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# Ready for breakthrough growth?

Your business model isn't.

Accenture Consumer Goods

# CPG growth today is not about being big. It's about thinking big.

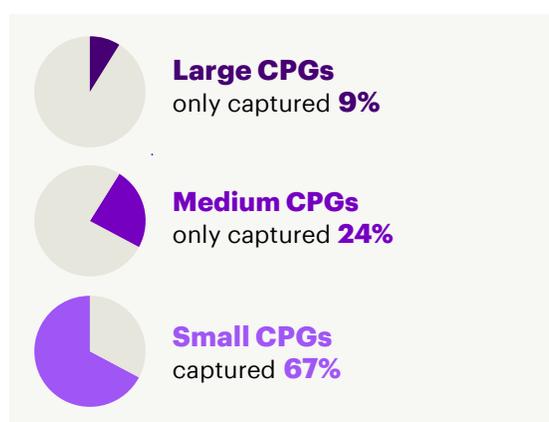
For the first time in history, Davids have overtaken Goliaths in the consumer packaged goods (CPG) industry. Small CPGs have not only captured the lion's share (67%) of all industry growth since 2010, they are now dominant players in the global market with 40% share. This is a sobering reality for industry giants that have witnessed their collective stake in the market fall from 42% in 2010 to 37% in 2019 (Figure 1).<sup>1</sup> And it's something that investors are tracking with great interest.

If this trend continues, big CPG players—those over \$15 billion in annual revenue—will account for less than one-third of the market by 2030<sup>2</sup>, which would upend the industry (Figure 1). It's happening because despite profound changes in how consumers think and act, many global brands' business models have remained largely unchanged.

**FIGURE 1**

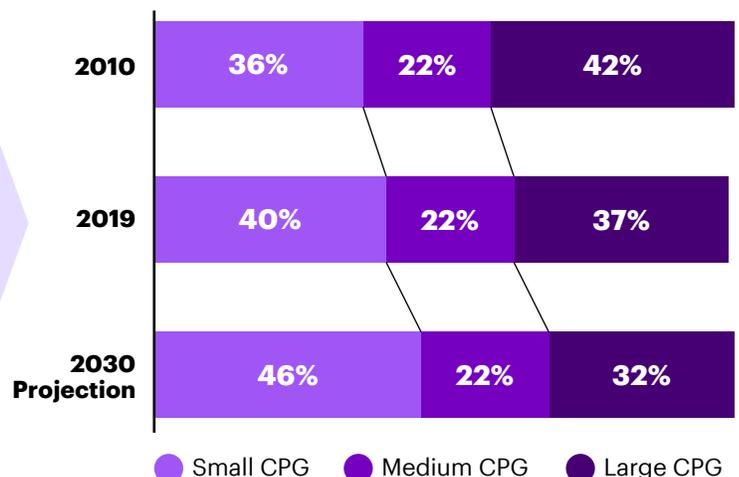
## Small CPGs have captured more global growth than their larger peers over the last decade

10-year total global CPG growth

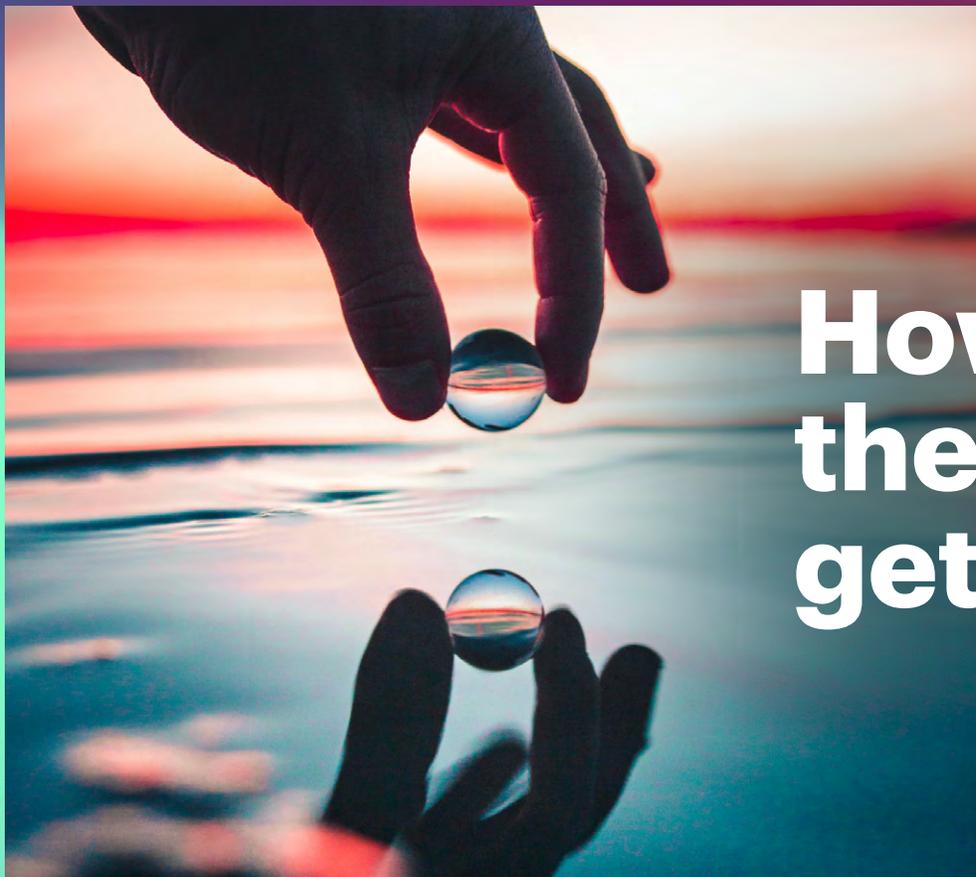


between 2010 and 2019...

If this trend continues at a similar rate...  
The market share of large CPGs will reduce by a further 5% in the next 10 years



Source: Accenture analysis of 22,670 CPGs in Global data. Large CPGs: >= \$15B annual turnover; Medium: \$3-15B; Small: <\$3B. Copyright © 2021 Accenture. All rights reserved.



# How did the industry get here?

These Davids are emerging fast. Between 2010 and 2019, on average over five CPGs entered the market every week—2,444 in all.<sup>3</sup> This flood of competition stems from the ever-increasing accessibility of digital routes to market that break down traditional barriers to entry, evidenced by the fact that small CPGs now occupy double the market share of CPG e-commerce (54%) vs. their larger competitors (24%).<sup>4</sup>

What big CPGs have done for years to push the limits of category penetration is unlikely to be the answer to achieving future growth. After all, five of the top 10 CPG categories (Cigarettes, Dairy Products and Alternatives, Carbonates, Beer, Juice) contributing approximately 35% of global revenue, have had flat or declining per capita consumption globally over the past five years.<sup>5</sup>

Small CPGs are taking a different tack. Instead of trying to eke out growth via line extensions in mature categories, they redefine category boundaries. They are responding to a rapidly-evolving set of consumer needs in ways no longer possible through traditional business models. In fact, the highest-growth CPG brands are those that deliver new forms of convenience, discovery, personalization and purpose. It's no coincidence that since 2018, there has been a 67% jump in the global adoption of business models that cater to these priorities such as subscription, at-home creation and sharing platforms.<sup>6</sup>

## Giving everyone a slice of the pie

**Beauty Pie** is a direct-to-consumer membership platform for luxury beauty products. The company was created by serial entrepreneur, Marcia Kilgore, to provide beauty mavens with high-end cosmetics. Members sign up for an all-access pass to products they covet, without the mark-ups or the middlemen. The business model was resilient during the pandemic and is growing at 100% year over year.<sup>7</sup>

# Putting money where the future is

Are business models like these simply “having a moment,” or will they usher in the next wave of CPG disruption? To find out, we turned to the people who make a living betting on future growth opportunities. Venture capitalists.

We assessed global VC funding in the CPG industry between 2014 and 2020 along two dimensions (Figure 2). The first dimension is **what** companies are selling. This is existing products in existing categories (e.g. confectionary), new products in emerging categories (e.g. meat-free burgers), or services beyond physical products (e.g. laundry services). The second dimension is **how** companies are selling. This is indirect business models that sell through retail customers, direct business models that sell straight to consumers, or platforms that connect multiple sellers with multiple buyers, often in business-to-consumer or business-to-business marketplaces.

**Our analysis revealed that VC investors don't see new business models as a fad. Far from it. They see them as the future.**

So much so that 85% of the \$20 billion in global VC CPG funding during this period went to direct or platform-enabled business models.<sup>8</sup> The smallest percentage went to companies that stick to the core—the textbook CPG model of indirect sales of existing products. Investors were much more enthusiastic about the growth potential of adjacent and breakthrough areas.

This is a stark comparison to the current footprint of the largest global CPGs. Over 90% of their revenue comes from the core, with adjacent and breakthrough arenas still mostly relegated to passion projects and small pilots.<sup>9</sup>

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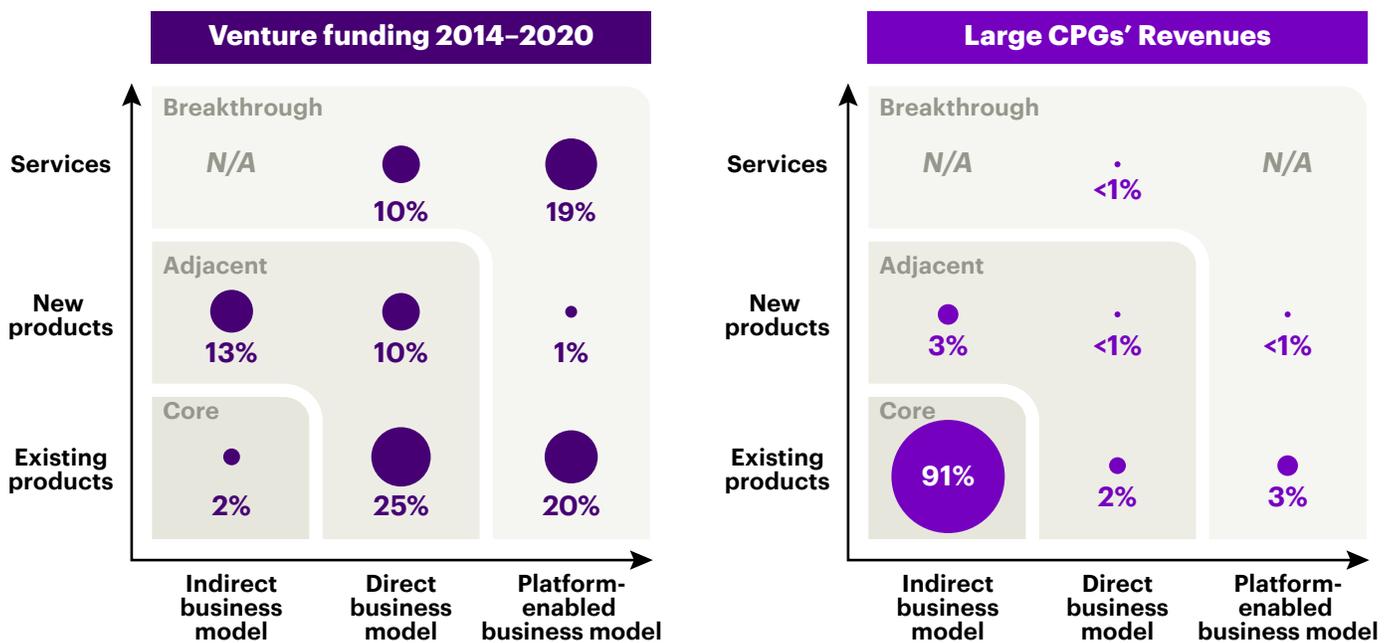
85%

of the \$20 billion in global VC funding in the CPG industry between 2014 and 2020 went to direct or platform-enabled business models.

Some big CPGs have begun to develop the new muscle they need. To improve the experience of at-home hair coloring during lockdown, L'Oréal Paris launched an online concierge that provides new services such as live help from hair colorists, virtual try-on tools and inspiration articles.<sup>10</sup> Nestlé Health Science's brand, Persona, taps into consumers' desire for personalized nutrition options. It's a direct-to-consumer subscription services available in 60 countries that provides customized vitamins and supplements based on a science-backed, proprietary algorithm.<sup>11</sup>

These stories exemplify something that many big CPGs have yet to do. In order to drive new growth, these companies made strategic choices to go beyond their comfort zones to evolve what and how they sell. They weighed the trade-offs and resisted the temptation to stick only to the models that got them to where they are. Instead, they made bold moves to take them where they need to go.

**FIGURE 2**  
**Venture capitalists are bullish on the future of new business models in the CPG industry**



Source: Accenture analysis of (left) 635 funding rounds and over \$20bn of global VC investment 2014-2020, and (right) revenue analysis for 38 biggest CPG companies globally, across largest seven markets (Brazil, UK, USA, France, Germany, China, Japan)  
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**Product portfolio. Market portfolio.**

# Now, it's time for a business model portfolio.

Most big CPGs know they need to invest in new business models to accelerate growth, which is a big departure for the industry. In the era of billion dollar brands, big CPGs perfected the market x product growth framework, and developed sophisticated market and product portfolios to deliver against it.

What's needed now is a growth framework that includes business models as a key dimension. Put simply, business models themselves are an imperative for growth, which is why it's time to build a business model portfolio. Achieving meaningful scale in new business models is not easy, but it is critical to capture future growth opportunities.

Our analysis of VC funding reveals why business model portfolios are so key. Growth paths vary by category (Figure 3). In packaged foods, most funding goes to new products through indirect business models. Impossible Foods, which sells plant-based meat through grocery channels and restaurants, is an example. In consumer health, funding often targets platform-enabled business models. Alto, a pharmacy platform that helps people connect with doctors and insurers to get

prescriptions faster and cheaper, is an example.<sup>12</sup> In beauty and personal care, most funding is focused on direct business models.

A business model portfolio helps big CPGs protect the core business while moving into adjacent and breakthrough areas. The key is to meet emerging consumer needs and adopt a risk-adjusted, opportunity-focused approach to allocate resources toward areas with the most growth potential.

## Key questions to ask about your path to growth



Where will your future growth come from across core, adjacent and breakthrough models?



How does your investment footprint compare to this?



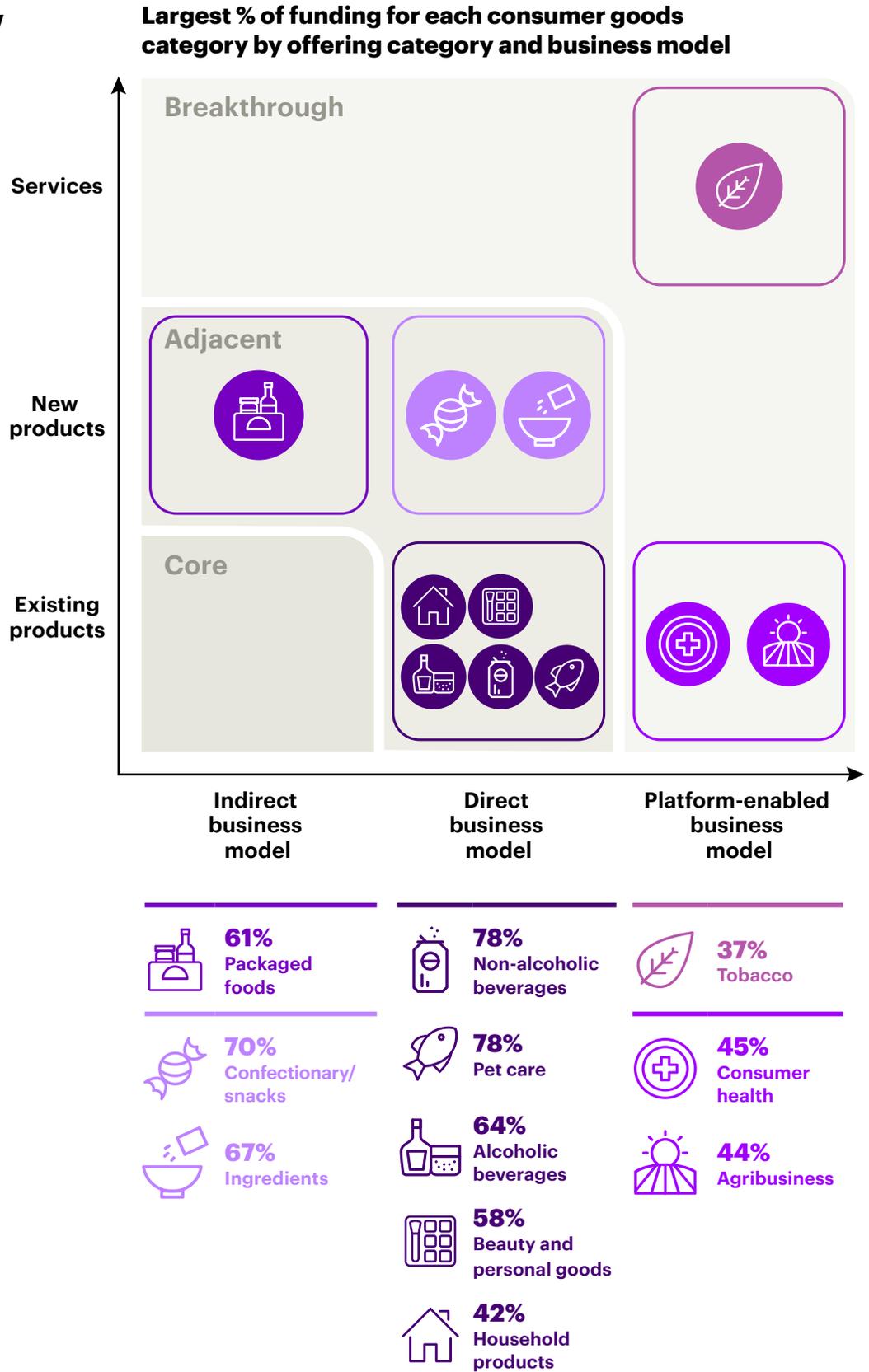
Where do you see your "must-win" battlegrounds over the next five years—and what is your target business model portfolio?

**FIGURE 3**

**Growth through new business models may follow different paths for different categories**

Source: Accenture analysis of 635 funding rounds and over \$20bn of global VC investment 2014–2020 split into twelve separate CPG categories. Bubbles and figures represent largest growth arena within each respective category.

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# Develop your business model growth portfolio

Some large players have experimented with new business models. Yet too often, their efforts at building a business model portfolio have ended as just that—experiments. To avoid this fate, watch out for these common pitfalls.

## Common pitfalls and how to avoid them

### 01

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**Don't: Define value narrowly**  
**Do: Take a holistic view**

Consider the broad value that your new business model can deliver for the business, consumers, investors, partners and the planet. This is “360-degree value” that goes beyond financial rewards. Meeting environmental goals, capturing first-party data to transform consumer interactions, or improving the lives of communities you serve are just some examples of this kind of value.

### 02

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**Don't: Think new channel**  
**Do: Think new business**

Avoid the trap of seeing a new business model as just a new channel. This is what some CPGs did when they launched direct-to-consumer sites that allowed people to bundle products but didn't address unmet needs. For new business models to truly drive growth, they must create stickiness by delivering a unique brand experience that exists nowhere else—and is present across all touchpoints and channels.

### 03

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**Don't: Only buy growth**  
**Do: Build growth capabilities**

Go beyond inorganic growth strategies to develop new business models. New business model acquisitions, while offering immediate access, require an inordinate investment of time and resources—and often bumpy cultural integrations. Big CPGs will ultimately need to build this muscle themselves. It is not easy. As a foundation, stronger muscle here demands clear strategic intention, proper resource allocation and organizational autonomy.



## **Creating stickiness by cleaning up**

Allowing consumers to bundle products and have them delivered offers convenience, but not the “stickiness” that direct-to-consumer models need. Big CPGs need to create propositions that entirely reengineer the way consumers experience the category. P&G was an early leader here in revolutionizing one of its largest and most well-established brands—Tide. It partnered with an e-commerce platform to offer a “collect and recycle” subscription service for refillable laundry detergent.<sup>13</sup> More recently, the company launched a direct-to-consumer laundry service that offers consumers a completely new brand experience.<sup>14</sup>

A close-up photograph of a hand dripping water into a pool of water. The water is dark blue, and the background is a blurred bokeh of warm, golden light. The hand is positioned on the right side of the frame, with a single drop of water falling from the index finger into the water, creating a series of concentric ripples. The text 'The first thing to do to get started' is overlaid on the left side of the image in a large, white, sans-serif font.

# The first thing to do to get started

To escape the cycle of experiments that never scale, start by creating a growth portfolio matrix for your company like the one depicted in Figure 2. It will reveal gaps and opportunities, spur an entirely different conversation about growth in the business, and ground future resource allocation and risk adjustment decisions. Expect challenges, changes—and even a little discomfort. Because there’s no getting meaningful value from a different business model mix without meaningful change in how the business operates.

It is hard for large, global CPGs to maintain previous growth levels. And to drive new growth is even harder. To extend your market position, you must diversify your business models with a keen eye on how evolving consumer needs are creating new growth opportunities every day. The imperative to change in order to stay relevant is clear.

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The authors wish to thank the Accenture Growth Analytics team for their contributions to this point of view.

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# References

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- 2 The 2030 projection assumes that market segments continue to grow at 9-year CAGR for 2010–19.
- 3 Accenture Analysis; Global data
- 4 Accenture Analysis; Global data
- 5 Accenture analysis; Euromonitor data. 5 of the top 10 CPG categories (Cigarettes, Dairy Products and Alternatives, Carbonates, Beer, Juice) contributing approximately 35% global revenue have had flat or declining per capita consumption between 2010 and 2019
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