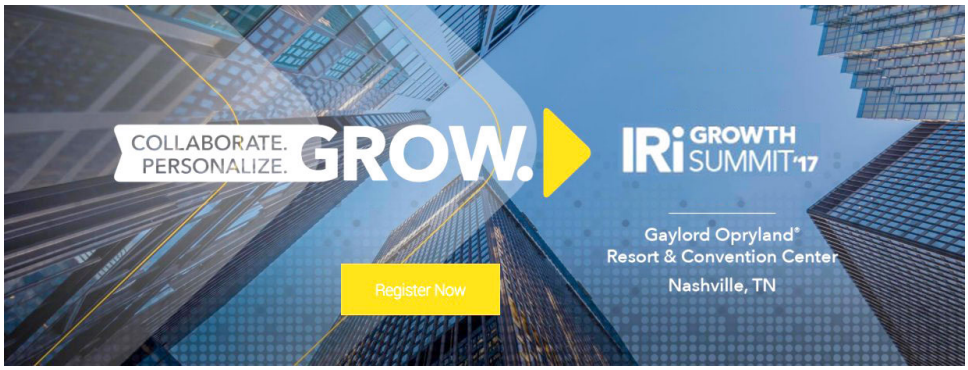
FLASH REPORT

Top Five Takeaways from the 2017 IRI Growth Summit



Source: Twitter.com/IRI

The Fung Global Retail & Technology team attended the 13th annual IRI Growth Summit in Nashville, Tennessee. Key topics of discussion included:

1) Health and wellness categories are driving consumer packaged-goods (CPG) growth
2) CPG e-commerce is still in its early stages, but is catching up
3) Customization will drive CPG marketing, advertising and consumer reach
4) Large and midsize companies are capturing growth through acquisitions
5) Disruption in the CPG industry is driving manufacturer and retailer partnerships

The Fung Global Retail & Technology team attended the 13th annual IRI Growth Summit in Nashville, Tennessee. The summit is an opportunity for retailers, manufacturers and the media to discuss and learn about the ever-changing world of big data, cutting-edge tools and technology, and paths for growth in the CPG and other industries. Sessions at the event focused on the digital marketing landscape, e-commerce strategies, key merchandising and assortment tools, and technologies for retailer-manufacturer collaboration, among others.

Notable speakers at the summit included Christina Hennington, SVP, Merchandising Transformation and Operations at Target; Albert Carey, CEO of PepsiCo North America; and Felipe Szpigel, President of Anheuser-Busch InBev's High-End Business Unit.

Below, we provide our top five takeaways from the summit.

1. Health and Wellness Categories Are Driving CPG Growth

Consumers' shopping and eating habits continue to evolve as they demand foods with "better for you" attributes. Recently, consumers' focus on health and wellness has become a more disruptive trend, driven by millennials' and Gen Zers' embrace of a healthier lifestyle, according to Robert Sanders, Healthcare Practice Leader at IRI. In the food and beverage segment, consumers have been spending more on organic, non-GMO and gluten-free products, and looking more broadly at factors such as environmental friendliness and sustainability.

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Figure 1. Food and Beverage Category Trends

	2016 Sales (USD Bil.)	YoY % Change
Non-GMO	$4	64.3%
Dairy Free	$3	25.6%
Vegan/Vegetarian	$2	22.7%
Soy Free	$1	21.1%
Antibiotic Free	$3	15.5%
Organic	$11	15.2%
Gluten Free	$18	15.1%

Source: IRI Growth Consulting Analysis

The wellness trend is apparent in nonfood CPG aisles, too. Health, beauty, personal care and household products that promote wellness (with whole and natural ingredients) were among the fastest-growing nonfood CPG categories in 2016. According to IRI, this segment is projected to continue growing at a 7%–9% compounded annual growth rate (CAGR) through 2020, roughly double the expected growth rate for personal care products overall. Many companies have found growth by tapping into these trends:

- Among small brands, healthy sports drink company Bodyarmor was the top growth leader in 2016, with $109 million in sales, up 149.8% year over year.
- The top-growing midsize brand was yogurt company Chobani, with $1.38 billion in sales, up 8.4% year over year.
- Among larger companies, PepsiCo grew by 2.2% year over year in 2016—outpacing CPG industry growth of 1.4%. IRI CEO Andrew Appel credits the company's growth to its expansion into healthier and more nutritious products over the last three years.

2. CPG E-Commerce Is Still in Its Early Stages, but Is Catching Up

Executives from several companies agreed that CPG e-commerce is in its early stages of development, but that it is poised for rapid growth. CPG and food and beverage e-commerce sales are expected to reach $88 billion by 2022, up from $11 billion in 2015, according to IRI. And e-commerce sales are expected to account for 10% of CPG sales by 2022, up from 1.4% in 2015, and for 5.5% of food and beverage sales and 18.2% of nonfood sales by 2022.

Figure 2. E-Commerce's Share of Sales: 2015, 2020E and 2022E

	2015	2020E	2022E
CPG	1.4%	5.0%	10.0%
Food and Beverage	0.8%	2.7%	5.5%
Nonfood	2.5%	9.3%	18.2%

Source: IRI Growth Consulting Analysis

While e-commerce accounts for only a small percentage of overall CPG sales, Joe LaMotta, Senior Director of Fresh/Private Brands at Jet.com, pointed out that 76% of all shopping trips begin online. Thus, it is vital that companies leverage an online presence in order to digitally influence shoppers. Danny Silverman, Chief Marketing Officer at

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Clavis Insight, said that click-and-collect and home delivery appear to be the preferred distribution models for grocery today, particularly among younger consumers.

The online CPG marketplace looks very different from the brick-and-mortar realm, and small, niche brands are capturing a disproportionate share of spending from brands that have traditionally dominated brick-and-mortar sales. Smaller, more nimble, digital-first firms are offering a more compelling e-commerce strategy, according to IRI. Kerrie Lopez, Senior Manager of Category Management at Jet.com, said that many CPG companies do not have content (images, descriptions, bullets) ready to integrate their brands online. Brands need to adjust their marketing strategies to an e-commerce world that relies on a "pull," or limitless shelf strategy, in which retailers can offer products that are not necessarily in inventory.

Retailers are generally taking one of two approaches in their businesses: buy or build. Walmart, for instance, invested more than $3 billion to acquire Jet.com and a shoe business, ShoeBuy, in order to compete with Amazon and Zappos. Target, meanwhile, plans to invest billions of dollars in order to enhance its omnichannel platform.

3. Customization Will Drive CPG Marketing, Advertising and Consumer Reach

IRI's Appel said that retailers, now more than ever, need to provide customized experiences during the customer shopping journey. In the past, IRI has focused on the trend of hyperlocalization, but customization has moved to the forefront, and it will be a key factor to driving growth and differentiation, Appel said. While localization requires unique executions of assortment and product configuration to drive retail growth at a local level, customization requires unique solutions at the planning stages.

According to Appel, as more and more consumers shop and spend more time online, CPG companies will be able to design customized promotions and pricing strategies using IP addresses, cookies and mobile loyalty programs. Appel pointed out that the mobile channel and social media are becoming the primary channels for communication, noting that Facebook has more than 1.5 billion users and YouTube 1 billion. In comparison, the most widely watched TV event in recent years was Katy Perry's performance at the 2015 Super Bowl, which drew 118.5 million viewers. Accordingly, retailers must shift their communications toward mobile technology.

The increasingly connected and empowered consumer is driving a more consumer-centric, individualized approach to generating and fulfilling demand. "In the next five years, we're going to see a massive shift on how you create demand in what you sell and how you fulfill that demand," Appel said. "We're heading toward a place of individualization."

Major retailers, including Kroger and Target, are embracing mobile promotions to create customized and simplified shopping experiences. Kroger is building loyalty—particularly among smartphone-enabled moms—with personalized coupon offerings. Target's mobile solution taps into information about a store's layout and the location of products within the store to deliver customized recommendations and messaging to shoppers.

4. Large and Midsize Companies Are Capturing Growth Through Acquisitions

The cost of staples and commodities has dropped over the last several months, creating a historic deflationary market, and large CPG companies (defined as having $6 billion or more in annual sales) saw their market share fall from 57% in 2011 to 54% in 2016. As they struggle to find organic growth, large and midsize retailers are actively pursuing acquisition opportunities with smaller companies. Senior executives of Conagra Brands,

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McCormick & Company, IRI and Land O'Lakes shared insights at the summit regarding unlocking value and growth through acquisitions.

In 2016, many acquisitions by large companies were of personal care or food and beverage brands with wellness and natural-ingredient themes:

- Unilever acquired Seventh Generation, a brand of eco-friendly cleaning and personal care products.
- Dr Pepper Snapple Group acquired Bai Brands, which offers flavored water, coconut water and premium ready-to-drink teas.
- Danone acquired WhiteWave for $10.4 billion (the largest organic and natural acquisition deal ever) in order to obtain products in the plant-based and organic dairy sectors.

5. Disruption in the CPG Industry Is Driving Manufacturer and Retailer Partnerships

In the past, collaboration between CPG manufacturers and retailers has been held back primarily by a lack of trust, poor planning and inadequate communication. In this low-growth market, however, CPG manufacturers and retailers are less protective of their intellectual property and more open to developing collaborative strategies.

For example, Unilever joined forces with Migros, one of Turkey's largest retailers, and used consumer insights to increase sales of hair conditioner. Through an in-store survey, the firms learned that shoppers considered hair conditioner an unnecessary, expensive product. To challenge this belief, Unilever and Migros set up promotions and reorganized shelf space to put conditioners next to shampoos, encouraging shoppers to view conditioner as a necessary companion product. As a result of this campaign, Migros's overall hair conditioner revenue grew by 25% and Unilver's by 36%.

Retailers as well as CPG firms want to optimize getting the right product to the right shelf, as well as getting the product off the shelf and to the right customer. The best vehicle for accomplishing this is shelf-centered collaboration, where CPG and retail companies mutually design and operate analytics infrastructure and management practices based on point-of-sale data. This approach can offer wins throughout the value chain, in product development, demand planning, joint logistics, inventory tracking, data capture at the point of sale and e-commerce collaboration.

In April, IRI announced the launch of the IRI Revenue Growth Management tool, which enables CPG manufacturers to optimize pricing and promotions with retailers. Manufacturers can use the tool to set, attain and maintain pricing and trade promotion programs tailored to specific retailers, as well as to achieve measurable revenue and profit growth.

About IRI

IRI is a market research company that provides clients with consumer, shopper and retail market intelligence and analysis, primarily focused on the CPG industry. The company had more than 4,000 global clients and $1.2 billion in revenue in 2016. IRI collects data across multiple segments for its clients. The company brings together client data (forecasts, financials, goals/targets), market data (point of sale, e-commerce, store level), consumer data (shopper segments, transactions), causal data (inflation, weather, gas prices) and media data (digital, social). IRI integrates these data sets into its data management, cloud and software solution platform, IRI Liquid Data, which uses the information and predictive analytics to drive insights and strategy solutions.

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