TIMES AND TRENDS

Consumer Health: Unlocking the Growth Opportunities

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Growth delivered.

Health is a Lifestyle Trend Encompassing Both Physical and Emotional Wellbeing

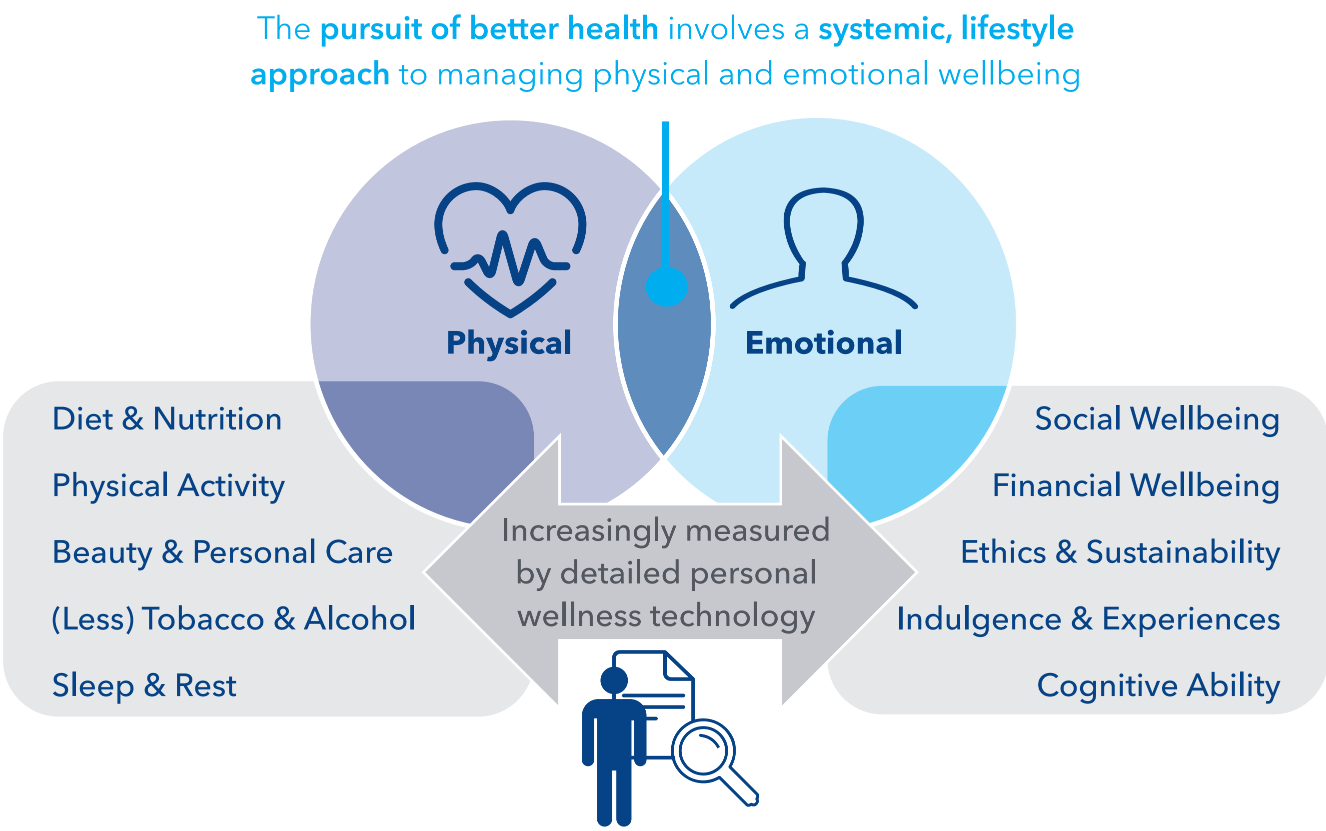
Health is a complex and engaging issue for consumers today, as Australians adopt a more holistic and personalised approach to optimising their physical and emotional wellbeing. By satisfying a combination of wellbeing cues documented in Exhibit 1, brands can resonate more strongly with consumers.

Health is a personally involving issue, providing considerable impetus for deeper product contemplation throughout the path-to-purchase. It therefore represents a compelling opportunity to drive value for industry players at a time of relentless pricing and margin pressure in Australian FMCG retail. But herein lies an inherent challenge; every consumer has their own definition of what it means to be healthy so approaches need to be carefully considered.

To help navigate the complexities, IRI has identified five core health trends that should underpin retailer and manufacturer responses to win. The trends are enduring and applicable across the spectrum of retail channels from OTC Healthcare to Liquor.

EXHIBIT 1

Health is a lifestyle trend encompassing both physical and emotional wellbeing.



Source: IRI analysis

The Key Health Trends Driving Growth in FMCG

1. **Holistic Health:**
   Engagement with health is prompting a more evaluative and inquisitive consumer who – aided by an abundance of personal wellbeing technology – can measure and adapt their behaviour in pursuit of optimal physical and emotional health outcomes.

2. **Conflictions & Contradictions:**
   Consumers are engaged and well intentioned, but also highly sceptical and overwhelmed. Sub-optimal health outcomes – and strong sales of inherently indulgent products – are evident as six different Australian shopper segments approach their households' health in fundamentally different ways.

3. **Naturally Functional:**
   Consumers want nutrient dense foods, and highly efficacious beauty products, based on the inherent virtues of the naturally occurring active ingredients. The trend overlaps considerably with the movement towards clean(er) labels.

4. **Restrict & Evade:**
   From the demonisation of sugar, to the deliberate restriction of alcohol intake, health mindful Australians are making a greater number of lifestyle and product choices guided by moderation and abstention. Doing so is impacting sales of established categories, as well as propelling new and emerging product formats like Mid-Strength Beer that help to mitigate guilt.

5. **Premium Permissibility:**
   By restricting vices like sugar and alcohol, more consumers are journeying into the premium tier of indulgent product categories. Best-of-the-best ingredients, and authentic narratives documenting the exacting behind-the-scenes processes, give consumers license to indulge with a "less-of-the-best" mentality.

Capitalising on the Shift Towards Holistic Health

The multifaceted steps taken to achieve better health creates an environment of broader expectations particularly for natural products positioned at the intersection of the health and ethical trends.

Propositions linking health, ethical sourcing, and the environment are well placed to entice today's shoppers. Sukin, the number one selling natural skincare brand in Australia's OTC Healthcare retail channel, is nicely tapping into the demand to "feel good by buying good."

Another theme driving the shift towards Holistic Health is heightened control and measurement. Over two-thirds (68%) of IRI's shopper panellists think that technology allows for more control over life. Such sentiment reflects the proliferation of personal wellness technology providing real-time insight for health mindful Australians to track their health and fitness, food, diet, sleep, and mood.

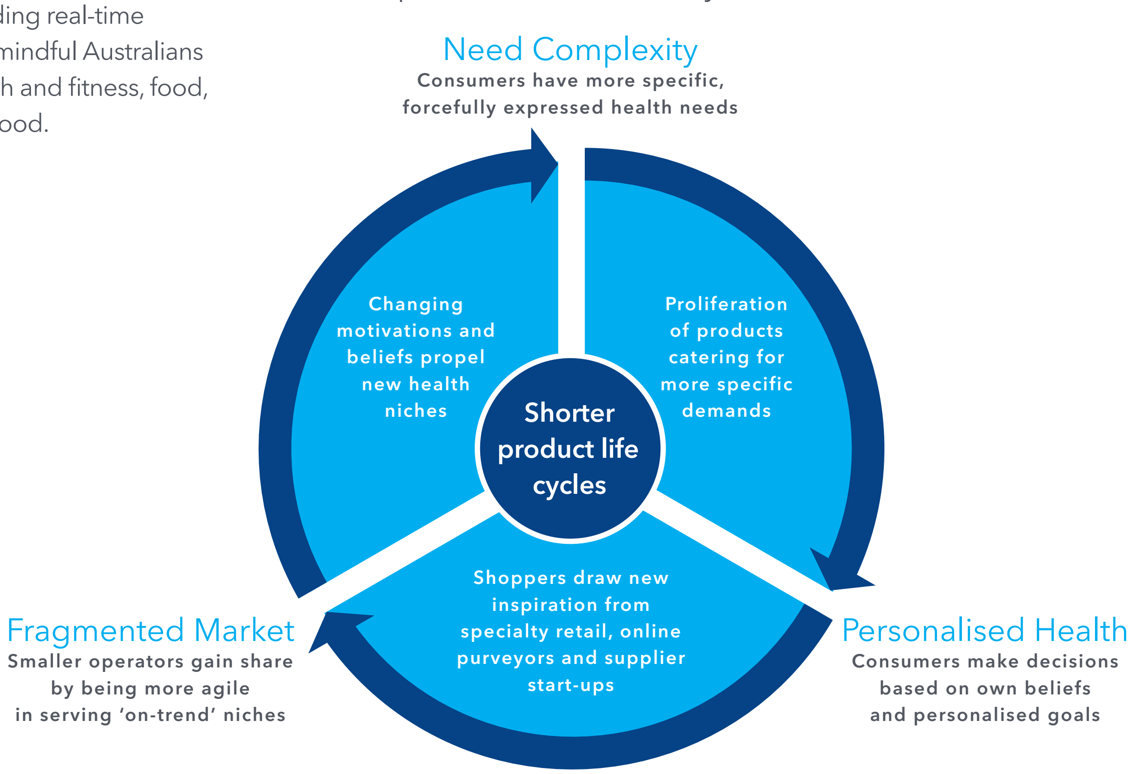
EXHIBIT 2

Going forward, more consumers will adopt a long-term, holistic approach.

	QUICK FIX (Past)	LONG-TERM (Future)
Product	• Compromise • Medicinal • Mundane • One-size-fits-all	• Have-it-all • Inspirational • Specialised • Personalised
Usage/ Catalyst	• Reactive • Treat Illness • Treat Conditions • Idealism	• Proactive • Enabling Vitality • Enhance Quality-of-life • Pragmatism
Interaction/ Engagement	• Grudge purchase • Compromise/sacrifice • Compliant • Static	• Engaging/Fun • Discoverable/Trendy • Self-assessed/Analytical • Dynamic
	MYOPIC	HOLISTIC

EXHIBIT 3

Retailers and manufacturers alike need to be responsive to three key issues.



Source: IRI analysis

Resolving Conflictions And Contradictions

Arguably the greatest confliction is that the desire for better health outcomes for ourselves and for others rank among the leading sources of stress.

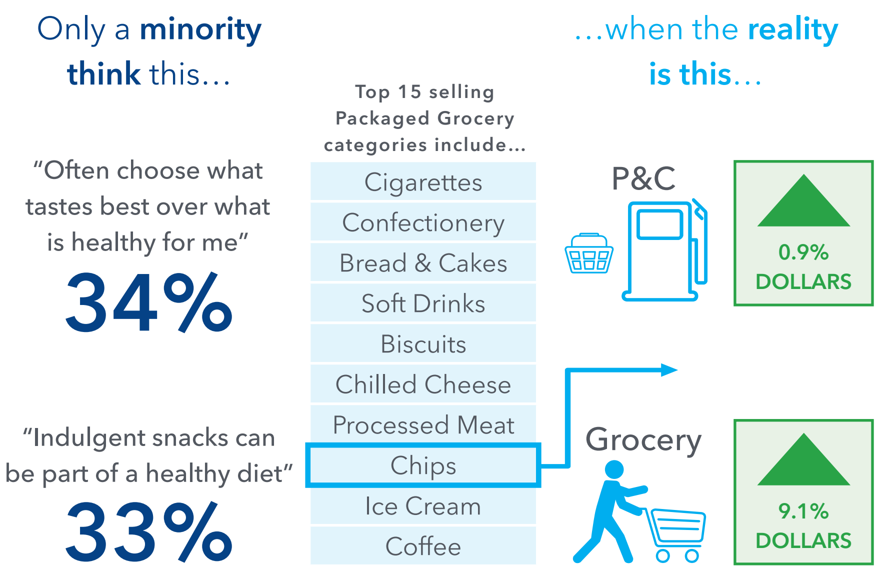
Furthermore, choosing optimal products that align with our health goals is challenged when only 25% of Australians believe food/drink label claims on products are accurate and truthful. Furthermore, over half (51%) of IRI's shopper panellists feel overloaded by the amount of information available today.

Distrust, overload and uncertainty coexist with the reality that consumers wrongly think they are doing better than they really are, and consistently make choices that conflict with their underlying positive intent. Approaching half (44%) of Australians think that they follow a balanced, healthy diet and the quality of fresh fruit/vegetables is what IRI's Australian shopper panellists say is the leading determinant of grocery store choice.

Yet only 5% of the population are consuming the recommended daily quota of fruit and vegetables. IRI's MarketEdge also reveals that 10 of the top 15 categories ranked by dollar sales in the Packaged Grocery domain are inherently indulgent products (see Exhibit 4). Dollar sales of Chips sold through Grocery stores are close to recording double-digit annual growth.

EXHIBIT 4

Spending patterns do not fully reflect our stated healthy intentions.

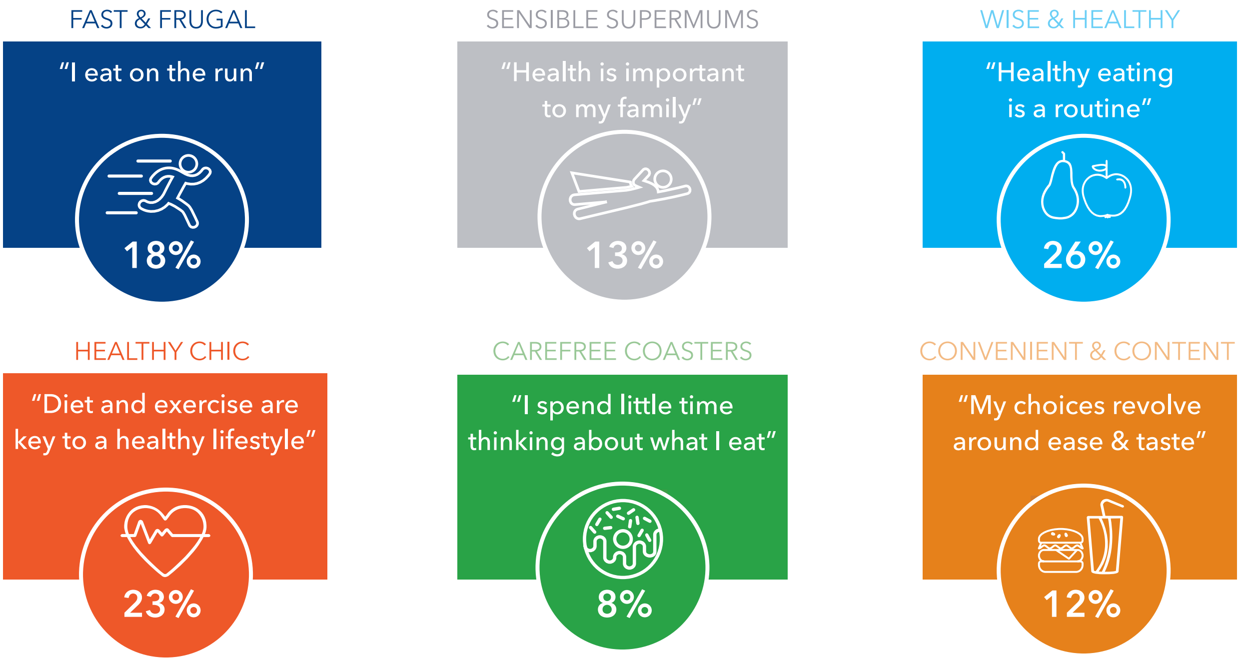


Source: IRI Shopper Panel 2017; IRI MarketEdge Grocery MAT to 18/06/17, P&C MAT to 27/08/17

EXHIBIT 5

Six different shopper segments approach their households' health in different ways.

Suppliers and Retailers Alike must be Mindful of Which Segments to Win



Source: IRI Shopper Panel 2017

Fundamental differences exist in mentality, lifestyle and motivations surrounding health. IRI has identified six shopper segments, each of which approach their households' health, diet and nutrition in different ways. Consumers think, live, and shop differently, depending on the segment. Suppliers and retailers alike must be mindful of which segments they want to win because effective targeting of these groups is key to unlocking the dollar opportunity.

While the 23% of 'Healthy Chic' Australian shoppers are the core drivers of the trend towards Holistic Health, the other segments documented in Exhibit 5 may also be key to driving performance. For example, the $13 million growth in ready-to-eat packaged popcorn, which has capitalised on latent demand for better-for-you snacks in both Grocery and Petrol & Convenience, has been driven by three segments: 'Sensible Supermums,' 'Fast & Frugal,' and 'Healthy Chic.'

Harnessing Nature's Potency

Almost two-thirds of IRI's shopper panellists say they look to purchase products which contain as many natural ingredients as possible. This is reflected in a number of categories where there exists a heightened focus on the inherent nutritive value (food and drinks) and chemical-free efficacy (beauty).

This sentiment underpins the soaring growth recorded in the last two years in virtuous consumables like Kombuchca (+$8 million), Coconut Water (+$24 million), and Extra Virgin Olive Oil (+24% dollar growth). In the beauty domain, the pursuit of Naturally Functional has propelled the $26 million in growth generated by Natural Skincare brands like Sukin, Natio and Trilogy in OTC Healthcare.

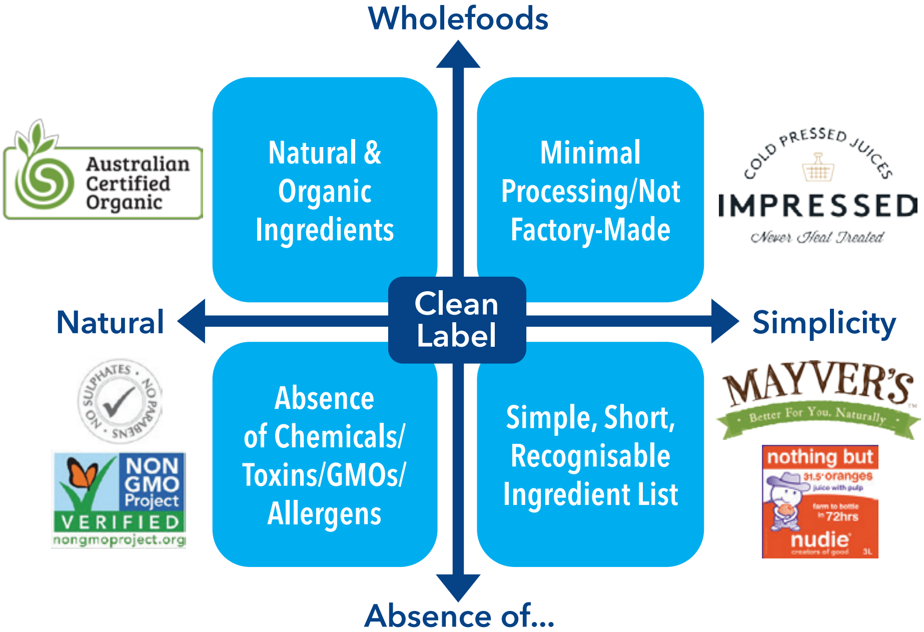
Over the past two years, highly penetrated categories such as Milk and Cheese have seen a resurgence in full fat product sales (+16% and +9% respectively), as consumers respond to changing perspectives in nutritional science about fats. But it also reflects a preference for natural wholefoods, and the related desire for minimal processing.

Importantly, consumer perceptions position "naturally functional" and "clean label" close together as outlined in Exhibit 6.

EXHIBIT 6

"Naturally Functional" aligns with the wider trend towards clean labels

Clean Labels are Associated with Four Core Themes



Source: IRI analysis

Evading And Restricting Vices

Consumer restraint is evident across a range of FMCG categories and retail channels. Australian Tobacco unit sales in both Petrol & Convenience (-6%) and Grocery stores (-8%) are also being squeezed by the trend towards abstention. Concurrently, IRI's MarketEdge reveals a double-digit uplift in unit sales of Smoking Cessation items in the OTC Healthcare channel.

Elsewhere, an intensifying aversion to sugar is evident in underperforming centre-store Grocery categories such as Soft Drinks, Soup and Cordials (see Exhibit 7). In contrast, Bottled Water sales are up nearly 30% in dollar terms in just 2 years.

The moderation of alcohol intake is prompting manufacturers to reassess their portfolios and place a stronger emphasis on lower-abv and lower-calorie alternatives. The impact on sales has been profound: Low-Carb and Mid-Strength Beer are two of the top 3 growth segments across the entire Liquor industry in generating $140 million in additional sales in the 52 weeks to 2nd July 2017. Internationally, a proliferation of low calorie and zero-alcohol wines suggest that we are approaching an important tipping point for the liquor channel moving forward.

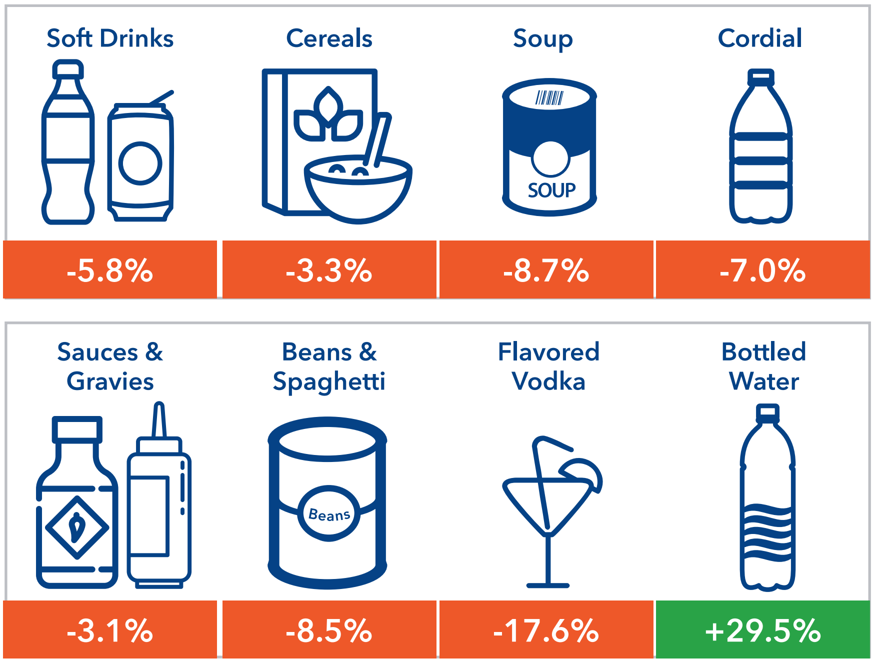
EXHIBIT 7

Sugar has shifted to centre stage as the new dietary demon.

Source: I Quit Sugar with Sarah Wilson

Spotlight on Hidden Sugars Has Escalated

Examples of negative growth categories (%) 2015 – 2017



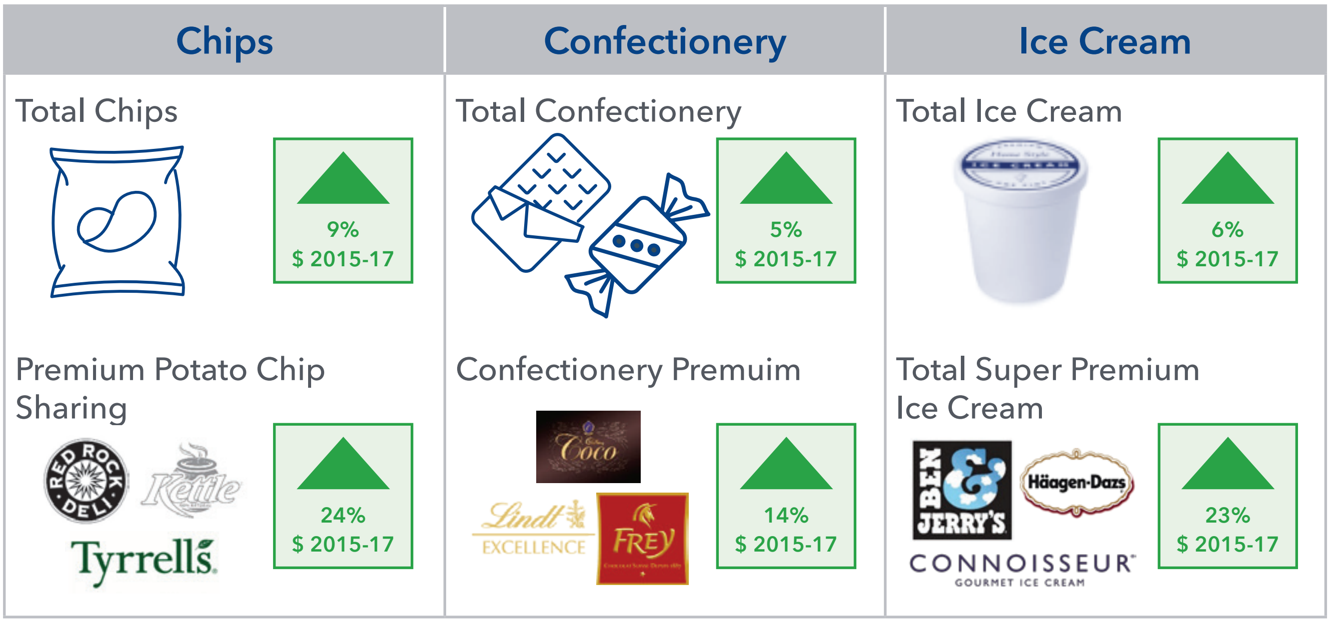
Source: IRI MarketEdge, MAT To 18/06/17; *Take Home Only

Driving Value Through a Healthy Price Premium

EXHIBIT 8

'Premium Permissibility' is evident in Chips, Confectionery and Ice Cream.

Growth in Premium is Driving Sales in Many Key Categories



Source: IRI analysis

Higher-end Artisan Drinks, Confectionery and Bakery goods (to name just a few categories) have growing appeal to quality (and health) conscious Australians who want to know more about the background of what they are eating and drinking. This covers the history, how it is made, where it is from, what it contains and the people behind it (and the values of the people who are making it). So-called "Big Food" tends to be perceived more negatively against these expectations which is why larger suppliers across developed markets have been losing share to smaller suppliers perceived as being more authentic, trustworthy and contemporary.

As health mindful consumers are moderating intake, a "less-of-the best" approach to consumption is legitimised. Nowhere is this behaviour more evident than in Craft Beer – a category that is symbolic of a fundamental shift in Australia's more moderate drinking culture.

Elsewhere, deluxe Chips, Confectionery and Ice Cream are all outperforming category averages on account of the 'Premium Permissibility' trend (see Exhibit 8). It is evidence that opportunities exist in targeting health-conscious consumers who will pay higher price premiums.

Framework To Win

In addition to the five enduring trends discussed, IRI has also identified four key factors that should underscore any health-aligned innovation activity. They primarily relate to important product and brand attributes, but also the crucial element of effective shopper profiling and targeting.

To help CPG manufacturers and retailers identify and leverage the varying shopper beliefs about health and nutrition, IRI's NutriLink segmentation classifies Australian consumers into six groups based on their behaviour and attitudes toward health, diet and nutrition, as well as their demographics. These insights can unlock new opportunities to drive sales volume, increase consumer loyalty and develop successful new products.

EXHIBIT 9

Address these four principles for winning in health and wellness aligned NPD.

Source: IRI analysis

Resources

If you enjoyed this report, you may be interesting in the following IRI solutions, which provide insights into important trends that are impacting the market:

For Sales and channel management that goes beyond the "what" to deliver the "how" and "why", tap into **IRI Market Edge™**

For insights generated by longitudinal consumer purchasing, shopping, attitudinal, demographic and geographic information, turn to **IRI Shopper Panel™**

To gain an understanding the needs and wants of specific shopper segments and how to activate against these segments, turn to **IRI Segmentations**

To fuel iterative consumer and shopper analyses turn to **IRI's Consumer Shopper Analytics Consultants™**

ABOUT THE PRACTICE

Consumer Shopper Analytics
IRI's Consumer Shopper Analytics practice maximises effectiveness of in-store execution by identifying how to boost sales through optimising assortment, pricing and promotion by using IRI's solutions that drive granular planning and activation.

Growth delivered.

About IRI
IRI is a leading provider of big data, predictive analytics and forward-looking insights that help FMCG, OTC health care, retailers and media companies to grow. With the largest repository of purchase, media, social, causal and loyalty data, all integrated on an on-demand cloud-based technology platform, IRI guides over 5,000 clients globally in their quests to remain relentlessly relevant, capture market share, connect with consumers and deliver growth. Move your business forward at IRIworldwide.com.

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