

2023 CEO Forum

Michele Levine

13 July 2023



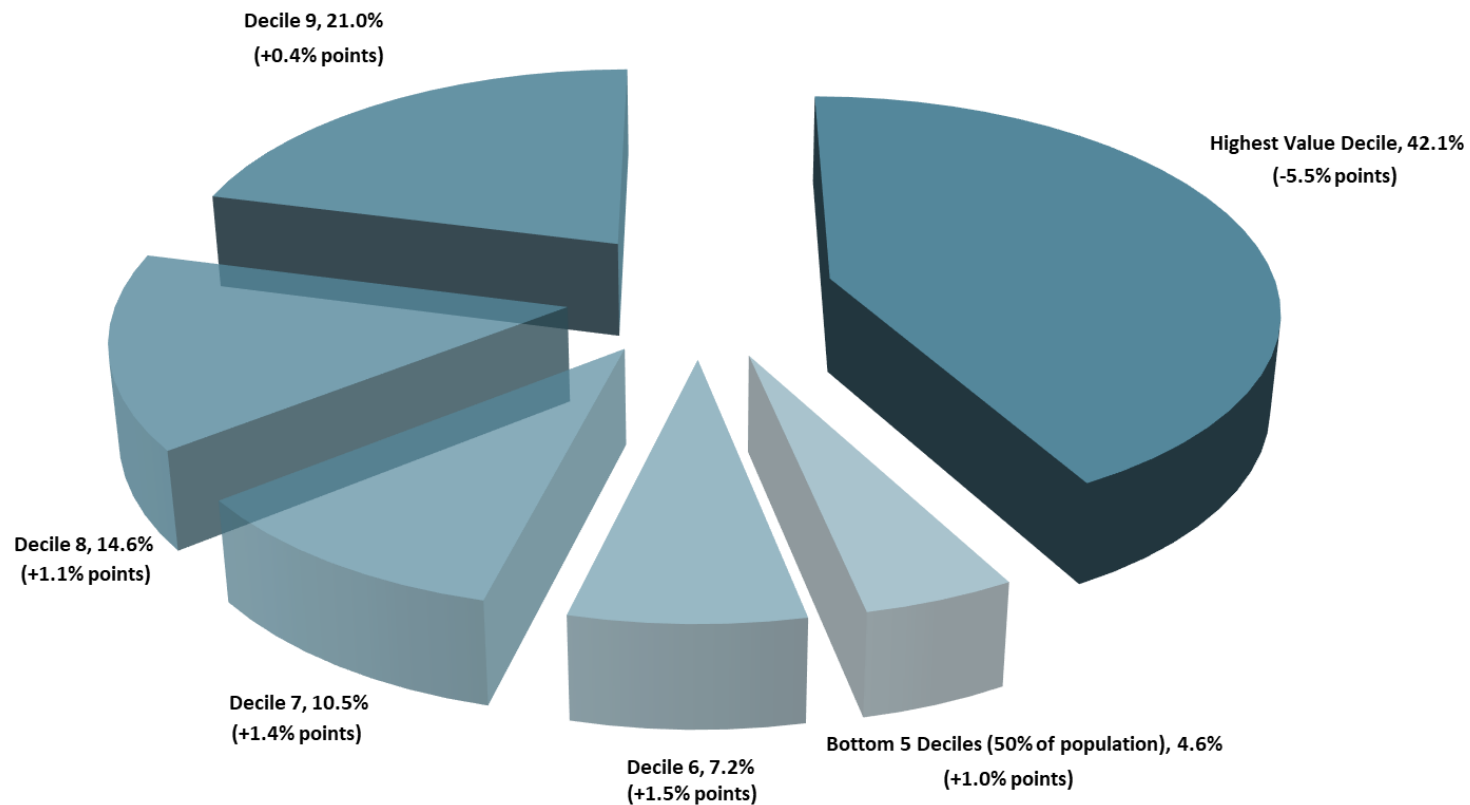
It feels like a changed world

- Customer abuse & violence
- Retail theft - customers & staff
- New levels of price pressure

Price promotion addiction

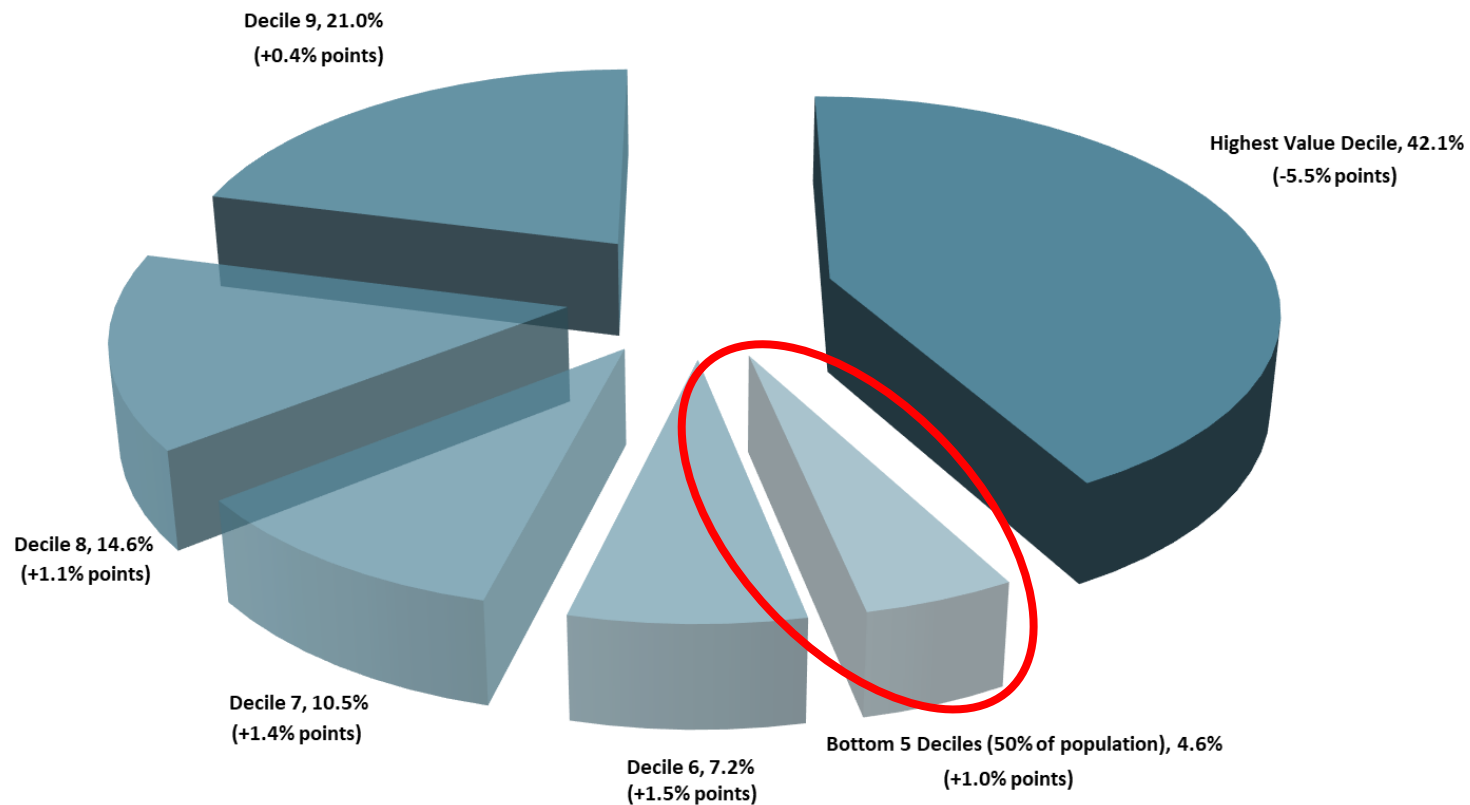


Half the population accounts for 95.4% of the nation's wealth, meaning the other half accounts for only 4.6%.



Note: Deciles represent 10% of the population based on Net Wealth; Note: () = % points change from March 2020 to March 2023.
Deciles 1-5 are combined as "Bottom 5 Deciles" in the above chart
Source: Roy Morgan Single Source: Sample sizes: 12 months to March 2020, n = 48,935; 12 months to March 2023, n = 65,863
Base: Australians 14+

The poorest deciles are the only ones to have gone backwards - into net debt.



Note: Deciles represent 10% of the population based on Net Wealth; Note: () = % points change from March 2020 to March 2023.
Deciles 1-5 are combined as "Bottom 5 Deciles" in the above chart
Source: Roy Morgan Single Source: Sample sizes: 12 months to March 2020, n = 48,935; 12 months to March 2023, n = 65,863
Base: Australians 14+

Visibility bias

*"**Visibility bias** is a cognitive bias in which individuals, particularly those in positions of authority or influence, take the behaviour and expectations they observe as representative of the broader population or market."*

**Does premiumisation solve the existential challenges
and opportunities confronting retail CEOs and
investors?**

The conventional wisdom is that in times of economic stress, everything starts and ends with price ...



What is Premiumisation?

Premiumisation is the key to profitable growth, margin & brand equity

1. A successful Premiumisation strategy satisfies the need of a **consumer who desires more** and is **proven to pay more** for it
2. Premiumisation drives profitable growth, revenue, and margin by increasing customer-perceived value that delivers **more money per unit** of product sold (gross margin)
3. At the heart of **successful Premiumisation**, therefore, is the **understanding** of how **different customers** perceive and assign value
4. If **brand equity** is the commercial value derived from customer perception, then **Premiumisation is the vehicle** by which that value is delivered



Own Brand: \$0.80c per litre
Schweppes: \$3.75 per litre
Fever-Tree: \$9.44 per litre

Premiumisation starts with a
premium consumer

We are in a two-speed consumer economy.

Each speed has a fundamentally different consumer mindset - NEO or Traditional.

- **Fast Lane = NEO mindset:** 90% of NEOs are in the 'Big Spender' category. They happily spend more, more frequently on premium experiences.
- **Slow Lane = Traditional mindset:** only 6% of Traditionals are in the 'Big Spender' category. Despite millions being affluent, they are reluctant-spending, price-sensitive consumers.

NEO (5 million)

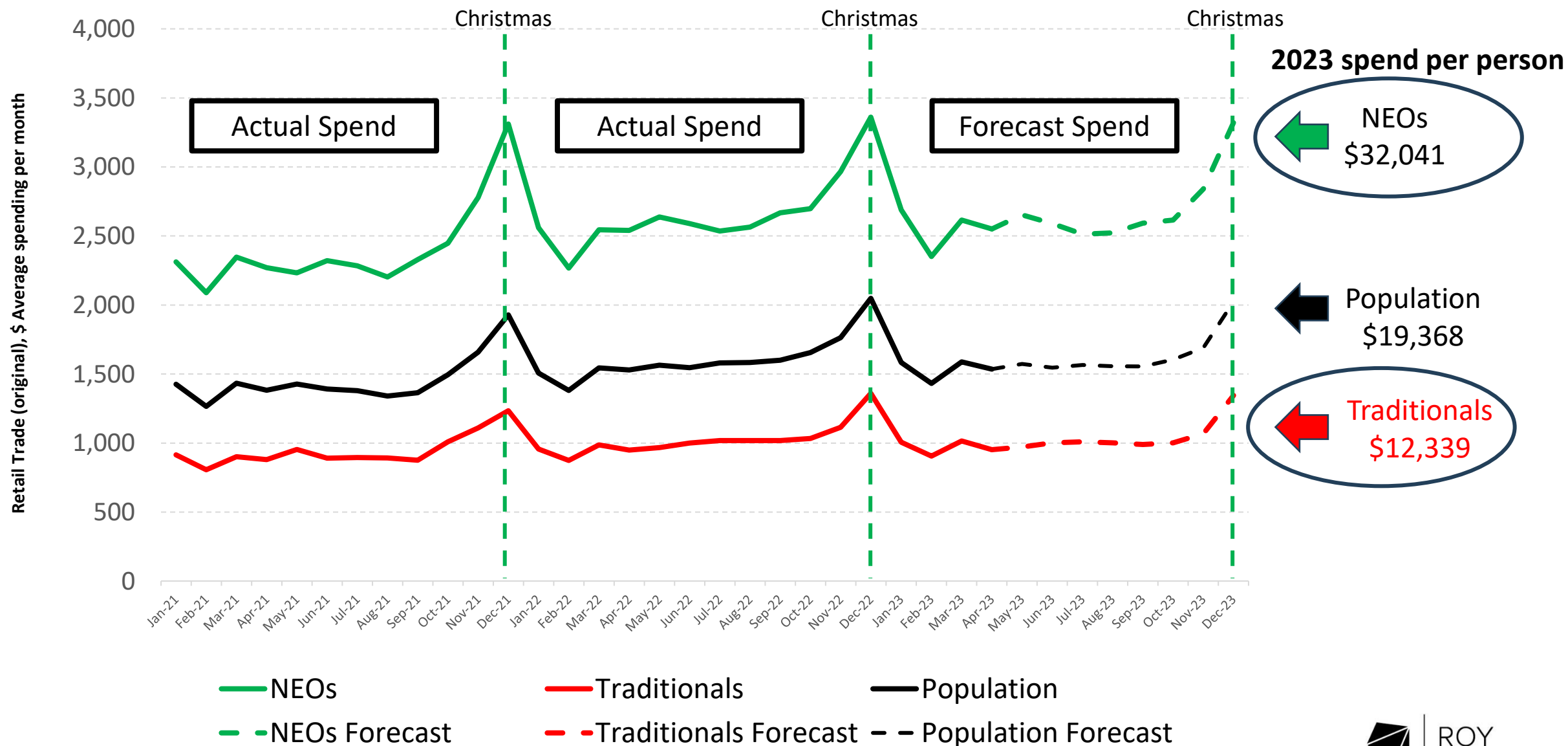
Higher margins
Price elastic
Motivated by Desire
High spend + frequent
Individualists

.....

Traditional (10.5 million)

Lower margins
Price sensitive
Motivate by a deal
Low spend + infrequent
Comfortable in a crowd

Retail Sales: Actual Jan 2021-May 2023. Forecast to Dec 2023



Some marketers still use Affluence or Socio-Economics as predictors of high value. Both are dramatically less predictive than the NEO mindset.

Spend Comparison

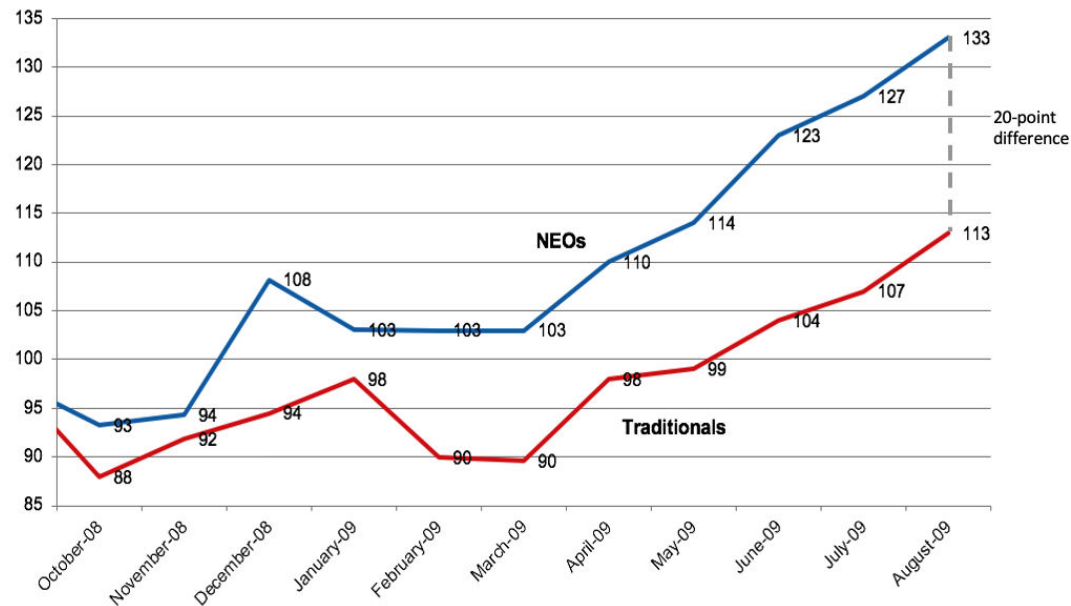
‘Big Spenders’ is the label widely used to describe the top-third of discretionary spenders in the economy. Medium Spenders are the middle third of discretionary spenders.

Affluence (income)	>\$100,000pa	62% Big Spenders	}	High-affluence & Socio-Economics get high spending about 60% right
	>\$250,000pa	66% Big Spenders		
Socio-Economics	ABs (top quintile)	60% Big Spenders 30% Medium Spenders	}	
NEO	NEO consumers	90% Big Spenders 11% Medium Spenders	}	The NEO Algorithm gets it 90% right

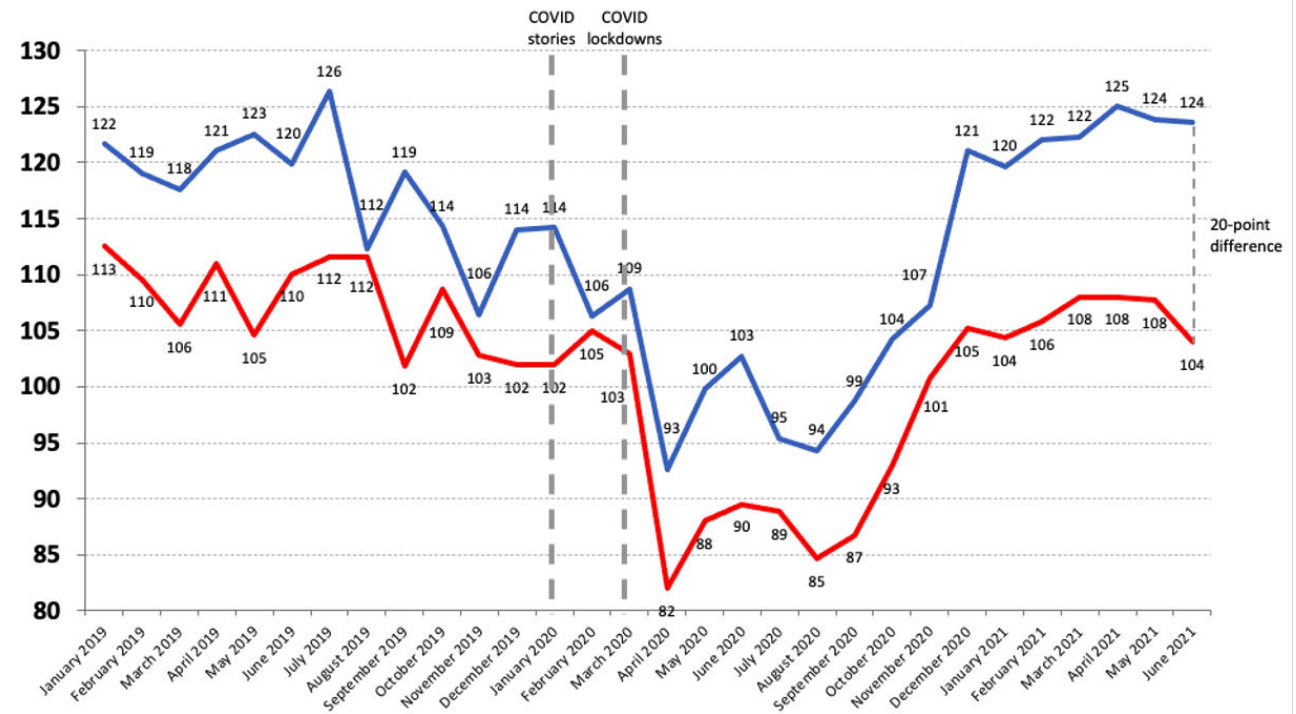
Consumer confidence is essential for spending & investing

Even in economic downturns, NEOs recover first and fastest to be 20 points ahead of Traditionals

Consumer Confidence during GFC



Consumer Confidence during COVID



Source: Roy Morgan Consumer Confidence Ratings + The Honeywill Trust. n=69,274

Neuroscience underpins the NEO algorithm

“Our heart is bigger
than our head”

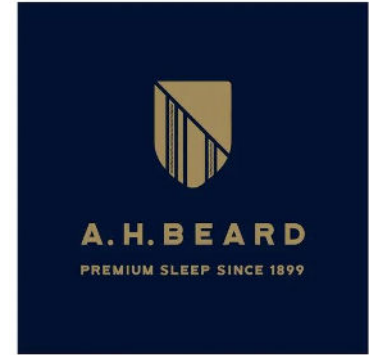
Creating emotional connections is not just good
marketing, it's solid neuroscience.

Limbic System: Love is more
powerful than logic.



NEOs are not thinking machines that feel,
NEOs are feeling machines that think.

“You can judge the value of an idea by the company it keeps”.



What are *Premium* products?



Apple iPhone is a Premium product.



NEOs want to move towards zero friction - **and are willing to pay for it.**



A few Premiumisation tips

Premiumisation – Value Creation Tips

1. **Get the Price Right:** Offer a range of price points that are right for NEOs (Fever Tree) and right for Traditionals (own-brand)
2. **Layer Your Ranging:** Curate your product range specifically tailored to each consumer type. When selecting products, consider factors like price range, quality, style, and functionality.
3. **Allocate space strategically:** Allocate floor space based on the demands and preferences of each consumer type. For example, dedicate specific sections or areas to showcase premium products for NEOs while designing other areas for more affordable options for traditionals.
4. **Differentiate through visual merchandising:** Utilise creative visual merchandising techniques to differentiate product ranges and cater to different consumer types. Extend this to the online ecosystem where NEOs dominate.
5. **Train staff to understand different consumer needs:** Ensure that sales staff and category managers are knowledgeable about the product ranges and can provide personalised assistance to customers based on their preferences and budgets. This helps create a positive shopping experience for both consumer types.

Premiumisation – Value Creation Tips

6. **Dynamic Pricing Models:** This includes real-time price adjustments based on demand, time, customer behaviour, or other factors. This strategy requires sophisticated technology and careful management but can optimise NEO revenue and attract price-sensitive Traditional consumers.
7. **Personalised Shopping Experience:** Flag NEOs on your customer database and offer personalised product recommendations. This reduces shopping friction and makes NEOs feel valued and understood.
8. **Integration of AI and Machine Learning:** Use advanced technologies to predict NEO behaviour, personalise shopping experiences, streamline customer service with human-quality chatbots, and optimise inventory management.
9. **Voice-activated Shopping:** As voice assistants like Alexa, Google Assistant, and Siri become more prevalent, making your online store compatible with voice commands offers zero friction to tech-savvy NEOs.
10. **Biometric Payments:** Using fingerprints or facial recognition for payment will make the checkout process faster and more secure - moving towards zero friction for NEOs (their dream is no checkout at all).

Michele.Levine@roymorgan.com



ROY
MORGAN

