

Investing in Consumer Essentials

Consumer staples - Always in demand



From household essentials like toothpaste and laundry detergent to pantry staples such as cereal and canned goods, essential consumer goods or consumer staples are products that are essential to our everyday lives. Spanning industries across food and beverage, household goods and personal care, this sector can offer a resilient position in a portfolio and the potential for reliable returns.

Why invest in consumer staples?

During economic downturns, while spending on discretionary items like travel and eating out may decline, the demand for vital staples – like food, drinks and hygiene products – often remains steady throughout economic cycles. Companies operating in these areas are typically defensively positioned. Although their growth may be somewhat slower compared to companies in other sectors, we believe consumer staples offer stable, reliable, and attractive long-term growth.

Growth in the consumer staples sector comes from population growth, changes in living standards and evolving consumer preferences. Consumer staples companies must innovate and develop new products to align with changes in consumer needs and demands. A commitment to innovation in key trends such as health and wellness, sustainability, personalisation and premiumisation not only drives long-term growth potential but also strengthens the competitive advantages of companies in this sector. We consider these factors essential when evaluating the quality of consumer staples companies.

Essential consumer goods – always in demand

The companies and industries that fall within this sector range from food products and beverages to essential retail goods, household products and personal care products. Not all companies and industries meet the requirements to be included in the Magellan quality investment universe. Extensive research is undertaken to identify the unique attributes of a company, such as their economic moat and moat trend, reinvestment potential and Environmental, Social and Governance (ESG) risk and opportunities, which we believe enable it to generate sustainable attractive returns over the longer term. Some of these industries in the Magellan investment universe include:



Food and beverage

Food and beverage companies provide the sustenance and refreshment that fuel societies around the world. They need to be able to do this in spite of industry challenges ranging from weather disruption to geopolitical tensions or other supply chain headwinds. Companies that have well-established strong brand recognition, expansive distribution networks and manufacturing capabilities and scale advantages are well-placed to dominate this market. Recent trends shaping this industry have been the demand for sustainable and ethical products and the health-conscious consumer. Companies that can adapt to these trends and changing consumer preferences are more likely to stay ahead of competition, driving the future growth of these companies.

Giants in this industry include companies like Nestlé, the world's largest food and beverage company. Nestlé's product suite of over 2,000 brands focuses on nutrition, health and wellness with a diverse range of offerings—from coffee and chocolate to baby foods, health science products and pet care. Nestlé's influence stretches across the globe, with a presence in nearly 200 countries. Its strategic positioning in key categories allows it to maintain a strong market position in its robust brand portfolio, a leader in most markets in which it operates.

Household products

Household products include cleaning supplies such as disinfectants, detergents and surface cleaners; laundry items like laundry detergents, fabric softeners and stain removers; and kitchen goods such as dishwashing liquids, sponges and garbage bags. The demand for these products is often stable and consistent as they are necessary for daily use and are purchased regularly, making them a key part of this sector.

Innovation is a key attribute to consider when looking at quality investments in this sector. Companies positioned for growth will adapt and innovate in response to evolving consumer preferences and demands, thereby enhancing the user experience.

Colgate-Palmolive, founded in 1806 and known for its global presence and trusted brands, is one of the leading manufacturers of household and personal care products in the world. The company began as a small soap and candle business started by William Colgate in New York City and has grown into a global leader in consumer products such as oral care, personal care, home care and pet nutrition products. Colgate-Palmolive's commitment to innovation and investment in brand is key to its continued resilience and growth.



Personal products

Companies offering personal products provide a range of items essential for daily hygiene and personal care. These include soap, shampoo, toothpaste, deodorant, hand sanitiser, cosmetics and perfumes. These products are non-durable, meaning they are consumed and replenished regularly.

Much like household products, consumers rely on personal care products for daily use. One of the biggest trends in this industry has been personalisation, the desire for consumers to have access to solutions catered to their individual needs particularly when it comes to skin, hair and personal care routines. Companies in this sector have been leveraging data and technology to provide personalised recommendations and product selection for specific consumer needs.



Consumers are increasingly focused on ethical and sustainable products, with a growing awareness of ESG in company operations. Companies that are managing ESG risks and opportunities, like producing sustainable products and investing in sustainable packaging solutions, are more likely to have a competitive advantage over the medium to long term. When researching and assessing companies in this sector, it's important to consider a company's commitment to sustainability, as this can influence consumer trust and loyalty as well as a company's ability to navigate changes in regulation.

Since its establishment in 1909, L'Oréal has expanded to rank among the world's most prominent beauty and cosmetics firms and is part of the consumer staples sector. With a mission of democratising beauty and prioritising sustainability, L'Oréal is a proactive advocate for eco-friendly design, minimising plastic use and transparency regarding product effects. L'Oréal is one of the top global beauty brands, with a diverse range of products such as Maybelline New York, Garnier's range of haircare and skincare and NYX Professional Makeup. L'Oréal's scale, brand and distribution capabilities act as significant barriers to entry for competitors, enabling the company to generate attractive and reliable returns for investors.

Consumer staples distribution & retailing

Within the consumer staples sector, few brands are direct to consumer. Brands typically rely on supermarkets to reach their customers conveniently, enabling the consumer to buy a basket of goods from a range of brands when needed.

The consumer staples distribution and retailing segment can be incredibly competitive. Few geographies have a consolidated industry structure, making it difficult for retailers to generate sustainable and attractive returns. Costco stands out as one retailer that has been able to consistently generate attractive returns, despite the fragmented market structure. Costco's business model is unique, offering a more concentrated high-quality stock keeping unit catalogue to its paid membership base via a warehouse shopping experience. Costco's scaled model enables them to offer attractive prices to its customers, creating value for members.



What are the risks?

Investing in consumer staples comes with risks like any other sector. Thorough research and engagement with companies can help us to understand these risks when considering investing. Risks in the sector are typically more predictable given the staple-like characteristics of product demand.

Competition & private label risk: The consumer staples market can be highly competitive and subject to private label risk. Private label refers to generic or 'home' brands produced by retailers at low price points. This is why it is important to be able to identify the high-quality companies that can invest in research and development, marketing and supply chain resilience as these factors can mitigate downside risk and improve sales growth.

Input cost sensitivity: Fluctuations in input costs such as paper, cocoa, coffee beans, grain or transport can have a material impact on product margins. While companies try to smooth the cost on final goods through hedging and repricing, there can be periods of underperformance as changes pass through the supply chain. Diversity in product helps manage the impact of this risk for investors.

Consumer trends: Shifts in consumer preferences and trends may result in reduced demand for specific products. Understanding your consumer through data analytics and thorough market research becomes crucial to understand how companies will adjust and innovate in response to evolving consumer preferences.

Product safety: Staples products are either consumed, used personally or used in the household. Product safety is paramount and presents legislative risk if not managed properly.

How do consumer staple companies fit into a portfolio?

These consumer essentials play an important role in a well-balanced investment portfolio. Companies in this sector often have broad global reach, which can provide growth opportunities beyond local borders. These companies serve as a defensive layer in a portfolio, demonstrating long-term resilience. Balancing cyclical investments like tech or discretionary stocks with these defensive staples may help manage risk.

Examples of global listed consumer staple companies



Nestlé SA is located in Switzerland. Established over 150 years ago, Nestlé is the world's largest, most diversified food and beverages company.



Mondelēz International is located in the USA, and manufactures chocolate, biscuits, chewing gum, confectionery and powdered beverages. Key brands include Cadbury and Oreo.



L'Oréal dates back more than 110 years and is located in France. L'Oréal is the largest beauty and personal care company globally.



Colgate-Palmolive was founded in 1806. Colgate-Palmolive manufactures household and commercial cleaning products, dental and other personal-care products and pet foods in the United States and throughout the world.

As at February 2025

What sets our approach apart?

There are thousands of companies listed on world exchanges. However, at Magellan we regard our eligible universe of potential investments to be only about 200 companies. These are the companies we believe to be of sufficient quality to consider for investment, and that we believe will be able to protect and grow earnings into the future. This requires rigorous fundamental research into the economics of the company and a deep understanding of the company's strategic direction and the industry in which it operates.

At Magellan, this focus on quality companies represents the core of our investment philosophy and goes directly to achieving our investment objectives for our investors.

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