The new deal
Re-evaluating value in extraordinary times

DAVID ROTH
CEO The Store WPP, Chairman BAV
In the current climate, with pressure coming at businesses and consumers from all directions, it has become increasingly clear to me that brands must now put value at the heart of what they do.
They have always needed to do this, of course, and as a former retailer myself, I've been a proponent of keeping a close eye on continuing to sharpen and communicate the value proposition offered to customers. But over the past decade, value has often played second or even third fiddle to other issues, and it must again be put in the spotlight.

That's why we at BAV are launching a new “value” metric to help brands and retailers unleash their brands' value proposition in ways that fit with the challenging decisions consumers now face.

The WPP BAV Brand Worth Map enables brands to see and track how brands and their competitors are perceived in terms of the value they offer. Exclusively available to WPP and our clients, it shows where a brand sits on the dimensions of “worth paying more for” and “providing good value”.

The Brand Worth Map, other BAV brand diagnostic tools, and the power of BAV brand consultants, can help you identify which brands are still considered “must-haves” and which are most dangerously exposed to being struck from the shopping list.

They also highlight which brands are well placed not only to resist pressure on prices, but could raise them – and still have shoppers willing to pay because perceptions of value are strong. The WPP BAV Brand Worth Map covers some 57,000 brands in 50 countries.

From McDonald’s to Maserati, brands need to rethink and frame the value proposition they offer their customers and how they communicate their value proposition.
What’s the urgency?

Consumers are facing the squeeze of a generation as prices rise and disposable incomes contract.

Inflation in the United States surged to 7.5% in January – the highest in almost 40 years. In the Eurozone, it hit an unprecedented 5.1%. In the UK, the 5.5% January jump in inflation was the highest annual rise in almost 30 years. It’s a similar story in India, South Africa, Malaysia and Australia.

The last time inflation was this high in the US, Joan Jett and Olivia Newton-John were jostling for position in the Billboard charts. And if you're asking “who?” and “what?”, then that's exactly the point. Inflation is back with a vengeance – and is meeting a very different world and a wholly new group of consumers.

Consumers who have never known meaningful inflation before are now seeing their food and energy bills soar.

Fuel alone has become a major burden on householders; wholesale petrol prices close to doubled in 2021 in Australia, for example, as demand post-COVID began to gather momentum. Fears of war in Ukraine drove fuel prices higher in the New Year.

The price of oil hit $105 per barrel when Russia launched its invasion and has been setting new records since. At the time of writing Brent Crude Oil was at $126 a barrel and forecast to increase. Food prices, too, are on the rise, with staples among those rising fastest. The cheapest options in a major UK supermarket for products like rice, bread, apples and curry sauce went up between 29% and 344% in the past 12 months.

And it’s not just product brands that will be impacted, it’s services as well. Take the price of gas.

The UK wholesale gas price has just surged to over 720p per therm – this time last year it was 44p. Those energy bills will impact the hospitality sector, among many others.

What makes these rises really bite is that consumers’ earnings are trailing behind. Real wages growth is failing to keep pace with inflation in the US, UK, Eurozone and Australia.

Consumers face the unenviable task of trying to make less money go further. This means that big decisions about what stays in the basket and what doesn’t – choices between must-haves and can’t-haves – are now being made on a daily basis, with their intensity only growing.
We do know, we’ve seen and we heard through our own studies, that people are certainly focused on inflation and they’re seeing that in their daily lives.

Walmart Chief Financial Officer Brett Biggs
Ukraine Crisis

The invasion of Ukraine by Russia was described by the Financial Times as “not just a war in the heart of Europe; this is going to be a financial and economic story that could stifle the recovery from the coronavirus pandemic”.

Ukraine is the world’s fifth-biggest exporter of wheat globally and, between them, Russia and Ukraine are responsible for around a quarter of the world’s wheat supply. Ukraine is also one of the largest suppliers of neon and other noble gases used in the production of computer chips; it’s also a major producer of cooking oil.

The price of aluminium, nickel and copper have already shot up since the assault began, with the impact likely to be felt in the price of canned food and drink.

It’s clear that as a result of the invasion, brands and retailers will face even bigger challenges in sourcing materials, moving goods around the world and maintaining profitability.

For consumers, the consequences of the war and the rhetoric it produces add a new if subtle pressure to their budgeting decisions.
The war has both a huge human impact and is resulting in serious disruptions to supply chain and trading conditions.

IKEA company statement on March 3, 2022, on why it is pausing operations in Russia
The position for brands – rocks and hard places

This all comes at a time of tremendous existing pressures on businesses – pressure that has been building for years and can no longer be absorbed by either manufacturers and brand owners or retailers.
The cost of soybeans, coffee and milk have all rocketed in recent years. The price of wheat has risen by more than 60% in the past two years, yet there has been a relatively pedestrian rise over the last decade in the average price of a baguette in France, for example.

Many brands and retailers have been working to contain these costs in order to remain price-competitive to consumers; but that’s no longer possible as other costs involved in staying open for business also spiral upwards.

Sudden shifts in demand during the pandemic – as well as rising air freight fees and a shortage of truck drivers in Europe – have caused a surge in the cost of moving shipping containers around the world. A year ago, it cost around $1,500 to send a single 40ft container from Asia to Europe; it’s now around $17,000.

The cost of cardboard – now known in some quarters as “beige gold” – has gone up sixfold as pandemic e-commerce and interruptions to recycling processes drive a shortage. That’s all on top of rising staff costs and eye-watering rises in the cost of heating and lighting.

A shortage in the supply of semiconductors – a $1 trillion-a-year industry relied on by technology and automotive companies as well being essential elements of household appliances – has already caused production stoppages at Ford and General Motors.

Many household-name FMCG brands have already increased prices and these rises are being passed on by retailers to consumers. Many more have warned they will also be putting up prices due to increases in raw material costs. The price of an Amazon Prime subscription has gone up 17% in the US because of mounting shipping costs. Other markets may follow.
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It is a safe assumption that our input cost increases for 2022 will be higher than 2021, that is something that we have to reflect in our pricing. There is almost no place in the company that is exempt of inflation now... some of these things you can hedge against, some not.

Mark Schneider, Nestle Chief Executive, February 17 2022, The Guardian

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Break out the BOGOFs? Not so fast!

Knowing how to offer value to consumers in times like these starts with a deep understanding of their predicament and the dilemmas they face.

Even if it were possible, trying to discount a brand's way out of this – certainly not in isolation.

When finances are under stress, it’s true, of course, that consumers seek out brands they perceive to be offering value. But the evidence shows that brands focusing only on price do so at the expense of a successful long-term strategy for growth.

Take the 2008 economic crisis. WPP BAV brand analytics data reveals that those brands that stood out then because of low prices gained momentum in the short term. But theirs proved to be a short-sighted approach. That’s because those same brands, by making themselves the bargain option, undermined perceptions of their intrinsic value.

So, when the economy started to recover and consumer spending became less constrained, the budget brands’ fortunes plummeted.

To give just one example: Folgers coffee zeroed in on its value (cheapness) credentials during 2008-2009 and its Brand Power held firm despite all that was going on. It was only when recovery took off the perils of a price focus became clear; Folgers’ competitiveness declined sharply, while rival Dunkin’ saw its fortunes rise. Dunkin’ was seen as affordable but also innovative and friendly, positioning itself as the coffee that fuels a nation.
There’s no doubt that discounting and sales promotions are a vital sales technique when done correctly. It inspires excitement and creates a call to action. However, when offered at the wrong times – for no other reason than to boost sales – it can cut the other way and create brand deterioration.

The changing value equation

The situation today is quite different to crises past. While “value” used to be almost exclusively about price, we might say $V = P$, in 2022 the value equation is much more complex, perhaps $V = P \times \text{Time} \times \text{Quality} \times \text{Convenience} \times \text{Purpose and Values}$.

This complexity is caused by a whole raft of factors:

- **INFLATION SHOOTING UPWARDS FROM ZERO** – consumers face rising prices for consumables, such as petrol, electricity and basic food. These are not discretionary purchases. People have no choice but to meet the higher costs.

- **THE GROWTH IN SUBSCRIPTION SERVICES** – in addition to their housing, food and energy bills, most consumers these days have a wider range of other monthly commitments including car payments, broadband, mobile phone contracts, pay TV, Netflix, Apple TV and music subscriptions.

- **THE FIRST INFLATIONARY GROWTH PERIOD IN AN E-COMMERCE WORLD** – global choice is limitless – e-commerce grew during the pandemic between two and five times faster than before the virus struck, depending on the country. Shoppers now have, and expect, access to a whole world of information, goods and services.
MORE PRICE TRANSPARENCY – access to information is free and universal; no one needs to pay more because they didn’t know there was a “better” deal. The ability to be able to offer higher prices in one part of a country to balance a blended margin as was possible in the last recession has been torpedoed by the Amazon “flat price” in a geography.

EVERYONE’S AN INFLUENCER – close to 4 billion people around the world use at least one social media platform, and YouTube says 72% of people have posted video content online in the past 12 months.

NEW EXPECTATIONS OF BRANDS – WPP BAV data shows 62% of people globally trust private companies more than their government to take care of their needs.

EXPERIENCES NOW BEAT ‘STUFF’ – the pandemic has intensified the shift from buying more things to prioritising holidays, festivals, meals out and time with friends and family. There are over 13.8 million Instagram posts tagged #makingmemories, and that’s just in English.
How values can add value

There will be no single consumer response to the pressures they face. Switching to a cheaper version of the product they usually buy will be the choice for some consumers; others will stick with their preferred brand, but buy less frequently, or perhaps trade down within the brand’s own range.

Consumers might drop out of a category entirely, or splash out in one area of their lives and make sacrifices in another in order to fund it. A much-needed family holiday, for instance, paid for by stopping take-aways and switching to private label groceries.

And they’ll make many of these decisions in a socially networked way. Remember the viral images of gappy Toblerones in 2016, when many manufacturers were hoping "shrinkflation" would solve their squeeze on profits? Smaller portions for the same price made sense in theory, but not in the real world.

Another major shift in the value equation is that consumers’ personal and social values are a much bigger part of their decision-making process than ever been before.

While 20 years ago brands simply had to be seen as “nice”, consumers today are far more discriminating. There’s a powerful link between what counts as good value, and strong, shared values. Brands are required to show they stand for something that matters.

It’s therefore vital that brands increase their sensitivity and understanding of consumers’ evolving views on purpose and social good. An Ernst & Young post-pandemic attitudes survey shows one-third of consumers strongly agree they will reappraise what they value most.

For many consumers, there’s a growing emphasis on health, sustainability and convenience, and the brands that deliver these will be seen as providing something of value that justifies – at least to some extent – the price people are willing to pay.
Consumers are rethinking value – and brands and retailers must now redefine the value they offer.

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We need to build brands with purpose. We need to go from ‘marketing to consumers’, to ‘mattering to people’.

Keith Weed during his time as CMO of Unilever

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Are you prepared?

At a time when consumers will increasingly be forced to make cutbacks and trade-offs on an unprecedented scale, we can help you explore what defines “good value”.

At BAV, we can help you grapple with big questions, like:

- Is my brand seen as a great deal by my target audience?
- If not, why not?
- What value can I add to consumers' lives beyond affordability?
- Do I have scope to charge more?
- How can I help consumers feel good about spending limited funds on my brand?

For brands, just as for consumers, the decisions to be made are complex and no one size fits all.

The Brand Worth Map will help you understand consumers' perceptions of a brand's true value, whether you're involved in food, fast cars or fashion. We can help businesses navigate this challenging new world, understand consumers' concerns and drivers, and find the best way to communicate a brand's most potent value proposition.
The BAV Brand Worth Map is an essential and timely tool for all WPP colleagues and clients.

The WPP BAV Brand Worth Map and this paper are the first in a series of “value proposition” insights and analytical tools that BAV will be launching over the next few months. The second paper, by WPP BAV Consultant Director Divya Munjal, will delve into younger consumers’ perceptions of value in today’s world.

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