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Achieving Alpha

Lean FMCG: Scaling FMCG brands
with agility - Part 2



Listen Now



Umesh Shah
Former CEO,
Unilever International



Sue Ying Tay
Director

Achieving Alpha – Lean FMCG (Part 2)

Sue Ying [00:00]

Hello and thank you for joining us for yet another episode of our Achieving Alpha Podcast, a series on accelerating returns for Private Equity funds.

Today is the part two of our discussion in the consumer space and discussing lean FMCG where we will be specifically deep diving into enablers and organizations that can support the lean FMCG model. Joining us yet again is Umesh Shah.

Just a little bit of a recap: Umesh has spent the last 30 years in FMCG and most of this time with Unilever, where he has served as the 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. So thank you, Umesh, for joining us!

[00:52] You have a lengthy experience designing and scaling up a lean FMCG model which is Unilever International; so based on your experience, we really want to understand what are the key enablers of being FMCG organizations and what organizational and cultural changes are necessary to implement this model success.

Umesh [1:15]

Thanks for the invite and my pleasure to be on this podcast.

Yes, in the last podcast we spoke about lean FMCG model. We also said it's highly agile, less risky, low cost, yeah. So, you know, obviously the question is what are the key enablers to implement this lean FMCG model. And yeah, I had a privilege of implementing that for almost 10 years, and I can tell you that while it looks good on paper, it's not that simple.

[1:48]

The key enablers in building and scaling up a lean FMCG models are three parts. One is leadership, second is culture and third is talent—talent of your own, you know, company. Let's start with the leader himself.

[2:09]

First of all, the leader and the sponsors of that leader, sponsors mean the leader's bosses in the organization. So, they should really be sponsoring this model. Because there are a lot of all those questions. For example, when you move out from in-house to external players, the question of product quality, question of compliance, question of regulatory, question of privacy; they all you know crop up.

And, it's important that the leadership really understands that all these questions can be answered and there are players who are doing it so effectively.

So, it's very important that the leadership really buys and supports this model otherwise it cannot be run—that's the first thing. Second thing is, the leaders themselves really need to kind of dirty their hands or get into the mud to ensure that they themselves understand; they can't be a typical leader, which, you know kind of remains at 50,000 feet and really starts operating because this is a model where a leader needs to really experience himself.

For example, he needs to visit the third-party players, he must talk to the ecosystem players whether it's a logistics service provider or whether it is the distributors, you know, in a particular country. So that's the leadership part.

[03:40]

And secondly, is kind of talent—talent requirement is very different here.—My experience is that when I started recruiting talent for Unilever International, you know, when I started getting into that end, people come in 30% of the time and realize what's happening here? What are we trying to do here? There is no structure here! It is kind of the person who comes in needs to be, you know, comfortable with unstructured way of working. Yeah, and in my case, 30% of the people say, “Oh my god, what's happening” but 70% of young people say, “Oh my god, this is what I like. I have full freedom. I can go and really travel and choose my manufacturer. I can choose my distributor. I want to move fast.” And you know, typical own organization doesn't move fast—so it's the, it's the talent which really is important.

The talent needs to have a founder's mentality because here everybody's a channel manager because if a marketing manager comes, he or she will not have any own resources

supporting them, basically the person has to go out, evaluate so many players and say, hey, how can I really, you know, work with them. So, that mindset of going out and finding out the right players who can support, it's very important.

[05:09]

So, that's the talent part and then the culture; culture is again very different. You know, culture of agility, culture of risk taking, culture of believing that others also can do better than us, yeah. And more importantly, is that the culture of don't leave anything on the table, okay? Just because you don't have resources- find out the resources. And, in the new AI enabled world it's even better. So, that's clearly key enabler in terms of leadership, talent and culture.

Sue Ying [5:44]

So, thanks, Umesh.

So, it seems like that's a pretty significant shift, right? We're talking about having very hands on leaders, we're talking about having very entrepreneurial talent and we're talking about almost like a very hungry culture, right?

So, for organizations who are for years operated under the traditional FMCG model, can they adapt to the lean model? How difficult would it be to make that change and make that shift and can you give us some examples from your experience?

Umesh [06:13]

So, definitely there are many examples where, you know, companies have moved from the traditional FMCG to the lean FMCG model. I think, the key question, as I said, is our leadership and once leaders are really, convinced of that you need to feel comfortable in operating without any of the own resources. It's very difficult sometimes to kind of work and build a company with a very small number of owned sources. That people are comfortable in having all the resources in the company and next to each other and that belief, or that culture needs to be managed, yeah— so, that that's the first thing.

Second thing is, yes, it's all about the selection of the ecosystem players. The transitioning is not easy and the transition, you know, needs to be carefully planned and ensure that you first really do a lot of homework.

You need to really divide the entire task into various functions. So, first thing is, who is going to do your product development?

Who will be your partner for consumer insight?

Who will be your partner for regulatory compliance?

Who will be your partner in manufacturing?

And who will be your partner in distribution and marketing?

So, it's all about good selection of all the ecosystem players and once you have that you realize that you have the solutions available for very agile operations.

In one of the cases where we are working today is that an MNC company operating in a

country has been able to deploy only 30% of the portfolio. When we proposed them to move to a lean FMCG model and explained them the advantages, the biggest advantage came from the ability to deploy most of the relevant portfolio into that country.

Currently, when you ask them, why are you not deploying entire portfolio in the country? The response was that we don't have bandwidth, we don't have resources. Here, now we are proposing them that you operate with three or four distributors with specialized capabilities, and you can bring in the portfolio, the best of the portfolio relevant for that country and implement that. So, that's how the value creation happens.

Sue Ying [08:26]

Thank you. So, when we think about building a lean FMCG model or a lean FMCG organization, seems like we have to think beyond, you know, internal resources when you think about who you are partnering with, you know, what kind of, not just what kind of qualifications they have, but also what kind of abilities they have, right? So, how can PE firms assist in building the necessary capabilities within their portfolio company?

Umesh [08:51]

There are many experts available outside who have operated this model for number of years and for number of companies. I think it's important to really get a subject matter expertise recruited there. For example, what you need for a lean FMCG model is that the subject matter experts who have operated with ecosystem players, yeah. And first of all, it's not something new or something like rocket science. Look at people like Apple—Apple doesn't have any of its own manufacturing. Everything they manufacture is all, you know, by the third-party players. So, there's no reason if Apple and many others can do it, there's no reason why a simple consumer product cannot be produced, so that belief is a must. And then, you need to look for the resources who can really come in and build capabilities.

Sue Ying [09:39]

And I think our final question here, right, as we think about, you know, transitioning to a lean FMCG model, whether that's portfolio company or a traditional FMCG company, what role does leadership play in driving this transition?

Umesh [09:53]

It's a very important, leadership plays a very big role. As I mentioned in the earlier podcast that you know, it's first is leadership needs to be convinced about the model. Second is, the talent, you know, talent recruitment one needs to really ensure that the right talent really comes in and third is, rewarding the talent and rewarding the ecosystem players.

You cannot really, you know, run a lean FMCG model with suboptimal quality FMCG ecosystem players. You need to ensure that all your risks are covered well, so chasing cost sometimes is not the answer. You need to be really ensuring because if something goes wrong, you are not pardoned, if some product quality goes off then we have a problem.

Sue Ying [10:36]

Thank you so much, Umesh, for joining us today to talk about lean FMCG model.

Umesh [10:39]

Thank you, my pleasure.

Sue Ying [10:42]

And please tune in for our next episode.