AlixPartners

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FMCG GLOBAL OUTLOOK:

Thriving in the Pandemic’s Wake

AlixPartners global fast-moving consumer goods industry outlook: How 15 companies delivered twice the total shareholder returns of their peers—and how other companies can catch up

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Article in brief

1

THE CHALLENGE

Since 2020, FMCG companies have overcome pandemic disruptions to deliver outsized revenue and profit growth (6.8% and 11.4% CAGR respectively). But as 2024 begins, we have entered a new era of disruption defined by shifting consumer preferences and weakened financial health, continually changing supply chain risks, and accelerated value chain digitization.

2

THE LEADERS

15 top-performing FMCG companies, which delivered 2x the total shareholder returns of their peers, appear to have succeeded not because they employ unusually visionary strategies, but because they have developed a clear enterprise-wide governing objective. This has, along with robust organizational capabilities, allowed them to capitalize on trends and position themselves to succeed in this challenging new era.

INTRODUCTION

It's a new, more difficult post-pandemic era—gone are the days of unprecedented pricing power and consumers flush with stimulus cash. As such, fast-moving consumer goods (FMCG) leaders will need to adapt their companies quickly and intelligently to outperform in both the consumer and capital markets. AlixPartners sees five key trends that FMCG leaders will contend with in 2024:

1. Continued expansion of value-conscious consumers
2. Pressure from retailers seeking to capture more of the value chain profit pool
3. An era of continuously changing supply chain risks
4. Required focus on ESG, but challenges to make progress
5. Acceleration of value chain digitization sped up by artificial intelligence (AI)

Fifteen identified top performers, out of 104 public FMCG companies with more than $1 billion in annual revenues, delivered five-year total shareholder returns (TSRs[1]) of 13.3% (vs. peers at 6.8%) and are expected to grow economic profit (EP[2]) at 10.3% vs. 7.8% for the overall FMCG market.

These 15 top performers appear to have succeeded by developing a clear governing objective and superior organizational capabilities that can adapt to leverage emerging trends as they arise.

WHERE WE ARE AND HOW WE GOT HERE

During and immediately following the pandemic[3], the FMCG segment generated TSRs slightly above the median return of FTSE World Index segments (FMCG 6.5% vs. FTSE 6.0%, exceeded at the industry level only by the IT, healthcare, and materials & industrials segments).

Most players in the FMCG industry were able to overcome pandemic disruption, resulting in a period of outsized revenue and economic profit growth as compared to historic performance. This was driven by:

1. The "stay at home" trend that boosted consumer purchasing volume of FMCG goods

2. Sustained post-pandemic inflation that allowed FMCG companies to increase price faster than input costs, which expanded margins

However, the successful pandemic-era and immediate post-pandemic formula is no longer a viable route to achieve profit growth; the median FTSE world segment return has recently overtaken FMCG (FMCG 8.8% vs. FTSE 10.0%[4]). The "stay at home" boost has largely dried up and inflation-exhausted consumers have shown heightened price sensitivity.

1. TSRs include all price appreciation plus dividend yields and are calculated in local currency at end of month
2. Economic profit is calculated as earnings less taxes and a charge for capital employed
3. September 2018 – September 2023
4. December 2018 – December 2023

THE FINANCIAL DETERMINANTS OF WINNING: WHY EP MATTERS

The governing objective of any company should be to maximize long-term shareholder value creation (measured by TSRs for public firms). However, management disagreement or ambiguity about what drives capital market performance often leads companies to chase competing objectives (e.g., market share, earnings-per-share growth, dividend growth, or topline growth).

FIGURE 1: SHAREHOLDER VALUE IS DRIVEN BY INVESTOR EXPECTATIONS OF FUTURE ECONOMIC PROFIT GROWTH AND CASH FLOW GROWTH

Notes: 1. Economic Profit (EP) = Net income – charge for equity capital employed = Net income – (Ke x equity employed)
Sources: Value Line Forecasts, FactSet, AlixPartners analysis

AlixPartners has identified a strong correlation between a company's market-traded value and its warranted value[5]. The warranted value of a company is the sum of invested capital[6] and forecast value creation in the form of future economic profit. Companies that maximize future EP growth will maximize warranted value and therefore share price appreciation and resulting TSRs.

Systematically advantaged companies typically understand:

- Their own EP at a granular level, ideally having visibility at intersections of retail channel customers, geographies, channels, products, and more.
- EP of their direct and indirect competitors, along with the drivers of competitors' EP (e.g., premium offering, advantaged manufacturing, selective geographic participation).

Companies that understand their business this way can allocate "expensive" capital toward segments that create value and away from those that destroy it. Over time, this value-managed strategy will increase a company's share of the industry EP.

This cycle reinforces itself and creates a reinvestment advantage, which in turn fuels investment in new value-accretive products, go-to-market strategies, ESG campaigns, and other initiatives that create a durable competitive advantage and long-term TSRs significantly above the market average.

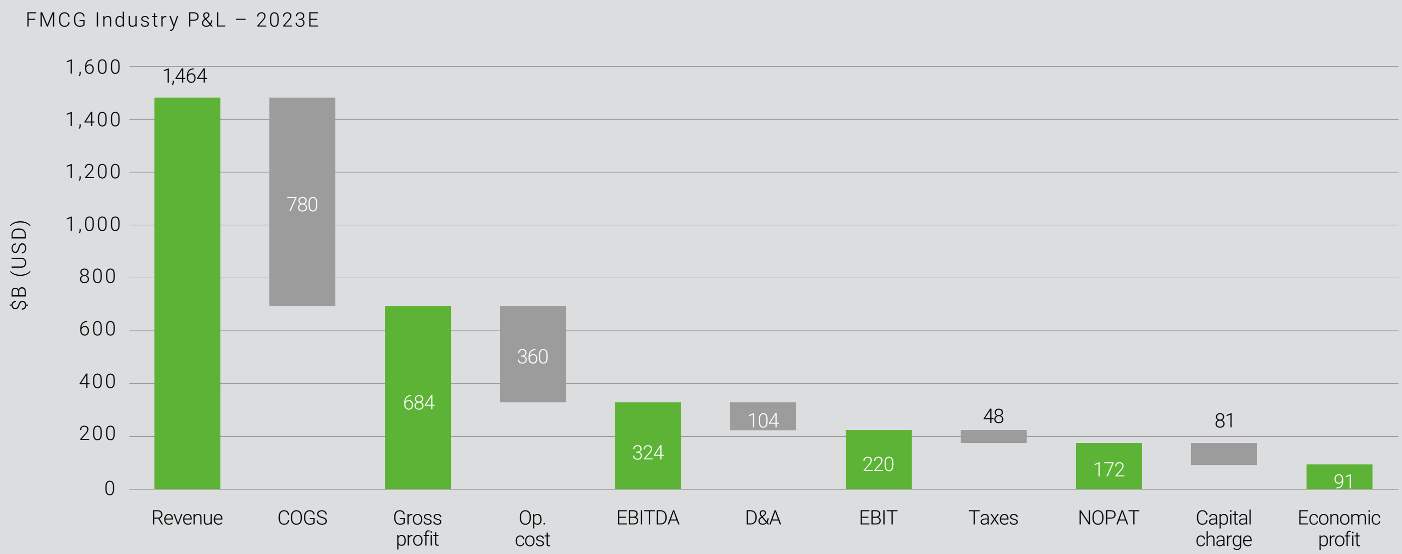
5. r2=0.92
6. Invested Capital = Book Equity + Total Debt

ECONOMIC PROFIT IS A MORE EFFECTIVE MEASURE THAN OTHER PROFIT METRICS (E.G., GROSS MARGIN, OPERATING INCOME, OR EPS) BECAUSE IT FULLY ACCOUNTS FOR ALL BUSINESS COSTS.

At an industry average 47% gross margin, most of a company's segments will appear profitable and logic would suggest all segments should grow.

Even more complete profit metrics like EBITDA (22% industry average) would send a strong "grow" signal for most segments. However, layering in additional costs including taxes and a charge for the capital employed shows a different signal, with the resulting EP margin sitting at a much lower 6%. At this level, FMCG companies will realize ~30-40% of revenue or capital creates all the shareholder value, while ~30% is roughly value-neutral and ~20-30% reduces value. It's necessary to understand the sources and drivers of value growth and destruction to align investments with the highest-value-creation opportunities.

FIGURE 2: TOTAL FMCG INDUSTRY MARGIN WALK FROM REVENUE TO ECONOMIC PROFIT



	Revenue	COGS	Gross profit	Op. cost	EBITDA	D&A	EBIT	Taxes	NOPAT	Capital charge	Economic profit
% of revenue	100%	n/a	47%	n/a	22%	n/a	15%	n/a	12%	n/a	6%
Cumm. % of total costs	0%	n/a	57%	n/a	83%	n/a	91%	n/a	94%	n/a	100%

Notes: 1. Excludes extraordinary and unusual expenses, nonoperating income and includes goodwill and intangibles
Sources: FactSet, AlixPartners analysis

WHO IS WINNING AND WHY?

AlixPartners analyzed 104 FMCG companies with more than $1 billion in sales to identify those who have won in the capital markets over the past five years and are well-positioned to deliver high TSRs over the next three to five years despite a challenging market. We identified top performers by assigning each company a composite score that considered:

1

HISTORIC KEY INDICATOR—FIVE-YEAR TSR PERFORMANCE[7]:

Companies with top-quartile five-year TSRs have historically exceeded investor expectations.

Overall, the FMCG segment has achieved an 8.8% TSR. At the company level, companies in the top-quartile of five-year TSRs generated a market cap weighted average of 14.6% (including companies like L'Oreal at 19.2% and Procter & Gamble [P&G] at 12.6%) vs. bottom-quartile companies that generated returns of -6.0%.

2

CURRENT KEY INDICATOR—2023 EP MARGINS:

Companies with top-quartile EP margins generate higher returns on each dollar of revenue, which suggests a stronger competitive position and/or focus on the most profitable business segments[8]. Average FMCG EP margins have declined from a peak of ~8.4% in 2021 to ~6.4% in 2023, driven by continued input cost inflation, a decrease in the ability to pass along cost growth with higher prices, and rising interest rates increasing the cost of capital.

Companies with top-quartile EP margins generated a weighted average of 12.6% (including companies like Coca-Cola at 21.8% and P&G at 13.2%) vs. bottom-quartile companies that generated a weighted average of -2.1%.

3

FUTURE KEY INDICATOR—INVESTOR EXPECTATIONS OF EP SHARE CHANGE:

Investor expectations for a company to grow share of the market economic profit pool is a potential indication that the company is employing an advantaged strategy relative to peers. Based on current equity values, investors expect the FMCG segment to generate an incremental $25 billion in EP by 2025 (+8.7% CAGR). Specifically, investors expect revenues to grow by 3.7% CAGR and EP margins to improve by 31 basis points annually.

Companies in the top quartile of expected future EP growth are projected to generate 48% annual growth, driven by a higher-than-average EP margin expansion of 85 basis points annually. This top quartile includes companies such as Monster Beverage (32% expected annual EP growth), JM Smucker[9] (31%), and Clorox Company (23%).

7. September 2018 – September 2023
8. Lower-margin, higher-volume strategies can also exist and be successful
9. Core business only, excludes recent acquisition of Hostess

OUR 15 TOP PERFORMERS

These companies will serve as exemplars for the rest of this paper as they have demonstrated past success (five-year TSRs), are in a strong current position (high current EP margins), and are expected to continue winning (investors believe they will grow their future share of the EP pool).

A review of investor materials and analyst coverage since 2018 reveals that these top performers have succeeded not because they employ visionary strategies or leverage unique assets, but rather, because they have developed a clear enterprise-wide governing objective and robust organizational capabilities that allow the business to adapt to emerging trends as they arise.

Therefore, we believe companies willing to invest in similar capabilities and apply comparable strategy and tactics can achieve similar performance.

FIGURE 3: NINE FOOD & BEVERAGE AND SIX HOUSEHOLD & PERSONAL CARE COMPANIES WERE IDENTIFIED AS TOP PERFORMING COMPANIES

COMPANY	SEGMENT	MARKET CAP ($B)	5 YEAR TSR	'23 EP MARGIN[1]	EXPECTED '22 – '25 EP CAGR	TOTAL SCORE
Monster Beverage Corporation	F&B	59.4	18.6%	9.9%	31.8%	3
Carlsberg	F&B	19.7	13.5%	7.9%	14.0%	3
Lamb Weston Holdings	F&B	15.9	9.4%	9.7%	22.0%	4
PepsiCo	F&B	228.8	12.1%	9.4%	10.3%	4
The Hershey Company	F&B	39.2	14.0%	15.7%	10.7%	4
L'Oréal	H&PC	245.8	19.2%	7.6%	17.2%	4
Constellation Brands	F&B	46.2	10.1%	12.3%	21.2%	4
The Procter & Gamble Company	H&PC	353.4	12.6%	13.7%	7.5%	4
Davide Campari-Milano	F&B	11.6	7.4%	7.0%	18.2%	5
Church & Dwight	H&PC	24.3	8.8%	9.4%	8.2%	5
Unicharm	H&PC	22.3	8.3%	6.9%	17.3%	5
Mondelēz International	F&B	99.8	15.1%	1.0%	13.0%	5
The J. M. Smucker Company	F&B	13.9	9.5%	6.9%	30.7%	5
Kimberly-Clark	H&PC	41.7	4.8%	10.5%	10.4%	5
Bath & Body Works	H&PC	9.7	18.5%	11.5%	0.1%	5

■ 1st quartile ■ 2nd quartile ■ 3rd quartile

Notes: 1. Relevant segment 2023 EP margin; 2. '22-'25 EP pool share expansion; 3. 3 = <-5% growth, 2 = -5% to 5% growth, 1 = >5% growth;
4. Total Score represents a sum of a company's quartile in each category, with a lower score being better. Sources: Factset, AlixPartners analysis

MANAGING IN AN EVOLVING MARKET

AlixPartners sees five key trends likely to have a meaningful impact on the industry over the next three to five years that will require new corporate behaviors to address.

For each of these trends, we'll highlight a strategy for managing value that one of our top-performing companies has employed to position themselves for success.

FIGURE 4: FIVE KEY TRENDS IMPACTING THE INDUSTRY

TREND	EXAMPLE
1. Continued expansion of value-conscious consumers	Kimberly-Clark delivering value at all price tiers
2. Pressure from retailers seeking to capture more of the value chain profit pool	L'Oréal focusing on direct-to-consumer (D2C) channels for Luxe products to ensure customer experience and maintain margins
3. An era of continuously changing supply chain risks	P&G using digital to increase clarity in supply chain
4. Required focus on ESG, but challenges to make progress	Mondelēz targeting tangible, achievable ESG goals
5. Acceleration of value chain digitization sped up by artificial intelligence (AI)	P&G using an internal generative AI tool to boost employee productivity and experience

CONTINUED EXPANSION OF VALUE-CONSCIOUS CONSUMERS

During the pandemic, the average U.S. consumer's finances improved due to stimulus payments, hazard pay, a pause on student loan payments, and a reduction in discretionary spending (eating out, travel, etc.).

However, since the beginning of 2022, consumers have depleted more than 100% of the pandemic savings they accrued. Consumer debt service payments have rebounded to 5.8% of annual income[10]. The average cost of rent has increased 14.3%[11]. 30-year mortgage rates have increased from 3.2% to 6.6%[12]. U.S. student loan payments restarted, and consumer spending has dropped due to high levels of inflation[13]. Other regions are also facing higher inflation, with average EU inflation at 3.1% in November 2023 (well above its 1.7% historical average) and average OECD country inflation at 5.4% in November 2023 (vs. a 2.5% historical average)[14]. Of 239 FMCG subcategories evaluated in this study, the average price increase since 2021 was 20% (with top-quartile products increasing 36%)[15].

For 22 consecutive months (April 2021 through January 2023), U.S. inflation outpaced wage growth, which led to an increase in real prices and a reduction in consumer buying power[16]. Because of the prolonged gap between wage growth and inflation, consumers will likely remain value conscious for years to come while wages catch up to recent price hikes.

As a result, consumers are becoming more resistant to price increases and more inclined to trade down to private label products, with ~24% noting they would switch to private label offerings if on sale[17]. This sensitivity will require companies to evaluate expected changes in volume and resulting impacts on profitability when considering future pricing actions. As financial stress on the middle class continues to build, expect the momentum for private label and value brands to grow.

Kimberly-Clark, a U.S.-based personal care and hygiene company, has tackled these challenges by introducing features that elevate consumer expectations at every price point to raise entry barriers for competing brands and reduce the likelihood of consumers trading down.

This strategy was particularly successful in the Chinese diaper market where Kimberly-Clark has gained meaningful share since 2019. By developing and leveraging a robust understanding of consumer preferences, the company developed a strategy to systematically elevate the category through the introduction of super-premium features in high-end brands (e.g., cotton materials, 3D liners, etc.) and cascading select features to more value-focused offerings over time. By raising consumer expectations of sub-premium tiers with premium features it already manufactured at scale, the company developed a durable competitive advantage and created loyal customers from those at risk of trading down outside of the Kimberly-Clark ecosystem.

To adapt portfolios and optimize pricing successfully, companies will need a thorough understanding of their consumer bases and value concentrations at a granular level (by product, consumer segment, retail customer, channel, etc.). Then, they can ensure strategies are tailored and resources are allocated to maximize total value within these segments.

10 FRED; Consumer Debt Service Payments as a Percent of Disposable Personal Income, Q3 2023 (9.8% including mortgage payments)
11. FRED; Rent of Primary Residence in US City Average, 1/1/22-11/1/23
12. FRED; 30 Year Fixed Rate Mortgage Average in US, 1/6/22-1/4/24
13. BLS 12-month % change, CPI, All Items - 6.2% avg from Jan '22-Nov '23, vs. 2.5% avg from Jan '17-Dec '21
14. OECD Data, Inflation (CPI); historical average represents avg monthly inflation from Jan 2017-Dec 2021
15. SPINS, 8/13/21-8/13/23
16. Federal Reserve Bank of Atlanta: Wage Growth Tracker; Bureau of Labor Statistics: Employment Cost Index; from 4/1/21 – 1/1/23, avg inflation of 7.0% vs. avg wage growth of 5.2%
17. Numerator Psychographics Survey; 9/1/22-8/31/23

PRESSURE FROM RETAILERS SEEKING TO CAPTURE MORE OF THE VALUE CHAIN PROFIT POOL

Retailers are protecting their margins and pushing for more of the market profit pool through three primary methods:

1 PRESSURING SUPPLIERS

Retailers have aggressively pushed manufacturers to decrease prices and provide more favorable terms on FMCG products to reduce costs and working capital while improving margins.

2 EXPANDING PRIVATE LABELS

Retailers are offering more private label products to remain competitive in a high-inflation and price-sensitive environment, while providing more value to consumers and capturing incremental profits.

3 GROWING DIGITAL CHANNELS

Retailers continue to evaluate new digital channels and advertising offerings for profitable growth. In the long term, many retailers expect to drive more profit from their digital assets than their physical spaces through the sale of ads, search engine optimization (SEO), and digital shelf space.

L'Oréal, a French beauty company, has taken steps to reduce exposure to retailer pressures by focusing on direct-to-consumer (D2C) marketing for its Luxe segment brands. The company has employed this strategy for both branded brick-and-mortar locations (e.g., recent expansion of Aesop and Kiehl's retail footprints) and e-commerce sites. In October 2023, L'Oréal entered an agreement with THG to manage D2C e-commerce activities for two Luxe brands in North America. L'Oréal expects to benefit from THG's core platform features built for the beauty consumer including sampling, loyalty, and subscription services. These steps allow L'Oréal to more effectively manage its consumer experience, strengthen consumer relationships, enhance consumer loyalty, and reduce retailer-driven margin pressure.

As retailers increasingly vie with manufacturers for a higher share of the market profit pool, companies need to granularly understand the current and future profitability of each of their segments (e.g., by retailer, product, channel, etc.) and align resources and investments towards profitable segments (potentially expanding D2C). Brand management will also become increasingly important, requiring companies to tailor their brands' value propositions and pricing to appeal to value-conscious consumers.

AN ERA OF CONTINUOUSLY CHANGING SUPPLY CHAIN RISKS

Supply chain challenges during the pandemic included product shortages, delayed (and expensive) shipping, and increased costs. Over the past year, ocean and trucking freight rates decreased as demand dropped from its 2021-2022 peak, and capacity has started to normalize[18].

Despite these recent improvements, disruption continues to stress global supply chains. Depressed costs financially pressure transportation providers, and 35% of owner-operators reported plans to leave the industry if the market does not rebound materially in 2023[19]. Resulting industry consolidation could lead to tighter capacity and higher prices. Ocean freight faces similar pressures as ports continue to experience delays[20], disruption in the Suez and Panama canals create new bottlenecks, and global conflicts threaten shipping in the Red Sea. Warehousing vacancies are also at historic lows while prices reach historic highs[21].

Building supply chain flexibility and resiliency, especially for profit-driving products, will be key to weathering future disruptions. Companies can minimize supply chain risks when importing products by diversifying carriers and reshoring. Reshoring eliminates potential transportation bottlenecks; companies are continuing to shift manufacturing operations to the U.S., with 363K jobs created in 2022 from reshoring and foreign direct investment (FDI). An additional 406K jobs were expected in 2023[22].

P&G is building resiliency by digitally synchronizing its supply chain from shelf demand to its tier one through four suppliers to remove waste from the system and more quickly react to evolving needs. “We have developed digital capability to reformulate our products and to have more flexibility between different input materials and input suppliers without an impact on product quality that consumers notice,” said CFO Andre Schulten in late 2022.

Companies that apply an enterprise-wide focus to align their cost base to profits generated can better focus their efforts. To do so, start by identifying areas where cost reductions will not impact long-term-profit growth potential (e.g., evaluating plants associated with EP-negative SKUs and prioritizing inventory for higher EP-margin products) as well as areas where supply chain investments can deliver meaningful competitive advantages (e.g., increased on-shelf availability, differentiated offerings, improved customer service, etc.).

COMMITMENTS TO ESG TARGETS, BUT SLOW PROGRESS

FMCG companies remain committed to long-term emissions reductions and ESG targets, but most companies do not have credible plans to achieve these goals. In February 2023, the Carbon Disclosure Project (CDP) published findings[23] on companies’ climate transition plans[24]. Of the 18.6K companies that answered the CDP’s questionnaire, only 81 (0.4%) disclosed sufficient detail on all 21 key indicators, while 12,737 (68%) responded to fewer than 7 indicators.

Both governments and NGOs are increasing focus on emissions disclosures and transparency. Recent regulations aim to help investors and stakeholders evaluate the impact that companies have on the environment, and increased education on purchased carbon offsets and “greenwashing” are making it more difficult for brands to claim positive environmental impacts.

Mondelēz, a global food and beverage company identified as one of our top performers, has created material improvements in ESG throughout its supply chain. Cocoa farming faces systemic environmental and human rights challenges. As one of the largest processors of cocoa, Mondelēz has invested $1 billion to develop its Cocoa Life sustainability initiative, which aims to improve the health and livelihood of farmers while developing a sustainable and flexible source of cocoa.

Mondelēz’s commitment to invest in suppliers is a notable example of taking decisive action beyond vague commentary. The company’s meaningful and achievable goals and its actions differentiate Mondelēz within the industry and demonstrate management strength to investors, building credibility. Additionally, the commitment to suppliers builds resiliency throughout the supply chain, mitigating upstream risk.

Consumers remain concerned about the environment, but pricing is a leading decision factor when purchasing sustainable products. In a recent survey by Numerator[25], only 23% of shoppers would pay a premium for “environmentally friendly” products (down from 26% in 2019). As consumer spending remains pressured, companies may need to prioritize achievable and quantifiable actions that create value—both financially and across key ESG pillars—while also balancing the price premium that consumers are willing to pay.

18. Logistics Manager’s Index Report (LMI)
19. FreightWaves Research Survey Feb9-17, 2023
20. Comet, August 2023
21. Logistics Manager’s Index Report (LMI)
22. Reshoring Initiative 2023 Q1 Data Report
23. CDP – Are Companies Developing Credible Climate Transition Plans? – February 2023
24. Defined as a “time-bound action plan that clearly outlines how an organization will pivot its existing assets, operations, and entire business model towards a trajectory that aligns with the latest and most ambitious climate science recommendations (e.g., halving GHG emissions by 2030 and reaching net-zero by 2050)”
25. Numerator Psychographics Survey; 9/1/22-8/31/23 and 1/1/19-12/31/19

ACCELERATION OF VALUE CHAIN DIGITIZATION SPED UP BY ARTIFICIAL INTELLIGENCE (AI)

By 2019, a majority of companies aimed to leverage disruptive digital technologies (e.g., cloud computing, digital twins, remote sensors, augmented reality, robotic automation, and more) to improve their offerings and efficiency.

Since the release of ChatGPT in late 2022, adoption has accelerated further and mentions of AI in earnings calls have tripled, with 152 S&P500 companies citing AI during Q3 2023 (vs. 53 in Q3 2022)[26]. AI promises to increase the power of digitalization and reinvent how companies manage their supply chains, engage with retail channel and end consumers, and make day-to-day strategic decisions.

FIGURE 5: AI USE CASES SPEEDING VALUE CHAIN DIGITIZATION

FOCUS	DESCRIPTION	FINANCIAL BENEFIT(S)
Retail Channel Customer	**Smart Search Advisor** – Stocking suggestions based on real time sales data, upcoming events, weather, etc.	Increase revenue/expand margin
	Customer Service Associate – Address customer questions in real time (order status, complaints)	Increase revenue/reduce cost
	Negotiation Specialist – Streamline buying process. Escalate select cases to human intervention as needed	Reduce cost
	Marketing Specialist (Personalization) – Create personalized content for key customers	Increase revenue/reduce cost
End Consumer	**Consumer Service Associate** – Resource for retailers to answer questions from end consumers	Increase revenue
	Consumer Insight Associate – Produce rapid insights based on large volumes customer reviews and surveys	Increase revenue/reduce cost
Internal	**Virtual Trainer** – Core training that applies to all new hires. Functional training for high volume positions	Reduce cost/expand margin
	Supply Chain Management/Production Planning – Better forecast demand and supply disruption risk to allow for reduced inventory while improving supply resiliency	Reduce cost
	Predictive Maintenance – Improve resiliency in manufacturing with AI connected sensors to predict and address equipment failures before they happen	Reduce cost
	Route Optimization – Reduce both fixed and variable cost through network optimization and cost pruning; increase consumer delivery options (e.g., Instacart)	Reduce cost/improve service
	Product Development – Reduce R&D costs through deployment of AI tools to streamline development of new products and suggest potential issues with formulation or supply resiliency	Reduce cost/expand margin
	Marketing ROI Estimation – Prioritization of marketing spend through estimation of forecast deviation due to marketing efficacy	Increase revenue/reduce cost

These use cases accelerate information-flow and decision-making processes that were previously more manual and time consuming. While implementing AI infrastructure requires employee education and retraining, management focus, and sometimes heavy costs, companies are beginning to realize that these upfront investments could create true competitive advantages in the long term.

Top-performing companies are already realizing the benefits of AI, starting small with internal use cases that don't risk disruption to their businesses. In September 2023, P&G launched an internal generative AI tool called ChatPG, built using OpenAI's ChatGPT and complemented by internal company data. The tool currently has more than 35 use cases—including employee onboarding and supporting call center operators—and aims to boost productivity along with the overall employee experience.

26. FactSet: Fewer S&P 500 Companies Discussing "AI" On Earnings Calls for Q3 Compared to Q2, 12/5/23; Q2 2023 was 180

HOW TO WIN IN THE CAPITAL MARKETS GOING FORWARD

For FMCG companies to win in the capital markets and deliver top-quartile TSRs, they must deliver EP growth above expectations by winning with retail channel customers, converting end consumers, and reinvesting strategically.

Our top-performing companies demonstrate that developing internal capabilities and clear governance processes will better position leaders to react to obstacles in a cohesive and value-maximizing manner.

We believe that overcoming industry-wide headwinds and adapting to shifting industry trends will necessitate leaders to position their companies to:

1. USE THE RIGHT METRIC TO MANAGE YOUR BUSINESS

Economic profit has the closest alignment to total shareholder returns. Companies that make strategic decisions based on less comprehensive profit metrics are missing significant portions of their true cost bases which risks poor decisions based on faulty signals and conflicting priorities. Encourage value-maximizing decisions by incentivizing EP improvement.

2. DRIVE NEAR-TERM PROFIT TO SECURE LONG-TERM ADVANTAGES

Successful companies focus near-term growth on their most economically profitable granular segments. This generates cash flow they deploy to develop durable advantages in emerging profit pools, fueling long-term industry growth.

3. DEDICATE AN OUTSIZED PROPORTION OF MANAGEMENT TIME AND RESOURCES TO A LIMITED SET OF IMPACTFUL STRATEGIC INITIATIVES

With expanded portfolios, multiple geographic regions and channels, complex supply chains, and significant support infrastructure, many executive teams at large FMCG companies spread resources too thin and lose focus on the few key opportunities that will meaningfully impact performance. Our top-performing companies were ~60% more likely than low performers to distill their opportunities down to a limited number of high-value, key strategic initiatives—prioritized by potential profit impact—and focus outsized effort on these opportunities.

4. FOCUS OFFERS ON THE TOP AND BOTTOM OF THE PRICE SPECTRUM TO LEVERAGE CONSUMERS' SHIFTING PREFERENCES

As the middle class's financial health continues to erode, companies must understand the granular consumer segments their products are positioned towards and how those segments respond to different types of value and premium offerings. New product introductions, branding, pricing, and promotional strategies should be tailored to maximize profitability where they compete on the value-to-premium spectrum, which may vary by geography.

5. REDUCE NON-VALUE-ADDING COSTS AND COMPLEXITIES WHILE SUPPORTING THE "GOOD COSTS" THAT DRIVE VALUE

EP is generally concentrated within specific parts of a company's portfolio; a significant portion of brands and SKUs generate no profit or even destroy value. By linking all costs to the revenue each generates, companies can take strategic actions to reduce unprofitable cost bases without negatively impacting the key drivers of their businesses.

AlixPartners

CONTACT THE AUTHORS:

Randy Burt
Partner & Managing Director
rburt@alixpartners.com

Read DuPriest
Partner & Managing Director
rdupriest@alixpartners.com

Lee Mergy
Partner & Managing Director
lmergy@alixpartners.com

Andy Searle
Partner & Managing Director
asearle@alixpartners.com

Brett Meyer
Partner
bmeyer@alixpartners.com

Ben Salcetti
Partner
bsalcetti@alixpartners.com

Jack Donahue
Director
jdonahue@alixpartners.com

Bill Hohenschuh
Senior Vice President
whohenschuh@alixpartners.com

ABOUT US

For more than 40 years, AlixPartners has helped businesses around the world respond quickly and decisively to their most critical challenges – circumstances as diverse as urgent performance improvement, accelerated transformation, complex restructuring and risk mitigation.

These are the moments when everything is on the line – a sudden shift in the market, an unexpected performance decline, a time-sensitive deal, a fork-in-the-road decision. But it's not what we do that makes a difference, it's how we do it.

Tackling situations when time is of the essence is part of our DNA – so we adopt an action-oriented approach at all times. We work in small, highly qualified teams with specific industry and functional expertise, and we operate at pace, moving quickly from analysis to implementation. We stand shoulder to shoulder with our clients until the job is done, and only measure our success in terms of the results we deliver.

Our approach enables us to help our clients confront and overcome truly future-defining challenges. We partner with you to make the right decisions and take the right actions. And we are right by your side. When it really matters.