



# *Path to Success* for the *Food & Beverages industry*

September 2009

*Just ask*  
nielsen  
.....

# Agenda

1

## **The economic health**

- Key economic indicators and their latest trend
- Retail Sales and supermarket shopping

2

## **Recession and back: Changes that drove business**

- Key consumer purchase & consumption trends
  - Opportunity in in-home dining & private labels
- Channel shopping choices and retailer development

3

## **Key category results for YTD June 09**

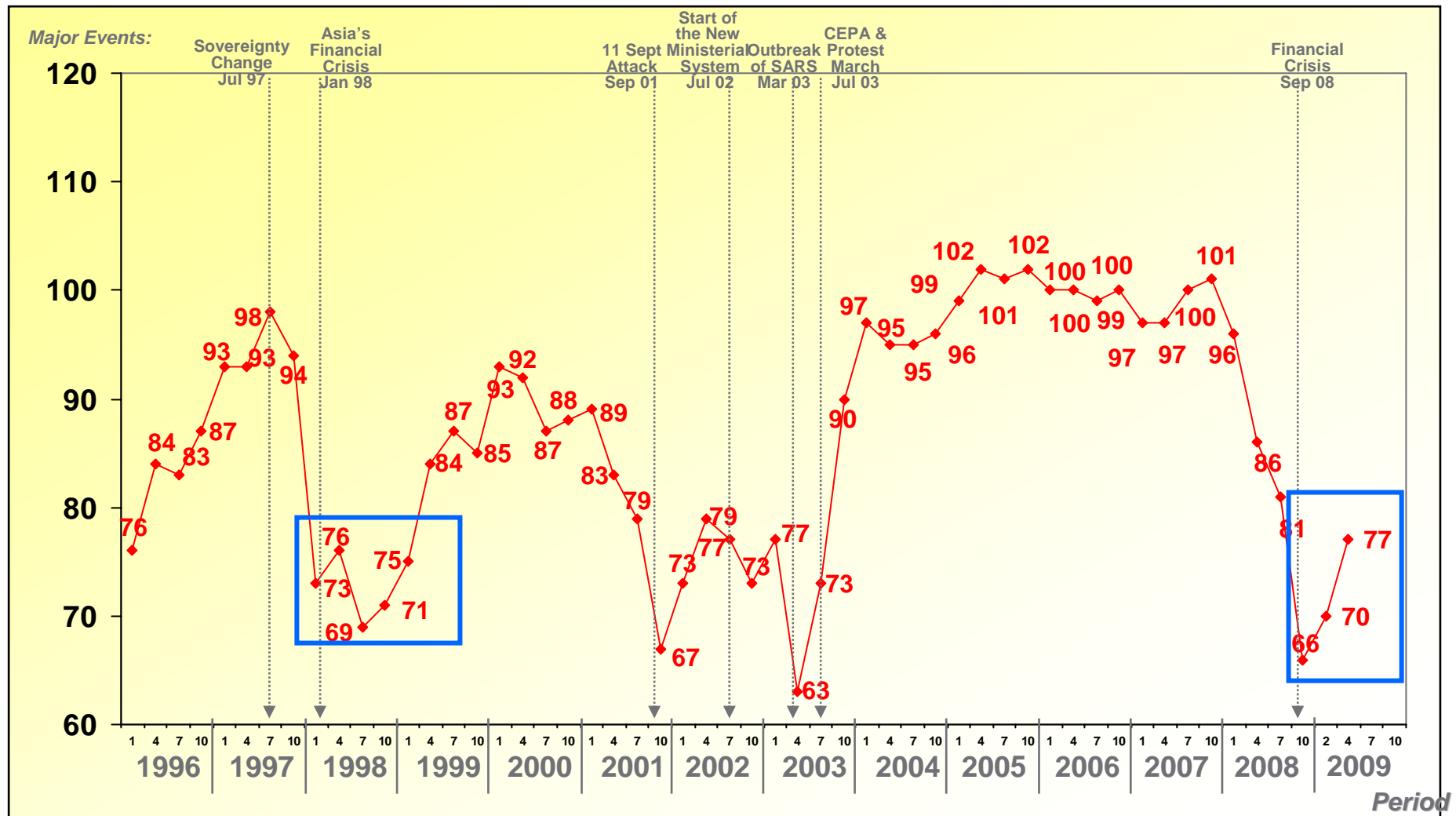
- F&B category trends
- Alcoholic beverages key trends

4

## **The road ahead**

- Key takeaways from first half 2009
- How do you maximize business based on these trends.

# In HK there is a cautious rebound in consumer confidence in Q2 09 that has improved from Q1 09, indicative of a positive outlook ahead.



Base Year = 1985

Source: The HK Nielsen Confidence Index

The Nielsen Economic Confidence Index

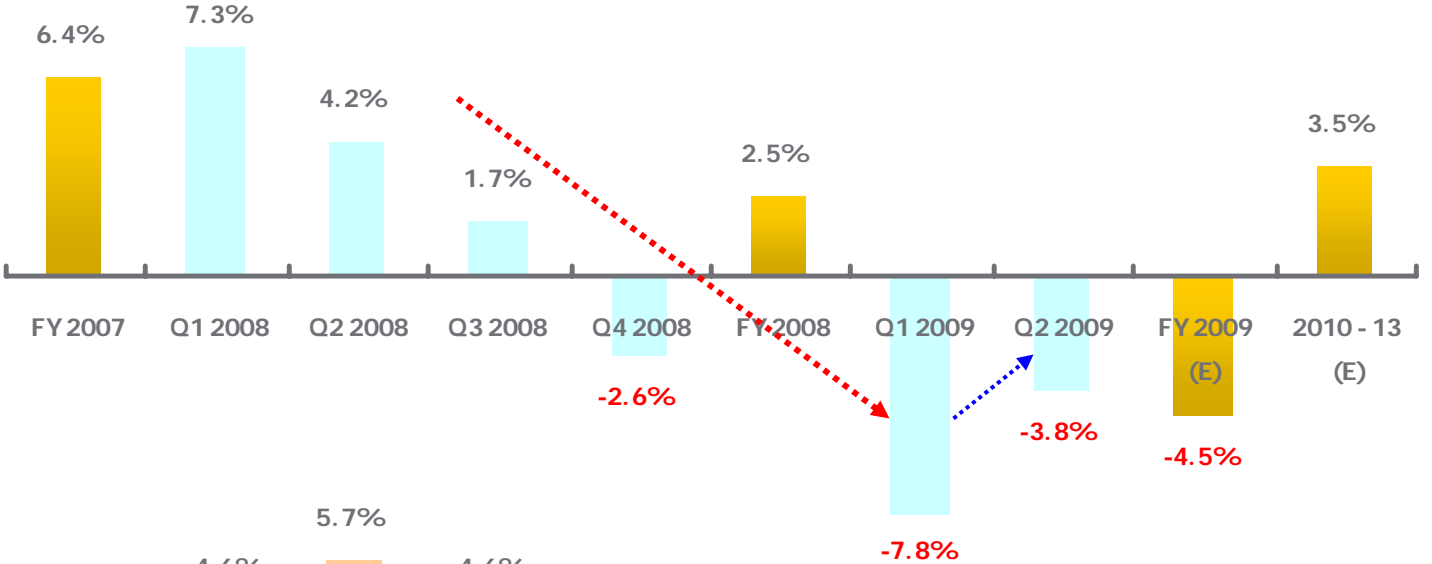
- Q1 How would you rate the present economic situation in Hong Kong: Good, average or bad?
- Q2 Do you feel the economic situation of Hong Kong in the next 12 months: will improve, will remain about the same, or will deteriorate?
- Q3 Do you feel your financial situation in the next 12 months: will improve, will remain about the same, or will deteriorate?



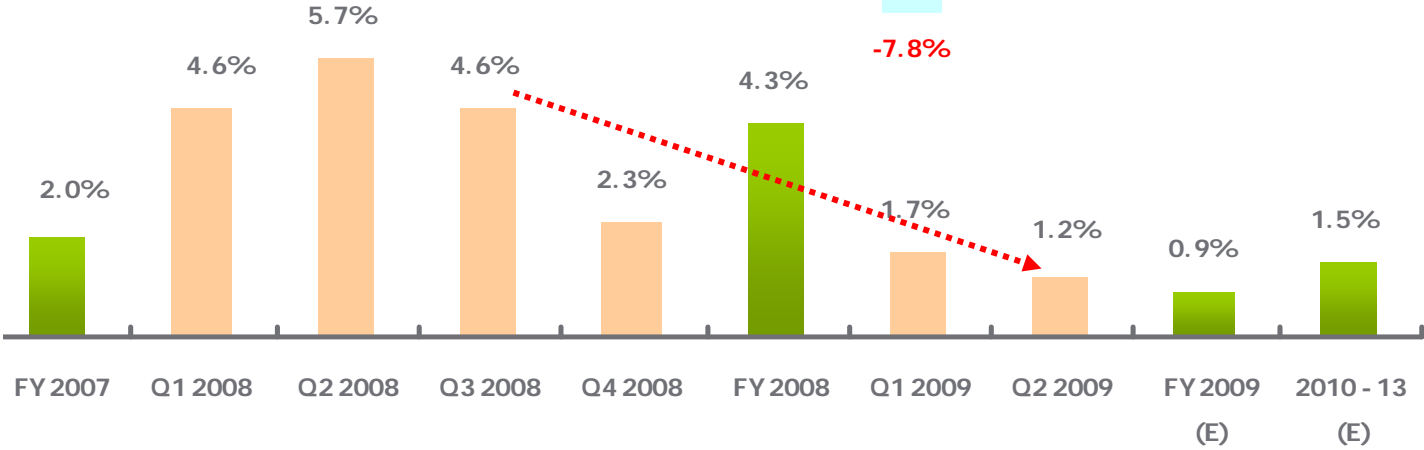
The Q2 09 saw a revival in the decline of the GDP indicative of a recovery. The Government revised forecast upwards to 3.5% - 4.5% for full year 2009 from ~-5.5%. CPI was under check buoyed by subsidies given by the Government. Need to monitor the latter as some subsidies like electricity end in Aug 2009.

Hong Kong GDP & CPI 2007-2013

**GDP**



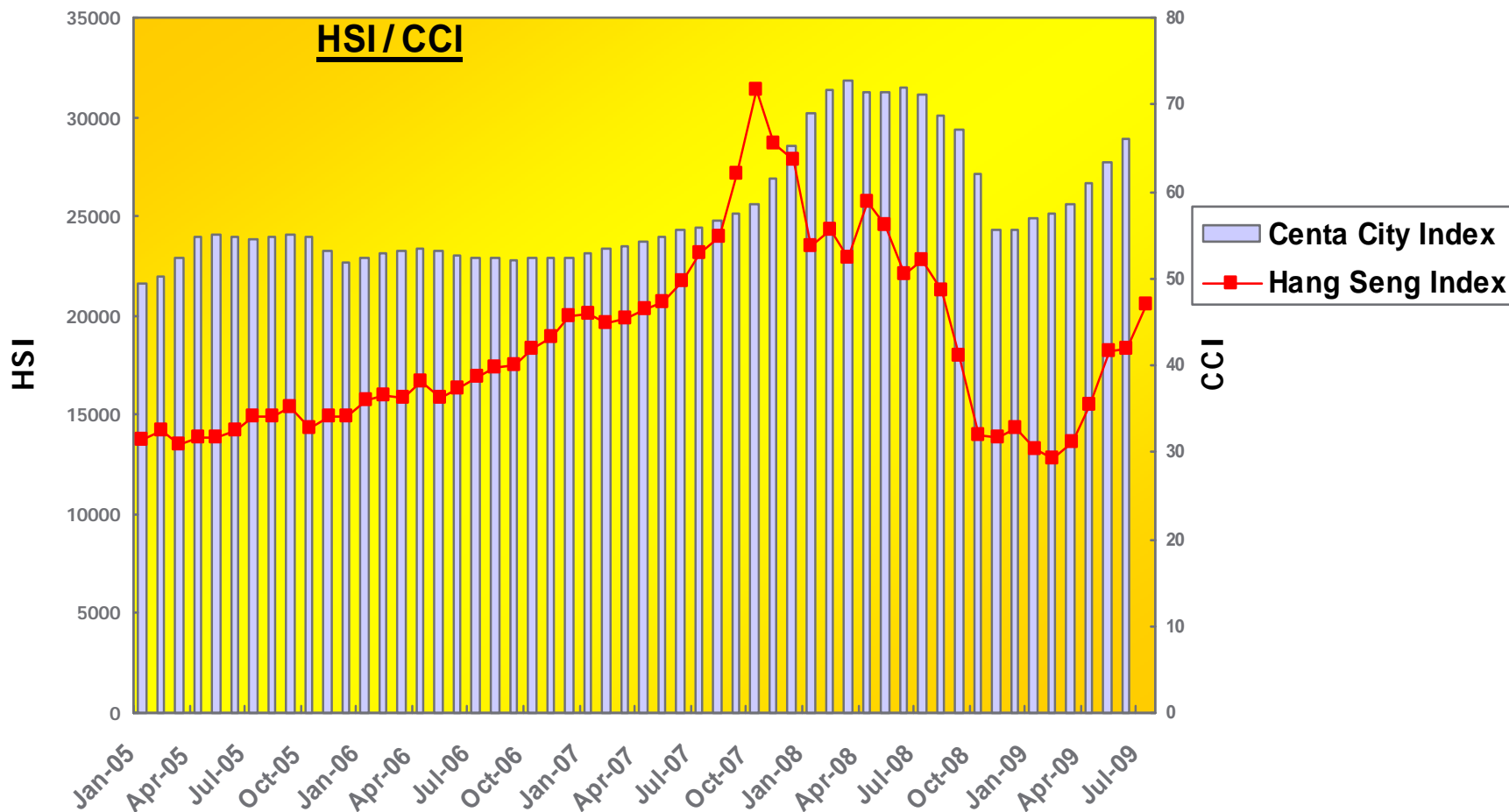
**CPI**



(E) – Estimated



The other 2 strong indicators - Stocks and Property markets have revived from the bottom of Q4 2009 as the volume of transactions have picked up sharply.



Sale & Purchase of Real Estate in HK	Jul-08	Dec-08	Jul-09
No. of transactions	8,930	5,437	14,039
% Change vs. YA	-20%	-65%	57%

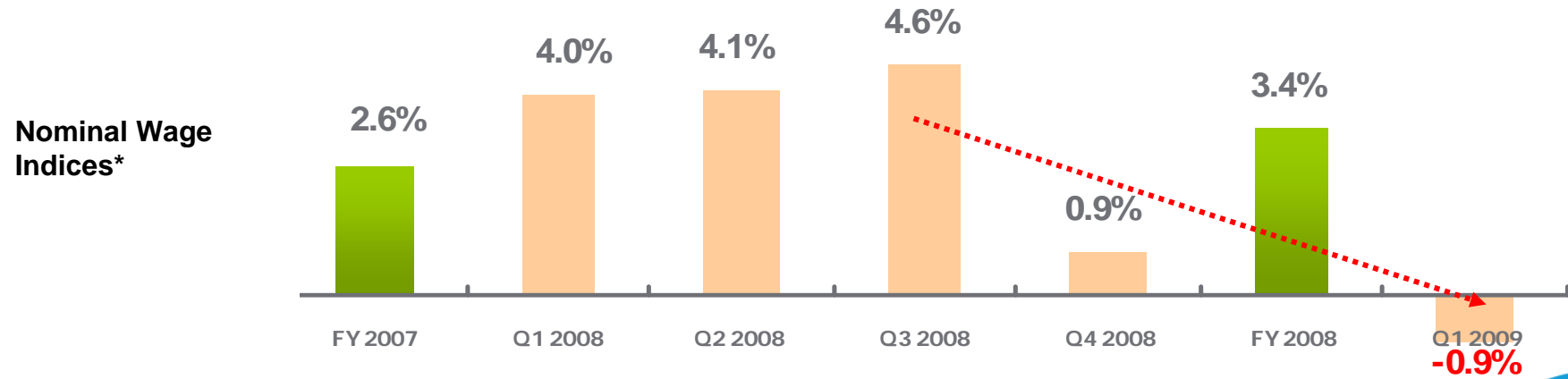
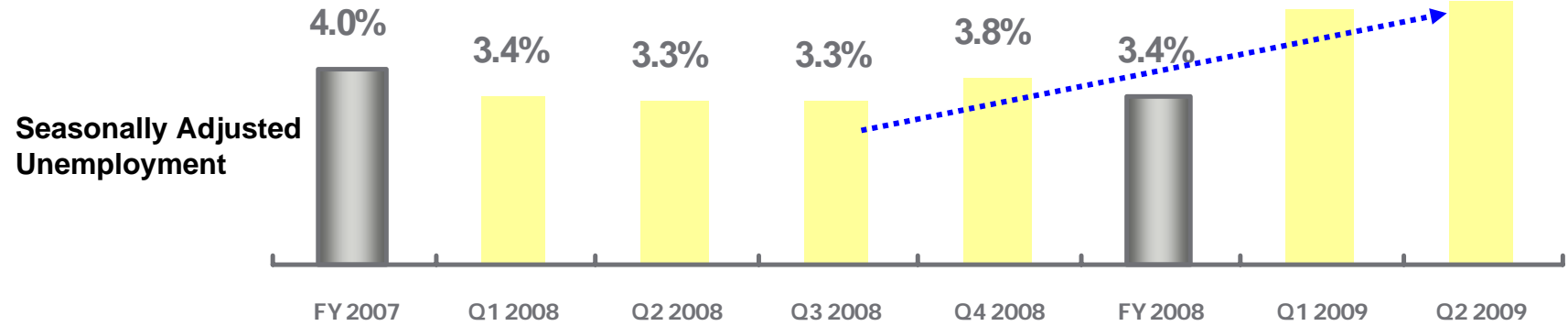
IPO Offerings in HK Stock Exchange	FH 08	SH 08	FH 09	Jul-09
No. of new listings	23	20	18	5



However despite the early indicators of recovery, there are still some consumption indices that are yet to pick up. Unemployment is still a steeply climbing figure while wages have not seen an increase from last year but rather has declined by ~1% vs. YA as of Q1 2009. These indicate that while the outlook is positive yet the turnaround is bound to be slow and consumers will be selective about their spending.



*Hong Kong Unemployment & Nominal Wage Index 2009*



Source: Census & Statistics Department, HKSAR

\* For employees up to supervisory Level (excluding managerial and professional employees) by selected industry section (September 1992 = 100)



## The other question - Is this recovery sustainable? The broad consensus is that it is but likely to be long drawn.



Growth in the advanced economies is likely to remain **anemic** and well below trend for at least a couple of years... Most emerging economies may be returning to growth, but they are performing well **below their potential**

*Nouriel Roubini, NYU*

(HK's) Consumption in the coming quarters should continue to benefit from **lesser job loss, low interest rates** and the boost from the several rounds of Government's **relief packages**. Nevertheless, business sentiments, though also somewhat better than at the beginning of the year, are still **cautious**. In the coming quarters, private sector investment is likely to remain depressed

*John Tsang, Financial Secretary - HKSAR*

The good news is that the forces pulling the economy down are **decreasing in intensity**... The balance is slowly shifting, and this leads us to predict that, while the world economy is still in recession, the recovery is coming. But it is likely to be a **weak recovery**...

*Olivier Blanchard, Chief Economist IMF*

# What are consumers saying about the state of current economy and outlook for the future?



**62%** are concerned about the state of economy



Only **26%** believe that the economy will recover soon



**42%** believe that the financial tsunami directly impacted the quality of their life



**54%** agree that they are more careful about spending money these days compared to last year





# How did this translate into shopping choices and attitude towards spending



43% prefer to buy products made of natural ingredients

Only 17% trust advertised products more

41% agree that brands are a source of trust

45% shop around for the best offer

53% are willing to pay more for products that are good for health

Only 27% will not buy a different brand because of promotion

44% consider family opinion important in brand selection

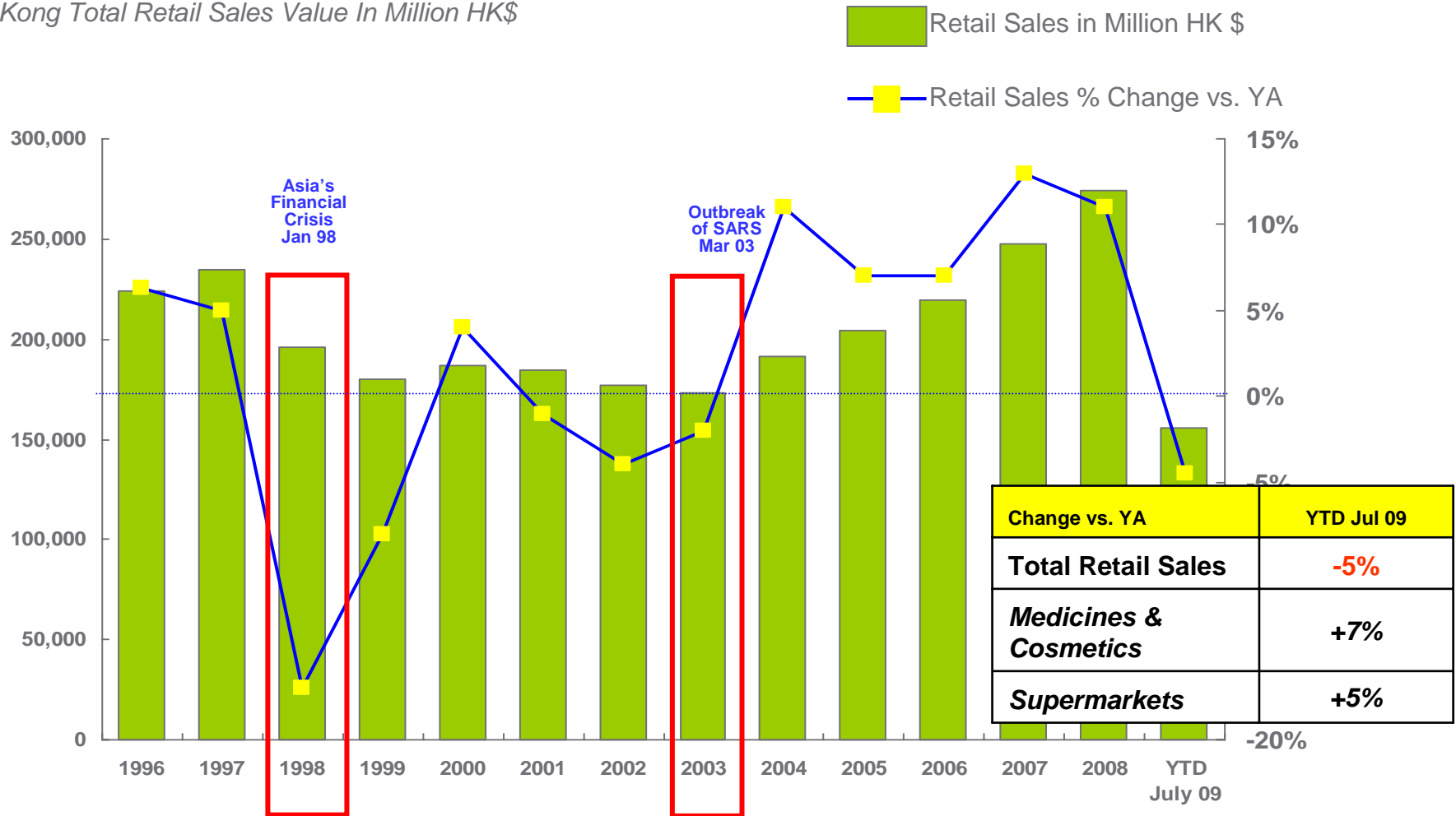
48% is willing to pay more for better quality

All figures are unweighted.

Source: Panel View Survey, Nielsen HomeScan, Aug 2009

**First off – Retail sales.** As such the quantum of decline in consumption metrics like Retail Sales has been much lower than the 1998 crisis, indicating that perhaps for HK the recovery would be more positive. At this stage, consumers are being more discerning in their spending choices as only supermarkets & personal/health categories have seen growth in sales.

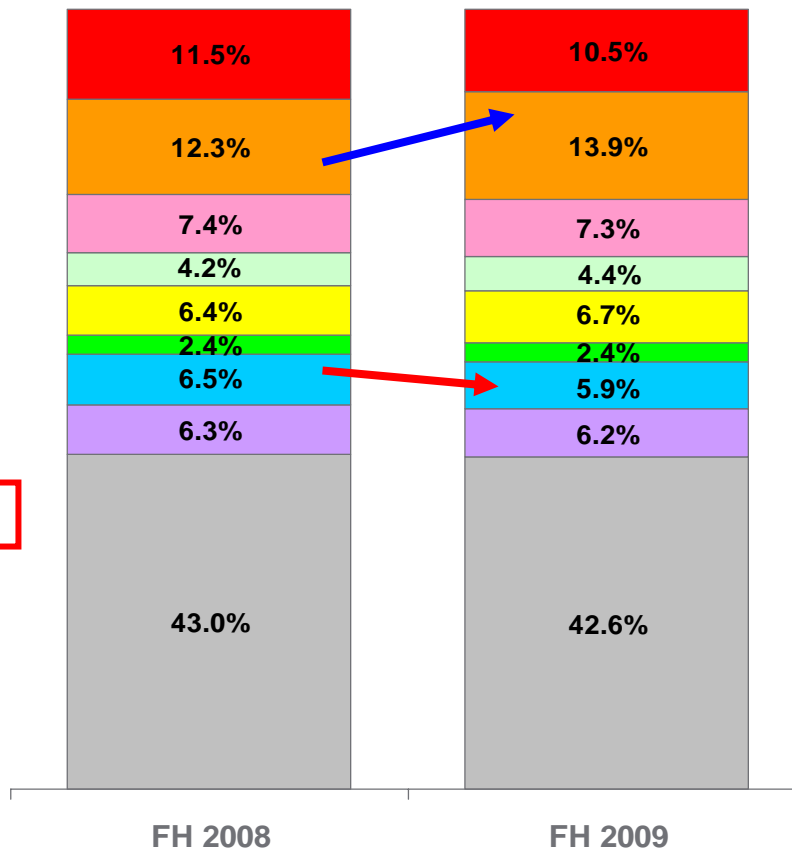
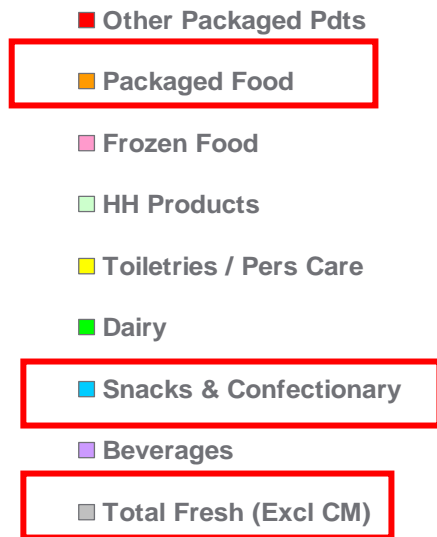
Hong Kong Total Retail Sales Value In Million HK\$



Within the grocery basket, the share of spending has moved towards packaged food compared to spending on snacks and such categories, indicating a shift towards spending on necessities. This is the competitive set in the battle to win the share of wallet.

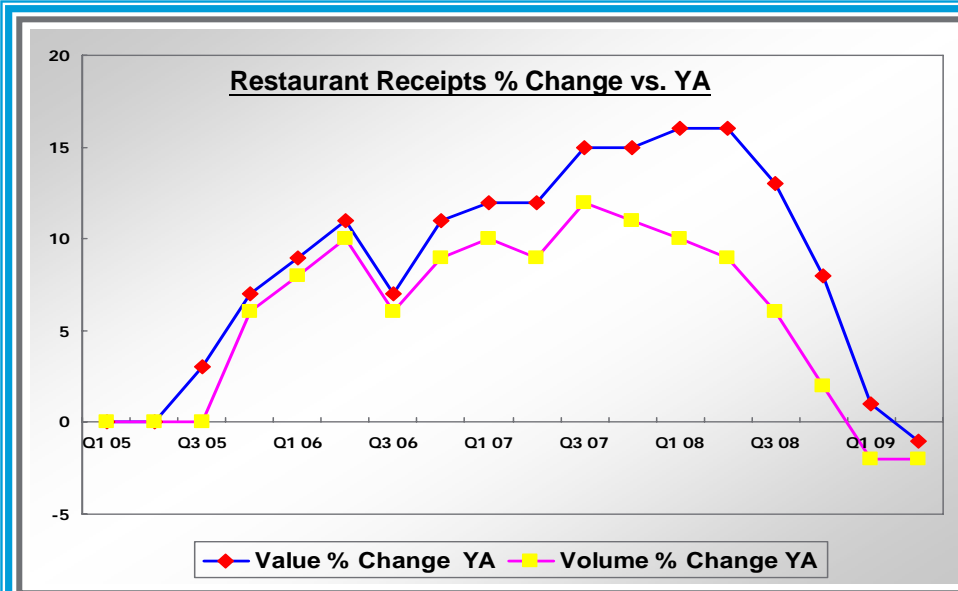
Homescan. Total PP & Fresh Food  
Share of Wallet  
Total HK. YTD June 2009 vs. YA

### Share of Wallet – Grocery Spending



Other Packaged Products include non-prescription medicine, health products, baby products, pet food and general merchandise

In tandem with the packaged food growth, there has been a sharp decline in the restaurant receipts at Total HK, with the exception of Fast Food stores. Value dining options, consistent with global learnings, have offered consumers with an affordable alternative to in-home dining. The cut back on snacking and nice to haves is already evident in their declining trend.

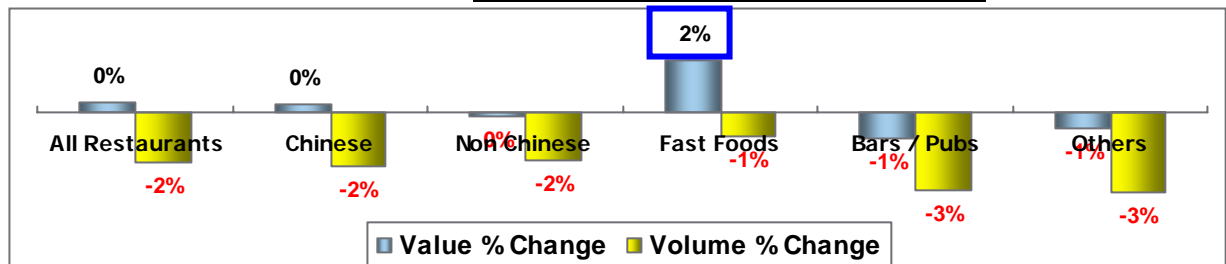


**McDonald's Recession-Proof Menu**  
 Carl Gutierrez, 11.10.08, 07:05 PM EST  
 Cheap and filling wins out over expensive and thrilling.

**McDonald's**  
 MCD:McDONALDS CP  
 Recession-resistant consumers around the world as global financial turmoil has cost-conscious shoppers opting for low-priced meals.

On Monday, McDonald's (nyse: MCD - news - people)

Restaurant Receipts YTD June 09 vs. YA



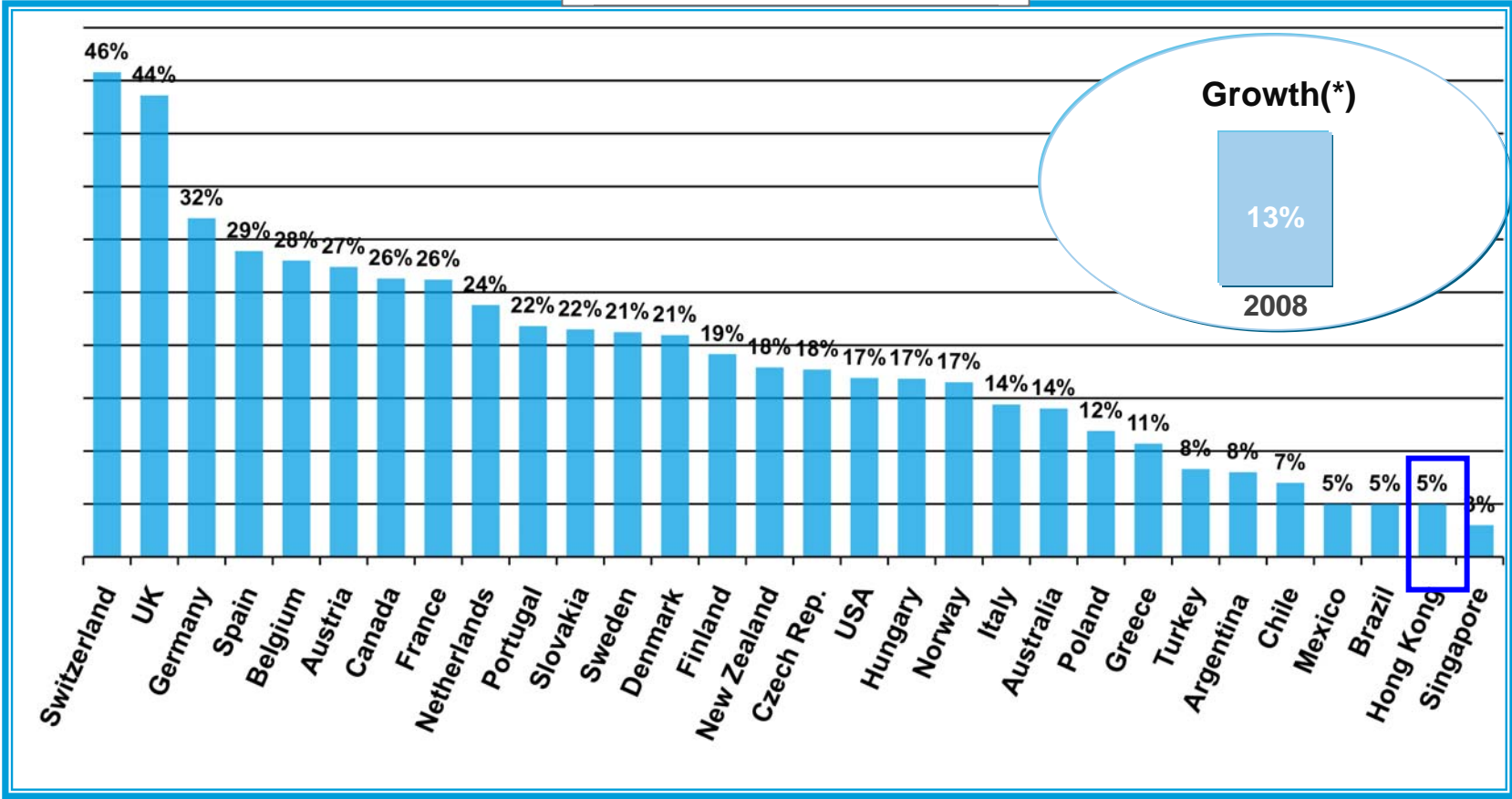
YTD July 09	Volume % Change	Value % Change
Total Food & Beverages	1%	6%
Snack & Confectionary	-5%	2%

Source: HK Censtatd (Restaurant Receipts)



Aside from in-home dining, consumers in HK have also started to favour private labels in certain food and household care categories. Although HK is still very small for this compared to other developed markets, the past year has seen its presence being strengthened.

Share of Private Labels

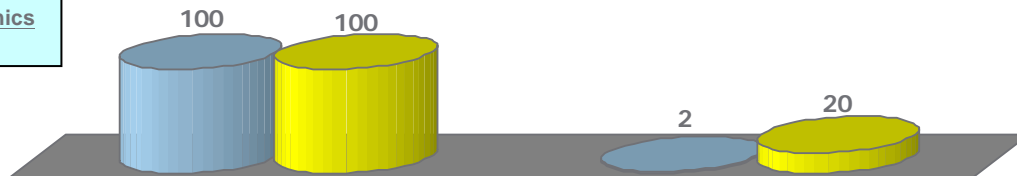


(\*): Based upon USA, Canada, UK, Germany, France, Spain & Italy = \$330B Page 13

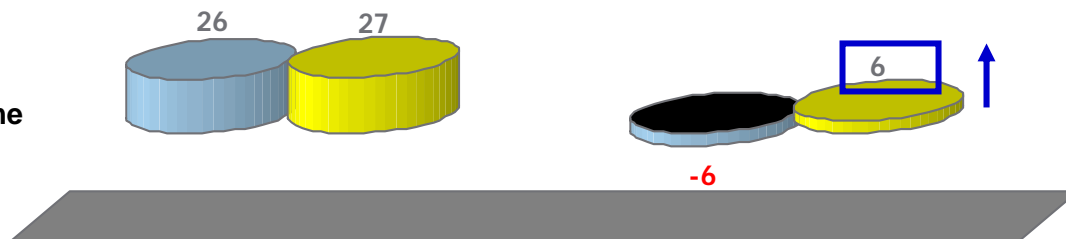
In terms of HH profile, the growth has been driven by the high and medium income HHs indicating that differentiated offerings across different benefit segments / price points have driven stronger conversion across income groups.

Homescan: Total PP  
Basic Consumer Dynamics  
YTD June 09

**All HHs**



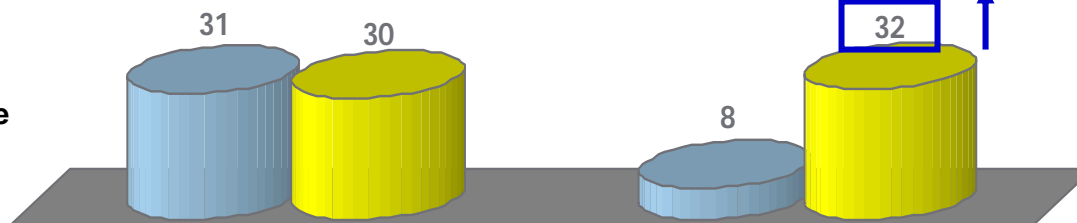
**Low Income**



**Middle Income**

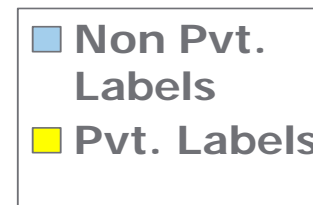


**High Income**



Share of Market

% Change in spending



In terms of channel choices, supermarkets still are the preferred for overall packaged products. However channels like provision stores and premium smkts have shown stronger growth compared to others.

**HomeScan Packaged Products  
Value Share of Trade**

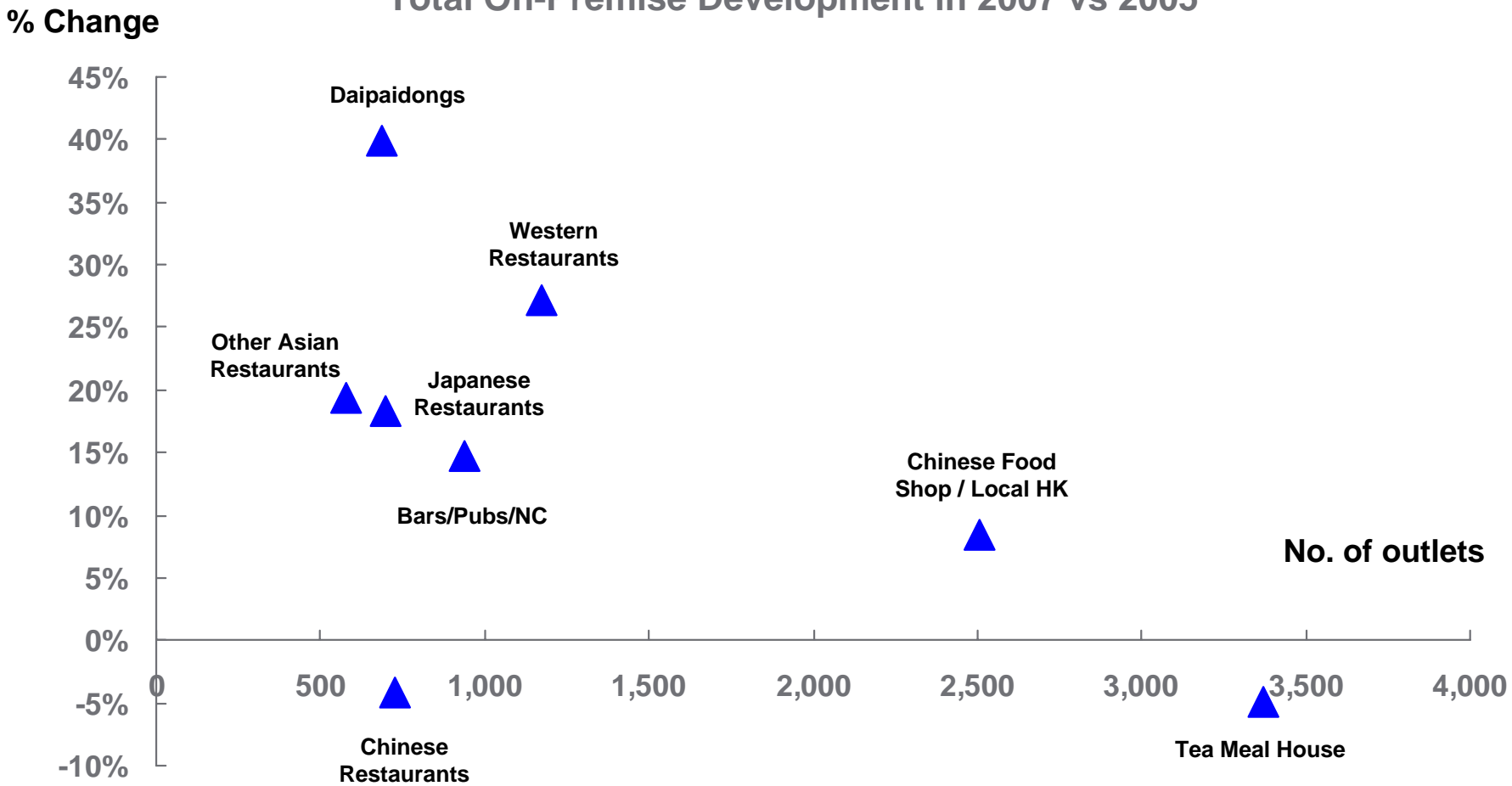
	YTD Jun 08	YTD Jun 09
<b>Supermarket</b>	56.1	57.1
<b>Drug Store</b>	19.0	18.2
<b>Wet Markets / Fr. Food Stores</b>	8.2	7.3
<b>Provision Stores</b>	2.2	2.3
<b>Other Channels</b>	14.6	15.1
<b>Premium Supermarkets</b>	6.0	7.2



\* Premium Smkts include City' Super, Jusco Smkt, UNY Smkt, Sogo Smkt, Taste, Great, Gourmet, ThreeSixty, Market Place by Jason, Oliver, Seiyu Smkt

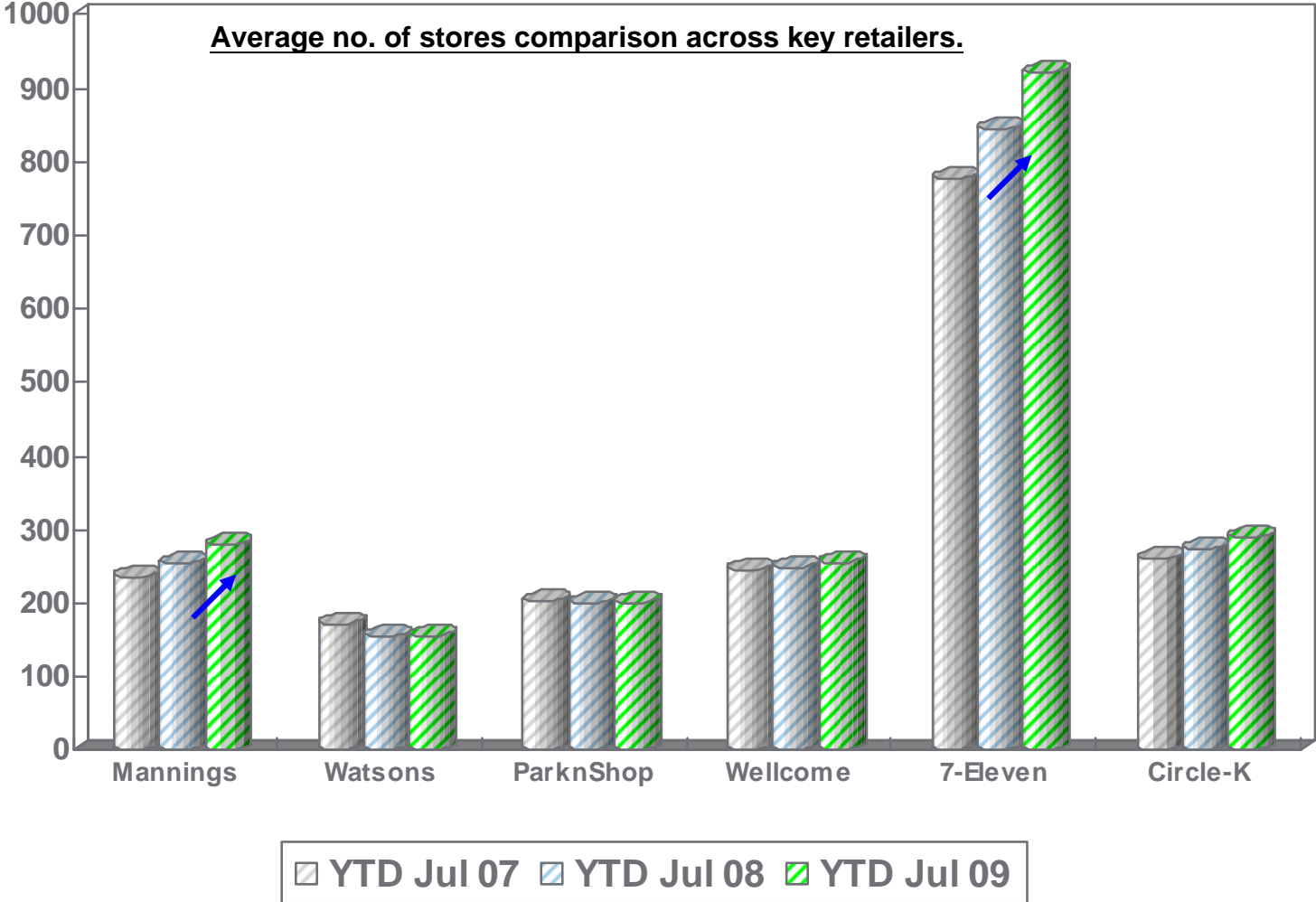
For on-premises, based on the last read for store development, the overall landscape has been driven by spurt in western and non-chinese restaurants. There has also been a strong growth in the no. of daipaidongs.

Total On-Premise Development in 2007 vs 2005





For the chain store retailers year 2009 has continued to see an increase in their number of stores. Especially for the DFI group, there has been strong growth on the footprint of their stores, while PnS and Watsons have maintained their store numbers.

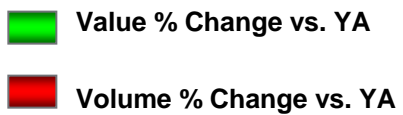
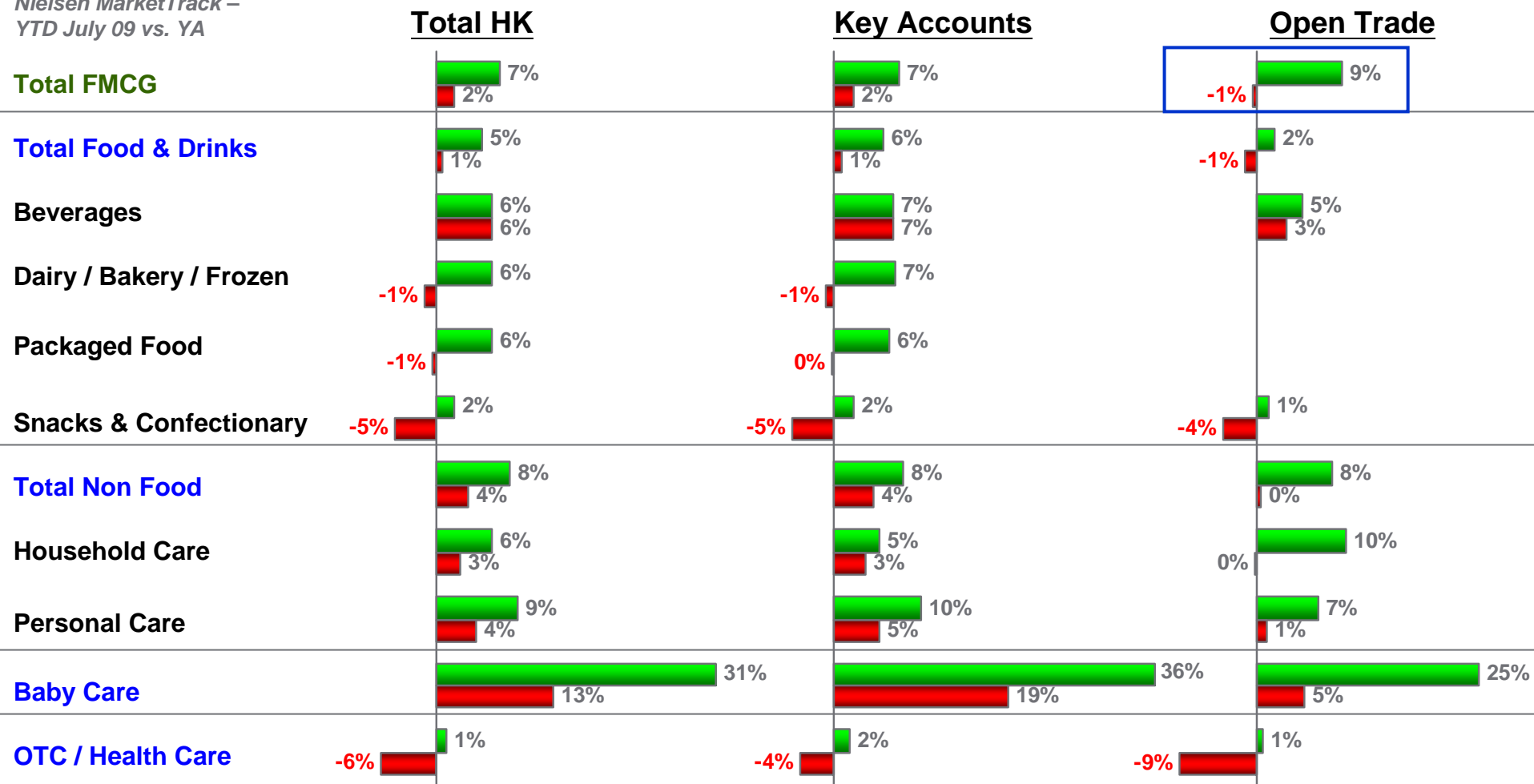


Note: ParknShop & Wellcome includes superstores.



So looking at key results at a glance for all the trends thus observed .... OT still continues to be a channel of choice for categories like baby care while Key Accounts has been the key growth driver for the overall industry.

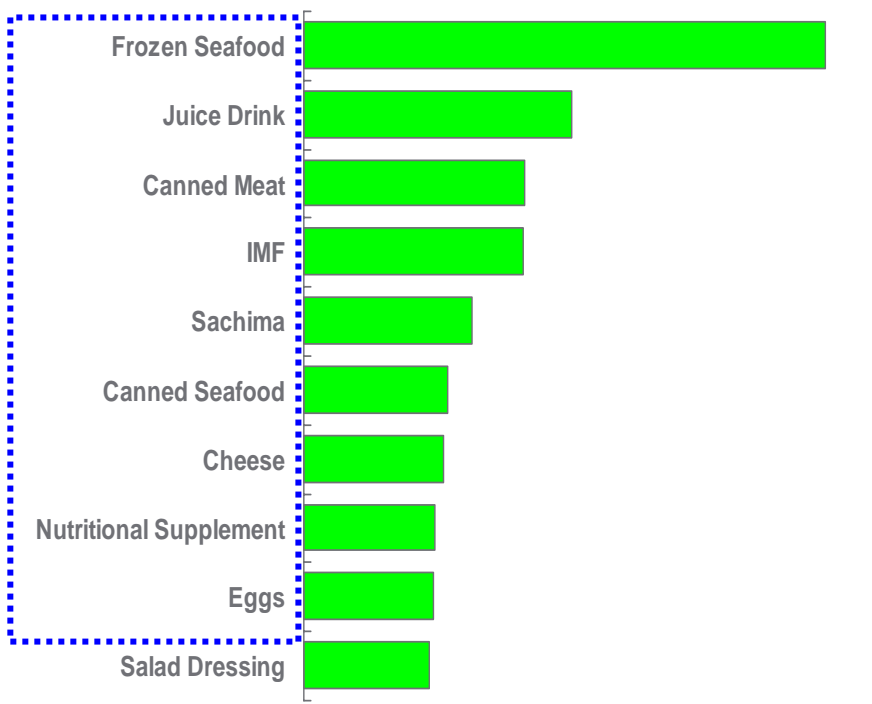
Nielsen MarketTrack –  
YTD July 09 vs. YA



Within F&B, the Frozen and canned food categories continued the pace of growth from last year as did IMF, which was also the highest net contributor to incremental sales. Most of the food and beverages categories also benefitted from volume growth as well.

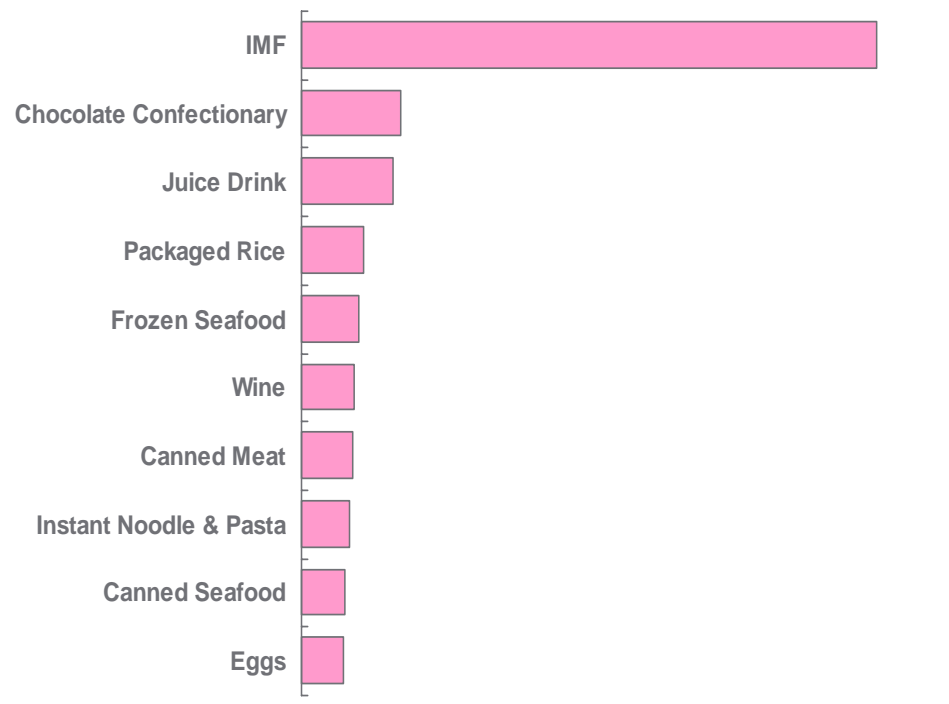
Top Fastest Value Growing Food & Beverages Categories  
 Nielsen FMCG Index: YTD Jun09 vs. YA  
 Total Hong Kong

**Based on % Value Growth**



Also growing in volume.

**Based on Absolute Value Growth**



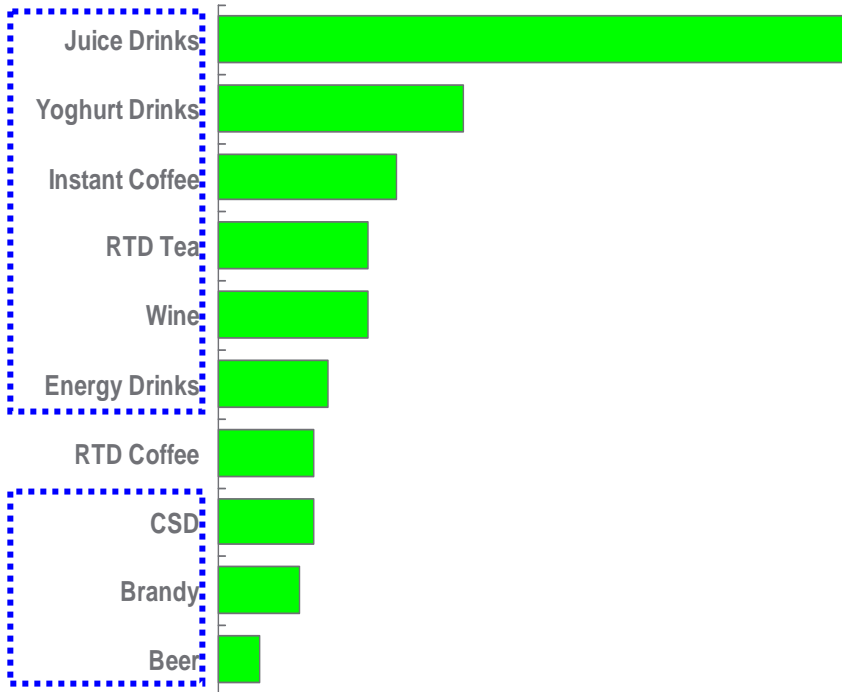
Note: The fastest growing F&B category is RTD Malt Drinks, but since it grew from a very small base, it has not been featured in the top categories list.



# Within the beverages category the top segments are growing in both volume and value, indicative of increased consumption across the board.

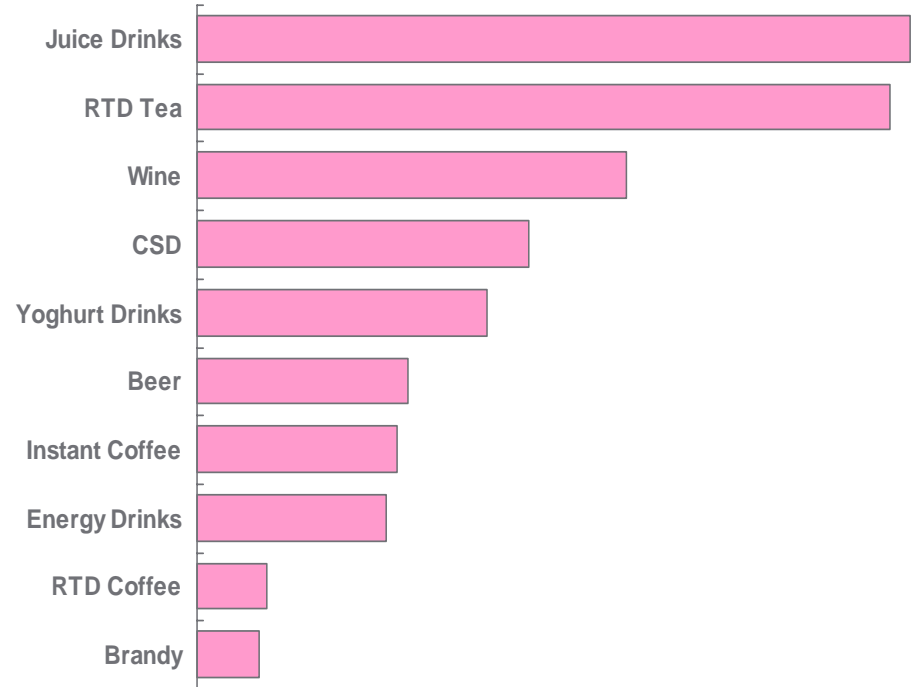
Top Fastest Value Growing Beverages Categories  
Nielsen FMCG Index: YTD Jun09 vs. YA  
Total Hong Kong

## Based on % Value Growth



Also growing in volume.

## Based on Absolute Value Growth



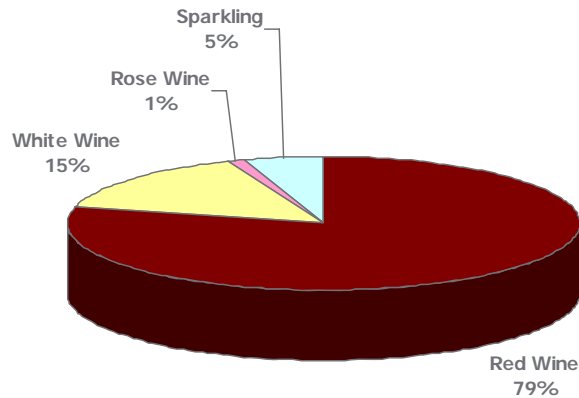
Note: The fastest growing F&B category is RTD Malt Drinks, but since it grew from a very small base, it has not been featured in the top categories list.



# The overall wine category in the first half of 2009 has seen moderate growth with faster volume growth than value indicative of some category devaluation.

Nielsen HK MarketTrack - YTD July 09 vs. YA

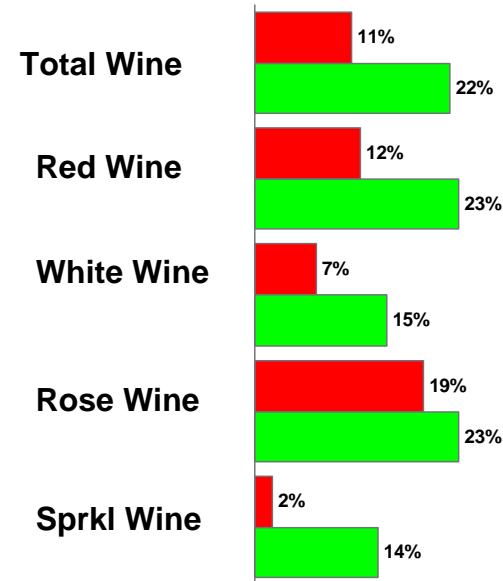
## Share of Segment – Wine: YTD July 09



## Wine Market Developments:

- **Australian wines** are the biggest in both White & Red however the fastest growing are from **South America** (Chile / Argentina)
- ~80% of the category is **priced at <\$100** for still wine with continued **promotional support** from off premise retailers
- For Red wine, the growth from varietals is broad based with **Pinot noir** leading the way.
- For Sparkling while Champagne (~48%) is the biggest value segment, the growth is from **US sparkling** which are also lower priced.

## Growth % Change – Wine: YTD July 09 vs. YA

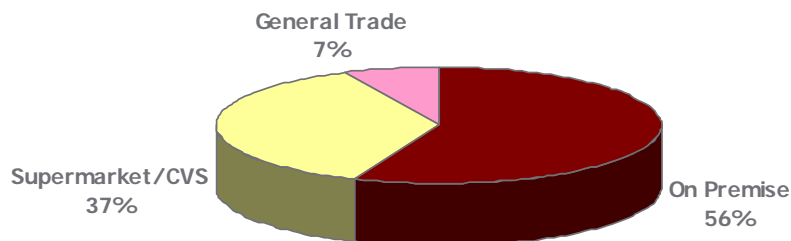


■ Value % Change ■ Volume % Change

# The Beer category has seen volume decline from the past year, mainly due to the reduction in dining out incidence across most formats while off premise has held on.

Nielsen HK MarketTrack - YTD July 09 vs. YA

## Share of Trade – Beer: YTD July 09



### On Premise breakdown:

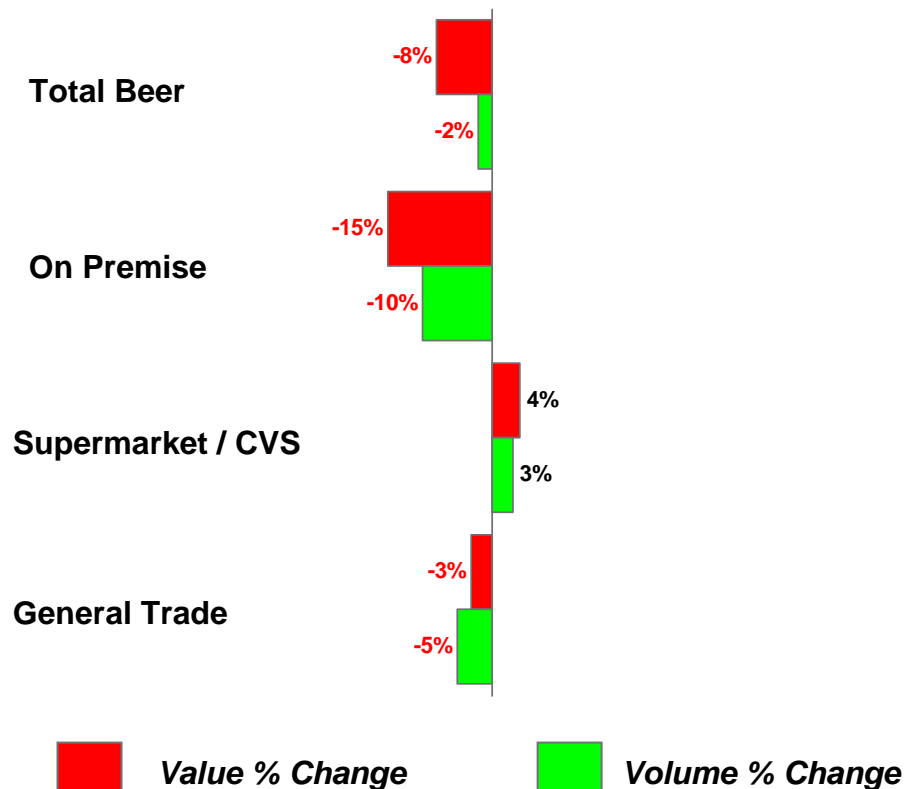
-Decline across all Chinese Restaurants / Bar and Pubs

- Key cause likely **reduced dining** in these establishments due to overall economic climate

- **Smoke ban**

- Daipaidongs still growing (+11%) but due to small contribution (~7%) not able to drive On premises growth.

## Growth % Change – Wine: YTD July 09 vs. YA



Although it is still early days, we already see a slow down on both cigarettes and beer consumption in on-premise outlets. The latter is likely influenced by this ban which potentially reduces the amount of time spent at the establishment.

Total Cigarette & Beer Volume Development in Drinking Establishments\*

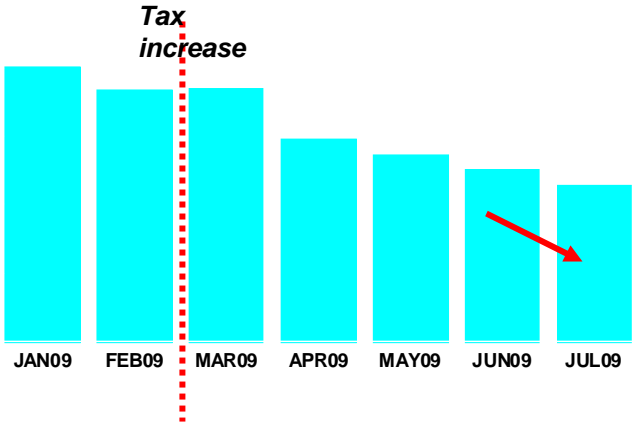
**Total Cigarettes**

	JAN09	FEB09	MAR09	APR09	MAY09	JUN09	JUL09
<b>CIGARETTE</b>							
VOLUME % CHG PP	-18	-8	1	-20	-8	-8	-9
VOLUME % CHG YA	-13	-12	-21	-41	-46	-48	-55

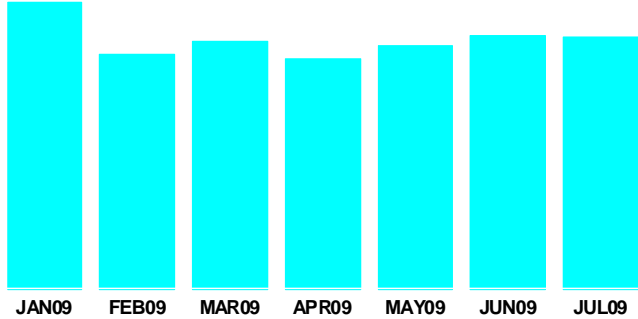
**Total Beer**

	JAN09	FEB09	MAR09	APR09	MAY09	JUN09	JUL09
<b>Beer</b>							
VOLUME % CHG PP	-3	-18	5	-7	5	4	-1
VOLUME % CHG YA	-7	-10	-9	-19	-19	-13	-14

Sales Volume (1000U)



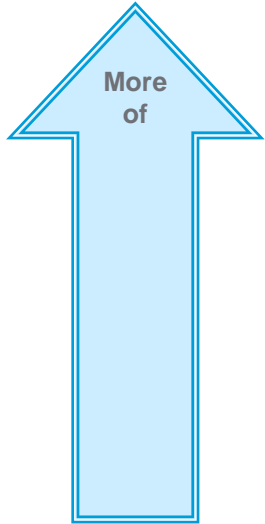
Sales Volume (H Ltr)



•Drinking Establishments = Bars, Pubs, Lounges, Karaoke, Discos, etc  
 •For Beer: There is already smoking ban in Chinese restaurants and other dining establishments from July 2007 onwards. Hence no specific impact from this round of smoke ban extension.



# So to summarize, Consumers are ...



- Spending with **discretion** and **caution**
- Shopping across channels but **seeking value**
- Continued **in-home dining**
- **Private label** in categories where there is low differentiation or comparable store-brand offering
- Opting for **lower price options** in categories like Wine which is still discretionary spending in HK



- Dining at **expensive** options
- **Impulsive** and **nice-to-have** purchases
- **Premium brands** for categories that are low involvement / commoditization i.e. **cooking oil / packaged rice** etc
- Smoking & drinking in bars / pubs.





# Key trends for you to keep in mind going forward ....

## In-Home Dining

- Opportunity on **in-home packsizes** via leveraging off-premise channels
- Complementary categories **cross promotional** opportunities.
- Understanding opportunities in **value dining options** like Fast Food where there is higher traffic.

## Private Labels

- Effective **category management** and business planning with key retailers to ensure that the overall category returns are maximised.
- Understanding **consumer purchase drivers** in categories like Wine where fragmentation is high.

## Smoke ban and it's impact

- **Monitor the situation** as it is in a stage of ramp up
- Need to identify **other drivers** (promotions / activation) that could encourage consumption in these channels
- **Plan** for potential sales shift from on-premise to other options.
- **Daipaidongs** for beer

## Other trends to consider

- Understanding **promotional and pricing** dynamics in times of recovery to win the shopping \$ of the consumer.
- **Opportunities in season** – CNY / X Mas / Mid Autumn etc which are still choice spending occasions for consumers.



**Thank you**