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When subpar operations threaten margin growth

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Consumer-goods companies with weak cost management will struggle to increase the bottom line—no matter how much they grow.

Companies can generally take two paths to improve their margins: on the revenue side, through innovation and brand building to increase prices, and on the cost side, through operational efficiencies. We looked at 17 global leaders in the food and beverage industry over the period from 2009 to 2013 and found that operational improvement was the determining factor in margin growth.

By creating a baseline case that adjusts for cost-growth momentum, we isolated the impact of operational improvements on the cost of goods sold (COGS) for functions such as manufacturing, purchasing, and the supply chain.[1] We then plotted the performance of companies against the COGS momentum case and compared that data point with margin growth. As the exhibit shows, none of the companies in the sample improved margins through revenue growth alone. But those in the top-right quadrant (for instance, a beverage business facing shrinking revenues and fierce competition in its premium segment) also managed their bottom-line performance through operational efficiencies.

By contrast, companies in the bottom-left quadrant (such as one that increased its revenues quickly through acquisitions, new products, and new approaches to distribution but also had subpar operations) could not offset the higher costs associated with growth and therefore found their margins eroding. Finally, for companies in the bottom-right quadrant, dramatic revenue losses were hard to overcome with only middling operational performance.

[1] We looked at large North American and European companies, with a collective revenue of approximately $200 billion in three categories: packaged foods and snacks, beer, and spirits. For the momentum (baseline) case, we excluded input-price increases in labor and materials and adjusted for scale and regional differences.

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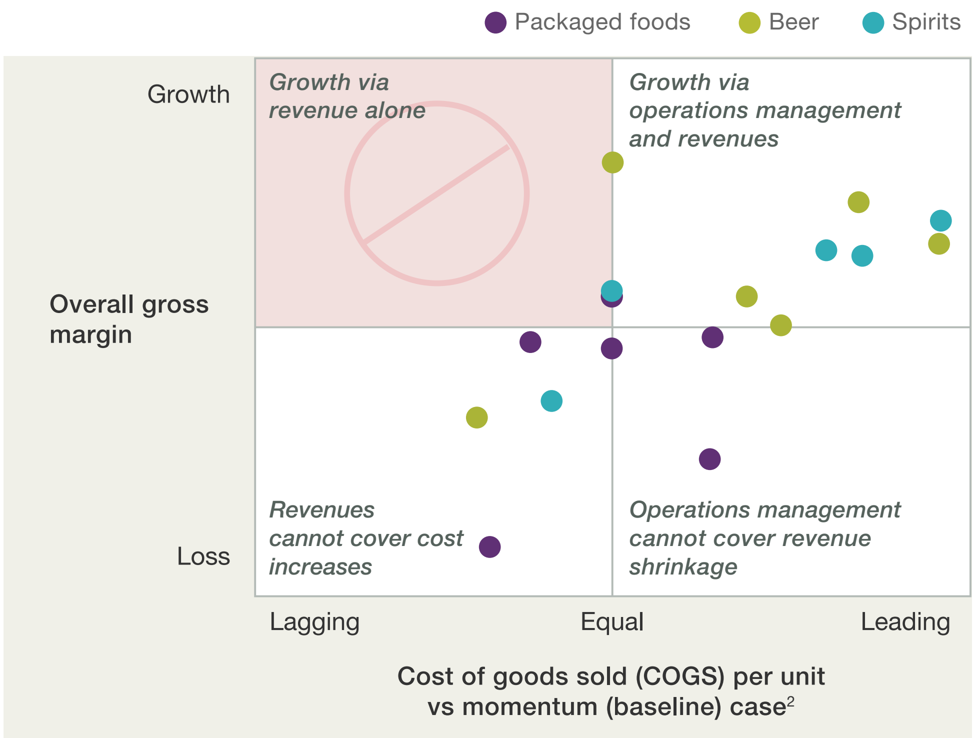
Not one company managed to improve its margins without at least maintaining cost parity with the baseline case.

Global leaders in consumer packaged goods,[1]
2009–13 (n = 17 companies)



[1]With revenues of \$2 billion–\$13 billion and with compound annual growth rates of 3–14%.
[2]Calculated as weighted average compound annual growth rate for price indices of materials and resources used by given industry.