I

GETTING STARTED IN CONSUMER STAPLES

1

CONSUMER STAPLES BASICS

Joe Consumer has one thing on his mind at 6:10 Monday morning: Coffee. Lulled by the drip of the coffeemaker, Joe idly listens to the news. After his first cup, Joe pours himself some Wheaties—the "Breakfast of Champions." He stares at the bright orange box, recalling childhood dreams of becoming the next athlete to grace the front. Waking from his nostalgia, Joe quickly showers and shaves. He's chagrined to discover he's out of deodorant—his wife's deodorant is the only alternative. (Hopefully, they mean it when they say "strong enough for a man.") Next, he brushes his teeth but is bothered by his reflection—his hair is paying homage to Alfalfa. He gels his cowlick and is out the door 10 minutes behind schedule, as usual.

Your morning routine may be similar to Joe's. The day-to-day items you use and the investment potential inherent in these products are the focus of this book. Coffee manufacturers, food and toothpaste firms, and a host of other businesses all fit into the global Consumer Staples sector.

This book casts a spotlight on the countless investment ideas found in the myriad products you have in your kitchen, bathroom, and workplace. Of the 10 standard investing sectors, Consumer Staples arguably plays the most active role in daily life. Many of the firms making the products you use daily are publicly traded and can be an integral part of your portfolio.

This chapter will highlight some Consumer Staples basics, including what makes some consumer products *staples* and others *discretionary*—particularly focusing on the concept of *elasticity*. We'll also view long-term sector performance trends and analyze a very famous investor's take on Consumer Staples stocks.

OVERVIEW

Each investing sector has a unique set of attributes. The Industrials sector, for example, is generally capital intensive and economically sensitive. The Energy sector is highly dependent on the supply and demand for oil, while the Technology sector is innovation driven, with a degree of economic cyclicality. So what characterizes the Consumer Staples sector?

Some common characteristics: First, this sector's products have a common end market—consumers. Second, like Joe Consumer, these are products many folks use daily. Finally, frequency of use tends to be consistent for these products, regardless of how the economy is doing.

Note: This isn't to say Consumer Staples is inherently superior to other sectors—it isn't. But Consumer Staples, like each sector, has unique attributes leading both to outperformance and underperformance depending on economic and market conditions. There will be periods when Consumer Staples performs very well relative to the broad market and periods when it lags. The aim of this book is to give you tools to help better predict when that happens and why.

A Big Target Market

Relative to some other standard investing sectors, Consumer Staples has a huge target market. Consumer spending represents about 70 percent of the US's gross domestic product (GDP), as shown in

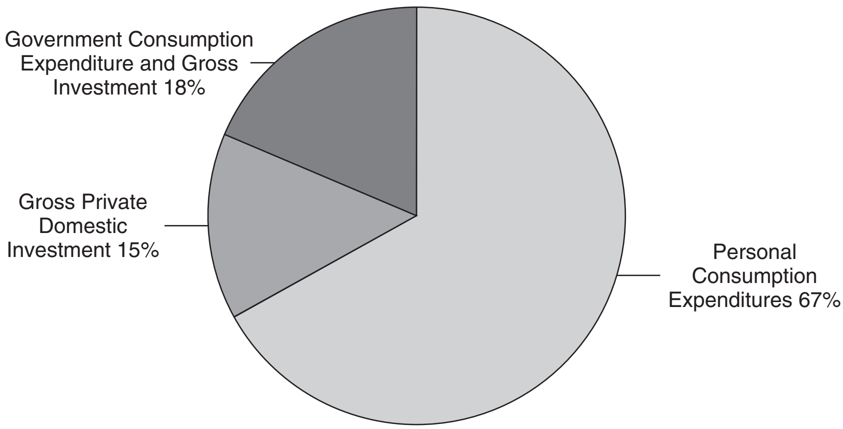

Figure 1.1 GDP Composition Breakdown
Source: US Department of Commerce Bureau of Economic Analysis.

Figure 1.1. It's tough to get a much larger target market than selling directly to consumers.

Not only do Consumer Staples firms have vast potential target markets, but the goods they produce can be ubiquitous. Staples products are nearly everywhere—home, work, stores, restaurants, and so on. Purchasing these items is a natural routine of most grocery store trips and can be an automatic decision based on brand familiarity. Finally, consumption patterns for staples—which are generally viewed as basic necessities—tend to be recession resistant and more stable over time relative to other standard investing sectors.

Sector Composition

Consumer Staples can be broken down into three main categories: Food, Beverage & Tobacco (grouped as one category); Household & Personal Products; and Food & Staples Retailers. (Chapter 4 will cover each of these industries and sub-industries in greater detail.) Table 1.1 lists just a few familiar firms and some of their best-known brands, and the 10 largest global Staples firms (by market cap) are listed in Table 1.2.

Table 1.1 Examples of Companies & Products by Industry

Company	Industry	Product
Kraft	Food	Kraft Macaroni & Cheese
Kellogg	Food	Kellogg's Corn Flakes
Nestlé	Food	Nestlé Toll House Cookies
Coca-Cola	Beverage	Coca-Cola Classic
Pepsi-Cola	Beverage	Diet Pepsi
Anheuser-Busch	Beverage	Budweiser
Philip Morris	Tobacco	Marlboro
RJ Reynolds	Tobacco	Camel
Procter & Gamble	Household Products	Tide laundry detergent
Kimberly-Clark	Household Products	Huggies diapers
L'Oréal	Personal Products	Garnier
Estée Lauder	Personal Products	Clinique
Wal-Mart	Food & Staples Retailers	Diversified staples retailing
Kroger	Food & Staples Retailers	Grocery stores
CVS Caremark	Food & Staples Retailers	Drug retailing

Table 1.2 Top 10 Consumer Staples Firms

Name	Country	Market Value US$ (billions)
Wal-Mart Stores	US	$222.0
Procter & Gamble Co	US	$184.7
Nestlé	Switzerland	$174.2
Coca-Cola Co	US	$120.4
Philip Morris Int'l	US	$105.1
PepsiCo	US	$101.4
British American Tobacco	UK	$67.3
L'Oréal	France	$64.9
CVS Caremark	US	$56.9
Tesco	UK	$56.4

Source: Thomson Datastream; MSCI, Inc.[1] as of 06/30/2008.

STAPLES' DISTANT COUSIN—CONSUMER DISCRETIONARY

Consumer Staples and Consumer Discretionary are a little like cousins—part of the same general family (consumer oriented), but not much in common beyond that.

Consumer Discretionary firms include automobile manufacturers like General Motors, apparel stores like Gap, national restaurant chains like the Cheesecake Factory, and large entertainment firms like Disney. The primary difference between the two sectors is Staples firms produce goods deemed as necessities (soap, cereal, bottled water), while Discretionary firms produce goods deemed as non-necessities (cars, clothing, laptops). This difference can be examined more critically by comparing them in terms of *elasticity.*

Elasticity

Elasticity is a measure of one variable's sensitivity to a change in another variable. The term references changes in demand relative to changes in price or income. The concept of elasticity is core to understanding what makes the Consumer Staples sector tick.

Elasticity can be calculated two basic ways:

$$\text{Income Elastcity} = \frac{\%\text{ change in quantity}}{\%\text{ change in income}}$$

$$\text{Price Elastcity} = \frac{\%\text{ change in quantity}}{\%\text{ change in price}}$$

If elasticity is greater than or equal to 1 in either calculation, then the demand curve is considered *elastic*. If it is less than 1, it's *inelastic*.

Consumer Staples products are *inelastic*—necessities purchased by consumers regardless of how their personal economic situation shifts over time. Discretionary products are just the opposite—*elastic*—since income or price fluctuations do materially impact consumer demand.

Income Elasticity How can income and price elasticity drive buying decisions? Back to our friend, Joe Consumer. Joe just got a promotion and a 20 percent increase to his current salary of $70,000 a year. Joe is excited—instead of just one annual family vacation, he figures they can now afford two per year. Here's how the elasticity of Joe's travel mathematically works out, using the income elasticity equation:

$$\begin{aligned}\text{Income elasticity} &= \frac{(2-1)/1}{(84{,}000-70{,}000)/70{,}000}\\ &= 100\%/20\%\\ &= 5\end{aligned}$$

With an elasticity of 5, Joe's travel is highly elastic—like most of the broad population. This means that during strong economic times, when many people see wage increases, travel in general shoots up, positively influencing hotels, rental car firms, and so on. Note these are all Consumer Discretionary industries.

Now let's look at how this raise impacts another aspect of Joe's life—his soda consumption. Joe usually drinks a six-pack of Coke per week. He doesn't suddenly start drinking twice the number of Cokes just because he got a raise. A six-pack per week is still fine. Here's how the income elasticity calculation works in this instance:

$$\begin{aligned}\text{Income elasticity} &= \frac{(6-6)/6}{(84{,}000-70{,}000)/70{,}000}\\ &= 0\%/20\%\\ &= 0\end{aligned}$$

With an elasticity calculation of zero in this example, Coke (a Consumer Staples product) has an inelastic demand relationship to Joe's income.

Note that most investors are unlikely to run elasticity calculations like this in their day-to-day analysis. Nevertheless, the example serves as a practical demonstration of what makes some goods more elastic than others.

Price Elasticity Price elasticity plays a similar role to income elasticity. A price increase will act as a demand deterrent to consumers of discretionary products because as the price of the product escalates, so does the opportunity cost of buying the product. (*Opportunity cost* is what you give up to get what you want, whether it's time, money, etc.)

An example of price elasticity in relation to a discretionary product: What happens to Joe's vacation plans if energy costs spike? One obvious result—he must pay more for his family's airfares. Consequently, he may postpone his family trip until prices drop a bit or he might take a cheaper vacation than originally planned.

How does price elasticity figure in relation to one of Joe's favorite Consumer Staples items—Coca-Cola? Increased energy costs affect this too. Since Coke now has to pay more to distribute its products, it will likely raise its prices, just like the airlines. Dollar-wise, however, this price increase has a much smaller impact on Joe's overall budget, so he'll probably keep drinking the same number of Cokes every week.

Elasticity From an Investment Standpoint These examples underscore why Consumer Staples stocks can perform better relatively during tumultuous economic periods: When the economy contracts, wages can come under pressure, diminishing demand for many goods. Inflation is another phenomenon that can impact prices—if prices rise faster than wages can keep pace, demand can decrease.

Both of these have the power to materially diminish demand for products across most sectors (not just Consumer Discretionary). But historically, demand holds up relatively well in the Consumer Staples sector. For this reason, investors often seek "safe haven" here. While sales or earnings might not expand much in an economic downturn, the relative price to earnings (P/E) multiple of the sector often rises as investors begin to place more of a premium on earnings consistency. (We will cover this phenomenon in greater detail later.)

Price Elasticity of Demand

The price elasticity of demand is influenced by three primary determinants.

1. Price relative to income. If the price of an item is high in proportion to one's income, then price changes will be important.

   Example: Airline travel and new cars are expensive, so even a small percentage change in their prices can have a big impact on a consumer's budget and consumption patterns. Shampoo, however, is a small percentage of the average consumer's income; hence, it tends to be price inelastic.

2. Availability of substitutes. The greater the number of substitute products, the more elastic goods tend to be.

   Example: Fish is fairly elastic since consumers can always eat more beef, chicken, or pork if fish prices rise sharply. Cigarettes, however, are fairly inelastic, since most smokers can't imagine any other product that could easily substitute for a cigarette.

3. Time. When consumers have more time to adjust their consumption patterns, price elasticity tends to increase.

   Example: The quantity of gasoline demanded doesn't immediately fall much when gasoline prices rise, since consumers cannot easily trade in their current vehicle for a more fuel efficient one. However, if gas prices stay high for a number of years, this tendency slowly begins to change, because with more time, consumers are better able to adjust their consumption habits. Therefore, the long-run price elasticity of demand is higher than short-run elasticity.

THE BUSINESS CYCLE'S WINDS OF CHANGE

We've discussed the different levels of economic sensitivity when comparing the Consumer Staples sector to Consumer Discretionary and how this can favor Staples firms in a slower economy. Now let's touch on how economic seasonality can work against the Staples sector.

In a robust economy, Staples firms are at a disadvantage relative to other sectors because they find top-line sales growth harder to come by. Further, profit margins in several of the Staples industries can be thinner compared to Discretionary firms. Based on these differences, Consumer Discretionary stocks can bring more portfolio upside if the economy is expected to be rosy, since sales and profits can ramp up in a hurry for many of these firms. Staples firms, on the other hand, tend to maintain their steady pace. During strengthening economic periods, investors typically shift away from the Consumer Staples sector and place a higher premium on sectors leveraged to economic upside.

P/E versus P/E

The average P/E ratio of the Consumer Staples sector over the last 10 years (1998–2007) is 22.4, whereas Discretionary traded at 26.0 times trailing earnings.

Table 1.3 shows that out of the 10 years there were three years where Consumer Staples traded at a higher multiple than Consumer Discretionary: 1998, 2000, and 2007. 1998 saw a massive stock market correction and both 2000 and 2007 marked the beginning of bear markets.

Table 1.3 Consumer Discretionary vs. Consumer Staples P/E Comparison

Year	Consumer Discretionary P/E	Consumer Staples P/E
1998	27.6	28.1
1999	33.5	25.5
2000	25.6	28.0
2001	36.9	24.3
2002	31.1	17.3
2003	25.4	20.4
2004	20.4	20.1
2005	20.2	19.6
2006	21.9	19.9
2007	18.0	20.3
Average	**26.0**	**22.4**

Source: Thomson Datastream; MSCI, Inc.[2]

Wal-Mart's Fashion Foray

"If at first you don't succeed, try, try again"—a good summary of Wal-Mart's continual attempts to penetrate the higher-value apparel market. In 2006, Wal-Mart placed expensive ads in *Vogue* and debuted new apparel offerings at New York's Fashion Week. However, the company soon discovered that core Wal-Mart shoppers were no fashionistas and were unwilling to pay big bucks for designer clothing. Sales were weak and overstocked inventories became a drag on earnings.

Despite this setback, Wal-Mart was at it again two years later—trying to intertwine more expensive clothing into its discount-oriented stores. The new message emphasizes both fashion and quality at an affordable price. Why the persistence?

Apparel remains attractive to Wal-Mart because as the company builds fewer stores, it must generate more profits from existing stores. Discretionary products like high-end clothing have higher profit margins than traditional Wal-Mart merchandise, which includes an assortment of Staples items. The clothing line profit margins are estimated to be about 31 percent—a full 10 percentage points ahead of all the other categories the discounter sells.

Source: Ann Zimmerman and Cheryl Lu-Lien Tan, "After Misstep, Wal-Mart Revisits Fashion," *Wall Street Journal* (April 24, 2008).

Staples Stock Performance Versus Discretionary

Given what we now know about how different the Consumer Staples and Consumer Discretionary sectors are, how do you think their stock performances stack up? Figure 1.2 provides a snapshot over the last 10 years, using the MSCI World Index as a proxy.

There are a couple noteworthy periods:

1. From mid-1998 to the end of 1999, Discretionary trounced Staples in relative performance.
2. As the bear market ensued in 2000, Discretionary sold off precipitously while Staples gained ground.
3. Discretionary bounced more sharply when the next bull market came to life, rising at a faster pace than Staples through 2003.

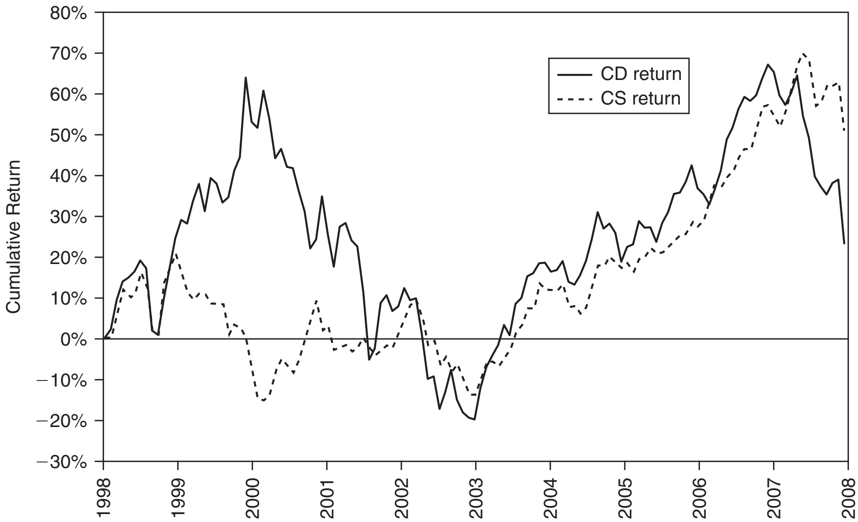

Figure 1.2 MSCI Consumer Staples Sector vs. Discretionary Over the Last 10 Years

Source: Thomson Datastream; MSCI, Inc.[3]

4. Staples and Discretionary both rallied as the bull market progressed over the next couple years, with Discretionary maintaining a slight lead.

The next big divergence happened in late 2007, when the recent bear market started. Discretionary fell much more sharply than Staples through the first two quarters of 2008 (Figure 1.2 stops at 7/1/2008).

Now let's break open the anatomy behind what can drive share price performance differentials by looking at price movement, earnings-per-share (EPS) growth, and relative P/E multiple expansion and contraction between the two sectors. For the purposes of this exercise, we'll look at the period of 6/30/2007 to 6/30/2008.

Table 1.4 shows MSCI World Consumer Discretionary and Consumer Staples cumulative monthly returns as the bear market began to take shape in late 2007.

Discretionary stocks sold off close to 10 percent by the end of 2007. Meanwhile, Staples rallied. By the time the first half of 2008

Table 1.4 MSCI World Consumer Discretionary vs. Consumer Staples (6/30/2007–6/30/2008)

Date	MSCI World Consumer Discretionary Index	MSCI World Consumer Staples Index	CD Cumulative Percentage Return	CS Cumulative Percentage Return
6/30/2007	132.686	128.383		
7/31/2007	128.141	125.927	–3.4%	–1.9%
8/31/2007	126.262	129.015	–4.8%	0.5%
9/28/2007	128.624	134.207	–3.1%	4.5%
10/31/2007	132.030	138.376	–0.5%	7.8%
11/30/2007	124.045	140.801	–6.5%	9.7%
12/31/2007	119.753	139.380	–9.7%	8.6%
1/31/2008	112.147	129.853	–15.5%	1.1%
2/29/2008	110.214	130.907	–16.9%	2.0%
3/31/2008	108.577	134.231	–18.2%	4.6%
4/30/2008	110.885	134.137	–16.4%	4.5%
5/30/2008	111.526	134.743	–15.9%	5.0%
6/30/2008	98.926	123.956	**–25.4%**	**–3.4%**

Source: Thomson Datastream; MSCI, Inc.[4]

concluded, Discretionary had fallen 25.4 percent, compared to a modest Staples decline of 3.4 percent.

What drove this vast performance differential? During times of distress and particularly during bear markets, investors place a premium on the earnings consistency of Consumer Staples stocks. Between 6/30/2007 and 6/30/2008, as the world economy began slowing, both sectors were able to continue growing their earnings (although Consumer Staples grew at a stronger pace). The MSCI World Consumer Staples constituent universe grew its EPS by 15.1 percent, while the MSCI World Consumer Discretionary universe grew its EPS by 12.0 percent.

Along the way, valuations began changing. Investors became willing to pay less for both sectors' earnings as their outlook deteriorated and risk aversion heightened. During the 12-month period,

Table 1.5 Anatomy of Price Performance—CS vs. CD (6/30/2007–6/30/2008)

	Price Performance	EPS Growth	P/E Multiple
Consumer Staples	–3.5%	+15.1%	–17%
Consumer Discretionary	–25.4%	+12.0%	–39%

Source: Thomson Datastream; MSCI, Inc.[5]

the P/E ratio for Staples fell from 20.0 on 6/30/2007 to 16.6 on 6/30/2008 (a 17 percent decline). Consumer Discretionary, however, saw far more severe multiple contraction while investors were fleeing for safety, with the sector's P/E falling from 22.6 to 13.8 (a 39 percent decline).

It's important to remember that earnings and valuation are both determinants of price performance. Table 1.5 breaks down the anatomy of the two sectors' price performances over the period.

BORING CAN BE BEAUTIFUL

Can you think of any new soap product that has come along lately and lit the world on fire? Probably not. But you can probably name a few trendy cars that have recently come to market. You might be thinking: "These Staples companies sound boring. I'd rather have high-growth companies in my portfolio. Isn't that what investing is all about—finding the next hot growth area?" Not necessarily.

Due to their defensive nature, most Staples stocks are unlikely to become short-term portfolio home runs. But that doesn't mean Staples don't play an important role in a top-down portfolio strategy. Over time, all investing categories should yield similar returns—they just travel different paths to get there.

The Original S&P 500

One feature of Staples firms is, if successful, they can prosper for a long time. In his 2005 book, *The Future for Investors*, Jeremy Siegel analyzed the long-term performance of the original S&P 500 stocks from 1957. He noted that, because of the power of compounding returns, if you'd put $1,000 in an S&P 500 Index fund (had such a thing existed) on February 28, 1957, and left it alone until December 31, 2003, your $1,000 would have become almost $125,000 in today's dollars. Not a bad investment!

But what if you were lucky enough to put your $1,000 into the top-performing stock of the original S&P 500? You'd end up with almost $4.6 million! That firm was cigarette-maker Philip Morris.[6] Often derided as one of the foremost "sin stocks," this Consumer Staples giant has endured and rewarded investors handsomely through the years.

Table 1.6 illustrates the 20 best-performing, surviving firms of the original S&P 500 through 2003, showing annual return averages and the value of an original investment of $1,000 made on February 28, 1957.[7]

Staples firms claim 11 out of top 20 spots. These long-term survivors share several traits, including:

- Strong brands based on widespread name recognition and consumer trust. Brand power is highly beneficial because it deflects substitution effects and fosters above-average returns on capital.
- Durable, lasting businesses that generated recurring revenue growth in good times and bad.
- Successful international expansion.
- These firms are strong generators of free cash flow. Finance theory suggests value for an asset is the present value of all future cash flows. Higher cash flow should correspond with higher value.

Realize this study is not justification to load up only on Consumer Staples stocks for the long haul. There are optimal times to own more or less of the sector, and the odds of successfully picking only standouts and holding them year after year are slim.

Table 1.6 Top 20 Performing S&P 500 Survivors, 1957–2003

Rank	2003 Name	Sector	Accumulation of $1,000	Annual Return
1	**Philip Morris**	**Consumer Staples**	$4,626,402	19.75%
2	Abbott Labs	Health Care	$1,281,335	16.51%
3	Bristol-Myers Squibb	Health Care	$1,209,445	16.36%
4	**Tootsie Roll Industries**	**Consumer Staples**	$1,090,955	16.11%
5	Pfizer	Health Care	$1,054,823	16.03%
6	**Coca-Cola**	**Consumer Staples**	$1,051,646	16.02%
7	Merck	Health Care	$1,003,410	15.90%
8	**PepsiCo**	**Consumer Staples**	$866,068	15.54%
9	**Colgate-Palmolive**	**Consumer Staples**	$761,163	15.22%
10	Crane	Industrials	$736,796	15.14%
11	**HJ Heinz**	**Consumer Staples**	$635,988	14.78%
12	**Wrigley**	**Consumer Staples**	$603,877	14.65%
13	Fortune Brands	Consumer Discretionary	$580,025	14.55%
14	**Kroger**	**Consumer Staples**	$546,793	14.41%
15	Schering-Plough	Health Care	$537,050	14.36%
16	**Procter & Gamble**	**Consumer Staples**	$513,752	14.26%
17	**Hershey Foods**	**Consumer Staples**	$507,001	14.22%
18	Wyeth	Health Care	$461,186	13.99%
19	Royal Dutch Petroleum	Energy	$398,837	13.64%
20	**General Mills**	**Consumer Staples**	$388,425	13.58%
	S&P 500		$124,486	10.85%

Source: Jeremy Siegel, *The Future for Investors* (Random House Publishing: 2005).

On a Roll

If you'd invested in Tootsie Roll Industries (Ticker: TR) from 1957 to 2003, you'd have handily beat the stock market. Tootsie Roll returned an annualized 16.1 percent, while the S&P 500 returned an annualized 10.9 percent. Not bad for a sticky little candy.

Austrian immigrant Leo Hirshfield created the original Tootsie Roll in 1896 and named it after his daughter, Tootsie. Today, the company produces a daily average of 62 million Tootsie Rolls and more than 16 million lollipops.

Source: Hoover's.

Economic Moats Long ago, moats of water served as protective barriers by shielding castles from invaders. More recently, Warren Buffett popularized the term "economic moat," an analogy referring to a business's ability to maintain competitive advantages versus its peers, thereby protecting long-term profits and market share. A competitive advantage can take many forms. The important thing to remember is it allows a firm to provide a good or service similar to its competitors while simultaneously outperforming those competitors in profit generation.

Buffett, whose investment portfolio at Berkshire Hathaway is concentrated in consumer franchises, describes the concept of an economic moat in his 2007 Annual Shareholder Letter (page 6), writing:

> A truly great business must have an enduring "moat" that protects excellent returns on invested capital. The dynamics of capitalism guarantee that competitors will repeatedly assault any business "castle" that is earning high returns. Therefore a formidable barrier such as a company's being the low-cost producer (GEICO, Costco) or possessing a world-wide brand (Coca-Cola, Gillette, American Express) is essential for sustained success.

Berkshire's portfolio is also purposefully weighted to firms operating in "steady" industries, like Consumer Staples. Berkshire's criterion of "enduring" causes them to avoid firms operating in industries prone to rapid and continual change, where economic moats might not be as sustainable. An example of a steady firm with a competitive advantage is See's Candies, detailed in the nearby box.

In the final three chapters of this book, we'll dissect a variety of strategic attributes to look for when researching Consumer Staples. The stronger the arsenal of competitive advantages a firm has, the wider its economic moat.

Oh, Say Can You See's?

Under Buffett's ownership, See's Candies has done a good job of consistently expanding profitability. In 1972, See's Candies made about 25 cents of pre-tax earnings per pound of chocolate sold. By 1998, the profit per pound had increased to $2, representing an annual growth rate of roughly 8.3 percent. In addition, See's volume grew over the same period from about 16 million pounds sold per year to 30 million. That's an annual growth rate of about 2.4 percent. Add them together and you have a company generating 11 percent average annual earnings growth.

What's the secret to See's enduring success? Buffett bought See's because he saw the company had a strong economic moat based on ultra-loyal customers. Buffett coveted See's customer goodwill because it meant the company had considerable pricing power, which could drive attractive long-term earnings growth with virtually no major capital requirements necessary to finance the growth. (Note: Most businesses have working capital requirements that increase in proportion to sales growth; See's is an exception.)

Upon assuming ownership, Buffett capitalized on See's economic moat and confidently increased prices every year on December 26th. Volume continued to grow modestly over time, but pricing was the key contributor to profit growth (as is the case with many Staples products). After all, when husbands are in the doghouse and have to buy their wives their favorite candy, they likely won't quibble over small incremental price changes, even if they do add up through the years.

Individual investors trying to imitate Buffett's success with See's might have a hard time—unless they have enough cash on hand to wholly buy a firm. As a subsidiary of Berkshire Hathaway, See's isn't publicly traded.

Source: Emil Lee, "How Buffett Made a Killing in Chocolate," *The Motley Fool* (November 15, 2007).

Chapter Recap

You've now been introduced to some of the fundamental characteristics distinguishing the Consumer Staples sector. We will build upon many of the concepts presented in this chapter as we progress into later chapters.

The Consumer Staples sector is made up of industries serving everyday consumers.

(Continued)

- Most products produced in this sector are ingrained in our culture as basic necessities.
- The Consumer Staples sector is comprised of various industries, including Food, Beverage & Tobacco, Household & Personal Products, and Food & Staples Retailers.
- Demand in the sector is characterized as price and income inelastic, which makes the sector non-economically sensitive and differentiates Consumer Staples products from Consumer Discretionary products.
- Consumer Staples stocks usually will not provide tremendous upside over a short time horizon, but firms with strong economic moats can be lucrative long-term investments.