Revealing growth KPMG CPG organic growth barometer

An industry first

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Introducing the KPMG CPG organic growth barometer

Driving strong sustainable organic revenue growth is the most significant performance challenge facing consumer goods companies today in both developed and developing markets.

Consumer behaviour, brand relationships, and shopping habits are fundamentally changing where, and how, consumers choose to spend their money. Meanwhile barriers to entry are lowering enabling smaller, more agile, competitors to challenge the major players.

The first KPMG CPG Organic Growth Barometer shows that companies can be successful in delivering organic growth and that despite challenging conditions, many long-established names are continuing to deliver.

The 'KPMG CPG Organic Growth Barometer' gives companies the opportunity to benchmark their performance for the first time.

The 2015 Barometer is based on an analysis* of the organic revenue growth of 52 of the largest 60 CPG companies, by revenue, who:

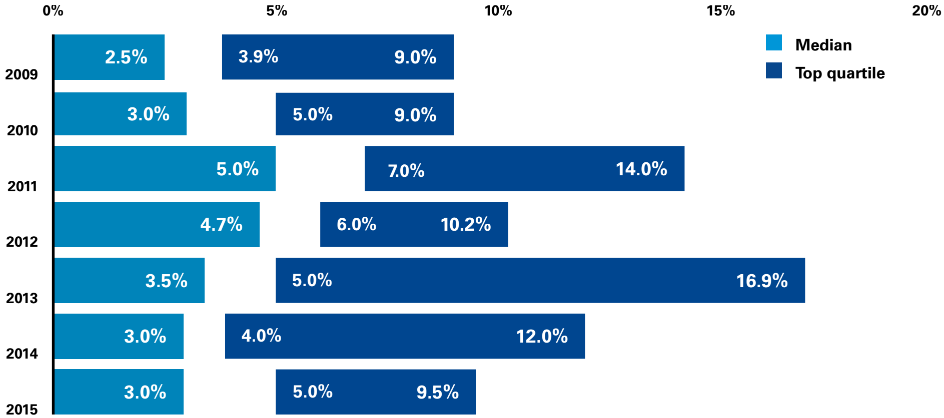
- are listed on the North American or European stock exchanges
- participate in, primarily, branded consumer packaged goods ('CPG')
- and, importantly, declare their annual organic revenue growth, or sufficient sub-components for this to be calculated.

What is 'middle of the pack' organic revenue growth?

Our study shows that median (ie 'middle of the pack') organic growth over the five years, 2010-2015, was 4.2% pa*.

Looking back over a longer seven year period, median growth has typically been around 3% each year. 2011 and 2012 were exceptions when growth peaked at 5%, partly due to developing market growth.

Seven year upper quartile performance



Median growth

2010-2015 **4.2% pa**

2015 **3.0% pa**

What constitutes 'superior performance'?

Our definition of 'superior performance' is organic revenue growth that exceeds the top-quartile threshold. On a five year CAGR basis to 2015, this was 5.1%, and in 2015 this was 5%.

Eleven companies within our study have achieved 'superior performance' in the five years up to 2015.

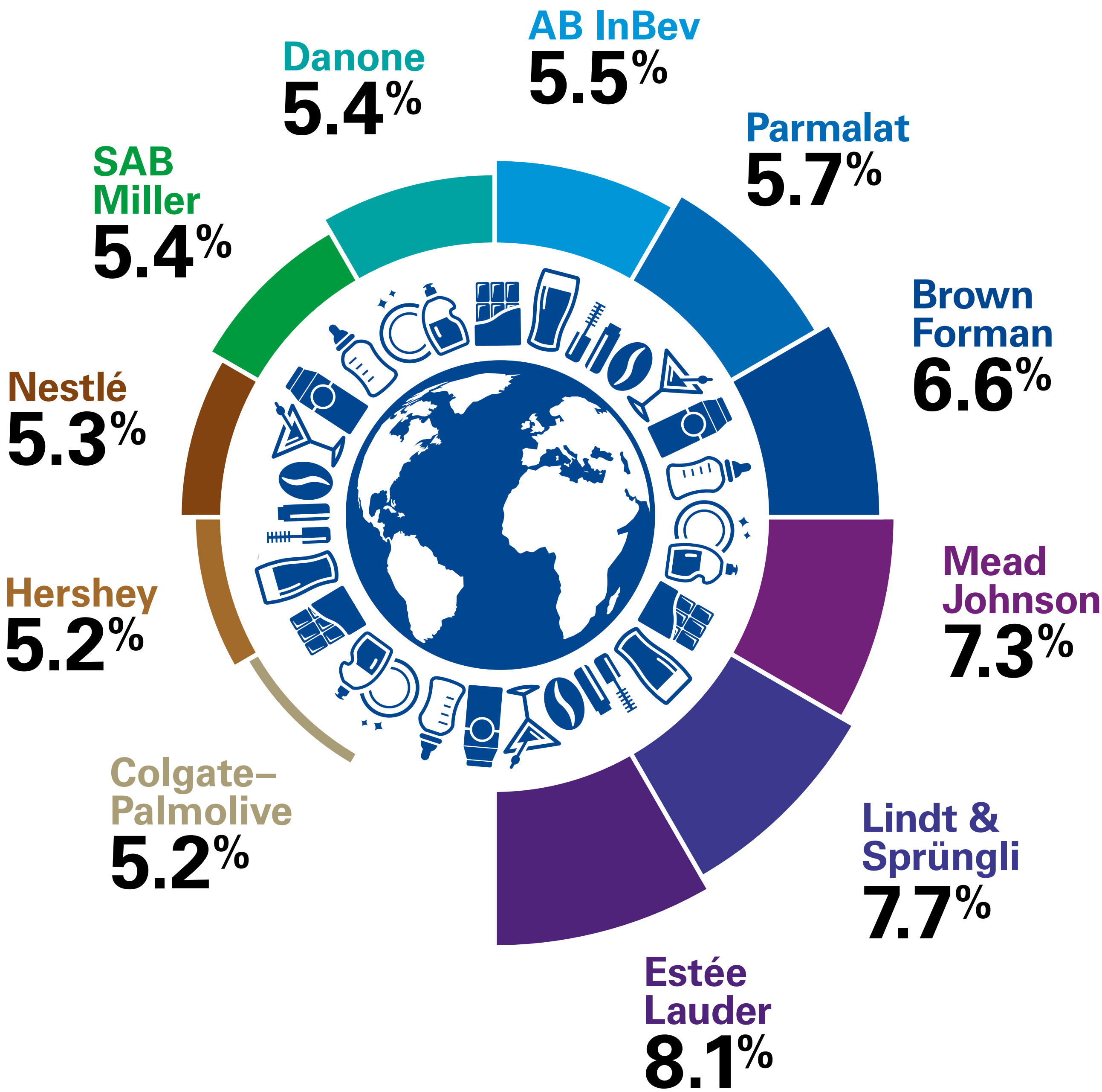
It's interesting to see the wide range of individual company growth within our study. In 2015, the highest growth performer delivered organic growth of almost 10%, at the other end of the scale we saw -3% equating to a spread of 13%.

Revenue CAGR 2010-2015 and 2015

% pa growth	2010-2015	2015
Top quartile threshold	**5.1**	**5.0**
Median	4.2	3.0
Lower quartile threshold	2.5	0.4
Highest growth company	**8.1**	**9.5**
Lowest growth company	**-0.3**	**-3.0**

* For the 43 companies in our peer group for whom 5 year organic growth can be calculated

Who are the top quartile performers 2010-2015 (CAGR)?



No single success formula

The top quartile consists of eleven companies, of which four (Estée Lauder, Mead Johnson, Lindt & Sprüngli, Brown Forman) have delivered consistent growth, remaining in the top quartile for at least four out of the five years analysed.

What's interesting about the eleven top quartile companies is their diversity of participation strategies and scale, they:

- **Participate in a wide variety of product categories including confectionery, infant nutrition, spirits, dairy, water, beer, hot beverages, packaged foods, personal care and household goods.**
- **Participate in multiple product categories (Nestlé, Danone, Colgate-Palmolive) as well as focus on a single category (Lindt & Sprüngli, Hershey).**
- **Include companies with global mega brands (Brown Forman - Jack Daniels, Lindt & Sprüngli, Colgate-Palmolive) at the core of their portfolios, as well as companies with broader portfolios with significant revenue contributions from local or regional brands (SABMiller, Parmalat).**
- **Are companies with significant exposures to mainstream segments, (Anheuser Busch InBev, Parmalat, Hershey) as well as companies who focus on premium segment opportunities (Lindt & Sprüngli, Estée Lauder).**
- **Include companies focused primarily on the especially challenging and lower growth developed markets of Western Europe and North America (Brown Forman, Lindt & Sprüngli), as well as companies with a significant exposure to developing markets (Mead Johnson, SABMiller).**
- **Are companies with revenues in excess of £25bn (Nestlé, Anheuser Busch InBev), as well as companies at the other end of the revenue spectrum with revenues of less than £2.5bn (Brown Forman, Lindt & Sprüngli).**

The diversity of the top performers suggests that superior growth is possible for all CPG companies regardless of their participation strategy or size of business and highlights that a variety of different strategies can enable delivery of superior organic revenue growth.

What happened in 2015?

For many companies, market conditions in 2015 were especially challenging, both in developed and developing markets (with marked GDP declines or continued weakness in, for example: China, Brazil and Russia).

Nevertheless, 18 companies delivered organic revenue growth of at least 5%, and seven companies delivered at least 6% growth; twice the median growth rate of 3%.

Organic revenue growth 2015

1 WhiteWave Foods	**9.5%**
2 Parmalat	**8.8%**
3 Lindt & Sprüngli	**7.1%**
4 Estée Lauder	**6.4%**
5 AB InBev	**6.3%**
6 Brown Forman	**6.0%**
7 Reckitt Benckiser	**6.0%**

Five of these seven companies have been in the top-quartile over the 2010-2015 period, highlighting a track-record of consistency. Two companies, WhiteWave Foods and Lindt & Sprüngli, are successfully capitalising on two specific consumer trends: 'health and wellness', and 'premiumisation'.

WhiteWave Foods

was the fastest growing company in 2015, with 9.5% growth. It has expanded rapidly since 2011 almost doubling its revenues to around $4bn, through a combination of acquisitions and strong organic revenue. The Americas represented 86% of its revenues in 2015, with the balance being mostly Western Europe. So what lies behind WhiteWave's strong organic growth in challenging developed markets?

WhiteWave has assembled a portfolio of leading consumer brands that tap into the needs of demanding millennial and health-conscious consumers: non-GMO, organic, and natural food products have grown $ sales in the US at 11% pa between 2012-2015, according to WhiteWave, compared to 1% pa for total food. WhiteWave's brands, such as Silk, Alpro, Horizon organic and Earthbound Farm organic, hold leading positions in fast-growing segments such as plant-based foods and beverages (for example soya and nut-based milks), premium organic dairy products, and fresh foods.

At a time when long-established mainstream food companies, such as Campbell's, are reshaping their portfolios to access the new growth opportunities created by changing consumer demands and tastes, which inevitably takes time. WhiteWave is assembling a pure play wellness company, positioned to capitalise on the trend towards 'better for you' foods. And it invests in marketing, R&D, and innovation to persuade new consumers into its healthier foods.

Lindt & Sprüngli

is a global leader in premium chocolate, with 170 years of heritage, and successfully capitalising on the premium growth opportunity that exists in many product categories today. The company has delivered consistently strong organic revenue growth over the last 5 years: revenue growth of 7% in 2015 followed on from 6-10% pa in each of the preceding 4 years. Its strong growth is notable given that the company remains largely focused on the developed economies of Europe (50% of 2015 revenues; +5% organic growth) and North America (43% of 2015 revenues; +8% organic growth in the NAFTA region). In 2014 it acquired Russell Stover in the US (with sales of around $500m pa), strengthening its number 1 position in the US premium chocolate segment. Rest of World, which includes markets such as Japan, Australia, South Africa, Russia, China and Brazil, increased revenues by 11% in 2015.

Global brands are at the heart of Lindt's portfolio with 75% of revenues derived from brands such as Lindt Excellence and Lindt Lindor. One of the company's growth drivers is its 'Direct to Consumer' retail channel, the company now has over 300 shops which allow consumers to experience, first hand, Lindt's premium proposition as it seeks to strengthen Lindt's brand equity. Its goal is to be the world's leading retailer of premium chocolate by 2020, planning to open 20-30 new shops each year (it added 50 new stores in 2015, including 16 in Brazil). In 2015, sales generated in Lindt & Sprüngli's own retail network accounted for more than 10% of group sales, with reported sales growing by approximately 20%.

Our analysis highlights that, in this dynamic and challenging world, there is a broad spectrum of growth being realised by CPG companies.

If you would like to find out where your company ranks in the 'KPMG CPG organic growth barometer', or find out more about how we can help you accelerate your growth, please contact us.

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