

Bullish or Just Bull? CPGs Upbeat About Turnaround

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- Elaine Wong



After a rough year, packaged-goods companies plan to emerge from their defensive crouch with product innovations designed to drive top-line growth, but some analysts are skeptical whether consumers are ready.

Major firms in the category who met in Boca Raton, Fla., last week at the Consumer Analyst Group of New York (CAGNY) conference, including Procter & Gamble, Clorox and Church & Dwight, might be best described as cautiously optimistic about 2010. Some analysts questioned that moderately upbeat view.

One such analyst, Ali Dibadj of Sanford C. Bernstein, wondered whether consumers will actually pay more for high-priced, innovative products or if they'll continue to make value their top priority. In the case of the latter,

there may be more share shift between companies but not necessarily category growth, he said.

P&G, for its part, shrugged off such concerns. The largest player in the category is pushing ahead with its corporate motto of touching and improving more consumers' lives with an innovation pipeline that includes product launches like Gillette Fusion ProGlide razors (which promise a more comfortable shave), Pampers Dry Max diapers (which are 20 percent thinner and more absorbent than standard diapers) and a new restaging of Pantene launching in June. P&G CEO Bob McDonald told analysts last week that it's the strongest innovation program I can remember in my 30 years [at P&G].

Like others in the segment, P&G has relied on price hikes to keep its top-line afloat over the last 30 months or so and were able to do so because rivals dealt with the same cost increases. But with commodity costs moderating, any real growth will have to come in the form of volume—i.e., a noticeable increase in the number of units, pounds, jars and cans of goods sold. Packaged-goods companies challenge this year? To get consumers to buy—and lots, experts say.

So far, the theme has been, How are these companies going to grow sales, and can they do it? said Edward Jones analyst Jack Russo, who watched the conference via Webcast. Even if companies can really drive sales, should we get used to very low sales growth for the next two to three years, or can they really come through and make things happen? he asked.

Another marketer, Clorox, is spending close to \$530 million in measured media—a 6 percent jump over last year—in its 2010 fiscal year to drive volume growth. It has also rolled out new and recent innovations, including Glad ForceFlex stretchable strength trash bags without a price increase to draw consumers into the extra value benefits.

For food marketers, meanwhile, the recession, in many cases, has boosted sales as more consumers eat at home. Indications are that food companies think the value-oriented mind-set is here to stay and are rolling out products that address the cost-per-serving calculation. In its presentation last week, General Mills CEO Ken Powell said the company's products—like Totino's Crisp Crusts, which costs 69 cents per nonpromoted price per serving—offer consumers good value.

Others like ConAgra Foods are satisfying consumers' thirst for value with more affordably priced meal options, including a \$1 Dinner line extension and family-sized entrees planned for its Banquet frozen meals value brand in fiscal year 2011.

The postrecessionary consumer is one that is still concerned about value. So for her, the habits she formed during the last economic recession will stay with her, ConAgra CMO Joan Chow said. We're seeing the consumer is still [making the choice] between private label and brand-ed products.



Though Heinz also complained that the war with private label was not yet over, store brands are likely going to be less of a factor this year. People get stuck in the private label hyperbole. But it has not been the devastator of brands everyone called for last year, said Nik Modi, an analyst at UBS.

Does that mean the worst has passed? Denise Morrison, svp and president of North American soup at the Campbell Soup Co., detected a more optimistic spirit this year than last. There is recognition that we're all doing business in a fundamentally different economy, she said regarding the tone of the conference this year.

CPG companies spent a total of \$18.3 billion on measured media last year, a drop of 3 percent from 2008, per Nielsen. (The data does not include online spending.) Though consumer spending may not have fully bounced back, Modi still predicts a more hopeful outlook for brands. Tide [P&G's detergent] becomes a poster child for trade down, but you have to remember the brand still has a 42 percent share of the liquid laundry detergent category even after 18 months of a bad economic environment, he said.

John Faucher, an analyst with J.P. Morgan, put it this way: Consumers like brands and variety. The example I use is, if you lose your job, you may cut your cable subscription. But are you sitting there watching the networks and saying, "This is great. I have only four channels?" Not really. When [the economy improves and people get their jobs back], the consumer will come bouncing back. It will take a while, but they'll come back.