FMCG leaders need to think BIG and SMALL in 2021

Kraft Heinz Starts to Pick Up the Pieces
Wall Street Journal, Oct. 31, 2019

Campbell's U.S. Soup Sales Dip
Wall Street Journal, Dec. 4, 2019

Pantry Loading Boosts Sales at Kraft Heinz, Kellogg
Wall Street Journal, April 30, 2020

Mondelez's Sales Climb as People Stockpile Food Amid Lockdowns
Wall Street Journal, April 28, 2020

In 2019, the future of FMCG companies looked more uncertain than ever. Management changes at firms like Procter and Gamble and Campbell's Soup—where leaders promised a shift away from short-term cost cutting toward innovation and quality—brought signs of a turnaround. Still, the industry continued to face the headwinds that had been battering it for years: changing consumer preferences, competition from private label goods, and e-commerce's disruption of the market.

Then came 2020. Consumers stockpiled staples and turned to the comfort of familiar foods, as they prepared to hunker down at home until it was safe to return to schools, offices, and restaurants. Suddenly, FMCG firms confronted an altogether different challenge—keeping up with demand for their products.

Now, with the world poised to emerge from the crisis, companies will once again need to navigate through uncertainty. Based on experience partnering with leading FMCG firms during and long before the pandemic, BTS has identified the mindsets around six critical areas that organizations need to master to be successful in 2021 and beyond. They reflect the distinct strengths of big firms and of their smaller counterparts.

Thinking Big

Large firms have myriad advantages: greater leverage negotiating with suppliers, more flexible supply chains, more capital to pursue innovation, and the resources to quickly scale a well-performing product. FMCG firms of any size can benefit from thinking big.

bts
Strategy made personal

Acquisitions

Act like a venture capitalist

EXHIBIT 2 | Four Major Types of FMCG M&A Transactions

M&A TYPE		EXAMPLES
UNLOCKING NEW GROWTH	Category bolt-ons	Mondelēz International and Tate's Bake Shop
	Category expansions	Unilever and Dollar Shave Club
	Location, channel, or customer expansion	Mars and Kind
UPGRADING CAPABILITIES OR BUSINESS MODELS	Capability additions	Procter & Gamble and SpinBrush
	New business models	Keurig Green Mountain and Dr Pepper Snapple
COMBINING TO TRANSFORM	Category consolidations	MolsonCoors and MillerCoors
	Game-changing mergers	KraftHeinz
CLEANING UP THE PORTFOLIO	Divestitures and carve-outs	Ferrero and Nestlé's US confectionery business

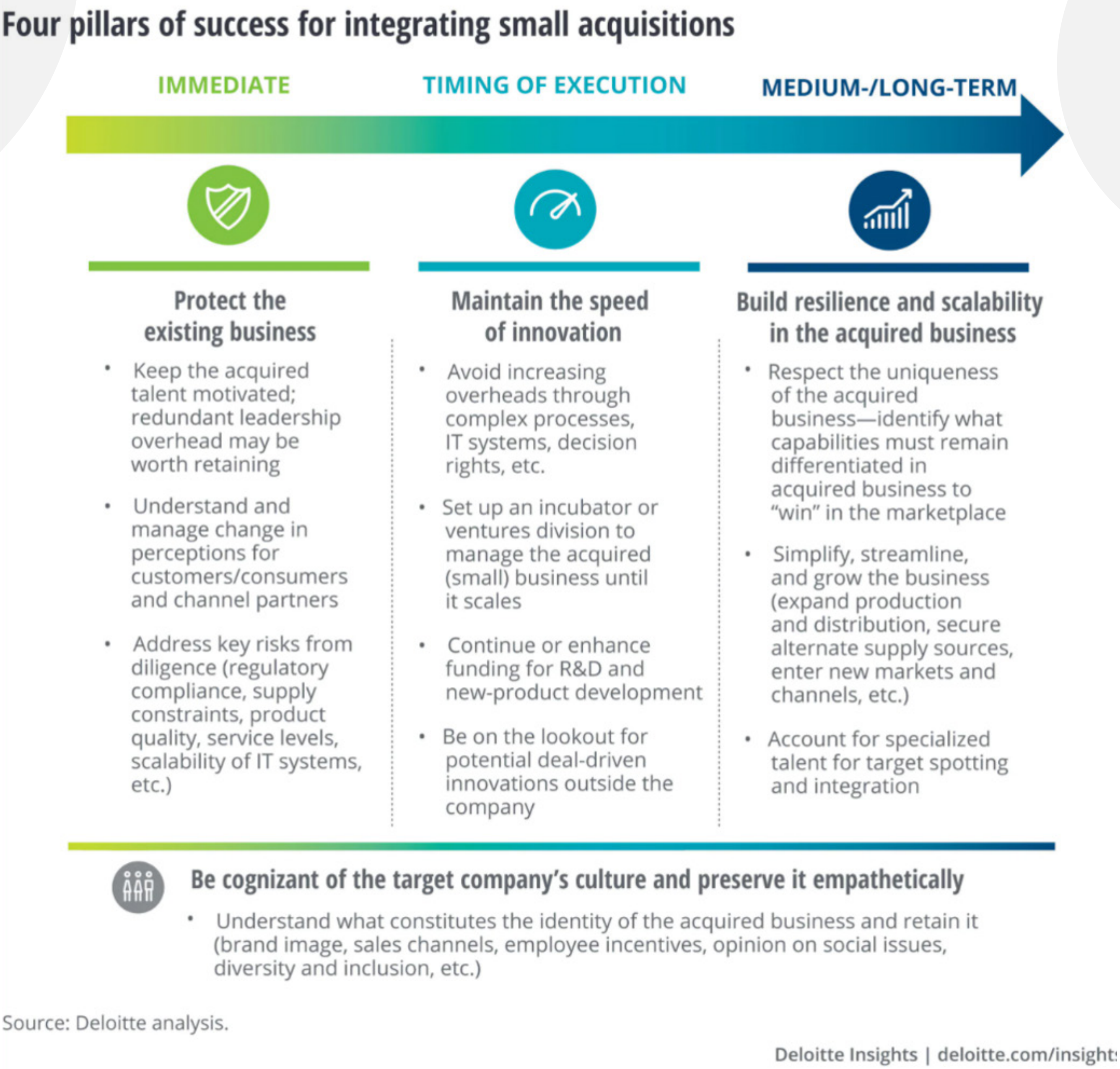
Source: BCG analysis.

Leading FMCG companies have a merger and acquisition strategy that combines the risk tolerance of a venture capital firm with the business acumen and change-ready leadership needed to get the most benefit from a deal.

Instead of waiting for a sure thing, they make many smaller bets, investing into emerging trends and themes that don't have a large market—yet. These firms know they have the scale to withstand some "misses," and that the payoff from success in spotting a trend early or in M&A is more than worth the risk.

To stress test potential deals, smart firms employ "future back thinking," a series of techniques (e.g., "pre-mortem," "risk storming," "back casting") that can help them make better decisions today by imagining tomorrow more clearly.

Post-acquisition comes the crucial and too-often neglected work of cultural integration. Building a cohesive culture starts with diagnosing and acknowledging the differences between how the formerly separate companies have functioned, and then setting a vision for how everyone will work together in the future. Turning that vision into reality requires leaders who can inspire their teams to embrace the new culture.



Supply Chain

Treat supply chain as a strategic capability—not as a cost center

During the crisis, FMCG firms faced trying to meet surging demand amid factory shutdowns, border closings, and labor shortages. Many were not ready. Years of overemphasizing cost-efficiency had resulted in supply chains that were lean but inflexible. Companies scrambled, and sometimes failed, to keep up.

But for firms that had built resilient supply chains—planning for contingencies by investing in multiple suppliers and production and delivery options—the crisis became an opportunity to watch sales soar.

No one can predict when or what the next crisis will be: trade wars, civil unrest, natural disasters, and another pandemic all loom as possibilities. To prepare, FMCG firms must treat supply chain not as a cost center but as a strategic capability. That means giving supply chain leaders a voice in overall company strategy and bringing in cross-functional teams to explore the crucial trade-offs between efficiency and resilience.

Thinking Small

Small companies tend to be more nimble, innovative, and adept at cross-functional collaboration than their larger counterparts. FMCG firms of any size can benefit from thinking small.

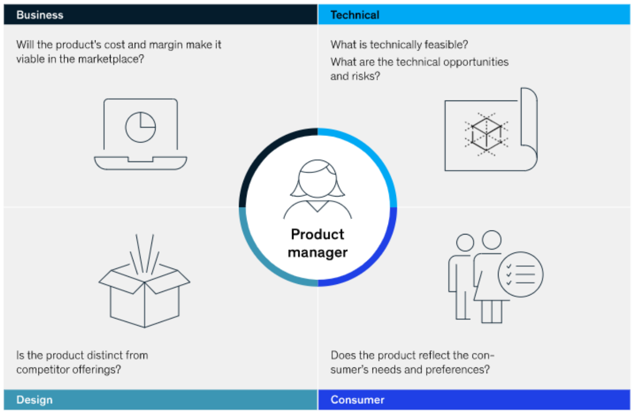
Product Management

Focus on developing generalist product managers
In his bestselling book Range, David Epstein argues that generalists are more creative, agile, and able to make connections than specialists. That's a counterintuitive idea for many large FMCG firms, which value product managers who excel in their narrow functional areas. However, modern product development and management calls for leaders who can own multiple disciplines.

Compared to other fields, the FMCG industry requires faster responses to consumer trends and a greater degree of localization (e.g., an SaaS firm can often push an update to all global users at once). As the number of stakeholders involved increases, generalist PMs can keep a project from going off track. An effective PM combines the insights of a data scientist, the facilitation skills of an Agile scrum master, and the customer-centricity of a design lead. They know how to "design the right thing, then design the thing right." They also understand the corporation's technical capabilities and how a product fits into overall corporate strategy. FMCGs will benefit from cultivating, and valuing, generalist product managers.

Exhibit 1

The product manager must align four lenses in the product development process to achieve breakthrough innovation.



McKinsey & Company

Smart Experimentation

Design experiments to test ideas fast and cheap
Smaller FMCG firms don't have the resources of their bigger competitors. And they use that constraint to their advantage. Their leaders are closer to the consumer; they know the consumer's pain points without having to read a report. Instead of investing in endless research—the tendency at bigger firms—they get their product in front of the consumer quickly to see if there is a market for it.

Large firms should learn to test ideas "fast and cheap," instead of investing heavily in a small number of product launches. That way they can avoid the trap of only catering to sizable existing markets, and instead focus on delighting a thin slice of the population, recognizing the segment's potential to grow.

One method is through disciplined experimentation (DE), a set of principles, processes, and tools that eliminate "this will never work" thinking that prevents ideas from getting a chance—and protect against sunk-cost bias that keeps firms pouring resources into an idea after experimentation has proved it won't work. The DE process isn't difficult. The challenge is having leaders with the mindset to use it.

Companies focused too heavily on line extensions can apply incrementality learnings to shift the balance toward expansion and disruption.

	Line extension	Expansion	Disruption	Renovation
Description	Extend existing product or positioning with similar benefits	Innovate with new product in current categories, consumers, or occasions	Disrupt to enter white space, such as a new category or business model	Improve existing brand's overall benefit delivery
Strategic objective	Renew the core value proposition through additional product choices	Create competitive advantage with meaningful product differentiation	Create new spaces for highly incremental and sustainable sources of growth	Improve the core value proposition of an existing brand; eg, "fix what we have"
Actions	Extend existing brand in category with new packs, format, flavor, or sizes	Launch new product under existing or new brand to serve consumers differently and more effectively	Launch into new categories, new consumers, occasions, unmet needs, or new business models	Improve existing brand's product, positioning, packaging, or benefit delivery
Investment[1]	Low	Moderate	Large, sustained	Low to moderate
Impact	Smallest	Moderate	Largest	Moderate
Typical timing	<12 months	1–2 years	2+ years	Immediate

[1]Represents typical scenarios; actual investment profiles vary widely across companies and categories.

Thinking Big & Small

While large FMCG companies may be better connected with their retail customers, small firms excel at staying in touch with and understanding their end consumer. Large FMCG companies are often data rich, but insight poor, whereas small firms may lack the data to validate their great insights. FMCG firms of all sizes can benefit from thinking big and small.

Consumer experience

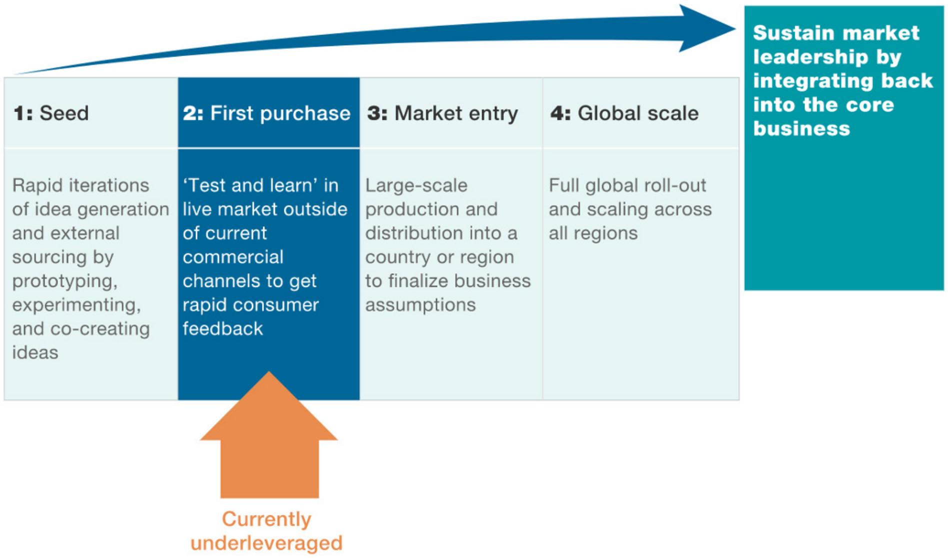
Go beyond consumer-centricity to consumer integration

FMCG firms often involve consumers in the initial research phase, then quickly shift into execution mode, forgetting about the consumer (40% of firms don't talk to the consumer during product development). In today's environment, firms must integrate their customers (retailers) and their end consumers into the development process.

Companies should use first principles thinking to test assumptions and go deeper into the mind of the consumer, discovering what consumers want even before they know they want it. This extends beyond the products themselves to the shopping and buying experience. The FMCG firms that succeed in the future will be those that keep the consumer front and center at every stage of the development process to uncover and meet consumer needs for products, and to provide an engaging shopping experience that leads to a seamless buying experience.

Beyond COVID-19 – customers are redefining the rules of engagement

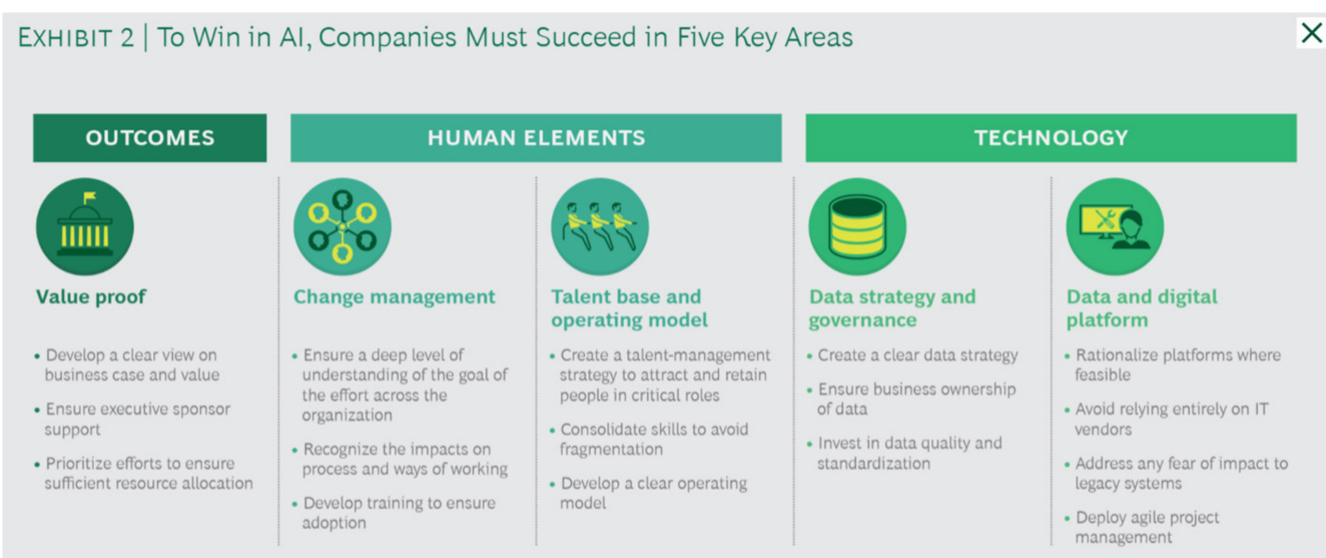
Leaders work differently within and across four distinct phases for breakthrough success.



Data & Digital Literacy

Find. Understand. Use. Value.
Big firms collect a massive amount of data, but don't take full advantage of it to drive decisions; almost 80% of data collected is not even mined. Small firms don't have as much data, but make the most of what they do have to create insights.

To succeed, firms of all sizes need to build deep data literacy and digital literacy throughout the organization. It is not about algorithms. It is about cross-functional sharing of data. And it's about people who can construct machine-learning models and input the right data to find relevant patterns in huge amounts of information—revealing and predicting consumer habits and preferences—and leaders who can translate what they discover into winning strategy.



A Culture of New Mindsets

The pandemic made clear what had long been true: FMCG firms need to adapt their culture, strategy, and leadership to a changing business landscape. Companies that embrace the mindsets of thinking big and small will be ready to meet any challenge.