WHITEPAPER

Snack wars:

Why CPGs must improve their in-store execution to remain agile

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Introduction

CPG companies are faced with significant challenges in 2023.

Heightened competition from private labels and low-cost brands, and tightened consumer budgets amid a backdrop of rising manufacturing costs are posing a threat to them.

The stakes are even higher for snack brands. These CPG products sell in traditional and convenience channels, where people tend to make more impulse-based decisions. As a result, snack manufacturers have to factor in more variables to stay on top of everything, from monitoring their products on shelves to executing promotions effectively.

To overcome these challenges, CPG snack brands need to deploy strategies that help to reduce costs and boost profitability. Brands also need to develop better insight into whether their products are available on the shelf so consumers can buy them as part of their impulse purchases.

This whitepaper discusses how Trax Dynamic Merchandising powered by Flexforce and Trax Retail Snapshot can help CPGs remain competitive in the demanding snack category.

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Increased competition from private label and low-cost brands

Consumers are open to new options

As the US economy continues to slow down and the probability of a recession looms large, more and more consumers are on the hunt for cost-effective products. They are willing to put aside brand loyalty for this, with as many as 65% of consumers being likely to switch brands if they feel the price is too high. In fact, 36% have already tried a new product, and a tremendous 73% of those intend to continue using the new brand. But CPGs have been unsuccessful in attempts to bring prices down. Part of the reason for this is higher manufacturing expenses, which are being driven up by inflated material and labor costs, and being compounded by supply chain and logistical challenges. If you've felt the impact of these hurdles on your operating sheet, you're not alone; high costs for raw materials and transportation were named among the top four challenges by companies in the National Association of Manufacturers' survey for the last quarter of 2022.

Consumers are not afraid to switch brands

65%
will switch brands if prices are too high

36%
have tried a new brand

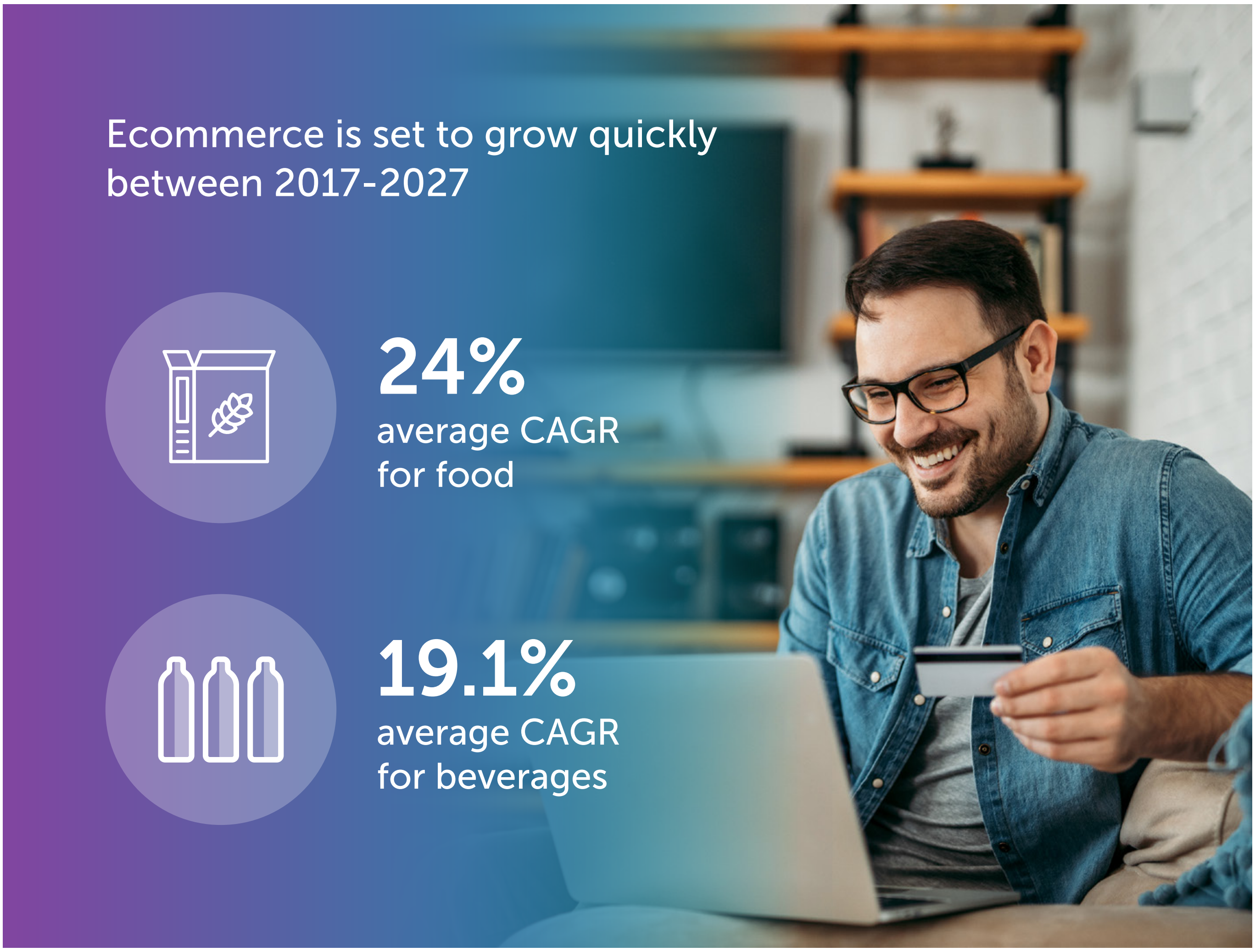
73%
intend to keep using the new brand

Source: McKinsey and Deloitte

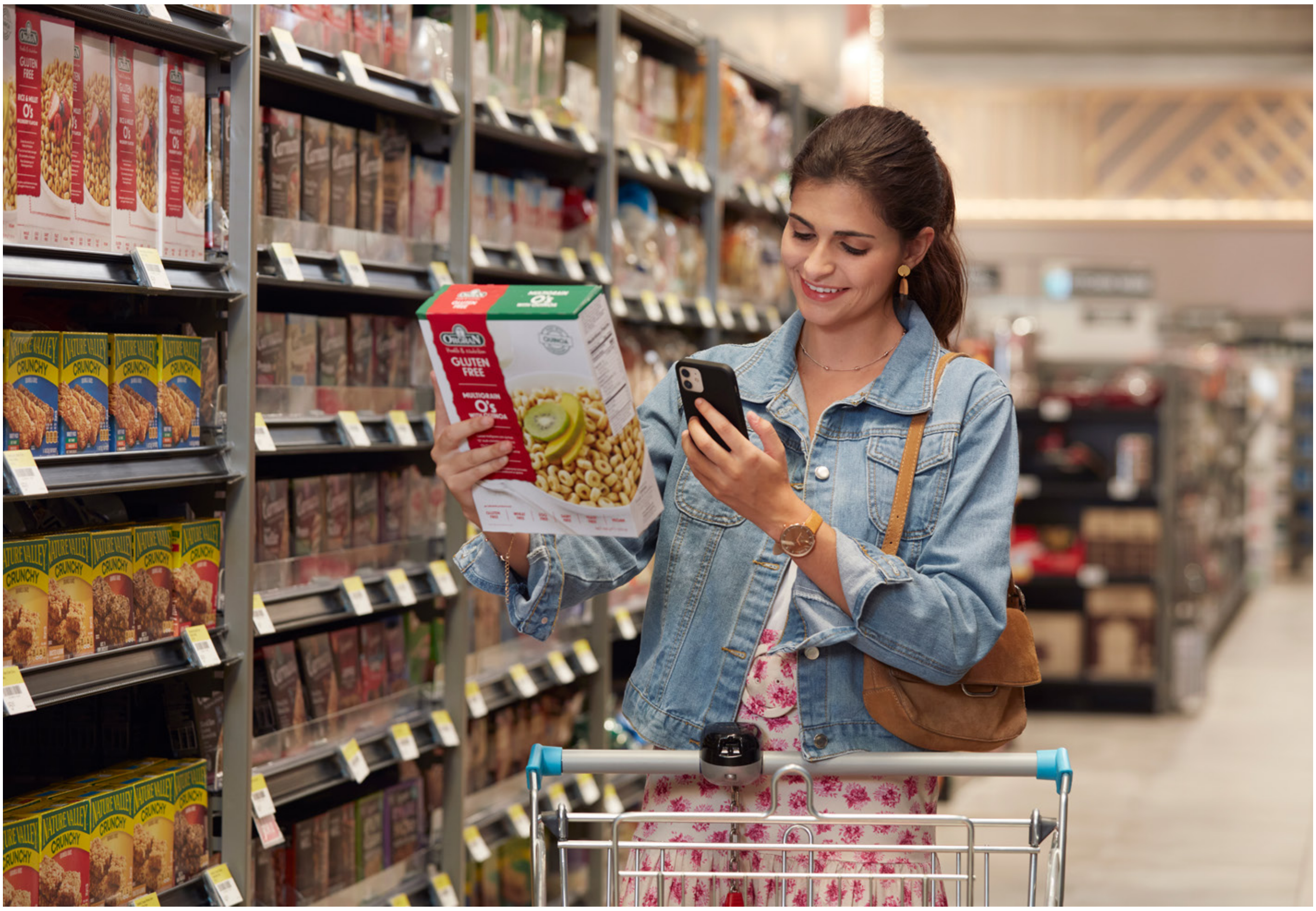
It's no wonder shoppers are turning to private label or store brand products over big-name brands that tend to be more expensive, especially when it comes to groceries, where prices have skyrocketed by over 11%. One survey in 2022 even found that out of 144 categories impacted, a whopping 71.5% gained in private label share. And according to McKinsey, 25% of shoppers have recently tried a new private label brand, making it evident that consumers are open to new brands that help them save.

Ecommerce's contribution to the growth of private label

The rise of ecommerce has also fueled the growth of private label brands. In the US alone, ecommerce is expected to grow at an average CAGR (compound annual growth rate) of 12.7% between 2017-2027. This figure is much higher for F&B at 43% (food = 24% and beverages = 19.1%).



With ecommerce, low-cost brands have a lower barrier to entry into markets. They also need less capital to gain awareness and consideration from consumers. As a result, many online-only brands have and continue to transition toward an online-to-offline (O2O) model. As these brands gain popularity, retailers looking to keep customers coming back to physical stores are encouraged to give them share of shelf.



More choice, less space

As more private label brands appear in stores, the sheer amount of choice is staggering. The average supermarket carries anywhere from [20,000 to 50,000 products](), while larger stores can have up to 100,000 items.

Supermarkets and large format stores can have up to

100,000 items

So even as price consciousness among consumers increases, shelf space owing to competition continues to decrease. In addition, retailers favor their own house brands with higher margins and tend to skew shelf space accordingly, making it more important than ever for CPG brands to maintain loyalty and stay top-of-mind for consumers.

To do this, they need to have insights into their competitors' products, ensure their own share of shelf and grab new opportunities as and when they arise on-shelf. Higher competition also means your products need to be stocked, correctly placed and in compliance at all times, or you risk losing business to a brand that is in-stock and on-shelf when the shopper comes looking.

Reducing OOS and improving OSA

The right insights and data can help snack brands make informed decisions about their supply chain and inventory management. For instance, data can uncover issues like inaccurate forecasting of product demand by the retailer or the brand itself, which in turn can lead to out-of-stocks (OOS) and ultimately up to 3.9% in lost sales due to poor on-shelf availability (OSA).

By leveraging Trax Dynamic Merchandising's computer vision-enabled (CV) image recognition (IR) technology, snack brands can gain visibility and insights into their shelf data.

Dynamic Merchandising uses an on-demand, flexible workforce called Flexforce to conduct the field visits which make the insights possible by capturing images of shelf conditions in real-time. The CV-enabled technology then uses IR to analyze these images and artificial intelligence (AI) combines it with information from previous store visits. All these signals are used to provide recommendations for restocking and optimizing shelf space, which the on-ground Flexforce receive and act on in real-time.

With products being on shelves when customers walk into stores, brands avoid the risk of losing mindshare and, by extension, a sale.

1. Images taken by **on-ground Flexforce**
2. CV-enabled IR **analyzes images**
3. AI combines it with **previously gathered information**
4. Flexforce gets **real-time notification** of tasks to action

Rising costs and tightened consumer budgets

Brands are facing immense cost pressures

Supply chain and logistical challenges, as well as higher labor and manufacturing costs, have made it difficult to keep expenses low. Despite this, CPG companies are wary of increasing prices. For one, consumers are feeling the pinch of inflation, which means they won't appreciate paying more than they already are. This is even more pertinent to snack brands, a category which those earning less than $50,000 a year are expected to cut back on this year.

Secondly, retailers experiencing the squeeze of inflation themselves will look to retain customers with lower purchasing power. This will result in increased scrutiny on brands and prices, particularly in the CPG snack industry, where competition is sky-high.

Get accurate shelf insights to drive costs down

By understanding what's happening at the shelf—from how shoppers make purchases to how, when and if stocks move—CPG snack brands can curb some of the 25% of sales that are lost annually to poor retail execution. When price increase is not an option, ensuring products keep moving off the shelves smoothly and quickly becomes even more important.

IR technology powered by AI

Dynamic Merchandising combines AI and real-time shelf data to help you optimize your execution tasks with maximum efficiency. It also provides a user-friendly dashboard where you can closely monitor shelf conditions and identify areas where improvements are needed. This then allows you to optimize product placement and planogram strategies, leading to more efficient use of space, ultimately leading to cost savings.

Best of all, brands pay for tasks performed by the Flexforce rather than the time taken to perform them, which means you can pre-determine costs—and build them into budgets—without risking additional charges for time lost due to store-level inefficiencies such as incorrectly placed items, OOS due to the store's oversight in not restocking shelves from the backroom, etc.

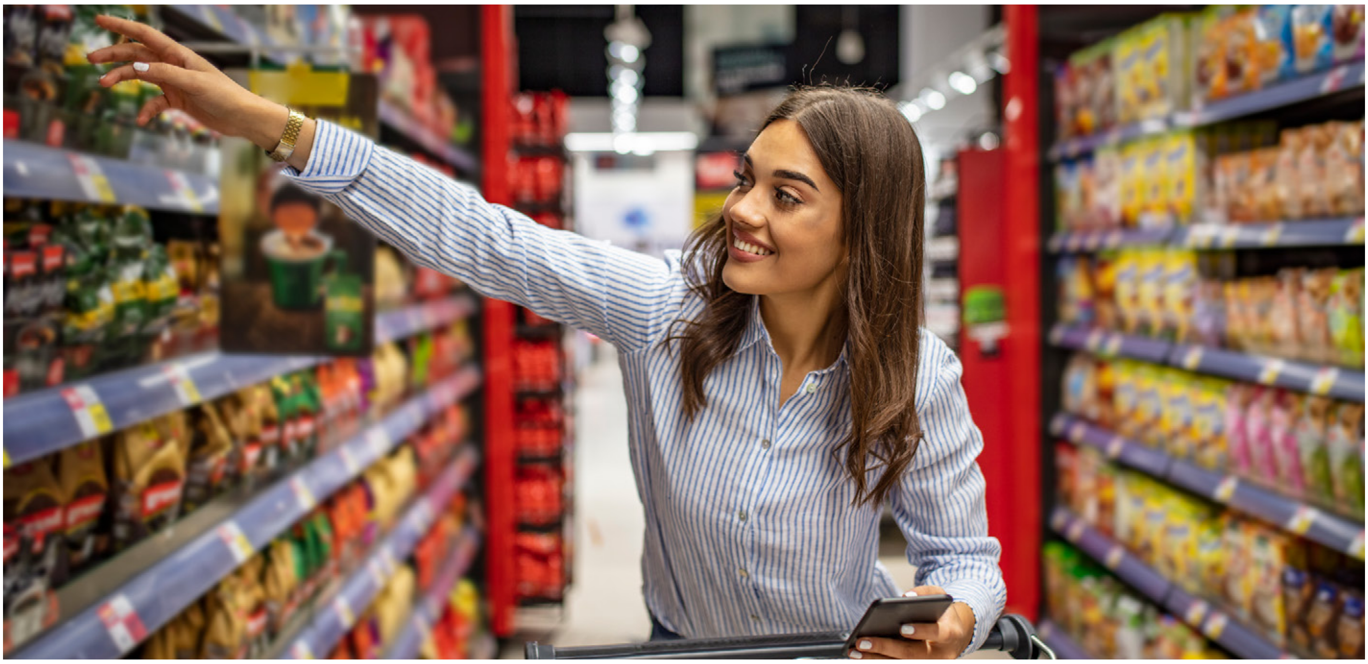
This approach can reap huge benefits, as discovered by a multinational snack brand that partnered with Trax Dynamic Merchandising to leverage its field force. Trax helped the brand add $337,000 in incremental revenue and quadrupled the ROI per customer.

Results from a snack brand's collaboration with Dynamic Merchandising

337K
incremental revenue unlocked

4X
ROI per customer

Attracting and maintaining sales in the impulse category



Shelf presence impacts impulse purchase decisions

Shoppers often make spur of the moment decisions to buy certain low-cost products, and this trend is on an upward trajectory. In 2022, Americans spent $314 on impulse purchases. In 2021 and 2020, this number was at $276 and $183 respectively. With over $3,700 a year being spent on split-moment purchases by consumers otherwise wary of opening their wallets, it is imperative that brands make the most of the opportunity.

But shoppers make these purchases based on what they see while they are browsing shelves. So, a product that is not on the shelf cannot be bought. Thus, OSA is crucial when it comes to triggering impulse buys. This is especially true for snack brands, where unplanned purchases are more likely to take place. Since the goods are often low consideration and the market saturation is high, shoppers are likely to simply pick the nearest brand or the first one that catches their eye.

Americans are spending more on impulse purchases

$183	$276	$314
2020	2021	2022

The benefits of an expandable consumption category

Another advantage that snack brands have over some other CPGs is that they fall within the expandable consumption category, meaning that when consumers have more of the product on hand, they consume it faster than any other category and thereby repurchase it more quickly. And if it's on sale, they are likely to buy more even if they already have some at home.

In fact, with reduced spending capacity, promotions are even more attractive for shoppers. A sizeable 30% of surveyed consumers said they bought a different brand or product because it had a better price or was on promotion. Another 25% purchased it due to better perceived value, while an additional 15% did it for attractive shipping or delivery costs.

Consumers are seeking out promotions and value

30%
purchased a product on promotion / with a better price

25%
made a purchase due to better perceived value

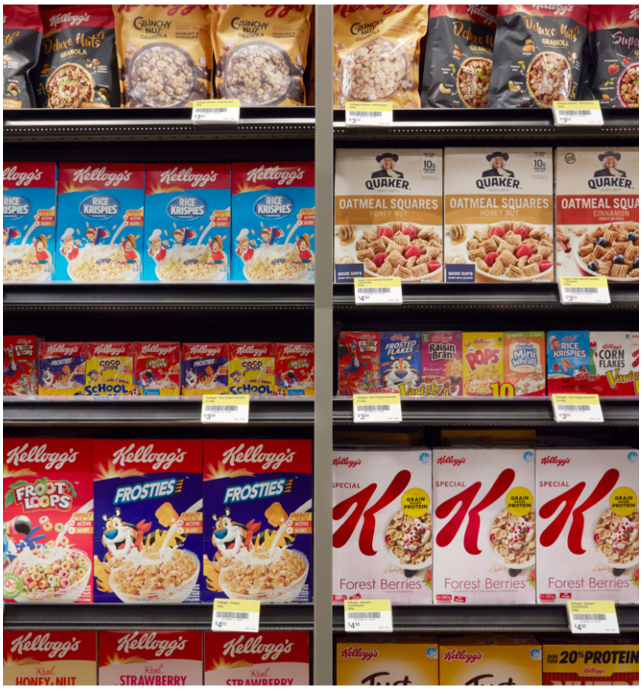
15%
purchased for better shipping or delivery costs

Appealing to consumer impulses

As seen above, one of the ways to trigger impulse purchases in consumers is to offer a discount or promotion. In fact, the same survey that revealed shoppers spend over $300 per month on impulse purchases, also found that 58% of those spenders actually saved money because they found a good deal.

Plan, execute and optimize promotions in near real-time

For brands in the snack category, which is typically a low consideration purchase, offering a discount or value promotion is even more likely to quickly seal the deal and result in a purchase by consumers. Therefore, executing high-traffic promotional displays perfectly is a must for such brands.



That's just what a leading snack brand did. To drive impulse purchases with limited shelf space in stores, the company turned to Dynamic Merchandising. In response, Trax deployed its Flexforce to install intuitive secondary displays of the brand's promotional product in the checkout lanes of a major US retailer. This resulted in a significant increase in visibility for the brand among impulse shoppers, with distribution points rising from 1,600 to 5,000 and sales increasing by double digits across the retailer's stores.

Shelf data captured by Trax Flexforce also allows you to track the ROI of such promotions in near real-time and see when something is OOS, underperforming, or not executed correctly.

Get a shopper's eye view to help plan and optimize your promotions

Planning and obtaining real-time data are crucial factors for successful promotions. The last thing your brand needs is to slash rates without understanding store layouts, only to realize at the very end that the promotion has underperformed.

Besides Dynamic Merchandising, you can also consider using Trax Retail Snapshot in such instances. As the name suggests, it provides a snapshot of a store's shelf conditions, allowing you to quickly identify issues that need to be addressed. For example, you can analyze checkout lanes, sub-category flows, and in-store equipment to optimize promotional displays.

Results from using Trax Retail Snapshot during a campaign

+8%

in display execution performance

$45m

in additional annual revenue

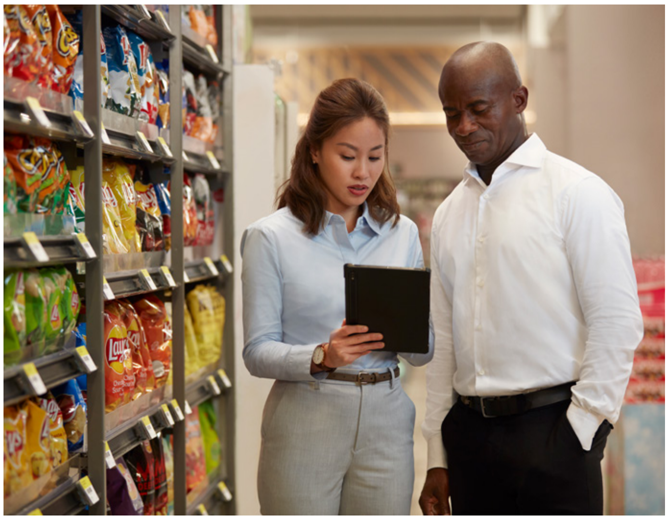
Moreover, Snapshot's same-day, store-level photos and reports enable you to promptly adjust campaigns as necessary. The best part is, the tool uses transparent, crowd-sourced data, which makes it quick and efficient. For instance, when a leading US brewery was unable to accurately measure effectiveness of its promotions during peak periods, it implemented a pay-for-performance model where the 'Trax Crowd' were tasked to visit stores at a specific frequency and during certain timings. The campaign saw an improvement of 8% in display execution performance, resulting in additional annual revenue of $45 million.

How to optimize your merchandising to win in-store

The rise of the gig economy spells trouble for traditional merchandising

As of 2023, 73.3 million US workers are part of the gig economy, and this number is set to rise to 76.4 million by 2024. More than a third of the US workforce is currently involved in gig work, indicating the trend is clearly here to stay.

As the popularity of flexible work increases, so too, does the pressure on retail and traditional merchandising. According to McKinsey, "Retail is the only industry in which flexibility ranks as the number-one driver of why you might leave your job."



According to McKinsey,

"Retail is the only industry in which flexibility ranks as the number-one driver of why you might leave your job."

This is evident in the data as the rate of retail workers quitting their jobs has been ticking up month-over-month. At 4.1% as of January 2023, it now reflects a higher rate of attrition than the pre-pandemic high.

This means traditional merchandising agencies, which were already limited due to a static full-time workforce, now face even more limitations due to lack of manpower. They are unable to provide complete merchandising services to CPG snack brands who also need support in convenience stores. Sending reps to smaller stores or rural areas is simply not feasible for such agencies.

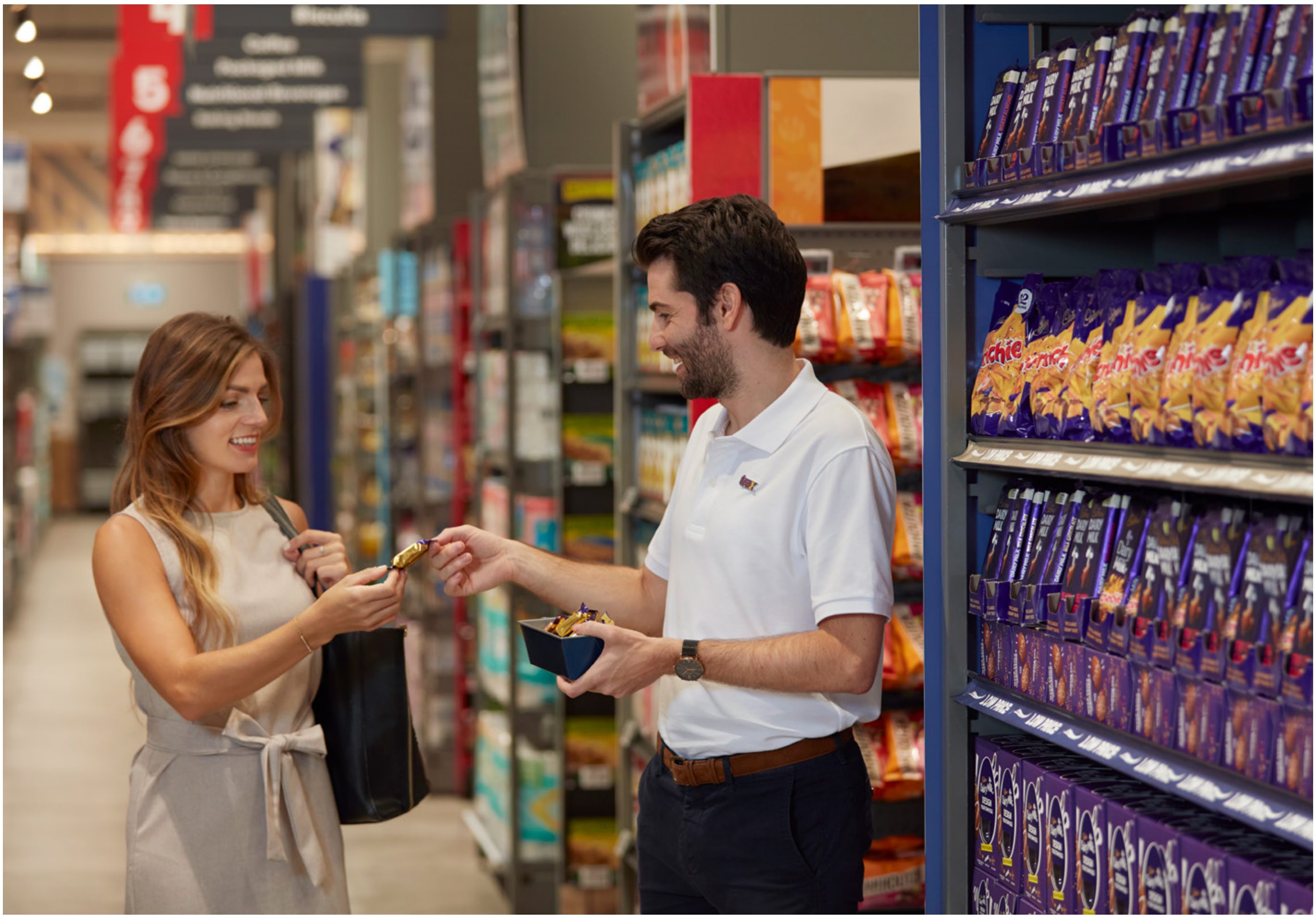
Moreover, agencies with fixed schedules can't onboard new clients quickly and when they finally do get off the ground, they are focused on performing fixed tasks. They simply lack the store and shelf data necessary to understand the opportunities and challenges presented in real-time.

The limited manpower also means reps are often shared between brands, which means they can't offer the level of granularity required to make the visit worthwhile. Reps focused on a standard task list are unable to provide insights on competitors or adjust the merchandising strategy on the ground based on real-time, in-store conditions.

And finally, given their rigid schedules, the feedback loop takes a long time to reach the brand, by which time the information has already become unusable.

Leveraging the gig economy

All the challenges of fixed merchandising can be resolved by embracing the gig economy model.



Advantage of Dynamic Merchandising over traditional agencies

Dynamic Merchandising leverages the on-demand Flexforce to conduct the field visits, compared to the permanent merchandising reps used by traditional agencies. Because of the fixed nature of the manpower, such agencies usually report on metrics such as number of visits and cost per visit rather than focusing on the quality and ROI per visit.

The Trax Flexforce, on the other hand, takes the latter approach, because the reps are given a task list on arrival at the store rather than checking things off a pre-determined list.

Another benefit of the paid contractors used by Trax is that the Flexforce works on assigned tasks, allowing for flexibility in deployment, including in rural areas.

The on-demand nature of the workers also guarantees agility and allows for quick responses to changing requirements and onboarding of new clients in a matter of days. So when demand fluctuations occur, labor shortages won't affect your brand because you will always have a flexible workforce at hand to perform the job, no matter the time, task or location.

Conclusion

The pressures from demanding retailers, shoppers and private label competitors can be overwhelming. In addition, snack CPGs need to maintain impulse buying in a category where it's a huge selling strategy. But as well-known business leader Philip Green said, "People are always going to go shopping."

The only question remains whether they will see and pick your brand when they browse the shelves.

To ensure this, you need to deploy strategies that reduce costs and boost profitability. Focus on ensuring OSA, enabling impulse purchases and executing high-traffic promotional displays. Use a reliable, on-demand workforce to execute quickly and make changes in-flight to act on the biggest opportunities. And finally, develop better insight into your OSA and explore technological innovations to prevent setbacks like OOS.

To learn more about how Trax can be your always-on partner in achieving all these goals, **book a meeting with our sales team**

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