Courting the Consumer

Creating Dynamic Brands in Retail and Consumer Goods

Economist Intelligence Unit

San Francisco, 28 February 2006

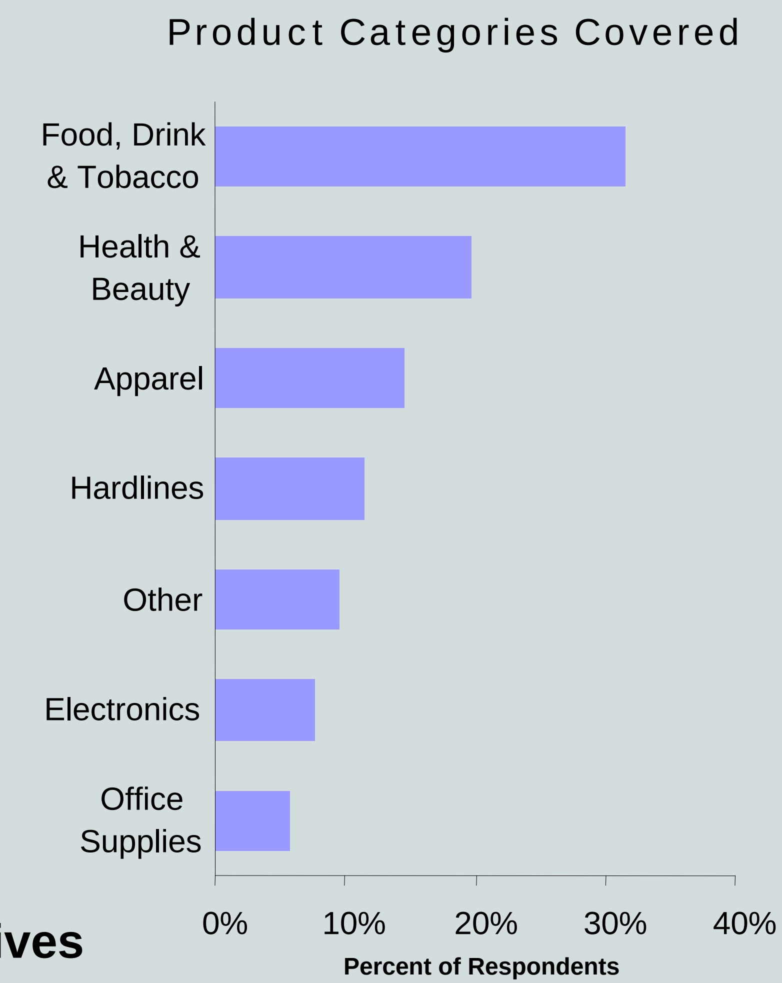
IRI Summit 2006

Agenda

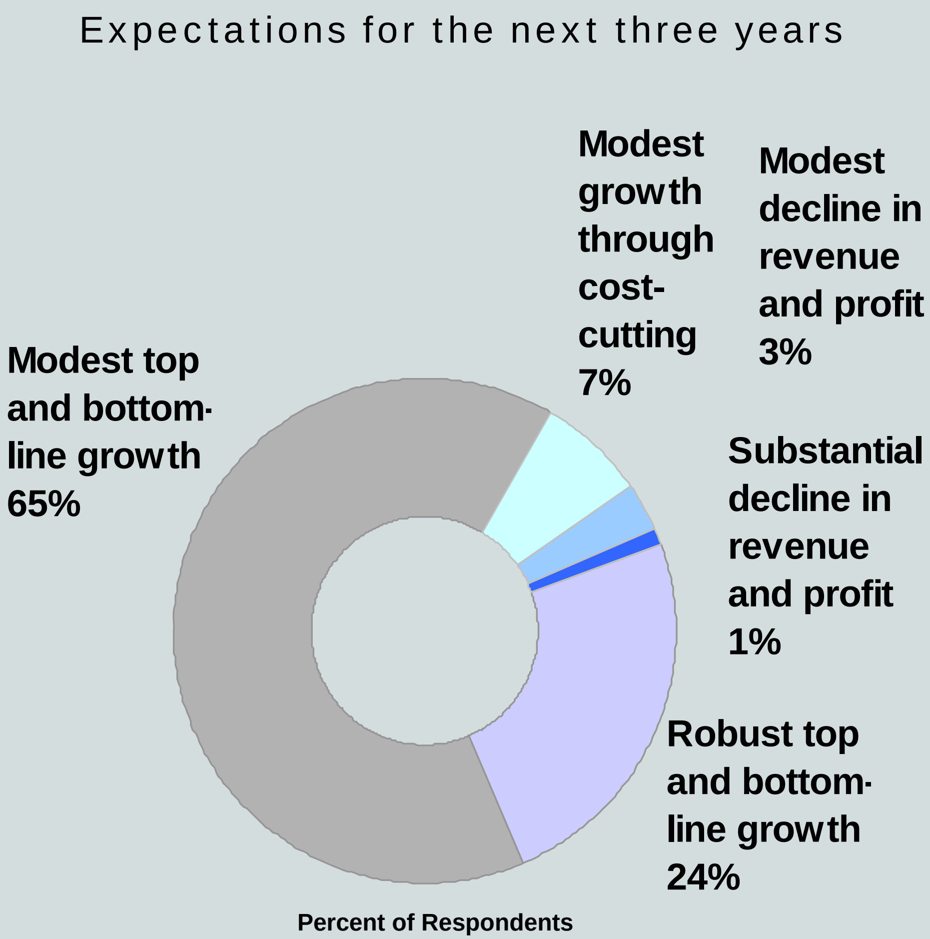
- The EIU-IRI survey on retail and CPG
- The changing competitive environment
- Creating lifestyle brands
- Revitalizing the product line and presentation
- Lowering costs in the supply chain
- The power of alignment

EIU / IRI Research Scope

- **123 respondents, 50% C-level**
- **40 countries**
  - 38% from Europe
  - 28% from 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**

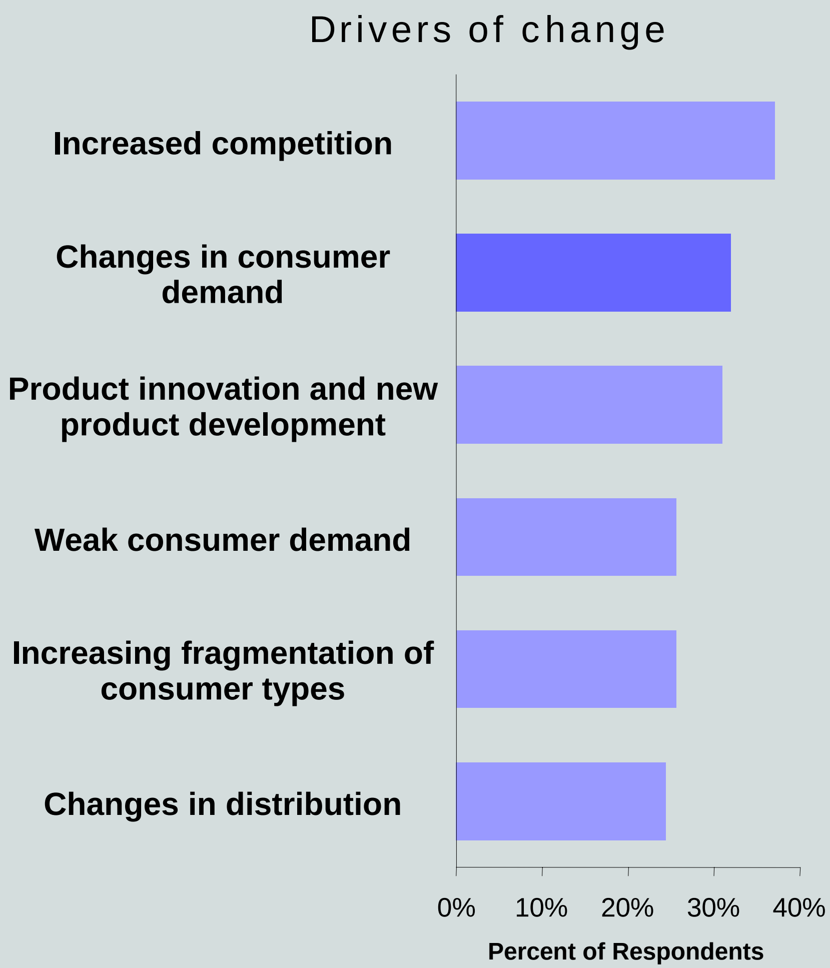


Glass will be half full



- **Current sources of competitive advantage**
  - Quality of customer service
  - Quality of products
  - Attractiveness of brand
- **Increasing global opportunities**
  - CPG looking for global scale
  - Retailers primarily national and multi-domestic
- **Rosy economic outlook**
  - Retail and CPG outlooks both optimistic
  - Gap vs. economic forecasts

Consumer demand patterns will change rapidly



- **Competition a dominant driver**
  - Especially for retailers
- **Product innovation critical for manufacturers**
- **Faster rates of change**
  - Product lifecycles
  - Products with services
- **Changing work and lifestyles**

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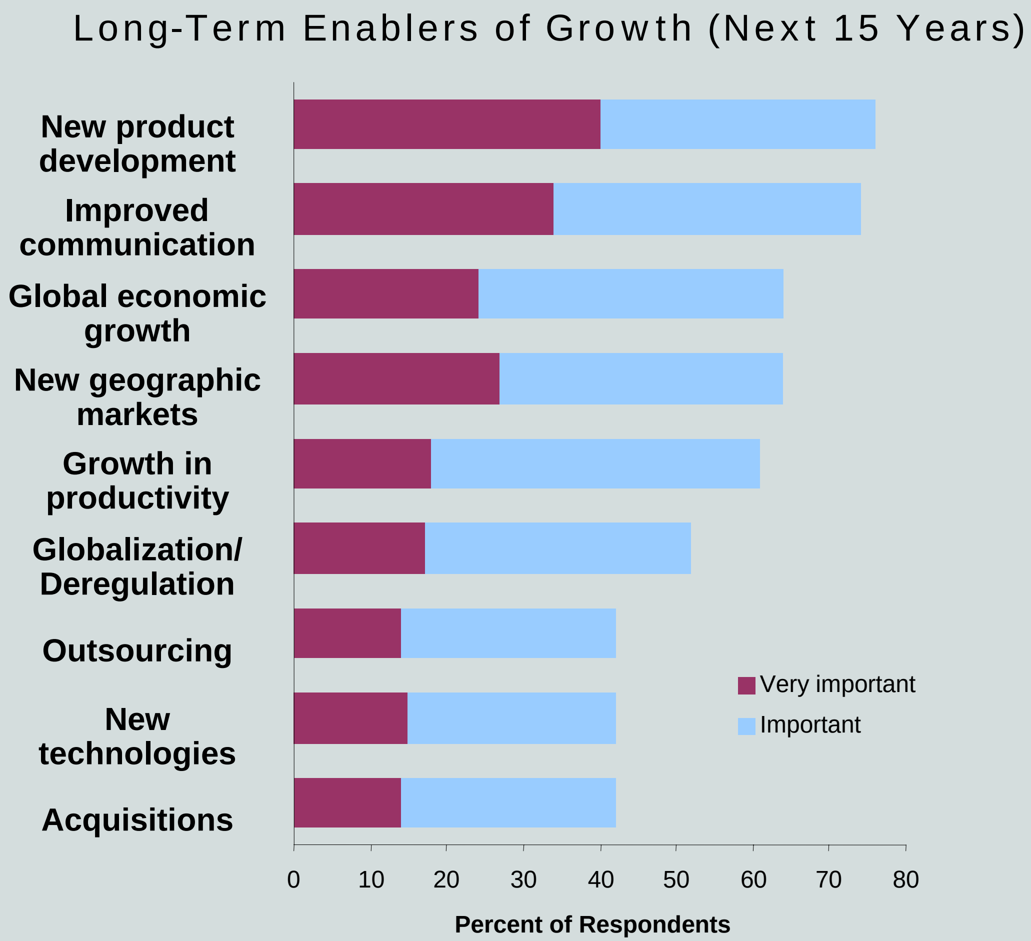
Consumers will expect innovation



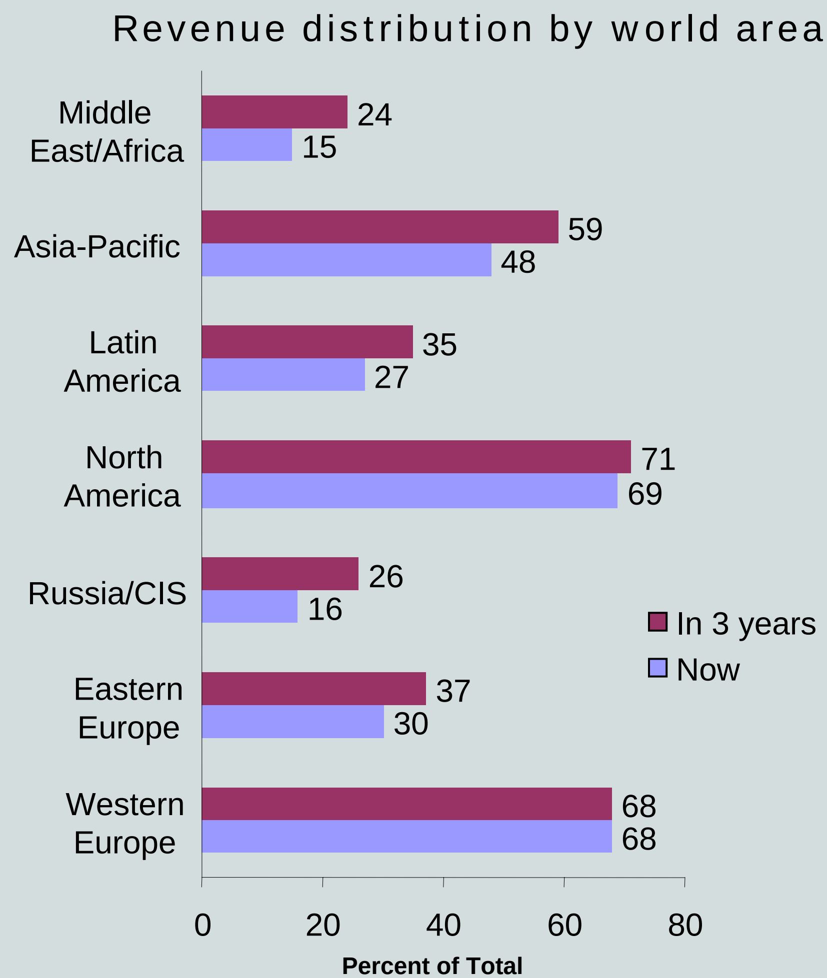
Source: EIU Foresight 2020 study

"We're trying to connect the dots where other people don't even see the dots"

– Bruce Crain, Senior Vice President, Blyth

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**



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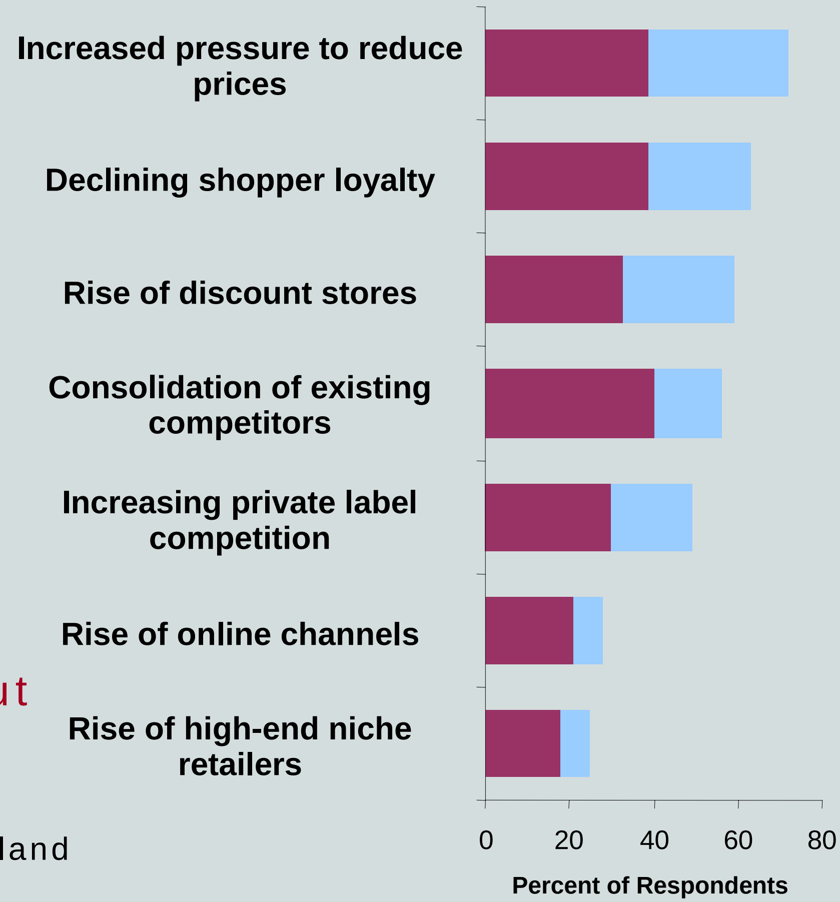
Competition will increase

- **Waning customer loyalty**
- **Saturation**
  - Shrinking trade areas
  - Product proliferation
- **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



In summary: Implications

Retailers

- Help manufacturers adapt global brands to local tastes
- Mine point of sale data, understand how buying patterns are changing
- Continuously refresh product line and presentation
- Offer consumers a variety of store formats
- Build customer loyalty through loyalty programmes and incentives

CPG Firms

- Create brands that strike a lifestyle chord
- Help retailers interpret aggregate consumer data and act on its implications
- Develop a rapid new product development capability
- Identify flexible, low-cost sources of supply
- Touch customers through multiple media