VISIONS

THE 2023 SPARK

Numerator

NUMERATOR VISIONS
THE 2023 SPARK

Welcome to our inaugural release of Numerator Visions, which is our annual perspective that looks back at the past year, provides forward-looking insights into the year to come, and serves as a starting point for deciding what to do next. Every year, we will share several visions for the future and what industry leaders and executives should be prepared for. We create these visions by drawing on our comprehensive understanding of the consumer, which we gain through Numerator Insights, TruView, Survey, and Promo Intel.

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INTRODUCTION

Let's take a step back to January 2022 and trace our journey to today, entering 2023.

Throughout the year, Americans faced pivotal movements and inflection points that set the stage for a challenging 2022. Within just four months, we saw Russia invade Ukraine, an unexpected decline in real GDP, and the COVID-19 death toll in the US reach 1 million.

The second half of the year was equally tumultuous as the US market faced high inflation. The Federal Reserve raised interest rates seven times during the year, the tech industry trimmed their workforce, and public health scares emerged, as monkeypox, polio, and RSV spread cases across the country.

However, 2022 also saw milestones that evoked normalcy. As the year ended, Americans reduced the impact of COVID-19 on their behavior and began traveling regularly again, with TSA checkpoint numbers reaching close to 2019 levels in the back half of the year.

"We see 2023 as a year of **opportunities**"

2023 is expected to be just as fluid as 2022, and we know leaders are struggling to keep up with increasing consumer needs—which is why Numerator is expanding our static panel to 150,000 panelists, increasing panelist requirements, enhancing our omni calibration engine and expanding our coverage across limited service restaurants.

With these investments— and the others we are making this year, we see 2023 as a year of opportunities for brands and retailers that devote themselves to their consumers. We encourage you sit with our visions for the year and return to them as you face new challenges.

We know 2023 will not be an easy year, but growth is possible in difficult times with the right spark.

EXECUTIVE SUMMARY

If we had to sum up what leaders should do in 2023, it would be to **focus on the consumer.**

Throughout the last few years, business leaders have primarily focused on short-term, tactical and operational needs.

However, many of the changes we anticipate in 2023 will be driven by shifting consumer needs and the market dynamics affecting them, as supply constraints are expected to become more stable, inflation lets off the gas pedal, and COVID-19 becomes less of a concern to consumers.

Based on the trajectory of 2022, we identified three core visions that act as north stars for leaders as they make decisions throughout 2023.

VISION 1

A REINVIGORATION

The COVID-19 pandemic altered our perceptions of health and wellness, but as time goes on, consumers are returning to their normal routines. However, Americans must deal with an underlying trauma due to the pandemic, as most feel the country is not yet in a post-COVID world. Brands will need to closely monitor consumer behavior and be ready to adapt as public health concerns evolve.

Consumers are trending towards treatment over prevention, such as during the last quarter of 2022, when flu, RSV, and COVID-19 cases increased. As China and other countries relax COVID policies in 2023, it will be crucial to track how demand for treatment categories might shift in the US.

Additionally, all consumers are seeking a more balanced approach to health and mental wellness. This universal shift is an opportunity for brands to market products as providing mental comfort and fulfillment.

Long-term, investing in R&D for nutrition-based products will foster growth, as younger consumers focus more on nutritional and whole-body wellness. Emerging categories such as protein water, kombucha, and prebiotic & probiotic sodas are gaining popularity among Gen Z households and should act as inspiration for innovation in 2023.

CONTINUE

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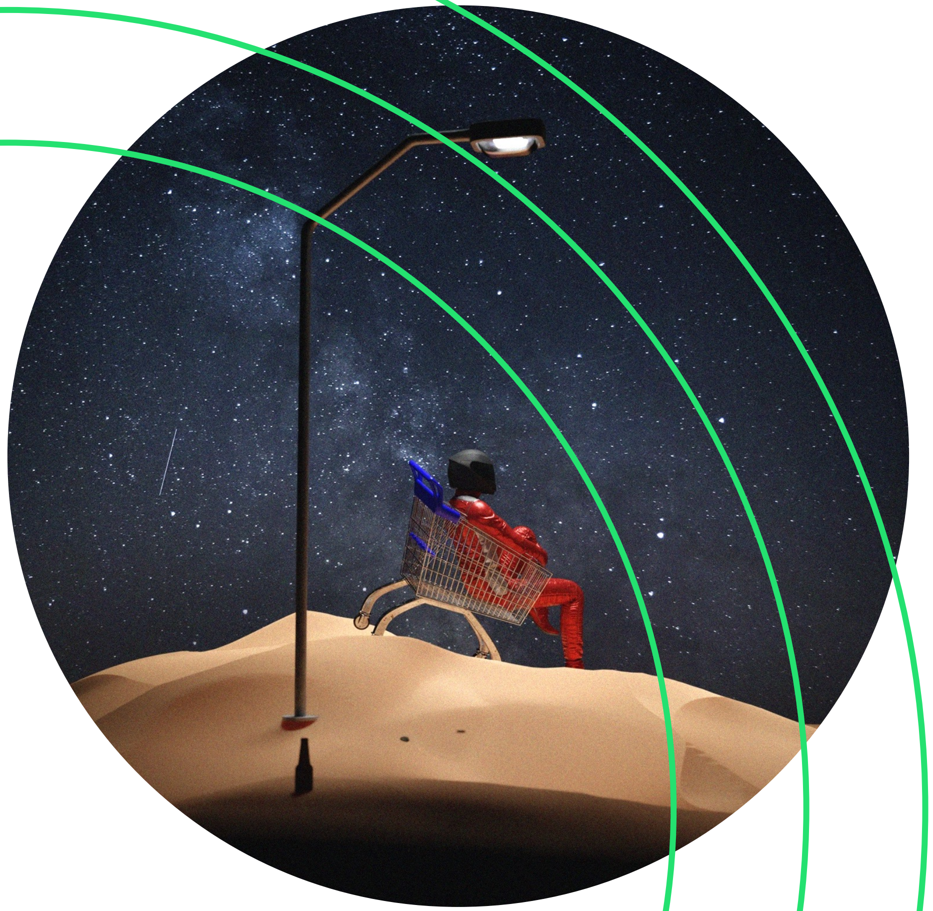


VISION 2

A REDEFINITION

Retail went through a lot. In 2022, the industry witnessed an inventory overload, eCommerce slowdown, and a $24.6 billion dollar deal, resulting in a wake-up call for many retailers.

One word defines the new retail landscape in 2023: **competitive.**

Brands will need to compete on price and value as private label market leaders rebound in share. Retailers should stay agile and focus on promoting to the right consumers as sales events become the norm.

Digital teams must further expand the definition of quick commerce to drive growth in the online space *and* invest in Grab & Go technologies to keep ahead of consumer expectations.

As the merger of Kroger and Albertsons goes through review in 2023, leaders should prepare for potential changes in the retail industry by closely monitoring price, shoring up eCommerce, and developing strategies to retain shoppers from divested stores and reduce cannibalization between operating stores.

CONTINUE

VISION 3

A RETREAT

As 2023 unfolds, leaders must prepare their teams for potential economic headwinds due to elevated consumer financial concerns.

To grow while consumers retreat and move ahead of the market, brands must keep a close and customized eye on economic indicators such as consumer sentiment, retail sales, and inflation within their categories.

Organic growth through households and occasions **is mission critical.**

Brands must build penetration targets and develop comprehensive consumer profiles to preserve volume.

Finally, a generational strategy to defend against economic headwinds will create resiliency for categories. As Gen Z lament housing prices, they turn to comfort foods, while Boomers have bunkered down and rationalized their snacking.

VISION 1

A REINVIGORATION

VISION 1: A REINVIGORATION

The COVID-19 pandemic brought the world to a halt. The virus, now considered endemic by some health officials, redefined our perceptions of health, wellness, and care.

Many believed that mask usage and frequent hand washing would be long-lasting trends. However, even though COVID-19 is still present, Americans are starting to move on.

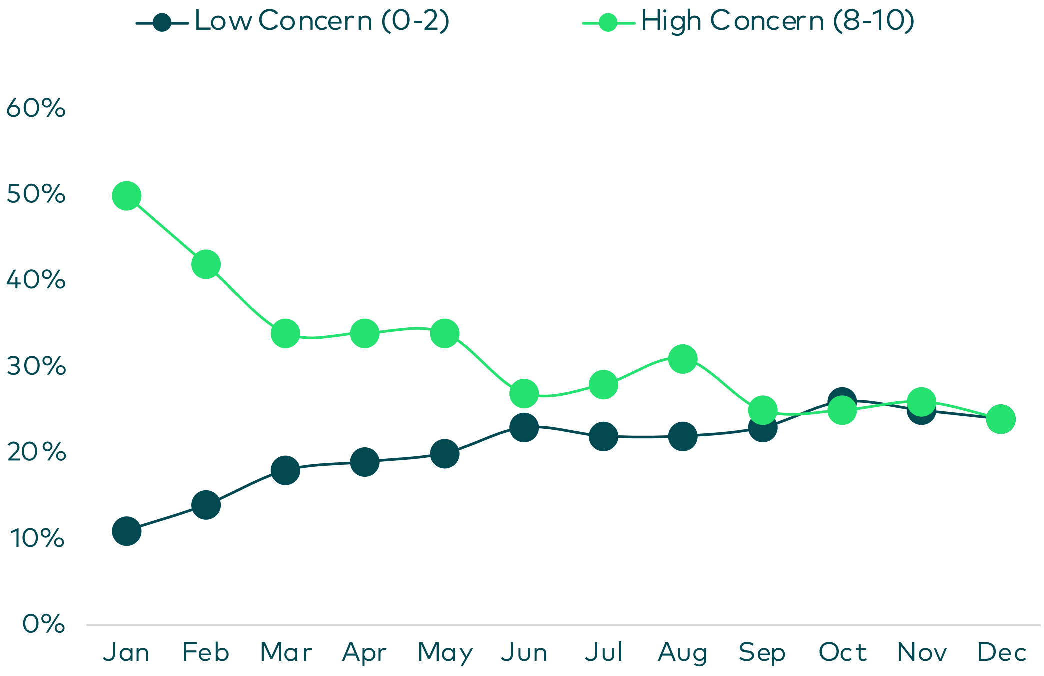
In October 2022, low concern about COVID-19 outpaced high concern for the first time in three years of tracking by Numerator.

Americans are now traveling and returning to the office, with half of consumers reporting that their lives have returned to normal.

But despite this, nearly three-fourths of the population believes we are not living in a post-COVID world. This dynamic sets the tone for how consumers and brands view the pandemic, and will reinvigorate how they view their health going forward.

COVID CONCERN IN 2022 - MONTHLY

All Consumers



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BUILD

FOR REACTIVITY

First, we expect that brands associated with public health will need to closely monitor consumer behavior and how consumers approach health crises will shift in 2023.

We tracked the last quarter of the year, where flu, RSV, and COVID-19 cases increased, and found that there was a stark contrast in how consumers treated vs. prevented these illnesses. The use of treatment categories such as cold, cough & flu medication and adult stomach remedies all showed upward penetration trends, while preventative categories such as liquid hand soap, laundry sanitizers, and gloves & masks purchasing trends were flat or down.

With the world's largest country, China, dropping its zero-COVID policy and other countries continuing to loosen restrictions, observing how COVID-19 may affect demand for treatment categories in the US in case of another surge will ensure brands are prepared to meet consumer demands.

PENETRATION TREND MOVEMENT
Rolling 4 Weeks vs Year Ago

	HEALTH CATEGORIES	SEPT 2022	NOV 2022	△
TREATMENT	Adult Cold, Cough & Flu	-0.6pp	+3.7pp	+4.3
	Children Cold, Cough & Flu	-4.6pp	-1.6pp	+3.0
	Adult Stomach Remedies	-6.8pp	-1.8pp	+5.0
PREVENTION	Liquid Hand Soap	-3.8pp	-3.6pp	+0.2
	Laundry Sanitizers	-0.3pp	-0.1pp	+0.2
	Gloves & Masks	0.1p	-0.4pp	-0.5

MARKET
SYNERGY

In 2023, marketing has a chance to go beyond the physical and experiment with communicating ideas around fulfillment and contentment.

2021 was, predictably, a year of focusing on physical health over mental health as COVID-19 dominated news and the healthcare system. Although regular virus outbreaks in 2022 meant that consumers still emphasized physical health over mental health, the difference between the two has dropped significantly, down by 8 percentage points.

The movement towards a balanced mindset was universal across all generations, ethnicities and income.

Entering 2023, nearly 2 in 3 Americans want a more balanced focus of health & mental wellness.

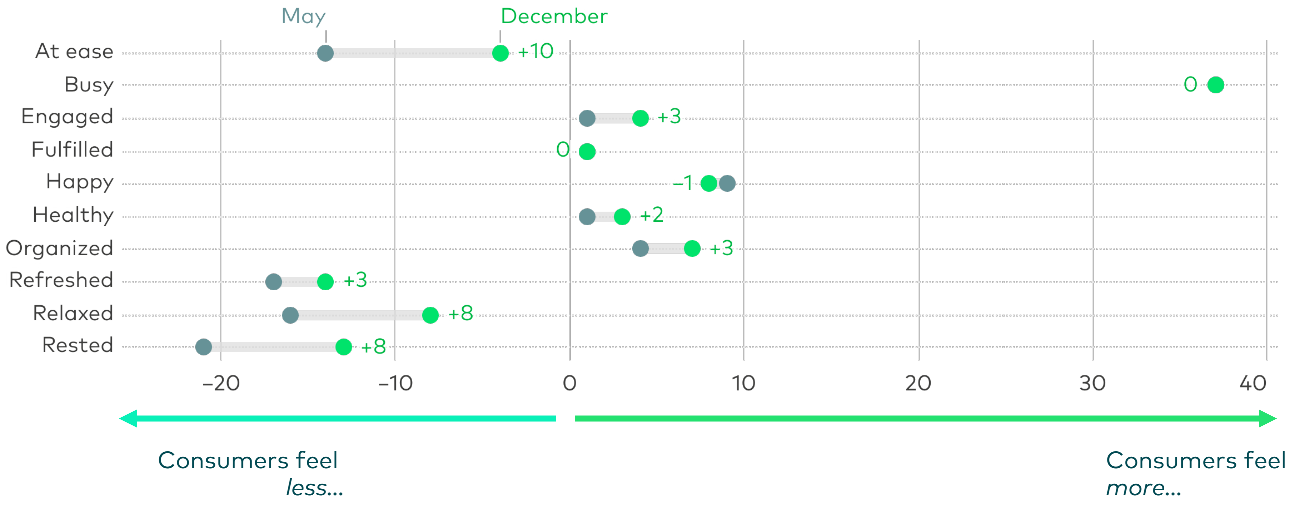
The de-prioritization of physical concerns is driven by Americans catching up on their sleep. In our Consumer State of Mind survey, we've seen more consumers say they feel relaxed and rested.

However, sentiments around feeling busy, fulfilled and happy have stayed stagnant between May to December, and brands can do more to help them.

Products that market themselves as providing mental comfort and create tangible mental health benefits could be helpful for brands who are looking to reach the [40% of consumers who have made a 2023 resolution on mental health.]

CURRENT CONSUMER STATE OF MIND

Compared to Last Year | Net Effect Point Change Between May and December Pulse



TRUST

YOUR GUT

It is vital for brands to continue investing in research and development for nutrition-based products, optimizing current supply chains for sustainable growth in the future.

While consumer reactions towards health crises and the shifting balance between physical and mental health may continue to change, projections from our Population Preview report indicate that **younger consumers will increasingly focus on nutritional and whole-body wellness rather than supplements in the next five years.**

As younger consumers become the majority, categories such as fresh produce and meat alternatives have potential for growth. Beverage categories that provide energy, such as coffee and sports drinks, are also projected to be successful.

Other beverage categories are following this trend today and have done well, with protein water, kombucha, and prebiotic & probiotic sodas seeing increased purchasing among Gen Z households. These emerging categories will be important to watch in 2023.

TOP PERFORMING CATEGORIES AMONG GEN Z IN 2022

Showcasing Select Categories in Top 50 Fastest Growing Categories in Penetration or Buy Rate | Index vs YAG

Protein Water
Penetration: 152
Buy Rate: 575

Kombucha
Penetration: 110
Buy Rate: 92

Prebiotic & Probiotic Soda
Penetration: 180
Buy Rate: 154

Sports & Energy Drinks
Penetration: 102
Buy Rate: 132

A VOICE FROM NUMERATOR

ON A REINVIGORATION

"Unlocking consumer behavior has always been my passion, and the lockdowns due to COVID-19 was a testament to it. Leaders were asking for my guidance on how to navigate this uncharted territory. We helped by tracking how sentiment drove behaviors over time, understanding what demand was for immunity boosting and mental wellness products, and predicting what trends were here to stay. The real-time work we did on the consumer was rewarding for both of us during trying times.

This moment taught me the importance of rallying around a consumer-first approach and building agility in a fast-changing environment.

I expect shoppers will continue to look for new ways to maintain their health & wellness in 2023 even as concern around COVID-19 slows down– whether that is looking for nutrient-dense ingredients, building a more mindful environment, or finding ways to decompress stress and anxiety.

As consumers balance between their health and wallet, brands and retailers must keep the consumer at the heart of what they do and what is in the consumer's best interest."

- Sarah Janjua
Senior Director, Consulting

VISION 2

A REDEFINITION

VISION 2: A REDEFINITION

From missed earnings due to a mismatch between consumer demand and current supply to a multi-billion dollar acquisition, 2022 brought about some of the most substantial shifts in the retail sector over the past decade–even outside of the pandemic's peak.

If you were a retail sell-side analyst making sense of the changes and developing a checklist for what to watch out for in 2023, the list would include focusing on how consumers react to the following:

- Private brands and sales events,
- Innovation through convenience technology,
- And the impact of a larger, more capable Kroger.

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CREATE RESILIENCE

AGAINST INCREASED RETAIL COMPETITION

In 2023, both brands and retailers must actively and sustainably price and promote to retain loyalty as financial demands continue.

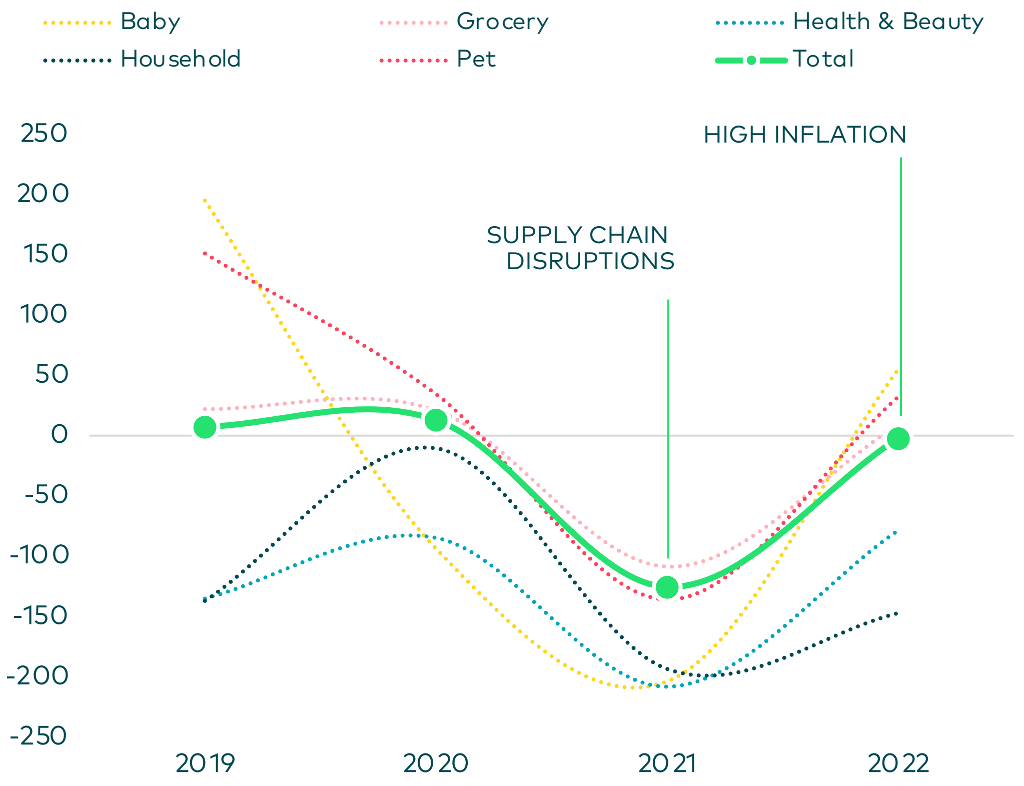
When the industry faced supply chain challenges in 2020 and 2021, retailers relied on manufacturing partners to keep items on shelves and both encountered road (and canal) blocks in their private label manufacturing process. As products finally reached the store, consumers either no longer wanted them or the product wasn't in season.

With 2022 stabilizing supply chains a bit more, retailers can now focus on improving their top and bottom line from a brand and retail perspective.

From a brand point of view, retailers emphasized their own brands. In 2022, nearly half of all promotional ad blocks featured a private brand, a 19 percentage point increase from the previous year.

Private label CPG share recovered after a downturn in 2021, which was true across all incomes, generations and ethnicities. **Private brands are poised to gain share as consumers seek value in 2023.**

PRIVATE LABEL UNIT SHARE CHANGE VS YEAR AGO (IN BPS)
All Consumers | Total CPG



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TOP RECOVERING CPG PRIVATE LABEL BRANDS IN 2022
Showing CPG Unit Share BPS vs YAG | Latest 12 Months Ending 12/31/2022

PRIVATE LABEL BRAND	GREAT VALUE	KROGER	ALDI	TRADER JOE'S	KIRKLAND SIGNATURE
2021 vs YAG	-33	-32	-9	-7	-3
2022 vs YAG	+54	-5	+6	+2	+5
Difference	**+87**	**+27**	**+14**	**+9**	**+8**

2022 SALES EVENT UNIT LIFT

Total Store | Baseline Defined as Prior Week

AMAZON	TARGET	WALMART
+215% unit lift	**+34%** unit lift	**+2%** unit lift
Prime Day +283%	Deal Days July +41%	Weekend+ +4%
Prime Early Access +142%	Deal Days Oct +32%	Rollbacks & More -1%

Retailers also expanded on sales events from the previous year and we expect the trend to continue, with Amazon, Walmart, and Target each hosting at least two major events to clear out their inventory glut.

However, not all retailers saw the expected results from these events. Amazon remained the gold standard for pushing inventory, with lifts in the triple digits for each event. Target saw double-digit lifts, while Walmart's Weekend+ and Rollback & More events showed little movement in units.

Success is predicated by awareness building and proper targeting. Amazon and Target July events saw awareness at 97% and 84%, respectively. Only 33% of households were aware of Walmart Weekend+. Sales lifts across all events were elevated by millennials, highlighting the importance of proper targeting.

INVEST
IN CONVENIENCE TECH

In 2023, digital teams must invest in and expand the definition of quick commerce— which is critical, as eCommerce sales growth has stalled compared to 2021.

Brands and retailers should focus on established technologies that deliver convenience to the shopper, such as mobile payments, click & collect and delivery apps. Nearly half of consumers intend to use one of the three options.

Carefully curating assortment sets between click & collect and delivery services will be crucial as delivery baskets lean on prepared foods and alcohol, while click & collect emphasizes produce, health & beauty and general merchandise.

Investing in grab & go technology is essential this year as consumer interest in the technology is expected to **grow by 20 percentage points in 2023.**

The interest in grab & go is driven by urban, higher-income consumers who are technologically adept, particularly our In the Matrix and New Age Explorer segments from our OMNIFUTURE analysis.

Amazon Fresh stores have already seen success with grab & go technology via their Dash Carts, which allow for a cashier-less experience, and have been stealing over $200 million in share from other retailers in the West Coast and North East regions.

Utilizing technology to develop new ways to provide recommendations in the delivery and click & collect space will help retailers gain a leading edge. By piloting grab & go technology now, retailers can also hedge Amazon's early lead.

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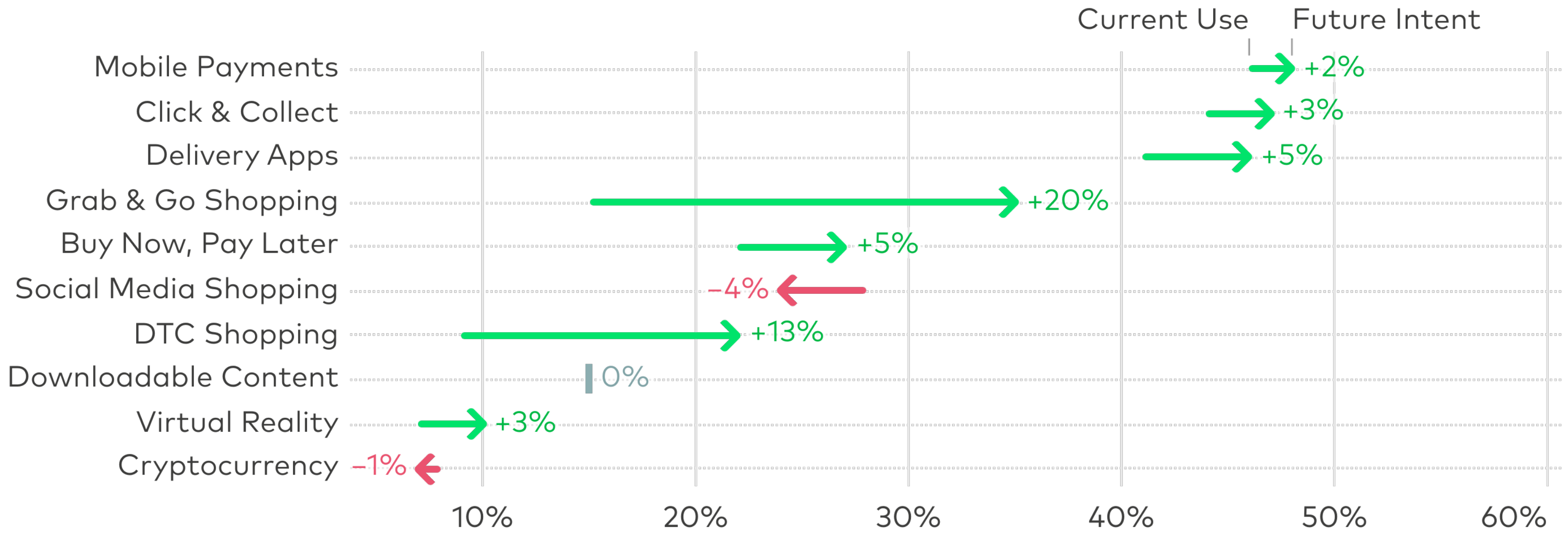
TECHNOLOGY USAGE

Net Effect Point Change Between Future Intent in 2023 & Current Usage in 2022



PREPARE

FOR A NEW ERA OF KROGER

At the start of Q4 2022, news feeds exploded with the announcement of a multi-billion dollar deal– Kroger's move to acquire Albertsons. As the merger of Kroger and Albertsons undergoes litigation in 2023, brands and retailers must prepare for potential shockwaves in the retail industry.

Retailers must stay competitive by closely monitoring pricing as Kroger could enable more streamlined supply chains and increased negotiating leverage, allowing lower prices between Albertsons and Kroger stores.

The merger has the potential to give back to Kroger and Albertsons shoppers $12 billion in savings to feed into other categories and brands.

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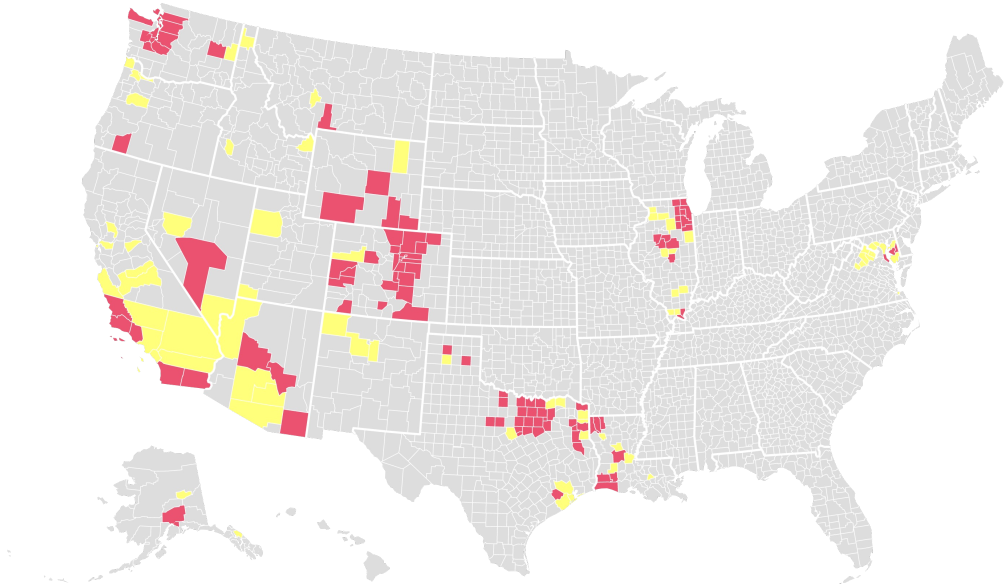
MARKETS WHERE FTC COULD VIEW KR/ACI MERGER TO BE PROBLEMATIC

Total Store | Grocers Only | Latest 12 Months Ending 8/31/2022



- Potentially raises significant competitive concerns
- Presumed to be likely to enhance market power

Should the merger go through, brands should develop granular, cross shopping strategies to prevent cannibalization between the two retailers and retain shoppers from divested stores in markets where the two retailer chains have a heavy presence.

While the FTC will propose its own market definition, we expect that it will focus on geographic areas with considerable overlap between Kroger and Albertsons banners and where other options for grocery purchases are limited. In geographic areas where the resulting post-merger market concentration and increase in market concentration raise significant competitive concerns or enhance market power, **we expect the FTC may agree to store divestitures as a potential remedy allowing Kroger and Albertsons to consummate the merger.**

eCommerce defense will also be important as the merger could lead to consolidation of sourcing and technologies to benefit Kroger. In 2021, Albertsons invested in their Drive Up & Go and micro-fulfillment center capabilities, increasing digital sales by 36% in the second quarter of fiscal 2022.

Albertsons has nearly doubled household penetration of their eCommerce business (+92%) year over year. We could expect Kroger to leverage Albertsons' successful digital strategy investments to help implement similar initiatives for their own online services.

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A VOICE FROM NUMERATOR

ON A REDEFINITION

"2023 could be another year of fundamental retail shifts requiring innovation and refreshed strategies.

Retailers are looking to understand growth opportunities and implement strategies that are granular, truly omnichannel and in-the-moment to meet consumer needs.

My team and I are excited to be able to help our retailer partners because to do so is challenging when there are so many disparate data sets that cannot be consolidated to see the true picture of where consumers are headed. By utilizing single-source consumer reporting and data feeds and integrating them within their ecosystem and combining with their own data, retailers can unlock new ways to target their current shoppers to retain share and understand who they are missing to build back volume.

In what is being an increasingly competitive and consolidated environment with a merger pending and sales events galore, discovering and then building the right audience will stunt leakage and give an edge on key events."

- Sara Batchelder
Vice President of Retail Sales

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VISION 3

A RETREAT

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No Brand Unturned in 2022

83% of brands had an increase in spend per unit

VISION 3: A RETREAT

Many leaders are pulling out playbooks from their 2008 archives as they anticipate a year of economic headwinds and the expected impact on consumer behavior. However, 2023 looks very different from 2008.

Since 2008, value chain Aldi has more than doubled its retail footprint growing its CPG market share to be within the top 10 retailers in the US in 2022. Government welfare programs for a family of four (adjusted for cost of living) has grown by 45% in the past 15 years. In 2010, eCommerce grocery delivery was just in its infancy with Peapod releasing the first-of-its-kind smartphone app.

The world has fundamentally changed, and today's consumers have faced over two years of pandemic-induced economic flux, fraught with shutdowns, layoffs and supply chain disruptions. Now, as the Federal Reserve increases interest rates to combat high inflation and the economy faces a potential recession, how can brands and retailers navigate their 2023 strategies as consumers retreat to keep their finances afloat?

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KEEP AN EARLY PULSE

ON ECONOMIC INDICATORS

For leaders to navigate potential changes in consumer spending and demand forecasting in 2023, brands must be proactive in gathering early insights of macro trends and tailor them specific to their categories from timely data sources.

Although government data will always help inform potential demand, not every economic indicator will be as relevant for some brands due to certain categories experiencing different rates of slowdowns. Additionally, data lags exist which can make identifying a trend too late.

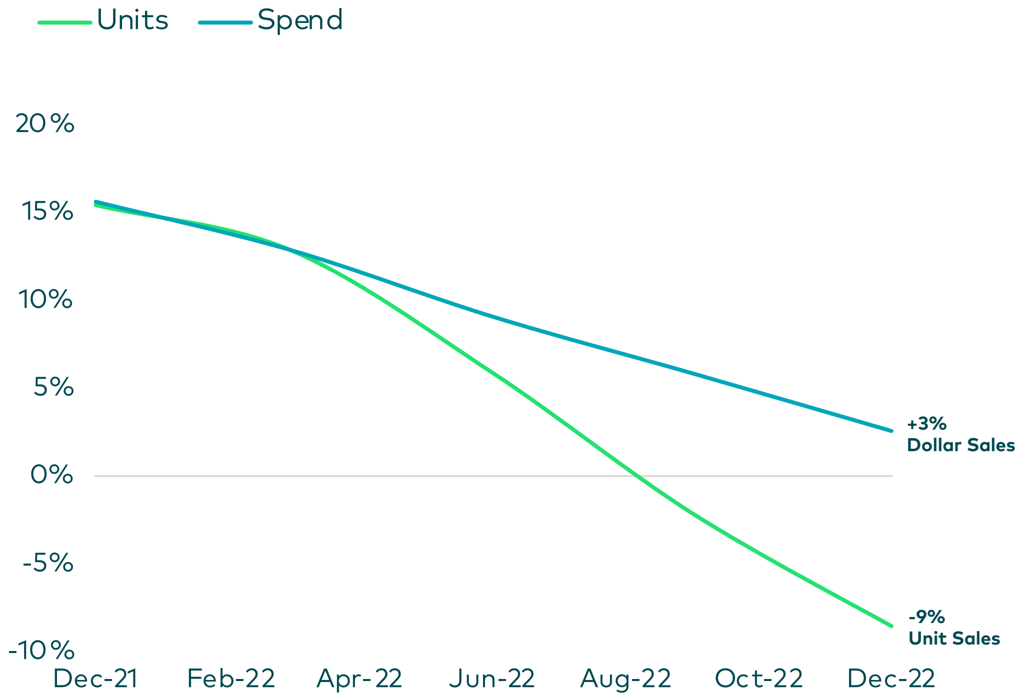
There are three areas leaders should consider customizing for their business: consumer sentiment, retail sales and inflation.

At a high level, consumer concern over the economy remains high, with average concern hovering above an eight on a ten-point scale. Although the economy continued to grow at the end of 2022, consumers feel recessionary-like pressures influencing how they purchase.

Additionally, while retail sales continue to be elevated compared to the previous year, growth has slowed at the close of 2022. Unit sales are dropping at a faster rate down 9%. To prevent revenue loss, brands will need to track the movement closely within their categories to anticipate demand as prices continue to fluctuate.

TOTAL STORE SALES CHANGE VS YAG

FMCG, eCommerce, Specialty | Rolling 12 Months by Month



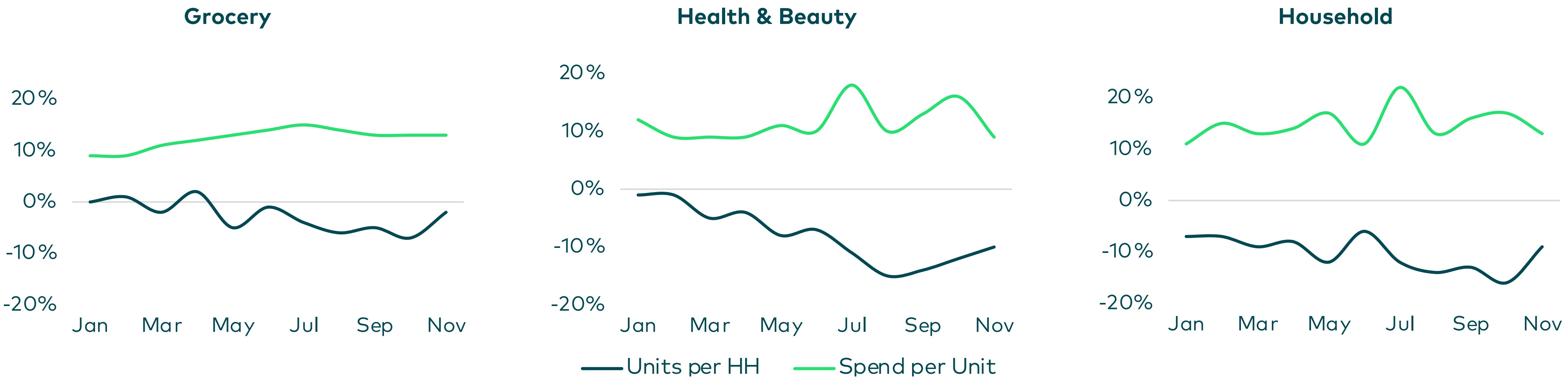
However, prices will stay elevated even as inflation slows. Nearly 83% of brands have increased their spend per unit. Grocery, health & beauty, and household categories are still experiencing low double-digit growth without slowdown.

As a result, households have made significant trade offs within the health & beauty and household sector. Grocery has seen dips but has generally faired better in contrast.

Brands and retailers will need to continue tracking price throughout 2023 for their specific categories as they determine whether there will be a rebound in consumer demand.

SHOPPER METRIC CHANGES VS YEAR AGO

All Consumers | Rolling Month by Month



DRIVE

HOUSEHOLD GROWTH

Driving customer acquisition and organic growth by building penetration targets and developing comprehensive consumer profiles centered on inflation needs will be crucial to winning 2023.

Although consumers are dropping items from the basket to offset higher prices, nearly 1 in 2 brands still achieved top line sales growth last year. But as price increases slow, volume gaps will be apparent.

In a meta-analysis of 2022 Numerator data, **only 50% of brands that grew sales also managed to grow units.** Compared to 2019, over 87% of brands that grew sales *also* grew units, and of those brands, nearly all (91%) grew households.

In an environment of inflated pricing, leaders must understand which brands and categories are most at risk of further volume reduction to prioritize marketing resources.

When breaking categories out, body and personal care categories saw some of the strongest inverse relationship between spend per unit and units per household, while baby products and commodities remained resilient.

Although most grocery categories generally leaned towards resilience, volume growth is constrained by out of home, with unit sales growing an average of 25% while in-store grocery is flat.

2022 BRAND GROWTH DECOMPOSITION

All Consumers | Latest 12 Months Ending 12/31/2022

45%
Of brands grew sales
2019: 61%

50%
Grew units
2019: 87%

77%
Grew households
2019: 91%

68%
Grew trips
2019: 71%

55%
Grew units per trip
2019: 59%

50%
Declined units
2019: 13%

16%
Grew households
2019: 32%

35%
Grew trips
2019: 46%

26%
Grew units per trip
2019: 25%

CRAFT

A GENERATIONAL STRATEGY

To defend against economic headwinds in 2023, building a strategy that addresses the differing needs and desires between generations can help. Gen Z and Millennial consumers have inherently different requirements for brands and shopping habits that contrast with those of Gen X and Boomers.

In our consumer pulse, Gen Z and Boomers have contrasting opinions on their concern about an impending recession. 40% of Gen Z stated their concern while only 51% of Boomers felt the same. When we broke down unit sales across generation, several unique trends emerged. Gen Z unit sales for total CPG trended up in the past quarter, Millennials stayed flat and Boomers & Gen X declined.

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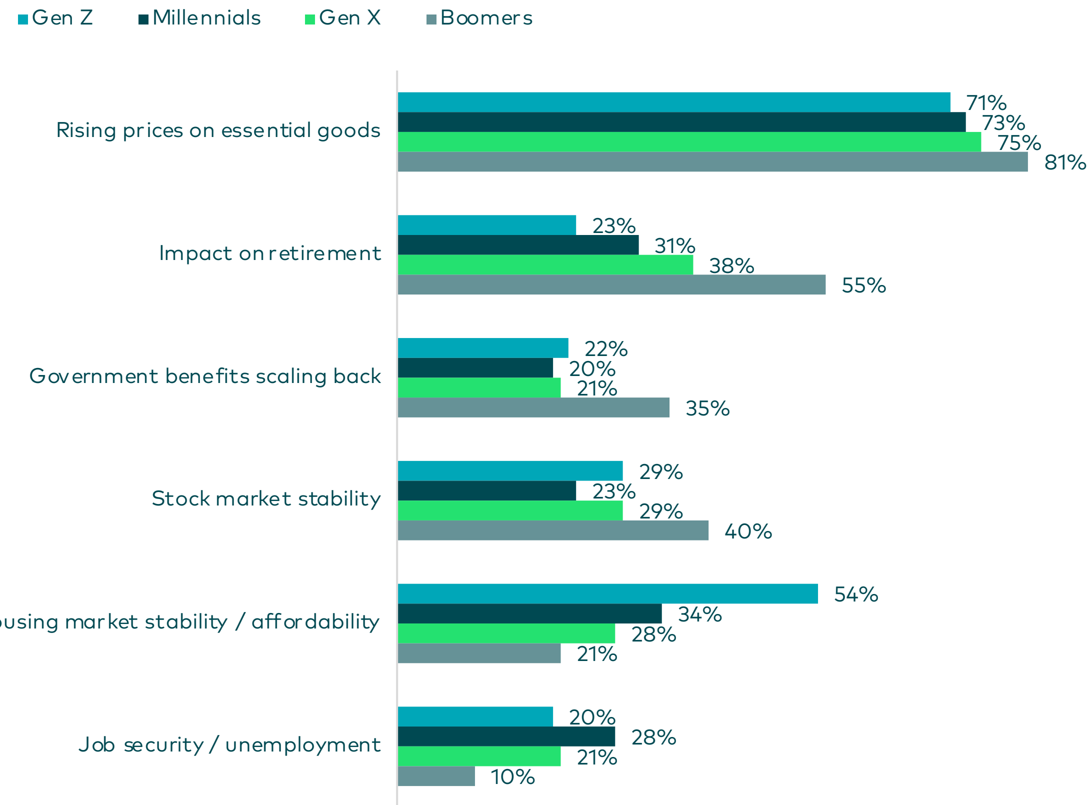
SPECIFIC CONCERNS OF THE ECONOMY BY GENERATION

All Consumers | December 2022



The difference in consumption is driven by Gen Z's concern with housing prices, compared to older generations' focus on managing inflation while living on a fixed income.

So what did Gen Z buy? **They looked for comfort** and purchased flowers, wine, hot cocoa and spirits.

As for Boomers, **they cut back on more discretionary foods** such as flavored syrups, frozen onion rings and snack foods.

Brands need to understand the resiliency of their category by generation to determine their strategy in preserving volume.

A VOICE FROM NUMERATOR

ON A RETREAT

"Among the lessons learned over the past two years is that forecasting the economy requires humility. The economy bounced back faster and was more resilient than we imagined at the onset of the pandemic. US gross domestic product and unemployment are back to where they would have been had the pandemic never happened.

Despite recovering to these same levels of production and unemployment, we have a radically different economy. Consumers moved around. Workers permanently left the labor force. We have seen a drastic pull-forward of eCommerce and then a boomerang effect where consumers were making up for the services and travel and experiences they couldn't enjoy during the pandemic.

What's in store for 2023?

If 2022 was the year we binged on services and travel and experiences and scaled back our over-consumption of goods, 2023 looks to be the year of the economic hangover. The Federal Reserve has taken away the proverbial punch bowl. We have exhausted much of our pent-up demand for services and drawn down our excess savings accumulated during the pandemic.

This is a year where the consumer is likely retreating to normality.

But normality means that some industries that grew faster than expected during the last two years will likely see a slow down. Whether we have a mild recession or below-trend growth, 2023 looks to be a year where the consumer is more cautious and where the brands that will capture share are well-positioned to cater to a more discerning consumer."

- Leo Feler
Chief Economist

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The data brands need to act decisively — directly from consumers.

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