

2019 FMCG OUTLOOK

STAYING ONE STEP AHEAD

In this issue, we partner with IRI to bring you a detailed insight into the FMCG sector in 2019 and advice on how to bolster your business for the changing landscape.

We are in the midst of a consumer buying revolution, with consumers in the driver's seat and brands racing to keep up. Innovation in technology has opened the door to an explosion of customer touchpoints that significantly impact how consumers discover, research and purchase products and services. At the same time, tech giants such as Amazon, Netflix and Facebook have redefined consumer expectations. Today's shopper demands current, personalised experiences that are relevant to their specific needs and situation at every point along the shopping journey.

To keep pace, FMCG brands must rethink how they reach and engage shoppers along the path-to-purchase. Relevance is more important now than ever, and FMCG brands must work alongside retailers, investing more heavily in data and technologies that will help them cultivate personalised experiences and engage and activate their highest-value customers.

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GLOBAL MARKET CONDITIONS

Changing conditions in the US setting the agenda for markets worldwide.

Retail marketers in the United States continue to struggle to find sources of ongoing, sustained growth: 2017 dollar sales growth of 1 per cent was largely due to price increases, with unit sales flat (down 0.4 per cent). These anaemic numbers represent a multi-year trend: average annual dollar sales growth was just 1.5 per cent between 2014 and 2017, with unit sales unchanged over the same period.

PRIVATE LABEL IS A BRIGHT SPOT FOR GROWTH

Private label dollar sales growth (+4.4 per cent) outpaced national brand growth (+0.3 per cent) in 2017, and unit sales displayed similar strength, growing +3.8 per cent for private label as compared with a loss of 1.6 per cent for national brands.

More than 99 per cent of US shoppers purchase private label products today, driven by positive consumer perceptions. Just under 70 per cent of consumers view private label products as equal in quality to national brands, while a similar number view private label as better value than national brands. Shoppers report that they expect to continue to ramp up their private label purchase behaviours in the coming months. Two-thirds of consumers plan to purchase more private label products in the near future; ranging from 73 per cent of millennials to 54 per cent of seniors.

INNOVATION DRIVING GROWTH

FMCG retail is undergoing unparalleled changes, driven by the objective of increasing margins while at the same time better catering to the needs of younger shoppers, who seek convenience as much as high quality products and good value.

Online shopping is leading the charge and is expected to grow from zero in 2014 to \$34.8 billion by 2022. In addition to the growing influence of millennials, a series of interesting initiatives by retailers are driving growth, including:

- Delivery partnerships such as:
 - Wegmans and Aldi
 - Shipt with Costco, Target, Kroger, Publix and Meijer
 - Uber with Walmart
- Retailer-led initiatives, such as Albertsons' new Digital Marketplace, providing for consumer-direct ordering and shipping, and Kroger passing the 1000 store milestone with its ClickList Store concept.

MILLENNIALS ON THE MOVE

The major impact of millennials on FMCG trends

has been well documented. This group represents 25 per cent of the population in the US and one-third of FMCG spending, with annual spending that will reach \$240 billion by 2022. In addition, they are developing shopping habits that may last a lifetime. While millennials are a highly diverse group with a near endless number of micro-segments at which retailers can target personalised offers, there are several relevant defining trends retailers should understand:

- Millennials are more likely to be struggling to make ends meet: 38 per cent versus the total population of 33 per cent.
- They are more willing to try new, lower-priced brands to save money: 82 per cent among millennials and 73 per cent among the total population. Millennials tend to be driven by product benefits versus brand names, creating new opportunities for retailers investing in private label, as well as new market entrants.
- These younger shoppers are leading the charge in the adoption and growth of e-commerce and m-commerce FMCG.

THE CHANGING FACE OF SHOPPERS

Gen Z, the generation immediately younger than millennials, today represents 22 per cent of the population. While they have significantly less income than millennials, 50 per cent already participate in their household's grocery shopping. They are constantly online and are omnichannel shoppers – identifying the combination of e-commerce and store trips optimal for their particular needs.

Also changing the face of retail is the greying of the US population. By 2035, older adults will outnumber younger ones for the first time in US history. In addition to changes in store aisles, such as the need for larger print on packaging, we're seeing growth in the pharmacy channel, catering to the health needs of this ageing population.

NEW CHALLENGES BRING NEW OPPORTUNITIES

For retail innovators, these are exciting times. Changing consumer expectations create an opportunity to test new products, retail environments and FMCG value propositions that have the potential to generate new levels of sustained growth and success. Whether the retailer is located in Australia, Austria or America, marketers should study the experimentation underway and continuously seek out ways to apply new innovation to their offerings. ♦

As the new year kicks off, most retailers and suppliers across channels will already have a clearer view of what H1 2019 will entail. At IRI, we see three key battlegrounds shaping FMCG retailing in 2019.

PLANNED SPONTANEITY AND OCCASION BASED SHOPPING

Less than half (47 per cent) of Australian shoppers consistently plan what they are having for dinner the day prior. This “planned spontaneity” is even more evident at lunch, for which less than a quarter of shoppers plan what they are having the day before. It reflects the lifestyle agility and mobility younger generations are well known for, and the time pressures often cited by mid-lifer households. It’s a factor behind the continued influence of “little-and-often” shopping patterns whereby the reliance on the weekly shop is giving way to mission-focused top-ups, where IRI is seeing increased store visits but smaller spends per basket.

In response, a noticeable step change has been observed in the Australian market in the provision of fresh prepared meals and meal solutions. For so long, it was considered too hard to do well and we are finally seeing the tipping point for mission-based merchandising at scale, and the activation of truly convenient ranges to suit a spectrum of shopper needs in Australia.



BIGGER NOT NECESSARILY BETTER

Globally, the FMCG market is increasingly a race in which the largest operators don’t necessarily have an advantage – especially when more progressive ranging strategies can accommodate potentially unproven but emerging trends and brands.

The shift in influence from larger suppliers to smaller ones is a continuing trend in both the US and Australian packaged goods markets. While established FMCG brands often focus on selling more products, smaller brands instead tend to talk about solving problems and command a price premium in doing so. Engaging grassroots marketing that brings the real-life authentic brand story to life can then extend the relatable appeal all the more.

HEALTH INFLUENCES GROWING

With brands such as Halo Top, YoPRO, Chobani and Ajitas topping the growth chart in food retailing, it’s clear that significant dollar-generating opportunities exist in targeting health-conscious indulgers. The growth of such brands reflects the above-mentioned emergence of smaller and contemporary suppliers making a dent in the local landscape.

But it’s not just the grocery and pharmacy domains where health influences are driving sales growth. IRI research revealed that a growing numbers of drinkers across Western liquor markets, including Australia, are putting more thought into moderating the amount of alcohol they are consuming in an attempt to develop a healthier relationship with alcohol. ♦

GLOBAL TRENDS HITTING AUSTRALIAN SHORES

As Australian shopping habits change, suppliers too are adapting to meet demand.

HOW TO WIN IN A CHANGING MARKETPLACE

As market dynamics shift, those who prepare today
will be the success stories of tomorrow.



With advancements in technology driving change in the FMCG sector, brands that are not onboard may struggle to keep up. Understanding what your consumer wants is the first step in riding the waves of change.

OMNICHANNEL SHOPPING CHANGING THE RULES

It may seem like a lifetime, but it was not too long ago that leveraging online to engage with consumers, let alone selling online, was a foreign concept. Traditional media vehicles such as TV and print advertising dominated FMCG marketing budgets, with very little allocation or focus on digital channels.

Fast-forward to 2018, digital touchpoints and online shopping are integral parts of the shopping journey and hyper-connected consumers demand seamless experiences regardless of when, where and how they are shopping. Simply stated, everything about the FMCG experience has changed how consumers access content and buy products.

The rise of big data, artificial intelligence and machine learning is arming FMCG marketers with new tools for understanding and serving their customers. But this change is also creating confusion, among even the most seasoned brand executives.

As marketplace dynamics continue to shift, the lines between discovery, research, shopping and entertainment continue to blur, and competition for the consumer's attention and wallet seems to intensify by the minute. But the stakes could not be higher: consumers have an endless choice in what, where, how and from whom to buy. Brands that cannot win attention and share will quickly be dominated, or replaced by brands that get it right.

Furthermore, capturing more share-of-wallet today will drive increased customer lifetime value in the future. So, today's winners will position themselves well for the battle for lifelong customer loyalty.

THE IMPACT OF E-COMMERCE ON BRICKS AND MORTAR RETAIL

Online sales in Australia are estimated to be worth approximately \$3 billion in 2018 across the grocery, liquor and OTC pharmacy channels. IRI reports that this has grown between 10 and 15 times faster than the respective total channel growth rates.

While 96 per cent of FMCG sales are still taking place within the physical store, online will impact 77 per cent of all retail sales this year. While online still comprises a small share of sales, this does not negate the important role that digital plays in supporting businesses hoping to disrupt their respective markets.

CREATING A SEAMLESS DIGITAL SHOPPING EXPERIENCE

Creating a frictionless online experience is key to building any brand, whether it be on its own website, retailer sites or any other site that the brand is associated with.

The popularity of click-and-collect is evident, with IRI research revealing that shoppers are attracted to this option because they can save time by avoiding crowded store aisles and register lines and save money by avoiding shipping and delivery fees. This is acknowledged by Australian retailers and evident through their commitment and continued investment in this purchasing method.

As a result, effective brand and retailer strategies need to be put in place to support it. The click-and-collect capability allows the shopper to check in at a particular location and view the range assortment and product availability of a particular store. This is an important consideration when one in three Australians currently use online location-based services to check in to physical locations when shopping.

So it's critical that assortment and stock levels are in the right place, at the right time, as the shopper may not click to buy while browsing but use this information when making a purchasing decision later instore. Equally, retailers must be aware that providing a click-and-collect option may reduce basket size, as consumers can quickly and easily pick up their goods without wandering around the store, making impulse purchases less likely.



INFLUENCING CHANGING CONSUMPTION HABITS

When it comes to the shopping experience, be it instore or online, or via a click-and-collect service, shoppers are influenced by price and promotional mechanics, instore point-of-sale, as well as in-aisle and off-location marketing.

Ninety per cent of shoppers make a list before going grocery shopping and if that's the case, how much of the path-to-purchase can retailers actually influence? Is the decision of what product to buy already decided? Well, breaking that down, the majority of those lists were written, some were on a mobile device and others were simply in shoppers' heads (interestingly, the proportion of those making a digital list has increased five percentage points year on year).

In addition to this, shopping lists play an influential role in voice commerce. Recent research has shown that only a third of Alexa users have ever purchased using the technology, however the majority use it to create their shopping lists. Brands can be suggested rather than just items, which poses a risk to those brands which have not developed a strategy to ensure that their brands are in the consideration set.

And just because a list has been made doesn't mean the end-product has been decided. So there's a great opportunity to influence shoppers' purchase decisions, whether that be instore or online.



TECHNOLOGY AND DATA FOR GROWTH

The top technology trends that will shape the FMCG landscape.

FMCG suppliers and retailers are faced with a constant influx of change, from store formats to new product innovations. The rate of technical change is no different. Not surprisingly there has been a lot of recent conversation about machine learning, artificial intelligence and big data, but what are some of the other technology changes that will have a big impact in 2019 and beyond?

Following are three of the top technology trends IRI believes will affect the FMCG landscape.

GROWING EASE OF ACCESSING ANALYTICS THROUGH CONVERSATIONAL BI

With the introduction of Siri, Apple changed the way we interact with computing power even more profoundly than when it launched the iPhone itself only a few years earlier.

For example IRI, using its Unify BI platform, can connect with the likes of Alexa and Google Assistant to enable this type of conversational approach to analyse the business.

Through the introduction of conversational BI, the dream of data democratisation will truly be realised within organisations as the perceived need for specialised skills falls away. Then, by combining the ease of voice-driven data insights with the power of storytelling, companies will be able to truly drive insights through their organisation and turn anyone into a skilled data analyst.

RISING CUSTOMER ENGAGEMENT THROUGH AUGMENTED AND MIXED REALITY (AR/MR)

Finally, as retailers and suppliers continue to look for more innovative and personalised ways to engage with their customers, ever-improving capacity for AR/MR will offer a whole new range of opportunities. Having the ability to provide brand-specific, real-time engagements with customers will not only alter how people understand and engage with products, but allow companies to truly capture the customer's attention in the moment.

Recent research from Gartner also found that of the companies that have products or services which can be enhanced through AR/MR, 70 per cent will begin to experiment in 2019. Retailers and FMCG brands stand to benefit from AR/MR and its ability to provide much more immersive promotional activities for customers. Two recent examples include:

- IKEA's AR app, which allows you to place furniture in your room to check placement and colour
- Hell Pizza in NZ, which allows you to fight a zombie invasion on your pizza box top.



GROWTH OF DATA FROM THE INTERNET OF THINGS (IOT)

According to Gartner, 14.2 billion different devices will connect to the internet in 2019. As companies get over the novelty of having devices everywhere providing information, the need to start doing something with that information will only grow. With the ability to tie fridge temperature to returns or align trolley movements with product assortment, the insights derived will be like nothing we've ever seen before.

The challenge, however, is highlighted by a new study from Aruba networks that found that while 98 per cent of the companies surveyed claim they can analyse this data, a full 97 per cent of those same respondents struggle to create value from that data. With the growth of IoT, and the data generated by IoT continuing to grow at double digits, the hurdles in analysing all that data will only grow.





BEYOND 2019: ADDITIVE MANUFACTURING (OR 3D PRINTING)

While each of these advances will impact the market in 2019, the technology on the horizon that will truly change the FMCG landscape is 3D printing. As predicted by Gartner, by 2021, 20 per cent of the world's top 100 consumer goods companies will use 3D printing to create custom products. This will allow suppliers to be even more responsive to consumer needs. Retailers, however, will need to formulate strategies around how to target customers who can now “print” the products they need at home.



MASTERING THE DATA: THE KEY TO PERFORMANCE GROWTH

There's oceans of data available and more being captured every day. Once upon a time, a trip to the supermarket left nothing behind other than the enjoyable experience of engaging with the shopkeeper and a few empty spaces on the shelf. These days, there's your e-tag record from the toll roads driving to the store, the trail of cell towers your mobile phone has connected to, the image of your car number plate captured going in and out of the carpark and the details of your loyalty and payment cards recorded at the checkout.

As a result of this, the big data marketplace has exploded. Its complexity is marked by reams of disparate data from a variety of sources which can often lack insights. To take advantage of this advanced marketplace and make the most of this complex new world, the industry must master the data.

The marketplace and the data is complicated, but by utilising gathered trends and insights, it's possible to gain a deep understanding of:

- how consumers respond to marketing messages
- the marketing impact on shopping journeys.

By understanding these, it helps marketers influence the path-to-purchase and, ultimately, buying behaviour. Manufacturers and retailers can keep up with the speed of the market; they just need to approach it with a new mindset and the necessary tools.

COLLABORATION THE KEY

A singular and shared understanding of today's consumers needs to be at the centre of business building strategies and supporting marketing campaigns. Consumers today, as always, are motivated by better shopping experiences and more relevant marketing communications – brand and retail interactions that reflect their individual wants and needs will win. This customer-first focus must be the foundation for all strategies to connect with consumers across the lifespan of a marketing campaign, building brand loyalty and growth.

Collaboration supports a rising tide that lifts all ships. But there are rough waters when it comes to data, as true collaboration can't happen without harmonised data, shared goals and common measures of success.

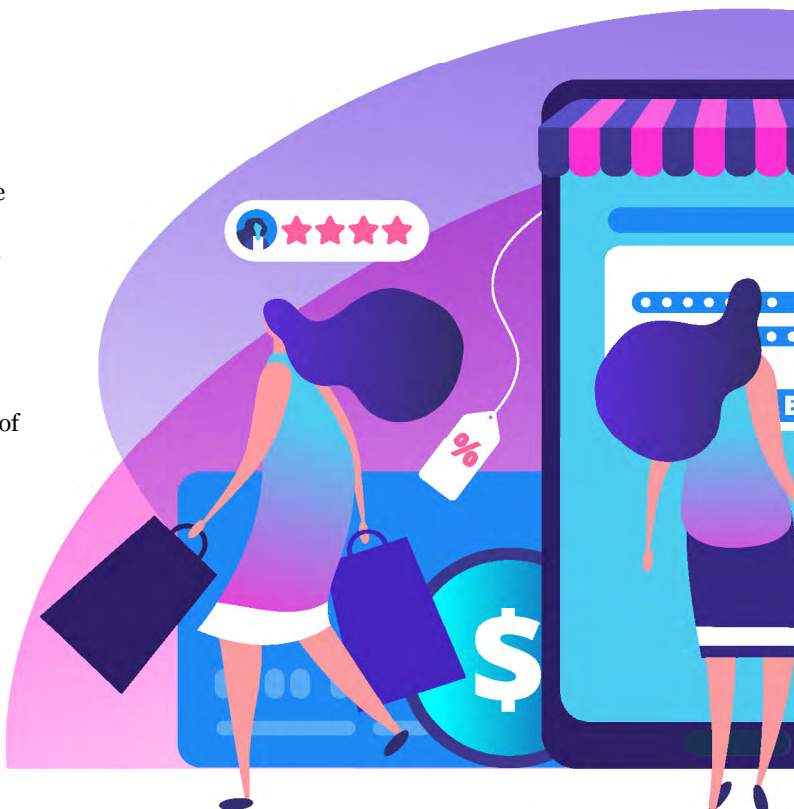
A shared workspace is critical to this journey. It allows for ongoing joint business planning and thus fluid, real-time, impactful and profitable decisions. The benefits of collaboration on a shared workspace include:

- sharing of information/real-time discussion, analysis and reporting
- measurement against agreed-upon goals
- identification of tactical and strategic opportunities
- rapid assessment of arising threats via prescribed alerts.

Insights and action must move fast – and can and must be specific to customers, markets and the time and place.

To win share, retailers and manufacturers must:

- have a 360-degree view of the consumer, including digital and physical buy moments
- deliver personalisation based on propensity to purchase
- gain near-instant consumer feedback plus traditional research
- automate analytics, engaging with artificial intelligence and machine learning
- have visibility of omnichannel coverage.



LOOKING AT THE MARKET FROM A SHOPPER LENS

The evaluative and inquisitive shopper has meant that brands and retailers must review how they have previously been operating, and adapt their strategies to keep one step ahead.

Before undertaking any innovation project, you need to know the answers to these questions: How do shoppers define the market? Which product attributes are most important and predict this market? How big and how incremental is the white space?

Knowing these answers requires an unbiased shopper perspective as well as the ability to accurately and quickly forecast new item performance.

Predictive data helps make this possible. If you understand what shoppers bought through frequent shopper program data or shopper panel data, it's a lot easier to predict what they will buy next. Using actual shopper behaviour allows you to dig in and better understand a number of different areas, including where category switching is occurring.

It's also important to have access to integrated support from the beginning of any new product development. This includes from the start of the innovation process through product development and activation planning, as well as the product's post-launch assessment and adjustment. This end-to-end support will help ensure success. For example, measuring switching between categories using actual shopper behaviour will help you forecast your performance, while a deep post-launch assessment can help you make tweaks to your pricing or promotion.

With more products entering the FMCG marketplace each year, including those from smaller and more niche players, the competition is fierce. Using predictive data, a more integrated process and faster forecasting can give you an advantage over the ever-threatening competition.



WINNING IN 2019 AND BEYOND

CPG manufacturers have been struggling in a low-growth marketplace for several years now, but pockets of growth certainly do exist. By identifying and prioritising growth platforms and associated growth pockets and outperforming brands, marketers have a powerful road map for future investment and acquisition activity. Acting on these opportunities will create a unique point of differentiation and growth while maximising shareholder value.

IRI has helped several top 100 FMCG companies identify their own unique core growth platforms and develop strategies to win through differentiated value propositions. Not all companies that know where to play understand how they can best find ways to participate in attractive areas. Having a realistic, timely and accurate representation of where to play now and into the future is crucial in developing a company's growth strategy.

Defining where to play will address the confusion that often arrives when too much information is available. Based on the rigorous work we've done with FMCG partners, we've developed a set of lessons learned when defining where to play that can help catalyse an organisation's path to growth:

- Speed and accuracy are critical in the race to define where to play. Size is less of a competitive advantage when the opponent is fast and nimble.
- Don't stop with understanding what is growing now; pre-empt competition by deciphering what will grow in the future and remember, time is of the essence.
- Don't miss out on the forest by paying attention only to the trees. Understand overarching platforms as well as more micro-level growth pockets and outperformers to ensure a comprehensive growth strategy.

COLLABORATIVE PLANNING FOR SHOPPER ACTIVATION

Close collaboration between retailers and manufacturers will always increase the success of both parties. But it's not always easy. Retailers tend to drive collaboration discussions based on what is happening in their stores and with their customers while manufacturers are often more focused on brand strategies and market measurement data.

For retailers to win in this complex marketplace, they must understand the key drivers that influence customers' decisions, the relative importance of each and how they translate to purchasing behavior in order to create compelling strategies for growth. This won't happen overnight, but it's about progression, not perfection. Progress begins when retailers commit to becoming obsessed with understanding their customers, localising their stores and assortment and aligning owned and partner data.

For the most effective collaboration programs, retailers need their manufacturer partners to support the following capabilities:

- insights and strategy – understand all of the consumer dynamics that are driving brand and category growth
- shopper and trips – know the shopper and their trip occasions
- localised assortment – provide products that reflect shopper demand
- pricing strategy and leadership – demonstrate pricing excellence while maximising profitability
- innovation plans – share innovation plans in advance in order to maximise collaboration opportunities
- consumer engagement – use shopper activation programs that drive traffic and sales by getting in front of the right people in the right place at the right time.

At the same time, retailers must:

- start with an operational lens
- measure their results versus the rest of the market
- protect and grow buyer conversion and shopper trips
- capture competitor shopper trips
- grow shopper share of wallet.

By consolidating all of these retailer and manufacturer insights into a single strategic plan for customer activation, retailers will enhance their customer-centricity while also driving category sales, conversion, loyalty, and share of wallet for their business.

A POWERFULLY ENGAGING CUSTOMER FIRST EXPERIENCE

To help build a more collaborative retailer-supplier relationship driven by internal and external data sources, IRI has created a retailer insights gateway solution, enabled by the IRI Liquid Data® technology platform. With this platform, partners can quickly integrate disparate data without sacrificing security and control, creating a simple and consistent way to access the data and the insights. Integrating data – IRI and third-party data from more than 40 data assets on the Liquid Data platform, plus the ability to integrate more than 125 additional data sources via IRI's open API connectors – creates a rich, harmonised data pool in one place.

These assets can be used in all internal decision-making processes, including joint business-planning sessions with suppliers, and they drive significantly easier and more effective collaboration. Users have more meaningful metrics and reports on hand to allow manufacturer and retailer partners to make faster, better, smarter decisions together. These harmonised data sets alleviate the need for manual efforts, and they significantly increase speed to insights. Furthermore, integrated data provides a more efficient link between market demand and actual market behaviour, keeping users aligned against category-focused/customer-first efforts.