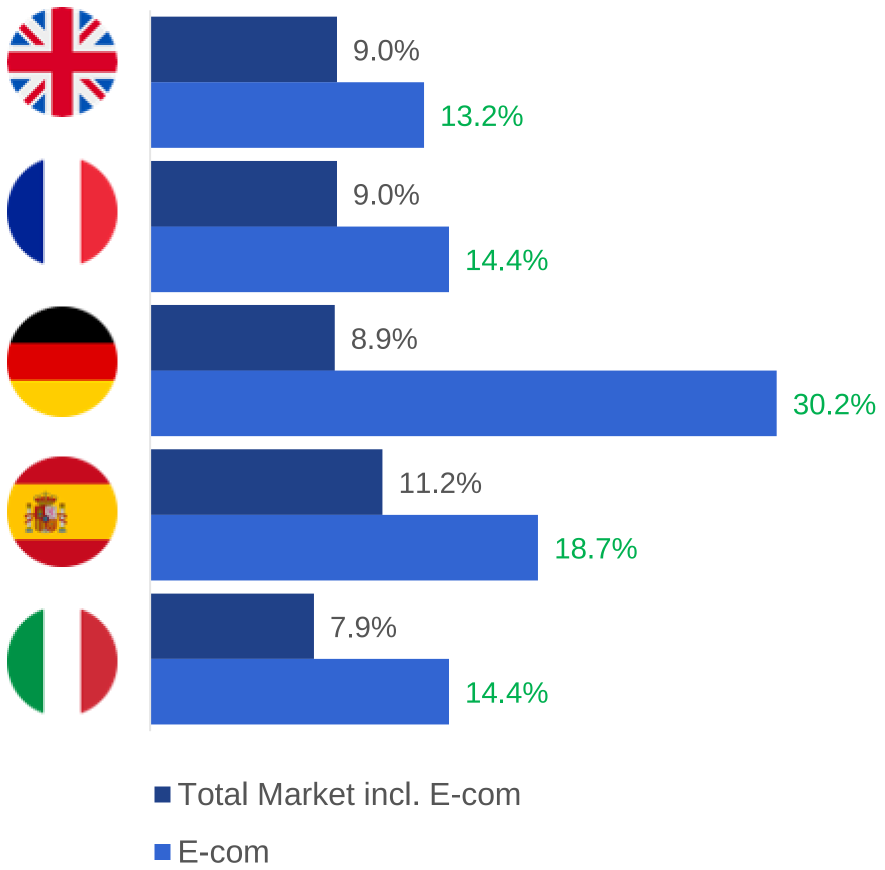
E-com Share of Trade | +/- pp change vs YA

MAT 2023



Value % Change vs YA

MAT 2023



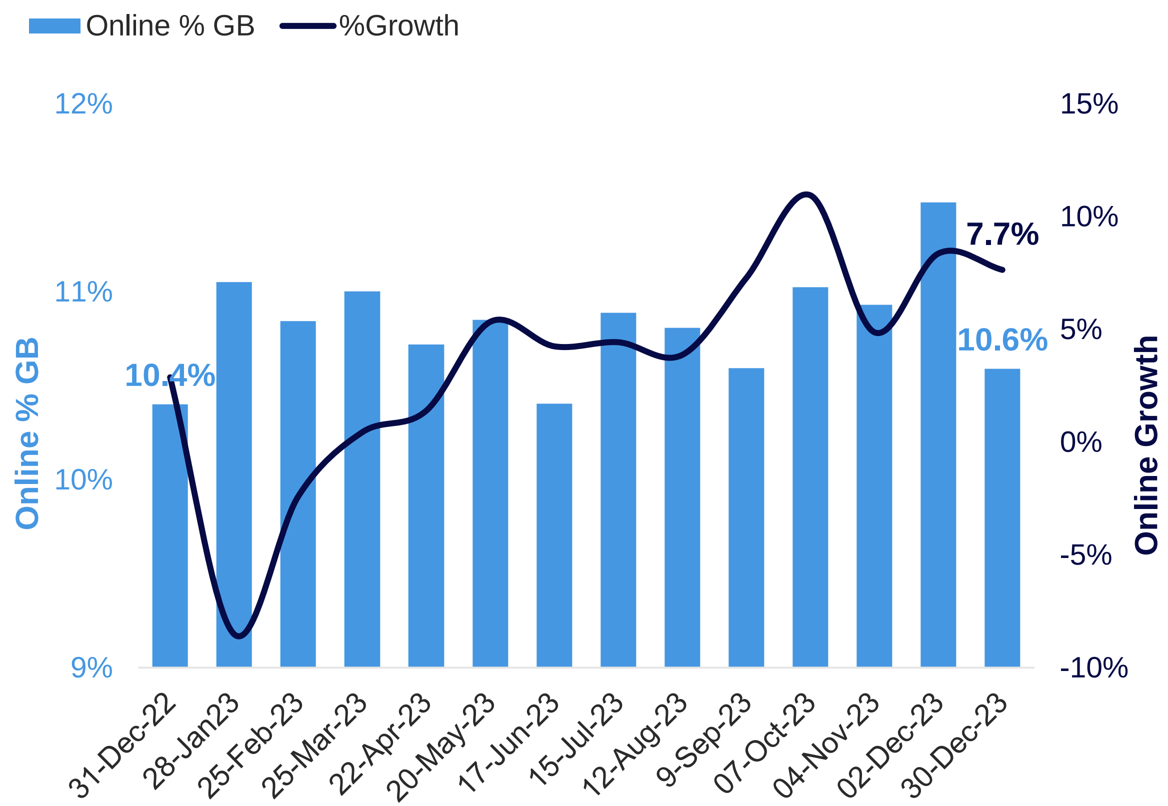
Source: NIQ Omnisales Cross-Category Database | 52w ending 30th December 2023

Omni is important and online growth is picking up

Throughout 2023, over half of shoppers shopped across both in-store and online.

Online Performance

Online Share (bars), Online Growth (line)

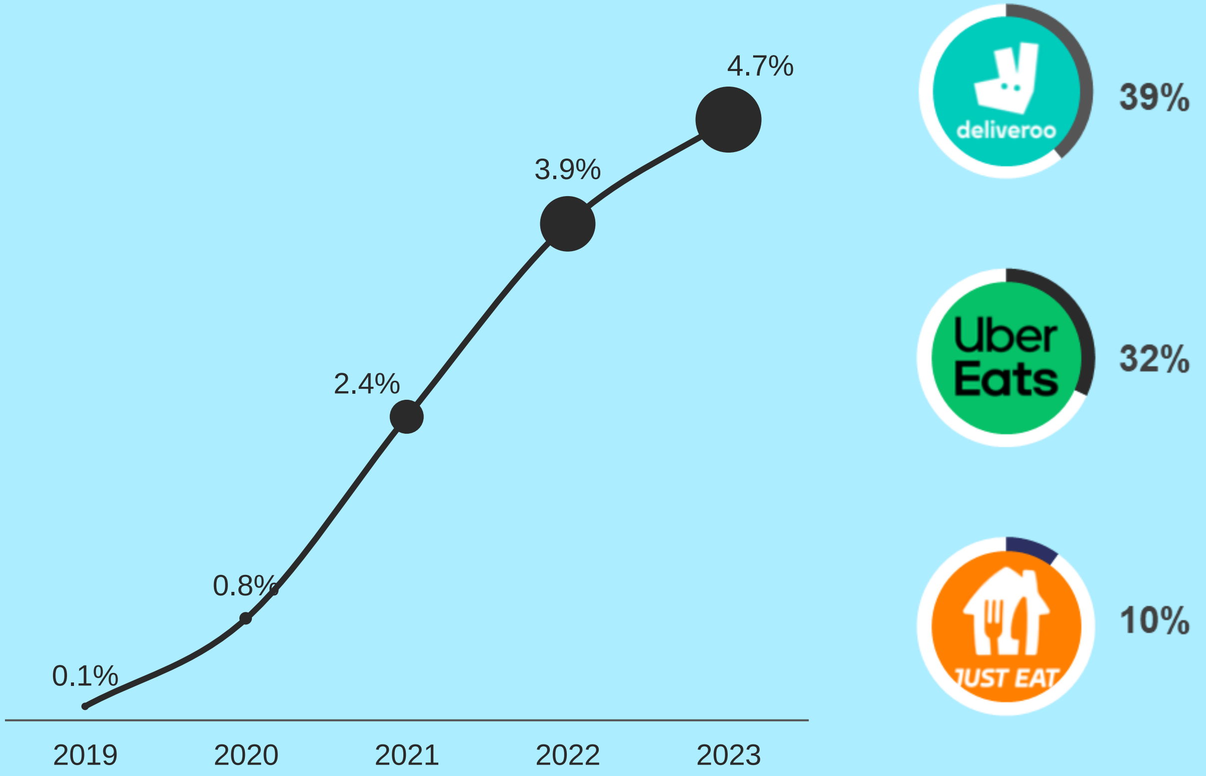


Source: NIQ Homescan Online FMCG, Data to 30th December 2023 | NielsenIQ Homescan Survey, November 2023

Rapid delivery's expansion is helping online tap into different missions

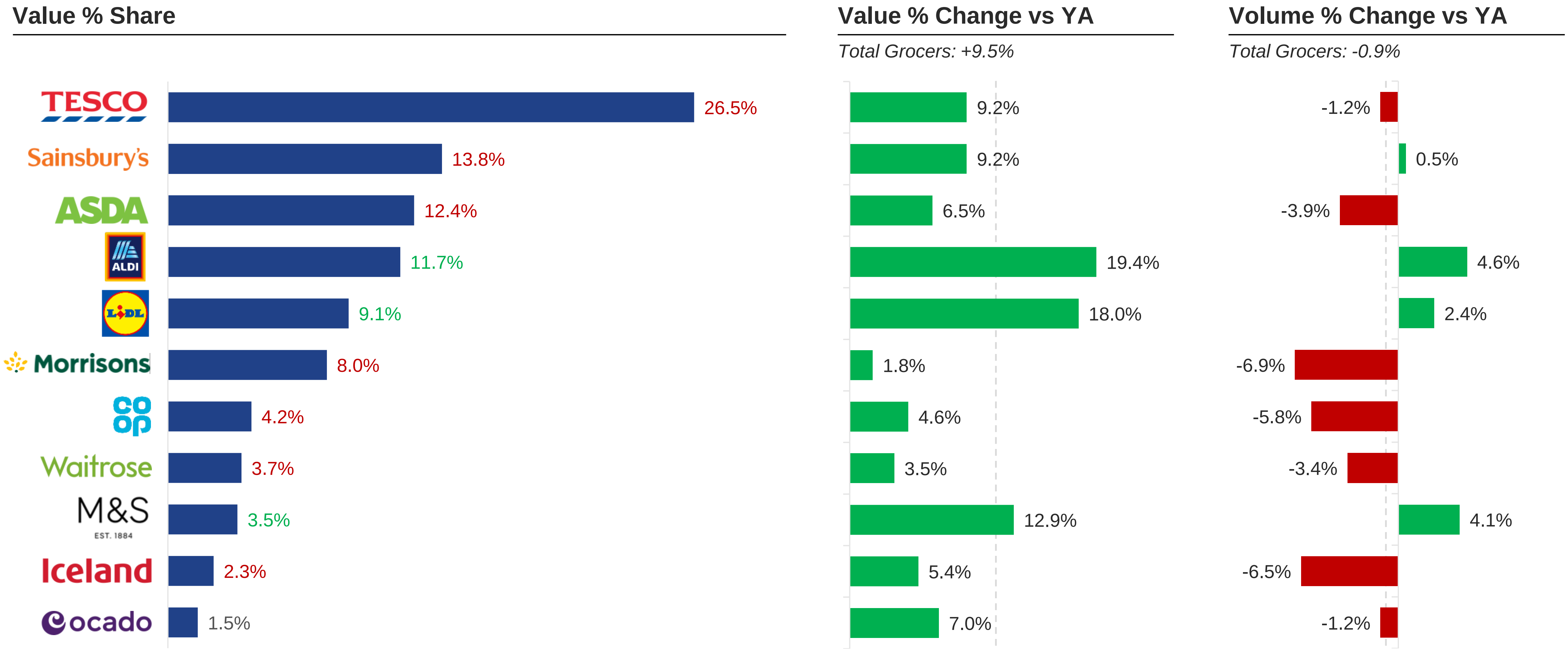
Rapid Delivery Share of Online | Merchant Share of Rapid Delivery

Value MAT 2023



Source: FoxIntelligence by NielsenIQ, 30.12.23

Aldi and Lidl experience strong growth, boosted by additional shoppers and an expanding store estate

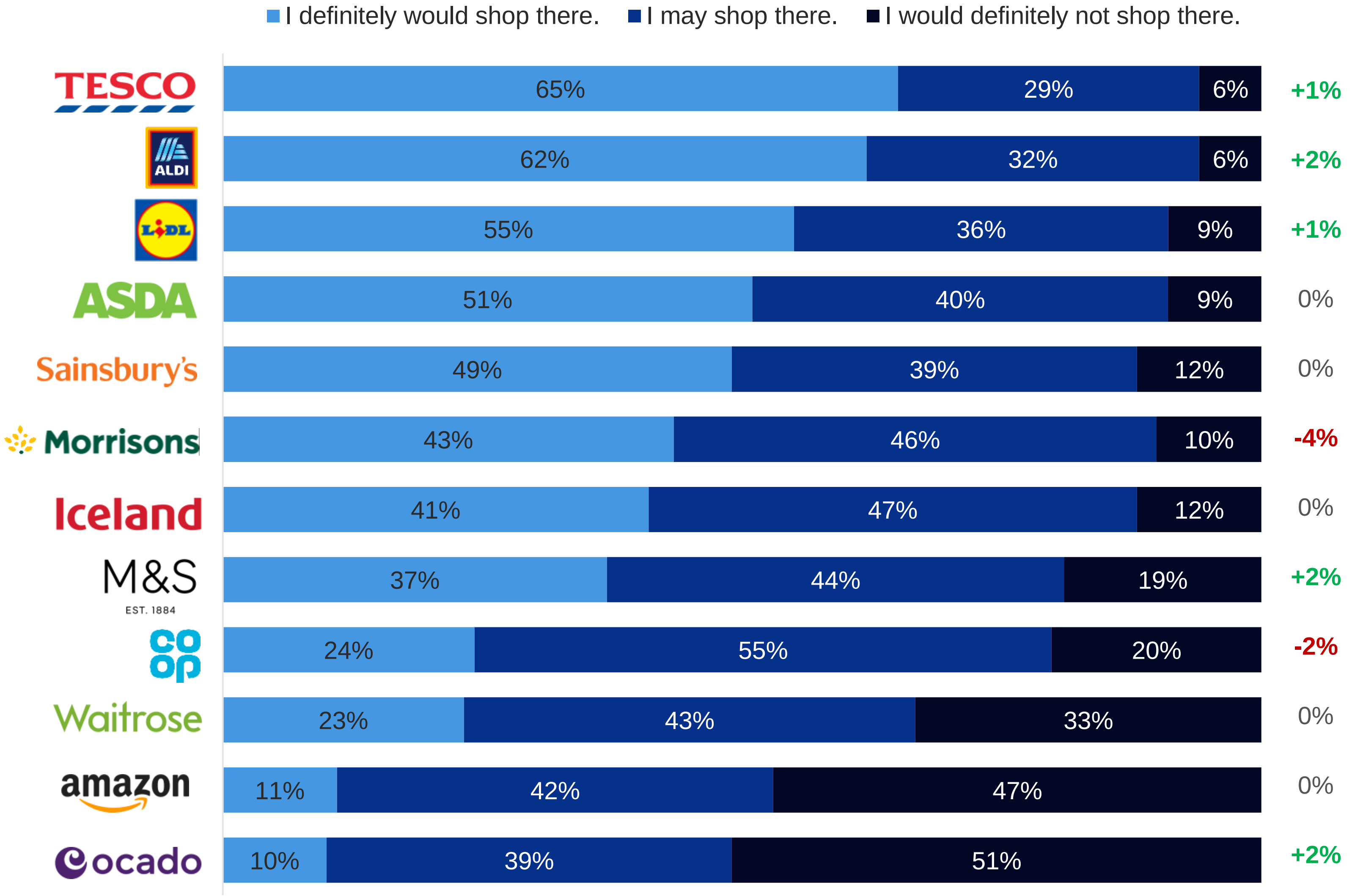


Note: Retailers share shown in red indicates lost value shave vs YA, retailers share in green indicates gained value share vs YA
Source: NielsenIQ Total Till, FMCG, 52 w/e 30.12.23, value share of Total Grocers & value % change vs YA | NielsenIQ Homescan FMCG 52 w/e 30.12.23, unit sales % Chg. vs YA

Aldi is challenging Tesco as the retailer shoppers say they want to shop at

How likely would it be that you would shop at the following grocery retailers?

% change 'would definitely shop there' vs 2022



Source: NielsenIQ Homescan Survey 2023 | Attitudes to Retailers
Q. Assuming there were no obstacles preventing you from shopping at the following grocery retailers, for each one listed, please indicate how likely it would be that you would shop there?

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Price is now the #1 factor driving store choice, displacing overall shopping experience

Attribute ranked by importance to shoppers in deciding where they do their shopping; Retailers ranked by performance on attribute out of a pre-defined list of retailers

Weighted Ranking	Attribute	1st	2nd	3rd
1st (2)	**Price**	ALDI	LIDL	TESCO
2nd (1)	A good overall shopping experience	TESCO	Sainsbury's	ALDI
3rd (3)	Promotions and offers	TESCO	ASDA	Sainsbury's
4th (4)	Providing convenient ways to shop	TESCO	ASDA	Sainsbury's
5th (5)	Good use of technology	TESCO	Sainsbury's	ASDA
	Overall	TESCO	ASDA	Sainsbury's

M&S EST. 1884

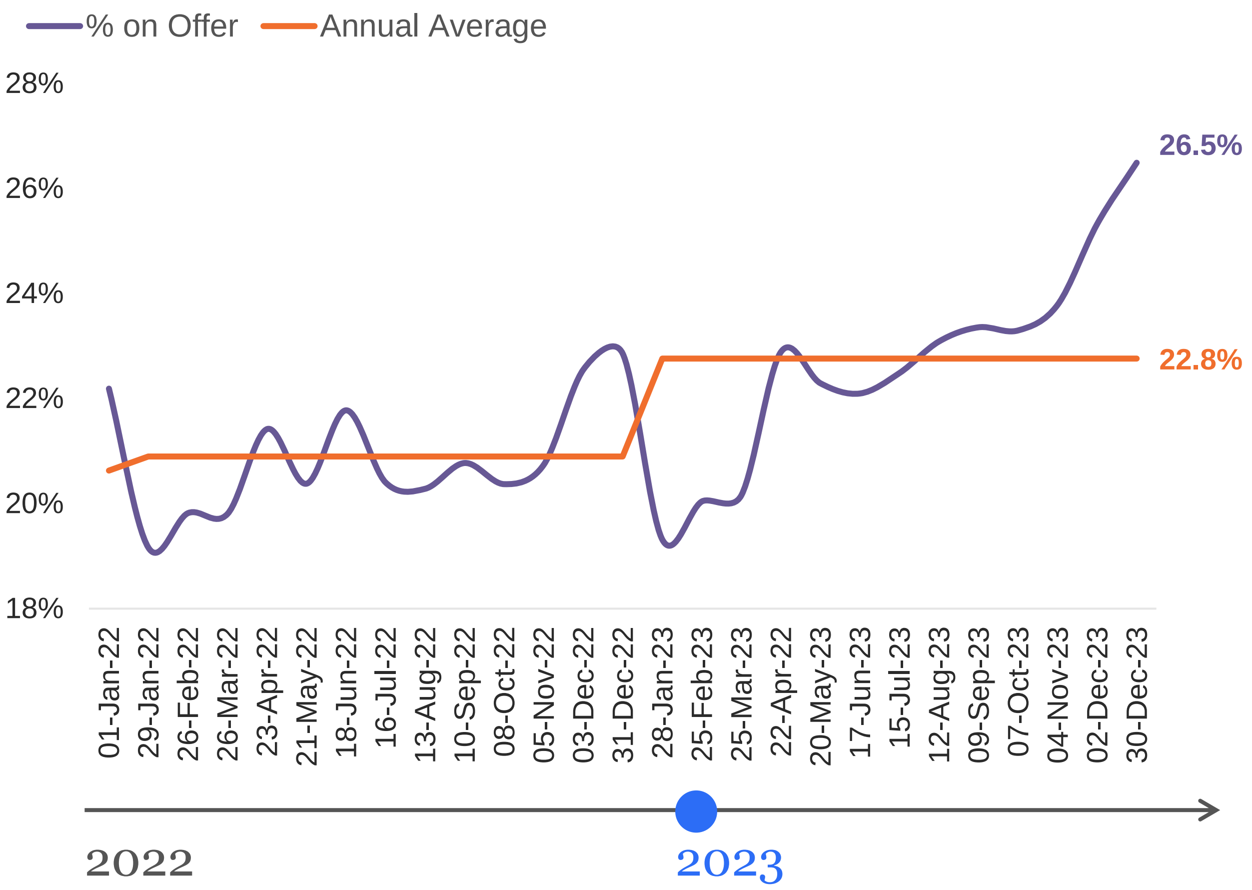
In line with positive performance in 2023, **M&S ranked #1 for**: **Good quality food and drink, good environmental practices, and good ethics and social responsibility.** These attributes rank in 8th, 9th and 10th respectively in terms of attributes importance to shoppers.

Source: NIQ Homescan Survey 2023 | Attitudes to retailers | numbers in brackets () show 2022 ranking

Promotional spend at its highest level for four years

% of FMCG value sales bought on offer

Four weekly trend



Source: NIQ Homescan FMCG Multiples (including Discounters)

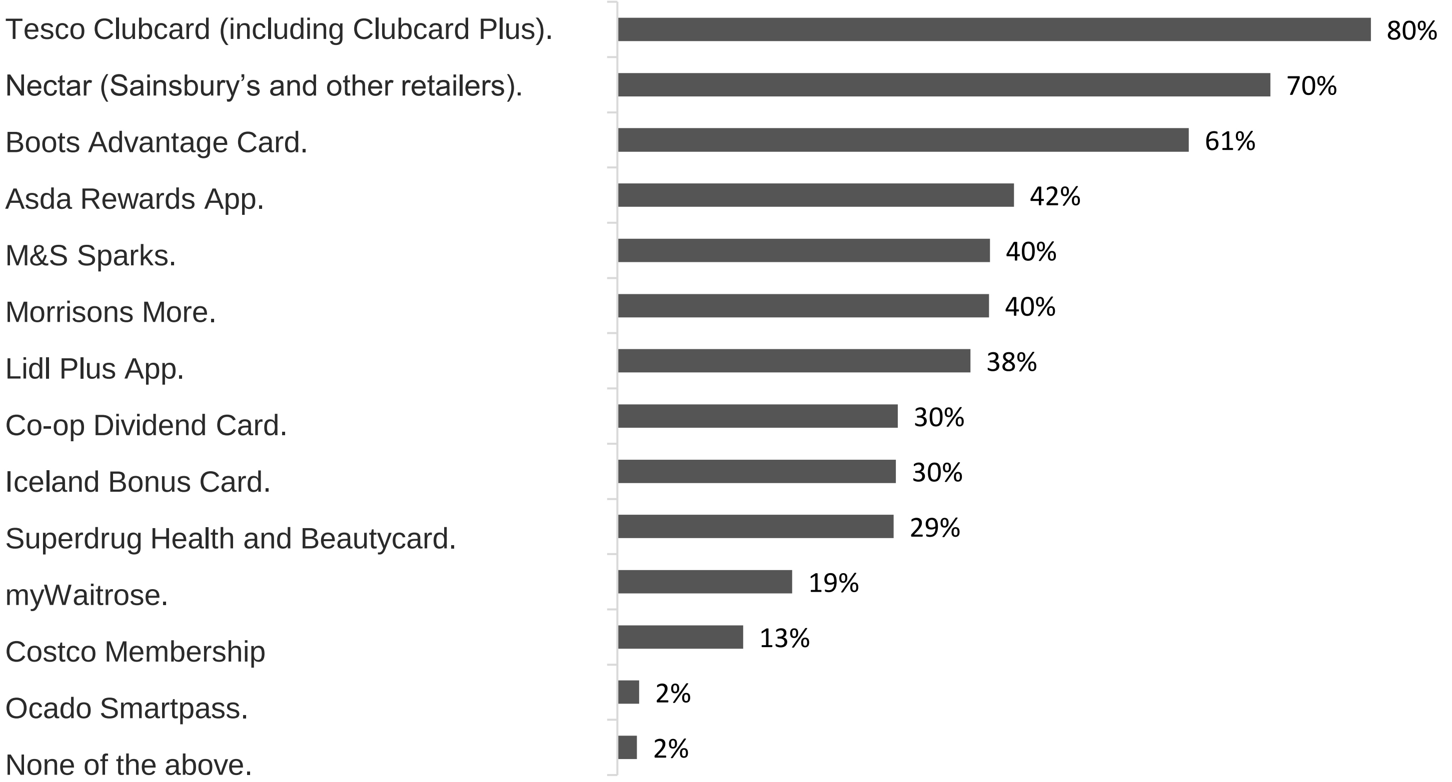
Loyalty is one of the levers retailers have pulled to win

Top reasons for taking part in loyalty scheme: (1) to get the price promo, (2) to get the points, (3) to get a voucher off the next shop, and (4) to get a voucher for retail partners

of GB consumers said that loyalty card promotions influence where they shop

Currently, which grocery retailer loyalty schemes do you actively take part in?

% respondents

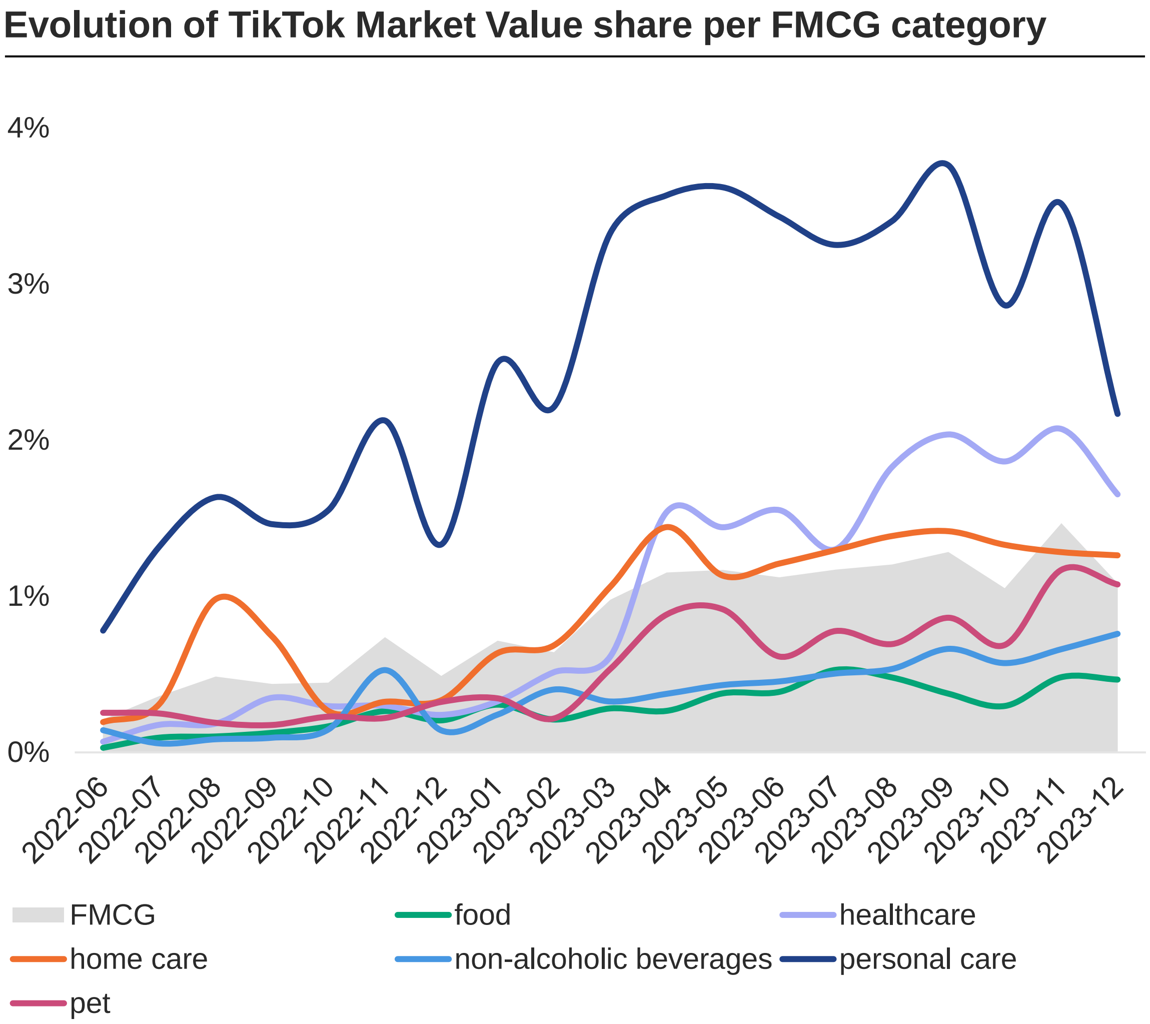


98% of UK shoppers take part in at least one retailer loyalty scheme.

Source: NIQ Homescan Survey Nov 2023

Creating a connected consumer experience is imperative

It’s more important than ever for brands to understand the opportunity to match physical and mental availability.



Source: Fox Intelligence data FMCG (calibrated E-commerce)

As we move into 2024, retailers are better versed at adapting and coping with changing consumer demands

Retailer Resilience

– Changing consumer demands
– Heightened shopper expectations
– Retailer cost pressures
– Pending General Election

Retailer Reset

The quest to gain shopper loyalty will intensify and reinforces the need to maintain transparent price strategies, price locks, and price matching.

What is next for FMCG Retailing?

- **Omnichannel** is here to stay
- Explore new ways of **connecting with consumers**
- **Personalisation** of product and preferences → digital reward programmes
- Evolving expectation for shoppers to be **rewarded** for shopping
- **Technology** as a competitive advantage
- **Own Label** development to continue
- Acceleration of **ESG and Sustainability**
- Industry **consolidation**

Winning back the hearts and minds of the consumer in order to grow volume

Katrina Bishop

Two dynamics affecting FMCG going into 2024

1

2023 weighed heavily on household budgets - and on **grocery's bottom line**

72%

of 251 subcategories added value sales in 2023, and of those 43% achieved double digit growth.

71%

of subcategories experienced unit declines in 2023.

38% of shoppers say it's very important to make savings on their grocery bills so there was a need to balance budgets and cut back.

2

Shoppers tried to economise without compromising - by **turning to Own Label**

63%

Own Label Share of Unit Sales

Own Label growth +1.0% vs LY

Branded growth : -4.0% vs LY

55%

Own Label Share of Value Sales

Own Label growth: +12.0% vs LY

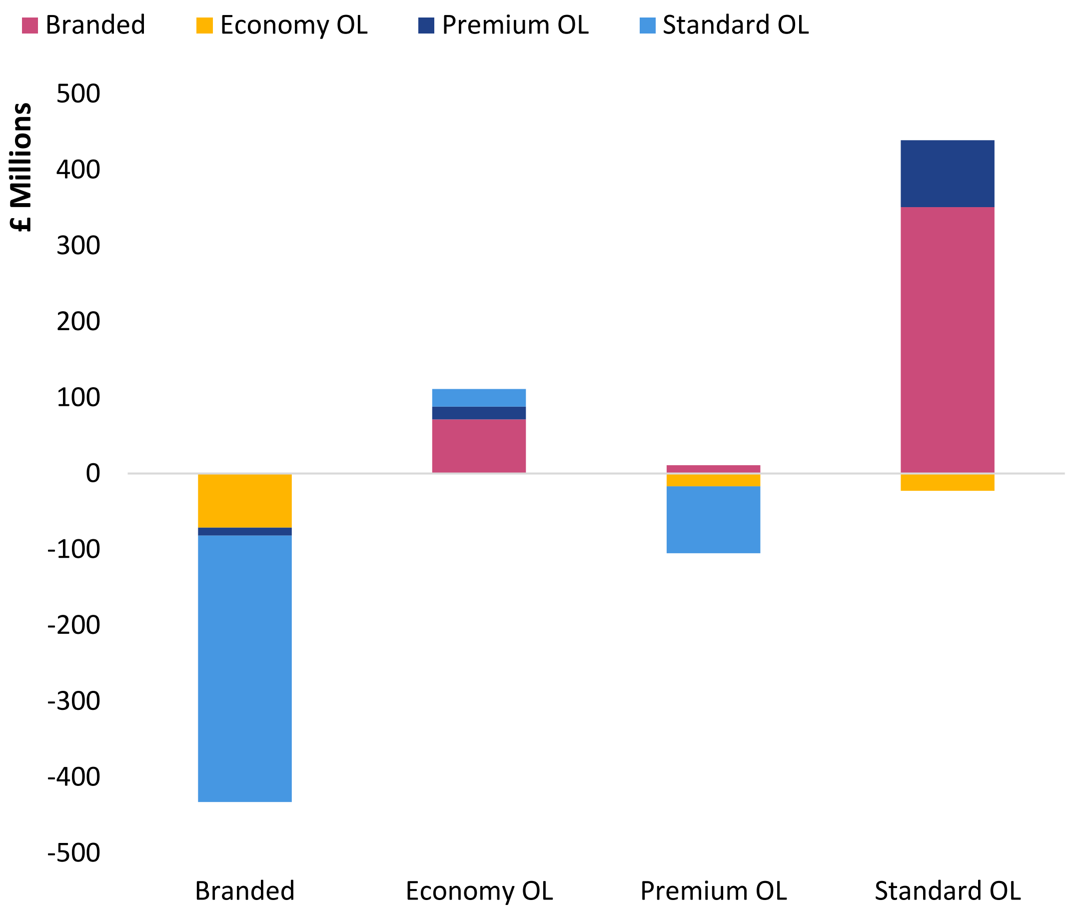
Branded growth: +6.5% vs LY

93% of people buy Own Label products, and over a third say it's because they are as good as the branded products, just cheaper.

*Source: NIQ Homescan Survey Nov 2023 | NIQ Scantrack Subcategory level, Total Store, Total Coverage incl. Discounters, 52 WE 301223

Spend movements within Branded to Own Label tiers highlight shoppers’ desire to economise

Value Sales Shifting between Branded and Own Label Tiers



Source: NielsenIQ Homescan | Total GB | FMCG | 52we 30th December 2023

Image Source The Grocer Top Products

Strategies for Growth in 2024

Measurable Growth Levers and
Future Differentiating Levers

Executional excellence
Growth in new channel

Innovation
Entering or creating new spaces

Understanding missions
Considered pack sizes and maximising occasions

Focus on brand equity
Communicating values

Health and wellness
Claims and communications

Environment and Sustainability
Commitments and credentials

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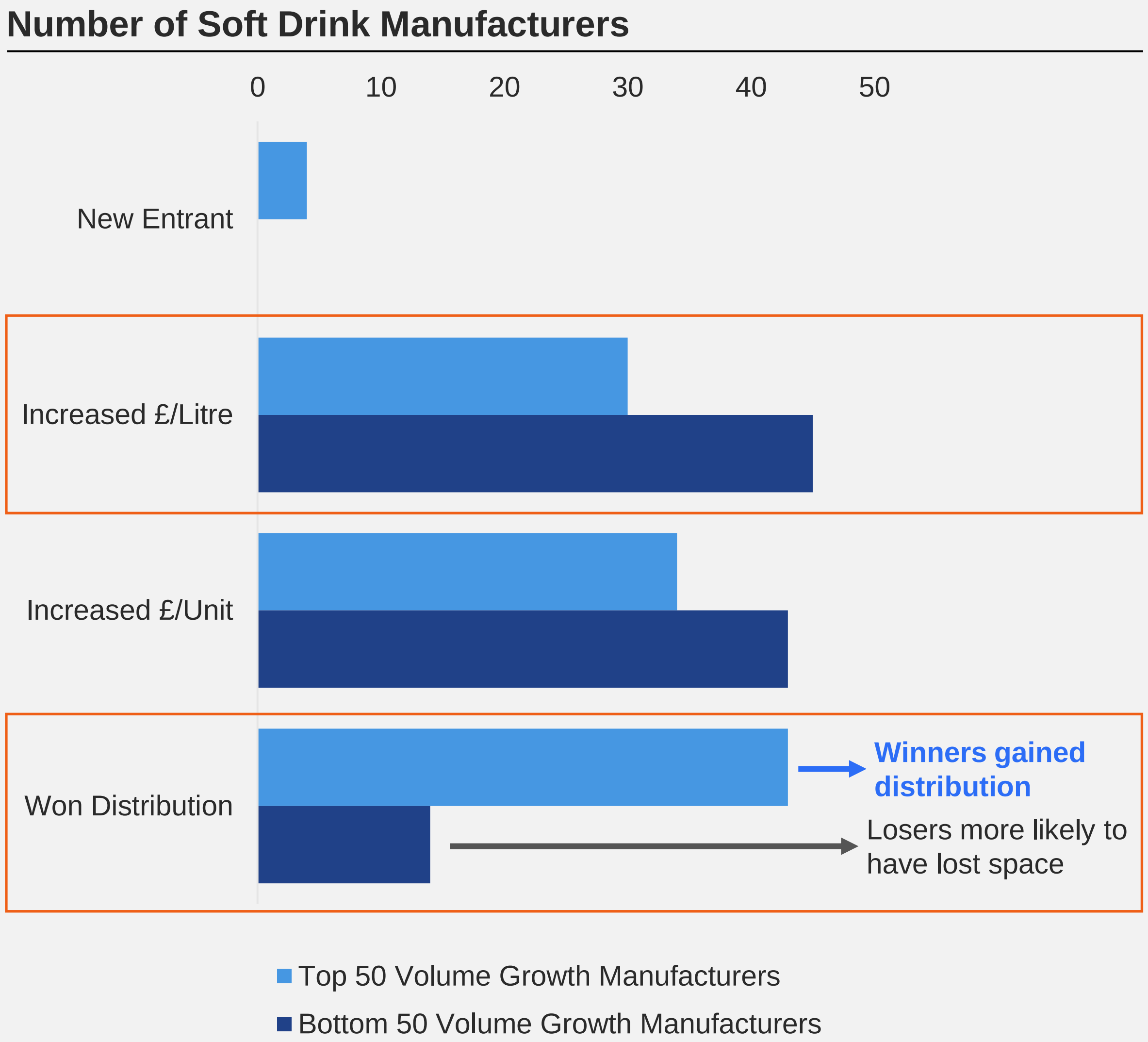
Measurable Growth Levers

Executional excellence
Growth in new channel

Volume winners and losers often dictated by distribution changes



Source: NIQ RMS Soft Drinks, Total Coverage GB, 12 w/e 02/12/2023. Top/Bottom Manufacturers by Volume Sales Chg. vs YA

Measurable Growth Levers

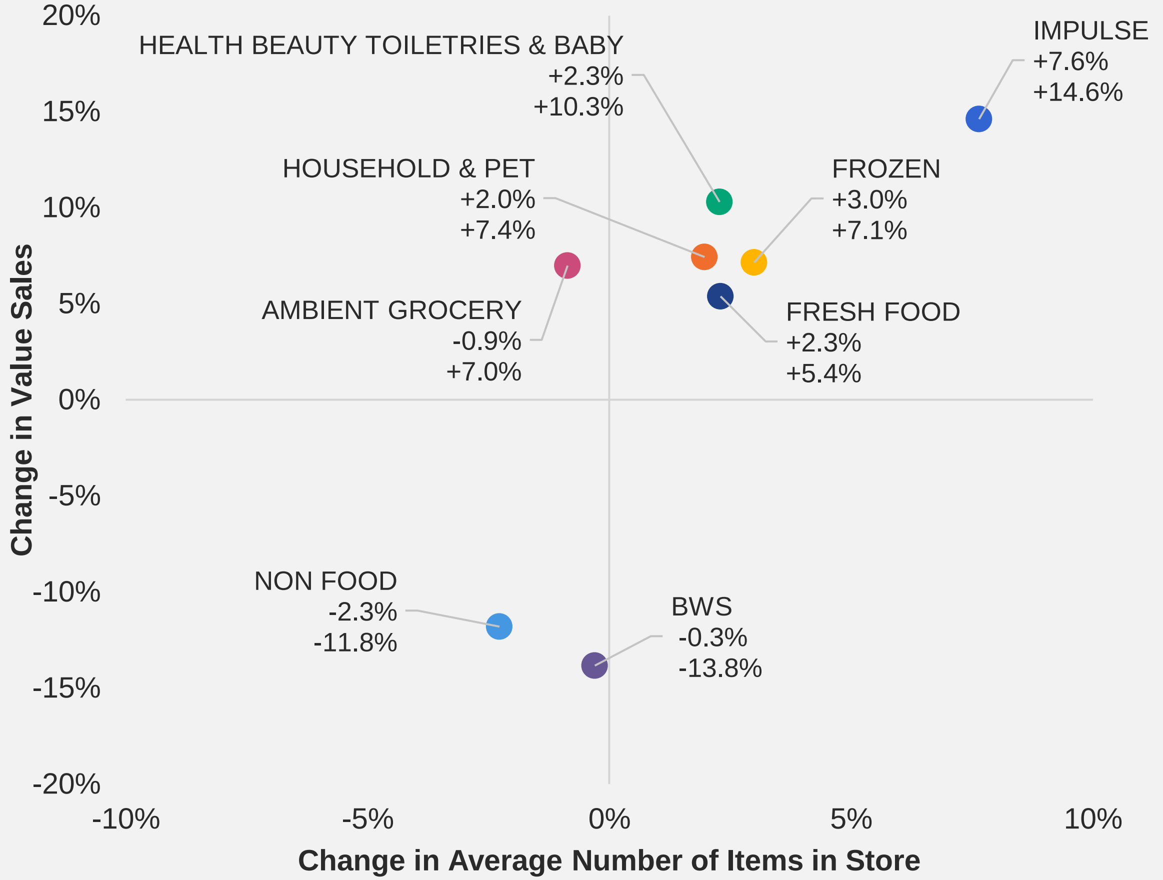
Executional excellence
Growth in new channel

Innovation
Entering or creating new spaces

Expect more competition for listings in 2024 as we see the direct relationship between added lines and value sales

Average Assortment and Value Sales Change

2023 vs 2021



Source: MNDH TOTAL STORE (excl. Tobacco), Total Coverage (FULL TSR), No. of Items per Store (w)/Value in £

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Measurable Growth Levers

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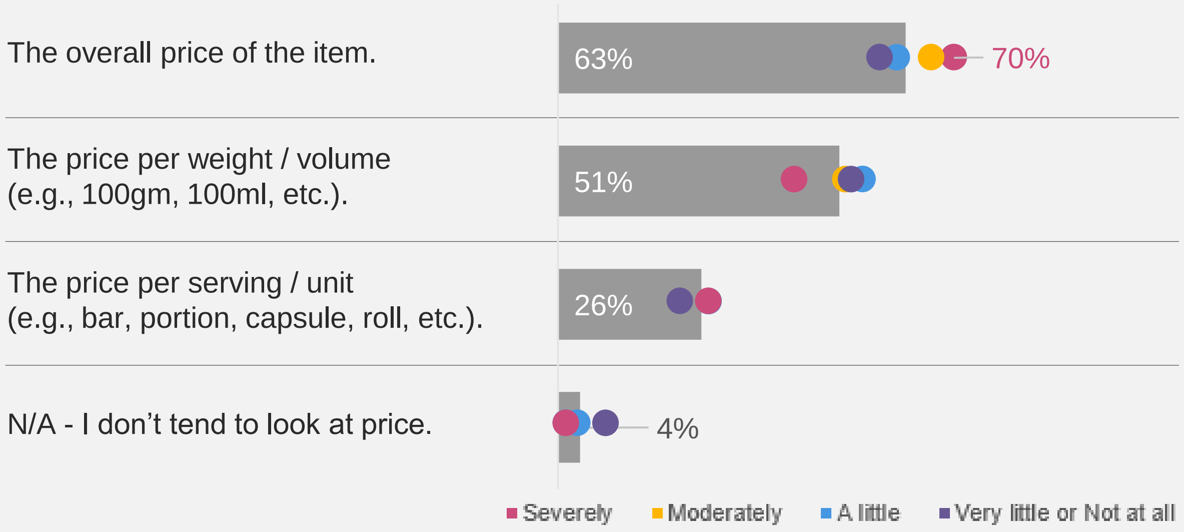
Use pack sizes to target shoppers you want to win

Oatly
Smaller pack to recruit new shoppers

Huggies
Bigger value pack for heavy shoppers

When buying a grocery product, what price do you tend to look at when deciding what to buy?



Source: NIQ RMS Dairy Alternatives & Baby Wipes, Total Coverage GB, 12 w/e 09/12/2023. | NIQ Homescan Survey Nov 2023

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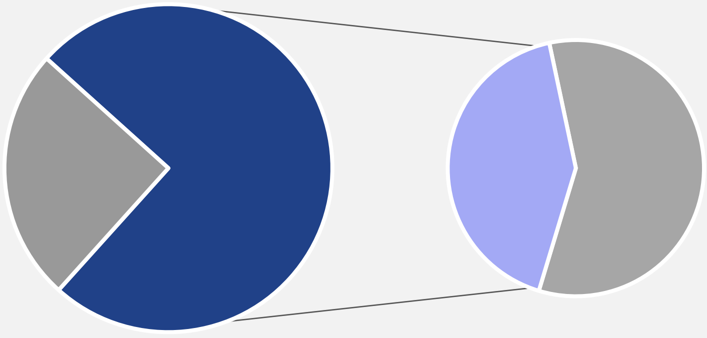
… and maximise occasions to help those that say they will eat/drink out less

75% say they are eating out less due to the COL



42% of those said they are cooking nice meals from scratch

Severely affected by COL
14.4% of Total GB

Cater for the practical at home occasion
- Skips meals or reduces portion size to manage budget.
- Only have money for the basics.
- Cash poor, time poor.

Moderately affected by COL
42.2% of Total GB

Cater for the affordable at home occasion
- Entertaining friends and family at home.
- The “Big Night In” or dine in offers.

A little affected by COL
32.8% of Total GB

Cater for the treat at home occasion
- Switch some dining out spend for more treat-style products to consume in the home.
- More alcoholic drinks at home.

*Source: NIQ Homescan Survey Nov 2023

Future Differentiating Levers

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Focus on brand equity
Communicating values

Take the decision away from price by communicating brand equity

Kellogg's

Warburtons
Family Bakers

MAGNUM
true to pleasure

Future Differentiating Levers

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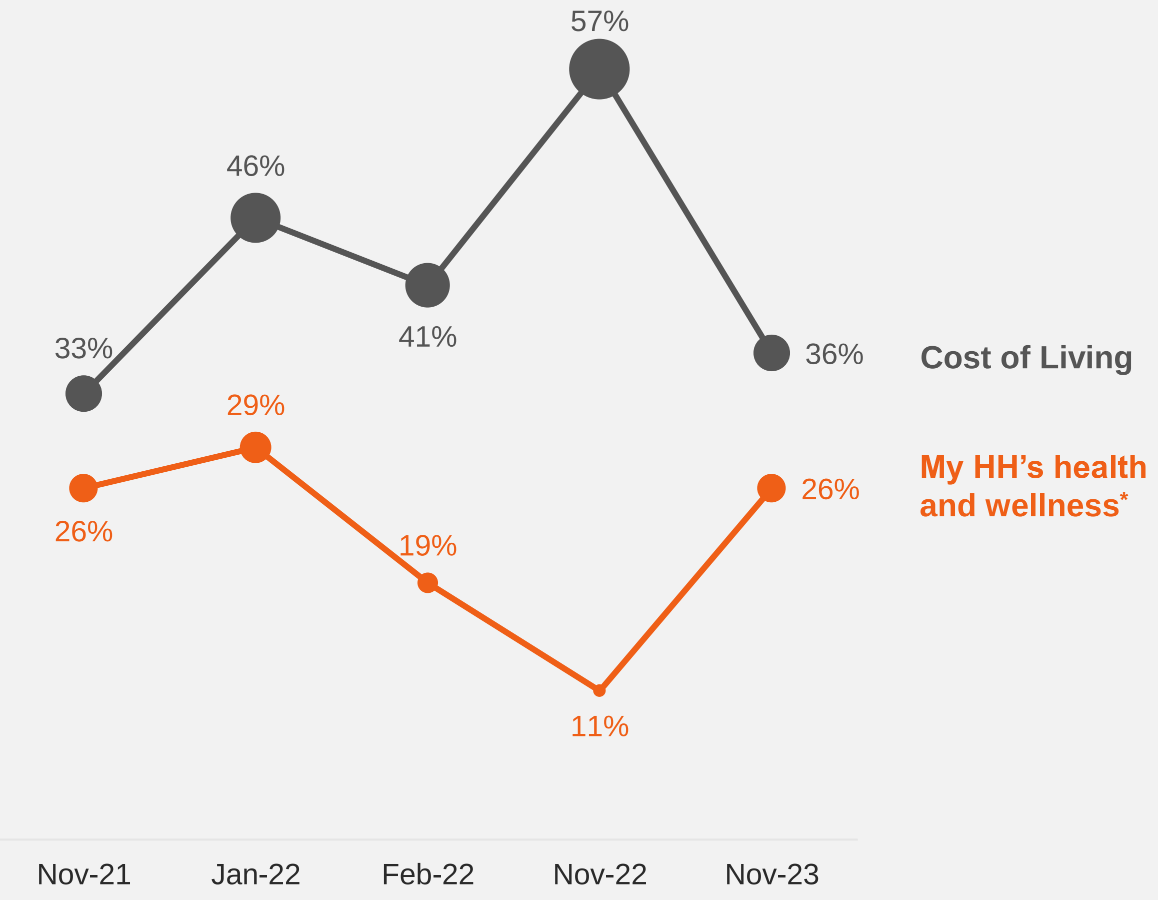
Communicating values

Health and wellness
Claims and communications

Health and wellness is rebounding as a key concern as we adapt to COL pressures

What is the most important concern to you at the moment?



*Source: NIQ Homescan Survey Nov 2023 | *Note: Wellness only included in survey from Nov-23

Future Differentiating Levers

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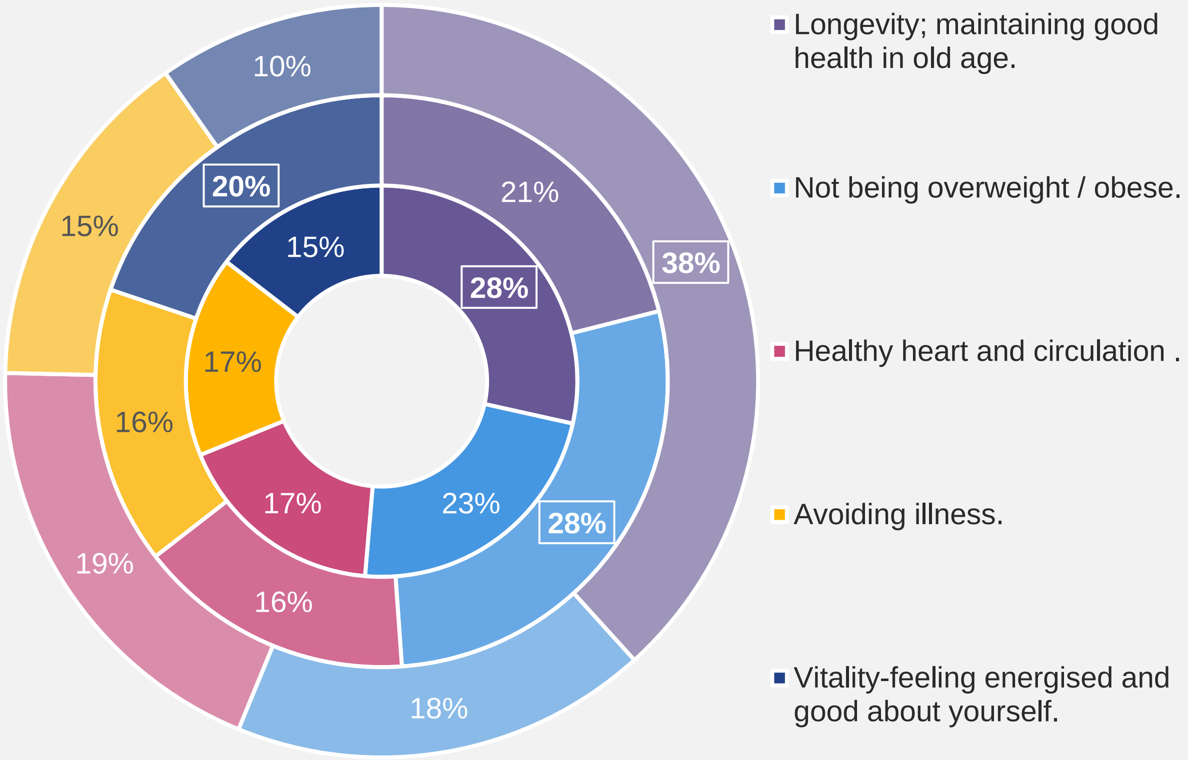
Health and wellness
Claims and communications

… and health concerns differ by demographic group so fine tune your message to fit

Which do you think is the main benefit of a healthy diet?

Total GB inner, <35 middle, 65+ outer



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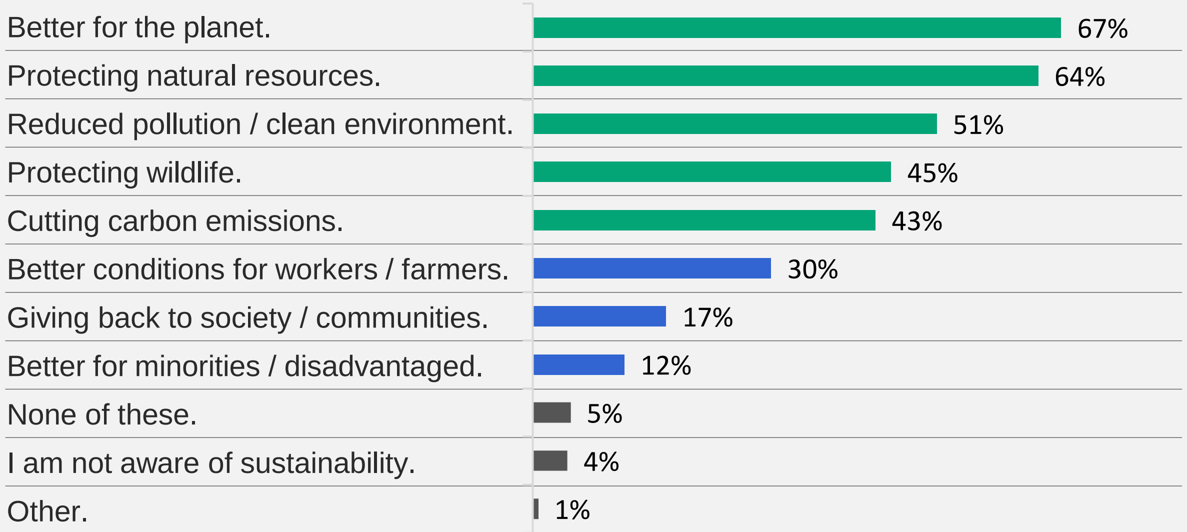
Environment and Sustainability
Commitments and credentials

*Source: NIQ Homescan Survey Nov 2023

Nearly half of UK consumers feel that sustainability is more important to them now than it was two years ago

When people talk about sustainability, it might mean different things to different people. In this list, what does it mean for you?



65%
of people say they are actively looking for claims and credentials on product packaging

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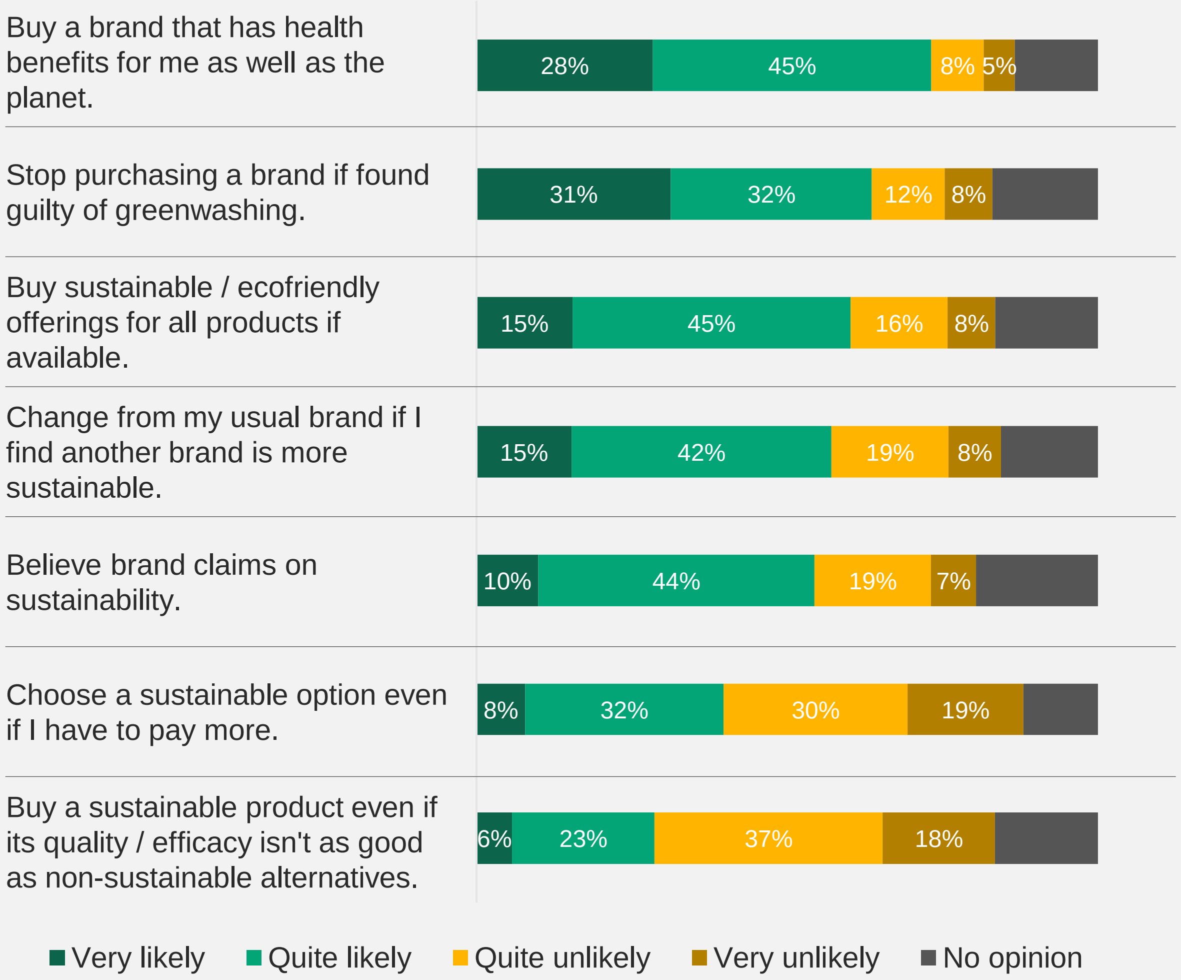
*Source: NIQ Homescan Survey Nov 2023

… but nearly half of consumers feel that sustainable options are too expensive

When choosing a particular grocery brand, how unlikely or likely are you to take following actions?



Whatever strategic driver you rely on in 2024, promotional strategy will be key to competitive agility

2023
Increased price at the expense of volume

2024
Use profits to invest in promotion

OR

2023
Held price to protect volume

2024
Price increases

2024

Revive

the industry with volume growth

Expect volume growth in FMCG 2024
Ensure you are positioned be a growth driver.

Price and promotions will shape the agenda
Get the balance right.

Review channel and format strategy
Think Convenience, Omni, as well as Discounters and Value Retail.

Understanding missions will become more important
Look to help the consumer both practically as well as tactically.

Health, wellness and sustainability are front of mind
Communicate quality, benefits and credentials.

NIQ

Q&A

Expert Panel Discussion

Host

Rachel White
NIQ
Managing Director

Q&A | Expert Panel Discussion

Mike Watkins
NIQ
Head of Retailer and Business Insight

Ryan Craft
Reckitt
Head of Insight and Analytics

Hannah Landon
Mockingbird Raw Press
Co-Founder

Adam Leyland
The Grocer
Editor in Chief

Thank you

Please wait online for the feedback form prompt if you have not already provided feedback for today’s session.