Deloitte.
Insights

The consumer products bifurcation

Opportunities to accelerate growth and “future proof” in the face of a potential recession

Contents

Introduction | **2**

Impact of bifurcation on consumer products | 4

How to win by category: Deep dive | **15**

Endnotes | **22**

Introduction

In our article, "The great retail bifurcation," we looked at the so-called retail "apocalypse" and asked how income or financial position determines where people shop.[1] In this article, we look at how income or financial position influences what people purchase. With disruption dramatically changing the consumer goods' landscape, and indicators pointing to a slowdown,[2] consumer products companies today face a new set of strategic issues. These issues include how to position brands to win with today's digital-first consumer, how to optimize product portfolios to accelerate growth in new and traditional channels, and, increasingly, how to become "future-proof" in the face of the next consumer recession.

THE CONNECTED CONSUMER is leading the disruption in the consumer products industry, altering the competitive landscape: "Indie" and digitally native brands are growing multiple times than traditional brands in many categories, and new innovative business models are emerging, driven by a shift to a consumer-led marketplace, enabled by digital and social technologies. This sea change is taking place across all consumer product categories.

Given marketplace disruption and the potential for a slowing economy,[3] consumer product companies need to reevaluate how to convey value as well as adapt brand and category portfolio marketing and commercial strategies to stay ahead of their competition. In "The great retail bifurcation," we looked at the so-called retail "apocalypse" and examined how income and financial position determine *where* people shop.[4] In this article, we look at how income and financial position influence *what* people purchase.

Understanding how to chart the path to growth in today's uncertain economic environment begins with the consumer. With that in mind, we conducted consumer research and brand performance analyses, with the aim to get insights to address key questions: How are consumers faring in today's economy? How important are income and perceived financial position in driving *what* and h*ow much* a consumer purchases? What *categories* are most sensitive to a perceived change in a consumer's financial position? In a fragmented consumer landscape, how can consumer product companies optimize product portfolios by consumer target, value proposition, and distribution channel? In view of the growing threat of a recession, what strategies should consumer product companies be pursuing to accelerate growth and win over consumers?

What we found was that income bifurcation is widening and this bifurcation is altering purchase behaviors and playing out differently by category. But there's more to it than meets the eye.

OUR APPROACH

In November 2018, we surveyed consumers via the Deloitte Center for Consumer Insights to understand which factors drive buying patterns and, in particular, how income cohort and change in financial position impact purchase behavior. We interviewed consumers who fell into one of the three economic categories—high income, middle income, and low income[5]—and separated them by age to see if there were buying differences among age cohorts. The survey was conducted over November 9–14, 2018 and polled over 3,000 consumers with roughly equal sample size across the consumer product categories assessed.

We focused on consumable consumer product categories: apparel, footwear, food/grocery, beverage, health/beauty, consumer electronics, and toys/hobbies. We also assessed brand performance by category to identify marketplace "winners"—brands outperforming in growth over the past few years—and to understand winning strategies in a consumer landscape that is divided.

To assess brand performance, we collected brand-level sales data, including private label, from Euromonitor International for more than 1,100 brands across analyzed categories. The apparel and footwear brands collectively represent 40–50 percent of category sales and 65–80 percent for all other categories. Volume data was used to assess brand-level consumer electronics performance as Euromonitor does not report dollar sales by brand for this category.

Brands were categorized into one of the three price categorizations (high, medium, low) based on Deloitte's proprietary methodology that includes analyses of brand messaging/positioning, average price point within subcategories, and similar brands.

Each brand was categorized as high, medium, or low.

- **High:** Brands with prices that are significantly greater than the median price point in a product category and are marketed based on exclusivity, luxury, or premium
- **Medium:** Brands with prices that are close to the median price point in a product category and are meant for a mass market
- **Low:** Brands with prices that are lower than the median price point in a product category and are marketed as "budget" or "affordable"

Brand price tier categorization was determined through:

- **Analyzing brand messaging** on brand websites. For example, brands with "affordable" in their messaging would generally be placed in the low category, while brands with "quality" or "luxury" would be placed in the high category.
- **Using an average price point analysis** by comparing brand price points within consumer product subcategories. A set of brands were categorized as high, medium, or low, which were then used to create a benchmark to categorize all other analyzed brands.

How're the consumers faring in the current economy?

More than a decade after the great financial crisis and the crippling recession that followed in its wake, the US economy finds itself amidst the longest-running economic expansion in its history: US real GDP rose 3.2 percent in the third quarter of 2018, after recording a 4.2 percent increase in the second quarter. Real consumer spending continues to rise, increasing to 0.3 percent in November 2018, following an increase of 0.6 percent in October.

When we look closely at income distribution, the rosy picture of consumer health begins to get cloudy. **For the past decade, an outsized portion of the gains of the recovery have gone to the upper-income cohort**, whose incomes have risen more than 13 times that of the lower-income cohort.

The result is that the *bifurcation* between the high- and the middle- and lower-income tiers is growing progressively wider (figure 1). That's not all. As we dig deeper into the state of the consumer, we see a host of **rising nondiscretionary expenses cutting into disposable income**, further widening the bifurcation, especially given that disposable income is only increasing for the high-income cohort (figure 2).

What's the impact of this bifurcation on consumer products?

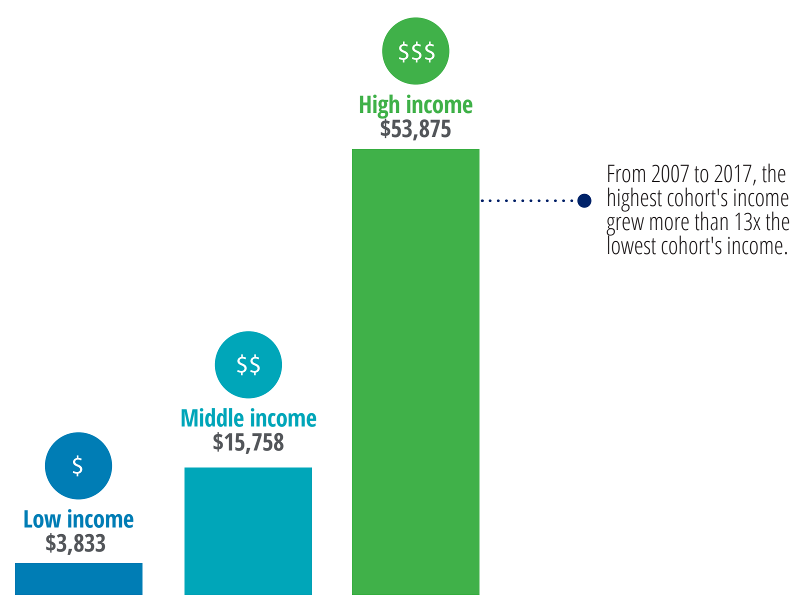
Income bifurcation is a critical factor in the consumer products landscape. Between 2007 and 2016, the lion's share of income growth went to higher-income households. Indeed, until 2015, 100 percent of all income growth went to the top 20 percent, and only in 2016 did income growth turn positive for lower-income individuals.

When we conducted our study in November 2018, we found that consumers in the high-income cohort were nearly **2x more likely to cite an *improved* financial position** and higher

FIGURE 1

The income gap is widening

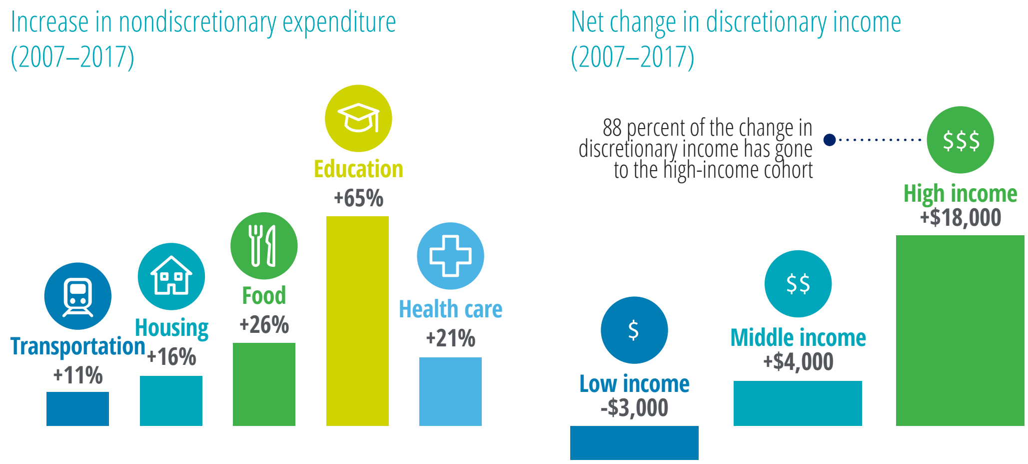
Incremental income generated since the recession has disproportionately and dramatically gone to high-income households



Note: Income growth. Average US$/household, 2007–2017.
Source: US census data. 2018.

FIGURE 2

Nondiscretionary expenses have skyrocketed, while only high-income consumers have increased disposable income



Source: Bureau of Labor Statistics.

disposable income than consumers in the low-income cohort. While 15 percent of consumers overall citied a perceived worsening financial position with less disposable income, this affected the lower-income group disproportionately (21 percent of lower vs. 6 percent of higher), further evidence of continued income bifurcation.

Perceived *changes in financial position—regardless of income cohort*—drive purchase behaviors, with important differences by category. Our consumer research indicates that consumers are likely to shift their spend based on a change in perceived financial position, regardless of income cohort. Across income cohorts, almost half of consumers who cite an improved financial position also cite an increase in spend. And, across income cohorts, consumers who cite a worsened financial position also cite a decrease in spend (figure 3).

Our study results reveal that **no matter what income cohort one is in** (even higher income), consumers who ***perceive* their financial position as worsening are more likely to cut spending. How much and why consumers reduce spend differs by category**. In some categories, consumers sharply cut back on volume of spend, while in others, they switched to less expensive products and brands.

Meanwhile, consumers who perceive their financial position as improving cite higher disposable income, and are more likely to increase spend—**and this observation holds true for high-, medium-, and low-income cohorts (figure 4).** Across categories, over 30 percent cite discovery and exploring new brands and products as top reasons for increased spend. However, the magnitude and drivers of this increased spend *differ greatly by category*.

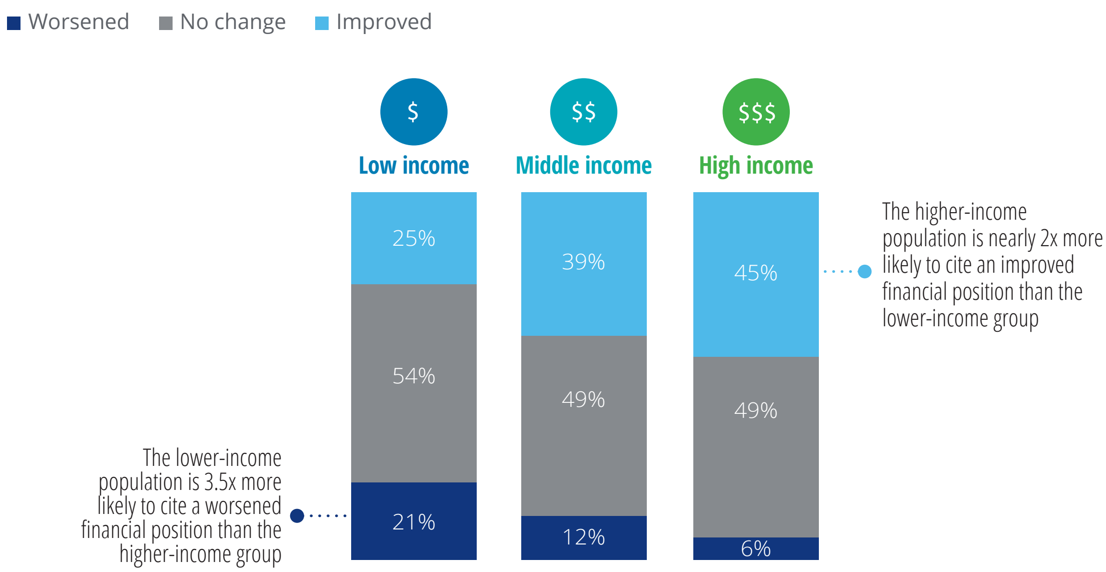
Millennials are more likely than other generations to adjust shopping and purchase behavior based on changes in perceived financial position. Consequently, as the economic climate changes, this cohort is the one to watch as millennials will spend more or pull back in response (see sidebar, "Millennials: The force awakens?").

By category, we saw variations in the impact of consumer and income bifurcation: apparel, food/grocery, health/beauty, and consumer electronics showed a high degree of consumer bifurcation among product categories; beverages and toys/hobbies showed the least amount of bifurcation

FIGURE 3

Income bifurcation is increasing based on cited consumer change in financial position

Perceived change in financial position by income cohort



Source: Deloitte's consumer bifurcation study, November 2018.

between the spending behaviors of the income groups; and footwear revealed only a moderate degree of bifurcation (figure 5).

No matter what income cohort one is in (even higher income), consumers who perceive their financial position as worsening are more likely to cut spending.

Purchase drivers also *differed by category* (figure 6), for both consumers with improving and worsening financial positions. In certain categories, consumers bought the same brands, but *shifted volume*—that is, they purchased in greater or lesser quantities. In other categories, a perceived change in financial position was more likely to drive consumers to *switch* brands and products. In categories driven by trend and discovery, consumers *sought new brands and products*, whether perceived financial positions improved or worsened.

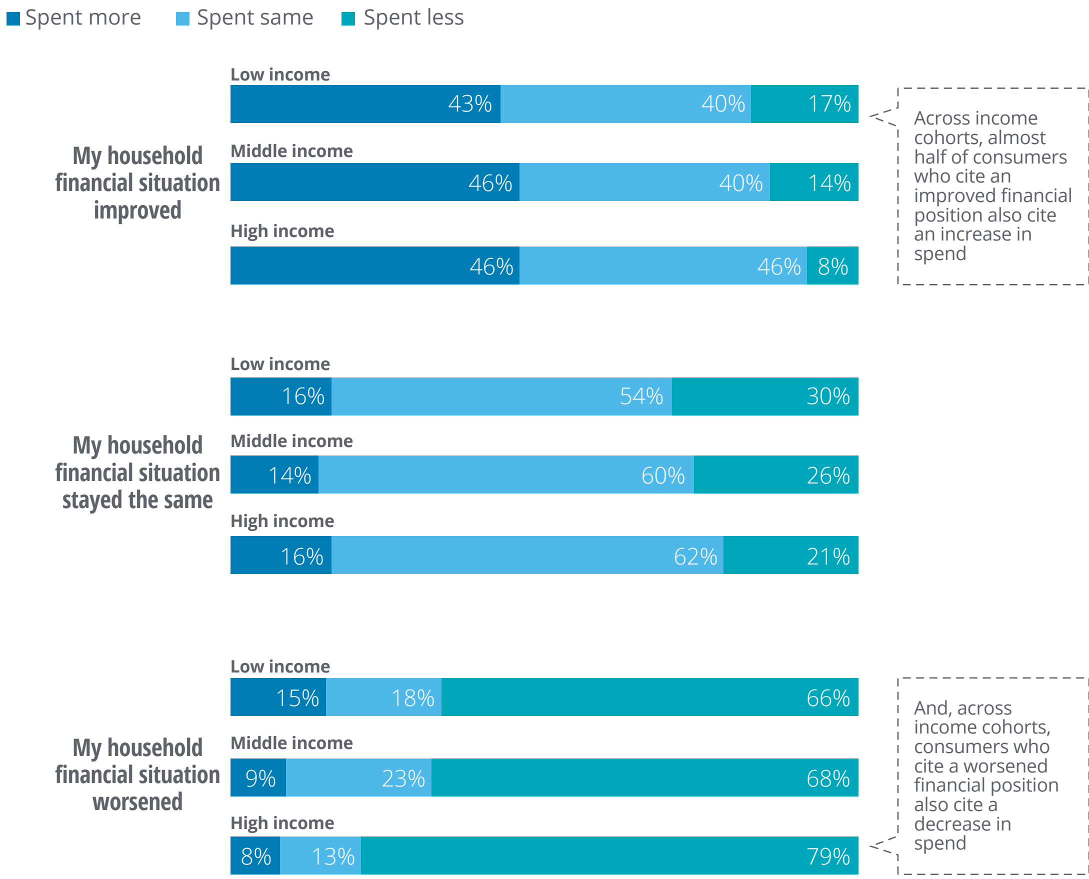
Purchase drivers differed by category… in some categories, consumers bought the same brands but shifted volume; in other categories they switched brands and products.

In our assessment of brand performance, we found that between 2017 and 2018, winning brands and products

FIGURE 4

No matter what income cohort you are in, a change in perceived financial situation leads to a similar change in consumer spending

How did your spending on discretionary/optional items (e.g., electronics, apparel, entertainment, luxury items, etc.) over the last year compare to the previous year?



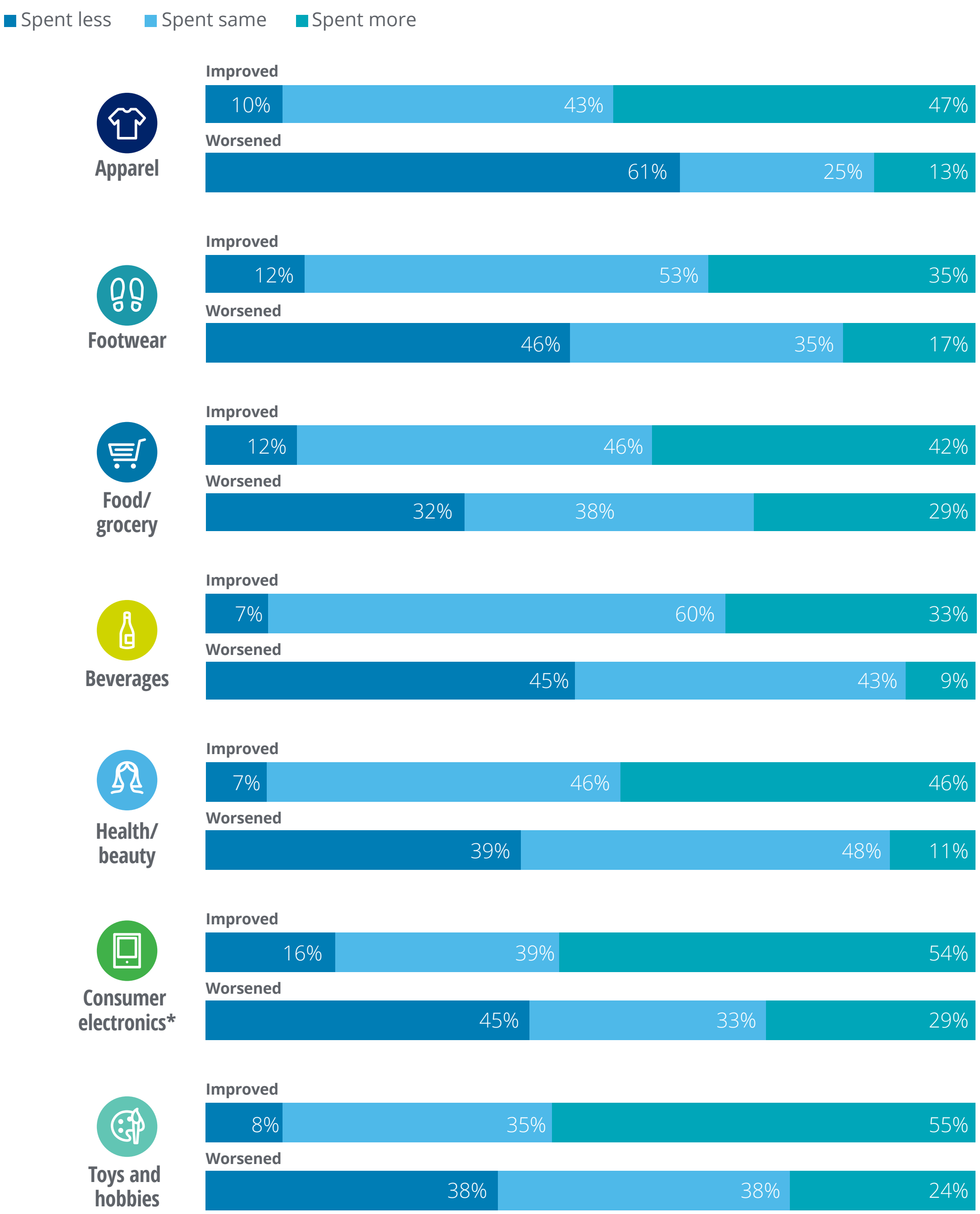
Note: Percentages may not total 100 percent due to rounding.

Source: Deloitte's consumer bifurcation study, November 2018.

FIGURE 5

Shoppers increase or pull back on spend with changes in perceived financial position, and there are significant differences by category

Spending change based on improved and worsened financial position



*Consumer electronics growth measured by number of units sold.

Note: Percentages may not total 100 percent due to rounding.

Source: Deloitte's consumer bifurcation study, November 2018.

FIGURE 6

Change in perceived financial position drives changes in spend, with differences by category

How did consumers increase or pull back on spend based on perceived changes in financial position and why?

↑ Increased spending ↓ Decreased spending → Maintained level of spend

More 'filled in' arrows indicates greater magnitude of change.

	Improved financial position: CHANGE IN SPEND	Improved financial position: DRIVER	Worsened financial position: CHANGE IN SPEND	Worsened financial position: DRIVER
Apparel	↑↑↑	Higher volume	↓↓↓	Lower volume
Footwear	↑↑↑	New higher-price brands	↓↓↓	New lower-price brands/ products
Food/ grocery	↑↑↑	New product discovery	→→→	Less expensive products
Beverages	↑↑↑	New needs/ desires	↓↓↓	Change in needs/ desires
Health/ beauty	↑↑↑	New product and brand discovery	→→→	New product and brand discovery Lower price brands/products
Consumer electronics*	↑↑↑	Trend New higher price brands	↓↓↓	Change in needs/desire
Toys and hobbies	↑↑↑	Trend	→→→	Trend

*Consumer electronics growth measured by number of units sold.

Source: Deloitte's consumer bifurcation study, November 2018.

tended to have either a premium or a value-driven position, evidence that companies that understand consumer bifurcation behaviors and underlying category drivers are more likely to outperform in terms of growth (figure 7).[9]

Income bifurcation continues, with individuals in the top one-third income cohort nearly 2x more likely to report a perceived improved financial position and higher disposable income, and those in the bottom one-third 3x more likely to cite a perceived worsening financial position, with higher nondiscretionary spend and less disposable income.

Winning brands and products tended to have either a premium or a value-driven position, evidence that companies that understand consumer bifurcation behaviors and underlying category drivers are more likely to outperform in terms of growth.

However, no matter what income cohort one is in, a perceived change in financial position—for better or worse—drives *change* in shopping and purchasing behaviors, with differences by category.

Winning brands have value propositions aligned with consumer and income bifurcation, leading to higher-than-average category growth. **Winning brand strategies differ by category, based on category purchase drivers**.

This analysis provides valuable insight into how consumers may change purchase behaviors by category during a slowdown or recession. **While more consumers overall cited an improved financial position in 2018, in a recessionary environment, more consumers are likely to experience a worsening financial position**: 15 percent of respondents already see a worsening of their financial position, with that percentage likely to rise if a slowdown takes hold.

What strategies should consumer products companies be pursuing...

Consumer products companies have an opportunity to adapt marketing and commercial strategies to get ahead of a potential Slowdown (figure 8). Based on our consumer, category, and competitor research and analysis, we recommend consumer products companies take the following four steps:

1. **ASSESS how income bifurcation impacts your category, competition, and target consumers.** In a climate where income bifurcation is widening, winning consumer products companies are increasingly shifting away from the "middle," with brand positioning skewing toward premium or value to capture market share and accelerate growth.

2. **DETERMINE how sensitive your category and portfolio are to *changes* in consumers' perceived financial position.** For your category, understand how the perception of an improving and worsening financial position **shifts consumer behaviors, i.e., what, how much**, and **where** a consumer purchases.

MILLENNIALS: THE FORCE AWAKENS?

Millennials are highly connected—they are more likely to shop, browse, and engage online than the other generations[6] and over 70 percent of millennials cite use of social media to interact with corporations over the past year.[7] Millennials also value experiences over physical goods—60 percent of this generation gravitates toward purchases that are an expression of their personality, and half of millennials prefer to spend on experiences over material things.[8]

But are millennials so different from other age/income groups?

Our study reveals that millennials are more likely than other generations to change shopping and purchase behavior based on perceived changes in financial position.

Of those surveyed, millennials were more likely than other generations to increase spending on consumer products versus the prior year; however, they were also more likely to perceive an improvement in their financial position. In our study, nearly half of millennials cite an improved financial position compared to only 27 percent of baby boomers.

Millennials who perceive an improvement in their financial position are more likely to spend on trends and treats, particularly within apparel (38 percent compared to 20 percent of Generation X and baby boomers) and beverages (31 percent compared to 15 percent of Generation X and baby boomers). Of those citing an improved financial position, millennials are more likely than other generations to cite trend as a reason for purchases in a given category (30 percent vs. 24 percent for Generation X and 18 percent for baby boomers) and are more likely to cite new product discovery as a key reason why (22 percent for millennials vs. 12–15 percent for other generations).

While millennials tend to splurge more when they have more, they are also more likely to pull back when they have less. Millennials are slightly less likely than the population to cite a worsening financial position (11 percent for millennials vs. 15 percent overall), but millennials experiencing a worsened financial position pull back in spend more so than other generations. Of those individuals with a worsening financial position, 52 percent of millennials spend less (compared to 40 percent for Generation X and baby boomers). Millennials explain this decline in spend primarily due to changes in need/desire (the top two reasons for other generations as well), but are more likely to cite discovery of new, less expensive brands (22 percent for millennials vs. 12 percent for baby boomers) more so than other generations.

Millennials are more likely than other generations to change shopping and purchasing behaviors based on changes in perceived financial position—and thus are a critical generation to watch as the economic climate changes.

FIGURE 7

Which consumer products brands are winning and how are they positioned?

Apparel

VALUE BRANDS	MID-PRICE BRANDS	PREMIER BRANDS
2.5%	-2.4%	-7.1%

WHO IS WINNING?

Value: Brands with strong value proposition, such as fast fashion, quality/price, fashionable private label

Category average: -1.5%

Footwear

VALUE BRANDS	MID-PRICE BRANDS	PREMIER BRANDS
3.2%	1.3%	4.0%

WHO IS WINNING?

Premium and value: Athletic brands with strong equity and value trend/private label

Category average: 3.0%

Food/grocery

VALUE BRANDS	MID-PRICE BRANDS	PREMIER BRANDS
1.0%	0.6%	1.6%

WHO IS WINNING?

Premium and value: Natural/organic/convenience premium positioning and private label

Category average: 0.9%

Beverages

VALUE BRANDS	MID-PRICE BRANDS	PREMIER BRANDS
0.0%	1.9%	9.2%

WHO IS WINNING?

Premium: New, high-price products/brands

Category average: 1.8%

Health/beauty

VALUE BRANDS	MID-PRICE BRANDS	PREMIER BRANDS
3.2%	1.3%	4.0%

WHO IS WINNING?

Premium and value: New products/brands that convey "discovery" & "newness," quality/value

Category average: 2.6%

Consumer electronics*

VALUE BRANDS	MID-PRICE BRANDS	PREMIER BRANDS
-12.3%	2.1%	-0.9%

WHO IS WINNING?

Middle: Brands across price tiers capitalizing on trend, such as in-home devices

Category average: -0.8%

Toys and hobbies

VALUE BRANDS	MID-PRICE BRANDS	PREMIER BRANDS
1.3%	7.4%	-0.1%

WHO IS WINNING?

Middle: Brands across price tiers capitalizing on trend

Category average: 3.1%

*Consumer electronics growth measured by units sold.

Source: Deloitte analysis of data from Euromonitor International.

3. **PRIORITIZE the levers to pull to optimize for income bifurcation and a potential economic slowdown.** Identify purchase drivers based on your category and brand portfolio. For example, what is the likelihood of consumers cutting back on volume vs. switching brands when they perceive that their financial position is worse? **Choose the most important business levers**, taking into consideration brand portfolio positioning/value proposition, product offering, communications and engagement, pricing, distribution, integrated business planning, and commercial/key account strategies.
4. **ADAPT your brand, product, and portfolio strategies, resource allocation, and go-to market execution, by category.** Remain cognizant of the ubiquitous prerequisite of anticipating and influencing consumer needs and behaviors to **grow and win** in a marketplace where consumer income bifurcation and fluctuations in consumers' perceived financial position are likely to continue.

We delve into each category and list out insights into who is winning and why in the section, "How to win by category: Deep dive."

Consumer products companies have an opportunity to adapt marketing and commercial strategies to get ahead of a potential slowdown.

Conclusion: Income bifurcation affects categories differently, but companies can realign strategies to accelerate growth and win

Income bifurcation is a critical factor in the consumer products landscape. While income remains an important determinant of where consumers shop and what they purchase overall, the **perception of a change in financial position** impacts disposable income and has the most influence on how consumers change their purchase behaviors. Shoppers with perceived improving financial positions spend more—as one would expect—and they spend more regardless of income cohort. However, what and how consumers spend when their financial position improves differs from category to category, and **millennials consistently shift spend more than other generations, across all categories**. Similarly, when consumers' perceived financial position worsens, they tend to spend less, regardless of income cohort, but how and how much they cut back also differ by category.

Increasingly, winning brands and products are diverging between premium and value positions, with winning strategies differing by category, based on category purchase drivers. To accelerate growth and win, consumer products companies should:

1. Assess impact
2. Determine sensitivity
3. Prioritize levers
4. Adapt strategy & execution

FIGURE 8

What should CP firms and brands be thinking through now?

As the economic climate changes and millennials, in particular, adjust spending patterns in response, how should consumer products companies shift gear to grow or adapt their brands?

	Implications today ...	... and in a recessionary environment
Apparel	Communicate value to consumers as apparel is the highest "splurge" or "pull back" category	Plan for reduction in volume, including private label, and strongly communicate value to consumers
Footwear	Mix value with excitement of trendiness, discovery, experience to capture higher share of spend	Offer value brands/offerings, with clear trend and experience messaging to capture share
Food/ grocery	Optimize portfolio to address new needs and food preferences across spectrum of pricing tiers	Create value offerings that incorporate food and ingredient trends as consumers purchase new brands to save
Beverages	Capture increased spend by continuing to shape desires and offer new (e.g., ingredients, business models) ways to access and purchase	Optimize portfolio/brands to offer “everyday treat” across price tiers, with positioning, ingredients, and messaging tailored to consumers with worsening financial positions
Health/ beauty	Continue to position brands and products for bifurcation—emphasizing discovery, quality of ingredients, and value	Promote value brands, continuing to emphasize discovery and ingredient quality as consumers try new to save
Consumer electronics*	Continue frequent newness/excitement to maintain share of increased spend	Explore whitespace opportunity for new products with value positioning
Toys and hobbies	Shape and use trends to offer toys/hobbies/experiences that appeal to different price segments	Continue to drive growth with sharpened focus on shaping trend, while developing new offerings to convey value

*Consumer electronics growth measured by number of units sold.

Source: Deloitte’s consumer bifurcation study, November 2018.

How to win by category: Deep dive

WE DUG INTO the data as well as the forces and trends driving shoppers' behavior by category to see what the implications are for consumer products companies as they attempt to navigate income bifurcation and a potential turning point in the economy.

Apparel

Apparel witnessed the greatest divergence in spend between those that reported improving and those that reported worsening financial positions: Nearly half of shoppers (47 percent) with brighter financial conditions increased their spending on apparel, while 61 percent of those with dimmer finances spent less, highest of all the categories on both counts. However, a change in financial position shifted **how much** consumers spent (volume), rather than what they bought. Among those individuals who bought more, nearly three-quarters (71 percent) put their dollars to work **buying more of the same brands**, rather than trading up. Only 27 percent cited purchasing different, more expensive brands, lower than all other categories. Consumers with worsening financial positions cut back volume of purchase to save.

In apparel, brands with strong value-oriented propositions were clear winners (see case studies). Another winner was private label, with 40 percent of the lower-income cohort and 24 percent of the higher-income cohort purchasing private label in apparel. This category continues a trend we noted in 2016-17, when a **basket of "value" brands grew 2.5 percent while premium declined 7.1 percent.**

APPAREL CASE STUDY: WINNING THROUGH VALUE AND STYLE

The winners in the category are dominated by fast fashion players that deliver value along with style.

LULULEMON, an aspirational brand, has capitalized on the health craze sweeping the nation by leading the "athleisure" movement as the "it brand" that can be worn for any occasion. High-quality, trendy offerings drive strong brand loyalty and wallet share. While most traditional premium apparel brands are seeing a decline in sales, Lululemon's hold on the athleisure culture drove strong US net revenue growth of 21.6 percent Q3 2018 versus Q3 2017.[10]

LEVI'S, an iconic American brand, synonymous with denim jeans, recently hit record sales of US$4.9 billion in 2017, with 6.4 percent growth year-on-year in 2017 and continued growth in 2018.[11] Levi's delivered strong growth by creating a value proposition focused on sustainability, shifting its targeting to millennials, and reallocating investment in social and celebrity influencer marketing. The company also increased investment in e-commerce and its direct-to-consumer channel.

BUSINESS IMPLICATIONS

Apparel companies need to tread carefully, given the propensity of consumers to either splurge or pull back sharply in this category. It is important to be able to drive home a strong value proposition to the shopper, clearly communicating price/value tradeoff. And companies will need to be nimble in a recessionary environment, with demand forecasting and supply-chain planning to manage a reduction in volume.

Footwear

Footwear is less sensitive to changes in financial position than apparel. Nonetheless, bifurcation persists. Improved finances had less of an impact changing spend in footwear, with 53 percent saying they **spent no more than they did previously**, higher than other categories, but these footwear shoppers were more likely than average to seek new products. Even when consumers had worsening positions and spent less (46 percent), more than a quarter (27 percent) were likely to seek new, trendier brands, higher than in other categories. Growing brands in footwear skew premium or value.

BUSINESS IMPLICATIONS

The key for companies in footwear is to mix value with the excitement of trend, discovery, and experience to capture a higher share of consumer spend. Companies can consider offering **trendy "value" brands** to meet the needs of consumers with worsening financial positions.

FOOTWEAR CASE STUDY: WINNING DESPITE DIFFERENTIATED STRATEGIES

Nike and Skechers, two very different brands, have managed to generate excitement in the category, each going about it in its own way

NIKE continues to be a leading brand in the footwear space, evolving beyond athletic shoes. It is inserting itself into the fashion sneaker world, launching new styles and partnering with key influencers, from sports stars to celebrities, while leveraging digital for personalization. Product quality, combined with brand equity and a broader athletics ecosystem, allows Nike to command a premium price and market leadership.

SKECHERS has also capitalized on the growing trend of athleisure, positioning itself as an affordable brand, with the message that consumers do not need to break the bank to be leading a healthy lifestyle, fashionably. The brand has outperformed the category with this approach—Skechers saw 4.1 percent sales growth in 2018 compared to 2.4 percent for the category.[12]

Food and grocery

Consumers are less likely to reduce volume to save in this staple category, with only 32 percent of consumers with worsening financial positions spending less, lower than all other categories. Consumers did **trade down** to cheaper food brands/products (34 percent), in part to offset the perception of higher prices. Among consumers with improved finances, 42 percent increased spending. The increase was driven by consumers' willingness to spend more for sustainable ingredients.[13]

Winners in food and grocery reinforce consumer bifurcation with premium-price and price/value brands (including private label) outpacing those in the middle. Consumers across income cohorts cite a relatively high level of private label spend—41 percent overall, with 35 percent for the higher-income cohort and 47 percent for the lower-income cohort.

BUSINESS IMPLICATIONS

Food manufacturers should seek to optimize their food/grocery portfolio to address **new needs and food preferences across a spectrum of pricing tiers**. Over the past few years, consumers, driven by millennials, were willing to pay a premium for brands that met new needs, such as sustainably sourced ingredients. However, when financial positions worsen, consumers across income cohorts were more likely to search for and purchase new brands and products to save money. With a potential economic slowdown, there is an opportunity to create value offerings that incorporate new food and ingredient trends.

Beverages

Bifurcation isn't as apparent in this category as it is in others, with consumers less likely to splurge on beverages even when their financial position is on the rise—just one-third reporting spending more, the lowest among all categories. Among those individuals with worsening finances, 45 percent cited spending less, which is average. When spending more, consumers were motivated by changing needs as well as by **discovering** new brands and

FOOD AND GROCERY CASE STUDY: BOTH PREMIUM AND VALUE OFFERINGS PRODUCE WINNERS

Sun Basket and Conagra have forged different paths in this bifurcated category: one following the premium fork, the other following value.

SUN BASKET entered the increasingly crowded meal kit market with a positioning focused on ingredient quality and transparency. Recognizing that people are uniquely health-conscious at this moment, the company was able to command a premium with offerings, such as meals with organic, sustainably sourced ingredients and meals for specific diets and allergies. Sun Basket has found success, hitting a run rate of over US$250 million in annual net revenue and a market share of more than 10 percent of the US meal kit market[14] in 2017. The company cited growth of 2.8x over 2016–2017.

CONAGRA recognized the health-consciousness and new food and ingredient trends that were permeating the "outer aisle" of the store, and transformed its portfolio, reigniting the stagnant frozen foods category to accelerate growth. The company introduced new, enticing meals, targeting specific consumer segments and meal occasions, while maintaining price points that would speak to the value consumer. Conagra reignited brands such as Healthy Choice, introducing "power bowls" with environmentally friendly packaging, natural ingredients, and on-trend offerings. Conagra's frozen single-serve meal brands sales rose 11.3 percent in 2018, more than 4x the overall packaged food category growth of 2.8 percent over the same period.[15]

satisfying new **desires**. Relative to other categories, premium beverage brands are driving category growth, indicating that beverages are less bifurcated than other categories.

BUSINESS IMPLICATIONS

Over the past few years, new, higher-price brands have driven beverage category growth. Companies need to continue to **shape desires** and **offer new products** accordingly, with the opportunity to move beyond product to increase consumption and gain a higher share of incremental consumer spend (beverages lagged other categories). For example, one approach is to pursue business models that offer new, convenient ways of purchasing, personalization, and easy access to try new beverage experiences. An opportunity also exists for optimizing brand portfolio value proposition and pricing to offer new alternatives for consumers with worsening financial positions.

Health and beauty

The health and beauty category has been leading other consumable categories in capitalizing on consumer bifurcation, given that consumers perceive health and beauty as both a staple and an affordable luxury, something shoppers with worsening finances are not readily relinquishing. Instead, with a change in the financial condition, consumers traded up or down on both brand and product to save or splurge. While 46 percent of consumers with improved finances spend more, 48 percent with worsening finances continue to *spend the same*, higher than other categories.

When spending more, 66 percent of health and beauty shoppers **traded up to more expensive brands and products**, which is higher than other categories, possibly driven by the thrill of the new (59 percent). When spending less, consumers were more likely to switch to less expensive brands

BEVERAGES CASE STUDY:
WINNING THROUGH DIFFERENT STRATEGIES

Bai and Modelo Especial are beverage products that are winning today through different strategies

BAI is a premium nonalcoholic beverage that was early to market to capitalize on ingredient trends and the use of e-commerce to rapidly accelerate reach and access. Bai doubled down on its partnership with Amazon as both a marketing and commerce platform. The company optimized Amazon search, owning on-trend words such as "antioxidant" to drive awareness and trial. Bai also leveraged consumer shopping behavior data to personalize ads and drive repeat purchase. The result was strong growth in consumer base and consumption, cost effectively.

MODELO ESPECIAL, owned by Constellation Brands, is a premium-price beer imported from Mexico that has bucked the trend of declining beer sales in the United States. Witnessing 20.3 percent year-on-year growth in 2017 (compared to 3 percent growth in the overall alcohol beverage space) and continued growth in 2018, the brand has benefited from the shift toward consumers trading up to higher-end products and increased appetite for import brands. In addition, the brand has been taking share from other brands by reaching beyond its core demographic to a national audience and doubling down on increasing distribution.

(27 percent) and products (21 percent), again higher than other categories. Consumers, particularly millennials, were more willing to "mix and match," driven by desire for discovery and willingness to experiment.

Winning brands in health and beauty reflect this bifurcation: premium brands significantly outpaced market growth and trend influencer brands with value price points also grew above average, while many of those in the middle lost share.

BUSINESS IMPLICATIONS

The health and beauty category has been leading other consumable categories in capitalizing on consumer bifurcation. While premium brands continue to win, highly desired trend brands at affordable prices are also growing, often gaining share from traditional "midprice" brands. Therefore, to win in a bifurcated landscape, consumer products companies should continue to **position brands and products for bifurcation**, emphasizing discovery, quality, ingredients, newness and value.

Consumer electronics

Bifurcation in consumer electronics is high, especially for individuals with improved finances, with more than half (54 percent) citing increased spend, higher than the average, while 45 percent with weakening financials cut spend. Those individuals who are spending more are purchasing more of the same as well as the latest electronic products. Over the past few years, brands that outperformed in growth captured a premium by innovation in design, features, and experience.

HEALTH AND BEAUTY CASE STUDY: WINNING PREMIUM, VALUE, AND NATURAL BRANDS

Tata Harper, a natural indie beauty brand, and Dior, a leading prestige brand, are evidence that embracing new trends (such as natural) and the passion for discovery can help new and established premium brands win with consumers. Meanwhile, Neutrogena has focused on driving trial and increased usage, with mass price points

TATA HARPER, an indie natural beauty brand, appeals to consumers' desire for "clean beauty." Nearly 70 percent of consumers claim that purchasing natural beauty products is important to them, and nearly 40 percent plan to buy more all-natural products in the next two years.[16] Tata Harper, which launched in 2010, was one of the first to recognize and tap into this trend with a premium, "farm-to-face" offering, resulting in sales growth of over 50 percent year-on-year to US$65 million in 2017.[17]

DIOR, an incumbent in prestige beauty, has continued to achieve success by reinventing its offerings and promoting trial. While other brands lost share due to new indie entrants, Dior has managed to regenerate itself with numerous product launches and line extensions targeting the millennial segment with heavy social media presence to amplify marketing investment. As a result, Dior has outperformed the category, growing 11 percent from 2017 to 2018.[18]

NEUTROGENA has also seen great success, but at very different price points. Lower price points encourage trial and Neutrogena, priced as a mass beauty option, is an attractive option for those who seek to discover and try new products in skincare. Neutrogena's strategy includes a strong innovation pipeline to drive trial and aggressive shifts to digital channels to reach their customer base. From 2016 to 2017, Neutrogena sales grew 6 percent, compared to category growth of 3.4 percent, helping drive continued growth of parent Johnson & Johnson beauty portfolio.[19]

BUSINESS IMPLICATIONS

In the United States, consumer electronics is the category with the most significant gap in value brands, giving companies ample white space opportunity for **new products with value positioning**. In addition, given consumer desire to explore and seek new products, companies need to continue to refresh and reinvent their products to create excitement and maintain above-average share of incremental consumer spend.

Toys and hobbies

Toys and hobbies is a unique category, with consumers spending more when their financial position improves, and nearly a quarter of those individuals whose situation worsened also spending more. Over half (55 percent) of those individuals with improved finances spent more, which is the highest across all categories, while 24 percent of those individuals worse off still increased spend.

BUSINESS IMPLICATIONS

A key in this category is coming up with new and different trends and then leveraging them to offer **distinctive toys, games, and experiences**. Alignment with on-trend features and film releases has been a traditional path to success. This approach remains important; yet with increasing spend on experiences (over 50 percent of millennials prefer to spend their money on experiences over material things[20]), brands that provide unique opportunities for interaction and engagement, with peers and/or the brand, are better positioned to earn and maintain share. Winning brands are less dependent on consumer income patterns: This category is the only one where brands with medium price points outpaced those brands with premium and value prices. Instead, in this category, those brands that are successful shape or harness the "it trend" of the moment, speaking to consumers with a clear value proposition. Deep consumer and trend insight may pay back in dividends, as the most successful brands are able to generate a viral element, particularly in the gaming subcategory.

CONSUMER ELECTRONICS CASE STUDY: REDEFINING TO WIN

Apple and Xiaomi, although with varied offerings and approaches, have managed to redefine themselves and their markets

APPLE has evolved from a consumer electronics company to a lifestyle brand, with its now-iconic logo a symbol of a premium experience. Apple adds value by offering not just individual products, but a full ecosystem. This integrated experience, coupled with higher switching costs, has resulted in greater customer loyalty, reduced revenue leakage, and top-line growth.

XIAOMI, the world's fastest-growing smartphone brand in 2017, is driven by a broad product offering in the right price category. Its products are positioned to be affordable, providing value for those who do not need the brand value that comes with more premium options. Similar to Apple, Xiaomi offers an Internet-of-Things-based ecosystem. The company partnered with hundreds of startups to provide consumers internet-connected home and tech products that work in sync with its smartphones.

TOYS AND HOBBIES CASE STUDY: DIFFERENT APPROACHES, SIMILAR RESULTS

Assassin’s Creed and Angry Birds: two very different approaches, with similar results

ASSASSIN’S CREED delivers a product with a devoted following and an immersive experience. The introduction of downloadable content (DLC), where players engage in microtransactions to earn in-game perks, into AAA-rated, high-budget games has driven growth in the premium gaming category. Ubisoft, the maker of Assassins Creed, has effectively integrated DLCs and microtransactions without tainting the gaming experience. The quality of this integration and the overall game experience has allowed it to drive a higher willingness to pay.

ANGRY BIRDS, in contrast, delivers a simpler, fun experience as a low-cost smartphone app. By offering the app free of charge, Angry Birds is able to rapidly scale up its user base and potential to monetize via its in-game microtransactions. This “freemium” model, where base consumers can enjoy the game for free and those individuals who are willing to pay can buy in-game perks, functions as an effective demand-based pricing model, taking the smartphone gaming industry by storm.

Endnotes

1. Kasey M. Lobaugh et al., *The great retail bifurcation: Why the retail "apocalypse" is really a renaissance*, Deloitte Insights, March 14, 2018.
2. Deloitte, *The next consumer recession: Preparing now*, 2018.
3. Lobaugh et al., *The great retail bifurcation*.
4. Deloitte, *The next consumer recession*.
5. Income cohorts as defined by US Census classification. High income: earning more than US$100,000 in a year. Middle income: earning between US$50,000 and US$100,000. Lower income: earning less than US$50,000.
6. Deloitte, *The next consumer recession*.
7. Deloitte, *Digital Democracy Survey: A multi-generational view of consumer technology, media, and telecom trends*, 2017.
8. Angela Woo, "Understanding the research on millennial shopping behaviors," *Forbes*, June 4, 2018.
9. CP brands were categorized into three price tiers (high, medium, and low) based on analysis of brand messaging/positioning and average price point within subcategories.
10. Lululemon Athletica, "United States Securities and Exchange Commission form 10-Q," December, 2018.
11. Euromonitor International.
12. Business Wire, "SKECHERS announces record full year 2018 sales of US$4.64 billion," press release, February 7, 2019; Statista, US footwear market growth.
13. Nina Sparling, "2018 was the year of the 'sustainable shopper,' Nielsen says," December 21, 2018.
14. Dana Olsen, "Sun Basket secures US$58M in 'by far the most challenging fundraise' in company history," PitchBook, January 25, 2018.
15. Conagra Brands, "FY19 Q2 earnings presentation," December 20, 2018.
16. *PR Newswire,* "Third annual Green Beauty Barometer shows high demand for all-natural options," press release, October 26, 2017.
17. Rachel Strugatz, "Drunk elephant's plan to become the next billion-dollar beauty brand," The Business of Fashion, October 2, 2018.
18. Christian Dior, "Financial release: 2018 results," January 29, 2019.
19. Euromonitor International
20. Woo, "Understanding the research on millennial shopping behaviors."

About the authors

JENNIFER LACKS KAPLAN is a principal with Deloitte Consulting LLP focused on marketing and digital transformation in retail & consumer products. She has more than 25 years of experience in growth strategy, marketing and commercial capability development, and digital transformation. Jennifer has served leading retail and consumer products companies with a focus on beauty and personal care, apparel, and food & beverages. Jennifer earned her MBA from Harvard Business School and a BE from the Wharton School of the University of Pennsylvania.

SARAH CORNFELD is a senior consultant with Deloitte Consulting LLP focused on customer strategy and marketing in retail and consumer products. In the past year, she led the development of global e-commerce and growth strategies for CP clients, including market sizing, new market entry, and tactical in-market activation. Sarah earned her MBA from the Wharton School of the University of Pennsylvania and an AB from Princeton University.

Acknowledgments

The authors would like to thank **Katie Dye**, **Kasey Lobaugh**, **Christina Bieniek**, and **Bobby Stephens** for their invaluable guidance throughout the development of this report.

The report would not have been possible without the remarkable leadership of the Deloitte Center for Consumer Insights, including **Rob Bamford** and **David Kearns**, and outstanding analytical contributions provided by **Richie Lou**. Special thanks go to **Oliver Palley**, **Ariana Sun**, **Dayin Chen**, and **Rebecca Weidler**.

Contacts

Jennifer Lacks Kaplan
Principal
Deloitte Consulting LLP
+1 203 708 4188
jenkaplan@deloitte.com

Katie Dye
Senior manager
Deloitte Consulting LLP
+1 512 226 4775
kdye@deloitte.com

Sign up for Deloitte Insights updates at www.deloitte.com/insights.

Follow @DeloitteInsight

Deloitte Insights contributors

Editorial: Kavita Saini, Preetha Devan, Nairita Gangopadhyay, and Rupesh Bhat

Creative: Emily Moreano, Sonya Vasilieff, Joanie Pearson, Anoop K R, and Mahima Dinesh

Promotion: Ankana Chakraborty

Cover artwork: John Jay Caubay