

GENERATION Y:
Winning Snack Strategies

Management Summary

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MANAGEMENT SUMMARY

I. Generation of the Millennium

The decline of the mass market has meant that consumers can no longer be thought of as a monolith, and consumer segmentation becomes necessary in order to introduce clarity and standardization to the analysis of an increasingly stratified consumer base. Generational marketing is one way of segmenting a market, and it provides insight into consumers' underlying values and common experiences, which ultimately translate into buying behavior.

The Generation most marketers are talking about is Generation Y – also known, more picturesquely, as the Generation of the Millennium. Most commonly, Generation Y is defined as including those born between 1980 and 1995. At present, Generation Y consists of approximately 63 million persons, which makes them the second largest demographic group in the US. However, by 2020, as the Baby Boomers (born in the two decades after World War II) start to pass away, Generation Y will take over as the largest adult generational grouping in the United States. This, combined with the importance of snacking to Generation Y, makes them a very interesting and exciting group to all snackfood producers and marketers.

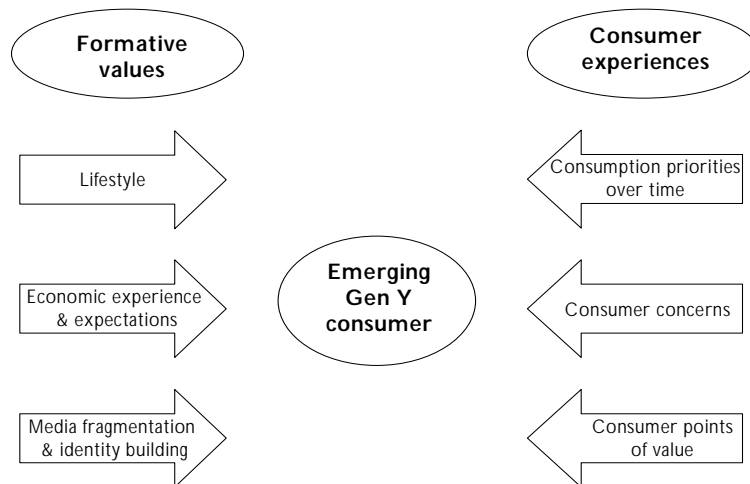
Key characteristics of Gen Y

- Pragmatic and hard working, with emphasis placed on independence and individuality
- Ethnically more diverse than any previous generation, displaying a high degree of tolerance towards different cultures, lifestyles and behaviors
- Economically more optimistic than previous generations, holding a positive outlook on their lives and their future as a result of growing up in a time of prosperity
- Remarkably sophisticated consumers with a high level of brand awareness. Healthy spenders and important agents of purchasing influence
- Comfortable operating in the world of fragmented media, particularly when it comes to latest technologies. Expected to be responsible for integrating the Net into everyday life

In order to define Generation Y as a group of consumers it is crucial to evaluate and understand the most important formative values and common experiences shaping Generation Y's beliefs and attitudes, and how the interplay between them translates into purchasing behavior.

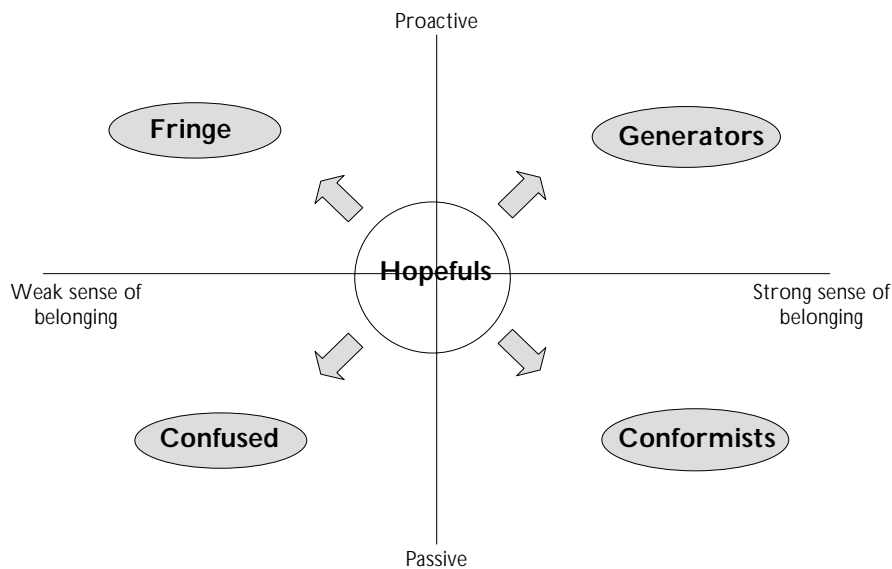
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Furthermore, in order to deepen our understanding of Generation Y, we must look at some key variables that will be instrumental in segmenting a large consumer group into more refined segments. With traditional, “tangible” criteria such as age, income, education, etc. being largely irrelevant when it comes to segmenting Gen Y, Promar’s model focuses on their sense of belonging and their ability to actively generate trends, values and beliefs as a way of segmenting them into distinct consumer types.

Generation Y: four key consumer types, 2001-2010



Gen Y consumer types – key aspects

Generators	<ul style="list-style-type: none"> • hip, cool, trendy: opinion leaders • have a comfortable level of disposable income which allows them to engage in regular purchasing and create brand following • responsible for a particular brand's interpretation as an image maker for young people • moderate in size, but of high importance in the snacks market • snack/ food focus: innovative, high-tech products
Conformists	<ul style="list-style-type: none"> • unable to formulate their own preferences, rather they choose to emulate those set by the Generators • responsible for a brand's wide following and overall success, since they pour their money into products they perceive as being trendy and popular • big in size, and moderate to high importance in snacks market • snack/ food focus: premium brands with recognizable names
Confused	<ul style="list-style-type: none"> • swayed by popular opinion without being able to justify why they buy the products they buy • likely to become victims of short lived fads • most often influenced by the Generators and the Conformists • moderate in size and low importance in snacks market • snack/food focus: faddish products
Attitudinal Fringe	<ul style="list-style-type: none"> • break away from the norm in order to rebel against mass trends • support causes that are not recognized and represented by the mainstream media, as a way of establishing their own unique identities through social activism • low to moderate in size and importance in snacks market • snack/ food focus: environmentally/ ethically/ socially responsible products
Economic Fringe	<ul style="list-style-type: none"> • break away from the norm because they can't follow the mass trends, for financial or other reasons (e.g. lack of access to appropriate channels) • recognize that they do not have the resources to follow popular trends, and thus create their own set of beliefs and values that they can embrace • low to moderate in size and importance in snacks market • snack/ food focus: low-priced "traditional" products
Hopefuls	<ul style="list-style-type: none"> • Gen Yers aged 6-11 in 2001 • concerned with image, since they want to be like the older Gen Yers • likely to be influenced by gimmicks and short lived fads • possess impressive consumer knowledge and act as opinionated and savvy consumers • skilled at using their power of influencing purchases to compensate for lower levels of disposable income • low in size, but moderate to high importance in snacks market • snack/ food focus: products with high fun and entertainment element

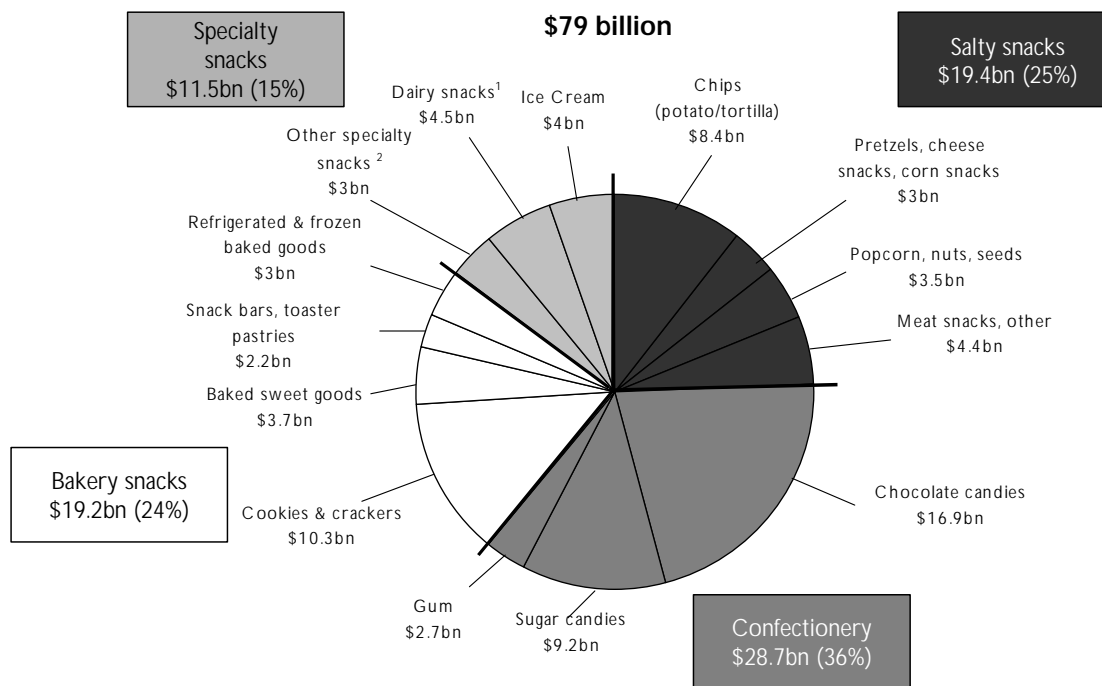
II. Changing market structures: New consumer in a new snackfood landscape

The ongoing consolidation of the food industry has especially manifested itself in the snackfood and baking market, with a number of major mergers, acquisitions, spin-offs and alliances taking place during the last 12 months. As a result of these moves, as well as changing patterns of demand, the boundaries between food sectors are ever more blurred and cross-sector competition is a fact of life. It is increasingly necessary to think in terms of defining foods by occasion or usage rather than by rigid product category.

Promar takes a broad definition of snack products, to include all foods that require very little or no preparation prior to consumption, and which have a high level of portability.

Given this expanded definition, the market for packaged snackfoods has been estimated at around **\$79bn** in 1999, broken down as shown below.

US snackfood market, size and segmentation



Source: Snack Food & Wholesale Bakery, *State of the Industry 2000*

¹ Ice cream, froze novelties, yogurt & other dairy-based snacks

² Hot snacks

The snacks market as a whole is growing at some 5% a year. Certain sectors, such as meat snacks, yogurt and sugar-free candy, are experiencing much faster growth, while many of the more established product sectors are seeing much more modest growth.

Four major trends in the snackfood market for 1999 and 2000

- Return to rich, robust flavors and full tastes
- Demand for more out-of-the-bag, ready-to-eat, meal replacement snacks
- Diversification of distribution, as well as other alternative distribution trends, such as the creation of dedicated snacks fixtures within large supermarkets
- Focus on kids, tweens, teens and young adults in NPD and marketing efforts, across a wide variety of snackfood sectors

The US snackfood market is populated by a large number of players. Promar divides them into four key industry player types: *Pillars*, *Builders*, *Followers*, and *Differentiators*.

	Pillars	Builders	Followers	Differentiators
Size	Big; international; US owned	Big; international; US or European owned	Mid-sized to big; US owned	Small to mid-sized; US or international owned
Portfolio	Single sector focus within snack industry	Broad food/ non food focus; crossover into snacks	Snacks focus	Single sector focus within snacks industry
Positioning	Mass	Mass/ Mass-premium	Economy/ Mass	Premium/ Niche
Strategic Focus	Defend	Build through acquisition/ Invest	Defend	Build/ Defend
Distribution Emphasis	Retail; Mass/ Segmented	Retail/ Foodservice	Mass	Segmented/ Selective Mass Retail
Company examples	Frito-Lay; Mars; Hershey; Nabisco (to 2000); Dreyers	Kellogg; Nestlé; Kraft; Parmalat; Unilever; Dannon	Tasty Baking Co; Utz; Pepperidge Farm	Bimbo; Chupa Chups; GoodMark Foods; Old London Foods; Pringles

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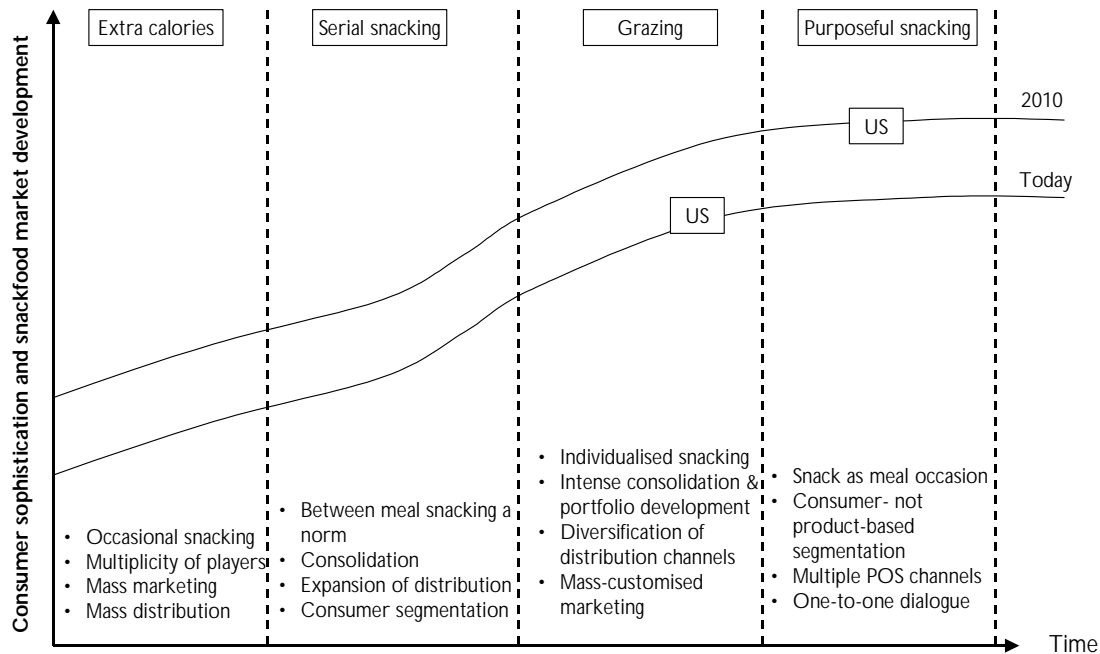
The changing home life and economic experiences shaping Gen Y consumer behavior has particularly manifested itself in the snackfood market. As a food category that is relatively low-cost, and requires little cooking skills to prepare, snacks are especially influenced by the preferences of Gen Yers, and represent a major source of their daily nutrition.

Gen Y's snack behavior and brand preferences

- Gen Yers are snacking machines
- Frequent visits to C-stores, among a wide range of points-of-sale
- Taste for quick fast-food
- Want products that are for people of their age
- Fun & entertainment key
- Friends and Internet two main sources of purchasing information
- Non-traditional marketing, bold images, cutting edge music, emphasis on quality and uniqueness

In the US, snacking has already moved beyond being a source of extra, between-meals calories for the majority of consumers, to a situation where "grazing" is a way of life for many. The continuing trend for consuming more snacks throughout the day will lead to snacks performing the role of a purposeful meal occasion. Furthermore, to successfully capture consumers' attention in a market where the saturation of products, images and messages is so great, and the lines between snacks and non-snacks so much more blurred, producers will have to develop innovative ways to target and capture potential consumers. This will necessarily involve being driven by the consumer, rather than the demands of mass production.

Positioning of the US today and in 2010 with regards to development of consumer sophistication and changing market structures



Generation Y will play a particularly important role in the future snackfood market, and products that directly target Generation Y will have a greater potential for growth alongside greater levels of innovation. Therefore, it will be vital to continuously track and evaluate their changing consumer values and preferences as they move through different lifestyles in the next decade.

<p>Gen Y in 2005</p>	<ul style="list-style-type: none"> • Still displaying most of their early-formed values and beliefs • Relatively high levels of disposable income, although most are not yet financially independent • Stronger brand awareness and brand loyalty • Most still at school or university, thus easy to track and reach out to • Possible expansion of the Economic Fringe • Hopefuls and Generators have high importance in snacks market, the former because they are entering their formative teen years, and the latter because they are setting the standards and the trends that the rest will follow
<p>Gen Y in 2010</p>	<ul style="list-style-type: none"> • Have retained higher percentage of original values and beliefs than was the case for previous generations • A growing number is in their first professional job, thus, as a demographic, their purchasing behavior is becoming more fluid and less predictable • Growth of the Conformists' size and importance in the market, decline in that of the Confused and the Generators • Rising importance of Economic Fringe – bringing price-based competition to the fore, but without skimping on innovation and quality

III. Winning snack strategies

Over the next decade, the snackfood arena will be driven by changes taking place on all levels, resulting from:

- **Consumer-** and especially Gen Y-driven change, as their importance within the overall market increases
- **Industry activity** – continuing consolidation and cross-sector competition, portfolio development, expansion of distribution channels
- **Changing definition of snacks and their role** – the fact that the lines between snack and non-snack products are increasingly blurring, and that “snackfoods” are fulfilling multiple roles, is driving a new segmentation of the market
- **Changing marketing approaches**
- **Evolution of distribution and point-of-sale**

The interplay between the various drivers for change will lead to a shift in the overall bases of competition, as well as in the overall distribution of power between the industry player types.

Bases of competition today	Bases of competition 2010
Brand power	Brand performance
Access to finance	Application of finance
New product development	Innovation
Access to mass distribution	Access to fragmented distribution
Scale	Flexibility

Analyzing the changes taking place in the competitive environment for snackfood companies allows us to make certain predictions regarding the possible competitive structure of tomorrow's broader snacks market. Areas such as market share, expansion of portfolio, distribution, etc. will all be impacted by these changes, as the four industry player types strive to respond.

Tomorrow's Pillars	<ul style="list-style-type: none"> • Decreasing market share from 40-45% today to 35% (or less) in 2010 • Challenges to staying atop innovation and creativity, as well as the new bases of competition in an increasingly fragmented market • Growing need to diversify and expand portfolios, and find ways to manage the brand and innovation – acquire vs. outsource • Growing pressures for higher levels of corporate flexibility
Tomorrow's Builders	<ul style="list-style-type: none"> • Significant growth in their market share from 15% today to 35% in 2010 • Continuing acquisitions, as well as the need to integrate/consolidate these and previous acquisitions (this process will be difficult and painful for some) • Challenges in managing a large number of different brands across many sectors • Pressures to increase innovation, improve distribution, and increase corporate flexibility
Tomorrow's Differentiators	<ul style="list-style-type: none"> • Increase in market share from 5% today to 10% in 2010 • Their level of innovation and creativity, as well as corporate flexibility, will give them a competitive advantage in a fragmented market • Access to distribution still their biggest challenge in short to medium term • Most prominent companies in this group are likely to be bought or driven into partnerships with the Builders and/or the Pillars • Opportunities for the development of virtual companies
Tomorrow's Followers	<ul style="list-style-type: none"> • Decrease in market presence from 35% today to 20% in 2010 • Objects of M&A activity • Likely to compete on price, and/or appealing to regional loyalties; could potentially be a threat to the Pillars' and Builders' mass brands

The socio-economic shifts that are driving the move from a mass to an individualized market, will necessitate the development of multi-dimensional consumer filters and maps if companies are to target tomorrow's Gen Y consumer successfully. In such a market, the producers and marketers of snackfood will need to target increasingly smaller slices of consumers, possibly by focusing first on occasions (purchase and consumption), and intangible criteria such as values, beliefs and attitudes, to obtain an "individualized" target.

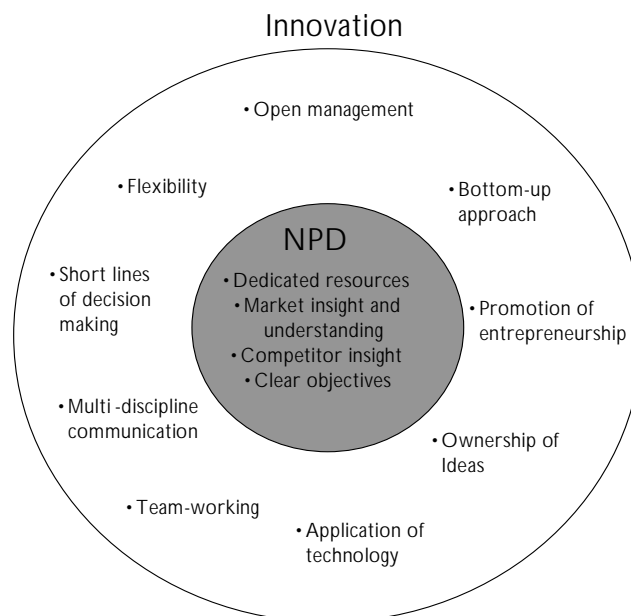
Consumer segmentation filter - examples



Individual Gen Y consumer

“Filtering” the market in this way will allow much more refined NPD, marketing and distribution.

NPD as part of a broader innovation mindset

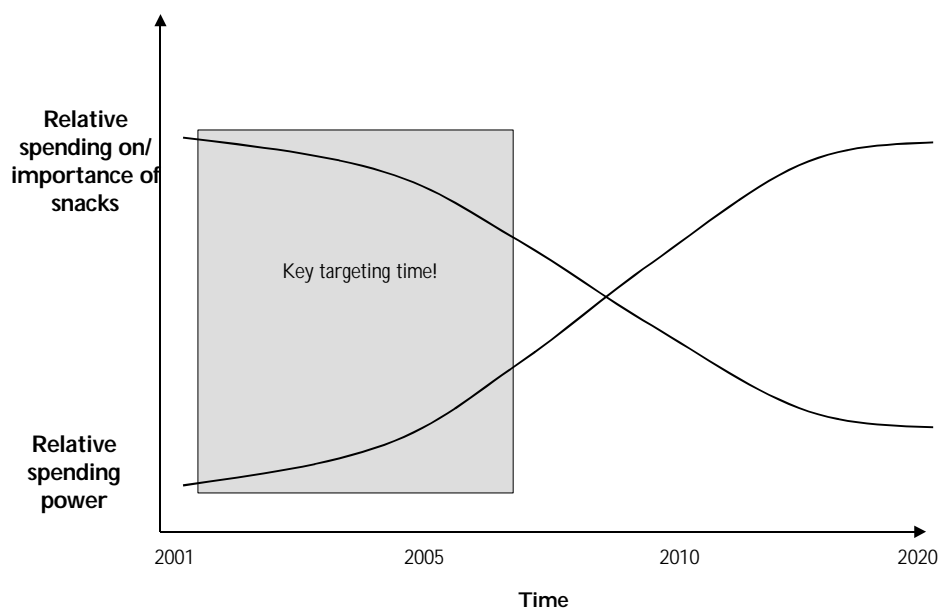


New product development will have to be seen within the much broader context of all-encompassing innovation. Moreover, the product will also have to be seen within a broader context, in which the product is an extension, reinforcement or embodiment of a particular message, image, vision, lifestyle, consumer value, etc.

One of the most important elements of consumer and market change as driven by Gen Y will be their attitude towards brands and brand marketing. A one-to-one dialogue will have to be established between Gen Yers and the producers and marketers of snackfood; however, in order to have that vital one-to-one dialogue with the individual consumer of the future, the key issue for all food marketers will be to target and capture Gen Y *now*. This is particularly so, as today snacks rank high in Gen Yers' list of spending priorities (coming third); and, happily, Gen Y as a group is relatively homogeneous in lifestyle, and therefore fairly easy for snacks companies to reach and communicate with. This will not be the case as the members of Generation Y age, take on a wider range of lifestyles, and other spending priorities start to crowd in – and therefore, even as their actual expenditure on snacks may increase, it will be that much more difficult to capture their attention.

Snacks companies will have to invest now, for reward with Gen Y in the future.

Gen Y and the prioritization of snacks spending

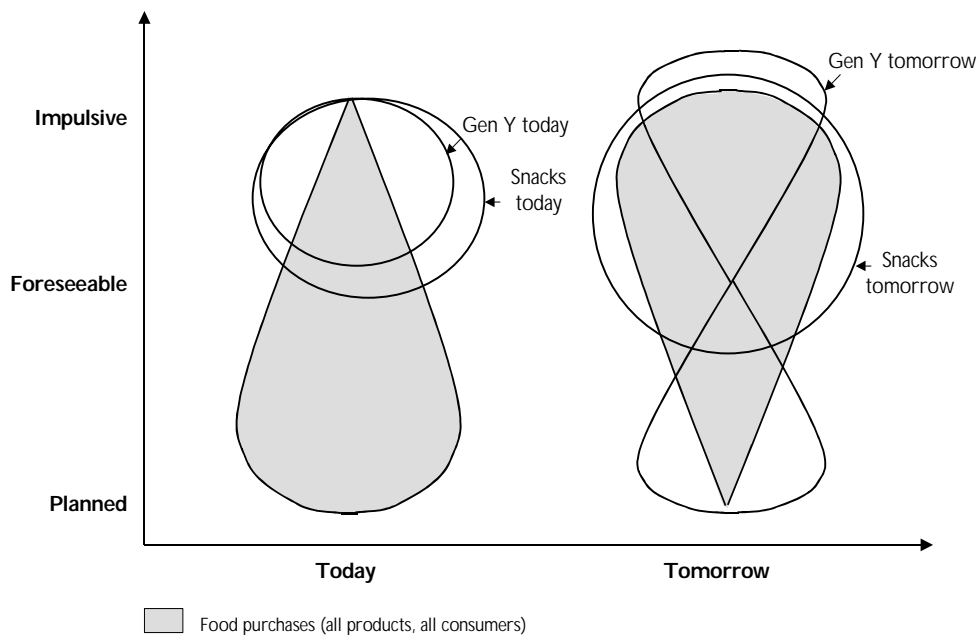


At the same time, distribution and point-of-service will have to accommodate the shifting structures of the market, consumer and media fragmentation, and the emphasis on the individual. This process will especially be reflected in Generation Y, and will be particularly pertinent when it comes to snackfood.

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Decline of predictability and mass conformity drives fragmenting distribution



Currently, snackfood distribution is centered around mass grocery channels, convenience stores and vending. However, over the next decade, distant shopping, non-grocery retail, vending, kiosks and foodservice will offer the greatest potential for growth, as well as for effectively reaching the Gen Y consumer.

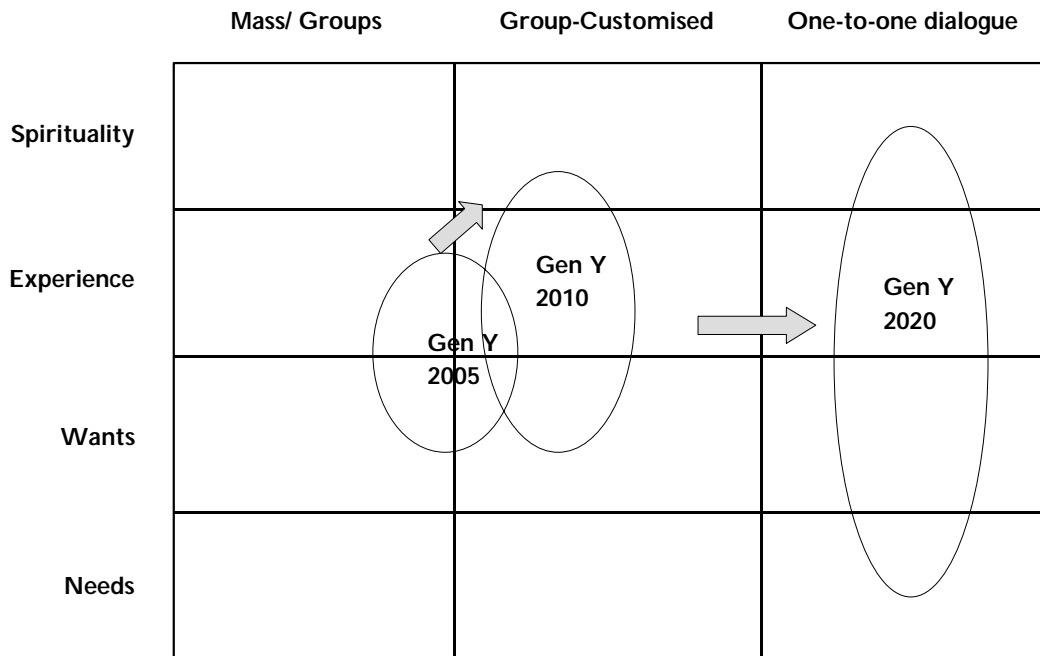
Accessing the Gen Y consumer to 2010, by player type

	Distant shopping	Mass grocery	C-stores	Vending and kiosks	Non-grocery retail	QSR	FSR
Pillars		■	■	■			
Builders		■	■	■	■		■
Differentiators	■		■		■	■	
Followers		■	■			■	

Distribution focus today
 Gen Y focus to 2010

The snackfood company looking to profit from Generation Y must evolve with them as they progress through different lifestages, keeping a close eye on the changing nature of their demands and expectations. Companies will have to focus on selling what consumers want,

rather than what they know how to produce. Winning strategies will be those that are consumer-centric, instead of product-centric (or corporation-centric).



Our central message is that as the market is transformed from being mass to customized in focus, and eventually in execution, all industry players must take on board what this means for every aspect of their business. The focus must be on satisfying the complex and varying needs of individual consumers, with Gen Y playing a central role in that process.