Small CPG Firms Are Stealing Share from Industry Giants: What’s the Sales Lesson for Mid-Size Players?

By Symmetrics Group

CPG GIANTS HAVE SCALE. SMALL FIRMS HAVE AGILITY. WHAT CAN MID-SIZED PLAYERS LEARN FROM THE MARKET DYNAMICS BETWEEN THE TWO?

Once a quarter Clorox, the $5.6B icon of the household products industry, publishes an internal magazine called Diamond for employees and alumni. It keeps them informed about business operations, social responsibility initiatives and will sometimes feature articles cheerleading Clorox alumni who have gone on to achieve success outside the company.

It is a thoughtful and thoroughly positive publication that issues forth from the Oakland, CA headquarters like a business-savvy, hometown newspaper, which is, of course, the point.

The Q3, 2014 issue of Diamond includes an article about a $40M personal care company called Yes To™, which makes products based on natural ingredients from fruits and vegetables. The article, relevant to Clorox because it owns competitor Burt’s Bees, starts out like this:

“We purchased the Burt’s Bees® business in 2008 because we had identified health and wellness and sustainability as two mega-trends that would drive growth. Not surprisingly, we weren’t the only company to seize on them. Yes To, Inc. launched in 2005 and has quickly become a global leader in natural beauty brands, second only to our own Burt’s Bees product line.”

In just a few short years, tiny Yes To™ grew to be the #2 natural personal care company behind 30-year-old Burt’s Bees.
The brief and highly complimentary article wasn’t meant to seriously examine a competitive threat, it was meant to applaud the fact that the current Yes To™ CEO is a Clorox alumnus.

Yet, very small companies like Yes To™ with sales under $100M and their somewhat larger cousins (<$1B) gained 1.1% in market share from 2009 – 2012. Moreover, they took it directly from CPG giants who steadily lost share over the same period. (Boston Consulting Group and IRI)

![Gain/Loss CPG Market Share by Company Size (2009 - 2012)](image)

In 2013, small firms grew revenues by 4.3%, even as the CPG market as a whole declined, and big players ceded another 0.5% in market share. Times, technology and consumer tastes are shifting, which is providing the necessary fuel for small firms to steal share from large ones.

To be sure, large companies still own roughly 60% of the market, while small firms have a growing 22% share. What’s left belongs to the middle of the road players with neither the pure scale nor pure agility of their counterparts at either end of the revenue spectrum.

How can mid-sized players adapt themselves for growth in such a rapidly changing and seemingly bipolar marketplace? To answer that, let’s look first at the market dynamics at work between big and small players.

**BIG CPG HAS BIG ADVANTAGES**

Sheer size gives multi-billion dollar companies advantages that they usually share with only a handful of competitors:

- Huge scale in manufacturing and distribution, which lets them efficiently drive products into the market at lower costs
- Deeper pockets for consumer marketing, trade spending and merchandising with top retailers, which gives them a measure of control over store shelves
- Larger budgets for new product innovation and brand acquisitions as sources of growth

This is how big CPG goes to market. The rules of their game are designed to keep competitors out, and the market dynamics that existed between big manufacturer and retailer have historically kept the rules in place.

How then did Yes To™ gain the #2 spot in the naturals personal care category behind Burt’s Bees, a 30-year-old brand owned by a company with all the advantages that come from having revenues in the billions?

**SMALL PLAYERS ARE CONVERTING THESE ADVANTAGES INTO WEAKNESSES**

Jack Neff, in his excellent profile of home and personal care entrepreneur Craig Dubitsky (Method, EOS, Hello), gives the following reasons:

- **e-Commerce** of course, with its endless aisles, creates opportunities for selling “long tail” products by eliminating the need for small firms to fight for physical shelf space generally owned by bigger competitors.
- **Outside-the-box digital and social media campaigns** “generate strong returns,” are most effective at small investment levels, and are typically best executed by
firms without a “legacy ways of doing things.” (In other words, more money and highly established marketing processes do not necessarily help big firms here).

Changing consumer tastes in the U.S. are trending away from mass-produced products and toward the different, the locally-produced, and in the case of Craig Dubitsky’s companies, “the small, quirky and accessible.” Small firms with the agility to respond to changing tastes are in the best position to capture share early.

Competition is forcing retailers to differentiate themselves in order to lure shoppers into stores. This requires having differentiated products on the shelves, which plays to small-firm strengths.

Small companies have more freedom to innovate without the high hurdles required by big firms looking for sales in the tens of millions in the first year of a new launch. This causes big firms to delay capturing consumer trends until they’re firmly established and profitable enough to justify the expense of changing over manufacturing processes.

Coca-Cola, L’Oreal and Church & Dwight try to act small by acquiring little brands and incubating them in-house.

**LARGE COMPANIES COUNTER BY TRYING TO ACT SMALL**

It’s clear from even this brief illustration that while CPG giants will continue to benefit from their size and scale, technology and changing consumer tastes are creating opportunities better suited to small-firm capabilities.

How are large firms countering? As Jeff Neck continues to explain, they do so by having at least parts of their company mimic the actions of a small firm.

- Coca-Cola has an in-house incubator called the Venturing and Emerging Brands group and has gained share by acquiring small brands such as Fuze and Honest Tea.
- L’Oreal, in addition to doing the same thing by acquiring small, “hot” brand Essie and rolling it into their mass distribution network, also launched a direct-to-consumer site called Em Cosmetics whose entire strategy is built upon social media, with YouTube celebrity Michelle Phan as its anchor.

- $15B Reckitt Benckiser (Lysol, Woolite, Calgon, Clearasil, French’s, Scholl, etc.), despite its size, still sees itself as a “challenger company with challenger brands” preferring “speed over perfection” in its innovation process, noting that being bigger doesn’t help them, given the speed at which consumer tastes are changing.

WHERE DOES THAT LEAVE MID-SIZED FIRMS?

Much of the current discussion in the CPG industry centers on the growth or decline of either large or small companies, because this is where the movement is.

Boston Consulting Group and IRI in their annual joint study of the top performing small, mid-sized and large companies conclude that, regardless of size:

“High-performing companies have successfully created products focused on specific, unmet consumer needs... that often serve as a replacement to undifferentiated products found in large, established categories.”
In other words, the most successful firms invent something different that consumers want and need.

Mid-sized players in the $1-5B range will have to walk a hybrid line between the large firm’s ability to acquire and the small firm’s ability to innovate at a rate that capitalizes on consumer trends early.

That’s certainly logical. The art, however, will be to do so while successfully resisting the drag that the naturally calcified business processes and organizational culture of a billion dollar organization will inflict on the effort.

Let’s look at two areas of opportunity for mid-sized firms: innovation and promoting through social media, where small-firm tactics can work for them.

INNOVATING LIKE A LITTLE GUY

Consider the case of mid-sized Church & Dwight. They acquired small firm Orange Glo International (Orange Glo, Oxi-Clean, Kaboom) for their successfully growing brands, certainly. But more importantly, they also acquired the smaller company’s innovation process.

Orange Glo “invited intuition into the innovation process” by developing rough product ideas and taking them to Home Shows to see what consumers thought of them. They then iterated the design from there, rather than take the traditional route of relying heavily on trend data as larger companies would.

What’s more, Orange Glo didn’t punish employees for new product launches that didn’t become instant hits, which encouraged experimentation rather than playing it safe and actually missing out on opportunity, again as large companies would. (Act and Think Small to Win Big with Killer Ideas, Peter Murane, Ad Age)

TAILORING PROMOTIONS AND SOCIAL MEDIA TO GAIN PLACEMENT

Let’s return to Yes To™, who gained significant placement by customizing a promotions program and tailoring its social media message to align with top prospect Walgreens’ retail strategy.

Walgreens was revitalizing an outdated image with a variety of initiatives, including store makeovers. Part of the makeover involved a new promotional strategy for its personal care category called “Beauty Within.”

Yes To™, in need of a way in, seized on the opportunity created by the strategy shift by educating Walgreens on the similarities between “Beauty Within” and Yes To’s own social media approach to women (taking care of yourself feels good – as opposed to admonishing women to fix their flaws).

Finding synergy, they offered Walgreens $100k in coupons for one of their new “Yes to Cucumber” products, which simultaneously created a trial for their brand, while driving shoppers to Walgreens stores.

Yes To™ also adjusted their social media campaign, #yestomovement, to make it more meaningful to Walgreens specifically, and in doing so cemented their relationship with the retailer by showing they were willing to customize in order to help to drive the “Beauty Within” initiative.

Large companies simply aren’t in the position to have this type of relationship with individual customers, unless the payoff is huge. Mid-sized companies willing to “think and act small,” however, are.

CONCLUSION

Mid-sized CPG companies have the opportunity to grow revenues and gain share, if they are willing to “think and act small,” while relentlessly scanning for market conditions that turn the scale and efficiency benefits normally enjoyed by large firms into disadvantages.
Execution is key, however, which means mid-sized firms must recognize and constantly safeguard against the natural drag that their legacy business processes will place on any “think small” initiative.

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