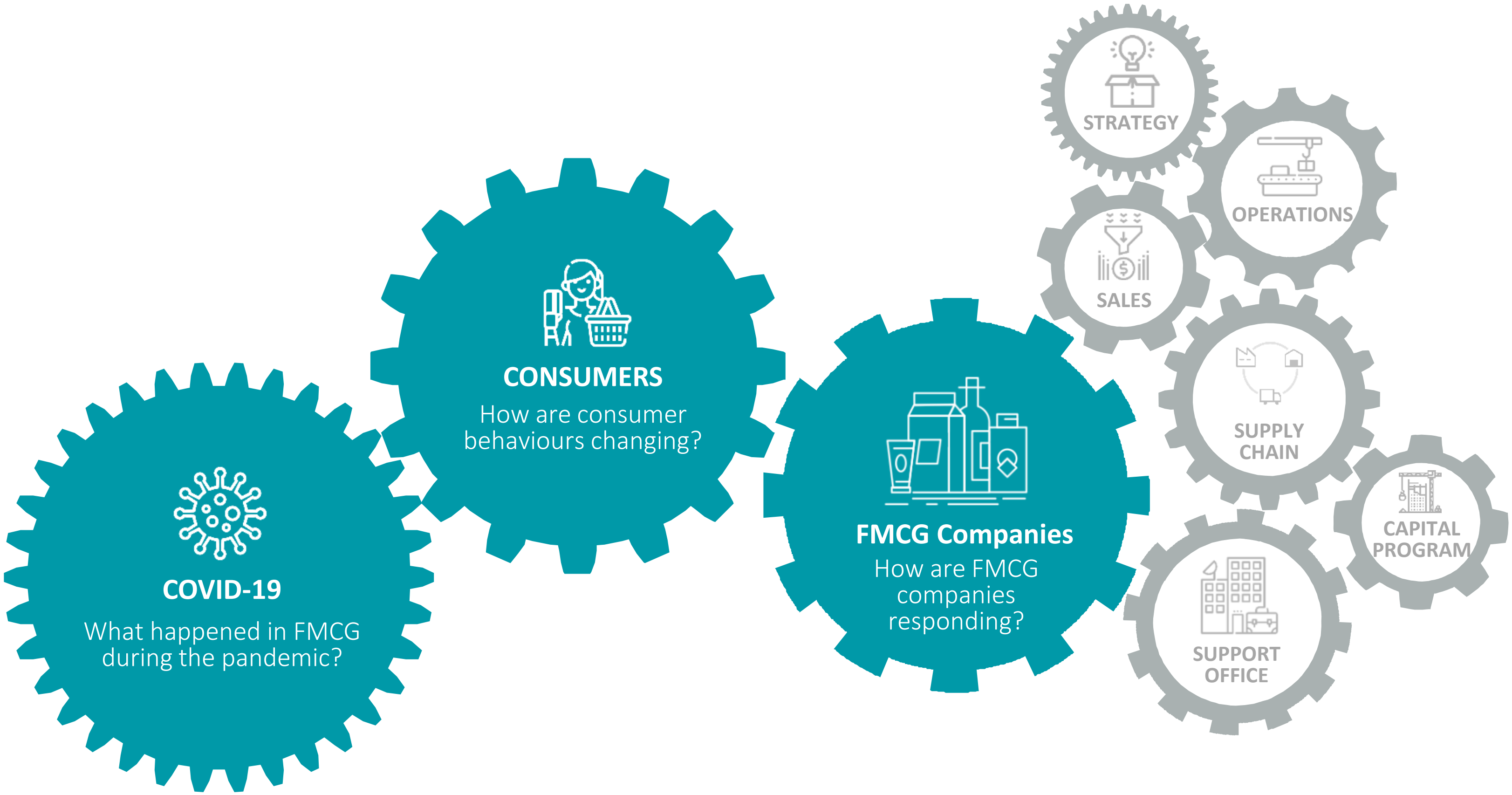
Partners in Performance
Unleashing potential | Lasting impact

Leaping into the 'new normal' for FMCG

May 2020

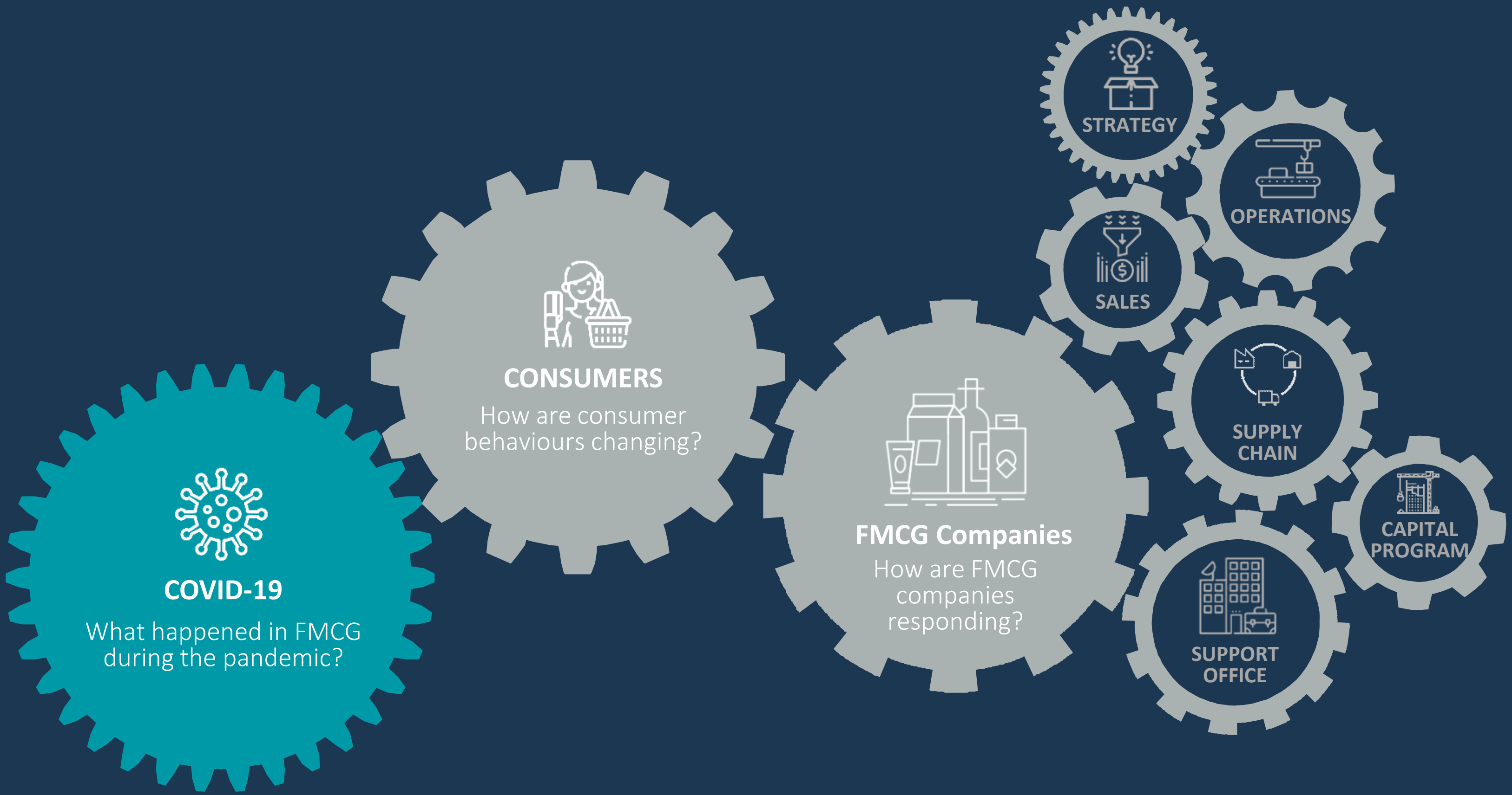
The effects of COVID-19 have created a new normal for how FMCG companies position, sell and operate

Three key questions for FMCG companies to understand



Have you considered the impacts across your business and how to prepare for the new normal?

COVID-19: What happened in FMCG during the pandemic?



COVID-19 sent shockwaves through food supply chains

Media headlines of COVID-19 impacts on Australia's food sector

Coronavirus Australia: People are now panic-buying flour as stores sell out

There's still one item that you'd be hard pressed to get your hands on, with flour remaining largely stripped from shelves after panic-buying put "enormous pressure" on supply chains

SPC Ardmona running out of tomatoes to can

Australia's leading fruit, baked bean, spaghetti processor says it is canning and packaging as fast as it can but running out of raw product after waves of panic buying.

No biscuits but plenty of broccoli: Food packaging a main coronavirus risk

Heads of Australian supermarkets have warned the coronavirus could affect stock of chocolate biscuits and chips as suppliers struggle to obtain certain packaging from China.

Coronavirus dries up restaurant trade, demand and price for pork tumbles

The wholesale pork price has dropped 30 cents a kilogram (about 5 per cent), but there are larger falls for cuts of meat used in Chinese cuisine, like the collar, which has dropped by 50 cents a kilogram to under $6

Woolworths and Coles reduce or cancel weekly specials amid coronavirus crisis

The supermarket giant has confirmed that it has been "unable to provide a large number of specials" in its current catalogue due to the demands of the coronavirus.

Sources: AFR, ABC News, Sydney Morning Herald, 7news, news.com.au

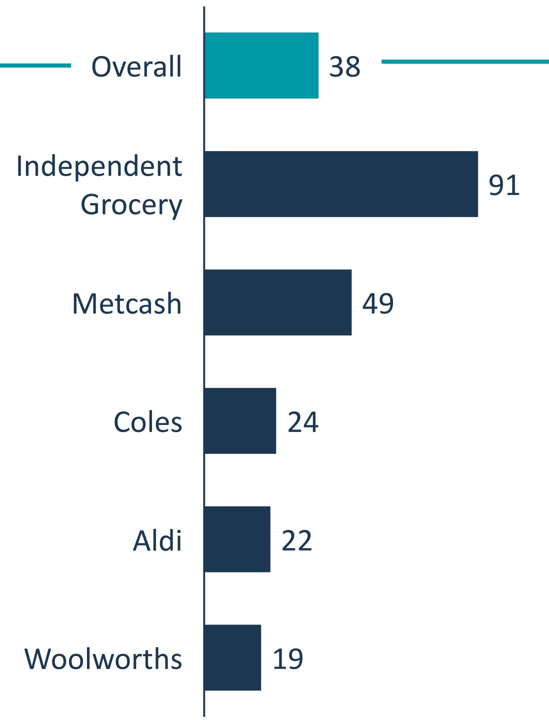
Consumer food spending shifted from fresh food service to grocery pantry staples

Where did our food spend go?

With lock-down restrictions in place, spend naturally shifted from food service to grocery channels	Grocery stores experienced a 38% sales uplift over the four week period	Pantry staples in particular saw the largest uplift

Change in consumer spend (%)

Value Growth by chain (%)



Value growth by category (%)

Category	Trend	
Pasta	▲	>100%
Canned meals	▲	>100%
Soup	▲	>100%
Rice	▲	50-100%
Grocery Milk	▲	50-100%
Canned Veg	▲	50-100%
Oils	▲	50-100%
Seasonal	▲	50-100%
Meals and bases	▲	20-50%
Pet food	▲	20-50%
Cheese	▲	20-50%
Cereal	▲	20-50%
Canned fish	▲	20-50%
Meat	▲	0-20%
Snacks	▲	0-20%

Source: IRI Australia Coronavirus Impact (Mar-20); McKinsey & Co COVID-19 Consumer Survey; Partners in Performance analysis

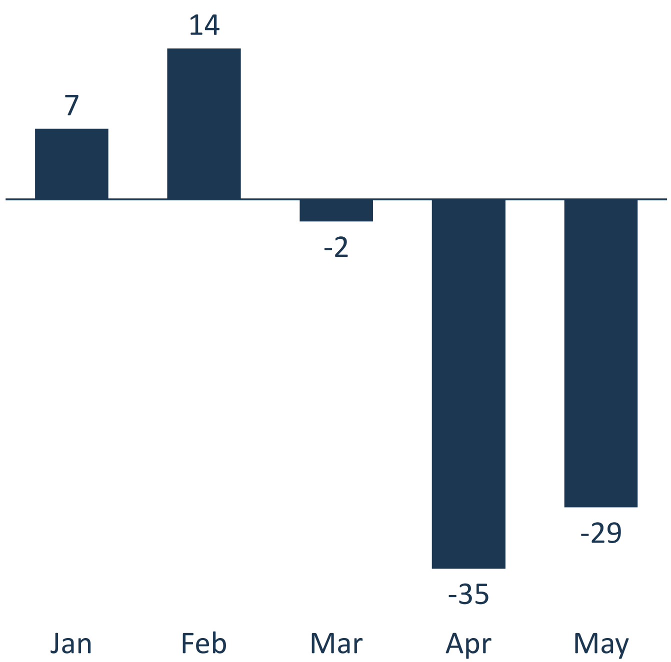
Supermarket catalogue width shrunk and contained shallower discounts

Promotional width and depth

2019 vs 2020

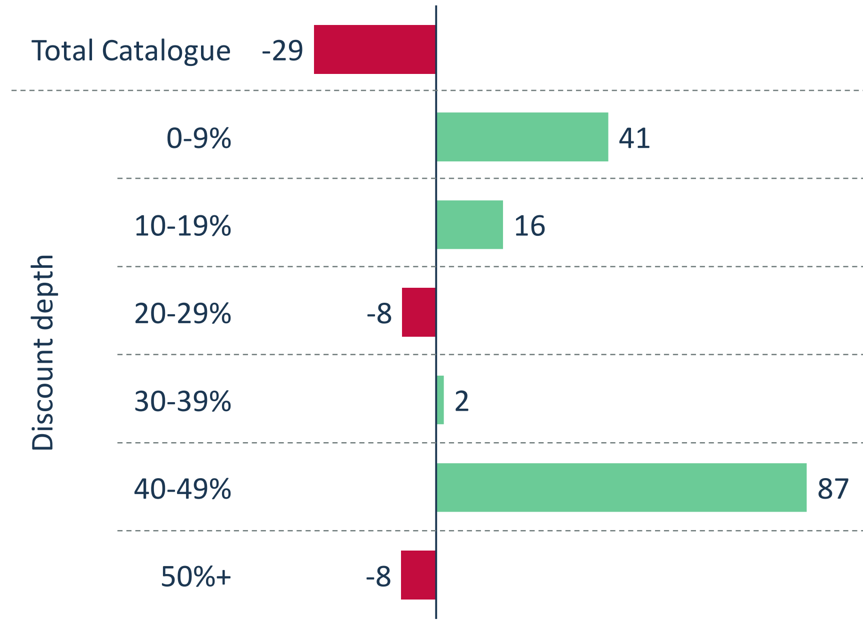
Catalogue width shrunk c.30%

% Change in item count 2019 vs 2020



Discount levels shallowed
40% off becoming the new 50% off

Change in share of space (%)



How will Australian consumers respond to lower discounts during recession and how will supermarkets react?

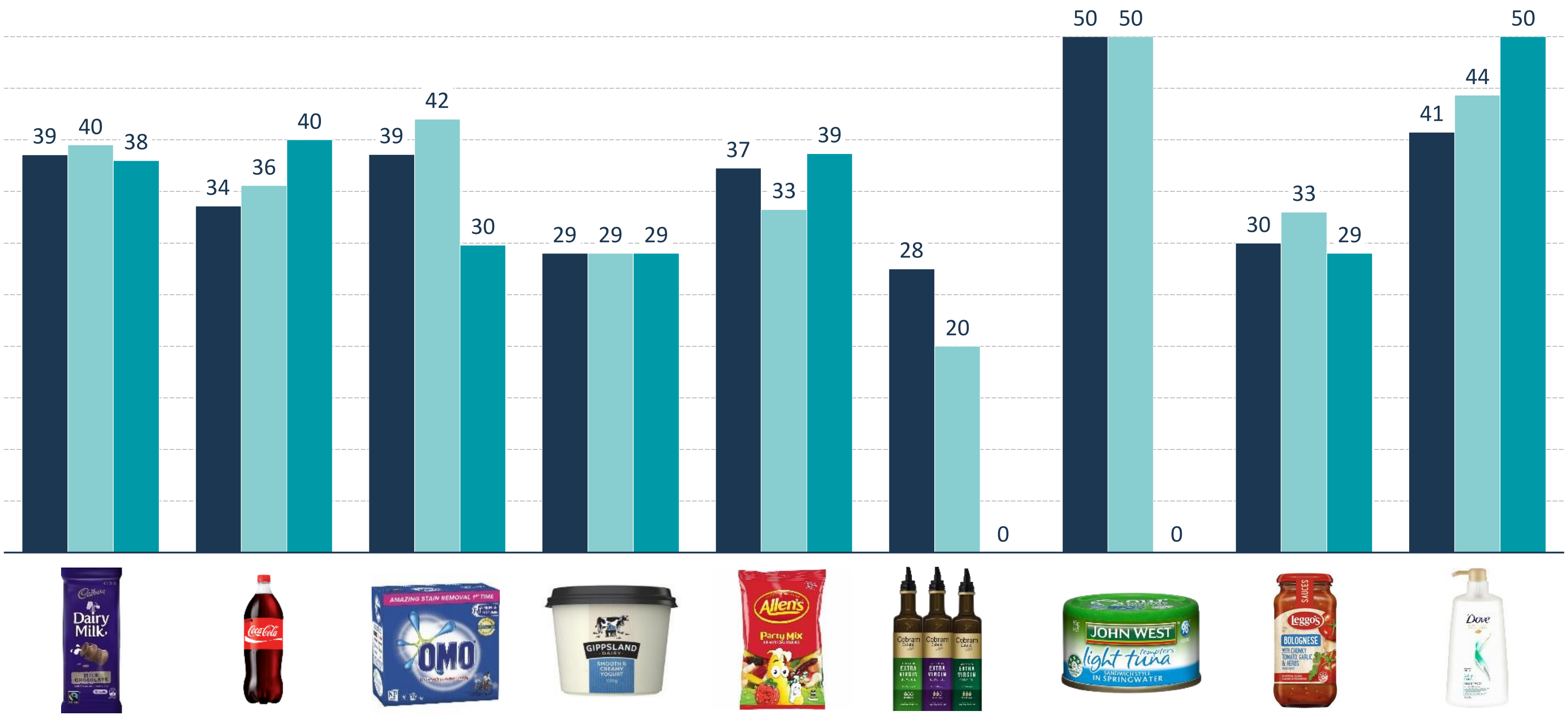
Source: PIP analysis based on Coles catalogues sourced from australiacatalogue.com. May based on first week catalogue only.

However, promotional depth on key lines did not alter significantly

Promotional depth of common catalogue items

Average % discount offered

Same period Last Year (Jan-May 2019) | Jan-Feb 2020 | Mar-May 2020



Portfolio promotion strategy will be key to ensuring reduced discounts don't creep back in

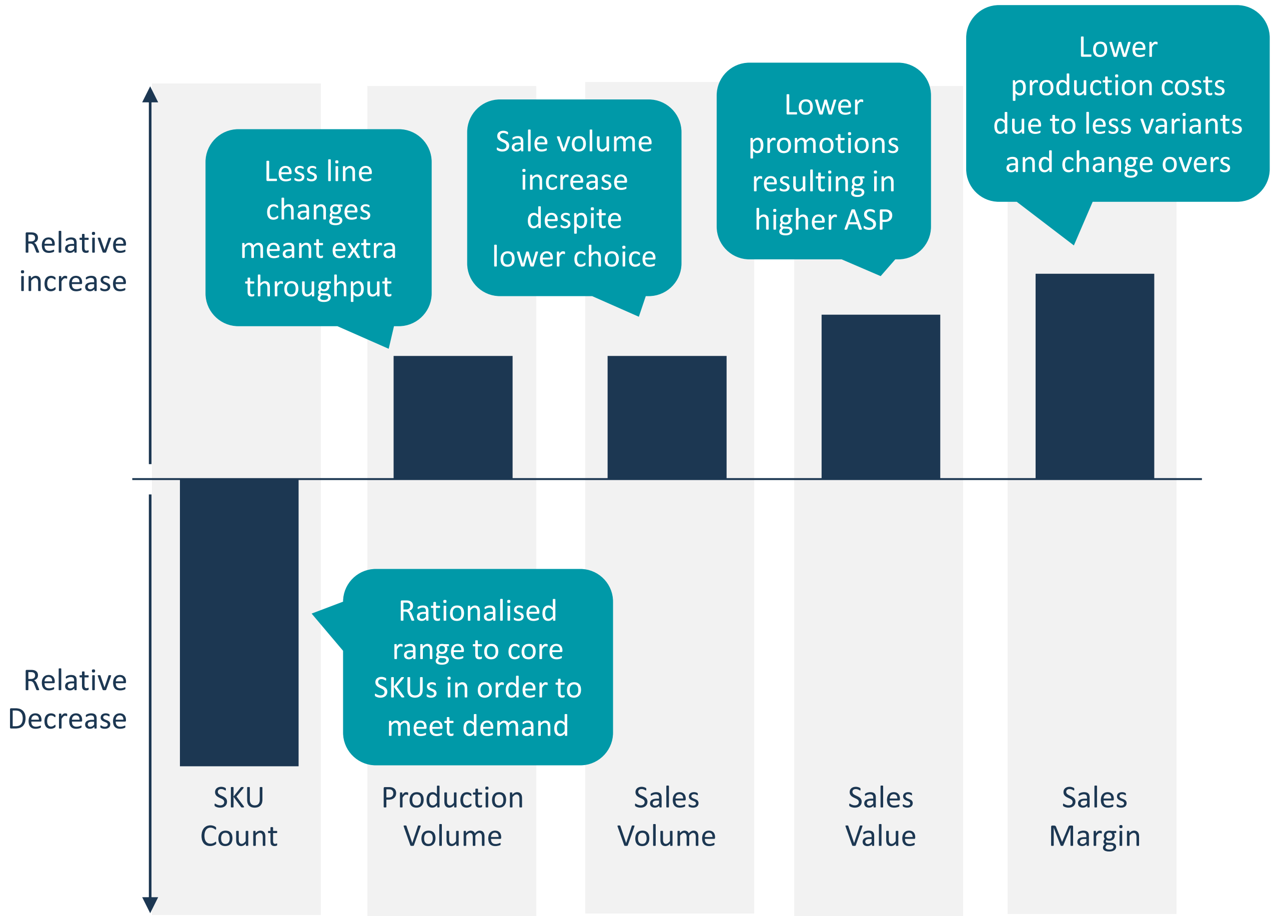
Source: PIP analysis based on Coles catalogues sourced from australiacatalogue.com

To produce in line with increased demands, SKU choice is being rationalised

INDICATIVE

The reduction of choice – Leggo's pasta sauce case study

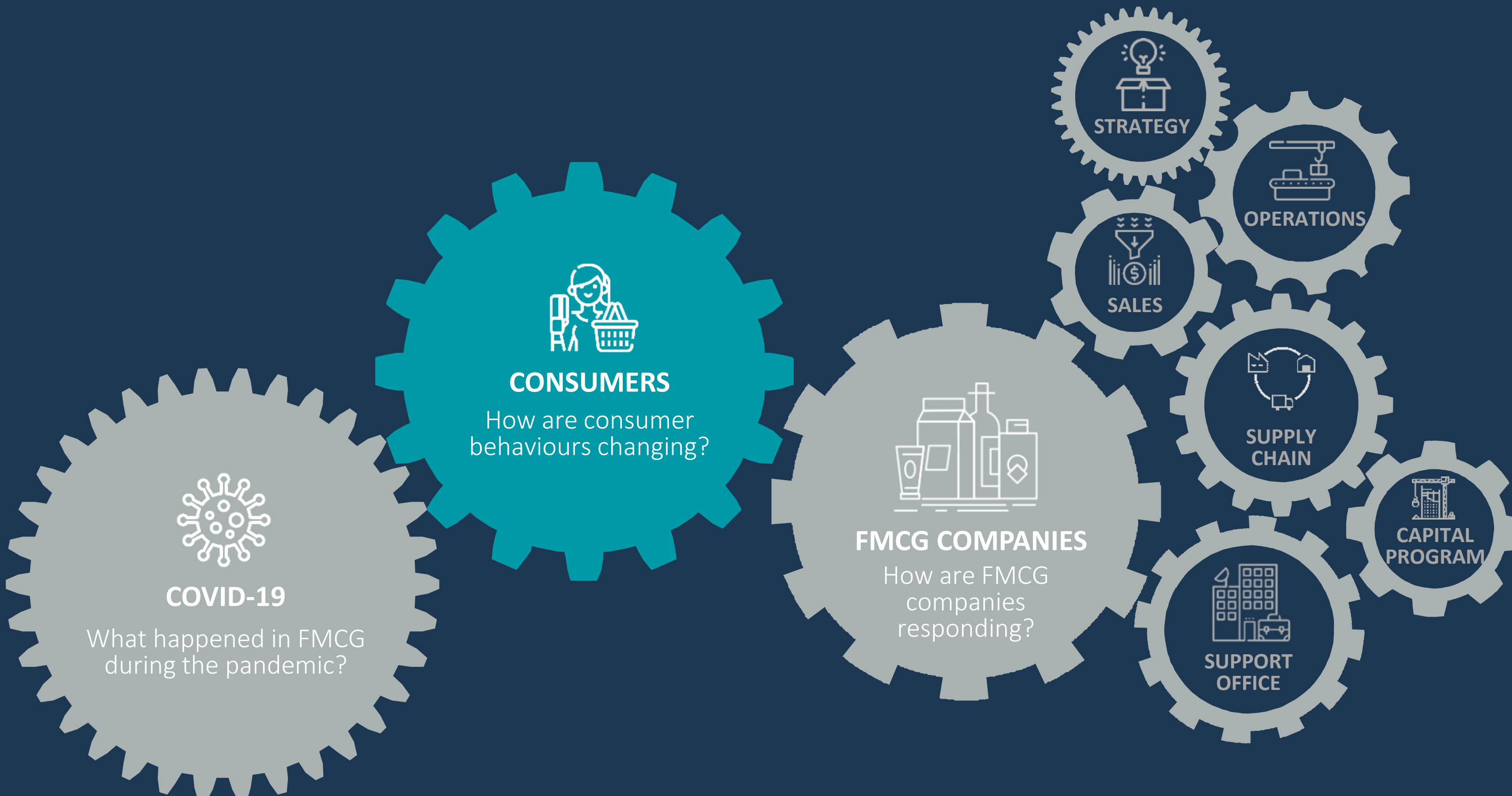
% change from baseline



Is there an opportunity to reset customer expectations and reduce SKU proliferation?

Source: Interview with Simplot and Partners in Performance analysis

CONSUMERS: How are consumer behaviours changing?



A number of new community behaviours have emerged

Life in the "new normal" – prevailing trends

Have flexible working arrangements

- Standard work location, hours and days no longer exist
- Linear reporting structures are replaced with agile more collaborative teams

Be more cost conscious

- This could be the first deep recession for a number of people and small businesses. There will be pressure to become leaner and more cost conscious

Be more digital native

- Customers and employees expect everything digital first
- They have become more savvy with technology in the last month than the last five years

Be more health and safety conscious

- Personal and family safety, health and wellbeing are now taking priority across the community

Be more supportive of local

- Greater focus on Australian made
- Stronger support for local community and small businesses

Source: Partners in Performance analysis

Major 2020 food trends have been impacted, most will revert over time

COVID Impacts on 2020 food trends

Pre-COVID-19 Trend	COVID-19 Consumer change	Will the change stick?
Ready made meals Proliferation of quality microwave meals	**Ingredients to cook** With no commute and heightened boredom in isolation I'm taking on more cooking	**Somewhat** Cooking made a comeback and with partial work from home its likely to hang around
Sustainability Reduce plastics and packaging to save the planet	**Plastic for safety** Ensuring others potentially infected haven't handled the food	**Nope! – Keep reducing plastic** Post-pandemic, sustainability will be on trend again
Fresh Healthy, NAFNAC, Short-life products	**Pantry stable** Panic buying, supply shortages drove pantry stable sales	**No way! – Fresh will be king** As supply stabilises, people will return to healthy fresh eating
Rich in-person experience Restaurants, bars, cafes and exciting in-store theatre	**Delivery** Socially distanced good food at my door (contact-free)	50·50 **Mixed bag – Ensure options** Some delivery uplift will stick, but the social experience will thrive
Rise of local specialists Boutique, small, on-trend and local to me	**Back to core supermarkets** "I just need the basics now"	**Bring back locals** Small business support and the underlying trends that drove specialists to succeed will return
Convenience at a premium Time being more valuable than money	**Cost-conscious** Consumers consciously evaluating what they pay a premium for	**Short-term with Recession** Budget will remain a priority during recession and job uncertainty

Source: Partners in Performance research and analysis

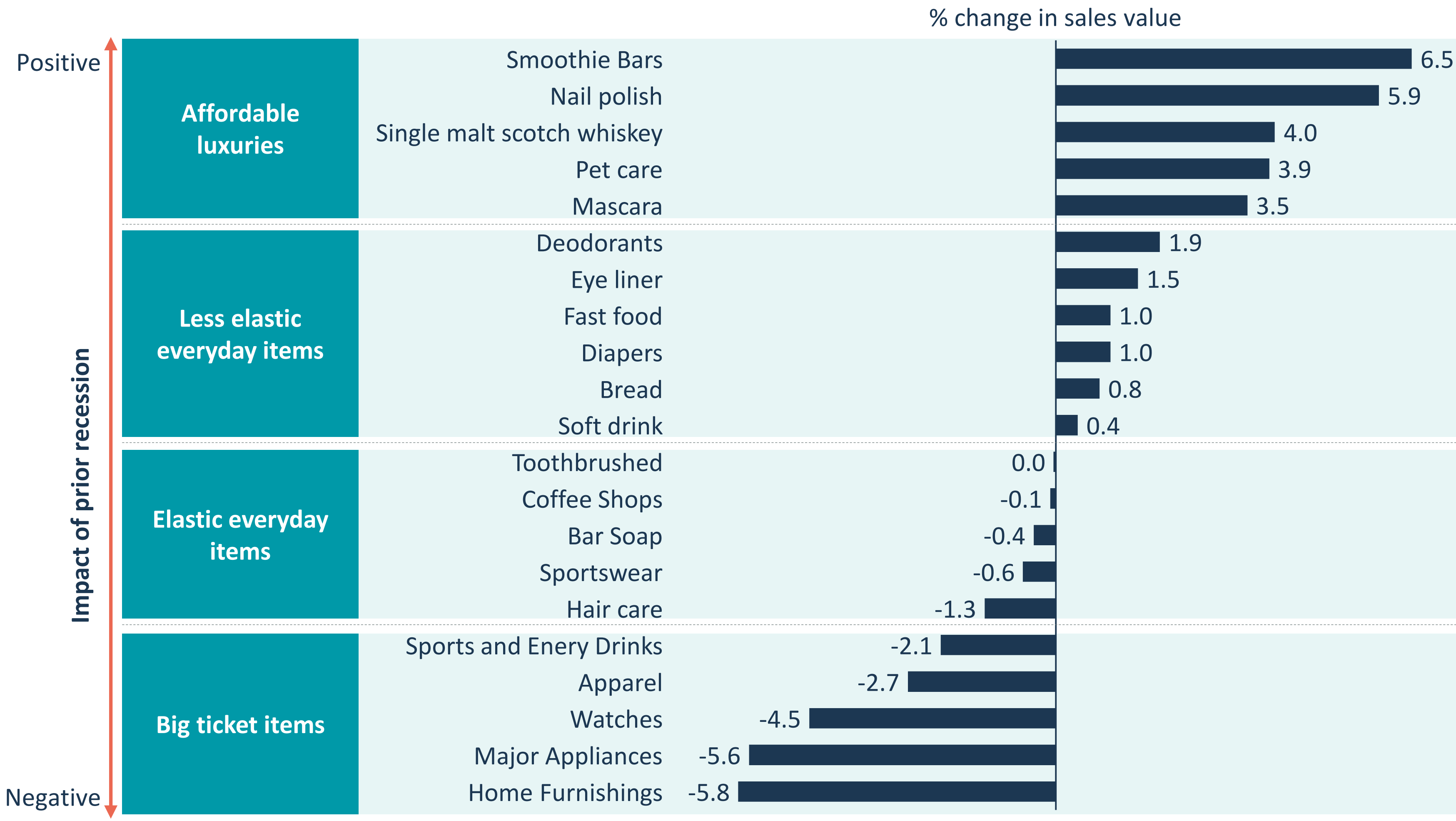
We learnt a lot about consumer food behaviours during the GFC

Food trends during GFC (2009-10) and insight for potential 2020 recession

Trend	What happened during GFC?	How should we be ready for this in 2020/21?
Is this essential?	• Non-essential products were cut from the weekly shop as customers sought to reign in their budgets	• Start positioning your brands as essential to the household diet and function to avoid being on the "cut" list • Create alignment with key dietary, health and wellbeing initiatives as these will likely prevail
Pack size increases	• Customers became acutely aware of $/kg pricing during GFC and opted for bulk buys of pantry staples to reduce household bills	• Adjust unit pricing strategy amongst pack sizes to match production costs and drive customers to your most efficient products • Start looking for opportunities to optimise options and reduce unit costs across pack size variants
Little luxuries	• Whilst dining-out spend dropped – wine, chocolate and pet food all saw shifts up the good, better, best curve as customer treated themselves	• Ensure you have opportunities for customers to upgrade and start positioning these brands accordingly • Use these products to offset margin losses on core staple products where price competitiveness will be critical
Critically assessing the value of convenience	• Money became higher value than time • Customers transitioned away from 'fresh ready meals' due to very high price points • Customers shifted back to cooking themselves	• We are more accustomed to these products 10 years on, so some demand will likely remain • Be the most competitive price in the market in order to capture share of convenience buyers - adjust cost-base now to provide a platform for fast price response

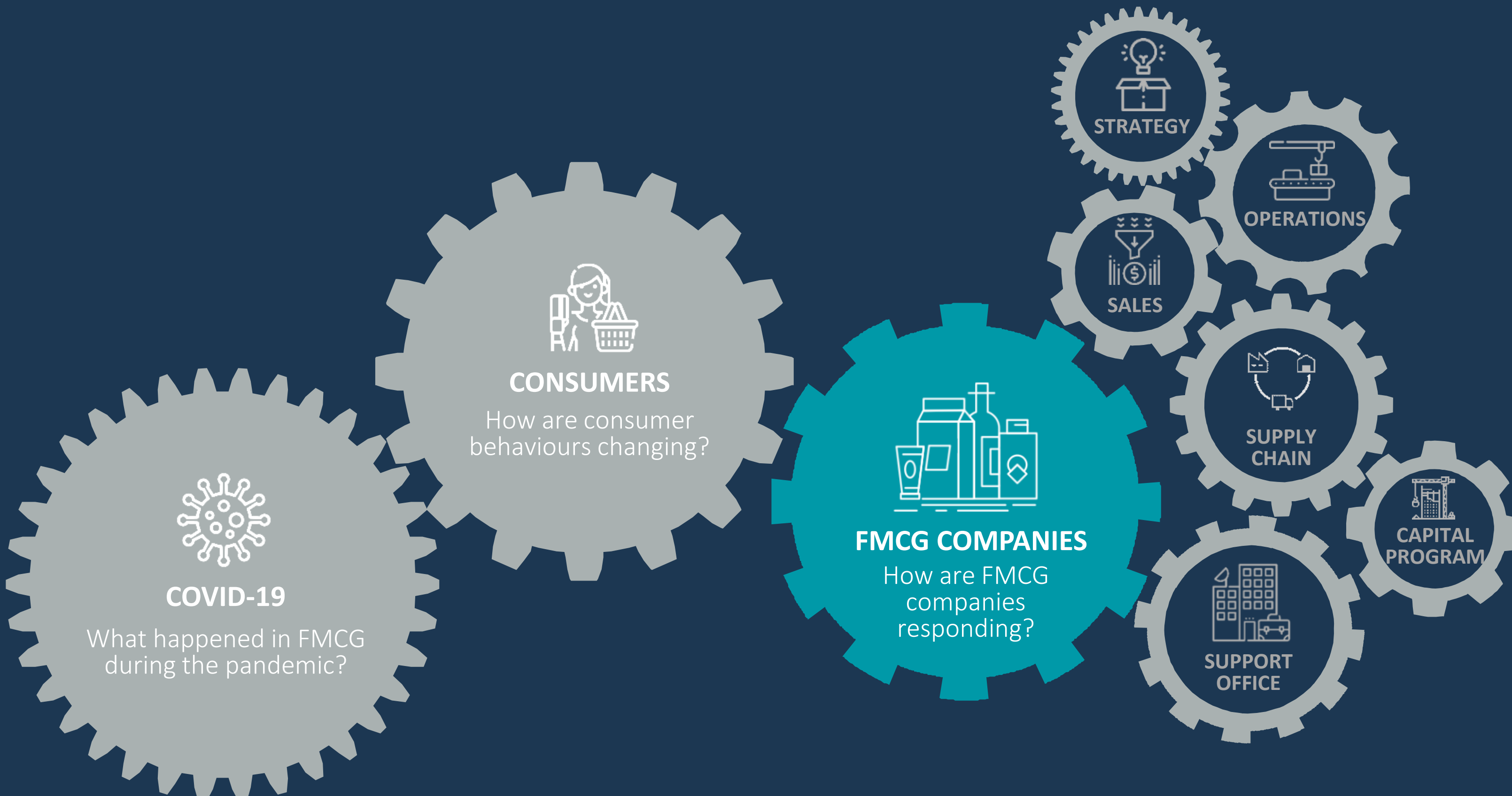
In recession, consumers switch from big ticket items to smaller affordable luxuries

Prior recession impact on consumer category sales



Source: Retail Ready Group with Partners in Performance analysis

FMCG COMPANIES: How are FMCG companies responding?



We are seeing companies use this opportunity to Reinvent, Realign and Revamp

Nine step-out strategic opportunities for FMCG companies to transform out of COVID-19

Reinvent your product portfolio	Realign your channel focus	Revamp your operations
Acquire brands in distress A number of small new brands that had been on trend and gaining traction have struggled to survive the crisis with cashflow and debt issues. Opportunistic acquisitions could help take advantage of new segments	**Invent direct-to-consumer models** Consumers have grown more accustomed to purchasing food online and disaggregating their baskets – establishing a D2C model could help offset HORECA segment declines	**Invest in automation** Understanding which parts of the production line require critical human intervention and which can be automated – then using redistributed capital to focus on automating for productivity and safety
Retire ailing brands Seek the opportunity to remove onerous contracts, stop unprofitable products and free capacity for new endeavours	**Reweight between grocery and foodservice** Understanding the need to appropriately de-risk revenue by reweighting and investing in more secure revenue streams	**Acquire / Divest facilities** Opportunities to acquire new product facilities from company in distress, or divest those that are underperforming in your own portfolio
Re-imagine your NPD spend Critically reassess the NPD pipeline with new market dimensions and recession proof your upcoming product launches	**Enter into new sales partnerships** Many companies are finding new and innovative ways to reach consumers through partnership with organisations that have distribution	**Find creative operations partnerships** Reassess the way you contract with key partners (suppliers, logistics, etc) to find ways to create greater shared value – JVs, B-O-T, etc.

Take the transition period to ensure your are ready to take full advantage of the new normal

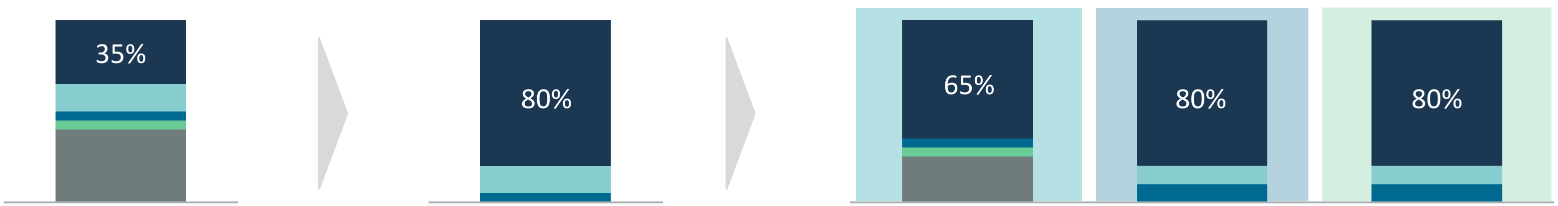
Notes: D2C = Direct to Consumer; HORECA = Hotels, Restaurants, Cafes; JV = Joint Venture; B-O-T = Build Operate Transfer

Companies adopting video based sales have increased daily sales calls by >700%

Sales call time distribution, %

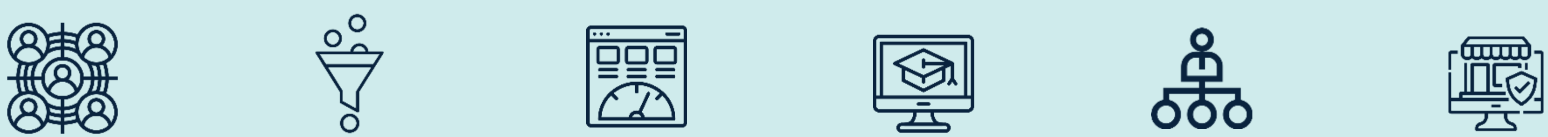
■Sales Calls ■Admin ■Promo Management ■Merchandising ■Travel

2019	Initial COVID-19 response	Post-COVID-19 'new world'		
8 calls /day *(30 mins each)*	12 calls /day *(30 mins each)*	8-12 calls /day *(30 mins each)*	18-20 calls /day *(20 mins each)*	36-40 calls /day *(10 mins each)*



Sales rep	Sales rep	Face-to-face sales rep	Video sales rep	Telesales / sales support rep
F2F visits highly inefficient in pre Covid-19 world	Significant efficiency gains from remote calling during pandemic	Realigned customer expectations and new sales model reserve F2F for key strategic customers; remainder served via more efficient model		

Six critical capabilities required to make this work:



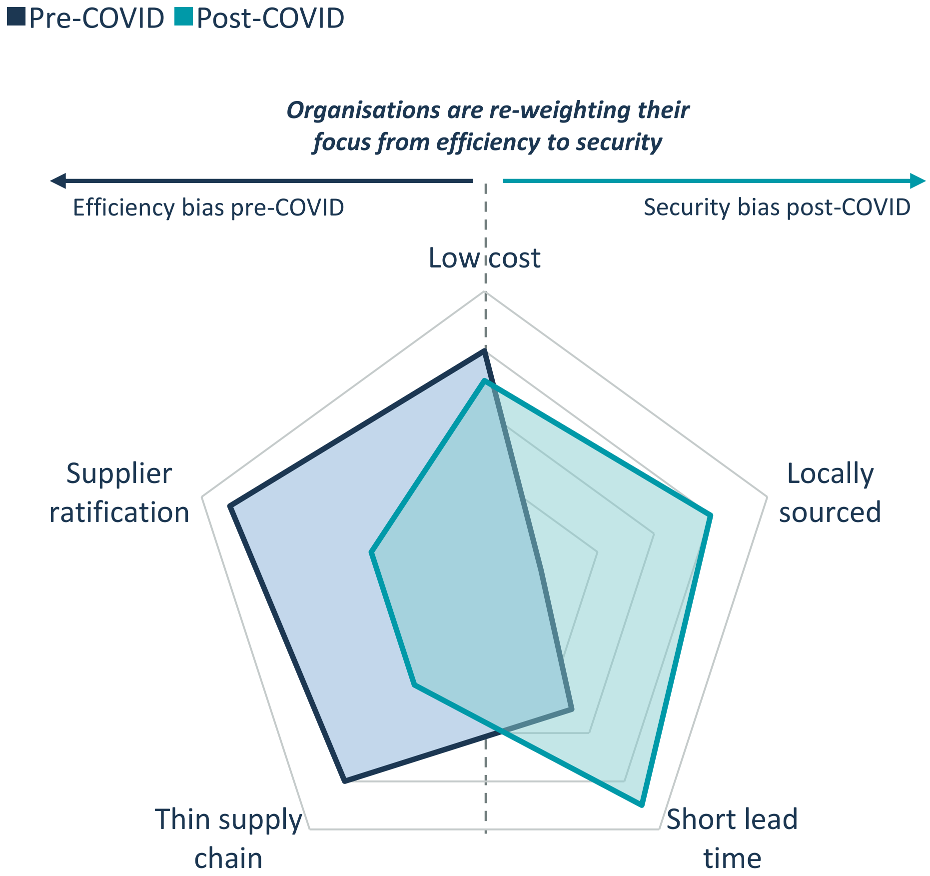
- Clear segmentation approach
- New lead generation mechanisms
- Adjusted KPIs and tracking tools
- Training on remote sales
- New structures for remote sales teams
- Online ordering tools

How have your sales practices changed and can any efficiencies be sustained?

Source: Partners in Performance engagement experience in the last 3 months vs. 2019

The sourcing consideration set has shifted towards securing supply

Changes to sourcing considerations



Five adjustments to make to your sourcing strategy

1. Develop local supply over time
2. Investigate additional warehouse capacity
3. Revisit stock levels (MOQ / Reorder triggers)
4. Balance cost with assurance of delivery
5. Streamline supplier ratification process

How have your sourcing conversations changed?

Source: Partners in Performance engagement experience in the last 3 months vs. 2019

Sites are adapting to safety and supply chain changes

Five changes to site operations we've seen companies make already

1. Thermo scanning of employees on arrival for unencumbered access to site, pulse oximeters are now being considered for critical areas
2. Changes to production line workflows to enable physical distancing including more automation
3. Greater levels of supply and finished goods stock
4. B2B and D2C outbound logistics requiring more dynamic route planning and single order pick'n'pack
5. Remote operations centres allowing planning functions to remain offsite

How are you adapting your operations to reduce production and safety risks?

Source: Partners in Performance engagement experience in the last 3 months

Many FMCG companies are reassessing their capital portfolio

Capital optimisation funnel

Capital optimisation funnel	Lever	Key questions
1 Project cancellation or postponement	• Use of existing production facilities • Outsourcing	• Extra equipment or extra capacity absolutely required? • How long can we keep running the existing equipment? • Can we get the extra capacity by outsourcing? • What are the possible risks?
2 Unit construction cancellation or postponement	• Use of existing unit/equipment • Equipment exclusion if unnecessary	• For each unit: is the production need in the unit proved? • Is there significant investment in maintenance required? • Has outsourcing opportunity been reviewed? • What are the possible risks?
3 Technical Design optimization	• Equipment specifications reduction • Installation or use of existing equipment	• What are the alternative technical solutions? • Is it possible to reduce or change the technical specs
4 Payment schedule optimization	• Payment postponement for future • Contingency costs adjustment	• Is it possible to delay/adjust payment? • What is the penalty for the payment delay? • Has leasing opportunity been reviewed?
5 Best total cost of ownership supplier choice	• Choice of the best supplier based on TCO	• How is it possible to decrease the equipment costs? • Is the selected supplier the cheapest? • How can the supply cost be decreased? • Can we reduce CAPEX at the expense of OPEX?
6 Execution / Implementation optimisation	• Labor cost reduction • Materials usage reduction	• What are the construction costs based on? • Is it possible to reduce the amount of construction? • Is possible to use cheaper materials, tools?

How are you thinking about re-designing your capital program?

Source: Partners in Performance

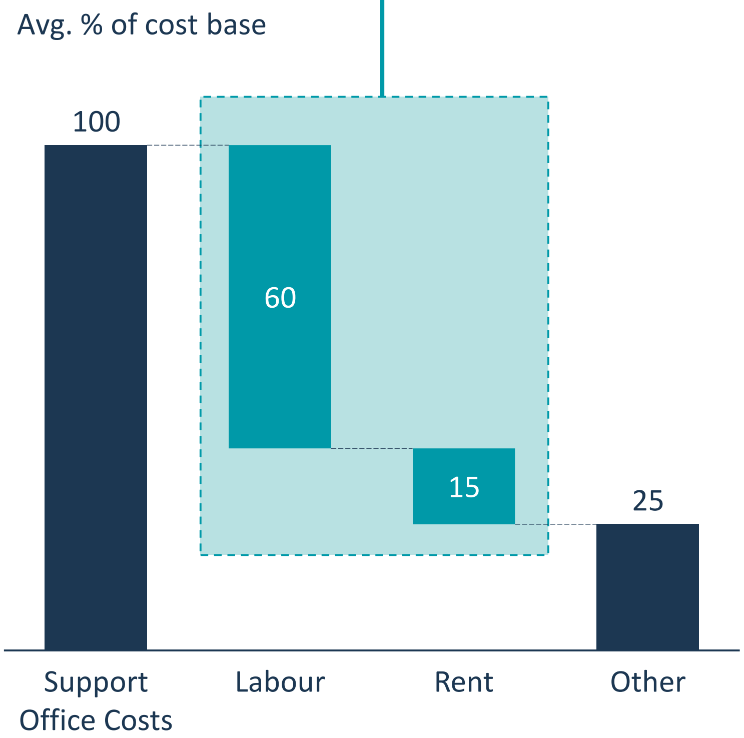
A lot of myths about the corporate office were dispelled during this crisis period

Reassessing how support services operate

What we saw during the shut-down

- c.80% of staff were successfully able to work from home for an extended period
- Most functions were able to operate effectively with a 30% reduced headcount
- Many functions were able to reduce workload by up to 40% by stopping 'busy-work' that had crept into routines
- The crisis nature of the shutdown broke down 'red-tape' and naturally agile ways of working occurred
- Processes were changed quickly breaking 'the way we've always done things' demonstrating organisational capacity to change including flexible working arrangements

75% of support office costs can be reassessed

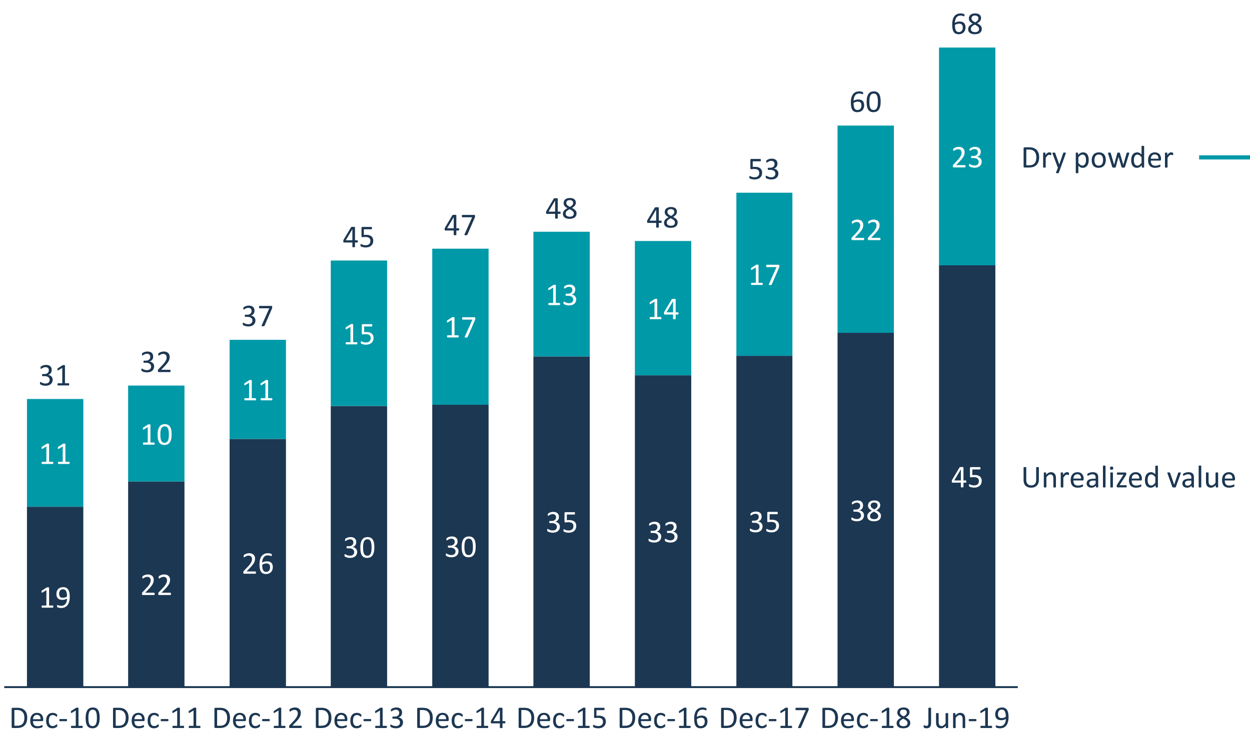


Could you reset your support and overhead cost base?

Source: Partners in Performance engagement experience during COVID-19 Pandemic

There is $23bn of Private Equity ‘dry powder’ seeking investment opportunities – do you need capital to help fund your strategic plans?

Private Equity Dry Powder in Australia ($bn)



The dry powder opportunity for Australian FMCG

- Australian PE has always liked food producers
- There is dry powder at all tiers of firms allowing for a range of investment options
- PE is looking to partner with organisations and management teams that bring operational expertise
- Creative options may be available (PropCo / OpCo, JV vehicles, etc)

Have you considered partnering to fund your growth plans?

Source: Partners in Performance analysis of Australian Private Capital Market Overview: A Preqin and Australian Investment Council Yearbook 2020 - Data Pack

About Partners in Performance

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Unleashing Potential - one person, one result, one organisation at a time

Partners in Performance is a results orientated consulting firm founded in Australia in 1996. Almost 25 years later operating with ~500 consultants across 6 continents.

Our clients' results over the last four years

>$10bn EBIT Uplift	+	>$1.9bn Sourcing Savings	+	>$40bn Capital Reductions

Recent example FMCG client results

- 22% increase in gross margin improvement for a large beverages company
- 10% revenue increase through segment driven commercial model for a cleaning chemicals business
- 20% reduction sales force overhead (non-field labour) for a large beverages company
- 30% increase in production volumes for a large dairy manufacturer
- $45m in manufacturing improvement for a red meat processing facility
- 4% yield improvement and 6% reduction in manufacturing costs for a large poultry company
- 15% saving in packaging costs for a chilled goods company
- 33% reduction in warehouse and distribution costs for a nutraceuticals leader
- $35m saving through consolidation of manufacturing sites and warehouses for smallgoods company