



DECEMBER 2018

TOTAL CONSUMER REPORT

WELCOME



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The third quarter of the year brought a return to growth for U.S. fast-moving consumer goods (FMCG). Within brick-and-mortar outlets, the uptick from a year ago was modest, with dollar sales up 1.8% and unit volume recovering from mid-year declines, flat at 0.1%. In these times of inflationary growth, it's become pivotal for manufacturers and retailers to understand where consumer optimism exists, and not just manage, but activate the data streams that power this understanding.

Today, our nation remains well above the global average when it comes to consumer optimism. In fact, for the third consecutive quarter, overall American consumer confidence has held steady with an index score of 123, according to the third-quarter 2018 Conference Board® Global Consumer Confidence Survey, which is produced in collaboration with Nielsen. Relative to the third-quarter 2018 global average of 106, U.S. consumers are uniquely optimistic about both their job prospects and financial outlook. So what can you do about it? We'd argue that you need to get closer to your customers than ever before. Truly understand how you can make their lives simpler and more fulfilling by identifying which problems you are trying to solve for them. Data can help you to achieve this, and in making your data work harder for you, you can make better, more informed decisions that will help to *activate* growth, not just discover where it is.

This is an exciting time for our industry: Advanced technology presents an opportunity to reconsider the utility of the data at your disposal, whether it's your own data, data from third-party suppliers, retail data and more. As we evolve into a tech-driven market, you can't afford not to count data among your core assets. The good news is that it's now easier than ever to invest in and receive data in its most usable form, ensuring that you reap a return on that investment. When it comes to having a useful, holistic, end-to-end data strategy, seek data that enables you and your teams to solve problems, both for the good of the consumer and for your organization's operational effectiveness and efficiency. Migrate your teams to spend less time mining data in siloed environments and more time activating best-in-class data assets on-demand.

The insights in this report offer a great foundation into the state of our industry. But I invite you to build on this foundation and use it as a call to action inside your organization. Use it as inspiration to go deeper and broader, and begin the path to democratizing data to maximize the benefits to your organization. We recognize that a single source of data within an enterprise is no longer sufficient to drive the insights needed to succeed in today's environment. That's why we've built [Nielsen Connect](#), an open ecosystem that brings together the best in data assets, integrated within the most robust, open source, cloud-based technology to unleash the power of all of your data. Our industry is transforming. It's why we've built such unique capabilities that deliver consumer intelligence without barriers or latency so that you can make better decisions faster.

Our Industry, Your Future, Transformed.

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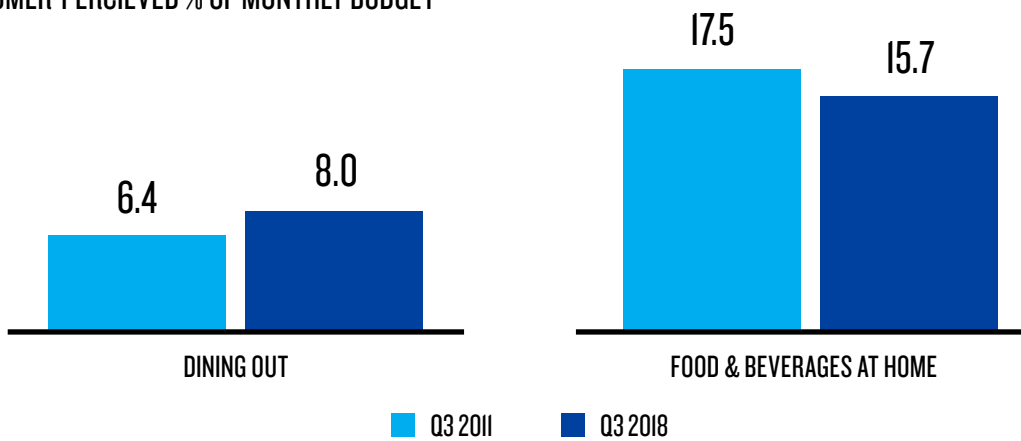
OVERVIEW

Change is upon us, and it's time to embrace it. We're all on the hunt for every growth opportunity abound in our industry, but finding them requires a scientific guide through uncharted territories. Simple measurement of the past won't predict the future. Why? Because the path-to-purchase is no longer linear. Navigating consumer preferences today requires not just data sets, but data *assets* that continually assess, monitor and inspire differentiated market offerings.

ALLOCATION OF IN- AND OUT-OF-HOME FOOD EXPENDITURES

Slowed in-home FMCG consumption continues to challenge our industry

CONSUMER-PERCIEVED % OF MONTHLY BUDGET



Source: The Q3 2018 Conference Board® Global Consumer Confidence Survey, conducted in collaboration with Nielsen.



One new reality that's a tough pill to swallow is the slowing rate of FMCG consumption. As 2018 winds to a close, we're left pondering how to stimulate organic growth, beyond just dollars, in the movement of product volume in particular. Today, our industry is being rocked by a shift away from in-home food and beverage consumption, and this has caused challenging conditions to say the least. In fact, the gap is shrinking in terms of how consumers allocate their in- and out-of-home food expenditures. While American consumers still claim to spend twice as much on in-home consumables as they do on dining out, when compared to 2011, Americans are spending nearly 2% more on dining out, and 2% less on food and beverages at home.

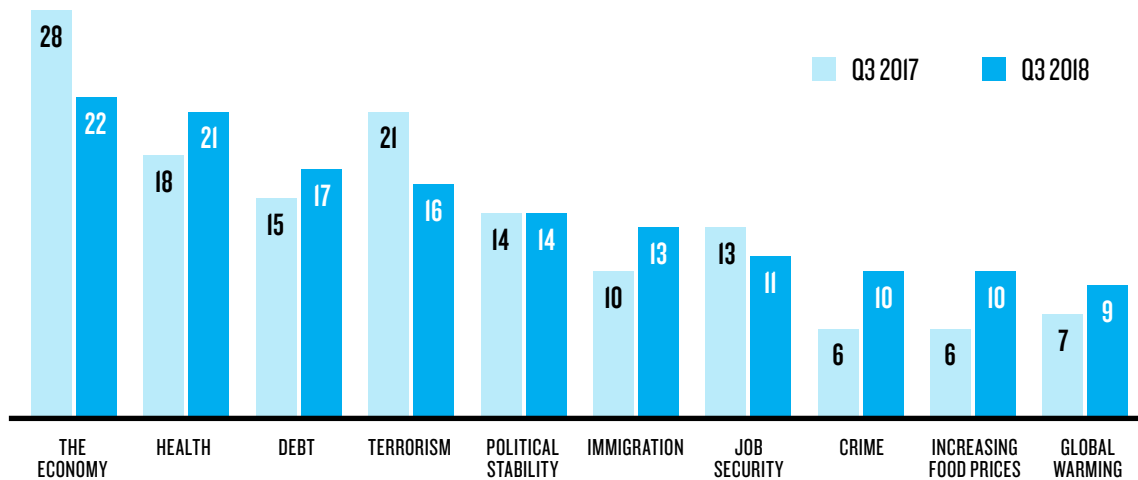
It's pivotal to understand the drivers of consumer intentions in order to encourage enhanced spending. The mindset of Americans has shifted dynamically in the last decade, and though consumption has been flat in stores, there's been upticks in optimism that appear in favor of future FMCG growth.

TOP CONCERNS OF AMERICAN CONSUMERS

Food prices and crime are becoming more concerning to Americans

“WHAT IS YOUR BIGGEST CONCERN OVER THE NEXT SIX MONTHS?”

% RESPONDENTS

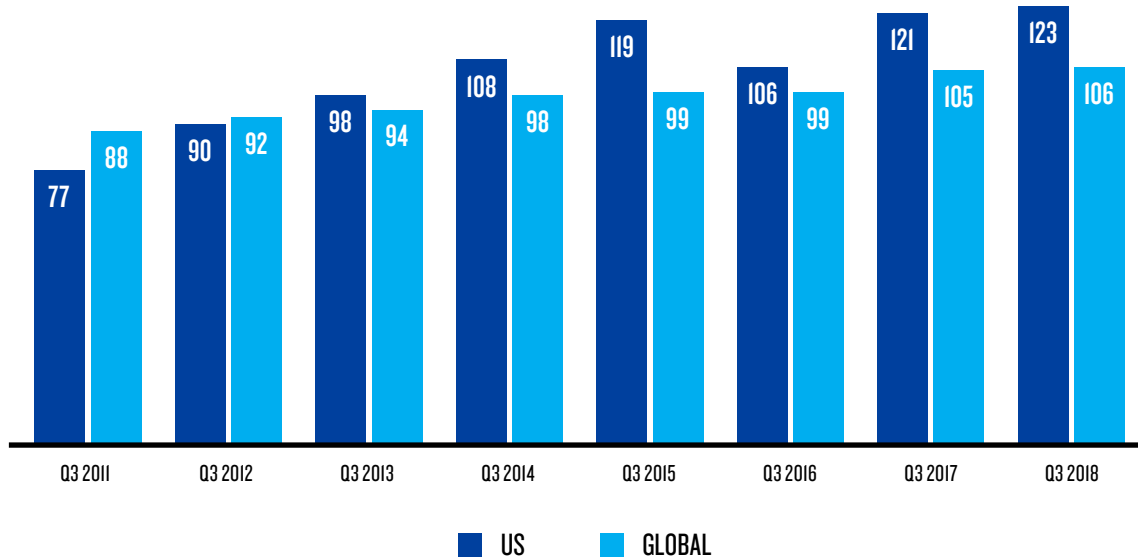


Source: The Q3 2018 Conference Board® Global Consumer Confidence Survey, conducted in collaboration with Nielsen

When we look at what's concerning to Americans, the economy, health and debt remain top-of-mind for many, but crime and food prices have risen the most in terms of cause for alarm. But despite these concerns, consumer confidence continues to climb in America.

CONSUMER CONFIDENCE INDEX

Optimism in America continues to rise, currently well outpacing global norm



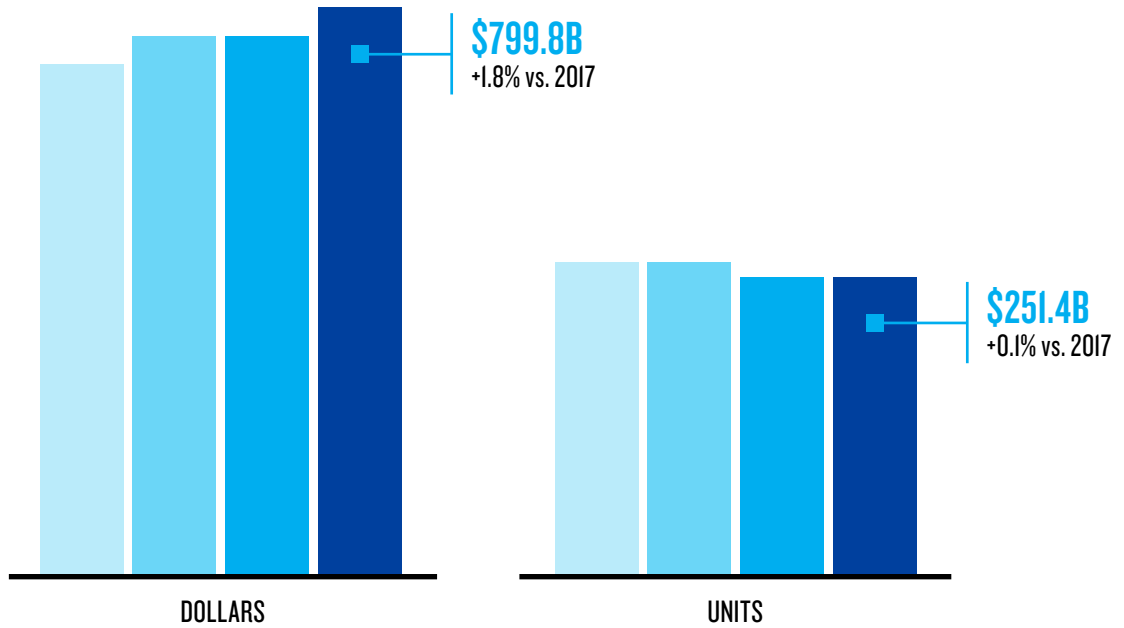
Source: The Q3 2018 Conference Board® Global Consumer Confidence Survey, conducted in collaboration with Nielsen

In the third quarter of 2011, American consumer confidence ranked over 10 points below the global score of 88. Consumer confidence levels above and below a baseline of 100 indicate degrees of optimism and pessimism, respectively.

Today, optimism is the highest we’ve seen in nearly a decade for Americans, and this is largely thanks to overall positivity being felt toward job prospects, personal finances and sentiment toward purchasing power. But as we’ll continue to explore in this report, there’s still room to grow by harnessing this optimism and encouraging FMCG purchases.

TOTAL STORE

FMCG BRICK & MORTAR - TOP LINE PERFORMANCE



Source: Nielsen Retail Measurement Services, Total Food View, Total U.S. xAOC, 52 weeks ended Nov. 24, 2018, UPC-coded and random-weight/non-UPC data

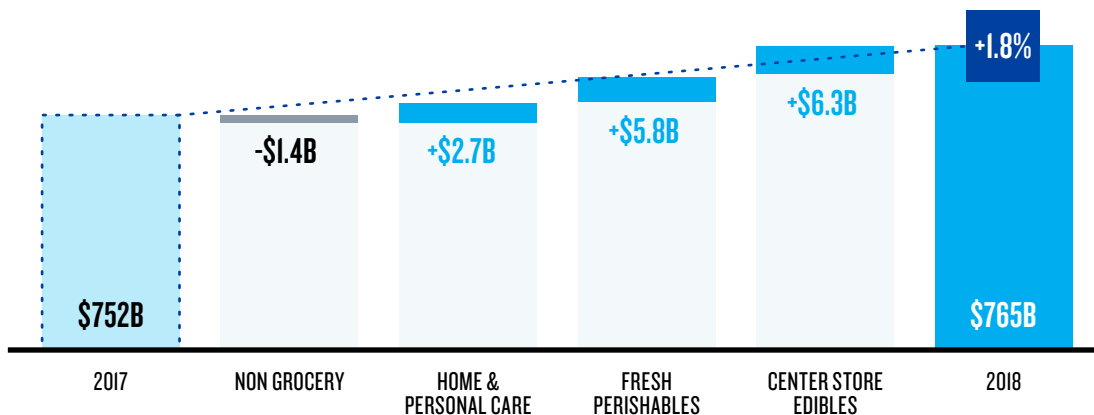


Across the FMCG brick-and-mortar landscape, sales and volume figures remain modestly above those we reported on a year-ago. While we've managed to escape overall volumetric declines, physical consumption of products continues to lag as unit volume remains flat year-over-year. Inflationary factors have enabled more than \$14.2 billion (or 1.8%) in sales growth, which has bolstered our industry, but dissecting this growth is the first step toward understanding where consumption may be expandable.

In a positive turn of events, center of store edible goods have returned to a position of growth, up nearly \$6.3 billion in dollar sales compared to a year ago. Within these aisles, frozen foods have seen the swiftest pace of growth, up 2% in dollars and 1% in units. The backbone of this growth is likely due to the reinvigoration and repositioning of frozen foods to appeal to consumers of broader ages and lifestyles. Meanwhile, inflation has spearheaded dollar lifts in grocery and dairy products.

DRIVERS OF GROWTH - FMCG BRICK & MORTAR

Though they're half the size of center store edibles, fresh foods drive outsized growth



Source: Nielsen Retail Measurement Services, Total Food View, Total U.S. xAOC, 52 weeks ended Nov. 24, 2018, UPC-coded and random-weight/non-UPC data, excludes alcohol, see endnotes

One area of the store that continues to command the spotlight is the perimeter. While growth hasn't quite matched that of the center of the store, perishables have generated an impressive \$5.8 billion in sales growth; a figure that's by and large beyond what we'd expect relative to the category's size. Considering that fresh foods command just 24% of in-store FMCG sales, they have accounted for a whopping 44% of brick-and-mortar growth. Despite these outsized dollar figures, it's important to relate this back to a common volumetric denominator. In terms of unit volume, fresh foods fall flat, up just 207 million units this year, or 0.3%.

As the search for consumption growth becomes increasingly challenging, it's essential to follow consumer demand with granularity and regularity. Finding, and even predicting, a trend can be an arduous task, but one that's made easier through intelligent, technologically advanced data applications. For example, we've identified beverages as an in-store growth driver.

In the latest year, mainstream U.S. retail outlets have sold over \$56 billion in beverages, representing year-over-year sales growth of \$1.8 billion (3%) and 2% unit volume growth. But not every beverage category across the store has outperformed, and following the path to growth is the first step on the journey to changing and reinvigorating consumption occasions with your products.

GROWTH TRENDS IN BEVERAGES

Beverage performance driven by water and functional drinks

WHAT'S HOT			WHAT'S NOT		
CATEGORY	\$% GROWTH	UNIT % GROWTH	CATEGORY	\$% GROWTH	UNIT % GROWTH
KOMBUCHA	42.9	42.1	FRUIT & VEGETABLE BLENDED BEVERAGES	-15.5	-16.3
VALUE ADDED WATER	17.5	13.0	COCONUT WATER	-4.6	-5.3
SPARKLING WATER	17.5	7.4	SPARKLING JUICE	-3.6	-2.4
READY-TO-DRINK COFFEE	10.5	10.1	SMOOTHIES	-3.5	-2.7
SELTZER WATER	9.4	2.7	FRUIT JUICE	-1.6	-1.4

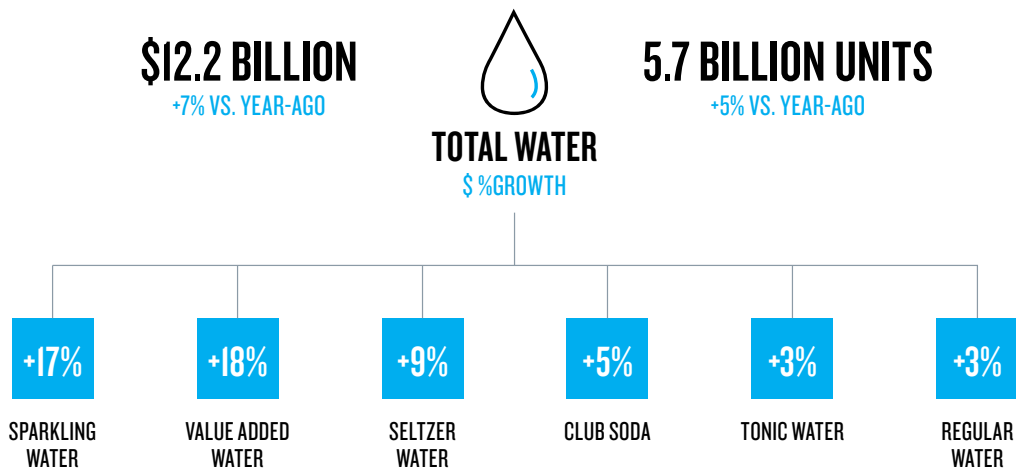
Source: Nielsen Retail Measurement Services, Total Food View, Total U.S. xAOC, annual sales of more than \$10 million, 52 weeks ended Nov. 24, 2018, UPC-coded and random-weight/non-UPC data

Today in the beverage space, functional drinks reign supreme. And kombucha, a fermented tea touted for its probiotic contents and healthful benefits, leads the way. It's seen growth rates far and above other categories, up 43% in dollars and 42% in unit volume year-over-year. Ready-to-drink coffee is another popular drink variant that's provided a functional energy boost to many. And like many beverages, it could be considered the equivalent of a snack, as Americans seek to not just eat, but to drink in between meals throughout the day.

Smoothies and blended fruit and vegetable beverages have fallen out of favor this year, showcasing the changing tastes in how America drinks. Even coconut water, which was a top growth driver just a couple years ago, has been negatively impacted by consumers seeking enhanced waters for their hydration needs. In comparing what's hot and what's not, it becomes clear that what once might have been quenching, filling and nourishing, must now be purpose-fulfilling, light and fizzy. Water is a category that seems to meet all three of these criteria, and it's breathing new life into the American beverage industry.

TOTAL WATER PERFORMANCE

Sparkling and value-added water have bolstered growth



Source: Nielsen Retail Measurement Services, Total Food View, Total U.S. xAOC excluding convenience stores, 52 weeks ended Nov. 24, 2018

Water plays a starring role in many Americans' quests for improved health. Notably, 77% of surveyed Americans indicate that trying to drink more water is among the primary ways they actively manage their health and lifestyle.¹ This sentiment helped boost water sales an impressive 7% (or, \$848 million) over the past year. This hits well above the 3.4% growth experienced by beverages overall, led by strong demand for both sparkling and value-added waters.

¹Nielsen survey of 1,163 respondents, surveyed in April 2017

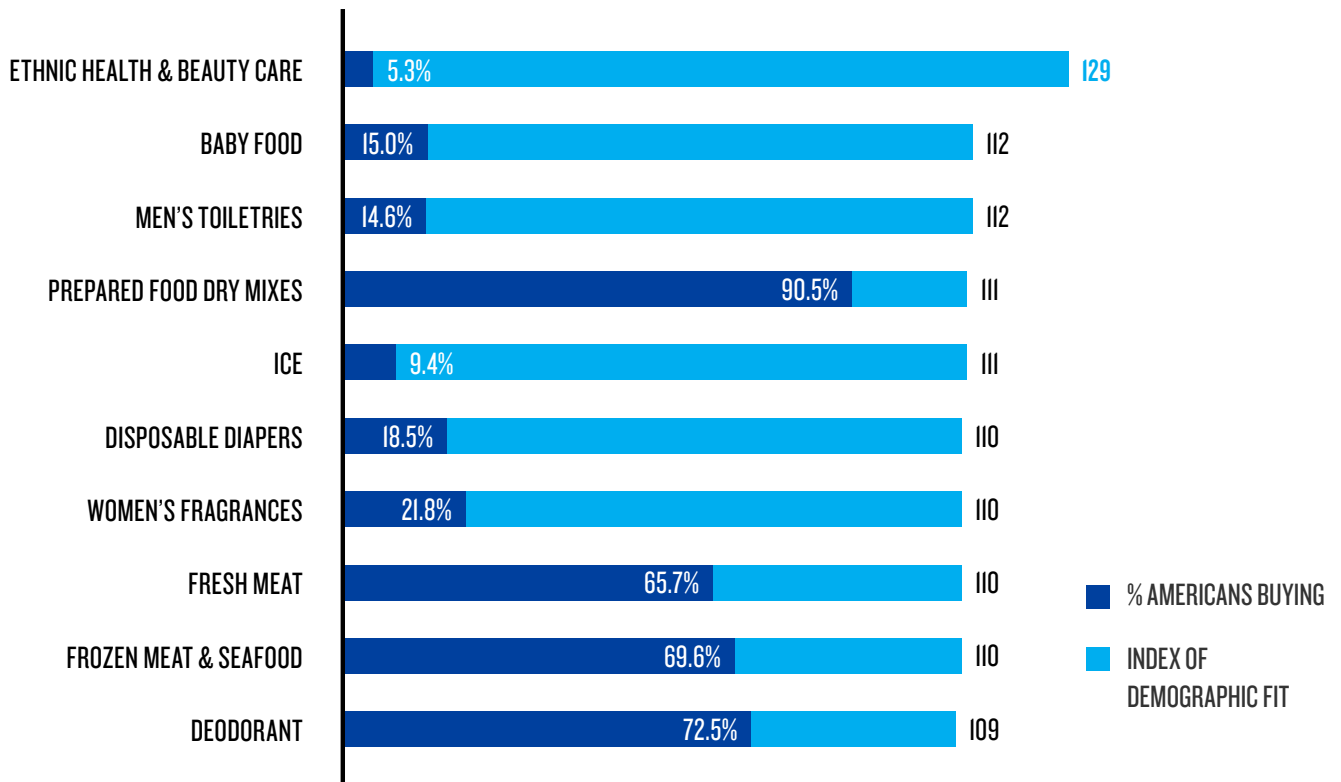
Capitalizing on growth within a singular category is important. But there's opportunity across the store to align and multiply the impact of high-growth products. Knowing which products consumers of water are more likely to buy provides invaluable insight into where synergies exist across categories. Nielsen's [Spectra Strategic Insights](#) leverages demand-based predictive analytics, in a cloud-based app to rank cross-promotion opportunities of seemingly disparate categories.

In this instance, we've created a ranking based on an in-depth comparison of bottled water consumers to buyers of other categories across the store. The data shows that ethnic health and beauty products, baby food, men's toiletries and prepared food dry mixes are all highly complementary to bottled water sales. In other words, based on a unique combination of aligned characteristics, consumers of bottled water are more likely to purchase these categories. Therefore, manufacturers and retailers trying to reinvigorate consumption patterns can do so through partnerships and cross-promotions grounded in scientific alignment with consumer demand.

CO-PROMOTIONAL OPPORTUNITIES

Capitalizing on the growth of water via complementary categories

WHAT BOTTLED WATER CONSUMERS ARE MORE LIKELY TO BUY:



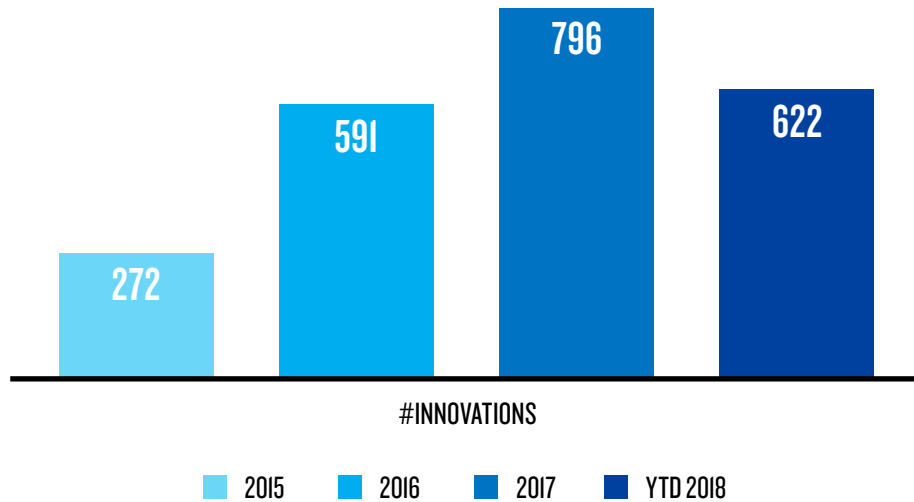
Read as: Bottled water consumers are 29% more likely to purchase ethnic health & beauty products compared to the average American.
 Source: Nielsen Spectra Strategic Insights, Marketing Activation dashboard using Homescan Product Library, Nov. 2018

Beyond complementary growth throughout the store, there are ways to better understand what's driving the pace of change within a category as well. While the impressive sales performance of water points to heightened demand, measurement of innovation performance has and continues to serve as a predictor of future growth. The water category is a perfect example of where we've seen rapid expansion in both innovation and sales take hold.

For water, the category looks nothing like it did just a few years ago. The trajectory for innovation has grown exponentially as the shelf set has been completely transformed. Today, water aisles are on track to outpace the last three years in terms of new items released. Comparing 2015 to 2017, we saw nearly 3X the number of new water items hit shelves. Between July and September 2018 alone, at least 192 items came to market. And with so much innovation coming to market, it's critical to have visibility into each as they enter the market, as those results can guide how you hedge against the competition.

WATER INNOVATION ACTIVITY

Water innovation trajectory shifts upward year-over-year



Source: Nielsen Innovation Measurement, Activity, Total U.S., 52 weeks ended Sept. 22, 2018

Even at an item level, measurement of innovation performance can offer perspective into what direction the category is headed. When ranked based on units sold, a majority of the top innovation items were large-format non-carbonated waters. Given the ubiquitous nature of water among consumers, it shouldn't be too surprising that non-carbonated waters have a strong presence in the category. What's more telling, is the influence of private label in this space.

TOP WATER INNOVATIONS BY UNITS SOLD

Private labels represent five of the top 10-selling innovations in water this year

ITEM	INNOVATION TYPE
NESTLE PURE LIFE NON CARBONATED BOTTLE 16.9FOZ X40	LINE EXTENSION
LIFEWTR NON CARBONATED BOTTLE 33.8FOZ XI	NEW BRAND / BRAND EXTENSION
NON CARBONATED PRIVATE LABEL JERRY 128FOZ XI	NEW BRAND / BRAND EXTENSION
LIFEWTR NON CARBONATED BOTTLE 23.7FOZ XI	NEW BRAND / BRAND EXTENSION
CULLIGAN NON CARBONATED BOTTLE 128FOZ XI	LINE EXTENSION
NON CARBONATED PRIVATE LABEL BOTTLE 16.9FOZ X24	LINE EXTENSION
NON CARBONATED PRIVATE LABEL BOTTLE 128FOZ XI	LINE EXTENSION
SPARKLING ICE CARBONATED RASPBERRY & GRAPE BOTTLE 17FOZ XI	LINE EXTENSION
CARBONATED PRIVATE LABEL BLACK RASPBERRY BOTTLE 17FOZ XI	LINE EXTENSION
NON CARBONATED PRIVATE LABEL BOTTLE 16.9FOZ X45	LINE EXTENSION

Source: Nielsen Innovation Measurement, Profiler, Total U.S. xAOC including convenience stores, 52 weeks ended Oct. 8, 2017

Compared to beverages as a whole, where store brands represent about 11% of dollar sales, water is unique in that store brands generate more than 25% of category sales.² Store brands are also focused on innovations. In fact, when ranked based on units sold, private labels represented half of the top 10 water innovations last year.

Innovation measurement provides a wealth of context around where to look next for growth opportunities. Extending this concept to the greater FMCG universe, it's imperative to align your product planning efforts with the predictive capabilities of on-demand innovation analytics. In the case of water, the strong performance of private-label items, particularly non-carbonated SKUs, was an indicator of water performance to come in 2018.

Private-label products have been indispensable to the water category, but as we'll review next, private-label products across the FMCG spectrum have bolstered the retail landscape in general.

²Nielsen Retail Measurement Services, Total Food View, Total U.S. xAOC including convenience stores, 52 weeks ended Sept. 29, 2018

RETAIL

FMCG volume consumption has remained flat this year. As a result, it's a tall order to encourage Americans to add more to their shopping baskets. Amid a year of inflationary growth, insight into channel dynamics helps assess where there is potential to grow trip traffic and stimulate additional product consumption.

In stark contrast to 2017, when trips per shopper declined by 1.3%, trip traffic across all channels has increased this year. While Americans are making just 0.3% more trips today than they were a year ago, this signals that increased trips to outlets like mass merchandisers, dollar stores and purchases online have moved the needle enough to shift our industry away from consecutive periods of traffic declines.

The roots of e-commerce are becoming better cemented in the foundation of our FMCG industry. As we'll review a little later, Americans continue to spend more per person on consumer goods online. Comparatively, dollar stores and premiere fresh grocery stores also saw growth in both trip traffic and in basket size. But growth remains inflationary, as units purchased per shopper, per trip, declined in these instances.

TRIP ANALYTICS BY CHANNEL

Dollar stores continue to see growth in purchase size and frequency

	TOTAL CHANNELS	DRUG STORES	DOLLAR STORES	WAREHOUSE CLUB	PET STORES	MASS MERCH & SUPERS	VALUE GROCERY	CONVENTIONAL GROCERY	PREMIERE FRESH GROCERY
TRIPS/SHOPPER	166	20	30	14	7	38	18	59	14
TRIPS/SHOPPER % CHANGE	0.3	-0.8	1.9	0.7	0.5	2.8	-1.4	0.1	1.0
\$ SPEND/TRIP	31	20	13	68	34	40	28	33	22
\$ SPEND/TRIP % CHANGE	0.1	0.9	0.9	-0.6	-3.0	-0.9	0.2	0.8	2.0
UNITS/TRIP % CHANGE	-0.2	-5.6	-0.5	2.3	-3.8	-0.3	-3.2	-0.1	-0.7

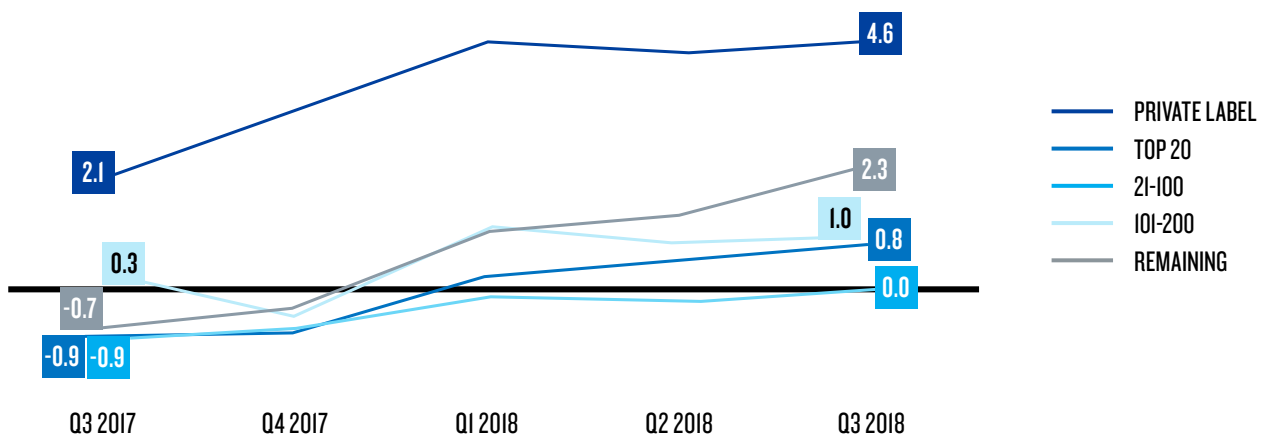
Source: Nielsen Homescan, Trip Projected Data, Total U.S., 52 weeks ended Sept. 29, 2018 vs. year-ago, UPC-coded

Similar to earlier points in the year, private-label product consumption continues to rise, avoiding the major plateaus that store brands have experienced. In fact, private labels have driven over \$6.2 billion in brick-and-mortar growth this year, up 4.6% in dollars and 3.2% in units. In reviewing annual sales with each new quarter, the strong growth trajectory of store-branded products really comes to life. Where private labels were growing at 2% when measured in September of 2017, they are now growing at more than twice that rate, up 4.6% year-over-year—well above what branded tiers are experiencing.

What’s worth noting in this performance snapshot is that the largest and smallest of branded product tiers have seen modest growth. In fact, where the top 20 brands and “remaining” long tail of small brands were experiencing declining sales when measured in September of 2017, they are now up by 0.8% and 2.3%, respectively, in annual sales. A look into where private labels are seeing the greatest lift is a good starting point to enabling brands, both big and small, to better activate in-store strategies.

FMCG BRICK & MORTAR MANUFACTURER TIERS - DOLLAR GROWTH

Store brand growth trajectory continues to accelerate



Source: Nielsen Retail Measurement Services, Total Food View, Total U.S. xAOC, 52 week periods ended Sept. 30, 2017 to Sept. 29, 2018 vs. previous year, UPC-coded and random-weight/Non-UPC data

FASTEST RISING PRIVATE LABEL PRODUCTS BY DOLLAR GROWTH

Store branded prepared snacks and meals see rapid growth

PRIVATE LABEL DOLLAR SHARE AND GROWTH			
SUPER-CATEGORY	CATEGORY	\$ SHARE	\$% GROWTH
LAWN CARE	GRASS SEED	28.9%	+282
FIRST AID	ANTISEPTIC	71.0%	+165
SEAFOOD	POLLOCK	22.6%	+140
PEST CONTROL	INSECT REPELLENT PRODUCTS	4.4%	+128
PET SUPPLIES	PET BEDS	50.6%	+109
MEAL COMBOS	SNACK COMBOS	11.8%	+103
HOME AIR FRESHENERS	FRAGRANCE OILS	22.3%	+91
MEAL COMBOS	LUNCH COMBOS	1.2%	+83
PREPARED FOODS	MEAL KITS	5.6%	+79
SWEET SNACKS	DESSERT BARS	7.5%	+79

Source: Nielsen Retail Measurement Services, Total Food View, Total U.S. xAOC, categories with annual private-label sales of more than \$10 million, 52 weeks ended Oct. 27, 2018 vs. year-ago, UPC-coded and random-weight/non-UPC data.

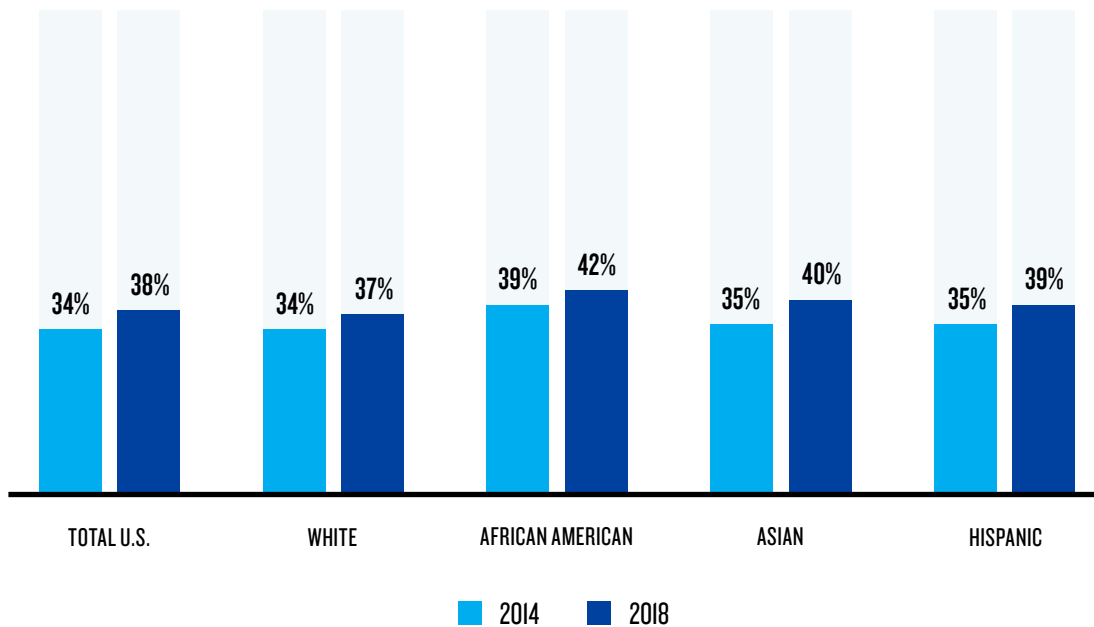
When ranked by sales growth, various prepared snacks and meal combinations comprised the top categories driving private-label performance. This highlights the trust and relationship that certain retailers have built among consumers who are purchasing store branded snacks and meals. Knowing which combinations of foods to feature, which types of dips, sauces and accompaniments will sell, and even how your snack and meal are packaged, are all factors that can be carefully analyzed for predictive purposes. This granular, attribute-based approach applies to even non-food categories. Fragrance oils are among the categories where private-label products have seen rampant expansion. To this end, knowing which scents, which features and which price points have enabled this growth, will be key to sustainably expanding or competing against store brands in this category.

WHO'S WILLING TO PAY A PREMIUM FOR THE RIGHT STORE BRANDED PRODUCTS

Price sensitivity toward private-label products is fading over time

“IF I LIKE A STORE BRAND PRODUCT, I’M WILLING TO PAY THE SAME/MORE FOR IT THAN A NAME BRAND PRODUCT”

% RESPONDENTS

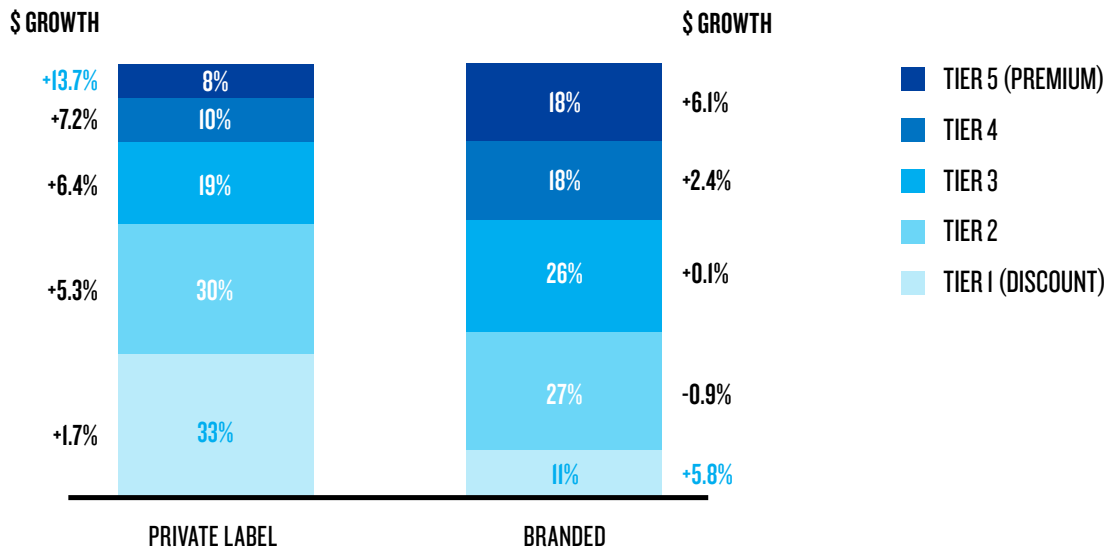


Source: Nielsen Homescan survey of 43,663 and 45,880 respondents, surveyed between January - February of 2014 & 2018, reported by National Consumer Panel

When it comes to price, we’ve already seen private-label products diverge from the stereotype of being discount offerings. In fact, over the last five years, surveyed-Americans of all ethnicities indicate a greater likelihood to pay the same or even more for the right store branded product. This shifting perception, or increased willingness to splurge for store brands, is particularly the case for Asian and Hispanic consumers, whose collective willingness has shifted up 5% and 4%, respectively, since 2014. While this signals a growing appetite for private-label goods, it also highlights a silver lining for name brand products: The so-called race to the bottom when it comes to competing on price may be showing signs of fading.

DOLLAR SHARE BY PRICE TIER

For premium products, private labels are growing sales at 2X the rate of name brands



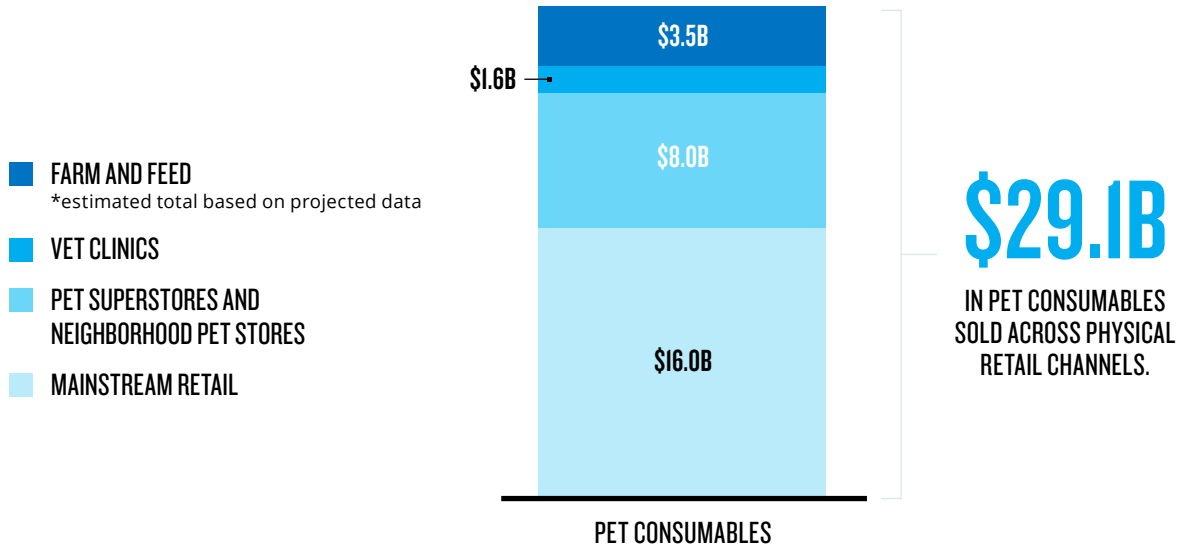
Source: Nielsen Analytic Product Attribute (APA) database by Nielsen Advanced Solutions Group, 52 weeks ended March 31, 2018 vs. year-ago

Consumers may be willing to pay more for store brands than they used to be, but when dissected by price tier, it's clear that premium products are already driving strong growth across retailers. Analyzing individual UPC price points, we created a five-tier distribution that isolates the most premium- and discount-oriented groups of products. Through this, we can see that the most premium tiers of private-label products aren't just leading private-label performance, they're outpacing the growth of all name brand product tiers.

Premium products have been essential to the performance of private labels across retailers. But how have premium products manifested themselves within various retail channels? When it comes to pet care, premium assortment isn't limited to specialty stores. And, rapid growth in e-commerce hasn't stopped consumers from hitting mainstream big-box retailers for their pet food needs. In fact, consumers have spent more than \$16 billion on pet food at traditional retail outlets, up nearly 2% from a year ago. Consumption has slowed, with volume of pet food down 1% in this same timeframe. In many cases, this uptick in sales can be linked to the influx of premium pet food brands on mainstream store shelves.

PET CONSUMABLES - EXPANDED RETAIL UNIVERSE

Neighborhood pet retailers move the needle among pet-focused retail outlets



Source: Nielsen Retail Measurement Services, Pet food and treats, Total U.S., 12 months ended June 2018 vs. year-ago, Mainstream retail measured via Nielsen's All Outlets Combined (xAOC) universe; includes pet superstores, neighborhood pet retailers and estimates of farm and feed channel

With that said, there's still a niche being served via pet superstores and neighborhood pet retailers. Together, "specialized" pet retail offerings (superstores and neighborhood pet stores) represent a combined \$8 billion in annual sales and 3.2 billion in pounds of pet consumables. But performance hasn't been consistent across retail sectors in this space. In fact, while pet superstores have seen declines in both volume and dollar sales, neighborhood pet retailers have continued to experience impressive dollar and volume growth.

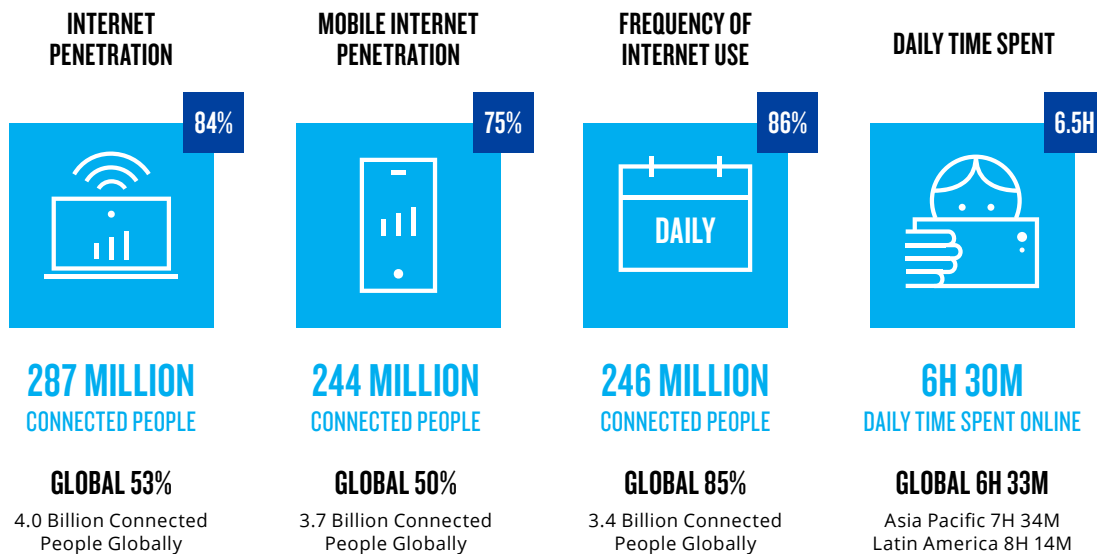
Neighborhood pet shops are differentiated in their ability to offer personalized services and access to communities of interest to their shopper bases. These factors are appealing to consumers, and a closer look at past performance indicates that small regional chains and independent storefronts have driven the most growth among pet "specialist" retailers. With unmatched assortment available online, as well as the convenience of pet food availability in mainstream retail, pet superstores have struggled to compete. As we'll review a little later, the recipe for success in pet care is heavily grounded in understanding digital shopping fundamentals.

E-COMMERCE

Today, 53% of the global population (4 billion people) are connected to the internet. In the U.S., that figure jumps to 84%. Digital infrastructure is abundant in nearly every aspect of our lifestyles, and America is not surprisingly well above global averages in terms of connectivity among consumers. Companies recognize the influence and impact that their online presence (via branded digital properties—websites, advertising and social media) has had on their in-store sales growth, and taking an omni-channel perspective to retail activation has become a necessity.

CONNECTED AMERICA

Relative to global measures, America still leads in connectivity





Sources: Curated via Nielsen Connected Commerce Report, 2018, with excerpts from 1) Internet Penetration: Demand Institute, 2) Mobile Internet Penetration, Frequency and Daily Time Spent: We Are Social & Hootsuite, Digital in 2018



Across the U.S. FMCG landscape, we find ourselves well on the path to reaching e-commerce retailing maturation. As reviewed in our March 2018 Total Consumer Report, we're past the tipping point of 20% market penetration. Research from Nielsen and Food Marketing Institute (FMI) projects that we'll hit a mature state (70% of consumers purchasing food and beverage goods online) in less than seven years. Nielsen e-commerce measurement, powered by Rakuten Intelligence, values online FMCG sales at \$46.3 billion in the year ended Aug. 25, 2018. Growing at a healthy rate of 29% year-over-year, the online marketplace is vibrant. At the consumer level, spend per capita is also seeing rapid expansion, up nearly 17% from 2017. This demonstrates that individual shoppers have continually embraced the power of omnichannel purchasing. As consumers gain confidence in purchasing online, shopper penetration, volume and frequency of online purchases have continued to grow. E-commerce advancement hinges on the consumers—their online usage behavior and habits, adoption drivers, tipping points and challenges.

FMCG E-COMMERCE EXPANSION CONTINUES

At the consumer level, spending online sees rapid growth

	DOLLARS SALES (BILLIONS)		DOLLARS PER PERSON
2016	\$26.4B	2016	\$297
2017	\$35.9B	2017	\$324
2018	\$46.3B	2018	\$378

Source: Nielsen e-commerce measurement powered by Rakuten Intelligence, 52 weeks ended Aug. 25, 2018

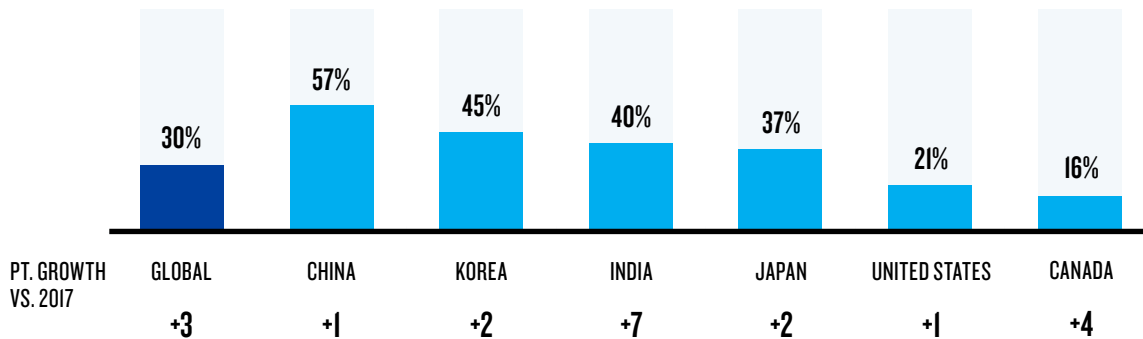
While online retail continues to make inroads in converting new FMCG shoppers, the space of food and beverages remains an area of opportunity. Whether due to the need for immediacy, tactile needs for interaction with products or the trust and familiarity of online platforms, there's still room to grow online purchases of food products in the U.S.

In fact, compared with consumers in other global markets, Americans are far less familiar with online grocery purchasing. Where over half (57%) of surveyed consumers in China claim to have purchased grocery products online, only 21% of surveyed Americans would say the same. As we reviewed earlier, America is certainly a heavily connected nation relative to global averages. But as can be seen here, there's much room to grow in terms of transforming digital connectivity into digital purchase conversion, particularly within the realm of food purchases.

ONLINE PURCHASING OF PACKAGED GROCERIES

Online grocery purchasing is on the rise in the U.S., but penetration lags behind global rates

% EVER PURCHASED ONLINE



Sources: Nielsen Connected Commerce Report, 2018

But the U.S. online market for grocery products isn't without its bright spots. Looking at sales performance, various grocery categories have already begun to see a sizeable amount of sales flow through e-commerce channels. Interestingly, we see cereal emerge as a high-growth opportunity in the digital world. Growing at 42% in dollars year-over-year, there's a niche demand for cereal online that's adding much-needed growth to a category that's struggled severely in traditional stores in recent years. Where growth has all but disappeared in physical retail channels, the online marketplace affords a chance to meet niche needs for convenience or assortment.

MAJOR GROCERY CATEGORIES ONLINE

Beverages are generating sizable sales online as FMCG e-commerce continues to mature

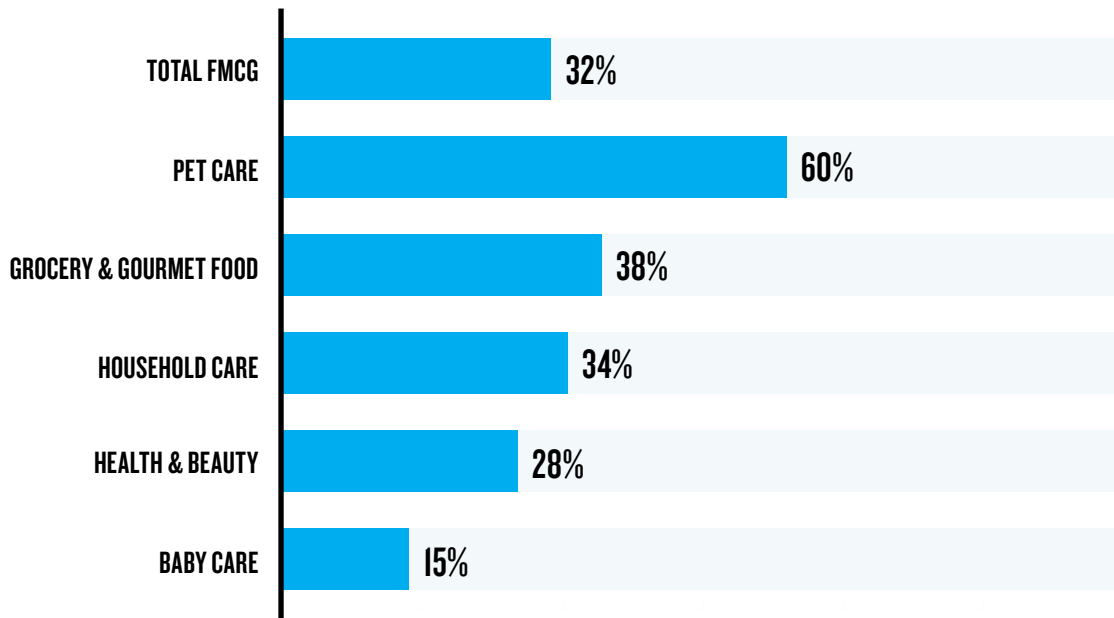
	DOLLAR SALES	DOLLAR % CHANGE
COFFEE	\$1,165M	6.9
SPORTS NUTRITION & CEREAL BARS	\$584M	14.1
NUTRITION DRINKS	\$437M	22.5
TEA	\$248M	25.8
CEREALS	\$224M	41.7

Source: Nielsen e-commerce measurement powered by Rakuten Intelligence, 52 weeks ended Aug. 25, 2018 vs. year-ago

While a handful of grocery categories are seeing meaningful growth online, there are many non-food FMCG examples that are blooming or have already matured via true omnichannel activation. Looking at online sales by sector, pet care remains the fastest-growing sector of FMCG e-commerce. The swift pace of positive change driving pet care online, coupled with the strong presence of brick-and-mortar pet consumables, showcases how omnichannel success is a nearer-term reality for U.S. FMCG. At a time where consumption of products has plateaued, new use cases can be fostered and developed in integrating online and in-store shopping behaviors.

FMCG ONLINE SALES - THREE-YEAR COMPOUND ANNUAL GROWTH RATE

Pet care is driving online growth



Source: Nielsen e-commerce measurement powered by Rakuten Intelligence, 52 weeks ended Aug. 25, 2018 vs. two years ago

HEALTH & WELLNESS

WHAT'S DRIVING WELLNESS CONSIDERATIONS

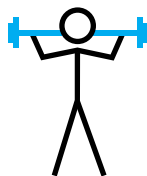
Our FMCG needs have been transformed by continual education, access to inbound information beyond compare and social awareness manifested and influenced by digital levers. Label claims and ingredient trends can be used to align your products to the identities consumers seek and continually shape via online media. In order to accurately understand label claims and ingredient trends, holistic and on-demand measurement of the food landscape is key to success.

A common theme emerges when we analyze the top-growing health and wellness claims made on products this quarter. From the growth in cruelty-free products that refrain from animal testing to the emergence of grass-fed and free range animal byproducts, Americans remain interested in the welfare and treatment of animals in the products they buy.



TOP WELLNESS CLAIMS - Q3 2018

From grain-free pet food to grass-fed animal byproducts and more,
Americans hold animal welfare top of mind



FASTEST GROWING HEALTH & WELLNESS CLAIMS BY DOLLAR GROWTH

LATEST 52 WEEKS VS. YEAR-AGO			Q3 2018 VS. Q2 2018		
PRODUCT CLAIM	DOLLARS	\$% GROWTH	PRODUCT CLAIM	DOLLARS	\$% GROWTH
CRUELTY FREE	\$1.23B	32.5	COMPARATIVE FIBER CLAIMS	\$18M	13.2
GRAIN FREE	\$1.09B	31.6	LACTOSE REDUCED	\$25M	11.7
GRASS FED	\$998M	24.6	CARB CONSCIOUS	\$748M	8.8
CORN FREE	\$1.77B	21.8	EXCELLENT SOURCE OF VITAMINS & MINERALS	\$36M	8.0
FREE RANGE	\$627M	17.7	FREE RANGE	\$154M	6.0

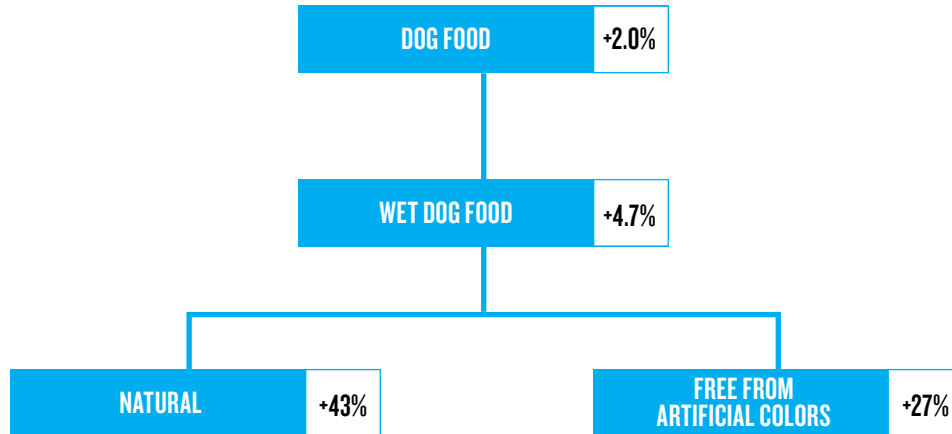
Source: Nielsen Retail Measurement Services, Total Food View, Total U.S. xAOC, 52 weeks ended Nov. 24, 2018 and 13 weeks ended Sept. 29, 2018, UPC-coded and random-weight/non-UPC data

While grain-free pet foods have certainly driven much growth across retail channels, dollar sales growth among pet stores and independents has slowed from 10% to just 7% above a year ago. The decline likely reflects awareness about recent reports of cardiac health issues linked to certain grain-free pet products. Amid this shift, we've seen potato-free pet foods emerge as a growth driver. Up by 30% in sales this year, potato-free pet foods have reached over \$600 million in annual sales and have seen explosive growth in assortment. Where the average store carried just 58 potato-free items in 2016, today that number is up to 81. Enabled by technology, shoppers have the tools to understand what is best for their pet. Potato-free products are just one example where consumers have taken advantage of access to a myriad of locations and channels in which their specific needs can be fulfilled. Regardless of the type of store format, be it local or big-box store, the growth within pet food is centered around how consumers are prioritizing products aligned with particular health and wellness regimes.

FOLLOWING THE PATH TO GROWTH IN DOG FOOD

Healthful ideals drive healthy growth in pet consumables

DOLLAR GROWTH BY DOG FOOD SEGMENT



Source: Nielsen Retail Measurement Services, Pet food and treats, Total U.S., 12 months ended June 2018 vs. year-ago, Mainstream retail measured via Nielsen's All Outlets Combined (xAOC) universe

Demand for pet food in stores has continued, thanks to educated consumers seeking healthy formulas (with higher price points) at mainstream retail.

This trend is helping drive sales in the dog food category thanks to the perceived health benefits (more protein and fewer grains) of wet food. While overall dog food dollar sales are up 2% from a year ago, wet dog food sales growth is more than twice as pronounced, and the growth is exponentially higher among wet dog foods that claim to be natural or free from artificial colors. Dry dog food continues to hold a commanding share of category sales, but growth has stagnated. As consumers' hearts and wallets grow more fond of wellness regimes in pet care, the rise of wet pet food may continue.

We spoke of the impressive success of neighborhood pet retailers, and one area where local independents have really capitalized is in driving sales of more premium and high-quality pet meals and meal enhancers. In fact, the meal enhancer category (which includes dry, wet and liquid toppers, mixers and enhancers) represents \$84 million in annual sales for specialty pet retail, up 21% from a year ago. Growth has been especially pronounced in bone broth and stews offered in cartons and pouches.

This speaks to a huge evolution from one’s traditional dry dog food, for example, and this has been aided thanks to the huge expansion in assortment of dog food products that are now available. In contrast to when there were approximately 229 items for pet meal enhancers on shelves in 2016, that number has nearly tripled to 593 items today. Clearly, both sales and assortment assert the transformation that’s taking place in premium pet food today.

PREMIUM PET FOODS WITH RAW INGREDIENTS

Consumers’ care for their pets focuses on granular product details

PET FOOD SEGMENT	\$ % GROWTH	AVG. PRICE PER POUND
FROZEN RAW PET FOOD	+22%	\$6.39 / LB.
FREEZE-DRIED MEALS	+27%	\$32.16 / LB.
DEHYDRATED OR AIR-DRIED PET FOOD	+45%	\$9.85 / LB.
KIBBLE PLUS*	+41%	\$3.36 / LB.

*Refers to kibble that includes freeze-dried or dehydrated/air-dried raw components. Source: Nielsen Retail Measurement Services, Pet food and treats, Total U.S., 12 months ended June 2018 vs. year-ago, includes pet superstores and neighborhood pet retailers.

In the world of pet superstores and neighborhood pet retailers, we’ve seen a similar trend manifest in the growth of premium pet foods with raw ingredients. In fact, pet foods with freeze-dried, dehydrated, and air-dried components have seen outsized growth despite high average price points. Notably, Kibble Plus products (kibble mixes that include a raw preserved component), are the most value-oriented entry point into the “raw” pet food product set.

As we’ve seen in the example of pet retail, health and wellness needs underpin category growth and this notion holds true throughout our industry. From the growth in natural or grain free pet foods, to the emergence of those claiming to be free from artificial ingredients, consumers’ care for their pets goes down to quite granular product details.

END NOTES

Total U.S. All Outlets Combined (xAOC) retail measurement includes: grocery, drug, mass merchandisers, select dollar stores, select warehouse clubs, and military commissaries (DeCA). Excludes convenience stores unless specifically denoted as inclusive of convenience channel.

Except where denoted as UPC-coded only, data reflects UPC + non-UPC products (which includes fresh random-weight retailer-assigned PLU (price look-up code) and system 2 sales volume).

Except where otherwise denoted, references to “fresh” or “perishable” foods encompass the inclusive view of UPC-coded and non-UPC products found throughout the store, but most predominantly in produce, bakery, deli, meat and seafood departments.

As referenced in the “Drivers of Growth” graphic:

- Center Store Edibles: includes grocery, frozen foods and dairy departments
- Home & Personal Care: includes health & beauty, baby and household care departments
- Non-Grocery: includes general merchandise, pet care and tobacco departments
- Fresh Perishables: includes produce, bakery, deli, meat and seafood departments

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