McKinsey & Company

Beauty and personal care industry during and after the crisis

March 18, 2021

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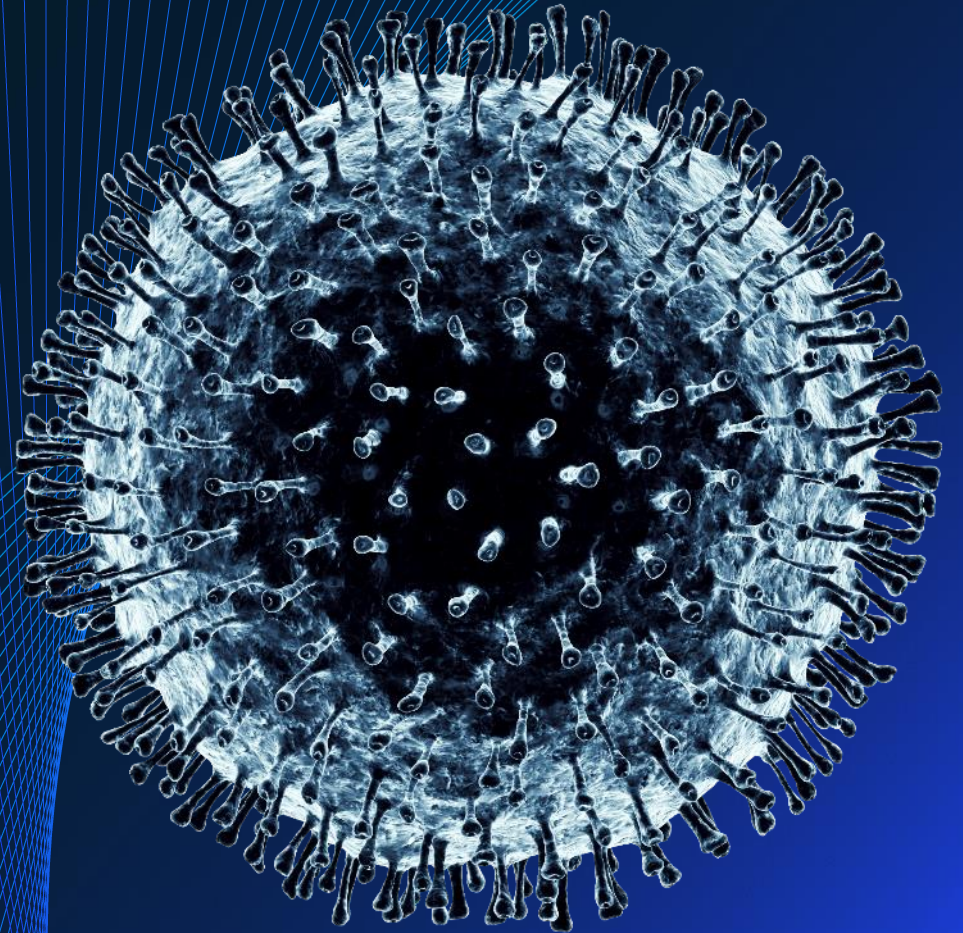
COVID-19 is, first and foremost, a global humanitarian challenge. Thousands of health professionals are heroically battling the virus, putting their own lives at risk. Governments and industry are working together to understand and address the challenge, support victims and their families and communities, and search for treatments and a vaccine.

Companies around the world need to act promptly. This document is meant to help senior leaders understand the COVID-19 situation and how it may unfold, and take steps to protect their employees, customers, supply chains and financial results.

We are happy to provide additional deep dives on topics of your interest.

Presenting today

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Key messages

Despite **several crises**, the consumer goods industry **and the beauty & home sector in particular have been successful for many years**

The beauty & home care sector showed **strong resilience in previous crisises, especially in Germany**

For years, the success model of the consumer goods industry **has been based on 5 core elements, which are increasingly achieving less growth**

The success model consisted of : 1.) **Building big brands** and regular product innovations, 2.) **Close partnerships** with leading retailers, 3.) Expansion into **emerging markets**, 4.) **Standardization** and 5.) **M&A** for consolidation

The particular challenge of the COVID-19 pandemic are the partially **fundamental changes in consumer behavior**

Many of which were already known but were **accelerated by the COVID-19 pandemic**

Globally there are **12 trends to be seen as having a lasting impact** on the consumer goods industry

The consumer goods industry therefore has to **question its model for success - especially in terms of sustainable growth**

We believe that the **consumer goods industry needs to think along an evolved model of "Where to Play" and 'How to Win"** to get out of the crisis successfully

The new model is based on **16 core competencies of "how-to-win"**: **digital competencies around data-driven marketing, omnichannel / DTC, digital route-to-market and rapid innovation** are high on the agenda

The global CPG industry performed very well for a very long time

Total return to shareholders by industry, 1969-2009,
CAGR %

Industry	Value
Materials	17.8
FMCG	**14.9**
Energy	14.3
Healthcare	13.0
Industrials	12.1
Utilities	11.1
Telecom	10.7
IT	8.7
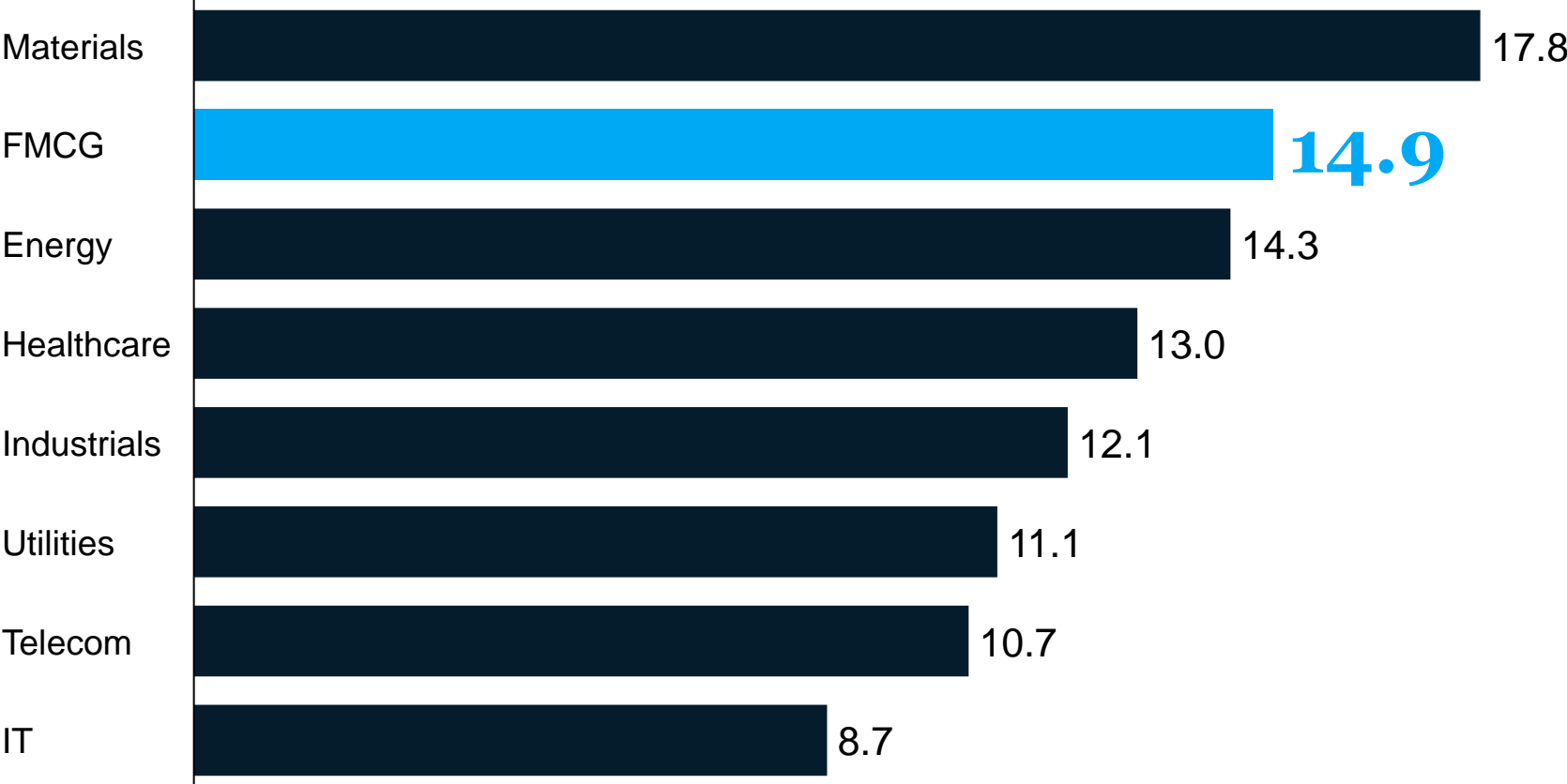
Source: McKinsey Corporate Performance Analytics; Thomson Reuters; Capital IQ; McKinsey analysis

Beauty & personal care as well as homecare products have beern very resilient in prior crisis

Western European homecare product market, EUR Billions, retail sales

Financial crisis

Euro crisis

-1.7% p.a.

+1.0% p.a.

+4.8% p.a.

6 7 8 9 10 11 12 13 14 15 16 17 18 19 2020

2006- 2010 CAGR, %

2010- 2015 CAGR, %

2015- 2020 CAGR, %

1%

1%

1%
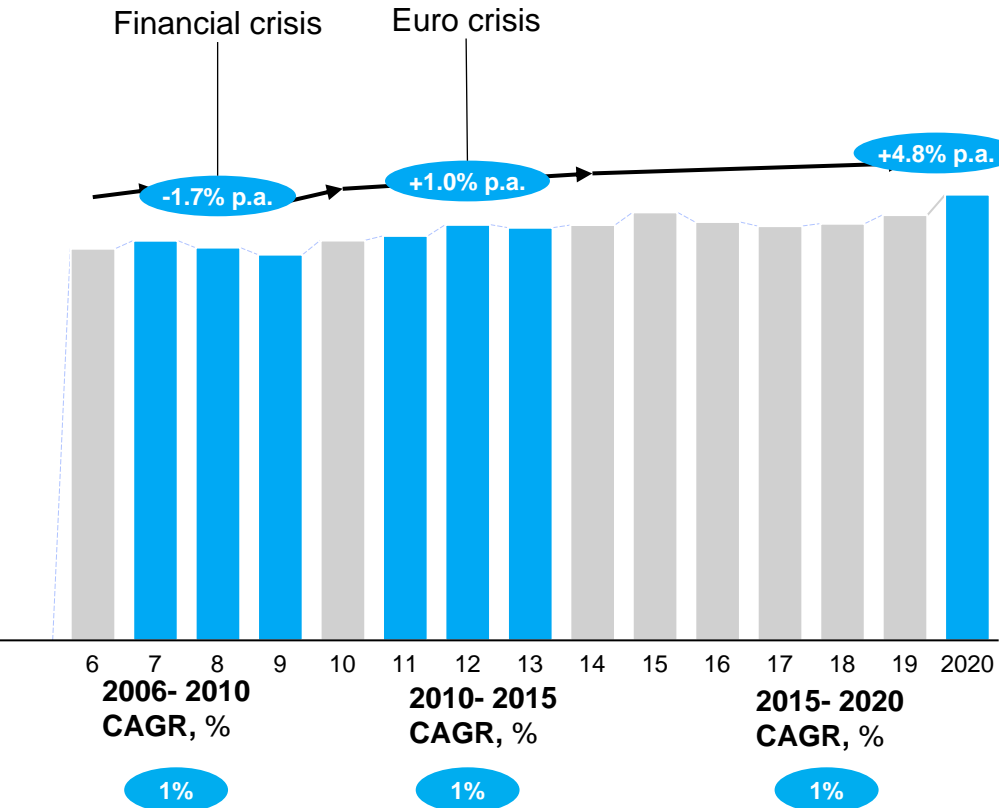
Western European beauty & personal care product market, EUR Billions, retail sales

Financial crisis

Euro crisis

-0.7% p.a.

+1.4% p.a.

-3.5% p.a.

2005 6 7 8 9 10 11 12 13 14 15 16 17 18 19 2020

2005- 2010 CAGR, %

2010- 2015 CAGR, %

2015- 2020 CAGR, %

2%

2%

-1%
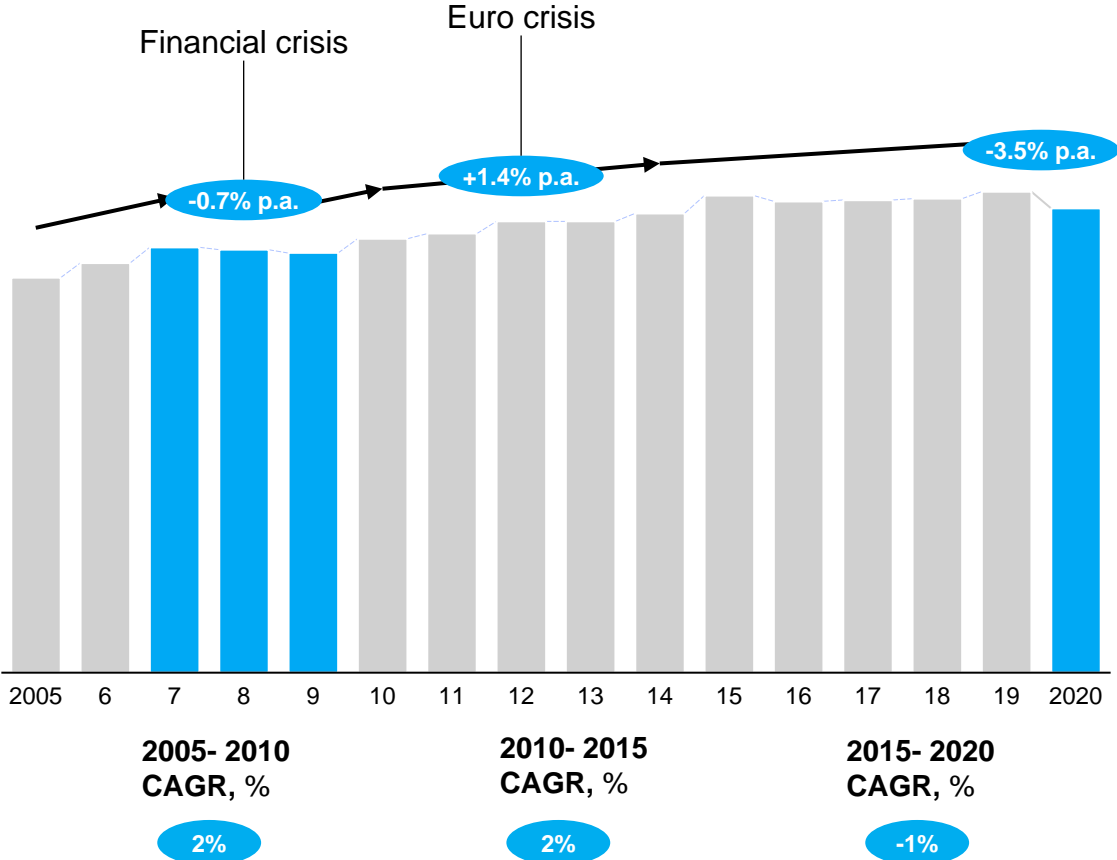
This success was fueled by a common 5-part value creation model which drove the growth of large brands

Consumer goods industry's 5-part model for value creation

	Mass-market brand-building and product innovation	**Partnering closely with grocers** to gain broad distribution	**Building brands and distribution in developing markets**	**Driving cost out of the operating model,** often through centralization	**Using M&A&D to consolidate markets** and enable organic growth post-acquisition
Value it created	Stable growth 25% gross margin advantage over non-branded players	Broad distribution Limited competitive set	A large share of the past FMCG revenue growth (70% of the revenue growth over the past two decades)	~4-6% G&A cost reduction	Attractive market structure Opportunity to step change organic revenue growth
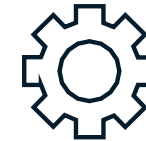
COVID-19 is changing consumer behaviour across all areas of life with a trend towards Health & Wellbeing as well as spending on Life at Home

Life at Home
- Nesting at home (Time share, Increase)
- Spend on **at-home categories** (Wallet share, Increase)

Legend:
- Wallet share
- Time share
- Increase
- Stable
- Decreasing

Shopping & Consumption
- Reduction in shopping frequency and quality of shopping experience (Time share, Decreasing)
- Overall spend decrease, esp discretionary spend, change in channels, brands and formats (Wallet share, Decreasing)

Learning
- Learning continued in a remote setting (Time share, Stable)
- Spend on products with **learning adjacencies** (Wallet share, Increase)
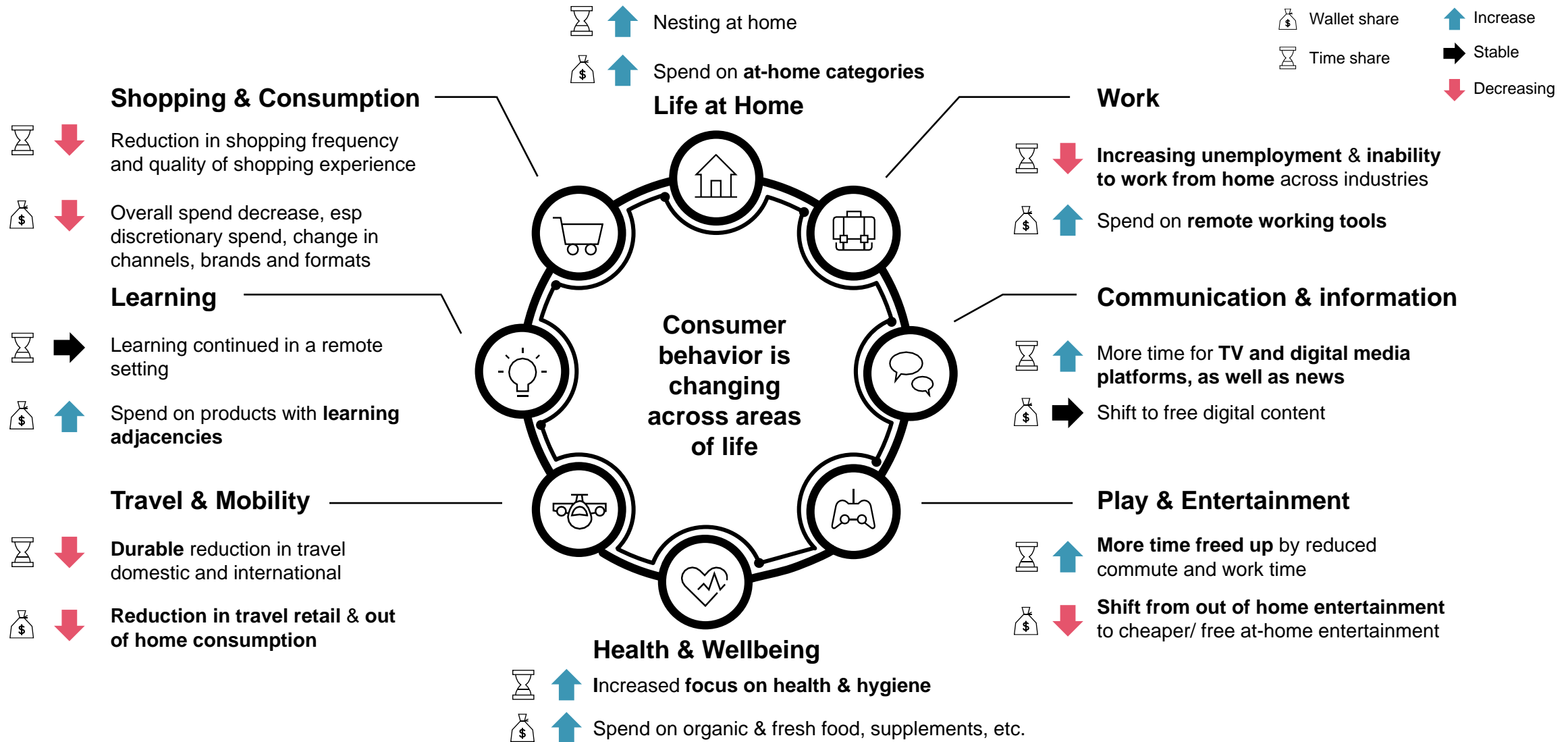
Travel & Mobility
- **Durable** reduction in travel domestic and international (Time share, Decreasing)
- **Reduction in travel retail & out of home consumption** (Wallet share, Decreasing)

Work
- **Increasing unemployment & inability to work from home** across industries (Time share, Decreasing)
- Spend on **remote working tools** (Wallet share, Increase)

Communication & information
- More time for **TV and digital media platforms, as well as news** (Time share, Increase)
- Shift to free digital content (Wallet share, Stable)

Play & Entertainment
- **More time freed up** by reduced commute and work time (Time share, Increase)
- **Shift from out of home entertainment** to cheaper/ free at-home entertainment (Wallet share, Decreasing)

Health & Wellbeing
- Increased **focus on health & hygiene** (Time share, Increase)
- Spend on organic & fresh food, supplements, etc. (Wallet share, Increase)

Consumer behavior is changing across areas of life

More people expect to make a portion of their purchases online post-COVID-19

… ■ Pre-COVID-19 ■ Expected growth after COVID-19

Consumers' use of online channel before and expected use after COVID-19[1,2]

% of respondents purchasing online[3]

	Pre-COVID-19 / Expected growth	% growth in customers purchasing category online
Skincare & makeup	36 +5	+14
Personal-care products	26 +3	+12
Groceries	18 +2	+10
Accessories	54 5	+9
Household supplies	16 1	+7
Food takeout & delivery	50 3	+6
Apparel	69 4	+6
Fitness & wellness	26 1	+5
Books magazines newspapers	54 2	+3
Entertainment at home	84 +2	+2
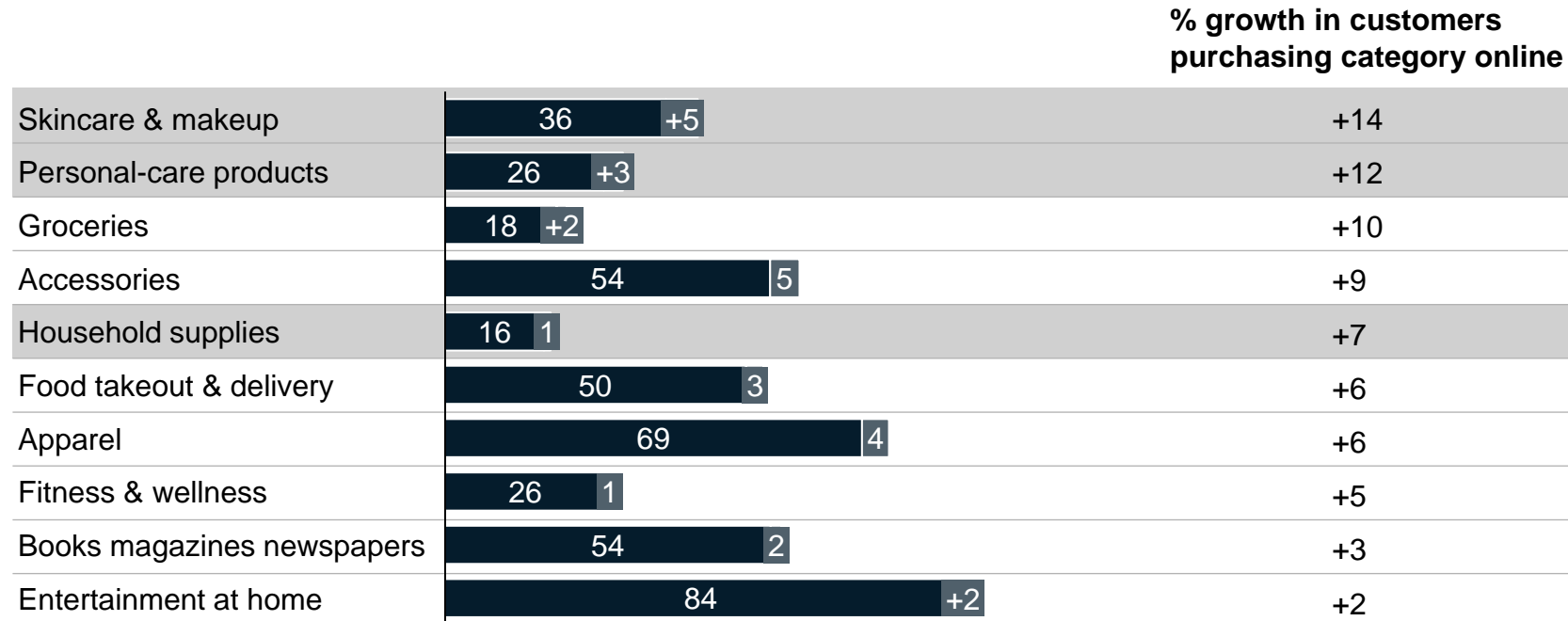
Growth in consumers who purchase online stronger for beauty than home

Omnichannel features as a new way of shopping increasingly demanded by customers
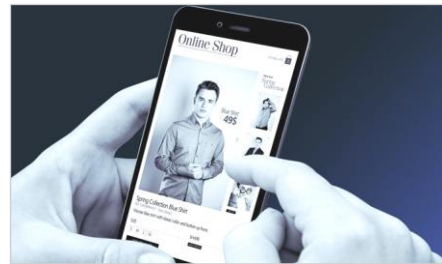
Pick-up & delivery

Immediate **click & collect**

Quick and accurate delivery at home or in lockers after a store visit or online but fulfilled from store

Checkout & Service counters

Remote checkout, Mobile payment, smart carts

Smart screens for self-service

Pre-ordering on app/cart

Online/Offline connection

Personalized offers in store based on shopping habits

Possibility to create an **online shopping list from store visit**

Endless aisle

Smart screens to enable browsing of product **not in store but applicable to fast home delivery or available in a nearby store**

New accuracy

Maximum on-shelf-availability via automated inventory control

Strong **forecast accuracy**

Fast **replenishment**
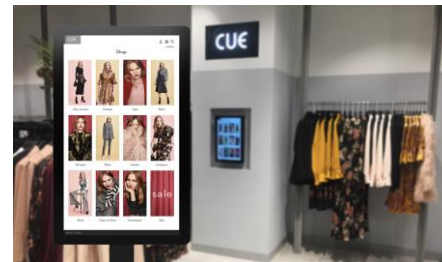
The new label

Detailed **product information available via QR code**

E-commerce fulfillment / replenishment support

Digital try on

Artificial reality interfaces to virtually try-on endless aisle of accessories or make-up

Digital tools to find the right size

Value maximization

Dynamic pricing to reduce waste / optimize margin

Merchandizing optimization based on **traffic monitoring**

More than 50 percent of consumers cite convenience and value as a reason for shopping at a new retailer/store or website

x%   Net % of respondents per category

Reason for shopping at a new retailer/store/website in the past three months[1]
% of respondents selecting reason in top three

Value

63%

Reason	%
Better prices / promotions	36%
Better value	30%
Better shipping / delivery cost	24%

Convenience

60%

| Reason	%
More easily accessible from my home	24%
Offers good delivery / pick-up options	21%
Less crowded / has shorter lines	18%
Can get all the items I need from one place	18%

1. Q: You mentioned you shopped from a new retailer/store/website since the coronavirus (COVID-19) situation started. What was the main reason you decided to try this new retailer/store/website? Select up to 3.
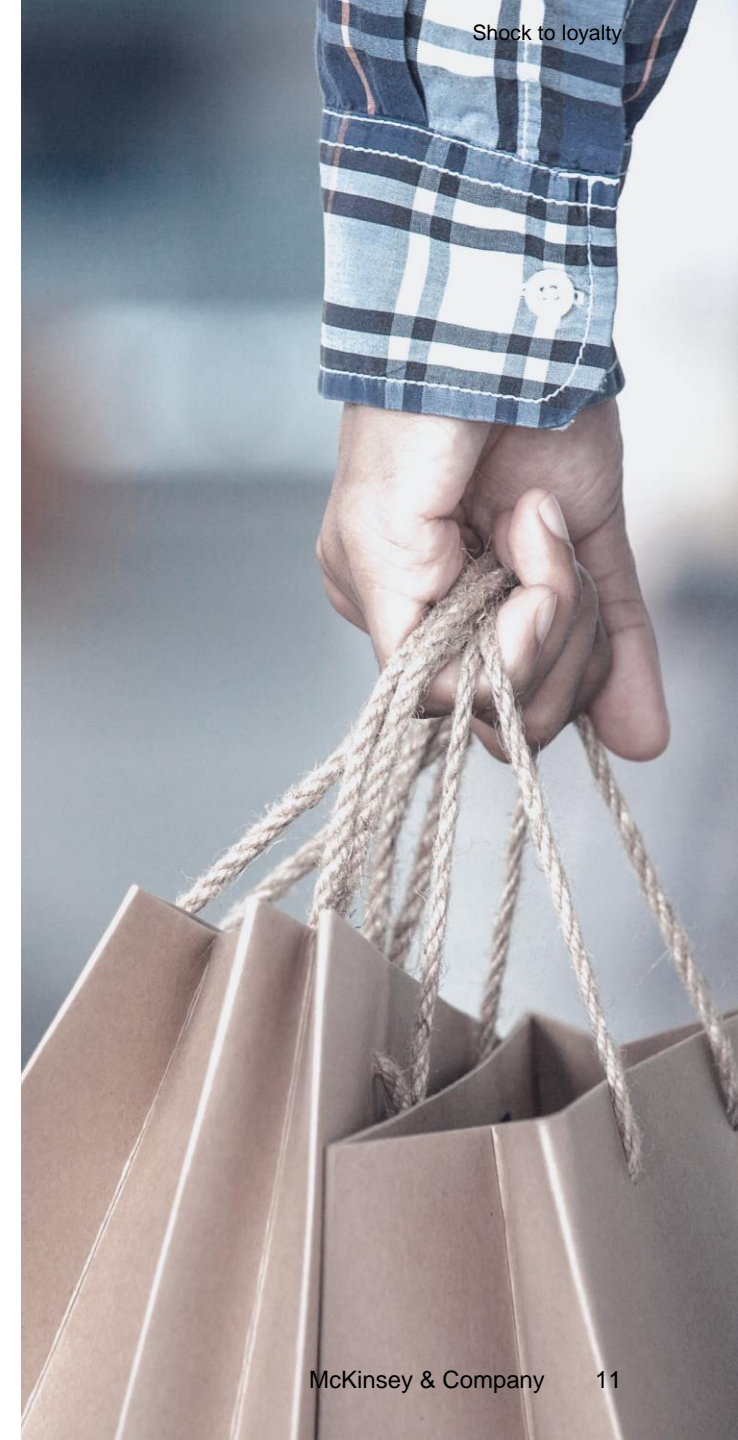
Stepping back – how has COVID-19 impacted the 12 trends that have been disrupting CPGs' traditional value creation model?

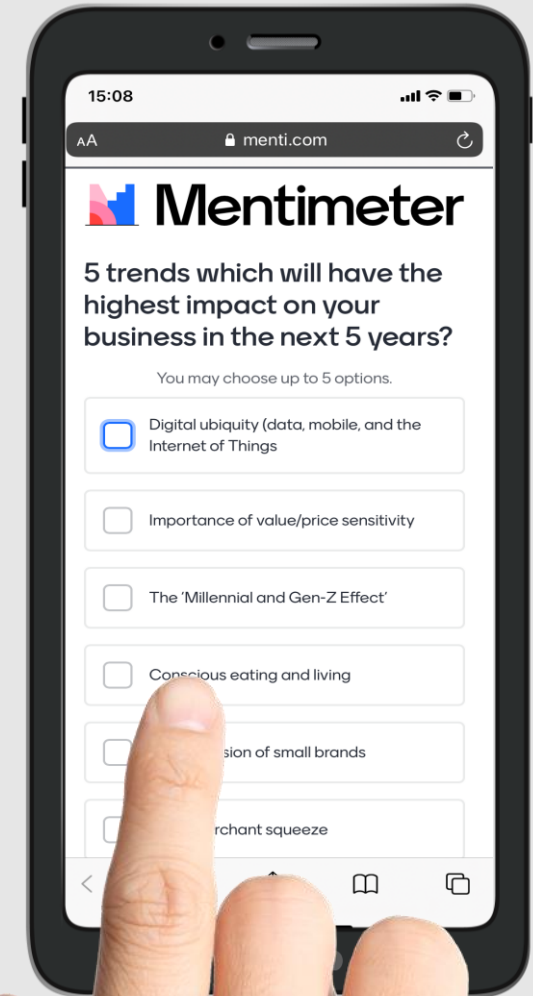| The old value creation model	Disruptive trends	Trend impact		Disruption due to COVID-19
		Last 10 yrs	Next 10 yrs	
Mass-market brand-building and product innovation	1 Digital ubiquity (data, mobile, and the Internet of Things)	2	5	↑↑
	2 Importance of value/price sensitivity	4	5	↑↑
	3 The 'Millennial and Gen-Z Effect'	2	4	→
	4 Conscious eating and living	3	5	↑
	5 The explosion of small brands	3	4	→
Partnering closely with grocers to gain broad distribution	6 Meteoric rise of e-marketplaces	3	5	↑↑
	7 Steady rise of discounters	3	4	↑
	8 Mass merchant squeeze	2	5	↑
	9 Food service challenges	2	3	↑↑
Building brands and distribution in developing markets	10 Battle for emerging Asia	3	4	↑
Driving cost out of the operating model, often through centralization	11 Pressure for profit from activist investors	2	3	Jury's out
Using M&A&D to consolidate markets and enable organic growth post-acquisition	12 Rising competition for deals	3	3	↑

Moderate ▭▭▭ Very high

Please join the poll via QR code or Link

1 **Scan this QR code with your phone in order to join the poll**

2 **or alternatively use the following link:**
https://www.menti.com/i5p6y49ne3

Why has the old model stopped generating growth?

Because 12 disruptive trends have battered the model over the last decade – now, COVID-19 is accelerating many of them

Detailed next

The old value creation model	Disruptive trends	5 trends which will have the **highest impact on your business in the next 5 years**?	5 trends for which you consider your organization **least prepared?**
Mass-market brand-building and product innovation	1 Digital ubiquity (data, mobile, and the Internet of Things)	81%	58%
	2 Importance of value/price sensitivity	55%	30%
	3 The 'Millennial and Gen-Z Effect'	44%	43%
	4 Conscious eating and living	48%	35%
	5 The explosion of small brands	35%	51%
Partnering closely with grocers to gain broad distribution	6 Meteoric rise of e-marketplaces	60%	53%
	7 Steady rise of discounters	33%	36%
	8 Mass merchant squeeze	28%	25%
	9 Food service challenges	14%	
Building brands and distribution in developing markets	10 Battle for emerging Asia	25%	32%
Driving cost out of the operating model, often through centralization	11 Pressure for profit from activist investors	13%	17%
Using M&A&D to consolidate markets and enable organic growth post-acquisition	12 Rising competition for deals	17%	16%

The CPG industry needs a new model for growth

"It is not the strongest of the species that survives, nor the most intelligent, but the most adaptable to change"

Charles Darwin

To get on the right side of the 12 trends, CPGs must answer tough questions...

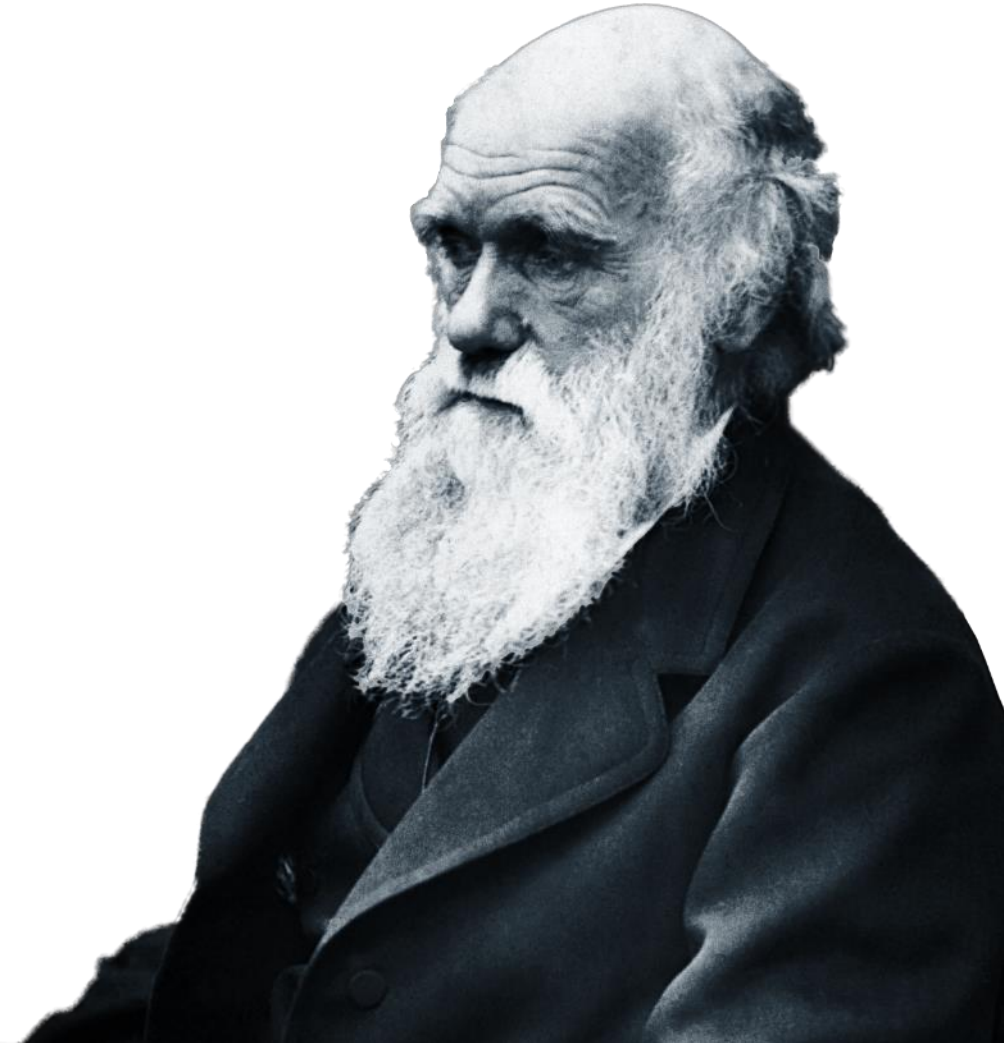## Portfolio and category strategy

- For each of our category franchises, where is the growth, and how well positioned are we to capture it with our current mix of evergreen brands and small brands, especially in the shadow of COVID-19?

- How are consumers changing? How are channels changing?

- How well suited are our competitive advantages to these changes?

- What new business models and capabilities do we need?

- Where should we play? Should we participate in the value segment or allow "good enough" to grow without us? Do we need to divest any brands because they no longer fit our growth requirements or our business model?

- What capability improvements and what big bets, including business model change, could unlock new growth for us?

Brand growth strategy

Evergreen brands

- How relevant are our evergreen brands to growing consumer segments, esp. under 35s?

- What will it take to get our evergreen brands on the right side of consumer and channel trends to accelerate their growth?

Small brands

- What will it take to help our small brands achieve scale rapidly?

- How can we make small brand acquisitions successful?

A new model for the Consumer Goods industry

Degree of change vs. the old model: ● Extensive   ● Moderate

'Where to play'

Portfolio strategy

Category priorities

M&A&D

Category strategy

How consumers, markets and channels are changing

Your competitive advantages

Sub-category, market and channel priorities

Big moves, e.g., new segments, new business models

Brand strategy

Brand promise and positioning

Sub-category, market and channel priorities

'How to win'

Relevance-led brand building, innovation and marketing

Partnering with all growing channels and embracing digital sales

Building brands and distribution in developing markets

Evolving the operating model to excel at local consumer closeness and ever greater productivity

Using programmatic M&A&D to acquire small brands and capabilities and to divest low growers

There are 16 capabilities required for 'how to win' across the new model's 5 main dimensions

Relevance-led brand building, innovation and marketing

1. Occasion- and purpose-led portfolio, innovation and design
2. Data-driven marketing

Partnering with all growing channels and embracing digital sales

3. Precision revenue growth management
4. E-marketplace management
5. Building omni-channel and DTC businesses
6. Digital route-to-market and customer contact

Building brands and distribution in developing markets

7. Local success models

Evolving the operating model to excel at local consumer closeness and ever greater productivity

8. Fitter, flatter, faster organization
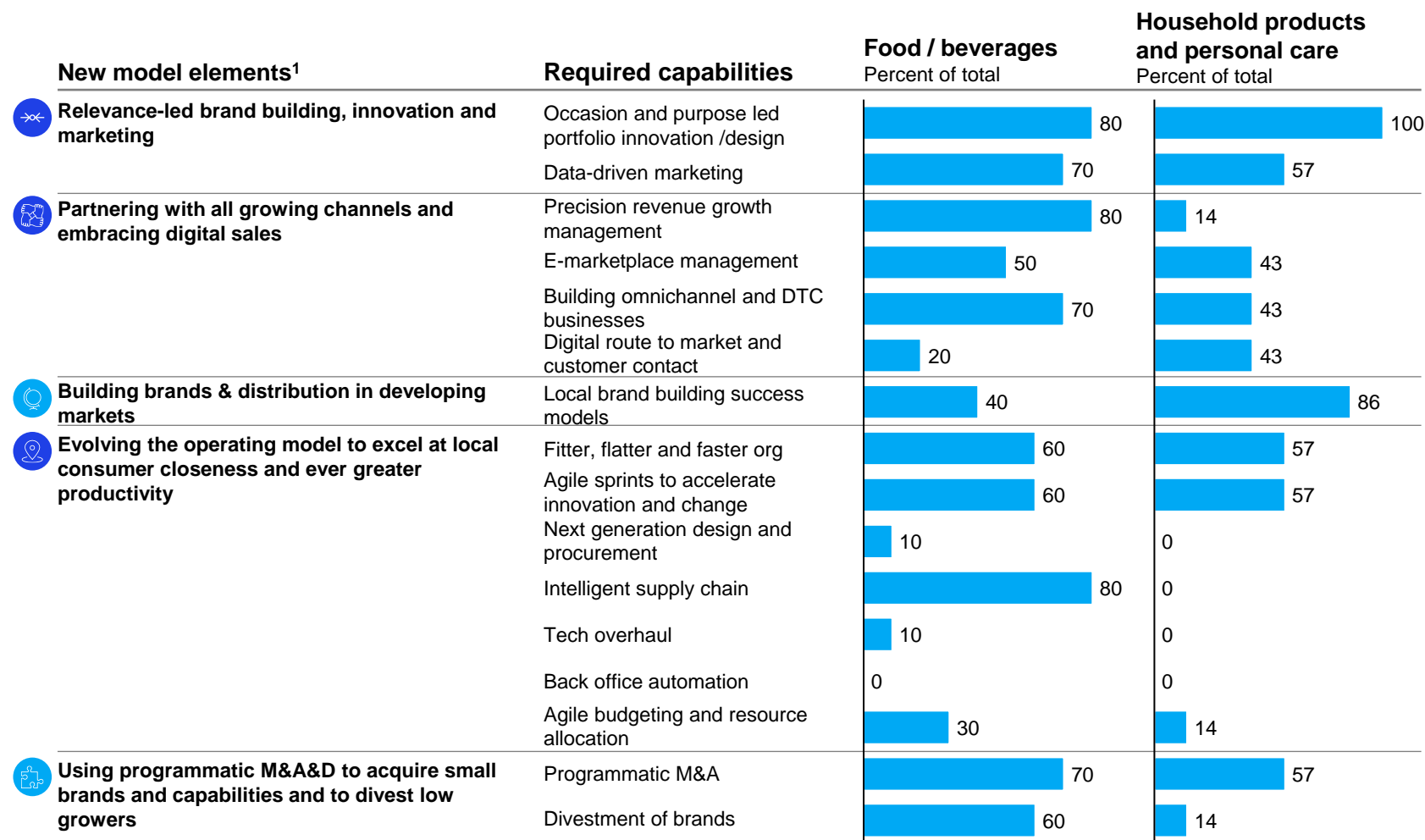9. Agile sprints to accelerate innovation and change
10. Next-generation design and procurement
11. Intelligent supply chain
12. Tech overhaul
13. Back-office automation
14. Agile budgeting and resource allocation

Using programmatic M&A&D to acquire small brands and capabilities and to divest low growers

15. Programmatic M&A for small brands
16. Divestment of low-growth brands

Companies at CAGNY 2021 highlighted capability building across multiple dimensions

New model elements[1]	Required capabilities	Food / beverages Percent of total	Household products and personal care Percent of total
Relevance-led brand building, innovation and marketing	Occasion and purpose led portfolio innovation /design	80	100
	Data-driven marketing	70	57
Partnering with all growing channels and embracing digital sales	Precision revenue growth management	80	14
	E-marketplace management	50	43
	Building omnichannel and DTC businesses	70	43
	Digital route to market and customer contact	20	43
Building brands & distribution in developing markets	Local brand building success models	40	86
Evolving the operating model to excel at local consumer closeness and ever greater productivity	Fitter, flatter and faster org	60	57
	Agile sprints to accelerate innovation and change	60	57
	Next generation design and procurement	10	0
	Intelligent supply chain	80	0
	Tech overhaul	10	0
	Back office automation	0	0
	Agile budgeting and resource allocation	30	14
Using programmatic M&A&D to acquire small brands and capabilities and to divest low growers	Programmatic M&A	70	57
	Divestment of brands	60	14

Participating companies

Food / beverages

General Mills · CONAGRA BRANDS · PEPSICO · Kellogg's · Mondelēz International · Nestlé · Coca-Cola · HERSHEY'S · SMUCKER'S · Kraft Heinz

Household products and personal care

CHURCH & DWIGHT CO., INC. · CLOROX · P&G · Unilever · Kimberly-Clark · L'ORÉAL · COLGATE-PALMOLIVE

1. For additional details on the new model, see our article

The view by company

Legend: ● Capability mentioned 🔵 Capability highlighted

Groupings: Columns 1–8 = **Food**; Columns 9–10 = **Beverages**; Columns 11–17 = **Household products and Personal care**

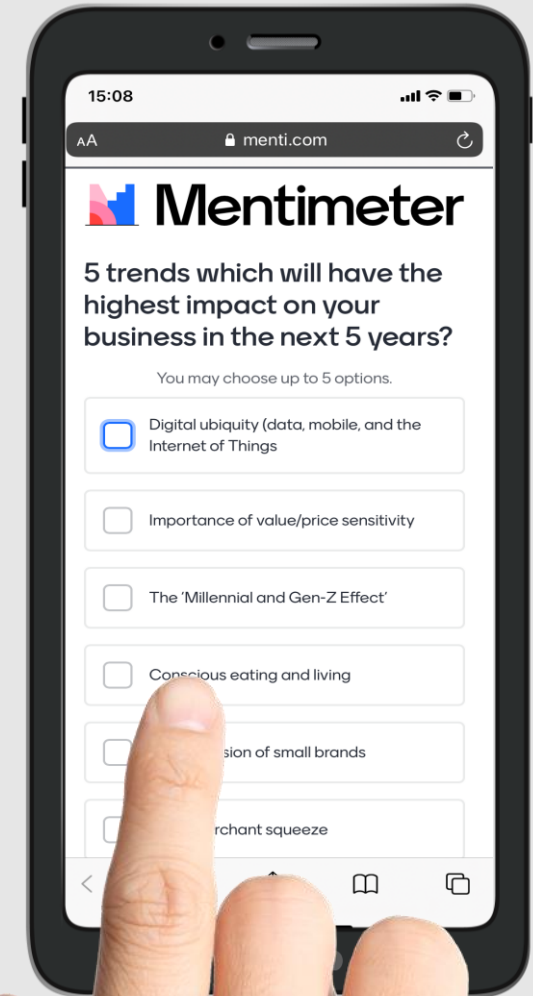| New model elements[2]	Required capabilities	Conagra	General Mills	Hershey's	Kellogg's	Kraft Heinz	Mondelez	Nestlé	Smucker's	Coca-Cola	PepsiCo	(red logo)	Clorox	Colgate-Palmolive	Kimberly-Clark	L'Oréal	P&G	Unilever	Total
	2020 org.sales growth (%)	8.9[1]	8.0[1]	2.0	6.0	6.5	3.7	3.6	n/a	n/a	4.3	9.6	n/a	n/a	6.0	-11.7[2] / 3.2[3]	8.0	1.9	
	E-commerce as% of sales	n/a	n/a	5.0	8.5	5.7	5.0	n/a	n/a	n/a	3.0	13	n/a	n/a	n/a	27	n/a	9.0	
Relevance-led brand building, innovation and marketing	Occasion and purpose led portfolio innovation /design	🔵	●	●	●	●	●		●		●	●	●	●	●	●	🔵	🔵	15
	Data-driven marketing	🔵	🔵	🔵	🔵	●	●			✓				●	●	●	🔵		11
Partnering with all growing channels and embracing digital sales	Precision revenue growth management		●	●	●	●	🔵		●	●	●				🔵				9
	E-marketplace management	●	●	●	🔵	●	🔵										🔵	●	8
	Building omnichannel and DTC businesses	●	●	●	🔵	🔵	●							●	●		●	●	10
	Digital route to market and customer contact		🔵		●									●			●	🔵	5
Building brands & distribution in developing markets	Local brand building success models		●					●	●		●	●		●	🔵	●	🔵	🔵	10
Evolving the operating model to excel at local consumer closeness and ever greater productivity	Fitter, flatter and faster org	●				●	●	●	●	●	●		●			●	●	●	10
	Agile sprints to accelerate innovation and change	●			🔵	●	●		●	●	●			●		●	●	●	10
	Next generation design and procurement					🔵													1
	Intelligent supply chain			●	🔵	🔵	🔵	●	●	●	●								8
	Tech overhaul				●														1
	Back office automation																		0
	Agile budgeting and resource allocation					●				●	●					✓	●		4
Using programmatic M&A&D to acquire small brands and capabilities and to divest low growers	Programmatic M&A		●	●				●	●	🔵	●	●	🔵			●	●	🔵	11
	Divestment of brands	●	●			🔵				●	●	●						🔵	7
	Total	7	9	7	9	10	10	5	8	8	6	3	3	7	5	9	6	8	120

1. H1 '21 vs YA; 2. H1 2020; 3. H2 2020
2. For additional details on the new model, see our article

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CPGs need to go on a capability building spree – but most are only getting started

The 5 new model main dimensions	16 capabilities to build	CPGs building this capability today

Relevance-led brand building, innovation and marketing
- 1 — Occasion- and purpose-led innovation and design — 24%
- 2 — Data-driven marketing — 39%

Partnering with all growing channels and embracing digital sales
- 3 — Precision revenue growth management — 24%
- 4 — E-marketplace management — 33%
- 5 — Building omni-channel and DTC businesses — 39%
- 6 — Digital route-to-market and customer contact — 37%

Building brands & distribution in developing markets
- 7 — Local brand building success models — 14%

Evolving the operating model to excel at local consumer closeness and ever greater productivity
- 8 — Fitter, flatter, faster organization — 24%
- 9 — Agile sprints to accelerate innovation and change — 27%
- 10 — Next-generation design and procurement — 6%
- 11 — Intelligent supply chain — 18%
- 12 — Tech overhaul — 6%
- 13 — Back-office automation — 6%
- 14 — Agile budgeting and resource allocation — 4%

Using programmatic M&A&D to acquire small brands and capabilities and to divest low growers
- 15 — Programmatic M&A for small brands — 18%
- 16 — Divestment of low-growth brands — 4%