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

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Europanel
Background - Price Inflation – to December 2009

Significant in 2008 – now deflation

Source: Eurostat

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Background - Consumer Confidence – to January 2010

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

![Graph showing consumer confidence indicator for the European Union (27 countries)](image-url)

Source: Eurostat

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What does history tell us?
Contractions Shake Consumer out of Inertia

But prior levels are then re-established

Consumer Inertia over the Business Cycle

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*

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<th>Advertising and New Product Introduction</th>
<th>Reduction</th>
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<td><strong>Brand Equity - High</strong></td>
<td>High loss potential</td>
<td>Recession may be opportunity</td>
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<td><strong>Brand Equity - Low</strong></td>
<td>Survival game</td>
<td>Try to fight back?</td>
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*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).

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<th>Features of Growing Food Markets, 1989-1990</th>
<th>Increased Advertising (&gt;2.1m)</th>
<th>Product Innovation</th>
<th>Changing Consumer Needs</th>
<th>Price Increases (&gt;10%)</th>
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<td>Washing Up Liquid</td>
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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 cyclic
  - Retailers’ behaviour is countercyclical

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

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

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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

Year 1       Year 2       Year 3

Breadwinner: Employed

Breadwinner: Fear of becoming unemployed

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

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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

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Down-trading in Western Europe

...driven by inflation

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

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Western Europe - Private Label long term growth

Steady and continued

Source: Europanel Consumer Index – 10 countries

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Western Europe – recent Private Label growth
Inflation impetus and then retained

Source: Europanel Consumer Index – 10 countries

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Private Label FMCG Value Shares

France

UK

Spain

NL

Germany

Poland
Discounters also gained share above expectation
- prior trend at a new level

Source: Europanel Consumer Index

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Discounter FMCG Value Shares

France

UK

Spain

NL

Germany

Poland

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Shopping behaviour?
FMCG volumes impacted by consumer category buying
- reduced discretionary buying when inflation was high

France ‘08

Based on 337 FMCG categories

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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
Inflation has also impacted usage

€5 billion less out of home

500 million extra meals at home

Around 0.6% of FMCG

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 in both crises

Losers in both crises

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Winners act in an anti-cyclical way
Significant increase in advertising
Winners act in an anti-cyclical way
Much more innovation

% of winners with launches

2001: 48%
2003: 41%
2008: 53%
2009: 53%

Market shares winners

2001: 100
2003: 116
2008: 128
2009: 140

Market shares losers

2001: 22
2003: 88
2008: 93
2009: 84

% of losers with launches

2001: 22%
2003: 38%
2008: 25%
2009: 25%

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Adspend vs Price elasticity - Germany

40 brands with highest price elasticity: €8.3m per brand

40 brands with lowest price elasticity: €12.6m per brand

From 909 brands in 163 categories
What history tells us

What about 2008/9

What now