Issue 15

Consumer Currents

Issues driving consumer organizations

KPMG
cutting through complexity

Fashion statement

China's luxury-goods boom: how their brands will woo the world

Thirty years ago the influential economist Theodore Levitt coined the term 'globalization' in a *Harvard Business Review* article analyzing the emergence of standardized, low-cost consumer products. For Levitt, globalization reflected the changes in social behavior and technology that meant companies could sell the same goods around the world. In the ensuing decades, globalization has reshaped economies, inspired bestselling books (notably by Thomas Friedman) and generated much political controversy. Yet today Levitt's observations are more pertinent than ever. Every company in the consumer industry – be they retailer, manufacturer or supplier – has to think globally.

The facts speak for themselves. By 2030, the middle class in China is projected to consist of 1.4 billion consumers, four times as large as America's middle class. India won't be far behind, with 1.07 billion middle class consumers by then.

The importance of a global vision is the prevailing theme in this issue of *Consumer Currents*. On p18, Ofra Strauss, the Chairperson of the food and beverage group Strauss, discusses how the company has ventured beyond its domestic market, reaching out to consumers in Brazil, China, Mexico and the US with a series of strategic joint ventures.

McCain Foods is already a globally famous brand but, as their CEO Dirk Van de Put makes clear on p6, the company sees plenty of scope for growth, especially in emerging markets. By the end of this year, the company will have doubled capacity at its Harbin plant, in northeast China, to keep pace with demand.

The most compelling evidence of China's importance to the global economy is the scrutiny applied to every statistic as analysts seek to continuously adjust their growth forecasts. Some of this speculation focuses so intensely on the short term that it brings to mind the famous observation by another Harvard economist, John Kenneth Galbraith, that "the only function of economic forecasting is to make astrology look respectable".

Like every other economy in the world today, China faces significant challenges but in the long run – as our investigation of the country's luxury goods market makes clear on p10 – the most likely outcome is that growth will continue, especially as its own brands, like Shang Xia, begin to develop a global presence.

The world's consumer markets are influenced by a host of local factors – from a particular government's economic policy to the success of a kids' TV show – yet certain trends transcend national borders. The growing purchasing power of the senior consumer – which we explore on p14 – is one trend retailers and manufacturers can no longer afford to ignore. There are already 800 million people aged 60 and over in the world. By 2050, the United Nations predicts the number of over-60s will have soared to more than two billion.

There is no such clarity about the future of the mall. In the US, many analysts predict the age of this temple to consumerism is over. Yet in Brazil, China, Singapore and Turkey, the mall is being reinvented with a host of attractions designed to ensure that millions of consumers visit, shop and stay. These strategies seem to be working too – for example, many luxury brands doing business in China have emphasized how vital it is to have the right location in the right mall.

And finally, as this issue coincides with the 2013 Global Summit of The Consumer Goods Forum in Tokyo, we acknowledge the inspirational example set by Kazuo Inamori, one of Japan's most famous business leaders. In an age when consumer confidence in a brand can be disturbingly fragile – and corporate reputations damaged in an instant – his career is a reminder that the best business leaders have an ethical compass.

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Contents

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Off the shelf


Food and drink is increasingly used to top up retail revenue

Would you like some pineapple cheesecake with that jacket?

Retailers offering food and drink alongside their normal products are discovering that customers are significantly more likely to stop, look and spend in-store

Devoting over half the floorspace of a flagship store to a restaurant serving cocktails and pineapple cheesecake, when you're best known for casual beachwear, sounds risky but Tommy Bahama's diversification has been a financial boon.

Some 12% of the Oxford Industries-owned company's US$452m annual revenue derives from food and drink purchased by consumers in store. The company's 14 retail and restaurant outlets generate US$2,000 in sales per square foot, two-and-a-half times as much as its retail-only stores. That's why Tommy Bahama was so keen to promote the concept in its 13,000 square-foot store on Manhattan's iconic Fifth Avenue.

There is nothing new about retailers selling food and drink to bolster revenues. Upscale US fashion retailer Nordstrom has been blurring formats in this way for years and is now using a new contemporary diner concept called Sixth & Pine in a slew of outlets and opening espresso bars. Four other major US retailers are weighing up whether to offer food in store.

In a concerted effort to make its supermarkets more attractive for families, UK supermarket giant Tesco has acquired the family-friendly restaurant chain, Giraffe, for US$76m. The world's fifth largest retailer has also invested in the Harris + Hoole coffee chain and Euphorium bakery to build a portfolio of brands it can incorporate in and around its stores.

So why food? "It's all about engaging customers," says Cate Trotter, founder of retail research firm Insider Trends. "Visitors who are 'passing through' need to be encouraged to stop, look and spend. Recent figures from PathIntelligence show that for every 1% uplift in dwell time, there is generally a 1.3% increase in sales."

Offering food and drink to persuade customers to stop, look and spend is one tactic that cannot be replicated online. In Urban Outfitters Terrain stores in the US, customers spend 90 minutes browsing merchandise, "but that can double to three hours if they visit the café and shop between a glass of wine or lunch," said Terrain's President Wendy McDevitt.

"Ingvar Kamprad, the IKEA founder, situated a café between the store's showroom and marketplace because he felt hungry people were not good customers," says Trotter. The popularity of farmers' markets, and global reach of such TV formats as *MasterChef* (in 35 countries) have convinced many retailers that customers' culinary adventures can help them compete with online shopping.

"With competition becoming fiercer – especially from e-commerce – retailers need to be innovative and flexible about their formats and business models as they strive to attract customers to their stores, and keep them there for longer," says **Mark Larson**, Global Head of Retail, KPMG International.

Nexttech

Near Field Communications

NFC stands for Near Field Communications, which enables smartphone users to communicate with any other NFC device or nearby RFID-tagged object by tapping their phone. More than 100 million NFC-enabled phones will be shipped this year. While NFC has been touted as a new payment system, the real boon for retail may lie in the technology's ability to engage consumers, where it could prove more rewarding than snapping a QR code with a smartphone camera. In one in-store trial by Nabisco and Kraft in the US, consumers were 12 times more likely to tap rather than snap. Customers usually spend five to ten seconds with a product, but dwell time for NFC tappers shot up to 48 seconds, with 36% of them saving a recipe, downloading the Kraft app or sharing it with friends. A test by Dutch upmarket fashion retailer Vic produced similar results.

NFC can also connect online and offline to the benefit of brands, retailers and consumers. Activision uses the technology to enable users to turn their Skylander figurines into virtual characters in the game, one of the strategies that has turned this series into a US$1bn brand.

Duncan Avis, KPMG in the US, and Leader for Social and Mobile Enterprise, says: "Even in-store, the customer experience is changing radically as use of smartphones and tablets increases – and NFC-inspired mobile innovations can capture the consumer's imagination and attention."

Always on their minds

Just in… Consumer Executive Top of Mind Survey 2013

When KPMG and the Consumer Goods Forum asked executives from 442 of the world's largest consumer companies what would keep them occupied over the next two years, one in five ranked economy and consumer demand highest, and 40% put it in their top three. In fact, four of the top five issues were all related to top-line growth.

Supply chain issues ranked fourth as a top concern, largely driven by issues around cost volatility, quality and supplier reliability. Responsibility and regulation polled relatively low in the survey overall – being cited as a top concern half as frequently as growth – as companies around the world, especially in the Western economies, focused more on issues directly affecting sales and profits. By contrast, in Western Europe and Asia, food and beverage respondents put food and product safety most often at the top of the list.

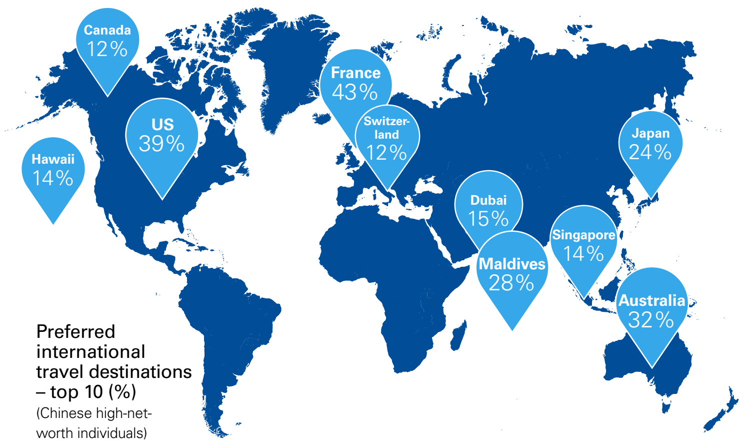
Companies are planning to work with consumers, rather than try to influence them, with a third linking innovation to consumer collaboration. A third also say data is key to growth – yet 41% have trouble with technology, and for 80% mobile technology and e-commerce is a challenge. So expect partnerships with technology providers.

Having said all this, businesses are going back to basics in search of growth. Sales, brand building, pricing… because times are tough and it's what they know.

See more results and download the full report at **www.kpmg.com/CMsurvey**.

China looks overseas for luxury

"We used to ask companies 'What are you doing about China?'" says Nick Debnam, Asia Pacific Chair, Consumer Markets, KPMG China. "Now we ask them what they are doing about the Chinese." A new KPMG report on China's luxury goods market shows 71% of high-net-worth mainland Chinese surveyed traveled abroad in 2012 (up from 53% in 2008) and 72% made a luxury purchase on their trip. Chinese travelers are of enormous importance to luxury brands: for example, for every dollar of business Estée Lauder does in China, it makes two dollars in sales to Chinese consumers abroad. For more on the Chinese and luxury goods, see our feature on page 10.



Preferred international travel destinations – top 10 (%)
(Chinese high-net-worth individuals)

Trend Spotting

Turn browsers into buyers

With shoppers increasingly browsing in store only to buy online ("showrooming"), bricks and mortar retailers need to stop cursing smartphone users and start courting them, says KPMG in the US Partner **Bolette Andersen**

In January a sign in the window of a Melbourne health food store went viral. It told customers: "As of February, this store will be charging people a $5 fee per person for 'just looking'." Four people did pay for 'just looking' so this frustrated attempt to combat showrooming (where customers check out products in-store only to buy them elsewhere for a lower price) did make US$20, but the tactic is hardly likely to woo potential customers – and, as showrooming's key demographic is smartphone-savvy shoppers aged 18 to 39, this trend is here to stay.

The impact of showrooming on bricks and mortar retailers can't be overestimated – around 48 million US shoppers showroomed during the 2012 holiday season, an increase of 134% over 2011. Successful retailers will use smartphones to transform their customer service, reach out to new shoppers and generate new revenues.

> **"Smartphones give retailers the chance to transform their customer service"**

Bricks and mortar retailers should start with the proposition that any customer who is showrooming in their store is a sale they shouldn't lose. If retailers can make their mobile experience more compelling than rival offerings, why should the consumer go elsewhere? Making that experience compelling starts with easy, efficient Wi-Fi in-store but it will also embrace such initiatives as launching an app that shows up where shoppers look for reviews (Twitter, Facebook, CNet, forums), displaying reviews on point-of-sale signage for big-ticket items and using geo-fencing to target in-store offers which can point shoppers to products that are only a few feet away.

Sometimes, there's nothing as compelling as a bargain. Some studies suggest that 20% of in-store purchases are impulse buys and so discounts offered on their phones can be very effective: in 2012, 35 million mobile coupons were redeemed by US shoppers.

Retailers can learn from the ease of shopping online. Convenience and delivery options have been instrumental in making Amazon a retail giant. The development of click and collect services has seen large traditional retailers regain market share; in one major company's case more than half of online sales are picked up in-store.

One great convenience of shopping online is that you can do this 24/7. Some retailers have turned stores or billboards into round-the-clock operations where – through the use of QR-codes or digital touchscreens – customers can order items for pick-up or delivery. Chinese e-commerce giant Yihaodian has opened 1,000 such virtual stores across China. Bricks and mortar retailers may need to be more audacious if they are to compete in the long term.

Last but not least, a great customer experience can trump the desire for the best price. Think of your physical store as "experience HQ" Karl Heiselman, CEO of brand consultants Wolff Olins, has suggested. Let your customers engage, network and play.

Some retailers have flourished by allowing consumers to browse their collection on in-store iPads. For others, the secret to success is creating an ambience that makes customers want to hang out there. As business guru Joseph Pine said once, "Time is the currency of all experiences. The more time your customers spend with you, the more money they will spend now and in the future."

"There is so much potential to be **the best** and biggest in potatoes"

Dirk Van de Put, President and CEO of McCain Foods, reveals why – and how – he plans to transform the global potato business

At a time when organizations are scrambling to keep pace with shifting customer preferences, transformational leadership has become a popular management style of the modern CEO. For an example of a leader transforming a multi-billion dollar company, you'd do well to start with Dirk Van de Put, President and CEO of McCain Foods.

With 46 manufacturing facilities and 36,700 supply partners worldwide, McCain is the largest producer of french fries for both retail grocery chains and foodservice markets. Its products generate an impressive US$8bn in annual sales.

Van de Put joined McCain in June 2011, following a career that started with Mars in his native Belgium, and then onto Coca-Cola, Danone and Novartis in the Americas. He has refocused McCain on its core product: potatoes, and no longer just frozen. He is also in the midst of shifting the company's identity from that of a supplier to an advocate for the healthier consumption of potatoes.

On a warm spring morning in Toronto, *ConsumerCurrents* met with 52-year-old Van de Put at the company's executive headquarters in a meeting room. The open floorplan means that no one, not even the CEO, has an office.

As CEO of McCain, what was the first thing you changed?

The first thing I changed – and what I am still changing – is how we look at ourselves. McCain started with a processing plant, selling mostly frozen french fries to restaurants. The company was a supplier but we want it to be a driver of potato consumption worldwide. As a consequence, we need to change how we relate to our clients, how we look at innovation, and evolve from a french fry company to a whole potato company.

McCain is already the world's top producer of french fries. What is the diversification strategy as it relates to potatoes?

There are six main ways people eat potatoes: french fried, mashed, baked, boiled, as an ingredient in soups and curries, or cut into cubes and pan fried. Our biggest opportunity is to take what people do at home with potatoes and give them the more convenient version. A baked potato takes about an hour and half in the oven. We just launched a year ago in the UK the microwavable version of a baked potato that is ready in five minutes and tastes like it came out of the oven. And while we're not quite there yet, we believe there is a way to make a french fry without frying it. We call that the Holy Grail of our business because then we would have a product with very little fat, rich in nutrients and an excellent source of calories.

Over the years, McCain expanded into products like frozen pizza and frozen fruit. Does that mean McCain is retreating from those categories?

We don't want to get rid of frozen, but we want to be bigger and wider than a frozen potato company. The two founders, Wallace and Harrison, saw McCain as a frozen food company and they went from potatoes to pizza to meals. Today, eighty percent of our ▶

McCain CEO Van de Put aims to change the way the world consumes potatoes business is potatoes, and 94% of potato consumption is done by people buying or growing their own potatoes, and peeling and slicing them themselves. There is so much potential that we should try to be the best and biggest in potatoes. We also think chilled and fresh products will become more important: we're seeing that consumer trend with the 'eat local' food movement.

McCain recently changed the ingredients of many of its products, making them more natural and recognizable to consumers. How big of an issue is the health movement for food companies?
A very big issue. We had to try and find replacements for ingredients that would still allow the product to behave and taste the same. The benefit is a commercial that says 'Made with ingredients found in your own kitchen', but the work behind the scenes has been enormous. One of our pizzas had to go through 56 different iterations until it was what we wanted. We haven't solved the puzzle in all of our products – and that's where it gets tricky. Do we get rid of those products or keep looking for alternatives to certain ingredients? As for our french fries, we've eliminated trans fat and have reduced saturated fat by 45% since 2007.

McCain is a supplier to McDonald's and other quick-service restaurants (QSRs). How have those relationships changed, as QSRs work to become more transparent about where they source food?
We have a role working hand-in-hand to help understand their consumers, the types of product we can offer them and if those products can be made healthier. It's difficult because there are moments when the discussion goes straight to cost. If for 66 years you're a supplier and you now say to them 'I want to be a partner', they say, 'Yeah right, everybody tells me that'. But it's really in the interest of both parties to get to a different kind of relationship. QSRs need to source from someone they trust, that treats employees right, and runs the right quality assurance in their plants.

You've announced plans to double the capacity of your potato processing plant in Harbin, China. How do you see McCain's presence in emerging markets?
Potato eating in China is under-developed. It exists through the KFCs and McDonald's, but through retail it's almost non-existent. The potential is there – the Chinese government has promoted the potato to the level of rice because it's a crop that is better for the environment and gives higher calories per hectare. But the potential goes hand-in-hand with the growth of Western cuisine, which is going to take a while. India is a region where people consume a lot of potatoes, mostly in curries. The potential right now in India is much bigger than in China because potato consumption is already innate. Russia has the highest potato consumption in the world: that is another exciting market for us.

"We're looking at acquisitions on two fronts: forms of potato products we don't have – and finding a shortcut into emerging markets"

THE WORLD OF McCAIN

1 in every **3** french fries around the world is McCain-made

160 countries sell McCain products

The company has **3** core customer outlets: grocery stores, foodservice operations and quick-service restaurant chains

3,200 growers partner with McCain

3 major acquisitions were announced in 2012, most recently Sara Lee in Australia

200 agriculturalists and agronomists are employed by the company

Why did you move McCain's executive headquarters to one of Toronto's most creative neighborhoods?
We were in Toronto's financial district – there were lawyers, consultants, bankers and then there was us, the french fry guys. That was not our place to be. I always found that food companies take themselves so seriously. In the end, we're making a fun product, and I saw what that office was costing us and said we can move to a much cheaper space, create an environment much more inviting to talent and in an area that has creative energy. Now the question is how do we do that in all our offices around the world?

You actually started out as a veterinarian. At what point did you realize your future lay in business?
While studying to be a veterinarian, I worked at a radio station in my hometown. We raised funds through advertising and concerts, and I realized that doing things with people was a lot of fun. After I graduated and started work in a veterinary office, Mars was looking for a veterinarian with public relations experience for their pet food business. It was brilliant for me because not a lot of veterinarians had that. I had no clue what P&L or brand positioning was, but I learned on the job. They made sure I understood the financial and marketing side of things.

How did you transition to Coca-Cola?
Mars sent me to Latin America, and that began to accelerate my career. In the beginning, there was not a lot of belief that pet food could be a big part of the Mars business in Latin America. I was there in the 1990s when the middle class was just starting to open up, and the business exploded. Mars noticed my success. Other companies did, too.

After working for Coca-Cola, you then launched the Latin America business for Danone. So how did you end up in Toronto at McCain?
Coca-Cola was very centralized, almost the opposite of Danone, which is a French company. Danone didn't have a prescribed system of doing things; it was much more dependent on the regional manager to make things happen. That was more my style, so I stayed 11 years and eventually ran the Americas from Miami. It was a nice ride, Miami was a great place to raise my kids, but eventually I started to ask, 'What's next?'

Van de Put puts India ahead of China as a country with huge growth potential

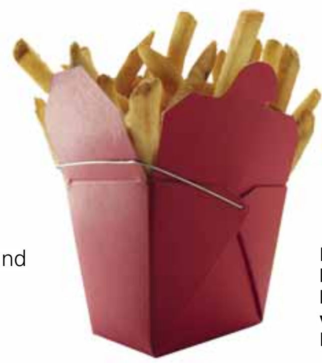
Novartis approached me about running their over-the-counter division worldwide, which was interesting and back to my roots in medicine. Before I joined Novartis, McCain had spoken to me about a succession plan for their CEO and doing a regional role first. I had already done a regional role for Danone and wasn't interested. So I go to Novartis and barely four months into the job who comes knocking on my door? McCain.

You have brought a transformational leadership style to McCain. When were you first influenced by this style?

Running the Americas for Danone, I had been involved in a lot of difficult business decisions. The dairy business in Brazil had been performing very poorly. The way retail customers were taking their margins on our yogurt business was never going to allow the category to develop. For years we had this list of things that needed to change, but for one reason or another never got to it. So we brought in these coaches from a group called Praemia which enabled us to find the courage and creativity to sell those changes. The group used this paradigm – called transformational leadership – and I've been working with them now for 10 years.

What role is acquisition playing in the company's growth?

We've made more acquisitions this year than in our history. We're looking at acquisitions on two fronts. Can we bring in-house different technologies and forms of potato making that we currently don't have? The other is, can we move faster in emerging markets by finding a short cut? We're also experimenting with new food categories. Over time we'll add another priority to complement potatoes, because it makes sense not to be focused on one type of product in terms of financial stability. You'll see us buy smaller businesses in certain regions of the world in order to understand a particular food category much better, experiment with it and see if it's a good idea to scale out.



Local flavor: all McCain fries for McDonald's France will be sourced in France by 2014

The power of China

The world's pivotal economy is still spending billions on luxury goods. The next challenge is to develop its own luxury brands that the world wants to buy. We debunk four myths to find out how

Charles de Gaulle famously described China as "a big country, inhabited by many Chinese". Sad to say, the West's understanding of this Asian superpower has not advanced as rapidly as the country's economy. The West's reaction has varied between demonization and goggle-eyed gee-whizzery. A similar confusion surrounds the state of the country's luxury goods market. One way to understand what is really happening in this sector is to explore four of the most common misconceptions.

MYTH 1

The anti-corruption drive has brought China's luxury goods market to a standstill

Not according to Burberry, which is opening three outlets in Shanghai after double-digit sales growth in its China stores. Not according to L'Oréal, which has doubled sales every four years in China. The group's bestselling line, Lancôme, is available in 170 Chinese cities and the group's Chairman and CEO Jean-Paul Agon says: "The slowdown in China is very limited – the penetration of luxury is just beginning."

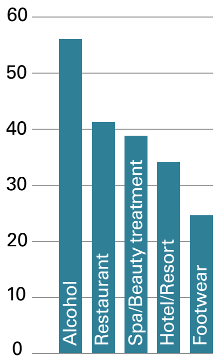
Chinese luxury brands

Passion for fashion: are China's designers about to make their mark?

The Chinese luxury goods market is said to be worth around US$12bn and **Nick Debnam**, Asia Pacific Chair, Consumer Markets KPMG China, says the Western media has exaggerated the impact of a government campaign on corruption. "Gift-giving is embedded in Chinese culture. In the public sector, behavior has changed but don't forget that 2012 was a record year for luxury goods sales in China and even though growth has slowed significantly, we still expect growth of 5-10% this year, so 2013 will also be a record year for most brands."

The Western media often overlooks the colossal spending by globetrotting Chinese consumers. They may not arrive in a tour bus and sweep en masse into Fifth Avenue stores in the way they once did, but they spend as much – or more – abroad than they do in China. That's one reason Hong Kong group Trinity paid up to US$147.3m for Gieves and Hawkes, the most famous tailor in London's Savile Row, and why Shang Xia, the Chinese luxury brand 75% owned by Hermès, is set to open a store in Paris.

HOME GROWN
Where the Chinese expect to develop domestic luxury brands (%) 2012



Source: KPMG's *Global Reach of China Luxury* report 2013

The forces driving the Chinese luxury boom haven't really changed. Luxury magazine *Hurun* estimates that in 2012, 7,500 Chinese individuals were worth RMB 1bn (US$150m) or more, compared to 3,500 in 2011. For the first time, the number of Chinese worth more than RMB 10m (US$1.6m) topped one million.

These individuals still want to clarify their status or pamper themselves by owning products with the requisite craftsmanship, heritage, prestige – and price tag. As the 2013 KPMG report *Global Reach of China Luxury* shows, the wealthy Chinese are becoming increasingly discerning. **Jessie Qian**, Partner in charge of Consumer Markets in KPMG China, says: "High net worth individuals in China have had a crash course in Western consumerism in the last decade. They increasingly look to stand out from the crowd with the brands they choose, and are interested in getting something extra for their money, acquiring a limited edition of a product or having their purchase customized in some way."

The passion for customization has been a boon for Rolls-Royce, whose CEO Torsten Müller-Ötvös said: "In China, people are investing substantial money in the interior of their cars – fridges, safes, humidors and partition walls are attractive." Does this sound like a luxury goods market in crisis?

MYTH 2
The Chinese like to flaunt their wealth

The cliché that Chinese millionaires always buy the most expensive example of whatever product they are interested in no longer applies. Qian says: "Ten years ago, people liked to show off how rich they are. That is not very trendy in China at the moment."

The public mood has changed – hence the government's advice to officials to cut down on banquets, travel and entertainment – so wealthy Chinese have found new ways to underline their status. The shift from flashy exteriors to plush interiors in Rolls Royce cars is a case in point. For many, status means moving away from the designer logos usually lusted after by the newly rich.

This change in taste has been accelerated by hours of online research. The average age of a Chinese luxury consumer is 39 – younger than in the West – and 40% of those surveyed by KPMG said they would consider purchasing online. Qian says: "In China, fashion bloggers have become celebrities who can make a product." Han Huo Huo is China's most famous fashion blogger, with a million followers on Weibo, the micro-blogging site that is a kind of hybrid of Facebook and Twitter.

Sun Yafei, CEO of Fifth Avenue Luxury Network (5Lux.com), says Beijing is leading this shift in taste: "The well known brands are popular with white collar workers from cities such as Chengdu and Chongqing. In Beijing, consumers are becoming more individualistic and looking for unique products."

The quest for something unique has, Qian says, led many wealthy Chinese to look for experiences other people's money cannot ▶

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Time to change? Be it watches or jewels, many Chinese prefer to buy Western luxury brands

buy – exclusive hotels or spas, once-in-a-lifetime events or lavish holidays. One US travel consultancy recently rented a mansion in the Hamptons, the exclusive enclave on Long Island, for 21 Chinese who wanted to experience the lifestyles of famous industrialists from the age of John D. Rockefeller.

China's rich may be consuming less conspicuously but they are still consuming. By 2015, some analysts predict, they will account for 25% of the world's luxury goods market.

MYTH 3

China can't make luxury goods

As Hung Huang, the actress, publisher and businesswoman whose Beijing boutique Brand New China (BNC) only stocks home-grown wares, has pointed out: "The Chinese do produce luxury goods like tea, baijiu [a Chinese spirit, like sake, which can sell for US$10,000 a bottle] and some health products." And if you have US$270,000 to spend on a bespoke watch, you can place an order with the Tianjin Sea-Gull Watch Group. These timepieces are so technically complex that the company only makes two a year.

China has never lacked craft. Ancient Chinese lacquer-ware and ceramics once inspired the West. In 1602, Ming dynasty blue and white porcelain was bought by the kings of England and France. Such traditions fell victim to China's turbulent history but have been revived in the past 20 years.

Investments by Hermès (which backs Shang Xia), LVMH (which owns 55% of Wenjun Distillery), Kering (majority owner of Qeelin) and Richemont (owner of Shanghai Tang since 2001) show that many luxury goods giants are spending millions in the belief that China can, if you will, deliver the luxury goods.

> **"We expect Chinese consumers to develop a growing awareness of their own roots and to seek brands that express their values"**

MYTH 4

China will never have a global luxury brand

Never is a long time, but Qian does not underestimate the challenge facing the country's luxury goods industry. "We do not have a luxury brand you can place alongside Hermès or Chanel. The key values of a luxury brand include tradition and prestige. We don't have a brand with a 200-year history that has achieved global recognition."

China has no shortage of emerging luxury brands but Qian says: "People are more familiar with 'made in China' than 'designed in China' so the transformation could take years to accomplish." Many wealthy Chinese equate luxury with European brands but Dennis Chan, Chairman of Qeelin, says: "We expect Chinese consumers to develop a growing awareness of their roots and, in time, to seek brands that express their own values."

Until that happens, many Chinese designers and companies will give their products a Western flavor as they strive to compete. Designer Mary Ching, known as the Louboutin of Shanghai, spent years in the UK and tries to marry Chinese decadence and British eccentricity in her clothes. Having a presence in London, New York and Paris (as Shang Xia plans to do) will help Chinese brands impress their own consumers.

The other way to compete with iconic global brands is to buy them, as Trinity has done with Gieves & Hawkes, Kent & Curwen and Cerrutti. This strategy has also been adopted by Shandong Heavy Industry (which owns Italian yacht maker Ferretti), YGM (owner of Acquascutum) and Heidan Holdings (owner of Swiss watchmaker Corum).

Debnam expects Chinese companies to make more acquisitions: "They have the financial resources and these deals are a good way of acquiring expertise and market presence." Yet, like Chan, he is confident China will develop global luxury brands too, possibly in hotels, spas and apparel: "The Chinese are fiercely patriotic and the right fashion designer, maybe one who's learned their trade in the West, could do fabulously. That could happen in the next three years."

If that did happen, a country once famed for its silk and Ming vases would once again be globally synonymous with luxury.

Chinese **luxury brands** poised to go global

As the country aspires to move up the value chain, these six companies want to become as famous and prestigious as Prada

Shanghai Tang

The company started in 1994 as a custom-tailoring business but soon moved into ready-made garments. In 2006, the brand was bought by Swiss firm Richemont, owners of Cartier, Chloé and Mont Blanc and one of the largest luxury goods companies in the world.

Of Shanghai Tang's 45 stores, 30 are in mainland China and the company's CEO, Raphael Le Masne de Chermont, says 80% of the company's future growth will be here. Its huge new flagship store – the Shanghai Tang mansion (pictured below) – opened last year in Hong Kong's Duddell Street.

The company has also branched out into homewares and accessories, with which it aims to embody "the modern Chinese aesthetic", bringing Chinese culture and experiences to the world and making the most of surging home-grown pride.

Sheme

Sheme makes high-end footwear, often embellished with hand-embroidery and Swarovski crystals. Founded in 1986 by Linda Liu, who began by selling shoes from her bicycle in Sichuan province, the company exports US$50m-worth of shoes a year. Liu is building a high-end brand, melding European know-how with Chinese culture. Sheme's chief designer is Italian Leopoldo Giordano (previously at Chloé, Marc Jacobs and Kenzo). Much emphasis is placed on quality raw materials – Italian leather and Chinese silk – and most shoes involve handcrafting. Sheme now has four stores in China – and aims to open outlets in Hong Kong, London, Paris and Milan.

Peninsula Hotels

The first Peninsula hotel opened in 1928 in Hong Kong and the name represents grandeur and cutting-edge design. Its flagship Hong Kong Peninsula pays homage to the ambience of 1930s Shanghai but with state-of-the art technology in each room – including an iPad to control the room settings – and an upscale shopping arcade. The family-owned Hongkong and Shanghai Hotels group focuses on super-luxury for discerning high-level travelers – it owns eight other hotels in Asia and the US – and has an annual turnover of US$3bn. Peninsula wants to open hotels in London, Paris and India.

Qeelin

Formed by Chinese designer Dennis Chan and French entrepreneur Guillaume Brochard – Qeelin gives traditional Chinese symbols a contemporary twist and, with the aid of a little French craftsmanship, turns them into luxury jewelry. The brand launched in 2004 with a boutique in Paris, a locale designed to impress the elite Chinese shopper. Qeelin now has 18 boutique outlets, with seven in China which accounts for half of its sales revenue (around US$38.5m). A majority stake in the company was recently acquired by Kering, whose CEO, Francois-Henri Pinault, believes the Qeelin brand has great potential and will develop rapidly.

Chow Tai Fook

The Hong Kong company didn't open a store in mainland China until 1998, but by 2010 it had 1,000 in Beijing alone. Most of its products are traditional mid-range jewelry, but it has a VIP program that creates unique pieces for high-end customers, who it flies to special events such as Paris Fashion Week. These VIPs spend an average of US$128,000 a year and sales to them account for 30% of revenue. The company is valued at US$14bn on the Hong Kong stock exchange and the founder's Harvard-educated grandson, Adrian Cheng, recently joined to modernize the company. Last year Chow Tai Fook opened 269 stores, reaching out to new cities across the country.

Shang Xia

Shang Xia (Mandarin for 'up down') sells exquisitely made furniture, decorative objects and garments. Distanced from fashion and inspired by Chinese tradition and craftsmanship, these items range from yak-hair felt coats at US$1,900 to gold-woven porcelain teapots that cost US$45,000. The company was founded by Chinese designer Jiang Qiong Er in 2008 but is owned and supported by Hermès International. It has stores in Shanghai and Beijing, and will be opening a Paris branch later this year. Hermès Chief Executive Patrick Thomas has said he plans to invest tens of millions of dollars in the brand, and expects to see a profit in three to five years.

The older, the better

The mature consumer is emerging as a powerful economic force. How can retailers and manufacturers make the most of this?

The number of older people in the world is about to grow very quickly indeed. According to United Nations estimates, around 800 million over-60s were either contemplating or beginning their retirement in 2012. By 2050, that number will have soared to 2.03 billion. While the impact of such figures on government budgets is being fiercely debated, too few retailers and manufacturers have focused on the revenue that could be derived from this demographic shift.

This generation of seniors is more active, health-conscious and affluent than ever. In the UK, for example, over-50s buy 80% of all high-end cars, while over-70s generated nearly a fifth of injury claims from extreme sports. Their spending power represents a huge opportunity. US census estimates for 2012 show households headed by 55- to 64-year-olds have a median income of US$55,748, compared to US$49,659 for those headed by 25- to 34-year-olds.

The gap keeps widening. Americans aged 65 and above have seen their net worth increase by 42% from 1987 to 2012, while younger Americans (35 and below) are 68% worse off than 25 years ago. In the UK, 75% of the nation's entire wealth, 60% of the savings and 40% of consumer demand belongs to the over-60s.

Seniors will always spend their money on food and drink. Mintel estimates that 50- to 64-year-olds in the UK spend 50%

Top five countries with aging populations

Percentage projections for countries with the highest ratios of citizens aged 60+ (among those with a population of 1 million or more in 2011)

2011	%	2050	%
Japan	31	Japan	42
Italy	27	Portugal	40
Germany	26	Bosnia and Herzegovina	40
Finland	25	Cuba	39
Sweden	25	Republic of Korea	39

Source: UN, *World Population Prospects*, the 2010 revision

The age-old story: a brief history of aging

How older people have survived and thrived in society since ancient times

3400BC
First recorded use of henna dye to disguise graying hair in ancient Egypt.

335 – 323 BC
In *On Youth and Old Age, On Life and Death, and Respiration*, the Greek philosopher Aristotle defines aging as the loss of the body's innate heat. In 1882 this theory is adapted by German biologist Dr August Weismann to suggest that the aging process is a matter of wear and tear.

1AD
8% of people in the Roman Empire are over 60

1350
As the Black Death rages in Europe, 15% of the world's population is estimated to be 60 or over, as older people are less susceptible to the bubonic plague.

1840
Swedish women have the greatest life expectancy in the world, living on average 45 years. Today, Japanese women have the longest lifespans, typically exceeding 85 years.

Japan's Aeon supermarket group caters specifically for a growing base of aging consumers

"Given how affluent senior consumers are, it is astonishing that only 0.1% of food and drink launches are aimed at them"

more on food and drink than the under-30s, so manufacturers and retailers would be foolish to disregard this segment of the market. "Older shoppers' share of grocery spend will increase as the population ages," says Michael Freedman, a shopper insight manager at global food-industry analysts IGD. "Food retailers and manufacturers who can tap into the needs of older shoppers stand to benefit in the long term."

Seniors are significantly more likely to scrutinize the products they buy in detail. A 2011 survey of more than 2,000 Americans by Harris Interactive found they were the most likely to focus on nutrition. Their awareness of health is much more likely to sway their purchases. Many chronic illnesses are largely preventable if people change their diets and more than 75% of the seniors in the study had some form of restricted diet, compared to 58% of those aged 47 to 65.

"As shoppers get older, they change their approach to what they eat," says Freedman. "They look for products to help them prolong an active lifestyle. Our research shows that over-65s are far more focused on buying healthier products than other age groups."

For example, in a three-month survey in early 2013, 67% of over-65s said they were likely to have bought a 'five-a-day' item of fruit or vegetables (compared to 56% for under-65s). This trend was repeated over a range of healthier foods: 41% of over-65s had bought a low-salt product, compared to 31% for the under-65s.

Given how affluent many consumers in what one study calls "the silver segment" are, it is astonishing that, in 2012, only 0.1% of new product launches in the food and ▶

1889
German chancellor Otto von Bismarck (right) introduces a contributory pension for workers aged 70 and over.

1934
In the USA, President Franklin D Roosevelt appoints a Committee of Economic Security, which recommends that the retirement age be set at 65.

1947
The small Japanese town of Taka declares 15 September as Old Folks' Day. Forty-three years later, the UN votes to establish 1 October as an international day for the elderly.

1971
In Phoenix, Arizona, radio station Kool-FM begins broadcasting a golden oldies show. Because it has no archive of records, DJ Jerry Osborne plays music from his own collection.

1977
Moraji Desai (right) becomes prime minister of India at the age of 81, making him the oldest head of state to take office since records began.

Shopping trends

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drinks industry worldwide were targeted at them. Even when they were, Mintel research suggests most launches were in Asia, where ready meals in small portions with smooth textures are very popular with older people.

Some companies have recognized this sector's health concerns by modifying certain products. As of 2012, General Mills' Fiber One range of yogurts, toasts, and pancake and muffin mixes had generated more than US$300 million in annual sales; more than a third of which was attributed to seniors.

Other products have focused on health concerns prominent among older people. In May 2011, Genesis Today (a US health foods manufacturer) launched its Pomegranate and Berries juice aimed at supporting heart health and "anti-aging." In November 2011, Unilever relaunched Promise Activ, a spread with plant sterols (proven to lower cholesterol levels) and potassium to control blood pressure.

In November 2012, Yoplait launched Cal-in+, a yogurt the company claims can improve the bone health of seniors, after an extensive study among older women living in care homes to investigate its potential.

In China, chia seed products – extracted from a flowering herb and said to help joint mobility – are being marketed to seniors.

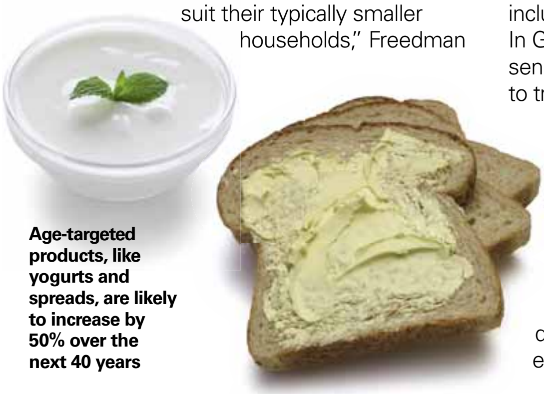
Dutch global market researchers Innova Market Insights have identified 'Gray But Healthy' as a key trend for 2013. As more consumers recognize the importance of a healthy diet, there will, the company says, be "greater interest in cleverly marketed anti-aging products, including the move of well-established medical brands into mainstream aisles and the promotion of inherent nutrients on an aging-well platform."

Creating a targeted product is only half the battle. In 2012, seniors purchased over 40% of consumer packaged goods in the UK, yet food and drink companies spent less than 10% of their advertising budget on them. In the US, research by Nielsen suggests that while those over 65 watch the most television, they are targeted by only 5% of advertisers. Worse, research by Involve Millennium in March 2012 showed 68% of senior consumers in the UK could not relate to advertising campaigns on television.

Manufacturers need to recognize that this group behaves differently than younger shoppers. "It's not just that they spend less on clothing and accessories and more on food and health-related products," says **Alton Adams**, US Lead, Customer Strategy and Growth, at KPMG in the US. "Their use of media is not uniform but they have the time and the will to research particular products. They are less swayed by advertising, they seek out quality, and are loyal to brands that represent value. For seniors, shopping is a more leisurely activity, a social experience, so the proximity of stores is crucial."

Marketing to older people presents some specific problems. In the US, the National Council on Aging found that less than half those aged 65 and over consider themselves old, so companies need to think hard about how they position products.

Packaging, and the way information is presented, can make a difference. "Older shoppers appreciate smaller pack sizes that suit their typically smaller households," Freedman says, "and older women, who are most likely to suffer from arthritis, seek cans, jars and packets that are easy to open."



Age-targeted products, like yogurts and spreads, are likely to increase by 50% over the next 40 years

At last year's Anuga FoodTec trade fair, global packaging company Tetra Pak launched six easy-to-open designs.

This is important because older consumers are changing the way they shop. "Much of the growth in internet access is being driven by older age groups," says Freedman. "In the UK, for example, 12% of over-65s shop for groceries online, so it's important for food retailers to focus on developing easy navigation on their websites and promoting convenient delivery services."

Social media is influencing their purchasing behavior too. As Adams says: "In the UK market, over-60s have been the fastest growing demographic on Facebook in the last year."

There is evidence that manufacturers and retailers are adjusting to the buying power of senior citizens. It may be a sign of the times that the most popular commercial at the 2013 Superbowl was Taco Bell's Viva Young ad, in which senior citizens sung the Fun hit 'We Are Young'.

Innova expects the number of products aimed at the over-65s to rocket globally by 50% in the next 40 years. Likely launches include food products with reduced-acid, age-related nutrition formulas, easy-to-eat textures and lightweight packaging.

In April, Aeon, Japan's largest supermarket group, opened its Chiba mall, which has features to appeal to older consumers, including slower escalators for less stable legs. In Germany, Kaiser supermarkets cater for senior citizens by attaching magnifying glasses to trolleys and shelves.

The rise of the senior consumer is not a fad, it is a fact of life. Sarah Harper, professor of gerontology at Oxford University, has pointed out: "It is unlikely that we will see a return to population structures dominated by young people. This will be the last century to see the youthful demographies which the human race has experienced to date."

A brief history of aging continued

2000

Space Cowboys, starring septuagenarians Clint Eastwood and James Garner, makes US$129m at the box office, more than double its budget.

2008

At the age of 76, Nepalese climber Min Bahadur Sherchan becomes the oldest person to reach the summit of Mount Everest. Five years later, his record is broken by 80-year-old Japanese climber Yuichiro Miura.

2010

The average age of a US motorcycle rider is 49, up from 41 in 2001.

2011

L'Oréal launches what it claims is the first anti-aging cream that is scientifically proven to be effective.

2012

Aeon, Japan's largest supermarket group builds its first shopping mall targeting senior consumers. About 5,000 people queue up for its 9am opening on 24 April 2012.

Is Russia's future in food?

With improved infrastructure, a favorable climate and land to spare, the world's largest country is ready to become a food giant

Russia is famous for oil and mineral exports – and the billionaires that go with them – but could its future be in food? Not borscht and blini, but meat and grain.

Russia has almost twice as much land as the United States, but half the population – giving it huge agricultural potential. The US Department of Agriculture believes Russia could raise its wheat exports to 55-66m tons to become the world's second-largest exporter after the US.

The wheat market could avoid destabilization from this major change, says recent KPMG report *The agricultural and food value chain*, if the extra Russian wheat replaced the drop in production in the US and also helped meet rising demand in Africa, the Middle East and Asia.

However, taking a dominant role in global wheat markets is unlikely to be Russia's goal. It may turn out to be a side effect of becoming self-sufficient in food production.

"Food security has become one of the biggest government concerns across the globe," says **Ian Proudfoot** of KPMG in New Zealand and the Global Lead for Agribusiness. "It's driven by growing populations, an increased middle class and more urbanization. Add to the mix changing technology, more demand for traceability and the effects of climate change and it's easy to understand the focus."

This agricultural growth is being underwritten by massive state funding. The second phase of Russia's state agriculture program, passed last June, is committing to spend US$50bn in federal funds from 2013 to 2020, with half as much again to come from provincial budgets.

This US$76bn is split almost equally three ways to support the crop, livestock and poultry industries, and all the support structures needed to produce, collect and deliver the yields, including modernization, land reclamation, irrigation and rural development.

Livestock is the top priority for the program, but funding on this scale will have much wider consequences. Foreign direct investment in seeds, machinery and food processing has been stimulated, and the huge Russian agribusiness, Rusagro, is now publicly listed in the UK.

Since 2011, Russia has been building ports on every seaboard, with the aim of increasing port cargo traffic by 25% by 2015 and 66% by 2020. This too will increase Russia's presence in the global trade for meat and grain.

The Russian government's responses to events reveal its internal focus. In 2010, after drought ruined the harvest and global grain prices soared, Russia banned grain exports to restrain domestic prices – which unnerved foreign markets and investors.

When harvests fell in 2012, there was no ban – but the policy change was an attempt to boost production. "Exports and free prices are good economic incentives for producers," explained Arkady Dvorkovich, the deputy prime minister.

Soviet history gives one clue to Russia's inward focus: bread prices are an emotional issue for people who remember the communist system. Another Soviet hangover is the huge farms – some up to 400 square miles. Russia doesn't have enough state-of-the-art machinery to deliver economies of scale over such vast areas when conditions vary from field to field.

Yields from these fields are low, too: just one ton per acre for wheat. But global warming is on Russia's side: with crop production being pushed towards the poles, Canada and Russia are likely to be the biggest beneficiaries. If yields are improved by federal investment and climate change, and if Russia reclaims for crops its large tracts of fallow land, surpluses could be huge.

Add in the massive federal focus on livestock, a part of agribusiness far less weather dependent, and improved supply chain and infrastructure, and the country's meat and grain exports could be set for massive growth.

Russia's determination to increase its food security could redefine global patterns of trade and help fulfil the government's strategic goal of reducing its economic reliance on energy.

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Wheat production: leading producers* (million tons)

	Average 2010-12	2011	2012 estimate	2013 forecast	% Change: 2013 over 2012
European Union	149.0	151.4	145.5	152.1	4.5
China (Mainland)	129.7	129.4	132.9	133.8	0.7
India	96.4	95.7	104.6	101.7	-2.7
US	64.8	60.0	68.1	63.9	-6.1
Russian Federation	49.8	61.9	41.8	58.4	39.7
Australia	29.5	33.0	24.3	25.3	4.1

*Markets ranked according to average production 2010-12. Source: Food and Agriculture Organization of the United Nations

Power player: under Ofra, Strauss has been buoyed by strong sales in emerging markets

FACT FILE
Name Strauss Group
Founded 1936
Headquarters Petah Tikva, Israel
Chairperson Ofra Strauss
Website www.strauss-group.com

A taste for the future

Food and beverage firm Strauss Group is defying a flat global economy and using strategic joint ventures to become a global player. Its Chairperson reveals the art to a successful alliance

The food industry is, as the old Chinese curse has it, living through interesting times. The macroeconomic outlook is mixed. Consumers' tastes are becoming almost as hard to predict as raw material prices. Energy costs are easier to read: they're going the wrong way – up. State intervention is increasing, as governments try to avert an incipient epidemic of obesity. And, as the major players try to position themselves for growth, there is a fair degree of corporate turmoil in the industry.

Against that backdrop, the performance of the Strauss Group has been quietly impressive. In 2012, it set new records for sales (up to US$2.2bn) and profits.

The figures only tell part of the story. In the last 12 years, the company has been transformed from one that relied heavily on its home market in Israel to a global giant that generates around 51% of sales from overseas (and 43% from emerging markets). That alone explains why group Chairperson Ofra Strauss routinely features in *Fortune* magazine's list of the 50 most powerful women in business. Yet the intriguing aspect of Strauss's success is that it has competed with brands and companies such as Nestlé and Kraft by launching joint ventures with corporate heavyweights Danone, Chinese white-goods giant Haier, PepsiCo and Richard Branson's Virgin, among others.

For many companies, such alliances have been short-lived marriages of convenience, but Strauss's have had more longevity: it has been working with Danone since 1986 and PepsiCo since the 1990s.

Partnering with such famous names is challenging but the relationships are flourishing. PepsiCo CEO Indra Nooyi said, after the companies had negotiated one joint venture, "As far as I'm concerned, PepsiCo and Strauss are partners forever." Fine words, and PepsiCo have acted on them. Last year, the groups put their joint venture in dips and spreads on a global footing.

So what is Strauss's secret? In an interview, Ofra Strauss suggested the company's success partly reflects one simple rule: "We never vote on anything. We never have. When you work closely with companies, you know from discussions whether everyone agrees on a proposal. If it's clear that no such agreement exists, you're better off not having a vote, reconsidering the proposal or working out what you need to do to get that agreement. I honestly can't remember not getting an agreement in any of our joint ventures."

You need, she says, the right chemistry to make alliances work: "Joint ventures don't work in certain company cultures but they work well in others. We have a lot of experience and processes that help them succeed. Respect is key. We are particularly interested in ventures that help us access markets and strengthen our connection with consumers, where we and our partner share knowhow and risk."

One aspect of sharing know-how is encouraging genuine debate. "If opinions don't differ," the Strauss Chairperson has said, "something is wrong. Some might voice concerns about risk, while others focus on the opportunity. It's about learning to listen." That openness – and a desire to remain innovative and entrepreneurial – inspired the company to launch Food Tech Alpha Strauss to reach out to researchers, inventors, academic institutes, capital risk funds and governmental organizations who might have good ideas it could develop into products.

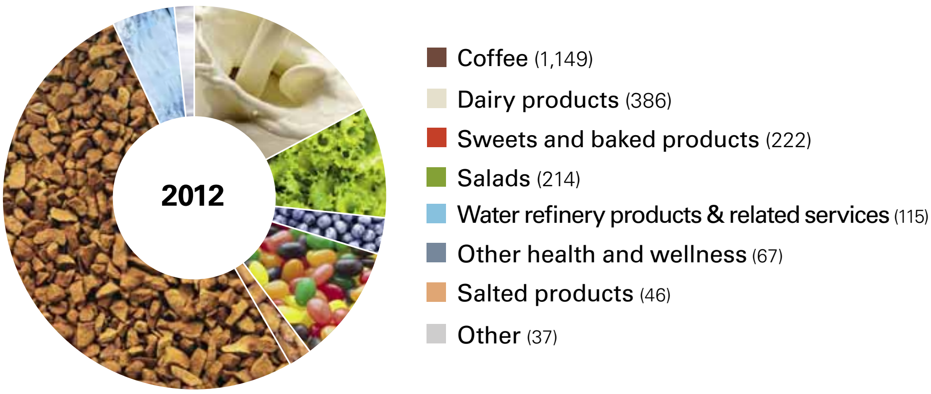
Historically, Strauss has focused on a few key alliances that deliver strategic value for both parties. The first partnership – with Danone – originally started in the 1960s and has been, Ofra has said, "a particularly useful alliance – we have learned a lot from them." The partnership was strengthened in 2012 when the companies agreed to extend the variety of services and knowledge Danone provides for Strauss. In exchange, the sum of royalties will be updated accordingly.

It is easy to see why working with Danone and PepsiCo would benefit a group keen to accelerate its global growth, but what do these giants see in Strauss?

The group's Chairperson sums up what makes her company so sought after in two words: "Entrepreneurial spirit." That has been part of the company's DNA since her grandparents, Richard and Hilda Strauss, launched a dairy farm in Nahariya, a small town on the Israeli coast. They started in 1936 with two cows. Their son, Michael, became CEO in 1975 and turned Strauss into a national brand famed for cheese, ice cream and yogurt. In 2001, he handed over to Ofra (they are joint controlling shareholders).

Three years later, Strauss consolidated its position in its home market with an audacious merger with rival Elite, a group with sales twice as large as Strauss's. The deal created Israel's second largest food and beverage business and provided the springboard for Strauss to grow organically, by acquisition and through strategic partnerships, to become a global enterprise with 29 plants in 19 countries. The business now rests on six pillars:

Group revenues from sales (US$ millions)



- Health and wellness. Foods and drinks that are marketed to health-conscious consumers, such as hummus, cereal bars and olive oil, in Israel, where the company's brands are market leaders.
- Fun and indulgence. A range of treats for the Israeli consumer, such as bakery products, chocolate and salty snacks, usually marketed under the Elite brand.
- Coffee. With 83% of this division's revenues coming from outside Israel, Strauss is the world's fifth largest coffee company. It has a joint venture with Santa Clara in Brazil and recently completed the acquisition of the Le Café instant coffee brand in Russia.
- Water. Management identified the need for bottled water as a global strategic opportunity in 2007 and the business, being developed with Virgin and Haier, experienced sales growth of 3.2% in 2012. The potential is huge, especially in China where, as Strauss says: "The middle class is growing and so is their demand for clean available water where they live, but we are just a small start-up."
- Max Brenner chocolate. An Israeli brand acquired in 2001, run by franchises and Strauss – with 82 shops in total.
- International dips and spreads. The US$275m-revenue joint venture between the company's Sabra business and PepsiCo has the bestselling brand of hummus in the US. Top-line growth in Sabra dips and spreads rose to 30% in 2012. Strauss and PepsiCo are developing these products for other markets, investing US$10m in the launch of the Obela brand in Mexico and making acquisitions in Australia.

Strauss says: "We don't vote on anything but I honestly can't remember us not getting an agreement"

Looking ahead, the Strauss Chairperson says, the company expects to make more of what it has: "We have a nice rounded portfolio of products, with sales that have kept growing even in the last two to three years. We will invest to make our portfolio more profitable and help it grow, especially in Brazil, North America and Russia."

In Israel, Strauss's goal is to become more competitive and, in 2012, it launched 200 products in its home market. In the rest of the world, Strauss sees scope for dynamic growth: sales grew by 27.1% in North America in 2012. Acquisitions are possible but managers are open to other partnerships that strengthen its market presence or give it a foothold in new countries.

Despite the pressures on the food sector, it is easy to see why Strauss's Chairperson is so optimistic. Consumers are unlikely to stop buying its core products – healthier dips, coffee, chocolate, water – anytime soon. The company has plenty of market share to attack: in roast and ground coffee, for example, Strauss has a global share of just 4.1%. And as it seeks to accelerate growth, it can call on some very powerful allies.

Shopping trends

Can **malls** be reinvented?

Retailers and owners across the world agree that the mall has a future. What they can't agree on is what that future will look like

Anyone who believes the shopping mall is destined for imminent extinction should fly to Chengdu. In this city of around 14 million people, near the Tibetan plateau, 31 million square feet of mall space is due to open in June 2013. The New Century Global Centre (see panel, right) will fill a space almost three times the size of the Pentagon.

Yet in the US, where only one new enclosed mall has opened since 2006 – in Salt Lake City – many analysts believe these temples to consumerism will soon be rendered obsolete by e-commerce, with one report predicting that a tenth of the country's 1,000 large malls will fail in the next decade.

So what is to be done? The consensus is that malls need to do more than house a collection of shops, however desirable the brand or the stock. **David McCorquodale**, Head of Retail for KPMG in the UK, says: "There is no one-size-fits-all solution for mall owners and developers. Different markets and countries will have different needs. The key to success will be how closely they analyze – and how deeply they understand – consumer behavior."

"Retail is not just about shopping", says Paul Smith, marketing manager for Trinity Leeds, a new retail development in the English city. "It's about taking the best from online, the high street and events venues and bringing it all into one place."

That not only includes food, entertainment and childcare but so much more. David Roberts, chief executive of global architect Aedas said recently: "In 20 years you will find stores that sell books and DVDs replaced by sites that give people a reason to go to the mall... galleries, education centers, and health and spa treatments."

Roberts' analysis is reflected in many of the malls which will supply an unprecedented 344 million square feet of new retail space across the world in 2013. Seven of the ten largest developments are in China. In Europe, Turkey is building the most new malls this year.

Many malls are increasingly likely to be reconfigured to suit particular needs. Landmark in Hong Kong has dedicated an entire floor to men's retail. Metrostav has spent US$3.6m on a new mall in Prague that caters exclusively to men. In Buenos Aires there's a Museum for Children in the Abasto shopping center, while the water park at West Edmonton Mall in Canada boasts the world's biggest wave pool.

Digital marketing specialist Mitch Joel feels that only those retailers who offer the full range of experiences and who "evolve to meet the changing urban environment" will be successful. In his *Six Pixels of Separation* blog he explains how he sees a viable future for shopping malls, provided they ensure e-commerce becomes a "horizontal activity" that is integral to the business.

In the US, where the first mall opened in 1956 in Edina, Minnesota, some mall owners believe more is less. The owners of the US$100m, 28,000 square-foot, Eagan Mall, due to open near Baltimore in 2014, are aiming for a simpler, faster service. They are so convinced consumers want to shop quickly and leave, they won't have a restaurant and they refer to their walkway as a racetrack.

What does this mean for brands and retailers? In emerging economies, the chance for them to reach out through new malls will be limited only by their ambition and budget. In North America and Western Europe, where overcapacity is already an issue, they may have to make tough calls about whether certain malls remain viable.

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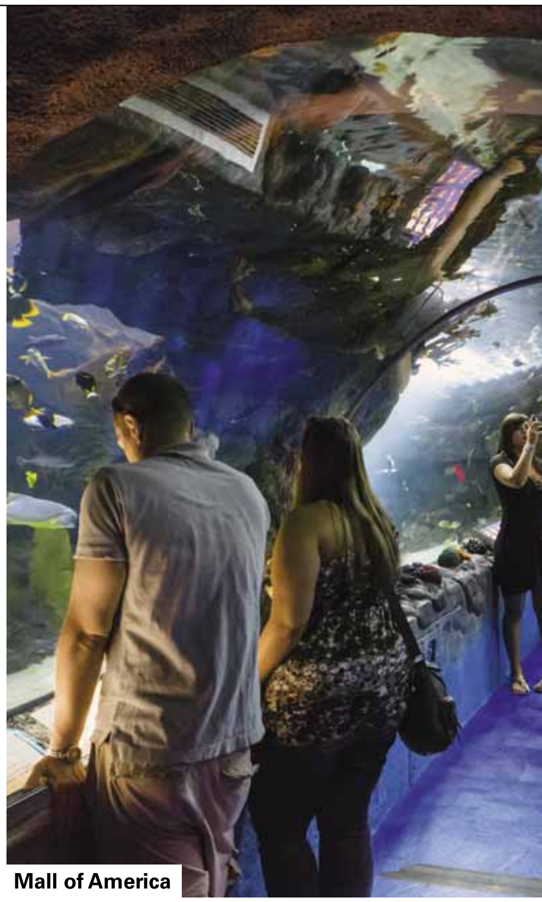


Mall of America

West Edmonton

Box Park

Morocco Mall

The changing face of shopping

Mall of America, Bloomington, Minnesota, USA
Often said to be America's largest tourist attraction, the Mall of America boasts 4.3 miles of store front for its 520-plus stores and an indoor theme park, aquarium, adventure golf and a wedding chapel.

Box Park, Shoreditch, London, UK
The world's first pop-up mall houses 35 shops and restaurants in refitted shipping containers. It will be there for the next four years championing creativity and fashion on a local and global scale.

Morocco Mall, Casablanca, Morocco
Designed to resemble a seashell, this mall is the largest retail centre in Africa and stretches for nearly 2,000 feet along the seafront. It has a VIP shopping area, an aquarium (with sharks), landscaped outdoor space and meditation pads.

West Edmonton Mall, Alberta, Canada
This entertainment center has indoor golf, a dolphin lagoon, a water park with waves you can surf and a full-sized replica of Christopher Columbus' ship Santa Maria.

Mall of the Emirates, Dubai, UAE
A ski slope in a desert? You'll find one at the Mall of the Emirates, along with two five-star hotels, 400 stores, a 14-screen cinema and a theme park.

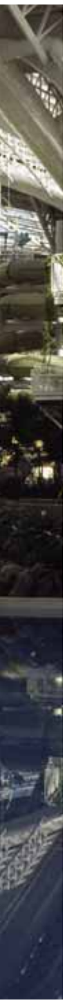
City Square Mall, Singapore
An eco-friendly five-floor retail mall combined with a 49,000 square foot urban park that tells visitors about its environmental performance in real time.

New Century Global Centre, Chengdu, China
This new mega-centre – due to open in June 2013, in time for the Fortune Global Forum – will reportedly be the largest free-standing building in the world, the size of 20 Sydney Opera Houses. It will be home to university complexes as well as shops and office space.

JK Iguatemi, São Paulo, Brazil
Opened in 2012, Iguatemi's São Paulo center houses South America's first 4D movie theatre and one of only six Gucci men-only stores in the world. It has hosted fashion shows, book launches and art exhibitions.

Meydan Merter, Istanbul, Turkey
Turkey's first environmental shopping mall has many green features such as solar-chilling panels that feed into the cooling systems and a roof that automatically opens and closes itself depending on the weather.

Mall



Mall of the Emirates

City Square Mall

> "Different markets and countries will have different needs. The key to success will be understanding consumer behavior"

Hanging on his every word

The whole world is listening to the Zen Buddhist priest who turned around JAL – but what can the consumer industry learn from Kazuo Inamori?

Corporate gurus often reflect the country that made them great. In the US, Steve Jobs brought rock-star charisma to Apple's boardroom. Australia's tech entrepreneur Matt Barrie brashly tells his staff at Freelancer.com: "You either perform at A+ grade, or you don't cut it." And one of the stars of Japanese business is an 81-year-old ordained Zen Buddhist priest whose managerial philosophy is based on the amoeba, the microscopic single-cell organism that can move around and take on any shape.

In 2010, Kazuo Inamori was given a task most thought impossible – fixing Japan Airlines. He had twice turned the job down on the grounds that he had "no clue about airlines". When he took over, JAL had posted a net loss of US$2bn in the past three quarters.

Despite the strong local flavor of his management style, Inamori has rebuked his Japanese peers for lacking "assertiveness, vigor, energy and resolve". Japan has a consensus-based corporate culture, where maintaining the status quo is the norm.

Inamori is not like that at all – partly because he is at heart an entrepreneur. In 1959 he founded Kyocera, a highly successful ceramics conglomerate that makes non-metal kitchen knives. Then in 1984 he founded DDI, which merged with two other companies to become KDDI – Japan's second-biggest telecoms carrier.

Inamori's business philosophy is based on doing the right thing as a human being and developing the leadership potential of every employee. With a simple yet precise system of micro-divisional management and accounting, he distributes leadership and management responsibility all the way down to small self-supporting units. He calls it the amoeba management system.

Every amoeba group gets targets and real-time numbers that reveal how their part of the business is performing. They are encouraged to work as if they are independent within the company. "All employees have the same mindset as executives, and we run the company together," says Inamori.

One of his first moves at JAL was to issue a small book of his philosophy, featuring such soundbites as: *The ability to see your way into the future is a result of applying effort and living today and every day to the fullest.* This may sound like a fluffy cliché, but don't be taken in. Inamori once said that to run a business you need to be mentally as tough as a karate champion – but he's more of a master of t'ai-chi, the fighting form developed by Daoist monks. In karate, force meets force. T'ai-chi succeeds by knowing when to yield and when to strike.

At JAL Inamori fired a third of the workforce, retirees took a 30 per cent cut in their pensions payouts, and the remaining employers had their benefits halved. But this hard man was famed for buying a six-pack and drinking with people working late. "After a beer or two, people opened up and told me their honest opinions," he says.

His handbook on business contains the line: "Be frugal." The JAL amoebas have certainly been saving every possible yen. Crew members iron their own white shirts, and at one airport, mechanics reuse their lunch bags to carry small aircraft parts, saving a dime a time. Such frugality starts at the top, where the amoeba management system is run by Inamori and 80 executives out of a large hall with a wooden floor and spartan desks and chairs.

JAL's operating profit margin has surged to 17% – better than some low-cost carriers – and the airline is, once again, one of the most profitable carriers in the industry.

Since the global economic crisis, business leaders have faced relentless public scrutiny over their ethics, remuneration and lifestyle. Reputational issues are proving especially critical in the consumer sector where many organizations are discovering, the hard way, that, as Inamori famously observed: "No company can generate long-term profit unless it makes every stakeholder happy".

LESSONS FROM KAZUO INAMORI

1 Do the right thing as a human being
In a tough spot, going back to basics and doing what you know is right is the way to succeed.

2 Break it down to a single-cell culture
Amoeba management creates the smallest units possible, feeds them real-time data, sets targets, fosters their leadership potential, and gives them responsibility.

3 Always look on the bright side of life
Remaining cheerful, thankful and humble – and working hard at all times – will ensure success.

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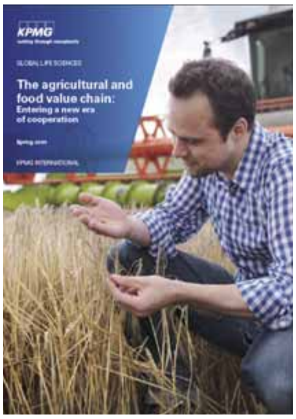

The agricultural and food value chain: Entering a new era of cooperation
This report looks at the challenges, risks and opportunities facing the promising agriculture and food sector, including climate change, rapid technological innovation and new demands for biofuels and access to information.

Consumer Executive Top of Mind Survey 2013
In March and April of 2013, KPMG and The Consumer Goods Forum asked the leaders from 442 of the world's largest consumer companies what issues are Top of Mind for them this year.

The Application of IFRS: Retail companies
What are the key accounting issues facing retail companies, and how are these issues being addressed under IFRS? This publication uses real examples to illustrate current reporting practices in the retail sector.

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