

Is economic uncertainty affecting FMCG sales?

Topline Report

First Quarter (Q1 2013)



Tim Eales

Director of Strategic Insight



IRi

Growth delivered.

Key findings

- **The crisis is here to stay:** most countries are in recession and the ones that are recovering are worried about the global European economic context. Unemployment rates are increasing in most countries touching more than a quarter of the population in some places. Economic context and forecast are impacting consumer confidence.
- **Inflation rates remains high or are increasing**, except in France, due to the price war, and in Greece. VAT increase is one of the reasons. Netherlands is above the European average.
- **Purchasing power is under pressure**
 - due to inflation and recession in many countries, volume sales are impacted on 'less essential' items such as the Non-Food categories, which are down by -6.7% in the Netherlands and -5% in Italy.
 - For Food, most countries have seen volume increase in Q1 (which could just be the effect of an early Easter in 2013) but we notice a trading down of the shopping basket when prices are still going up.
 - High promotion pressure and private label growth in most countries are opportunities for shoppers who have to compromise more and more often on quality to get the same amount in grocery basket.
- **The retail landscape is changing to adapt various shopper needs and economical context.**
 - In France, despite an almost flat volume sales in FMCG, shoppers are still not convinced by the 'quality for value' promise of the hard discounters where sales are going down, which is partially impacting private label sales,
 - With the tough economic environment in Spain and Greece, small stores are closing as shoppers go to supermarkets and hard discounters in Greece, where they can access more private label and promotions,
 - German shoppers are loyal to discounters despite the highest price increase, mainly due to more national brands listed.

Trading Down
of the Shopper
Basket

Non Food
is 'Less Essential'

Key findings

- **Private labels (PL) are challenging national brands.**
 - PL share has increased in all countries except France and UK but has started to slow down in Spain, although it's still accounting for 43,3% of the market value.
 - The price war in France is favourable to national brands and the low performance of the hard discounters is impacting the PL sales.
- **Promotion pressure remains strong in several countries.**
 - It reaches its highest level in Netherlands where prices have significantly increased, and in Italy where PL are gaining market shares,
 - In Greece, promotion is increasingly active on PL.
 - UK remains the champion with 52,7% of volumes sales on promotion but the growth has slowed down. Some manufacturers have already announced a de-escalation strategy on trade promotion.
 - Germany, with a solid discounter and private label culture, remains the country with the lowest promotion pressure, but it might change with the growing presence of national brands in this channel. In addition, the growth of hypermarkets ,which is impacting hard discounters, will very probably generate competition based on price and private label assortment.

Private Label
and Promotion
Growth...
Never Ends?

FMCG consumer reaction to economic uncertainty

- **The 'smart shopper' remains price cautious and leverage on retailers and manufacturers initiatives**, undertaken to sustain volume sales: high promotion activity, even stronger presence of private labels in most countries and price war.
- **Shoppers are very price sensitive, impacting the composition of their basket.** If price rises are too high, they buy less (less stocking, less 'non essential' products and wasting), different types of items (more private label and back to basics products). In the Netherlands high price rises (+2,6% in Food and +2,7% in Non Food) and have hit volumes (-0,3% for Food and -6,7% for Non Food). But when price rises are slowing down, volumes can recover, as for Food in Germany and in the UK.
- **Price is the heart of the battle** and different strategies are being developed to retain shoppers. Price rises of 2-3% are pushing up value sales everywhere except in Greece. In France a price war between retailers has been on going for several months. In the Netherlands there is a tendency to develop Every Day Low Price (EDLP) products.
- **Shoppers are willing to buy value for money.** This can be the PL offering against which national brands respond with strong trade promotion activity and in some countries the emergence of EDLP. But in many countries, the shopping basket is trading down from the necessity to get the same amount for the same cost despite price increases.
- **Food consumption is back for most countries** although at a slow pace driven partly by PL and trade promotion, however, we have to see Q2 to fully understand the effect of the early Easter in 2013.
- **Non Food categories are the victim of the tough times**; in all countries volumes have been decreasing for several months. Sensitivity to price rises in Non Food categories is an impacting factor but not the only one, consumers and shoppers have adapted their habits as tough times are here to stay: more multi purposes products, less wastage, making products last longer... Buying what they need when they need it, using up what they have already and wasting less!

GDP change - Q1 2013 - % change vs. previous year

Euro area (17 countries) GDP down by 1.1%

■ Germany ■ France ■ Netherlands ■ Italy ■ Spain ■ UK ■ Greece



Greece data is Non-Seasonally adjusted. Seasonally adjusted data is not available yet

Growth rates of GDP in volume
(based on seasonally adjusted data)

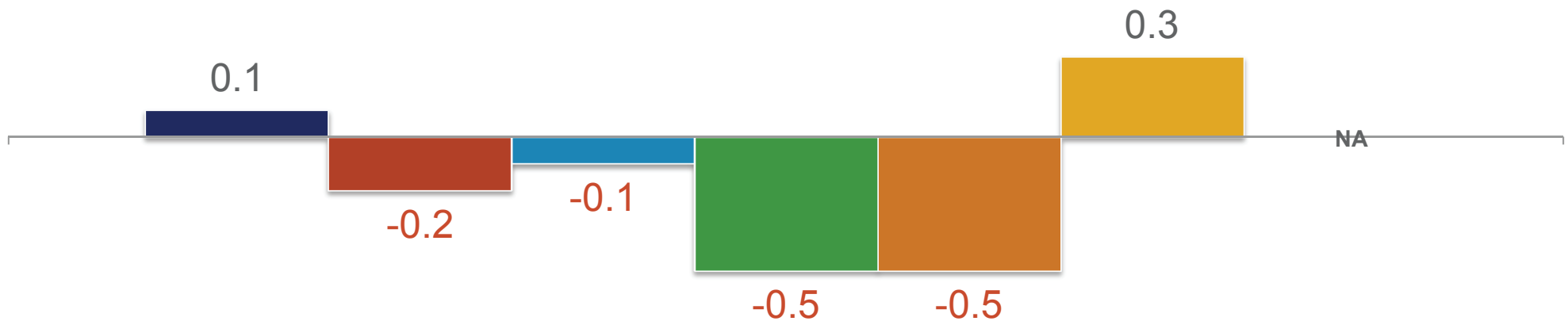
Source : Eurostat Q1 '13 – Checked 7th June 2013

The euro area (EA17) includes Belgium, Germany, Estonia, Ireland, Greece, Spain, France, Italy, Cyprus, Luxembourg, Malta, the Netherlands, Austria, Portugal, Slovenia, Slovakia and Finland.

GDP change - Q1 2013 - % change vs. previous quarter

Euro area (17 countries) GDP down by 1.1%

■ Germany ■ France ■ Netherlands ■ Italy ■ Spain ■ UK ■ Greece



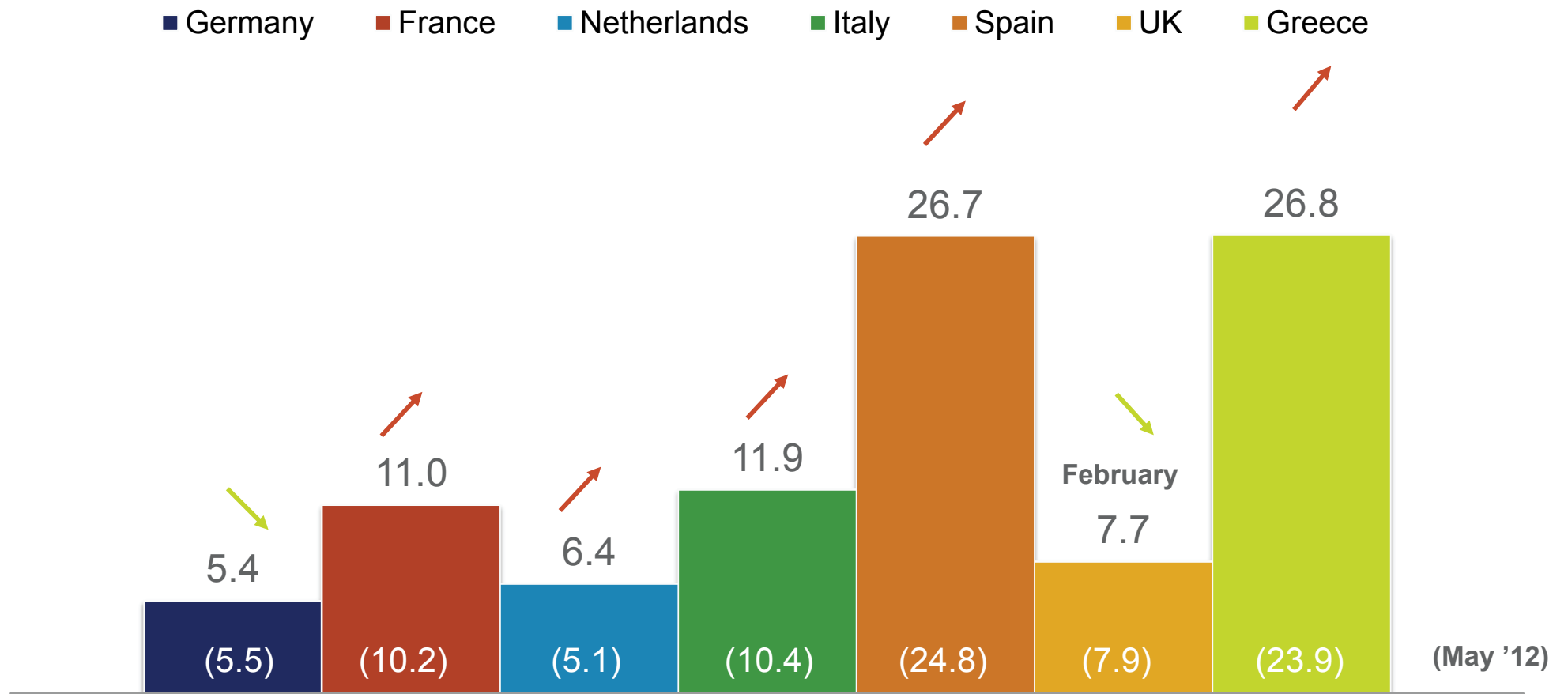
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Growth rates of GDP in volume
(based on seasonally adjusted data)

Source : Eurostat Q1 '13 – Checked 7th June 2013

Unemployment rate in March 2013 compared with May 2012

Euro area (17 countries) unemployment up to 12.1%



Source: Eurostat March '13

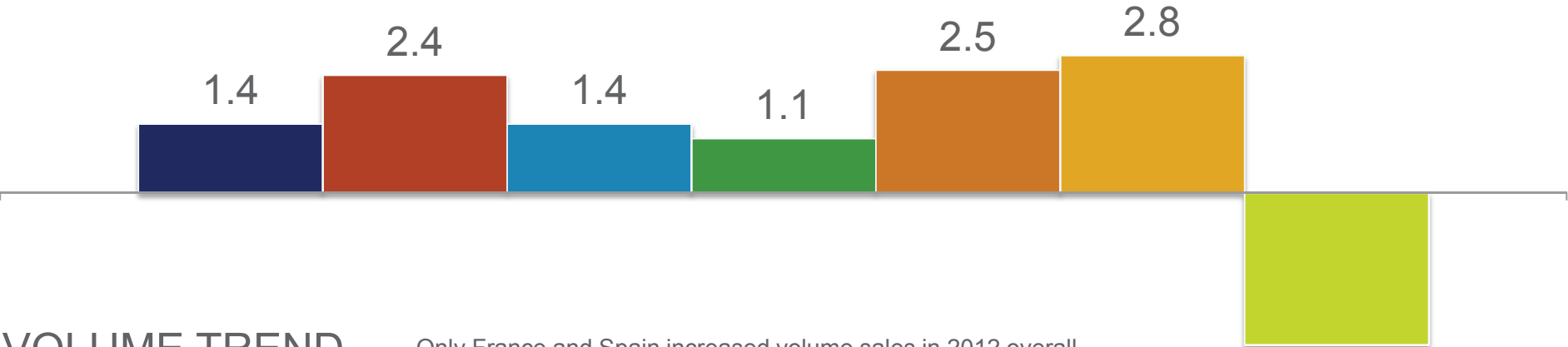
FMCG Growth - Full year 2012 - % change vs. previous year

■ Germany ■ France ■ Netherlands ■ Italy ■ Spain ■ UK ■ Greece

Full Year

VALUE TREND

Price rises of 2-3% are pushing up value sales everywhere except in Greece.



VOLUME TREND

Only France and Spain increased volume sales in 2012 overall.



UNITS trend for Greece

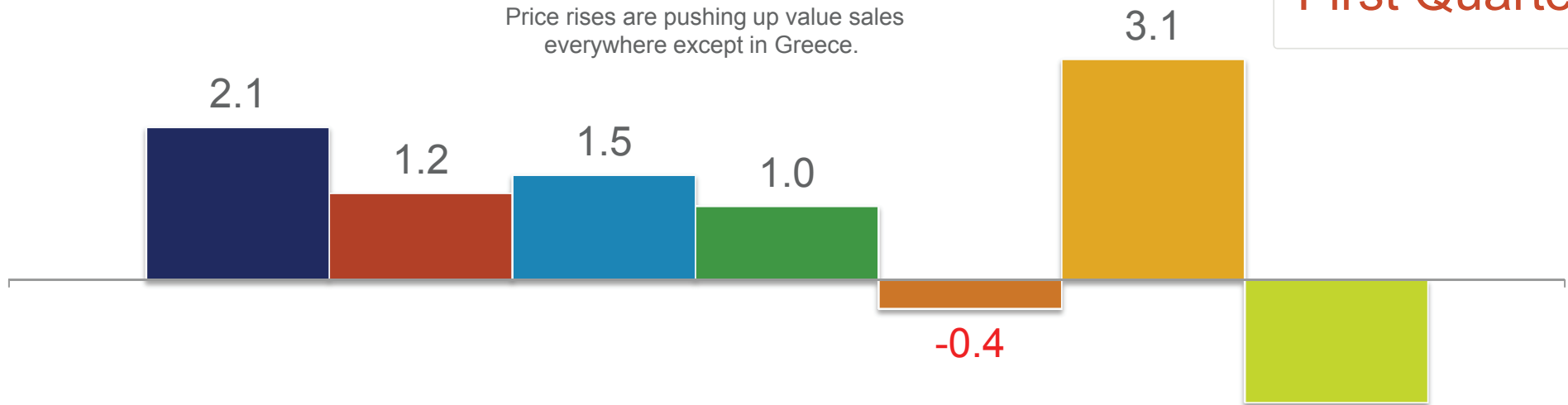
FMCG Growth - Q1 2013 - % change vs. previous year

■ Germany
 ■ France
 ■ Netherlands
 ■ Italy
 ■ Spain
 ■ UK
 ■ Greece

VALUE TREND

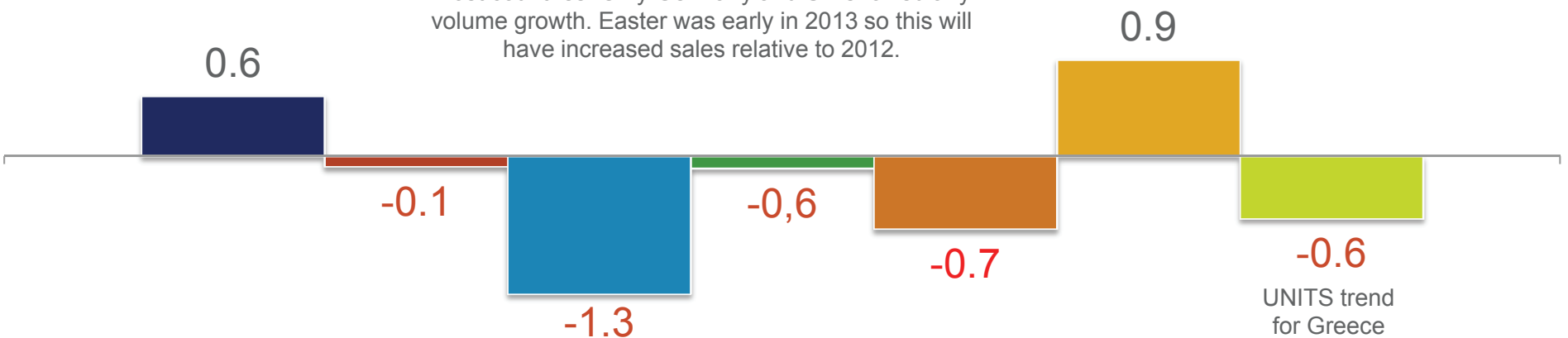
Price rises are pushing up value sales everywhere except in Greece.

First Quarter



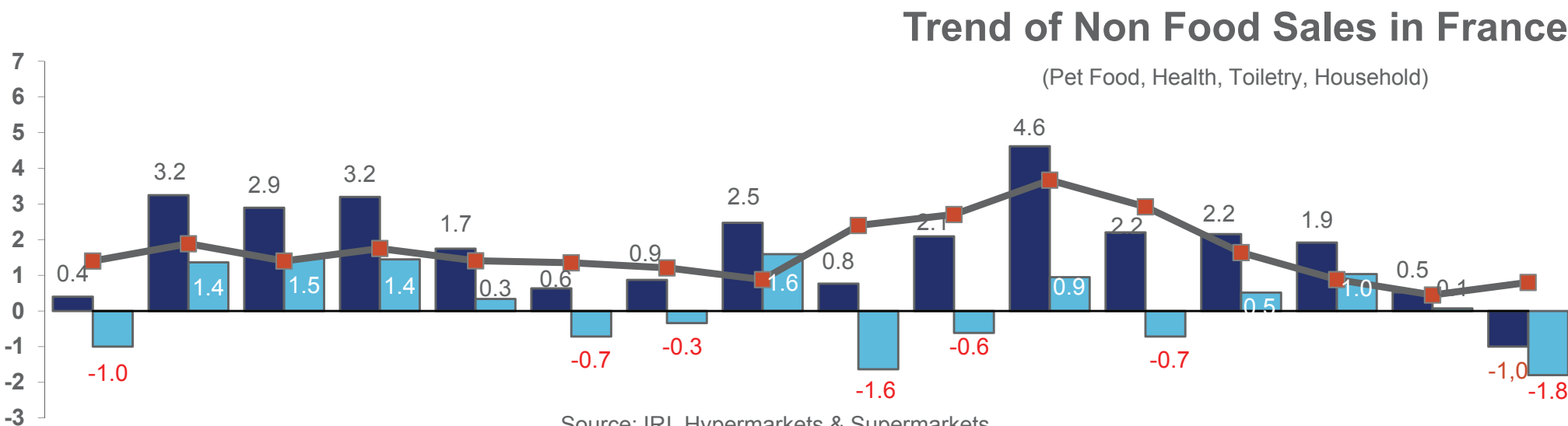
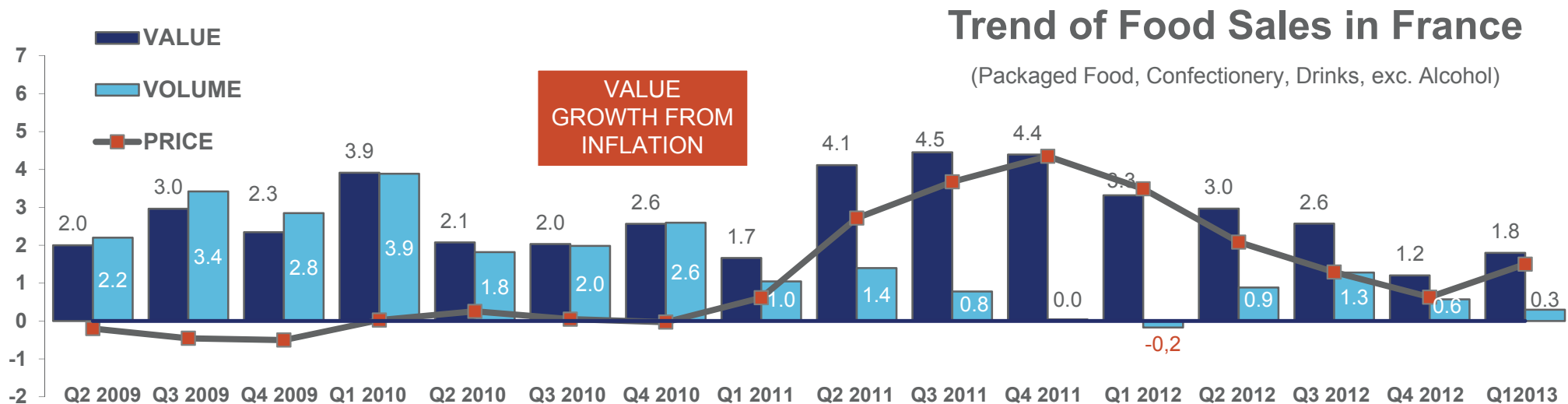
VOLUME TREND

The first quarter of the year was a poor one for most countries. Only Germany and UK showed any volume growth. Easter was early in 2013 so this will have increased sales relative to 2012.



UNITS trend for Greece

In France, Q1 Food volume sales grew more slowly, with prices increase going up to +1.5% (The early Easter may even have inflated the volume trend). Non Food volume was down.



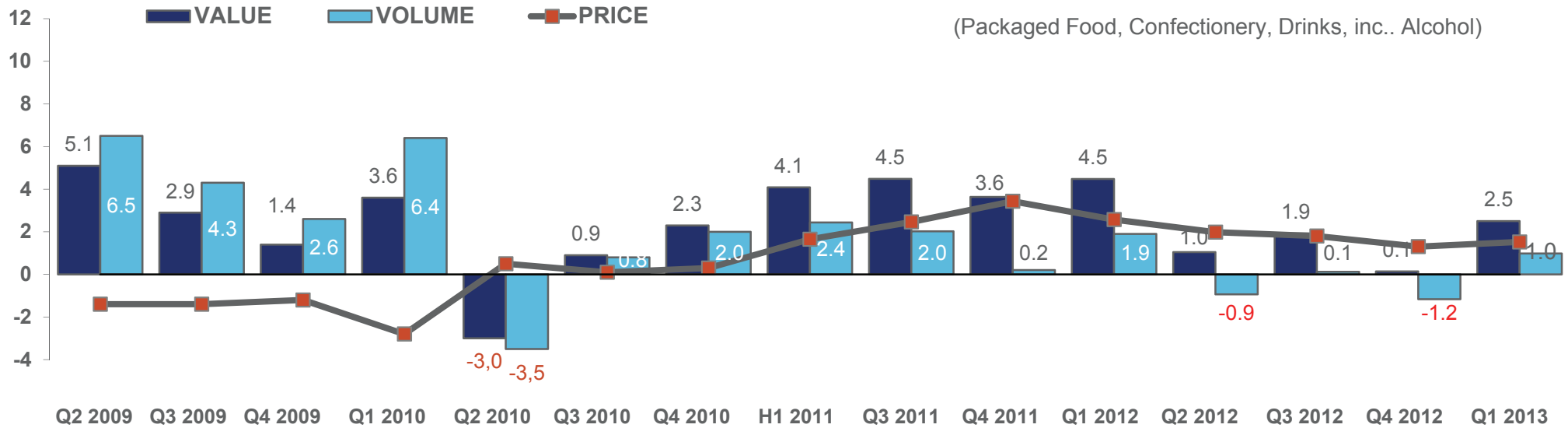
Source: IRI, Hypermarkets & Supermarkets
YoY value & volume price change

- France is now officially in recession.
- INSEE confirmed that consumer purchase power decreased in 2012 and its experts forecast a worsening in 2013.
- INSEE household confidence index is getting lower and lower (83 in march) and could very soon reach its lowest ever level (July 2008).
- Unemployment is still going up and set a new record in March.
- The only good news for FMCG is the price evolution.
- Inflation rate is now very low (+0.3% in March compared with March 2012) and we even see a price decrease on many sectors and categories (non food, water, yoghurts,..) ; the price war is harder and harder.
- During the latest quarter, the FMCG volumes are stagnant in HM+SM.
 - A very tiny increase for food, partly thanks to a small “Eastern effect”.
 - A strong decrease for non food.
- We can explain these bad trends because the usual big promotions on personal care (opé-beauté) has been put back to April.
- Private label market share and Hard Discount performance are still decreasing.

In Italy, Q1 Food volume recovered but helped by Easter coming earlier than in 2012. The decline in Non Food volume has continued but with prices actually going down in Q1.

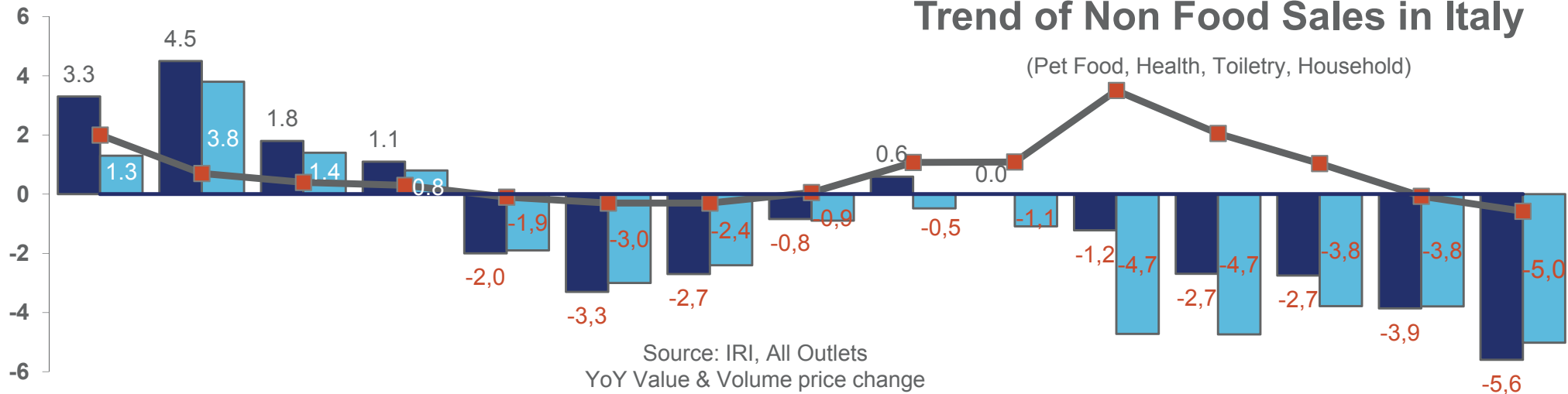
Trend of Food Sales in Italy

(Packaged Food, Confectionery, Drinks, inc.. Alcohol)



Trend of Non Food Sales in Italy

(Pet Food, Health, Toiletry, Household)

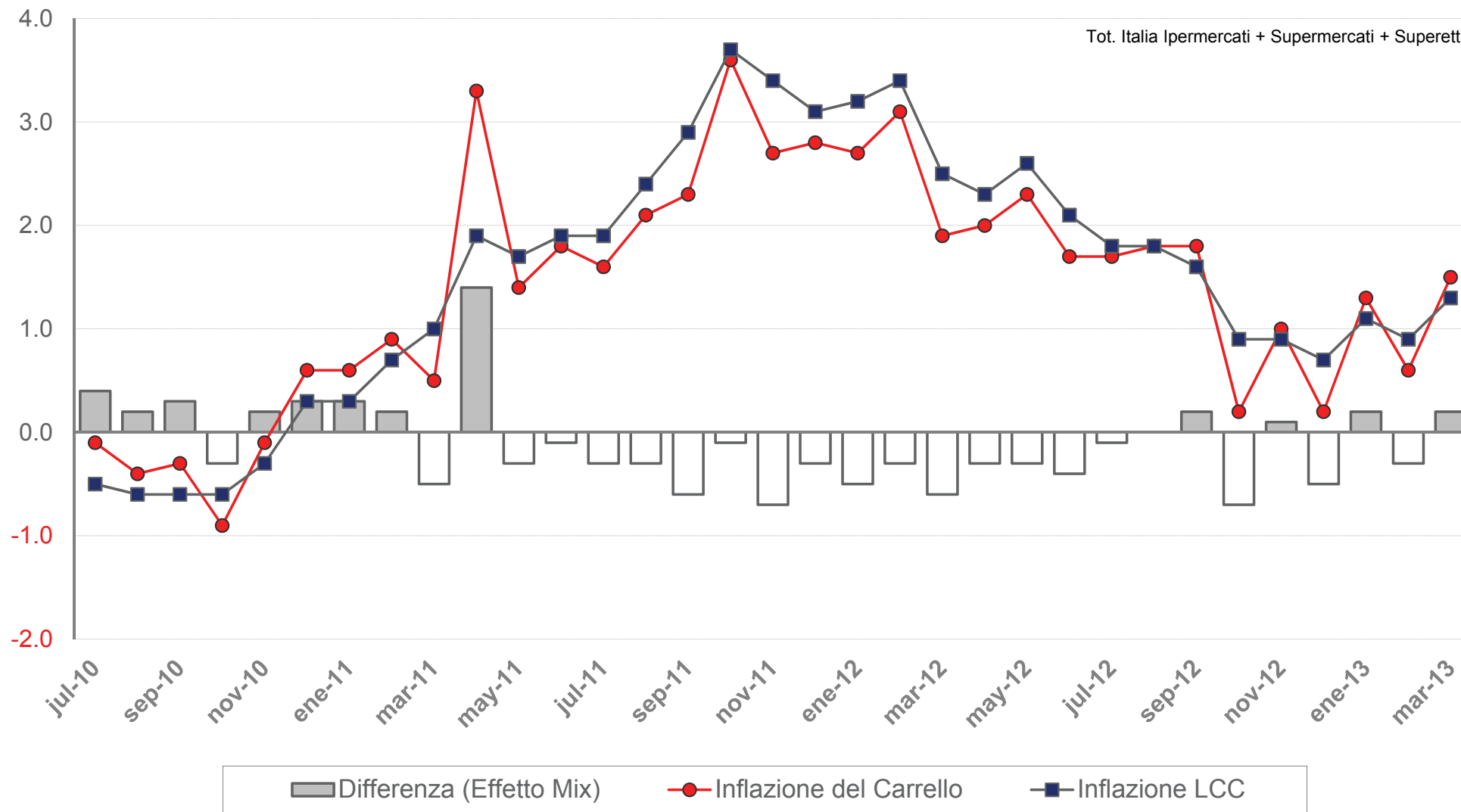


Source: IRI, All Outlets
YoY Value & Volume price change

Inflation rate is below 1% during the last two months. Price decrease started in November 2012.

FMCG

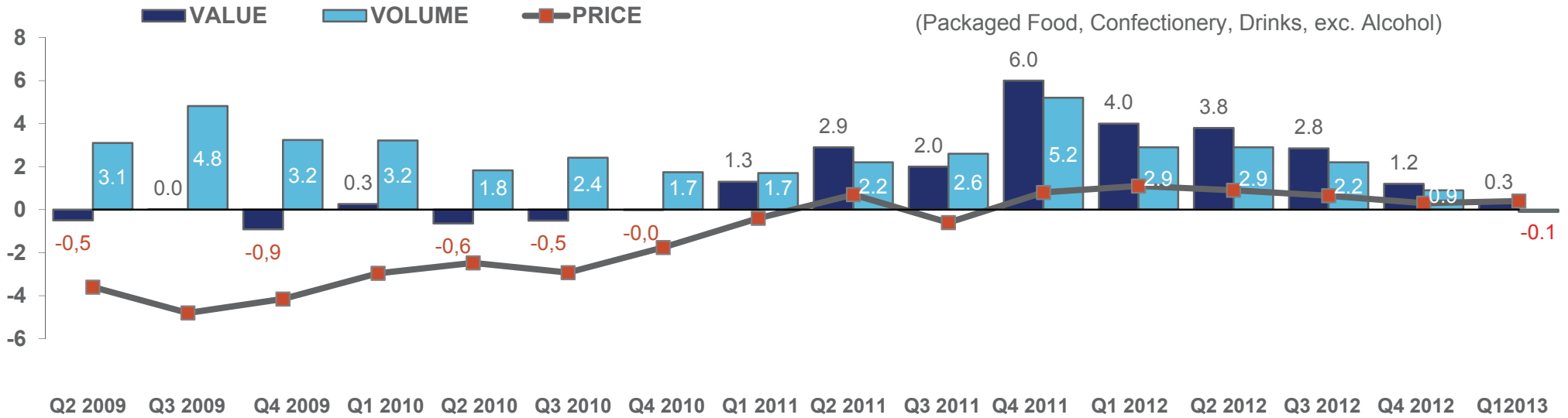
Tot. Italia Ipermercati + Supermercati + Superette



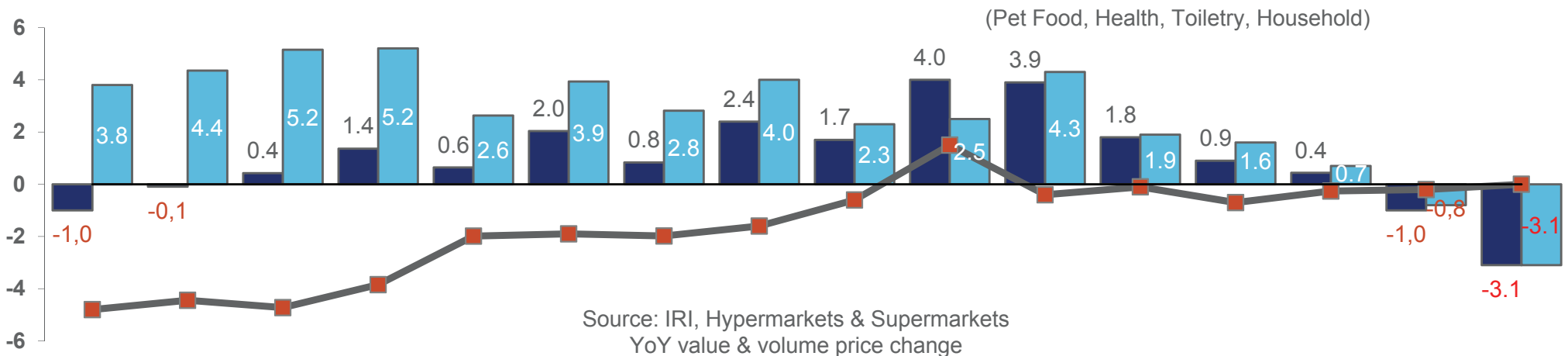
- The macro economic scenario in Italy shows a difficult situation for both consumption and GDP trends throughout 2012, and during the first months of 2013. The recovery phase seems to be a long way off. The Istat forecast for the first quarter is a decrease of -2.3% vs. the previous year and by -0.5% vs. the previous quarter. The Italian GDP forecasts for 2013 indicates a -1.5% (Source: OCSE).
- Unemployment is up to 11.5% in March 2013 (Source Eurostat). This is a really high rate and affects mostly young people and the South of the country.
- In March 2013, the index of consumer confidence increased a little from 86 to 85.2 (Source Istat). Both economic and personal scenarios are involved in this decrease of the consumer confidence index.
- The purchasing power of households is under pressure. Families' disposable income rate during the last quarter of 2012 was down by -3,2% vs. the same period of 2011 (Source Istat).
- FMCG trends during the first quarter of 2013 are affected by Easter. Even if consumption are very low, in March we register positive trends in Food & Beverage categories that during the previous months were performing not very well. Overall we registered a decrease in FMCG volumes in March: -0,5%. The volume decreases were registered particularly in the South of Italy where the crisis is stronger. These trends mean the market is suffering against the difficult economic context. Also sales in value were weak, in fact they reached only +0.5% considering prices increased by 1% and that Easter festivity pushed consumptions.
- For all of 2012 trading down has been seen in the FMCG shopping basket and it is still registered during the first quarter of 2013. This has been caused by increased prices and the need to save money. FMCG inflation registered a decrease since November 2012 and during March is at 1,3%. All categories registered this decrease. Only Beverage and fruit & vegetables categories are over 2%.
- There has been a large increase in the number of own labels, resulting in share improvement, during the last months particularly. Private label market share is at 17.9% in March 2013. Branded products suffered more than own labels in the difficult economic climate.
- Trade promotions are relatively high, promotional pressure is at around 27.7% in March with a growth of 1.3% vs. previous year. Branded products value sales in promo is at 28.9% (+1,8%). Private labels are generally promoting less than branded products (22.1%).

In Spain, Food prices are barely changing. Food volume declined in Q1'13. Non Food sales showed a worsening trend.

Trend Spain Food Sales in Spain

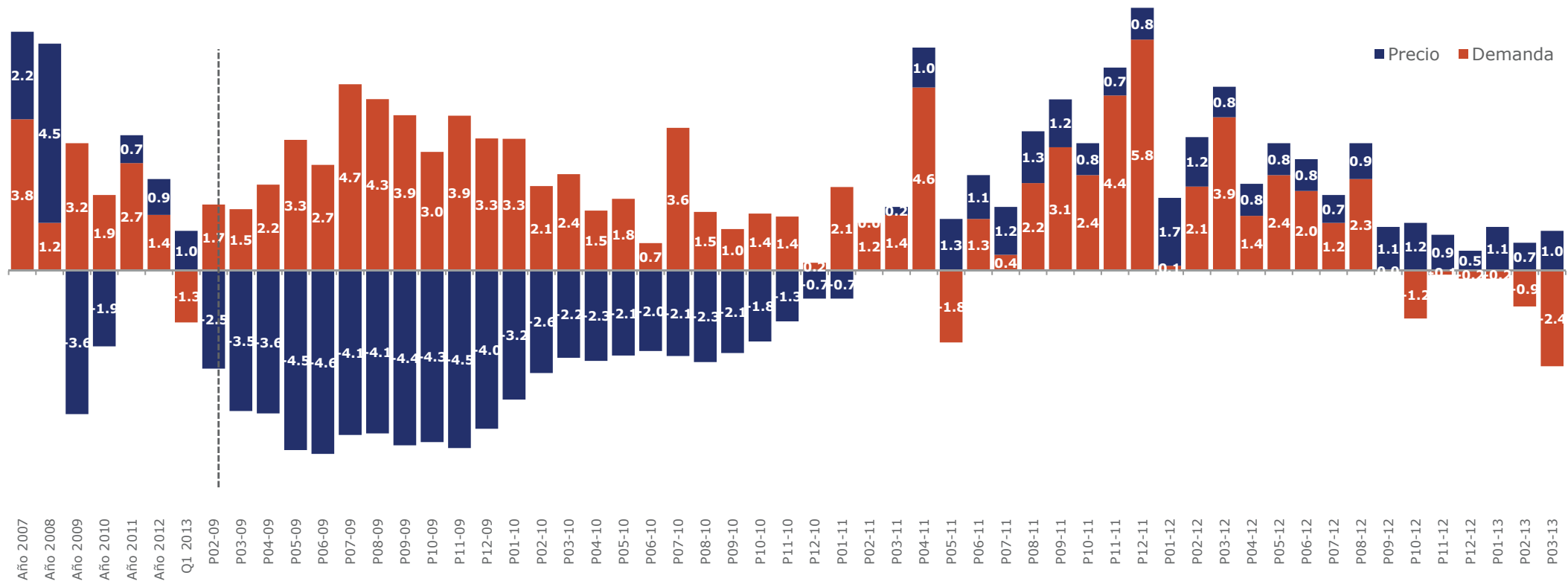


Trend of Non Food Sales in Spain



Spain - Prices have risen continuously throughout 2012. After VAT increase in September, demand is down, although price evolution remains the same.

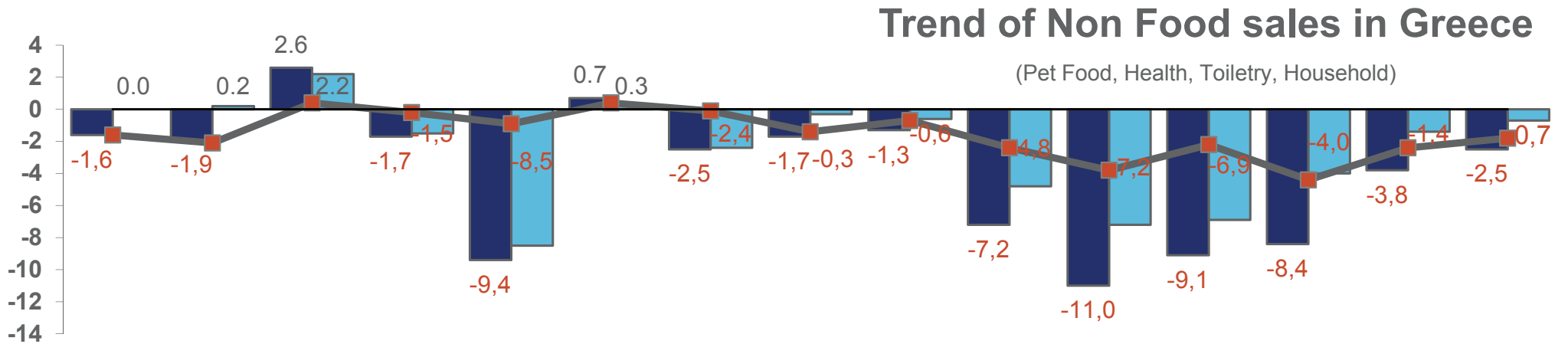
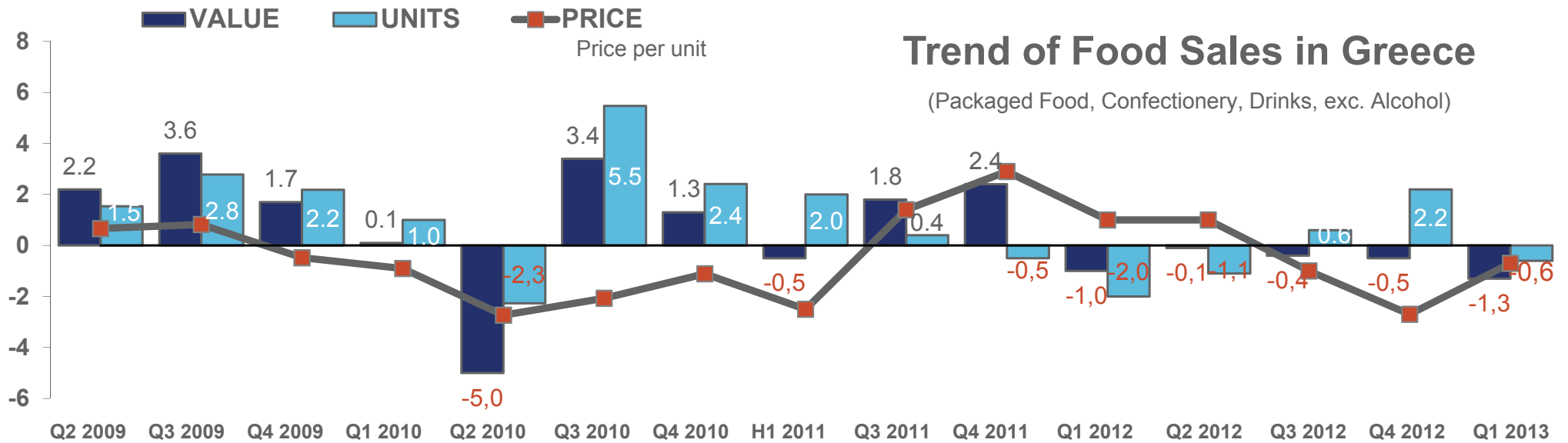
Sales Evolution FMCG Market vs. previous year: demand and price evolution



- High demand fallen in March 2013, due to Easter calendar effect (28th-29th March), as in 2012 Easter was in April.

- VAT increased in September from 18% to 21%, although price rises do not reflect the full amount of this increase, showing only +1%.
- Value sales evolution has remained quite flat in Q1 -0,3%, because of the change from Horeca to back to home trend, and also due to the close of small stores. So people buys more in hyper and super, and keep them floating.
- But consumption has been affected, and first quarter has a strong decline : -1,3%. During the last months of 2012 slowed down, with negative figures since October.
- Unemployment continued to increase, rising to 27% in Q1 2013. Annual inflation (CPI) for April 2013 was 1.4% and % GDP has decreased -1.9% in Q4 2012.
- PL value in Q1-2013 was 43,3% of value sales, but it has slowed it's raise trend to +2,6%. Manufacturers value sales continues their decreasing trend, losing -2,5%.

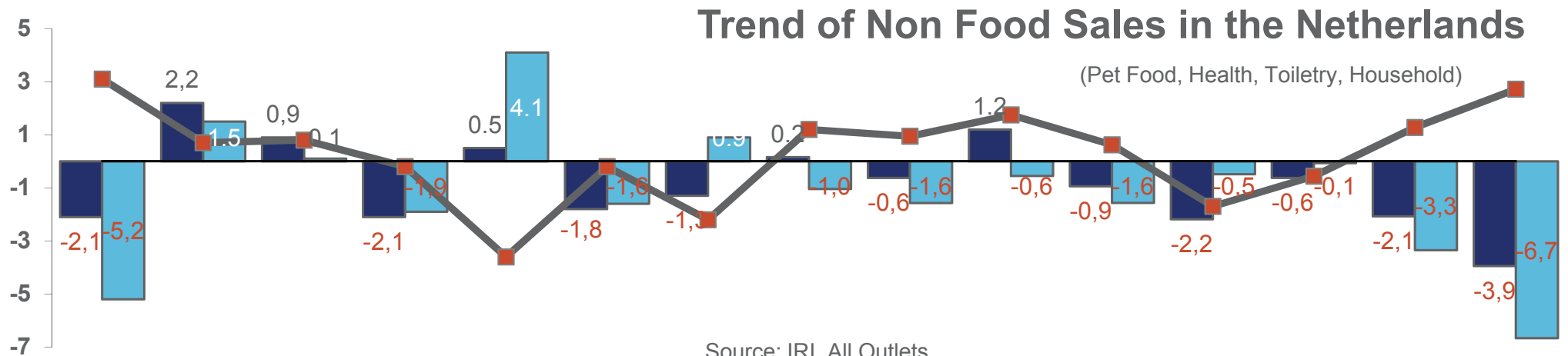
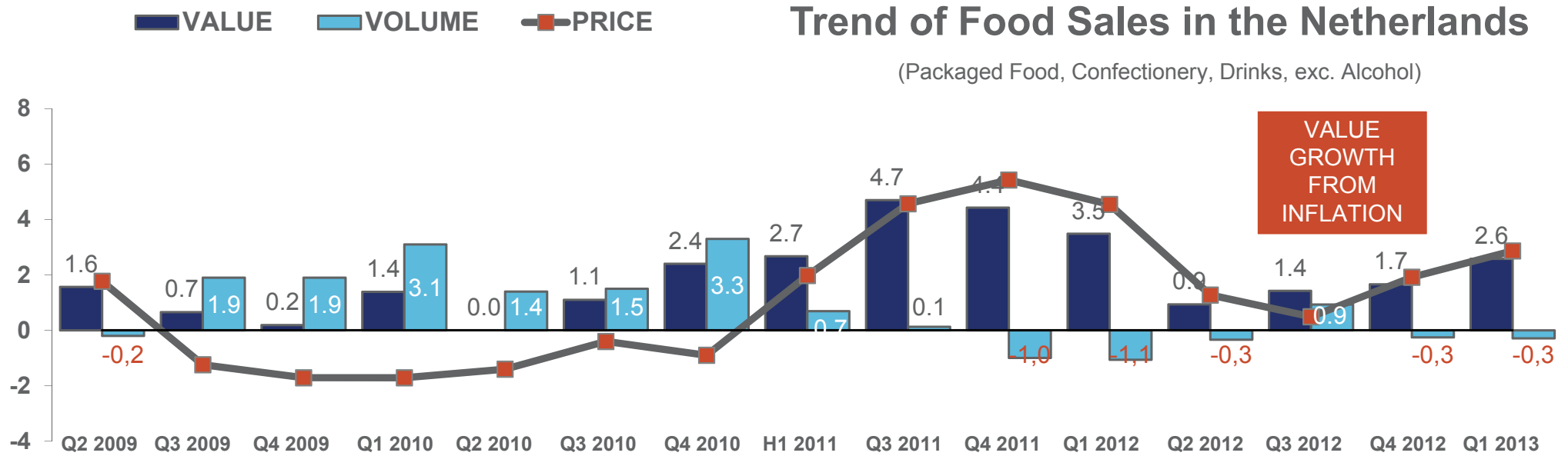
In Greece, Food volume declined again even though prices have fallen.
 Non Food is still declining but not as fast as it was.



Source: IRI, Hypermarkets & Supermarkets
 YoY value change

- Inflation in Greece in April 2013 was -0.6%.
- Unemployment rates for Q4 2012 reached 27%.
- GDP for Q1 2013 was -5.3%.
- Manufacturers are using more tailor made activities in order to promote their goods.
- Retailers are promoting private label products more and more.
- Difficult economic situation has affected food category sales
- Lidl gains market share

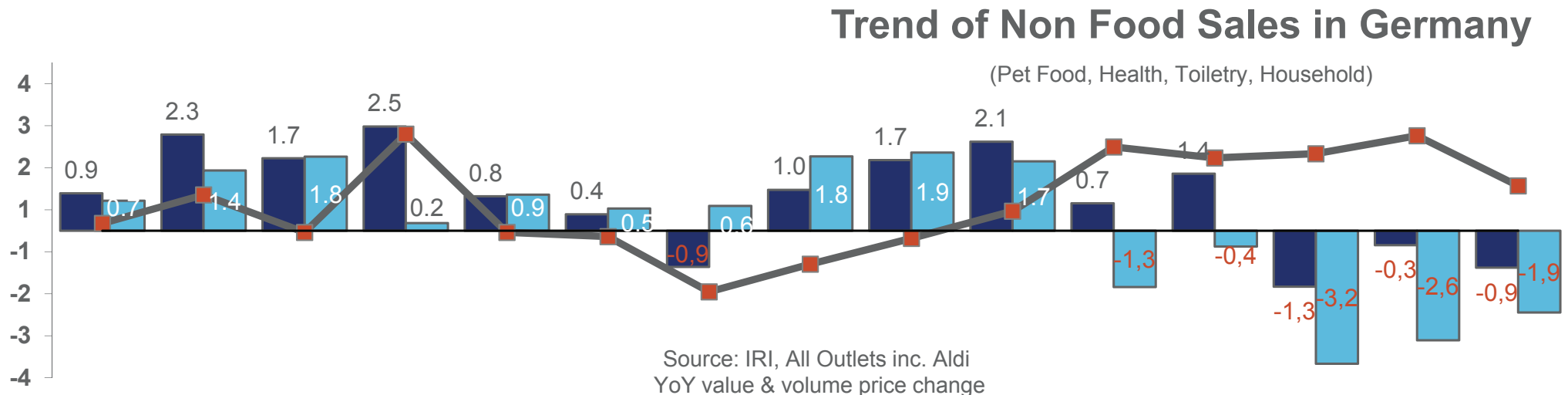
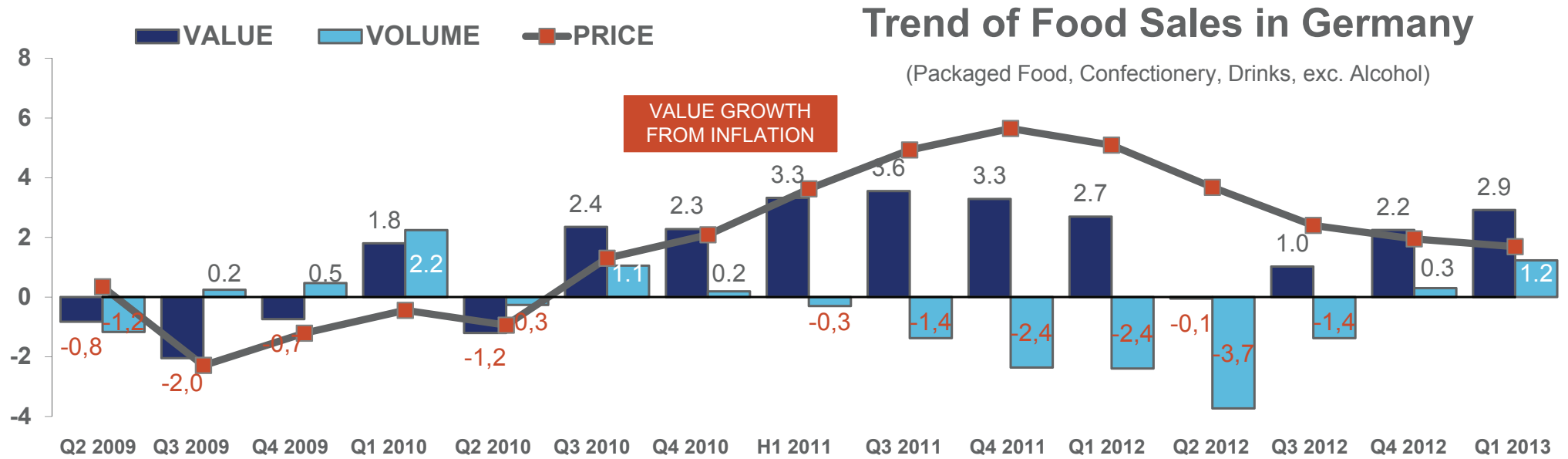
In the Netherlands, Food volume sales showed a low level of growth as prices began to rise again. Non Food volume has fallen since 2011.



Source: IRI, All Outlets
YoY value & volume price change

- Economic growth for 2012 was -1.0%. Since the fourth quarter of 2011 there has been no quarter with year-on-year growth. With more than 2 quarters of negative quarter-on-quarter growth, the Netherlands are in recession.
- Inflation in the Netherlands in 2012 is above the European average. With VAT on Non Food increasing from October, inflation has risen further.
- Unemployment has been rising continuously throughout 2012, reaching almost 7% by the year end. In 2013, the unemployment rate has even reached over 8%. Maybe it's quite low compared to other European countries but in the Netherlands it was never so high since 1996.
- For almost two years, the mood among consumers is very pessimistic. During this period the level of confidence is less than -35, meaning that the share of negative consumers is 35% points greater than that of the positive consumers.
- Total supermarket growth is just above 2.5%. Price increase was the main driver, while volume sales are declining. In the last months the price increase effect was getting stronger.
- Trade promoted volume was very high in the first quarter of 2013. With 19,2% sales on deal, this is 1,5% higher than in the first quarter of 2012.

In Germany, the effect of Food prices rising quickly hit volumes but they have recovered again in the last 2 quarters as price rises have slowed. Non Food volume continues to be impacted.

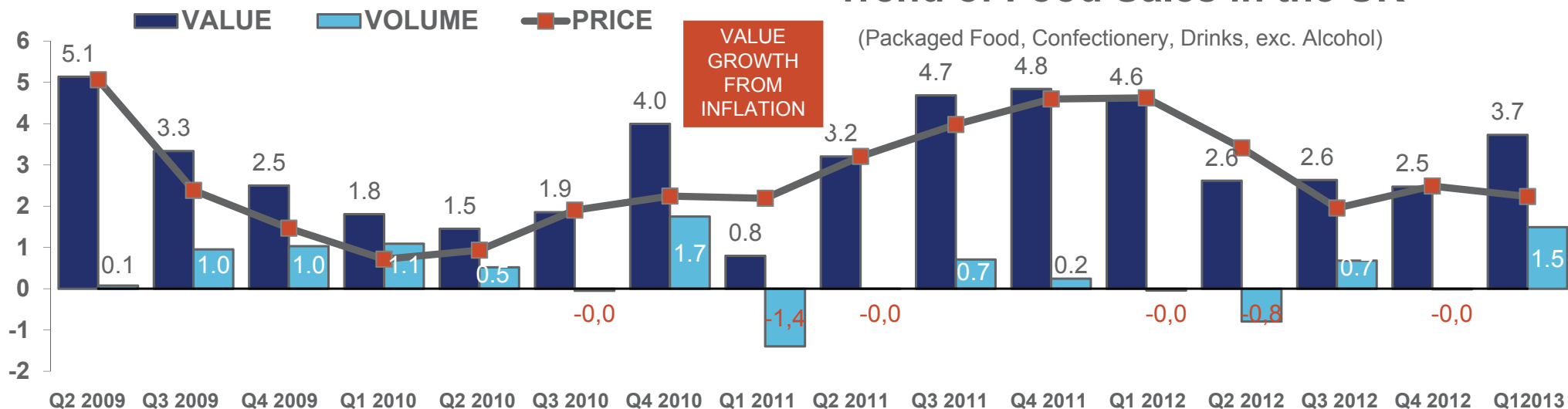


Source: IRI, All Outlets inc. Aldi
YoY value & volume price change

- The majority of companies assessed their current business situation as good, although they are cautious due to the Euro crisis. Their expectations regarding future business developments were also lower. In manufacturing the business climate indicator fell significantly. The six-month business outlook clouded over once again. Capacity utilisation edged downwards. Export expectations rose after a decrease beginning of the year. In retailing, on the other hand, the business climate index only edged down slightly. Retailers were somewhat more satisfied with their current business situation. However, they expressed greater pessimism about their future business developments.
- In Q1 2013, the entire German FMCG market rose in value by 2.2% compared to the first quarter of 2012. This resolves in a turnover of 30.9 billion €. Apart from the Food sector, categories Confectionery and Frozen Food show the highest value increase of all – Confectionery (including salty snacks) +9.2% and Frozen Food 4.9%. Declining categories are Pet Food and Household products, a clear indication for the big loss of non-food categories in the first quarter of the year.
- Private Labels show a surprisingly negative development compared to 2012. Except for the winning categories in general, Food and confectionery, private labels are declining. It is interesting to see that it seems like the categories with a positive development in value sales are those where private labels are gaining consumers.
- Average prices for the entire FMCG basket rose by 4.0% in average. This leads to an increase of value sales by 2.2%, volume sales went down by 1.7%.
- Almost all sales channels and types can profit from the growth of the FMCG sector. The only loser in the game are drug stores, that are still affected by the bankruptcy of “Schlecker”. If we were to look at the other players in the field, we would see a positive development here also. The price trend has gone up over all types of sales channels, throughout the entire trade universe. Discounters show the highest rise in average prices compared to Q1 2012, climbing by 5.7%. Quite interesting, given the fact that this channel was known for good quality at comparably low prices. The reason for this development is the fact that discounters have started listing more and more branded products in order to keep their clients from heading out to successful hypermarkets.

In the UK, Food price rises remained at just under 2% and volume rallied a little but helped by the earlier timing of Easter in 2013. Non Food volume sales continue to suffer as consumers have to spend more on Food .

Trend of Food Sales in the UK



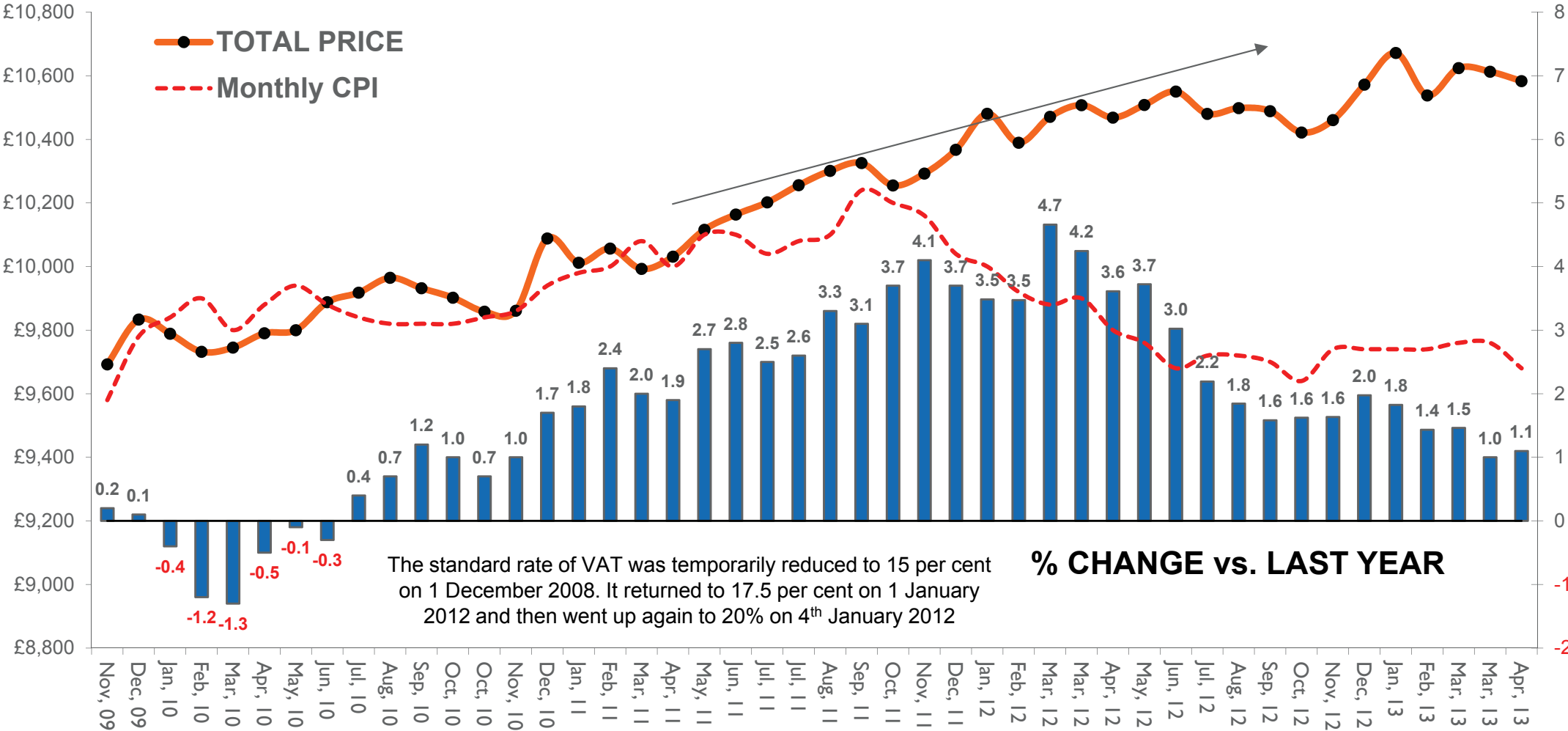
Trend of Non Food Sales in the UK



Source: IRI, All Outlets, YoY value & volume price change
Excludes Northern Ireland

FMCG Shopping Basket – GB – All items (constructed with back data)

Annual price increase fell to just about +1% in the last 8 weeks.
 The CPI has been flat for a while now but last month fell to +2.4%.



- Inflation (CPI) held at +2.7 or +2.8 for several months but has fallen back to +2.4% in April 2013. This has transferred into lower price increases for groceries.
- Unemployment has been reducing very slowly, in February it was 7.7%. Temporary / part time employment has increased within this total.
- GDP was up (+0.3%) in Q1'13 vs. Q4 '12, despite very cold weather. This is a relatively good sign considering that some new austerity measures were introduced as well.
- VAT was reduced in Dec '2008, returned in Jan '2010 and went up again in Jan '2011. This affected prices through 2011, the anniversary in Jan '2012 showed a corresponding slight reduction in the level of inflation.
- Credit has started to increase again which could be a sign that more people are running out of money.
- Private label value share in 2012 was slightly down in value and slightly up in units. This would be caused by consumers buying more of the lower priced, or economy, own labels.
- Food prices increased just before Xmas 2012 and have remained fairly stable since then, with the latest year-on-year change only 1%.
- FMCG sales in Q1'13 looked more buoyant than they actually were because of the earlier Easter. Once this has been accounted for the overall volume trend will be very close to flat.

Is economic uncertainty affecting FMCG sales?

Topline Report

Trade Promotion

First Quarter (Q1 2013)



Tim Eales

Director of Strategic Insight

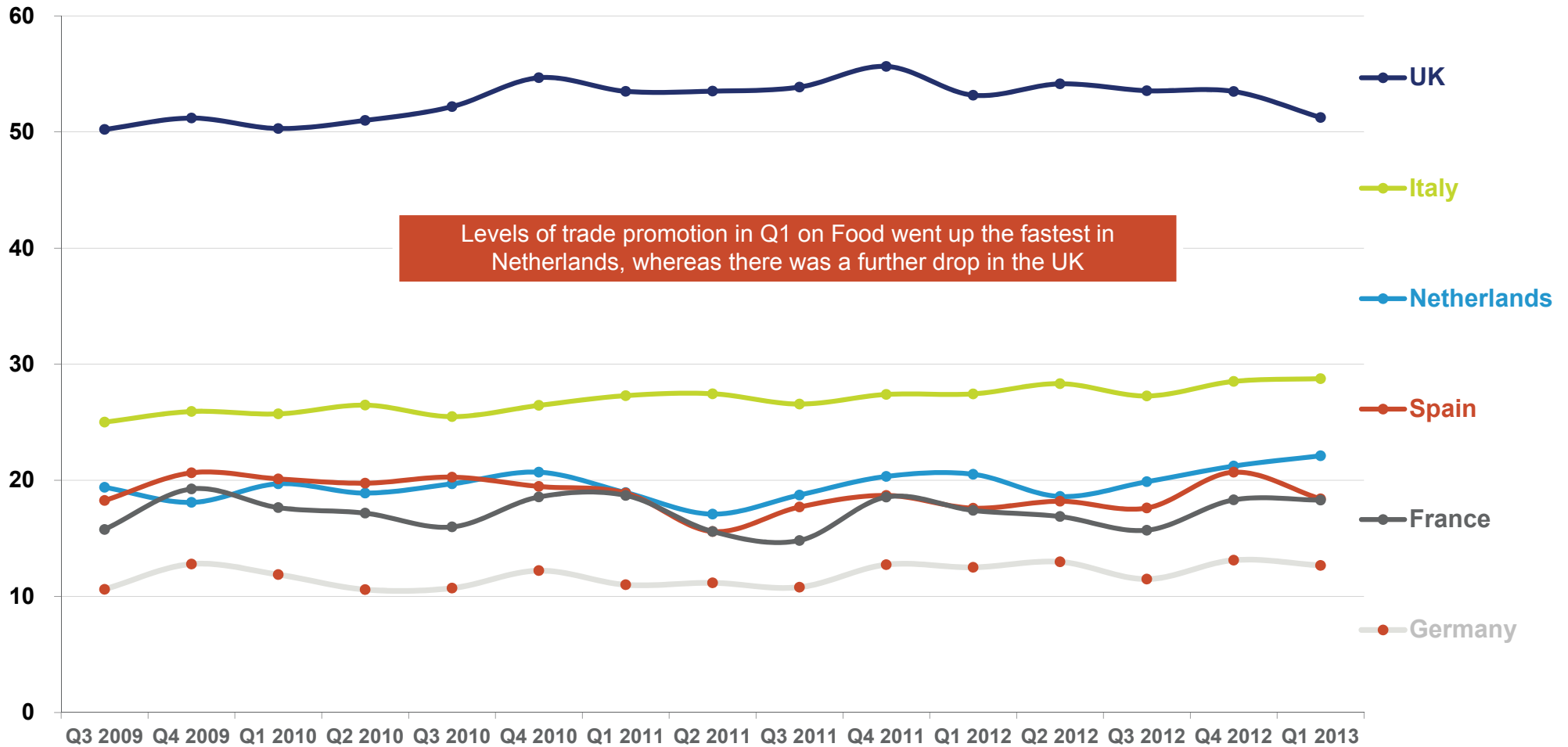


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Growth delivered.

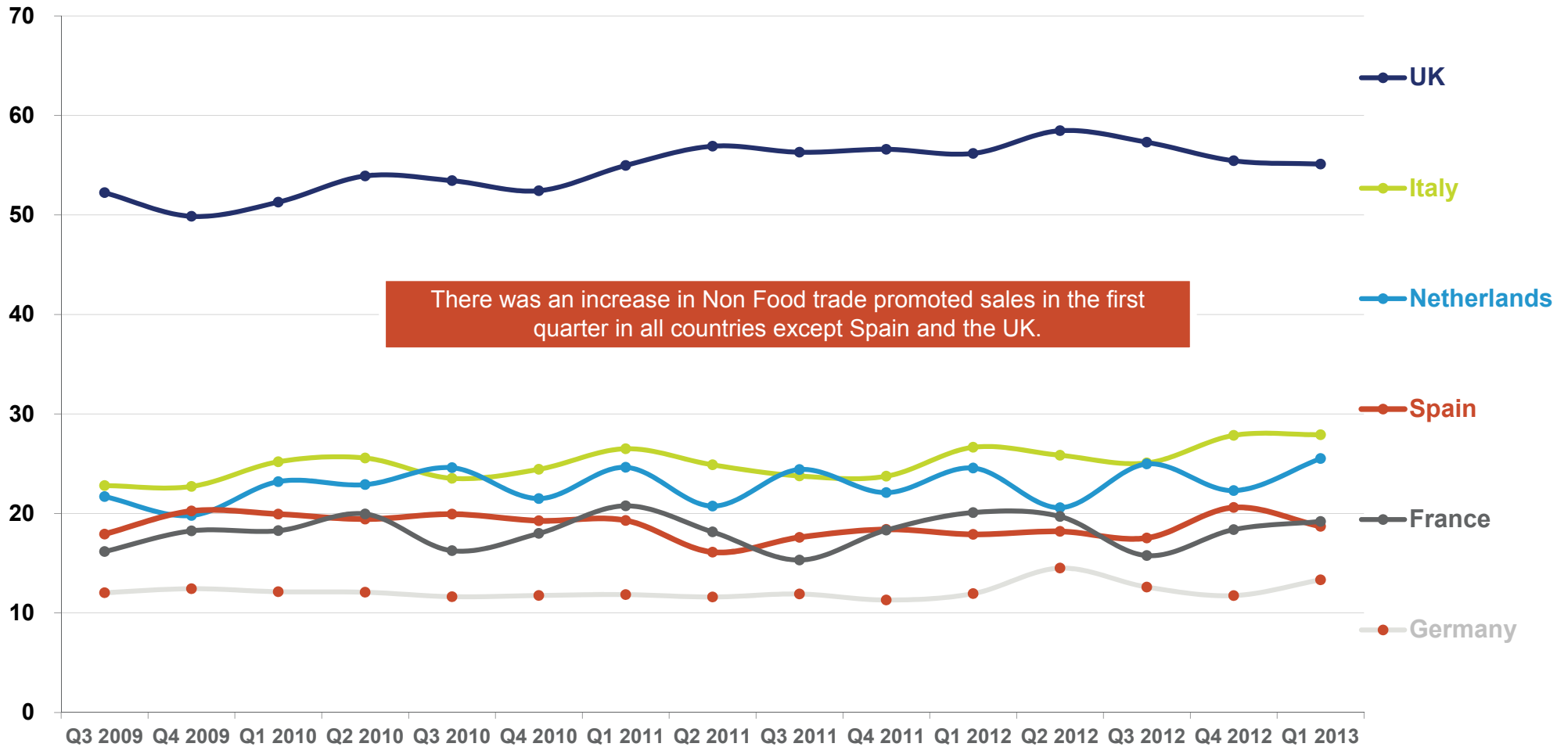
Deal levels vary enormously across Europe – Food

% SALES WITH TRADE PROMOTION (Volume – SP, NL, UK Value IT, GE, FR)



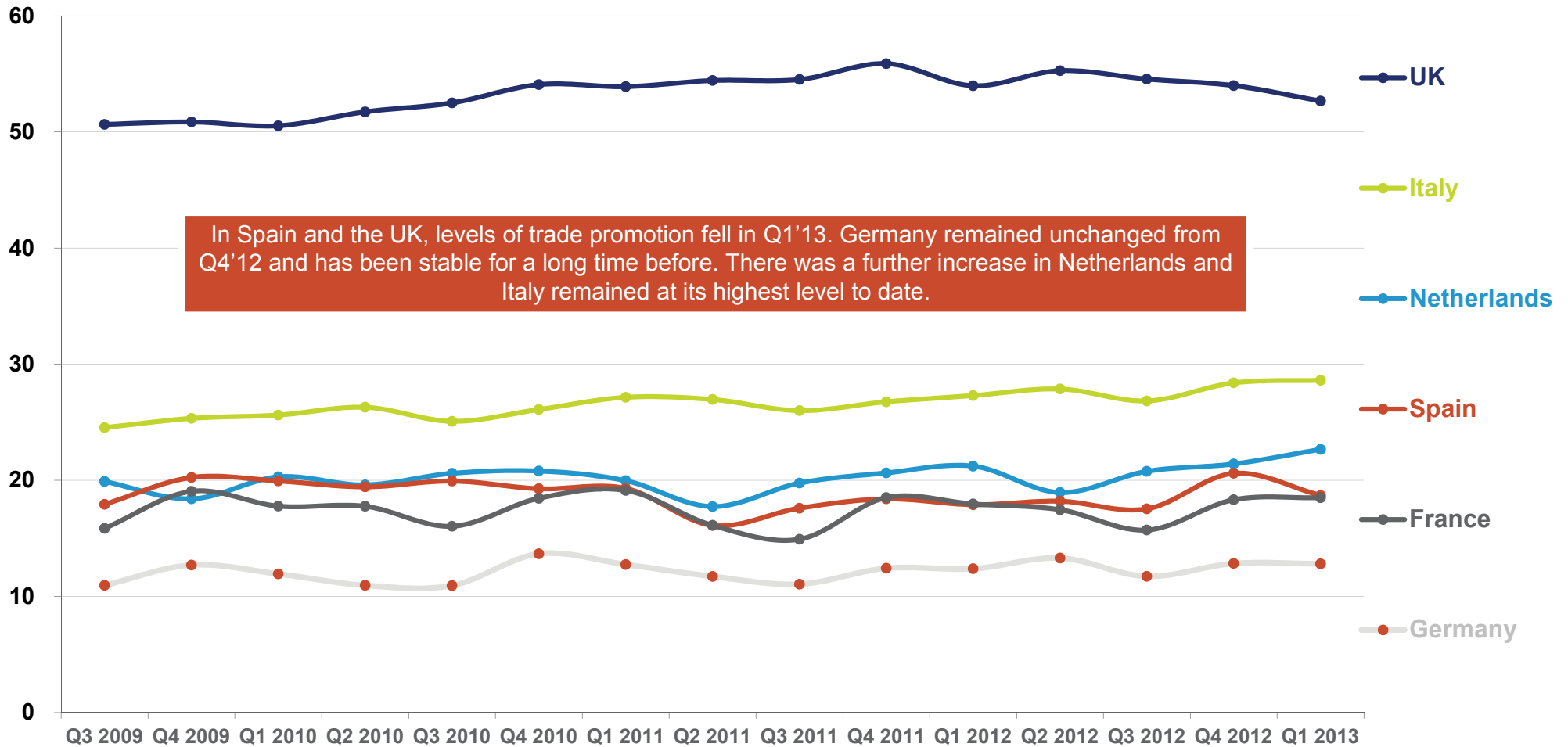
Deal levels vary enormously across Europe – Non Food

% SALES WITH TRADE PROMOTION (Volume – SP, NL, UK Value IT, GE, FR)



Deal levels vary enormously across Europe – All Products

% SALES WITH TRADE PROMOTION (Volume – SP, NL, UK Value IT, GE, FR)



Looking forward

Insights	Actions
<ul style="list-style-type: none"> ✓ Shoppers have access to multiple sources of information and influence via the internet, in real time. 	<ul style="list-style-type: none"> ✓ Build strong brand loyalty with a direct access to your consumers. Retailers will see it as an opportunity for them as well.
<ul style="list-style-type: none"> ✓ Although promotion activity is high, it will be difficult to reverse the trend. It's correlated to price level and private label growing presence. 	<ul style="list-style-type: none"> ✓ Be very straightforward on the promotion strategy goals and get appropriate analytics solutions enabling you to simulate price and promotion impact on your margins, on your revenue, on the category and on your competition to achieve your performance target. ✓ Category deep analysis will enable manufacturers and retailers to build joint business planning than will enable to define the best mix of items, national brands and private label, to grow both parties business.
<ul style="list-style-type: none"> ✓ Food is driving sales growth across Europe, 	<ul style="list-style-type: none"> ✓ Shoppers do not think in categories - they think about their relevant needs. Moving to a Shopper-centric model, via the shopping basket analysis, will optimise assortment and the resources allocated.
<ul style="list-style-type: none"> ✓ Non-food declines and shoppers buying essentials such as food, 	<ul style="list-style-type: none"> ✓ Retailers and manufacturers must work together and invest to define specific merchandising strategies with specific tactics to create impulse purchasing on non-essential items, creating occasions 'for special treats' at a reasonable price.
<ul style="list-style-type: none"> ✓ Shoppers are buying more based on need than want. 	<ul style="list-style-type: none"> ✓ Stimulate need through media activity.
<ul style="list-style-type: none"> ✓ Manufacturers are fighting hard to protect their share of sales and promotions in the face of fierce private label competition and some are re-engineering lines or launching new variants. 	<ul style="list-style-type: none"> ✓ Manufacturers need to assess the category competitive risk from private label growth and development and adjust their portfolio and retail approach accordingly.

Final notes

- Source: IRI InfoScan, syndicated retail tracking service
- Methodology: Seven quarters of review, YoY data for FMCG
- Country coverage: France, Germany, Greece, Italy, the Netherlands, Spain and the United Kingdom

To gain deeper insights, predictive analysis and recommendations on
specific products, categories, segments, channels or retailers
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