Achieving Alpha

Lean FMCG: Scaling FMCG brands with agility - Part 1

Sue Ying [00:00]

Thank you for joining us for another episode of our Achieving Alpha podcast, a series on accelerating returns for PE funds. Today we will be focusing on the consumer space and particularly we will be discussing the lean FMCG model and concept.

Joining us is Umesh Shah. Umesh has spent over 30 years in FMCG or fast moving consumer goods. He has spent most of his time with Unilever, where he served as CEO of Unilever International, a global business unit that he himself conceptualized; that plays in white spaces in brands, channels, geographies and consumers that Unilever operating companies do not cover. During his tenure as CEO of Unilever International, he was responsible for setting up distribution and brands, building infrastructure in over 130 countries with teams working in 10 hubs globally.

Welcome Umesh to our podcast and thank you so much for being here.

Umesh [00:58]

Thank you, my pleasure

Sue Ying [01:00]

So maybe we can get started a little bit about talking about the lean FMCG model. So when we say FMCG, we often think of these big companies like Unilever, P&G, Nestle and so forth. The concept of lean FMCG is, you know, pretty interesting.

Could you explain a little bit about what we're talking about today and why we're talking about it now?

Umesh [01:23]

Yeah. good question. The typical FMCG model of what we have, you know, comprises of consumer research, which throws the interesting trends and it goes to R&D. Then the product development and then supply chain procurement and then marketing and then sales. Yeah, it's quite an elaborate kind of a model and that model has worked in the past quite well. But with emergence of ecosystem, players in area of marketing, sales, R&D, etc, a lot of companies realise that there is no point of having all the resources in-house.

And that's how the lean FMCG model was born a few years back and I had a privilege of, you know, really creating that in universe and scaling up, scaling it up to about a 1.4 billion, 5 billion in universe.

So I'm quite happy to really see the results of this entire model. Why we are talking about it now is because, if you see FMCG trends, the research shows that the big companies, the big companies are losing market share in the last 10 years. Most of them are losing shares and who are losing shares that they're losing shares to the startup companies, small companies, regional companies. You would have heard of the Korean, Korean Cosmetics and Korean beauty players. The way they came into the market, and they started chipping away market share from the big boys and they all were following the lean FMCG model. They were all like small companies coming, taking care, taking use of ecosystem of manufacturing R&D, and then launching their products at a speed which the big companies couldn't really match.

That’s how the lean FMCG kind of worked, or the concept became popular and people realize that, hey, why do I need to have an elaborate organization to succeed in the marketplace? So that's a that's how it came to be.

Sue Ying [03:42]

So thank you for that. That was really interesting and I think you touched a little bit on it , you know about, you know, distribution and brands, but can you describe for us the key features or components of a lean FMCG model? And how does that really differentiate from a fully resourced model operated by large FMCG companies?

Umesh [04:02]

Yeah, so if you take a typical consumer company, you know the process starts with the consumer research - you research the consumer trends. You find out what works, what doesn't work. Then it goes to R&D, they find out - Are there any kind of molecules? Are there any technologies available?

And then you developed a product and then it goes to kind of a supply chain who tries to manufacture the product and then it goes to marketing, to kind of device the system and then it goes for distribution.

Now it takes a long time. Now, in a typical lead FMCG model, what happens is that. You get everything ready from the ecosystem players. You have companies who are also telling you what consumer trends are currently available, what the consumer wants.

As of now, they are giving you ready things on the plate and there are various models on that depending on what is your comfort level, you can implement any model.

So, first is OEM model where you all know that you know the product, you have the product and you get it manufactured and that works.

But then the ODM model where you don't even have a design understanding, you just know the product that needs to be designed, and you go to the guys who design the product and they manufacture for you.

And then there's a OBM model, where even if you don't have a brand, then they give you a brand. They give you a ready kind of a model. You just pay money and start, you know sourcing and then selling. Typical components are R&D, you don't need to have enough in house R&D - R&D is available outside. Then manufacturing, of course, the manufacturing has evolved to such an extent that in most of the cases, my experience is that the outside manufacturing set-up, what we have now across many countries, is much better than your own in-house manufacturing. More agile, more productive, less cost, less risky.

And then it comes to say, marketing, marketing. We all know that marketing scenarios changed with the digital marketing setup etc.

You can actually sit in one place and really do marketing in any country. When I was running international, we were selling in 130 countries and sitting in Singapore. We were marketing the products digitally in all these countries.

Whenever a typical target consumer comes online, our ads appear. Our ad appears in, say, Mongolia or Papaua New Guinea or Fiji.

Yeah. And the last one is distribution. There are some fantastic new ecosystem partners available. If you look at even the Singapore market, if you turn around and see the pack, most of the cases you will find it will be distributed and marketed by not the own companies, but typical third-party service providers.

So, what I'm saying is that you can really use ecosystem players to expedite your product launch and product marketing.

Sue Ying [07:25]

So, if I'm understanding this correctly, it seems like basically what we're doing is, you know, as you mentioned, building the ecosystem, that platform of partners, that really enables us to go to market at a really high speed in a more agile manner - that's brings us more flexibility in terms of cost, as well. And leveraging obviously the expertise of people who basically do this every day. So, that's really interesting.

But if we bring this to more of a market lens, could you share examples of companies that have successfully implemented this model and how have they grown and what's the impact they've had over the last couple of years?

Umesh [08:05]

So, I think the company which I can quote where I have worked is Unilever international where we actually developed a billion plus year of business using this model. We used a third-party manufacturing, we used third party R&D players, we use a third party regulatory compliance players and marketing etc, but outside Unilever International, while I will not name them, there are number of examples. You are all aware of the Korean and Japanese beauty and cosmetic players. Sometimes, you know, we all understand Oh my God, these guys have got a very elaborate R&D and innovation department of their own. But when you go to Korea, you realize that most of them depend on three or four big innovation companies who innovate for them and manufacture for them.

And this is how the Korean companies and startup companies in our CPG space can really storm the market and give competition to the big players.

So, there are many, many examples across the world.

Now there is a company, which was a US company, it sold their products or launched the products in 35 countries in a span of 18 months, just using the third-party distribution model across these 35 countries. Finally, it was acquired by an MNC. So, there are many examples, and you know in terms of the impact, impact is very simple - It's highly flexible, it's very lean, so you don't have a resource intensive model, and third it's less risky. If it doesn't work, you just withdraw it.

I mean in Unilever international we launched products in 130 countries and we had a model of one launch a working day. And we had successfully implemented that. 30% failed, 70% succeeded. The 30% that failed, we withdraw very fast.

So it's a low risk, low cost, highly agile, flexible model and more than that, it's a highly productive. You get the best in class of the ecosystem players.

Sue Ying [10:25]

Yeah, that's really interesting. I think personally for me. Let's say when I was younger, right, much younger, I would always bugger my parents to bring me to Korea because I wanted to buy Korean skin care products. And I didn't understand, So I had to go to the shop and try to understand which is the best product. Why they are the best products and also have to purchase it there. But today I get it delivered to my house in like, you know, 2 days. I go online. I can find out all the information about it, I can understand everything and so I think that as a consumer, that's also the impact of the lean FMCG model maybe from a different lens, right?

Sue Ying [11:03]

So, I think then can if we take on, you know, the private equity lens, right? How does this lean FMCG model then defer in terms of impact and investment opportunities for PE investors? Why is it attractive for PE investors to either invest in a lean FMCG company or to transform the existing portfolios into Lean FMCG?

Umesh [11:26]

No, good question. I think for private equity, you know, we all know that they have a 5 or 10 year span. They are not there to kind of own a business or own brand which can go on for decades. Yeah, but for them this is very important because, they are not someone who will commit on lot of own resources because they need to keep the exit in mind.

And when they get comfort that, hey, I have a fantastic brand with me, good business with me. And if they get a comfort that I don't need to really know everything about the FMCG model to really succeed in global markets, that gives a comfort. Yeah. And the classic example in the A&M world, is that we had one proposal where we kind of convinced an investor to, you know, buy the brands just based on a lean FMCG model.

It started with a discussion that 'OK, no, no' but how will I manufacture? How will I develop the products? Where are the R&D resources? I don't have time to do all this stuff! And at the end of the day, we developed the model for them and that model was kind of accepted that My God, this is fantastic! You know, we just buy the brands and then start running the show.

Sue Ying [12:50]

Yeah, thank you for sharing that example, Umesh. So if you recall, I worked with you on that project as well. And I remember, you know, working with manufacturers and being very amazed at the level of depth that they connect to 3rd party manufacturers and the level of depth that they can actually get to in terms of understanding formulations in particular markets. You know when you talk to distributors and when you talk to marketing agencies in terms of understanding, the level of depth & breadth that they have and how we can really leverage them, right?

Sue Ying [13:21]

So, I think one other thing we wanted to cover in terms of you know, the lens of a private equity fund firm, is how can a PE support portfolio companies' transition from a traditional FMCG model to a lean FMCG model? Or could a platform be built around 'buy and build'?

Umesh [13:39]

Yeah, good question. But lean FMCG model doesn't mean that you need to be new, you need to be fresh to start the model.

There are many examples where you can actually restructure your existing FMCG model or existing FMCG company, and transform that into a lean FMCG model

We have number of examples in the MNC work where big MNC companies operating in small countries, they have actually deployed this lean FMCG model, in many cases. Large FMCG companies also have deployed that. We are currently working with a large FMCG on a project where you can convert their existing operations, restructure it and bring the cost down. It is more productive because you can be more efficient in their portfolio deployment. It is a value creating model when you move from a traditional model to a lean model.

Tay, Sue Ying [14:58]

Thank you, Umesh. That's has been really insightful. To our listeners, please stay tuned for Part 2 of this discussion where we will be talking more about how these or organizations should think about building an organization that can design and run the lean FMCG model