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# Historic Inflation is Transforming Shopping Behavior.

A Guide for Turning New Demand Trends into Opportunities for Category Managers

# The retail landscape is only getting more challenging.

Just as the pandemic seemed to be receding and supply chain issues were being resolved, retailers face another enormous challenge: inflation rates are at their highest level in 40 years.

These historic levels of inflation can spell disaster for retailers. Manufacturers are raising their price points, and consumers are becoming more price-conscious. Retailers need to respond strategically to maximize their own profit margins and retain shoppers in an ever-more-competitive omni-channel landscape.

But what exactly should they be doing? This guide will walk through three emerging trends and how category managers can respond to increase profits and meet the changing demands of today's shoppers.

## Category Management to the rescue.

As usual, category management plays a central role in achieving retail success.

Inflation only emphasizes the need to transform category management from a static, calendar-based event to an ongoing, fluid and dynamic competency. As manufacturers and consumers adopt new behaviors, category managers need to quicky respond with new assortments, floor plans and space plans that capture emerging opportunities.

**While inflation has many effects, this eBook focuses on three key trends impacting category management:**

1. Shrinking package sizes
2. Growing sales of private-label products
3. An increase in "little luxury" purchases

# 1 Shrinkflation: same price, smaller product size.

As inflation continues, it only makes sense that consumers are focusing on price. Unable to raise prices, CPG manufacturers are responding by reducing packages sizes — a trend called “shrinkflation.” The changes in package size might not be noticed by shoppers who are laser-focused on price alone, but they can translate to an invisible 30% price increase.

Not only does shrinkflation impact consumer budgets, but this trend is wreaking havoc on retailers’ carefully crafted merchandising and space plans. As manufacturers change their package sizes, retailers need to continuously reset their space plans and planograms to maximize the profitability of every square inch — an impossible task without the right technology.

Enter Blue Yonder. Its centralized, smart category management solution enables retailers to strategically manage, analyze, and update product attributes, assortment plans, floor plans and space plans for every store. Fast and automated planogram updates, at scale, enable retailers to plan and re-plan localized assortments — and maximize profits as package sizes and other product characteristics change.

# 2 The big pivot: switching to private label.

Inflation is also having a huge impact on the everyday shopping behaviors of consumers. To keep their grocery costs low, consumers are switching from national brands to private-label products. Manufactured by a third party, these “store brands” can represent up to a 30% lower price point — so it’s no surprise that inflation is driving up their market share.

Obviously, retailers need to respond by allocating more space to private labels and less to national brands. But it’s not that simple. In some categories, like cereal, consumers are willing to pay more for a national brand. They’re more price-sensitive when it comes to milk or paper towels. And there are geographic differences as well.

Smart category management capabilities from Blue Yonder can help, by continuously monitoring both store-level and SKU-specific performance — and aligning assortments and space plans with real-world demand. By automating these updates, retailers can respond agilely to maximize their sales of all products, even as consumer preferences continue to shift.

# 3 The unexpected splurge: “I deserve this.”

One of the more surprising recent trends is the increase in sales of “little luxuries.” Price-conscious consumers — deprived of vacations and restaurant meals — are treating themselves to smaller rewards. They’re complementing their private-label crackers with a wedge of gourmet cheese, or splurging on a more expensive bottle of wine. While this trend seems counter-intuitive, retailers need to have the right products in place, ready for that impulsive purchasing moment.

How can category managers sort out and address this trend, while also having products available for more frugal shoppers? Enabled by artificial intelligence (AI) and machine learning (ML), category management solutions from Blue Yonder alert retailers to upticks in sales of little-luxury items in real time — identifying specific stores, categories and SKUs that are affected.

Retailers can respond with confident, precise updates to assortments, space plans, promotions, merchandising initiatives and pricing policies. While assortments were reduced during the pandemic, now retailers can add products back strategically to capture additional profit margin potential.

# Knowledge is power.
# That's the Blue Yonder advantage.

The world of retail has always been fast-moving and volatile, and the pandemic only added to that volatility. Today the primary challenge is inflation, but tomorrow will bring new and different challenges. Ironically, uncertain conditions might be the only real certainty for retailers.

In this ever-changing landscape, knowledge is power. Blue Yonder's advanced forecasting engines gather thousands of data points across stores, apply the most advanced algorithms and statistical models, and autonomously arrive at optimal category management recommendations. Retailers can be confident that they always have the exact right items in the right stores, optimized for available space, to meet changing consumer preferences.

No one understands retail challenges better than Blue Yonder, and no other company provides such a comprehensive range of category management solutions — from automated planogram generation to assortment optimization and labor planning — to meet those challenges.

Learn more

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