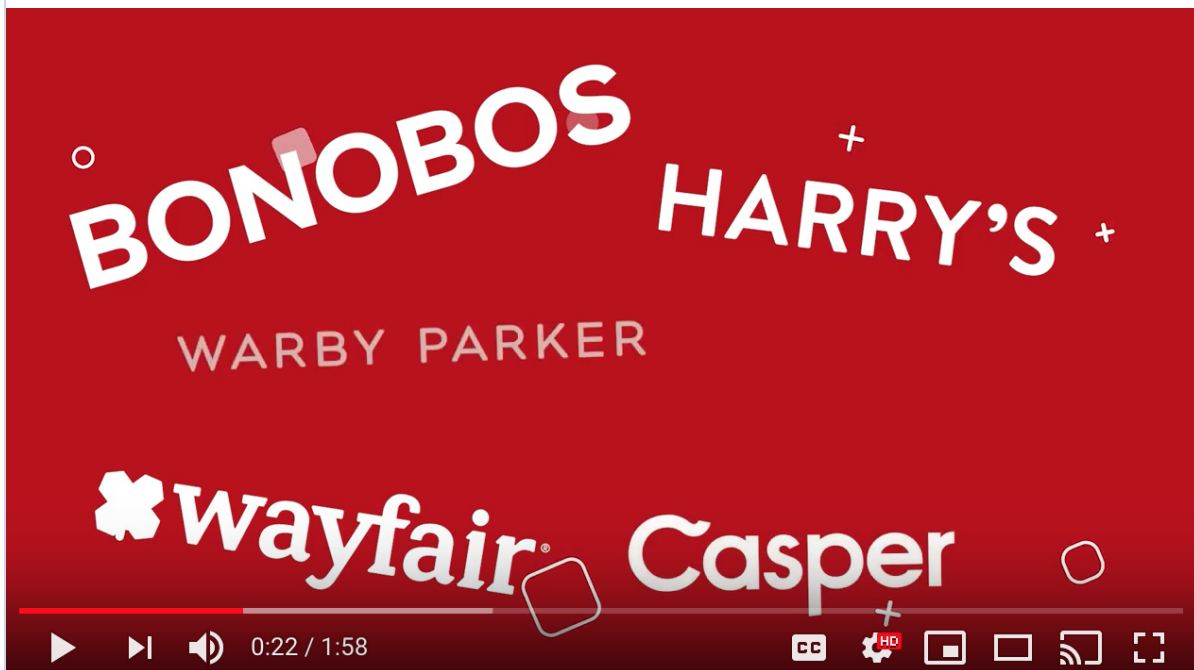


RGM NEWSLETTER

RITA GUNTHER | MCGRATH

The Fickle Competition in CPG

October 2019



Dear colleagues,

Digital made a new kind of business model possible—and incumbents are reeling.

It Used to Require Lots of Access and Huge Marketing Budgets—No More

They're new, they're nimble, and they're communicating with your customers right under your nose, causing decades-long assumptions about retail success to become obsolete. The inflection point that is digital has upended the world of traditional advertising and branding. A new clutch of startups have recognized that you don't have to spend much on traditional advertising to capture consumers' attention (you can read my previous newsletter on the shifting media landscape [here](#)). In fact, coming across as too "corporate" is a big negative for customers looking for authentic and meaningful connections to the companies they do business with. And entrepreneurs haven't been slow to capitalize on the opportunity.

We're talking Dollar Shave Club, Bonobos, Harry's, Wayfair, Joybird, Casper, Warby Parker, and Barkbox, among hundreds of others. Instead of selling through conventional retailers, these companies use business models that are asset-light, information rich, and heavily instrumented. They have also largely inverted old industry economics, using their digitally-driven efficiency to scale rapidly, and they have put a huge dent in many traditional companies' revenue streams. This is wreaking havoc on established brands' assumptions in industries as different as personal care, furniture, and pet care.

The Diminishing Power of Established Brands

As an example of how transformative the branding challenge is, consider Nestle's [decision to sell its U. S. confectionary](#) business to Ferraro in 2018 for \$2.8 billion. This represented about three percent of the company's sales, but more importantly, those brands were at one point the firm's flagship categories. Who doesn't know Nestle Crunch, Butterfinger, and Baby Ruth (very apropos with Halloween just around the corner as I write this). And yet...iconic though those brands are, Nestle is making a determined effort to get itself out of junk food and into the increasingly popular categories representing healthier choices. Direct-to-consumer brand Freshly and snack bars packed in recyclable wrappers are in; unhealthy snacks are out.

But to further confound the dilemma facing big brands, consumers are not moving as one to embrace new models. Some firms have found that while often-vocal groups of customers want healthier and more natural options, they [differ widely on what that actually means](#). General Mills customers begged the company to re-introduce chemically based neon-colored Trix cereal after it thought it had laid all that to rest with heavy investments in natural colorings. Kraft-Heinz has [battled complaints](#) that its preservative-free Capri Sun pouches are susceptible to the growth of mold. Coca-Cola [tried to go to a non-sugary sweetener](#) for VitaminWater and had to beat a hasty retreat when consumers loudly objected.

If You Can't Just Do It, Just Buy It

It isn't surprising that many incumbents, faced with such different ways in which the direct-to-consumer marketplace is changing, have decided to simply bite the bullet, pay the premium, and acquire the upstarts, often for eye-popping sums. Walmart paid \$3 billion to acquire [Jet.com](#), and billions more on stringing together other D2C companies in its digital division. Unilever paid \$1 billion for Dollar Shave Club and recently Edgeware paid \$1.3 billion for Harry's.

As we move through the inflection point that the digitally-enabled direct to consumer model has created, expect to see a lot more change in conventional retail models. Expect also to see a shakeout—investors have been pouring money into DTC firms such as Hims, Glossier, and Casper, to the tune of some \$3 billion to date, on the assumption that these markets will have a winner-take-all quality to them (and despite that even today there are over 150 companies in the bed-in-a-box business Casper is in).

While the early DTC firms have been able to take advantage of going direct with a far lower customer acquisition cost, as the field gets more crowded, [customer acquisition costs are rising](#). The big dilemma facing such firms is when customer acquisition cost starts to outpace the lifetime value of a customer making purchases through that channel. That, in turn, means that customer retention—something incumbent companies have honed over decades of experience—is going to move up the agenda, as opposed to an obsession with customer acquisition. Providing personal service, meaningful value, and a convenient way of interacting haven't gone out of style, even as the way companies provide these things changes.

[Read more](#)



In my book [Seeing Around Corners: How to Spot Inflection Points in Business Before They Happen](#), I explain that, while seemingly sudden, inflection points don't just come out of

nowhere or happen overnight. Inevitably, someone, somewhere senses the signals, sees the implications, and understands that a dramatic shift is underway.

So here's my question to you: What are you seeing? Let me know by joining the conversation on Instagram. Start by posting a photo of my book—whether it's from your bookshelf or your local bookstore—and then in the caption, tell me about an inflection point that you've spotted. Make sure to use the hashtag #SeeingAroundCorners in your caption. Over the next few months, I'll be sharing these posts on my social channels and in this newsletter. See you on [Instagram](#)!

Reading List

A curated roundup of interesting books and articles to get you thinking:

- **The Disruption Mindset: Why Some Organizations Transform While Others Fail.** In her new book, New York Times best-selling author Charlene Li reveals why being innovative just won't cut it. In order to be disruptive, you must have a plan to identify and seize an opportunity no one else has the audacity or confidence to reach for. ([Ideapress Publishing](#))
 - **At What Point Does Malfeasance Become Fraud?** Ignore "Entrepreneurship 101" at your own peril. NYU Stern School of Business School Professor Scott Galloway offers insights on the unraveling of WeWork and the fallout from its "consensual hallucination." ([New York Magazine](#))
 - **Driving Innovation from Within: A Guide for Internal Entrepreneurs.** Strategist and advisor Kaihan Krippendorff distills more than 150 interviews with internal innovators and leading experts along with insights from today's most successful companies to lay out a step-by-step playbook to unlock innovation from the inside. ([Columbia Business School Publishing](#))
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Upcoming Events

October 24: [Strategy@Work](#) (New York)

A new era of strategy brings intricate problems with no easy way to solve them. Leaders across business and policy will gather at the Strategy@Work conference to shed light on some of the most urgent and important issues of our time.

Oct 28 - Nov 1: [Leading Strategic Growth and Change](#) (Columbia Business School)

This five-day program focuses on the process of finding opportunities, launching new ventures, and leading necessary changes to revitalize an organization.

November 6: [CDX Atlanta Open Innovation Summit](#) (Atlanta)

Centered around the theme "Innovation @ Scale," the 2019 CDX Atlanta Open Innovation Summit will focus on how leading brands from a range of industries are leveraging external open innovation best practices and operating principles to stay competitive and drive corporate innovation and strategic digital transformation.

November 7: [Outthinker Chief Strategy Officer Roundtable](#) (New York)

At this roundtable I will lead a discussion about the findings from my latest research and offer a guide to anticipating and capitalizing on disruptive inflection points.

Interested in having Rita speak at your organization or event?

Learn more

In the Press

- 5 Books on Leadership, Communication, Focus and Business ([Thrive Global](#))
- Why Retention Still Matters Amid Digital Tech ([HR Magazine](#))
- Transforming Sales to Beat the Market ([The Economist](#))
- How to Spot Seismic Shifts in Business Before They Happen ([ThinkAdvisor](#))
- Venture Capital is Changing, But is it for the Better? ([Yahoo Finance](#))
- Interview with Michael Covell on Trend Following Radio ([Trend Following](#))

Where there is uncertainty, there is also opportunity.



Here's to your next advantage! - Rita

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