FLASH REPORT

Three Key Themes Emerge at the Goldman Sachs Global Consumer Staples Forum

Fung Global Retail & Technology attended the Goldman Sachs Consumer Staples Forum in New York City on May 9. Three main themes emerged from the day's presentations.

1) **Small brands are disrupting the incumbent megabrands:** The Internet has allowed new entrants more space to compete with incumbents and develop direct relationships with customers. Smaller brands can then use the data they collect to further develop those relationships and provide customers with what they are looking for.

2) **Are big brands dead or is there opportunity?** The big brands we all know today grew at a time when distribution was expanding rapidly and retail chains were enjoying sustained periods of growth. For many growing brands during that period, a rising tide lifted all boats. That is no longer the case, and companies may now have to rethink their strategies. Big brands today need to focus on evidence-based marketing and use data to guide their strategies and decisions.

3) **Regulated industries are ripe for disruption:** The consumer packaged-goods sector, consistent with most other sectors, including retail, has been affected by technology and by more brands selling directly to consumers online. While many categories and sectors have been disrupted, those that are regulated—such as alcohol, prescription medication and gaming, among others—have seen less disruption, as regulation is providing some insulation, and are therefore ripe for disruption.

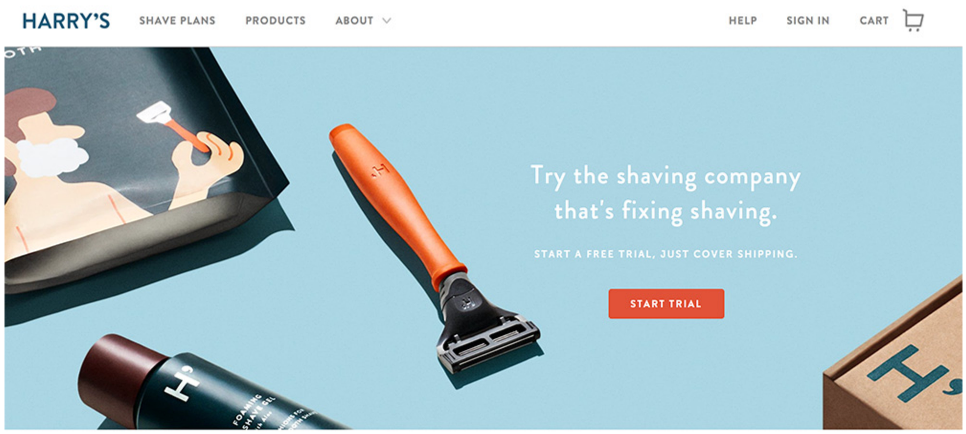
Fung Global Retail & Technology attended the Goldman Sachs Consumer Staples Forum in New York City on May 9. Below, we discuss the three main themes that emerged from the day's presentations.

1. Small Brands Are Disrupting the Incumbent Megabrands

Small brands have disrupted megabrands across most, if not all, sectors. There have been many cases of successful small companies that have disrupted the incumbents in their category, including Warby Parker in the eyeglasses space and Casper in the mattresses space. A primary reason behind these companies' success—and behind consumers' shift away from megabrands that once owned the market (such as Gillette in the shaving category)—is that these smaller brands have a direct relationship with their customers. Furthermore, they are able to use the data they collect to continue developing their relationship with their customers. Also, the Internet has allowed new brands more space to compete with the incumbents. In the past, if a new competitor wanted to launch a product to compete with a Gillette product, Gillette would promote its own product heavily during the launch period in order to eliminate, or at least greatly hinder, the competition. But the Internet and direct selling allow companies to engage with consumers on a more personal level, and such promotional tactics on the part of incumbents no longer work as well.

Authenticity is a key differentiator in developing trust among consumers. For many small brands—including Harry's and Hello, which both presented at the forum—prioritizing the customer, fostering the perception of fair pricing and offering a good product are key to a compelling proposition. Design, in terms of both the product itself and the packaging, is another key component.

Deborah Weinswig, Managing Director, Fung Global Retail & Technology
deborahweinswig@fung1937.com US: 917.655.6790 HK: 852.6119.1779 CN: 86.186.1420.3016



Source: harrys.com

Harry's, which sells men's shaving products, was born out of the founders' frustrating personal experience with shaving equipment and their dissatisfaction with the pricing offered in the category. The company started out as a direct-to-consumer e-commerce pure play, but began selling in Target stores in August of last year, after customers expressed their desire to buy the company's products in stores. Harry's found that 75% of its customers were also Target customers. The initial results have been better than both companies expected. When Harry's launched in Target, it treated its shelf space and presentation as an art installation, simplifying the typically complicated offering that includes a vast number of SKUs in the shaving aisle. Harry's now has the #1 shave gel SKU at Target and is the #3 men's skincare brand, results that have helped broaden the view of the company. The brand now sees itself as a men's grooming brand, and it has plans to expand its product offering accordingly.

Source: hello-products.com

Hello is another example of a company challenging the incumbents by offering a better product, in this case, in the oral care space, a $40 billion category. The "Hello" name was picked because it was the friendliest name the team could think of. The company focuses on the product, which is a natural toothpaste that contains no dyes, parabens, artificial sweeteners or flavors, triclosan, or microbeads. The product packaging is also

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deborahweinswig@fung1937.com US: 917.655.6790 HK: 852.6119.1779 CN: 86.186.1420.3016

unique, in that each ingredient is listed along with its specific purpose, offering customers the transparency that many of them desire. The company's products are priced for the 100% rather than the 1%.

2. Are Big Brands Dead or Is There Opportunity?

The big brands we all know today grew over recent decades to become household names. The Tides and Gillettes of the world took share over the years from small brands and mom-and-pop retailers, which have essentially disappeared. Many of these brands grew at a time when distribution was expanding rapidly and retail chains were enjoying sustained periods of growth. For many growing brands, a rising tide lifted all boats, but that is no longer the case. Mass chains are, for the most part, mature companies, and brands may now have to rethink their growth strategies. The strategies that got many of them to where they are today may not have been quite as sophisticated as the companies thought they were, and these big brands may have benefited more from the rapid growth in retail and distribution and increasing shelf space than they did from their own internal efforts.

Big brands are now all competing with each other as well as with newer, smaller disruptors. Private-label brands are taking share on the low end and increasing competition. Meanwhile, as consumers become wealthier, they expect more at the higher end, and premiumization becomes a factor. One example of premiumization in the US is in the hamburger category, which continues to grow. McDonald's has been challenged by this trend, as higher-quality entrants have become viable competitors.

Brands will need to go back to the basics, and embrace who they are and what they can offer to the consumer that is different. In terms of marketing, big brands need to focus on evidence-based marketing and use data to guide their strategies and decisions.

3. Regulated Industries Are Ripe for Disruption

The consumer packaged-goods sector, consistent with most other sectors, including retail, has been affected by technology and by more brands selling directly to consumers online. Packaged-goods companies have faced challenges in tackling e-commerce successfully, and many have turned to acquisitions to take control of their disruptors. For example, Unilever acquired Dollar Shave Club and PetSmart acquired Chewy.com. While many categories and sectors have been disrupted, those that are regulated—such as alcohol, prescription medication and gaming, among others—have seen less disruption, as regulation is providing some insulation.

Another big topic of conversation at the forum was the impact that Amazon is having and the implications for the future. It was noted that, in the alcohol category, if Amazon develops a relationship with customers through Prime shipping and delivery and then decides to make its own private-label product (as it has in other categories), it could then own the alcohol-buying customer and effectively eliminate its competition in the category.

Within the alcohol category, Drizly operates as a pure marketplace. It is a company that connects buyers of alcohol (consumers) and sellers (independent alcohol retailers). It gives consumers access to thousands of local liquor stores, real-time pricing and delivery options in their area. They can decide if they want delivery in the next hour or next day, or if they want to pick up their purchase. The company was launched five years ago and operates in 40 states across the country. Drizly is approaching a nine-figure gross merchandise volume this year and is growing by 200%–250% annually. Drizly has data

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on its own transactions and inventory as well as on the transactions of its partners in their stores. In terms of competition, there are few barriers to entry, but many significant barriers to scale, as uniformity and reliability are key. As a result, the company views its major competitors to be Amazon, Instacart and Uber, as well as customers who choose to go to the store themselves.

Pax Labs was founded by two Stanford Design Impact Program graduates and was developed with the mission of making smoking obsolete. The company makes superior, beautiful and technologically advanced products that push the boundaries of vaporization. Pax Labs' products are built to be more effective, but also to offer a simple, pleasurable experience. The company currently distributes its products in the US and Canada. At the heart of the company is a focus on making a great product, which makes Pax Labs more similar to a consumer electronics company than the typical consumer packaged-goods company, where products tend to be driven more by sales and marketing.

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Deborah Weinswig, CPA
Managing Director
Fung Global Retail & Technology
New York: 917.655.6790
Hong Kong: 852.6119.1779
China: 86.186.1420.3016
deborahweinswig@fung1937.com

Shoshana Pollack
Senior Research Associate

Hong Kong:
8th Floor, LiFung Tower
888 Cheung Sha Wan Road, Kowloon
Hong Kong
Tel: 852 2300 4406

London:
242-246 Marylebone Road
London, NW1 6JQ
United Kingdom
Tel: 44 (0)20 7616 8988

New York:
1359 Broadway, 9th Floor
New York, NY 10018
Tel: 646 839 7017

FungGlobalRetailTech.com