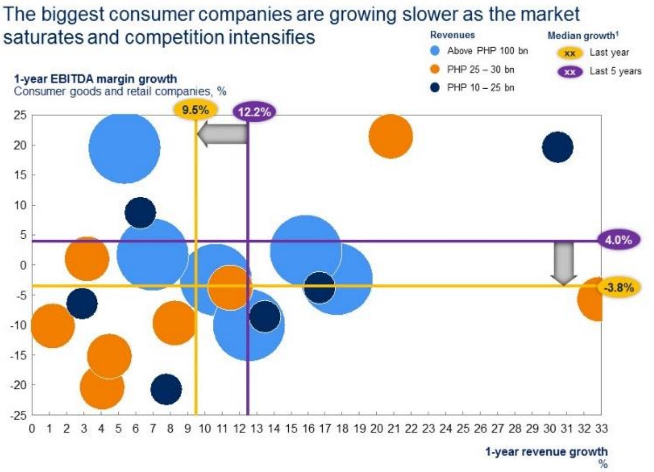
By Anders Barlund and Suraj Moraje

How Filipino consumer businesses can boost performance

Growth and profitability have slowed down for large consumer companies. To tap into rising consumer spending, they'll need to find new markets and refocus on fundamentals.

For the last five years, the consumer sector in the Philippines has been on an enviable run. Large businesses sustained double-digit rates of annual sales growth by using low-cost capital, savvy marketing, and flexible operations to expand quickly into promising markets and benefit from underlying growth in consumer spending. More recently, though, the situation of these companies has become a bit more difficult. During the year ending in September 2016, most of them exhibited at least one sign of slowing business: shrinking margins or lower revenue growth. Indeed, eight large groups had lower rates of revenue growth than they did in the previous three to five years.

This doesn't necessarily mean that Filipino consumer companies have hit their limit. Many still have healthy margins and are growing strongly. And consumer spending here, and across Southeast Asia, is rising fast. In 2016, for example, household spending in the Philippines increased by more than 8 percent.



SOURCE: Capital IQ, Euromonitor

If many companies are not growing as fast as they once did, though, that might be partly because they have become victims of their own success. They have already won major shares of their chosen product categories, and this makes it harder to achieve further growth in them. Moreover, in multiple categories, small players are using low-cost capital, sophisticated manufacturing knowledge, liberal trade rules, and digital marketing capabilities to mount nimble attacks against incumbents in regional micromarkets.

Companies sometimes experience declines in efficiency and responsiveness as they grow, particularly when their markets are not highly competitive. This shift happens gradually, which makes it more difficult to perceive and correct. But for large consumer companies in the Philippines, conditions have become more challenging, so they must do things differently to return to, and even exceed, their earlier levels of performance. The necessary changes mostly involve paying more attention to fundamentals. Companies that have won commanding positions in certain markets will need to uncover opportunities elsewhere. Others will benefit from applying more professional approaches to streamlining operations and from looking for efficiency gains. Here are some moves that consumer players in the Philippines might consider:

Look for new openings at home. As household income rises and economic circumstances improve, some categories will expand more quickly than others. Winning players will continue to enlarge the franchise (and, in certain cases, extend existing brands) by exploiting new opportunities in the fastest-growing areas. Strategically, knowing where to play is often more important than knowing how to play. Some Filipino companies will also succeed by introducing foreign brands to the country.

Attack international markets. A few Filipino food companies have done this successfully, sometimes by acquiring established international players. In our experience, effective expansion into foreign markets depends on several factors: making bets that are big (and scary) enough to win the attention of senior leaders, building management teams that blend local executives with seasoned ones from headquarters, and being clear in the new markets about the company's value proposition¬—which might be a better understanding of customers, better access, or more efficient operations than local competitors have.

Rethink operations. A period of fast growth can leave a company with operations that no longer match its scale. Administrative functions, for example, might continue to rely on familiar but labor-intensive practices rather than adopt new technologies, especially in markets where labor costs are still comparatively low. One way of countering inefficiency is to redesign processes and systems entirely rather than to make small adjustments. In our experience, that zero-based approach to management can improve EBITDA margins by 10 to 20 percent and significantly increase competitiveness in other areas, such as bringing new products to market more quickly.

One CEO who overhauled his company’s marketing operations not only cut their cost by 30 percent but also increased revenue growth. Another company reduced its product-related costs (such as raw materials and packaging) by 10 percent when it reengineered its offerings.

Accelerate leadership development. Many CEOs we speak to say that a lack of up-and-coming talent suppresses the growth of their companies more than any other factor. This shortage can be especially acute at more traditional companies, where new hires must learn unique cultures and join informal networks before they can have a strong influence. Such companies often need to speed up the identification and development of promising managers. Some have set up academies, sponsored by the chairman or CEO, to teach leadership skills. In one company’s academy, rising employees are assigned to important but stagnant projects—a format that helped it to accelerate these projects while it evaluated potential leaders and taught them valuable management skills.

The recent slowdown in the growth of many consumer-facing Filipino companies should inspire them to pay more attention to improving their performance. These businesses have much to gain from searching for opportunities in new markets, streamlining their operations, and investing in the next generation of leaders. Companies that master those disciplines should succeed in returning to the impressive revenue growth and profitability they had achieved just a year before.

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