Choice, innovation and competition in grocery

Oxford Symposium 2016

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Consumer choice

# of different SKUs
their appeal

Innovation

# of new SKUs
their appeal

Competition

Concentration
Private Label

How much?
How new?
How successful?

From NB or
from PL?
Market access?

RESEARCH SCOPE

11 European countries:
UK, F, SP, PT, GER, DK, B, NL, I, PL, CZ

134 000 shoppers covered by our consumer panels

3 years evolution 2012-2014

DEFINITIONS

FMCG

Grocery + beverages + household products + health& beauty for shopping behaviour trends

A **selection of up to 79 consistent categories** for assortment size and innovation analyses

Cover about 50% of FMCG excl Fresh

CHANNELS

Full coverage

Hypermarkets +supermarkets+ hard discount+ e-commerce + traditional trade

RETAILERS

Top retailers and retailer groups by country

LAUNCH TYPES

Innovation

A new brand or sub-brand

Renovation

Launches with a change in size, flavour, variant but same brand and sub-brand europanel™

INNOVATION VERSUS RENOVATION

ALLOCATION BASED ON LOCAL CODING

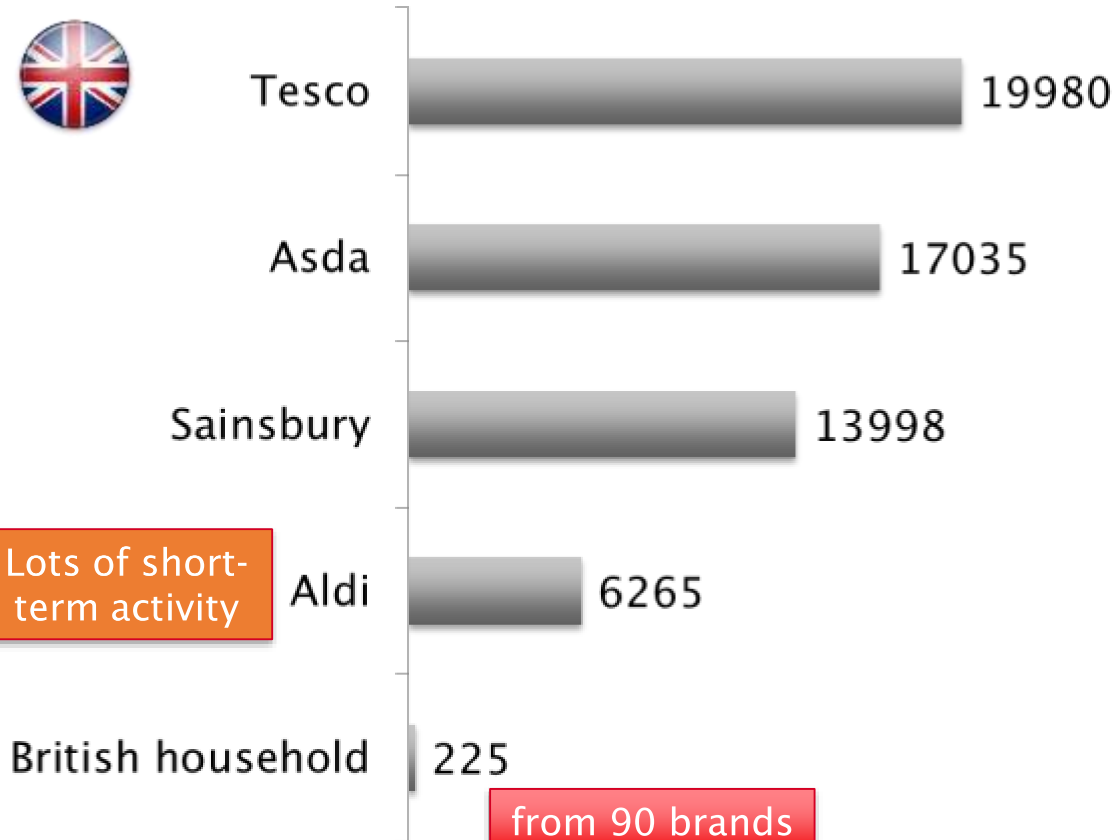
Innovation: New brand or sub-brand

Renovation: New flavour, size or variant

ENOUGH CHOICE?

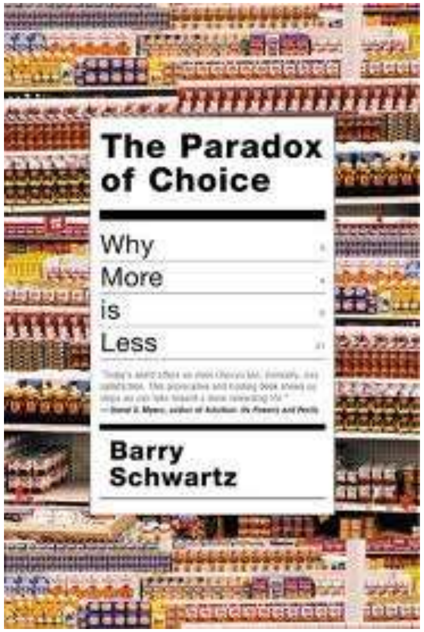
ASSORTMENTS DWARF NEEDS

of unique SKUs on shelf/in basket



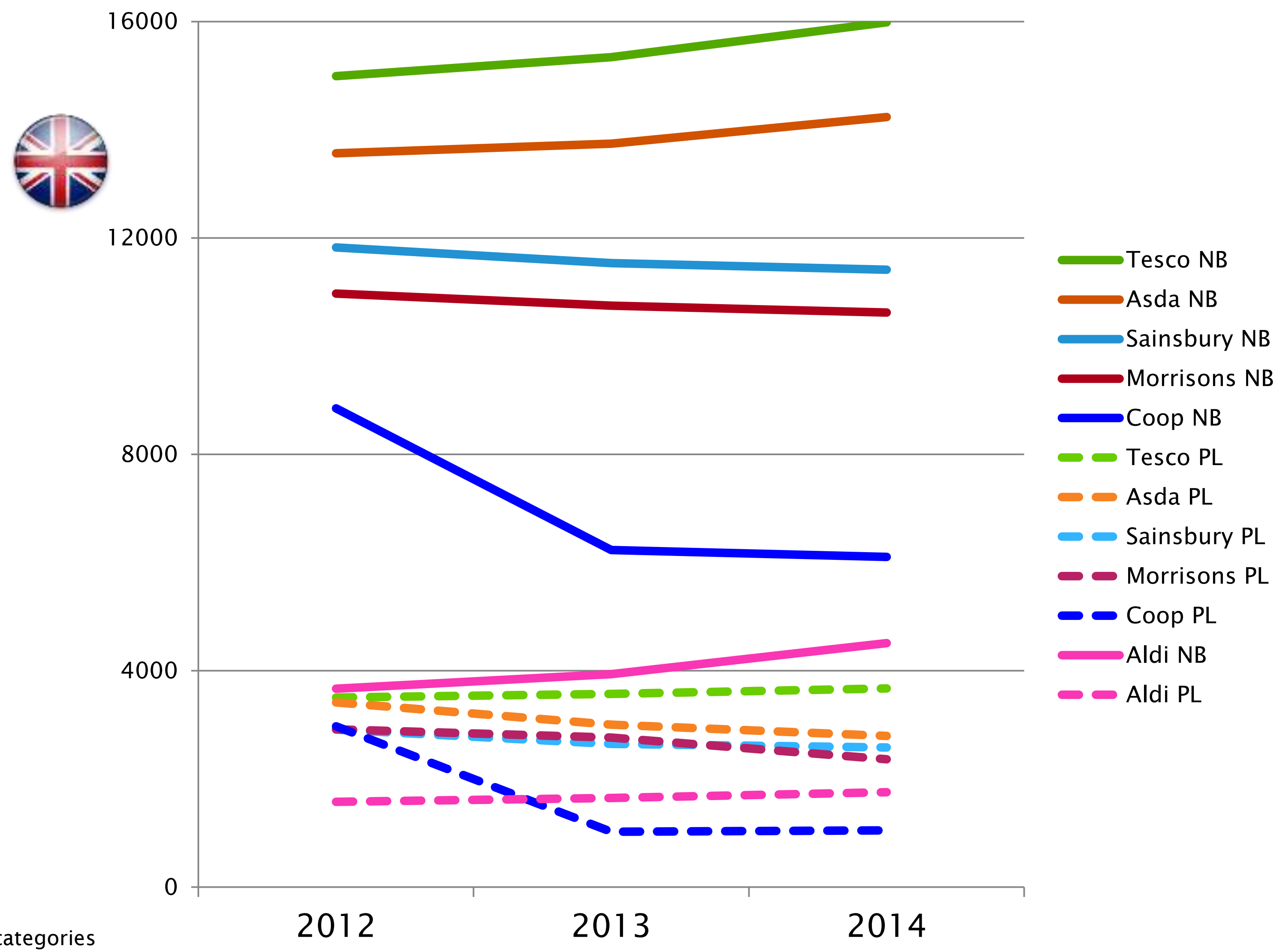
Lots of short-term activity

from 90 brands



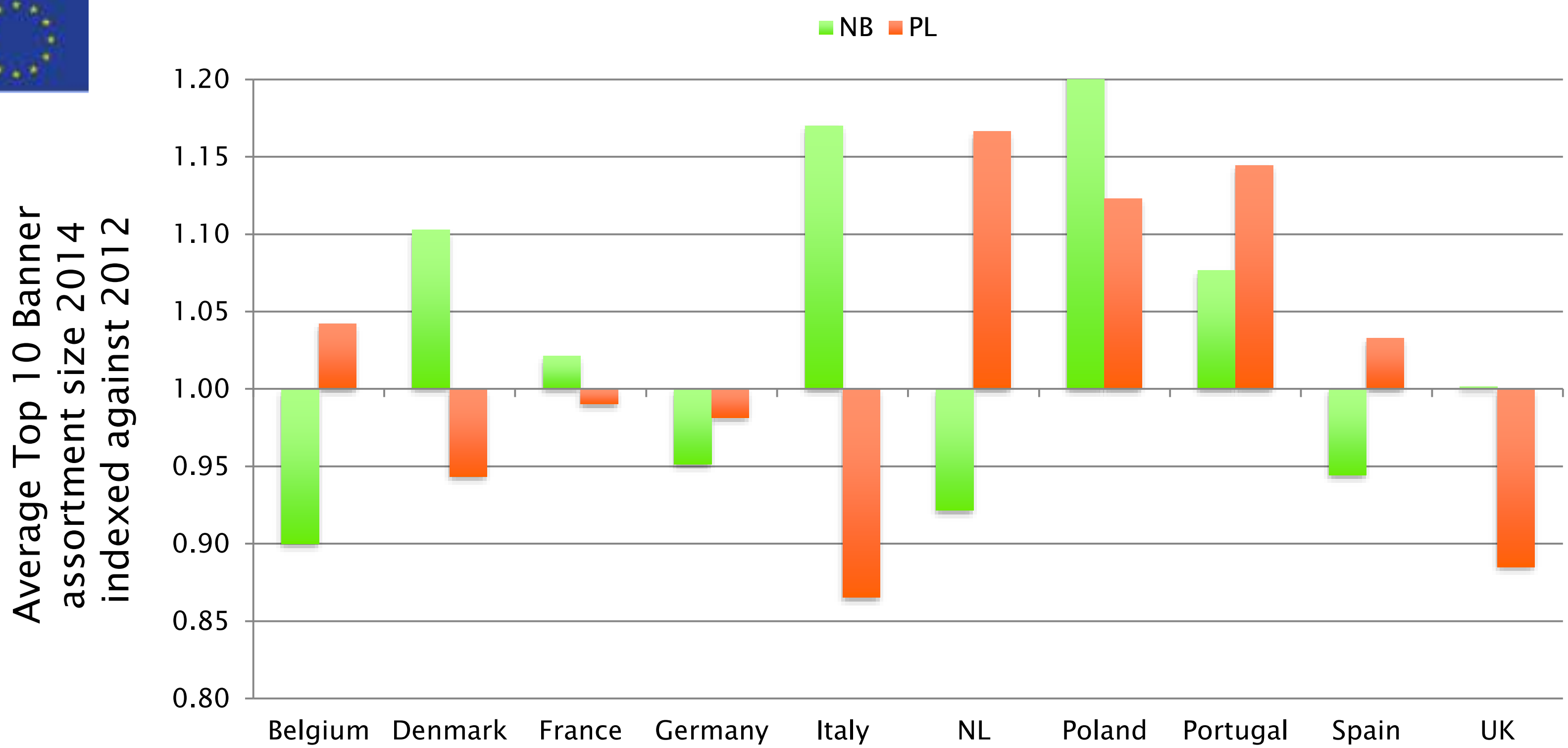
Base: 75 CPG categories , number of unique SKUs on sale in 2014

UK ASSORTMENT SIZES STABLE



Base: 75 CPG categories

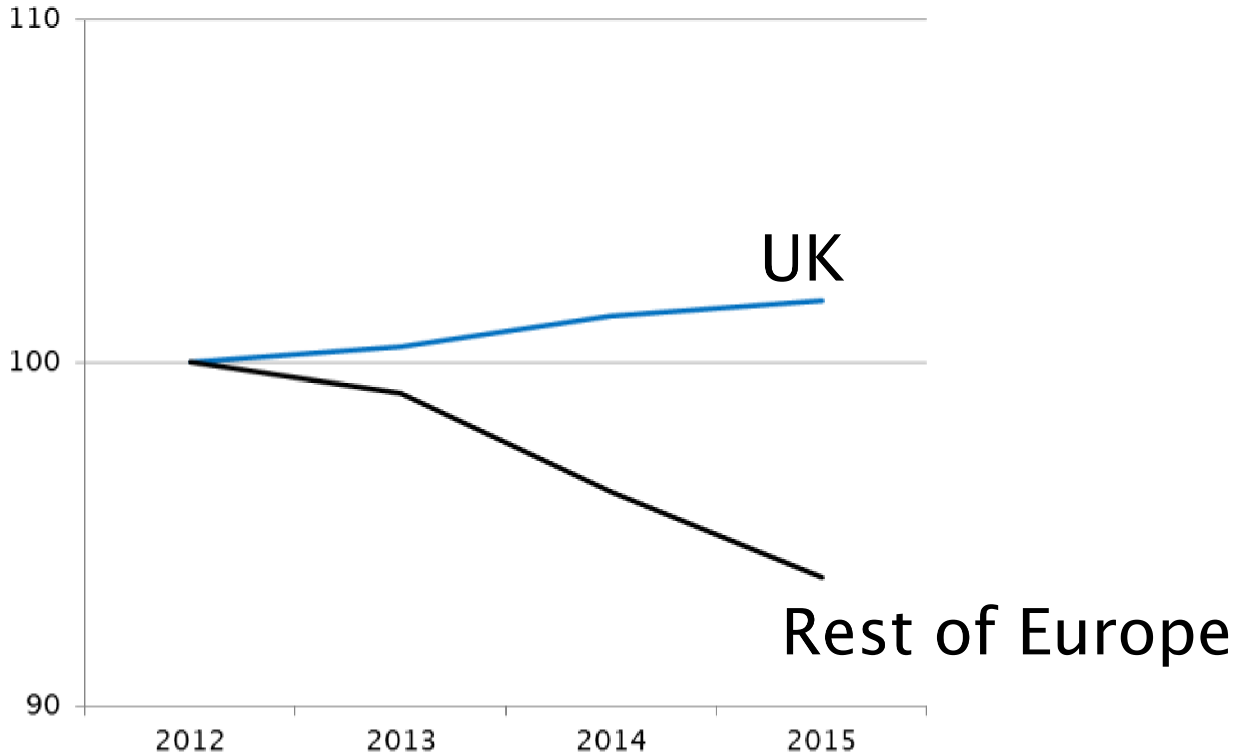
ALSO LARGELY STABLE ACROSS EUROPE



Base: avg 73 CPG categories, unweighted average across up to 10 largest retailers by country (n=103 in total)

FEWER TRIPS LIMIT SHOPPER ACCESS TO FMCG ASSORTMENT

Shopping Frequency Trend
(2012 = 100)



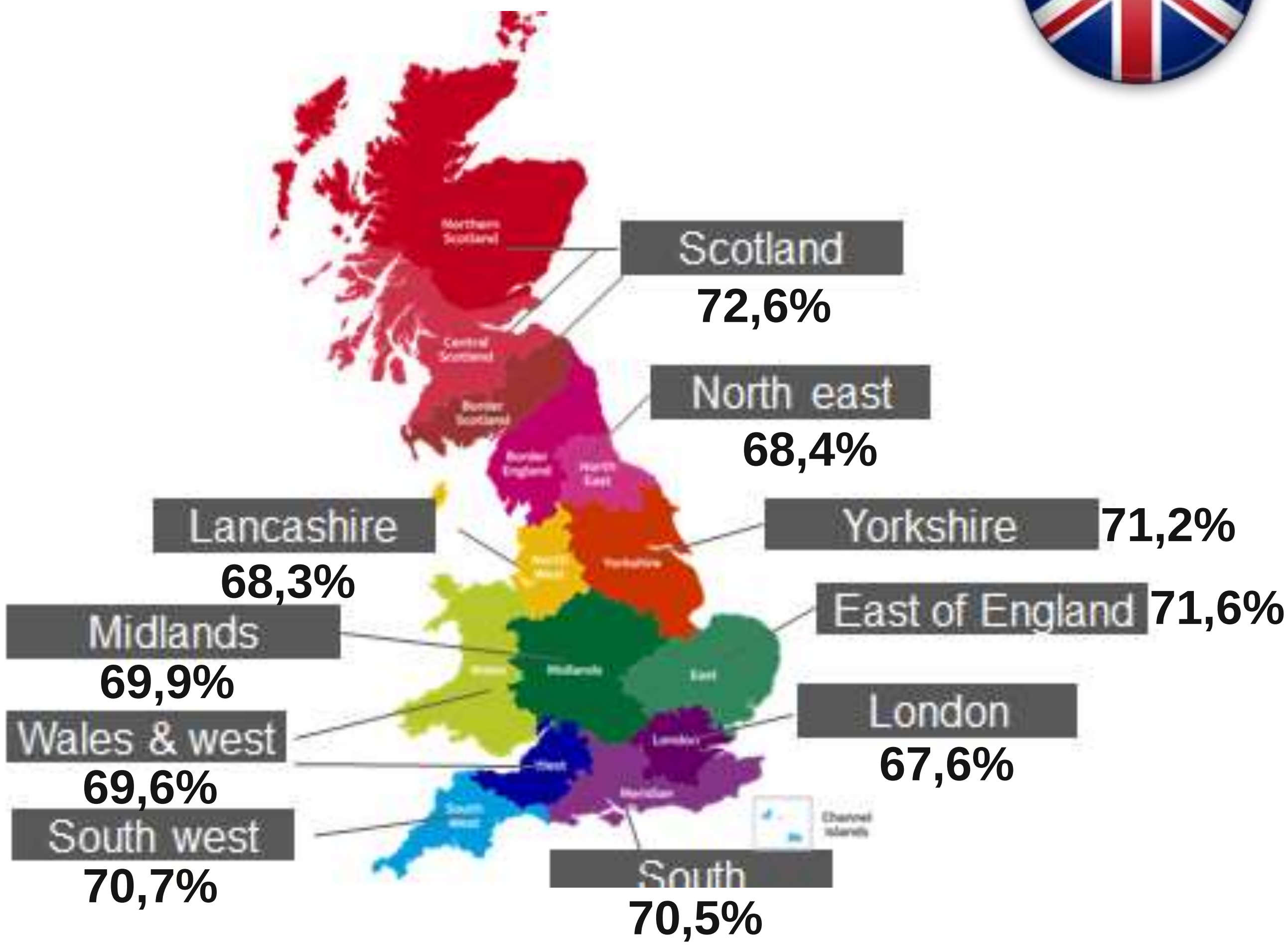
(*) FMCG: grocery including fresh food + beverages + Household products + health& beauty
(**): Average 10 other countries

TOP 5 RETAIL GROUPS' SHARE UP

Top 5 Manufacturers:
about 30% of FMCG value

Share in value / FMCG: grocery excluding fresh food + beverages + Household products + health& beauty

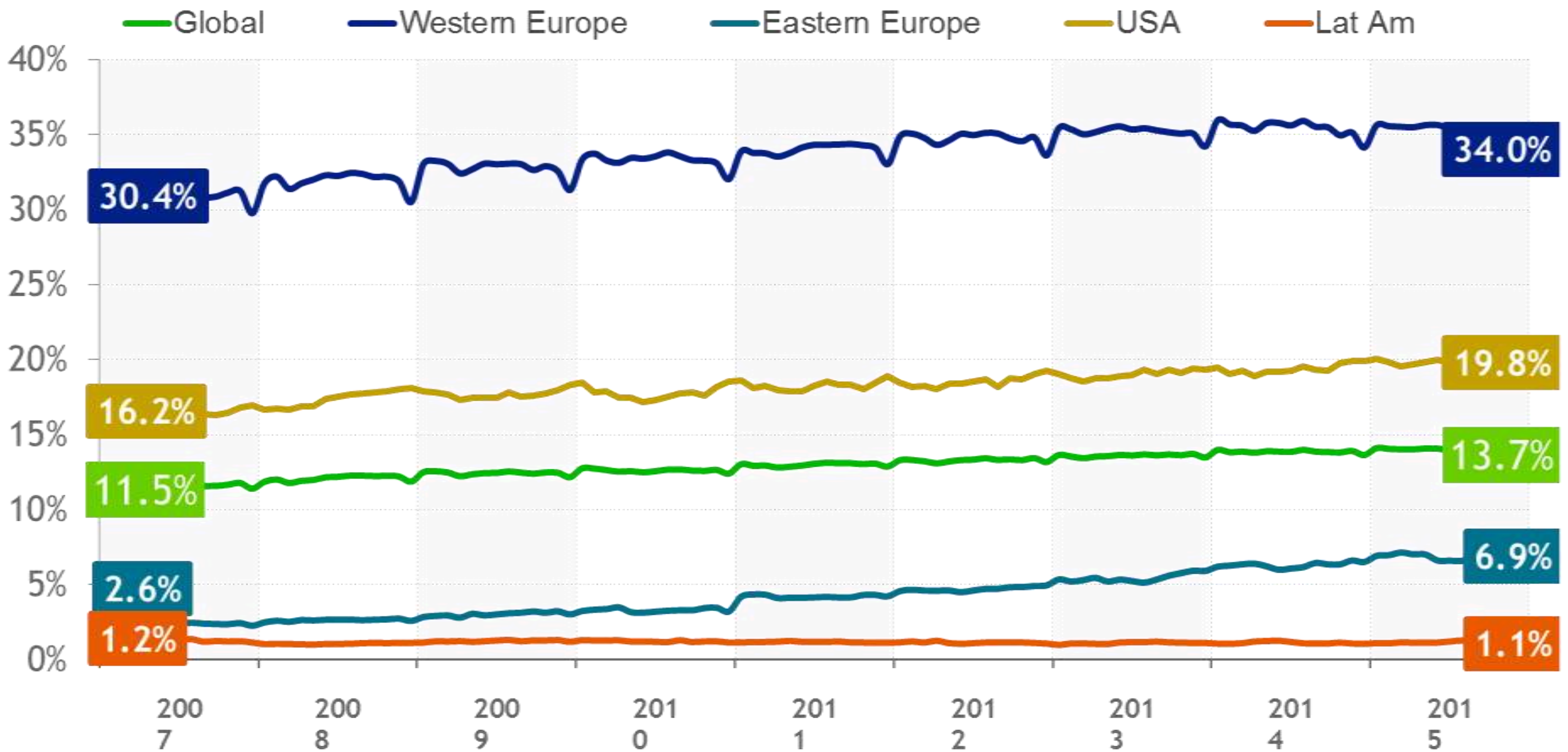
CONCENTRATION AT REGIONAL LEVEL



% share in value – top 5 retail groups by region – 2015 -

LONG TERM INCREASE OF PL FUELED BY EUROPE AND USA

PRIVATE LABEL SHARES IN VALUE

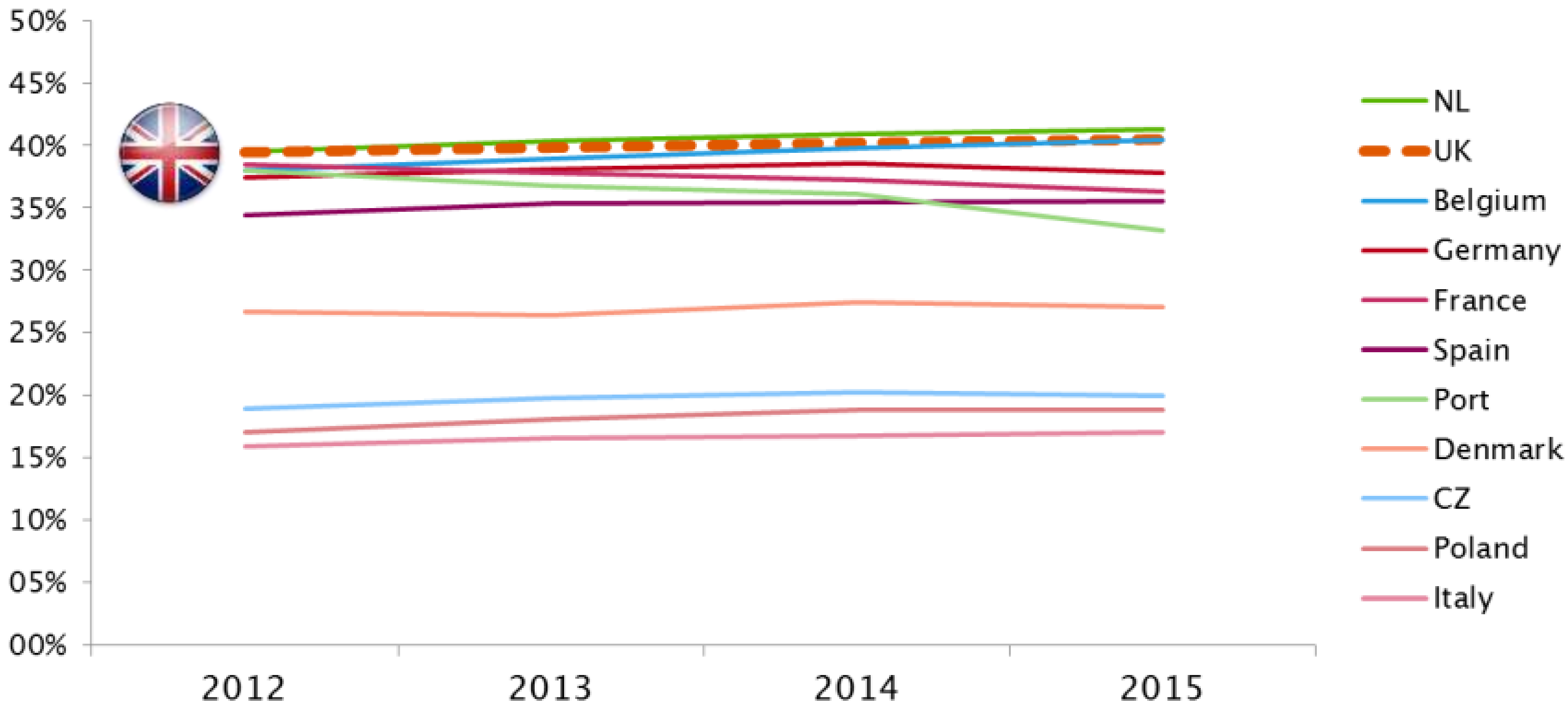


Share in value / FMCG: population-weighted average of PL shares in grocery excluding fresh food + beverages + Household products + health& beauty

PL IN EUROPE ARE STAGNATING FOR THE FIRST TIME EVER AT 32% SHARE

BRANDS RECOVERING IN FRANCE & PORTUGAL DUE TO MORE PROMOTIONAL ACTIVITY

Value share 11 European countries

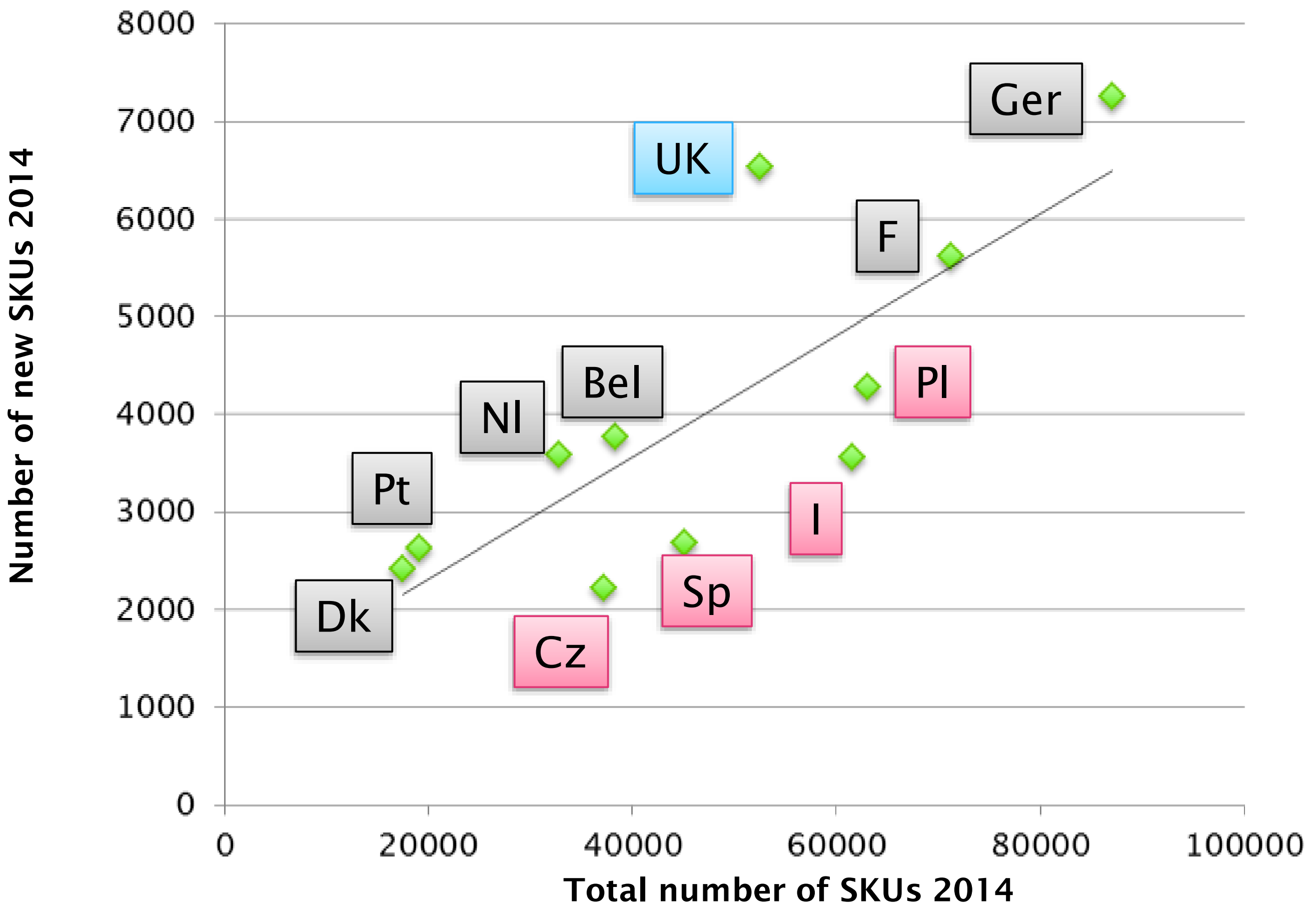


Share in value / FMCG: grocery (excluding fresh food) + beverages + Household products + health& beauty

CHOICE IN NEW

LAUNCH NUMBERS PROPORTIONAL TO ASSORTMENT SIZE

UK MORE LAUNCHES THAN EXPECTED, LESS IN PL, CZ, SP AND I



Typically close to

10%

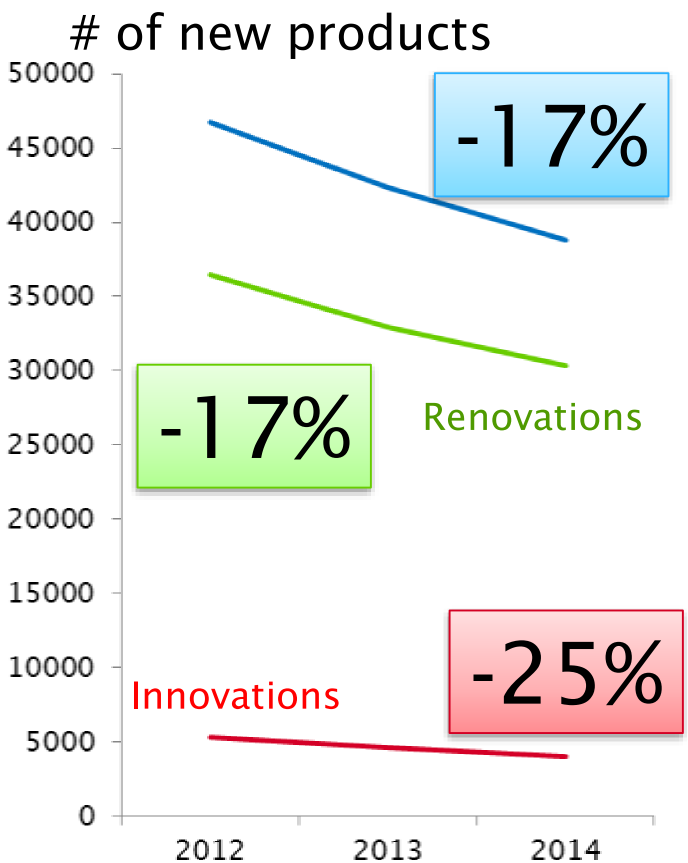
of the assortment in a given year consists of new products

Countries: Germany Belgium Spain France Netherlands Portugal UK Denmark Poland Italy Czechia

Category Coverage: up to 79 CPG categories

NEW DOWN IN NUMBERS AND VALUE

MORE PRONOUNCED FOR INNOVATIONS THAN RENOVATIONS



Assortment Share
11.2% → 9.1%

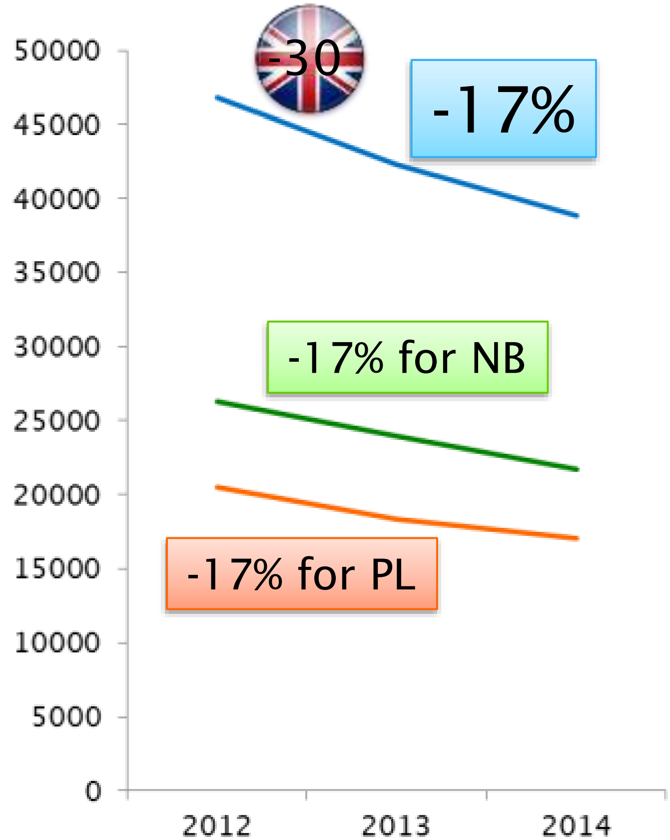
Value Share
15.5% → 12.7%

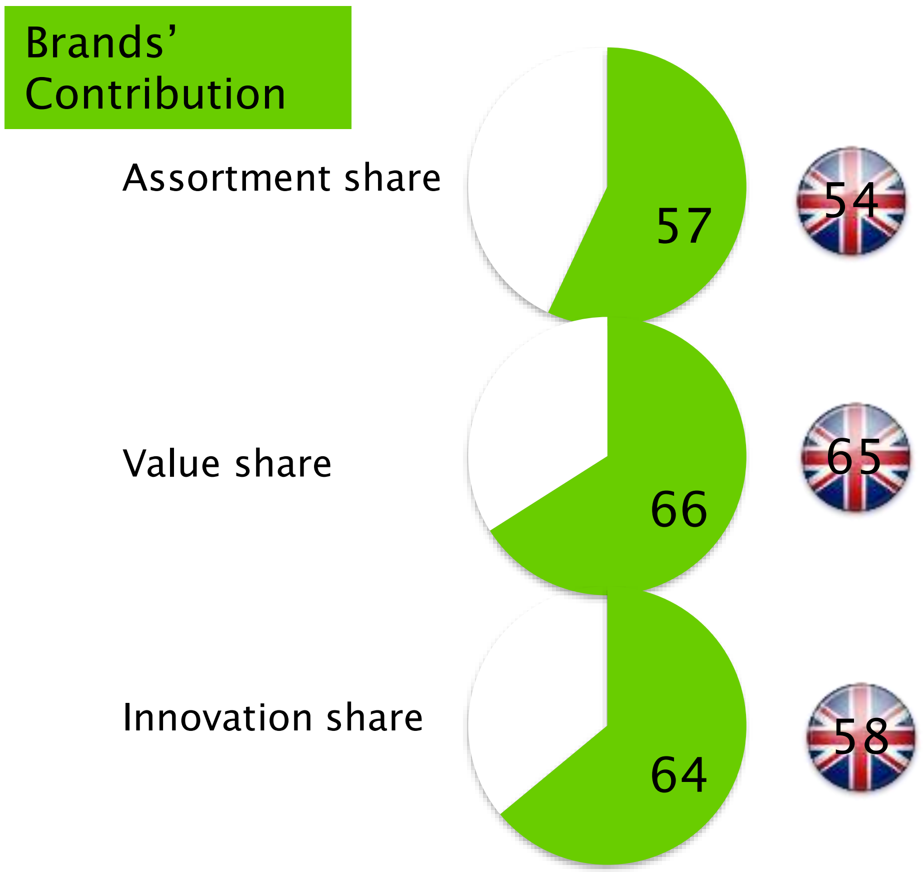
Countries: Germany Belgium Spain France Netherlands Portugal UK Denmark Poland (CZ and Italy no 2012 data)
Assignment Inno vs Reno not possible in Denmark
Assortment share is based on total SKUs across all markets, value share is using the average of the countries‘ values

Category Coverage: up to 79 CPG categories

LAUNCHES DOWN BOTH FOR NB AND PL

BRANDS HAVE MORE SALES IMPACT AND MORE INNOVATIONS WITHIN NEW





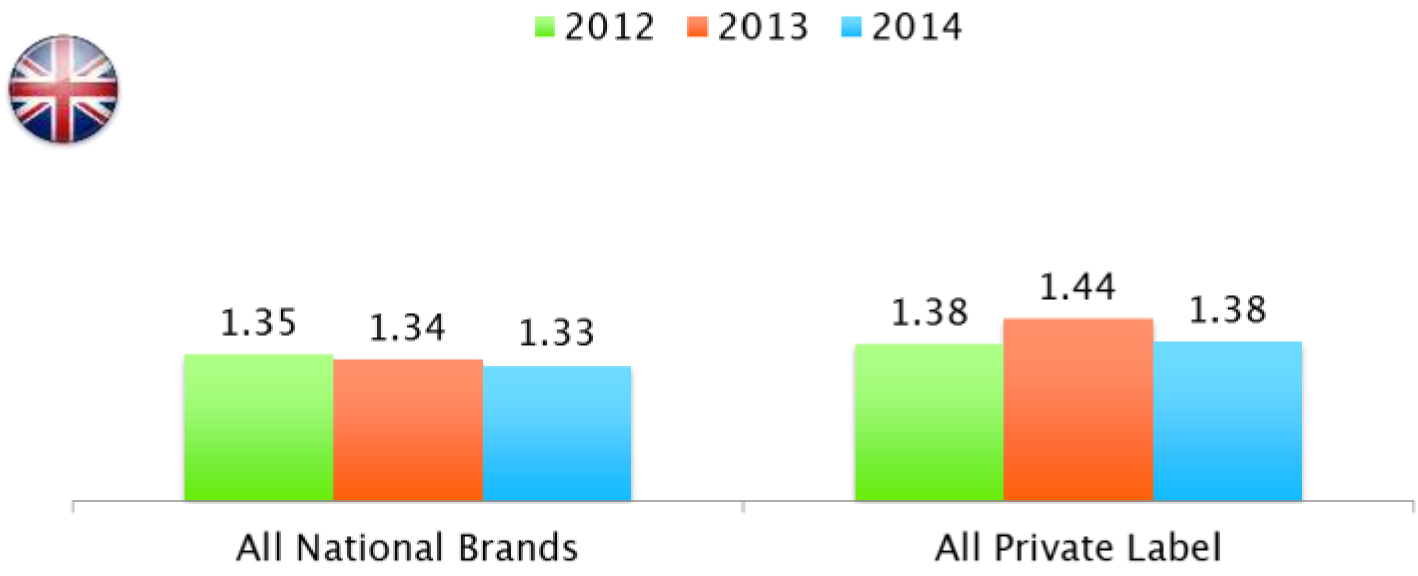
Countries:
Germany Belgium Spain France Netherlands Portugal UK Denmark Poland

Category Coverage: up to 79 CPG categories

Launches aggregated across countries, value shows the arithmetic average across countries

PRICING OF NEW

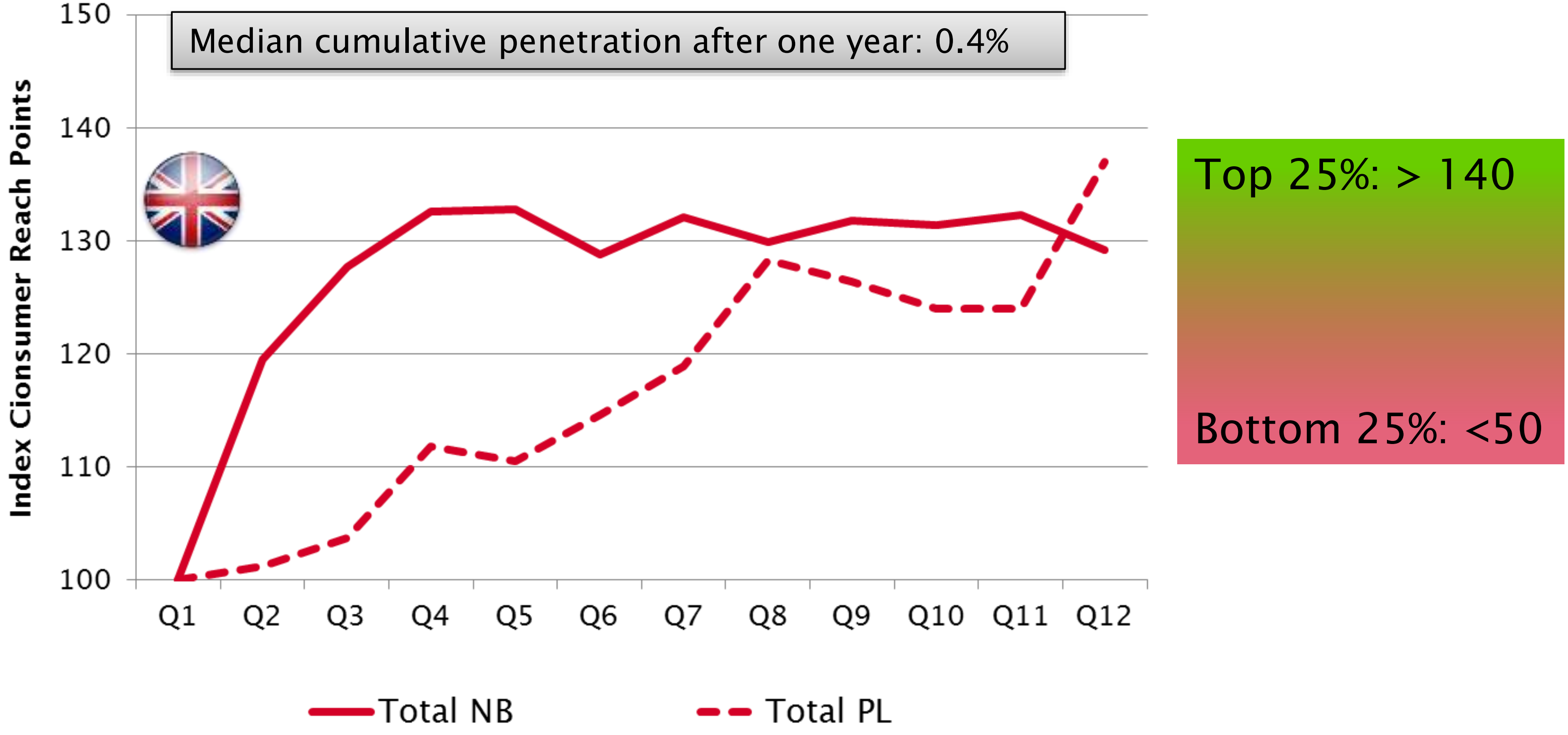
NEW AS A MEANS TO COUNTER COMMODITIZATION



Average Index of price of newly launched SKUs vs existing SKUs of the launching brand/PL

GROWTH OF NEW

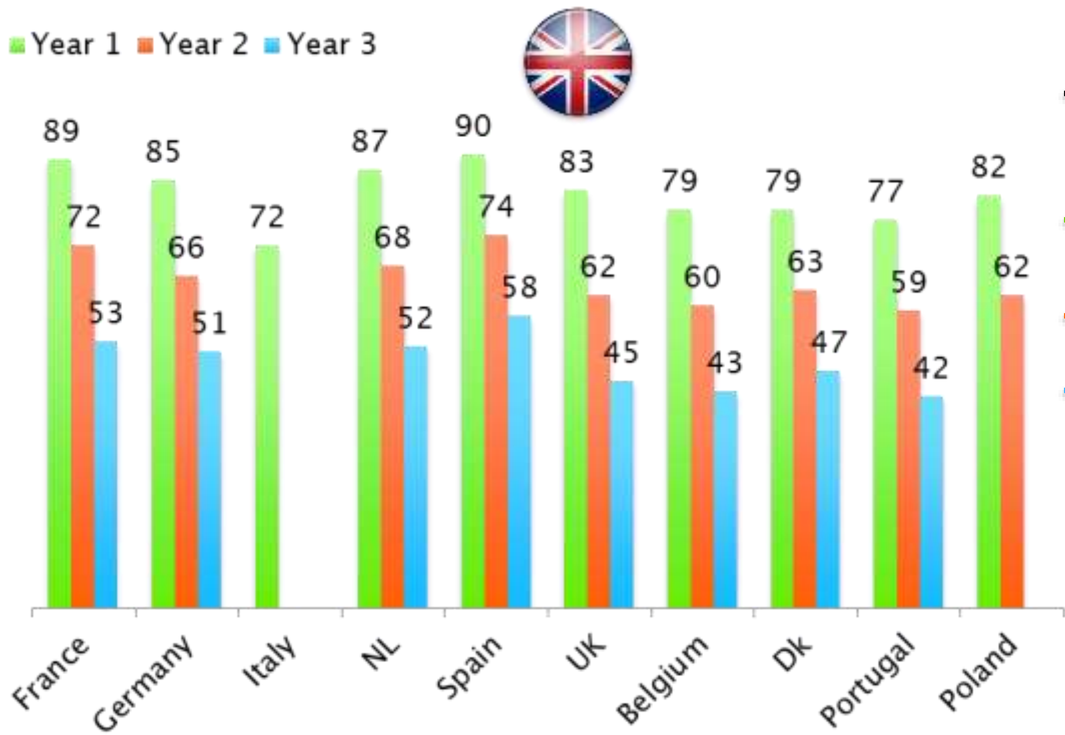
SUCCESS IN Q1-3 INDICATIVE OF THE POTENTIAL OF THE NEW LAUNCH



Consumer Reach Points = # of buyers multiplied by their average frequency per quarter
Chart shows **mean** for each subgroup
Sample and statistics include survivors only

LESS THAN 50% MAKE IT TO YEAR 4

SMALL DIFFERENCE BETWEEN NB AND PL, HIGHER SURVIVAL FOR BEVERAGES

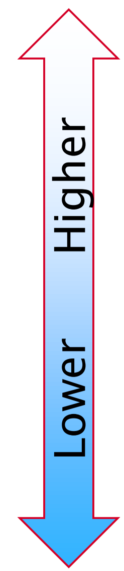


100

18

17

16



Beverage

Private Labels

Innovations

Household care

Personal care

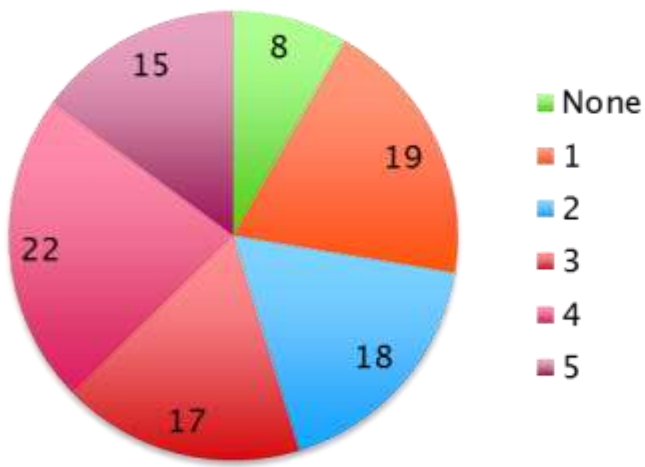
Year 1/2/3 survival = innovation still selling in Q5/Q9/Q13 after launch

Aggregate survival number shows average across countries

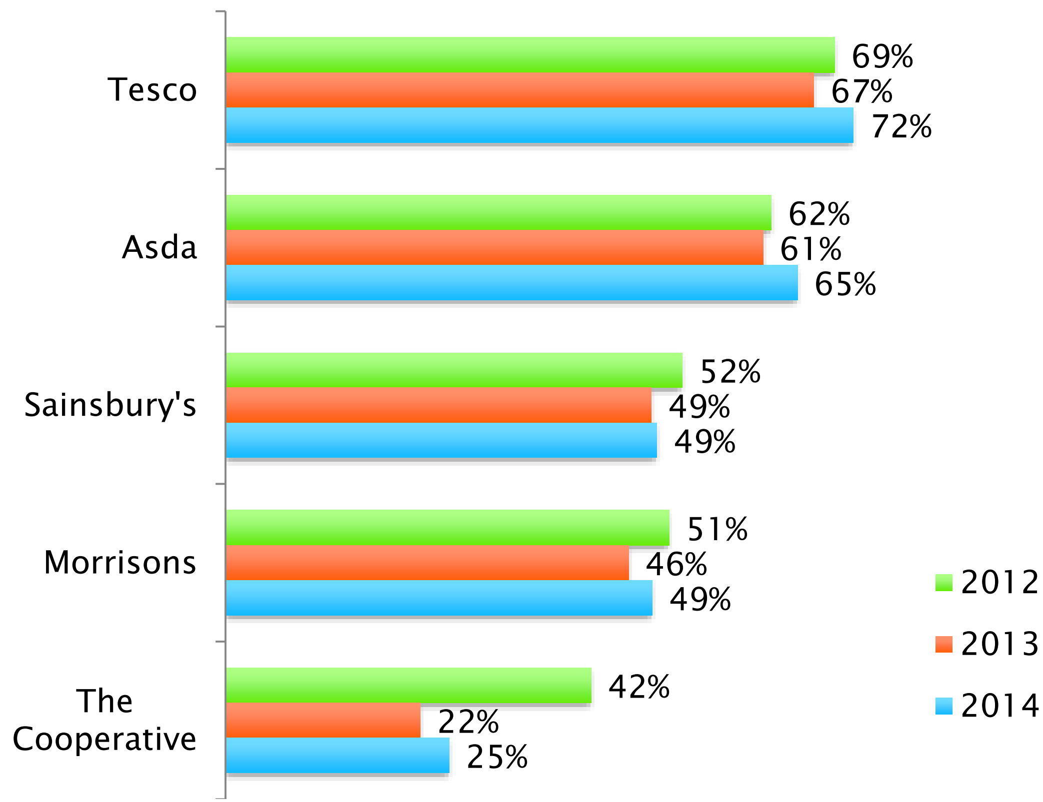
RETAILER IMPACT

RETAILER SUPPORT VARIES

15% OF BRANDED LAUNCHES LISTED IN ALL TOP RETAILERS
NO EVIDENCE OF INCREASE IN BLOCKING ACCESS



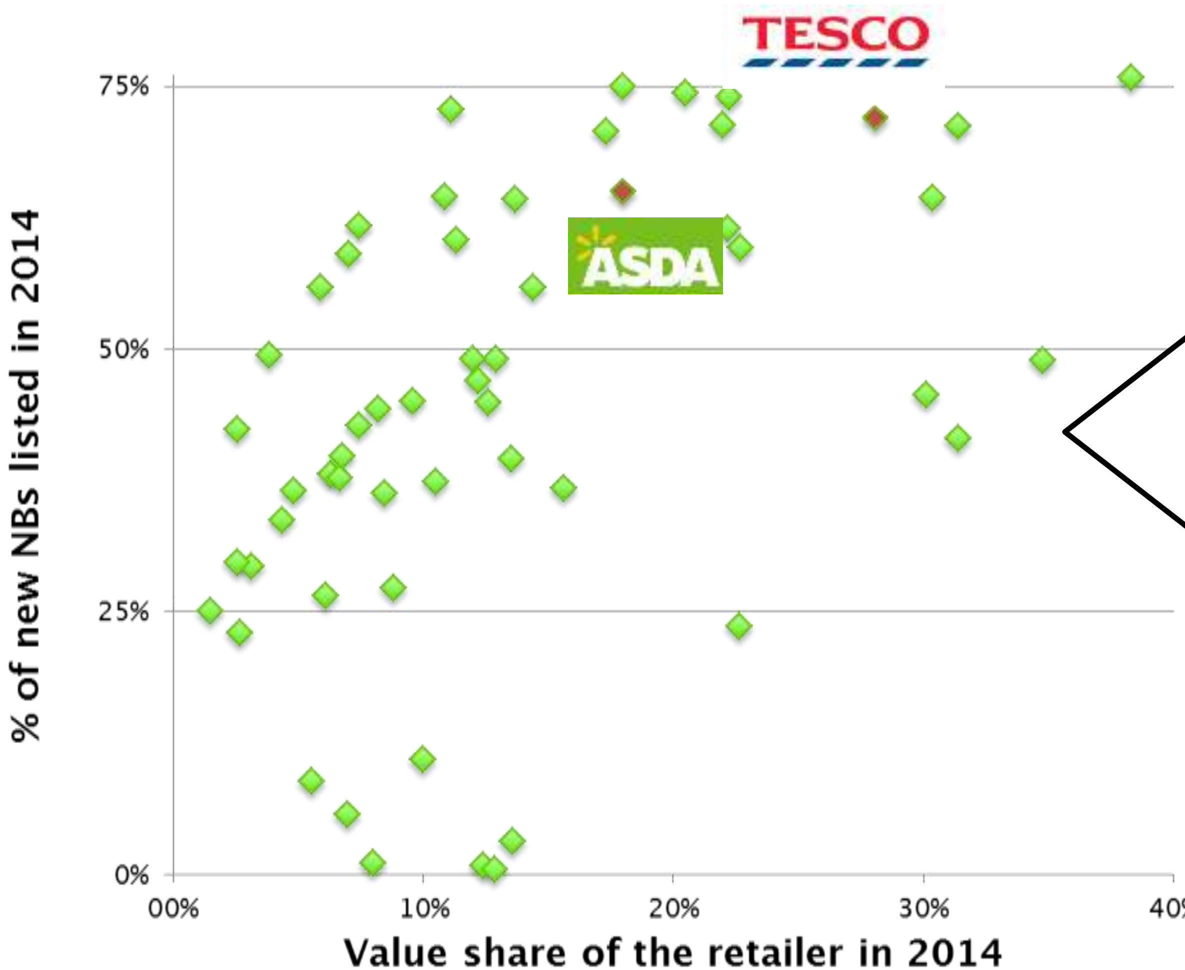
% of NB launches listed **within one year**



Listing by a retailer:
yes if innovation was sold at retailer within three years after launch

BIGGER RETAILERS LIST MORE BRANDS

BEING BIG IS SUFFICIENT, BUT NOT NECESSARTY FOR LISTING MANY BRANDS



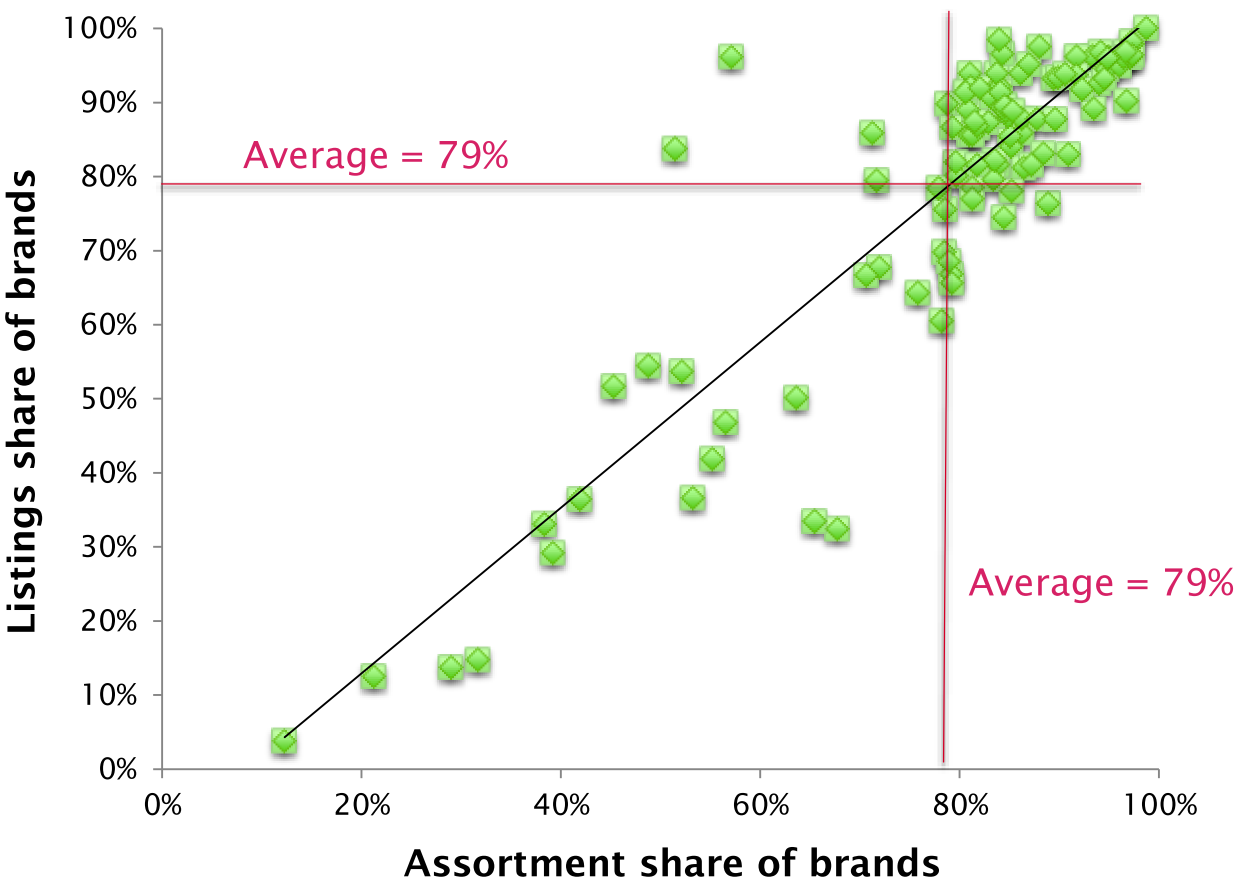
The average retail group lists **44%** of branded launches

- Little change since 2012
- No relationship with change in share or change in PL focus

Top 5 retailers in Germany Belgium Spain France Netherlands Portugal Czechia Italy UK Denmark Poland

CURRENT RANGE MAIN DRIVER OF LISTING DECISIONS

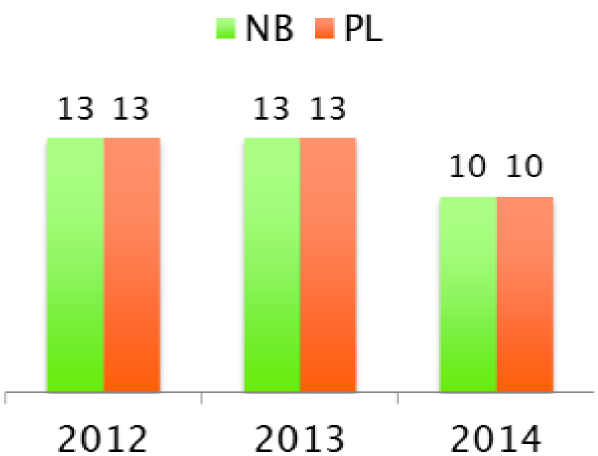
THE MORE NBs IN THE ASSORTMENT, THE MORE FOCUS ON NB LISTINGS



10 top ten retailers by country (included only if >1% share), n=103

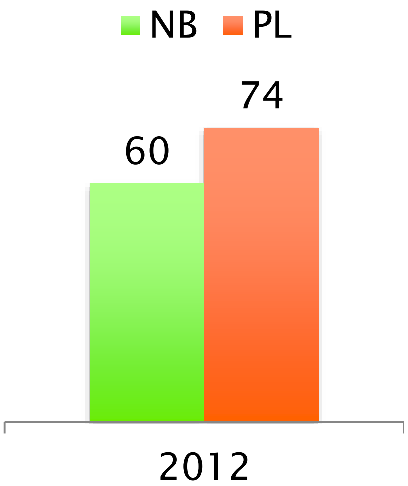
DISCRIMINATION IN LISTINGS?

Percentage of retailer NB/PL range that is new



52% of retailers add more NBs than PLs relative to existing assortment

Percentage of average retailer's listings that survive more than one year



Average PL has better odds to survive, but more NBs remain on shelf

10 top ten retailers by country (included only if >1% share), n=103

Data points show unweighted average across retailers

ODDS OF BEING LISTED: SIZE MATTERS

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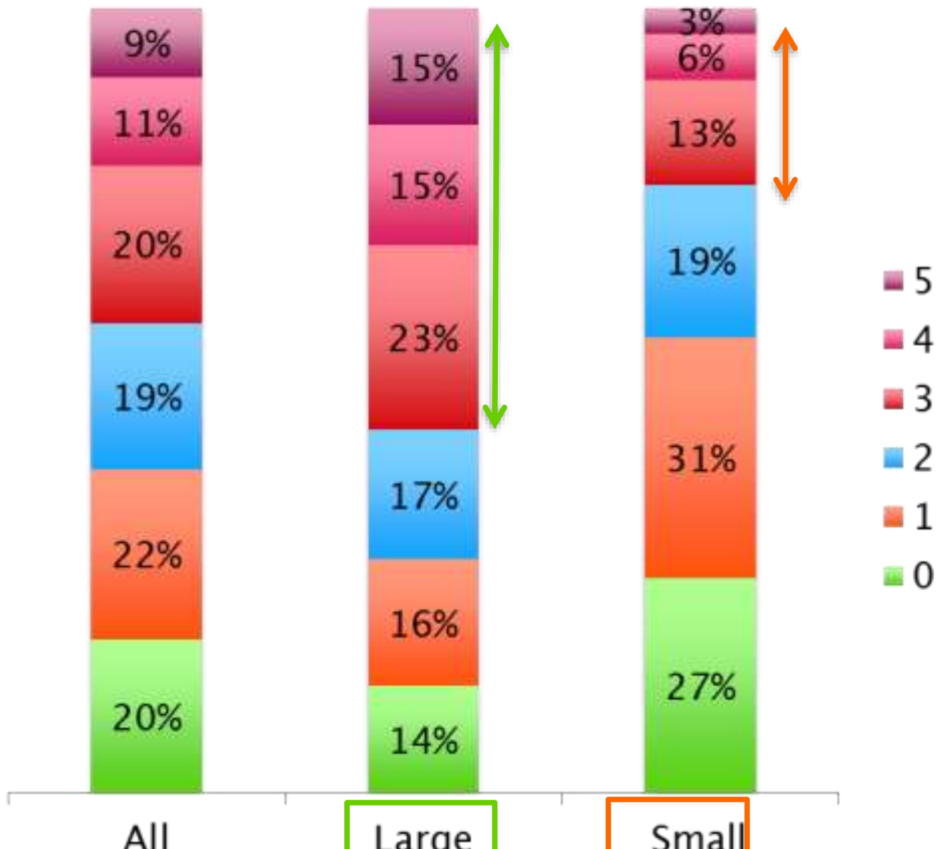
LARGER BRANDS HAVE BETTER CHANCES TO BE LISTED IN MORE RETAILERS



Launches by **large brands**:

1 out of 2

gets into 3+ retailers

Launches by **small brands**:

1 out of 5

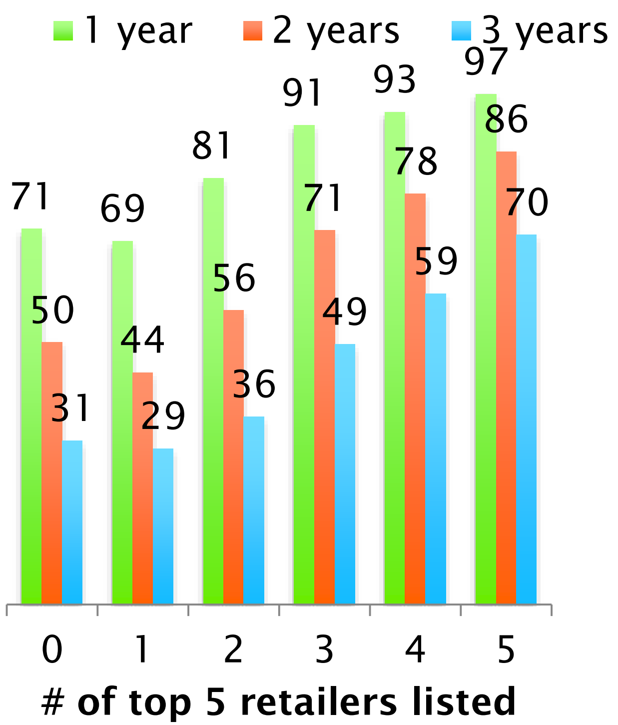
gets into 3+ retailers

Countries: Germany Belgium Spain France Netherlands Portugal Czechia Italy UK Denmark Poland
Odds show percentage to get listed over the entire observation period,
Small and large refers to bottom/top quartile in terms of volume share

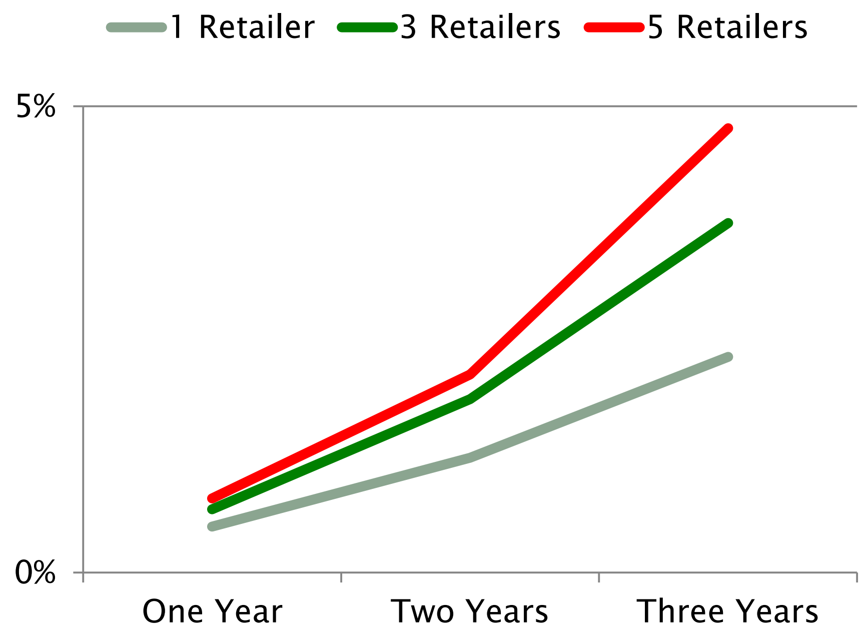
BEING LISTED HELPS SURVIVAL & REACH

PRESENCE IN 4 OR 5 RETAILERS DOUBLES NB ODDS OF SURVIVAL

SURVIVAL ODDS



REACH

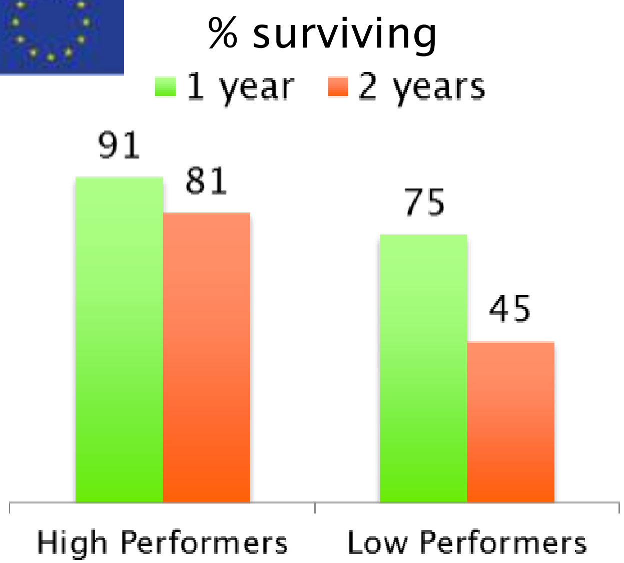


Year 1/2/3 survival = NB launch still selling in Q5/Q9/Q13 after launch

Reach: Cumulative Percentage of category buying households trying the new product within a given time frame

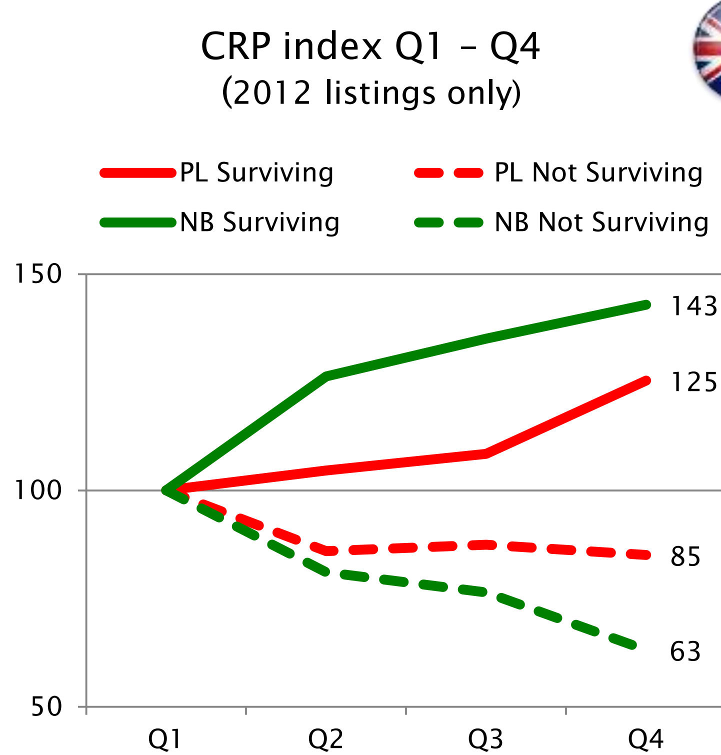
PERFORMANCE IMPACTS SURVIVAL

HIGH PERFORMERS SUBSTANTIALLY MORE LIKELY TO MAINTAIN MARKET PRESENCE
PERFORMANCE DISCRIMINATES MORE STRONGLY FOR NB SURVIVAL



+ 20% after one year

+ 80% after two years



Year 1/2 survival = innovation still selling in Q5/Q9/Q13 after launch

High/low performers: top/bottom quartile in terms of cumulative penetration

2012 listings in the UK
(n=9300)

CONCLUSION

Listing by retailers key to NB launch success, stable

Less exposure to new products nonetheless

Little evidence of retailers reducing access for NB launches

But: Lower likelihood to remain on shelves

Enormous numbers, but in decline

Less is more would suggest a focus on fewer, bigger ideas