

What it takes for consumer brands to win in an AI era



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This century has reshaped how consumer businesses operate and how consumers engage with brands. New models have emerged; companies that adapted have prospered, while others have fallen away. In “Agentic commerce: new frontiers”, we explored how agentic commerce could challenge the status quo. Here, we step back to examine how the consumer industry has already evolved as barriers to entry have meaningfully reduced – and how AI may shape its next phase.

Looking back – redefining the rules of engagement

TRANSPARENCY NOW CENTRAL

Historically, consumers had limited ways to assess product quality beyond personal experience or word of mouth. As a result, they tended to stick with familiar brands. The internet and social media changed that. Reviews, forums, influencers and key opinion leaders have dramatically increased the availability of information.

Greater transparency – combined with cost-of-living pressures – has sharpened the focus on value for money. Brands must now demonstrate a clear purpose to justify a premium. The rise of Costco’s Kirkland, now one of the world’s largest consumer brands by revenue – overtaking global titan Procter & Gamble – illustrates this shift. In Europe, Lidl and Aldi have gained share over two decades, largely on the strength of private label.

SHELF SPACE AND DISTRIBUTION NO LONGER CONTROLLED BY INCUMBENTS

Before e-commerce, physical presence was critical. Being stocked on the right shelf in the right location often determined success. Retailers favoured established brands that ensured rapid turnover, making it difficult for challengers to gain visibility and share of consumer mind.

Online, shelf space is effectively unlimited. While prominence still matters, as few consumers venture beyond the first page of results, the barrier to entry is far lower. Distribution has also broadened: many products can now reach consumers within days, often hours.

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“AI looks set to accelerate disruption in consumer markets, lowering barriers and challenging brand power, while reinforcing advantages for companies that deliver clear value.”

SOCIAL MEDIA RESHAPES BRAND BUILDING AND CUSTOMER ACQUISITION

Social media has enabled direct access to consumers, allowing brands to target specific audiences with precision. Traditional advertising channels – TV, radio, print – were expensive and often inefficient. Today, indie brands, sometimes endorsed by celebrities and influencers, can reach highly relevant audiences at scale.

LOWER BARRIERS IN SUPPLY CHAIN AND MANUFACTURING

Historically, research & development (R&D), manufacturing and quality control were indispensable core capabilities. Increasingly, brands operate with lighter asset bases, outsourcing formulation and development to a number of companies that provide these capabilities across traditional, private-label and emerging brands. This is particularly evident in beauty and home and personal care (HPC).

As competitive moats have contracted across these three axes – physical, brand building and supply chains – newer entrants like E.l.f. Beauty have grown through disruptive marketing and pricing. Among incumbents, there are some success stories such as our holding L'Oréal, a 116-year old veteran which has remained competitive through sustained innovation, marketing muscle and acquisitions, but they have become rarer. As reflected in our reduced exposure to consumer industries, selectivity has become more paramount.

Looking ahead – how does AI change the dynamic?

Against this backdrop, AI is a natural focus in our thinking about consumer companies. Its implications for how companies operate, compete and create value are already emerging.

OPPORTUNITIES THROUGH EFFICIENCY GAINS

Many of the consumer companies we have met with over the past 24 months see potential for AI to improve returns in marketing and advertising, often their largest cost line. However, we believe that benefits are unlikely to be evenly distributed and some will harness the technology better than others. Evidence so far suggests that platforms – Meta, Amazon, Google, OpenAI – will continue to capture a disproportionate share of the value. Relative share price performance over the past decade reflects which partner in the relationship is the junior. While consumer companies may see some gains in content creation and media efficiency, these elements are relatively small parts of total spend.

More meaningful benefits are likely in less visible areas: administration, demand forecasting, inventory management, logistics, product development and speed to market. Retailers, for example, can operate with leaner inventory and faster turnover through improved forecasting. While difficult to quantify today, early use cases are emerging and could support incremental margin improvement over time, in the event that the savings are not competed away.

RISKS TO BRAND POWER

If purchasing decisions are increasingly delegated to rational AI agents, what is the point of a brand? Decisions could tilt towards price, functionality and availability – alongside signals such as reviews, which often favour larger players. Our emotional connection to particular brands could become less relevant in some categories.

This outcome is unlikely to be universal, but it may apply to routine, low-consideration purchases such as daily necessities where the cost of error is low. In fully autonomous agentic commerce, where decisions extend through to purchase, the effect could be more pronounced.

By contrast, AI may enhance decision-making in higher-consideration categories such as cars or consumer electronics. In highly discretionary segments – particularly luxury, where signalling remains part of the value proposition – brand preference remains central. AI is also likely to further lower barriers to entry, making it even easier to launch new brands supported by more efficient marketing and distribution.

Implications for quality portfolios

Our focus remains on consumer advantage: the extent to which a product or brand delivers genuine value. Solving a real need is becoming more important. In a more transparent, AI-enabled environment, poor quality or excessive pricing is likely to be exposed more quickly.

Sensodyne toothpaste, produced by our holding Haleon, is a clear example. By addressing a specific need with high efficacy and professional endorsement, it faces limited private-label competition and retains pricing power. We estimate it has delivered high single-digit revenue growth over the past decade and expect it to remain resilient.

Amazon illustrates “scale economies shared”, a concept coined by investor Nick Sleep. Its scale and vertical integration drive better service, faster delivery and superior

unit economics. These efficiencies are reinvested into price and customer experience, reinforcing growth and attracting more buyers and sellers; a self-reinforcing flywheel. Margin remains low, below 10%, but the reinvestment drives continued top-line growth. Its advantages – underpinned by physical infrastructure (price, selection and fulfilment) – are difficult to replicate and remain relevant in an AI context. If anything, AI and robotics should strengthen them by pushing automation and fulfilment costs even lower. Amazon already deploys more than one million robots, supporting roughly 75% of customer orders. Similar dynamics apply to Walmart and Costco today, though current valuations are unattractive for us.

High-end luxury also appears relatively insulated. Brands such as Ferrari derive value from heritage, craftsmanship and signalling – attributes that are not easily replicated with or without AI. Buyers are not paying for utility as a means of transport alone, as reflected in average prices of around €440 thousand and waiting times of 18–24 months!

Little room for the middle ground

As with the internet and social media before it, AI is likely to increase competition by lowering barriers to entry, continuing the trend of an ever tougher consumer industry. Both niche players and large brands that deliver clear value – and can adopt technology effectively – should benefit. We have less conviction in those in between: neither differentiated enough nor efficient enough to sustain advantage. In that sense, AI does not change the essential rules of the sector so much as accelerate them. The dispersion of outcomes reinforces our view that the consumer space remains a stock-picker's market, in an increasingly challenged industry.

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