# New barbarians are attacking the mass market: what should be done ?

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The success of most global leaders in large scale diffuse businesses, such as FMCG, specialty chemicals and construction, has relied on the development and roll out of competitive business models which allowed them to capture the value of the mass market effectively. These models combined an innovative high-end range based on high R&D investments, branding investments with a high volume mid-range business yielding significant volumes and margins. Those profits in mid-range funded the innovation and the marketing expenditures needed for the high-end part of the business that in return made the whole company and product range a “must have” for retailers and distributors.

This model is now jeopardized in mature countries by the polarization of buying behaviours and by the emergence of new competitors, the “new barbarians”, which focus their attacks on the most significant pools of value. Their capacity to grow and capture value is multiplied by the two-pronged nature of the approach: they attack upstream players in a value chain (typically branded producers) through a specific focus and approach on some segments, but they also bypass the traditional downstream channels (typically the major mass retailers) with a direct selling, alternative channels or e-Commerce strategy.

The make-up brand Kiko is archetypal of this trend. This is a brand integrated into retail, that focuses on a category (make-up) and a customer group (15-25 year olds) with a “fast fashion” supply chain, in order to offer products that are up to 60% less expensive than traditional brands. It is shaking the whole sector because it poses a strong challenge to “Entry level” ranges offered by the major make-up producers, as well as to the “economics” of drugstores and of beauty retailers.

How can one spot the next areas that will be under attack? And what is to be done to fight off the invasion and create value?

**Where are the “new barbarians” attacking?**

The new barbarians focus on client segments, price positions or channels, that have historically been poorly served by traditional leaders. In mature countries they take advantage of the segmenting and differentiating needs of the consumers, and from the technological maturity of and hence lower entry barriers on new ‘go to market’ channels such as the Internet or direct selling. This enables them to gain critical size with less investment, and to become highly profitable more quickly (see Table 1). When those barbarians invest significantly, and in a focused manner in a coherent and large part of the market, they not only win on this segment, but they destabilize the traditional upstream and downstreams leaders, by taking valuable customers and volumes away and also by sweeping out the operational leverage of the traditional players.

The sweetspots that they usually target go along four megatrends:

**- Table 1 -**

**The mass market brands are attacked by the barbarians, who are focused on some segments of customers, and with more competitive business models**

*(example in the cosmetics industry)*

**Proximity and convenience (DollarShaveClub)**

- *Focus on shaving products*
- *Attractive prices*
- *Strong marketing over the internet*
- *Online distribution with primarily a subscriber model*

**Low cost (Kiko)**

- *Focus on make-up and notably nail varnish for young people (15-25 years old)*
- *Large range at low prices*
- *Small shops of 100m² in highly frequented areas*

**Environment friendly (Stowaway)**

- *Focus on daily cosmetics*
- *Small-sized products to reduce wastage*
- *Attractive prices*
- *Online distribution*

**Core market cosmetics**
**L'Oréal**
**P&G**
**Clairol**
**…**

**'Community' approach (Lush)**

- *Focus on fresh and handmade products*
- *Development of the « Lushers » community spreading the manifesto « We believe »*
- *Bricks and mortar retail creating direct contact with the customer*

**Service and advisory (eSalon)**

- *Focus on hair colouring with personalised products according to the customer's hair type*
- *Price positioning between mass market and entry level hair salon service*
- *Remote advice on the colourant and how to apply it*
- *E-Retail*

**Natural (Bite Beauty) (The honest company)**

- *Initial focus on cosmetics for infants and children*
- *Extension of the range to soap, shampoo, sun cream etc*
- *Customer engagement through the natural aspect of the container and the contents*

*The polarization of customer buying behaviours*

In mature markets, the share of mid-range is getting smaller, to the benefit of the 'entry' segments on one side and of the luxury/premium ranges on the other side. Today, customers can buy 'entry' products in one category and invest in luxury/'premium' products in another category, whatever their level of wealth and disposable income.

Positioning on the 'entry' market can create a cost advantage versus traditional players, especially when combined with some well chosen qualitative features. The clothing retailer Primark has been able to develop in Europe through adapting a low cost and low price strategy, all the while following fashion trends. In the same way, new luxury or 'premium' concepts based on quality, brand, store location and innovation have seen strong and profitable growth. Apple, Bose (audio systems), Hermès (clothing and accessories), Jura (expresso machines) are examples of businesses that are growing strongly and which have often invested in retail or services for the consumer, in order to increase their capture of value.

*Communitarianism and specific customers clusters*

A focused approach on specific customer segments can allow for growth at a higher rate, provided the segment is large enough. Lululemon has developed around Yoga and offers clothing and accessories that are part of this philosophy. This 'communalism' is strengthened by communication and digital tools. Lush, in another market, has developed cosmetics which are handmade from a base of organic fruits and vegetables. A community of "Lushers" has developed and spreads the foundations of the brand which is captured in the manifesto: "we believe."

*Proximity, speed and convenience*

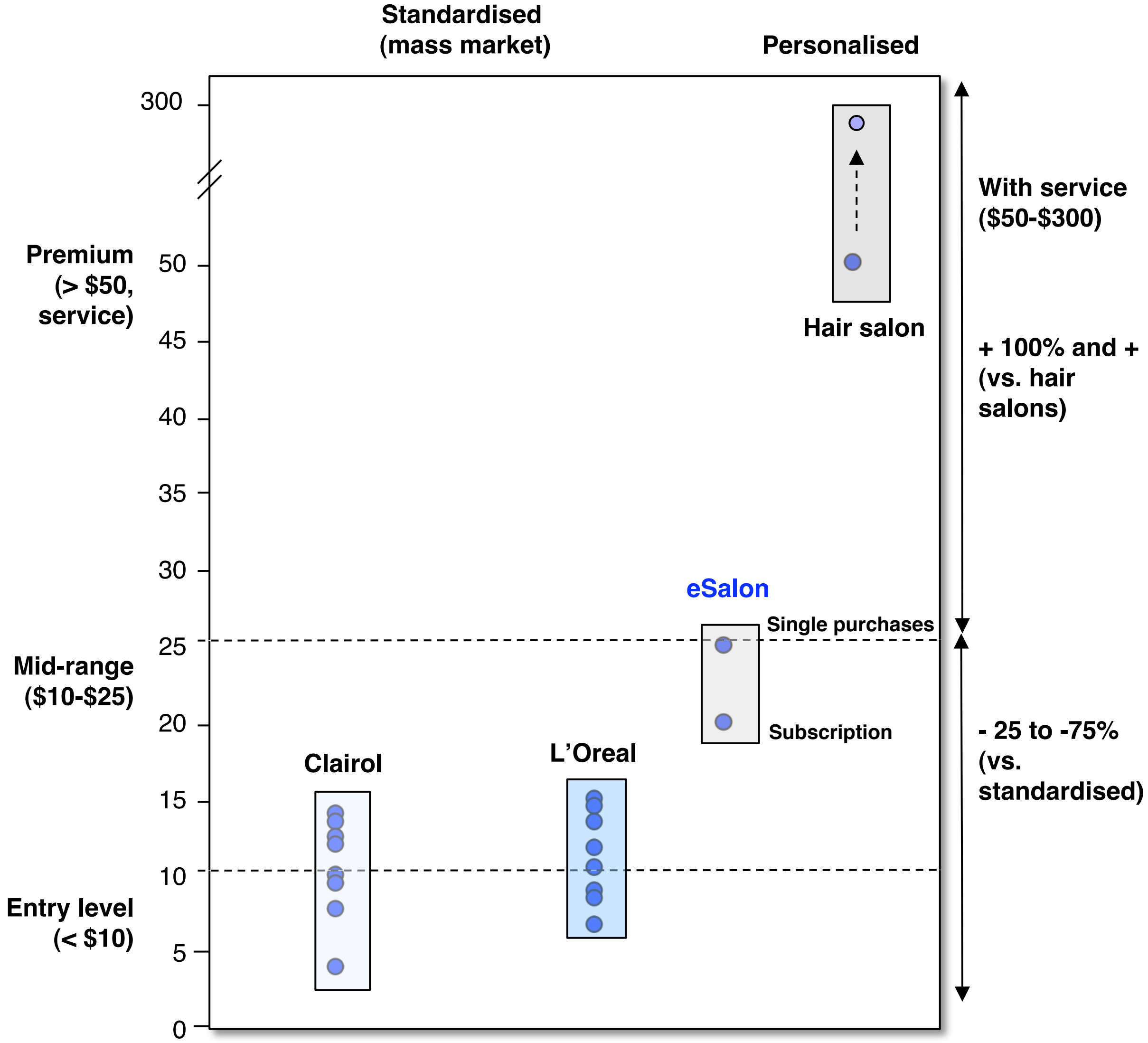
The internet offers the possibility to increase convenience and access to a wider and more customized offer. The American company eSalon offers personalized experience in hair treatment products at an affordable price point and with maximal convenience. The customer has access to a team of colourers via the internet, who create a personalised hair colour. This team also provides remote support whilst the product is applied. At $25, the pricepoint is between mass market Estee Lauder colouring products ($10) and entry level hair salons colouring services ($50). Almost the entirety of the customer base are full subscribers, and receives a product every 6 weeks (see Table 2). In the same way, Dollar Shave Club (Boogies) offers an internet-based subscription service for shaving products and has captured 15% of the replaceable razor –head market in the United States. The concept "Shave time, shave money" is based on price competitiveness and ease of purchase. Lastly, Stowaway is an internet-based business for cosmetic products in small-sized containers, which gives the customer a more practical packaging as well as less wasted product. This approach enables a reduction in the perceived cost and price, whilst allowing the customer to buy themselves a high quality product with the justification of a positive environmental impact.

*Health and well being*

Many FMCG categories are experiencing a fragmentation of the demand, including some new niches developing around health and well being products. In the United States, Organic shops like Whole Foods and nutrition complements shops like The Vitamin Shop are growing at strong rates. In cosmetics, Big Beauty is focused solely on natural cosmetic products that can be eaten. These products are made with healthy and ecological substances, content and packaging-wise. Chobani's success in the ultra-fresh market in the United States is based on the perceived benefits by consumers of products with double the protein content, and of a lower sugar content than what is offered by traditional yoghurts. 10 years after its foundation in 2005, Chobani's revenue is over $1,5 Bn. It has captured 20% share of the yoghurt market (see Table 3).

**- Table 2 -**

**Esalon offers an internet-based personalised colouring service, whose price is positioned between mass products and hair salons**




Source : Estin & Co analyses

**What to do?**

## 1. Fight back on the mass market

The traditional models should be strongly reinvented to maintain high margin levels. This can be done through cost optimization at levels never reached before, or through acquisitions to strengthen the core.

*Cost and margin optimization through tightening business models and fine tuning the offer and the opex spends*

It is necessary to better define and "tighten up" the entry level, mid-range and high-end models, in terms of products, services, marketing costs and added costs, in order to avoid cross subsidies and be forever less competitive than the 'low cost' and the 'premium' players. This approach, which looks simple, should be done at a good speed and be wide-ranging in scope. It should not be done marginally, at the risk of being ineffective. It is an approach that requires to break with the past, to accept that models whose growth is capped at 2%-4% per year have to get rid of a lot of costs of organizational complexity, of over quality and of oversegmentation; that certain channels and customers should be abandoned and some upstream capacities should be re-sized.

In the same way, the offer should be adapted at a detailed level in terms of the products, prices, logistics, merchandising and services. Each operating expense should be re-justified and the budgeted means differentiated more strongly according to customer margins and potential.

*Acquisitions aimed at consolidating the core of the market*

One of the classic consequences of the emergence of the new barbarians is that the traditional retailers or distributors have to consolidate in order to remove capacity and realize efficiency gains. The consequence of this is that their suppliers may be incentivised to merge in order to cope with the additional pressure coming from downstream, as a way to realize efficiency gains themselves and to take back some of the market power in the value chain.

## 2. Become a "barbarian"

However, major mass market players cannot be follow purely defensive optimization strategies. These strategies are not enough and alone are not up to the market challenges and can not alone reverse the value outflow. The upstream players need to develop new approaches to capture new sources of growth.

They must also become new barbarians.

This has to be done by defining segmented offers which are aimed at specific groups of consumers, as well as new commercial approaches, and new channels: e-commerce, direct selling, doorstep selling, alternative sales networks…

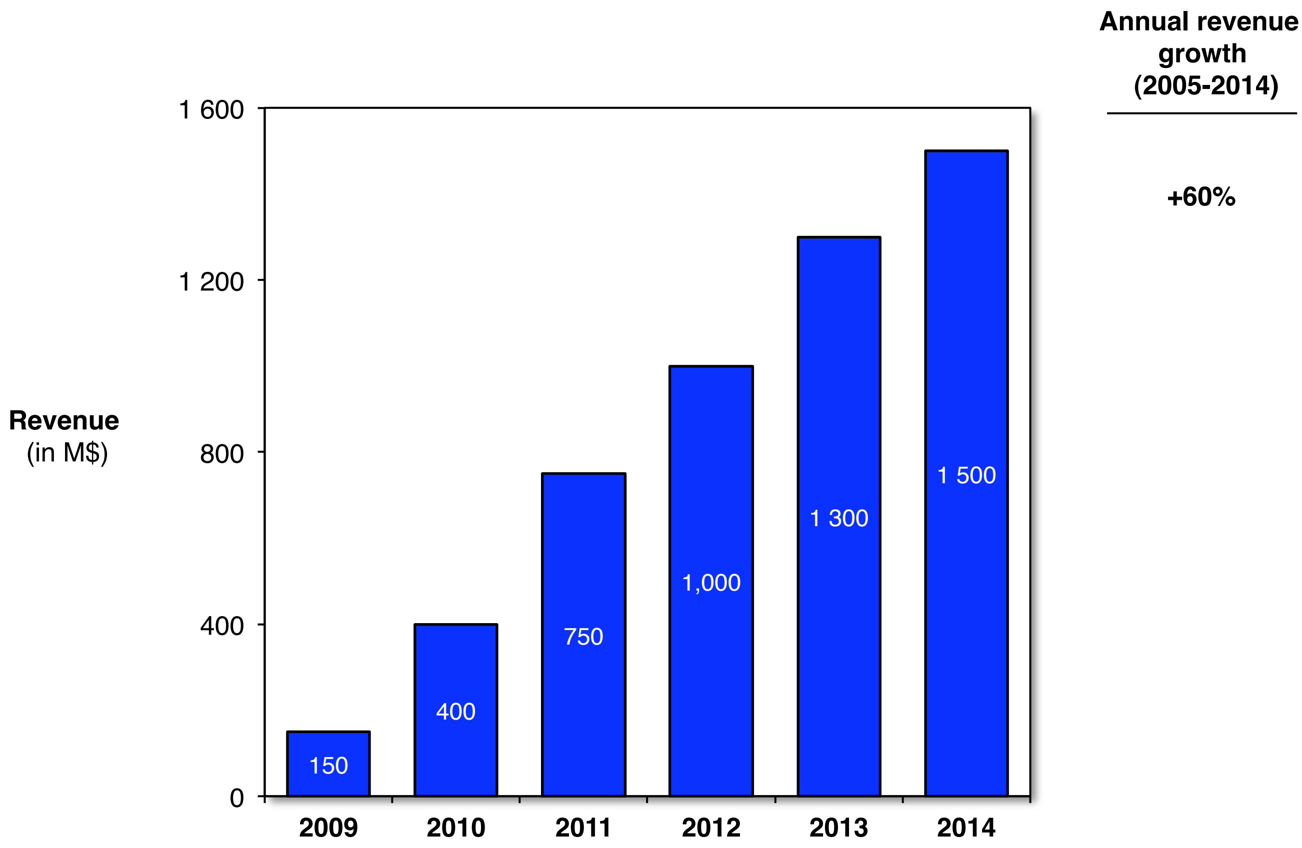
The key issues are to identify the largest pockets of growth and profitability, and the most relevant models and rollout approach in order to effectively capture those value pools.

And the challenge is to define:

- *The 5 year target vision of the barbarian "pure player", putting aside the traditional business model.* It is key to define what the desired ambition is for the business in 5 years with its new market approach: which segments are the most attractive in terms of growth and profitability? Which angles could the business exploit to be competitive on these segments? With what means?
- *The critical path and the speed of rollout.* The key challenge is to find the right rollout speed, as a rapid rollout enables the business to gain strong market positions whereas a slower rollout allows the business to better test the new set of offers and to carefully manage the maintenance of its position in its historic channels. It is especially critical to avoid the pitfall of being slow and not fully committing to the move, that will lead

## - Table 3 -

**Founded in 2005, Chobani has taken 20% of the ultra fresh market in the United States, based on the perceived benefit of healthy products with twice the protein and a reduced level of sugar, compared to traditional yoghurts**




| Chobani share in yoghurt market (in %) | 2% | 6% | 14% | 18% | 20% | 21% |
|---|---|---|---|---|---|---|

Source : Estin & Co analyses

to withdrawing the test as the first sets of results would be by nature limited and internal resistance and reprisals from traditional retailers high. It is necessary to accept that the model is being deployed with high risks of cannibalisation and strong reprisals, whilst limiting those side effects through sufficiently differentiated service levels, products and brands between new and old models.

- *The financial investments required to the development of new models,* and the contribution that historic businesses should make, with implications in terms of changes in incentives and in objectives
- *The organizational links between traditional and new operating models*, with initial priority given to the speed of rollout and therefore autonomy to take 'barbarian' decisions internally, with synergies being of a lesser priority.

**What conclusions can we draw?**

In mature countries, the new barbarians will increase the pressure on the traditional operating models that have been for a long time successful on the mass market. Optimizations and consolidation will not be enough to contain the invasion. It is necessary to develop new and wide-ranging approaches, rolled out at high speed. All of this assumes that the most attractive segments have been identified, that a decision to focus on these development axes has been made, with a roll out done with the necessary extent and speed, and with clear rules and acceptance on the likely cannibalization of the existing model. In brief, it is necessary to "get out of the box", especially as the box gets smaller : it is time to put in place a strategy that breaks with the past.

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*Estin & Co is an international consulting firm based in Paris, London, Zurich and Shanghai. We assist CEOs and senior executives of European, North American and Asian corporations with their growth strategies. We also assist private equity funds in analyzing and evaluating their investments.*