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DANCING GIANTS

Reclaiming Growth in Consumer Goods

ACHIEVE COMPETITIVE AGILITY

When consumers discovered and fell in love with “healthy” ice creams like Halo Top and Oppo, spurred by social media buzz and non-traditional marketing, the consumer packaged goods industry took notice. What did these little companies with the great-tasting, lowcal treats know that the giants did not? That consumers want to have their ice cream and eat it too—without the guilt. And they’ll pay a premium for it.

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Halo Top Creamery and Oppo Brothers are among the many small CPG companies around the world that are translating what they understand about changing consumer tastes into exciting new products. Their size does not ensure competitive success. It is their ability to connect emotionally with consumers and meet unmet needs even in flat to declining categories that is paying off. Big.

Where does this leave CPG giants used to dominating global markets? Far from stable ground, struggling for relevancy and looking to reclaim growth. They are like aging athletes watching younger, faster and leaner competitors steal their edge. The reality is that traditional business models that compete on scale, cost efficiency and massive brand clout are still profitable, but top-line growth is stalled. Leadership is under fire as influential investors penalize companies that cannot demonstrate their ability to reignite top-line growth. This puts intense pressure on CEOs in a lonely and uncharted landscape where the competitive playbook they have followed for years is no longer working.

To improve competitive agility, big CPG must interrogate, rethink and revamp the fundamentals of their business. This is about making the incredibly difficult decisions to either downsize or divest and shift attention away from the core business in order to reinvent and reposition it. Pivoting while keeping the core business humming is a difficult dance. A critical step is to abandon mechanistic ways of working and reignite the passion for consumers that took these companies so far for so long. After all, passion is an important part of how fast-growth upstarts are transforming the industry.

With just 19 percent of category sales, the smallest US food and beverage companies by revenue drive 53 percent of growth.[1] And in emerging markets, big CPG is losing market share—small brands that were not in the top 100 just five years ago have top three rankings today.[2]

Follow the consumer's lead

Big CPG is losing its way in translating consumers' wants, needs, attitudes and behaviors into relevant products and services. Gaining back consumer trust and relevancy is difficult to do. These companies' dependence on retail intermediaries and their focus on mass appeal make it even harder. Yet competing with the Halo Tops and Oppos of the world means centering the business around a deep understanding of individual consumer tastes.

Purpose is fueling growth and differentiation in CPG. Today's consumers are not just buying from companies, they are buying into them. Beyond cost and quality, 52 percent of consumers are attracted to brands that stand for something bigger that aligns with their values. And 62 percent want companies to take a stand on issues like sustainability, transparency or fair employment practices.[3]

Last year Adidas revealed that it had sold more than one million pairs of its shoes made from ocean plastic. These shoes use a yarn developed by Parley that turns the ocean plastic into a polymer that is used to construct knitted footwear.[4] Such investment is more than a look-good, feel-good move. Consumers expect and will often pay more for a true commitment to purpose, and there is considerable risk in appearing phony.

Truly understanding consumers comes from engaging with them one-to-one. Big CPG has always analyzed consumer data to keep mega-brands profitable. What is new is the need to harness it to curate messages, pricing and promotions to engage individuals around a shared sense of purpose. This does not mean semi-tailored messages and promotions. It demands highly-individualized offers that strengthen relationships and seed brand loyalty. A defensive move to rebalance retailers' shopper insight advantage.

How CPG giants use data to strengthen consumer relationships depends on the category. Take baby diapers, a high-engagement category. Procter & Gamble (P&G) and Kimberly-Clark have been in hospitals for years, providing parents with free samples. Today, they are engaging one-on-one with parents through subscription offers and more personalized advice tailored for first-time mothers.[5] Collecting consumer data is much harder in low-engagement categories. Food companies have had some success with recipe exchanges. Nestlé USA went further, acquiring minority interest in a prepared foods business for visibility into its advanced analytics.[6]

Unilever is leaning heavily into purpose, and reaping the rewards. Nearly half of its top 40 brands focus on sustainability. They are growing 50 percent faster than the company's other brands, delivering more than 60 percent of its growth.[7]

The New Brand choreography

The teams behind billion-dollar brands have long been the heroes in big CPG. But the heyday of driving growth through mega-brands and scale efficiency is ending, even in emerging markets.[8] Mega-brands still have a role, but as part of a house of brands. This is a hybrid portfolio of large, small and local brands that meet many consumer tastes and purpose-driven purchasing. Think of it like a dynamic investment portfolio with a sound diversification strategy and specific tolerance for risk.

Some CPG giants are making moves toward a house of brands strategy. In some cases, it is to enable more purpose-driven positioning. Last year, The Hershey Company acquired Amplify Snack Brands and Pirate Brands to extend its non-chocolate portfolio and create new opportunity in the high-growth, salty-snack category. It is also rationalizing lower performing products across brands.[9]

Managing a house of brands blows up the traditional brand lifecycle. It is a huge ask for companies with brands that have gone unchanged for years to proactively discontinue, cannibalize, milk and divest brands. But to complement megabrands, CPG giants need small, targeted brands that are tested, tweaked, launched and retired quickly like the iterative model perfected by software and platform leaders. Why? Authenticity beats familiarity. Consumers are no longer tied to established brands and will reward companies that allow them to experiment. Fifty-five percent are attracted to buy from brands that innovate and constantly launch new products.[10]

This rhythm of launching products requires new skills and a different pace of innovation. Unwieldy R&D processes need to evolve, and in-house innovation will not suffice. CPG giants can use their muscle to spin up innovation outside the company. The industry has seen a flurry of acquisitions designed to accelerate the profitable growth of smaller brands by putting powerhouse CPG resources behind them. There is also opportunity to innovate fast by tapping into ecosystem partners' capabilities and making venture capital investments to get in early on emerging consumer tastes and product opportunities.

Bend don't break

Operationalizing change requires a fundamental realignment of the operating model. This entails running two parallel organizations across product development, manufacturing, distribution and marketing—all business areas—that each have specific governance, talent and success metrics. One is grounded in scale, and keeps the mega-brands running efficiently. The other is grounded in flexibility, and launches, scales and retires the new, smaller brands.

Big CPG will have to fight against the muscle memory to make this work. Scale alone is not the superpower anymore. Balancing scale and flexibility—and embracing complexity—is. To operationalize new growth, large CPG companies can tap into their unique advantages: access to data sources, established analytics capabilities, broad distribution networks, deep pockets to drive innovation and buy smaller brands, and more. Most have yet to fully unlock this potential. When asked about the strategic initiatives driving growth for 2020, only one-third of consumer goods executives cited accelerating innovation, while just 31 percent cited new ventures and M&A.[11]

What does this twin operating model look like? Consider what Anheuser-Busch InBev (AB InBev) did in response to the US craft beer revolution. Of course, the company kept making big beer. It also purchased ten craft breweries between 2011 and 2017.[13] Craft beer lovers were skeptical. Some still are. But while AB InBev brought its global resources to grow its new craft brands, what made them great—taste and a cool brand—remained. So much so that some consumers do not realize these brands are no longer independent—a sign of a successful strategy that protects what people value the most.

Heineken is following suit in Europe, having purchased a majority stake in Spanish craft brewer La Cibeles at the end of last year. The giant announced that La Cibeles' management will stay independent and that it will preserve the brand's character. Heineken also acquired minority stakes in two other craft breweries, Beavertown and Belize Brewing Company, in 2018.[14]

The bar for CPG giants here is to deliver multiple consumer value propositions and continuously adapt to market demands. This takes being good watchdogs of consumer tastes and good stewards of the business. The key is to stop over-indexing on profitability and invest in strategies that support ***all*** dimensions of competitive agility.

A new way to measure competitiveness

The Accenture Strategy Competitive Agility Index scores more than 7,000 companies across interdependent dimensions of competitiveness: growth, profitability, and sustainability and trust. On average, a one point increase in the Competitive Agility Index score for a consumer goods and services company drives a 1.5 percent increase in revenue growth and a 5.9 percent increase in EBIDTA growth.[12]

Get your groove on

Large CPG companies may be profitable today, but that is not sufficient to drive future competitiveness. To compete with small, consumer-savvy brands, the giants need a strategic approach to accelerate top-line growth. There is no sugarcoating the fact that this is hard work, and that the pressure is on CEOs to perform while they transform. Here are some no-regrets moves for getting started:

01

Leave no stone unturned in challenging the status quo.

Avoid the industry's penchant for incrementalism and reset the corporate ambition to pivot fast toward bigger bets that defy business-as-usual. The executive team needs an owner mindset to fearlessly initiate a fundamental renewal of the organization and how it pivots to new sources of growth.

02

Rekindle a passion for consumers and excite and engage them.

Remember what this industry is about. Consumers. Get to *really* know them. Engage in feedback loops and unlock granular insights beyond demographics. Take a page from the upstarts and be first to seize "the next big thing" by tracking and responding to even small shifts in consumer behaviors and attitudes.

03

Harness the power of purpose as a growth engine.

Develop a brand portfolio that is both fit for purpose and driven by purpose. Create a vision for the company that inspires employees. Infuse it into how the brand portfolio is managed, ensuring that products and services resonate with consumers and occasions and align well with channels.

04

Develop a "small is big" acquisition strategy.

Tap the ecosystem to accelerate innovation and access scarce talent and capabilities with a tech-powered M&A capability. Avoid the tendency for only larger-scale acquisitions and target right-fit smaller companies. Be careful that the integration strategy preserves what consumers and employees love most about the company.

Despite the market shifts and consumer behaviors fueling growth for small, outsider CPG companies, reclaiming growth is possible for CPG giants. If they dance to a new tune.

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