



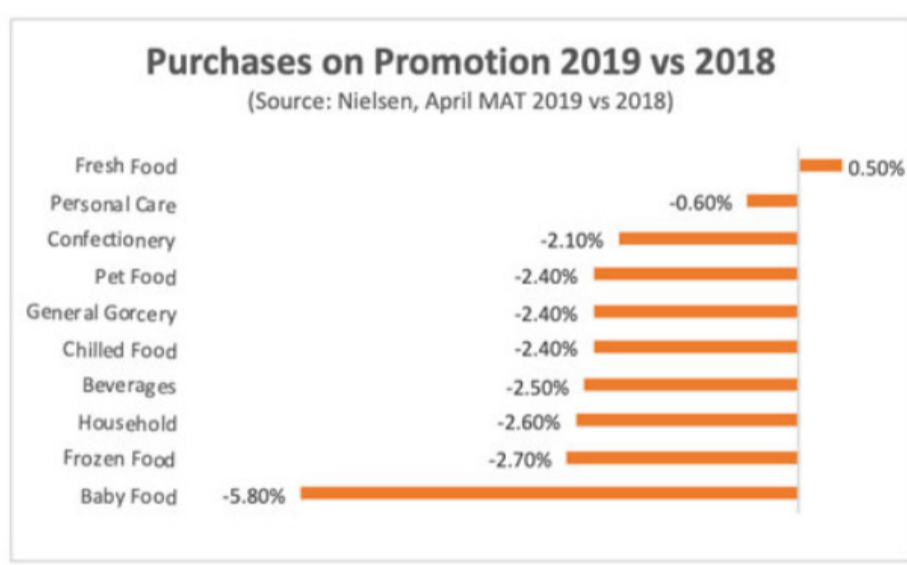
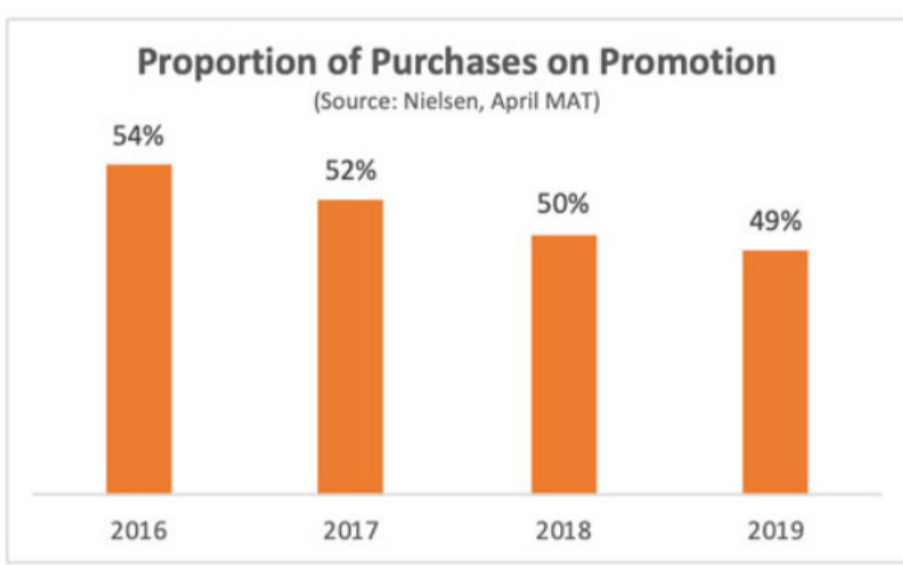
# Are we losing our bargains?

A year ago there was an article in the New Zealand Herald claiming that “\$6 out of every \$10 spent on groceries was going on items which are on sale or promotion.” What’s more, we are internationally way ahead of the curve, with Australians spending \$4 out of \$10 on promoted items, the British \$3, Germans \$2 and the French just \$1.80.

This tallies with our traditional love of bargains that The Warehouse leveraged for decades. Bargains make us feel like economically sensible and virtuous shoppers. It also resonates with the aggressive grocery promotions waiting for us in every aisle on every shopping trip.

But on closer inspection, this picture is fading.

Recent Nielsen data shows that the proportion of grocery purchases on promotion has been steadily declining, and is now down to \$4.90 out of every \$10. This decline in purchases on promotion is across most categories, with Fresh Food the main exception.



Why are we buying fewer groceries on promotion?

Here are five explanations that contribute to this trend:

**1. A change in pricing mechanism**

There has been a steady increase in the use of everyday low pricing as opposed to hi-lo deep discounting. Countdown’s Price Lockdown strategy is a perfect example of this.

**2. More sophisticated analysis of price elasticity**

According to Nielsen, there is a growing sophistication in the understanding of price elasticity amongst FMCG marketers. Responsiveness to price promotions varies across brands and products. The consequence of this is that compared to the days of blast-promoting everything, companies are becoming more selective with what they promote, and what they maintain at standard shelf pricing.

**3. Innovative new product development**

Casting an eye across many shelves you’ll find a huge growth in product innovation. Whether it is new brands of kombucha, spicy sauces, vegan and vegetarian, ethnic foods, health and beauty potions, or frozen desserts, there is a lot of diversification in supermarkets. This is especially driven by smaller, local companies who are marketing with a mindset of value creation rather than price reduction.

**4. Premiumisation**

In keeping with the rise in product innovation, there has also been a premiumisation of higher priced products in many categories. This trend is influencing traditionally high value categories such as the deli with products like buffalo mozzarella and cured meats. It is also making significant headway across more staple categories like dairy, fresh meat, frozen foods, ice cream. A quick scan of the shelves on my last trip to the supermarket discovered a \$35 bottle of maple syrup, and a \$65 bottle of ‘adult’ soft drink cordial.

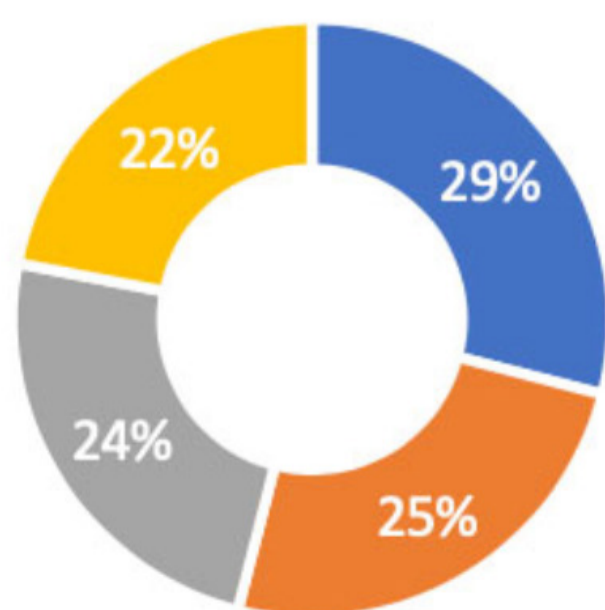
Another symptom of premiumisation has been the launch of ‘Pam’s Finest’. The traditional home brand of value staples now features items such as Mascarpone & Black Truffle Cream Pasta Sauce. This is targeting a new segment of everyday sophistication.

**5. More balanced shopper demand**

Recent Energi supermarket shopper research shows that while price is the most significant overall factor, it is by no means the sole driver of grocery shopping. Indeed, the overall weighting of influencing factors is relatively balanced between wanting to save, to take care of everyone at home, to browse for new things and to get through the store quickly.

## Factors Influencing Grocery Shoppers

(Source: Energi, n= 283, August 2019)



- Save as much as possible
- Take care for everyone at home
- Like to browse for new items to try
- Do shopping as quickly as possible

So, are we losing our bargains? Not really. We still buy a lot on the promoted price. However, the concept of bargains is evolving from blunt reductions to more sophisticated and targeted forms. And the appeal of promotions faces more competition in the form of exciting and innovative products that command a premium by adding value.