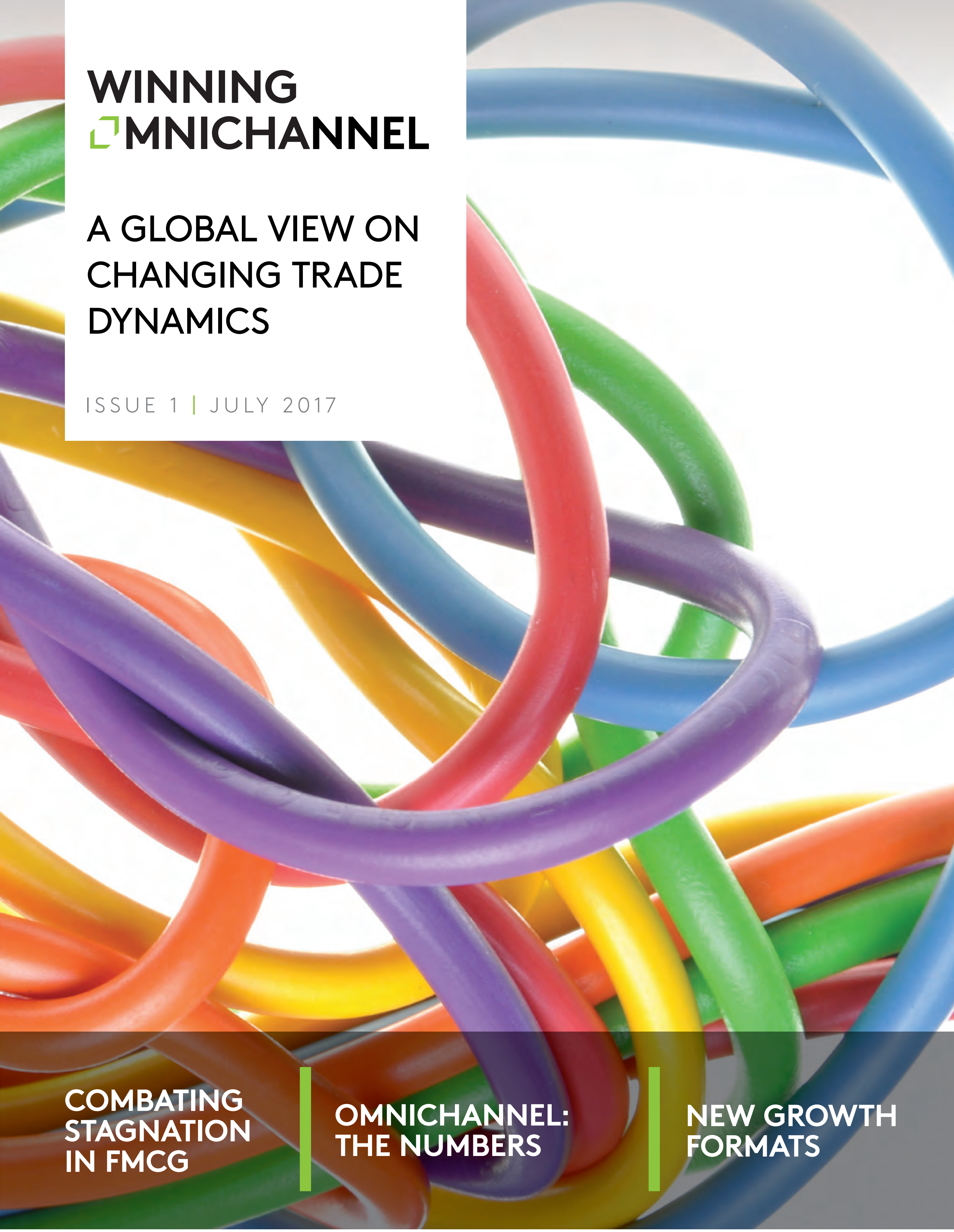


WINNING OMNICHANNEL

A GLOBAL VIEW ON CHANGING TRADE DYNAMICS

ISSUE 1 | JULY 2017

COMBATING STAGNATION IN FMCG

OMNICHANNEL: THE NUMBERS

NEW GROWTH FORMATS

KANTAR WORLDPANEL


奥体中心
Olympic Sports Center
(亚运村)
北辰路
BEICHEN Rd
(安华桥)
50
出口
EXIT
500m
80

CONTENTS

FMCG GROWTH IS OVER

Stagnant growth has concerned global FMCG brands for years. Low price inflation and weak volumes in Europe, combined with the recent slowdown in China, has painted a bleak picture of the current climate. Even double-digit growth (13%) in Latin America and 5.2% growth in Africa couldn't lighten the mood—their value heavily distorted by high inflation rates.

With the slowdown set to continue, the FMCG sector is unlikely to generate big value growth in the future even if global GDP swells at a faster pace. The global population has grown by 1.7% per year between 1985 and 2015 and is predicted to slow to just 0.9% over the next 30 years.

What's more, households are getting older and unemployment rates are still high in many advanced countries. Our global research has found that, during these uncertain times, people shop less often and trade down with discounters, price promotions and private labels.

These factors are all contributing to downward pressure on the global FMCG outlook. In 2016, annual FMCG growth was just 1.3%, compared to 3.1% global GDP growth. This is set to decrease to just 0.8% in 2018.

While the figures present a worrying trend, we know that many brands and retailers are still finding ways to thrive.

By looking at who's buying what – and where – we can establish the channels which are flourishing and how these channels are interacting to carve new pathways for growth.

We live in an omnichannel world and brands can no longer rely on traditional routes alone to attract new buyers. The rise of e-commerce around the world (26% growth between 2015 and 2016) and the subsequent demise of hypermarkets and supermarkets (0.7% growth only), highlights the new order.

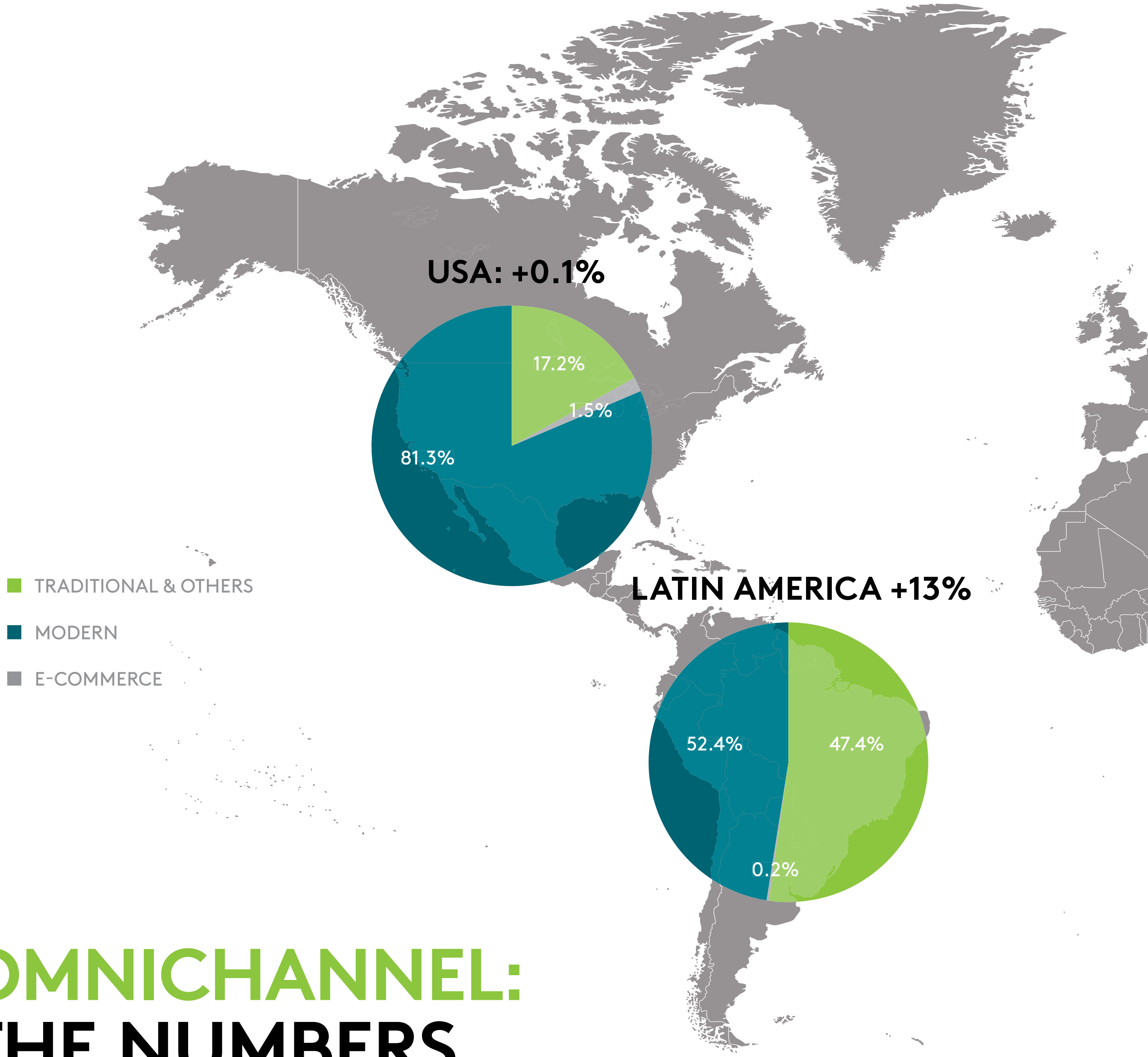
In the first study of its kind, Kantar Worldpanel's global research team and partners have used consumer panel data to build a complete picture of the global retail landscape.

By measuring real shopping behaviour and the retail choices of more than three billion people in 28 countries, we have observed the interaction between all channels – from traditional to modern trade and e-commerce – over the past three years.

Looking ahead, we've also predicted the changes facing the retail landscape over the next three years and how these might impact FMCG sales in the future.

The following pages will provide a crisp and clear overview of the balance of channels across the world, as well as future predictions for each channel in each region. We'll explore the social, economic and technological pressures affecting these shifts and discover the ways retailers are addressing changing shopping habits.

Above all, we'll tackle the issue of 'how' and 'where' brands can win in an omnichannel world.



OMNICHANNEL: THE NUMBERS

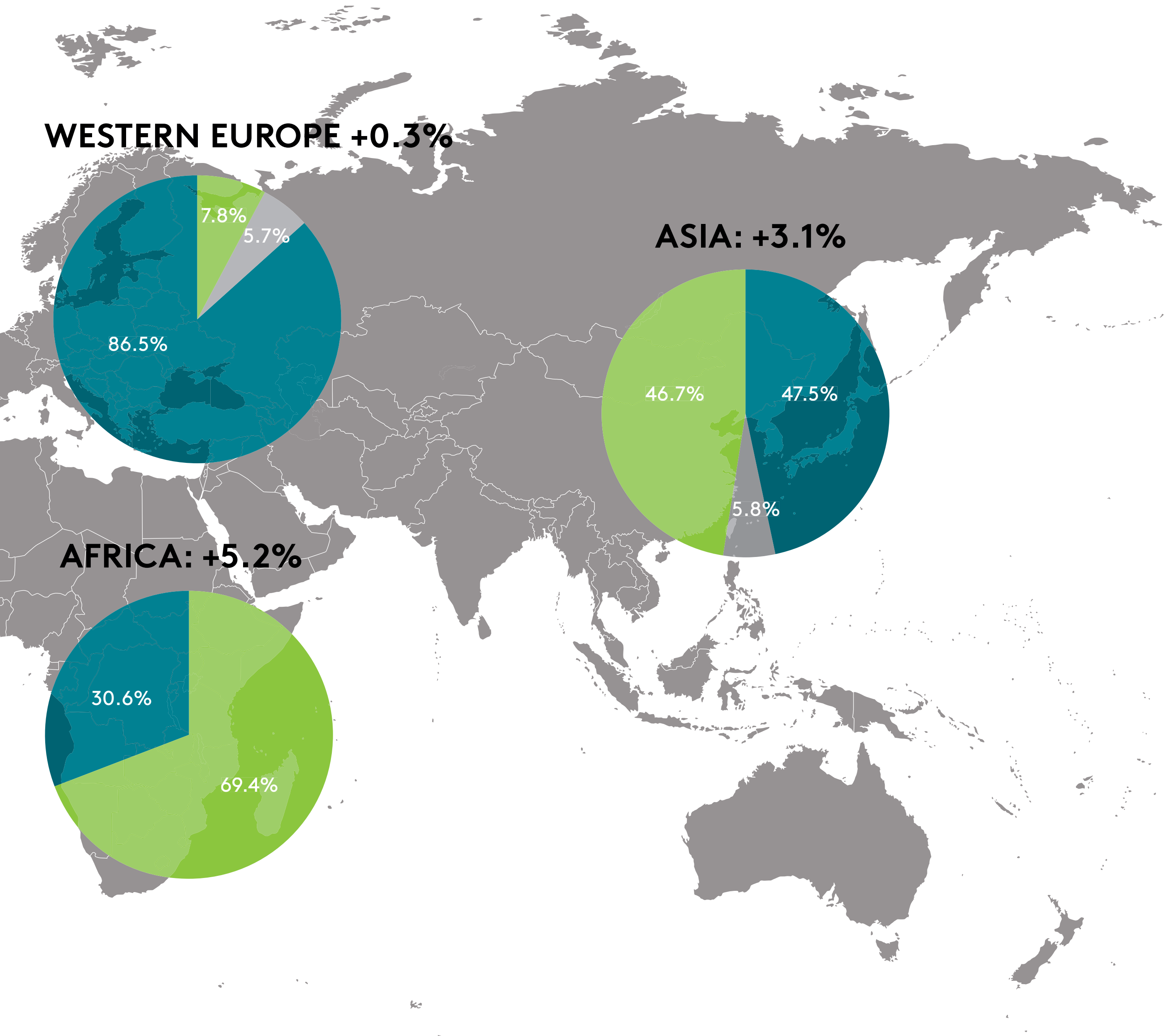
GLOBAL OUTLOOK

Modern trade (defined as stores with more than one counter and with a marketed offering) still dominates worldwide FMCG spend with 62% share. Large format bricks and mortar stores are especially prevalent in North America and Europe, accounting for more than 80% of total trade in each region.

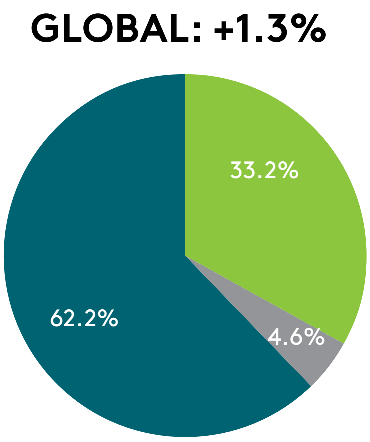
However, modern trade – particularly hypermarkets and supermarkets – is, slowly but surely, losing share. There are several contributing factors here: in connected markets where online grocery spend is booming (a 26% global increase in 2016), the big format retailers are losing out to new technologies and an increased expectation of convenience. In South Korea, for example, e-commerce grew by 41% in 2016 while hypermarkets and supermarkets reduced by 7%.

In developing regions where modern trade would be the next practical step, traditional and other formats (comprising door-to-door, cash and carry and pharmacies) are still performing well. Specifically in Africa, where price and connectivity are key factors, traditional trade accounts for an average of 69.4% value share.

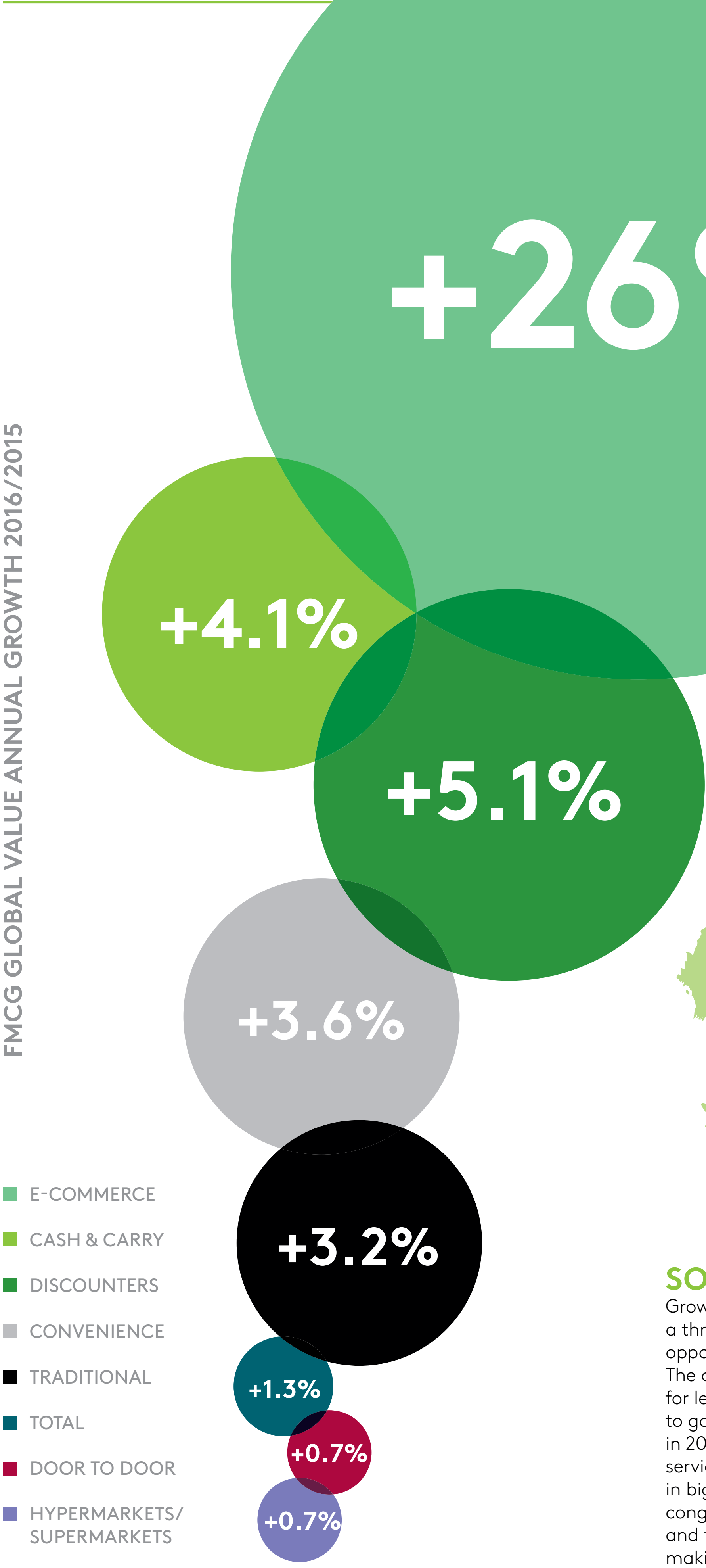
It is through discounter formats that modern trade continues to hold on—due to their increasing popularity on the global stage, with 5.1% growth in 2016.



% VALUE SHARE 2016
ANNUAL GROWTH %



FMCG GLOBAL VALUE ANNUAL GROWTH 2016/2015



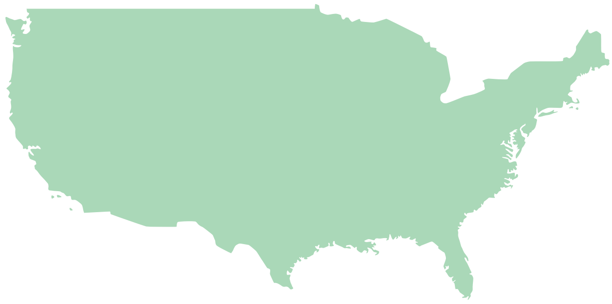
SOUTH EAST ASIA

Growing internet use in South East Asia, along with a thriving tech start-up ecosystem, is unlocking opportunities for e-commerce growth in the region. The channel is still small in Indonesia (accounting for less than 0.1% of market share) but it is starting to gain popularity, growing by a staggering 230% in 2016. On demand transportation and delivery services are becoming more mainstream, especially in big cities as customers look to avoid traffic congestion. Services such as Go-Food, Go-Mart and the hugely popular Go-Jek delivery app, are making waves in the industry. Popular minimarkets like Indomart and Alfamart have also successfully launched online grocery and delivery services.

CHINA

China achieved the highest absolute growth of e-commerce globally in 2016, driven by consumers' voracious appetite to shop digitally. The country has the most sophisticated and dynamic online landscape, with a vast array of different players and business models. Penetration is growing nationally (49%), but the strongest growth is in lower tier cities (59%) where mobile phone sales are booming and people are becoming more connected via the Alibaba platform.

Since 2009, China has hosted its own version of Cyber Monday: 11.11. The event, which has proved popular with online retailers in the US and UK, is dominated by Alibaba in China (82% of purchases in 2016 were made through the mobile app). 11.11 sales grew by 30% in 2016 alone, generating over $18 billion of sales.



USA

Known for its attachment to large format hypermarkets, online grocery penetration has increased rapidly in the US, reaching 30% of the total population. Annual spending on food and alcohol through e-commerce has been relatively flat over the past five years – hovering between $5 billion and $7 billion – but is predicted to reach $20 billion this year. Our model projects this to raise by $7 and $10 billion increments each year over the next five years—by 2021, Americans will be spending $59 billion a year on food and alcohol through online channels, which will hold 5.4% of the total market.

This can be attributed to the promising rollout of click and collect, delivery and subscription models. Meanwhile, the biggest hurdle of coverage is being overcome by bricks and mortar retailers. Walmart and Kroger, for example, have started leveraging their nationwide store footprints to expand the click-and-collect model. Collectively, only 10% of US stores have click-and-collect capabilities, so there is huge potential for growth in the future.

LATIN AMERICA

Latin America is the only region where modern trade achieved double-digit growth in 2016, driven largely by the growth of discounters. The top three risers in 2016 – Colombia (124%), Argentina (32%) and Brazil (13%) – all hail from the region. As economic turmoil continues to blight these countries, there is huge scope for the channel to expand in the future. As a result, hypermarkets and supermarkets have started converting their stores into cash and carry formats: Carrefour Atacadao being one example.

In Colombia, discount brand D1 has increased its value share from 1.3% in 2014 to 5.9% in 2016. Similarly, in Brazil, discount retailers have increased their share to 9.9%, an increase of 3.7% in two years. Between Q1 2015 and Q4 2016, cash and carry stores reached more than 2.6 million shoppers in Brazil, luring consumers with lower prices and their diverse range of categories, segments, brands and categories.

EUROPE

There are signs that the e-commerce movement is slowing down in Europe. Mature markets like France and the UK, while still growing by 8% each in 2016, are doing so at a much slower rate than elsewhere in the world. UK grocers are struggling to attract new targets, with current users turning to online for stocking up and replenishing, rather than buying the weekly shop.

Conversely, discounters are performing very well, particularly in the UK—the top performing market for the channel outside of Latin America, with 11% annual growth. Britain has fallen in love with discounters' value-driven philosophy at the expense of their supermarket rivals. France, on the other hand, is the only country in the world where discounters are in decline (-5% in 2016), mainly due to Carrefour's acquisition of the French subsidiary of Spanish discounter Dia in 2014, whose stores it has integrated into its network.

NEW GROWTH FORMATS:
E-COMMERCE

THE 'UNSTOPPABLE MARCH' OF E-COMMERCE

Online FMCG sales remain a relatively small part of the food retail landscape, but its rise in recent years points to a future dominated by the evolving channel. Customers are making fewer overall trips to grocery stores worldwide; the number of occasions time-strapped customers visit stores each week is in gradual decline.

In 2016 the world witnessed an explosion of e-commerce in the online grocery sector now accounting for nearly five cents (4.6%) of every dollar spent on FMCG worldwide. With new technologies and better connectivity, this figure will rise exponentially in the future. The percentage of the global population using the internet is predicted to reach 51% in 2018, of which 71% will access the internet from mobile devices.

The countries contributing the highest value growth in e-commerce last year were China, USA, South Korea, UK and Japan. However, it's not just the developed nations experiencing growth—the 'unstoppable march' of e-commerce has spread across the globe. The top three achievers are developing economies.

WHERE TO WIN

TARGETING THE RIGHT MARKETS

Online grocery shopping is steadily growing across the world but often it's the countries we might not expect to see performing well that are making waves.

2016 value growth
+26%

Value share of e-commerce in FMCG market
4.6%

Top 5 highest contributors to online value growth in 2016
China, US, South Korea, UK, Japan

Developed markets such as France – which until recently was performing well with its Click-and-Drive model – is now looking at new growth models with the Click-and-Drive demographic now saturated. While e-commerce has been slow to reach some parts of Asia and Latin America, the huge growth potential of developing countries like Colombia, India and Indonesia presents brands with exciting opportunities to reach new customers.

We have previously reported on the slow uptake of e-commerce in the US and one might assume its vast geography and car-dominated shopping habits would continue to blight the rise of online grocery shopping in the country. However, bricks and mortar retailers like Walmart are beginning to leverage their nationwide store footprints to expand the click-and-collect model. 90% of Americans live within 10 miles of a Walmart store, making click-and-collect a viable and popular solution to America's sluggish response to e-commerce. The channel is now firmly on the rise in the US. The acquisition of Whole Food Market by Amazon provokes a dramatic change in the retail landscape. Snapping up the 465-unit chain for $13.7 billion, it affords Amazon direct access to more affluent shoppers – a great tool to win penetration very quickly – and clear expertise on fresh food in terms of supply chain and distribution.

In China, penetration is growing in all regions—reaching 59 % in C and D level cities compared to 28% in key cities.

TARGETING THE RIGHT DEMOGRAPHICS

The one consistent statistic globally is that shopping online for groceries is a popular choice for young families with children. In the UK, for example, families with four or more family members represent 37% value share for online, versus 24% for offline. Brands that can successfully target this growing e-commerce demographic will win new buyers.

But if brands and retailers want to grow online penetration rates, they should look to stretch into other demographics. For example, in China and South Korea, the rapid adoption of mobile commerce has lent e-retailers a much younger demographic who spend on more personal purchases, for example in the beauty category.

HOW TO WIN

STRATEGIC PARTNERSHIPS

In 2017 Walmart launched its UK retail brand, Asda, in China through a partnership with China's second largest e-commerce brand JD.com, giving Walmart access to the platform's 226 million customers. Likewise, in China, leading e-commerce brand Alibaba bought into supermarket chain Sanjiang Shopping to expand into the online grocery market. Similar partnerships have been created in Europe and will continue to arise in the future as more brands look to join the e-commerce revolution.

MULTIPLE FULFILMENT MODELS

The rise of online groceries in the US can largely be attributed to retailers' ability to develop multiple fulfilment models. Click and collect, third party, grocery delivery and subscription models have all flourished in recent years, providing consumers with numerous options, all of which offer greater convenience than the traditional shopping experience.

Amazon is making huge strides in the online grocery sector. Although still very small (0.1% share of the online CPG market), the tech giant is growing rapidly in this sector. Amazon Fresh made $350 million in grocery sales in the US in 2016, a 30% increase on 2015. In the UK, it grew by 75% in 2016, taking a 0.7% share of the online market.

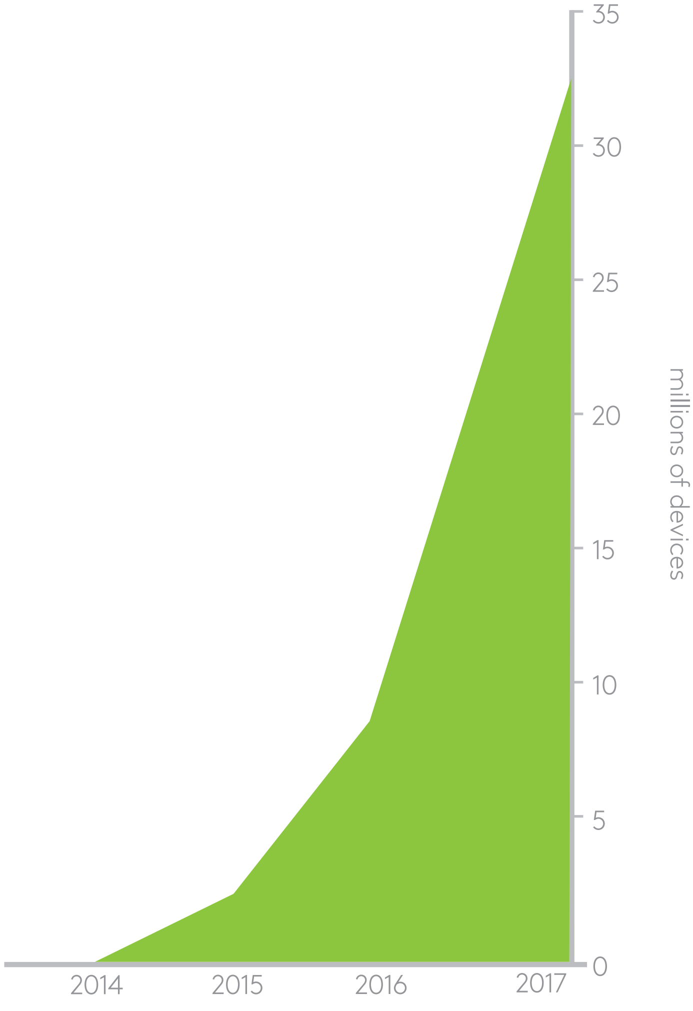
EMBRACE NEW TECHNOLOGY

The rise of artificial intelligence (AI) and machine learning has led to the development of numerous 'voice service' devices. It is estimated that 24.5 million voice activated products – such as the Amazon Echo – will be shipped in the US in 2017, bringing the total number of devices in circulation to 33 million. This represents a 40% jump in ownership in the three months between October 2016 and January 2017.

New innovations such as this are encouraging shoppers to give up non-experience products in favour of auto-replenishment. It is estimated that by 2024, 5% of all US e-commerce transactions will consist of some type of auto-replenishment or subscription process, the equivalent to the annual sales of over 800 Walmart stores.

Virtual and augmented reality is also set to become an extension of online shopping within the next few years, which will help to entice shoppers and keep them more engaged in the online shopping experience.

In 2017 there will be 24.5 million voice-first devices shipped—contributing to a total footprint of 33 million



Voicelabs analysis combined with research from CIRP, KPCB and InfoScout

NEW GROWTH FORMATS: DISCOUNTERS

THE RISE OF THE DISCOUNTERS

The biggest global grocery trend over the past decade has been the surge in sales, revenues and market share of discount supermarkets. Low prices, good quality, honest: the discounters have stolen share around the world and are showing no signs of slowing. It was the second fastest-growing channel in 2016 after e-commerce, with 5.1% share growth.

The discounters, led by pioneers Aldi and Lidl, started gaining significance in the West after the global financial crisis, appealing to customers' tightening purse strings. Since then the focus has shifted away from price towards value, helping to attract Europe's middle classes. More recently Aldi and Lidl have embarked on ambitious expansion plans in Europe and further afield, accelerating store openings in countries where they have a stronghold, as well as entering new territories such as the US. With the global economic climate predicted to continue faltering, the future looks bright for discounters.

WHERE TO WIN

Of the top five contributors to discounter growth globally in 2016, four are in Latin America: Argentina, Mexico, Brazil and Colombia, the latter witnessing 600 new discount store openings in the 12-month period. In Brazil, the 'cash and carry' model is expanding rapidly, reaching more than 2.6 million shoppers between Q1 2015 and Q4 2016.

2016 value growth
+5.1%

Value share of discounters in FMCG market
5.6%

Top 5 highest contributors to discounter value growth in 2016
UK, Argentina, Brazil Colombia, Mexico

Experiencing exceptional growth in the region, discounters are fast becoming the go-to channel for Latin America's cash-strapped population.

Eastern Europe is maintaining solid growth with 26.3% share, a 13.8 percentage point increase since 2007. Western Europe, however, is lagging with 16.6% share today compared with 14.2% in 2007—an increase of just 2.4 percentage points in nine years.

In the UK, Aldi is investing heavily to expand its store footprint—creating 5,000 jobs by opening 800 new stores in the country, with the assumption being that increased proximity and convenience will improve footfall. In fact, Aldi and Lidl are building more stores in the UK than any of their supermarket and hypermarket competitors—which are all in decline. This is a manifestation of both the discounters' rapid growth over the past decade and the cannibalisation of traditional hypermarkets.

HOW TO WIN

GETTING THE BALANCE RIGHT

Retail consolidation and the explosion of the discount format has ensured sustained private label growth in developed markets. As the popularity of discount products continues to soar, supermarkets are reacting by increasing the number of own-brand products on their shelves, often at the expense of branded goods.

BUILDING BASKET SIZE

Lidl's strategy has been to focus on improving its bakery and fresh ranges – as well as introducing more premium private labels – to increase the average shopping basket size. Its Delux range for groceries and Cien range for beauty have performed extremely well in Europe, focusing on 'great value' rather than 'low prices' to attract new buyers. In Spain, for example, Cien face cream achieved a 18.9% share of the market in 2016.

NEW GROWTH FORMATS:
RECONFIGURING REAL ESTATES

In 2021, hypermarkets and supermarkets will represent less than half of total FMCG trade.

The channel is still growing, albeit at a sluggish rate of 0.7% in 2016. To survive in today's world, big format retail brands need to reinvent themselves. Competition from discounters is growing and the online groceries market is disrupting the status quo, with the latter predicted to more than double its market share by 2021.

Hypermarkets and supermarkets, by definition, exist on the premise that 'bigger is better'. Global players like Walmart and Tesco have – over time – built empires of large format stores worldwide, designed to cater for every consumer need. However, buying habits are changing, with demand increasing for smaller convenience formats and a shift from 'bulk buying' to a 'little but often' approach.

As hypermarkets and supermarkets enter a new era, the big players are beginning to adjust their strategies to cater to these changes. As shopping habits adapt and big formats become less viable, how can retailers prevent further decline, or even gain market share in the future? Here we explore the best and most successful ways of transforming big formats into sustainable, profitable, solutions.

INTRODUCING NEW FORMATS

FRANCE - CARREFOUR

In France, Carrefour attempted to stem the decline of its market share by introducing Carrefour Planet in 2010, a 'new-generation' hypermarket chain. The stores were split into eight 'mini centres' and included additional services such as day care and hairdressing.

Following poor sales, the business announced in 2012 that it would stop converting its hypermarkets into Carrefour Planet stores. Since then Carrefour has gone back to basics, focussing on quality and price. It has reduced the size of its new stores to 5,000 square metres, introducing 'fresh zones' at the entrance and diversifying its product offering. It has also reduced the number of promotional offers and slashed

floorspace for non-FMCG stock. Carrefour, which has been in gradual decline since 2005, has now steadied the ship; market penetration has fluctuated between 24.2% and 23.6% over the past three years.

INDONESIA – INDOMART AND ALFAMART

Traditional trade is still the most important channel in Indonesia's trade channel landscape. Yet, modern trade – especially minimarkets – is getting more important. Local retailer chains, Indomaret and Alfamart are dominating the retail landscape in Indonesia. Both outlets are increasing their store footprints across the country; the two businesses owned a combined 23,200 minimarts in Indonesia in early 2016 and the number continues to grow.

IMPROVING THE SHOPPING EXPERIENCE

As large format stores become less popular, retailers are being forced to come up with innovative ways of improving the shopping experience. Exciting displays, focusing on fresh produce – often with a 'home grown' or 'farmers market' theme – add theatre to help sell products in-store. Retailers are also pumping more finances into advertising, seeking to connect with consumers on an emotional level. In the UK, Tesco's 'food love stories' campaign focuses on the passion and care that goes into the meals its customers prepare. Beyond the advertising, Tesco has set up a content hub with ingredients and recipe cards for the featured meals, which are also available in special displays in-store.

NEW TECHNOLOGY

Driven by the need to reduce costs, retailers have invested heavily to streamline their processes. Technology has played a huge role in transforming the experience of purchase, with automated checkouts now commonplace in many stores worldwide. Walmart and Auchan have introduced robots to manage stock flows in-store. Franprix in Paris has also introduced in-store mobile payment to speed up the customer journey. As well as being more efficient, the aim of the game is to provide greater convenience, speeding up the shopping experience from door to checkout. With Amazon making its mark in the online groceries space, traditional retailers are responding with their own technology solutions.

DRIVING GROWTH OPPORTUNITIES AT A TIME OF STAGNATION

Despite the slowdown in FMCG, retailers and brands can find new growth opportunities. As we've seen, the channels which traditionally dominated the field – supermarkets, hypermarkets, drugstores – are in steady decline worldwide. Step forward the 'new order': e-commerce and discounters, cannibalising the big retailers with their promise of convenience and lower prices. Direct-to-consumer is fast becoming a viable channel for brands around the world.

China, the USA and South Korea are leading the e-commerce charge, but others are following in their footsteps. In particular Latin American nations such as Colombia and Mexico are on the rise. With global share of FMCG spend still under 5% and only 25% of population shopping online, e-commerce has incredible growth potential.

Rapid changes in technology and shopping habits are forcing the big retailers to reinvent themselves. With e-commerce and discounters set to continue their march at the expense of large format retailers, there is an urgent need for retail reconfiguration. We've demonstrated the steps retailers are taking now to prevent further decline, shifting formats and gradually blurring the lines between online and offline models with new hybrid formats. As technology advances, we will see new players emerge to further disrupt the status quo.

With 7% of US households owning a voice device and, at the current growth rate of 40% per quarter, we could soon see – for the first time in retail history – the majority of shoppers with access to an intuitive and frictionless tool that will transform shopping behaviour. A new shopper journey is likely to emerge: from in-store purchase to subscription models and, eventually, to predictive purchase.

This marriage of AI with social commerce and virtual reality has the scope not only to impact our lifestyles but the retail landscape itself. What's more, we are experiencing more evidence of direct-to-consumer initiatives led by big brands who are converting this method into a new relevant channel altogether.

Over the next five years, bricks and mortar stores will continue to lead. But until when? Our forecast shows that in 2021, the value share of hypermarkets and supermarkets will dip below 50%. Current performance measures which only track these channels will be rendered useless.

Kantar Worldpanel is unique in its capability to measure all channel dynamics, providing a true picture of the complete landscape for the first time.

ABOUT US

About Kantar Worldpanel

Kantar Worldpanel is the global expert in shoppers' behaviour.

Through continuous monitoring, advanced analytics and tailored solutions, Kantar Worldpanel inspires successful decisions by brand owners, retailers, market analysts and government organisations globally.

With over 60 years' experience, a team of 3,500 and services covering 60 countries directly or through partners, Kantar Worldpanel turns purchase behaviour into competitive advantage in markets as diverse as FMCG, impulse products, fashion, baby, telecommunications and entertainment, among many others.

For more information, please contact:

Stéphane Roger
Global Shopper and Retail Director
stephane.roger@kantarworldpanel.com

Or to find a local contact please see:
www.kantarworldpanel.com

Our data partners:

europanel™

KANTAR WORLDPANEL
a CTR service in China

KANTAR RETAIL

intage

www.kantarworldpanel.com