



IRAN SUMMIT 2015

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TEHERAN





Arthur Erdem

After the completion of his studies in social anthropology, information cybernetics (system theory) at UCLA and additional studies in Design in New York, he began working for GfS (Gesellschaft für Ökosalvatologie) headed by Prof. Dr. Herbert Klepsch. He assisted him in marketing and promoting ecological patents in the field of “controlled release formulation“ for the GSF - Gesellschaft für Strahlenforschung (Society for Radiation Research) Neuherberg in Munich.

After he moved to Vienna he became strategist and press officer at the ÖMS of the Economic Development Institute of the Austrian Federal Chamber of Commerce, responsible for the internationalization of Austrian designers from 1988 through 1994.

The 1998 presidential election in Austria, the federate state elections of 1999, parliamentary elections of 1999 and the 1999 European elections carried his signature.

Arthur Erdem, being a mastermind of marketing, branding and product development, worked for several companies such as IMAGEN Vienna, ORBIT Vienna, Seven Communication MAGNA International and CGP. During this period he not only developed numerous fast moving consumer products but also designed the corresponding international marketing strategies.

Today he is a partner of the strategic communication agency UNIQUE BRANDS COMMUNICATION in Vienna.



Brigl & Bergmeister

B&B is the leading manufacturer of label papers and flexible packaging papers. Annually, some 100 billion labels are printed on B&B papers, and our papers bear the face of innumerable famous brands.

The Brigl & Bergmeister plant is located at the heart of Europe, in Niklasdorf in Styria | Austria.

ENAGES, the thermal recycling plant of Brigl & Bergmeister, supplies the factory with 100% CO₂-neutral energy in the form of steam and electricity.

The Papirnica Vevče factory is situated in Slovenia, in the greater area of Ljubljana. A cooperation that had originally started as a joint venture has developed into a fully-fledged partnership. Since 2004, Papirnica Vevče has been a 100% subsidiary of Brigl & Bergmeister.

Brigl & Bergmeister, ENAGES as well as Papirnica Vevče are part of the Vienna-based Roxcel group of companies.



Trends that will shape the consumer goods industry

Brigl & Bergmeister GmbH

Arthur ERDEM | Marketing & Corporate Communications

Teheran in October 2015

PREFACE

- The consumer-packaged-goods (CPG) industry's growth over the past quarter century has been nothing short of exhilarating.
- CPG companies have launched innovative products to meet an ever-growing array of human needs and desires.
- They have expanded rapidly into the flourishing consumer markets of the developing world. And to make this breakneck growth possible and profitable, they have aggressively built global scale along every part of the value chain.
- These strategies, along with increased margins and weighting of portfolios toward fast-growing categories, have delivered stellar shareholder returns.

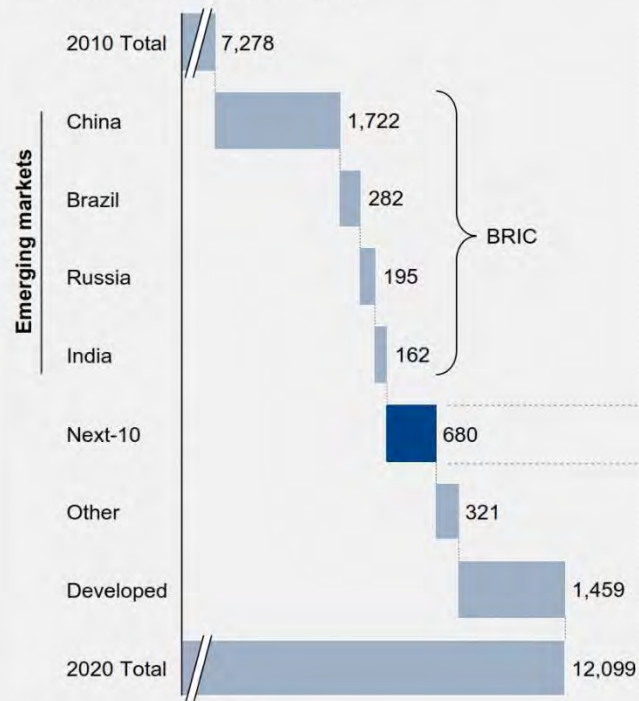


The consumer-packaged-goods (CPG) industry's growth

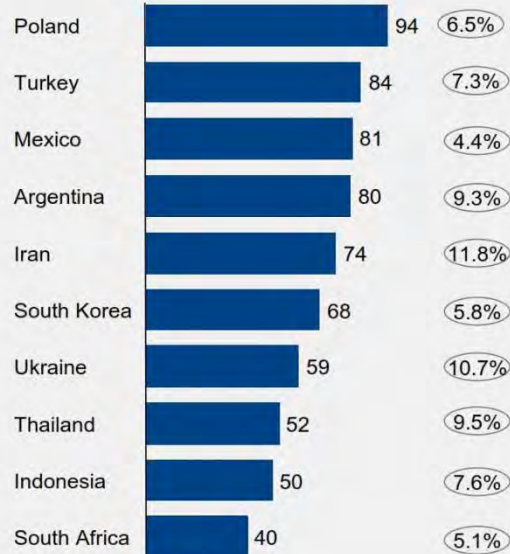
Global consumer goods revenues: growth breakdown

\$ billion, 2010–20 (nominal)

(x%) CAGR² 2010–20



Next-10 revenue added \$ billion, 2010–20 (nominal)



1 Brazil, Russia, India, and China.

2 Compound annual growth rate.

Source: Global Growth Compass database; McKinsey analysis

The consumer-packaged-goods (CPG) industry's growth



Consumer spending worldwide across the 50 FMCG categories covered by the Global Growth Compass grew by about 5 percent a year over the past decade to reach \$7 trillion in 2010. Eighty-three percent of that spending was concentrated in three segments: food and beverages, apparel and accessories, and alcoholic drinks. Over the next 10 years, we expect consumer spending worldwide to grow by \$5 trillion, almost double the growth seen in the previous decade and the equivalent of 60 P&Gs. The rate of global consumer spending growth will vary across categories and markets.

For instance, worldwide spending on categories like juices, skin care, and noodles and pasta will double over the next decade, whereas spending on confectionery and carbonated beverages will increase only by about one-third over the same period. Even similar categories may vary considerably in their rates of growth. For example, in Italy, spending on snack bars is expected to grow at an average of 10 percent a year until 2020, while the adjacent category of savory snacks is expected to grow by only 2 percent.

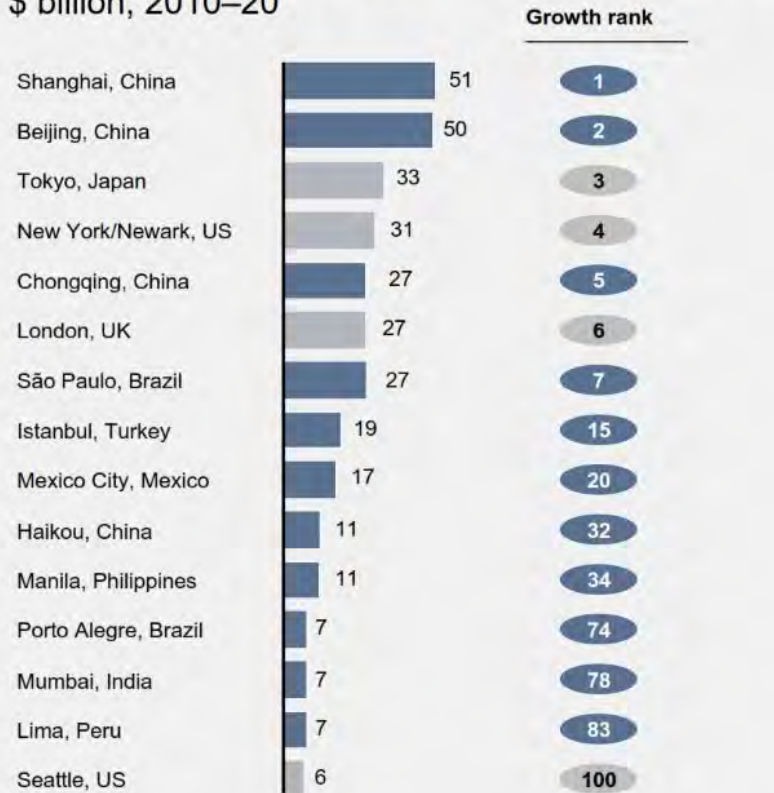
Across the board, however, increased spending in emerging markets will drive the expected increase in consumer spending worldwide. By 2020, emerging markets will represent close to 50 percent of total consumer spending and about 70 percent of the overall growth in consumer spending from 2010 to 2020. For example, in the skin-care category we expect spending growth over the next decade of about \$84 billion, up from \$44 billion in the previous decade: emerging markets are expected to contribute \$60 billion or close to 70 percent of that total growth. In carbonates, we expect growth in the next decade of \$129 billion, 1.5 times the growth in the previous 10 years, and emerging markets to contribute \$100 billion or nearly 75 percent of the total.

Among emerging markets, BRIC will continue to dominate, contributing about 50 percent of expected growth in consumer spending on FMCG categories. But the BRIC countries do not tell the whole growth story: about 15 percent of total growth in emerging-market consumer spending will come from the next 10 largest emerging countries: Argentina, Indonesia, Iran, Mexico, Poland, South Africa, South Korea, Thailand, Turkey, and Ukraine. These account for almost twice as much growth as all the remaining 23 emerging markets put together

Flourishing consumer markets



Total consumer goods consumption spending growth by city \$ billion, 2010–20



Source: Global Growth Compass database; McKinsey analysis

Flourishing consumer markets

The top 300 cities across the world will contribute about 40 percent of all growth in global consumer spending between 2010 and 2020. But the “Emerging 300” cities, that is, the top 300 cities in emerging markets with populations larger than 200,000, will contribute about one-third of all consumer spending growth. In some categories and geographies, therefore, targeting the emerging 300 cities selected for their growth dynamics might lead to better results than focusing on countries. For example, the market for confectionery in Beijing and Istanbul will display higher growth than Singapore and Greece. FMCG multinationals need to know which cities offer the most promising prospects for each of their businesses and how they can best position themselves to capture these market opportunities. But many of the emerging urban economic dynamos are not yet household names. Cities among the emerging top 300 that will experience the highest growth in the consumer goods categories over the next 10 years, such as Chongqing and Haikou in China (growth ranks 5 and 32) and Porto Alegre in Brazil (growth rank 74), may not feature on the radar screen of FMCG company headquarters.

FMCG decision makers need to understand how particular cities and clusters of cities are set to grow. Scrutinizing the world’s economic geography at this level of detail will be a critical element of any consumer industry player’s emerging-markets strategy. The Global Growth Compass can drill down to measuring S-curves for consumer goods consumption at the national level as well as for cities. The shape of these S-curves may vary. Taking an example from Brazil, where forecasts are available for approximately 5,000 Brazilian cities, we can cluster cities according to different geographic and consumption patterns to identify pockets of growth on a more granular level. Companies have to analyze growth in cities across most critical emerging markets.



BUT THE PAST IS NO GUIDE TO THE FUTURE

- Over the coming decade, upheavals in global consumer and supply markets are likely to produce as many losers as winners among CPG companies.
- For example, Asia will overtake the West as the main consumer market, and it will demand new levels of value and innovation from CPG players.
- Rising Internet penetration could upend traditional sales models.
- Globalized trading and natural-resource shortages could combine to usher in a new age of supply chain volatility.



ASIA WILL OVERTAKE THE WEST



Figure 2: Global retail sales volume growth (% pa)

Region	2011	2012	2013	2014	2015	2016	2017	2018
Asia and Australasia	4.5	4.2	4.1	4.1	4.6	4.8	4.8	4.9
Latin America	7.6	4.0	1.6	-0.8	2.4	3.4	3.4	3.8
Middle East and Africa	5.3	2.7	1.5	2.3	2.9	3.9	4.6	4.3
North America	4.0	2.0	2.7	2.3	2.5	2.4	2.5	2.6
Transition economies	3.8	3.2	3.0	1.2	2.7	4.3	4.1	4.6
Western Europe	-0.6	-1.5	-0.7	0.6	0.8	0.9	1.0	0.9
World	3.4	2.2	2.4	2.3	2.9	3.2	3.3	3.4

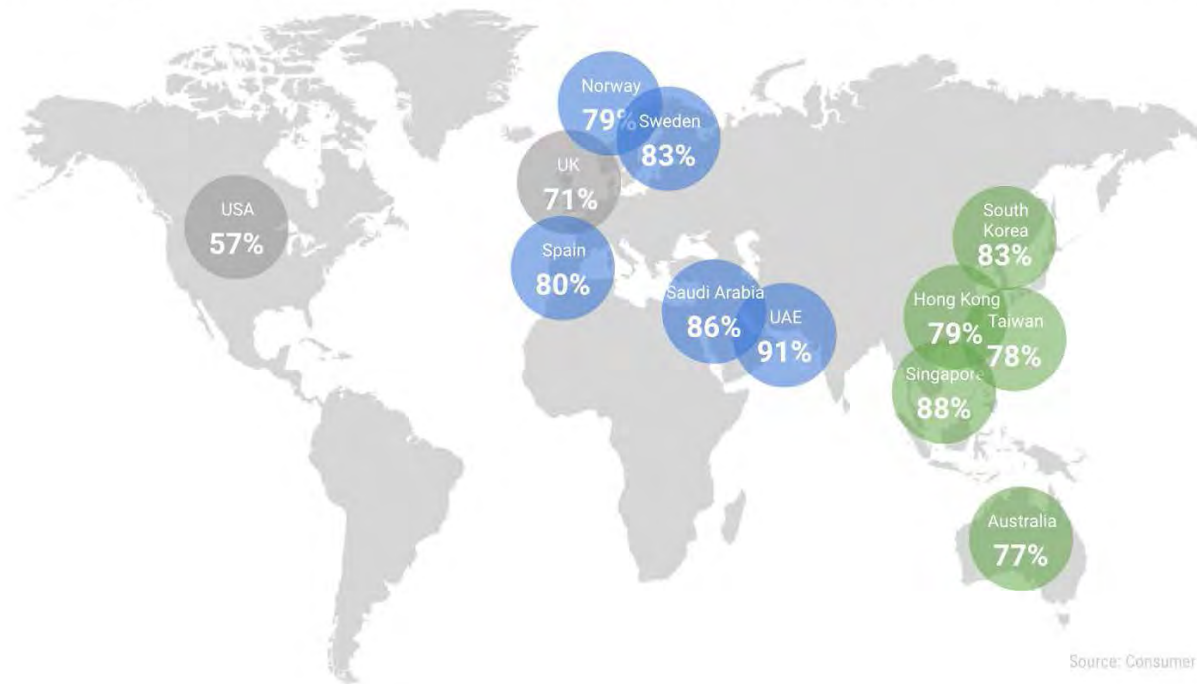
Source: Economist Intelligence Unit

Figures for 2014 onwards are forecasts. Prior years are actuals or estimates.

RISING INTERNET PENETRATION COULD UPEND TRADITIONAL SALES MODELS

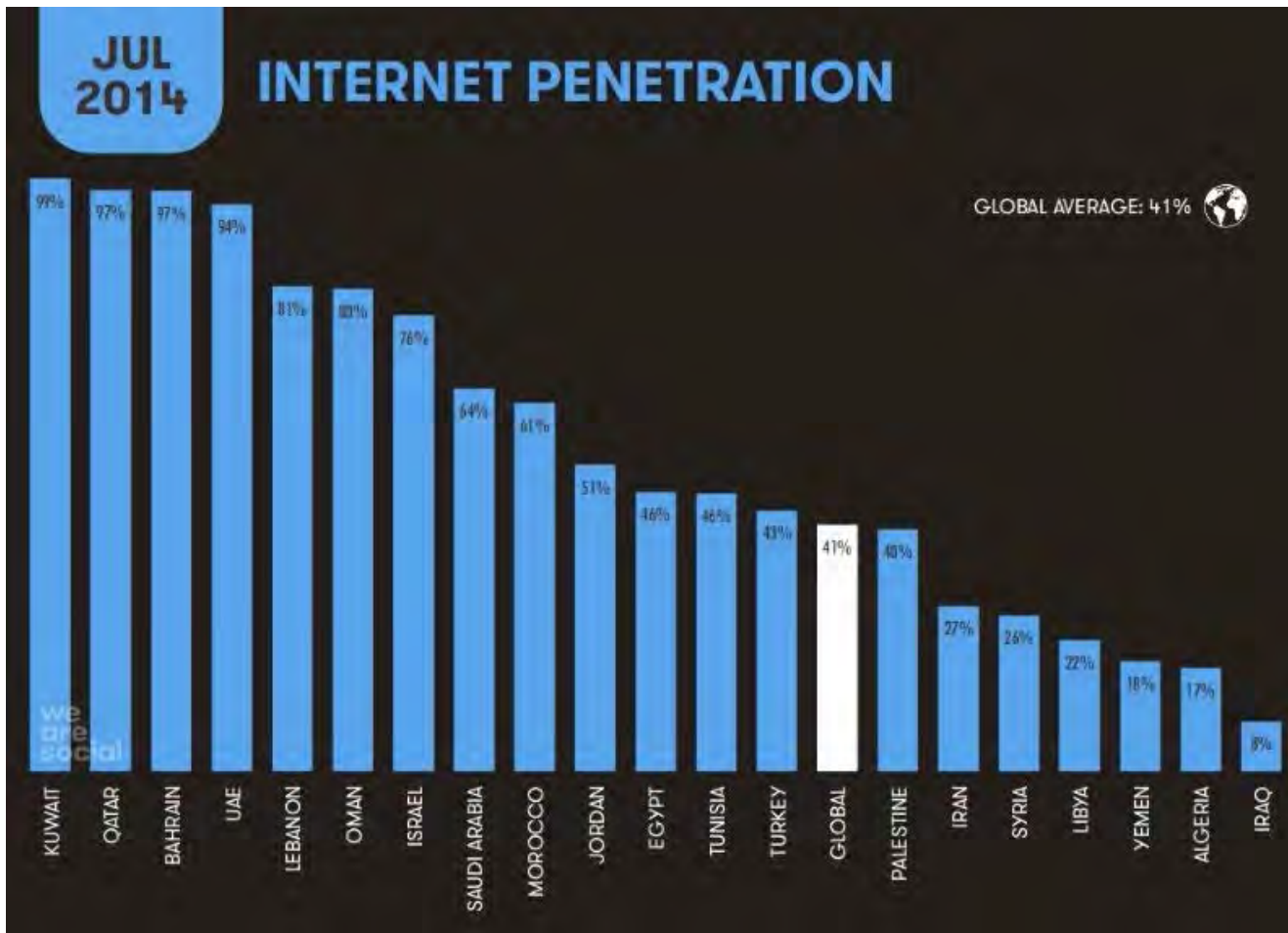


Smartphone Penetration Top Ten Markets (plus USA and UK)



Source: Consumer Barometer 2015

RISING INTERNET PENETRATION COULD UPEND TRADITIONAL SALES MODELS

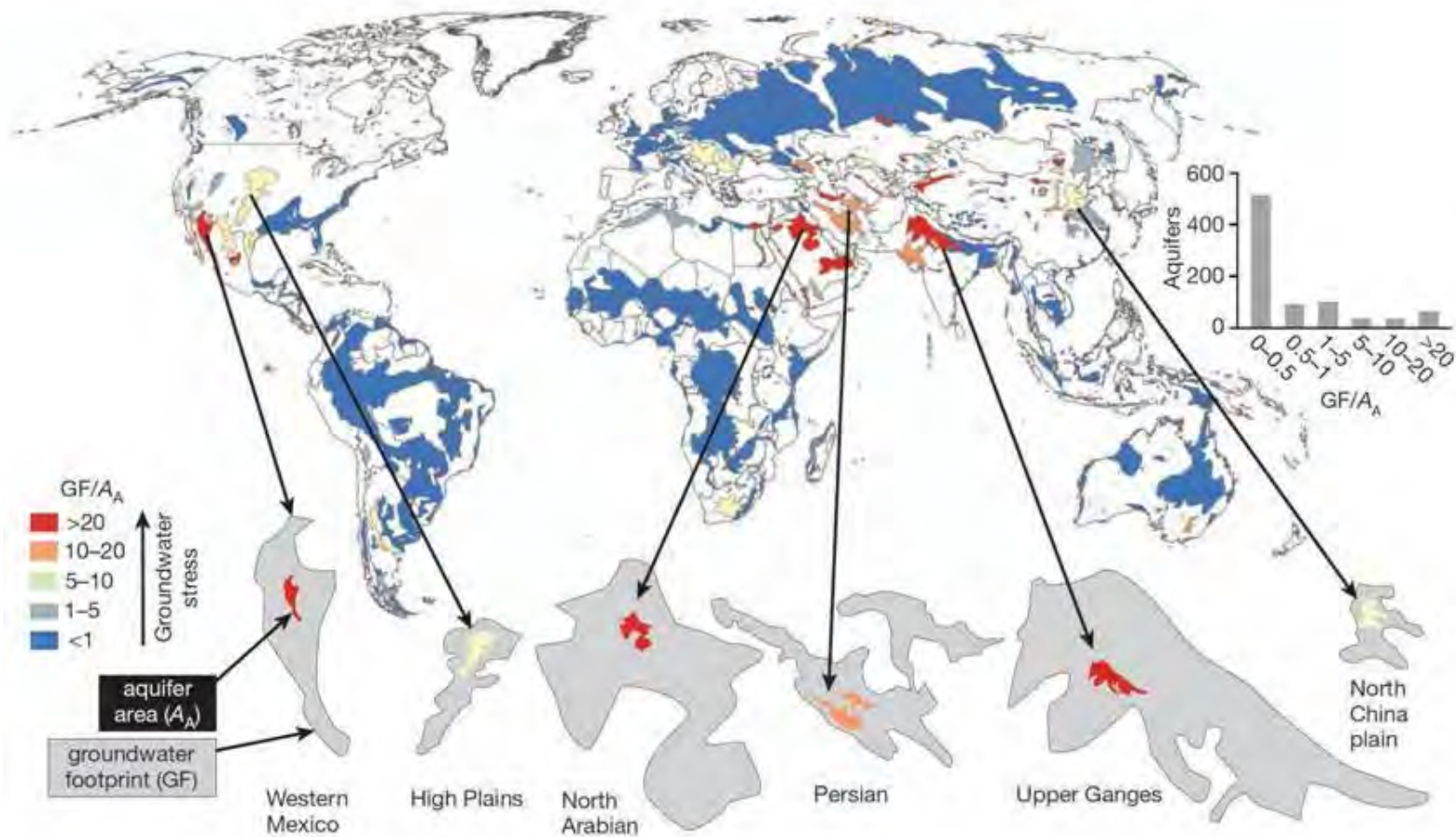


RISING INTERNET PENETRATION COULD UPEND TRADITIONAL SALES MODELS

- By 2017 nearly half (48%) of the world's population will have internet access, up from 32% in 2012 . By the end of 2014 the number of mobile-connected devices will exceed the number of people on the planet . However, in the FMCG sector, ecommerce is still in its early days representing a mere 3.7% share of FMCG sales in the markets we track globally. With FMCG growth rates of 54% in France, 45% in China and the global grocery market increasing at an average rate of 31%, we expect ecommerce to account for over 5% of FMCG sales by 2016. This figure has the potential to rise to 28% if 60% of households across the globe use the internet.



NATURAL-RESOURCE SHORTAGES



NATURAL-RESOURCE SHORTAGES



LANDFILL

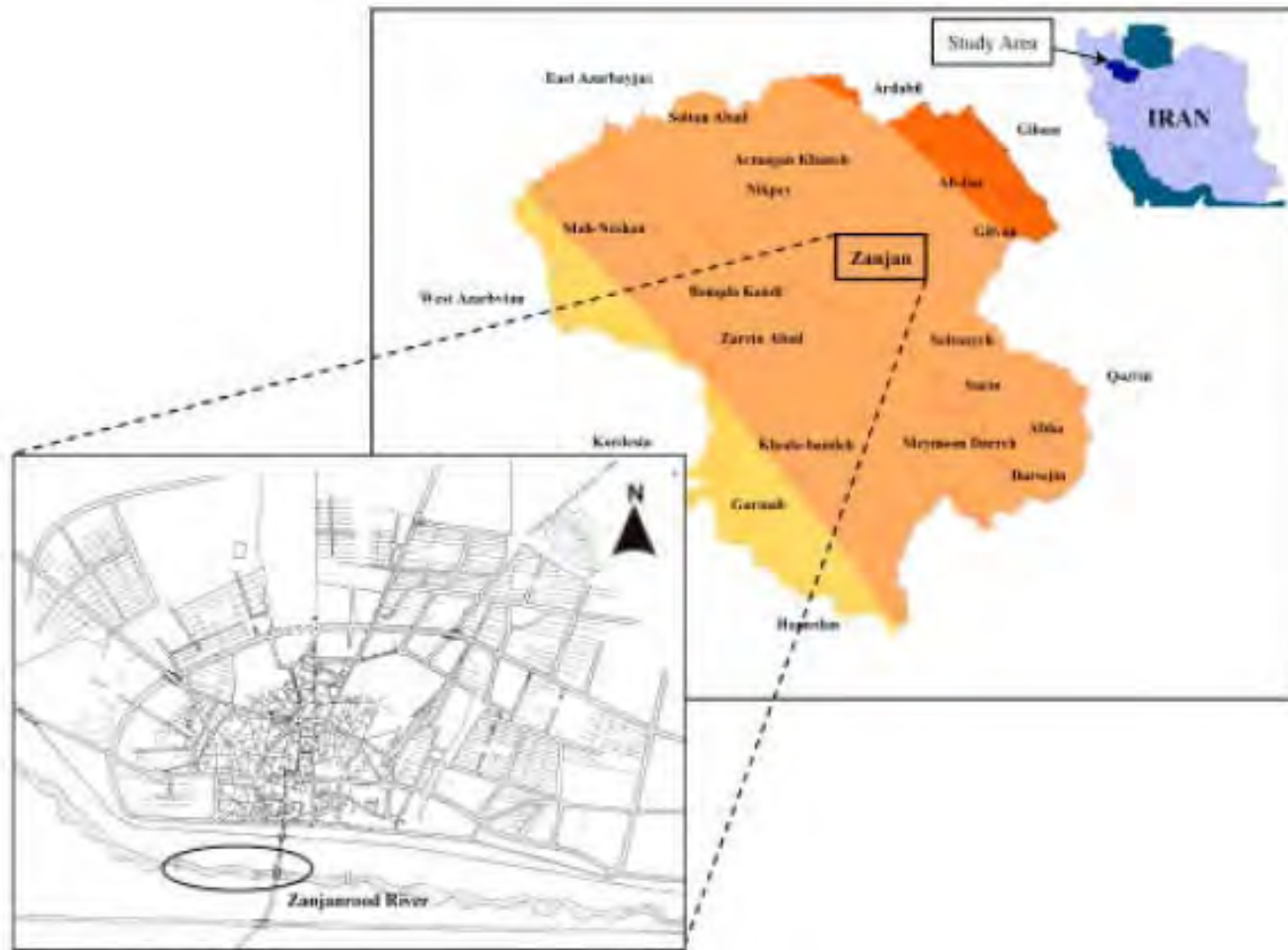


LANDFILL



- Municipal solid waste management (MSWM) practices in Zanjan, a city with population of about 350,000 persons, are generating about 300 tons of MSW daily those are consisting of the collection, transportation and land filling of the wastes. The wastes are not recycled and composted but just mainly land filled.
- Per capita generation and characteristics of household waste depends on household income levels and area characteristics. MSW generation in Asia in 1998 was 0.76 million ton/day (Jin et al., 2006) with a growth rate of 2-3 percent annually in developing countries as compared to 3.2 - 4.5 percent in developed countries. The per capita MSW generation rate is varied in different parts of Asia ranging from 0.88 kg/day in Iran (Damghani et al., 2008) to 0.95 kg/day in Turkey (Metin et al., 2003) and 1.21 kg/day in China.
- The MSW disposal problems can be reduced by waste minimization, reuse and recycling of its components and converting the organic components of the waste into a valuable product and reused without adversely affecting the environment. This can be achieved by converting the waste into biogas through anaerobic digestion and into plant nutrients by way of composting (Mbuligwe and Kassenga2004, Jha l et al., 2013). Compost characteristics are essentially dependent upon the raw materials and the factors that affect the progress of the process. The factors affecting the composting process can be divided into two groups: those depending on the formulation of the composting mix, such as nutrient balance, pH, particle size, porosity and moisture; and those dependent on the process management, such as O₂ concentration, temperature and water content. Nutritional balance is mainly defined by the Carbon/Nitrogen ratio. Microorganisms require an energy source (degradable organic Carbon) and Nitrogen for their development and activity. Therefore we recommend PAPER as a packaging material.

LANDFILL



SINCE 1985, THE CPG INDUSTRY HAS
SIGNIFICANTLY OUTPERFORMED THE S&P 500

- To start, the industry has been relentless about new-product innovation. In the US grocery channel, for example, the number of SKUs has grown by 50 percent in just the past seven years.
- Constant innovation, along with a knack for passing on input-cost increases, has allowed the industry to boost its margins significantly.



CONSTANT INNOVATION



INNOVATION TYPES	
● 1	NEW MANUFACTURER
● 2	NEW BRAND
● 3	NEW LINE EXTENSION
● 4	NEW PACKAGING
● 5	NEW SIZE
● 6	NEW PRODUCT FORM
● 7	NEW STYLE TYPE
● 8	NEW FLAVOUR/FRAGRANCE
● 9	NEW CLAIM

GROWTH OF SKUs

- Between 1975 and 2014, the number of products in the average supermarket swelled from an average of 8,948 to almost 52,000, according to the Food Marketing Institute.

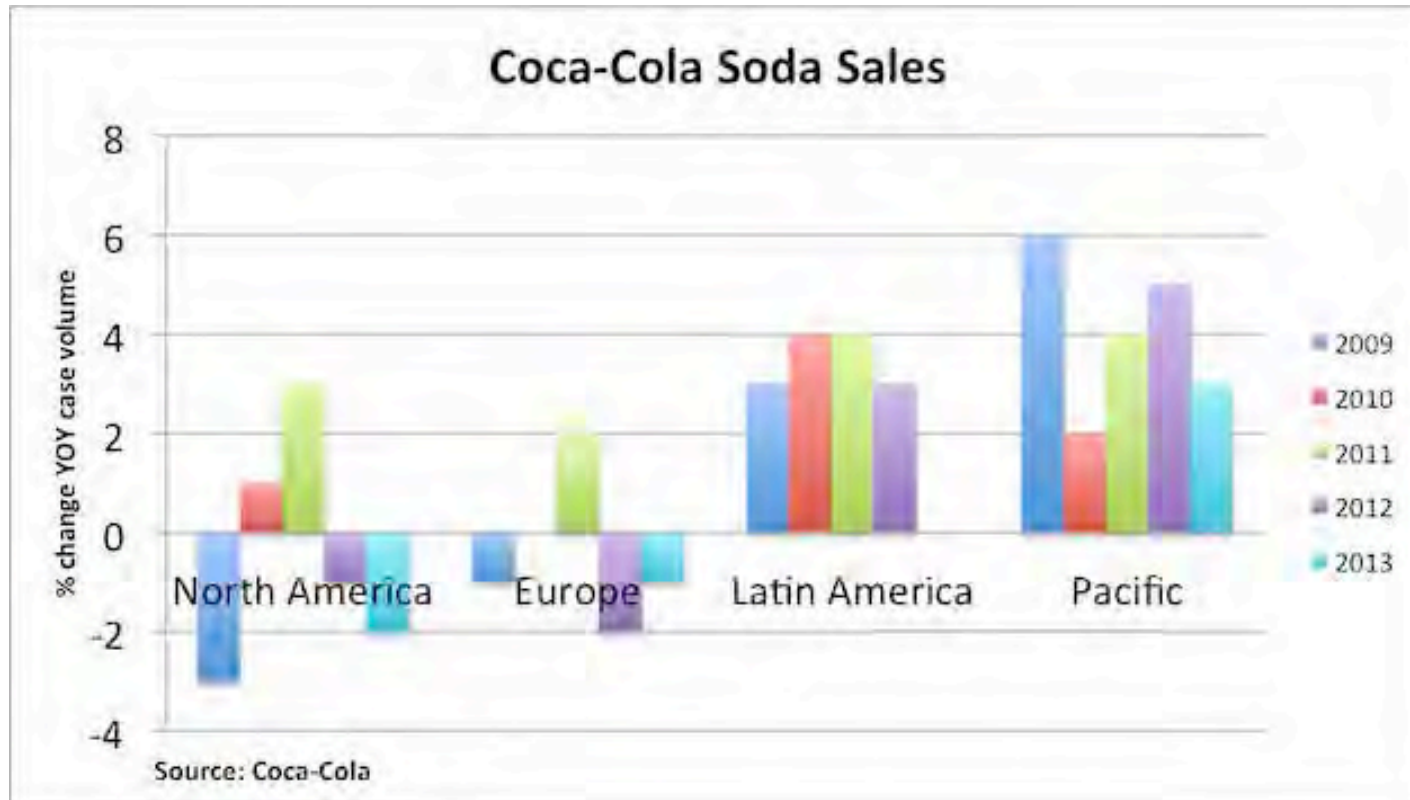


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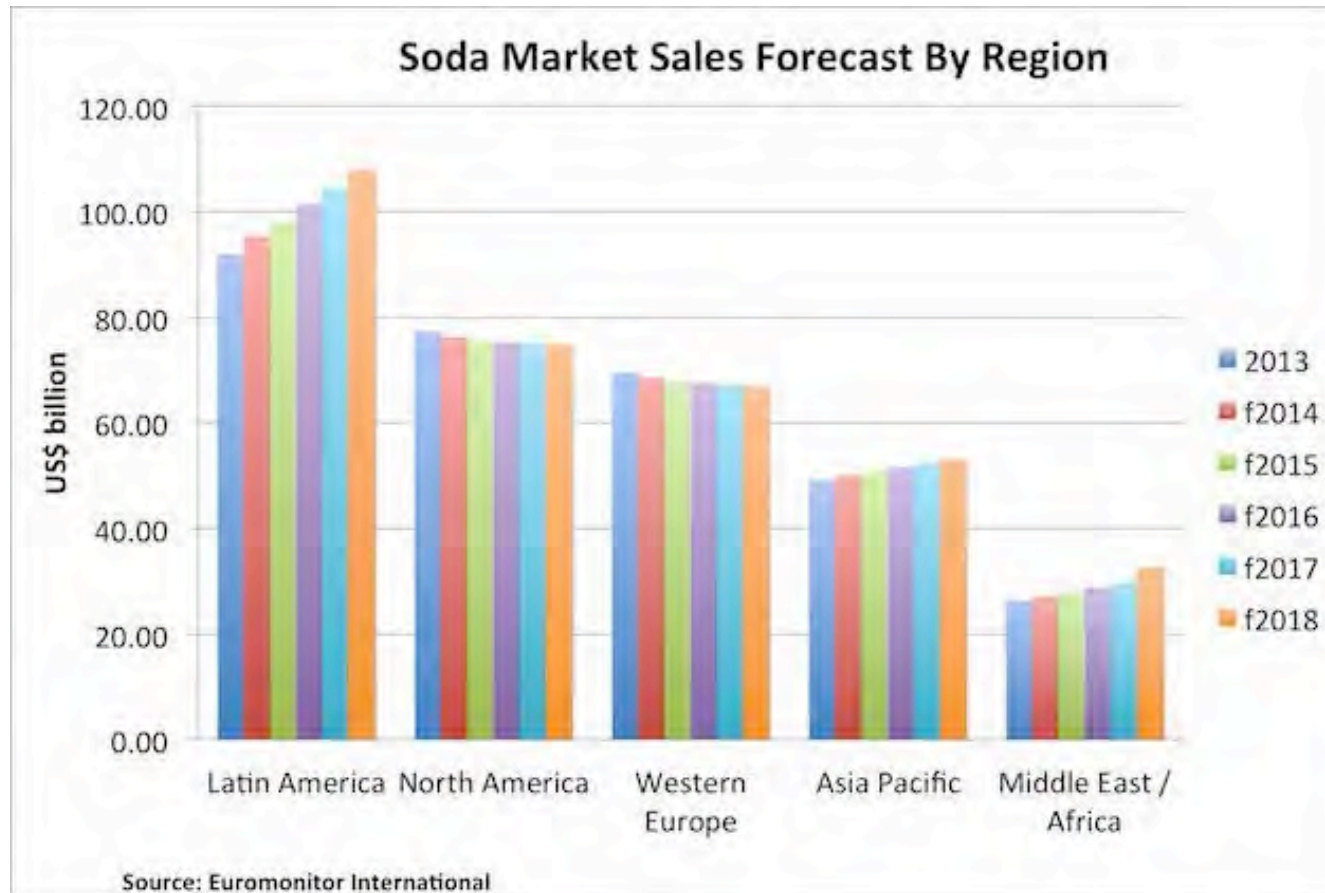
- Further, CPG companies have expanded rapidly beyond their traditional Western bases. Emerging markets have contributed more than half the global revenue of the Coca-Cola Company since 2006, and almost half of PepsiCo's 2009 revenue was generated outside of the United States.
- At the same time, CPG companies have aggressively shaped their portfolios to increase the proportion of the fastest growing and most profitable categories, creating considerable “momentum growth.”
- Witness Nestlé's recent acquisitions in high-growth food categories such as baby food (Gerber), pet food (Purina), and frozen pizza (from Kraft).



BEYOND TRADITIONAL WESTERN BASES



BEYOND TRADITIONAL WESTERN BASES



SINCE 1985, THE CPG INDUSTRY HAS SIGNIFICANTLY OUTPERFORMED THE S&P 500

- To make this expansion possible—and profitable—CPG players have invested heavily in building global scale along every part of the value chain, including R&D, marketing and sales, procurement, manufacturing, and distribution.
- Unilever’s ice-cream business is a salient (most noticeable) example: it has rolled up its **fragmented brands** under the “heart” umbrella brand, established a single global ice-cream headquarters in Italy, and consolidated manufacturing in 16 plants worldwide.
- Even over the tumultuous last three years, CPG companies have performed well, thanks in large part to their diversified exposure to faster-growing emerging markets and their longer-term pursuit of scale and efficiency.



FRAGMENTED BRANDS

- Meanwhile, what we call the great fragmentation is manifested in consumer behavior and market response. In both developed and emerging markets, there is a wider variety among consumers now, than at any time in the recent past.
- Growth is evident both at the top of the market (where more consumers are spending for higher-quality food and other packaged goods) and at the lower end (where an increasing number of consumers are concentrating on value).
- But the traditional middle of the market is shrinking.



FRAGMENTED BRANDS



- A decade ago, CPG companies had only a handful of sales channels to consider: supermarkets, convenience stores, hypermarkets in advanced economies, and traditional small and large retailers in emerging and developed countries. Since then, various discounters have made significant inroads, including no frills, low variety outlets, such as Europe's Aldi and Lidl, which sell a limited range of private-label grocery items in smaller stores, and massive warehouse clubs, such as Costco and Sam's Club, which initially operated solely in the U.S. but are now expanding internationally, as well as Makro in Europe. In addition, dollar stores, specialized retailers, and online merchants are having an impact on the CPG landscape. Economizing consumers have been pleasantly surprised by the savings generated by spreading their business among multiple channels, as well as by the variety and product quality they find. We will see more and more such behavior, and continued experimentation and innovation by retailers as they try to respond.
- The result has been greater demand for more products and brands, with different sizes, packaging, and sales methods. At most CPG companies, SKUs are proliferating, despite there being little increase in overall consumption. A better outcome can be seen at smaller food and beverage suppliers, which are benefiting from consumer demand for variety and authenticity. A recent [Strategy& report](#) found that in the U.S., small manufacturers (with revenues of less than US\$1 billion) grew at twice the compound annual rate of large manufacturers (with revenues of more than \$3 billion) between 2009 and 2012.

“THE ONLY CONSTANT IS CHANGE”,

in the words of the ancient Greek philosopher Heraclitus.

- The upheavals in global consumer, retail, and supply markets over the coming decade threaten to wreak havoc on established business models and marketing approaches—and promise huge rewards for those best able to anticipate new opportunities.
- How should CPG companies go about analyzing these forces and prioritizing those with the greatest likely impact on their own competitive advantage?



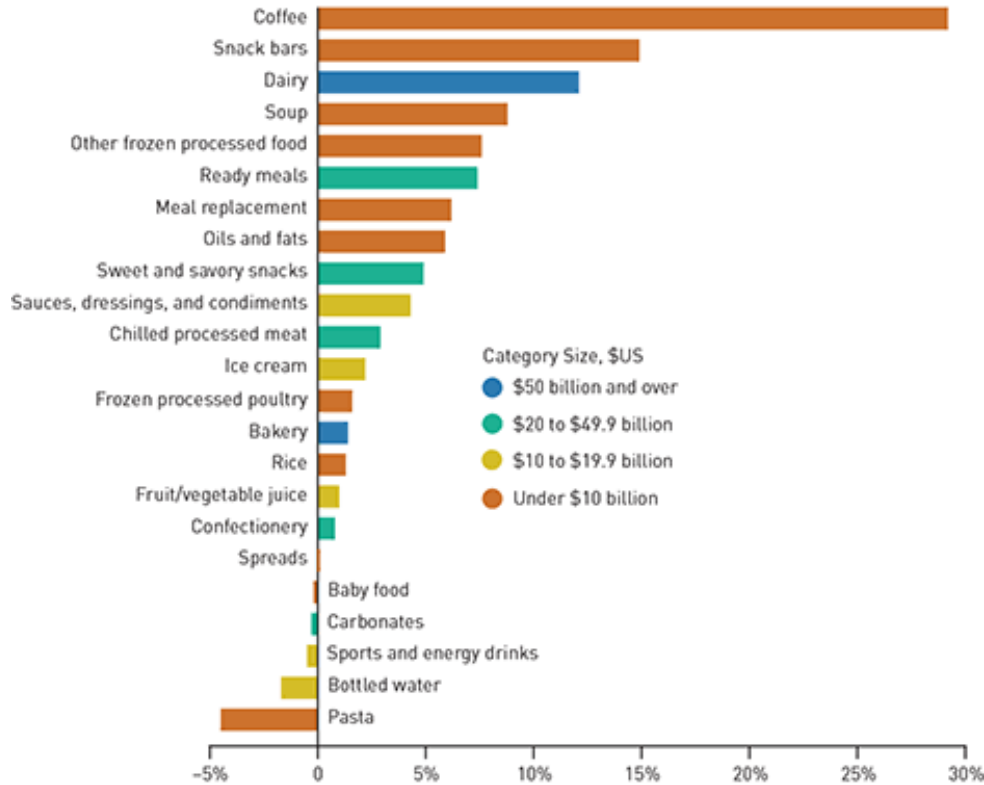
SMALL PLAYERS OUTPERFORM



Exhibit: Small Players Outperform

In most of the biggest food and beverage categories, small CPG firms are increasing their market share.

Three-Year Growth of Small Players Relative to Category



Notes: Ready-to-drink tea and frozen processed vegetables are not shown because those categories have no small players. Packaged food categories show 2012 data; beverage categories show 2011 data.

Source: Euromonitor, Booz & Company analysis



INFLUENCING TRENDS

Trends that could influence performance over the next decade 1



- **Demand trends**

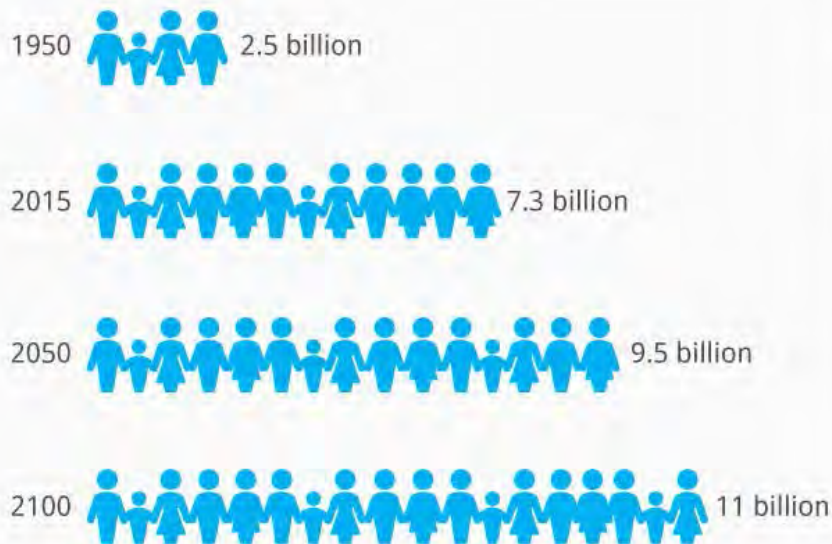
- A billion new consumers
- Consumers ‘going green’
- Shifting demographics
- Rise of digital consumers
- Health and wellness concerns
- Modernization and concentration of trade
- Rise of the value segment

A BILLION NEW CONSUMERS

By the End of the Century, 40% of People Will Be African

World population forecast with Africa's percentage share

World's Population



Africa's Population Accounts for

230 million



1.2 billion



2.4 billion



4.2 billion



Source: UNICEF

CONSUMERS 'GOING GREEN'



Consumer Goods

Retread on Me!

Sustainable ewe.

Energy

Waste not, want not.

Low-carbon is cool!

Transport

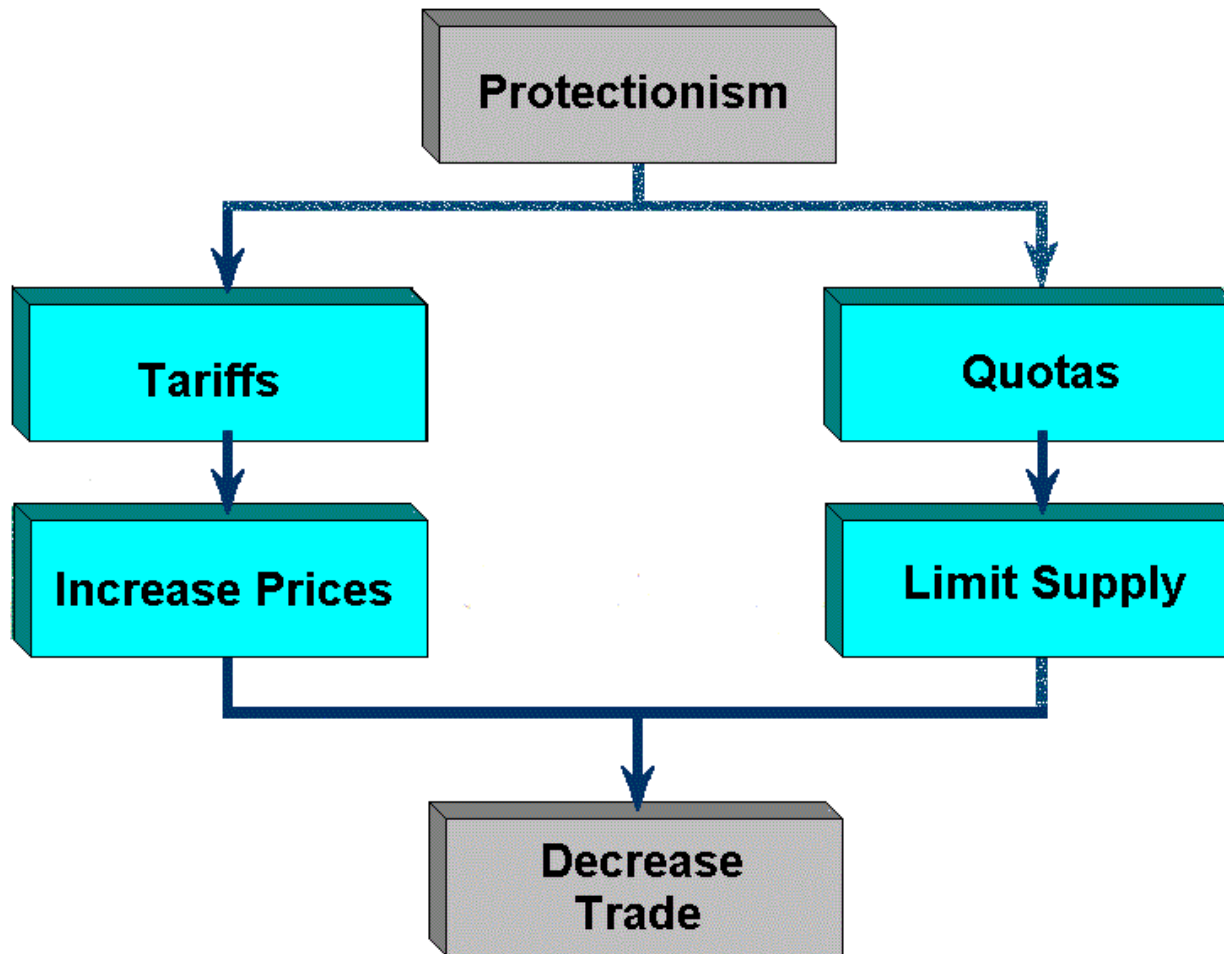
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Trends that could influence performance over the next decade 2

- **External factors**
 - Rising trade protectionism
 - Changing tax regimes



RISING TRADE PROTECTIONISM



RISING TRADE PROTECTIONISM



Metric, Country in specified rank, Number

Rank	Ranked by number of (almost certainly) discriminatory measures imposed	Ranked by the number of tariff lines (product categories) affected by (almost certainly) discriminatory measures	Ranked by the number of sectors affected by (almost certainly) discriminatory measures	Ranked by the number of trading partners affected by (almost certainly) discriminatory measures
1	EU27 (242)	Vietnam (927)	Algeria (62)	China (195)
2	Russian federation (112)	Venezuela (789)	EU27 (58)	EU27 (181)
3	Argentina (111)	Kazakhstan (727)	China (47)	Argentina (175)
4	UK (59)	China (608)	Nigeria (45)	Germany (161)
5	Germany (58)	Nigeria (599)	Kazakhstan (43)	India (154)
6	India (56)	EU27 (550)	Germany (42)	UK (154)
7	China (55)	Algeria (476)	USA (42)	Belgium (153)
8	France (51)	Russian Federation (439)	Ghana (41)	Finland (153)
9	Brazil (49)	Argentina (429)	Indonesia (40)	Indonesia (151)
10	Italy (47)	Indonesia (388)	Russian Federation (40)	France (150)

Source: Global Trade Alerts, 2011.

Trends that could influence performance over the next decade 3

- **Supply trends**

- Increasingly volatile input costs
- Labor shortages in emerging markets

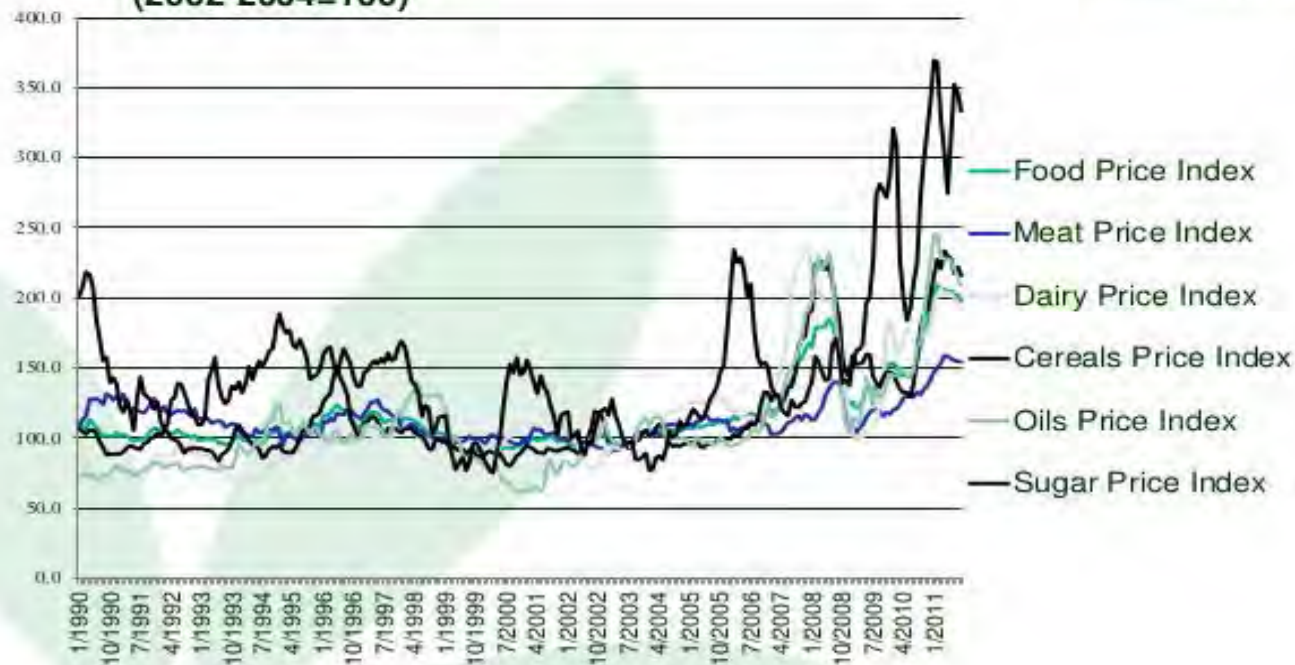


Increasingly volatile input costs

Increasing, volatile prices



Real Food Price Indices
(2002-2004=100)



Source: <http://www.fao.org/worldfoodsituation/wfs-home/foodpricesindex/en>

Increasingly volatile input costs

- Cash-strapped consumers and volatile raw-material prices are not the only problems facing fast-moving consumer goods (FMCG) companies in Europe today. Changes at retailers are bringing ever-growing challenges, especially for brand-name manufacturers.
- From 1985 to 2002, consumer-packaged-goods companies regularly passed on to consumers increases in the price of inputs (including aluminum, cereals, oil, and paper) while holding the line on prices when raw-material costs declined. In this way, these companies maintained profit margins when input costs rose and enjoyed expanding margins when they fell. In fact, we estimate that between 1996 and 2002, the strategy of passing on commodity price increases was responsible for two-thirds of net margin expansion in the sector, or roughly \$10 billion in value.
- The tables turned in 2002. From that year until 2007, industry players passed on price increases of just 15 percent as cumulative commodity costs grew by 40 percent (exhibit). As a result, we estimate that the failure to pass on commodity price increases was responsible, during that period, for 75 percent of the sector's margin contraction, which cost about \$70 billion.





We expect the sector to grow strongly. The key for companies is to sell the right products in the right markets at the right times

Imagine, if you will,...

- ... that over the next decade the world will gain an additional 81 Procter & Gambles or 458 equivalents of Kellogg's.
- This is the sort of growth that will happen in the global consumer-packaged-goods (CPG) sector, which will nearly double in size—to \$14 trillion—by 2025, from \$8 trillion in 2014.





Thank You