TOTAL CONSUMER REPORT

VERSION I

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WELCOME

The formula for growth is simple. There's really only three levers you can pull: find new buyers, get your buyers to spend more, and/or raise prices.

But, talk to most retailers and fast-moving consumer goods (FMCG) companies today and they'll tell you that growth is increasingly hard to find. Our population is growing at the slowest rate since the Great Depression. For many categories across FMCG, we're actually in a deflationary environment. And for many consumers, they're spending their dollars elsewhere.

So, it's no surprise that the total FMCG and retail pie doesn't appear to be growing at all. But we're not facing a slowdown. What we're being forced to grapple with is a systemic change to where, how and why consumers are shopping.

But, the good news is, there are new consumers entering the market. Many of those consumers are willing to pay a premium for what matters to them. So, how do we turn those factors in our favor and create real growth?

That's why I'm excited to share this report with you. We'll follow consumers' dollars and help you understand why these new channels, services and brands are winning. And what's more, we'll give you a sense of what you can do to respond.

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OVERVIEW

Remember when business was just a little simpler? Back before media and retail platforms and channels had really fragmented. Back before digital disruption had really taken hold. We're not talking about decades though. Can you remember back just a few years?

It used to be that a rising tide raised all boats across FMCG and retail. When growth was abound, we all benefited. Over the last few months, there are many signs that the tide has washed back out to sea as growth has all but dried up.

But, the tide is still rising. It's just being much more selective about which boats it's lifting.

In some ways, this is nothing new. Just three years ago, the smallest 10,000 or so companies drove half of the growth across food and beverage categories. At the same time, the largest ten companies contracted. But the pace of change is unlike anything we've seen. Today, the only food and beverage growth that remains is from that long tail of companies.[1] We see similar dynamics play out across the entire FMCG and retail landscape.

Over the last few years, the FMCG retail landscape has expanded tremendously. The emergence of new platforms like meal kit and restaurant delivery services, and the expansion of deep discount, fresh and convenient retail formats have given consumers more choice than ever. It's nearly impossible to cast a net wide enough to capture all of this fragmentation.

But if you do, looking across all of these channels, a fundamentally different view of the landscape emerges.

Look at the growth across the traditional retail landscape including UPC and random weight products. Add to that growth from emerging fresh, convenience, club and discount retailers. And finally layer on emerging online channels and the "doom and gloom" story about an industry in peril shows moderately healthy growth once again.

[1]Nielsen Answers, Total U.S., 52 weeks ending May 27th 2017 vs. year-ago, and 52 weeks ending May 31st, 2014 vs. year-ago, UPC-coded, Based on manufacturers selling at least $100,000 per year

DOLLAR SALES GROWTH BY CHANNEL

Online channels drove 89% of FMCG growth in the last year

Channel	2016	2017	Dollar Share	Growth Share
ALL OUTLETS COMBINED UPC & RANDOM-WEIGHT	$772B	$771B	79%	-5%
EMERGING RETAILERS INCLUDING WHOLE FOODS, COSTCO, CONVENIENCE AND OTHERS	$126B	$129B	13%	14%
ONLINE INCLUDING E-COMMERCE, MEAL KITS AND GROCERY DELIVERY	$56B	$74B	8%	92%

Source: **1.** Nielsen Answers and FreshFacts, Total U.S.. **2.** Nielsen analytics and estimates. **3.** Nielsen E-commerce Measurement and 1010data credit card panel data. All 52 Weeks ending May 27th 2017 vs. year-ago

So, yes, this is a story about growth. But, more fundamentally, this is a story of an industry going through seismic change. Nearly nine out of 10 dollars of FMCG retail growth came from online channels over the last year. That's what happened. Now, the questions that matter are why and what's next?

E-COMMERCE

Look at the headlines surrounding Amazon's acquisition of Whole Foods and it's clear that e-commerce is fundamentally changing the retail landscape. While some will blame e-commerce for the store closings and a record pace of retail bankruptcy filings,[2] it's clear that the future of retail will be built on a digital foundation.

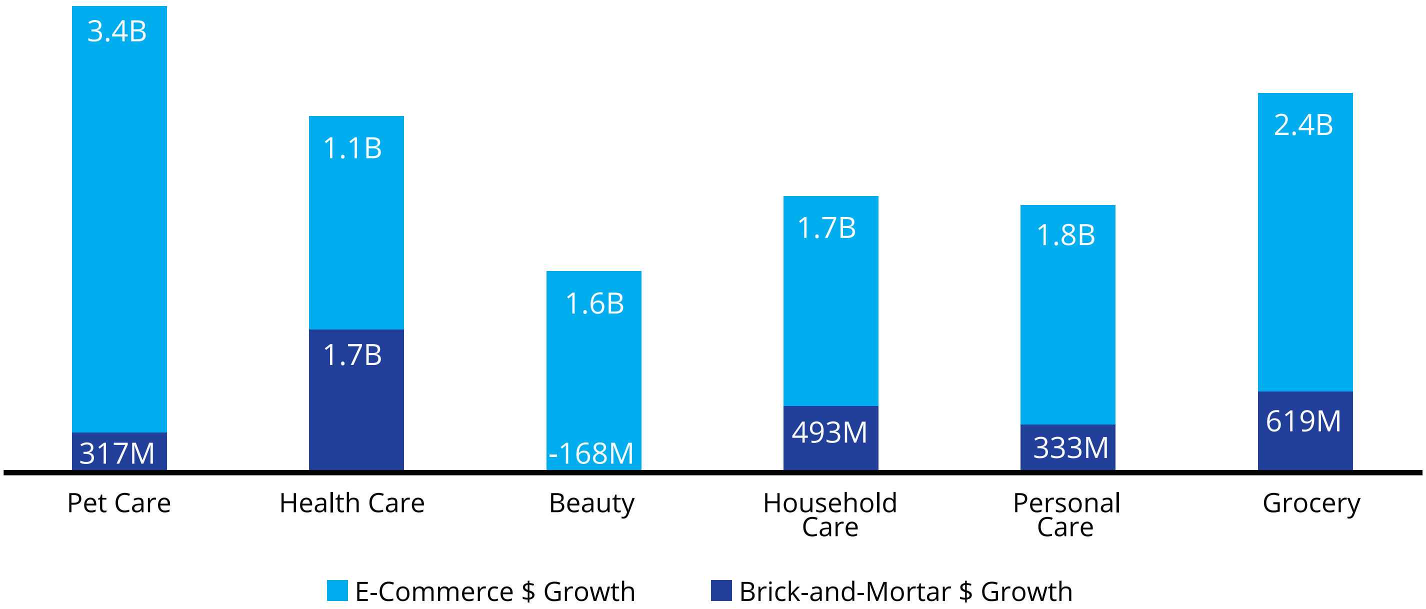
Relative to sectors like apparel and electronics, it is still early in the evolution of e-commerce for most FMCG categories. But, it seems like not long ago that people said we'd never buy clothes online. Today, more than half of Americans are buying apparel online.[3] And, while 23% of Americans are buying groceries online today, that's expected to more than triple in under ten years.[4] Some more well-developed FMCG categories across beauty and personal care are already seeing penetration climb that curve.

[2]Bloomberg, *Retailers Are Going Bankrupt at a Record Pace*, April 2017
[3]Nielsen, *Global Connected Commerce* Report, January 2017
[4]Nielsen and FMI, *The Digitally-Engaged Food Shopper*, January 2017

While e-commerce represents, at best, roughly a third of category sales, it's growing so rapidly across FMCG that it's contributing significantly to growth. For edible categories, more than half of all growth is coming from e-commerce. For personal care, e-commerce is driving 80+% of growth. The story for pet care is even more dramatic, where 90% of total growth is coming from e-commerce.

ABSOLUTE DOLLAR GROWTH

FMCG categories are seeing outsized growth from e-commerce



Source: Nielsen Total Store Report, 52 weeks ending April 29, 2017 vs. year ago. See end notes.

So, any FMCG strategy that's not already factoring in e-commerce is missing a big part of the growth story. For some categories. It's completely changing the story. Over the last few years, growth in traditional channels for baby food sales has been essentially flat. With slow population growth and more Americans delaying starting a family, there are simply fewer young mouths to feed. But in 2016, e-commerce grew fast enough to add 5 points of topline growth to the 1% contractions in traditional channels, resulting in net positive growth for the category.

GET MORE FROM YOUR "BEST" CONSUMERS

How is possible that a category like baby care can grow, knowing there are fewer buyers in the market? Remember our growth formula: consumers, baskets and prices. And, in no other category, with the possible exception of pet foods, are consumer more willing to trade up to the best products. E-commerce makes it easier to find what's best.

Today's e-commerce shopper is a focused shopper. She shops half the number of departments online as compared to in-store.[5] She may not know exactly what brand or product she's going to buy and in fact, Nielsen's omnishopper studies show she's more open to trying new brands and products online across most categories.[6]

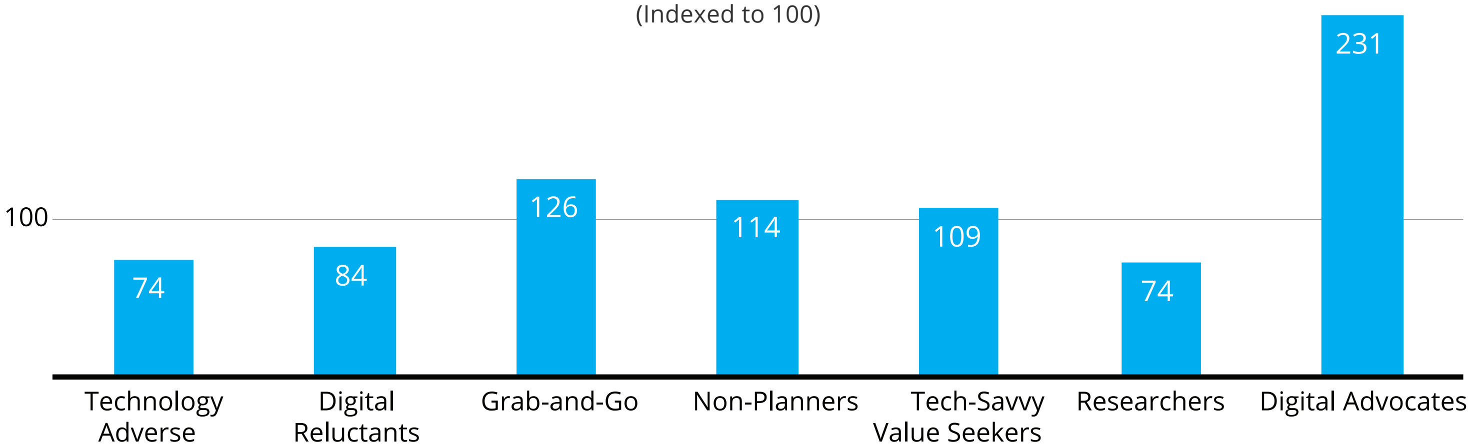
But, more than any other channel, online baskets are also shrinking. Consumers spent 5.6% less per trip online versus the year prior.[7] Still, behind just warehouse clubs and supercenters, online channels represent some of the largest baskets across retail.

We've segmented digital shoppers into groups ranging from the Tech Averse to true Digital Advocates. For the Digital Advocates, the earliest adopters of FMCG online shopping, buying online is a way of life. In fact, they buy online more than twice as often as the next most prolific online consumers, the Grab and Go convenience-oriented buyers.

[5]Nielsen, *Swipe to Buy* Report, January 2017
[6]Nielsen, *Don't Miss the Omnishoppertunity* Study, April 2017
[7]Nielsen Homescan, Total U.S., 52 weeks ending April 29th 2017, UPC-coded

TOTAL ONLINE PURCHASE FREQUENCY

Digital advocates buy online twice as frequently as the next most prolific segment
(Indexed to 100)



Source: 2017 Nielsen Digital Shopping Segmentation. Read as: Digital Advocates shop online 2.3 times as frequently as the average shopper.

DIGITAL SHOPPING SEGMENTS

Technology Averse	Digital Reluctants	Grab & Go	Non-Planners	Tech-Savvy Value Seekers	Researchers	Digital Advocates
Low trust, low tech savvy		**Low value seeking, low shopping enjoyment**		**Research-driven and tech savvy**		**Enjoy shopping**
Do not spend time online, poor view of online shopping, small basket sizes	Don't trust online purchases but will shop for products not found in store	Time starved & disinterested, will take small trips to get immediate needs	Little trip planning, most purchase decisions made in store	Leverages online for information but will go wherever the deals are	Searches online frequently, often for in-store purchase	Driven by the convenience of buying online

CLICK-AND-COLLECT BRINGS SHOPPERS AND CATEGORIES ONLINE

For many shoppers, click and collect programs connect the convenience of online shopping to the trusted experience shopping in-store. While shoppers only spent roughly 15% of their FMCG e-commerce dollars via click-and-collect,[8] it's helping bring consumers and categories online.

Relative to how frequently they're bought online, generally, the top five categories most likely to be bought via click-and-collect are beer and wine, frozen meat, refrigerated dough, cheese and bread.

Who is the click-and-collect shopper? Similar to what we know of all e-commerce shoppers, Click-and-collect shoppers exist most prominently within the upper-most income bracket. However, when we compare against consumers buying via home delivery services, we see more low and mid-income homes using click-and-collect. So, retailers offering discounts for shopping via click-and-collect are not only smartly leveraging their existing retail footprint for maximum e-commerce impact, but also well aligned to consumer preferences and needs.

For consumers, click-and-collect combines the convenience of shopping at home with the trust of physical experiencing products in-store. For retailers, click-and-collect provides a way to get online shoppers in-store where they might be able to complement their online purchases with all else the store has to offer.

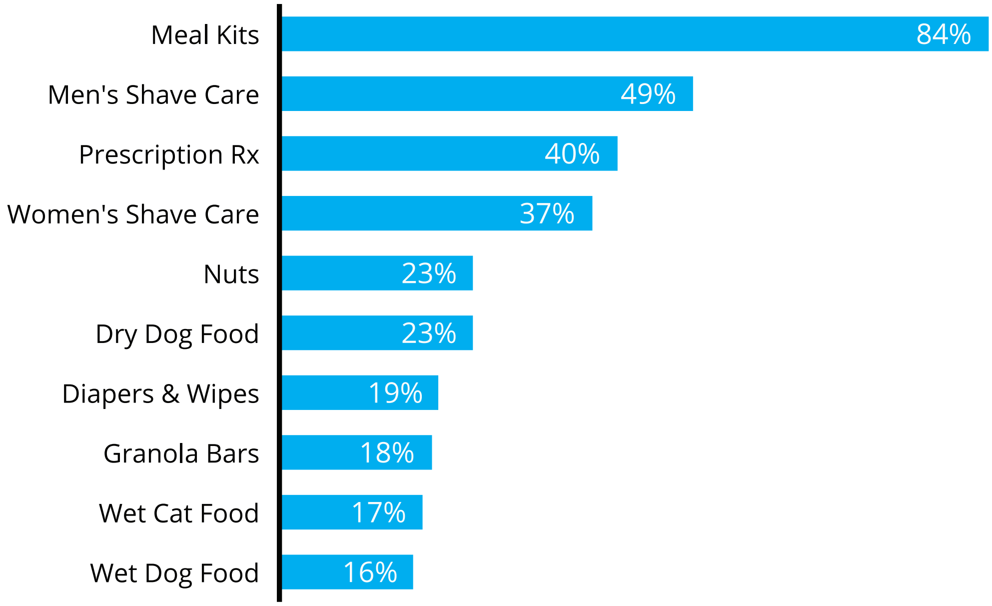
SUBSCRIPTION SERVICES PROVIDE CURATED CONVENIENCE

Consumers are already buying many products across FMCG via subscription services. For non-food categories, subscription services are step towards true automated replenishment. For many food categories, consumers enjoy a curated experience that opens access to new (often healthier) tastes and flavors, that also happen to be convenient.

[8]Nielsen Homescan, Total U.S., 52 weeks ending June 3rd 2017

PERCENT OF E-COMMERCE ORDERS BOUGHT ON SUBSCRIPTION

Meal kits and shaving are garnering strong subscription development



Source: Nielsen, Digital Shopping Fundamentals, 2016

Meal kits are clearly leading in their ability to drive value from subscription services, with 84% of online meal kit buyers purchasing via subscription. Across traditional retailers and new direct-to-consumer offerings, meal kit services have grown their share of overall food dollars, powered by meteoric 100%+ annual growth.[9] This growth has been driven by the fact that not only has 1 in 4 adults in the U.S. tried a meal kit service but that 70% of those that have tried are still actively purchasing after trial.[10]

As we've seen with eyeglasses and mattresses, consumers are open to new choices that deliver better quality, more convenient products for less. To consumers, all of this choice used to be overwhelming. But now, with the phones in our hands, the next best brand or retailer is always a swipe away. Mobile has given us accessible choice. And as we bring more connected devices into our homes, we may not have to make any choices at all. The future of FMCG and retail is in automated choice.

[9]1010data credit card panel insights Nielsen data and analytics, See Endnotes.
[10]Nielsen, *Mindset of the Meal Kit Consumer Report*, March 2017.

You might think that as we trade choice and control for convenience, that the idea of a brand becomes irrelevant. But, in a future where an algorithm is making choices for us at the shelf, a brand promise becomes even more important. In fact, any brands or retailers without a story or a purpose will struggle to survive.

RETAIL

Despite what you may have read about the death of the mall or retail in general, e-commerce certainly hasn't killed the store. In fact, for the first time in over a decade, shoppers actually took more trips to stores last year than in the year prior. But, online buying, along with a number of other factors, is reshaping how we shop across channels.

Even with an increase in trips to the store, overall spending was flat, as most of the additional trips taken were worth less to retailers. Shoppers are shopping more, but coming home with less. This is happening for a few reasons.

- Some shoppers are buying buying more food closer to the point of consumption. Rather than stocking their pantries, more shoppers are buying deli-prepared sushi and soups, where sales are growing 19% and 9%, respectively.[11]
- More Americans are both living in cities and delaying starting a family and, as a result, households are getting both physically smaller and home to fewer people. Many urban apartment dwellers may not even have a pantry to stock.
- Downward pricing pressures are lowering the growth ceilings for all retailers, driven in part by the looming threat of value grocery and online retailers.
- As more products are becoming accessible online, shoppers have fewer opportunities to wander the store and build baskets in-store.

[11]Nielsen FreshFacts, Total U.S., 52 weeks ending April 1st 2017 vs. year-ago, UPC-coded + Random-weight (*) See Endnotes

CHANNEL DYNAMICS

Value grocery and supercenters drive overall growth in shopping frequency

	Total Channels	Conventional Grocery	Supercenters	Value Grocery	Dollar Stores	Warehouse Club	Mass Merch	Drug Stores	Online
TRIPS/HOUSEHOLD	109	42	23	15	13	12	10	11	5
TRIPS/HOUSEHOLD % CHANGE	0.5	0.5	2.3	2.9	-0.2	0.6	1.6	-3.1	6.8
$ SPEND/TRIP	34	36	47	27	12	70	34	20	40
$ SPEND/TRIP % CHANGE	-0.9	-0.7	-1.5	-0.3	-1.9	-3.2	0.8	3.1	-5.6

Source: Nielsen Homescan, Total U.S., 52 weeks ending April 29th 2017, UPC-coded

DEEP DISCOUNTERS GAIN SHARE WITH STORE BRANDS

While consumers are taking more trips across most retail channels, value grocery retailers – including those focused on deep-discount and limited assortment – are seeing some of the largest increases in shopper activity. In fact, while trips across all channels are up 0.5%, shoppers took 2.9% more trips to value grocery over the last year.

However, only about 40% of households shop at deep discounters, which is much lower compared to more established channels like supermarkets and mass merchandisers. For deep discounters, there are still significant opportunities for growth ahead, unlike the already saturated conventional grocery channel. What's more, deep discount grocery and online channels were among the top beneficiaries of consumer spend leakage from mass merchandisers.[12]

For many retailers, but particularly deep discount retailers, store brands (also referred to as private label) play a strategic role for winning over shoppers from other channels. Compared to other major retail channels, deep discounters have more than twice the store-brand share of dollars.[13]

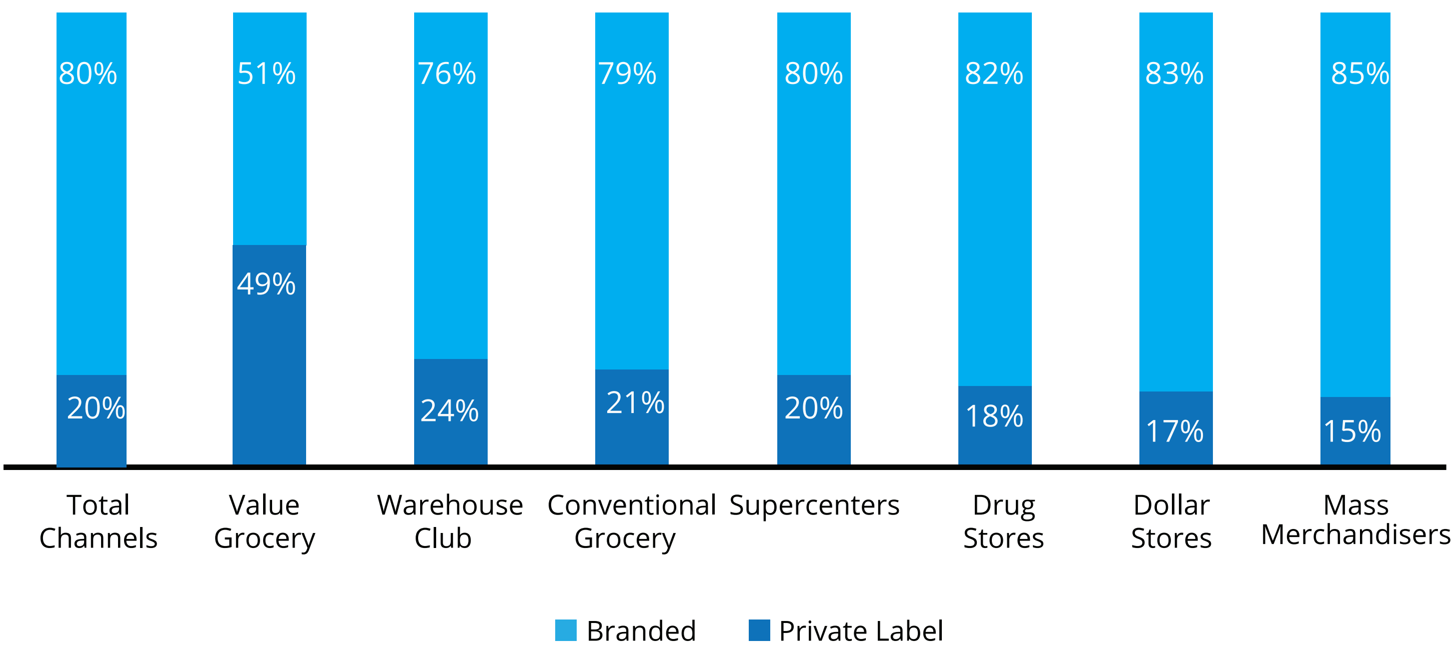
[12] Nielsen Homescan, Total U.S., 12 weeks ending April 1st 2017 vs. previous period, UPC-coded
[13] Nielsen Homescan, Total U.S., 52 weeks ending April 29th 2017, UPC-coded

While the average shopper is spending less per trip, she is spending more on store brands with each trip. Value grocery is certainly benefiting from this shift, with average store brand spend per trip within that channel growing 1% over the last year. Consider that value grocers are receiving 3x the increase in trips in which shoppers buy store brands relative to all channels, and you can see how the store brand is delivering real growth.

All of this is in stark contrast to a steeper than average decline in store brand spend-per-trip within conventional grocery. It's clear that not all food retailers are seeing the benefits of a modernized private label. Those retailers that are able to instill their retail brand promise on their own store brand, and merchandise it equally effectively alongside national brands are winning share.

STORE BRAND SHARE BY CHANNEL

Value Grocery is twice as store brand-focused as next closest channel



Source: Nielsen Homescan, Total U.S., 52 weeks ending April 29th 2017, UPC-coded

DOING MORE WITH LESS

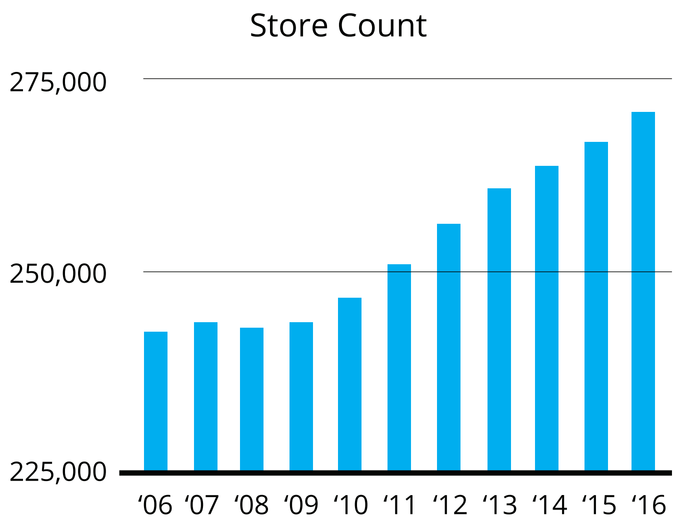
The average retail store has shrunk nearly 4% since a peak in 2009. Over roughly the same period, America has seen an 11.6% increase in the number of stores. These contractions are particularly concentrated in drug stores, supermarkets and supercenters, which have contracted 12.4%, 8.7% and 4.8%, respectively.

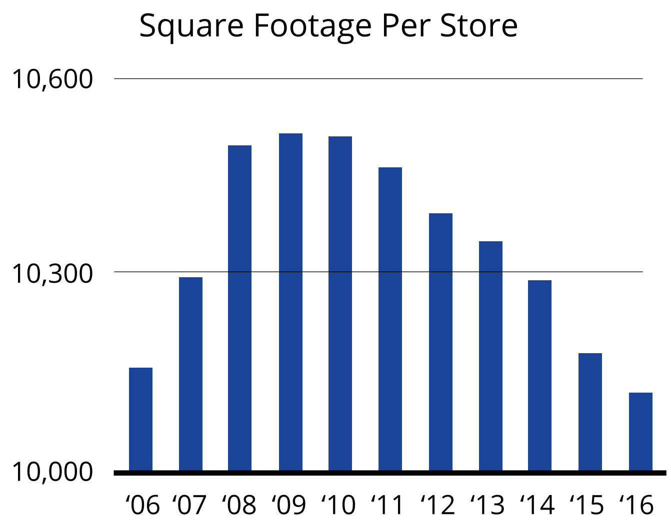
Despite the downward trend in consumer spending, America's retail footprint continues to expand. This has been heavily driven by the convenience channel, which has contributed one third of all new stores over the last decade. This dynamic is driving the overall average square footage down.

However, not all formats are contracting. In fact, the average C-store has expanded it's footprint 6.7% over the last decade. As more C-stores are expanding their offerings to include fresh, prepared foods, the lines between grocery and convenience stores is blurring.

STORE COUNT AND SQUARE FOOTAGE PER STORE

America's overall retail footprint continues to expand with smaller stores





Source: Nielsen TDLinx, 2016; Store size adjusted for Supercenters to reflect total store - See Endnotes

TOTAL STORE

While the industry has been debating the demise of the center store for years, and packaged goods have and will shift online the fastest, growth trends are spreading across the store faster than ever. While perimeter categories continue to grow, that growth is not necessarily at the expense of the center store. Today, why consumers are buying matters a lot more than where they're buying.

FMCG DEPARTMENT PERFORMANCE

Perimeter benefits from strong growth in produce, bakery and deli

	$ Vol (Billions)	$ % Growth	Unit Vol (Billions)	Unit % Growth
CENTER STORE EDIBLES	372.1	-0.8	154.5	-1.4
GROCERY	251.2	0.2	112.9	-1.2
DAIRY	68.3	-4.8	26.4	-2.2
FROZEN FOODS	52.6	-0.2	15.2	-1.3
FRESH PERISHABLES*	146	0.5	58.7	1.7
MEAT*	54	-2.3	16.4	1.2
PRODUCE*	48.7	2.3	32.3	1.9
BAKERY*	11.5	1.5	4	2.2
DELI*	25	2.6	4.9	3.1
SEAFOOD*	6.8	0.1	1	-1.7
HOME & PERSONAL CARE (HPC)	160.9	1.3	32	-0.6
HEALTH CARE	43.5	3.2	6.7	1.2
BEAUTY CARE	16.4	-0.6	3.1	-2.9
PERSONAL CARE	43	0.7	8.7	-0.4
HOUSEHOLD CARE	57.9	0.8	13.6	-1.1
NON GROCERY	137.4	0.6	26	-0.4
GENERAL MERCHANDISE	44.2	-1.5	7.1	-1.6
PET CARE	20.4	1.6	5.7	-0.8
TOBACCO + ALTERNATIVES	72.8	1.5	13.2	0.4

Source: Nielsen Answers and Nielsen FreshFacts, Total U.S., 52 weeks ending April 1st 2017, UPC-coded + Random-weight (*) See Endnotes

SUSTAINED FRESH GROWTH FOR RETAILERS

Unfortunately for retailers, deflation has eroded the potential benefit of some of the brightest spots across the store, particularly across fresh produce and meat. Looking just at the first quarter of 2017, a -23% reduction in average prices for fresh vegetables and meat eroded $351 million in sales.[14] But, despite those dollar declines, consumers have, for the most part, sustained their consumption of fresh foods.

Despite those headwinds, fresh foods at the perimeter of the store remain a key to success for retailers. And the top performing fresh retailers have top-performing sales across the whole store. In fact, top-performing fresh retailers are growing total food sales four times as fast as those less focused on fresh. So, what is their playbook?[15]

- Half of total food sales within top-performing fresh retailers come from fresh foods.
- Nearly 9% of total food sales are organic vs. just above 2% for lower performing retailers.
- Deli is a big drive of fresh success, delivering twice the share for high-performers vs. lower performers.

GROWTH TRENDS ACROSS THE STORE

Convenient, fresh, healthy and multicultural flavors are driving growth across the store.

What's HOT			What's NOT		
CATEGORY	$	Units	CATEGORY	$	UNITS
LIQUID TEA	21.3	19.7	EGGS	-31.2	-0.9
DELI SUSHI*	18.7	17.3	HAMS*	-16.9	-19.5
LUNCH COMBINATION	12.4	12.9	POULTRY FROZEN	-13.6	-10.2
VINEGAR/COOKING WINE	10.8	3.8	MEAT FROZEN	-13.2	-4.4
AVOCADOS*	10.5	-0.4	PORK*	-7.8	-3.9
LIQUID COFFEE	9.9	8.0	REFRIGERATED PIZZA	-6.4	-7.9
CHERRIES*	9.3	4.8	MARGARINE AND SPREAD	-6.2	-7.4
MUFFINS*	8.4	11.0	SUGAR	-5.7	-4.5
MEAT - PACKAGED MEALS*	7.9	9.5	GRAPES*	-5.4	-1.7
VALUE-ADDED VEGETABLES*	7.7	6.0	HOT DOG	-5.0	-4.6

Source: Nielsen Answers and Nielsen FreshFacts, Total U.S., period ending April 1st 2017, UPC-coded + Random-weight
(*) See Endnotes

[14]Source: Nielsen AOD and FreshFacts, Total U.S., Quarter ending April 1st 2017 vs. YAGO, UPC-coded and random weight products.
[15]Source: Nielsen FreshFacts, Total U.S., 52 weeks ending December 31st 2016

MACRO TRENDS COME TO LIFE

Look at the top trending categories across the store and you'll see a microcosm of all the major macro trends driving growth across food and more broadly, FMCG as a whole.

- **CONVENIENCE:** Across ready-to-drink teas and coffees, combination lunches, and value-added vegetables (that have been pre-cut) consumers are flocking to products that are closer to the point of consumption.
- **FRESH:** While growth is evenly distributed across the perimeter and center store, standout fresh categories like avocados and cherries represent a continued shift towards fresher foods.
- **HEALTHY:** New healthful trends are driving growth across categories. The surge in popularity of fermented foods and, in particular vinegars, as part of a more gut healthy diet is creating new applications for and reinvigorating life into center store categories.
- **MULTICULTURAL:** Now that it has become so prevalent, it might be hard to view sushi as a multiculturally-influenced food given. But, the combination of new and unique tastes (combined with convenience) has made deli-prepared sushi a consistent growing trend.

TRENDS SPREAD ACROSS THE STORE

It's easy to view growth in fresh foods coming at the expense of packaged foods in the store center. But, clearly there's growth in categories across the entire store. But trends, products and appeals are increasingly prominent around the entire store, spreading opportunity across aisles and departments.

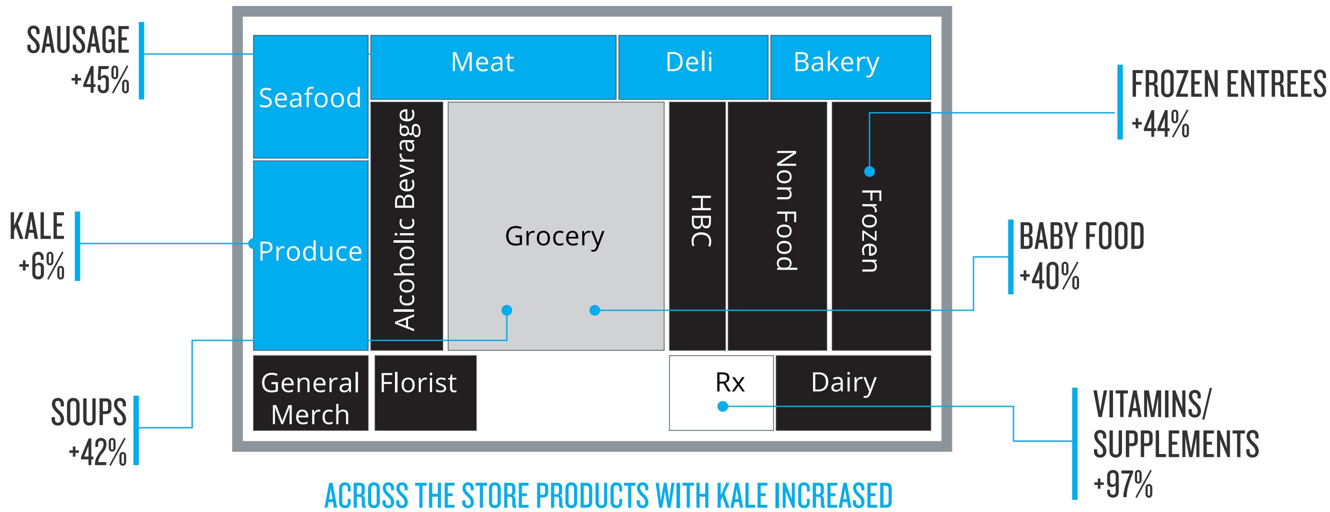
Over the past few years, kale has been a popular superfood, touted for it's many health benefits. While growth in fresh kale produce has slowed, we've seen a proliferation of kale as an ingredient throughout the store. The health kale halo isn't limited to fresh produce; at least 66 different consumable categories include kale. Across the store, products with kale grew +13%. It turns out, we're likely all in the kale business.

TOTAL STORE TREND

The health kale halo isn't limited to fresh produce.

CATEGORIES WITH KALE INGREDENTS: DOLLAR GROWTH VS YEAR AGO

66 different consumable categories have Kale across the store



ACROSS THE STORE PRODUCTS WITH KALE INCREASED DOLLARS 9.3% FROM YA

Source: Nielsen Product Insider, powered by Label Insight, 52 weeks ending Jan. 28th 2017

And the halo extends even beyond foods. Many of the appeals driving growth in food are spilling over into other departments. At the same time that natural foods are seeing strong growth, natural personal care products are also surging in popularity. Sales of natural personal care products without artificial ingredients, without artificial colors and with botanical extracts are growing 16%, 11% and 13%, respectively.[16] And yes, you'll even find kale increasingly as an ingredient in skin care and other beauty products.

[16]Source: Nielsen Product Insider, powered by Label Insight, period ending April 16th 2017

HEALTH & WELLNESS

WHAT'S DRIVING WELLNESS CONSIDERATIONS

What's driving the spread of trends across the store? More than nearly any single macro trend, our collective focus on health and wellness is fundamentally changing how we shop and what we buy. We've identified five key drivers causing this heightened focus on wellness, many of which are interrelated:

- Aging population
- Increase in chronic diseases
- Rising health care costs
- Technology access
- Demand for transparency

FOCUS ON TRANSPARENCY

While one, more or all of these are a factor for nearly all Americans, the increased focus on transparency is having one of the biggest impacts on the FMCG and retail landscape. Increasingly consumers expect most, if not all, of the products they buy to be more than goods. Some want their food to be more sustainable. Sure enough, sales of foods that have been sustainably farmed are growing 11% annually. For others, they want their products to be natural and this appeal extends beyond food. Sales of personal care products with natural ingredients and no artificial fragrances are growing 16%.[17]

It's probably no surprise then that a number of healthful claims are driving substantial sales volume and staggering growth across the store. Gluten free products delivered $67 billion in sales over the last year, still growing at 6.6% annually.[18] Many claims like "cruelty free" or "grass fed" represent the next wave of better for you products, delivering not only benefits to the individual consumer but also our food supply and the environment.

[17]Source: Nielsen Product Insider, powered by Label Insight, period ending April 16th 2017
[18]Source: Nielsen Answers, Total U.S., 52 weeks ending April 1st 2017, UPC-coded

TOP WELLNESS CLAIMS

Consumers increasingly influenced by where and how their products are sourced

TOP OF THE TOP			UP AND COMING		
Top Health & Wellness Claims by Dollar Sales			**Fastest growing Health & Wellness Claims by Dollar Growth**		
H&W CLAIM	DOLLARS ($B)	$ % GROWTH	H&W CLAIM	DOLLARS ($B)	$ % GROWTH
NATURAL PRESENCE	88.4	0.9	GRAIN FREE	0.57	42.7
GLUTEN FREE	67.0	6.6	CRUELTY FREE	0.75	38.8
SOY	66.7	1.9	GRASS FED	0.56	37.0
VITAMIN/MINERAL PRESENCE	60.1	-2.0	CORN FREE	1.23	24.7
FAT PRESENCE	59.5	-5.5	STEVIA	1.92	21.3

Source: Nielsen Answers, Total U.S., 52 weeks ending April 1st 2017, UPC-coded

While the “grass fed” appeal is obviously heavily concentrated in one department - meat - the opportunity in cleaner, healthier products isn’t limited to any one department or category. But, as consumers are scrutinizing their products more, it’s not enough to just claim to be healthy. You have to deliver on it as well. And more than ever, the way to deliver is with cleaner products, free from ingredients consumers simply don’t trust.

Deliver cleaner products for consumers and they will deliver for you as well. In fact, 68% of consumers worldwide say they’re willing to pay more for foods and drinks that avoid undesirable ingredients.[19]

FMCG companies – manufacturers and retailers alike – need to connect cleaner products with packaging, signage and other information that reinforces the healthful benefit to the consumer. If you do that well, the upside is staggering. Of the $239 billion in sales of products without artificial colors, only $18 billion - or 7% - of those sales were from products claiming to be free from artificial colors on the package.

So, start by making cleaner products. And then, clearly and simply reinforce that benefit to consumers with on package or even online messaging.

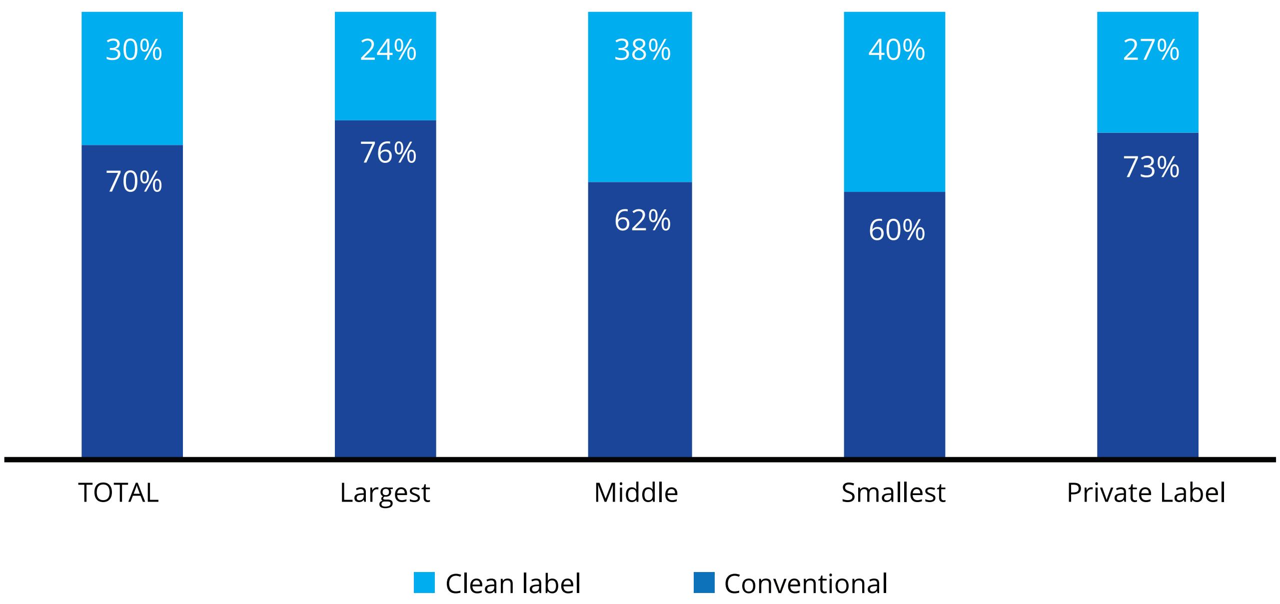
[19]Nielsen, *Global Ingredient Study*, August 2016

CLEANER PRODUCTS DELIVER GROWTH

While these clean label products[20] represent roughly 30% of total packaged food and beverage sales, they delivered all of the growth over the last five years. However, that growth has not been evenly distributed across all brands and manufacturers. In the last year, small manufacturers sold the highest share of clean label products when compared to their conventional sales (40% vs. 60%, respectively) than large manufacturers (24% vs. 76%), middle-sized manufacturers (38% vs. 62%) and private-label manufacturers (27% vs. 73%).

CLEAN LABEL SALES SHARE

The smallest companies are seeing the largest clean label share



Source: Nielsen Product Insider, powered by Label Insight, 52 weeks ending April 29th 2017

[20]See Endnotes regarding definition of "Clean Label" products

As the smallest companies are more focused on clean label products, they're driving outsized growth from these products as well. While manufacturers of all sizes are seeing growth from cleaner products, the smallest 16,000 food and beverage manufacturers[21] are growing sales from clean products at nearly twice the rate of the largest 10-15 companies. As a result, these small manufacturers delivered 35% of all clean product growth over the last five years, despite only selling 15% of all food and beverage dollars.[22]

Clean label products are a big opportunity and on the whole, the smallest brands and companies are moving quickest to take advantage.

CLEANER CATEGORIES ARE WINNING

Dairy has long faced disruption from non-dairy alternatives like almond milk. We're seeing a similar dynamic across other departments.

Water, and in particular, sparkling water, is capturing more of Americans' beverage dollars. Water amassed $12.7 billion in sales over the last year, growing 5%. Sparkling water now accounts for 17% of all water sales, growing 13% annually. 77% of Americans say they are trying to drink more water to be more healthy.[23] Obviously, for other beverages, this represents a competitive threat. But, as more Americans are drinking water and getting healthy from within, how will that impact demand for skin care, for example? The point is that if you're not casting a wide net to understand your "competition", you might be missing the next big thing.

Despite declining prices, the meat department has seen volumetric declines in consumption over the last year. This doesn't mean that all of America is going vegetarian any time soon. The vast majority of American households are still buying meat. But, more Americans are experimenting with plant-based proteins as part of flexitarian diets or simply to improve overall health. Of those eating more plant-based foods, 51% are doing so to eat more "cleanly."[24]

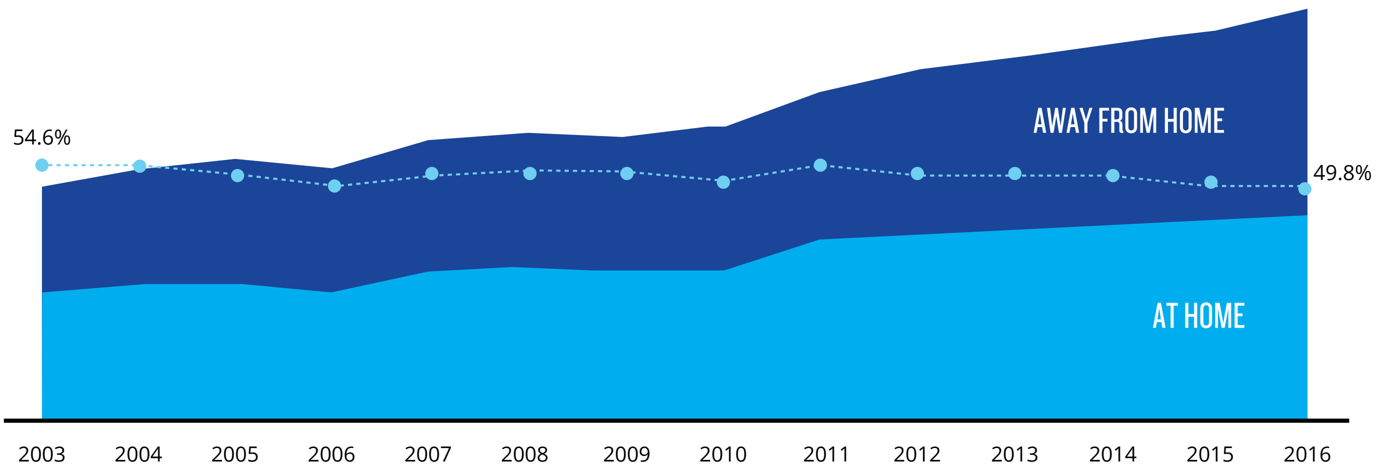
For more consumers, cleaner products are a path towards cleaner living. But, every shopper will have a different set of needs so it's more important than ever to truly understand what motivates your shopper.

[21]Based on manufacturers selling at least $100,000 per year
[22]Nielsen Answers, Total U.S., 52 weeks ending April 29th 2017 vs. 5 years-ago, UPC-coded, excludes Tobacco.
[23]Nielsen, *Healthy Happy Home* Study, 2017
[24]Nielsen, *Plant-based Protein* Report, 2017

RESTAURANTS & FOOD SERVICE

TOTAL FOOD EXPENDITURE

In 2016, more money was spent on food away from home for the first time



Source: USDA Food Expenditure Data

According to the USDA, 2016 was the first year in which more food dollars were spent away from home than for in-home consumption. While this feels like an inflection point for how we consume food, and more broadly entertainment, restaurants are facing many of the same challenges we're seeing in food retail. Deflation is thinning restaurants' already compressed margins, consumers are choosing where to eat with more of a focus on healthfulness and even e-commerce is having an impact on how people are dining at, or more accurately, from, restaurants.

While restaurants have seen growth over the last year, that growth is far outpaced by restaurant delivery services. In fact, despite sales growth, restaurants have lost share while delivery services, meal kits and online grocery delivery have all gained.[25] And for those that are still dining at restaurants, that experience has changed as well. A variety of apps have enabled consumers to not only make a reservation at a restaurant, but also pre-order their meal so it's waiting on the table when they arrive. The three course dinner and the three martini lunch may be a thing of the past.

Despite that, there is still strong growth opportunity out of the home and in restaurants.

ON-PREMISE DINING LOCATION GROWTH BY FOOD TYPE

More restaurants are placing a bigger focus on the drink menu

	2011 Count	2016 Count	Growth
All On Premise Dining	185,399	219,218	18.2%
American	42,882	53,133	23.9%
Mexican	23,781	29,830	25.4%
Varied Menu	29,254	28,714	-1.8%
Pizza	17,649	21,063	19.3%
Italian	15,222	15,829	4.0%
Japanese/Sushi	6,878	9,789	42.3%
Seafood	6,582	7,643	16.1%
Asian (Other)	7,754	7,189	-7.3%
Chinese	6,231	6,807	9.2%
Steak	6,488	6,643	2.4%

Source: Nielsen TDLinx 2016

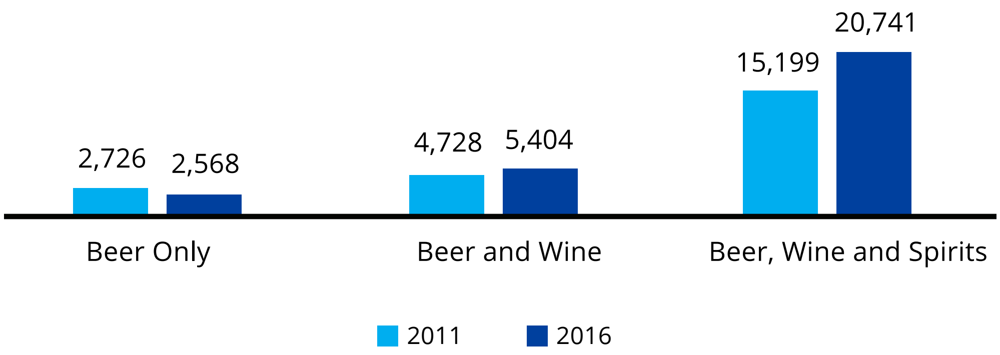
[25] 1010data credit card panel insights Nielsen data and analytics, See Endnotes.

The number of dining establishments serving alcohol continues to increase, growing 18% over the last five years. However, despite this expansion in the on-premise market, beer and wine face competitive challenges as spirits become a bigger part of the dining experience. Cocktail culture is expanding to include craft, barrel-aged cocktails, cocktail pairing menus and other cues from beer and wine growth areas. As a result, the percentage of on premise dining locations selling "spirits" has increased steadily over the past five years.

Expanding by 25% over the last five years, Mexican restaurants are growing the fastest in terms of number of dining establishments serving alcohol. When compared to Asian, American or varied-menu dining destinations, Mexican restaurants are twice as likely to serve just beer as their sole alcoholic offering. Despite this, and on-trend with the growth of spirits in general, Mexican restaurants are seeing strong growth in locales licensed to serve liquor. This aligns with the growth of tequila and mezcal as some of the highest flying spirits countrywide.

MEXICAN RESTAURANT LOCATIONS SERVING ALCOHOL

Mexican restaurants seeing strong spirit growth



Source: Nielsen TDLinx, 2016

MULTICULTURAL

Over the last decade, any marketer looking closely enough at the demographics of America would see a country increasing in diversity, and would rightly see American's increasing multiculturalism as a huge growth opportunity. But, given our current political climate, some have wondered whether a variety of concerns related to immigration have contributed to observed FMCG and retail sales declines.

While it's true that, for example, Hispanic FMCG consumption as a whole has declined relative to the growth we saw just a few years ago, Hispanics and other multicultural consumers are following the trend, not driving it. In fact, the contractions we've seen amongst Hispanics are roughly half the levels we've seen across the total market. In addition, Hispanic Americans who prefer to speak Spanish are in fact still driving FMCG growth, relative to the total U.S. population.[26]

Regardless of immigration policies or the political climate generally, multicultural communities continue to drive population growth. In fact, more than 100% of the population growth over the next 20 years will continue to come from multicultural households.

POPULATION GROWTH ESTIMATES

In the next 20 years, more than 100% of the population growth will be multicultural.

	Hispanic	Black	Asian	Non-Hispanic White
2017	**59.5M**	**40.5M**	**17.9M**	**198.8M**
2037	**+27.9M**	**+6.8M**	**+9.5M**	**-1.9M**

Source: US Census Bureau

Today, 35%-37% of the U.S. population is multicultural. Yet, only 32% of FMCG dollars are sold to multiculturals. That gap represents a $10 billion opportunity. And, as the multicultural population grows to represent upwards of 45% over the next 20 years, that is a gap that FMCG retailers and manufacturers need to close.

[26]Nielsen Homescan Expanded Hispanic Panel, Total U.S., Q1 2017 vs. year-ago, UPC-coded.

INTERCULTURAL AFFINITY

But, the impact that multicultural consumers are having goes well beyond their own consumption. In fact, in many cases, our affinity to culture is a better predictor of our consumption behaviors and increasingly, more Americans are actively seeking flavors, tastes, cuisines and cultures outside their own root culture(s). We've identified five intercultural affinity segments to better understand the motivations of consumers:

TASTES & PREFERENCES

Monoculturals	Sideliners	Explorers	Enthusiasts	Ambiculturals
11%	22%	28%	22%	17%
Do not experience or participate in diverse lifestyles or tastes other than root culture. May even avoid diverse tastes.	Aware of but generally uninvolved in diverse tastes and preferences. More opportunity and less avoidance of diverse experiences.	Experiment with and have tried diverse tastes & preferences on limited basis. Occasionally, situationally engaged.	Exposed and embracing diverse tastes & preferences. Practicing, but not leading diverse tastes & preferences.	Environment & lifestyle leader. Influencer with effortless affinity to diverse tastes, preferences & high desire to share.

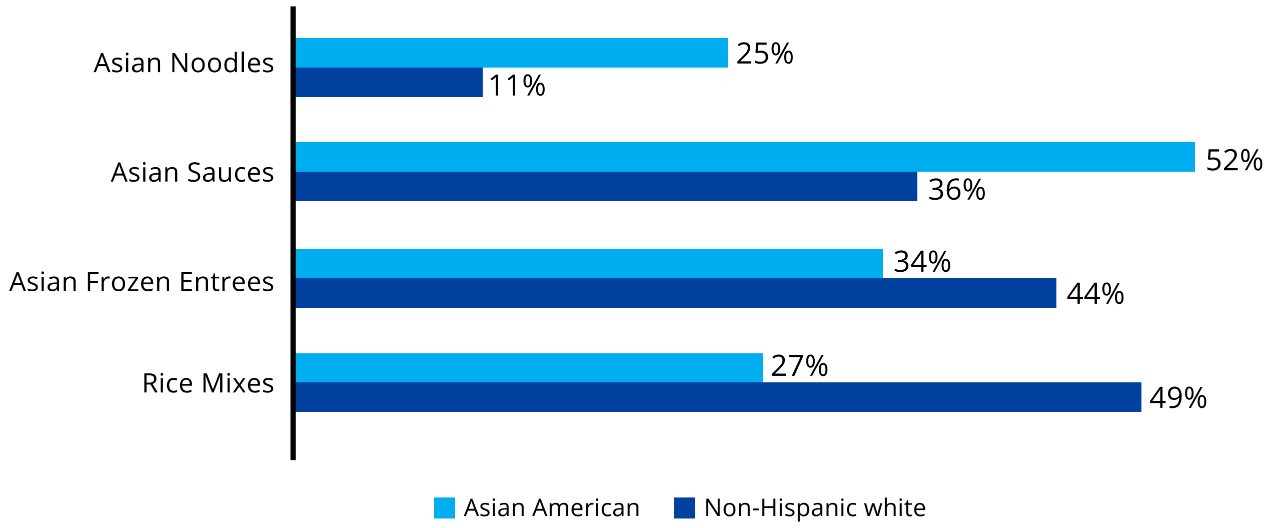
HIGHLY MONOCULTURAL ◄ INTERCULTURAL AFFINITY SEGMENTATION ► HIGH IC AFFINITY

We see this in trends proliferating across cultures and cuisines more rapidly. For example, more Americans are purchasing Asian sauces like sriracha every year. In fact, the percentage of American households buying these sauces has grown 2.7 percentage points in the last four years. And the latest share – just under 39% – far exceeds the portion of the Asian-American population share, so these products are becoming more of a mainstream staple condiment.

It turns out there are a variety of other Asian-inspired food categories that have grown so cross-cultural that there are now more non-Hispanic white buyers than Asian-Americans. Thirty-four percent of Asian-American buying households purchase frozen Asian-inspired entrées, versus 44% of non-Hispanic white households. It's clear that the opportunity to connect with consumers expands well beyond the endemic demographic segment.

PERCENTAGE OF HOUSEHOLDS BUYING CATEGORY

Asian-inspired food has grown to become cross-cultural



Source: Nielsen Homescan, Total U.S., period ending January 17th 2016 vs. January 14th 2017

How does this expand the opportunity? Consider that the Asian-American population is roughly 6% of the U.S. population today. If we expand our appeal to reach just the ambicultural consumers across other races and ethnicities, we can realistically now reach 20% via these cultural explorers. In this case, targeting intercultural rather than just demographics expands the size of your prize by nearly a factor of four.

CONCLUSION

In this rapidly changing industry, your growth hinges on acting with speed, agility and confidence. It all starts with connecting your business — around your customer, throughout your company and along with your collaborators – to enable fast, smart, coordinated action. And when you can do that well, you're able to stay ahead of emerging consumer and product trends, take action against your biggest opportunities, and both spot and diagnose performance gaps.

Today, if you're like most companies, you have separate teams trying to tackle a new opportunity like e-commerce, cleaner products or ambicultural consumers. Each team has their own data and their own definition of success. Sound familiar? If so, you're probably finding that it's hard to add up the numbers. 1 + 1 is adding up to 1.5, at best. In pursuit of answers, we're left with only more questions. And as shoppers are researching and buying across more channels, retailers and platforms, future challenges will be even more thorny.

You may think the latest analytical tool or new dataset is going to solve these problems. But, sometimes more is not better, and more data and more technology isn't the answer. What you need is to better align the data and technology you do have so everyone is working from the same version of the truth, focused on the same priorities with a shared framework to establish a coordinated plan of action.

E-commerce needs to be at the center of your strategy. It is a channel that's driving substantial growth relative to its share of sales today. The digitally-engaged shopper is shopping differently across all channels as a result of e-commerce. Consumers expect frictionless, relevant experiences accessible from anywhere. Sometimes that is a store. Sometimes that's a phone in our pockets. And for many, that's working with the smart assistant that lives in the connected devices sprinkled throughout our homes.

Nielsen is keenly focused on measuring everything that shoppers are buying across channels, categories and platforms. And that is a constant evolution. But, understanding how the numbers stack up is really step one. Ultimately, you need to understand why things are happening and have a view towards what's coming up next. Do that well, and you might find that 1 + 1 can actually add up to three.

ENDNOTES

Except where otherwise denoted:

Total U.S. retail measurement includes: grocery, drug, mass merchandisers, convenience, select dollar stores, select warehouse clubs, and military commissaries (DeCA).

Where denoted by asterisk (*), data reflects UPC + random-weight retailer-assigned PLU (price look-up code) and system 2 sales volume.

Nielsen TDLinx Retailer excerpts include supermarkets $2MM+, conventional mass-merchandisers, supercenters, drugstores, dollar stores, warehouse clubs, and convenience stores.

- Note: Store size of supercenters adjusted upward to reflect total store size rather than supermarket equivalent. Calculations assumed that supermarket section of an average supercenter is 40% of the total store size.

1010data credit card panel insights combined with Nielsen data and analytics: Based on credit card purchase trends with a representative sample of retailers and service providers included in the analysis.

“Clean Label” products do not include ingredients such as BHT (Butylated Hydroxytoluene), Potassium Benzoate, High Fructose Corn Syrup, Monosodium Glutamate (MSG), Sodium Nitrate, Partially Hydrogenated Oils, Potassium Bromate, Yellow 5, etc. ”Conventional” products include one or more of these ingredients.

Nielsen Total Store report is projected from ~1MM e-commerce FMCG consumers and cooperating ePOS retailers. Department and Category definitions only include reported commodity groups and may not match prior retailer custom or Nielsen syndicated category definitions.

ABOUT NIELSEN

Nielsen Holdings plc (NYSE: NLSN) is a global performance management company that provides a comprehensive understanding of what consumers watch and buy. Nielsen's Watch segment provides media and advertising clients with Nielsen Total Audience measurement services for all devices on which content — video, audio and text — is consumed. The Buy segment offers consumer packaged goods manufacturers and retailers the industry's only global view of retail performance measurement. By integrating information from its Watch and Buy segments and other data sources, Nielsen also provides its clients with analytics that help improve performance. Nielsen, an S&P 500 company, has operations in over 100 countries, covering more than 90% of the world's population. For more information, visit www.nielsen.com.

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