FWD research

Margin Assessment
Price Marked Packs
Shrinkflation
Indie retailers' competitive set

**Updated – February 2023 **

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twc
Harnessing data
Empowering wholesale
foodservice & convenience

fwd FEDERATION OF WHOLESALE DISTRIBUTORS

Key findings

The impact of inflation on margins through the supply chain

Objectives

- Review base pricing in independents, multiple convenience (Tesco Express) and main estate (Tesco supermarket) to quantify the current price differential
- Consider the impact of promotions in all three channels on base price
- Analyse price marked vs. plain pack wholesale selling price and margin to determine whether shared margin is being eroded
- Determine the key costs of doing business in wholesale, the current challenges and potential mitigations – ultimately is the cost of doing business greater than the margin wholesalers and retailers are achieving?
- Create a solid evidence base to determine whether independent convenience retail has remained competitive through current price inflation and whether margins are being unfairly squeezed compared to other channels

The research:

1. Pricing
   - Price audit in Tesco Mults vs Tesco Express vs Indie c-stores - three waves were conducted in November 2021, June 2022 and January 2023
   - Wholesaler WSP survey between Nov 2021 and June 2022 – Trading Director or Finance Director of 5 major UK retail orientated wholesalers

2. Wholesaler interviews (conducted in October 2022 with 5 leading wholesalers)
   - PMPs & shared margin
   - Increases in the cost of doing business

3. Retailer interviews (150 independent/fascia c-retailers) conducted in January 2023
   - The competitive environment; PMPs; shrinkflation

4. Consumer research (Nat rep sample of 2,000 consumers)
   - Shrinkflation & PMPs

Key findings

Pricing audits/research

Pricing analysis methodology

- Executed in conjunction with JagMR, who are specialists in cyclical price audits
- Products specifically selected because they sell in both convenience and supermarkets
- The exact same product was assessed in each channel and therefore products were excluded if they only sell in one channel i.e. single format impulse lines which are not available in the supermarkets
- A broad spectrum of categories, suppliers and brands were covered to ensure the review was truly reflective
- Promotion pricing was assessed based on promotional activity in both store formats for Tesco vs. products on promotion in wholesale with a recommended RSP for execution through independents
- Price differential was compared for both a total ‘basket’ of products (all products added and difference in total price compared) as well as the differential on a line-by-line basis

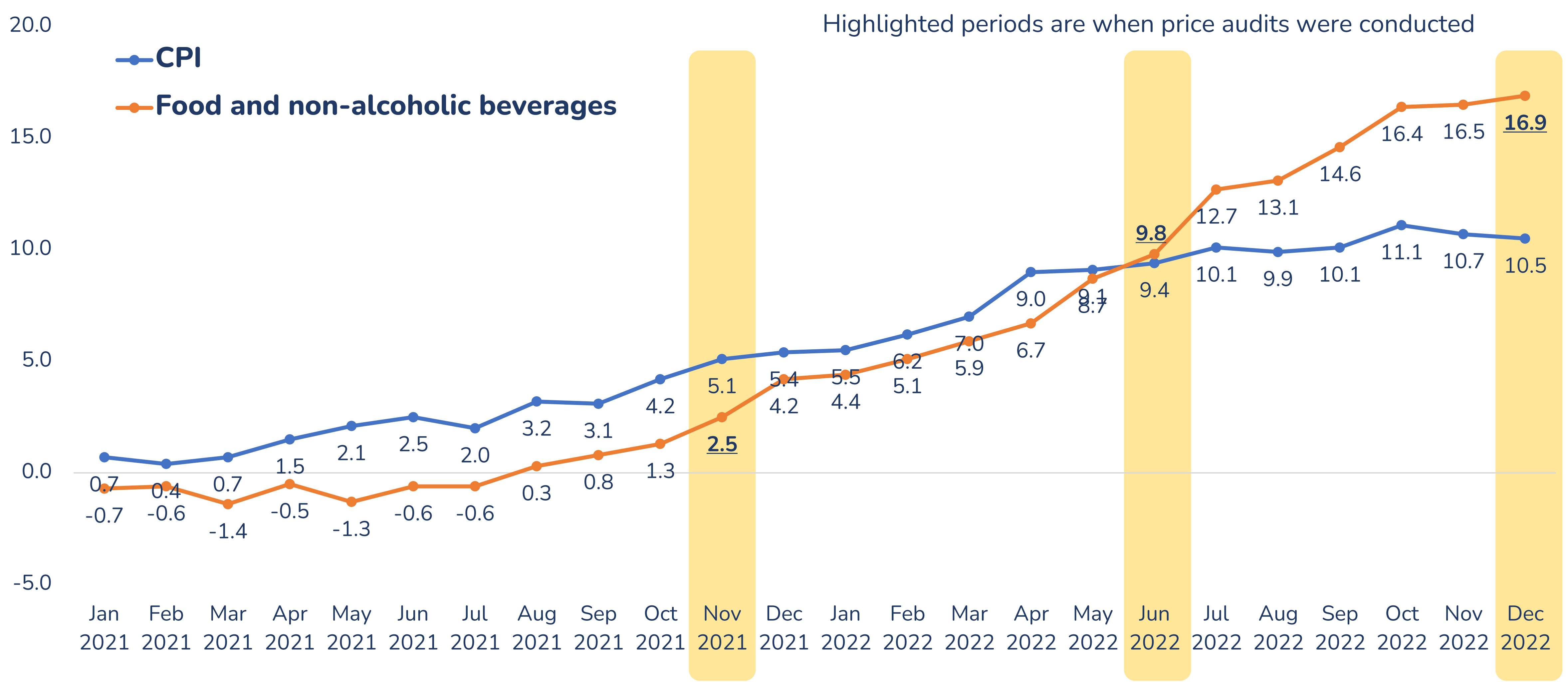
Products – retail & wholesale pricing analysis

Pricing information was collected for this list of SKUs and a sub-set was then analysed for detailed retail price comparison and wholesale margin analysis (these products are highlighted in yellow).

Chilled and frozen items were not included in the study because the central theme was price marked packs.

- Ambrosia Rice Pudding PMP (12x400g)
- Andrex Classic Toilet Tissue Roll PMP (6x4)
- Barefoot Malbec California (6x750ml)
- Bell's Original Scotch Whisky (6x700ml)
- Be-Ro Plain Flour PMP (10x1.1kg)
- Blossom Hill White California (6x750ml)
- Bold 2 In 1 Lavender & Camomile Washing Powder 10 Washes PMP (6x650g)
- Bounty Milk Chocolate Bar (24x57g)
- Budweiser Can (6x4x440ml)
- Cadbury Twirl Bar (48x43g)
- Cadbury Wispa (48x36g)
- Campo Viejo Rioja Tempranillo Spain (6x750ml)
- Captain Morgan's Spiced Rum PMP (6x700ml)
- Carling Can (6x4x440ml)
- Carnation Evaporated Milk PMP (12x410g)
- Casillero del Diablo Reserva Chardonnay Chile (6x750ml)
- Cesar Chicken & Turkey Loaf PMP (14x150g)
- Coca Cola PET (24x500ml)
- Colman's Chicken Casserole Recipe Mix PMP(10x40g)
- Del Monte Fruit Cocktail in Juice PMP (6x415g)
- Dolmio Bolognese Cooking Sauce PMP (6x500g)
- Domestos 24 Hr Original Bleach PMP (9x750ml)
- E&J Gallo FV Cabernet Sauvignon California (6x750ml)
- Echo Falls Red Fruit Fusion Raspberry & Cassis California (6x750ml)
- Fanta Orange PET PMP (12x500ml)
- Foster's Can (6x4x440ml)
- Glen's Vodka PMP (6x700ml)
- Gordon's Gin (6x700ml)
- Guinness Draught Stout Can PMP (6x4x440ml)
- Hardys VR Shiraz Australia (6x750ml)
- Hartley's Strawberry Jam PMP (6x340g)
- Hartley's Strawberry RTE Jelly (12x125g)
- Heinz Baked Beanz PMP (24x415g)
- Hellmann's Real Mayonnaise PMP (6x400g)
- Irn Bru PET PMP (6x2lt)
- Jack Daniel's Whiskey & Cola Can (12x330ml)
- Jack Daniel's Whiskey PMP (6x700ml)
- John West Tuna Chunks In Brine (12x145g)
- Kellogg's Coco Pops PMP (6x480g)
- Kinder Bueno (30x43g)
- Kit Kat 4 Finger (24x41g)
- Kleenex Balsam Regular Tissues PMP (4x64)
- Lambrini Original Perry PMP (6x1.25lt)
- Lucozade Energy Drink Original PMP (12x900ml)
- Maltesers PMP (40x37g)
- Mars Bar (48x51g)
- Maryland Chocolate Chip Cookies PMP (12x200g)
- McCoy's Ridge Cut Flame Grilled Steak Crisps (26x47.5g)
- McVitie's Digestives Milk Chocolate Biscuits PMP (15x266g)
- McVitie's Digestives The Original Biscuits PMP (12x400g)
- McVitie's Jaffa Cakes PMP (12x122g)
- Mini Cheddars Original (30x50g)
- Monster Munch Pickled Onion (30x40g)
- Napolina Chopped Tomatoes PMP(12x400g)
- Oasis Summer Fruits PET PMP (12x500ml)
- Pepsi Max PET PMP (6x2lt)
- PG Tips Tea Bags PMP (6x80)
- Philadelphia Original Soft Cheese PMP (5x180g)
- Polo Original Mints (32x34g)
- Pringles Original PMP (12x40g)
- Red Bull Can PMP (24x250ml)
- Ribena Blackcurrant Juice Drink PET PMP (12x500ml)
- Silver Spoon Granulated Sugar (15x1kg)
- Smirnoff Red Label Vodka (6x700ml)
- Stella Artois Can PMP (6x4x568ml)
- Strongbow Cider Can PMP (6x4x440ml)
- Strongbow Dark Fruits Cider Can PMP (6x4x440ml)
- Walkers Max Flame Grilled Steak Crisps (24x50g)
- Weetabix PMP (10x24)
- Whiskas Pouch Yr1+ Fish Selection In Jelly PMP (4x12x100g)
- WKD Original Vodka Blue Bottle PMP (6x700ml)
- Yazoo Strawberry Flavour Milkshake PET PMP (10x400ml)
- Yellow Tail Chardonnay Australia (6x750ml)

Market context – inflation continuing to move rapidly



Source: ONS Consumer Prices Index (CPI)

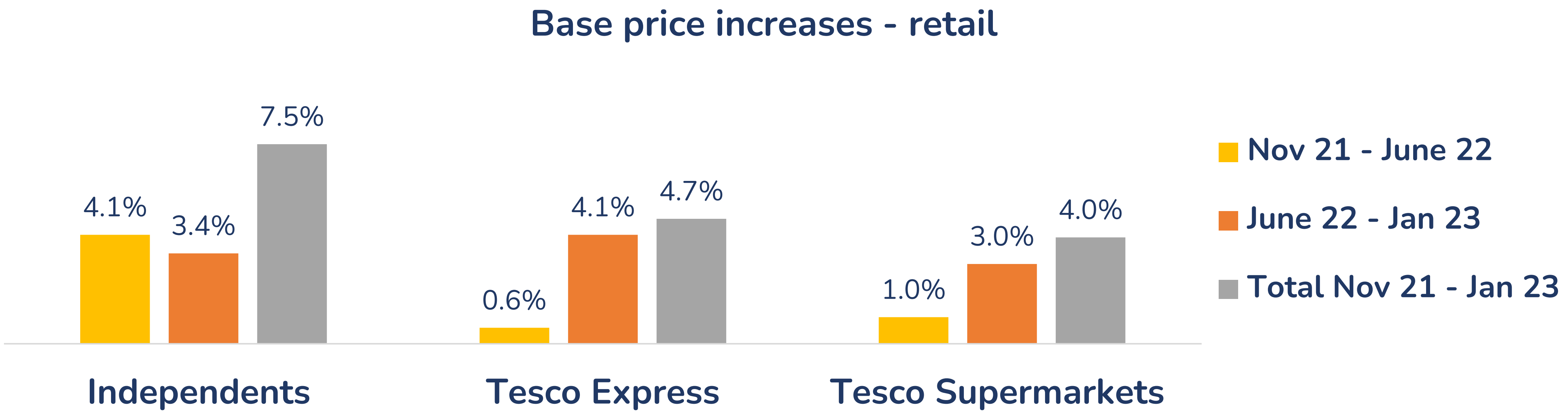
Retail price increases (line by line)

- Prices increased rapidly between June ‘22 and January ’23, but to a lesser extent in the independents compared to Tesco Express/supermarkets.

All SKUs - 73 LFL SKUs – see previous list
Figures represent the price change by SKU, averaged for all 73 products

Retail price increases (line by line) – BWS only

- BWS lines have not increased in price at the same rate as other categories.



BWS SKUs – 24 LFL SKUs – see previous list
Figures represent the price change by SKU, averaged for all 24 products

Retail price increases (total ‘basket’)

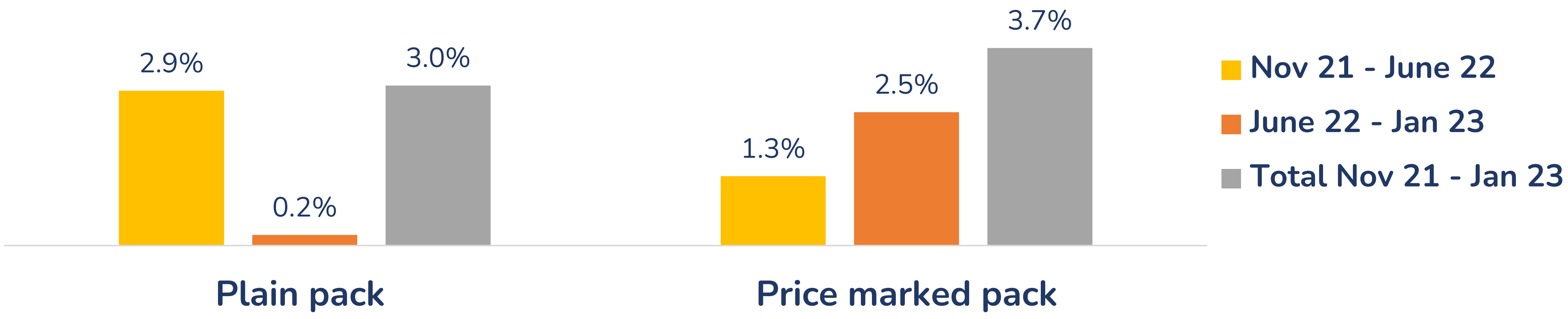
- Because BWS has increased at a slower rate but are higher value lines, they have a significant impact on price movement for the total ‘basket’ vs. line-by-line.

Figures represent the price change by SKU, averaged for all products – i.e. the price of all products was added and the difference in the total price compared

Retail price increases in independents: PMP vs plain pack

- This shows that where independents are selling plain pack, a price increase was passed through more quickly, whilst price marked packs have taken longer to catch up.

Price increases – independent retail



Based on 9 PMP SKUs – and plain pack equivalent products

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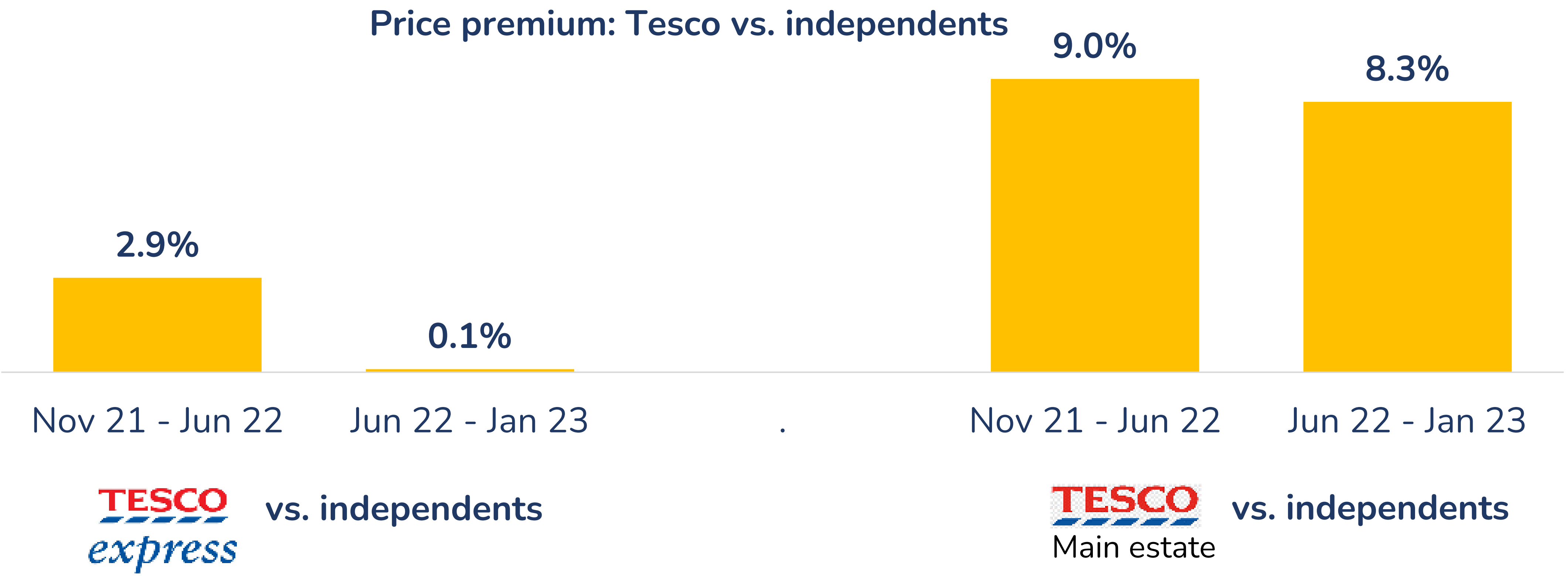
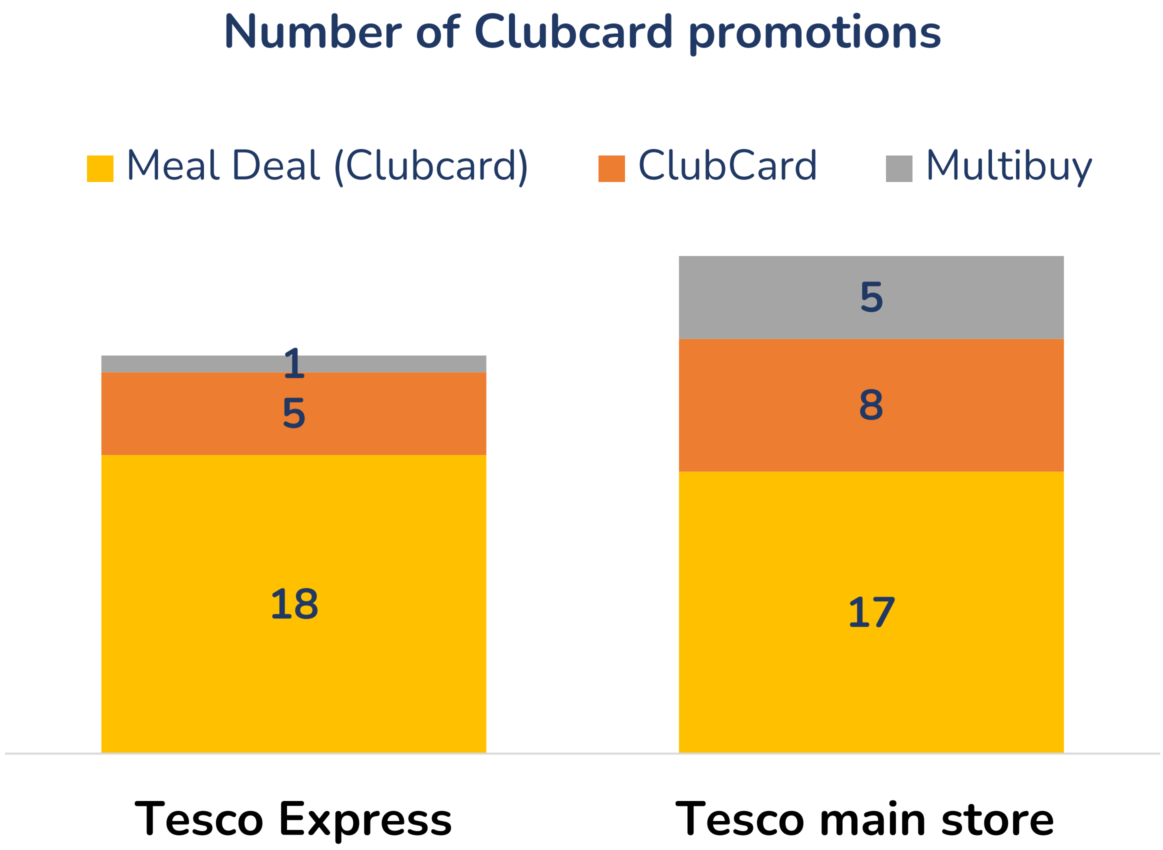
Price differential: indies vs mults

- Due to large price increases in Tesco Express (+13%), there is now parity on base pricing between Tesco Express and independents (ie their base prices are about the same – only 0.1% different)…
- ….whilst Tesco Supermarkets have an 8% price differential vs. independents

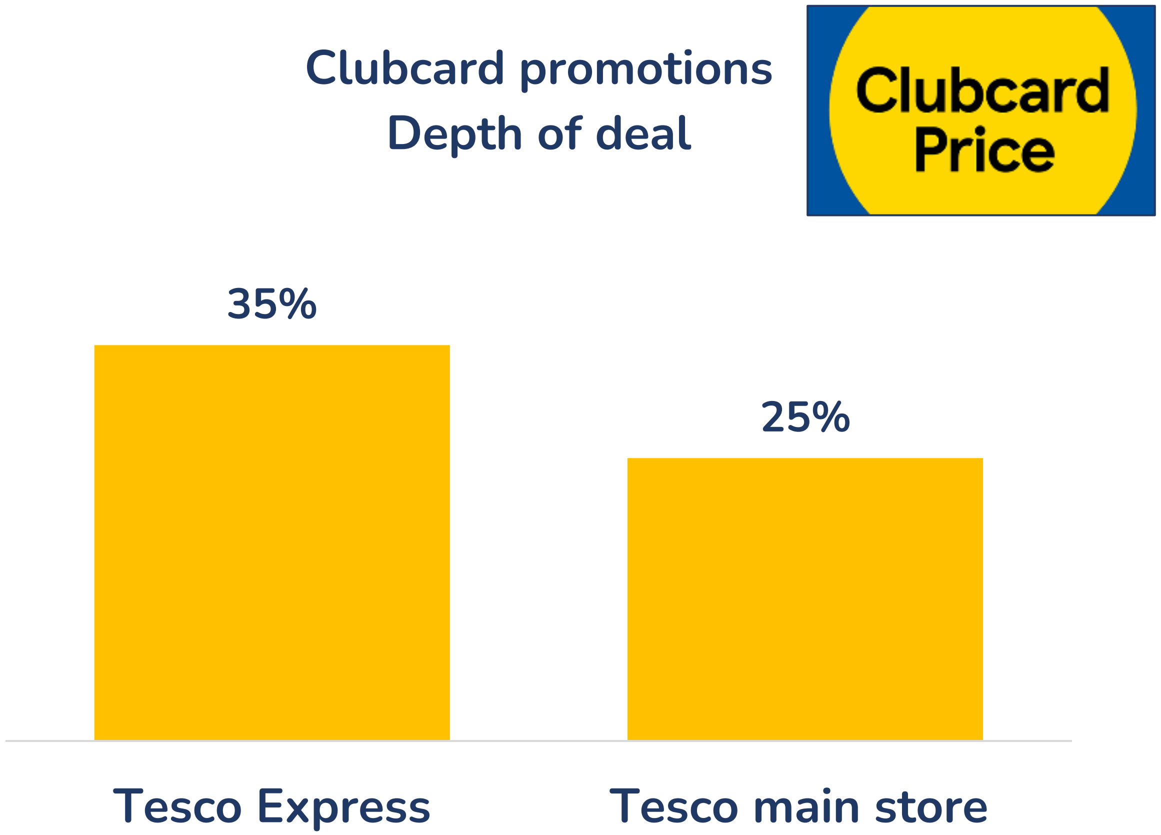


Promotional activity – Tesco

- Tesco is offering discounts of 35% against 'base prices' on ClubCard promotions in their Express estate - up from 21%.



= 41% of skus in the product list were on Clubcard promotion



Depth of deal was 21% (Express) and 16% (main store) in Nov '21

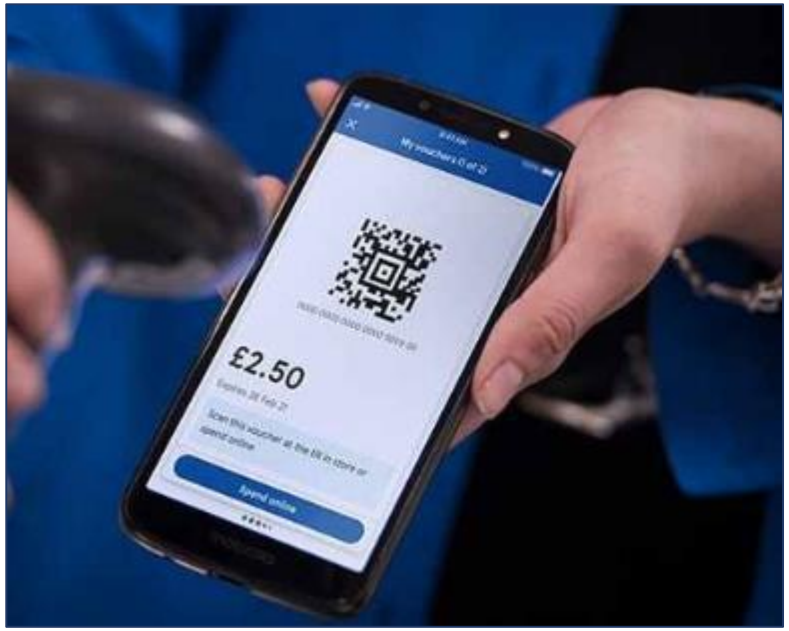
Thoughts on price & promotions findings

- Prices have risen across the board – more so at the mults
- Price differential between Tesco Express and Independents is virtually non-existent.
- But then add ClubCard discounts – huge ‘stand-out’ promotion discounts (35% off)
- …a tactic particularly being deployed in Express/c-stores (more so than in their supermarkets).
- And Tesco are getting more price aggressive in their Express stores via ClubCard promotions – the 35% discount currently offered is significantly higher than previous price audit waves.

Tesco Clubcard strategy

Store visits conducted – documented in November 2022

Tesco Clubcard – overview



- Launched 1995
- 20 million British households have a Tesco Clubcard and the Clubcard app has 10 million users
- Tesco has gained 3 million active Clubcard-using households in the past year through aggressively promoting the scheme
- Clubcard Prices were relaunched in 2020 and now make up 95% of Tesco's promotional sales
- Clubcard prices complement "everyday low prices" and "Aldi Price Match" (note the latter is NOT in c-stores)
- Clubcard is used at 75% of sales across all Tesco UK stores (probably higher in main estate than Express)
- When Clubcard prices are considered, Tesco increasingly features as the cheapest in The Grocer 33 survey
- ...making it hard for other retailers to compare themselves to the Tesco Price file

Source: Reuters, The Grocer, Tesco website

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Tesco Clubcard promotional strategy

- We know that 'Clubcard Prices' is now the primary promotional mechanic across both main estate and convenience stores, with strong POS activity in both fascias.
- SOME promotions are available across Supermarkets and Express, for example the FTG Meal Deal at £3.40; Alpro price reduction to £1.35; Tesco cooked meats 2 for £3.50

Clubcard Price

Only 3 out of 10 promotions in Tesco main estate were also available in Tesco Express on the same day. This is due to differences in range and also consumer needstate/mission

Source: store visits conducted on 13/11/22

Tesco Clubcard promotions – main estate

- Certain lines were promoted in the main estate but NOT in Express stores e.g. Barilla pasta (£1) and Tesco Clementines 600g (79p). These items are not stocked in Express (different range).
- In other cases, the same product was promoted but the mechanic was different - fewer multibuys in Express

Different deals – main estate only

Same product, different mechanic

Main estate: 3 for £4
Express: 2 for £3

Main estate: 3 for 2
Express: Price reduction to £1.50

Source: store visits conducted on 13/11/22

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Tesco Clubcard promotions – Express

- There were different deals in Tesco Express stores, including an alcohol promotion that wasn't in the main estate stores.
- Different mechanic for Heinz ('2-for' rather than '3-for') and Lloyd Grossman ('price reduction' rather than 'multibuy') – reflecting consumer missions in smaller stores (more likely to be on foot, buying 'for now')

Different deals – Express only

Same product, different mechanic

Main estate: 3 for £4
Express: 2 for £3

Main estate: 3 for 2
Express: Price reduction to £1.50

Source: store visits conducted on 13/11/22

Key findings

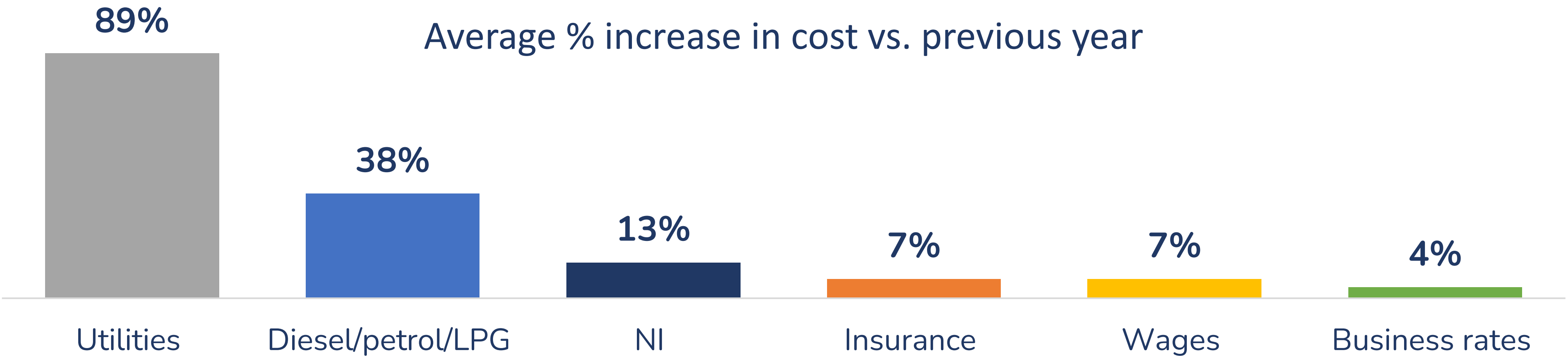
Senior Wholesale Executive Interviews - cost of doing business

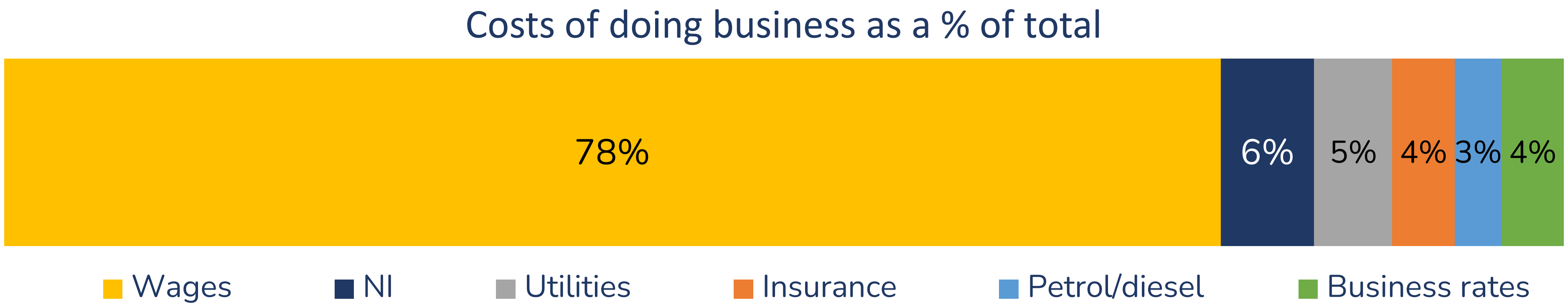
Wholesaler research methodology

- Due to the sensitive nature of the questions, all responses were handled anonymously
- In all cases answers were given by Trading Directors or Finance Directors, as appropriate
- Face-to-face interviews were conducted by TWC in October 2022.
- Percentage responses on pricing and margin were calculated based on one product multiplied by 5 wholesalers = 100%
- The same list of products were used as for the pricing audits – see slide 6 – as was the same timescale period (Nov 2021 to June 2022).

Wholesaler: cost of doing business*

- Wholesalers were asked to report on increases to core costs between November 2021 and June 2022





13%

Average increase in cost of doing business (weighted)

Weighted increase: average increase for that cost (chart 1) multiplied by the share that cost accounts for of the total cost base (as per chart 2)
*This is likely now to be greater as many CPI's were pushed back or delayed until 2023, plus there will be a natural lag as the old packs especially PMP's sell through.

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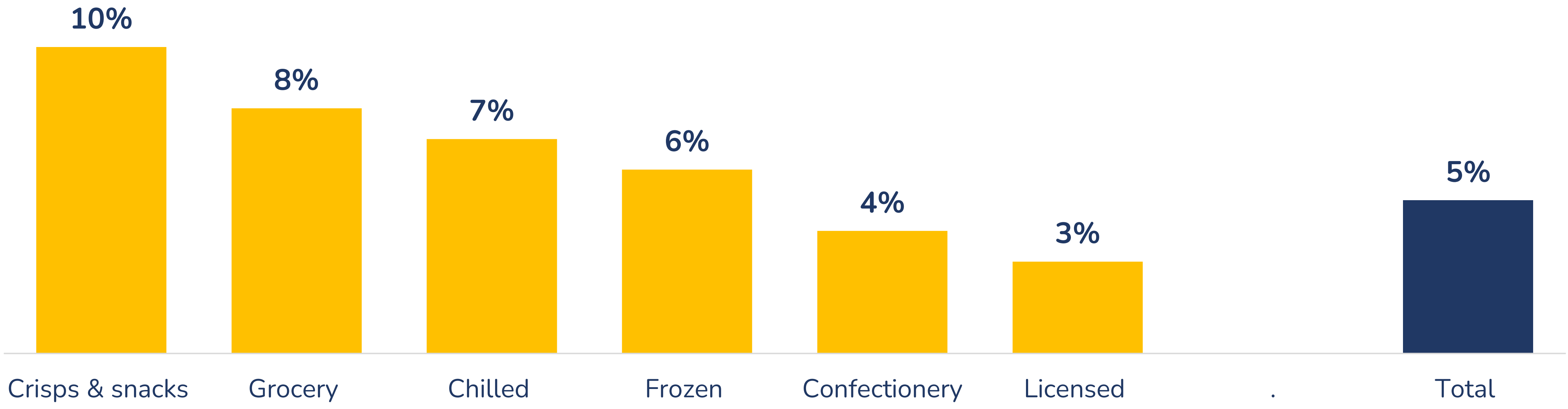
Wholesaler: average cost price increases

- Although conducted completely separately, the results are completely in line with CPI inflation at that time (June 2022)
- November 21 to June 22 – cost price movement ‘in play’ by June 22
- Many increases followed after June 2022 with possibly more to come.
- These cost price increases are in addition to the 13% cost-of-doing business increases.

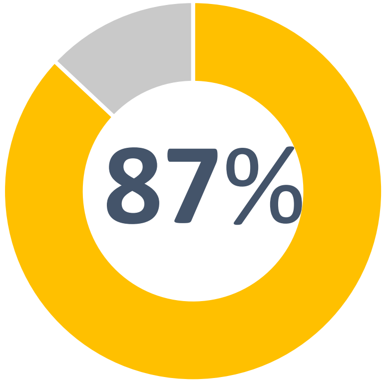


Key findings

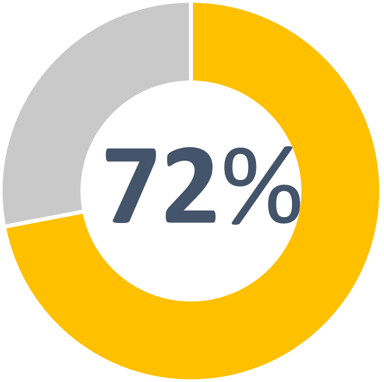
PMP’s, shrinkflation….

Wholesaler survey – price marked packs

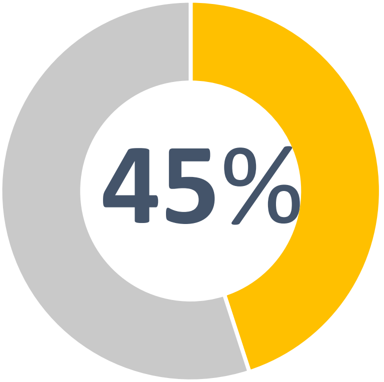
- The 5 wholesalers were asked a range of questions about the 24 SKUs in the study



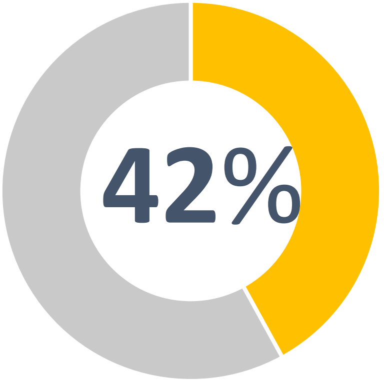
% of products that are available as PMPs



% of products where plain pack is more expensive



% of products that have increased PMP price



% of products that PMP price has stayed the same

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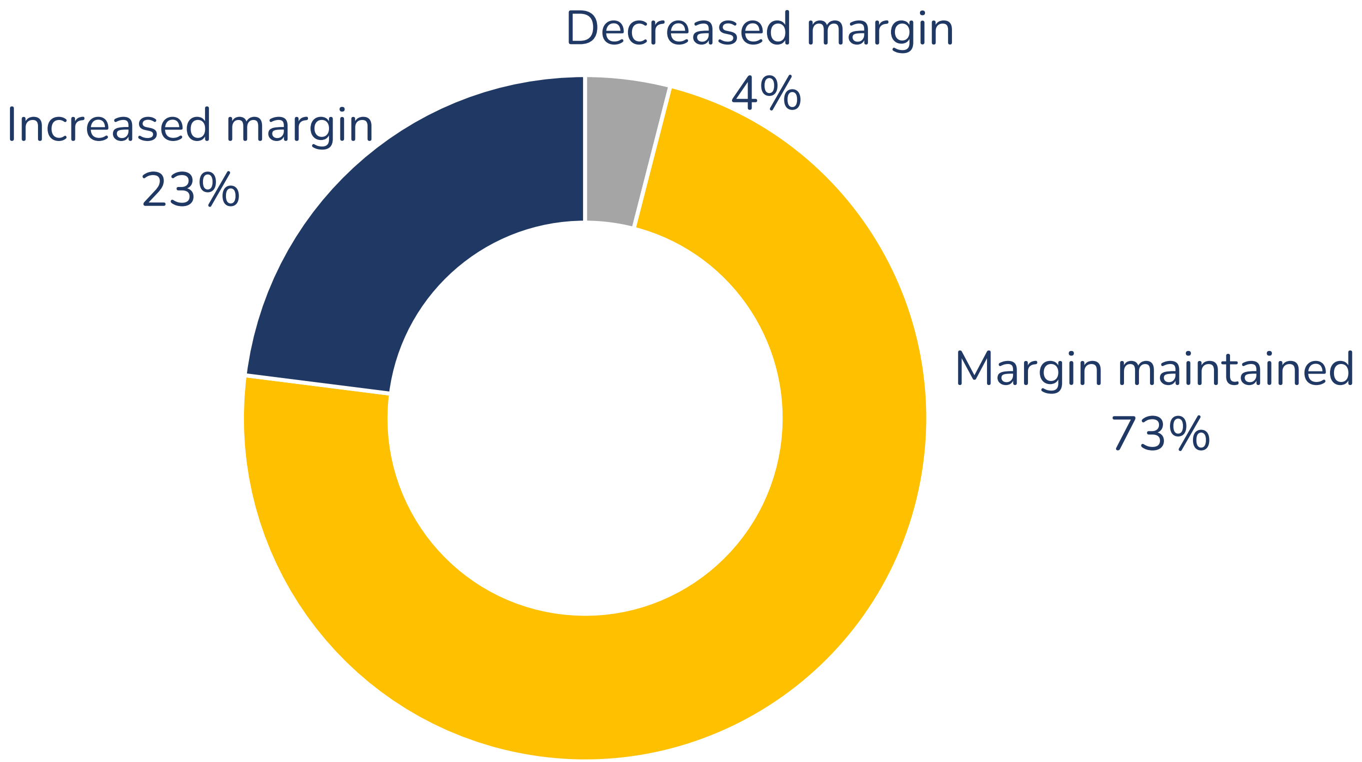
WHOLESALER MARGINS

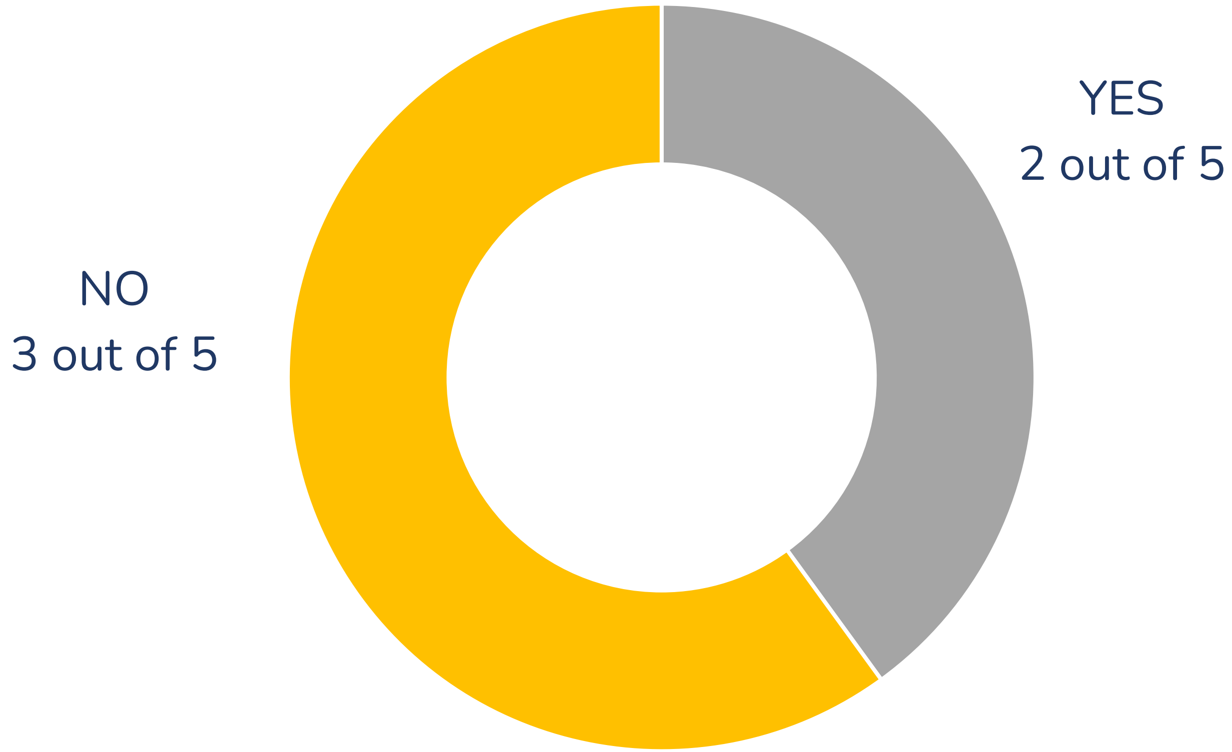
Where PMP prices had increased, what was the impact on margins/ shared margins?



23% <u>have</u> increased margin

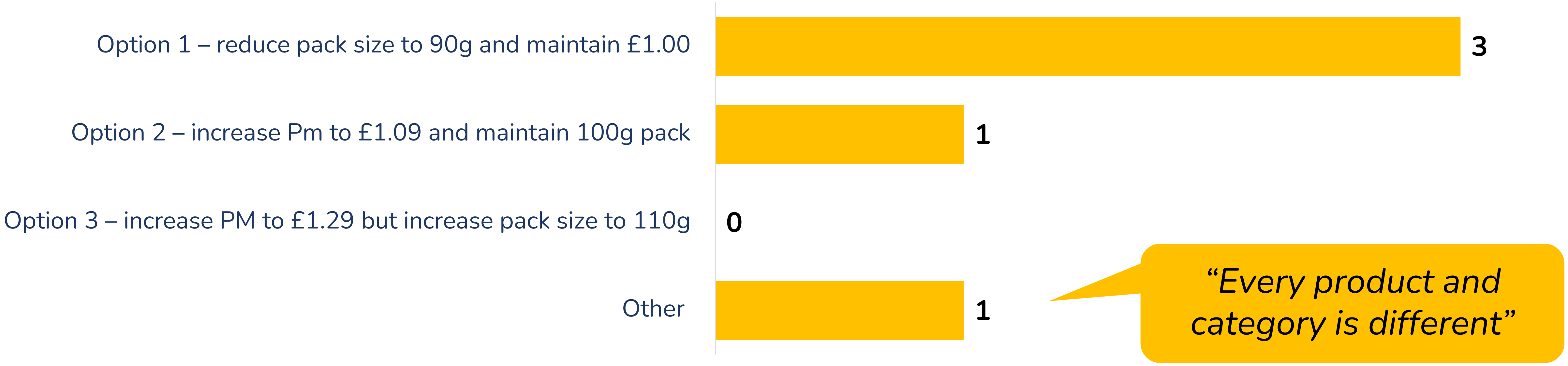
Wholesaler survey – plain pack vs. PMP

"Do you think that more plain pack options are needed during this period of price volatility?"



Wholesaler survey – shrinkflation

"We would like your view on shrinkflation. Hypothetically, if a product is 100g price marked £1.00, but faced price increases; in your opinion, which of the following strategies would work best for the wholesale channel?"



Wholesaler survey – price increases

"What percentage of price increases have you passed on to your retailers?"

"100%"

"100%"

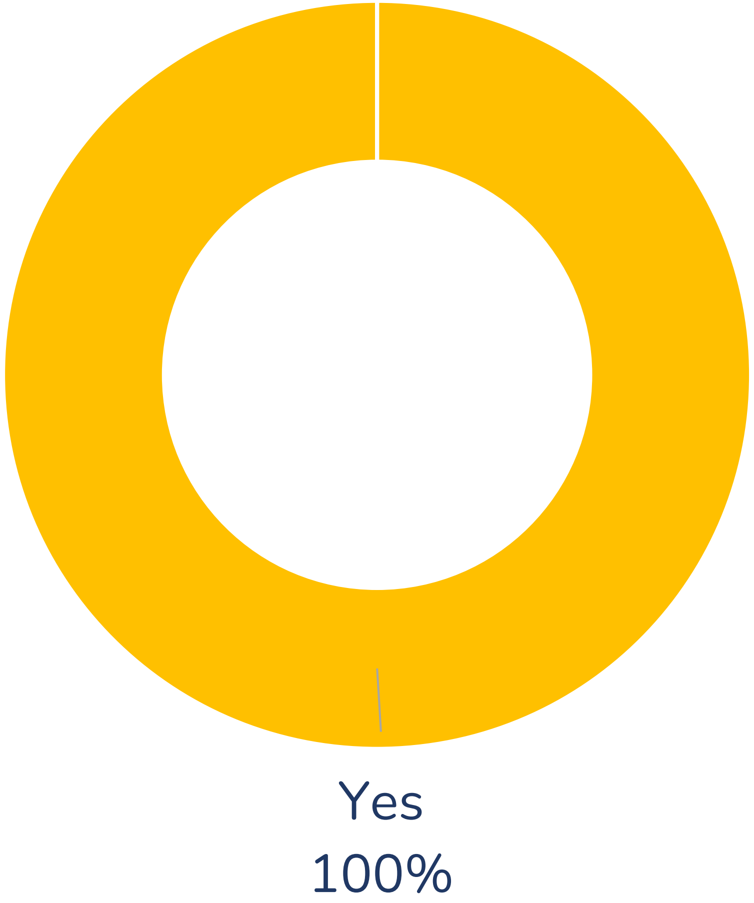
"100%"

"99%"

"75%"

Wholesaler survey – mix

"Have you reviewed your range due to price increases?"



Wholesaler survey – verbatims

"Suppliers are out of touch with the cost of running an independent retail or wholesale business and are driven by Multiple margin levels"

"Suppliers have also pulled promotions where they have poor availability which is further adding to consumer price inflation"

"Price marks provide consumer confidence so it would be better for suppliers to choose a fair price mark than for us to ask for them to be removed"

"Suppliers need to maintain a healthy shared margin without eroding consumer confidence"

Key findings

Retailers' views on local competition, PMPs and shrinkflation

Independent retailer research methodology

- 150 randomly selected independent / fascia retailers were telephone surveyed.
- The research was conducted in January 2023.

How significant are the following in terms of competition to you/your store right now? - retailers

- Independent retailers are facing intense competition…..

	% ‘very’	% ‘slightly’
Supermarkets	31%	36%
Discounters	29%	30%
Supermarket convenience stores	23%	29%
Other convenience stores (eg coops)	19%	33%
Other independent convenience stores	17%	37%
Amazon	9%	23%
Other online operators	7%	21%

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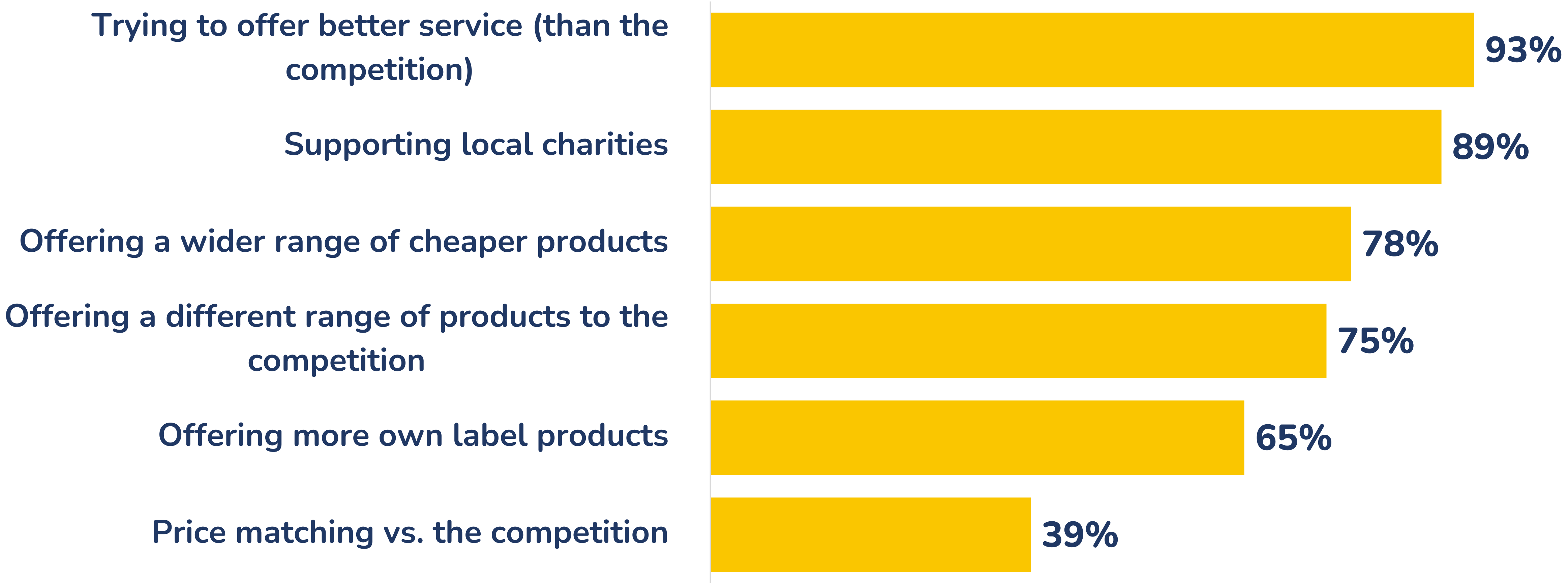
Retailer views – what are they doing to remain competitive?

- Independent retailers are not resting on their laurels, they are fighting for their share of local trade



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Retailer views – PMPs

- 91% agree that consumers like PMPs
- 80% are stocking PMPs in most major categories in their stores
- 85% think that PMPs demonstrate good value for money

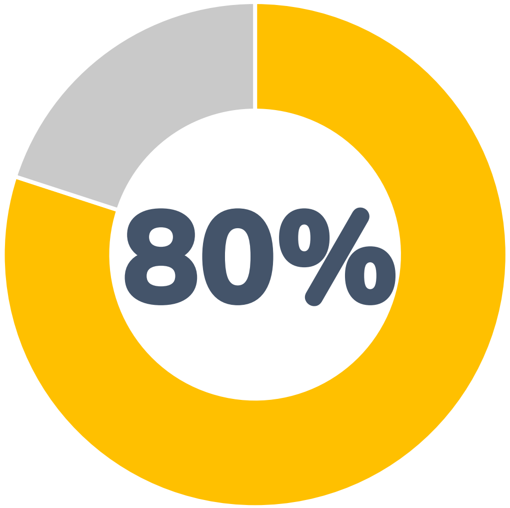
“Price Marked Packs allow me to compete on price vs other stores”

52% agree

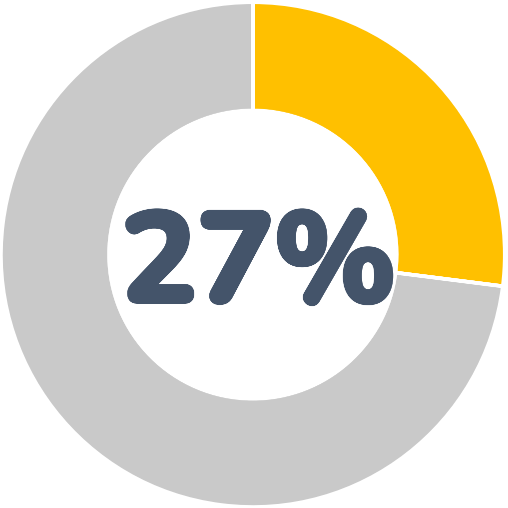
(+25% ‘in some categories’)

Are PMPs seen as the de facto indie promotion?
(and why other promos are not always passed on?)

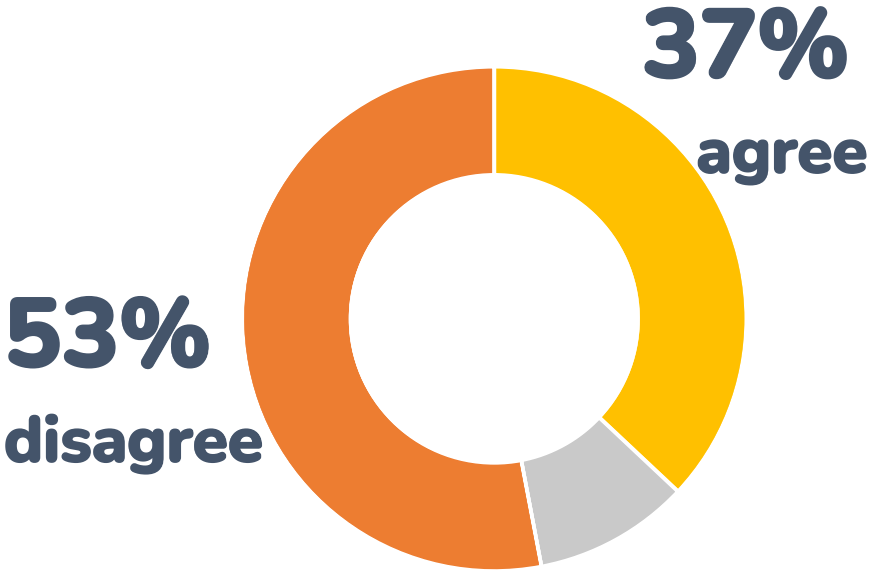
Retailer views – PMPs (2)



"My shoppers would still buy PMPs if suppliers increased the price"



"The margins offered on PMPs have improved in last 6 months"



"I wish I could buy more NON PMPs"

Retailer views – shrinkflation

"You are probably aware that most grocery manufacturers are having to increase the price of their products due to things like inflation. When implementing a price increase, food manufacturers have options. Which of the following is most appealing to you on the assumption that the margin/shared margins remain the same?"

Key findings

Consumer views – 2,000 nationally representative sample conducted in January 2023

Consumer views – shrinkflation

"Please imagine that grocery manufacturers are considering making a few changes to their pricing for various reasons such as inflation, which ONE, if any, of the following options would be the MOST appealing to you when buying groceries?"

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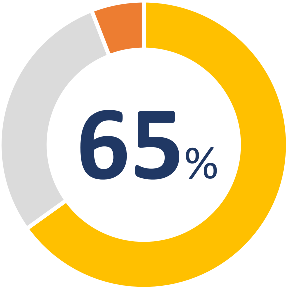
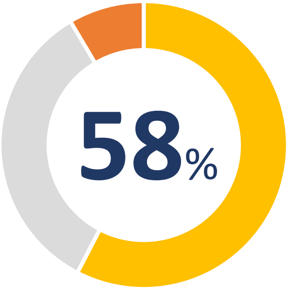
Consumer views – PMPs

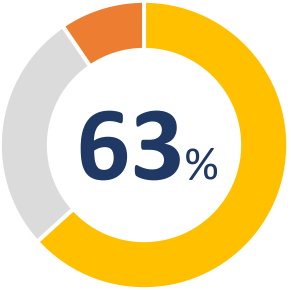
- Consumers like PMPs because they provide vital reassurance of value



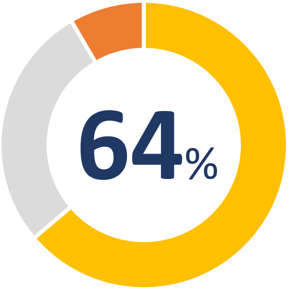
"I like price marked packs (PMPs)"



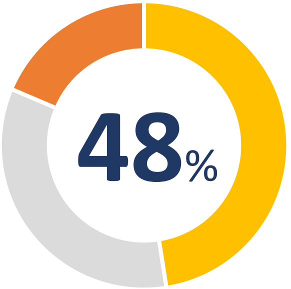
"There is usually a promotion or discount which is why the price mark is there"



"I think PMPs mean I am not being over-charged"



"I like PMPs but I don't know if the product is actually cheaper"



"I tend to shop in places with lots of PMPs"

Agree　Neither agree or disagree　Disagree

Summary

What have we learned?

Summary:

1. Wholesalers' 'costs of doing business' increased by 13% between Nov 2021 and June 2022.
2. Wholesalers' average cost price from suppliers stood at 5% by June 2022. This figure will be higher now as some price increases were backloaded to the second half/end of 2022, or even pushed into 2023.
3. While the 'base consumer prices' for a basket of goods sold in a multiple convenience store and an independent convenience store are now on par, multiples are using their loyalty programmes to offer shoppers very deep discounts. Over 40% of products in our audit basket of goods were included in a Tesco Express ClubCard promotion in Jan 23, with up to 35% money-off discount. The number of items included in ClubCard promotions, and the depth of the discounts, have increased substantially through the audit periods (Nov 2021 to January 2023). This makes it very hard for independent c-stores to compete with multiples on price.
4. Independent retailers are doing what they can to fight back – the vast majority are offering a wider range of cheaper products and extending their own-label ranges. They're also focusing on community activities like supporting local charities, as well as offering excellent customer service.
5. PMPs are very important for the wholesale sector. Consumers value them (PMPs reassure them) and retailers know this. Independent retailers are offering PMPs in almost all their categories and want to continue to do so.

Summary:

6. 80% of retailers believe that their shoppers would continue to buy the PMPs if suppliers increased the price of them (thereby generating further margin for wholesalers and retailers).

7. Our analysis found that 23% of PMP price rises from suppliers came with a higher percent margin. The majority (73%) had their margin levels 'maintained' but many wholesalers could view this as margin erosion as their costs of doing business, and purchasing goods are both rising quite significantly.

8. A reminder that all wholesaler margins need to be shared between wholesalers and retailers – and retailers' own 'costs of doing business' are also rising.

Thank you from TWC Group

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