2005

Courting the Consumer
Creating Dynamic Brands in Retail and Consumer Goods

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Summary

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  - Retailers’ outlook
  - Consumer demand platforms will change rapidly
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- Creating lifestyle brands
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  - Controlling and adjusting
- Revitalizing the product line and presentation
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  - Keys to new product development and introduction
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  - Delivering through multiple channels
  - Using suppliers as innovation partners
- Squeezing maximum value from the supply chain
  - Cost as a competitive threat
  - Low-cost country sourcing
  - Expecting more from suppliers
  - Collaborative supply chain management
  - Visibility and management of extended supply chains
  - Cost and performance
- The power of alignment
EIU / IRI research scope

- 123 respondents, 50% C-level
- 40 countries
  - 38% Europe, 28% Americas,
  - 27% from Asia
- Retail and CPG
  - 49% in retail, 47% in CPG
- Broad representation
  - 35% mid-market,
  - 24% premium
  - 5% discount
  - 36% all of the above
- Interviews with selected executives

Product Categories Covered

- Food, Drink & Tobacco: 30%
- Health & Beauty: 20%
- Apparel: 15%
- Hardlines: 10%
- Other: 8%
- Electronics: 7%
- Office Supplies: 4%

Source: Economist Intelligence Unit
Changing competitive environment

- Glass will be half full
- Consumer demand patterns will change rapidly
- Consumers will expect innovation
- Emerging markets will grow quickly
- Competition will increase
Retail sales and consumer expenditures forecast

Source: Economist Intelligence Unit
Glass will be half full

Expectations for the next three years

- **Modest top and bottom-line growth**: 65%
- **Robust top and bottom-line growth**: 24%
- **Substantial decline in revenue and profit**: 1%
- **Modest growth through cost-cutting**: 7%
- **Modest decline in revenue and profit**: 3%

**Increasing global opportunities**
- CPG looking for global scale
- Retailers primarily national and multi-domestic

**Confidence in marketing strategies**
- Retail and CPG outlooks both optimistic
- Top and bottom-line growth

Source: Economist Intelligence Unit
Consumer demand patterns will change rapidly

Drivers of change

- Increased competition
- Changes in consumer demand
- Product innovation and new product development
- Weak consumer demand
- Increasing fragmentation of consumer types
- Changes in distribution

- Faster rates of change
  - Product lifecycles
  - Products with services
- Changing work and lifestyles
- Product innovation critical for manufacturers

Source: Economist Intelligence Unit
Consumers will expect innovation

Long-Term Enablers of Growth (Next 15 Years)

- New product development
- Improved communication
- Global economic growth
- New geographic markets
- Growth in productivity
- Globalization/Deregulation
- Outsourcing
- New technologies
- Acquisitions

“We’re trying to connect the dots where other people don’t even see the dots”

– Bruce Crain, Senior Vice President, Blyth

Source: EIU Foresight 2020 study
Emerging markets will grow quickly

- Rapid growth of Asian markets
  - Assortments
  - Store formats/mass merchandising
  - Pricing, discounting

- Potential in Eastern Europe

- Maturing of Western markets and Japan
  - Saturation
  - Deceleration

- Retailers primarily national and multi-domestic; CPG looking for global scale
Competition will increase

- Saturation
  - Shrinking trade areas
  - Product proliferation
- Waning customer loyalty
- Increasing price pressure/commoditization
- More re-selling to existing customers
- Consolidation

“There are simply more products out there and there is less functional difference between them”
– Peter Gutierrez, Region VP, PepsiCo UK & Ireland

Competitive threats

- Increased pressure to reduce prices
- Declining shopper loyalty
- Rise of discount stores
- Consolidation of existing competitors
- Increasing private label competition
- Rise of online channels
- Rise of high-end niche retailers

Percent of Respondents

Source: Economist Intelligence Unit
Court the consumer: The challenges ahead

Which challenges are most significant to your business?

- Reducing costs/maximising efficiencies
- Understanding customer behaviour
- New product development

Source: Economist Intelligence Unit
Imperatives

• Creating lifestyle brands
  • 72%: brand building most crucial growth strategy
  • Saturation: only meaningful brands stick
• Revitalizing the product line and presentation
  • Preventing consumer defection
  • Keeping pace with lifestyle changes and tastes
• Squeezing maximum value from the supply chain
  • Competing with hard discounters
  • Generating cash to invest in new products and innovation
Creating lifestyle brands

- Understanding
  - Understanding changing consumer demand patterns
- Making a lifestyle connection
  - Branding
  - Cross-branding
- Controlling and adjusting
  - Managing customer relationships
  - CRM

Branding Cycle

- Understanding changing consumer demand patterns
- Making lifestyle connections
- Power and Cross-branding
- Managing customer relationships
Understanding changing consumer demand patterns

“Those who develop an intimate relationship with the customer will be the winners of tomorrow”

–Gerard Gallo, President, Echangeur/Galeries Lafayette

- Changing lifestyles and tastes
- Aggregate point-of-sale data
- Analytical tools

Source: EIU Business 2010 study
Branding and cross-branding

- Making lifestyle connections
  - Relevance
  - Power
- Cross-branding
  - Leverage
  - Synergy

“The brand needs to exude...an intangible element of experience above and beyond QSC.”
– Pat Donahue, Chairman, McDonald’s Japan

Growth Strategy Criticality

- Building customer loyalty
- Improved operational efficiencies
- Brand building
- New product development
- Brand extension
- Improved collaboration with suppliers
- Sales channel expansion
- Geographical expansion
- Retail outlet expansion

Source: Economist Intelligence Unit
Revitalizing the product line and presentation

- Building a rapid new product engine
- Delivering through multiple channels
- Using suppliers as innovation partners
Investing in new product development

How will your firm’s investment change over the next three years?

<table>
<thead>
<tr>
<th>Category</th>
<th>Percent of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marketing</td>
<td>9% 13% 79%</td>
</tr>
<tr>
<td>New product development</td>
<td>6% 24% 70%</td>
</tr>
<tr>
<td>IT</td>
<td>8% 21% 71%</td>
</tr>
<tr>
<td>Supply chain</td>
<td>9% 24% 67%</td>
</tr>
</tbody>
</table>

Source: Economist Intelligence Unit
Keys to new product development and introduction

- Repeatability
  - Rapid launch
  - Efficient
- Incrementalism
  - Variations
  - Extensions
- Low-risk
  - Calculated
  - Quick response
Building a rapid new product engine: case study

- $1.6 billion US-based decorative and fragrance products distributor
- Four synergistic key processes: Research, Development, Sourcing, Logistics
- Satellite sales and operations staff in Asia
- Rapid response supply chain to affluent markets
- Continuous and rapid new product introductions
- Revenue growth 32x in 15 years

“People love to look at wild and crazy stuff, but at the end of the day 40% of consumers still buy generic products.”

– Bruce Crain, Senior Vice President, Blyth
Using suppliers as innovation partners

- Efficiency frontier, era of the “right brain”
- Rationalizing and focusing on partner suppliers
  - Collaborating on new product development
    - Joint research
    - Collaborative development
  - Accelerating new product introduction
    - Early prototyping

“In the future, we’ll...sit down and review data that is specific to a supplier, and share a bigger, broader direction and plan.”
- Pat Donahue, ex-Chairman, McDonald’s Japan

Last 10 Years

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>35%</td>
<td>Increase</td>
</tr>
<tr>
<td>17%</td>
<td>No change</td>
</tr>
<tr>
<td>5%</td>
<td>Decrease</td>
</tr>
<tr>
<td>4%</td>
<td>Don’t Know</td>
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Next 10 Years

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Source: SAP and Economist Intelligence Unit, April 2005
Squeezing maximum value from the supply chain

- Low-cost country sourcing
- Collaborative supply chain management
Cost as a competitive threat

- General agreement on downward price pressure
- Long-term economic pressures on sales and costs
- More intense amongst CPG manufacturers than retailers

Increased Pressure to Reduce Prices as a Competitive Threat

Source: Economist Intelligence Unit
Low-cost country sourcing

- Taking advantage of the labor cost gap
- Buying from Asia
- Setting up overseas sourcing offices

![Bar chart showing emphasis on low-cost country sourcing over the last 4 years and the next 4 years.](chart)

Source: Boston Logistics Group
Collaborative supply chain management

- Just-in-time replenishment
- In-transit visibility
- Product lifecycle management

Which technologies will be most crucial to your firm’s business goals?

<table>
<thead>
<tr>
<th>Technology</th>
<th>Percent of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supply-chain management solutions</td>
<td>40%</td>
</tr>
<tr>
<td>CRM solutions</td>
<td>38%</td>
</tr>
<tr>
<td>Product lifecycle management solutions</td>
<td>24%</td>
</tr>
</tbody>
</table>

Source: Economist Intelligence Unit
Visibility and management of extended supply chains

- From the supplier’s supplier…
  - Collaborative forecasting
  - Automated replenishment
- To the customer’s customer…
  - Postponement
  - Direct logistics
- Transparency between levels
  - Visibility
  - CRM-SRM linkage
- Custom supply chains
  - End-to-end
  - Adaptive, sense-and-respond
The power of alignment

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<th>CPG Firms</th>
<th>Retailers</th>
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<tbody>
<tr>
<td>Create brands that strike a lifestyle chord</td>
<td>Build customer loyalty through loyalty programs</td>
</tr>
<tr>
<td>Help retailers interpret consumer data and act on it</td>
<td>Mine point of sale data, understand buying patterns</td>
</tr>
<tr>
<td>Develop a rapid new product development capability</td>
<td>Continuously refresh product line and presentation</td>
</tr>
<tr>
<td>Identify flexible, low-cost sources of supply</td>
<td>Help manufacturers adapt global brands to local tastes</td>
</tr>
<tr>
<td>Touch customers through multiple media</td>
<td>Offer consumers a variety of shopping formats</td>
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</tbody>
</table>
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