

Quality, Indulgence and Premiumization strategies in Food – Defending Against Margin Erosion

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“Quality, Indulgence and Premiumization strategies in Food – Defending Against Margin Erosion’ provides manufacturers with a direct insight into combating threats to their profit margins, from both branded and private label competitors. Through analysis of current consumer behavior, this report will allow marketers to defend profit margins, regain lost market share and identify new opportunities to encourage consumers to trade up. This report also provides a forecast onto prospective trends over the coming years, and what affect this will have on consumption habits in an increasingly diverse Food market.

How can manufacturers defend against austere consumers trading down?

Consumers worldwide are trading-down; in order to regain profitability, manufacturers need to identify the right strategy to encourage consumers to trade back up across Food sectors. This reports explores numerous ways to achieve this and ultimately drive sales.

How can brands defend against private label and discounters?

In addition, the report examines the ways in which private labels have attempted to rival more established brands, and the premiumization methods that can be used to encourage consumers to trade-up by offering innovations discounters cannot equal.

What are the key trends, and how will these evolve in future?

Positioning new and existing products as ethically produced, locally sourced and generally produced on a smaller-scale will appeal to many consumers, particularly in Western economies, as quality and ethical transparency are intrinsically linked.

How should marketers target consumers in differing geographic locations?

Consumers differ in their perception quality between BRIC and Non-BRIC countries, and it is important that any strategies designed to encourage premiumization take into account the varied consumer attitudes. Many BRIC consumers seek mass-produced Western items due to safety concerns, yet in Non-BRIC countries the desire for small-scale, less mass-produced products is growing.

Weak consumer confidence, rising production costs, and the rise of discounters and private labels are threatening the profit margins of food manufacturers worldwide. However, there are occasions when consumers will trade up to a more expensive product, but one which offers a lot for the additional amount paid. This means that manufacturers need the correct premiumization and indulgence strategies now, in order to not just protect profit margins, but to also position themselves to make the most of future growth opportunities.

- **Consumers worldwide are trading down; this makes it more important than ever to know how to protect margins.** High inflation combined with consumers decisions to trade down means that average prices are decreasing, even if sales volumes are increasing.
- **The Oils & Fats, Dairy Food, Meat, and Bakery & Cereals sectors are recording rapid value growth.** Oils & Fats in particular is the fastest growing Food sector worldwide. Premiumization and product portfolio diversification is driving sales in many sectors.
- **Attitude behavior gaps point to trading up opportunities, where consumers aren't following through on their intentions:** Consumers stated that influence does not always translate to consumption habits, as often the products they desire are unavailable, or their purported desires are not reflected in sales volume. This report looks at the Confectionery sector to identify instances where consumer needs are not being met.
 - **The desire for Indulgence in Confectionery is not being met across Europe and the US:** Consumers across the US and larger European countries are seeking indulgent products, but their needs are not currently being met. Manufacturers should provide more premium indulgent offerings to drive sales.
 - **BRIC consumers seek quality products, yet their desires are not being fully met in the Confectionery Sector:** The desire for quality is high across BRIC countries, and manufacturers should emphasize the superiority of their ingredients, packaging, and manufacturing processes to reassure sceptical consumers and increase sales.

Consumers austere consumption habits continue, but opportunities still exist to encourage trading up

- **Consumers recessionary shopping habits are continuing despite economic recovery:** As economies globally are recovering from the financial crisis, consumers are yet to return to previous levels of spending in many FMCG sectors.
- **Sales in discount stores are steadily increasing, and brands need to defend against this growing trend:** As consumers became more price-conscious during the financial crisis, brands must encourage consumers to resume spending on branded products as opposed to cheaper, unbranded alternatives.
- **The consumers search for better value for money remains a strong motivator of Food consumption globally, therefore manufacturers must respond with cheaper products or by offering trading-up options:** Manufacturers must innovate to provide consumers with products that meet their value needs, or encourage them to trade up by offering higher levels of quality.
- **Demand for quality at a low price is increasing the importance of Every Day Low Price strategies:** Consumers are gradually turning away from 'reduced price offers' and 'buy one get one free' in favor of permanent low prices.
- **Meanwhile, consumers in many BRIC countries were relatively unaffected by the global recession and premiumization has continued:** Across Brazil, Russia, India, and China, spending levels were largely unaffected by the financial crisis, and consumers in these countries continue to seek premium products to reflect their aspirations.
- **New online opportunities exist for premium e-commerce offerings in BRIC countries:** Online retail offers consumers seeking premium products the opportunity to purchase them, despite them being widely unavailable locally.

Manufacturers need to keep innovating with taste as consumers continue to want to indulge

- **Taste and Experience will continue to drive consumption in Food markets, particularly in the US and Europe:** Overall taste, indulgence, and experience will be the most important factors in Food consumption across the US and Europe, with other influences less of a concern.
- **Consumers are more likely to purchase healthier products that do not compromise on taste or flavor:** Consumers are unwilling to sacrifice taste for health concerns, and will continue to be driven by flavor experience. Manufacturers should ensure that healthier options do not lack taste.
- **A preference for exotic and spicy flavors is driving growth in both BRIC and Non-BRIC countries:** Consumers are seeking new and novel flavors across both BRIC and Non-BRIC countries, as some Western flavors become more popular in Asia and vice-versa.
- **Foodservice trends will continue to drive food innovation, affecting developments in retail markets:** Foodservice outlets will continue to provide the latest Food trends, and FMCG markets will respond to new consumer preferences, such as spicy and exotic foods.
- **Brands are attempting to defend themselves from margin erosion by combining popular products:** Dual-branding is becoming an increasingly popular way for brands to defend against private labels, by combining two existing branded products.
- **Conspicuous consumption is a motivator to trade-up at different levels across BRIC and Non-BRIC countries:** Consumers in BRIC countries conspicuously consume products as a signifier of wealth or aspiration, whereas Western consumers are increasingly doing the opposite.

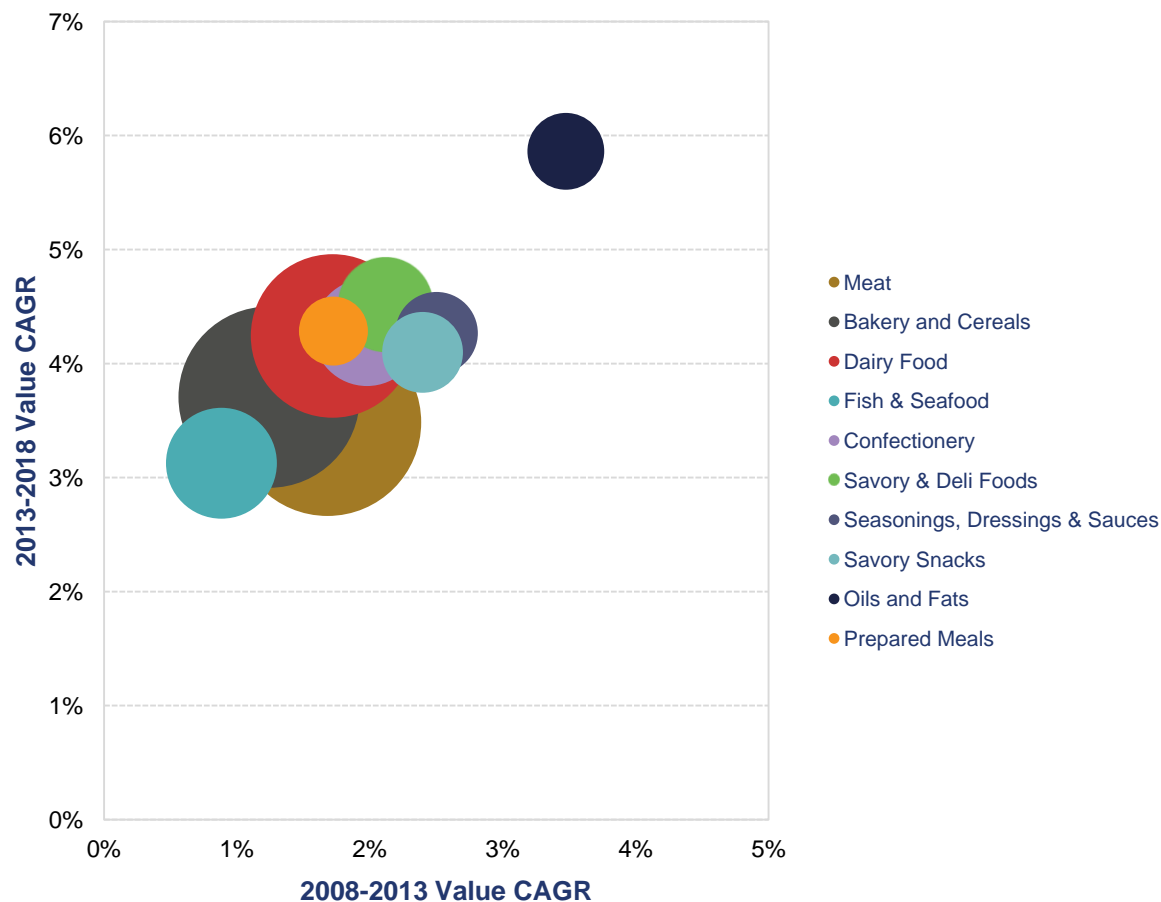
Authenticity will be the key premiumization strategy for manufacturers

- **Consumers are increasingly concerned by the quality and safety of mass produced ingredients and food:** Consumers globally are seeking products which they can trust to provide the best quality, and large-scale production methods are increasingly seen as a signifier of lower quality.
- **Recent food scandals across the globe have increased consumer desire for trust and transparency in products:** Consumers are increasingly wary, particularly in BRIC countries, about the sourcing and production of Food. Manufacturers must emphasize the quality of their products at all levels of the supply and production chain.
- **Consumers are seeking increased knowledge on the sourcing and production of their food:** As consumers become more wary about levels of Food safety, they seek assurances through transparent information regarding the ingredients and manufacture of products.
- **The demand for organic and ethically sourced products is increasing as consumers intrinsically link quality, safety, and ethics:** As consumers increasingly seek organic and ethical products, manufacturers are responding by highlighting the associated higher levels of quality and safety perceived.
- **Small-scale production of local products are perceived as better quality by consumers as opposed to mass produced goods:** Emphasizing locality and small-scale production will drive sales to an increasing number of consumers concerned about the quality of mass-produced or imported goods.
- **Brands can highlight the craftsmanship and skill associated with production to promote quality:** Consumers are increasingly seeking assurances over quality, and highlighting the skill of production and superiority of the final product will drive sales.

The premiumization of Private Labels threatens manufacturers – but also offers opportunities

- **Brands need to learn from successful private labels in order to defend against their growing popularity:** Private labels were rapidly gaining market share prior to the financial crisis, and economic weakness has only accelerated their overall growth. This makes it imperative for brands to learn why private label brands in their category are successful, and identify what premiumization strategy will help maintain margins.
- **Many consumers are not reverting to pre-recessionary spending habits and continue to opt for value above all else:** Private labels and discount stores have continued to prove popular with consumers, despite economic improvement, and manufacturers face a struggle to regain this lost market share.
- **Consumers perceive private labels as offering the same experience as bigger brands:** Many consumers see no discernible difference in quality or experience between brands and private labels and are thus likely to seek products offering the best value. This makes product innovation key for brands; they need to offer an experience that private labels cannot match.
- **Premium private labels are growing in popularity and offering different levels of quality with their products. In addition, more retailers will use Venture Brands to compete with premium products:** Private labels are innovating in terms of quality, and are no longer viewed by consumers as simply a cheap, lower quality imitation of branded goods. This means all brands should be concerned by the growth of private label, not just value brands.
- **Manufacturers should consider moving into Private Labels:** Ultimately, it may prove more profitable for some manufacturers to produce private labels than to continue to push a struggling brand.

Oils and Fats are the fastest growing Food sector driven largely by consumption in Asia



Note: Chart show Top 10 sectors by Value only

Excludes Pasta & Noodles, Chilled & Deli Foods, Ice Cream, Soup, Soy, Syrups & Spreads

- The Oils & Fats sector presents an attractive opportunity for manufacturers in terms of value growth, despite its relatively small overall market size.

- The recent success of Oils & Fats is due to an increase in the number of people experimenting with cooking at home. This is largely driven by Asian countries such as China, South Korea, and Thailand, where frying with Vegetable Oil is becoming more popular, and with consumers increasingly using packaged oil.

- Dairy, one of the largest sectors, has also witnessed rapid growth. Dairy is becoming a dietary staple in many developing countries across Asia and South America.

- Meat and Bakery & Cereals are also witnessing an increase in Value growth, as premiumization and product portfolio diversification is driving sales in many sectors.

The influence of Indulgence is much higher in Non-BRIC economies

Total influence of Indulgence in BRIC (Volume KG)



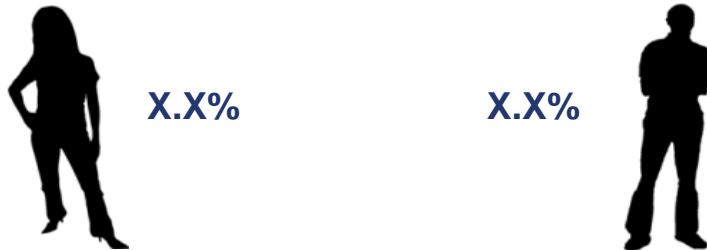
Indulgence is not a key motivator of consumption in BRIC countries; the focus should be on quality.

Total influence of Indulgence in Non-BRIC (Volume KG)



Indulgence is the primary motivator of Food consumption across the US and the EU5, manufacturers should prioritize this influence over all other concerns.

Gender in BRIC



Despite its relatively low overall influence, women are slightly more likely to indulge than men in BRIC countries.

Gender in Non-BRIC



Women are significantly more influenced by Indulgence, as they traditionally desire the best overall taste experience.

Consumers in many BRIC countries were relatively unaffected by the global recession and premiumization has continued

- Many of the countries worst hit by the economic crisis were localized to Europe and the US.
- Consumers in much of Asia and Australasia were left relatively unaffected and consumption habits were not drastically altered.
- Premiumization in these countries continued, largely due to the increased economic stability of these areas, and as many consumers in Western economies had limited their spending, premium manufacturers turned to emerging countries to promote their products.
- Manufacturers in China found particular success when highlighting the overall quality and craftsmanship of their brands. Chinese consumers responded to the claims due to the association of skillful artisanal production, made from the finest, superior ingredients, and partly due to a perception of Chinese national brands as lacking in overall quality.

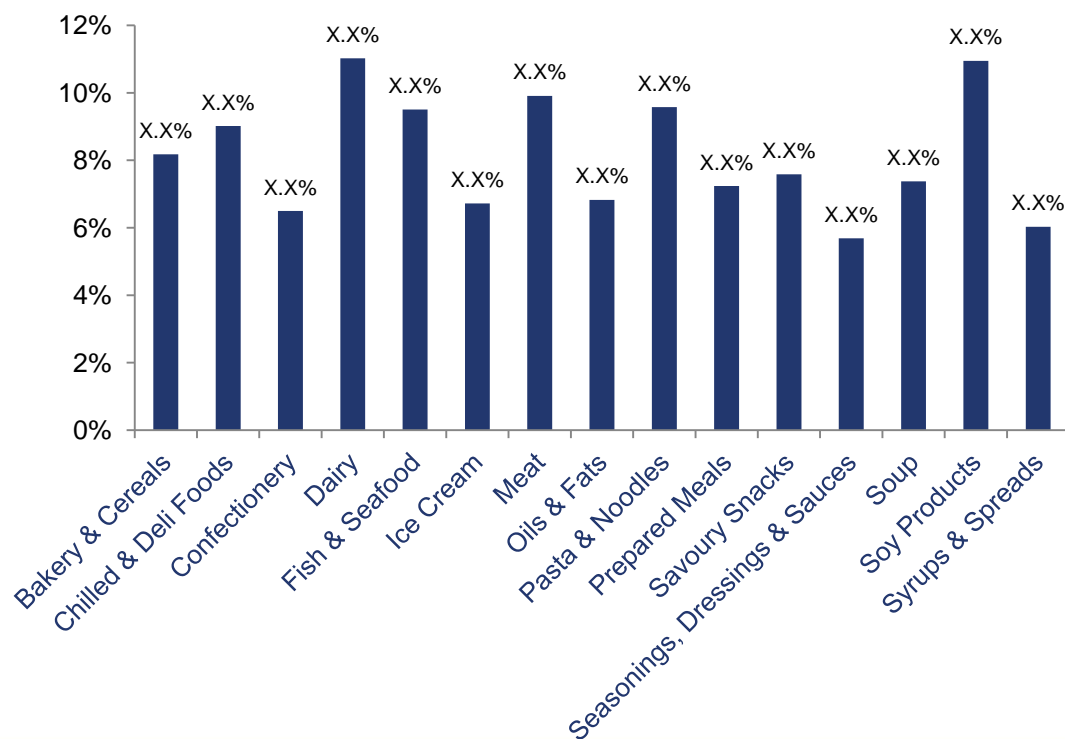


Godiva opened their first store in China in 2010, after poor sales amid recession-hit Europe, as they sought to expand their luxury consumer base. They have grown at a rapid rate, to over 33 stores in the country by 2013. They promote their indulgent, luxurious nature, with an emphasis on craftsmanship, one of the strongest selling points in China. Stores are designed around chocolate colors – aware of the fact that Chinese consumers respond strongly to the shopping environment and the Western experience overall.

Recent food scandals across the globe have increased consumer desire for trust and transparency in products

- The European horsemeat scandal of January 2013 brought attention to the production and ingredients of frozen foods across Europe, in a category which had until previously been regarded as relatively trustworthy. There was a lot of media focus on the inclusion of horsemeat in several food items, most notably used instead of beef in Findus' lasagne, and sales quickly plummeted, products were recalled, and investigations were instigated into production processes.
- As consumers confidence decreased, manufacturers had to become more transparent regarding all aspects of ingredients sourcing, production methods, packaging, and transport.

Volume Share Influenced by the Trust trend, by sector (%)



▪ Trust is most influential in Dairy consumption globally, as consumers seek assurances over safety, particularly in the US and Europe where Dairy consumption is high.

▪ The increase in preference for Dairy in BRIC economies means that manufacturers must emphasize safety, particularly in growing staples such as Milk.

▪ Consumers are also likely to look for trustworthy Soy products, and despite their overall low market size, the extensive use of Soy in Chinese cuisine means that manufacturers must ensure transparency and highlight ingredients and production. They should do likewise for Pasta & Noodles.

Private labels have evolved beyond being as basic, low-cost alternative to brands

- The National Food Quality Awards (NFQA) 2013, in the UK, saw a plethora of winners from premium private label categories. Very few categories were won by branded products, indicating not just how the public perception of how the quality of private labels have involved, but also that of industry and food experts.
- This highlights how far the public and professional reputation of private labels has come; what was once seen as a category for the cheapest, value products, private labels are now widely recognised as pushing quality.
- This has meant that brands need to actively defend against the emergence of quality private labels across categories, as the perception of a lack of quality from private labels is being quickly eroded.
- Many private label products have innovated to provide something different to traditional branded products, and saw considerable success due to the emergence of consumers willing to experiment with private labels.

Aldi specially selected Ethiopian coffee, beat off competition from more established national brands, through highlighting the superiority of its sourcing.

Winner NFQA 2013: Coffee



Tesco Finest Free From White Chocolate and Cranberry Cookies, positioned toward luxury taste but are also free from wheat and gluten.

Winner NFQA 2013: Biscuits (Sweet)



Asda Loopy Lime Flavoured Raisins, won the Bagged Snacks – Sweet category, positioned towards children as a healthier alternative to Confectionary.

Winner NFQA 2013: Bagged Snacks (Sweet)



This report is comprised of two data research programs

MARKET DATA

- **Method:** analyst triangulation of consensus numbers based upon comprehensive primary and desk research as part of an international research programme.
- **Coverage:**
 - 49 Countries fully researched
 - Category and segment breakdown
 - 8 channels
 - Value and Volume data
 - Internationally comparable data
 - 100% standardized definitions

CONSUMER DATA

- **Method:** extensive consumption surveys and consumer group tracking with strict age and gender quotas to ensure nationally-representative results.
- **Coverage:**
 - 10 Countries
 - 20 Consumer Trends
 - 26 Consumer Groups
 - Category breakdown
 - Integrated market sizing at the country and category level
 - Interim 2013 Consumer data generated by mapping 2013 Market size data onto 2012 Consumer data consumption values

Details on the methodology for both of these research programs can be found in the Appendix.



What next for Health in Food? Consumer Lifestyles, Nutrition, Food Labelling & Product Choice

Disease-related, demographic, and desire-led drivers are making health of growing importance to food marketers. However, barriers such as cost, habits, and confusion over how to eat healthily are limiting consumer's ability to act on these drivers. After exploring these drivers and barriers, this report focuses on the health solutions available to consumers, the best practice case studies and the actions food marketers need to take to make the most of the increased focus on health .



Snacking – understanding existing trends, capitalizing on new trends and looking to counteract inhibitors in the market

The increase of fragmented meal times and the need for on-the-go products in both developed and emerging economies are directly influencing consumer product choices, fundamentally changing the way that people snack. The change in consumer lifestyles including skipping meals and increased snacking on the go means that retailers and manufacturers need to keep up to date with salient issues that are affecting consumers' eating habits. The report identifies the key consumer groups to target and provides recommendations to capitalize on growing trends that are driving consumption.



Identifying new opportunities in the Soft and Hot Drink markets and responding to evolving consumer need states

This report provides detailed insight into new opportunities in Soft Drinks and Hot Drinks in both developing and developed countries. The evolution of consumption habits across the world means both retailers and manufacturers need a renewed understanding of consumer's changing lifestyles, and how this will affect their product choices. To do this, the report highlights innovative new product development for effectively targeting consumers' most important needs, and offers strategic recommendations to capitalize on the evolving motivations driving consumption.