A digitally connected food world

June 6th, 2017

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Find new pockets of growth in a stationary market

Volume growth of packaged food **in developed countries** is **expected to remain static** over the next 5 years, this is **prompting companies to** go beyond traditional market strategies to stay relevant and **find new pockets of growth through value creation**

2016 Global Packaged Food Retail Value:

EUR 1.851 billion

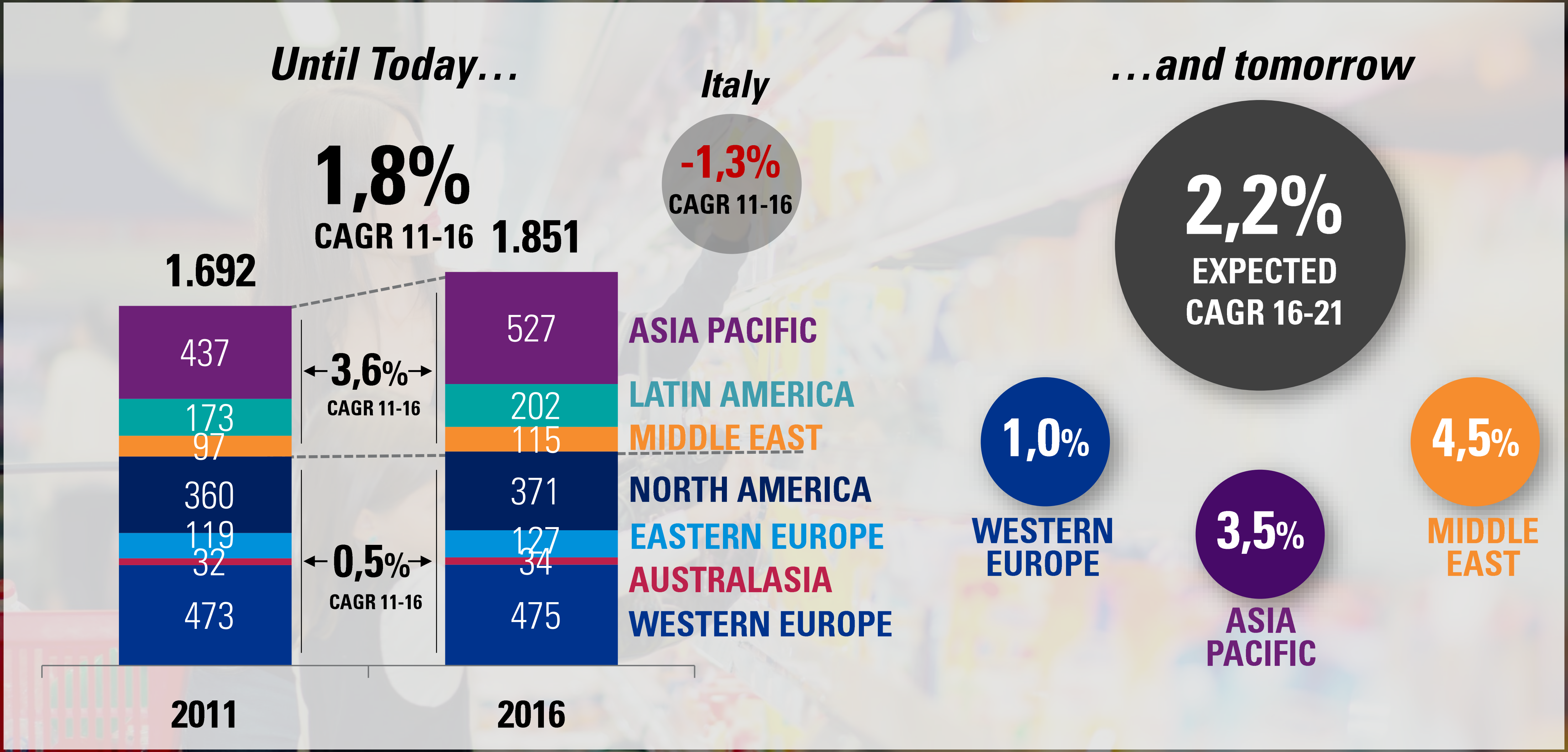
2021 Global Packaged Food Retail Value:

EUR 2.062 billion

KPMG

Sources: EuroMonitor; KPMG Analysis

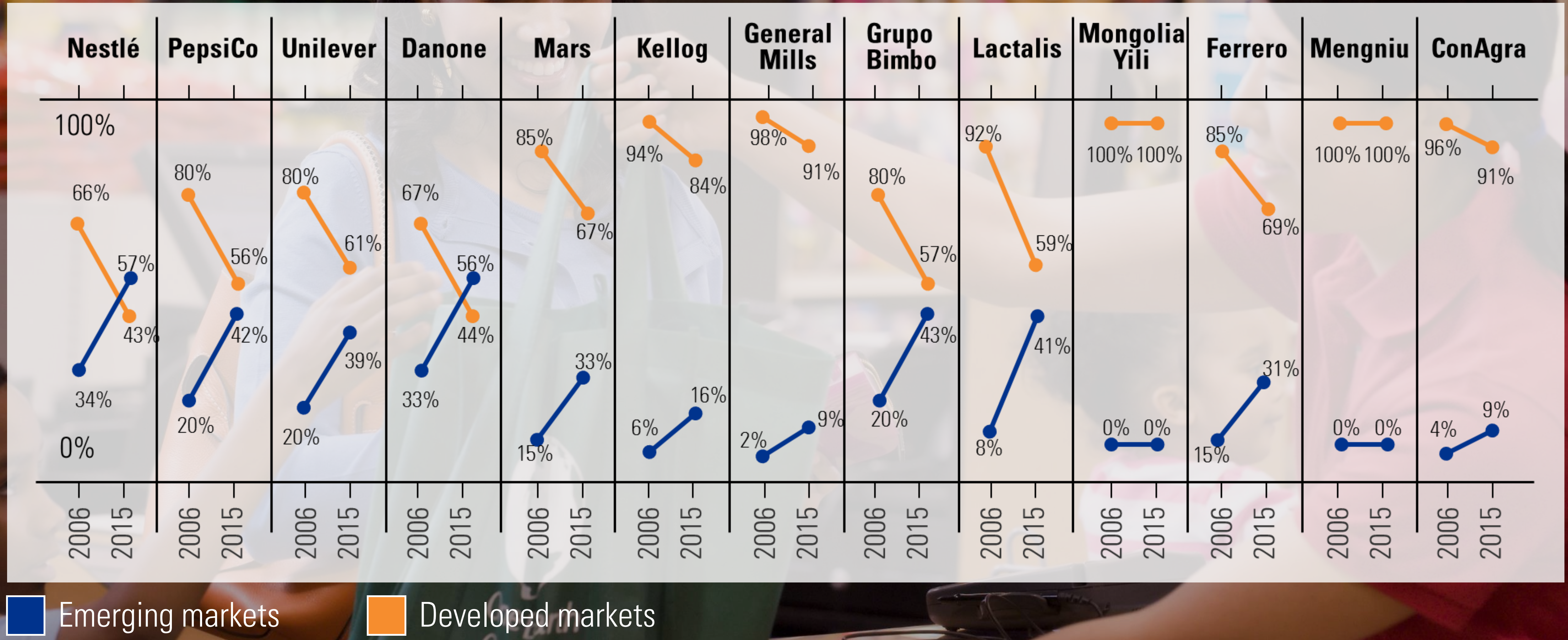
Sales growth in developed markets will be static…



Sources: EuroMonitor; KPMG Analysis

… and emerging markets become more attractive.

Share of Emerging Markets vs Developed Markets in Total Company Sales 2006-2015



Sources: EuroMonitor, KPMG Analysis

Consumer base is changing…

DIGITALISATION

3,1 billion
Internet users in 2016

Smart devices penetration in developed counties
70%

2,1 billion
Social Media Users in 2016

CUSTOMERS EVOLUTION

47%
Gross Income controlled by **Millennials & Generation Z** by 2025 (30% today)

GOING SOLO
Increasing single-persons households

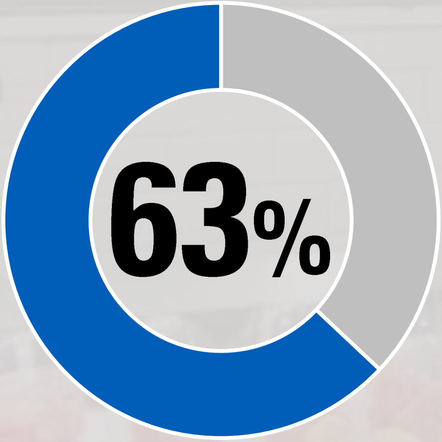
SEEKING EXPERIENCE
Consumers don't consume food but experience it

NEW CUSTOMER JOURNEY

Sources: EuroMonitor; KPMG Analysis

...retailing is now omnichannel...

Improving ways to engage customers through an **omnichannel approach** (traditional stores, e-commerce, social media, etc.) is becoming a **top priority for all companies**



Of retailers said that **improving in-store and online customer service** would have the greatest impact on their organizations **profitability**

	TOP RETAILERS PRIORITIES
1	Having a real time view and control over inventory
2	**Engage consumers in the various ways in which they want to shop**
3	Ensuring a fast check-out experience
4	**Investing in a digital and mobile strategy to improve customer experience**
5	Improve data capture capabilities

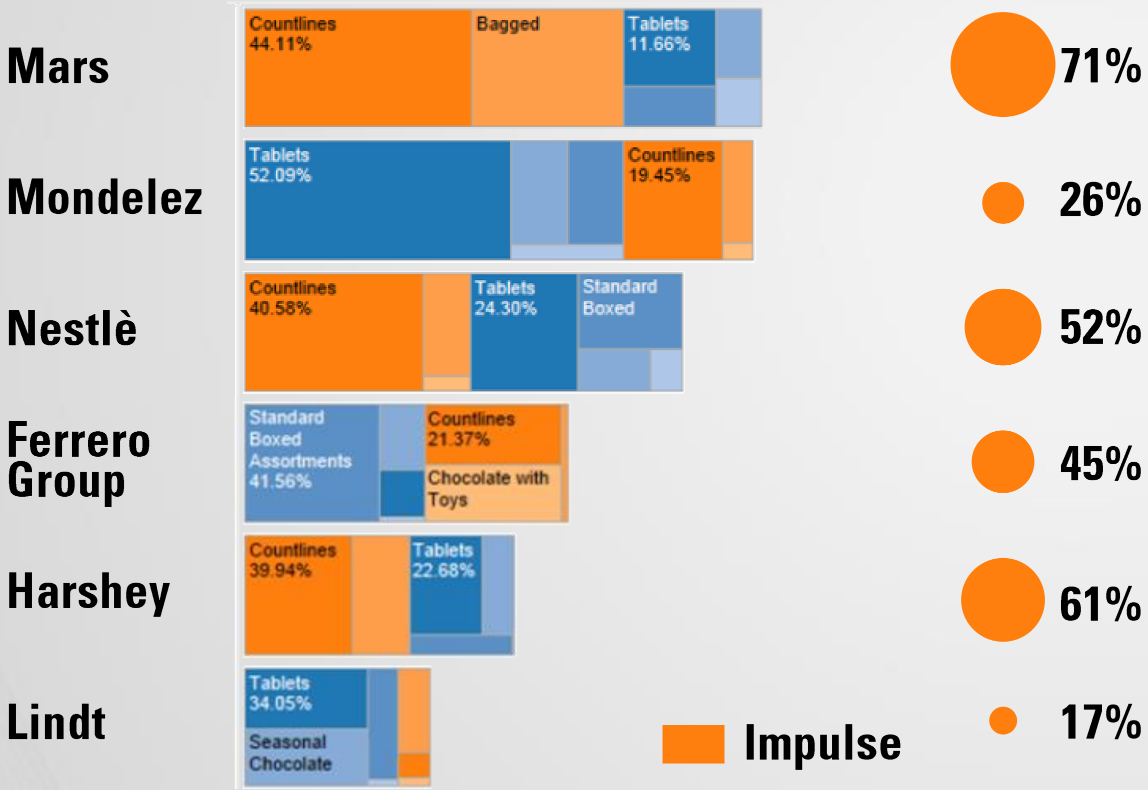
KPMG

Sources: EuroMonitor; KPMG Analysis

…and buying processes and induction are changing

From impulse in purchasing process… *…to impulsive instant purchasing*

% Sales of Chocolate by Product Type **% Sales via impulse**



KPMG

Sources: EuroMonitor; KPMG Analysis

WHAT POTENTIAL DOES ONLINE HAVE IN THIS CONTEXT?

However Italian cuisine is still the most appreciated world wide

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However Italian cuisine is still the most appreciated world wide

Is current online penetration a weakness or an opportunity?

Online retailing has turned into a **digital reality** for many products in many Countries,
however,
Packaged Goods sold **via internet** in 2016 makes **less than 2%** of **global food sales**

Global Packaged Food
EUR 1.851 billion

Modern grocery retailers
64%
EUR 1.185 billion

Traditional retailers
27%
EUR 502 billion

Internet retailing
2%
EUR 39 billion

ITALY
0,35%

Other channels
7%
EUR 125 billion

KPMG

Sources: EuroMonitor; KPMG Analysis

What potential digital channel has for Italian food?

INTERNAL MARKET + EXPORT = OPPORTUNITY

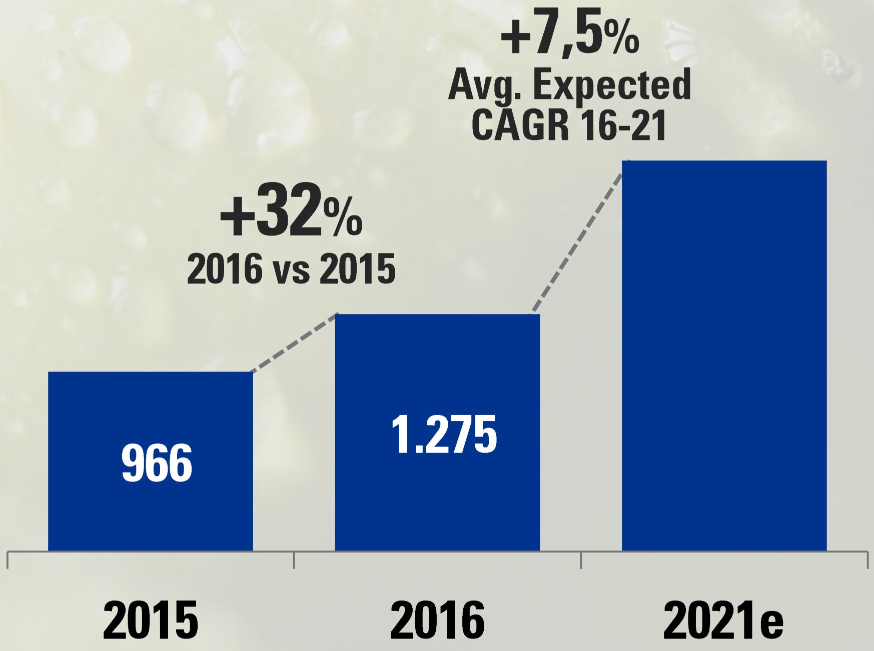
INTERNAL MARKET

% of total food&beverage sales on online channel

0,35% ITALY vs **2,0%** WORLD

EXPORT

Italian food&beverage export through online channel 2015-2016-2020e (€/bn)



OPPORTUNITY

~3,5

EUR billion

Potential online market for Italian Food by 2021

Sources: EuroMonitor, KPMG Analysis

WHAT DOES IT MEAN FOR FOOD MANUFACTURERS?

The 3 pillars for a successful omnichannel strategy

OMNICHANNEL STRATEGY

IDENTIFY HIGH POTENTIAL MARKETS

SELECT THE RIGHT PRODUCT MIX

INTERACT WITH NEW PLAYERS & PARTNERS

Identify high potential markets

Beyond China and **India**, **unmet food potential** relatively **restricted**, **especially in Western Europe**, where Countries are expected to face low GDP growth and possess stable populations.

Identify high potential online markets

Potential of online channel is conceptualized taking into account three categories of measurable factors:

DEMOGRAPHIC FACTORS

- Household by Type (e.g. Single Person, Couple with Children)
- % population
- Population by Age Segmentation (e.g. Age 20-39, 40-59)

BUSINESS ENVIRONMENT

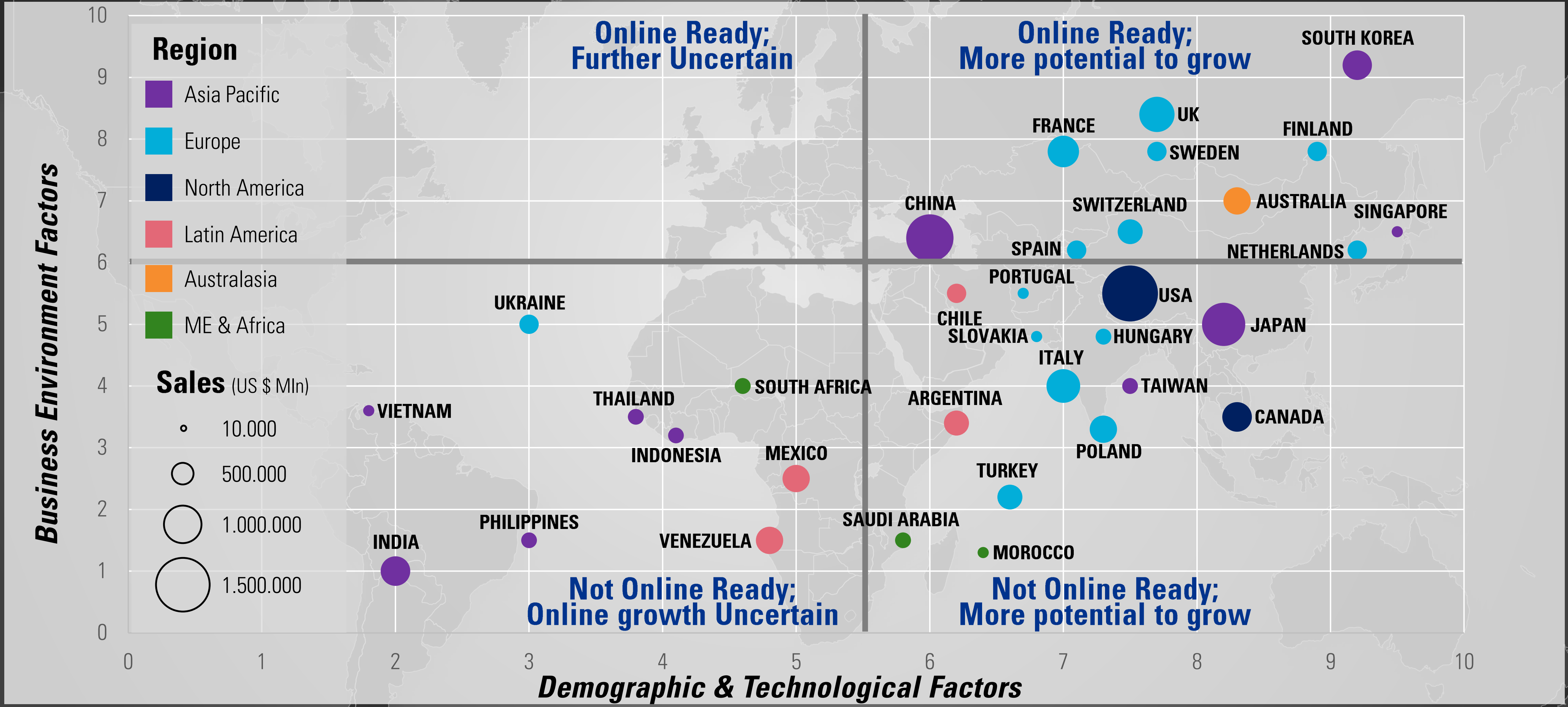
- % Market share of top 5 Modern retailers
- Number of top 5 modern Grocery retailers with Pre-Existing online ventures
- % of total Grocery Sold via Online Shopping

TECHNOLOGICAL FACTORS

- % of total population with internet Access
- % of total population with Broadband Access

Identify high potential online markets

Online Grocery Shopping Market Potential and online Market Sales (US$ Mln) - 2015

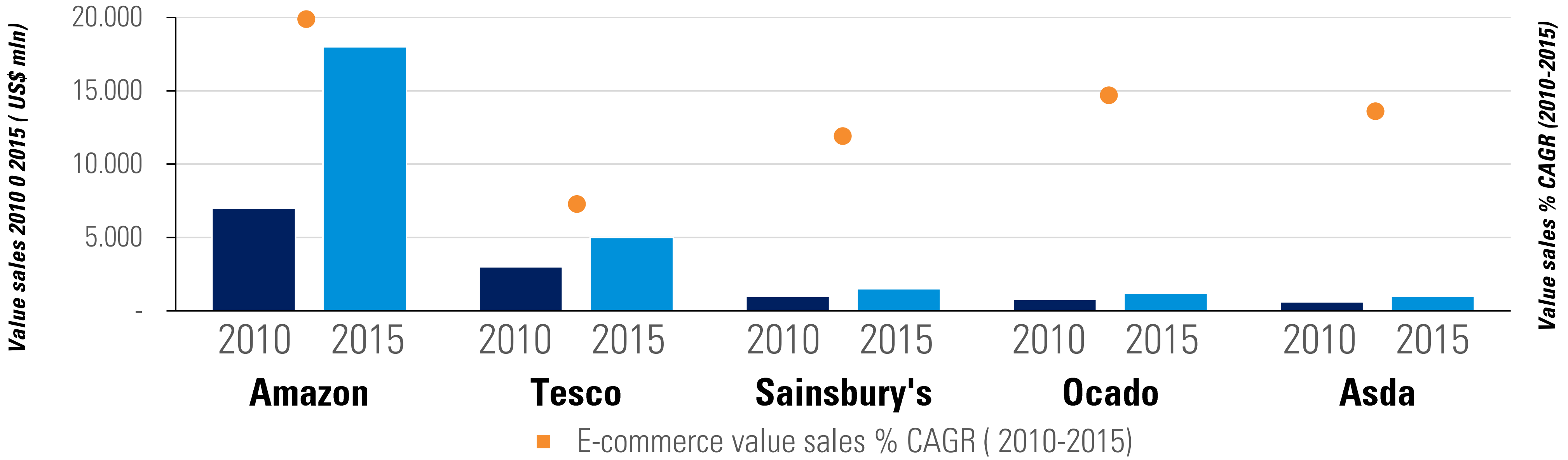


Identify high potential online markets - UK

The **UK market** represent a successful example of the huge potential brought by **digital,** where grocery retailers invested in digital as a channel driving its expansion.

Amazon digital retail market share is today **25%**, and **food manufactures** will have to **transfer** some **focus on online to succeed**

Online Sales of Amazon UK vs UK grocery retailers 2010-2015



Sources: EuroMonitor; KPMG Analysis

Identify high potential online markets - India

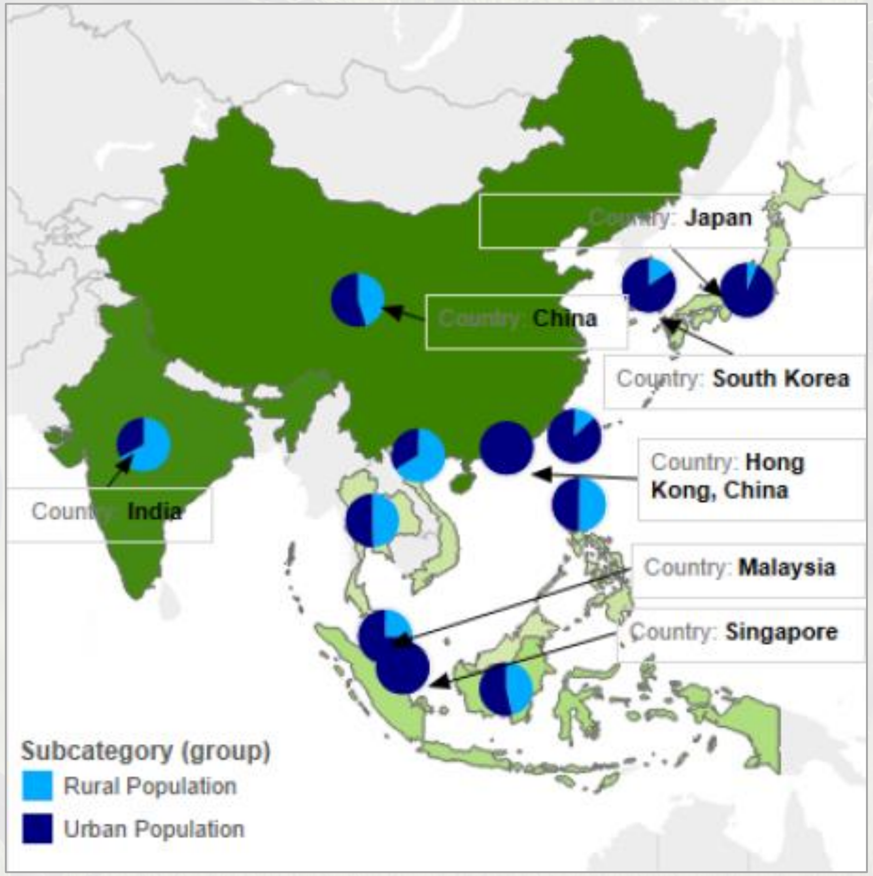
India's chances of online success a distant prospect

India is still **mainly rural** with **poorly developed distribution** and **logistic infrastructures**

Only **24%** of Indian population will have **broadband by 2020**

Modern grocery retailers account for just **1%** of total market, and food companies must use **social media** for reaching target consumers.

Breakdown of population in the APAC region, by social class



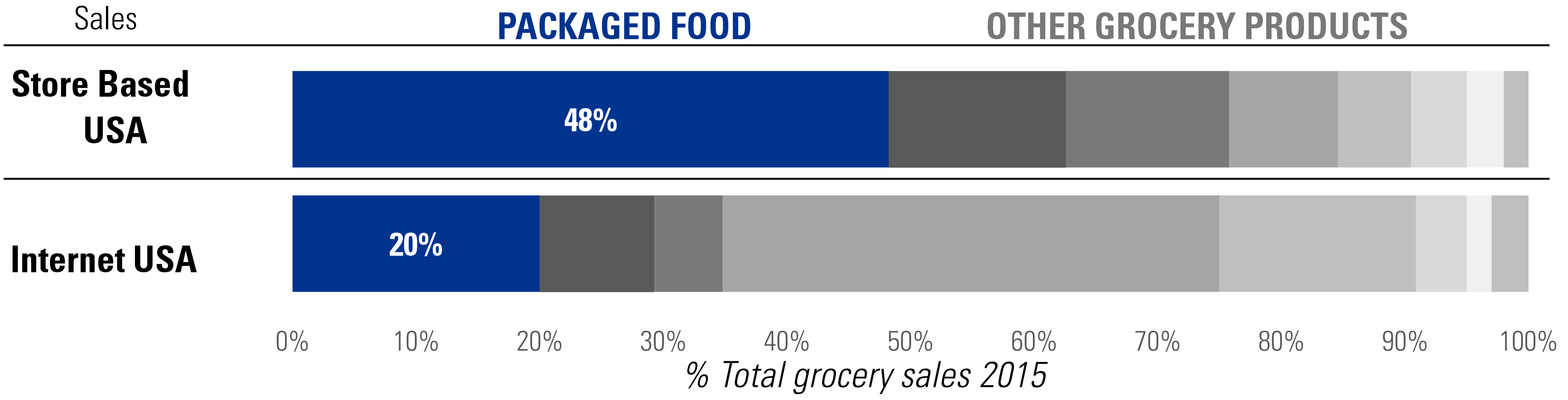
Identify high potential online markets - USA

Online food spending in **US is weak** due to **inexpensive petrol** and widespread **car ownership** (89%) and **high delivery fees** that favor **physical shopping**.

In addition, consumer are **more skeptical** and worried about **food quality**.

Overcoming this perception is the **biggest challenge on US market**

% Breakdown of total Sales by Channel in USA, 2015



Sources: EuroMonitor, KPMG Analysis

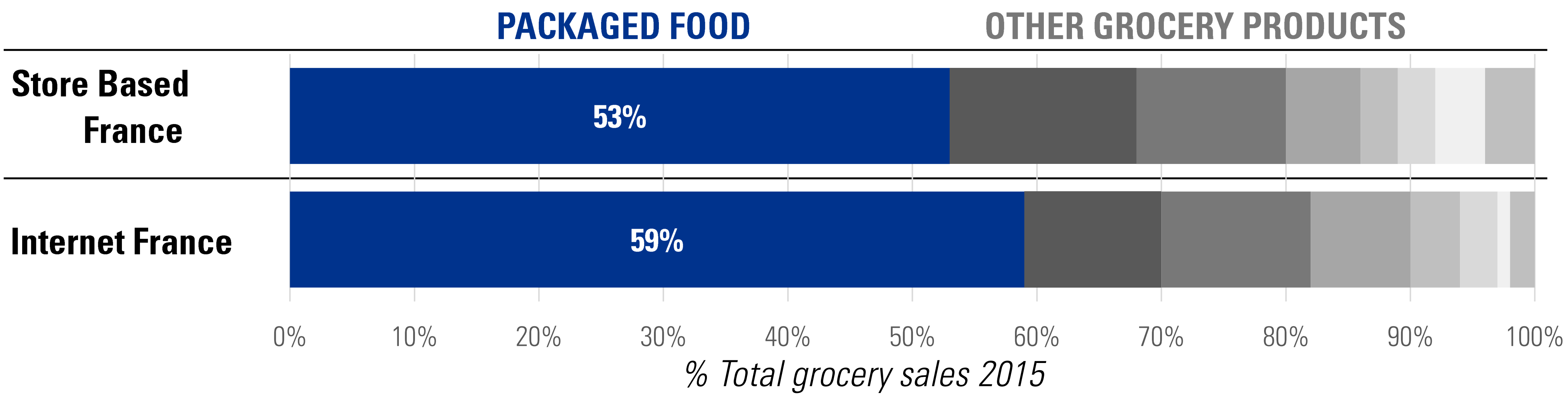
Identify high potential online markets - France

France benefits from heavy "drive-thru" promotion

In **France**, food sales **online are larger than offline**, with French retailers committed in promoting **"drive-thru"** experiences

This is a **win-win** situation, with online retailers benefitting from a **lighter cost structure** and buyers experiencing more **convenient purchases**

Grocery Basket % Breakdown in France, 2015



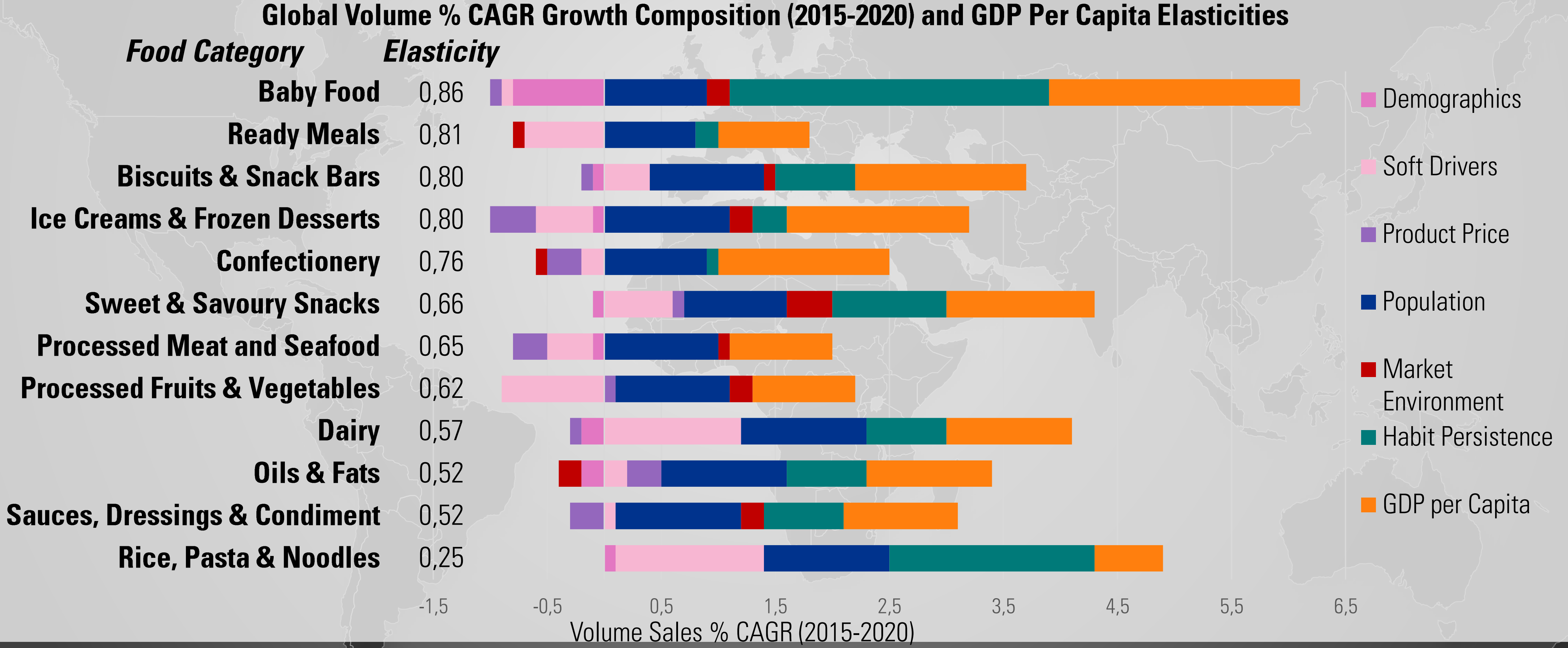
Sources: EuroMonitor; KPMG Analysis

The 3 pillars for a successful omnichannel strategy

Select the best products mix

Food is essential, but some **products** are **more essential** than **others**

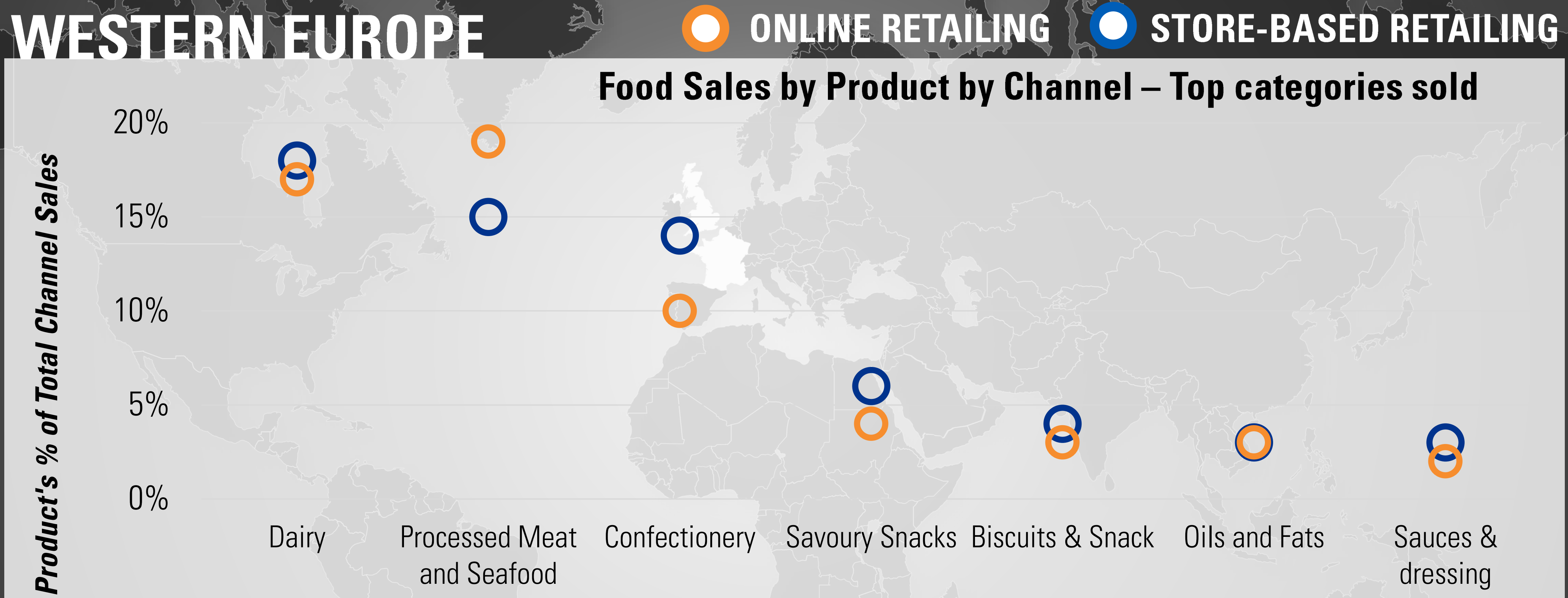
Non essential products, such as baby food, are the **most affected** by **GDP fluctuations**



What impact does online shopping have on product mix?

SELECT THE RIGHT PRODUCT MIX

WESTERN EUROPE



France and UK food habits remain much the same online*, as the main drivers are the established brick and mortars players*

What impact does online shopping have on product mix?

SELECT THE RIGHT PRODUCT MIX

USA

ONLINE RETAILING STORE-BASED RETAILING

Food Sales by Product by Channel – Top categories sold

***Non-staple food** is an **opportunity in the US**.*

Manufacturers are segmenting the market selling more expensive goods exclusively online

What impact does online shopping have on product mix?

CHINA

ONLINE RETAILING STORE-BASED RETAILING

Food Sales by Product by Channel – Top categories sold

***China**'s desire for **global brands** makes **internet channels a priority**.*
Dairy and baby food perform particularly well

What impact does online shopping have on product mix?

SELECT THE RIGHT PRODUCT MIX

SOUTH KOREA

ONLINE RETAILING | STORE-BASED RETAILING

Food Sales by Product by Channel – Top categories sold

***South Koreans** are **replacing offline shops for staple food products**.*
A third of all rice, pasta and noodles are sold online

The 3 pillars for a successful omnichannel strategy

OMNICHANNEL STRATEGY

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SELECT THE RIGHT PRODUCT MIX

INTERACT WITH NEW PLAYERS & PARTNERS

Brave new world requires relationships with new retailers

INTERACT WITH NEW PLAYERS & PARTNERS

Key Markets and their Online Food Sales Value & % on total, 2016

China	16,5 EUR billion	43%
UK	4,1 EUR billion	11%
France	3,6 EUR billion	9%
USA	3,1 EUR billion	8%
South Korea	1,9 EUR billion	5%

Market Share of Leading Internet Retailers with Online Food Offerings, (%)

Alibaba.com 47%	JD.COM 京东 20%	1号店 The Store 只为更好的生活 www.yihaodian.com 2%
amazon 25%	TESCO 7%	Sainsbury's 3%
amazon 25%	E.LECLERC 7%	Auchan 2%
amazon 30%	Walmart 3%	TARGET 1%
Gmarket 15%	the better way of life LOTTE 8%	GS SHOP my real shop 4%

Sources: EuroMonitor, KPMG Analysis

RECOMMENDATIONS

No 'one size fits all' approach for global online strategy

1.Identify **markets** and seize **opportunities**

2.Select the right **online channel**: brand website or retailer website

3.Product mix will be a mixture of value for money and exclusive online options

4.Interacting with **new players** such as Amazon, Alibaba and Ocado

5.Impulsivity will be re-imagined

6.Evolve the **value chain** and **operative model**

7.Develop a coherent **omnichannel strategy**

What do we do at KPMG?

Some insight about KPMG approach...

A
MARKET OUTLOOK
Market analysis, opportunity assessment, target market focus

WHERE TO COMPETE?

B
OMNI-CHANNEL STRATEGY DEFINITION
Sales & Distribution strategy definition, entry Options assessment and selection

HOW TO WIN?

C
PREPARATION TO STRATEGY EXECUTION
Partner evaluation and selection, Business Plan development

WHAT SHOULD I DO?

D
FUNDING & EXECUTON
Closing deals, outsourcing activities & execution plan

WHAT ARE THE ASSETS I NEED?