Retail & Consumer Insights
2014 Financial Benchmarking

Results for the food, beverage, and household products manufacturers
July 2014

Highlights

• The economy continues to play a major role in the performance of manufacturing companies
• Top performers are driven by the need to excel in many areas such as human capital, innovation and brand management
• E-commerce continues to be a key avenue which both retailers and manufacturers must take to further reach consumers and promote their brand
• Financial performance metrics continue to show distinctions within the manufacturing sectors and size categories

Executive summary: A lackluster economic recovery yields uneven financial performance

This edition of the Retail and Consumer Insights series focuses on the financial performance of consumer packaged goods (CPG) companies in 2013. In this report, we will discuss how the economy impacted CPG manufacturers and provide detailed financial benchmark analyses.

Our benchmarks included a range of metrics for growth, returns, income statements, liquidity, and balance sheet results. We also analyzed companies by size (small, medium, large, and very large), sector (beverage, food, and household products), and source of primary revenues (domestic and global).

As we have done in previous years, we sorted companies with sales of more than $4 billion (large and very large) into performance quartiles and analyzed the results over five years to find the common characteristics linking the highest-ranking manufacturers, a category we call top-performing companies.

In conducting this year’s analysis, we found some expected consistencies among the performance comparisons as well as some fascinating variations. Overall, however, the financial performance outcomes tended to mirror the year’s economic conditions: a mixed bag of highs in some benchmarks and lows in others.

These performance results suggest that although 2013 was not a year marked by sharp declines in economic conditions, it was also not the year for a long-awaited economic breakthrough for most US manufacturers. Instead, the collective response to the year seems to have been: Things certainly could have been better.
Executive summary
A lackluster economic recovery yields uneven financial performance

The US economic recovery that began in 2009 continued to pick up steam in 2013, showing improvements in job gains, gross domestic product (GDP) growth, and consumer confidence. Despite these advances, analysts continued to temper their positive outlook by cautioning that long-term unemployment remains elevated and too many individuals have simply stopped looking for work.

Bolstering this position was the fact that at the end of 2013, the total number of jobs in the US economy had still not reached prerecession levels, according to the US Bureau of Labor Statistics (BLS). In December 2013, the total number of jobs was 138 million, compared with the December 2008 level of 137 million.1 In May, however, the economy added 217,000 workers, which lifted total payroll above pre-recession levels to 138.46 million jobs.2 While the number of jobs has finally climbed above those of the recession, the full effect of an economic recovery has yet to be felt.

Monthly job growth: 2012 and 2013
Following a more solid, if slow, positive trend, US unemployment continued to drop. Unemployment fell to 6.7% by the end of December 2013, down from a 2012 high of 8.3%.3

But the number of jobs added to the US economy was essentially unchanged. In 2013, job growth averaged 182,000 per month, slightly fewer than the average of 183,000 per month added in 2012 (See Exhibit “US monthly job creation, 2012 to 2013” Bureau of Labor Statistics, The Employment Situation—December 2013, January 10, 2014)

The reporting of unemployment rates, however, is a nuanced matter and is always open to conflicting interpretations. Consider, for instance, that in December 2013 the labor participation rate was 62.8%, continuing a year-over-year decline from 66.4% in 2007.4 The aging population explains much of this decline, but a significant portion is also due to the fact that many people have simply given up looking for work because they believe no jobs are available for them. BLS refers to this category as “discouraged workers.” They have essentially left the labor force, and as a result have been reluctant or unable to spend. That, in turn, has slowed economic growth.

Nonetheless, we have begun to see improvement as the number of discouraged workers has decreased over the past two years. In December 2013, the BLS counted 917,000 discouraged workers, a drop of 151,000 from the prior December.5

For US manufacturers and retailers, improving employment figures do not always translate into proportionately better revenues. Some sectors of the economy have recovered to a higher degree than others, and that can impact a food manufacturer whose products are positioned in the value category, according to Bill Schumacher, chief financial officer of Sunny Delight Beverages Company, a producer of juice-based drinks in Cincinnati, OH.

3 Bureau of Labor Statistics, Databases, Tables & Calculators by Subject
4 Bureau of Labor Statistics, Databases, Tables & Calculators by Subject
“While economic conditions in general have improved, the improvements seem to be a little uneven—while I think the higher end of the income distribution spectrum is doing better, the lower end of the income spectrum appears to still be struggling,” stated Schumacher. “I think this unevenness in the economy has put a lot of downward pressure on us and our competitors.”

Global economic conditions are also at play. While the economies of developed nations such as the US and Europe slowly gain traction, demand in certain emerging markets is not expanding with the same force as in previous years. Yet this has not slowed overall growth for some companies, including multinational consumer goods manufacturer General Mills.

“In emerging markets like Brazil and China economic growth remains high in absolute terms, but it’s slowing compared with recent years,” said Don Mulligan, chief financial officer of General Mills, in Minneapolis. “Nonetheless, this has not slowed our business and category growth in these markets. There are still large numbers of people entering the middle class, which brings them into our consumer zone. It appears that the growth rate of the emerging market middle class has remained very robust, and that’s the growth that’s more relevant to us.”

When it comes to overall consumer confidence, optimism was considerably higher in 2013 than the prior year, according to The Conference Board Consumer Confidence Index. In December 2012, the index was at 64.6. A year later, the index had climbed to 77.5, and consumer confidence continues to gain momentum. In May 2014, the index hit 83.6. Confidence is relative, however: Despite the recent upturn in consumer sentiment, the index has not reached prerecession highs of 112.6 in July of 2007.

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6 The Conference Board, The Conference Board Consumer Index Improves in May, May 27, 2014
7 The Huffington Post, Consumer Confidence Hits 6-Year High, July 31, 2007

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The specters of lower GDP and higher interest rates

Although the US job market and consumer confidence are on an upward trend, rising interest rates could put the brakes on a fast economic recovery.

GDP growth, the broadest barometer of US economic health, slowed last year. In 2013, real GDP increased by 1.9% over the prior year; in 2012, real GDP showed a 2.8% gain over the year before. Changes in federal budget policy contributed to the slowdown in 2013. Increases in taxes from the expiration of federal payroll tax cuts and higher tax rates on upper-income households affected household willingness to spend, and reduced federal spending associated with the federal budget sequester slowed government demand.

Additional fiscal austerity is unlikely to arise in 2014. A factor that could potentially darken the economic forecast is the possibility that the era of low interest rates in the US may be coming to an end. Interest rates in 2013 remained at historic lows, but most predict they will begin to rise as the Federal Reserve phases out its policy of quantitative easing. The Fed is also expected to begin raising the federal funds rate—which underpins the levels of all other rates—as early as April 2015. The federal funds rate, the interest rate at which banks trade balances overnight, has effectively been at 0% since 2008.

It seems very likely that interest rates will begin to inch up in advance of an increase in the federal funds rate. It’s a situation that worries some manufacturers, including Ray Silcock, chief financial officer of Diamond Foods, a packaged food company in San Francisco.

“We have clearly benefited from increased consumer spending in the last 12 months, but we worry that less propitious economic news, and the possibility that the Fed will cut its quantitative easing, will cause interest rates to rise,” Silcock said. “That could have a negative impact on the economy.”

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8 Bureau of Economic Analysis, National Income and Product Accounts Gross Domestic Product, 4th quarter and annual 2013 (third estimate); Corporate Profits, 4th quarter and annual 2013, March 27, 2014
9 The Wall Street Journal, Investors Fret as Prospect of Rate Rise Gets Closer, March 23, 2014
Executive summary
A lackluster economic recovery yields uneven financial performance

Some rates, in fact, already show an upturn. AAA corporate bond yields, for instance, have increased from 3.4% in July 2012 to 4.5% in January 2014—with considerable volatility during that period. As of April 2014, the rate, which is an indicator of long-term interest rates, eased slightly to 4.2%.10

The three-month London Interbank Offered Rate (LIBOR), an indicator of short-term rates, continues to decrease, however. Short-term rates have been sliding since January 2012, when they were at a high of 0.58% and dropped to 0.24% in January 2014.11

The outlook for the coming year and beyond

The forecast in four words: more of the same.

Most believe that the economy will continue its slow upward slog in the coming year. And, by some economic and consumer measures, the US economy is off to a good start.

In April 2014, 288,000 jobs were added to the economy, and the unemployment rate fell to 6.3%.12 As noted, The Conference Board Consumer Confidence Index inched up to 83 in May, the second highest level since 2008.

The dark cloud on an otherwise sunny horizon was a very sharp drop in GDP growth in the first quarter of 2014. By this measure, the economy contracted at a seasonally adjusted rate of 1%, the first negative growth in three years.13 While expectations are that growth will turn around in subsequent quarters in 2014, the relatively large negative value took analysts and executives by surprise.

“I’d like to be more optimistic, but the release of Q1 GDP numbers was fairly disappointing, and we’re anticipating modest to low job growth, slightly sluggish income growth, and low discretionary income growth,” said Schumacher of Sunny Delight. “That’s what we’re preparing for.”

10 Federal Reserve Bank of St. Louis, Moody’s Seasoned AAA Corporate Bond Yield, January 2012 to December 2013, accessed June 16, 2014
11 Federal Reserve Bank of St. Louis, 3-Month London Interbank Offered Rate, based on US Dollar, January 2012 to December 2013, accessed June 16, 2014
13 Bureau of Economic Analysis, National Income and Product Accounts; Gross Domestic Product: First Quarter 2014 (Second Estimate); Corporate Profits: First Quarter 2014 (Preliminary Estimate), May 29, 2014
Another factor that could limit economic expansion is rising prices. Prices of certain categories of particular importance to households have showed signs of increasing: Overall food prices increased by 1.9% between April 2013 and April 2014, gasoline jumped 2.4%, and shelter rose 2.8%. Price shifts in these categories have tightened discretionary income for shoppers, and that has put pressure on consumer packaged goods companies.

“What we’ve seen for the last couple of years, and it looks like it will continue into next year, is that while there are pressures on commodities to go up, demand has waned a bit. That’s really because the economic growth hasn’t been robust,” said Mulligan of General Mills.

Many businesses have had little choice but to raise their prices. “I worry about the need to recover commodity costs through pricing. In a zero-inflation world that will adversely impact margins,” said Silcock of Diamond Foods. “We have to find ways to improve productivity and efficiency because it can be difficult to raise prices to consumers. The bridge from here to when inflation is more normal could adversely impact corporate earnings over the next 12 to 18 months.”

Issues such as the drought in California and geopolitical concerns will continue to create volatility. “For most of our goods, and grains in particular, worldwide stock levels are fairly low. So drought or political uncertainty will result in more volatility,” Mulligan said. “Ukraine, for instance, is a source of grain, and as Russia moves into Crimea, concerns increase that the wheat harvest will be impacted and the price of wheat goes up.”

Despide these concerns and the drop in GDP, a report from the Organisation for Economic Co-operation and Development (OECD) predicts that US growth will resume and gain momentum in 2014, with private demand benefitting from favorable financial conditions, strengthened household and corporate balance sheets, and accommodative monetary policy. The OECD also forecasts “solid” employment growth in the US that will drive the unemployment rate below 6% by the end of 2015.

Globally, the OECD report anticipates that worldwide growth and trade will expand at a moderate pace through 2015. The OECD believes that growth in many large emerging market economies will be modest as compared with past performance, in part due to tighter financial and credit conditions, the impact of new policies, and supply-side constraints.

**How global trends shape today’s market conditions**

It’s worth noting how changes that PwC has labeled megatrends—such as global concerns about climate change, sustainability, shifts in economic power, and an aging population—are reflected in current market conditions.

Ongoing US droughts that have increased commodity prices for food manufacturers, for instance, can be associated with global climate change—a mounting concern that was recently highlighted by the Intergovernmental Panel on Climate Change. In its March 2014 report, the panel warned that water supplies are stressed, floods are worsening, and heat waves are intensifying. These issues worry many manufacturers because they can increase commodity prices of raw materials and disrupt production.

At the same time, surging demand due to population growth—and an increasing middle class in particular—could stress global ability to generate adequate crops to feed a worldwide population that is expected to top 8 billion by 2030.

“For a number of years, productivity per acre of land was increasing at a rate that kept pace with population growth,” Mulligan said. “But as demand accelerates, driven to large extent by the rising middle class in emerging countries, productivity has not kept pace. Given the projected population growth over the next 20 to 30 years, we will have to find new acreage for

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14 OECD, Global Economic Outlook, May 2014, May 6, 2014
15 Ibid.
17 United Nations, Department of Economic and Social Affairs, Population Division, Urban and Rural Components of Population Growth, 2008
crops, and that will largely be in Africa. We also must use technology to make the fields as productive as possible.”

Indeed, sustainability is an issue that many retail and consumer companies have begun to use to their advantage. Sunny Delight, for example, has ensured that all its manufacturing plants are certified as zero-waste facilities. “Our sustainable use of water, power, and packaging all revolve around efforts to become more green because we feel very strongly about preservation of natural resources,” Schumacher said. “And sustainability also translates into smart business decisions.”

It’s not surprising that sustainable business and manufacturing practices are more important to younger consumers. Silcock of Diamond Foods said environmentally responsible packaging and clean labels are “check the box” items for many Millennials. “They don’t accept containers that are not recyclable or food products that contain unpronounceable components,” he said. “We have addressed this with all our Kettle potato chip products, and it’s a big part of the brand success story.”

Indeed, there is some evidence that Millennials are influencing the consumption preferences of their parents, in part because they may live at home into their twenties. It is in this environment that Millennials are beginning to convince their parents that healthier, organic foods are worth the cost.

The aging population presents challenges and opportunities for some food manufacturers. As consumers age, they seek different serving sizes, packaging, and health-related ingredients. Sunny Delight’s products have found favor as an orange juice substitute for mature consumers. The reason? “Our products have a lower acid content than 100% orange juice, and a portion of the older population seems to have a preference for a less acidic taste. In some cases, our ph level is not any different than the alternatives but the flavor systems work to make it have less bite,” Schumacher said.

Companies that understand the needs of aging consumers can take action to expand their market and revenues in an uncertain economic environment. General Mills, for instance, has found great growth opportunity in its Fiber One products, which target the dietary needs of mature customers.

“It’s a matter of understanding how people’s health and wellness needs change as they age, and ensuring that your brands and packaging meet those needs,” said Mulligan. “This goes back to the heart of marketing, of knowing your consumer.”
For some CPG manufacturers, the unsteady economic recovery, high commodity prices, and slow or declining growth in developed markets resulted in weak financial performance in 2013.

Nonetheless, a select group of companies managed to do quite well in these uncertain conditions, showing healthy gains in operating profits and higher margins. To understand how these manufacturers outperformed their peers, we took a detailed look at their outcomes through the lens of a variety of financial metrics.

We gathered and reviewed publicly available data on a total sample of 111 CPG companies. We then sorted 41 companies with sales over $4 billion (large and very large) into performance quartiles and analyzed the results over five years to find the common characteristics linking the highest-ranking manufacturers. We were particularly interested in evaluating the top-quartile (best or top-performers) versus the bottom-quartile (weakest or bottom-performers) to uncover the specific business drivers that might explain their success.

We assigned scores to the 41 companies based on their relative performance across three fundamental metrics:

- **Economic profit spread**: This metric is based on return on invested capital (ROIC) and the weighted average cost of capital (WACC).

- **Return on assets (ROA)**: Earnings before interest and tax (EBIT) for a reported fiscal year divided by net assets for the same year.

- **Free cash flow relative to sales**: A ratio that shows the percentage of free cash flow to the amount of sales.

We identified 10 top-performing companies (TPC). Of this group, four are in the household products sector, three are beverage companies, and three are food manufacturers. Among the 11 bottom-quartile performers, five are in the household products sector, five are food manufacturers, and one is a beverage company.

Our analysis reveals that in 2013, the top-performers differed from the bottom-quartile in the following areas:

- **Gross margins** hit a five-year high among top-performers, while those of companies in the bottom-quartile sank to a five-year low.

- Despite outperforming their peers on other fundamental metrics, **sales, general and administrative (SG&A) as a percentage of sales** among top performers continued to be high, and the gap between the two quartiles widened in 2013.

- **EBIT growth** in the top-quartile group increased modestly, but consistently, in 2013. While the bottom-performing group showed a dramatic jump in EBIT growth in 2013, this group has experienced a high level of volatility during the past five years.

**Net sales growth steady in 2013**

In 2013, the median net sales growth of top-performers dipped slightly, while growth for bottom-performers increased moderately. In the top-quartile, manufacturers saw a 0.5 percentage point drop to 4.8% this year, continuing a downward trend from 2011. Bottom-performers recovered from a steep nosedive from 2011 to 2012 with a one percentage point increase over the previous year to 1.3%. These divergent results narrowed the spread between both groups to the lowest it’s been since 2010.

For both, however, net sales growth is down sharply from highs in 2011. This is perhaps a result of high commodity prices due to factors such as the sustained drought in California and severe weather in late 2013. The uncertainty of the overall US economy also may be at play: The elevated long-term unemployment rate, the inability of the economy to generate stable job growth, and a reluctance among consumers to increase consumption may have dampened net sales growth. It’s also worth noting that while consumer confidence continues to improve, it has not returned to prerecession levels.
A comparison of EBIT growth shows a similarly divergent pattern. The top-performing group registered a moderate increase in EBIT growth of 2.4 percentage points over 2012. At the same time, EBIT growth of bottom-performing companies skyrocketed by 35.5 percentage points. As a result, the spread between the two groups has narrowed to 8.3%, compared with 24.7% in 2012. For both groups, EBIT growth has been comparatively volatile over the past five years, with broad swings toward highs and lows. The gains in 2013 by companies in the bottom-quartile were particularly sharp; these manufacturers may have increased EBIT growth by implementing certain efficiencies such as those discussed in the section “Beyond the spreadsheets: What drives top-performers.”

In terms of median gross margins, top-performers raised their margins to 52.2%, a 1.7 percentage point increase that represents a high over the past five years. Margins of bottom-performers, on the other hand, sank to a five-year low at 20.6% thanks to a 2% decrease over 2012. This further widened the gap between the two to 31.6 percentage points.

When looking at the median free cash flow to sales, we found that performance for manufacturers in the top-and bottom-quartiles slumped slightly over the previous year, with top-performers showing a slightly steeper decline from 15.0% in 2012 to 14.2% in 2013. While the gap between the two remains wide at 10.8%, it narrowed by 0.5% this year.

The median interest coverage ratio of manufacturers in the top-quartile slipped to 14.6 in 2013. This was down slightly from 2012, but it is still a healthy ratio. Those in the bottom-quartile showed a more troublesome trend, sinking to a ratio of 2.7. It appears that bottom-performers may be facing difficulties in maintaining a balance of debt to equity and may need to take action to better cover their debt expenses. Alternately, they may be making a conscious choice to take advantage of historically low interest rates on mid-term debt.
Top-performing companies
An analysis of the financial performance of leading manufacturers

TPC median free cash flow to sales

TPC median gross margin

TPC median interest coverage ratio

Source: YCharts, Appendix A and PwC analysis

- Top-performing quartile
- Bottom-performing quartile
**SG&A remains largely flat**

In 2013, the median spending on sales, general, and administrative (SG&A) as a percentage of net sales among top-performers (29.2%) and bottom-performers (12.8%) both dipped slightly, with bottom-quartile manufacturers showing a somewhat steeper drop. All things considered, however, SG&A spending as a percentage of sales has remained relatively steady over the past three years.

The median cash conversion cycle metric measures the speed (in days) in which a business can turn assets into cash; a lower number of days indicates better performance. We found that the gap between top- and bottom-performing companies narrowed considerably as bottom-quartile manufacturers decreased their cash conversion cycle by 8.2 days to 52.4 days. Top-performers reduced their cash conversion cycle to 43.5 days, an improvement of 2.3 days over the previous year. For both groups, these numbers represent the best performance in five years.

Source: YCharts, Appendix A and PwC analysis
Beyond the spreadsheets: What drives top-performers

Numbers only tell you so much about what drives a company’s financial success. To better understand why top-performers excel and what strategies they focus on to boost financial outcomes, we examined their strategies around five key factors: operational efficiency, human capital, health and wellness, innovation, and brand management.

Implementing operational efficiencies improve margins and SG&A

Many top-performing manufacturers have begun to implement extensive productivity and cost-savings initiatives in the past year or so. In some cases, they have invested hundreds of millions of dollars in these initiatives. Implementation is often a multi-year process, and many will not see full results until the next two to three years.

A number of these top-performers have specifically targeted their supply chains as a means to boost efficiencies and improve cost structures. One global consumer goods company, for instance, has launched a series of supply chain and manufacturing efficiency programs that aim to deliver annual pretax cost savings of more than $350 million over the course of four years. To do so, the company is expanding its commercial hubs, extending shared business services, and streamlining global functions.

Similarly, a food manufacturer is investing in its manufacturing plant and distribution facilities to enhance its supply chain and competitive cost structure. The company expects to expand gross margins by generating an additional $60 million to $80 million in annual productivity gains over the next few years.

Another example is one of the world’s largest beverage companies. This top-performer is on track to realize up to $1 billion in incremental productivity savings by 2016 through optimization of its global supply chain and standardization of its information technology system. In doing so, the company plans to free up resources via supply-chain optimization, resource and cost allocation, improved utilization of its global marketing network, and systems standardization.

Tapping into the human element of excellence

Top-performing companies know that investing in human capital is critical to successful financial performance. For many, retaining top talent has become a core initiative—one that can improve performance in key metrics like SG&A by avoiding expenses such as hiring and training new employees.

Many in the top-quartile have launched programs to better train their employees, foster diversity of workers and management, and improve professional development plans to create a culture of high performance. This emphasis on talent is particularly important for multinational companies. One of the top-performing manufacturers, for example, fosters diversity by ensuring that its corporate headquarters is staffed with personnel representing a wide swath of its global operations. The company has managers from 70 countries working in its US headquarters.

Top-performers also know that succession management is critical to providing superior management in the future, and they’re creating programs to establish successful planning.

Leading companies understand the importance of being a good corporate citizen and ensuring sustainability. Some award cash grants to nonprofits, schools, and colleges to build stronger communities. One large CPG company has committed more than $300 million to community programs and has launched an initiative to reduce the environmental impact of its packaging by 20% through the use of environmentally friendly and recycled materials.
Boosting financial fitness through health and wellness

The aging population in developed countries and rising healthcare costs are two key trends that have shaped the strategies and financial performance of many leading manufacturers. In the US, healthcare spending represents 17.7% of total GDP—by far the highest of any member nation of the OECD—and will continue to grow as the population ages.18

Many of the top-performing companies have a connection with the health market in one way or another—through sales of personal healthcare products, nutritional supplements, medications, and medical cleaning products. Not all of these companies started out in the healthcare sector. Some have transitioned into the healthcare market via strategic acquisitions and product and channel adjacencies. One manufacturer, for instance, was originally known for its household products. It has since grown its healthcare sector into a $300 million business. To do so, it acquired a leader of natural personal-care products as well as other companies that specialize in cleaning and disinfecting products and that provide products for the healthcare industry.

Others that do not operate directly in the healthcare sector—food and beverage manufacturers in particular—have embraced a commitment to wellness that dovetails with the consumer push for products that are healthy, all-natural, and organic. Many have addressed the health imperative by lowering the calorie count of their products and promoting physical activity programs for employees and consumers. They also know it’s essential to provide transparent nutritional information on product packaging.

Among retailers, health and wellness is also a strong focus. Many retail drug stores now have in-store health clinics and kiosks, and they are increasingly stocking fresh, healthy foods in their retail stores. Grocery stores have also begun to dedicate entire aisles to healthy foods, including organic and all-natural products.

Most CPG manufacturers include health and wellness programs for employees in their strategic planning. They understand that doing so could influence key financial metrics such as gross margin, EBIT growth, and net sales growth.

One manufacturer, for example, has created a wellness program in which employees wear sensor-based monitors to measure activity and compete with co-workers on fitness goals. Another has implemented a program that aims to reduce employee health risks by 15% and, at the same time, realize a 5% reduction in healthcare costs.

Innovating for future growth

Most manufacturers understand that innovation is the engine that fuels growth and profitability.

Indeed, PwC’s Global Innovation Survey 2013 showed that 93% of executives said organic growth from innovation would be their major source of growth.19 What’s more, the survey found a clear correlation between innovation and revenue growth: Most innovative companies grow at faster rates—up to 16% higher—than the least innovative.

Among top-performing companies, innovation is a clear priority. Some have launched innovation and R&D centers not only in the US, but also in key growth markets abroad so they can better understand consumer preferences and more quickly develop, test, and launch new products. They know the importance of increasing the speed to market of new products, and they ensure that their innovation teams are adequately funded and staffed with top talent.

Leaders tend to collaborate with a range of partners, suppliers, manufacturers, academics, and even competitors, a process known as open innovation. A food manufacturer in the top-performing group has launched an annual open innovation summit in which global partners and suppliers gather to work on new product ideas and improvements in formulation, packaging, and technology.

18 OECD iLibrary, Total percentage on health as a percentage of gross domestic product, October 11, 2013
19 PwC, Global Innovation Survey 2013, October 2013
Some leaders innovate through acquisition of companies with complementary innovation teams and technologies. Others achieve innovation and growth via venture capital investments or by entering into joint venture agreements. A global beverage company on the top-performers list, for example, partnered with a company that markets at-home beverage systems in an initiative that will enable customers to produce its proprietary carbonated drinks at-home—thus finding a new way to deliver its beverages to consumers.

Leaders are deploying innovative brand-management strategies that combine traditional media, in-store communications, and social media. One very large CPG company has driven demand for its men’s grooming products with an interactive campaign that fuses marketing with sports partnerships and events on its social media pages. There was also a much-discussed campaign that featured celebrity models in television and print advertisements, social media, and live events. These integrated campaigns helped the manufacturer raise its brand value in 2013.

Companies are also adopting nontraditional approaches. Looking beyond consumers, one of the top-performers is connecting with health practitioners in vertical markets such as dental and veterinary care to build market share.

Another has implemented a brand strategy that focuses on engagement with consumers before, during, and after purchase. The initiative emphasizes products that are most likely to deliver superior return. This focus on high-value opportunities has enabled the manufacturer to build lifelong customer loyalty to its products, the vast majority of which rank first or second in market share in their category.

Using brand management to improve performance

Brand management is another way that top-performing companies maximize revenues and productivity. These companies know that strong brands are key for success and that investing in brands can drive performance by delivering higher customer preference for their products.

One of the top-performing companies, for instance, plans to increase marketing investments to support its brand. It will invest an additional $400 million in media to support brand-building this year, an investment it believes will pay off in accelerated growth.
Financial performance metrics

Retailers and manufacturers

Slow economic expansion in 2013 resulted in a modest rate of net sales growth among retailers and manufacturers. Retailers, however, seem to be more affected by the uncertain economy. In 2013, they showed lower EBIT growth; stalled sales per employee; and flat selling, general, and administrative (SG&A) expenses as a percentage of sales. Following is a look at performance by financial, operational, and tax metrics.

Manufacturers strengthen their financial performance

Looking at financial performance metrics, we found that manufacturers saw a better 2013 than retailers, with stronger performance in most benchmarks. This indicates that CPG companies are emerging with more vigor than retailers from the financial downturn of 2008 to 2009. It’s important to note, however, that not all results show the same highs we saw in 2010 and 2011.

Consider net sales growth. While CPG manufacturers are outperforming retailers in financial growth benchmarks, net sales growth for manufacturers and retailers continued to slow from a high in 2011. The decline for retailers was steeper than that of manufacturers, however, net sales growth was down 4.3 percentage points for retailers versus a drop of 1.6 percentage points for manufacturers.

The cause for these slowdowns in net sales growth is unclear. It very well may be that the extreme winter weather in the fourth quarter resulted in lackluster holiday sales and stocking problems for some retailers, although those that quickly adjusted their distribution networks did not feel the impact as greatly. In general, CPG manufacturers were less affected by weather, possibly because they operate in a range of categories that are independent of atmospheric events. What’s more, many manufacturers were able to boost anemic US performance with sales to foreign purchasers.

Manufacturers continued to maintain higher gross margins than retailers. Gross margins for manufacturers inched up to 36.7% in 2013 from 35.9% the year before. While retailers showed a slight decline of 0.4 percentage points to 24.8%, their gross margins have remained essentially flat over the past five years. Manufacturers appear to be slightly better at retaining margins, but both groups have further opportunities to improve operational efficiencies.

EBIT growth in 2013 increased for manufacturers, while decreasing for retailers. Manufacturers reported median EBIT growth of 5.2% in 2013, up 2.8 percentage points over the prior year. EBIT growth for retailers, on the other hand, continued a steep three-year slide, down from 7.7% in 2012 to 1.7% in 2013. Since 2010, EBIT growth among retailers has declined 10.7 percentage points. In fact, 2013 marks the first time in four years that manufacturers have outperformed retailers in EBIT growth.

Some retailers said intense promotions and declining in-store traffic weakened earnings in 2013. And while EBIT increased for manufacturers, CPG executives responding to PwC’s Annual CEO 2014 survey cited high and volatile materials prices as a top concern for their growth prospects.

We noted a similar flip-flop between CPG companies and retailers in operating cash flow ratio. Manufacturers’ operating cash flow ratio continued a gradual two-year increase, up to 0.45 in 2013. The operating cash flow of retailers, on the other hand, slipped to 0.41 in 2013.

Looking at the interest coverage ratio, retailers and manufacturers dropped to five-year lows. In 2013, both groups showed a median interest coverage ratio of six, with retailers registering a three-point dip from the prior year compared with a two-point drop for manufacturers. One explanation for these declines may be that companies borrowed more and were affected by slightly higher interest rates in 2013.
In performance measured by sales per employee growth, retailers continued a two-year slide, while manufacturers leveled off. Both registered declines in 2012, but retailers continued to sink from 2.7% in 2012 to 0.7% in 2013, and manufacturers were essentially flat at 2.9% last year.

Manufacturer sales per employee increased 5.0% over 2012 and by 23.4% since 2009, while that of retailers has remained essentially flat. This may be due to the fact that retailers have fewer opportunities to streamline efficiencies in processes and workflows than CPG companies.

All things considered, manufacturers showed stronger performance compared with retailers in 2013. It will be interesting to track consumer sentiments in the coming year and determine their impact on financial performance for retailers and manufacturers. The current forecast calls for continuing modest economic expansion, which should buoy consumer optimism and provide opportunities for new growth.

Manufacturers advance in operational performance

In most operational benchmarks, manufacturers showed improved performance in 2013, while retailers’ outcomes were flat or declining.

In a key indicator of operational efficiency—SG&A expenses as a percentage of sales—manufacturers reported a slight increase to 22.6% in 2013. Retailers’ performance, on the other hand, has remained level for the past two years. Some retailers cited tighter expense management as a reason for flat SG&A in their annual reports. Among manufacturers, the uptick in SG&A could mean they are investing more in marketing initiatives such as social media and mobility.

As for median days payable outstanding, manufacturers continued to perform better than retailers, but the gap between the two narrowed slightly over the prior year. Manufacturers boosted their performance by 2.7 days, considerably better than retailers’ gain of less than one day.

Retailers, however, continue to excel at quickly transforming inventory into cash. In 2013, retailers improved their days inventory outstanding to 39.6 days from 42.6 days over the prior year. Thus, they not only maintained fewer days inventory outstanding, but they also managed to lower the number of days outstanding to the lowest in two years. Manufacturers also improved their inventory performance, but not to the same degree: Their days inventory outstanding dropped to 63.2 days, a 3.6% performance improvement over 2012.

Mixed results in tax metrics

Manufacturers continued to attain more advantageous tax rates compared with retailers. In part, that’s because they can claim certain deductions not available to retailers. Additionally, they can conduct more research and development (R&D) that may be eligible for tax credits.

In 2013, manufacturers reported an effective tax rate of 28.1%, a decrease of 3.3 percentage points that represents the lowest rate in five years. Retailers had a tax rate of 32.9% in 2013, down from 34.5% the prior year.

Congress and the Obama Administration are discussing possible reform of the federal tax code, and the expiration of many provisions like the federal R&D tax credit in 2013 introduces a fair amount of uncertainty to corporate planning processes. Some manufacturers, for example, have said the lapsed R&D credits contributed to lower after-tax earnings in the first quarter of 2014. Among retail executives, respondents to PwC’s Annual CEO 2014 survey said that the increasing tax burden is their top concern.
Financial performance metrics

Retailers: Comparison to manufacturers data

Return metric
Median return on market capital

Liquidity metrics
Median current ratio
Median interest coverage ratio
Median debt to equity ratio

Median short-term debt to long-term debt ratio
Median operating cash flow ratio

Source: YCharts, Appendix A and PwC analysis
- Retailers
- Manufacturers
Retailers: Comparison to manufacturers data (continued)

Growth metrics

Median net sales growth

Median EBIT growth

Median sales per employee growth

Income statement metrics

Median free cash flow to sales

Median sales per employee

Median gross margin

Median SG&A as a percentage of sales

Median effective tax rate

Source: YCharts, Appendix A and PwC analysis

- Retailers
- Manufacturers
Financial performance metrics

Retailers: Comparison to manufacturers data (continued)

Balance sheet metrics

- Median inventory turnover
- Median return on average assets
- Median cash conversion cycle
- Median days payable outstanding
- Median days inventory outstanding

Source: YCharts, Appendix A and PwC analysis
- Retailers
- Manufacturers
Spotlight article: Today’s customer are increasingly mobile, social, and direct

Although manufacturers are pulling ahead in certain financial performance metrics, the advantage may go to retailers in the e-commerce race, which is heating up as more US consumers reach for their smartphones and tablets to shop.

One thing is certain: E-commerce continues to soar. US retail e-commerce sales hit $263.3 billion in 2013, an increase of 16.9% over 2012, according to the US Census Bureau. Online sales account for 5.8% of total retail sales in the US, according to the bureau. Forrester Research, Inc. predicts that US online retail sales will reach $294 billion this year and grow to $414 billion by 2018. The market research firm cites consumer adoption of smartphones and tablets for online shopping as a primary driver of this growth and forecasts that purchases made using mobile devices will hit $87 billion this year.

PwC’s research backs up these findings. In our 2014 Global Total Retail Survey, we found that 41% of global shoppers who took the survey bought products using tablets, compared with 28% in 2012. Likewise, 43% of respondents purchased products via smartphones, compared with 30% in 2012. In China, consumers led the way in shopping via mobile devices, with 49% shopping on a tablet and 51% shopping on a smartphone at least once a month, compared with 22% and 21%, respectively, for global respondents.

The ability to shop at any hour from any place is an important element of e-commerce. When asked why they buy products online rather than in-store, 42% of respondents cited the ability to shop 24/7. Personalization of the shopping experience through mobility is a critical opportunity for retailers, and one way they do so is by issuing mobile coupons to customers. It’s a practice that has gained the attention of shoppers: 67% of survey respondents said they have used a coupon received on their smartphone.

Direct-to-consumer: The fusion of brand and retail

Today’s digitally savvy consumers are becoming increasingly agnostic about shopping channels and want a unified customer experience with consistent promotions across channels. This means they are starting to have the same expectations of manufacturers, or “brands,” as they do of retailers.

In fact, most tech-savvy shoppers make virtually no distinction between manufacturers and retailers. In the Global Total Retail Survey, we found that only 22% of the global sample said they do not shop directly from manufacturers. Among US respondents, 70% said they purchase directly from manufacturing brands, a substantial increase from 52% the year before.

The reasons for shopping at brand websites range from lower prices (50%) to more choice (37%) to good stock availability (29%). The most popular product category in our survey for buying directly from brand websites was clothing and footwear at 51%. That’s followed by consumer electronics at 47% and books, music, movies, and video games at 36%.

Consumers not only shop directly with manufacturers, but they also track these brands on social media. We found that 59% of respondents said they follow favorite brands via social media, 51% interact with brands via social media, and 56% said they have posted comments about brands to social sites. Social networking sites are also becoming a storefront of sorts, with 48% of respondents saying they have purchased products via social media. That’s an extraordinary increase over our last survey in which just 12% said they had purchased products via social media.

When it comes to social media engagement, CPG companies generally have a been making significant advances. They are particularly good at engaging consumers in ways not necessarily limited to specific products or services. Unilever’s Dove brand, for instance, created a “Real Beauty Sketch” video last year that focused on women’s perception of personal attractiveness. It became one of the most-viewed online ads ever, with more than 133 million views and counting.

20 US Census Bureau, Quarterly Retail E-commerce Sales, 4th Quarter, Feb. 18, 2014
22 Mashable, Viral Dove Campaign Becomes Most Watched Ad Ever, May 20, 2013
Even large brands face challenges from new, smaller players because social media enables these companies to compete with traditional CPG companies. “Social media makes these new players just as relevant to consumers as our brands,” said Mulligan of General Mills.

Online marketing also plays well to younger demographics such as Millennials, who favor social media campaigns over traditional advertising, according to Silcock of Diamond Foods. “Millennials don’t trust what they hear on television, and when something is advertised on television they may find it less believable,” said Silcock. “By using social media and a completely different form of communication, the message is strengthened. I think the days of mass-market TV campaigns for certain kinds of goods may be ending.”

It all starts with social connections

For many companies, connecting directly with consumers via social media is the first step in selling products directly to consumers. General Mills, for example, recently launched a direct-to-consumer snack line called Nibblr. The subscription service delivers a box of four snacks via the US Postal Service on a weekly-, semiweekly-, or monthly- basis to customers’ homes.

“Subscription snacks are a fairly big category in the UK, and we thought it would work in the US as well,” said Mulligan. “We are testing it now, and we like the initial reaction among consumers. It’s a model that we believe has relevance for the long term.”

Other CPG manufacturers like Diamond Foods consider sales through online retailers like Amazon.com to be a form of direct-to-consumer marketing. “Consumers can buy Kettle potato chips on Amazon,” said Silcock. “We have multiple flavors but very few stores carry all of our flavors because they simply don’t have the room. On Amazon, we can offer all of our flavors, including the niche flavors, and people can get them easier than in a local store. I think this is what can drive our business.”

Silcock says retailers have not pushed back on CPG sales through Amazon because “selling via Amazon is just selling via another retailer.” But Silcock notes that Diamond intends to expand this type of sale. “We see very large opportunities here, and we are planning on beefing up how we do that,” he said. “It’s a modest piece of our business now, but we anticipate that it will grow significantly over the next few years.”

Retailers, for their part, are not simply standing back as brands begin to sell directly to consumers. Most notably, many continue to pursue their own private label brands. In addition, they are partnering with manufacturers to share consumer insights and collaborate on category management in order to create a larger market and drive more success for both.

They also know that not all manufacturers are eager to bypass retailers. After all, retailers are often brand manufacturers’ main B2B customers, and when sales dependence on a particular large retailer is high enough, many manufacturers will not risk upsetting this relationship for an unproven foothold in direct-to-consumer sales.

Another change for retailers is the move toward non-traditional, smaller store formats, which is being driven in some part by increasing urbanization. Many understand that future brick-and-mortar stores likely will be smaller, carrying a more targeted assortment of goods. A perfect example is Unleashed by Petco, small boutique pet stores developed by superstore Petco.

This trend toward smaller footprints will require that retailers calculate their productivity in profit dollars per square foot, an altogether different way of measuring success that could potentially squeeze profits. Retailers also will need to carefully select the right mix of products and pricing, since shelf space will be limited.
**Manufacturers: Size-specific data (small, medium, large, and very large)**

We compared the performance of manufacturers by size and found striking variances in the performance of small manufacturers when compared with those of larger companies. Overall, small companies tended to show weakened results in 2013, while very large manufacturers registered gains.

When it comes to performance measured by efficiency, however, our benchmarks suggest that size doesn’t always matter. Inventory turnover performance, for instance, is remarkably similar across organizations of all sizes. This is an interesting finding given that smaller manufacturers are thought to be more flexible and nimble and that they often have a higher inventory turnover because they are making fewer products.

With that said, the inventory turnover of small manufacturers has declined a full day since 2011, although it remains marginally higher than others. This may be the result of declining net sales growth, particularly in the past year. Medium, large, and very large manufacturers, however, show no advantage by size. For these, inventory turnover has remained flat for the past five years.

For most manufacturers, net sales growth stabilized in 2013 and was fairly flat after notable declines in 2012. The exception, again, lies with small manufacturers. After a sizable increase in 2012, small companies showed a very steep decline last year, plunging from a leading 13.8% to a category low of 0.2%, virtually zero growth.

Sales per employee are remarkably similar for very large, and medium manufacturers, all of which achieved modest increases from 2012. Medium-size manufacturers lead the pack, with an average of $466,787 in sales per employee. Very large companies registered the highest growth of $28,155 in sales per employee. Small manufacturers’ sales per employee also inched up, but they continue to be at least $175,000 lower than all others.

We saw some subtle shifts in gross margins, with very large and small manufacturers achieving slight gains over 2012 and large manufacturers dipping. When it comes to gross margins, very large companies continue to outperform with margins that are as much as 15 percentage points higher than the others. Very large manufacturers’ advantage may lie in their ability to more efficiently leverage resources and in their greater negotiating power. Many also have brand premiums that work in their favor, an expanded portfolio of products, and geographic diversity that can help compensate for slow domestic sales.

### Defining size

**Small:** Companies with greater than $50 million and less than or equal to $500 million in net sales in their last reported fiscal year.

**Medium:** Companies with greater than $500 million and less than or equal to $4 billion in net sales in their last reported fiscal year.

**Large:** Companies with greater than $4 billion and less than or equal to $10 billion in net sales in their last reported fiscal year.

**Very large:** Companies with greater than $10 billion in net sales in their last reported fiscal year.
Financial performance metrics

Global vs. domestic manufacturers

This year’s report of 111 companies includes 68 global and 43 domestic manufacturers. Based on size (see definitions on the right), most global companies are large (19) and very large (29), while 18 rank as medium and only two are small. When it comes to domestic manufacturers, the balance tilts toward those with lower net sales: 12 companies are small, 21 rank as medium, seven are large, and only three are very large.

The potential for growth is bigger for manufacturers that operate globally, but financial performance doesn’t always tip in their favor.

In 2013, the net sales growth for domestic and global manufacturers narrowed significantly, with global companies dipping moderately to 3.9% and domestic firms sliding from 6.4% to 3.6%. Just two years ago, global manufacturers showed a top net sales growth of 7.8%.

The slow growth in net sales is consistent with the global economic experience in 2013. Overall growth in the EU was negative, and expansion in other developed countries was slow to moderate. What’s more, developing economies saw much slower growth than in previous years. Going forward, these concerns are likely to remain an issue for manufacturers.

EBIT growth shows a different pattern, however. Domestic manufacturers’ EBIT growth has recovered from—9.1% in 2011 to a positive 5.7% in 2013—giving them a slim lead over global manufacturers. The EBIT growth of global firms, on the other hand, is down slightly from the previous two years, slipping below domestic manufacturers for the first time since 2010.

As in the past five years, domestic manufacturers continue to lead in performance of inventory turnover. Yet both are essentially flat.

Defining global and domestic

Global companies: Companies with greater than or equal to 20% of their revenues coming from international sales.

Domestic companies: Companies with less than 20% of their revenues coming from international sales.
Financial performance metrics

Size-specific data, all sectors, including select global versus domestic charts

Return metrics

Median return on invested capital

Median return on market capital

Liquidity metrics

Median current ratio

Median interest coverage ratio

Median debt to equity ratio

Median short-term debt to long-term debt ratio

Source: YCharts, Appendix A and PwC analysis

— Small manufacturers
— Medium manufacturers
— Large manufacturers
— Very large manufacturers
Financial performance metrics

Size-specific data, all sectors, including select global versus domestic charts (continued)

Growth metrics

Median net sales growth

Median EBIT growth

Income statement metrics

Median free cash flow to sales

Median sales per employee

Median gross margin

Source: YCharts, Appendix A and PwC analysis

- Small manufacturers
- Medium manufacturers
- Large manufacturers
- Very large manufacturers
Size-specific data, all sectors, including select global versus domestic charts (continued)

**Incomes statement metrics**

- **Median return on sales**
- **Median SG&A as a percentage of sales**
- **Effective tax rate**

**Balance sheet metrics**

- **Median inventory turnover**
- **Median cash conversion cycle**
- **Median return on average assets**

Source: YCharts, Appendix A and PwC analysis

- Domestic
- Global

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Financial performance metrics
Food, beverage, and household products manufacturers

By many measures, 2013 was a good year for food manufacturers. It was, however, an even better one for beverage manufacturers.

Consider, for instance, sales per employee performance. While food manufacturing maintains the lowest gross margins, the sector continues to lead in sales per employee, increasing 5.5% over the prior year. Perhaps the most interesting result on sales, however, is the jump shown by beverage manufacturers. Sales per employee for beverage companies soared 15.5% in 2013. In their annual reports for that year, beverage companies mentioned factors such as demand from a rising middle class in developing countries, global urbanization, and increases in sales of non-carbonated drinks.

When it comes to SG&A, beverage companies registered the highest percentage of sales at 29.6%. This perhaps reflects increased spending on marketing. SG&A among makers of household products dropped below that of food manufacturers for the first time, decreasing 3.4 percentage points over 2012. SG&A for food manufacturers has remained consistently low at 16.2% since 2011.

It can be expected that inventory turnover among food manufacturers will be high, given the perishable nature of many food types. Food companies increased their inventory performance marginally in 2013, as did beverage and household products manufacturers.

Looking at metrics for interest coverage ratio, we found a drop in performance for all sectors. In particular, household products manufacturers registered a sharp decline of 4.9 points over 2012. This deteriorating performance may be the result of rising interest rates, which began to edge up in 2013. It’s also possible that the debt levels of household products companies have increased, and they are finding it difficult to pay down their interest expense.
Financial performance metrics

Sector-specific data, all sectors

Return metrics

Median return on invested capital

Median return on market capital

Liquidity metrics

Median current ratio

Median interest coverage ratio

Median debt to equity ratio

Median short-term debt to long-term debt ratio

Source: YCharts, Appendix A and PwC analysis

- Household products
- Food
- Beverage
Financial performance metrics

Sector-specific data, all sectors (continued)

Growth metrics
Median net sales growth

Median EBIT growth

Income statement metrics
Median free cash flow to sales

Median return on sales

Median sales per employee

Median SG&A as a percentage of sales

Median effective tax rate

Median gross margin

Source: YCharts, Appendix A and PwC analysis
- Household products
- Food
- Beverage

2014 Financial Benchmarking
Financial performance metrics

Sector-specific data, all sectors (continued)

Balance sheet metrics

Median inventory turnover

Median return on average assets

Median cash conversion cycle

Source: YCharts, Appendix A and PwC analysis
- Household products
- Food
- Beverage
Appendix A: Financial performance metrics methodology

We present key industry metrics based on an analysis of financial data for a set of CPG manufacturers and retailers (see Appendices B and C). In this appendix, we describe the data sources used and the data preparation steps taken to produce these metrics.

Data sources
YCharts was the primary source of data for the analysis presented in this report. This data set includes annual financial data from 2008 through 2013, by fiscal year, for publicly traded companies. The report uses restated data that accounts for mergers, acquisitions, divestitures, and accounting changes. All data used to construct financial metrics is “as reported” by the companies.

Company choice
The companies analyzed were identified as companies that operate in the CPG manufacturing or retail industries. This designation is generally based on a company’s primary industry and is identified using the North American Industry Classification System (NAICS) as designated by each company and reported in YCharts.

Manufacturers
A core group of NAICS codes was used to categorize companies according to CPG industries, including food, beverage, and household products manufacturing activities.

Below is a list of the major manufacturer NAICS codes and NAICS code descriptions by sector used in this report.
Appendix A: Financial performance metrics methodology

Retailers

Below is a list of the major retailer NAICS codes and NAICS code descriptions which were used to generate the list of 51 retail companies analyzed in this report.

Primary retailer NAICS codes

<table>
<thead>
<tr>
<th>NAICS code</th>
<th>NAICS description</th>
</tr>
</thead>
<tbody>
<tr>
<td>424410</td>
<td>General line grocery wholesalers</td>
</tr>
<tr>
<td>445110</td>
<td>Supermarkets and other grocery (except convenience) stores</td>
</tr>
<tr>
<td>445120</td>
<td>Convenience stores</td>
</tr>
<tr>
<td>445299</td>
<td>All other specialty food stores</td>
</tr>
<tr>
<td>446110</td>
<td>Pharmacies and drug stores</td>
</tr>
<tr>
<td>446199</td>
<td>All other health and personal care stores</td>
</tr>
<tr>
<td>446120</td>
<td>Cosmetics, beauty supplies, and perfume stores</td>
</tr>
<tr>
<td>447110</td>
<td>Gasoline stations with convenience stores</td>
</tr>
<tr>
<td>452111</td>
<td>Department stores (except discount department stores)</td>
</tr>
<tr>
<td>452112</td>
<td>Discount department stores</td>
</tr>
<tr>
<td>452990</td>
<td>All other general merchandise stores</td>
</tr>
<tr>
<td>453910</td>
<td>Pet and pet supplies stores</td>
</tr>
<tr>
<td>453998</td>
<td>All other miscellaneous store retailers (except tobacco stores)</td>
</tr>
<tr>
<td>454111</td>
<td>Electronic shopping</td>
</tr>
<tr>
<td>454113</td>
<td>Mail-order houses</td>
</tr>
</tbody>
</table>

Source: PwC

Data reporting

Reported results utilize median figures in order to reduce the effect of performance outliers on the overall metrics. When the count of companies with reported data is large enough, we also report quartile figures at the 25th and 75th percentile observations.

Size-based segmentations were defined using the benchmarks below:

Size segmentations for financial reporting metrics

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Very large manufacturers</td>
<td>Net sales &gt; $10B</td>
</tr>
<tr>
<td>Large manufacturers</td>
<td>$4B &lt; net sales ≤ $10B</td>
</tr>
<tr>
<td>Medium manufacturers</td>
<td>$500M &lt; net sales ≤ $4B</td>
</tr>
<tr>
<td>Small manufacturers</td>
<td>$50M &lt; net sales ≤ $500M</td>
</tr>
</tbody>
</table>

Source: PwC

Companies with net sales of less than $50 million for the most recent reported fiscal year were excluded.

The total number of manufacturers in each size- and industry-based segment are included below.

Manufacturing companies by industry size and segment

<table>
<thead>
<tr>
<th></th>
<th>Small</th>
<th>Medium</th>
<th>Large</th>
<th>Very Large</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beverage</td>
<td>3</td>
<td>10</td>
<td>5</td>
<td>11</td>
<td>29</td>
</tr>
<tr>
<td>Food</td>
<td>10</td>
<td>22</td>
<td>13</td>
<td>11</td>
<td>56</td>
</tr>
<tr>
<td>Household products</td>
<td>1</td>
<td>7</td>
<td>8</td>
<td>10</td>
<td>26</td>
</tr>
<tr>
<td>Total</td>
<td>14</td>
<td>39</td>
<td>26</td>
<td>32</td>
<td>111</td>
</tr>
</tbody>
</table>

Source: PwC
<table>
<thead>
<tr>
<th>Company Name</th>
<th>Company Name</th>
<th>Company Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agria Corporation (ADR)</td>
<td>Farmer Brothers Co.</td>
<td>National Beverage Corp.</td>
</tr>
<tr>
<td>Ajinomoto Co., Inc.</td>
<td>Flowers Foods, Inc.</td>
<td>Nestlé SA</td>
</tr>
<tr>
<td>Anheuser-Busch InBev NV</td>
<td>Fomento Económico Mexicano S.A.B. de C.V. (ADR)</td>
<td>Newell Rubbermaid Inc.</td>
</tr>
<tr>
<td>Archer Daniels Midland Company</td>
<td>Fresh Del Monte Produce Inc.</td>
<td>Novartis AG (ADR)</td>
</tr>
<tr>
<td>Avon Products, Inc.</td>
<td>General Mills, Incorporated</td>
<td>Omega Protein Corporation</td>
</tr>
<tr>
<td>BASF SE (ADR)</td>
<td>Greatbatch, Inc.</td>
<td>PepsiCo, Inc.</td>
</tr>
<tr>
<td>Beam, Inc.</td>
<td>Gruma, S.A.B. de C.V. (ADR)</td>
<td>Pernod Ricard NV</td>
</tr>
<tr>
<td>Boulder Brands, Inc.</td>
<td>Heineken N.V. (ADR)</td>
<td>Pilgrim’s Pride Corporation</td>
</tr>
<tr>
<td>Bridgford Foods Corporation</td>
<td>Hormel Foods Corporation</td>
<td>Pinnacle Foods Finance LLC</td>
</tr>
<tr>
<td>Brown-Forman Corporation</td>
<td>Ingredion Incorporated</td>
<td>Post Holdings, Inc.</td>
</tr>
<tr>
<td>Bunge Limited</td>
<td>Inter Parfums, Inc.</td>
<td>Reckitt Benckiser Group plc</td>
</tr>
<tr>
<td>Campbell Soup Company</td>
<td>International Flavors &amp; Fragrances</td>
<td>Revlon, Inc.</td>
</tr>
<tr>
<td>Chiquita Brands International, Inc.</td>
<td>Inventura Foods, Inc.</td>
<td>SABMiller plc</td>
</tr>
<tr>
<td>Coca-Cola Bottling Co. Consolidated</td>
<td>Jamba, Inc.</td>
<td>Seaboard Corporation</td>
</tr>
<tr>
<td>Coca-Cola Enterprises, Inc.</td>
<td>Jarden Corporation</td>
<td>Seneca Foods Corporation</td>
</tr>
<tr>
<td>Coca-Cola FEMSA, S.A.B. de C.V. (ADR)</td>
<td>John B. Sanfilippo &amp; Son, Inc.</td>
<td>Shiseido Co. Ltd. (ADR)</td>
</tr>
<tr>
<td>Coca-Cola HBC S.A. (ADR)</td>
<td>Johnson &amp; Johnson</td>
<td>Snyder's-Lance, Inc.</td>
</tr>
<tr>
<td>Colgate-Palmolive Company</td>
<td>Kerry Group plc</td>
<td>SunOpta, Inc. (USA)</td>
</tr>
<tr>
<td>Concha y Toro Winery, Inc.</td>
<td>Kimberly-Clark Corporation</td>
<td>Tate &amp; Lyle PLC (ADR)</td>
</tr>
<tr>
<td>Cott Corporation (USA)</td>
<td>Kraft Foods Group, Inc.</td>
<td>The Clorox Company</td>
</tr>
<tr>
<td>Craft Brew Alliance, Inc.</td>
<td>Lancaster Colony Corp.</td>
<td>The Coca-Cola Company</td>
</tr>
<tr>
<td>Crystal Rock Holdings, Inc.</td>
<td>Lifeway Foods, Inc.</td>
<td>The Estée Lauder Companies Inc.</td>
</tr>
<tr>
<td>Danone</td>
<td>L’Oréal</td>
<td>The Hain Celestial Group, Inc.</td>
</tr>
<tr>
<td>Darling International Inc.</td>
<td>Marine Harvest ASA</td>
<td>The Hershey Company</td>
</tr>
<tr>
<td>Dean Foods Company</td>
<td>McCormick &amp; Company, Inc.</td>
<td>The Hillshire Brands Company</td>
</tr>
<tr>
<td>Diageo plc (ADR)</td>
<td>Mead Johnson Nutrition Co.</td>
<td>The J.M. Smucker Company</td>
</tr>
<tr>
<td>Diamond Foods, Inc.</td>
<td>Medifast, Inc.</td>
<td>The Procter &amp; Gamble Company</td>
</tr>
<tr>
<td>Dr Pepper Snapple Group, Inc.</td>
<td>MGP Ingredients, Inc.</td>
<td>Tootsie Roll Industries, Inc.</td>
</tr>
<tr>
<td>Ecolab Inc.</td>
<td>Molson Coors Brewing Company</td>
<td>TreeHouse Foods, Inc.</td>
</tr>
<tr>
<td>Energizer Holdings, Inc.</td>
<td>Monster Beverage Corporation</td>
<td>Ultralife Corporation</td>
</tr>
<tr>
<td>Exide Technologies</td>
<td></td>
<td>Unilever PLC (ADR)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Zep Inc.</td>
</tr>
</tbody>
</table>
Appendix C: Retailer company list

ALCO Stores, Inc
Alimentation Couche-Tard Inc.
Amazon.com, Inc.
Big Lots, Inc.
Casey's General Stores, Inc.
Costco Wholesale Corporation
CVS Caremark Corporation
Dairy Farm International Holdings Limited
Delhaize Group (ADR)
Dollar General Corp.
Dollar Tree, Inc.
Empire Company Limited
Family Dollar Stores, Inc.
Fred’s, Inc.
GNC Holdings, Inc.
Ingles Markets, Incorporated
Koninklijke Ahold N.V. (ADR)
Loblaw Companies Limited
Metro, Inc.
Omnicare, Inc.
Perfumania Holdings, Inc.
PetSmart, Inc.
PharMerica Corporation
PriceSmart, Inc.
Publix Super, Markets Inc.
Rite Aid Corporation

Safeway Inc.
Sainsbury (J) PLC
Sally Beauty Holdings, Inc.
Sears Holdings Corporation
Shoppers Drug Mart Corporation
Spartan Stores, Inc.
Starbucks Corporation
SUPERVALU INC.
Sussers Holdings Corporation
Target Corporation
Tesco PLC (ADR)
The Jean Coutu Group (PJC) Inc.
The Kroger Co.
The Pantry, Inc.
TravelCenters of America LLC
Ulta Salon, Cosmetics & Fragrance, Inc.
United Natural Foods, Inc.
Village Super Market, Inc.
Vitacost.com, Inc.
Vitamin Shoppe, Inc.
Walgreen Company
Wal-Mart de Mexico, S.A.B. de C.V. (ADR)
Wal-Mart Stores, Inc.
Weis Markets, Inc.
Whole Foods Market, Inc.
Appendix D: Definitions

**Beverage manufacturers**
Manufacturers of beverage products, including breweries, distilleries, and wine producers.

**Book capital**
The sum of total debt and the book value of equity.

**Cash conversion cycle**
Sum of days sales outstanding and days inventory outstanding minus days payable outstanding for the same fiscal year.

**Cost of goods sold**
The total cost of the inputs to producing products, including excise tax payments.

**CPG manufacturers (referred to in this report as “manufacturers”)**
Companies that manufacture food, beverage, and household and personal care products.

**CPG retailers (referred to in this report as “retailers”)**
Companies that sell manufactured food, beverage, and household and personal care products.

**Current ratio**
Current assets for a reported fiscal year divided by the current liabilities for that same year.

**Days sales outstanding**
The average of the previous fiscal year’s and reported fiscal year’s accounts receivable divided by the reported fiscal year’s average daily net sales.

**Debt-to-equity ratio**
Total debt for a reported fiscal year divided by the total book equity for that same year.

**Domestic companies**
Companies with less than 20% of their revenues coming from international sales.

**EBIT**
Earnings from continuing operations before interest and taxes.

**EBITDA**
Earnings before interest, taxes, depreciation, and amortization.

**Economic profit**
Economic profit spread is calculated by taking return on invested capital (ROIC) and subtracting the weighted average cost of capital (WACC).

**Effective tax rate**
Income tax divided by earnings before tax for the same fiscal year.

**Food manufacturers**
Manufacturers of food products, including dry coffee and tea producers; frozen fruit, juice, and vegetable producers; and dry, condensed, and evaporated dairy product manufacturers.

**Free cash flow as a percentage of sales**
Net cash from operating activities less capital expenditures as a percent of net sales for the same time period.

**Global companies**
Companies with greater than or equal to 20% of their revenues coming from international sales.

**Gross margin**
Ratio of net sales minus cost of goods sold to net sales for the same fiscal year.

**Household products manufacturers**
Manufacturers of household and personal care products, including primary battery producers and dog and cat food producers.

**Interest coverage ratio**
Earnings before interest and taxes divided by the sum of operating interest expense and non-operating interest. For companies that also recorded interest income, this amount was deducted from interest expense in the calculation.

**Inventory turnover**
Cost of goods sold for a reported fiscal year divided by the average of the previous fiscal year’s and reported fiscal year’s total inventory.

**IRR**
Internal rate of return, used in capital budgeting to measure the profitability of investments.

**Large companies**
Companies with greater than $4 billion in net sales and less than or equal to $10 billion in net sales in their last reported fiscal year.
Appendix D: Definitions

**Market capital**
Sum of total debt and total market value of equity.

**Medium companies**
Companies with greater than $500 million and less than or equal to $4 billion in net sales in their last reported fiscal year.

**Net sales**
Net revenue as reported by a company.

**Operating cash flow ratio**
Cash flow from operations divided by current liabilities.

**Return on average assets**
EBIT for a reported fiscal year divided by the average of the previous fiscal year’s and reported fiscal year’s total assets.

**Return on invested capital**
Net operating profit after taxes for a reported fiscal year divided by the average of the previous fiscal year’s and reported fiscal year’s book capital.

**Return on market capital**
EBITDA for a reported fiscal year, divided by the average of the previous fiscal year’s and reported fiscal year’s market capital.

**Return on sales**
EBIT for a reported fiscal year divided by net sales for that same year.

**Sales per employee**
Net sales for a given year divided by the average of the previous year’s and reported fiscal year’s total number of employees.

**SG&A expense as a percentage of sales**
Ratio of selling, general, and administrative expense to net sales for the same fiscal year.

**Shareholder return**
Annualized percentage return from stock prices and reinvested dividends for a fiscal year-end.

**Short-term to long-term debt ratio**
Short-term debt for a reported fiscal year divided by long-term debt for that same year.

**Small companies**
Companies with greater than $50 million and less than or equal to $500 million in net sales in their last reported fiscal year.

**Total debt**
Total debt outstanding, including notes payable/short-term debt, current portion of long-term debt/capital leases, and total long-term debt.

**Very large companies**
Companies with greater than $10 billion in net sales in their last reported fiscal year.
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