INFLATION IS CANADIANS' TOP CONCERN | HERE'S WHAT YOU NEED TO KNOW

An Ipsos Point of View

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GAME CHANGERS Ipsos

In Q3 of 2021, Ipsos' Context Advantage study stated the following in its quarterly report:

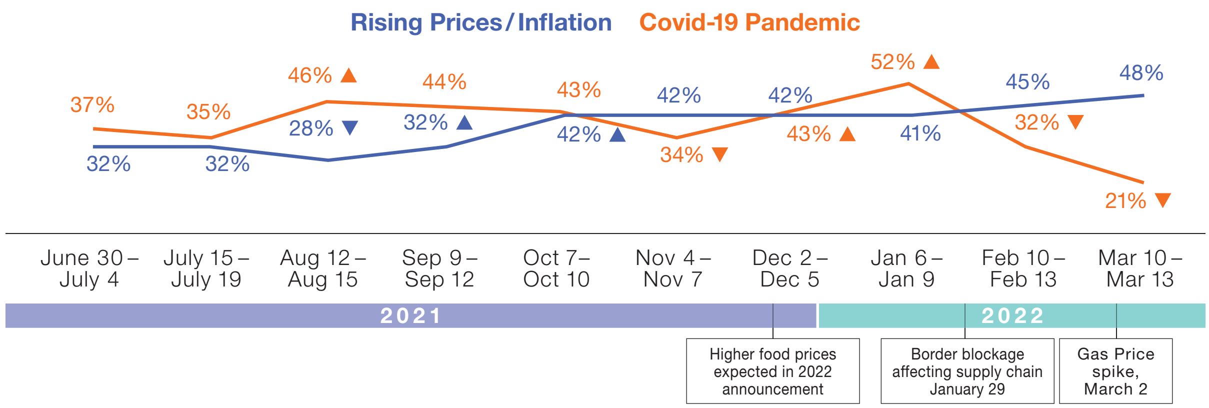
> *"On inflation specifically, while concern about inflation has not (yet) reached a fever pitch it is increasing among Canadians (and Americans)."*[1]

And in a separate report that we released in December:

> *"…citizens/consumers report that they are already experiencing the effects of inflation, and many expect this to continue into the future. If, as many project, inflation will take a stronger hold in 2022, consumers will necessarily reign in their purchasing behaviour and increasingly demand that government and business act. 'Affordability' will be a key issue for 2022"*[2]

If you did not pay attention then, you are paying attention now, especially given the speed with which this issue has grown. Note that April and May data for the chart below shows concern for inflation continuing to increase.

Top Priorities Concerns—Trended



- 'Rising prices' is now the top concern among Canadians and growing steadily (despite the inclusion of the Ukraine Crisis to the list of concerns in 2022).[3]
- By December of 2021, we saw that 48% of Canadians consider the price of groceries and food to be the main barrier to their financial security.[4]
- The percentage of Canadians that report grocery prices being higher than normal has grown by +80% from 25% in the summer for 2021 to 46% in April 2022.[5]
- The percentage of Canadians who feel that rising prices pose a high risk to them personally was 39%, in March, that number has increased over the past two months.[6]

Even with no additional shocks to the system, inflation is something we will all be dealing with for the foreseeable future.[7]

Inflation has also shifted our priorities on other topics that until recently had dominated the headlines. The urgency around ESG has subsided, but activists rightly point out that environmental and economic action will need to coexist going forward.

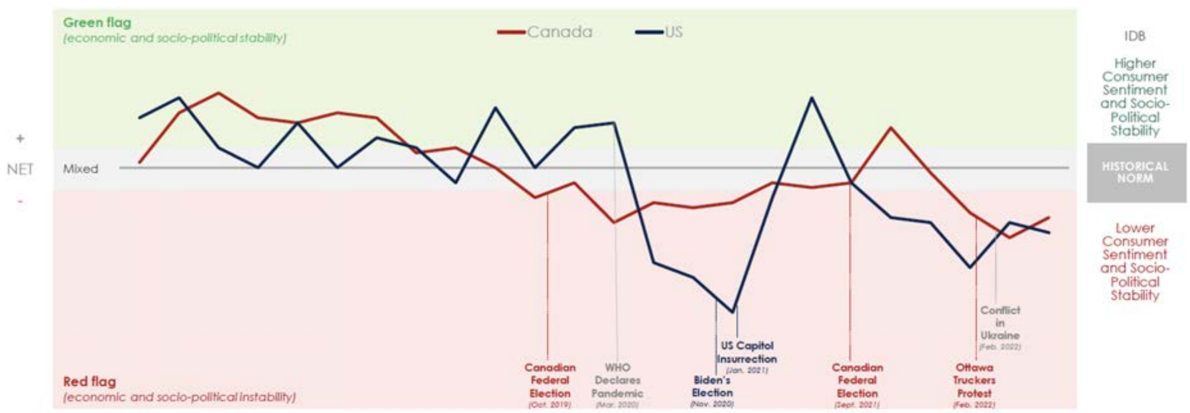
[1] Ipsos Context Now Q3 2021 Report
[2] Ipsos Context Now Q3 2021 Report
[3] Ipsos Essentials Report March 10 to 13, 2022 Fieldwork
[4] Ipsos Factum December 17, 2021—Finances, Forecasts and Fireworks
[5] Ipsos Essentials Report April 7 to 10, 2022 Fieldwork
[6] Ipsos Essentials Report March 10 to 13, 2022 Fieldwork
[7] Posthaste: Inflation will likely stay higher and for longer, warns BIS's Agustín Carstens

“So What?” | As a Canadian

As Canadians we should continue to be concerned. Economic stability underpins a strong society. However, Canada’s “citizen sentiment,” measured via the Ipsos Disruption Barometer (IDB), was already on a downward trend that started in September of 2019. Prior to the pandemic we were already hearing from Canadians that they felt they were “falling behind.” Among other influencers, inflation and the economic uncertainty that comes with it, has brought the index to its lowest point in three years.[8] This is cause for concern, as the IDB has been able to accurately predict periods of pressure for political change, a more insular focus, reduced spending and price sensitivity in each of the 28 countries it is measured.

Ipsos Disruption Barometer

(Recalibrated against 5-year norm for each country)



	Mar '17	Jun '17	Sept '17	Dec '17	Mar '18	Jun '18	Sept '18	Dec '18	Mar '19	Jun '19	Sept '19	Dec '19
Canada	1%	11%	15%	10%	9%	11%	10%	3%	4%	0%	-6%	-3%
US	10%	14%	4%	0%	9%	0%	6%	4%	-3%	12%	0%	8%

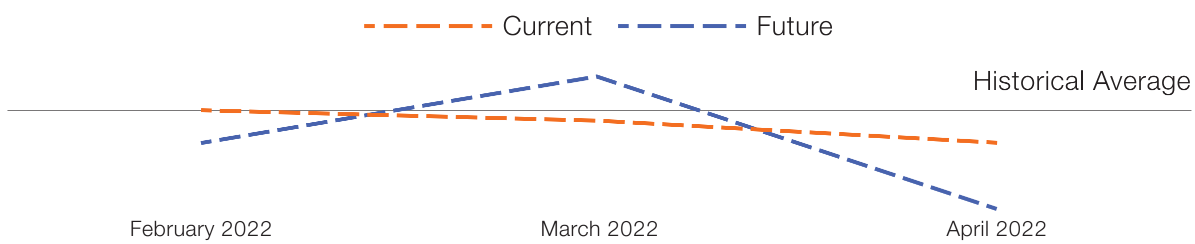
	Mar '20	Jun '20	Sept '20	Dec '20	Mar '21	Jun '21	Sept '21	Oct '21	Dec '21	Feb '22	Mar '22	Apr '22
Canada	-11%	-7%	-8%	-7%	-3%	-4%	-3%	8%	-1%	-9%	-14%	-10%
US	9%	-19%	-22%	-29%	-6%	14%	-3%	-10%	-11%	-20%	-11%	-13%

It is also no secret that the pandemic increased the existing economic divide in our society, and ultimately did little to improve social cohesion. Boomers, with most of their spending on homes and large ticket items behind them, have largely been sheltered from the financial impact of the pandemic; this has not been the case for younger Canadians. Earlier we stated 39% of Canadians feel ‘Rising prices poses a high risk to them personally,’ that number rises to over 50% among Gen Z.

Feel Personally at Risk (March 2022)[9]	Gen Z	Millenials	Gen X	Boomers
39%	52%	42%	38%	28%

Note that the total number of Canadians who feel personally at risk increased in April and May, and with Consumer Confidence in the economy on the decline, we predict this will rise.[10]

Confidence in Economy



[8] Ipsos Context—Spring 2022 Check In
[9] Ipsos Essentials Report, March 10 to 13, 2022 Fieldwork
[10] Ipsos Context Advantage—Special Supplement, Focus on Inflation, May 2022

“So What?” | As a Marketer

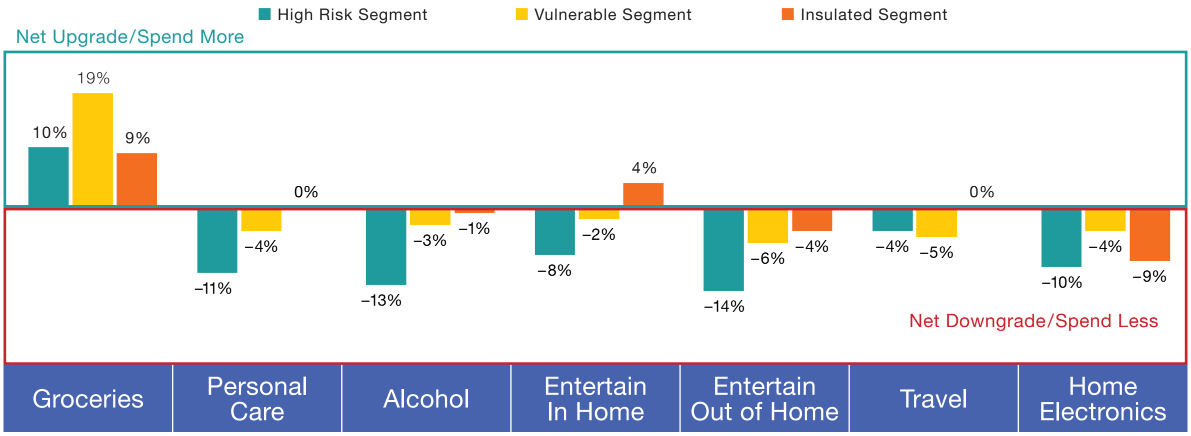
This has and will continue to impact sales. Canadians have indicated that if interest rates continue to rise, they will pull back on spending even more.

- Their biggest concern? The price of food.
- What will they cut first? Entertainment expenses.

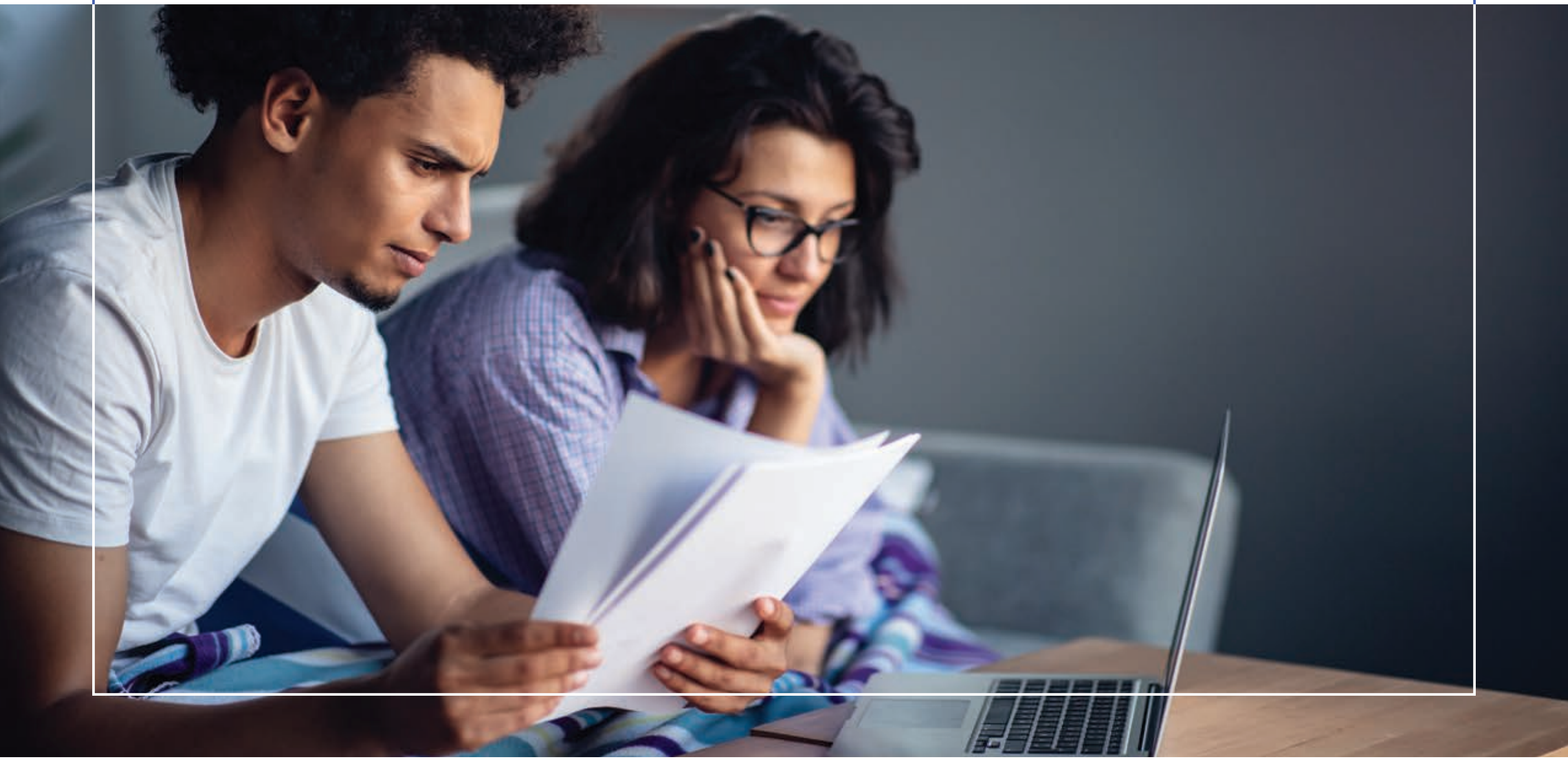
The pullback is already happening, but the severity is being masked by Canadians who, for the time being, feel insulated from the risk of rising prices. Looking across 7 different categories, we see that outside of groceries, Canadians are planning on downgrading/spending less. Furthermore, across many of these categories, Canadians in the High Risk segment are at least 2 times more likely to downgrade/spend less versus those classified as “Vulnerable” (Medium Risk) and “Insulated” (Low or No Risk).

Expected Shifts in Spending in the Next Month

(Difference Spend More/Upgrade vs. Spend Less/Downgrade)



Source: Essentials Report, March 10 to 13, 2022. Fieldwork



What we need to watch for is when those groups who do not feel at risk/the "top of the K curve" will stop spending. Part of the answer lies in what the markets do. For example, a loss of retirement savings will cause Boomers to pull back quicker.

The next question is "What to do about it?." As marketers, we need to get more specific and better understand the context in which we operate. That context has changed dramatically, so much so that some of our clients are reconsidering their segmentation model, and most are having a second look at their price elasticity curves. Afterall, when gas is trending towards $2/litre, the price elasticity of most brands will rise regardless of a brand's equity.

While a better understanding will inform your creative briefs, tactics, etc., it will have significant impact on your innovation-pipeline management, and the various paths forward to choose from.

- Completely re-draw the innovation pipeline?
- Launch inflation-resilient line extensions?
- Renovate existing product to decrease pricing vulnerability?
- Downsize with new claims or raise price directly?

You need a plan

Step 1: Discern the Current Pricing Landscape

Large category drops in demand during an inflationary period is a dreaded scenario for brand managers planning innovations or renovations. However, not all categories react to inflation in the same way; some are more resilient than the others.

To understand where your category might land on the wide spectrum of category elasticity and how much that will impact your innovation's size of prize, it's important to understand the driving forces behind such disparity including:

- Elasticity of the category demand
- Substitutability of demand
- Inflationary relativity

Step 2: An Innovation Pipeline, Resilient to Inflation

Armed with the knowledge of category and segment elasticity and having understood desired positioning in a competitive pricing landscape, brand managers can focus on making the most inflation-resilient product propositions for their innovation and renovations. But what makes an inflation-resilient innovation pipeline?

- Bring differentiation, whether innovating or renovating
- Boost pricing resilience by overlaying claims that create a meaningful benefit with permissibility to charge more
- Shift the consumer frame of reference with innovations that offer a lower price alterative to products in a higher price ring

Again, not all categories will be hit the same. Often you need to get to the sub-category level to truly understand a brand/product's/services inflation resilience. In fact, in inflationary times high margin, premium and super-premium products can offer much-needed balance to profit-drought brand portfolios and should not be dismissed by marketing leaders.

Step 3: Raise Price, Downsize, or Other Means to Reduce Cost

When price increases are inevitable, marketers still face the choice to directly increase, or alter value propositions through other tactics such as changing size or modifying products to lower costs. Keep in mind that:

- Downsizing, or a combination of downsizing and price change offer effective ways to prevent short-term user alienation compared to direct price increases. Such short-term effect can be confirmed with consumer research
- Downsizing also offers marketers an opportunity to add new news to further conceal price increases in a full brand renovation

Unlike Covid which has been labeled "unprecedented," the same cannot be said for rapid inflation. At Ipsos we are committed to leveraging our institutional knowledge and expertise across Public Affairs, Innovation and Market Strategy to continue to help brands drive growth, regardless of what the market throws at us.

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About Ipsos

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