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Right timing

An essential capability to make portfolio decisions

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Executive summary

"Is this the right time to enter this market?" This is one of the key questions executives ask when making decisions about their companies' portfolios of product categories. Businesses that operate in emerging economies, particularly fast-moving consumer goods (FMCG) companies, struggle to answer some of those questions because they deal with diverse markets. If those companies were able to anticipate the changes in consumption and determine market readiness more accurately — if there were a more dynamic, evidence-based analysis of how local markets were likely to evolve — they would then have the ability to better time and prioritize portfolio investments. They would adjust strategies, leverage opportunities, obtain essential business advantage over competitors, and achieve growth. Companies would have the decision-making process support needed to enable executives to answer, "Yes, this is the right time."

Timing the investment

"When we entered the country in 1995, per capita consumption in the dairy category was at five kilograms per year. We made it a priority to invest heavily and consistently to develop the category. Less than two decades later, we are absolute market leaders with more than 70 percent share, and per capita consumption reached 15 kilograms, three times the original value, growing at an impressive compound rate of more than 7 percent per annum. Finally, but not less important, we still see room for continuing this growth and to develop the category even further."

The previous statement is from the vice president of a well-known multinational fast-moving consumer goods (FMCG) company, operating from a large country in Latin America. In his opinion, his company's "right timing" to enter the market and invest, displacing weaker local players and benefiting from it, did not happen because of pure luck or a simple hunch. It was the result of the organization's ability to read the market trends and anticipate demand shifts to make the best use of capital allocation across its portfolio.

When dealing with category growth, multinational and regional FMCG companies very often face trade-offs such as those between the proliferation of market opportunities — typically widespread across multiple company divisions, product categories, and geographies — and the limitation of resources (such as people, time, and money) needed for capturing those opportunities.

More often than not, companies rely on a number of imperfect strategies and tools to assign priorities and resources to the various and simultaneous investment requests, which often results in visible failure in terms of timing, pace, type, and intensity of the bets — too early versus too late, too fast versus too slow, wrong category or wrong segment, and too bold versus too timid a financial investment. Clearly, there is a strong need for a more effective approach to address category entry and product development. This need is found not only in emerging or soon-to-be-emerging markets, but also in mature and declining categories in more developed economies.

There is a strong need for a more effective approach to address category entry and product development.

In this report, we at Strategy& offers a set of practical tools that have helped our clients, from line managers to top executives, make better decisions regarding their portfolios of product categories by answering some critical questions:

- ***Timing:*** Is this the right time to invest in this category? Should we enter this market now or later? How quickly can we invest without creating a surplus? Which demand pattern indicates that the market is ready for a steep takeoff?
- ***Prioritization:*** Which categories should receive a greater share of our capital expenditure and operating expenditure in the short and medium terms — including investments in product development, advertising, promotion, and trade spending? Which categories should receive a greater share of senior management attention?
- ***Mix anticipation:*** What changes do we expect in the category mix? How can we harness the changes better than our competitors? Amid these expected changes, which categories should we keep and which ones should be let go in favor of more promising substitutes that will bring in higher growth and profits?
- ***Development stages:*** Is the category entering a mature or declining stage? How should the company prepare for that? Which are the natural substitutes or trade-up categories that could replace it?

Accurately timing the market is no easy task for managers. A major multinational food company entered India "ahead of time" and soon thereafter had to sell an underperforming business. Now, 10 years later, the company is evaluating opportunities to reintroduce the category in that market because demand has changed and the market itself has become more organized and more attractive. A significant amount of money could have been invested more wisely if the company had had a better capability for determining the best time to enter the market.

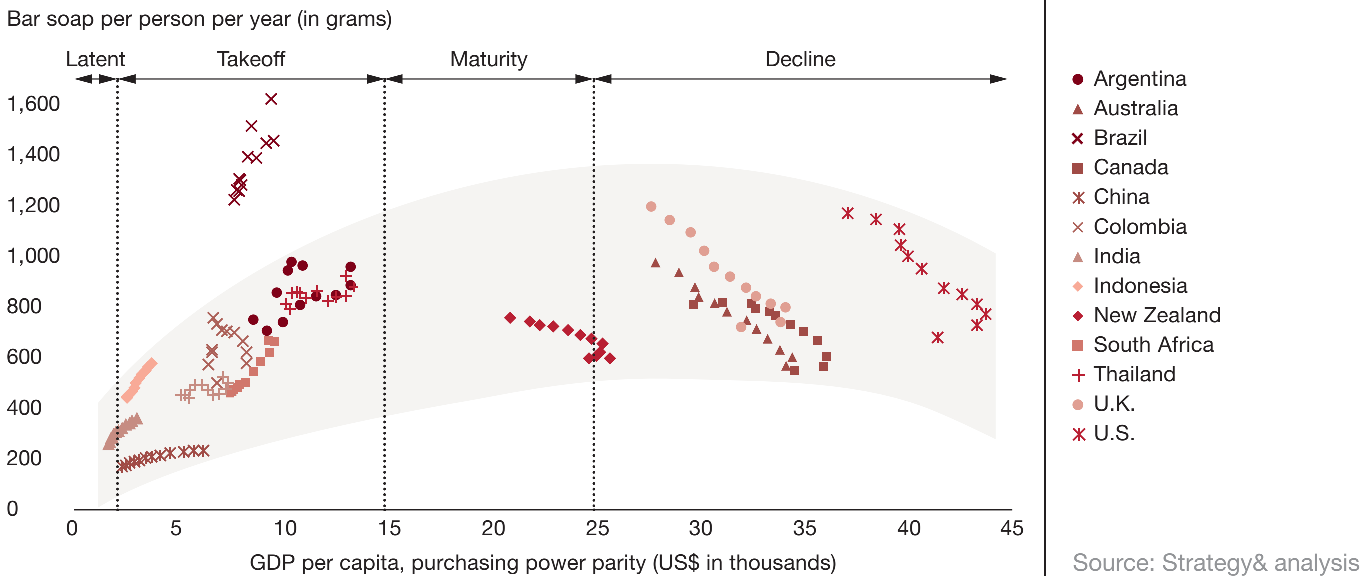
Accurately timing the market is no easy task for managers.

Our research and experience have demonstrated that markets typically follow consumption patterns that explain changes in the size, choice, and value of FMCG categories. These patterns typically have the shape of an S-curve, with adoption increasing along with the purchasing power of the population — measured by per capita volume consumption.

We typically recognize four stages along a category evolution S-curve, separated by inflection or transition points. The stages are (1) latency, (2) takeoff, (3) maturity, and (4) decline (*see "Development Stages," page 9*).

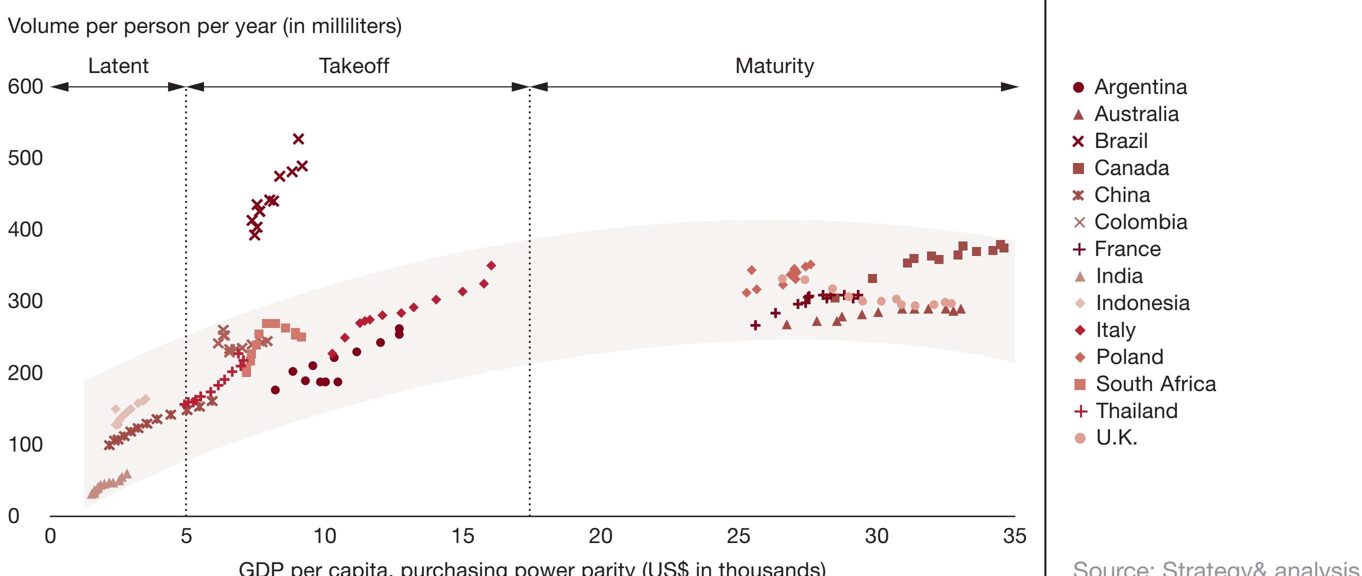
For example, as we see in Exhibits 1 and 2 (*pages 6–7*), India and Indonesia in bar soap and Thailand in toothpaste are in the takeoff stage and have followed the trend curves. Culture and habits, as well as other factors (*see "Beyond Affordability," page 17*), may have significant effects

Exhibit 1
Bar soap consumption as a function of countries' development stage



Source: Strategy& analysis

Exhibit 2
Toothpaste consumption as a function of countries' development stage



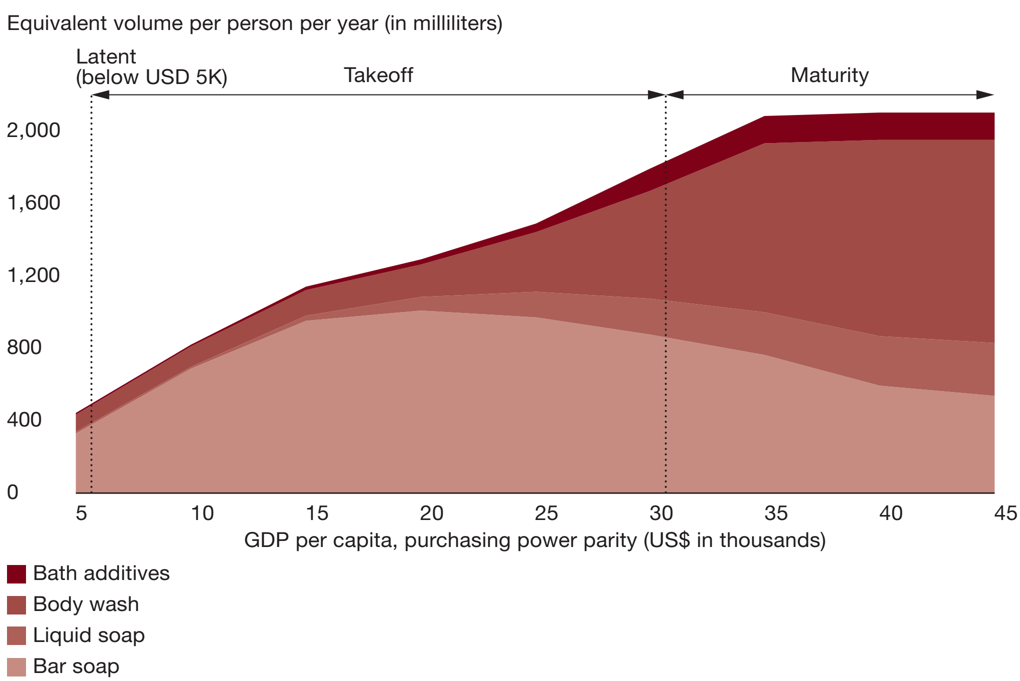
Source: Strategy& analysis

on the countries' positions on the chart. Brazil, for example, is a notable outlier when it comes to personal hygiene in general and hand-washing habits in particular — approximately 43 percent of Brazilians wash their hands more than six times a day, according to the Global Hygiene Council.

Although it is possible to look at separate categories on the trend curves, each category is usually part of a broader set, which includes other products that may work as substitutes and/or complements. For example, one should not conclude that because people in developed countries consume less bar soap as they become richer, they wash their hands less often; in fact, they shift from bar soap to liquid soap. Each category in a set may evolve at a unique rate, but when you view the set as a whole, you can observe changes in the category mix as the country's wealth evolves. Interestingly enough, different categories may take off and mature at different thresholds of the per capita purchasing power parity (PPP) continuum. Exhibits 3 and 4 (*page 8*) illustrate the concept of "category evolution road maps" for bath and shower and hair care categories, which are composed of stacked, related S-curves that provide a quantified vision of how consumption is likely to evolve. This is essential information for planning appropriately and timing investments right.

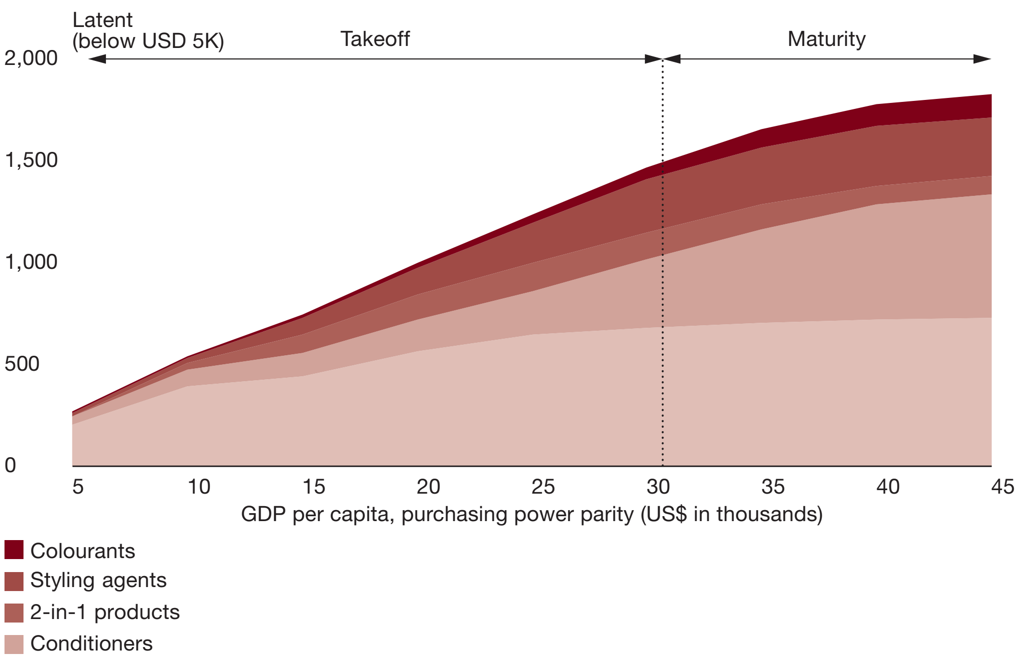
Exhibit 3

Bath & shower – category evolution roadmap as a function of PPP



Source: Strategy& analysis

Exhibit 4
Hair care – category evolution roadmap as a function of PPP



Source: Strategy& analysis

Source: Strategy& analysis

Development stages

Looking into the patterns of each stage to identify the current stage of a category allows for a more focused approach in portfolio management:

- ***Stage I – "latency":*** At this stage, the product is a high-priced novelty used by niche consumers, with scarce availability (e.g., imported and distributed in specialized trade only). Competition tends to be fragmented and players' investments are limited (in advertisement and trade, for example). Companies in this stage typically benefit from seeding the market with a narrow product portfolio distributed across selected channels, with an investment focus on brand awareness and premium prices. The key at this point is to identify when the market is ripe for the next stage (takeoff), to ensure that the necessary infrastructure will be ready to ramp up to adequate speed to seize the arising opportunities.

- ***Stage II – "takeoff":*** This is when the category rapidly gains significant volume because products become known to broader socioeconomic and consumer segments. New presentations appear, typically with relatively lower prices to lure new adopters. Availability expands as the category starts to be domestically manufactured and gets multichannel distribution. New players may emerge, intensifying competition. At this stage, successful players seek leadership by investing heavily to boost market share and push category consumption to the highest possible level for a given affordability (*see "Beyond Affordability," page 17*).
  When volumes are growing and "sweet-spot" market positions are yet to be taken, returns on marketing investments will tend to be higher than when volumes are stagnant and competitors have already established themselves. Because investments now will build both market share and category growth, this is the best time to make them. The toolbox for this stage should include the expansion of product varieties in the portfolio and significant investments in manufacturing, distribution, advertising, and promotion to secure an attractive positioning.

Being able to identify the current stage of a category allows for a more focused approach in portfolio management.

- ***Stage III – "maturity":*** At this stage, categories consolidate and consumption volume grows at slower rates or stabilizes because products and brands have become well known. A broader and wealthier consumer base, with more sophisticated needs and habits, requires a more elaborate segmentation. Innovation at this stage becomes increasingly important to develop premium and differentiated brands as well as products that will ensure top-line growth despite the slower growth in consumption (for example, deployment of more sophisticated packaging, new presentations, product combinations, introduction of tiered and premium brands, differentiation through specific denomination of origin, etc.). Companies may also take advantage of a category's successful brand positioning secured in the takeoff stage by expanding the product line further to include higher-value and broader portfolios. In some cases, the average price of the category will rise, pushed by companies' trade-up strategies. In other cases, the maturity stage may be accompanied by stable or even declining average prices. In that scenario, the battle for market share intensifies. Reducing costs in the more basic lines of products is another effort companies use to ensure bottom-line growth. Additionally, this stage is especially suited for gaining scale and market share through consolidation, leveraging top-line growth through mergers and acquisitions and amplifying bottom-line growth through potential synergies with smaller players. Finally, organizations should pay particular attention to indicators of category substitution so they can shift their investment focus in a timely way to the more promising emerging categories.

- ***Stage IV – "decline":*** At this point, category consumption volumes begin to fall and reach a plateau in terms of assortment, prices, and value. Some products may commoditize. When a company anticipates this stage, it should develop and implement a strategy to manage the substitution process, and even explore the possibility of cannibalizing its own sales with newer categories. It is also time to identify and focus on the highest-paying subsegments and niches that are likely to endure. It is possible to do this by enhancing aspects like differentiation and exclusivity. For example, transforming fountain pens and mechanical movement watches into luxury products enabled those categories to survive the onslaught of cheap, effective, and eventually commoditized ballpoint pens and quartz watches. Unless one is able to pull off the differentiation or exclusivity plays, as a general rule, investment at this stage should be kept to a minimum to sustain the brand positioning and manage the decline.

It is crucial to develop simple yet useful tools to monitor category development and support the decision-making process.

Strategy&'s experience with some of its clients proved that it is crucial to develop simple yet useful tools to monitor category development and support the decision-making process. The "Readiness Dashboard" (*see Exhibit 5*) complements and summarizes the key takeaways from the S-curve analyses by putting them into practical and actionable terms. This tool helps prioritize investments across countries according to their readiness and can be a guide for companies developing their portfolios.

Exhibit 5
Readiness dashboard for a given set of categories – category development stage per country

More developed

	Category A	Category B	Category C	Category D	Category E
Puerto Rico	Mature	Mature	Mature	Takeoff	Takeoff
Chile	Mature	Takeoff	Takeoff	Takeoff	Takeoff
Brazil	Mature	Takeoff	Takeoff	Takeoff	Takeoff
Mexico	Mature	Takeoff	Takeoff	Takeoff	Takeoff
Argentina	Mature	Takeoff	Takeoff	Takeoff	Takeoff
Costa Rica	Takeoff	Takeoff	Takeoff	Takeoff	Takeoff
Uruguay	Takeoff	Takeoff	Takeoff	Takeoff	Takeoff
Panama	Takeoff	Takeoff	Takeoff	Takeoff	Takeoff
Venezuela	Takeoff	Takeoff	Takeoff	Takeoff	Takeoff
Colombia	Takeoff	Takeoff	Latent	Takeoff	Takeoff
Ecuador	Takeoff	Latent	Latent	Latent	Latent
Peru	Takeoff	Latent	Latent	Latent	Latent
Dominican Republic	Takeoff	Latent	Latent	Latent	Latent

Emerging

- Category is a maturing/mature ad hoc investment, according to client-specific positioning in the country (e.g., maintain market share)
- Too early: limited opportunity within six years
- Start to get ready: opportunity coming in the next four to six years
- Invest: opportunity coming in the next three years

Source: Strategy& analysis

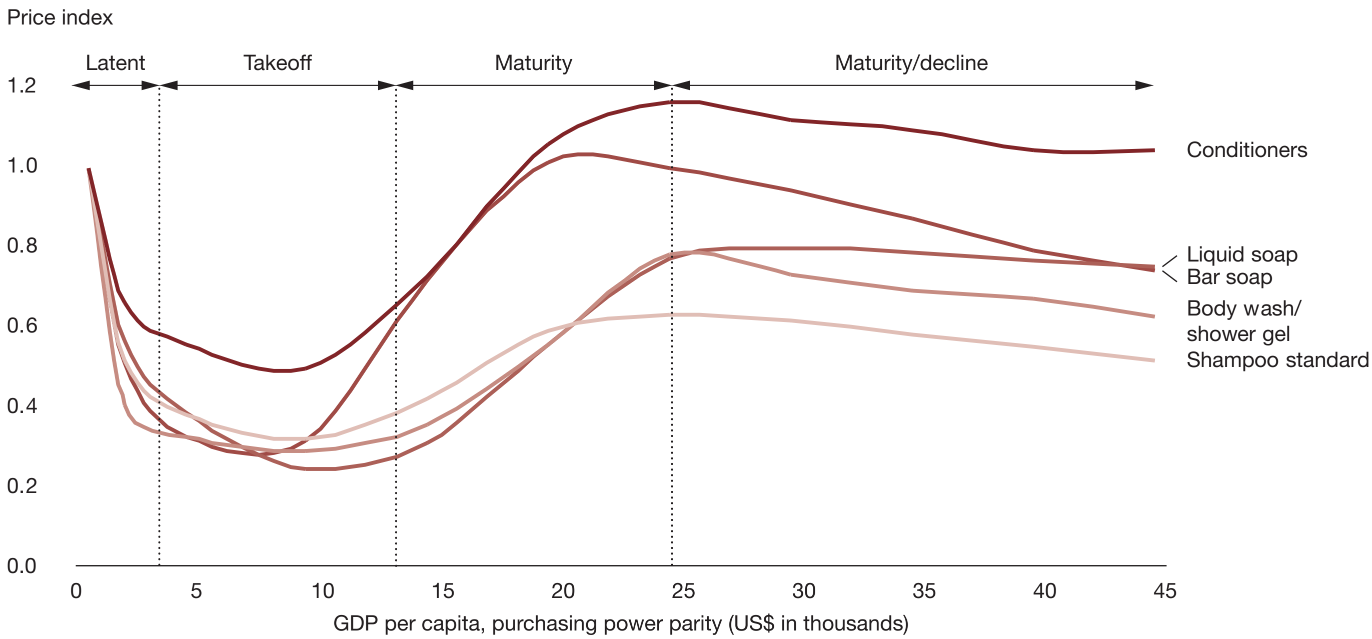
Category pricing

Another interesting feature observed in our analyses is that categories tend to have a reasonably predictable pattern of price evolution. Exhibit 6 (*page 13*) shows the evolution of average prices at different GDPs per capita. Notice that in the low end of the GDP per capita range (representing countries that are in the latency stage), the prices are usually high, suggesting that the category is somehow "luxurious" and directed primarily at the higher-income segments that can afford it — which might mean that only the wealthy part of the population were consuming it.

Categories tend to have a reasonably predictable pattern of price evolution.

Before categories can effectively take off, average prices usually drop to ensure mass-market affordability, which is defined by the relationship of a consumer's disposable income with the price of the good (*see "Beyond Affordability," page 17*). Average prices will steadily increase as portfolios for the category broaden with more sophisticated products. When the category reaches the later stages of maturity and decline, prices tend to stabilize and sometimes fall as a result of commoditization and competition. Those price patterns, although not observable in all categories, are useful indicators of how markets are likely to evolve, providing helpful insights to support investment decisions regarding timing and pricing.

Exhibit 6
Evolution of average prices at different GDPs per capita



Source: Strategy& analysis

Building "right timing" capability

How can these tools help organization build a differentiating and how can the tools discussed here help an organization build a differentiating and sustainable capability? Product life-cycle and category development analyses are certainly not new. However, what is novel about the approach offered in this report is the idea of using it systemically as a business tool for strategic purposes. Particularly, it will allow programmed changes in the company's portfolio mix or in the building of its new products pipeline based on the leading indicators of product categories.

Executives at all levels can benefit from this approach. The trend curves and tools provide a dynamic prediction of market evolution that improves an organization's ability to prepare and equip for changes, and leverages the opportunities as they materialize at each stage. Exhibit 7 (*page 15*) explores key benefits for decision-making roles at different levels, from strategic to tactical.

Executives at all levels can benefit from this approach.

Organizations that are able to systematize the methodology and develop a rigorous and quantitative approach to category evolution insight will undoubtedly gain an edge over their competitors. In our experience, developing and making the best use of this capability requires the following:

- Access to leading market intelligence
- The ability to carry out analytical work
- A perspective on country growth and industry-specific development triggers
- An active portfolio management mind-set to support resource allocation decisions

Exhibit 7
Key benefits for decision-making roles

More strategic

1) Supports the prioritization and timing of M&As and market consolidation opportunities
2) Ensures proper prioritization and timing of investment and divestment decisions across countries and categories
3) Enables the pursuit of more deliberate and balanced portfolios of categories/countries in terms of their evolutionary stages (e.g. steer away from overreliance on countries in mature or decline stage and underexposure in countries in takeoff stage)
4) Improves strategy through a more dynamic prediction of market evolution
5) Improves talent allocation in categories and geographies according to individual preferences and capabilities (e.g. allocate "stars" to takeoff categories, where their impact can be greater)
6) Improves capability development and execution by focusing on the most effective levers (e.g. pricing, product presentation, size, packaging, go-to-market, advertisement, innovation, etc.) for the specific evolutionary stage of that category or geography
7) Helps define more adequate growth targets based on the market's evolutionary stage
8) Helps direct the cost optimization approach (e.g. demanding greater intensity of cost efficiency from businesses in maturity and decline stages, and providing more support to maximize growth in takeoff businesses)

More tactical

Source: Strategy& analysis

Conclusion

We believe it is possible for organizations to achieve a “right timing” capability to make better portfolio decisions and set sound priorities both globally and locally. This report helps sort out the dilemmas that senior managers face when dealing with a portfolio of product categories by making their decisions less dependent on hunches and gut feelings. We offer evidence-based analysis on how market trends evolve and decision-making support tools that can help executives anticipate market changes. We have found it especially useful for companies that operate in emerging economies experiencing significant changes in per capita incomes. In those economies, organizations are in a privileged position to learn from the combined experience of how markets evolve.

Our recommended tools enable timely and effective decisions regarding investments and the strategic levers that can be used in each market, according to its evolutionary stage. By developing the capabilities required to generate and use the insights this approach delivers, companies can “right time” their portfolio decisions to achieve sustainable growth.

Beyond affordability

At the companies we share this approach with, executives often ask us, "Am I stuck with this market size until affordability starts to change? If nothing changes in the next 10 years, is there anything I can do now?" All marketers would agree that, most certainly, something can be done. We believe that in addition to getting the timing right, having the capabilities to maintain growth, regardless of timing, is equally critical.

As we can see in Exhibit A (*page 18*), there is usually more than one S-curve, suggesting there may be markets with similar income but quite different consumption levels. The example illustrates two S-curves that represent high and low consumption trends for the breakfast cereals category. The variation is a consequence of how other levers, besides affordability, affect consumption.

Businesses can take consumption to higher levels on the S-curve by tinkering with other levers such as desirability and availability. Whereas affordability relates to the consumer's disposable income, desirability is associated with awareness of the product — driven by, for example, advertising and trade promotion efforts, local cultural preferences, habits, or substitute products. Availability, on the other hand, involves distribution aspects such as product presence across channels and points of sale.

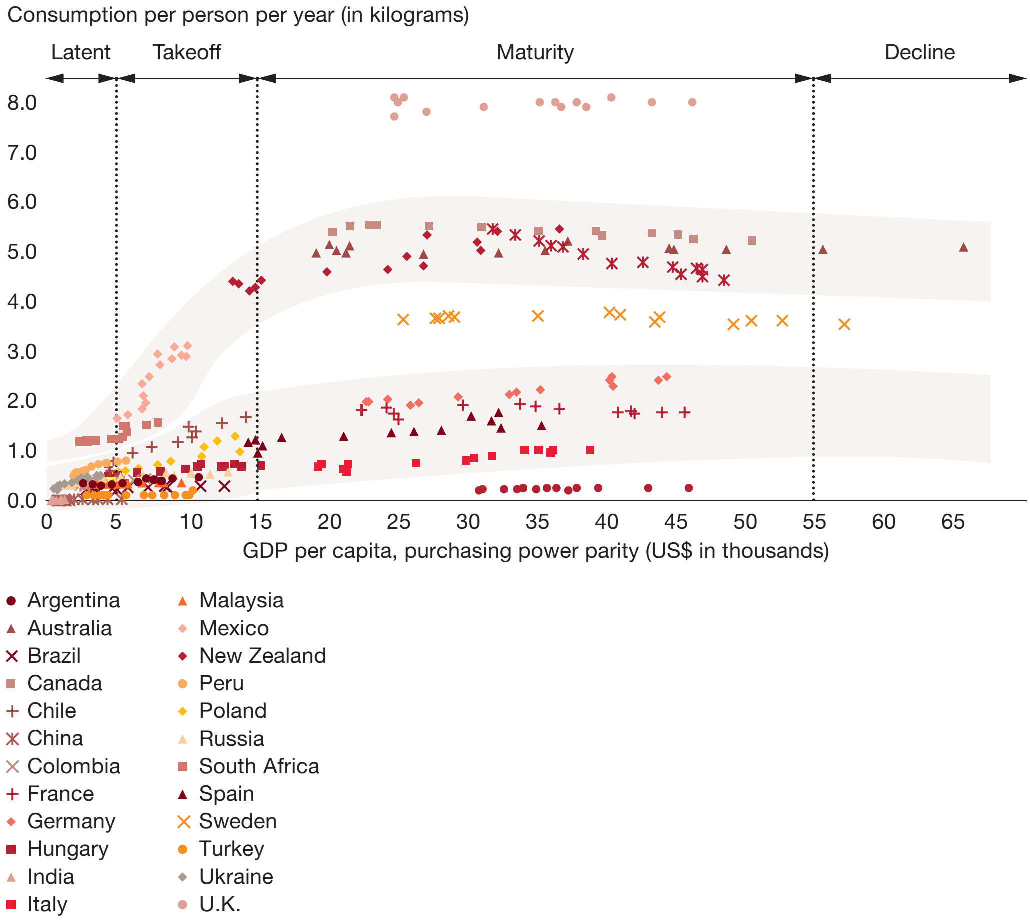
Using both desirability and availability levers, each of which can be segmented for increased effect, is important to achieving higher levels of consumption at any given point on the curve. Nevertheless, we believe that the best moment to outpace the competition with these initiatives is in the takeoff stage. The momentum for change at that point makes desirability more malleable, and investment payoffs are greater and faster.

Moreover, even affordability can be worked on. For example, product design, brand-price-pack-channel adequacy, or calibrated lower-cost offers — at the expense of some quality or service — can play a huge role in making products more affordable. Typically, fewer and simpler needs at the lower end of the PPP per capita spectrum enable such approaches.

Though it may seem so at first glance, the fact is that companies are not stuck with the affordability levels of the countries in which they compete.

Exhibit A

Breakfast cereals category development



Source: Strategy& analysis

Epilogue – a holistic view is always necessary

The approach discussed in this report can be highly effective in supporting the strategic management of categories. However, we must consider some other factors when applying it.

Go beyond affordability: Consumer behavior is more complex than just affordability. As we previously argued, desirability and availability also impact adoption. Intensity of competition, advertising wars and players' race for territorial coverage can all significantly impact category development. That is the reason why we see variation in S-curves for the same level of country development. Thus, it is crucial to employ local market knowledge and sound business judgment to draw meaningful conclusions from this approach.

Depending on the data: This approach works for categories that can produce reliable data sets. Categories that are worldwide innovations or that have insufficient data will encounter difficulties in benefiting from this approach.

One country, not necessarily one stage: Countries with huge populations, continental proportions, or significant regional differences may need a more segmented geographic partition to apply the method effectively. For instance, China and India may be in the latency stage because substantial parts of their populations are still living in rural areas or present very low GDP per capita. But when zooming in on a specific geographic area that hosts a big urban center, one may find that the area is already in the takeoff stage.

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We do that by working alongside you to solve your toughest problems and helping you capture your greatest opportunities.

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