



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

Executive summary

OCTOBER 2020



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



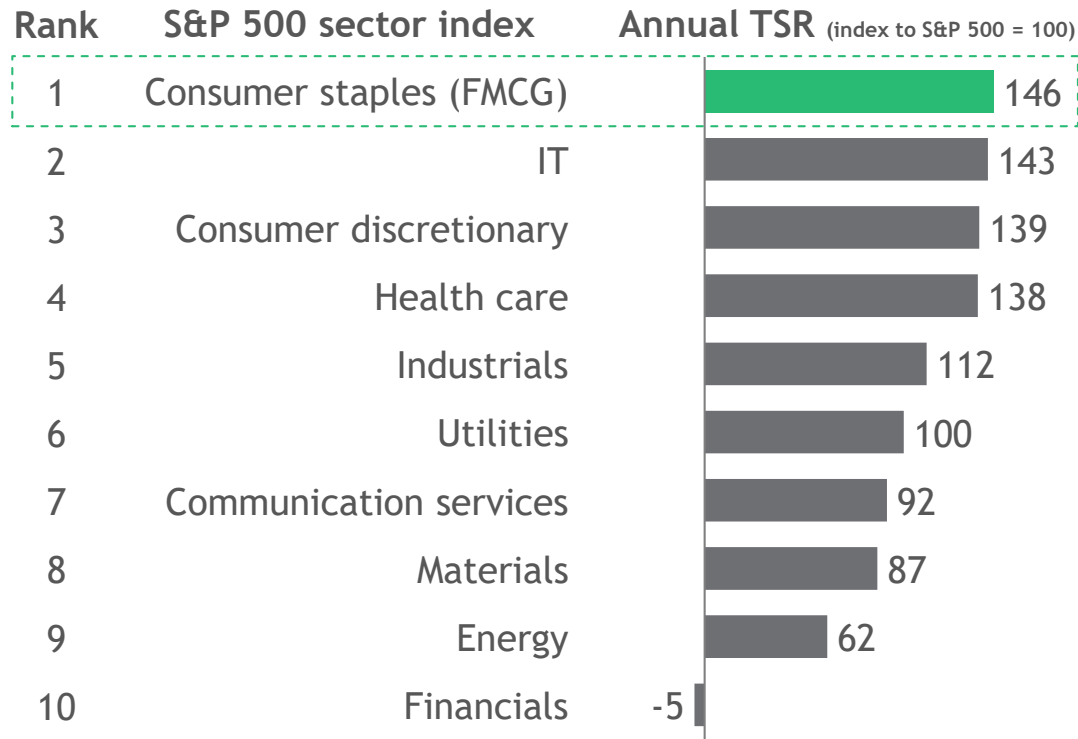
Imperatives

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

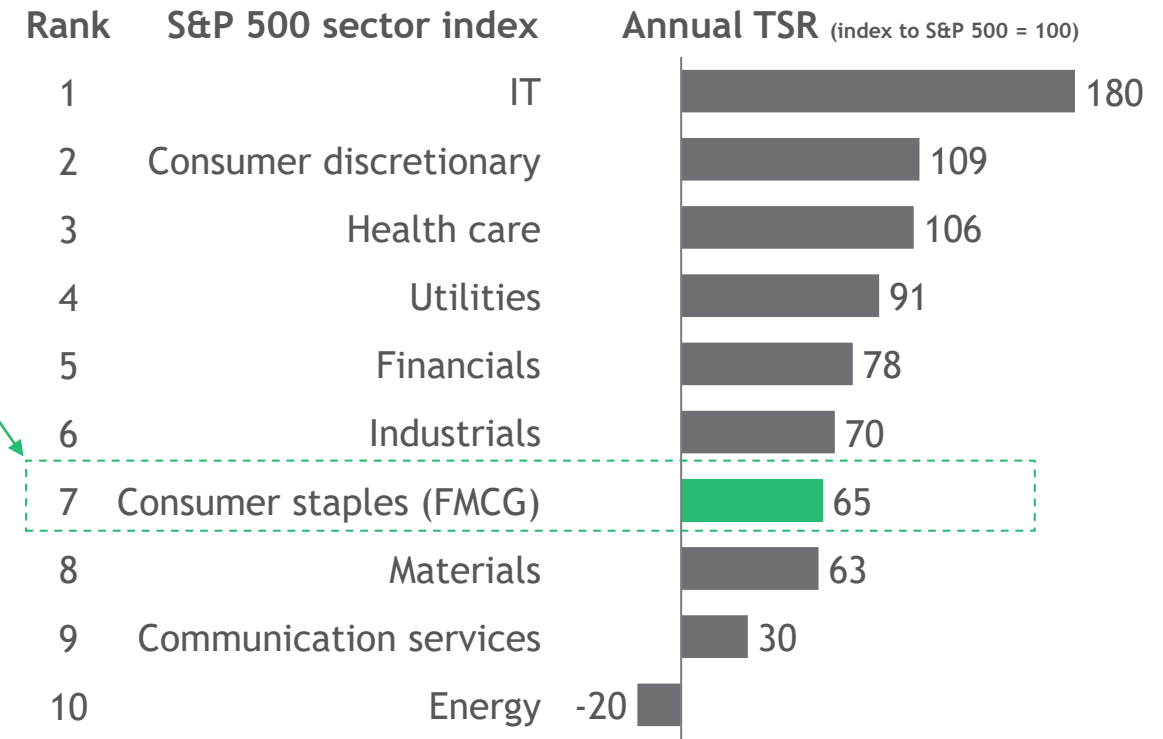
No sector created more value than FMCG for the 10 years through 2016 ...

12/31/2006 - 12/31/2016



... but relative value creation has lagged since 2017, with FMCG dropping to #7 / 10

12/31/2016 - 12/31/2019



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



21%
median TSR
'17-'19

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'

TSR contribution in long-term + recent 'winners' (2017-2019)



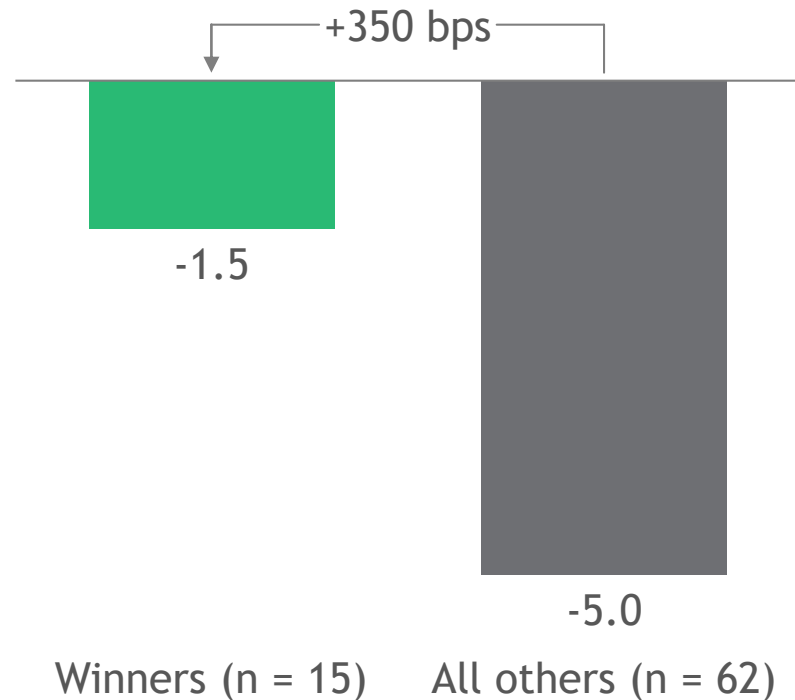
Note: TSR from margin expansion directly related to growth (e.g. 'operating leverage') attributed to the appropriate growth bucket - Market Exposure and Sales Above Market both assumed to have 0.5% operating leverage per 1% revenue growth (per 75% scale curve/50% fixed cost structure on average)

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 higher¹



Select examples



1H 2020 TSR: 20.3%

Partnered with Dunzo, a Google-backed personal concierge startup, to access home delivery demand and ensure continuity of supply



1H 2020 TSR: 10.3%

Installed new capacity leveraged co-manufacturers, and diverted some capacity to manufacture hand sanitizer for donations and employee usage



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)



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

1. Simple average of 1H 2020 TSR for members of each group 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)

	Levers	Description	Leading examples (Large and small brands)
Become an always-on portfolio manager	1 Reshape portfolio further and faster	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)	 
	2 Decisively skew organic growth investment	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	 
Reinvent the demand model	3 Reignite focus on superiority of the proposition	Renew focus on real product advantage, achieved through proprietary technology, personalized /highly targeted products & holistic approach to customer experience	 
	4 Advance next-gen demand science	Utilize demand science to develop differentiated insights, optimize across brands / SKUs, & separate complexity that creates value from complexity that creates cost	 
	5 Engage with consumers on a personal level	Combine new technology & 360° consumer profiles to target 'segments of one' with personalized, context-specific marketing messages, promotions and activations	 



5 imperatives house 10 actionable, high-impact levers for transformation (II/II)

	Levers	Description	Leading examples (Large and small brands)
Digitize end-to-end capabilities	6 Deploy hyper-flexible go-to-market model	Leverage new technologies to reinvent route-to-market and net revenue mgmt. systems and drive sustainable volume growth in the future retail environment	 
	7 Bring AI to scale across the supply chain	Invest in modular, scalable digital platforms and deploy AI/automation across the supply chain to better forecast demand, optimize flows, and turbocharge efficiency	 
Elevate the operating model	8 Embrace agile structures and ways of working	Rethink global structures in light of new realities and revamp ways of working that enable a faster-moving, more responsive, nimble and innovative workforce	 
	9 Actively leverage the value of ecosystems	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	 
Elevate with purpose	10 Turn purpose into competitive advantage	Find a purpose - anchored in company history + sustainability ambitions - and take real action to earn 'license to operate' and inspire stakeholders	 

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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