THE FMCG GLOBAL 50 2023

GRIT AND GUTS

Unearthing ways to win in a new world

OC&C Strategy consultants

uncommon sense™

The OC&C *Global 50 2023*

THE OC&C GLOBAL 50, PRODUCED IN CONJUNCTION WITH THE GROCER, TRACKS THE PERFORMANCE OF THE WORLD'S 50 LARGEST CONSUMER GOODS BUSINESSES. WE PROVIDE AN ANALYSIS OF THEIR MOST RECENT ANNUAL ACCOUNTS, CONTEXTUALISING THIS IN GLOBAL INDUSTRY THEMES.

In our latest edition, we unpick the trends behind the numbers in the 2022 rankings, shine a spotlight on star performers and assess what these businesses need to do to stay ahead of the curve in this ever-changing economic climate.

What we cover in this report...

- THE GLOBAL 50 LEADERBOARD – WHO'S IN AND WHO'S OUT
- THE EMERGING SUB-SECTOR THAT'S THRIVING
- STAR PERFORMERS
- HOW BRANDS WILL OBTAIN THE NEXT WAVE OF GROWTH
- 5 KEY QUESTIONS EVERY FMCG BUSINESS SHOULD ASK

DESPITE INFLATION SOARING TO RECORD HIGHS IN 2022 IN THE AFTERMATH OF THE PANDEMIC, THE GLOBAL 50 EMERGED ON THE OTHER SIDE WITH RECORD REVENUE GROWTH AND RESILIENT SHARE PRICES.

They weathered the storm better than most, outperforming the wider market, but will need to be cautious, and strategic, in their attempts to recover margin and continue growing now the transition to input cost deflation has begun.

As the dust starts to settle on a period that will be remembered for tumultuous and irrevocable change, there will need to be a shift in focus to longer-term strategy. Brands have to carefully consider where the next wave of growth will come from once no longer supported by price.

Despite inflation soaring to record highs in 2022 in the aftermath of the pandemic, the Global 50 emerged on the other side with record revenue growth and resilient share prices.

Overall ranking 2022

Global 50 list

RANK	CHANGE 2022/21[1]		COMPANY	COUNTRY	GROCERY SALES IN MILLION US$ IN 2022[2]	GROCERY SALES % CHANGE IN LOCAL CURRENCY SALES '22 VS '21[3]
1	-	→	Nestlé AG	Switzerland	98,873	8.4%
2	-	→	Pepsico	US	86,392	8.7%
3	-	→	Procter & Gamble	US	79,443	5.0%
4	-	→	JBS	US	71,735	6.8%
5	-	→	Unilever	UK/Netherlands	63,168	14.5%
6	-	→	AB InBev	Belgium	57,786	6.4%
7	-	→	Tyson Foods	US	53,282	13.2%
8	-	→	Coca-Cola Company (The)	US	43,004	11.3%
9	-	→	L'Oreal	France	40,232	18.5%
10	-	→	British American Tobacco P.L.C	UK	34,100	7.7%
11	-	→	Phillip Moris International	US	31,762	1.1%
12	-	→	Wilmar	Singapore	31,520	8.8%
13	-	→	Mondelēz	US	31,496	9.7%
14	2	↑	Heineken Holding	Netherlands	30,199	30.9%
15	-1	↓	Danone	France	29,086	13.9%
16	-1	↓	Kraft Heinz	US	26,485	1.7%
17	-	→	WH Group	China	26,356	2.2%
18	12	↑	Marfrig Group	Brazil	25,292	53.0%
19	-	→	Altria Group	US	20,648	-2.0%
20	-	→	Suntory	Japan	20,226	16.3%
21	-3	↓	Japan Tobacco	Japan	20,219	14.3%
22	5	↑	Grupo Bimbo	Mexico	19,828	17.7%
23	-2	↓	Asahi Breweries	Japan	19,036	14.2%
24	-1	↓	General Mills	US	18,993	4.8%
25	-1	↓	Diageo	UK	18,986	21.1%

1. Ranking changed as compared to the revised ranking in 2021 based on latest results reported in 2022
2. Grocery sales excluding excise duty payments. Currency exchange rate is based on the average exchange rate in 2022
3. Percentage change excludes excise duty payment

Source: Annual reports, 10K, OC&C analysis

RANK	CHANGE 2022/21[1]		COMPANY	COUNTRY	GROCERY SALES IN MILLION US$ IN 2022[2]	GROCERY SALES % CHANGE IN LOCAL CURRENCY SALES '22 VS '21[3]
26	–	→	Yili Group	China	17,983	11.7%
27	-2	↓	Colgate Palmolive	US	17,967	3.1%
28	-6	↓	Reckitt Benckiser	UK	17,821	9.2%
29	-	→	Estée Lauder Companies (The)	US	17,688	9.4%
30	-2	↓	Kimberly-Clark	US	16,919	3.4%
31	2	↑	Kweichow Moutai	China	16,249	16.3%
32	–	→	LVMH	France	15,585	17.8%
33	1	↑	Kellogg Company	US	15,315	8.0%
34	-3	NEW	Kenvue **NEW ENTITY**	US	14,950	-0.7%
35	1	↑	Essity*	Sweden	14,398	28.8%
36	2	↑	Dr Pepper Snapple Group	US	14,057	10.8%
37	-2	↓	Mengniu Dairy	China	13,744	5.1%
38	-1	NEW	Haleon **NEW ENTITY**	UK	13,388	13.8%
39	1	↑	Royal FrieslandCampina	Germany	12,562	21.5%
40	1	↑	Hormel Foods	US	12,459	9.4%
41	2	↑	Arla Foods A.M.B.A	Denmark	11,893	18.8%
42	-3	↓	Henkel	Germany	11,730	7.0%
43	-1	↓	Tingyi	China	11,573	6.4%
44	–	→	Conagra	US	11,536	3.1%
45	2	↑	Pernod Ricard SA	France	11,252	21.3%
46	3	↑	Molson Coors Brewing Company	US	10,701	4.1%
47	9	↑	Hershey's **NEW ENTRANT**	US	10,419	16.1%
48	-3	↓	Carlsberg	Denmark	9,929	5.4%
49	6	↑	Wuliangye Yibin **NEW ENTRANT**	China	9,695	11.8%
50	3	↑	Saputo Group **NEW ENTRANT**	Canada	9,254	3.3%

*Originally called SCA before 2017

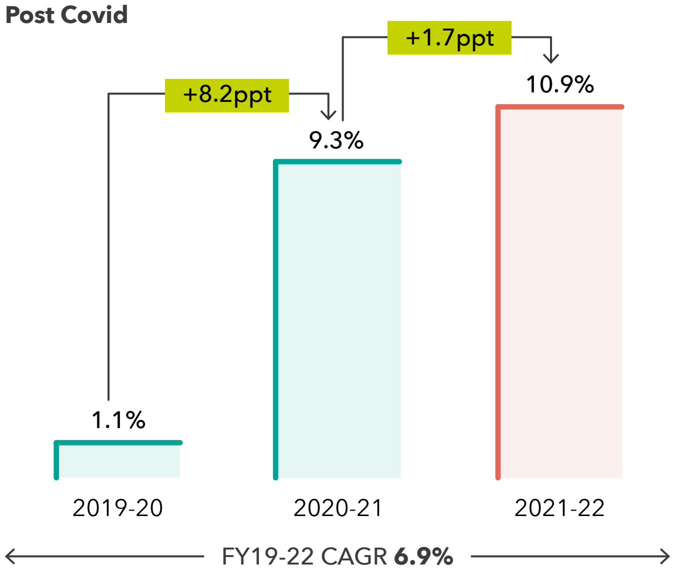
2022: *record revenue growth*

FOR THE SECOND YEAR IN A ROW, THE GLOBAL 50 ACHIEVED DECADE HIGH REVENUE GROWTH.

All but one of these businesses grew between 2021-22.

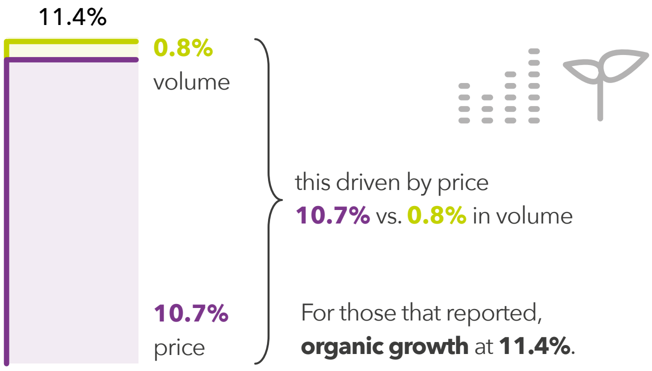
This growth was, unsurprisingly, driven by price. However, volume elasticities in response were less than feared, demonstrating the resilience of the sector. Those that report price and volume impressively achieved continued volume growth despite average price increases of c.11%.

As consumers became squeezed, Private Label gained share overall. However, this was not consistent across categories or countries – in many segments the Global 50's leading brands continued to successfully win share.



KEY STATS:

ORGANIC GROWTH

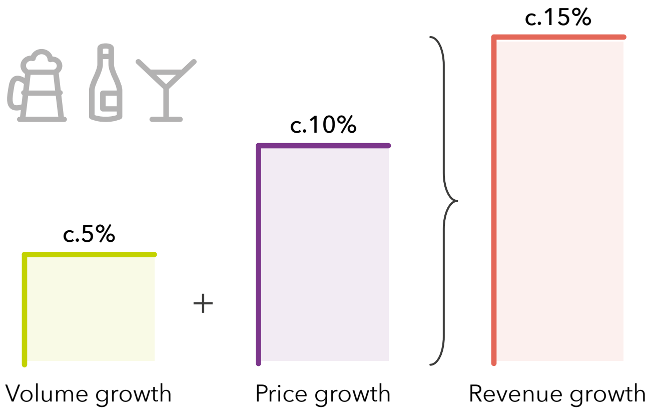


EBIT GROWTH

34

34 of the Global 50 saw absolute **EBIT growth** 2021-22.

STAR SUB-SECTOR: BEER & SPIRITS



Beer and spirits: the prolonged bounce back from the pandemic helped drive **c.5% volume growth** despite **c.10% price growth**, leading to a staggering **c.15% revenue growth**. However, this has already slowed in 2023 as the covid positive bump plays out.

STRONG REVENUE GROWTH FAILS TO TELL THE FULL STORY: 2022 WAS A CHALLENGING YEAR.

Soaring input costs still put pressure on margins, in spite of the record price increases. Global 50 EBIT margins were at their lowest level in the last 5 years in 2022, and only 17 of the Global 50 successfully grew both revenue and margin.

Operating cost cutting programmes – predominantly reductions in marketing spend – helped mitigate some, but not all, this impact.

Strong revenue growth was enough to drive total absolute EBIT growth of the Global 50 by c.4%, although this profit is, of course, worth less in the context of inflation.

However, the relative resilience of the industry was recognised by investors – Global 50 share prices, specifically in Tobacco and Food & Drink, outperformed the majority of sectors, with a 1% decrease in share price, compared to a 39% fall in the technology sector and 38% in automobile.

Global 50 EBIT margins were at their lowest level in the last 5 years in 2022, and only 17 of the Global 50 successfully grew both revenue and margin.

Source: Google Finance, OC&C analysis

75% of the Global 50 **reduced marketing** as a percentage of revenue

c.50% of the Global 50 have **reduced their absolute marketing spend**

New *entrants*

FOR THE FIRST TIME, 'CONSUMER HEALTH' PURE PLAYS HAVE BEEN INTRODUCED TO THE GLOBAL 50.

Haleon and Kenvue, spun-out of GSK and J&J respectively, have been added to the mix. These players benefit from attractive market tailwinds and now have strategic focus and clarity, and a mandate to invest behind value creation levers relevant to their categories (compared to the value creation levers of their former pharma parents).

Strong growth from Hersheys, Wuliangye and Saputo has also brought them into the Global 50 2022 rankings

The notable changes to the ranking list this year, particularly its new entrants, demonstrates that there is still opportunity to grow with an adaptable strategy that swiftly caters to change.

Star *performers*

> *"Our star performers are those that have continued to pursue and shape their longer-run strategies – including activities to drive premiumisation through NPD and marketing, and inorganic activity to pivot portfolios towards areas of growth"*
>
> CLAIRE DANNATT, PARTNER

HALEON

Haleon was spun out of GSK in 2022 and has benefitted from strategic and operational focus this has afforded them.

The company delivered 13.8% sales growth in 2022, driven by market tailwinds particularly in their respiratory health business, successful product development and growth in eCommece sales

They also achieved **1.1ppt margin improvement** through the realisation of synergies from the merger with Pfizer's consumer health business and a range of cost management initiatives.

MOUTAI

Moutai growth was driven by investment in DTC channels, and in a new Moutai app in particular (**direct sales grew c.105% in 2022**).

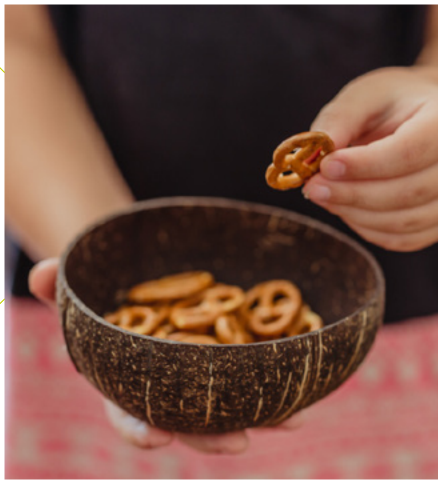
In March 2022, the company launched the **'I Moutai' app** which allows them to sell Moutai baijiu at attractive prices (i.e. without large wholesale mark-ups), proving popular with customers. The app has also helped the brand expand into new customer segments, particularly younger generations.

HERSHEY'S

Hershey's **16.1% growth** saw the company climb 9 places to enter the Global 50 for the first time.

The business successfully grew volume despite significant price rises in its North America Confectionary business, as consumer willingness to spend on 'treats' remained buoyant.

Growth was also supported by its 2021 acquisitions into the fast growth salty snacks category (Dot's Pretzels and Pretzel Inc.). Hershey's achieved **21% revenue growth in the North America Salty Snacks category**.



LVMH

LVHM successfully capitalised on strong post-Covid market tailwinds for luxury, perfumes & cosmetics and wines & spirits.

Their perfumes & cosmetics business saw strong growth in the US and Japan in particular as they successfully captured rebounding consumer spend through new product launches across key brands

In Wines and Spirits, strong underlying tailwinds combined with creative brand and marketing campaigns and targeted geographical expansion helped the business **grow 24% in Champagne and Wines** and **14% in Cognac & Spirits**.

DIAGEO

Diageo's strong global portfolio of brands across BWS sub-categories allowed them to capitalise on post-Covid market recovery across different geographies and channels.

Amongst other things, the business benefited from **strong growth in spirits** in North America as the on-trade channel recovered, growth in beer in Europe driven by the strength of the Guiness brand, and recovery of the travel retail channel in Asia and the Middle East.

Looking ahead: *A tale of (cautious) optimism*

HISTORY TELLS US THAT AS WE TRANSITION TO A PERIOD OF INPUT COST DEFLATION THERE WILL BE OPPORTUNITIES FOR THE GLOBAL 50 TO RECOVER MARGIN.

This is never a straightforward task. Brands must tread carefully: category dynamics have shifted, consumers are still squeezed, and retailers will prioritise passing on lower prices or protecting margin for themselves.

To maximise the opportunity, the Global 50 will need to:

- Refresh their understanding of consumers and categories which have likely been warped by recent turmoil
- Use this to identify their portfolio, range and pricing strategy needs to evolve and what levers are available to protect and grow margin
- Make the sell-in to retailers compelling, centred on how these levers will create value for both sides

Time for a re-think

Given the tumultuous times of the last 3 years, consumer preferences and behaviours have rapidly shifted.

With category norms being challenged during and after the pandemic, and the interface between suppliers and retailers evolving, **the Global 50 will need to build a refreshed view of these dynamics**.

Brands must understand where category architectures have fallen out of shape, how elasticities have changed and the role their products play in this 'new normal'.

> *Brands must understand where category architectures have fallen out of shape, how elasticities have changed and the role their products play in this 'new normal'.*

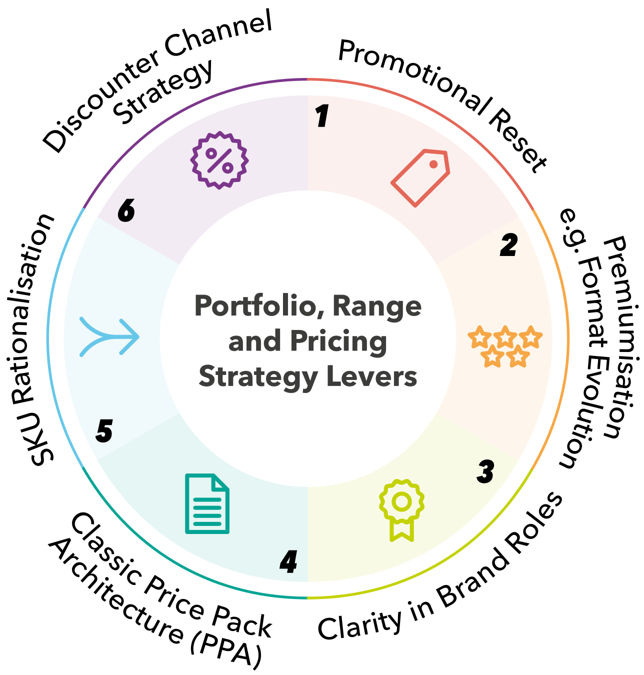
Routes to *margin recovery*

ONCE BRANDS HAVE CLARITY ON HOW THEIR CATEGORIES, CONSUMERS AND ECONOMICS HAVE EVOLVED OVER THE LAST 3 YEARS, THEY WILL NEED TO IDENTIFY HOW THEIR PORTFOLIO, RANGE AND PRICING STRATEGY NEEDS TO EVOLVE AND WHAT LEVERS WILL BEST HELP RECOVER MARGIN.

There are a range of levers available and examples of members of the Global 50 successfully pulling them to recover margin in the past.

This time around, the right mix will depend on specific brands' market positions as well as category and consumer characteristics.

Selected Portfolio, Range and Pricing Strategy Levers for CG Players



The right mix will depend on specific brands' market positions as well as category and consumer characteristics.

Refocussing on the *long term*

As businesses begin to look beyond the turmoil of the last 3 years there is an imperative to refocus on longer-term strategy. They will need to identify where the next wave of growth will come from and how business models will need to evolve to ensure they remain relevant in a rapidly evolving environment.

In 2022, we saw examples of the Global 50 starting to reshape portfolios and business models for future success across 3 key areas. However, more work is required.

AI

ESG

M&A

As businesses begin to look beyond the turmoil of the last 3 years there is an imperative to refocus on longer-term strategy.

Excitement or alarm:
The AI question

AS WE ALL KNOW, GEN AI HAS THE POTENTIAL TO TRANSFORM THE WAY WE DO BUSINESS – PRESENTING SERIOUS THREATS AS WELL AS SIGNIFICANT OPPORTUNITIES FOR THE GLOBAL 50.

Conversations around AI are well underway within the Global 50. However, stated adoption of the technology is limited predominantly to ‘narrow AI’ applications – primarily to drive supply chain efficiency and deepen consumer insights. Reported use cases of Gen AI models are rare.

There are potential applications for Gen AI across the value chain, not least in category and consumer insights, hyper-personalised direct to consumer engagement, route to market analytics and advanced supply chain planning.

Those that move quickly to harness the technology could create material competitive advantage. Those that do not could see the balance of power shift to competitors and/or retailers.

Example

Coca-Cola has used AI to inform product development. The company used its Gen AI tools to identify popular product combinations at soda fountins, launching Cherry Sprite and Exotic Mango Coke as a result of the analysis.

The brands ongoing plan with AI will leverage OpenAI tools to operational use cases as well as marketing.

30% of the Global 50 mentioned they were actively **using AI in 2022 annual reports**

No excuses *for ESG*

DESPITE THE TOUGH ECONOMIC CLIMATE OF THE LAST YEAR, THE GLOBAL 50 HAS CONTINUED TO MAKE PROGRESS ON ESG.

They have set more detailed and measurable targets, increased the sophistication of their ESG reporting, and most importantly made progress against these targets.

For those reporting, Scope 1, 2 and 3 emissions were down c.5% 2021-22, as businesses began to take action against their long-term goals to become net zero. This downward trend holds true even after indicatively adjusting for changes in volume.

Further developments in ESG will likely require ongoing pressure from investors, as they're starting to seek great transparency in ESG disclosures.

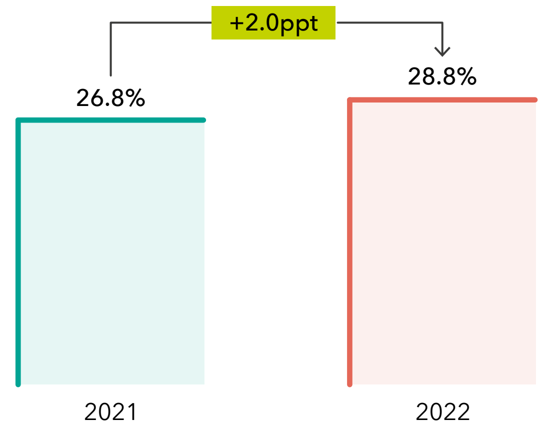
Example

Unilever published a Climate Transition Action Plan (CTAP) in 2022, which assessed GHG emission at each stage in value chain and outlined a tailored approach to reduce emissions by analysing trends and drivers of GHG emission levels.

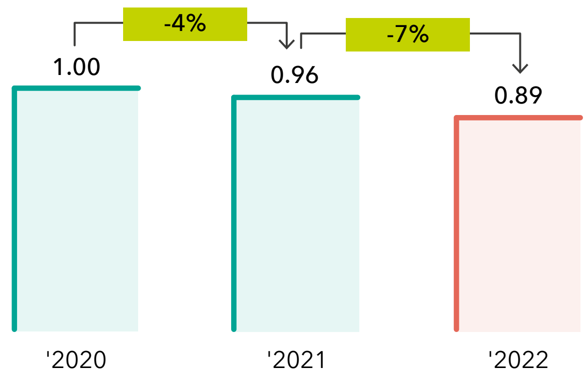
The organisation's Climate & Nature Fund, launched in 2020, is a commitment to invest $1.1bn by 2030 in climate, nature, and waste projects. By 2022 Unilever has already committed over $220m.

Amongst the Global 50, several businesses demonstrated sustained volume growth alongside a reduction in emissions.

Average proportion of ESG content in G50 reporting[1,2,3&4]
FY2021 vs. FY2022 (%)



Index: Indicative Emissions Per Volume Unit
2020-22 (2020 = 100)



1. Proportion of annual reports dedicated to ESG related content'
2. Data collection based on company's FY21&22 Annual Reports and seperate ESG reports FY21&22
3. Excludes 6 companies which do not disclose comparable annual reports in 2021 & 2022
4. Of the Global 50; 4 companies have not yet released FY22 ESG reports

Source: Annual Report, Desktop Research, OC&C analysis

Diversifying portfolios and the evolution of *value chains*

Example

Capital could be released through divestments of manufacturing sites to co-manufacturers.

THE ECONOMIC CLIMATE NECESSITATED CAUTION IN THE GLOBAL 50'S M&A ACTIVITY IN 2022, WITH DEAL SIZES LOWER THAN PREVIOUS YEARS AND MINORITY STAKES PROVING MORE POPULAR.

Despite this, these businesses used M&A to diversify portfolios into growth categories, continuing to reshape their operations.

As the world continues to evolve, there is an important question emerging for consumer businessees:

What should – and shouldn't – they own across the value chain to deploy capital most effectively?

With time, we may see more capability led-acquisitions as businesses seek to transform the way they operate. Assets previously seen as essential (such as manufacturing) may be less effective uses of capital.

In many cases, these assets may be better owned by other industry players, releasing fixed costs from the P&L and capital to be deployed elsewhere.

> *With time, we may see more capability-led acquisitions as businesses seek to transform the way they operate.*

5 questions to consider *about your business*

If you would like help answering these questions, or if you would like to find out more about the OC&C FMCG Global 50, our team would be delighted to hear from you. Contact our Consumer Goods team: consumer@occstrategy.com

1. HOW HAS THE RECENT ECONOMIC UPHEAVAL IMPACTED YOUR CATEGORIES AND CONSUMERS?

2. WHAT VALUE CREATION LEVERS CAN YOU PULL TO MAXIMISE MARGIN RECOVERY AS INPUT COSTS COME DOWN?

3. WHERE SHOULD YOU PLACE BETS WITHIN YOUR PORTFOLIO TO DRIVE GROWTH OVER THE MEDIUM TERM?

4. WHAT OPPORTUNITIES AND THREATS DOES GEN AI PRESENT ACROSS YOUR VALUE CHAIN?

5. NOW THAT WE HAVE SET AMBITIOUS ESG TARGETS – WHAT IS THE PATHWAY FOR ACHIEVING THESE?

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To share your experience, start your strategy shake-up, or continue the discussion, please get in touch

Key contacts

Will Hayllar, Partner
will.hayllar@occstrategy.com

Claire Dannatt, Partner
claire.dannatt@occstrategy.com

Local contacts

Australia – Jeremy Barker
jeremy.barker@occstrategy.com

Brazil – Daniel Wada
daniel.wada@advisia.com

China – Leo Chiang
leo.chiang@occstrategy.com

France – David De Matteis
david.dematteis@occstrategy.com

Jean-Baptiste Brachet
jean-baptiste.brachet@occstrategy.com

Germany – Christoph Treiber
christoph.treiber@occstrategy.com

Italy – Marco Valsecchi
marco.valsecchi@occstrategy.com

Poland – Marek Zdziech
marek.zdziech@occstrategy.com

U.S. – Coye Nokes
coye.nokes@occstrategy.com

OC&C Strategy consultants