KANTAR WORLDPANEL

MEAT, FISH & POULTRY

NEWSLETTER – November 2016

Total Grocery Summer Performance

MFP Summer Performance

E-commerce in the UK: Catching South Korea

Three Drivers of Out Of Home

The Challenges of Change

Meat the Authors

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WELCOME

Welcome to the latest Meat, Fish and Poultry newsletter.

2016 has been a turbulent year full of uncertainty, speculation, highs and lows! We've been working with our clients to address the changing MFP environment and offer the best advice we can, to help you navigate these choppy waters. The last 6 months have seen a lot of change and Worldpanel are no different. You'll have already noticed our new branding and this newsletter will be introducing some new contributors to you all. In this newsletter we have articles from Alan Creswell, Robert Cassie and Natalie Bendel who have all joined our team since the last newsletter. I hope that you find their articles interesting and they stimulate some thought and debate in your businesses.

The summer was the focus of many highs and lows and will provide the background theme to this newsletter, but is only one part of the stories we are sharing with you. Whatever your views or level of interest in the Economy, Brexit or even the Olympics and Paralympics, we've all been impacted in some way by the results of them. The short term changes have had long term effects on the point of view we have on the risks and rewards for the future. In the background, changes driven by technology and changing consumer needs continue to shape the way we shop and how we eat. We will be investigating a few of these areas within our latest newsletter and would love to hear your thoughts!

We hope to catch up with you all in the near future and I've certainly enjoyed meeting a broad spectrum of our client base since our last newsletter. Whether that has been at our first MFP conference or in your offices, it has been great to get to know more of you and understand the issues you are facing. If anyone wants to get in touch with me directly or has any feedback on the newsletter, please get in touch via e-mail to nathan.ward@kantarworldpanel.com.

I hope you enjoy this newsletter.

Thanks,

Nathan & the Kantar Worldpanel MFP team

AGENDA

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Summer is an important time for Grocery sales, with sales up despite continued deflation over the summer.

4 **MFP Summer Performance**
MFP has a great affinity to the summer months, with BBQs and lighter meals coming to the fore. Find out who were the big winners this year.

5 **E-commerce in the UK: Catching South Korea**
Can the UK be judged a success in online and what are the implications and opportunities in MFP?

7 **Three Drivers of Out Of Home**
Out Of Home is a huge and growing market worth £45bn, which is an opportunity for all processors and supplier of MFP.

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Total Grocery Summer Performance

Supermarket sales increased by +0.3% over the last 12 weeks, despite continued deflation. Alcohol and Health products enjoyed particularly strong growth, with Alcohol helping to drive Co-Op's growth, as they joined the discounters and Waitrose in counteracting the decline of the Big 4 within total grocery. The good weather later in the summer also had an effect, with snacking gaining importance and BBQ occasions up 10.8% vs last year.

The summer sun arrived late this year, but when it did, it certainly brought an uplift of sales with it. Prosecco and Champagne were particular winners in this regard, enjoying +36% growth, as a number of promotional events across retailers looked to take advantage of the nation's celebratory mood of not only the good weather, but also a successful Olympics and Paralympics for GB.

This has helped total Grocery reach +0.3% value growth in the last 12 weeks after several turbulent months as volume, driven by increased basket size (+0.7%), has counteracted deflation. Tesco had a positive effect on basket sizes, driven by growth within their larger stores. In fact Tesco has seen its best overall performance since early 2014, with a decline of 0.2% YoY.

Own Label sales have seen an uplift, with the introduction of Tesco's Farm Brands having a positive impact upon its fruit, and premium own label seeing an impressive +29.5% growth in the discounters.

Asda has continued to suffer, with its market share now down at 15.7%. In order to compete with the Discounters, Asda has seen its 5th successive period of price cut promotions, although with penetration, frequency and items per trip all in decline, the effects of this are yet to be seen.

Asides from significant growth of Ice Cream in Iceland, healthy snacking has been on the menu this summer. At a total level, health grew in importance by +3.7% versus last summer with shoppers paying particular attention to Fibre & Vitamin benefits, getting a varied diet and buying food which is less processed. Having a quick bite has also gained importance this year, growing +3.8% on last year.

The summer weather also varies the way we eat. Occasions in front of the TV or the computer have both declined as people enjoy the sun. Food carried out of home is in growth this summer too, but in home eating is in decline, likely impacted by the growth of food service and on the go.

Alan Creswell
Client Manager

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MFP Summer Performance

Summer remains an important period of the year for Meat, Fish and Poultry, with the barbeque (BBQ) season kick starting a boost for our categories. Ready to Cook and Fish are the big winners this summer as the 4 main primary proteins, Sausages and Burgers & Grills all see value decline. This is in-spite of the BBQ occasion growing, as people start to look for different options on the BBQ.

The 'Indian Summer' had its effect on BBQs bringing the occasion back into YOY growth for the first time since the bumper 2013 season. BBQs grew 11% to a size of 115m occasions this year. A longer season is positive for BBQs, with this occasion being so reliant on the summer season. Despite this reliance on good weather, 13% of BBQ's still take place either during rain or showery spells. The British nation is not to be discouraged by a few drops of rain! If we've planned to BBQ, we stick to it whatever the weather.

This summer has not been kind to our key primary proteins, with Beef, Chicken, Pork and Lamb all seeing value decline in the 24w/e period since 11th Sep 2016. Pork and Lamb (-10% & -8% respectively) have had the worst performances. Price deflation is an element in this decline, as the picture changes slightly when looking at Volume, with Beef and Chicken managing growth, and Pork's decline becoming less dramatic (-2.5%). Lamb has struggled this summer, with volumes significantly down (-11.6%).

Looking at stereotypical summer categories, it remains turbulent, with Sausages declining in both value and volume. Burgers & Grills are seeing value decline, driven by promotional mechanic changes. Overall, promotional levels remain steady, but the move to TPR's is taking value out of the market, so despite a slight growth in volume, value is down -2.3%.

A less traditional summer choice, but a clear winner this year is Ready to Cook, as the rise of the category is not halted this summer. Aggressive promotional strategies, along with reduced base prices are making the category more affordable and have driven value growth (+20%) and Volume (+36%). Fish has outperformed the primary meats comfortably and avoided the deflationary pressure the rest of the market faces, seeing not only volume gains, but growing value ahead of this (+2.4%).

The summer market has become much more competitive with BBQ's becoming less meat focused. However, growth in the occasion provides plenty of opportunity, and as newer categories such as RTC has shown, meat can make the most of this as shoppers look for those products with added value. Worldpanel believe that the BBQ season remains a great opportunity for the category to drive volume, but to really win in 2017, we will need to find ways to add value back into the market and stimulate value growth.

Rob Cassie, Category Analyst

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E-commerce in the UK: Catching South Korea

Whether you would call E-commerce in the UK a success story or not, depends on which way you look at it.

The E-commerce share of grocery in the UK is the third largest globally and it's growing at nearly double figures. This share is significantly bigger than Germany (1.2%), Spain (1.7%) and the US (1.4%). It's also still higher than France (5.3%) who has seen great success from their drive-thru version of click and collect – growing in value terms at 20% vs last year.

However, this UK share is still only 6.9%, and growth has slowed from nearly 20% year on year to half this rate. We are currently behind Japan (7.2%) and a long way off South Korea where E-commerce accounts for a whopping 16.6% share of FMCG and is growing at an even more impressive 35%. When you look at this way then perhaps less of a triumph than we may think and there is still a long way to go to catch the real success story – South Korea.

How can we catch South Korea?

Well first of all there is the risk that we may not even try because the retailers don't want to. Online grocery shopping puts a strain on the retailers' profit margins and we're already seeing less investment in this channel. The typical £40 minimum spend and a delivery charge is vital for retailer profits, but then forces the customer to only use online for the 'main' shop, removing any opportunity to use online shopping for smaller, convenient baskets. Kantar Worldpanel research also shows that after one year of e-commerce adoption British shoppers spent less overall, which poses a huge risk of lost value for the industry.

On the flip side, recent and future developments in this market indicate a step change in the success of online grocery shopping in this country. The most obvious of these is Amazon joining the party with Amazon Fresh. Amazon Fresh has already gone a long way in making online shopping convenient. Arguably the missing ingredient, Amazon has launched 2 hour delivery in some areas of the UK and if they can mirror only some of their success as an online retailer in non-grocery, then watch this space. Sainsbury's have also recognised the need to make online shopping more convenient and have not only trialled same day delivery but also small basket deliveries by bike within an hour. Early days, but again is this the new way to shop online?

It's also worth noting that it's not just the big companies that are tapping into this need; some smaller companies such as HelloFresh, Etify & Gusto have launched a convenient online offer, but are all reliant on finding customers willing to pay a premium for this service.

Another element that can drive online growth is utilising the use of smart phones in the UK. Around 57% of adults use a smart phone but currently only 13% of households use them for online grocery shopping. Making the shopping experience easier, coupled with smarter & targeted advertising could certainly help the growth of online.

Finally, there has been very little innovation in the world of Grocery Online in the UK so what is next? Drones? Personal shoppers? Perhaps it's about waiting. Generation X is constantly connected and digital is a huge part of their lives. It's not long until they will be making the shopping decisions and so if the shopping experience is right and the technology is there, online grocery shopping has significant scope to grow in the future.

Continued...

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E-commerce in the UK: Catching South Korea

What can we learn from South Korea if we want to catch them?

In South Korea, online shopping offers free delivery, there is internet Wi-Fi everywhere and 85% smartphone penetration. Almost 100% of consumers aged between 10 and 40 shop online. There is a cultural appetite for new technologies and digital accessibility so shoppers want to shop online. However, S. Korea E-commerce hasn't always been like this. In fact only a few years ago online was huge for social and recreational purposes but underdeveloped in commerce. Marketers took advantage of this to drive people towards online purchasing.

Another example is JD.com in China who have partnered with social platform WebChat, enabling its users to browse JD merchandise while they stay in the chat room.

So is the UK in a strong place digitally, compared to where S. Korea was a few years ago? Facebook, Instagram, Pinterest, the array of dating apps; none have really been utilised to drive online FMCG purchasing but this is certainly an area to look out for.

What about MFP online?

The success of MFP online relies very much on the triumph of e-commerce at a total grocery level. Once upon a time this wasn't the case; when online grocery shopping in the UK first took off, MFP was left behind as the importance of seeing and touching these products was still dominant. For years the online share of MFP was much lower than Total Grocery but now there is more trust in the quality of meat and the under-trade is minimal.

The sectors that have performed well online vs main estate tend to be more convenient areas, such as ready to cook, chilled main meal accompaniments and burgers. Additionally, weekly staples such as; beef, lamb and pork mince, beef stewing and chicken breasts all over trade online as shoppers perhaps feel more confident buying them without seeing the meat, whereas cuts such as steaks, chops and roasting joints all under trade. Similarly, fish under trades online as shoppers may prefer to have the product in front of them.

The desire for convenience is very prevalent in MFP, and so this trend will go hand in hand with online shopping if the UK can successfully make online shopping convenient. MFP has come a long way in making products more convenient, versatile and quick to cook. Couple this with a convenient and quick way to shop and that may well hit the right note for UK consumers.

Tom Baxter, Consumer Insight Director

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Three Drivers of **Out Of Home**

The Meat, Fish and Poultry team believe that the Out Of Home (OOH) market will become an increasing focus for the industry, providing a margin opportunity for you, as Grocery Retail squeezes margins down through ongoing price wars. The Out Of Home is a very important and growing marketplace, worth £45bn in the latest year. With the value of total Take Home Grocery currently £77bn, it is clear just how important OOH is today. In the last 12 weeks, OOH has seen growth of 6% vs last year, whilst Take Home remains flat. When we look at what has driven this growth, there are three different areas: Landscape, Meals and Customers.

The OOH landscape is varied and sales are spread across an array of different channels – from hotels through to coffee shops – and the choice of channel is largely dependent on location and mission type. For example, 75% of OOH sit down meals are spent at Quick Service Restaurants, whilst coffee shops are often frequented as a "social treat". All channels within OOH, with the exception of Work & Education are in growth, driven by small and independent food service retailers. Growth in OOH is also largely coming from premiumisation, which contributes 3% of the overall growth.

OOH meals, as opposed to snacks and drinks, are worth almost half of the total OOH market. OOH meals are in strong growth, despite people buying less often, driven by people buying more items per meal. Meat, Fish & Poultry forms 81% of meal centres OOH, with the role of proteins depending on the meal mission they are consumed for. Chicken remains the biggest of the proteins, but it is Lamb and Fish that are more likely to drive growth because of their premium nature. Interestingly, although Pork is not doing well in Take Home, it is in 9% growth in OOH as a large number of restaurants adopt the BBQ/Pulled Pork trend on their menus.

When analysing the growth in OOH meals, it is clear that generational differences are playing a large role. Younger customers are driving growth, with a 9% growth rate, however it is those aged 55+ who are more valuable, spending an average of £12.40 per trip on OOH meals. As with Take Home, different meal proteins appeal to different demographics, with traditional proteins such as pork and lamb more important to older customers and chicken and veg meals more important to younger customers. Both the OOH and take home market places are changing as shopping and consumption habits change, but the current trends point towards OOH becoming of evermore important within the food industry.

Out of home trends have always stimulated in home occasions, so understanding what is happening OOH now, can help you understand how people are likely to shop and consume in the future. The MFP team believe that understanding the OOH landscape and what that means for you, will be increasingly important to succeed in these tough times.

Natalie Bendel, Client Executive

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MFP conference
September 2016

The *Challenges* of *Change*

Thank you to so many of you for attending our first MFP conference in September. We hope you found the day interesting and we look forward to seeing you next time.

100% of attendees said they would attend again

78 people attended

Highlights from the day

Overall people rated the day **'very good'**

5 speakers

Attendees thought Fraser Mckevitt's view on the grocery market was **'very interesting'**, while Nicole Krause's case study on meat-free sparked the **most debate**

Key take outs from the conference

GROCERY

- Retailer landscape changing – are you ready for the next act?
- Online slowdown – what does this mean for you?
- Changing promotions – make sure you're at the forefront with retailers

MFP PURCHASE & CONSUMPTION

- Focus on the future with dishes
- Communicate health, highlight quality
- Add value to escape deflation
- Convenience is key – help shoppers save time in store & at home
- Make sure you are catering to small households

MFP OUT OF HOME

- OOH retailers need to grow value per trip
- Food trends will change customer behaviour
- Generational differences offer opportunity

CASE STUDY

Innovation is key – are you pushing boundaries to be the next Rügenwalder Mühle?

If you were unable to attend, please contact your client service team for more information.

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THE KANTAR WORLDPANEL MFP TEAM

MEAT THE AUTHORS

Tom Baxter
Consumer Insight Director
Joined Kantar: 2009
Favourite Dish: Fillet Steak with Peppercorn Sauce
E: Tom.Baxter@kantarworldpanel.com
M: +44 (0)7789 946692

Rob Cassie
Category Analyst
Joined Kantar: 2016
Favourite Dish: Steak & Ale Pie
E: Robert.Cassie@kantarworldpanel.com
M: +44 (0)7764 272292

Alan Creswell
Client Manager
Joined Kantar: 2016
Favourite Dish: Pork Chops
E: Alan.Creswell@kantarworldpanel.com
M: +44 (0)7768 290970

Sam Sear
Client Executive
Joined Kantar: 2014
Favourite Dish: Lasagne
E: Sam.Sear@kantarworldpanel.com
M: +44 (0)7764 272193

Natalie Bendel
Client Executive
Joined Kantar: 2016
Favourite Dish: Roast Lamb
E: Natalie.Bendel@kantarworldpanel.com
T: +44 (0)20 8967 4093

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CONTACT US

For further information about Kantar Worldpanel and the services we can provide for you, please contact:

T: **+44 (0)20 8967 4390**
E: **Kantar.Worldpanel@kantarworldpanel.com**
W: **www.kantarworldpanel.com**

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