Digitalisation in the beverage industry

Arab Beverages Conference
Amman, September 8, 2015
Agenda

Topic:

Introduction to digital development

Future digitally enabled food industry

Values to address with digital services/solutions
We are currently in the most disruptive technology wave ever, and disruption can be seen in all market dimensions.

Digital disruption

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<tbody>
<tr>
<td>Mainframe</td>
<td>Client/Server</td>
<td>Internet 1.0</td>
<td>DIGITAL</td>
<td>“The One”</td>
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**Technology waves**

**Key enabling technologies**

- 1970s – 1980s: Mainframe
  - Files
  - Batch and Online

- 1990s: Client/Server
  - PC’s
  - Software Packages

- 2000s: Internet 1.0
  - B2B
  - B2C
  - e-commerce
  - ERP

- 2012 – 2020: DIGITAL
  - Social, Mobile, Analytics, Cloud
  - Industrial Mobile
  - IoT
  - Video analytics

- 2020 +: “The One”
  - 3DP
  - Machine Learning
  - Artificial Intelligence
  - Intellect Robotics

**New business impacts**

- Automate Records Processing
- Enable Knowledge
- Connected Consumers
- Digital Business
- Digital Business 2.0

- 25B devices expected by 2020
- 2B hours of video uploaded to YouTube by 2020
- 16B mobile data traffic per month by 2018
- 212B sensors expected by 2020
- 4.4B number of app users by 2017

Anders Andrén/2015-09-08
A digital minute – and how to interact with consumers
Digital development is significantly changing the way we shop for food

Traditional consumer behavior

John...

...lacks dinner inspiration for tonight and chooses an ordinary pasta carbonara...

...checks at home what to buy and writes shopping list...

...goes to grocery store and buys the needed items

Seamless consumer behavior

Sally...

...marks a recipe from a person she is following on social media...

...her app makes the shopping list and adds milk and soap...

...it also suggest to buy chicken enabling Sally to do two more of her favorite recipes...

...new products matching Sally’s taste are presented and accepted...

...delivery is made to her car trunk at work...

...after dinner the kids are asking for crisps which is ordered and instantly delivered with a drone...
Digitalization is significantly changing way of doing business

Digital implications

1. Disrupt the industry structure
2. Shift value within or across industries and players
3. Change the control points and client experience
4. Change Role/Value of Processes, Data, Infrastructures
5. Change ‘How work is done’

Source: Company webpages
Digital market leaders with high digital and leadership intensity...

...outperform peers measured by

**GROWTH**
Digital intensity/investment

- HIGH: +6%
- LOW: -4%

**PROFITABILITY**
Leadership (drive digital transformation)

- HIGH: +26%
- LOW: -24%

Digitalisation

Driving the need for adoption and change

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Values to address with digital services/solutions
Digitalisation drives changes across the value chain

Future digital food industry – 2020 outlook

Consumers expect to **shop seamlessly anywhere and anytime** - fully informed, and **driven by social recommendations**

Traditional retailers have online/omni-channels, changing role of the store. **New types of online retailers changing the game**

Producers (CPG) have direct **digital channels to consumers**

Real-time data in production & supply chain for **efficiency and traceability**

More consumer driven, complex and competitive, more interactive, intelligent yet integrated
### Supporting facts and examples – Consumer perspective

**Intelligent serv. and info changes the shopping behaviors**

| More than 60% of global consumers would shift a part of their grocery purchase if offered a subscription program | 58% of consumers worry about how safe the food is and >70% want to know where and how a product was made |
| 92% of consumers say they trust word-of-mouth and recommendations above all other forms of advertising | 47% of consumers want to buy products that are tailored to their need |
| Online grocery retail share is expected to grow from ~2% to 20-30% | A significant fraction of European online grocery shoppers are equally favoring pickup and home delivery |

Sources: Accenture seamless retail study 2014 (15 000 consumers in 20 countries), Tetra Pak keynote 2014, Nielsen global consumer trust study, Rabobank report: “Food processors challenged”, company web pages

Anders Andrén/2015-09-08
Supporting facts and examples – CPG companies

New channels and need to manage a complex business

CPG marketing professionals expect proportionately more growth in sales through their own digital channels than through those of eRetailers

Around two thirds of CPG CMOs agree that digitalization will be used in different ways to innovate with new products quicker

Both regulators & consumers are starting to care more about traceability information. Providing product traceability can mitigate the risk of fines and be a sales argument

CPGs selling customized products get more engaged consumers that are willing to pay more for products (28% higher average purchase price)

74% of digital transformers and 65% of digital followers expect to excel in operational efficiency

Companies using big data and analytics effectively show productivity rates and profitability that is 5-6% higher than peers


Anders Andrén/2015-09-08
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- Future digitally enabled food industry
- Values to address with digital services/solutions
Companies are already exploring digital services / solutions within these areas

Value pools enabled by digitalization | Case examples

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<tr>
<th>Value pools...</th>
<th>...enabled by digital tech</th>
<th>Case examples</th>
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<tbody>
<tr>
<td>Performance optimization</td>
<td>Connectivity (M2M)</td>
<td>P&amp;G lets employees download data off the production line to their iPads in real time in order for them to make better decisions</td>
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<td>Unique identification (QR, RFID etc)</td>
<td>Amazon Elements is a product line that provides full traceability of all ingredients for each unique product through a QR on product package</td>
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<tr>
<td>Food safety &amp; quality assurance</td>
<td>Sensors (ingredients, materials, temperature etc)</td>
<td>Blippar uses augmented reality technology to unlock the physical world and reveal stunning, interactive digital content experiences for many consumer brands including e.g. Pepsi, Coca Cola, Nestle, Kraft, Heinz and BudLight</td>
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<td>Sales &amp; marketing management</td>
<td>Integrated information platforms</td>
<td>Tesco has supply chain analytics that optimizes inventory management and discounts through combining buying behaviors and external data</td>
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<td>Digital printing</td>
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<td>Cloud</td>
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<td>Big data aggregation / analytics</td>
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Tetra Pak drives integrated digital value chain
More information sharing along the whole value chain
Four different ambitions level on how to drive
How to embrace digitalisation going forward

- Don’t do anything right now
  - Stay passive

- Learn and set up triggers to follow
  - Keep track

- Define strategic direction
  - Prepare to act

- Drive digital development
  - Lead change

Increased level of ambition and required effort
Supporting facts and examples – Retailers

The role of store changes with e-com and consumer need

Online grocery retail share is expected to grow from ~2% to 20-30%

63% of retailers want to be fully integrated across channels in two years time

58% of consumers worry about how safe the food is and >70% want to know where and how a product was made

90% of shoppers expect stores to be smaller or fundamentally different in 2020

“We have a vision for turning stores into exciting destinations” / Tesco

U.S. customer loyalty memberships grew by ~25% from 2011 to 2013

Tesco using loyalty programs to analyze consumer data & provide unique services

From simple: to shelf distribution

To more complex: to shelf, to home, through regional distribution centers, through warehouses dark stores etc.

Pure online retailer Ocado has a online UK market share of 15%

Niche players like mySupermarket, Plated, Blue Apron establishing market positions

Sources: World Retail Congress, IGD Online grocery retailing 2014, Euromonitor, Rabobank report, company web pages, *Trader Joe’s stores has 4K, Walmart supercenters has 150k

Anders Andrén/2015-09-08