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CONSUMER PACKAGED GOODS/RETAIL

# Western Europe's consumer-goods industry in 2030

To succeed in the next 15 years, manufacturers will need to stretch their operating models in new directions.

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Come 2030, what will the consumer-packaged-goods (CPG) landscape in Western Europe look like? Several trends are already clear today and show no signs of reversing: for example, purchases in more and more product categories are migrating from offline to online channels, activist investors are slashing costs and ushering in a new wave of consolidation, and governments are imposing stricter regulations on CPG manufacturers. In light of these and other large-scale forces, CPG companies must reinvent themselves if they are to survive and thrive.

But which specific trends will matter most, and what can companies do in anticipation of those trends? In this article, we outline the ten trends that we believe will most affect the consumer-goods sector in Western Europe in the coming 15 years. We also highlight new

operating models that hold promise as future growth engines for CPG companies.

## Ten trends

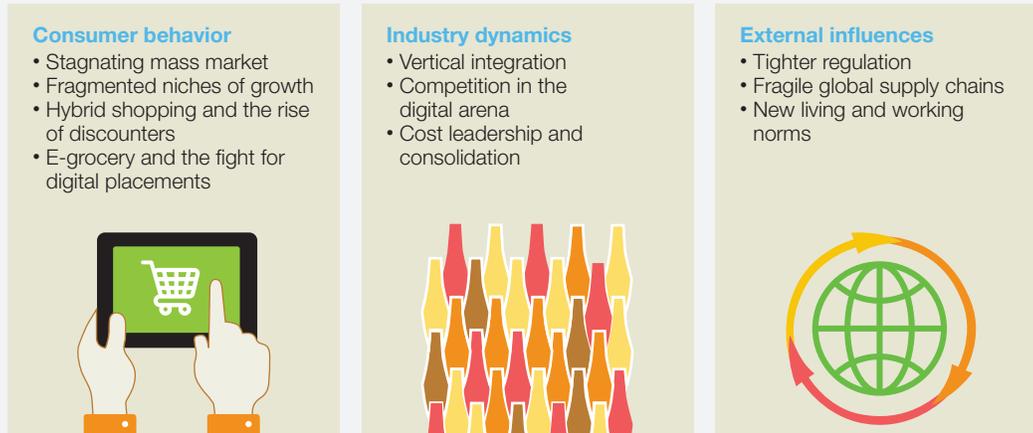
Drawing on our extensive analyses of both proprietary and publicly available industry data, interviews with dozens of consumer-goods executives and thought leaders, and years of experience working with leading CPG companies, we identified more than 40 emerging or current trends that will be relevant to CPG companies between now and 2030. We then selected ten based on our assessment of two criteria: the level of certainty as to how the trend will play out and the trend's potential impact on the CPG industry. The trends are a mix of consumer-related changes, shifts in industry dynamics, and external forces (Exhibit 1).

### Changes in consumer behavior

As consumer needs and shopping habits become increasingly polarized, manufacturers will need to make

## Exhibit 1

### Ten trends will transform the European consumer-goods market by 2030.



decisions about which consumer segments to serve; whether to make branded goods, private-label products, or both; and which retail channels to prioritize.

**Stagnating mass market.** By 2030, one in four Western Europeans will have reached retirement age. Across the continent, the average disposable income will fall, and with it the buying power of a considerable fraction of the population. Consumers therefore won't be willing to pay higher prices. Manufacturers that generate most of their revenue from the mass market will no longer be able to pass on price increases to consumers without seeing a subsequent drop in sales volumes. For such companies, value creation will be achievable only through major cost reductions.

**Fragmented niches of growth.** As the mass market shrinks, a range of small yet lucrative consumer segments will blossom. For example, more and more consumers will gravitate toward healthy food, environmentally friendly products, personalization, and convenience. Already, nearly a third of European consumers say they're willing to pay more for products with added health and wellness benefits. The disadvantage of niche markets and microsegments, of course, is that they often require

some level of customization. Companies that want to serve microsegments effectively will need to be innovative and agile, as the traditional production, marketing, and distribution processes of CPG companies are too slow and cost-intensive to allow profitable growth in niche markets.

**Cross-channel shopping and the continued rise of discounters.** The consumer who shops at only one type of store is becoming a rarity. Across Europe, consumers are making purchases from multiple retail banners, formats, and channels. Furthermore, shoppers not only in Germany but also now in France, Italy, Spain, and the United Kingdom are migrating toward discounters and away from local retailers. Discounter sales are growing at approximately 5 percent per year Europe-wide even as many other retail formats are stagnating. This trend, although a threat to branded manufacturers, can also be an opportunity for companies that decide to venture into private-label manufacturing.

**E-grocery and the fight for digital placement.** Online grocery, which has experienced slow but steady growth in most European markets, is becoming an increasingly important source of revenue for both retailers and CPG manufacturers. According to some

forecasts, it could capture up to 15 percent of the grocery market in selected European countries by 2030. And because online grocery shoppers tend to buy the same items every week rather than browse for new products, securing a place on consumers' digital shopping lists will become a top priority for CPG brands. Whereas manufacturers have historically fought over endcaps or displays at the front of a grocery-store aisle, in the future the important battleground will be in the digital space: a prominent presence on retailers' websites and mobile apps, high placement in search-engine results, and the like.

#### Industry dynamics

It's not just consumer behaviors that are changing; the CPG industry itself is undergoing massive shifts as well. Three industry-wide trends will transform the consumer-goods landscape by 2030: vertical integration, digitization, and the aggressive pursuit of cost leadership by large companies.

#### Vertical integration and new business models.

Particularly in online retail, vertical integration will become a new paradigm. E-commerce pioneers like Amazon are already expanding their own-brand business into more categories. At the same time, specialized start-ups are selling products such as razor blades or functional foods directly to consumers, often on a subscription or membership basis. By bypassing distributors, these start-ups are able to offer low prices and sell even small volumes profitably. In response to these new and disruptive business models, several larger manufacturers have begun to sell directly to consumers as well—but they must tread carefully, lest they alienate their retail partners. These trends could fundamentally change dynamics in well-established categories. They could also spur an expansion of manufacturer-owned distribution channels and the development of innovative products related to the Internet of Things (Oral-B's connected toothbrush is one example).

*Digitization of operations.* The most cutting-edge companies will set new digital and technological

standards in consumer interactions and process optimization, among other fields. Their digital superiority will enable them to reach consumers even in the smallest segments, tap growth markets faster, and apply a long-term price premium with attractive margins. Early examples of fully digitized factories have seen cost savings of up to 30 percent—and these factories have the capability to manufacture individualized products.

*Cost leadership and consolidation.* Activist investors are spurring modernization efforts among CPG companies. In the future, activist investors, hedge funds, and private-equity firms will even more rigorously pursue cost leadership in the companies that they've invested in. With improved efficiency and lower costs, some of these companies will choose to introduce aggressive pricing in order to gain market share. Cost leaders will also be able to make acquisitions, further strengthening their market dominance.

#### External influences

CPG manufacturers, of course, will also have to grapple with a number of strong forces outside the industry. Among the most powerful will be increased government intervention, supply-chain disruptions, and new norms in labor and employment. Each of these external forces could exert considerable financial pressure on CPG companies, thus heightening the need for business-model reinvention.

*Tighter regulation.* Government bodies, both at a European level and at the country level, are introducing new measures to strengthen consumer protection and ensure sustainability. Rising social and environmental standards, new laws, and tougher sanctions will make business harder for companies but will also offer opportunities for those that stay ahead of the regulatory curve by launching groundbreaking initiatives, especially in production and supply-chain management.

**Fragile global supply chains.** Far more difficult to anticipate are the effects of natural catastrophes and political unrest on the globally interconnected CPG industry. Disruptions in the supply chain pose a constant threat. Potential solutions include early-warning systems at critical points of the supply chain, as well as alternative routes on standby in case of infrastructure blockades. As mentioned, vertical integration—for instance, chocolate manufacturers running their own cocoa plantations—could be an effective way to protect against raw-material shortages.

**New labor and employment norms.** In Western Europe, 40-hour work weeks, long-term company affiliation, and largely homogeneous workforces are already becoming outdated models. We believe the future impact of this evolution of the working environment in Western Europe is still vastly underestimated. Already, it has compelled a few companies to introduce work-from-home options and make other big changes

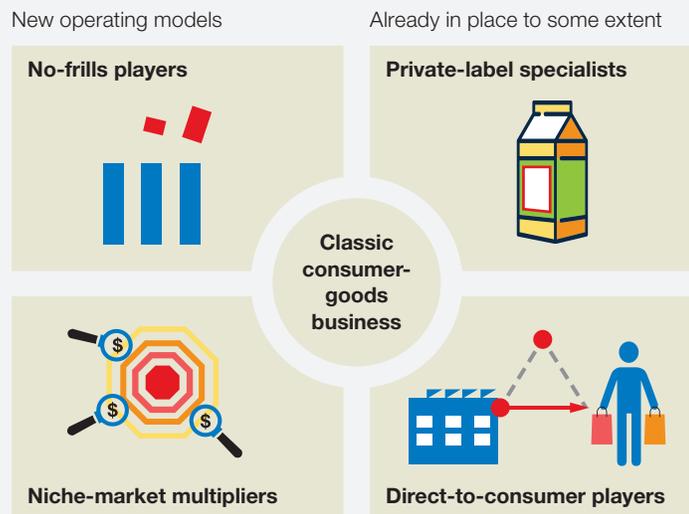
to their organizational structures. Survey data suggest that the employees of tomorrow (Generation Y and younger) will be less loyal and will demand more personal freedoms and flexible working arrangements, but in return they will stay in the workforce longer and retire later in life. Companies that can attract the best talent under the new conditions and introduce flexible HR systems will establish a real advantage in the coming years.

**Operating models of tomorrow**

What new operating models will enable manufacturers to grow in Western Europe? Given market saturation, few companies are likely to succeed with just one model. The challenge is to develop the right mix for a given company’s specific situation. Our analysis suggests that four business models—each serving as a supplement to the preexisting core business—have particularly good prospects for success (Exhibit 2).

**Exhibit 2 Four operating models will open up opportunities for future growth.**

**Growth models alongside core business**





**No-frills players.** In mass production, the high level of standardization involved in no-frills manufacturing allows for maximum efficiency. Companies that streamline their portfolio and decisively trim administration, production, marketing, and sales costs to increase profitability will be well positioned for aggressive growth. Under this operating model, the ambition should be to achieve long-term cost leadership in the respective category and gain significant market share. Such scale-oriented players have the potential to become true “category killers”—dominating categories nationally, regionally, or even globally by displacing or acquiring competitors.

**Niche-market multipliers.** At the other end of the market, in premium and bespoke products, manufacturers will employ agile systems and superior technologies to shorten product-development times, establish direct relationships with consumers, and make value chains more scalable and flexible. In so doing, they’ll be able to profitably serve a high number of niche markets with lower volumes.

**Private-label specialists.** Some successful companies will view private-label manufacturing no longer as an add-on business but as an equally valuable source of revenue alongside branded production. After all, the greater economies of scale tend to have a positive impact on returns. Furthermore, as holistic providers of a product group, these manufacturers can become leaders in their category, which can then help them secure better positioning and placements of their branded products in retail.

**Direct-to-consumer players.** As mentioned, some manufacturers have begun to set up their own online and offline distribution channels, giving them immediate control of their consumer-facing presence. The most successful companies pursuing this model will establish separate organizational divisions for direct commerce, to avoid conflict with their classic retail customers and to give the new sales channels plenty of room and the necessary resources to grow quickly.



A few companies may already have flexible and decentralized structures that could enable them to operate three, or even all four, of these operating models under one roof by 2030. Others will choose to focus on only one or two. But one thing is certain: in the saturated markets of Western Europe, supplementing a company's core business with one or more of these models won't be optional. ■

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