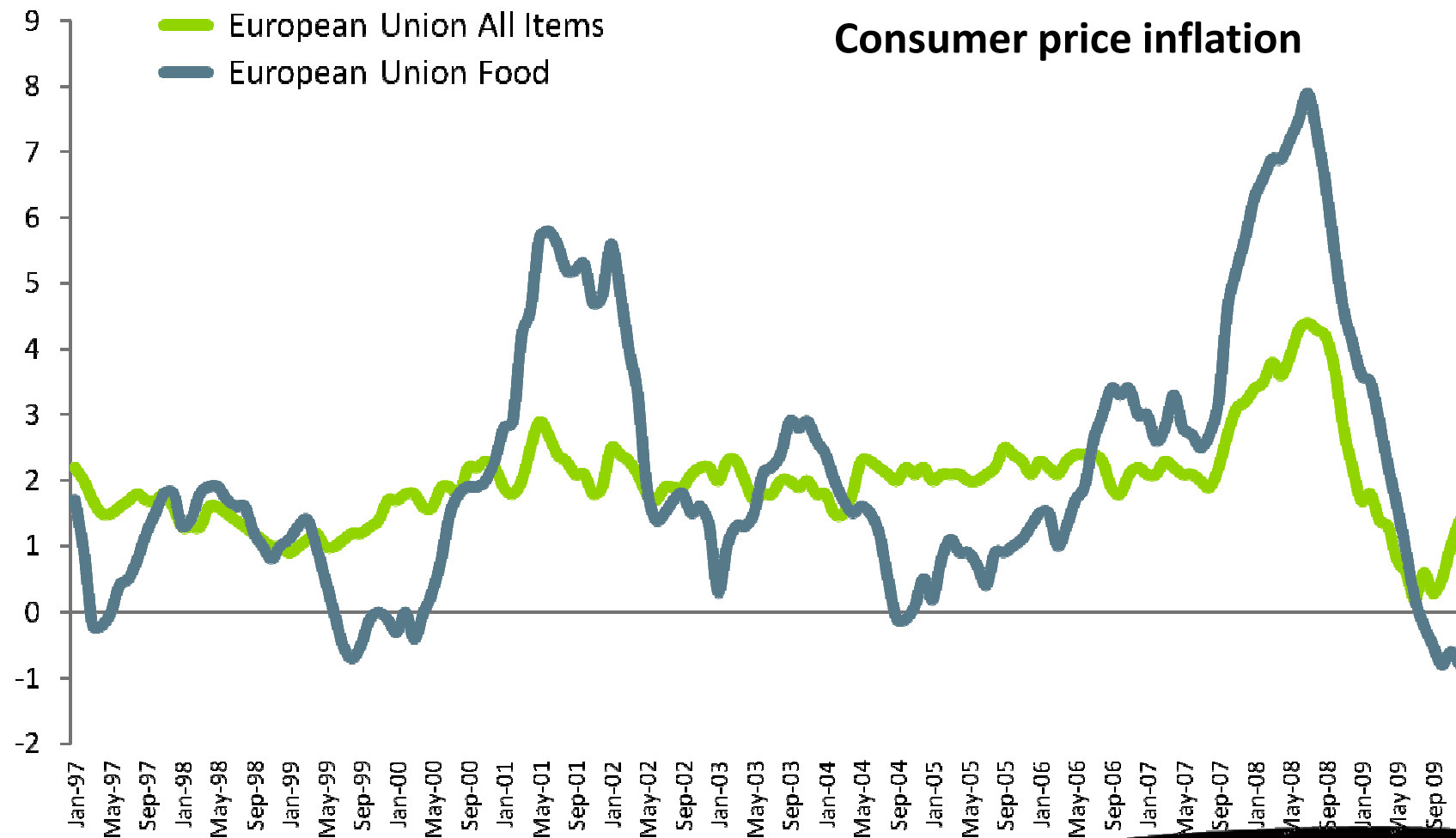


FMCG across the business cycle: What, so what and what next?

Helen Passingham-Hughes
Europanel

Background - Price Inflation – to December 2009

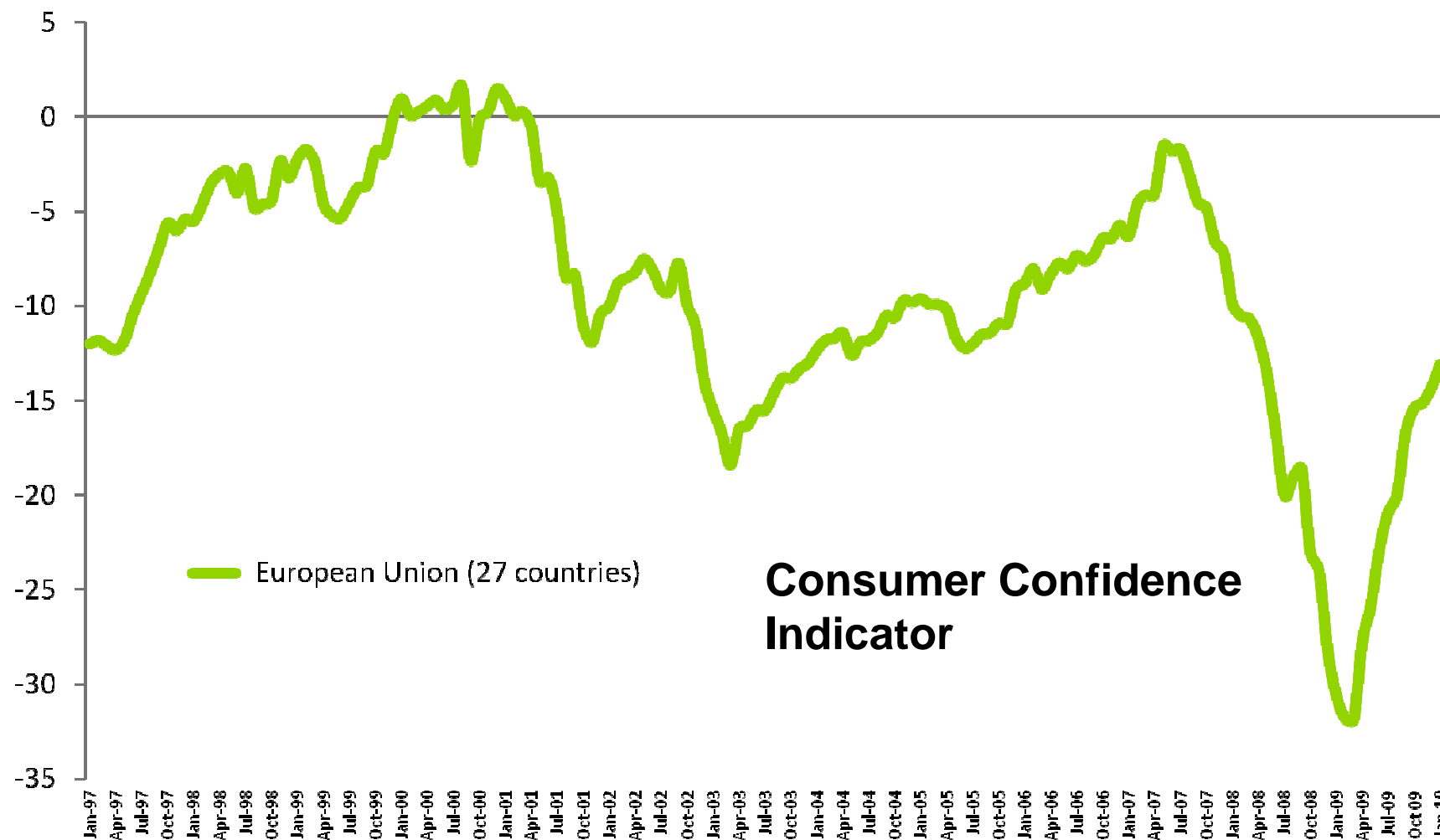
Significant in 2008 – now deflation



Source : Eurostat

Background - Consumer Confidence – to January 2010

Lowest ever in late 2008, early 2009 – now some recovery



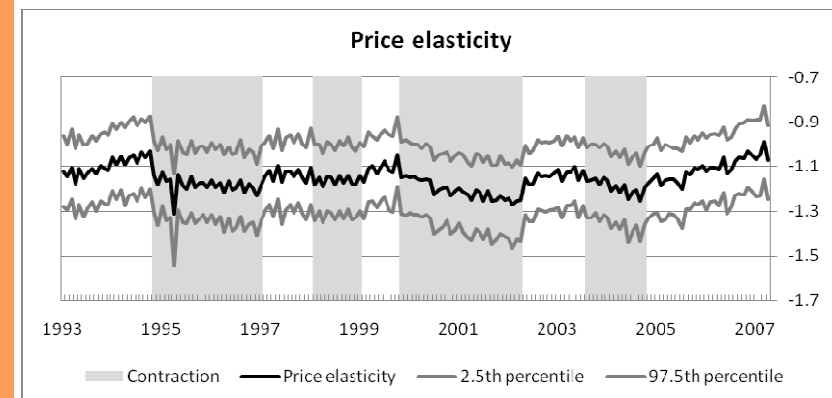
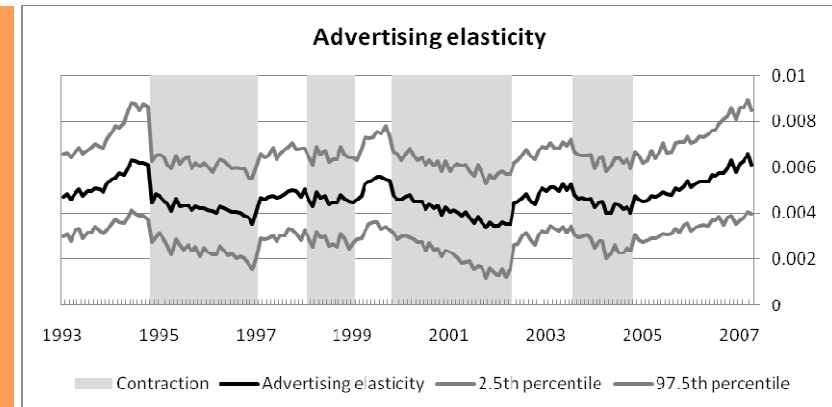
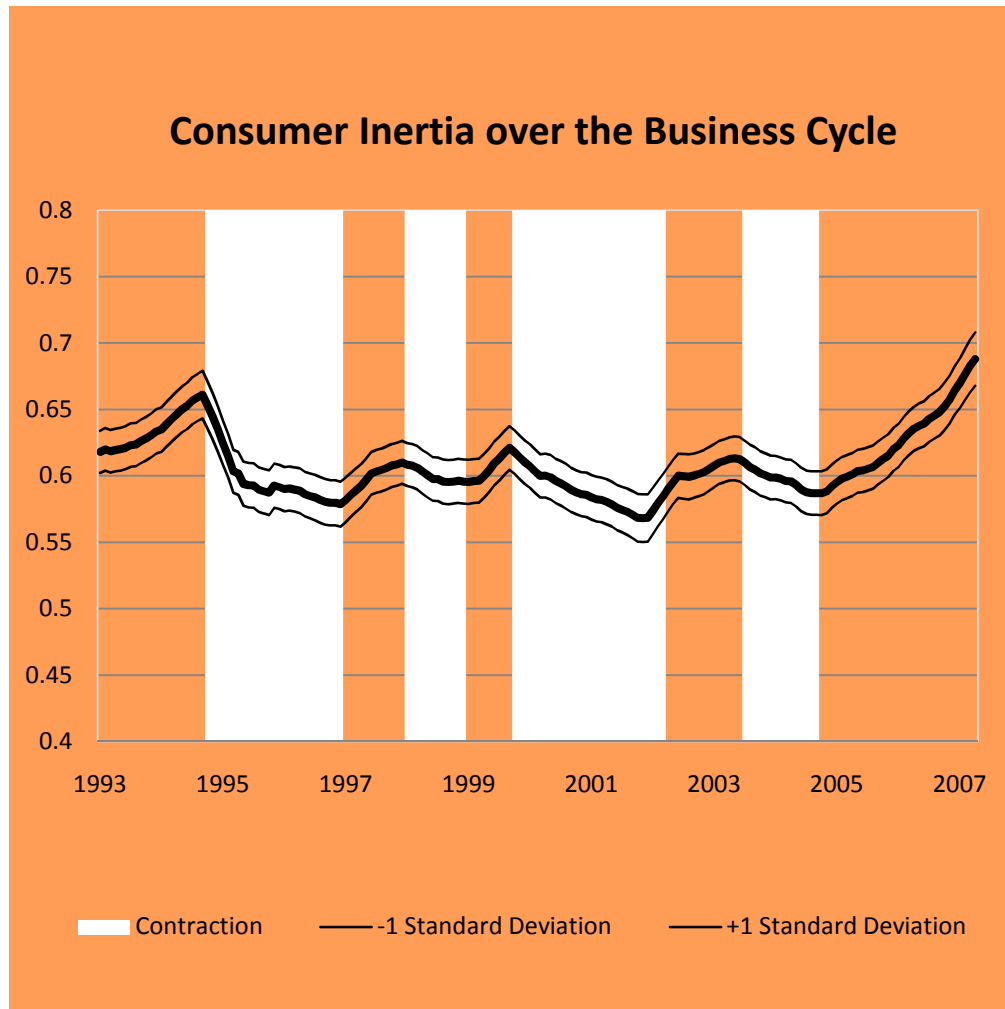
Source : Eurostat



What does history tell us?

Contractions Shake Consumer out of Inertia

But prior levels are then re-established



UK: 160 FMCG brands, Source: Gijsenberg et al. (2010)

Brands and Recessionary Times?

Don't try to price promote...dropping price won't save you from a recession.

Ehrenberg-Bass - 2008

	Advertising and New Product Introduction	
	Reduction	Increase/ No reduction
Brand Equity - High	High loss potential	Recession may be opportunity
Brand Equity - Low	Survival game	Try to fight back?

Source: Prof. M. Dekimpe – based on published academic papers

...recession doesn't change the fundamentals of marketing.

Stephan Buck/Andrew Roberts – April 1991

Brands and Recessionary Times?

A striking feature of these growth markets is the similarity of the factors associated with them to those highlighted in the 1977-82 study; namely, the incidence of new or reformulated products, the appeal to growing consumer needs and lastly, in the vast majority of cases, substantially increased advertising expenditure (Figure 4).

Features of Growing fmcg Markets, 1989-1990	Increased Advertising (>£1m)	Product Innovation	Changing Consumer Needs	Price Increases (>10%)
Rice & Savoury Pasta		✓	✓	
Yoghurt	✓	✓	✓	✓
Fabric Conditioner	✓	✓	✓	
Cooking Sauce	✓	✓	✓	
Savoury Biscuits	✓	✓	✓	
Frozen Confectionery	✓	✓	✓	
Frozen Meals	✓	✓	✓	
Tea Bags	✓	✓	✓	✓
Packet Soft Cheese	✓	✓		
Hot Breakfast Cereal	✓	✓		
Fruit Squash			✓	✓
Cooking Oil	✓		✓	
Food Drinks	✓		✓	
Dentifrice	✓	✓	✓	✓
Washing Up Liquid	✓	✓		

Source: Stephan Buck/Andrew Roberts – April 1991

PL growth consistent with previous times of uncertainty

Not easy to get back

- ✓ PL growth is systematically related to business cycles
- ✓ PL *increase* in recession not compensated by *decline* afterwards
- ✓ Market behaviour perpetuates this result:
 - Brand manufacturers' behaviour is *cyclical*
 - Retailers' behaviour is *countercyclical*

Data: Belgium 1983-2004
USA 1971-2003
Germany 1975-2002
UK 1980-2003

Source: Lamey, Deleersnyder, Dekimpe, and Steenkamp (2005)

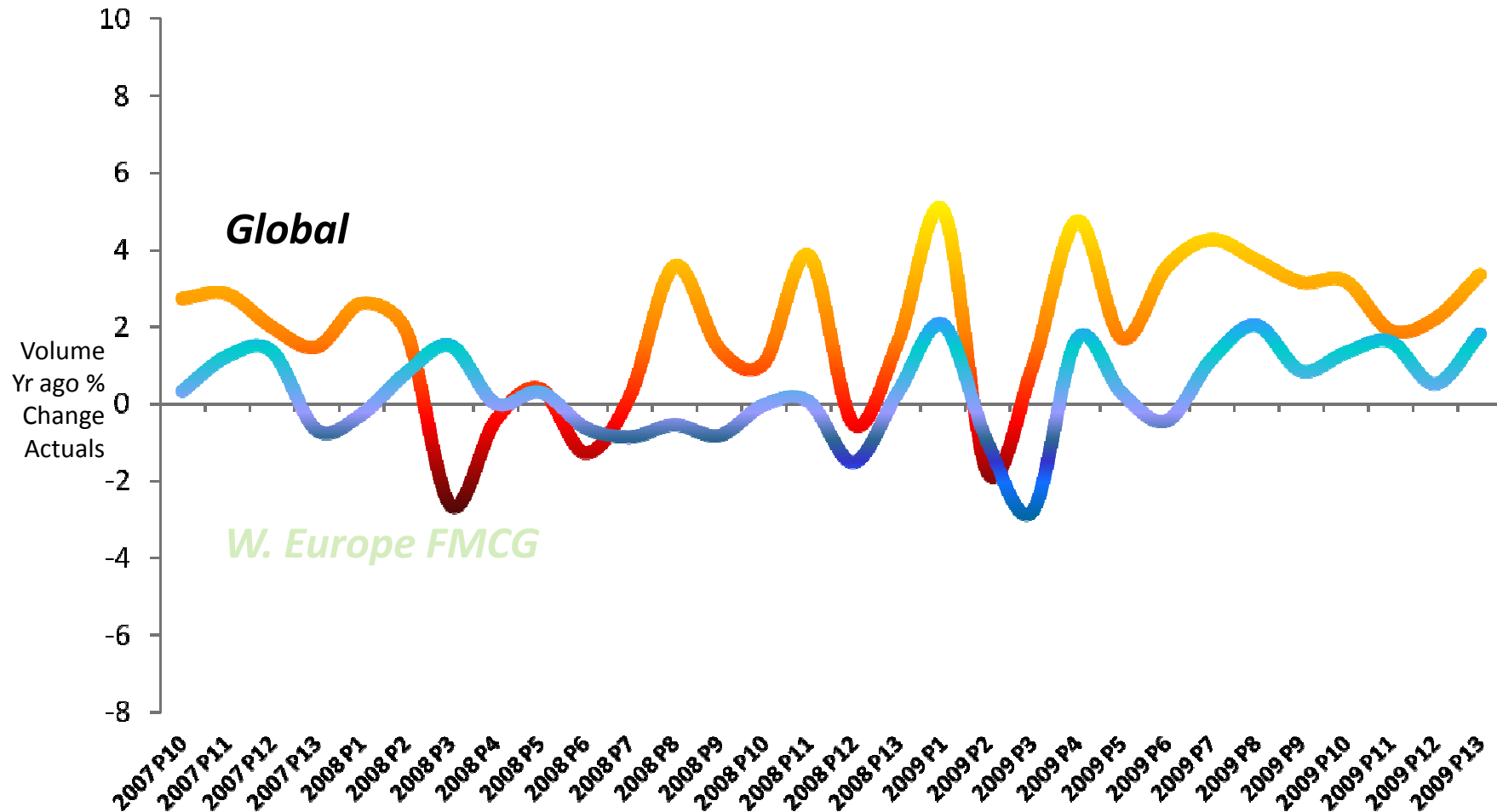
A photograph of a pink piggy bank standing on a Euro banknote, surrounded by several Euro coins. The background is blurred, showing more of the banknote and possibly other piggy banks.

FMCG in 2008/9

Inflation and/or recession?

Inflation the major impact on FMCG

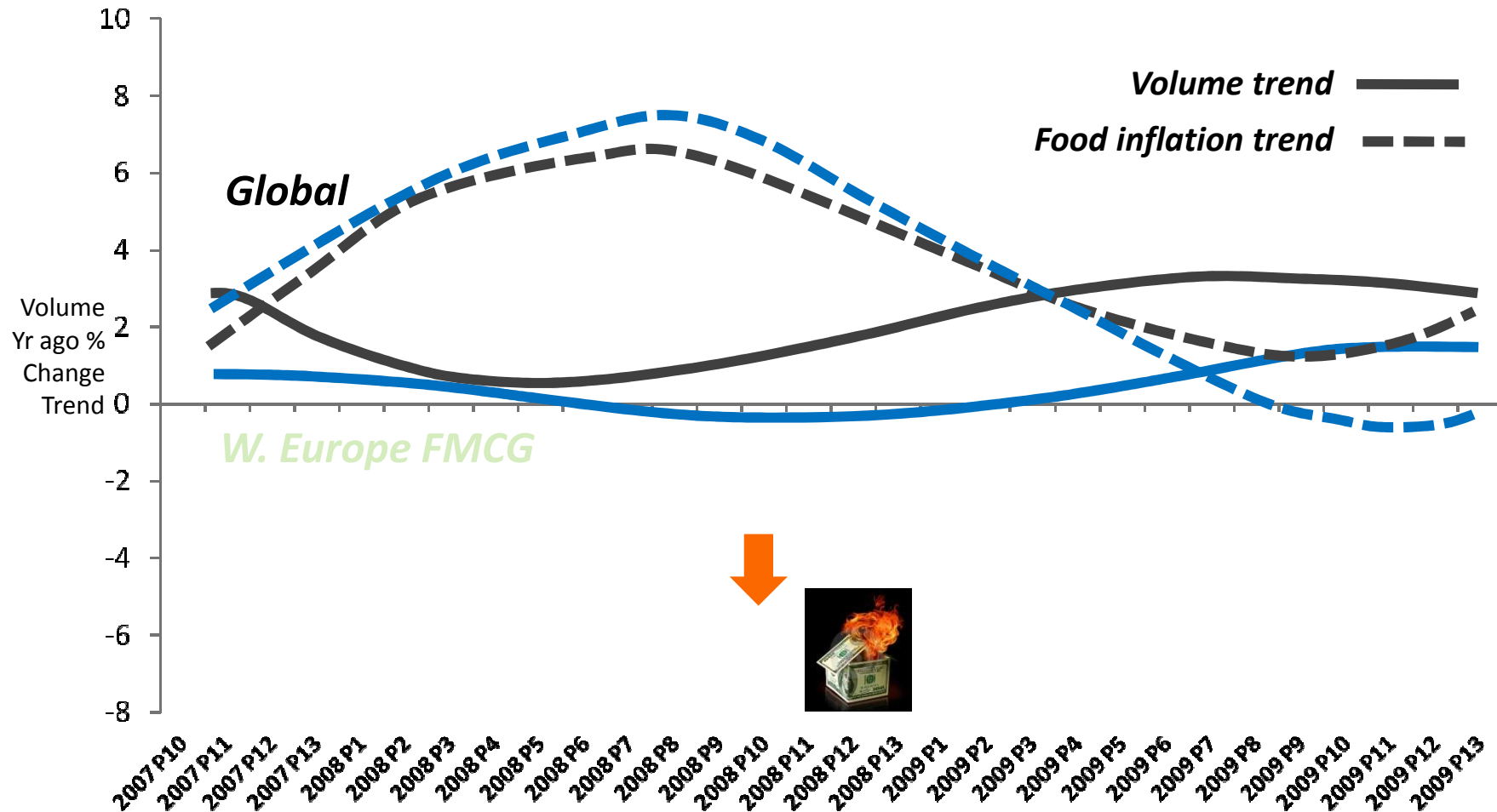
...not recession



Source Europanel based on monthly trends on hundreds of FMCG categories in: France, Germany, Italy, NL, Spain, UK, Poland, Russia, China, Japan, Brazil, Mexico, USA

Inflation the major impact on FMCG

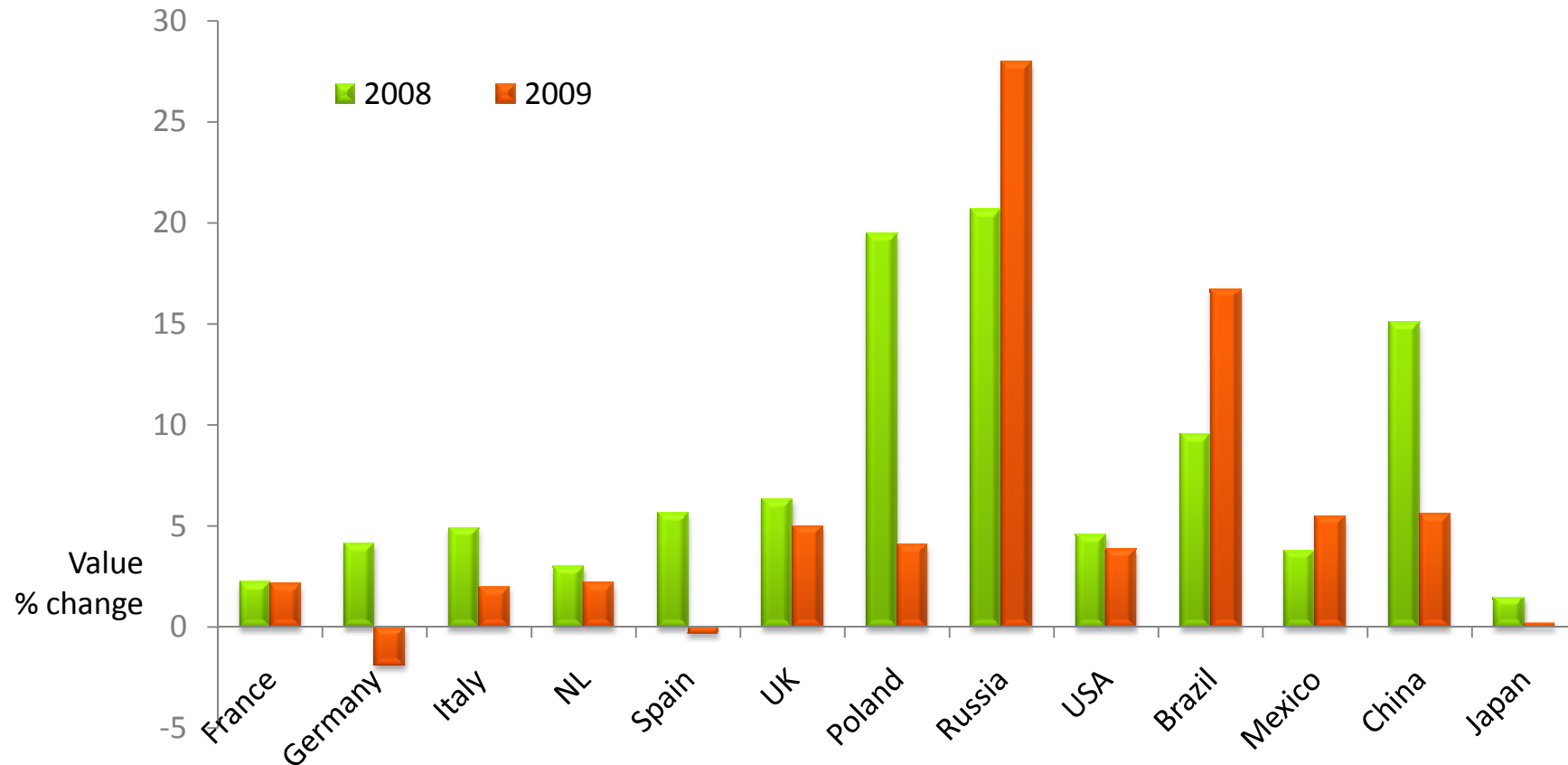
...not recession



Source Europanel based on monthly trends on hundreds of FMCG categories in: France, Germany, Italy, NL, Spain, UK, Poland, Russia, China, Japan, Brazil, Mexico, USA

Growth in FMCG value continues

Remains more important to consumers

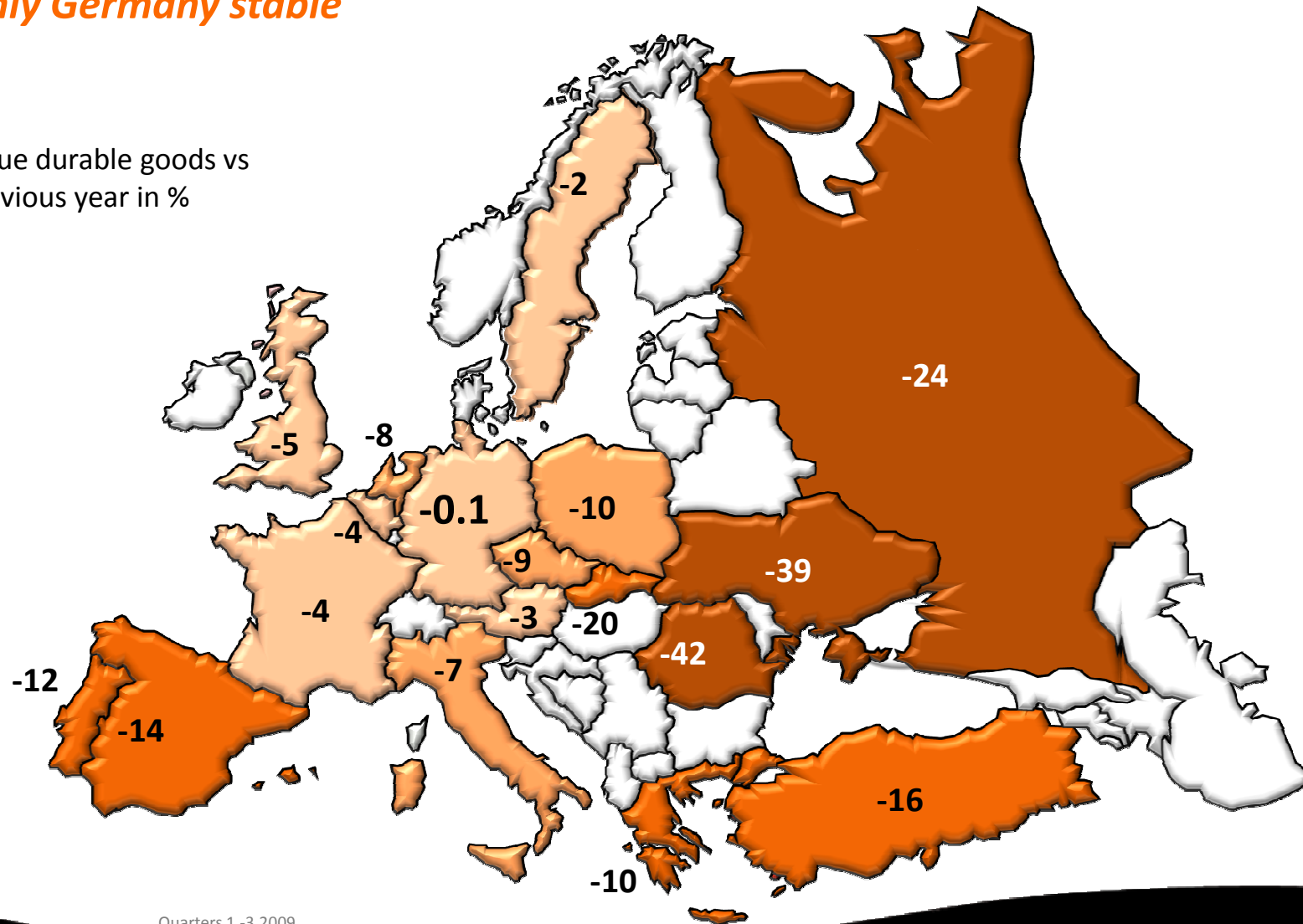


Source: Europanel based on 4 weekly/monthly trends on hundreds of FMCG categories in each country

Durables markets collapse in many European countries

Only Germany stable

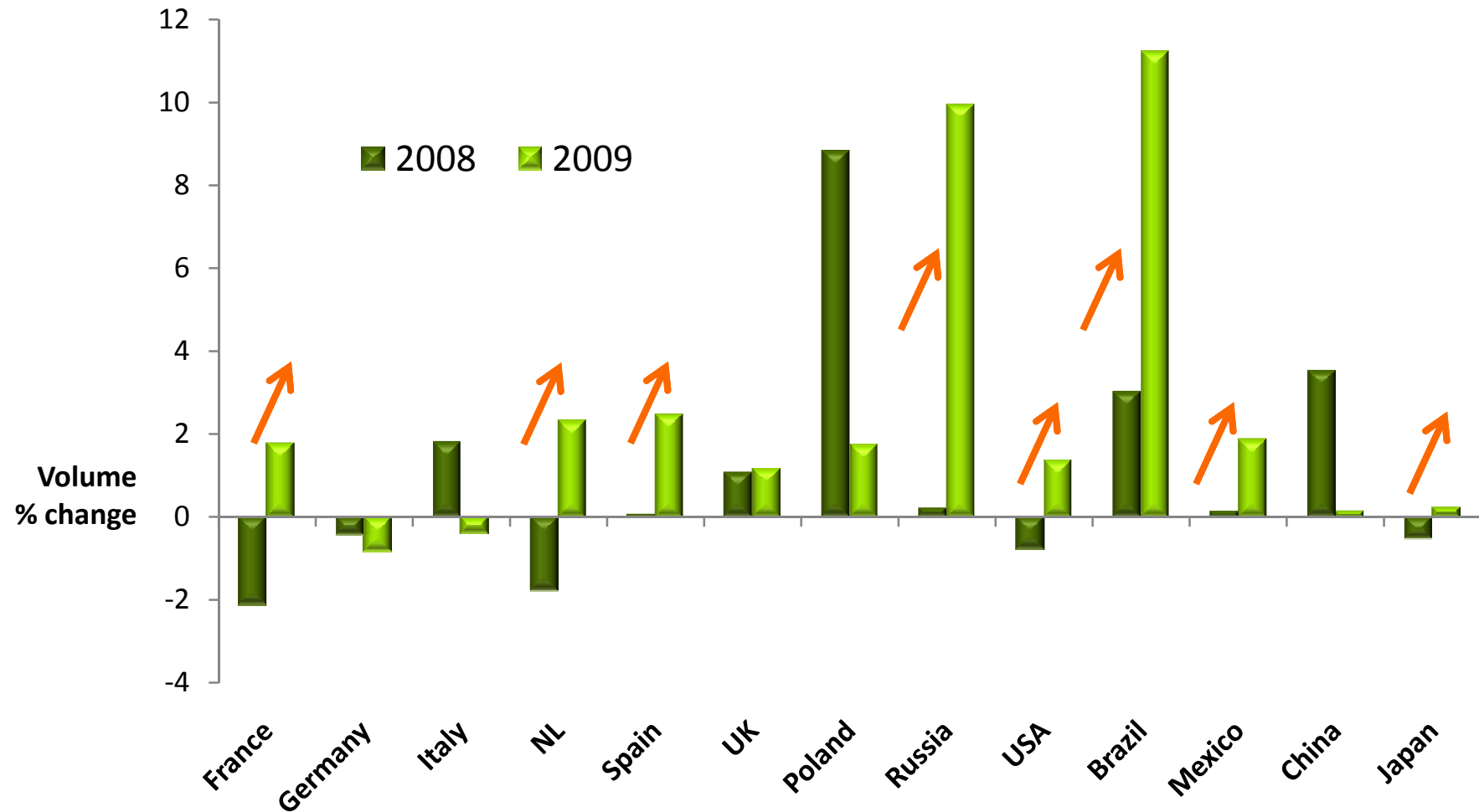
Value durable goods vs
previous year in %



Quarters 1.-3.2009

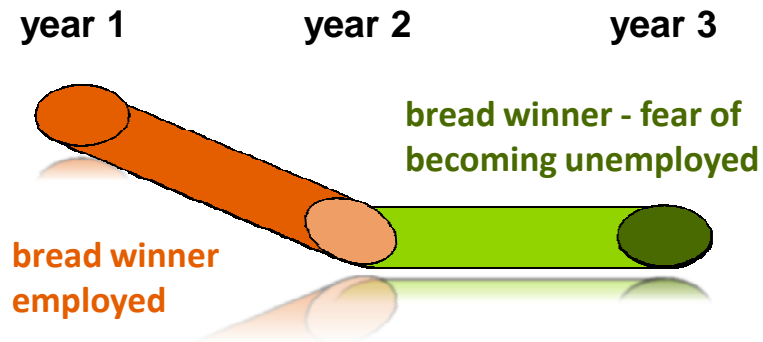
Despite inflation and economic conditions, volumes generally up

Very resilient



Source: Europanel based on 4 weekly/monthly trends on hundreds of FMCG categories in each country

Economic hardship impacts some ... and the effect is on the change



Spend compared to control group

FMCG value

10% less

Value at discounter

4% more

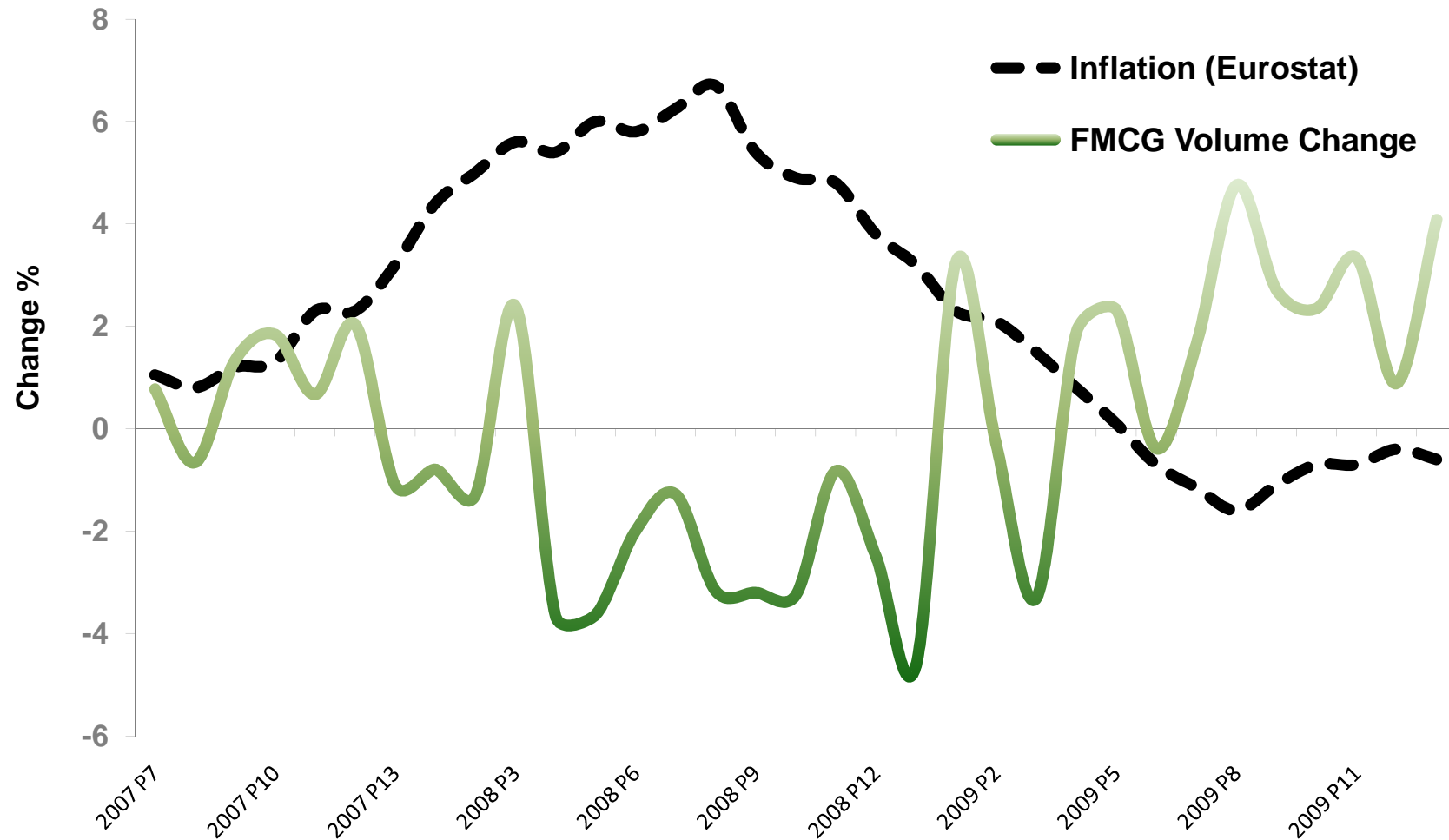
Value of private label

7% more

Source: Europanel (GfK Germany)

Inflation the major impact

...recovery countries eg France



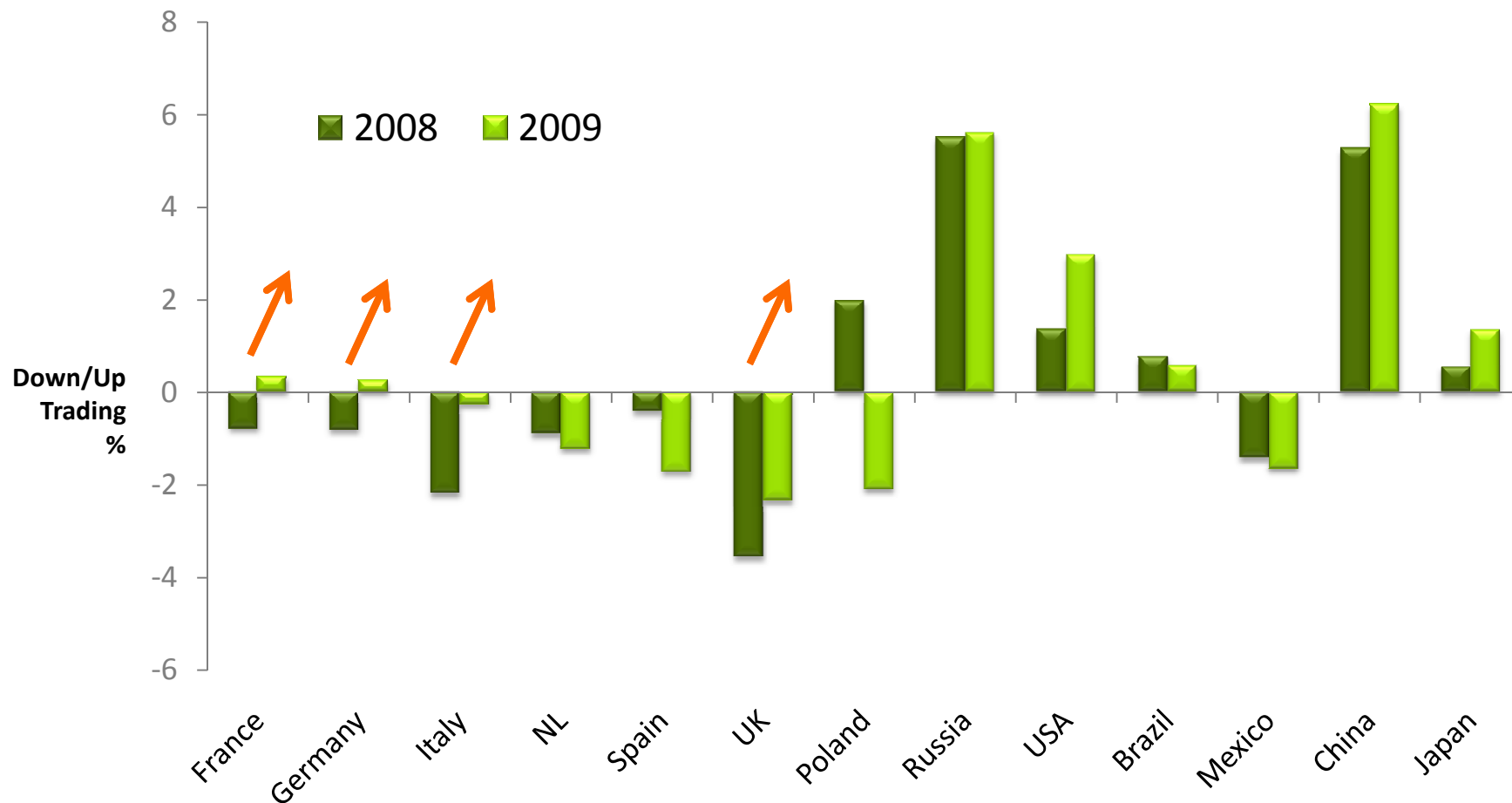
Based on 337 FMCG categories

Private Label

The effect this time

Down-trading still important in Europe but has reduced recently

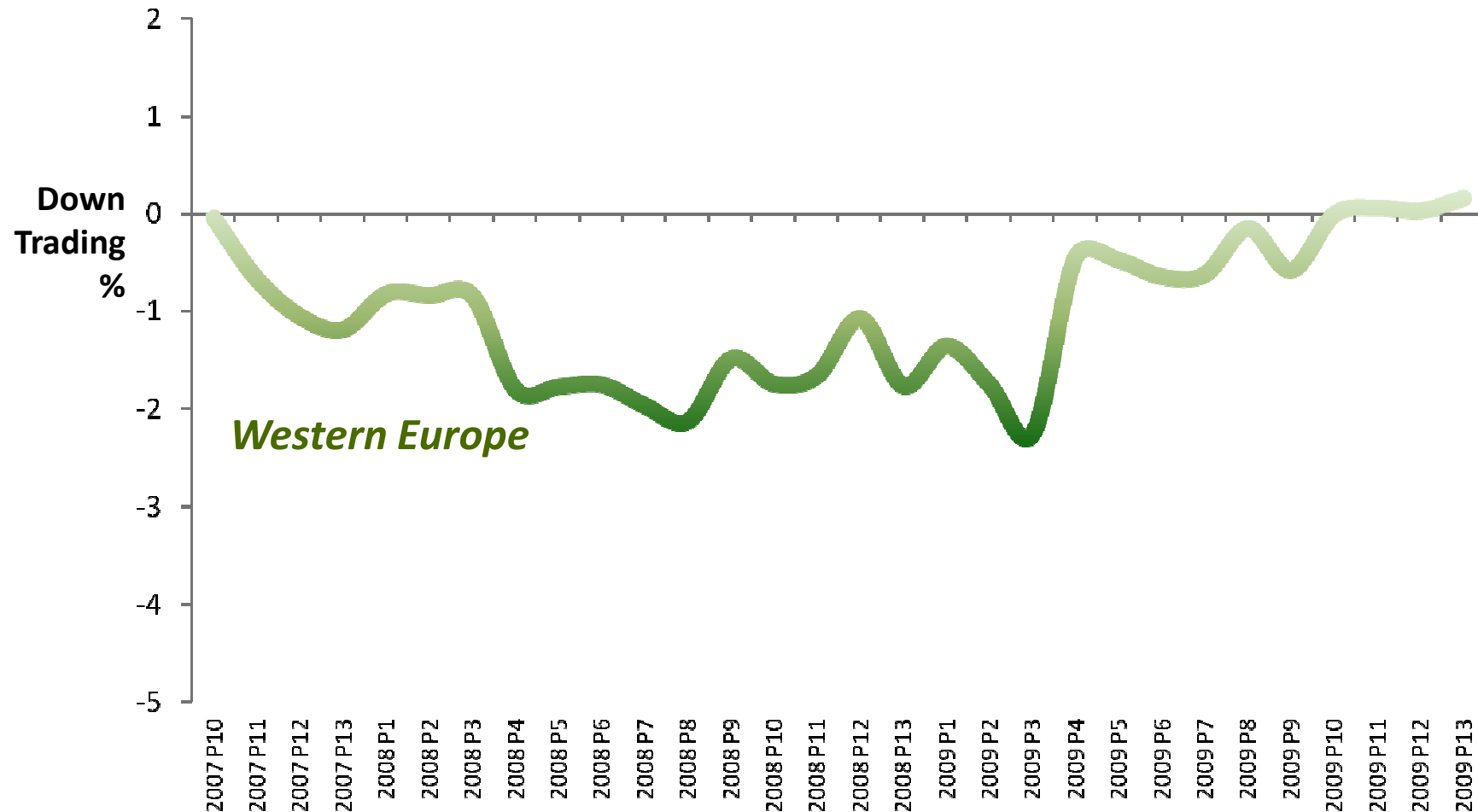
Deflation also a driver now



Source: Europanel based on 4 weekly/monthly trends on hundreds of FMCG categories in each country

Down-trading in Western Europe

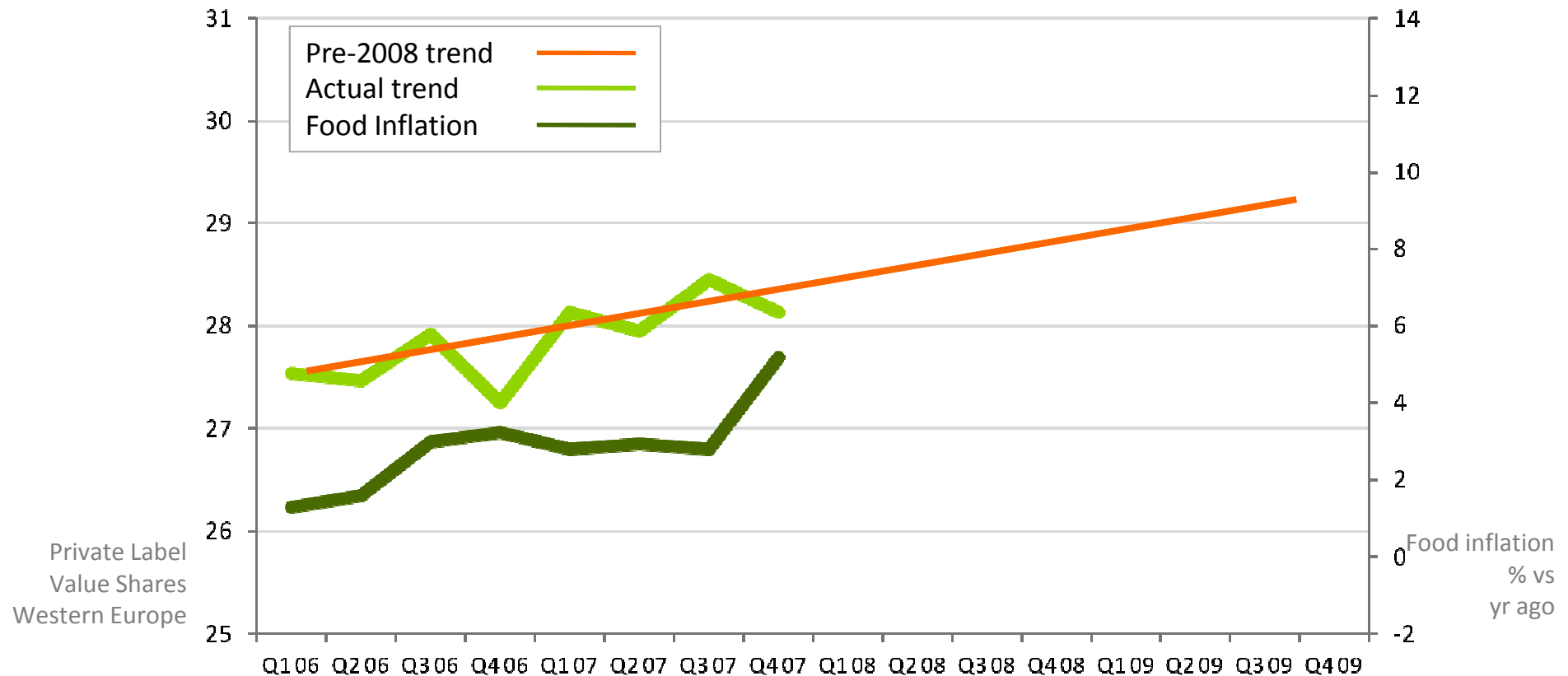
...driven by inflation



Source: Europanel based on monthly trends on hundreds of FMCG categories in each country

Western Europe - Private Label long term growth

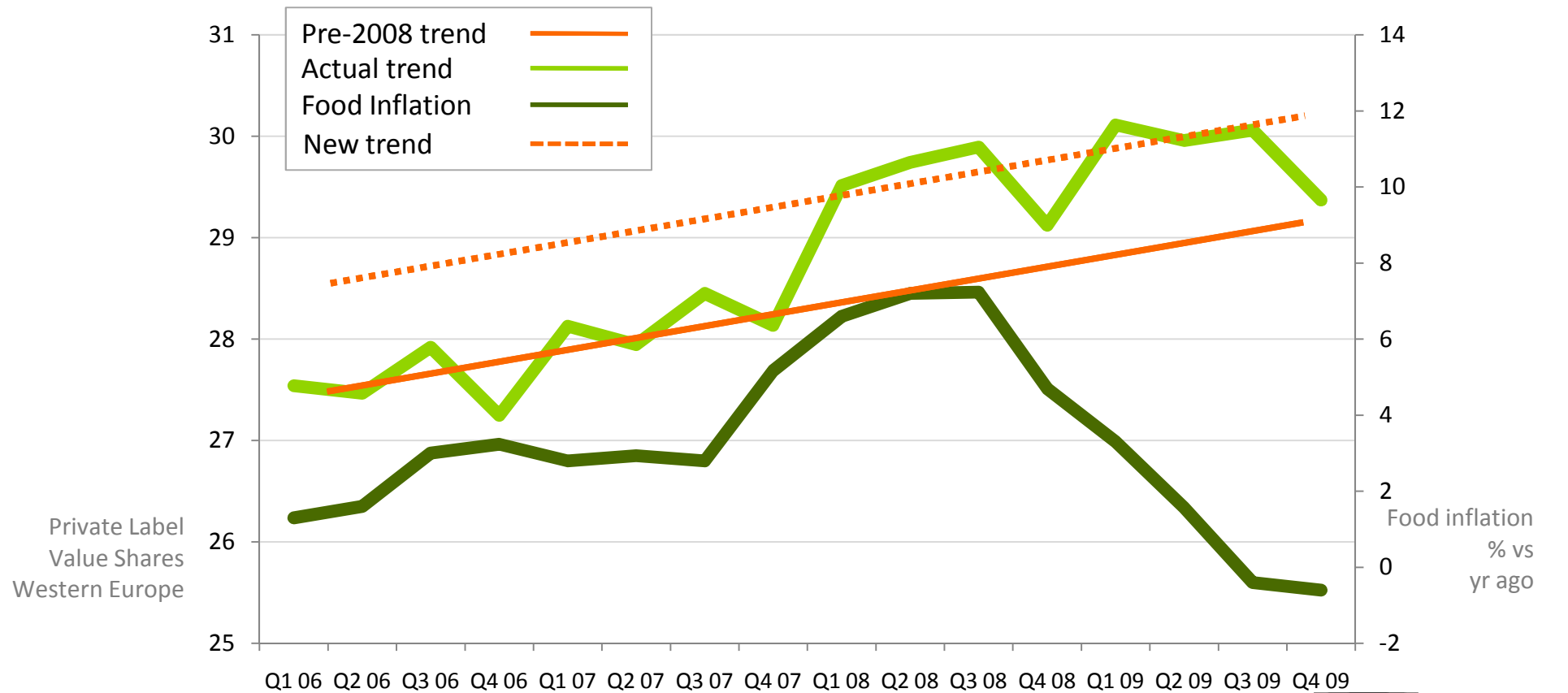
Steady and continued



Source: Europanel Consumer Index – 10 countries

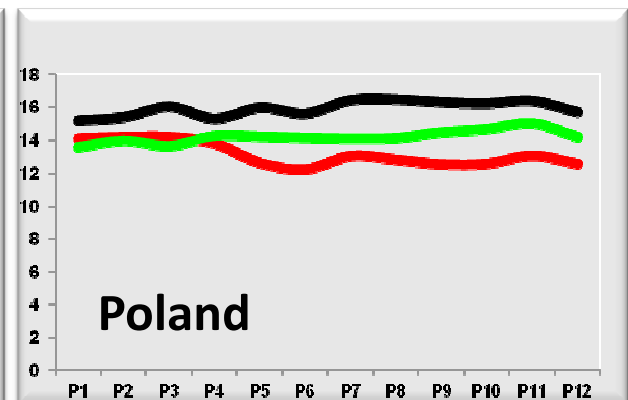
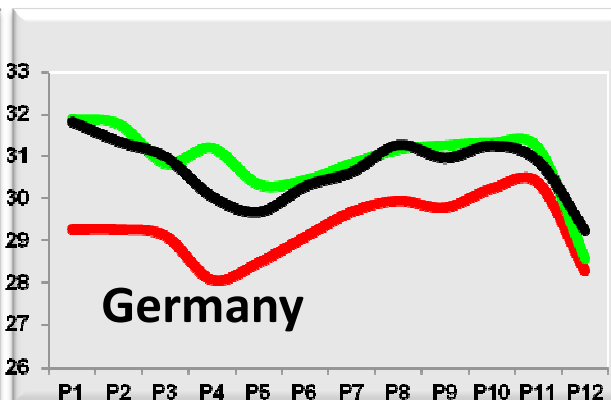
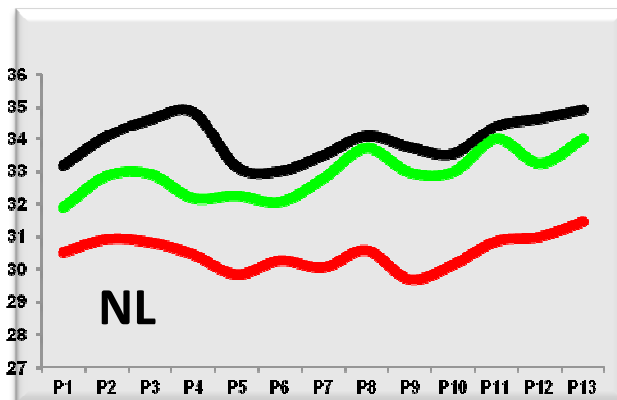
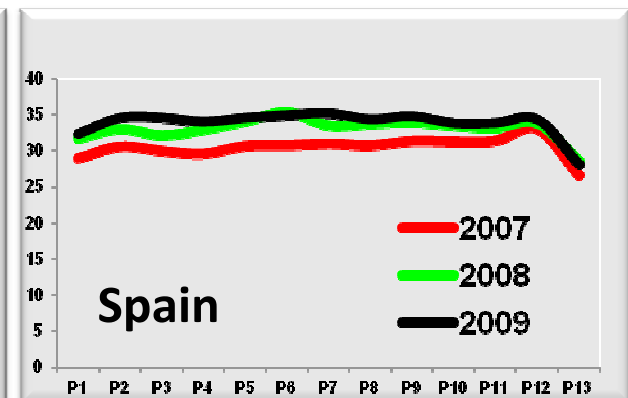
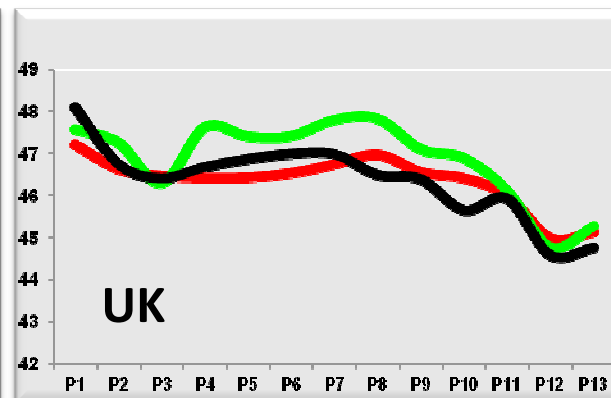
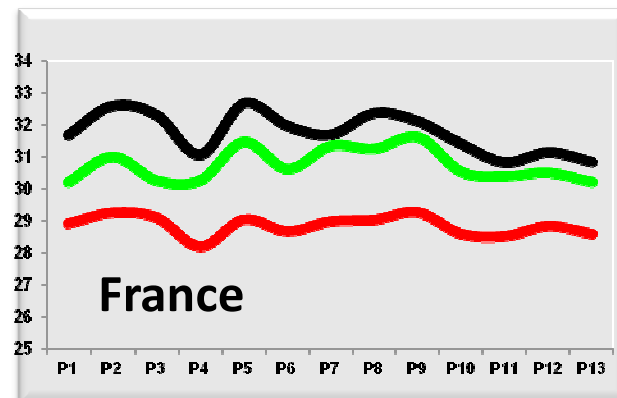
Western Europe – recent Private Label growth

Inflation impetus and then retained



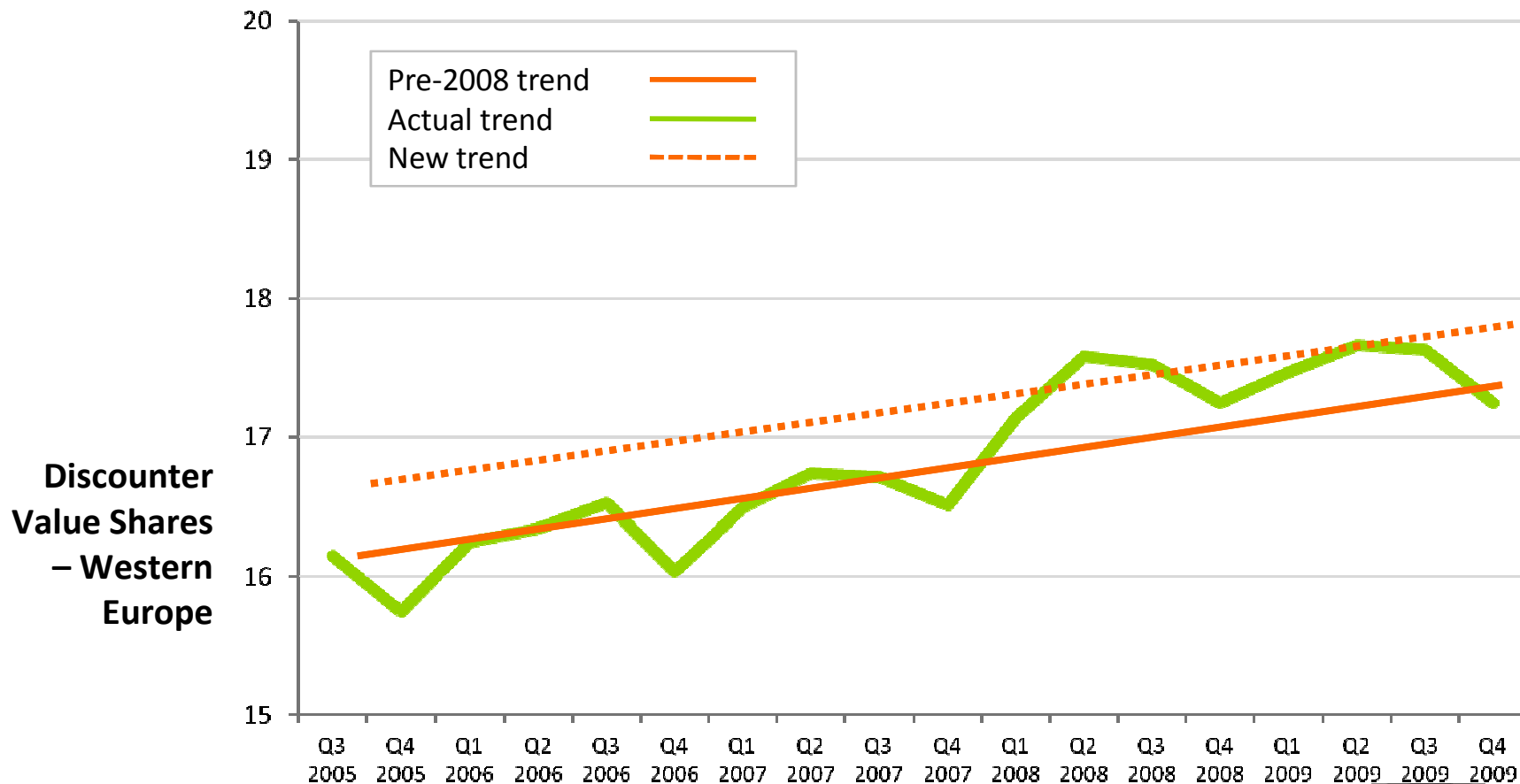
Source: Europanel Consumer Index – 10 countries

Private Label FMCG Value Shares



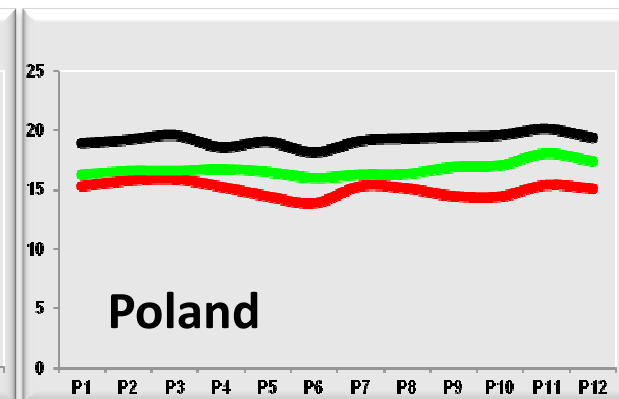
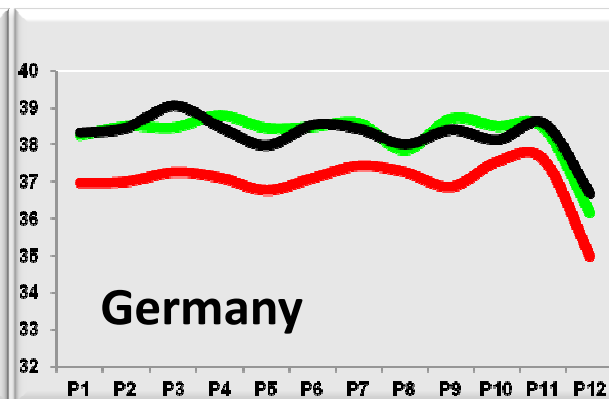
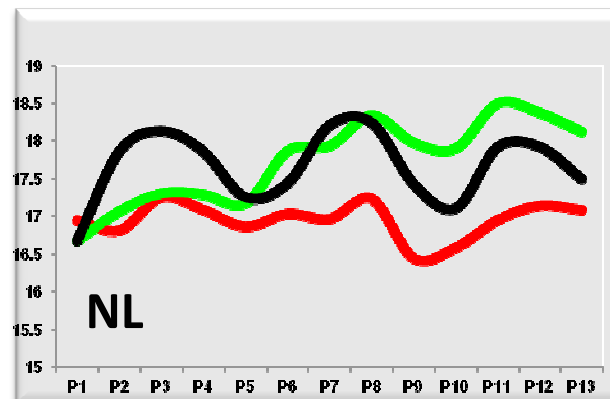
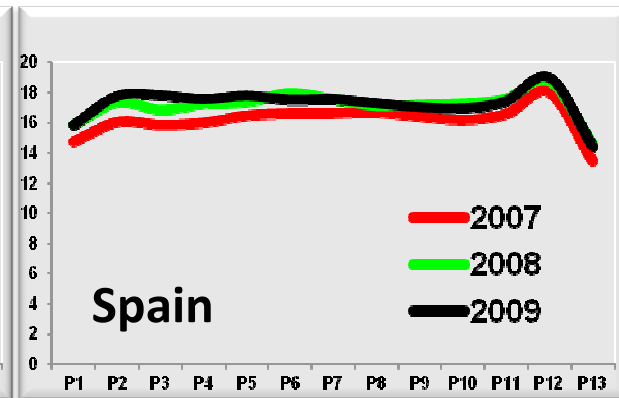
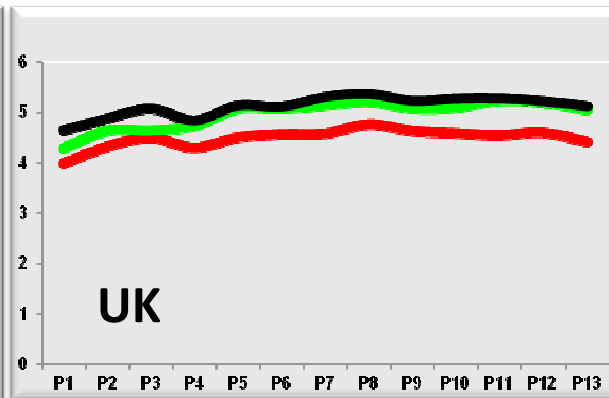
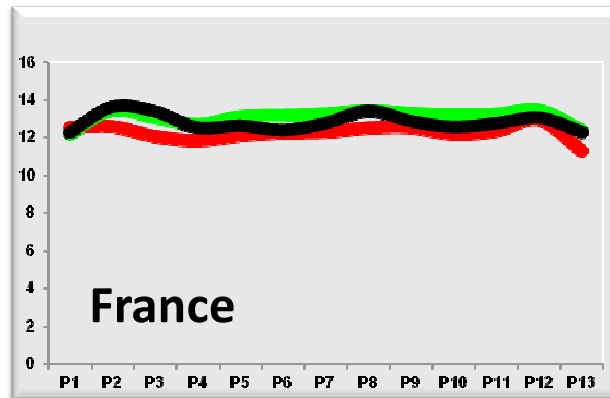
Discounters also gained share above expectation

- prior trend at a new level



Source: Europanel Consumer Index

Discounter FMCG Value Shares

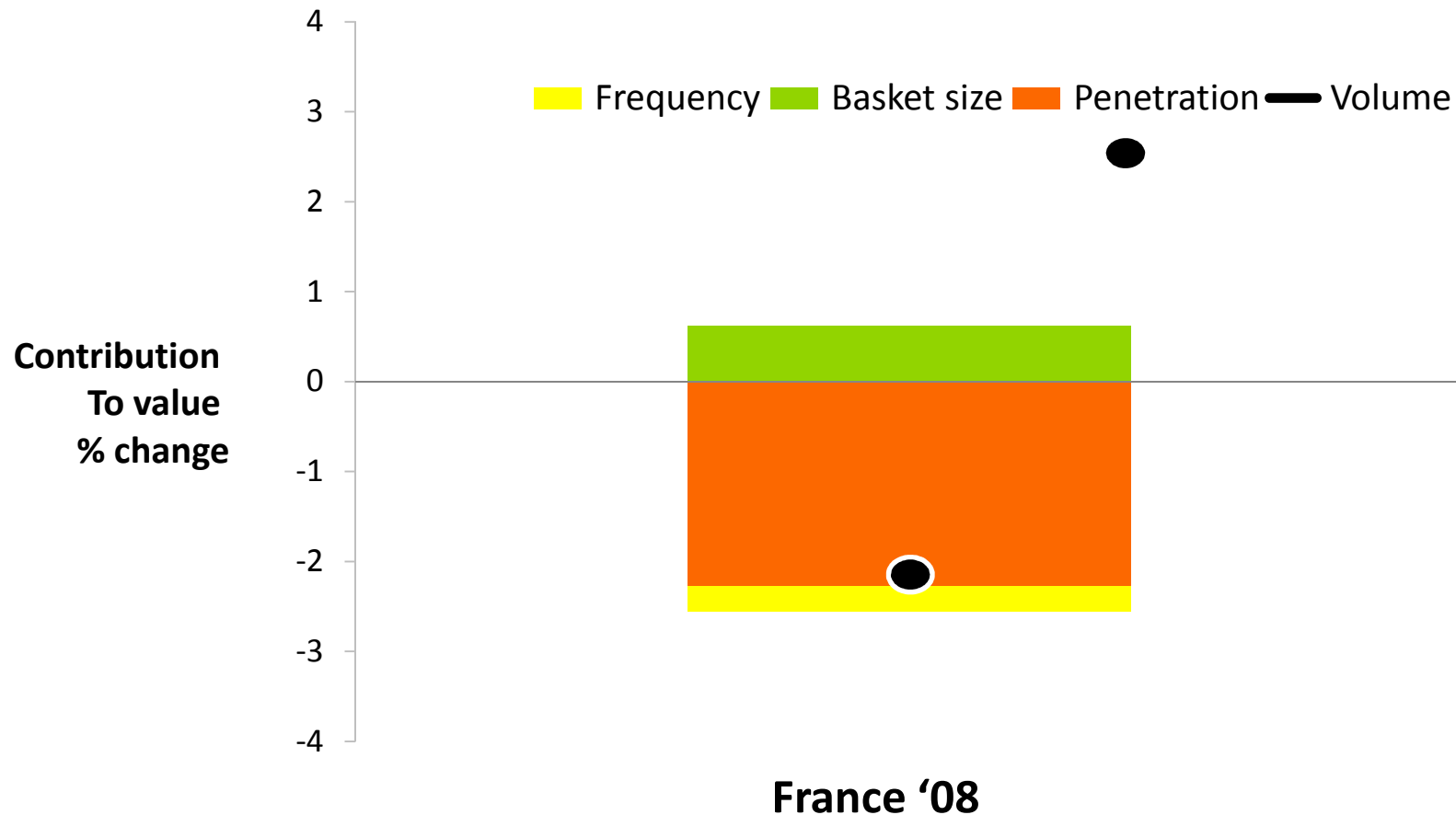




Shopping behaviour?

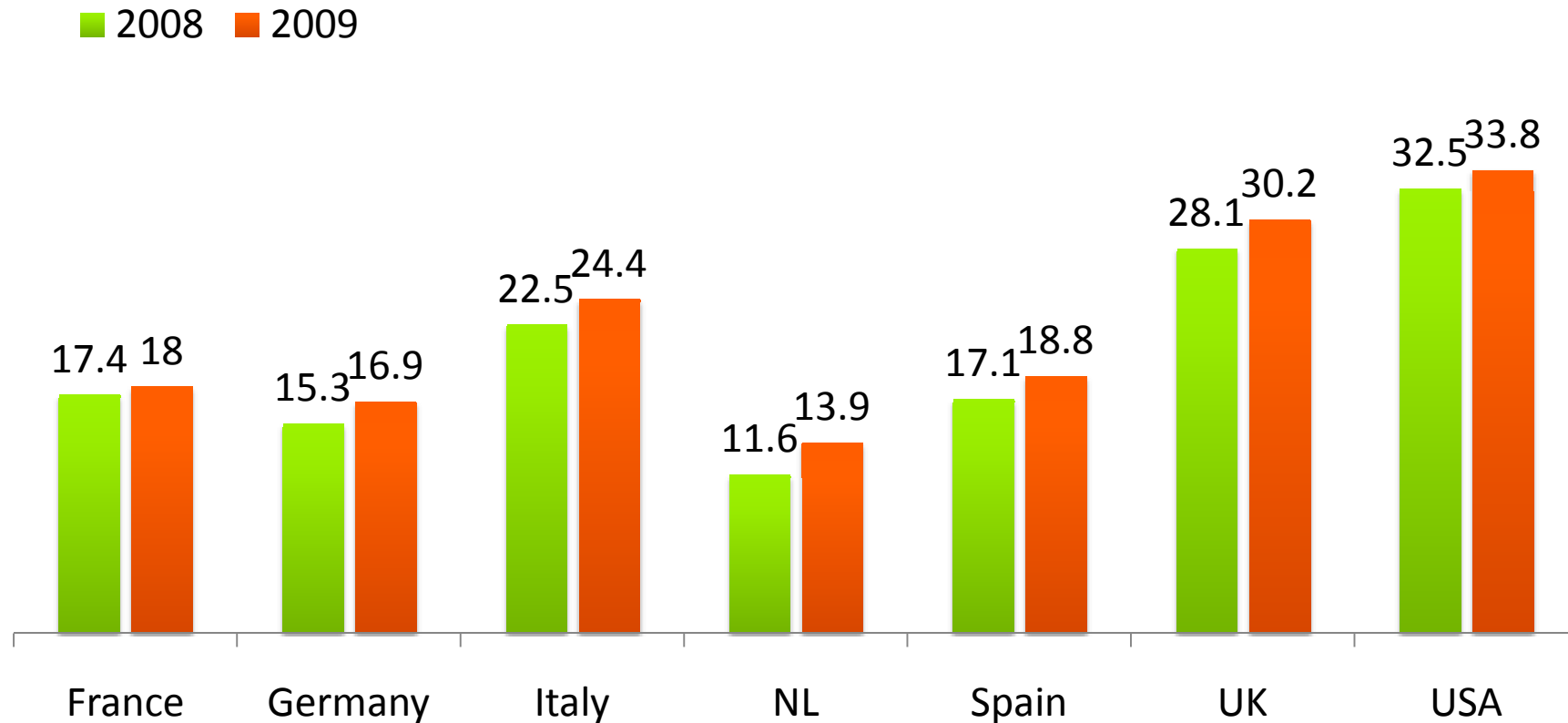
FMCG volumes impacted by consumer category buying

- reduced discretionary buying when inflation was high



Based on 337 FMCG categories

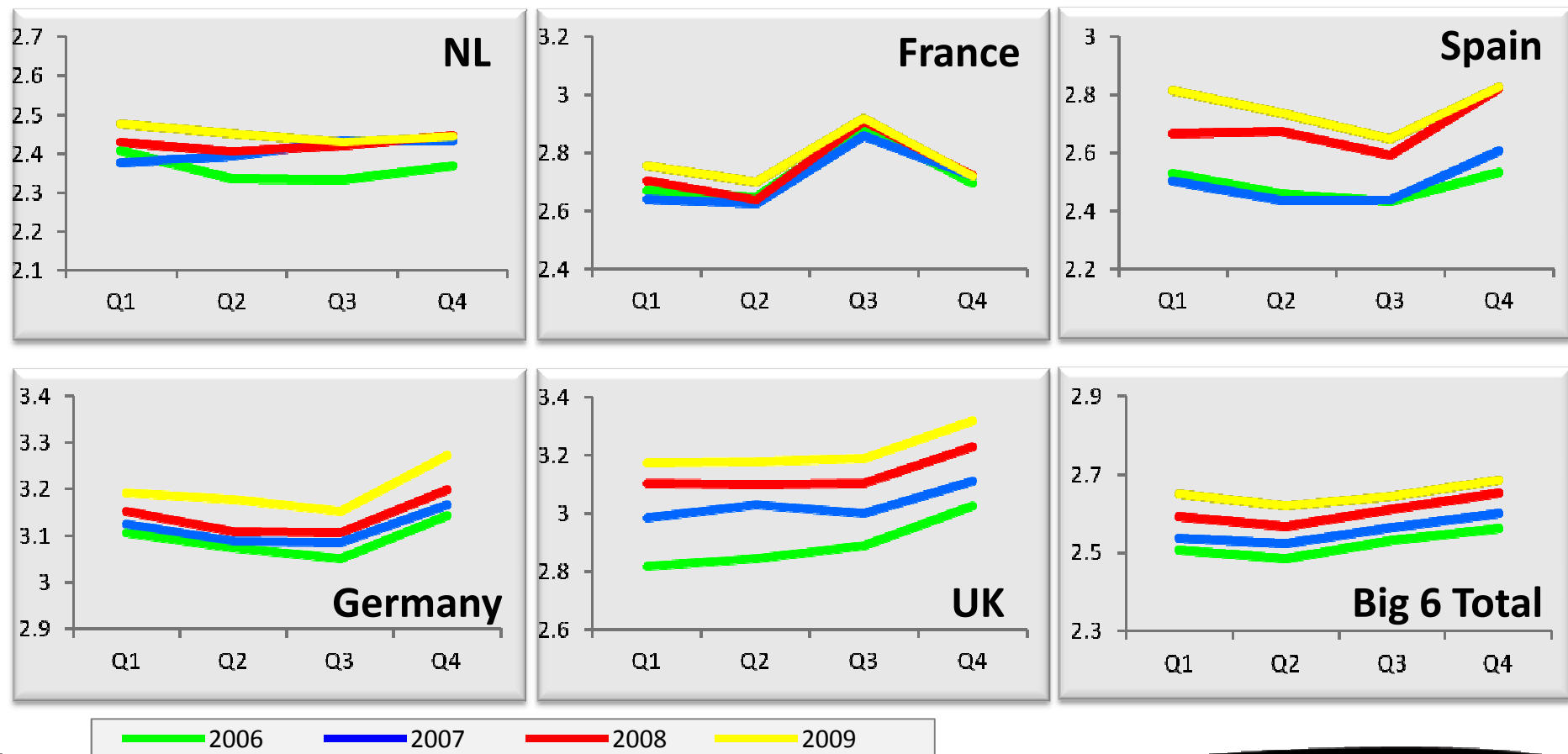
Promotions are increasing in importance



Percent of Total FMCG Sales (volume in Italy and USA) sold on promotion
Sources: IRI, GfK, Kantar

FMCG – Average number of top retailers visited per quarter

General increase in 'shopping around' and hence less loyalty to retailers



Source: Europanel Consumer Index



**€5 billion less
out of home**



**500 million
extra meals
at home**



Around 0.6% of FMCG

**Inflation has also
impacted usage**

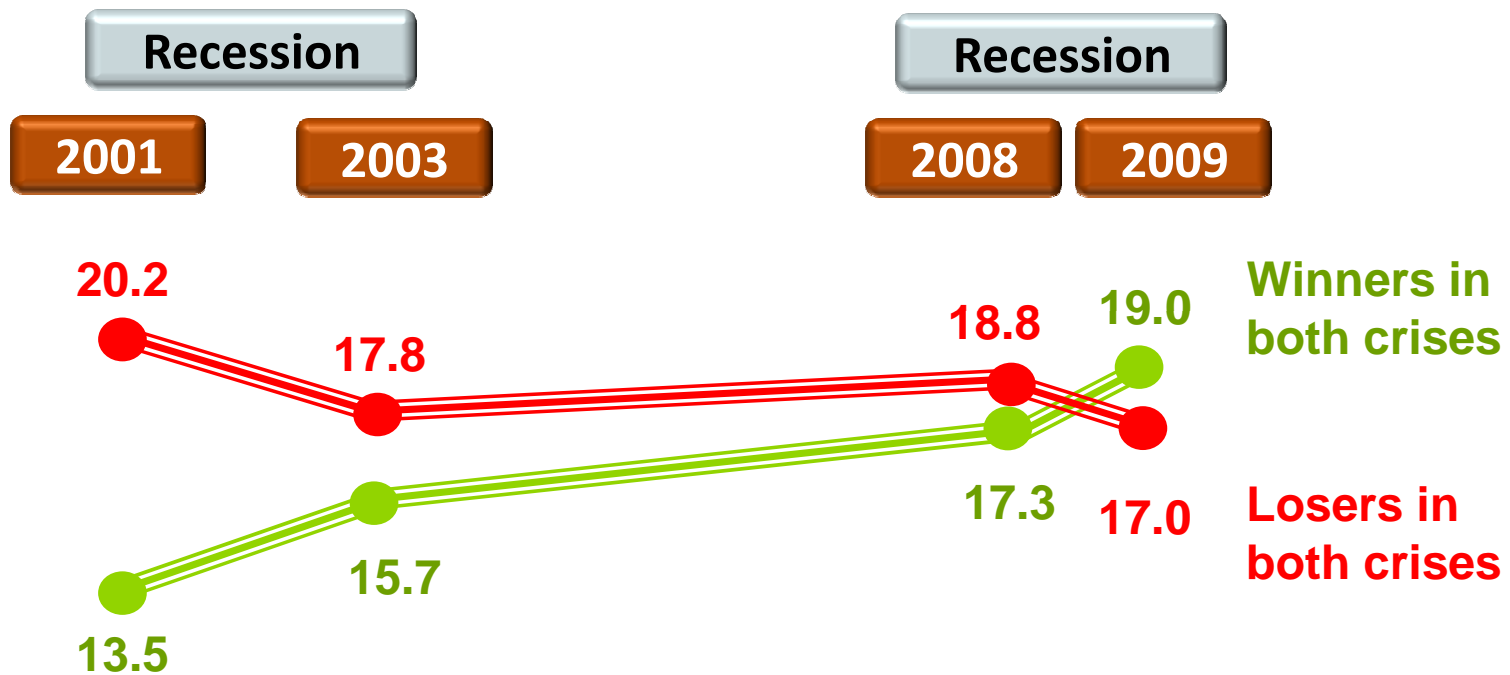
**Back to basics – more
cooking at home, less
going out**

Anti-cyclical behaviour

Examples from Germany

Winner and loser brands across economic cycles

Germany

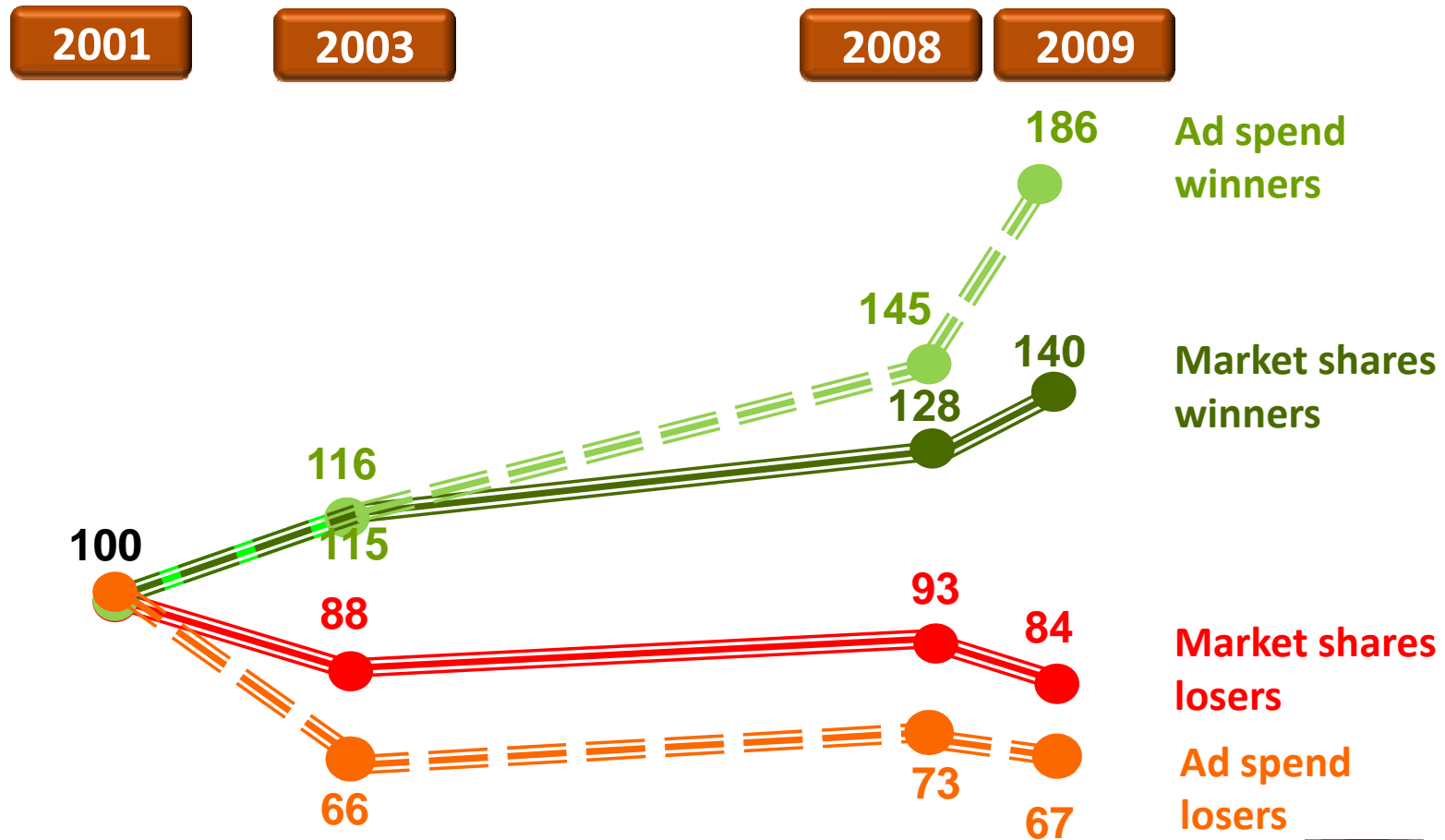


Average market shares (figures in %); Based on 959 brands – winners/losers +/-0.5 share points

57 winners in both and 134 losers in both

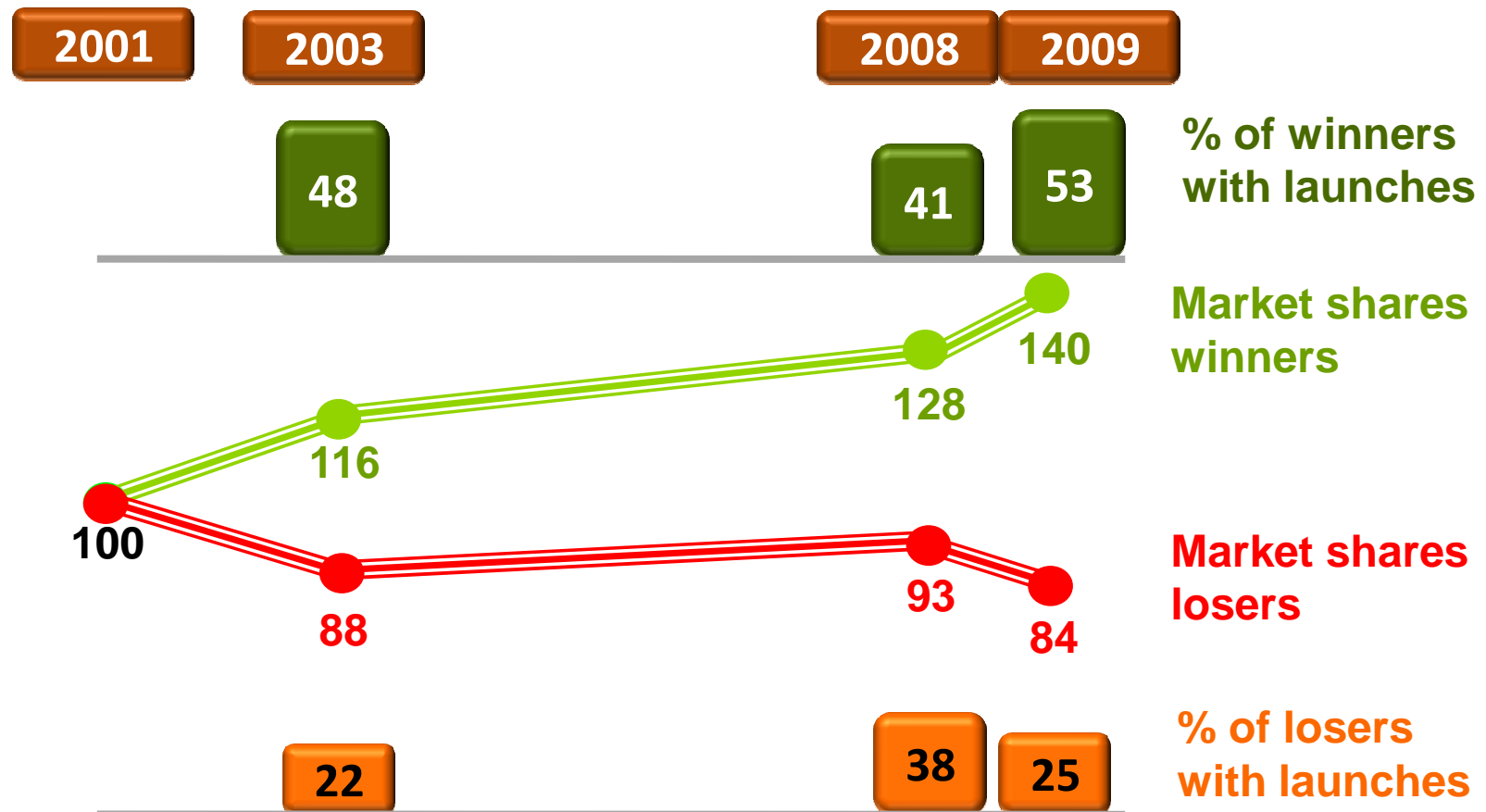
Winners act in an anti-cyclical way

Significant increase in advertising

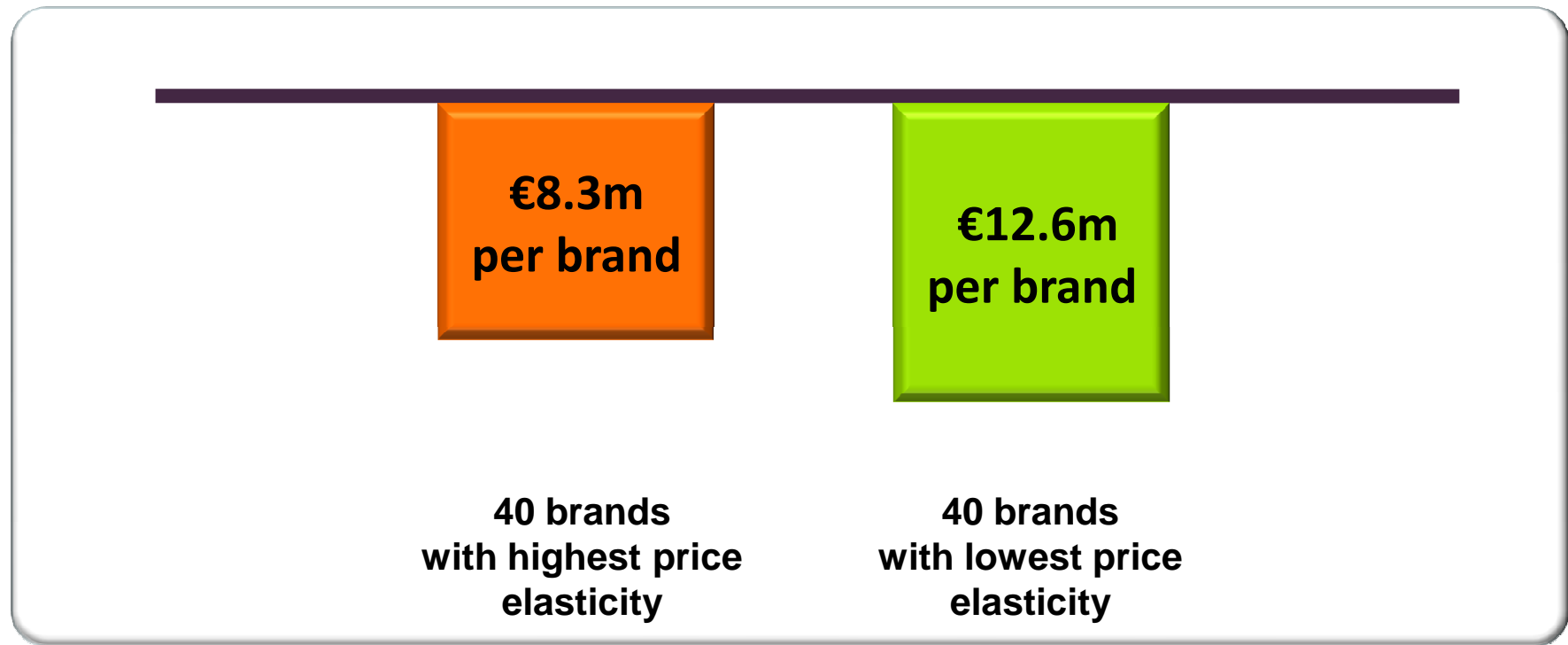


Winners act in an anti-cyclical way

Much more innovation



Adspend vs Price elasticity - Germany



From 909 brands in 163 categories

What history tells us

What about 2008/9

What now

