Canback

THE FUTURE OF BILLION DOLLAR BRANDS IN NORTH AMERICA

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PREDICTIVE
ANALYTICS
INTEGRATORS

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Introduction to Canback

The future of billion dollar brands

Founded by Dr. Staffan Canback, we are an elite management consulting firm anchored in predictive analytics and market knowledge.

Canback serves clients through five practices: Strategy, M&A Due Diligence, Sources of Growth, Corporate Finance, and Organizational Performance.

We operate globally with the world's largest companies as clients. This has taken us to 87 countries since our founding in 2004.

We also offer analytic services with the Canback Global Income Distribution Database (C-GIDD) as our cardinal product.

Canback is a subsidiary of The Economist Group since 2015.

Agenda

Introduction to Canback

The future of billion dollar brands

Billion dollar brands will decline into the future as the market fragments due to changing consumer demands and structural shifts in the retail marketplace

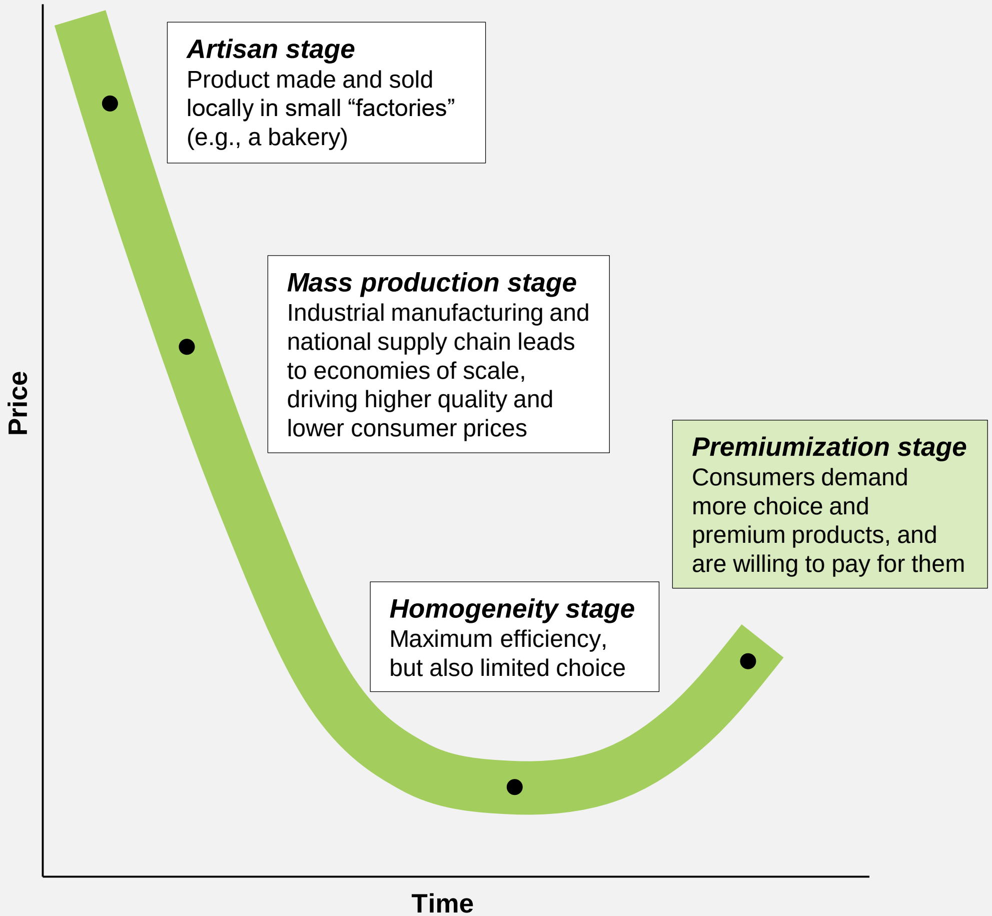
What does the future hold for billion dollar brands in North America?

HYPOTHESIS	Monolithic billion dollar brands are not the way of the future. The market is instead becoming increasingly fragmented

- Consumers are moving away from traditional buying patterns across industries, particularly for fast moving consumer goods
- For example, the grocery industry is shifting away from traditional supermarkets. Consumers are increasingly choosing alternative food options such as online shopping, premium grocery, and take away
- Consumers are demanding greater choice, and the market will premiumize and diversify as incomes rise
- Premium brands target varied niches in the market, creating a fragmented market of smaller brands
- As sales are no longer tied to supermarkets, small brands can gain visibility
- A long tail of brands and variants will emerge driven by ecommerce and specialty retail

The J-curve illustrates the evolution of industries through time. Consumer packaged goods (CPG), particularly grocery, is reaching the rediscovery stage where markets fragment to provide greater choice and more premium products

J-CURVE FRAMEWORK FOR INDUSTRY EVOLUTION



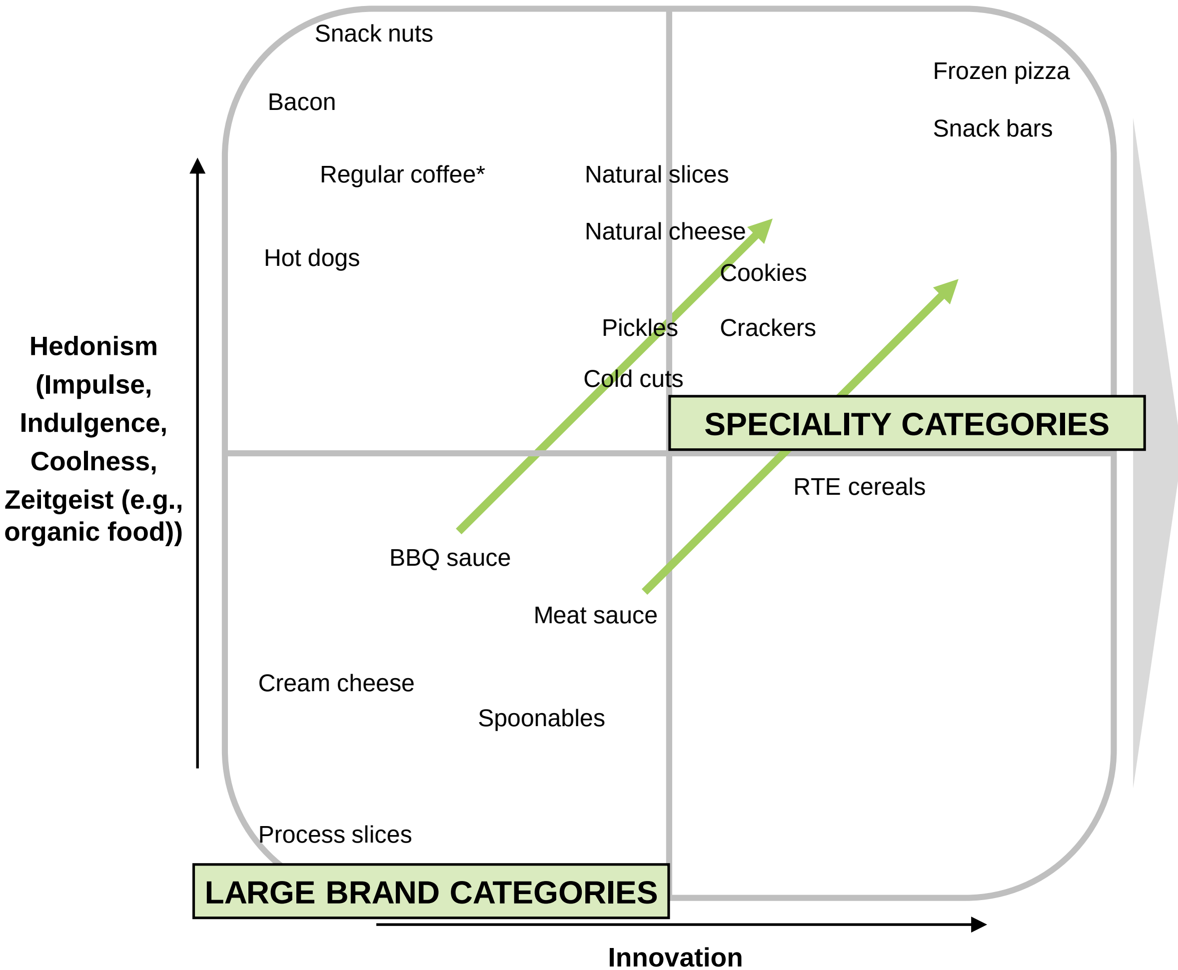
FMCG EVOLUTION

- The FMCG market is beginning to realize the premiumization stage of the J-curve
  - Large brands are beginning to lose traction in the market, with slowing growth
  - Cost-efficiency and functional benefits are considered less important than emotional appeal and new consumer benefits
  - Rising consumer demand for more choice as well as healthy, sustainable, or locally-sourced goods is driving growth in the premium segment
  - Niche marketing is resulting in a more fragmented market with more players and brands

Over time, billion dollar brands’ categories are becoming more hedonistic and fragmented. Large producers have lost ground

Example: Food and grocery

DRIVERS OF PRODUCT CHOICE WITHIN FOOD CATEGORIES



TAKEAWAYS

- Categories with high hedonism and innovation have greater product choice, as differentiation becomes more important
- Differentiated categories are likely to be more fragmented due to the larger number of brands competing
- Competitive categories are also more likely to premiumize to improve the consumer offering

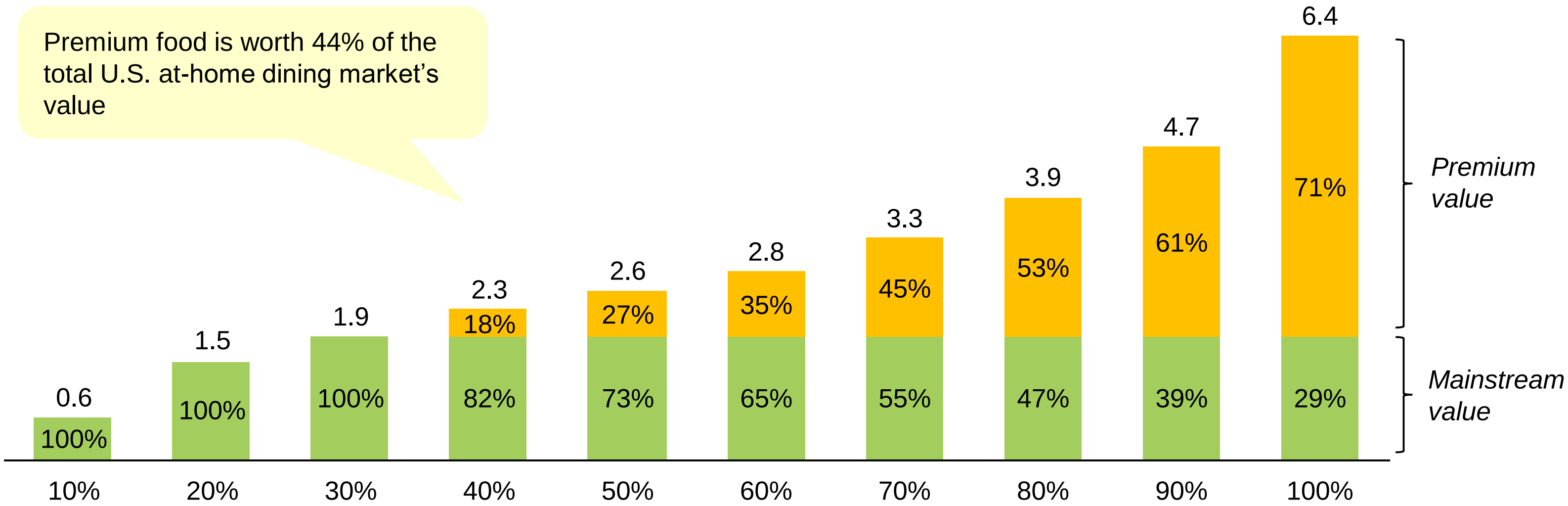
* Currently being rejuvenated and may move to the right over time

Source: ACNielsen, Sethuraman (2003), Canback analysis

Rising income levels contribute to premium growth and fragmentation, High income consumers prefer premium and more specialized brands

Example: Food and grocery

SHARE OF FOOD SPEND BY INCOME DECILE
2016e, United States, '000 USD per year



OBSERVATIONS

- 44% of the U.S. at-home dining market is made up of premium food spending
- Consumers in the highest decile could cut their expenditure on at-home dining to a third of its current size, while maintaining nutritional value
- As incomes rise, the premium at-home dining spend as a share of total at-home dining spend for the U.S. will grow

Note: For 2016e calculations, 2014 ratios of spending were applied to 2016 incomes and populations
Source: USDA; C-GIDD; Canback analysis

The premium market today provides an indication for the future of the mainstream market. The Whole Foods test suggests that the future food market will consist of many small brands.

Example: Food and grocery

THE WHOLE FOODS TEST

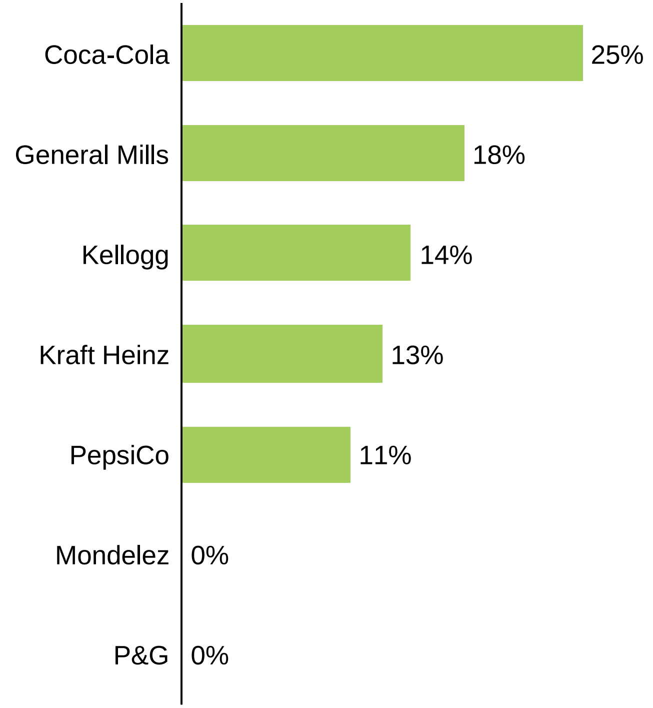
A leading-edge retailer, Whole Foods acts as an indicator for the future of the food and beverage market. Examining the breakdown of product categories and brands in Whole Foods lends insight on the preferences of leading-edge consumers, which the rest of the market will gradually move towards

OBSERVATIONS

- Whole Foods stocks mainly smaller, premium brands, giving customers wide choice within categories
- Out of the 88 possible billion dollar brands owned by Coca-Cola, General Mills, Kellogg, Kraft Heinz, PepsiCo., Mondelez, and P&G, only 9 were present during the Whole Foods test
- None of the tested FMCG companies had more than 25% of their billion dollar brands stocked


Whole Foods Market

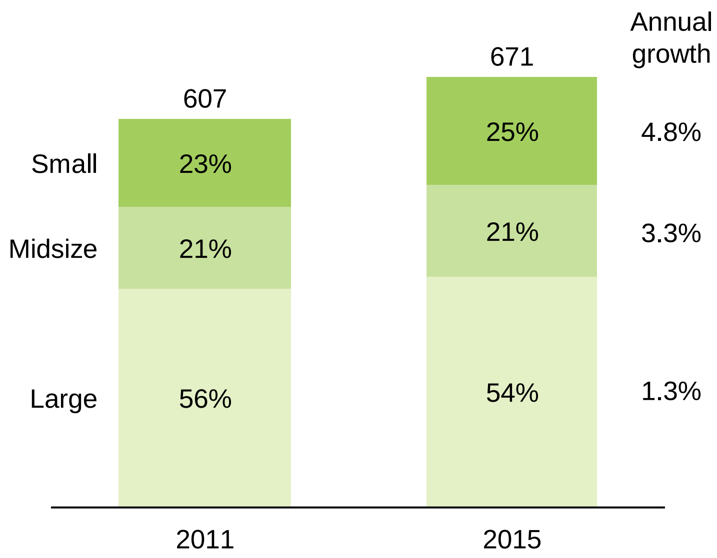
SHARE OF LARGE BRANDS* STOCKED AT WHOLE FOODS



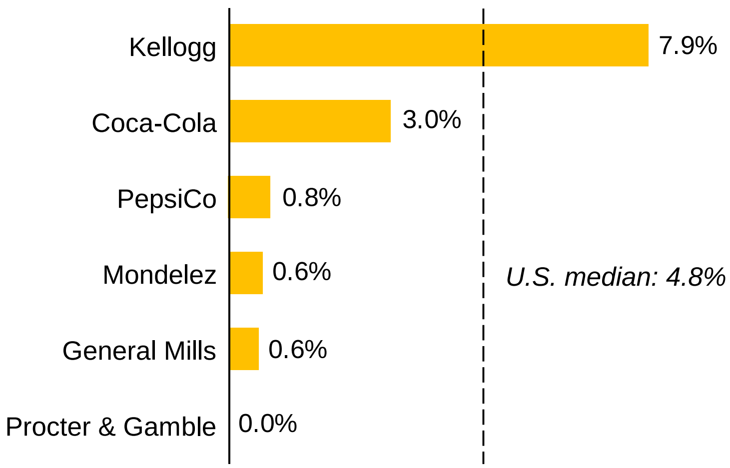
* Brands with sales greater than USD 1 billion
Source: Market visit; Desktop research; Canback analysis

Smaller FMCG companies are outperforming their large counterparts, rapidly growing in sales and gaining market share

FMCG SHARE OF SALES BY COMPANY SIZE*
United States, 2011-2015



GROWTH IN VALUE ADDED
2010-2015



- Large companies have lost 2% of market share since 2011, though total sales have grown
- Small players grew at almost 5% per year since 2011, while large companies grew at just 1.3% per year in revenue
- Small company growth is in part driven by rapid growth in healthy foods, including brands Vita Coco, Bai, and Quest Nutrition

- Some of the largest brands in food belong to companies experiencing very slow growth
- Kellogg is the only company outperforming the U.S. median for value added growth
- Value added subtracts the value of purchased goods from revenue to provide a better estimated measure of the size of a company

* Large companies are defined as > USD 5B in sales, midsize > USD 1B, small < 1B
Source: IRI, company financial reports, Osiris, Canback analysis

KEY CHALLENGES TO BILLION DOLLAR BRANDS

Consumer demand diversifying

- Rising income is driving a premiumization trend. How fast will premium product demand grow?
- What is the role of sustainability or other claims in brand differentiation?
- How will demand for various products claims evolve?
- What will be the impact of macro-trends, such as health and wellness?

Structural shift in the FMCG market

- To what extent will ecommerce and specialty retail allow smaller producers to reach more consumers?
- Billion dollar brands success has been driven, in part, by negotiated shelf space in mainstream outlets, how will this channel evolve?
- How can FMCG producers mitigate the risk of increased buyer power as the retail landscape evolves?

Large producer conduct must evolve

- Which categories are most likely to sustain billion dollar brands and which are most at risk?
- How can line extensions or large brand variants be successful in the market?
- Can large FMCG win with smaller brands?
- Should large FMCG producers bypass the retail channel with direct to consumer offerings?

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