

**THE OC&C GLOBAL 50
2012**



FLEET OF FOOT?

OC&C's annual review of the Top 50 Global FMCG Companies



innocent
pure fruit smoothie
kiwis, apples
& limes

B&B

ESTÉE LAUDER
Re-Nutriv
Revitalizing Comfort Cream

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Global fmcg giants are losing out to smart smaller operators in emerging markets, according to the 10th Global 50 ranking. So...

Have the giants grown too big for their boots?

Rob Brown

The global giants of fmcg tower ever taller. The world's 50 biggest players' combined turnover has grown from \$675bn in 2002 to a staggering \$1.15 trillion, according to this year's Global 50, a study carried out exclusively for The Grocer by OC&C Strategy Consultants and now in its 10th year. That represents CAGR of 6.1%. Impressive stuff... until you delve deeper.

Despite a decade of consolidation and international expansion, the 50 biggest are being outpaced by smaller, nimbler rivals, which turned in CAGR of 7.3% over the same period. So why are they slower? Which of the giants are being outmanoeuvred? And which are keeping up with fleet-footed upstarts and how?

One of the most intriguing findings of the Global 50 is that profit margins declined, in particular, for the top 10. "This suggests that the world's largest fmcg companies may be struggling to keep control of such large businesses," says Will Hayllar, a partner at OC&C.

With growth in many of the Global 50's home markets hard to come by, there's been a rush to develop in the high-growth BRIC markets. But some have been more successful (and less complacent) than others.

The Global 50's share of fmcg sales in BRIC countries is just 26%. And it's going down. Agile local leaders turned in organic CAGR of 14.4% over the past four years (14.8%, with M&A) while the Global 50 achieved just 11.6% (13.5%, with M&A). It shows, once again, that size doesn't necessarily equal strength, says Hayllar. "You need a good network of local distributors to gain scale. There's a need for companies to adapt their proposition to suit local tastes. In places like China there are

already some pretty well established, large-scale local players to compete against."

Commentators point to companies like General Mills (26), Heinz (43) and, to an extent Reckitt Benckiser (27), as well as a host of players from troubled Japan (see p42) when it comes to identifying the laggards of the Global 50 in developing markets. "There's a big distinction between the US and the European guys," says one senior City source. "Fifty six per cent of Unilever's sales are from emerging markets, for Danone it's 51% and Nestlé is around 40%. Historically the US has always been a large enough market so generally US players have had lower emerging market exposure."

The challenges giants face in BRIC are writ large in China. Despite successes in personal and home care for P&G, in soft drinks for Coca-Cola and in beer for SABMiller and AB InBev, the Global 50 still only accounted for 17% of the total Chinese fmcg market in 2011. Their

lack of exposure was most conspicuous in dairy, snacks and processed food. Meanwhile, increasingly powerful local players account for 40% of overall sales there.

With large regional differences and a highly fragmented retail landscape (hypermarkets are less than 10% of outlets), the market is as varied as it is vast. Chinese tastes and needs are different: the flavoured milk/juice drinks of players like Mengniu and Yili have no real Western parallels; Chinese drinking yoghurts are worlds apart; even Chinese hair requires different shampoo, apparently.

By adapting offerings for BRIC, some have gained ground. P&G developed shampoos for China, helping it to become the country's third-largest fmcg player, ➔

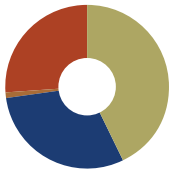
"In BRIC markets, you need a good network of local distributors to gain scale and you must adapt your proposition"

THE GLOBAL 50

RANK	CHANGE	COMPANY	COUNTRY	GROCERY SALES ¹		EBIT MARGIN ²		ROCE	
				In \$m in 2011	% Change	2011	2010	2011	2010
1	0	Nestlé	Switzerland	106935	-5	16	17	17	19
2	0	Procter & Gamble	US	82559	5	19	20	16	18
3	1	PepsiCo	US	66504	15	14	16	20	20
4	-1	Unilever	UK/Netherlands	64710	5	14	15	23	27
5	0	Kraft Foods	US	54365	10	12	12	11	9
6	1	Coca-Cola Company	US	46542	33	24	27	19	17
7	-1	AB Inbev	Belgium	39046	8	32	29	15	13
8	7	JBS	Brazil	35188	13	3	4	4	6
9	-1	Archer Daniels Midland	US	32731	16	4	5	12	13
10	15	Tyson Foods	US	31164	13	4	5	17	20
11	-2	Phillip Morris International	US	31097	14	43	41	70	55
12	-1	L'Oréal	France	28330	4	17	16	19	19
13	-3	Japan Tobacco	Japan	28313	-1	12	11	13	11
14	-1	Danone	France	26902	14	14	15	13	12
15	-3	British American Tobacco	UK	24703	3	35	33	29	25
16	-2	Heineken Holding	Netherlands	23845	6	14	14	13	12
17	0	Asahi Breweries	Japan	18128	-2	7	6	9	10
18	0	Kirin Breweries	Japan	17835	2	8	7	7	7
19	-3	Altria Group	US	16932	1	41	41	39	40
20	-1	Colgate-Palmolive	US	16734	8	23	23	53	56
21	0	Kimberly-Clark	US	15898	5	12	15	21	24
22	-2	Diageo	UK	15807	2	28	27	19	20
23	26	Brasil Foods	Brazil	15419	13	8	7	9	7
24	0	SAB Miller	UK	15145	7	29	26	14	12
25	-2	Johnson & Johnson	US	14883	2	20	28	17	24
26	-4	General Mills	US	14880	1	19	19	21	22
27	2	Reckitt Benckiser	UK	13993	13	25	25	29	27
28	-2	Kellogg Company	US	13198	6	15	16	25	25
29	-2	Dean Foods	US	13055	8	2	3	8	7
30	-2	Conagra	US	12303	2	11	10	17	15
31	3	Carlsberg	Denmark	11880	6	15	17	9	9
32	N/A	Marfrig Group	Brazil	11723	35	1	5	1	5
33	-3	Imperial Tobacco	UK	11630	3	17	17	15	14
34	N/A	Nippon Meat Packers	Japan	11575	4	3	3	7	6
35	-3	Kao	Japan	11563	-2	9	7	16	10
36	-5	Avon	US	11292	4	10	10	22	21
37	N/A	Smithfield Foods	USA	11132	9	8	-	18	1
38	-2	Royal Frieslandcampina	Netherlands	10898	5	4	5	13	14
39	6	Bunge Limited	Bermuda	10845	29	2	2	7	5
40	0	Grupo Bimbo	Mexico	10806	14	8	9	11	13
41	-2	Yamazaki Baking	Japan	10791	-	2	3	6	7
42	-5	Henkel	Germany	10727	2	12	11	15	14
43	-8	HJ Heinz	US	10707	2	15	14	21	23
44	-6	Pernod Ricard Sa	France	10424	8	24	24	10	8
45	N/A	Meiji Holdings	Japan	10297	-	2	2	4	5
46	-5	Ajinomoto	Japan	10106	3	4	4	6	6
47	-5	SCA	Sweden	9859	-2	8	8	9	8
48	-4	LVMH	France	9357	6	20	21	15	18
49	N/A	Danish Crown	Denmark	9018	13	4	5	12	12
50	-4	Estée Lauder Companies (The)	US	8810	13	13	10	29	25

Notes: ¹: Grocery sales exclude excise duty payments ²: Excluding major exceptional items (perimeter changes and litigations) – EBIT after earnings from associates and other exceptional items. Source: Annual reports, 10K, OC&C analysis

BRIC market share



● Others:	43%
● Local leaders:	30%
● Global 50 (local):	1%
● Global 50:	26%

Total BRIC market: €278.1bn

and Kraft's reformulation of Oreo in China (consumer research revealed that Chinese consumers prefer their biscuits significantly less sweet than the rest of the world) gave it a leg-up in the country's cookie market.

Others have bought into unfamiliar categories in order to grow in BRIC. Last year Nestlé bought a 60% stake in Chinese giant Yinlu, giving it access to the county's vast peanut milk market. PepsiCo's 2010 buy-out of Russia's Wimm-Bill-Dann was the group's first foray into dairy in any country. In one fell swoop it opened up a new category for growth, became Russia's biggest food group and gained access to a wide distribution network spanning the world's largest country.

While the eurozone crisis continues to dampen deal activity in Europe, M&A in emerging markets has stepped up in 2012 and will continue to grow. In May, with a point to prove, General Mills agreed to buy Brazilian food manufacturer Yoki for \$857m. And a month earlier Nestlé won a bidding war with Danone for Pfizer's infant nutrition business, forking out \$11.9bn, as much as 20% more than many analysts had expected the business to fetch.

"Nestlé is paying that kind of money because they can see the growth this gives them in China," says Manfredi Corsini, director of Global Financial Advisory at Rothschild. The deal boosts Nestlé's share of the Chinese infant milk market from 2.3% to 9.7% [Euromonitor]. As to Reckitt Benckiser, lacking emerging market exposure, "it had to do something about it, and bought Paras Pharmaceuticals in India in 2010. I'd say Reckitt perhaps has more catching up to do in personal and home care," Corsini adds.

Acquisitive newcomers

Meanwhile a new generation of players from emerging markets is looming larger. For the first time a Brazilian – meat giant JBS – has made it into the top 10 with revenues of \$35.2bn, up 14%. Fellow Brazilian meat supplier Marfrig turned in the highest growth of the year (33%) to \$11.7bn, through M&A and migrating into higher margin categories (see box). There's a host of Chinese players poised to break into the Global 50 in coming years, too. Dairy and soft drinks giant Wahaha – originally from Taiwan and now China's biggest fmcg player with 2010 revenues of \$8.1bn – is already big enough to make the table but is omitted due to a lack of an annual report. China's no2 player Tingyi comes in at 56 with 2011 revenues of \$7.9bn, up 17.7%.

After acquiring the Chinese distribution and bottling rights for Pepsi, Tingyi is set to become the first Chinese player to enter the Global 50 in 2012. And then some. "It will catapult them into the top 40," says Anthony Gent, associate partner at OC&C. "Pepsi has done a good



The leaders

Archer Daniels Midland (9)

● Revenue: \$80.7bn (+30.8%) Profits: \$3.0bn (+16.6%)

This oil and cereal crop processor has kept a close eye on operational efficiencies and management and invested £1.5bn in acquisitions, helping it to weather the commodities markets. So far it's snapped up Indian soya bean supplier Geepce Agri, Poland's Elstar Oils and the Golden Peanut Co in the US, to name a few.

Philip Morris International (11)

● Revenue: \$31.1bn (+13.1%) Profits: \$8.6bn (+14.6%)

Robust growth in leading brands (accounting for over 75% of sales) and product mix were key drivers of growth last year. Profits benefited from efficiency savings of more than \$250m. Global cigarette volumes climbed 1.7%, helped by Philip Morris's exploitation of the damage to JTI inflicted by the Japanese supply chain.

Estée Lauder (50)

● Revenue: \$8.8bn (+13.1%) Profits: \$0.7bn (+45.8%)

Margins were widened with a host of premium launches and efficiency savings that freed up \$199m. 2011 was a record year thanks to strong gains in the US and emerging markets, where its brands have cultivated enviable cachet. Recent acquisitions include LA-based Smashbox Cosmetics and luxury Italian brand Emenegildo Zegna, which will further strengthen Estée's standing in Asia.

Danish Crown (49)

● Revenue: \$9.1bn (+14.5%) Profit: \$0.3bn (+6.9%)

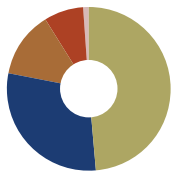
The acquisition of German slaughterhouse DC Fleisch accounts for about half of Danish Crown's revenue hike. The rest is explained by the introduction of higher-value products and continued growth in China, Russia and Japan. Prices realised in China rose over 30% last year. Margins were further widened by cost cutting.

Marfrig (32)

● Revenue: \$13.4bn (+37.8%) Profit: \$1.1bn (+20.0%)

Aggressive acquisitions, migration to higher-margin products and expansion at home and abroad characterise Marfrig, which has acquired around 40 companies, assets and brands in the past four years, including Keystone Foods in the US and Seara Alimentos. At home in Brazil, Marfrig launched no fewer than 77 Seara brand products, including burgers, breaded meat and ready meals in 2011.

Global 50 BRIC revenue share



● Beauty & home care:	48.8%
● Soft drinks:	29.5%
● Dairy:	13.0%
● Bakery/snacks:	7.6%
● Dried processed food:	1.1%

job of building a strong brand position in China with youthful Chinese who associate it with celebrity. It's got a great position but its distribution isn't always good. Now Tingyi can plug it into its existing distribution."

Other Asian players are looking to follow the acquisition trail into the global major league. These include Thai groups like CP Foods, rumoured in May to be eyeing Birds Eye owner Igloo, John West's new owner Thai Union and China's Bright Food, which snapped up 60% of Weetabix in a deal that valued it at £1.2bn. "This is a classic example of a company that's reached a high profile in China and is now looking for brands that could do well on home turf," says Corsini, who was involved in the deal. "Therefore they were not afraid of paying a high multiple, which the developed market might think looks aggressive. For them this is more about importing a brand and making it successful in China."

African opportunities

There is another area of opportunity for the Global 50 outside BRIC. In many parts of Africa per capita consumption and economic growth matches or exceeds that of China, yet the markets lack the kind of well-established regional players of BRIC. However – save for brewers like Diageo and SABMiller, which have long-established operations in Africa – the market is still relatively untapped. Just 15 of the Global 50 have material African interests outside South Africa, according to OC&C, although things are changing: Nestlé plans to invest CHF1bn (£660m) in Africa this year, in December L'Oréal opened a new Kenyan subsidiary and just last month Danone took a controlling stake in Morocco's biggest dairy player Centrale Laitière.

More African activity is on the cards. "Players are able to introduce products and product categories that didn't really exist in Africa previously," says Hayllar. "Household and personal care products are particularly interesting. Moving in the with the right products and right strategy will be important as people begin to afford detergent and tooth paste and things like that."

As Africa grows, so do the opportunities for companies based in relatively affluent South Africa. Chief among them is Tiger Brands, which turned over \$2.4bn last year (up 5.8%) after making a series of acquisitions. Just as Taiwan's Tingyi and Wahaha capitalised on the huge growth on their doorstep to dominate the Chinese market, Tiger is aiming to derive 20% of its medium-term growth from Africa in coming years.

The lure of markets like this will continue to grow as organic growth becomes harder to come by in the developed markets of Europe, the US and Japan. Since hitting a peak of 17.6% in 2007, the Global 50's operating profit margins have steadily declined to 15.8% in 2011, ↻



The laggards

General Mills (26)

● Revenue: \$14.8bn (+1%) Profits: \$2.9bn (+6%)

Plenty of eggs, too few baskets. With limited presence in high-growth markets, GM relies on its home market of the US (78% of retail sales). Baking Products, Pillsbury USA and Big G cereals fell between 2% and 4% last year. A lack of innovation, weakening demand and deflation in cereals add to the troubles.

Asahi (17)

● Revenue: \$18.1bn (-2%) Profits: \$1.0bn (+4%)

It's no coincidence that three of this year's laggards are Japanese. The domestic market faces deflation, a declining population and low consumer confidence – exacerbated by last March's earthquake. Minor acquisitions in Malaysia and Australasia did not offset declining domestic volumes – 93% of Asahi's business.

Kao (35)

● Revenue: \$11.5bn (-2%) Profits: \$1.1bn (+31%)

The strong yen is also kicking the Japanese. Kao's EU and North American sales rose last year but currency effects dampened these to declines of 3.2% and 5.7%. In Japan – 77% of Kao's business – production shut in some quake-hit areas. And onlookers suggest Molton Brown, bought in 2005, hasn't met expectations.

Japan Tobacco (13)

● Revenue: \$28.3 (-1%) Profits: \$2.9bn (+6%)

Domestic volumes were hit hard when the Japanese government ramped up tax on cigarettes in October 2010. Then came the quake, which disrupted JTI's supply and gave rival Philip Morris a chance to steal share. Meanwhile a 2% hike in international tobacco sales (59% of JTI's tobacco business) was turned into a loss by the negative impact of the strong yen.

Avon Cosmetics (36)

● Revenue: \$11.3bn (+4%) Profits: \$1.0bn (+4%)

Avon's crawling. Only 1% of last year's growth was organic. Ignoring currency effects, fashion sales slid 3%. Home sales were down 2%. Its direct selling model is fast becoming an anachronism, even in emerging markets where the fashion boutique culture is starting to thrive. Sales declined 20% in China and a lack of representatives in North America, Asia and Europe is taking its toll.

reflecting escalating costs, dampened consumer spending and increased competition in developed markets. “Many of the brands have had to promote more heavily to compete with value brands or private labels,” says Hayllar. “They’ve accepted some margin erosion to keep people loyal to their brands. If you look at P&G and Unilever, they have been more aggressive in promotions and P&G has been focusing on cost savings and investing those savings back into advertising. They are turning up the heat on each other. Where you only have a couple of large competitors in a market you have a recipe for that kind of dynamic.”

Examples abound. In Europe Coca-Cola’s Innocent juice brand extension is going head-to-head with PepsiCo’s Tropicana and private label offerings. “They’ve been promoting aggressively to try and build scale in a category they haven’t previously been present in,” says Hayllar. And it seems to be working. With a little help from new carafe-style packaging, Innocent Juice is now worth more than £34m in the UK [Symphony IRI 52 w/e 21 Jan 2012].

So-called ‘golden eggs’ – innovative start-up brands like Innocent that can create entirely new categories

“It’s not that the power brand strategy is inherently wrong but it does reach a point where you can struggle to get the growth you want”

and deliver astounding growth (see box) – are a key way of kickstarting growth in the often sluggish West. OC&C suggests the fall in average deal value of Global 50 acquisitions, from \$775m in 2006 to \$268m last year, illustrates a growing appetite for smaller acquisition targets among the giants.

In their sights are brands with high growth but relatively low turnover, like Ella’s Kitchen, Dormen, Salty Dog and Genius. The incentives are clear. While organic revenue growth was healthy last year at 6%, up from 3.8% in 2010, the surge in growth is explained by commodity-driven price inflation being passed through to consumers, while deal value was at a nine-year low of \$25bn. “The deal slowdown could be a consequence of focusing on a fewer number of core brands,” says Hayllar, “but it has its limitations. It’s not that the power brand strategy is inherently wrong. But it does potentially reach a point where you can struggle to get the growth you want without buying brands you are able to build into the billion dollar brands of tomorrow or without new markets to achieve that critical mass.” ●



The Global 50 is compiled by OC&C, a consultancy offering strategic advice to top management on the most complex issues in fmcg. To find out more about the Global 50 study contact OC&C on 020 7010 8000.

Our ‘Golden Eggs’ – high growth strategic additions



Innocent

● **Coca-Cola upped its stake in Innocent from 18% to 58% in 2010 in a deal estimated to be worth £75m**

Though the smoothie/juice business still operates separately, in upping its stake Coke has a new weapon to fight rival PepsiCo. Instead of continuing its extension of the brand into food, Innocent was persuaded to try its luck again in the juice market. With new packaging, the apple and OJ has been stripping sales from Pepsi’s Tropicana and own-label juice offerings across Europe. Its penetration, up from 10% to 25% in the UK, has been at the expense of margins: losses at Fresh Trading, Innocent’s parent company, widened 54% to £9.8m, due also to European expansion. But the benefits of the tie-up are clear: Coke gets huge growth in a developed market; Innocent, the backing of the world’s sixth largest fmcg giant.



Sanex

● **Colgate-Palmolive bought Sanex for \$940m after Unilever was forced to sell for competition reasons**

Sanex created the skin health category back in the 1980s, focusing on soap-free body washes and alcohol-free deodorants. In 2010 sales were \$265m, predominantly from Western European markets such as France and Spain. There’s further growth to be had in Europe, but commentators suggest the new frontier for Sanex will be in high-growth Asia. “Sanex will give growth in established markets without the need for heavy above the line investment,” says one City source. “It will also transfer well to Asia.” Unilever, which picked up the brand as part of its acquisition of Sara Lee’s personal care business back in 2010 for £1.17bn, will likely be ruing its loss. Sanex is a clear competitor to Unilever’s Dove brand



Cadum

● **L’Oréal bought 112-year-old French baby care brand Cadum – for €200m in April**

Commentators suggest Cadum could be, for L’Oreal, another Kiehl’s – the US beauty brand bought for a snip in 2000 and transformed into a \$1bn brand within a decade. The French beauty giant’s latest bolt-on acquisition realised 2011 sales of €58m. But L’Oreal has much bigger plans for this well-known and distinctive heritage brand – in France, at least, where it runs the Cadum Baby of the Year competition. Commentators suggest Cadum could be applied to other Southern European markets, as well as realising more growth domestically. “They will definitely be looking to scale it up in Europe after paying what they did for it,” says one city source. “Everybody talks about emerging markets, but here you have a brand that offers growth in Europe.”

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