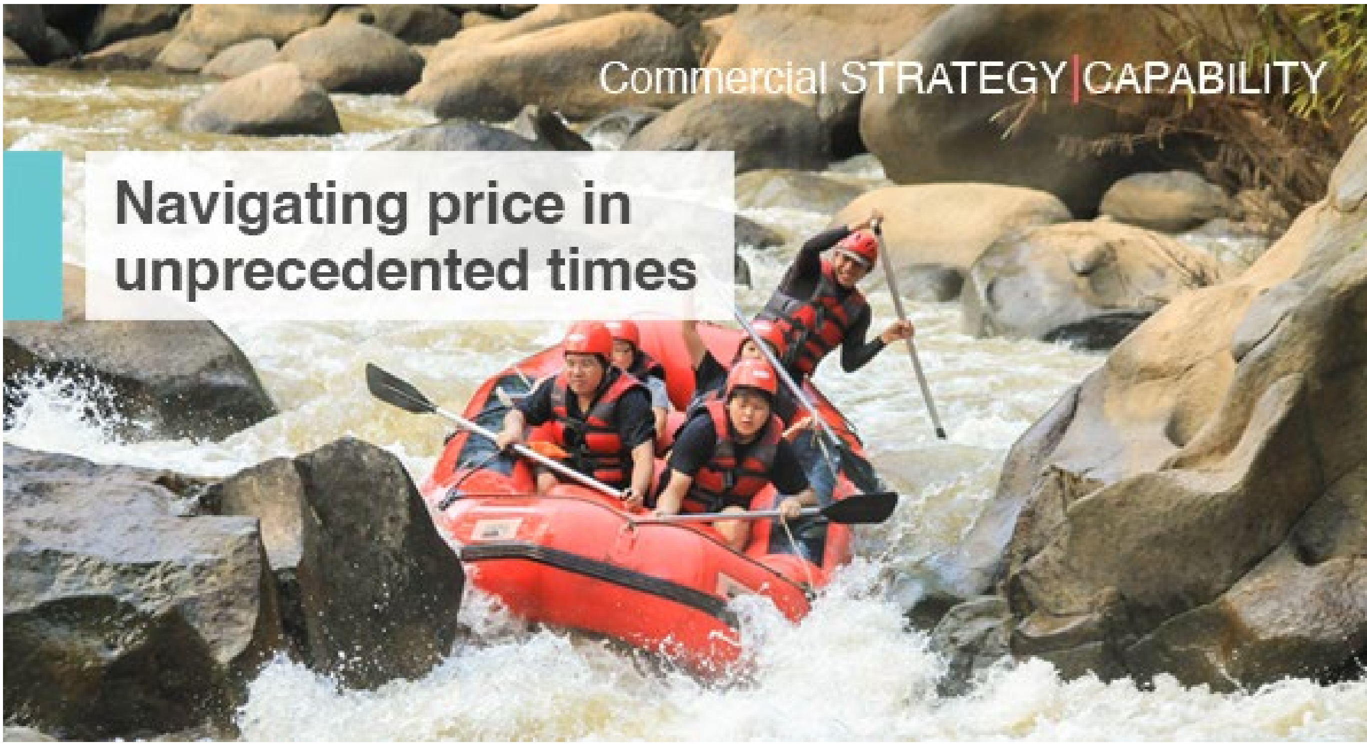


Navigating price in unprecedented times

Current situation:

Fast-rising prices are inflicting what is being claimed will be the biggest one-year fall in disposable income, adjusted for inflation, in at least 30 years.

Across the globe, markets are trying to rebound from Coronavirus lockdowns while having to face into price rises for everything from food and clothes, to haircuts, rent and energy. Britain's consumer price index (CPI) rate hit 5.5% in the 12 months to January, US hitting 7.5% for the same time period and the Eurozone hitting 5.3% for the year to December '21*.

Inflationary pressure is growing right through the supply chain. Raw materials, transport and fuel, production, packaging and labour cost increases are all impacting prices.

Concerns regarding the Russian invasion of Ukraine are accelerating some of these factors.

Many suppliers have already taken some price increases, but with sustained inflation for the foreseeable future, they are trying to work out when to go again, where, to what level…and with what consequences…

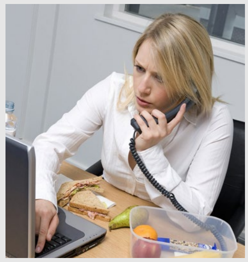
This is creating a perfect storm for consumers, shoppers, retailers and CPG suppliers alike.

"We have experienced 6 years' change in 6 months."

How are we all being impacted?

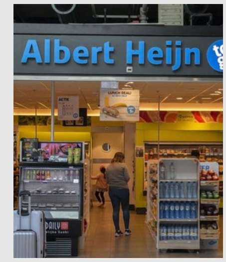
CONSUMERS

- Rising cost of living
- Fall in disposable income
- Concerns around health, safety and security



RETAILERS

- Pressure on business models and P&Ls as the cost of goods bought, supply chain and labour costs all increase
- eCommerce channel growth directly impacting profitability
- Dilemma of how much price increase to absorb versus pass onto the consumer and take the risk their value perception might be eroded

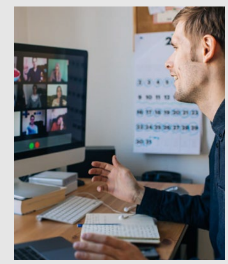


SHOPPERS

- Seeking out value and convenience
- Changing priorities leading to changing missions and channel selection
- Blur on In Home and Out of Home and an increased omnichannel environment

SUPPLIERS

- P&Ls being squeezed, pressure to hit the numbers in a dynamically changing environment
- Pressure to ‘take price’ with retailers…but where, how much, when and how many times…
- Manging the commercial tension of today versus tomorrow



Pricing myths to bust:

Executing Pricing is the responsibility of Sales

We believe Pricing is best managed as a cross functional responsibility from Marketing right through to Sales, with Category, RGM, Commercial Finance/Finance and Shopper Marketing all playing a key role.

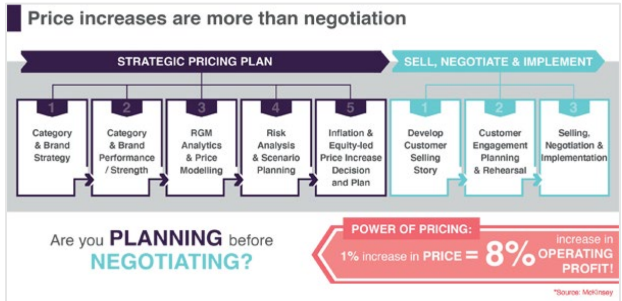
Pricing is just about recovering COGS

Part of it is, but it is also about maximising value from the brand by predicting and understanding what consumers, shoppers and customers will accept to pay in the marketplace for the brand.

Pricing = Cost Price Increases (CPIs)

Again, yes CPI’s are a major part of Pricing, but there is more than one way of going about executing your Pricing strategy. Pack Price Architecture and Promotions also play a part in executing your pricing strategy and the average price you seek to achieve in the marketplace.

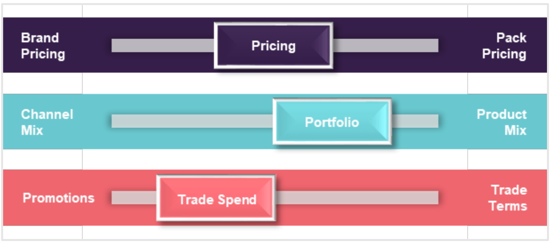
Our guide to navigating these dangerous waters:



Start with Strategy: sounds obvious but look to your commercial strategies (company commercial strategy, category strategy, brand strategy, channel strategy) for the 'what' – what are the commercial objectives you are trying to achieve?

Connect your Insights: look across different data and insight sources to help you to identify the key strategic options you have in front of you. Look across consumer, shopper, category, market, customer (retailer), company and competitors. Include a view on price sensitivity (elasticity) and brand value here – this is central to making strategic decisions on brand with regards to price. Also try to include a range of qualitative and quantitative insights as well as data and analysis (for example price curves, price ladders and profit pool analysis) to support your hypotheses.

Look at all levers not just Price – 'integrated RGM': you are more likely to achieve success by developing multiple routes to affect your average price and achieve that desired position in the market. Looking to take CPI is one element. But, so are Pack Price Architecture and Promotional intensity. These are critical levers in setting a strategic pricing intent and position. For example, does your range have pack size gaps and pack price gaps when compared to the rest of the category? And, if so do you think there is an opportunity in the gap?



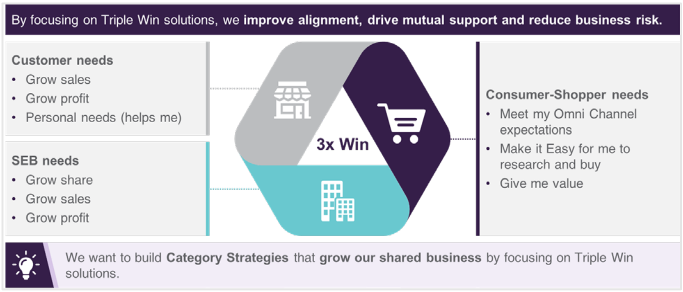
Develop a cross functional connected approach rather than silo baton passes: consider setting up a cross functional SWAT team to look at this, and walk through the key steps together, rather than allocating discrete elements to different functions and teams in isolation.

Take a strategic pricing view across the portfolio and brand first, then look at cost recovery options: agree as a cross functional team where you want to SET the average price (think of this as an index against the key competitive set including PL) before you start planning how to GET the price (both strategic equity led opportunities and cost recovery led actions) executed and implemented with Customers.

When clear on your options, prioritise and validate: look across your options, prioritise, then select your preferred option by considering criteria like ease of implementation and impact. Consider options like innovation, Pack Price Architecture, broad versus narrow pricing.

Develop a category led story – seek the triple win: any commercial initiative should strive to meet the needs of 3 key stakeholders =

1. consumers/shopper
2. the retailer
3. the supplier/brand.



Plan the sell: walk through the category-led story as a cross functional team, work out who is best placed to present which chapters and pages of the story. Predict likely objections, then discuss and plan how to handle them.