



Organic Growth Barometer 2017

An analysis of organic growth in top-ranking
Consumer Packaged Goods companies





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Introduction



"Organic growth is becoming more difficult to achieve in consumer packaged goods.

Organic revenue growth is a key performance metric for consumer packaged goods (CPG) companies, as well as for analysts and investors who want to see earnings increase year-on-year. Right now however, CPGs are finding organic growth increasingly difficult to achieve. It is no longer a simple case of developing a new product to accelerate growth. Nor is it as easy to take existing lines into high-growth markets as competition from local brands intensifies."

Introduction (continued)

The power of the customer

Consumers are becoming more informed. They understand the importance of shopping around to get a better deal and are using multiple channels of purchase. As a result, selling becomes harder and we're seeing that the consumer is increasingly in control. Take grocery for instance, where consumers have switched decisively from branded goods to supermarkets' own labels over the course of the past decade. Knowing your customer's shopping preferences – what they want to buy, how they interact with companies, and what channels they use to browse and purchase is critical, and becoming more difficult to get right.

Disruption: the influx of start-ups and a focus on innovation

On top of a consumer landscape controlled by customer preferences, innovative sector start-ups have emerged with strong knowledge of the customer, and have the agility to execute and respond to trends more quickly than major CPGs. Despite aspirations to mimic the newcomers, they are hamstrung by traditional systems and structures that slow down efforts to take concepts from drawing board to reality.

Those large consumer companies who are embracing innovation are starting to create 'incubation labs' to get new ideas off the ground - they're partnering with start-ups instead of competing with them. We're also seeing an increase in mergers and acquisitions so that businesses can diversify or simplify their portfolios, and in doing so attract the right skill sets.

Improving efficiency

All the while, costs pressures are building and will likely intensify post-Brexit. Many have already stripped out operational costs, but other less controllable costs, such as input prices, present little scope for adjustment. In the challenge to balance growth with surging costs, CPGs are possibly better placed than retailers from a margin point of view. However, they still need top-line growth as well as bottom-line improvements to keep shareholders happy.

Organic growth is becoming harder, but it's still possible

Together, all of these factors are creating a challenging landscape for consumer companies and it's clear from the decline in growth rates that keeping up is now more difficult. However, some are getting it right. The KPMG Organic Growth Barometer gives you the opportunity to find out what top performers are doing to achieve organic growth and to benchmark your own company's performance against them.

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About the Barometer

The KPMG Consumer Packaged Goods Organic Growth Barometer is a unique database that tracks the organic revenue growth of 50 of the largest CPG companies listed on the US and European stock exchanges. It is based on externally reported company data.

Organic growth is defined as the percentage year-on-year changes in revenue at a constant foreign exchange rate, excluding the impact of acquisitions and divestments from one year to the next. Only data for the 50 largest companies quoting organic growth in 2016 is published in this barometer.

Our first edition, published in 2016, tracked performance from 2010-2015, on a five-year compound annual growth rate (CAGR) basis, as well as 2014 and 2015 year-on-year organic growth comparisons.

This 2017 edition tracks performance from 2011-2016, on a five-year CAGR basis, alongside 2015 to 2016 year-on-year organic growth comparisons.

The barometer gives companies the opportunity to benchmark their organic revenue growth against the overall CPG database and top quartile performers. It also provides KPMG's insights on strategies for growth.



Growth trends in CPG

Growth trends in CPG

The analysis undertaken for the KPMG Organic Growth Barometer has highlighted five key trends:

Growth is harder to come by

The average growth rate performance in CPG companies is down on 2015, as is the five-year CAGR. The gap between median and top performance companies is narrowing.

Food, tobacco and beverage companies are top performers

Compared with other CPG companies, 'experiential companies' offering food, tobacco and beverages perform the best.

Single brands and categories do best

Companies with single brands and categories perform better than those with multiple brands, with growth coming predominantly from mature markets. Those demonstrating sustained top-quartile growth from 2011 to 2016 are Lindt and Sprüngli (chocolate), Colgate-Palmolive Co. (oral care) and Brown Forman (whiskey).

New top performers

Companies entering the ranks of top performers in 2016 include: The Coca-Cola Company, L'Oréal SA, Davide Campari – Milano SpA, Rémy Cointreau SA and Heineken NV.

Keeping it simple

Top performers are driving simplification into their business models and operations.

Median growth



- Median CAGR growth reduced to 3.4% (from 4.2% in 2015), based on 50 companies reporting 5 year organic growth.
- Median 2016 growth (YoY) has remained consistent at 3.0% in comparison to 2015.

Revenue CAGR 2011-2016 and 2016

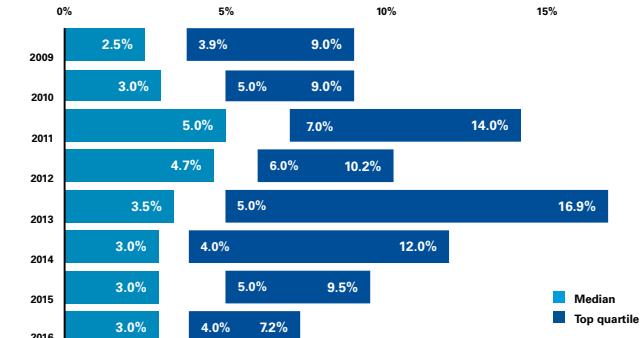
% pa growth	2011-2016	2015	2016
Top quartile threshold	4.5	5.0	4.0
Median	3.4	3.0	3.0
Lower quartile threshold	2.2	0.4	1.4
Highest growth company	7.7	9.5	7.2
Lowest growth company	-0.6	-3.0	-3.0

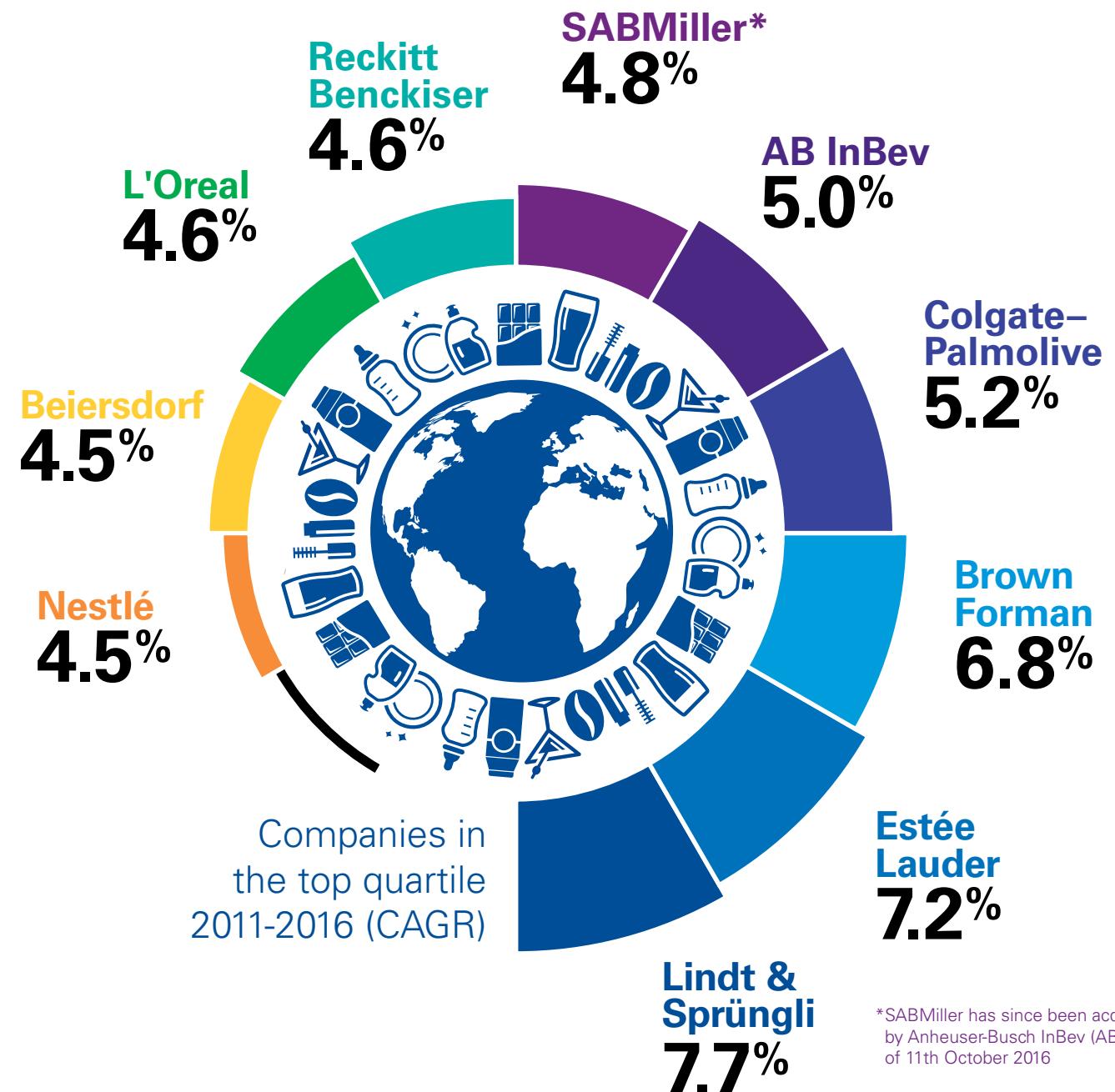
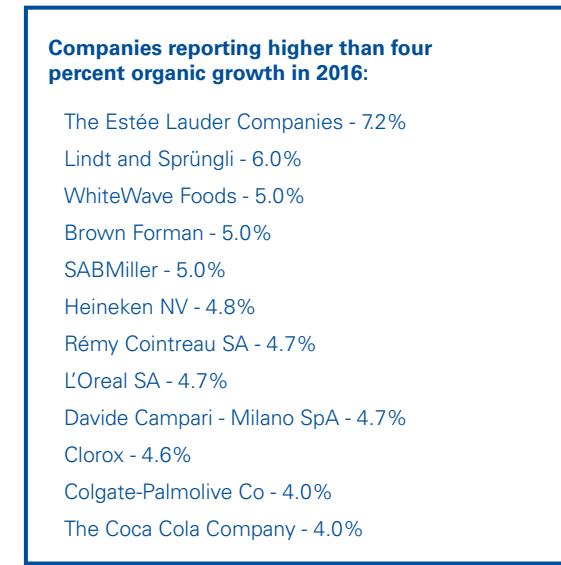
New entrant top performers

Short Form Name	2016 organic growth	In 2015 top quartile?
1 Heineken NV	4.80%	0
2 Davide Campari - Milano SpA	4.70%	0
3 L'Oreal SA	4.70%	0
4 Rémy Cointreau SA	4.70%	0
5 The Coca-Cola Company	4.00%	0

0 = new entrant

Eight year upper quartile performance







KPMG CEO Outlook Survey Findings

To anchor our barometer within the context of global performance and sentiments over the period, it is supplemented with KPMG's cross-sector CEO research conducted in 2017¹.

The views shared by consumer goods and retail CEOs reveal disparity with CEOs in other sectors, as they tend to be more upbeat and confident about their industries' futures.

We found, for instance, that CEOs in consumer goods and retail are more data-driven than those in other sectors, which tend to be more focused on diversity. They are fixated on achieving greater speed to market and driving innovation by investing and adopting disruptive technologies, such as cognitive automation, the internet of things and blockchain.

They are slightly more confident than other sectors about their individual company's growth prospects over the next 12 months, but less confident about the industry's growth as a whole.

Projecting to the next three years, CEOs describe themselves as very confident about growth prospects for their businesses and the industry.

Most worrying for consumer goods and retail CEOs is the negative impact of global economic factors. They describe it as by far the biggest factor impinging on organic growth. And more than CEOs in any other sectors, they fear the impact of new competitors and disruptors.

What top performing CPG companies did right in 2016

As the CPG industry goes through change and flux, some companies are finding more success than others in achieving organic growth. What are top performers focusing on that makes a difference to their growth figures?

L'Oréal credits its technological investment with winning over more customers. Already serving one quarter of the four billion consumers in the global cosmetic market, it has set its sights on achieving double. It plans to do this by accelerating its deployment of what it calls 'game-changing innovations', which include developing products to suit rising trends and maximising use of the digital cloud.

Demonstrating the importance of knowing your customer and how they want to interact and shop, L'Oréal ensures that its brands are very visible on digital media. Maybelline New York, for example, has more than 30 million followers on Facebook. As a consequence of its digital presence, e-sales grew by more than 30 percent in 2016².

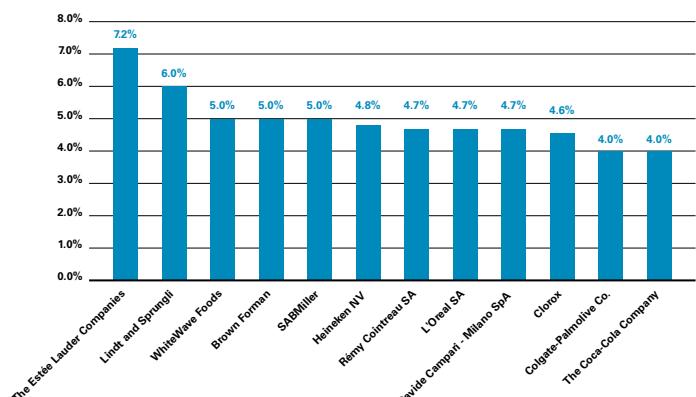
Davide Campari-Milano, meanwhile, compensated for challenges in emerging markets by focusing on the developed economies, where high-margin global and regional brands continued to exceed performance expectations. Intelligent acquisitions have also bolstered revenue after successful integration, most recently in 2016 with Grand Marnier which now represents 25% of group sales³.

For **Remy Cointreau**, with 4.7 percent organic growth in 2016, success came in both traditional markets in the US and France, as well as from new markets in Greater China and Russia. The group's strategy has been to focus more exclusively on its high-end brands⁴.

2016 was especially good to **Heineken NV**., which saw its premium brand portfolio deliver strong performance in key European markets, as well as in Vietnam and Mexico⁵. It attributes its competitive advantage and organic revenue growth to its diversified footprint and innovation agenda.

Estee Lauder achieved an organic growth rate of 7.2 percent in 2016 and have attributed some of this success to strength in China and duty-free stores. Understanding Millennials and making tactical acquisitions of brands with a strong Millennial following also appears to be paying off⁶.

Organic revenue growth 2016



Five key consumer trends for growth in 2017-2018

1. We have the largest and most diverse generation in history with over 2.5 billion Millennials worldwide who are now entering into their peak earning years. Coupled with fewer family and more singles households, these changing consumer demographics are altering spending habits. Urbanisation is also driving new consumption trends and situational needs.
2. Disruption is occurring across the customer value chain addressing new customer expectations for both quality and convenience. This trend is driving changes in channels for food and snack shopping, leading to the growth of private labels, subscriptions boxes, and online grocery shopping and platforms.
3. Today's consumer is more informed about what they buy and where they buy. This ranges from the nutritional value of their food to how it arrived on their plate. A greater emphasis on healthy options and demand for transparency in the supply chain is driving preferences and choices.
4. Millennial preferences are also changing how people consume and pay. New business models are providing a better customer experience and mass personalisation. There is a shift to 'access' over 'ownership' where shared economies are providing services on demand.
5. Consumers are now interacting with manufacturers more than ever as they increasingly desire control of ordering and delivery channels. This is resulting in a rise of direct sales between manufacturers and consumers, with the consumer valuing configurable products and lower prices.

Strategies for organic growth





Strategies for organic growth

Though organic growth is becoming more difficult to achieve, it is still possible. Companies can adopt a range of strategies to help boost organic revenues and performance.

KPMG has identified five key methods for achieving organic growth, as illustrated by 2016's top performers.

- 1 Innovate
- 4 Agree strategy & execute quickly
- 2 Simplify and focus
- 5 Hire & retain the best talent
- 3 Engage the consumer
- 6 Seek inorganic growth



1 Innovate

Research conducted by Nielsen found that in 2015, only 0.2 percent of new product launches in Europe could be described as breakthrough innovations⁷. With differentiation becoming harder to achieve, some companies have turned to data and analytics to fuel their product development alongside ensuring their trade and marketing investment is maximised. The Global Top of Mind Survey, found that 69 percent of high-growth companies in the consumer goods and retail sector globally use data analytics successfully to predict consumer behaviour and preferences⁸.

However, strong data analytics capabilities may not be sufficient alone to drive top quartile growth performance. The speed with which insights can be derived and acted upon is more likely to be the differentiator between firms, allowing opportunities to be seized and maximised.

Furthermore, ground-breaking innovation cannot always be unlocked using mathematical models. Brand, pack and channel strategies remain a route to top growth performance. As large corporates try to keep up with changing consumer tastes, they are starting to diversify into new portfolio offerings. L'Oréal re-entered the Growth Barometer Top Quartile Performers in 2016, for instance, saying that new product innovations now account for 15 to 20 percent of its annual sales⁹.

The Coca-Cola Company also re-entered the Top Quartile Performers on the basis of its core portfolio in 2016 with a focus on product expansion within category sub-sectors, trading consumers across price tiers and pervasively distributing products across channels¹⁰.

'Direct to Consumer' continues to be an industry hot topic. Lindt and Sprüngli, a 5-year top quartile performer in the KPMG Growth Barometer, predict double digit growth from their retail business, which includes 370 chocolate shops and cafés, as a key success factor¹¹. Tapping into consumer demand for experiences, these stores generated an additional 50 million consumer contacts, whilst actively showcasing the brand values in custom-built store execution.

2 Simplify and focus

Three quarters of top quartile growth performers in 2016 are companies that compete in one category, with one competitive set – for example, Lindt & Sprüngli, which only competes in confectionary. It removes the complication of managing different competitor types across different product ranges, enabling the business to focus on its unique brand dynamics, and reduce the unhealthy competition between business units, and competition for resources. Furthermore, expertise can be developed and enabled within the category, in comparison to knowledge being widespread, but limited. If the extension of a company into multiple categories requires new knowledge, systems, or infrastructure, then the cost of diversification may outweigh the revenue gains. This is a key reason why many companies now choose to acquire rather than build.

High growth brands, such as L'Oréal and Estée Lauder, have large numbers of sub-brands operating underneath them, but they maintain them within the core categories. Simplification, therefore, does not necessarily mean operating a small number of products or brands. It is focused on limiting organisational complexity, which often arises from diversification across categories.

Other companies may seek to divest brands in order to slim down their portfolios to a single product stream or offering. This increased focus can create a greater catalyst for innovation, and prevent the inertia often arising as a result of organisational complexity. For example, Davide Campari-Milano sold a number of non-core businesses, including Sella & Mosca, Teruzzi & Puthod, and Lapostolle Chilean Wines, to focus on its core spirits business¹². Likewise, The Coca-Cola Company explicitly describes 'streamline and simplify' as a targeted action to pursue its overall strategy¹³.

However, simplification is not an immediate solution to improve organic growth. Clorox, another of the Growth Barometer Top Quartile Performers, is heavily diversified across a large number of categories, and views expansion into adjacent markets as fundamental to its growth strategy¹⁴. When complexity increases, entry into adjacent markets still allows for accumulated knowledge and expertise to be implemented. In comparison, entry into unrelated sectors may pose a far larger challenge to maintain and increase growth. Companies operating in significantly varied markets do not appear in the top quartile for organic growth.

Engage the consumer

Digital enabled customer experiences are now a core consideration for most companies around the world. In order to leverage the full value of digital platforms and new customer segments such as Millennials, companies need to be prepared to rapidly assess opportunities and act fast. As competitive timeframes get shorter and shorter, those who cannot respond will quickly be subjected to 'future shock' as was seen with Blockbuster.

Beyond a seamless interaction with retailers and consumer goods companies, customers want personalisation, availability of product, security of purchase and supply, and integrated cross-channel options. These 'wants' centre around selection, purchase and delivery, but others are more deeply and personally rooted, and will influence the products and services that your consumers buy. The most compelling trend is that consumers are increasingly assigning their discretionary spend to experiences. This pattern is benefiting highly experiential brands, notably alcoholic beverage manufacturers, who make up five of the top twelve companies in the KPMG Organic Growth Barometer.

Customer engagement on digital platforms supports the entire digital customer experience. In our top quartile performers, Heineken is the most liked beer brand on Facebook¹⁵. Outside of the beverage category, the beauty sector has a strong appreciation of the importance of digital experiences and Generation Y. For example:

- L'Oréal's Makeup Genius app allows consumers to virtually try products before making a purchase¹⁶.
- Estée Lauder have created 'Millennial advisory boards' to offer advice to executive teams¹⁷.
- Colgate-Palmolive have attempted to engage with consumers digitally through pop-up-style virtual reality experiences in-store¹⁸.

Human interaction has long been the cornerstone of driving emotionally meaningful customer experiences but commentators agree that we are reaching an inflection point. Automation, robotics and artificial intelligence (AI) all have the potential to lead to opportunities to improve the customer experience and reduce costs. The Coca-Cola Company have already deployed 'AI vending machines' that can offer specials, pre-empt maintenance and refill requirements, and have personalised conversations with the consumer¹⁹.

In order to move with customer preferences, companies need to pay particular attention to a new generation of online-savvy, digital natives. They come with challenges that include low-disposable incomes, advertising resistance and a propensity to browse but not buy. They are most persuaded by online reviews, endorsements and, increasingly, social influencers, such as bloggers.

Hand-in-hand with new technologies and changing consumer demands come new approaches to marketing. The Internet of Things is in its infancy yet digital assistants, like Amazon's Alexa and Google Assistant, are opening up new consumer opportunities that brands must navigate carefully.

Agree strategy & execute quickly

"Execution is the only strategy our customers and consumers ever see" - A. G. Lafley, former P&G CEO²⁰. The pace of leadership alignment together with complexity in execution have been two long understood growth inhibitors. In May 2017, Harvard Business Review presented a case for organisational focus on growth (versus cost or profit), by demonstrating that CPG companies that improved their long-term growth by 1 percent were able to drive 28 percent improvement in equity value²¹.

Whether it be a new product launch, pricing strategy or a major new marketing campaign, focusing the organisation on growth has been a feature of the KPMG Organic Growth Barometer's Top Quartile Performers. At Colgate-Palmolive, another perennial KPMG Organic Growth Barometer top quartile performer, employees at all levels learn to take personal responsibility for being leaders²². Alignment time is planned and actively managed in key projects to aid rapid and quality execution.





5

Hire and retain the best talent

A great customer experience is not down to product alone. People and culture are the vehicles that enable companies to balance day-to-day business management with securing future success. To do that, a company needs to hire and train the right type of talent.

Once hired and trained, the challenge then moves to retaining talent. A 2017 survey by the Association of Graduate Recruiters found that 20 percent of graduates leave in the first year after completing a graduate development programme, rising to 46 percent after five years of employment. This is up from 17 percent and 39 percent respectively in the 2016 survey and reflects the battleground for talent among established corporates and start-ups²³.

In situations where Global CPGs are losing ground to local niche competitors, many are attempting a move to a more decentralised operating model. CEOs aim to give more autonomy to local market leaders who are closest to their customers and consumers. L'Oréal, for example, has a strongly entrepreneurial structure and describes themselves as 'strategically centralised, operationally decentralised' enabling them to balance control of strategic objectives with widespread employee innovation²⁴. In the last year P&G, who traditionally promote from within the organisation with a strong process centric culture, has appointed a new Global Media Director from Mondelez²⁵ and hired an ex-Coca-Cola Company executive as CIO²⁶ in a move to secure specific and relevant skills and experience.

6

Seek inorganic growth

Though mergers and acquisitions (M&A) are a source of inorganic growth they are also a catalyst for future organic growth. They enable companies to respond to shifts in consumer behaviour and competitive dynamics, as well as acquire talent and expertise. More recently they have provided a vehicle for entry into established direct to consumer businesses whilst minimising friction with established retailers and suppliers.

- L'Oréal, through the acquisition of smaller brands and using them as a future growth engine, have grown their Kiehl's business from a \$20m company, to a billion dollar brand²⁷. Likewise, Brown Forman's acquisition of The BenRiach Distillery Company allowed entry into one of the fastest growing, adjacent, global spirits categories – single malt whiskey²⁸.
- Estée Lauder have acquired specific Millennial-focused brands, and are able to amplify their share of voice, through input from structured social media influencer and celebrity programmes. They have demonstrated an ability to convert this consumer engagement into high single digit revenue growth²⁹.
- The Coca-Cola Company is heavily engaged in M&A activities in emerging markets, and primarily with emerging brands, that it believes are prime for disruption of the market, through its 'Venturing and Emerging Brands' (VEB) business unit³⁰. The company sees expansion of this segment, primarily in Asia, as being a key driver of portfolio expansion and revenue growth³¹. Similar joint ventures, both off and on balance sheet, are evident across the sector as companies incubate new and adjacent product offerings and services or look to close gaps in their portfolio.



How can you accelerate your organic growth?

"The analysis from the Organic Growth Barometer shows that as growth is slowing, it's becoming more difficult for companies to differentiate – but it's not impossible. We're committed to helping you accelerate your growth through some of the strategies outlined, and welcome any conversations around the challenges that you're facing and how they can be overcome."

Liz Claydon

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