

# **3 REPUTATIONAL RISKS FACING THE FMCG INDUSTRY IN 2018**

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**THE KEY COMMUNICATIONS CHALLENGES  
FOR BUSINESSES TODAY**

## SUMMARY

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The £350 billion FMCG industry is changing fast. Companies are facing reputational risks from shifting consumer preferences, new political pressures and resistance to healthier product ranges.

With more than 25% of a company's value linked directly to its reputation, protecting firms against these risks is the key responsibility for communicators in the industry – and this white paper will help you do exactly that.

It identifies the top three reputational risks facing the FMCG industry and will arm you with the insights to safeguard your brand's reputation in the coming months and years.

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# INTRODUCTION

**With a value of over £350 billion, the Fast Moving Consumer Goods industry is one of the world's most lucrative sectors.**

According to Forbes, six FMCG companies are among the top 30 most valuable brands in the world, driving a sector that has enjoyed steady growth thanks to its global reach and the versatility of its products.

In the UK, food and drink is the most prominent segment within the FMCG industry. It's the country's largest manufacturing sector and contributed £110 billion to national gross value added in 2015. It registers 67.6 million consumers, who spend in the region of £200 billion a year.

Between 2008 and 2016, spend on food shopping increased by 24%. But today, the FMCG industry faces a new set of challenges and threats. The established business model that made the food and grocery sector one of the most lucrative in Britain is changing.

Consumer preferences are shifting. Traditional customers are moving away from classic offerings and seeking healthy alternatives. Companies are still adjusting to this new trend, with firms such as Coca-Cola and PepsiCo boosting their product range in the tea, juice and water aisles.

Increasingly, FMCG companies are also being criticised for their negative impact on the environment. Meanwhile, new levies on sugar are adding pressure to the traditional business models within the sector.

As businesses become more vulnerable to reputational risks and shifts in consumer behaviour, it's up to comms professionals to ensure their companies' reputations don't suffer.

To help you safeguard your firm's reputation in this challenging environment, Cision has profiled the key challenges the FMCG industry is likely to face in 2018 and the impact they will have on brands and retailers.

# COMMUNICATIONS CHALLENGES 2017

**The challenges facing the UK's FMCG industry today are a culmination of several cultural and political shifts.**

The effects of the changes that have occurred in recent years are still playing out in the industry today. As such, understanding how the industry has transformed already is vital to understanding where it's likely to go in the future.

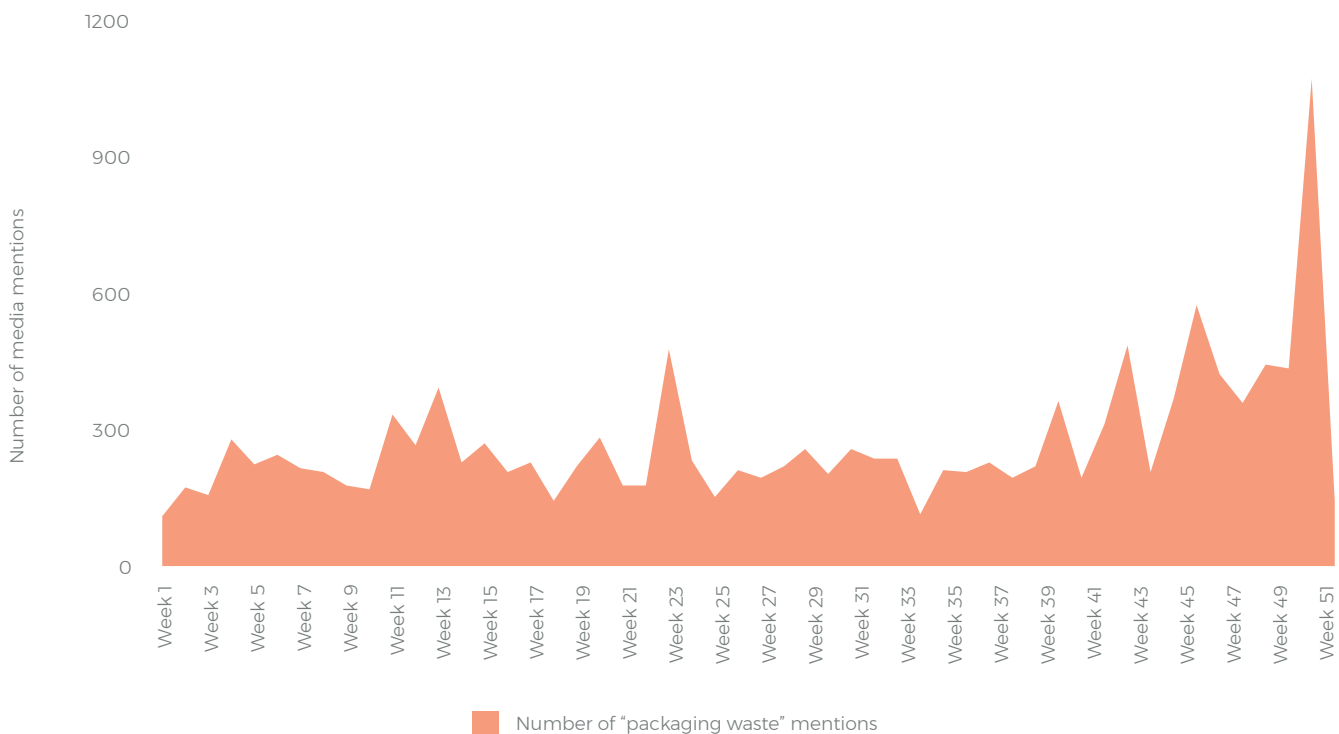
So, before we look at the future challenges facing the FMCG industry, we should look at how it responded to the biggest developments over the past 12 months.

## 1. PLASTIC'S IMPACT ON THE ENVIRONMENT

Earlier this year, all major newspapers in the UK reported that **MPs have started calling on supermarkets to eradicate plastic packaging.** The hope is that this will reduce the 25 million tonnes of plastic waste produced in Europe that is dumped in the oceans every year.

Several titles then highlighted that **FMCG companies including Coca-Cola, Iceland, Mars, PepsiCo and McDonald's have pledged to intensify their efforts to cut plastic packaging waste.** They have vowed to collect and recycle the equivalent of all their packaging by 2030.

Cision Communications Cloud® data showing 'packaging waste' mentions in mainstream media, January to December 2017 (1)



(1) Data from a Western European panel covering Belgium, Denmark, Finland, France, Germany, Ireland, Netherlands, Norway, Portugal, Spain, Sweden and United Kingdom.

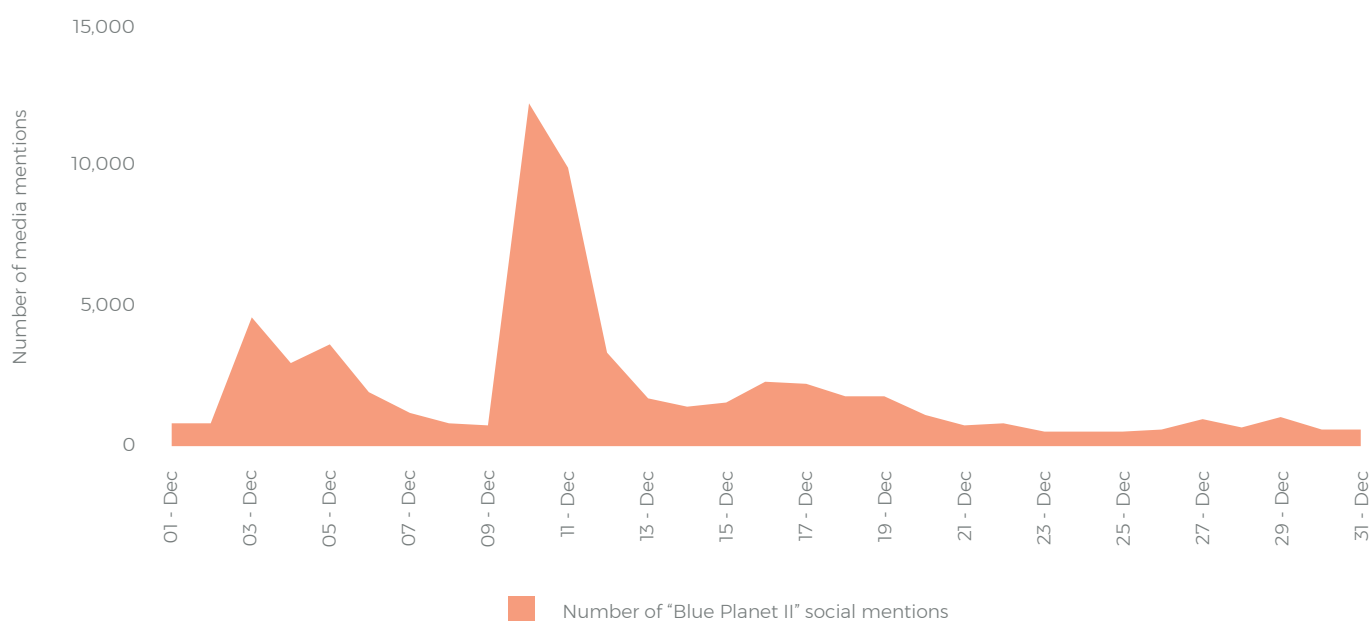
Over the past decade, consumers have gradually become more conscious of the environment and the role big corporations are playing in this debate. This topic was widely discussed in the UK throughout 2017.

The debate was partly triggered by initiatives like Sky's **Ocean Rescue campaign**, which pledged to seek a solution to reduce the public's single use plastic waste. (It was accompanied by a documentary and two days of coverage on the issue on all Sky channels).

But the single biggest contribution to the plastics debate came from David Attenborough's *Blue Planet II*. The series showcased the risks to our oceans and highlighted plastic waste as the number one threat. It prompted a series of articles and social media posts around the issue.

The debate culminated with the EU announcing its **European Strategy for Plastics in a Circular Economy in early 2018**.

Number of 'Blue Planet II' mentions on social media platforms, December 2017 (2)



## 2. MOUNTING PRESSURE TO REDUCE SUGAR CONTENT

One of the biggest challenges the FMCG industry has faced in recent years is the gradual shift in consumer preferences towards healthier products. As the FMCG customer base becomes more health-conscious, classic product ranges are falling out of favour. This has posed a threat to the

traditional business model of FMCG companies, which have been trying to adapt to these new consumer environments.

(2) Data from social media platforms in the UK.

But not all of the pressure has come from the customer base. Governments across Western Europe have been passing (or planning to pass) **taxes on sugary drinks**. The issue was a key driver of content for FMCG brands throughout 2017, and this trend is likely to continue into 2018.

In response to these pressures, FMCG companies are increasingly promoting low-calorie, low-sugar versions of classic products and decreasing the amount of sugar in all their products. These healthier alternatives are primarily flavoured waters, juices and teas.

Coca-Cola published its new **sustainability action plan** in November. It pledges to reduce sugars across its portfolio by 10% by 2020 and increase sales of low or no calorie drinks to 50% by 2025.

Some of the largest FMCG firms have also said that they will decrease the serving sizes in their product ranges to retain classic recipes while reducing the amount of sugar in them.

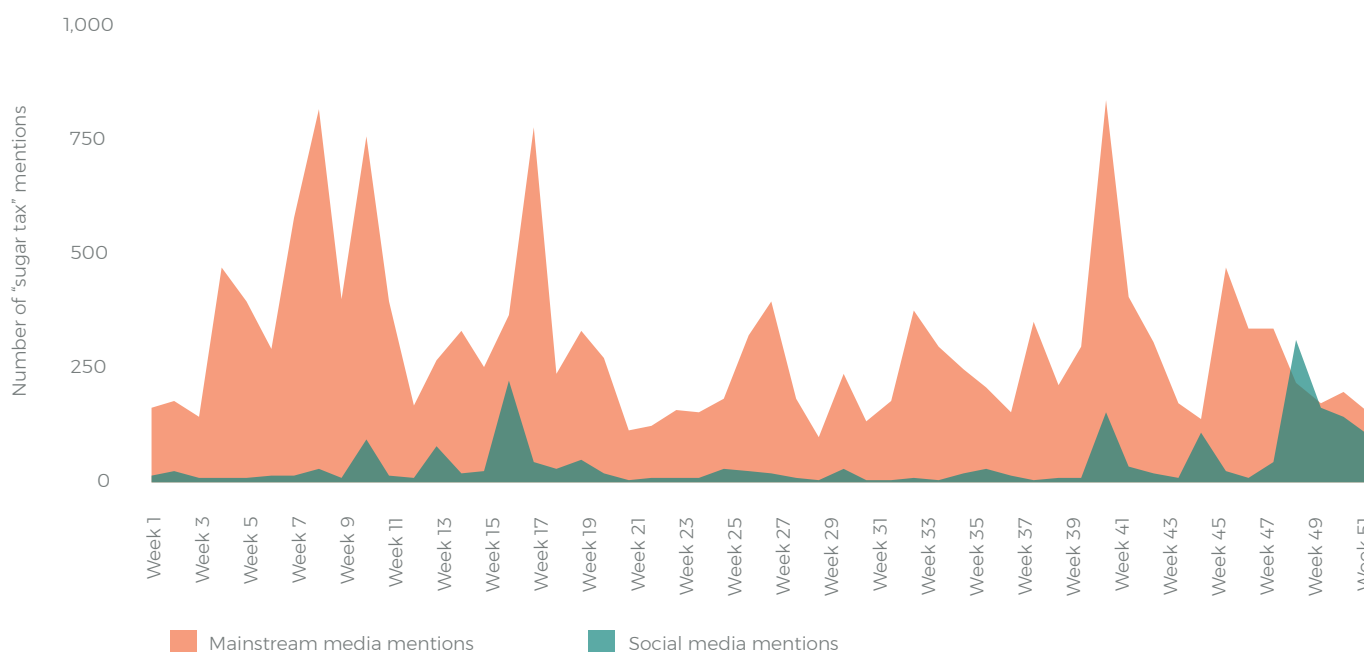
Sugar alternatives are an important area for the industry. This is likely to remain a key focus in the coming years, as pressure on sugar increases.

However, consumers have mixed feelings about the use of sweeteners and the reduction of sugar content across product ranges.

Earlier this month, consumers criticised Irn-Bru owner AG Barr for **replacing the recipe of its drink with a low-sugar alternative**. *Hands off our Irn-Bru*, a petition launched by loyal customers, has attracted thousands of signatures.

The challenge for FMCG companies will be to gradually move away from their classic products and promote healthier ones, while also retaining a loyal customer base. This represents a major structural shift for most business models. The challenge will be to adapt their model to meet these new demands. This will also have an impact on the values traditionally associated with them.

Cision Communications Cloud data showing the number of 'sugar tax' mentions in mainstream media and social media platforms, January to December 2017 (2)



(3) Data from a Western European panel covering Belgium, Denmark, Finland, France, Germany, Ireland, Netherlands, Norway, Portugal, Spain, Sweden and United Kingdom.

### 3. BRAND IDENTITIES ARE BEING SCRUTINISED

FMCG organisations aren't just facing significant challenges around their products. The characteristics associated with a brand can also build or destroy its reputation.

The FMCG landscape has transformed over the past few decades. And the top 10 companies within the sector now own the majority of brands in the industry. For example, Nestle owns over 8,500 brands in more than 80 countries.

These big corporations are constantly being scrutinised by the public. Some are associated with the perceived negative impacts of globalisation. Others are blamed for the decline of certain independent retailers that cannot compete with the larger corporations.

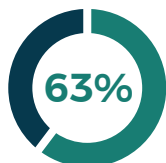
In the last decade, FMCG companies have faced scrutiny around their impact on local communities, particularly around layoffs, closures of factories, expansions and competition with small businesses.

As a result, large corporations regularly invest heavily in local CSR projects, forging **partnerships with local entities** and **sponsoring local projects**.

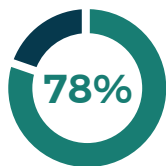
The impact of big companies in communities is likely to become a key element of FMCG businesses' CSR strategies, as corporations seek to embed their brands in local societies.

This poses a challenge for communicators who are tasked with transforming the public perceptions of these "super corporations".

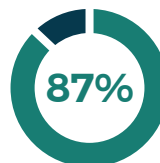
#### Consumer attitudes towards CSR practices (4)



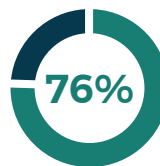
think companies should take the lead to drive social and environmental change.



think companies should address important social issues.



will purchase a product because a company advocated for an issue they cared about.



will refuse to purchase a company's products or services upon learning it supported an issue contrary to their personal beliefs.

(4) Data from 2017 CONE Communications CSR study on US attitudes towards American companies' CSR efforts.

# COMMUNICATIONS CHALLENGES IN 2018

**The issues FMCG brands have been grappling with over the past 12 months will continue to persist in 2018.**

But as lawmakers start to act on these new issues and consumer attitudes start to solidify, three fresh challenges will arise for communicators in the industry.

## 1. SUGAR TAX TO ROLL OUT ACROSS THE UK AND EU

The tax on sugary drinks will continue to be a key challenge for the industry in 2018, **particularly as the UK prepares to implement the levy in April.**

As *The Economist* recently noted, there's a growing demand for taxes on unhealthy products across the whole of Europe.

Levies on sugary products are an obvious threat to the FMCG industry. Two years after Mexico implemented its levy, **there has been a gradual decrease in sugar consumption in the country** – falling by 5.5% in the year after the tax was introduced and a further 9.7% in the second year.

It now seems like a matter of time until this tax is adopted across the EU. So, communicators within the FMCG industry should focus their efforts on helping to reposition their brands, rather than fighting against its implementation.

A 2018 survey carried out by market research firm Mintel showed that **healthy products and transparency are the top two priorities for consumers.** As such, communicators should consider welcoming the sugar tax and promoting the industry's gradual shift towards healthier and more sustainable product ranges.



Taxes on sugar will create challenges for FMCG brands in 2018

This in turn will create an opportunity to raise the profile of the healthy products segment. This has traditionally been a secondary area of focus for the industry, but is now worth over £2 billion in the UK alone.

## 2. REDUCING PLASTIC WASTE IS ON THE AGENDA

Unhealthy foods are not the only area lawmakers are likely to target in the coming years. The industry is also facing growing pressure to act against the issue of plastic waste, particularly after the EU announced its *European Strategy for Plastics in a Circular Economy*.

The 5p charge on plastic bags the government implemented in 2015 was mandatory for retailers with more than 250 employees. It's now likely to be rolled out across all small retailers in the UK under new government plans. The scheme was certainly successful, helping to reduce the number of plastic bags in circulation by 9 billion.



A similar levy on plastic bottles was regularly discussed towards the end of 2017.

In line with the tax on sugary drinks, this plastic bottles levy is likely to be adopted across Europe in the near future, posing another challenge for FMCG brands.

Companies are already taking measures to reduce the plastic waste they generate. But it will be a while until the 25 million tonnes of plastic waste Europeans produce each year can be recycled.

In the meantime, there will likely be mounting pressure from consumer and stakeholder groups, posing a risk to the reputation of FMCG companies.

**Greenpeace has been among the most vocal groups on this matter.**

Communications professionals will play a key role in the public conversation. They must shape consumer perceptions, help to promote CSR practices and convey the FMCG industry's commitment to the environment.

### 3. THE PRODUCT DIVERSIFICATION CHALLENGE

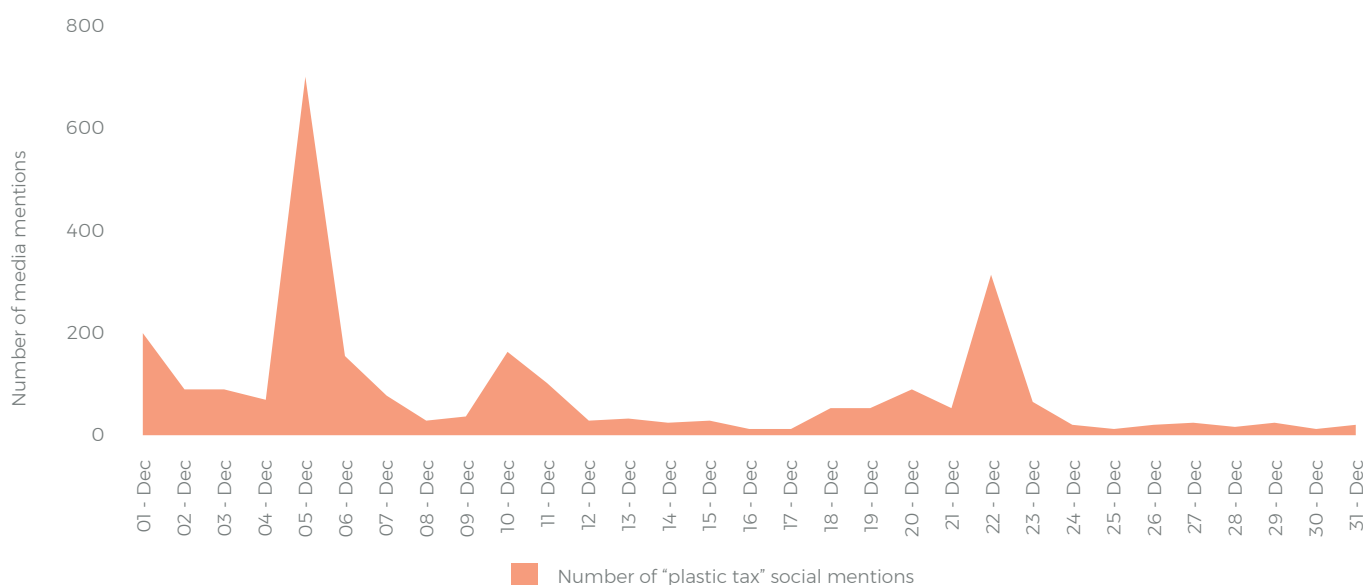
In response to changing consumer behaviour and government pressure, FMCG companies are diversifying their product portfolios. Flagship goods which have defined companies and driven revenues for decades are now under threat.

While this deep transformation is necessary in order to adapt to new trends in the industry, it also poses a challenge.

As we've mentioned, teas, juices and flavoured waters are seeing the most investment. And some brands have been extremely successful with new product lines. For example, Coca-Cola's Innocent is now **Britain's largest chilled juices brand**, reporting £8.5 million operating profits in 2016.

Other healthy alternatives have been less successful. In 2014, Coca-Cola launched Coca-Cola Life, the first reduced-calorie beverage with stevia.

Number of 'plastic tax' mentions on social media platforms, December 2017 (5)



(5) Data from social media platforms in United Kingdom. Includes mentions of deposit return schemes and tax on plastic bottles.

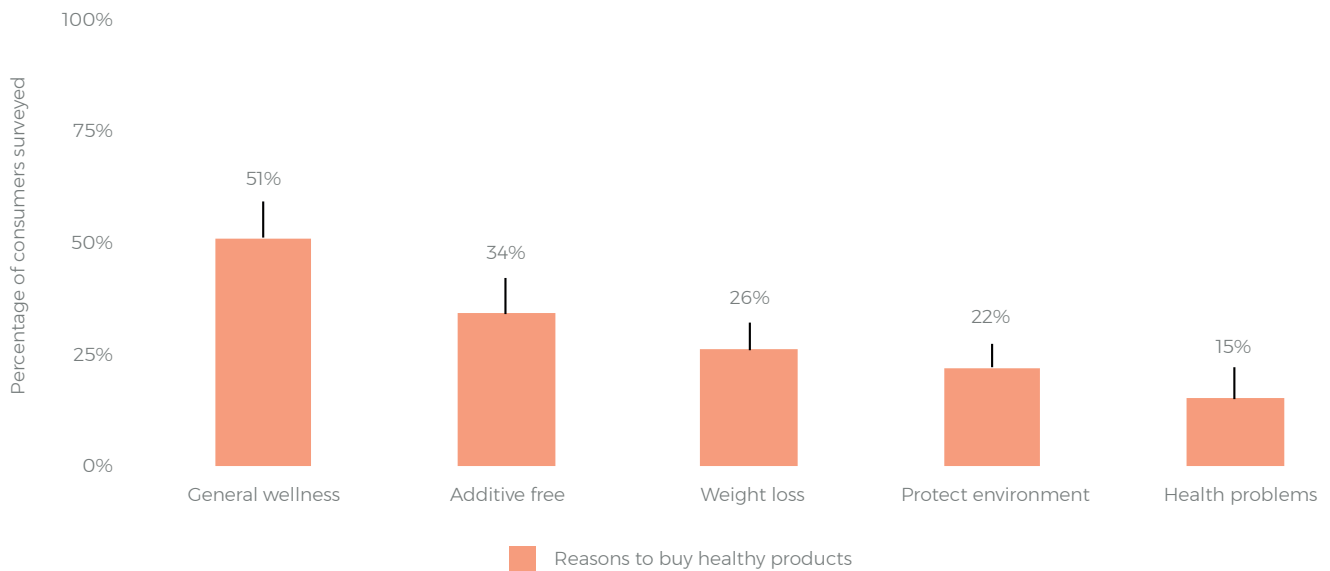
But due to underwhelming demand, it was **scrapped in the UK last year**. (However, the FMCG giant is hoping to launch **another stevia-based drink** in the near future).

As consumers begin to adapt to the taste of the healthier variants of classic products, the FMCG industry is locked in a race to find the perfect recipe – one that replaces sugar with healthy alternatives while preserving the taste of the original product.

For FMCG communicators, the challenge this creates is twofold.

First, they will need to help promote healthier alternatives that customers might not widely accept. This may include handling customer backlash when certain products are phased out. Second, communicators will play a key role in helping to maintain the reputation of their brands as they transition away from core products.

#### Reasons consumers bought healthy products in 2017 (6)



(6) Data from IRI European Shopper Survey 2017.

## CONCLUSION

**The next few years will see a deep transformation of the FMCG industry.**

Classic products will continue to fall out of favour, stakeholder pressures will change how companies operate and **new brands offering healthier products will disrupt the sector.**

This profound change poses an obvious threat for long-established companies within the industry. But it also presents a golden opportunity to redefine the sector.

Companies must adapt quickly to the new environment, embracing the changes – including the levies that are threatening their ecosystem – and repositioning their brands.

Communicators will play a crucial role in this transformation. It is they who are best placed to shape public opinion and protect brand reputations in this period of change and upheaval for the industry.

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