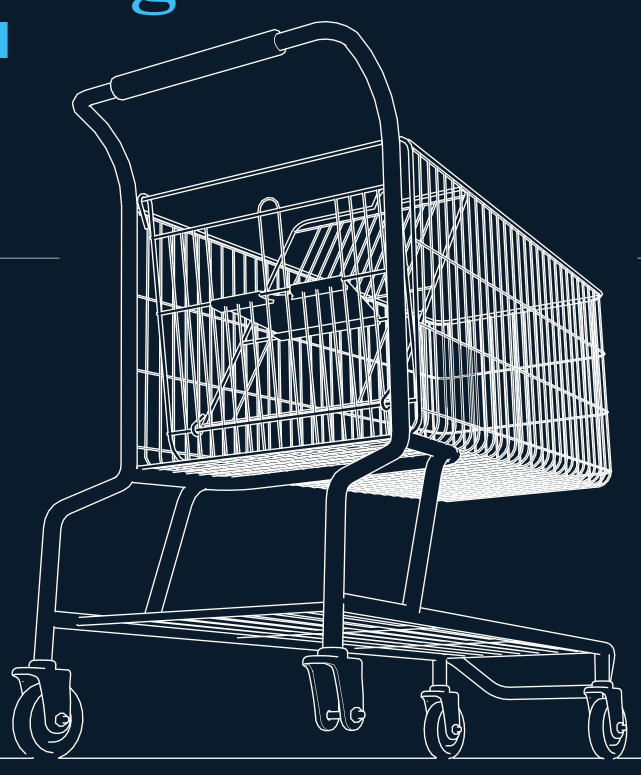
A new model for the consumer-goods industry

After 40 years of outperformance, the consumer-goods industry struggled to grow profits over the past decade

Growth in average economic profit,[1] CAGR, %

1994–2009[2]	10.8
2010–18[3]	3.2

What got us here won't get us there



Leading brands in each consumer-goods category have generated only 25% of growth

Sales growth[4] across US by type of brand[5] (2016–20), % of total

	Leading	Small/medium size	Private label
2016 sales	50	32	18
2016–20 sales growth	25	45	30

Investors expect a solution

Given historic and future market cap …

Aggregate market cap, $ trillion

2009–19	2.5
2020–30[6]	3.2–3.6

… investors expect 35% more growth than the industry has delivered

Organic revenue growth, %

2009–19	2.6
2020–30[6]	3.5–4.0

Why has the old model stopped generating growth?

12 disruptive trends

have battered the model over the past decade—now, the COVID-19 crisis is accelerating many of them

- Investing in mass-market brand building and product innovation
- Partnering closely with grocers to gain broad distribution
- Building brands and distribution capabilities in developing markets
- Driving cost out of the operating model, often through centralization
- Using M&A and divestitures to consolidate markets and enable organic growth after acquisition

1 Digital ubiquity and marketing precision
Digital
has been revolutionizing how consumers and brands learn about and engage with each other

2 Importance of value/price sensitivity
65%
of European consumers surveyed say they are very or extremely concerned about the economy

3 Millennial and Gen Zer effect
6×
higher likelihood that US millennials will find newer brands "better or more innovative" than baby boomers will

4 'Conscious' eating and living
50%
of UK consumers are conscious eaters (aiming to eat less meat, help the environment, and accommodate dietary preferences)

5 Explosion of small brands
4×
faster growth for small brands vs large brands in 2018–19

6 Rise of e-marketplace/O2O[7] giants
17%
growth of e-marketplace/O2O giants in 2014–19 (vs 0.8% growth of grocers); generated 65% of all growth across top 150 retailers

7 Steady rise of discounters
~7%
growth for Aldi and Lidl each in 2013–18

8 Mass-merchant squeeze
>95%
expected share of European retail value from multinational consumer-goods companies bought through alliances in 2025

9 Food-service challenges
COVID-19
crisis has triggered food-service-industry consolidation; subsequent economic impacts will result in more challenges

10 Battle for emerging Asia
>50%
of the world's growth in real private consumption in 2019–29 expected to be generated by emerging Asia–Pacific, China, and India

11 Pressure for profit from activist investors
>110
campaigns against consumer-goods players were run by activists each year in 2016–19

12 Rising competition for deals
~11×
EV/EBITDA[8] multiples in the consumer-goods industry since 2013

Get on the right side of trends

Where to play

Portfolio strategy
Category priorities
M&A
and divestiture

Category strategy
How consumers, markets, and channels are changing
Competitive advantages
Subcategory, market, and channel priorities
Big moves (eg, new segments, new business models)

Brand strategy
Brand promise and positioning
Subcategory, market, and channel priorities

How to win: Use 16 capabilities across 5 main dimensions

Consumer-goods companies need to go on a capability-building spree—and most are only just getting started

Consumer-packaged-goods companies building capabilities across dimensions, %

Partnerships among all growing channels and embrace of digital sales
- Precision revenue-growth management: 24
- E-marketplace management: 33
- Omnichannel and direct-to-consumer businesses: 39
- Digital route-to-market and customer contact: 37

Evolving the operating model to excel at local-consumer closeness and ever-greater productivity
- Fitter, flatter, and faster organization: 24
- Agile sprints to accelerate innovation and change: 27
- Next-generation design and procurement: 6
- Intelligent supply chain: 18
- Tech overhaul: 6
- Back-office automation: 6
- Agile budgeting and resource allocation: 4

Building of brands and distribution in developing markets
- Local-brand-building success models: 14

Relevance-led brand building, innovation, and marketing
- Occasion- and purpose-led portfolio, innovation, and design: 24
- Data-driven marketing: 39

Programmatic M&A to acquire small brands and capabilities and programmatic divestiture to divest low growers
- Programmatic M&A for small brands: 18
- Divestment of low-growth brands: 4

These shifts will help industry leaders unlock growth with brands and business models—both old and new

[1]Survey of 167 global consumer-goods players. [2]First year for which data are available. [3]FY 2019 data were not available for most of sample (ie, those ending between July 2019 and June 2020). [4]Measured by trailing 12 months ending in Apr of year listed (eg, 2016 = 12 months from May 2015 to Apr 2016). Includes food/grocery stores, drugstores, mass merchandisers, Walmart, club stores, and dollar stores for Nielsen-covered, stationary channels. [5]Leading brands defined as top 3 brands in sales (by trailing 12 months) by subcategory (eg, dog food, whiskey, hair care), with small/medium-size brands defined as those remaining outside of private-label brands. [6]Assuming constant earnings before interest, taxes, and amortization (EBITA) divided by revenues (EBITA margins) of 13%. [7]Online to offline. [8]Enterprise value divided by earnings before interest, taxes, depreciation, and amortization.

Source: Company reports; Nielsen; S&P Capital IQ; Corporate Performance Analytics by McKinsey; McKinsey analysis

McKinsey & Company