CONSUMER GOODS

Why Bold Strategic Choices Are the Only Option for FMCG Companies to Change the Status Quo and Generate Above-Average Growth

ABOUT MUST-WIN BATTLES AND BIG BETS

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“ Market-side opportunities dictate our strategy ”

“ Market-side opportunities dictate our strategy. We place **big bets** on new opportunities where we feel we have an exceptional proposition to offer the consumer; then there is our traditional business where we identified specific market segments and consumption occasions that are **must-win battles** for us. We fund these strategies by divesting from other activities and frankly by saying “no” to many middle of the road initiatives. “

The consumer goods industry in the Western world has become used to slow growth and incremental improvement. The sudden double-digit growth experienced in some categories during lockdown and Covid-19 will remain, hopefully, an exception. How to break away from complacency with modest progress? How to stop the habit of gradual but slow advancement? A bold and focused strategy is called for.

MATURITY VS. GROWTH

1

Fast moving consumer goods businesses are complex. The number of products, channels, customers, staff, shoppers and consumers is far greater than in most other industries. A key consequence is that change in such businesses is difficult to achieve. Most FMCG companies have perfected their business models throughout the years, providing stability rather than flexibility. This has led to opportunities missed and painful adaptation to a changing market. Still, their business models and market positions are so robust that, unlike leaders in other industries, missing an important market opportunity does not fundamentally weaken them or put them out of business altogether.

Consider these global FMCG leaders:

• The Coca-Cola Company initially missed the emergence of the energy drinks segment and plays catch-up in this segment, in many markets, still today.

It bought Energy Brands Inc. in 2007 and Monster Beverage Corp. in 2016. Only in 2021 it achieved market leadership in the USA, 24 years after Red Bull created and led the segment in that market.

• Walmart had several failed attempts to offer shoppers an online alternative to Amazon. It initially dismissed online as a meaningful channel and had to rely on outside companies to create its online presence. It acquired a patchwork of businesses to catch up, including Jet.com, ShoeBuy, Bonobos, Moosejaw and Parcel, a package delivery company.

2

The typical FMCG company is a mature business. And they have become extremely good at managing, at scale, their mature operations for decades. However, managing for growth requires a different set-up than managing a large, profitable, stable organisation.

Managing a large, complex organisation profitably requires unique and distinct skills

Some of the distinct skills FMCG companies master wonderfully are:

Management attention. From the key account manager to the country manager, management attention needs to be divided between numerous brands, transactions and people. The sheer breadth of the business requires extensive management attention to keep the big machine rolling.

Long running relationships. Retailer-supplier relationships in the industry typically span decades. Dozens of predecessors have looked into ways to contracts, collaboration, planning. It is hard to substantially change a collaboration that has been mutually beneficial for many years.

Annual contracts. Collaboration is very much cemented for 12 months to come. Short term initiatives or changes are difficult. Lead times are long. Christmas is planned not long after Easter. And more often than not, next year's annual contract looks a lot like last year's. Lack of a clean sheet. Continuity is crucial for

a mature FMCG business. It also means that there is almost no practice of using a clean sheet approach.

Established silos. Brands, categories, accounts are all ran by dedicated managers. In spite of the creation of in-between roles, like market & sales planning or revenue management, many decisions are still taken with one main perspective in mind. Trade terms are largely negotiated based on the commercial, supplier-retailer relationship. Brand marketing and activation is largely determined by market insights. Few companies manage to systematically link the two.

3

Strategic options

There needs to be a willingness to make bold choices. From the top down it needs to be clear that certain areas of the business will be given priority and others will be de-prioritised. Some parts will receive an over-investment, others will receive less support.

In practice, we recommend our clients to make explicit choices for one of three strategic options:
- Must-Win Battles (MWB)
- Big Bet (BB)
- Turf Defending (TD).

These strategies will be discussed on the next pages. They are based on market potential and relative market position.

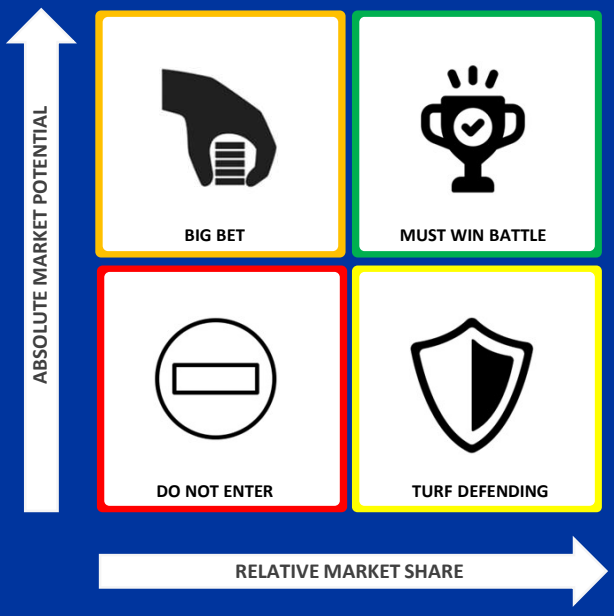
There is one other market situation you could find yourself in: a business area with low absolute potential where your organisation has no competitive strength. We call it a Do Not Enter business. It is probably too late to change strategy, the only option is to divest the business.

Three strategic choices at category / brand level
The absolute market potential and your organisation's relative market share (e.g. your market share divided by the share of the leader) define the options for your business activity at category or subcategory / brand level.

Long term plan at corporate level designed to gain a competitive advantage to deliver on corporate objectives

Translation of corporate plan to business level, with a framework for decision-making and allocating resources at the level of a business unit

Strategy options at category, sub-category or segment level.



MUST WIN BATTLE (MWB) 01

Large absolute market potential and clear competitive strengths. This business you must win.

BIG BET (BB) 02

The market shows a large absolute potential but you do not yet have a strong position. Invest big and win big.

TURF DEFENDING 03

Market potential judged to be small, declining or not strategic to the company. Defend your strong position but not at any cost.

DO NOT ENTER 04

Small market potential and weak position. Avoid this position. Divest.

MUST-WIN BATLLES

4

This is the strategy where a company identifies a market opportunity as too good to lose out on, and believes it should defend its already leading position. Both aspects together define an MWB: it has great potential to contribute to company goals (profit, market share, future growth etc.) and the company has a demonstrable competitive strength.
An MWB can be a market segment or even a market event. The more specific it is defined, the better the strategy will work.
Christmas, for example, is a market event MWB for Coca-Cola. The company simply cannot afford not to win the hearts, minds and wallets of consumers during the end of year period. It gains hugely from this anti-seasonal sales push (soft drinks sell more in Summer) and with its Santa Claus association it has a formidable strength over Pepsi.
Ketchup is a market segment MWB for Kraft Heinz in the sauces category. The heritage of its main brand ("Heinz, 57 varieties") as well as its pricing power and production flexibility (sizes, varieties, packaging) mean that it has a huge strength over competitor Unilever. The segment is presumably more profitable for Kraft Heinz than other sauces.

The prerequisites for a successful MWB are having a competitive strength and the perspective of solid absolute profits or other major benefits.

The common steps to set a business up for an MWB are:

1. Identify large consumption habits or occasions
Like every strategy, there needs to be a market-side opportunity. Look for a sizable "battle" where competitive strengths make the difference. It can be a demographic (e.g.

Birds Eye with fish fingers aimed at families with young children), a channel (e.g. online), a product segment (Heinz with ketchup), a consumption occasion (e.g. on the go, sports events, Christmas etc.) or any other logical entity for consumers.

2. Increase availability, grow distribution
Sales efforts and motivated trade customers need to facilitate wide availability of your offer for the MWB. It is likely that a disproportionate amount of resources (sales staff, trade spend) are invested to ensure maximum available for the shopper.

3. Increase/adjust prices of non-elastic packs and price cut elastic packs
Adjust prices to maximise the outcome (profit, volume or otherwise). Price elastic packs are to be chosen if volume is the objective and prices need to be set low enough to maximise demand. Similarly, price inelastic packs can be sold more expensively to the point that profit or profit pools are maximised.

Stacking vs. layering? Must-Win Battles are best served with simultaneous execution of above and below the line activities

4. Stacking marketing & sales efforts
Marketing and trade promotions are sometimes layered, with an advertising campaign alternating with waves of in-store promotions. With an MWBs both are ideally aligned and executed simultaneously. No space – promotion or otherwise – should be left to competitors to undermine your strategy.

5. Promote for scale up and trade up
An MWB is typically not a situation where promotions need to create trial or loyalty. Promotions need to use the strengths already created and encourage shoppers to trade up (buy more valuable products) or

scale up (increase their weight of purchase). Certain brands and packs and promotion mechanics will indeed motivate shoppers to spend more. A single unit price cut on a hero pack is not one of them. Multibuys and ladder promotions on large packs and premium brands can be a better choice.

6. Create visibility at point of purchase
Visual cues need to remind the shopper that your offer is the only one to seriously consider. POP visibility cannot be left out. Dedicated, permanent in-store branding (or online banners in the right product category or for the targeted user) creates the visibility at the moment the consumer makes her or his shopping decision.

BIG BETS

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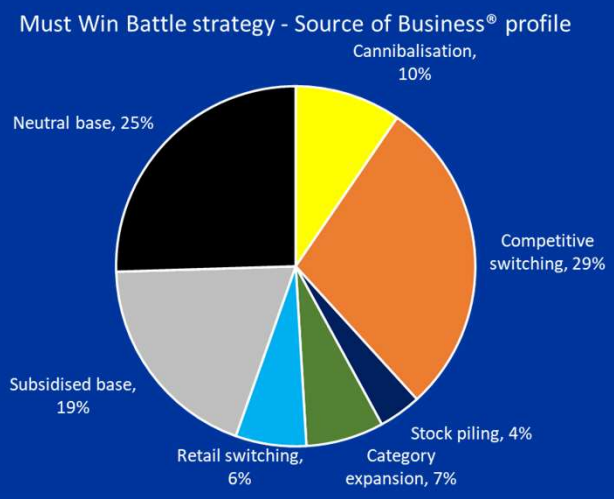
This strategy is for growth areas where the company hitherto had a limited or no presence. It is based on a concentration of management time and investment in a growing area of the sector for a limited amount of time. It assumes that spread-out efforts will not change the status quo. The company will invest big to break through competition and win big. It takes on more risk than it is used to as a mature business.
The implementation of a BB strategy follows most of the steps for a Must Win Battle strategy, although in a speedy, condensed, superlative version. The marketing element is often too costly so an even bigger emphasis will be on distribution, promotion and in-store visibility.
A runner-up soft drinks brand of a major FMCG supplier in Belgium broke into Coke's quasi-monopoly using a BB strategy. It

How revenue is build up

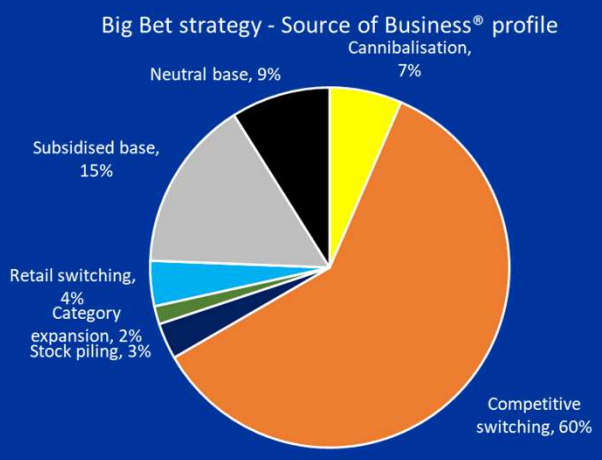
It is important to understand how revenues are sourced. An established brand, for instance, can rely a lot on loyal consumers generating "neutral baseline sales". Competitive switching is less important and usually far more costly as well to achieve. An emerging brand, however, will source the largest part of its revenues from "competitive switching", i.e. shoppers abandoning their usual brand and trying the newcomer.

Similarly, the revenue profile (or "Source of Business®") of each strategy, Must Win Battle and Big Bet, are very distinct. The graphs below show how sales are build up and revenues sourced.

Must-Win Battles rely on loyal consumers and also tend to have the ability to grow the category. Promotional campaigns and new introductions generate a relative high amount of own-product cannibalisation. Competitive switching is important, but much lower than for a Big Bet strategy.



Big Bets for the most part rely on sales switched from competing brands. This is usually the most expensive source of revenue. BB strategies are about acquiring a leading market position. The investment needs to pay off over a long period of time.



popped up in Summertime, at beach clubs, with sampling, increased local distribution, local sponsoring, promotions and giveaways to establish itself as the main alternative to (Coca-) cola. It charges a higher price per serve and gradually gained national distribution.

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TURF DEFENDING

6

Not all areas of the business are MWBs or BBs. Again, a company needs to make very clear choices and for the Turf Defending (TD) strategy it may mean disinvestment and accepting consequences. Business areas where your organisation does not have a particular edge over competitors or which are of no particular strategic interest should be considered for TD. But that does not mean giving up on it entirely.

We referred to Coca-Cola and Christmas earlier. What are the options for Pepsi? Fight head-on, knowing that Christmas is very likely an MWB for Coke? It takes the

opposite side of Coke's position. It knows that there are shoppers who are not charmed by Coke's "it is a wonderful world" message at Christmas and tells them to "try a new tradition this Christmas". Pepsi does invest in advertising and promotions at Christmas but only a fraction of what Coke does. It is not much but probably enough to keep most of the loyal Pepsi drinkers from falling for the appeal of the Christmas truck and the white bearded man. And this for a fraction of the budget Coke is spending on Christmas.

The TD strategy has many similarities to a cash cow strategy as defined by the Boston Consulting Group. Here are some of the best practices for a TD strategy in the FMCG industry.

Remove complexity in production, assortment and merchandising when executing a Turf Defending strategy

Assortment: reduce the width of your offer to cover the main demand within the TD area. Remove complexity in production, marketing, consumer choice.

Pricing: assuming you do not have a strong competitive edge, your products may become price elastic. Consumers see your products as offering generic value, which they can also get from other brands, so they are not willing to pay any premium. You may want to lower prices, gradually, to keep attracting demand and maximising your profits.

Promotions: a permanent (multibuy) promotion gives away some margin but becomes a permanent attraction for the shopper in this TD area. As the "reason to buy" for the shopper is generic, we should offer a mainstream product. We use the promotion to encourage shoppers to scale up: buy a larger quantity than what they had planned originally.

Distribution. As most TD strategies are formulated for businesses with a strong history, distribution is often wide but falling. Trade promotions and other trade investments can help to keep products listed and support sales rotation. Often companies have tried to run deep promotions every so often (e.g. buy one get one free) to give a sales boost to their products, so that the retailer decides that, overall, the product is selling fast enough to be kept in the assortment.

IMPLICATIONS FOR ACCOUNT MANAGEMENT

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The greatest challenge for implementing one of these strategies is probably for account management. They need to change the margin and funding structure to fall in line with MWB, BB or TD and convince the trade to play along.
BB is the easiest negotiation. Annual budgets can be re-structured to concentrate on a limited period, but the trade will still receive the "guaranteed" total spend. As more of the terms involve working budget – i.e., trade investments made dependent on achieving sales results – this can actually turn out to be advantageous for the supplier. The Big Bet strategy, if successful, will provide all the upside to the supplier. It is the supplier who takes the bet and they will reap the rewards. Retailers never participate in these kinds of initiatives so suppliers will be solely responsible for any wins or losses.

IMPLICATIONS FOR REVENUE MANAGEMENT

8

Revenue management is very closely involved in determining explicit market strategies. After all, market-side opportunities and their constraints dictate what is the potential for revenue growth. Consumer demand will determine the sales and profit potential of any MWB or BB strategy. Revenue management is best

placed to evaluate it. Analysis of how shoppers will respond to products, promotions and prices determine the potential for a strategy. The way trade terms are being structured needs to be recommended by revenue management. A high proportion of the trade investment needs to be "working" and serve the strategy. For MWB and BB it means that trade investment can be used to guarantee listings, grow distribution, (legally) lock out competition, ensure critical promo slots and adhere to jointly agreed pricing and activation tactics (pricing being at the sole discretion of the retailer).

SUMMARY

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Resource allocation in mature consumer goods businesses needs to be based on clear market opportunities. Where companies see emerging demand they can compete for, they need to place big bets and concentrate their investment to make a difference.
Where they have a critical interest at stake, they need to defend their position and strengthen their competitive advantage. Must-Win Battles need to be explicitly identified and marketing and trade strategies need to serve the goal. Senior management needs to communicate strategic choices and ensure that the entire organisation acts in line.

Large, successful FMCG organisations are wired for stability. Their business models ensure continuity and they are a beacon of profitable stability. However, their corporate culture and organisational processes often make it difficult to change and make the most of growth opportunities in the market. They need to make clear choices for bold business strategies and execute them effectively.

HOW ACCURIS SUPPORTS YOUR TEAMS

Accuris provides an entire range of services and solutions to enable your revenue growth strategy, from data integration, modelling and software to consulting and monthly performance tracking.

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- Avoid inefficiency of working with data sources that do not match
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- Impact on category, customer, brand and product

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- Flexible dashboards and reports
- Easy as Excel
- Built in Microsoft Power Bi

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Learn from benchmarking and industry best practices

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- Benchmarking database with in-depth results of over 40 categories

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Accuris - analytics for revenue management

Accuris provides consulting, services and tools to help suppliers and retailers track and optimize the effectiveness of promotions, pricing and assortment strategies.
Clients are consumer goods companies across Great Britain and Europe, including many local champions and two thirds of all top 10 FMCG multinationals.

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