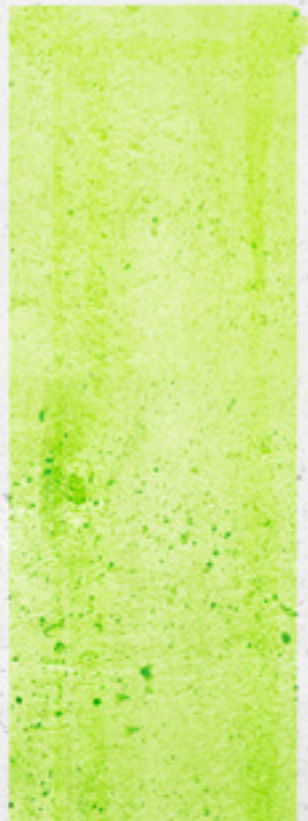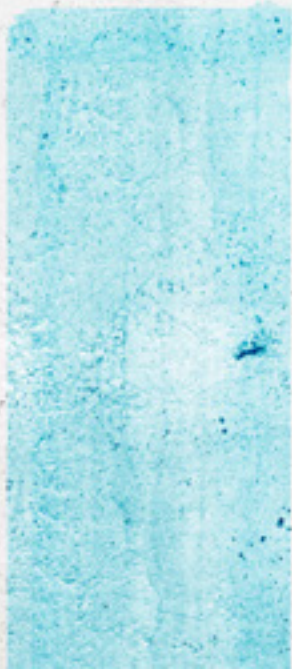# Historic Inflation is Transforming Shopping Behavior.

A Guide for Turning Changing Shopping Trends into Opportunities for Category Managers

Connected category management is one of the best tools to manage disruption.

After a global pandemic, supply chain shortages, war in Europe, political instability and now a cost of living crunch, it should be no surprise that Collins Dictionary named "permacrisis" – a state of permanent crisis - their 2022 word of the year.

For retailers, the implications are obvious: manufacturers are raising their price points and discontinuing slow sellers, while consumers are becoming more price-conscious and changing their shopping habits. Retailers need to respond strategically to maximize profit margins and attract new shoppers in a hyper competitive omni-channel landscape.

But what exactly should they be doing?

This guide will walk through three key trends that category managers are well placed to confront to better meet the changing demands of today's shoppers.

Space Matters. But so does time.

Inflation only emphasizes the need to transform category management from a static, calendar-based event to an ongoing, fluid and connected competency. As manufacturers and consumers adopt new behaviors, category managers need to dynamically respond with new assortments, layouts and space plans that capture emerging opportunities while avoiding major resets that increase the costs of change in-store.

While inflation has many effects, this eBook focuses on three key trends impacting category management , and the steps that category managers can take to manage the permacrisis:

1 Shrinking package sizes

2 Growing sales of private-label products

3 Increased purchases of "little luxuries"

1 Shrinkflation: same price, smaller product size.

In a cost-of-living crisis, it makes sense that consumers are focusing on price. Unable to raise prices, CPG manufacturers are responding by reducing packages sizes — "shrinkflation." The changes in package size might not be noticed immediately 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 connected technology.

Blue Yonder's centralized, smart and connected category management solutions enable 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 replan localized assortments — and maximize profits as package sizes and other product characteristics change to meet shopper demand.

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 not only switching between national brands, but increasingly 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 quickly respond 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.

From disruption to opportunity.
What does this mean for category managers?

The most important thing for category managers to understand is that the impact of inflation is not universal. Nor is it exclusively driven by rising costs.

Take eggs, for example. Increased material costs are driving price increases, but 70% inflation levels have a lot more to do with avian flu than crude oil. You shoppers may react by switching to private label eggs, they may buy value packs – they may even stop buying eggs altogether.

Discretionary purchases are another challenge altogether. Airfares are up, but television prices are down. You shoppers may consider a staycation over a holiday, keeping the kids in forint of the television or enjoying a new computer rather than a beach holiday.

Like the pandemic, the impact of inflation is being felt in different geographies in different ways. And as the cost-of-living crisis passes, it will ebb away at different levels as old challenges sauch as avian flu are managed, and new challenges evolve to add to the on-going permacrisis.

Category managers will only stay ahead of the market but adopting connected tools that allow them to move faster, more locally.

Act fast locally.
That's the Blue Yonder advantage.

Retail has always been fast-moving and volatile, and the pandemic only added to the volatility. Today's primary challenge may be inflation, but it will pass, with recovery – and shopper behaviour – varying by country and region. Today's permacrisis may give way to regional micro crises.

In this ever-changing landscape, being able to act fast locally is critical. Blue Yonder's advanced AI gathers thousands of data points across stores, applies the most advanced and connected technology to more quickly arrive at optimal category management recommendations.

Retailers can be confident that they always have the right balance of items in the right stores, optimized for available space, to meet changing consumer preferences.

No one understands retail better than Blue Yonder, and no other company provides such a comprehensive range of connected category management solutions to meet those challenges — from clustering and assortment optimization to automated and integrated macro and micro space planning to in-store feedback loops.

Learn more:

[Space and Floor] [Assortment Management]

BlueYonder