THE FMCG GLOBAL 50 2022

Welcome to the new abnormal

Where resilience rules

OC&C Strategy consultants

uncommon sense™

The OC&C Global 50 2022

Now in its 20th year, the OC&C Global 50 tracks the performance of the world's 50 largest consumer goods businesses, providing an analysis of their most recent annual accounts and setting that against the context of the global industry themes.

In our latest edition, we give an overview of the rankings from 2021, shine a spotlight on our top pick performers, and assess what the emerging trends might mean for the future of these businesses.

After the turbulent first year of the pandemic, the world's 50 biggest FMCG companies rebounded with record sales growth in 2021.

However, soaring inflation, unstable geopolitics and the threat of global recession have shaken up much hoped-for stability.

Welcome to the new abnormal, where the only constant is volatility.

In this landscape, 'resilience' is the new watchword for FMCG companies, as they balance managing unpredictability with growth, profitability, and increasingly important ESG commitments.

In this year's report:

THE GLOBAL 50 LEADERBOARD

- WHO'S IN AND WHO'S OUT
- DRIVERS OF RECORD GROWTH
- THE COVID BOUNCE BACK

THE NEW ABNORMAL: EMERGING IMPERATIVES

BALANCING THE COST OF ESG

MEET OUR TOP PICK PERFORMERS OF 2021

FIVE QUESTIONS EVERY FMCG COMPANY SHOULD ASK

Welcome to the new abnormal, where the only **constant is volatility**

FMCG giants achieve record growth as winners pull away

The world's 50 largest FMCG companies delivered impressive financial results in a year sandwiched between the arrival of Covid and 2022's sharp inflation spike.

2022 RANKING OF THE GLOBAL 50

RANK	COMPANY	COUNTRY	GROCERY SALES IN MILLION US$ IN 2021[1]	GROCERY SALES % CHANGE IN LOCAL CURRENCY SALES '20 VS '21[2]
1	Nestlé	Switzerland	95,282	3.3%
2	PepsiCo	US	79,474	12.9%
3	Procter & Gamble	US	75,677	7.3%
4	JBS	Brazil	64,290	29.8%
5	Unilever	UK/Netherlands	61,991	3.4%
6	AB InBev	Belgium	54,304	15.8%
7	Tyson Foods	US	47,049	8.9%
8	Coca-Cola Company	US	38,655	17.1%
9	L'Oreal	France	38,165	15.3%
10	British American Tobacco	UK	35,329	-0.4%
11	Philip Morris International	US	31,405	9.4%
12	Wilmar	Singapore	28,967	24.8%
13	Mondelēz	US	28,720	8.0%
14	Danone	France	28,701	2.8%
15	Kraft Heinz	US	26,042	-0.5%
16	Heineken	Netherlands	25,935	11.3%
17	WH Group	China	25,777	5.4%
18	Japan Tobacco	Japan	21,170	11.1%
19	Altria	US	21,068	0.7%
20	Suntory	Japan	20,813	8.4%
21	Asahi Breweries	Japan	19,944	10.5%
22	Reckitt Benckiser	UK	18,204	-5.4%
23	General Mills	US	18,127	2.8%
24	Diageo	UK	17,487	8.2%
25	Colgate-Palmolive	US	17,421	5.8%

1. Grocery sales excluding excise duty payments. Currency exchange rate is based on the average exchange rate in 2021
2. Percentage change excludes excise duty payment
Source: Annual reports, 10K, OC&C analysis

RANK	COMPANY	COUNTRY	GROCERY SALES IN MILLION US$ IN 2021[1]	GROCERY SALES % CHANGE IN LOCAL CURRENCY SALES '20 VS '21[2]
26	Grupo Bimbo	Mexico	17,200	5.4%
27	Yili	China	16,811	13.8%
28	Kimberly-Clark	US	16,368	1.5%
29	Estée Lauder	US	16,170	13.4%
30	Marfrig	Brazil	15,827	26.5%
31	LVMH	France	14,872	25.8%
32	Kweichow Moutai	China	14,590	12.0%
33	Essity	Sweden	14,197	0.1%
34	Kelloggs	US	14,181	3.0%
35	Mengniu Dairy	China	13,661	15.9%
36	Keurig Dr Pepper	US	12,683	9.2%
37	Henkel	Germany	12,323	-1.3%
38	Royal FrieslandCampina	Netherlands	11,622	5.5%
39	Hormel Foods	US	11,386	18.5%
40	Tingyi	China	11,353	9.4%
41	Arla Foods	Denmark	11,255	4.0%
42	Conagra	US	11,185	1.2%
43	NH Foods	Japan	10,710	-4.4%
44	Carlsberg ***NEW**	Denmark	10,594	13.8%
45	Kirin Brewery Company	Japan	10,583	-3.9%
46	Pernod Ricard	France	10,430	4.5%
47	Kao	Japan	10,415	-0.7%
48	Molson Coors Brewing Company	US	10,280	6.5%
49	Imperial Brands	UK	9,591	-4.9%
50	Shiseido ***NEW**	Japan	9,426	12.4%

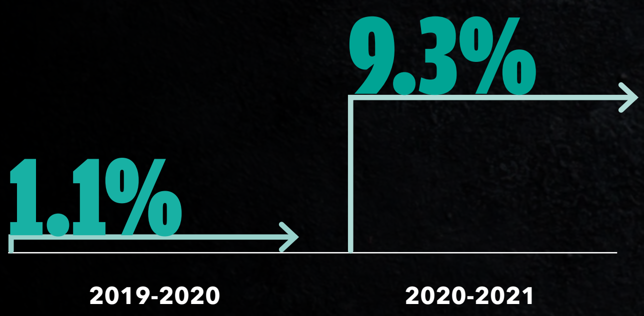
2021 in numbers

In 2021, the Global 50 achieved its biggest year of growth in a decade.

This was partly driven by Covid unwind, yet the spectacular figure hides an even bigger headline: average sales growth across both the Covid-impacted years surpassed pre-pandemic levels. Not only has the sector bounced back, it is thriving.

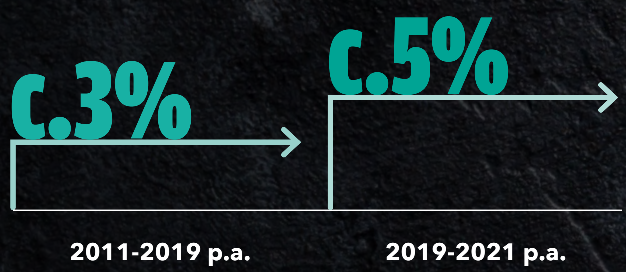
The post-Covid bounce

GLOBAL 50 TOTAL REVENUE GROWTH %



Bouncing back stronger

AVERAGE ANNUAL REVENUE GROWTH %



Star subsectors

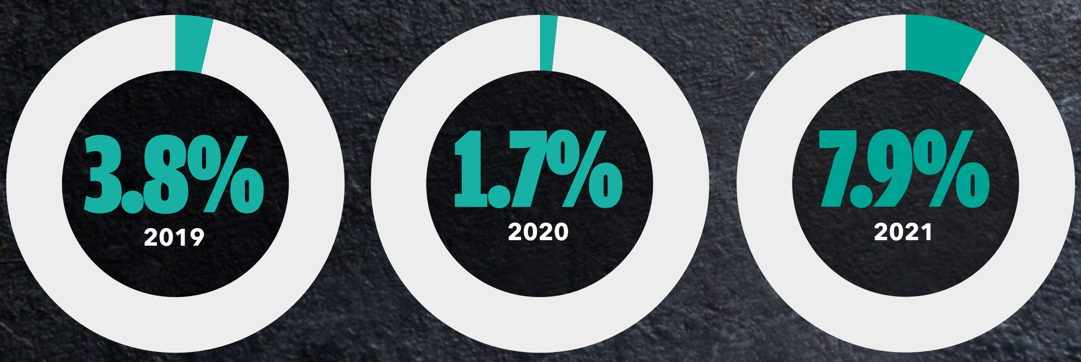
FOOD & DRINKS AND BEER & SPIRITS REVENUE GROWTH %

ORGANIC GROWTH DRIVES SALES

Resurging organic growth underpinned the strong performance of the Global 50. Companies that reported like-for-like numbers saw 7.9% organic growth in 2021 – up from 1.7% in 2020 and more than twice as high as 3.8% in 2019. This was driven by a 4.5% increase in prices and 3.4% volume growth.

This was a result of government Covid interventions that minimised job losses and protected disposable income during 2020. Lockdowns and restrictions restrained consumer spending, creating cash reserves and pent-up demand, which were unleashed in 2021. Whilst Covid impacted certain distribution channels, overall consumption was protected, and the Global 50 have been big winners.

% ORGANIC GROWTH IN COMPANIES REPORTING LIKE FOR LIKE NUMBERS



Driven by a **4.5%** increase in prices and **3.4%** volume growth.

DIVIDED FORTUNES – GAP BETWEEN WINNERS AND OTHERS WIDENS

The spread of growth rates across the Global 50 has significantly increased – in 2018-19, most players saw growth between 0-5%. However, 2021's winners achieved double-digit growth while others saw flat or declining revenue.

This variation can be explained by how Covid has impacted different industries and geographies. Many businesses whose operations and key channels were closed during Covid saw a bounce back.

RANK	CHANGE 2021/20[3]	COMPANY
1	-	Nestlé
2	+1	PepsiCo
3	-1	Procter & Gamble
4	+1	JBS
5	-1	Unilever
6	-	AB InBev
7	-	Tyson Foods
8	+2	Coca-Cola Company
9	-	L'Oreal
10	-2	British American Tobacco
11	+1	Philip Morris International
12	+5	Wilmar
13	-	Mondelēz
14	-3	Danone
15	-1	Kraft Heinz
16	-	Heineken
17	-2	WH Group
18	+3	Japan Tobacco
19	-1	Altria
20	-	Suntory
21	+1	Asahi Breweries
22	-3	Reckitt Benckiser
23	-	General Mills
24	+1	Diageo
25	+1	Colgate-Palmolive

RANK	CHANGE 2021/20[3]	COMPANY
26	-2	Grupo Bimbo
27	+1	Yili
28	-1	Kimberly-Clark
29	+1	Estée Lauder
30	+3	Marfrig
31	+4	LVMH
32	-	Kweichow Moutai
33	-4	Essity
34	-3	Kelloggs
35	+1	Mengniu Dairy
36	+1	Keurig Dr Pepper
37	-3	Henkel
38	-	Royal FrieslandCampina
39	+11	Hormel Foods
40	+4	Tingyi
41	-1	Arla Foods
42	-	Conagra
43	-4	NH Foods
44	+7	Carlsberg ***NEW**
45	-4	Kirin Brewery Company
46	-	Pernod Ricard
47	-4	Kao
48	+1	Molson Coors Brewing Company
49	-4	Imperial Brands
50	+8	Shiseido ***NEW**

3. Ranking changed as compared to the revised ranking in 2020 based on latest results reported in 2021

Star performers

Meet our Top Picks for 2021

These five companies delivered stellar results in 2021, with many of them making moves to prepare for the new era of volatility.

SALES:
$15,827m

SALES GROWTH:
26.5%
(38.4% 2019-20)

PROFIT MARGIN:
14.8%

Marfrig

Food processor, Marfrig, is the only star performer from South America.

Agile and efficient supply chains enabled the Brazilian firm to capture growing demand for beef in North America through increased production capacity while staving off headwinds in South America.

Marfrig's diversification into plant-based food, notably through the acquisitions of Sol Cuisine and Drink Eat Well, further fuelled growth while reducing risk from changing consumption habits.

Hormel

SALES:
$11,386m

SALES GROWTH:
18.5%
(1.2% 2019-20)

PROFIT MARGIN:
9.9%

In February 2021, SPAM maker Hormel made its largest ever acquisition when it scooped up iconic US peanut brand Planters Nuts for $3.35 billion.

The deal kicked off a successful year, driven by portfolio diversification, investment in key brands (SPAM, SKIPPY and Black Label) and the recovery of foodservice.

The acquisition of Planters reduces Hormel's reliance on meat, and springboards it into the snacking and convenience markets.

Mengniu Dairy

蒙牛™

SALES:
$13,661m

SALES GROWTH:
15.9%
(-3.8% 2019-20)

PROFIT MARGIN:
6.6%

Continued product innovation underpinned Chinese dairy manufacturer Mengniu's growth.

In 2021, it launched a five-year strategy, creating a New Mengniu. During the year, it focused on products that catered to evolving consumer needs, such as organic, high protein milk products and low sugar chilled products. It also proactively explored and expanded new sales models and channels, which included forming a partnership with retail company Sam's Club and tripling rural points of sale (2019-21).

It pledged to be the first member of the dairy industry to achieve carbon neutrality and is set to announce its carbon emission reduction targets in 2022. In other ESG categories, it achieved the highest government award for its contribution to poverty alleviation and the fight against Covid.

L'Oréal

L'ORÉAL

SALES:
$38,165m

SALES GROWTH:
15.3%
(-6.3% 2019-20)

PROFIT MARGIN:
20.0%

French cosmetics brand L'Oréal's investment in e-commerce and point of sale digitalisation has enabled it to outperform close peers over the last year.

E-commerce sales grew by 25.7% 2020-21 and accounted for 28.9% of sales in 2021. In addition, L'Oréal's focus on continuous product innovation and beauty tech – with 517 patents registered in 2021 – has allowed it to better meet the changing needs of consumers.

L'Oreal has linked part of its broader financing to sustainability, enabling access to cheaper capital to invest in growth, in return for delivering sustainability initiatives and hitting ESG performance targets.

PepsiCo

PEPSICO

SALES:
$79,474m

SALES GROWTH:
12.9%
(4.8% 2019-20)

PROFIT MARGIN:
14.7%

PepsiCo's sale of fruit juice brands Naked and Tropicana is a masterclass in portfolio optimisation.

Though the US food and drink giant is named after a sugary drink, it is moving away from this increasingly unfashionable category. Instead, it is focusing on core categories (Doritos) and high-growth areas such as convenience (Cheetos Mac 'n Cheese).

In 2021, it outlined its commitment to ESG with the launch of Pep+ (Pep positive): "a strategic end-to-end transformation with sustainability at the centre of how the company will create growth and value by operating within planetary boundaries." Part of this involves a joint venture with plant-based protein specialist Beyond Meat to create and scale new snack and beverage options. PepsiCo has raised debt to fund its ESG commitments, by issuing 'green bonds' where the net proceeds are used to pay for initiatives such as building a more sustainable food system.

MERGERS & ACQUISITIONS

There was a rebound in M&A activity in 2021 vs. 2020 and several of the big movers in the Global 50 were buoyed by strong inorganic growth. Total deal value reached $65bn (vs $45bn in 2019, and $22bn in 2020).

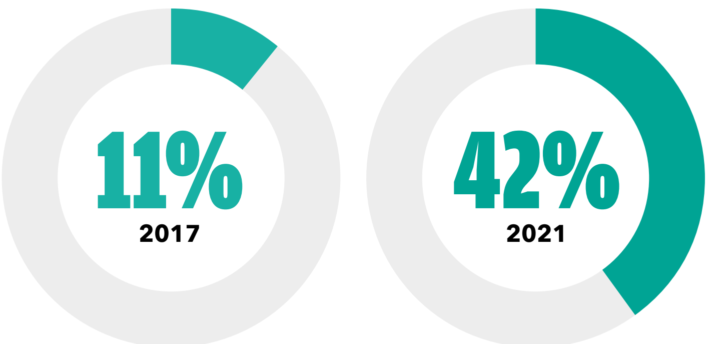
Private equity has continued to play an ever increasing role in FMCG deals, accounting for over 42% of deal value in 2021, vs 11% in 2017. Large deals include:

- CVC's $5.1bn acquisition of Unilever's tea business
- One Rock's $4.3bn acquisition of Nestle's North American bottled water business

This picture is very different to 2022, characterised by much more muted M&A activity. Uncertainty about the inflation outlook and reduced availability of cheap capital has limited both the attractiveness and feasibility of large buyouts.

However, the fundamental appeal to investors of consumer goods and the continued need for the major players to reshape portfolios mean we expect to see a strong bounceback in activity once inflation starts to stabilise and capital markets ease.

PRIVATE EQUITY FMCG DEALS DEAL VALUE %



Trade deals

NEW ENTRANT Carlsberg's acquisition of Marston's Brewing propelled it into the rankings this year.

HIGH CLIMBER Marfrig's c.27% revenue growth was partly boosted by its acquisition of plant-based food companies.

FALLING THREE PLACES Reckitt dropped in the rankings due to its divestment of its Infant Formula and Child Nutrition business in China, as well as E45 and Scholl.

The bounce-back factor

NEW ENTRANT
Cosmetics giant Shiseido saw 12% growth thanks to a bounce back in demand for beauty products and the resurgence of travel retail.

HIGH CLIMBERS
Hormel Foods and Wilmar both moved up the list, as the easing of Covid restrictions reawakened demand from foodservice.

FALLING
Sales declined at Kirin Breweries and Nippon Food Group as the re-emergence of Covid suppressed demand in Japan and key export markets.

The new abnormal

The Global 50 results contain the beginning of an inflationary period that will be felt fully this year. A slowing Chinese economy, and volatile geopolitics will only add to increasing uncertainty.

INFLATION:
PROTECT IN THE SHORT TERM

Cost inflation is expected to continue into the next year, creating pressure on businesses to protect the bottom line as both consumers and retailers become increasingly squeezed.

PREPARE FOR THE OTHER SIDE

However, whilst most of the focus is on the current crisis, there is also an imperative for businesses to prepare for the future. Cost inflation will eventually peak as drivers of inflation recede (see below).

Receding inflation should open up strategic opportunity. After the 2008 inflation spike, many FMCG companies saw margins bounce back the following year. Companies should be planning now for how competitive dynamics may evolve. They should also be thinking about how they may hold on to higher share of consumer spend through brand and innovation strategy.

Light at the end of the tunnel?

Many of the drivers of inflation have been short-term shocks that should recede in the medium term:

- The bump in post-Covid consumer spending should normalise.
- The loss of agricultural yield from Ukraine will be replaced by other geographies.
- Supply chain congestion is expected to ease with new capacity coming online.
- La Nina, which suppresses agricultural yield, is predicted to abate in 2023.
- Record oil and gas rises should partially reverse in the medium term due to competitive dynamics.

... this, in combination with increasing central bank action in the form of higher interest rates should ultimately help put the brakes on inflation.

GEOPOLITICS

In a way we have not seen in recent decades, businesses must be prepared to manage the impact of politics on commerce.

Many global businesses are already feeling the impact of slower economic growth in China, as the recent challenges of a trade war with the US and continued Covid lockdowns exacerbate longer-term structural issues. These include a dwindling working age population, slow-down in urbanisation and increasing labour costs.

The Russian invasion of Ukraine has resulted in widespread sanctions and put pressure on global companies to move their operations. Companies exposed to China face similar uncertainty due to heightened China-Taiwan relations.

Rising international tensions have the potential to create waves of inflation and deflation as conflicts and sanctions create disruptions to energy, agricultural commodities and supply chains. The ability to manage this cycle could become a critical competency for brands.

CLIMATE CHANGE

The weather has established itself as a new disruptor. The frequency of extreme conditions, driven by climate change, is on the rise.

Unpredictable weather will have an ongoing impact on supply chains, both in terms of raw material yields and distribution. It will also impact consumer demand, changing consumer behaviour and increasing the frequency of spending shocks.

Going forwards, climate will become an integral part of the planning and risk management required of businesses.

> Businesses must be prepared to manage the impact of politics on commerce

Emerging
Imperatives

Two-thirds of the Global 50 talked explicitly about volatility in their annual reports. 'Resilience' is taking the place of 'efficiency' as the top priority for businesses.

1 Supply chain flexibility

We expect to see large FMCG companies build greater flexibility into their supply chains. This will include reassessing the global footprint of manufacturing operations and opening facilities in new territories to diversify exposure and mitigate geopolitical uncertainty.

Co-manufacturers are expected to be key beneficiaries of this trend. In Soft Drinks, for example, co-manufacturers in Europe saw 11% p.a. volume growth from 2017-21, vs total Soft Drink volumes growing by 1%.

This outperformance is expected to continue, supported by significant investment in co-manufacturing from private equity and large strategic players, which have spotted the opportunity to drive growth and consolidation.

To drive efficiency and build resilience and flexibility Kraft Heinz has announced a partnership with Microsoft to use machine learning and analytics to create more sophisticated, automated supply chain processes.

A cautious approach to China

Historically many companies have been focused on how to expand their presence in China to capitalise on high growth. We may see this start to reverse as the Chinese economy slows and geopolitical concerns increase.

In other industries, there are already signs of a shift from China: Nike has increasingly been relocating production facilities to south-east Asia and Africa, Apple has encouraged its suppliers to shift some iPhone production out of China, and Samsung has closed several factories in China over the past three years.

FMCG players may well follow, or at least re-evaluate how they do business in China. Even some Chinese companies have been building their presence outside of China. For example, WH Group has driven an increasing share of revenue overseas, partly through making acquisitions in Europe and Mexico, and investing in expanding their US processing plants.

2 Spread geographical risk

We expect to see more international companies evolving their portfolios to make sure they are positioned to capitalise on high-growth markets and manage risk.

Kellogg's, for example, now generates 42% of its sales outside North America, vs. 36% in 2018, having driven international growth, particularly in Asia, the Middle East and Africa.

3 Focused portfolios

A broad portfolio can help mitigate risk. However, in these more uncertain times, there's a need for a greater degree of operational focus. It is therefore of little surprise to see the Global 50 selling off non-core assets as they orientate their portfolios for growth. This is a marked change in approach from investing time and capital in a wide array of new product development and M&A in search of growth, and we expect to see companies continuing to carefully target where they place their attention and investment.

- PepsiCo sold off its lower growth, lower profit juice brands business to PAI in a $3.3bn deal, with the stated aim of reinvesting the funds in its fast-growing health-focused snack and zero-calorie beverage brands.
- Mondelez is to sell off its Trident and other gum brands to refocus on chocolates and biscuits as its core growth engines.
- Coca-Cola has culled 200 tail brands to focus on driving scale and profitability in its remaining portfolio.

4 Operating model agility

Several of the Global 50 announced significant re-structures this year to improve agility.

- Unilever is switching from its current matrix structure to five business groups to enhance the group's ability to respond quickly to consumer and channel trends.
- Henkel is to merge its Laundry & Home Care and Beauty Care units to create a single Consumer Brands business unit. The goal is to create faster business decisions as well as scale efficiencies (for example in admin, distribution, marketing and supply chain). This will generate cash to invest in strategic priorities.

The climate constant

In addition to the above challenges, many Global 50 companies are grappling with how to operate more sustainably.

As well as the imperative of increasing regulation, there is growing pressure from consumers (particularly Gen Z), investors and employees. Brands that get it right will have an opportunity to capture growth.

In response, more companies have set ESG targets. The top 10 Global 50 companies have pledged to become net zero and have made multiple other commitments. These include reducing water, plastic, and energy use, and improving the livelihoods of workers and local communities. Delivering against these targets requires fundamental changes, which in turn require material investment.

Example: Investing in the planet

Nestlé has ringfenced CHF1bn (c.1% of its revenue) each year for the next five years to fund its commitment to halving greenhouse gas emissions by 2030 and reaching net zero by 2050. Initiatives include shifting to 100% renewable energy at all sites, working with suppliers on regenerative agriculture practices and expanding its plant-based product offering.

> The top 10 Global 50 companies have pledged to become net-zero...

Adding up the new abnormal

FMCG companies are already dealing with the impact of unprecedented inflation on their material and production costs, but this is likely to stabilise in the next 12-18 months. By contrast, the need to build resilience and flexibility, at the same time as delivering on ESG commitments, presents a bigger structural challenge on cost.

Companies will have to – and some have already begun to - offset this by focussing on driving operational efficiencies, investing in tech, spreading risk, restructuring and portfolio decluttering.

Whilst the precise dynamics of the next 12-24 months remain uncertain, there appears to be no question that the changing winds of the last 2 years will continue. Winning players will be those who successfully strike the balance between pursuing growth while mitigating risk in an unstable world and managing profitability as the cost of doing business keeps rising.

There appears to be no question that the changing winds of the last 2 years will continue

The new abnormal: five questions every business should ask

1

What changes should you make to your portfolio to strike the right balance of growth vs risk?

2

Where should you place big bets within your portfolio to make sure your key brands are set up for success?

3

How should you adapt your supply chain and operating model to make them more resilient, and flexible without losing control of costs?

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

4

How can you evolve your business model to deliver against ESG commitments, while still driving growth and profitability?

5

What is the right strategy for your business to optimise performance as and when input prices come down?

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

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