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by Steffen Lauster, Elisabeth Hartley, and Samrat Sharma

Some strategic concepts, if they're regarded as sacrosanct, may lead an entire industry in the wrong direction. Something of that sort has happened during the past two decades in the consumer packaged goods (CPG) industry. Two of the most influential strategy ideas are so widely held, so intuitively appealing, and so seemingly pragmatic that they are very hard to give up. Yet they can also be very dangerous to follow.

Both of these misleading ideas have to do with consolidation: the premise that, when it comes to business strategy, *bigger is better*. Since the 1980s, the conventional wisdom has held that shareholder returns accrue most to companies with huge brands and the scale to compete in emerging markets. Many CPG leaders have assumed that their chances of winning, in every region and every product segment, were enhanced by size. More salespeople, a bigger distribution footprint, a bigger advertising budget — these were the ingredients of success.

This perception gave rise to the second misleading idea: *Consolidation is inevitable*. For years, experts predicted that most consumer packaged goods segments would end up like carbonated beverages, razor blades, and diapers — with just two or three big rivals, a handful of niche players battling over the scraps, and a few private-label brands for value consumers.

Together, these two myths add up to a consolidation mentality that has dominated business strategy in this industry. CPG leaders have assumed that their job was either to make their company as large as possible or to position it for eventual sale to a giant conglomerate. They bet their company's future, in short, on untrammeled growth — whether or not they had the capabilities to manage it. In this way, many previously solid CPG companies began to lose their way on the path to profit.

To be sure, some players, such as Procter & Gamble, use their size and scale to great advantage, particularly in emerging markets or new growth areas. But in reality, the industry is much more diverse and dynamic than the conventional wisdom would suggest. Most CPG categories — including staples such as food, personal care products, and cleaning supplies — are in a constant state of evolution. They move from consolidation to fragmentation, and some can cycle back, time and time again.

In such an environment, there are many ways to prosper, with each successful company finding its own path: some end up large, some small, some global, some regional. But none of the paths taken involve growth for the sake of scale alone. Instead, they require the kind of growth that leads to profitability. This in turn requires coherence.

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Coherence in Consumer Packaged Goods

Coherence is a company's ability to concentrate its resources and collective intelligence, and marshal all of them in the service of a well-aligned group of products and services with a focused strategic direction. Highly coherent companies have three to six major distinctive capabilities, all of which are integrated into a single system that is used throughout the company. This type of strategy and management execution allows companies to be efficient in their activities, disciplined about their portfolios, and differentiated in the eyes of customers.

Because of the consolidation mentality, many executives of CPG companies have overlooked the value of coherence. They have focused on sheer size and scale instead. But size and scale are no longer as critical as they once were — at least not in the mature markets of industrialized nations.

We recently compared the financial performance of three dozen consumer packaged goods companies in North America and Europe, over a 10-year period starting in 2000. The most consistent CPG successes were all coherent firms. These included some relatively small firms, such as Alberto-Culver Company (a US$1.4 billion company with a consistent track record of beating the market in shareholder returns, and that is being acquired by Unilever in 2011) and Church & Dwight Company (the $2.5 billion producer of Arm & Hammer products; the company has generated total returns far exceeding those of most other CPG companies). The value of coherence was demonstrated by other consumer products companies as well — including niche companies such as Ketel One, upstart competitors such as Starbucks, and such large, well-known companies as Coca-Cola, PepsiCo, and P&G.

Coherence seems to be particularly important in consumer products companies, where there is always a temptation to react opportunistically to changing markets, with brand extensions, new products, or acquisitions. Why does it make such a difference to resist that temptation? In their book *The Essential Advantage: How to Win with a Capabilities-Driven Strategy* (Harvard Business Review Press, 2011), Booz & Company Partner Paul Leinwand and Managing Director Cesare Mainardi offer several reasons. A coherent company — for that matter, a company that is simply more coherent than its competitors — can focus its investments on relatively few capabilities, increasing its mastery of those critical areas. It gains in efficiency; it doesn't waste time, money, and attention on capabilities in domains where it doesn't need to outdo its rivals and a modicum of competency is sufficient. A coherent company also makes more prudent portfolio decisions, applying the lens of capabilities as it decides which products or services to acquire and which to divest. This can give it an advantage over CPG companies that base those decisions primarily on financial performance and that may therefore be more apt to stay in a product segment that doesn't fit, siphoning off funds that are needed elsewhere. Finally, a coherent company provides more opportunities for its people and gives them a clearer understanding of where the company is going and how their work fits in.

Why Size Doesn't Matter

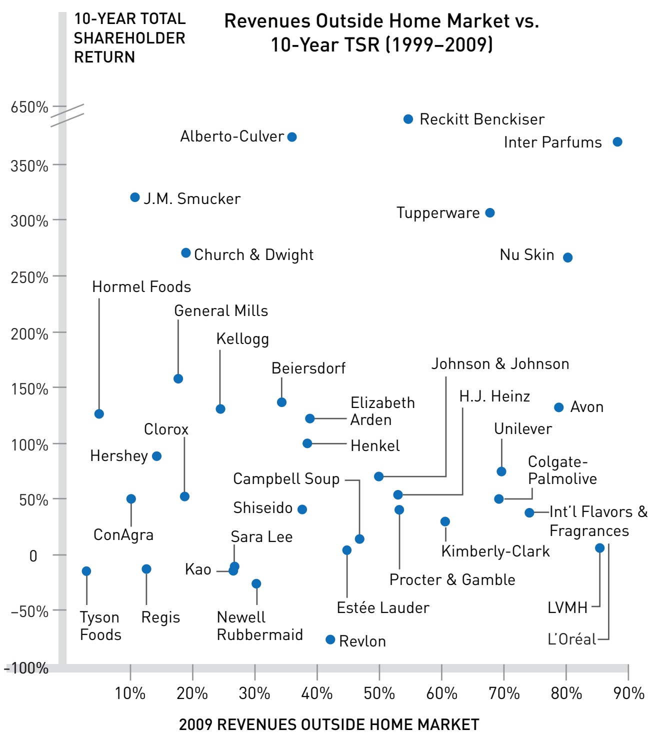
In assessing the relationship between scale and performance, one might argue that it's not fair to compare the growth rates of large and small companies. Large companies like P&G, Unilever, and Johnson & Johnson already have so much of the market, there's no way they can grow as fast as a company that's a fraction of their size. There is some truth to this — a smaller company, especially one with a hit product, always has a better chance of showing dramatic growth because of its small revenue base.

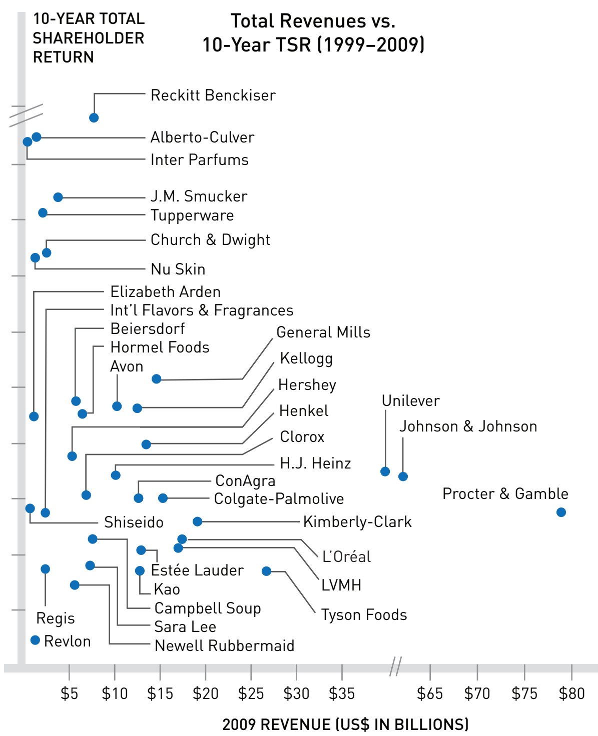
Even so, if the advantages of size, international penetration, scale, and retailer satisfaction were really so great, one would expect bigger companies to do better than the vast majority of their smaller peers. Instead, they are on par with most smaller companies and far behind a few in the important area of total shareholder returns. (See Exhibit 1.)

The history of the industry suggests that size was indeed a vital element in the past. But its impact has been eroded. One important factor in this was the rise

Exhibit 1: **The Limits of Size and Geographic Reach in the CPG Industry**

There is no correlation between performance (in total shareholder return) and the geographic reach of a company (the x-axis on the left, measured in percentage of revenue earned outside the company's home market). The correlation with size (measured in dollars of revenue) is also weak, but it shows larger companies as a group with some relative performance disadvantage.





Source: Thompson Financial data, Booz & Company analysis of digital media. A generation ago, when network television was the most effective way to get a branding message out to consumers, players with scale could get the best deals for airtime. Now, with a cable audience divided among hundreds of channels, prime-time network television isn't necessarily the smartest or most efficient buy. Newer outlets, including infomercials, custom-designed Internet sites, and social media such as Facebook offer better options. Creativity and promotional skill are supplanting sheer size as the determinant of marketing success. Many CPG companies are delivering their own branded experiences through websites or mobile phones — an approach known as private-label media.

Outsourcing and alliances have also helped erode the value of scale. It is harder for a CPG company to maintain advantage through functions such as manufacturing facilities, specialized R&D, or customer service. These capabilities can be offloaded to outside partners that can do the job as well as the largest rivals in a market, often at a lower cost. For example, in the past some large CPG companies deployed quantitative experts to run price elasticity models that other companies couldn't match. Nowadays, a smaller CPG company that needs that information can outsource the function to a specialist firm.

Shopper attitudes have also changed. Consumers who are truly loyal to a brand don't care how large the company is that provides it, and companies with just one or two brands are often more adept at providing the kinds of products (and supporting services and functions, including customer engagement) that draw people in for a lifetime.

To be sure, the size and breadth of a company are still critical for CPG companies in developing markets, including India, China, eastern Europe, Latin America, and the Middle East. There, the near-term advantage is to the swift, because emerging-market consumers are still developing brand loyalties. Scale also provides an advantage there because the retail infrastructure is not as advanced as it is in industrialized nations, and therefore large manufacturers can provide reliable delivery at a lower cost than their competitors can. That is why the Procter & Gambles of the world — companies with scale — are rushing to those markets and finding a degree of success that is eluding them back home. But as these markets evolve and mature, and as competition increases, these markets will probably start to favor coherence as well.

From Consolidation to Fragmentation

The value of consolidation, like the value of size, was more substantial in the past than it is today. In the 1980s, a company with a loosely configured portfolio pursuing an incoherent growth strategy could maintain adequate shareholder performance for years, until it was eventually purchased by another company. Those days are gone. In recent years, the CPG industry has undergone a sea change in its structure. Some product categories are consolidating, but many are fragmenting instead: They are splitting the customer base among more, rather than fewer, competitors. (See Exhibit 2, page 5.)

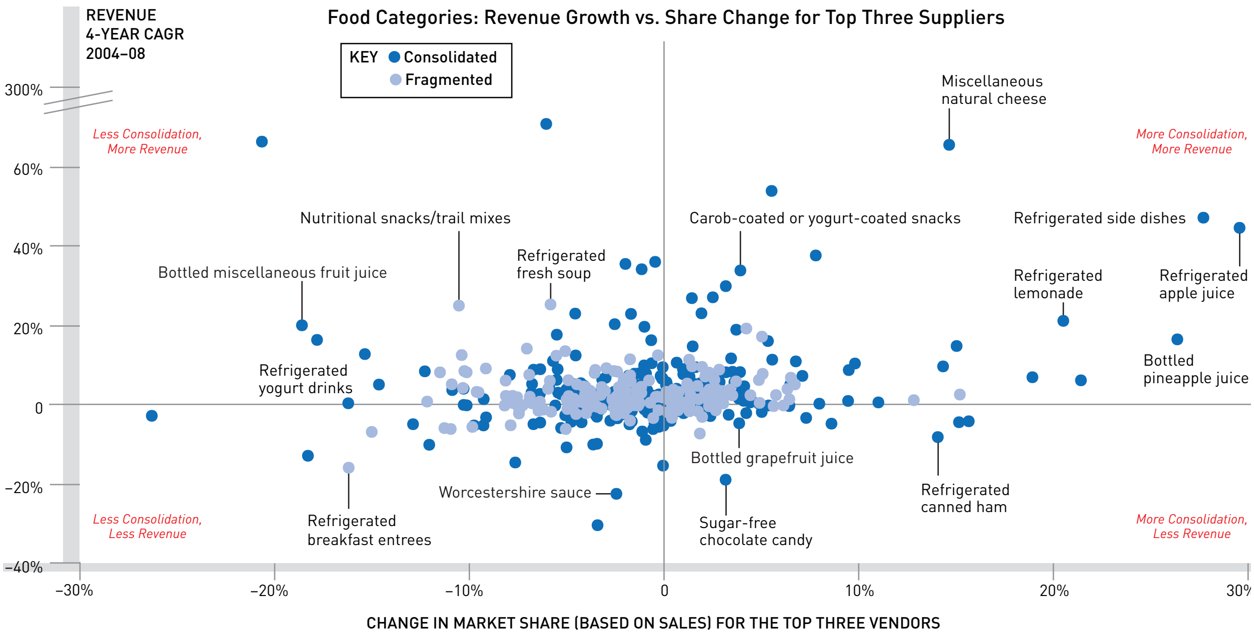
Paradoxically, one of the reasons for this is today's more consolidated retail environment. When retail outlets were still highly fragmented, a manufacturer could gain an advantage by having a bigger sales or distribution force to knock on more doors and get products on the shelves. Now there are fewer retail brands, but a greater number of megastores and outlets. In some cases, this situation favors consolidated manufacturers. For example, when CVS Caremark decided to stop selling Energizer alkaline batteries in 2009 and retain Duracell as its sole national brand, analysts estimated the revenue shift at $25 million.

But more often, small, coherent manufacturers find that retail consolidation works in their favor. Simply by getting accepted at Walmart, a CPG company with one or two popular products can gain access to 30 percent of the U.S. market overnight. With another one or two big retail distribution wins, the company can reach 50 percent or more of its target market.

Getting this access is easier than it may seem, because although most big retailers routinely limit the number of products they carry, they place less emphasis these days on product breadth and more on category-

Exhibit 2: **Consolidation's Lack of Impact on Selected Food Categories**

Each dot represents a major food product category in the United States between 2004 and 2008. The x-axis shows consolidation: the market share gain or loss by the top three competitors in that category during that period. The y-axis shows performance: revenue growth or decline for those same leading companies in that category. With products in all four quadrants, there is no clear correlation. Labels show a few examples, selected at random, in each quadrant.



Note: Analysis excludes convenience, dollar and club stores, and the Walmart and H-E-B retail chains. It also excludes about 100 product segments of less than US$10 million each.
Source: Industrial Research Institute, Booz & Company analysis

specific differentiation based on superior shopper and consumer insights. They also don't want to limit their suppliers to large CPG players. That would mean giving up some of their negotiating power. Walmart doesn't say so, but this is undoubtedly part of the reason it often highlights smaller suppliers in its annual awards; it may also explain why CVS continued to carry Energizer's lithium battery line after it dropped the company's alkaline batteries.

In such an environment, manufacturers don't need the biggest fleet of delivery trucks, the most salespeople, or the largest trade merchandising budget. They need to score with big retail buyers through distinctive capabilities in innovation, product development, and packaging. Consumers, for their part, are open to choosing smaller brands that don't control their sector, especially in categories where a high level of engagement or sophistication is involved. Think of the chocolate lover who is drawn to a highbrow brand such as Vosges, Lindt, or Ghirardelli, or the connoisseur who insists on freshly baked bagels to go with a high-end form of Nova salmon. Consumer engagement also tends to spread virally; if a large number of people in a community buy specialized pots and pans at Williams-Sonoma, sooner or later their neighbors will look for similar cookware at Walmart or Target. This type of dynamic tends to push a category toward fragmentation, as different groups gravitate toward different competing brands.

In the United States, one of the first major CPG categories to show real fragmentation was beer. Before 1978, there were just a handful of producers. Then new regulations allowed small-scale breweries to operate, and breweries proliferated. About 1,500 beer companies operate in North America today. The same dynamic spread from beer to other food and beverage categories. By 2004, the top two or three brands in any food category were just as likely to lose market share as to increase it over the subsequent four years.

In food, the categories that are fragmented are wide-ranging; they include hot drinks, balsamic vinegar (priced from $3 a bottle to more than $100 a bottle at some specialty stores), ready-to-eat meals, and vodka, which is available in a dozen or more brands at the average liquor store. Fragmentation is also common in many personal care and beauty segments. In shampoos and conditioners, the most successful brand as of April 2009 was Procter & Gamble's Pantene. But it had only 16.4 percent of the market, a figure that had dropped three percentage points since April 2007, as Pantene lost share to newer products like Alberto-Culver's Tresemmé and some budget-conscious consumers opted for private-label hair products. Hairstyling products are even more fragmented than shampoos, with the top three products barely accounting for a quarter of all revenues. Here, the smallest company's entry (again Alberto-Culver's Tresemmé brand) pushed past the entries of two far bigger companies (L'Oréal's Garnier and Procter & Gamble's Pantene) in 2008 and 2009.

In some fragmented categories, mass and price usually don't matter as much as perceived quality. In the New York area, for instance, Rao's marinara sauce (the same sauce available in the famous Harlem restaurant of the same name) is a popular brand in specialty supermarkets despite costing twice as much as other jarred sauces. Other categories, like paper goods, frozen vegetables, dairy, and some baked goods, are fragmented because consumers don't believe the products are differentiated at all, so they care only about price. Private-label products often gain a foothold here. Adding to the complexity, the perception of brand value differs across geographies. In Germany, more than 60 percent of consumers resist buying branded toilet paper: They do not believe it is any better than the cheaper private-label variety.

There are, of course, categories that have consolidated in just the way the experts predicted. Carbonated beverages (Coke and Pepsi have more than 70 percent of the market between them), breakfast cereals (Kellogg and General Mills), shaving products (Gillette and Schick), and pens (Sharpie and Bic) all have only a couple of major brands, plus a few local or niche brands, and private labels. These are among the categories in which retailers — responding to consumers' dislike of an overabundance of choices — are opting to simplify their inventory. These consolidated categories also offer unique scale advantages in product development, manufacturing, and distribution. But they do not represent the bulk, or even the majority, of consumer product categories. Moreover, as time goes by, some of these categories are also likely to fragment.

Coherence at Alberto-Culver

In the face of these realities, why do so many consumer products companies maintain the consolidation mindset and pursue a strategy of incoherent growth? In part because it feels natural to executives who grew up in the business during the past 30 years. Most of the large companies in this category evolved through ad hoc mergers and acquisitions. A baked goods company might acquire two others, each with a small frozen foods sideline, and become a conglomerate with a frozen foods division. Ultimately it would end up with a diverse portfolio of relatively unrelated products.

Companies that develop in this fashion naturally tend to organize themselves around their brands, typically their most visible managerial distinction. All brand managers strive for growth, because that's how they expect to build a career; to make a name for themselves like the P&G marketers who turned Old Spice into a young, hip product. Unfortunately, for every visible success story like Old Spice, perhaps 10 other products don't fulfill their potential, because the company doesn't have the capabilities to develop and market them properly. Without stepping back and looking at the portfolio in light of capabilities, a CPG company will struggle to be coherent. Each product line in its wide-ranging portfolio inevitably requires its own capabilities to thrive, and few of these capabilities overlap with those needed by other products.

Consider, by contrast, the high level of coherence that Alberto-Culver has achieved. This relatively small company has outperformed the market since 2007 and commands a high valuation multiple. Its strategy works because Alberto-Culver has a tightly defined product mix — 80 percent of its revenues come from beauty products for hair and skin care — and a system of interconnected capabilities, giving it an advantage in its categories. (See "Focus vs. Hocus-Pocus at Alberto-Culver," by James Marino, *s+b,* June 6, 2011.)

The company's first critical capability is a deep understanding of consumer preferences regarding hair care, especially styling. Unlike their counterparts at broadly diversified CPG companies, the brand managers overseeing hair care products at Alberto-Culver generally haven't been rotated into their positions from some other business unit or product area; they've typically spent years or even decades marketing shampoos and conditioners. The same is true of the product development staff; they know hair care deeply.

A second differentiating capability relates to brand building. Alberto-Culver's deftness with aspirational marketing allows it to give its value products a premium aura, even with a comparatively small marketing budget. For example, it was the first company to convert products used in salons into mass-market packaged goods. This capability applies to both hair and skin care products and thus meets one of the requirements of any key capability — relevance to all or most components of a company's portfolio.

Like any other CPG company with limited resources, Alberto-Culver also manages some capabilities that are not differentiating. For example, hair care isn't a segment in which there are huge differences in product quality, so although Alberto-Culver's products are usually on par with those of its rivals, and may be better in some cases, the company has a relatively small R&D budget and doesn't over-invest in product development.

Coherent companies typically have a culture and an organizational structure that allow them to focus on the few activities they regard as critically important. This is true of Alberto-Culver, where members of the management team all work in close proximity at the company's headquarters in Melrose Park, Ill. The result is an entrepreneurial culture that responds effectively to competitive threats, and that can mobilize rapidly to capitalize on opportunities. Indeed, in this company's case, entrepreneurialism has become a capability in itself, adding a sort of velocity to the company's other capabilities. Entrepreneurialism enabled Alberto-Culver to get the Nexxus hair care line into broad distribution after it bought Nexxus in 2005.

Alberto-Culver's coherence is also reflected in the disciplined way it thinks about its product portfolio. Companies in the beauty industry have many opportunities to expand into adjacent product segments. Leaders at Alberto-Culver always ask whether potential opportunities are consistent with their capabilities system. One new area the company was considering required a capability in celebrity marketing; a second required the ability to anticipate fashion trends. Creating superior capabilities in those areas would have been too costly for Alberto-Culver, given the expected returns. So it dismissed these opportunities. Every focused company must occasionally do the same.

Strategies for CPG Companies

No consumer packaged goods company can afford incoherence. But incoherence is built into the industry. If you are a leader in a CPG company, then you are already used to having a multitude of products in your category, with businesses that operate across many regions and a variety of consumer tastes and habits that respond fleetingly to new line extensions and product introductions. Undoubtedly, your company has distinctive capabilities — but they probably apply to only part of your portfolio. Fortunately, the rest of the industry is as incoherent as you are; you can often gain an advantage simply by being less incoherent than your rivals.

Exactly how you move toward greater coherence will depend on your international footprint and product portfolio, and on your sense of how the sectors in which you compete will evolve over time. You will also need a clear understanding of the benefits that coherence can bring you, and the ways in which your three primary strategic elements — your strategic "way to play" in the market, the system of capabilities distinguishing your company, and your lineup of products and services — function together. You don't have to aspire to full alignment among all your products; becoming more coherent within even one business unit or product segment will make you more competitive than you were before.

Start by assessing the dynamics of your chosen market and your potential for gaining advantage there. (In *The Essential Advantage,* Leinwand and Mainardi call this your "right to win" in your chosen market, and they lay out a full process for assessing this potential, including a series of diagnostic exercises.) In the CPG industry, this exercise would include a close look at the likely future of your chosen product and service categories: Will they consolidate around a few brands or will they fragment, with new brands coming in? Can you change the dynamic? Very different capabilities tend to be important in these two types of categories. (See Exhibit 3.)

Also ask yourself: What is your own position in this category? Are you a market share leader or laggard? Most importantly, what is your way to play in the market — your differentiated approach to creating value in this category? For example, are you leaders in innovation, in experience, or in providing value? Your answers will help determine the appropriate strategy. For example:

• **If you already have significant market share,** take advantage of your size by developing a more differentiated capabilities system, and using it to increase your influence over the entire category. This might mean introducing a set of packaging innovations, building or modernizing plants, buying up international distributors, making private-label versions of your product for retailers, or investing in a direct store delivery capability.

Big manufacturers that already have a strong position can sometimes push a category toward consolidation this way, with themselves as the largest beneficiary. This is what Frito-Lay did in the late 1980s, when it used its world-class distribution system (the company has ways of getting its snacks everywhere — supermarkets, gas stations, vending machines, corner bodegas) to apply pressure to the competition. By 1996, two of Frito-Lay's biggest competitors, Borden and the Eagle Snacks division of Anheuser-Busch, had exited the market for salty snacks, and Frito-Lay's share of the category in the U.S. had jumped to 55 percent from 38 percent.

• **If you are a small company in a fragmenting category,** focus not on expansion into other categories, but on distinguishing your existing products in ways that customers value. Build or develop capabilities related to the features that your customers value most. There is probably no need to distinguish yourself in distribution, at least in mature regions like North America and Europe; the retail infrastructure in these markets has leveled the playing field. But you probably need some very distinctive marketing and consumer insight capabilities.

Consider, for example, how Ketel One became one of the best-selling premium vodka brands in the U.S. by capitalizing on its customers' desire for status and sophistication. Vodka is inherently tasteless — not many people, handed a cosmopolitan at a bar, would be able to identify the brand of vodka from taste alone. Yet many bar-goers request expensive brands when they

Exhibit 3: **Capabilities Required to Win**

In Consolidating Categories Examples: Carbonated drinks, shaving products, breakfast cereals, pens, batteries	In Fragmenting Categories Examples: Prepared foods, personal care/beauty products, paper goods, frozen foods
• Cost and scale advantage	• Highly differentiated brand proposition
• Distribution reach	• Innovation and R&D focused on refined consumer value proposition
• Manufacturing efficiency	• Consumer engagement
• R&D focused on process technology and product improvement	• Iconic/distinctive positioning in the category ("must have" products)
• "Power at the shelf" (merchandising and in-store marketing)	• Low-cost, rapid, flexible manufacturing
• Mass advertising	• "Fast follower"–style R&D
• Deep insights in category economics and dynamics	• Outsourcing or partnering in distribution to offset potential scale disadvantage

Source: Booz & Company

order drinks; it's a way of demonstrating their discernment and appreciation for the good things in life.

When Ketel One expanded to the U.S. in the 1990s, the Dutch family that owned the brand dispatched one of its sons to spend years in the U.S., talking up the unique qualities of the vodka to bartenders in New York, Los Angeles, Chicago, and Miami. He held seminars for them, bringing samples and describing Ketel One's distillation process (using the same type of copper pot stills that were used in 1691) and the picturesque site in the Netherlands where it is made. In effect, the bartenders became point-of-sale influencers in the trendsetting "liquor capitals" of the United States. As Ketel One added sales staff with the same method, the brand became an interesting story the bartenders could tell to customers. Ketel One's key capability was conducting one-on-one marketing in a way that led customers to associate it with taste — not its literal sensory meaning but its other, more abstract meaning: taste as refinement, as evidence of superior judgment.

Some consumers paid more than twice as much for this evanescent quality as they paid for many other brands of vodka. It was worth a lot to the company as well. By 2006, Ketel One had become the number three superpremium vodka brand in the U.S.; two years later, liquor giant Diageo paid $900 million for a 50 percent ownership stake.

• **If you are in a consolidated category,** you might be able to take over the market by changing the category's dominant value proposition to something that you do uniquely well. In the 1990s, Starbucks turned the hot beverage category into a highly engaging coffeehouse experience, taking over the category as a result. In the process, Starbucks redefined even its competitors' approach to scale; it became less important to lead in market share on the grocery shelf and more important to lead in retail outlets.

Not long after it began to grow, Starbucks came to the attention of Folgers, the ubiquitous coffee brand then owned by Procter & Gamble. The Folgers brand managers were sufficiently alarmed by the buzz around Starbucks that they decided to conduct independent taste tests. The tests were reassuring — most people preferred Folgers to the more bitter Starbucks — and the Folgers managers breathed a sigh of relief and essentially said, "This too shall pass." Of course, history has shown their complacency to have been misguided; between 1993 and 2008, revenues at Starbucks grew from less than $200 million to $8 billion, a 40-fold increase.

• **If you want to influence the emerging shape of a changing market,** you may need to add new capabilities to your existing ones. This is what Apple, a master at human interface design, found when it launched the online media service iTunes. The new service could not have succeeded had Apple not added significant new capabilities in digital delivery and the ability to work with major music labels. Whereas the recorded music industry came at the opportunity more narrowly, viewing Internet distribution as merely a new type of channel, Apple created an experience that would work for consumers. The result was an original and vastly profitable franchise that has left virtually all its competitors in the dust.

• **If you are trying to get a toehold in a developing market,** you may choose to make moves that, strictly speaking, are not coherent. For instance, you might acquire an indigenous CPG manufacturer or retailer, accepting some ill-fitting products or services because they come along with the essential capabilities you need in areas like distribution. You can also plan for eventual coherence by structuring your acquisitions up front as two-part deals: Think simultaneously about finding and acquiring the target company, and about divesting unneeded brands, assets, and personnel. (See "M&A in the New CPG Strategy," by J. Neely, Paul Leinwand, and Amit Misra, s+b, June 6, 2011.)

Finally, look ahead to determine which capabilities will be needed in the future in this market. For example, if you are a small CPG company looking to expand in China or India, how rapidly do you expect the retail and distribution infrastructure to improve there? Will you get the scale you need in these countries by climbing on the backs of major retailers like Walmart?

• **If you are a local company trying to expand your geographic footprint,** the nature of your category can determine the capabilities you will need. For instance, food companies often have difficulty gaining an advantage in new regions, no matter how big they are. People's food preferences vary too much by locale, and different areas may require different development and marketing capabilities. KFC's successful launch in China, for example, required shifting most of the food on its menu, and many of its processes, to forms more palatable to its Chinese consumers. Beauty companies, however, have an easier time operating globally because in general tastes in personal care products travel more easily across diverse geographies than do preferences in food.

• **If you are pursuing organic growth (without M&A),** seek "scale at the shelf," not across categories. In other words, establish multiple brands at diverse price points, each with its own proposition. Smaller CPG companies, especially in niche product areas, have proven more adept at this tactic than larger ones. They can use their cluster of brands to gain the retail chain buyer's attention and develop deep, relevant insights into shopper and consumer behavior, making it more likely that the retail chain will provide concessions, promotions, and advantageous positioning.

Church & Dwight excels at this approach. It has generated total returns far exceeding those of bigger CPG companies — including some from which it has bought assets — by developing deep expertise in brand extension and by concentrating on narrow product segments. The company's biggest asset is Arm & Hammer, which in 2010 became its first $1 billion brand. This achievement was possible only because of Church & Dwight's capabilities in brand cross-pollination and extension. Arm & Hammer and its distinctive logo long ago ceased to be associated simply with baking soda. In recent years, the Arm & Hammer brand has also helped Church & Dwight, now a $2.5 billion company, increase its market share in such areas as liquid detergent, cat litter, and oral care.

Church & Dwight's scale at the shelf allows it to get a lot for its marketing dollar. To advertise the Arm & Hammer brand is to advertise the company's shower scrubs, clothing stain removers, and battery-powered toothbrushes. Its narrow product portfolio also enables Church & Dwight to wring manufacturing and cost efficiencies out of many parts of its operations. Indeed, the company takes a relentless approach to improving its P&L, using a level of financial discipline more common at private equity firms. This in itself is a strong capability, and one that has made Church & Dwight's stock a top performer in the CPG universe during the last 10 years.

Charting the Future of the Industry

In the end, the problem with many strategic assumptions is not that they're wrong, it's that they are not universal. Be wary of the idea that other companies find beguiling; the right strategic destination is different for every company, even — or especially — in a mature industry like consumer packaged goods.

Be careful, also, of the ideas that have made you successful over time. Many of the success stories in this article concern categories — including beauty products, coffee, batteries, and vodka — that have gone from consolidation to fragmentation, or vice versa. Some have shifted between these dynamics several times. There is always the chance in the CPG field that an upstart company will find a new product or process that changes the nature of the category altogether. With massive amounts of new R&D under way in China, India, and other emerging markets, this is all the more likely.

The advantage given to you by your business environment is thus transient, and you will have to react ever more quickly in the years ahead. Even so, your greatest strength is steady and long-lasting: the capabilities that you hone over the years, matched to your customers' needs. +

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