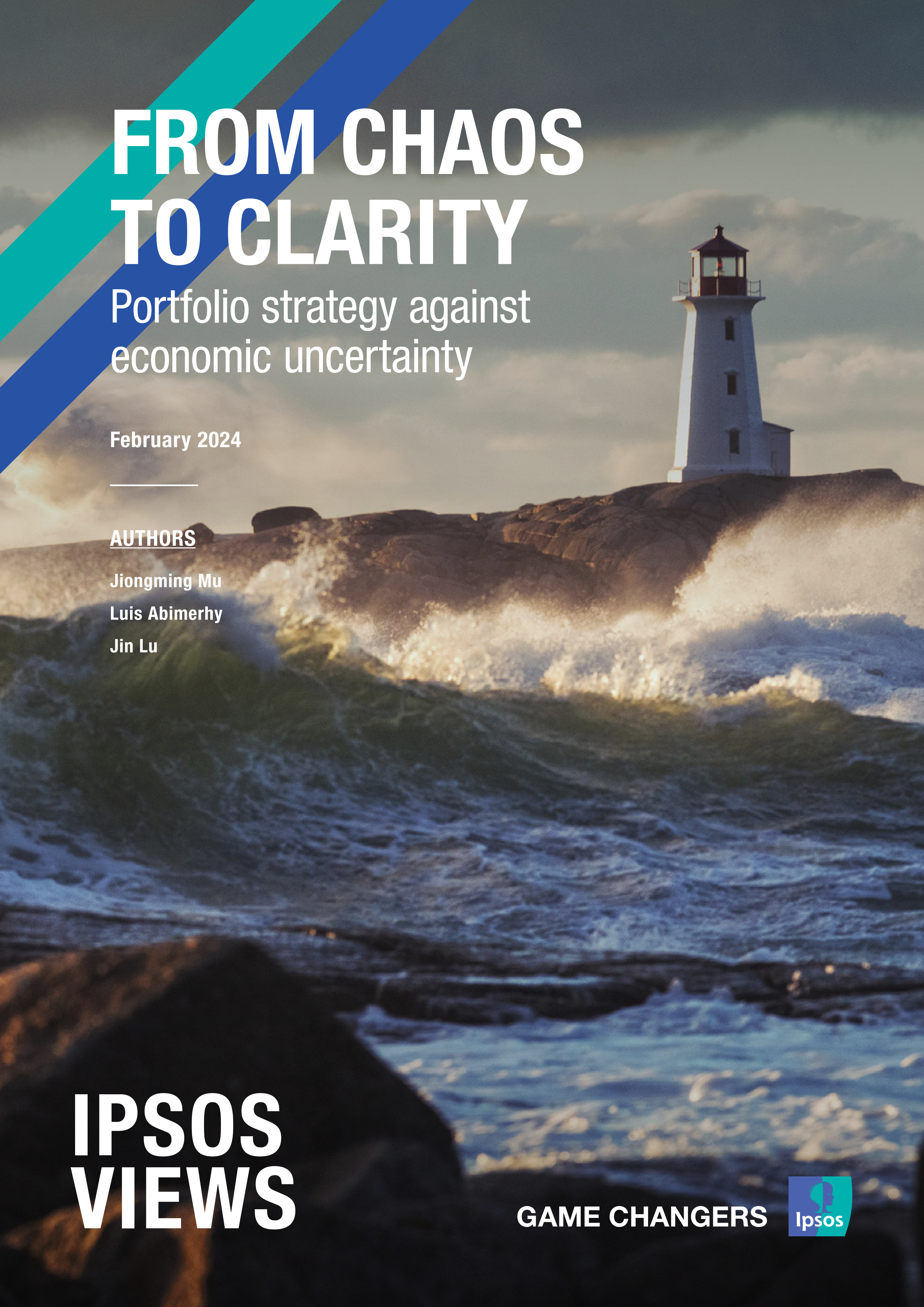

# FROM CHAOS TO CLARITY

## Portfolio strategy against economic uncertainty

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# IPSOS VIEWS

GAME CHANGERS

## OVERVIEW

**Economic downturns typically introduce various risks to product portfolios. While it is not clear as to whether we will land in a recession or stagflation in 2024, both will bring reduced purchasing power, increased price sensitivity, decreased consumer confidence, and reduced consumption.**

**A tricky economic climate doesn't mean brands should stop innovating and renovating. Quite the opposite, in fact. Ipsos' Innovation Testing Database suggests that consumers are still receptive to innovation during tough times, as their status quo and behavior significantly shift.**

**Brands can mitigate risk by quantifying the threats their portfolio face. In this paper, we share how clients can dodge the dangers of consumer downtrading, SKU proliferation, reduced consumption and the loss of premium positioning.**

**Brands can emerge victoriously by simultaneously prospecting for growth. With the right strategy, brands should rethink certain challenges as opportunities by spotting trends, hunting for white spaces, mapping adjacent areas and rapidly adapting to consumers' shifts in behavior.**



## BRACING FOR YET, ANOTHER STORM

**Constant, rapid change.**
We're all sick of it now, aren't we?

We've endured a pandemic, surging inflation, global geopolitical struggles, market disruptions, and an ongoing global climate crisis. Just as we started to wonder what might come next, an economic storm gathered. Economists disagree IF, WHEN and WHICH COUNTRIES will be most impacted, or whether it will manifest as a quick and mild downturn or prolonged stagflation-recession cycle. Meanwhile, consumers around the world have been feeling the pressure:

- 61% of global consumers think they are "only managing or finding it hard to manage" their financial situation[1]
- 49% of them believe their country is "already in recession"[1]

One might speculate this heightened anxiety to be linked to the erupting cascade of challenges we have all endured in a short period of time. As Columbia professor Adam Tooze puts it: **"A Polycrisis is not just a situation where you face multiple crises. It is a situation… where the whole is even more dangerous than the sum of the parts."**

## WHAT HAS IPSOS LEARNED FROM TURBULENT TIMES?

When the pandemic induced global inflation to rise in almost every major market, Ipsos advised marketers around the world to defend their products and stay competitive through innovation.[2] In fact, in recent waves of uncertainty, we have successfully predicted that consumers are *especially* open to new product innovations *during* difficult times.

Ipsos' clients have indeed shown ingenuity and resilience by quickly revising their pipelines, products and services, to see consumers enthusiastically embrace them.

According to the Ipsos Innovation Testing Database, innovations launched during the height of inflation demonstrated a higher trial success rate compared to innovations launched in "normal years". Let's keep in mind, innovations continued to show higher trial despite consumers' declining perceptions of affordability.

From the 2008 financial crisis to the Covid-19 pandemic, at Ipsos, we continue to see the same phenomenon in which consumers are more open to innovation during crises. As revealed in our global database analyses, innovations launched during the pandemic resulted in a higher trial success rate, a similar level of acceptance to the 2008 financial crisis.[3]

**Figure 1:** Innovation Performance in Economic Crises*

| | Trial Success** | Perceived as Expensive |
|---|---|---|
| **Financial crisis** (2008-2009) | 39% | - |
| 2016-2021*** | 35% | 50% |
| **Covid crisis** (2020) | 39% | - |
| 2022 | 41% | 55% |

* Ipsos Innovation global database analysis
** Success is defined as reaching the top 2 quintiles of the Ipsos Innovation Testing Database
*** Excluding the year of the pandemic outbreak, which was analyzed separately

*Source: Ipsos Innovation Testing Database*

## WHY ARE CONSUMERS SO RECEPTIVE TO INNOVATIONS IN TIMES OF CRISIS?

Consumers' status quo evolves, when:

- Personal circumstances change
- Typical purchase behavior is disrupted
- Favorite products disappear, forcing consumers to look for alternatives
- Consumers' attitudes and preferences have shifted

With the pandemic as an example, consumers shifted to grocery pick-up and delivery services and their usual choice of brands were limited to what the e-tailers offered. As their environments shifted, so did their brand preferences. For instance, during the pandemic, consumers' preferences for antiviral benefits soared.

Crises translate to periods of rapid change. Marketers who evolve their products and portfolios with informed agility are the most likely to weather the storm. Considering the volatile environments in which competitors are also shifting their own positioning, pricing strategy, or space within a category, many opportunities can emerge for those who are willing to capture them.

Both inflation and recession will bring reduced purchasing power, increased price sensitivity, decreased consumer confidence, and reduced consumption. ”

## PREPARING YOUR PORTFOLIO FOR A POSSIBLE DOWNTURN

Although economists disagree with the magnitude of the next downward cycle, they hardly disagree that an economic slowdown is already in place. While an economic downturn might be the direct result of a prolonged inflation cycle, it will impact different consumers in different ways:

- **Inflation** impacts people from all walks of society. Consumers tend to stock up on items and reallocate their spending towards the essentials.
- **Recessions** tend to hurt those at the lower socioeconomic levels. Consumers delay purchases due to acute financial difficulties, causing the total spending level to shrink – reinforcing a negative impact in categories which are more "expendable".

Despite these subtle differences, we advise clients to focus more on the similarities between inflation and recession *vis-à-vis* with consumers. **Both inflation and recession will bring reduced purchasing power, increased price sensitivity, decreased consumer confidence, and reduced consumption.**

## HOW CAN WE COUNTER THE HARMFUL IMPACTS ON A PRODUCT PORTFOLIO?

At Ipsos, we propose a very simple framework:

**Mitigating risk**
Recognizing the risks your brand portfolio may face and planning solutions through innovation.

**Prospecting for growth**
Turning defensive strategies into offensive opportunities by identifying the hidden pockets for growth which can fuel your long-term success.

## MITIGATING RISK WITH INNOVATION

Mitigating risk begins by identifying and quantifying the threats your portfolio is up against. Research techniques such as portfolio optimization, line-up rationalization, and category and brand elasticity tests are often used in this initial phase. We'll now briefly explain some methods which can be used to dodge the common dangers of an economic downturn.

### CONSUMER DOWNTRADING

When consumers downtrade, they choose to purchase cheaper products due to their increased price sensitivity. This involves consumers of all types of products, such as:

- Premium product buyers trading down to mainstream brands
- Mainstream brand buyers trading down to value brands
- Value brand buyers trading down to store brands
- Consumers trading down to "basic" and "original" variants

While downtrating can threaten your overall revenue and profitability, specific innovation strategies can help reduce this risk:

**Pricing and packaging innovation**
Tactical innovations, such as smaller or single-use packs carrying less sticker-shock, are common. Similar approaches are seen in combo packs and multi-packs that maximize value and prevent the transaction size being downtraded.

**Reinforcing value propositions**
Value is often dialed up in communications, emphasizing value for money with strong claims directly against lower tier. For example, "longer lasting" or "better ingredients".

**Business model innovation**
Some marketers introduce new business models, such as direct-to-consumer sales or starter-refill loops, to minimize direct competition with lower-tier products on the shelf. The consumers more engaged in these business models are less likely to leave the franchise.



## REVERSING THE RISKS OF DOWNTRADING

### How a plastic manufacturer turned loss into profit by leaning into change

A North American premium disposable plastic manufacturer was facing lower consumer purchasing power and a brand-new government mandate requiring Post-Consumer Recycled (PCR) plastics, simultaneously. While this would significantly increase the production costs for all competitors in the category, it would especially hurt this brand.

We predicted that, as price sensitivity in the category would heighten, the product's premium positioning would erode, as lower tier products would also start to carry the new claims such as sustainability. If nothing was done, the brand would have faced a maximum of -21% revenue loss in the worst-case scenario.

Instead of downgrading their price, we forecasted the client could surpass their competition (that had less expensive products and minimum sustainability requirements), by dialing up their premium position with a more sustainable product and a more desirable, "ocean-friendly" claim.

**The result:** The manufacturer's revenue potential was reversed from an -8% loss to a 4% gain.

**Figure 2:** Mitigating Downtrading through Premiumization

| Diagnosing Risk | | Mitigating Risk | |
|---|---|---|---|
| Assuming all brands meet the new government requirement of 20% recycled plastic materials | | Exceeding government requirements, reaching 50% recycled plastic materials with a new, "ocean friendly" claim | |
| **Quantifying Risk without Innovation** | | **Quantifying Risk with Innovation** | |
| Risk of loss, as the price gap between client and store brands enlarges by 10% vs. today | -8% | Risk of loss, as the price gap between client and store brands enlarges by 10% vs. today | +4% |
| Maximum risk, as store brands shift promotions simultaneously | -21% | Maximum risk, as store brands shift promotions simultaneously | -8% |

*Source: Ipsos Innovation Testing Database*

## SKU PROLIFERATION

Consumers become more rational during economic hardship; they reduce variety-seeking behavior and retreat to the essentials.

Inefficient portfolios and long lists of SKUs (Stock-Keeping Units) face SKU proliferation, risking suboptimal resource allocation and reduced profitability. To dodge the risks, SKU rationalization is a key step that many portfolio managers can take.

SKU rationalization is a specialized stream of portfolio innovation research. Ipsos' expertise provides an understanding of the proximity and overlap of all product variants offered in a portfolio and to identify the most efficient SKU line-ups achieving largest volume of share. This can involve removing under-performing and overlapping variants and/or replacing them with new, and more resilient SKUs, by offering unique benefits and incrementality.

> Consumers become more rational during economic hardship; they reduce variety-seeking behavior and retreat to the essentials."

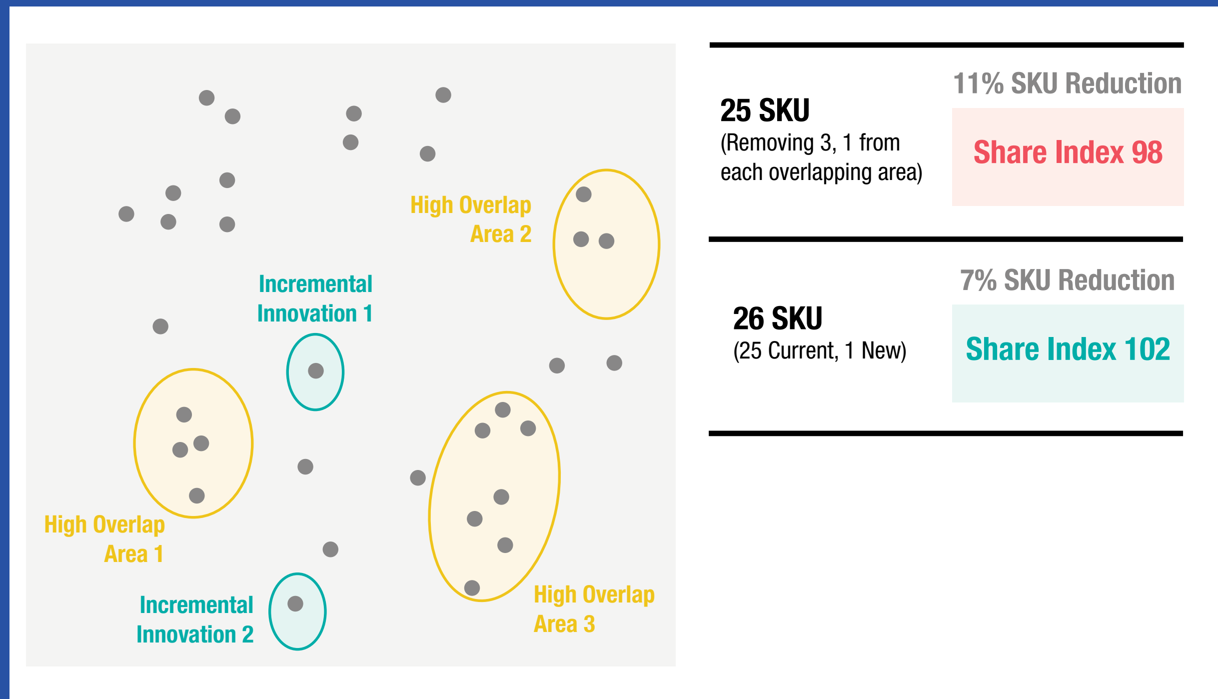
## CULTIVATING GROWTH BY CUTTING THROUGH THE CLUTTER

### How a canned food company streamlined its product lineup to increase volume share

A French canned food company, operating at a whoppingly inefficient 28-variety line, was looking to prepare for the economic slowdown in 2023. At Ipsos, we mapped the proximity of all existing and prospective SKUs by probability of incremental reach. Then, we clustered the SKUs with high substitutability and visualized stronger SKUs with incremental reach in emptier spaces. Volumetric simulations painted a clear picture of the SKUs that would stand the test of time.

**The result:** We recommended removing the three lowest performing SKUs to reduce the share of loss by 2% and introduced a new SKU with high incremental potential to grow volume share by 2%. The canned soup portfolio would proceed with fewer SKUs and more volume.

**Figure 3:** SKU Rationalization to Mitigate Proliferation




*Source: Ipsos Innovation Testing Database*

## REDUCED CONSUMPTION

When consumers' incomes shrink, so do their spending habits. Consumers tend to shift towards less elastic categories, such as commodity foods and basic home care products.

More substitutable categories become particularly vulnerable to consumers buying less often, purchasing smaller amounts, postponing purchases, or opting out of categories entirely. Once full category volumes are reduced, all brands within are affected. A few innovation strategies stand out to mitigate the risks of reduced consumption:

**Business model innovations**

Many new models can increase customer engagement to mitigate the risk of reduced consumption. When Pret-A-Manger started to offer monthly coffee subscriptions in the US and UK, these new business models maximized long-term savings and "locked in" consumers with predictable and more resilient revenue streams.

**Tactics encouraging to "buy now"**

Beyond direct price promotions, marketers can introduce larger value-sized packages encouraging consumers to stock-up, attach vulnerable varieties to more resilient ones in combo packs, or launch limited time variants creating a sense of urgency.

**Innovating towards growing segments**

While some broader categories may decline, other niche spaces will continue to grow. We can easily learn from marketing giants in FMCG categories, such as soda or fast food, that are evolving to meet the needs of a growing health-conscious segment:

- Coca-Cola successfully diversified its portfolio with healthier variants and targeted products.
- McDonald's introduced new menu items, such as grilled chicken sandwiches and salads.



## LOSING PREMIUM POSITIONING

When budget-conscious consumers shy away from premium brands, their positioning is often hit by a significant short-term damage. Some premium brands downgrade their offerings with competitive prices to avoid immediate loss, but this can erode their premium equity over time.

The best strategies for premium brands involve a strategic balance of short and long-term priorities:

**Emphasizing superiority:** This is a typical strategy that many premium brands take. Marketers use claims to reinforce their premium qualities, such as ingredients, functionalities, or long-lasting efficacy, to encourage consumers to continue paying more upfront.

**Introducing affordable indulgences:** In periods of hardship, consumers often lean towards the sense of relief and pleasure. When premium brands introduce affordable variants, consumers are given an opportunity to indulge. This helps premium brands to stay relevant in different occasions.[4]

Instead of $16 cocktails and $40 steaks in restaurants, consumers may opt for at-home luxuries, such as DIY cocktail mixes and Angus-certified beef from the supermarket, giving premium brands the chance to cater to various usage occasions.

**Launching "fighter variants":** To avoid downgrading the entire brand, some premium brands launch specific SKUs to compete against lower tiers, without hurting the equity of the base brand, as seen in Figure 4.

When budget-conscious consumers shy away from premium brands, their positioning is often hit by a large and short-term damage. ”



## A FIGHTER SKU THAT TURNED RISK INTO REWARD

### How an oral care manufacturer introduced a new SKU to stand out in a declining market

A premium oral care manufacturer anticipated loss in a softening market. At Ipsos, we identified the mild recession and category-wide material cost increases would bring them to a -7% loss. In response, we shared two recommendations: First, reducing share loss to -1% by emphasizing value with a 20% discounted multipack as a quick win. Then, introducing a fighter SKU that is 20% less expensive than the current product with a claim implying "everyday efficacy" to compete with mainstream competition.

**The result:**
Ipsos' forecasts revealed the combined method would not only reduce the manufacturer's risk but also grow its share by 6%.

**Figure 4:** A Fighter SKU to Mitigate Loss of Premium Positioning

| Scenario 1 | Scenario 2 | Scenario 3 | Scenario 4 |
|---|---|---|---|
| Doing Nothing<br>-7%<br>Volume share loss | Pack and Price Play<br>-1%<br>Volume share loss | Launch Fighter SKU<br>+2%<br>Volume share gain | Combined Strategy<br>+6%<br>Volume share gain |
| | A quick win by replacing one regular-size SKU with a multipack at 20% discount by volume | A SKU with an "everyday" claim" to compete with mainstream products, at -20% price vs. rest of the line-up | |

*Source: Ipsos Innovation Testing Database*

# SEEING PAST THE STORM

## OPPORTUNITIES FOR GROWTH

Did you know Campbell's soup, the Honda Civic and AirB&B were all launched during recessions?

Research reveals the companies that continue to innovate during recessions emerge 30% stronger than their peers.[5] When preparing for growth, it can be valuable to take a step back and review the innovations that succeeded over the past 100 years. Think to yourself: **how did they win, and how can you?**

It can be tempting to zero-in on short-term priorities. The marketers with better foresight will see certain challenges as opportunities to recharge and reinvigorate their business. Ipsos partners with such marketers around the world to help identify the winning strategies for their short and long-term growth. While our research techniques such as Trend Spotting, Unmet Needs Sizing, Adjacency Mapping, and Innovation Testing are widely utilized, we have spotted **a few key areas that help brands survive, and even thrive** in economic downturns.

## SECURING CONSUMERS' FRESHLY FORMED HABITS

As previously discussed, consumers are most likely to change their behaviors during challenging times. By forming new habits, they create a new status quo. Even when conditions improve, some **newly consolidated behaviors stick** – creating a bounty of opportunities for brands to evolve successfully.

During the Covid-19 pandemic, consumers were locked down in their homes, worked remotely, and shifted their priorities towards health and wellness. Online grocery shopping, meal-kit subscriptions, and in-home delivery services thrived. Now that the pandemic is (for the most part) behind us, many behaviors remain - we might never return to pre-pandemic levels. For example, during the pandemic, food and beverage claims surrounding wellness and immunity grew in popularity – and as the pandemic becomes a generational memory behind us, we predict consumers' attitudes towards health and hygiene will continue significantly influencing purchase decisions.

When marketers know which evolving preferences and attitudes are likely to stick after any given crisis, they can more effectively address the risks their portfolio is facing and simultaneously fuel their long-term growth after the storm.

## EXPLORING UNCHARTED TERRITORIES

As competitive environments continue to shuffle, marketers should always scan their evolving environments – disruptions among the competition can open pockets of opportunities, such as:

- An unlucky competitor's exit can open a new space
- A particular consumer segment can get less attention as competitors reprioritize
- A premium segment may be vacated from competitors that downgraded

These opportunities are fleeting; but quickly capturing them can lead to long-lasting benefits. In the hunt for new spaces, it is key for marketers to periodically re-examine their competitive position and understand their brand's adjacency relative to other brands, consumers' shifting attitudes, and their emerging purchase and usage behavior. It is also important to watch out for competitors' defensive positions, as they are likely doing the exact same exercise.

**Great Depression**


**Oil Crisis and Recession**

**1980s "Double Dip" Recession**


**Dot Com Bust**

**2008 Great Recession**


airbnb

**2020 Covid Recession**

## CAPTURING OPPORTUNITIES IN ADJACENT SPACES

Reduced consumer spending puts pressure on all categories, but not all products are impacted in the same way. A category's elasticity is determined by the elasticity of the consumer's need and available alternatives.

For example, the infant formula for the newborn baby category might be more resilient than other nutrition-related categories, because of the parents' non-negotiable demand (should they want to supplement breastfeeding), and the lack of substitutable products in this given category.

An often-rewarding exercise for brands in declining categories involves examining the adjacent spaces which foster shelter or growth, for instance:

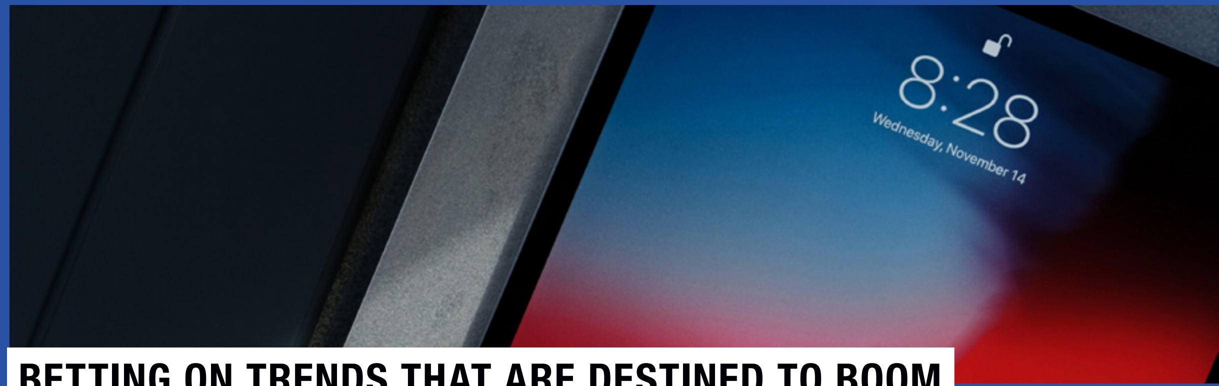
- A high-end restaurant chain can tap into the trend of at-home meal kits.
- A nutritional supplement manufacturer can co-brand its products with less elastic "fortified" variants.
- A local gym chain can offer remote courses and virtual trainers amid a global pandemic.

An effective exercise for premium brands, especially those which are at risk of downtrading, is scouting more premium, and yet cheaper adjacent categories.

Pandora chose to launch sustainable, lab-grown diamonds, as a slightly cheaper alternative for consumers, in a much more premium category – this supported the brand's image and contributed towards its sustainability goals.

While adjacency can be temporary or permanent, marketers should always know if they have the right to play in the new space and calculate the risks and rewards towards their brand's longstanding equity when charting unfamiliar territories.






## BETTING ON TRENDS THAT ARE DESTINED TO BOOM

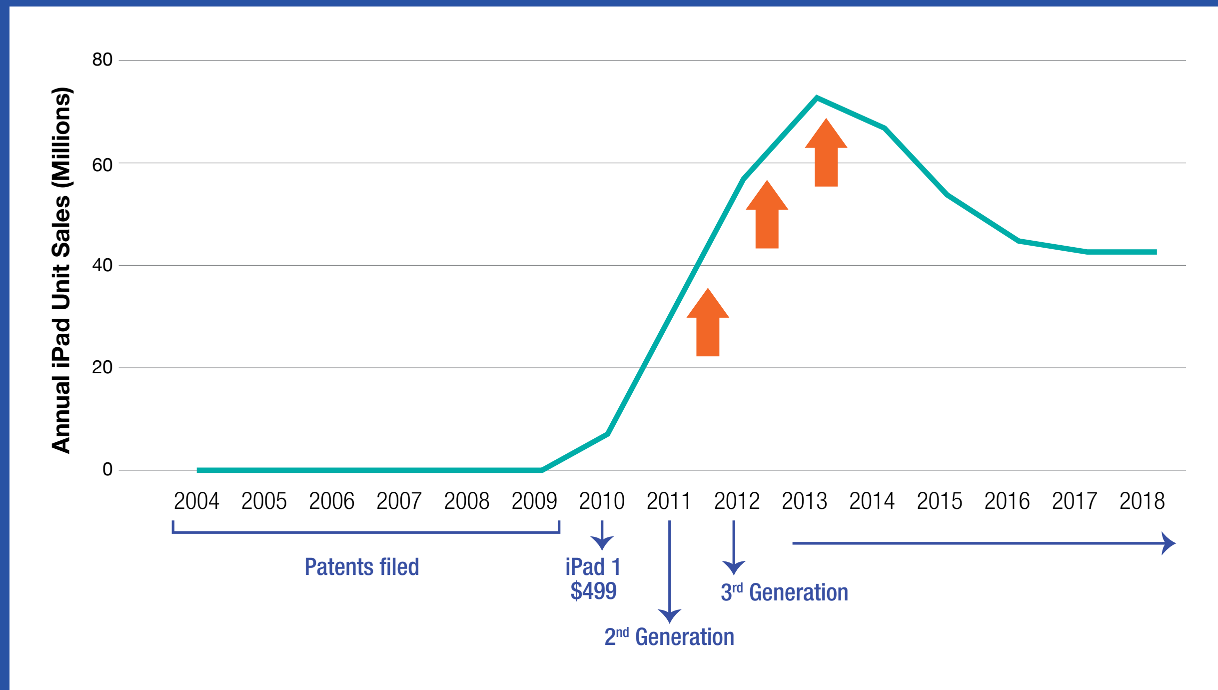
### How Apple embraced a trend years before it reached popularity

Apple once spotted a burgeoning trend when consumers were ready to compromise the robustness of PCs for mobile internet access. In response, Apple launched an entirely new device – the iPad – right when consumer confidence was at an all-time low in the 2008 recession.

Ipsos predicted the iPad concept would become a breakthrough innovation: despite a tough economic landscape, it answered an outlasting unmet need.

**The result:**
The iPad concept stood the test of time, from little-to-no pickup in 2008 to explosive growth from 2011 to 2015.

**Figure 5:** Predictions for Ipsos' iPad Unit Sales




*Source: Ipsos Innovation Testing Database*

## PLANTING SEEDS IN FERTILE GROUNDS

In the face of an economic slump, it is common for marketers to concentrate on immediate tasks to weather the imminent storm. While rivals are consumed by their immediate goals, we gain the first mover advantage by focusing on longer-term ambitions.

- Netflix launched streaming services in the 2008 recession and captured the boom of high-speed internet that shortly followed.
- The Honda Civic was launched during the 1970s oil crisis, right on time for a mass consumer awakening awareness of energy security.

When chasing long-term growth, marketers may need to adopt patience. Even after a crisis, some trends will remain slow burns – however, as revealed in these examples, many are worth the wait to secure a longstanding victory.

## YOU ACT BETTER WHEN YOU ARE SURE

Sir. Winston Churchill once said,
**“Never let a good crisis go to waste.”**
Economic downturns typically introduce various risks to product portfolios. With proactivity and resilience, portfolios can survive with innovation strategies grounded in research. Portfolios can even thrive if we look beyond the immediate crises to consider long-term growth. As we continue to navigate portfolios from endangered territories to new and promised lands, at Ipsos, we stand by our conviction: Knowledge remains the best weapon against uncertainty.

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## FURTHER READING




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