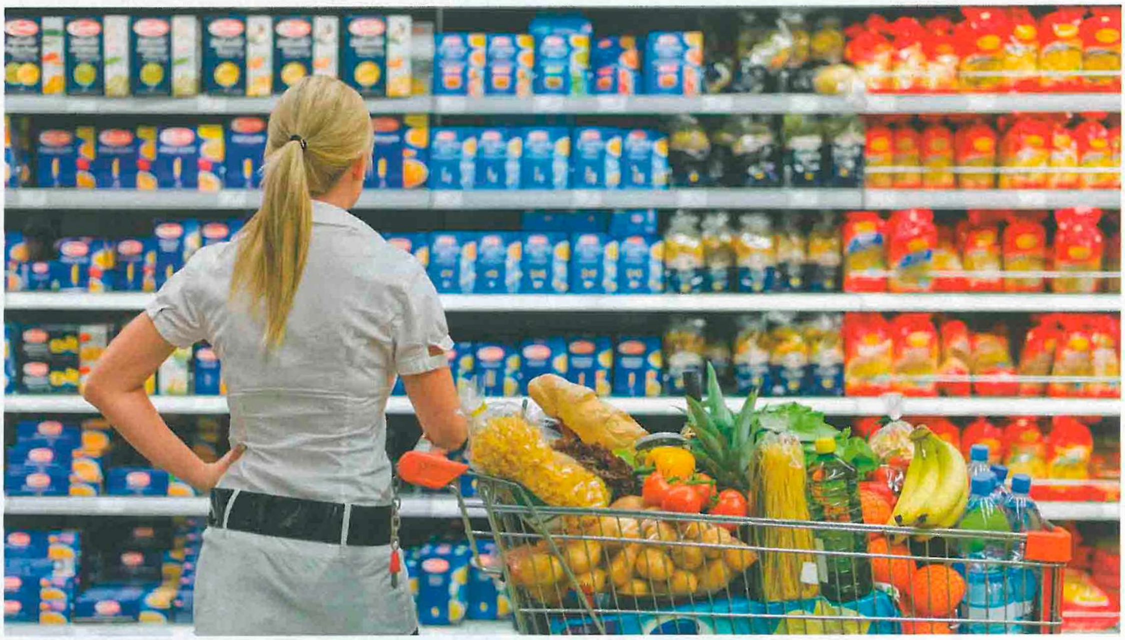
6 Strategies for CPG Growth

Tips for moving from defense to offense.

By Shiv Iyer



While consumer packaged goods (CPG) companies' business situations vary greatly, there's a common thread among the leaders: They've aggressively begun pivoting their focus from cost takeout to more holistic, profitable growth.

C-suites at leading CPG companies have an intimate understanding of what consumers want across industries, and constantly monitor external trends and regularly assess end-to-end business operations through a critical lens. They've begun translating these forward-looking insights into the following six strategies for reinvesting in growth.

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Revamp Offerings

Leaders regularly innovate across a wide range of offerings — ranging from making packaging more convenient to expanding into cross-category bundling — to ensure they remain ahead of the competition in the eyes of their target consumer. For example, one leading confectionary manufacturer developed stand-up, resealable pouches that take up less shelf space, while some major CPG companies have pursued joint ventures to expand offerings and branch into new territories, which indicates a strategy of targeting the changing preferences of mass-market consumers.

Get Closer to Consumers

With the proliferation of social media and multiple digital engagement channels, the ability to influence and impact purchase has increased substantially. Industry winners excel at using data and analytics to closely monitor shifting consumer preferences across channels. Furthermore, they funnel these insights throughout their organizations to augment core capabilities, such as innovation, shopper marketing and pricing.

A large global snack food manufacturer is using predictive analytics to analyze multiple categories and customer segments. Through data diagnostics, statistical modeling and a what-if simulation dashboard, the company is gaining clearer insights on past performance and seizing new opportunities for optimizing trade spend, and it can plan for the future with the help of predictive planning and selling.

Choose the Right Channels

Leaders don't follow the pack — they determine the optimal channel mix for their specific business. Those determinations are based on what consumers want and what the portfolio strategy demands. Go-to-market structures and investments should align with these channels to drive sales.

Macro trends, such as shifting demographics (e.g., the rise in 55-plus, urban and Hispanic consumers), are pushing CPG companies to tailor their offers in the respective preferred channels to penetrate these segments, drive volume and build brands. Some high performers are executing tailored approaches for unique channels. It's anticipated that the strongest growth will come from nontraditional channels.

Protect the Core

Leaders know their value proposition because they regularly evaluate the consumer types, categories, channels and markets where they excel. These companies also measure how they perform against the competition in each of their areas, and make forward-looking investments to ensure that these advantages remain intact. Investing in the future often calls for re-educating consumers. For example, one leading CPG company invested in its marketing efforts for a challenged product line by increasing spending and launching an ad campaign focused on the quality of the ingredients in its products.

For some CPG companies that realize certain brands aren't fortifying the core, there's a safety valve: private equity. CPG companies have increasingly sold distressed business units or brands to private equity firms, allowing them to limit their losses and refocus on their existing core businesses.

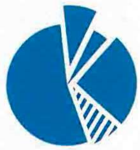
Innovate the Business Model

Market winners are always looking to expand. To do so, they monitor shifts in consumer demand to predict where the market is heading. These businesses tailor their product innovation strategies and go-to-market models to these shifts. By aligning with the future of the market, they are able to get a leg up on the competition in identifying and capturing new pockets of growth. For example, in the frozen processed food category, the consumer desire for freshness has opened the door to new players that focus on simple, natural ingredients.

Similarly, demographic shifts have opened up the playing field to new entrants. Private labels that deliver ethnic foods are growing market share (16.3 percent in 2014), perhaps due in part to the rise in Millennials, who have multiethnic preferences for products like burritos, curries and potstickers. Across all of these examples, the companies that remain most relevant are the ones that not only keep the closest pulse on consumer buying patterns, but also rapidly adjust their products and channels to mirror preference shifts.

Grow Through Inorganic Innovation

External market factors, among other forces, are prompting leaders to enact operational changes at CPG companies. Private equity firms are pushing the CPG market to transform, and CPG companies themselves are buying and selling brands to run offensive corporate strategies.



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The common denominator across all of these changes is that high performers realize that acquisitions and transformative partnerships can allow them to better deliver on their value propositions and accelerate growth. These companies regularly assess and acquire targets in adjacent spaces and pursue unique partnerships — sometimes with companies from other industries. Given the volume of innovation being driven by smaller companies that operate in niches, CPG companies should borrow a leaf out of the pharma playbook and take a more venture-led approach to investing in innovation. This allows them the ability to be at the forefront of future trends, and it also potentially lowers the cost of acquisition before these innovations reach the tipping point.

Prepare For the Future

The CPG market is changing dramatically and at speed. Cost-cutting has become a "way of life" for almost all CPGs as they work to improve margins. However, the new reality is that CPG businesses must get the most out of the scarce dollars they have by becoming more sophisticated about how dollars are allocated to categories, and how the business model can support those strategic decisions. Cost-cutting is necessary; however, investing in business model innovation and enacting portfolio shifts that drive growth and bolster the long-term business strategy are equally important.

Charting the right business model course will only become more important in the future, as consumer expectations around products and channels continue to rapidly evolve. The strongest players will make bold moves early — and often — to allow sustainable growth. **PG**

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