TOMORROW'S CHALLENGES

WHAT BIG CONSUMER BRANDS CAN DO TO COMPETE IN A DIGITAL ECONOMY

HOWARD YU ON HOW CONSUMER BRANDS CAN ESCAPE THE RETAIL WASTELAND – FROM HARVARD BUSINESS REVIEW

By IMD Professor Howard Yu

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IMD
Chemin de Bellerive 23
PO Box 915,
CH-1001 Lausanne
Switzerland

Tel: +41 21 618 01 11
Fax: +41 21 618 07 07
info@imd.org
www.imd.org

No industry is failing faster than retail. Recently, the 125-year-old Sears—once the world's largest retailer—filed for bankruptcy. The public has more or less come to expect the shuttering of stores such as Macy's, Sears, Toys 'R' Us, Kmart, Kohl's, J.C. Penney, and Barnes & Noble. The ones that manage to escape are discount chains—such as T. J. Maxx and Marshalls—which compete aggressively on price.

Price competition hurts. It also hurts the brands sold inside the stores, which in part explains why consumer product giants like Procter & Gamble are seeing their sales stagnate for products like Tide detergent, Gillette razors, Pampers diapers, and Crest toothpaste.

A recent report by the consultancy BCG documented a general decline in sales among consumer packaged goods (CPG) companies in the United States during 2017, with mid-sized and large companies losing market share and small companies increasing theirs. Consultancy Catalina also revealed that 90 of the 100 top brands had all lost market share. In dollar terms, small players—defined as those with sales less than $1 billion—grabbed approximately $15 billion in sales from their larger peers between 2012 and 2017.

Shoppers now purchase more online, making fewer trips to stores and seeing fewer in-store promotions. A small but trendy razor club with a hip logo, Harry's, attracts more Instagram followers and product subscriptions through its website than a fully stocked Gillette aisle in a supermarket ever could. And so Harry's has been growing 35% year-on-year between 2014 to 2016, three times faster than the industry average, commanding 9% of all online razor sales.

Whereas the Gillette aisle in the local supermarket targets exactly one neighborhood, Harry's website reaches millions. Harry's bolsters the subscription habits of its recurring consumers, whereas Gillette relies on in-store impulse buying. When someone buys a razor in a store, Gillette has no clue who's buying what and when; Harry's knows it all.

Newcomers like Harry's still represent only a fraction of the overall market, but they've captured the majority of the growth in that time—a defining feature of disruptive innovation. That's why P&G has been restructuring for 20 years "without much to show for it," according to one former finance manager. No matter how well P&G reorganizes itself, it can't reverse the decline from $83 billion in sales in 2008 to $65 billion in 2017 without learning some new tricks.

I came across a report by the *Wall Street Journal* about Johnson & Johnson and how the sluggish sales of its baby shampoo have forced the company to make a desperate bet. J&J will take out the yellow dye from its iconic golden-hued baby shampoo and make it clear. Whether this will help J&J in the long run, no one knows. But the sluggish sales reflect the same dynamics that P&G's been facing: market share lost to smaller brands, over-reliance on traditional retailers, and an inability to create direct relationships with consumers at a time when e-commerce is exploding.

Last year, P&G went to war to clean up the online ad market and used its pull as the world's biggest advertiser to squeeze more information about the effectiveness of digital ads out of Google and Facebook. It slashed digital ad expenditures by more than $200 million and issued an ultimatum for tech firms to become more transparent. That's a good start. But it also needs a new vision.

Activist investor Nelson Peltz, who sit on P&G's board, has such a vision. He argues that P&G "must acknowledge that others will inevitably come up with new ideas, new opportunities for growth, and new products that are on-trend with consumers." He also suggests that "P&G must be proficient at acquiring small, mid-size, and local brands and using its R&D and marketing clout to take them to the next level."

What Peltz suggested is exactly what Xiaomi is already doing.

By March 2016, Chinese smartphone maker Xiaomi had invested in some 55 startups, generating products from power banks to air purifiers. Of these companies, 29 were incubated from the ground up by Xiaomi, and four were already unicorns worth over $1 billion. What Xiaomi offers to startups is a combination of funding and incubation by "taking non-controlling shares" and "leaving maximum interests to the startups" so that "they are much more incentivized and willing to fight on the front line," explained Liu De, co-founder and vice president of Xiaomi.

Startups typically get access to Xiaomi's brand and distribution—its online channel, its app, and its 300 offline stores. As a result, Xiaomi is poised as not only a low-cost phone maker but also an emerging powerhouse among the makers of the all-important "connected home devices." "Our ecosystem even gives customers unusual new products that they never knew existed," said Wang Xiang, Xiaomi's senior vice president, referring to the company's Bluetooth speaker, internet-enabled rice cooker, and air purifier (the first affordable one in China)—products that the company claims are not only best in class but also cost less than their existing counterparts.

P&G should follow suit. It can no longer be a mere "industrial corporation with a future based on technology" but rather must become a house of startup brands that runs pop-up stores, makes home deliveries, celebrates communities with parties, fosters subscription models, and curates compelling product personas, all while gathering comprehensive consumer data to guide new product innovation. In effect, it becomes a sort of coherent conglomerate. It makes a lot of bets, owns numerous largely separate businesses, but uses a few key centralized capabilities like branding and retail distribution to provide each of its subsidiaries with something independent CPG companies can't match.

This structure would better enable P&G to copy what scrappy upstarts like Harry's or Warby Parker do. These startups, despite being manufacturers, digitalize all customer touchpoints (like Netflix), control the user experience by forward-integrating into the brick-and-mortar realm (like Amazon buying Whole Foods), and then run data analytics to optimize merchandise mix and inform product innovation (like Alibaba's Taobao).

So, are such steps too bold for a $235-billion (market cap) company from Cincinnati? The 180-year-old house of brands hasn't managed to survive this long without making bold steps in the past.

When the first boxes of Tide went on sale in 1946, it was the first synthetic detergent that could deep-clean clothing "without making colors dull or dingy." Before Tide, all soaps were "naturally" made by heating animal or vegetable fats with water and an alkali base. The benefits of a synthetic detergent that makes "white clothes look whiter" were so apparent that within just three years, Tide outstripped all other brands on the market and became the number one detergent. In the wake of Tide's introduction, P&G would "no longer be a soap company" but "would become an industrial corporation with its future based on technology," its technical staff body tripling that of the pre-Tide year of 1945.

But inside P&G, managers had feared the new products might cannibalize their beloved Ivory soap. Only Chairman William Cooper Procter, the last family manager of P&G, remained a staunch supporter of synthetic detergents. In a memorable remark addressed to his staff, he said, "this [synthetic detergent] may ruin the soap business. But if anybody is going to ruin the soap business, it had better be Procter & Gamble."

P&G made bold moves to save itself in the past. Now it just needs to rediscover that chairman's mentality. And that might well go for any consumer brand, not least P&G, looking to escape the utter ruins of the retail wasteland.

Howard Yu is the author of *LEAP: How to Thrive in a World Where Everything Can Be Copied* (PublicAffairs, June 2018), and LEGO professor of management and innovation at IMD. In 2015, Yu was featured in Poets & Quants as one of the Best 40 Under 40 Professors. He was shortlisted for the 2017 Thinkers50 Innovation Award, and in 2018 appeared on the Thinkers50 Radar list of 30 management thinkers "most likely to shape the future of how organizations are managed and led." Yu received his doctoral degree in management from Harvard Business School.