DISCOVER
THE NEW NORMAL

7 facts about "shoppers" discovered in their behaviors

Total 40 Individual Categories Studied

Beverage (10)

- ☐ White milk
- ☐ Flavored milk
- ☐ Yogurt
- ☐ Juice
- ☐ Soy milk
- ☐ Drinking vinegar
- ☐ Instant coffee
- ☐ Coffee mix
- ☐ Coffee bean
- ☐ Green tea

Packaged Food (14)

- ☐ RTE Cereal
- ☐ Vinegar
- ☐ Cheese
- ☐ Chocolate
- ☐ Instant noodle
- ☐ Frozen dumpling
- ☐ RTE Frozen food
- ☐ Ham/Sausage
- ☐ Kimchi
- ☐ Powdered curry
- ☐ Seasoning
- ☐ Sugar
- ☐ Liquid sugar
- ☑ Infant formula**

Personal Care (9)

- ☐ Shampoo
- ☐ Conditioner
- ☐ Treatment
- ☐ Body wash
- ☐ Body moisturizer
- ☐ Sanitary product
- ☑ Baby diaper**
- ☑ Skincare***
- ☑ Makeup***

Household Care (7)

- ☐ Toothpaste
- ☐ Laundry detergent
- ☐ Fabric softener
- ☐ Kitchen cleaner
- ☐ Fabric deodorizer
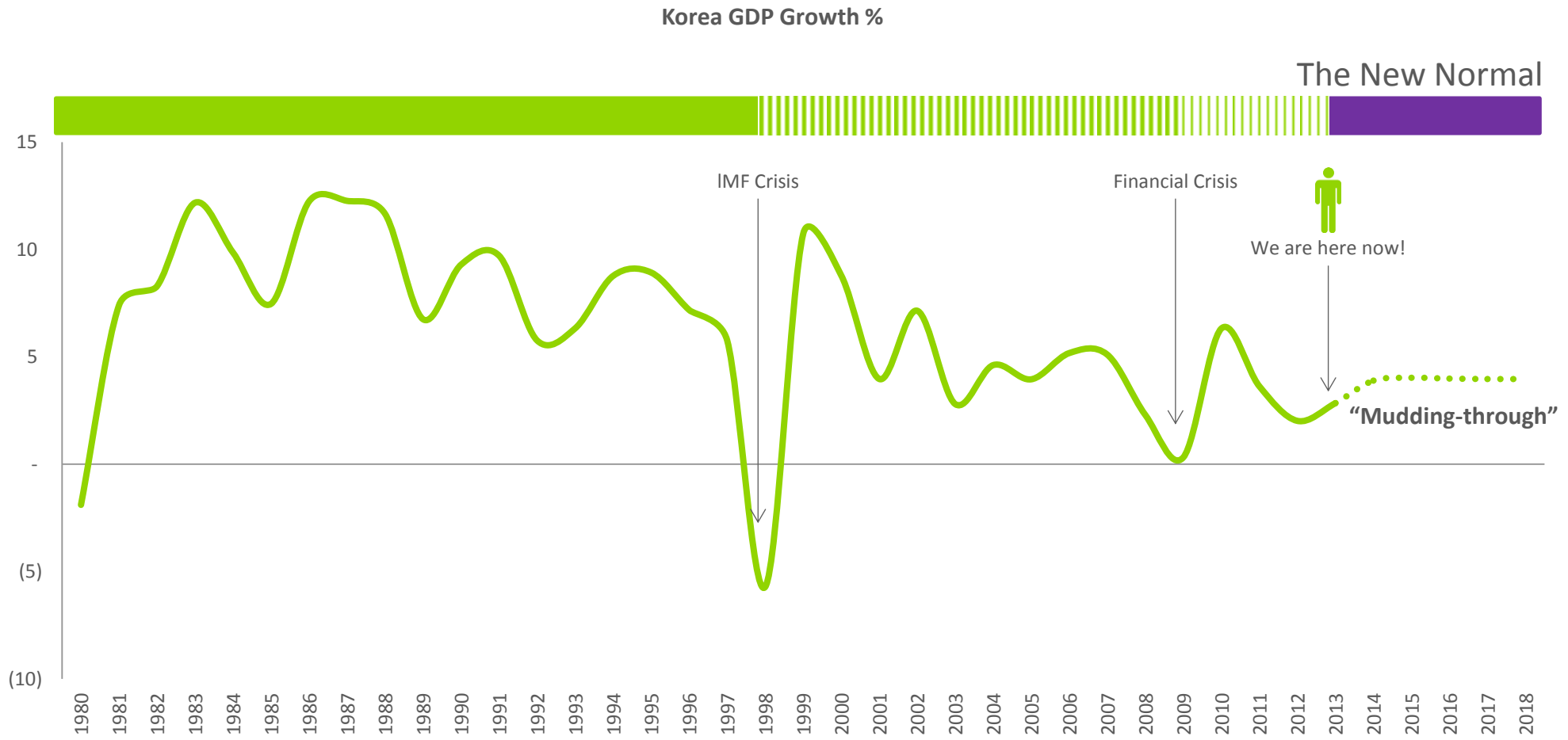- ☐ Baby wet wipes
- ☐ General wet wipes

Entering the era – not the period – of "Mudding-through economy"

Consumers are changing to adapt to the "New Normal"

Korea GDP Growth %

The New Normal

IMF Crisis

Financial Crisis

We are here now!

"Mudding-through"

15

10

5

-

(5)

(10)

1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018

YoY Korea GDP growth%
*Source: IMF world economic outlook 2013 April

In 2013, we encountered "Degrowth"
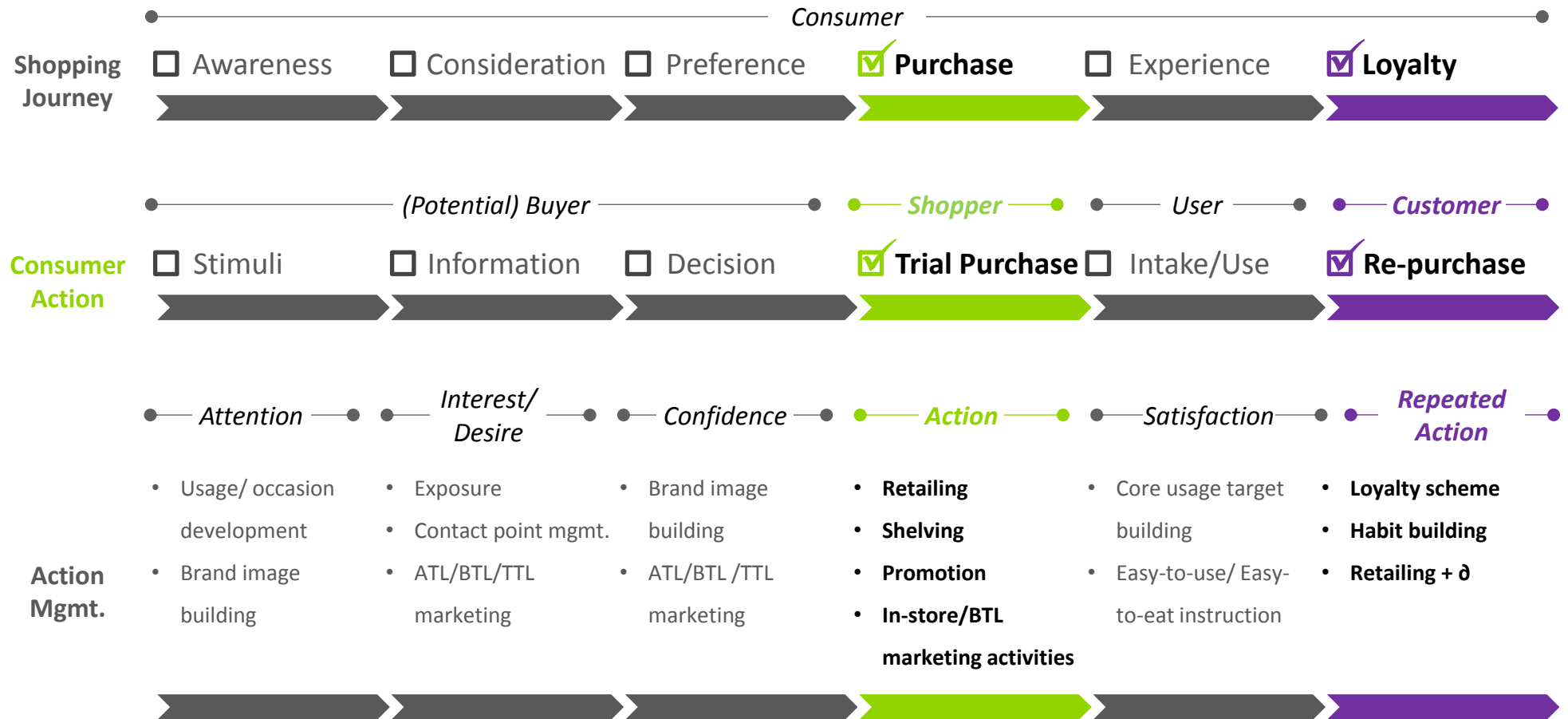# with frequency & price drop

We should discover the "New Normal"

Factors behind total FMCG market value change

The New Normal

(bn. KRW)

No severe impact of Financial Crisis on FMCG market

In 2013, the FIRST EVER "Degrowth" in FMCG market
What's happening now?

7000
6000
5000
4000
3000
2000
1000
0
-1000
-2000
-3000

+8.9%
+6.6%
+7.2%
-0.8%

- Universe
- Avg. price
- Volume per trip
- Frequency
- Value

MAT08Q2 vs. MAT09Q2   MAT09Q2 vs. MAT10Q2   MAT11Q2 vs. MAT12Q2   MAT12Q2 vs. MAT13Q2

Total FMCG market value growth% and Value contribution (bn. KRW) of each factor to total FMCG market incl. fresh food

Shoppers are not your brand Buyers

How do you measure brand performance? TOM? Awareness? Preference? Loyalty? And then, how do you approach to improve BPI?
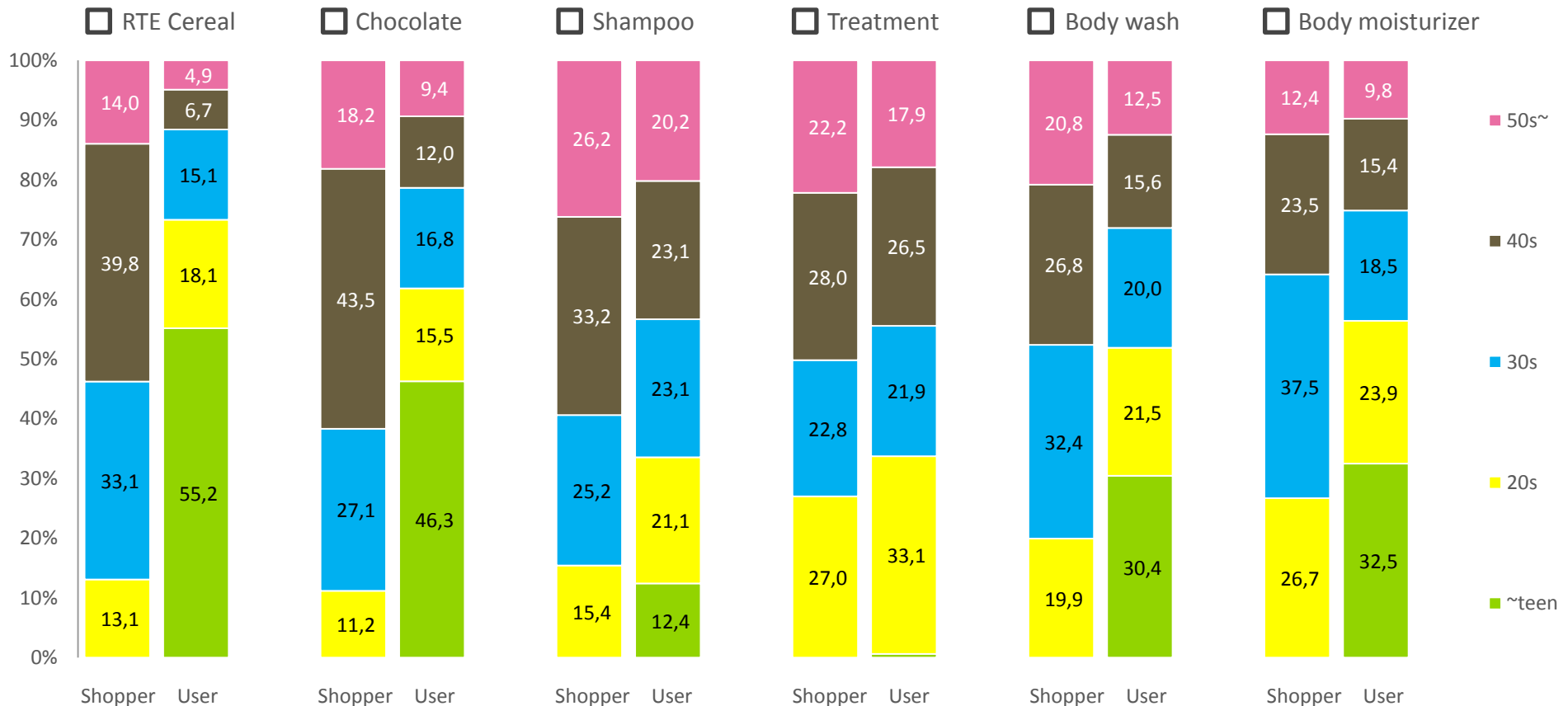
Shift the view to "Consumer Action" and focus on "Shoppers" first!

Consumer

| **Shopping Journey** | ☐ Awareness | ☐ Consideration | ☐ Preference | ☑ **Purchase** | ☐ Experience | ☑ **Loyalty** |

(Potential) Buyer — *Shopper* — User — *Customer*

| **Consumer Action** | ☐ Stimuli | ☐ Information | ☐ Decision | ☑ **Trial Purchase** | ☐ Intake/Use | ☑ **Re-purchase** |

Attention — *Interest/ Desire* — *Confidence* — *Action* — *Satisfaction* — *Repeated Action*

Action Mgmt.

- Usage/ occasion development
- Brand image building

- Exposure
- Contact point mgmt.
- ATL/BTL/TTL marketing

- Brand image building
- ATL/BTL /TTL marketing

- **Retailing**
- **Shelving**
- **Promotion**
- **In-store/BTL marketing activities**

- Core usage target building
- Easy-to-use/ Easy-to-eat instruction

- **Loyalty scheme**
- **Habit building**
- **Retailing + ∂**

Looking at differences b/w shoppers and users…
Users might be close to your brand "(potential) Buyers"

Then, how are you marketing your brand to "Shoppers"?
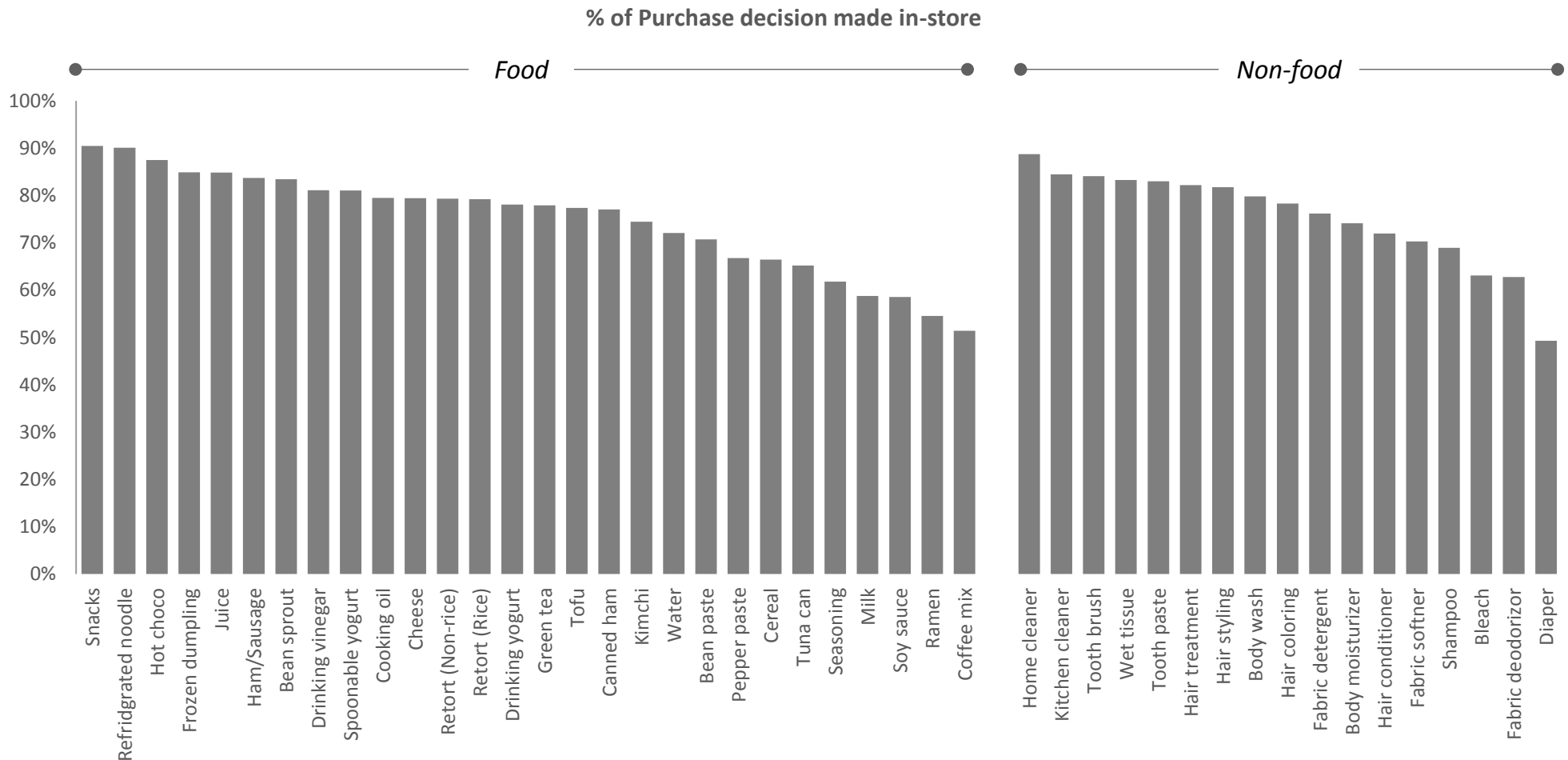
Shopper and individual user % by category

Value% of shopper and individual user in each category in this year

75% of purchasing decisions are made in-store
Shoppers don't think of your brand before they go for shopping!

Important to capture "Shoppers" at Point-of-Sales

% of Purchase decision made in-store

*Source: Kantar Worldpanel Lifestyle survey 2013 / Respondents% of those who make purchase decision in-store

Shoppers are not your brand Buyers

We manage brands?

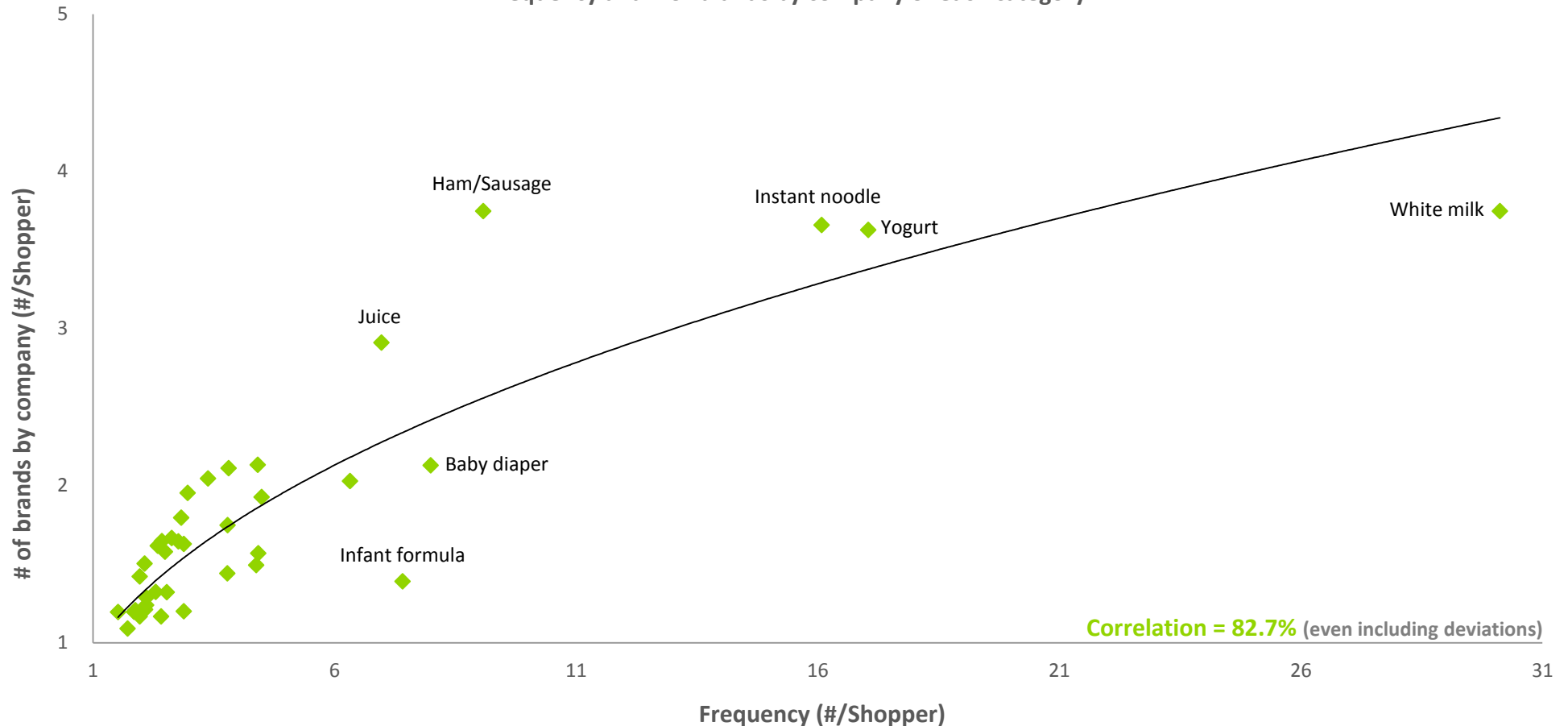We manage Consumer Action by step!

Shoppers don't love your brands

Brands in categories with higher frequency are bound to face higher competition

Shoppers have "Repertoire" behavior

Frequency and # of brands by company of each category

Ham/Sausage

Instant noodle

Yogurt

White milk

Juice

Baby diaper

Infant formula

# of brands by company (#/Shopper)

Frequency (#/Shopper)

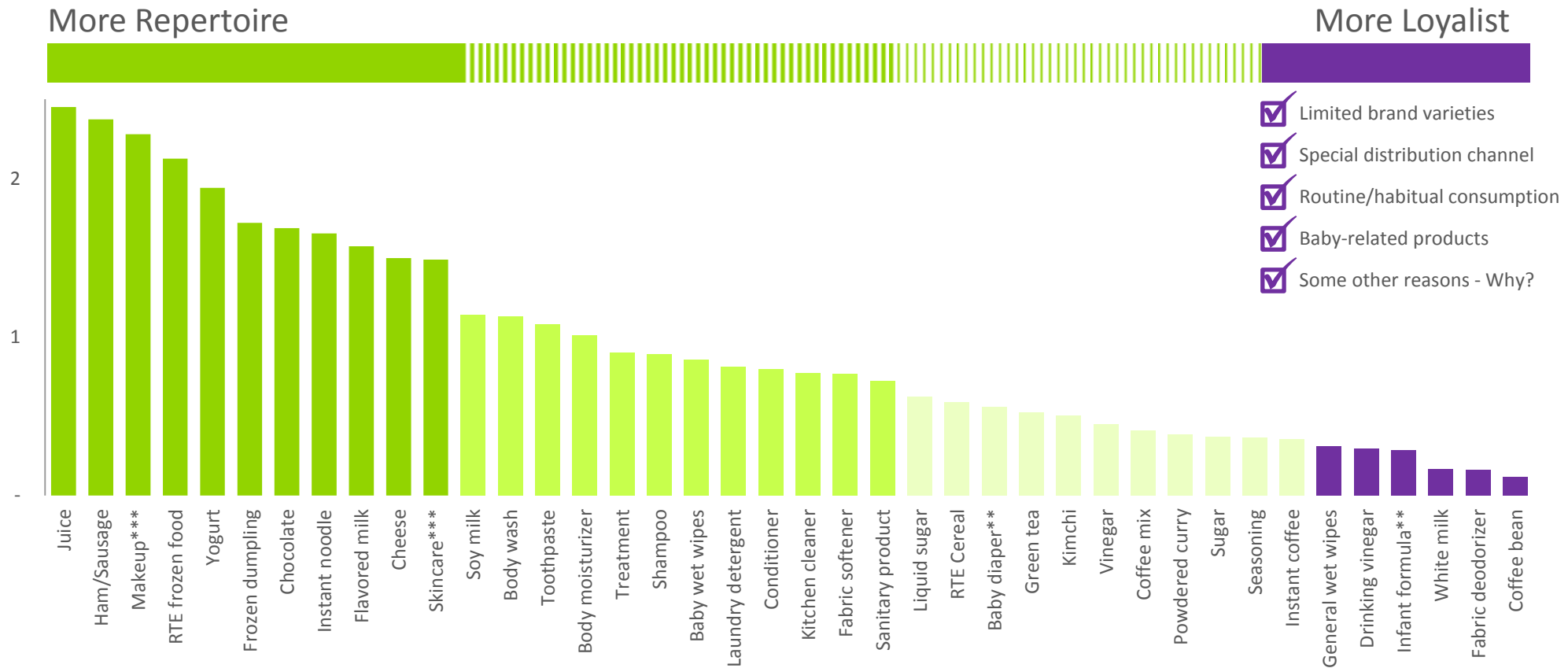**Correlation = 82.7%** (even including deviations)

Category frequency (#) and # of brands by company bought by category in this year

Avg. Juice buyers pick up 2.9 manufacturers' brands while juice heavy buyers indulge 5.4
The same story for all other categories with different only in the level of gap

"Repertoire" behavior is NORMAL

Gap in # of brands by company purchased b/w Heavy and Average shoppers

More Repertoire   More Loyalist

☑ Limited brand varieties
☑ Special distribution channel
☑ Routine/habitual consumption
☑ Baby-related products
☑ Some other reasons - Why?

Juice | Ham/Sausage | Makeup*** | RTE frozen food | Yogurt | Frozen dumpling | Chocolate | Instant noodle | Flavored milk | Cheese | Skincare*** | Soy milk | Body wash | Toothpaste | Body moisturizer | Treatment | Shampoo | Baby wet wipes | Laundry detergent | Conditioner | Kitchen cleaner | Fabric softener | Sanitary product | Liquid sugar | RTE Cereal | Baby diaper** | Green tea | Kimchi | Vinegar | Coffee mix | Powdered curry | Sugar | Seasoning | Instant coffee | General wet wipes | Drinking vinegar | Infant formula** | White milk | Fabric deodorizer | Coffee bean

Gap in # of brands by company purchased b/w Heavy and Average shoppers in each category in this year
>> Heavy shoppers = Those whose spending belongs to Top20% in the total category

Shoppers don't love your brands

Brand loyalists vs. Brand switchers?

Everyone is Loyal switchers!

New shoppers grow your brands

(especially if you are not a leader in the market)

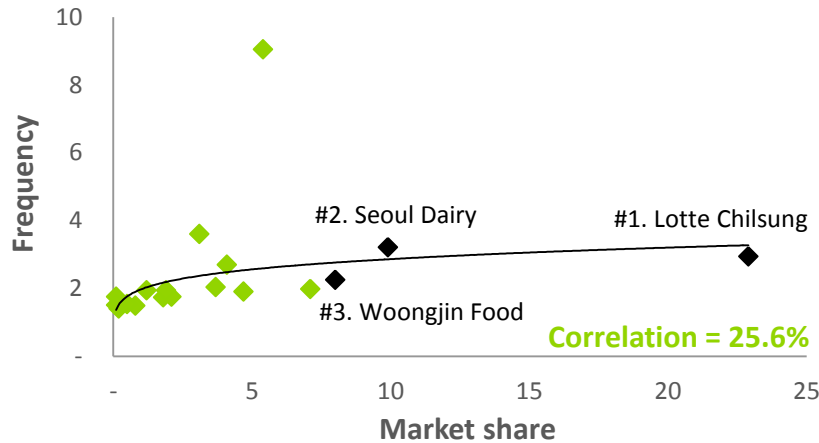# Penetration – not Loyalty – decides your brand market share

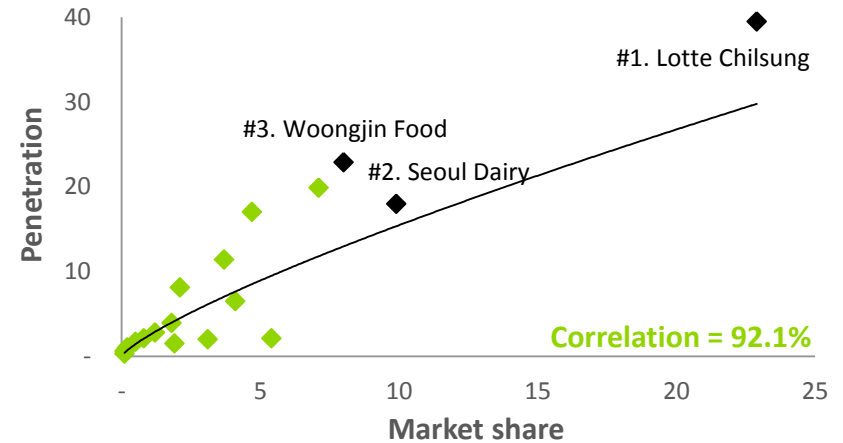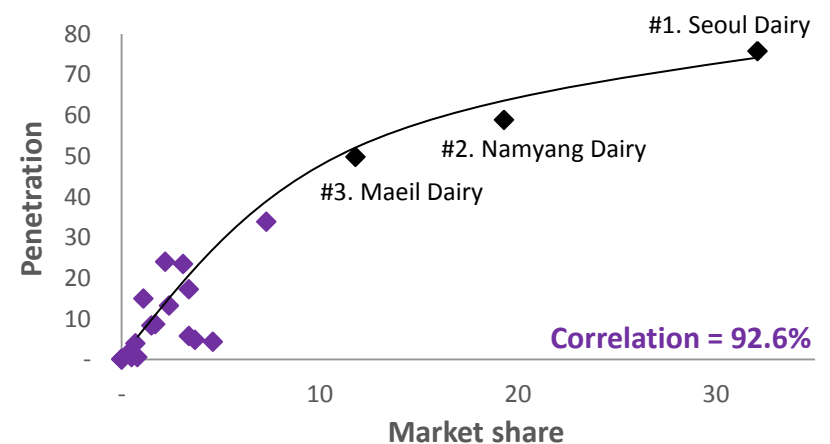## Growing penetration should take place first!

Loyalty & Market Share

Penetration & Market Share

Repertoire Category — Juice

Loyalist Category — White milk

Juice chart (Loyalty): #2. Seoul Dairy, #1. Lotte Chilsung, #3. Woongjin Food, Correlation = 25.6%

Juice chart (Penetration): #1. Lotte Chilsung, #3. Woongjin Food, #2. Seoul Dairy, Correlation = 92.1%

White milk chart (Loyalty): #1. Seoul Dairy, #2. Namyang Dairy, #3. Maeil Dairy, Correlation = 29.2%

White milk chart (Penetration): #1. Seoul Dairy, #2. Namyang Dairy, #3. Maeil Dairy, Correlation = 92.6%
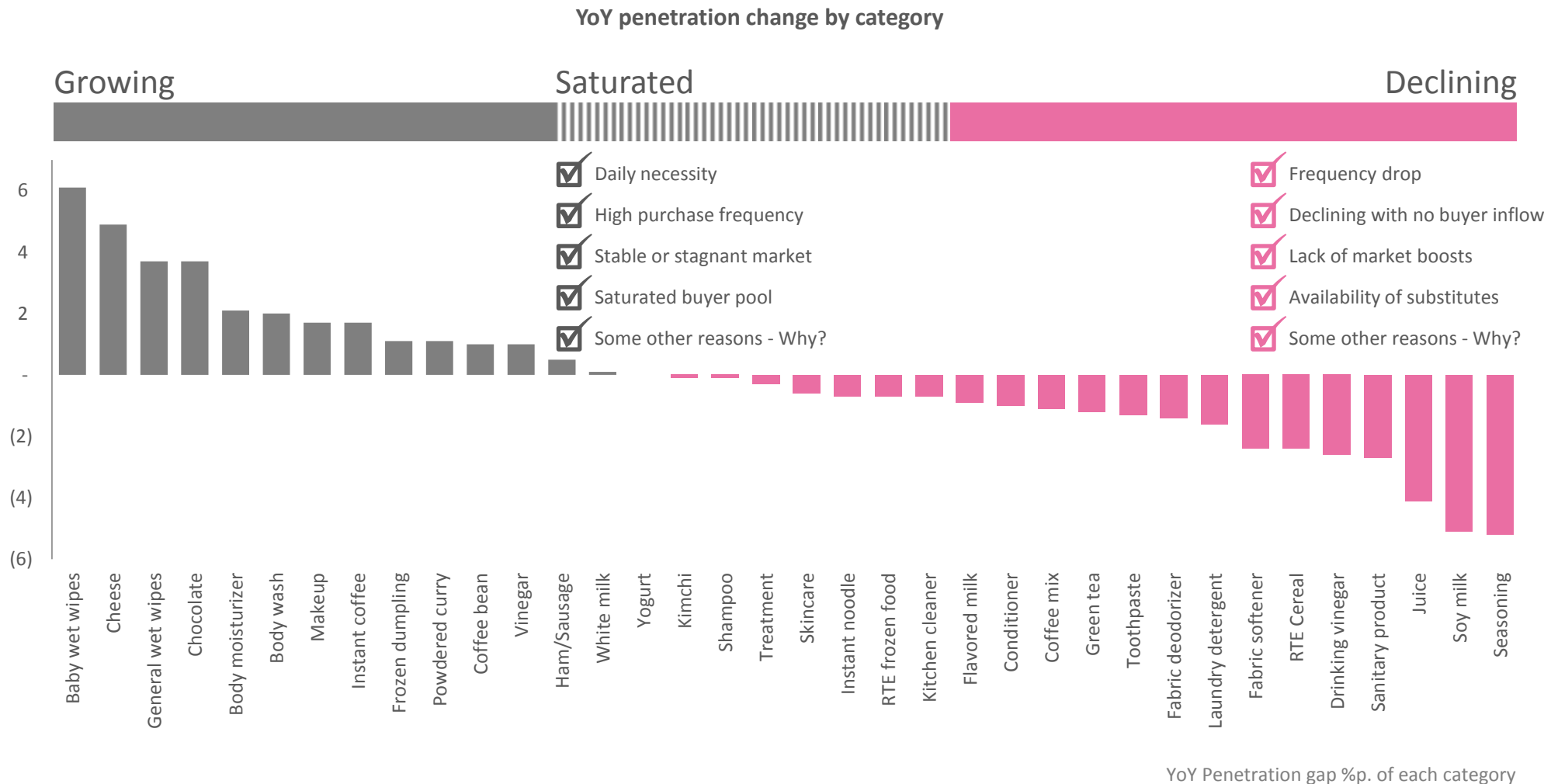
Category frequency (#) or penetration (%) and value market share (%) by company in this year
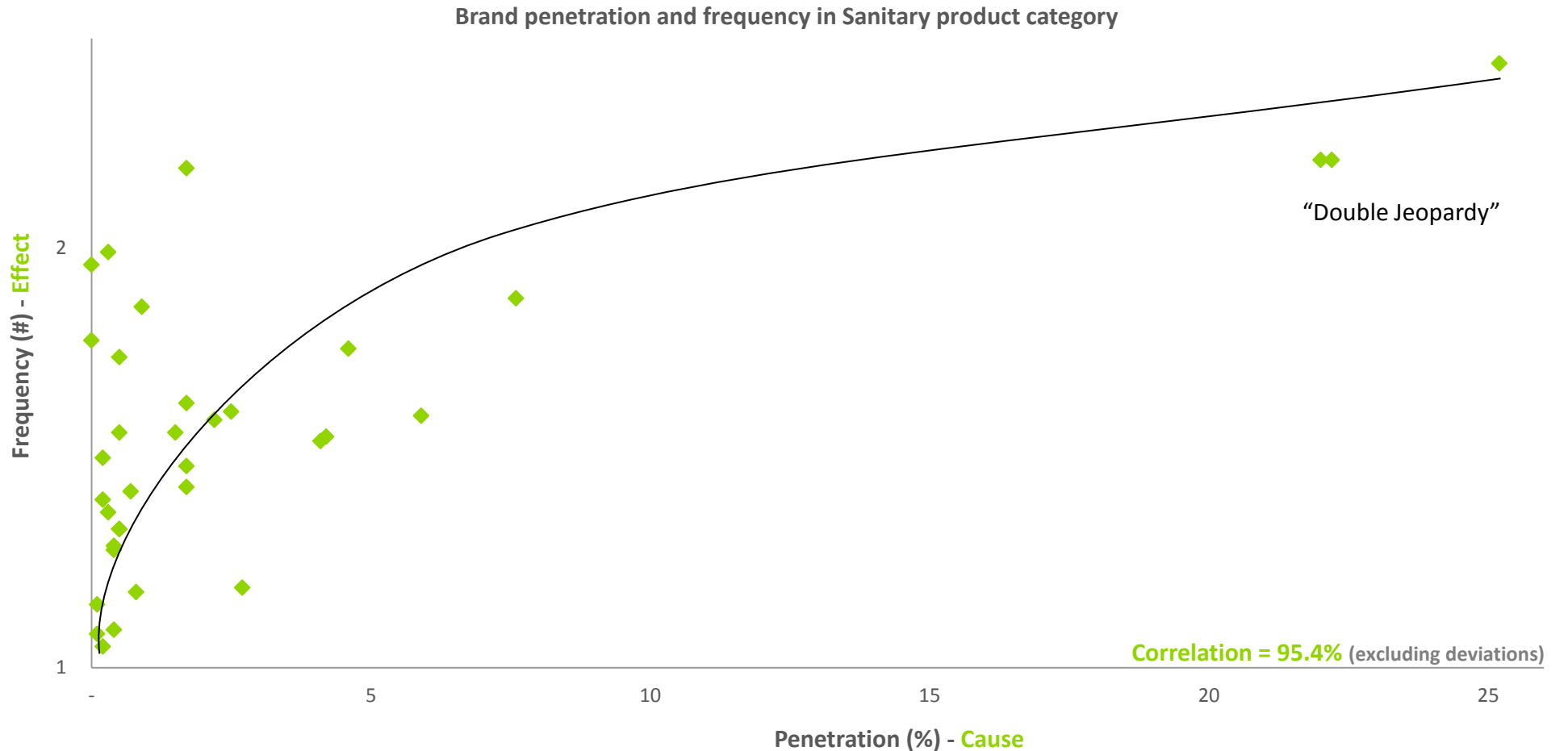
Category consumer pool has limitation
How to grow penetration in saturated or declining market?

Brands should grow "Relative penetration" – penetration against your competitors

YoY penetration change by category

Growing　　　　　　　　Saturated　　　　　　　　Declining

Growing / Saturated	Declining
☑ Daily necessity	☑ Frequency drop
☑ High purchase frequency	☑ Declining with no buyer inflow
☑ Stable or stagnant market	☑ Lack of market boosts
☑ Saturated buyer pool	☑ Availability of substitutes
☑ Some other reasons - Why?	☑ Some other reasons - Why?

Categories (left to right):
Baby wet wipes, Cheese, General wet wipes, Chocolate, Body moisturizer, Body wash, Makeup, Instant coffee, Frozen dumpling, Powdered curry, Coffee bean, Vinegar, Ham/Sausage, White milk, Yogurt, Kimchi, Shampoo, Treatment, Skincare, Instant noodle, RTE frozen food, Kitchen cleaner, Flavored milk, Conditioner, Coffee mix, Green tea, Toothpaste, Fabric deodorizer, Laundry detergent, Fabric softener, RTE Cereal, Drinking vinegar, Sanitary product, Juice, Soy milk, Seasoning

YoY Penetration gap %p. of each category

Brands with relatively low penetration suffer from lower loyalty

Then, how smaller brands can outgrow?

Brand penetration and frequency in Sanitary product category

"Double Jeopardy"

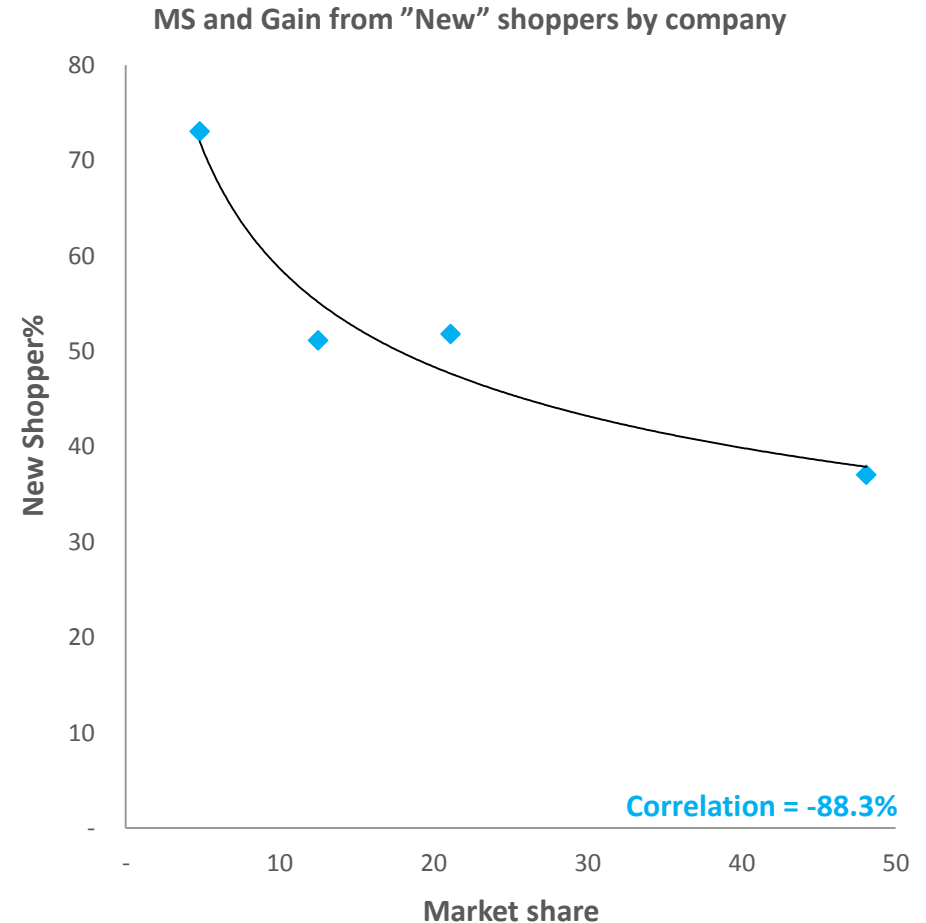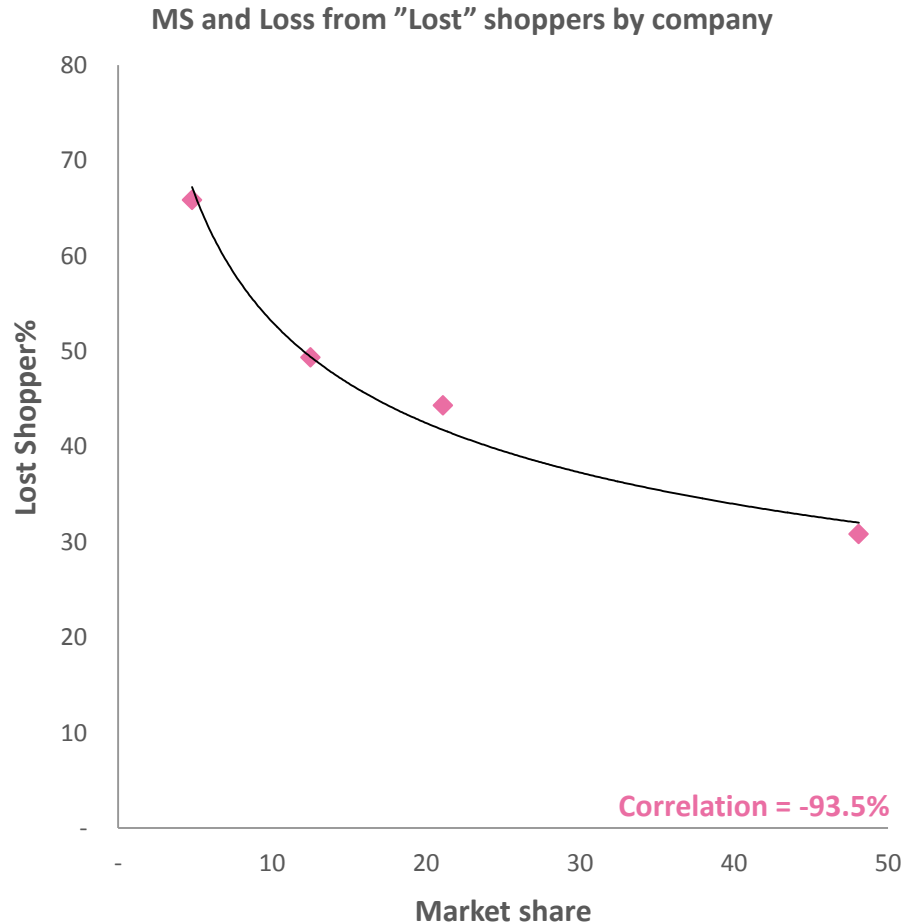**Correlation = 95.4%** (excluding deviations)

Frequency (#) - **Effect**

Penetration (%) - **Cause**

Brand penetration (%) and frequency (#) in Sanitary product category in this year

Smaller brands can grow by recruiting more "New" shoppers to fill up the leaky buckets

So, focus on "New" shoppers especially if you are not a leader in the market

MS and Loss from "Lost" shoppers by company

Lost Shopper%

Market share

Correlation = -93.5%

MS and Gain from "New" shoppers by company

New Shopper%

Market share

Correlation = -88.3%

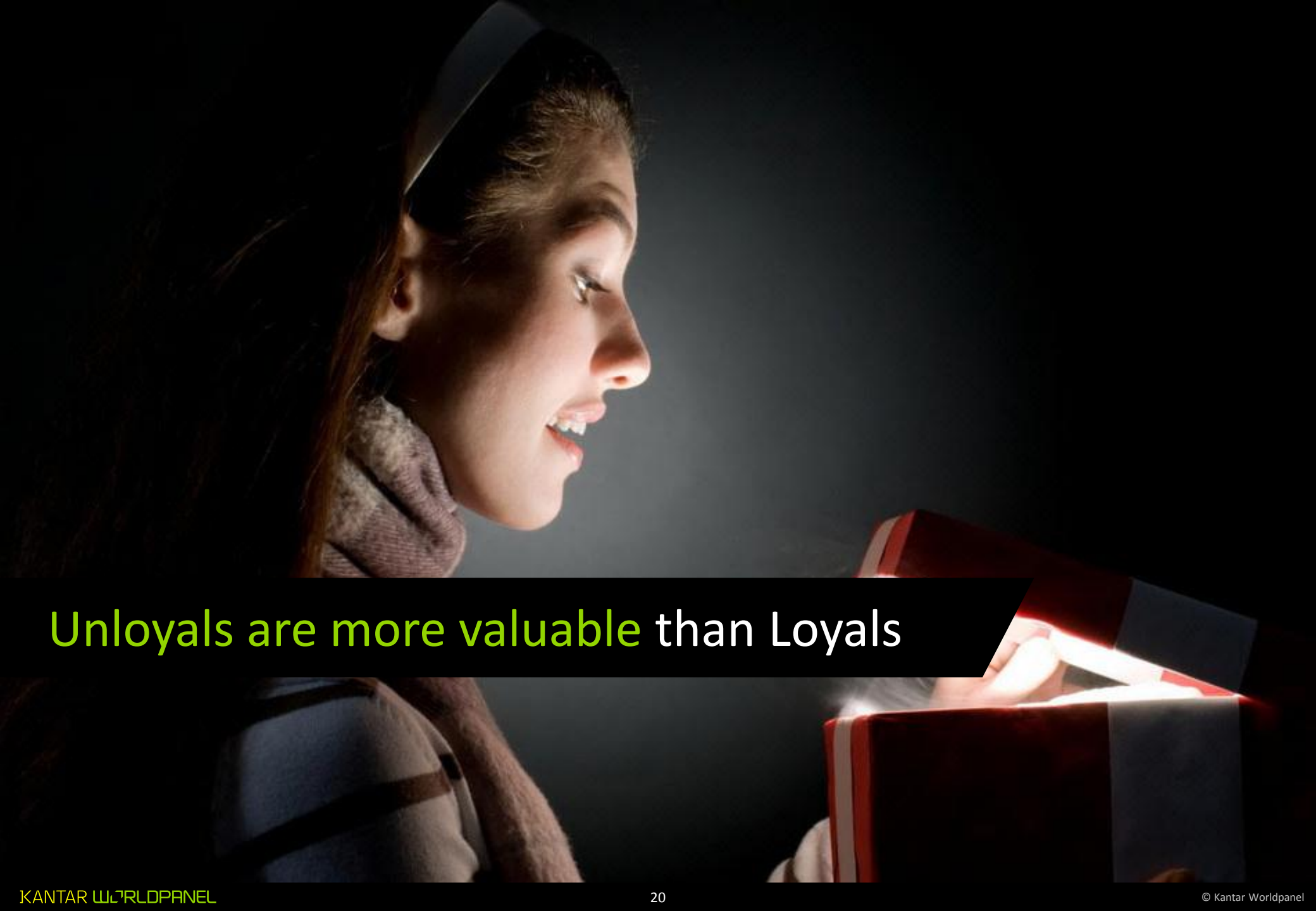Value contribution% of "Lost" shoppers in last year and of "New" shoppers in this year in Sanitary product category

New shoppers grow your brands

(especially if you are not a leader in the market)

We focus on brand loyalty
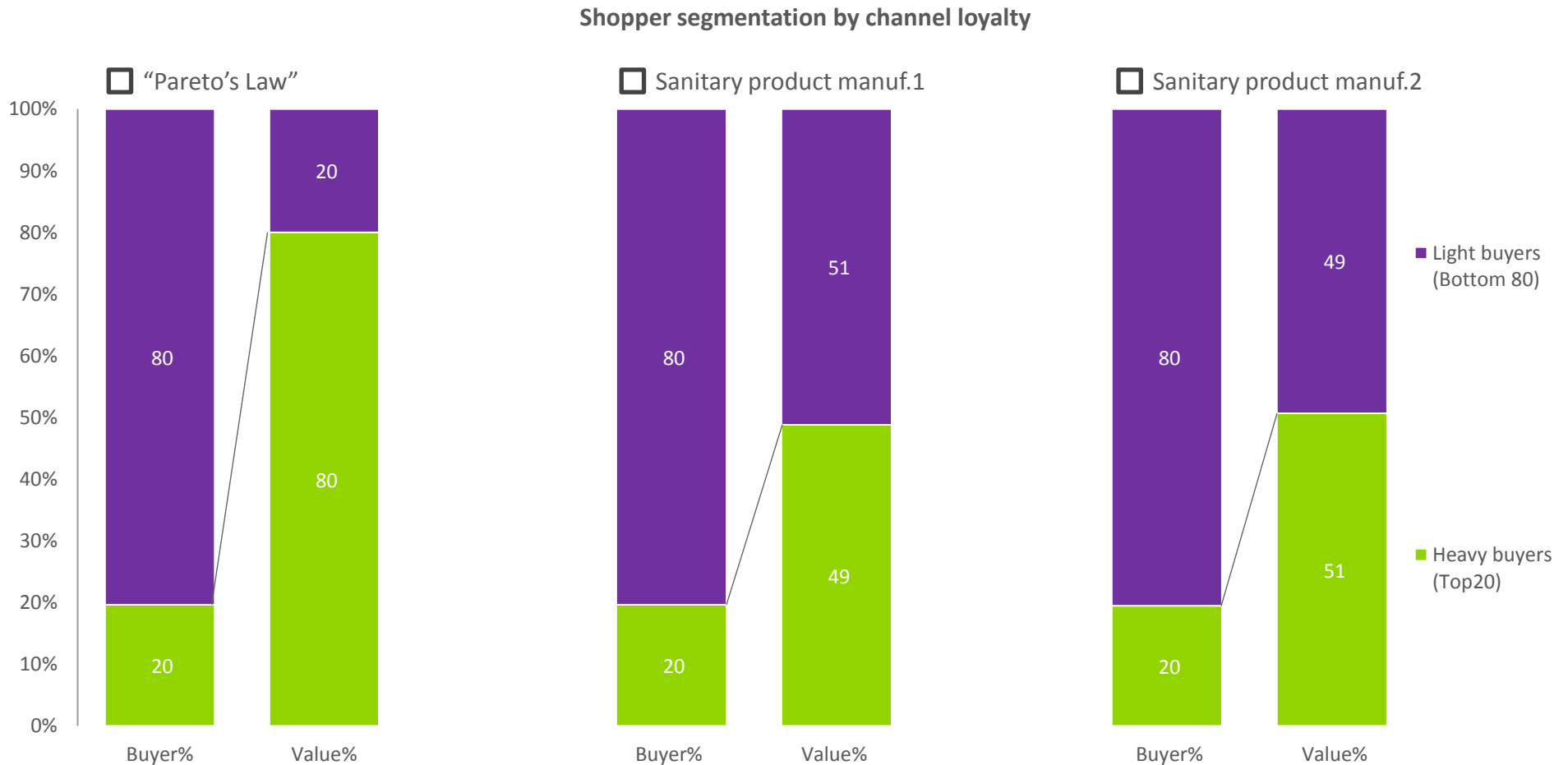
We focus on brand penetration first

Unloyals are more valuable than Loyals

"Light buyers" account for more than 50% of your brands' sales
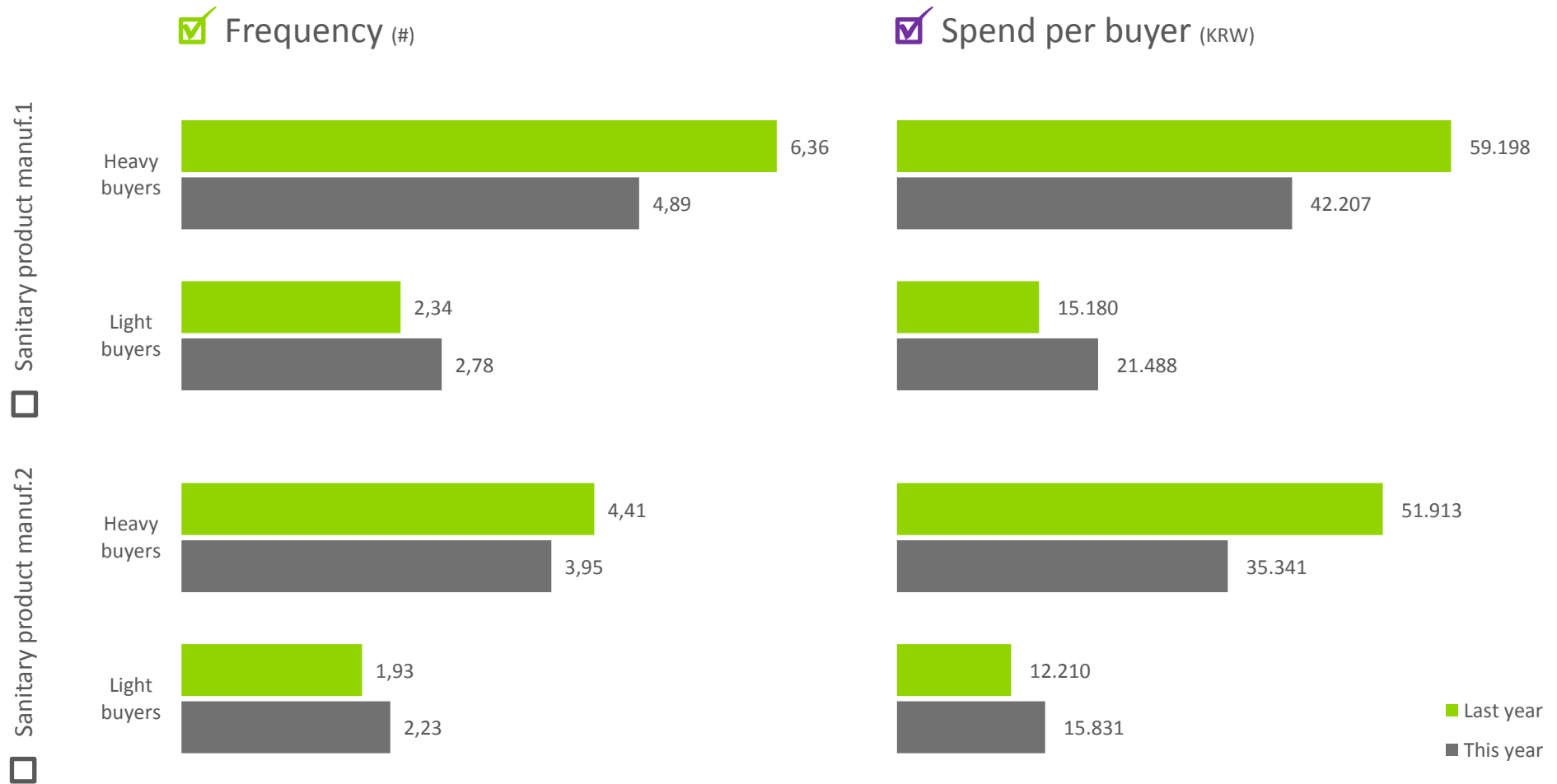# "Pareto's Law" is not 20/80 – it's 20/60 or even only 20/50

"Light buyers" contributes more than you think

Shopper segmentation by channel loyalty

□ "Pareto's Law" □ Sanitary product manuf.1 □ Sanitary product manuf.2

Light buyers (Bottom 80)

Heavy buyers (Top20)

Brand buyer% and value% in Sanitary product category by manufacturer in last year

Last year's "Heavy buyers" are likely to be LIGHTER this year, and vise versa

Easier, more efficient, and more effective to increase loyalty of "Light buyers"

☑ Frequency (#)　　　　　　　☑ Spend per buyer (KRW)

Sanitary product manuf.1

Heavy buyers
- 6,36
- 4,89

Light buyers
- 2,34
- 2,78

Heavy buyers (spend)
- 59.198
- 42.207

Light buyers (spend)
- 15.180
- 21.488

Sanitary product manuf.2

Heavy buyers
- 4,41
- 3,95

Light buyers
- 1,93
- 2,23

Heavy buyers (spend)
- 51.913
- 35.341

Light buyers (spend)
- 12.210
- 15.831

■ Last year
■ This year

Unloyals are more valuable than Loyals

We should maintain brand Loyals

We can make Unloyals more loyal to our brand

Shoppers are not loyal to channels either

Korean shoppers use 4.43 channels on average
And the number of channels used is increasing

Consumer contact points are getting more diverse

Hyper-market

Others

Super-market

Avg. **4.43** channels used/year

Traditional

Internet

If spending more than **50% in a single channel**, those shoppers are classified as **Channel Loyalists**

# of average channels used (#)

2yrs ago	1yr ago	This year
4,39	4,41	4,43

Average number of channels used(#)

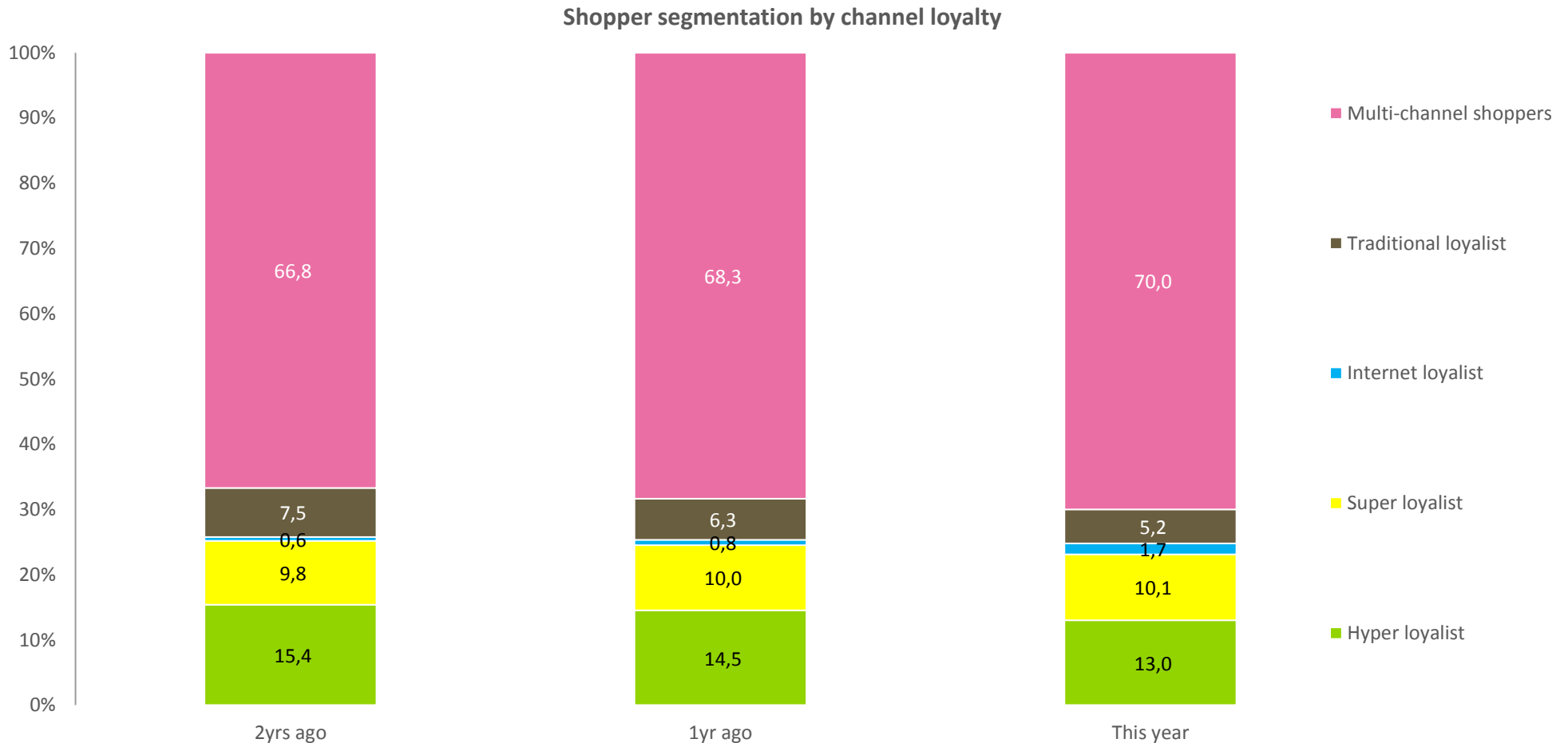# More than 70% of total shoppers don't have high loyalty to any channels
Multi-channel trend is taking a heavy toll on hypermarkets

Supermarket and Online are successfully expanding Loyalists

Shopper segmentation by channel loyalty

	2yrs ago	1yr ago	This year
Multi-channel shoppers	66,8	68,3	70,0
Traditional loyalist	7,5	6,3	5,2
Internet loyalist	0,6	0,8	1,7
Super loyalist	9,8	10,0	10,1
Hyper loyalist	15,4	14,5	13,0

Shopper% based on channel loyalty in all categories incl. fresh food in this year
>> Loyalist = those who spend more than 50% in a single channel

Yet, be aware that shoppers have 'Repertoire' tendency in channel usage too
Heavy channel shoppers use more retailers within the channel they are loyal to

So, basically, everyone is multi-channel shoppers!

# of Retailers used by shopper segmentation

☐ Hyper Loyalists   ☐ Super Loyalists   ☐ Online Loyalists   ☐ Multi-channel shoppers

	Hyper	Super	Online
Hyper Loyalists	3,5	2,3	2,6
Super Loyalists	2,5	3,0	2,4
Online Loyalists	2,9	2,2	4,6
Multi-channel shoppers	2,9	2,7	2,6

# of retailers used by Loyalists of each channel and multi-channel shoppers incl. fresh food in this year
>> Loyalists = shoppers who spend more than 50% in a single channel

Shoppers are not loyal to channels either

Multi-channel users vs. Channel loyalists?
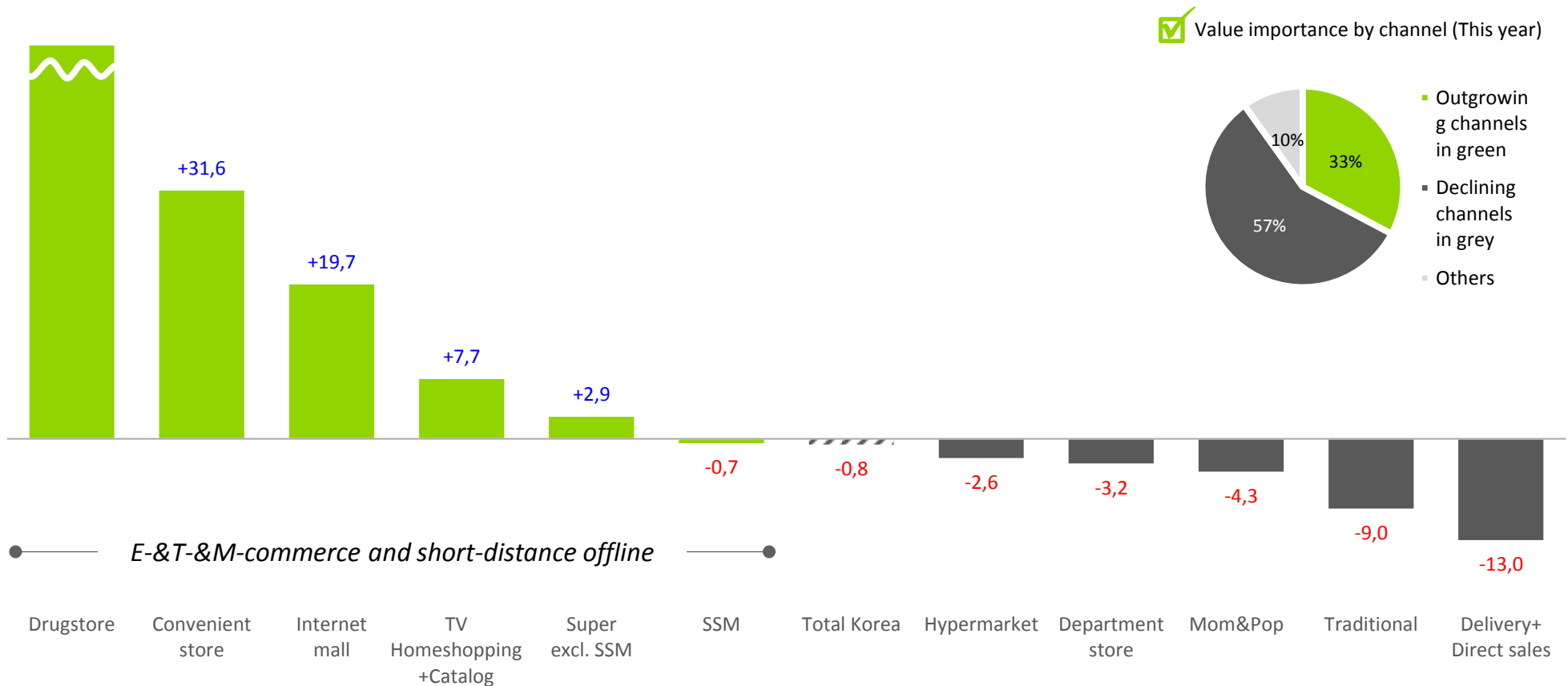
Everyone is Multi-channel shoppers!

Shoppers go on mini-shopping mission
to either nearby offline or online

Other than online, only short-distance channels, maintained growth
Major channels which account for 61% are in decline

Category-specific mini-shopping anytime at your convenience!

YoY value growth by channel (This year vs. Last year)

☑ Value importance by channel (This year)

- ■ Outgrowing channels in green
- ■ Declining channels in grey
- ■ Others

Channel	Value
+31,6	
+19,7	
+7,7	
+2,9	
-0,7	
-0,8	
-2,6	
-3,2	
-4,3	
-9,0	
-13,0	

E-&T-&M-commerce and short-distance offline

Drugstore | Convenient store | Internet mall | TV Homeshopping +Catalog | Super excl. SSM | SSM | Total Korea | Hypermarket | Department store | Mom&Pop | Traditional | Delivery+ Direct sales
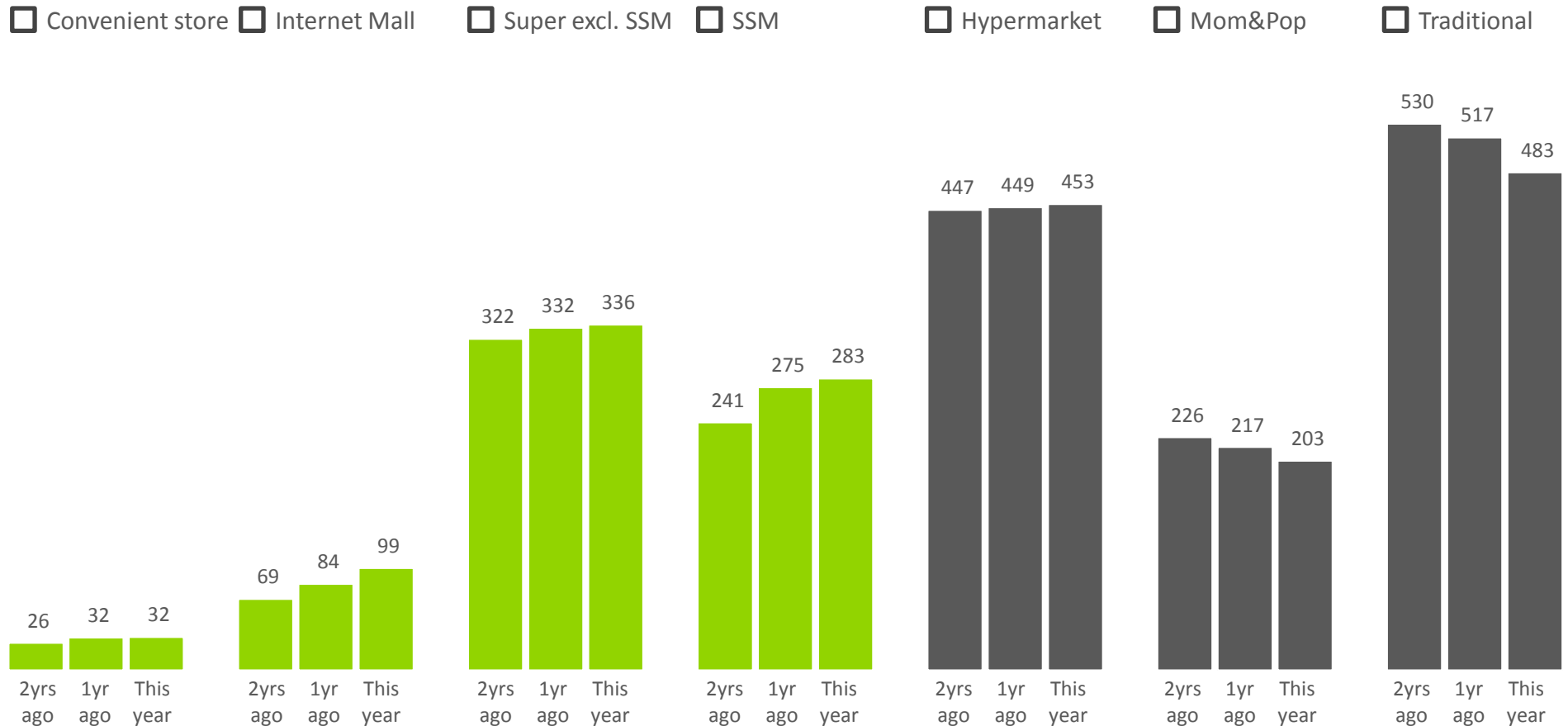
YoY value growth% (this year vs. last year) and value importance in total FMCG of each channel (this year, excl. gift & give-away) incl. fresh food

Traffic increase in rising channels yet drop/stagnant in declining channels
For Hypermarket & SSM, shrinking basket size also impacted severely

Traffic generation is crucial for retailers in overall FMCG frequency decline

Traffic trend by channel

☐ Convenient store ☐ Internet Mall ☐ Super excl. SSM ☐ SSM ☐ Hypermarket ☐ Mom&Pop ☐ Traditional
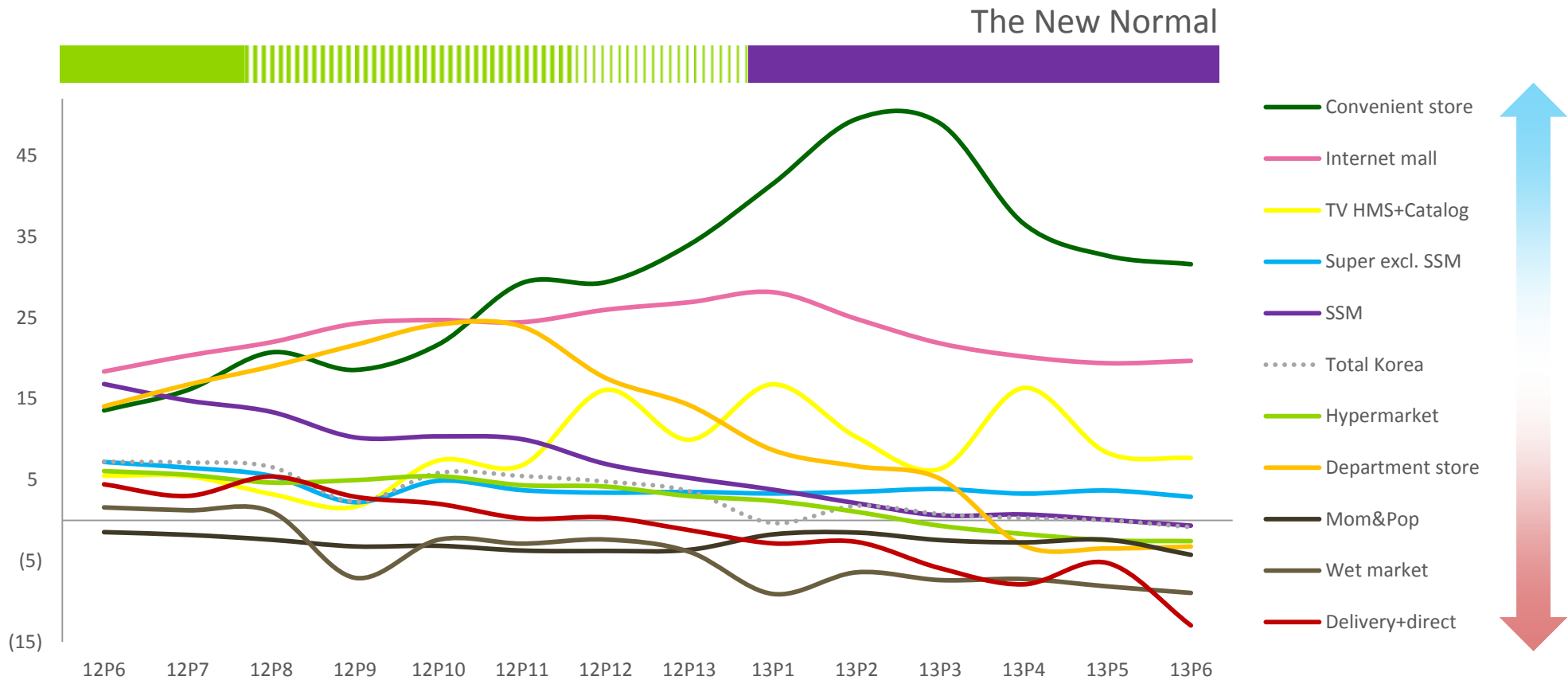

Traffic (# of footprints in million) of each channel incl. fresh food in the recent 3 years

Yet, in the face of Mudding-through economy even growing channels slow down…

Only Internet mall has sustainable growth

YoY value growth% trend by channel

The New Normal

Legend:
- Convenient store
- Internet mall
- TV HMS+Catalog
- Super excl. SSM
- SSM
- Total Korea
- Hypermarket
- Department store
- Mom&Pop
- Wet market
- Delivery+direct

X-axis: 12P6, 12P7, 12P8, 12P9, 12P10, 12P11, 12P12, 12P13, 13P1, 13P2, 13P3, 13P4, 13P5, 13P6

Y-axis: 45, 35, 25, 15, 5, (5), (15)

YoY value growth% of each channel incl. fresh food

Shoppers go on mini-shopping mission
to either nearby offline or online

In the recession, frequency drop is normal?

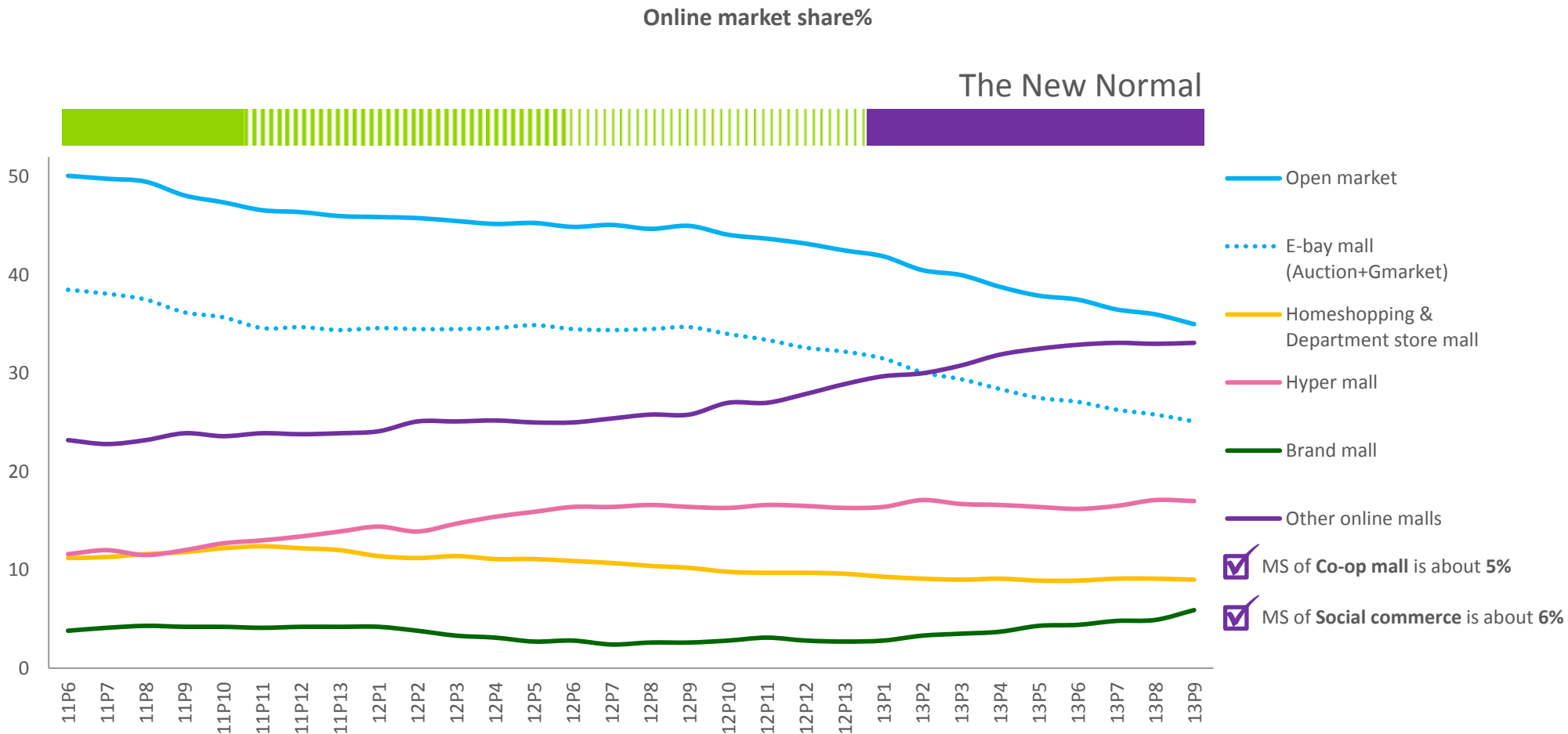Winning channels grow with traffic increase!

Shoppers are highly fragmented online

Rapidly changing online landscape
Other online malls already caught up E-bay mall and keep rising to the top

Are you taking the same approach to all online retailers?

Online market share%

The New Normal

Legend:
- Open market
- E-bay mall (Auction+Gmarket)
- Homeshopping & Department store mall
- Hyper mall
- Brand mall
- Other online malls
- ☑ MS of **Co-op mall** is about **5%**
- ☑ MS of **Social commerce** is about **6%**

Moving annual trend of channel value% in total online incl. fresh food
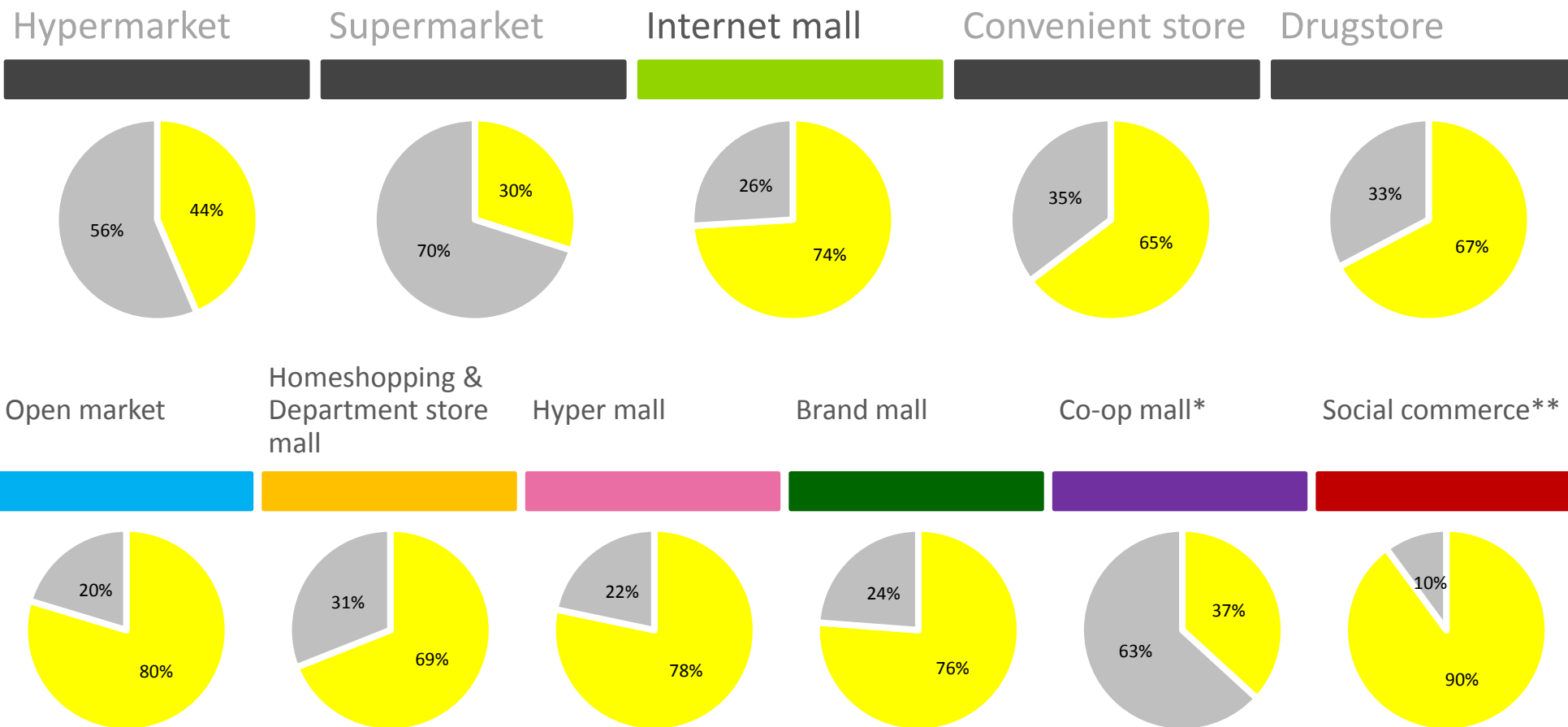
We know online shoppers differ from offline

Are you pushing the same brands in all online malls?

Hypermarket	Supermarket	Internet mall	Convenient store	Drugstore
☐ Meat	☐ Meat	☑ Baby (23%)	☐ Dairy	☐ Cosmetics
☐ Dairy	☐ Fruit	☑ Cosmetics (15%)	☐ Beverage	☐ Personal care
☐ Fruit	☐ Vegetable	☑ Dried produce (9%)	☐ Alcohol	☐ Snack

Open market	Homeshopping & Department store mall	Hyper mall	Brand mall	Co-op mall*	Social commerce**
☑ Baby (36%)	☑ Cosmetics (43%)	☐ Dried produce	☑ Cosmetics (43%)	☑ Vegetable	☑ Baby (47%)
☐ Dried produce	☐ Baby	☐ Baby	☐ Baby	☑ Fruit	☐ Cosmetics
☐ Cosmetics	☐ Dried produce	☑ Dairy	☑ Personal care	☑ Meat	☐ Dried produce

Category value% in each channel incl. fresh food in this year
*Limited sample size **Only Social commerce data 13P9

Shopper base is also different across online

Are you targeting the same shoppers in all online malls?

Hypermarket	Supermarket	Internet mall	Convenient store	Drugstore
56% / 44%	70% / 30%	26% / 74%	35% / 65%	33% / 67%

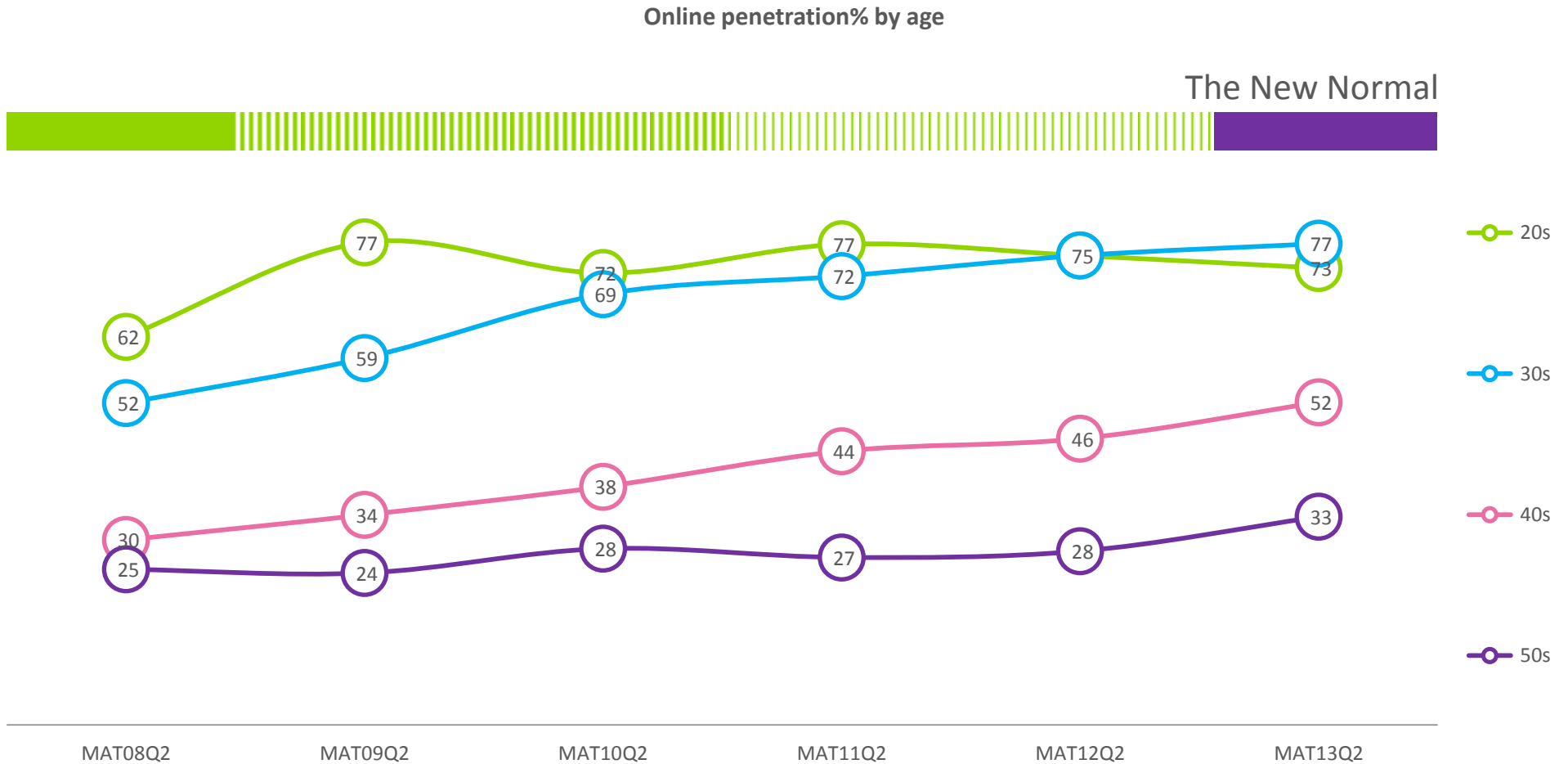| Open market	Homeshopping & Department store mall	Hyper mall	Brand mall	Co-op mall*	Social commerce**
20% / 80%	31% / 69%	22% / 78%	24% / 76%	63% / 37%	10% / 90%

20-30s   40-50s

Age value% in each channel incl. fresh food
*Limited sample size **Only Social commerce data 13P9 ***Latest 3yrs cum ending in 13P9

Online shopper base keeps expanding and changing

Are you ready for a change?

Online penetration% by age
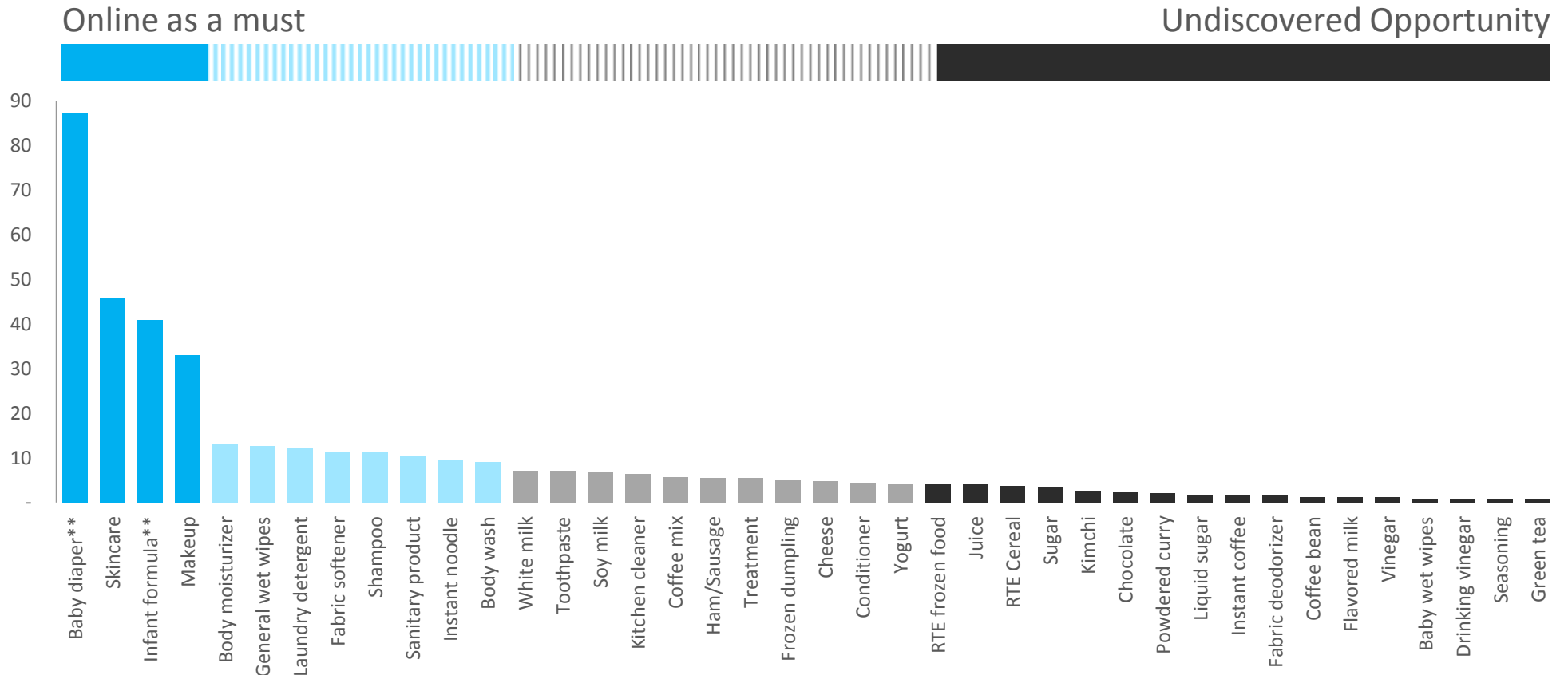
The New Normal

Moving annual trend of channel penetration% by age in total online incl. fresh food

You can be a PIONEER online in most of the categories

Are you ready to be a pioneer in "fragmented online"?

Internet penetration% by category

Online as a must   Undiscovered Opportunity

Internet penetration% (population = households) by category in this year
**Baby category population = 0-24 month old babies for infant formula and 0-30 for diapers, ***Cosmetics category population = 15-55 years old female

Shoppers are highly fragmented online

Offline shoppers vs. Online shoppers

Huge differences even among Online shoppers

KANTAR WORLDPANEL

Are you ready for the era of NEW NORMAL?

The FIRST EVER "Degrowth" in FMCG

"(Relative) Penetration" is the key for GROWTH

"Shopper-focused" Channel Strategy is a MUST