Retail & Consumer Insights
2015 Financial Benchmarking
Results for the food, beverage, and household products manufacturers
June 2015

Highlights
This year’s edition of the Retail and Consumer Insights series focuses on the financial performance of consumer packaged goods (CPG) companies in 2014. In this report, we discuss how the economy impacted CPG manufacturers and provide detailed financial benchmark analyses.

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

As in previous years, we have also 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 that the highest-ranking manufacturers share, a category we call top-performing companies. A common trend that we have seen is that top-performing companies are getting fit for growth and investing in differentiating capabilities and operational excellence.

In this year’s analysis, there were some interesting contrasts between the performances of global and domestic manufacturers and the performance of retailers and manufacturers. Company size also yielded intriguing differences in performance, especially in terms of net sales growth.

These performance results suggest that although 2014 was a year in which the economy continued its slow recovery from the Great Recession lows and employment continues on its upswing, US manufacturers must keep relying on their own ingenuity and innovation to spark their growth rather than wait for a slowly rising and undependable global economic tide to lift them up.
Economic overview

The economic recovery continues, with all eyes on employment numbers, wage growth, and a possible interest rate hike.

In 2014, the US macroeconomic environment continued to improve and exhibit relatively stable growth, accompanied by the lowest unemployment rates since 2008, seven-year highs in consumer confidence and eight-year highs in business confidence. The Federal Reserve’s confidence in the economy was reflected by the end of its stimulus program. Positive economic signs included:

- The growth rate in real gross domestic product (GDP) in the final three quarters of 2014 averaged 3.9%. By comparison, over the past 25 years real GDP growth has averaged 2.5%.

- An average of 264,000 jobs were created each month over the final six months of the year.

- The unemployment rate in December was 5.6%, down from 6.7% in December 2013.

- Gas prices in December 2014 were 22% lower than the average price in December 2013, providing a boost to consumer’s pocketbooks.

Despite these positive signs, the economy faces certain challenges. Labor force participation continues to be at historic lows, suggesting that many have failed to see the benefit of the positive overall growth. Wages have grown only slowly since the recession. Slow growth in Asia and Europe have contributed to a run-up in the dollar, making US exports more expensive.

Economists see more growth ahead for the US economy, but the first part of 2015 has been consistent with the experience in 2014: forward progress tempered by unexpected stumbles. If current projections for real GDP growth in 2015 and 2016 hold, annual growth will be close to 3% each year, the fastest annual rate of growth since 2005. Such growth should bolster the bottom lines for the consumer packaged goods industry.

Employment numbers improve but wage growth lags

The US economy continued to generate new employment opportunities in 2014. In April 2014, total employment reached 138.4 million, exceeding the pre-recession peak from February 2008. Monthly job growth between April 2014 and April 2015 averaged 255,000, well above the number to absorb new labor market entrants. During this same period, the unemployment rate fell to 5.4%, well below the 20-year average of 6.0%.

However, these positive developments in the labor markets masked certain weaknesses. First, labor force participation remains at recent lows. In April 2015, the labor force as a share of the civilian adult population was 62.8%, a 35-year low. By comparison, in January 2008 the labor force participation rate was 66.2%. A significant number of workers remain on the sidelines, and their absence is part of the reason for the slow recovery.

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1 Bureau of Economic Analysis, National Income and Product Accounts, accessed April 2015; PwC calculations
4 US. Energy Information Administration, Crude Oil Prices: West Texas Intermediate (WTI) - Cushing, Oklahoma [MCOILWTICO], retrieved from FRED, Federal Reserve Bank of St. Louis https://research.stlouisfed.org/fred2/series/MCOILWTICO/, May 10, 2015
5 Congressional Budget Office, Budget and Economic Outlook: 2015 to 2025, January 2015
One result of slow wage growth has been an increase in the number of consumers cutting back and looking for value (a demographic we call “survivalists”) and a decrease in the number of consumers willing to pay more for higher-quality food and other packaged goods (“selectionists”). Before the 2008 recession, the two groups were roughly equal, but today about two-thirds of all US consumers are survivalists. Outside of a few product categories with high levels of consumer engagement, there is simply less interest in paying a premium.

As Vladimiro Sinatti, chief financial officer of candy and snack manufacturer Ferrero USA, put it, “We haven’t seen a recent increase in consumption for consumer food items, so in reality, we’re still waiting for the recovery that people are reading about. With consumption looking flat, we’re kind of left wondering, where is this recovery?”

Another weakness in the current recovery has been the lack of wage growth. Real (inflation-adjusted) average hourly earnings of all workers, including part-time employees, increased by only 0.8% from November 2013 to November 2014. Since the beginning of 2007, real hourly earnings have increased by less than 3% cumulatively. Median household income in 2013 was still below pre-recession levels in real terms and was less than 4% higher than in 1994. For manufacturers of value-class products, that presents a challenge. “Our brands tend to resonate with the value side of the market, and some of those consumers skew toward the lower end of the income spectrum. I think that part of the economy is well behind,” said Bill Schumacher, chief operating officer and chief financial officer Sunny Delight Beverages Co. “Their recovery is lagging, and that creates a drag on consumer products, especially those that appeal to value-conscious consumers.”

Eventually, economic growth will work down the slack in the market that is holding down wage growth. Until then, the official unemployment rate will overstate the health of the labor market and inflationary pressures will likely remain subdued.

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**The US leads the global recovery**

While the sporadic economic recovery has continued in the US, the global economy has underperformed. The IMF’s January 2015 economic update reduced growth estimates for most economies relative to its October 2014 forecast. In that report, world GDP growth was reduced by 0.3 percentage points in both 2015 and 2016, reflecting not only slower growth in the Eurozone but also in Russia, China, Japan, and oil exporting countries. Slowing foreign economic growth has led to a 4% increase in the trade-weighted value of the dollar since July 2014, and dollar appreciation relative to the euro has been about 26% over the same period. The strong dollar poses a barrier to exports by CPG businesses because it effectively raises the price of those goods. Furthermore, a number of US companies have noted the impact of foreign currency translation on 2014 earnings and in their forecasts for 2015.

**Interest rates are destined to rise, but when?**

US businesses have benefited from historically low interest rates for the past seven years. As the economy gathers steam, those rates will begin to rise. The question is, how soon?

At its recent meetings, the Open Market Committee of the Federal Reserve has discussed when it should begin raising interest rates charged to banks. Under Chair Janet Yellen, the Fed has revised its guidance, indicating that there is now indeed a consensus within the Fed that a rate increase is likely to become appropriate later this year. The median forecast for the end-of-year federal funds rate is between 0.5% and 0.75%, one-half percentage point higher than the current target range. The forecast also predicted a one percentage point increase in each of 2016 and 2017.

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8 Strategy&, How US CPGs can get their groove back & Manufacturers must find ways to grow beyond the grocery channel, 2014
10 International Monetary Fund, World Economic Outlook, January 2015
11 Federal Open Market Committee of the Federal Reserve System, Projections Materials for the March 17-18, 2015 meeting
In a February survey, 95% of Blue Chip economists thought the first rate increase from the Fed would come between June and September.\textsuperscript{12} The Congressional Budget Office (CBO) projects the interest rate on three-month Treasury bills to increase slowly in 2015, reach 3.5% by 2018 and then decline to 3.4% in 2019 and thereafter. Yields on the 10-year Treasury note are projected to increase through 2020, reaching 4.6\%.\textsuperscript{13}

The three-month London Interbank Offered Rate (LIBOR), an indicator of short-term rates, has also been rising. Short-term rates began to slide after January 2012, when they were at a high of 0.58%. Throughout 2014, the rates were flat at around 0.23% but rose in Q1 of 2015 to 0.28%\textsuperscript{14}.

Increases in interest rates will raise the returns that new investments must earn to justify the project. This will raise the bar on new investments or acquisitions by CPG companies.

**Looking ahead: the economic trends that may help CPG businesses**

If the economic recovery continues, consumer spending should continue to rise. While the first quarter of 2015 saw a drop in the growth of household spending to 1.9%, compared to 4.4% in the fourth quarter,\textsuperscript{15} weather-related factors appear to be responsible for a portion of the drop.

Declining oil prices continue to provide a benefit to consumers, with prices for February delivery of West Texas Intermediate falling below $50 per barrel in early January from over $100 last summer.\textsuperscript{16} To date, consumers seem to be reacting to this windfall by saving more rather than spending, but if oil prices remain low, that additional pocket money should translate into increased consumer spending.

On the supply side, prices of food commodities have come down from their highs in recent years. For example, corn prices in February 2015 were 49% lower than the February 2013 level, and wheat prices were 26% lower.\textsuperscript{17}

While raw commodities may make up just a small portion of the value of a product, those savings can add up.

These conditions offer new opportunities for CPG companies. The trend toward brand consolidation that has picked up speed recently, especially in the food sector, also presents challenges, but opportunities may arise as well. Al Williams, chief financial officer of Bush Brothers, a leading producer of bean-related products, noted that, “The long-term implication of the megabrands consolidation we’ve been seeing may be that some historically solid brands start to weaken. It creates an opportunity for niche and premium brands to come in and fill a void, especially if pricing on some of those historically strong brands drops to the point where they start to compete with private label brands.”

\textsuperscript{12} Blue Chip Economic Indicators, March 2015
\textsuperscript{13} Congressional Budget Office, *Budget and Economic Outlook: 2015 to 2025*, January 2015
\textsuperscript{14} ICE Benchmark Administration Limited (IBA), 3-Month London Interbank Offered Rate (LIBOR), based on U.S. Dollar\textsuperscript{®} [USD3MTD156N], retrieved from FRED, Federal Reserve Bank of St. Louis https://research.stlouisfed.org/fred2/series/USD3MTD156N/, May 10, 2015
\textsuperscript{15} Bureau of Economic Analysis, National Income and Product Accounts, accessed April 2015; PwC calculations
\textsuperscript{16} US. Energy Information Administration, Crude Oil Prices: West Texas Intermediate (WTI) – Cushing, Oklahoma [MCOILWTICO], retrieved from FRED, Federal Reserve Bank of St. Louis https://research.stlouisfed.org/fred2/series/MCOILWTICO/, May 10, 2015
\textsuperscript{17} USDA, Wheat Yearbook, Table 18, average monthly price received by US farmers for all wheat; Feed Grains Database for market price for corn, No. 2 Yellow in Kansas City, MO.
Looking ahead: the factors that may hurt CPG businesses

Global economic weakness and a stronger dollar makes it harder for export-oriented businesses to achieve growth overseas. Domestically, likely increases in interest rates also could slow growth.

The restrained economic growth of the global economy impacts the ability of CPG companies to expand. Companies must find ways to offer value to their customers, who have been reluctant to increase spending. Schumacher stated, “Businesses must embrace a lean mentality to be successful, especially when they have a ceiling on pricing in the marketplace. With fatigued consumers and limited income growth, businesses have to find ways to invest without relying directly on consumers in the form of price increases.”

Response of CPG Companies to the current economy

For CPG manufacturers, one way to battle uncertain economic trends is to seek out new opportunities through data-driven brand management and demographic analysis. “In the short term we closely monitor our customers’ demographics, geographical locations, and even their ethnicities because some groups consume our products very differently than others,” said Sinatti. “Longer-term, we watch age-related demographics, especially because some of our products skew toward younger consumers, and we turn our attention to growing markets, such as the Hispanic market, which has a consumption culture that may favor us in the future.”

Still, the key to success for all CPG manufacturers will be an economy that continues to rebound and matches the most optimistic predictions. “Household income growth and income disparity are two measurements that are really important to the overall health of any consumer-based company,” said Schumacher. “If you’re an extraordinarily niche-driven type of business that can be successful at the high end, that’s great, but most of us are structured and built around mass appeal to consumers. That’s why we need a more robust income growth trend, especially at the lower end of the income spectrum. Any improvement in closing the income disparity gap should help the economy continue to improve while providing significant support to all CPG manufacturers.”

“When employment and wages trend up, it’s a good thing for us,” added Williams. “Those people are going to be consuming our product. I think it would be good to see some wage pressure on the economy. I like the fairly steady six-year recovery that we’ve been experiencing. I think it’s the healthy recovery we need.”
As the economy continues to improve and consumers slowly work their way back into spending mode, CPG manufacturers are using a wide array of financial strategies and operational tactics to increase sales and protect margins. It is not easy. Fluctuating commodity prices, foreign exchange disparities, and slow global growth are all challenges that these companies must overcome.

Our analysis of the top-performing companies shows that they have found ways to generate sales, maintain strong margins, and enjoy good profits. Their capital structures appear to be strong, and they have low debt to equity ratios. To understand exactly how they are managing, we took a detailed look at their performance across a variety of metrics.

We gathered and reviewed publicly available data on a total sample of 109 CPG companies. We then sorted 42 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 42 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 11 top-performing companies (TPC). Of this group, five are in the household products sector, four are beverage companies, and two are food manufacturers. Among the 11 bottom-quartile performers, four are in the household products sector, six are food manufacturers, and one is a beverage company. Our analysis reveals that in 2014, the top-performers’ results differed from those of the bottom-quartile in the following areas:

Net sales growth rates for both the top and bottom quartiles have continued to decrease since their 2011 highs. In 2014, in fact, the bottom quartile fell into the red while the top-quartile fell from 3.6% to 2.0%, with the spread between the two increasing slightly. It may be that the strength of the dollar is hurting top-performing companies that rely more heavily on exports in search of growth. Even so, all manufacturers are enjoying consistent gross margins, as we’ll see below.

In a slow-growth market, it may be a smart strategy to focus on protecting margins rather than seeking out growth. That could explain why top-performing companies have consistent high gross margins over the past several years, managing to maintain them without impacting revenue growth. In fact, one very large household products manufacturer has seen three years of growth declines, but its margins are actually stronger. Four of the 11 top-performing companies are beverage companies, which also continue to enjoy traditionally high margins. In 2014, top performers enjoyed a slight bump in their gross margins to 59.3%, while bottom performers held remarkably steady at just under 25%, with the gap between the two increasing to 34.4 percentage points.

It’s been a wilder ride for the bottom quartile when it comes to EBIT growth. While the top-performing companies are in their third consecutive year of improvement, rising from 6.3% in 2013 to 12.9% in 2014, the bottom-performers, who saw a huge improvement in 2013, gave some of it back in 2014, falling back into the red, from 15.5% to -2.8%. For the top-performing companies, this further supports their focus on protecting margins.
Both top and bottom performers slumped from 2013 to 2014 in terms of free cash flow to sales performance. However, the bottom performers suffered a steeper decline, from 4.4% in 2013 to 2.6% in 2014, while top performers slipped from 14.5% to 13.9%. The gap between the two widened to 11.3%, compared to 10.1% in 2013.

Median spending on sales, general, and administrative (SG&A) as a percentage of net sales continues to dip for both top (to 29.5%) and bottom (to 15.6%) performers but overall has remained relatively flat, declining just slightly over the past two 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. Bottom performers continued to improve their cash conversion cycle, from 44 to 31 days, its best performance in five years. That created a widening gap with the top performers, which stumbled from 46 to 49 days.

Top-performing companies have increasingly lower debt to equity ratios, with the median moving from 0.6 to 0.4 from 2013 to 2014, while bottom performers held essentially steady at 0.9. It is clear that the capital structures of top-performing companies are different than others. They are less leveraged and have better credit profiles. Even though they can get cheaper debt, they are not doing so and have not over the past three years.

The interest coverage ratios of the top- and bottom-performers diverged to their largest spread in five years. The current gap is 12.3. Bottom-performers continue to struggle with balancing debt to equity, while top performers appear to have less debt on hand.

Source: YCharts, Appendix A and PwC analysis
Top-performing companies
An analysis of the financial performance of leading manufacturers

TPC median EBIT growth

TPC median free cash flow to sales

TPC median SG&A as a percentage of sales

TPC Median Cash Conversion Cycle

Source: YCharts, Appendix A and PwC analysis

- Top-performing quartile
- Bottom-performing quartile
Top-performing companies
An analysis of the financial performance of leading manufacturers

Source: YCharts, Appendix A and PwC analysis

- Top-performing quartile
- Bottom-performing quartile
Beyond the spreadsheets: What drives top-performers

All that data gives great insights into how top-performing companies manage their businesses, but there is more to the story. Top-performers are also top strategists, using an array of techniques to help protect—and grow—their bottom lines. We examined those strategies around five key areas: operational efficiency, consumer engagement, data analytics, brand management, and innovation.

Striving for operational efficiency

One way top-performing manufacturers stay on top is by focusing relentlessly on efficiency, whether that means constantly tweaking supply chains, implementing sweeping productivity initiatives, getting fit for growth and investing in differentiating capabilities, or looking for new ways to manage costs. For some of the largest manufacturers, such efforts can stretch over several years. For example, one large beverage company is committed to streamlining and simplifying its organization to improve productivity with a goal of $3 billion in savings by 2019.

Another beverage manufacturer is aiming for savings of $40 million to $60 million per year over the next four years by focusing on cash generation, capital expenditure efficiencies and working capital improvements, more disciplined cash use, and deleveraging as a short-term priority.

Manufacturers can also try reducing the workforce, redefining the core business model, improving forecasting capabilities, and making advertising and promotion spend more effective. Companies may like to use terms like “rapid continuous improvement” or “lean behaviors,” but whatever the terminology, the basic idea is the same: seeking out new efficiencies in every corner of the organization in pursuit of SG&A improvements and higher gross margins.

Engaging consumers on multiple platforms

Today’s consumers are bombarded with messaging, community, and relationships from every angle, and top-performing companies are becoming more adept at discerning which platforms work best for reaching specific consumer segments. Their strategies can include launching online marketing and branding, building mobile apps, interacting in social networks, setting up online video sites, improving online customer service with the help of advanced CRM, and bolstering their e-commerce capabilities. But which ones work best?

As PwC and Strategy&’s 2015 Consumer Goods Trends report explains, “Adapting to the fragmentation of marketing channels has stimulated many companies to innovate in managing more digital merchandising and communications paths. What they need now is to move on in the innovation cycle, and identify and double down on what really works, as opposed to what is merely possible or interesting or promising. For many, it is time to consolidate the lessons from using digital channels.”

Social media and mobile advertising are proving to be powerful tools for consumer engagement. In fact, in PwC’s 2015 Global CEO survey, 81% of CPG CEOs said mobile technologies for customer engagement are strategically “somewhat important” or “very important” to their organizations.

That is just one indication that more and more manufacturers have come to the realization that they must meet their customers where they live today: in the digital space. They know they must use digital media to adapt to shopping patterns, media consumption habits, and demographics that are all in flux.
For one beverage manufacturer, making a connection with its social media audience means sending out targeted ads that relate to current local weather conditions. The hotter it gets, the more likely a mobile social media user is going to see an ad that mentions the heat and suggests a refreshing drink.

At the same time, consumers still go to the store, so for at least one leading household products manufacturer, the push is to increase its in-store brand-building activities. A beverage manufacturer plans to drive key brands that have scale, higher margin, and the greatest growth potential by increasing its points of distribution, delivering more effective feature and display activity at retail, and adding accountability and visibility for its distributors.

In fact, food and beverage marketers are using technology beyond basic brand-building to drive traffic to stores by engaging with consumers to help with the shopping experience. Mobile applications are being used for coupons, meal planning, and grocery delivery.

Food and beverage companies are also trying to build social media communities around their brands to help drive loyalty. They no longer rely solely on the retailer to make their brands “known.” It’s more important than ever for CPG companies to own their brands.

**Embracing business analytics to make smart decisions**

Top-notch brand management also requires top-notch business analytics to aid smart decisions and to make those decisions faster. According to PwC’s 2015 Global CEO survey, 75% of CPG CEOs say data mining and analysis are strategically “somewhat important” or “very important” to their organizations.²⁰

By investing in business analytics, top-performing companies are differentiating themselves from their peers. For one global beverage manufacturer, that means constructing an operational intelligence platform to help make sure that future company decisions will be data-driven. So far-reaching and microscopic is this platform that it can extract data not only from social media and loyalty programs but even from individual vending machines. Dashboards help analysts get earlier access to data and make faster decisions.

A household products manufacturer also focused on speeding up decisions by building an analytics platform that provides in-memory analytics capabilities capable of delivering results hundreds of times faster than before. It can analyze models across large sets of customers and products in as close to real time as possible.

**Using brand management to improve performance**

Top-performing companies are especially adept at managing their brands to maximize revenues and productivity. Strong brands breed success and not only help retain consumers in competitive markets but also help obtain new customers in emerging markets. Deciding on how to organize different markets around the world requires a careful balancing act to deliver effectively and efficiently what each market requires. Building and protecting brand equity is crucial.

For one global cosmetics marketer, that means offering a diverse portfolio to address varied consumer preferences in different geographies, developing new luxury brands, nurturing smaller brands, and expanding its portfolio through acquisitions. For one beverage manufacturer, its best tactic is to leverage its brand equity with new products, packaging, and variations under the same brand umbrella.

Market segmentation that tailors strategies based upon individual markets and consumers can also come into play more easily given the availability of granular information for the manufacturers. For example, a manufacturer might emphasize volume growth for emerging markets, and pricing and transaction growth for developed markets. One manufacturer of household products is looking to lead in emerging markets with locally relevant products, superior in-store execution, broader distribution, and continued geographic expansion.

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²⁰ PwC, 18th Annual Global CEO Survey, January 2015
One shortcut to building brand equity is to acquire brands that already have a following. It happens frequently in the beverage market, where large manufacturers partner with or acquire smaller brands with cachet and then use their distribution to take them to new markets. By acquiring well-known brands in markets such as premium teas, waters, energy drinks, and single-serve coffees, one global beverage maker hopes to capture more beverage consumption occasions.

Top-performing companies are also adding messaging about corporate social responsibility and sustainability to their branding. Such stories can be told and shared in social media environments and can resonate with environmentally conscious consumers who strive to make a statement through their shopping. It is one more way to build equity for the brand.

Creating a culture of innovation

Manufacturers know that nothing will spur growth more than true margin-accretive innovation. This is especially true in the beverage market, where manufacturers are in a constant battle not only to improve gross margins but also hold onto valuable retail shelf space and to create new niches that reinvigorate their products for a new generation of consumers.

For example, in recent years we have seen an explosion in homebrew capsule coffee and even home-based soda systems. In the alcohol segment, manufacturers continue to explore flavored malt beverages, cider, craft beer, and flavored spirits such as a wide range of new fruit-flavored vodkas. Packaging innovations can be equally important, as in the case of wine on tap, where the wine gets dispensed from a keg rather than a typical bottle.

Many top-performing companies are committed to building innovation deep into their corporate cultures. One household product manufacturer is addressing the shift in how today’s consumers shop and buy products by focusing on the battle for both the physical and virtual shopping cart, growing its market share not only behind product superiority but also with new product platforms and adjacent categories. Its plan: to invest disproportionately in higher return opportunities.

Another manufacturer hopes to drive creativity by increasing its R&D investment in 2015, focusing its innovation pipeline on white space products, and decentralizing its innovation efforts to ensure its products are culturally attuned.
Financial performance metrics

Retailers and manufacturers

The continuing slow economic expansion in 2014 made for some interesting findings when we compared the performance of retailers and manufacturers. Although manufacturers do better than retailers across many metrics—their gross margins are always higher, for example—retailers outperform manufacturers in important financial metrics. Because most retailers are focused on the domestic market, they are less likely than manufacturers to be troubled by the dollar’s persistent high value and excel on such measures as days of inventory outstanding.

While traditional brick-and-mortar retailers remain a vital distribution channel, the retail landscape is changing as fast growing retail formats such as club and dollar prove their importance and the shift from big box to smaller formats continues. In addition, online retail and consumers’ willingness and desire to buy direct continues to grow. Format evolution and shifting demand across channels create extreme challenges for tailoring retail assortment, promotion programs, and merchandising programs. Manufacturers need to understand consumer segments and their preferences for different shopping occasions to provide a consistent brand experience for consumers.

Following is a look at performance by financial, operational, and tax metrics.

Retailers have a strong showing vs. manufacturers in key financial metrics

In terms of net sales growth, retail rebounded, up from 3.3% in 2013 to 5.7% in 2014. In the same time period, though, manufacturers continued to fall, from 3.7% to 2.1%. It was the third year of a downward trend for manufacturers.

Manufacturers typically hold the lead over retail in terms of gross margins, and 2014 was no different. In 2014, that lead was 36.1% vs. 25.6%, a gap that has remained remarkably consistent for three years. In fact, retailers’ gross margins have remained essentially flat over the past five years.

In terms of the median current ratio, while retailers and manufacturers were nearly identical at just over 1.5 in 2013, they diverged in 2014, with manufacturers going to 1.6 and retailers dropping to 1.4.

Things tilted in retail’s favor in terms of EBIT growth, although that growth has been slow. This may be at least in part because retailers were squeezing suppliers on inventory levels last year. While manufacturers outperformed retailers in 2013, they switched positions in 2014, with retailers at 3.0% compared to manufacturers at -0.5%.

Sales per employee growth rebounded for both retailers and manufacturers after two years of decline. Manufacturers saw a small increase from 1.1% to 1.3%, while retailers rose from 0.6% to 0.9%.

Despite economic improvements, return on market capital has been a troubling metric for both retailers and manufacturers, declining for both over time because of heavy competition in the CPG industry. For manufacturers, the return was down for a fourth year to 3.6% in 2014 from 5.2% in 2010. Retailers also saw a decline in 2014 to 3.7% from 4.2% in 2013.

Throughout 2015 it will be interesting to see how the seven-year high in consumer confidence is reflected in the financial performance of both retailers and manufacturers, especially when it is contrasted with continuing slow wage growth.
Retailers hold their own in operational performance

Although both retailers and manufacturers saw an increase in SG&A as a percentage of sales, a key indicator of operational efficiency, the increase was slight, up from 20.3% in 2013 to 20.7% in 2014 for retailers and up from 22.1% to 22.7% for manufacturers. As more corporations begin to adopt new minimum wage standards, expect pressure on this metric to continue.

Although median days payable outstanding have held quite consistent for retailers at 29 days, they have risen for manufacturers, from 43 days in 2013 to 45 days in 2014.

In terms of median days of inventory outstanding, retailers are doing a better job thinning out their supply chains, squeezing manufacturers, and turning inventory into cash. Manufacturers saw an increase in 2014 from 64 to 65 days, while retailers saw a decrease, from 40 to 37 days.

While retailers have looked to improve working capital by reducing inventory levels, manufacturers have looked to extend terms with their suppliers.

Important tax considerations for changing times

Manufactures continued to attain more advantageous tax rates as compared with retailers (30.4% vs. 34.5%). Manufactures are more likely than retailers to have significant operations both within and outside of the US. The combined US federal and state statutory rate tends to be higher than the rates of other developed nations, thus manufactures with operations overseas will often have lower effective tax rates.

In addition, manufactures can benefit from tax incentives not traditionally available to retailers. In the US, manufacturers can claim deductions not available to retailers, and manufactures tend to conduct more research and development that may be eligible for tax credits.

Interestingly, given current economic conditions and tax considerations, many manufacturer CEOs are looking to the US to be a ripe market for growth, counter to what we have seen over the last five to ten years.
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: 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 days payable outstanding

Median days inventory outstanding

Median cash conversion cycle

Source: YCharts, Appendix A and PwC analysis

- Retailers
- Manufacturers
Manufacturers: Size-specific data (small, medium, large, and very large)

We compared the performance of manufacturers by size and found intriguing differences in the performance of small and medium-size manufacturers when contrasted with the performance of large and very large manufacturers. Overall, small and medium companies are doing surprisingly well.

In terms of net sales growth, small manufacturers held steady at around 3.5% in 2014, while medium-size manufacturers improved from 4.9% to 6.5%. The sales of large and very large manufacturers grew at 1.3% and 0.2%, respectively. Why did the small and medium firms grow faster? Perhaps it is because they have the ability to be nimble and adjust quickly in uncertain times, while large companies move more slowly and are more likely to be exposed to foreign exchange headwinds.

Interestingly, medium-size companies fare poorly on the measurement of gross margins, dropping from 31.5% in 2013 to 26.3% in 2014, perhaps because these are the companies who are investing the most in their future growth. Small manufacturers saw a slight dip to 32.5%, large manufacturers held steady at 36.1%, and as usual, very large manufacturers can take advantage of economies of scale in production and procurement, enjoying the highest gross margins, which are holding at 47.3%.

Medium companies also shined in terms of EBIT growth, leading the pack by rising from -7.2% to 7.7% from 2013 to 2014. Large companies also chalked up EBIT improvement, from 2.4% to 5.9%, but very large manufacturers fell from 9.2% to -1.6%, and small manufacturers went deeper into the red, plunging from -2.4% to -21.8%. While it’s unusual that small and very large companies would follow the same trajectory, it is perhaps a reflection of just how tough today’s climate is for everyone. Size does not make a difference in this case, and the best performers seem to be small companies that have grown into the medium category recently. Why? It could be that the advantages of size are diminishing somewhat as TV advertising lessens in importance, retailers increase local sourcing, and consumers search for local and products that feel authentic to them. In addition, many very large manufacturers in the CPG space have been going through brand divestitures in their pursuit of a megabrand strategy.

Looking at SG&A as a percentage of sales, we found that very large manufacturers consistently spend the most, up from 24.6% in 2013 to 27.8% in 2014. In this case, lower-volume medium-size companies, which compete on price and may not have as much financial flexibility to invest, brought up the rear, falling from 15.8% to 14.5%.

When it comes to return on market capital, the results broke out as expected, with large and very large manufacturers outstripping small and medium firms. What was interesting in 2014 is that their relative performances were all converging. Large and very large were down, while small and medium were up, with everyone coming in between 2.9% and 4.1%.

In the case of return on invested capital, company size was less relevant than one might have expected. Again, while large and very large led small and medium manufacturers, the gap closed somewhat in 2014, with very large at 10.0% and small at 7.2%, a difference of just 2.8%. Four years earlier, that gap was 5.0%.

Defining size

Small: Companies with greater than $50 million and less than or equal to $1 billion in net sales in their last reported fiscal year.

Medium: Companies with greater than $1 billion 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

Size-specific data, all sectors

Return metrics

Median return on invested capital

Historical data for return on invested capital for different sizes of manufacturers from 2010 to 2014, showing trends and comparisons.

Median return on market capital

Historical data for return on market capital for different sizes of manufacturers from 2010 to 2014, showing trends and comparisons.

Liquidity metrics

Median current ratio

Historical data for current ratio for different sizes of manufacturers from 2010 to 2014, showing trends and comparisons.

Median interest coverage ratio

Historical data for interest coverage ratio for different sizes of manufacturers from 2010 to 2014, showing trends and comparisons.

Median debt to equity ratio

Historical data for debt to equity ratio for different sizes of manufacturers from 2010 to 2014, showing trends and comparisons.

Median short-term debt to long-term debt ratio

Historical data for short-term debt to long-term debt ratio for different sizes of manufacturers from 2010 to 2014, showing trends and comparisons.

Source: YCharts, Appendix A and PwC analysis
**Financial performance metrics**

### Size-specific data, all sectors (continued)

#### Growth metrics

- **Median net sales growth**
  - Small manufacturers: ~5%
  - Medium manufacturers: ~3.5%
  - Large manufacturers: ~1.3%
  - Very large manufacturers: ~0.2%

- **Median EBIT growth**
  - Small manufacturers: ~7.7%
  - Medium manufacturers: ~5.9%
  - Large manufacturers: ~-21.8%
  - Very large manufacturers: ~-1.6%

#### Income statement metrics

- **Median free cash flow to sales**
  - Small manufacturers: ~0%
  - Medium manufacturers: ~6.5%
  - Large manufacturers: ~3.5%
  - Very large manufacturers: ~1.3%

- **Median sales per employee**
  - Small manufacturers: $0
  - Medium manufacturers: $200,000
  - Large manufacturers: $400,000
  - Very large manufacturers: $600,000

- **Median gross margin**
  - Small manufacturers: ~26.3%
  - Medium manufacturers: ~47.3%
  - Large manufacturers: ~36.1%
  - Very large manufacturers: ~32.5%

- **Median return on sales**
  - Small manufacturers: ~24.1%
  - Medium manufacturers: ~24.1%
  - Large manufacturers: ~22.8%
  - Very large manufacturers: ~17.8%

- **Median SG&A as a percentage of sales**
  - Small manufacturers: ~24.1%
  - Medium manufacturers: ~22.8%
  - Large manufacturers: ~15.6%
  - Very large manufacturers: ~11.8%

- **Effective tax rate**
  - Small manufacturers: ~36.1%
  - Medium manufacturers: ~36.1%
  - Large manufacturers: ~32.5%
  - Very large manufacturers: ~29.8%

---

*Source: YCharts, Appendix A and PwC analysis*

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

Size-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
- Small manufacturers
- Medium manufacturers
- Large manufacturers
- Very large manufacturers
Global vs. domestic manufacturers

This year’s report of 109 companies includes 64 global and 45 domestic manufacturers (see definitions on the right). Based on size, most global companies are large (20) and very large (28), while 11 rank as medium and only five are small. When it comes to domestic manufacturers: 21 companies are small, 13 rank as medium, eight are large, and only three are very large.

Between 2013 and 2014, the gap between net sales growth for domestic and global manufacturers widened significantly, with global companies dropping from 3.4% to 0.4% while domestic firms rose from 4.4% to 5.4%. Just three years ago, global manufacturers showed a top net sales growth of 10.5%. Place the blame squarely on global economic weakness and accompanying strength of the dollar. The same can be expected this year as the dollar’s global strength shows little sign of abating in 2015. Global companies continue to seek out new customers in emerging markets such as China and Brazil, but weak growth in emerging markets and the Eurozone have hit global companies. The bottom line: the slowing growth in global net sales reflects the current state of the global economy.

Global companies enjoyed a better gross margin, 39.9% in 2014 compared to the domestic 29.4%, which actually fell from 34.4% just a year ago. Still, global margins have barely budged in five years, which suggests that given the recent state of the global economy, being global has lost some of its luster. Nonetheless, for global, free cash flow to sales was also up from 6.6% to 7.5% this year as well as an uptick in return on invested capital from 7.9% to 8.6%. Return on market capital saw slow multi-year declines both home and abroad, with global at 3.9% and domestic at 3.2% for 2014.

EBIT growth of domestic companies has fluctuated significantly in recent years, tumbling from 5.2% to -1.3% from 2013 to 2014. In the same period, EBIT growth for global companies fell from 2.5% to -0.2%, its fifth year of decline. This is another measure that may take a harder hit in 2015 due to foreign market weakness and exchange rate challenges.

The impact of the high US statutory corporate tax rate can also be seen in comparing effective tax rates of domestic and global manufacturers. In 2014, the effective tax rate on domestic companies ticked up from 33.4% to 34.2%, while the rate on global companies held essentially steady, rising from 25.7% to 26.2%. While global companies typically pay the prevailing local tax rate on their foreign earnings, unlike their foreign competitors they are not able to access their foreign cash for use at home without paying additional US taxes on such repatriations. Coping with the US’s high corporate tax rate is a perennial challenge for domestic companies, regardless of where most of their sales are.

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

Global vs. Domestic

Return metrics

Median return on invested capital

<table>
<thead>
<tr>
<th>Year</th>
<th>Domestic</th>
<th>Global</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>8.6%</td>
<td>3.9%</td>
</tr>
<tr>
<td>2011</td>
<td>7.9%</td>
<td>3.2%</td>
</tr>
<tr>
<td>2012</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>15%</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>15%</td>
<td></td>
</tr>
</tbody>
</table>

Median return on market capital

<table>
<thead>
<tr>
<th>Year</th>
<th>Domestic</th>
<th>Global</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>8.6%</td>
<td>5%</td>
</tr>
<tr>
<td>2011</td>
<td>7.9%</td>
<td>5%</td>
</tr>
<tr>
<td>2012</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>15%</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>15%</td>
<td></td>
</tr>
</tbody>
</table>

Liquidity metrics

Median current ratio

<table>
<thead>
<tr>
<th>Year</th>
<th>Domestic</th>
<th>Global</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>0.5</td>
<td>0.5</td>
</tr>
<tr>
<td>2011</td>
<td>1.0</td>
<td>1.0</td>
</tr>
<tr>
<td>2012</td>
<td>1.5</td>
<td>1.5</td>
</tr>
<tr>
<td>2013</td>
<td>2.0</td>
<td>2.0</td>
</tr>
<tr>
<td>2014</td>
<td>2.5</td>
<td>2.5</td>
</tr>
</tbody>
</table>

Median interest coverage ratio

<table>
<thead>
<tr>
<th>Year</th>
<th>Domestic</th>
<th>Global</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>3.0</td>
<td>3.0</td>
</tr>
<tr>
<td>2011</td>
<td>6.0</td>
<td>6.0</td>
</tr>
<tr>
<td>2012</td>
<td>9.0</td>
<td>9.0</td>
</tr>
<tr>
<td>2013</td>
<td>12.0</td>
<td>12.0</td>
</tr>
<tr>
<td>2014</td>
<td>15.0</td>
<td>15.0</td>
</tr>
</tbody>
</table>

Median debt to equity ratio

<table>
<thead>
<tr>
<th>Year</th>
<th>Domestic</th>
<th>Global</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>2011</td>
<td>1.0</td>
<td>1.0</td>
</tr>
<tr>
<td>2012</td>
<td>2.0</td>
<td>2.0</td>
</tr>
<tr>
<td>2013</td>
<td>3.0</td>
<td>3.0</td>
</tr>
<tr>
<td>2014</td>
<td>4.0</td>
<td>4.0</td>
</tr>
</tbody>
</table>

Median short term debt to long term debt ratio

<table>
<thead>
<tr>
<th>Year</th>
<th>Domestic</th>
<th>Global</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>2011</td>
<td>0.2</td>
<td>0.2</td>
</tr>
<tr>
<td>2012</td>
<td>0.4</td>
<td>0.4</td>
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<tr>
<td>2013</td>
<td>0.6</td>
<td>0.6</td>
</tr>
<tr>
<td>2014</td>
<td>0.8</td>
<td>0.8</td>
</tr>
</tbody>
</table>

Source: YCharts, Appendix A and PwC analysis
Global vs. Domestic (continued)

Financial performance metrics

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 gross margin

Median SG&A as a percentage of sales

Median effective tax rate

Source: YCharts, Appendix A and PwC analysis

- Domestic
- Global
Financial performance metrics

Global vs. Domestic (continued)

Balance sheet metrics

Median inventory turnover

Median return on average assets

Median cash conversion cycle

Source: YCharts, Appendix A and PwC analysis

- Domestic
- Global
**Food, beverage, and household products manufacturers**

When we segment the CPG market to look at the relative performance of food, beverage, and household products manufacturers, we find some interesting differences. In 2014, beverage and household products makers showed continuing declines—and similar behavior across several metrics—while food manufacturers appeared to have stabilized somewhat.

In terms of net sales growth, after two years of declines, food manufacturers were steady for a second year at 3.9%, but both household products and beverages fell to points of essentially no growth. The success of food manufacturers in maintaining growth may be because given trends in health and wellness, consumers are continuing to upgrade and spend more for artisanal and organic products. In fact, organic products are now available in nearly 20,000 natural food stores and nearly three out of four conventional grocery stores, according to the US Department of Agriculture. Organic sales account for over four percent of total US food sales. Food manufacturers are also taking advantage of increasingly advanced business analytics to get smarter about proper pricing across channels and managing their mix of products and their distribution optimally.

Food, which has always had low margins, lost some of its gross margin from 2013 to 2014, down from 30.4% to 26.3%, while household products decreased 30 basis points to 46.6% and beverages enjoyed an uptick from 42.1% to 44.7%. Both beverages and household products also enjoyed upticks in free cash flow to sales, while food held steady. Of course, recent megamergers in the food industry are also now coming into play and could impact these metrics going forward.

Although the food sector popped in terms of EBIT growth from 2012 to 2013, with an almost 10% improvement, EBIT growth was down across all three sectors in 2014, with only food showing minimal positive growth at 1.5%. Beverage manufacturers were at -3.9% and household product manufacturers were at -0.8%.

When it comes to SG&A as a percentage of sales, results are more stable. The food sector remained consistently lower than the rest of industry, with an average of 16.5% for the past five years, possibly because there tends to be less R&D in the food sector. With the beverage sector at 28.1% and the household products sector at 28.7%, the results perhaps reflected the cost of advertising and marketing, which is typically a significant factor, especially in the beverage and alcohol markets. The beverage and household product sectors have tracked each other consistently on this metric for three years.

---

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

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
Financial performance metrics

Sector-specific data, all sectors (continued)

Balance sheet metrics

<table>
<thead>
<tr>
<th>Median inventory turnover</th>
<th>Median return on average assets</th>
<th>Median cash conversion cycle</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="image1" alt="Inventory Turnover Graph" /></td>
<td><img src="image2" alt="Return on Average Assets Graph" /></td>
<td><img src="image3" alt="Cash Conversion Cycle Graph" /></td>
</tr>
</tbody>
</table>

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 2009 through 2014, 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.

<table>
<thead>
<tr>
<th>Sector</th>
<th>NAICS code</th>
<th>NAICS description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beverage</td>
<td>312111</td>
<td>Soft drink manufacturing</td>
</tr>
<tr>
<td>Beverage</td>
<td>312112</td>
<td>Bottled water manufacturing</td>
</tr>
<tr>
<td>Beverage</td>
<td>312120</td>
<td>Breweries</td>
</tr>
<tr>
<td>Beverage</td>
<td>312130</td>
<td>Wineries</td>
</tr>
<tr>
<td>Beverage</td>
<td>312140</td>
<td>Distilleries</td>
</tr>
<tr>
<td>Food</td>
<td>311211</td>
<td>Flour milling</td>
</tr>
<tr>
<td>Food</td>
<td>311224</td>
<td>Soybean and other oilseed processing</td>
</tr>
<tr>
<td>Food</td>
<td>311225</td>
<td>Fats and oils refining and blending</td>
</tr>
<tr>
<td>Food</td>
<td>311230</td>
<td>Breakfast cereal manufacturing</td>
</tr>
<tr>
<td>Food</td>
<td>311322</td>
<td>Confectionery manufacturing from purchased chocolate</td>
</tr>
<tr>
<td>Food</td>
<td>311412</td>
<td>Frozen specialty food manufacturing</td>
</tr>
<tr>
<td>Food</td>
<td>311431</td>
<td>Fruit and vegetable canning</td>
</tr>
<tr>
<td>Food</td>
<td>311442</td>
<td>Specialty canning</td>
</tr>
<tr>
<td>Food</td>
<td>311443</td>
<td>Dried and dehydrated food manufacturing</td>
</tr>
<tr>
<td>Food</td>
<td>311511</td>
<td>Fluid milk manufacturing</td>
</tr>
<tr>
<td>Food</td>
<td>311514</td>
<td>Dry, condensed, and evaporated dairy product manufacturing</td>
</tr>
<tr>
<td>Food</td>
<td>311612</td>
<td>Meat processed from carcasses</td>
</tr>
<tr>
<td>Food</td>
<td>311615</td>
<td>Poultry processing</td>
</tr>
<tr>
<td>Food</td>
<td>311812</td>
<td>Commercial bakeries</td>
</tr>
<tr>
<td>Food</td>
<td>311821</td>
<td>Cookie and cracker manufacturing</td>
</tr>
</tbody>
</table>

Source: PwC
### Retailers

Below is a list of the major retailer NAICS codes and NAICS code descriptions which were used to generate the list of 54 retail companies analyzed in this report.

<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)</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>446120</td>
<td>Cosmetics, beauty supplies, and perfume stores</td>
</tr>
<tr>
<td>446199</td>
<td>All other health and personal care stores</td>
</tr>
<tr>
<td>447110</td>
<td>Gasoline stations with convenience stores</td>
</tr>
<tr>
<td>451111</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>
</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:

<table>
<thead>
<tr>
<th>Size segmentations for financial reporting metrics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very large manufacturers</td>
</tr>
<tr>
<td>Large manufacturers</td>
</tr>
<tr>
<td>Medium manufacturers</td>
</tr>
<tr>
<td>Small manufacturers</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>7</td>
<td>4</td>
<td>6</td>
<td>11</td>
<td>28</td>
</tr>
<tr>
<td>Food</td>
<td>15</td>
<td>16</td>
<td>14</td>
<td>10</td>
<td>55</td>
</tr>
<tr>
<td>Household products</td>
<td>4</td>
<td>4</td>
<td>8</td>
<td>10</td>
<td>26</td>
</tr>
<tr>
<td>Total</td>
<td>26</td>
<td>24</td>
<td>28</td>
<td>31</td>
<td>109</td>
</tr>
</tbody>
</table>

Source: PwC
Appendix B: Manufacturer company list

<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>Fomento Económico Mexicano S.A.B. de C.V. (ADR)</td>
<td>Newell Rubbermaid Inc.</td>
</tr>
<tr>
<td>Ajinomoto Co., Inc.</td>
<td>Fresh Del Monte Produce Inc.</td>
<td>Novartis AG (ADR)</td>
</tr>
<tr>
<td>Anheuser-Busch InBev SA/NV</td>
<td>General Mills, Inc.</td>
<td>Omega Protein Corporation</td>
</tr>
<tr>
<td>B&amp;G Foods, Inc.</td>
<td>Gruma, S.A.B. de C.V. (ADR)</td>
<td>Pernod Ricard NV</td>
</tr>
<tr>
<td>BASF SE (ADR)</td>
<td>Hormel Foods Corporation</td>
<td>Pilgrim’s Pride Corporation</td>
</tr>
<tr>
<td>Boulder Brands, Inc.</td>
<td>Ingredion Incorporated</td>
<td>Pinnacle Foods Inc.</td>
</tr>
<tr>
<td>Bridgford Foods Corporation</td>
<td>Inter Parfums, Inc.</td>
<td>Post Holdings, Inc.</td>
</tr>
<tr>
<td>Brown-Forman Corporation</td>
<td>International Flavors &amp; Fragrances Inc.</td>
<td>Reckitt Benckiser Group plc</td>
</tr>
<tr>
<td>Bunge Limited</td>
<td>Inventure Foods, Inc.</td>
<td>Revlon, Inc.</td>
</tr>
<tr>
<td>Campbell Soup Company</td>
<td>J＆J Snack Foods Corp.</td>
<td>SABMiller plc</td>
</tr>
<tr>
<td>Church &amp; Dwight Co., Inc.</td>
<td>Jamba, Inc.</td>
<td>Sanderson Farms, Inc.</td>
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<tr>
<td>Coca-Cola Bottling Co. Consolidated</td>
<td>Jarden Corporation</td>
<td>Seaboard Corporation</td>
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<tr>
<td>Coca-Cola Enterprises, Inc.</td>
<td>John B. Sanfilippo &amp; Son, Inc.</td>
<td>Seneca Foods Corporation</td>
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<tr>
<td>Coca-Cola FEMSA, S.A.B. de C.V. (ADR)</td>
<td>Johnson &amp; Johnson</td>
<td>Shiseido Co. Ltd. (ADR)</td>
</tr>
<tr>
<td>Coca-Cola HBC AG (ADR)</td>
<td>Kellogg Company</td>
<td>Snyder’s-Lance, Inc.</td>
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<tr>
<td>Coffee Holding Co., Inc.</td>
<td>Kerry Group plc</td>
<td>Spectrum Brands Holdings, Inc.</td>
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<td>Colgate-Palmolive Company</td>
<td>Keurig Green Mountain, Inc.</td>
<td>SunOpta, Inc.</td>
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<tr>
<td>Concha y Toro Winery, Inc.</td>
<td>Kirin Holdings Company, Limited (ADR)</td>
<td>Tate &amp; Lyle PLC (ADR)</td>
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<tr>
<td>Cott Corporation</td>
<td>Lancaster Colony Corporation</td>
<td>The Clorox Company</td>
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<td>Craft Brew Alliance, Inc.</td>
<td>Lifeway Foods, Inc.</td>
<td>The Coca-Cola Company</td>
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<tr>
<td>Crystal Rock Holdings, Inc.</td>
<td>L’Oreal</td>
<td>The Estée Lauder Companies Inc.</td>
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<tr>
<td>Danone</td>
<td>Marine Harvest ASA</td>
<td>The Hain Celestial Group, Inc.</td>
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<td>Darling Ingredients Inc.</td>
<td>McCormick &amp; Company, Incorporated</td>
<td>The Hershey Company</td>
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<tr>
<td>Dean Foods Company</td>
<td>Mead Johnson Nutrition Company</td>
<td>The J.M. Smucker Company</td>
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<tr>
<td>Diageo plc (ADR)</td>
<td>Medifast, Inc.</td>
<td>The Procter &amp; Gamble Company</td>
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<tr>
<td>Diamond Foods, Inc.</td>
<td>MGP Ingredients, Inc.</td>
<td>The White Wave Foods Company</td>
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<tr>
<td>Dr Pepper Snapple Group, Inc.</td>
<td>Molson Coors Brewing Company</td>
<td>Tootsie Roll Industries, Inc.</td>
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<tr>
<td>Elizabeth Arden, Inc.</td>
<td>Monster Beverage Corporation</td>
<td>Tyson Foods, Inc.</td>
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<tr>
<td>Energizer Holdings, Inc.</td>
<td>National Beverage Corp.</td>
<td>Ultralife Corporation</td>
</tr>
<tr>
<td>Exide Technologies</td>
<td>Nestlé S.A.</td>
<td>Unilever PLC (ADR)</td>
</tr>
<tr>
<td>Flowers Foods, Inc.</td>
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</tr>
</tbody>
</table>
Appendix C: Retailer company list

ALCO Stores Inc
Alimentation Couche-Tard Inc.
Amazon.com, Inc.
AMCON Distributing Company
Big Lots, Inc.
Casey's General Stores, Inc.
Core-Mark Holding Company, Inc.
Costco Wholesale Corporation
CVS Health Corporation
Dairy Farm International Holdings Limited
Delhaize Group (ADR)
Dollar General Corporation
Dollar Tree, Inc.
Empire Company Limited
Fairway Group Holdings Corp
Family Dollar Stores, Inc.
Fred's, Inc.
GNC Holdings, Inc.
Ingles Markets, Incorporated
Koninklijke Ahold N.V. (ADR)
Loblaw Companies Limited
Metro, Inc.
Natural Grocers by Vitamin Cottage, Inc.
Omnicare, Inc.
Perfumania Holdings, Inc.
PetSmart, Inc.
PharMerica Corporation
PriceSmart, Inc.
Publix Super Markets, Inc.
Rite Aid Corporation
Roundy's, Inc.
Sainsbury (J) PLC
Sally Beauty Holdings, Inc.
Sears Holdings Corporation
SpartanNash Company
Sprouts Farmers Market, Inc.
Starbucks Corporation
Sysco Corp
SUPervalu INC.
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.
Vitamin Shoppe, Inc.
Walgreens Boots Alliance, Inc.
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**
Trailing 12 months earnings before interest and taxes divided by the sum of trailing 12 months operating interest expense and trailing 12 months non-operating interest.

**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.
Appendix D: Definitions

**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.

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

**Medium companies**
Companies with greater than $1 billion 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.

**Selling, general, and administrative (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 $1 billion 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.
Acknowledgments

We would like to thank a number of people for their contributions and for providing their input. Through their collaborative efforts, the following team members have been instrumental in the success and completion of the Retail & Consumer Insights: 2015 Financial Benchmarking report.

Joseph Bedenbaugh
Tamara Beresky
Brian Crane
Christine Hoyte
Steffen Lauster
Brychan Manry
Samuel Shapiro
John Stell
Eduardas Valaitis
Krystin Weseman
Don Willmott
Patrick Yost

We would also like to thank the following executives, who participated in our interview process and whose insights appear throughout this report:

Bill Schumacher, Sunny Delight Beverages Co.
Vladimiro Sinatti, Ferrero USA
Al Williams, Bush Brothers & Company

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GMA and PwC professionals are available to discuss the data, analysis, and commentary in this report, and to help you address the opportunities discussed within.

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