CPG specialist

OPINION

[Op-Ed] To Revive Their Might, Big CPGs Must Harness Old-School Marketing Wisdom

Unmatched scale is not the biggest advantage.

By Evan Eckman | July 21, 2023

The CPG industry is in a storm, and big ships are floundering. Although revenue has grown with inflationary pricing, some of the big CPG companies' unit volume has fallen well short of their rate of revenue growth.

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To make matters worse for big CPG brand houses, due to historic inflation, more consumers have shifted to lower-priced store brands than ever before, particularly in the U.S. where private label sales were up a staggering 11.3% in 2022. In many categories, private labels are now the leading brands.

What's behind these industry problems? As the global marketplace expands, global brands with unmatched scale, across every industry, inherently have an advantage. Some think this is their biggest advantage, but it is not.

Virtually all the big CPGs were founded more than a century ago. Their greatest power rests on their marketing experience and wisdom through countless business cycle shifts. This most important advantage is seemingly undervalued today.

Fully leveraged, the companies have a sizable market advantage. Unleveraged, price-driven private labels and innovative emerging brands will continue to gain shares from the big CPG companies and continue to erode shareholder value.

The solution lies in the decline of traditional marketing training that used to come from within major CPG companies. The deeper issue is the gradual erosion of brand equity and the changing role of the CEO. This holds repercussions for tomorrow and poses a significant threat to long-term shareholder value.

Old School, In House

Decades ago, most brands were created in-house by marketing teams, leveraging the scale of the big CPGs' massive distribution networks and low-cost production — all to ensure a steady stream of volume growth, contributing to a steady stream of consistent share price and dividend growth. So-called "bolt-on acquisitions" were the exception.

During that time, CPG giants offered premiere marketing academies that successfully applied the collective learnings of their huge brand portfolios across the globe and battled for shelf space in challenging environments. The likes of Nestlé and Coca-Cola created masterful and agile marketing playbooks and so-called brand bibles. Ambitious brand managers were taught marketing fundamentals, shelf-space battle strategies, and time-tested, proven marketing tactics by seasoned leadership.

Perhaps most importantly, these once highly competitive training grounds established a challenging, but structured path up the corporate ladder for brand managers who wanted to reach the C-suite over a 30-year career. For shareholders, this rigorous "Thunderdome" approach for major consumer goods marketing executives guaranteed skilled leadership during shifts in the business cycle.

But that era began to fade away more than a decade ago, and the repercussions are now becoming more evident with eroding volume challenges.

When the prestigious marketing training programs of the big CPG companies declined, so did their appeal to attract and retain the best and the brightest marketing talent. Some joined CPG startups, while others joined healthcare, tech, e-commerce and other industries.

> **“[Big CPGs'] greatest power rests on their marketing experience and wisdom through countless business cycle shifts.”**

The consequences of the CPG industry's current trajectory are evidenced by a recent survey conducted by Chief Outsiders and Consensus Point Research. As a bellwether for profitability, nearly two-thirds of CPG chief executives revealed their factories were operating at or below 80% of capacity. In an industry where innovation is king, 64% conceded their products are less innovative than their competitors.

Strikingly, half of these executives confessed to having no prior experience in sales or marketing leadership before ascending to their current position, and an alarming one-third admitted that their marketing teams lacked the basic command over marketing fundamentals.

Today, big CPG companies often view their marketing leaders as purchasing managers versus brand managers, now tasked to find lower-cost marketing suppliers versus business growth. This fundamental change in marketing's role changed their training curriculum but has also led to a change in their CEO's skillset.

The Visionary CEO

In a thriving, high-performance CPG company, the CEO is a visionary and captain, with a clear destination defined for the company's future growth. Marketing leadership is the navigator, charting the course, calculating the time needed for the trip, and adjusting the sail as the wind changes. Without a clear destination and well-defined roles, training, and experience, the ship stalls.

Take Kraft Heinz for example. Senior executives recently announced a new "marketing-centric" business remodel to analysts. Marketing and R&D are now moving up the company org chart, and the CPG is making a strategic pivot from deep discounts to offset price hikes toward investing in marketing teams, brands and innovation. A bold step to prioritize mentoring in the future.

It's no coincidence that CEO Miguel Patricio advanced through the ranks of global marketing at Coca-Cola, Philip Morris, Ambev, and AB InBev, prior to becoming chief of Kraft Heinz in June 2019.

Bertrand Rajon, a 30-year CPG veteran and former head of Nestlé's corporate leadership education, supports this perspective.

In conversation, he told me: "It's vital for CPG companies to invest in the continuing education and development of current and future leaders. For marketing, technology is rapidly changing the competitive landscape. However, such technologies must be viewed through the lens of classic marketing fundamentals and institutional wisdom to be understood and effectively applied."

Will the storm of brand erosion turn into a hurricane? Kraft Heinz is sailing forward. Will others follow? For the health of the industry, for the development of their marketing talent, and for the confidence of their shareholders, they simply must.

This is an op-ed by Evan Eckman, a partner with Houston-based strategic marketing firm Chief Outsiders and a former senior marketing executive with Nestlé. Views do not necessarily represent those of CPG Specialist.