EUROPEAN VALUATIONS

MARKET SECTOR INSIGHTS - MARCH 2019

Consumer Products Market

“…the global FMCG market size was valued at $10.2 trillion in 2017 and is projected to reach $15.4 trillion by 2025.”

Figure 1. Global FMCG market size, 2017-2025

Global Outlook

According to a report by Allied Market Research, the global FMCG market size was valued at $10.2 trillion in 2017 and is projected to reach $15.4 trillion by 2025, registering a CAGR of 5.4% during the forecast period of 2018 to 2025. This growth will be fuelled by factors such as the surge in the trend of online shopping, R&D for the new brands and products, and expansion of the FMCG network in rural areas of developing countries. Restraints to the growth of the FMCG market are high competition among major market players and retail execution.

The report goes on to add that the food and beverages segment currently dominates the consumer goods industry, accounting for over 85% of the global FMCG market share, followed by the personal care and healthcare segments which accounted for 5% and 4% percent of the market share, respectively. Going forward, the food and beverages segment is expected to grow at a CAGR of 5.3%, healthcare segment is expected to grow at a CAGR of 8.5% and the personal care segment is expected to grow at a CAGR of 6% during the forecast period of 2018 to 2025

Potential for Growth in Emerging Markets

Mature markets such as North America and Europe have lately been witnessing a slowdown in demand. Coupled with ever increasing competition, consumer products firms are facing issues such as declining sales. However, many consumer products companies are anticipating growth opportunities in emerging markets such as China and India.

Some notable examples of this are renowned consumer products companies Nestle and Unilever, which continue to invest in emerging markets Nestle, the world’s largest food company, notes that approximately 40% of its sales come from emerging markets. By 2020, Nestle hopes to achieve 45% of sales from these regions. Similarly, Unilever also has its sights set on making emerging markets contribute 75% of its revenue stream by 2020.

The primary reasons for the growth of consumer products in emerging markets are population growth, rising middle class with increasing disposable incomes and expanding influence of female shoppers. Given the vast potential in many different product categories in emerging markets, companies are expected to increase their efforts to expand into these markets, in the hopes of becoming the preferred choice of more than a billion prospective customers.

Low Consumer Confidence in Europe

According to Nielsen, the amount Europeans paid for everyday groceries (on the widest possible basket of product categories that are continuously tracked by Nielsen) increased by 2.3% in the fourth quarter of 2018, a decrease compared to 3.8% seen in the third quarter of 2018. Multiple indicators suggest the slowing down of the economy in large European countries especially in the fourth quarter of 2018, leading to FMCG nominal growth levels of 3.1%, which is very similar to the growth rates recorded in

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2017. The volume growth in the fourth quarter of 2018 has been recorded at negative levels (0.4%), which is the lowest volume growth recorded since the first quarter of 2017.

Overall in 2018, despite some upward trends in nominal growth value in the first and third quarters of 2018, 3.9% and 3.8% respectively, overall growth for the year at 3.1% was dampened by fourth quarter growth numbers. This was largely due to the fact that consumers have become cautious toward their FMCG spending and are buying 0.4% fewer items and paying 2.7% more per item than they did in the same quarter of 2017.

Challenges Facing the Industry

Changing Consumer Demands: Today, consumer products companies need to be consumer focused. Demand has a tendency to fluctuate rapidly. For example, consumer preferences have shifted greatly in recent years as demand shifts toward healthier and sustainable options. Consequently, manufacturing success is closely related to time-to-market and new product introduction ("NPI") capabilities. Additionally, demand can fluctuate cyclically and with economic volatility. The success and profitability of any organisation in this industry is heavily dependent on how effective the companies are at addressing the changing demands of consumers.

Shrinking Operating Margins: With global competition, companies are faced with the challenge of meeting global price points. This creates additional pressure, as manufacturers need to ensure the delivery of high-quality products while finding innovative ways to cut costs. Moreover, companies also need to account for fluctuations in factors such as oil prices and their effect on transportation costs or petrochemicals which may be used for agrochemicals and packaging.

Compliance and Regulatory Pressures: The global regulatory environment is dynamic. Companies are faced with the challenges of mitigating operational risk and managing nonconformity. As manufacturers increasingly rely on the global supplier network to battle shrinking operating margins, meeting international compliance and regulations is turning out to be a major factor.

Globalising Economy: Leveraging the global supplier network is a means for reducing costs, however it also has numerous risks. Risks can range from compliance, product safety and other similar issues. An example of this is the tobacco industry, which is increasingly facing challenges like counterfeit products

Sorting Out E-commerce Issues

Large consumer products companies may feel they are doing well online, but the reality may be a bit different. Considering the fact that seven of the 10 largest consumer goods companies today are lagging in e-commerce penetration in their categories, despite delivering online sales growth of 30% or more, it becomes clear that companies could and should do a lot more to become attractive to prospective customers, especially millennials who are increasingly buying all kinds of products online.

Fundamental issues are keeping large brands from gaining more traction online. They typically are not set up to make the quick pivots in e-commerce marketing that the channel requires, and they often make a series of predictable missteps, such as not having a holistic view of online performance

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or putting all e-commerce marketing in the hands of outside agencies. To sort out these issues, companies need to quickly seize the opportunity by taking steps such as moving e-commerce marketing in-house, shifting control of e-commerce marketing budgets and content from brand teams to shopper-led e-commerce teams, and determining what leads to incremental sales.

Trends

Demographic Shifts

While consumer markets' centre of gravity will shift inexorably toward the developing world over the coming decade, there will also be profound demographic changes across all markets. In particular, the world's population is aging quickly. The United Nations projects that the total population of people older than 65 will double to 1 billion over the next 20 years. By 2030, one in four Western Europeans will be elderly, as will one in five North Americans. But the trend will be just as common in the developing world: China's over-65 population will double to 16% of its total population, while India's will almost double, reaching 8.5%. Consumer products companies will need to find innovative ways to meet the needs of aging consumers. Unilever, for example, recently launched Pro-Age, a line of deodorants, hair-care products and skin-care products, to target female consumers between the ages of 54 and 63. Going forward, we can expect more companies to follow in the footsteps of Unilever.

Pricing and Promotions Across Channels

Consumers are increasingly becoming price conscious. With best deals on their mind, they are comparing prices across online and offline channels. This in turn has necessitated deployment of analytics to gain deeper insights about price sensitive consumers and also identify specific channels which are not likely to see much traction, such as differential pricing strategies. Similarly, promotions across various channels need to be well coordinated to avoid a situation of cannibalisation. It is becoming increasingly common to find consumer products companies offering online coupons that could be transferred to loyalty cards and redeemed at stores. Moreover, another common trend today is companies using geo-targeting applications to provide real-time deals when a consumer approaches the store.

Bringing Consumers Back to Stores

With huge competition from technology and e-commerce players, retailers are experimenting and innovating more. An example of this is the creation of compelling physical experiences that pull consumers back into stores. Going forward, it is expected that creative ingenuity will be the driving force that will result in companies offering trendy new products and services to surprise and delight customers and introduce new, easier ways to purchase items. Moreover, we can also expect to see product-focused brands taking advantage of the opportunity to drive extended and unique consumer engagement with a novel physical store experience and other similar innovations, in order to compete with the e-commerce segment.

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European Valuations' View - What Companies Need to Do

To counter the challenges facing the consumer products industry and to stay ahead of competition, companies today need to focus on the following:

Innovation: Companies have traditionally looked to innovate as a source of growth, and now they should try newer and bolder strategies such as innovation through venture capital-styled incubators; crowdsourcing and partnering with consumers; renovation of previously successful products; and continued focus on health and wellness (good-for-you) products.

Digitisation: Companies in the consumer products industry should focus on aligning technology in creative and efficient ways to optimise customer engagement and influence the consumers' path to purchase, so as to make the purchasing experience holistically more fulfilling.

M & A to Consolidate: It is common knowledge that there is huge competition in the consumer products industry, leading to declining sales of companies. To counter this, companies need to expand across geographical regions and reach out to markets that can drive both sales and profitability. Mergers and acquisitions are an effective way of doing that.

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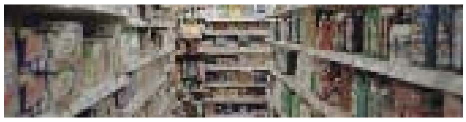

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