

MOVING ON UP

**PREMIUM PRODUCTS ARE IN HIGH
DEMAND AROUND THE WORLD**

DECEMBER 2016

nielsen
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PREMIUM PRODUCTS ARE EXPERIENCING STRONG SALES GROWTH AROUND THE WORLD

AROUND THE WORLD

- The premium segment is experiencing strong growth—outpacing total category sales in many markets—with strong potential for continued growth as consumer buying power and spending rise around the world.
- Consumers aren't just trading up on big-ticket purchases; they're also going premium on everyday items. The personal-care, beauty, home-care and various food and beverage categories are experiencing strong sales growth in many markets around the world.
- The most commonly cited features of premium products are exceptional quality (cited by 54%) and superior performance (46%). The most successful premium products are those that perform an important job for which previously available solutions were unsatisfactory or nonexistent.
- Products with environmental or social benefits have premium potential. Roughly four in 10 global respondents they're very willing to pay a premium for products made with organic or all-natural ingredients (42%) or environmentally friendly or sustainable materials (39%), and 31% say they're very willing to pay a premium for socially responsible products.
- Consumers buy premium products for both rational and emotional reasons, but the latter resonate more strongly in emerging markets where aspirations for status and accomplishment are high.

Around the world, consumers are looking for a taste of the good life. And it's not just those who are wealthy. Sales of products in the “premium” tier—which Nielsen defines as goods that cost at least 20% more than the average price for the category—are growing at a rapid pace. In fact, the growth of the premium sector in many markets around the world is outpacing total growth for many categories of fast-moving consumer goods (FMCG). Between 2012 and 2014, the premium segment grew 21% in Southeast Asia, more than double the rate of the mainstream and value tiers (8% and 10%, respectively). Premium products grew 23% over the same period in China. In Latin America, growth in the premium segment outpaced total FMCG growth in every market except Mexico and Venezuela over the 12 months ended June 2016.

Factors on both the supply and demand sides are driving the growth of the premium segment. First, many consumers have greater buying power than ever before. Consumer purchasing power is growing at 7% and 9% per year in China, India and sub-Saharan Africa, according to data from the World Bank. The Organization for Economic Cooperation and Development predicts the global middle class will increase from 1.8 billion in 2009 to 4.9 billion by 2030, with the bulk of this growth coming from emerging markets, particularly Asia. With more money in their pockets, many consumers are trading up for products and services they couldn't previously afford. In addition, globalization—which has given consumers access to a broader assortment of products—and an increased focus on the quality of products and the shopping experience in many markets have further fueled consumers' appetite for premium products.

“With increasing affluence, consumers are craving products that offer a total experience, said Liana Lubel, senior vice president, Nielsen Innovation Practice.” Beyond basic-need products, many consumers also are buying based on how products make them feel, and premium products tap directly into a desire for products that provide specialized, enhanced or exclusive benefits. But delivering on their expectations of the experience remains critical, and the most successful premium products are those that perform an important job for which previously available solutions were unsatisfactory or nonexistent.”

Premiumization isn't just a developing market trend. In the U.S., premium products account for roughly one-quarter of dollar sales in the personal- and home-care categories (26% and 23%, respectively), growth in the premium segment outpaced total category growth for personal care (8% versus 2%) and food (8% versus 3%) in the year ended April 2, 2016. The story is similar in several European markets. Between 2014 and 2015, premium segment growth outpaced total growth for several categories analyzed, including shampoo and sweet biscuits in the U.K., Germany, France and Italy; soft drinks in Germany and the U.K.; and laundry in France.

The availability of new, innovative brands is also fueling growth in the premium segment, as fresh offerings can bring excitement and increased marketing spend to a category. The premium segment has been a bright spot in a very challenging retail environment, and brands are consciously innovating to capitalize on the trend. For example, Nielsen sales trends show that between 2012 and 2014, premium products accounted for almost 20% of all new-product development in Southeast Asia—and as much as 40% in certain categories (facial cleanser, moisturizer and instant noodles).

ABOUT THE STUDY

Retail sales data is sourced from Nielsen's Retail Measurement Services, which captures sales and price data from major retail chains. Specific countries and time periods from Europe, Latin America, Asia-Pacific and North America are sourced throughout the report. Survey findings are based on more than 30,000 respondents with online access in 63 countries. While an online survey methodology allows for tremendous scale and global reach, it provides a perspective on the habits of only existing internet users, not total populations. In developing markets where online penetration is still growing, respondents may be younger and more affluent than the general population of that country. In addition, survey responses are based on claimed behavior, rather than actual metered data. Cultural differences in reporting sentiment are likely factors in the outlook across countries. The reported results do not attempt to control or correct for these differences; therefore, caution should be exercised when comparing across countries and regions, particularly across regional boundaries.

While the premiumization trend is going strong, some of the big-player manufacturers have struggled to keep pace with smaller players across all price tiers. For example, in the U.S., the 25 largest food and beverage companies drove only 3% of the total category growth from 2011 to 2015, while companies below the top 100 drove nearly half (49%). While these numbers indicate an underlying issue with *all* new product development, there's more at stake with premium products because of their higher revenue potential.

“Premium perceptions are not necessarily driven by a strong legacy brand, and existing brand equities can sometimes be at odds with shifting perceptions,” said Lubel. “A smaller company builds brand and product perceptions simultaneously, so it can more easily adapt to consumer demand. On the other hand, an established brand’s image may be inconsistent with the needs of a newer launch, and reconciling these can be a difficult task; a well-known mass-market brand may struggle to establish its offering as premium. Nonetheless, huge opportunities remain for established brands in the premium space, especially when there is sizeable gap between mass-market offerings and the existing premium tier. By leveraging their infrastructure and retail partnerships, large companies are uniquely positioned to reach a large consumer base with lower-tier premium offerings.”

This study identifies the attributes consumers are looking for in premium product offerings, and reveals the underlying sentiment behind the reasons for purchase. We explore what “premium” means to consumers, and we identify the categories for which they’re most willing to pay a higher price. In addition, because willingness to pay a premium is largely shaped by how consumers feel about their financial situation, we look at perceptions of spending capacity. Finally, we offer best practices to consider when competing in the premium product space.

BIG U.S. MANUFACTURERS STRUGGLE TO KEEP PACE WITH SMALLER PLAYERS

SHARE OF CATEGORY GROWTH FOR U.S. FOOD & BEVERAGE MANUFACTURERS (2015)



Source: Nielsen 2016 Breakthrough Innovation Report, U.S. Edition

SPENDING FREELY OR TIGHTENING PURSE STRINGS?

SENTIMENT IS NOT NECESSARILY INCOME-DEPENDENT

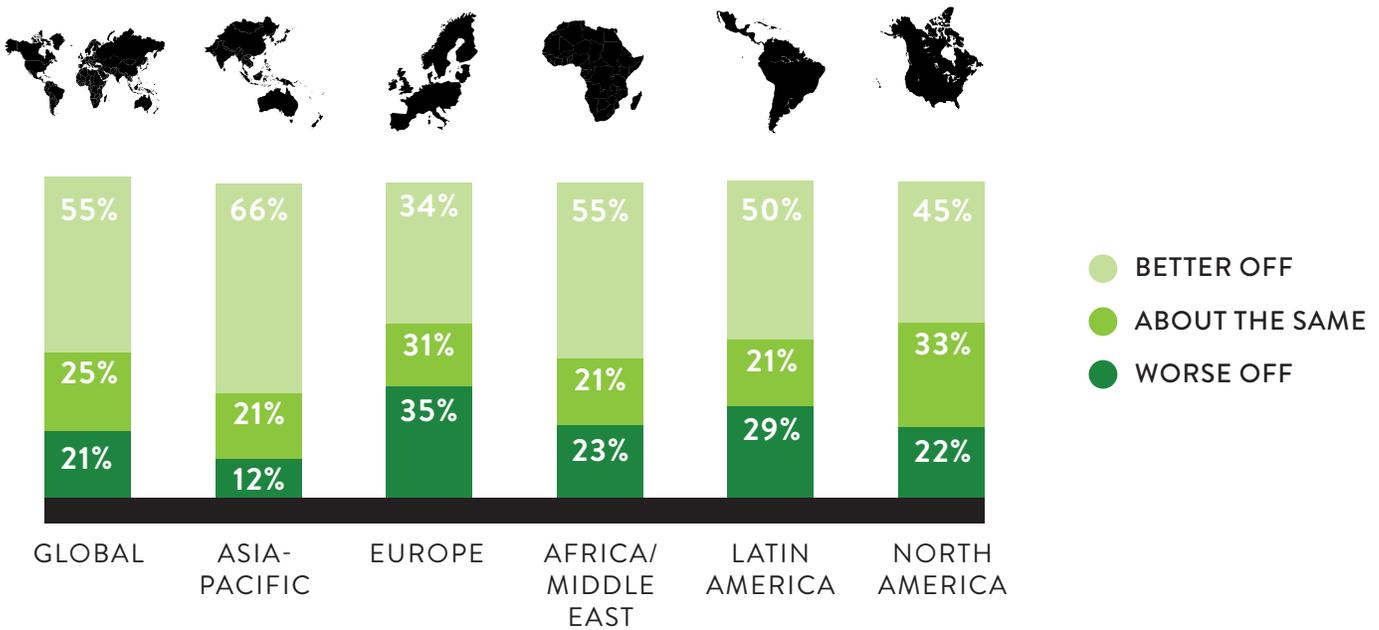
Nearly as important as consumers' income is how they feel about their ability to spend. When it comes to those who say they're doing well financially and those who are feeling increasingly cash-crunched, response rates vary between emerging/developing and developed markets.

In much of the emerging and developing world, the middle-class population is increasing, so it's no surprise that more respondents in these markets than in developed markets say they've made financial gains in the past five years. More than seven in 10 Indian and Chinese respondents (78% and 72%, respectively) say they're financially better off than they were five years ago. This sentiment is echoed by more than half of respondents in every Southeast Asian country in the study, with the highest rates in Vietnam (82%) and Indonesia (74%). Likewise, more than half of respondents in African/Middle Eastern markets (55%) and half in Latin American markets (50%) say they're in a better financial situation.

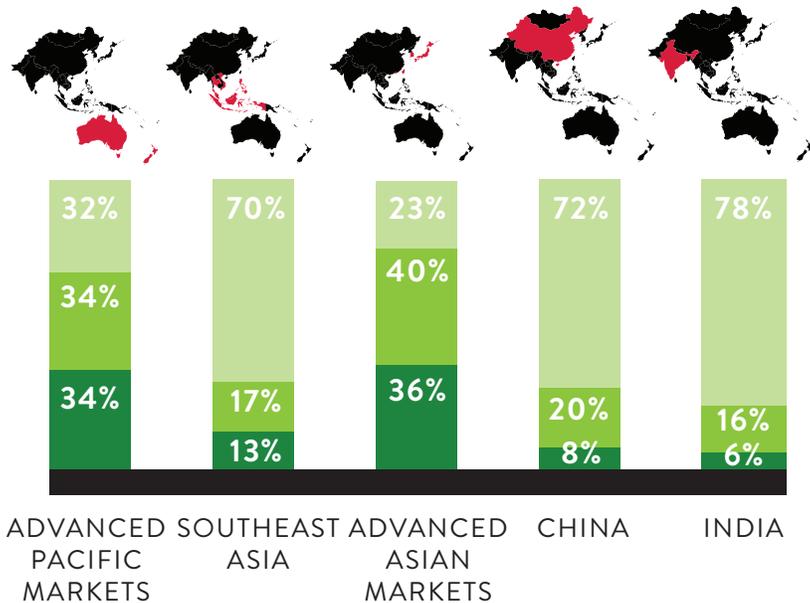
In developed markets, perceived financial gains have been more modest. Respondents in North America are the most positive, driven primarily by those in the U.S. Forty-six percent of respondents in the U.S. say they're financially better off today than five years ago (compared with 36% in Canada). In the advanced Pacific markets (Australia and New Zealand), sentiment is split into thirds: about one-third of respondents (32%) believe they're better off today, while one-third (34%) think they're worse off, and another one-third (34%) say their financial situation is no different than it was five years ago. The story is similar in Western Europe: 30% say they're better off, and 34% say they're worse off. Respondents in Central and Eastern Europe are more positive about their financial situation than their neighbors to the west. Forty percent of Central and Eastern European respondents say they're better off today than they were five years ago.

PERCEIVED FINANCIAL GAINS ARE HIGHEST IN DEVELOPING MARKETS

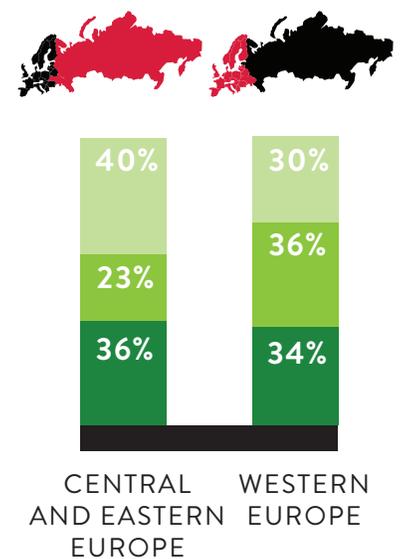
HOW RESPONDENTS FEEL ABOUT THEIR FINANCIAL SITUATION TODAY COMPARED WITH FIVE YEARS AGO



ASIA-PACIFIC SUBSEGMENTS



EUROPE SUBSEGMENTS



Note: Percentages may not equal 100% due to rounding
 Source: The Nielsen Global Premiumization Survey, Q1 2016
 *See page 24 for listing of countries included in the regions and subregions

Perceived financial improvements don't always translate to an ability to spend. Globally, only 14% of respondents say they're able to spend freely. Another 52% say they're able to buy some things just because they want them, while 35% claim only enough money to cover the basics (food and shelter).

More importantly, spending considerations are not necessarily connected to income levels. For example, in India, where the gross national income per capita based on purchasing power parity¹ is only one-tenth of the level in the U.S., more than one-third of respondents (36%) say they're able to spend freely, compared with only 17% in the U.S. In several Southeast Asian markets, too, online respondents are more likely than the global average to say they're able to spend freely; examples include Vietnam (23%), Thailand (20%) and Indonesia (19%). In China, spending sentiment is notably different. Fewer than one in 10 Chinese respondents say they're able to spend freely (8%), but 72% say they're living comfortably; only one-fifth of online Chinese respondents (20%) say they can only afford basics.

In contrast, respondents in Europe and Latin America—regions hit particularly hard by “Great Recession”—feel more financially strapped. Fifty-eight percent of respondents in Central and Eastern Europe and 46% in Western Europe say they can only afford the basics, but sentiment varies within these regions. In Western Europe, while the majority of Italian (66%), Finnish (60%) and French (57%) respondents say they can only afford the basics, only 29% of Norwegian and Danish respondents say the same. The pattern is similar in Central and Eastern Europe: 78% of Serbian and 75% of Ukrainian and Greek respondents say they can only afford the basics, but agreement is much lower in Turkey (37%) and Israel (35%). Fifty-four percent of Latin American respondents say they can only afford the basics, with the highest percentages in Venezuela (71%) and Argentina (58%), two countries currently in economic crisis.

In Africa/Middle East, spending sentiment is divided along geographic lines. Online respondents in the Middle Eastern countries are significantly more likely than those in Africa to say they're living comfortably. More than half of respondents in South Africa (55%), Morocco (53%) and Egypt (51%) say they can only afford the basics, but fewer than four in 10 respondents in Saudi Arabia (38%), Pakistan (36%) and United Arab Emirates (31%) say the same.

Differences also show up among the generations. The financial struggles of Millennials are well-documented. Yet across the worldwide study, the Millennial generation (ages 21–34) is the age segment most likely to say it's able to spend freely (18%) and the least likely to say it's only able to afford the basics (29%). This holds true in every region except Europe, where Silent Generation (ages 65+) respondents are the least likely to say they can only afford the basics.

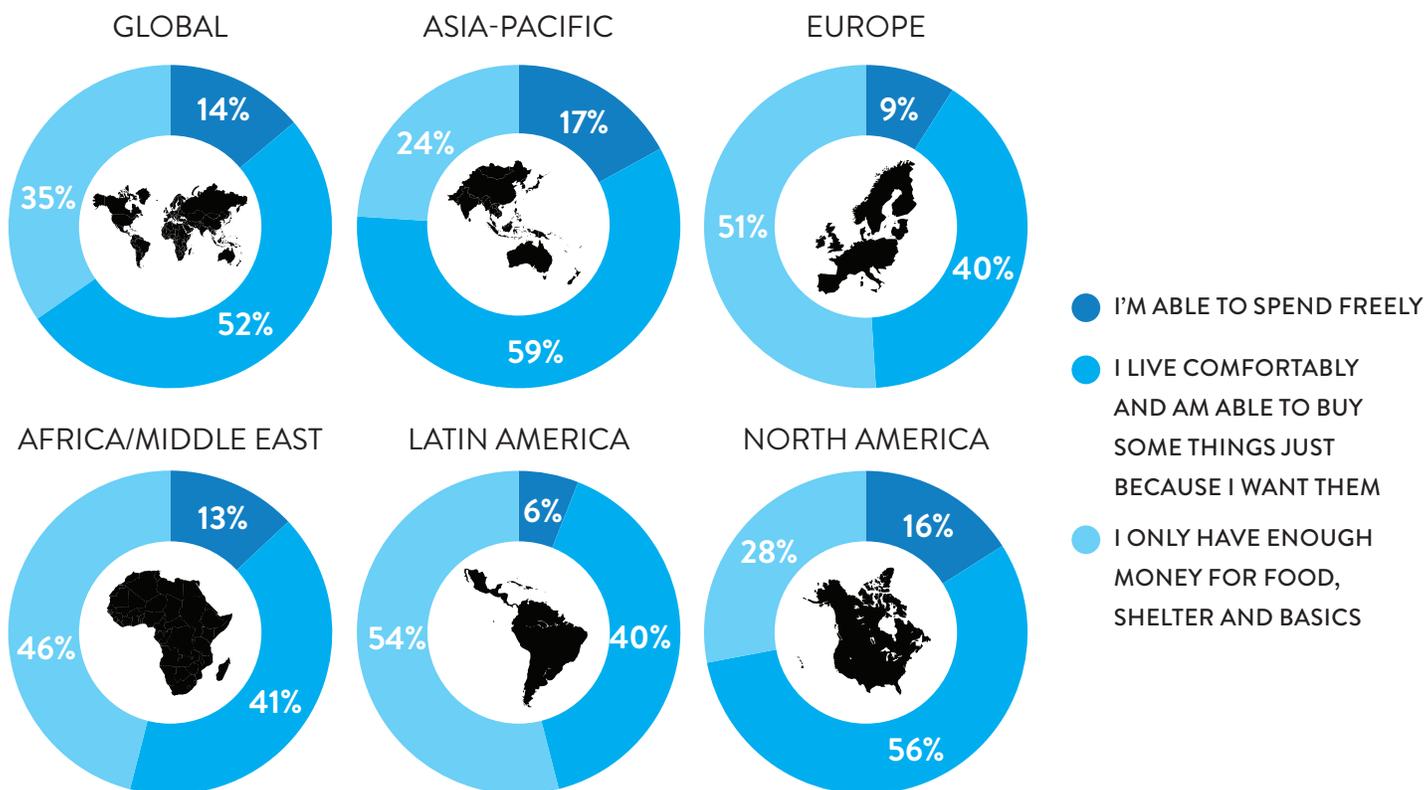
¹Source: The World Bank. GNI per capita is dollar value of a country's final income in a year, divided by its population. It reflects the average income of a country's citizens. PPP GNI is gross national income converted to international dollars using purchasing power parity rates; it is used to allow comparability across countries.



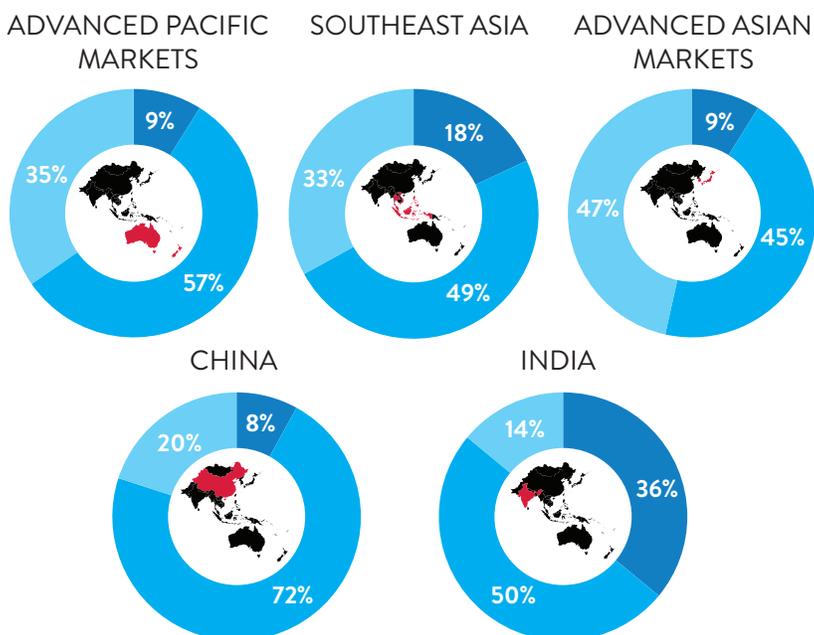
**GLOBALLY, ONLY
14% OF
RESPONDENTS
SAY THEY'RE ABLE
TO SPEND FREELY.**

MUCH OF THE WORLD HAS SOME DEGREE OF DISPOSABLE INCOME

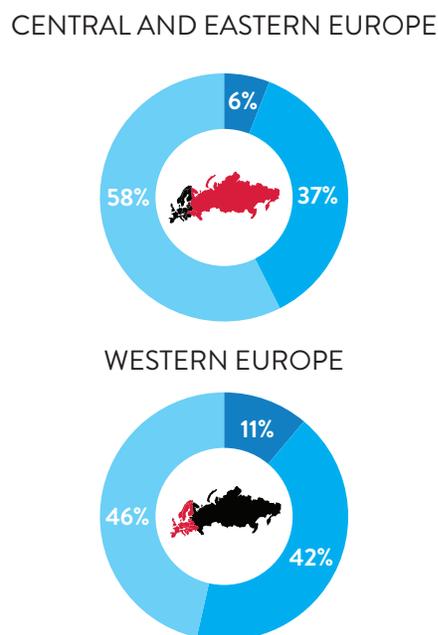
PERCEIVED FINANCIAL SPENDING ABILITY TODAY



ASIA-PACIFIC SUBSEGMENTS



EUROPE SUBSEGMENTS



Note: Percentages may not equal 100% due to rounding

Source: The Nielsen Global Premiumization Survey, Q1 2016

*See page 24 for listing of countries included in the regions and subregions

CONSUMERS DEFINE PREMIUM BY MORE THAN PRICE

With many consumers saying they have at least some discretionary income, the premium segment is rife with opportunity. And when it comes to purchasing premium products, for the vast majority of respondents, it's not about the higher-than-average price tag. In fact, less than one-third of global respondents (31%) say they consider a product to be premium because it's expensive—a clear warning to companies who push up prices without providing a very clear value proposition to support the change. Rather, respondents define premium products by exceptional quality and performance. Fifty-four percent of global respondents say a premium product is made with high-quality materials or ingredients. This is the most common response in every region and nearly every country in the survey. In addition, 46% of global respondents say a premium product is defined by superior function or performance.

Nearly four in 10 global respondents say premium products are defined by superior design or style (38%) or by a well-known brand name (38%), but these attributes are more important in some markets than others. Superior style is more commonly cited in emerging markets, including Venezuela (50%), Vietnam (49%), China (47%), Egypt (45%) and a few Central and Eastern European markets (Croatia, 46%; Serbia, 45%; and Turkey, 43%). A trusted brand name also is more commonly cited in Asia and in emerging markets, including Vietnam (61%), the Philippines (59%), South Africa (57%), Malaysia (51%), Estonia (50%) and Kazakhstan (50%).

“Connection to a brand's values remains particularly important in emerging markets, for both practical and emotional reasons,” said Lubel. “As consumers move up the economic ladder, they're attracted to aspirational brands that signal they've achieved a certain level of success. Nonetheless, for many, disposable incomes remain limited, and for these consumers, trusted brands provide an assurance of quality, minimizing the risk of wasting money on a product that doesn't fulfill expectations.”

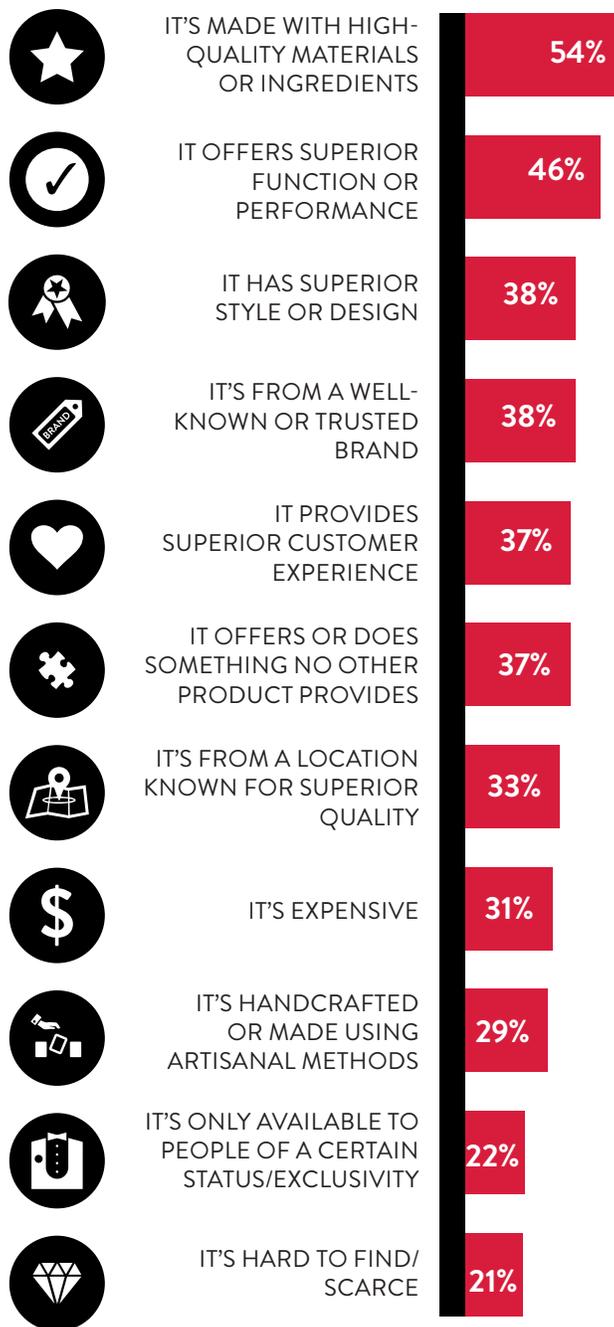
While a high price tag falls relatively low on the list of defining features for premium products globally (eighth out of 11 features in terms of the percentage who selected each attribute), it is significantly more important in Europe, cited by 45% of respondents in Central and Eastern Europe and 33% in Western Europe. In fact, the notion that a product is expensive tops the list of most commonly cited premium-product attributes in Russia (63%), Ukraine (tied with quality materials at 62%) and France (56%), and it's second in Switzerland (43%), Germany (41%), Austria (39%) and Belgium (37%). Sentiment does vary within the region, however. In many other European markets, including Italy (15%), Bulgaria (12%) and Finland (9%), the percentage of respondents who say a premium product is defined by cost is well below the global average.



PREMIUM PERCEPTIONS ARE ABOUT MORE THAN PRICE

PERCENTAGE WHO SAY ATTRIBUTE IS WHAT MAKES A PRODUCT "PREMIUM"

GLOBAL



Source: The Nielsen Global Premiumization Survey, Q1 2016

The defining features of premium products are remarkably similar among respondents of all ages. High-quality materials or ingredients are the most commonly selected features for every generation, though Boomers (ages 50–64) and Silent Generation respondents are more likely to cite this feature (69% and 61%, respectively) than Millennial and Generation Z (ages 20 and under) respondents (50% and 45%, respectively). Younger respondents are more likely to cite superior style or design and superior customer service.

MILLENNIALS VS. BOOMERS: PREMIUM PERCEPTIONS RANK SIMILARLY, BUT SENTIMENT ABOUT QUALITY AND EXCLUSIVITY VARIES

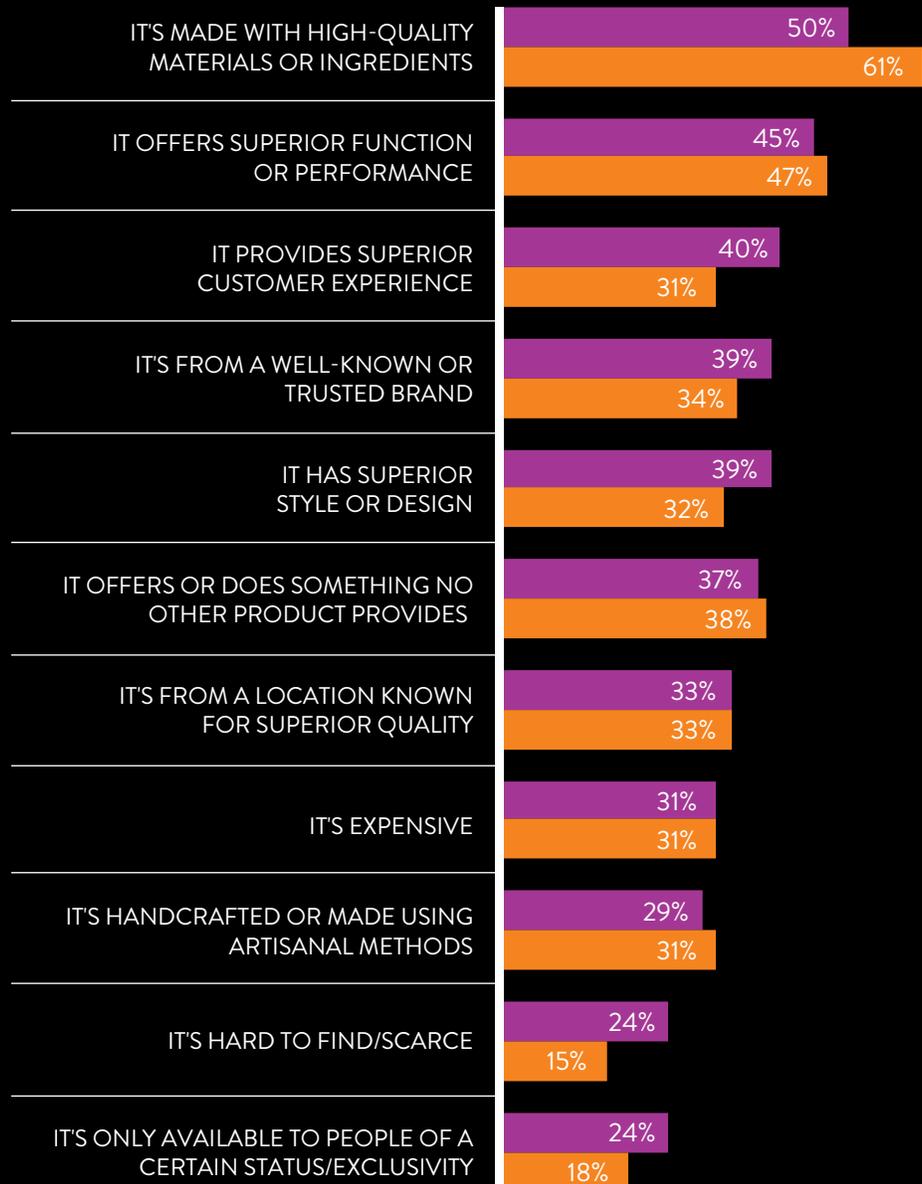
PERCENTAGE WHO SAY ATTRIBUTE IS WHAT MAKES A PRODUCT “PREMIUM”



MILLENNIALS
(21-34)



BOOMERS
(50-64)



Source: The Nielsen Global Premiumization Survey, Q1 2016

CATEGORICAL IMPERATIVE:

UPGRADABLE GOODS WITH PREMIUM POTENTIAL

The categories with premium potential are as diverse as any retail store shelf, but there is nevertheless a common thread: For fast-moving consumer goods, everyday consumables rise to the top of the list of categories for which global respondents most often say they're willing to trade up.

While electronics and clothing/shoes top the list (cited by 37% and 36%, respectively), respondents in most regions also are willing to consider trading up for better meat or seafood. In fact, this category is cited most often in developed markets, and it's among the top five categories for which respondents will consider trading up in Southeast Asia, Latin America and Africa/Middle East. In addition, three in 10 global respondents (30%) say they'll consider paying more for dairy products. An analysis of sales data in the U.S. shows consumers are backing up this sentiment with their wallets. Between 2014 and 2016, premium milk sales grew 52%, driven by the sale of milk alternatives, such as almond milk. In fact, sales of almond milk grew 250% between 2010 and 2015, while the total milk market shrank by more than \$1 billion.

"In many cases, successful innovation results from reimagining traditional category definitions," said Lubel. "For example, the dairy category in the U.S. was stagnant but, by redefining the category to include dairy alternatives such as almond milk, brands were able to offer more premium products, and therefore bring new consumers into the category and reengage lapsed consumers."

Personal-care and beauty categories also have strong upgrade potential, and innovation can play an important part in fulfilling unsatisfied needs. More than a quarter of global respondents say they'll consider buying premium hair-care (27%), body-care (26%) and oral-care (26%) products, and an analysis of sales data in several markets affirms the potential. Indeed, the premium segment accounts for roughly a quarter of dollar sales in the personal category in the U.S. and Southeast Asia (26% and 23%, respectively), and its share is even higher in some subcategories. In the U.S., for the year ended April 2, 2016, more than half of dollar sales in the shaving-needs category (52%) and nearly one-third in toothpaste (32%)

were from premium. In Southeast Asia, premium accounted for 55% of face moisturizer, 39% of face cleanser and 36% of toothpaste sales, and sales in all of these categories grew by more than double digits (24%, 24% and 18%, respectively) between 2012 and 2014. Shampoo is another bright spot for premium products. The premium segment accounted for 31% of shampoo sales in Southeast Asia; 13% in the U.K., Germany, France and Italy combined; and 10% in the U.S. And the premium shampoo segment grew by double digits in the U.S. (42% over the year ended April 2016) and Southeast Asia (14% from 2012 to 2014). In the four European markets combined, premium shampoo sales grew 9% from 2014 to 2015.

Outside these categories, however, willingness to consider a premium offering varies widely by market, due to cultural tastes and preferences.

In China, cosmetics are second on the list of categories for which respondents are most likely to consider a premium product. In India, fruit juice and rice or grains are second and third, respectively, on the list of categories for which consumers will consider trading up. In Southeast Asia, vitamins are among the top three premium-potential categories; this is the only region in which vitamins are among the top five categories.

Respondents in the Pacific and Europe say they're willing to pay more for a better cup of coffee or tea; in both regions, this is among the top five categories for which consumers say they're willing to consider paying a premium, cited by 28% and 27% of respondents, respectively. Just over one-fifth of North American respondents say they'll consider buying premium coffee or tea (21%), and an analysis of sales data in the U.S. shows premium liquid coffee and tea are growing at a tremendous rate. Sales of liquid coffee grew 203%, while refrigerated and non-refrigerated liquid tea grew 129% and 116%, respectively, between 2014 and 2016.

In North America, consumers want the best for their precious pets, and a notable percentage say they'll consider paying more to get it. One-fifth of respondents in the region say they'll consider buying premium pet food, eight percentage points above the global average. Sales data shows that U.S. pet owners are putting their money where their mouths are. Between 2012 and 2015, sales of super-premium dog food brands grew at a compound annual growth rate of over 9%.

"It's not just big-ticket items for which consumers are trading up," said Lubel. "Many are looking for everyday items that perform better or fulfill their emotional needs or social aspirations at a price that doesn't break the bank. This is a ripe opportunity space for mainstream brands to provide premium products that are still affordable compared to higher-tier premium services and offerings."

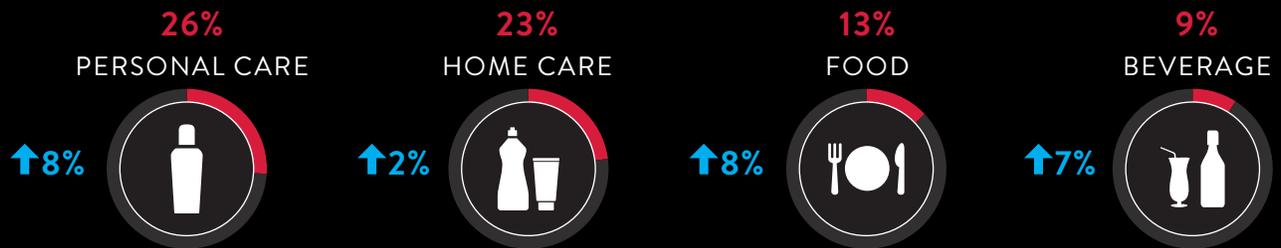


CATEGORIES WITH POWERFUL PREMIUM PRODUCT POTENTIAL

PREMIUM'S SHARE OF CATEGORY SALES AND TWO-YEAR* GROWTH RATE FOR SELECTED MARKETS

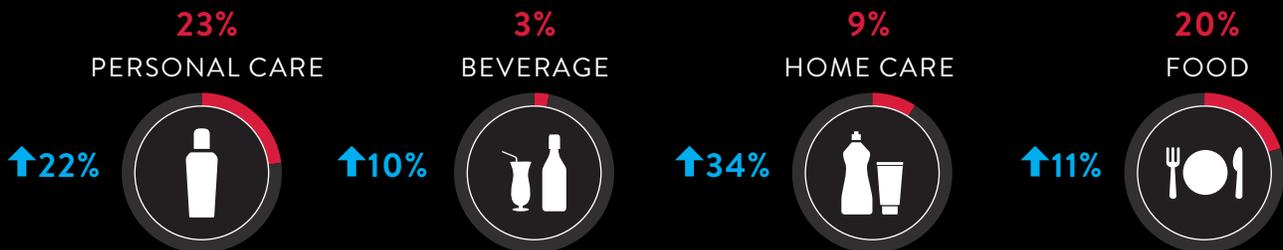
● PREMIUM SHARE OF CATEGORY SALES ● PREMIUM SALES GROWTH

UNITED STATES



Source: Nielsen retail measurement sales data, 2014-2015

SOUTHEAST ASIA



Source: Nielsen retail measurement sales data, 2014-2015

EUROPE



Source: Nielsen retail measurement sales data, 2014-2015

Note: See page 25 for listing of countries and categories included in the analyses
*In Europe, category sales and growth rate is based on one year.

FEEL-GOOD GOODS:

EMOTIONAL DRIVERS RESONATE STRONGLY IN EMERGING MARKETS

Consumers buy premium products for both rational and emotional reasons, but the latter resonate more strongly in emerging markets than developed ones.

Fifty-two percent of global respondents somewhat or strongly agree that buying premium products makes them feel good, with the highest agreement in India (78%), China (66%), Africa/Middle East (57%) and Southeast Asia (53%). Agreement is significantly lower in Western Europe (28%), the Pacific (34%), Latin America (37%), the advanced Asian markets (38%) and North America (43%). A similar percentage of global respondents (50%) say buying premium products makes them feel confident. Once again, agreement is highest in India (76%), China (62%), Southeast Asia (58%) and Africa/Middle East (55%).

Status also is a more important purchasing consideration in emerging markets than globally. Nearly three-quarters of respondents in India (74%) and roughly half in China (54%), Africa/Middle East (50%) and Southeast Asia (47%) say they buy premium products because these items show other people they have good taste. But premium products don't just communicate sophistication and taste; they're also an important indicator of accomplishment. Roughly seven in 10 Indian respondents say they buy premium products because these products make them feel successful (73%) or show other people they're successful (69%). Agreement is lower in China (56% for each benefit), Africa/Middle East (48% and 40%, respectively) and Southeast Asia (47% and 41%), but it's still significantly higher than in developed markets.

PREMIUM PRODUCTS CAN BUY ME LOVE

GLOBAL AVERAGE PERCENTAGE
WHO STRONGLY OR SOMEWHAT
AGREE WITH STATEMENT



SELF-
ESTEEM



PERCEPTIONS/
STATUS



Source: The Nielsen Global Premiumization Survey, Q1 2016

EMOTIONAL DRIVERS RESONATE STRONGLY IN SOME DEVELOPING MARKETS

PERCENTAGE WHO STRONGLY OR SOMEWHAT AGREE WITH STATEMENT

● ASIA-PACIFIC ● EUROPE ● AFRICA/MIDDLE EAST ● LATIN AMERICA ● NORTH AMERICA



SELF-ESTEEM



PERCEPTIONS/STATUS

BUYING PREMIUM PRODUCTS MAKES ME FEEL GOOD



BUYING PREMIUM PRODUCTS SHOWS OTHER PEOPLE I AM SUCCESSFUL



BUYING PREMIUM PRODUCTS MAKES ME FEEL SUCCESSFUL



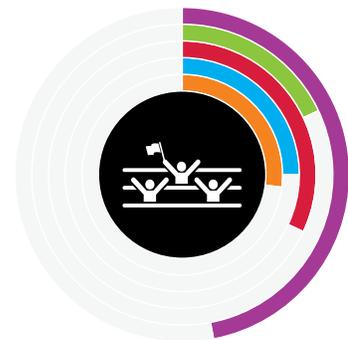
BUYING PREMIUM PRODUCTS SHOWS OTHER PEOPLE I HAVE GOOD TASTE



BUYING PREMIUM PRODUCTS MAKES ME FEEL CONFIDENT



I BUY PREMIUM PRODUCTS SO I AM SEEN AS A TRENDSETTER



Source: The Nielsen Global Premiumization Survey, Q1 2016

In every region, younger respondents (Generation Z, Millennials and Generation X) are more likely than older generations to agree that they purchase premium goods for emotional and social reasons. For example, 59% of global Millennials, 54% of Generation X and 48% of Generation Z respondents agree that purchasing premium products makes them feel good, compared with 37% of Boomers and 26% of Silent Generation respondents.



MILLENNIALS
(21-34)



BOOMERS
(50-64)

MORE MILLENNIALS PURCHASE PREMIUM GOODS FOR EMOTIONAL AND SOCIAL REASONS THAN BOOMERS

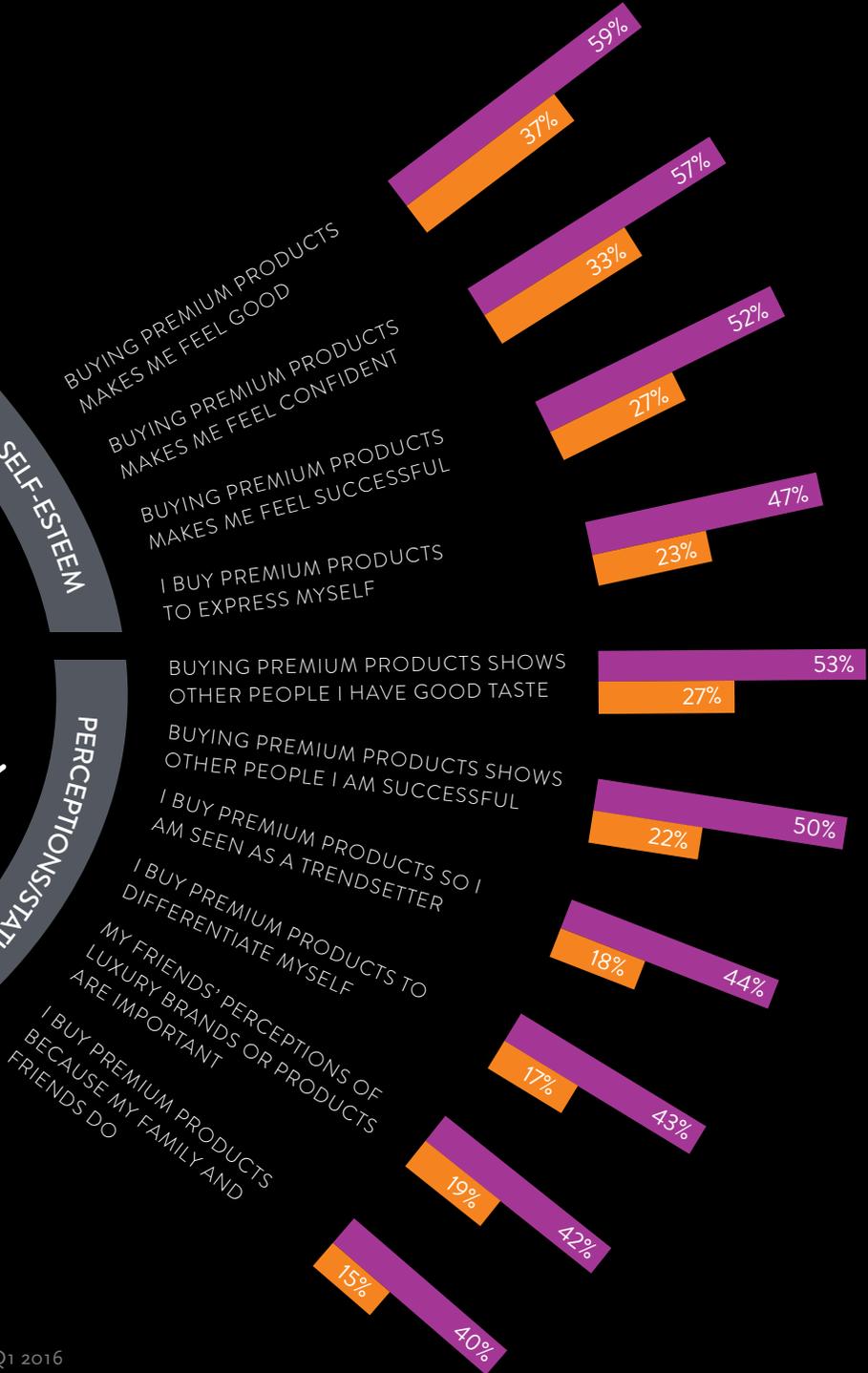


SELF-ESTEEM



PERCEPTIONS/STATUS

GLOBAL AVERAGE PERCENTAGE WHO STRONGLY OR SOMEWHAT AGREE WITH STATEMENT



Source: The Nielsen Global Premiumization Survey, Q1 2016

STICKER SHOCK ABSORBERS:

CONSCIOUS-CONSUMPTION PRODUCT ATTRIBUTES JUSTIFY A PREMIUM PRICE FOR MANY

When it comes to the likelihood of purchasing premium products, not all product attributes are created equal. Certain product qualities justify a higher price tag in consumers' minds—and consumers are more than willing to pay a premium for them.

In a world where conscious consumption is going mainstream, products with an environmental benefit can justify a higher price tag for many. In fact, roughly four in 10 global respondents are highly willing to pay a premium for products made with organic or all-natural ingredients (42%) or environmentally friendly or sustainable materials (39%), and just under one-third will pay more for products that deliver on social-responsibility claims (31%).

Environmental factors are especially persuasive among emerging-market respondents. In fact, for products made with organic and all-natural ingredients or environmentally friendly or sustainable materials, half or more than half of respondents in Turkey, India, China, Venezuela, Vietnam and Colombia say they're highly willing to pay a premium. Respondents in these same countries are also highly willing to pay for products that deliver on social-responsibility claims, although response levels are slightly lower, ranging from 45% to 40%.

"GREEN" ATTRIBUTES HAVE PREMIUM POTENTIAL

GLOBAL AVERAGE PERCENTAGE WHO ARE HIGHLY WILLING TO PAY A PREMIUM FOR ATTRIBUTE



48%

COMES WITH HIGH QUALITY STANDARDS



42%

PROVIDES SUPERIOR FUNCTION OR PERFORMANCE



42%

CONTAINS ORGANIC/ ALL NATURAL INGREDIENTS



39%

CONTAINS ENVIRONMENTALLY FRIENDLY/SUSTAINABLE MATERIALS



34%

OFFERS/DOES SOMETHING NO OTHER PRODUCT ON THE MARKET PROVIDES



31%

DELIVERS SOCIAL RESPONSIBILITY CLAIMS



21%

ORIGINATES FROM A SPECIFIC COUNTRY

Source: The Nielsen Global Premiumization Survey, Q1 2016

Younger respondents (Generation Z, Millennials and Generation X) are more likely to say they're highly willing to pay more for every one of the product attributes included in the survey. When it comes to the relative importance of the attributes, however, the generations are remarkably consistent, with high quality standards, superior function or performance, and organic or all-natural ingredients topping the list among respondents of all ages.

“Millennials face very real economic hardships and remain price-conscious,” said Lubel. “Yet many are willing to pay more for higher-quality products that are compatible with their lifestyles and values. In fact, Millennials are drastically reshaping perceptions of premium, with authenticity, simplicity, healthfulness, sustainability and social responsibility serving as the new indicators of premium.”



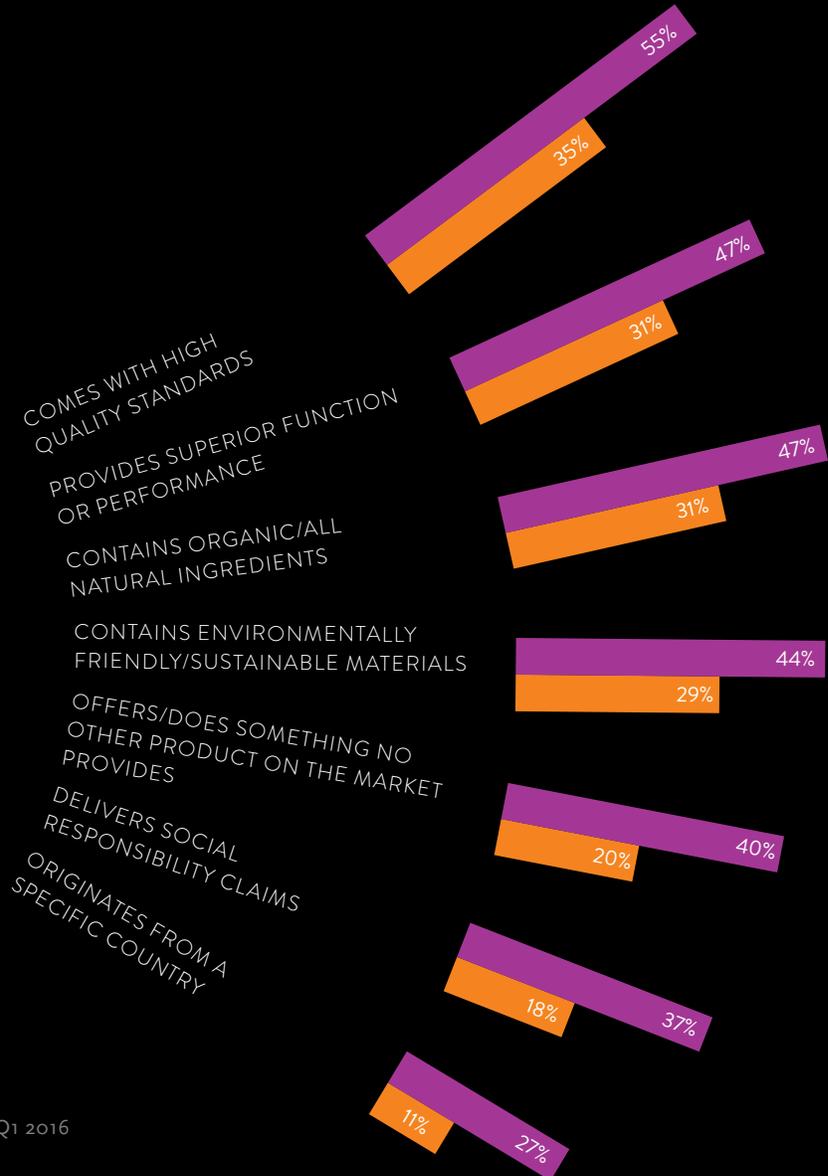
MILLENNIALS
(21-34)



BOOMERS
(50-64)

MILLENNIALS MORE LIKELY TO PAY PREMIUM PRICES THAN BOOMERS

GLOBAL AVERAGE PERCENTAGE WHO ARE HIGHLY WILLING TO PAY A PREMIUM FOR ATTRIBUTE



Source: The Nielsen Global Premiumization Survey, Q1 2016

RESEARCH AND RECOMMENDATIONS RULE, BUT DON'T DITCH THE PITCH

When it comes to the information sources most likely to motivate consumers to try a new premium product, global respondents primarily rely on recommendations from friends and family (45%) and their own research (37%).

Developing- and emerging-market respondents are more likely to say their decisions are based on advertising sources. In fact, online advertising is the most commonly cited source in India, selected by 51% of respondents. In nearly all other markets (except the advanced Asian markets), television advertising is more influential in encouraging new-product trial than online advertising. There are some regional differences, however, with respect to the most important driver of decision-making.

In developed markets, research is more widely cited as a driver of new-product trial than recommendations. In Central and Eastern Europe, 53% of respondents say they'll try a new product based on their own research, while 44% say recommendations from friends and family are an important driver. In North America, it's 38% and 29%, respectively. The gap is narrower in the Pacific and Western Europe. Thirty-five percent of respondents in the Pacific and 30% in Western Europe say they'll try a new product based on their own research, while 32% and 28%, respectively, say new-product trial is based on recommendations from friends and family. In the advanced Asian markets, research is the most commonly cited driver of new-product trial in the region as a whole (46%), but Japan is the clear outlier, at 61%. In Hong Kong (55%), Taiwan (49%), Singapore (48%) and South Korea (43%), recommendations from friends and family are more commonly cited. Research is also the most commonly cited driver of new-product trial in Latin America, by a narrow margin (45% say trial is based on research; 42% say it's based on recommendations).

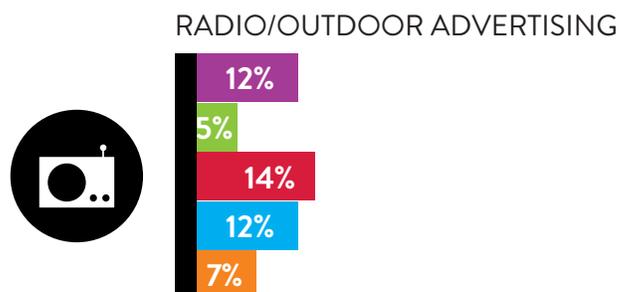
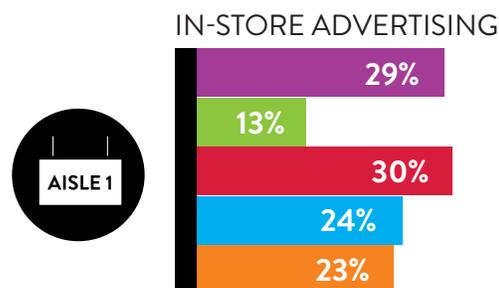
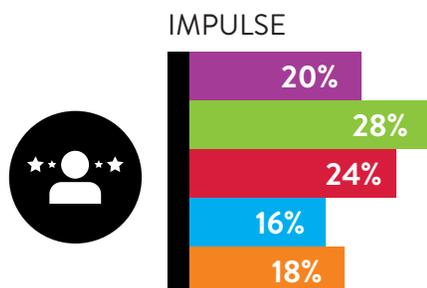
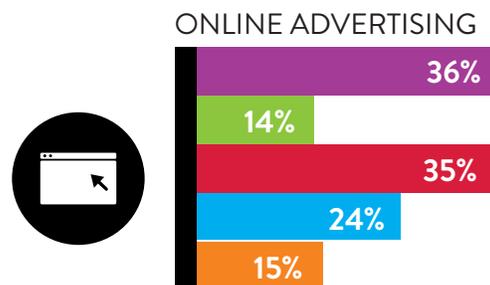
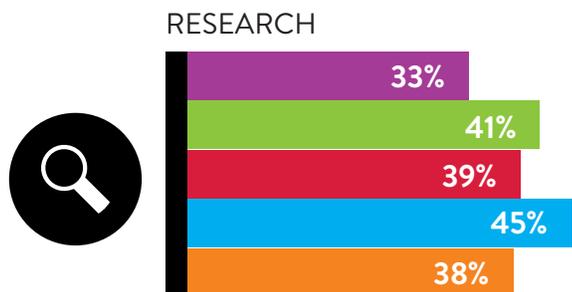
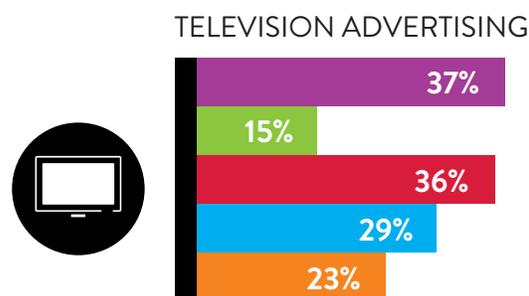
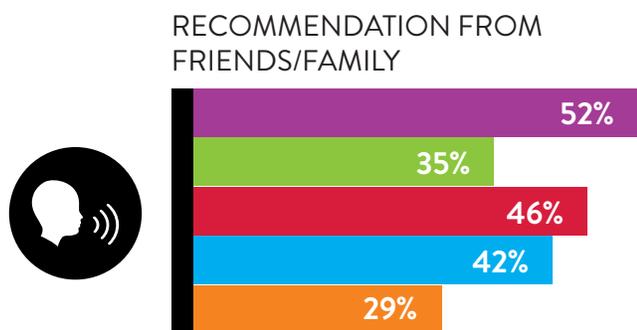
In emerging markets, with the exception of Latin America, respondents conduct their own research but are more dependent on recommendations from friends and family when deciding to try a new premium product. Sixty-five percent of online respondents in China, 52% in Southeast Asia and 46% in Africa/Middle East say they'll try a new premium product based on the recommendations of friends and family.

“When launching new products, brands need to align their media tactics with the product’s core value proposition and the target audience,” said Lubel. “For example, digital may be a more efficient channel than traditional advertising for a brand marketing an energy drink to Millennials.”

THE DRIVERS OF NEW PRODUCT TRIAL ARE MULTIFACETED

PERCENTAGE WHO SAY TRIAL OF NEW PREMIUM PRODUCT IS BASED ON SPECIFIC SOURCE

● ASIA-PACIFIC ● EUROPE ● AFRICA/MIDDLE EAST ● LATIN AMERICA ● NORTH AMERICA



Source: The Nielsen Global Premiumization Survey, Q1 2016

BEST PRACTICES FOR LAUNCHING PREMIUM PRODUCTS

Brands can capitalize on the rising appetite for premium products and increase their bottom lines by putting a premium on premium-focused innovation. Based on an extensive review of new-product development, Nielsen's Innovation Practice has identified six guidelines for developing and deploying premium products:

- 1. Create a highly differentiated offering.** All successful innovations—regardless of price—share a common characteristic: They resolve a real consumer struggle. Nielsen research has found that 75% of concepts tested don't address any relevant need for consumers, and these concepts have less than a 5% chance of survival in market. Differentiation is particularly important for premium brands, as it helps justify the higher price point they command. According to a Nielsen analysis, product concepts with higher uniqueness scores tend to be less price-sensitive.
- 2. Ensure the product lives up to the promise.** All products need to deliver on expectations, but it's particularly true for premium products. Higher prices set a higher bar for product performance; when a product is positioned as premium, consumers have less tolerance for poor performance or undesirable attributes.
- 3. Enhance the package design.** Perceptions of a product begin as soon as consumers lay eyes on it. Packaging helps brands get noticed and, more importantly, can significantly elevate perceptions of a product. In fact, Nielsen research has shown that optimized package designs—identified using objective consumer feedback—can boost forecasted sales by an average of 5.5%. Perceptions of premium vary widely by category and culture, but several visual cues can signal that a product is premium. These include simple or uncluttered designs, modern graphics, and packaging that looks handcrafted. Premium packaging may also provide functional benefits; for example, lighter, easy-to-carry packages designed for city dwellers or compartmentalized packages that make on-the-go eating easier.

- 4. Ensure the price is right.** Premium prices can vary significantly within most categories—from entry-level offerings priced 20% to 50% higher than average to affordable luxuries, with prices at least three times higher. Just as new products should be developed with the consumer in mind, they should be priced based on consumers' value perceptions. Additionally, pricing should factor in the realistic competitive context and retail dynamics.

Attributes that tend to lower price sensitivity and justify higher price points include a highly unique value proposition, premium packaging (i.e., materials and visual aesthetics), smaller package sizes, novelty or limited-edition packaging and longer purchasing cycles. Distribution channels also can affect pricing expectations. Limiting distribution to specialty channels can enhance premium perceptions, but also have a negative impact on volume sales. Brands can also justify higher price points by consciously managing consumers' frame of reference. For example, hair care products that promise salon-quality results can often charge more than traditional products because they have included professional hair services in their competitive set.

- 5. Activate in a way that amplifies the product's unique proposition.** There is no single "right" activation model for premium products, but there are several considerations brands should keep in mind to optimize their strategy. First, brands need to be conscious of how consumers see their product on the shelf: Where is it placed in relation to competitors, and what does this signal? In addition, brands should promote with caution, as discounting frequently or heavily can erode premium perceptions. Finally, brands really need to ensure that their marketing resonates emotionally. As we've seen, the reasons for buying premium brands aren't just functional, they're emotional (especially in emerging markets). Besides demonstrating a technical benefit, brands need to communicate a higher-order emotional benefit that connects with consumers' aspirations and needs.
- 6. Provide sustained, long-term support.** Most new products experience a sales decline in their second year in the market. What distinguishes the products that grow from those that decline? The growth brands spend almost the same amount on advertising in year two as they did in year one. In contrast, second-year ad spending for brands that decline equals only about one-fifth of their year-one budget. Given premium products' higher price tag, consumer adoption may be slower than for mainstream or value products, so they could require even greater marketing support. Therefore, brands launching premium products must plan for robust, multiyear support.

COUNTRIES IN THE GLOBAL SURVEY

ASIA-PACIFIC

MARKET	INTERNET PENETRATION
Australia	93%
China	52%
Hong Kong	80%
India	37%
Indonesia	34%
Japan	91%
Malaysia	68%
New Zealand	94%
Philippines	53%
Singapore	81%
South Korea	92%
Taiwan	84%
Thailand	60%
Vietnam	52%

Several subregions in Asia-Pacific were referenced throughout the report. Groupings were based on economic and geographic similarities. The Pacific includes Australia and New Zealand; advanced Asian markets include Hong Kong, Japan, Singapore, South Korea and Taiwan; Southeast Asia includes Indonesia, Malaysia, Philippines, Thailand and Vietnam.

NORTH AMERICA

MARKET	INTERNET PENETRATION
Canada	93%
United States	87%

Source: Miniwatts Marketing, Internet World Stats, June 30, 2016 (Europe is updated through Nov. 30, 2015), www.internetworldstats.com

EUROPE

MARKET	INTERNET PENETRATION
Austria	83%
Belarus	59%
Belgium	85%
Bulgaria	57%
Croatia	75%
Czech Republic	80%
Denmark	96%
Estonia	84%
Finland	94%
France	84%
Germany	88%
Greece	63%
Hungary	76%
Ireland	83%
Israel	73%
Italy	62%
Kazakhstan	54%
Latvia	82%
Lithuania	82%
Netherlands	96%
Norway	96%
Poland	68%
Portugal	68%
Romania	56%
Russia	71%
Serbia	66%
Slovakia	83%
Slovenia	73%
Spain	77%
Sweden	95%
Switzerland	87%
Turkey	60%
United Kingdom	92%
Ukraine	43%

Two European subregions were referenced throughout the report, based on geography. Western Europe includes Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and U.K. Central and Eastern Europe includes Belarus, Bulgaria, Croatia, Czech Republic, Estonia, Greece, Hungary, Israel, Kazakhstan, Latvia, Lithuania, Poland, Romania, Russia, Slovakia, Slovenia, Turkey and Ukraine.

LATIN AMERICA

MARKET	INTERNET PENETRATION
Argentina	79%
Brazil	68%
Chile	80%
Colombia	59%
Mexico	56%
Peru	59%
Venezuela	62%

AFRICA/MIDDLE EAST

MARKET	INTERNET PENETRATION
Egypt	37%
Morocco	61%
Pakistan	18%
Saudi Arabia	65%
South Africa	49%
United Arab Emirates	92%

ABOUT NIELSEN RETAIL MEASUREMENT SALES DATA

Southeast Asia: The data is based on sales in six countries (Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam) from August 2012 to August 2014. Sixteen categories were selected across four supercategories. The categories selected for analysis were personal care, which included baby diapers, face cleansers, face moisturizers, shampoo, toothpaste; home care, which included household cleaning and laundry detergent; food, which included biscuits, breakfast cereal, chocolate, ice cream, infant milk formula, instant noodles; and beverages, which included carbonated soft drinks, ready-to-drink tea, water. All brands were assessed at the pack size level to determine what was their price index relative to the category average. Premium products were defined as those with a price index of 1.2 or greater relative to the category average.

U.S.: The data is based on sales for the 52 weeks ended April 2, 2016. Growth figures are in terms of dollars and were calculated for the two-year period from April 2014 to April 2016. The analysis included 20 categories falling into four supercategories. The categories selected for analysis were personal care, which included feminine hygiene, men's facial moisturizers, men's facial cleansers, shampoo, shaving needs, toothpaste; home care, which included household cleaning and laundry detergent; food, which included everyday chocolate candy, frozen entrees, ice cream, salty snacks and snack bars; and beverages, which included liquid coffee, liquid tea, milk, refrigerated liquid tea, shelf-stable milk, soft drinks, water. Premium products were defined as those with a price index of 1.2 or greater relative to the category average.

Almond milk sales data (page 12) was for the five-year period ended December 26, 2015. Data for sales of dry dog food (page 13) is for 2012 to 2015. Super-premium, as defined by the product manufacturer, includes products with meat or meat meal as the first ingredient.

Europe: The data is based on sales in four Western European countries: France, Germany, Italy and the U.K. Growth figures are in terms of euros. Data is for 2014 to 2015. The analysis included four categories representing personal care (shampoo), home care (laundry detergent), food (sweet biscuits) and beverages (canned soft drinks). Premium products were defined as those with a price index of 1.2 or greater relative to the category average.

ABOUT THE NIELSEN GLOBAL SURVEY

The Nielsen Global Premiumization Survey was conducted March 1–23, 2016, and polled more than 30,000 online consumers in 63 countries throughout Asia-Pacific, Europe, Latin America, the Middle East/Africa and North America. The sample includes internet users who agreed to participate in this survey and has quotas based on age and sex for each country. It is weighted to be representative of internet consumers by country. Because the sample is based on those who agreed to participate, no estimates of theoretical sampling error can be calculated. However, a probability sample of equivalent size would have a margin of error of $\pm 0.6\%$ at the global level. This Nielsen survey is based only on the behavior of respondents with online access. Internet penetration rates vary by country. Nielsen uses a minimum reporting standard of 60% internet penetration or an online population of 10 million for survey inclusion.

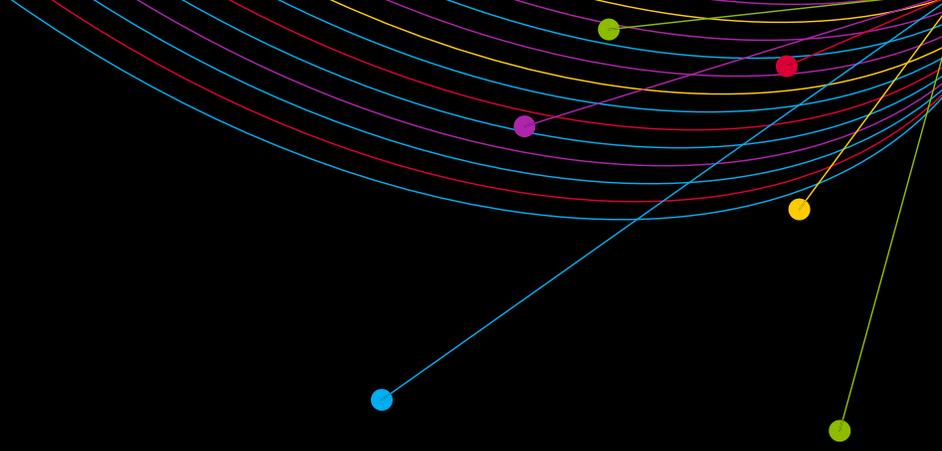
ABOUT NIELSEN

Nielsen Holdings plc (NYSE: NLSN) is a global performance management company that provides a comprehensive understanding of what consumers watch and buy. Nielsen's Watch segment provides media and advertising clients with Total Audience measurement services for all devices on which content — video, audio and text — is consumed. The Buy segment offers consumer packaged goods manufacturers and retailers the industry's only global view of retail performance measurement. By integrating information from its Watch and Buy segments and other data sources, Nielsen also provides its clients with analytics that help improve performance. Nielsen, an S&P 500 company, has operations in over 100 countries, covering more than 90% of the world's population.

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