Consumer products

Getting ahead of the game-changing trends

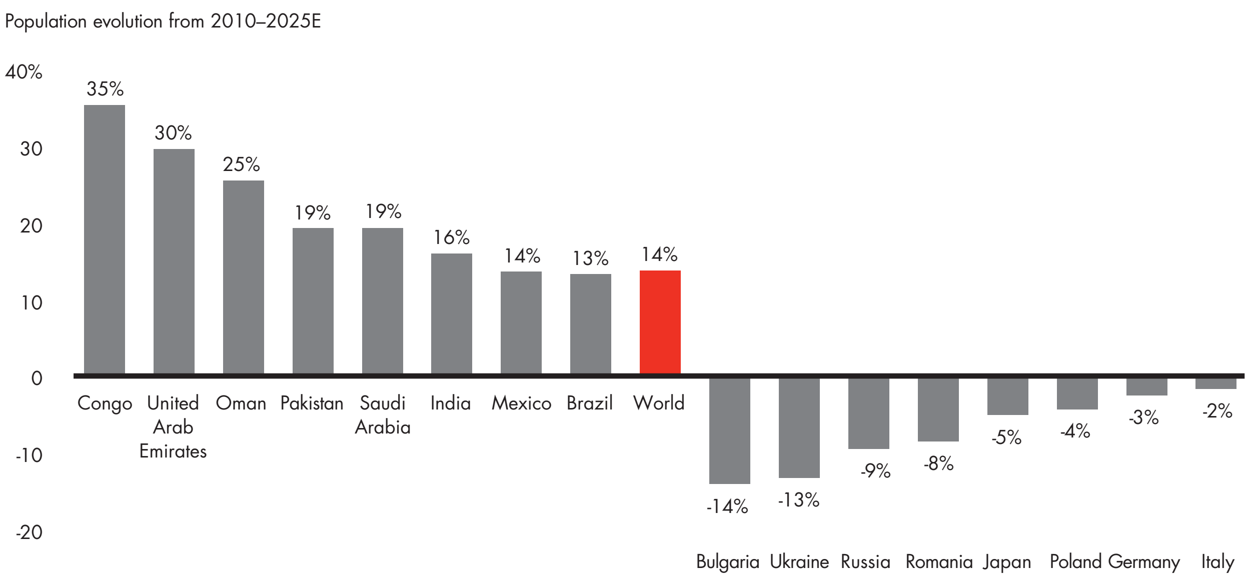
Consumer products executives are confronting a bitter truth: conventional recipes traditionally used by multinationals for profitable growth no longer are enough. As the marketplace undergoes a rapid transformation, it's forcing leading brands to rethink everything—from where and how they compete to what capabilities they will need to thrive in this new world order.

The fast-changing world of consumer products is at the confluence of a number of significant trends. ***Declining populations in developed markets*** top the list (see Figure 1). In Japan alone, the population is expected to shrink by 5 percent over the next 15 years. At the same time, economic turbulence has ***curtailed consumer spending***, limiting the traditional pattern of continually trading up to more expensive products. ***Retail sector consolidation*** (see Figure 2) and the continued ***growth of private labels*** in developed markets are turning increasingly powerful customers into a new form of competition. Last but not least, executives must also figure out how to make the most of dramatic growth opportunities in the world's ***rapidly growing emerging markets*** (see Figure 3), as these regions start to become more profitable than fast-moving consumer goods (FMCG) companies' historic core markets.

These trends create distinct challenges for companies trying to take full advantage of global opportunities.

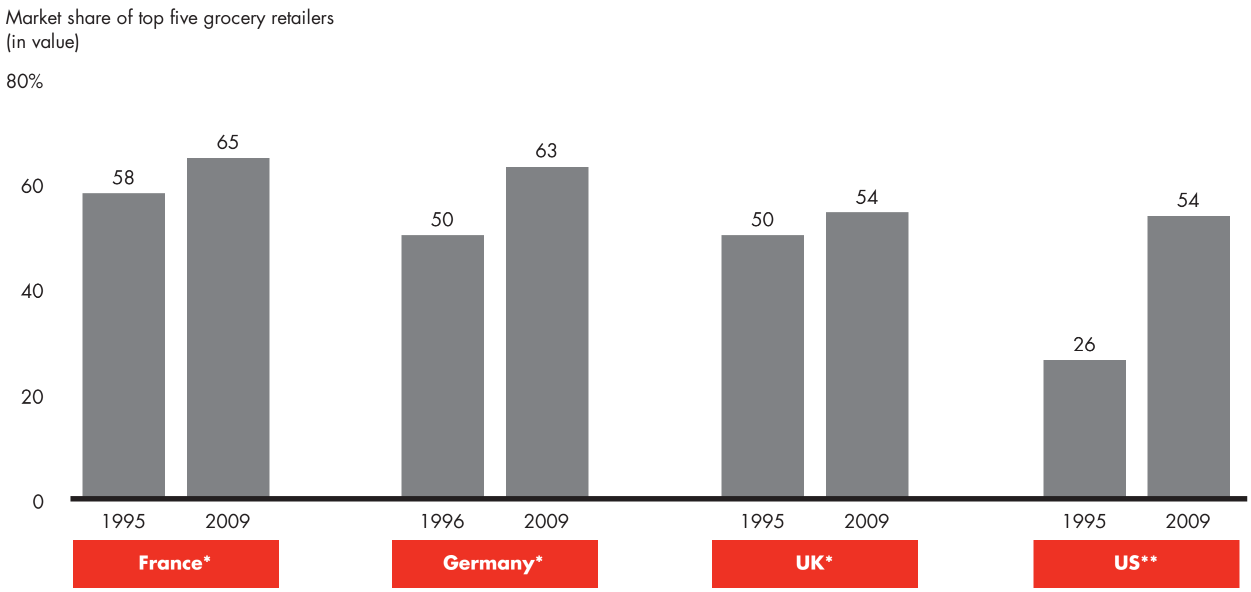
For companies in ***developed markets***, shifting market dynamics primarily raise the question of how to build sustainable, profitable growth models. Consumer goods executives know that in a demand-constrained market, they won't have a choice but to reduce costs continuously. But they will also have to identify new formulas to grow premium products and brands in a world where more and more consumers seem to have split personalities when it comes to spending. Consumers sometimes splurge on premium items in certain categories but also trade down in other areas. That is forcing companies to rethink how to innovate to give consumers added value, how to price and promote and how to "compete" effectively against retailers that are more aggressively managing shelf space—all without wrecking the entire profit pool.

Figure 1: Contrasted demographic patterns across some developing and developed markets



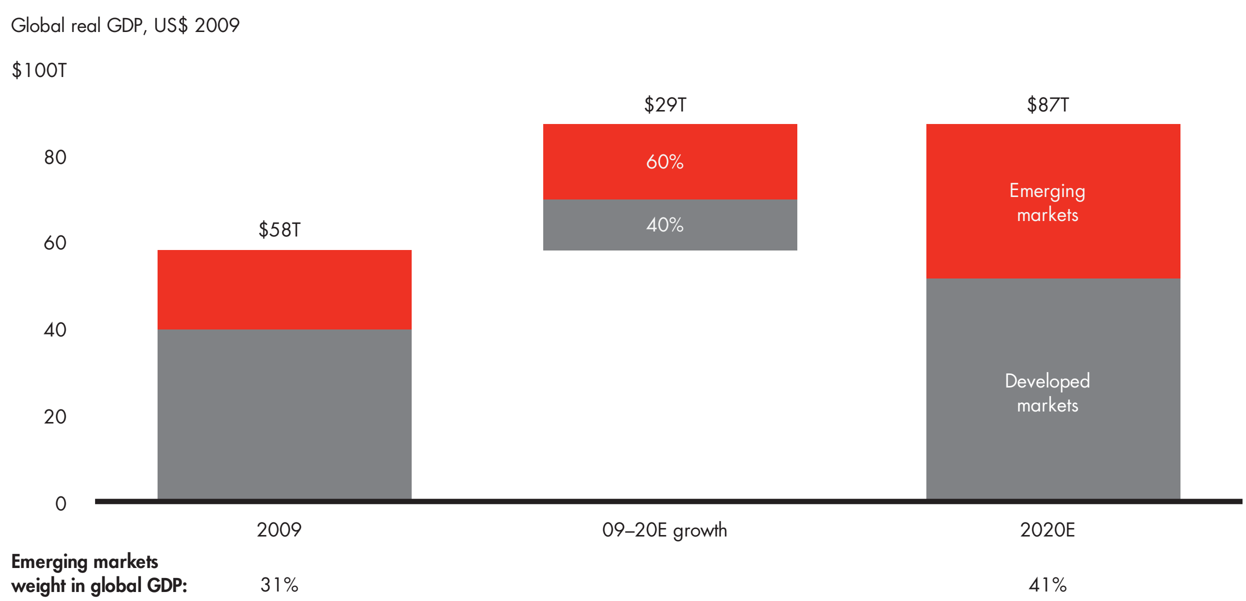
Sources: US Census Bureau, international database

Figure 2: Powerful grocery retailers emerge from sector consolidation in major developed markets



*"Modern grocery distribution" for France, Germany and UK, which includes non-food groceries as well until 2009
**For US data, only supermarkets with annual sales of more than $2+ million
Sources: Planet Retail (France, Germany, UK), Progressive Grocer (US)

Figure 3: By 2020, emerging economies will account for 40 percent of total GDP and 60 percent of GDP growth



Note: Developed markets include Western Europe, North America and developed Asia;
emerging markets include Eastern Europe, China, India, other emerging Asia, Latin America, Middle East and Africa
Source: Euromonitor

Companies competing in ***emerging markets*** face different challenges. They must establish themselves as profitable market leaders as they go up against increasingly competitive local players—with higher brand recognition, lower costs, more flexible and responsive organizations and an impressive ability to learn, replicate and gain scale quickly. To ensure that their products are affordable, consumer products players have to adapt their product range, price point and innovation strategies while trying to grow their premium and super-premium market share as well. They must also determine how to overcome the often prohibitive cost of reaching consumers in hard-to-reach rural areas with poor product distribution infrastructures. And they must overcome a serious talent shortage and develop a sustainable talent pipeline that matches their needs.

Companies that are truly global players, pursuing opportunities in both developed and developing markets, face the tricky challenge of figuring out the most effective role for the company's center: one that optimizes the allocation of resources across regions, but also supports regional and local market development. For example, the center must figure out how to shift people and capital to emerging markets without pulling the plug on developed markets, where much of the profit is still generated. Companies must determine how to add value through the central organization and build a highly effective operating model while dealing with the increased complexity of managing local, regional and global operations. And they must learn how to leverage scale across geographies without slowing down decision making. Finally, they need to decide how best to use mergers and acquisitions or joint ventures to fuel their growth models.

Top ten capabilities

Through our experience with global consumer products companies, we have identified ***10 critical capabilities*** that we believe will separate winners from losers over the coming decade. In the challenging marketplace we have described, we are convinced that companies will need the ability to:

1. Design ***repeatable*** growth models to accelerate learning and execution, in particular when expanding into developing markets;

2. Artfully manage ***brand portfolios***—defining optimal portfolio roles, winning strategies, investment levels and profit expectations;

3. Develop 360-degree ***consumer and shopper engagement*** through multiple media and touch points;

4. ***Accelerate brand growth***, even in slow categories and developed markets;

5. Become a true ***partner for retailers***, adding value through sophisticated collaboration programs built on shopper insights, integrated supply chains, systems and data sharing;

6. Align, measure and incentivize the ***front line*** for ***perfect sales execution***;

7. Build a culture of continuous ***cost improvement***, ensuring the organization measures and tracks true cost to serve in order to drive it down relentlessly over time;

8. Master ***mergers and acquisitions*** to gain a competitive advantage at target selection, valuation and integration—building additional scale and the resulting economic efficiencies;

9. Simplify, speed up and slim down ***operating models*** to maximize organizational effectiveness and efficiency;

10. Create a ***talent pipeline*** to deliver growth expectations.

Five winning behaviors

Most people will agree that faithfully adhering to these capabilities is challenging in a complex global and multi-category landscape. And if 10 capabilities look like a long list to master, they are grounded in just five simple organizational behaviors that will increasingly distinguish the best from the rest: repeatability and consistency; simplicity and alignment; speed; external focus; and selectivity. We fundamentally believe that adopting these behaviors and embedding them in ways of working will become paramount to overtake competitors and emerge as a market leader for years to come.

Repeatability and consistency

We are astounded by how often organizations successfully identify best practices but then struggle to win broad and consistent adoption across their organizations. Also surprising is how infrequently they develop models for repeatability and consistency in all elements of their businesses. Organizations should choose three or four things that they need to be great at to spur growth and gain a competitive advantage—for example, mastering point-of-sales execution, developing successful innovations or swiftly integrating acquired companies. They need to measure and create incentives around these value drivers and continuously improve them until feedback indicates that these levers are no longer giving them an edge.

Simplicity and alignment

The entire organization must wage war on complexity. Too much complexity can undermine even the best initiatives. And the evidence of complexity is everywhere—from overly complex consumer segmentations that are never understood by frontline employees to analytic measurement models that are so complex no one uses them to decision-making models that are so complicated that decisions aren't made. We have a simple rule: ***If the front line doesn't get it, then fix it or stop doing it.*** In such a competitive marketplace, it's critical that the front line is aligned and engaged, the strategy gets executed—and time and effort are not wasted.

Speed

To outcompete and win, organizations simply have to get faster. They need to speed up their metabolisms—whether it's swifter decision making, getting new products to market quicker or creating a more responsive supply chain.

External focus

We are still surprised by the number of organizations that remain internally focused. In contrast, winners gain an edge by heavily focusing on factors outside the company that influence performance such as consumer, shopper and customer insights, competitor intelligence or supply chain evolutions. By relentlessly focusing on external forces, they ensure faster growth.

Selectivity

Often, organizations are too democratic in allocating resources, making decisions, managing talent and investing. Leading companies are much more selective: they know their "must win" battles, "must buy" acquisitions and "must develop" talent.

In upcoming issues of our *Consumer Products Insights* newsletter, we will unveil winning approaches to help companies improve their performance in the "top ten capabilities." We'll look at our High Road-Low Road principle for optimizing brand portfolios, at our models for winning in emerging markets (through perfect sales execution and talent pipeline optimization, among other efforts) or at our approach to next-generation operating models. As we explain these and other proven Bain approaches, we'll detail best practices and provide examples of winners. And our five winning behaviors will emerge again and again.

In this first issue, we have chosen to describe how to create, rejuvenate and accelerate brand growth in developed markets—even in the most challenging conditions. Based on our work with hundreds of consumer products brands, we have developed The Bain Brand Accelerator[SM]—an approach that uses the levers that can truly spur growth. It enables players to generate groundbreaking category insights to craft winning strategies and successfully align the efforts of all functions around a common plan. And you won't help but notice that The Bain Brand Accelerator is deeply grounded in our five winning behaviors: repeatability and consistency; simplicity and alignment; speed; external focus; and selectivity.

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