Fast-moving consumer goods: Driving value creation in an era of disruption

Executive summary
Context for this document

The landscape is shifting rapidly for FMCGs, who face a number of disruptions that COVID-19 has now accelerated. But in any period of change, there is a path to advantage and value creation.

To determine what that path could look like for FMCGs, a global team from BCG’s Consumer Products sector conducted a landmark study of:

- More than 80 companies, across sectors and geographies, dating back 15 years, to deconstruct the drivers of superior value creation
- A wide range of mega trends impacting FMCGs and the contexts in which they operate, including the impact of COVID-19 through the first three quarters of 2020

In this summary, we will share the top-line findings and outline the imperatives we believe FMCGs should follow, to shape and win the decade ahead.

To engage further, we hope you will:

- Visit our dedicated site here
- Contact Phillip Shinall (Shinall.Phillip@bcg.com), Managing Director and Senior Partner, Chicago, and global topic leader for "Fast-moving consumer goods: Driving value creation in an era of disruption"
Overview: Winning in next era requires proactive response to shifting landscape

Looking back

The FMCG sector has an unmatched history of value creation but performance has lagged significantly in recent years and suffered a major shock from Covid-19

Looking forward

5 emerging disruptions will define the next era of FMCG and proactive response is required to create competitive advantage through the turbulence

Imperatives

Scaled FMCG incumbents are not destined to decline in the face of these disruptions, but winning will require bold investment and proactive effort across 5 strategic imperatives
### Looking back: FMCG's value creation has lagged vs. other sectors since 2017

No sector created more value than FMCG for the 10 years through 2016 ...  
12/31/2006 - 12/31/2016

![Graph showing annual TSR for different sectors with FMCG at rank 1 from 2006 to 2016 with an annual TSR of 146, compared to other sectors]

... but relative value creation has lagged since 2017, with FMCG dropping to #7 / 10  
12/31/2016 - 12/31/2019

![Graph showing annual TSR for different sectors with FMCG at rank 7 from 2016 to 2019 with an annual TSR of 65, compared to other sectors]

<table>
<thead>
<tr>
<th>Rank</th>
<th>S&amp;P 500 sector index</th>
<th>Annual TSR (index to S&amp;P 500 = 100)</th>
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<tbody>
<tr>
<td>1</td>
<td>Consumer staples (FMCG)</td>
<td>146</td>
</tr>
<tr>
<td>2</td>
<td>IT</td>
<td>143</td>
</tr>
<tr>
<td>3</td>
<td>Consumer discretionary</td>
<td>139</td>
</tr>
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<td>4</td>
<td>Health care</td>
<td>138</td>
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<td>5</td>
<td>Industrials</td>
<td>112</td>
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<td>6</td>
<td>Utilities</td>
<td>100</td>
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<tr>
<td>7</td>
<td>Communication services</td>
<td>92</td>
</tr>
<tr>
<td>8</td>
<td>Materials</td>
<td>87</td>
</tr>
<tr>
<td>9</td>
<td>Energy</td>
<td>62</td>
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<td>Financials</td>
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<td>109</td>
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<td>10</td>
<td>Energy</td>
<td>-20</td>
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Note: Indices represent S&P 500 sector sub-indices. Total returns calculated in USD, then compared to S&P 500 index. S&P 500 annual TSR was 6.95% from 12/31/2006-12/31/2016, and 15.27% for 12/31/2016-12/31/2019. Read index as, FMCG returned 46% more than the index from 2007-2016. Source: S&P Capital IQ; BCG analysis
Despite these rising headwinds, select ‘winning’ FMCGs showed a path to sustained value creation over long-term and in recent years

Reviewed performance of ~80 global FMCGs with market value above $8B

Winners must demonstrate both:

Long-term, sustained performance
• From 2010-2019, 15%+ annual TSR (top third of FMCGs)

AND

Ability to beat recent headwinds
• From 2017-2019, 15%+ annual TSR (top third of FMCGs)

Identified 15 long-term + recent winners meeting this criteria

Note: 2010-2019 time period was 12/31/2009-12/31/2019. 2017-2019 time period was 12/31/2016-12/31/2019.

Source: BCG ValueScience analysis
These winners outperformed by following proactive, growth-focused agendas  
6 specific levers consistently observed across ‘winners’

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<th>TSR contribution in long-term + recent ‘winners’ (2017-2019)</th>
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<tbody>
<tr>
<td><strong>Growth from market exposure</strong></td>
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<td><strong>Growth above market</strong></td>
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<tr>
<td><strong>EBITDA margin improvement</strong></td>
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<td><strong>Cash flow</strong></td>
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<td><strong>2017-2019</strong></td>
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- Actively reshaped portfolio to access tailwinds
- Went ‘deep’ before going ‘broad’
- Created and renewed tangible product/service superiority
- Prioritized volume then price, not the other way around
- Invested in commercial capabilities as a source of advantage
- Drove efficiencies to build muscle, not prop up the bottom line

Note: TSR from margin expansion directly related to growth (e.g. ‘operating leverage’) attributed to the appropriate growth bucket - Market Exposure and Sales Above Market both assumed to have 0.5% operating leverage per 1% revenue growth (per 75% scale curve/50% fixed cost structure on average)

Note: Changes in valuation multiple over the period driven by growth, margin and cash flows attributed to those attributes

Source: Capital IQ, BCG analysis; Natural Earth Country boundaries without boundary lakes
Long-run ‘winners’ have been more resilient and have withstood the Covid-19 shock significantly better than their FMCG peers.

**Average TSR:** 350 bps higher\(^1\)

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<tr>
<th></th>
<th>Winners (n = 15)</th>
<th>All others (n = 62)</th>
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<tbody>
<tr>
<td>1H 2020 TSR</td>
<td>+350 bps</td>
<td>-5.0</td>
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</table>

\(^1\) Simple average of 1H 2020 TSR for members of each group

**Select examples**

- **Britannia**
  - **1H 2020 TSR:** 20.3%
  - Partnered with Dunzo, a Google-backed personal concierge startup, to access home delivery demand and ensure continuity of supply.

- **Church & Dwight**
  - **1H 2020 TSR:** 10.3%
  - Installed new capacity leveraged co-manufacturers, and diverted some capacity to manufacture hand sanitizer for donations and employee usage.

- **Dabur**
  - **1H 2020 TSR:** 1.3%
  - Launched several new immunity-based products, shortening launch timeline from 18 months to 2 months; “We’ve become more agile and nimble ... and also more fearless” (Mohit Malhotra, CEO; 30 July 2020).

- **L’Oréal**
  - **1H 2020 TSR:** 8.2%
  - Capitalized on digital excellence (e.g., virtual try-ons, shoppable live streaming) and set ambitious social and environmental goals under a new “L’Oréal for the Future” program.

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**Note:** TSR measured from 12/31/2019 - 6/30/2020.
Sources: S&P Capital IQ; BCG analysis.
Looking forward: Five key disruptions will fundamentally transform the FMCG playing field

Amplification of consumer expectations
Consumers will increasingly demand access to more targeted, personalized and functional products and experiences to meet their fundamental needs.

Radical reshaping of channels
Covid-19 has accelerated shifts in retail channel mix that will lead to automated e-commerce and experience shopping supplanting large format B&M.

Continued erosion of traditional scale advantages
Resilience and agility trump scale, while trends like excess manufacturing capacity and inexpensive digital marketing enable emerging companies to thrive.

AI-powered revolution of business models
New technologies and applications of AI will transform the FMCG value chain, creating new sources of advantage and fundamentally new business models.

Heightened focus on social impact and purpose
Companies must earn their "license to operate" as consumers and regulators react to the climate crisis, issues of social justice, and Covid-19's lasting impact.

For the most part, Covid-19 has accelerated the impact of these shifts.

Combined, they will create substantial disruption in the industry.

Incumbents will face significant challenges and opportunities in this dynamic environment.
**Imperatives:** Five strategic imperatives to turn challenges into advantages

**Disruptions**

- Amplification of consumer expectations
- Radical reshaping of channels
- Continued erosion of traditional scale advantages
- AI-powered revolution of business models
- Heightened focus on social impact and purpose

**Imperatives for FMCGs**

- Become an always-on portfolio manager
- Reinvent the demand model
- Digitize end-to-end capabilities
- Elevate the operating model
- Inspire with purpose
Backup: Five strategic imperatives for FMCGs

- **Become an always-on portfolio manager**: Aggressively reshape the portfolio while also upping reinvestment behind existing advantaged brands in attractive demand spaces

- **Reinvent the demand model**: Reignite the focus on superiority of the proposition and combine advanced demand science with authentic, personalized engagement to fuel demand

- **Digitize end-to-end capabilities**: Leverage data as the new basis of scale to deploy differentiated, digitally-enabled capabilities across the value chain

- **Elevate the operating model**: Rethink internal ways of working while also leveraging the full ecosystem to move faster, be more responsive, and win in a dynamic market

- **Inspire with purpose**: Find a purpose - anchored in company history + sustainability ambitions - and take real action to earn ‘license to operate’ and inspire stakeholders
5 imperatives house 10 actionable, high-impact levers for transformation (I/II)

<table>
<thead>
<tr>
<th>Levers</th>
<th>Description</th>
<th>Leading examples (Large and small brands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reshape portfolio further and faster</td>
<td>Actively buy and sell assets to build advantaged positions (with growth exposure) across traditional and next-gen domains (e.g. demand spaces, new business models)</td>
<td>HERSHEY, Chobani</td>
</tr>
<tr>
<td>Decisively skew organic growth investment</td>
<td>Reinvest to build and reinforce leading brand positions to drive organic growth, rather than harvesting short term margin gains or using as a funding source</td>
<td>Mondelez, unicharm</td>
</tr>
<tr>
<td>Reignite focus on superiority of the proposition</td>
<td>Renew focus on real product advantage, achieved through proprietary technology, personalized / highly targeted products &amp; holistic approach to customer experience</td>
<td>FritoLay, GoodFur</td>
</tr>
<tr>
<td>Advance next-gen demand science</td>
<td>Utilize demand science to develop differentiated insights, optimize across brands / SKUs, &amp; separate complexity that creates value from complexity that creates cost</td>
<td>PepsiCo, Prose</td>
</tr>
<tr>
<td>Engage with consumers on a personal level</td>
<td>Combine new technology &amp; 360° consumer profiles to target 'segments of one' with personalized, context-specific marketing messages, promotions and activations</td>
<td>L'ORÉAL, younique</td>
</tr>
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Become an always-on portfolio manager

Reinvent the demand model
### 5 imperatives house 10 actionable, high-impact levers for transformation (II/II)

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<td><strong>Digitize end-to-end capabilities</strong></td>
<td></td>
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<tr>
<td>6. <strong>Deploy hyper-flexible go-to-market model</strong></td>
<td>Leverage new technologies to reinvent route-to-market and net revenue mgmt. systems and drive sustainable volume growth in the future retail environment</td>
<td><a href="https://www.redbull.com">Red Bull</a> <a href="https://www.kindbar.com">KIND</a></td>
</tr>
<tr>
<td>7. <strong>Bring AI to scale across the supply chain</strong></td>
<td>Invest in modular, scalable digital platforms and deploy AI/automation across the supply chain to better forecast demand, optimize flows, and turbocharge efficiency</td>
<td><a href="https://www.abinbev.com">ABInBev</a> <a href="https://www.withings.com">withings</a></td>
</tr>
<tr>
<td><strong>Elevate the operating model</strong></td>
<td></td>
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<tr>
<td>8. <strong>Embrace agile structures and ways of working</strong></td>
<td>Rethink global structures in light of new realities and revamp ways of working that enable a faster-moving, more responsive, nimble and innovative workforce</td>
<td><a href="https://www.mars.com">MARS Chobani</a></td>
</tr>
<tr>
<td>9. <strong>Actively leverage the value of ecosystems</strong></td>
<td>Augment value chain with an advantaged ecosystem to unlock new sources of scale and efficiency, more rapid innovation and path to market, and greater flexibility</td>
<td><a href="https://www.kelloggs.com">Kellogg’s</a> <a href="https://www.danone.com">Danone</a></td>
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<tr>
<td><strong>Elevate with purpose</strong></td>
<td></td>
<td></td>
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<tr>
<td>10. <strong>Turn purpose into competitive advantage</strong></td>
<td>Find a purpose - anchored in company history + sustainability ambitions - and take real action to earn ‘license to operate’ and inspire stakeholders</td>
<td><a href="https://www.danone.com"> DANONE</a> <a href="https://www.innocentdrinks.com">innocent</a></td>
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**Next steps**

**STEP 1: Diagnose**
*Where are you ahead? Behind? At risk in this new world?* Complete a robust diagnostic to develop clear view on where you stand versus peers against each of the value creation imperatives (& across 10 specific levers)

**STEP 2: Plan**
*What is roadmap to build these sources of advantage?* Develop a robust transformation agenda that addresses your opportunities (breadth & depth depend on starting position)

**STEP 3: Execute**
*How can you quickly mobilize to get this done?* Drive this agenda and roadmap by empowering your leadership team and managing execution with high sense of urgency
Engage further: Please contact the authors for more information

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