

BOILING A FROG

Ensuring growth does not pass you by unseen

Background

We are fast approaching the annual planning process for most calendar year based businesses. The top down and bottom-up forecasts will have to predict the aftermath of elections in France, UK and the US. The World Bank predicts an increase in global growth to an average of 2.7% driven, in most part, by developing countries growing at an average of 4%¹. Global inflation is expected to drop back from 3.5% in 2024 to 2.9% in 2025 helping consumer purchasing power to catch up with the last 3 years of continuous cost of living pressures. With all this unbridled positivity, we must consider the macro changes to take into account when planning for the 2025 year.

¹[World Bank Economic Forecast](#)

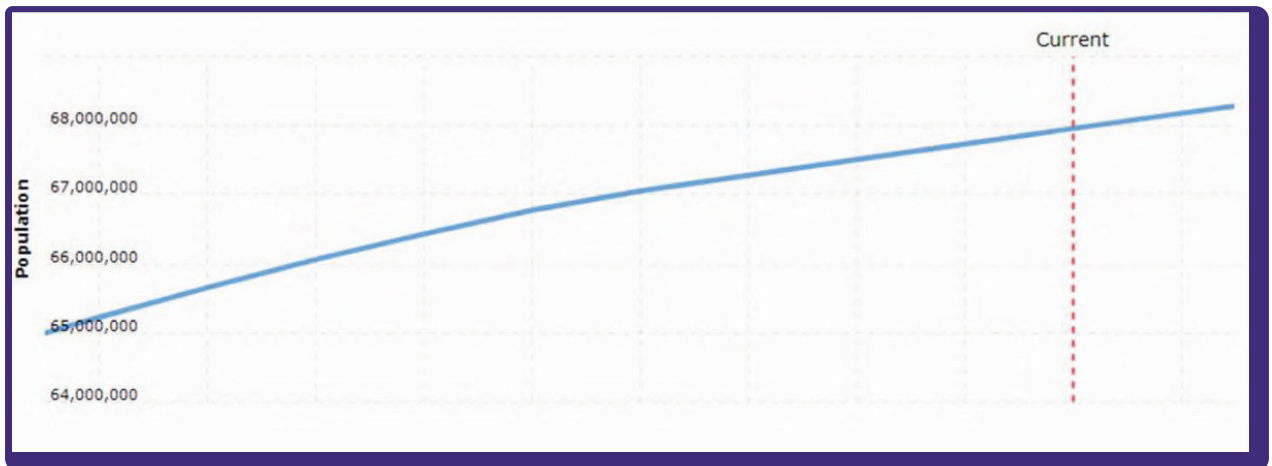


Your addressable market will grow in 2025

Growth is inevitable for most brands in 2025 by keeping track with inflation and tailwinds from population growth, however small. As an example, the UK has added 1.2m additional people to its population since 2019 and 2025 will show a similar trend with another 250k – 300k new arrivals.

That's 83m additional dinners eaten over the year, the 335m additional trips to the bathroom, and with 110k additional households and dog ownership at 31%, that's 34k additional Rovers & Buddys that need their morning meal and treat.

UK Population trend



Source: [United Nations – World Population Prospects](#)

This growth will continue with 6.6m incremental people² expected to be in the UK by mid 2036 (vs 2021) and 90% of this growth will be immigration and so most likely adults with a younger than average profile 18–34yrs (vs. UK average 40.7yrs). Germany (+0.7% 2022) and France (+0.3% 2022) are also growing steadily which means circa 300k additional mouths to feed and water there too, again with a younger age profile vs the incumbent population.

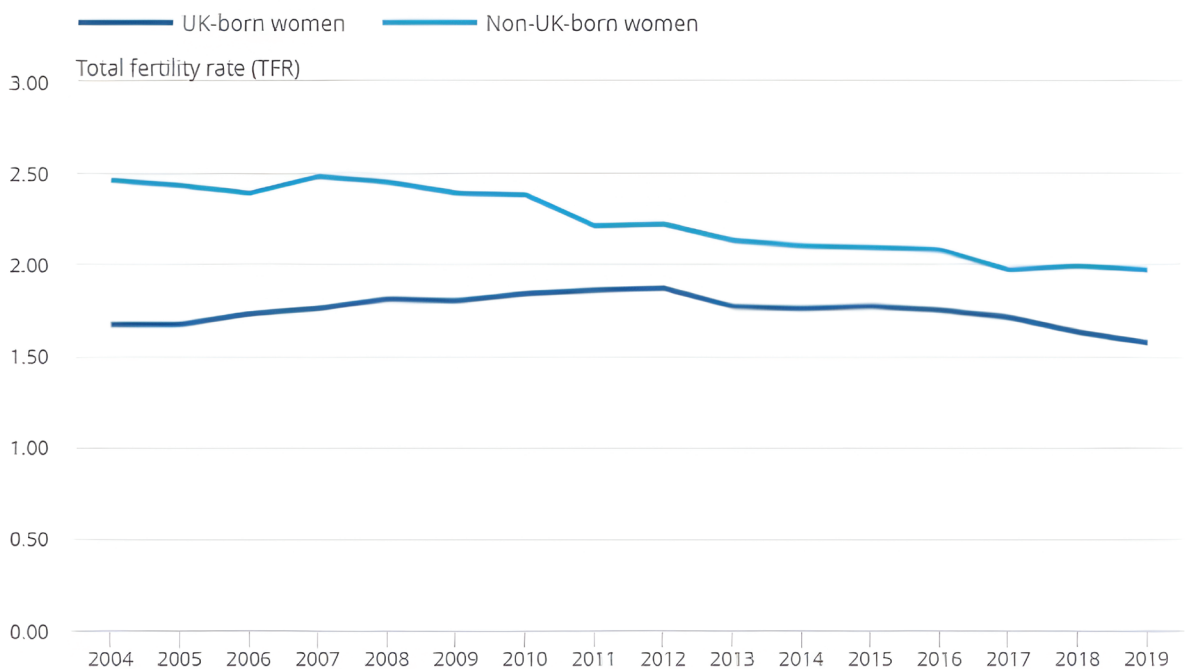
²[Population Growth in the UK 2021–2036](#)

The needs of the market are changing

These new residents will have different needs to their predecessors of the early 2000s (when many brand managers were earning their stripes or completing their A-levels). Population growth in the UK from births is highest among women born outside of the UK. This has an impact on heritage brands who depend on “it’s what my mum used” as a driver for purchase.

Persil Non-Bio, Fairy Washing Up Liquid, Birds Custard, Bisto Gravy etc. will need to increase investment to drive relevance, trial and loyalty with these new customers. Not many businesses are taking account of this, investing to understand this new cohort and how they choose to buy from each category.

Estimated total fertility rate (TFR) for UK-born and non-UK-born women, England and Wales, 2004 to 2019

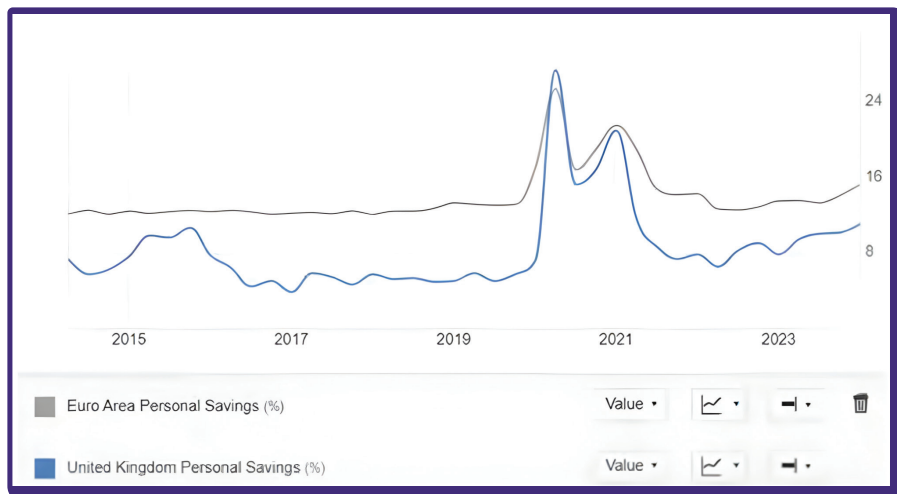


Consumers will have more purchasing power

The expected drop in interest rates is forecasted to ease the pressure on households throughout Europe, with the belief that it will lead to increased consumer spending. This is dependent on real wages increasing, and with economies running at near full employment (e.g. Germany current unemployment rate 3.2%, Poland 3.0% and Netherlands 3.6%)³ wages pressure will rise. Reported disposable income is continuing an upward trend and savings rates are also

surpassing pre-covid levels. We would expect this spending power to enable a general correction back towards buying brands (from Private Label) and trading up – this is an expectation, not a fact. These trends should already be visible in 2024 data for consumption and switching data and so extrapolating a continuation of the latest trend seems to be a prudent assumption for most brands to take.

Euro Area savings rates



Source: [Trading Economics - Euro Area](#)

Euro Area Disposable Income



Source: [Trading Economics - Euro Area](#)

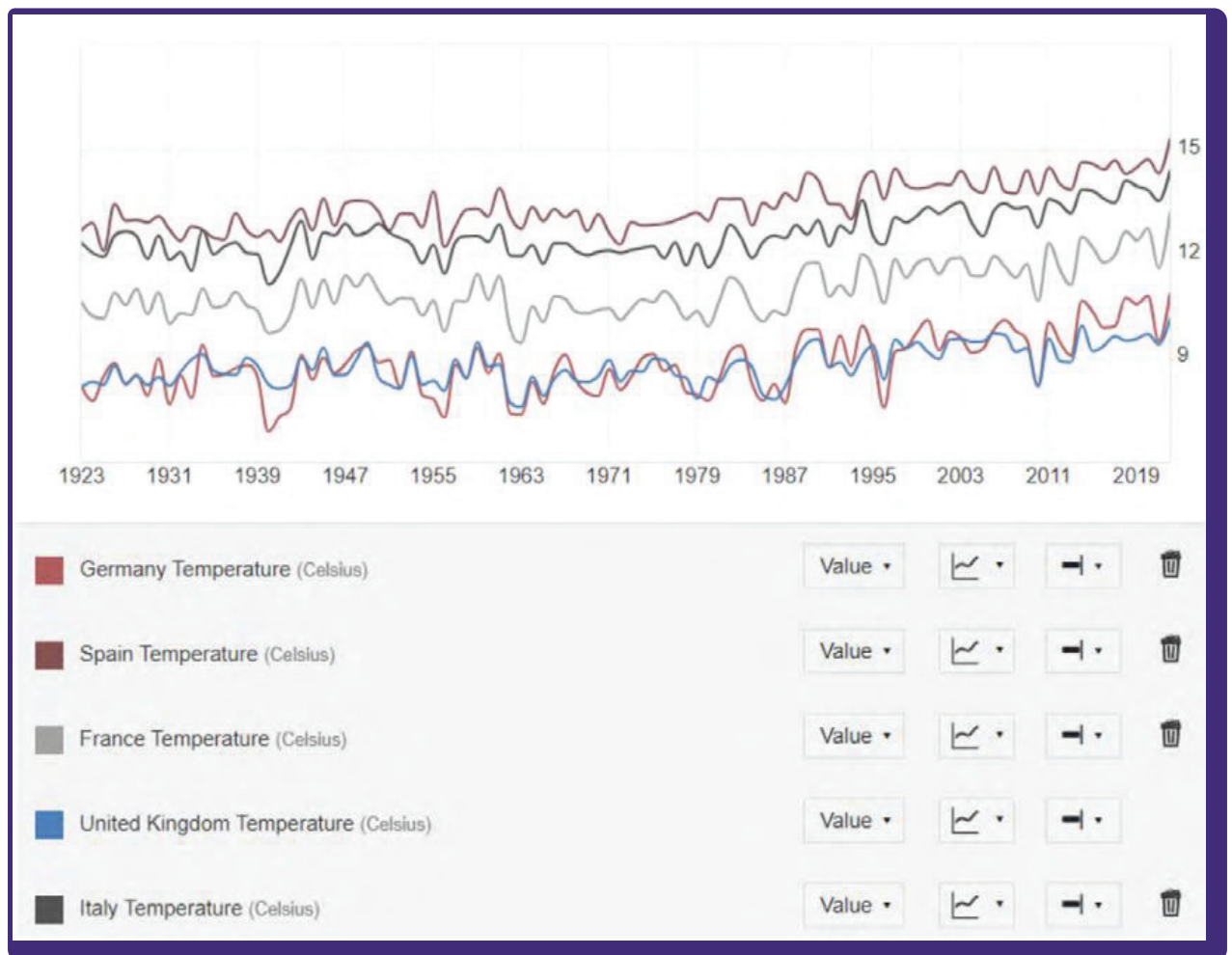
³[Unemployment](#)

New needs are emerging right in front of us

Consumer needs are changing as the world around them is changing. To link into the boiling the frog analogy, average temperatures⁴ are rising and this rising changes clothing needs, volume / frequency of beverage consumption, holiday destinations, sun cream usage and ideally soap & deodorant usage. In Ireland where the warming of the climate is definitely taking more time to materialise, the fake tan category will start to see

its booming sales volumes thanks to teenage girls, my daughter included, start to tip into decline.

With all these positive indicators of total consumption continuing to rise, and the opportunities for new needs being created, it is now important to shine the light onto selling KPIs to exploit these positive tailwinds.



⁴[Average Temperatures](#)

Frederic Fernandez from FF&A has introduced the concept of Zero Based Growth ZBG© which challenges businesses to re-evaluate their process for driving growth. Fernandez focuses on choosing where to deploy resources (Brand/Country couples) and to dive deep into the key moments of truth to redraw the areas of attack. To do this you need to understand your customers, not just what they do but why they do it.

The annual planning process should be the culmination of this research each year to ensure that you can effectively squeeze the maximum value from your marketing Ps. As with the *boiling a frog* analogy, many brands do not notice the changes around them because they are materialising slowly and 4we data masks those sneaking changes.

There is rarely a shortage of data to use to conduct these reviews, with standard sku level

Kantar customer measure trees and Nielsen EPOS performances available. Businesses will usually focus on these most available KPIs, to establish opportunities but they should ensure they are bringing in other sources for alternatives views of the customer such as consumer helpline reports, conjoint analysis or willingness to pay studies, social media comment trends, accompanied shops & voice of the customer focus groups.

This sounds like a big investment but the spend is dwarfed relative to the risk of missing opportunities or of new threats going unidentified. This deep dive for annual planning is even more important in blue chip multinationals that enable employees to move role every 2-3yrs. The depth of understanding of a brand or category team is always relatively shallow when compared to local competitors with tenures of 5-10yrs in their roles.



**“If you know the enemy
and know yourself, you
need not fear the result
of a hundred battles”**

SUN TZU

The key areas to focus on to identify paths to growth for the annual plan

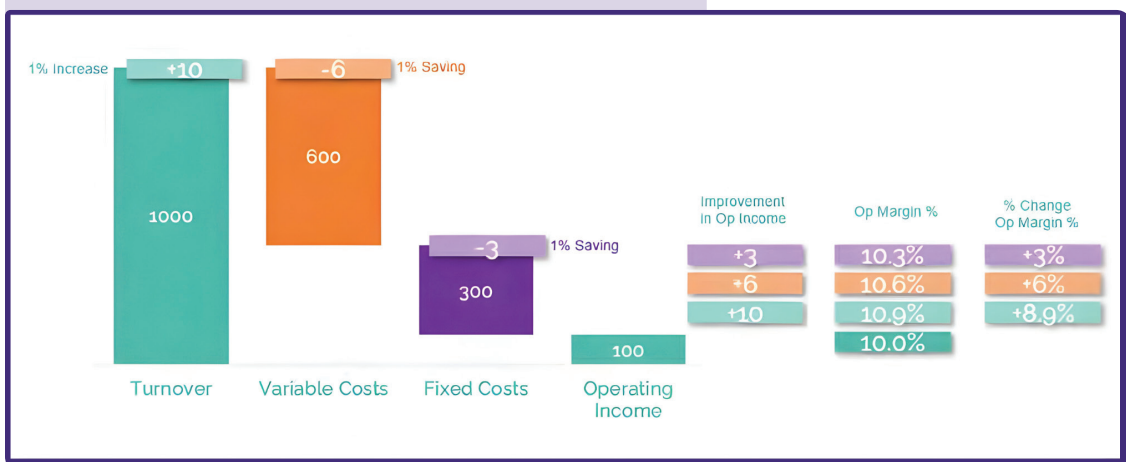
a) Distribution Gaps – opportunities are easy to isolate and value and can highlight the need for channel specific pricing or pack sizes. Combined with the knowledge of major range reviews on the horizon, decisions to resource support are signposted early.

b) Promotional effectiveness – Underperforming promotions will be identified and removed, and those showing the best return should see an increase in number of weeks for 2025 or better feature space. Net revenue teams will be tasked with firstly, annualising the saving opportunities they identified during 2024, but then finding further stretching savings or efficiency improvements in trade spend. These savings are becoming more and more difficult to achieve without damaging top line and cash profit. With the need for volume growth, to show the underlying health of the business, the pressure to reintroduce some volume drivers back into the plan will push pressure for margin to other levers/channels. and input price headlines have subsided.

c) Review prices every year (at least) – Why is it always assumed that unlike last year’s promotional plans, pricing does not need to be reviewed regularly? This used to be because of the trauma of price increases and short-term memories of empty shelves from negotiation stand offs. Now most commercial teams have developed a “fitness” in executing price changes following the years 2022/23 of hyperinflation. It is important to ensure the skillset does not atrophy from lack of use, just because CPI and input price headlines have subsided. Reviewing every product of scale to identify pricing opportunities at least once a year is a must, with these price changes potentially down as well as up.

Utilising existing elasticity models or conducting willingness to pay studies are the solutions. Any DTC business will be AB testing new pricing, pack sizes, and buyer and checkout flows, and these tests will not be restricted to an annual cycle. There is no reason why with the right tools, classic FMCG businesses cannot be doing the same.

Studies by Marn & Rosiella at McKinseys showed every 1% price increase is worth c. 9% in operating margin, so this must be exhausted as a priority.



d) Trade spend inefficiencies will be identified quickly, growth incentives reworked, and significant category development initiatives that will not be repeated (because the regional VP is not planning on store checks in their visit this year) can be mothballed.

e) Price Pack Architecture – The most forward looking businesses (we are working with), invest in evaluating all levers of the brand at least annually. They do not assume last year's pack sizes are the perfect fit for the consumers joining the market each year. They have not got the luxury of leaving any stone unturned when stretching growth targets are passed down to them. Identifying the consumer decision tree through switching data or specific research into need state segmentation will ensure you can exploit every new pack opportunity as it presents itself.

⁵[Impact of 1% price increase](#)

In summary

Volatility creates opportunity – but for who?

Big businesses announcing headcount reductions, to fuel growth, may find the valuable NRM & category resources are now squeezed to the point that they cannot evaluate every sku and brand architecture and so choices are made that leave opportunities for their smaller competitors to exploit. Even AI tools can help to summarize the data but I've yet to meet a GM willing to sign off AI recommendations without a human eye evaluating the impact, and working with other parts of the value chain to ensure recommendations could be implemented e.g. manufacturing.

Avoiding an internal focus only

Knowledge of competitor promotions are usually relatively weak. Successful promotions that really impacted your brand will most likely be repeated and, if affordable, see an increase in the frequency or distribution of the offer (feature upgrade, additional retailer) causing an even greater effect in 2025. The competitor activity evaluation will be the first thing to be deprioritised when resources are thinned out. AI Tools are very well placed to provide these insights and should inform a part of promotional plans and investment choices, however more variables to consider make the optimising of a promotional plan even more difficult.

Burn it down and start again



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