NU PERSPECTIVES JUNE 2023

Catering to Consumers in Economic Uncertainty

INTRODUCTION: A SWELL OF CHANGES

In today's ever-changing US market, stability remains elusive. Business leaders face increasing challenges when making decisions under extreme economic pressures. Consumers now have a multitude of options when it comes to shopping, saving, and consuming, further complicating the decision-making process.

The world today looks very different from what it was just a year ago. If we think back to what we heard about the market in early 2022, it was all about supply chain and inflation. However, the market showed some recovery in the past few months. But as prices and demand start to slow down, companies are reacting accordingly. Consumers are now faced with uncertainty around layoffs, bank failures and rising interest rates.

So, what is the truth about today's consumers, and how can brands effectively connect with them? We believe that one of the best strategies for growth during times of economic uncertainty is to delve deep into understanding the needs of consumers. However, attempting to market to the individual interests of hundreds, thousands, or even millions of shoppers is impractical.

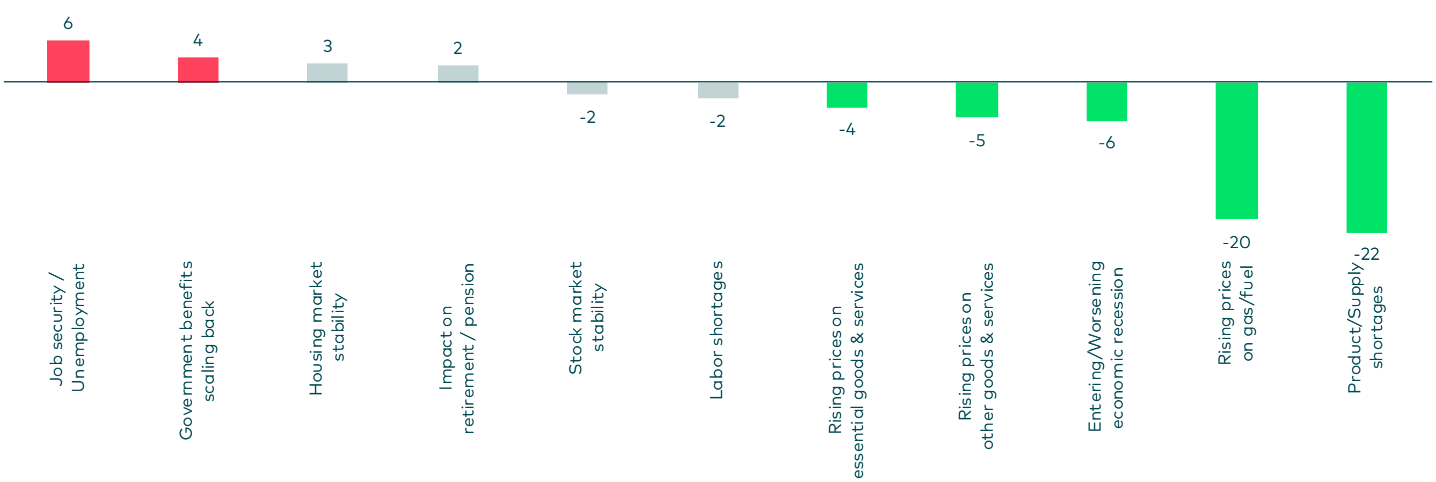
[1] See the Additional Resources section for more details on the segmentation and our capabilities.

WHERE ARE CONSUMERS TODAY?

As we mentioned previously, the world has undergone significant changes since last year. In 2022, almost 83% of brands increased their spend per unit, and half experienced sales growth in spite of a decrease in unit volume.

However, in 2023, we are starting to see the effects of a price-driven year. While prices remain elevated, they are no longer growing at double-digit rates. Companies are feeling the impact as consumers spend less per trip compared to last year, leading to considerations of cost-cutting measures such as layoffs.

JOB SECURITY HAS GROWN TO BE A FOCUS IN 2023
Percentage point difference in response for May 2023 compared to June 2022



Source: Numerator Monthly Consumer Sentiment Study | Sample Size Differs by Month n > 1000
Q: What specific concerns do you have regarding the economy?

Although inflation continues to be a major concern, consumers have now become increasingly worried about their job security over the high gas prices and product shortages that dominated public perceptions back in June 2022. Given the heightened focus on employment and the prevailing uncertainty, we have expanded our segmentation approach to include factors such as job security and forward-looking sentiments on the economy, in addition to the responses we collected on inflation.

Below are the five consumer clusters we uncovered:

HARDEST HIT **(21%)**	STEADY STRIVERS **(19%)**	RESERVED RETIREES **(18%)**	FUTURE FLIERS **(26%)**	PROSPERING PROFESSIONALS **(17%)**

HARDEST HIT (21% OF THE US)

The Hardest Hit segment is the most vulnerable group, facing job loss and pay cuts. They are forced to make difficult choices, reducing non-essential spending, purchasing less frequently, and driving less. To lower their overall expenses, they are turning to dollar stores and private label products. Among all segments, they have the most negative sentiment towards the US economy. The Hardest Hit overindex with large, urban, and Hispanic households, and their primary concern is making ends meet.

STEADY STRIVERS (19%)

Similar to the Hardest Hit, Steady Strivers have faced financial challenges in the past two years. However, they are more confident in their job security and represent America's working class. They plan to cut back on dining out and durable goods while relying on private label products. They find comfort in larger brands for essential items. Although they still hold a negative outlook on the economy, they have a slightly more optimistic perspective on their future in the coming year compared to the Hardest Hit.

RESERVED RETIREES (18%)

This segment has the highest percentage of retirees and is faring reasonably well in the current economic climate. Their financial situation has remained stable, as has their purchasing behavior. While they are not particularly positive about the US economy, they generally hold positive expectations for their personal lives and haven't experienced a direct impact from current events.

FUTURE FLIERS (26%)

Future Fliers represent a more positive shift on the financial spectrum. They are more likely to be Millennials or Gen Z, enjoying job security and improvements in their financial situation over the past two years. Future Fliers have not reduced their non-essential purchases as significantly as the Hardest Hit or Steady Strivers, but they are mindful of saving where possible. Their concerns revolve around world events, family matters, and health, rather than solely making ends meet.

PROSPERING PROFESSIONALS (17%)

This segment is mainly comprised of high-earning households who are the most financially comfortable. They have seen increases in their wages and hold a positive outlook for their future. Prospering Professionals work in professional fields such as business, computer engineering, and healthcare, often holding graduate degrees. They tend to live in smaller suburban homes. While they are not entirely immune to inflation and still respond to deals, they do not perceive themselves as cutting down on purchases. They are most concerned about global politics and the daily stressors of work and school.

WHAT SHOULD LEADERS DO?

Our analysis of the five consumer segments has revealed three essential strategies for leaders to consider:

1. Optimize your activation strategy to meet shoppers' varying financial needs. Financially at-risk consumers are increasingly seeking ways to reduce overall costs, but that does not hold true for every shopper. By identifying the promotional types that drive the most incremental spending among category shoppers across the economic spectrum, trade teams can tailor their strategies to retailers that have a higher concentration of specific consumer segments.

2. Map out the shift toward and away from in-home consumption. Consumers are looking to drop out-of-home dining, but they are using limited-service restaurants as the mediary. This will provide resilience to food brands in the service industry but pose a risk for others. Brands need to identify the intersection between in-home and out-of-home consumption and their occasions to determine the overall impact of this change.

3. Acknowledge that size matters in the current market landscape. Larger brands and retailers are currently leading the way and giving tailwinds to private label. Brands must clearly articulate their unique value proposition amid private label's growth. Continuously monitoring retail leakage to big box retailers, offering competitive pricing, and identifying basket and demographic trends by segment is essential for brands to create value for retailers and grow with their consumer.

Strategies and insights will vary across different categories and brands. Therefore, companies should leverage the consumer profiles available within the Numerator Insights platform to identify risks, determine the most effective allocation of marketing investments, and uncover valuable opportunities within their portfolio.

Leaders should then capitalize on their segment findings by creating target audiences for advertising campaigns based on these consumer segments. For example, targeting ads about premium products to Future Fliers and Prospering Professionals, to whom marketing these products is more appropriate. Numerator can assist in creating seed sets to be sent to DMP/DSP providers for modeling & audience expansion. Similarly, developing profiles similar to the Hardest Hit and Steady Strivers within internal CRM systems allows for the distribution of exclusive coupons and deals to retain shoppers who may otherwise trade down. After a campaign, panel matches can be used to measure the effectiveness of these activations.

FINDING 1: MAXIMIZING TRADE SPEND EFFECTIVENESS

When we asked consumers about their response to rising prices in the coming months, two of the top three strategies they mentioned were searching for deals and stocking up on essential items that are on sale.

DEAL SEEKING AND VOLUME REDUCTION ARE THE PRIMARY WAYS TO SAVE

% of group indexed vs. all shoppers

● <80 ● 80-89 ● 90-110 ● 111-119 ● >120

Ways to Save	All Shoppers	Hardest Hit	Steady Strivers	Reserved Retirees	Future Fliers	Prospering Professionals
Search for coupons, promotions, or sales	54%	111-119	111-119	90-110	80-89	90-110
Decrease spending on non-essential items/activities	50%	>120	>120	90-110	80-89	80-89
Stock up on essential items when they're on sale	49%	90-110	111-119	90-110	80-89	90-110
Shop around more to find the best deals	46%	111-119	>120	90-110	80-89	90-110
Make fewer shopping trips/purchases	43%	>120	>120	90-110	<80	<80
Purchase fewer items than I usually would	41%	>120	>120	80-89	<80	<80
Switch to a less expensive brand option	37%	>120	>120	80-89	<80	<80
Stop purchasing certain items/spending on certain activities altogether	37%	>120	>120	<80	<80	<80
Reduce the amount I drive to save on gas	32%	>120	>120	90-110	<80	<80
Pause major financial commitments (e.g., home buying, school tuition)	20%	>120	>120	<80	<80	<80

Source: Numerator 2023 Economic Segmentation Survey (n=23,472)
Q: Do you plan to do any of the following in the next few months in response to rising prices / inflation?

This trend was observed across all consumer segments, including the well-off Prospering Professionals, with at least half of them planning to seek out sales and coupons to offset higher prices. Surprisingly, Prospering Professionals were equally as likely as the Hardest Hit to stock up on sale items. This finding highlights the importance of trade spending as a crucial tactic in managing economic downturns, providing temporary relief for all consumers as they adjust to market prices.

Furthermore, brands and retailers that have invested more in promotional activities this year have outperformed the industry average. Among the top 10 fastest growing grocery brands year-to-date, nine of them grew the number of ad blocks within the same timeframe. In fact, these brands were aggressive in their promotions by growing their ad blocks, on average, by 36%– six times faster than total market.

It is important to note that not all promotions are equally effective across different consumer groups, and they should be used strategically based on the target audience. For instance, when analyzing the spending patterns of the Hardest Hit and Prospering Professionals in relation to carbonated soft drinks, we found that the Hardest Hit's absolute spend per trip growth during promotional weeks was 36% higher than that of Prospering Professionals. Among the Hardest Hit, activities such as purchase with a specific quantity or X for Y promotions showed the highest increase in spend per trip.

PROMOTIONAL EFFECTIVENESS DIFFER BY CONSUMER GROUPS

Carbonated Soft Drinks | Absolute spend per trip increase during promotional periods vs non-promotional periods | YTD Ending 4/30/2023

Source: Numerator Promo Insights

When examining the same analysis for frozen dinners and meals, we discovered that the Hardest Hit no longer showed increased spending during promotional periods. Instead, Future Fliers demonstrated lifts in spending during promotional periods, with sale price activities driving the highest spend per trip compared to other offer types.

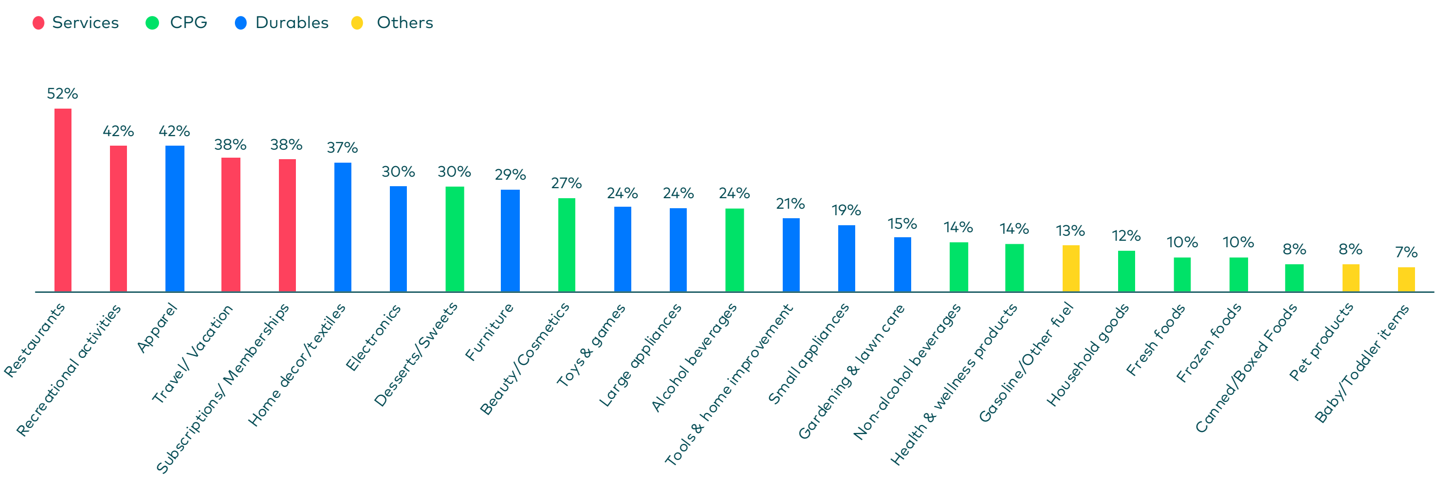
Leaders responsible for trade strategies must carefully analyze which consumer groups are most responsive to specific types of promotions to ensure that their trade budget yields the highest return on investment.

[2] Looking at top 100 grocery brands. Ending 4/30/2023 compared to Year Ago

FINDING 2: NAVIGATING CONSUMER SHIFTS IN EATING

Consumers are planning to reduce spending on non-essential items and activities as the second most common tactic in response to rising prices. Out-of-home consumption is expected to be significantly impacted, with nearly two-thirds of US households affected by rising costs planning to cut back on this category. Cutting back on restaurants and dining out is the most prevalent saving measure across all consumer segments.

SERVICES & DURABLES ARE LIKELY TO SEE THE LARGEST IMPACT TO REDUCED SPENDING
% of shoppers planning to reduce spending or stop buying



Source: Numerator 2023 Economic Segmentation Survey (n=23,472)
Q: You indicated you have or plan to decrease/stop spending on certain items in response to rising prices/ inflation. Where do you plan to decrease / stop spending?

However, it's important to note that dining out hasn't completely shifted back to home. Instead, 24% of consumers are claiming a move from full-service to limited-service restaurants while only 18% said they are eating more at full-service restaurants. Our research indicates that traffic to fast food chains has grown by 8% year to date ending 4/30/2023, compared to the previous period. This growth is 4 percentage points higher than the 12-month period compared to the previous year. The acceleration in traffic is primarily driven by the Hardest Hit, which is up 9 percentage points.

Limited-service restaurants have an opportunity to communicate to consumers the affordability and convenience they offer during these economically challenging times. Of those claiming to eat more fast food over full-service restaurants, 68% said it was for convenience, followed by not having to pay a tip and getting more food for my money (29% and 23%, respectively).

Leaders need to ensure they have a comprehensive omnichannel understanding of out-of-home consumption and map the entire consumer wallet to determine how their category is performing compared to the overall market. The consumer goods industry may not have experienced the full impact from their shoppers yet, considering that discretionary categories are typically the first to be affected, while brands with foodservice operations for limited-service restaurants might be benefiting. However, in order to regain their fair share, brands need to hear directly from their consumers and understand the out-of-home occasions where they can win back customers.

Emerging Winners of 2023:

Large categories

Large retailers

Private Label

FINDING 3: BIG RETAILERS + BIG CATEGORIES = PRIVATE LABEL WINNING

Leaders have long suspected that larger companies with size and scale are more resilient during times of economic uncertainty. Consumers tend to become more cautious about where they shop and the products they choose, seeking comfort and security in familiar options.

[3] Large categories / retailers were defined as penetration > 66%, Mid-sized 33-66%, Emerging < 33%.

Households made trade-offs particularly with smaller, more niche categories. Commodities and frequently purchased goods continue to demonstrate more resilience compared to general merchandise and specialty consumables. When we examined actual purchasing behavior based on their penetration size, we found that larger categories were gaining unit share at the expense of smaller, niche categories. Leaders in these large categories have an opportunity to maintain their authority in the market by working closely with retail partners to prioritize their brands as consumers shift away from smaller categories.

However, there are areas of resilience for general merchandise where reductions differ among segments. For the Hardest Hit and Steady Strivers, the hospitality industry and subscription-based services were higher ranked areas of claimed reduction over general merchandise. In contrast, more affluent segments prioritize trading off home goods and furniture to afford vacations and prioritize electronics. General merchandise leaders could limit losses by segmenting their consumer base to determine if their brands are at risk.

WHILE THE TOP THREE CUTBACKS ARE SMILAR ACROSS GROUPS, TRAVEL AND DURABLES DIFFER
% of group ranked, ordered by all shoppers

Planned Cutbacks	All Shoppers	Hardest Hit	Steady Strivers	Reserved Retirees	Future Fliers	Prospering Professionals
Restaurants/Dining Out/Food Delivery	52%	1	1	1	1	1
Recreational activities (e.g., movie tickets, concerts)	42%	3	2	3	2	2
Apparel	42%	2	3	2	3	3
Travel/Vacation	38%	4	4	6	5	4
Subscriptions/Memberships	38%	5	5	5	4	5
Home decor/textiles (e.g., lamps, pictures, blankets)	37%	6	6	4	6	6
Electronics	30%	8	8	9	7	7
Desserts/Sweets	30%	7	7	8	8	8
Furniture (indoor and outdoor)	29%	9	9	7	9	9
Beauty/Cosmetics	27%	10	10	10	12	10

Source: Numerator 2023 Economic Segmentation Survey (n=23,472)
Q: You indicated you have or plan to decrease/stop spending on certain items in response to rising prices/ inflation. Where do you plan to decrease / stop spending?

Similar to categories, larger retailers are gaining a greater share of the market. The Hardest Hit, for instance, are increasingly turning to Dollar Tree for its lower prices, while Prospering Professionals and Steady Strivers are seeing growth in units at 7-Eleven and Home Depot. Brands must prioritize their distribution efforts in the coming year to capitalize on these trends depending on where their consumers sit. Interestingly, the Hardest

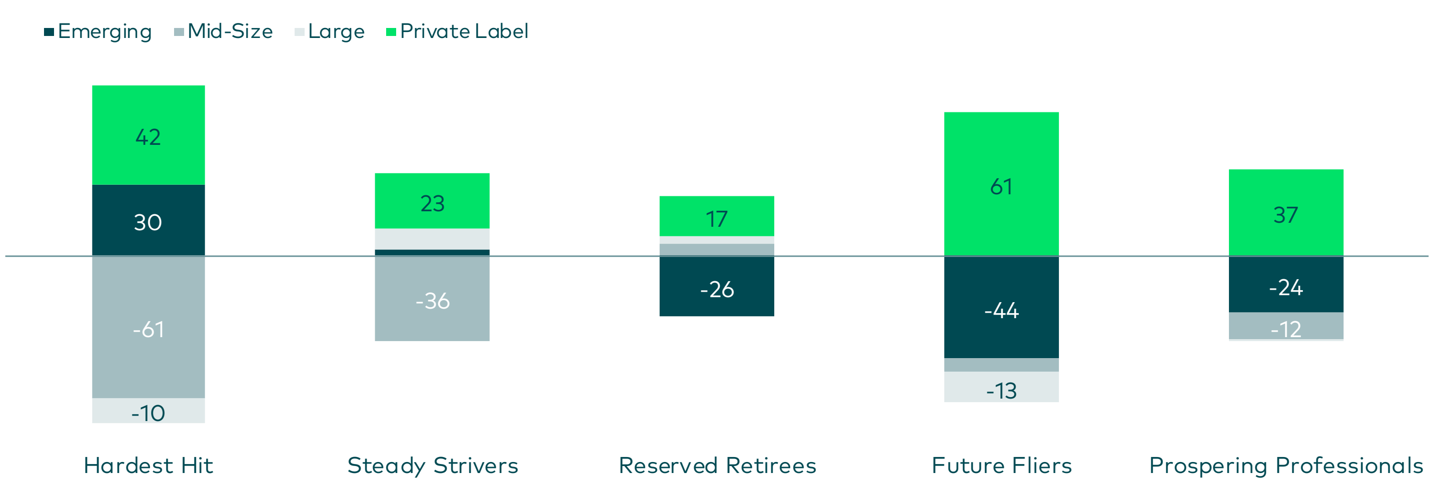
Hit are also expanding their unit share at smaller retailers, showing a preference for local mom-and-pop stores. Retailers need to refresh their understanding of leakage and loyalty across these segments to identify any potential market share risks.

But what about brands? Smaller brands have been a driving force for growth in the market, especially during the COVID pandemic and supply chain disruptions. In 2022, over 55% of the brands that gained consumer reach globally were smaller, emerging brands[4]. However, this year poses a potential challenge to that trend.

As larger retailers rise to prominence, so do their namesake brands. Private label has benefitted from significant tailwinds in having a more resilient portfolio– 42% of private label sales are found in larger categories (compared to just 20% with small brands).

We found that private label unit share growth has grown significantly at the expense of smaller brands. Larger brands, while affected, saw less volume shift move over to private label. However, smaller brands can find solace within the more struggling segments, as these households are cutting out middle sized brands and relying on the extremes to source value.

PRIVATE LABEL BRANDS ARE WINNING SHARE AT THE EXPENSE OF EMERGING BRANDS
Unit Share Change in BPS | Total Store | YTD Ending 4/30/2023 vs Prior Period



Source: Numerator Insights
Q: Large defined as having a household penetration >66%, Medium between 33% and 66% and Small <33%

[4] Kantar & Numerator Brand Footprint 2023

While the question of whether large retailers are winning because of private label or vice versa is an area to dive in deeper, the answer is clear: consumers are looking for affordable options that are safe bets. Brands playing solely in niche categories need to either quickly innovate into more resilient categories or fight to win share within their own by reminding consumers and merchants about their brand's value thesis.

ADDITIONAL RESOURCES

Unleashing the Power of Market Segmentation with Numerator

Market segmentation is a powerful tool that helps marketers divide large groups of people into smaller, distinct sub-groups based on shared characteristics such as attitudes, psychographics, geographics, demographics and observed behaviors. Segmentation enables brands to gain insight into each customer group's unique motivations, needs, and behaviors, including how they interact with specific categories.

By understanding these common features, brands can enhance their marketing initiatives and tailor their products and services to better align with the preferences of their target customer. Simply put, the power of market segmentation lies in its ability to facilitate improved marketing effectiveness and customization, resulting in enhanced customer satisfaction.

Segmenting customers is complex, and using a single data set as the sole basis for segmentation can result in incomplete insights about the target customer. For instance, when brands solely rely on demographic segmentation, such as age and gender, it offers a high-level understanding of "who" the customers are. Still, it fails to delve into the deeper aspects of their attitudes, motivations, and purchasing habits— the "why's" behind their behavior. This limited perspective prevents brands from fully understanding how customers engage with a specific category and which factors influence their decision-making process.

Brands should consider additional factors when creating a segmentation to gain a more comprehensive understanding. By using multiple data sets to segment customers, brands can gain a more nuanced and insightful perspective on their customers, enabling them to develop more effective marketing strategies and tailored offerings.

At Numerator, our approach to segmentation involves utilizing multiple data sets from a single source: our robust consumer panel. We adopt a multidimensional methodology incorporating insights from surveys (e.g., attitudes, motivations, needs, etc.), verified purchase behavior, and various metrics available for all households in our panel (e.g., demographics, psychographics, media habits, lifestyle, etc.). By leveraging these diverse data sets, we can generate segmentations that offer a comprehensive and precise market understanding. And since they all stem from a single source, brands can be assured of cohesive, meaningful segmentations.

This multidimensional approach enables us to give brands a deeper understanding of their target customers and the ability to track them longitudinally. With a holistic view of their audience, brands can make well-informed decisions and tailor their marketing strategies to reach and engage their desired customer segments effectively.

Segmentation Details

This segmentation uses a clustering algorithm named Partitioning Around Medoids (PAM). PAM is a distance-based clustering tool, similar to k-means. The algorithm looks at distances between panelists' scores and finds groups that center around representative individuals.

The following variables from our survey and panel were used in the model, in order of importance:

- Job Security Concerns
- Inflation Impact
- Working Status
- Current Financial Situation
- Purchase Power Percentile
- Future Inflation Concern
- Future Outlook
- Economic Positivity
- Age

Numerator