

What's your cost of living crisis exit strategy?

2024

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/ Foreword

If we agree that the UK's cost-of-living crisis began in late 2021, when inflation started to spike, that means we're already into the fourth calendar year of this unwanted economic event.

Long-suffering consumers have undoubtedly cut back on luxuries during this period; many also making tough choices about their day-to-day expenditure, from grocery shopping to switching on the central heating.

As of March 2024, leading economists are pointing to data that predicts inflation will slowly but surely fall below the Bank of England's 2% target. But for now, households will still feel the need to budget - and that might not be great news for many brands.

But although the picture may be gloomy, as the saying goes: "When the going gets tough, the tough get going." This is a time for the brightest minds in the marketing industry to roll up their sleeves and consider new ways to stimulate consumer engagement and response, leading to loyalty and growth. Because for most organisations, nothing else will suffice.

Customer insight is key. Only by understanding behaviour changes that have emerged throughout the crisis can brands successfully tailor their messaging and targeting strategies. That could be consumers switching from favourite brands to own-brand items on a scale unseen before inflation spiked. Or it might be a mass change in mindset as shoppers have become smarter about deals - heralding a new era of the even savvier shopper.

Although consumers appear to be more in control of their relationship with brands, and what they place in their baskets, it would be wrong to discount the wisdom of marketing experts who continue to excel at persuading people to purchase.

To that end, Go Inspire partnered with the DMA to bring together senior marketers who are at the sharp end of ensuring consumers continue to engage with and buy their brand during tough times. We aimed to turn the spotlight on marketers' achievements during this difficult period, and consider what other brands could learn from their approach.

The report that follows delves into the tactical and strategic decision-making process that can be followed to combat the cost-of-living crisis. This aspect of our conversation prompted a wider discussion about the positive steps brands can take to build loyalty and repeat purchase - using data and insight, creative communications and media strategy - while their target consumers are keeping a closer eye on the pounds in their pocket.

One day soon, when the economic outlook is sunnier, we will finally emerge from the cost-of-living squeeze. When that begins to happen and we can all loosen our purse strings again, brands must be ready to ensure that the new links they forged with consumers during the crisis extend into a brighter, mutually valuable future.

Ben Snutch, CCO Go Inspire

/ Introduction

Is the UK turning the corner on the cost-of-living crisis?

While the economy looks unlikely to roar back to unparalleled growth in 2024 some green shoots are appearing. Inflation has finally begun to fall, household finances may be eased by proposals including a cut to National Insurance rates and rise in the national living wage in the Chancellor's Autumn Statement, and marketing budgets are creeping up in some sectors.

If the pressure on people's purse strings starts to ease the relief provided could persuade consumers to spend more on both essentials and luxuries, cutting loose after a period of cutting back.

Against this backdrop brands are about to discover whether new habits die hard. There's plenty of evidence to suggest that consumers actively switched to lower-cost alternatives, abandoning their usual basket of favourites as they tried to trim their budgets. With a few more pounds to play with, will they revert to type - or will recent pecuniary habits persist?

To delve into brands' decision-making processes, marketing performance expert Go Inspire - A Xerox Company - partnered with the DMA and a group of senior marketing stakeholders for a roundtable exploration of the effects of the cost-of-living crisis on strategy. They examined elements of strategy including:

- understanding consumer behaviour and loyalty
- better use of key data, such as RFV insights
- best practice in creative output and media planning

Participants also considered how the landscape might look as the economic storm clouds begin to lift.

This report summarises their views on the strategies that have seen brands through, and considers what they'll do to capitalise as consumer confidence climbs again.

/ Cost of living: crisis or opportunity?

You might expect that brands haven't taken a one-size-fits-all pattern to the cost-of-living crisis - and you'd be right.

In fact, strategies have differed from brand to brand, not just between sectors. One of the roundtable participants said their brand was only just beginning to see the shockwaves ripple out from the epicentre of the war in Ukraine, rattling its revenues in the most recent quarter.

Others admitted their brand has been affected for some time. For example, a marketer in the FMCG sector cited a definite shift from branded to own-label purchasing among a section of its database. But it was also interesting to note that a cosmetics and personal care expert discerned a trend for some people to treat themselves with more expensive products, but which last longer. This brings the need for greater understanding of the relationship between purchase value and frequency, they stated.

A further observation was made that some brands which profited from recent events - white goods, for instance, with people spending more time at home and seeking to cut costs by investing in more efficient equipment - still need to ensure revenues remain strong for the long term.

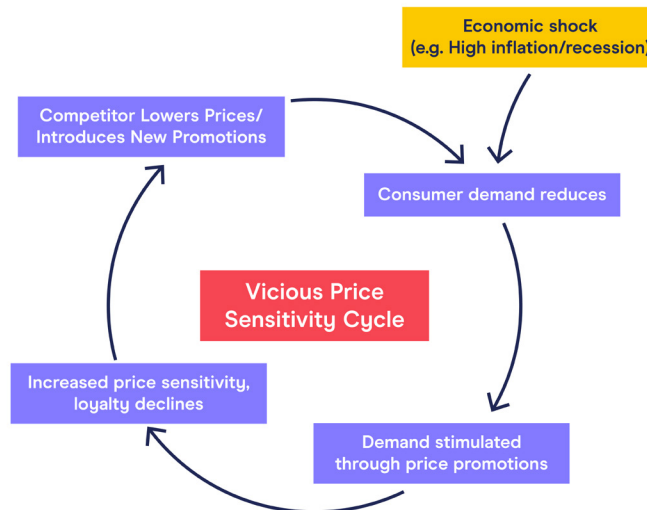
All brands are tackling the cost-of-living crisis by taking slightly different approaches, as their unique circumstances dictate.

Most often it comes down to a battle between competitive prices and brand equity. Many brands fail to recognise that investment in brand-building activity will enable them to maintain profit levels without resorting to rock-bottom pricing.

Balancing act

For brands the cost-of-living crisis has been cut-throat, with almost half (48%) of consumers claiming they'd ditch their favourites should they stop offering deals.

Brands have been slashing prices or turned to promotions as an overarching strategy, participants agreed. It's a vicious circle: a price- and promotion-led approach creates more price-sensitive attitudes among consumers, who then demand yet more discounts and promotions.



According to the DMA's study *How To Win Back Customers and (Re) Build Loyalty 2023*, inflation has pushed 51% of UK consumers to trial new brands based solely on a price offer. This increased from 44% prior to the crisis beginning at the end of 2021, when price rises began to outstrip wage growth; subsequently exacerbated by the outbreak of war in Ukraine in February 2022 which hit energy supply and prices.

Meanwhile, bargain hunting remains extremely popular among consumers, with 63% revealing they often change their minds about which brand to opt for depending on the deals of the day. As a result, brand loyalty has declined sharply, with 61% of consumers less likely to stick with brands in 2023 compared to 41% in 2022.

It's no wonder that brand-building - investment in rich, creative above-the-line activity intended to change how people think and feel about brands, and generate demand and loyalty - has taken a back seat.

One contributor called the need for CMOs to hit short-term targets a "price-led doom loop" that many brands - and entire sectors - desperately need to escape from. The problem is, participants observed, brand switching caused primarily by a race to the bottom on price might outlast a turnaround in the UK's financial fortunes.

It's no secret that acquisition and winback can be costlier than retaining customers and keeping them loyal. According to JICMAIL figures, cost per acquisition for cold targets (i.e. new customers) is up to eight times higher than for warm targets and existing customers. Without investment in brand building, as described above, during tough trading conditions it becomes even harder to persuade people to give an abandoned product or services another look.

Yet there was a more optimistic take around the table: there are lots of strategies brands can seize upon to claw back and bolster customer relationships.

Loyalty redefined?

Success will depend on brands' ability to understand what loyalty looks like whenever consumers feel they are able to make different choices. As one roundtable participant put it, we've lived through "a strange period of lapse and acquisition" with a 'new normal' yet to emerge.

Understanding how this will play out when the cost-of-living crisis recedes is crucial. That means gleaning what's made customers stay loyal to brands that have remained in their basket, or pick up and persist with new brands.

All attendees agreed building - or rebuilding - brand isn't a can for kicking any further down the road.

Contributors said the focus must fall on three key areas. While these may seem obvious, the fact CMOs highlighted their importance calls into question brands' previous aptitude with them:

- Data
- Value
- Personalisation

A strategic approach begins with using data to track lapsed customers and ask whether a brand's recent decisions provoked them to pick a rival instead. Was the chance to retain someone missed? Did the brand's channel strategy not do enough to combat churn?

With those learnings on the table, brands should determine how to build value for the consumer beyond simply cutting cost for them. One participant from the FMCG sector said they had "doubled down" on spending marketing budget to boost brand metrics: awareness, consideration, purchase intent, and more. They pointed to successful partnerships with affiliate brands that have boosted data exchange, helping the brand to understand what makes its customers tick. In turn, this insight can be fed into brand strategy and communications.

Personalised customer experience will also be crucial, speculated a D2C specialist. In a digitally driven world, many people still expect and value "the personal touch", whether in-store or through a contact centre; it's important not to place all bets on one customer channel. The obvious step onwards is better personalisation: using a consumer's valuable personal data to show the brand has grasped their individual wants and needs.

This strongly reflects a key finding in the DMA's study *How To Win Back Customers and (Re) Build Loyalty 2023* that consumers rank functional brand benefits (41%) second only to the financial aspect (56%). If a brand responds by doing exactly what a customer wants, in a way that showcases quality, they're more likely to keep buying it.

How much focus is now placed on brand building and brand values will depend on whether it was shelved or sustained during the past couple of years.

Regardless, as we move beyond the crisis brands should already be taking steps to bolster loyalty and win back lost customers.

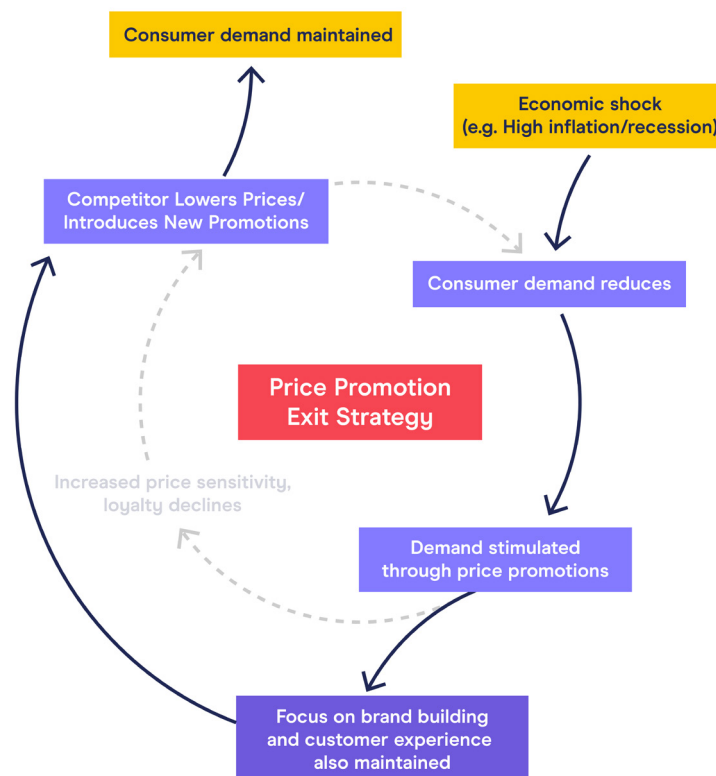
/ Beyond the crisis: rebuild your brand and rebuild loyalty

The IPA Bellwether Report for Q3 2023 pinpointed the need for brands to look beyond a price war and commit budget to stand out in a meaningful and enduring way.

As a result, brands need to have an honest conversation about their cost-of-living crisis exit strategy:

- Find ways to win back customers lost to cheaper alternatives
- Understand what they need to do to rebuild loyalty
- Find how to harness creativity, data and technology to avoid price dependence

Participants in the roundtable were at pains to point out this doesn't necessarily mean treating brand-building investment and price strategies as polar opposites. In fact, the consensus was that a balance of both would work best, with the goal of strengthening emotional connections with consumers that were weakened by economic woes.



The discussion centred on several strategies to find equilibrium.

Promotions

One FMCG marketer suggested that brands must be more careful with promotional strategies. In a busy retail environment, they asked, will the shopper know they're getting a good deal or just be confused? There are a huge number of highly visible, and very different, offers in every aisle of every store. This complexity can be counter-productive, with consumers willing to choose a seemingly simpler choice even if it means missing out on deals.

Data is key, offered another contributor; from audience segmentation across SKUs, to RFV that highlights purchase consistency. They pointed to the recent spate of retail membership schemes - citing Body Shop's 'Love Your Body Club' as one example - which draw on customer data to deliver offers that are still promotions but dressed differently: the chance to try a free sample product alongside a regular purchase instead of a simple BOGOF, for instance. "Identify, cherish and reward the big customer moments," as the observer put it.

Value(s)

When times are hard we know consumers want to feel they've got value and quality from the brands they choose. But today's customer also needs to sense a brand recognises and reflects their innate values in a way that feels seamless between brand and communications, and helps to build trust.

Highlighting just one tough decision on brands' books, a participant stated they must choose between increasing the cost of sustainable production across the supply chain, and keeping down prices but reducing product size. There was wider acknowledgment that "doing the right thing", in a bid to please everyone, is almost always difficult.

Channel

With more consumers driven online by the pandemic, and ecommerce sales showing no sign of slowing since, a "high-touch multichannel strategy" - as a participant called it - will underpin competitive advantage.

One attendee believed it's important to keep viewing different teams as specialists in their own right - acquisition and retention, for example, or product and web. But, equally, they shouldn't be siloed; "shaking hands" and working together to ensure communications and offers reach the consumer wherever they want the brand to show up, as part of an optimised customer journey. This ties back to having joined-up approach to managing and using customer data, ensuring information doesn't sit in siloes.

Attention

Taking channel strategy one step further, brand success in the modern era is built on the ability to tap into the 'attention economy'. Consumers no longer like flat product pages. They expect content to suit their mood - from TikTok explainers to long-form editorial-style copy - that also offers shoppable functionality.

Some campaign channels are more expensive than others; that's a given. That's why it is vital to use an 'attention-based planning' industry metric that describes the value of one minute of a consumer's attention.

For example, attention metrics have much to tell us about brand preference. Dentsu analysis has found that consumers viewing an ad for two seconds produce a relatively minor 5% increase in brand choice, compared to people in a control group who didn't see the same ad. But dwelling longer provokes a bigger uplift: a dwell time of 14 seconds delivers a 9% uplift in choice.

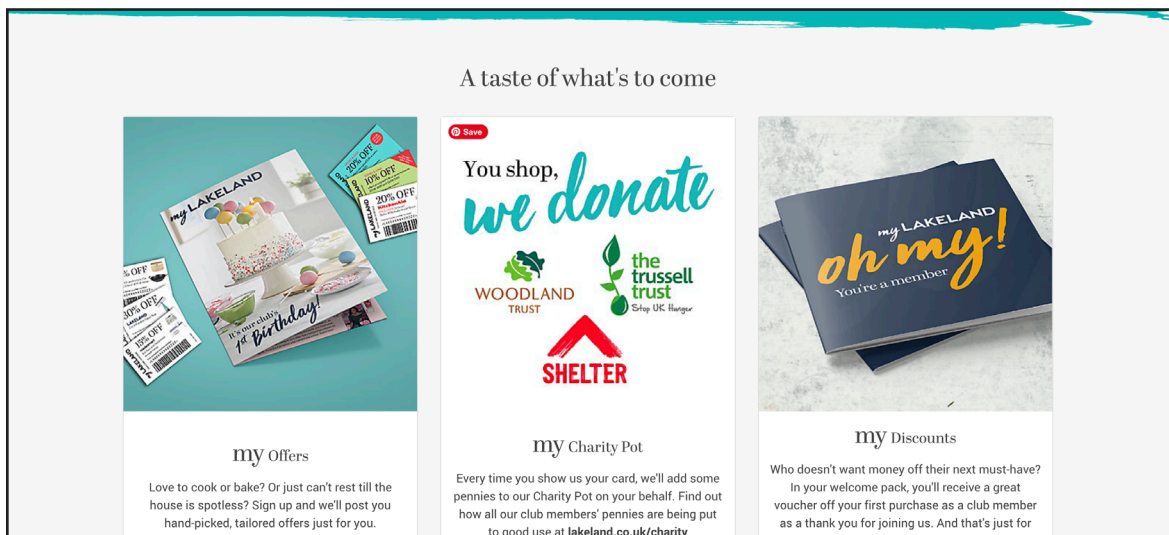
Above all, participants felt brands must strive to "match the pace of customer-driven change" as consumers continue to become better informed, and more interrupted by brands and media platforms.

So, as a potential turnaround in our financial fortunes comes into view, what's the best strategy to tie all of the roundtable brand insights together?

/ How go inspire has boosted customer retention in a time of change

myLakeland Club

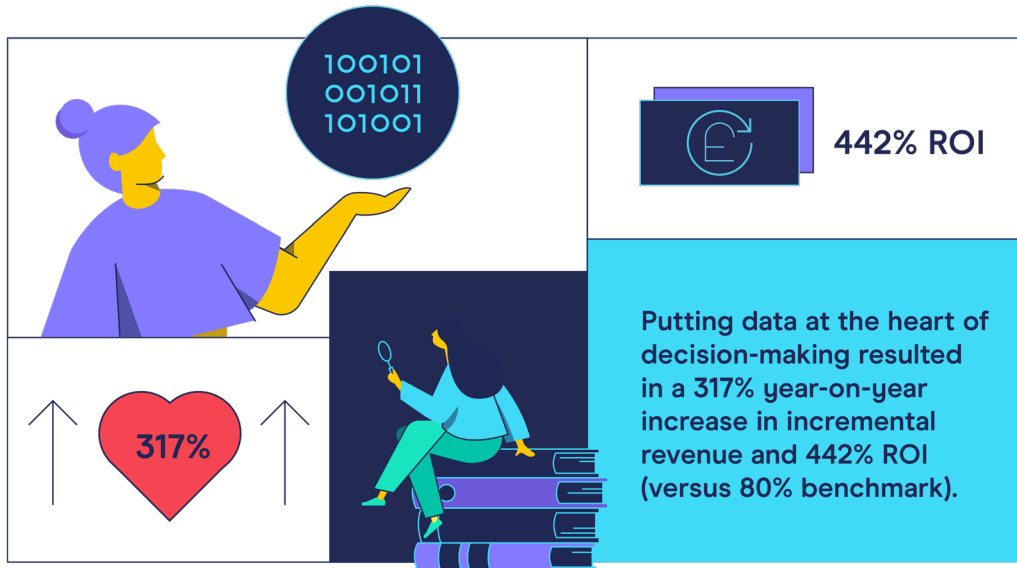
A true breakthrough with data delivered a hyper-personalised myLakeland experience for every member of the retailer's loyalty club. The initiative built on the programme's existing success.



Data expertise centred on the following activity:

1. A unique segmentation that overcomes inherent flaws in RFM; the omission of consistency and seasonality
2. The creation of a 'clustering segmentation', grouping customers based on purchase category mix

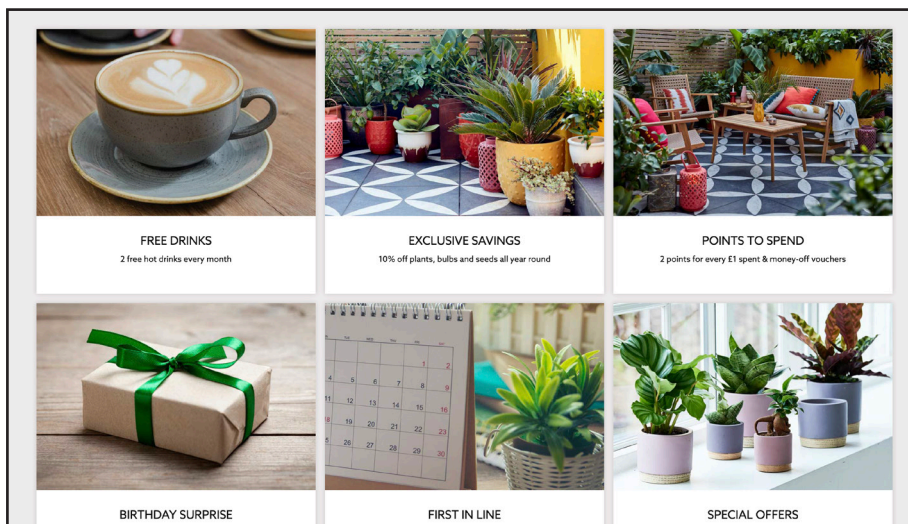
Usage clusters determined next commercial objectives, and informed which products would benefit from promotion. For example, what is the next new category / product to encourage myLakeland members to buy?



The data strategy also delivered a hyper-personalised myLakeland experience for every member, SCR of £10.61 (versus £6 benchmark) and EBIT of 41% (versus 20% benchmark).

Dobbies

Putting data at the centre of decision-making delivered a hyper-personalised Dobbies Club experience for every member.



Dobbies Club data was harnessed to:

- drive measurable, tangible growth in ROI and incremental revenue
- show contribution of free benefits to frequency, additional revenue and ACV through analysis of Club data
- determine the most relevant selection of products, offers, discounts and content for each individual Dobbies Club Plus member, by developing a multi-layered targeting model built on:

- Advanced Segmentation
 - Usage Clustering
 - Category analysis
 - Discount Optimisation
- Facilitate hyper-personalised communications for each Club member mailing

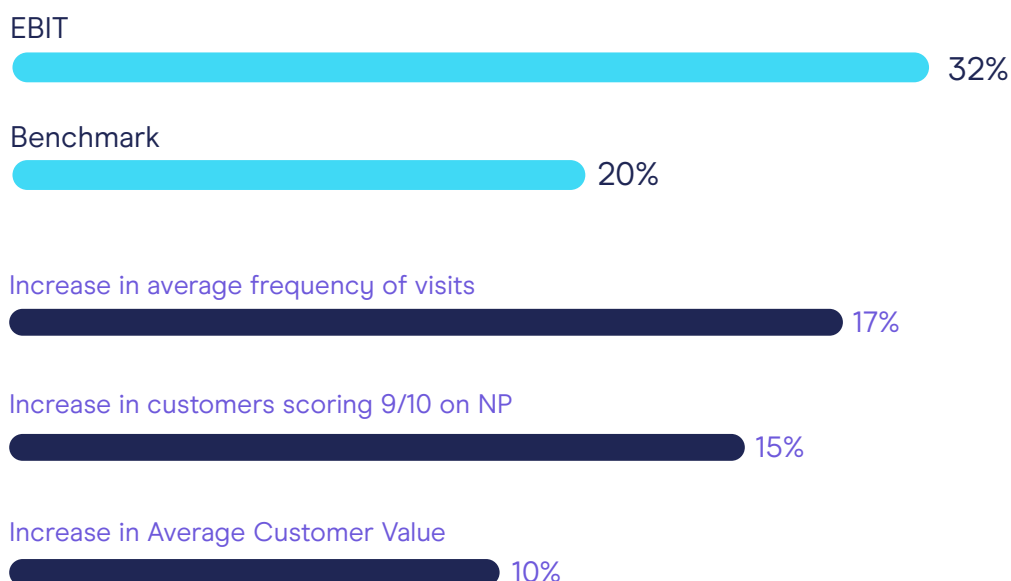
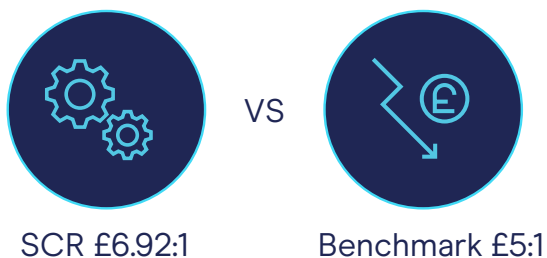
Segmentation drove creative strategy to different groups of customers. For example:

- **Love Dobbies** - Making members feel celebrated with exclusive offers
- **Love Garden** - Tempting members to shop deeper into gardening and cross sell into new departments
- **New** - Embedding the benefits of the Club Plus programme, encouraging repeat spend with exclusive offers

Through an iterative test-and-learn programme, changes to offer pack creative were then tested against control.

Putting data at the centre of decision making meant a 199% year-on-year increase in incremental revenue and 215% ROI (versus a benchmark of 80%).

Built on the foundations of unique segmentation, usage cluster, key category analysis and discount optimisation strategies, this new tailored approach delivered:



/ About the DMA

The DMA is the UK's trade association for the data and marketing industry. Our vision is a data and marketing industry where every organisation takes a 'customer-first' approach. As the voice of the data and marketing industry, our responsibility is to prove the responsible and innovative use of data in marketing drives business growth. We set the standards for the good of marketers, and most importantly, customers. We empower marketers to drive growth and prove the value of data through public affairs, resources, learning, and talent. With over 700 organisations, the DMA is the UK's largest community made up of 27,000+ marketers.

/ About the GoInspire

Go Inspire offers strategic marketing consultancy seamlessly linked with data science & analytics, digital transformation, customer loyalty programme design, creative marketing services and award-winning print and mail services, delivered intelligently and agnostically across all channels: all in one full-service marketing communications partner.

Tesco, Waitrose, Sky, BT and Lakeland are just some of the brands who trust them to deliver their loyalty schemes as well as mailing and marketing solutions to millions of their customers, every day. Their innovation workshops and innovative direct mail concepts are the driving force behind huge campaigns.