

**SMALL
BRANDS
LOOM LARGE
IN CONSUMER GOODS**



**ACHIEVE
COMPETITIVE
AGILITY**

Small, purpose-led brands have gone from a tiny dot on the horizon to a competitive force looming large in the backyard of consumer goods titans. In the United States alone, since 2013 more than US\$17B in annual sales has shifted from large consumer goods companies to nimbler digital players.¹

These players' small brands "live out loud," selling niche propositions centered on a specific purpose and personality. They don't aim to appeal to a broad base, but instead to consumers who share their values.



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Nicholas leads Accenture's global marketing strategy practice. In this role, he helps business leaders reinvent the future of sales and marketing to drive growth in the context of industry disruption and in the post-digital age. With 20 years of experience, he specializes in marketing and sales spend optimization, brand extension, new market entry, trade terms optimization and organizational design. Nicholas is based in London.

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Globally, 63 percent of consumers prefer buying from companies that stand for a purpose they share—one that reflects their personal values.² Beyond connecting to purpose, small brands are driving market penetration, reaching new consumers in new categories and driving premiumization along the way—the very things large companies used to lead across the board. CEOs and CMOs of large consumer goods companies have taken note but are still determining how to beat small brands at their own game.

Two-thirds of consumer goods CMOs (65 percent) say their brand lacks a clear purpose and values.³ We believe they can get back to growth by creating, acquiring and developing small niche brands with a point of view, while managing their existing large brands. Success depends in large part on providing these brands the advantages of a large company—namely scale and resources—while protecting them from the bureaucracy inherent in many established firms. Those that can make this shift move closer to becoming a purpose-driven “living business”—using data-driven intelligent consumer insights as they adapt to ever-changing consumer preferences.

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2 out of 3

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A step beyond relevance

Small brands share one overarching quality many large brands have yet to master: they're hyper-relevant. These brands are so in touch with shifting consumer preferences that they ebb and flow in real-time with their consumers, able to adapt the customer experience in real time. Hyper-relevance underpins the explosion of growth for small brands, who move in lockstep with their consumers.

95%

of CEOs hold the CMO highly accountable for developing continuous, actionable insights regarding changing consumer behaviors and needs.

Eight out of 10 industry CMOs believe consumers are falling out of love with big brands.⁴ The good news is that those same CMOs are well-positioned to generate the real-time consumer insights hyper-relevance feeds on, using that intelligence to fuel targeted product development and consumer engagement. Done correctly, they can infuse hyper-relevance into their brand portfolio—and their company as a whole.

Ecosystems can boost relevance. For example, Google has a trend-spotting division that leverages search data to identify trends before they emerge, sharing findings with various industries.⁵

Imagine being the company that identified and capitalized on the gluten-free movement or the all-natural personal care products trend ahead of others. The data for the “Next Big Thing” already exists—it just needs to be tapped, recognized and acted upon.

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REINVENTING FOR RELEVANCE

Pabst Blue Ribbon beer began to lose its luster with the young market in the 1980s. It wasn't until the early 2000s that it began to reverse that trend, reaching out to a younger customer base at counter-culture events. Low-key outreach across a string of the right venues began to turn things around. By 2012, it had tripled the number of gallons sold over a decade.

When it entered the Chinese market in 2010, Pabst realized it had an opportunity to fill a regional need for high-end beverages. Pabst Blue Ribbon 44, aged in oak whiskey barrels, sold successfully for about US\$44 in China. Chinese consumers, having no preconception of Pabst as an inexpensive drink for the masses, took to it.

Source: “The best and worst company makeovers,” Yahoo Finance, 2019.

There's no faking purpose

With 86 percent of CEOs viewing disruptors as better at providing a more relevant product, service and experience, it's not surprising many turn to experimentation and fail-fast methods to spur innovation.⁶ But large CPGs are not yet finding success this way.

Despite buying smaller players and trying to incorporate purpose-driven behaviors, none have seen breakout success at scale. Consumers require authenticity in purpose, values and story, so simply trying to mimic or emulate those will not work. Many small brands were created with a unique, authentic story—the furthest thing from an idea cooked up in a corporate meeting room.

Purpose and values must be real and at the core of the business. Small companies build upon their values by casting narrow research nets, gaining real-time insight into and feedback from niche consumers. Because the information is so unfiltered, so real, it contributes to hyper-relevancy—when used correctly to fuel and refine innovation.

In Consumer Goods, the gap between CEOs' expectations for their CMOs and CMOs' perception of their duties is greater than in any other industry. More than half (52 percent) of CEOs say the CMO is responsible for disruptive growth, versus just 28 percent of CMOs.⁷ CMOs are focused on the traditional “brilliant basics” of marketing—marketing operations' tasks—while CEOs expect them to do what fuels disruptive growth.

It will require more than experimentation. Large consumer goods enterprises need a new marketing operating model to accommodate a future in which small brands play a significant role in growth.

REI LIVES ITS CORE VALUE

Outdoor retailer REI has closed its stores on Black Friday—the largest shopping day in the US—for four years running with the hashtag #OptOutside. While that would appear to hurt sales, REI is firm in what it says is a move for its employees—allowing them to enjoy the outdoor pursuits that provide the company its livelihood.

CEO & President Jerry Stritzke had this to say: “Since launching #OptOutside, we've watched more than 200 retailers go out of business. It has been a period of enormous change in retail. We've stayed healthy partly because we've stuck with our core values like giving our employees time to do what they love with the people they love during the holidays. It's enabled us to add millions of new members and, most importantly, connect millions of people with the outdoors.”

Source: “REI sale information,” BestBlackFriday, 2018.

Organizing for small powerhouses

The growth game has changed in consumer goods. Just as they've recognized the power of small brands, the consumer goods C-suite will recognize that they need to organize for what growth looks like in the near future. Creating a hybrid portfolio of large and small brands, with operating models that bias for agility, is essential to beating disruptors.

There's a gap to close. Sixty-two percent of digital disruptors say their operating models can respond quickly to changing market conditions, but only 15 percent of today's industry leaders think the same of their own operating models.⁸

Companies that transform to address the new reality head-on will most likely look at multiple areas of their marketing operating models, infusing Artificial Intelligence (AI), reworking their agency ecosystem and becoming more agile across the board.

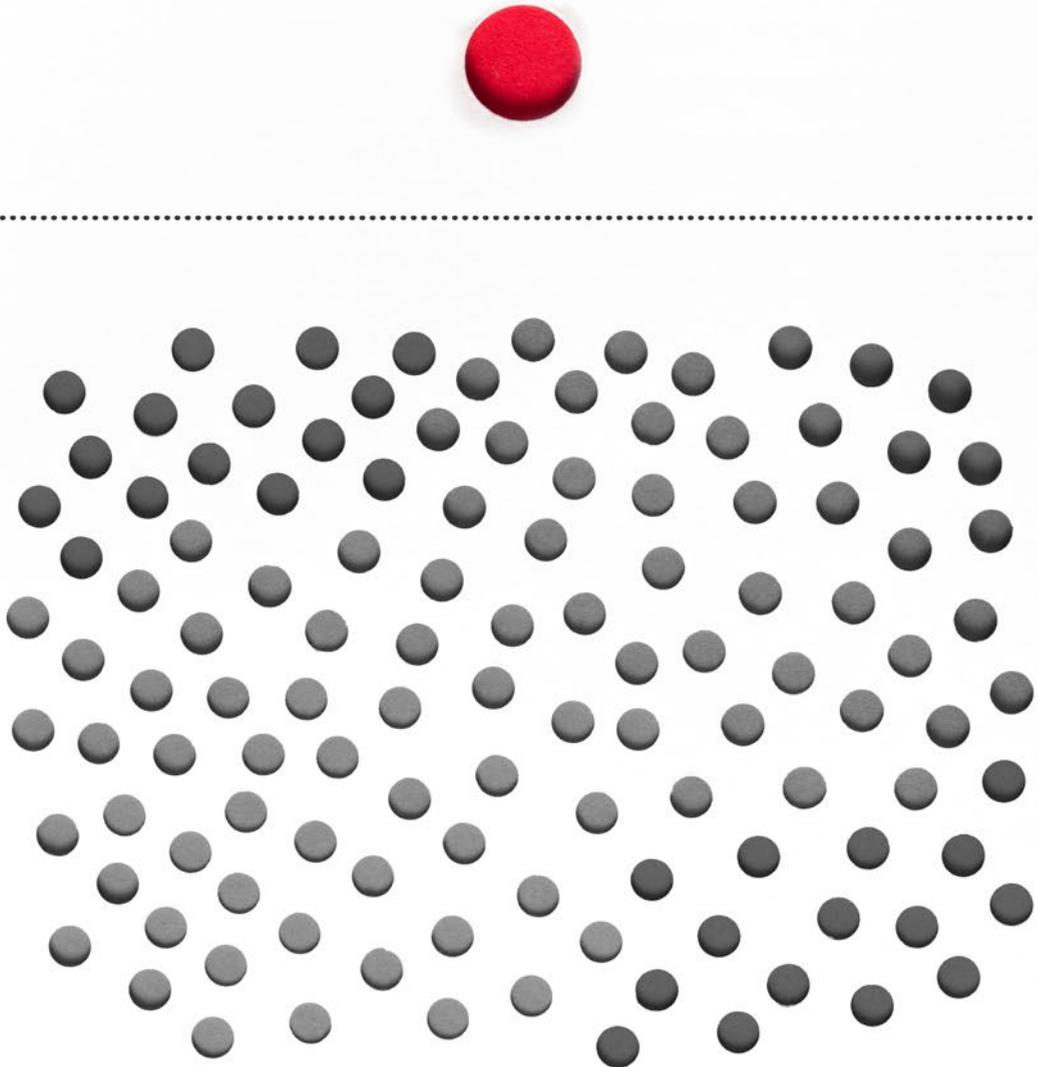
It can be done. Unilever launched its halal-certified Hijab Fresh body moisturizer which specifically targets hijab-wearing women in the Indonesian market with great success, bringing global, large-company resources to bear for a very local, targeted product.⁹

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No small wonder

Big brands with purpose are not enough. Consumer goods companies moving forward will need a hybrid portfolio for growth—a mix of large and small brands with different consumer bases. Leading with few actions will help speed the journey:

STANDARDIZE AGILITY. An organization can only handle so much complexity, so companies need to strip out the complexity that doesn't contribute to their desired outcomes—namely, growth.

Standardizing the back of the house allows for a set of flexible rules that can put some processes on autopilot. Introducing common metrics and standardized reporting, shared rules around investing/divesting, set timeframes from ideation to commercialization—all can help add nimbleness and agility where it's most needed.

LIVE OUT LOUD. With brands now allowed—encouraged, even—to have a personality, large companies need to learn to “think small.” Micro-trends and local differences are something to be celebrated in this new environment. Low-distribution, hyper-local brands can still be high-velocity. They don't need to sell everywhere; they just need to sell really well in their target markets.

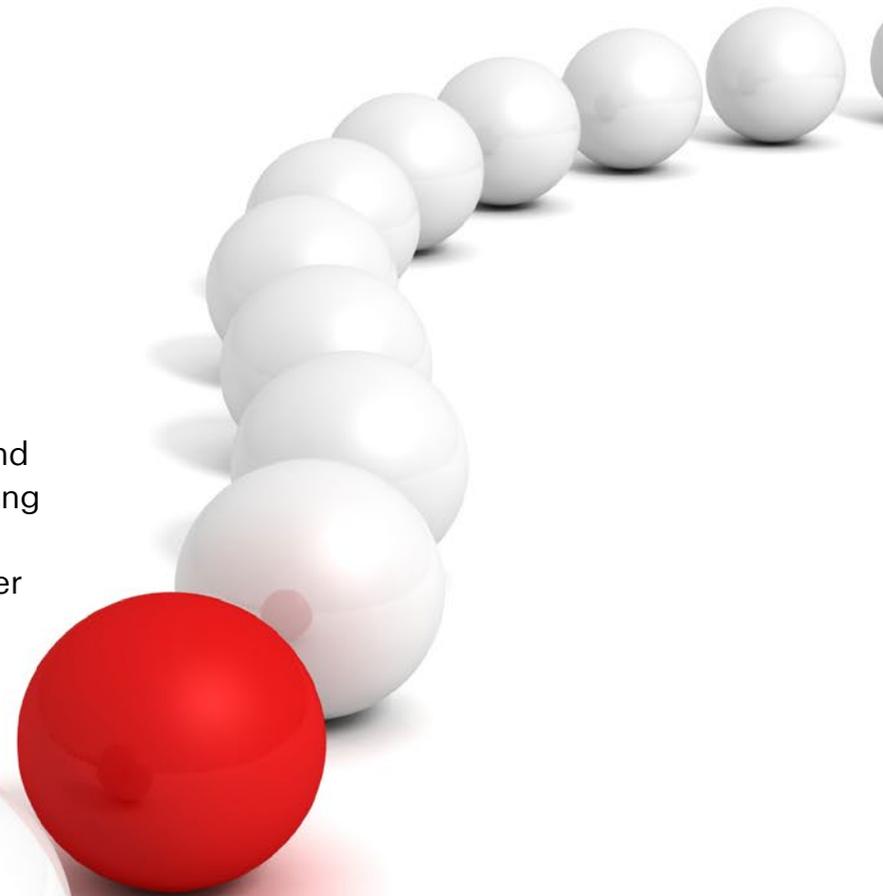
AI and analytics are a major piece of figuring out what works in different local markets. Collecting Big Data is one thing; harnessing it for insight is another. Insights require data literacy. Hiring and reskilling for analytics, AI and more will be key to big wins. But talent is the other side; companies will need people who apply their creativity to new products, and can communicate why something worked or didn't work after the fact. The rapid experimentation this requires means large company executives will have to up their appetite for risk to keep up with or exceed their competitors.

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GET EYE-TO-EYE WITH YOUR CUSTOMER.

Startups are fundamentally closer to the customer than large multinationals. Cultivate that closeness with real-time insight and feedback loops that provide qualitative feedback as well as quantitative.

In the traditional large consumer goods company picture, functions were siloed—and theoretically, everyone stayed in their respective lane, with a dedicated brand manager handling all aspects of the value chain. In today's world, sales, marketing and other functions are blurring, a natural result of working toward cross-functional outcomes. Embrace the blurring, encouraging teams to act with the customer at the center, rather than in a narrowly defined role.



ACT LIKE A GIANT, THINK LIKE A STARTUP

PepsiCo's Hive, an in-house incubator, helps it protect acquired brands from corporate hierarchy and build new ones. In its news release, it described the Hive as the best of both worlds: "...to act with the agility of a small company, but with access to the knowledge, scale and resources of PepsiCo."

President of PepsiCo North America, Seth Kaufman, specifically called out a change in operating model: "Rapidly adapting to changing consumer needs in a sustainable way includes fundamentally new operating models..."

Source: "PepsiCo launches The Hive unit to develop high potential brands," Foodbev Media, 2018.

Six out of 10 CEOs and CMOs say defending themselves against a new kind of competitor is a priority.¹⁰ Small brands with purpose are a way to do that. But niche, value-led brands are more than a defensive position against disruptors. They allow consumer goods giants to rethink their relationship with a changing consumer base, one in which trust and transparency are playing an increasing role.

Rethinking the business model is the first step toward success. But simply trying to mimic small brands won't work. Large consumer goods companies need to find the *raison d'être* for each brand in their portfolio—and it needs to shine through in everything they do, from product to promotion.

As Starbucks CEO Howard Schultz put it: "You have to have a 100 percent belief in your core reason for being."¹¹



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