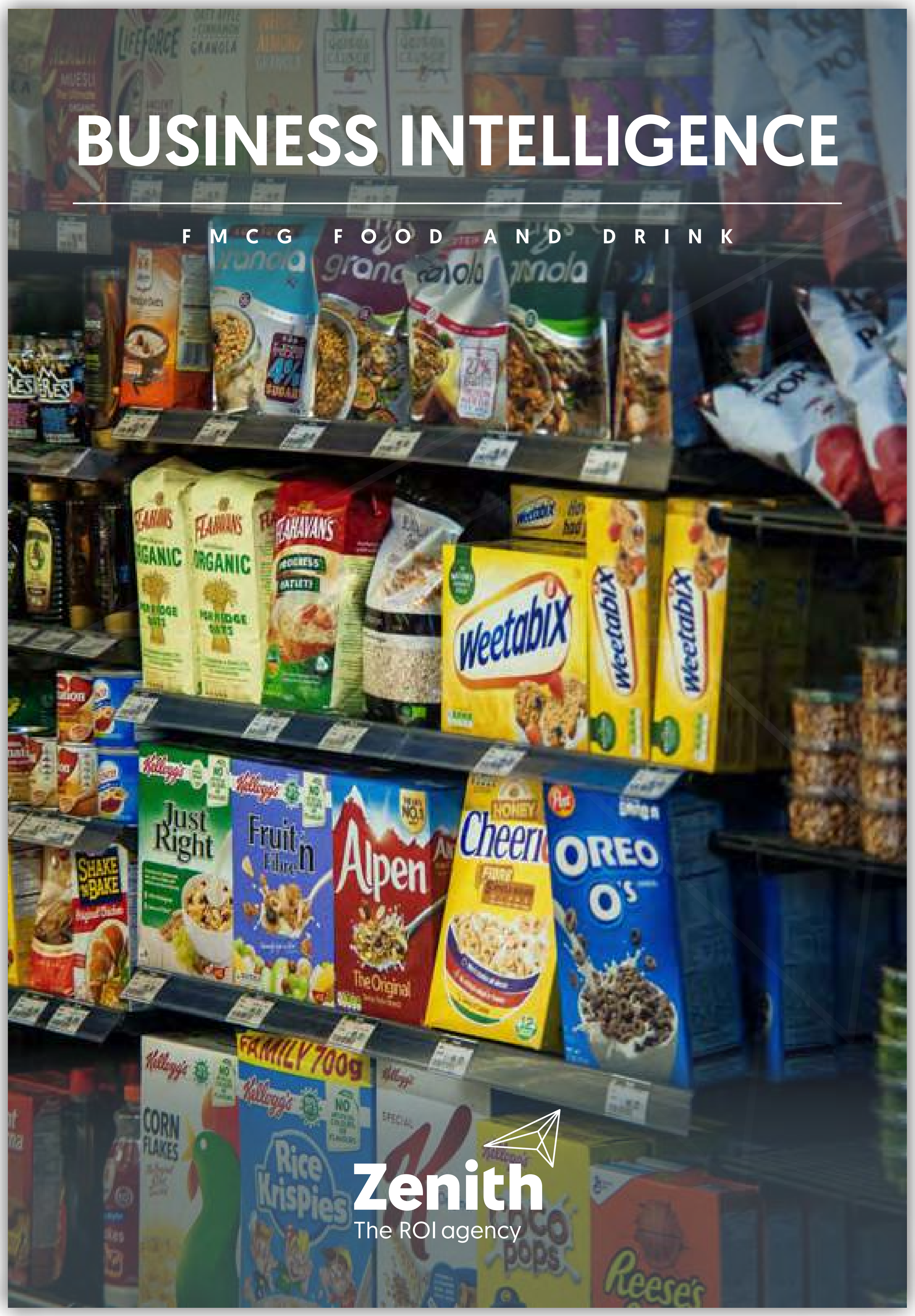
BUSINESS INTELLIGENCE

FMCG FOOD AND DRINK



Zenith
The ROI agency

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Introduction

Welcome to *Business Intelligence – FMCG Food and Drink*, the fifth of Zenith's *Business Intelligence* reports, which analyse the advertising, business and consumer behaviour trends shaping different categories.

FMCG companies had a tough time in 2020, but unlike those in most categories their problem was not a sharp drop in demand. Instead, they were faced with the challenge of retooling their production and distribution networks to get their products to consumers who needed them more than ever, but whose shopping habits were being upended by the spread of COVID-19. In particular, FMCG companies had to embrace ecommerce in a way they had never previously committed to.

The rise of ecommerce and the continued migration of audiences to digital media are challenging FMCG brands to blend digital advertising effectively with advertising in traditional media – they can no longer rely exclusively on television. With their strong presence in online video and routine use of advertising on ecommerce platforms, Chinese FMCG brands are blazing the trail that Western brands will follow over the next few years.

Consumers are becoming ever more aware of health and environmental concerns when buying their food and drink, and FMCG companies will have to respond. Brands that can talk to consumers authentically about nutrition, wellbeing and sustainability will stand the best chance of winning over new customers at a time when their habits and loyalties are in flux.

Scope of report

This report covers the FMCG food and drink category. FMCG stands for Fast-Moving Consumer Goods (also called packaged goods or consumer packaged goods), which refers to high-turnover products, selling quickly and at relatively low cost. This report focuses specifically on packaged food and soft drinks.

FMCG FOOD + DRINK ADVERTISING FORECASTS

4%-5%

A YEAR TO 2023

FMCG adspend will grow 4%-5% a year to 2023, supporting expanded ecommerce activities

To maintain reach, brands need to balance spending across TV, out-of-home and digital channels

FMCG adspend will expand much faster in India than in other markets, with 14% annual growth

Chinese FMCG brands demonstrate how to effectively drive growth through ecommerce

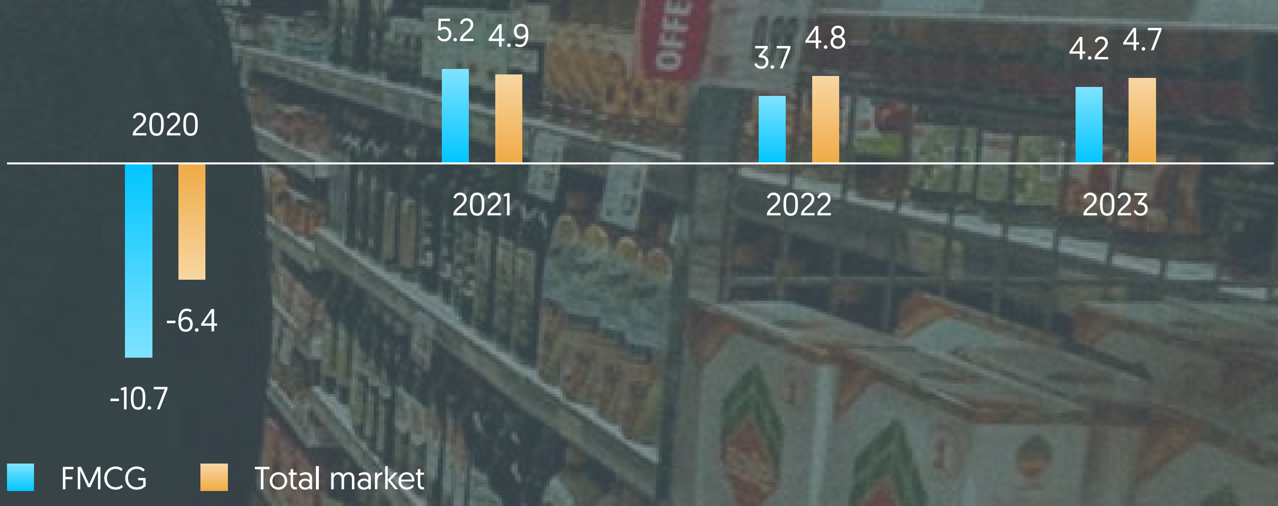
FMCG ADSPEND RECOVERY TO TRACK MARKET WITH 4%-5% ANNUAL GROWTH

Ad expenditure by fast-moving consumer good (FMCG) food and drink brands fell more sharply than the ad market as a whole in 2020, shrinking by 10.7% to US$26.7bn. This was not because of any shortfall in demand. On the contrary, demand soared as people stopped eating in restaurants, cafes and bars and shifted consumption to the home. Instead, FMCG companies were faced with the challenge of ramping up production while supply chains were disrupted, and using limited available distribution to get their products onto shelves in stores, or to consumers' homes. Many FMCG companies therefore cut back on promotional activity for products they couldn't get to consumers quickly enough to satisfy demand, and invested in distribution infrastructure instead, especially ecommerce operations and partnerships.

"Now that FMCG ecommerce infrastructure is being put in place, brands will need to increase their investment in advertising to support it."

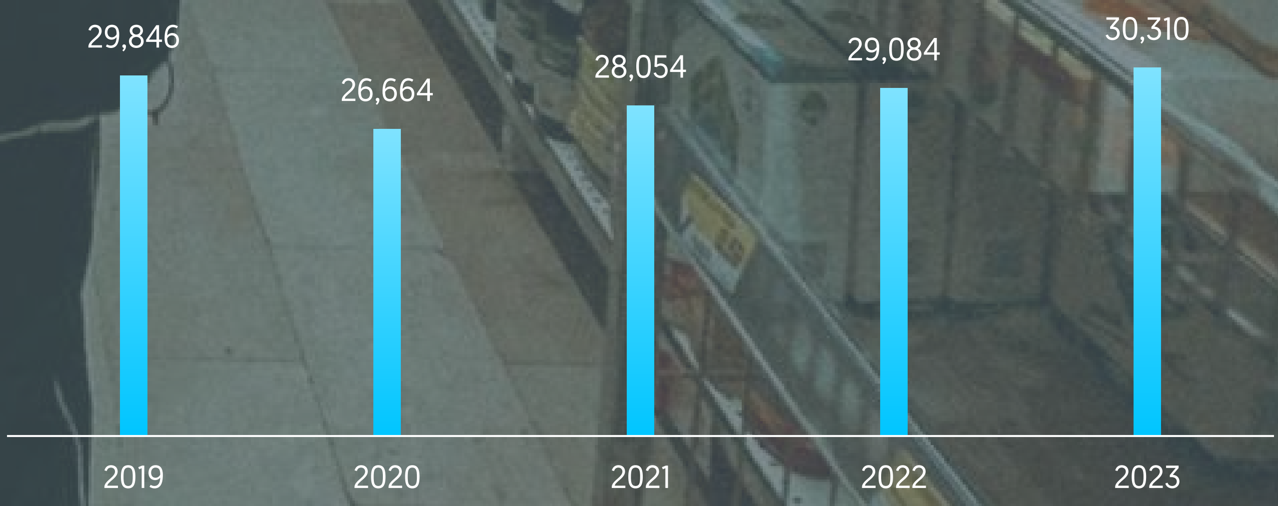
Zenith forecasts that the recovery of FMCG adspend will roughly track the market as a whole in 2021-2023. A bounce-back is almost inevitable in 2021 given the comparison with the sharp drop-off in 2020, particularly during Q2, though it will still be 6% below the pre-pandemic levels of 2019. FMCG companies face uncertainty over how quickly consumers will return to shops, and how much their behaviours have been permanently affected by the pandemic. However, now that FMCG ecommerce infrastructure is being put in place, brands will need to increase their investment in advertising to support it. Zenith forecasts 4.4% annual growth in FMCG adspend between 2020 and 2023, reaching US$30.3bn by the end of this period.

Year-on-year growth in adspend (%) – 12 key markets



Source: Zenith

Total FMCG adspend (US$ million) – 12 key markets



Source: Zenith

FMCG ADVERTISING SHIFTS ONLINE TO REACH YOUNGER AUDIENCES AND SUPPORT ECOMMERCE

FMCG brands still rely heavily on traditional TV, spending 60% more on it than the average advertiser. They also spend 42% more on magazines and 20% more on OOH. Their principal goal is to maximise brand awareness and reach so they are front of mind at the point of purchase for as many consumers as possible. This is something that traditional media like TV and magazines have historically excelled at, but their declining reach – particularly among the young – is making them less effective.

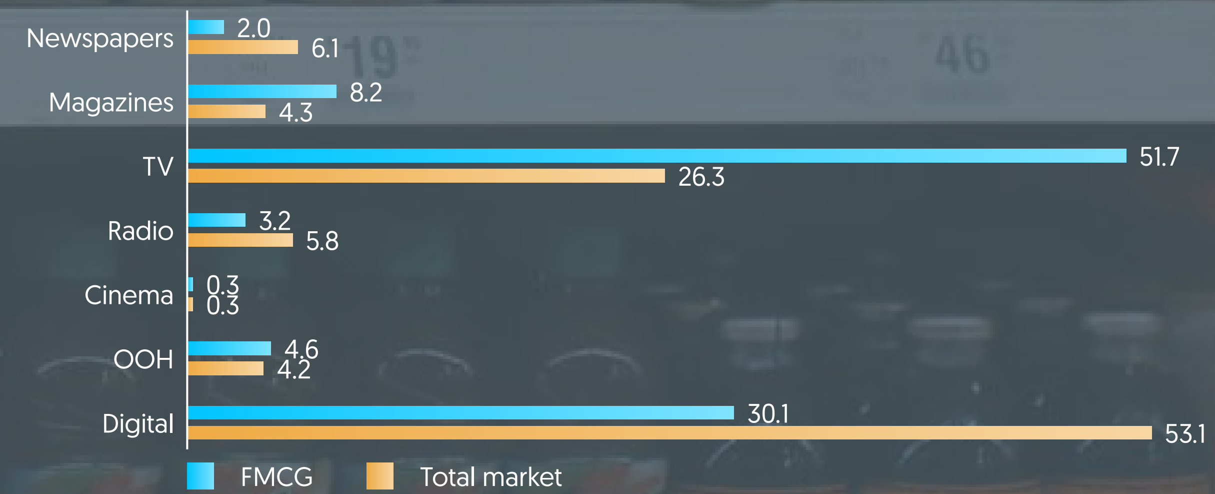
These figures are heavily skewed by the presence of China, where FMCG brands have already adopted digital advertising as their main form of commercial communication. Across the other 11 markets, spending is even more skewed to television and magazines at 52% and 8% respectively, which is nearly twice as much as the average brand.

“Their principal goal is to maximise brand awareness and reach so they are front of mind at the point of purchase for as many consumers as possible.”

Share of adspend by medium, 2020 (%) – 12 key markets

Source: Zenith

Share of adspend by medium, 2020 (%) – 11 key markets (excluding China)



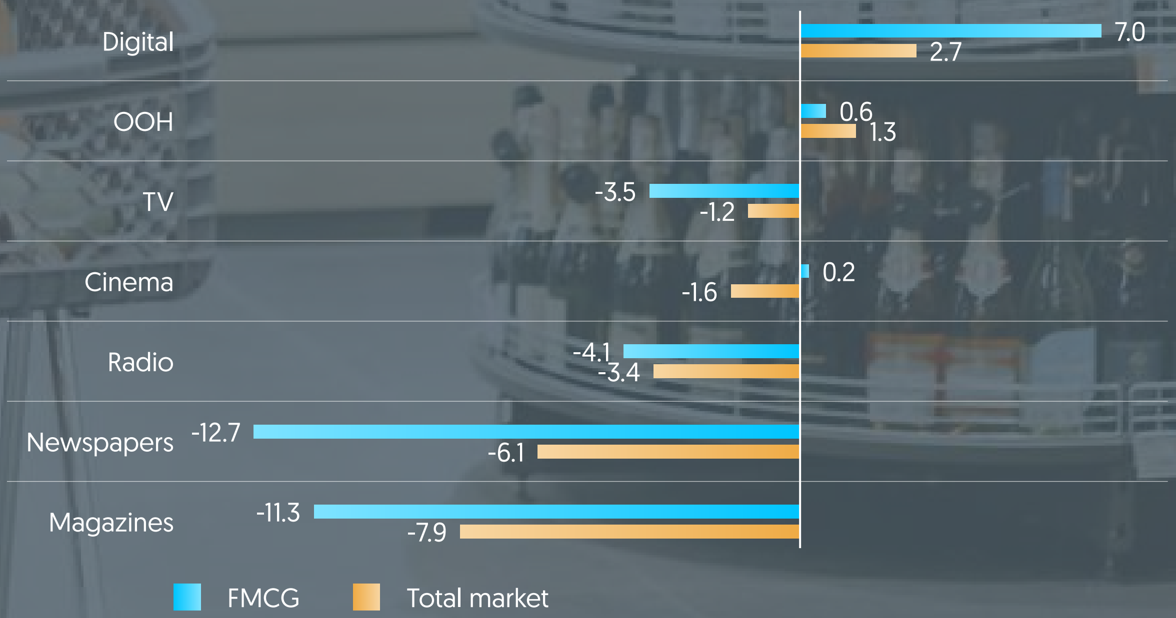
Source: Zenith

Out-of-home is the exception to the declining reach of traditional media – in fact, it is the last truly universal medium. Despite the temporary sharp dip caused by COVID-19, the spread of digital displays will make it more effective at reaching consumers with targeted and relevant ads near the point of sale in the immediate future. FMCG out-of-home advertising is forecast to grow by 1.3% a year from the 2019 baseline to 2023, ahead of the 0.6% out-of-home annual growth rate across all categories.

FMCG brands are following audiences to digital channels, with 2.7% annual growth forecast from 2019 to 2023, well ahead of the 0.4% annual growth for FMCG spending as a whole. After the pandemic gave FMCG ecommerce its urgent stimulus in 2020, brands will look to support and expand their ecommerce capabilities, channelling consumers to DTC operations or retail partnerships – see the Category Growth section for more details. But the big challenge will lie in using digital to replace television effectively – creating large-scale brand awareness while managing frequency. The rise of Subscription Video on Demand (SVOD), which locks away high-value audiences from direct advertising, will make this even harder, as will the end of third-party cookies.

To meet this challenge, FMCG brands will need a more comprehensive approach to reach-based planning. They can continue to use TV for cost-effective reach among older audiences, supplemented by the broad reach of out-of-home. But they will need to use online video to reach younger audiences, combined with virtual placement in SVOD platforms, which are particularly popular in high-income households. According to research by Newzoo, the number of e-sports viewers rose by 10% in 2020 to reach 436 million worldwide, so brands should also consider a presence in gaming for access to fast-growing, young and passionate audiences.

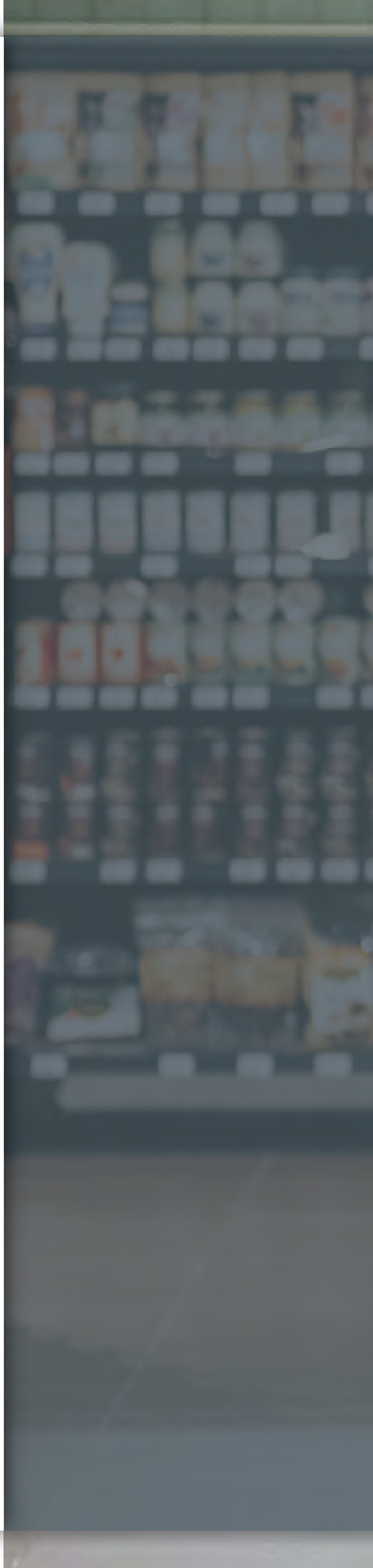
Average annual growth in adspend by medium 2019-2023 (%) – 12 key markets



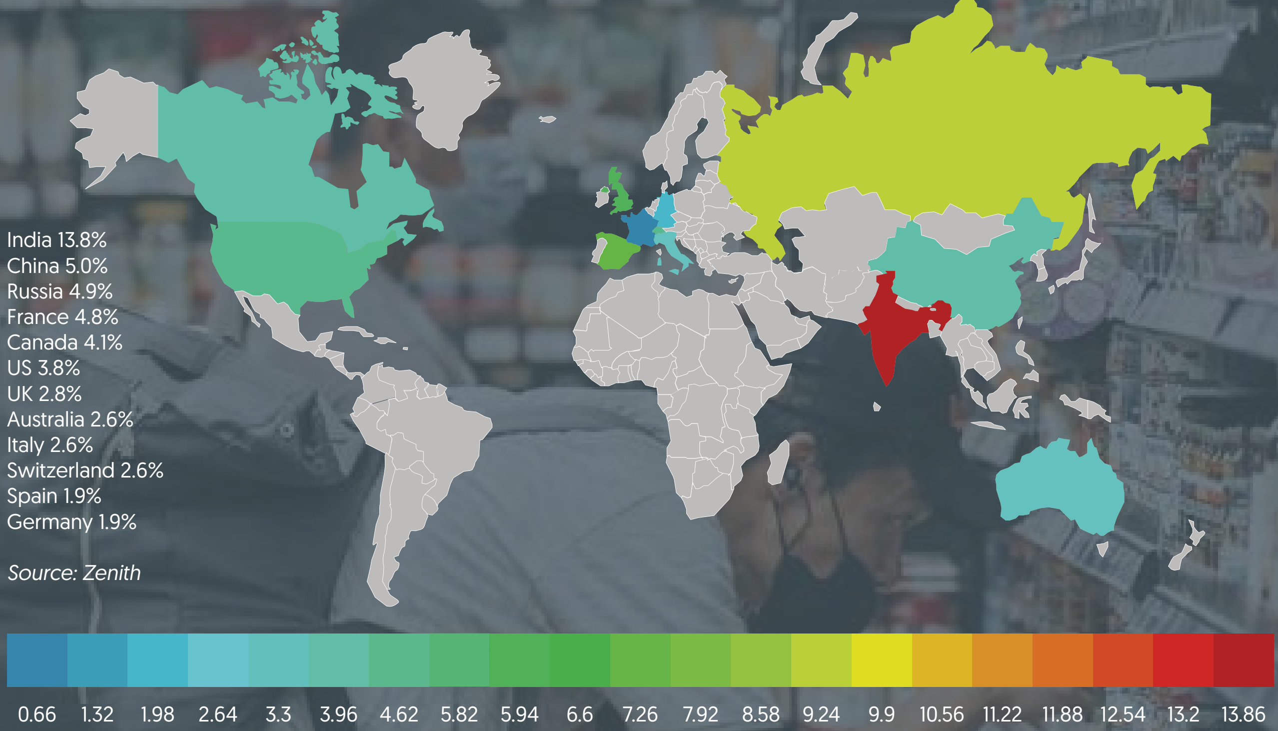
Source: Zenith

"The big challenge will lie in using digital to replace television effectively – creating large-scale brand awareness while managing frequency."

INDIA LEADS ADSPEND GROWTH BUT CHINA LEADS DIGITAL TRANSFORMATION



Average annual growth in FMCG adspend by key market 2020-2023 (%)



Zenith forecasts that India will be the fastest-growing market by some distance over the next three years, with FMCG adspend expanding by 14% a year. It will benefit from blossoming consumer demand as disposable incomes rise rapidly, coupled with the catch-up expansion of the underdeveloped ad market: advertising accounts for only 0.3% of India's GDP, less than half of the global average of 0.7%. All of the other markets are predicted to grow steadily between 2% and 5% a year.

China stands out as the market where brands have most rapidly embraced ecommerce and digital advertising, and FMCG brands should look to China for best practice in driving ecommerce sales. In 2020, Chinese FMCG brands spent 71% of their budgets on digital advertising, compared to 46% across all 12 markets. Here, FMCG brands focus on online video, which has a high and broad reach, and is open to commercial partnerships. This can mean advertising in online shows, or special livestreams by influencers, in which viewers can directly purchase the items being demonstrated. FMCG brands also routinely advertise on ecommerce platforms to drive sales at the point of purchase. Chinese FMCG brands spent 35% of their total budgets on online video and 13% on ecommerce advertising in 2020.

FMCG FOOD + DRINK CATEGORY GROWTH

7%

SURGE IN DEMAND IN 2020

Slow growth forecast for packaged food after 7% surge in demand in 2020

FMCG ecommerce lags far behind the market but will be key to growth

1/3

OF ALL SALES

The eight biggest FMCG companies maintain their grip on a third of all sales in the category

Non-Western firms are now climbing the rankings of the biggest-growth companies

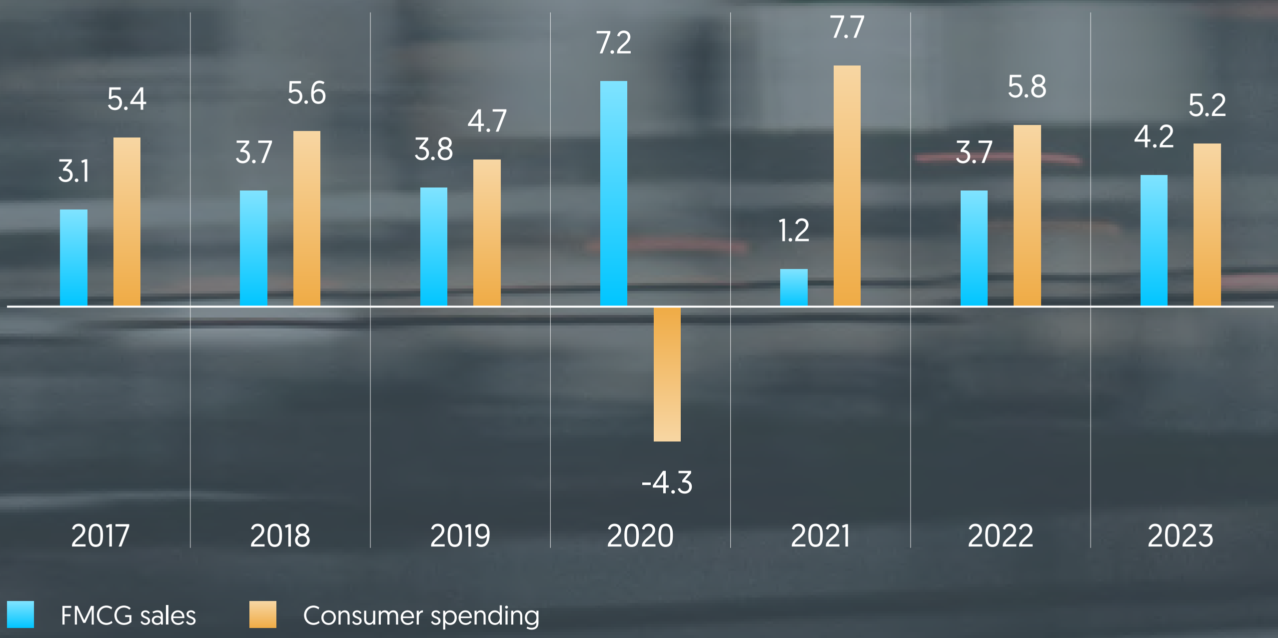
DEMAND FOR FOOD SURGED IN 2020 AS CONSUMPTION SHIFTED TO THE HOME

Sales of FMCG food and drink grew at their fastest rate for years in 2020 as consumers stopped eating and drinking outside the home. FMCG sales increased 7.2% even as consumer spending fell 4.3%. Sales could have been even higher if supply-chain bottlenecks had not led to shortages of key products at the start of lockdowns.

In contrast to most categories, food and drink sales will slow sharply in 2021 as consumers return to restaurants, cafes and pubs, shifting consumption back outside the home. Euromonitor then forecasts a return to their pre-pandemic growth rate of 4% a year in 2022 and 2023. By 2023 sales will be 17% higher than they were in 2019.

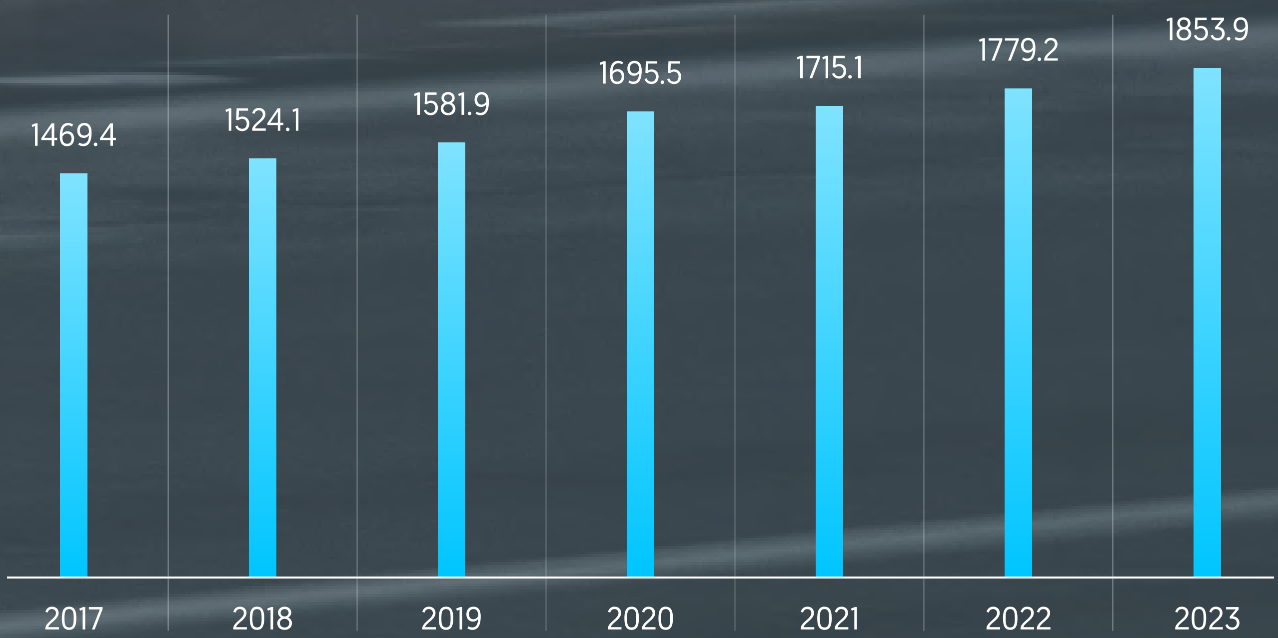
“In contrast to most categories, food and drink sales will slow sharply in 2021 as consumers return to restaurants, cafes and pubs, shifting consumption back outside the home.”

Year-on-year growth – 12 key markets (%)



Source: Euromonitor International

FMCG sales (US$ billion) – 12 key markets



Source: Euromonitor International

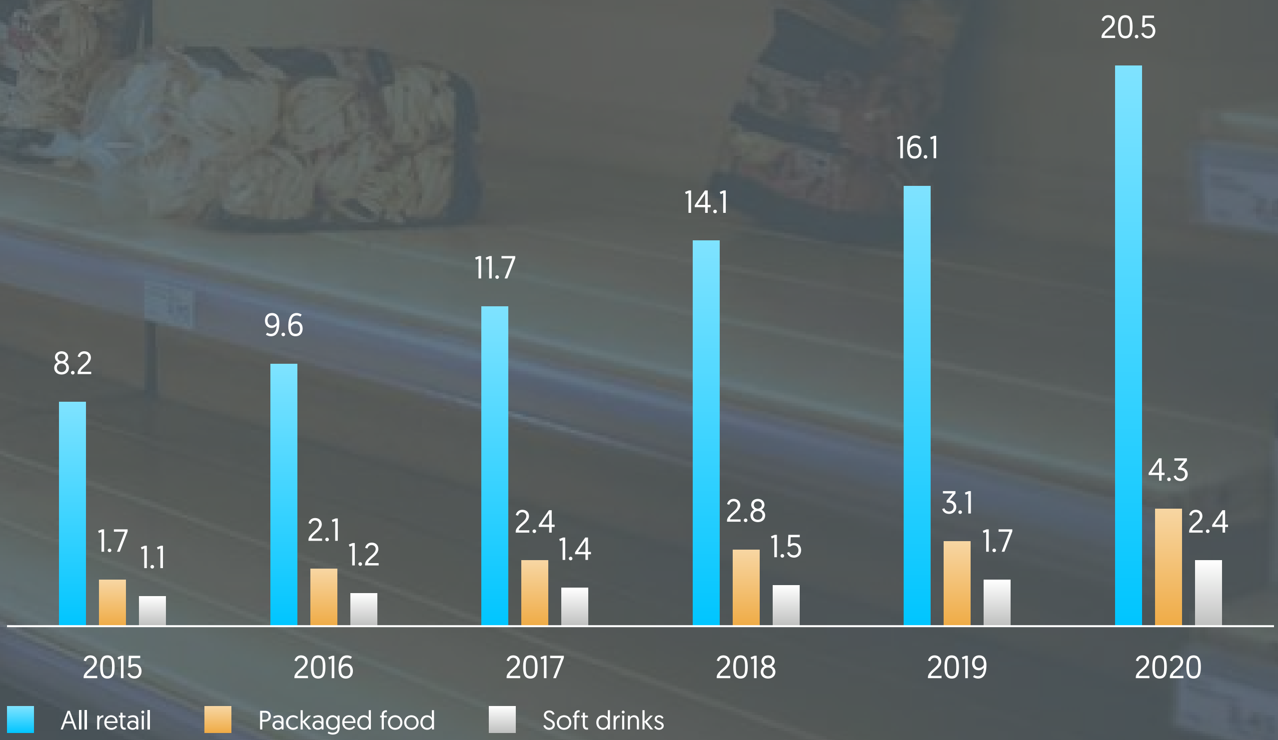
FMCG ECOMMERCE GREW NEARLY 50% IN 2020 DESPITE BOTTLENECKS

The pivot to ecommerce was extremely rapid in 2020. Packaged food ecommerce sales increased 49% year-on-year, up from 16% growth in 2019, while soft drinks sales increased 47%, up from 19% the previous year. However, both remained greatly behind the broad retail market as a share of total sales. FMCG brands have been far slower to embrace ecommerce than average, which generated 21% of its retail sales by ecommerce in 2020, five times more than the average packaged food company and nine times more than the average soft drink company.

The lack of ecommerce infrastructure became clear in the early weeks of lockdown when, even in an advanced ecommerce market like the UK, prioritised vulnerable people found it impossible to book delivery slots for their everyday grocery needs. Despite these early setbacks, the rapid rise in sales in the most difficult of circumstances proved the value of ecommerce to FMCG food and drink companies. We expect ecommerce to become the key battleground in the competition between FMCG brands over the coming years, whether that means setting up online DTC platforms, partnering with online retailers, or cementing click-and-collect arrangements with bricks-and-mortar stores.

> *“We expect ecommerce to become the key battleground in the competition between FMCG brands over the coming years.”*

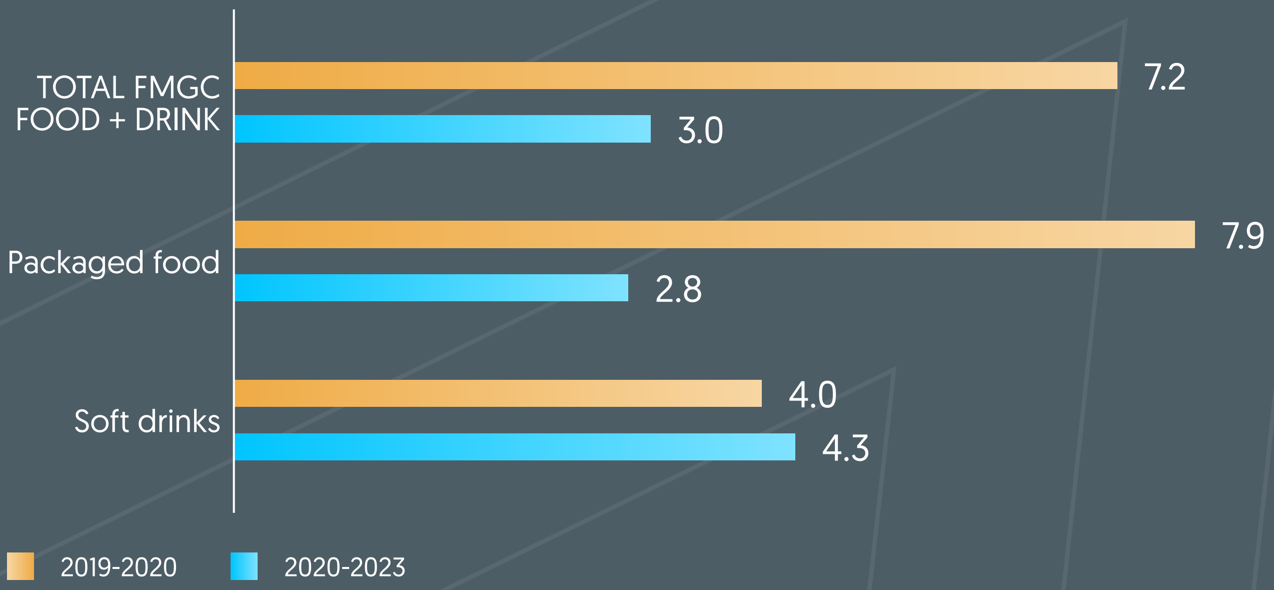
Ecommerce share of total retail sales (%)



Source: Euromonitor International

SOFT DRINKS TO LEAD GROWTH TO 2023 AFTER SURGE IN PACKAGED FOOD DEMAND IN 2020

Average year-on-year growth in FMCG sales (%) - 12 key markets



Source: Euromonitor International

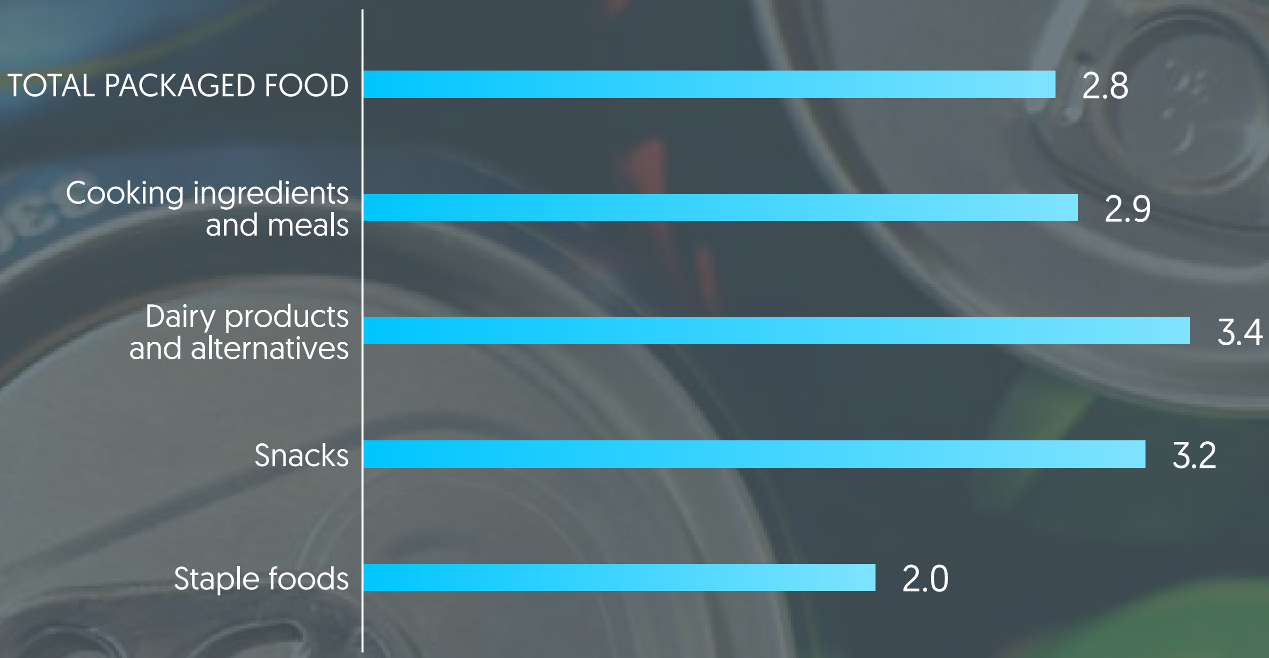
Packaged food led the growth of FMCG in 2020, with a 7.9% increase in sales, more than twice its 3.7% growth rate in 2019. Soft drinks sales grew by 4.0%, essentially the same as their 4.2% growth rate in 2019. Food consumption is of course essential, and meals forgone at hospitality venues had to be taken at home instead. Soft drinks consumption is more discretionary, but consumers still wanted to treat themselves to affordable pleasures and bought more soft drinks while their spending shrank overall.

After the spike in sales in 2020, growth in packaged food is forecast to be moderate, at 2.8% a year to 2023. With an easier comparison to 2020, soft drinks will grow more quickly at 4.3% a year.

Euromonitor expects the packaged food sub-categories to grow at similar rates, led by 3.4% annual growth from dairy products and alternatives. There is much more disparity between the soft drinks sub-categories, with ready-to-drink coffee, energy drinks and Asian speciality drinks growing by more than 7% a year, while concentrates shrink by 0.9%.

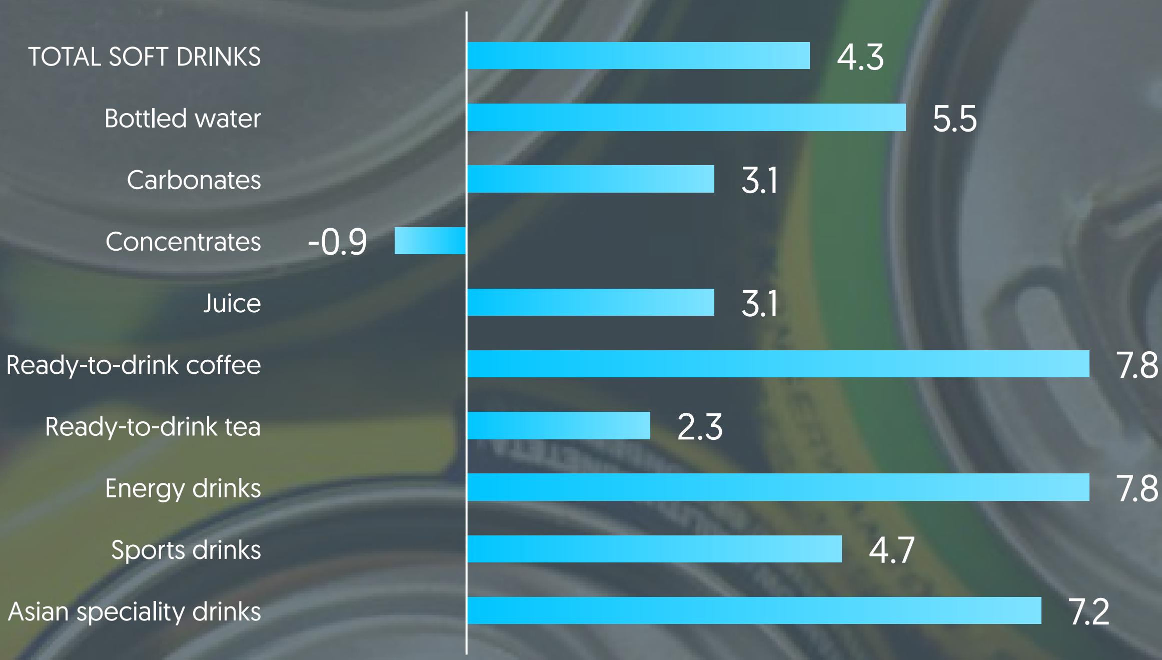
"After the spike in sales in 2020, growth in packaged food is forecast to be moderate."

Average year-on-year growth in packaged food sales 2020-2023 (%) - 12 key markets



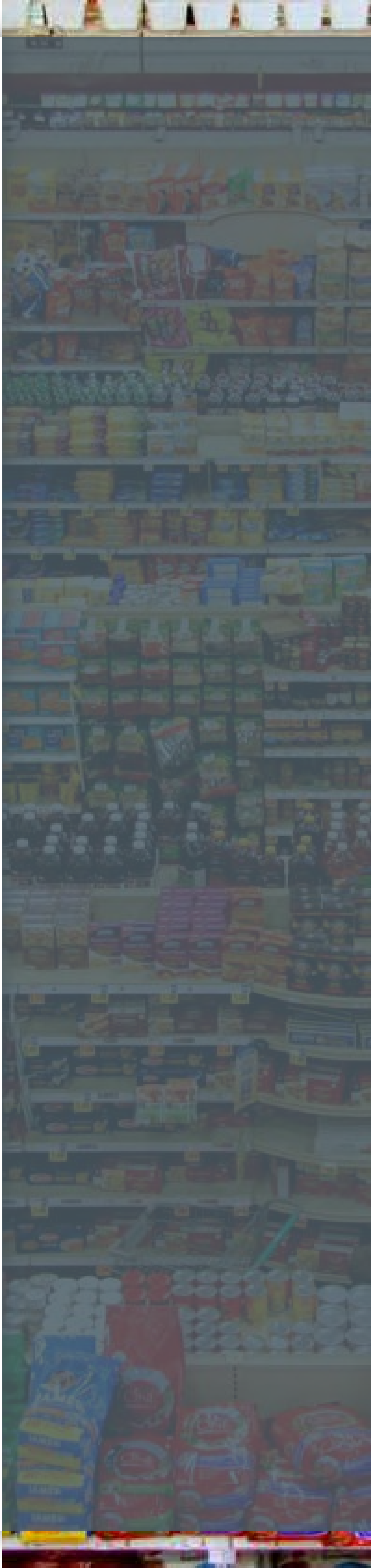
Source: Euromonitor International

Average year-on-year growth in soft drinks sales 2020-2023 (%) - 12 key markets

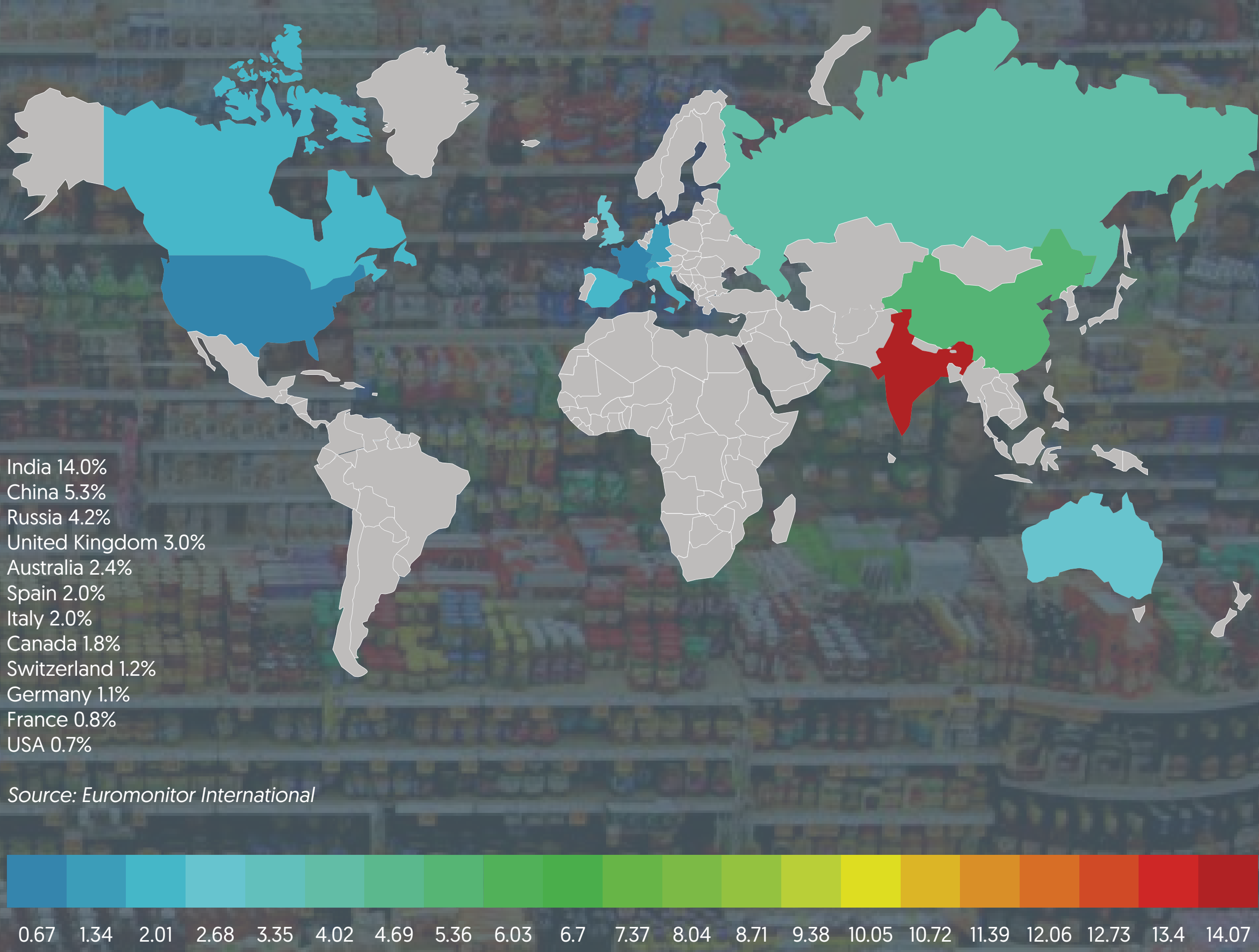


Source: Euromonitor International

FMCG SALES GROWTH TO TRACK DISPOSABLE INCOME GAINS



Average annual growth in FMCG sales 2020-2023 (%)



Source: Euromonitor International

The growth rate of FMCG sales by market is forecast to correlate roughly with growth in disposable income over the next few years. With rapid and broad-based economic growth, incomes in India are rising very quickly, and will fuel 14% annual growth in sales. Incomes are already high in China's top-tier cities, but lower-tier cities and rural areas are forecast to generate 5% annual growth in sales of food and drink. Russia will grow 4% a year on average, while Western markets will grow between 1% and 3% a year.

> *"With rapid and broad-based economic growth, incomes in India are rising very quickly, and will fuel 14% annual growth in sales"*

COCA-COLA AND PEPSICO EXTEND LEAD OVER RIVALS

The key operations for FMCG companies are production, distribution and retailing. Each is complicated, expensive and can involve negotiations with large numbers of third parties. They reward size, both through economies of scale and the benefits of negotiating power. The market is highly concentrated: the top eight companies accounted for 32% of retail sales in the sector in 2020.

The two biggest FMCG companies – Coca-Cola Co and PepsiCo – increased their retail sales the most between 2015 and 2020, by US$25bn and US$18bn respectively. Their combined share of retail sales increased from 14.6% in 2015 to 15.0% in 2020.

Unilever was the only top-eight company to lose retail sales between 2015 and 2020, after it spun off Upfield Holdings in 2018. Upfield Holdings' creation as a separate entity made it the company with eighth-highest growth during this time.

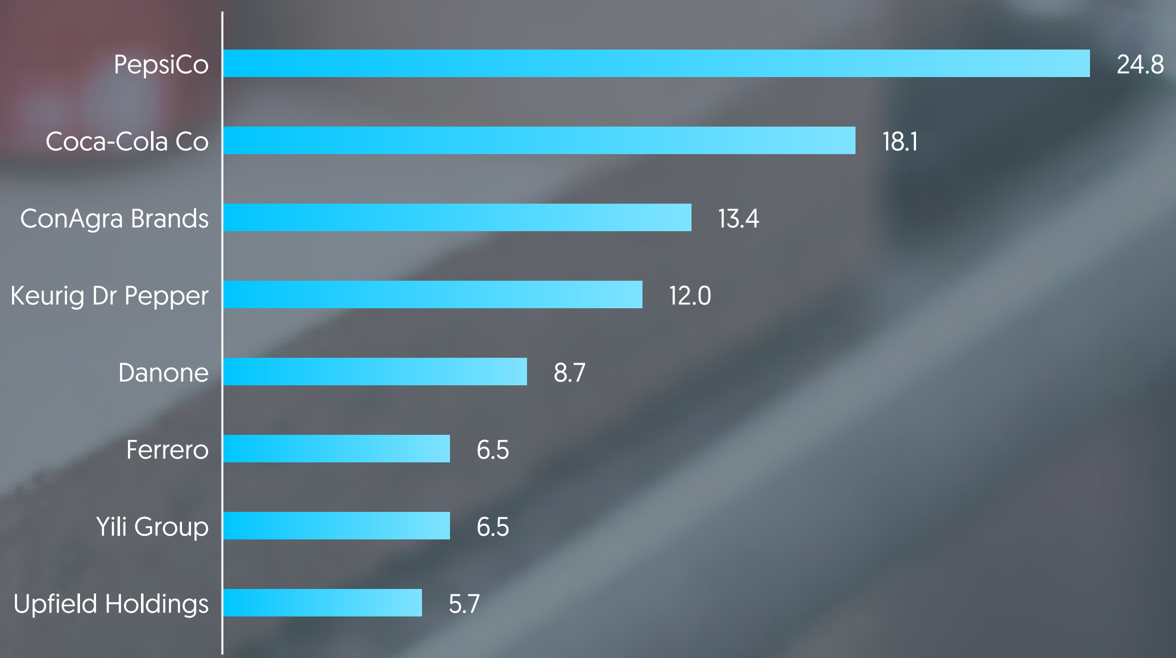
"The top eight companies accounted for 32% of retail sales in the sector in 2020."

The list of the largest food and drink companies is dominated by long-established Western brands and their corporate offshoots, but Yili Group, China's largest milk producer, recorded the seventh-highest growth between 2015-2020. We can expect to see more companies from outside Europe and North America enter these rankings as the balance of economic power shifts eastwards.

Retail value of FMCG sales by the top eight companies (US$ billion) – global revenues

Source: Euromonitor International

Growth in retail value FMCG sales 2015-2020 (US$ millions)



Source: Euromonitor International

FMCG FOOD + DRINK CONSUMER INSIGHTS

Lockdowns forced rapid shift to online purchasing

Consumers creating hospitality experiences at home

“Future food” and functional beverages help support healthier lifestyles

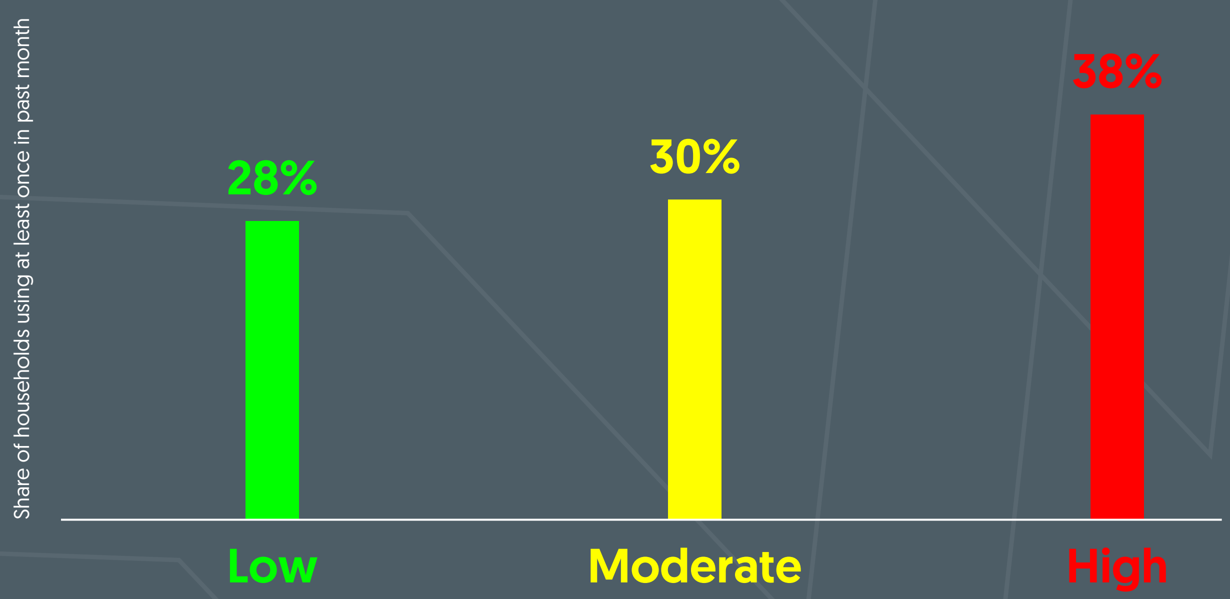
Traceability technology holds brands accountable and helps consumers make more sustainable choices

ECOMMERCE ADOPTION ACCELERATED

The events of 2020 and the COVID-19 pandemic forced significant and rapid changes to the FMCG food and soft drinks category. Most notably, as governments imposed lockdowns and social distancing measures were enforced, the ways in which consumers chose to shop changed significantly. According to McKinsey & Company's COVID-19 Consumer Pulse Surveys, many customers tried new shopping behaviours as a result of the pandemic. This was particularly high in India (96%) and China (86%) but still more than 70% in the US, and more than half in many European markets.

One of those new behaviours was the adoption of online grocery shopping. In recent years, the percentage of total sales from ecommerce within the category has been fairly low. However, as consumers sought to socially distance and avoid queues for in-store visits, demand for online food orders and deliveries grew. According to the Waitrose Food & Drink Report 2021, a quarter of people in the UK bought groceries online for the first time in 2020. A similar percentage of households in the US had purchased online in the past month according to Brick Meets Click in May 2020, and this percentage was even greater among those with a higher level of concern regarding coronavirus.

Online grocery usage in the United States in 2020, by level of coronavirus concern

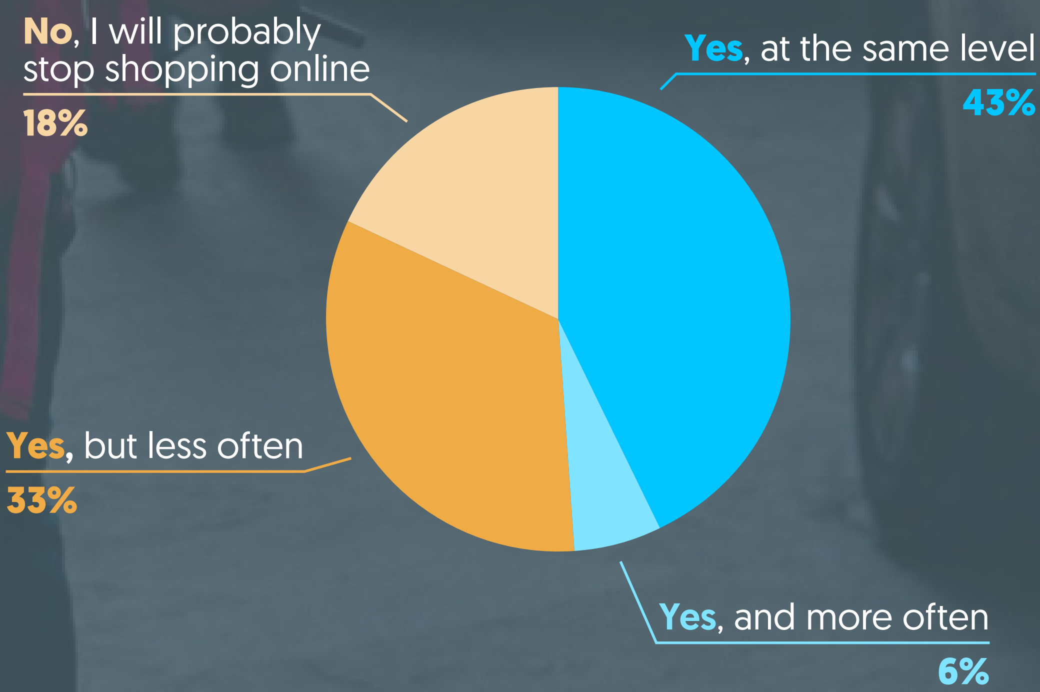


Source: Brick Meets Click; Symphony RetailAI, May 2020

Whilst a necessity during the pandemic, there are indications that ecommerce adoption has vastly accelerated in the past year. City Food Lecture data for the UK suggests that 49% of consumers wish to continue shopping online for food at the same or an increased level post-pandemic, and researchers at Bain estimate that between 35-45% of the recent increase in online sales will become permanent.

Those retailers who invested in their online food operations in 2020 will be keen to capitalise on it further now that its value is better known, however they may need to invest more. The lack of ecommerce infrastructure at the start of the pandemic provided opportunities to more technology-minded start-ups and scale-ups, and opportunities for those with more agile existing operations to expand. For example, Deliveroo, an online food delivery company, partnered with supermarkets like Waitrose, Co-op, Aldi, Carrefour and Casino in Europe to deliver their groceries. Similarly, quick commerce services that purchase, pick-up, and deliver products ordered through a mobile app have expanded. For example, Delivery Hero orders reached 423 million in Q4 2020, almost double the orders of Q4 2019. Spains Glovo received $528 million in Series F funding, and in the US, Instacart was valued at $39 billion – the second time its valuation has doubled since the start of the pandemic.

Do you think that post-pandemic, you will continue shopping for food online?



Source: City Food Lecture, 2021, UK

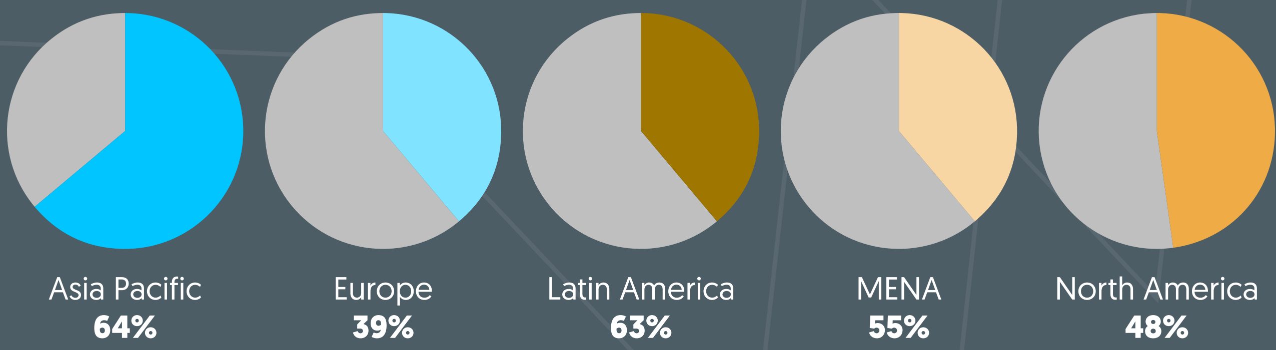
HOSPITALITY MOVES IN-HOME

For consumers, the options of not just how to buy but what to buy are expanding too. With the hospitality sector closed or operating at a reduced capacity throughout large parts of 2020, adoption of online food delivery apps increased. More than half (58%) of global internet users age 16-64 had used an app or website to order hot/takeaway food for delivery in the last month, according to Global Web Index Q4 2020 data.

There has also been a blurring of lines between takeaways and food retail, with the popularity of weekly meal packages, restaurant meal kits and delivery-only restaurants growing. Consumers had the opportunity in lockdown to try new brands and companies, and replicate the eating-out experience in their own homes. This will likely continue to some degree in the immediate future too, with lingering concern about rushing back to restaurants and venues.

Similarly, for those consumers who regularly visited coffee shops and cafes prior to the pandemic, there has been a desire to recreate the quality coffee experience in home. A report in May 2020 by Square and the Specialty Coffee Association in the US stated that retail sales of coffee equipment increased by 11% and subscriptions increased by 109%. Consumers who invested in better equipment and in learning more about types of beans and brewing processes, or who signed up for coffee beans subscriptions will likely continue making their coffee at home to a greater degree than before – particularly as many will not be returning to an office full time.

Online Activities in Last Month



Used an app/website to order hot/take-away food for delivery

Source: Global Web Index, Q4 2020

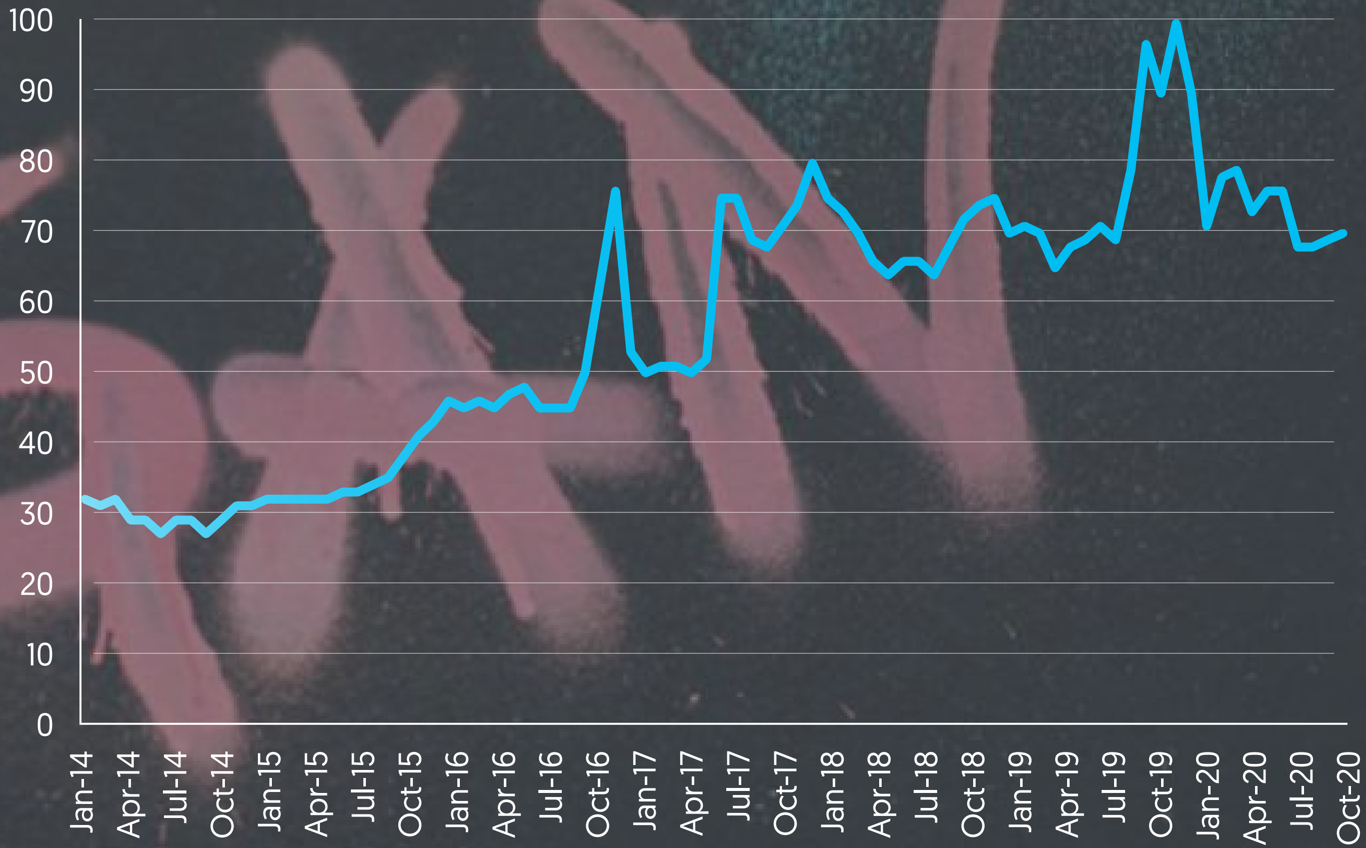
DIETARY CHANGES HELP SUPPORT BOTH PHYSICAL AND MENTAL HEALTH

Before the COVID-19 pandemic, and a result of greater knowledge about the impact and effect of certain ingredients and diets, consumers paid more attention to what they ate. Particularly in the US and UK, government guidelines promoted more varied diets lower in fat, salt and sugars and eating less red and processed meat. Google search trend data shows a steady pattern of consumers searching for “vegan” cooking and recipes from 2014 to 2020.

The outbreak of COVID-19, a global health emergency, and the anxiety and fear surrounding it, only compounded and accelerated this interest; Veganuary – a challenge founded in the UK to go vegan in January – reached 582,538 sign-ups in 2021 (vs. 50,000 in 2017).

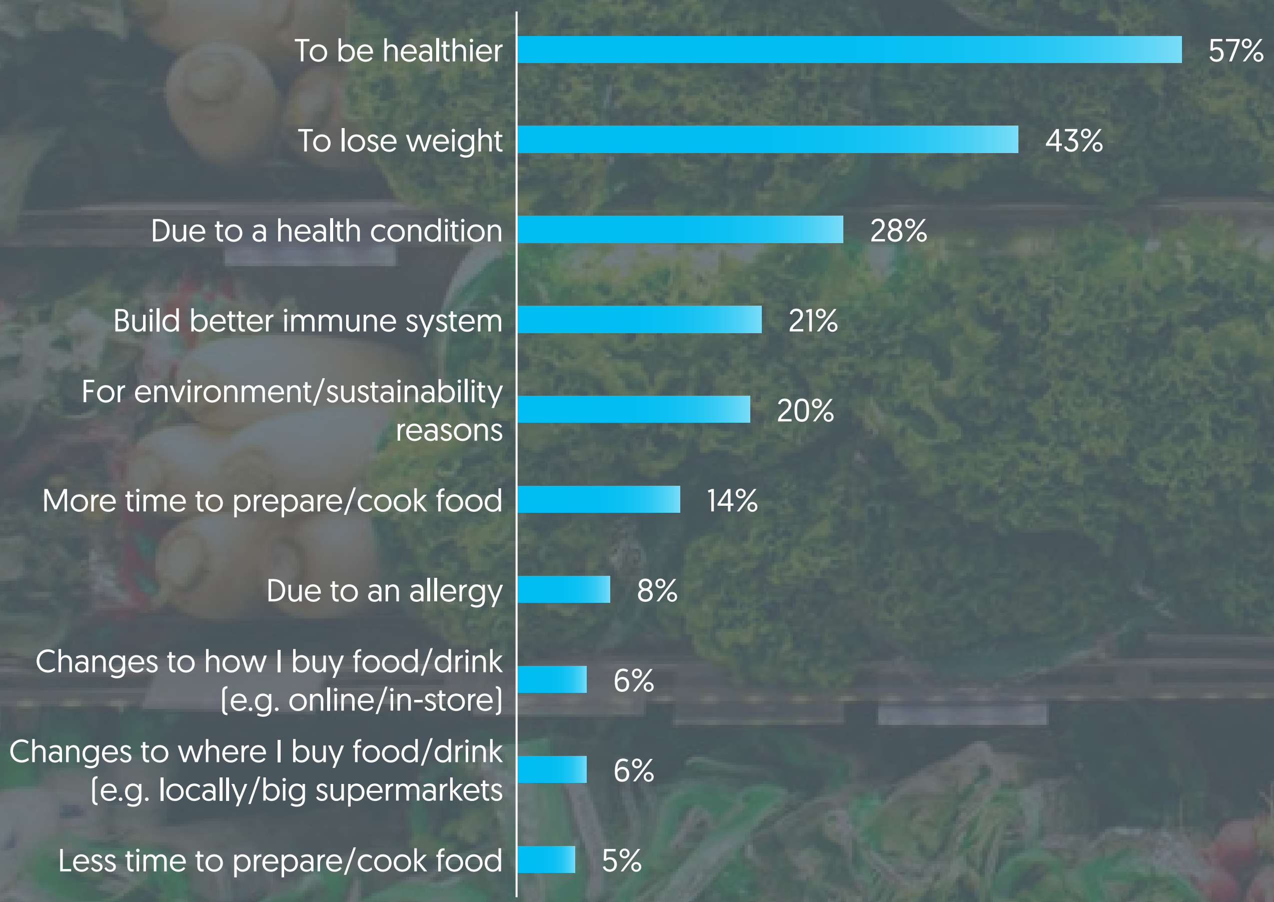
Participation has started to spread in the US, Mexico, Argentina, Germany and Sweden. As the pandemic unfolded, and clarity increased around the different individual factors that could determine risk or response to the virus, health and diet became even more important for consumers with underlying health conditions including obesity. Zenith Media’s survey of shoppers in the UK, France, Germany and Italy in November 2020 showed that 31% of consumers made changes to their diet in the past 12 months; 57% of whom did so to be healthier, and a fifth in order to build a better immune system. Similarly, Global Web Index data shows that a third of US consumers are dieting or controlling their food intake to feel healthier.

Google Trends - Index of search volume “Vegan” 2014-2020



Source: Google Trends, Worldwide, Cooking & recipes

Why have you made these changes?



Source: Zenith Media Main Shopper Study, November 2020 (UK, France, Germany, Italy)

Products that experienced steady interest, building from a base of vegans and vegetarians, are now more relevant to a wider consumer base. Euromonitor's Health and Nutrition Survey estimates that only 4% of global consumers are vegan and 6% are vegetarian, but that 42% would consider themselves flexitarians – i.e. they are mainly vegetarian but still eat some meat and fish. Similarly, Zenith's study shows that less than half now consider themselves strict meat-eaters, those with no plans to change or reduce their consumption. Cutting out animal products was made easier by the innovation of new brands in the category, particularly the continually improving taste of the products, and more affordable pricing. Innovation from brands in this sector will continue, using technology to enhance products in terms of taste and health benefits.

Soft drinks that help to support a healthy lifestyle have grown in popularity too. Functional beverages, previously popular with more active consumers and those taking part in sport activities, now also have potential to appeal to a wider base. Rather than solely focussing on sports, performance and energy, there is new emphasis on the opposite – drinks that can help alleviate stress and anxiety. For example, PepsiCo launched Driftwell, a beverage designed to help consumers de-stress and relax before bed. Such functional beverages are already popular in Japan, and sales in Europe and the US are likely to grow as awareness and conversation around mental health grows too.

MOVING BEYOND ENVIRONMENTAL CONCERN TO ACCOUNTABILITY AND TRACEABILITY

Consumer concern for the environment has grown rapidly over recent years, with increased interest among consumers in behaving more sustainably. A global IPSOS survey for the World Economic Forum found that two out of three adults have modified their behaviour out of concern about climate change. The pandemic has reinforced and accelerated this conscious consumerism too. A global survey by Accenture in 2020 reported that consumers have been making more environmentally friendly, sustainable or ethical purchases since the start of the pandemic, and the majority are likely to continue doing so in the future.

According to Our World in Data, food is responsible for approximately 26% of global greenhouse gas emissions, and brands in this category are under increased scrutiny regarding the environmental and social impact of their production and practices, more so than in other categories. They have, therefore, been taking action and making longer term commitments to environmental goals. For example, between 2020 and 2021, eight out of the top 10 global packaged food companies had emissions targets approved by the Science Based Targets Initiative, according to Euromonitor. These measures are prudent given that, according to Global Web Index data over the last nine years, consumer willingness to pay more for sustainable or eco-friendly products has increased by 10%.

I would pay more for sustainable/eco-friendly products – any agree

48	58
Q1 2011	Q1 2020

Source: Global Web Index

For consumers, the origin of products is increasingly important too. Zenith's study in November 2020 revealed that 66% of consumers pay attention to the origin of the products they buy. However, the global supply chains for food and beverage products are often long and convoluted, and not easily traceable. Disruptive technologies, such as blockchain, can help provide brands with honest tracking information. This technology brings together all parties in the supply chain to create a permanent, unalterable, and digitised chain of transactions.

This technology can help not only brands, but consumers too. Apps like "Thank My Farmer," released in 2020, allow consumers to see a product's journey from the farmers to the wholesalers and retailers. By informing consumers on the impact of what they buy, brands can help them make more sustainable choices in the future and feel more connected to their products.

WHAT DOES THIS MEAN?

The abrupt move to online shopping in light of social distancing means brands need to embrace a more omni-channel customer journey in order to continue to reach them at the point of sale. More consumers are trying new brands and new ways of shopping causing an unprecedented disruption to customer loyalty. Increased competition in terms of ordering, delivering and types of products, means that traditional FMCG brands will need to adapt quickly – whether by partnering with new companies or by quickly changing their own operations.

Sustainability and health will remain important areas of concern for consumers as they increasingly look for ways to better understand the products they buy. Food labels will remain a key touchpoint, not only for consumers to learn the nutritional value of products, but also to better understand the origin and journey of the product, and to empower them to make more sustainable choices.

Newer players in the category have the advantage of placing sustainability and innovation at the core of their business. This affords them the opportunity to be agile, more provocative in their marketing, and gives them the authority to talk to consumers authentically about the environment. In marketing animal-free alternatives, traditional FMCG brands will need to consider how they generate demand for their products without seeming disingenuous.