

CAGNY 2021 - Log

Overview

Every year the Consumer Analyst Group of New York (CAGNY) gathers together the leaders of the top consumer staples firms to discuss their businesses with members. This provides unique access to their current thinking. I am attending this year's virtual version of the event and will report back on my main observations. This log covers day 4, the last.

Day 4:

This was a day of the heavyweights - akin to the headline acts at a music festival. Nestle (held - Swiss listed food and beverages) started off proceedings followed by L'Oreal (held - Paris listed beauty and cosmetics), Coca-Cola (US listed beverages) and with Colgate (US listed personal care) bringing the event to a close.

L'Oreal is the poster child of how to run a staples company in the current global environment. Over the last five years they have honed their skills in China where the combination of social media and e-commerce is most advanced. The company utilises its array of strong brands but adapts products for the tastes of the local market supporting this with virtual guidance and experimentation.

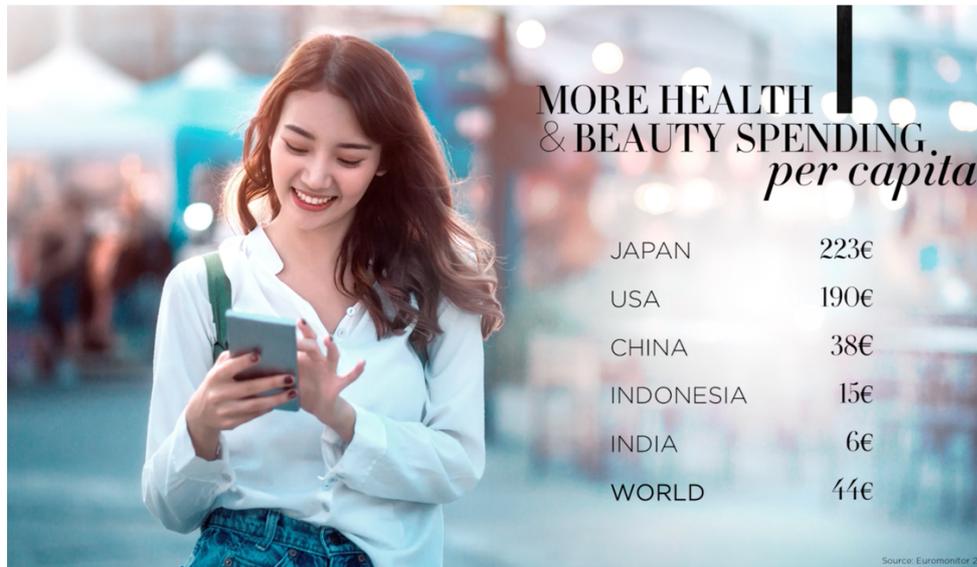
L'Oreal is ahead in digital marketing:



Source: Company presentation

The experience is being cross fertilised to other regions where for example they are providing on-line training for hair care professionals in the US. The net effect is that 27% of L'Oreal revenues are now connected to e-commerce. They are particularly excited with the opportunity in China given the scope to increase beauty spending per capita:

L'Oreal China market opportunity:



Source: company presentation

Both Nestle and Coca-Cola are huge companies with complex global structures. This means that they resemble turning super-tankers when attempting to address new trends. Nestle is compensating by restructuring parts of its portfolio to improve overall group return on invested capital. An example is the recently announced disposal of some of its bottled water businesses and a symbolically important reduction in its head office costs of 20%. At the same time the group is leading with health, well-being and sustainability.

Sustainability is important to Nestle:

Sustainability integral to our growth strategy

<p>Accelerating the shift to plant-based products</p>  <ul style="list-style-type: none"> • Building strong portfolio of plant-based brands • Integrating plant-based innovation in other brands 	<p>Increasing focus in Research & Development</p>  <ul style="list-style-type: none"> • 10% of R&D employees dedicated to plant-based • Collaborating with external parties 	<p>Embracing carbon neutrality for our brands</p>  <ul style="list-style-type: none"> • By 2022: Nespresso, S. Pellegrino, Garden of Life and Garden Gourmet • By 2025: Nestlé Waters and Sweet Earth
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Source: company presentation

Coca-Cola is under the relatively new leadership of James Quincey, a Brit. Who has worked for the company in various roles since 1996. He is seeking to improve on the ineffective, over-paid, former CEO Muhtar Kent.

James Quincey, the new Coca-Cola CEO, presenting virtually:

PROGRESS ON EMERGING STRONGER
OPTIMIZED BRAND PORTFOLIO WILL DRIVE QUALITY LEADERSHIP

Optimized Brand Portfolio

- 1 | ~400 MASTER BRANDS → ~200 MASTER BRANDS
- 2 | Eliminated & Transitioned Brands represented (~2% Volume, ~1% Revenue)
- 3 | Hydration, Sports, Tea & Coffee; Sparkling Flavors; Nutrition, Juice, Dairy & Plant; Emerging

Strategic Rationale

- Focus investments against the best opportunities to win in the marketplace
- Address critical Age Cohorts, Need States and Drinking Moments
- Target country/category combinations with greatest share and topline opportunity

BEVERAGES FOR LIFE

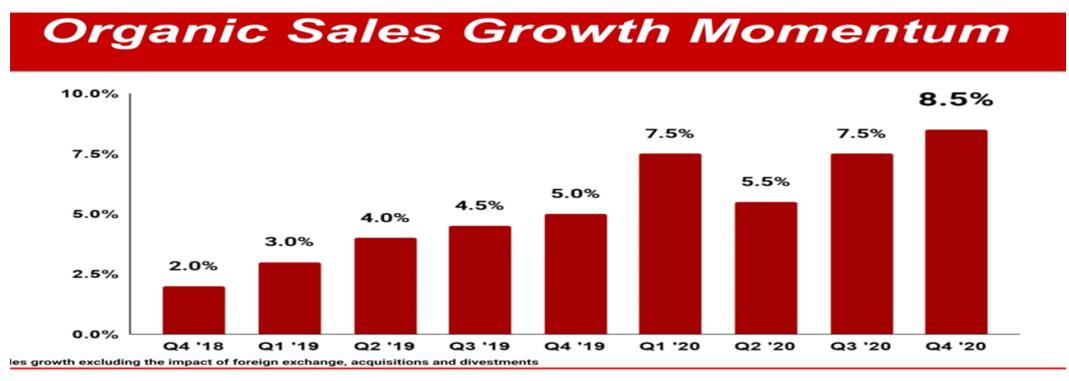
Note: 2019 data. The innermost ring represents the split of brands in terms of 2019 retail value. The outermost ring represents the split in terms of number of brands.

Source: company presentation

The basic message is one of brand rationalisation and greater de-centralisation. I was not impressed with any specifics here and it is difficult to predict future success; however, it was similar when David Taylor came in as a relative unknown insider at Procter five years ago. I am somewhat surprised they spend so little time talking about the core Coca-Cola brand and product, one of the most successful ever whilst talking much about diversification into water and coffee where their brands are much less well known.

Colgate did impress me and this after a number of years of lacklustre performance and another changing of the guard. Under their latest CEO, Noel Wallace, also an insider following a highly paid predecessor, they seem energised and driven. This has been reflected in recent sales growth momentum even before COVID struck.

Colgate on an improving sales trend:



Source: company presentation

He moved quickly to elevate the role of Chief Technology Officer; Patricia Verduin who co-presented, There are two aspects that are powering their progress. Firstly, genuine innovation in areas such as teeth whitening, natural versions of products such as toothpaste with the Hello brand and specific products for diabetics. Secondly, they appear to increasingly appreciate the potential of their brand in terms of segmentation and their expertise in terms of product extension.

Colgate new product innovation:



Source: company presentation

This could be especially exciting if they can successfully extend upwards into premium products. Historically, they have maintained a mid-priced, middling demographic positioning relying on emerging markets for growth.