Economist Intelligence Unit

The Economist

Courting the consumer
Creating dynamic brands in retail and consumer goods

An Economist Intelligence Unit white paper
sponsored by Information Resources, Inc.

Acknowledgements

Courting the customer: Creating dynamic brands in retail and consumer goods is a briefing paper written by the Economist Intelligence Unit and sponsored by Information Resources, Inc. (IRI). The Economist Intelligence Unit bears sole responsibility for the content of the report.

The main author was David Jacoby and the editor was Gareth Lofthouse. The findings and views expressed in this white paper do not necessarily reflect the views of IRI, which has sponsored this publication in the interests of promoting informed debate.

As part of the research for this report, the Economist Intelligence Unit conducted a survey of 123 senior executives, approximately half of which came from the retail and consumer packaged goods sectors respectively; the full survey findings are provided in an appendix to this paper. We also interviewed senior executives in a variety of retail and consumer packaged goods businesses.

Our deepest thanks go to all the interviewees and survey respondents for sharing their insights on the topic.

September 2005

Executive Summary

Competition for the consumer's dollar will be ferocious over the next five years. Having reached a ten-year high point in 2004, global retail sales started to slow in early 2005 as monetary policy tightened in both developed and emerging economies. Demand in mature markets is likely to be constrained for several years to come. In addition, consumers are becoming more choosy about where they spend their money, and will continue to seek out better products and greater convenience at an ever more attractive price. Satisfying these expectations while keeping costs to a minimum will be a huge challenge for retailers and consumer goods companies.

Despite these tough demands, business sentiment among consumer goods and retail companies is very positive. Eighty-eight percent of companies surveyed for this report expect their revenues and profits to grow over the next three years; one-quarter expect that growth to be substantial. Three-quarters of companies also expect to increase their investment in information technology (IT), marketing, the supply chain and new product development over the same period.

Where, in this increasingly challenging business environment, will the biggest growth opportunities come from? And what strategies will enable retailers and consumer goods companies to increase their share of consumer spending, even as competition intensifies? These are the main questions addressed in this report, which was written by the Economist Intelligence Unit and sponsored by IRI. The findings are drawn from a global survey of 123 executives conducted in August 2005, with a roughly half-and-half split between retailers and consumer-goods companies. The survey was supplemented by additional desk research and in-depth interviews with senior executives and experts in the field.

This paper concludes that retailers and consumer packaged goods (CPG) firms must collaborate in order to meet the rising expectations of the consumer. In the absence of collaboration, their products and marketing messages will compete with one another, diluting their impact, fuelling commoditisation, and perpetuating downward price pressure. Together, they must focus their strategies for growth in three areas.

1. **Create brands that strike a lifestyle chord**. The brand will be the single most important weapon in the battle to attract consumers and keep them loyal, according to the survey. Such is its importance that 76% of retailers and 71% of manufacturers also see brand building as a top growth strategy. Companies like PepsiCo already view "brand relevance" as a major measure of success; maintaining that relevance will entail a constant effort to refresh and invigorate the brand. Retailers must also focus on making their own brands attractive, for example by projecting a socially responsible image. Both parties must work together to adapt global brands to the tastes of local markets.

2. **Continuously revitalise the product line**. Increasing the pace of new product development is a top priority for manufacturers, but is also a vital growth strategy for retailers. Sixty-nine percent of companies in the survey cite new product development as important or very important to their company's growth over the next three years;

more companies also said they would invest in new product development than IT, marketing and the supply chain. To target new opportunities and keep up with fast changing tastes, companies must develop a rapid product development capability that leverages feedback from customers and suppliers. Manufacturers must develop a new product innovation "engine" that enables them to respond to new areas of demand faster and in a more cost-efficient way. For their part, retailers must continuously refresh the way products are presented and sold.

3. **Lower costs through improved supply-chain management.** Intense competition will continue to exert downward pressure on prices, so these goals must be achieved while minimising the cost base. Finding new opportunities and strategies to reduce cost and increase efficiency will drive manufacturers to secure low-cost sources of supply, and retailers to use technology to lower distribution costs.

The challenge for retailers and consumer goods manufacturers alike is to create dynamic brands that continuously evolve to address changing customer needs at low cost. Competitive pressure can create adversarial relationships between retailers and consumer goods manufacturers, and there is no doubt that dominant retail chains will continue to drive a hard bargain with their suppliers. As one executive interviewed for this report explained, "a lot of consumer goods people look at the big retailers as the enemy and lament their power." Despite these differences, in the survey it is striking how executives on both sides of the retailer–manufacturer divide share so many of the same goals and challenges. In the future they will need to collaborate in new and more effective ways to remain relevant and attractive to their ever-more demanding customers.

The changing competitive environment

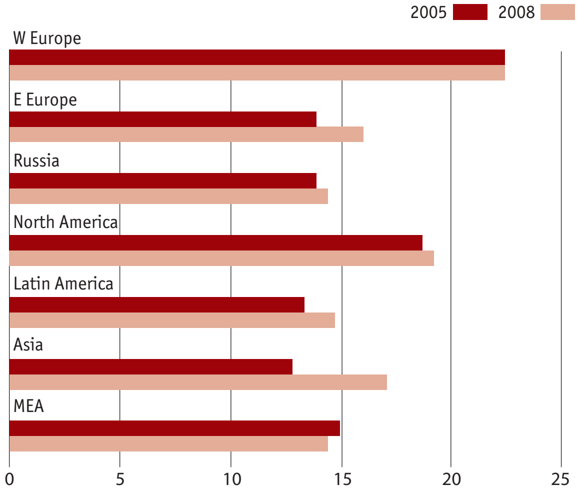
Retail and consumer packaged goods (CPG) companies have their sights firmly fixed on growth over the next three years, according to the survey. Eighty-eight percent of executives expect their own companies to deliver more revenue and profit than today, and just under one-quarter expect robust revenue and profit growth. Another 7% expect revenue to decrease, but profits to increase as a result of cost-cutting.

Modern retailing is spreading around the world, creating new markets with millions of increasingly affluent consumers. Asian cultures are evolving from traditional, family-based retailing to modern concepts of mass merchandising. Consumer-facing companies are therefore becoming increasingly global: Wal-Mart, for example, expects its overseas sales to increase from 16% to 33% of total sales between 2002 and 2009. Most companies expect their sales in Asia to grow. Non-Asian companies estimate that Asia will account for 4% more of their sales in three years than it does today, with China towering above all other countries as the most important market for future investment and growth.

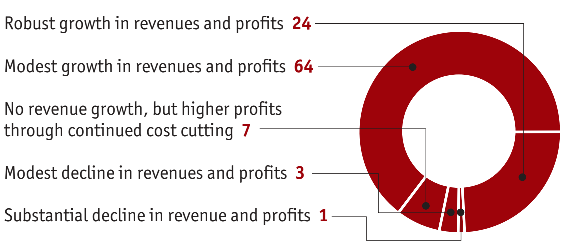
By contrast, growth in developed markets is slowing. Retail sales grew by 3.6% in 2004, the fastest rate in over ten years. Now, however, sales growth is projected to decelerate to between 1.6% and 2.6% between 2005 and 2008. Retail sales in Asian and east European "transition" economies are expected to grow faster than this average, while sales in west European and North American markets are expected to grow more slowly. Many retailers in mature markets, including those interviewed for this report, expect consumers to place more emphasis on low prices. In Japan retail sales are expected to shrink for the next two years. Pat Donahue, chairman of McDonald's Japan, notes that the country's ageing and shrinking population will result in higher taxes and lower disposable income for many Japanese consumers. Against this background, consumer-focused businesses in mature markets will need to work extra hard to deliver growth.

Even when consumers have plenty of money to spend, they have become far more choosy about where

Percentage of sales by world area



How well do you expect your company to perform over the next three years?
(% respondents)



Source: Economist Intelligence Unit survey, 2005

Consumer goods: world summary

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Retail sales (US$ trn)	8.37	8.35	8.6	9.42	10.41	11.13	11.79	12.57	13.06	13.58
Retail sales volume (% change)	2.5	1.3	1.9	1.8	3.6	3.1	2.1	1.6	2.6	2.4
Consumer price inflation (av; %)	3.4	3.3	2.8	3.1	3.2	3.2	2.9	2.8	2.7	2.7
Consumer expenditure (US$ trn)										
"Food, beverages & tobacco"	3.05	3.06	3.15	3.54	3.95	4.19	4.43	4.73	4.84	4.96
% change	-0.5	0.3	2.9	12.5	11.6	5.9	5.7	6.9	2.2	2.6
Clothing & footwear	1.04	1.02	1.04	1.14	1.26	1.3	1.35	1.43	1.44	1.46
% change	-0.9	-2.5	1.7	10.1	10	3.6	3.9	5.7	1	1.4
Housing & household fuels	3.55	3.6	3.76	4.22	4.64	4.88	5.15	5.55	5.71	5.89
% change	2.3	1.3	4.5	12.1	10.2	5.1	5.6	7.7	2.9	3.1
Household goods & services	1.06	1.04	1.06	1.19	1.31	1.36	1.42	1.51	1.54	1.57
% change	1	-2.1	2.7	11.5	10.2	3.9	4.4	6.4	1.9	2.1
Health	1.61	1.71	1.84	2.02	2.2	2.35	2.5	2.67	2.81	2.96
% change	6	6.3	7.3	9.8	9.1	6.9	6.3	6.9	5.2	5.3
Transport & communications	2.74	2.72	2.79	3.09	3.43	3.65	3.9	4.28	4.47	4.67
% change	5	-0.5	2.4	10.8	11.2	6.2	7	9.6	4.5	4.5
Leisure & education	1.89	1.88	1.95	2.16	2.39	2.52	2.67	2.88	2.98	3.09
% change	3.9	-0.1	3.7	10.8	10.3	5.5	5.9	7.8	3.7	3.6
Hotels & restaurants	1.43	1.43	1.49	1.68	1.87	1.96	2.08	2.26	2.33	2.4
% change	1.8	-0.5	4.5	12.5	11.6	4.9	5.8	8.7	3	3
Other goods & services	2.08	2.09	2.19	2.41	2.66	2.81	2.98	3.22	3.35	3.49
% change	4.8	0.2	4.7	10.3	10.2	5.7	6.1	8.1	3.9	4.2
Total	18.45	18.54	19.27	21.45	23.71	25.02	26.48	28.53	29.47	30.49
% change	2.7	0.5	3.9	11.3	10.6	5.5	5.8	7.7	3.3	3.5

Source: Economist Intelligence Unit. (c) Economist Intelligence Unit 2005

they spend that money. A dizzying number of advertising messages and product choices will make it harder to keep customers loyal once they have purchased for the first time. Dick Roozen, vice-president of corporate brands and sourcing development for Royal Ahold, an international food retailer in the Netherlands, says that convenience and "ease of doing business" will be a major factor in shoppers' choice of retail outlet. Furthermore, consumers have more opportunities to switch brands and outlets because of shorter product life cycles and intense competition. Just under three-quarters of survey respondents said that changing consumer-demand patterns will be a critically important or very important driver of change.

Increased competition will be an even bigger driver of change in CPG and retail, however, according to survey respondents. Seventy-four percent of respondents said it will be critically important or very important over the next three years. The competition will be especially fierce in retail: in the survey, 50% of retailers rated competition as a critically important driver, compared with only 21% of manufacturers. In the case of McDonald's, this is down to the result of what Mr Donahue calls "shrinking trade areas"—the trend for rival outlets to open in ever-closer proximity to one other. The recent mergers between footwear companies, Adidas and Reebok, and between Japanese home centre operator, Daiyu Eight, with three larger competitors, are signs of saturation and intense competition.

Nearly three-quarters of respondents rank the pressure to reduce prices as the single largest competitive threat to their business over the next three years. Not surprisingly, the rise of discount stores is the second-largest threat (although retailers

Royal Ahold: interpreting the forces of change

Royal Ahold is a €50bn multinational food provider operating in western and eastern Europe as well as in the US. It is a large player in the retail grocery trade under various brand names and has several food-service businesses.

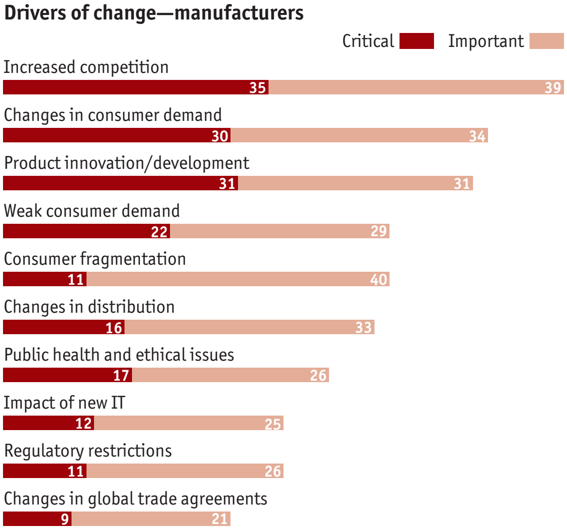
Dick Roozen, the vice-president of corporate brands and sourcing development, sees two fundamentally different demographic segments emerging. The "55+ group" is growing in number, and they are looking for value. Younger consumers (Mr Roozen calls them "the Starbucks generation") are less price sensitive and looking for simplification and ease of doing business. Trying to serve both is a huge challenge because they have widely different tastes and price sensitivities. Mr Roozen foresees that this schism will increasingly divide the grocery industry into chains that offer traditional functional foods at value prices, and specialist stores that add more value and carry more unique and perishable products.

Royal Ahold is positioning itself toward the value retailers rather than the specialty chains. While it does not go as far as "everyday low prices", as in the discount-store model, it has created processes that are based on lowering the cost structure. For example, Royal Ahold works extensively with Associated Marketing Services, a European grocery industry buying consortium, it sources product increasingly from lower-cost (but top-quality) suppliers and countries, and it utilises technology such as scan-driven replenishment and radio frequency identification (RFID) to keep supply chain costs down.

In an environment of change like this, says Mr Roozen, the most important thing is for companies to avoid getting caught in the middle. "They must send clear and differentiated messages or they will be lost."

are also concerned with the rise of high-end niche retailers). As price pressure increases at the retail level, some retailers will find cost savings by creating private labels, working around distributors and higher-cost manufacturers, and by encouraging more intense price competition between CPG companies.

Drivers of change—manufacturers



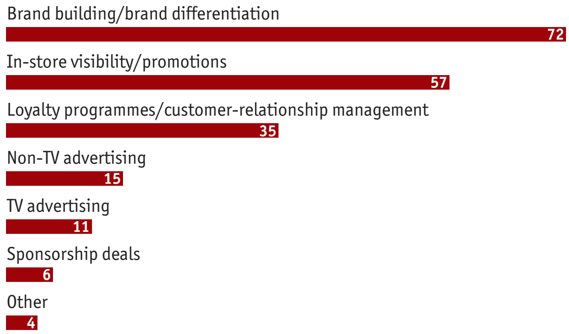
Source: Economist Intelligence Unit survey, 2005

New product development and innovation will be the third most significant driver of change. For manufacturing there will be an even greater focus on product innovation but this will lead to even more crowded, competitive markets. "There are simply more products out there, and there is less functional differentiation between them," according to Peter Gutierrez, region vice-president for PepsiCo UK and Ireland. "You need a PhD to buy a toothbrush," adds Julie Cottineau, executive director of consumer branding at Interbrand, a branding consultancy, "and there is relatively little difference between a US$100 DVD (digital video disc) player and a US$500 DVD player."

The more retailers and manufacturers compete for a share of the market, the harder it will be to retain customers. Survey respondents rate declining shopper loyalty as the second most significant source of competitive threat, behind the pressure to reduce prices. More and more frequently products will offer consumers more reasons to switch brands or store outlets. When new products are available almost every day, this provides as much, or more, of a reason to switch providers as it does to remain loyal to the existing brand. In this fast-changing environment retailers and CPG companies must increasingly exceed expectations just to keep customers from defecting.

The battle for consumers' hearts, and for a bigger share of their wallets, is getting tougher. In this environment, retailers and consumer goods companies are having to transform themselves into innovative, agile businesses whose brands and product lines constantly evolve to meet the changing needs of their customers. What are the strategies that will ultimately differentiate consumer-business winners from the also-rans?

Which of the following marketing strategies are most crucial for driving growth in your business? Select two options



Source: Economist Intelligence Unit survey, 2005

Create brands that strike a lifestyle chord

The power and importance of the brand in attracting and retaining customers looms large throughout the survey. For example, 76% of retailers and 71% of manufacturers see brand-building as a top growth strategy. Three-quarters of respondents said that brands will be a highly significant or significant source of competitive advantage over the next three years. When asked to rate the importance of different marketing strategies, 84% of manufacturers rate brand building as crucial. Retail executives also cite it as the most critical marketing strategy, alongside in-store promotions.

Brands will need to become increasingly relevant and powerful to stand out from the competition. Mr Gutierrez of PepsiCo cites "brand relevance" as one of

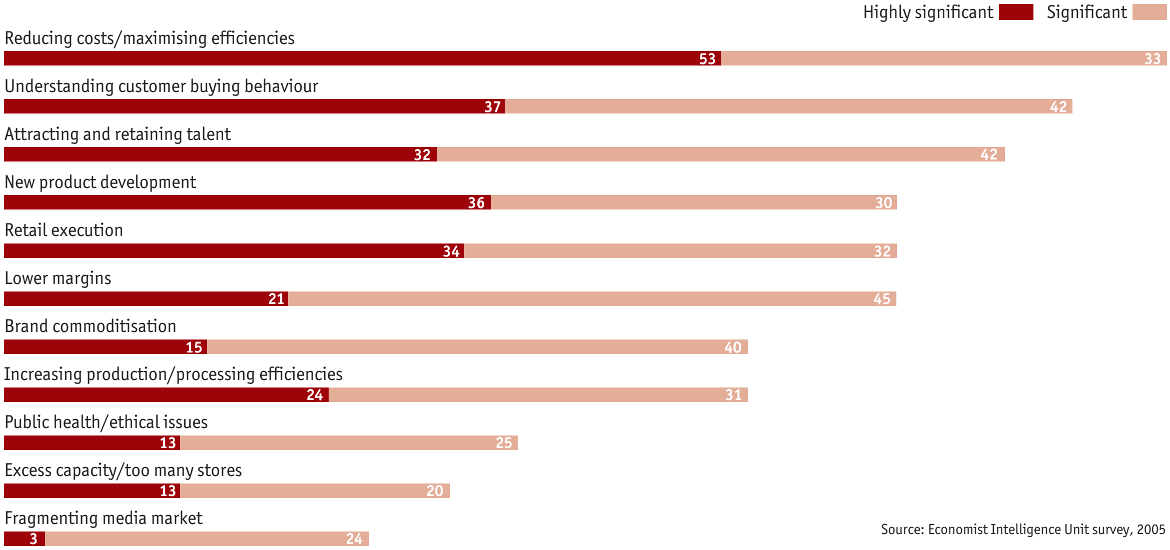
McDonald's Japan and re-branding

McDonald's Japan was formed in 2002 as a joint venture with Matsushita that was subsequently taken public. McDonald's hired Pat Donahue, a 44-year McDonald's veteran, to lead the Japanese subsidiary.

Since then, McDonald's has matured and, despite its success, it sits in the unenviable position of maintaining its revenue, profitability, and brand despite near-total saturation around the world, unbounded competition from countless imitators and related store formats, and the rise of health-conscious eating. The McDonald's brand has long meant reliability, cleanliness and efficiency, but quick-service retail (QSR) is mature. Three convenience-store chains have saturated the Japanese market and crossed over into fast food. There are three times as many 7-Eleven stores than McDonald's restaurants in Japan, for example.

McDonald's must therefore redefine itself to retain its status. Mr Donahue characterises the mission as finding the "fifth P" of marketing: perception. The brand must be cool, something that young people want to associate with and emblazon on themselves. "The brand needs to exude QSC (quality, service, convenience), but also an intangible element of experience above and beyond QSC. The brand needs to convey corporate citizenship, media relations, and goodwill." Mr Donahue cites the Ronald McDonald virtues as representative of the new image. "Ronald McDonald does 3,000 live shows per year in Japanese schools. He stands for safety, physical activity, and goodwill. Increasing awareness of the Ronald McDonald House [which is designed as a "home away from home" for children with life-threatening illnesses] is a real branding opportunity that is not being leveraged." In contrast with the rebranding that is going on at McDonald's, Mr Donahue describes what goes on at Wal-Mart as "just a deepening of customer relations (CRM), not a fundamentally new business model."

Significant challenges



Source: Economist Intelligence Unit survey, 2005

the measures that the company's board of directors in the UK and Ireland will use to judge whether the company is a success in three years. One side effect of this trend is that weaker brands will fall by the wayside. Unexciting brands will become "widows and orphans" in the portfolio, and eventually be converted to private labels, Mr Gutierrez predicts.

In addition to being relevant, brands must also be powerful enough to lend extra durability to promotional activity. In Mr Donahue's view, McDonald's Japan will have achieved brand penetration when it can experience prolonged sales impact from individual promotional events.

Companies will need to create brands that strike a lifestyle chord in consumers, and that change the way that they perceive not only the product, but their broader attitudes and behaviour. Striking that chord will be one of the biggest challenges facing consumer-focused businesses as consumer preferences change rapidly. Eighty-one percent of retailers and 76% of manufacturers said that "changing demand patterns" will be a critically important or very important driver of change over the next three years.

The top challenge in creating attractive brands is therefore to understand what motivates customers to buy. Blyth, a US-based global designer and marketer of home-decorative and fragranced products such as candles and potpourri, thinks it has the answer. It sponsors an annual Global Design Forum for its 12 businesses so they can share their perceptions of consumer needs. The global businesses also share ideas through video-conferencing, and their intranet site features useful product and market intelligence. "No other home decor company can put that much brainpower together to determine what their customers are looking for," says Bruce Crain, president of Blyth's Wholesale Group. "We're trying to connect the dots where other people don't even see the dots."

The battle to create distinctive, powerful brands will become even more intense over the next few years. Ms Cottineau, executive director of consumer branding at Interbrand, expects to see more cross-branding as strong brands associate with each other to rise above the marketing fray. For example,

Pepsi and speed to market

Peter Gutierrez, region vice-president for PepsiCo in the UK and Ireland, can't seem to please everybody. The beverages market has become far more complex than the original trio of soda, water, and squash. The supermarket chains have become more concentrated in the UK than in, for example, North America, and consumers are fickle and self-contradictory. "They are at the same time eco-friendly in their purchasing habits and jet off to Rome for the weekend, not seeing the contradiction," says Mr Gutierrez. Not to mention the fact that the UK and Irish populations are widely divergent politically, socially, religiously and economically. Mr Gutierrez has worked with PepsiCo in China, Asia, Thailand, Middle East, Venezuela and France, so is well-qualified to deal with the divergences.

PepsiCo's largest challenge is keeping up with consumers' changing tastes. Over the next few years, PepsiCo will offer more product enhancements, and will measure its success on the basis of its strength in innovation, as measured by growth emanating from three key consumer trends: indulging good taste, health and well-being related to what is consumed, and convenience.

Getting out of the traditional mindset is essential to figuring out which new products make sense. Whereas PepsiCo's research and development employees spend their lives immersed in the world of PepsiCo, PepsiCo represents "only a nanosecond" of the consumers' day.

As a result of the more frequent changes in consumer tastes, it views speed to market as a key competitive differentiator. If a new product isn't available before the old one declines, the consumer may be lost to a competing brand. "You never want to be told by a customer that the brand is dead", says Mr Gutierrez.

Talking about the pace of change, Mr Gutierrez adds: "the days are gone when consumers would come home, have dinner, and watch television all night. Parents are so busy that the only time to get their attention is at 9pm after the kids are in bed. You almost have to track consumers with time and motion studies to figure out when they have time to absorb product messages."

Travelocity, an online travel operator, and Netflix, an online DVD rental site, recently ran a "Las Vegas" promotion that boosted Netflix's sales and helped Travelocity differentiate itself in a relatively commoditised market.

Continuously revitalise the product line

In order to keep their brands fresh and at the cutting edge of customer demand, consumer businesses will need consistently to renew their products and the promotional pipeline. Among the classic "four Ps" of marketing (product, price, place, promotion), "product is king," says Mr Gutierrez. "But within that, you've got to keep up with consumers. You don't want to be told by a customer that the product is dead. You need to be a lot bolder than that. The speed at which companies innovate will determine their success or failure." Survey participants agree. Sixty-nine percent say new product development will be important or very important to their company's growth over the next three years, and more companies said they would invest in new product development than in any other area.

That is why companies need to invest in a "world-class new product engine," according to Blyth's Mr Crain. Repeatability is critical, given short product life cycles. While innovation must be continuous and rapid, however, it does not have to be dramatic. Mr Crain emphasizes the importance of bringing the right products to market quickly, even if they are not original or are minor changes from the current product line. "People love to look at wild and crazy stuff, but at the end of the day 40% of consumers still buy generic products ," he says. Ms Cottineau of Interbrand adds that some companies exploit a "second-mover advantage" on the heels of a new product introduction, imitating useful new features, but with a brand that gives the consumer more from the experience.

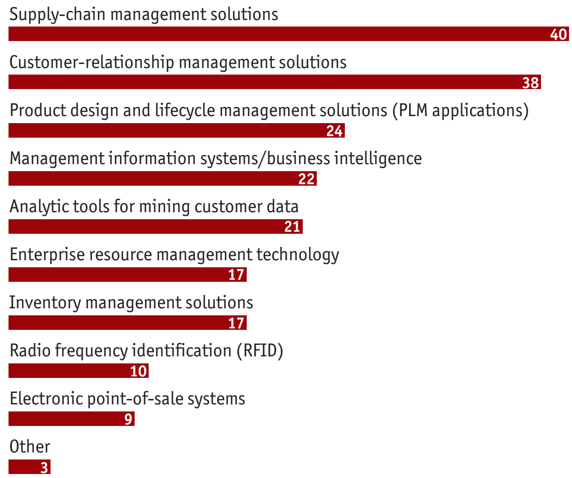
Squeeze maximum value from the supply chain

Managing cost is clearly a top priority for both manufacturers and retailers. When presented with 11 challenges, 62% of retailers and 43% of manufacturers cited reducing costs and maximising efficiencies as their single greatest worry. Furthermore, they listed the pressure to reduce prices as the largest competitive threat. Furniture merchant, Ikea, recently lowered its prices by 17% to become more competitive in the in-home furnishings segment.

Cost reduction is tied tightly to branding and new-product issues because it funds the investment needed to excel in the other areas. PepsiCo's Mr Gutierrez views supply-chain productivity as the flip side to the introduction of new products. The savings from productivity improvements provide the means to do more research and development. The close relationship between the three trends goes a long way towards explaining why this trio of concerns rose to the top in this study.

The clear target for cost reduction is waste and inefficiency in the supply chain. Thus supply-chain solutions will be the most critical technology for supporting business goals over the next three years. Another 24% cited product lifecycle management (PLM) solutions as critical.

Which of the following technologies will be most critical to support your business goals over the next three years? Select two options



Source: Economist Intelligence Unit survey, 2005

Global sourcing will persist and become more sophisticated. Eighty percent of Wal-Mart's suppliers are Chinese, and many western CPG companies have set up their own plants in Asia. Even high-end prestige CPG companies and retailers are looking eastward, since the wage rate in China is about 3% of that in Germany. India, Taiwan, Korea and other "tigers" offer

Blyth and product engine

Blyth is a US$1.1bn leading designer and marketer of home-decorative and fragranced products based in the US. Although phenomenally successful—it was a US$50m-company as late as 1990 and has grown 22-fold since then—relatively few people have heard of it.

With little brand equity, Blyth relies on operational excellence to develop and deliver its products globally. Blyth exemplifies what PepsiCo's Peter Gutierrez describes as funding product innovation with supply-chain productivity. It has to be good at operations since it sells through four different channels: direct sales, catalogue sales, internet sales, and wholesale.

Bruce Crain, president of Blyth's Wholesale Group, describes how four key processes operate harmoniously to deliver new products at low cost: research, development, sourcing, and logistics. For example, its fragrance laboratories employ PhD chemists; its worldwide network of sales agents and management staff develops products and commercialises ideas; its six satellite operations in Asia source raw materials and merchandise for resale. And its consolidated warehouse and distribution network is optimised to avoid costly reprocessing and unnecessary transportation.

more sophisticated manufacturing processes with slightly higher labour rates. Blyth, for example, has a team of 60 sourcing professionals located in Asia. It operates two tiers of capacity: one supplier for the base volume, and another (in a low-cost country) for supplemental capability when products become unexpectedly popular.

Supplier partnering will be another important initiative in achieving these new savings and efficiencies. Suppliers can quickly recommend minor improvements in packaging, according to both Royal Ahold and Interbrand. However, leading companies will go much further. For example, McDonald's will push its supply-chain partners for help in product and commercial innovation. "In the future, we'll ... sit down and review data that is specific to a supplier and its products, and share a bigger, broader direction and plan [with our suppliers], then identify and bring these improvements to the market," says Pat Donahue. Blyth is Wal-Mart's category advisor for candles, working closely with the buyer to analyse data and help make effective merchandising decisions. "CPG companies need to work in conjunction with retailers to determine the right mix. Retailers that don't let their suppliers help them are losing out," says Blyth's Mr Crain.

In-transit visibility will get more attention as radio frequency identification (RFID) standards emerge. Given shorter product cycles, sales and replenishment data must be rapidly transmitted down the supply chain. Wal-Mart has mandated that its suppliers use RFID tags, accelerating what otherwise would have been slower adoption. As a result of this, other retailers, like Royal Ahold, are studying RFID and developing implementation plans of their own. Industry experts agree that in-transit visibility will facilitate lower inventory, reduce material handling, diminish shrinkage and improve quality control for perishable products. Some feel that the large retailers will reap most or all of the benefits from implementation, leaving manufacturers to bear the brunt of the investment. Other executives interviewed for this report saw the flow of information between retailers and manufacturers as an opportunity for collaboration, and an area where both parties could do more to identify and rapidly respond to consumer needs.

Conclusions

The outlook for retail and CPG sales is, on the whole, bright. However, competition for consumers' time and money will be fierce, and only those companies that rise above the fray and keep pace with consumers' changing tastes will thrive.

In order to achieve the focus and intensity required to build or sustain a competitive advantage in this environment, retailers and CPG manufacturers must work together. Because their product is one and the same in the eyes of the consumer, retailers and their suppliers can boost their sales , increase their market share, and better position themselves for growth by sharing data, ideas and processes.

For their part, CPG manufacturers must create brands that strike a lifestyle chord—branding around subordinate messages about quality or cost will be necessary, but insufficient. They must help retailers interpret and aggregate consumer data and act on its implications; they must develop a rapid new product development capability that constantly and rapidly refreshes the product line; and they must source from low-cost suppliers.

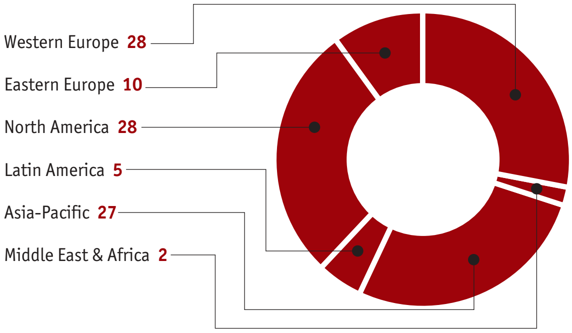
Retailers must mine point-of-sale data to understand how buying patterns are changing, continuously refresh the way products are presented and sold in order to build customer loyalty and help manufacturers to adapt global brands to local tastes.

In the future consumers will buy dynamic brands that are adapted to local tastes and sped to the market at low cost. Retailers and manufacturers will have difficulty serving this recipe independently, and misalignment or channel conflict could jeopardize success. However, based on the mutual interests expressed in this study, both manufacturers and retailers appear ready and able to meet the challenge.

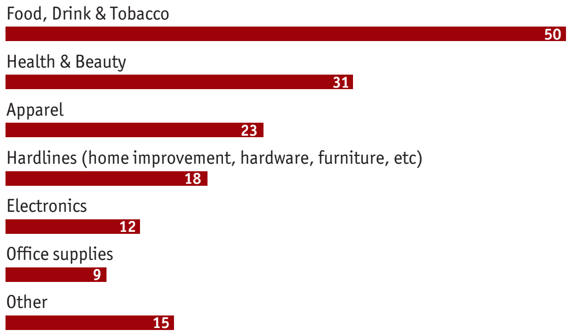
Appendix

A total of 123 senior executives participated in our online survey on trends in the retail and consumer goods industry. The survey was conducted in August ans September 2005, and our thanks are due to all there who shared their time and insights.

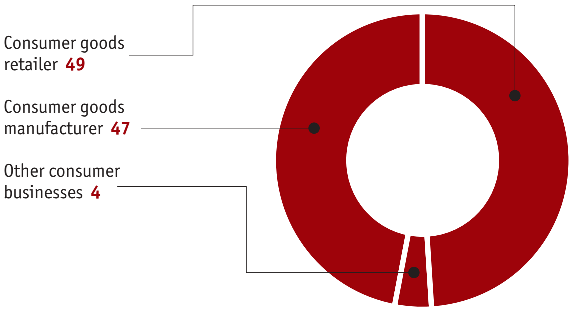
In which region are you personally based?
(% respondents)



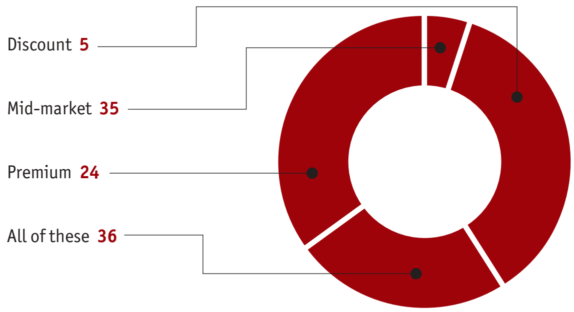
What product categories does your company cover? Select all that apply
(% respondents)



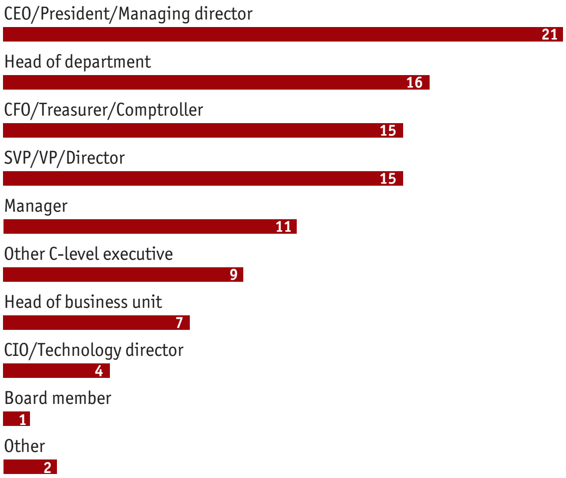
Which describes your business?
(% respondents)



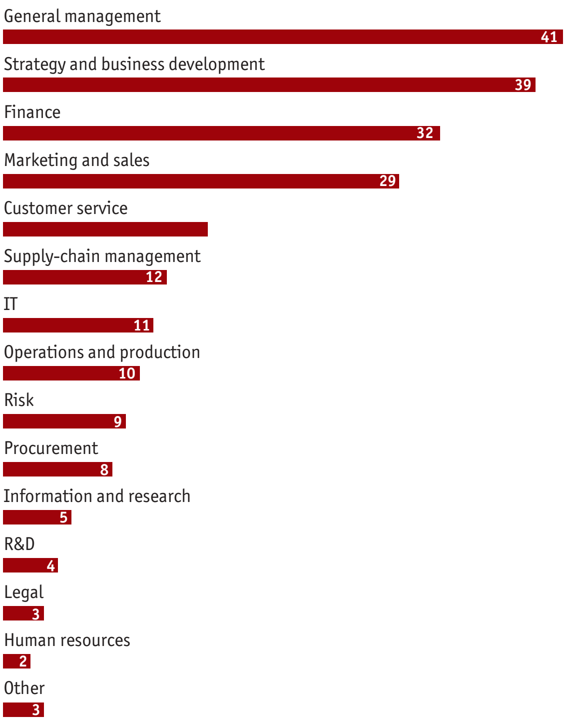
What market segment is your company primarily serving?
(% respondents)



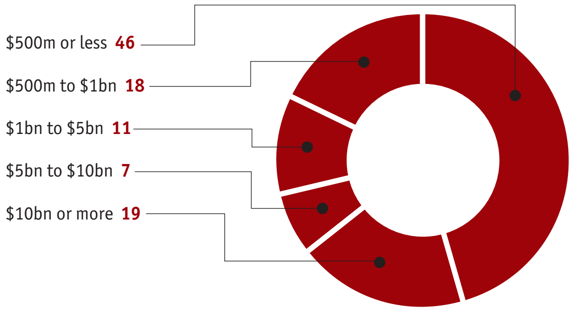
Which of the following best describes your title?
(% respondents)



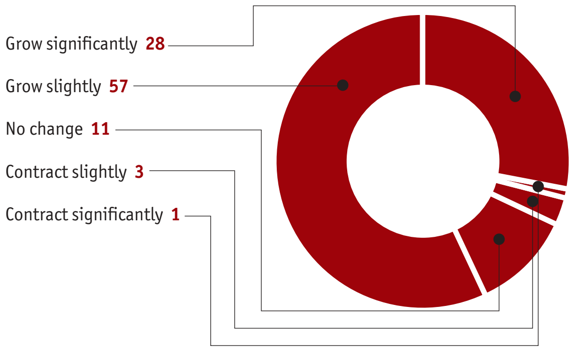
What are your main functional roles? Please choose no more than three functions.
(% respondents)



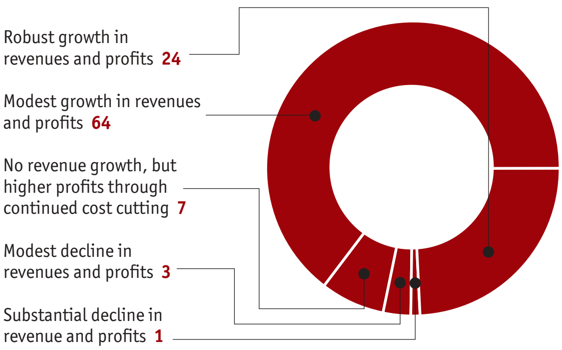
What are your organisation's global annual revenues in US dollars?
(% respondents)



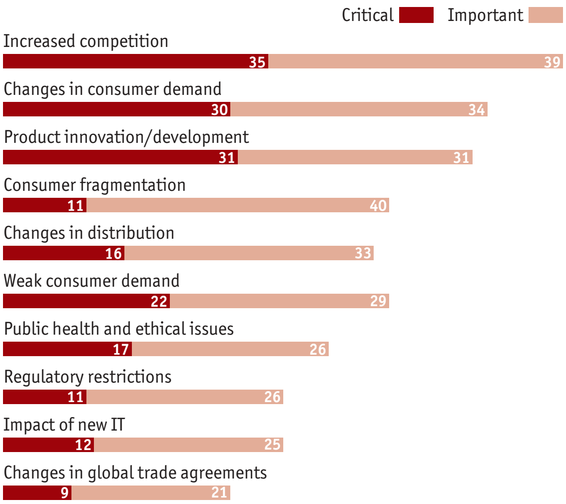
Do you expect the main markets your company serves to grow or contract over the next three years?
(% respondents)



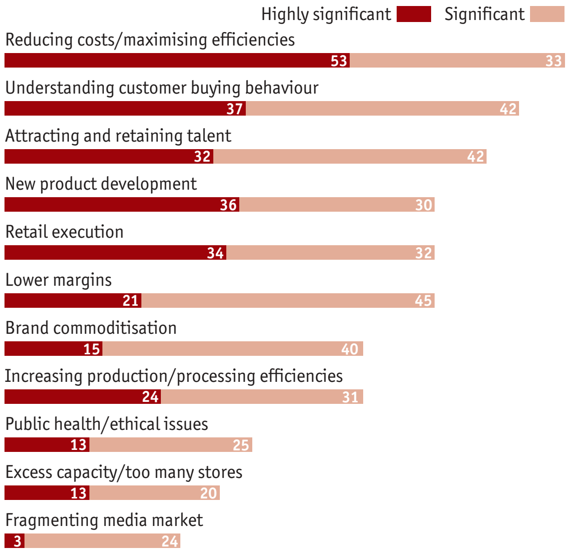
How well do you expect your company to perform over the next three years?
(% respondents)



Drivers of change

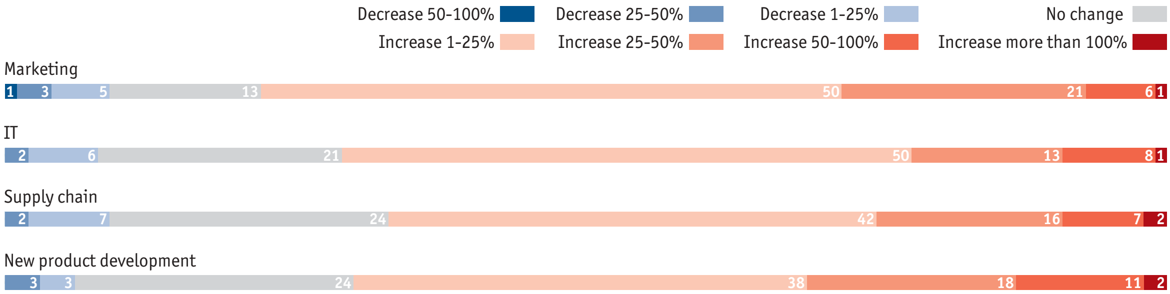


Significant challenges



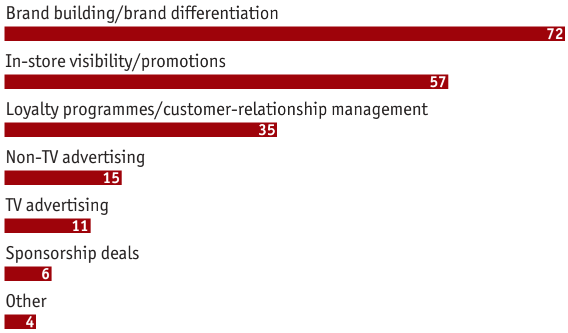
How significant are the following as sources of competitive threat to your business?

How will your company's investment in the following areas increase or decrease over the next three years?

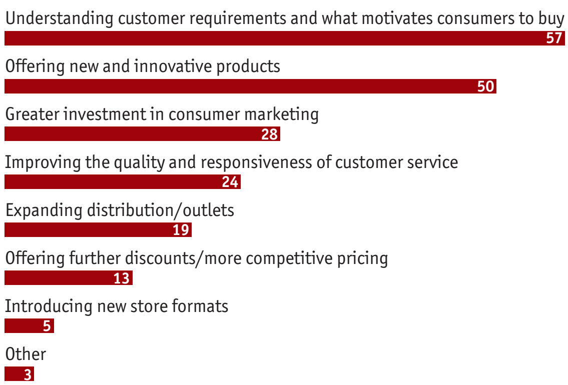


How important will these growth strategies be to your company over the next three years?

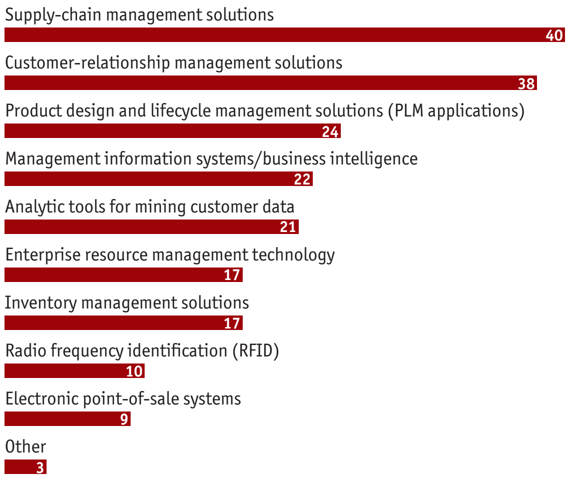
Which of the following marketing strategies are most crucial for driving growth in your business? Select two options



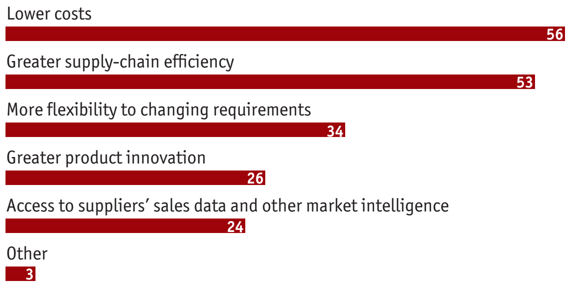
Which of the following strategies will your firm rely on most to attract consumers over the next three years? Select two options
(% respondents)



Which of the following technologies will be most critical to support your business goals over the next three years? Select two options

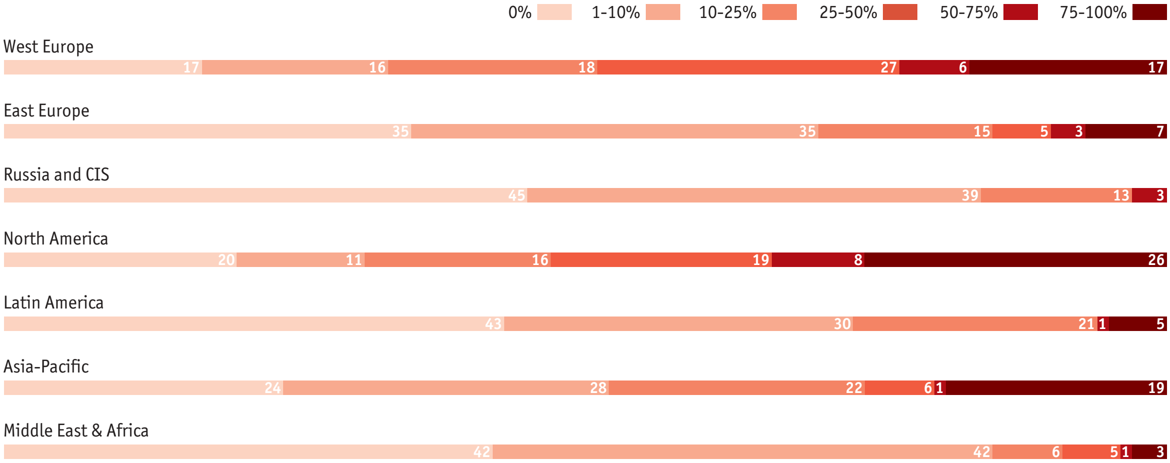


In which of the following areas will you be looking for major improvements from your suppliers over the next three years? Select two options

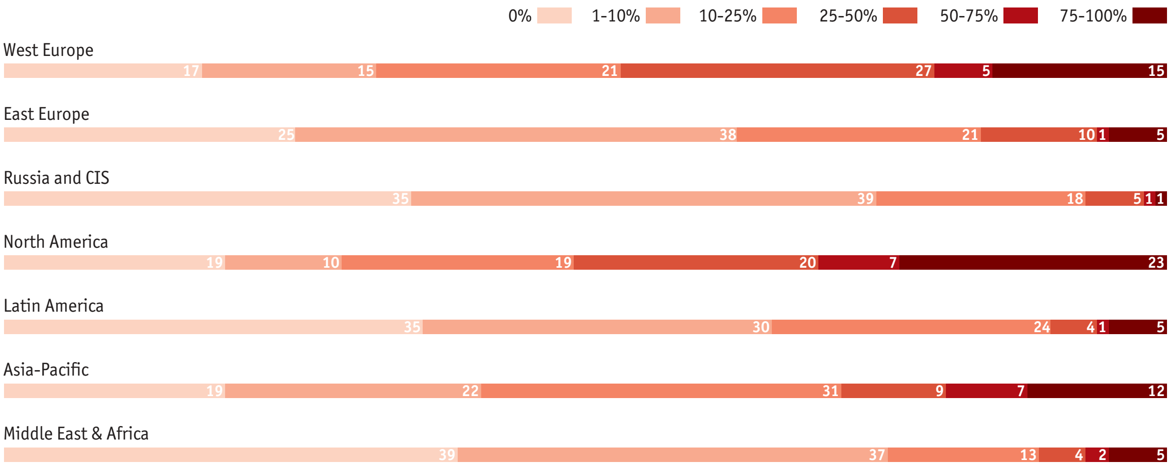


How significant are the following as sources of competitive advantage for your company over the next three years?

Roughly what percentage of your company's revenue comes from the following regions?



Roughly what percentage of your company's revenues do you expect to come from the following regions in three years' time?



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