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VALUE VS. VOLUME
CHANGING THE CONVERSATION!

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The inflationary wars continue to impact Canadians – from a mortgage perspective to that of consumers annual trip to the grocery store. Though this is of small comfort, food price inflation has been higher in many other jurisdictions; Canada’s is among the lowest in the Group of Seven. Yet, Canada has the highest “**Cost of Living**” when compared to 23 global countries, **17%** of Canadians are currently depending upon food banks and **52%** cite rising food prices as their top concern.¹ This report summarizes Mr. Carman Allison’s – Nielsen IQ presentation titled

“Value vs. Volume – Changing the Conversation”!

at the holiday luncheon hosted by the Canadian Coffee and Tea Associations.

SUMMARY!

- Consumers are feeling the pressure of prolonged and compounded economic impacts
 - **37%** of Canadians say they are in a worse financial position this year, vs. 34% Global average.
 - **34%** worse off due to economic slowdown, vs. 37% -January 2023
 - **87%** of Canadians worse off due to increased cost of living, vs. 84% - January 2023.
- After trending well above the overall rate of inflation, CPG prices are starting to align:
 - October 2023: 3.4% CPG inflation rate vs. 3.1% CPI inflation rate. **Refer to Appendix 1.**
 - For the month of October, Canada’s CPG inflation rate was 3.4% vs. 3.1% in the US, and a global average of 6.6%.
- Price increases are normalizing across most of the store with only a few exceptions:
 - >+4%: Bakery (6%), Gen Merch (11%), Health & Beauty (5%), Paper Products (6%), Pet Care (5%).
 - All other departments are in the +2-4% range including: Dry grocery (3%), Produce (2%), Frozen (4%), Refrigerated / Dairy (+4%).
- Despite the slowing rate, we can’t forget about the compounding effects of rising CPG prices:
 - \$100 food basket in 2019 now costs Canadians **\$122** YTD, 2023 (43-week period to October 23).
In the US, that is **\$132.**
- Canadian CPG dollar sales are trending higher in 2023, fueled by higher prices, with volume continuing to erode. Food volume growth of **-1%** YTD’23 lags behind Canada’s population growth of **2.9%**. **Refer to Appendix 2.**
- CPG volume growth lags population growth across all regions in Canada. **Refer to Appendix 3.**
- **92%** of Canadians have changed how they shop in order to manage expenses.
- Factors contributing to volume sales decline:
 - **32%** of Canadians have cut back on non-essential purchases, of which 79% of prioritized essential item purchases in the past 3 months.
 - **33%** are buying in bulk to save money.
 - Food consumption changes:
 - 82% eating leftovers.
 - 41% avoiding food waste.
 - 20% consuming less food.

¹ Value vs. Volume – Changing the Conversation, Carman Allison, Nielsen IQ, 2023

GROWTH IN A DECLINING MARKET!

1. PROMOTE WITH PURPOSE

- Promotional sales are gaining momentum in the past year, approaching 50% of dollar sales, and 55.6% of all unit sales. **Please refer to Appendix 4**
- Increasing trade efficiency is one of the biggest opportunities of the industry. Yet, **38%** of promotions do not break even. **Please refer to Appendix 5**

2. MAXIMIZE ASSORTMENT

- Discounts dollar market share over the past Qtr – Quarter 3 has increased 0.5%. **Please refer to Appendix 6**
- Greater variety is conventional retailers' greatest strength, yet many are cutting back on their assortments as discount retailers gain greater share of consumer wallets.
- When it comes to assortment, less is less for almost half of CPG categories:
 - Increased item availability is driving velocity - 21% of categories.
 - Velocity declines as item availability is suppressed - 46% of categories.
- Rationalizing on sales rate alone, we may be leaving category dollars on the table. **Please refer to Appendix 7.**

3. INNOVATE TO STAY RELEVANT

- Private Label is benefitting from consumers seeking lower prices. Over the past 2 years, private label's dollar share has increased 1.3%. **Please refer to Appendix 8**
- Innovation is critical to the brand's bottom line and boosts overall growth:
 - 52% of innovations grew sales in Y2 vs. Y1^
 - Manufacturers growing innovation sales in 2022 were 1.8x more likely to grow overall sales than those with stagnant or declining innovation sales.
- There is no one-size-fits-all approach to innovation:

Disrupt a Category

Grow the Brand

"Wow" a Target Segment

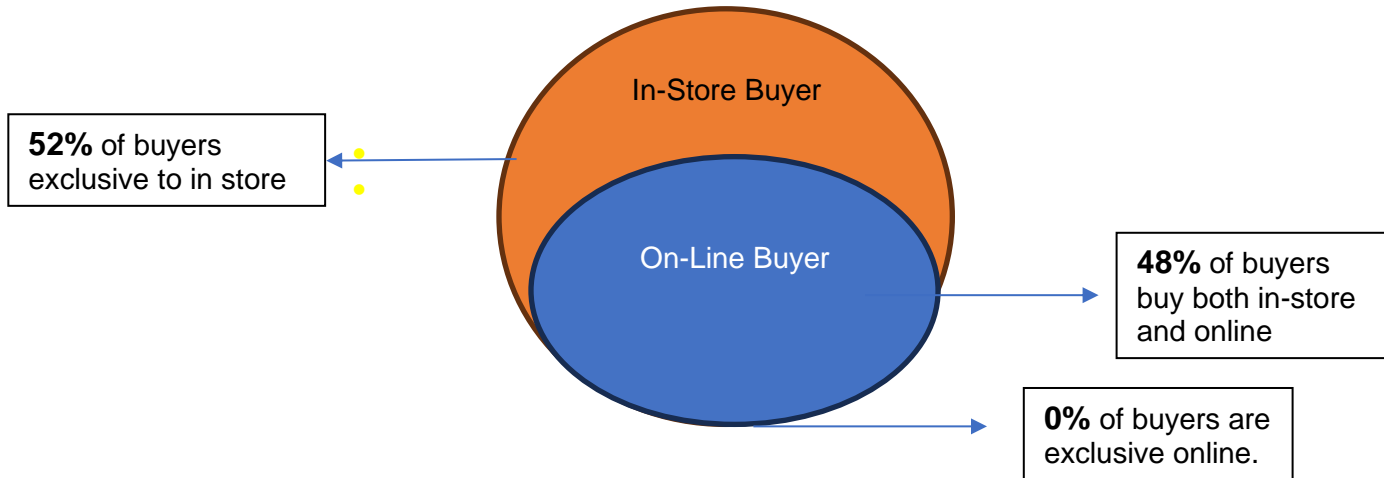
Create Brand Buzz with Rotating Ltd Offer

Offer Crowd-Pleasing Benefits



4. REACH CONSUMERS WHERE THEY ARE

➤ Omni shopping is here to stay. Remember...there is only one consumer wallet to chase.



➤ As expected, the consumer wallet is growing in value-based retail formats. Dollar stores / Club / Mass merchandiser increasing their share of trade for the retail channel. **Please refer to Appendix 9.**

➤ **Facts:** 52-Week period ending July 15, 2023

1. **25%** of top 100 brands are different across Online and Brick & Mortar.
2. **2/3rds** of assortment are different among top selling 250 items.
3. **81%** of grocery searches on Amazon are unbranded

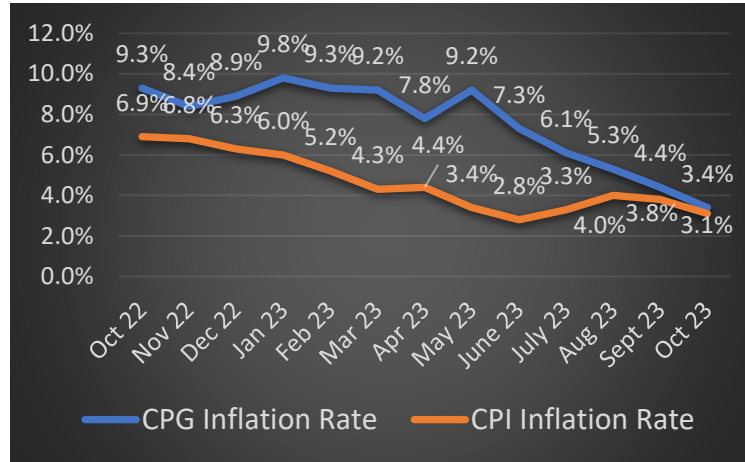
GROWING IN A DECLINING MARKET – 4 KEY TAKEAWAYS!

<p>1) PROMOTE WITH PURPOSE Don't sacrifice tomorrow by giving away today.</p>		<p>Balancing sustainability and profitability is crucial in a slowing market. Focusing on short-term volume can harm long-term profitability.</p>
<p>2) MAXIMIZE ASSORTMENT Don't be lost, because you weren't found</p>		<p>Value retailers are rising due to demand for affordability. Businesses can adapt marketing and products for diverse consumer needs and differentiate with a varied assortment</p>
<p>3) INNOVATE TO STAY RELEVANT. No news, could become your bad news</p>		<p>Private label growth is a result of a demand for lower-cost options. Brands must reevaluate their positioning, innovate, explore partnerships with retailers, to appeal to consumers</p>
<p>4) REACH CONSUMERS WHERE THEY ARE It's the wrong time to miss the right place</p>		<p>Consumers move fluidly across channels to fulfil their needs, meaning growth will come from a balance of both online and in-store strategies</p>

APPENDICIES!

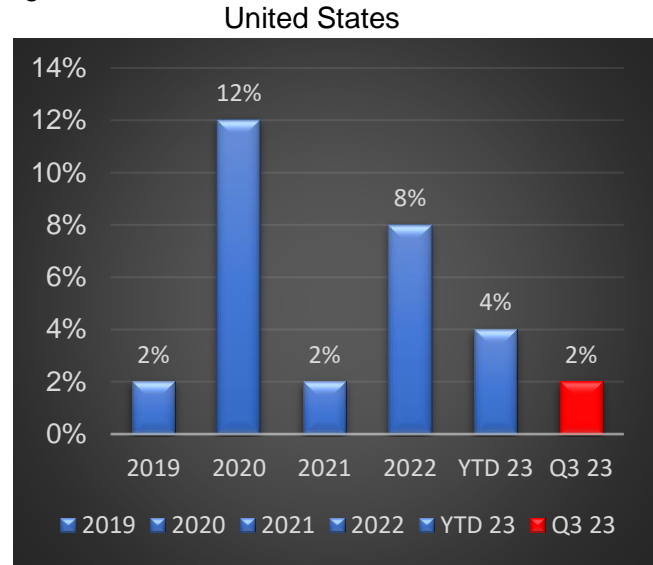
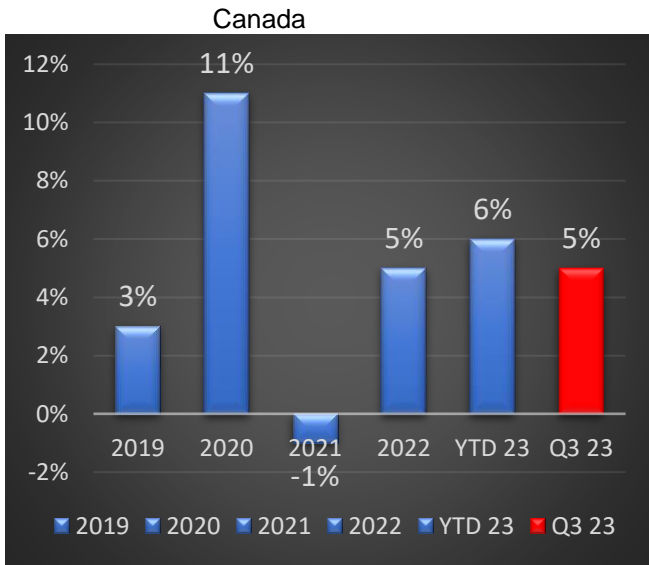
Appendix 1

Canada CPG Inflation Rate vs. CPI Inflation Rate



Appendix 2

CPG Dollar % Change: Canada vs. US



Volume % Change

	2019	2020	2021	2022	YTD 23	Q3 23
Canada	-1	+7	-3	-2	-1	-1
US	0	+7	-4	-2	-3	-2

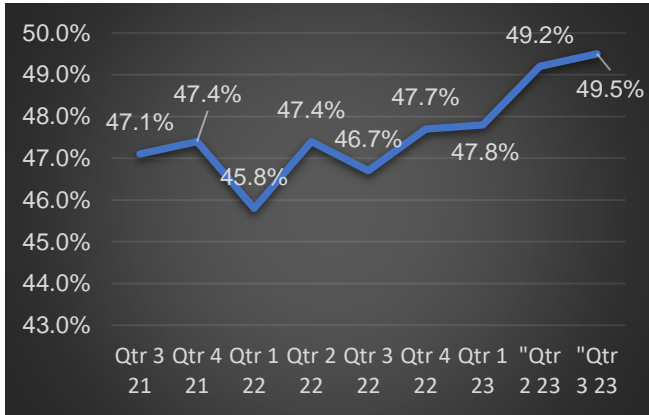
***Note:** Annual volume growth in Canada lags behind population growth of 2.9%.

Appendix 3
Population Growth vs. CPG Performance

	Population Growth	CPG Volume Chg	Gap
National	2.9%	-1.1%	-4%
Maritimes	3.4%	-2.0%	-5.4%
Quebec	2.3%	-1.6%	-3.9%
Ontario	3.0%	-1.3%	-4.3%
Man / Sask	2.7%	-0.2%	-2.9%
Alberta	4.0%	+0.9%	-3.1%
BC	3.0%	-1.1%	-4.1%

98% of Canada's population growth due to immigration.

Appendix 4
% Dollars Sold on Promotion



52 Weeks	<u>\$% Promo</u>	<u>\$% Chg</u>	<u>Vol % Chg</u>
Total CPG	48.5%	+11	+1
Total Food	50.4%	+11	+1
Total Non-Food	41.7%	+10	+2

Promotions Shifting to Price Cut Only			
	<u>\$% Promo</u>	<u>\$% Chg</u>	<u>Vol % Chg</u>
% Of Promo \$'s	100%	+11	+1
Price Cut only	56%	+14	+1
Feature only	22%	+9	-2
Display only	15%	+7	-2
Feature + Display	7%	+6	-7

% Change

	Q3 21	Q4 21	Q1 22	Q2 22	Q3 22	Q4 22	Q1 23	Q2 23	Q3 23
Promo	+1	-4	-3	0	+7	+10	+12	+13	+12
Non-Promo	-2	+6	+6	+5	+9	+5	0	+1	-2

Appendix 5 Trade Efficiency Review²

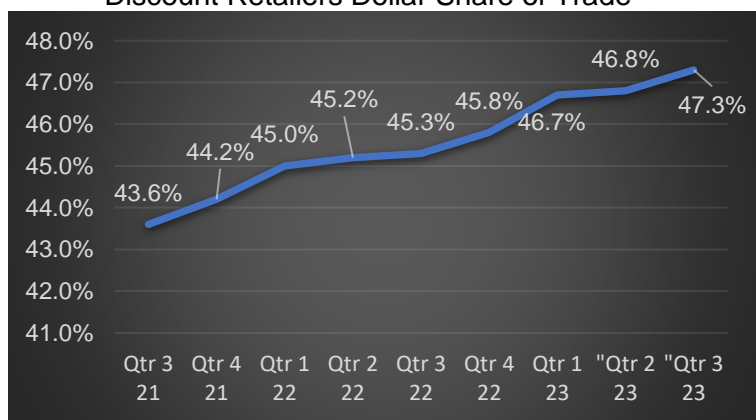
38% of promotions do not break even.

“ % Subsidy on Promo” - Units	Low volume on deal, highly subsidized 29% Right strategy, pull back on least efficient promotions <ul style="list-style-type: none"> • Coffee Type drinks / Ice Tea Mixes 	High volume on deal, highly subsidized: 9% Pull back on promotions <ul style="list-style-type: none"> • RTD Ice Tea
	Low volume on deal, low subsidization: 46% Expand promotions due to low cannibalization <ul style="list-style-type: none"> • Tea Bags 	High volume on deal, low subsidization: 16% Maintain Strategy <ul style="list-style-type: none"> • R&G Coffee / Instant Coffee

→ **“% Sold on Promo” Units**

Appendix 6

Discount Retailers Dollar Share of Trade



Note: 1% change in market share is the equivalent of +/- \$1.2B in sales.

52 WEEKS	Discount \$ Share	\$% Chg	Conv. \$ Chg
TTL CPG	46.6%	+11	+2
TTL Food	47.2%	+12	+1
TTL Non-Food	44.7%	+7	+6

Conventional retailers have been cutting assortment across the entire store

Items per store	Discount % Change	Conv % Change
TTL CPG	-0.3	-2.3
Total Food	+1.6	-2.0
Total Non-food	-3.2%	-2.5%

% Change

	Q3 21	Q4 21	Q1 22	Q2 22	Q3 22	Q4 22	Q1 23	Q2 23	Q3 23
Discount	0	+2	+4	+9	+12	+11	+10	+11	+10
Conv.	-2	0	-1	-2	-5	+4	+2	+3	+0

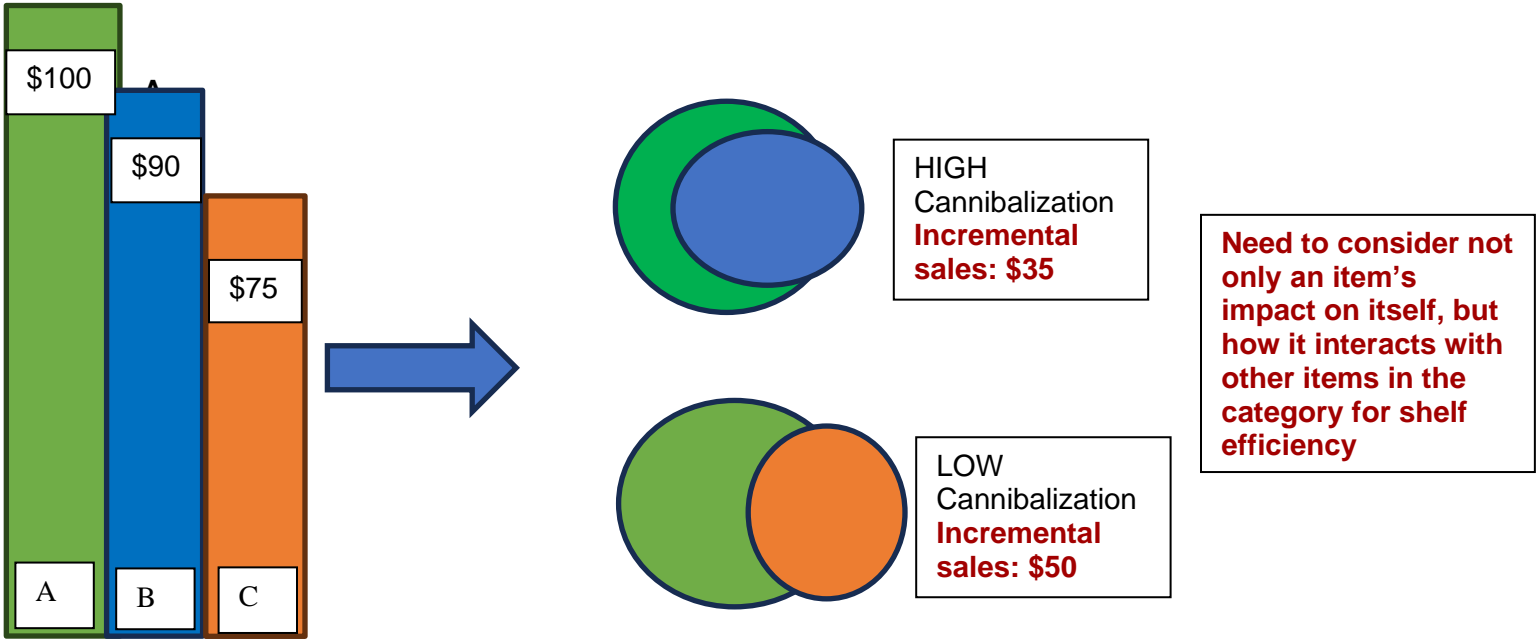
² Source: NIQ Canada RMS Latest 52 Wks - w /e 30SEP23 vs YA -- 621 categories analyzed

Appendix 7 Assortment Efficiency

If we rationalize based on sales rate alone, we may be leaving category dollars on the table.

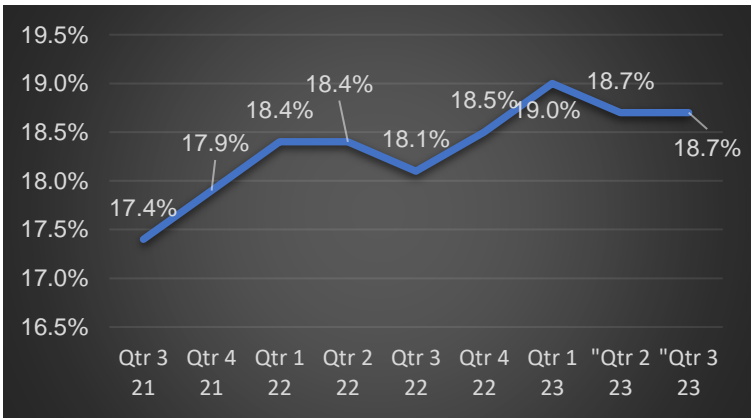
Item C has the Lowest Sales

... but brings more incrementality value than Item B, meaning that listing A and C brings more dollars to Brand X



Appendix 8

Private Labels Dollar Share



Note: 1% change in market share is the equivalent of +/- \$1.2B in sales.

52 WEEKS	\$ Share	Chg
TTL PL	18.8	+10
TTL Food	20.6%	+10
TTL Non-Food	13.1%	+9

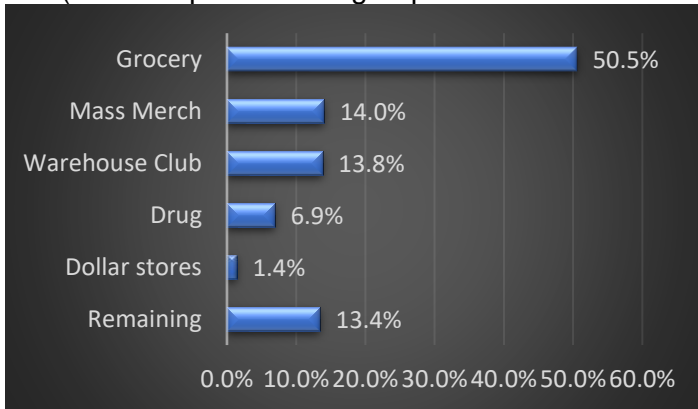
- Private Label Push and Pull**
- 30% opt to PL for savings (25% price benefit) •
 - 77% think PL is a good alternative to NB
 - 50% think PL equal/greater quality to NB
 - PL promotion sales +14% (45% of sales)
 - PL assortment +1.7% in Q3'23

% Change

	Q3 21	Q4 21	Q1 22	Q2 22	Q3 22	Q4 22	Q1 23	Q2 23	Q3 23
PL	0	+2	+4	+5	+13	+12	+10	+9	+8
NB	-1	0	+1	+3	+7	+7	+6	+6	+4

Appendix 9

Retail Channel Share of Trade
(52-week period ending September 2023)



% Change

Grocery: +7
 Mass: +9
 Club: +8
 Drug: +6
 Dollar: +17
 Remaining: -1



In-store	96.6%	+6
Online	3.4%	+1

Qtr 3 2023

Food	3.1%	+5
Non-Food	2.8%	+10

RICHARD BAKER



FOOD DISTRIBUTION GUY OVERVIEW

I am the President and Founder of Food Distribution Guy. Our mandate is to ensure our principles' success is sustainable long-term in the Canadian grocery sector.

Food Distribution Guy's Value Proposition for Our Client's Success:

1. Fifteen + (15+) years of branding, marketing, and sales expertise in Canada's grocery sector.
2. Our "4" Keys to Success:
 - a. What is your brand's unique point of difference?
 - b. What value does your brand bring to the category?
 - c. Is your brand's suggested retail competitively priced?
 - d. How will the brand support its launch to increase consumer awareness?
3. We keep our principals up-dated on the "Pulse" of the:
 - 1) Canadian grocery sector, 2) Canadian consumer, and
 - 3) Their respective category.
4. We keep our clients abreast of the activities in the Canadian grocery sector for their top 3 competitors.
5. We align and manage our principal's sales (broker, and / or distributor), marketing (if required), and logistic solutions which allow our principals to manage the day-to-day business.

We understand the grocery landscape, and we will assist you in navigating through it. Your brand receives the attention to detail it requires.



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