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Tricky customers

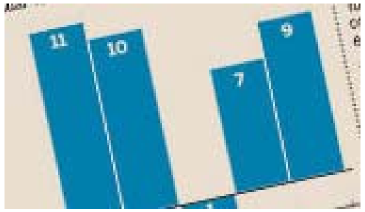
By Louise Lucas

FT series: Consumer goods groups are being forced to consider afresh the way they make, package and distribute their goods

Pinched purchasers: retailers are increasingly focusing on shoppers on tight budgets rather than those w ho can afford to buy in bulk

Heather Nitzani is not too familiar with the eurozone crisis and is utterly in the dark about quantitative easing. But she knows the pain: in her shopping basket is an anaemic medley of white bread, milk and bulk packs of chicken drumsticks that will enable her to double up and cook meals for her similarly stretched adult son.

"As pensioners, we buy food, pay our bills and that's it," she says, pausing in the rather down-at-heel aisles of discount supermarket Lidl in London's Camden Town. "I'm lucky I've got a free bus pass, otherwise I wouldn't be able to come here."



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For it is at checkouts across the globe – from UK discount stores and US big box outlets to South African and Turkish supermarkets – that consumers feel most keenly the effects of the world's financial, economic and environmental crises.

Job cuts, food inflation, reduced welfare payments and slashed subsidies are driving shoppers to rethink what they buy and how. Growing numbers are opting for smaller packs and bottles, strict budgets and discount stores.

This in turn is forcing manufacturers to consider afresh the way they make, package and distribute their fast-moving consumer goods – from biscuits, noodles and fizzy drinks to face creams – a sector reckoned to swallow one-fifth of global consumer spending. With business models based on selling to a solid middle class, many are straying into new territory, introducing low-cost products – small pack sizes commonly associated with poorer countries, for example – alongside higher-end, high-margin goods that were once the preserve of their specialist peers.

Generations: A contrast between consumers

Across the globe, more children are growing up with a very different conception of spending from their parents' generation.

In China, the generation born after 1980 is known as the *ba ling hou*. This pampered group is growing up with new values.

Thanks to the one-child policy,

Take Unilever. The Anglo-Dutch conglomerate, whose Dove shower gels and Flora margarine are staples of middle-income western households, has recently branched out on either side: selling 40 tea bags for £1 in the UK and five-wash laundry detergent packs in discount stores while simultaneously launching a customised face cream that retails for about £120 in Harrods, the upmarket London department store.

"There is a dichotomy today," says Pier Luigi Sigismondi, Unilever's chief supply chain officer. "While middle cases in the emerging world are aspiring to so-called western standards of living ... western Europe is starting to see an economy that's taking us to the developing market dynamics, which is quite concerning."

Behavioural patterns bear this out. In the UK and US, consumers seeking to curb spending on fuel and impulse purchases are spurning big weekly trips to out-of-town stores. Instead, there is a move towards local stores and strict budgets. "UK shoppers have been in a recession mindset for the past nine months," says Mike Watkins, who tracks retail behaviour for Nielsen, the global market data company. Three-quarters, he says, have changed their spending habits to save cash – for example, sticking strictly to a shopping list.

In the US, persistently high unemployment (currently above 8 per cent), as well as the prospect of a "fiscal cliff" following automatic tax rises and spending cuts due in January are slaking shoppers' thirst for cappuccinos and Frappuccinos and pushing them into discount outlets.

"Dollar stores in the US are fast growing," says Arnaud de Belloy, who heads distribution for Nestlé, the biggest food manufacturer. "But they are different from those in Europe because they have more products and are more obsessed by the $1 price point." US customers are also – fortuitously for Nestlé and its ilk – more likely to opt for branded products than own-label goods. Meanwhile in Europe, the Swiss-based manufacturer now sells some of the small packages it produces for eastern Europe – such as Maggi cook-in bags, cellophane wrappers for roast meat – in indebted southern eurozone economies.

Also shifting products from eastern to western Europe is Paris-based L'Oréal, the biggest cosmetics group, which this summer took a no-frills eastern European hair dye to Germany. Extras have been added – a bowl and applicator brush – but the price is 30 per cent lower than those of its domestic equivalents.

"Women aren't stupid," says Jean-Jacques Lebel, president of L'Oréal consumer products. "It's not good enough just to say, here's a cheap product. Here we say, you can apply it with a brush and, with this product and this application, you will get better coverage [of grey hair]."

Discounted hair dye and smaller deodorants may not look like the symbol of a brave new world of consumer products – but it attests to efforts in the sector to win hard-pressed shoppers' cash. "In the past companies saw innovation as a way to grow or get bigger margins," says Andrew Cosgrove, global consumer products lead analyst at Ernst & Young. "Now companies are having to innovate just to stay

most have two parents and four grandparents lavishing them with all that money can buy: be it drinks, an overseas education or an apartment.

"That generation is a consumption generation," says Dale Preston, Nielsen's managing director for retail in greater China. "They haven't had to think so much about the future because they feel they are already in the future, living the dream."

Yet, such is the pace of progress on all fronts in China that the *ba ling hou* now regard themselves as being more principled than the newest lotus eaters in town: the *jiu ling hou*, an even more decadent set born after 1990.

Those born after Turkey's military coup in 1980 are also perceived as having similarly indulgent parents and the same propensity to consume.

"The post-1980 generation was raised to spend and not to save, an attempt which was polished with the liberalisation of Turkey's trade policy," says Burcu Unuvar, economist at Is Yatirim, the Turkish investment bank. She likens this generation to those born in eastern Europe after the Berlin

Wall fell in 1989.

In the developed world, many of the young feel as if they have taken a backwards step.

In the UK, the jinxed generation of youths in their 20s is the first in 50 years to have it worse than their parents.

Japan's "lost generation" can no longer expect the jobs for life their parents had and many are also choosing to jettison the hard drinking and macho antics that filled their fathers' after-work hours.

These so-called "herbivores" – also found in South Korea – prefer to spend their money on grooming and gentler pursuits. For example, Unilever does good business in Japan selling facial cleansing foam for men.

Then there is the US's "why bother" generation: risk averse, less mobile and not even getting driving licences. The New York Times Review has dubbed their attitude "the most startling behavioural change among young people since James Dean and Marlon Brando started mumbling".

in the same place."

This is leading to novel behaviour in industry nerve centres. Kraft Foods, for example, is supplementing its new structure – the US food group has split into a global snacks and a North American groceries business – with a move to a less formal working environment at its Illinois headquarters. The new, more relaxed dress code and open-plan offices are intended by the maker of Oreo cookies and Philadelphia cheese to foster "creativity, collaboration, innovation and informal exchange of ideas".

Colgate-Palmolive, the US maker of Colgate toothpaste – no shirker when it comes to bringing out new varieties – decided to send a dozen South Korean managers to Indian villages for three months. As analysts at an industry conference in New York in February were told: "They had to ... observe how the families led their daily lives and conducted their personal and household cleaning. And the challenge was simple. It was come up with an idea in India for India." The scheme worked so well, says the company, it has now been transferred to other business projects.

Nestlé's efforts to get on top of the problems presented by the tough new climate are simpler. "We as a company have opened half an hour earlier every day," says chief executive Paul Bulcke.

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Such innovations are ostensibly intended to entice European and American shoppers to spend more. But they also acknowledge a more worrying trend: that emerging market consumers, those supposed saviours of the industry, are also showing signs of flagging.

Companies have spent decades building emerging markets operations, the better to tap the mushrooming middle classes. China, for example, has been bombarded with western products. But there are signs of a deceleration in rapid demand growth. For example, companies that have registered rapid growth in China are starting to decelerate. The McDonald's fast-food restaurant chain and Mead Johnson Nutrition, the US maker of Enfamil baby formula, last month signalled slower sales growth in China.

“In China, consumers are reacting with greater caution as the economy has slowed,” McDonald’s chief executive Don Thompson told analysts last month. “We have seen this particularly in our tier-one cities where we are more heavily concentrated.”

At Ting Yi, the Taiwanese food and drink manufacturer that dominates China’s instant noodle market, drinks turnover fell by more than one-fifth year-on-year in the first quarter. IT blamed the results on China’s “fast-changing and unstable environment”.

This is at odds with the mantra of many multinationals, which say China’s second-quarter gross domestic product growth of 7.6 per cent – its slowest since early 2009 – is nothing to fret about.

But it dovetails with concern about the return of rising food prices, attributed to environmental factors such as this year’s US droughts and a weak Indian monsoon. That cuts deeper in countries such as China, where food takes a far bigger slice of household budgets than in mature economies.

This is something struggling South African consumers are all too familiar with, says Gareth Ackerman, chairman of the Pick n Pay supermarket chain. “Across the whole of southern Africa, there are steep rises in prices for fuel and electricity, along with inflation and volatile exchange rates, which is eating into people’s disposable income.”

Unemployment in the region, he adds, is any where between 20 and 40 per cent. Those who do have a job generally have to support seven to 10 relatives on what is a often rather meagre wage. That translates into an equally meagre dinner, he says: processed sausages, frozen chicken pieces pumped up with brine, or thinly sliced sausage in a sauce made from maize and tomatoes. “That’s the market we are trading to,” he shrugs.

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Some 5,000 miles from Johannesburg lies Istanbul. This is a city that displays all the signs of a consumer boom – traffic jams in clubland at 2am, economic growth of 8.5 per cent last year and a retail market that has doubled in the past decade.

But it is also home to BIM, a discount store selling bottled water for half the price of, a French rival active in Turkey, where consumers are among the world’s more pessimistic.

“In terms of trading down, Turkey is much closer to the US and Europe than the Bric countries [Brazil, Russia, India and China], where frugality comes later because when you have money you spend, spend, spend,” says Deran Taskiran, head of consumer coverage for Boston Consulting Group in Istanbul.

Whether or not Turkish thrift will prove the country’s saving grace remains to be seen. Debt has caused American and European households to rein in spending – but at the same time a propensity for saving has skewed China’s economy towards exports.

Regardless, both routes add up to tightened purse strings – and companies are not counting on them loosening any time soon. “Particularly in Europe, consumers are poorer than they used to be, and feel entitled to be – and they are going to be that way for a while,” says Unilever’s Mr Sigismondi. “The pressure on my shoulders is not insignificant.”