clarity

Hello

Welcome to the Autumn edition of Clarity Insights.

As always, we're examining a number of topics that will be hotly debated in Boardrooms today as well as updating on some of our recent activities.

The first action by management in times of recession is often to impose a hiring freeze and look to cut headcount. But we argue that making **bold appointments** in tough times can be a real **game changer**.

Mike Roberts assesses how the first wave of **HFSS** regulations has manifested itself in-store.

Alex Garcia discusses what **Revenue Management** Directors are doing to mitigate inflation.

Callum Loader covers our recent trip to the **Felix Project** and explains what vital work this charity is doing to support struggling families.

And Ben Williamson describes the pain and glory of Team Clarity at the **Prince's Trust Palace to Palace** bike ride.

We hope you enjoy this edition – thoughts and feedback welcome!

Thank you.

Be Bold: Game Changing Hires Can Add Real Value in a Recession

Fran Minogue, Founder & Managing Partner

The highest interest rate in 30 years, highest inflation for 40 and potentially the longest recession for 100 years! Time to dive under the duvet and pull up the drawbridge? No, quite the opposite. It's time to be bold, but selectively and strategically and the term 'self help' is making a comeback, having first come into common parlance after the financial crisis of 2008.

Yes consumers are trading down and big ticket items are suffering, but encouraging figures from DFS just last week indicate that good value and well targeted marketing can deliver the right results. Tim Stacey, CEO comments, "we've invested in range, format and colleagues and we've also got a winning blend of TV and digital that's working very well. We've obviously benefitted from the demise of independents and we're picking up share online. In tough times, customers gravitate to brands they trust. And we still have the 'Kirkham spirit' – keep attacking!"

Many businesses seem to have gone into a holding pattern right now, uncertainty rules and the best plan is deemed to do nothing. Plus at this time of year the refrain is often 'let's see how Christmas is'…and kick the can down the road until January, when, this year, everyone is expecting a blood bath.

But history shows that making bold moves in difficult times can and does yield benefits. During the pandemic we saw that those who acted decisively and grasped the opportunities born out of adversity emerged fitter and stronger – and that can be the case again. Retailers who moved quickly, listened to and supported customers and recognised who could step up and genuinely add value, created leaner, more proactive organisations which are now well positioned to weather the current storm.

And the approach to talent should be no different. The first thing announced in a recession is often a hiring freeze and/or headcount reduction. But those who make ambitious, growth oriented appointments will be rewarded with a broader and richer dialogue when it comes to scenario planning and the strategic debate and will be faster out of the blocks when markets turn up again.

Cancelling or postponing key hires is a false economy. The Board may decide that a new warehouse or store renewal project has to wait, but even at the most senior level, investment in people is a relatively small outlay and can be a real game changer.
Look at the impact that Dave Lewis had on Tesco; when he joined in 2014 the company's reputation was in shreds and it was groaning under a debt pile of £22bn. Fast forward to when he left in 2020 and the debt had been halved, £1.5bn carved out of the cost base and the profit margin had grown from 3.9% to 5.3%.

When Kate Swann joined WHSmith in 2003 it was a loss making, declining and largely UK business, dependent on low margin categories, increasingly dominated by supermarkets and online players. She fundamentally reshaped the retail portfolio, pursuing 'captive markets' in travel hubs and hospitals, whilst focusing on higher margin areas where the retailer could 'win' and set the strategy for an international business that today operates close to 600 stores in 30 countries. In her final year, Kate earned a salary of £600k and a bonus of £871k - a nice package in 2013, but small beer compared to the return she generated for investors.

John Lewis' woes have been well documented in recent weeks, with the failure of the new ERP system causing stock issues and lost sales at Waitrose, whilst sluggish footfall and declining consumer confidence continue to challenge the department stores. Full marks therefore to Dame Sharon White, who has just announced the appointment of Zak Mian as Chief Transformation and Technology Officer. He joins a strong roster of external hires, including Pippa Wicks and Nina Bhatia, who are helping to create a more competitive, outward looking business which is fit for the 21st century.

Few retailers were as affected by Covid as Primark, which famously does not offer online shopping, although a Kidswear Click & Collect trial gets under way shortly. The business has bounced back with bumper sales, reporting revenues of £7.7bn this week and has vowed to support customers by not passing on inflationary costs – a clear sign of investing for the long term. Despite the impact on margins that this will inevitably bring, CEO Paul Marchant is also investing in talent, by hiring Michelle McEttrick, a self described digital native, as Chief Customer Officer. She is tasked with positioning the Primark brand for global growth as the retailer expands "across new markets, channels and products".

In these straightened times, every effort must be made to eliminate unnecessary cost and streamline operations to improve efficiency, but don't let that extend to blocking those game changing hires that will help you lead, not follow both now and in the future.

HFSS – An Interim Report

Mike Roberts, Partner

Our previous report on the Government's HFSS regulations, which have now come into force, highlighted the opportunities and challenges for both supermarkets and suppliers. This seems like a good time to assess how both parties have reacted to the new laws, whether innovative store layouts have sprung up and how much is still to be done.

Walking around a range of stores, it is clear that grocers have not yet fully embraced the October regulations or found innovative ways to capitalise on the new format requirements. In many cases, gondola ends have just been removed and replaced with posters promoting either brand competitions or the supermarket's own price-matching offers. Alcohol seems to have been the easy option to fill the space vacated by HFSS items, even by the tills, which does not necessarily seem like the outcome that the government would have been looking for. New, mixed displays of cereals, confectionery and crisps have sprung up around the corner from the gondola ends, complying with the letter of the law, if not the spirit. Non-compliant pizzas are prominently displayed in the gondola ends themselves as part of the Meal Deals that are exempt from the regulations.

The government has postponed the ban on HFSS multibuy promotions until next October, but many supermarkets are already starting to move away from the multibuy mechanism and focusing more on standard price-cuts and EDLP approaches. One of the exceptions seems to be cereals, a category where there has been significant reformulation, but categories like confectionery, ice-cream and biscuits are seeing widespread multibuy reduction. It is too soon to assess the financial impact to grocers and suppliers from losing these category multibuys in key store locations – they have long been vital revenue sources as well as opportunities to showcase more varied and exciting promotions.

There is also not yet evidence of smaller, high-quality brands gaining more prominence in-store under the new laws and this likely demonstrates that the FMCG giants have done a strong job in developing new, compliant products and revamping existing ranges. It will be interesting to see whether the shopper embraces the new products and commits to repeat purchases, or whether they shop the store more thoroughly and revert to 'tastier', non-compliant products.

It feels like there has been a rush to comply by the supermarkets in the last few months, certainly in terms of store layouts. The previously mooted possibility of more innovative (for example, digitally-enhanced) point-of-sale in the aisle has been slow to materialise. Maybe, given the political turmoil over the last year, supermarkets and suppliers thought there was a chance of another delay in the introduction of the regulations, or even a full scrapping of the proposals. At the moment, the format solutions seems a little ‘cobbled-together’ and disjointed, so we look forward to a more holistic approach developing that gives shoppers the retail theatre that they increasingly desire.

When Tough Times Come Calling, Turn to RGM?

Alex Garcia, Senior Associate

We are living in the toughest commercial times. Raw material prices have been rocketing due to post-Covid supply chain constraints, and energy, packaging, and freight costs have gone through the roof. Throw in a cost-of-living crisis and lower consumer confidence, and you have what could be a perfect storm for FMCG companies, as they strive to ensure their sales and margins stay strong. The options available are not simple and there are only so many cost price increases that consumers will bear.

This is where revenue growth management (RGM) comes in and it is the prime reason why more businesses are turning to us for transformative leaders in the function. RGM provides the required tools to tackle most of the inflation-led pressures in the market. RGM techniques and tools can be used to support with complex pricing decisions in a calibrated way whilst reducing the impact to the top line and bottom line.

RGM can help with identifying the right price increase and selecting the right SKUs to act on. It examines products based on price sensitivity, suggesting increments to those product lines less vulnerable to price increases and leaving those more sensitive intact. With this approach, increased COGs are neither completely assumed by FMCG companies nor they are passed on to the end-consumer. Thus, organisations are able to neutralise at least some of the increase in COGs without losing revenue or market share. RGM has adopted advanced statistical modelling, artificial intelligence and machine learning tools to evaluate the elasticity of price-sensitive and price-insensitive products across the portfolio. These tools help businesses evaluate the impact of price increases on sales and volume.

RGM also allows organisations to use a portfolio-based approach for price increases, rather than making decisions on pricing individually for each SKU. This approach evaluates the entire basket of products (and sizes) and the cross elasticities between them to measure the impact of changing the price of a particular product on the rest of the products in the portfolio. It allows FMCG companies to make pricing decisions in a holistic way, thus optimising the overall category top and bottom lines. There are other, more traditional techniques to tackle inflation in FMCG – think of recent trends like shrinkflation. RGM provides

FMCG organisations with “what if” scenario tools that help predict the outcome of these package downsizings.

Increased competition from challenger and private label brands and the rise of discount stores, as well as increased promotional activities, are all a threat to large FMCG companies. Rising inflation has substantially increased COGs and impacted every player in the industry. However, large FMCG companies that have developed and invested behind a strong RGM function are better equipped to make calibrated price increases to reduce the impact of inflation. Inflation will eventually ease and those who have a well-established RGM capability will be more agile and competitive in the future business context.

Felix Project

Callum Loader, Research Analyst

In the shadow of the Canary Warf skyscrapers housing the premier names in global finance, sits a kitchen which is trying to play its part to feed the rapidly rising number of people in food poverty. Founded in 2016, in memory of Felix Byram Shaw who died suddenly from meningitis, The Felix Project works to alleviate poverty by harnessing the power of waste food. Every year, over 3 million tonnes of perfectly edible food is thrown away due to problems such as overproduction and lack of storage. Meanwhile, The Joseph Roundtree Foundation estimates that 14.5 million people in the UK are in poverty, with this number set to rise by 1 million during this winter due to the pressures of the cost-of-living crisis. The mission of the charity is simple: use the staggering quantities of wasted food in the UK to feed starving children. However, the reality of realising this mission is anything but straightforward; it requires an army of volunteers and a continuous stream of funding. Clarity would urge all readers to assist in continuing this vital work, either by donating or signing up for a day of volunteering.

One morning, instead of the usual commute to Piccadilly Circus, the Clarity team set off to East London to help play its part in tackling the food poverty crisis. The day began with a sobering talk outlining the stark reality that every day, over 400,000 children in the UK are at risk of missing their next meal. Our aim was to assist the full-time staff of the Project in creating healthy meals from unwanted food collected from supermarkets. It is important to highlight that the deliveries did not contain out-of-date or poor quality food; rather, the meals created at the Felix Kitchen are produced entirely from perfectly saleable food that supermarkets do not have room to stock. Each day, vans arrive carrying a vast variety of food which would have otherwise been thrown away. One of the great challenges of the project lies in the fact that both the content and quantity of deliveries are unpredictable, which necessitates flexibility and creativity on the part of the full-time chefs. The menu for the day of Clarity's involvement was determined to be roast chicken and a beef chilli (separate dishes!).

The Clarity staff donned aprons, hairnets and crocs, and got to work. Jobs ranged from chopping potatoes to boxing up meals ready to be distributed across London. We were all struck by the sheer volume of food that would have been simply thrown away without the valuable work of the Project. During our time in the kitchen, we were able to assist in creating over 2000 meals. As well as this valuable work, we also had the opportunity to converse with the amazing people who keep the project running on a daily basis. Among the many valuable lessons learned was the fact that the scale of The Felix Project is not constrained by a lack of suppliers or demand for its meals. Instead, the number one factor preventing the charity from assisting more people in food poverty is a lack of funding. In order to perform its vital function, the Project must bear the costs of the warehouses, the kitchen and a body of full-time employees. With each and every piece of extra funding, The Felix Project can provide more meals to those in our country who are most in need.

Palace to Palace

Ben Williamson, Research Analyst

In late September, five members of the Clarity team dusted off their bikes and lined up beneath Admiralty Arch near our office in Central London. The forthcoming bike ride would be 47 miles long and span from Buckingham Palace to Windsor Castle. It started in heavy traffic and continued onto rolling hills, and lost riders (me). It cumulated in five pairs of very sore legs and five very thirsty individuals. But it was in the name of charity, and the team raised almost £6,000 for the Prince's Trust in the process.

We started on the iconic red tarmac of the Mall, facing the splendour of Buckingham Palace, feeling naively confident in our cycling abilities. The first ten miles did little to humble us; our bikes made light work of London's flat riverside roads, even if stopping every two hundred meters for traffic became mildly frustrating. Before long, however, we reached Richmond Hill, the first (albeit minor) hill along our route. While rewarded with a pit stop at the top, the route thereafter became increasingly challenging with every mile that passed. The mayhem of the metropolis was replaced with hills which, at the time, seemed Himalayan. It was during one such incline that I, quite innocently, zigged where I should have zagged and inadvertently took a shortcut, finding myself several miles in front of the pack. Having then cycled the opposite way back along the correct route to meet my colleagues, we set off in staggered departures for the final 10-mile stretch. Before long, we all arrived safely in Windsor to the sight and smell of Watches of Switzerland's freshly grilled hotdogs, a welcome gift from the official sponsors of the event.

Our antics were not without good cause – we were raising money for the Prince's Trust, a charity founded by His Majesty King Charles III (whose stewardship now passes to Prince William) to help vulnerable young people get their lives on track. It supports 11 to 30-year-olds who are unemployed and those struggling at school and at risk of exclusion. The charity has helped over 1,000,000 young people to date and supports over a hundred more each day. If you haven't had the opportunity to donate yet, our fundraising page is still up and can be found at this link. We all had a fantastic time taking part in this wonderful event and look forward to participating again next year.


PALACE TO PALACE
DELTA
BURBERRY
JD GYMS
49ERS