

## Unprecedented Rapid Change Marks Consumer-Retail Space

By Sandra Horbach and Jay Sammons

How people shop and spend has changed rapidly in the digital era. But if you think the last few years have been interesting, you had better strap in: the pace of change is only accelerating. Change always creates opportunity for investors who are fully mindful of the driving forces behind these trends and how they may play out, and the consumer and retail market is no exception.

Broadly speaking, the move away from physical stores toward online and mobile shopping is one of the most pronounced and impactful shifts in consumer behavior. This is occurring against a backdrop of demographic and lifestyles changes, resulting in new behaviors and priorities.

A few of the more important themes that warrant attention:

**Demand for health and wellness products is going mainstream, with lifestyle trends accelerating.** An aging population, rising healthcare costs and an increase in obesity are leading many to focus on preventative health. Demand for natural, organic and other “better for you” products is being driven by consumers from all demographic groups (and not just by the wealthy). And lifestyle trends are taking strong hold, as demonstrated by the popularity of wearable devices such as fitness trackers and alternative fitness activities like indoor cycling and yoga.



**Emerging markets feature a rising middle class, and consumer tastes and behavior are becoming more globalized.** These trends are fueling significant increases in consumption in emerging economies across all categories. Leisure spending, digital/mobile penetration and other developed-market trends are now being adopted by emerging markets much faster than seen historically.



**Millennials are entering their prime spending years.** More diverse than their elders—and with very different priorities and consumption behavior—Millennials are poised to overtake Baby Boomers as the largest segment of the population in 2016, accounting for about 80 million people or just under 25% of the population. Having reached young adulthood around the year 2000, they’re entering their prime household formation and child-bearing ages, which correspond to their prime spending years.



**The next generation, Generation Z, is entering the market as the first true “Digital Natives.”** Numbering roughly 75 million, members of Generation Z share Millennials’ consumption patterns and are highly receptive to technology-enabled innovation. They expect brands to be authentic and to communicate to them consistently and seamlessly across a variety of media.



**The digital revolution is expanding consumer markets, upending traditional marketing and enabling innovative disruptors.** Consumers can shop anywhere, anytime. Traditional branding, advertising and marketing are

being uprooted, with social media offering an unprecedented ability to easily reach targeted demographics at a significantly lower cost. This, in conjunction with Millennials' affinity for innovation from smaller "niche" and "anti-establishment" brands, allows small brands to disrupt, compete more effectively and take market share with less capital and more quickly than ever before.

**Empowered consumers want a direct dialogue with, and authenticity from, brands—and seek instant gratification.** Consumers crave an emotional connection with brands; they want companies to reflect social and environmental consciousness and they are demanding greater accountability and transparency (clean labels, non-GMO, "free from" harmful ingredients). They're also seeking instant gratification and convenient/time-solutions, fueling growth in food (on-the-go forms), online commerce (free shipping, one-hour delivery) and restaurants (fast casual vs. casual dining).

**Experiences, especially those that can be shared, are valued over purchasing "things."** Consumers value creating and sharing memories above the purchase of products; photos/selfies posted on social media such as Facebook, Instagram and Snapchat are the new form of communication. The sharing economy is booming (Uber, Airbnb, Rent-the-Runway, etc.) and consumption is shifting away from apparel and soft goods toward home/durables and experience-based spending. Traditional retail models are being replaced by experiential shopping environments that engage consumers and tie seamlessly to companies' digital platforms.

**The rapid pace of technological innovation is impacting every facet of consumer preference and experience.** Mobile proliferation and unprecedented access to information about brands, products and pricing has made consumers more powerful than ever before. Their "mobile first" mindset and desire for a strong experience across all channels will require and compel the leading consumer and retail companies to also lead in technology.

As all of these trends play out, businesses need to be alert not just to these changes, but to the evolution -- driven by technology and an ever-more-powerful consumer audience -- that will almost certainly occur in unforeseen ways. As a result, investing in the consumer and retail space requires continued focus and prudence, accompanied by a healthy respect for its flexibility and dynamism.

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**Sandra Horbach** is a Managing Director and Co-Head of Carlyle's U.S. Buyout group, the firm's largest investment fund. Ms. Horbach is based in New York. Ms. Horbach joined Carlyle in 2005 to launch the Consumer & Retail Group and has since led all of Carlyle's US consumer investments, including Acosta Sales & Marketing, Beats Electronics, CVC Brasil Operadora e Agencia de Viagens S.A., Dunkin' Brands, NBTY, philosophy and Vogue International. Prior to joining Carlyle, Ms. Horbach was a General Partner with Forstmann Little & Co. for 18 years. Ms. Horbach earned her M.B.A. from Stanford University and her B.A. from Wellesley College. Ms. Horbach currently serves as a director on the Boards of Acosta, Dunkin' Brands, NBTY and CVC. She also serves as Chair of the Stanford University Graduate School of Business Advisory Council and is a Trustee at Rockefeller University.

**Jay W. Sammons** is a Managing Director and head of the Global Consumer and Retail team. He is based in New York. Since joining Carlyle in 2006, Mr. Sammons has helped lead Carlyle's investments in Beats Electronics, which was exited when the company was acquired by Apple in July 2014; Vogue International, which was exited when the company was acquired by Johnson & Johnson in July 2016; and philosophy, which was exited when the company was acquired by Coty in December 2010. Prior to joining Carlyle, Mr. Sammons was with Avista Capital Partners and DLJ Merchant Banking Partners in New York, and he began his career at JP Morgan. Mr. Sammons received an MBA from Harvard Business School and a B.S. with distinction from the University of North Carolina at Chapel Hill. Mr. Sammons is currently a member of the Honors Advisory Board of the University of North Carolina at Chapel Hill and a member of Carlyle's Diversity & Inclusion Council. He was previously on UNC's Board of Visitors and on the Boards of Directors of Beats, Vogue and philosophy.