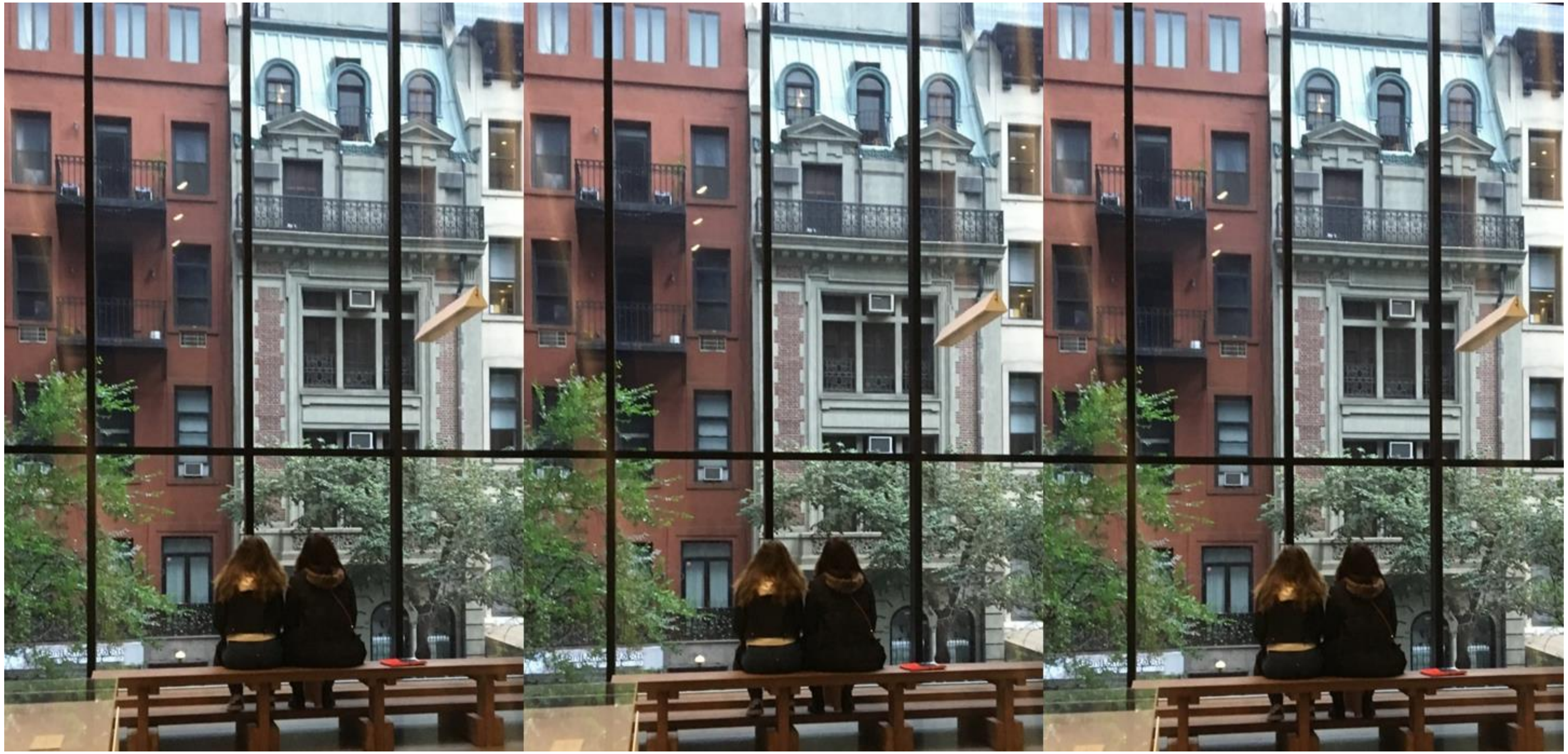
The ESTABLISHED and the NEWCOMERS

YOUNGER GENERATIONS WILL CHANGE THE MARKET

Growth from Knowledge



iBrains and Millennials will shape the Decade

PRE-COVID-19, THE PANDEMIC AND THE FUTURE

Over the course of this decade, Millennials will take the helm. Today, the oldest Millennials are 39 years of age, the youngest 25 years. Until 2030, more and more Millennials will replace the Baby Boomers in key positions of business, politics and social affairs, and the vast majority of Baby Boomers will have retired.

In addition, by 2030 almost all iBrains will have entered the market, having established their own households.

This alone will result in major shifts in the FMCG market during this decade.

But the shift is not just a demographic one: The change in demands and needs of people due to climate change, pandemics, migration and social polarization will have a much bigger impact.

This white paper provides insights into the development of shopping and consumption behavior of different generations in FMCG in 2020, also comparing lockdown and easing phases in Germany. Based on the results of the GfK Consumer Panels and further GfK surveys, the paper also compares generational differences, including preferences of channels and brands.

Understanding the generations and their buying behavior will be essential to project for 2021 and beyond. In pairing valuable GfK data with industry expertise and experience, Dr. Robert Kecskes, Insights Director, Consumer Panels & Services at GfK Germany, evaluates short-term spikes and changes that are very likely to stay.

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Six Generations and their Lifestyle Perspective

GfK Growth from Knowledge

FROM GROWTH TO DISCOVERY

Generations can be defined based on their formative years: Have they experienced shortages, being born shortly after the war, or profited from the “Wirtschaftswunder” years as the Baby Boomer generation? Each generation is conditioned based on experience in their early life. The combination of imprint and current life conditions, history and experience help to explain many behavioral patterns.

When looking at and evaluating generations, GfK currently defines the following six groups.

Focus: Growth and eternal Economic Prosperity

Re-constructors – the wartime generation and those born in the late 1940s to early 1950s, socialized in times of scarcity. Culture: materialistic restriction

Baby Boomers – who “enjoyed” the economic boom in their childhood and youth. Culture: post-materialistic liberation

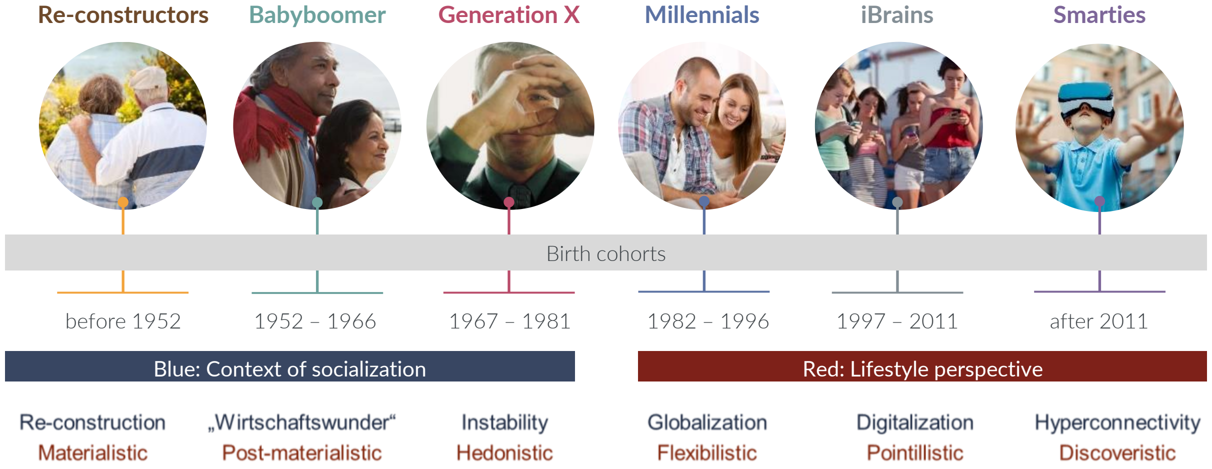
Generation X – the first postwar generation that experienced economic instability and the end of the dream of perpetual growth. Culture: instant hedonism

Focus: Discovery, Socio-ecological Sustainability

Millennials – the generation of globalization, also known as Generation Y or the Net Generation; in their formative phase, they saw the fall of the Berlin Wall and the world opening up. Culture: responsible flexibility

iBrains – the children of the second disruption: Digitization; also known as Generation Z. Culture: pointillistic and enriching discoveries

Smarties – today's children up to 10 years of age, growing up with the Internet of Things – and, since early 2020, in an environment of a pandemic and restrictions



This white paper covers the five generations that are currently taking buying decisions in FMCG, not including Smarties. Furthermore, panel and research results on iBrains are fairly limited, with many of them still living with their parents or having moved back due to the pandemic.

For this analysis, Millennials and iBrains have therefore been merged, in the following referred to as Millennials+.

Supermarkets, Specialty Store & E-Commerce

Growth from Knowledge

LOOKING FOR MORE THAN FUNCTIONAL STORES

Looking at the retailer channels in 2020, Supermarkets are clearly the winners of the pandemic, followed by Specialty Stores and E-Commerce. At the same time, Discounters, Drugstores and Hypermarkets are losing ground.

These trends are most pronounced among Millennials+ and the Generation X.

Over the course of the first eleven months of 2020, the market share (basis value) of Supermarkets among Millennials+ rose by +1.9 points in comparison to 2019. The share of Specialty Stores increased by +0.8 points and online by +0.2 points. The share of Discounters fell by -1.4 points, the share of Hypermarkets by -0.7 points and the share of Drugstores by -0.9 points.

The Generation X show a similar shopping behavior with an increase for Supermarkets (+1.5 points), Specialty Stores (+0.8 points) and E-Commerce (+0.4 points) on the winning side, and Discounters (-1.6 points), Hypermarkets (-0.5 points) and Drugstores (-0.6 points) losing market share.

The shifts in market share during the pandemic year of 2020 clearly demonstrate, that price was not only denominator for buying decisions. Admittedly, a retailer offering low prices is attractive. But with COVID-19, shoppers were looking for more than just an assortment of low-price functional products. They were looking for security, reliability and a balance between sustainable brands, quality product brands and low-price retail brands – which they found in Supermarkets. This change in shopping behavior was particularly noticeable among younger generations.

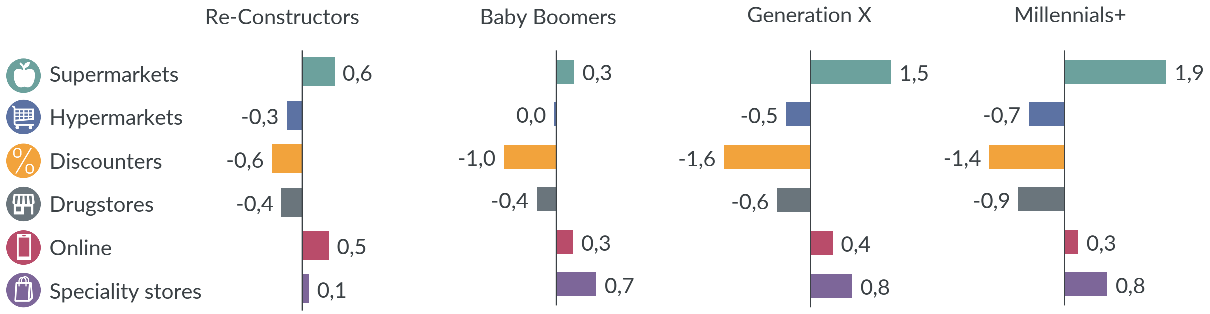
Shoppers in Denmark displayed a similar behavior, while the situation in Sweden was very different: Discounters experienced an increase in value share, and especially older people turned to E-Commerce.

The Swedish population in general has a reputation of being rather tech-savvy and thus, older generations in this country seem to have taken more personal responsibility, reducing their risks by shopping online.

Whereas in other countries like Sweden or Italy, more households across all generations decided to shop online, when the pandemic started, elder generations in Germany tried to mitigate their health risks by reducing their number of shopping trips.

The market share of supermarkets is growing fastest among Millennials+

Change of market shares (basis: value) VTD 11/2020 vs. YTD 11/2019 by retailer channels, in points



Supermarkets – Centers for Social Life

PLACES AND NON-PLACES

Supermarkets and Specialty Stores – and on a much smaller scale, Farmer's Markets – are the clear winners of 2020.
As they increasingly value and focus on nutrition and home improvement, younger shopper groups – especially Millennials+ – favor these channels.

In addition, Supermarkets win on sociality, shopping experience and trust: They are "around the corner" – Germany has the biggest concentration of stationary –, offering a meeting point in the neighborhood, for an encounter and a quick chat, even in lockdown times.

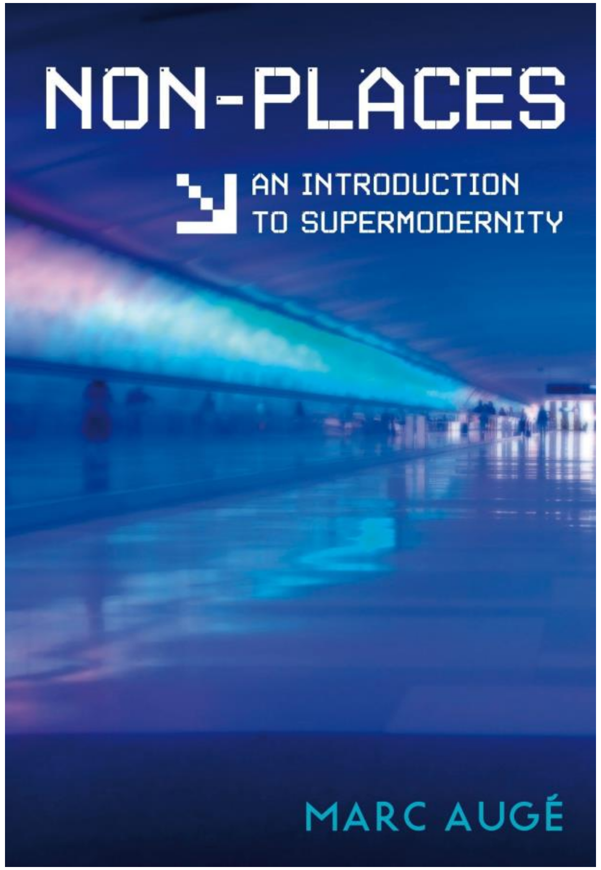
Furthermore, Supermarkets offer a full range of FMCG products, thus allowing for one-stop-shopping. Ever more often, shoppers discover new products, which enhances their shopping experience.

With no social function, no "story to tell" other than low prices, Discounters and to a lesser extent Hypermarkets, are losing ground, whereas Supermarkets were able to strengthened their shoppers' base moving into 2021.

Following Marc Augé's differentiation of PLACES and NON-PLACES, shoppers in Germany increasingly perceive Supermarkets as PLACES, as a social anchor in their neighborhood. On the contrary, Discounters continue to be perceived as NON-PLACES, as pure functional stores.

More and more of the younger generations are looking for places, especially when buying FMCG. In this regard, the ideas of stationary FMCG shopping have changed fundamentally in the younger generations.

Over the course of this decade, the idea of PLACES will present the strongest protection mechanism for stationary stores against its online competition.



The Year of the Brand

GROWING BRAND MARKET SHARES ACROSS ALL GENERATIONS

Overall, the budget spent on FMCG experienced a leap in 2020, especially in March and April with the need for more home cooking, and also the fear of shortages. Again, Millennials+ – together with the Generation X – increased their expenditures the most across the first eleven months of 2020, while Re-constructors tried to keep their budget increase lower than any other shopper group.

The rise in expenditures extended to all FMCG categories, with fresh food and food accounting for the biggest increases in spring 2020, followed by a downswing - but still on a high increase level in comparison to 2019 - in summer and during summer vacations, when restaurants were open again.

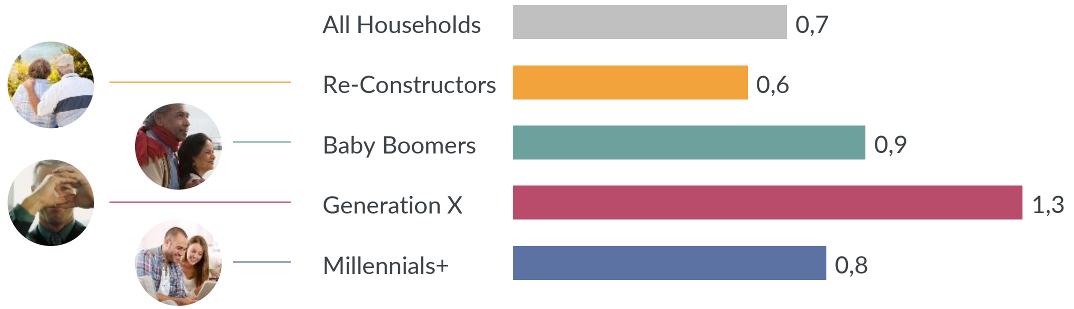
2020 was the year of quality and brands.

Numerous surveys confirm, that brands – both manufacturer and retailer brands – were and continue to be increasingly in demand as consumers are looking for reliability, security – and sustainability. As a result, retailer brands addressing aspects such as fair trade or animal welfare are increasingly successful.

Compared to 2019, the market share of manufacturer brands grew by +0.7 percent YTD November 2020.

2020 was the Year of the Brands – Brand Market Share grew across all Generations

Change of Market Share (basis: value) YTD 11/2020 vs. YTD 11/2019 by Generation, in Points



A detailed analysis shows, that manufacturer brands were able to increase their market share across all generations. However, the Generation X accounted for the strongest increase in market share. This comes as no surprise as the Generation X is nearing the peak of their professional life and career, with no constraints to afford a higher share of manufacturer brands as part of their shopping basket.

Millennials+ are often still at the beginning of their career and thus have to be more budget-sensitive. This generation will therefore prefer retail brands and, as a result, their market share contribution to manufacturer brands is smaller than the one of the Generation X.

Nonetheless, Millennials+ considerably increased their shopping in Supermarkets, while their market share at Discounters clearly dropped.

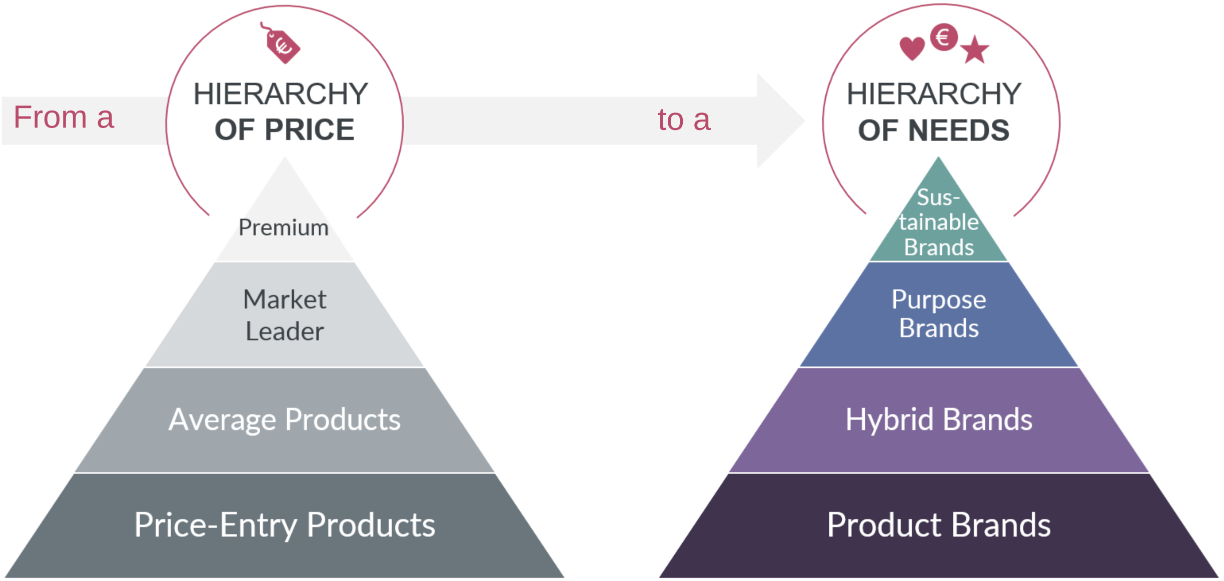
From Product to Purpose

Growth from Knowledge

THE HIERARCHY OF NEEDS REPLACES THE HIERARCHY OF PRICE

The increased popularity of Supermarkets among younger generations – as described above –, can also be attributed to the assortment pyramid of this channel. Whereas the pyramid of Discounters is, to a large extent, still structured based on pricing, Supermarkets are placing a stronger focus on needs.

In terms of manufacturer brands, pure product (i. e. functional) brands provide the foundation, while those "for a better world" are at the top of the hierarchy of needs. The higher up the pyramid, the more sustainable the product.



Compared to a hierarchy of price, the hierarchy of brands meets the expectations and consumer needs especially of younger generations – without neglecting the relevance of price.

The hierarchy of needs is composed of four brand categories, differentiated based on specifically defined thresholds. These four brand categories include:

- **Sustainable brands:** Established brands that can be described as sustainable in the classic sense, e. g. Alnatura, Frosch.
- **Purpose brands:** Mostly newer, 'post-modern' sustainable brands which align with current "purpose" concepts, e. g. Oatly, Rügenwalder.
- **Hybrid brands:** "In-between" brands which are neither sustainable nor purpose brands, nor pure product brands; in-between because they have entered the path to sustainability but are not there yet or do not dare to take the next step.
- **Product brands:** Brands that exclusively focus on functional benefits ("the laundry gets cleaned", "the food tastes good"); while sustainability does not play any role, these brands often provide high-quality functionality.

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The Dynamic of Purpose Brands

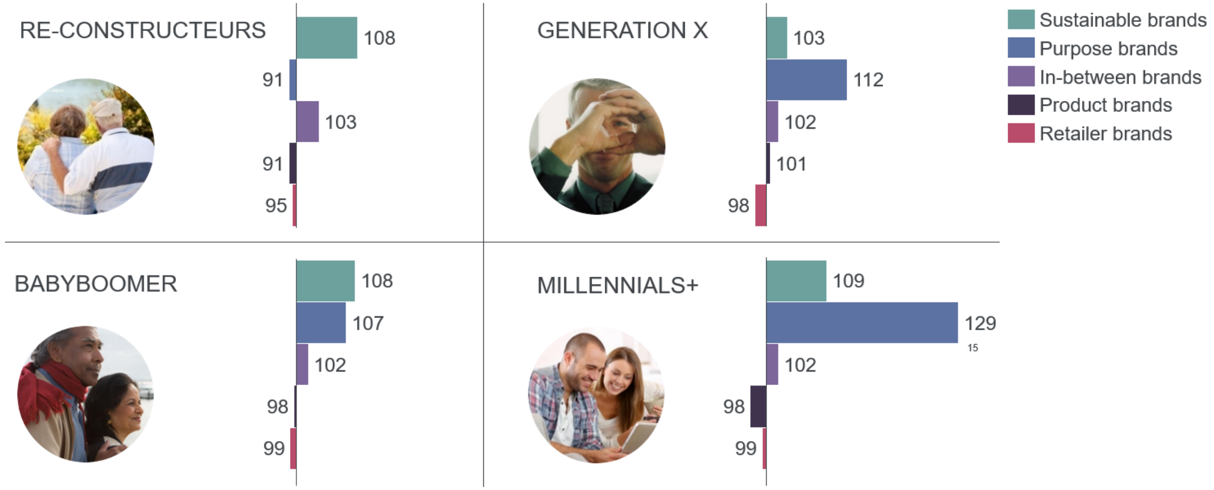
FAST GROWTH OF SUSTAINABLE BRANDS IN 2020 – MILLENNIALS DEMAND PURPOSE BRANDS

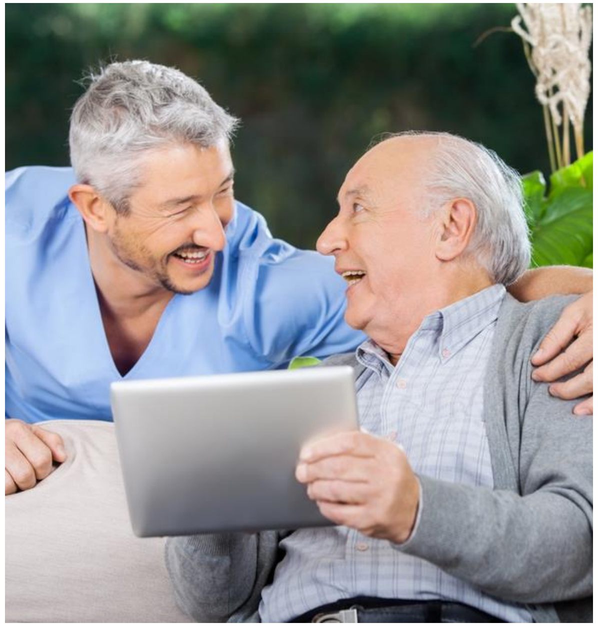
When we talk about the Year of the Brand, we have to put this into perspective: 2020 was not the year of product brands. Their sales increase was roughly on a par with those of private labels, whereas sales of sustainable and purpose brands experienced a significant growth.

Sustainable brands saw biggest growth of all brand categories with the eldest generation, the Re-constructors, whereas Baby Boomers favored both sustainable and purpose brands. The Generation X invested most of their FMCG budget in purpose brands. However, the highest increase in sales of purpose brands was recorded among Millennials+, who also purchased sustainable brands above-average.

Purpose Brands show a strong Increase among Millennials+ – Product Brands are loosing Ground

Index of Sales Increase per Brand Category and Generation; Total Sales Increase for each Generation = 100





Generally speaking, the younger the people, the more relevant the purpose brands, whereas sustainable brands are equally attractive for young people as they are for older generations.

This result clearly indicates the direction for the 2020s: Purpose brands will set the pace.

Green Deal – Glocal Citizenship – Bricolage

GfK Growth from Knowledge

THREE TRENDS WILL SHAPE THE 2020s – DRIVEN BY THE YOUNG GENERATION.

FUTURE I: GREEN DEAL

Responsible, sustainable consumption

The protection of nature will continue to be a strong driver of shopper behavior in this decade. The young generation connects the big questions of future life on our planet. Socialized in a digital world, they think less in isolated frames, but more and more in patterns that connect. This leads them to demand a more sensitive, more sustainable, more responsible approach to people and nature in a multiple connected interdependence system. On a behavioral level, this is reflected, for example, in the reduction of plastic packaging and animal products. The substitution of animal protein by vegan products is progressively regarded as a freedom of choice and an enrichment rather than a constraint.

GREEN DEAL

FUTURE II: GLOCAL CITIZENSHIP

Focus on the near: Family, friends, neighborhood, colleagues, local business

The pandemic has in several ways demonstrated the shady side of globalization, while most generations still cherish the positive effects of an open world. Nonetheless, even before COVID-19, we already noticed a new understanding of local, of a global mindset anchored in the local community, which translates into an expanding fan base e. g. for urban gardening and the preference for regional food, especially among younger generations. Mainly for Millennials+, COVID-19 has manifested the limitations of the current economic system, initiating a development towards a more communitarian way of life, which will experience a boost over the coming years.

GLOCAL CITIZENSHIP

FUTURE III: BRICOLAGE

From a growth logic to a discovery logic

Based on recent developments, Millennials+ start to realize that the logic of perpetual economic growth is one-dimensional and does not provide the solution for the challenges of today and tomorrow. As a result, they are changing their perspective on life, looking for the new, the exciting, a stimulation of a meaningful discovery. This multi-dimensional logic is not based on growth but on change, on creative chaos which must prevail in order to find new ways. In other words (with reference to Kate Raworth in Doughnut Economics): not more growth independent of wellbeing, but wellbeing independent of growth. The younger generation is on the way to this transformation. A shift of paradigm.

BRICOLAGE

Be Prepared

Manufacturers and Consumers of Goods and Services will become Actors in shaping a Better World.

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