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Winning Omnichannel

The future of FMCG and Retail post-COVID

Issue 5

Welcome

Was 2020 really that great for FMCG?

COVID-19 impacted everyone and every industry differently. The way we shopped – particularly for FMCG – changed. Some of the trends we have seen in previous years accelerated, others reversed.

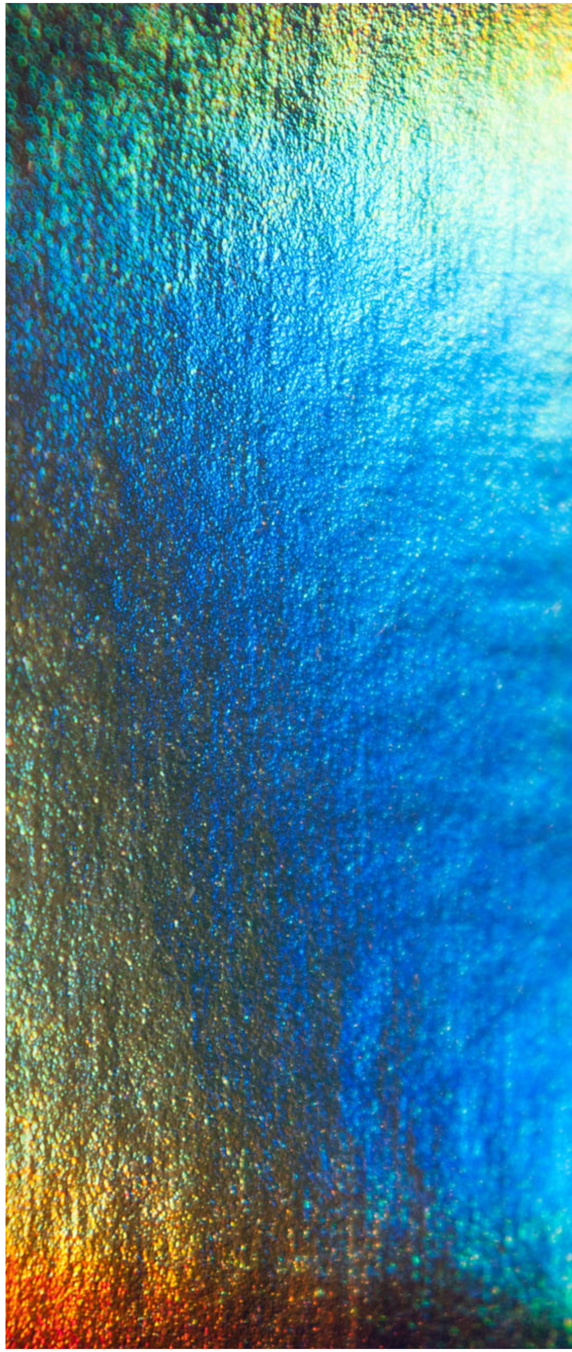
At the start of 2020, we expected a continuation of FMCG growth close to 2.5%. What we ended up with was growth four times higher for in-home grocery purchasing. On the surface, COVID-19 looks to have been positive for FMCG.

The reality is that much of this growth was due to out-of-home consumption occasions moving to in-home, and the combined in-and-out view paints a very different picture, with the food and drinks sectors seeing a fall in value. The lack of face-to-face social interactions also impacted Beauty categories negatively, moving them from being the fastest-growing to those in the most significant decline.
There were only three big winners in 2020; ecommerce, supermarkets and hygiene products.

Some of the trends seen are common across markets, others less so. The question is, which will remain, and which will go? We will share some thoughts and scenarios for how the FMCG landscape will grow going forward, quantifying this from a total FMCG perspective and channel level.

This fifth edition of Winning Omnichannel will give you the most comprehensive global view – across 42 markets – of how the dynamics of FMCG and retail transformed in 2020. This paper's findings and insights will help you quantify the impact of COVID-19 and find new growth opportunities in 2021.

We want to say a special thanks to Matt Marshall, Director of Global Sales & Innovation at P&G, for sharing his perspective on everything ecommerce. And a big thanks to our partners, GfK, IRI and Intage, for sharing their data and insight to enable such global coverage.



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2020 global picture: FMCG under lockdown

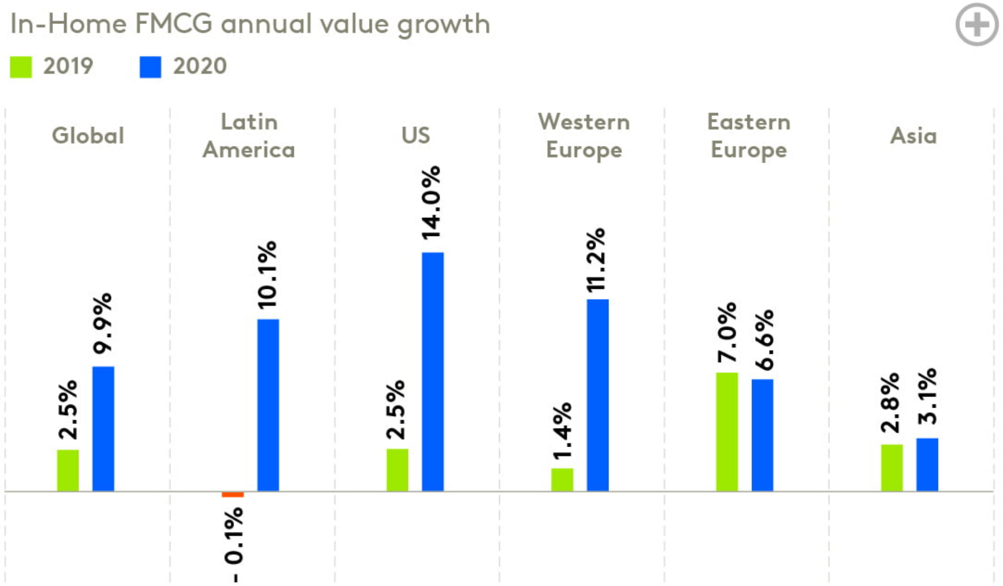
How did COVID-19 impact global FMCG spend by region, by sector and by category.

In 2020, global take-home FMCG value growth quadrupled to 10%, from 2.5% in 2019 – an increase of **$220 billion.**

Except for Eastern Europe, all regions saw faster growth. The impact of COVID-19 was most pronounced in Latin America, the USA, and Western Europe, all moving from flat or slow growth to double-digits. Denmark was the market with the fastest growth, at 23.5. USA growth at 14% was the biggest overall contributor.

In Asia, which did see an acceleration but a small one, the growth rate remains fragmented. India saw the strongest growth at 10.4% (doubling from 2019), and Japan moved from being in decline to growth. Whilst the Philippines declined -6.4% in 2020, the biggest seen last year, and at the same time, Chinese Mainland—the largest market in the region—saw FMCG slow to just 0.5% growth.

Eastern Europe's slowdown was due to Russia, where FMCG fell from 8.4% growth to 5%. All other markets in the region saw a similar pattern to markets in Western Europe or Latin America, with growth rates doubling or tripling.



Source: Kantar, GfK, Intage, IRI

In the 2020 Omnichannel paper, we reported some of the initial changes we were witnessing as a result of early COVID-19 impacts. The stockpiling effect was evident with growth in Q1 at 8.7%, already significantly higher than anything we had witnessed in recent years. One outlier to this was Mainland China, where lockdown protocols prevented the normal uplift in FMCG spending expected for the Lunar New Year.

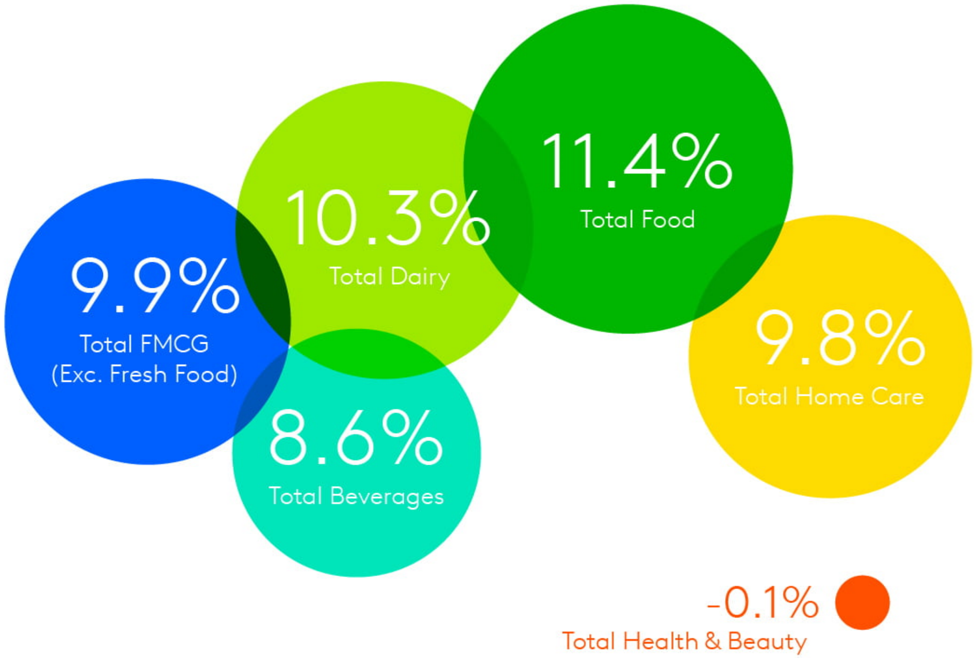
In Q2, FMCG growth reached its 2020 peak at 13.6%. More and more markets entered lockdown, and we saw the true impact of out-of-home eating and drinking occasions shifting to in-home -- which we explore in full later in this report.

And whilst growth slowed very slightly through the second half of the year, it remained close to 10% as markets struggled with the pandemic and most never fully re-opening the hospitality trade. These out-of-home occasions continued to take place in-home, including during the important Christmas period.

Lockdowns impact on sectors and categories

With COVID-19 always in the news and social occasions limited, the different impact on the five sectors of FMCG was clear.

2020 value annual growth



Source: Kantar, GfK, Intage, IRI

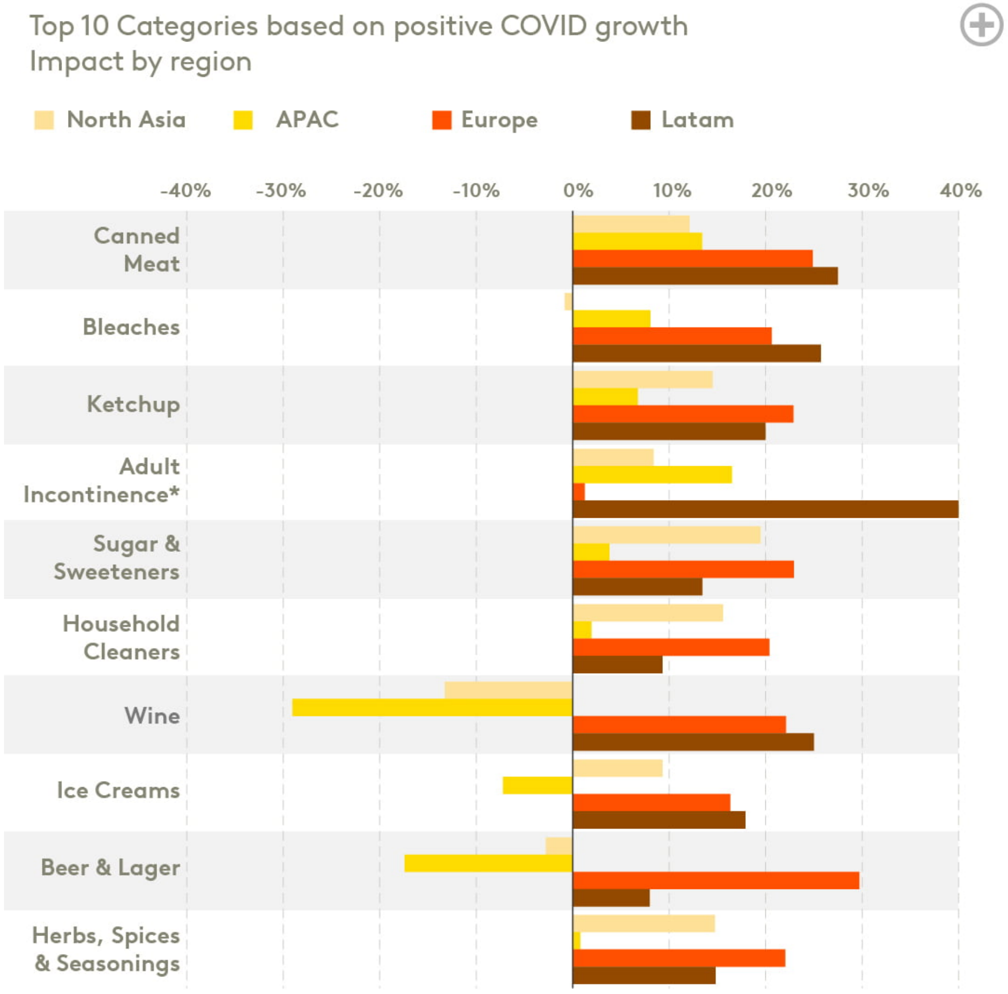
Beverages, Dairy & Food

These three sectors – which accounted for 74% of FMCG value in 2019 – grew at 8.6%, 10.3% and 11.4%, respectively, with out-of-home consumption moving in-home throughout most of 2020. Fifteen of the top 20 categories most positively impacted by COVID-19 came from these sectors.

And there are examples of winning categories from these sectors that show the different types of behaviour we witnessed last year.

Sugar & Sweeteners, Herbs & Seasonings, and Olive Oil might be the opposite of quick-cooking solutions, but their growth showcases the increase in scratch cooking and home baking seen in 2020.

Wine and Beer were the two drinks categories that did best in 2020, as consumers looked to replicate the bar experience at home. However, this is far from consistent across the globe. Both categories saw an increase in demand from Europe and Latin America but saw a decline in the North Asia and APAC regions.



*Adult Incontinence moved from 41% growth in 2019 to 244% growth in Latam

Source: Kantar In-Home Purchase Panels

Homecare

The Homecare sector grew at a similar rate as total FMCG, at 9.8. Increased demand was generated by an increased focus on hygiene and cleanliness combined with spending more time in the home.

This increase led to Bleaches and Household Cleaners seeing a growth of 25% and 21%, respectively – two of only six categories which saw growth over 20%. And linked to the increased in-home food consumption, the Dish Wash category benefitted with a growth of 12%.

However, it wasn't all positive. Laundry Detergents saw no positive impact from being in lockdown, with global sales remaining flat, having seen a modest 5% growth in 2019.

Health & Beauty

With the lack of social interaction, the Health & Beauty sector went from being the strongest growing in 2019 to the only sector in decline in 2020. The decline is evident in the categories. Make-up saw the biggest fall of any FMCG category, declining 17% – a swing of 24% having been in 7% growth in 2019.

Skin Moisturising, similarly, saw a significant swing in fortunes. From double-digit growth in 2019 to 1% last year, the biggest category within Beauty is a good indicator of the overall health of the sector.

Despite this drop in demand for the sector, there were still a couple of shining lights. Hand & Body Wash accelerated from 6% to 16% growth, with the importance of hand washing bought to people's attention.

Beauty Wipes grew from 8% to 19%, driven by the "Untact" beauty trend, with users wanting minimal contact between their hands and faces.

Spotlight on Vietnam

Sanitisers growing ten-fold

The growth of Hand & Body Wash was seen across almost every market and it was particularly strong in Vietnam. When we break down the category further here, Shower Gel grew +23.6% (with Hygiene the only segment in the sub-category to be growing), Hand Wash almost doubled (+96% growth) with penetration moving from 32% to 45.3%, and Sanitizers grew by 1065%, with penetration increasing from 1.7% to 19.2%. This strong growth has seen many new entrants to the category, with an additional 131 active new variants in Sanitizers. And the increased focus on Hygiene looks set to stay, with 59% of Vietnamese households saying they will maintain the habit once the lockdown is over.

Access further information on FMCG in Vietnam

Key takeaways

Global take-home FMCG grew by 10%, $220 billion, in 2020. But this is an effect of COVID-19 definitely not a trend. And whilst the positive impact was seen in most regions in the world, Mainland China (the second largest market globally) saw the opposite and slowed.

Beverages, Dairy and Food all benefitted from out-of-home consumption moving in-home, whilst the Homecare sector and Hand & Body Wash category grew rapidly with an increased focus on hygiene – a trend set to stay.

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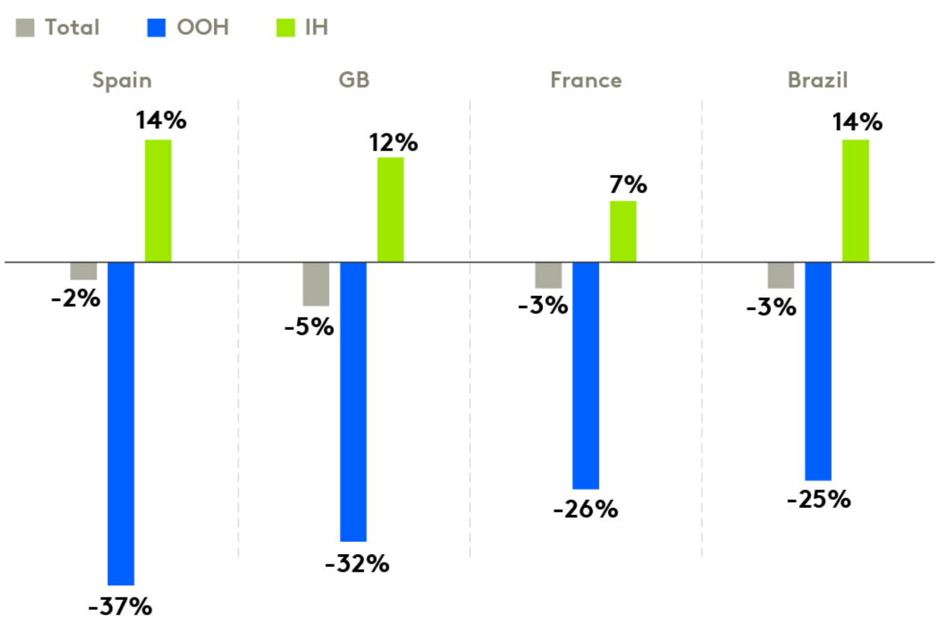
The 360° view: Food and Beverages decline

Combined In-and-Out sales paint a very different picture

Despite In-Home FMCG sales hitting 10% in 2020, the complete 360° picture, combining sales for both Out-of-Home (OOH) and In-Home, shows a decline of between 2-5% for the food and beverages (excluding alcohol) sectors.

OOH sales were down -37% in Spain, -32% in GB, -26% in France and -25% in Brazil, so despite the strong, double-digit growth from In-Home sales, it was always going to be difficult to claw back such significant declines.

Total In & Out Value including meals – full year 2020 vs year ago



Source: Kantar In & Out of Home Purchase Panels

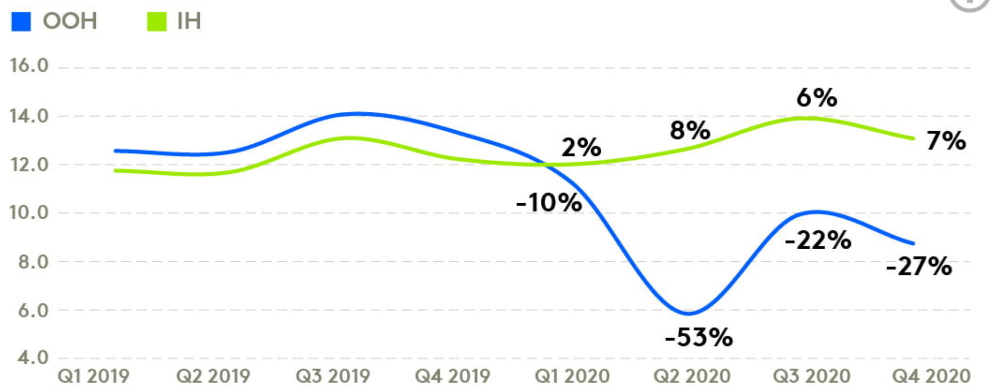
Beverages driving the OOH decline

By the end of 2020, OOH beverage sales had declined over 30%, whilst In-Home sales only increased by 6%. Total sales fell by 14%. The sector was hit hard during the first lockdown period (Q2 2020), in which OOH sales more than halved.

Carbonated Soft Drinks and Coffee, which have the highest reliance on OOH, suffered the most significant decline at -16% and -22% for the year.

Even if the beverages sector could replace all OOH occasions with In-Home, it would still suffer given an average occasion cost of €1.20 OOH vs. €0.20 In-Home. A shopper would need to enjoy six times the number of drinks in their home to contribute as much spend as buying one drink outside their home.

Non-Alcoholic Drinks – Value (Billion USD)



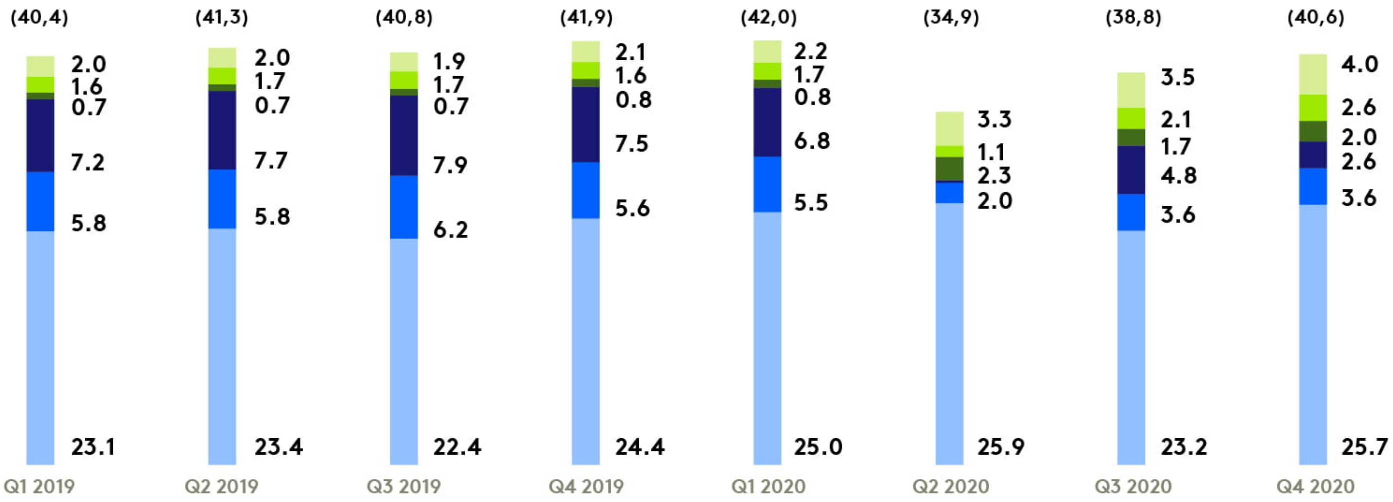
Source: Kantar In & Out-of-Home Purchase Panels

OOH channels down $45 billion

When we consider the full picture, we can assess four additional purely OOH channels: On-the-Go, On-Premise, Take-Away and Meal Delivery.

In GB, On-the-Go and On-Premise channels accounted for 28% of total spend, pre-COVID-19. Given lockdown restrictions, both suffered, resulting in sales being down 37% and 52%. These channels were responsible for the overall decline, with all other channels in growth.

GB In & Out Spend - Absolute value in Billions (USD)



Source: GB Kantar In & Out-of-Home Purchase Panels

On the other hand, Meal Delivery saw growth of 150% (in GB), doubling its share from 2% to 4%. This helped keep many restaurants and cafes in business whilst stopping the food and beverages sectors from seeing more significant declines.

Meal Delivery's growth immediately started (and peaked) in Q2, as the country entered lockdown. Although the growth slowed in Q3 and Q4, spend remained at a much higher level (double that of 2019). At the same time, consumers returned to On-Premise as restaurants re-opened, albeit temporarily.

The use of third-party aggregators (companies such as Just Eat or UberEats) has been one of the critical drivers of this growth. We saw the penetration of aggregators continually rise through 2020 in both GB and Spain. And with no signs of slowing down, penetration reached a new high in both markets at the beginning of this year.

And the potential for future growth is evident. More than 80% of consumers use third-party aggregators across Asia, whilst consumers in France, Mexico, Brazil and Portugal still prefer to order by phone. In Spain and GB, restaurants' own websites or apps have the highest penetration.

Alongside this extraordinary growth for Meal Delivery, it was Modern Trade retailers that performed best in 2020. This shift provides manufacturers with an opportunity to still win the OOH occasion, particularly in Europe.

Within the Modern Trade channel, OOH accounts for 16% of snacking and beverages spend across markets, whilst in Mexico, Thailand, Indonesia, and Mainland China, that level is 40% and higher. In Europe, the share of OOH remains below 10% despite the shift to the channel caused by COVID-19.

Key takeaways

When also considering out-of-home sales, Food and Beverages sales are down somewhere between 2 to 5% across markets. Beverages has particularly suffered, with sales halving in Q2 last year as regions entered lockdown.

The growth of Home Meal Delivery has gone some way to help the sector, doubling in size in GB. The growth of third-party aggregators was key, with plenty of headroom for future growth particularly in Europe and Latam.

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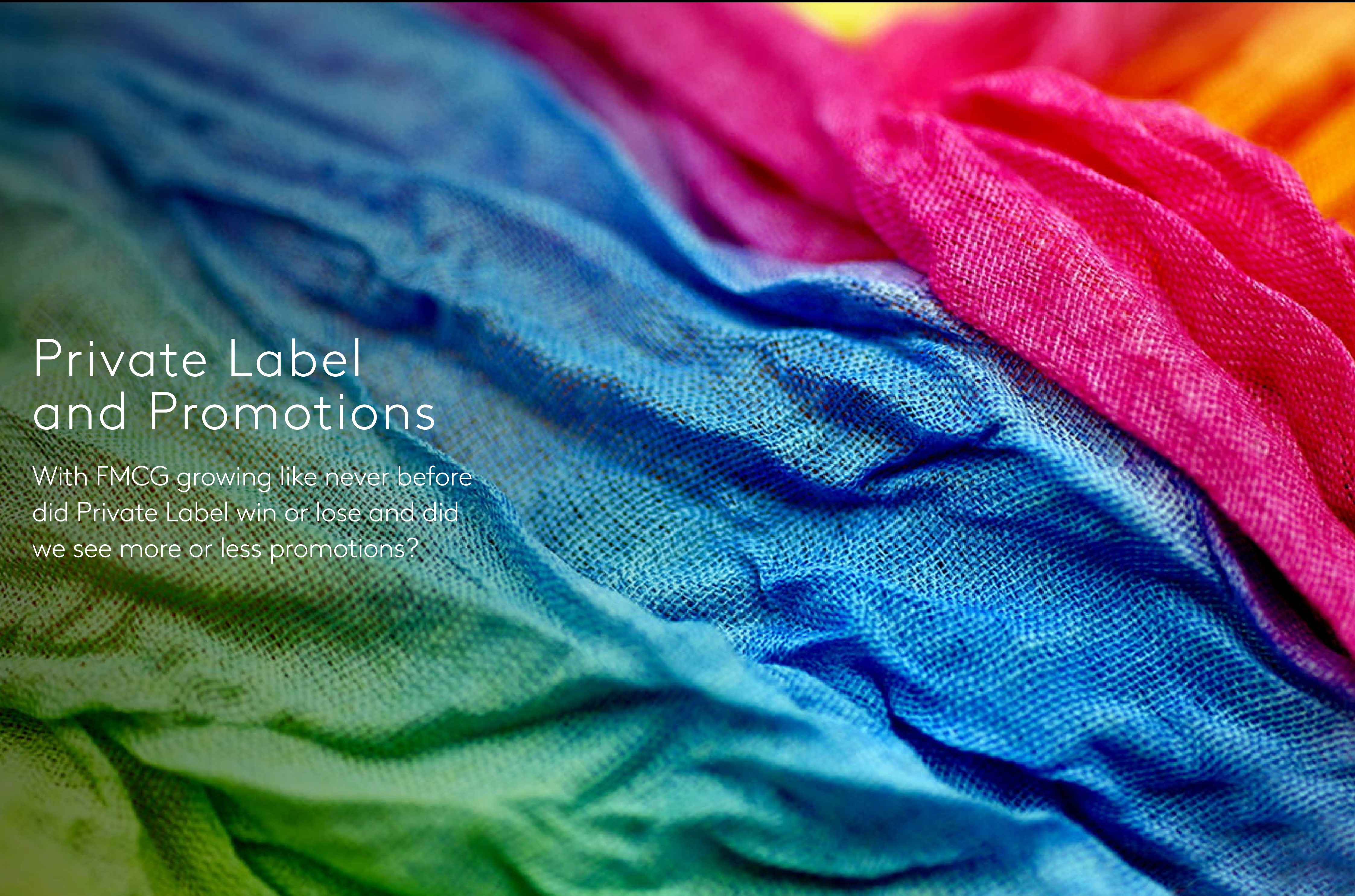


Private Label and Promotions

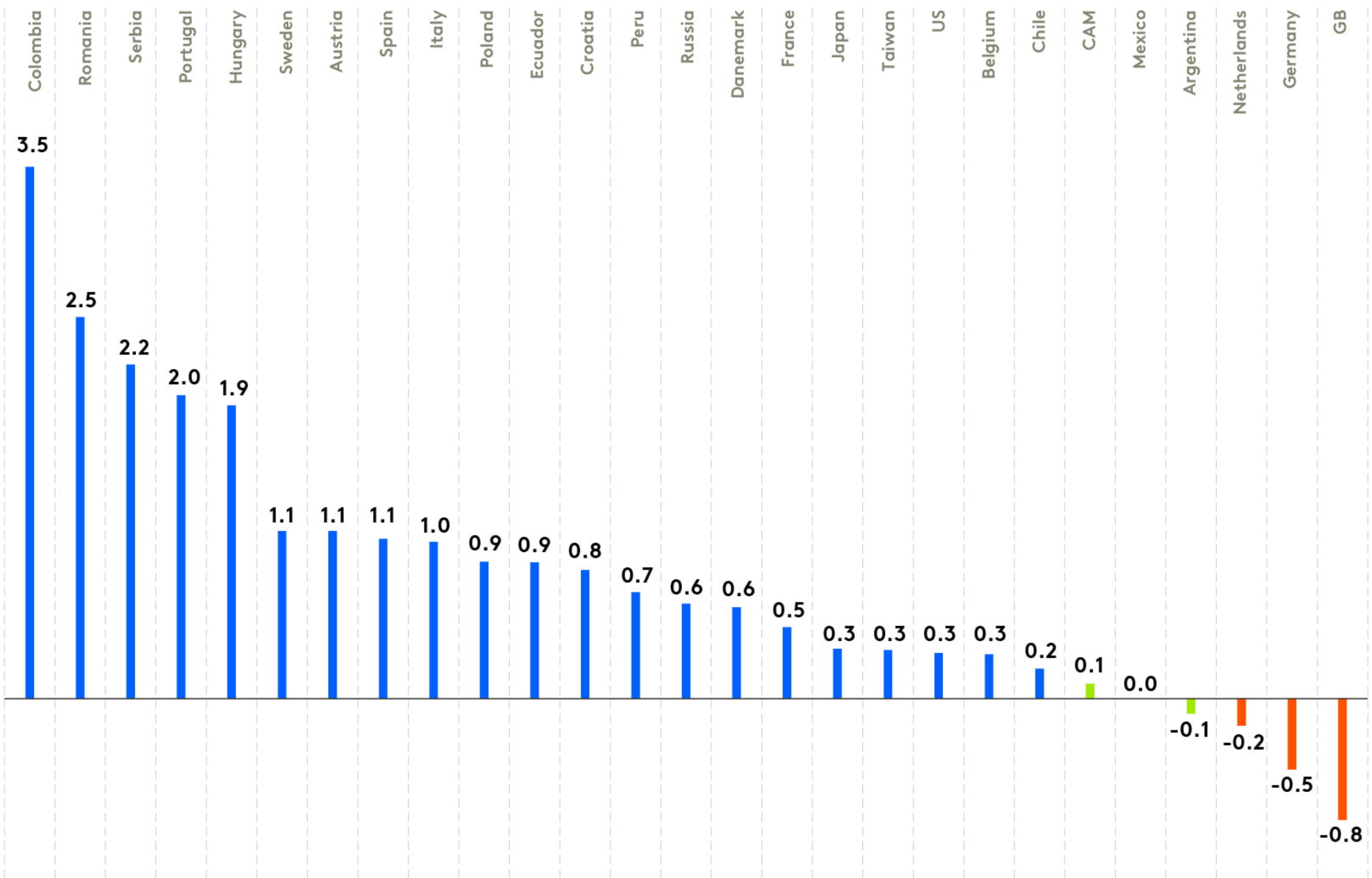
With FMCG growing like never before did Private Label win or lose and did we see more or less promotions?

Private Label continued to gain share globally

Early signs showed that the biggest brands were set to do well in 2020. This may still be the case and will be unveiled when we share our 2021 Brand Footprint report later this year. But in the total brand versus private label battle, the latter continued to steal share, albeit at a slower rate than previous years.

In Eastern Europe and the US, Private Label gained share across most months of the year. The result was a +0.3% share gain in the US and significant gains in Romania (+2.5%), Serbia (+2.2%) and Hungary (+1.9%), combined with a +0.6% gain in Russia. Although Private Label remains much lower in Latin America, it did see the biggest gain of any individual market with +3.5% in Colombia.

Value Share Change - Private Label in FMCG – 52 w/e Dec 2020 vs 2019



Source: Kantar, GfK, Intage, IRI

These gains for Private Label in Colombia and Eastern Europe are due to Discounters' growth. The channel gained +3.5% share in Colombia and grew at 25% in Eastern Europe.

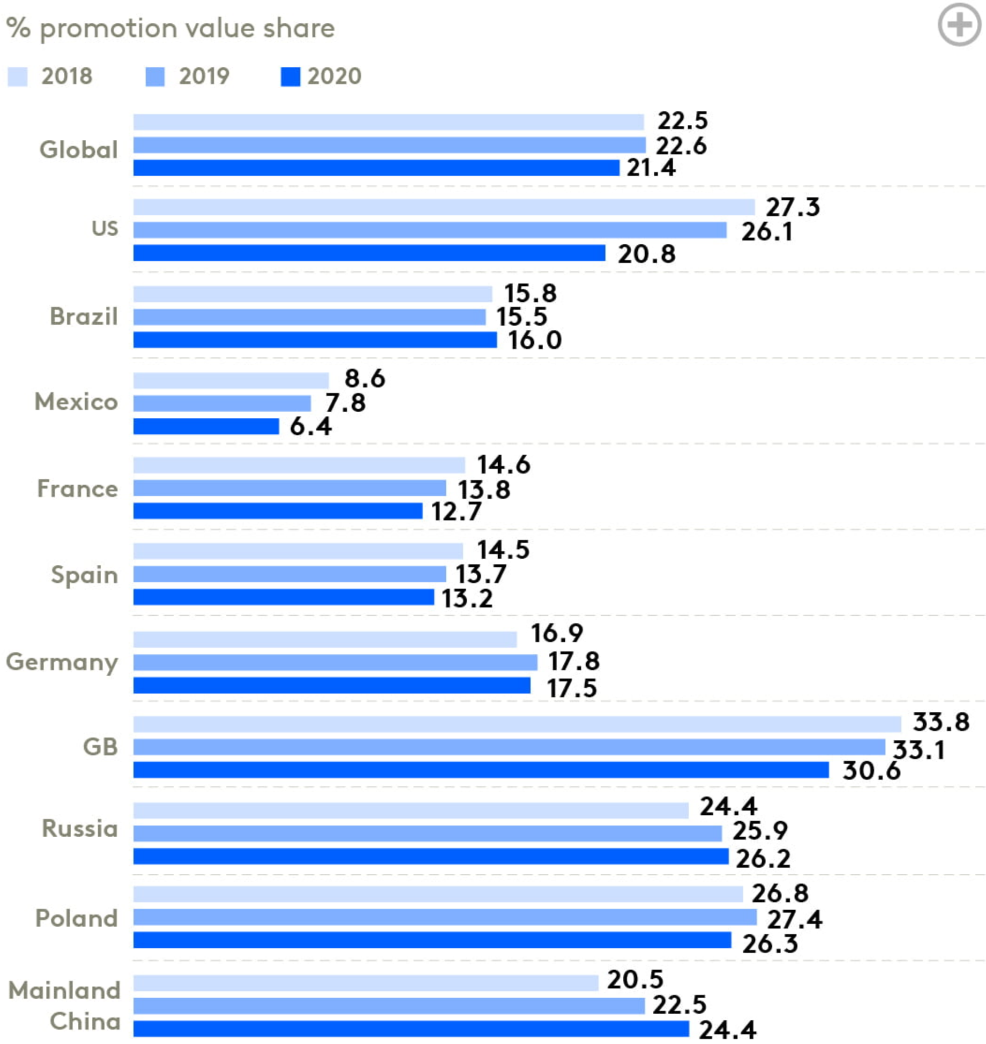
In Western Europe, where Private Label is strongest, its share remained flat despite a strong start to the year, with brands winning the second half of the year. In the two biggest markets in the region, GB and Germany, Private Label lost 0.8% and 0.5% share. And again, the link to Discounters is at play here, with the channel losing share in both markets.

However, the performance of the Discounters is not always the main factor behind Private Label performance. Portugal, for example, saw the fourth-highest gain for Private Label (+2% share), driven by Supermarkets as the dominant and growing channel during 2020.

The Netherlands also saw a reduction in Private Label share last year, and alongside GB and Germany, joins three of only five markets globally where share is above 40%. Have we reached peak Private Label in the region, or were shoppers trading up to brands as a reward during COVID-19?

Promotional intensity reduction

Promotions have been a key tool helping FMCG retailers and brands to grow. When done well, they encourage incremental growth through additional purchasing, which wouldn't ordinarily have happened.



Source: Kantar, GfK, IRI

However, as lockdowns increased demand for in-home groceries worldwide, retailers took advantage with the single biggest yearly reduction in promotion spend (-1.2% share) ever.

In Mexico, Spain, and France, this was a continuation of a trend already being seen. In France, for example, rules have been in place since the beginning of 2019 preventing food products from being discounted by more than 34%.

In GB and US, which in 2019 had the highest and third-highest levels of promotions globally, saw promotions share reduce by -2.5% and -5.3% in 2020. In GB, promotional sales were as low as 25% for a few weeks in April. This represented an 8% fall in share, as retailers benefitted from the increased demand during the early stages of lockdown.

Promotional spend was not down everywhere, with Chinese Mainland the significant exception. Promotions increased +1.9% in the region, and now represent 24.4% of spend in the market—up from 20.5% just two years earlier. This increase is due to ecommerce's growth in the region, which now represents 25% of FMCG spend. When looking at promotional spend online, it is 43.3% (v 18.2% offline).

For every 1% of FMCG spend that moves to ecommerce in Mainland China, promotional spend increases by +0.3%. This demonstrates the importance of promotions within this growing channel. Understanding incrementality will be key, particularly working out what works online versus offline.

Key takeaways

Private Label continued to gain share in 2020, albeit at a slower rate than previously. We predict that the economic climate will mean Private Label continues to gain from brands, particularly if many shoppers must look for savings at the till for the foreseeable future.

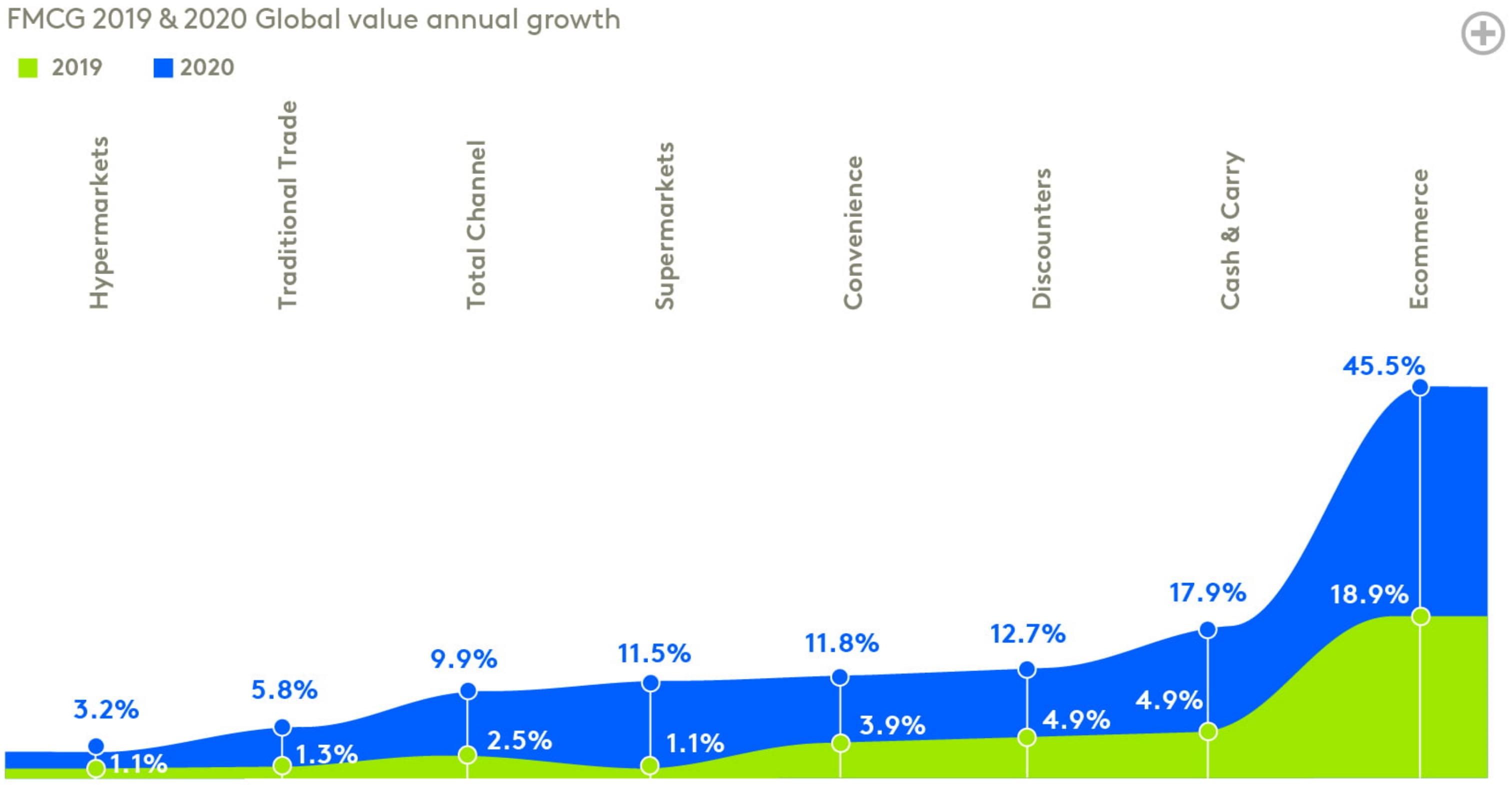
Promotions saw a reduction in importance as retailers took advantage of the yearly reduction in spend. They are likely to continue to reduce (or plateau) in markets such as France. Elsewhere, there will be some bounce-back as retailers use them to win shoppers, as the natural demand for in-home falls away as out-of-home food venues eventually reopen.

Trend acceleration and Channel reconfiguration

Before 2020, there were two constants in every edition of our annual Omnichannel report.

Before 2020, there were two constants in every edition of our annual Omnichannel report. Online was the fastest-growing channel globally and Super- and Hypermarkets – the biggest global channel – was the slowest, losing share and relevance. One of these has accelerated, and the other has reversed.

In 2020, ecommerce was again the fastest-growing channel, with 45.5% growth—more than doubling its growth rate from 2019. This has led to its biggest yearly increase in share ever across all markets. The channel gained +1.6% share and is now worth 6.5% of the total global FMCG market.

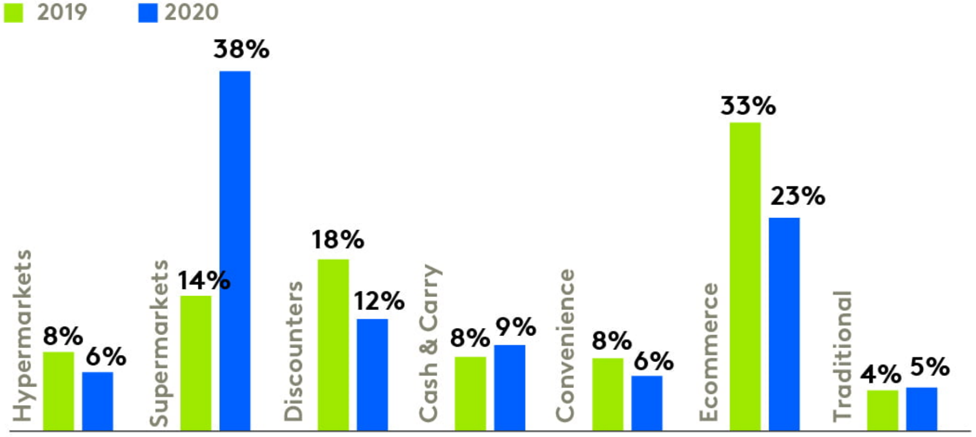


Source: Kantar, GfK, Intage, IRI

This growth represented 23% of total global FMCG growth—three and a half times higher than its share. Despite this level of growth, it was not the biggest contributor to FMCG growth in 2020. This honour was the Supermarket channel which contributed 38% of FMCG growth.

Supermarkets grew at 11.5%, ten times stronger than its 2019 performance. The channel gained back the 0.5% share it lost the year before to remain the biggest channel globally with 33.3% of share. However, this bounce-back was not seen everywhere. While the channel gained share in Asia and the US, it continued to lose share in Europe.

% value contribution to 2019 and 2020 global FMCG growth

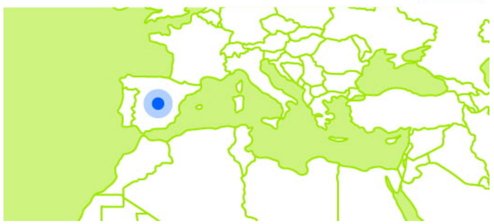


Source: Kantar, GfK, Intage, IRI

Despite growth increasing from +1.1% to +3.2%, Hypermarkets continued to fall behind the rest of the market. The channel lost another 1.2% share, mirroring the same loss it had in 2018. In Latin America, Hypermarkets managed to maintain share due to stores often being found within cities, whereas in other regions, they tend to be out-of-town and require further travel.

The Cash & Carry and Discount channels remained the second and third fastest-growing categories and continued to gain share–accelerating by +17.9% and +12.7% respectively. However, as already mentioned is this publication, the Discounters' growth has been far from consistent.
There has been a fall in Discounter share in Western Europe across GB, Germany, Spain, Sweden and the Netherlands. Almost all the share gains came from Eastern Europe (+2%). Alongside global discounters like Lidl doing well in the region, the local discounters are also gaining, such as Biedronka in Poland (which gained +1.6% share) and relative newcomer Fix Price from Russia, which recently raised $2 billion with its London IPO as it looks to expand even further.

Spotlight on Spain



Rise of regional supermarkets

Spanish retail cannot be understood without its regional supermarkets. Across every region and city in Spain, there are local leaders in terms of sales and consumer sentiment. This means Spain is one of the most fragmented markets in the west, with Spanish consumers having a unique amount of choice.

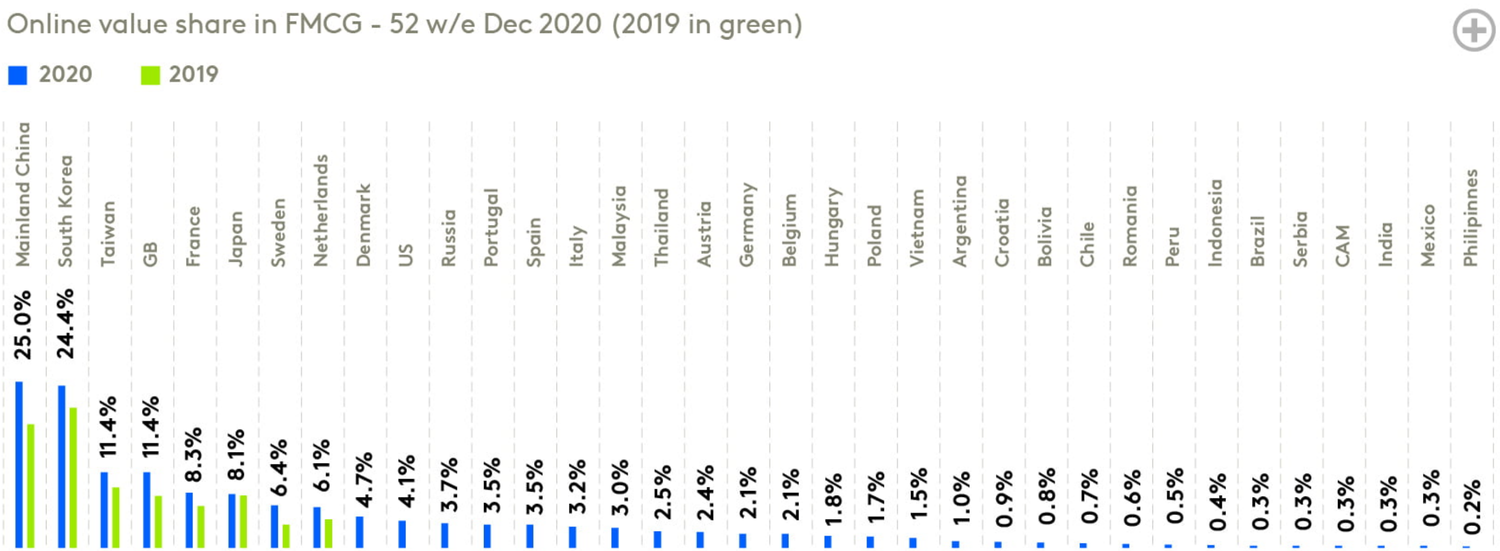
These retailers had great success in 2020. By October, they had a 14.5% market share, gaining 0.7 points compared to 2019.

There is a common pattern among regional supermarkets which has led to their growth: they already had a strong proximity, but they have also proven they can be the place to purchase any type of FMCG, thus being able to grow in other sections.

Access further information on FMCG in Spain

Ecommerce: growth acceleration everywhere

Ecommerce share is now over 3% in 15 markets worldwide, up from 8 in 2019. It's even more remarkable that online saw the biggest gains in Mainland China (+6.4%), South Korea (+3.3%) and GB (+3.6%)—the markets where the channel is already most established.
The step-change in growth was due to penetration gains, which increased from 26.3% in 2018 to 29.4% in 2019 and 34.4% in 2020. An additional 5% of global households bought their grocery shopping online at least once online in 2020 – which is an additional **67m households.**



Source: Kantar, GfK, Intage, IRI

The online penetration increase did not only take place in markets where saturation is low—it also occurred in advanced markets.

Mainland China had the highest online penetration for FMCG anywhere globally at 87.5%, an increase of 9% penetration points. And there is still headroom for more shoppers, from advanced markets like the US, where penetration has just crossed the 50% threshold, to most Latin American markets, where it remains under 20%.

This step-change also represents a shift in who uses online for their groceries. It used to be predominantly a channel for time-strapped families who required big weekly shops, but it is now a channel for everyone. Prior to 2020 in GB, penetration was only above 30% for family households. It is now above 30% for all life stages, with retired households seeing the biggest increase from 19.4% penetration to 37.1%.

Spotlight on Mainland China

Experience is key to ecommerce

In Mainland China, the ecommerce landscape has become more complicated and competitive. Top players such as Alibaba and JD.com are facing challenges from rising social commerce, which have forced them to explore innovative ways to enhance their shopping experience. For example, they have realised the importance of a simpler shopping process and are trying to optimise promotions in order to better satisfy consumers' shopping needs.

Propelled by COVID lockdowns, the new model of "live streaming and ecommerce" has experienced explosive growth in 2020 and helped many manufacturers to improve the conversion rate of their brands in an interactive way. Short video platforms, such as Douyin, are also growing their ecommerce footprint through shoppable livestreams within the app. Many brands are jumping in with their own shows as well as selling goods through influencers. In the long run, stronger commodity supply and after-sales service will enable live streaming ecommerce to develop in a more sustainable way.

O2O delivery services was another hot topic in 2020, with penetration of O2O reaching 60% across urban China. The penetration reached a peak of more than 40% in Q1 2020, and the retention rate of O2O is over 50%. Unlike community group buying, which mainly focuses on price, O2O exists to satisfy consumers' immediate needs. The target audience is less price sensitive but demands very fast delivery.

Globally over 66% of ecommerce shoppers rank shopping ease over saving money, with this number even higher in Mainland China. Fast delivery is a key factor in selecting specific platforms. For example, in the Household Cleaning category, JD.com is most often selected for fast delivery, although variety is rated higher on other sites.

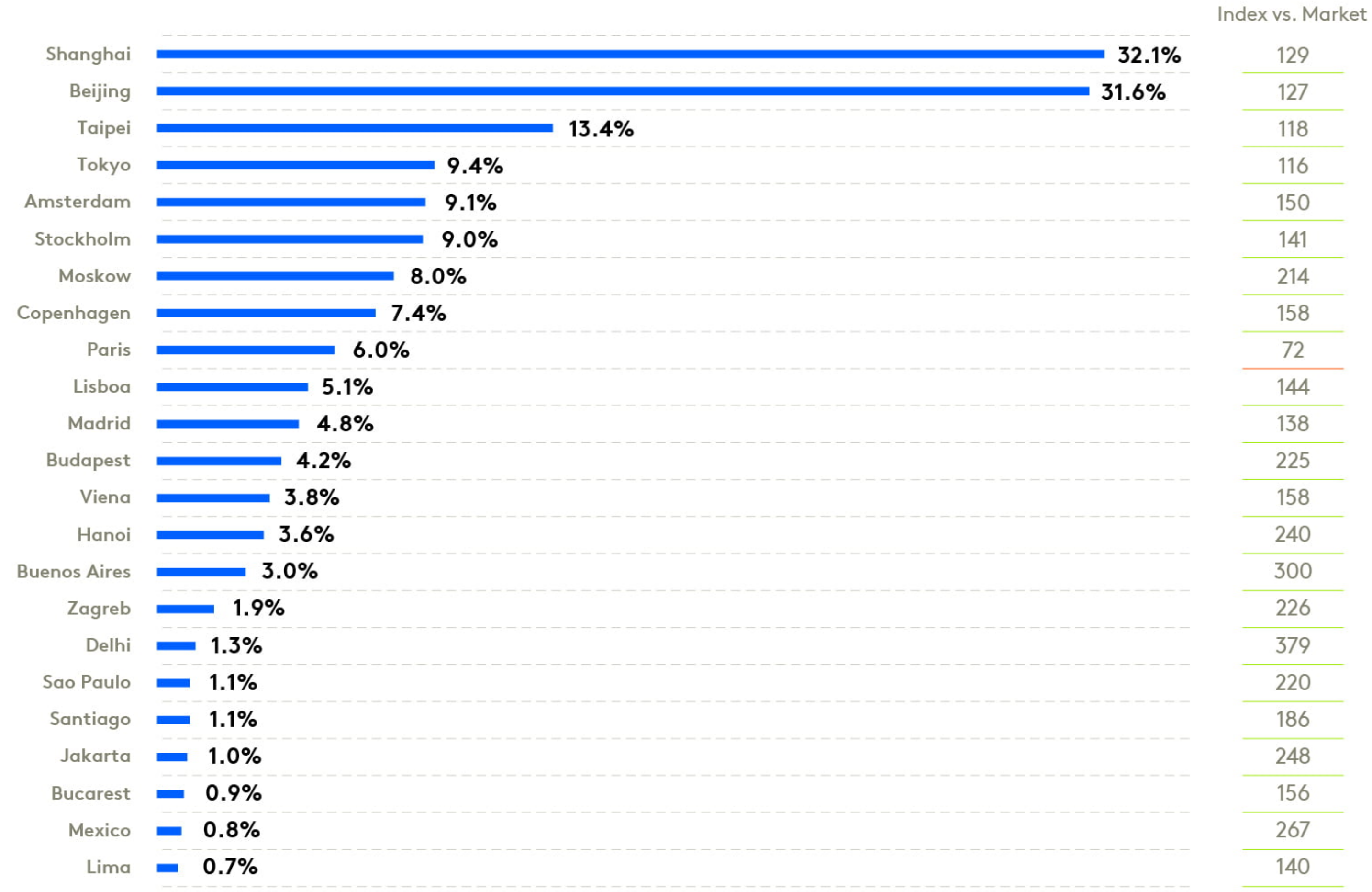
In 2020, internet platforms such as Tmall, Ele.me and Meituan put more effort into developing O2O. Meanwhile, traditional retailers like RT-Mart, Yonghui and Wal-Mart have also accelerated their online business by building their own platforms or working with third-party delivery platforms. In 2021, O2O will continue growing and serve consumers more efficiently with the mutual support of ample supply from physical retailers and strong logistics offered by the delivery platforms.

Access further information on FMCG in Mainland China

The channel for city living

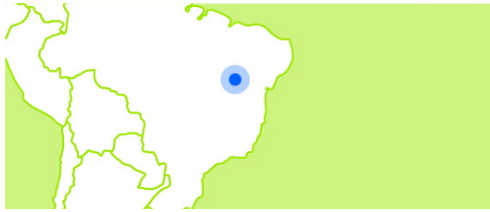
Despite the democratisation of online across demographics, there is still a strong skew towards ecommerce's popularity in big cities from Shanghai where online share is 32.1% (v 25% total market), to São Paulo where it is 1.1% (v 0.5%). We see this over-index in all cities, with the only exception being Paris where the share is 6% (v 8.3%). With a share of 13.1% and double the national average, Parisians still have a strong preference for local convenience stores.

% Online value share in FMCG – 52 w/e Dec 2020



Source: Kantar, GfK, Intage

Spotlight on Brazil



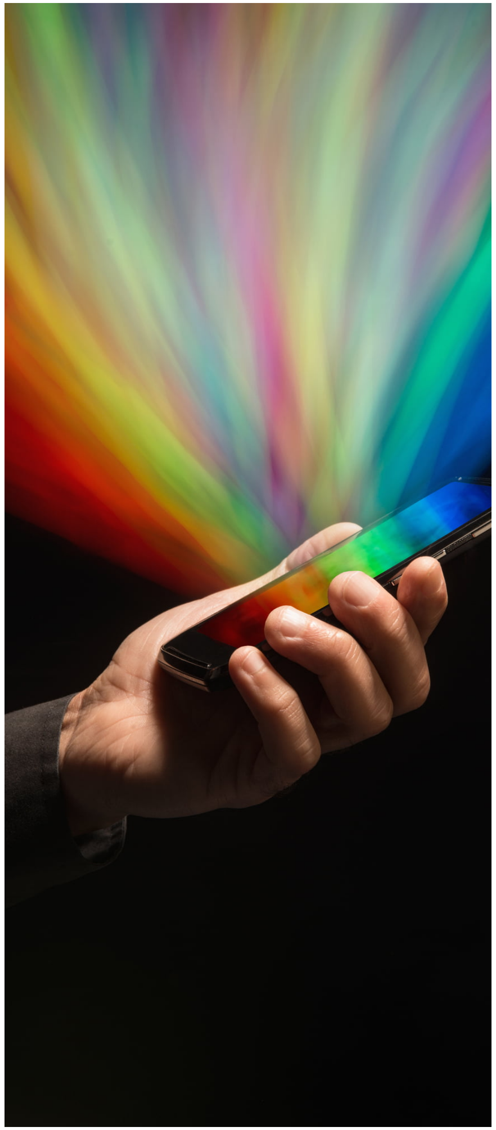
WhatsApp democratising ecommerce

Whilst ecommerce remains relatively small in Brazil, the growth there is still impressive, with 2 million more shoppers in the second half of the year compared to the first half, creating an additional 18 million new buying occasions. This doubling of penetration in Brazil is partly down to messaging apps such as WhatsApp, with almost 40% of online shoppers using WhatsApp to make an FMCG purchase.

The accessibility created by messaging apps democratises access to online shopping in Brazil in several ways. WhatsApp has enabled smaller, traditional trade retailers (which are more prominent in Latam than any other region) to have an online presence. It has given consumers a route to shop online, given smartphone ownership is higher than that of personal computers. It also provides households outside of metropolitan areas an ecommerce option, with ecommerce purchasing via WhatsApp higher in the countryside.

WhatsApp is not just accelerating ecommerce growth in Brazil. It is doing so across most of the Latam region where WhatsApp is the main communication app for many and remains free to use outside of contract.

Access further information on FMCG in Latin America



Key takeaways

Supermarkets and ecommerce accounted for over 60% of FMCG growth in 2020, with supermarkets reversing the recent decline and growing 10 times faster than 2019.

Ecommerce continued the trend of being the fastest growing channel in the world and gained an additional 67 million new shoppers in 2020 alone.

Getting the full picture on all these new ecommerce shoppers will be key to understanding what will happen over the next few years. Will they stay, or will they go?

Brand leaders speak: P&G

The step-change in ecommerce growth means the world's biggest brands and manufacturers are thinking differently about how they seize opportunities online.

To delve further into the experience of brands at the frontline of this boom, we spoke with Matt Marshall, Director of Global Sales & Innovation at P&G.

What would you say are some of the most significant differences between ecommerce and traditional bricks & mortar retailers?

In most markets, we grew up with the physical store mindset as our background and our foundation, so we know how to win in-store. A physical shelf is well-defined, but what is a shelf online? You can guide store traffic, but what does store traffic look like in an online environment?

Online is fundamentally different. You don't have the limitations of physical store space. You don't have the same physical capital to move items. You don't have the limited hours.

We're using old ways of thinking for a new medium, asking, "how do we replicate what we're doing offline, online?" I don't think that this is right. And it comes down to the difference in terms of winning.

Offline, you have a defined competitive set. Online the competitive set is limitless, and it's global. I can click on Alibaba, JD, eBay, Amazon and Google. So, to win in that environment, it becomes about capturing full consumer value. In the old world, it was about wanting consumers to buy a specific item at a price. In the new world, it's also about getting consumers to subscribe to music streaming, video streaming, web hosting capabilities, etc. It's about developing a consumer ecosystem.

How do you go about setting targets online vs. offline?

I think that the reality is that we're not there yet, and we're not there yet from a data availability standpoint. Once we can track it properly, we can set objectives online. Our struggle is getting data access rights.

In a lot of cases, we just don't have good enough data to be able to set meaningful metrics of what success looks like. The metrics of granular sales and share data is paramount in our ability to accurately track success online, but right now, it is limited because we don't have the same access to retailer data the way we do offline.

With the growth of ecommerce models and platforms such as Shopify, how do you go about approaching these different models?

Strategically, it's balancing the risk vs. reward, so we know we have to have relationships with these players. Instacart is probably the best example. Five years ago, it wasn't even on our radar, so we didn't do anything with them. Now, if we don't partner with Instacart, we lose. We decide on resourcing based both on current sales and expected growth.

Thinking about the future, what do you see as the biggest opportunity online?

There are some really bad websites out there (and some really good ones, too). But there's very little guidance and standardisation to say what makes one better than another. I think our opportunity is to really let consumer and shopper insights drive design rather than letting technology drive it.

There's a lot being trialled online right now without anyone asking the question, 'should we do it?' Or starting with the current consumer purchase barrier to drive penetration and what technologies can overcome those barriers.

What do you see as some of the pitfalls caused by the growth of online?

Margin profitability is at the top of the list. Retailers have been saying we need to win ecommerce at any costs without fully recognising what that actually means. When a product is purchased in a physical store, there's some margin play there. But as soon as consumers use online, they are sending someone else to drive to the store for them, walk to the aisle, pick up the item, do the whole checkout process, and then bring that item to their door. Whilst still paying the same price as going to the store.

The cost to serve models isn't there yet. And that is the number one barrier because consumers are not willing to pay for that convenience and luxury yet. So as more volume shifts online, the retailer mix of profitability becomes a very real issue, and it highlights that the last mile is the future. How do you solve that problem of getting the product to the consumer's door?

Two markets where online has exploded are China and South Korea. There, you've got a massive, relatively cheap labour force that can drive these products. They can get products into consumers hands quicker and more efficiently. They can make those 30-minute deliveries. The US and Europe don't have that same luxury. We're still shipping heavy products and big baskets at the same cost, which are margin dilutive in a lot of cases.

I don't think we will ever be in a situation where consumers will accept paying for the value of delivery. If anything, the expectations are going to change. For example, for someone from China or South Korea, the US or European online experience is terrible. Next day delivery is no longer good enough for them, they want anything and everything in 30 minutes, and their reality is, they get things in 30 minutes. They expect it to be fast, free, and won't settle for anything less. In the US and Europe, we're looking at next day delivery as being great. And even then, we expect it to be free.

You create great customer experiences through your retail partnerships, but how do you maintain this online?

We don't do it today as a manufacturer. I think it really comes down more to the retailer than the product itself. When a shopper is evaluating their experience, their satisfaction with shopping an item will be based on the retailer.

How is its website set up? How was the shipping? What is its return policy?

If you're looking at where we do play a role, it is making sure that what the retailers feature leverages our best-in-class knowledge and insights. We aim to make sure that when someone is buying a P&G product, they are clear on all the benefits it provides.

Providing robust content that negates the need to physically handle the product itself, that's one of the big online barriers we're trying to overcome. So, it's making sure we have the right content packaging and marketing material that does all of that virtually for them.

Which brands outside of FMCG for you admire for doing a good job online?

Nike has done such a good job with its customisation, ease of shopping, free shipping, and ability to maintain consistent price points. When comparing Nike products in a sporting goods store vs. its website, nine times out of 10 (if not every time), it will be cheapest on the site.

I would say Starbucks is another. Starbucks is best in class in terms of mobile app usage. One of the new shopper expectations is relevancy through personalisation. Through my data, they know my purchase tastes, and they tailor their messaging and offers based on this.

We find privacy is a big issue, and it becomes a barrier when data is shared without benefit or value. But if you're leveraging my information to optimise my shopping experience in a way that I recognise, it is meaningful and rewarding.

How is ecommerce going to change and develop over the next five to 10 years?

Exponentially! I think that the biggest shift that we're going to see is the ubiquity of artificial intelligence and machine learning. We're at the cusp of it now, but it is going to become a reality that when we go on a retailer's website, we all get completely different experiences. Individualised personalisation is going to come to life online.

Mobile is the other big shift we will see. Thinking about mobile penetration, I can envision a universe where it becomes 100%. When you look at South Korea and China, 80 to 90% of purchases are already via mobile. The fact that we still use a laptop to make our purchases is such a dissatisfier. I think it is going to become the payphones of the future—a relic.

Payment options will also be vastly different. The move to a cashless society is inevitable in the near term, and I think we're going to move to facial recognition or biometric thumbprint scanning. Eventually, just having a mobile will make touchless checkouts the reality everywhere.

2021 Forecast

Double-digit growth will not be seen at a global level for a very long time – if ever again – and certainly not this year.

As we have seen, the quadrupling of FMCG growth was an effect of the restrictions on movement around the globe and not a trend. Double-digit growth will not be seen at a global level for a very long time – if ever again – and certainly not in 2021.

As with any forecasting, there are several unknown factors that are very hard to predict. When will lockdowns end and restaurants reopen? And even when this happens, how quickly will consumers return to their old habits? Even when populations have the freedom to move, eat and drink like they did pre-COVID, how many people will remain working from home, either full-time or part-time?

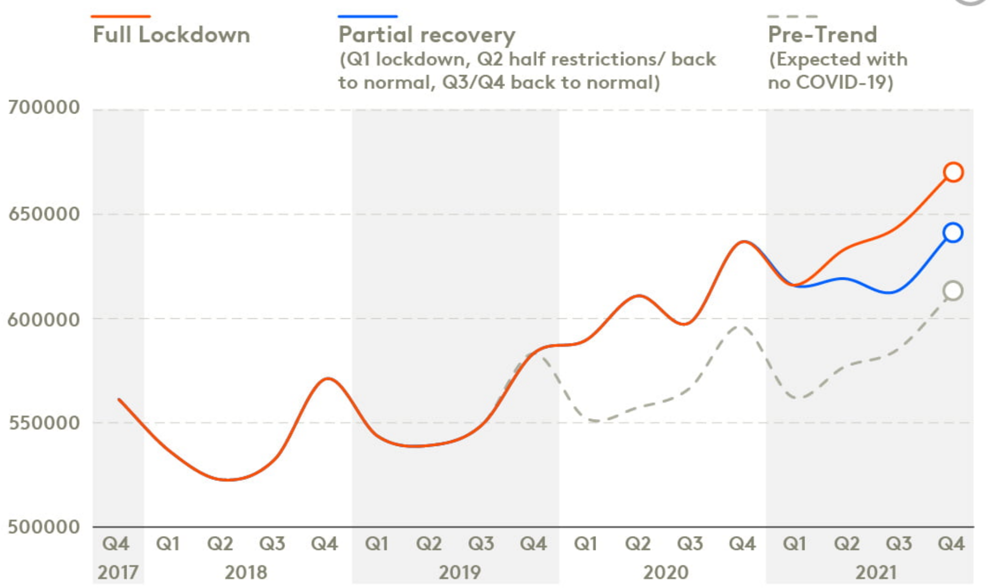
Given this uncertainty, we have forecast two potential scenarios:

1.
What would growth look like if we remained in complete lockdown through the whole of 2021?
2.
What would growth look like if restrictions eased from Q2 onwards?

Both represent a slowdown in FMCG growth. With scenario one, we forecast +5.2% growth and scenario two +2.2% globally.

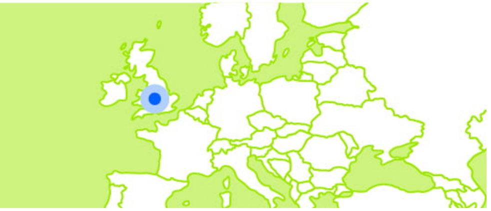
As always, the forecast varies by the market conditions. Returning to Mainland China, which, unlike most other regions, witnessed a slowdown in growth in 2020, a return to lockdown-free living would represent a faster return to pre-COVID trends and an acceleration in FMCG growth.

Global FMCG spend Forecast



Source: Kantar, GfK, Intage, IRI

Spotlight on GB



Lockdown anniversary

During the 12 weeks to 21 March 2021, take-home grocery sales rose by 7.4%, a marked slowdown compared with previous months as supermarkets start to annualise sales against the extraordinary spending in 2020. Sales in the most recent four weeks were down by 3.0% versus the same period last year.

The anniversary of the first national lockdown means we can begin to compare grocery sales against the record-breaking levels seen in the early days of the pandemic. And growth has, perhaps not surprisingly, dipped over the past four weeks as a result. This time last year, Brits were adjusting to schools and offices closing and making extra trips to the supermarket to fill their cupboards for lockdown.

Access further information on FMCG in GB

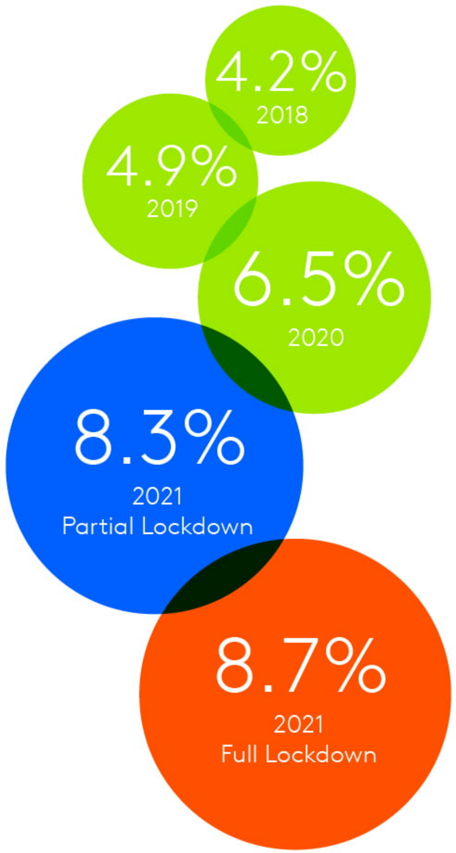
Online will continue to gain share

With so many new shoppers trying online for the first time in 2020, one big question needs to be answered: how many of these will remain? According to our COVID-19 Barometer, 45% of consumers say they will continue shopping with online stores they found during the pandemic.

We have applied the same forecasting model to the online channel globally, and whilst this shows that online will slow this year, growth will remain considerably above that of the market. Based on the same two scenarios, online will grow at 38% if we remain in full lockdown and at 28% if we have a partial lockdown.

Either of these growth rates will result in the channel being well over 8% by the end of 2021.

Global Online Share Forecast



Source: Kantar, GfK, Intage, IRI

A significant proportion of this online growth will come from Asia and Mainland China. Beyond 2021 the channel's real challenge – particularly in Europe – is driving further loyalty and winning its fair share amongst lower spend trips.

However, as our interview reminded us, the growth of online squeezes profitability for retailers and manufacturers. And this squeeze will become an even bigger issue for retailers if consumers move to do their online shopping for these lower value trips, whilst the expectation on free and cheap delivery will remain the same.

Key takeaways

FMCG will continue to grow in 2021, albeit at a much slower rate than previously—between 2.2% and 5.2%. This slowdown is already happening in GB, where despite being significantly higher than pre-COVID level, March 2021 sales were much lower than the record-breaking month of March 2020.

Ecommerce growth will remain far higher than the market average, and the channel will continue to gain share this year. Any potential slowdown is likely to occur beyond 2021 as some shoppers will not return, and issues with profitability and winning smaller baskets become more prominent.

Conclusions

What the future of retail in FMCG will look like

Last year we introduced the concept of Liquid Retail, the latest phase in FMCG where the landscape is constantly shifting and the lines between in-home, OOH, ecommerce and home delivery are increasingly blurred.

2020 demonstrated the relevance of this concept with home delivery players, like Uber Eats, Deliveroo or Glovo, now venturing into grocery delivery, ecommerce accelerated at twice the pace of previous years, and bricks-and-mortar retailers reinvented their offer with a renewed focus on omnichannel.

The rapid rate of change will continue, but no one knows what the magnitude of these will be. However, three factors will dictate the future:

1

What will the level of unemployment be?

The number of people working remains the big unknown linked to economic rebound and will significantly impact shopping behaviour.

2

How much will we stay at home?

Even when the hospitality trade can re-open, the amount we remain working from home will continue impacting the OOH sector, the growth of ecommerce and category choices.

Online will continue to gain share from the other channels and hit over 8% of global FMCG spend. Scaling your ecommerce efforts in line with the markets and cities where online is now significant is critical for success.

Categories related to hygiene and cooking will continue to grow while the Beauty sector will recover in line with face-to-face socialising recommencing.

3

Will we continue to use Home Meal Delivery at the same rate as we did during 2020?

The initial signs from last year during periods when restaurants re-opened indicate this will continue to grow and change the competitive landscape for retailers.

It is more vital than ever for food and drinks manufacturers to understand the In-and-Out performance, including the burgeoning home meal delivery channel.

Our forecast predicts In-Home FMCG growth will slow to between 2.2% and 5.2% in 2021. Not the 10% growth observed in 2020 but still a good year for the industry.

How can we help?

Full landscaping

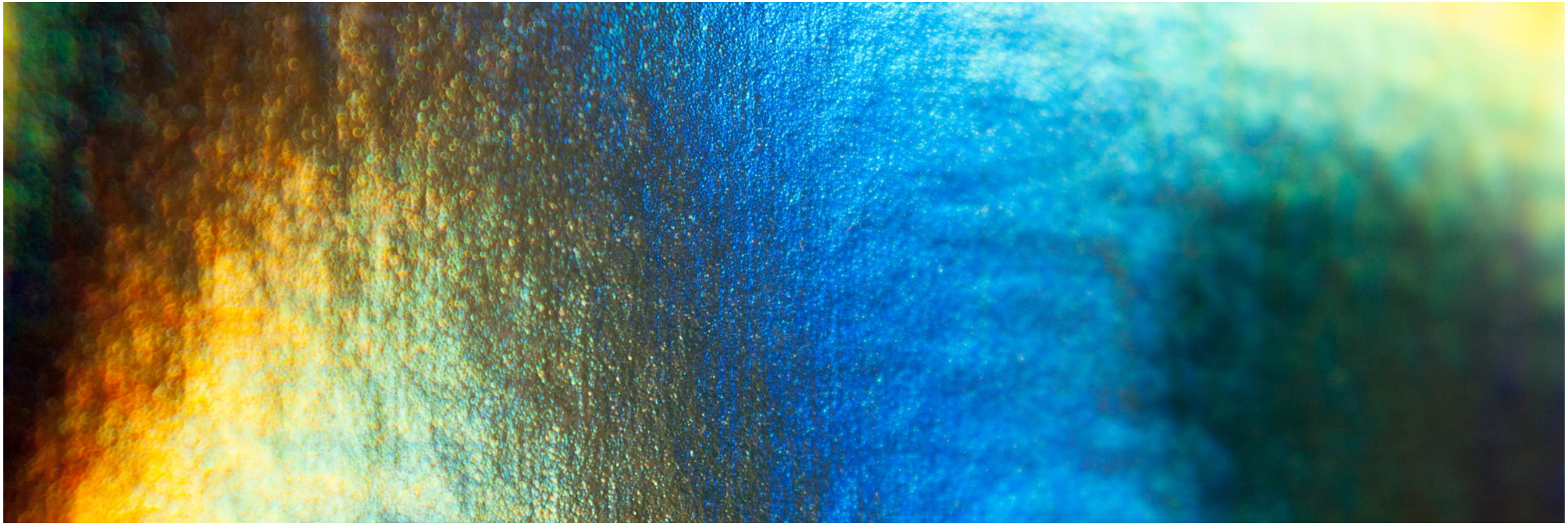
- 42 markets
- 3 years data update December 2020 with sales evolution, share, penetration, spend per trip, frequency, loyalty rate, private label shares by channel

Monthly performance tracking

- FMCG and channel shares
- Global view with Top markets aggregated

FMCG and retail structure forecast

- 37 markets
- Growth scenarios dependent on different COVID-19 restrictions



About this report

With Thanks

Omnichannel 2021 is a Kantar initiative. Thanks to our partnerships with GfK, IRI and Intage we have been able to offer markets outside of the Kantar footprint. This years reports covers 42 markets representing 66% of the global population and 83% of GDP.

Data for Austria, Belgium, Croatia, Denmark, Germany, Hungary, Italy, Poland, Romania, Russia, Serbia, the Netherlands and Sweden was provided by GfK.

Data for the USA was provided by IRI.

Data for Japan was provided by Intage.

About Kantar

Kantar is the world's leading evidence-based insights and consulting company. We have a complete, unique and rounded understanding of how people think, feel and act; globally and locally in over 90 markets.

By combining the deep expertise of our people, our data resources and benchmarks, our innovative analytics and technology, we help our clients understand people and inspire growth.

Find out more

If you'd like additional information on Winning Omnichannel, please visit our website or get in touch with your usual Kantar contacts or email:

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Food for thought

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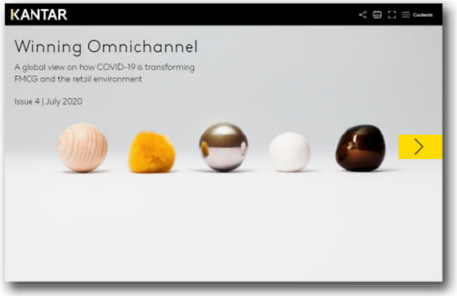
our offer to find out how do we help brands grow.

Food for thought



Winning Omnichannel 2020

Create an effective retail strategy

Brand Footprint

Food and drink trends in the COVID-19 era

Grocery Market Share

Thank you for reading

Omnichannel 2021: a global view on how COVID-19 is transforming FMCG and the retail environment