

Thoughts

Reflexion and Analysis for the Indian

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Consumer products industry in Europe – outlook 2018



Foreword

The ability of companies in the consumer products (CP) industry to quickly adapt, innovate, and differentiate themselves in the marketplace is often essential to success and driving brand growth.

While many CP companies continue to pull traditional levers that enable differentiation such as global expansion, innovation, mergers and acquisitions (M&A), and increased digitization, they're developing newer and bolder strategies to execute these levers against a backdrop of a more stable Indian and worldwide economy. Among the latest trends are:

Globalization - Companies in the consumer products industry will strive to strategically capitalize on growth in other emerging markets, and seek opportunities to acquire or partner with companies to enable access to consumers, leverage market solutions, and in some cases, access sources of raw material.

Innovation - Companies in the consumer products industry have traditionally looked to innovate as a source of growth and will try newer and bolder strategies in 2018. Expect many to take an agile approach to developing, testing, and iterating innovative ideas compared to traditional, highly structured, more time-consuming testing methods.

M&A activity - Companies in the consumer products industry are often increasingly looking to expand across geographies and reach out to markets that can drive both sales and profitability.

Digitization - Companies in the consumer products industry are aligning technology in creative and efficient ways to optimize customer engagement and influence the consumers' path to purchase.

Achieving globalization to drive differentiation and growth

Expanding into global markets is one avenue European-based CP companies can pursue to drive growth and brand differentiation. CP companies could benefit from considering ways in which they can strategically capitalize on the growth in other emerging markets and identify opportunities to partner or acquire successful businesses in these markets, thereby having access to their consumers.

Facing similar issues of weak demand and increased competition in Europe across CP categories, many European companies anticipate growth opportunities from outside



the European market. Global retail sales of packaged foods is expected to rise to over \$3 trillion by 2020 with emerging markets being the primary driver.

CP majors Nestlé and Unilever continue to invest in emerging markets: Nestlé, the world's largest food company, notes that approximately 40 percent of their sales come from emerging markets. By 2020, Nestlé hopes to achieve 45 percent of sales from these regions. Similarly, Unilever has its sights set on making emerging markets 75 percent of its revenue stream by 2020.

Demographic trends in emerging markets suggest there is vast potential in many different product categories, rendering these markets very attractive to many global CP companies. While the global population is estimated to expand to 9 to 9.7 billion people by 2050, most of this growth is likely to come from emerging markets.

Significant global trends that may specifically affect emerging markets include:

- The rise of the middle class,
- The expanding influence of women shoppers,
- The continuously growing influence of younger shoppers.

One approach to achieving globalization is through partnerships between European companies and local brands. Such partnerships potentially help European-based companies adapt their products to the needs of a specific market.

Another approach CP companies can pursue to help gain a foothold in the marketplace is to develop deep insights about consumers in the emerging markets they wish to enter.

A real focus on Innovation

While many CP companies have always looked to innovation as a source of growth, what's changing is how companies are pursuing innovation. In addition to following traditional new product development cycles, many CP companies are experimenting with new approaches such as developing their own venture capital-styled incubators, crowdsourcing, innovation through renovation, and continuing to focus on health and wellness/good-for-you products.

M&A has an organic path for innovation

When it comes to mega-mergers, motivations are multifaceted.



Sometimes they're driven by the potential for expanding market access or the prospect of creating brand value through cost savings, while other times it's a combination of the two. Regardless of motivation, M&A activity enables CP companies to expand into global markets as well as pursue newer paths to innovation.

Looking ahead, the uptick in CP M&A activity is likely to continue in 2018.

Activity will likely be driven by one of the two viewpoints: 1) acquisitions for growth and differentiation, and 2) divestitures to become leaner organizations focused on core brands and profitability. F&B will likely continue to constitute the major portion of this activity. M&A drivers in this space could include: innovative solutions to sustainable foods growth; consolidation of mature brands; continual changes in the retail; opportunities in emerging markets by virtue of their demography; and the digital way forward.

Digitization continues to drive differentiation

Digital technologies and applications have a wide influence on many CP companies, from interacting with consumers to operations and procurement. In some organizations, the company's digital strategy is increasingly becoming part of its overall business strategy. There's a sense in which all companies now need to consider themselves in the technology business. Thus, CP companies could benefit from continually investing in digital technologies to deepen customer engagement and enhance the consumers' path to purchase.

Investing in digital technologies could also benefit CP companies by driving efficiency in supply chain.

Conclusion

Expect 2018 to be a year of newer approaches and bolder moves by many CP companies as they look to build differentiation and growth. Against the backdrop of a more stable European and global economy that sets the stage for achieving globalization, innovation, M&A activity, and increased digitalization, CP companies will likely continue to reinterpret traditional levers to stimulate growth in a competitive business environment.

Ahead are also uncertainties related to the current policymaking environment and the potential changing regulations in Europe. At present, it's challenging to predict how these will likely impact CP companies, but we'll continue to address these topics in



forthcoming discussions, identifying potential scenarios and implications for CP companies.

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