



WINNING

in a Low Growth Environment

South Africa's economy is in structural decline and is underperforming relative to its emerging market peers. The period 2010-2020 could be another lost decade that could extend to 2030 unless there are profound shifts in the political economy.

What should companies be doing to adapt to this New Normal?

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In collaboration with:

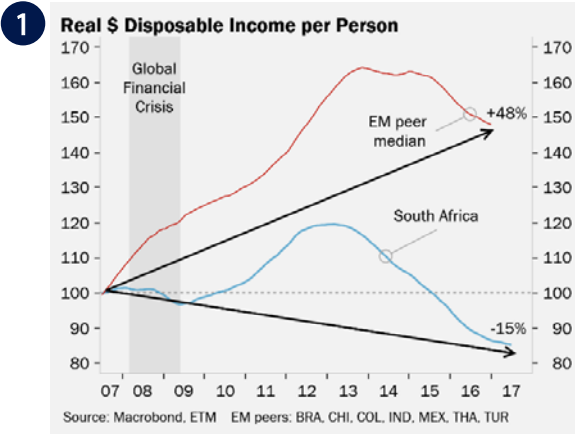
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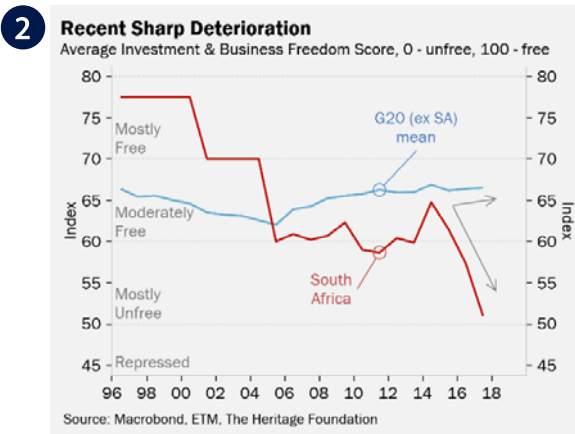


Structural Decline

The New Normal: Creeping technocratic socialism is reinforcing structural decline and pushing out any impact of any potential corrective measures



- South Africa's **GDP is underperforming** global GDP, leading to what will likely become another "lost decade"
- Other Emerging Markets (EM) are also imperfect but have been more dynamic than South Africa, which is increasingly **lagging in real global purchasing power** per capita



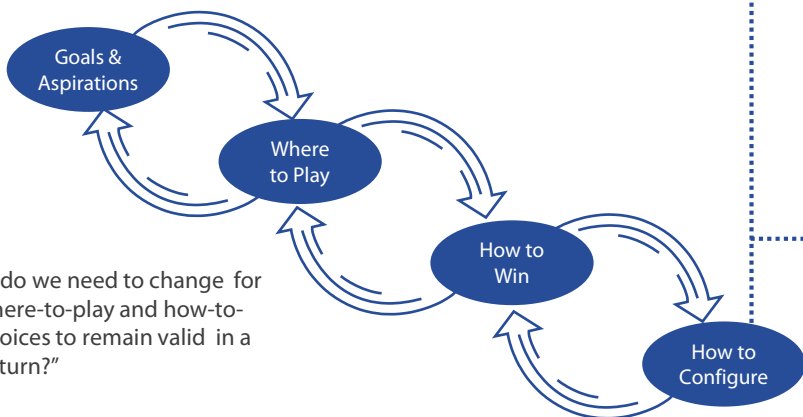
- Net fixed capital formation (i.e. new investment accounting for capital consumption) is **equal today to what it was in 2006**
- **Business and investment freedom has declined** since the turn of the century and seems to have become even more onerous in the past 3 or 4 years compared to the rest of the G20

Get the Basics Right

In light of the New Normal, companies must **get the basics right** by adding flexibility and market acumen to their strategies



Refine a winning strategy...



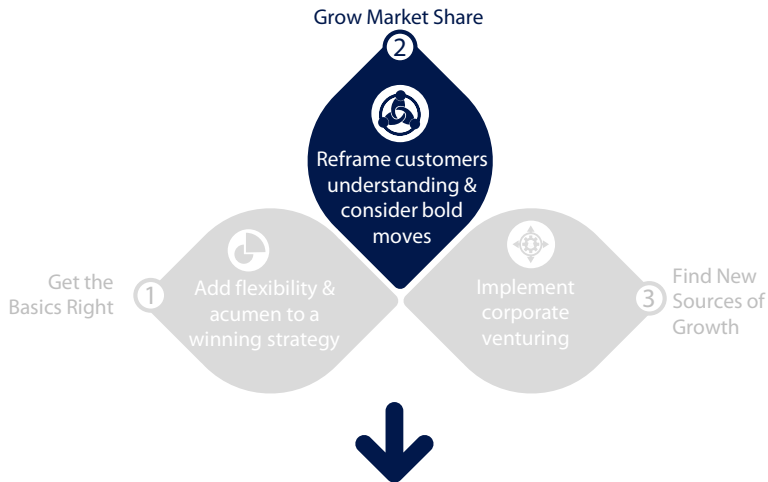
“What do we need to change for our where-to-play and how-to-win choices to remain valid in a down-turn?”

... and ensure operational flexibility and competitive insight

| | | |
|----------------------------|--|--|
| OPERATIONAL EFFECTIVENESS | | <ul style="list-style-type: none"> • During the 2000 recession, Staples closed underperforming facilities, but increased staff by 10% • Revenues doubled by 2003, and it came out of the recession stronger and more profitable than its rivals |
| ORGANISATIONAL FLEXIBILITY | | <ul style="list-style-type: none"> • Spotify created “squads” – cross-functional teams organized around a specific customer/product outcome • This ensured flexibility and reduced inertia in decision-making |
| INSIGHT BEYOND DASHBOARDS | | <ul style="list-style-type: none"> • Instituted board briefing sessions with macroeconomic strategists to enhance understanding of critical business drivers • Board-pack dashboards were replaced with forward-looking, decision relevant information |

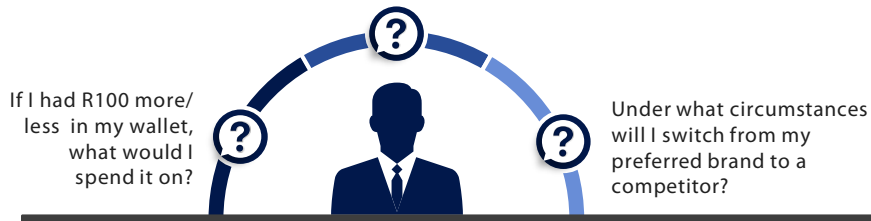
Grow Market Share

In a recessionary environment consumers will behave differently and make trade-offs that need to be understood to **increase market share** across different product-market segments



Segmentations are inherently static – in difficult economic environments, a better understanding of trade-off allows for prioritised interventions

When switching product tier, does my brand preference reset?



- A better understanding of consumer trade-offs allows for a more refined customer view and provides guidance on better aligning offerings to environmental conditions
- Rather than throwing out existing segmentations, modify them using insights from changing consumer trade-offs
- Intervene only for products and in segments where the “return on change” is greatest, where conversion rates change dramatically, or where buying processes show long-term outflow
- Consider if interventions will have any adverse effects on other products and segments

During the 2008 recession, Reckitt grew its **customer base and profitability** through innovation

One of few companies to continue to increase **sales and profit targets** in 2009

Revenue growth of 25% and **profit growth of 19%** in 2008

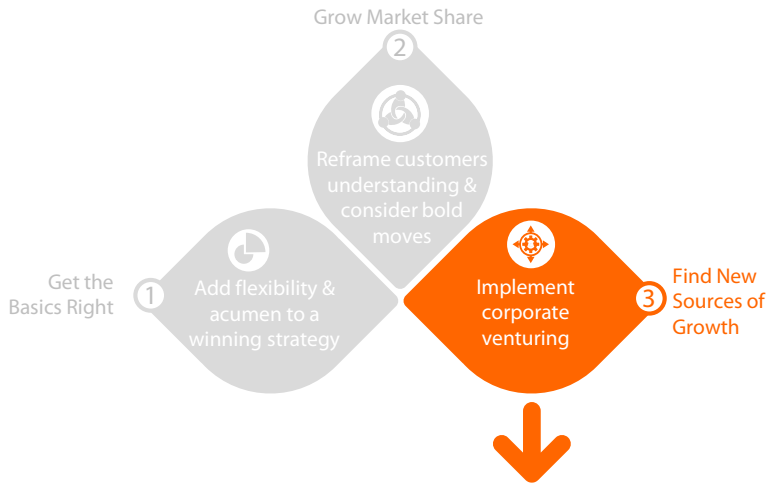
Revenue growth of 18% and **profit growth of 27%** in 2009

Majority of flagship brands ranked **No. 1 or 2** in 2010

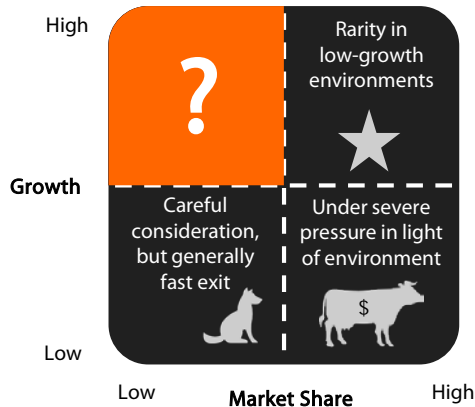


Find New Sources of Growth

Corporate venturing provides companies with an effective approach to **find and acquire high-growth small businesses** to eventually bolt on to the core business



When textbook theory no longer applies, companies need to rethink where to find growth and market share



US Grocery Food & Beverage grew by 2.3% in the last four years, driven by **20,000 small companies outside of the top 100**, with the 25 largest firms in the sector only accounting for 0.1% of that growth

Corporate Venturing is now pursued by many large FMCG multinationals as source of growth – sometimes combined with incubation

| | Corporate Venturing | | Incubators & Accelerators | |
|-------------------------------|---------------------|-------------|---------------------------|-------------|
| | In-House | Out-Sourced | In-House | Out-Sourced |
| <i>Coca-Cola</i> | ✓ | | ✓ | |
| Nestlé | ✓ | | | ✓ |
| <i>Unilever</i> | ✓ | ✓ | | ✓ |
| Mondelez International | | ✓ | | ✓ |
| <i>Kellogg's</i> | | ✓ | | |

- **Strategic benefits**, include access to new markets, supplier development, continuous innovation, pipeline of disruptive brands & technologies, high potential returns, and increased diversification
- Multinationals **combine different venturing operating models**, including in-house and partnerships with dedicated teams to establish VC funds and accelerators
- Venturing differs from operational business – **arms-length engagement** is critical to success



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