KPMG

Organic Growth Barometer 2018

An analysis of organic growth in top-ranking consumer packaged goods companies

June 2018

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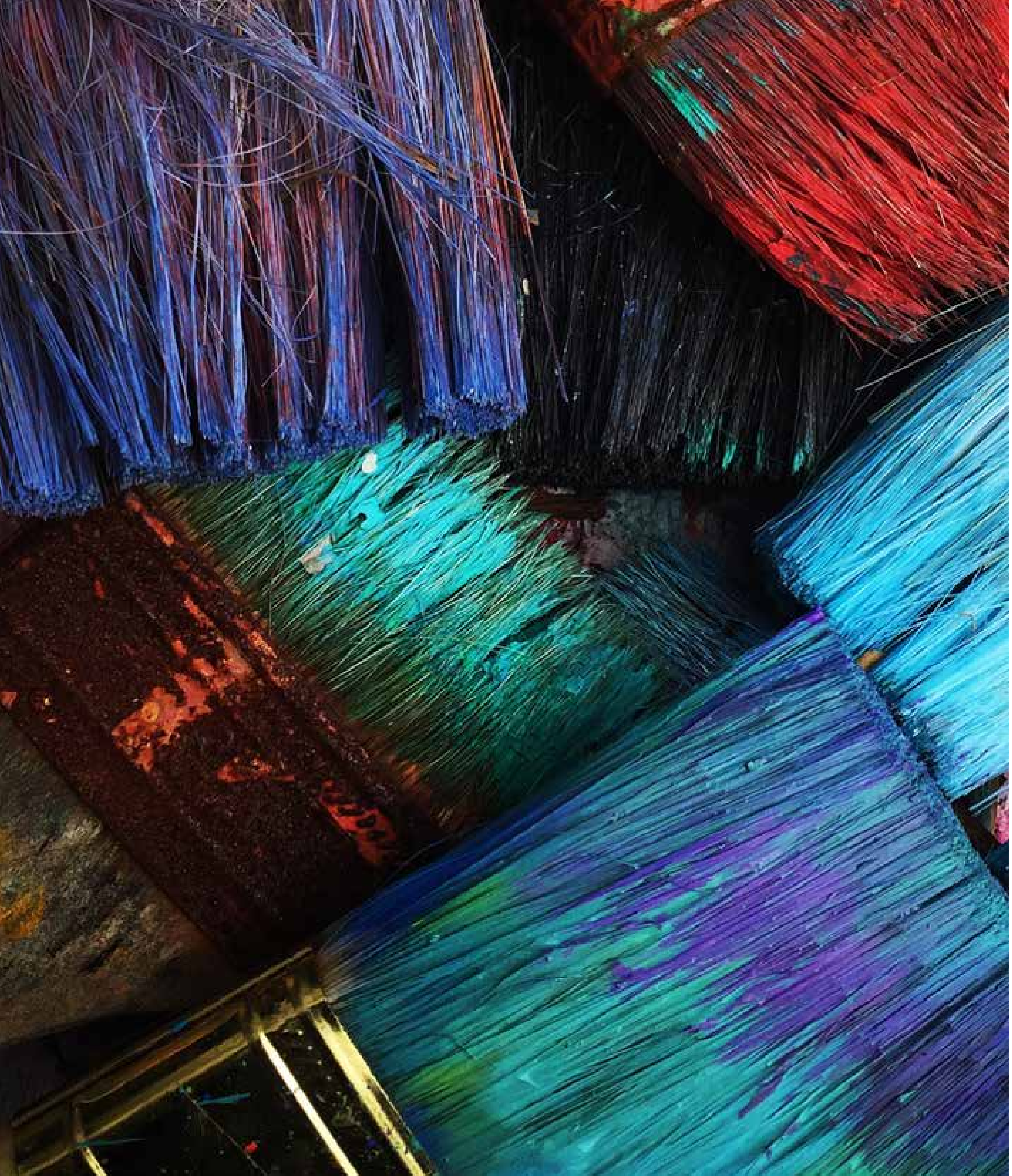
#StrivingForGrowth



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Introduction

Organic growth for consumer packaged goods businesses is slowing.

As new market entrants continue to appear and technology takes over consumer lives, CPG businesses are grappling with multiple challenges. On top of this, a continued squeeze on margins, rising consumer expectations, and deciding whether to compete with or embrace the disruptive start-ups makes striving for growth no easy feat.

It may seem daunting, however I think this is an exciting time for consumer-focused businesses - but only if you're good. To accelerate organic growth, you need to take it back to basics and consider what the best strategy and tactics are for your business - you can't just copy what others are doing.

We know it's not simple.

KPMG's Organic Growth Barometer highlights 2017's top performers across the CPG industry in terms of revenue growth, and presents our view on the strategies they've used to achieve strong growth.

We're passionate about helping you solve tomorrow's challenges by taking the right actions today. Whether this is bringing new ideas to life, ensuring digital is your lifeblood (not a department!), finding the right external partners, reinventing your customer experience (perhaps through your employee experience), or ensuring you've got in place the right plan with the right people, we're ready to help.

Together we can grow.

Linda Ellett
UK Head of Consumer Markets, KPMG in the UK

About the Organic Growth Barometer

The KPMG Organic Growth Barometer is a unique database. It compares the organic revenue growth of 49 of the largest consumer packaged goods companies listed on the US and European stock exchanges. The information is based on externally reported company data.

Organic revenue growth is defined as the percentage of year-on-year changes in revenue at a constant foreign exchange rate, excluding the impact of acquisitions and divestments. Only data for the 49 largest companies reporting organic growth in 2017 has been published.

Our previous edition, published in 2017, measured year-on-year changes in organic revenue growth from 2015 to 2016, on the basis of a five year compound annual growth rate (CAGR) from 2012 to 2016.

Our 2018 edition measures year-on-year changes in organic revenue growth from 2016 to 2017, on the basis of a five year compound annual growth rate (CAGR) from 2013 to 2017.

The KPMG Organic Growth Barometer enables CPG businesses to benchmark their performance against other companies in the industry and top-quartile performers. It also provides KPMG's insights on strategies for growth.

Growth trends in CPG

Key findings:

- Over the last financial year, the median annual growth rate has decreased from 3.0% in 2016, to 2.5% in 2017.
- The median compound annual growth rate (CAGR) has also decreased from 3.4% from 2012-2016, to 3.2% from 2013-2017.
- Companies that are achieving a CAGR of 4.1% or higher offer luxury, premium products across beauty, and food and beverage.
- The health and wellness trend is also driving innovative product offerings and experiences. Brands that cater to this demand are in the top quartile for growth.
- Internally, the leadership culture, business environment and ability to equate the employee experience with the customer experience tend to influence sales growth.
- Top-ranking companies also embed digitalisation into every part of their organisation, whether creating innovative consumer products and experiences, or transforming back-office functions.

Median growth

2013-2017 **3.2% pa**

2017 **2.5% pa**

- Median CAGR growth reduced to 3.2% (from 3.4% in 2016), based on 49 companies reporting 5 year organic growth.
- Median 2017 growth (YoY) has reduced to 2.5% in comparison to 2016 at 3.0%.

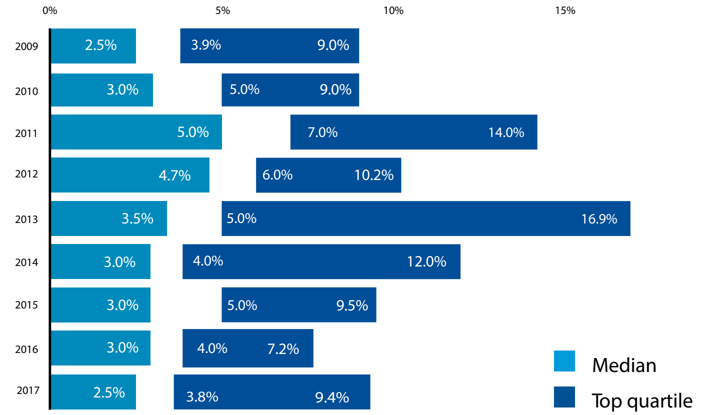
Revenue CAGR 2013-2017 and 2017 data

% pa growth	2013-2017	2016	2017
Top quartile threshold	**4.1**	**4.0**	**3.8**
Median	3.2	3.0	2.5
Lower quartile threshold	2.2	1.4	0.5
Highest growth company	**7.0**	**7.2**	**9.4**
Lowest growth company	**-1.3**	**-3.0**	**-5.0**

New entrant top performers

Short Form Name	2017 organic growth
1 Philip Morris International	**9.4%**
2 Constellation Brands	**9.0%**
3 Coca-Cola HBC	**5.9%**
4 Beiersdorf AG	**5.7%**
5 Anheuser Busch InBev	**5.1%**
6 Diageo plc	**4.3%**
7 Nomad Foods Limited	**3.9%**

Nine year upper quartile performance



Companies reporting higher than 3.8% organic growth in 2017:

Philip Morris International	9.4%
Constellation Brands	9.0%
The Estée Lauder Companies	6.7%
Davide Campari-Milano SpA	6.3%
Coca-Cola HBC	5.9%
Beiersdorf AG	5.7%
Rémy Cointreau SA	5.5%
AB InBev	5.1%
Heineken NV	5.0%
L'Oréal SA	4.8%
Diageo plc	4.3%
Nomad Foods Limited	3.9%

Companies demonstrating sustained top quartile performance 2016-2017:

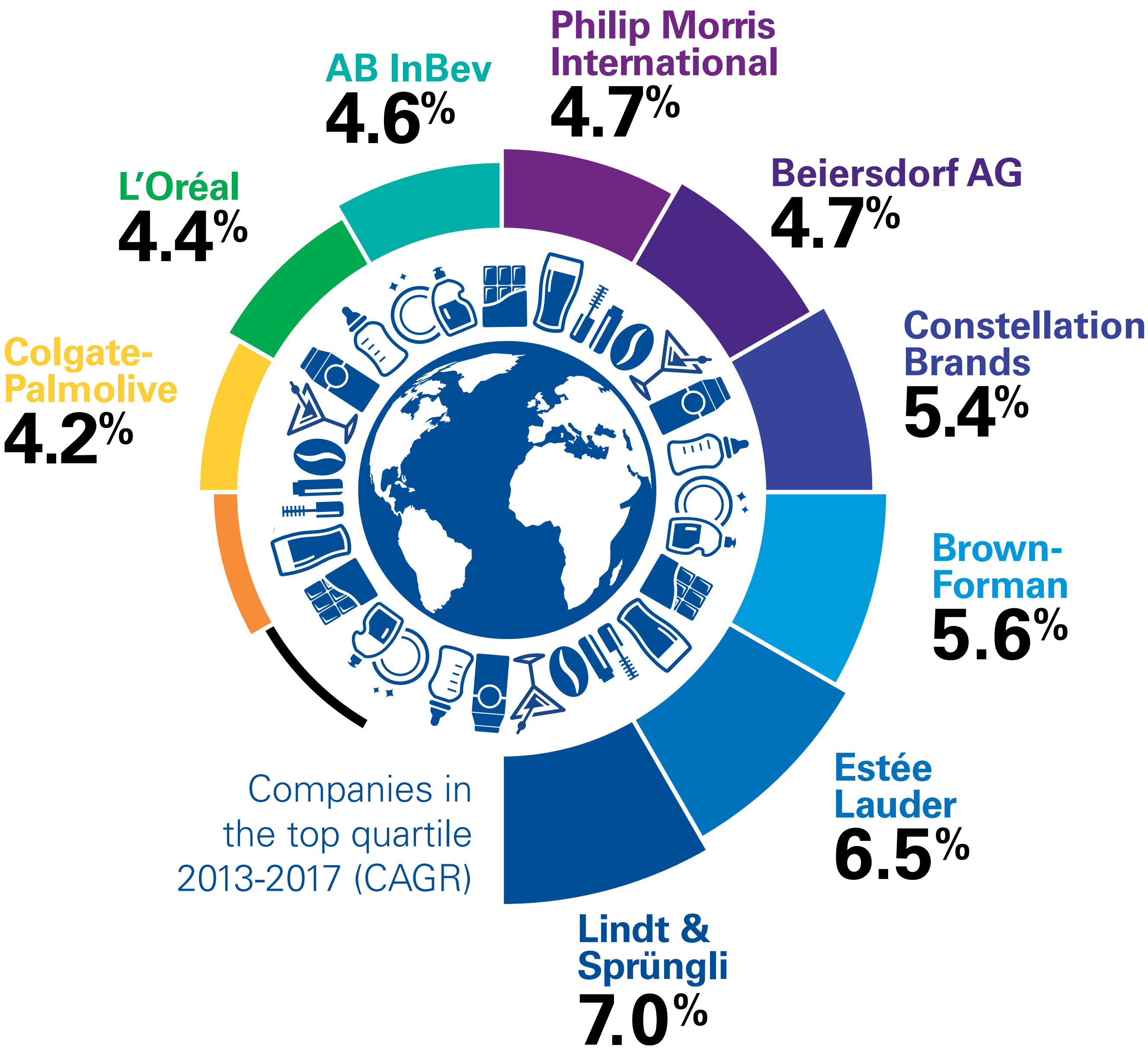
The Estée Lauder Companies

Davide Campari - Milano SpA

Rémy Cointreau

Heineken NV

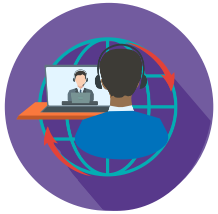
L'Oréal SA



Striving for growth? It's not simple

We know that organic growth is becoming harder for consumer packaged goods companies to achieve. But we're also optimistic that with the right focus, it's possible.

Our analysis highlights six potential focus areas for growth, as illustrated by 2017's top performers.



Integrating a clear digital strategy

Making innovative ideas a reality

Choosing the best alliances

Putting the customer first

Accessing the workforce of the future

Executing flawlessly

To grow, digital needs to be the lifeblood of your business, not a department on the side

Technology is disrupting today's business models and accidentally or intentionally creating tomorrow's. Digital transformation offers opportunities for every organisation that is prepared to think boldly and act confidently.

Many organisations have set up their digital garage, loft, space, or incubator, and some have spent hundreds of millions of pounds trying to transform their digital experience, both internally and for their customers. But how much of this is delivering bottom line value for the CPG industry? With 95% of UK CEOs seeing technological disruption as an opportunity rather than a threat[1], how can digital drive growth?

Within the consumer goods industry, digital is a crowded marketplace. It's difficult to capture the customer's attention, let alone keep it. Estée Lauder attributes continued strong growth over the last five-year period to their 'digital-first' approach where social media influencers, online beauty consultants and digital testing tools comprise a key part of their digital strategy[2]. Their internal teams mirror the way that their consumers play, by making 'digital' part of how they work, even developing new apps and tools to use internally that resemble the way they communicate with customers[3].

Coca-Cola is also on a mission to transform into a customer-centric and digitally-led brand. But this isn't just about changing digital experiences. They're using data, artificial intelligence and connected devices to help customers make decisions in a more effective way[4].

For companies to embrace a digital future, they need to get number crunching to make sense of the plethora of data collected day-on-day. The application of data and analytics shouldn't only apply to one segment of the organisation – it is critical to make sense of information across the whole business to gain insights, and empower every employee to make decisions based on these.

Brown-Forman are providing to their teams that 'one source of truth' aspired to by many organisations. Through their carefully developed analytics strategy and centre of excellence, they've used cloud technology to transform their marketing, finance, supply chain and operations functions, and ensure that these are all joined up[5].

Together we can transform who you are.

Embrace change and transform your business to implement new ways of working, exploit technology and deliver real-world advantage across your organisation. We'll help you navigate the digital trends of tomorrow, so it's a part of how you work today.

[1]https://home.kpmg.com/uk/en/home/insights/2018/05/uk-ceo-outlook-survey-2018.html [2]https://www.dfnionline.com/latest-news/estee-lauder-delivers-excellent-q3-results-boosted-travel-retail-online-asia-growth-02-05-2018/ [3]https://www.thestar.com/business/2018/02/05/estee-lauder-digital-tactics-are-paying-off.html [4]https://www.adweek.com/digital/coca-cola-is-embracing-ai-and-chatbots-in-preparation-for-a-digital-first-future/ [5]https://www.tableau.com/solutions/customer/brown-forman-maker-jack-daniels-scales-1000-users-month-subscription-pricing#paPSP76HbREhcE5y.99

To grow, you need new ideas

New product development is a tried and tested method for brands to keep existing customers and attract new ones. However, the favourite product of today, might be left on the shelf tomorrow. As customer preferences change, consumer goods companies have to adapt – and in this day and age, the speed of change is phenomenal. So how do companies keep up?

Consumers are starting to check the labels on everything, embodying the phrase 'you are what you eat' with food choices being as much about a personal life statement as nutrition. With healthy living climbing up the agenda, consumers are not only looking for a low-sugar, high-protein or 'clean eating' option, they're also expecting their consumable of choice to taste good and look cool too.

A larger number of people are also thinking twice about their alcohol consumption. 32% of Brits lowered their alcohol consumption during 2016-2017, with money (44%), weight management (41%) and improving overall health (39%) as the main drivers for a change in behaviour[6].

Although consumers are drinking less, they're looking for alternative options that some companies are delivering on. Therefore, it might not actually be surprising that many companies in the top quartile for growth specialise in alcoholic beverages. Take Heineken for example, achieving a growth rate of 5.0% in 2017. The continued robust growth of Radler, and the launch of Heineken 0.0 contributed to Europe's volume growth, and they're also innovatively thinking about how to deliver their beer to smaller outlets through 'The Blade'[7].

Millennial trends have a role to play too. Over the last decade, people have been spoiled by choice. Gin and tequila are high up on the millennial 'wish list', and Diageo have reaped the rewards of responding to these trends with an increased net sales of 16% in rosé gin and 43% in tequila – making them one of 2017's high growth performers[8].

Even with a shift towards a healthier way of living, there's still room to 'treat yourself'. Heineken's 'Craft & Variety' volume grew by double digits, supported by the strong performance of the international craft beers as well as local craft propositions. In particular, Affligem and Mort Subite in France, and Lagunitas both in the UK and US contributed to category growth[9]. The iconic Lindt bunnies were also hopping off the shelves and into shopper's baskets, showing that keeping it simple and consistently providing good quality products works.

Together we can think outside of the box.

Create the right product strategy backed by actionable consumer insights to act confidently and move from innovation to results. We'll help you keep ahead of the next big trends of tomorrow, and discover what will create growth for your business today.

[6]Attitudes towards low and non-alcohol drinks – February 2017 [MINTEL report] - http://reports.mintel.com/display/796249/# [7]https://globenewswire.com/news-release/2018/02/12/1338751/0/en/Heineken-N-V-reports-2017-full-year-results.html [8]https://www.beveragedaily.com/Article/2018/01/25/Gin-and-tequila-boost-Diageo-sales

To grow, you need partners

In the new economy, there are choices to be made. New approaches can deliver a competitive edge as 'rent and collaborate' replaces 'build and buy'. With technology moving at such speed, many companies aren't positioned to go it alone. Responding to informed (and somewhat demanding) consumers, means that CPG companies need to look outside of their business for capabilities that are key for growth. Whether that's partnering for innovation, manufacturing, or discovering alternative channels to market globally, it pays to make friends.

KPMG's UK CEO Outlook Survey found that UK CEOs focused more on third party relationships to support growth in comparison to their global peers (61% vs 53%)[10]. Both UK and global CEOs rank strategic alliances as the priority for their growth strategy.

Estée Lauder attribute their growth to 'travel-retail', maximising the opportunity that global corridors represent. An example is their partnership and campaign with a large duty free shopping company where they're stopping passenger traffic in busy global airports to increase brand awareness[11]. They're also looking outside of the consumer goods industry to discover hidden value. For example, they've announced a collaboration with Google to offer consumer services on Google Home[12].

L'Oréal is also adopting a similar approach, and have announced the renewal of their licence and signature agreement with Armani up until 2050. Both companies attribute their continued success and growth to their common synergies – having a focus on luxury and high professionalism[13]. This demonstrates that the right pairing can go a long way to achieving growth.

Constellation Brands, one of the highest performing companies in KPMG's Growth Barometer for 2017 with a growth rate of 9.0%, have also benefited from acquisitions – in particular, Svedka Vodka Blue Raspberry. Having acquired the brand over eleven years ago in 2007, it seems like Constellation Brands were already thinking about what would tickle the taste buds of their U.S. customers in years to come – and their acquisition strategy has helped to drive growth[14]. Although merger and acquisition (M&A) activity isn't a determinant of organic growth, organic growth may be enabled as a result of M&A activity in subsequent years.

As much as partners can add value, they don't need to be companions for life. Rémy Cointreau experienced a decline of 10.4% in organic sales due to the termination of some third-party distribution agreements, including Piper-Heidsieck and Charles Heidsieck champagnes[15]. The decision to part ways may not drive growth immediately, but with Rémy Cointreau remaining in the top 2017 performers and performing well across the five year period, it hasn't affected their ability to achieve growth.

Together we can find your perfect match.

Quickly find the right partners, alliances or start-ups, and when consumer preferences change, be prepared to break-up. We'll help you choose tomorrow's partner, or most likely partners, to grow together today.

[10]https://home.kpmg.com/uk/en/home/insights/2018/05/uk-ceo-outlook-survey-2018.html [11]https://www.dfnionline.com/latest-news/dfs-estee-lauder-collaborate-launch-chic-never-sleeps-campaign-23-05-2018/ [12]https://www.reuters.com/finance/stocks/EL/key-developments/article/3715633 [13]http://www.loreal-finance.com/eng/news-release/loreal-and-armani-renew-their-partnership-in-beauty-1248.htm [14]https://www.reuters.com/article/constellationbrands-svedka/update-1-constellation-brands-to-buy-svedka-vodka-idUSN0621470420070206 [15]https://www.businesswire.com/news/home/20180417006408/en/R%C3%A9my-Cointreau-%C2%A0201718-Annual-Sales

To grow, you need to know your ultimate customer, the consumer

Consumers have never had so much choice. Across beauty, food and beverage, and other CPG sectors, new products constantly appear on the market. Disruptive start-ups are also emerging to meet increasingly complex consumer demands at a faster pace. As the industry becomes more crowded, a number of large, well-established CPG companies are struggling. The battle for the customer's attention has grown fiercer, brand loyalty is fickle, and sales are slowing.

As trends shift and consumer preferences continue to evolve, the key determinant of success will be the speed and accuracy that CPG businesses can determine what products their customers want to buy, through which channels and for what price.

They must also understand how each of these differs across different customer segments.

Take Millennials for example. The factors that influence their spending habits are different from other generations. With limited discretionary spend, they opt for personalised experiences over physical products. But this is a challenging proposition for many CPG players to get right. 30% of UK CEOs across industries admit that they are not meeting customer expectations in this regard, and 44% report that their investments in creating personalised experiences have not delivered the growth that they had expected[16].

However, alcohol companies are ahead of the game. Top-performing brands like Brown-Forman have increased their sales by focusing on luxury, artisan products[17]. Diageo has implemented innovative technology such as virtual reality to offer consumers unique tasting experiences[18]. AB InBev also produces low, or no-alcohol options[19] to appeal to the health conscious consumer as the health and wellness trend grows stronger.

Consumers also seek instant gratification. Today, CPG companies are making it easier for them to 'see now, buy now'[20]. L'Oréal is using a direct-to-consumer operating model[21], and social media enables them to interact with customers directly. This provides another path to purchase through mobile devices, and increasingly through social media apps such as Instagram.

It also creates another touch point for companies to gather customer data and use predictive analytics to make re-targeted advertising and promotions more effective.

However, consumers are becoming more aware and discerning about how their personal data is being used for e-commerce. New regulation such as the revised General Data Protection Regulation (GDPR) grants them more control and privacy. If CPG companies mis-use their customers' personal data, it could create bad experiences for the consumer. This may destroy the relationship and trust they have with brands, leading to reputational damages and loss in company revenue. Therefore, to grow, CPG companies must understand what products consumers want, but they also need to show that they care about their customers' concerns and will safeguard their rights. Globally, 59% of CEOs now regard data protection as one of their most important responsibilities[22].

Together we can create memorable experiences for tomorrow's customer.

Use data and analytics the right way to understand your customer, and build emotional and engaging interactions. We'll help you become a truly customer-orientated organisation to drive business performance and growth.

[16,22]https://home.kpmg.com/uk/en/home/insights/2018/05/uk-ceo-outlook-survey-2018.html [17]http://www.timesfreepress.com/news/business/aroundregion/story/2017/aug/30/brown-formprofits-risehigher-jack-daniels-sal/446414/ [18]https://www.marketingweek.com/2017/11/22/interview-mark-sandys-diageo-global-head-of-beer/ [19]https://www.bloomberg.com/news/articles/2018-02-26/anheuser-busch-goes-after-whole-foods-set-with-organic-michelob [20]https://www.forbes.com/sites/gregpetro/2018/01/31/how-see-now-buy-now-is-rewiring-retail/#4df6f7552c0b [21]https://consumergoods.com/loreal-grows-direct-consumer-channel

To grow, you need the right people

For many CPG companies, the consumer has always come first – and still does today. As growth is harder to come by, companies need to ensure that they're innovating at a pace that can deliver new products, constantly adapting to the end customer's wants and needs. However, what happens when CPG companies focus as intently on their own employees? We know that developing new products, finding innovative routes to market, and creating unique and memorable customer experiences requires highly talented people.

So who's standing out when it comes to focusing on employees? The ambition to be the 'employer of choice' is not new to L'Oréal. Since before 2008, they've had employees at the heart of their business strategy. A consistent top-performer in the KPMG Organic Growth Barometer, L'Oréal has been recognised as one of the most reputable consumer goods companies to work for[23]. They attribute their sustainable growth to realising individual potential, promoting and retaining talent, and recognising the expertise required for the future[24].

It has become clear that there's strategic value in understanding the workforce of the future and nurturing a 'people-first' culture. The employee experience and the customer experience are becoming more intrinsically linked. As transparency enables consumers to see the inside of organisations, their brand becomes influenced, if not defined by the values and behaviours inside the organisation. But the nature of employees is changing, as the shift in life events and preferences mirrors that of the consumer. Employee engagement requires organisations to get a lot of factors right – and it's not simple. The environment, culture and purpose of a business are becoming harder to articulate, with internal communications, a clear development path and shared sense of purpose driving employee loyalty.

Unilever recognises that people identify with brands who align with their values – consumers and employees alike. Issues around gender diversity and inclusion in the workplace increasingly appear at the forefront of the media.

At Unilever, they report that 50.7% of their management positions in the UK and Ireland are filled by women. This helps with relating to the perspectives and demands of their customer base, 70% of whom are female. In addition, they have progressive and flexible working practices such as agile working, part-time working and job share opportunities believing that being an inclusive company is crucial in helping them grow their business[25].

Other CPG companies are catering to tomorrow's employee by focusing on empowerment and enablement, and adopting new approaches to measure performance. Diageo have implemented zero-based budgeting whereby all budget owners are given responsibility for scrutinising and justifying their costs. Marketers are also given advanced software to determine the value from every pound spent on marketing activity. These methods help employees track and demonstrate their performance and showcase how they've contributed to company growth[26].

Together we can build a workforce that carries you into the future.

Create meaningful experiences for your employees as you would customers. We'll help you empower and inspire your staff to excel and deliver real results for your company.

[23]https://targetjobs.co.uk/uk300/consumer-goods [24]https://www.loreal-finance.com/_docs/fichiers_contenu/0000000512/RH.pdf
[25]https://www.unilever.co.uk/about/who-we-are/diversity-and-inclusion/ [26]https://www.diageo.com/en/news-and-media/features/delivering-cultural-change-to-fuel-our-growth/

To grow, you need to execute flawlessly

Companies in the CPG sector are facing complex, macro-economic challenges. For decades, globalisation has fuelled growth for multinational industry players, facilitating their entry into emerging markets and widening their access to a strong talent pool and other resources.

However, today's geo-political landscape is changing shape. The global economy is fragmenting. 44% of UK CEOs (and 55% globally) see a return to 'territorialism' as their biggest threat to growth[27]. Electoral outcomes such as Brexit may impact international trade for many CPG organisations. They may also have US Tax Reform and international corridors to navigate.

With unpredictability coming from all angles, whether political, technological or customer driven, businesses need to be quick to respond. 79% of UK CEOs agree that they need to act with agility to survive, and this may require transformative action. Yet 51% lack confidence in their leadership team being fully equipped to oversee business transformation[28]. But why?

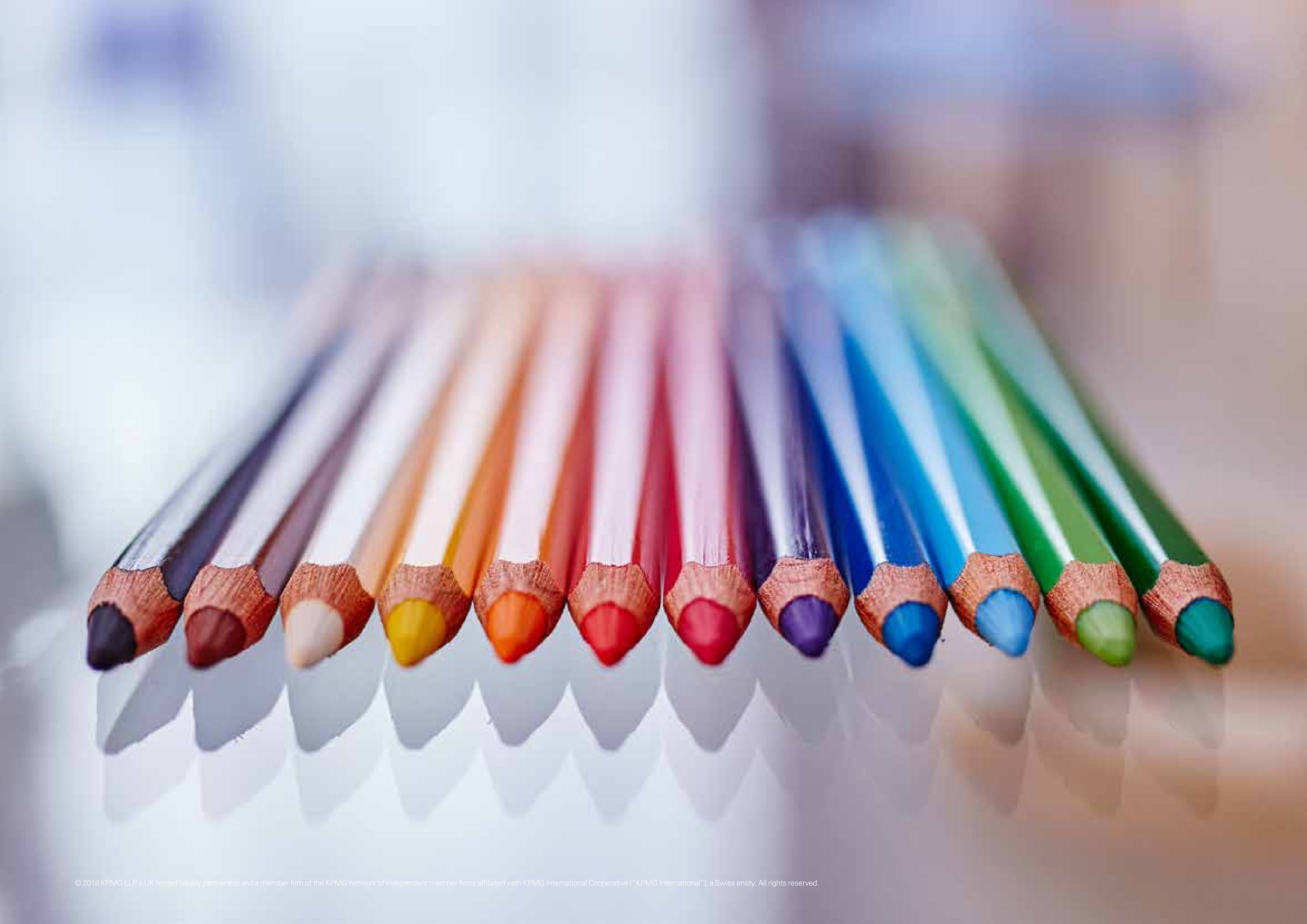
Large CPG companies may be encumbered by long-established ways of working and become resistant to change, whereas businesses that are currently flourishing in the sector exhibit an entrepreneurial mind set and culture throughout their organisation. This allows them to execute excellently, no matter what strategy they pursue. A good example of this is Beiersdorf AG. They are one of the top-performers for growth and consider flexibility as a key factor to success while encouraging their employees to think like entrepreneurs[29].

Beiersdorf's Chairman of the Board also highlights the importance of gaining clarity[30]. In multi-divisional companies, there may be several leaders with opposing views of their company strategy. Lack of a clear, consistent direction is problematic, leading to conflicting priorities and competition for resources which can have a negative impact on execution. To grow, executives need to align and agree on their vision, mission and goals, and implement the right strategies to achieve them. For example, Lindt & Sprüngli has demonstrated growth over a number of years by clearly outlining their commitments and strategic goals against material issues, and adopting a systematic approach to performance improvement[31].

Together we can execute your strategy seamlessly, no matter what road you're on.

Stay agile to respond to disruptive forces whilst remaining focused on your goals. We'll help you embed a winning leadership culture and mind set throughout your organisation, and minimise the misalignments to grow.

[27, 28]https://home.kpmg.com/uk/en/home/insights/2018/05/uk-ceo-outlook-survey-2018.html [29]https://www.beiersdorf.co.uk/about-us/our-profile/strategy
[31]https://www.beiersdorf.co.uk/about-us/our-profile/strategy [31]http://www.lindt-spruengli.com/sustainability/sustainability-governance/sustainability-strategy/



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