Deloitte.

Pricing Excellence
Smarter consumers, smarter pricing

Amsterdam Hilton, May 12, 2011

Consumer mindsets are changing and both retailers and CPG companies need to be responsive to the challenges and opportunities this will create

Search for 'value'

Customers are:

- **Increasingly focused on value**
- **Price sensitive, continuing to trade down and shop around**
- **Continuing to emphasize value for the medium term**
- **Still desiring convenience and indulgence**

Reassessing 'values'

Social revolution through digital media

Health and wellbeing

Sustainability and the green agenda

Experiential purchases

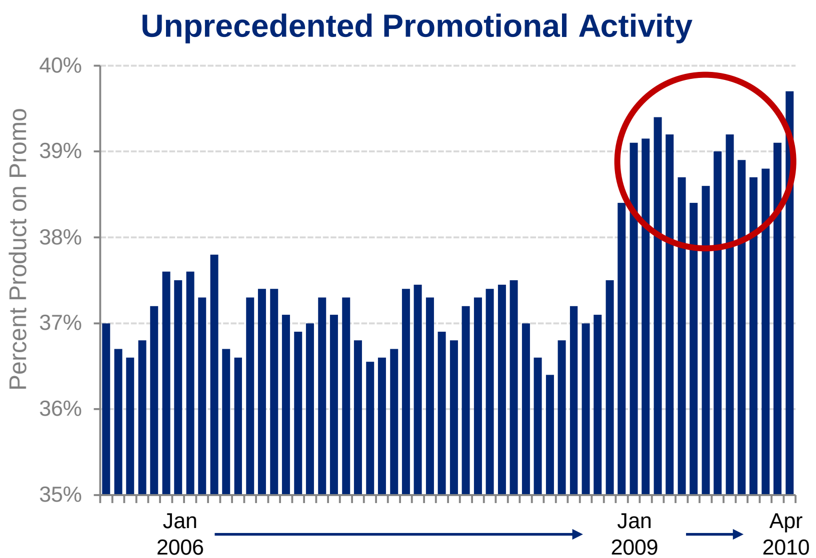
Implications for CPG companies

Companies need to:

- **Closely track, understand and anticipate**
- **Recognise variation by market and occasion**
- **Better understand opportunities for growth and value creation**
- **Identify and develop new products and execute with the trade**

In addition, changes in the structure of the market are creating unique challenges for CPG companies (1/6)

"Promotions are intensifying"



Comment

- Promotional intensity is increasing
- Retailers increasingly demand supplier investment in marketing and promotion
- Promotional events have low success rate

Implication

- Clarity on customer profitability needed to identify "hidden investments"
- Strong post and pre-evaluation disciplines needed around investment activity

In addition, changes in the structure of the market are creating unique challenges for CPG companies (2/6)

"Cross-border and cross-channel trade is increasing"

Pan European grocery retailers

Company	Sales from Overseas 2007 (%)	Sales from Overseas 2013F(%)
Delhaize Group	76	78
Ahold	75	79
Metro Group	58	72
Carrefour	55	64
Schwarz Group	52	61
Casino	38	48
Rewe Group	32	40
Edeka	5	2

Note: Retailers listed in this table *do not* generate more than 75% of sales from a single channel; F - forecast.
Source: Planet Retail

Comment

- Pan-European procurement contracts have the potential to become increasingly common
- Increasing risk that prices will be levelled-down to the lowest price across geographies and channels

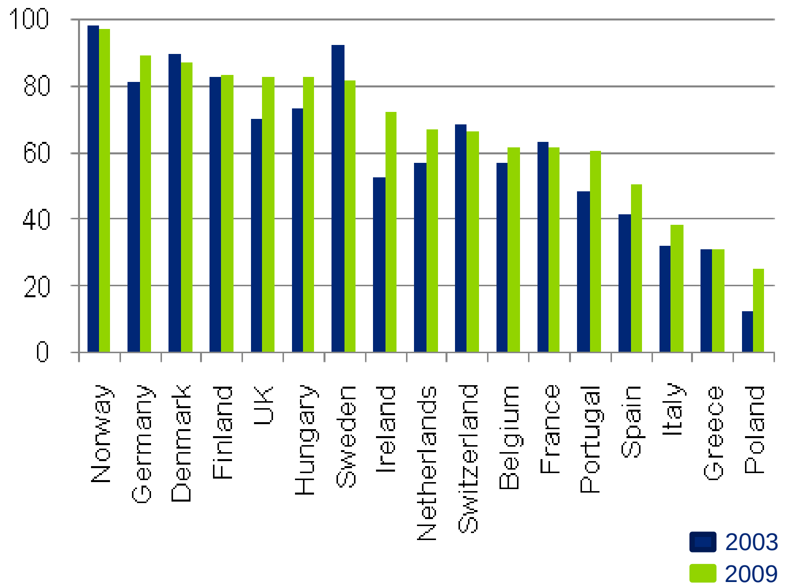
Implication

- Specific strategies and tactics avoid "levelling down"
- Cross-border account management processes in commercial operating model for key international accounts
- Methods and tools for tracking and managing the grey market become more important

In addition, changes in the structure of the market are creating unique challenges for CPG companies (3/6)

"The retailer is king"

% market share of top five food retailers by country



Source: Mintel 2010 & 2004

Comment

- Top 5 grocers account for 50-80% of grocery spend in most major European economies
- Retailers increasingly act as gatekeeper to the consumer
- Retailers increasingly centralise and professionalise procurement, demanding 'more for less'

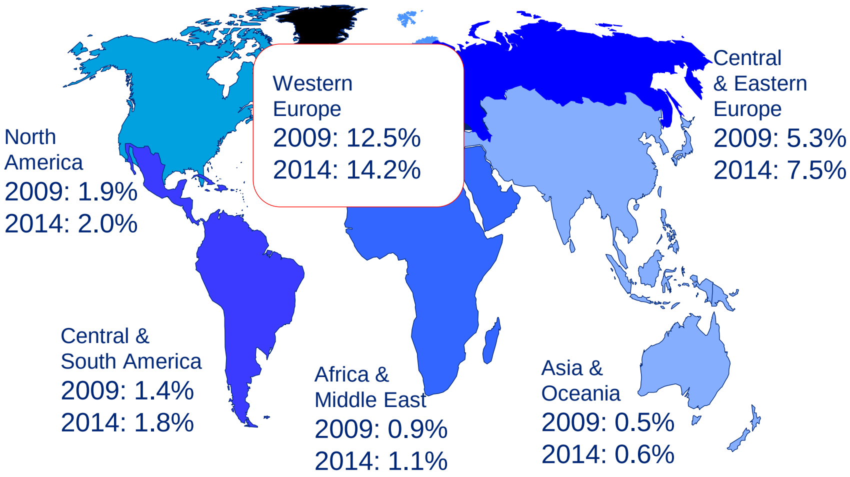
Implication

- Trade programmes must deliver compelling category proposition for the retailer
- Business account managers must have the right capabilities and information
- Trade terms need to deliver defensible and conditional pricing, while customers demand off-invoice/fixed payments

In addition, changes in the structure of the market are creating unique challenges for CPG companies (4/6)

"Hard discounters are emerging as an important channel"

Global discount channel penetration by region: 2009-2014F



Source: Planet Retail 2010

Comment

- Discount retailers are outperforming growth trends in the FMCG sector as a whole
- Challenging all other channels; cash/carry, super and hypermarkets, specialty and convenience stores
- Introducing new categories and brands to achieve growing acceptance by consumers'

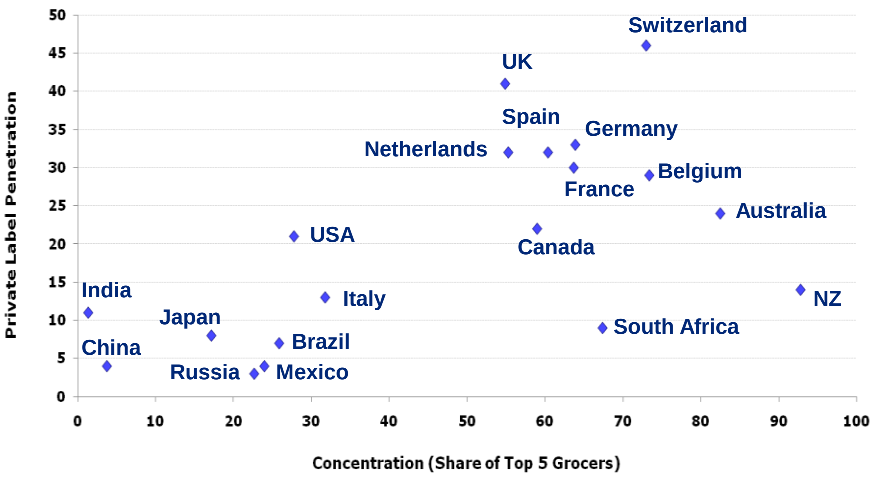
Implication

- Discount retailers offer huge volume sales
- The lower total cost to serve can be lowered by reduced account mgmt./field sales support required
- Limited control possible over promotional activities

In addition, changes in the structure of the market are creating unique challenges for CPG companies (5/6)

“There is significant private label activity”

Private label penetration vs. concentration 2010



Source: Planet Retail 2010

Comment

- Expansion of private increases price competition,
- Many major retailers are undertaking SKU rationalisation, carving out more space for private label,
- Strongest private labels are becoming brands in their own right’

Implication

- Work with retailers to create optimal category solutions that serve both the retailer and supplier
- Understand true cost to serve, to protect and improve margins
- Reach out directly to the consumer through new channels, social media, brand loyalty programmes

In addition, changes in the structure of the market are creating unique challenges for CPG companies (6/6)

"Commodity prices are rising"

Food, energy push up consumer prices

Wall Street Journal 17 Feb 2011

Retailers face struggle to pass on increase to consumers

Financial Times17 Feb 2011

Comment

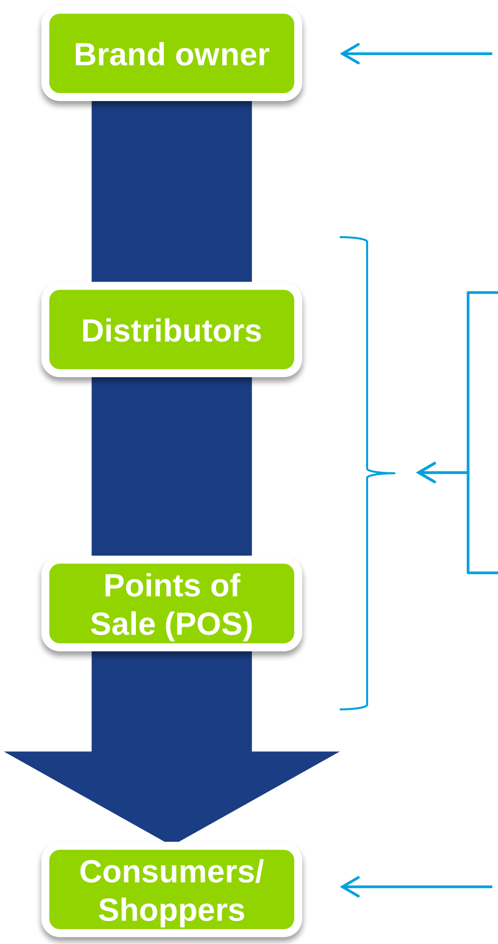
- Margins are squeezed due to rising input costs and retailer demands for year-on-year price reductions in real terms
- Retailers accept price increases, but are at the same time looking to protect and increase their own margins

Implication

- Price and promotions synchronised with input costs, if price elasticity and category positioning allow it
- Proactive SKU rationalisation can optimise the product portfolio margin
- Shifting consumers to higher price, higher margin products has a key role in protecting and enhancing margins

Source: Planet Retail 2010

Pricing & Profitability Management covers the full value chain from brand owner to consumer



Price setting and pricing execution

- Align trade/wholesale price setting
- Minimise margin leakage

Channel effectiveness

- Use consumer, shopper and customer insight to optimise the value proposition and strengthen pricing
- Understand customer profitability and cost-to-serve and align trading terms with channel and customer growth strategies

Promotional effectiveness

- Better aligning promotions with brand strategies and channel / customer characteristics
- Establish rigorous pre and post evaluation disciplines

Point of purchase optimization

- Align consumer pricing strategy behind a clearly defined (premium/standard/ economy) brand architecture
- Understand pricing elasticities by channel / outlet type and work with customers to create win-win category business plans

In a European context, this requires a careful understanding of Europe-wide and country level considerations

	Europe-wide		Country level
Consumer	• Increased transparency across borders • Brand consistency • Convergence on value	**vs**	• Different languages and culture • Differing levels of consumer requirements and sophistication • Alternate value drivers
Customer	• Pan-European procurement contracts • Standardised trade terms • Scale of pan-European competitors	**vs**	• Localised promotion pressure • Local trading practices • Localised competitors
CPG company	• Strength in pan-European initiatives • Global/European standards/requirements • Minimising cross border conflict	**vs**	• Need for local/regional autonomy in negotiations • Need to recognise local legislative differences in pricing, discounting, promotions etc • Minimising cross channel conflict

The development of leading Pricing & Profitability Management capabilities is a journey – with value unlocked along the way

	Basic capabilities	Emerging capabilities	Leading capabilities
Strategy	• Price and promotions • No investment differentiation	• Discrete price and promotion strategies • Investment differentiated based on customer scale	• Integrated price and promotion strategy • Investment aligned with most strategic customers / channels
Analytics	• Prices set using cost plus • Limited / no post-promo analysis	• Prices set using historical analyses • Promotions achieve minimum ROI	• Pricing using predictive modeling and advanced statistics • Calculate “real ROI”
Visibility	• Ad-hoc tracking and reporting	• Monitoring performance via syndicated data	• Gaining real-time insights using retailer point-of-sale data
Organisational Alignment	• Silo’ed organisation *(Mkt = Pricing; Sales = Trade Promos)*	• Dotted-line reporting to create shared go-to-market responsibilities	• Integrated go-to-market responsibilities • Common incentives across marketing and sales
Execution	• Achieving targets at any cost	• Executing a business plan	• Managing full customer P&L
Governance	• Ad-hoc, when needed	• High-level guardrails with semi-annual reviews	• Integration of guardrails with standard performance reporting

From our experience, there are six key areas upon which achieving optimal Pricing and Profitability Management depends