Courting the Consumer
Creating Dynamic Brands in Retail and Consumer Goods

Economist Intelligence Unit

San Francisco, 28 February 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

### Product Categories Covered

<table>
<thead>
<tr>
<th>Category</th>
<th>Percent of Respondents</th>
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<tbody>
<tr>
<td>Food, Drink &amp; Tobacco</td>
<td>30%</td>
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<tr>
<td>Health &amp; Beauty</td>
<td>20%</td>
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<tr>
<td>Apparel</td>
<td>15%</td>
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<tr>
<td>Hardlines</td>
<td>10%</td>
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<tr>
<td>Electronics</td>
<td>5%</td>
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<tr>
<td>Office Supplies</td>
<td>5%</td>
</tr>
<tr>
<td>Other</td>
<td>5%</td>
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</table>

0% 10% 20% 30% 40%
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

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

Percent of Respondents
Consumers will expect innovation

“We’re trying to connect the dots where other people don’t even see the dots”
– Bruce Crain, Senior Vice President, Blyth

**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

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**

**Revenue distribution by world area**

- **In 3 years**
  - Middle East/Africa: 24%
  - Asia-Pacific: 59%
  - Latin America: 35%
  - North America: 71%
  - Russia/CIS: 26%
  - Eastern Europe: 37%
  - Western Europe: 68%

- **Now**
  - Middle East/Africa: 15%
  - Asia-Pacific: 48%
  - Latin America: 27%
  - North America: 69%
  - Russia/CIS: 16%
  - Eastern Europe: 30%
  - Western Europe: 68%
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
In summary: Implications

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