

Growth leaders in German consumer packaged goods and what is driving their success

Media Deck



Summary: Study identifies which CPG companies are winning in Germany and why

- The Boston Consulting Group (BCG) and Information Resources, Inc. (IRI) have collaborated on a study that identifies the top-performing companies in the German consumer packaged goods (CPG) industry.
- It is the first study to compare both public and private CPG companies using a combination of three metrics—euro sales growth, volume sales growth and euro market share gains - based on comprehensive retail market tracking data.
- Recognising that players in different size categories face different opportunities and challenges, the research team generated three distinct top-ten lists of winning branded CPG manufacturers: small (€30M to €75M in 2013 retail sales), midsize (€75M to €300M in 2013 retail sales) and large (more than €300M in 2013 retail sales).
- The rankings are based on the analysis of over 300 CPG manufacturers in Germany. The analysis includes an in-depth decomposition of the companies' underlying performance based on data from IRI InfoScan 2011 – 2013 (LEH + drugstores).
- BCG and IRI will continue tracking company performance and ongoing trends shaping the German CPG industry, with annual updates of this study.

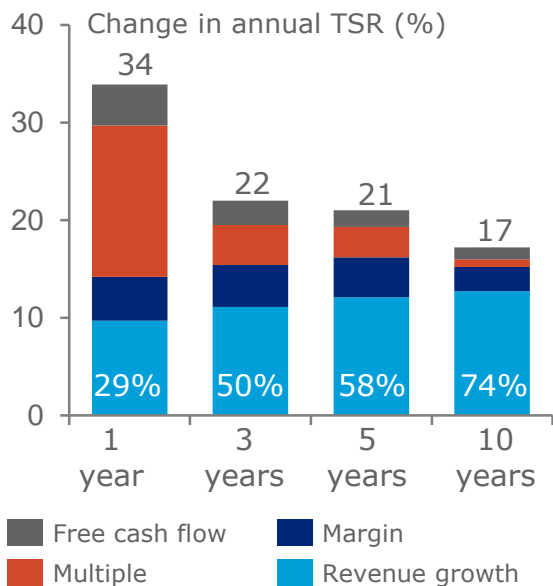
Source: BCG analysis, IRI analysis



Study focused on growth, a key contributor to total shareholder return (TSR)

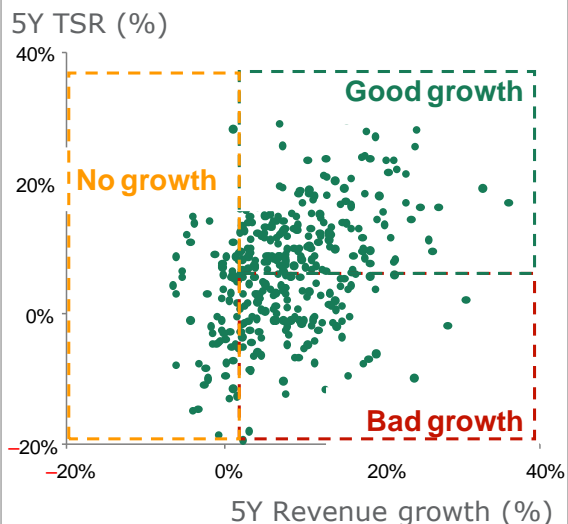
GROWTH IS THE LARGEST CONTRIBUTOR TO LONG-TERM TSR...

Sources of TSR for top-quartile performers (S&P 500, 1990–2009)



...BUT NOT ALL GROWTH IS GOOD GROWTH

Correlation of rev growth and TSR (S&P 500, 1990–2009)



THREE KEY LEVERS DIFFERENTIATE GOOD GROWTH

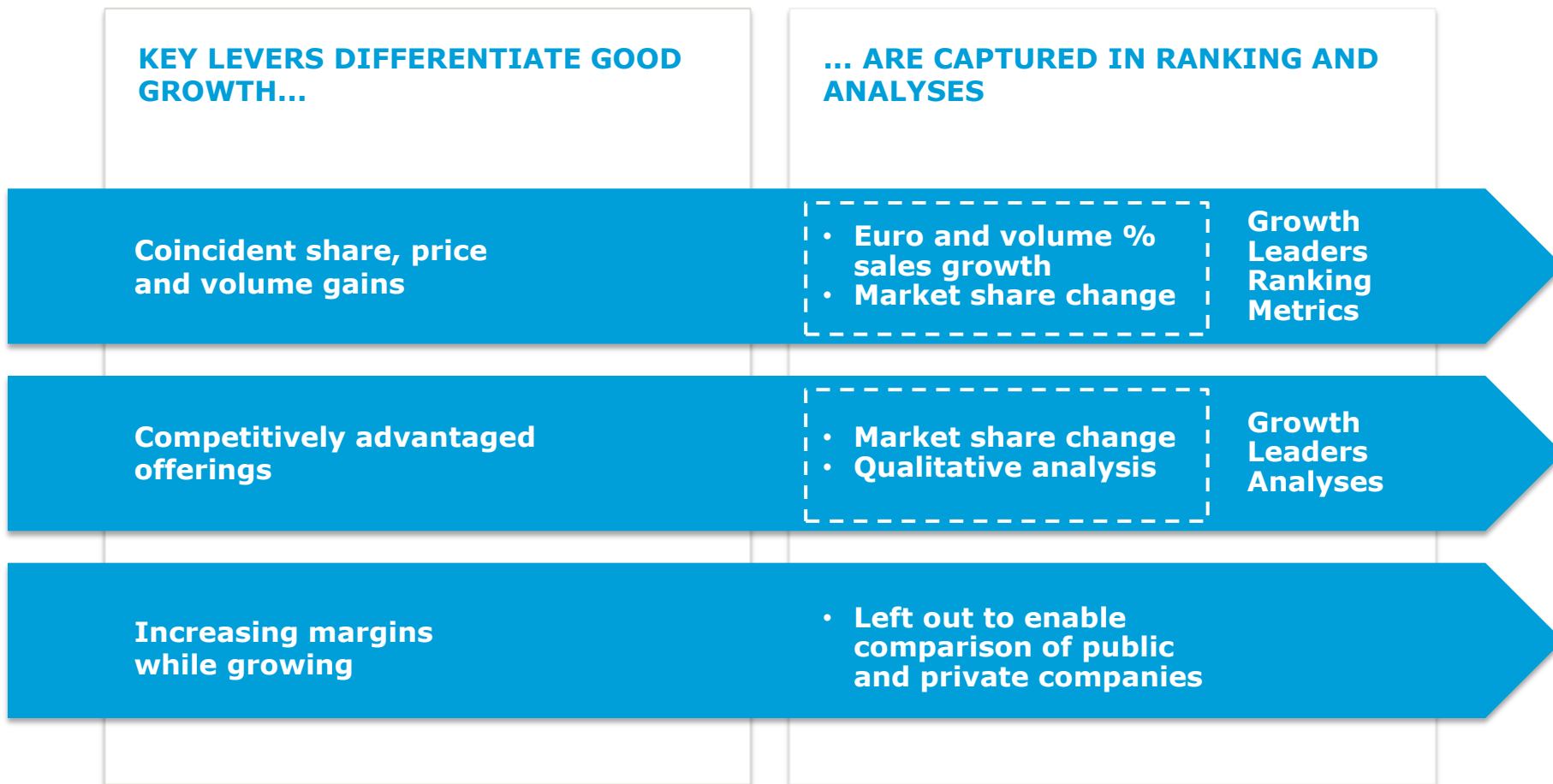
Coincident share, price and volume gains

Competitively advantaged offerings

Increasing margins while growing

Note: TSR and revenue growth data from US only
Source: BCG analysis - "Growth for the Rest of Us", January 2014

Key levers for measuring differentiated growth are captured by Growth Leaders' ranking system



Source: BCG analysis

Growth Leaders study uses three metrics in ranking system

HOW LEVERS WERE ANALYSED

EURO SALES % CHANGE

Base vs. innovation contribution to % change in euro sales.

Contribution to % change in base euro sales through distribution vs. productivity.

Contribution to % change in productivity through pricing vs. unit velocity.

VOLUME SALES % CHANGE

Volume sales % change vs. euro sales % change

- Companies growing euro faster than volume sales likely increasing prices.
- Price increases analysed by true price vs. mix shift.
- Companies growing volume faster than euro sales likely cutting prices to maintain/grow volume.

EURO SHARE POINT CHANGE

Percent of portfolio gaining, holding, and losing share¹.

Category dynamics (e.g. # of categories per company, portfolio share trends).

¹Gaining share = gain of 0.5 or more share points ; losing share = loss of 0.5 or more share points; holding share = <+0.5 and >-0.5 share point
Source: BCG analysis, IRI analysis

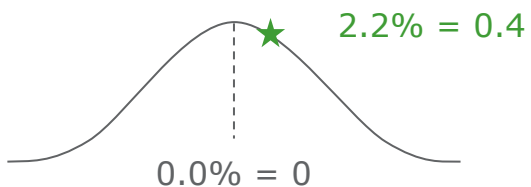
Company performance is analysed relative to peers on three growth metrics; ranking is based on weighted average

PERFORMANCE IS ANALYSED RELATIVE TO SIZE PEERS USING STANDARD DEVIATION

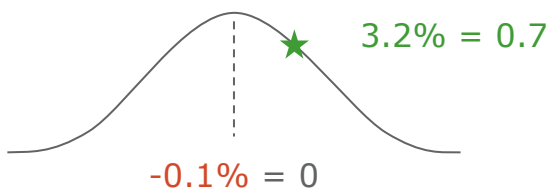
Example: Tchibo – Large

Growth metrics

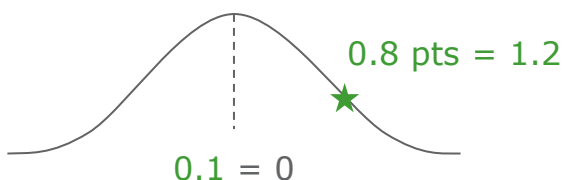
Euro sales % change



Volume sales % change



Euro share change¹



Rankings are calculated within each size group – they should not be compared across groups

STANDARD DEVIATION SCORES ARE WEIGHTED 25/25/50 AND RESULTS FORM RANKING

Example: Tchibo – Large

Euro sales: 0.4 * 25%
Volume sales: 0.7 * 25%
Share 1.2 * 50%

} **0.9 Score**

		% € sales	% vol	Share pt	Score
1	Intersnack	14.2%	12.9%	2.3	3.3
2	Coca-Cola	4.2%	3.6%	1.4	1.5
3	Alnatura	12.0%	11.5%	0.2	1.3
4	Krombacher	6.4%	5.7%	0.4	0.9
5	Tchibo	2.2%	3.2%	0.8	0.9

Headquartered outside of Germany

Source: BCG analysis, IRI analysis

¹Share change weighed by the % of company's portfolio in each applicable category

Highlights of industry analysis – Germany

CPG EURO GROWTH SLOWED IN 2013 VS. 2012, DRIVEN BY VOLUME DECLINES AND SLOWER INCREASES IN PRICE

- Total CPG growth including private label was 1.2% in 2013 vs. 2.0% in 2012.
- Growth among only branded CPG manufacturers was slower, up only by 0.4% in 2013 vs. 2.0% in 2012.

LARGE COMPANIES AND PRIVATE LABEL STEALING SHARE FROM SMALLER COMPANIES

- Private label and large companies gained +0.5 and +0.2 share points respectively in 2013.
- 2013 trend furthers gradual shift in industry euros to private label and large players since 2010.
- Share gains come largely at the expense of small and extra-small players.

ALMOST ALL WINNING COMPANIES SUCCESSFULLY GREW EURO SALES, VOLUME SALES, AND MARKET SHARE IN 2013

- Euro sales growing faster than volume sales for leading large companies, suggesting use of pricing tactics for growth.
- Leading midsize and small players gaining significant share in their categories, more so than large winners.

WINNING COMPANIES DEMONSTRATE THAT BASE BUSINESS GROWTH IS CRITICAL TO SUCCESS IN THE CPG INDUSTRY

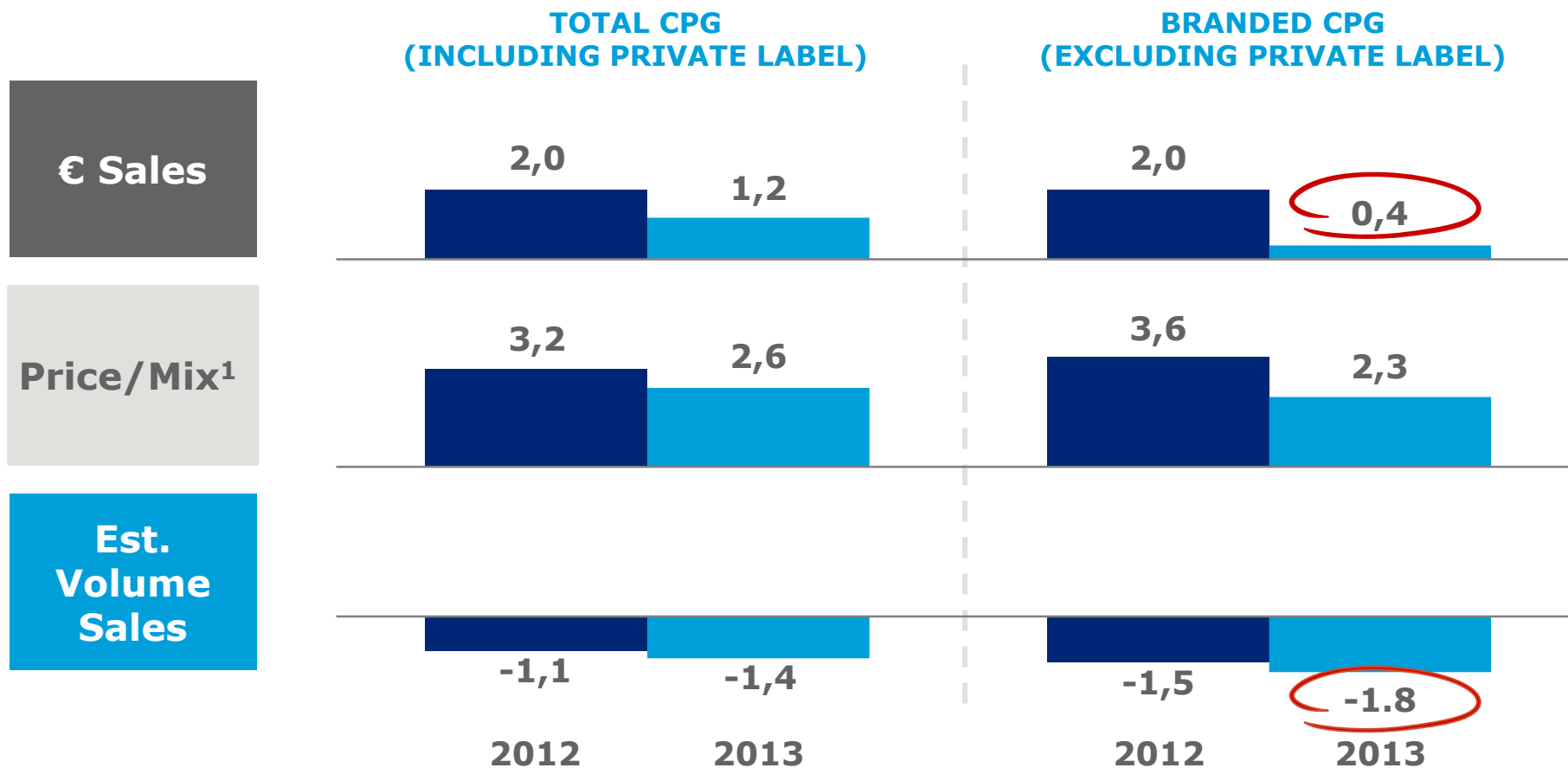
- Majority of winning companies across size groups drove growth primarily from the base business.
- Few winning companies also driving growth from innovation, or leveraging growth from innovation to offset base business declines.

Source: BCG analysis, IRI analysis

CPG sales in Germany grew at slower rate in 2013

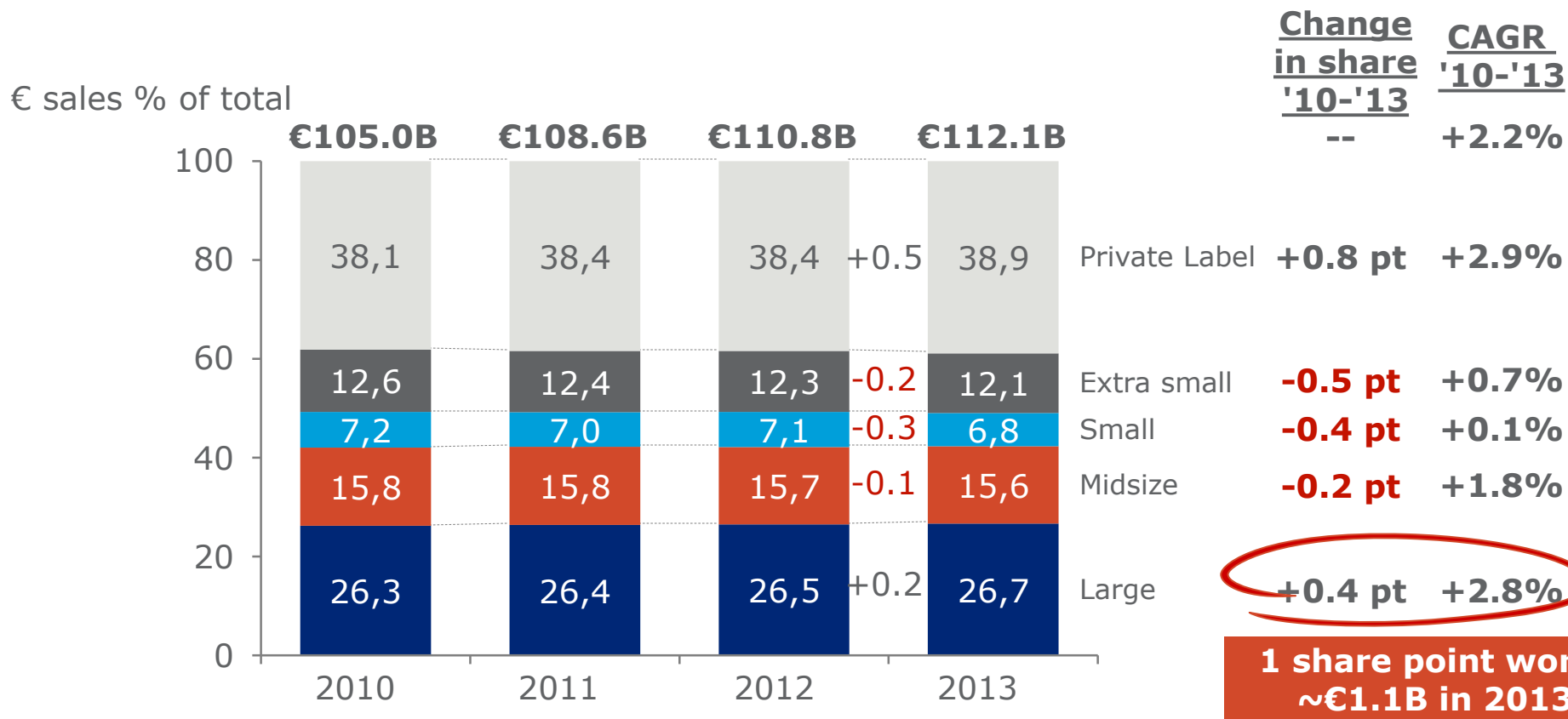
Euro sales growth of branded players is slower than the total CPG market

Total store scans: sales and price/mix trends in Germany % chg. vs. YA



¹Euro sales-weighted price per volume change across categories.
Source: IRI InfoScan 2011 – 2013 (LEH + drugstores), IRI analysis, BCG analysis

Private label and large CPG manufacturers gradually growing share since 2010

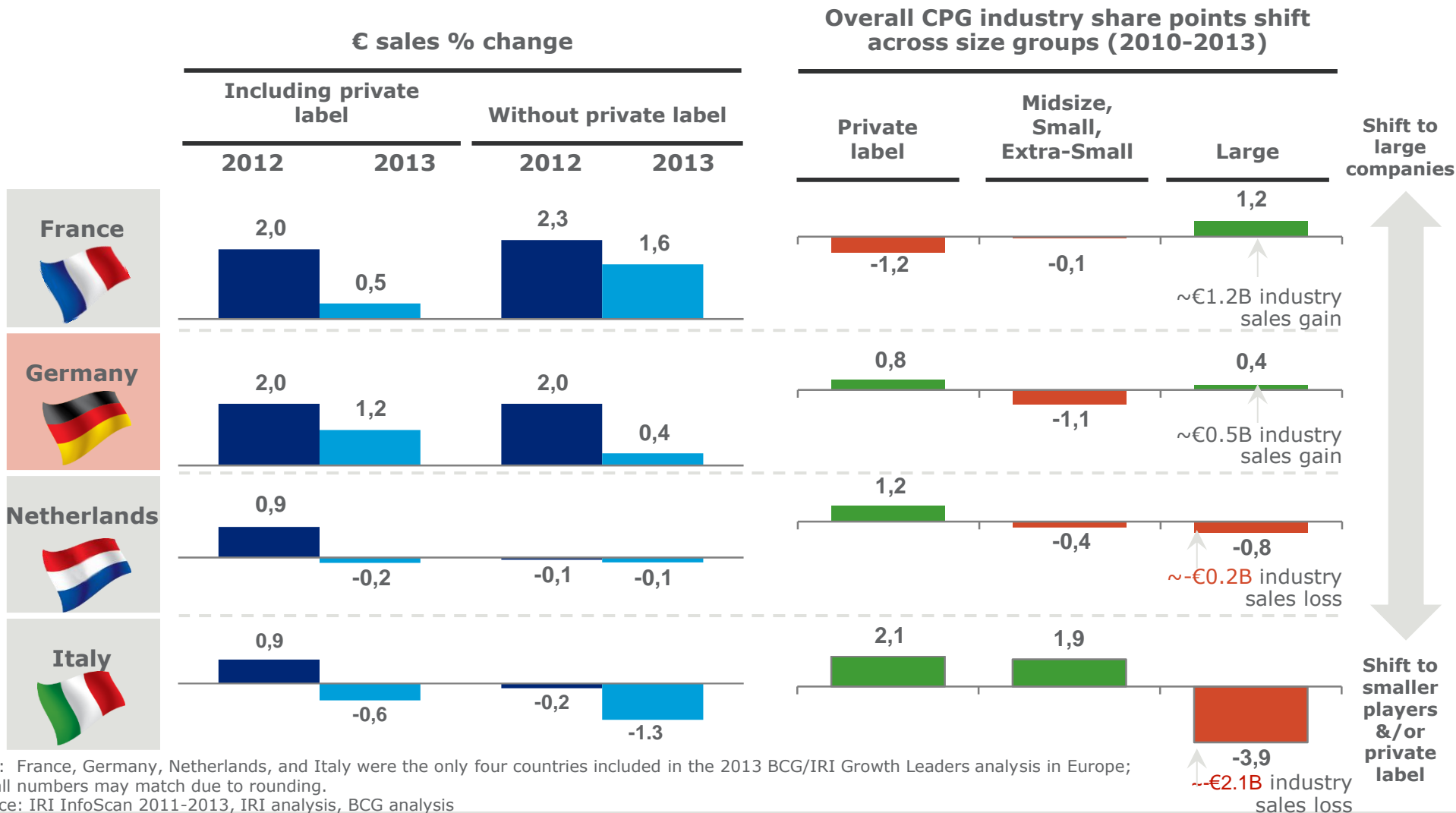


~€0.5B in industry sales have shifted from smaller players to large companies since 2010

Note: Extra small: <€30M 2013 sales, small: €30M-€75M 2013 sales, midsize: €75M-€300M 2013 sales, large : >€300M 2013 sales;
 Source: IRI InfoScan 2011-2013 (LEH + drugstores), IRI analysis, BCG analysis

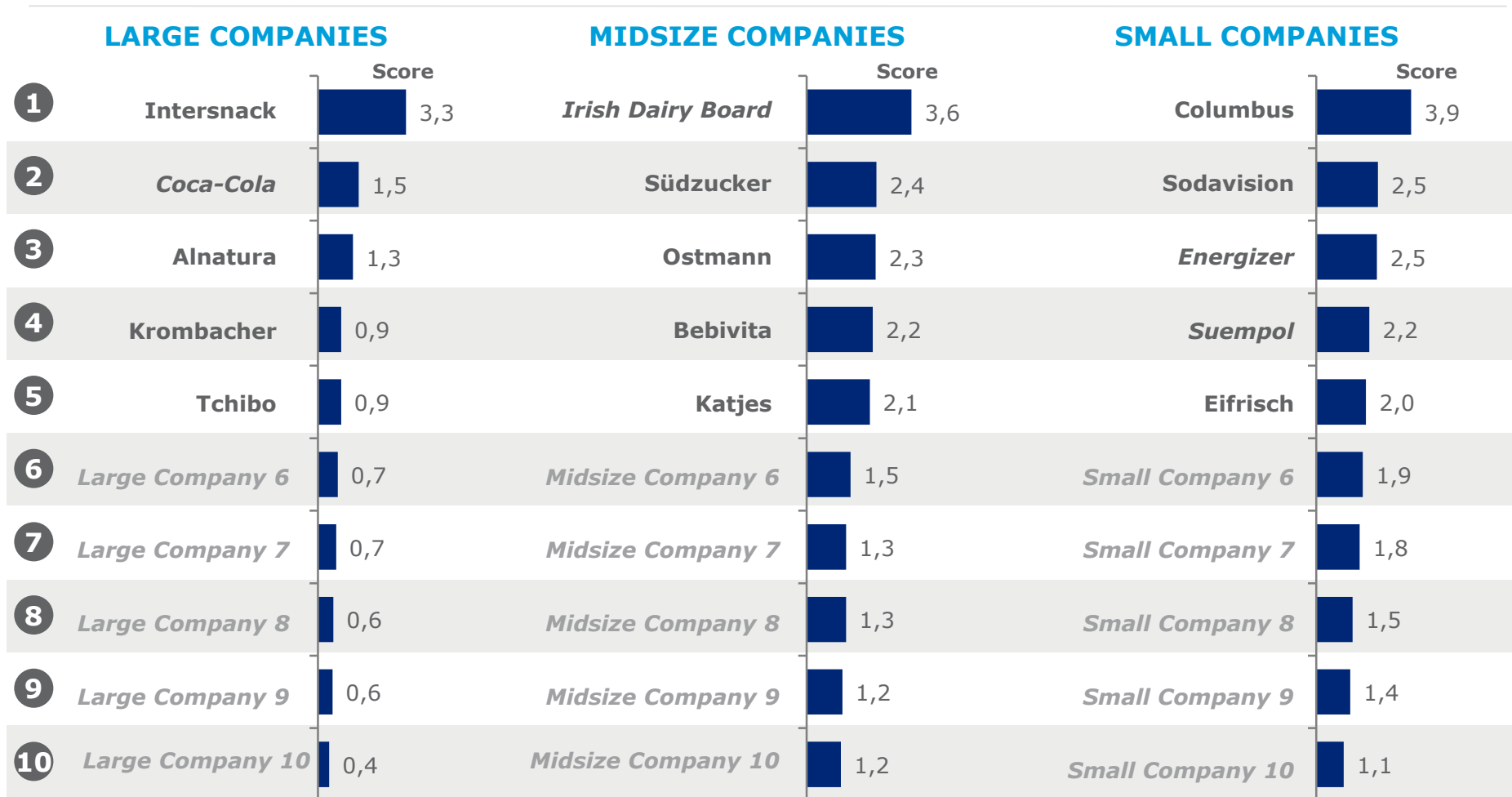
Comparison of CPG markets analysed in Europe

Industry growth and large company performance stronger in France vs. Germany



Note: France, Germany, Netherlands, and Italy were the only four countries included in the 2013 BCG/IRI Growth Leaders analysis in Europe; not all numbers may match due to rounding.
 Source: IRI InfoScan 2011-2013, IRI analysis, BCG analysis

Large, midsize, and small leading German CPG companies ranked based on 2013 scores within each size group¹



¹Due to nature of methodology: comparisons cannot be made across company size groups.
 Note: Small: €30M- €75M 2013 sales, Midsize: €75M- €300M 2013 sales, Large: >€300M 2013 sales;
 Excludes private label sales. A score of zero implies a company's performance is at the mean for their category.
 Source: IRI InfoScan 2011-2013 (LEH + drugstores), IRI analysis, BCG analysis

Headquartered outside of Germany

Almost all winning large companies grew across all three growth metrics

2013	% € sales change	% vol sales change ¹	€ share point change ²	Score ³
	25% weighting	25% weighting	50% weighting	
1 Intersnack	14.2%	12.9%	2.3	3.3
2 Coca-Cola	4.2%	3.6%	1.4	1.5
3 Alnatura	12.0%	11.5%	0.2	1.3
4 Krombacher	6.4%	5.7%	0.4	0.9
5 Tchibo	2.2%	3.2%	0.8	0.9
6 Large Company 6	5.6%	4.5%	0.4	0.7
7 Large Company 7	3.1%	1.2%	0.7	0.7
8 Large Company 8	3.7%	2.5%	0.4	0.6
9 Large Company 9	4.8%	-2.0%	0.6	0.6
10 Large Company 10	1.7%	2.0%	0.4	0.4
Average top 10	5.2%	3.9%	0.9	
Average all others	-1.3%	-1.6%	0.0	

KEY OBSERVATIONS

9 leading large companies grew euro sales, volume sales and share.

- Intersnack is the clear #1 player, with a significantly stronger performance than other large company peers.

Large company growth concentrated among top players.

- Non-winner euro and volume sales declined vs. 2012.

Few large multinational companies secured a spot in the top-10 list.

Large winners gaining share, but less rapidly than leading midsize and small companies.

- Difference largely due to more fragmented/diversified portfolios.

Lowest value 50% percentile Highest value



Headquartered outside of Germany

¹Computed as ratio of euro sales % chg and euro weighted price per volume chg at the category level.

²Share point change weighted by % of company's portfolio in each applicable category. ³Weights 50% share point change percentile, 25% sales growth and 25% volume growth percentiles, a score of zero implies a company's performance is at the mean for their category.

Note: Heatmap reflects percentiles within size group; 39 large companies included in analysis.

Source: IRI InfoScan 2011-2013 (LEH + drugstores), IRI analysis, BCG analysis

Large companies are driving growth mostly through the base business, increasing volume and gaining share

LARGE COMPANY SUMMARY BY LEVER

EURO SALES % CHANGE

Winners are successfully driving growth through the base business.

- All winners are successfully growing base.

Innovation not a key source of growth for leading large companies.

- Only 1 company had a >1% innovation contribution to euro sales growth.

VOLUME SALES % CHANGE

In general, large winners are growing euro sales faster than volume sales.

- Suggesting the use of pricing strategies to further drive euro sales growth.
- Large companies also passing down higher procurement / production costs to retailers, often resulting in price increases.

Almost all large winners are driving increases in volume, demonstrating general portfolio health.

EURO SHARE POINT CHANGE

All winners are growing market share in their respective categories.

However, share gains are less than those of midsize and small winners.

- Only 2 companies gaining >1.0 share points.

Only 3 winners (all playing in the ≤ 5 categories) are growing share in $\sim 90\%+$ of their portfolio.

Source: IRI InfoScan 2011-2013 (LEH + drugstores); BCG analysis, IRI analysis

Winning midsize companies drove strong euro sales, volume sales and market share growth in 2013

2013	% € sales change	% vol sales change ¹	€ share point change ²	Score ³
	25% weighting	25% weighting	50% weighting	
1 <i>Irish Dairy Board</i>	33.7%	31.8%	2.1	3.6
2 <i>Südzucker</i>	11.9%	12.8%	2.2	2.4
3 <i>Ostmann</i>	4.2%	2.1%	2.9	2.3
4 <i>Bebivita</i>	12.0%	10.5%	2.1	2.2
5 <i>Katjes</i>	21.9%	27.5%	1.0	2.1
6 <i>Midsize Company 6</i>	13.5%	15.5%	1.0	1.5
7 <i>Midsize Company 7</i>	20.6%	23.4%	0.3	1.3
8 <i>Midsize Company 8</i>	15.7%	4.2%	1.1	1.3
9 <i>Midsize Company 9</i>	10.0%	13.8%	0.9	1.2
10 <i>Midsize Company 10</i>	0.3%	1.7%	1.6	1.2
Average top 10	14.1%	14.1%	1.7	
Average all others	1.7%	-0.1%	0.0	

KEY OBSERVATIONS

All midsize winners grew euro sales, volume sales and share.

- 7 winners had a >10% growth in both euro and volume sales.

Most midsize winners gained +1.0 share point or more.

- Average share gain of 1.7 points among leading players vs. 0.0 points among non-winners.

Winners grew euro sales in line with volume sales, whereas non-winner euro sales outpaced volume growth.

- Suggesting non-winner reliance on pricing tactics to offset softness in volume sales.



Headquartered outside of Germany

¹Computed as ratio of euro sales % chg and euro weighted price per volume chg at the category level.

²Share point change weighted by % of company's portfolio in each applicable category. ³Weights 50% share point change percentile, 25% sales growth and 25% volume growth percentiles, a score of zero implies a company's performance is at the mean for their category.

Note: Heatmap reflects percentiles within size group; 123 midsize companies included in analysis.

Source: IRI InfoScan 2011-2013 (LEH + drugstores), IRI analysis, BCG analysis

Leading midsize players driving growth mostly through the base business, with some successes in innovation

MIDSIZE COMPANY SUMMARY BY LEVER

EURO SALES % CHANGE¹

Midsize winners are successfully driving growth through the base business.

- 6 midsize winners are showing positive growth contribution from the base.

Innovation is not a key growth driver among winning midsize companies.

- Growth from innovation is less than growth from base among most leaders.
- Only 3 winners had positive contribution to growth from innovation.

VOLUME SALES % CHANGE

In general, midsize winners are growing euro sales and volume proportionally.

- Suggesting little reliance on pricing to boost euro growth.

Volume is increasing for all midsize winners, despite declines in industry volume.

- 7 out of 10 midsize winners with a >10% increase in volume.

EURO SHARE POINT CHANGE

All midsize winners are gaining market share.

- 7 out of 10 winners are growing share in ~90%+ categories in their portfolio.
- Most gaining >1.0 share points or more.

Midsize winners are generally capitalising on key consumer trends (e.g. health and wellness, premium offerings) to drive share in key categories.

¹Out of the 7 companies for which there were euro sales decomposition data
Source: IRI InfoScan 2011-2013 (LEH + drugstores); BCG analysis, IRI analysis

Winning small companies are delivering significant growth and market share gains

2013	% € sales change	% vol sales change ¹	€ share point change ²	Score ³
	25% weighting	25% weighting	50% weighting	
1 Columbus	89.6%	91.1%	1.0	3.9
2 Sodavision	34.2%	28.7%	2.5	2.5
3 Energizer	22.0%	15.6%	3.3	2.5
4 Suempol	37.7%	29.9%	1.7	2.2
5 Eifrisch	48.0%	34.7%	1.0	2.0
6 Midsize Company 6	38.0%	35.8%	1.0	1.9
7 Midsize Company 7	20.4%	21.6%	1.9	1.8
8 Midsize Company 8	24.5%	29.5%	1.0	1.5
9 Midsize Company 9	14.4%	13.1%	1.7	1.4
10 Midsize Company 10	13.8%	14.0%	1.2	1.1
Average top 10	34.0%	30.4%	1.6	
Average all others	1.5%	-0.8%	-0.1	

KEY OBSERVATIONS

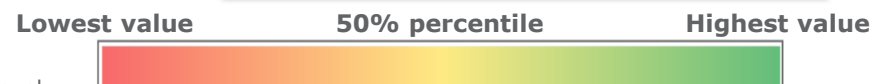
All winners are growing double-digit euro sales, volume sales and taking share.

All small winners also posted share gains of +1.0 share point or more.

Top small winners relied more on pricing tactics for growth than winners in other size groups.

- 6 small winners grew euro sales faster than volume.
- Delta between euro sales and volume growth ~4% points among winners.

Headquartered outside of Germany



¹Computed as ratio of euro sales % chg and euro weighted price per volume chg at the category level.

²Share point change weighted by % of company's portfolio in each applicable category. ³Weights 50% share point change percentile, 25% sales growth and 25% volume growth percentiles, a score of zero implies a company's performance is at the mean for their category.

Note: Heatmap reflects percentiles within size group; 158 small companies included in analysis.

Source: IRI InfoScan 2011-2013 (LEH + drugstores), IRI analysis, BCG analysis

Winning small companies had large gains in market share but were more reliant on pricing for growth

SMALL COMPANY SUMMARY BY LEVER

EURO SALES % CHANGE¹

The majority of small company winners' growth came primarily from the base business.

- All small winners are driving double-digit or higher base sales contribution to growth.

Innovation contributed to euro sales growth for only 3 leading small companies.

VOLUME SALES % CHANGE

Small winners appear to be leveraging pricing tactics for growth...

- 6 out of 10 small winners grew euro sales faster than volume.

...however, winners are driving significant volume sales growth (>10% up to as much as 90%).

- Average volume sales for non-winning small companies are negative.

EURO SHARE POINT CHANGE

All small winners are increasing share by 1.0 or more points in their respective categories.

Small winners also appear to be capitalising on consumer trends (e.g. health and wellness, premium offerings) for growth.

Small winners are generally playing in growing categories.

¹Out of the 9 companies for which there were euro sales decomposition data
Source: IRI InfoScan 2011-2013 (LEH + drugstores); BCG analysis, IRI analysis

Implications for CPG companies in Germany

Sales & retail execution

Base business is crucial to growth – almost all winners across size groups grew primarily from their base business, with little, if any, contribution from innovation.

Large companies leveraging pricing as a tactical source for euro growth, and to offset increasing costs, in an effort to offset declining volume in the industry.

- Companies that relied on pricing tactics for growth in 2013 should identify more sustainable strategies to drive euro and volume sales growth in the long-term.

Marketing & product development

Winning midsize and small companies focused on key categories and consumer trends to grow.

- Several examples of leading midsize and small players responding to pockets of consumer demand and macro-trends (e.g. organic and local foods, environmentally friendly production) to drive growth.
- Opportunity for large companies to identify key consumer trends and benefit-based tactics to win.

Opportunity to leverage innovation in key categories to further complement base business growth.

- Few winners were able to grow the base while concurrently growing through innovation.

Portfolio management

Although large companies have been gradually increasing share over the past 3 years, companies with fewer categories grew market share on average across a larger % of the portfolio.

Opportunity to drive growth through effective portfolio mix management.

- Expansion into categories with high growth potential through acquisition or new product development.
- Systematic re-evaluation of existing categories to prioritise focus where opportunity is greatest.

Source: BCG analysis, IRI analysis

Glossary of terms

- **CPG:** Consumer packaged goods.
- **TSR:** Total shareholder return.
- **Euro sales % change:** increase/decrease in euro retail sales for calendar year 2013 vs. 2012.
- **Volume sales % change:** increase/decrease in equivalised volume sold, estimated as contribution to euro sales growth that is not due to price increases.
- **Euro share point change:** total company weighted average of change in euro market share, weighted by percent of portfolio for each category in which a company competes.
- **Base business:** aggregate of items with >€20,000 in sales in the previous year and sales in the current year.
- **Innovation business:** aggregate of items with <€20,000 in sales in the previous year and >€20,000 in sales in the current year, adjusted to only include new-to-market products (all others re-classified into base).
- **Distribution:** change in TDPs (total distribution points), which is the sum of CWD weighted distribution (distribution weighted by the total category euro sales in the market) across UPCs (universal product codes) for a company.
- **Productivity:** euro rate at which a given product is selling through existing points of distribution.
- **Unit velocity:** rate at which units of a given product is selling through existing points of distribution.
- **Price / mix change:**
 - **True price change:** items show actual price change on shelf at retailers.
 - **Mix shift:** sales shift to products with higher or lower price points – actual product pricing is unchanged.

Media contacts

FOR MORE INFORMATION

Nina Kenfenheuer

Marketing Manager, Germany

IRI (Information Resources Inc.)

Nina.Kenfenheuer@IRIworldwide.com

(+49) 211 36119 231

Vera Sabo

Press Relations, Germany

The Boston Consulting Group

Sabo.Vera@bcg.com

(+49) 89 2317 4727



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International Headquarters

1 Arlington Square,
Bracknell, Berkshire RG12 1WA,
United Kingdom
+44 1344 746 000