



LASSONDE PAPPAS

STATE OF THE BEVERAGE INDUSTRY WEBINAR

APRIL 25, 2017



Webinar Presentation



Guest Speaker

Steve Hefferan,
Client Insights Consultant,
IRI Worldwide



**Consumer
Trends**



**Retail
Environment
Insights**



**Product
Trends**



**Private Label
& Beverage
Trends**



Q/A Session

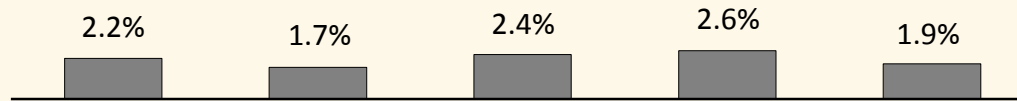
LASSONDE PAPPAS CONSUMER TRENDS

Consumer Confidence is strengthening as the US economy and rate of unemployment slowly recovers

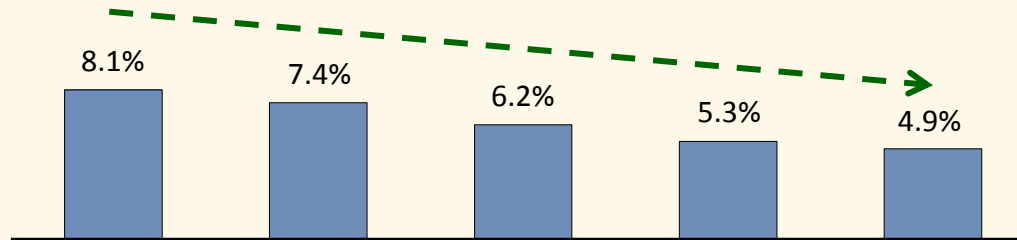
US Macroeconomic Indicators

Annualized Averages

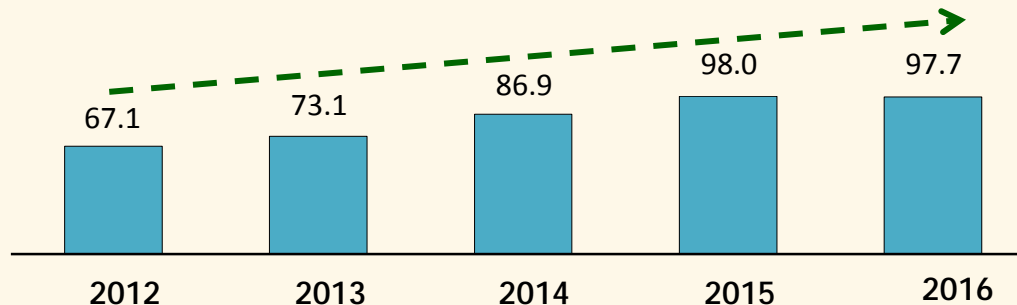
Real GDP Growth



Unemployment Rate



Consumer Confidence Index

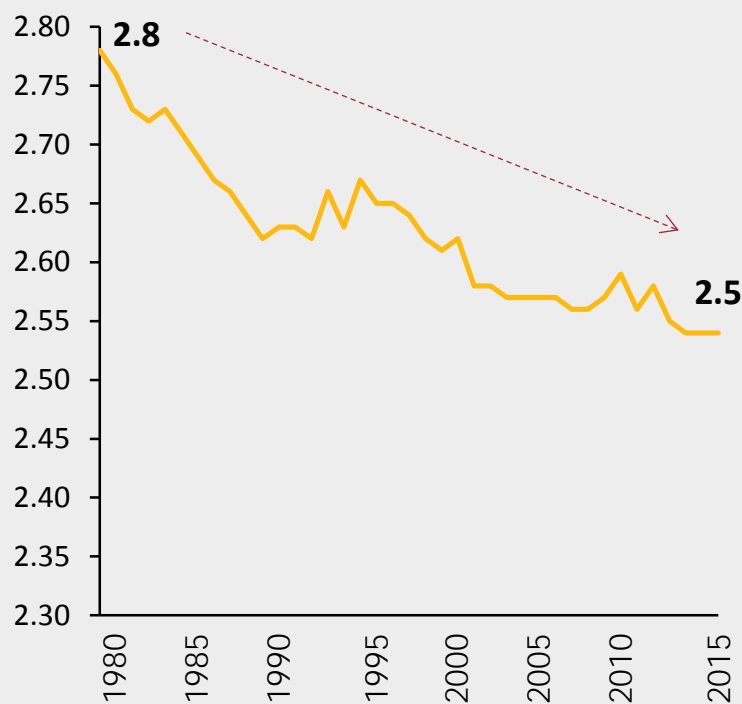


- Since the US election results, market analysts are bullish about seeing an uptick in US economic growth moving forward
- Consumer Confidence Index improved by +13% in December '16 vs. October '16

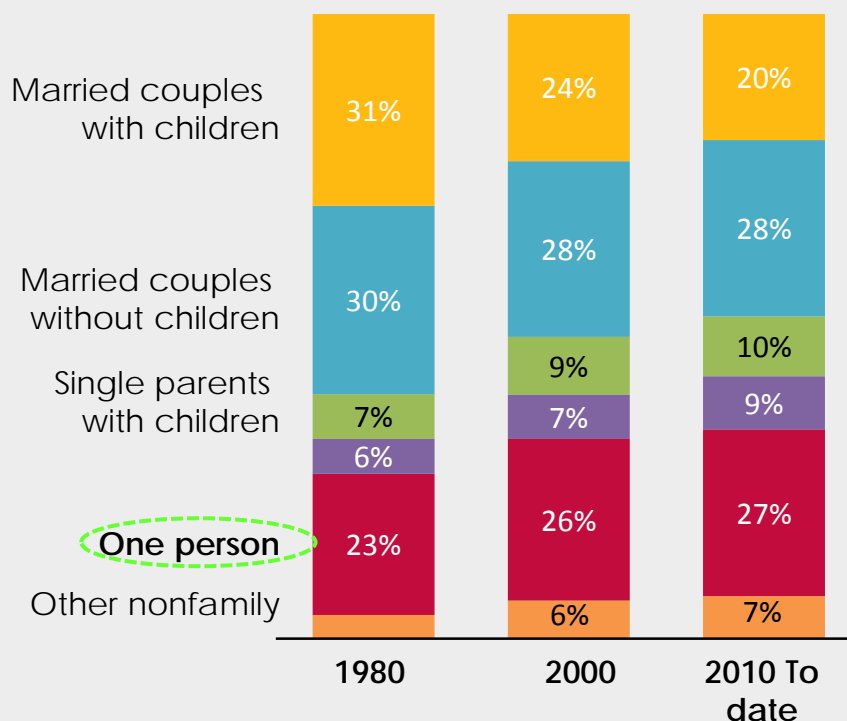
The avg. US household size has steadily declined with an increase in share of single-person and small family households (HH)

The average household size has steadily declined year over year

The share of single person HH's have grown while married couples with children have shrunk



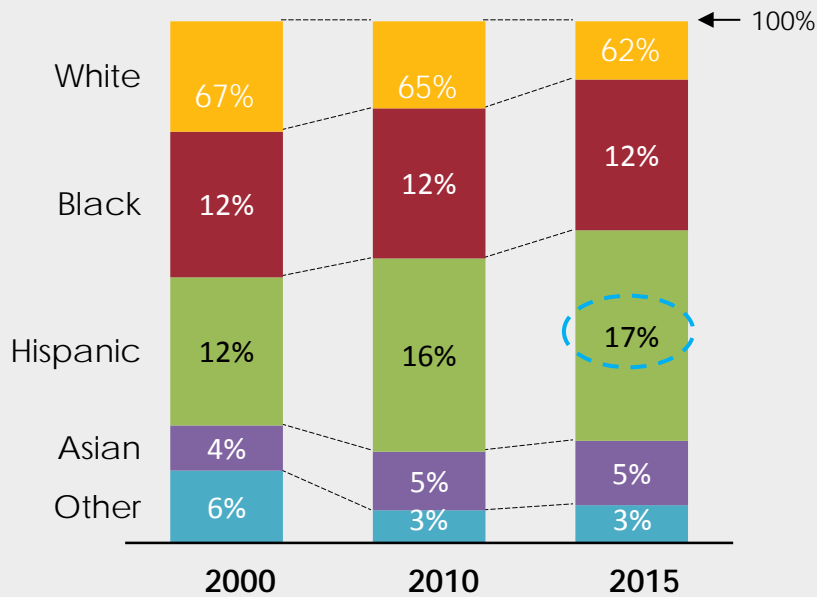
Household Composition By Family Type



Rapid Growth in Multicultural & Minority Segments

Hispanic share of the population has increased by >10 pts since the 80's...

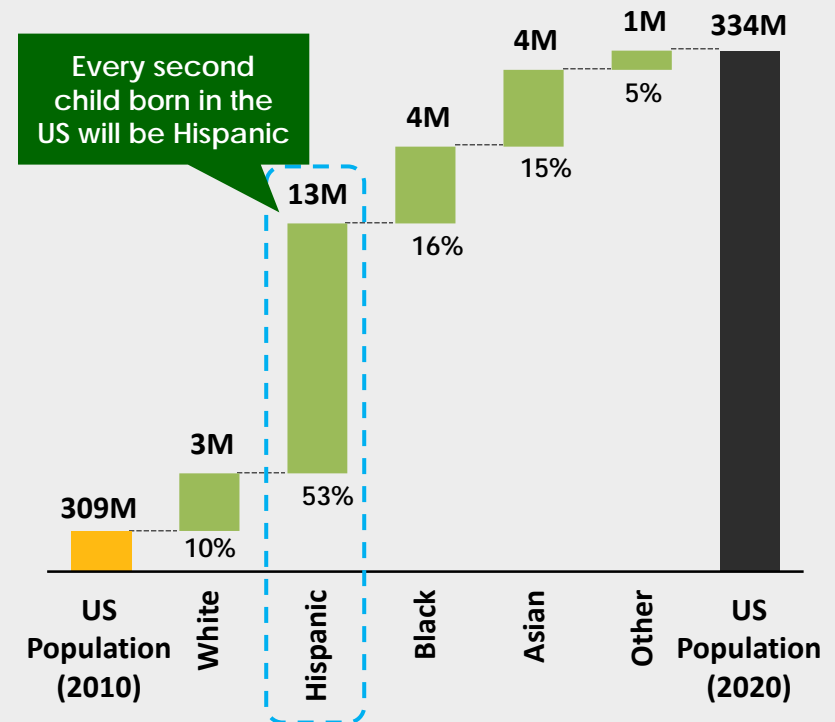
Share of the US population by Race



Share of Hispanics estimated to reach 23% of the US population by 2035

...And this trend is projected to accelerate through 2020 and beyond

Contribution to US Population Growth

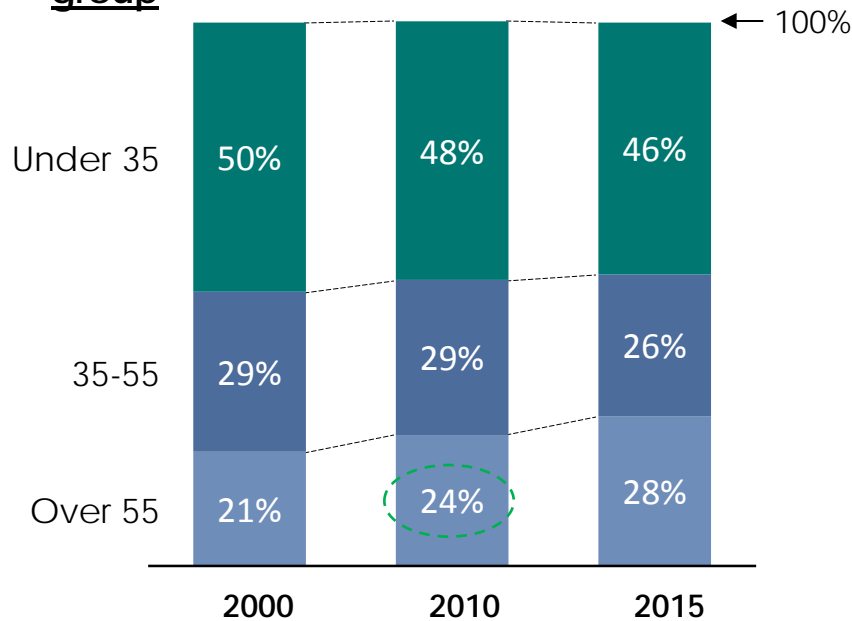


Hispanics will account for >50% of US population growth from 2010 to 2020

Millennials are Becoming Largest CPG Spenders as Boomers move into Retirement

The share of American population over 55 has steadily increased since 2000...

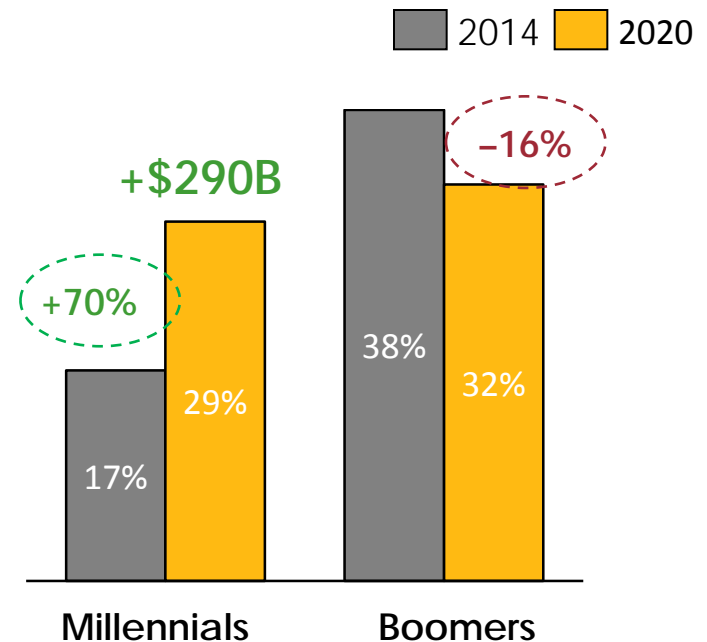
Share of the US population by Age group



The younger segment of the population (i.e. Millennials expected to grow rapidly; Projected to peak in the next 20 years to 81.2MM, aided by immigration.

...But the younger Millennial segment expected to grow and accelerate their purchasing power moving forward

Share of CPG Dollar Volume



Millennial CPG spend expected to increase by \$290B from 2014 to 2020

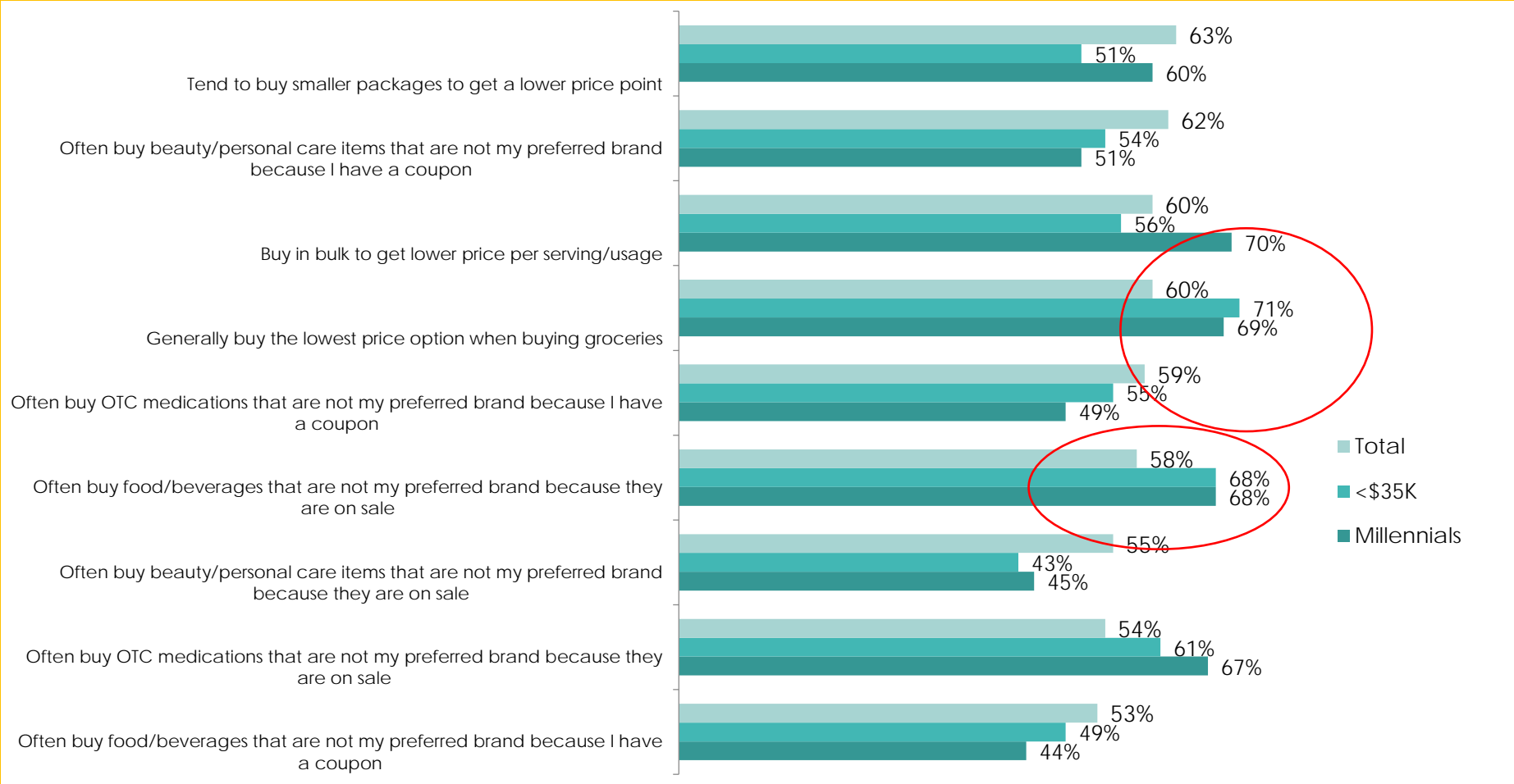
Millennials Employment Rate and Home Ownership are differentiators compared to Hispanics and Boomers



HH Demographics		Millennial	Hispanic	Boomers
Income	Low Income < \$49.9	41.0%	37.0%	46.3%
	Income \$50-69.9K	17.4%	16.2%	13.6%
	Higher Income ≥ \$70k	41.6%	46.8%	40.1%
All HH Marital Status	Married	79.3%	81.2%	57.7%
	Widowed	-	2.1%	7.2%
	Divorced/Separated	4.3%	7.1%	20.3%
	Single	16.1%	9.6%	14.8%
All HH Home Ownership	Rent Home	39.4%	34.1%	17.9%
	Own Home	57.6%	63.6%	80.2%
	Other than Rent/Own	3.0%	2.2%	1.9%
Unemployment	Rate	12.8%	6.6%	3.7%
Spending Power	Dollars	\$200B	\$1.3T	2.3T

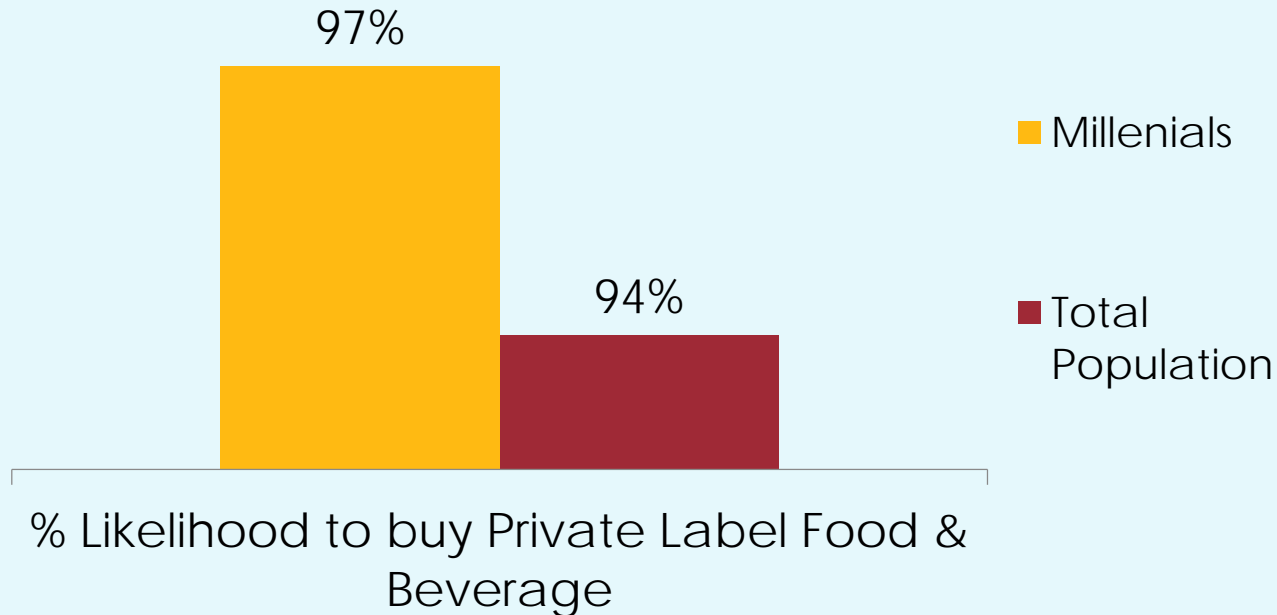
Millennials are embracing Private Label brands

Shopping Behaviors % of Consumers



Money-saving opportunities remain a high priority for consumers. Very important considering the Millennial demo regarding unemployment, lower home ownership and growth in Value channels seen in retailer trends section. As a result, Millennials are embracing PL brands per most recent FMI study, and more often are heavy PL buyers. Premiumization inside of PL is a definite opportunity to explore further here.

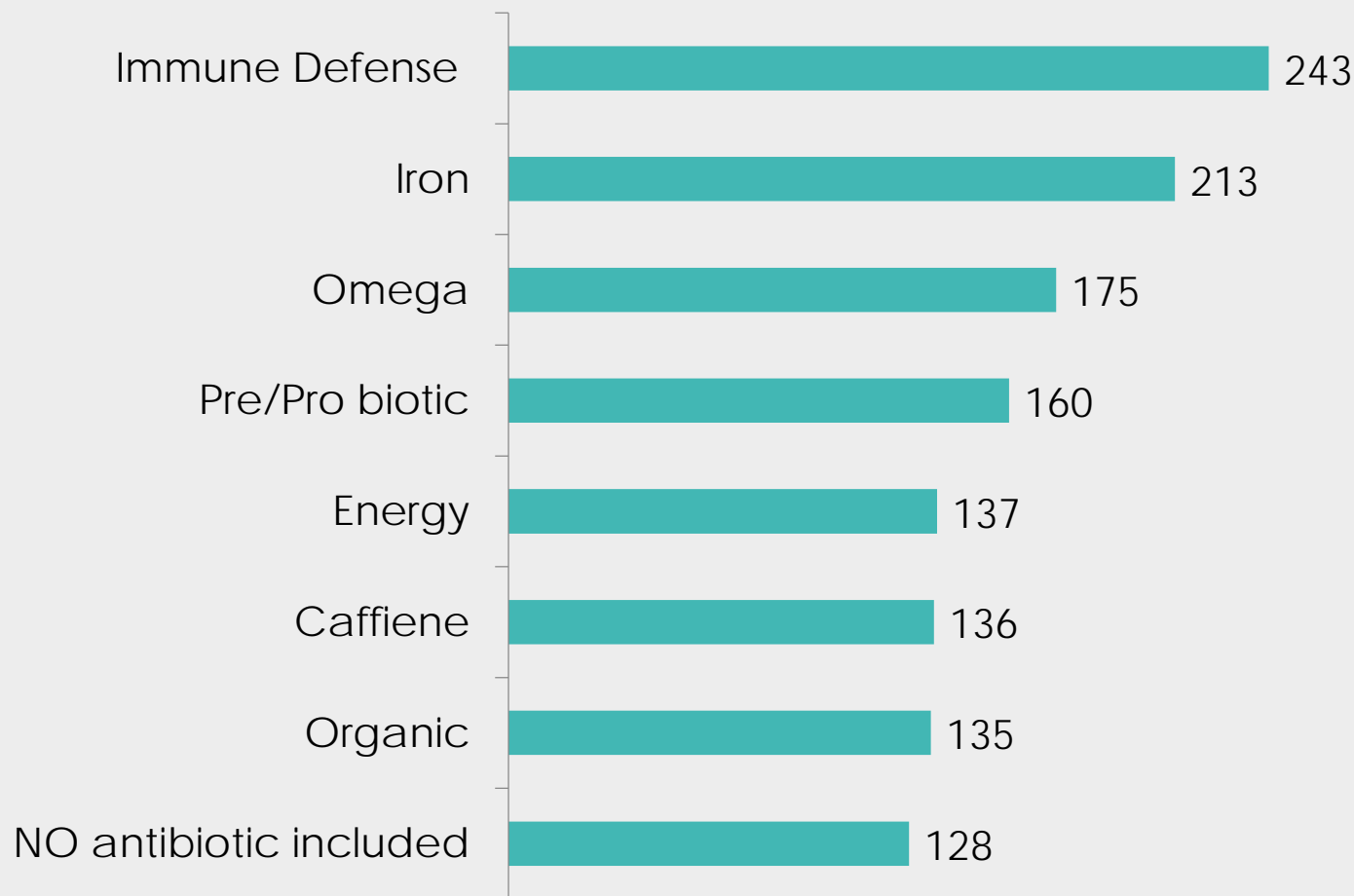
Millennials View of Private Label



42% of Millennials agree that store brand food products are more innovative than name-brand products. Millennials are more likely to buy store brand foods in general.

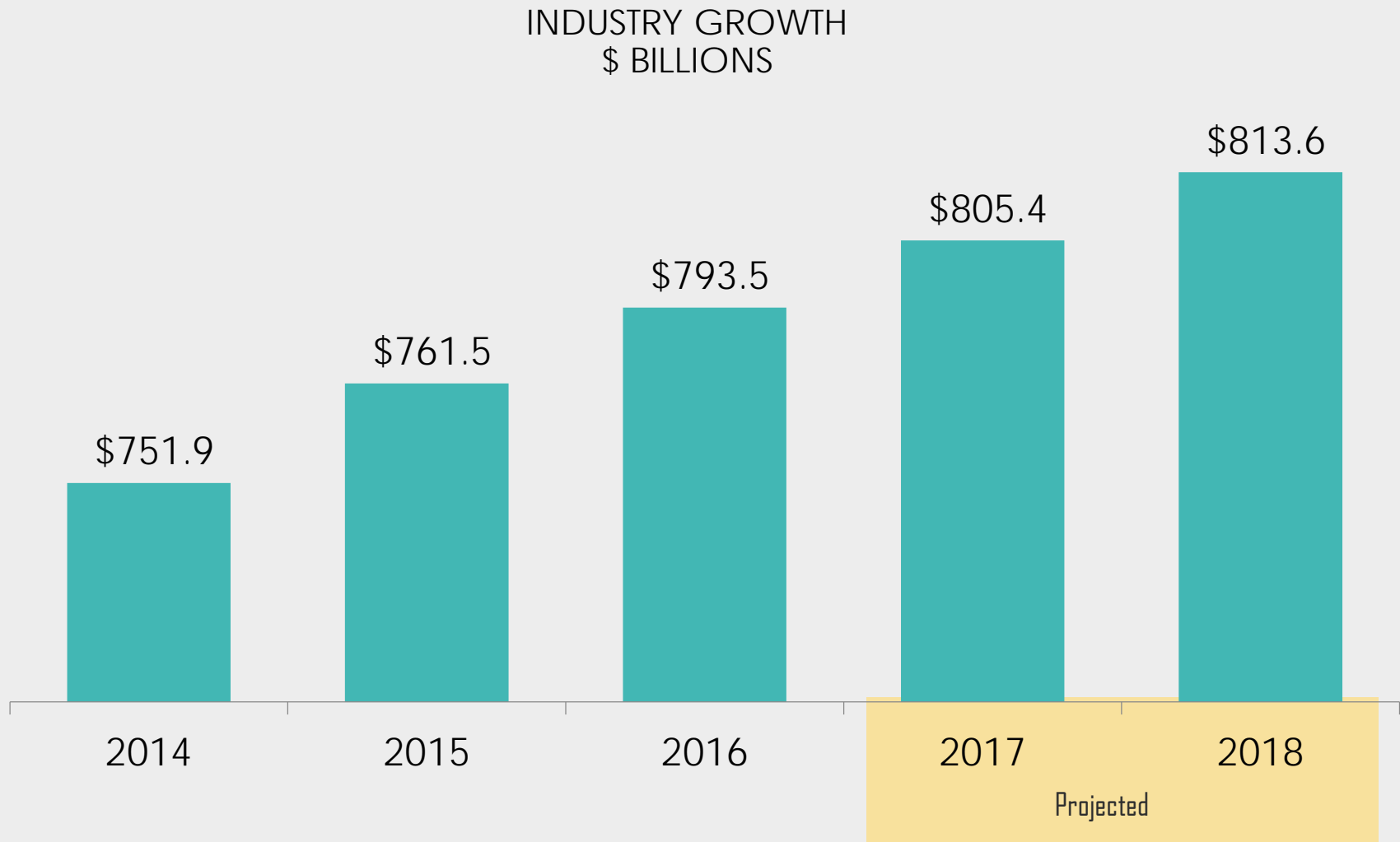
Attributes that Index High with Millennials may be Worthy of Consideration in Products

Top Dollar Index Attributes for Millennials

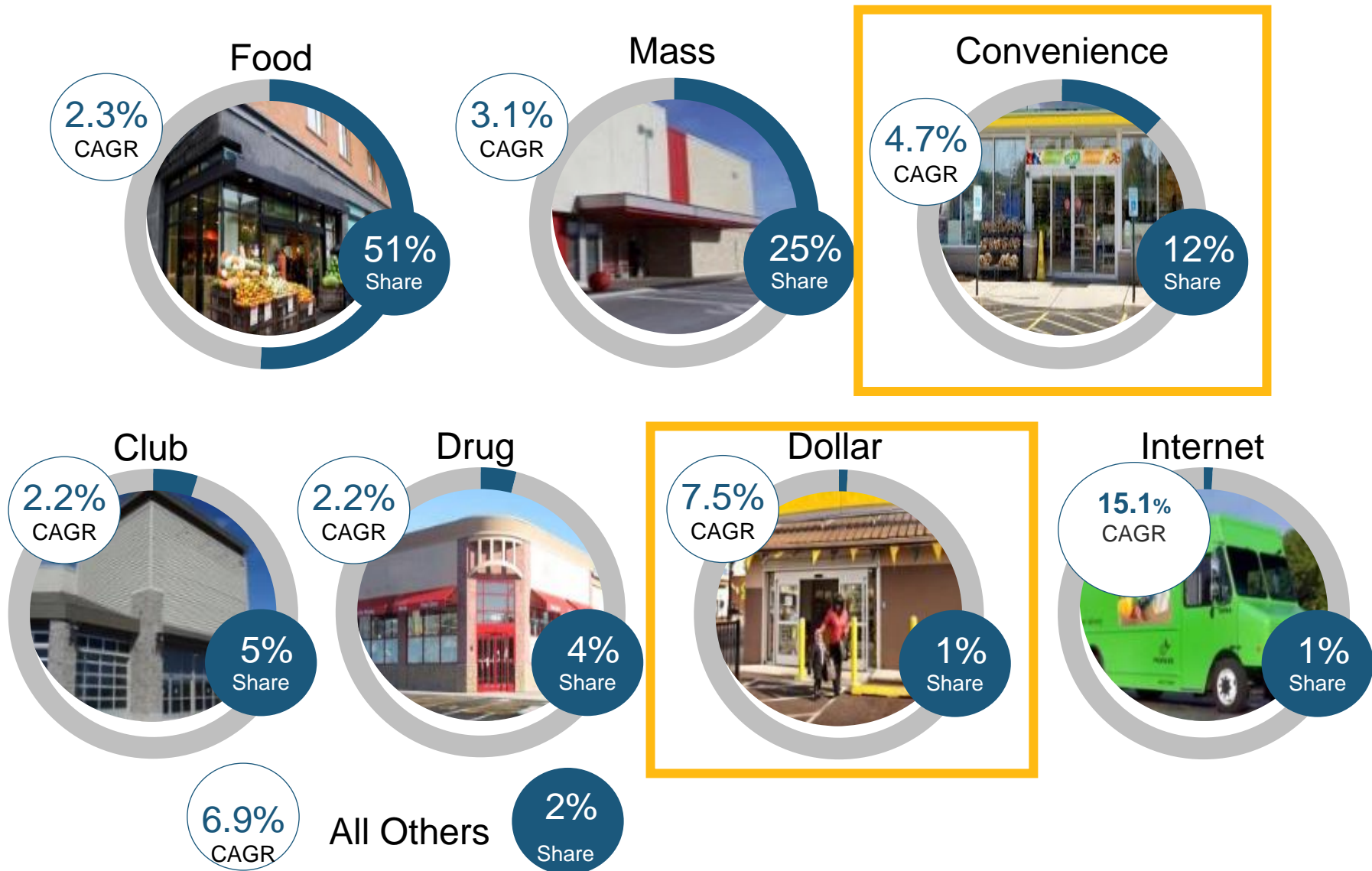


LASSONDE PAPPAS RETAILER TRENDS

Industry Dollar Sales Growth is Slow and Driven Primarily by Price Increases

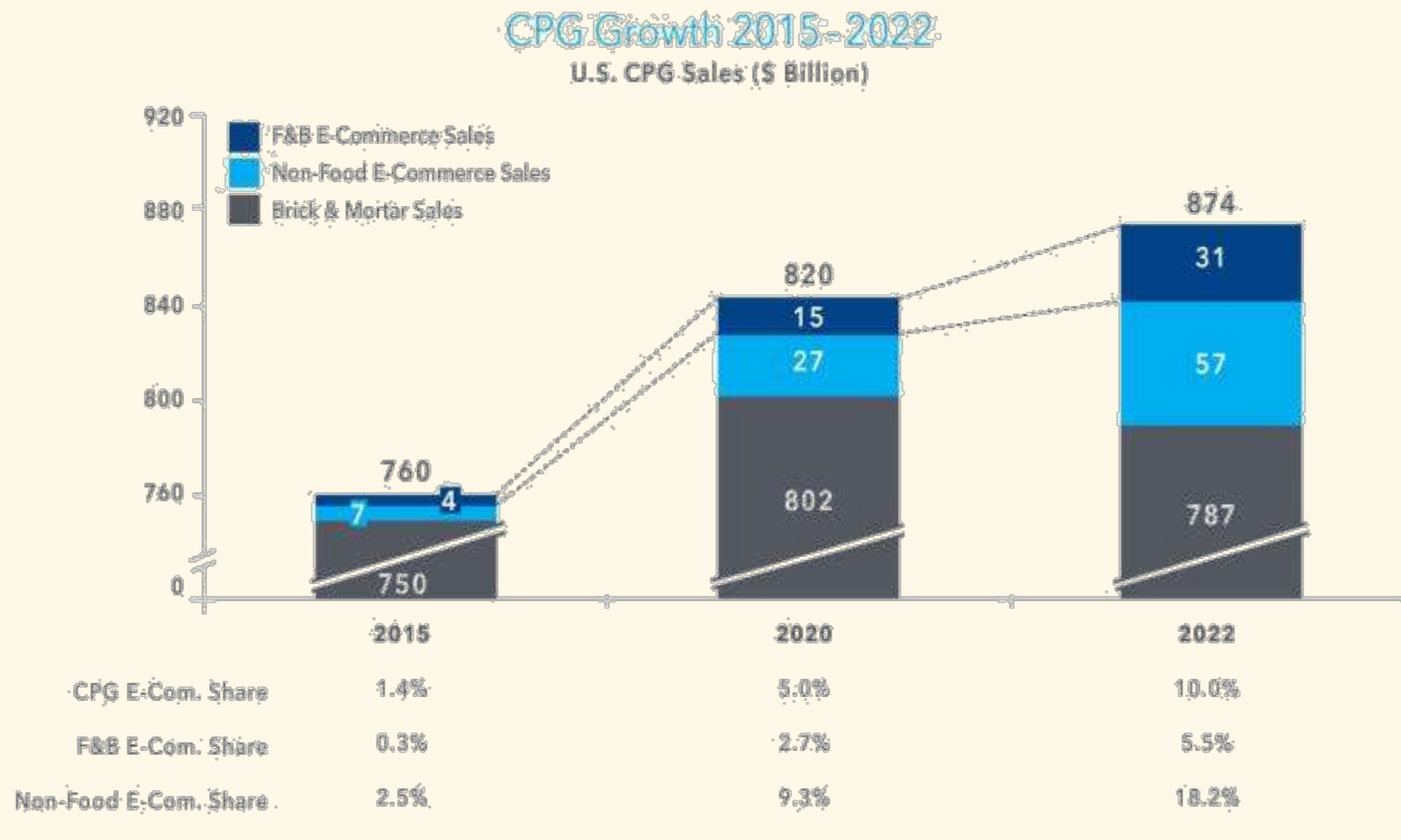


Value and Convenience Channels are Still Driving Growth



Rapid expansion of CPG e-commerce is expected, and it will have a ripple effect through the retail industry.

Poses traffic threats to Retailers. Retailers are looking for events to get customers in their stores



Source: IRI Growth Consulting Analysis

Lines Continue To Be Blurred Between Traditional Brick & Mortar And Digital...



- “When executives with Kroger Co. spoke about competition 10 years ago they were focused on one competitor. Today, the situation is much different. Today, we have more buckets...restaurants would be a group; digital would be a group...”
 - Rodney McMullen, chairman/ceo of Kroger (Nov 4, 2016)



- Amazon wants to open 20 B&M grocery stores in the next two years. If successful, Amazon envisions opening as many as 2000 multifunction stores over the next 10 years.
 - Amazon Fresh is rolling out in 17 US cities.
 - Amazon cut delivery prices in October to \$15/month.
 - Amazon pricing algorithm



- In 2016 and 2017 Walmart is spending \$2 billion dollars in e-commerce.
 - Partnerships w/ Uber and Lyft
 - Continued to expand its pickup program in various markets in the past year
 - Acquisition of Amazon's most capable ecommerce competitor, Jet.com.
 - More spend, more discount

....Impressions are Everywhere!.....

Impressions are way up (500 per day in 1970...5000 per day now). It's easier to buy now more than ever.....



...as a result Retailers must look to Maximize Customer Lifetime Value

PL has a sweet spot here! Great PL brands and variety build retailer loyalty, we have a license to innovate, it's a win-win.

4 STEPS
for capturing
increased share
of 360-degree
spending

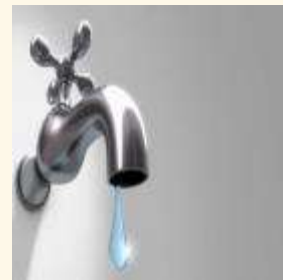


Assessing Loyalty to Understand Share of Spending Across Customer Base

Retailers have significant opportunity to capture increased share of spending across their customer base via understanding customers and assessing their loyalty. Critical need to build 1:1 relationships



Top 30% of a Retailer's Customers typically account for 75-80% of that Retailer's Total Store sales. Even these important customers, though, spend only \$0.25 to \$0.50 of every dollar at that retailer



Manufacturers & Retailers must Know Consumers Inside and Out

Personalization and targeting are critical.



When do I Shop?

What Media
choices?

Brand Loyalty?

Heavy, Medium or Light?

Lifestage?

HH Income?

Family Size?

Ethnicity?

Conversion, Retailer Loyalty?

Which Holidays are most
important to me?

Assortment?

What's in my basket?

Entertainment Preferences?

LASSONDE PAPPAS PRODUCT TRENDS

Premiumization : Premium Players Winning as Economic Outlook Improves

With Shopper Sentiment on the Rise,
the Premium Tier is Gaining Share

IRI Shopper Sentiment Index¹



Premium Tier Share Growth²

	Premium Share	Share Growth
Edible	24%	↑ +0.8 PPTs
Non Edible	33%	↑ +0.5 PPTs

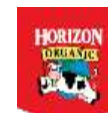
Category
Premium

Ready Pack
Salad



61%

WhiteWave
Horizon
Milk³



42%

Palermo's Pizza
Pizza



36%

Constellation
Beer



34%

¹IRI Quarterly MarketPulse Survey.

²IRI Premiumization Thought Leadership 2015 – Data for YTD Ending 7/12/2015, MULOC.

³Premium calculated relative to half gallon Milk UPC's. Source: IRI Data for MULOC (multi-outlet + convenience); CY 2014-CY 2015.

Simple AND Pure Claims Outperform

Consumers Seek “Free From” Products to Limit Intake of Harmful Ingredients

Many Simple and Pure Claims
are Outperforming

Claims	Sales (\$B)	2015 Growth
Free From Hormone From e	5.5	33.0
Free From Organic	9.4	17.6
Free From Artificial	3.3	8.7
Free From Sugar	16.4	3.9
Free From Sweetener From er	15.6	3.6
Total Edible	502.1	2.9



butter instead
of margarine



organic milk



organic +
cage free eggs



no artificial ingredient
bars

Mindful Snacking Continues to Grow. Taste is still king.

Consumers Buy Portable, Functional Snacks that Promote Health & Wellness

Beverage
as a
snack up
to 64%
from 61%
in one
year!



However,
Taste is still
key...
90.6% say
taste is
crucial!



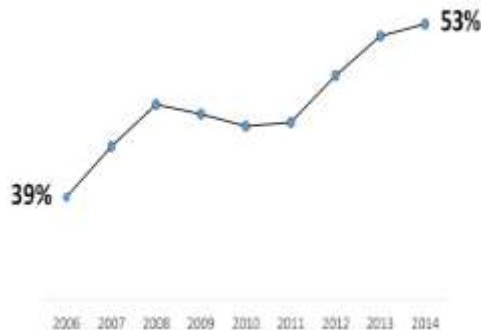
Americans Continue Their Quest for Better For You Protein

Growth Leaders are Capitalizing on Consumer Demand for Protein, Including BFY Options

Americans are on a Quest for Protein!

"Protein is the hottest functional food trend in the United States¹"

% Gen Pop indicating they seek out foods that are high in protein²



organic
high-protein
dairy



ultra
filtered
milk



plant-based
milk

plant based
protein
smoothie



low sugar
protein bars



Meat snacks

Portable, Ready to Eat Individual Portions

Fruits, Snacks and Prepared Meals for Consumers on the Run

Trend



Cut fruit in
Whole Foods



Kids Healthy Snack Zone in Giant
Eagle



Growth Leader Examples

Cheese and cold
cuts



Sushi on-the-go



Pour-water & ready meals



Salads and snacks ready
for consumption



Thins, Bites
and smaller
sizes meet
indulgence
need!!

Wellness & Health Choices

Wellness plans continue to play an important role in snack choices for consumers.



52%

of consumers want
additional health
benefits beyond
nutrition
(eg, antioxidants)



44%

want
natural/organic
snacks



49%

want a serving
of fruit
or vegetables

57%

Want snacks
that contain
vitamins and
minerals

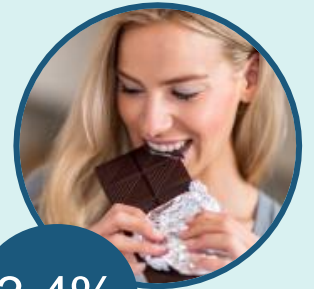
60%

of consumers
seek snacks that
deliver an
energy boost

48%

look for high in
fiber snacks

As a result, healthier
snacks are slightly
outpacing Indulgent



3.4%



3.8%

LASSONDE PAPPAS PRIVATE LABEL:

THE JOURNEY TO GROWTH ALONG
ROADS LESS TRAVELED

- Differentiation • Profitability
- Loyalty • Value / Price Image

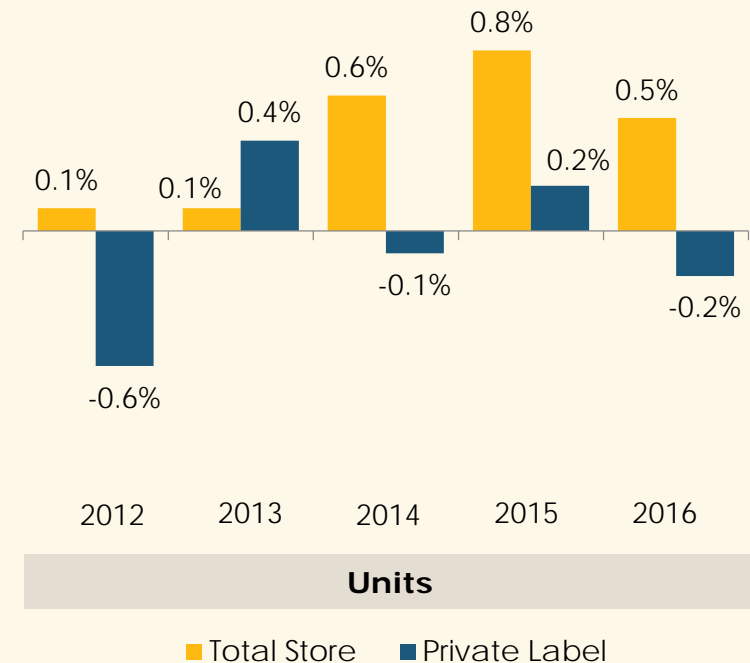
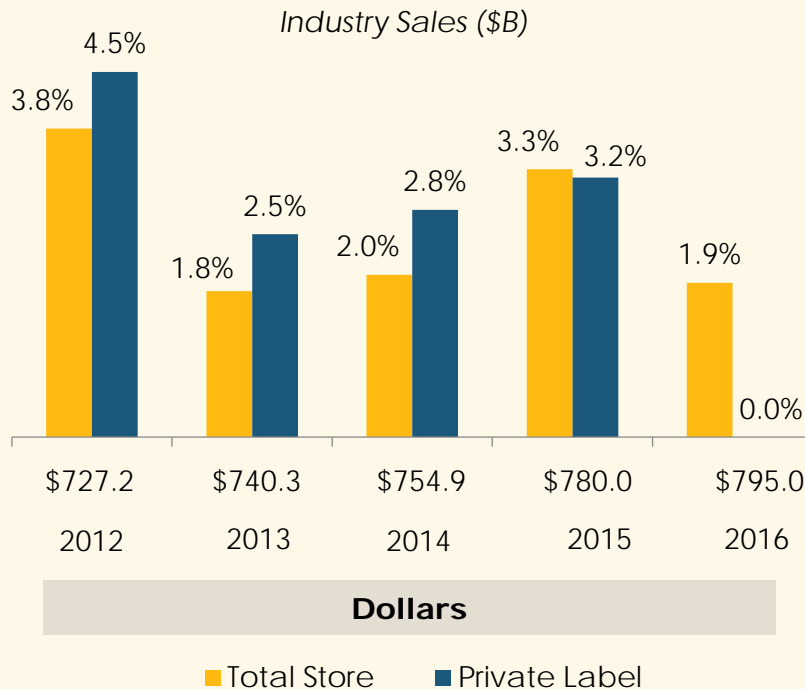


- Variety • Drives Traffic & Dollars
- Marketing Support • Innovation



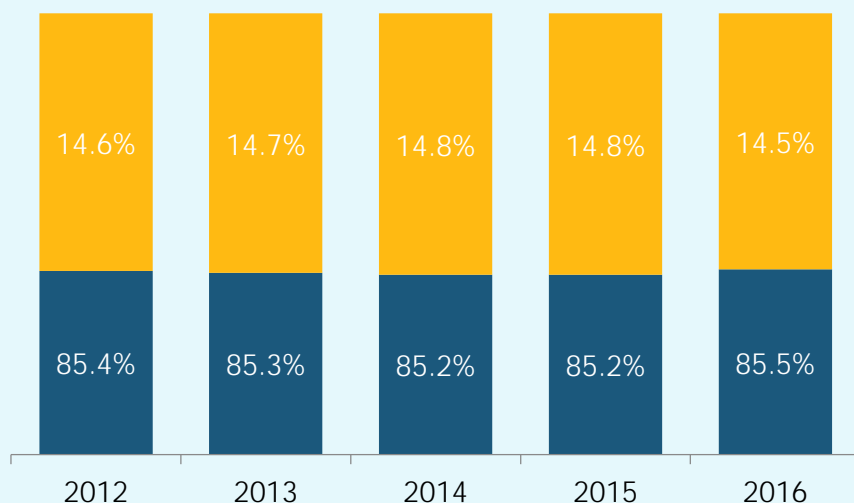
After outpacing industry average for several years, private label dollar sales growth declined during the past two years; unit sales are also lagging behind industry average.

Industry Growth Multi-Outlet Plus Convenience 2012-2016



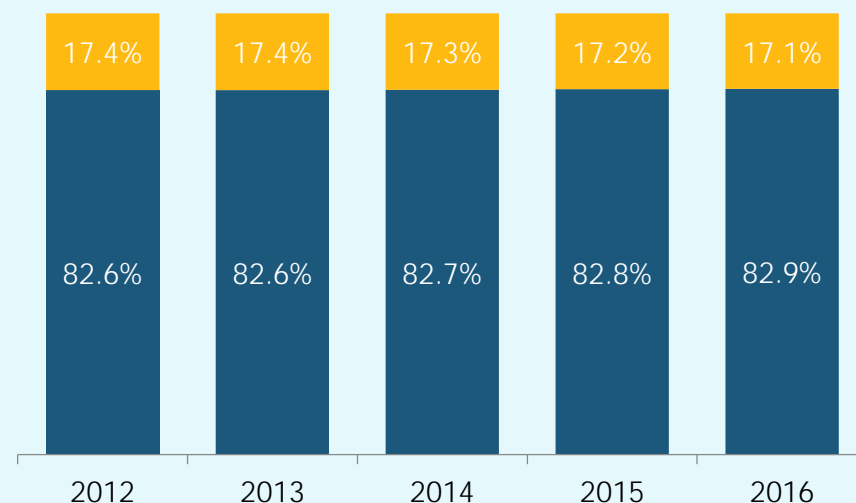
After several stagnant years, Private Label share is beginning to show signs of declining.

Private Label Share Multi-Outlet Plus Convenience 2012-2016



Dollars

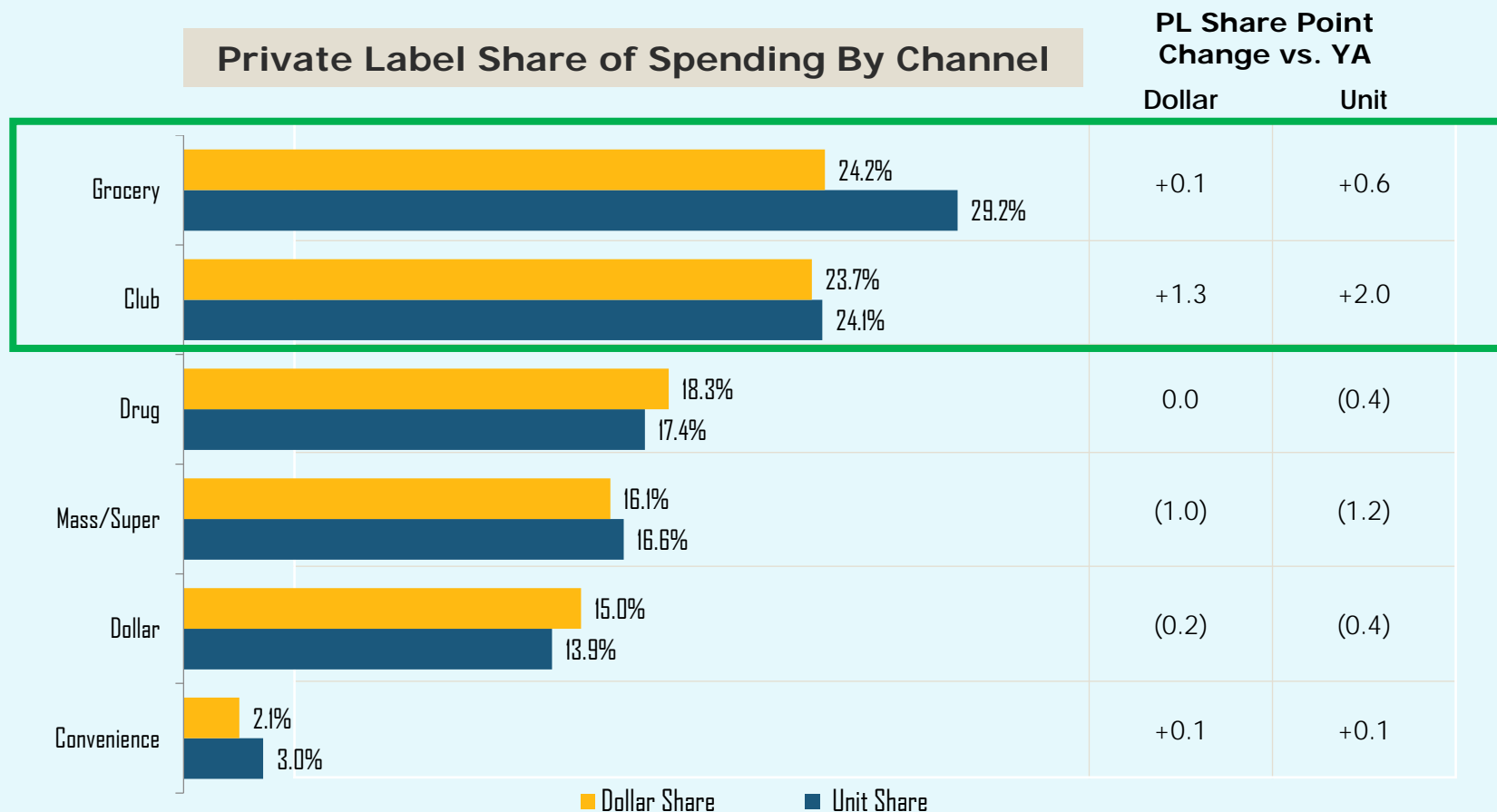
■ National Brands ■ Private Label



Units

■ National Brands ■ Private Label

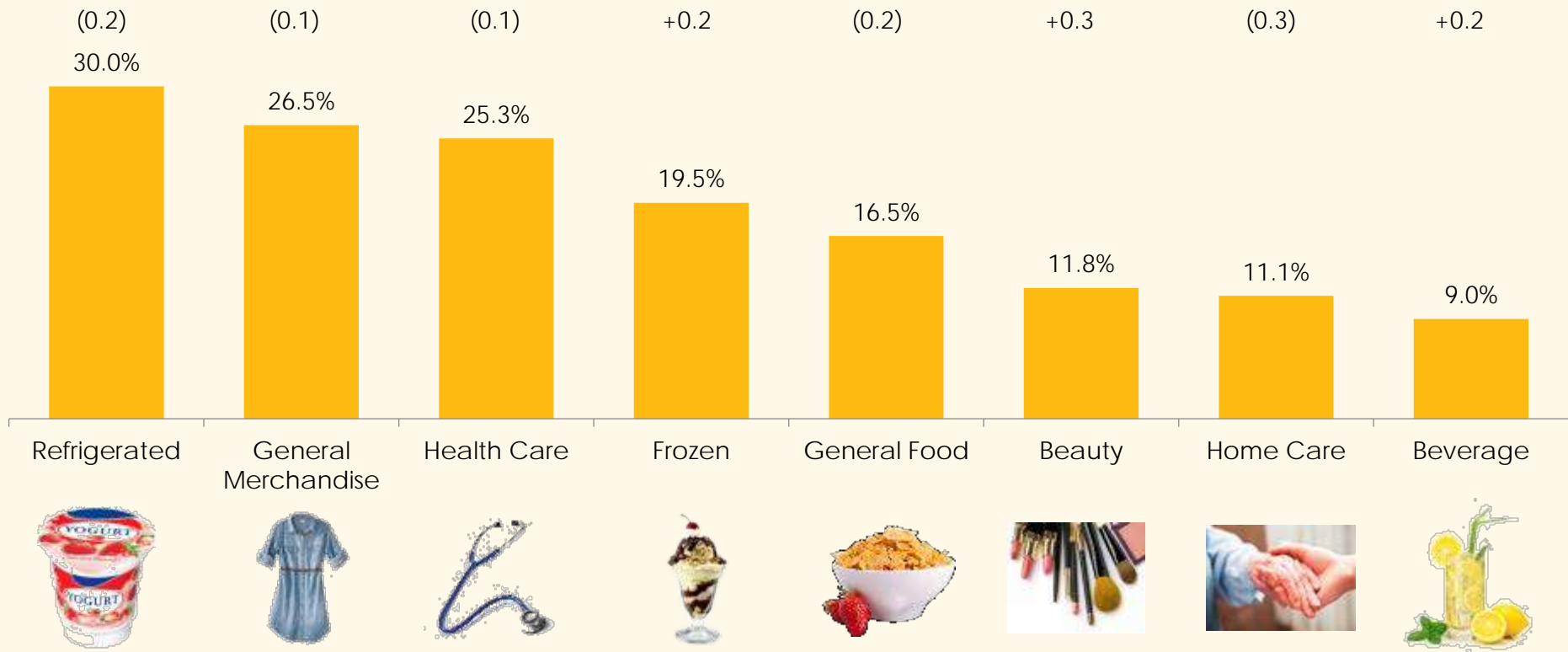
Private label share is highest in Grocery, but Club channel gains are strong.



Share declines and associated revenue losses point to a dire need to find new private label growth avenues.

Private Label Share of Unit Sales By Department

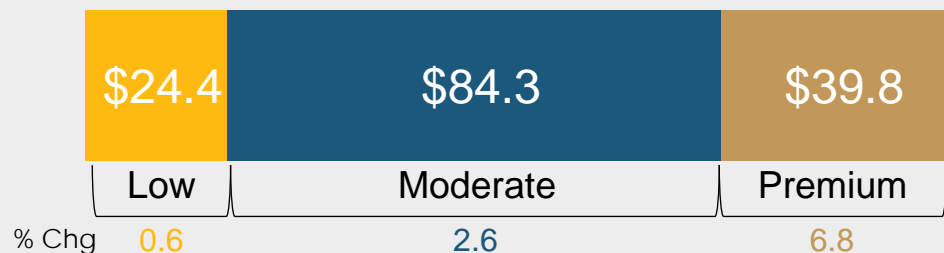
Point Change Versus Year Ago



Consumers are moving from Low Priced goods towards Premium Products

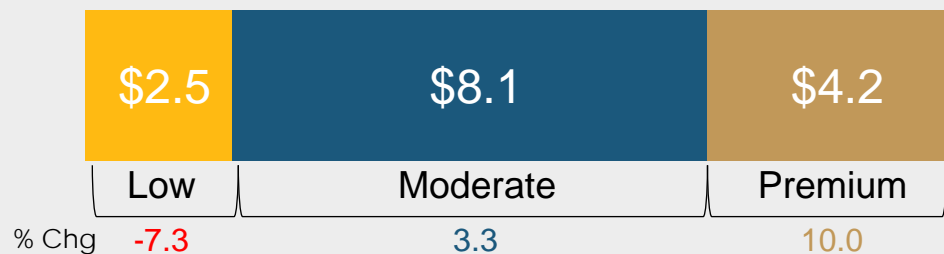
Branded \$ Sales

+3.4%

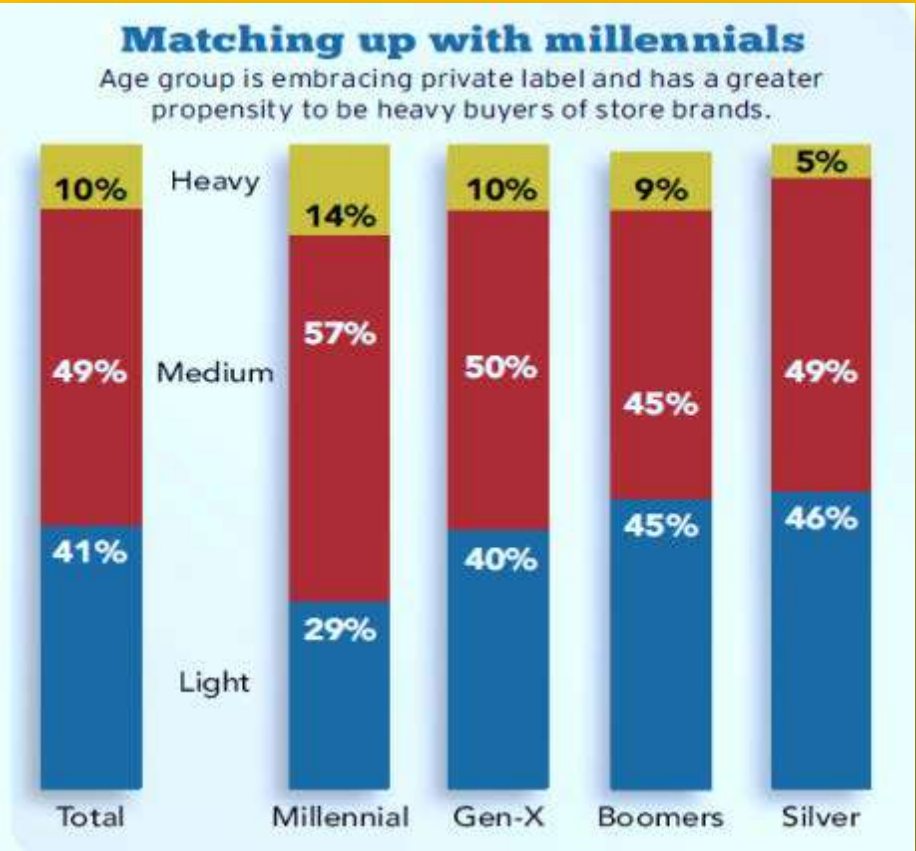
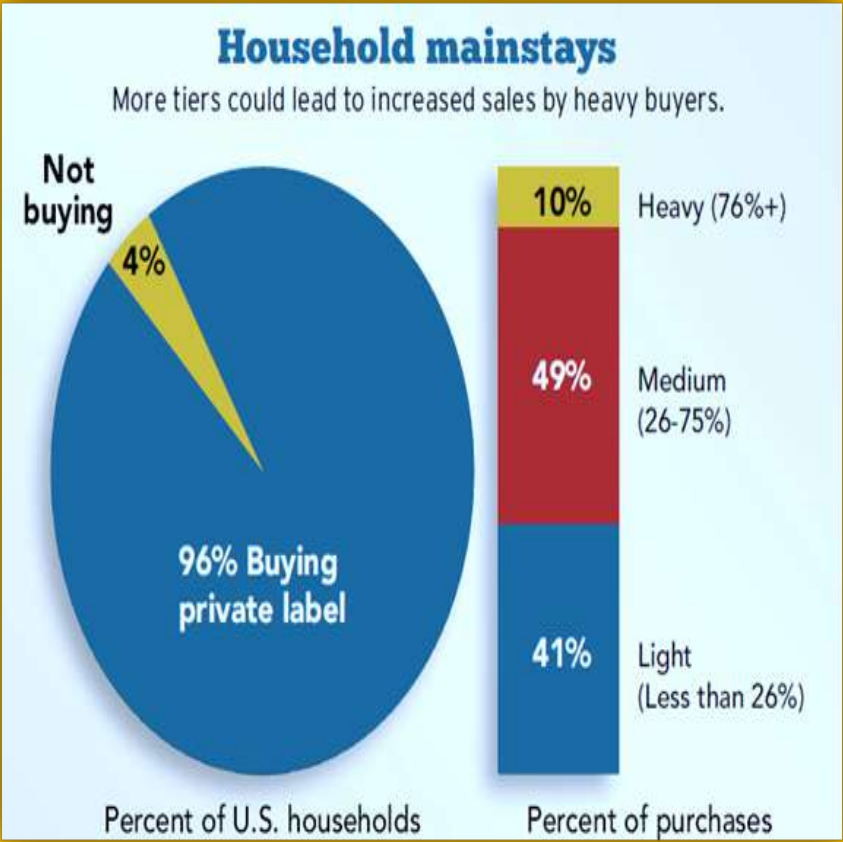


Private Label \$ Sales

+3.1%



FMI Study trends corroborate this story. Product Customization is biggest opportunity for PL Growth. Millennials are embracing PL and more likely to be heavy buyers.



FMI Study trends corroborate this story

Top 10 key highlights from FMI's study:



Nearly all U.S. households — 96 percent — are purchasing some form of private brand at supermarkets and regional grocery chains that sell food products.



Private brands performance has been on a declining trajectory at supermarkets and other regional grocery chains that outpaces that of national brands.



Much of the private brand decline at those retail locations is due to the deflationary impact of dollar sales in dairy, eggs and cheese.



The industry views the biggest threat to private brands to be a lack of capital investment to drive innovation.



The industry views private label's main role as being a loyalty builder, which overshadows other benefits such as margin building and leveraging national brands.



Organic private brand represents a small but growing segment of the industry.



While percent of sales on promotion/advertising increased across the board in total U.S. food, private label experienced the greatest increase.



Millennials are embracing private brands and are more likely to be heavy buyers.



The best store brand quality perceptions belong to perimeter categories — 74 percent quality perception for dairy, 70 percent for fresh produce and 68 percent for bakery.



Product customization is the biggest opportunity for private brand growth.

Premium vs. Mainstream vs. Value

Private label programs that span the price/value spectrum provide something for everyone at a price they are willing to pay.



PREMIUM

- Value-add
- Key to retailer differentiation

MAINSTREAM

- Name brand equivalent
- Key to margin enhancement

VALUE

- Opening price point option
- No frills, basic product



LASSONDE PAPPAS BEVERAGE TRENDS

Some Key Juice Headlines

- ✿ Shelf Stable Beverages 2X growth of General Food, led by Water and Energy Drinks



- ✿ Shelf Stable Juices/Drinks improving but still fairly flat, recently outpacing Refrigerated Juice/Drinks



Shelf Stable

Refrigerated

- ✿ Shelf Stable growth driven by distribution gains and merchandising



- ✿ Coconut, Cranberry/Dark Fruit, Watermelon driving flavor growth



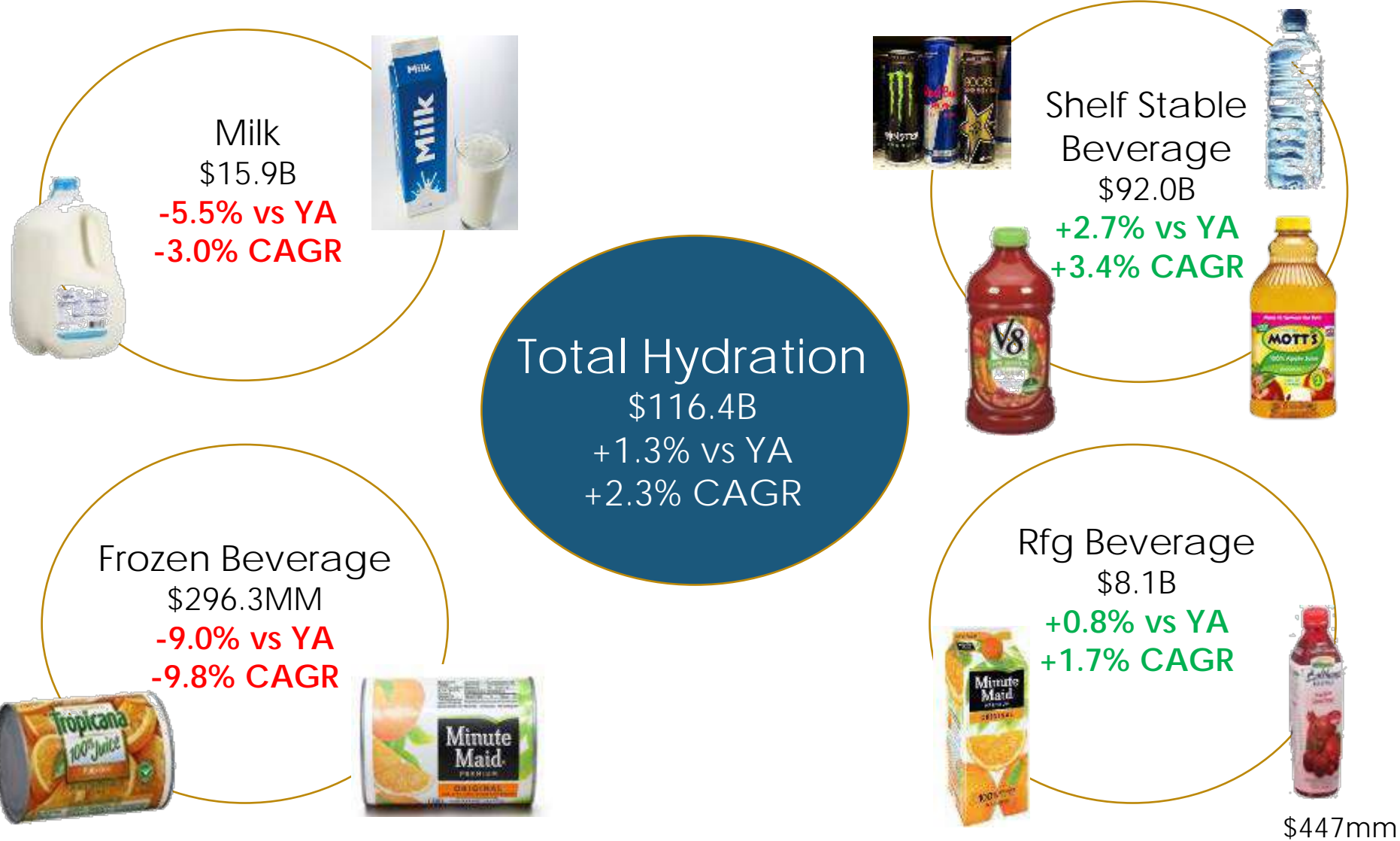
- ✿ Organic, antioxidant claims growing



Beverage Department drives Total Edible dollar growth at 2x the growth of General Food

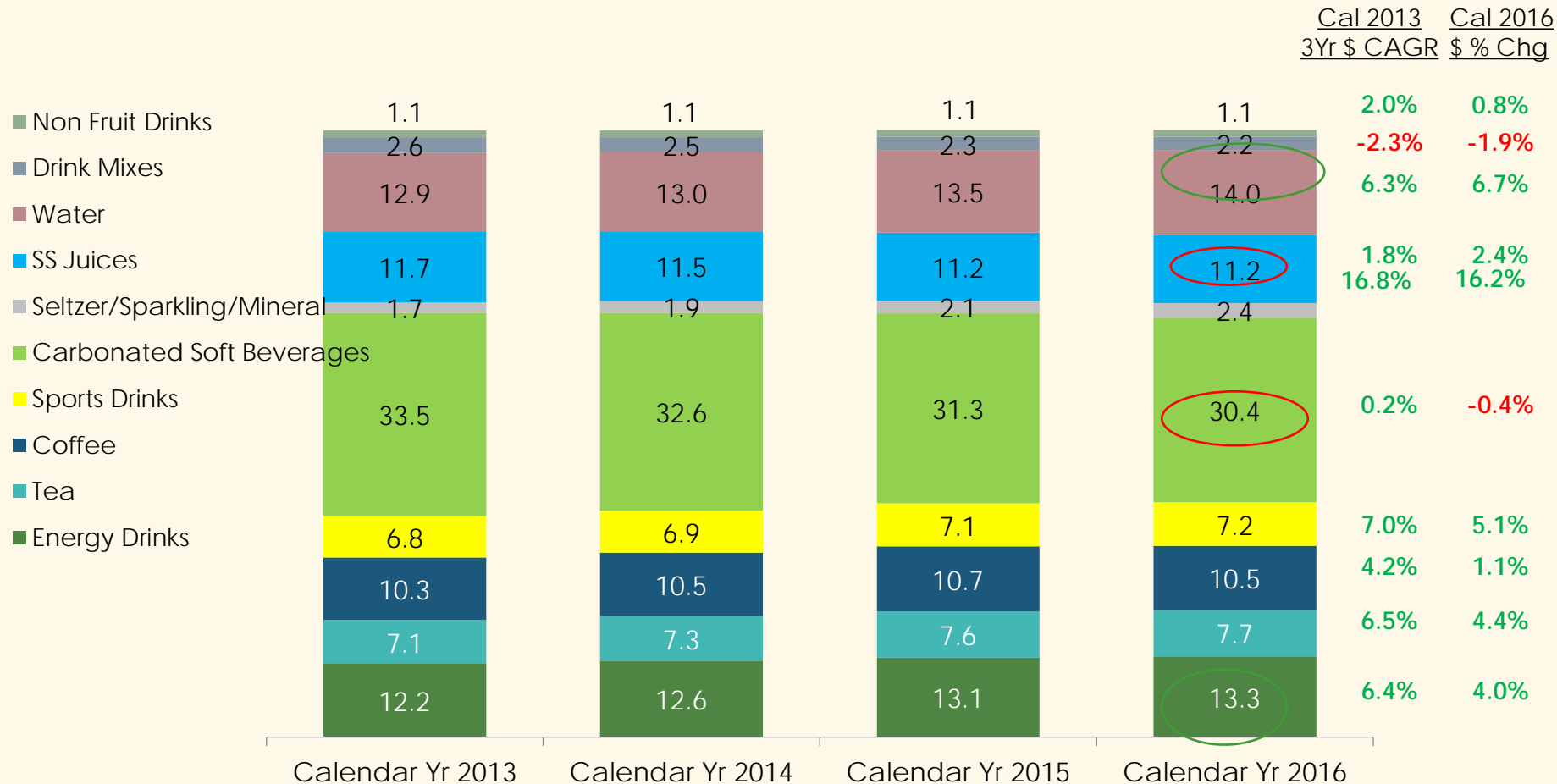


Total Hydration Category growth is driven by Shelf Stable Beverage growth



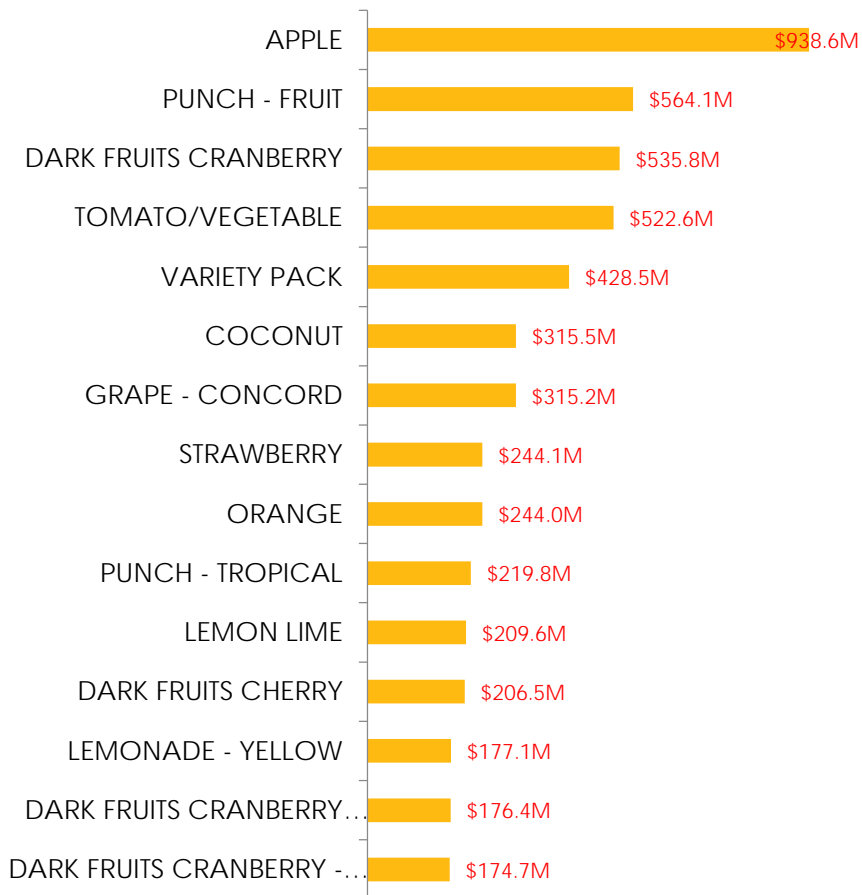
Total Shelf Stable Beverage Share Trends

The Beverage category is large & growing across most categories, except for Carbonated Soft Drinks & Drink Mixes. Juices share is flat to down. Water & Energy Drinks on the move.

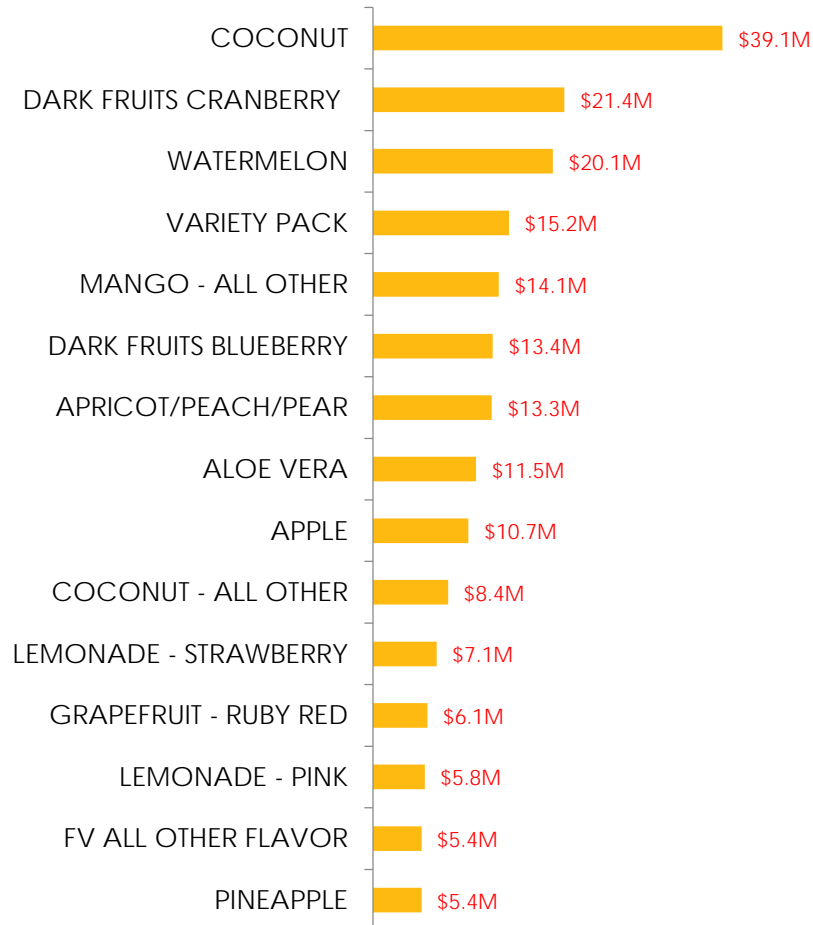


The top two growth flavors (Coconut and Dark Fruit/Cranberry), are also Top 6 overall in flavor sales.

Top 15 Flavors For Total Beverage Aisle (\$ sales)



Top 15 Flavors For Total Beverage Aisle (\$ sales actual CH vs YA)



PL Share trends by beverage segment generally follow category growth trends

Geography : Total US - Multi Outlet + Conv				
PL \$ Share of Beverage Segment				
Product	Calendar Year 2013	Calendar Year 2014	Calendar Year 2015	Calendar Year 2016
NON FRUIT DRINKS - SS	2.2%	2.1%	2.6%	3.0%
DRINK MIXES	6.5%	6.1%	6.6%	7.4%
BOTTLED WATER	22.5%	22.8%	23.3%	23.6%
SS-JUICES	10.4%	9.8%	9.3%	9.2%
CARBONATED BEVERAGES	3.9%	3.5%	3.3%	3.2%
SPORTS DRINKS	0.5%	0.4%	0.4%	0.4%
COFFEE	9.9%	10.6%	11.5%	12.9%
TEA	3.2%	2.9%	2.6%	2.4%
ENERGY DRINKS	0.6%	0.5%	0.5%	0.5%

PL Drink Mixes is growing share slightly, while CTG is declining. While PL Sports Drinks, Tea and Energy Drinks are all slightly declining in share, while CTG is growing better than Total Hydration

What Explains Growth Challenges in Beverage segments that are flat to down?

At-Home
beverage
consumption
flat

The diagram features a central light blue starburst containing the text 'Shift in consumption habits – substitutability'. Surrounding this central hub are five other starbursts of different colors (yellow, light yellow, orange, light orange, and white) and five circles of corresponding colors. The starbursts contain the following text: 'At-Home beverage consumption flat' (yellow), 'Overall decline of sugary drinks' (light yellow), 'Growth in healthy, protein, energy' (orange), 'Consumers choosing “as-is” fruit' (light orange), and 'Shift in consumption habits – substitutability' (light blue). The circles are positioned around the starbursts: a light green circle at the top, an orange circle on the right, a light orange circle at the bottom right, a light pink circle at the bottom, and a red circle on the left.

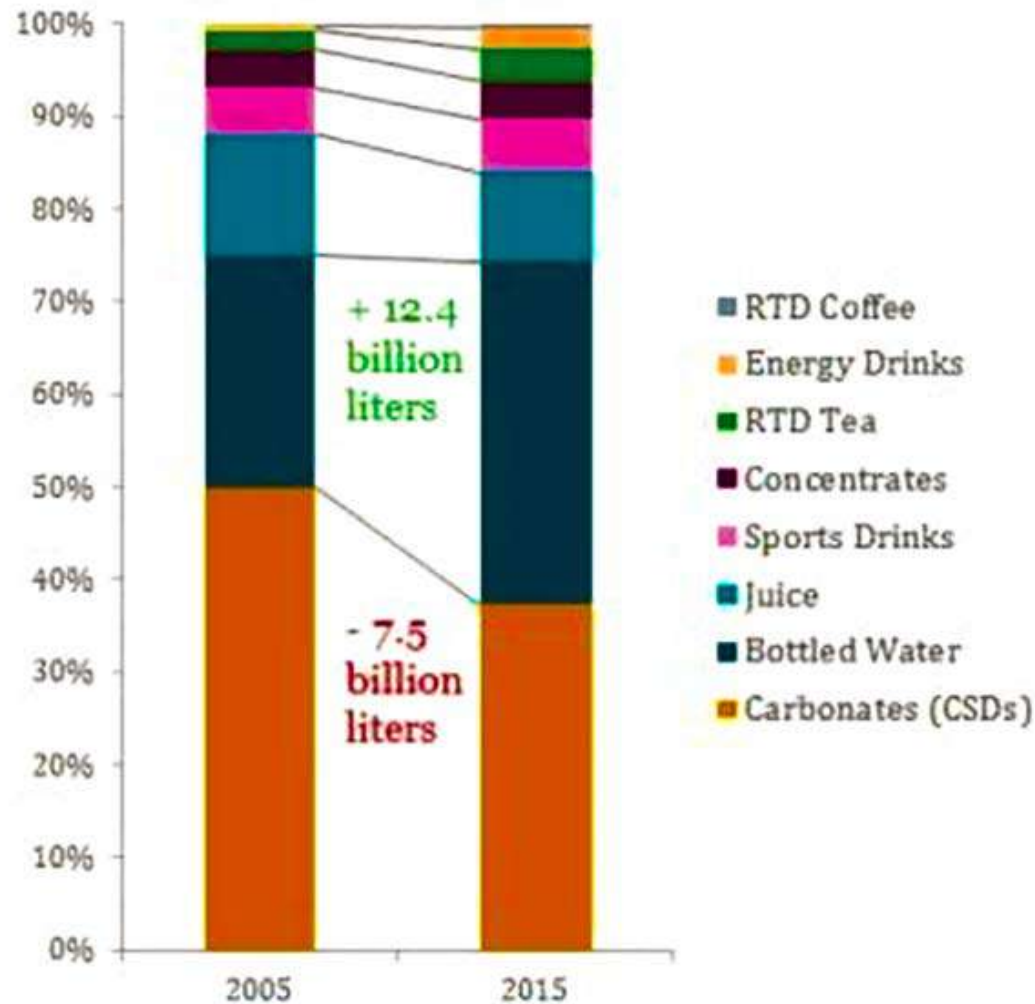
Overall
decline of
sugary drinks

Shift in
consumption
habits –
substitutability

Growth in
healthy,
protein,
energy

Consumers
choosing
“as-is” fruit

Bottled Water forecasted to overtake CSDs by 2017



And the Adoption of Healthy, Protein, and Energy Continues to Drive the Beverage Aisle.



Caffeine is present in approximately 50% of Total Beverage Category transactions.

Summary

- ✿ Overall CPG sluggish growth
 - ✿ Value and Convenience Channels are driving the growth . Internet will realize huge growth
 - ✿ PL shares down slightly with improving economy
- ✿ Loyalty is more important than ever for retailers with blurring channel lines
 - ✿ Increasing Conversion is critical!
- ✿ To accomplish that, need to understand Consumers and what they want more than ever
 - ✿ Personalization and targeting are key
 - ✿ Cater to Millennials, Hispanics and Boomers
 - ✿ Value and Money Saving are important here
 - ✿ Premiumization inside of PL meets these consumer wants and is growing. Important to have good, better, best strategy in PL.
 - ✿ Wellness snacking is outpacing indulgent
 - ✿ Healthy, Protein, Portable
- ✿ Please provide your specific questions/issues back to Michael Gold for further assistance/investigation

LASSONDE PAPPAS Q&A SESSION

THANK YOU

Steve Hefferan

Stephen.Hefferan@iriworldwide.com

For General Questions:

LPC.Webinar@lassonde.com