Recapturing Market Share From Small and Mid-Sized Brands

Charting a New Course for Large Consumer Goods Manufacturers

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Executive Summary

As large CPG manufacturers move into an omnichannel, digital era, **historic advantages for the largest CPG brands are fading.** The result: smaller, newer companies and brands have captured billions of dollars from bigger rivals. For category managers, brand strategists, and shopper marketers, this paper explores the root causes and impacts of today's small brand explosion on some of the world's best-known big CPG brands. It answers two important questions:

01

How are small brands taking advantage of the changing CPG landscape to take market share from larger competitors?

02

How can large CPG companies recapture share to avoid being "nibbled to death" by emerging small competitors?

Introduction: The Small Brand Explosion

After World War II, CPG companies found a proven formula for success: bigger is better. A rising middle class, synergistic relationships with mass retailing and mass media, and consolidation drove a predictable growth engine, as smaller brands struggled to find shelf space.

The digital age and the stagnation of the middle class in the US and Europe acted like an earthquake in the CPG industry, cracking the foundations of big brands' customer bases and routes to market. At the same time, they created space for smaller brands to rise to new prominence, while eroding the market share and profits of big brands that once seemed unshakeable.

Taking advantage of falling barriers to entry, **smaller challengers have arisen in every CPG category**, staking their claim to new niches and emerging markets. These brands have quickly established footholds with consumers, while giants struggle to respond in time to make an impact with new niches.

As the wakeup call becomes louder and louder for large CPG companies, with $15 billion in sales captured by small brands at the expense of larger ones between 2012 and 2017, the future of mega-brands is under threat. So far, acquisition and innovation strategies have shown only modest success.

How have small brands been able to keep growing and stealing share, even as the biggest companies struggle — and how can large CPG companies find their way back to using scale as a competitive advantage?

The New Consumer: A 3D Perspective

Today's consumers are a tough crowd, with rapidly evolving preferences and expectations. Consumers in the 20th century preferred consistency and trusted brand names — a pattern that promoted consolidation and contributed to the fast growth of national chain retailers and the largest CPG manufacturers.

Today, **big brands face a crisis in consumer perception**. Trust has been on a downward slide for a decade. The decline may even be accelerating: according to the Edelman Trust Barometer in 2018, only 48 percent of people said they trusted big brands, down from 58 percent just one year before.

Public opinion of big business remains low, and consumers show a stark contrast between their level of confidence in small businesses and big ones. According to Gallup polls, more than three times as many people have confidence in small businesses (70 percent) as large ones (21 percent).

The 3 Ds

Three key dimensions of differentiation separate today's consumer from those in earlier eras. Modern consumers are difficult for big brands to capture growth from because they are:

Demanding — For today's consumer, instant satisfaction isn't just preferred — it's increasingly mandatory. Fulfillment costs have soared 31 percent as consumer demand for free and same-day shipping has risen. While 80 percent of consumers are more likely to buy from companies offering personalized experiences, these efforts can backfire: 38 percent say they'll stop doing business with a company with "creepy" personalization.

Dynamic — Consumers today will have more jobs, make more impulsive buys online, and are more likely than ever to be on a specific diet. One day they're eating organic and buying all-natural beauty products, the next they've switched to keto and are on a quest for fair trade. Viral trends spread fast — but it's difficult for anyone to tell which micro-trends will expand over time and which will be flashes in the pan.

Digital — While ecommerce still only represents about 5 percent of total spend in the fast-moving consumer goods (FMCG) market, online sales have been the source of 40 percent of category growth. Consumers are also going digital in-store, with 82 percent of smartphone users consulting their phone before making buying decisions. Deloitte estimates that $.56 of every dollar spent in brick-and-mortar stores is influenced by a digital interaction.

Brand Spotlight: How Halo Top Conquered Ice Cream

Ice cream brand Halo Top was launched in 2012 with a range of "better for you" ice creams, a response to a rapidly-growing niche of consumers who preferred a sugar-free, high-protein product. It took less than five years of runaway growth for Halo Top's US sales to surpass Ben & Jerry's (Unilever) and Haagen-Dazs (Nestle).

After years of ignoring the new competitor and the carb-conscious ice cream consumer they were targeting, Unilever finally responded with Breyers Delights in 2017 and Ben & Jerry's Moophoria in 2018. However, these products were introduced so late that they have been unable to capture the hype or the brand loyalty that Halo Top's innovative offering inspired, even at a lower price point.

This new "3D" consumer has transformed the CPG market into a fast-flowing river, with microtrends forming ever-changing currents. Small and mid-sized brands that operate quickly and independently, and take more risks to exploit new niches, have hurried to take advantage of this new reality.

Across the CPG landscape, **large brands have had difficulty responding to the changing consumer landscape**. Forbes described Procter & Gamble as "clueless" after its CFO admitted he had been unable to fully identify reasons for changing consumer habits. Activist investor Nelson Peltz pinned the company's low growth on a highly-matrixed organizational structure, as well as fragmenting consumer preferences and an erosion of consumer trust in big brands.

Rebalancing Scale: Growth Models in the Age of Disruption

Large-scale CPGs enjoyed a range of advantages in the post-WWII era that persisted through the end of the 20th century. By building reliable, recognizable brands — and raising brand awareness via new forms of mass media — **bigger CPG companies not only outcompeted smaller rivals, they developed a model of value creation that became the gold standard** for generations, as outlined by McKinsey.

The largest brands took advantage of scale by building relationships with mass retailers, enabling rapidly-scaled distribution of new products and locking down preferred retail space to showcase their brand. Without similar access, smaller companies were stuck with whatever shelf space was left over after the biggest players had each taken a bite.

As market research techniques developed in the 20th century, bigger brands could test more products, analyze more data, and make more informed decisions on which developing niches to nurture. By playing hard to emerging niches — like the female smokers targeted by the iconic Virginia Slims "You've Come a Long Way, Baby" campaign — the biggest companies also created value as niche demographics gained economic power.

This value creation model was changed forever by the rise of digital technologies and the internet. Today's consumer still consumes mass media, but is also connected to a **distributed digital ecosystem of content creators and influencers**, with traditional advertising channels only a part of their consumption habits.

Digital technology also spelled the end of an era when simply commanding more and better store shelf space was enough to outcompete smaller brands. New marketing and distribution models, including direct-to-consumer sales and pop-up shops, have lower barriers to entry, and social media and influencer relationships can be developed with small, scrappy teams and limited budgets — and can be retooled quickly by agile young companies.

"For 900 food and beverage items added to storeshelves since 2013, 88% came from small- and medium-sized companies"

Small companies now also have the upper hand with new trends. "Trend acceleration" causes microniches to expand more quickly than ever before, and so far, the advantage belongs to small brands. Research on consumer preferences and changing niche markets is slow at most large companies, and responsiveness is stifled by layers of matrixed bureaucracy that delay research and increase reaction times. **Small brands are more likely to start out deeply connected to their target consumer,** and can access them directly in special-interest groups that allow them to receive instant feedback on new product development.

When small brands leverage less-established channels, it can also keep them in "stealth mode," hidden from larger competitors who are later blindsided by an upstart's rapid growth. McKinsey notes: "These brands can be hard to spot because they are often sold online or in channels not covered by the syndicated data that the industry has historically relied on heavily."

Retailers have spotted the consumer preference for a diverse array of small brands and responded accordingly, with **supermarkets dedicating more space to small brands** in spite of longstanding relationships with big CPG companies. According to Nielsen, “for 900 food and beverage items added to store shelves since 2013, 88% came from small- and medium-sized companies.”

Traditional Value Driver	Digital Evolution	Example Disruptors
Mass media marketing: Scale advantages to large brands making mass media buys via ad agencies, small companies unable to break through high cost barriers to entry	Fast-proliferating digital channels, including **influencer channels**, have more influence than mass media on younger consumers and difficult-to-reach niches	**Casper** doubled sales for its mattress-in-a-box product the day Kylie Jenner showed off a brand new Casper in an Instagram post about her recent move
Retail distribution advantages: High-quality, high-quantity shelf space in mass retail chains was easier for bigger brands to attain	Retailers, conscious of **novelty-seeking consumers**, now give additional shelf space to newcomers appealing to emerging niches	**Halo Top** started as a man making ice cream at home to sell to small grocers, quickly scaled to become larger than Haagen-Dazs and Ben & Jerry’s
Expansion capabilities: large brands have ability to build warehouse and distribution networks nationwide to stock retail faster	Digital native vertical brands (DNVBs) can build loyal customer bases with **streamlined, single-source distribution**	**Dollar Shave Club** grew fast with a direct-to-consumer business model marketed to price-conscious consumers, acquired by Unilever 4 years after founding for $1B
Market research investments: Bigger brands had more time and money to spend learning about consumer habits & preferences	Smaller brands can gain insight from **digital analytics and direct social interactions**, and can send new products to market faster to respond to customer data	**Chobani** dug deep into consumer habits to discover times of day with unique snacking needs, developing successful (and much-imitated) yogurt products like Chobani Flip
Supply cost efficiencies: buying raw ingredients in massive quantities, and managing relatively few very large manufacturing plants, provides economies of scale	In a market comprised of consumer microniches, the value of centralized manufacturing at scale is reduced	**Brandless** leverages a small selection of household and food products to eliminate choice paralysis for price- and environmentally-conscious buyers

So far, attempts by big companies to capture “small brand” style product innovation and connection to customers have proven difficult. Fundamentally, this is a problem of organization: most CPG companies are still organized with a centralized structure, brand managers work with global marketing and innovation teams, and the work gets passed down to regional, then national teams. Bigger brands have bigger voices than smaller ones in investment and prioritization decisions, making it more difficult for smaller brands under the larger umbrella to try new strategies and directions.

Tapping into small brand success as a big brand isn’t impossible — but it does require a **different way of thinking about the advantages of scale**. To recapture growth from small brands will require new approaches that center on achieving agility at scale.

Clearing the Rocky Path to Growth at Scale

The strategy of consolidating mass market brands to earn a greater share of shelf space in mass retail, creating supply chain and merchandising economies of scale, and realizing operational synergies, has reached its limits.

The levers that large CPGs have historically relied upon no longer provide the same advantages as before. It's time to look at scale differently. The digital era no longer props up value creation models based on a small number of mass media and mass retail channels — **but what if large consumer goods companies could have their cake and eat it too**?

Today, large companies trying to recapture growth from smaller brands have two main options: generate new ideas and innovation from external or internal sources.

When smaller competitors become a threat, **one traditional solution has always been an acquisition — if you can't beat them, buy them**. An M&A "feeding frenzy" has begun, and the trend shows no indication of slowing. According to some leading CPG consultants, larger brands have grown too cautious to drive real innovation, while smaller companies are willing to market unique products and take bigger risks.

Acquisition of smaller brands can lead to renewed innovation in markets where larger companies have stagnated, and almost every big CPG player has contributed to recent peaks in high in M&A activity in the sector, with deals totaling $145 billion in 2017.

So it's no surprise that Serta purchased Tuft & Needle to try to compete with digital native Casper, or that Unilever bought Dollar Shave Club. These acquisitions present a series of new challenges. **When a big CPG buys a successful growth brand, how do they keep it growing?**

In addition, how can the bigger buyer go even further, spreading the practices that led to a smaller competitor's growth to other parts of a large CPG company's business — instead of bringing corporate practices to the acquisition, possibly destroying the value of the acquisition?

The traditional logic of acquisition focuses on consolidation and cost synergies. **How can the biggest CPGs adopt a new approach that keeps the "small brand magic" alive — the magic that made the brand valuable in the first place**? Without a plan that takes these challenges into account, the acquired company's growth may be re-captured by another small competitor.

Brand Spotlight: When Acquisitions Fail

Bringing rapidly-growing new brands into the fold hasn't always worked as intended for prominent CPG companies. Campbell's Soup, struggling with reduced sales from center store products, purchased carrot grower Bolthouse Farms in 2012 for $1.55 billion an attempt to diversify its product assortment and better understand food categories outside of canned goods.

The acquisition ran into unexpected difficulties, due to Campbell's slow-moving, centralized business model responding poorly to the unique challenges of fresh food operations. After years of problems growing carrots, Campbell's finally sold Bolthouse for $510 million in 2019 — a loss of 67 percent in just seven years.

But acquisition isn't a magic bullet, and missteps caused by failing to understand or leverage a new brand's growth strategies can be extremely costly. Diana Sheehan, director of retail insights at Kantar Consulting, says: "After over a decade of CPG companies acquiring and assimilating brands, they have realized that a lot of times, that doesn't work. It's actually the uniqueness of how those innovative small brands operate that makes them so adaptive and so flexible."

To avoid killing the goose that lays the golden egg, **big companies must let smaller brands stay unique**. Maximizing ROI takes an extra step: centering a reciprocal learning approach that gives acquired brands easy access to accelerators for managing ecommerce, creative studios, and digital publishing, all while preserving what makes them unique — and empowering them to share their specialized expertise with the rest of the organization.

From Assimilation to Diversification: The Future of CPG

Now that "acquire and assimilate" strategies have given way to a desire for maximum flexibility and omnichannel diversity, large consumer products manufacturers are at a crossroads.

Deriving value from scale now depends not just on consolidation, but on agility. Tomorrow's market share winners and losers will be determined by who can reshape their consumer goods company to promote diverse innovation, shared knowledge, and cross-functional teams.

An agile company, according to McKinsey, is one that can "combine a stable backbone (clear structure, lean governance, and efficient core processes) with a dynamic front end consisting of small, cross-functional teams that are empowered to develop consumer-centric solutions quickly." However, in a 2016 survey of 18 large consumer companies, McKinsey was unable to identify even one company that qualified as agile.

Finding a path to agility can create a major competitive advantage for large CPG companies, allowing big brands to derive value and growth from their massive scale in totally new ways. New and emerging technologies are the key to achieving agility and out-competing small rivals.

When information can be accessed freely and reciprocally, based on fast-evolving business unit needs without the stagnation of old hierarchies, large consumer goods manufacturers can more effectively learn about the market and today's consumers from their new acquisitions. Agile CPG manufacturers can use modern automation and respond faster to new microtrends, getting new products on shelves during rapid trend growth, then pulling them back when fads fade. With the right software, teams and resources can be reallocated faster, empowering multichannel "speedboat" launches that keep the pace of innovation high.

Large consumer goods companies also collect more data and use more content — and can use modern tools to find the most effective campaigns for re-deployment and adaptation across multiple brands, regardless of whether they came from the biggest brand or region under their umbrella or the smallest.

With an agile approach, large CPG companies can address rapidly-changing consumer preferences by **nurturing a hundred unique brand flowers to bloom — all in a single greenhouse**. When ideas and teams cross-pollinate when it makes sense, and maintain uniqueness when it matters, innovation and growth can blossom once more for the world's largest CPG brands.

To learn more about how you can stay competitive as a big CPG company in an era of unprecedented small brand competition, go to nuxeo.com/rethinkingCPG