

# IRI State of the Nations

Snapshot of Consumer Goods Trends in Western Economies

Q1 2017



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July 2017



# IRI State of the Nations Q1 2017

## GERMANY



## Key findings - Germany



- Fast Moving Consumer Goods (FMCG) are showing growth in Germany both in the long term (+2.9% in moving annual total (MAT) versus a year ago) and short term (+1.5% in Q1 2017 versus Q1 2016). The growth is mostly driven by dairy products (+6.9% Q1 2017 versus Q2 2016) and frozen products (+4.3% Q1 2017 versus Q2 2016) because of a lower price level.
- While growth is achieved also by an increase in volume (+1.0% in MAT versus a year ago and +0.4% in Q1 2017 versus Q1 2016), the increase in average prices is the dominating driver of growth (+1.9% in MAT versus a year ago and +1.1% in Q1 2017 versus Q1 2016).
- Over the past three quarters however, growth of FMCG has consistently slowed down (from +3.5% in Q3 2016 versus Q3 2015 to now +1.5% in Q1 2017 versus Q1 2016) as average prices increased, but volume sales didn't keep up.
- Promotion value share has marginally increased compared to the previous year.

## Key findings - Germany

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- In Q1 2017 we experience a significant price increase of chilled and fresh products, driving the market also in value sales.
- Frozen food shows volume growth both in the long and short term as prices increase slightly.
- At the other end of the scale are alcoholic beverages, where a drop in average price led to a 1.3% drop in value sales in Q1 2017, and on analysis of moving annual total versus previous year, the smallest value growth (1.8%) among FMCG categories.
- Drugstores and soft discounters lead the German FMCG channels in terms of growth while smaller grocery formats are declining.

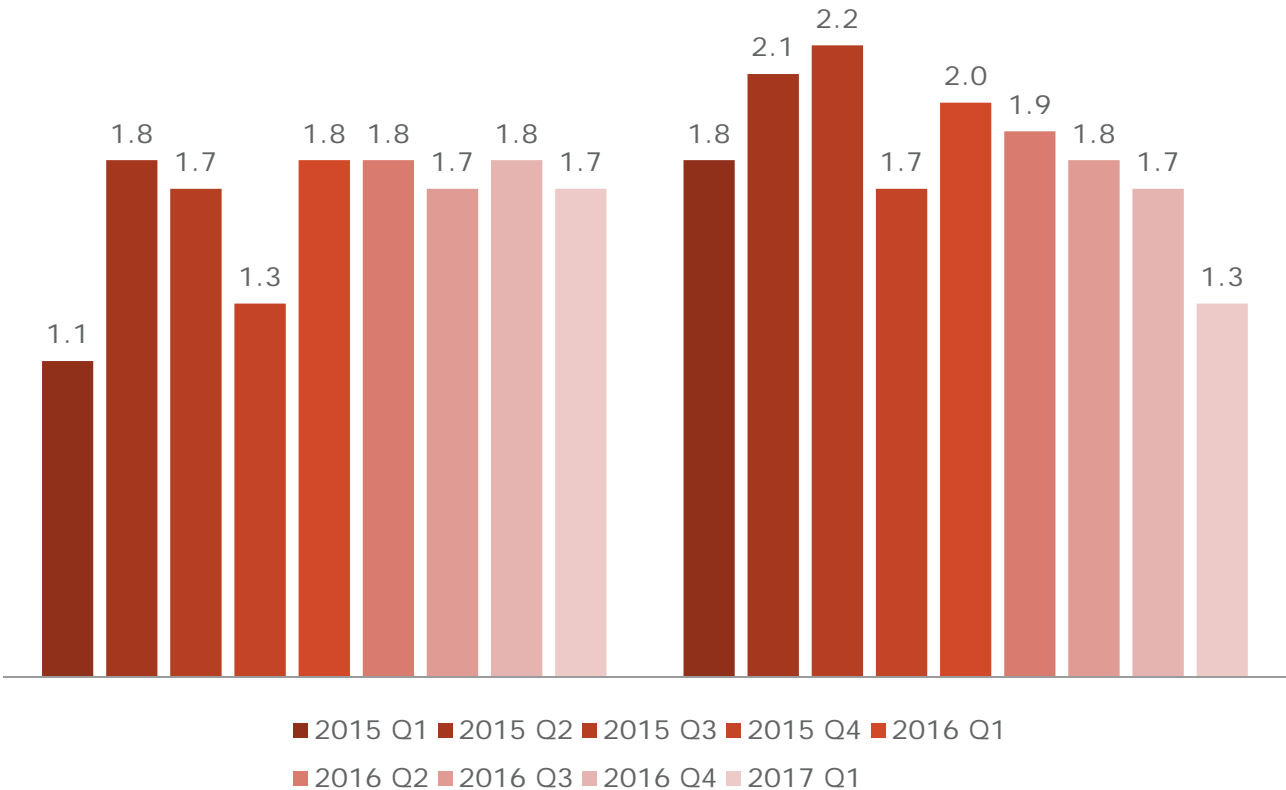
# Macro-economic context - Germany



## GDP and household expenditure evolution, in %, in Germany

GDP evolution (versus year ago)

Households expenditures



### Comments

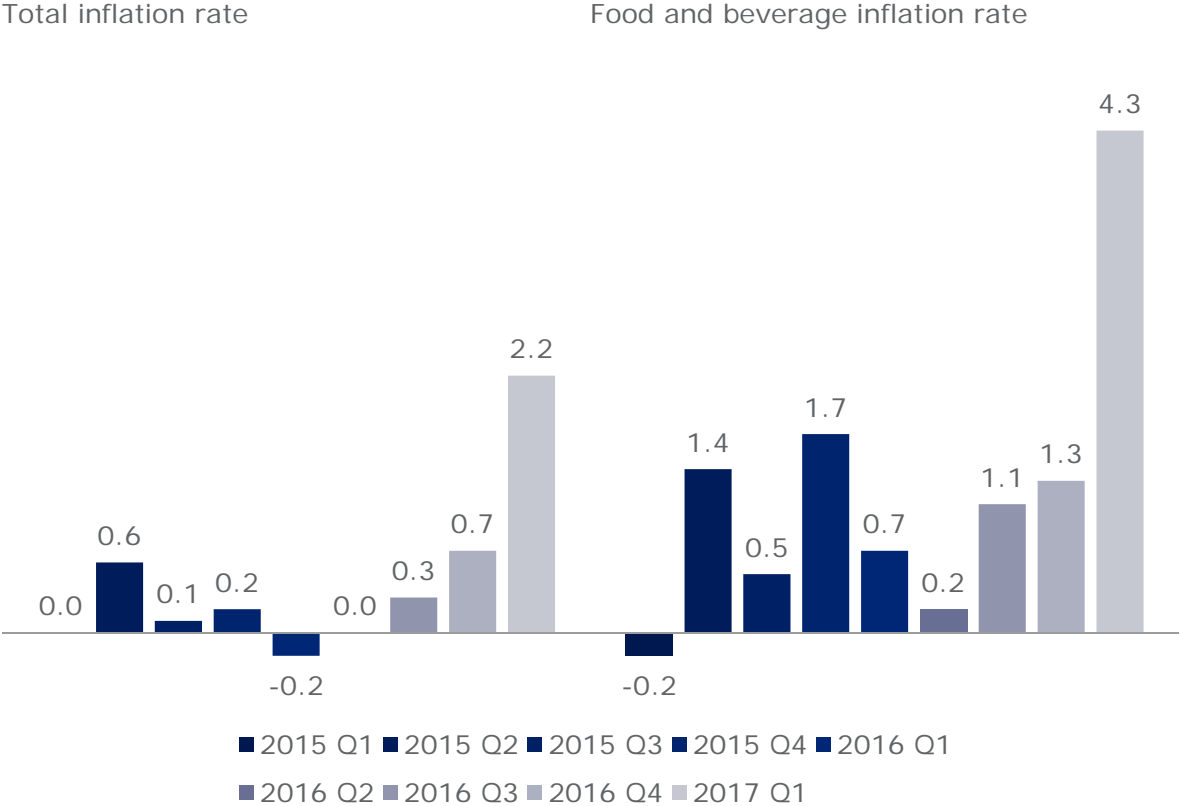
- The GDP shows a consistent positive trend over the last five quarters. Key drivers behind this are the low capital costs, the low level of interest rates in the Eurozone increasing the level of investment in goods production in Germany, and exports especially are driving this positive development.
- The historically low number of unemployed people also cause the GDP to grow.
- Although the interest rate for savers is still very low, Household spending in Q1 2017 shows lower growth compared to the rest of the quarters. One reason for this is the significant increase in final consumer prices.

Source: Eurostat

# Macro-economic context - Germany



## Total inflation and food & beverage evolution, in %, in Germany



### Comments

- The inflation rate shows a significant level in Q1 2017 in Germany, with a growth of 2.2%. One of the main drivers is the price increase for energy. The crude oil price in particular rose at the end of the year 2016 and at the beginning of the year 2017 as the OPEC countries reduced their subsidy.
- In particular, the acquisition costs for energy and raw materials increase the production costs for food and beverages and thus drive consumer prices.

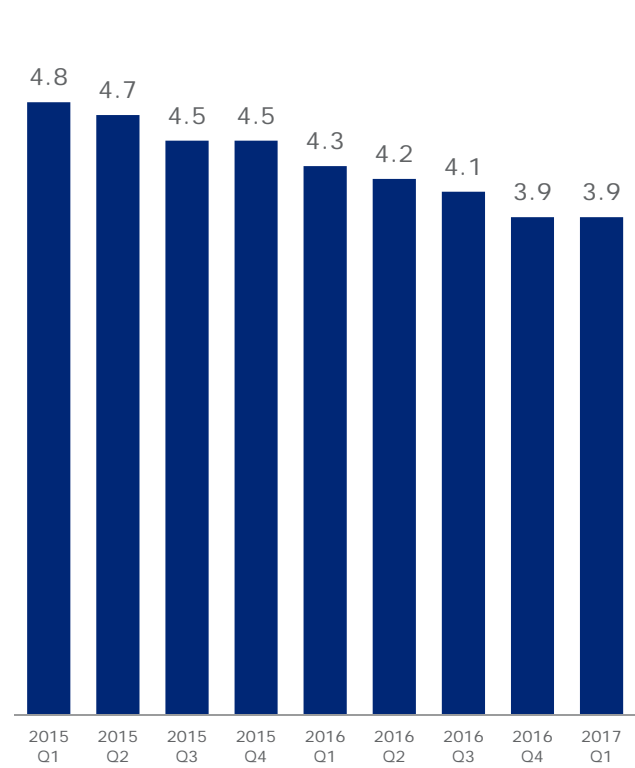
Source: Eurostat

# Macro-economic context - Germany

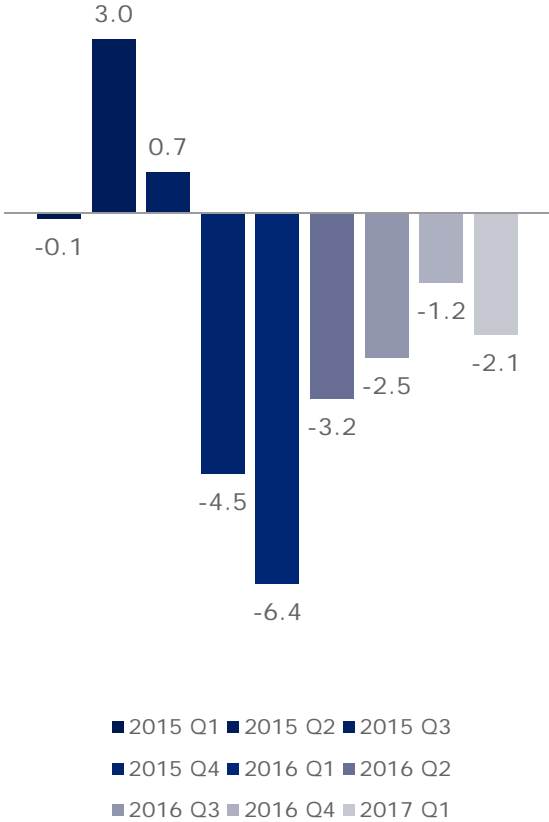


## Unemployment and household confidence evolution, in %, in Germany

Unemployment rate (first month of each quarter)



Confidence level



### Comments

- The unemployment rate shows a significantly low level of 3.9% in the first quarter of 2017. In particular, a good performance in the industry and rising investments are creating jobs.
- The global uncertainty caused by wars and terror attacks also makes German households feel less optimistic about the future. Above all the security situation in Germany influences the assessment.

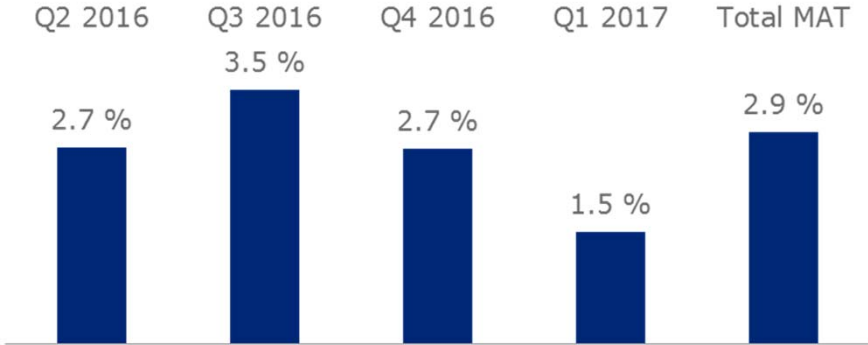
Source: Eurostat

# Total FMCG, Q1 2017 - Germany



## FMCG evolution in value, volume and volume price, in %, in Germany

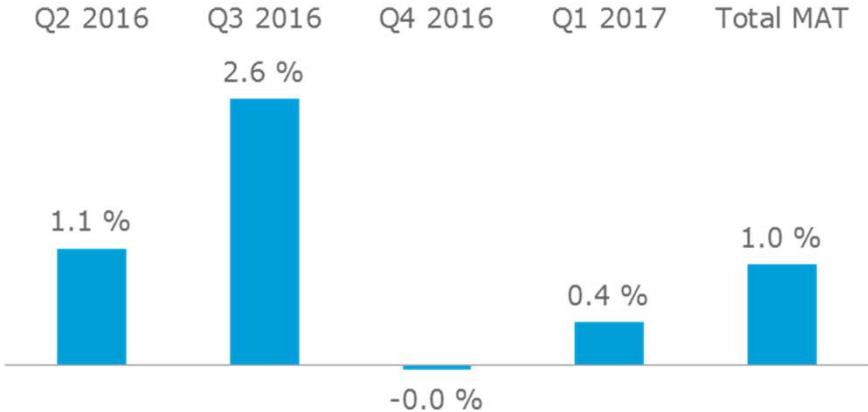
Total FMCG value (% increase)



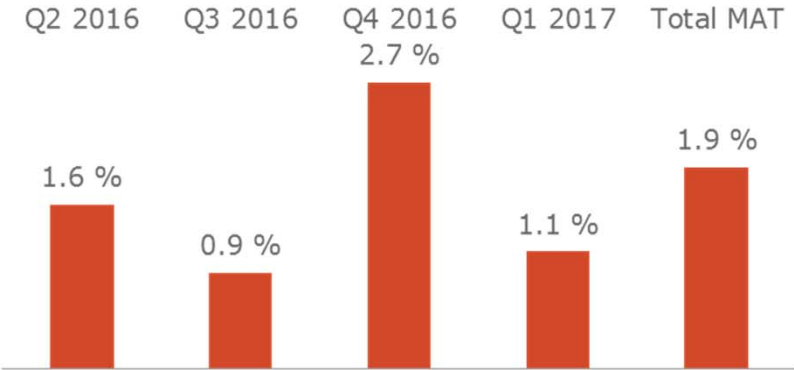
### Comments

- Q3 showed strong sales, driven especially by the categories of chilled and frozen food.
- Significant price growth in Q4 slowed down the positive value and volume development. Especially the lower volume development of non-alcoholic beverages.
- Growing acquisition costs for energy and raw materials have increased production costs and are driving consumer prices.

Total FMCG volume



Total FMCG volume price



Source: IRI  
Coverage: total channels



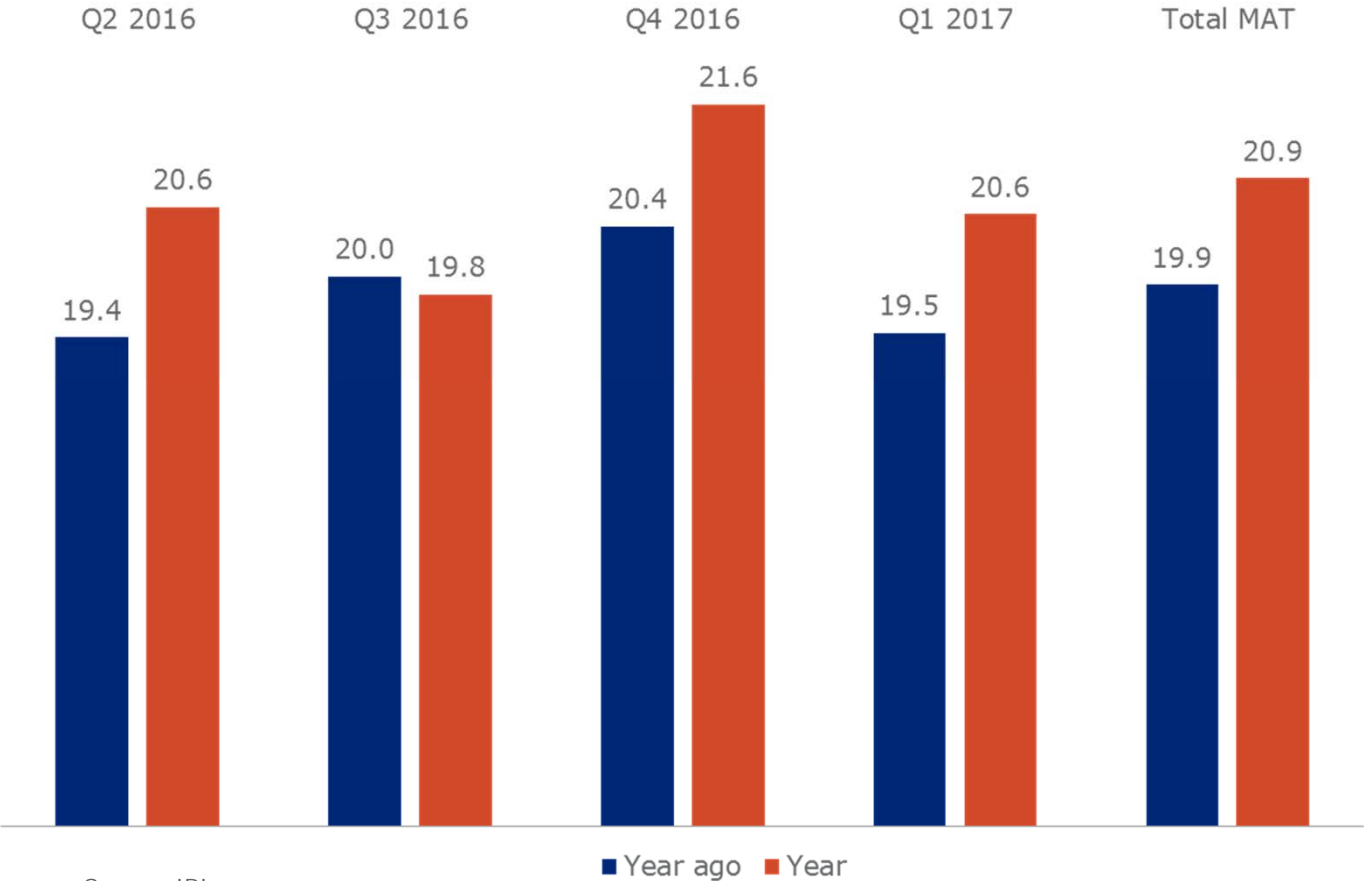


# Promotion, Q1 2017 - Germany



Total FMCG excluding fresh segments, value on promotion, in %, in Germany

Total FMCG excluding fresh segments value on promotion



### Comments

- Except for Q3, the value of promotion sales has increased versus the previous year – however, the increase is only decimal.
- Not surprisingly, in order for the FMCG industry to finish strong and backed by numerous social festivities, Q4 shows the highest value share in promotions.

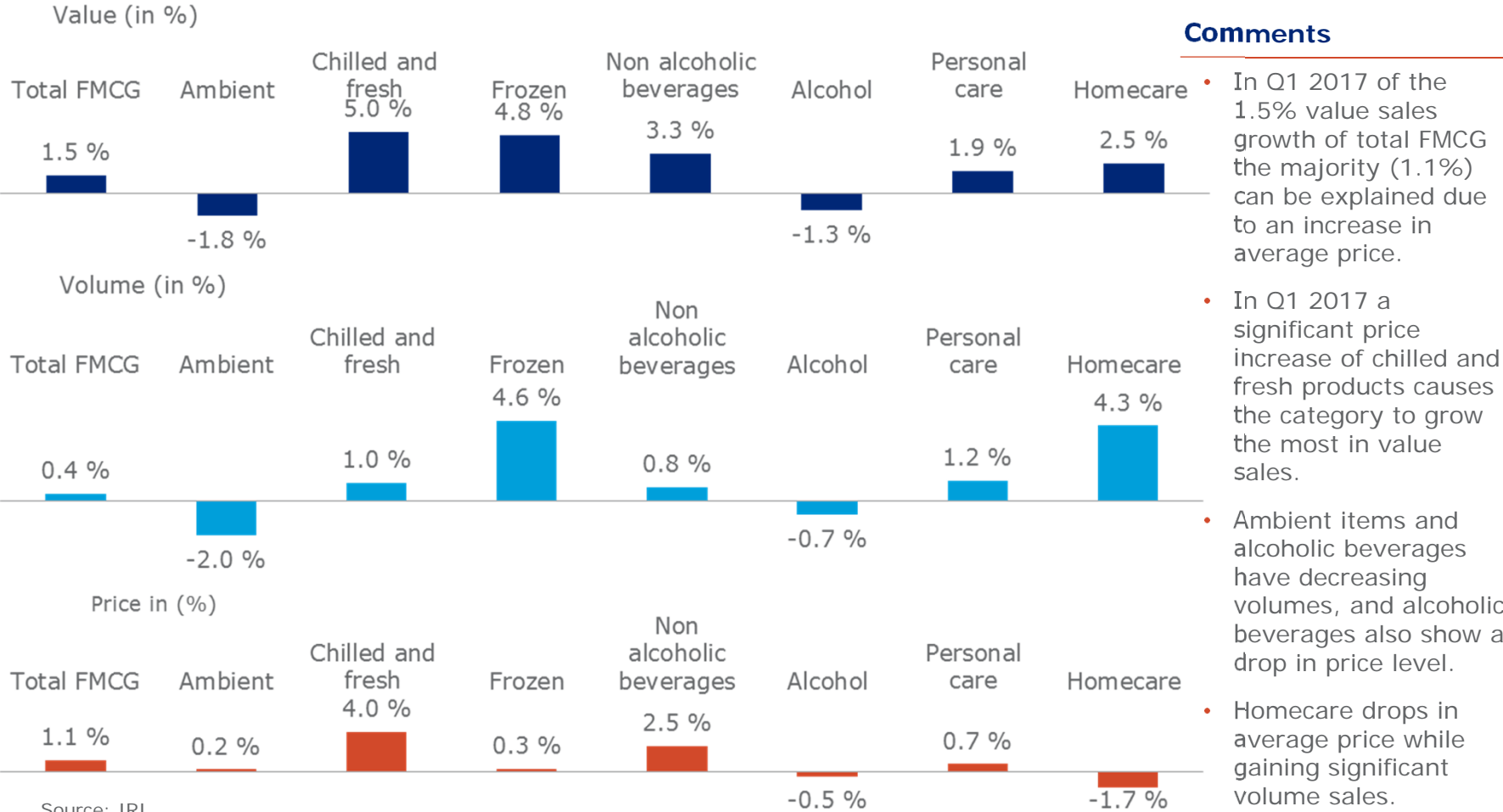
Source: IRI  
Coverage: total channels



# Categories short term sales, Q1 2017 - Germany



FMCG categories value, volume and price evolution, in %, in Germany

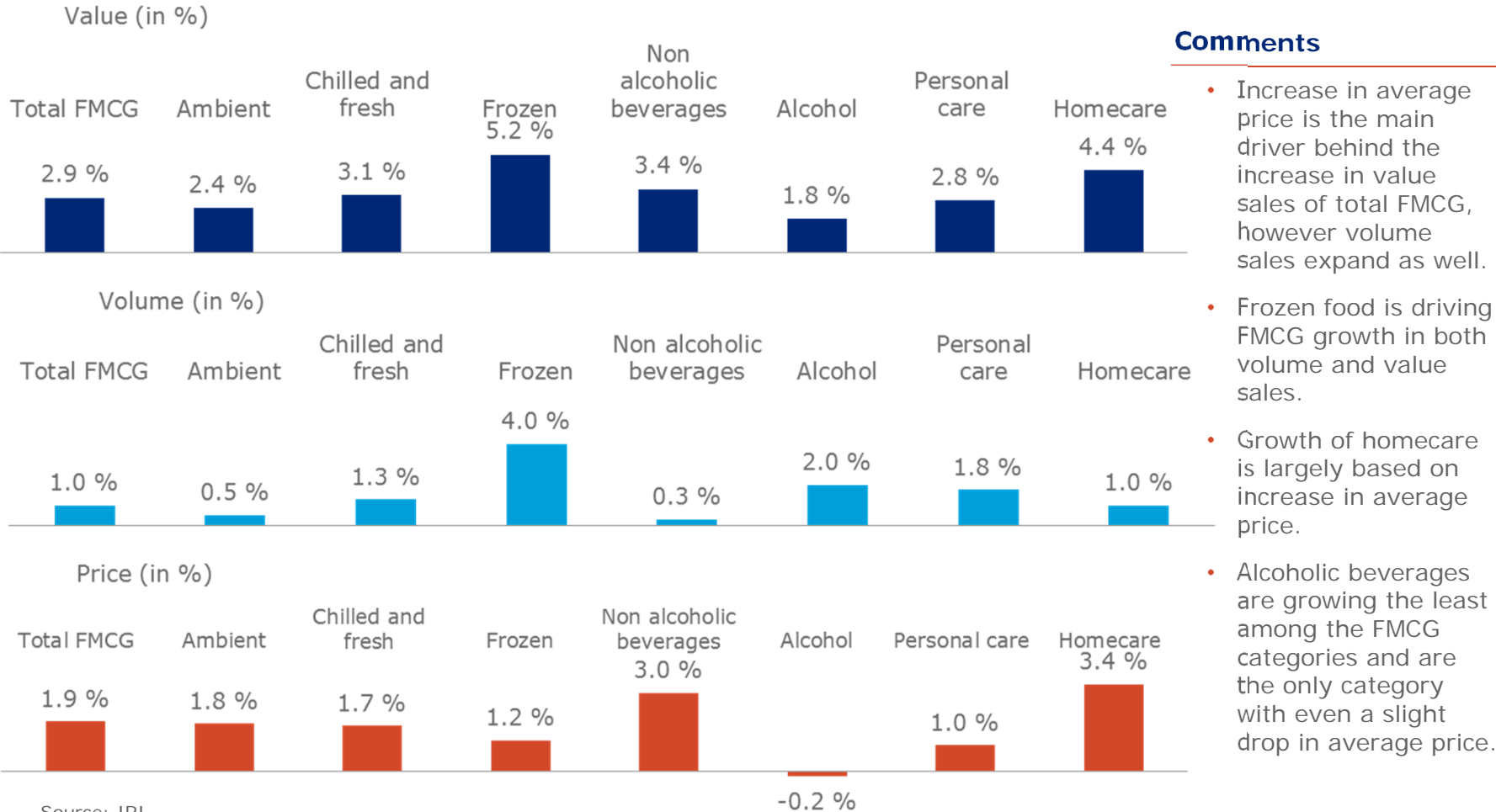


Source: IRI  
Coverage: total channels

# Categories sales, moving annual total, Q1 2017 - Germany



## FMCG categories value, volume and price evolution, in %, in Germany



### Comments

- Increase in average price is the main driver behind the increase in value sales of total FMCG, however volume sales expand as well.
- Frozen food is driving FMCG growth in both volume and value sales.
- Growth of homecare is largely based on increase in average price.
- Alcoholic beverages are growing the least among the FMCG categories and are the only category with even a slight drop in average price.

Source: IRI  
Coverage: total channels

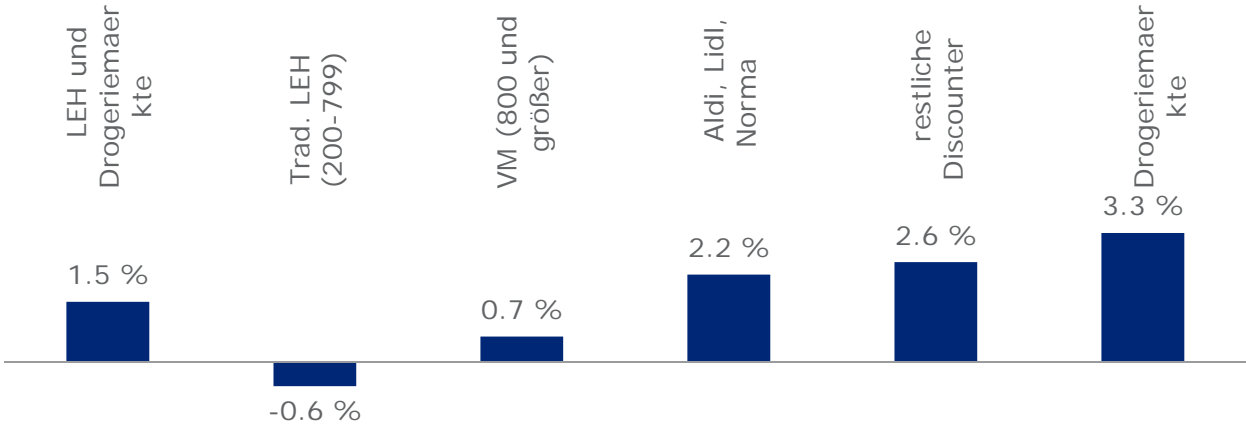


# Channels landscape, Q1 2017 - Germany

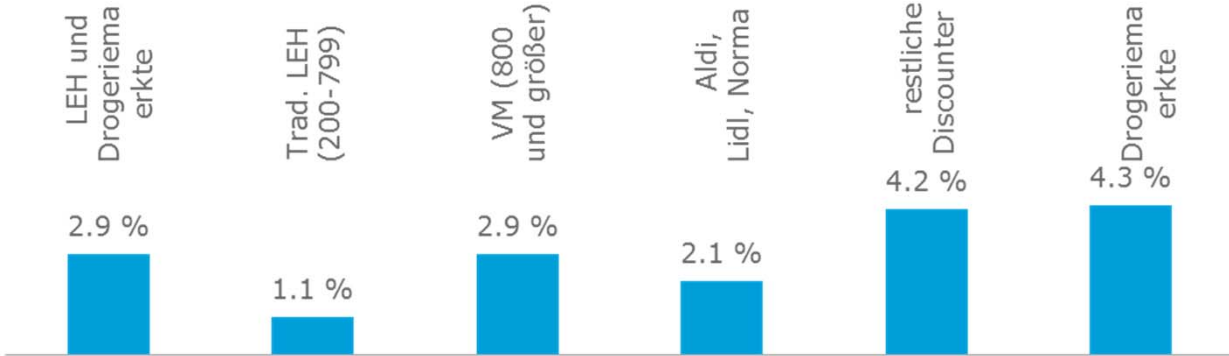


## FMCG channels weight evolution, in %, in Germany

CHANNELS short term results Q1 2017



CHANNELS MAT results



Source: IRI

Coverage: total channels

### Comments

- The largest growth in the German FMCG channel landscape is by drugstores and discounters. The drugstores and discounters in particular benefit from a broadening of the range of products and further investments in the presentation of goods at POS and shop fitting.
- The hard discounters especially benefit from the listing of various branded products in all categories and an improvement of the product range in the fresh categories.
- Smaller grocery stores are in trouble, with a shrinking market share in Q1 2017.



# Growth Opportunities



- **Price and promotion can't be the only levers.** Retailers need to find differentiations in the shopping experience (e.g. assortment, services, channels).
- **As margins are shrinking** for retailers and manufacturers, they need **to focus on collaboration** and work as partners with one common objective: to enhance the shopper experience. Big data technology and collaborative portals will enable both parties to better understand the path to purchase.
- Manufacturers and retailers can use the same **assortment optimisation** solution that assesses the true value of each item, based on its attributes (such as pack size, format, function, price band, etc.), to identify and understand crucial elements that influence shopper decisions and the drivers of growth for individual brands and a category as a whole.
- Brand teams need **a clear view of what impacts each trip mission** for each shopper segment if they are to gain market share and/or develop margins.

- **Systematic promotion analysis must become normal practice.** With set goals, appropriate analytics solutions will simulate price and promotion tactics to improve margins, revenue, brand and category performance as well as competitive advantage.





## HOW WE CAN HELP YOU DRIVE GROWTH?

- **IRI Global Executive Market Reviews (IRI GEMs)** give Fast Moving Consumer Goods (FMCG) manufacturers and retailers access to POS-based information outside of their home country. This solution is ideal for exploring new market opportunities, to understand the players and products in countries where you don't yet have a presence. This is also valuable for understanding new or adjacent categories in foreign markets. IRI GEMs are based on the retail census data IRI collects from grocery, drug and other available FMCG retailers across countries. Information is available from the United States, the UK, France, Germany, Spain, Italy, the Netherlands, Greece, Puerto Rico, Australia, New Zealand and Japan.
- **IRI Price & Promo models** provide a global analytical solution for all revenue management needs. They enable both retailers and manufacturers to get fast and in-depth category insights on key price and promotional levers, to understand their respective impacts on the portfolio, allowing full return on investment analyses, identifying growth opportunities, and enhancing overall bottom line.

## WHY ONLY WITH IRI?

- **Faster:** IRI's unique Liquid Modeling™ technology, leverages WhiteBox in-memory database-farm to ensure integrated workflows with high responsiveness and unprecedented speed across the what, so what and now what.
- **More Accurate:** Proprietary IRI algorithms and advanced prescriptive analytic methodologies identify opportunities, quantify the revenue potential and recommend specific actions.
- **Proven:** A never before used integrated and expanded causal dataset, built on the basis of three decades of unique IRI expertise.
- **Trusted:** Working with 95% of CPG, retail and health & beauty companies in the Fortune 100.
- **Certified:** The biggest and fastest growing marketing analytics centre in the world, located in Europe and ISO certified.



## FINAL NOTES

- **Source:** IRI InfoScan, syndicated retail tracking service.
- **Methodology:** Quarterly review, year-on-year data for fast moving consumer goods.
- **Channel coverage:** Supermarkets, discounters, convenient stores and drugstores.