CUSTOM CONTENT
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Consumer Goods & Retail

A Report by the Experts

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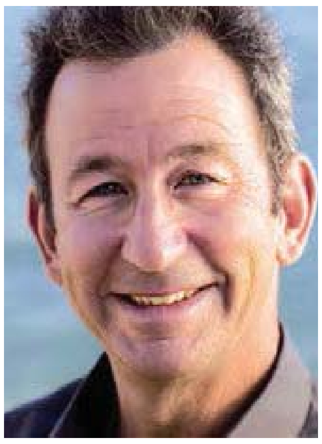

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The world of consumer goods and retail has been heating up and has clearly become one of the fastest growing and most vibrant business sectors in Southern California. The landscape of managing such businesses has rapidly evolved as well – with laws, regulatory protocols, best practices, consumer and business needs and industry trends seemingly changing by the season.

To take a closer look at how the consumer goods and retail landscape is shaping up in 2019, we asked some of the subject's top experts in the region to share their thoughts with us. Across the next several pages, you'll find the inside scoop and relevant insights from Ron Friedman, Co-leader of Marcum's National Retail & Consumer Products Industry Group at Marcum LLP; Andrew Apfelberg, Co-Chair of the Branded Consumer Products Industry Practice Group at Greenberg Glusker; and Nishen Radia and Duane Stullich, Co-founders & Managing Partners of FocalPoint.

CONSUMER GOODS & RETAIL REPORT

The Consumer Goods Market: How Far Have we Come in a Year?

By RON FRIEDMAN

In February 2018, the Los Angeles Business Journal asked me to respond to a series of questions related to taking a closer look at how the consumer goods and retail sector is working. I think it would be interesting to look back at those questions and see how my answers compared to what really took place during 2018 and what we can expect to happen in 2019. Will the market continue to grow or will we have a slowdown in the economy?

The first question was what do you anticipate is ahead for retail in the US?

My prediction at the time was right on target, as we continue to see old, worn-out shopping centers being replaced by new shopping meccas that are vibrant with entertainment, restaurants, theaters, health clubs, and modern retail stores. What we are not seeing is shopping centers dominated by clothing stores; those days are gone for now.

How will the Trump administration impact the consumer goods landscape moving forward?

My prediction was the tax cut would give consumers more money to spend on merchandise, entertainment, and paying down debt. Even with all the ups and downs of the stock market over the final three months of the year, consumer confidence has been high, and the holiday season reflected very good retail results. Shopping centers were busy, and retail sales were strong for the year-end. In 2019, we can expect this trend to continue. I do not expect our economic growth to be as strong as last year, but consumers will continue to spend on entertainment, and restaurants should continue to see good results.

Are there other sectors bubbling up under the surface that you think will see a surge in the near future?

My predication was that online retailers were going to continue to grow at 15% per year, and they did hit that target. Millennials are the big online shoppers, and the iPhone and iPad will continue to drive the business. Online furniture sales are growing nicely, and that trend will continue. What I did not predict was the tremendous growth we've seen in the cannabis business. With more and more states approving the sale of cannabis products, the industry is in a rapid growth phase.

What are some of the best ways for a retailer to build its brand and elevate itself from the competition?

My opinion from last year is that nothing ever stays the same. The retailer and manufacturer must be innovative in their approach to growing their brands. We live in a time where social media is a must. Know your customers and understand how they will respond to your marketing campaigns. I am a true believer in hiring the right professionals to help you grow. Public relation firms will help those companies that cannot do this internally, but PR is a must for any business that wants to brand itself. The more contacts you have with the customer, the great the chance for a sale.

Also, stay ahead of the curve and change as your customer changes. Today's product will not be tomorrow's product. I like to tell the story of a client of my firm that manufactured a lady's pant that was the hottest item in the market at the time. The company grew steadily on just this one pant, and the customer kept buying it. The problem was that the customer got older and older, and eventually that generation of customers passed away. The company also passed away because it never adapted to a new customer. Change is necessary – today even more so than in generations past.

Now what can we expect for 2019?

Experience, entertainment, innovation are the three words that come to mind. This will be a continuation from 2018. The shopper wants an experience in your stores; they want to shop where they can be entertained and they want to see innovation. Retailers will have to make it easier for shoppers to buy. Such things may include shipping the product directly to the home or office on the same day. Music and wine and cheese parties for the customer are big winners. Private sales for your best customers before the general public are also big winners.

My concerns for 2019 are the potential interest rate increase by the Federal Reserve. One sure way to slow down the economy is to increase the cost of money. We also have tariffs that could have a major impact of the cost of products coming from China. As I am writing this article, the Chinese and U.S. representatives are negotiating a trade agreement to avoid an increase in tariffs. I expect some good results from these negotiations, but any negative results will have a major impact on our economy. Tariffs will increase the cost of everything, and you can bet the importers will pass on some of this cost to consumers, thus reducing potential sales.

Until next time, have a great and a prosperous year. As I always say, if you are not having fun, then go do something else.

Ron Friedman is Co-leader of Marcum's National Retail & Consumer Products Industry Group at Marcum LLP.

CONSUMER GOODS & RETAIL REPORT

A Look at the Current Consumer Goods & Retail Landscape

The world of consumer goods and retail has been heating up and has clearly become one of the fastest growing and most vibrant business sectors in Southern California. The landscape of managing such businesses has rapidly evolved as well – with laws, regulatory protocols, best practices, consumer and business needs and industry trends seemingly changing by the season.

To take a closer look at how the Consumer Goods & Retail landscape is shaping up in 2019, we asked Andrew Apfelberg, Co-Chair of the Branded Consumer Products Industry Practice Group at Greenberg Glusker to weigh in for a discussion.

What do you anticipate is ahead for retail in the US?

APFELBERG: We will continue to see an acceleration and expansion of the trends we have seen over the past few years. People will shop more and more on-line or in locally convenient plazas (rather than malls). Brick and mortar will need to become showrooms or provide something "extra" like personal shoppers or product specialists to advise or curate for customers. If the economy heads towards recession, the stronger brands will consolidate and even grow their position while the weaker brands or inferior products are at risk of dying out.

What sectors within consumer products are performing particularly well and why?

APFELBERG: Prestige and luxury brands, especially those that are social media savvy, have been performing well. By that I mean through sales, introduction of new products and enhancement of brand identity. Those that have effective celebrity endorsement campaigns have done even better. Additionally, companies getting products into stores like ULTA that are typically not located in traditional malls have been finding a very warm reception from numerous new audiences. Kylie Jenner Cosmetics has done that very effectively while maintaining its prior core audience.

Are there other sectors bubbling up under the surface that you think will see a surge in the near future?

APFELBERG: Functional products that cross category lines will continue to grow. A good example is what MoonJuice is doing through expansion of its food/beverage offerings into beauty. The concept of wellness from the inside-out really resonates. Another category that will do well is cannabis/CBD related food/beverage and health/beauty products. Aside from the changing legal landscape there is a significant growth of cultural acceptance and interest. I have had a huge increase in clients that are involved in or exploring this industry. Finally, auto care is another category that is on an up-swing. A strong player in that category is Smart Wax.

How have recent trends in consumer behavior and purchasing habits affected the consumer goods industry?

APFELBERG: Two trends stand out to me – (1) reach towards prestige and (2) celebrity/athlete association. With respect to the first, it seems that the consumer has more disposable income or is more "bullish" on the economy and is willing to spend more. Given the handful of more austere years after 2008 when this was not possible or advisable, consumers appear to be making up for it now. With respect to the second, the volume of celebrity/athlete endorsement, licensing and brand ambassador deals I have worked on has grown exponentially. Consumers increasingly want to directly associate with their favorite public figure or to emulate in this way the life led by such public figure. Companies increasingly want to co-opt the image and loyal following of the public figure to build goodwill and drive almost immediate sales. Interestingly, many of the deals with public figures have included them making financial or other investments, which has further closely tied their interests with that of the manufacturer.

What are we seeing on the M&A front in consumer products?

APFELBERG: The major multi-nationals are doing a very effective job of buying up innovative brands to build out new categories of their portfolio and bolster existing categories. Unilever did this recently with Hourglass. There seems to be a recognition that the entrepreneur led companies are doing an excellent (and perhaps better) job of product innovation. These acquisitions are supporting a "buy instead of build" model. Private Equity funds have been even more active than before and been quite aggressive in reaching out to smaller/up-and-coming companies that have high quality products and strong brands.

Why do open and transparent brands tend to be more successful when it comes to consumer products?

APFELBERG: The consumer today gains a significant part of their self-worth and personal identity through the products that they use. It has become more than just thinking that a product is of good quality, a value for the price or that it works well for your desired purpose. Instead, people increasingly want a product to make them "feel" a certain way or to signify to others who they are (or want to be). The brands that are open and transparent have a leg up in this regard because it is quite clear what they stand for and, by extension, what those who associate with them stand for. It also makes the consumer feel more invested in the product and management team or founder which will ideally make them a long time repeat customer.

What are some of the best ways for a retailer to build its brand and elevate itself from the competition?

APFELBERG: Using a public figure for a license, endorsement or brand ambassador is an incredibly powerful way to differentiate a brand. The company immediately announces to the world who it's demographic is and what it stands for. If done right, there is instant credibility with a significant sector of the buying community and a sense that the purchase will help the admired celebrity or athlete. It also can give the product increased exposure into aspirational demographics through the personal promotional efforts of the celebrity. Just as important, due to the exclusivity provisions contained in these agreements, it is one of the very few times there are real barriers to competition. During the exclusivity period, none of the competitors can get the brand association with such public figure.

What are some of the best practices for a branding or endorsement campaign promoting a consumer product?

APFELBERG: The single most important thing is having true alignment between the public figure and the product/manufacturer. Unless the association is authentic and about more than money, it will not resonate with the public. In fact, it will likely backfire. The second more important thing is for both sides to be clear in their expectations and desires over the length of the campaign and take into account all the different ways that such expectations could get frustrated. If the public figure and the manufacturer have a close working relationship and goals of mutual benefit, you can overcome almost any obstacle and, in fact, will find opportunities that were not apparent at the time of signing the contract. A last thing to consider is for the company and the celebrity to be open and transparent with one another and bring the other "inside the tent." By so doing, each side will better understand the others objectives, concerns and ways of doing things and be able to adapt or encourage innovation or additional partnership opportunities.

Andrew Apfelberg is Co-Chair of the Branded Consumer Products Practice Group for Greenberg Glusker.


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CONSUMER GOODS & RETAIL REPORT

“Better for You” is Not Just a Trend, It’s a Lifestyle

By NISHEN RADIA
and DUANE STULLICH

During the last two decades, consumer tastes and preferences have evolved at an accelerating rate. Consumers demand more from consumer packaged goods (“CPG”) companies in the food, health/wellness, and beauty/personal care industry sectors. With a louder voice and access to online platforms and communities, consumers seek increased ingredient/formulation transparency, less chemically-processed ingredients, and “better-for-you” products.

Long before the internet democratized the entire CPG landscape, the revolution began on the grocery shelves. Better-for-you alternatives first emerged in the food space with meat and dairy (organic milk, cage-free eggs, antibiotic-free meats, etc.) and sugar replacements (honey-sweetened products, stevia, etc.), and have since infiltrated many other areas of consumers’ pantries and refrigerators. According to Food Insight, 70% of consumers would be willing to give up their favorite product for one that did not have artificial flavoring and 60% of consumers believe that it is important that the food they consume is produced in a sustainable manner. According to the Washington Post, membership in “food tribes” (i.e., specific eating protocols such as vegan, Paleo, Keto, etc.) grew roughly three-fold in 2018 as compared to just a few years prior. Beyond what they eat, consumers now demand a more holistic lifestyle with a desire to be healthier in all aspects – from what supplements they take, to what products they use on their skin, to what they feed their dog.

Technology has taken the battle from the retail shelves to cyberspace. Historically, large and successful CPG companies dominated the marketplace by executing a model centered around mass-market brand building, slow product innovation, and broad distribution with large retailers who essentially were viewed as the actual customers. Unless consumers were individually motivated to learn more about ingredients and formulations, they were at the mercy of what was being marketed to them through traditional media outlets such as TV advertising, magazines, and other forms of print dominated by a handful of players. However, today’s consumers are in the driver’s seat empowered by the emergence of brands that have marketed themselves on a large scale with minimal budgets by leveraging online platforms.

CPG companies in this new era have educated consumers and are focused on fulfilling the needs that have been created with the rise in consumer awareness and knowledge. Mission-driven entrepreneurs armed with Internet-enabled technologies allow younger, bootstrapped companies to directly connect with their customers through channels like social media, blogs, and other community-based digital gathering spots. Amazon, with unlimited “shelf space,” allows such brands to be located right next to national brands and compete head-to-head based on consumer reviews. Accountability and transparency are paramount. The shift has come full circle. Brick and mortar retailers recognize the value of offering these high-growth, premium brands in their stores because they offer product differentiation and drive higher margins.

The demand for “better-for-you” offerings has expanded from the food category to other consumer products such as beauty, personal care, pet and household products, and consumer services such as restaurants and even dry cleaners. According to McKinsey research, millennials are four times more likely than baby boomers to avoid products from large CPG corporations. In fact, consumers are willing to pay a premium for cleaner, organic consumables. Per Innova Research, products containing the label “free from” grew at a CAGR of 16%, while products containing “clean label” grew at a CAGR of 13% from 2013 – 2017, respectively.

If you can’t beat ‘em, buy ‘em. Procter and Gamble recently acquired Native, a direct-to-consumer, all-natural deodorant brand; Kraft acquired Primal Kitchen, a better-for-you condiments brand; SC Johnson acquired Method, an environmentally-friendly household cleaning products brand; and Kellogg’s acquired RX Bar, whose packaging features only the product’s ingredients. All of these acquisitions were motivated by the desire to unlock growth in today’s market. The acquisition multiples being paid in such deals are eye-popping and frequently based on a multiple of forward revenues, not current cash flow. Maximizing value for the owners of such companies, however, requires a bespoke process that causes big CPG companies to view the target company not as a nice to have, but rather as a need to have. Beyond acquiring the brand itself, they are acquiring the relationship it has with the consumer and the data derived therefrom. Using real-time information, product enhancements/reformulations can occur more quickly based on actual data and further engender customer loyalty.

There is no debating that consumers want to live a more holistic, healthier lifestyle. Big CPG companies have a hard time meeting this demand, and thus are left with no choice than to pay up for it.

Nishen Radia is Co-founder & Managing Partner of FocalPoint. Duane Stullich is Co-founder & Managing Partner of FocalPoint. Learn more at focalpointllc.com