THE OC&C GLOBAL 50
2011

# NEW FRONTIERS

OC&C's annual review of the Top 50 Global FMCG Companies

OC&C Strategy Consultants

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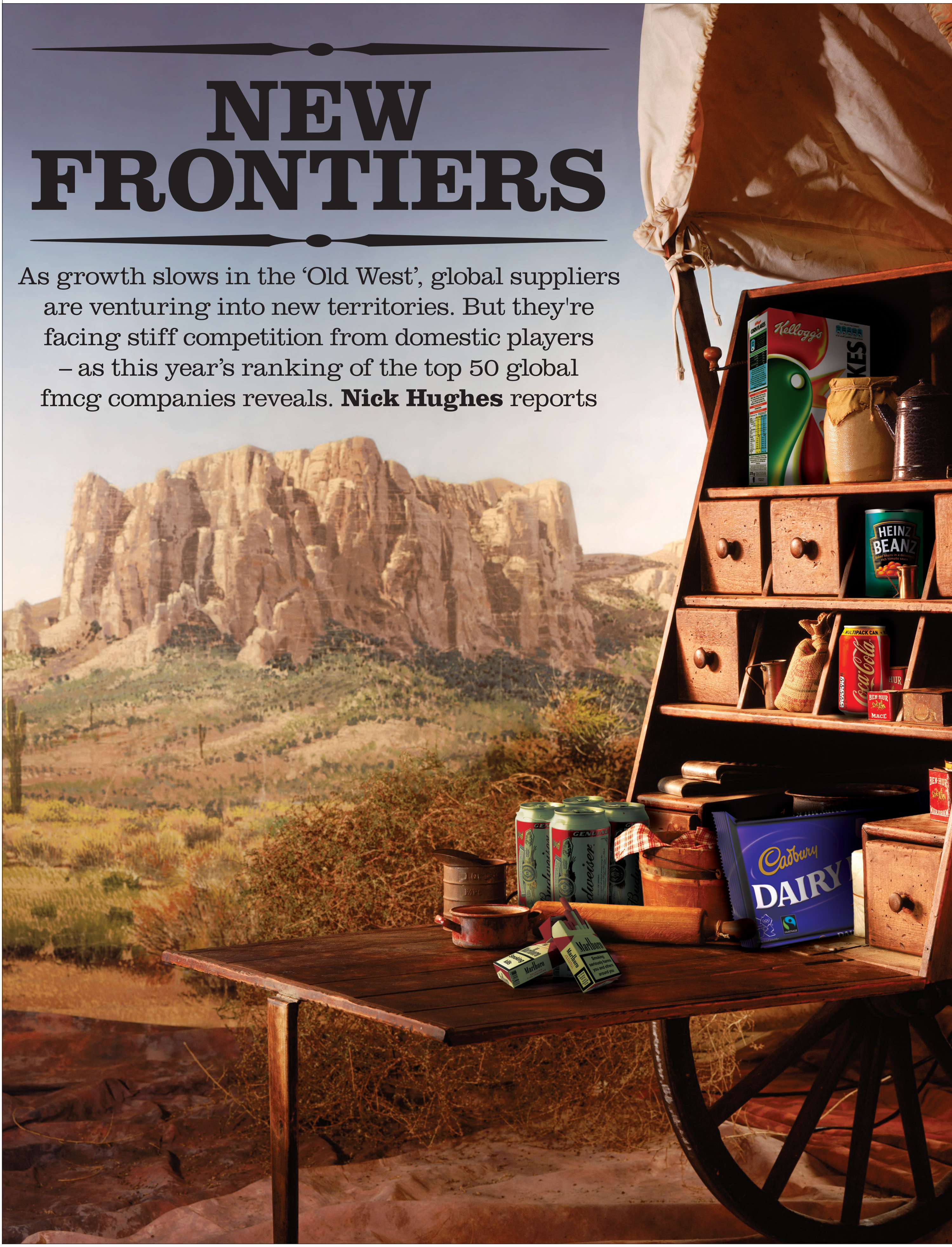
As growth slows in the 'Old West', global suppliers are venturing into new territories. But they're facing stiff competition from domestic players – as this year's ranking of the top 50 global fmcg companies reveals. **Nick Hughes** reports



Now the West has been won, the global gunslingers of fmcg are crossing the borders into high-growth, emerging economies. But there are no easy wins to be had. They're having to go head to head with major local players in the fight for market supremacy – as this year's Global 50 league table of the world's top fmcg suppliers reveals. The table, compiled exclusively for The Grocer by OC&C Strategy Consultants, offers a tantalising glimpse at where the future powerbase of fmcg will lie.

The top 10 remains unchanged but further down the list seismic shifts are taking place. Indeed, some national players are now growing so strongly in their domestic markets that they have usurped established multinationals in the rankings. Arla Foods has dropped out, to be replaced by Brasil Foods, formed in 2009 by the merger of meat suppliers Perdigao and Sadia. The fastest grower was also Brazilian – the meat supplier JBS, which climbed 24 places to 15 after its acquisition of Bertin and Pilgrim's Pride Corp. A gaggle of Chinese and Indian companies, meanwhile, are on the fringes of the top 50 and poised to further break the Western hegemony in 2011.

After the pause of 2009, when stagnant consumer demand and volatile commodity prices led to falling sales and narrowed margins, 2010 saw a gradual recovery in the Global 50's fortunes. Sales growth is back at an average of 7.9%, of which almost half was organic, fuelled by healthy volume growth. Profit margins improved by 0.2 percentage points to 16.6%, although still 1.5 points behind record 2007 levels. Ad spend, meanwhile, gained 0.2 points.

Emerging markets were the target in 2010, garnering their highest-ever proportion of acquisitions – 39% by value, compared to 1% in 2008 . Aside from the biggest deal, in which Coca-Cola consolidated its supply chain by buying the North American operations of bottling group Coca-Cola Enterprises for about £9.8bn in equity and assumed debt, the key deals reflected a desire to tap into high-growth markets.

Heineken paid more than $7bn for Mexican brewer Femsa Cerveza, while 34 »

# THE OC&C GLOBAL 50

## THE GLOBAL 50

| RANK | CHANGE IN RANK Y-O-Y | COMPANY | COUNTRY | FMCG SALES 2010 $M (Y-O-Y % GROWTH) | FMCG SALES AS % TOTAL SALES | PROFIT MARGIN % 2010 (2009) | ROCE % 2010 (2009) |
|---|---|---|---|---|---|---|---|
| 1 | → | Nestlé AG | Sui | 99,702 (4) | 95 | 14 (15) | 19 (21) |
| 2 | → | Procter & Gamble | US | 78,938 (3) | 100 | 20 (21) | 18 (16) |
| 3 | → | Unilever | UK/NL | 58,766 (11) | 100 | 15 (13) | 27 (23) |
| 4 | → | PepsiCo | US | 57,838 (34) | 100 | 16 (20) | 20 (33) |
| 5 | → | Kraft Foods | US | 49,207 (27) | 100 | 12 14) | 9 (12) |
| 6 | → | Ab InBev | Belgium | 36,297 (-1) | 100 | 29 (27) | 13 (12) |
| 7 | → | Coca-Cola Company | US | 35,119 (13) | 100 | 27 (29) | 17 (24) |
| 8 | → | Archer Daniels Midland | US | 28,205 (-5) | 46 | 5 (4) | 13 (13) |
| 9 | ↑ 1 | Philip Morris International | US | 27,208 (9) | 100 | 41 (40) | 55 (47) |
| 10 | ↓ 1 | Japan Tobacco | Japan | 26,417 (-11) | 97 | 11 (10) | 11 (10) |
| 11 | → | L'Oréal | France | 25,884 (12) | 100 | 16 (15) | 19 (15) |
| 12 | → | BAT | UK | 23,010 (5) | 100 | 33 (32) | 25 (24) |
| 13 | → | Groupe Danone | France | 22,584 (14) | 100 | 15 (16) | 12 (13) |
| 14 | → | Heineken Holding | NL | 21,419 (10) | 100 | 14 (12) | 11 (12) |
| 15 | ↑ 24 | JBS | Brazil | 17,423 (76) | 56 | 4 (3) | 7 (3) |
| 16 | ↓ 1 | Altria Group | US | 16,731 (2) | 99 | 41 (36) | 39 (38) |
| 17 | ↑ 3 | Asahi Breweries | Japan | 16,249 (1) | 96 | 7 (6) | 10 (9) |
| 18 | ↓ 1 | Kirin Beweries | Japan | 15,914 (-5) | 76 | 6 (6) | 5 (5) |
| 19 | ↓ 1 | Colgate-Palmolive | US | 15,564 (2) | 100 | 22 (24) | 56 (55) |
| 20 | ↓ 1 | Diageo | UK | 15,472 (5) | 100 | 27 (28) | 20 (21) |
| 21 | ↑ 1 | Kimberly-Clark | US | 15, 167 (3) | 77 | 15 (16) | 24 (25) |
| 22 | ↑ 1 | General Mills | US | 14,796 (1) | 100 | 18 (16) | 22 (19) |
| 23 | ↓ 7 | Johnson & Johnson | US | 14,590 (-8) | 24 | 28 (26) | 24 (25) |
| 24 | ↓ 3 | SABMiller | UK | 14,195 (-5) | 100 | 25 (21) | 12 (12) |
| 25 | ↑ 2 | Tyson Foods | US | 13,362 (7) | 47 | 5 (-1) | 20 (-3) |
| 26 | → | Kellogg Company | US | 12,397 (-1) | 100 | 16 (16) | 25 (28) |
| 27 | ↑ 2 | Dean Foods | US | 12,123 (9) | 100 | 3 (6) | 7 (11) |
| 28 | ↓ 3 | ConAgra | US | 12,079 (-3) | 100 | 10 (9) | 15 (14) |
| 29 | ↓ 1 | Reckitt Benckiser | UK | 11,929 (8) | 91 | 25 (24) | 27 (46) |
| 30 | ↑ 1 | Imperial Tobacco | UK | 10,998 (4) | 100 | 17 (16) | 15 (13) |
| 31 | ↑ 1 | Avon | US | 10,861 (6) | 100 | 10 (10) | 22 (27) |
| 32 | ↑ 1 | Kao | Japan | 10,863 (-4) | 85 | 7 (7) | 12 (12) |
| 33 | ↓ 9 | Sara Lee Corporation | US | 10,793 (-1) | 100 | 7 (5) | 19 (10) |
| 34 | ↓ 4 | Carlsberg | Denmark | 10,705 (1)) | 100 | 17 (16) | 11 (11) |
| 35 | ↓ 1 | HJ Heinz | US | 10,495 (5) | 100 | 14 (16) | 23 (25) |
| 36 | ↑ 1 | Royal Friesland Campina | NL | 10,089 (8) | 85 | 5 (3) | 14 (9) |
| 37 | ↓ 2 | Henkel | Germany | 10,074 (6) | 50 | 11 (8) | 14 (10) |
| 38 | ↓ 2 | Pernod Ricard | France | 9,858 (-2) | 100 | 24 (23) | 8 (9) |
| 39 | ↑ 1 | Yamazaki Baking | Japan | 9,773 (4) | 92 | 3 (2) | 7 (5) |
| 40 | ↑ 2 | Grupo Bimbo | Mexico | 9,277 (1) | 100 | 9 (9) | 14 (13) |
| 41 | ↑ 3 | Ajinomoto | Japan | 9,067 (5) | 72 | 4 (1) | 6 (1) |
| 42 | NEW IN | SCA | Sweden | 9,029 (-3) | 59 | 8 (7) | 10 (9) |
| 43 | ↓ 2 | Reynolds American Inc | US | 8,551 (2) | 100 | 26 (21) | 21 (16) |
| 44 | ↓ 1 | LVMH | France | 8,414 (16) | 31 | 21 (19) | 18 (15) |
| 45 | → | Bunge | Bermuda | 8,388 (9) | 18 | 2 (1) | 5 (3) |
| 46 | ↑ 1 | Estée Lauder Companies | US | 7,796 (6) | 100 | 10 (6) | 25 (14) |
| 47 | ↑ 1 | GlaxoSmithKline | UK | 7,746 (7) | 18 | 14 (30) | 16 (32) |
| 48 | ↓ 2 | Campbell | US | 7,676 (1) | 100 | 18 16) | 36 (35) |
| 49 | NEW IN | Brasil Foods | Brazil | 7,613 (5) | 59 | 7 (1) | 7 (0) |
| 50 | → | Beiersdorf AG | Germany | 7,065 (6) | 86 | 9 (10) | 19 (21) |

**1. Excluding major exceptional items (perimeter changes and litigations)**

« 33 PepsiCo snapped up Russian dairy group Wimm-Bill-Dann for more than $6bn, giving it a leading position in the Russian market and exposure to the dairy category. "Adding Wimm-Bill-Dann to PepsiCo's portfolio gives us a strong, high-growth platform in the dairy category," said Indra Nooyi, PepsiCo chairman and CEO, on announcing the deal. "It also gives us clear leadership in the food and beverage industry in Russia, a fast-growing, strategically important market."

Other notable deals saw Nestlé acquire Yunnan Dashan Drinks Co, the Chinese soft drinks supplier, and Heinz buy Foodstar, the Chinese soy sauce manufacturer.

Acquisition, however, is no longer viewed as the only route to emerging markets. The Global 50 are spending more on local manufacturing and infrastructure projects in order to secure long-term organic growth.

"They've gone on that journey of starting out with partnerships and ventures, getting their brands into some of these markets," explains OC&C partner, Will Hayllar. "They've built up businesses and become comfortable with the operating environment in those countries and they're now investing in infrastructure that will cement positions in those markets, give them better local economics and more fuel to continue to invest."

PepsiCo initiated a $2.5bn investment programme in China in 2010, which includes plans to open up to 12 new factories and R&D facilities over three years. SABMiller has also invested in four new breweries in Africa and bought three breweries and built a further four in China.

Nestlé plans to open an R&D facility in India at Manesar, close to its HQ, by 2012. It's also making a major push in Africa. It recently opened a £65m factory in Nigeria's Ogun state to make products under its Maggi brand. This spate of African activity represents a significant strategy shift, says Hayllar. "Africa's a region that hasn't been top of people's capex list, certainly not within consumer businesses, but that's starting to change."

Acquisition and infrastructure investment are just two of the weapons in the expansionists' arsenal though. The third is adjustment and expansion of product range so it's tailored to the needs of the local market. Last year, Unilever India launched Brooke Bond's Sehatmand, a tea enriched with vitamins, to address localised micronutrient deficiencies, for example. P&G has released Tide Naturals in India and launched a new, better value, Mach3 razor for emerging markets.

# CHINA'S FAST SHOOTERS

**WAHAHA:** Chairman, Zong Quinghou, is China's richest man. In 2010 he presided over grocery revenues worth US$8.1bn, up 27% year-on-year. In fact the soft drinks and dairy supplier is probably already big enough to break into the Global 50 but is omitted due to the lack of an annual report. Now Zong reportedly wants to team up with multinationals looking for a foothold in the Middle Kingdom.

**MENGNIU DAIRY:** Rumoured to be hungry for acquisitions, China's biggest dairy supplier – with 20% of the Chinese market – is now looking to broaden its horizons. It was one of two Chinese players said to be circling over French yoghurt maker Yoplait after it put 50% of its business up for sale last year. Now it's entering a new era after founder Niu Gensheng was succeeded as chairman by Ning Gaoning. Growth is on the menu, say experts.

**TINGYI (KANG SHI FU):** China's fastest-growing food & drink company saw sales leap 31% in 2010 to US$7bn. It is second only to Coca-Cola in the Chinese soft drinks market with its ready-to-drink teas dominating 11% of the market. Instant noodles are another strength, with Tingyi commanding 25% of China's dried processed food market. At current growth rates, the company would hit the Top 50 in 2011. All we need is an annual report.

**BRIGHT FOOD GROUP:** Its global ambitions are no secret. Three times, Bright has tried and failed to buy Western food businesses in the past year. Undeterred by its failed bids for United Biscuits, US vitamin retailer GNC and Yoplait, Bright is now said to be pursuing New Zealand's Independent Liquor Group. But Europe remains the key target. "We need to buy a top-three European food company," its chairman reportedly said recently.

**UNI-PRESIDENT:** Strictly speaking this one doesn't belong to the People's Republic – it's actually Taiwan's biggest food company. But the vast majority of its $4bn revenues comes from its Chinese business. It's a good example of how Taiwanese businesses have scored big in China thanks to capitalist nous and valuable knowledge of Chinese consumers. By combining the two it's been able to get ahead of many Western companies in China.

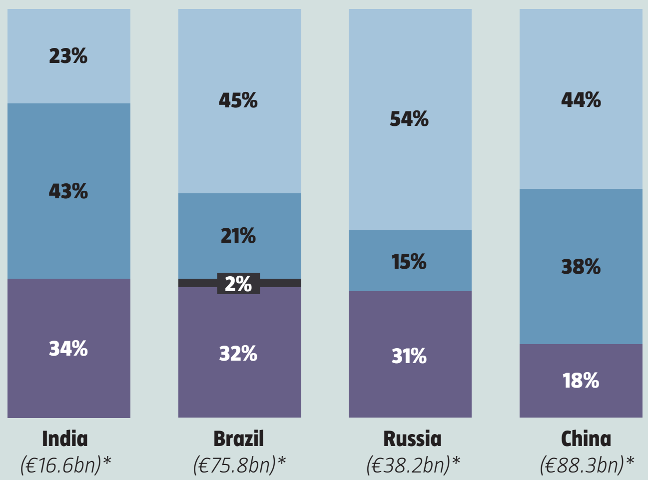
Local players are bolstering their defences in the face of such activity. For the first time in 2010, two Brazilian companies made it to the Top 50, but even more intriguingly, a host of Chinese companies are on the cusp of breaking into the chart – a result both of strong organic growth and domestic consolidation. China's Wahaha could already be large enough to rank but is excluded due to the lack of an annual report. Tingyi should make the cut next year on its current growth rate, while Mengniu Dairy and Uni-President could enter the ranks by 2014-16, says OC&C.

And the Chinese heavyweights are not content to merely defend their positions in their domestic market. Increasingly, they are showing an appetite for international exposure through acquisitions. "Whenever a medium-sized European or American firm comes on to the market there's usually a Chinese suitor," says Hayllar. "People like Mengniu and Bright Foods have been talked about as potential buyers of United Biscuits and Yoplait over the past year."

As to who's winning in the stand-off between local and global players, the picture is mixed. In the key battlegrounds of Brazil, Russia, India and China, the locals saw their retail sales grow five percentage points faster than the Global 50 between 2005 and 2009, though this was largely down to local consolidation rather than organic growth. Indeed, the two mega-Russian deals of 2010 have since brought Global 50 growth in line with local leaders, although the latter still hold sway in India, China and Brazil.

There are clear differences in the approaches of the multinationals and aspiring local companies to emerging markets. Global 50 companies dominate in beauty, home care and soft drinks while the locals are maintaining strong positions in dried processed foods and dairy. This is an issue of logistics as well as of cultural differences, with limited shelf lives and 37 »

## THE DEVELOPING WORLD: MARKET SHARE




**The multinationals of the Global 50 have had to fight hard for market share in the BRIC nations. Markets with high numbers of powerful local players are ripe for consolidation**

***fmcg retail sales in key categories**

**KEY**
- **Small local players**
- **Large local players**
- **Global 50 (local)**
- **Global 50**

# BRITS OUTGUNNED

Britain's biggest fmcg companies are losing ground to increasingly powerful foreign rivals. This is partly because of the weakening pound but also because they have tended to be net sellers rather than buyers in recent years.

The number of UK-based companies in the top 10 has fallen from 10 in 2007 to seven after Cadbury and Scottish & Newcastle were acquired by overseas rivals and Tate & Lyle disposed of some of its non-core operations to fall out of the Top 50.

Of the seven UK companies remaining, only GSK and Imperial Tobacco have climbed the rankings (the latter through a series of acquisitions), while the rest, including Diageo, SAB Miller and BAT, have stayed the same or moved down the list. "You wonder whether some of these firms haven't had the confidence to make bigger bets in emerging markets," says OC&C partner Will Hayllar.

"A lot of the biggest global firms have been buying aggressively as well as rolling out their own businesses to those marketplaces. It appears that UK firms on aggregate haven't felt so confident in buying, or haven't felt as though they have the same backing from their investors to make some of those early bets."

British-based companies that have found themselves targets for foreign suitors have more often than not held strong positions in emerging markets. Unlike Kraft, Cadbury had a wide distribution network in India and South America while Carlsberg netted 100% ownership of Russia's Baltika through the S&N buyout, giving it an approximately 40% slice of the Russian market.

"You could question whether UK shareholders were putting enough value on those emerging market positions because they obviously sold out to businesses that put a higher value on them," says Hayllar.

In their domestic market, the focus of British companies has been on adding value to their existing brands. Diageo drove volume growth of its Smirnoff brand with its Be There advertising programme, while Reckitt Benckiser has focused on 19 'Powerbrands' in an effort to drive above-average industry growth in core product areas.

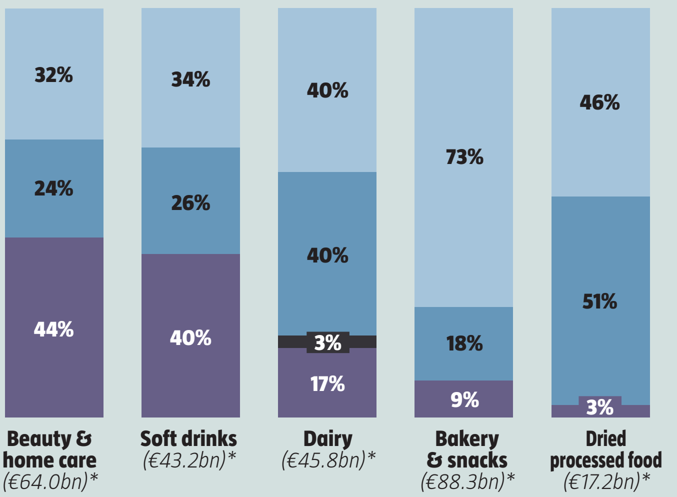
« 35 differing tastes in emerging markets often making imports impractical.

As the Global 50 have invested in emerging markets, spend in developed countries has withered. Last year, just $22bn of acquisitions were made to strengthen existing positions compared with $111bn in 2008. In stark contrast to the attractive growth opportunities on offer in emerging markets, volume growth in mature Western markets remains sluggish, so here the focus is on premiumisation and innovation-led growth. Nestlé is pursuing science-led innovation strategy and has recently created a dedicated Health Science business and opened the Nestlé Institute of Health Sciences. P&G, meanwhile, is looking to add value in developed markets through NPD such as Pampers Dry Max and Gillette Proglide.

Besides the stagnation in sales growth, the big challenge in developed markets is commodity price inflation. Results from the first quarter of 2011 show the Global 50 are doing a good job of protecting margins – gross margins may have slipped 0.2 points, but efficiency measures have protected operating margins, which are up an average of 0.5 points. UK companies in particular are re-engineering formats in a bid to avoid price rises. "When commodity price inflation hits at a point where consumers really feel a reduction in disposable income, businesses try hard to minimise headline price rises," says Hayllar.

The outlook remains challenging, but by pushing the frontiers of fmcg, the Global 50 are picking fights they stand a fair chance of winning. ■

## THE DEVELOPING WORLD: KEY SECTORS




**Dairy, bakery and dried food have been tougher nuts to crack for the Global 50 because of the need for local production facilities and knowledge of local tastes**

***Combined sector values of Brazil, Russia, India and China**

**KEY**
- **Small local players**
- **Large local players**
- **Global 50 (Local)**
- **Global 50**

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*The Global 50 is compiled by OC&C, a consultancy offering strategic advice to top management on the most complex issues in fmcg. To find out more about the Global 50 study contact OC&C on 020 7010 8000.*

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