# IT'S CLEAR: TRANSPARENCY IS WINNING IN THE U.S. RETAIL MARKET

# CONSUMERS ARE PAYING ATTENTION TO PRODUCT DETAILS

There's little doubt that consumers are more focused on their overall well-being than they have been in the past. But they're doing much more than simply eating healthy and getting to the gym. Whether striving to eat organic or pledging to meditate four times a week, consumers' individual efforts to improve their lives and to be healthful are as diverse as the consumers themselves. But amid the varied approaches people take on the road to well-being, one trend is becoming universal: Consumers are paying more attention to what they buy—and that goes for foods, beverages and non-food categories like personal care, vitamins and supplements.

It's not surprising that today's shoppers are making more focused purchase decisions. For starters, choice is omnipresent and brand messaging permeates all facets of our lives. Additionally, people are living longer, and millions are affected by dietary and medical restrictions. In short, consumers are increasingly mindful about what they're putting in and on their bodies.

No two consumers have the same shopping list, but a growing portion of the population is shopping with an eye focused on product attributes. In some cases that means they want as few ingredients as possible. Others want the products they buy to be free of preservatives and artificial colors. But it's not just about the products themselves. Consumers, especially younger ones, are just as interested in the companies that make the products they buy. They want to feel good about their purchases, and that means they're spending more with companies that focus on things like fair trade, sustainability, social responsibility, environmental preservation and high ethical standards.

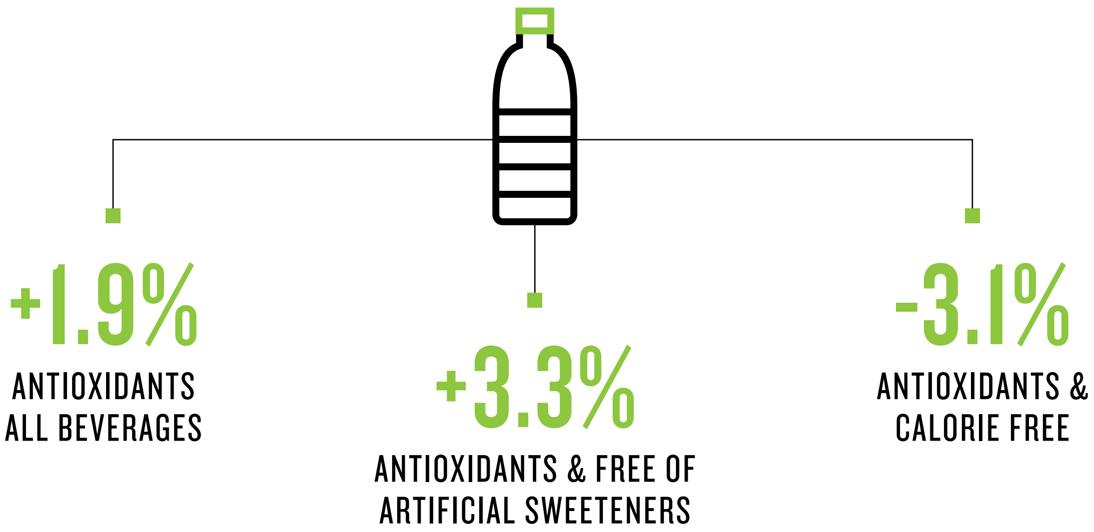
The "why" and "how" behind the products have become as important as the product itself, oftentimes becoming the primary decision-making criteria that drives a purchase. This has added an entirely new layer of complexity to the way fast-moving consumer goods (FMCG) companies develop and market their products to consumers.

At the shelves, consumers are very clear about what they're looking for, and they're willing to pay for it. According to recent survey results from product data company Label Insight, 39% of U.S. consumers say they would switch from the brands they currently buy to others that provide clearer, more accurate product information. Additionally, 73% of consumers surveyed by Nielsen say they feel positively about brands that share the "why behind the buy" information about their products. And what's more, 68% say they're willing to pay more for foods and beverages that don't contain ingredients that they perceive are bad for them.

In some cases, consumers are more interested in knowing what's not included than what is included in the products they buy. In fact, 53% of consumers say the exclusion of undesirable ingredients is more important than the inclusion of beneficial ingredients. This survey data point comes to life when looking at beverages that contain antioxidants. We could all agree that antioxidants are functional and beneficial to consumers, but when looking at beverages that are free from artificial sweeteners, they're outperforming calorie-free beverages with antioxidants. This example clearly shows that the consumer desire for "free-from" products influences their purchasing behavior even when functionally beneficial ingredients are present.

## ANTIOXIDANT SALES TRENDS IN THE BEVERAGE CATEGORY

**Dollar growth among products with antioxidant ingredients**




Source: Nielsen Product Insider, powered by Label Insight, 52 weeks ended Feb. 25, 2017

# THE INDUSTRY IS RESPONDING TO CONSUMER DEMAND FOR TRANSPARENCY

Ultimately, the consumer demand for transparency is a conversation about trust. Consumers want to trust the brands they engage with. Data suggests that there is currently a lack of trust, as only 44% of consumers globally say they trust industrially prepared foods. That means that more than half (56%), on some level, don't trust these products.

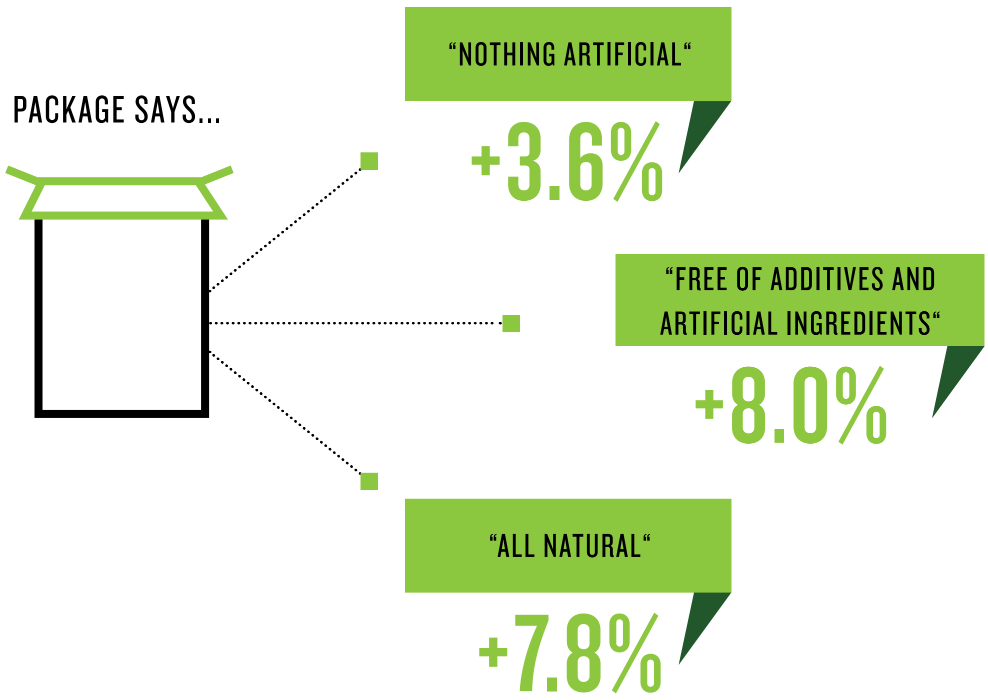
The industry has responded in kind to reach the transparency seeking consumer. Retailers are changing their assortments across categories, and they're developing private-label products with transparency in mind. They're also training associates like dieticians to help consumers make better choices in store, among other initiatives. Manufacturers are reformulating their products to contain fewer artificial ingredients, using simpler ingredients, and they're even looking outside their own walls and acquiring companies that focus on transparency as part of their brand ethos.

As a result of the consumer focus on transparency, claims like "natural," "organic" and "gluten free" have become common on the packages of products throughout the store. These claims are driving notable sales increases. Products that make organic claims, for instance, are up 10% from a year ago.

But navigating the world of packaging claims can be difficult. As many popular attributes have gained traction, marketers have found ways to create variations that sound good, but actually make it trickier to know exactly what's in—and not inside—a product. For example, recent Nielsen research identified 911 food and beverage products labeled "naturally derived."

# DOLLAR GROWTH FOR SPECIFIC PRODUCT CLAIMS

**Among food and beverage products**




Source: Nielsen Product Insider, powered by Label Insight, 52 weeks ended May 20, 2017

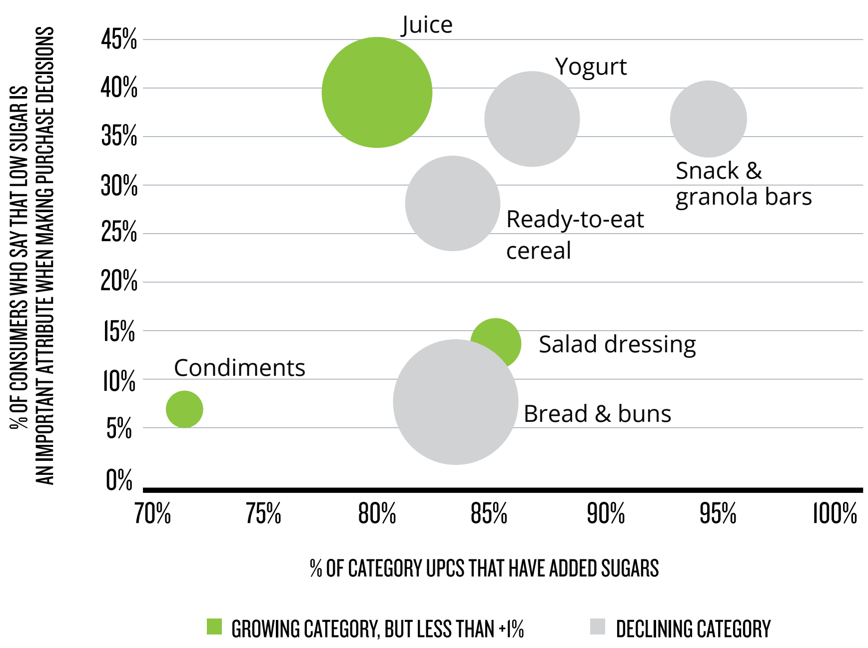
To add to the confusion, marketers don’t always make claims on packages. For example, Nielsen data shows that only 7% of products that don’t include artificial colors denote this attribute on the product packaging. The products that do make the claim, however, reported an almost 6% increase in dollar sales (to $18 billion) for the year ended April 29, 2017. So the insight here for manufacturers and retailers is clear: Identify explicit consumer needs and then make sure their product labels appropriately publicize desirable attributes. That’s because today’s consumers are just as concerned about ingredients and formulations as they are about being able to understand those formulations when they’re printed on a package.

The abundance of package claims and ingredient complexities across the FMCG landscape puts a burden on consumers. Not only do they need to decipher and decode, they also need to determine which claims are most relevant to their needs. For many, the approach is simple: Buy from companies that are more transparent and clear in their claims and labels.

In addition to retailers and manufacturers, government policies also offer a path to product transparency. Sugar and added sweeteners have been hotly debated in recent years, motivating discussions about obesity rates, sugary beverages in schools and the overall wellbeing of consumers. Just last year, the FDA announced plans to update the nutrition facts label for packaged foods to help consumers make healthy, more informed decisions. Among other enhancements, the new label will increase the focus on serving sizes, calorie counts and will include a new line for added sugars. While the implementation date is still not confirmed for mandatory implementation of the new label, in an effort to be proactive with transparency efforts, many manufacturers have already adopted the new format.

## THE INFLUENCE OF SUGAR ON PURCHASE DECISIONS

**Categories with sugar could be affected by label changes**



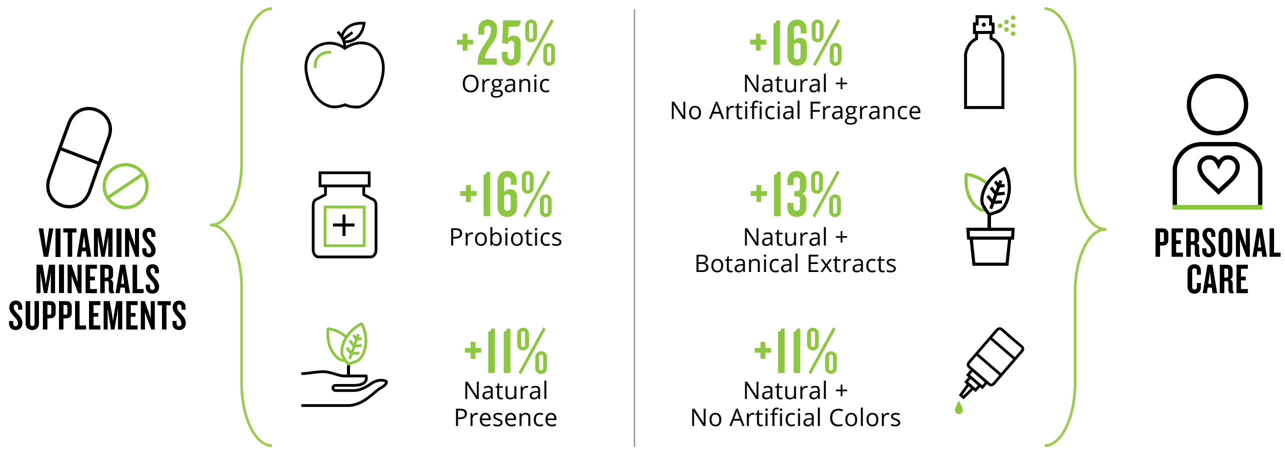

Note: Bubble size denotes category size by sales
Sources: Nielsen Retail Measurement Services, Nielsen Category Shopper Fundamentals 2015, and Nielsen Product Insider, powered by Label Insight, 52 weeks ended Dec. 31, 2016

As the new policies take effect, Nielsen and Label Insight research identified categories that may be affected by the added sugar callout on the new nutritional facts panel. A majority of products in categories like snacks/granola bars, yogurt, cereal and juice contain added sugars, and sugar content influences the decisions of consumers that purchase these categories. In the snack and granola bar category, 94% of the UPCs contain added sugars, and 34% of consumers state that sugar content influences their purchasing decisions in the category. As the new label moves toward mandatory implementation, these products may be affected by shifts in consumer behavior.

While consumer demand for transparency is most commonly associated with food, this trend has made its way across the store to non-food categories as well. Vitamins and personal care products are two categories where ingredients and transparency have taken hold. For example, sales of organic vitamins and supplements have grown 25% from last year, which means that not only are consumers looking for the functional benefits of vitamins, they're also seeking sustainable ingredients. In personal care products, ingredients such as artificial colors and fragrances are being removed, and marketers are focusing more on natural products within this space. Sales of personal care products that don't contain artificial fragrances and have a natural claim have grown 16% from last year. It goes without saying that consumers are demanding transparency across the store.

## TRANSPARENCY DEMAND EXISTS BEYOND FOOD AND BEVERAGE

**Annual dollar growth (%) with these transparency claims**



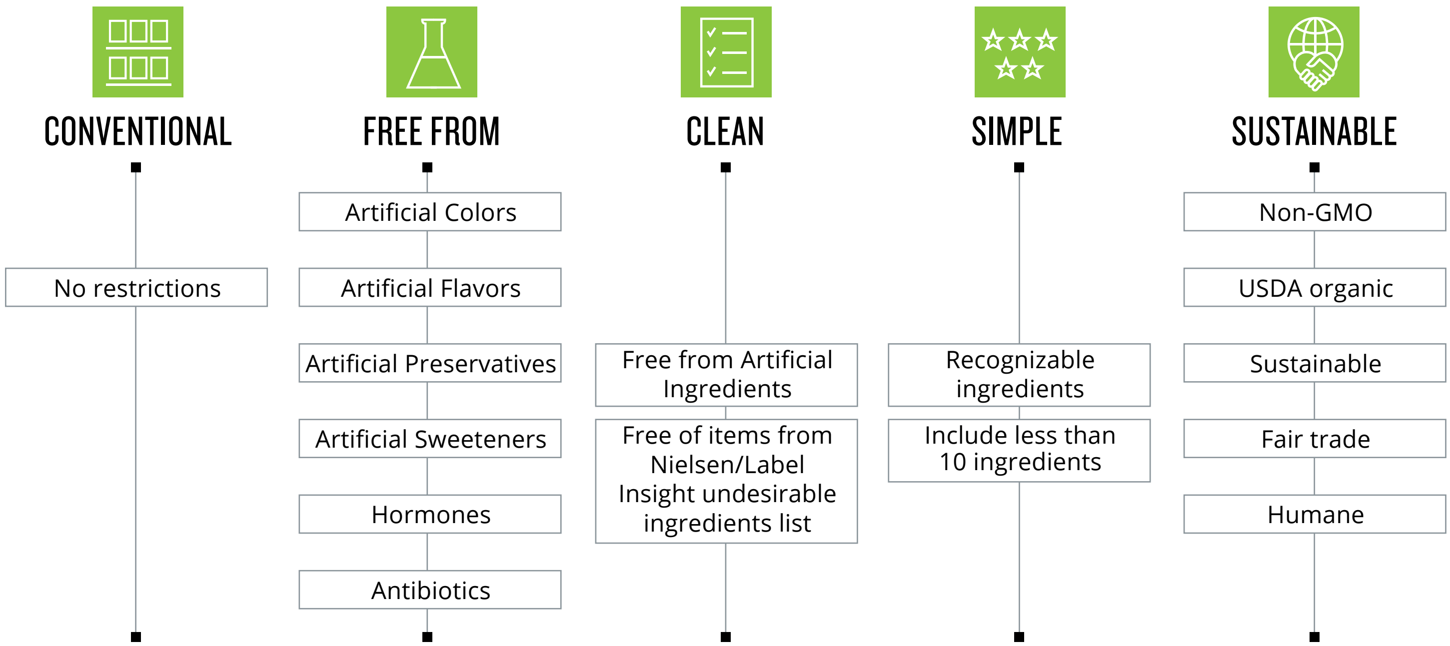

Source: Nielsen Product Insider, powered by Label Insight, 52 weeks ended April 15, 2017

# THE RISE OF CLEAN LABEL & SUSTAINABLE PRODUCTS

The industry has clearly been focusing on transparency efforts across the store, and has made a push for clean label products across categories. That said, despite the growing use of the term “clean” to describe products across the FMCG space, there is no universally accepted definition for what constitutes a clean product. However, in order to provide some analytical rigor to this term and to understand how sales have shifted toward cleaner products, Nielsen and Label Insight have created a progressive definition of clean label, shown in the chart below.

## CLEAN LABEL SEGMENTS

### ATTRIBUTES OF THE FIVE KEY LABEL TYPES



## LEVELS OF CLEAN LABEL AND FOOD & BEVERAGE SALES GROWTH VS YEAR AGO

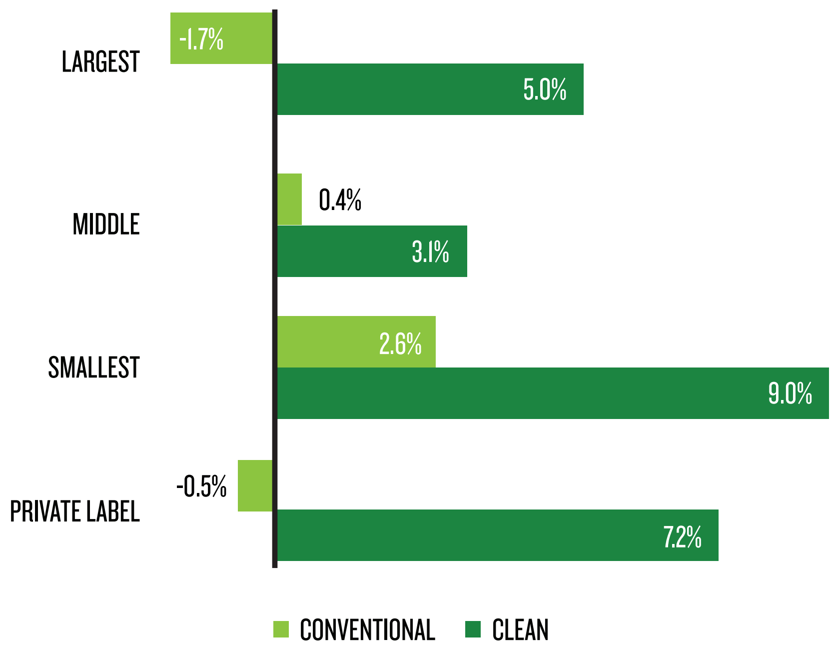
| | |
|---|---|
| CONVENTIONAL | -0.3% |
| NO ARTIFICIALS<br>Free From Artificial Colors/Flavors/Preservatives/ Sweeteners, Hormones & Antibiotics | +1.2% |
| CLEAN<br>Meets No Artificial Requirements + Does Not Contain Items from Nielsen/Label Insight undesirable ingredients list | +1.2% |
| SIMPLE<10<br>Meets Clean Requirements + Has Less Than 10 Ingredients Which Are All Recongnizable | +1.0% |
| SUSTAINABLE<br>Meets Simple <10 Requirements + Has A Sustainability Claim | +7.2% |

When looking at trends across these clean label segments, it's clear to see the shift away from products that are conventional. Sales of products that are coded as conventional are down 0.3%, while sales of products that are free from artificial ingredients, clean products (free of items from Nielsen/ Label Insight undesirable ingredients list), simple (clean and fewer than 10 ingredients), and sustainable (simple and sustainable) are all outpacing conventional products. The shift to products that are cleaner is changing the assortment on shelves as retailers look to satisfy consumer needs.

In looking at sales trends over the past year, small manufacturers sold the highest share of clean label products when compared with their conventional sales (40% vs. 60%, respectively) than large manufacturers (24% vs. 76%), middle-sized manufacturers (38% vs. 62%) and private-label manufacturers (27% vs. 73%). In addition to delivering on consumer demand, clean labeling has proven to be a way for manufacturers and retailers to distinguish themselves from the norm and offer something unique. And given the challenges associated with shifting a business strategy at a large company, small- and medium-sized manufacturers have gained market share and are driving more than half of the sales growth across the retail landscape.

# SMALL MANUFACTURERS ARE CAPITALIZING ON THE CLEAN LABEL OPPORTUNITY

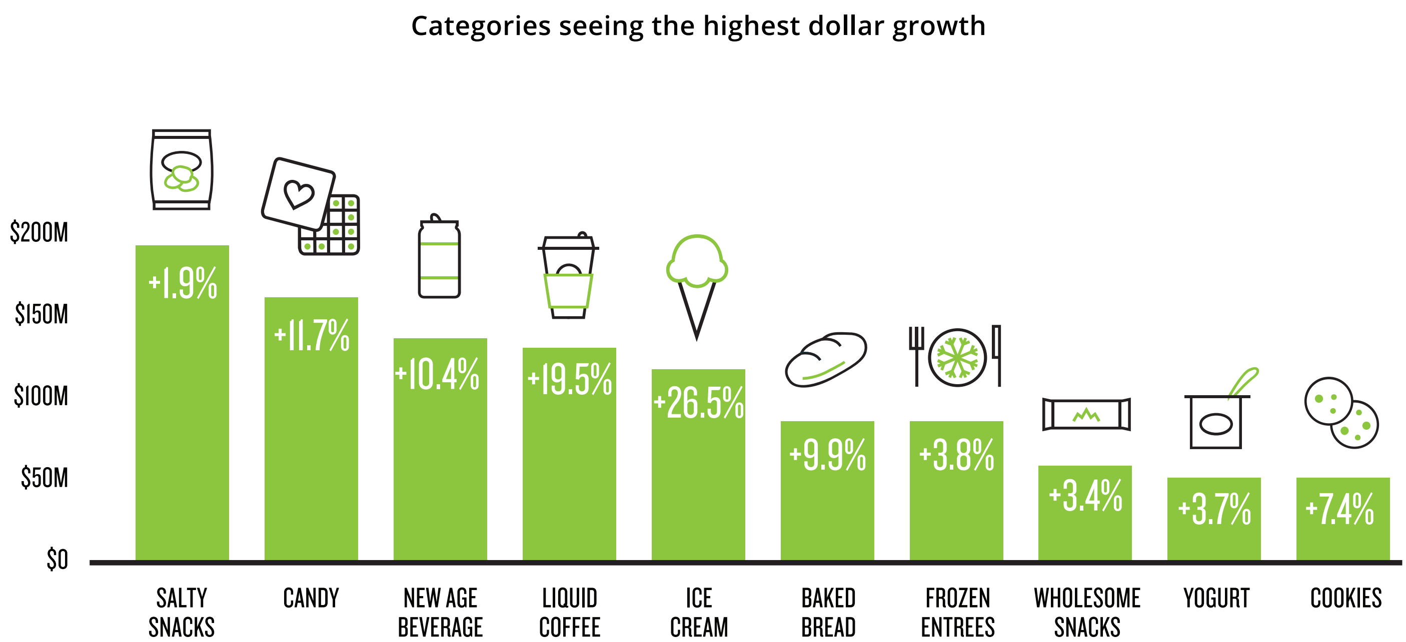
**Percentage dollar sales growth**




*Clean defined as at least free from artificial ingredients
Source: Nielsen Product Insider, total U.S. UPC-coded, 52 weeks ended April 27, 2017

Sales of clean label products aren't limited to foods and beverages that consumers believe are healthful. Contrary to what you might expect, the salty snack, frozen food, cookie and candy categories are seeing marked growth with clean label products. Clean label ice cream, for example, drove an incremental $106 million to the ice cream category in the last year, growing dollar sales by 26.5%. This purchase behavior confirms the notion that consumers will gravitate toward products with ingredients they trust and can easily understand, even when they're seeking an indulgence.

# CLEAN LABEL PRODUCTS ARE WINNING ACROSS THE STORE




Source: Nielsen Product Insider, powered by Label Insight, 52 weeks ended Jan. 28, 2017

Clean label sales trends aren't limited to natural and specialty retailers. This is a mainstream movement.  In fact, 93% of households have purchased a clean label product at grocery stores, while 70% have purchased at a mass merchandiser/supercenter and 31% at club stores. The channel lines for clean label continue to blur, as shoppers expect healthful options to be available at their convenience. Today, the mainstream market has embraced the trend, and clean label sales are outpacing sales of traditional products in most food and beverage categories. Looking across the FMCG space, half of all shopping trips now include the purchase of a clean label product. Additionally, only 24% of clean label products are purchased through a promotion or deal, which is lower than the average at retail.

In addition to capitalizing on consumer desires for clarity around product processing and ingredients, many manufacturers and retailers have extended their transparency initiatives to corporate social responsibility. And the results speak for themselves. Sales of products with claims pertaining to sustainability are significantly outpacing total store sales.

## SUSTAINABILITY SELLS

**Year-over-year sales growth (%) among products with these claims**

| PACKAGING MATERIAL | SUSTAINABLE FISHING | ANIMAL WELFARE | PRODUCTION METHODS | BUSINESS PRACTICES | SUSTAINABLE FARMING |
|---|---|---|---|---|---|
| 2.5% | 3.2% | 3.9% | 4.2% | 10.8% | 11.4% |

Source: Nielsen Product Insider, Powered by Label Insight, 52 weeks ended Jan. 28, 2017

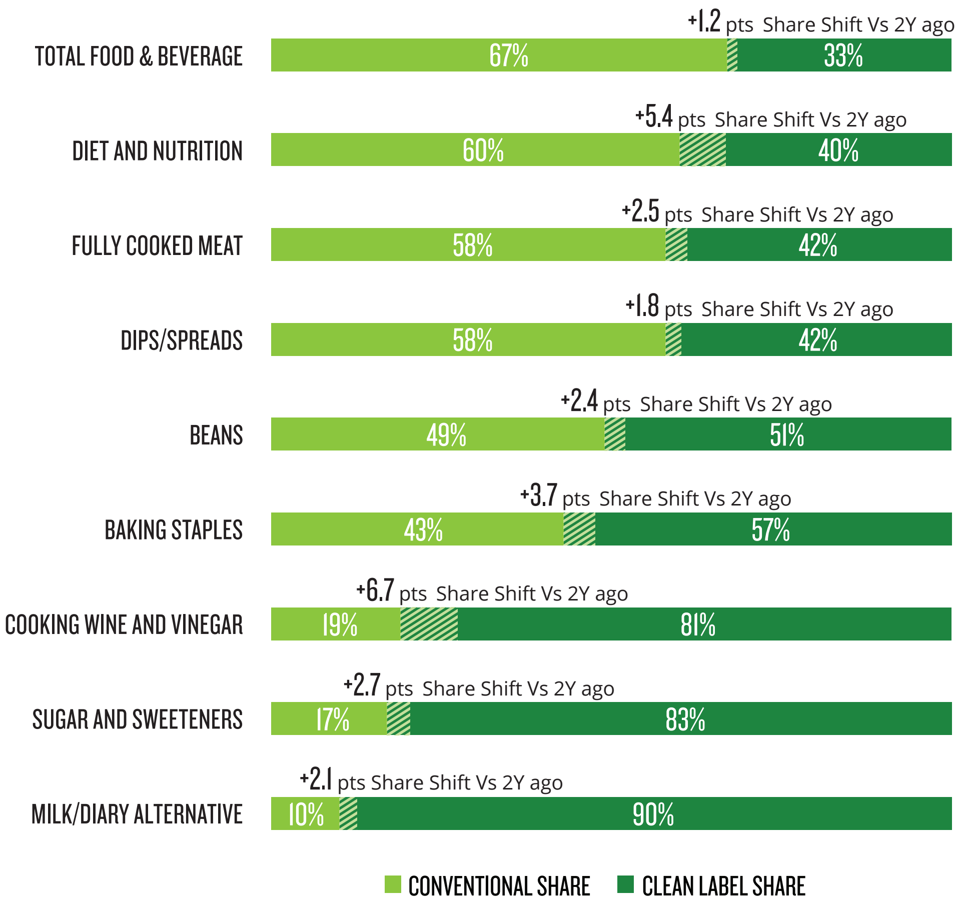
Knowing where products come from, how they are produced and how sales proceeds will be used matter to consumers. The more depth, detail and richness manufacturers are able to offer regarding their business practices and beliefs, the more engaged consumers will be with them.

# CLEAN LABEL: THERE ARE STILL OPPORTUNITIES ACROSS CATEGORIES

While there has been increased penetration of clean label products across the store, there is always opportunity for growth. In order to assist manufacturers and retailers in their quest to reach the transparency focused consumer, Nielsen looked at the food and beverage categories that were over and under-indexed in clean label. Understanding where clean label is succeeding and where there is opportunity for growth can help inform marketers and merchandisers on tactics to help reach this consumer.

# SHARE OF CLEAN LABEL SALES BY CATEGORY AND SHIFT

**Winning categories compared with 2 years ago**

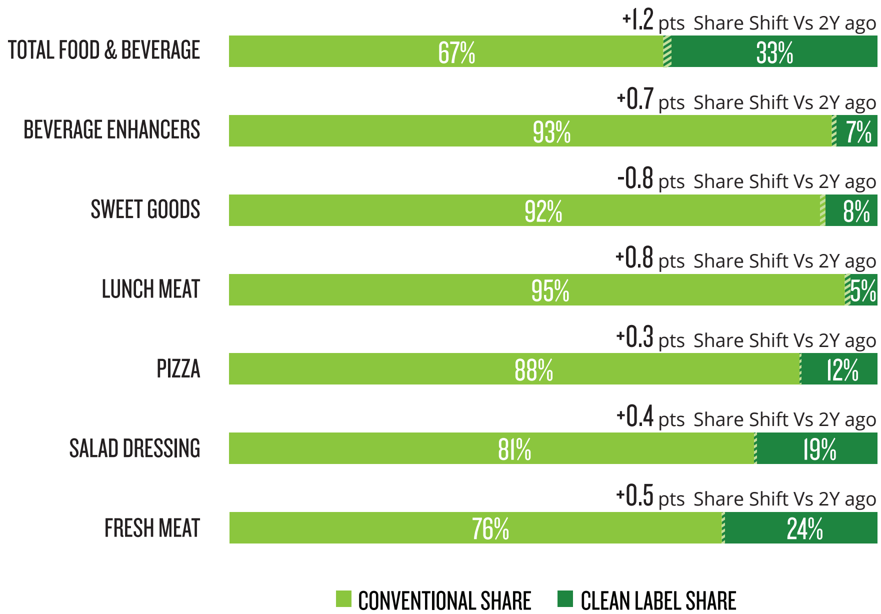



*Conventional Includes Conventional and No Artificials, Clean Includes Clean Label, Simple and Sustainable
Source: Nielsen Product Insider, powered by Label Insight, 52 weeks ended July 8, 2017

The categories that are winning include diet/nutrition, dips/spreads and beans. In these categories, the share of clean label is higher than the share of clean label across food and beverages overall. Manufacturers need to continue to understand the attributes and ingredients that are driving growth in these categories.

# SHARE OF CLEAN LABEL SALES BY CATEGORY AND SHIFT

**Opportunity categories compared with 2 years ago**




*Conventional Includes Conventional and No Artificials, Clean Includes Clean Label, Simple and Sustainable
Source: Nielsen Product Insider, powered by Label Insight, 52 weeks ended July 8, 2017

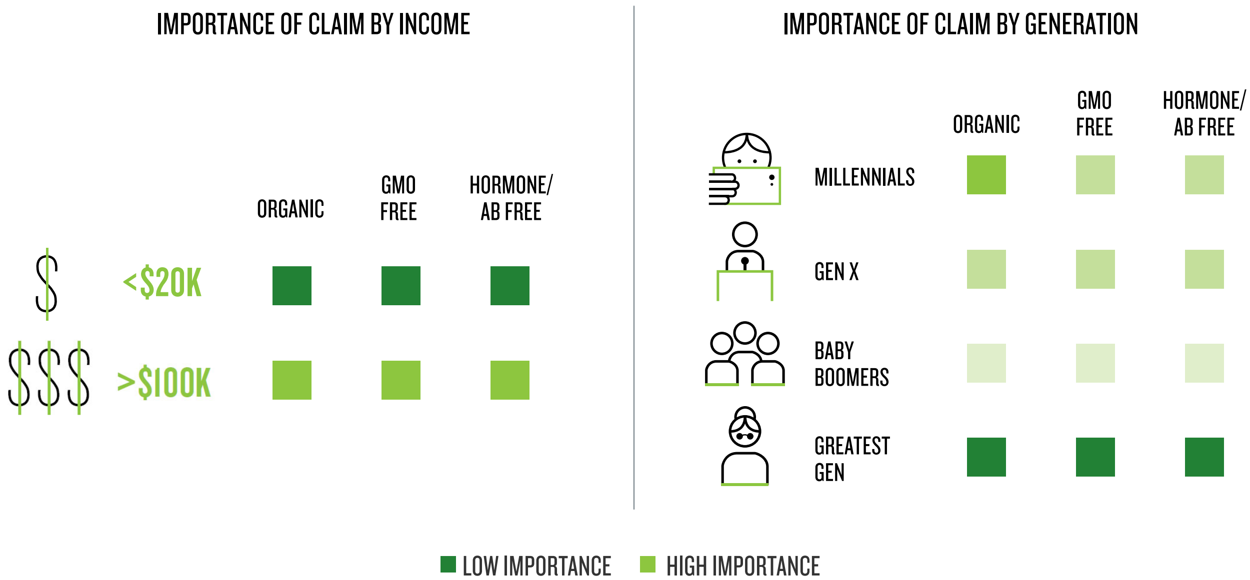
Is there still space for continued growth? The answer is yes. In many categories the share of shelf space for clean label items is still under-indexed compared to food and beverage overall. Categories like salad dressing, where only 19% of sales come from clean label products, have an opportunity for innovation and to differentiate themselves with clean products.

As manufacturers and retailers continue to think about clean label, there are opportunities across the entire store where innovation can help drive growth.

# TRANSPARENCY IS NOT A ONE-SIZE-FITS ALL EFFORT

So, just focus on transparency across the board, right?  Not so fast. Not all consumers are prioritizing transparency, clean labeling and sustainability. Interest in and purchase behavior vary by both income level and age group. Across generations, Millennials and Generation X consumers are more likely to seek out and purchase products that are labeled organic, free of GMOs (genetically modified organisms), and don't include added hormones. Comparatively, members of the Greatest Generation place less importance on these claims.

## THE IMPORTANCE OF CLAIM BY INCOME AND GENERATION

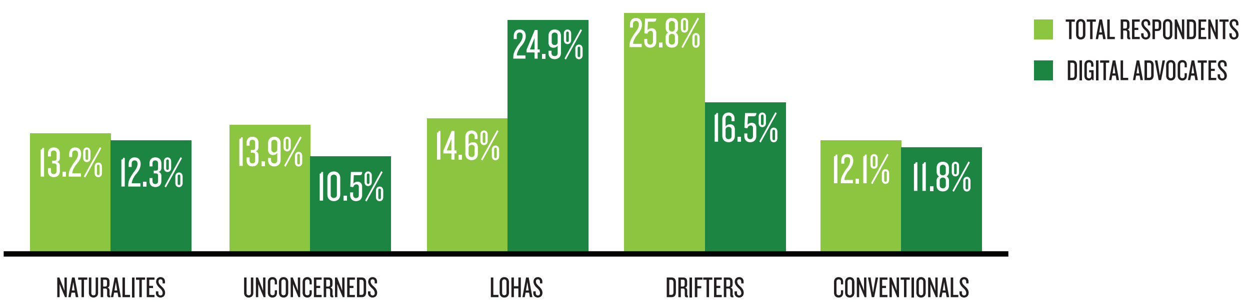



Sources: Nielsen Ailment Survey, Nielsen Product Insider, powered by Label Insight, 52 weeks ended March 25, 2017

Demographic groups influencing the forward movement of this trend include consumers under the age of 35, those with annual household income over $100,000 and families with children. They're leading the way with respect to buying products they believe are better for them, their families and the planet. They care much more about transparency and clean label than older generations do, and their spending prowess is growing.

In addition, in-store is not the only place to reach the transparency focused consumer.  The June 2017 Nielsen Digital Shoppers survey highlights that the most health focused households are also the most likely to be engaging with online grocery shopping. Shoppers identified as LOHAS (Lifestyle of Health & Sustainability) represent 14.6% of the U.S. population; however, they represent 24.9% of all Digital Advocates. Without the sought after assortment that shoppers demand, sales for clean label products could be shifting out of physical stores and into e-commerce. However, stores that offer the right clean label products can fulfill shoppers' instantaneous consumption need, an ability that is a challenge for online retail to duplicate.

## PERCENT OF HOUSEHOLDS BY U.S. POPULATION AND DIGITAL ADVOCATES




*LOHAS - Lifestyle of Health and Sustainability
Source: June 2017 Homescan Survey & NMI Segmentations

Given the state of information that the world now lives in, success along the path forward will depend on clear communication with consumers and a focus on what matters to them. Manufacturers, brands and retailers will need a keen sense of current trends toward product transparency in order to deliver on evolving consumer needs. Clean label is a spectrum, and companies need to know where the shifts are happening. The bottom line is that transparency and clean label are not point-in-time fads. They have gone mainstream and competition for consumers seeking clarity, purity and responsibility is going to continue to increase.

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