THE CHANGING RETAIL & CONSUMER LANDSCAPE

KITCHENER PARTNERS

TRISTAN KITCHENER | +61 407 827 738
tristan@kitchenerpartners.com.au | www.kitchenerpartners.com.au

…10 YEARS TO 2021

Quantitative Easing

Abundant Liquidity

Low Cost of Debt

Low-Modest Inflation

Stable Input Costs

Globalisation

2022 ONWARDS…

Quantitative Tightening

Retrenching Liquidity

Rising Cost of Debt

Rising Inflation

Volatile Input Costs

Protectionism

AGENDA

THE CHANGING RETAIL & CONSUMER LANDSCAPE

THE LIKELY FUTURE STATE AND OPPORTUNITIES

SUPERMARKET COMPETITION

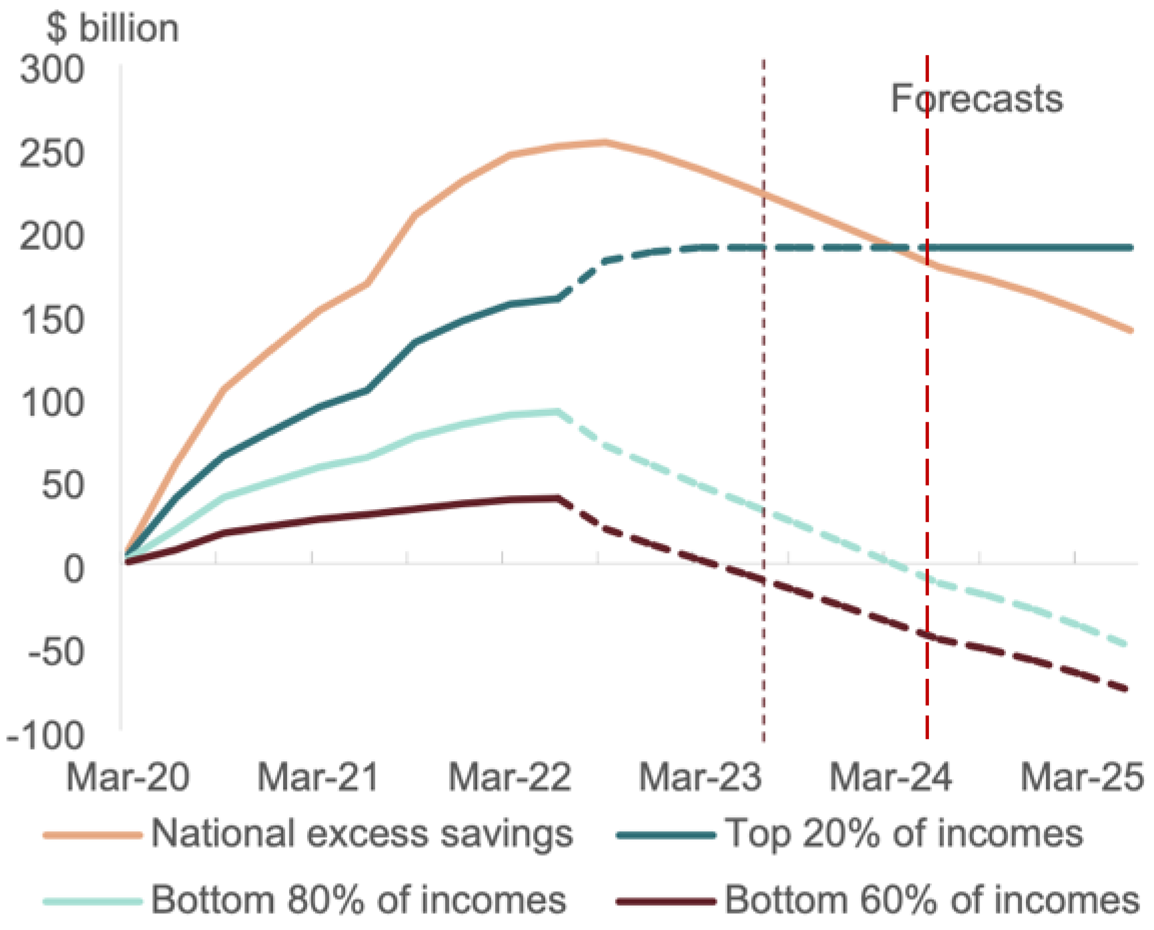
Trading DOWN *and* SPLURGING selectively

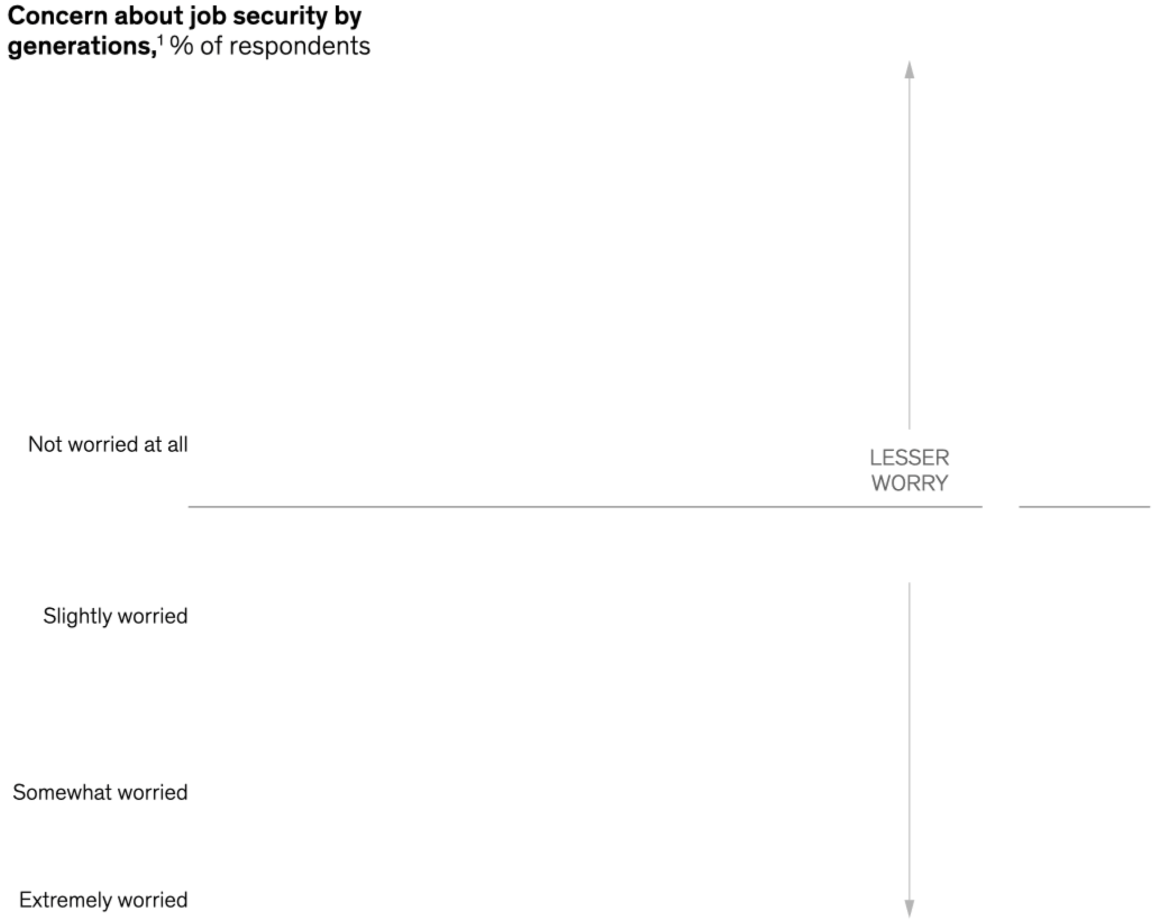
CONSUMER SPENDING: EXCESS SAVINGS FROM COVID STIMULUS

Of the **$250bn ‘pandemic savings**’ (*spend/consume or save/invest*):

- The **bottom 60%** of income earners exhausted their excess savings in **early 2023**
- The **total excess savings** likely to be spent on consumption will be fully depleted by **early 2024**

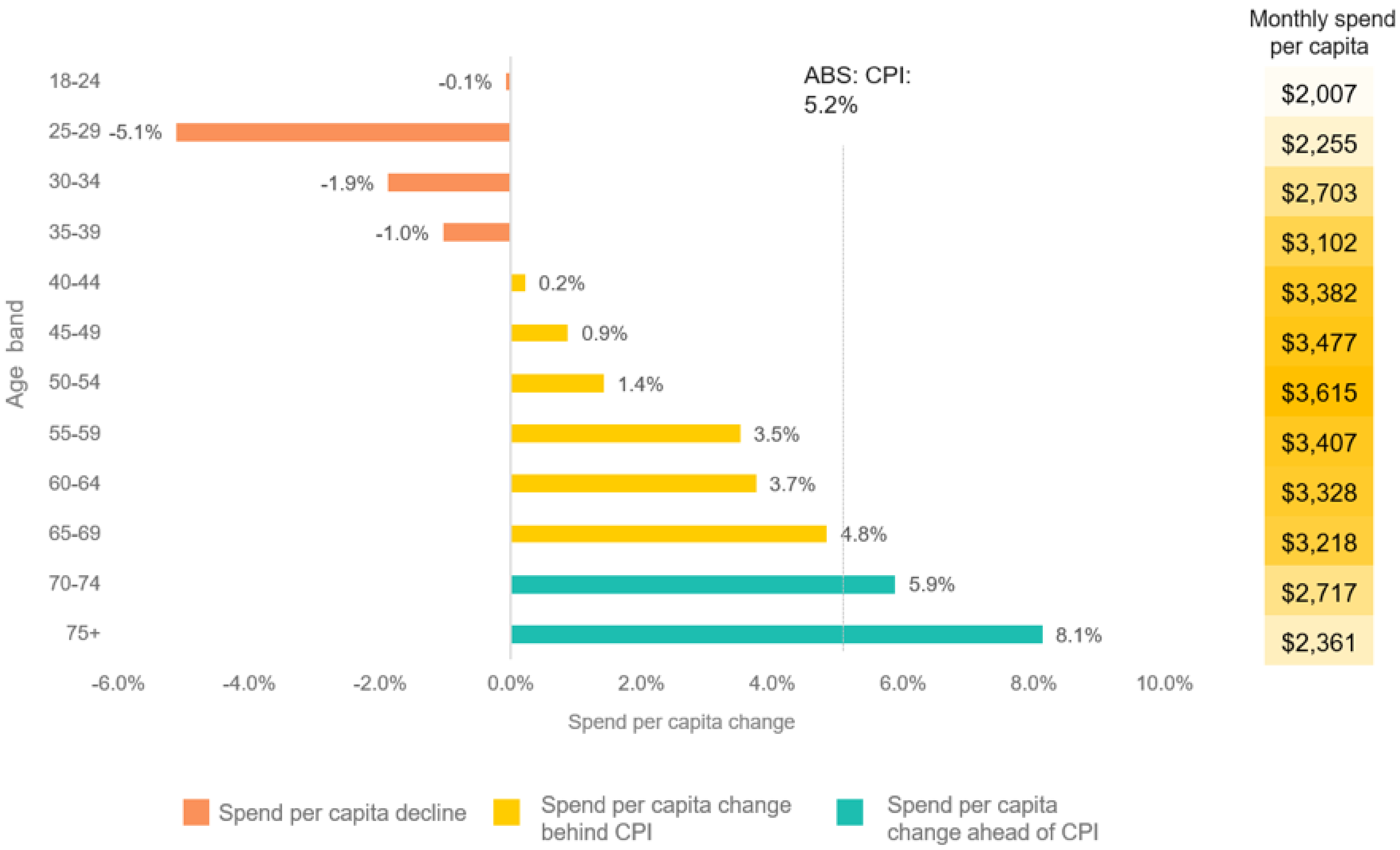
Therefore, consumption growth will now need to match income growth….





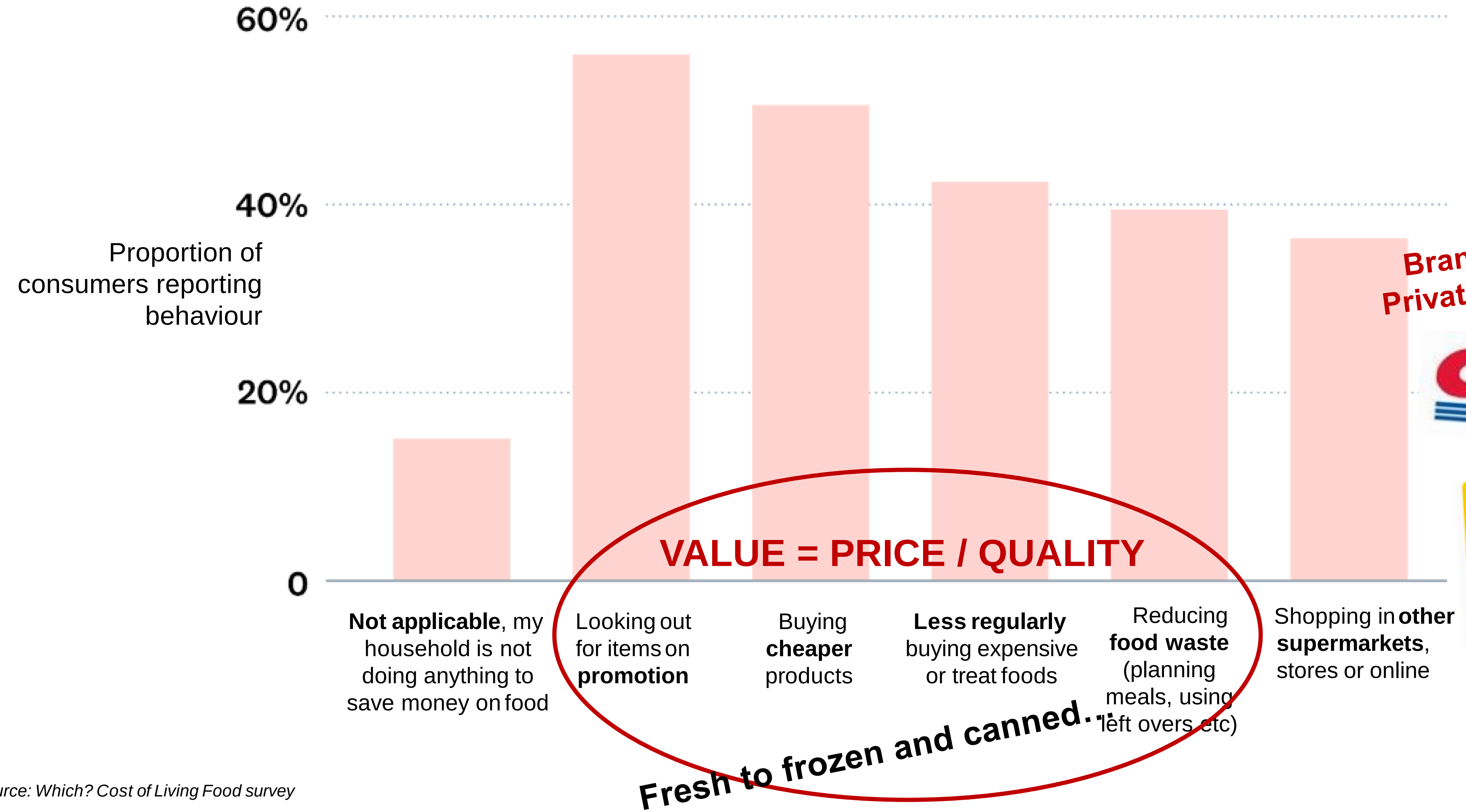
Source: ABS, Barrenjoey

SPEND PER CAPITA CHANGE BY AGE BAND: ‘HAVES AND ‘HAVE-NOTS’



Average spend per capita change for period 2023 Q3 vs same period 2022 Q3
Nominal growth = 5.2%, Monthly CPI indicator as of August 2023

CONSUMERS ARE MANAGING THE COST OF LIVING BY TRADING DOWN

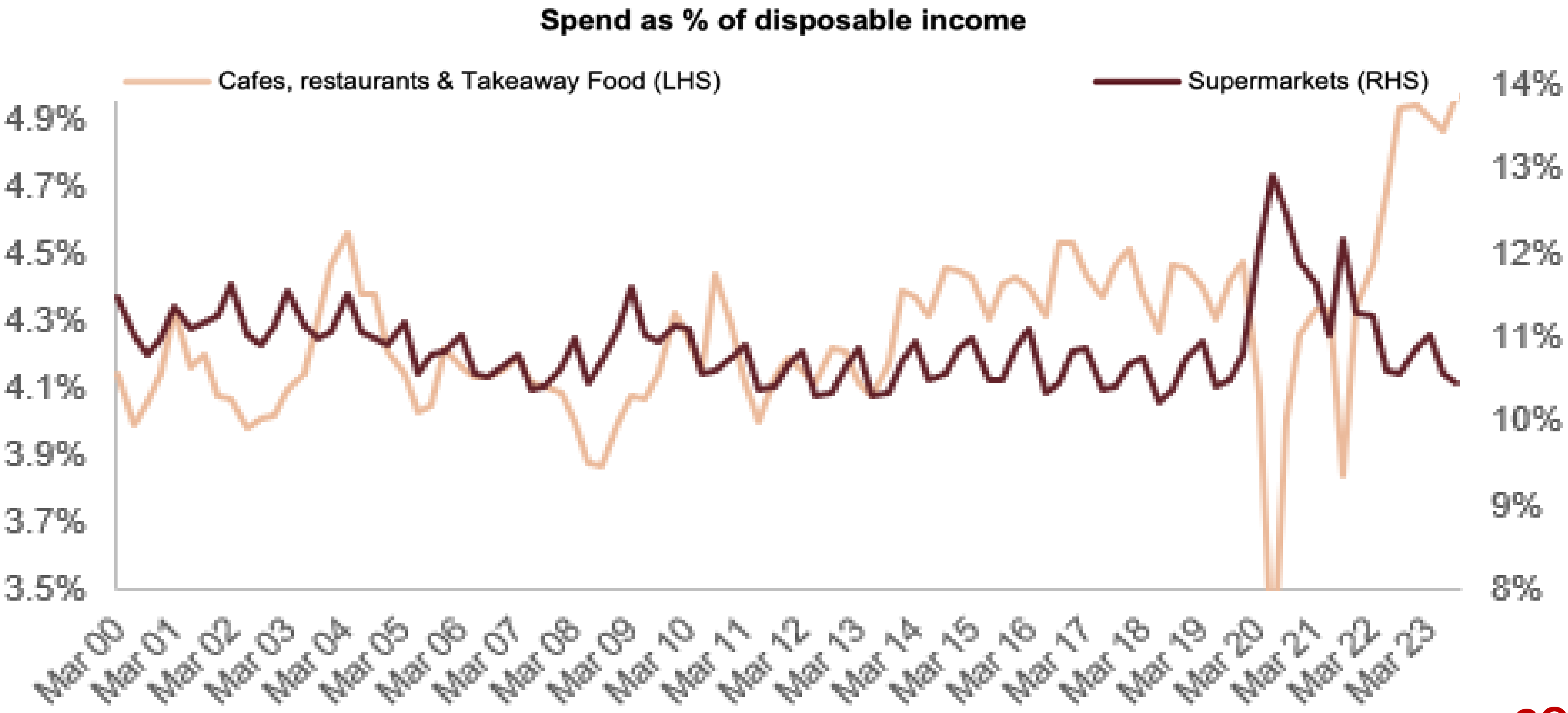


Branded to Private Label

Source: Which? Cost of Living Food survey

CAFES, RESTAURANT, TAKEAWAY FOOD SPEND AS A % OF DISPOSABLE INCOME REMAINS ELEVATED

(vs supermarkets spend which is back to long term trend levels)



Supermarkets have lost ~2% share of total food spend relative to pre-COVID levels….

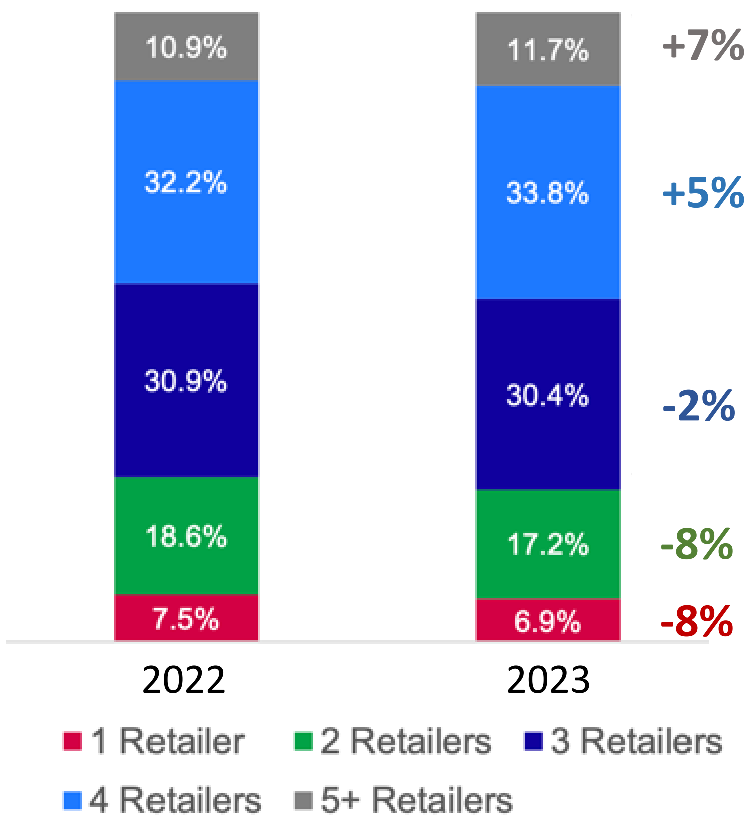
(cafes, restaurants & takeaway now 31.5% of total food spend, up from 29.3% in FY19)

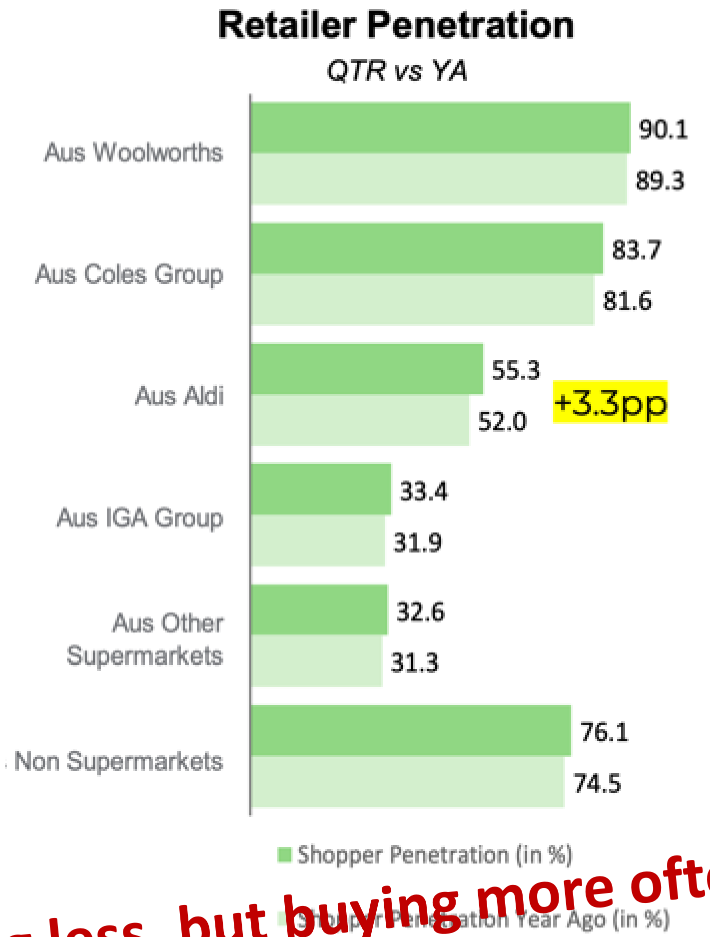
Source: ABS, Barrenjoey

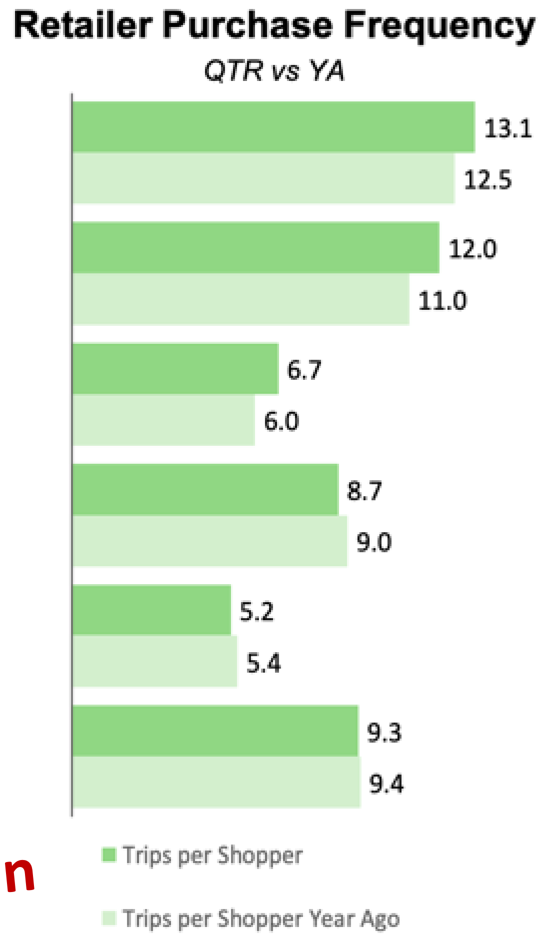
Shopping EVERYWHERE *and* ALL AT ONCE

CONSUMERS ARE "SHOPPING AROUND" MORE TO FIND BETTER DEALS
(retailer penetration and purchase frequency is increasing)

Number of Outlets Shopped At







Higher prices = buying less, but buying more often

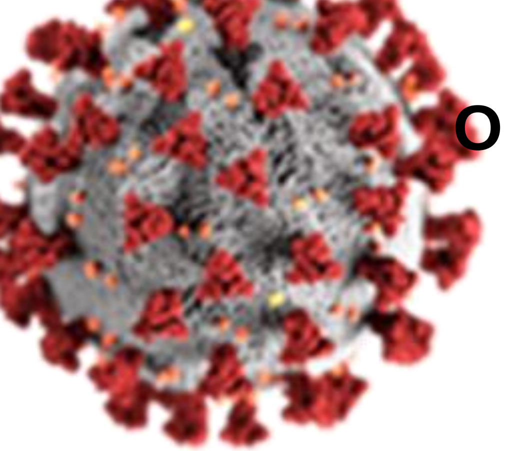
Source: NielsenIQ Homescan™

RETAILER ARE CHASING 'LOYALTY'

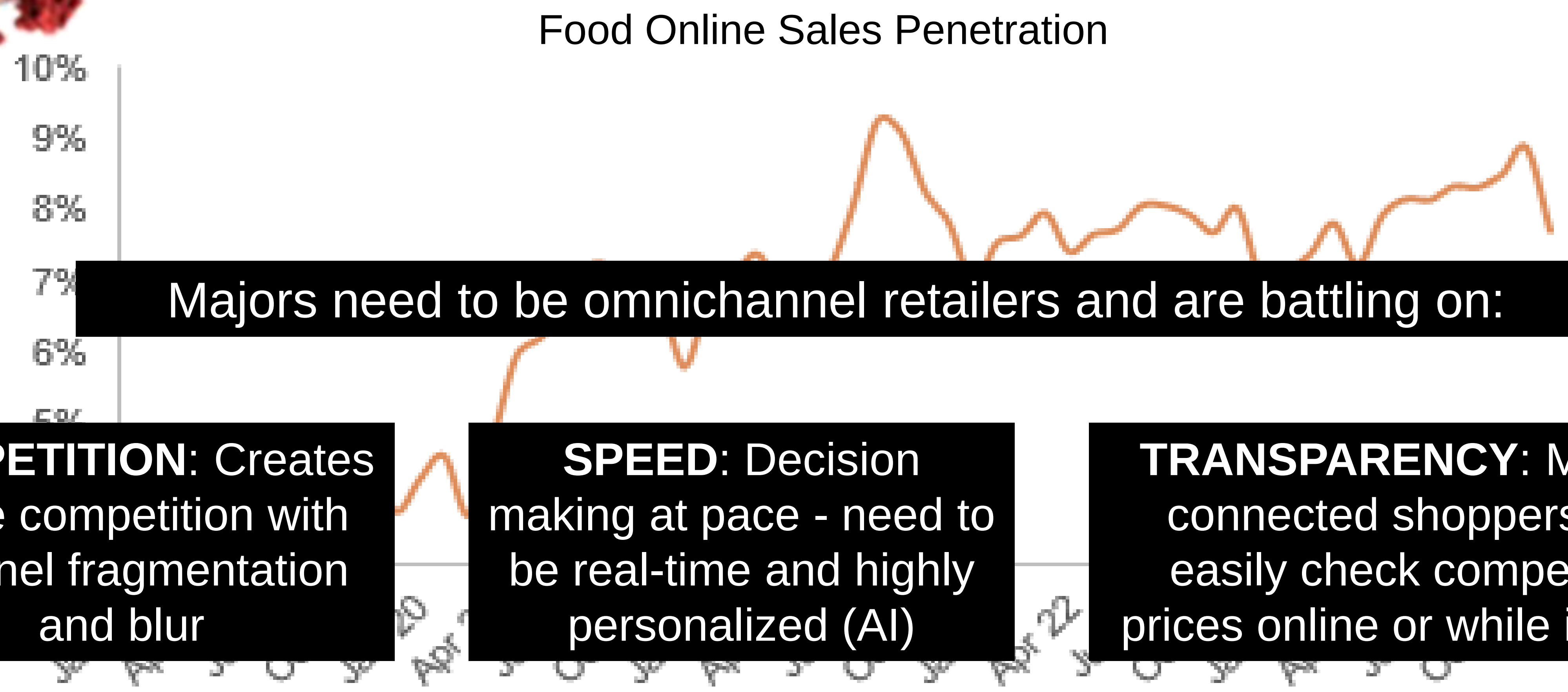
Loyalty cards to personalise marketing:

- To know exactly what each customer is buying
- When they are buying it
- What triggered the purchase decision

"Prices are rising, yet supermarkets constantly advertise price reductions. Different store formats have different prices. Member prices that look like regular prices vs punitive non-member prices".



ONLINE SUPERMARKET HAVE SETTLED AT ~7.5% (of total sales)



Majors need to be omnichannel retailers and are battling on:

COMPETITION: Creates fierce competition with channel fragmentation and blur

SPEED: Decision making at pace - need to be real-time and highly personalized (AI)

TRANSPARENCY: Mobile-connected shoppers can easily check competitive prices online or while in store

*Omnichannel shoppers are more sensitive and aware of **value** and their demand for **personalization** is increasing*

Source: Barrenjoey

Amazon USA updates over 250 million prices per day (85% of all products)


Demanding SUSTAINABILITY *and* AFFORDABILITY

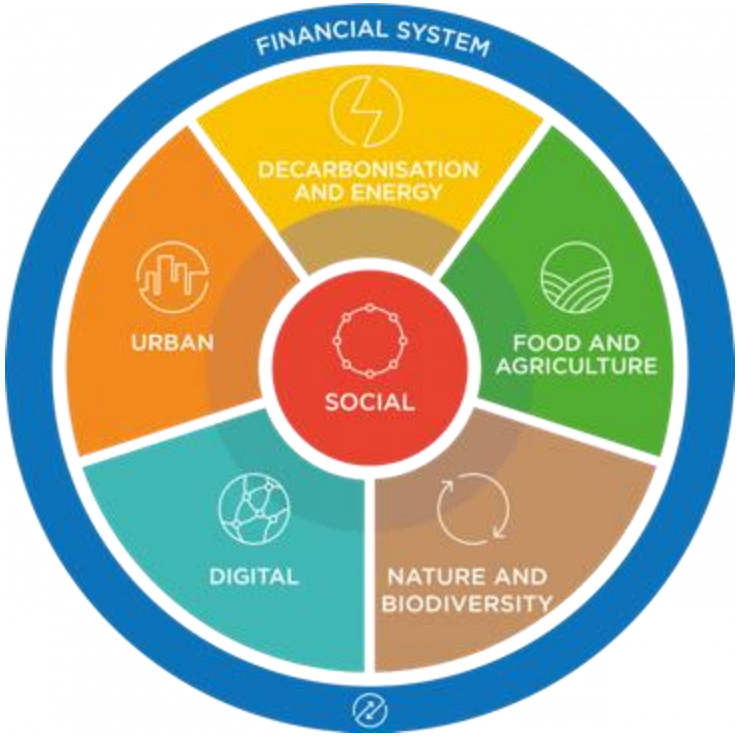
SUSTAINABILITY: CORE PILLARS TO TACKLE CLIMATE CHANGE

"The customer is using their wallet to prove a point - sustainability is the future, and if you're not part of the solution then you're clearly part of the problem!"

World Benchmarking Alliance

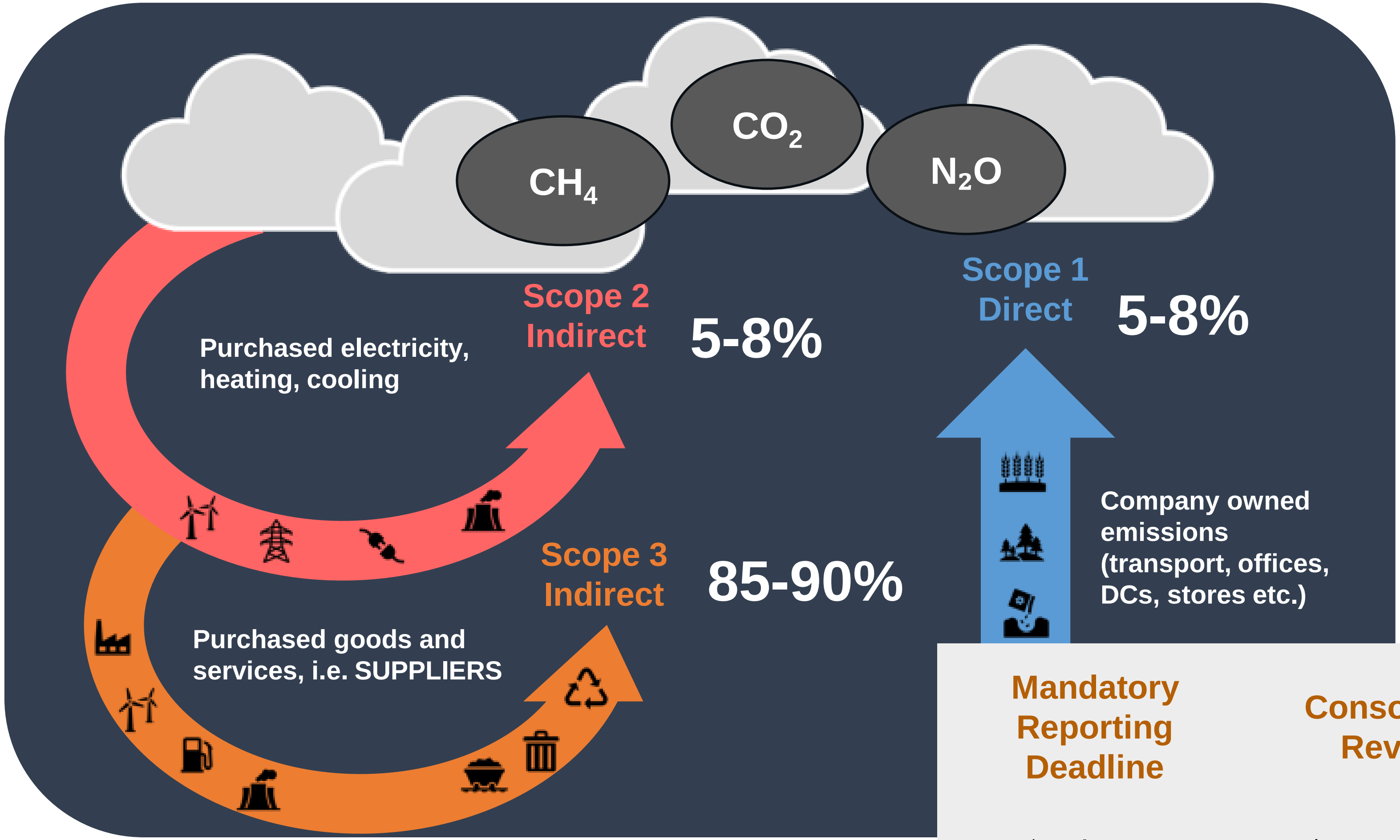
			Total score out of 100	Governance and strategy out of 100	Environment out of 100	Nutrition out of 100	Social inclusion out of 100
Score > 40	7 companies						
1	↑	Sainsbury's	48.8	57.5	50.3	42.7	50.4
2	↓	Tesco	48.7	45.0	49.2	41.3	56.9
3	↑	Charoen Pokphand Group	45.3	59.8	44.4	35.6	51.2
4	↑	Woolworths Group	43.3	38.8	30.4	49.8	51.4
5	↓	Coles Group	42.6	45.0	41.3	31.8	54.0
6	●	Ahold Delhaize	42.0	43.6	42.9	29.0	53.6
7	↑	Wm Morrison Supermarkets	40.2	27.5	44.2	32.4	48.4

- Consumers expect it, but expect to **pay nothing** for it
- Retailers will measure and **benchmark suppliers**



Source: World Benchmarking Alliance 2023

CLIMATE REPORTING FOR RETAILERS (….AND SUPPLIERS)



Mandatory climate reporting is expected to cover over **20,000 entities** in Australia by **FY2027**!

Mandatory Reporting Deadline	Consolidated Revenue	Gross Assets	Employees
1st July 2024	$500 million +	$1 billion +	500 +
1st July 2025	$200 million +	$500 million +	250 +
1st July 2027	$50 million +	$25 million +	100 +

(If meet any 2 of 3 criteria)

HOW SHOULD RETAILERS COMMUNICATE SUSTAINABILITY?

CONSUMER

- Expect 'climate friendly' products
- How to identify 'sustainable products' and adjust spending habits accordingly?

RETAILER

- Sourcing sustainably produced products
- How to communicate 'sustainability' to consumers?

No holistic consumer facing solution currently available in Australia

UK supermarkets in eco-label pilot
Sainsburys, Co-op and M&S use a traffic-light system for assessing environmental impact of various food products

Farming for the Future *is Woolworths' SA regenerative agriculture programme. Regenerative farming increases soil fertility and health, improves watersheds, fosters biodiversity, captures carbon, bolsters resilience, increases yields with fewer inputs, builds communities and supports local economies.*

CARBON FRIENDLY

Tesco launches tubeless kitchen foil to reduce cardboard packaging

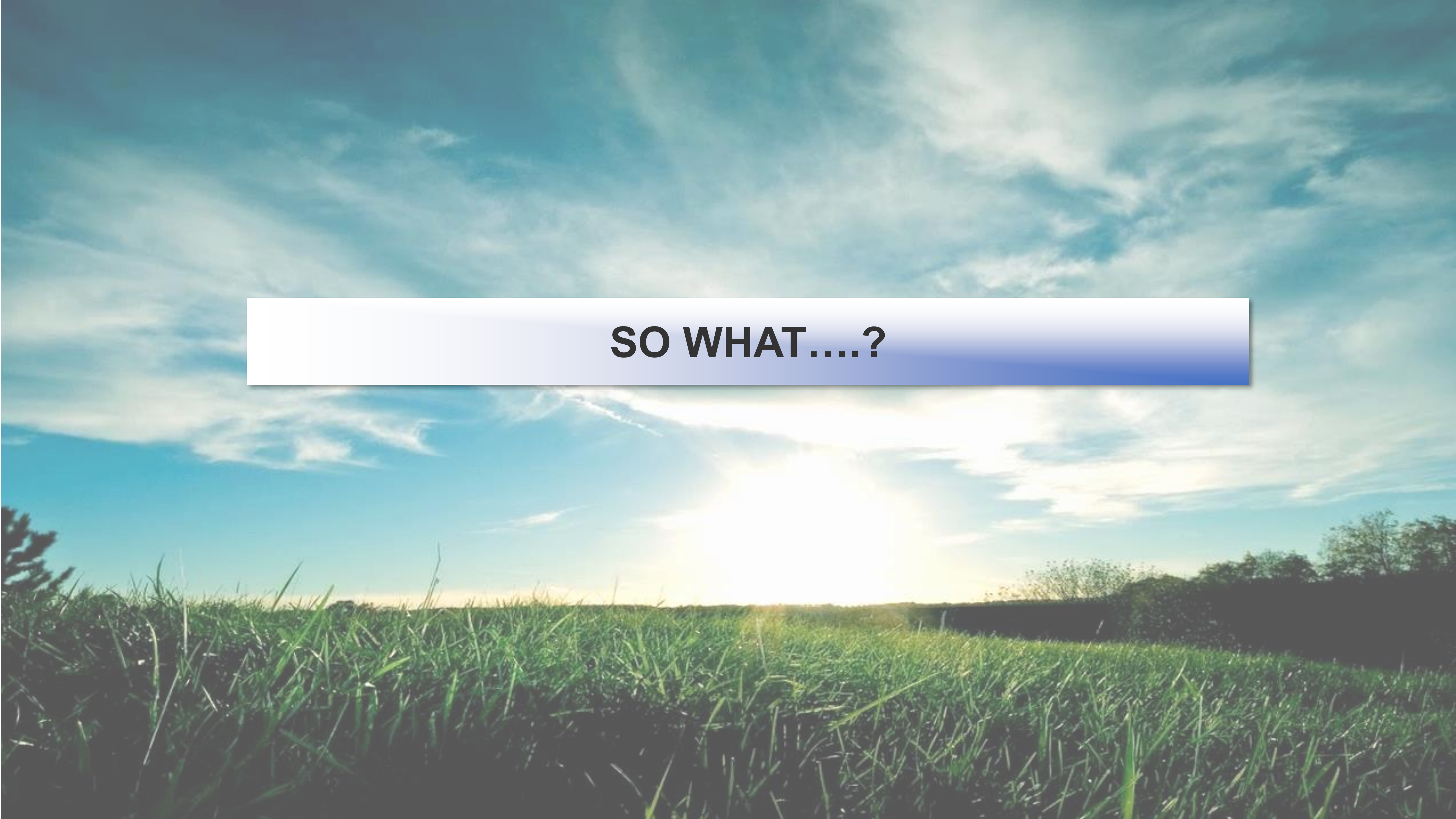
Circular Economy, Environment and Energy, Sustainability

19th February 2024

Tesco is set to launch the "UK's first ever" tubeless kitchen foil in a move the supermarket said will reduce the need for 12.5 million cardboard rolls to be produced each year.

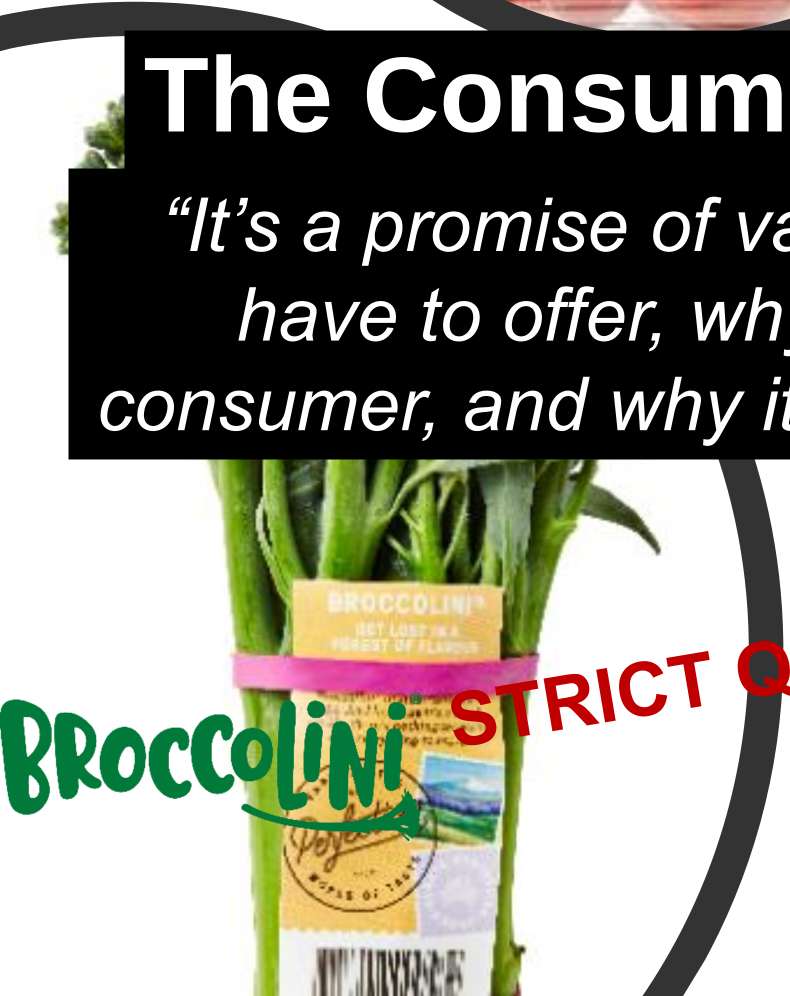
Brands and **Retailers** will partner to **minimise their own impacts** and **market their sustainability credentials** to consumers….

SO WHAT….?



The Consumer Value Proposition (CVP)

"It's a promise of value to be delivered - it describes what you have to offer, why it's relevant to the needs of your target consumer, and why it's better than everything else in the market".



STRICT QUALITY STANDARDS = TRUST

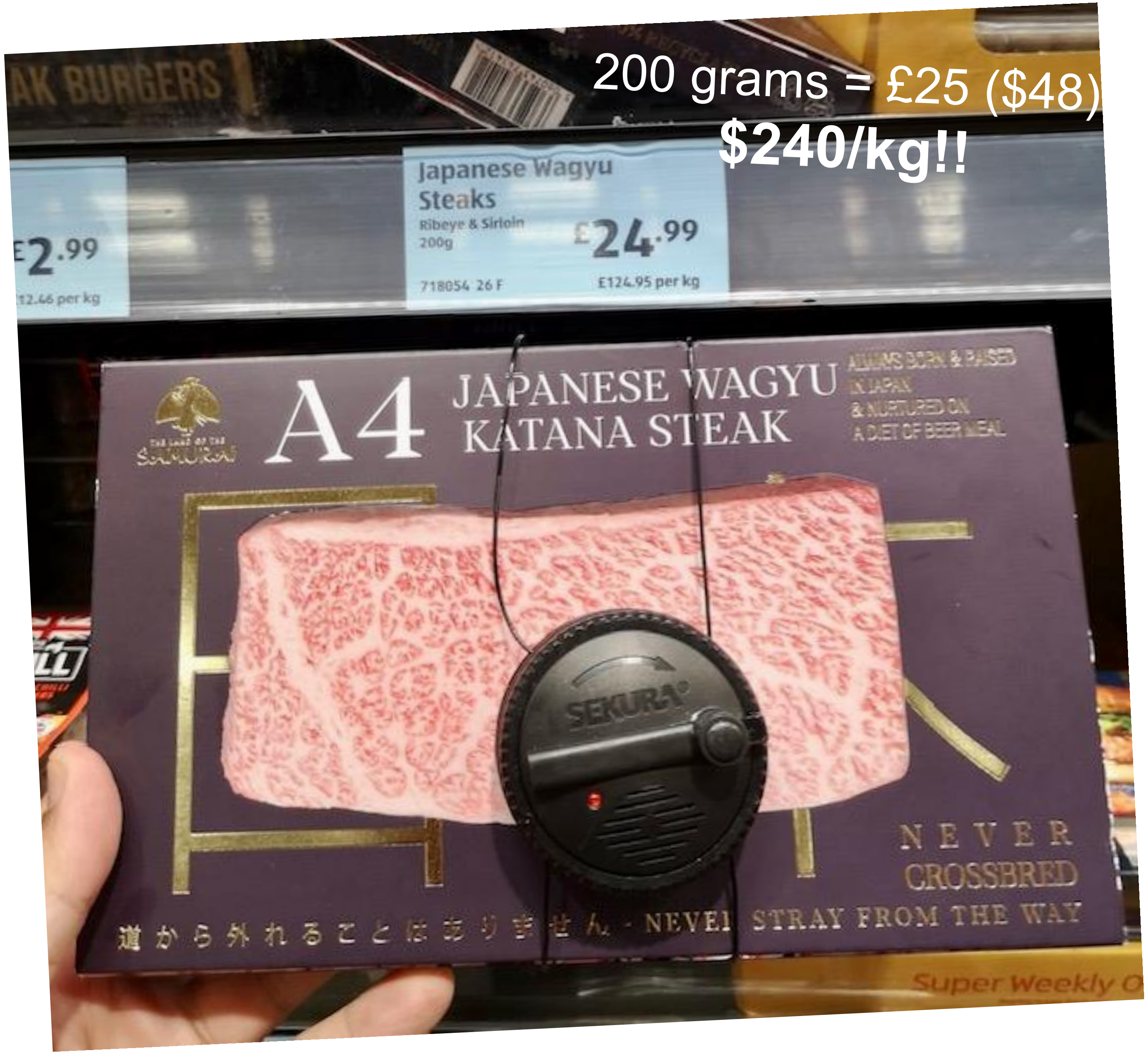
1. **BRANDING**

Evolving new, more consistent and better eating varieties into brands leads to greater margin capture…

2. ALDI IS SETTING THE RETAIL PRICE (GLOBALLY)

BUT… DISCOUNTERS CAN ALSO DO ‘PREMIUM’!

ALDI will increasingly want to compete for budget AND premium consumers…

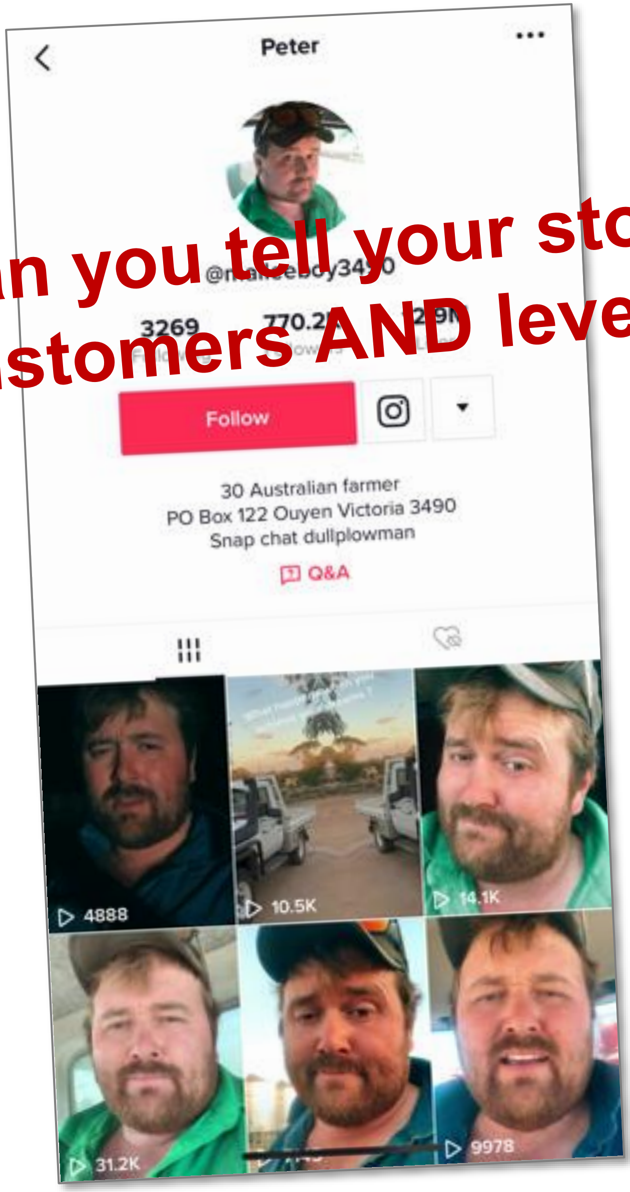


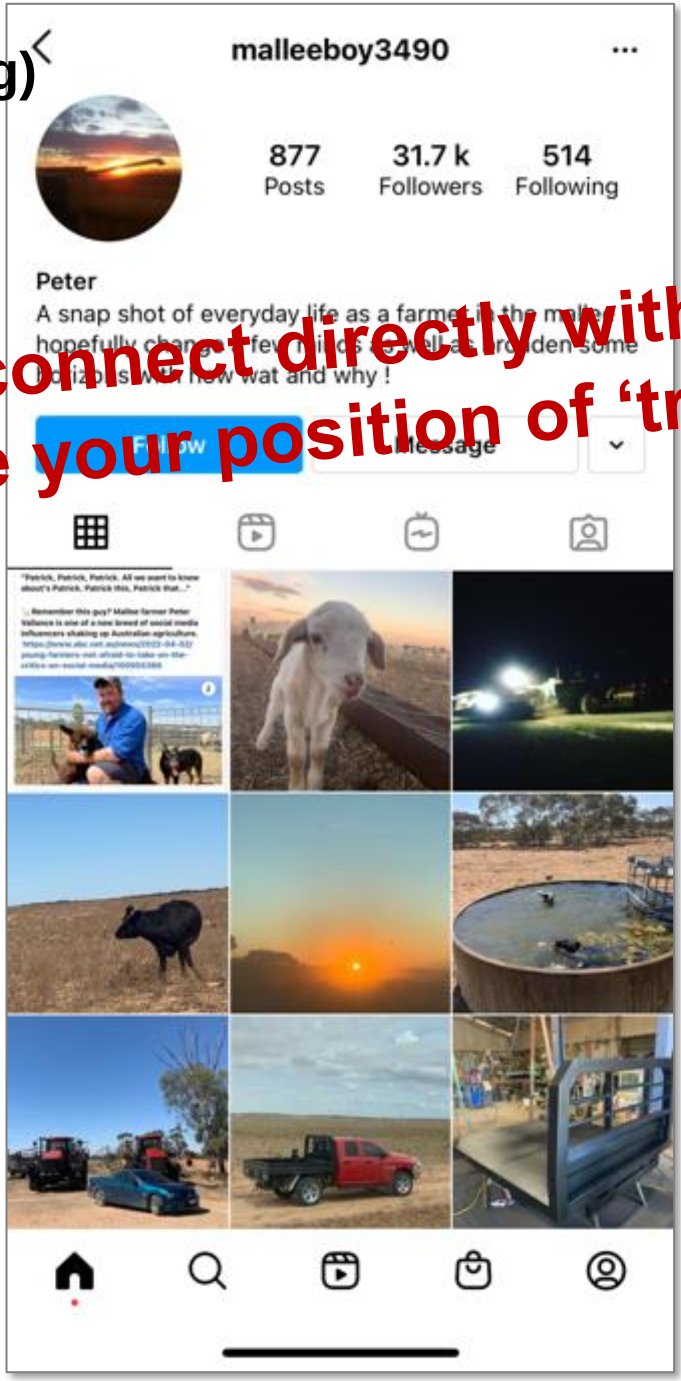
3. UNDERSTAND 'OCCASIONS'

E.g. snacking, meal-deals…

Member-Only Pricing: Driving loyalty and trip frequency

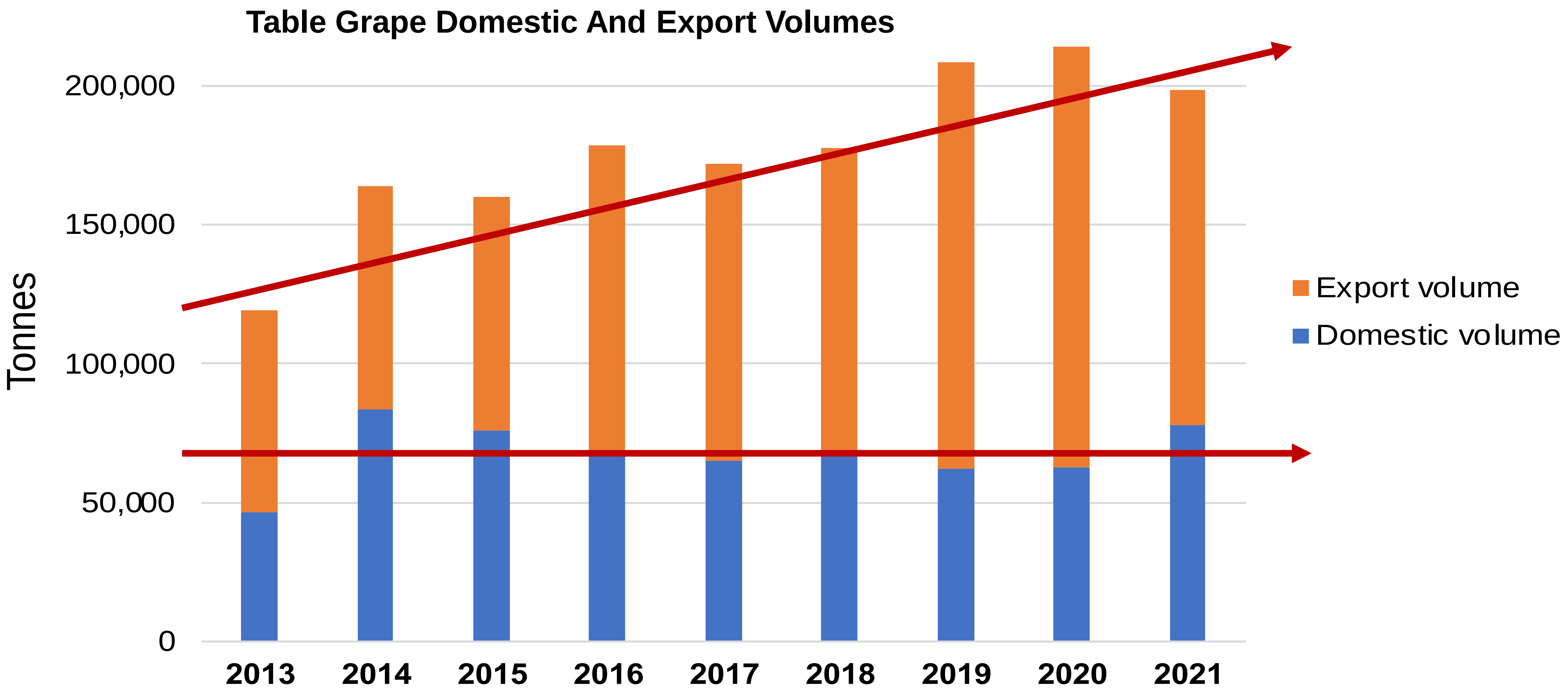
4. AG INFLUENCERS (story-telling)





Can you tell your story, connect directly with your customers AND leverage your position of 'trust'?

5. EXPORT SUPPLY TO EASE DEPENDENCE ON THE DOMESTIC MARKET



6. START YOUR SUSTAINABILITY JOURNEY NOW

1 - Expert assessment on **footprint** and **action plan**

2 - Alternative **packaging** to reduce plastic

3 - Invest in **off grid sustainable energy**

4 – **Removal** of unsubstantiated green claims

5 - **3rd party accreditation** of sustainability credentials

6 - **Invest & develop sensors, tech and data collection** for monitoring of emissions & resource use across whole value chain

7 - Compliance with **local governance**

8 - **Leverage sensors, AI, automation** to improve a smart supply chain to reduce water, energy and ingredient waste

9 - Recalibrate transport logistics to **incorporate electric fleets, automation**

10 – Replace alternative ingredients and suppliers to minimize footprint – **Regenerative agriculture** – local producers – **alternative** protein & ingredients

11 - Traceability and validation **recorded on blockchain**

Today
Existing solutions that can be readily adopted and spread

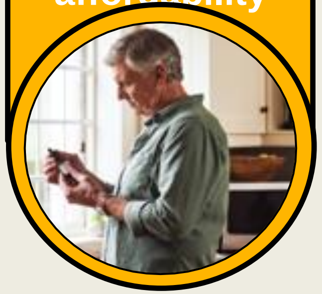
1-5 years
Require additional development, investment and time

6 years and beyond…
Systemic shifts that may replace existing practices

Affordability

Choice

Lifestyle & affordability



Influence

Acceptance

Triggers required for consumer engagement

Source: Nielsen IQ

CARBON MONITORING: WHAT'S IN IT FOR PRODUCERS?

1. Meet the climate related **reporting requirements**
2. Enhance the **value of assets** and **produce**
3. See improved **yield** and **efficiencies**
4. Establish a new revenue stream with **carbon credits**

Improved Soil Health: Carbon sequestration enhances soil structure and fertility, fostering healthy soils.

Increased Crop Yield and Quality: Enhanced water and nutrient availability from carbon sequestration promote higher yields and quality in crops.

Climate Change Mitigation: Carbon sequestration offsets emissions, aligning horticulture with sustainable, climate-resilient practices.

Enhanced Biodiversity: Sequestration supports diverse ecosystems, positively impacting plant and crop diversity in horticultural settings.

Water Management: Carbon-rich soils improve water retention, conserving resources and contributing to efficient water management in horticulture.

Source: carbonfriendly.io

SUPERMARKET ENQUIRIES

1. Supermarket Inquiry (ACCC)
Assessment of competition in the supermarket industry, with a focus on how items are priced.
Interim report due August 2024 and final report due February 2025

2. Australian Government Food and Grocery Code of Conduct Review 2023-24 (Treasury)
Review to decide if the food and grocery code of conduct should be mandatory instead of voluntary.
Review due 30 June 2024

3. The Competition Review (Treasury)
Reviewing competition in the supermarket sector.
Reports through to August 2025

4. Select Committee on Supermarket Prices (Senate)
A debate between supermarkets and producers, regarding the cause for high prices.
Report due on 7 May 2024

5. Select Committee on Cost of Living (Senate)
Investigation into the rise in the price of groceries as a factor in Australia's ongoing cost-of-living crisis.
Report due 31 May 2024

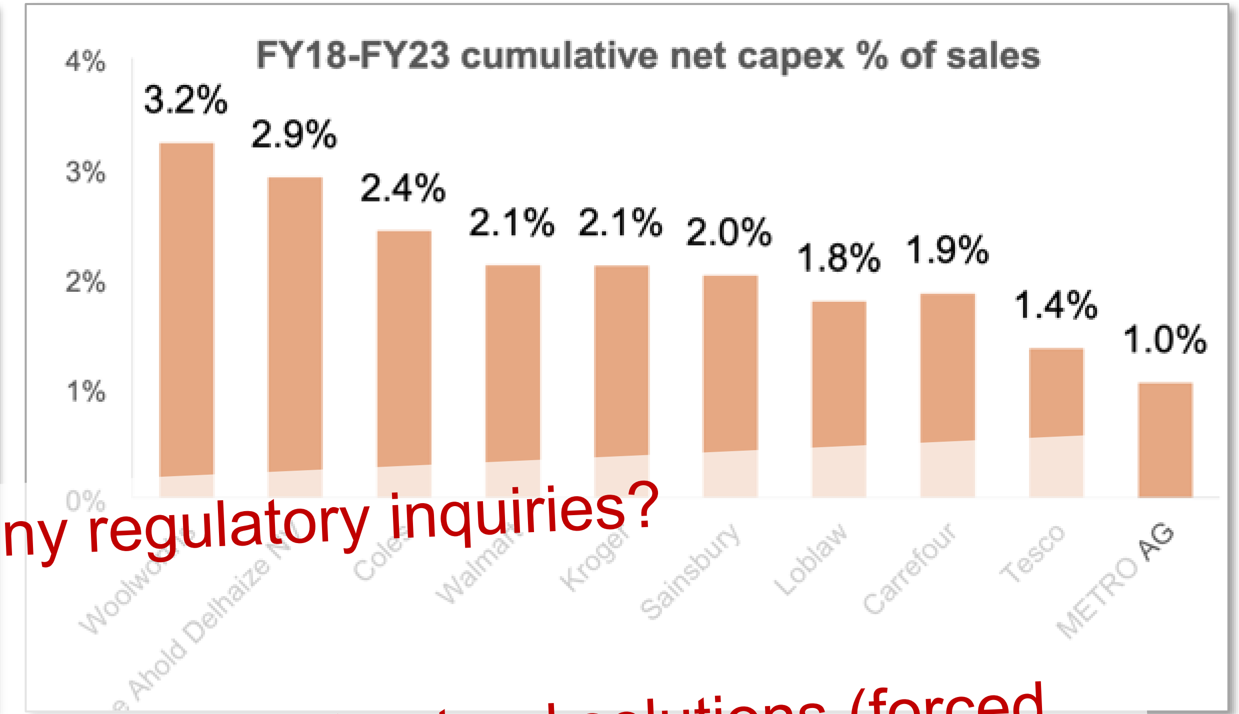
6. Standing Committee on Economics — inquiry into promoting economic dynamism, competition and business formation
House of Representatives standing committee undertaking specific inquiries into competition.
Reporting date hasn't been announced.

Inquiry into price gouging and unfair pricing practices (ACTU)
Commissioned by the Australian Council of Trade Unions and run by former ACCC chairman Allan Fels.
Findings handed down in February 2024

6 inquiries running concurrently looking at the price of groceries and 1 completed…

Coles and Woolies margins are high compared to international peers…

…BUT they've invested considerably more to capture supply chain efficiencies



- What is the real reason for so many regulatory inquiries?
- And why now?
- And why won't Anthony Albanese entertain structural solutions (forced divestments) if he believes the supermarkets are profiteering?

= TRANSPARENCY !!

Source: Company Data, Barrenjoey

THE CHANGING RETAIL & CONSUMER LANDSCAPE

TRISTAN KITCHENER | +61 407 827 738

tristan@kitchenerpartners.com.au | www.kitchenerpartners.com.au