

COMMENTARY



RE-BASE THE PLAN; REGAIN CONTROL

Food and Beverage

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Marakon

Management Consulting at
Charles River Associates

CONTEXT

The COVID-19 pandemic has been spreading fast, with a rapidly shifting epicentre – from China to Europe and now to the US. As the virus has multiplied, it has left a trail of economic disruption and uncertainty. According to recent estimates, the global economy is set for the sharpest reversal since the Great Depression.

During this period, the food sector as a whole has shown some resilience – while the S&P 1200 fell by c.19% in the last six weeks, the S&P Food & Beverage Index fell only by 8%. Looking at the sector more closely however suggests the picture is more nuanced, and, at least in the short-term, winners and losers emerge (Exhibit 1 and Exhibit 2).

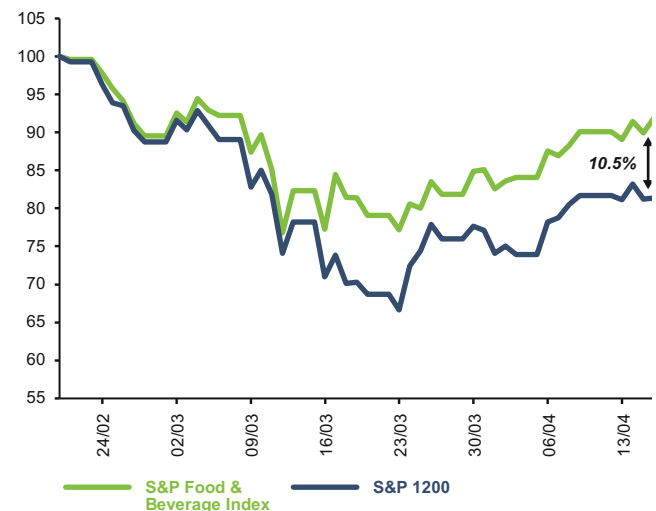
As these trends become more and more evident, leaders in food and beverage are beginning to digest and consider the medium and longer-term implications of COVID-19 on their businesses. Some can see that their markets are likely to endure an indeterminate period of consumer lockdown and severely restricted business activity, likely followed by an uncertainly paced economic recovery with the spectre of a protracted contraction in consumer demand. Others may be experiencing a short-term boom in demand and wondering how long the windfall will last and what reversion to the new normal might look like. Many wonder if their markets will structurally change, both as a result of shifts in consumer attitudes and behaviours and due to the repositioning of their competitive set – but are uncertain as to how much, and when all this will play out. The picture is still more complicated for companies that hold portfolios across categories with fundamentally different dynamics.

With so much flux and uncertainty in the system, it can be tempting to buckle down and take the crisis day by day – how is it possible to forecast and plan for the future?

While we agree and have a lot of empathy for this kind of orientation, we also believe that there is a way to formulate a 12-24 month plan that both maximises short-term business potential while creating in a structured manner, the right degree of optionality that allows the business to emerge strongly from COVID-19, regardless of the uncertainties surrounding future market dynamics.

Exhibit 1: TSR S&P Food & Beverage Index vs. S&P 1200

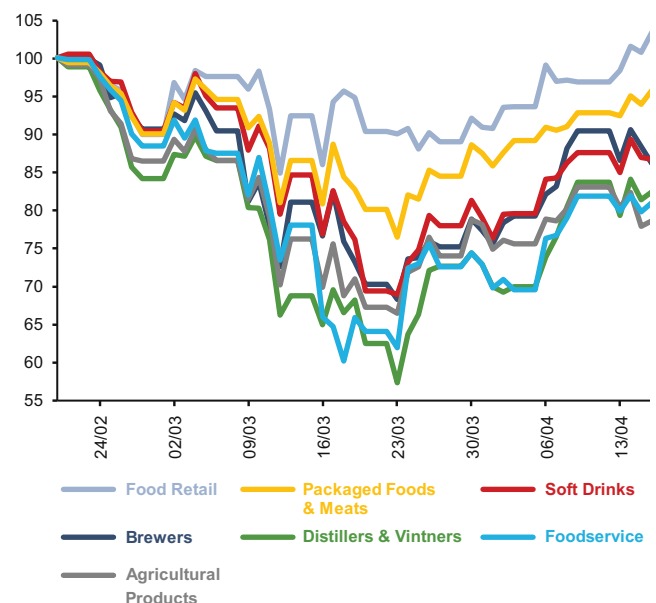
Value of £100 Invested on 20/02/2020



Source: S&P Capital IQ, Marakon Analysis

Exhibit 2: TSR Food' & Beverage Players By Sub-Industry

Value of £100 Invested on 20/02/2020



Source: S&P Capital IQ, Marakon Analysis

¹ Note: Foodservice added for completeness

KEY CONSIDERATIONS

Fundamentally, our aim is to help companies and leaders regain a measure of agency over their short-term business performance, regain a sense of visibility into the alternative futures possible, and fundamentally arm themselves with the knowledge needed to make the right cost, investment, and financing choices now and over the next handful of months – choices that will help them survive but also outperform when the recovery comes.

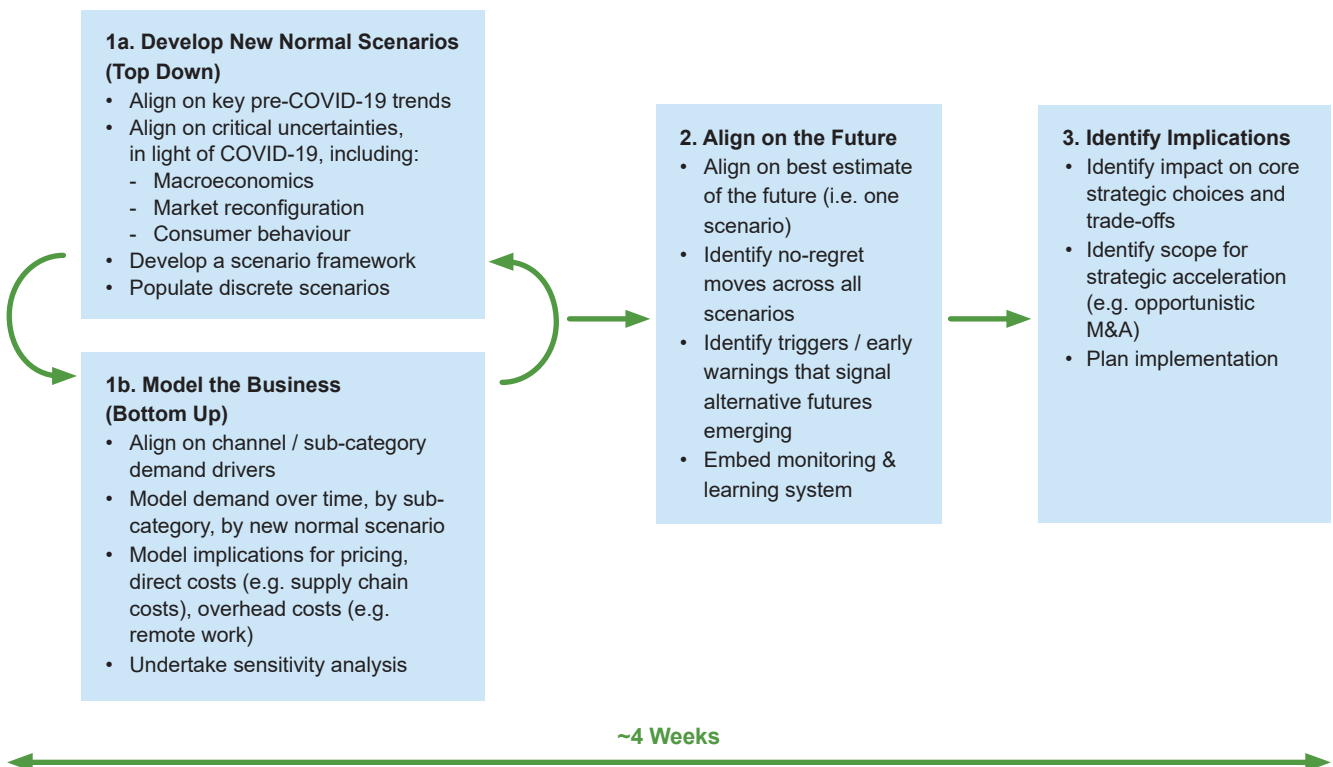
We achieve the above by helping companies effectively re-base their strategic / financial plan within the context of COVID-19. Doing this effectively requires:

- Forming a point of view on how sensitive the company demand algorithm is to different macroeconomic scenarios (i.e. lockdown timing, macroeconomics, consumer behaviour, competitor behaviour) across a de-averaged footprint of channels, categories, and brands
- Understanding how the cost line might relate to the revenue line – i.e. how the trajectory of demand relates to supply chain costs, how remote work and limited travel impact overheads, etc.
- Taking a staged temporal view of how things may change during the different phases of the crisis: – i.e. Old Normal, Stocking Up, Quarantine, New Normal
- Across all modelled impacts, understanding
 - a) whether the impact is positive or negative
 - b) the magnitude of change and c) the timing – i.e. temporary vs. lasting

OUR APPROACH

We suggest the following approach:

Exhibit 3: Suggested Approach: Re-basing the Strategic Plan



Workstep 1a: Develop New Normal Scenarios (Top Down)

We develop a view of critical uncertainties, typically across macroeconomic, market configuration, and consumer behaviour dimensions. These are a combination of trends that had already developed before COVID-19 but may be modified by the pandemic and new trends that may emerge as a result of it. As such, insight typically requires a

combination of interviews, synthesis of existing data, and external secondary research. In our experience, effective scenarios are crafted by combining changes across multiple dimensions and developing a qualitative, as well as a quantitative, description of different futures.

Exhibit 4: New Normal Scenarios (Summary, Meat Processing)

Scenario	Scenario Description	How We Got Here	Overall Demand Forecast
Traditional Future	<i>It is 2030 and the industry has echoes of the past. Meat remains a significant component of the European diet, and a new generation of meat eaters with larger wallets has replaced those who have become vegetarians. Grocers have recaptured their profitability, as their differentiated delivery networks serve consumers who commute infrequently</i>	<ul style="list-style-type: none"> Confidence recovered rapidly post COVID-19 Flexible working patterns were embedded, and grocers scaled delivery networks Consumer ecological and health concerns diminished 	
Industry Reset	<i>It is 2030 and the industry is smaller, but remains vibrant. Red meat is seen as a luxury – consumers ration intake on health grounds and the introduction of net carbon neutral beef drove up prices. Consumers now eat most meals on the go, and seek local production given memories of global supply failures in the wake of COVID-19</i>	<ul style="list-style-type: none"> Confidence recovered gradually post COVID-19 Post-recovery, consumers reasserted mobile lifestyles and grocers didn't adapt Peers responded to ecological and health issues slowly 	
Market Under Siege	<i>It is 2030 and the industry continues to have a torrid existence. It navigated demand shocks due to COVID-19, new regulation due to COVID supply failures, both green and health taxes, and then customer failures. As farmers now protest against the launch of lab-grown meat, many wonder if there is a future for the industry at all</i>	<ul style="list-style-type: none"> Confidence recovered slowly post COVID-19 Flexible working patterns were embedded, but grocers failed to adapt Ecological and health concern led to significant regulation and substitution 	

Workstep 1b: Model the Business (Bottom Up)

We then can link scenarios to volume models, based upon a clear articulation of demand drivers across each time period (old normal, stocking up, quarantine, new normal) with a clear understanding of how category and channel dynamics vary. Furthermore, by integrating supply chain insight and company financial data, we can then build a model that quantifies

financial impact and the key sensitivities upon which forecasts are dependent. We particularly seek to understand profitability dynamics in addition to top line development – for example, establishing a link between market volumes and pricing; economic growth and labour costs; and changes to the supply chain and materials costs.

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Exhibit 5: Example Channel/Sub-Category Demand Drivers (Overview)

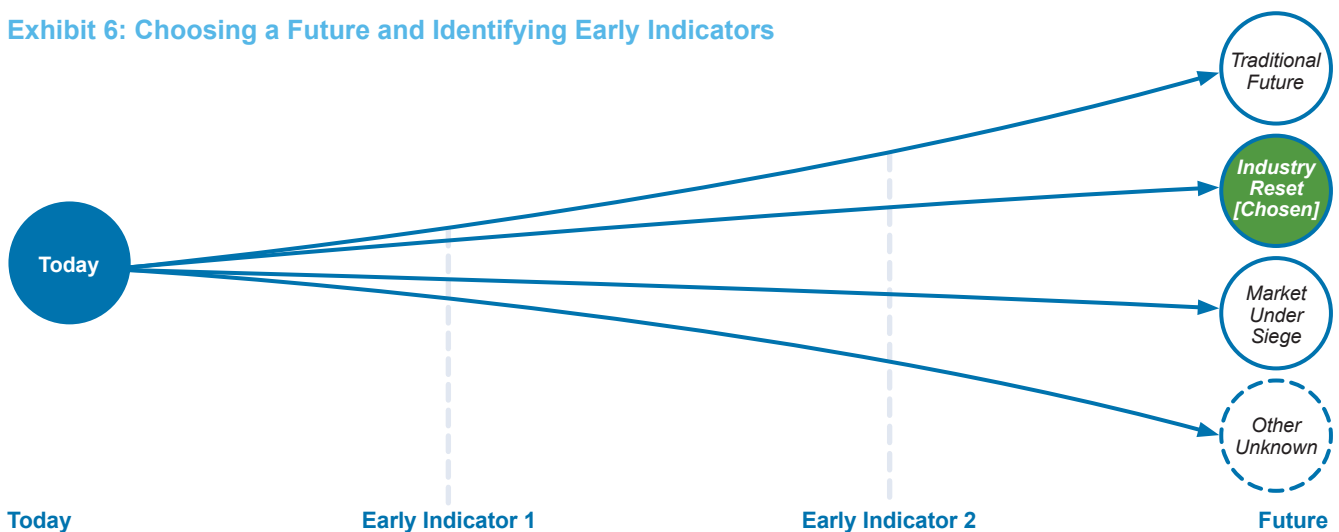
vs.Old Normal	Stocking Up	Quarantine	New Normal 1: Traditional Future	New Normal 2: Industry Reset	...
Parameters					
Confidence	<i>Depressed</i>	Depressed	<i>Strong recovery</i>	<i>Medium recovery</i>	...
Consumer mobility	<i>Limited</i>	Limited	<i>Medium/curtailed</i>	<i>High/reasserted</i>	...
Grocers	<i>Robust</i>	Robust	<i>Robust</i>	<i>Challenged</i>	...
Market structure	<i>Unchanged</i>	Unchanged	<i>Unchanged</i>	<i>Localism shift</i>	...
Ecological trends	<i>Deprioritised</i>	Deprioritised	<i>Diminished</i>	<i>Reasserted</i>	...
Health trends	<i>Deprioritised</i>	Deprioritised	<i>Diminished</i>	<i>Reasserted</i>	...
Grocers, Category A	● <i>Consumers seeking value and substituting to cheaper categories</i>	● Consumers seeking value and substituting to cheaper categories	● Consumers return to category, price points, and grocers	● Consumers seeking category alternatives, value, and food on the go	...
Grocers, Category B	● <i>Consumers seeking value but also ambient food – two-way substitution</i>	● Consumers seeking value and eating fresh food at home – positive substitution	● Consumers return to category, price points, and grocers	● Consumers continue to seek value, but seek channel/category alternatives	...
Foodservice, Category A	● <i>Consumers eating at home</i>	● Consumers eating at home	● Consumers seeking more food for later	● Consumers accelerate food on the go though seek category alternatives	...
...

Workstep 2: Align on the Future

We work with our client's leadership teams to align on a chosen view of the future to act as the basis of strategic re-planning, but also to understand what common themes all possible futures encompass and thereby what might constitute "no regrets"

responses. Furthermore, by identifying early indicators of future development, we ensure readiness is embedded and the business can adapt as market changes take shape.

Exhibit 6: Choosing a Future and Identifying Early Indicators



Workstep 3: Identify Implications

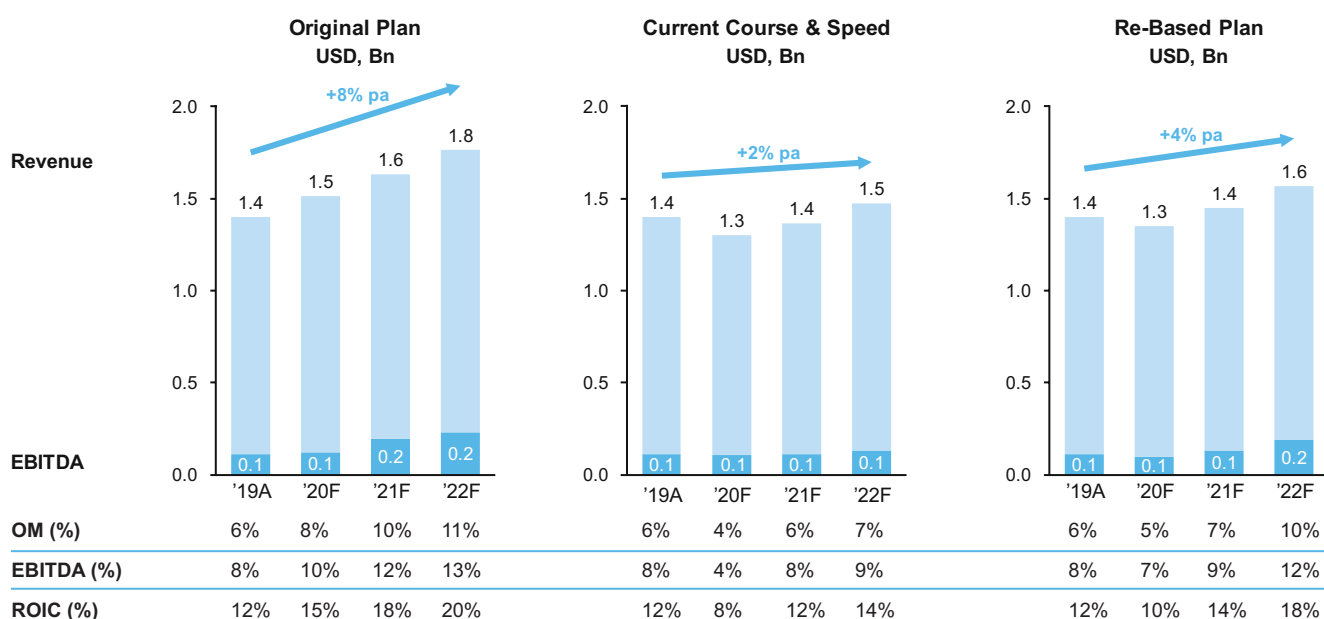
We then work with clients to understand how the selected future impacts upon the assumptions underpinning our strategy, and therefore any changes that need to be made to the strategy itself.

Furthermore, we work to identify any opportunistic acceleration options and the best pathway to deliver against the new agenda.

Exhibit 7: Example Functional & Strategic Implications

Functional Implications		Strategic Implications	
Marketing	<ul style="list-style-type: none"> • Refocus marketing investment towards Category B • ... 	Corporate Portfolio	Accelerate <ul style="list-style-type: none"> • Opportunistic M&A to enter value-add products Pause <ul style="list-style-type: none"> • Discontinue search for primary processing integration opportunities until regulatory reaction to supply chain failure is clear
Finance	<ul style="list-style-type: none"> • Share revised forecast with investors • Act to ensure enterprise is sufficiently capitalised in the downside scenario • ... 		
Sales	<ul style="list-style-type: none"> • Partner with grocers to optimise the product portfolio in light of demand volatility • Partner with foodservice to plan Day 1 • ... 	Value Proposition	Change <ul style="list-style-type: none"> • Drive multi-tiering (versus planned premium focus) Pause <ul style="list-style-type: none"> • Brand relaunch, until quarantine lifted
Supply Chain / Ops	<ul style="list-style-type: none"> • Act to ensure production can be moved between Plan A and Plan C • Seek local suppliers for Ingredient X • ... 		
R&D / NPD	<ul style="list-style-type: none"> • Reallocate spending from trade-up NPD towards value NPD • Reduce foodservice-specific NPD • ... 	Operating Model	Accelerate <ul style="list-style-type: none"> • Lean 2.0 manufacturing efficiency programme Pause <ul style="list-style-type: none"> • Organisation restructure to channel-category matrix

Exhibit 8: Re-Based Financial Forecast



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*With special thanks
Diana Spielman*

ABOUT MARAKON

Marakon is a strategy and organizational advisory firm with the experience and track record of helping CEOs and their leadership teams deliver sustainable profitable growth. We get hired when our client's ambitions are high, the path to get there is not clear (or taking too long) and lasting capabilities are as important as immediate impact.

We help clients achieve their ambitions for sustainable profitable growth through:

- Stronger strategies and advantaged execution based on:
 - a. A better understanding of what drives client economics and value
 - b. Insight into changing industry dynamics and the context in which clients need to succeed
- A stronger management framework to generate better ideas and link decisions and actions to value
- A stronger organization with a more focused top management agenda and well-aligned resources
- A more confident and effective leadership team that's focused, decisive, and strategic

We have a joint team delivery approach where client ownership and engagement is paramount. Partners are highly engaged in the work product and supported by strong analytical and industry relevant capability. We work as advisers and catalysts in close, trust-based relationships with top management teams.

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