WINNING PERSPECTIVES
SEPTEMBER 2015 — ITALY

Consumer and media insights to win the market challenges

VIEW FROM THE TOP
Editorial by the MD of Nielsen Italy

IN THE INDUSTRY
Overview of key economic indicators and emerging trends

DEEP DIVE THE MARKET
Consumer buying behavior and sales trends

ENGAGE THE CONSUMER
Insights to engage the consumer in the era of media fragmentation

STAY CONNECTED
For comments and more details, contact the editorial team
Winning Perspectives is the new Nielsen report that reflects the evolution of the Watch & Buy Report. New name, new structure, new digital and interactive format, but the same content — critical to the success of the Watch & Buy Report: insights into buying behavior, FMCG trends, media and the advertising market, always with an overview of the Italian economic situation, the most strategic market and sector trends and those of other countries. 2014 was the year that witnessed the slowdown of negative trends, but with no signs of recovery. It was in fact 2015 that started with signs of this long-awaited recovery, albeit with slow growth rates. Our country is emerging from recession and Italian families are recovering their purchasing power, thanks to a favorable economic climate fueled by the decisions of the ECB (European Central Bank), the fall in inflation and in the price of crude oil. The return of consumer confidence in particular encourages us to remain positive.

After the jump made during the first quarter (57, +11 points vs. the beginning of 2014), Italian consumer confidence was rejuvenated in the following three months. It is clear that there is some dynamism, which must still be transformed into a structured and organic driving force; however the confidence index is rising above 50 points, reaching a most encouraging result that Italy has been awaiting for four years. Advertising market trends also confirm these fundamental transitional trends in Italy. The reduced decline in investment, which has characterized this first part of the year, forecasts at long last a market share above zero at the end of 2015. By definition, advertising trends follow those of consumption. With a slight increase in food sales in supermarkets, we can see also an increase in terms of advertising in this sector. Expo 2015 has certainly played its part... In any case, food is picking up again in Italy and we would not expect anything else for the year in which the world has passed through here.

“THE AIM NOW IS TO BE ABLE TO TRANSFORM THIS POSITIVE VISION THAT IS GRADUALLY SPREADING INTO ENDURING CONSUMER SPENDING

Where were we?

Giovanni Fantasia
IN THE INDUSTRY
Overview of key economic indicators and emerging trends

MAIN ECONOMIC INDICATORS
CONSUMER CONFIDENCE
GLOBAL SURVEY
NIELSEN INSIGHTS
For the first time in years, in the second quarter of the year the business confidence index exceeded the 100 points of 2010, reaching 104.7 in June. Confidence is up in sectors such as construction, market services, retail trade and manufacturing, and all with levels finally above 100.

In June 2015 there was a slight acceleration in inflation, up by 0.2% compared to the previous year. The main types of expenditure that contribute to general inflation are: alcoholic beverages and tobacco (+3.0%), expenditure on education (+1.9%), hospitality and catering services (+1.6%).

The unemployment rate continues to increase (+2.7% on an annual basis) and reached 12.7% in June 2015. However, the number of economically inactive individuals is decreasing and there is therefore greater participation in the labor market. This allows the employment rate to grow on a quarterly basis that, together with the increase in the number of jobs, augurs more favorable developments in the coming months.

ISTAT (Istituto Nazionale di Statistica — the Italian National Institute of Statistics) estimates that GDP will grow by 0.7% on an annual basis, the highest rise in the past four years. This variation is due to the increase in domestic consumption and a higher added value from the service sector and the industrial one, in the strictest sense of the word. They negatively affect the agriculture and construction sectors.

Source: ISTAT, June 2015 (2015 vs. 2014)
In the second quarter of 2015, the global confidence index lost one point compared to the first quarter, stabilizing at 96. Globally, the confidence index was stable in the last year, while it differed regionally and for individual nations.

Europe is the only region that grew in the quarter, reaching its highest level in the last five years (79): 21 of the 32 European countries were more optimistic than at the start of the year. Denmark, the UK and Switzerland are the most confident countries, where consumer confidence continued to grow in the quarter. Ukraine, Serbia, Greece and Italy are the worst. Germany lost three points in the second quarter, mainly because of concerns relating to terrorism, health, and an increase in prices. Ukraine experienced an increase in points, during the ceasefire in February, and greater monetary stability has contributed to a more favorable climate (but it still remains among the least confident).

Confidence in other regions is down: North America lost five points compared to the first quarter, although it is an optimistic area (101 points), Latin America (at 83, the lowest since 2009) and the Middle East/Africa (94) lost three and two points respectively, while Asia Pacific (107) remained stable in the quarter.

Source: Nielsen, Consumer Confidence and Spending Intentions Global Survey, Q2 2015
The confidence index of Italians was at 53 points, losing four points following the optimism attained in the first quarter of 2015, when the country had reached 57 points. Fewer people had to change spending habits to save money: 69% vs. 74% in Q2 2014, with a continuous decrease started in 2014, after the peaks of 2013 that exceeded 80%. The most common measures taken for reducing family expenditure include fewer meals out of home (64%), followed by cutting back on new clothing (61%) and entertainment out of home (60%), buying cheaper food brands (53%) and cutting back on vacations and short breaks (45%).
Although Italians are still very critical of the economic recovery of the country, the beginning of 2015 recorded a slight increase in confidence with regard to the recession: the percentage of Italians who consider that the country is in recession fell by five percentage points compared to last year (90% vs. 95% in Q2 2014).

Furthermore, there is positivity concerning the future of the recession: 16% believe that the crisis will be over in the next 12 months, compared to other European countries such as Great Britain, France and Spain that are at 13, 10 and 9 points respectively. It would seem, then, that despite the various difficulties, the government is slowly generating positivity among the Italians. In terms of job prospects, 12% of the population is now confident, up by two points compared to Q2 2014. There was also an increase of two points as regards the Italians’ belief that the time is right to buy the goods that they need.
16% of Italians believe this. If this growth were to continue in the coming months, it would bode well for the recovery of consumption.

Source: Nielsen, Consumer Confidence and Spending Intentions Global Survey, Q2 2015 vs. Q2 2014
Italians increasingly attentive to the health value of food

Nutrition is one of the most hotly debated topics of our era. We have focused on the eating habits of Italian consumers and the most significant finding is certainly that of a new approach to food, with ever greater attention to the health value of food and awareness that a healthy diet is the most appropriate means to prevent and manage physical dysfunctions such as high cholesterol, hypertension, diabetes and obesity.

The analysis suggests that 57% of Italians consider themselves overweight and 53% (46% in 2011) would like to lose weight: to lose weight, 75% intend to change their diet (83% in 2011), 73% to do physical exercises (54% in 2011). Of the most widespread changes in diet, fighting fat remains the top priority for 64% of Italians.

With regard to the distinctive features of food, we are able to identify three macro-areas in which consumers are most interested and for which sales have grown, bucking the trend of contraction relative to the recession.

Italians mainly look for, among other things, 100% natural products (considered important by 45% of the population), no artificial colorings (indicated by 43%), GMO-free (42%), made with vegetable/fruit and without artificial flavors (36%), high in fiber (30%), organic and with natural flavorings (26%).

To confirm this, organic foods recorded revenues of €866 million in 2014, a 14% increase compared to the previous year.

“Free-from” products often offer a health benefit: cholesterol free (important for 35% of respondents), fat free (29%), sodium free (28%), sugar free (27%), calorie free (22%). Italians are also concerned with portion control (21%) as well as carbohydrate-free (18%), low fructose (16%), caffeine-free (12%) and gluten free (11%) products. Different “free-from” and more easily digestible products have grown in the last year: low-fat chips and cheese (revenues of €25 million, +10%), lactose-free milk (€477 million, +15%) and gluten-free products (€101 million, +31%).

Having “more” of certain nutrients is important for health; particularly products that are high in fiber, whole-grain, enriched with calcium, proteins and vitamins are in demand. An increase in sales of dietary supplements has been measured, which have generated revenues of €232 million (+3%) in 2014, and whole-grain foods (sales of €235 million, +11%).

Food as a source of well-being is a growing trend, offering advantages not only for consumers but also manufacturers and supermarkets, which should be aware of the change in consumer mindset in order to implement policies for the development of new products, increasingly natural and decreasingly processed.
59% OF PROMOTIONAL SALES CREATE VALUE IN ITALY, BUT POINT OF SALE LOYALTY IS THE LOWEST IN EUROPE

More than $500 billion is spent on trade promotion worldwide, an investment equal to 20% of revenues.

ITALIANS ARE AMONG THE MOST INCLINED TO INNOVATION IN EUROPE

Innovation is important. Innovation provides business growth, profitability and enables success even in challenging times of economic recession.

WAR OF SCREENS IN ITALY: THE STRUGGLE TO MAKE ONESELF “SEEN” IN THE DIGITAL WORLD

We live in a digital age and we want to enjoy content on demand. This is confirmed by 72% of the Italians who love the freedom of being connected anytime, anywhere.

HE WHO FINDS A MILLENNIAL, FINDS A TREASURE

More than 11 million Italians belong to the Millennial generation: demanding, technologically advanced, informed and with good buying power.

MULTICHANNEL ITALIANS

According to the Osservatorio Multicanalità, in 2015, 60% of individuals over the age of 14 are multichannel consumers and are identified as smartshoppers.

E-COMMERCE IN FMCG

60% of Italians browse online before buying in-store, 46% read reviews online and 25% use smartphones in store to look for discounts and sales promotions.
DEEP DIVE THE MARKET

Consumer buying behavior and sales trends

CONSUMPTION TRENDS
SEGMENT TRENDS
SHOPPING CART CHANGES
TRENDS BY SECTOR AND BY CHANNEL
Consumption trends

CONSUMER KPI

In the second quarter of 2015, average spending per family for FMCG was approximately €1165, down by 1.6% compared to the same period the year before.

Purchase frequency was below 50 purchases in the quarter with a decrease of two purchases compared to the corresponding quarter of 2014.

The increase in the average receipt (±3.1%) does not compensate for the drop in frequency of purchase.

FMCG SALES IN EUROPE

For the fifth consecutive quarter, FMCG sector volumes in Europe have posted a positive result. In particular, in the second quarter of 2015 growth in volumes is +0.7%. This, together with dynamic positive prices (+1.7%), has increased FMCG revenues with an overall growth of +2.4%. Of 21 countries, only 11 have posted negative revenues. Most notable is the UK’s negative result due to a decline in prices, which may, however, serve as a prelude to an increase in volumes in the third quarter of 2015. France’s performance is good, and this is also a significant result for Europe’s recovery as a whole.

SALES TRENDS IN EUROPE

<table>
<thead>
<tr>
<th></th>
<th>Value</th>
<th>Prices</th>
<th>Volumes</th>
</tr>
</thead>
<tbody>
<tr>
<td>EUROPE</td>
<td>2.4%</td>
<td>1.7%</td>
<td>0.7%</td>
</tr>
<tr>
<td>ITALY</td>
<td>0.4%</td>
<td>0.6%</td>
<td>-0.2%</td>
</tr>
</tbody>
</table>

Source: Nielsen, Consumer Panel

Source: Nielsen, Growth Reporter, Q2 2015
At the end of the first half of 2015, the negative trend concerning the “recession” baskets was confirmed, having been observed gradually from the beginning of the year: Home Cooking and Basics (especially Breakfast), have now ceased to grow, leaving space in Italian shopping carts for Ready-to-Eat and Fast and Easy products. The Ready-to-Eat segment reveals a slowdown in the purchase of indulgent products, on the increase during the golden era of Home Cooking and Basics, a sign that the sacrifices made in the entire shopping cart were compensated by purchasing more from the impulse/indulgent category. Today, however, there are positive signs in the categories that have the biggest impact on receipts, such as the products with service content (e.g. packaged sliced meats, gourmet ready meals and frozen ready meals) of the Ready-to-Eat and Quick and Easy segments. The only group that follows the same past trend is Health and Wellness, a set of products that, mainly thanks to Health Benefits, also grew to double figures in June. The world of Health Benefits is growing thanks to the contribution of Gluten-free products: soy milk, rice milk, pasta and cookies are the categories guiding its growth.

Source: Nielsen, Trade*Mis
VALUE INDEX COMPARED TO JANUARY 2013
ROLLING PERIOD
Year ending in January 2013 = 100, Distribuzione Moderna

BASIC DISHES – FIRST COURSES
101.8
Jun 2015

FIRST COURSE READY MEALS
98.6
Jun 2015

MAIN COURSE READY MEALS
128.3
Jun 2015

SNACKS
98.6
Jun 2015

BREAKFAST
95.7
Jun 2015

HAPPY HOUR AT HOME
105.7
Jun 2015

GOURMET
116.8
Jun 2015

WELLNESS
112.5
Jun 2015

HEALTH BENEFITS
162.4
Jun 2015

Source: Nielsen, Trade*Mis
Inflation for Q2 2015 is increasing compared to Q1, while downgrading of the shopping cart (change in mix) confirms attempted recovery and remains at the levels of the first quarter of 2015.
The second quarter of 2015 records an on-going, slightly positive trend in Italy Total, mainly driven by Discount. Hypermarkets, Supermarkets and Self-Service highlight the challenges, in particular concerning Household and Health and Beauty Care (Drug).

Trends by sector and by channel

**TREND % VS. VALUE**
- Grocery: +6.0%
- Food & Bev: +6.5%
- Drug: +10.5%

**PRIVATE LABEL TRENDS**
- Private Label Share Value %
  - Q2 2014: 18.2%
  - Q2 2015: 18.4%
- Private Label Intensity Index %
  - Q2 2014: 22.4%
  - Q2 2015: 21.9%

A slight increase in the share of Private Labels, while promotional pressure decreases (promotional trend in line with Grocery Total).

The second quarter of 2015 records an on-going, slightly positive trend in Italy Total, mainly driven by Discount. Hypermarkets, Supermarkets and Self-Service highlight the challenges, in particular concerning Household and Health and Beauty Care (Drug).
ENGAGE THE CONSUMER

Insights to engage the consumer in the era of media fragmentation

- MEDIA USAGE
- SOCIAL TV
- ADVERTISING
Usage of the main media

AUDIENCE AND TIME
% Change Jun 2015 — daily average

- TV
  - Audience: -2.3%
  - Time: -4.7%
- Internet via PC
  - Audience: -19.3%
  - Time: -5.2%
- Mobile
  - Audience: +14.7%
  - Time: +26.7%

Sources: Nielsen Auditel, Nielsen Audiweb, Nielsen Mobile Media, Nielsen BD Adex.
Despite the strong drive of the Internet, there are still 43 million Italians who watched television in June. As a daily average, around 3 hours 45 minutes were spent watching TV, with an average minute rating of 9 million Italians, slightly down from the June 2014 statistic. The monthly decline, probably also due to changes in weather, is strongly mitigated if the first half of the year is taken into consideration, with an average audience up by 0.7%, while the time spent in front of the TV fell only by 1.8%.

The deployment of the Internet in Italy continues to grow, with 41 million people stating that they have Internet access, i.e. 85.5% of the population aged 11–74 years, up by 1.9% compared to June 2014. The driving force behind this growth is the smartphone, with no less than 30 million Italians who say they use it as a tool to access online content, 19.5% more than last year. On average, nearly 22 million Italians browse the Internet each day, up by 5.9%. More than 60% of 18–34 year olds do this, as well as more than half of 35–54 year olds.

The computer continues to lose its role as a device for online access, with a significant decrease in daily audience (-5.2%) and especially the time spent using it (-19.3%). In addition, now only 30% of the total time Italians spend online is via a PC.

Driving the growth are mobile devices, such as smartphones and tablets, which compared to last year recorded double-digit growth both in terms of audience (+14.7%) and time spent daily using them (+26.7%). Daily averages of mobile access exceed that of PC by 40% and almost 40 minutes more are spent on the Internet browsing from a smartphone or tablet. Finally, it is interesting to note that 85.5% of this time is via app use.

Smartphones and tablets are increasingly present in the life of Italians.
The second quarter ended with 12 million Tweets on TV. 2.2 million less than in Q1. Excluding Sanremo, the trend is consistent with the previous quarter. Talent/reality is a particularly significant genre. Interesting numbers for talk-shows, particularly political ones. Sport, despite occupying only 5% of TV schedules, has generated 25% of Twitter TV activity.

**DATA FOR BROADCASTERS**

- **Canale 5** is the network that has collected the most Tweets and Impressions, with the successes of Amici (also strong in the afternoon session broadcast in Real Time), Isola dei Famosi and the Champions League. Of the Free-to-Air services are Raiuno, thanks to the Festival of Sanremo, then Raidue, driven by the results of The Voice. The large following of political talk and in-depth programs on Twitter, has rewarded La7 and Raitre.

- On **pay-TV platforms**, there are large numbers for talent shows, particularly with Masterchef and Italy’s Got Talent on Sky Uno, good results for the TV series broadcast by Sky Atlantic and Fox Life. On pay-TV platforms there are also channels emerging that broadcast national and international soccer (Sky Sport e Calcio, Mediaset Premium and Fox Sports), followed by dedicated channels for motor sports (in particular Sky F1 and Sky Moto GP) and other sports such as tennis and cycling (Sky Sport and Eurosport again).

**SOCIAL TV AND BRAND**

- In the second quarter, the overlap measured by Nielsen Social between Twitter TV Authors, and Brand Authors was 58%. 230,000 users posted at least one Tweet about a TV program and at least one Tweet about one of the 500 brands in this survey. Telecommunications, Food and Beverages are the industries that record the largest number of authors common to both brand and TV programs.
In the first half of 2015, overall advertising income on the web in Italy exceeded a billion, more precisely €1.06 billion, covering 26% of total investment, recording an increase of nearly 2 p.p. compared to the same period in 2014.

In the first half of 2015, advertising trends, including the estimate of web revenues not currently monitored (primarily search and social), was down by 0.2% compared to the same period in 2014. TV, which was most affected by the absence of world football championships, ended the cumulative period of January–June down by 3.0%.

Good signals from Out of Home. This was up by 8.2% thanks to the campaigns dedicated to Expo 2015.

**ADV. SHARE BY MEDIUM**

- **TV**: 47%
- **INTERNET**: 26%
- **PRINT**: 15%
- **RADIO**: 5%
- **OTHER**: 7%

*(Direct mail, Cinema, and Out of Home are included under “Other”)*

**% CHANGE ADV. BY MEDIUM**

- **TOT. MARKET**: -0.2%
- **TV**: -3.0%
- **INTERNET**: 8.0%
- **PRINT**: -6.3%
- **RADIO**: 7.5%
- **OUT OF HOME**: 8.2%
- **CINEMA**: -0.2%
- **DIRECT MAIL**: -4.2%

*Source: Nielsen – AdEx estimate of the advertising market in the first half of the year of 2014 vs. 2015 – inclusive of all types of Internet advertising, comprising the Nielsen estimate of the Total Digital medium.*
For comments and details please contact the authors of this edition of Winning Perspectives