Consumer packaged goods (CPG) companies have been dealing with scant GDP-level organic growth and nearly flat margins for almost a decade. The drag on revenue and operating margin growth can be linked to the run-up in commodity costs before the Great Recession and the bifurcation of consumer spending since then.

Today’s consumers typically gravitate toward either value or premium products, the middle ground is starting to disappear.

Compounding these challenges is an added element of uncertainty with a new administration at the helm; companies are well advised to prepare to a broader range of unpredictable outcomes.

More salient, however, is the erosion of the traditional CPG model, characterized by:

• Morphing customer preferences
• Additional alternative options such as non-traditional supermarkets including Trader Joe’s and Whole Foods, as well as Amazon online
• Digital options that sidestep mass media to reach consumers
• A plethora of smaller brands—both alternative and mainstream—including direct-to-consumer start-ups that scale up via outsourcing

Consequently, small brands in several categories have gained significant traction, seizing a disproportionate share of growth. Well-known mid-tier brands, meanwhile, have seen their market dominance wane. In the next phase of a 3G environment—as discussed on page 13—cost management is a fairly standard response: 80% of margin improvements from 2009 to 2014 derived from cuts in selling, general, and administrative expenses. However, leading CPG companies proactively seek other sources of growth, including consolidation, as discussed on page 15.

As in previous years, we completed a financial performance analysis of CPG companies in 2016. Our benchmarks include a range of metrics for growth, returns, income, liquidity, shareholder return, and balance sheet results. Reported results utilize median figures in order to reduce the effect of performance outliers on the overall metrics. This report summarizes our analysis of top-performing companies and the key CPG industry themes we uncovered.

We confirmed these key themes via discussions with members of the Grocery Manufacturers Association (GMA) CFO committee and select executives. This joint report from PwC and the GMA reflects analysis and views from PwC.

We examined strategies around five key themes that represent a combination of leading practices and aspirational approaches that high performers are planning and implementing. They include the following:

• Implement internal changes to combat external disruption
• Harness digital value by focusing on the human experience
• Anticipate customer preferences for products and channels while reinforcing the brand
• Prioritize innovation for growth in the next phase of a 3G world
• Forge the right deals for sustained long-term growth

Our additional analysis of companies by size (small, medium, large, and very large), sector (food, beverage, and household products), and source of revenues (global and domestic) can be found at Consumer Markets Insights: 2017 Financial Benchmarking and Industry Trends on pwc.com.

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2 Ibid.
Although 2016 got off to a slow start, economic growth continues to tick up, and cautious optimism prevails. Consumer spending is expected to pick up as well.

Spending is expected to come under pressure as employment growth naturally slows due to the labor market approaching full employment and headline inflation ticking up. To remain competitive, high-performing CPG companies are fine-tuning internal resources to build on core capabilities, harnessing digital options to track and respond to customer preferences, prioritizing innovation despite a cost-management environment, and forging the right deals for sustained long-term growth.

We gathered and reviewed publicly available data on a total sample of 101 CPG companies. We then sorted 57 companies with sales over $4 billion (large and very large companies) into performance quartiles and analyzed the results over five years to find the common characteristics linking the highest ranking manufacturers. We were particularly interested in evaluating the top quartile (best or top performers) versus the bottom quartile (weakest or bottom performers) to uncover the specific business drivers that might explain the top quartile’s success.

We assigned scores to the 57 companies based on their relative performance across three fundamental metrics:

- **Economic profit spread**: This metric is based on return on invested capital (ROIC) and the weighted average cost of capital (WACC).
- **Return on assets (ROA)**: Earnings before interest and tax (EBIT) for a reported fiscal year divided by net assets for the same year.
- **Free cash flow relative to sales**: A ratio that shows the percentage of free cash flow to the amount of sale.

As a result, we identified 14 top-performing companies (TPC). Within this group, five are beverage companies, six are household products companies, and three are food manufacturers. Among the 14 bottom-quartile performers, two are beverage companies, four are household products companies, and eight are food manufacturers. Our analysis reveals that, in 2016, the top performers’ results differed from those of the bottom quartile in several key metrics.

For example, net sales growth rates for both the top and bottom quartiles improved for the first time since their continued decreases from their 2012 highs. The top-performing companies showed
improvement from -3.0% in 2015 to -0.8% in 2016, while the bottom-performing companies showed even greater improvement from -10.2% in 2015 to -1.7% in 2016, making the spread between the quartiles the closest in the past five years.

One of the biggest contributing factors that has led to the companies’ improved net sales growth is the investment towards product, packaging, and marketing innovations built on consumer and shopper insights. For example, manufacturers’ are focusing on various consumer segments such as males, millennials, or urban households, and also on specific unique personal identities. This results in products developed for their respective needs. For example, multi-purpose cleaning products for those urban households with limited storage space or added functional benefits within snacking products to address specific dietary needs. In addition, these investments help manufacturers combat headwinds they are experiencing from a maturing market, the ongoing battle on pricing, competitive private labels, and unfavorable foreign exchange across the board.

Moving into gross margin, top performers had an uptick in gross margin from 51.0% in 2015 to 52.3% in 2016, while bottom performers also enjoyed a slight increase in gross margin from 34.4% in 2015 to 34.9% in 2016. The gap between the top and bottom performers remained consistent at 17.5 percentage points. In examining the top performers’ success, improved gross margin is a result of favorable price and volume mixes, along with successful cost optimization and efficiency improvement programs that were first implemented a couple of years ago. In fact, several top-performing companies have stated that their initial cost-reduction programs have had such good return on investments that they’re tacking on additional phases to continue their momentum. These incremental cost savings initiatives are ranging from approximately $100 million to $10 billion over the next five years.

In the same year, both top-performing and bottom-performing companies’ EBIT growth showed significant improvement, moving out of the red and back into the black. Top performers increased from -11.2% 2015 to 13.8% in 2016, while bottom performers increased from -13.7% in 2015 to 6.5% in 2016. The spread between the two quartiles slightly increased to 7.3 percentage points.

Selling, general, and administrative (SG&A) as a percentage of net sales among top performers increased from 23.9% in 2015 to 24.2% in 2016, while bottom performers showed a decline from 20.7% to 20.4%. Despite an increase in SG&A as a percentage of net sales for our top performers, several of these companies had reduced spending in advertising and related consumer marketing expenses, year over year. And while SG&A includes
several facets, many top-performing companies have expressed overall heightened SG&A discipline. They’ve also stated they’re focused on re-balancing marketing efforts on core brands, innovation, and growth areas. While top performers implement discipline in their strategies, they also focus on optimizing their marketing mix to increase visibility of brands seamlessly across digital marketing, traditional media, and point-of-sale for greater impact.

While return on market capital has been a troubling metric for top performers in the past several years, this year showed slight improvement by increasing from 3.2% in 2015 to 3.5% in 2016. For bottom performers, however, return on market capital declined from 3.5% to 3.2%. Even though it was only a small improvement for top performers and a small decline for bottom performers, it reversed the trends for both quartiles and resulted in the top performers regaining a better return on market capital than the bottom performers.

It is not surprising that top-performing companies consistently reported a higher return on equity metric. In 2016, however, the gap narrowed with top-performing companies decreasing to 25.5%, a decrease of 7.3 percentage points. The bottom-performing companies also decreased but only slightly by 0.3 percentage points to 9.5%.

High-performing consumer products companies do not sacrifice innovation to maintain cost controls. They focus on their strengths in pursuit of profitability. As a result of continuous improvement, change agility, and a relentless focus on the consumer, top performers are enjoying consistent gross margins. We examine the leading practices of high-performing companies in the following section.
**Beyond the numbers**

Five trends at high-performing companies

As we analyzed high performing companies in the consumer packaged goods industry, we uncovered five key trends.

Further discussion with members of the GMA CFO committee as well as discussions with select executives helped inform and deepen our investigation of these key themes. We examined strategies around these trends that represent a combination of leading practices and aspirational strategies that high performers are planning and implementing.

The five key themes outlined in our *2017 Financial Benchmarking and Industry Trends* are:

- **Implement internal changes to combat external disruption**

- **Harness digital value by focusing on the human experience**

- **Anticipate customer preferences for products and channels while reinforcing the brand**

- **Prioritize innovation for growth in the next phase of a 3G world**

- **Forge the right deals for sustained long-term growth**
As external forces—such as technology, globalization, changing tastes, resource scarcity, and urbanization—continue to disrupt both process and product at CPG companies, many are realigning internal resources to combat these external forces of disruption.

From strategy to execution, CPG companies that build a collaborative workforce across disciplines are breaking down silos to build powerful capabilities across the enterprise, leveraging organizational change to become more agile and adaptive.

For example, one food products company was able to deliver an assortment of its products tailored specifically to each store on its customer list. To do that, a cross-functional team from technology, innovation, marketing, logistics, distribution, and financial analysis collaborated to link shelf-by-shelf sales data with strategic decision-making.3

However, breaking down silos isn’t always easy. Certain specific functions require specialized skills. Meanwhile, fractional ownership sometimes results in lack of uniformity across an entire process. And in an increasingly global business environment, geographic dispersion further complicates the situation. The solution: Align leaders and teams across geographic boundaries in cross-functional settings. Assign clear roles, responsibilities, and decision rights. And provide joint incentives, especially for global teams.

The coherent strategy that results combines three interlocking elements:

- Value proposition: What do you provide for your customers that sets you apart from your peers?
- Capabilities: What is the combination of tools, processes, skills, and organizational design that delivers a particular outcome in support of your value proposition?
- Product portfolio: What product mix should you focus on?

Coherent companies—those that interlock these three elements—have grown more than three times faster than their peers and report double the profitability, as illustrated by Figure 1.4

Meanwhile, a periodic inventory of capabilities allows companies to assess areas in which they outpace their peers while also uncovering gaps in strategy or execution. As necessary, they recruit specialized talent to take on new challenges.

They also evaluate their strengths to further improve areas of excellence in order to succeed more consistently in the future. “It’s about the capability building we have in the organization,” says Ivar Blanken, CFO at Unilever North America. “We want to continue to focus on the core of our portfolio.”

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3 PwC, 10 Minutes on Strategy that Works, February 2017.
4 Ibid.
To counteract the forces of external disruption, expedited decision-making becomes crucial. “Ours is a broad supply chain with global reach, sourcing ingredients in 80 countries,” says Mike Smith, executive vice president and CFO at McCormick & Company, Inc., manufacturer of spices, herbs, and flavorings.

Smith explained that some of the company’s raw materials can only be sourced from certain parts of the world, which can be politically unstable at times. He says, “We’re focused on adapting as quickly as possible and making fast, intelligent decisions.”

Smith underscores a best practices approach found in companies where strategy through execution is prevalent—when communication is fluid, open, and constant. In such an organization, strategists and functional specialists work in tandem swiftly and decisively because they have the ingrained judgement to know whom to consult with and when. Trust is paramount, the fulcrum on which decisions hinge.

Trust also lays the foundation for risk-taking, a crucial component in the fight to stay relevant in the face of continual, ongoing external disruption. Mistakes in the process of iterative learning lead to new ways of working toward optimal results. Over time, as workers receive the support and encouragement to work easily and readily across organizational boundaries, the collective knowledge of the organization ratchets up.

Despite disparate perspectives, an understanding of each paves the way for productive, outcome-oriented collaboration. Realigning internal resources to advance enterprise-wide collaboration allows leading CPG companies to pursue winning opportunities with a diverse talent pool. To launch projects and learn from the response without making unnecessarily large commitments. And ultimately, to combat the relentless forces of external disruption.

Trust lays the foundation for risk-taking.
How well a company harnesses and profits from technology — its digital IQ — can be elusive to measure. In fact, the past few years have shown that fewer companies are now convinced of their ability to track digital value. In our 2017 Digital IQ Survey, slightly more than half of the companies surveyed—52%—rated their digital IQ as strong; in our two previous surveys, almost two thirds of companies did.5

Their ability to stay abreast of digital innovation can be undercut by the relentless pace of accelerating technology. While businesses have heralded the transformative effects of new technology on productivity and efficiency over the past decade, that same technology — mobile devices, artificial intelligence, data analytics, and more — has upended business models and work styles, forcing adaption while continuing to hurtle past business at seemingly unstoppable speeds.

Companies that thrive focus on the human experience, which entails rethinking how a company defines and delivers digital initiatives through the lens of employee and customer interactions.

It is this relentless focus on the human experience combined with innovative digital initiatives that allows Amazon to compete with—and edge ahead of—traditional CPG companies.

With targeted subscription services ranging from daily essentials to items for new mothers; delivery in as short a time-frame as two hours; auto-replenishment via Dash buttons and voice-control offerings; new offerings in fresh food and produce; and more recently, physical stores, Amazon is claiming its fair share of CPG consumers.

Traditional CPG companies realize they need to keep up. “The way we market to consumers has changed dramatically over time,” says Unilever’s Blanken. “We need to be able to communicate with consumers differently in an online world than we did traditionally. So we look at the assets we want to deploy online and figure out how to communicate consistently across all online channels. We’re investing in building that core capability.”

The top performers in our digital IQ survey report revenue growth and profit margin increases above 5% for the past three years and expected revenue growth of at least 5% for the upcoming three years, as illustrated in Figure 2.6 The common thread that connects these leading companies is a broader definition of digital value that encompasses customer-facing activities. Digital value at these companies represents an organization-wide imperative—embedded in strategy—rather than being restricted too narrowly to IT.

At these companies, cross-functional teams of business, technology, and user-experience specialists collaborate on digital initiatives; creating better customer experiences is a key objective of digital investments. As consumers migrate to digital channels, leading companies follow suit. McCormick’s Smith says its digital advertising represents nearly 50% of the overall ad budget, double the levels seen 5 years ago.

**Figure 2**

Digital prowess translates to profitability

*Top performers embrace a broader definition of digital value that encompasses customer-facing activities*

![Top performers = 5% Revenue growth Profit margin](source: PwC, Global Digital IQ Survey, 2017.)

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6 Ibid.
Strategic decisions = human judgment + technology

Leading companies rely heavily on human judgment to decipher the value of the reams of data they gather on customers, according to PwC research. While artificial intelligence can expedite improved, cost-effective decision-making, the human factor cannot be overlooked, as illustrated by Figure 3. Conversely, technology imposes discipline, and algorithms help overcome human bias by forcing a more systematic approach to decision-making. The combination of data analytics and human intuition ultimately leads to more capable, effective judgment.

Among the most challenging elements of data analysis, however, is uneven adaption, often caused by a reluctance to change the status quo. Or uncertainty about technology and its benefits. A CPG company, for example, wanted to improve demand planning by using intelligence from field reps. The biggest challenge? Getting the reps to switch from hardcopy charts to a digitized workflow. After that, tweaking the algorithm for more sophisticated data collection to improve the accuracy of demand planning was easy.

Indeed, change management sometimes requires even more time and effort than technological elements. In fact, our research found that lack of leadership is the main hindrance to implementing effective data analysis to power strategic and operational decisions. The lack of leadership was reported by respondents both within and outside the C-suite.

Figure 3
Best of both: human + machine
When asked what analysis will inform strategic decisions, senior executives responded...

Machine algorithms 41%
Human judgment 59%


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In today’s “I want it now” world, customers have quickly become accustomed to a dizzying array of products via their channel of choice. In fact, CEOs have told us that customers far and away represent the most disruptive force to business today, as illustrated in Figure 4.  

The confluence of globalization and technology has opened up a universe of choices to consumers, available almost instantly. Be it online or in store, the customer is clearly in charge. Meanwhile, habits continue to morph as snacks replace meals and indulgent treats supplement the holy grail of healthy choices.

“Consumers are spending more time shopping on the perimeter of the grocery store,” says Dan Redfern, senior vice president and CFO at Ready Pac Foods, Inc., which produces fresh, ready-to-eat salads and fresh-cut fruit. “They’re looking not only for healthy choices but also convenient choices.”

Clean labels—for products with no chemicals—offer guilt-free options. And newer protein-heavy snack formulations promise both indulgence and nutritional value while catering to millennials who have indicated a preference for textured, rather than smooth, snacks.

Consumer habits regarding both buying products as well as seeking information about products have also continued to evolve. Mark Eppert, chief financial and supply chain officer at Coca-Cola North America Group says, “We are ramping up our E-Commerce efforts and we’re learning as we go. It’s an area where we do see incremental growth. Having a consumer-centric mindset is a must for us. So if the consumer views it as important, we want to work with retailers in the most effective way to meet the consumer’s needs.”

Luca Zaramella, senior vice president of corporate finance as well as CFO commercial and treasurer at Mondelēz International, emphasizes the importance of accessibility across channels. Of the variety of new digital channels, he says, “We want to be there with new marketing techniques and captivating campaigns. There’s no clear leader because the barriers to entry are so low. This is a huge opportunity for us and we’re approaching it incrementally. We’re building the foundational infrastructure and measuring KPIs.”

In fact, new digital channels have dramatically increased direct-to-consumer sales; meanwhile, traditional businesses seek to replicate the success of these new entrants. Of particular note is the one-on-one relationships these nimble upstarts create and foster with their customers, creating a feedback loop of knowledge that allows them to better respond to customer preferences.

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**Figure 4**

**Customers are the most disruptive force, say CEOs**  
CEO responses to the question: How likely is it that your industry will be disrupted by one of these five factors?


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8 PwC, CEO Pulse: The Disruptors, 2016.

9 PwC’s Strategy&, The Marketer’s Dilemma, 2016.
And if customer preferences sometimes indicate traditional channels for advertising reach, CPG companies find new ways via traditional channels as well. In an effort to better connect with consumers to revive decreased consumption of carbonated beverages, PepsiCo, Inc. collaborated with the TV show Empire for an integrated storyline over three episodes.

The show’s story arc—featuring a rising musician who starred in a Pepsi commercial—mirrored real life: the star of the show also starred in an actual Pepsi commercial. The resulting social media buzz generated new subscribers across PepsiCo’s social channels and delivered more than 1.4 billion press impressions.10

Reinforcing a brand customers can relate to is an ongoing task. Says Mark Belgya, vice chair and CFO at The J.M. Smucker Company, “We can better link our corporate responsibility and sustainability activities to the brand level.” Belgya says while The J.M. Smucker Company has a comprehensive corporate responsibility program, “the messages haven’t always been fully communicated to consumers.”

While customers access a variety of channels—both for information about products as well to purchase products—leading companies recognize that growth and profitability don’t automatically ensue from adding channels or increasing the number of interactions. Instead, a unified view of each customer moving across channels is essential for understanding how customers perceive value in different contexts. Only then is it possible to determine exactly which customers are profitable and how to keep them coming back.

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Food security: A matter of trust

As consumers become ever more interested in the source of their food, leading CPG companies are taking steps to ensure transparency throughout the supply chain. Today, that supply chain is often far-flung and complex, spanning several continents. Meanwhile, consumer trust is elusive, easily swayed by the slightest hint of contamination, safety, quality, ethical, or environmental concerns.

Some considerations:

• Have you identified and quantified supply chain risks?

• Are you prepared to defend your supply chain against fraud, contamination, and quality failures?

• Are your recall, crisis management, and recovery procedures current and pre-tested?

• How do regulatory standards in one country affect your business in others?

• What steps are you taking to build resilience now for future food-trust challenges?

In an effort to win and maintain consumer trust, companies are taking steps beyond regulatory compliance. They are improving global supply-chain traceability end to end, creating farm-to-fork, technology-enabled connectivity for analytics that improve oversight, control, and integrity.

And they are adapting to the outcomes of climate change, resource scarcity, urbanization, and demographic change. Meanwhile, new demand from the growing middle class in developing economies brings urgent new logistical and regulatory challenges.

“We take food safety very seriously,” says Ready Pac’s Redfern. “We’ve been fortunate that we haven’t had a food recall in more than five years. It’s a way of life here. It really begins with having the next level of certification and consistent quality assurance practices. We continue to invest in programs to ensure food safety. It begins with a holistic, comprehensive, disciplined approach. We won’t always be the lowest cost producer because we’ve made a commitment to food safety.”

Food trust isn’t an intangible asset; it requires linking strategy with execution to improve food integrity and customer trust, as illustrated in Figure 5. Consider these hypothetical examples:

• A global food company that doesn’t conduct rigorous due diligence before acquiring a processing plant, resulting in a contamination issue.

• An organic products company with a fraudulent, unsafe supplier, resulting in a quality crisis.

Conversely, how can a CPG company best compete against a peer who wrests away market share by rebranding as a sustainable farming champion—one that pays fair wages and addresses environmental concerns?  

To earn that trust, world-class CPG companies take a stand for food security not only for ethical and regulatory reasons, but also because customers demand it.

Figure 5
Food trust requires a holistic approach from strategy to execution
Find competitive advantage via sustained performance

Anticipate customer preferences for products and channels while reinforcing the brand (continued)
CEOs at CPG companies told us innovation is essential for growth. Over the past few years, however, many CPG companies have emulated the best of investor 3G Capital’s cost-cutting practices—from zero-based budgeting (ZBB), with its unflinching focus on justifying every expense, to shuttering laggard facilities—in an effort to get ahead of industry-wide austerity measures. With already-slim margins and uneven growth in a world of fluctuating consumer tastes, this focus on cutting costs could dampen innovation.

“We believe it’s important to be a force for good in society,” Blanken continues. “We strive to do it in a profitable way, in a competitive way, and in a responsible way while delivering strong growth.”

The J.M. Smucker Company’s Belgya says, “For us, the question is, ‘How do you balance the cost-management environment that the investor community and our peer group have placed on us with a growth and innovation mindset?’”

“There has to be a balance,” he continues. “Rather than innovation on one side of the ledger and cost-cutting on the other, we believe there is a strong link where cost-savings provide the fuel necessary for investment—whether that reinvestment is in building capabilities, supporting product innovation, or furthering our e-commerce platform. From our perspective, this linked approach has long-term benefit.”

Mondelēz International’s Zaramella concurs. “Having a balanced approach is critical,” he says. “We went through an excruciating period of ZBB, trying to map all our costs around the world in a detailed manner we had never done before.”

“We had the opportunity to rethink not only how we use our resources but also to assess volume—and the price associated with that volume,” he continues. “That transparency gave us the opportunity to negotiate better deals with our suppliers, getting savings without necessarily touching consumption particularly for high ROI investments. But going draconian can really be counterproductive and impact growth.”

Says Coke’s Eppert, “There is good cost that drives revenue and then there is cost that’s waste. For the last three years, we’ve been able to drive out a lot of costs and use those savings for innovative marketing to drive growth.”

Innovation is particularly essential to iconic brands competing with private-label competitors. Says Greg Christenson, CFO of dairy and plant-based natural and organic food and beverage company WhiteWave Foods, which agreed in 2016 to be acquired by Danone, “You always have to be one step ahead because private labels aren’t advertising. They’re fast followers into fast-growing categories.” In fact, private labels now account for almost 25% of market share in supermarkets. In response, CPG companies are shrinking time to market for new products, sometimes by as much as two-thirds.

And despite seemingly impossible odds—only 15% of new CPG products succeed—research from Nielsen shows CPG innovation is alive and well with distinctive new products that have generated at least $50 million in sales during their first year and maintained at least 90% of that in year two. In fact, the best new products have grown almost 50% in year two.

PwC analysis has found that a culture of innovation:
- Nurtures collaboration, both internal and external; customers often provide breakthrough ideas.
- Measures outcomes, such as:
  - Percentage of employees trained in innovation processes, the magnitude of internal collaboration.
  - Number of robust ideas in the pipeline, balance in portfolio.
  - Revenue from new products, impact on profit and brand.
- Emphasizes agility; moves quickly to identify, select, prototype ideas for commercialization.
- Takes risks with big ideas that can make a significant difference.
- Balances innovation with operational excellence for revenues from existing products.

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PwC analysis of 115 CPG megadeals (valued at $3 billion or more) between January 2011 and October 2016 found that 16 of the 20 largest exceeded $10 billion, while six exceeded $20 billion. Between January 2014 and October 2016, the average megadeal size more than tripled, from about $4 billion to more than $14 billion.\(^\text{17}\)

This dramatic rise in deal value comes as the number of megadeals remains fairly constant year to year. The increasing number of high-value deals, the majority of which target aggressive cost-cutting, means even the largest CPG companies may well be takeover targets, as the past year has shown.

To survive and succeed in this new era of megadeals, a clear strategy offers appropriate responses to current expectations for growth and profits:

- **Focus on capabilities:** External investors have driven the bulk of value via consolidation and cost reduction. Our long-term research on capabilities-driven strategy illustrates the importance of portfolio and resource allocation backed by strong capabilities. Gaps in capabilities can be addressed through M&A, including megadeals.

  “We’re looking for bolt-on acquisitions rather than large deals,” says Mondelēz International’s Zaramella, “to fill gaps in distribution and healthy options, such as the 2014 and 2015 acquisitions of Kinh Do biscuits in Vietnam and Enjoy Life Foods in the US.”

- **Seek niche growth:** Room for consolidation involves not just brands and businesses but various elements of the supply chain. And opportunities exist for small-brand rollups and geographic or portfolio growth.

  “We’re managing Dollar Shave Club separately,” says Unilever’s Blanken, referring to the 2016 acquisition of the online pure play for a reported $1 billion. “Their consumer interface is extraordinary. They don’t have the depth to excel at everything but they do many things extremely well and remain focused on those competencies.”

- **Be patient:** As value rises, so does complexity; working through the details can take more time. At family-owned companies, a current generation might not be interested in a deal but a subsequent generation could. While the need for consolidation might be evident, the actual deal often takes more time.

  “Our system is scaled for size, speed, and long runs. If we bring in a brand that’s focused on a smaller but highly influential set of consumers, we have a good chance of killing it with our traditional model,” says Coke’s Eppert. “So we have a group called Venturing and Emerging Brands that’s tasked with finding, building, and nurturing the next billion-dollar brand. In their effort to do so, there will be winners and losers but we want to learn and win by failing fast and economically before we invest a lot of time or money.”

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Forge the right deals for sustained long-term growth (continued)

• **Look inward:** In addition to cost management, would a megadeal be helpful? If so, is the company prepared to undertake one? Leading companies maintain an active playbook for possible and potential deals.

  “Transformational acquisitions have been an important part of our growth strategy over the past 15 years,” says The J.M. Smucker Company’s Belgya. He went on to describe an acquisition strategy comprised of three categories ranging from small to large: enabling, bolt-on, and transformational. “We have a centralized infrastructure that allows us to more easily absorb bolt-on deals.”

• **Don’t get complacent:** As the past few years have shown, one megadeal does not preclude another. Regardless of their size, CPG companies are well advised to pay attention to the wave of mergers; otherwise, they risk being swallowed up or surpassed by rivals.

  During its mid-20th century heyday, Schwinn Bicycle dominated the US market, riding a wave of product and process innovation to become the preeminent brand for low-cost, functional transportation for children and adults alike. At its peak, however, the company began to coast, losing focus on innovation and not investing as much in manufacturing.

  When mountain bikes and dirt bikes became popular, Schwinn dismissed them as fads and rejected alliance overtures. Soon, its Chinese supplier, Giant, started supplying bikes to Schwinn’s competitors, then went on to become a megabrand in its own right. Today, Giant is the world’s most prolific producer of bicycles; Schwinn, meanwhile, filed for bankruptcy in 1992.  

Despite the challenges of relentless cost pressures and morphing consumer preferences against a backdrop of geopolitical uncertainty, some emerging trends—such as globalization, urbanization, digital advancement, and a rising middle class in the developing world—offer exciting possibilities for agile, innovative, customer-focused CPG companies.

These CPG leaders implement a coherent strategy that breaks down silos for enterprise-wide collaboration, realigns external sources to combat external disruption, fills gaps in strategy and execution—with external talent as necessary—and builds on existing capabilities.

To combat the relentless pace of accelerating technology, they focus on the human experience to define and deliver digital initiatives through the lens of employee and customer interactions. Creating better customer experiences is a key objective of digital investments.

They offer their customers accessibility across all channels while striving for a unified view of each customer moving across channels to better understand how customers perceive value in different contexts. This unified view across channels helps determine which customers are profitable and how to keep them coming back.

A culture of innovation pervades CPG leaders, despite the current industrywide environment of stringent cost management. Balancing innovation with operational excellence, they nurture collaboration—even looking to customers for ideas—rigorously measure outcomes, take the right risks, and move quickly to prototype new ideas.

In an era of megadeals, world-class CPG companies seek to strengthen their internal capabilities with the right external deals. They cultivate a playbook of potential options while remaining vigilant for the right opportunity.

Back in 1997, only 33% of global consumer products CEOs said they were confident about near-term growth. Today, almost half of global consumer CEOs—45%—say they are very confident about their growth prospects over the next three years.19

Acknowledgments

We would like to thank a number of people for their contributions and input. Through their collaborative efforts, the following team members have been instrumental in the success and completion of the Consumer Markets Insights: 2017 Financial Benchmarking and Industry Trends publication.

Joseph Bedenbaugh  Deanna Marie Byrne  J. Neely  Steve Treppo
Tamara Beresky  Brian Crane  Roberto Rojas  Krystin Weseman
Mike Brewster  Claire Litherland  Peter Schlicksup  Glenda Holt
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We would like to thank a number of people for their contributions and input. Through their collaborative efforts, the following team members have been instrumental in the success and completion of the Consumer Markets Insights: 2017 Financial Benchmarking and Industry Trends publication.

Mark Belgya, The J.M. Smucker Company  
Ivar Blanken, Unilever  
Gregory Christenson, WhiteWave Foods  
Mark Eppert, Coca-Cola North America  
Patricia Little, The Hershey Company  
Dan Redfern, Ready Pac Foods, Inc.  
Mike Smith, McCormick & Company  
Michael Terrell, McIlhenny Company  
Luca Zaramella, Mondelēz International