



## 2008 ↔ vs ↔ 2017

### What happened after the last recession?

Whilst there are fundamental differences in the market now, the last recession holds key indicators for 2017

#### Stable volume



People's consumption did not change as a result of price changes; the basket composition changed instead. So growth must come from elsewhere

#### More prudent



Shoppers reduced out-of-home consumption, 'carried out' more and made 'less risky' food choices

#### Traded down



Value Own Label and cheaper brands prospered

#### Lipstick effect



Health as a motivator became less important and the 'lipstick effect' of opting for treats and snacks crept in

#### Staples prospered



Discretionary categories were affected (morning goods, wash additives, mineral water) while staple goods prospered (frozen fish, bread, packet soups)



## 54%

of British consumption is domestically produced\*

### To survive, brands must use the full marketing mix



The grocery market is now back in inflation, with signs indicating this will continue throughout 2017. Every brand will of course be affected differently

### What might happen with higher prices post-Brexit?

A broad hike in food prices is expected, as suppliers cope with increased costs

#### Maintain current prices and absorb cost increases

1. Squeezed margins for manufacturers
2. Retailers apply pressure; the average retailer margins are lower than manufacturer margins
3. Inflation passed on to shoppers due to competitive pressures

#### Put prices up and pass costs to the shopper

1. The retailer is in control; suppliers only advise on price
2. Harder to do in discretionary markets than staples
3. Difficult to execute and could result in reputational damage
4. Competitive markets may suffer if the shopper is offered plenty of competitive choice
5. Manufacturers must understand price elasticity before acting

#### Work around cost increases

1. Products and pack sizes are reformulated
2. Negative reputational impact – if not carefully managed

With "round pound" pricing growing in popularity with retailers and manufacturers, this is the most likely outcome.

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\*Food Statistics Pocket Book, 2015; Defra/ONS