



How to win in the age of new value

Improving your value perception in the eyes
of tomorrow's Customer

dunnhumby



Uncertain times call for value above all

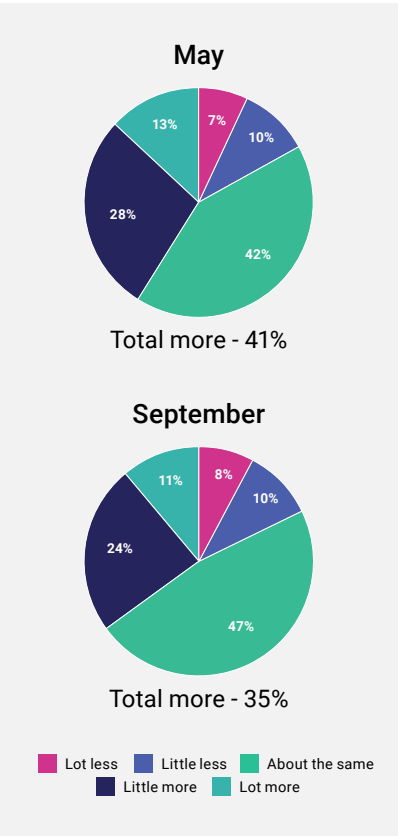
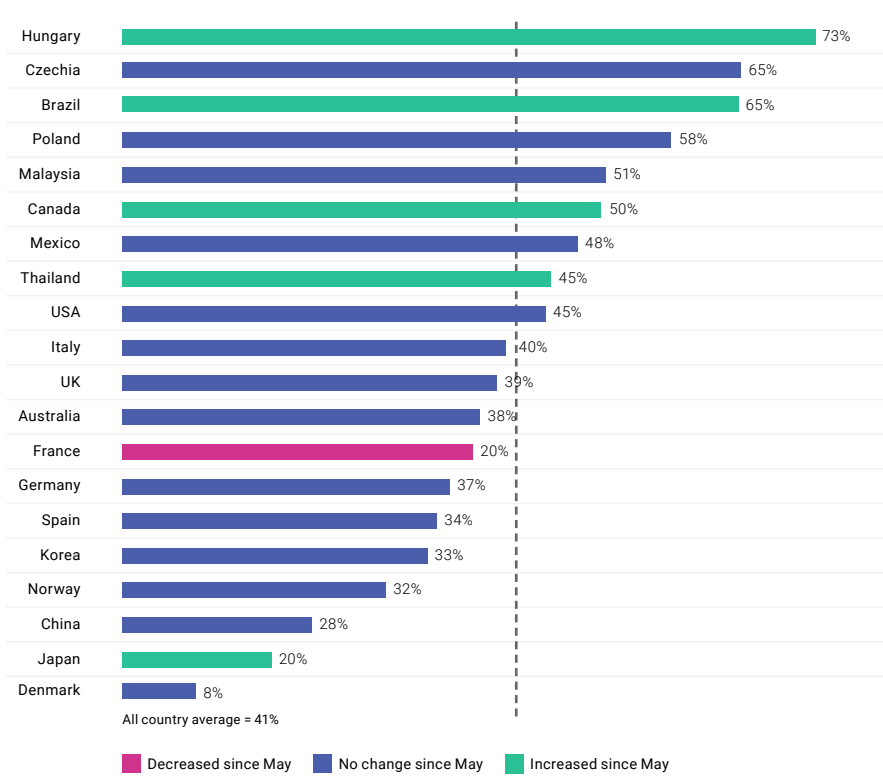
In terms of global impact, few events in living memory have been as domineering as the COVID-19 pandemic. The societal, behavioural, and economic changes brought about by the outbreak have prompted retailers and Brands around the world to rip up their rulebooks and react in real-time to an ever-changing set of Customer needs.

To help chart the consumer response to COVID-19, we established the dunnhumby Customer Pulse, surveying thousands of shoppers on a range of issues relating to their retail experiences during the different stages of the pandemic.

In recent waves of this research, we found an interesting new trend beginning to emerge. With shoppers beginning to return to normal behaviours – making more frequent trips to the store, and stockpiling less – they are also becoming increasingly aware of the price of their shop. Across the world, almost half of shoppers (41%) in September said they have noticed the price of products increasing, with a similar number (35%) stating that they are now spending more on food at home than they were before the pandemic began.

Shopper awareness (real or perceived) of price increases is rising, while many also believe that they are spending more.

% who feel prices have gone up - September





For retailers, this presents a very real threat, for three main reasons:

- In May our consumer pulse showed that those most likely to have noticed price increases are also higher spenders (52% high spend vs 40% low spend).
- And higher spenders show lower satisfaction with their overall shopping experience (22% high spend vs 28% low spend).
- In addition, levels of price sensitivity are increasing across all customer groups with more pressure on household spend at all levels



Put plainly, not only are higher spending Customers acutely aware of diminishing value in their shop, this realisation seems to be having a demonstrable effect on their overall satisfaction.

This situation is unlikely to improve in the near-, or even the mid- to long-term. Current forecasts suggest that, even with a vaccine, a coronavirus-related recession could be the deepest since World War II and more than twice as damaging as that of the late 2000s¹. The impact on consumer spending is likely to be severe, and retailers must strive to counter an already growing belief that Customers are getting less value from their shop than they were pre-outbreak.

As the pandemic demonstrates lasting impact, we believe that retailers must now shift towards a model in which value perception is their primary focus. In this paper, we explore the seven key drivers of value perception, and how to win in each of them.

The seven drivers of value perception for tomorrow's shopper

As global economies begin to contract, we believe that retailers around the world will need to focus on seven key areas in order to create positive value perception with their Customers.



¹Understanding the depth of the 2020 global recession in 5 charts – World Bank Blog, Kose, A. and Sugawara, N. – 15th June 2020

Base Pricing

A recession can have a dramatic impact on the average shopper's sense of value. A 2001 study published in the International Journal of Research in Marketing found that the stronger the economy, the less conscious we are about the base pricing of products. Crucially, though, the same is also true in reverse.

With wallets set to tighten further in the coming months, retailers are likely to see a sharp rise in price accuracy amongst shoppers. Even now, almost half of shoppers globally (41%) believe that product prices are increasing. And while total basket cost will continue to be the defining factor in overall value perception, cost-conscious Customers will be sure to single out those items and lines for which they feel the base pricing no longer offers a sufficiently equitable return.



How to deliver continued value perception through Base Pricing

- A Customer-First approach here is essential. Use Customer data to identify the most appropriate balance between pricing and promotions based on their likely impact on perception.
- Key Value Items (KVIs) should be a priority for review. Establishing correct pricing on the items that matter most to your Customers is essential, and continuing changes in supply, demand, and need states will only heighten the importance of KVIs.
- Logic is important. For shoppers who visit your store regularly, inconsistency or incoherence in your base pricing will quickly become apparent. Price-per-unit differences between small and large items from the same line must make sense, as should the pricing of private label products – which must offer comparable quality at a lower price than Branded items.
- Consider the fact that more of your Customers may be moving into the “price-sensitive” bracket when it comes to segmentation, and the impact this may have on KVI pricing. As shopping behaviours change, so too do need states.
- Use historical data to understand your value at basket level. Compare the cost of baskets from previous years or periods with today and set a “Basket-Price” index to monitor performance.

Promotions

With global supply chains disrupted in the early days of the COVID-19 outbreak, many retailers put promotional mechanisms on hold to alleviate stock shortages and bulk buying or hoarding behaviour. While that response made sense at the time, promotions are a key element of the value mix for shoppers and they present retailers with a real opportunity to counter a growing trend in which many shoppers (35%) believe they are spending more since the pandemic began.

As referenced above, balance is key here. Many possible configurations of pricing and promotions exist, and the only way for a retailer to deliver a truly effective strategy is to use Customer data to calculate the weighting between the two. Doing so can also help to ascertain which products to discount, how often, and by what margin, all based on shopper need.



How to deliver continued value perception through Promotions.

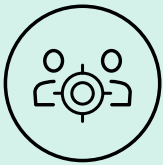
- New shopping behaviours have given many retailers access to an entirely new set of Customers. Promotions present a clear opportunity to retain those shoppers, but only if they are suitably personalised and relevant to these new groups. Just as with pricing, Customer data can be used to help inform that strategy.
- Customer data should also be used as a way to ‘reset’ existing promotional strategies. Rather than executing on pre-pandemic plans, retailers should take this time to evaluate strategies based on new need states over the coming months. Seasonal promotions, in particular, should be thoroughly reviewed with the changing economic and societal situation in mind.
- KVIs factor in once again here. Identifying those products that are relevant to your most loyal, most valuable, or most strategic Customers must be a priority. Promotions that encourage large numbers of single-visit shoppers are likely to prove far less valuable than those which build confidence with long-term Customers.

Personalised Offers

As a driver of positive perception around value, personalised offers pull a similar lever to promotions. Unlike that latter, mass-market mechanism though, personalised offers can provide Customers with a sense of value that is uniquely tailored to their preferences and shopping behaviours.

One of the defining moments of the COVID-19 pandemic has been the flight to online. Seeking to minimise their risk of exposure, Customers around the world flocked to ecommerce channels – many of them for the first time. This presents an unprecedented opportunity for retailers to deliver additional value in the form of personalised coupons and rewards via digital channels.

‘Personalisation’ here isn’t only about direct reward, either. The curation of relevant content and recommendations can have a similarly positive impact on value perception, saving the Customer time and providing them with quick access to the deals and offers that matter most to them.



How to deliver continued value perception through Personalised Offers.

- Shoppers will increasingly be in need of savings over the coming months. Using loyalty card data to understand how best those savings can be delivered through personalised offers will help you cater to that need. Explore opportunities to provide a wider selection of coupons and rewards more frequently.
- Use personalised offers to address need states across the shopping journey. Pre-emptive offers can aid with Customer list-building and pre-trip planning, and demonstrate your ability to provide value even before Customers are seeking it.
- Review your policies around acceptance of coupons from consumer packaged goods (CPG) companies. Offering Customers ways to redeem discounts on their favourite branded goods sends a positive signal.
- With growing ecommerce usage comes the need to ensure that you are fully equipped to accept coupons accessed via digital channels. As with CPG offers, provide hassle-free acceptance and redemption.



Private Brand

In an earlier edition of the dunnhumby Customer Pulse, we learned that many shoppers plan to divert their spend towards private label products should they need to reduce outgoings over the coming months. Almost half (42%) of those surveyed in May said they would switch from branded to own label products, a decision that is second only to a cutback on luxury items (44%) as a cost-saving measure.

The presence and availability of private brand products goes beyond pure ‘at checkout’ value, though. A wide range of own label items can also help to encourage a sense of depth to a retailer’s range, something that improves perceptions of value in and of itself. And, even when a shopper ultimately opts to purchase a CPG branded product, even the awareness of a higher value alternative can have a positive impact on sentiment.

Grocery Spend Reduction



How to deliver continued value perception through Private Brand.

- Understand Customer needs around private brand on a category-by-category basis, and structure investment around those lines that will have the greatest impact on value perception.
- Ensure that private brand products are priced and promoted consistently and logically. Shoppers will have an innate expectation that own label products will be cheaper, and ensuring that your entire range follows a uniform model is key.
- ‘Shield’ private brands on a case-by-case basis. Where aggressive promotion on CPG brands may prompt shoppers to switch – particularly in value and middle tiers – shielding may make sense. A balance matrix will help to provide clarity here.
- Create logical and replicable display principles for private brand products. Ensure that they can be found in the same locations (compared to CPG products) across your store portfolio.



Assortment

Justifiably or not, shoppers tend to associate the depth and breadth of range with value. Big-box retailers, for instance, are more likely to be seen to offer value than a convenience store. This line of thought even carries through to the way that items are presented in-store; a wide selection of low-price and private brand products is an immediate indicator of value for many.

The psychology at play here can be useful for those able to harness the relevant data around assortment. The importance of private brand is covered above, but there are other opportunities at play, too. Home cooking is likely to grow in importance as Customers seek to save money, while a range that encapsulates “specialist” items such as vegan, fair trade, and organic can also help to maintain loyalty amongst those who would otherwise begin to look elsewhere.



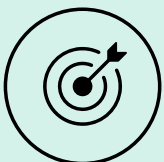
How to deliver continued value perception through Assortment.

- Ensure that your offering is broad and deep enough to meet differing Customer needs and purchase occasions. Aim for a “good-better-best” selection, balanced on a category-by-category basis using Customer insights.
- Focus on greater overall range variety rather than a selection of products within the same variety. If Customer needs within a category can be met with an existing or smaller set of products, focus on adjacent and complimentary lines.
- As with private brand, ensure a degree of consistency around assortment that allows shoppers to quickly parse value. Apply the “good-better-best” principle to product display.

Store & Channel Experience

While it might be a primary factor, value isn’t defined by cost alone. The overall shopping experience can also influence value perception, particularly when it comes to factors such as ease, convenience, and speed.

This is as true online as it is in-store. While a gradual return to normalcy means that Customers may no longer feel pressured to “get in and get out” when shopping, delivering a convenient experience that respects their time should still be a priority for retailers. And particular attention should be paid to policies around refunds and replacements, something that can quickly erode value perceptions should they be offered slowly and grudgingly.



How to deliver continued value perception through Store & Channel Experience.

- Showcase and highlight reduced and discounted goods and areas. Customers see these as a key indicator of value when looking to reduce spend.
- Reduce “clutter”, both online and off. Deliver value to your Customers by providing a quick, seamless, and hassle-free shopping experience. Employ preference-based tools like “My Usuals” or “Cheaper Alternatives” on digital channels to ensure maximum relevance and ease.
- Maintain consistent principles around product and shelf flow to help shoppers quickly find value range products (see Private Brand and Assortment above).
- Ensure that value perceptions are not undermined by a poor experience elsewhere. Customer First policies around returns, refunds, and replacements should be adopted wherever possible.

Communications

Sometimes, value needs to be called out explicitly. Communications – marketing, specifically – plays a huge role in bolstering value perception, and tools like shelf tags, flyers, signage and more should be utilised to draw attention to deals, promotions, private brand and everyday low pricing.

Cohesion is vital, though. retailers need to fully align their operations behind the six themes above to ensure that above-the-line marketing messages do not feel shallow to shoppers. True value, after all, is actual as well as perceived.



How to deliver continued value perception through Store & Channel Experience.

- Draw attention to total-basket savings as a line item on Customer receipts. Consider using historical data (see Base Pricing) to call out reductions over previous shops where possible.
- Highlight your commitment to value in each of the six categories above and find ways to communicate your efforts to Customers.
- Ensure that value opportunities are clearly signposted, both online and in-store. Leave Customers with no doubt that you are committed to helping them save money on their everyday shop.

Conclusion

Over the coming months, value will become ever more important for Customers, and retailers must act quickly and decisively to deliver the greatest value they can. We believe that monitoring both behavioural and perceptual changes – or “leading indicators” and “lagging indicators” – can be key to keeping track of the value you offer.



Leading Indicators (behaviour)

Utilise a Price Index (on different points of the Price Curve), internal Basket-Price Index, and total basket spends (over time) amongst Loyal and Price-Sensitive Customers and opportunity shopper segments.



Lagging Indicators (perception)

Add a price perception question to your Customer Satisfaction surveys, utilise a Customer Tracker (Customer Promises measures), and other bespoke qualitative research.

Understanding these factors, and how the levers above influence them will undoubtedly help to develop winning strategies around Customer value; strategies that will help you earn not just the trust and loyalty of your Customers, but a share of wallet that outlasts these challenging times too.

Navigating New Value together

Around the world, we're helping our clients keep pace with the fast-moving demands of tomorrow's shoppers. As value perception becomes the dominant factor in retail choice, our focus will be on providing our clients with the insights they need to stay one step ahead of their Customer needs.

If you need help harnessing your Customer data to discover the right way forward in the age of New Value, please **contact your local dunnhumby team today.**

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CUSTOMER DATA SCIENCE PLATFORM

dunnhumby is the global leader in Customer Data Science, empowering businesses everywhere to compete and thrive in the modern data-driven economy. We always put the Customer First. Our mission: to enable businesses to grow and reimagine themselves by becoming advocates and champions for their Customers.

With deep heritage and expertise in retail — one of the world's most competitive markets, with a deluge of multi-dimensional data — dunnhumby today enables businesses all over the world, across industries, to be Customer First.

The dunnhumby Customer Science Platform is our unique mix of technology, software and consulting enabling businesses to increase revenue and profits by delivering exceptional experiences for their Customers — in-store, offline and online.

dunnhumby employs over 2,000 experts in offices throughout Europe, Asia, Africa, and the Americas working for transformative, iconic brands such as Tesco, Coca-Cola, Meijer, Procter & Gamble, Raley's, L'Oreal and Monoprix.



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