

# Joe Berry Award 2023

Entry – JBA-23-201

Topic 3B - Proposing Practices for Millennial Leadership

Presentation #1

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## Executive Summary and Introduction

What comes to your mind when you think of the term “millennial”? Do you feel like you have an understanding of this tech-savvy, avocado-toast loving generation, or do you get that drop in your stomach feeling at the thought of attempting to comprehend terms like “can’t even”? Either way, there is no doubt that millennials are here and we’re shaking things up in the grocery and FMCG world.

PWC estimates that millennials will make up 75% of the total Australian workforce by 2025<sup>1</sup>, highlighting the need for organisations to take action now to set themselves up for success in the future.

If you are wondering how this content relates to you as leaders of retailers and FMCG organisations, the answer is simple. We all work for you. We want to do an excellent job for you and show loyalty to our organisations – so here’s your chance to dive into some insight on millennials to understand why we are so disruptive and why you need us on your leadership teams.

This essay unpacks insights into why millennials are striving to be a different type of leader by evaluating their mindset and three key challenges facing this generation:

1. How the influence of technology is impacting our productivity;
2. How the overwhelming access to information often leaves us craving insight and wisdom;
3. How busyness and filtered comparisons are making us feel like we “can’t even”.

In conclusion, the recommendation is for leaders of retailers and FMCG organisations to strategically improve millennial representation on their leadership teams to embrace a new way of thinking and keep their organisation’s finger on the pulse by:

1. Making purpose and impact a priority;
2. Advocating for development looking beyond titles and promotions;
3. Supporting team members as a coach to guide and inspire;
4. Communicating and providing feedback back in real-time;
5. Actively spotlighting strengths and developing into superpowers;
6. Behaving with empathy and supporting each person as a whole.

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<sup>1</sup> PricewaterhouseCoopers. (2020, July 23). Why attracting and retaining the top millennial talent is key to future success. Retrieved December 28, 2022, from <https://www.pwc.com.au/digitalpulse/millennials-five-generations-workplace.html>

Finally, a case for shadow boards is presented as a tool to assist retailers and FMCG organisations to step change their organisations while also unearthing key talent.

## The Millennial Mindset

Most of us were raised by Boomers in highly supportive, hands-on households. We've won participation awards and been shuttled to extra-curricular activities in every attempt to help us "get ahead" of our peers. In comparison to our predecessors, our childhoods were micro-managed and consequently we've traded a large portion of childhood fun for personal development and achievement<sup>2</sup>. A guiding leadership style (Appendix A) that supports and mentors our goals and passions feels most natural to us – because after all, we've been told we can do anything.

Our parents are likely to have worked for few organisations throughout their careers and we've experienced firsthand their absence at school plays and swimming galas as they have shown loyalty through hard work and tenure. We've also seen some of our parents lose their jobs, despite their unwavering company loyalty.

We're now 29 – 43 years old making up 21.5% (highest percent along with Boomers) of the Australian population (Appendix A). We have the most degrees out of any generation with 65.4% of us holding at least one degree and on average we are starting families four years later than our Boomer parents (Appendix A).

We are on a mission to have purposeful careers where we feel we're making a true *impact*<sup>3</sup>. Summarised proficiently by Millennial expert Vivek Iyyani<sup>4</sup>, we are showing loyalty to our organisations by being proactive and bringing one hundred percent to our jobs each day, generating new ideas and actively driving change and innovation by being fiercely passionate about projects we are working on. Conversely, we view disloyalty as merely ticking an attendance card – it's no longer about *tenure* for us. So, when we are uninspired, lack purpose, feel like our voices are falling on deaf ears, given empty promises, and experience leadership being slow or not adapting to modern times we realise there is a glass ceiling, and we are talking with our feet to move where we see opportunities for development and impact.

We're diving into three unique and key challenges facing millennials today.

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<sup>2</sup> Petersen, A. H. (2022). Can't even: How millennials became the burnout generation. S.I.: VINTAGE.

<sup>3</sup> Fell, A. (2022, October 12). The Millennial Workforce; creating culture purpose and impact. Retrieved February 8, 2023, from <https://mccrindle.com.au/article/the-millennial-workforce-creating-culture-purpose-and-impact/>

<sup>4</sup>Iyyani, V. (2021). Engaging millennials: 7 fundamentals to recruit, reward & retain the largest generation in the workforce. New Delhi, India: Penguin India.

## The Digital Dopamine Dilemma

Every time a notification comes through on our smartphones we feel a sense of urgency to interact, craving a “quick digital hit”<sup>5</sup> of dopamine that gives us a thrill. We can find it difficult to engage in *deep work*<sup>6</sup> with the number of distractions; phones vibrating, Instagram likes, emails pinging in. In fact, researchers at the University of California found that it takes around 23 minutes for most workers to get back to a task after an interruption<sup>7</sup>. Now think about how many times you have been distracted today by your mobile or non-urgent emails. The average employee is being interrupted fifty to sixty times per day, with 80% of these disruptions being relatively unimportant<sup>8</sup>.

Millennials are the first generation to have grown up with technology and have had access to a world of information at their fingertips for most of their adult lives. The result? We are a generation of instant gratifiers overloaded with information and we are struggling to disconnect from technology.

Consequently, we feel like our days are extremely busy, but if we’re not able to enter the *deep work* space our productivity can be impeded and the day ends with little net gain.

## Imposter Syndrome

The overwhelming access to knowledge and information has made us feel like we can never know enough, coupled with constant comparisons on social media have left us craving insight and wisdom. A third of us are currently experiencing imposter syndrome, with 70% of us likely to experience it within our lifetime<sup>9</sup>. Impacting females more than males<sup>10</sup>, imposter syndrome makes us feel our achievements are undeserved and that we’re likely to be exposed as a fraud<sup>11</sup>.

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<sup>5</sup> Waters, J. (2021, August 22). Constant craving: How digital media turned us all into dopamine addicts. Retrieved December 29, 2022, from <https://www.theguardian.com/global/2021/aug/22/how-digital-media-turned-us-all-into-dopamine-addicts-and-what-we-can-do-to-break-the-cycle>

<sup>6</sup> Newport, C. (2016). *Deep work* rules for focused success in a distracted world. New York: Grand Central.

<sup>7</sup> Stephen Schramm @WorkingatDuke, & Schramm, S. (2021, November 30). 3 ways to bounce back after a work interruption. Retrieved December 28, 2022, from <https://today.duke.edu/2021/11/3-ways-bounce-back-after-work-interruption>

<sup>8</sup> Glaveski, S. (2019, December 18). 10 quick tips for avoiding distractions at work. Retrieved December 29, 2022, from <https://hbr.org/2019/12/10-quick-tips-for-avoiding-distractions-at-work>

<sup>9</sup> Eruteya, K. (2022, January 05). You're not an imposter. you're actually pretty amazing. Retrieved January 16, 2023, from <https://hbr.org/2022/01/youre-not-an-imposter-youre-actually-pretty-amazing>

<sup>10</sup> Kurian, S. (2017, February 1). Meet the millennials. Retrieved January 15, 2023, from <https://assets.kpmg/content/dam/kpmg/uk/pdf/2017/04/Meet-the-Millennials-Secured.pdf>

<sup>11</sup> Kerr, B. (2020, June 30). Why 70% of millennials have impostor syndrome. Retrieved January 16, 2023, from <https://thehustle.co/why-70-percent-of-millennials-have-impostor-syndrome/>

This can manifest in us experiencing decision paralysis, increased levels of anxiety and perfectionism, and a lack of confidence that hinders performance despite our abilities<sup>12</sup>.

### Millennial Burnout

Nurtured into over-drive, millennials have been pursuing personal development from before we could walk – striving to get ahead and make our heavily-invested parents proud. Most of us use several social media platforms where we're experts at adding filters to our lives, constantly comparing ourselves to other questionably perfect lives. This comparison and overuse of technology means that we are no longer getting the types of recovery breaks our brains desperately need<sup>13</sup>.

We're buying into myths that busier is better, that long hours generate higher productivity, and a break means checking your Instagram – but the truth is, all of this means we are considerably less productive, less creative, we're burnt out and we "can't even" – referring to when someone is overwhelmed by a situation that they don't know what to say. And as a result, according to Deloitte, burnout is one of the top three reasons millennials leave their jobs<sup>14</sup>.

### What Does Your Leadership Team Look Like?

Large retailers and FMCG organisations have been focused on keeping up with the changes in consumer demand, backed with access to mind-boggling amounts of consumer data, analytics, and insights. Millennials have not only become an important and sizeable piece of the consumer pie, but we're also on track to make up three-quarters of the workforce within the next two years.

So next time you're in the office when not flexi-working, take a walk around and make a note of the types of people you see. If your business is representative of the market, you'll be on the way to 75% millennials within the next two years. Now take a look at your leadership team, is it reflective? If not, how are you actively developing top millennial talent to take a seat at the table to keep your organisation's finger on the pulse?

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<sup>12</sup> Eruteya, K. (2022, January 05). You're not an imposter. you're actually pretty amazing. Retrieved January 16, 2023, from <https://hbr.org/2022/01/youre-not-an-imposter-youre-actually-pretty-amazing>

<sup>13</sup> Funt, J. (2021). A minute to think: Reclaim creativity, conquer busyness, and do your best work /CJULIET Funt. New York, NY: HarperCollins.

<sup>14</sup> Parmelee, M. (2022, October 14). Deloitte Brandvoice: Gen Zs and millennials are tired of being resilient. what employers need to know to make their breaking point a turning point. Retrieved February 13, 2023, from <https://www.forbes.com/sites/deloitte/2022/06/08/gen-zs-and-millennials-are-tired-of-being-resilient-what-employers-need-to-know-to-make-their-breaking-point-a-turning-point/?sh=6cdecc3521f6>

## Millennials As Leaders

As a generation determined to make an impact, those of us already in leadership positions are motivated to be the change we want to see in leadership. We're acutely aware that the most important thing any of our team members can bring to our organisation is entirely discretionary: their creativity, passion, engagement, and desire to go the extra mile<sup>15</sup> – in millennials eyes, *loyalty*. So now that you have some insight into who we are, here are some things we're advocating for as leaders – and why you need us on your leadership team:



Figure 1: Author's Own, adapted from: Gallup's Six Big Changes Leaders Have to Make<sup>16</sup>

<sup>15</sup> Shoobridge, G. (2020, March 22). Discretionary effort is a 'gift' – don't take it for granted! Retrieved February 15, 2023, from <https://www.linkedin.com/pulse/discretionary-effort-gift-dont-take-granted-gonzalo-shoobridge-ph-d->

<sup>16</sup> Gallup. (2016). How Millennials Want to Work and Live. Retrieved from <http://news.gallup.com/reports/189830/millennials-work-live.aspx>

## The Incoming Gen Z-ers

For those of you hoping that Gen Zs are going to relieve some of your millennial headaches, I'm afraid Gen Z-ers have won even more participation awards than we have. While millennials want to make an impact, Gen Z-ers are striving to be good world citizens calling for companies to tackle issues such as inequality and climate change<sup>17</sup>. The topics discussed in this essay are largely transferable to Gen Z emphasising the importance for retailers and FMCG organisations to act now as it will only become more critical.

## Shadow Boards

If you're thinking about your own leadership team and wondering how on earth you are going to actively develop more millennials to keep up with market trends, then a shadow board is for you. The concept of shadow boards - a group of non-executive employees that works with senior executives on strategic initiatives<sup>18</sup>, has yielded overwhelmingly positive results from global multi-nationals including KPMG International, Accor, Prada, Interbrand and Gucci by keeping management's finger on the pulse and eyesight firmly on the future<sup>19</sup>.

Your shadow board can help your board and executive team navigate the changing landscape and minimise your blind spots. Making use of the talent that's right in front of you will help your organisation lean into opportunities and challenges by unlocking visibility and insight from the front line. The benefits of shadow boards are widely considered fourfold:

1. Bridge the gap between senior executives and rising young talent<sup>18</sup>;
2. Ability for executives to test ideas in a safe space<sup>18</sup>;
3. Unearth talent and harbour cultural inclusivity<sup>20</sup>;
4. Increase visibility and insight from the front line<sup>20</sup>.

My organisation began their industry pioneering shadow board journey in mid-2022 and I was selected as part of a group of eight high-performing cross-functional millennials. Challenging organisational norms and sharing fresh views and insight from a cohort that is not often seen at board level has been game-changing for our

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<sup>17</sup> Sawyer, A. (2021, April 19). How business and education can help gen Z reframe the future. Retrieved February 14, 2023, from [https://www.ey.com/en\\_gl/corporate-responsibility/how-business-and-education-can-help-gen-z-reframe-the-future](https://www.ey.com/en_gl/corporate-responsibility/how-business-and-education-can-help-gen-z-reframe-the-future)

<sup>18</sup> Jordan, J., & Sorell, M. (2019, June 05). Why you should create a "Shadow board" of younger employees. Retrieved December 29, 2022, from <https://hbr.org/2019/06/why-you-should-create-a-shadow-board-of-younger-employees>

<sup>19</sup> Jordan, J., & Khan, M. (2022, November 08). How shadow boards bridge generational divides. Retrieved December 29, 2022, from <https://hbr.org/2022/03/how-shadow-boards-bridge-generational-divides>

<sup>20</sup> Somers, E. (2022, October 30). Why set up a Shadow Board of Directors. Retrieved February 13, 2023, from <https://inkling.group/insights/shadow-board-directors/>

organisation. We look forward to delivering four key projects tackling engagement and retention in early 2023.

So, make the most of the incredible people already working in your organisation and use your shadow board as a tool to step change your business and develop your leadership talent.

## Conclusion







Generational change in the workplace is inevitable, but the way you decide to lean into adapting is not only strategic, but critical to the success of your organisation. For retailers and FMCG organisations, tenure, knowledge retention, and attraction of high potential candidates is pivotal to staying ahead of the market.

The style and approach of leadership being advocated by millennials is likely to be the step change your leadership team needs to sincerely embrace the generational transformation your workforce is currently undergoing in line with PWC's outlook. Your teams are looking for you to adapt to the changing times, to listen, engage, and be proactive in moving your organisation into the future. Leveraging your millennial talent is paramount to help you make this happen.

So, here's your call to use these insights to reflect on your own leadership team and strategically invest in your high potential millennials.

# Appendix A

Author's Own: Table outlining key generational differences.

	 <b>TRADITIONALISTS</b>	 <b>BOOMERS</b>	 <b>GEN X</b>	 <b>MILLENNIALS</b>	 <b>GEN Z</b>	 <b>GEN ALPHA</b>	
<b>Born Between</b>	< 1946	1946-1964	1965-1979	1980-1994	1995-2009	2010-2024	References
<b>Current Age Range (2023)</b>	78+	59 - 77	44 - 58	29 - 43	14 - 28	Under 14	<a href="https://mccrindle.com.au/app/uploads/mages/GenZGenAlpha.pdf">https://mccrindle.com.au/app/uploads/mages/GenZGenAlpha.pdf</a>
<b>Description</b>	Raised during the Great Depression, economic survival was top priority. They remember the effects of WWII, creating a generation of disciplined, patriotic, and conservative citizens.	Born in the aftermath of the WWII when there was a "boom" in birthrates. They grew up in a time of optimism, economic growth, and space exploration.	Known as the latch-key generation, members of this group often grew up in households with divorced or two working parents. With the advent of personal computers and internet, they became tech-savvy and highly independent.	Born during a time of economic growth to optimistic parents, they were encouraged to take risks, collaborate, and become entrepreneurs in a tech-driven world.	Born in the shadow of 9/11, they experienced economic insecurity during the Great Recession. They are also known as "digital natives."	TBD	<a href="https://www.linkedin.com/pulse/understanding-generational-diversity-why-its-future-mary-cooney-phd">https://www.linkedin.com/pulse/understanding-generational-diversity-why-its-future-mary-cooney-phd</a>
<b>% of Population (2021 Census)</b>	7.5%	21.5%	19.3%	21.5%	18.2%	12.0%	<a href="https://www.abs.gov.au/statistics/people/people-and-communities/snapshot-australia/2021">https://www.abs.gov.au/statistics/people/people-and-communities/snapshot-australia/2021</a>
<b>% with Bachelor's Degree</b>	Unknown	38.2%	52.2%	65.4%	TBD	TBD	<a href="https://www.abs.gov.au/articles/back-my-day-comparing-millennials-earlier-generations">https://www.abs.gov.au/articles/back-my-day-comparing-millennials-earlier-generations</a>
<b>Social Markers</b>	World War II	Moon landing Cold War	September 11	Global Financial Crisis	COVID-19 Pandemic	TBD	<a href="https://mccrindle.com.au/app/uploads/2016/12/McCrindle-Research_ABC-03_The-Generation-Map_Mark-McCrindle.pdf">https://mccrindle.com.au/app/uploads/2016/12/McCrindle-Research_ABC-03_The-Generation-Map_Mark-McCrindle.pdf</a>
<b>Typical Leadership Style</b>	Controlling	Directing	Coordinating	Guiding	Empowering	Inspiring	<a href="https://mccrindle.com.au/app/uploads/mages/GenZGenAlpha.pdf">https://mccrindle.com.au/app/uploads/mages/GenZGenAlpha.pdf</a>
<b>Average Age Starting a Family</b>	26	27	30	31	TBD	TBD	<a href="https://www.abs.gov.au/statistics/people/population/births-australia/2020">https://www.abs.gov.au/statistics/people/population/births-australia/2020</a>
<b>Aspirations</b>	The same loyalty from their employer	To be valued and needed	Work-life balance	Seek order in the world and meaning in their work	Security and stability	TBD	
<b>Characteristics</b>	Dependable Straight forward Loyal	Risk-taking Ambitious Loyal	Flexible Informal Independent	Civic and open-minded Achievement-oriented Digital savvy Switch frequently and fast	Progressive Entrepreneurial Technology-reliant	TBD	<a href="https://blog.trninternational.com/is-a-multi-generational-workforce-an-advantage-or-a-threat">https://blog.trninternational.com/is-a-multi-generational-workforce-an-advantage-or-a-threat</a>
<b>Career Path</b>	Slow and steady	Upward mobility	Loyal to profession		Career "multi-tasker"	TBD	

# JOE BERRY AWARD 2023

ENTRY – JBA-23-124

**Topic # 4B - Maintaining Loyalty in Crisis**

**Presentation #2**

**Samantha Corrigan**

Customer Marketing Manager  
SC Johnson



## **EXECUTIVE SUMMARY**

Businesses should *not* fight to maintain customer loyalty in a crisis. Customer churn is a natural cycle of shopper behaviour. Instead, businesses need to focus on customer acquisition to drive growth. Those who don't will decline.

The effects of rising inflation are driving customers to expand their brand repertoire to include cheaper brands, private label, and products from discount retailers. As customers aim to save money, brands lose share. To maintain share, businesses need to win an equal number of customers to 'keep the bucket full.'

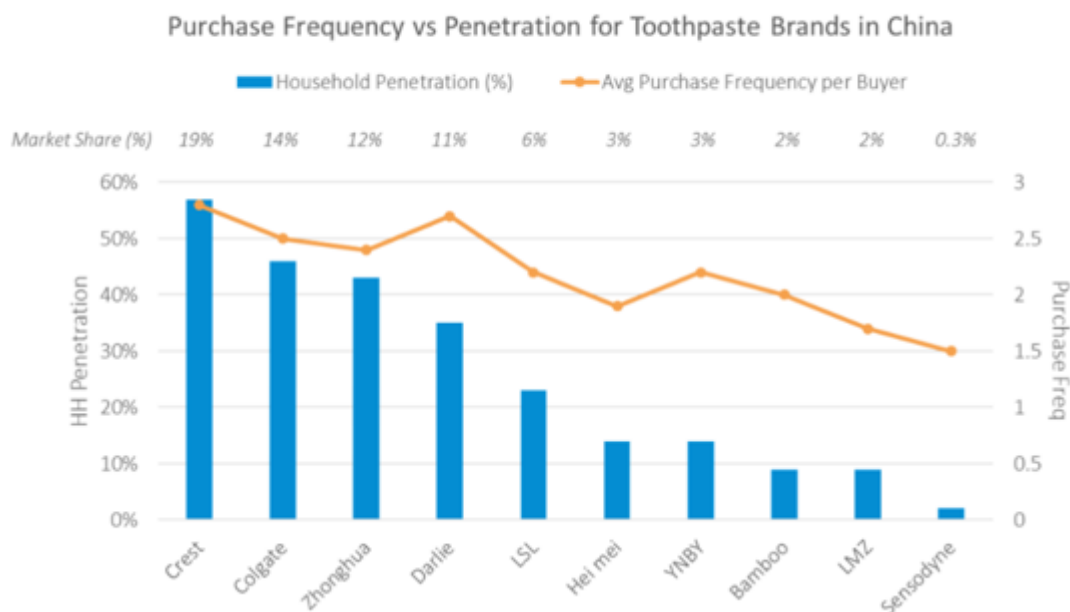
With today's 'dichotomy of customer' in mind, I will assert that businesses can unlock growth in a crisis by overcoming 'four barriers to penetration' via relevant acquisition strategies.

Furthermore, to successfully amplify these strategies, I will stress supplier/retailer collaboration. By working closely with retailers, suppliers can influence 'right-price-right-range' strategies that reflects shifts in customer purchase behaviour and therefore keeps customers 'coming through the door'.

## PENETRATION IS MORE IMPORTANT THAN LOYALTY

One of the empirical laws of marketing, 'Double Jeopardy' states that "brands with less market share have so because they have far fewer buyers and that these buyers are less brand loyal. So essentially "as market share declines, both penetration and brand loyalty drop together". However - *here's the clincher*, "penetration drops at a much faster rate relative to loyalty"<sup>21</sup> (Fig 1)

(Fig.1)<sup>1</sup>



Therefore, a strategy focused on maintaining customer loyalty during a crisis doesn't make a lot of sense, it won't improve declining market share.

On the other hand, a strategy focused on growing household penetration is shown to be more effective. "Rather than encouraging current customers to purchase more, it's easier to get non-customers to purchase once." <sup>22</sup>

Loyalty is still important for growth; it just doesn't play the largest role in increasing share. Hence, customer acquisition is vital.

<sup>21</sup> <https://peelresearch.com/how-brands-grow-part-1-the-double-jeopardy-law-explained/>

<sup>22</sup> <https://www.marketingscience.info/effective-brand-growth-acquisition-or-retention/>

## TODAY'S DICHOTOMY OF TWO CUSTOMERS

A robust acquisition plan must reassess changes to customer behaviour.

### The Persevering-Prospect

Rent or mortgage is a cost for 70% of Australians.<sup>23</sup> The Reserve Bank of Australia has recently passed nine consecutive interest rate-rises. Consequently, creating mortgage stress in the market. Skyrocketing rental prices have accelerated rental stress. With 2.54 million Australians devoting 31-60% of their income to rent.<sup>24</sup> It goes without saying that household budgets have been impacted. Consequently 'Persevering-Prospects'<sup>25</sup> are spending less on discretionary items, down-trading to cheaper products and turning to private-label and low-cost retailers.

### The Opulent-Optimist

On the flip-side the current economic environment has contributed to the rise of the 'Opulent-Optimist' who "don't feel the impact of inflation and want to live the life they missed out on during the pandemic". 'Optimist's' value "products and services that enhance their current lifestyle. They resonate with idealistic narratives: personalization and targeting to who these individuals want to be."<sup>26</sup>

Within Australia, 'Optimists' over-index in a micro-generation coined 'The Zillennial', (born 1990-2000) who growing up online have money to burn. What makes Zillennial's optimistic is their spending power. Around one-third still live at home, and they have jobs. This combination gives them disproportionate amounts of disposable money.

With both customers considered, I will now explore four barriers to penetration (Fig 2), along with relevant strategies that can propel acquisition in a time of inflation.

(Fig 2.)

Four customer barriers to penetration	
1. Don't think of it	2. Not relevant to me
3. Can't afford it	4. Can't see it

<sup>23</sup> <https://www.aihw.gov.au/reports/australias-welfare/home-ownership-and-housing-tenure>

<sup>24</sup> <https://www.savvy.com.au/2-72-million-australians-at-risk-of-rental-stress-survey/#:~:text=According%20to%20the%20Australian%20Institute,of%20their%20income%20on%20rent.>

<sup>25</sup> <https://www.mintel.com/consumer-market-news/global-consumer-trends/>

<sup>26</sup> <https://www.mintel.com/consumer-market-news/global-consumer-trends/>

## 1. DON'T THINK OF IT

To overcome the 'don't think of it' barrier businesses must build 'mental availability.'

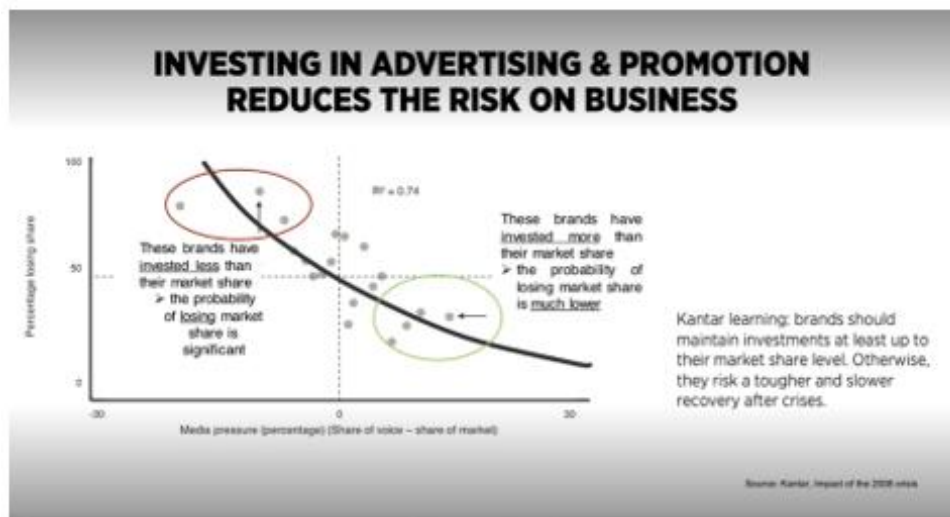
### **Advertising**

If you're a marketer, I bet inflation has you worried not only about your household budget but your marketing budget too! Cutting marketing budgets is an easy way for businesses to save money - but at what cost?

Advertising plays a strategic role in a business's ability to drive 'mental availability' by "communicating a memorable set of distinctive brand assets." It enables big brands to "box out small competitors and grow customer penetration and market share. For small brands, it is to develop different and effective customer acquisition campaigns to steal market share from bigger rivals."<sup>27</sup>

By compromising on advertising spend, the customer's choice can become a simple one based on price alone. This is problematic for businesses as it results in lost sales and corrodes long-term attributes like brand-equity and saliency. During a crisis business *must* continue to invest to grow penetration and market share. (Fig 3)

(Fig 3.)



<sup>27</sup> <https://business.linkedin.com/marketing-solutions/content-marketing/b2b-trends/the-loyalty-lie>

Instead of cutting budgets, businesses should focus on better ways to communicate value. Inherently, this will attract new customers and remind existing customers too.

For 'Prospects,' 'value-for-money' communication is effective. E.g., Decathlon communicates 'Low price, great value' by choosing not only to focus on price but what it represents in terms of customer experience.



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Conversely idealistic messaging is key for 'Optimists.' Retailer, JD Sports does this well. Recognizing that their "customers are motivated by desire rather than economics"<sup>29</sup> they produce campaigns that "seeks to inspire the emerging generation."<sup>30</sup> (This ultimately addresses the relevancy barrier too!)



31

<sup>28</sup> <https://insidefmcg.com.au/2022/09/20/mitey-makeover-vegemite-launches-range-with-qr-scannable-labels/>

<sup>29</sup> [JD Sports says shoppers 'motivated by desire, not economics' | The Independent](https://www.independent.co.uk/business/news/jd-sports-says-shoppers-motivated-by-desire-not-economics-2022-09-20)

<sup>30</sup> <https://www.idplc.com/investor-relations/our-strategy>

<sup>31</sup> <https://www.inspiredprinting.com.au/id-sports/>

## 2. NOT RELEVANT TO ME

Relevancy is vital to successfully connect with customers.

### ***Personalization***

Personalization is “a strategy to deliver specific, individualized consumer experiences based on behavioral, demographic, and geographical data.”<sup>32</sup> Personalized marketing is fundamental in driving acquisition as it enables businesses to deliver authentic customer experiences. E.g., Amazon uses personalization by suggesting related products based on past purchases.

COVID expedited personalization. With bricks-and-mortar stores affected, digital transformation accelerated, allowing businesses to capture rich customer data. Businesses must act on and understand this data to drive acquisition. Research shows “companies that excel at personalization generate 40-percent more revenue from those activities than average players.”<sup>33</sup>

When it comes to ‘Optimists’ and ‘Prospects’, personalization empowers businesses to reach new customers through segmentation. E.g., for ‘Prospects’, penetration can be boosted by sending triggered promotional offerings for ‘like-products’ customers haven’t bought before. As for ‘Optimists’, businesses can target this group by offering benefits. E.g., beauty retailer Mecca drives penetration of new products by offering top-tier members access before launch.

Leveraging retailer loyalty programs through 1:1 promotions/incentives is a great supplier/retailer tactic to drive penetration through personalization. Via ‘Woolworths Rewards’, suppliers can target new shoppers and competitor shoppers. This is an effective way to recruit new buyers as offers sent are relevant and incentivized. It’s also profitable, the Woolworths 1:1 program delivering an “ROI typically 2x traditional ‘yellow’ (high/low) promotions.”<sup>34</sup>

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<sup>32</sup> <https://www.exclaimer.com/blog/personalization-in-marketing-success-2023/#:~:text=Personalization%20is%20a%20strategy%20to,that%20meet%20individual%20consumer%20preferences.>

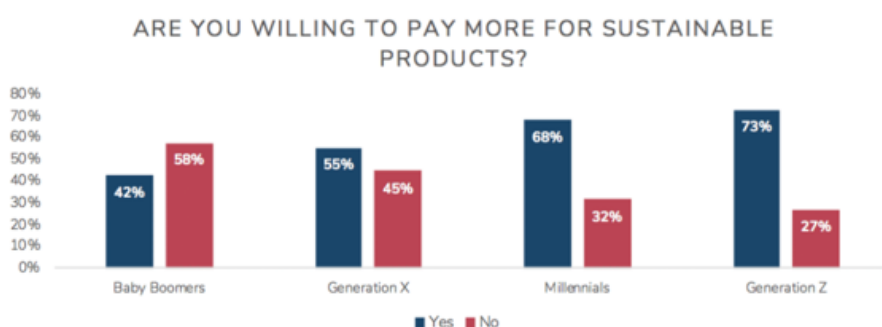
<sup>33</sup> <https://www.mckinsey.com/capabilities/growth-marketing-and-sales/our-insights/the-value-of-getting-personalization-right-or-wrong-is-multiplying>

<sup>34</sup> Hepworth, J (2023) ‘Woolworths Interview’ Interview with JBA-23-124. February 2023, Australia

## Corporate Social Responsibility (CSR)

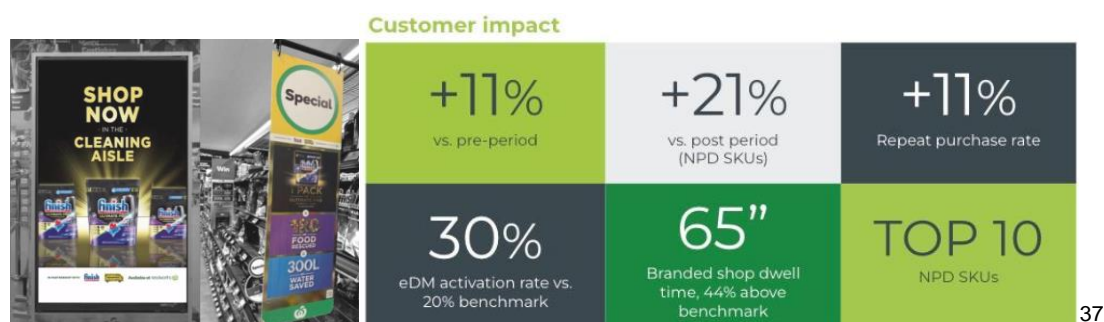
CSR drives customer relevancy. In fact, it can be more effectual than advertising when it comes to attracting interest. “This effect emerges from ‘generalized reciprocity’ whereby customers reward an organization for the indirect benefits provided to them when its CSR activities positively impact on their society.”<sup>35</sup> ‘Optimists’ are the most influenced by CSR with most believing it’s worth paying more for. Fig 4.<sup>36</sup>

(Fig 4.)



Customers expect CSR initiatives from both suppliers and retailers. A brilliant way both can collaborate is through running ‘promotions-with-purpose’. For example, in 2022 Reckitt’s executed a ‘Woolworths Rewards’ point giveaway alongside a donation to Oz Harvest to support the launch of ‘Finish Material Care’. The promotion saw customer uplift of +11% vs. prior period with 69 million liters saved.

Such collaborations prove effective to drive customer relevancy and commercial success.



<sup>35</sup> <https://www.emerald.com/insight/content/doi/10.1108/ASR-09-2017-0007/full/html>

<sup>36</sup> <https://www.agilitypr.com/pr-news/public-relations/sustainable-retail-expectations-on-the-rise-with-gen-z-shoppers/>

<sup>37</sup> <https://mealsonwheels.org.au/can-loneliness-create-connection/#:~:text=Buy%20any%20Glen%20%20or,you%20can%20hold%20on%20to.&text=2-Purchases%20during%2028%20September%20to%2025%20October%202022.,from%20Aug%20to%20Dec%202022.>

### 3. CAN'T AFFORD IT

To overcome the 'can't afford it' barrier, pricing strategies play an important role.

#### **Price Pack Architecture (PPA)**

“The essence of PPA is to provide customers a viable selection of products at price points they are willing to pay,”<sup>38</sup>

Effective PPA can impede down-trading accelerated by inflation and drive growth via price mix E.g., Coca-Cola's value collection (Fig 5). With inflation hurting bottom line, PPA can also help facilitate cost savings (e.g., smaller pack - higher cost/ml).

By collaborating with retailers, suppliers can influence right-price-right-range activity with PPA that is reflective of customer needs and therefore improve market share.

(Fig 5.)



39

<sup>38</sup> <https://www.iriworldwide.com/en-us/insights/publications/price-pack-architecture>

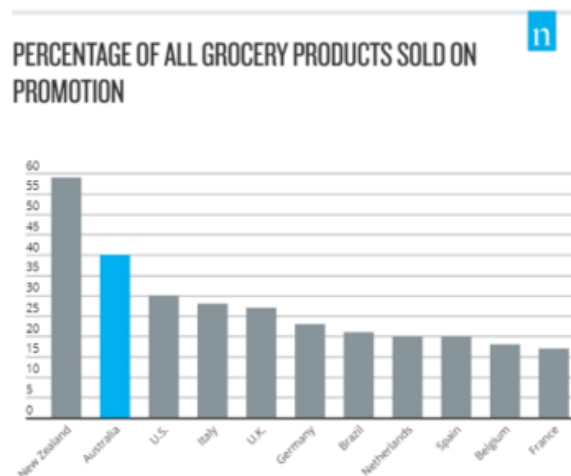
<sup>39</sup> <https://p2pi.com/how-cpg-marketers-are-battling-inflation>

## Promotions

Cost of goods has increased to unprecedented amounts and profit gaps have resulted in many businesses implementing cost price increases. Ultimately this has caused customer defection in the market, particularly amongst 'Persevering-Prospects.' Compelling promotions can help encourage these lapsed customers back and encourage trial. However, to be effective these promotions need to work smarter, not harder.

Australia has the second highest retail 'sold on promotion' volume in the world with approximately 40% of sales sold on high-low promotions (Fig 6)<sup>40</sup>. Absurdly, "48% of these sales would have happened anyway", promoted or not. "Relentlessly promoting products with no regard for sales uplift is a difficult strategy to sustain."<sup>41</sup> Instead, suppliers and retailers need to work together to create effective promotions that aid acquisition. By doing so promotional savings can be made and reinvested into other acquisition strategies.

(Fig 6.)



<sup>40</sup> <https://insidemcg.com.au/2018/08/09/retailers-and-suppliers-wasting-over-a11bn-on-discounting/>

<sup>41</sup> <https://www.retailbiz.com.au/offline-retailing/australian-retailers-are-squandering-11-3bn/>

## 4. CAN'T SEE IT

To convert more customers, businesses need 'physical availability' across multiple touchpoints.

### *Omnichannel*

Shopping journeys are no longer linear. Did you know,

- "60% of Woolworths customers who shop in-store start their shopping journey online or in apps?"<sup>42</sup>
- Coles omnichannel customers "spend 2.1 times more than customers who shop only one channel?"<sup>43</sup>

Australians expect businesses to find them at every touchpoint. Consequently, a great omnichannel experience is important to "attract customers that still shop in-store, but do most their research, and some of their buying, online."<sup>44</sup>

Delivering customers an integrated shopping experience that offers convenience and ease of purchase is key. It unlocks not only 'physical availability' but 'mental availability' too.

For example, the Woolworths omnichannel experience provides value to 'Prospects' by enabling them to browse digital catalogues and check for 1:1 specials on the 'Rewards' app – i.e. personalization! As for 'Optimists', it provides convenience benefits such as online recipes and 'Direct-to-Boot.'

Suppliers can engage and inspire customers across multiple touchpoints through retailer omnichannel. E.g., in 2021 Dettol ran a Woolworths 'Bat-Bowl-Dettol' campaign in-store and online. The omnichannel integrated campaign saw Dettol sales increase by 200% with 54% of new-to-brand customers in-store acquired.<sup>45</sup>

Omnichannel is the way forward. Retailers and suppliers must join forces and invest in all customer touchpoints to create best-in-class customer experiences.

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<sup>42</sup> <https://www.cartology.com.au/content/cartology/en/home/news/06222021-digital-is-the-new-front-door.html>

<sup>43</sup> <https://www.itnews.com.au/news/coles-charts-the-rise-of-omnichannel-shopping-561165#:~:text=In%20its%20half%20year%20results,during%20the%20most%20recent%20quarter.>

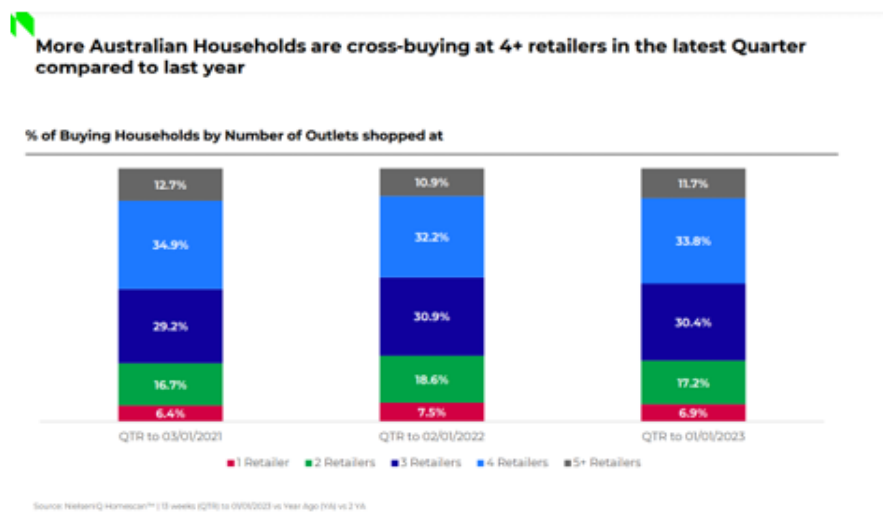
<sup>44</sup>

<sup>45</sup> <https://www.cartology.com.au/content/cartology/en/home/news/29032022-omnichannel-retail-media-reckitts-dettol-sales-surge.html>

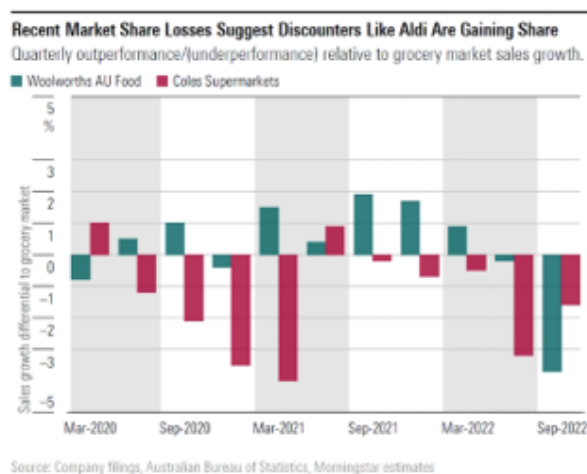
## Physical Availability

Evidence shows that more Australian households are cross-buying at four plus retailers vs. a year ago<sup>46</sup> (Fig 7), and that discounters are gaining momentum<sup>47</sup> (Fig 8). Rising consumer prices are pushing more shoppers particularly ‘Prospects’ towards cheaper retailers like Aldi. To reach those customers businesses must make their products easier to buy by building ‘physical availability’. To do this businesses need to adjust their distribution priorities and ensure wide distribution, with presence in discount stores.

(Fig 7.)



(Fig 8.)



<sup>46</sup> Source: NielsenIQ Homescan™ | 13 weeks (QTR) to 01/01/2023 vs Year Ago (YA) vs 2 YA

<sup>47</sup> Source: Company filings, Australia Bureau of Statistics, Morningstar Estimates

## CONCLUSION

“Want loyalty? Get a dog”!

Customer loyalty is changing and will continue to do so. Any efforts made to maintain loyalty will have minimal impact. For customer acquisition not retention drives growth. Businesses that accept that it's a game of acquisition will prosper. Those who don't, won't.

The implication? Businesses need strong acquisition plans. Not only will they drive customer growth, inherently a well-thought-out plan will optimize future retention too. Win, win!

For businesses to create strong acquisition plans, inflation, and today's dichotomy of customer ('Persevering-Prospect' and 'Opulent-Optimist') must be considered. Once considered, businesses must overcome the 'four barriers to penetration' and implement relevant acquisition strategies to drive growth. Including:

### 1 Don't think of it

- *Maintain advertising investment* to unlock 'mental availability'.

### 2. Not relevant to me

- *Personalization* to deliver relevant connections with customers.
- *CSR* to leverage 'generalized reciprocity'.

### 3. Can't afford it

- *Price pack architecture* to impede down-trading and drive market share.
- '*Smarter*' *cost effective promotions* to encourage trial and offer value.

### 4. Can't see it

- *Best in class omnichannel experience* to provide convenience and ease of purchase across multiple touchpoints.
- *Wide distribution* to build 'physical availability.'

Finally, to optimize the above strategies suppliers and retailers must work together. By doing so, category strategies can be implemented that reflects shifts in customer behaviour and therefore keep valuable customers coming through the door.

At the end of the day, all paths to profitable growth, lead to acquisition!

Thank you!

# JOE BERRY AWARD 2023

ENTRY – JBA-23-147

**Topic # 4 - B Maintaining Loyalty in Crisis**

**Presentation #3**

**Sofia Kailis**

National Business Manager  
Coca Cola Europacific Partners



## **Executive Summary**

Loyalty programs are like the pokies – addictive in nature and unexpected in anticipation.

Loyalty strategies are wild cards that when used effectively become crucial in retaining and gaining customers. As computing power for analysis has improved and content creation has evolved, barriers to entry have decreased leading to a proliferation of competitive loyalty programs. Understanding what influences a customer to engage or disengage is critical to becoming the market leader.

In an inflationary environment, rising prices will erode purchasing power, reduce the value of savings, likely drive interest rates and put upwards pressure on unemployment. Lower income earners are most affected with a higher percentage of their budgets being used for essential goods. These uncontrollable influences inflict added pressure on retailers to find innovative ways to offer value in an already saturated market.

This essay explores several loyalty strategies that are being deployed in markets today and identifies the key attributes that makes them successful.

It will be asserted that:

1. There are three key needs that underpin loyalty: Utilitarian, Experiential & Emotional
2. The concept of ‘Reward, Relevance and Recognition’ are the basis of loyalty strategies
3. ‘The Loyalty Affinity Model’ must be considered for future success

The concluding recommendation is that retailers will need to go above and beyond to remain successful in the future. Loyalty is not just about points, but rather ensuring you have the right offer for the right customer.

The retailer’s goal: retain the best and grow the rest<sup>48</sup>.

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<sup>48</sup> <https://thepointofloyalty.com.au/adam-posner/>

## Current Strategies – securing the transaction

In essence a loyalty strategy is a transaction with the exchange of data and incentives between retailers and customers. In today's environment customers value their data and consequently have higher expectations for what they receive in return.

According to the 2022 ALA Report, for a loyalty strategy to be successful brands must incorporate three key needs<sup>49</sup>:



Retailers should strive to achieve all three-pyramid levels within their strategies. To be included in the customer consideration set, brands must meet 'Utilitarian Needs' at a minimum. "Utilitarian needs are all about practicality and functionality and at the core of any relationship"<sup>50</sup>. These needs are also known as "Hard Benefits"<sup>51</sup>.

Supporting this is Paulo Claussen's Theory on The Three R's – 'Reward, Relevance and Recognition', which reveals that at the most basic level a reward system must be implemented to fulfill these needs. 'Rewards' are "the transactional part of the program"<sup>52</sup>. It's clear from my research that rewards need to be compelling, personal and tangible in demonstrating that customers are truly valued.

<sup>49</sup> <https://australianloyaltyassociation.com/ala-annual-loyalty-insights-report-read-the-executive-summary/>

<sup>50</sup> <https://australianloyaltyassociation.com/ala-annual-loyalty-insights-report-read-the-executive-summary/>

<sup>51</sup> <https://www.stampme.com/blog/why-do-loyalty-programs-fail>

<sup>52</sup> <https://www.hughes.com/sites/hughes.com/files/2021-12/CustomerLoyalty.pdf>

The most effective way to reward a customer is through 'points / spend based discounts' or 'tiered based' loyalty strategies:

### **Points / Spend Based Strategies<sup>53</sup>:**

- #1 most preferred in Australia
- 49% of Australians indicate they see value in these programs
- Integrational
- Requires flexibility in their benefits

The most activated points-based strategy is executed in the Supermarkets channel, which has the "highest loyalty penetration in Australian"<sup>54</sup>. Coles Supermarkets program Flybuys sees customers accrue points through every transaction. However, what Flybuys does so successfully is that it also taps into the Second R – 'Relevancy', moving beyond the transactional by being customer centric.

Tracking data allows Flybuys to understand spending habits, not just demographically but more importantly behaviorally. This type of personalization is integral in forming customer connections.

### **Tiered Based Strategies<sup>55</sup>:**

- #3 most preferred strategy
- Appeal to Gen Z
- Encourages more purchases, more often
- Provides different benefits based on rank

Tiered-based strategies are successful because they encourage customers to aspire to a goal as part of an exclusive membership. Rewards create an anticipation and excitement that maintains the customers attention on the brand. This is also known as 'Incentivized Loyalty'<sup>56</sup>.

Australian retailer Mecca continues to prosper through their "Beauty Loop"<sup>57</sup> loyalty program. The more customers spend, the quicker they progress from tiers one to four. "Beauty Loop Boxes" are distributed with exclusive offers, deluxe samples and in-store experiences. One of the attractive aspects of this rewards program is that all customers will receive at least a basic Beauty Loop. It's Mecca's way of staying in touch and saying thank you.

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<sup>53</sup> <https://australianloyaltyassociation.com/ala-annual-loyalty-insights-report-read-the-executive-summary/>

<sup>54</sup> <https://australianloyaltyassociation.com/ala-annual-loyalty-insights-report-read-the-executive-summary/>

<sup>55</sup> <https://australianloyaltyassociation.com/ala-annual-loyalty-insights-report-read-the-executive-summary/>

<sup>56</sup> <https://www.rqcm.com.au/gamification-mcdonalds-monopoly-marketing/>

<sup>57</sup> <https://www.mecca.com.au/beauty-loop.html>

During economic hardship showing gratitude goes a long way. Not only does it remove the impersonal barrier of a purchase, but also encourages referrals<sup>58</sup>. Communication is therefore integral and in the case of a loyalty strategy can be leveraged through the influence of social media. Brands that create hype and exclusivity naturally lend themselves to customer-based social media platforms. Community groups, such as Mecca's "Chit Chat" go beyond the transactional as members positively and unintentionally do the marketing for them.

Personally, I subscribe to four loyalty programs, including Mecca's Beauty Loop. Despite the samples not always being relevant to me, the excitement from collecting my reward is addictive and thrilling. However, I recently experienced Mecca running out of Beauty Loop's and consequently as quick as the excitement came, it went. As not all customers are as loyal, businesses need to be weary in ensuring they don't over promise and under deliver, particularly in challenging times.

When analyzing the current strategies, the final "R" – 'Recognition', emerges as the key to true customer loyalty. In times of uncertainty recognizing your best shopper in their customer journey is critical to building a long-term strategy. 'Recognition' is as important for the customer as it is the retailer. The customer not only "feels in control and sees the power of their loyalty but also feel as if the brand is being generous"<sup>59</sup>.

During the recent pandemic, Qantas was exemplary in 'recognizing' the lifetime value of their most loyal customers. Maintaining a customer's status despite the inability to fly showed flexibility as points could be transferred to other initiatives. However, the intricacy of 'recognition' is that it must occur throughout every interaction, something Qantas should remember when managing the fallout from losing Platinum customers luggage versus once off travellers.

Reflecting on the above strategies makes it apparent that every business should be able to effectively implement a loyalty strategy. Despite this ease, retailers still manage to get it wrong. In discussing these theories with Country Road Group's Loyalty Manager Jessica Lyon<sup>60</sup>, this can occur for the following reasons:

### **1. Ineffective use of Data<sup>61</sup>**

Customers are very aware of the value of their data and have high expectations in what they receive for this exchange. Offers that fail to be targeted, segmented and personal will not convert to a transaction. To this extent, customers will sacrifice privacy for relevancy.

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<sup>58</sup> <https://global.hitachi-solutions.com/blog/customer-loyalty-solutions/#example>

<sup>59</sup> <https://www.hughes.com/sites/hughes.com/files/2021-12/CustomerLoyalty.pdf>

<sup>60</sup> <https://au.linkedin.com/in/jessica-lyon-37ab33198>

<sup>61</sup> <https://www.stampme.com/blog/why-do-loyalty-programs-fail>

## 2. Value Proposition

Australians participate in an “average of 6 loyalty programs”<sup>62</sup>, therefore, getting cut through can be difficult. At a minimum, value received must match or surpass the value spent. Understandably it can be costly for the retailer if it doesn’t illicit a reaction from the shopper. However, when the value equation doesn’t add up customers will simply switch to a better offer.

## 3. Miscommunication and Lack of Simplicity<sup>63</sup>

Many loyalty programs fail because “customers are left wondering how they work”<sup>64</sup>. Having too many elements may cause confusion even if you are providing superior value. Ensuring the barrier to entry is not too complex to redeem points is integral in attracting customers.

When a customer reaches the “true loyalty” status they come to demand and expect retailers to go above and beyond in return for their devotion. Exceeding *Utilitarian Needs* and unlocking the next two levels of the pyramid are where the future of loyalty lies.

### Future strategies - beyond the transaction

With continued advances in economic, social and technological markets, loyalty will need to represent more value in the future. I believe it will need to surpass “The Three R’s”. Retailers will need to become more focused on what satisfies the customer rather than focusing on their own opportunities. This will be the differentiator as to who wins and who loses.

In conjunction with the above pyramid, retailers should consider the Loyalty Affinity Program Model<sup>65</sup>. This reveals the key drivers of loyalty programs and highlights going beyond basic ‘Utilitarian features’ to unlock ‘Experiential / Emotional Needs’.

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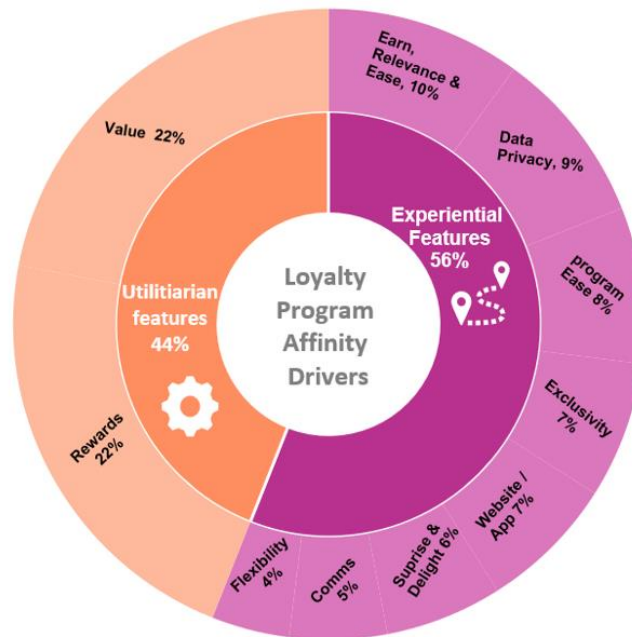
<sup>62</sup> <https://australianloyaltyassociation.com/ala-annual-loyalty-insights-report-read-the-executive-summary/>

<sup>63</sup> <https://www.stampme.com/blog/why-do-loyalty-programs-fail>

<sup>64</sup> <https://www.stampme.com/blog/why-do-loyalty-programs-fail>

<sup>65</sup> <https://australianloyaltyassociation.com/ala-annual-loyalty-insights-report-read-the-executive-summary/>

## Loyalty Program Affinity Drivers



**Exhibit2:** Loyalty Program Affinity highlights drivers for success by leveraging as many elements as possible / relevant

Whilst this report has already touched on a number of these drivers, there are several others that need to be considered for future success:

### 1. Experiential Loyalty – “Surprise & Delight”

When speaking with Ms. Lyon, it's evident that experiential Loyalty is the future<sup>66</sup>. “Experiential needs cover all points of the customer journey and are critical in creating loyalty<sup>67</sup>. This converts a transactional interaction to an emotional connection by building long-term retention tools known as “Soft Benefits”<sup>68</sup>. This supersedes the importance of price.

This is the “Surprise and Delight”, the “Warm and Fuzzy”, the pinnacle of marketing loyalty. Members want to feel an emotional connection to a brand and a sense of community. Loyalty specialist Adam Prosner refers to this as a “Joyalty program” where “maximum joy and delight from one or a series of “magic moments” is delivered by a loyalty program”<sup>69</sup>.

‘Joyalty’ can be successfully executed in a variety of ways. For the likes of Mecca this can be through their in-store experiences, for Supermarkets it might be by spontaneously giving away groceries. The aim is to encourage referrals and positive

<sup>66</sup> <https://au.linkedin.com/in/jessica-lyon-37ab33198>

<sup>67</sup> <https://blog.smile.io/5-examples-of-experiential-rewards-for-luxury-brands/>

<sup>68</sup> <https://www.stampme.com/blog/why-do-loyalty-programs-fail>

<sup>69</sup> <https://thepointofloyalty.com.au/your-2023-guide-to-a-joyalty-program-its-joyfully-free/>

word of mouth, ultimately leading to the creation of brand ambassadors in every-day customers. With inflation at the forefront these types of strategies are pivotal in maintaining customers.

## 2. The Omnichannel Experience<sup>70</sup> - “Program Ease” & “Website / App”

A seamless Omnichannel is every retailer’s goal. Companies with strong omnichannel engagement “retain an average 89% of their customers, compared to 33% for those with weak omnichannel strategies”<sup>71</sup>.

Success for retailers will require hyper-personalization, cross channel gamification and smoother user experience. Think QR Codes, addictive competitions and tailored instant wins all delivered through a convenient channel. From a loyalty perspective it makes the “overall reward experience more exciting and sophisticated”<sup>72</sup>.

It is important to note that customer expectations in delivering seamless user experience are extremely high. “Three quarters of customers expect brands to provide smooth and consistent omnichannel engagement”<sup>73</sup>. When this process becomes fragmented, losing customers can be as quick as gaining them.

The McDonald’s App<sup>74</sup> is leading this sector by using gamification to interact with consumers. Not only does it offer instant rewards but has adapted it’s in store Monopoly game to the online channel. Through a customer centric approach, data is leveraged to present targeted rather generic offers and uses location services to drive convenient in-store purchases. In essence, this approach is faultless, as consumers will likely make incremental purchases when in store.

One omission from the above model that needs to be considered for future success is ensuring a level of social consciousness. Studies show that “70% of consumers want to know how the brands they support are addressing social and environment issues when making purchase decisions”<sup>75</sup>. This reaffirms that loyalty is not just about points or price. Ethically sourced products and packaging have become a customer expectation.

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<sup>70</sup> <https://www.magestore.com/blog/the-rise-of-omnichannel-loyalty-programs/>

<sup>71</sup> <https://global.hitachi-solutions.com/blog/customer-loyalty-solutions/#example>

<sup>72</sup> <https://antavo.com/blog/omnichannel-loyalty-programs/>

<sup>73</sup> <https://www.stampme.com/blog/why-do-loyalty-programs-fail>

<sup>74</sup> <https://www.retaildive.com/ex/mobilecommercedaily/how-mcdonalds-loyalty-strategy-is-maturing-beyond-mobile-coupon-enticement>

<sup>75</sup> <https://www.ascm.org/ascm-insights/consumers-care-about-corporate-social-responsibility--and-so-should-you/>

Food chain Grill'd have taken this one step further through their "Local Matters"<sup>76</sup> program. This allows customers to vote for their favourite community group, with the most awarded party receiving a donation. In times of uncertainty, brands that "involve their customers in co-creation activities foster trust which translates into greater loyalty"<sup>77</sup>.

### **Conclusion**

Economic pressures and the added complexity of inflation will see customers seek value that goes beyond basic rewards. In difficult times customers place greater reliance on loyalty programs to manage the spiralling cost of living. Influencing whether a customer goes left or right will require a balance of 'soft and hard' loyalty strategies.

Retailers need to leverage the concept of 'Reward, Relevance and Recognition' in ensuring a well-rounded strategy. It's important to remember that loyalty strategies are not just about offering points and will fail if a lack of value is perceived. As industry competitiveness continues to grow offering the best strategy through 'Experiential Drivers' will unlock future success.

The key is ensuring you have the right offer, to the right customer, at the right time, in the right channel.

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<sup>76</sup> <https://www.grilld.com.au/news/localMatters/local-matters-10-years>

<sup>77</sup> <https://dobetter.esade.edu/en/brand-loyalty>

# JOE BERRY AWARD 2023

## ENTRY – JBA23-016

**Topic: 4A - Optimizing Retailer Pricing Strategy**

**Presentation # 4**

**Karolina Trofiniak**

Category Manager  
Woolworths



## Executive Summary

Though the pandemic concerns are receding, we still face numerous factors<sup>78</sup> that will continue to exert pressure on cost, margins, and wallets. With another 12-18 months before prices stabilise,<sup>79</sup> the IMF predicts that by the end of 2023, a third of the global economy will experience recession.<sup>80</sup>

Although Australia might escape economic downturn, the Reserve Bank forecasts unemployment to rise, real wages to lag behind persisting inflation<sup>81</sup> and the economy to stagnate.<sup>82</sup> This is a perfect opportunity for discounters (Davids) to challenge traditional retailers (Goliaths), as after all, a weekly shop is where customers have more control over their budget.

This paper explores some of the unintended consequences of changes to retailers' pricing strategies:

- Why low-price is not the only consideration for customers.
- How short-sightedness now, can cost Goliaths in the future.
- Why losing the value-equation equilibrium could be the death knell for both consumer brands and Goliaths.

A multi-pronged approach, tailored to customers' unique value needs, is key to optimising pricing strategy that maximises the "three-way win". The following strategies must be combined for success: Key Value Items, Value-Based Pricing, and a Loyalty Program.

Three factors are critical to implementing the recommendation:

1. Pricing must be part of a wider customer value strategy.
2. Goliaths must be able to execute the plan.
3. Long-term partnerships and evolution from item to portfolio management.

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<sup>78</sup> <https://hbr.org/2021/07/how-b2b-firms-can-price-with-confidence-as-inflation-rises>

<sup>79</sup> <https://www.mckinsey.com/industries/retail/our-insights/how-retailers-in-europe-can-navigate-rising-inflation?stcr=F85F5D2CBAD04EF4803415B3654CC98D&cid=other-eml-alt-mip-mck&hlkid=4c8b0d7223b3453f93c25dbd56aa8520&hctky=1770917&hdpid=3a008426-d931-4e0a-9eb8-b032f5d8a80e>

<sup>80</sup> Chalmers, J 2023, 'Resilience needed for challenging future', *The Australian*, 9 January, p. 9.

<sup>81</sup> <https://www.abc.net.au/news/2022-11-04/reserve-bank-statement-on-monetary-policy-nov-2022/101616336>

<sup>82</sup> <https://www.westpaciq.com.au/economics/2022/12/video-csi-bill-dec-v2>

## Introduction

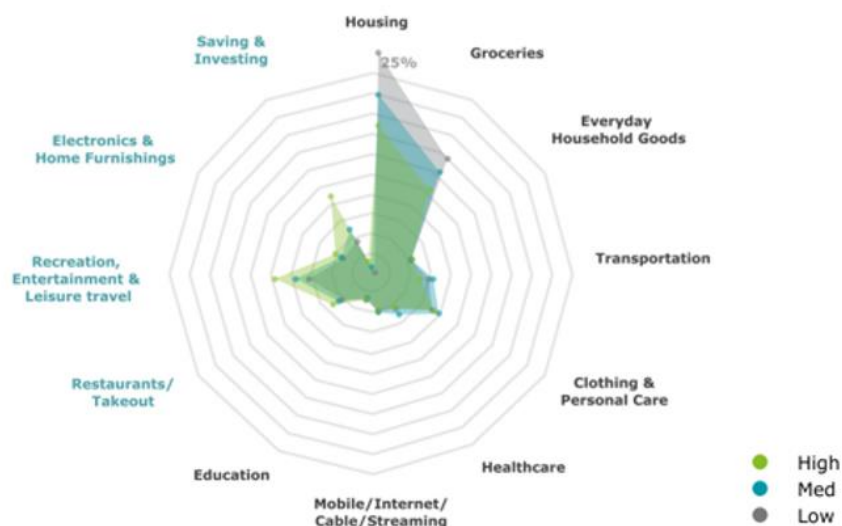
Like in the biblical story of underestimated David vs dominant Goliath, when Aldi and Lidl (Davids) entered the UK in the 90s, British supermarkets (Goliaths) neglected their own operational inefficiencies, entry-level range gaps and wide disparity in price, while branded suppliers perceived private labels as inferior and low-quality. Then, during the 2008 financial crisis, by operating a low-cost model and aligning with changing customer expectations through low-prices, Davids forever revolutionised the UK retail landscape.

History repeats itself in Australia, where decades-high inflation and recession-low consumer sentiment,<sup>83</sup> present an opportunity for the Davids, while the adage of ‘adapt or perish’ has never been truer for the Goliaths.

The unique aspect of current inflation is sustained high-aggregate demand,<sup>84</sup> driven by historically low unemployment<sup>85</sup> and increased post-pandemic household savings.<sup>86</sup> The resulting strong demand has allowed businesses to pass-on rising costs to customers,<sup>87</sup> thereby contributing further to inflation.<sup>88</sup>

Due to declining real wages compounded with fast-rising interest rates, housing and groceries will take a disproportionately larger portion of lower-income consumers' budgets (Figure 1).<sup>89</sup> With the cumulative impact of the “lag effect” yet to hit the grocery market mid-year 2023,<sup>90</sup> it's a “tale of two cities”,<sup>91</sup> where premium customers keep spending, while mainstream ones face increasing pressure, and budget customers are forced to choose between necessities and wants.<sup>92</sup>

Figure 1 Share of Wallet by Income, Australia, December 2022



<sup>83</sup> <https://www.roymorgan.com/findings/anz-roy-morgan-consumer-confidence-virtually-unchanged-at-87-7-in-second-week-of-january-highest-since-september-2022>

<sup>84</sup> Johnston, E 2023, 'CEOs speak out: five big lessons of profit season', *The Australian*, 27 February, p. 13,17.

<sup>85</sup> <https://www.abs.gov.au/statistics/labour/employment-and-unemployment/labour-force-australia/latest-release>

<sup>86</sup> <https://www.ft.com/content/837c3863-fc15-476c-841d-340c623565ae>

<sup>87</sup> <https://www.forbes.com/sites/erolschweizer/2022/12/18/why-the-federal-reserve-cant-solve-food-price-inflation/?sh=60328a563bbb>

<sup>88</sup> <https://www.theguardian.com/business/2022/oct/16/us-inflation-federal-reserve-interest-rate-hikes>

<sup>89</sup> <https://www2.deloitte.com/us/en/insights/industry/retail-distribution/consumer-behavior-trends-state-of-the-consumer-tracker.html>

<sup>90</sup> <https://mozo.com.au/online-shopping/aussie-retail-spending-surges-over-holidays-but-what-s-next>

<sup>91</sup> <https://www.afr.com/chanticleer/what-27-ceos-taught-me-about-the-economy-and-profits-20230224-p5cngb>

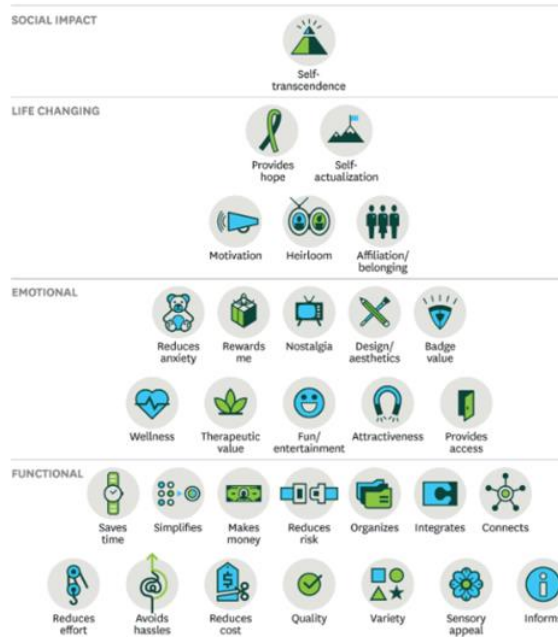
<sup>92</sup> <https://www.mckinsey.com/featured-insights/sustainable-inclusive-growth/future-of-america/rise-of-the-inclusive-sustainable-consumers>

### Value-Equation – Are all Customers at Risk?

Price will gain importance across all income segments, being a particularly dominant factor for lower-income households. Like Maslow's hierarchy, higher levels of value become less significant for customers who struggle to fulfil basic needs (Figure 2).<sup>93</sup>

Figure 2 The Elements of Value Pyramid

Products and services deliver fundamental elements of value that address four kinds of needs: functional, emotional, life changing, and social impact. In general, the more elements provided, the greater customers' loyalty and the higher the company's sustained revenue growth.



Values, such as access to healthy and sustainable living, convenience, quality of service or frictionless experience are still part of customers' aspirations.

Value is not solely defined by price, regardless of income, and a broader set of variables must be factored. To remain relevant, brands and retailers must understand what value means to customers, especially as budgets shrink and consumer bifurcation accelerates. Targeting the right segment with the right value proposition is crucial for tenable pricing.<sup>94</sup>

For Goliaths, all customers are at risk, be it trading down within the category (sales and profit risk), shopping across retailers (share of wallet risk) or trading out of the retailer (customer-loss risk). Goliaths must ensure that the difference between the value they offer and the price they charge exceeds the next best alternative, the Davids' (Figure 3).<sup>95</sup>

Figure 3 Customer Value Relativity

$$(VALUE_G - PRICE_G) > (VALUE_D - PRICE_D)$$

G – Goliaths D – Davids

<sup>93</sup> <https://hbr.org/2016/09/the-elements-of-value>

<sup>94</sup> [https://www.bain.com/about/media-center/press-releases/2020/its\\_not\\_all\\_about\\_the\\_money\\_amid\\_growing\\_ranks\\_of\\_lower\\_income\\_households\\_consumer\\_centric\\_companies\\_need\\_to\\_improve\\_their\\_value\\_for\\_price\\_proposition/](https://www.bain.com/about/media-center/press-releases/2020/its_not_all_about_the_money_amid_growing_ranks_of_lower_income_households_consumer_centric_companies_need_to_improve_their_value_for_price_proposition/)

<sup>95</sup> <https://hbr.org/1998/11/business-marketing-understand-what-customers-value>

*“Loyalty in retail is simply the absence of something better.  
When they find it, they’re gone.”<sup>96</sup>*

## The Hidden Price of Pursuing Perfect Prices

To remain relevant, Goliaths and brands need to address the enduring change in customer value expectations rather than the temporary margin squeeze.

### Navigating the Present while Securing the Future

In times of business stress, companies may resort to cost-saving measures or investment cuts. However, Goliaths must not compromise the unique selling value proposition, such as choice and quality, or impair the customer experience, like convenience and availability. If implemented ineffectively, they risk greater exposure to the dimension Davids do best, no-frills, and low-price.

To ensure enduring success, Goliaths should draw a lesson from the 2008 financial crisis by focusing on medium to long-term market-share growth and investing in transformation, rather than cut spending.<sup>97</sup> The ever-changing market conditions will require Goliaths to develop new competitive advantages directly translating to additional customer value or enabling sustainable investment in future value expansion. Examples of both include affordable sustainability,<sup>98</sup> supply chain and online fulfilment efficiency improvements,<sup>99</sup> leveraging existing assets through B2B channels<sup>100</sup> or creating new revenue streams like retail media.<sup>101</sup> The latter initiatives not only provide better customer experiences but also unlock monetization of the entire ecosystem.

### The Tug-of-War between Balancing Cost and Value-Equation

To stay viable, businesses are forced to pass the cost-pressures to customers. But to maintain customer value equilibrium, a price change should be followed by an addition of value. Due to the imbalance, 66% of consumers have forsaken brand loyalty in favour of purchasing the cheapest option available<sup>102</sup> and 56% of customers believe that companies are taking advantage of the situation.<sup>103</sup> Views on whether customers are right or not are irrelevant. The ultimate decision on the fairness of prices rests in their purchasing choices. And that’s a key factor for both brands and Goliaths to consider.

<sup>96</sup> <https://www.pymnts.com/news/retail/2022/walmart-us-chief-to-nrf-loyalty-in-retail-is-the-absence-of-something-better/>

<sup>97</sup> <https://www.mckinsey.com/industries/retail/our-insights/how-retailers-in-europe-can-navigate-rising-inflation?stcr=F85F5D2CBAD04EF4803415B3654CC98D&cid=other-eml-alt-mip-mck&hlkid=4c8b0d7223b3453f93c25dbd56aa8520&hctky=1770917&hdpid=3a008426-d931-4e0a-9eb8-b032f5d8a80e>

<sup>98</sup> <https://www.bain.com/about/media-center/press-releases/2022/retail-sustainability-strategies-lag-as-inflation-threatens-to-pause-investment-and-slow-consumer-interest--bain--company-analysis/>

<sup>99</sup> <https://www.ocadogroup.com/our-solutions/what-is-osp/>

<sup>100</sup> [https://www.mckinsey.com/industries/retail/our-insights/beyond-retail-why-retailers-should-think-services-and-ecosystems?stcr=1CD05795CEED482FBBBAD1899B56283&cid=other-eml-dre-mip-mck&hlkid=e37164ff395944a787bb57a727f067db&hctky=1770917&hdpid=2f694d5c-fc02-44c4-bdf3-b9e36390e09f#/#/](https://www.mckinsey.com/industries/retail/our-insights/beyond-retail-why-retailers-should-think-services-and-ecosystems?stcr=1CD05795CEED482FBBBAD1899B56283&cid=other-eml-dre-mip-mck&hlkid=e37164ff395944a787bb57a727f067db&hctky=1770917&hdpid=2f694d5c-fc02-44c4-bdf3-b9e36390e09f#/)

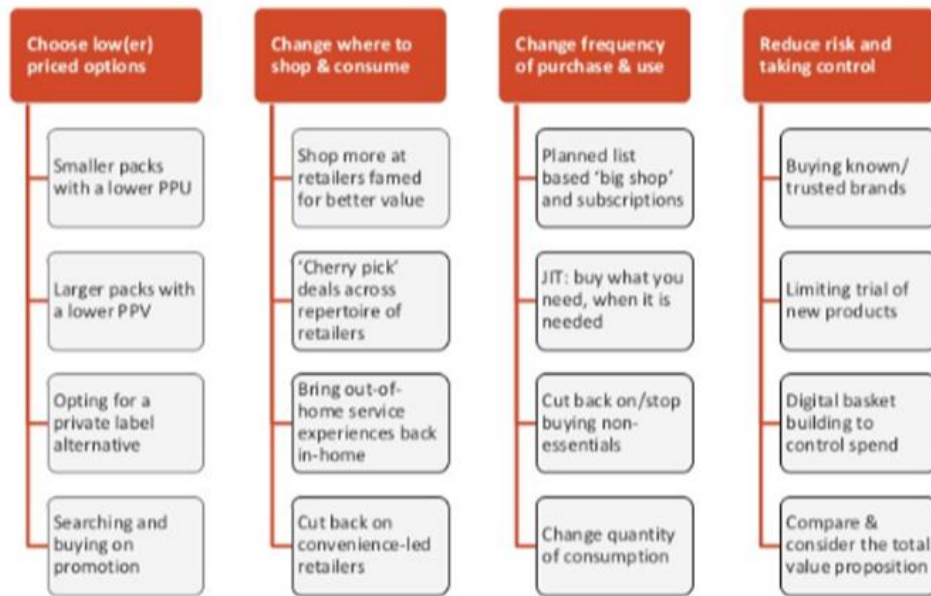
<sup>101</sup> [https://www.ey.com/en\\_gl/consumer-products-retail/retail-growth-through-alternative-revenue-streams](https://www.ey.com/en_gl/consumer-products-retail/retail-growth-through-alternative-revenue-streams)

<sup>102</sup> <https://www.afr.com/policy/economy/as-inflation-bites-brand-loyalty-falls-away-20221111-p5bxeg#:~:text=Australians%20are%20paying%20about%20%24136,prices%2C%20according%20to%20new%20research>

<sup>103</sup> <https://www2.deloitte.com/us/en/insights/industry/retail-distribution/consumer-behavior-trends-state-of-the-consumer-tracker/price-gouging-and-rising-us-inflation.html>

On the back of increased at home consumption, customer frugality might not lead to a drastic, retail-wide volume decline,<sup>104</sup> but come down to how much more customers are ready to spend on staples as they try to stretch their dollar further (Figure 4).<sup>105</sup> Those who fail to get their value-equation right,<sup>106</sup> risk either overpromotion or volume-leakage to other brands, alternatively private labels. As the latter occupy a greater portion of consumers' baskets, it removes branded products as a barrier from switching retailers all together.

Figure 4 Four Themes for Anticipating Inflationary Influenced Behavioural Change



### Pricing Recommendation

Depending on the market context, the importance of purchase driving attributes and customers' distribution along the Value-Equation Line will change (Figure 5).<sup>107</sup> Goliaths must adjust their holistic customer value strategy to factors impacting their price perception, the economy and competitors' price and value positioning.

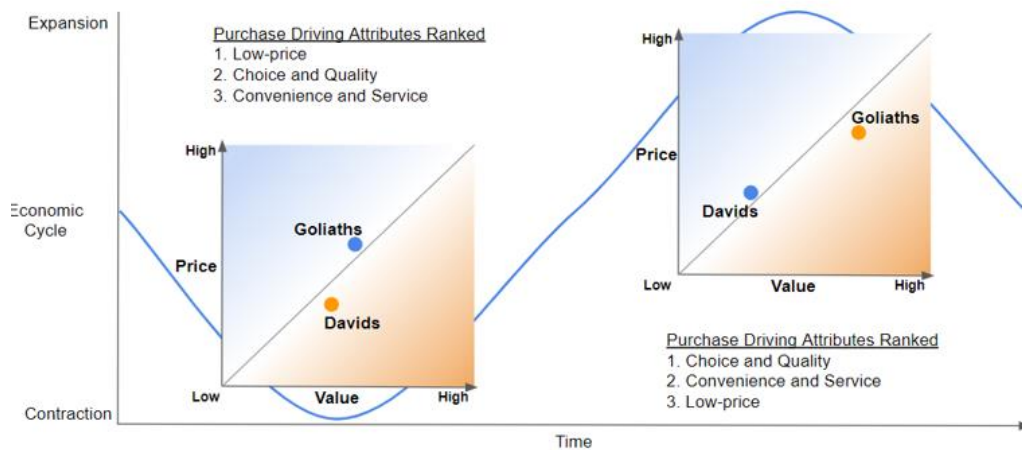
<sup>104</sup> <https://www.mckinsey.com/industries/consumer-packaged-goods/our-insights/uneven-impacts-australian-consumers-and-inflation?stcr=A973388E14F94B0394423B1728748BF5&cid=other-eml-alt-mip-mck&hlkid=6fb6256d7738452aa0e6688446bf8a63&hctky=1770917&hdpid=30a50a1e-fff2-4f18-8dd3-8ef6d72b6f2b>

<sup>105</sup> [https://retailworldmagazine.com.au/retail-world-magazine-annual-report-2022-email-non-tob/?utm\\_source=Retail+World&utm\\_campaign=91d195432e-EMAIL\\_CAMPAIGN\\_2022\\_12\\_15\\_12\\_34\\_COPY\\_01&utm\\_medium=email&utm\\_term=0\\_-](https://retailworldmagazine.com.au/retail-world-magazine-annual-report-2022-email-non-tob/?utm_source=Retail+World&utm_campaign=91d195432e-EMAIL_CAMPAIGN_2022_12_15_12_34_COPY_01&utm_medium=email&utm_term=0_-)

<sup>106</sup> <https://hbr.org/2022/03/talking-to-your-customers-about-prices>

<sup>107</sup> Adapted based on: <https://www.mckinsey.com/capabilities/growth-marketing-and-sales/our-insights/setting-value-not-price>

Figure 5 Example of Value Position Changes through an Economic Cycle

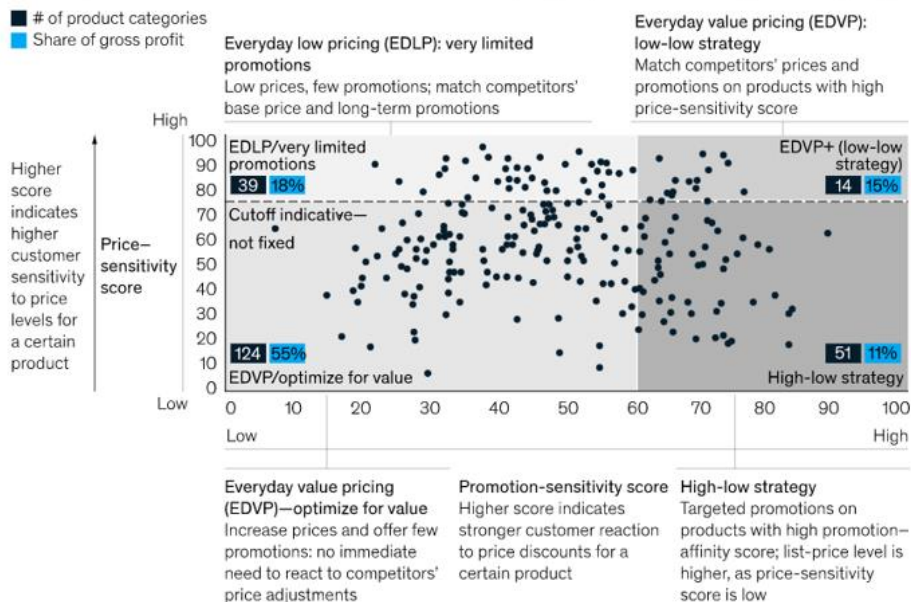


The recommended strategy, optimised for market resilience and delivering the “three-way win”, consists of three components:

**Key Value Items (KVI)**

Through KVI Goliaths will stay laser-focused on providing a competitive offer across ~20% of ranged products with the greatest impact on price perception. The KVI can be identified by high frequency of purchase, known-price and high price elasticity.<sup>108</sup> Goliaths’ must actively manage their price perception, by offering competitive, seasonally-relevant everyday low prices (EDLP) mixed with a low-low promotional strategy on products with high promotion elasticity (Figure 6).<sup>109</sup>

Figure 6 Example of Price-Promotion Matrix Identifying Optimal Pricing Strategy by Product



<sup>108</sup> <https://www.mckinsey.com/industries/retail/our-insights/how-retailers-can-drive-profitable-growth-through-dynamic-pricing>

<sup>109</sup> <https://www.mckinsey.com/capabilities/growth-marketing-and-sales/our-insights/pricing-and-promotions-the-analytics-opportunity>

By providing the same value through price on the range that is most meaningful to customers, Goliaths successfully neutralise Davids' greatest customer promise, low-price.<sup>110</sup>

### Value-Based Pricing (VBP)

VBP strategy expands the value proposition beyond price through additional product attributes. However, Goliaths' prices should still be competitive enough to avoid any negative impact on customers' price perception.<sup>111</sup> Effective combination of everyday value pricing and high-low promotional strategy across the remaining ~80% of the range (Figure 6)<sup>112</sup> will unlock the investment needed to balance the usually lower-margin, traffic-driving KVI strategy.<sup>113</sup>

Goliaths offer a range that low-cost models cannot match. By leveraging greater price-coverage and right-price pack architecture (PPA), Goliaths unlock the opportunity to capture premium customers trading down from specialty stores. Furthermore, they slow down the negative implications of the "disappearing middle", by providing customers with more options to trade-down while retaining them in the store.<sup>114</sup> For that, Goliaths have two options:

- Partner with a branded supplier on delivering a more comprehensive tiered-PPA with low-priced options.
- Develop a tiered private label range (Figure 7).<sup>115</sup>

Figure 7 Example of Tiered Private Label Strategy, ASDA, UK



<sup>110</sup> <https://www.bain.com/insights/the-pricing-is-right-lessons-from-top-performing-consumer-companies/>

<sup>111</sup> <https://www.mckinsey.com/capabilities/growth-marketing-and-sales/our-insights/pricing-and-promotions-the-analytics-opportunity>

<sup>112</sup> Ibidem

<sup>113</sup> <https://www.mckinsey.com/industries/retail/our-insights/how-retailers-can-drive-profitable-growth-through-dynamic-pricing>

<sup>114</sup> <https://www2.deloitte.com/us/en/insights/industry/retail-distribution/consumer-behavior-trends-state-of-the-consumer-tracker/price-gouging-and-rising-us-inflation.html>

<sup>115</sup> <https://www.asda.com/about/own-brands>

## Loyalty Program

"Incentivised loyalty" is on the rise in Australia, with discounts and rewards being key motivators.<sup>116</sup> Goliath's broad customer base makes increasing the above-the-line promotional plans unsustainable nor tailored enough to drive customer satisfaction. Through loyalty programs, Goliaths can offer customers personalised value and the most relevant combination of price, product, and service. Goliaths should keep their loyalty programs as below-the-line, targeted offers, making it more challenging for Davids to measure or create a competitive response.

Interestingly, 60% of customers are willing to pay a premium for enhanced loyalty status.<sup>117</sup> Provided being matched with sufficient incentives, the recent introduction of subscription-based tiered loyalty programs that utilise value of the ecosystem<sup>118</sup> is another way of tightening the bond with customers.

### Critical Factors

The recommended strategy hinges on three components:

#### Holistic Customer Value Strategy

When in 2010 Coles launched their "Down-Down" program, the retailer's market-share skyrocketed. Meaningful price reductions drive short-term performance but on their own are also relatively easy to copy by competitors. Customers are clear that value through price is a ticket to the game and what they expect "is way beyond low-price".<sup>119</sup>

Pricing strategy needs to stay true to the retailer's brand and overall customer value strategy. Without a clearly defined value proposition that aligns with customers' expectations, pricing strategy alone will not be able to salvage Goliaths' market-share.

Price perception is as important as the pricing strategy itself and is influenced by factors beyond just price, such as marketing or in-store execution. Goliaths need to ensure that they serve and communicate with customers more broadly through a unified approach and simple messaging across all parts of the organisation, including supplier partners.

#### Execution Capability

To execute the recommendation, Goliaths will need to exhibit a real customer centricity, by taking an integrated and data-driven approach to pricing. That involves investment in advanced capabilities like promotional effectiveness, competitive benchmark data, insights on customers' value expectation, and a solid reading of consumers' price perceptions (Figure 8).<sup>120</sup>

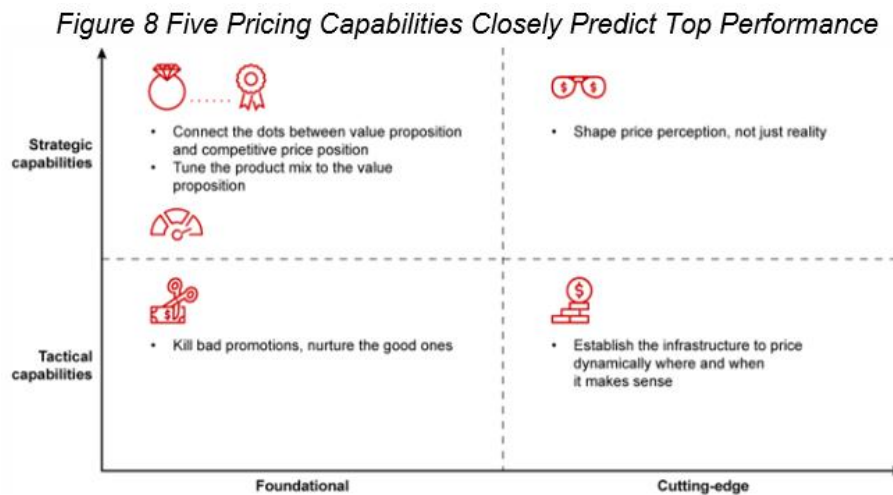
<sup>116</sup> <https://www.afr.com/policy/economy/as-inflation-bites-brand-loyalty-falls-away-20221111-p5bxeg#:~:text=Australians%20are%20paying%20about%20%24136,prices%2C%20according%20to%20new%20research>

<sup>117</sup> <https://www.mckinsey.com/industries/retail/our-insights/introducing-the-australian-consumer-loyalty-survey?stcr=A463D3EF7D0E4DE7AD8A4C6D9728BCEE&cid=other-eml-alt-mip-mck&hlkid=2982e224b03e45bcb88a5ab5fb4c5084&hctky=1770917&hdpid=30a50a1e-fff2-4f18-8dd3-8ef6d72b6f2b>

<sup>118</sup> <https://www.woolworthsrewards.com.au/extra.html>

<sup>119</sup> <https://www.smh.com.au/business/companies/down-down-but-not-out-coles-thinks-it-s-onto-a-good-thing-with-new-ads-20180306-p4z31b.html#:~:text=%22Down%20Down%22%20launched%20in%202010,at%20the%20expense%20of%20quality>

<sup>120</sup> <https://www.bain.com/insights/the-pricing-is-right-lessons-from-top-performing-consumer-companies/>



To fortify their position further, Goliaths should develop business intelligence that would proactively target customers based on competitive vulnerability, be it through new KVI proposition, above-the-line promotion or targeted loyalty offer.

By embracing advanced analytics, Goliaths will not only increase their revenue and customer loyalty, but also provide their suppliers with data-based volume certainty, and transparency on marketing and promotional spend effectiveness.

### Long-Term Partnerships

Today's UK Goliaths lost their brand identity focusing too much on replicating Davids. Relying solely on private labels (20-30% of the range) to compete with Davids is a missed opportunity. Australian Goliaths should follow Edeka and Rewe, successfully leveraging a mixed strategy using competitive private labels and variety through brands. Meanwhile suppliers will have to manage - the temptation of short-term job buy volume certainty with Davids, who range 80-90% own labels and long-term sales risk from 70-80% branded portfolio of the Goliaths.

To implement the recommendation, Goliaths must form a number of long-term partnerships focused on matching their holistic value proposition with evolving customer value expectations, whether through new product development, EDLP, promotion or customer activations. However, those strategic partnerships must be mutually beneficial, involve greater transparency and evolve from siloed item performance management towards a total vendor portfolio management. That applies to both suppliers and Goliaths and involves balancing key performance indicators across the whole supplier's portfolio, be it branded or in some cases also private label.

## Conclusion

The multi-pronged approach to pricing forms part of a holistic customer value proposition. The recommended strategy will increase **Goliaths'** revenue on top of improved customer satisfaction and loyalty. Diversification of the strategy will unlock **customer** value through price, greater range-coverage, personalization, and innovation, while driving volume through low-priced ranges without eroding long-term brand value of higher product tiers for the **supplier**.

Despite rising cost-of-living, if brands and Goliaths work together to create mutually beneficial partnerships, they could effectively prevent damaging customer relationships and market-share loss. Now is the time to join forces and dive into the customer data to understand the 'why' behind each customer purchase decision. This could be a step forward towards establishing a culture of collaboration that will last well beyond this or the next inflationary cycle.

# JOE BERRY AWARD 2023

ENTRY – JBA-23-216

**Topic: 4A - Optimizing Retailer Pricing Strategy**

**Presentation #5**

## **Anthony Venuto**

Chapter Lead – Better Buying & Pricing  
7-Eleven Australia



### **Inflation: A Beleaguered Pricing Manager's Guide**

Inflation crisis. Consumer despair. What strategies are available to a *beleaguered pricing manager* wishing to protect share sustainably?

\*\*\*

High inflation was almost a foreign concept – the current level has not been witnessed in a generation and is expected to persist for another 12-18 months. History indicates inflation is routinely followed by economic slowdown. Accordingly, consumers and retail decision-makers alike face new and complex trade-offs. Consumers are already actively seeking bargains and trading down to cheaper substitutes, reinforced by mortgage pressure, rising energy prices and cost of living concerns. Conventional thinking suggests discounters have a competitive advantage to grow share in a slowing economy. In response, traditional retailers need to invest in smarter pricing strategies. This does not simply mean mere price-down investment, which in isolation, in an environment of rising costs, is profitability dilutive and potentially commercially irresponsible. Rather, to sustainably optimise pricing to protect share, maintain margin, and better curate supplier partnerships, *our beleaguered pricing manager* should adopt five strategies:

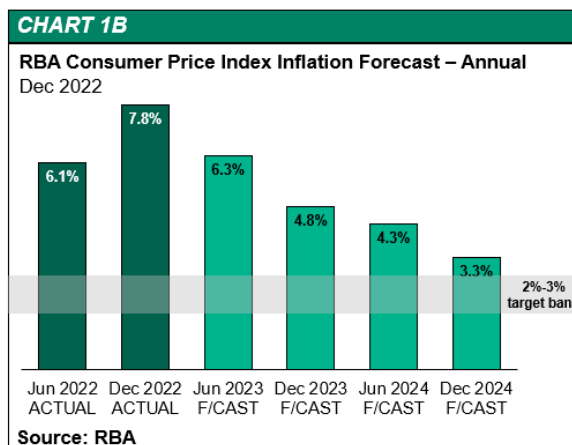
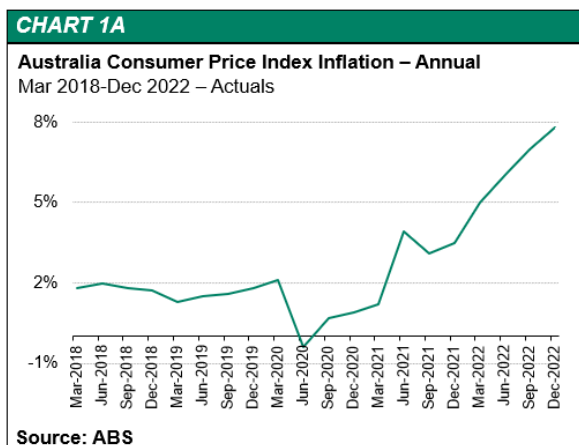
- i) Reassess and personalise price investment;
- ii) Selective pricing by geography;
- iii) Consumer data insights;
- iv) Communicate value and brand;
- v) Combat product costs and vendor management.

This approach can propel the traditional retailer from playing reactionary defence, to instead become an industry benchmark.

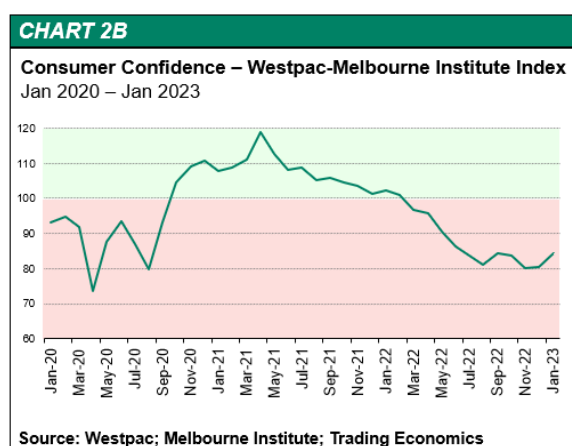
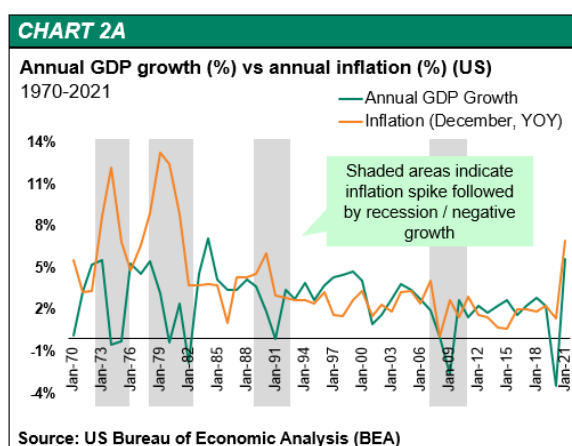
## Inflation, the economy and consumer reaction

### Inflation and the economy

European conflict and energy shortages sparked the global inflation tinderbox of loose fiscal policy, ultra-low interest rates and COVID-19 supply shocks. Australia is not immune. *Chart 1* depicts inflation’s rise<sup>121</sup> and expected medium-term persistence.<sup>122</sup>



Historically, high inflation generally precedes economic slowdown. Australia has not experienced an inflation-recession cycle in more than a generation, so alternately, we look to the US example where every major recent inflation period has preceded recession (*Chart 2A*).<sup>123</sup> As of late 2022, in the US, there was already evidence of consumers behaving as if in recession.<sup>124</sup> Relatedly, Australian consumer confidence significantly declined during 2022-23 (*Chart 2B*).<sup>125</sup> Therefore, when 800,000 fixed rate mortgages switch to variable by mid-year<sup>126</sup>, household discretionary expenditure will further recede with up to four more cash-rate rises predicted by Deutsche Bank economist Phil O’Donoghoe (January 2023).<sup>127</sup>



<sup>121</sup> ABS, 'CPI', Dec 2022; <https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/consumer-price-index-australia/>

<sup>122</sup> Reserve Bank of Australia, 'Economic Outlook', Nov 2022; <https://www.rba.gov.au/publications/smp/2022/nov/overview.html>

<sup>123</sup> US Bureau of Economic Analysis (BEA), 'GDP, 2022'; <https://www.bea.gov/data/gdp/gross-domestic-product>

<sup>124</sup> A. Ruvio & F. Morgeson – Michigan University, 'Retailers may see more red after Black Friday as consumers say they plan to pull back on spending', Nov 2022;

<sup>125</sup> Westpac Confidence Index, Jan 2023; <https://tradingeconomics.com/australia/consumer-confidence>

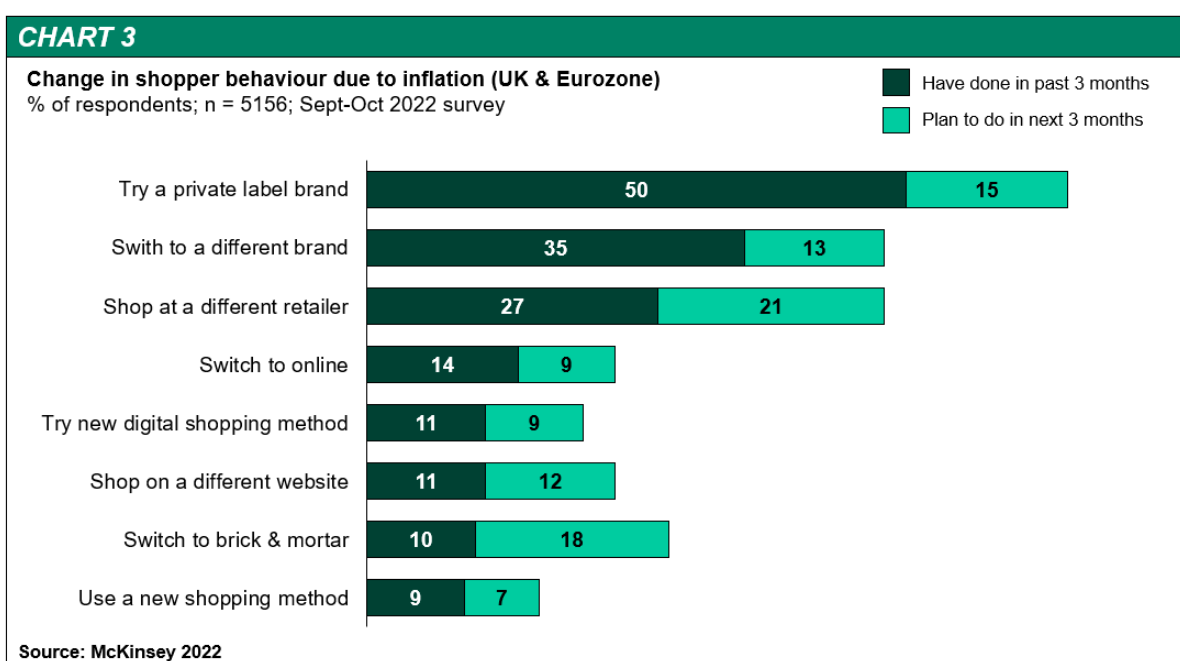
<sup>126</sup> M. Kohler – RBA, Senate Committee Cost of Living, Jan 2023;

<sup>127</sup> Forbes, 'Four More Hikes by August, Jan 2023, '<https://www.forbes.com/advisor/au/personal-finance/interest-rate-news/>

While a slowdown is probable, Australia is insulated from technical recession. There is close to full employment<sup>128</sup> and a moderate growth forecast from the RBA<sup>129</sup> (despite wages lagging inflation). Furthermore, economy-sensitive retail and consumer stocks have rebounded, indicating market positivity.<sup>130</sup>

### Consumer reaction

Media hyperbole and cost of living realities dramatically impact the consumer psyche. In the consumer choice hierarchy, price is likely to be a decisive factor at the expense of convenience and quality.<sup>131</sup> *Chart 3* shows consumers are likely to trade down to cheaper substitutes and private label, and switch channels and brands – with 80% of recently surveyed respondents indicating material behavioural changes in response to inflation.<sup>132</sup>



Prima facie, these conditions play to discounters' inherent strengths. How can traditional retailers respond?

### Five high inflation strategies

#### 1) Reassess and personalise price investment

Consumers are seeking bargains and becoming increasingly price-savvy. *Our beleaguered pricing manager* will need to convince their business to become

<sup>128</sup> ABS, 'Labour Force, Australia', Dec 2022; <https://www.abs.gov.au/statistics/labour/employment-and-unemployment/labour-force-australia/dec-2022>

<sup>129</sup> Reserve Bank of Australia, 'Economic Outlook', Nov 2022; <https://www.rba.gov.au/publications/smp/2022/nov/overview.html>

<sup>130</sup> J. Thomson - AFR, 'Myer, Block and the market's big punt on consumers', Jan 2022; <https://www.afr.com/chanticleer/two-key-lessons-for-investors-as-myer-shares-leap-20230124-p5cf4sv>

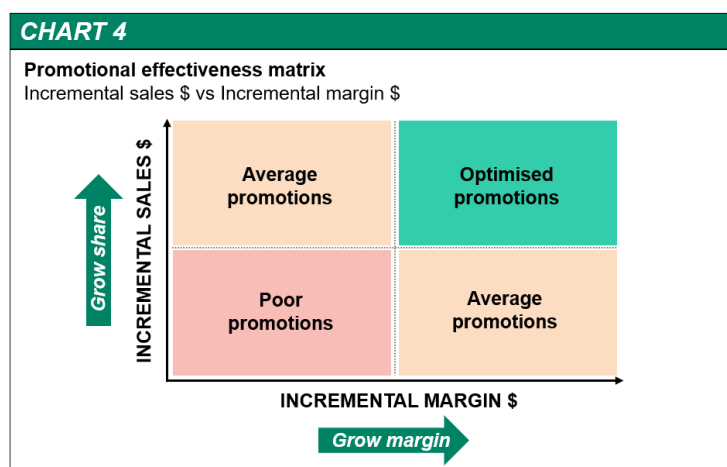
<sup>131</sup> Retail Economics, 'Top 5 strategies for retailers & brands to combat rising inflation & operating costs', 2022; <https://www.retail-economics.co.uk/retail-insights/thought-leadership-reports/top-5-strategies-for-retailers-and-brands-to-combat-rising-inflation-and-operating-costs>

<sup>132</sup> McKinsey & Co, 'How Retailers in Europe can Navigate Rising Inflation', Dec 2022; <https://www.mckinsey.com/industries/retail/our-insights/how-retailers-in-europe-can-navigate-rising-inflation>

smarter with price investment to protect share.<sup>133</sup> For promotions, traditional retailers should:

- *Excite customers* with impactful but selective deep discount promotions on key value products,<sup>134</sup> to differentiate versus everyday low-price (EDLP) discounters (i.e. Aldi);
- *Pull back* on some promotions for products exposed to very high inflation to manage mix and margin as an alternative to blanket price increases<sup>135</sup>;
- Institute an advanced analytics *promotion optimisation engine*;
- *Go granular and personalise* promotions based on willingness-to-pay, utilising the insights and customer proximity of a loyalty program.<sup>136</sup>

Even retailers with pre-existing promotions engines will benefit from *personalising* the decision logic. Price-sensitive customers that regularly shop value products are targeted with the best offers, while the engine biases toward margin accretive products for premium shoppers.<sup>137</sup> Accompanying loyalty programs further reinforce this outcome. Sending specific customers tailored loyalty offers at the critical moments that matter, when they are most at risk of switching their spending behaviour, will greatly protect share. Woolworths has recently succeeded with this approach via Everyday Rewards points boosters. These offers bolster promotional effectiveness by growing the number of optimised promotions that drive price perception, share and margin (Chart 4).



Retailers may also consider strengthening customer trust in price via EDLP investments. Coles and Woolworths have introduced new 'price-locked' tickets to demonstrate value by holding a price steady.<sup>138</sup> Incentive tactics like this, or staggering inflation-driven price increases over time to soften their impact, are useful. Where financial constraints allow, selectively dropping shelf prices on some key price

<sup>133</sup> Bain, 'How Retailers Can Rediscover the Skill of Taming Inflation', May 2022; <https://www.bain.com/insights/how-retailers-can-rediscover-the-skill-of-taming-inflation/>

<sup>134</sup> McKinsey, 'How Retailers and Shoppers are Weathering Holiday Inflation', Nov 2022; <https://www.bain.com/insights/how-retailers-shoppers-weathering-holiday-inflation/>

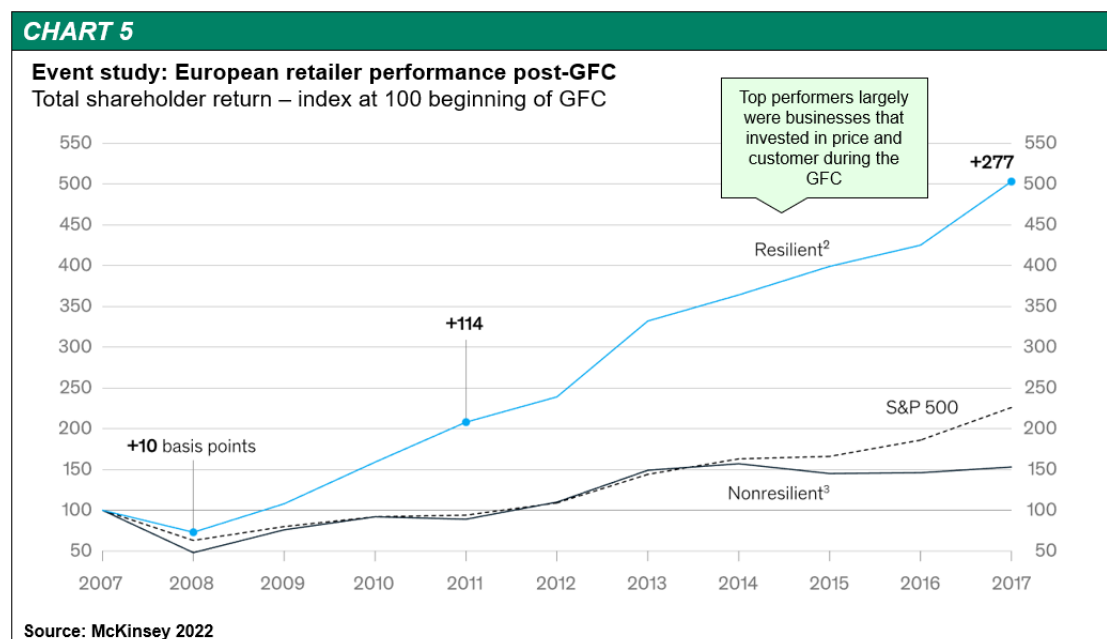
<sup>135</sup> Ibid, as above

<sup>136</sup> McKinsey, 'Navigating Inflation in Retail: Six Actions for Retailers', Jun 2022; <https://www.mckinsey.com/industries/retail/our-insights/navigating-inflation-in-retail-six-actions-for-retailers>

<sup>137</sup> Bain & Co, 'How Retailers Can Re-Discover the Skill of Taming Inflation', 2022, <https://www.bain.com/insights/how-retailers-can-rediscover-the-skill-of-taming-inflation/>

<sup>138</sup> E. Koehn – Sydney Morning Herald, 'Supermarkets Embrace Price Locks But How Long Will They Last', Oct 5 2022

perception forming products is central to defence against discounters. As per *Chart 5*, McKinsey analysed retailers post the GFC economic downturn, and those that invested in price, market share, and growth, outperformed competitors.<sup>139</sup>



Whether via high-low promotions, loyalty offers, and/or EDLP, a heightened value focus during economic downturn is crucial to defending share. However, investment must consider margin and retailers should seek supplier funding. Competitor responses should also be modelled to prevent price wars, particularly if exposed to competitor lowest price guarantees like Dan Murphy's or Bunnings.<sup>140</sup>

### II) Selective pricing by geography

Increasing prices is inevitable during high inflation periods. Doing so selectively, with surgical precision, optimises the price perception and margin trade-off.<sup>141</sup> To become selective retailers can either i) pause price increases on some key lines; or ii) localise price by geography.

Method one, holding back increases on key lines is straight-forward, and impactful to protecting price perception, but also vastly margin dilutive. Method two is a more surgical strategy, selectively adjusting prices by geography in line with customer willingness-to-pay. This is superior to simple, 'blunt' national price increases.

In December 2022, McKinsey described how despite an overall drop in spending in Australia, different consumers responded differently to inflation, especially amongst less price-sensitive consumers insulated from financial stress.<sup>142</sup> Retailers need to

<sup>139</sup> McKinsey & Co, 'How Retailers in Europe can Navigate Rising Inflation', Dec 2022; <https://www.mckinsey.com/industries/retail/our-insights/how-retailers-in-europe-can-navigate-rising-inflation>

<sup>140</sup> BCG, 'Crisis Pricing for the Downturn and After', Sep 2009; <https://www.bcg.com/publications/2009/crisis-pricing-for-the-downturn-and-after>

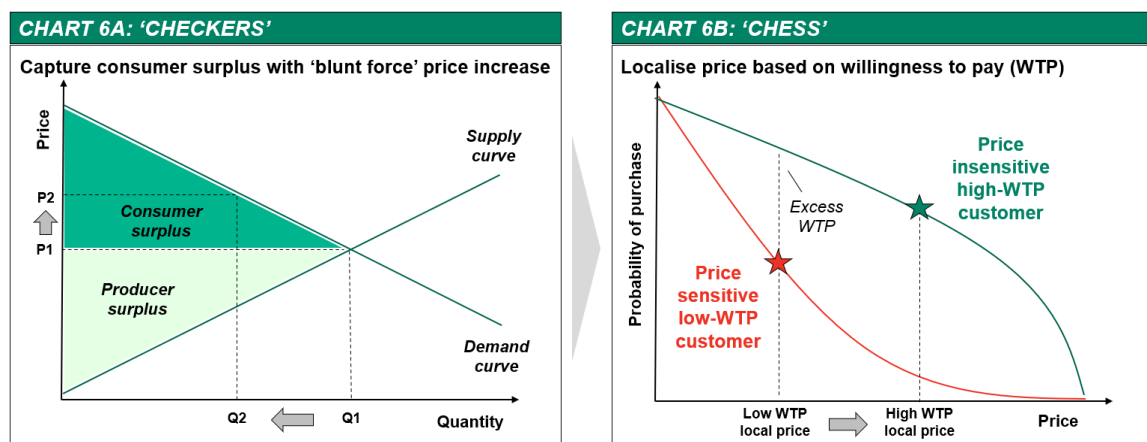
<sup>141</sup> McKinsey, 'How Retailers and Shoppers are Weathering Holiday Inflation', Nov 2022; <https://www.bain.com/insights/how-retailers-shoppers-weathering-holiday-inflation/>

<sup>142</sup> McKinsey, 'Uneven Impacts: Australian Consumers and Inflation', Dec 2022, <https://www.mckinsey.com/industries/consumer-packaged-goods/our-insights/uneven-impacts-australian-consumers-and-inflation>

nuance pricing for this non-homogenous consumer response. So, how does *our beleaguered pricing manager* nuance price by geography as a proxy for customer willingness-to-pay?

An effective approach involves lowering prices in lower affluence areas (informed by census household income data) and/or areas with a higher concentration of nearby competitors. Conversely, higher affluence geographies with lower densities of competitors are more likely to have higher prices. This works for retailers holding large store networks with local rather than broad catchment areas. Extending further, sophisticated, technology-enabled retailers could institute localised pricing with store-level elasticity informed regression modelling.

The localised approach is demonstrated below. *Chart 6A ('Checkers')*, is reminiscent of Economics-101 – price changes with one market price. *Chart 6B ('Chess')* depicts various price points according to different willingness-to-pay,<sup>143</sup> enabling investment or holding back increases for specific price-sensitive geographies.



Localised price does not suit all retailers. Supermarkets actively chose State-based and national prices to build customer trust. However, convenience and specialty retailers have greater permission to implement a localised strategy. McDonalds is one consumer business successfully adopting this approach in Australia. Nevertheless, these retailers should exempt breaking national prices on hero products with price points known well to customers.

### III) Consumer data insights

*"The retailers best placed to thrive during this period of surging prices are customer-obsessed, driven by data in their decisions" – Bain<sup>144</sup>*

Whether by enhancing and personalising promotions (*Section I*), or localising price changes (*Section II*), retailers need to boost pricing smarts in this environment. These 'smarts' are enabled by getting closer to the customer, specifically, deconstructing willingness-to-pay between segments.<sup>145</sup> Knowing which products impact price

<sup>143</sup> T. Stobierski – Harvard Business School, 'Willingness to Pay: What it is and how to Calculate it', Oct 2020; <https://online.hbs.edu/blog/post/willingness-to-pay>

<sup>144</sup> Bain & Co, 'How Retailers Can Re-Discover the Skill of Taming Inflation', May 2022, <https://www.bain.com/insights/how-retailers-can-rediscover-the-skill-of-taming-inflation/>

<sup>145</sup> Ibid, as above

perception is vital to knowing where to invest in defence against discounters. Maximising uplift from personalised and localised promotions requires intimate knowledge of shopper behaviour and mission.

Acquiring this knowledge generally requires some lead time and investment into loyalty programs, advanced analytics, and tracking customer transaction data along the ecosystem. Businesses experiencing high inflation that have not made these investments will be inhibited. Regardless, all retailers will benefit from refreshing their understanding of consumer decision-making, including the role of price, via choice-modelling insights research.<sup>146</sup> At the least, retailers should boost tracking customer price perception and price indexing versus competitors.

#### IV) Communicate value and brand

*Our beleaguered pricing manager's* best friend is the marketing manager. Value messaging is difficult in this climate, albeit essential, along with reminding customers why they love your brand.<sup>147</sup> Unilever CEO Alan Jope contends advertising spend must be maintained if inflation is threatening brand health.<sup>148</sup> For example, in this high inflation period, Lidl Switzerland launched its 'typical Lidl campaign' to educate customers on value versus competitors.<sup>149</sup> Communicating value can also extend beyond price, and can be informed by quality, service, and experience.

Category, marketing, and pricing teams should tailor the trade plan to underline value messaging. Bargain-seeking consumers are swayed by meaningful price offers even if on just a select few hero products – especially true when activated well, in-store and online, and when supplemented with strong advertising campaigns.<sup>150</sup> Collaborative, like-minded suppliers also choosing to invest in their brands despite inflation should be prioritised in these activations.

#### V) Combat product costs and vendor management

The strategies proposed above suggest investing in promotions and advertising while exercising caution with blanket price increases. So, how will this investment be funded? A business-wide cost campaign is advisable – and *our beleaguered pricing manager* should increase attention on combatting supplier product cost increases.

As customer agents, retailers should direct significant resources at a cost-of-goods-sold (COGS) program to deliver savings that can be reinvested into price. McKinsey

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<sup>146</sup> Ibid, as above

<sup>147</sup> Retail Leader, 'How are Consumers Responding to Inflation', Sep 2022; <https://retailleader.com/how-are-consumers-responding-inflation>

<sup>148</sup> Raconteur, 'Inflation Forces Brand to Rethink Advertising Spend', Mar 2022; <https://www.raconteur.net/marketing-sales/inflation-brands-rethink-ad-spending/>

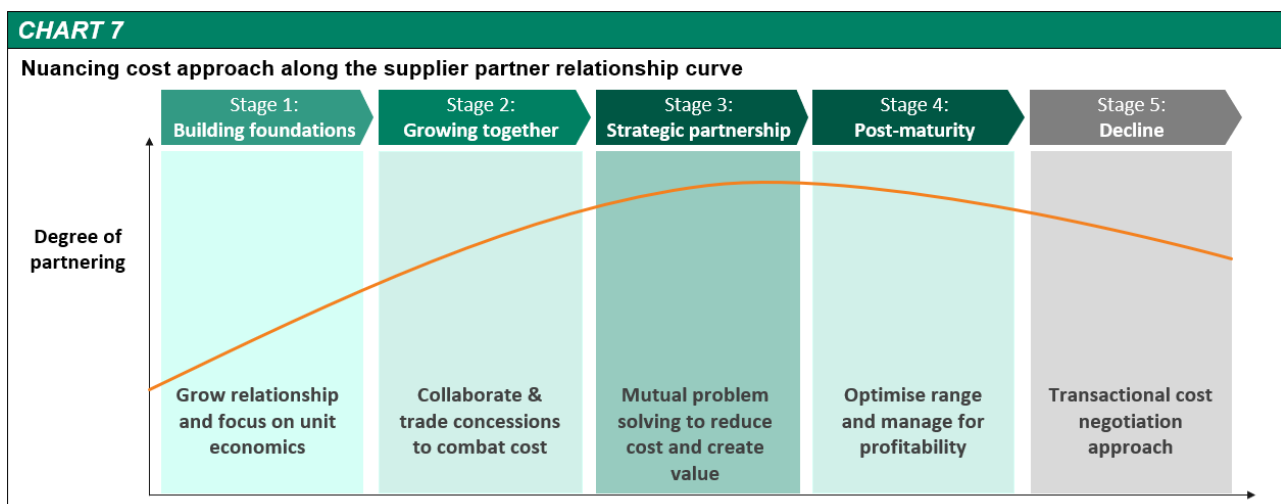
<sup>149</sup> McKinsey & Co, 'How Retailers in Europe can Navigate Rising Inflation', Dec 2022; <https://www.mckinsey.com/industries/retail/our-insights/how-retailers-in-europe-can-navigate-rising-inflation>

<sup>150</sup> McKinsey, 'How Retailers Can Improve Price Perception – Profitably', Nov 2016; <https://www.mckinsey.com/industries/retail/our-insights/how-retailers-can-improve-price-perception-profitably>

contends, “by understanding the impact of increases for raw materials on actual cost, companies can have fact-based discussions with suppliers,”<sup>151</sup> which in conjunction with negotiation strategies, can yield material COGS savings. Specific techniques to identify product cost opportunities for supplier discussions include:

- *Scrutinising new cost increases* and negotiating those not justified by commodity and supply chain cost movements;
- Identifying *historical* cost increases that *exceeded commodity cost* movements;
- Identifying *supplier portfolios* that are higher cost or *lower profit* than category peer benchmarks;
- *Trading growth and ranging* outcomes with suppliers for *better costs*;
- Identifying *mutual savings* with suppliers including collaboration on raw material strategic sourcing, supply chain optimisation and product re-formulation.<sup>152</sup>

Successful COGS programs adjust the approach according to supplier relationships<sup>153</sup> (see *Chart 7* next page). For strategic partners, the interaction becomes a joint problem resolution exercise, seeking savings for both businesses. Furthermore, agreeing range and distribution extension with partner suppliers can aid economies of scale, which in turn should be invested into lower retail prices. With more transactional suppliers, COGS discussions should involve firmer negotiation and potentially range rationalisation. Any range change should favour private label and entry price point value products.



Supplier cost discussions are challenging, and leaders should be intimately involved to provide direction. While some suppliers will share in the benefits, retailers need to ensure they act conscientiously and balance priorities with reputational risk, particularly with vulnerable suppliers, a balance Coles CEO Steven Cain recently explained:

<sup>151</sup> McKinsey & Co, 'How Retailers in Europe can Navigate Rising Inflation', Dec 2022; <https://www.mckinsey.com/industries/retail/our-insights/how-retailers-in-europe-can-navigate-rising-inflation>

<sup>152</sup> McKinsey & Co, 'How Retailers in Europe can Navigate Rising Inflation', Dec 2022; <https://www.mckinsey.com/industries/retail/our-insights/how-retailers-in-europe-can-navigate-rising-inflation>

<sup>153</sup> S. Gates, 'The Negotiation Book: Your Definitive Guide to Successful Negotiating', 2016

*“We have to look after suppliers – some are doing it tough – and we have to look after our customer[s]... and there’s shareholders to consider.”<sup>154</sup>*

### **Conclusion – Sustainably maintaining a three-way-win.**

Successfully defending share against discounters, during peak inflation, without haemorrhaging profitability, is complex. The five key strategies discussed, strike a balance by: i) investing in price to win with customers; ii) acting selectively to protect margin; and iii) fighting cost and partnering with the right suppliers. This balance enables a three-way customer-retailer-supplier win, ensuring the approach is sustainable.

What is required in conjunction, is a committed and collaborative cross-functional effort. Senior leaders must invest time and establish a price and cost management office. As pivotal customer-retailer-supplier conduits, category managers need to believe in and co-create the pricing response. Furthermore, category, marketing, and operations teams must collaborate on customer value campaigns. Collaboration extends further to partnering with suppliers who share a growth and customer-focused cost optimisation mindset.

At this juncture, convincing business decision-makers to invest in the pricing program, as outlined, will transform our pricing manager from *beleaguered* to *triumphant*. A customer-first pricing mindset, that is cognisant of the financial and supplier trade-offs, is the most sustainable defence against discounters amidst high inflation.

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<sup>154</sup> S. Mitchell – AFR, ‘Food Retailers Need to Tread Carefully as Prices Soar’, Nov 2022; <https://www.afr.com/companies/retail/food-retailers-need-to-tread-carefully-as-prices-soar-20221109-p5bwrp>

# Joe Berry Award 2023

Entry – JBA23-174

**Topic # Q1-A ESG and Sustainable Targets**

**Presentation #6**

**Amy Wagner**

The Arnott's Group  
Director of PR & CX



## EXECUTIVE SUMMARY

Environmental, Social, Governance (ESG) has seen an astronomic rise in recent years with many questioning whether it's a foundational element of the modern-day corporation, a fundamental component of future success, or simply a fad.

This essay evaluates the role of ESG in driving profitable growth across the Australian retail landscape, assessing the most influential competitive unlocks whilst questioning the role of industry alignment.

It will be understood that:

1. The surge in corporate ESG focus will continue.
2. ESG is essential to delivering long-term results; businesses who fail to progress beyond strategy to execution won't survive.
3. Competitive advantage comes not from broad targets, but individualized approaches and ongoing operational integration.
4. The most critical unlock to deliver meaningful change lies in partnerships.

The concluding recommendation is that for retailers and suppliers to drive a line of competition whilst achieving ESG targets, they must ensure their roadmap meets key stakeholder needs, provides differentiation from competitors, and prepares for future operational requirements.

Most businesses will get there eventually if they go it alone. However, the more pertinent question is whether the industry would get there faster if we all work in partnership.

Can a business truly seek profit and help save the planet?

## INTRODUCTION

*“Today’s brands have come to understand that it is not enough to just make profits, expand their market or establish prestige. There is also a moral imperative to demonstrate that a company cares.”* – Matt Friedman, CEO, The Mekong Club<sup>155</sup>

The goal of the modern corporate business? To be profitable and morally just. The way major retail businesses are approaching this is with an emphasis on ESG; a tiny acronym driving significant changes to business operations.

ESG has shifted in recent years from abstract obscurity to everyday corporate vernacular, alongside a misconception that long-term statements of intent will be enough to deliver profitable growth. In fact, 92% of employees lack true understanding of the term.<sup>156</sup>

For most retailers and their suppliers, ESG targets are aligned at an industry level in degree and timeframe, with minor variation on implementation roadmaps.

In the retail industry, which accounts for over \$300B in consumer spending<sup>157</sup> and employs millions of Australians, the efforts to build a more inclusive, sustainable economy are critical, whilst balancing profitable returns.

By pursuing ESG business targets with individualised approaches, businesses will thrive at the bottom line against their competitors, but it may come at a cost of true, meaningful, ESG-led change.

The solution: working differently whilst working together.

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<sup>155</sup> M. Friedman, 2022, Letters: ‘The Importance of Partnering up to Improve Sustainability Efforts’, *South China Morning Post*, 24 April, [www.scmp.com/comment/letters/article/3175152/importance-partnering-improve-sustainability-efforts](http://www.scmp.com/comment/letters/article/3175152/importance-partnering-improve-sustainability-efforts)

<sup>156</sup> SEC Newsgate, 2022, ‘Australia Report’ [www.secnewgate.com/esg-monitor/reports/australia-report-2022/](http://www.secnewgate.com/esg-monitor/reports/australia-report-2022/)

<sup>157</sup> PWC, 2020, ‘Where Next for Retail and Consumer?’, *How the retail and consumer industry can reboot for a post-COVID-19 Australia*, page 2, [pwc-where-next-for-retail-and-consumer.pdf](http://pwc-where-next-for-retail-and-consumer.pdf)

## WHAT IS ESG?

In all its perceived simplicity, ESG is a multi-faceted business framework. It provides quantifiable measurements of a company's impact on society and the environment, using metrics which highlight return and business value.<sup>158</sup>

A more contemporary, more accountable version of 'Corporate Social Responsibility', ESG programs are integrated into a business's risk management strategy and overall value creation for stakeholders. For long-term company growth, they are non-negotiable and non-optional.

The term ESG has grown in prominence over the past 5 years. Executives of US S&P 500 companies mentioned ESG, on average, nine times in quarterly earnings calls in 2022, versus just once, if at all, in 2017.<sup>159</sup>

Once simply considered another risk to be mitigated, ESG is now more commonly appreciated as 'one of the biggest value-creation opportunities of our time'.<sup>160</sup>

**Exhibit 1: Example ESG framework for Corporate Business<sup>1</sup>**



<sup>158</sup> PWC, 2020, 'Where Next for Retail and Consumer?' *How the retail and consumer industry can reboot for a post-COVID-19 Australia*, page 2, [pwc-where-next-for-retail-and-consumer.pdf](https://www.pwc.com/australia/en/issues-and-insights/retail-and-consumer/where-next-for-retail-and-consumer.pdf)

<sup>159</sup> 2022, 'The Fundamental Contradiction of ESG is Being Laid Bare', *The Economist*, 29 Sept, [www.economist.com/leaders/2022/09/29/the-fundamental-contradiction-of-esg-is-being-laid-bare](https://www.economist.com/leaders/2022/09/29/the-fundamental-contradiction-of-esg-is-being-laid-bare)

<sup>160</sup> J. van den Branden, P. de Paepe, M. Deryckere, and Jelle Dhaen, 2023, 'Belgian Companies Use ESG to Create Value and Differentiate', *Bain & Company*, 7 Feb, [www.bain.com/insights/belgian-companies-use-esg-to-create-value-and-differentiate/](https://www.bain.com/insights/belgian-companies-use-esg-to-create-value-and-differentiate/)

## THE CRITICALITY OF KEY STAKEHOLDERS

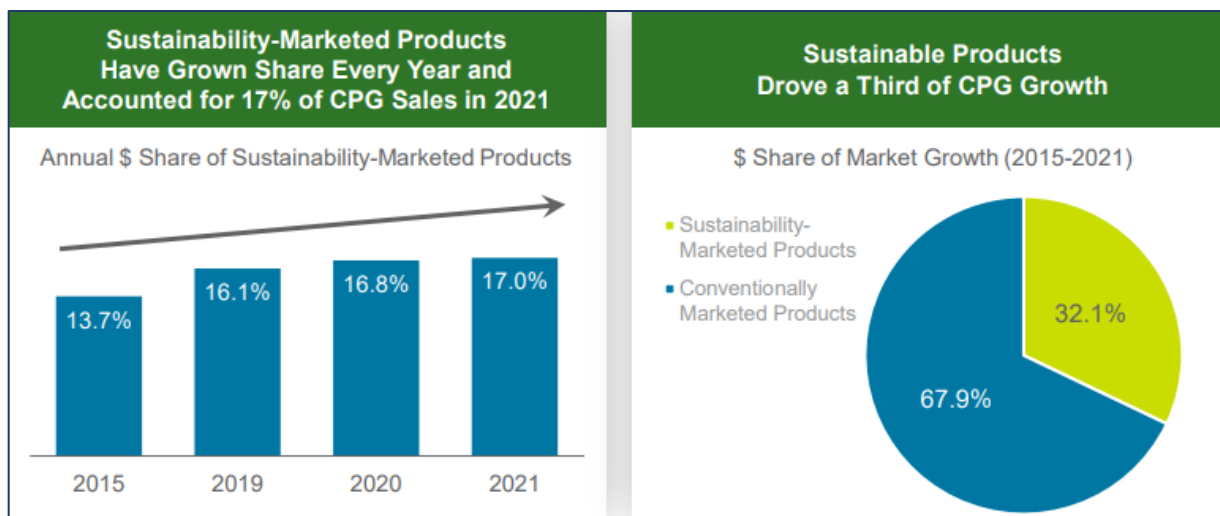
There are four major stakeholders of ESG-led initiatives, who are critical to long-term profitability and unlock true competitive advantage when managed effectively.

### 1. Consumers

Consumers are increasingly demanding a higher standard of sustainable practice, environmental footprint, resource circularity and positive societal impact from the businesses they interact with, especially within CPG sectors.<sup>161</sup>

Importantly, consumers are willing to pay a price premium on sustainability-marketed products, averaging 28% higher expenditure than conventionally marketed products<sup>162</sup>. This purchasing influence over-indexes with Gen-Z / Millennials, with 48% increasing their purchasing of sustainable products in the past 12 months.<sup>163</sup>

**Exhibit 2: Sustainability \$ Sales Trends Across 36 Core Edible and Nonedible Categories, MULO**



Source: IRI POS data for MULO across 36 core categories; Analysis by NYU Stern Center for Sustainable Business

### 2. Employees

The importance of ‘Social’ agendas and its impact on human capital is a critical aspect of ESG, directly correlated to high-quality talent attraction and retention.

<sup>161</sup> Sean Brown (host), 2022, ‘Why ESG is Here to Stay’, *McKinsey & Company Podcast*, 26 May, [www.mckinsey.com/capabilities/strategy-and-corporate-finance/our-insights/why-esg-is-here-to-stay](https://www.mckinsey.com/capabilities/strategy-and-corporate-finance/our-insights/why-esg-is-here-to-stay)

<sup>162</sup> 2021, ‘The Sustainability Imperative in Australian FMCG’, <https://www.iriworldwide.com/en-au/insights/publications/the-sustainability-imperative-in-australian-fmcg>

<sup>163</sup> Ibid.

78% of the millennial employee-base believe companies should be responsible for a better world<sup>164</sup>, with 84% stating this takes precedence over professional recognition in the workplace.<sup>165</sup> Sustainable employees (high performance + good health) are 17% more productive than other employees, and 1.7 times more likely to stay at their organisation.<sup>166</sup>

### 3. Investors

Investor interest in ESG has increased significantly, as evidenced by ongoing growth in sustainability-linked financing.

In Australia, sustainability-linked loans make-up a quarter of the total loan volume, equating to around \$7 billion in the first quarter of 2022\*. Globally, ESG related assets under management (AuM) will soar 84% to US\$33.9 trillion in 2026.<sup>167</sup>

Not only are investors willing to support the business sector's sustainability ambitions, but for many, their access to future financing and therefore growth, will become entirely dependent on their ESG credentials.

### 4. Businesses

Critically, paying attention to ESG does not compromise on value creation. A compelling and differentiated ESG proposition has a direct correlation to higher equity returns, a reduction in risk and delivery of improved cash flow through:<sup>168</sup>

1. Top-line growth
2. Cost reductions (energy, waste)
3. Reduced regulatory intervention
4. Employee productivity and retention
5. Optimized investment & capital

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<sup>164</sup> J, Butler, 2019, 'Like Honey to a Bee – Why do Millennials like Purpose Driven Companies', 26 April, <https://jeffbutler.com/2019/04/26/why-do-millennials-like-purpose-driven-companies>

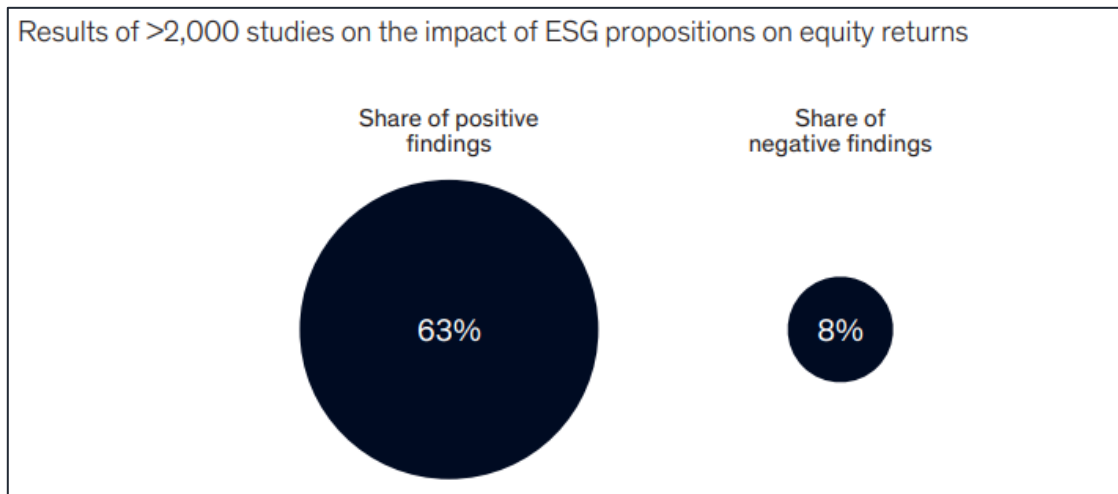
<sup>165</sup> Ibid.

<sup>166</sup> Sari Wilde, 2021, 'How to the Best Managers Improve Employee Performance and Health', Gartner, 8 Nov, <https://www.gartner.com/en/articles/how-the-best-managers-improve-employee-performance-and-health>

<sup>167</sup> 2022, 'Asset and Wealth Management Revolution 2022: Exponential Expectations for ESG' 10 October, <https://www.pwc.com/gx/en/news-room/press-releases/2022/awm-revolution-2022-report.html>

<sup>168</sup> Witold Henisz, Tim Koller, Robin Nutall, 'Five Ways that ESG Creates Value', *McKinsey Quarterly*, November, <https://www.mckinsey.com/~media/McKinsey/Business%20Functions/Strategy%20and%20Corporate%20Finance/Our%20Insights/Five%20ways%20that%20ESG%20creates%20value/Five-ways-that-ESG-creates-value>

**Exhibit 3: Paying attention to ESG concerns does not compromise returns – rather, the opposite.**



### THE CHALLENGE WITH SAME, SAME BUT DIFFERENT

For businesses, there are three stages of ESG integration:<sup>169</sup>

1. Review of Goals and Priorities
  - a. Entry-level integration
  - b. Regulatory and reporting focusedRisks: Greenwashing
2. Operationalizing and Strategic Integration
  - a. Meeting and exceeding regulatory obligations
  - b. Ability to attract green financing
  - c. Clear, aligned targetsRisks: day-to-day integration and retrofitting costs
3. Leading From the Front
  - a. Redesigned business models
  - b. Disruptors and innovators
  - c. Economy-wide impactRisks: initial profitability challenges

<sup>169</sup> 2022, 'Sustainability in Australian Retailers: Time to Level Up', KPMG, 4 April, [Time to level up sustainability in Australian retailers - KPMG Australia](#)

Across Australia, retail businesses have similar long-term ESG targets (straddling Stages 1 and 2) as they balance their appetite to drive profit, access capital and stay competitive whilst their moral compass guides towards a better, more sustainable world.

In 2022, the Australian Retailers Association (ARA) launched a Climate Action Plan, incorporating a net-zero roadmap:<sup>170</sup>

- Net-zero emissions from electricity, by 2030
- Net-zero emissions along the retail value chain, by 2050
  - o incl. upstream from suppliers and downstream from consumers
- Zero waste to landfill, by 2050

40% of retailers have made net-zero commitments by 2050<sup>171</sup>, “a common target across corporate Australia”<sup>172</sup> and reflective of broader global benchmarks.

All major supermarkets have incorporated this into their strategies, with aligned targets and timeframes, particularly on the path to Scope 3 emissions (inclusive of all indirect emissions within a value chain, up and downstream).<sup>173</sup>

#### Exhibit 4: The United Nations Sustainable Development Goals<sup>1</sup>



<sup>170</sup> 2022, 'Road to Net-Zero', Australian Retailers Association, <https://www.retail.org.au/sustainability>

<sup>171</sup> S. Mitchell, 2022, 'The Climate Change Challenge Facing Retailers', Australian Financial Review, 12 May, <https://www.afr.com/companies/retail/the-climate-change-challenge-facing-retailers-20220511-p5akfe>

<sup>172</sup> Kate Easteo, 2022, '2022 Sustainability Report', Woolworths Group, <https://www.woolworthsgroup.com.au/content/dam/wwg/investors/reports/2022/full-year/Woolworths%20Group%20Sustainability%20Report%202022.pdf>

<sup>173</sup> 2023, 'Briefing: What are Scope 3 Emissions?', Carbon Trust, [www.carbontrust.com/our-work-and-impact/guides-reports-and-tools/briefing-what-are-scope-3-emissions](http://www.carbontrust.com/our-work-and-impact/guides-reports-and-tools/briefing-what-are-scope-3-emissions)

Coles has an aggressive goal to become ‘Australia’s most sustainable supermarket’<sup>174</sup> with a commitment to 100% renewable electricity by 2025, zero-waste landfill and net-positive carbon emissions by 2050. A target matched by Woolworths<sup>175</sup>, Wesfarmers<sup>176</sup> and Amazon<sup>177</sup>.

Whilst it is critical that net-zero 2050 targets are aligned to ensure industry-wide accountability, for most major retailers and suppliers their pathway to ESG goals are on par, easy to imitate and lack truly differentiated benefits for key stakeholders.

This will not drive immediate competitive advantage.

In a data analysis of over 4000 global businesses<sup>178</sup>, major organizational sustainability and governance converged in the eight years from 2012 – 2019, indicating a major lack of differentiation in this sector.

**Exhibit 5: Coles ESG statements<sup>1</sup>**

**Exhibit 6: Woolworths ESG Goals<sup>1</sup>**



## THE KEY TO UNLOCKING TRUE ADVANTAGE

### 1. Differentiation

This study suggests that a significant first mover advantage exists for those corporates willing to truly lead from their peers by articulating and, most importantly, delivering on unique ESG objectives.

In times of economic uncertainty, differentiation is even more critical.

<sup>174</sup> 2022, ‘2022 Sustainability Report’, *Coles Group*,

[https://www.colesgroup.com.au/FormBuilder/Resource/module/ir5sKeTxxEOndzd00hWJw/file/Sustainability\\_Report.pdf](https://www.colesgroup.com.au/FormBuilder/Resource/module/ir5sKeTxxEOndzd00hWJw/file/Sustainability_Report.pdf)

<sup>175</sup> Kate Easteo, 2022, ‘2022 Sustainability Report’, *Woolworths Group*,

<https://www.woolworthsgroup.com.au/content/dam/www/investors/reports/2022/full-year/Woolworths%20Group%20Sustainability%20Report%202022.pdf>

<sup>176</sup> 2022, <https://www.wesfarmers.com.au/sustainability>

<sup>177</sup> 2023, ‘Taking Action to Increase our Sustainability’ *Amazon Australia*,

<https://www.aboutamazon.com.au/planet>

<sup>178</sup> George Serafeim, 2020, ‘Social-Impact Efforts That Create Real Value’, *Harvard Business Review*, September-October Edition.

Whilst current inflationary pressures are superseding climate change concerns amongst Australian consumers (65% v 45% are 'extremely concerned'), 81% of shoppers believe climate change is occurring and concerns are up 12pp vs 2020.<sup>179</sup> Even if sustainability takes a slight backseat during this time of turbulence, the impact will be temporary.

During a cost-of-living crisis, winning retail businesses are creating unique benefits coupled with value proposition.

It shouldn't be viewed as an 'either/or'.

➤ *Everyone Gives a Crap*

A winning example is Who Gives a Crap, whose mission is to ensure every person globally has access to a toilet<sup>180</sup>. They offer a product made from 100% bamboo, twice the length of leading brands, delivering price parity for a product which also lasts longer.

## 2. OPERATIONALISATION & PREPARATION

For many retailers, sustainability goals are integrated into core business strategy. However, a critical unlock is integrating ESG into everyday operations, particularly future physical and technological builds.

➤ *Bunnings nailing sustainable expansion.*

For Bunnings, all new store openings include enhanced levels of insulation, energy efficient lighting, on-site solar systems, and internal segregation. At a new store in

Melton East, Victoria Scope 1 emissions have reduced by 32% (vs previous store format) and Scope 2 emissions are 34% lower.<sup>181</sup>

For suppliers, regardless of size, consideration of ESG into future innovations (versus retrofitting) will see long-term cost benefit and progression away from the competitive pack.

In 2021, roughly 50% of new product development in the sector was sustainable, +20pp from 2017, with significant growth in personal care, cosmetics, and meat alternatives.<sup>182</sup> Sales of these products are also growing 2.7x faster in their respective categories.<sup>183</sup>

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<sup>179</sup> 2021, 'The Sustainability Imperative in Australian FMCG', [www.iriworldwide.com/en-au/insights/publications/the-sustainability-imperative-in-australian-fmcg](http://www.iriworldwide.com/en-au/insights/publications/the-sustainability-imperative-in-australian-fmcg)

<sup>180</sup> Who Gives A Crap, 'About Us', <https://au.whogivesacrap.org/pages/about-us>

<sup>181</sup> 2023, 'More Sustainable Building Design', *Sustainability at Wesfarmers*, [www.wesfarmers.com.au/sustainability/our-stories/more-sustainable-building-design](http://www.wesfarmers.com.au/sustainability/our-stories/more-sustainable-building-design)

<sup>182</sup> 2021, 'The Sustainability Imperative in Australian FMCG', [www.iriworldwide.com/en-au/insights/publications/the-sustainability-imperative-in-australian-fmcg](http://www.iriworldwide.com/en-au/insights/publications/the-sustainability-imperative-in-australian-fmcg)

<sup>183</sup> 2022, 'Sustainability and the Consumer', IRI, September, page 5, [www.iriworldwide.com/IRI/media/Library/IRI-NYU-Sustainability-2022-PDF.pdf](http://www.iriworldwide.com/IRI/media/Library/IRI-NYU-Sustainability-2022-PDF.pdf)

**Exhibit 7: Bunnings solar panning on new store builds.**

### 3. LEADERSHIP & PARTNERSHIP

What is most challenging, yet ultimately separates standout ESG organizations are those building a sustainable, inclusive economy in partnership with their value chain.

One of the criticisms of corporations is the lack of collective ambition to drive ESG agendas. Companies regularly report on their internal ESG advancements but are notably gapped on their collaboration with other industry partners, both up and downstream.

➤ *Tesco's new technology*

Tesco, Britain's largest retailer has a commitment to net-zero by 2050. However, to reduce Scope 3 emissions it will need new partnerships to fast-track innovation and technology for methane reducing emissions from livestock<sup>184</sup> – a non-existent technology... yet. With work underway, this will position Tesco to leverage their differentiated advantage whilst also creating real economy-wide change.

➤ *A winning example in Nestlé*

Like most leading FMCG brands, Nestlé has a roadmap to net-zero emission by 2050. To achieve their Scope 3 targets, they recognized they must 'work with the dairy industry'<sup>185</sup>. In February, Nestlé NZ announced a partnership with Open Country to assist farmers in offsetting greenhouse gases by planting native trees on unproductive farmland; the areas where Nestlé dairy ingredients are sourced.

In 2022, they led the way by announcing *KitKat* would be the first food in Australia/New Zealand to be packed in a wrapper which uses 30% recycled

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<sup>184</sup> 2022, 'Sustainability in Australian Retailers: Time to Level Up', *KPMG*, 4 April, [Time to level up sustainability in Australian retailers - KPMG Australia](#)

<sup>185</sup> 2023, 'Open Country and Nestle help farmers get ahead in offsetting greenhouse gases', *FMCG Business*, 10 February, [www.fmcgbusiness.co.nz/open-country-and-nestle-help-farmers-get-ahead-in-offsetting-greenhouse-gases/](#)

plastic<sup>186</sup>, meeting consumer demands whilst paving the way for retailers to put pressure on other industry suppliers.

In FY 2022, Nestlé reported the Oceania region recorded high single-digit growth on Kit-Kat.<sup>187</sup>

These types of partnerships take strong leadership but are ultimately the greatest unlock to industry wide ESG impact and can still deliver profit.

## CONCLUSION

ESG is here to stay!

Across the Australian retail landscape, ESG targets are now commonplace, with broad alignment in scale and timeframe.

To realize a competitive advantage, retailers and suppliers must meet the growing ESG related demands of their consumers, employees, and investors. Through improved talent retention, consumer demand, access to finance and deregulated risk, businesses put themselves in the best position to achieve profitable returns.

However, to successfully outperform the competition, businesses need to select, and deliver on ESG approaches that are difficult to emulate, whilst continuously investing in ESG-related operations as they arise.

Ultimately, it is the untapped opportunity to collaborate with their value chain that will see a business deliver the greatest advantage to themselves, society, and the planet.

It is these organizations who will not only deliver on stakeholder needs but will create industry-wide impact and access previously untapped profitability.

There is a sense of optimism in stating everyone can benefit from working together, however the key to future success is indeed, a future. The way a business is nothing without its employees, the future does not exist without the planet.

So, can businesses truly seek profit and help save the planet?

Indeed, this is the only answer.

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<sup>186</sup> Chris O'Donnell, 2022, 'KitKat wrapped in recycled plastic', *Nestle Planet*, August, <https://www.nestle.com.au/en/stories/kitkat-wrapped-in-recycled-plastic>

<sup>187</sup> 2023, 'Nestle Reports Full Year Results for 2022', *Nestle*, 16 Feb, <https://www.nestle.com/media/pressreleases/allpressreleases/full-year-results-2022>