

# Profitable growth in the markets and reliable brands with an excellent price-value ratio

Developing strategic markets profitably with brands, distribution networks and value propositions that deliver memorable and differentiated experiences fulfilling consumer, shopper and customer needs, motivations and purposes in life.

Simultaneously, understanding markets', cultures' and societies' new realities through the Brands and Networks Management Model, and a brand and products portfolio based on consumers' everyday pursuit of a higher quality of life, identity and lifestyle.

## Strategy

[GRI 103-2]

**Strengthening the differentiated value propositions of brands and networks.**

## Progress

[GRI 103-3]

- > Grupo Nutresa deepened its knowledge of customers, shoppers and consumers throughout the entire strategic region, aligning the value propositions, the processes and a market-centric Organization culture.
- > The Organization worked on specializing networks' value propositions based on the understanding and segmentation of customers to ensure their satisfaction and loyalty.

**Managing brand and product portfolio in accordance with market needs.**

- > The strategies and resources were focused on the most powerful brands.
- > A special emphasis was made on products and consumer experiences, keeping in mind the Consumer Segmentation Model.

**Strengthening commercial networks and generating customer loyalty.**

- > Looking to improve customers' experiences and ensuring their loyalty value propositions were modified including differentiating elements for each segment.
- > In the Retail Food Business, thirty restaurants were renovated to improve the consumer experience.

**Strengthening the internationalization model.**

- > The Brands and Networks Management Model was extended to the strategic region, incorporating best practices regarding price, communication and portfolio, among platforms and new markets.



Minimarket channel marketer from Comercial Nutresa, Colombia.



Employees from Pops, Retail Food Business, Costa Rica.

## Risks and opportunities [GRI 103-1]

Grupo Nutresa identified the following aspects as key opportunities in order to dinamize sales in the strategic region: developing value propositions that capture consumers' and shoppers' attention by offering a more intimate experience, the use of distribution networks and logistical capabilities to broaden access to households, and differentiation through innovation to face new low price retail and private labels.

For the Organization, there's always a risk of losing its market share against competitors due to price differences and more relevant value propositions for consumers or customers. Therefore, the Company needs to consider key aspects such as: ensuring consumer preference by offering differentiated experiences and improving nutritional profiles in order to work through consumption barriers; offering new alternatives, especially options related to a healthier diet; strengthening the distribution network by integrating the online and offline worlds, and venturing into new production technologies and contract manufacturing.

Grupo Nutresa also needs to continue its preparation to mitigate the risks related to the new regulations and market and consumer demands in terms of healthier products and more transparent information, the economic slowdown, the exchange rates volatility in some countries, and consumption taxes increase in other countries.

## Outlook

Grupo Nutresa will keep evolving as a market-centric organization. Value propositions are created to respond to consumer, shopper and customer need states based on our understanding of them in order to create differentiated experiences and sustainable relations with them.

Brands will continue to work based on the organization's consumer segmentation model. This model is based on food and beverages consumption and purchase motivations allowing opportunities to be identified minimizing redundancy efforts and strengthening mega-brands throughout all productive units.

Also, developing new category innovations, value propositions improvements, expansion to other countries, maximizing coverage and taking advantage of opportunities where Grupo Nutresa's brands have low presence are to be achieved leveraged by the market understanding based on this model. This based on an adequate price management and on efficient investments, both of which guarantee profitability increase and growth.

The distribution networks will continue to support the presence and brand market share. Market entry models will be adjusted according to customer segments searching for coherency. The specialization of service methods and improvements in visibility are differentiating aspects that will boost brand presence in retail stores.

## Success stories and acknowledgments [GRI 103-3]



**Cold Cuts** launched the new 35g **Pietrán Snack** with only 40 calories per portion, which is a good protein source, is 97% fat free and has a 25% reduced sodium content. This new product totaled COP 1,26 billion in sales over just three months, representing more than 4% of the brand's sales. This sum exceeded the sales expectations by 20%



**Tosh brand** was awarded the **Gold Effie Trophy in the Sustained Brand Success category**, which acknowledges brands that have been able to maintain their success in time, evaluating their performance over the past three years.



**Chocolates** entered the spreadable product category with **Jet Crema**, attracting new consumers and increasing consumption frequency. With more than COP 7,0 billion in 2017, the total sales for this new product amounted for three times the sales budget.



**Strengthening** of the **Nutresa Express Pods** in 2017: A 15% market share was achieved over the first year.



**Biscuit's Saltín Noel brand** was ranked as one of the top 10 most-often chosen brands by Colombians, according to the Kantar World Panel "Brand Footprint" study (2016), which was published in 2017. In the food sector, it is the fourth most often chosen brand in the country, with the highest market penetration level among the top 10 brands.



**Ice Cream** launched the **"Artesanos del postre" (Dessert artisans) campaign**, which reinforced the Company's position in the artisan ice cream market with a 13,2% growth rate.



**Pasta** launched the **Doria Sauces**, which enabled the brand to enter the sauce product category with a differentiated value proposal and leveraged the brand's value, boosting the brand's growth.



**Tresmontes Lucchetti** in Chile attained an **accelerated growth of its Café Gold brand** with a 24% increase in the revenue in comparison with 2016, and it consolidated its share in the granulated coffee in glass containers category, with a 90% growth by Gold Premier.

## Progress achieved in 2017 [\[GRI 103-3\]](#)

### Grupo Nutresa's Brand and Network Management Model

Technological, social and economic changes along with fast paced lifestyles, among other aspects, have created an environment where consumers have greater awareness levels in regards to brands' actions. They are demanding brands to embrace transparency, consistency and sensitivity to make a difference and be valued by the market.



These trends have strongly influenced the commercial ecosystem into developing value propositions and innovation paths intended to improve people's quality of life.

In 2012, Grupo Nutresa stated through the Brands and Networks Management Model that consumers, shoppers and customers are the focus for every action, and use it to boost brands relevance and differentiation.

Since then, the Organization has become market-centric, transforming its organizational culture and creating its own models and practices with innovative methodologies that allow brands and networks to be at the forefront of the industry.

The Brand and Network Management Model enables the Organization to be at the **forefront of knowledge.**

This organizational model is based on three major elements:

1

**Brand management:** management under a consumer-based segmentation and focused on portfolio, price and communication management.

2

**Go to market:** articulating networks to bring brands closer to shoppers present in an omnichannel model.

3

**Customer-centric organization:** Focusing brand actions and value propositions on consumers, shoppers, and customers to ensure their satisfaction and loyalty, aligning processes and culture with this purpose.



Developed/ strengthen capacities are a competitive advantage

Create, transfer, appropriate and apply relevant and differentiated knowledge main market forces

Analytic and collaborative platform founded on Big Data and Advanced Analytics.

Integrated and applicable practices and modelos

Strengthening of a market centric organizational culture.

## Consumer

Understanding consumers' need states and motivations are essential aspects for brands to deliver differentiated value propositions and offer memorable experiences.

These elements are incorporated into Grupo Nutresa's consumer segmentation model, which expands throughout the entire strategic region. This model is built upon the understanding of food and beverage consumption and purchase need states and motivations. This model is dynamic and it is constantly updated to provide brands with a broad framework for action.

The consumer segmentation model covers the entire **strategic region** and it is based on the needs and motivations of consumption and purchase.



Each brand is located in a specific segment according to its market positioning.



Thirty restaurants of the Retail Food Business were renovated to improve the experience.

For Stability (Seguridad), people seek to maintain their status quo with proposals from well-known brands. The Organization's effort has been focused on creating more practical presentations in terms of price and portability, as well as creating brand messages that resonate with consumers' realities.

For Protection (Protección), brands have developed alternatives for consumption moments such as snacks, and their nutritional benefits have been highlighted. In 2017, innovation for this segment focused on expert nutrition aiming to create healthier habits by taking care

of and preserving health standards.

For Self-direction (Autodirección), brands such as Tosh and Diversa have expanded to new categories and have broadened their portfolio to accompany consumers who are motivated to control their diet in order to look and feel good.

For Hedonism (Hedonismo), in which consumers want to live the moment by enjoying everyday cravings and multi-sensorial experiences, brands created in 2017 experiences based on online and offline moments with premium and differentiated proposals.



The Vending Store Model enables consumers to have access to the brands by means of vending machines located in high-traffic locations.

## Customer

Since 2010, Grupo Nutresa has been working with the market entry model for networks, which involves a customer-centric organization concept focusing on delivering a segmented and differentiated value propositions to generate sales efficiency and growth.

In 2017, networks adjusted their service structure articulating commercial figures and focused the management on retail stores guarantying brand visibility and customer development in a sustainable relationship.

Furthermore, in this evolution, the Organization reinforced the use of digital tools improving processes and shortening customers' and shoppers' access to brands.

The international operations continue to evolve their distribution models according to their specific characteristics. The Colombian market entry model has been the basis for local networks development in countries with similar social structures and purchase habits, as it is the case for Central America, Peru, Ecuador, Mexico and the Dominican Republic.

Additionally, the Company strengthened its presence in the institutional channel, coffee and bakery shops, direct purchase and vending machines channels, all of this aiming to ensure the preference of a shopper that seeks products in different channels, according to their shopping mission.

For its part, the Vending Store Model enables consumers to have access to the brands by means of vending machines located in high-traffic and convenience-necessity places.

Moreover, the digital portals were strengthened to facilitate the access of consumers from different platforms and to ensure a differentiated experience for the shoppers, initially with customer loyalty programs and consumers' connection with brands.

The investment in commercial assets ensures the visibility and good conditions of products increasing sales and guarantying brand value delivery for consumers. In Colombia, 10.107 assets were installed for dry products and store delimitation.

## Internationalization Model

The international expansion is one of the key pillars for Grupo Nutresa's development, strengthening and growing value generation. In 2017, the sales abroad represented 36,8% of the total, serving 75 countries in five continents. An aspect worth highlighting is the strengthening of the Brands and Networks Management Model in the strategic region markets allowing the identification of opportunities for the development and launch of new brands and categories through the understanding consumers, shoppers and customers. Understanding specific particularities of each market allowed the definition and adjustment of distribution networks and models ensuring market share and the numerical distribution growth and optimization of cost for serving

## Raw materials volatility management

For Grupo Nutresa, the efficient management of raw materials is essential, as it is a decisive factor in its operating costs and competitiveness. In 2017, operating costs were stable or exhibited a downward trend, correcting increases from the previous year. In order to reduce this volatility, Grupo Nutresa has established coverage policies with defined risk levels, a team specialized in the negotiation of supplies and a permanent search at a worldwide scale for methods focused on achieving a more efficient sourcing.

In Colombia, the increase to the value added tax rate caused a consumer price increase effect that slowed both the consumption and the GDP growth. However, this situation did not entail an increase to the prices before VAT.

### Direct economic value generated and distributed [GRI 201-1]

(COP Million)	2014	2015	2016	2017
Revenue from net sales	6.481.813	7.945.417	8.676.640	<b>8.695.604</b>
Revenue from financial investments	55.267	56.844	61.527	<b>68.327</b>
Revenue from sales of property, plant, and equipment	3.247	8.339	917	<b>17.804</b>
<b>Direct economic value generated</b>	<b>6.540.327</b>	<b>8.010.600</b>	<b>8.739.084</b>	<b>8.781.735</b>
Operating expenses	4.634.348	5.640.140	6.106.637	<b>5.942.715</b>
Salaries	579.353	768.070	820.042	<b>867.952</b>
Social benefits	354.612	413.037	431.774	<b>482.283</b>
Dividends paid to shareholders	198.476	212.588	229.582	<b>245.706</b>
Interest payments to credit providers	127.374	180.660	250.289	<b>259.085</b>
Payments to the government	206.170	290.548	255.842	<b>221.880</b>
Community investments	33.737	46.651	55.273	<b>62.367</b>
Benefits	69.117	88.797	98.387	<b>102.767</b>
<b>Direct economic value distributed</b>	<b>6.203.187</b>	<b>7.640.490</b>	<b>8.247.826</b>	<b>8.184.755</b>
<b>Economic value retained</b>	<b>337.140</b>	<b>370.110</b>	<b>491.258</b>	<b>596.980</b>