KPMG

Seeking customer centricity

The omni business model

The Consumer Goods FORUM
The Global Network Serving Shopper & Consumer Needs

2016 Global Consumer Executive Top of Mind Survey

kpmg.com/CMsurvey

Content

This annual survey of 400 of the world's largest consumer retailers and manufacturers looks at consumer company executives' Top of Mind priorities and challenges over the next two years. This year's report also contrasts select results with the findings of a global survey of 7,100 consumers on their shopping behaviors and preferences.

2 Foreword

4 Introduction: The omni business imperative

8 Becoming hyper customer-centric

20 Developing a digital-first mindset

26 Creating a supply chain fit for purpose

34 Taking trust to the next level

42 Building a world-class omni business

52 Key insights and takeaways

55 About KPMG

About The Consumer Goods Forum

Acknowledgements

56 About the survey

Foreword

The consumer industry isn't facing disruption. It's already disrupted.

Game-changing technologies have revolutionized supply chains and customer touch points. More informed and skeptical consumers are holding the industry to increasingly higher standards. And a company's success in achieving customer-centricity or loyalty is no longer a differentiator, but a determinant of survival.

Disruption creates significant opportunity for the most agile and forward-looking companies willing to adapt, and even rethink, their fundamental business models. At the forefront of the consumer industry, we are seeing companies that have or are moving towards what we call an omni business model — where providing a seamless, omni-channel experience is table stakes, and digital integration extends beyond sales and marketing channels to proliferate companies' entire ecosystems.

How would you build your company today, and how will you get there from here?

In January and February of 2016, KPMG International and The Consumer Goods Forum (CGF) collaborated for the fourth consecutive year to conduct a survey of 400 senior consumer executives at the world's largest consumer and retail brands. Through this survey and select executive interviews, we are able to share the insights and leading strategies of some of the most advanced omni businesses. In addition, for the first time this year, we also surveyed 7,100 consumers in 19 countries on their shopping behaviors and preferences, to see how aligned the executives' strategies are with actual consumer sentiment.

We hope this report will help you identify some areas of opportunity within your business. If you would like more information, or have any feedback or questions, please feel free to contact us.

On behalf of KPMG and the CGF, we would also like to thank the survey respondents and interviewed executives who generously gave their time to contribute to this study. Without their insights, this research would not have been possible.

Please visit **kpmg.com/CMsurvey** to download the full report.

Willy Kruh
Global Chair,
Consumer Markets
KPMG International
@WilllyKruh_KPMG

Peter Freedman
Managing Director
The Consumer
Goods Forum
@CGF_The_Forum

Introduction

The omni business imperative

Today's consumer industry is undergoing profound disruption. Demographic and economic shifts, coupled with technological advances, are reshaping markets and the competitive landscape faster than many companies can respond. These changes are creating significant opportunities for the most agile and forward-looking companies. To be in the forefront, consumer retailers, manufacturers and their supply chain partners are taking steps to transform their companies into digital-first, customer-centric and fully integrated omni businesses.

Today, omni is not just about marketing. Organizations must transform both their experience design and their delivery architecture, operating with experience centricity from the inside-out and the outside-in. The omni business model takes omni-channel to the next level by enhancing it with:

— hyper **customer-centricity** for sensing real-time demand at a granular level,

— seamless, cross-channel **customer experiences** with integrated front- and back-end systems,

— agile, **demand-driven** supply chains that can quickly pivot to meet changing needs,

— a **commitment** to product safety and sustainability that permeates the business,

— fully enabled **technology** across the business, from manufacturing to in-store experience,

— pervasive use of smarter **analytics** and technologies.

Transforming from omni-channel to an omni business

Omni-channel: seamless integration across sales channels

Omni business model: seamless integration of all functions, enabled by digital technology and with the customer at the center

"Transforming your company into a truly integrated omni business is critical to take care of your customers and give them a seamless experience," says Julio Hernandez at KPMG in the US and Head of KPMG's Global Customer Centre of Excellence. "Organizations have invested in technology across a range of activities, from supply chain and customer analytics to mobile apps and e-commerce. However, they will want to join these functions together, both to provide truly seamless service and to avoid the cost of handling these functions separately."

However, the process of becoming a fully functioning omni business is challenging. "There needs to be a true stepping back and understanding of today's consumer market realities," says Willy Kruh, Global Chair for Consumer Markets at KPMG International. "Companies need to become completely customer-centric and have the latest technologies and analytical tools at their disposal. No stone should be left unturned as they pursue this strategy."

The move toward an omni business model is explored in KPMG International and The Consumer Goods Forum (CGF)'s fourth annual Consumer Executive Top of Mind study, a comprehensive survey of 400 executives from many of the world's largest consumer and retail brands. By 2018, nearly one-third of the

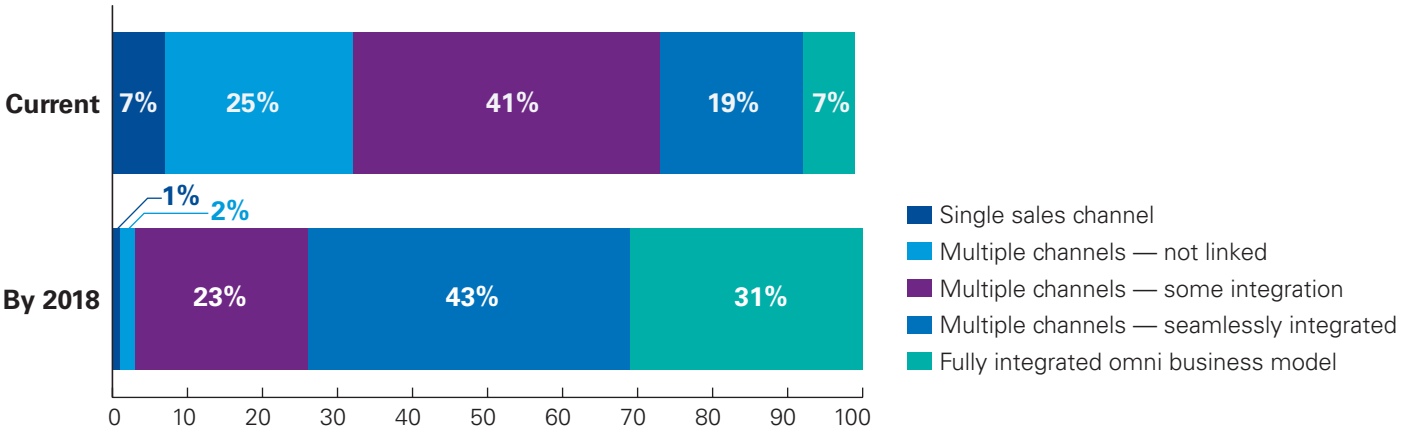
executives surveyed (32 percent) say they plan to evolve beyond their current single-, multi- or omni-channel retail operations into omni businesses, in which their business systems will be completely integrated, including not only their sales channels but also the front- and back-end functions, including production, inventory, marketing, sales, payments and distribution.

This number is up significantly from the 7 percent of companies that said they had already achieved full integration of all their systems (Figure 1). This jump was even more pronounced among the high-growth and more digitally advanced companies, where 41 percent and 46 percent respectively said that in the next two years, they expect to have fully integrated omni business models.

The survey also revealed that most executives recognize the need to begin the sales channel integration journey even if they don't see themselves achieving a fully integrated omni model within two years. Nearly half of those surveyed (42 percent) expect to have seamlessly integrated sales channels by 2018, up from 19 percent today. In addition, single sales channel businesses will start to become obsolete. By 2018, only 1 percent of the companies surveyed expect to be reliant on just one channel.

The omni business imperative is being driven largely by consumers who are demanding the ability to shop and buy on their terms. In fact, 42 percent of the executives surveyed said their customers already expect a seamless experience across sales channels, a trend that will only escalate as new generations of more digitally connected and savvy consumers emerge.

Figure 1 Omni businesses are on the rise



Source: Global Consumer Executive Top of Mind Survey, KPMG and the CGF, 2016

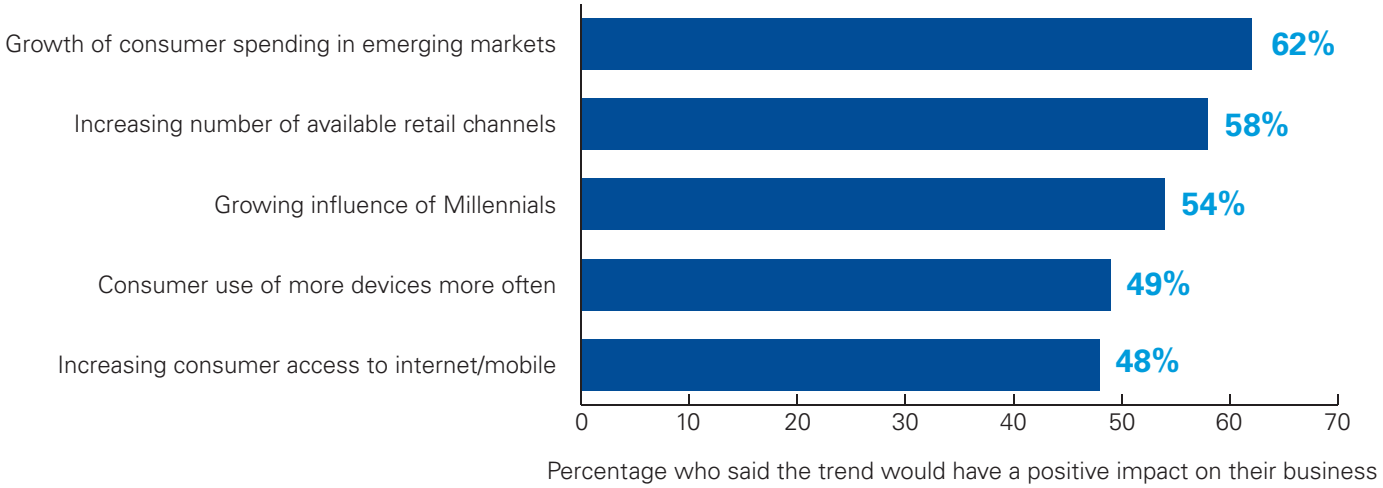
Shifting consumer demographics and behaviors

The consumer groups at the center of this disruption are largely the growing middle class populations in emerging markets and Millennials (those born between 1980 and 2000) around the world. Not only are these two groups of consumers unprecedented in sheer size and potential spending power, but they are also more deeply connected across digital channels and devices than any other generation of consumers before them.

"The largest new consumer base is coming from emerging economies," says Kruh. "If you want to be a consumer market player in the future, you simply cannot ignore emerging market consumers. You need to get in there early and put in the time." Consumer executives understand the enormous impact that these demographic shifts will have on their businesses and they are repositioning themselves to capitalize on the future expected opportunities. Almost two-thirds (62 percent) of those surveyed said growth of consumer spending in emerging markets will have a positive impact on their business in the next two years and over half (54 percent) were optimistic about the growing influence of Millennials (Figure 2).

"Companies **need** to become completely **customer-centric.**"

Figure 2 Emerging markets and Millennials are driving the omni business model



Source: Global Consumer Executive Top of Mind Survey, KPMG and the CGF, 2016

Meeting the challenge

Adapting to a changing consumer landscape requires more than integrating sales channels and coordinating customer touch points. As consumer expectations continue to rise, multiple and flexible sales channels are quickly becoming table stakes. The most successful consumer companies are already looking beyond the seamless integration of their sales channels and are focused on the integration of their entire ecosystems, with their customers at the very center.

"The best companies are working from the customer back," says Hernandez. "They are applying a customer lens to what customers want, what competitors are offering, and what non-competitors are doing. This is the opposite of the old formula of creating products and then finding customers to sell them to." This year's Top of Mind report provides a road map to help companies minimize risks and navigate the choices they will face when making the transition to an omni business.

> "Transforming your **company** into a truly integrated **omni business model** is critical."

In the following sections, we will explore:

1. **Becoming hyper customer-centric** — Tomorrow's consumer businesses will be laser focused on the customer, using technology and data analytics to target, serve and customize products and experiences for a highly segmented customer base.
2. **Developing a digital-first mindset** — Adding a compelling digital presence is not enough. Companies need to embrace a digital-first mindset, driving digital transformation across their business and putting digital channels at the center of all they do.
3. **Creating a supply chain fit for purpose** — Developing an omni business can put pressure on supply chains which may have been designed for less complex times. Moving to a demand-driven supply chain will be essential.
4. **Taking trust to the next level** — Consumer trust has always been critical for success. However, in a digital marketplace in which consumers are better-informed and competition is fierce, trust is the best way to retain customers.
5. **Building a world-class omni business** — To create a true omni business, consumer companies will need to develop a fully integrated organization built around the customer and powered by advanced technology and analytics.

Becoming hyper customer-centric

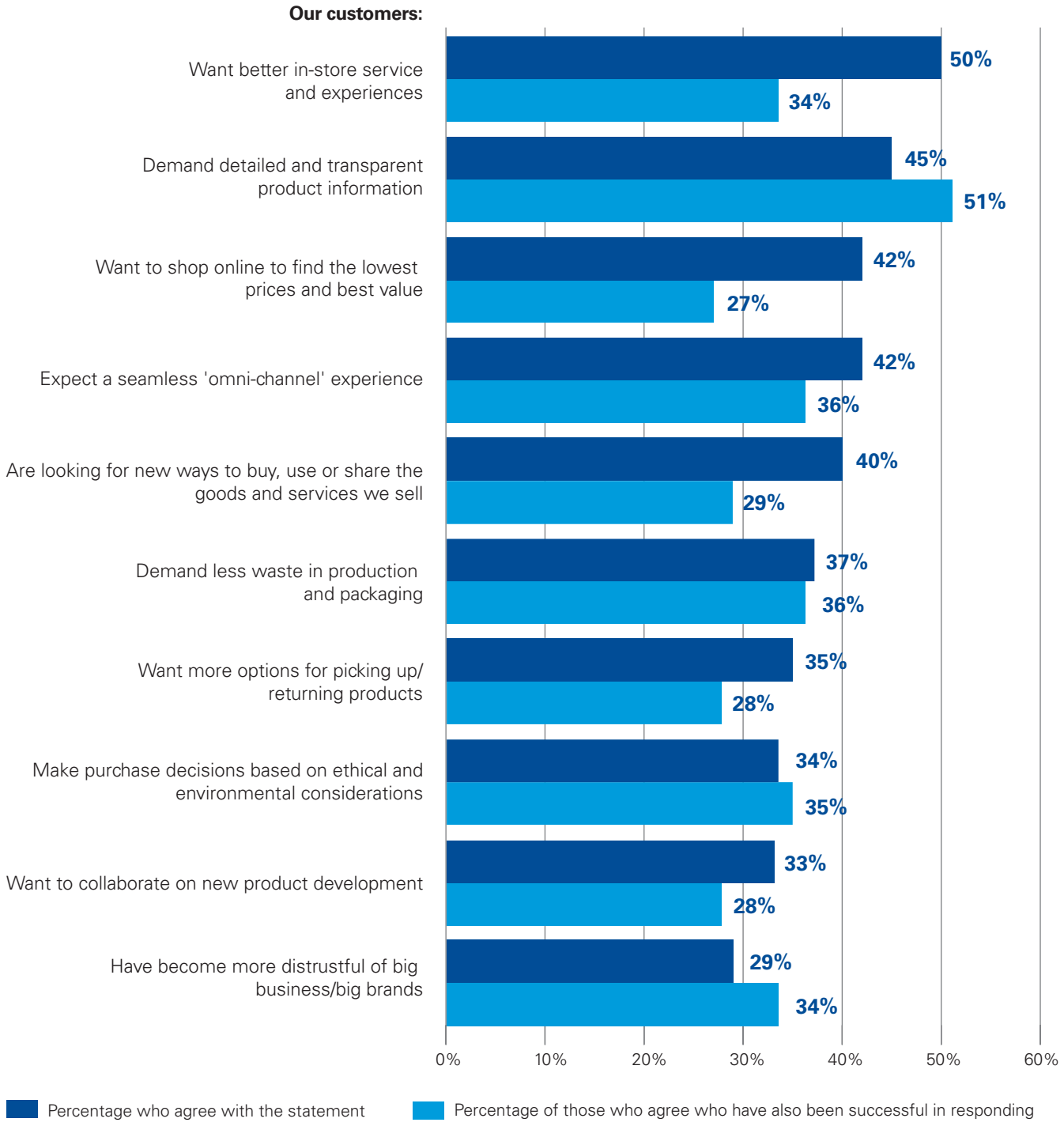
To compete in a global marketplace with shifting demographics, even today's best-in-class consumer companies require a deeper, multi-dimensional understanding of their customers. *Hyper* customer-centricity brings the customer into sharper focus through the use of advanced data analytics and smart technologies to track and anticipate consumer behavior in near-real time and deliver personalized products and experiences when, where and how the customer wants them.

For Gareth Ackerman, Chairman of Pick n Pay Stores Ltd., a South African chain of supermarkets and convenience stores, it's all about the customer. "We are striving to be absolutely customer-centric and to make sure that we are managing each of our 10 million customers essentially on an individual basis," says Ackerman. I think we will be able to do that in the next couple of years."

However, keeping up with fast-changing customer demands can be a challenge, as our survey results show. For example, although half of the surveyed companies believe their customers want better in-store service and experiences, only one-third say they are successfully meeting these demands. Similarly, 42 percent of respondents said their customers want to shop online to find the lowest price and best value, yet only 27 percent felt they were successfully responding. Other areas in which companies were falling short include delivering an omni-channel experience, offering new business models and providing options for picking up or returning products (Figure 3).

"Consumer preferences are changing faster than many big companies can respond," says David Stangis, Vice President of Corporate Responsibility and Chief Sustainability Officer, Campbell Soup Company. "In the CPG industry in general and the food sector in particular, there is significant effort focused on building consumer insights. But it may be hard for large, complex organizations to understand which trends to act on. Will this new trend become a big part of the market? How fast will it grow? Could we alienate our core consumers by chasing what might be just a fad?"

Figure 3 Consumer companies lagging behind customer demands



Source: Global Consumer Executive Top of Mind Survey, KPMG and the CGF, 2016

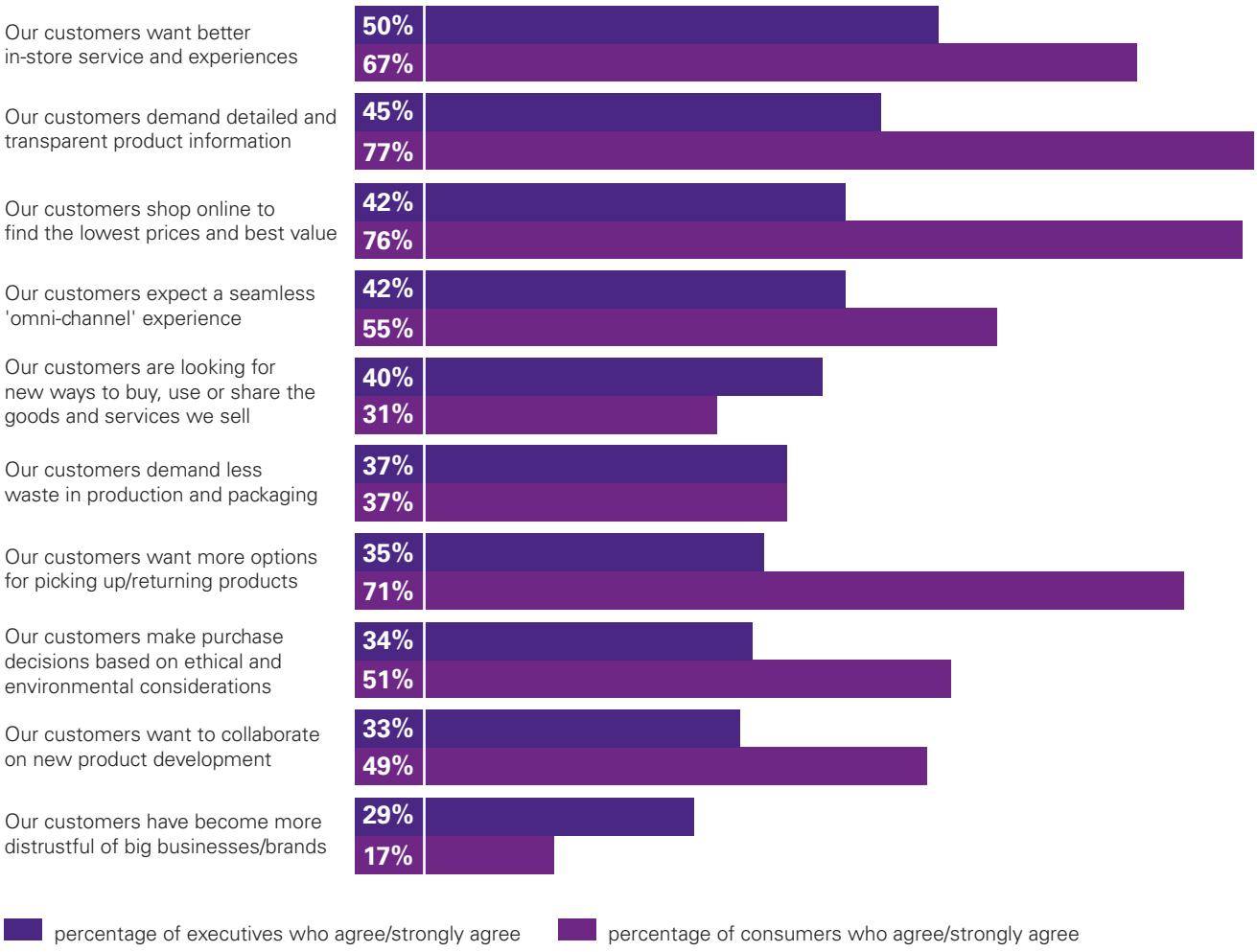
How well do you know your customers?

Seeking customer centricity: The omni business model

Figure A What are consumers' priorities?

To assess how well consumer executives understand their customers, KPMG surveyed 7,100 consumers around the world and compared those findings to the 2016 Consumer Executive Top of Mind Study results. The comparison showed that executives were underestimating a number of consumer priorities, sometimes dramatically. For example, although the executives were aware of the relatively high importance of better in-store service, detailed product information, pricing and value and a seamless omni-channel experience, they underestimated the importance of other factors.

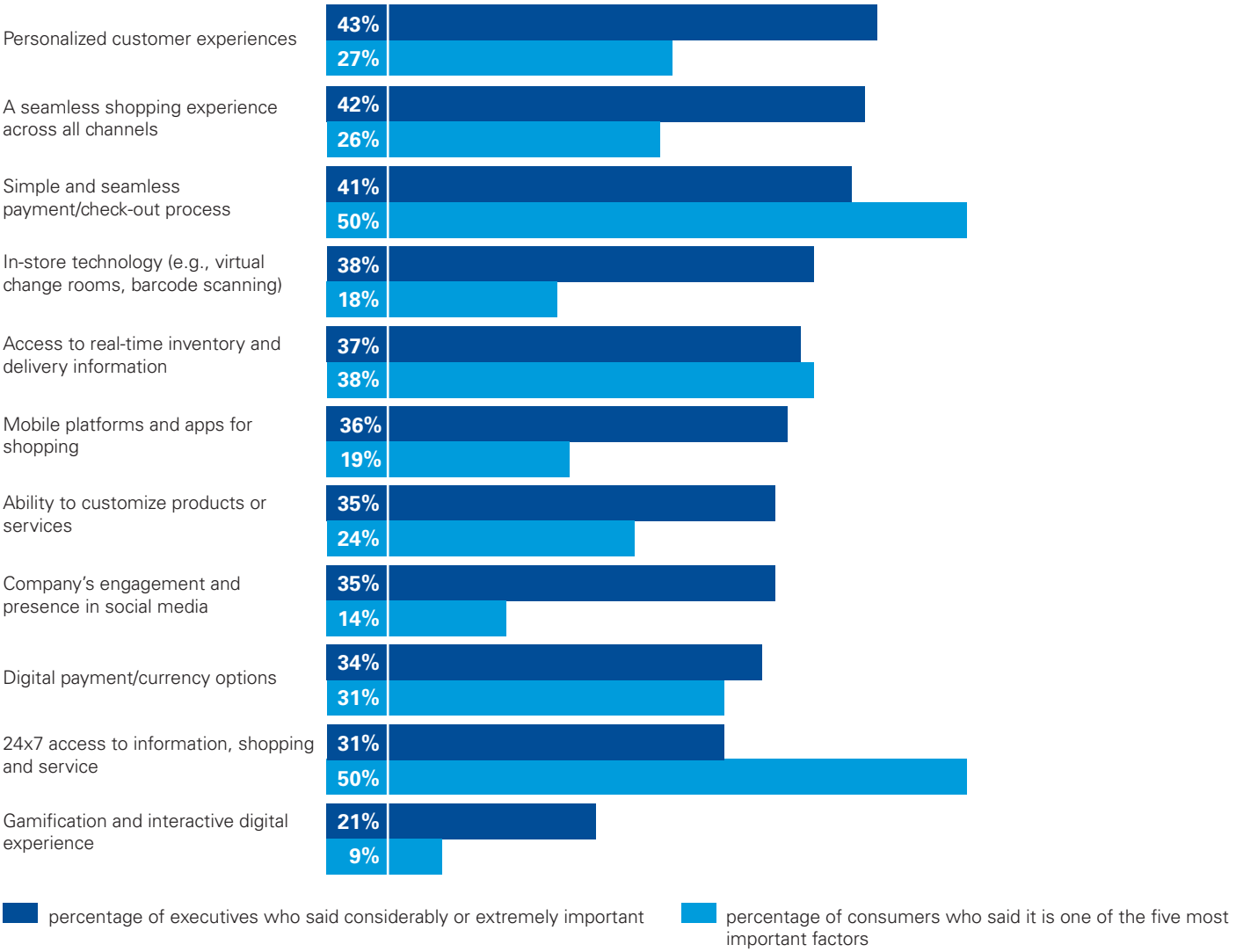
For example, consumers ranked the importance of having more options for pick-ups and returns as a top priority (71 percent), whereas the companies thought its importance to customers was relatively low. Some executives may also be underestimating the importance of environmental and ethical considerations or the ability to collaborate with companies on product development (Figure A).



Source: Global Consumer Executive Top of Mind Survey, KPMG and the CGF, 2016

Figure B What influences consumers most when they are choosing which brand or retailer to buy from?

The comparison of the two surveys also revealed that executives may be overestimating the importance that customers place on different aspects of the shopping experience when choosing which brand or retailer from which to buy. As shown in Figure B, executives' relatively high ranking of personalized customer experiences, seamless integration across channels, in-store technology, mobile apps and social media presence and their relatively low ranking of the importance of digital payment options and 24x7 company access did not necessarily reflect what the consumers said were more or less important to them (Figure B).



Source: Global Consumer Executive Top of Mind Survey, KPMG and the CGF, 2016

Thinking differently about customer behavior

The first step in getting closer to customers is rethinking how to use data and analytics for deeper customer insights. "Best-in-class companies are going outside their CRM systems to learn about their customers," says Bill Nowacki, Managing Director, Data & Analytics, KPMG in the UK. "They are developing more finely-grained data about their customers, including their non-spend characteristics. They are putting sensors around their customers to detect subtle shifts in demand."

Nowacki cites three types of data that world-class consumer companies need to harness to explain how and why a customer acts throughout their shopping journey: circumstantial, situational and demonstrated behavior data.

"Circumstantial data is about knowing, for example, that the customer is an empty-nester who no longer needs to buy as much milk because the kids have grown and have left the house," explains Nowacki. "Situational data helps you understand that the customer drives past your store every day on the way to work and sometimes comes in. Demonstrated behavior data tells you that the customer goes online to order 'click-and-collect' purchases from the store but sometimes prefers to make in-store purchases instead."

Companies need to gather and analyze as much circumstantial, situational and demonstrated behavior data as possible so they can start to understand the motivation for why, when and how a consumer makes a purchase decision at any given time. "Brands are going to have to excel at culling these insights from sources they own, as well as sources they don't," says Nowacki.

Drawing on smarter analytics

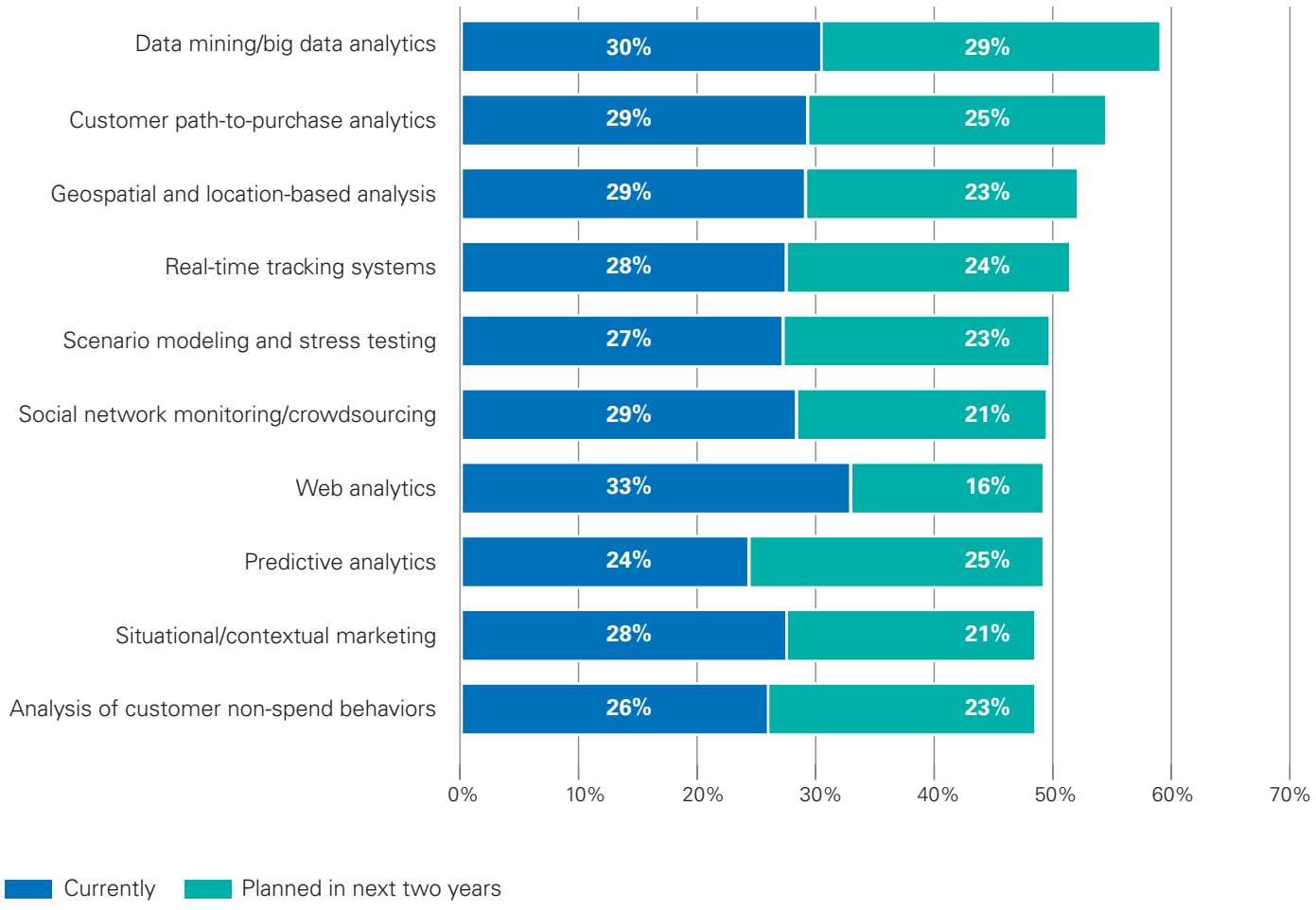
To gain greater customer knowledge, the companies in the survey said they would be investing significantly in smarter analytics and technologies. While 30 percent of surveyed companies reported that they are using data analytics today, that number doubles to 59 percent over the next two years. The use of predictive analytics is also expected to double from 24 percent to 49 percent. Other analytical tools targeted for fast growth include real-time tracking systems, scenario modeling and stress testing and micro-targeting capabilities (Figure 4).

One company taking analytics to the next level is The North Face, the US outdoor clothing, equipment and footwear company. The California-based manufacturer utilizes Watson, IBM's artificial intelligence technology made famous for winning Jeopardy against former champions. The North Face is using Watson to make it easier for online shoppers to find the right jacket choices among the thousands of SKUs on its website.

In April, the clothing company launched the first Watson-powered online experience geared to the retail environment. The online experience allows customers to engage in a question-and-answer conversation with Watson to find the right jacket. "We identified questions and created an experience that invites consumers to narrow their search results through artificial intelligence," says Cal Bouchard VP, Digital Commerce and Experience at The North Face. "This offers a buyer an experience that feels more like a human sales associate is helping them choose a jacket. Consumers are always looking for something new from the online shopping industry and we think this is it," she says.

> "The use of **predictive analytics** will **double** by 2018."

Figure 4 Use of analytics technology is rising



Source: Global Consumer Executive Top of Mind Survey, KPMG and the CGF, 2016

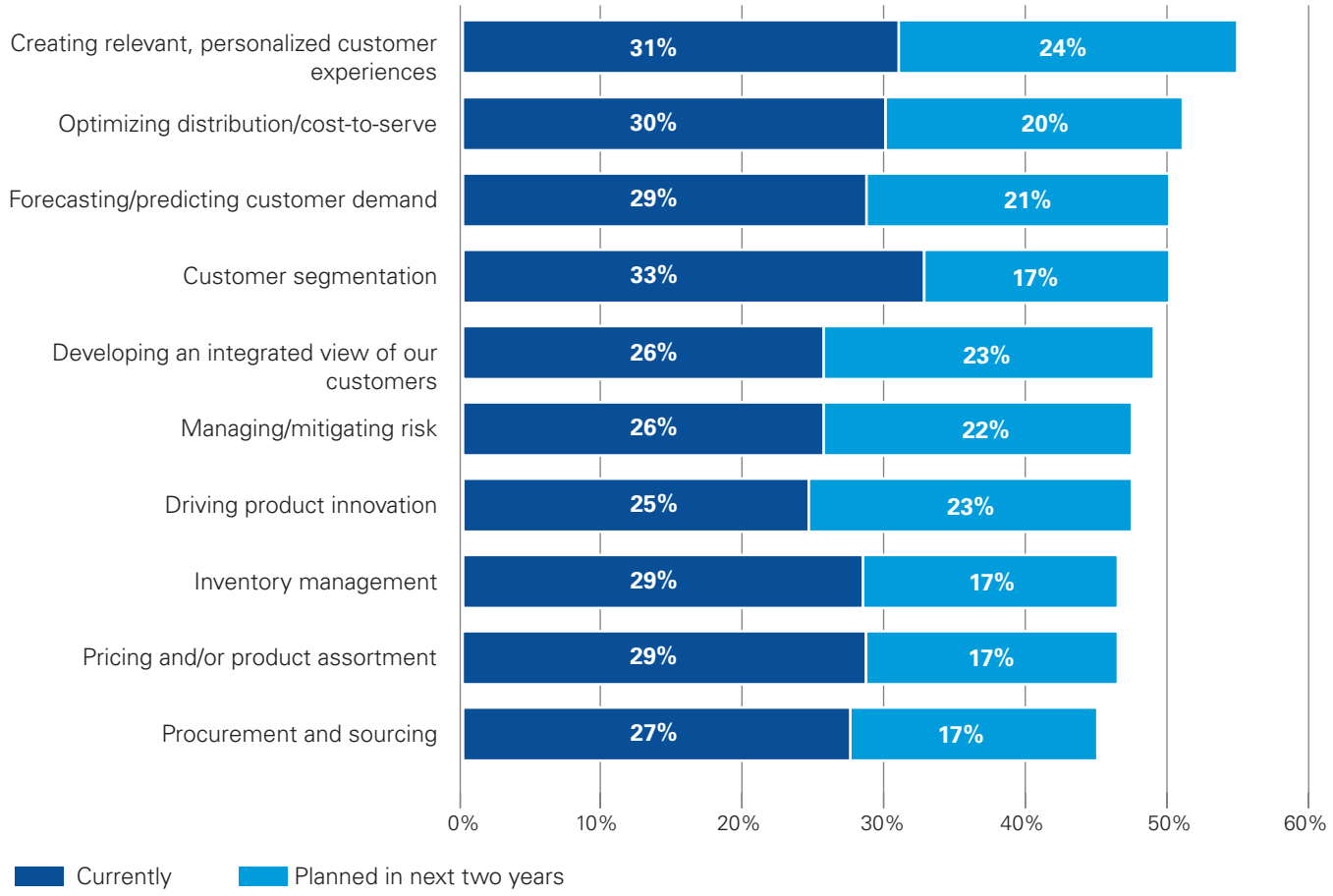
"**Consumer preferences** are changing faster than **big** companies can respond."

In addition to utilizing cognitive analytics, Jeanne Johnson, Consulting Partner at KPMG in the US, believes that companies should concentrate on customer path-to-purchase analytics to find their place in the omni world. The survey shows that executives agree: they plan to increase their use of path-to-purchase analytics from 29 percent today to 55 percent by 2018.

"By paying close attention to customer path-to-purchase mapping, consumer companies will be able to understand emerging shifts in customer dynamics," says Johnson. "In some cases, consumers are moving faster than we expected. They are drawing on new channels, new methods and new paths to purchase. And some are moving as slowly as they were before. The risk is thinking that everybody is moving at the same pace. They are not and path-to-purchase analytics will help guide their judgment."

Over the next two years, companies will be increasing their use of advanced analytics to achieve customer priorities such as: creating relevant, personalized customer experiences (56 percent), optimizing distribution and cost-to-serve (51 percent), and improving demand forecasting (50 percent). In addition, almost double the number of companies will use analytics to get an integrated view of their customers and to improve customer demand shaping and sensing (Figure 5).

Figure 5 Top priorities for investment in data analytics

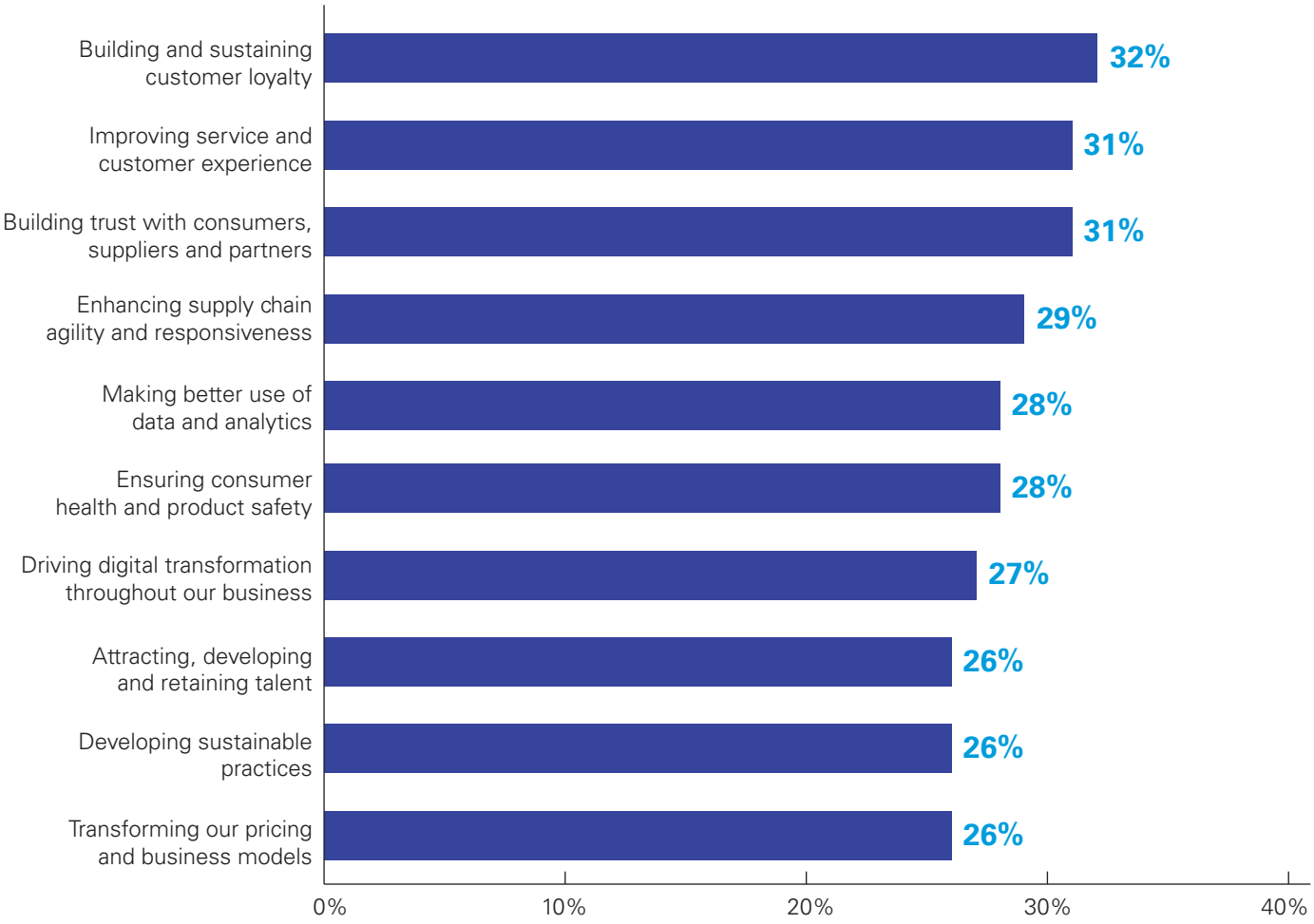


Source: Global Consumer Executive Top of Mind Survey, KPMG and the CGF, 2016

Putting a laser focus on the customer

Today's corporate priorities are centered squarely on the customer. The executives who took part in our survey rated sustaining customer loyalty, improving customer service and experience and building customer trust as their top three priorities, with each being a priority for nearly a third of respondents. Just behind, in fourth place, 29 percent of executives said that enhancing their supply chain agility and flexibility, arguably the backbone of a customer-centric business model, would be a top priority in the coming year (Figure 6). "Consumer companies need to go beyond understanding their customers. And they need to go beyond technology," says Kruh. "They need to differentiate themselves through customer experience on top of everything else."

Figure 6 Top priorities for consumer companies in 2016



Source: Global Consumer Executive Top of Mind Survey, KPMG and the CGF, 2016

"Executives rated sustaining customer **loyalty**, improving customer service and **experience**, and building customer **trust** as their top three **priorities**."

A customer-centric culture is fundamental at The Hershey Company. In 2008, the global confectionary and snacking company realized that its supply-based business model was out of step with emerging market trends and management began shifting the company to a more demand-based model.

"We pivoted the company's focus so today it's not about what we can make and sell but about understanding what the consumer wants and then making that the center point for delivering products and experiences," says Michele Buck, President, North America, The Hershey Company. "We have put knowledge at the center of our competitive advantage."

"Having a demand-based model, winning on knowledge and developing close partnerships with retail customers and supply chain partners is at the core of Hershey's business model," says Buck. "Now, we can look end to end, all the way from our raw materials, procurement and the supply chain through manufacturing and to retail in a closed-loop system. It enables us to be more efficient in terms of inventory management throughout the system and create closer relationships with our customers."

Hyper customer-sensitivity is particularly vital for succeeding in emerging markets, where consumer needs and behaviors can vary sharply from those in the Western world.

"As a consumer living in China, I would say that we have some of the most technologically advanced customers in the world," says Jessie Qian, Head of Consumer Markets at KPMG in China. While the digital behaviors of Chinese consumers may be similar to those in Western markets, there are some big differences in attitudes. "In the developed world, there are more regulations and greater customer loyalty. In the West, people have grown up with brands. They are part of their lives. But the consumer market in China has only really developed over the last 20 years. So consumers frequently change from brand to brand."

Aeon Group, Asia's largest retailer, uses a customer-centric strategy to build relationships with its customers for the long term. Jerry Black, Aeon's Executive Officer and Deputy President of Aeon Retail in charge of digital, sees changing consumer demands as the chance to build stronger relationships with customers. "One mindset shift is to treat customer interactions as an opportunity, not a call center function. For example, although handling customer returns or exchanges can be expensive, they can also be an opportunity to bring customers back into our store, perhaps to buy more. But even if they just exchange the product and we find them a better product, size or fit, that is an opportunity to please the client."

Black believes that the proliferation of channels and customer touch points are also good for business. "Customers who use multiple touch points tend to be more engaged with us and more loyal and customers who engage infrequently or through just one channel tend to be less profitable."

Millennials move to center stage

With Millennials now accounting for two billion of the world's 7.4 billion population, this segment is fast emerging as the number one source of consumer spending. As such, it's easy to see why the executives in our survey believe Millennials will be a boon to their businesses. The companies surveyed see opportunity in a number of Millennial characteristics. These include spending more on health (33 percent), gravitating to socially aware brands (30 percent), valuing shopping experiences that go beyond products (30 percent) and shopping through mobile devices (28 percent).

"Hyper customer-sensitivity is particularly **vital** for succeeding in **emerging markets**, where consumer needs and behaviors can vary sharply from those in the **Western** world."

Millennial-proofing your business

"Millennials are spending inordinate amounts on experience," explains Willy Kruh, Global Chair for Consumer Markets at KPMG International. For example, depending on what country you're in, more than 75 to 85 percent of new mothers are Millennials. So what does that mean for your consumer strategy going forward? And how do you tap into their trust of friends and social media over advertising?"

Millennial needs vary by country and age level, but the common thread is their value of experience. "Restaurant dollars have gone up, while grocery dollars have gone down, because folks want to go out and have a wonderful meal. Millennials of course are also heavy users of technology and value seekers," says Kruh. "But the key way to engage Millennials is by providing a compelling experience. There is a pub in Toronto where the t-shirts of the waiters and waitresses say; 'Price, quality, service — pick any two.' But in today's world, consumers, particularly Millennials, want all three."

To respond to the Millennial challenge, Kruh recommends becoming laser focused on the customer. "To be really customer centric, companies need to know every nuance of a customer's needs and behaviors. That means having the right data, the right tools, the right strategy, and the right people." Kruh recognizes that this may require major change, but he believes that in such a fast-moving environment it is important to take hockey player Wayne Gretzky's advice and "skate to where the puck is going to be, not where it's been."

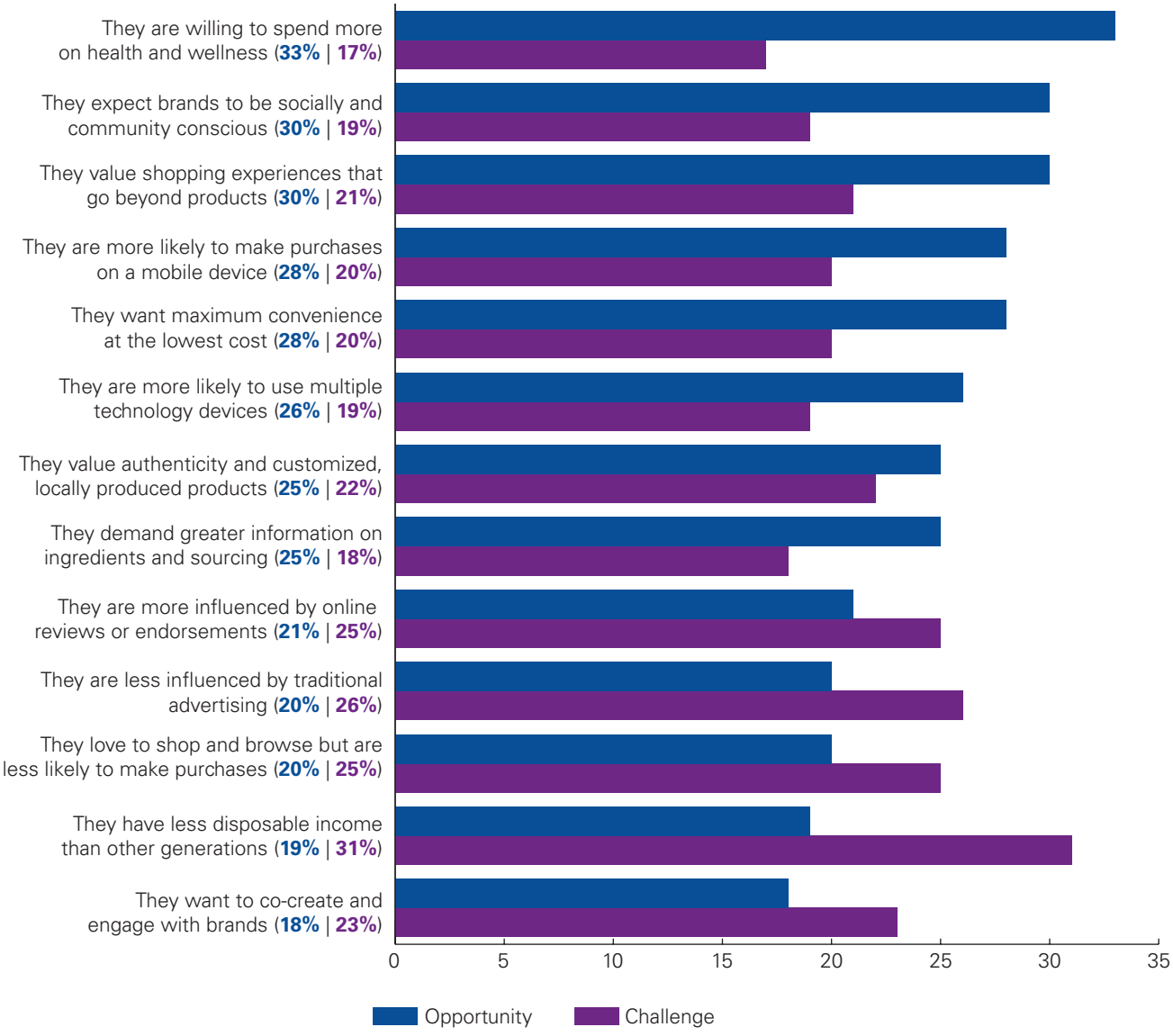
"With **Millennials** now accounting for **two billion** of the world's **7.4 billion population,** this segment is fast emerging as the number one source of consumer spending."

At the same time, Millennials present challenges for consumer companies. Surveyed executives cited a range of hurdles when selling to this generation of young adults. At the top of their list of challenges are: lower level of disposable income (30 percent), aversion to traditional advertising (26 percent), influence by online reviews and endorsements (25 percent) and their tendency to browse but not buy (24 percent) (Figure 7).

Whether they pose more of an opportunity or a challenge, Millennials are a driving force impacting consumer-oriented companies. Colleen Drummond, Head of the KPMG Innovation Lab in the US, believes that Millennials are key influencers of consumer market trends. "Millennials tend to be early adopters," says Drummond. "Their influence spreads virally and their behaviors transfer between generations very rapidly. Uber is a great example. Many Boomers heard about if from their children and then started to use it. Their behavioral change happened in days or weeks, not months or years."

Our survey revealed that companies are using an arsenal of techniques to target Millennials. The most common approaches include adding value-priced products (45 percent), providing more product information (38 percent), increasing investment in mobile channels and apps (34 percent) and creating an integrated

Figure 7 Millennial opportunities and challenges



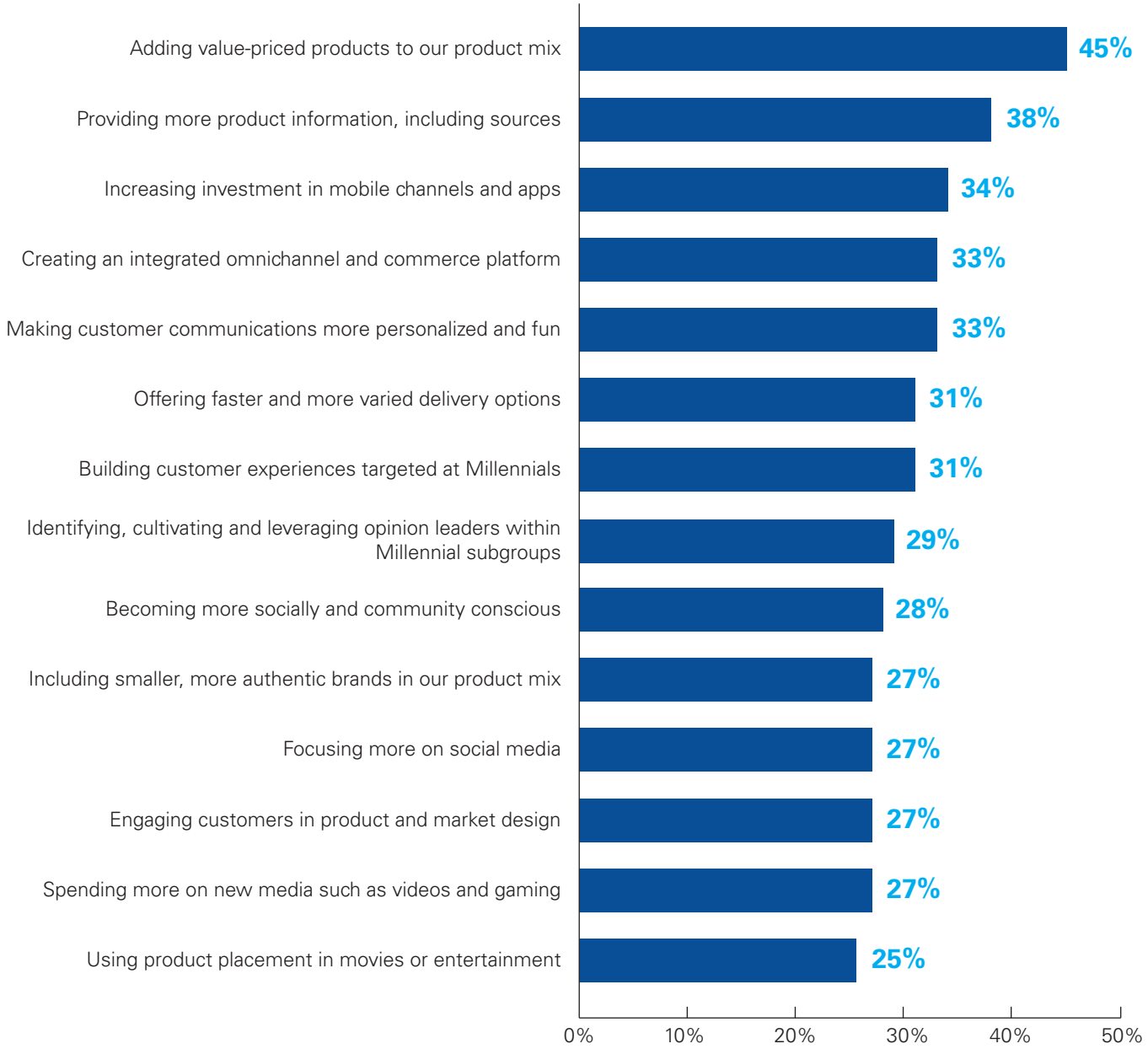
Source: Global Consumer Executive Top of Mind Survey, KPMG and the CGF, 2016

omni-channel platform (33 percent). In particular, fast-growing companies, those that report at least 10 percent revenue growth last year, have Millennials in their cross hairs. More than half (51 percent) of these companies said they would be adding value-priced products, 40 percent are creating integrated omni-channel and e-commerce platforms, and 39 percent are building customer experiences that specifically target Millennials (Figure 8).

"Of all the currents of change running through the consumer marketplace, Millennials are the greatest disruptor," says Willy Kruh. "Boomers also spend heavily, but Millennials have growing influence and the extraordinary ability to shape consumer behavior."

"If the majority of Millennials do not trust traditional advertising," asks Kruh, "what does that mean for your marketing strategy?" He believes that many companies have yet to fully adjust to the rising influence of Millennials. "Millennial habits," says Kruh, "are turning business conventions on their heads."

Figure 8 Approaches being used by companies to target Millennials



Source: Global Consumer Executive Top of Mind Survey, KPMG and the CGF, 2016

Developing a digital-first mindset

From the web to smartphones to technology-enabled stores, digital channels will replace bricks-and-mortar as the center of gravity for a customer's shopping experience. Digital transformation will enable consumer companies to rethink their strategies, operations and business models and, in the process, generate new levels of growth, efficiency, productivity and competitiveness.

> "**Companies** should consider what their **business** would look like if they were 'born' digital."

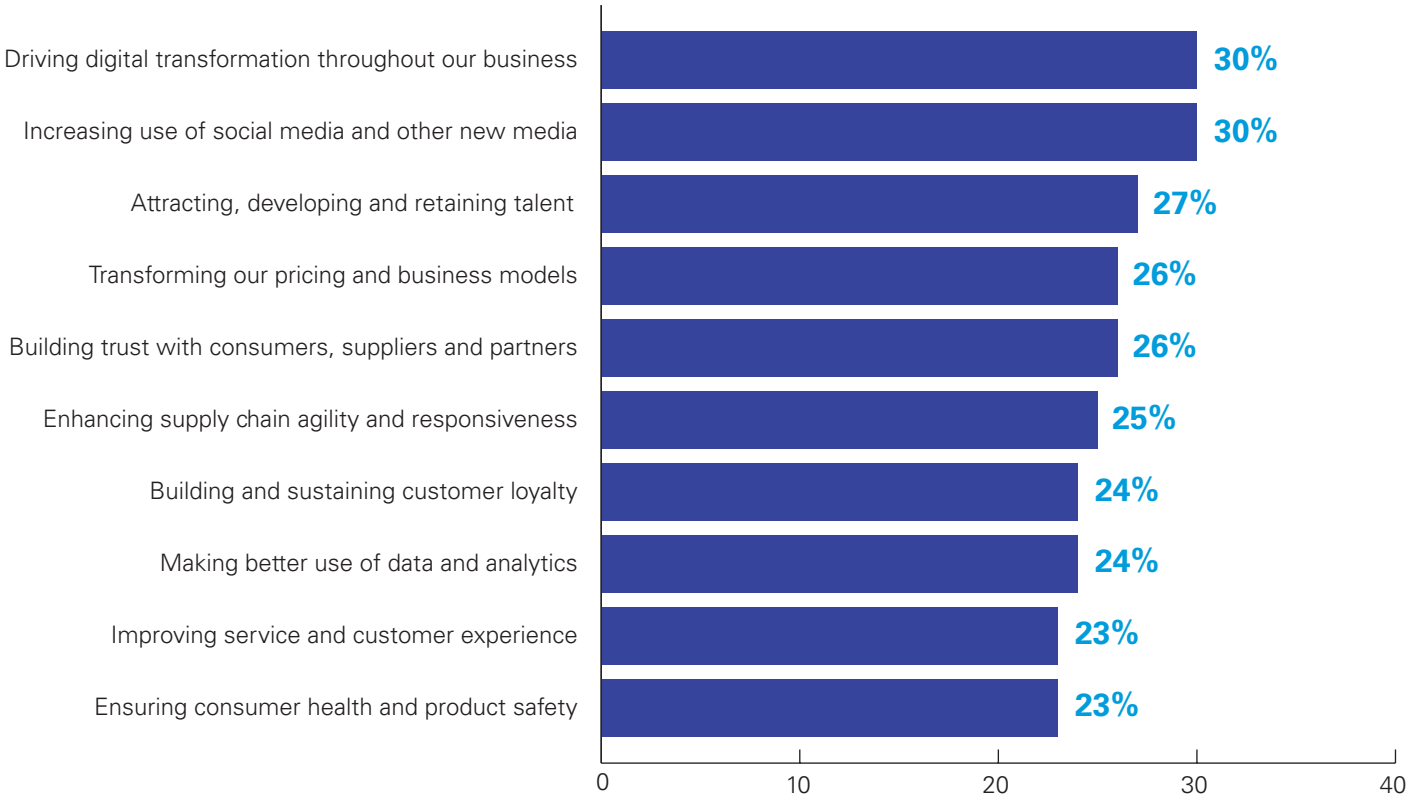
KPMG's Jeanne Johnson suggests that in order to understand how to play in a digital market, companies should consider what their business would look like if they were 'born' digital. "Executives need to think about running their businesses with a digital mindset. That doesn't mean that there isn't a role for physical stores but they need to relate to a digital conception of the business and its operations."

One challenge for companies is reconciling the need to be digital-first with customer demand for better in-store experiences. "On the one hand that might lead you to say, 'No, what customers really care about is being in the store, not digital," explains Johnson.

"But what companies need to understand is that your in-store experience should be as digitally relevant as sitting at home in front of your computer or browsing on your phone."

To engage the next generation of tech-savvy customers, most consumer companies recognize the need to extend digital transformation throughout their businesses. Indeed, slightly over 30 percent of the executives surveyed said driving digital transformation would be their top business priority in two years. Nearly as many (just under 30 percent) said they planned to increase their use of social media (Figure 9).

Figure 9 Top 10 priorities for consumer companies in 2018



Source: Global Consumer Executive Top of Mind Survey, KPMG and the CGF, 2016

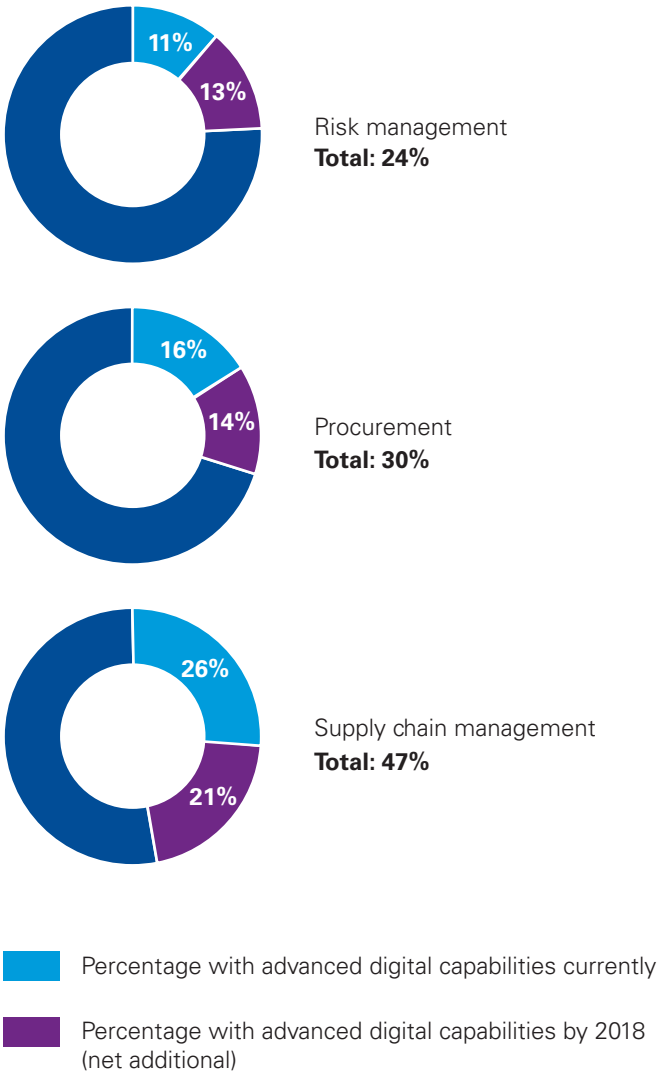
Most companies surveyed are making steady progress along the digital maturity curve, with slightly more advanced systems in the back-end, and the most significant planned advances for the front office. Over a quarter of the companies said they currently had advanced digital capabilities for manufacturing, production, inventory and distribution, with expectations that those numbers would nearly double to just under 50 percent by 2018. In the areas of customer analysis and service, just a quarter of the respondents said they had advanced digital capabilities today, however 58 percent expect to have advanced capabilities within two years (Figure 10).

A case in point is the Campbell Soup Company's use of digital innovation with its customers. By reallocating funds from core media such as TV and print and into digital marketing and communications, Campbell Soup Company was able to move many of its consumer affairs activities online, such as responding to customer questions and tracking consumer sentiment. "Almost every day inside the company now we share the hot topics, compilations of what we are hearing from consumers and what are the key concerns," says Campbell's David Stangis. "As we go full speed into the digital world, we will increase our two-way interactions with the consumer. We will strive to build ways to learn more quickly from consumers and factor their input into our decision-making in almost real time."

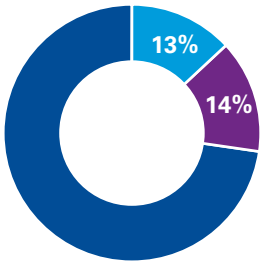
In the coming years companies plan to accelerate their technology investments in back-end systems, most notably supply chain management (47 percent) and inventory management and distribution (46 percent). And while only 16 percent of respondents said they have digitally mature procurement capabilities today, that figure will climb to 30 percent by 2018. Similarly, 13 percent have digitally mature product development and 11 percent have digitally mature risk management systems today. By 2018, those figures will increase to 28 percent and 24 percent, respectively.

> "Almost every day inside the **company** now we share the hot topics, **compilations** of what we are hearing from consumers, and what are the **key concerns**."

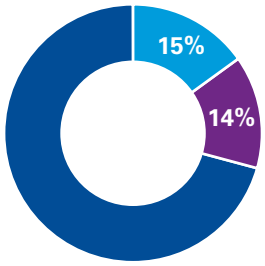
Figure 10 Moving toward a digital-first strategy



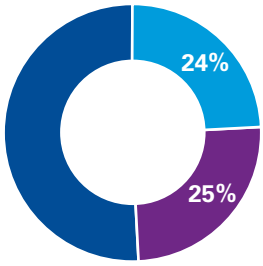
Source: Global Consumer Executive Top of Mind Survey, KPMG and the CGF, 2016



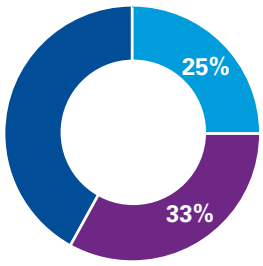
Product development/R&D
Total: 28%



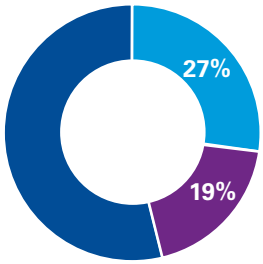
Sales and payments
Total: 28%



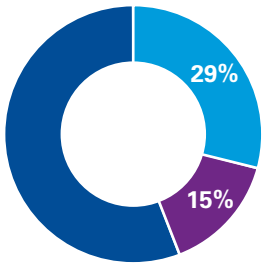
Marketing and promotion
Total: 49%



Customer analysis and service
Total: 58%



Inventory and distribution
Total: 46%



Manufacturing and production
Total: 44%

"As we go full **speed** into the digital world, we will **increase** our two-way interactions with the consumer. We will strive to build ways to **learn** more quickly from consumers, and factor their input into our decision-making in almost **real** time."

Case study

Aeon's customer focus is built on a technology foundation

Asia's largest retailer, Aeon Co. Ltd, is pursuing a digital-first strategy with the singular goal of enhancing the customer experience, according to Jerry Black, Aeon's Executive Officer and Deputy President of Aeon Retail in charge of digital. One corporate priority is leveraging online technology to provide the right content to the right customer at the right time. "Our focus is on understanding what a customer is interested in so we can improve the recommendations and the timeliness of the offers to that individual," says Black.

Aeon is also exploring the use of artificial intelligence for analyzing unstructured customer data from internal and external sources. "The advantage of artificial intelligence is the ability to use it to analyze unstructured data from social media and online trending topics," notes Black.

In addition to tracking assortment optimization and brand loyalty, Aeon is monitoring customer behavior on websites and mobile devices to get a better understanding of customer interactions. "Ultimately, we are trying to integrate physical store shopping with online browsing behavior so we can provide a total customer experience," says Black. "Our goal is not just to use this information to understand what happened but also to understand why it happened. And the Holy Grail of artificial intelligence is to understand what's going to happen next."

To integrate the customer's online and in-store experiences, Aeon is implementing "Aeon Style" as a new store experience where stores are transformed from showrooms to experiential centers. Customers can visit the centers to learn about and engage with products and brands both digitally and physically. The company is providing training and digital tools to store personnel that integrate the digital and physical world, and enable them to improve the customer's shopping experience.

Black believes that there are three key areas where retailers should focus their use of technology:

— integration of the digital business with physical stores to create a single merchandise planning process

— integration of the brand experience to create a consistent online and offline brand experience

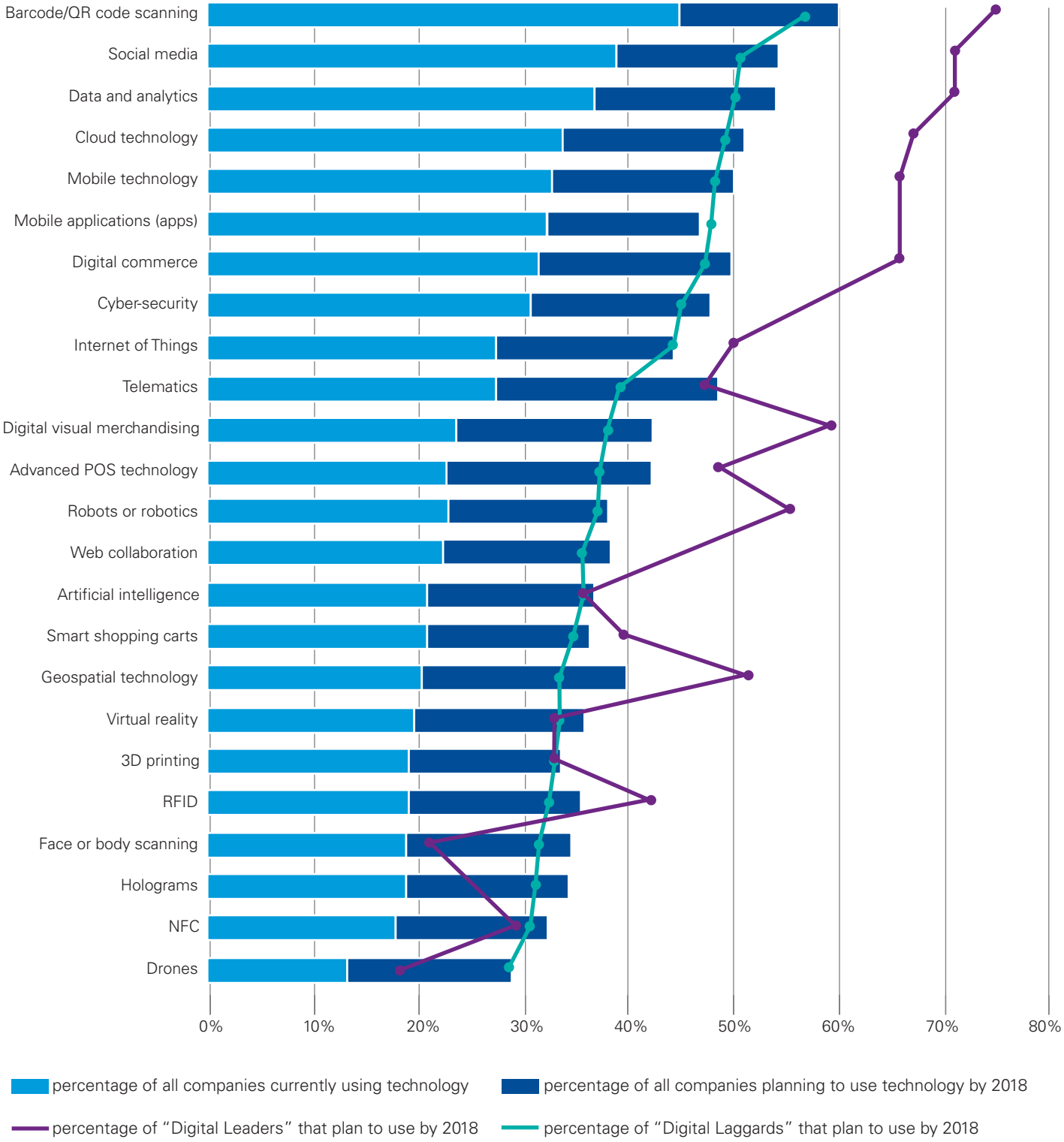
— integration of order management, inventory fulfillment and transportation systems.

An emerging digital divide?

Despite the digital imperative, many consumer companies are still behind in their adoption of technology. Our survey revealed a significant number of differences between the 'digital leaders' (the companies with the highest levels of digital maturity) and the less digitally evolved (the 'digital laggards').

For example, barcodes, social media, mobile, data analytics, cloud technology, mobile and e-commerce are at the top of the list of current and future planned technologies being used by consumer companies. Furthermore, by 2018, over two-thirds of the digital leaders will be using these technologies, compared to half or less of the digital laggards. The adoption gap between the digital leaders and the laggards is quite significant for some technologies such as data and analytics (a 21 percentage point gap), cloud technology (a 22 percentage point gap), and social media (a 21 percentage point gap). On the other hand, by 2018, the digital leaders will be less likely than the average company to be using the least common technologies such as face or body scanning, holograms, NFC and drones (Figure 11).

Figure 11 Digital leaders have more aggressive plans for adopting new technologies



Source: Global Consumer Executive Top of Mind Survey, KPMG and the CGF, 2016

Creating a supply chain fit for purpose

Operating in today's omni business environment requires a supply chain fit for purpose. The optimal structure is fully integrated with the front-end of the business and possesses the flexibility and agility to react to constant change in customer needs and market dynamics.

Erich L. Gampenrieder, Head of Global Operations, KPMG in Germany, refers to this as 'demand-driven, supply chain 2.0'. "Technology is enabling supply chain 2.0 but it is the rising expectations of consumers that are really driving it forward," says Gampenrieder. "For some time, companies have focused purely on generating cost efficiencies but they now realize that the main purpose of supply chains is to balance cost with keeping their customers happy and provide a better consumer experience." In Gampenrieder's view, only a small minority of companies has achieved this level of supply chain sophistication.

Although executives acknowledge the need to move to demand-driven supply chains, it is easier said than done. When asked what factors were most critical to building a successful omni business, the omni leaders in the study ranked having 'agile and demand-driven supply chains' and 'full integration between front- and back-end systems' as two of the top three criteria. However, for a quarter of the omni leaders, these two criteria also presented a significant challenge.

Andrew Underwood, Head of Supply Chain for KPMG in the UK, sheds further light on the need for next-generation supply chains. "The omni-channel mandate is clear to everyone and many companies are making good progress on the front-end. For many, however, the bigger challenge is joining up the front- and back-ends to create seamless omni-channel connectivity and become able to fulfill cost-effectively on any channel that receives customer orders."

Building a demand-driven supply chain 2.0

KPMG's Erich Gampenrieder has been working with consumer companies to help them set up integrated, demand-driven supply chains. "The term 'demand-driven' has been in use for at least half a dozen years, however, the average score on a five-level maturity evaluation is just 2.34. Many consumer companies struggle with the complexity," he says.

To help reduce complexity, Gampenrieder and a team of KPMG supply chain experts have developed a set of five core pillars, called Demand-Driven Supply Chain 2.0. "Each of the pillars captures the essential requirements for what omni business consumer companies need to do to create supply chains that are agile, flexible and demand-driven," explains Gampenrieder.

First pillar — Align the supply chain strategy with the wider corporate strategy and integrate it with customer-facing functions. This includes establishing common performance metrics, creating a reward system that focuses on filling customer needs and collaborating with suppliers.

Second pillar — Share information and ensure visibility across the supply chain. Every player along the end-to-end chain needs to know what the customer wants and values and be able to trace the status of materials, orders, parts and finished products.

Third pillar — Increase supply chain flexibility and agility. Flexibility means you react to events that you have pre-planned for, where you have prepared a mitigation plan. Agility enables you to manage the unexpected.

Fourth pillar — Structure the supply chain to address local and global competition and evolving government regulations, such as royalties, taxes, customs and transfer pricing and anti-profit shifting initiatives.

Fifth pillar — Segment and tailor supply chains to meet customer expectations. Companies can do this by setting different end-to-end supply chains around customer values, demand-specific patterns and manufacturing and supply capabilities.

> "The **bigger** challenge is joining up the front- and back-ends to **create** seamless omni channel connectivity."

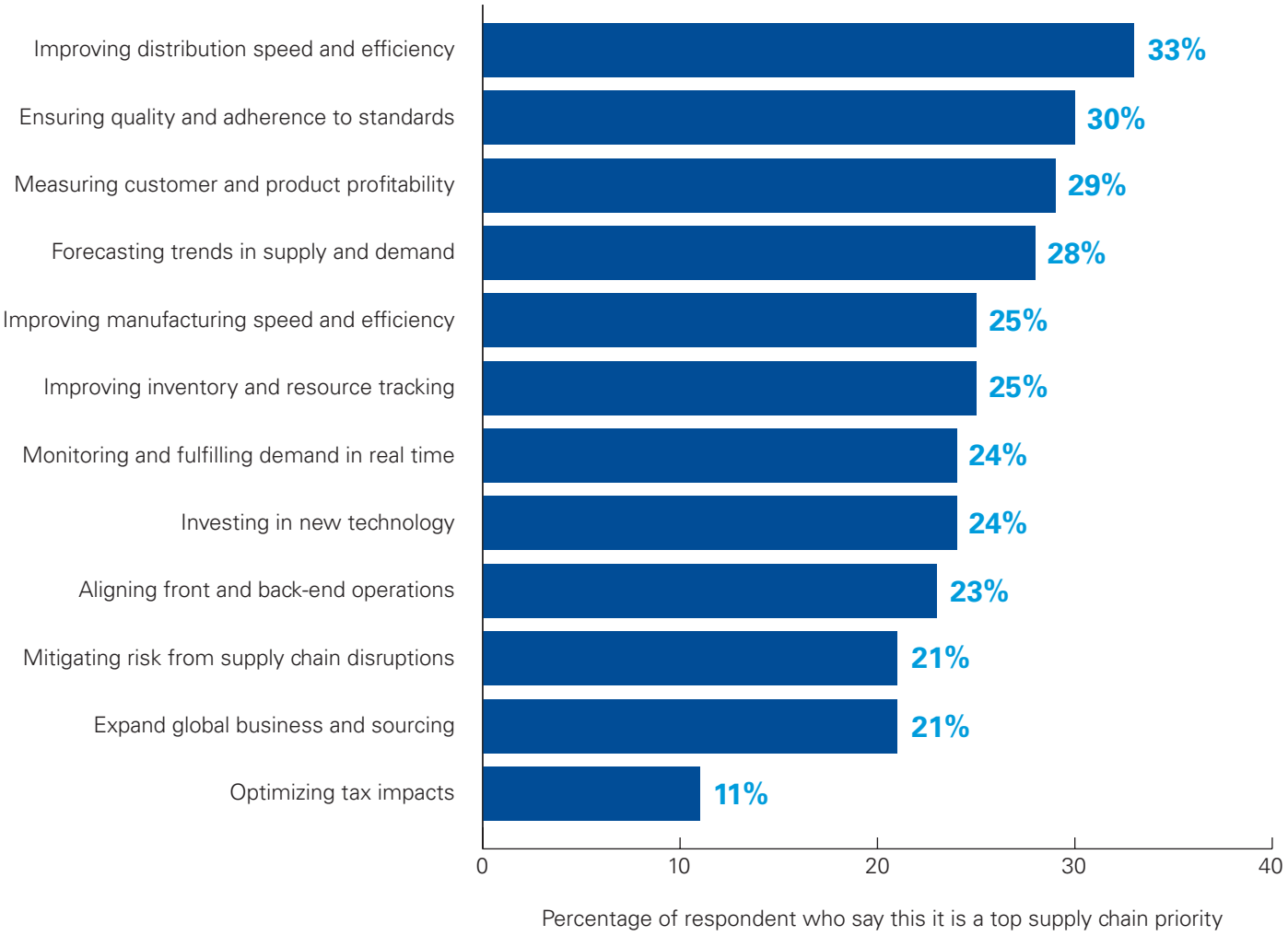
A delicate balancing act

To develop next-generation supply chains, consumer companies wrestle with finding the right balance between speed and quality. This balancing act is reflected by the top two supply chain priorities identified in our survey: improving distribution speed and efficiency (33 percent) and ensuring quality and adherence to standards (30 percent) (Figure 12).

The Campbell Soup Company has had to balance its heritage as a trusted brand with today's need for speed. "Safety has always been job number one in foods," says David Stangis. "So changing recipes and production processes, as well as suppliers and supply chains, can all introduce some level of risk, especially in a culture in which food safety is primary."

Maintaining safety and quality requires the right team, according to Stangis. "There are certain characteristics we need to embed in our people and the companies we acquire. That includes bold decision making, personal accountability, learning from mistakes, welcoming new types of data and challenging existing points of view. Having the right culture is critical in enabling companies to maintain quality in a high-velocity marketplace. We need to learn fast, which means we need to fail fast and move on."

Figure 12 Top supply chain priorities



Source: Global Consumer Executive Top of Mind Survey, KPMG and the CGF, 2016

For Pick n Pay's Gareth Ackerman, supply chain speed and quality are everyday challenges for a company that operates in Southern Africa where many countries have less developed infrastructure. The logistical obstacles can be significant for the company's fleet of trucks that serve these markets.

"For example, it's 1,000 miles from the company's headquarters in Cape Town to Johannesburg, which should take 15 to 16 hours. But Johannesburg to Lusaka, which is about the same distance, can often take five or six days, in large part because of delays at border crossings." As a consequence, the company has to actively manage food spoilage, which means getting its logistics just right and buying locally wherever possible. "We need to decide whether to source from local markets or ship from our warehouses in Cape Town. So there's an arbitrage issue we need to manage as well as maintaining close government relations," says Ackerman.

> "The **first** question here is not which additional data should be **gathered**, but which question do we want to **answer**."

Better performance through advanced analytics

To take their supply chains to the next level, companies are making better use of data and analytics. Figure 12 also shows how executives are giving high priority to a range of analytical initiatives, such as measuring customer and product profitability (29 percent), forecasting supply and demand trends (28 percent), improving inventory and resource tracking (25 percent) and monitoring and fulfilling demand in real time (24 percent).

Underwood agrees that measuring profitability should be high on the corporate agenda. "Companies are trying to connect the front-, middle- and back-offices in whatever way they can to fulfill different customer channels. Not all of that is being done very efficiently," he says. He believes consumer companies can do a much better job of managing their costs and boosting profitability by conducting deeper analysis. "Over the last few years, I have seen more companies taking the terabytes of data that exist around products, customers, channels, sales, pricing and commercials and putting it all together in a meaningful way."

Gampenrieder adds, "The first question here is not which additional data should be gathered but which question do we want to answer? The second is how does the ecosystem that we need to build look to benefit from the analytics capabilities that currently exist?"

Underwood sees the ability to forecast supply and demand trends as crucial for future success. "We continue to see what is known as demand sensing, which is taking a much more detailed view of future demands around retailers, in particular," he says. "These forecasting methods combine point-of-sale information with other inference points, such as weather conditions, sporting events and national holidays. All of those combined will be able to give you a much more accurate picture of future demand so that you can plan better."

Overcoming supply chain hurdles

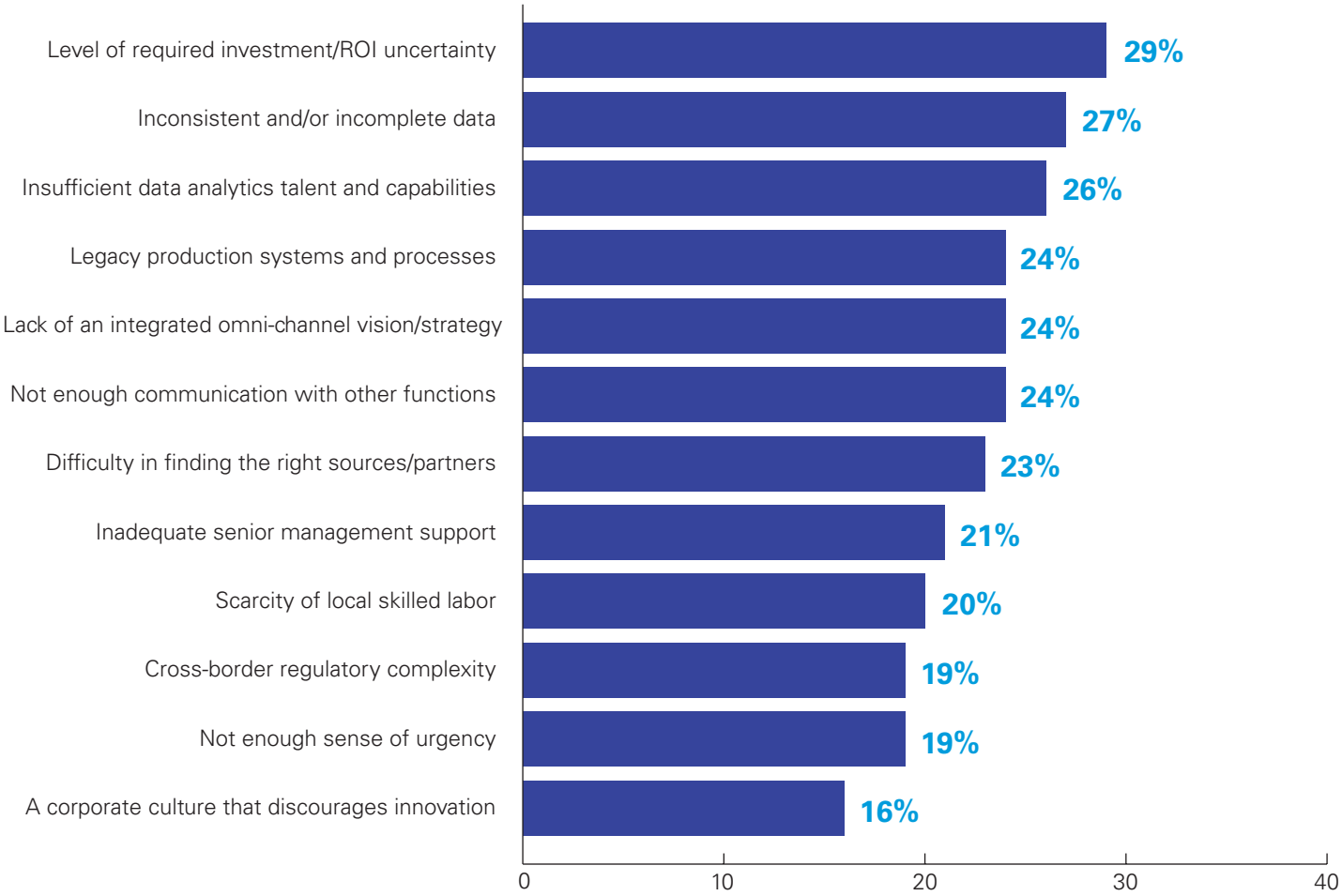
The top three supply chain challenges have to do more with investment and data requirements than with the systems themselves (although legacy systems ranked fourth). Twenty-nine percent of the surveyed executives said their top supply chain challenge is the level of required investment or ROI uncertainty. Closely following that challenge is inconsistent or incomplete data (27 percent), or insufficient data analytics talent and capabilities (26 percent) (Figure 13). But KPMG's Gampenrieder thinks that the issue goes beyond resources and analytics and that, ultimately, it is about the ability to make a convincing business case to senior management.

"Supply chain directors, especially those in the middle layers, can have an extremely hard time explaining the benefits to senior executives, who might not have a good understanding of the supply chain. They just struggle to translate the benefits in a compelling way," says Gampenrieder.

To avoid this problem, he recommends using a value-based management approach, in which you take a classical value tree and show the impact across a range of value drivers. "For example, if we improve forecast accuracy, what will that mean for future sales growth, for inventory cost savings, and so forth? The idea is to make it easy for a senior executive to see what will change if we do something new," he says.

Jeanne Johnson sees a further complication arising from the transition to an omni business. "The decision for creating an omni business is on a bigger, more existential scale than restructuring the supply chain to increase efficiencies," says Johnson. "It's

Figure 13 Biggest supply chain challenges



Source: Global Consumer Executive Top of Mind Survey, KPMG and the CGF, 2016

going to take real stakeholder and investor confidence as companies transform their business models. For companies, one of the biggest concerns is that they're doing this without a measurement paradigm. The leading omni-channel businesses today are still feeling their way through the changes and they are helping to define these new success metrics."

Underwood advises that the supply chain function has to start seeing itself as a business partner that plays a pivotal role in fulfilling consumer demand. "Working more effectively with the commercial function is fundamental," he says. "The two functions should agree that they need to be able to invest not just to meet the demands of today, but to also meet the demands of tomorrow."

Ensuring supply chain integrity and quality

Having the highest integrity and quality across all business, social and environmental dimensions is critical for customers, especially Millennials. The most important way to ensure integrity and quality is through closer collaboration among suppliers, manufacturers and retailers. Forty percent of the survey respondents said that this would be a top tactic for their companies over the next two years. Similarly, 25 percent said

> "The **supply** chain function has to start seeing **itself** as a business **partner** that plays a pivotal role in fulfilling **consumer** demand"

Case study

How Pick n Pay embeds technology into its business

Gareth Ackerman, Chairman of Pick n Pay Stores, believes that regardless of where a company operates, it has to have best-of-breed technology to remain competitive. Headquartered in Cape Town, South Africa, Pick n Pay operates stores that sell groceries, clothing and general merchandise in eight African countries and owns a 49 percent share of TM Supermarkets in Zimbabwe.

Ackerman ranks technology as one of his company's top three success factors, along with management and supply chain logistics. "We've invested in the very best B2B IT infrastructure so that we can serve our B2C customers cost-effectively," he says. "If you don't have best-of-breed B2B IT running the procurement, supply chain and distribution system, you can't manage on the scale and size of the geography we operate in."

Ackerman believes that technology should not be considered in isolation but rather as a systemic part of your business. "Your technology platform is essential to your business. We drive our distribution, our buying, our marketing our human resources and our logistics — everything — off of one central technology platform. "

they plan to seek alternative high-quality suppliers or sources, 23 percent will create better sight lines beyond tier one and tier two suppliers and 23 percent will monitor supplier work practices (Figure 14). Kruh believes that creating better sight lines is crucial. "Many companies are only familiar with the top two levels of their supply chains," says Kruh. "Risks lurk at the deeper levels."

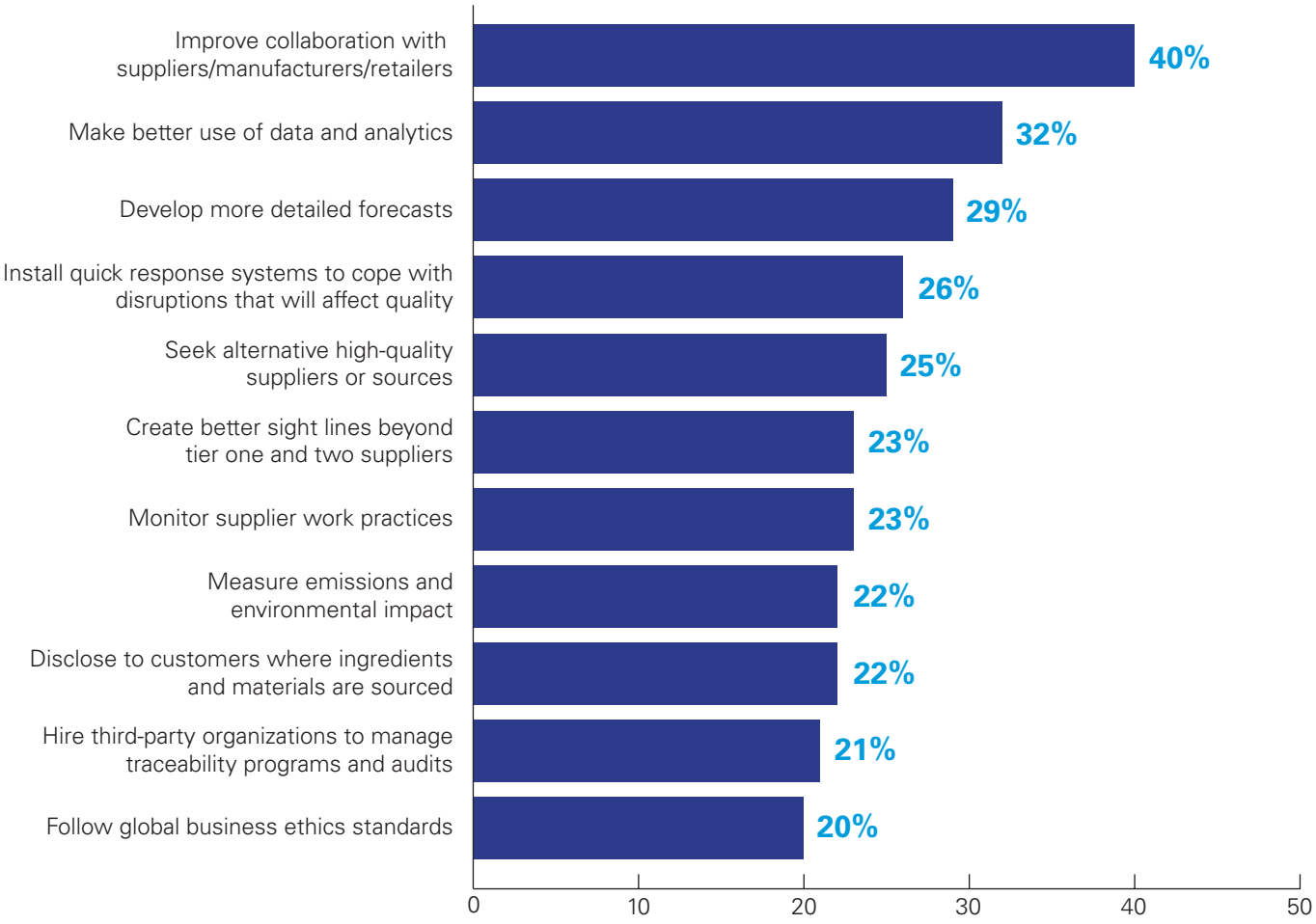
Companies are also leveraging data and information to improve integrity and quality. The second-most cited tactic was making better use of data and analytics (32 percent), followed by development of more detailed forecasts (29 percent). One-fifth said they would use third-party organizations to manage traceability programs and audits (21 percent).

Hershey takes all three of the above approaches. The US-based company has long been dedicated to providing safe, high-quality products. To deliver on their promise of 'doing the right things right every day', the company runs a product excellence program throughout all of its manufacturing plants, as well as among hundreds of suppliers and third-party manufacturing partners. This program ensures that all products the company purchases, produces and distributes are safe, of high quality and comply with all applicable laws and regulations. The company evaluates all supply chain inputs, including ingredients, packaging, processes, products, distribution and the environment to determine where product quality and safety controls are necessary. Various government agencies, third-party firms and Hershey's quality assurance staff conduct audits of all facilities that manufacture the products.

All together now

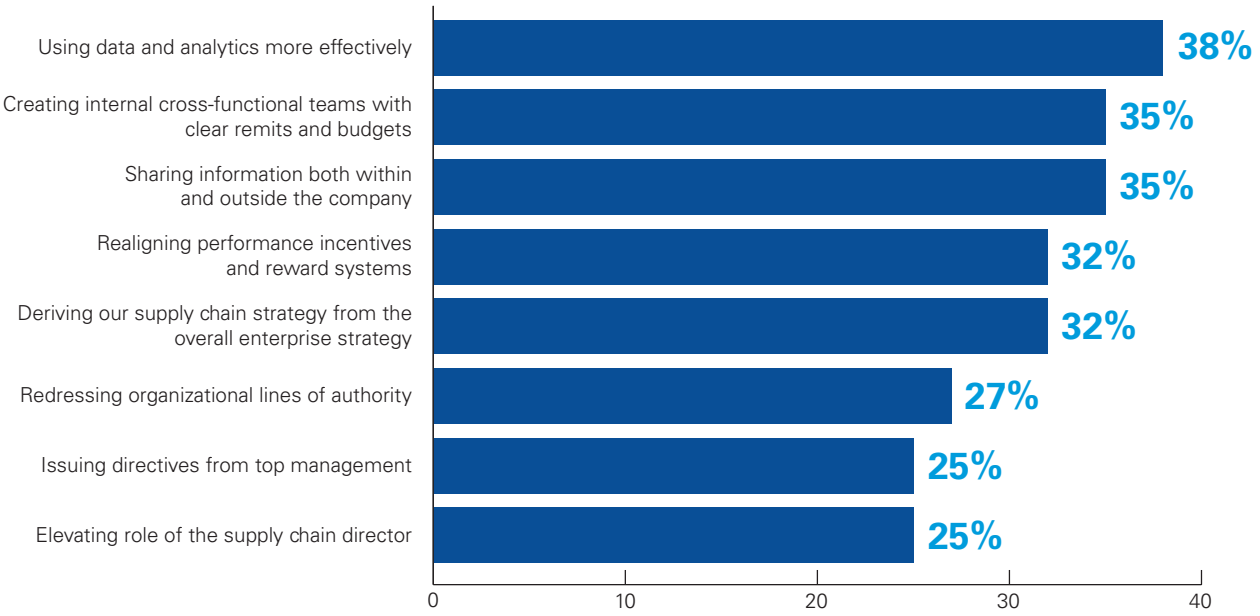
Companies are also using data and analytics to improve coordination with their supply chain partners. Thirty-eight percent of the companies surveyed said they are using data and analytics to improve collaboration with their supply chain and other functions and 35 percent said they are sharing information both inside and outside of the company more readily (see Figure 15).

Figure 14 How companies will improve integrity and quality over next two years



Source: Global Consumer Executive Top of Mind Survey, KPMG and the CGF, 2016

Figure 15 Steps to improve collaboration across the supply chain



Source: Global Consumer Executive Top of Mind Survey, KPMG and the CGF, 2016

"It's no surprise that data analytics is a top priority for improving collaboration," says KPMG's Underwood. "It is at the heart of the supply chain integrity question and it's a real challenge for organizations to access information across the end-to-end supply chain."

One of the riskiest issues is the ability to trace data as products make their journeys through the supply chain. Because of the multiple tiers through which a product can pass, the information can get lost if it's not connected. "The whole process is disjointed and the level of trust and cooperation is low. I think it can be vastly improved," says Underwood.

Hershey is on the front lines of sharing information through technology to build collaborative relationships with its extended supply chain, specifically its West African cocoa suppliers. "One of our goals is to make them as productive as possible so they are making a profit and want to continue to plant cocoa," says Michele Buck.

"The problem is that it's difficult to reach them. They're really spread out and there's no transportation infrastructure," notes Buck. "However, a huge percentage of the farmers have cell phones, so we created a technology-based program to deliver best farming practices messages. Depending on what time of year it is and what's happening with the crops, we give advice and information to the farmers to help them maximize productivity."

The survey also shows that in addition to analytics, companies are embracing organizational solutions such as the creation of cross-functional teams with clear remits (35 percent), realigning performance incentives (32 percent) and elevating the role of the supply chain director (25 percent).

Underwood believes that performance incentives and reward systems also need to be realigned to drive different behaviors and outcomes throughout the supply chain. For instance, the primary objective of the sales and marketing function may not be aligned with procurement's main goal. So finding an incentive scheme that puts both teams on the same page is critical.

As more companies elevate the role of the supply chain director, Underwood believes it will drive collaboration even further. "The importance of the supply chain function, including procurement, is becoming much clearer to organizations. They are starting to see the value of bringing these executives to the c-suite level, which is encouraging. But it is probably not happening as quickly as we'd all like to see."

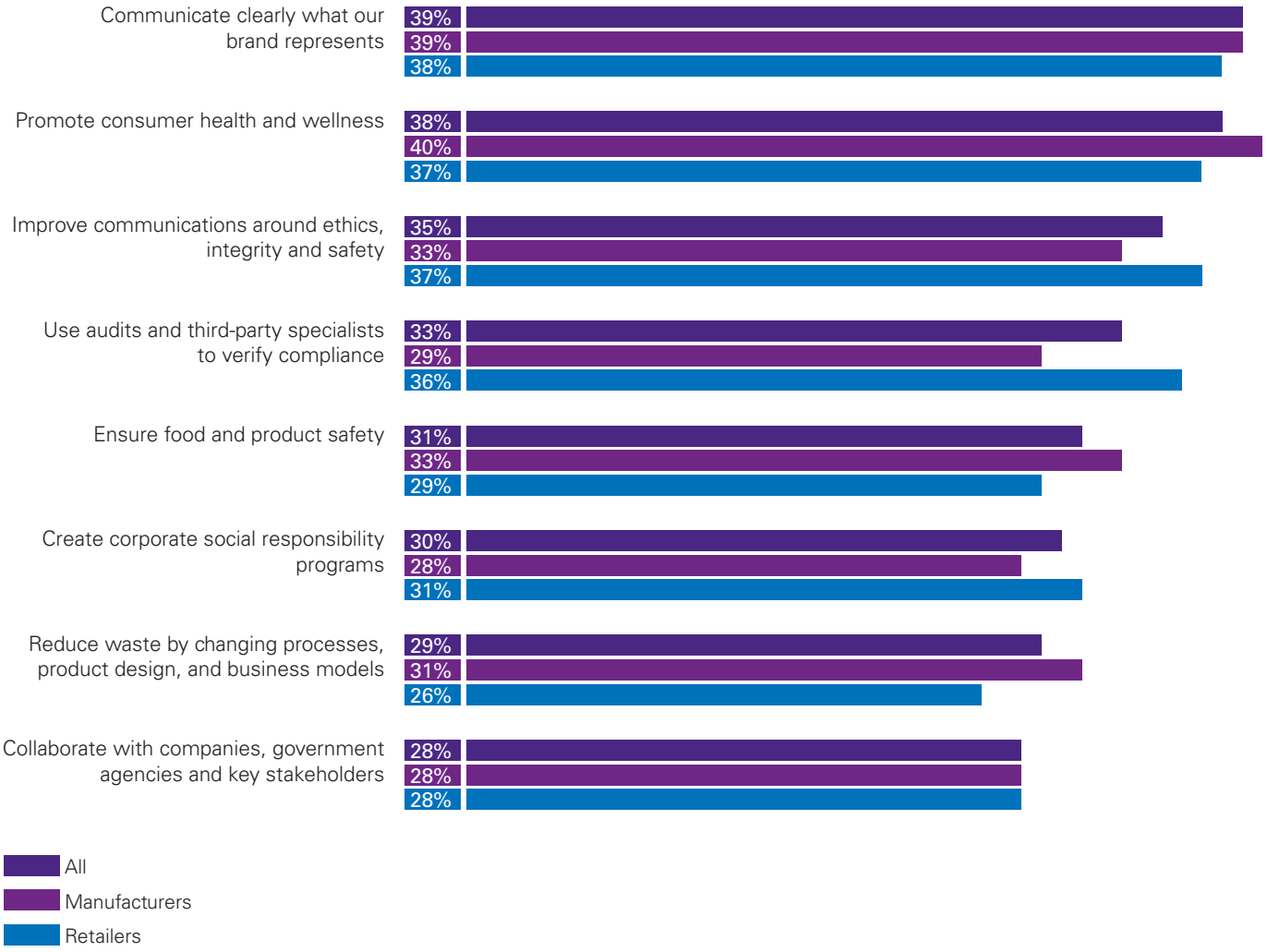
Taking trust to the next level

In today's digital world, consumers have access to vast amounts of information that help them shape their opinions about the companies they choose to buy from. While price, quality and delivery options might be primary drivers of purchasing decisions, information about business practices and social responsibility can also play an important role in cultivating brand loyalty. From legacy consumer companies to new digital entrants, the challenge for all companies is to refine their formulae for building, nurturing and retaining the trust of their customers.

"Trust has always been a top priority," says Peter Freedman, Managing Director at The Consumer Goods Forum (CGF). "For large, multinational companies in particular, it is no longer a question of *preserving* brand image. Trust has to be *demonstrated* every day. Given what's happening with competition and access to information, trust is the best way to maintain loyalty with your customers," says Freedman. "You can't accomplish this with lip service. It requires action to deliver on the message of trust."

Interestingly, the top three trust-building strategies cited by the companies surveyed were all around communication: clearly communicating what their brand represents (39 percent), promoting health and wellness (38 percent) and improving communications around their ethics and integrity (35 percent). Other top strategies included using audits to verify compliance and creating corporate responsibility programs, whereas for the manufacturers, other top strategies included ensuring food and product safety and waste reduction (Figure 16).

Figure 16 Top-ranked strategies for building consumer trust



Source: Global Consumer Executive Top of Mind Survey, KPMG and the CGF, 2016

"**Building trust** is particularly **important** in emerging markets, where **consumer** protection standards can still be relatively weak."

Case study

Campbell Soup: a trusted big 'small food' company

Campbell Soup Company will celebrate its 150th anniversary in three years. While old by Fortune 500 company standards, there's little doubt it is keeping up with the transformation of the consumer industry. "We want to be the most trusted, most agile, big 'small food' company in the marketplace," says Dave Stangis, Campbell's Vice President of Corporate Responsibility and Chief Sustainability Officer.

"Consumers move fast, and in most cases, faster than companies, especially regarding food," says Stangis. "The move toward ethical sourcing, sustainability, real ingredients and traceability is a proxy for 'healthy' in the minds of many consumers. Many companies in the food industry see these as competitive opportunities and are responding, including Campbell."

"We know we can responsibly source and sustainably produce these products in a safe way. We can handle them, produce them, manufacture and distribute them safely by forming long-term, people-to-people, company-to-company supply chain relationships. They include tier one, tier two and tier three suppliers and they are all Campbell's partners in delivering trust as well as product," notes Stangis.

These deep relationships are in everybody's best interest as they ensure a sustainable and resilient supply chain. "We don't look for short-term relationships with our suppliers, especially when it comes to ingredients and packaging. Long-term partnerships help us because today's consumer wants to know everything they can about our product ingredients."

Campbell's samples and surveys its farmers and shares the data anonymously so farmers can see how their use of fertilizer, water and other factors compares to the productivity of other farms in the Campbell's tomato supply chain. The company also collects data on energy inputs, greenhouse gas emissions and water use for key categories of ingredients. "Granted, these efforts require a lot of work, it's only the tip of the iceberg when you look at Campbell's entire product portfolio," says Stangis.

He adds that, "Sharing with our customers, primarily our retailers and eventually the consumer, pays dividends to everybody in the value chain. Regulators, public policy groups and investors all want to understand how we're strengthening our supply chain. Investors understand that our approach is a risk mitigation strategy and a resiliency strategy. While providing a dollar value for the next quarter may be challenging, it helps them understand that we're thinking about the long-term issues."

"Customers inherently expect you to do the right thing," says Caroline Laurie, Head of Sustainability at Kingfisher Plc. "They will trust you until you do something to lose their trust, particularly among the long-established brands."

Building trust is particularly important in emerging markets, where consumer protection standards can still be relatively weak. Pick n Pay runs its business according to three core principles: "First, the customer is queen; second, doing good is good business; and third, be the most efficient operator," says Chairman Gareth Ackerman. For Pick n Pay, doing good includes contributing the equivalent of 7 percent of the company's after-tax profits to corporate social investment and community programs.

"These three principles are all about developing trust," says Ackerman. "We need to give our customers the lowest prices by being the best low-cost operator and using the best technology and logistics. But they also have to see that we are investing and involved in their communities."

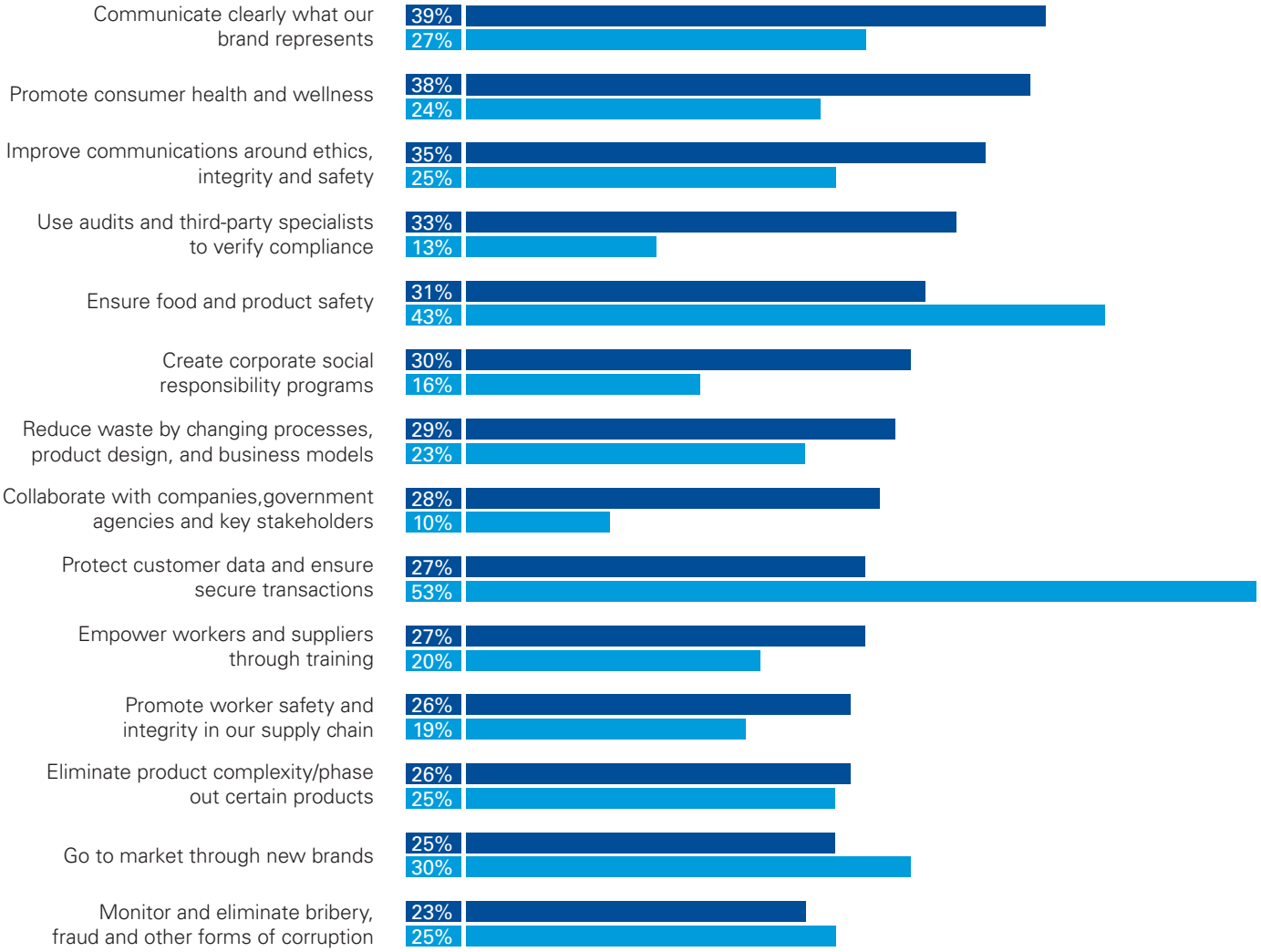
Whether operating in a developed or emerging country, KPMG's Underwood believes building trust often comes down to the integrity of the supply chain "Consumers want to know that they can trust that a product is what the company says it is, and that it can be traced to where it was made," he says.

Divergent priorities

While executives and consumers agree for the most part on what companies should be doing to build consumer trust, when we asked 7,100 consumers what *they* thought companies should be doing to build trust, some of their responses were misaligned. The biggest gap involved protecting customer data and ensuring secure transactions. Although consumers think that the number one way for companies to build consumer trust is by protecting their data and ensuring secure transactions (cited by 53 percent of consumers), the company executives ranked it tenth on their list of top strategies for building consumer trust (Figure 17).

This may reflect a corporate blind spot. In a hyper-connected world in which the internet connects billions of devices, homes and products and where there are now more smartphones than people, cyber-crime is on the rise and consumers are appropriately concerned.

Figure 17 Differences in what companies are doing and what consumers think they should be doing to build consumer trust



Source: Global Consumer Executive Top of Mind Survey, KPMG and the CGF, 2016

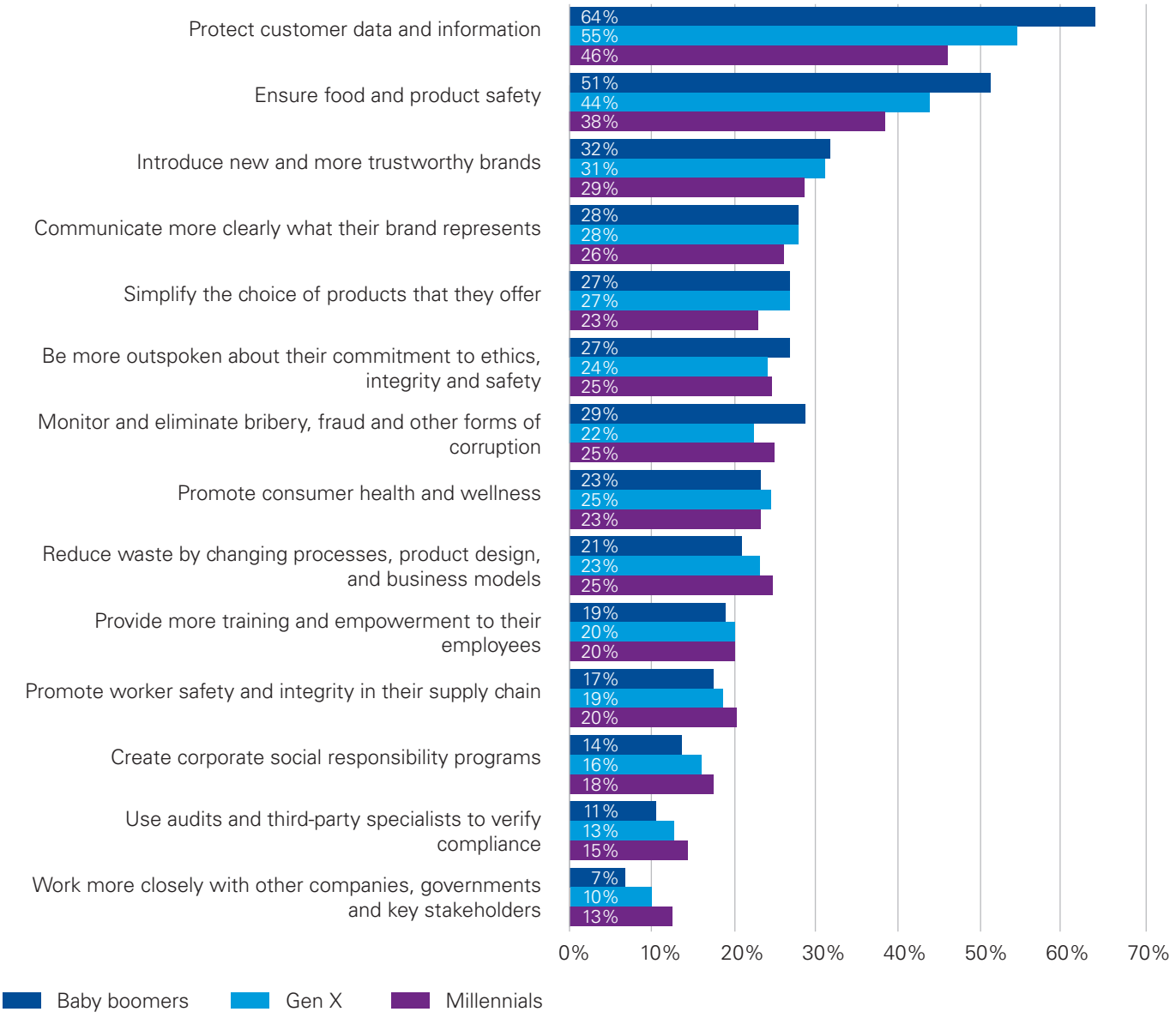
Yet, what is surprising is the continued corporate complacency around data security. KPMG's Willy Kruh believes companies continue to move too slowly to minimize the risks. "Hacking is happening everywhere and many services, systems and platforms are more vulnerable than people think. With the immense amount of mobile penetration, online pay apps and omni-channel retail platforms, the need for cyber security is beyond vital." Kruh believes that companies need to educate their management teams on cyber threats and take stronger measures to monitor and mitigate these risks through existing risk management systems.

Meeting expectations for safety

Second to protecting customer data and security, consumers said that they think companies need to prioritize food and product safety to build customer trust. Although the executives did rank this as a top five priority, it is crucial for executives to realize how important it is to consumers — far more important than some of the other priorities executives think they need to focus on.

However, consumer concerns regarding both data protection and food and product safety seemed to lessen for the younger generations. And, although ranked as less important overall, waste reduction, worker safety, social responsibility and third-party audits were more important to the Millennials than to their older counterparts (Figure 18). Clearly, these trends are worth watching as the Millennial population grows.

Figure 18 Differences in what different generations of consumers think companies should be doing to build consumer trust



Source: Global Consumer Executive Top of Mind Survey, KPMG and the CGF, 2016

The fragility of consumer trust

In today's world of open communication, consumer concerns regarding food and product safety are understandable, according to Ignacio Gavilan, Director of Sustainability at The Consumer Goods Forum. "Trust is something you build over the years but can lose in seconds. One incident of horse meat in hamburger or an E. coli outbreak and trust can disappear overnight," says Gavilan. Likewise for non-food products. "A widely trusted car manufacturer recently saw its value fall by two-thirds in less than 6 months when company executives admitted to falsifying CO_2 emissions data" he says.

The survey also indicated that food and product safety is an even higher concern in emerging markets, which may suffer from lax corporate policies and regulatory standards. "The differentiator in emerging markets is good governance," says Gavilan. "In China's toy industry, for instance, the controls were minimal and until rules were imposed, the industry was chaotic with plenty of room for corruption."

But Gavilan is hopeful about the future "Many of these emerging markets are evolving now. Competition from foreign brands is increasing and consumers are demanding better performance. So the local brands will improve," he says.

Safety improvements will come from technological innovation, according to Freedman. "Technology raises the bar for integrity, but it also makes it much more possible for companies to build trust through greater transparency."

One such technology is now being developed by Food + Future, a collaborative effort being led by Target. In partnership with spectroscopy expert Ocean Optics, the organization is building a food scanner technology that enables spectrometers to scan food to identify its composition, or for example, how long a piece of fruit has been in cold storage. Eventually there could be consumer applications, such as scanners embedded in smart phones, that allow consumers to detect fat, carbohydrates, protein, gluten, vitamin C, pesticide and even E. coli.

> "**Trust** is something you build **over the years** but can lose in seconds."

Circular business models

Taking trust to the next level, many consumer companies are moving toward 'circular' business models that drive greater value for their customers with fewer resources. Unlike a traditional linear approach, in which products are manufactured, sold, used and then discarded, a circular economy keeps resources in use for as long as possible, then recovers and regenerates products and materials at the end of their service life. As Laurie puts it, "A circular economy is restorative and regenerative by design."

"It's only in the last couple of years that I've heard of the circular economy idea of achieving growth without a massive use of resources (i.e. improving the rate of resource productivity faster than the economic growth rate)," says Gavilan. "The circular economy trend is coming at a time when we need solutions for resource management. We need to be careful not to confuse resource efficiency with the circular economy. The former is trying to reduce use, while the latter is about reusing what you produce. It's about driving growth with less, moving the needle in the right direction."

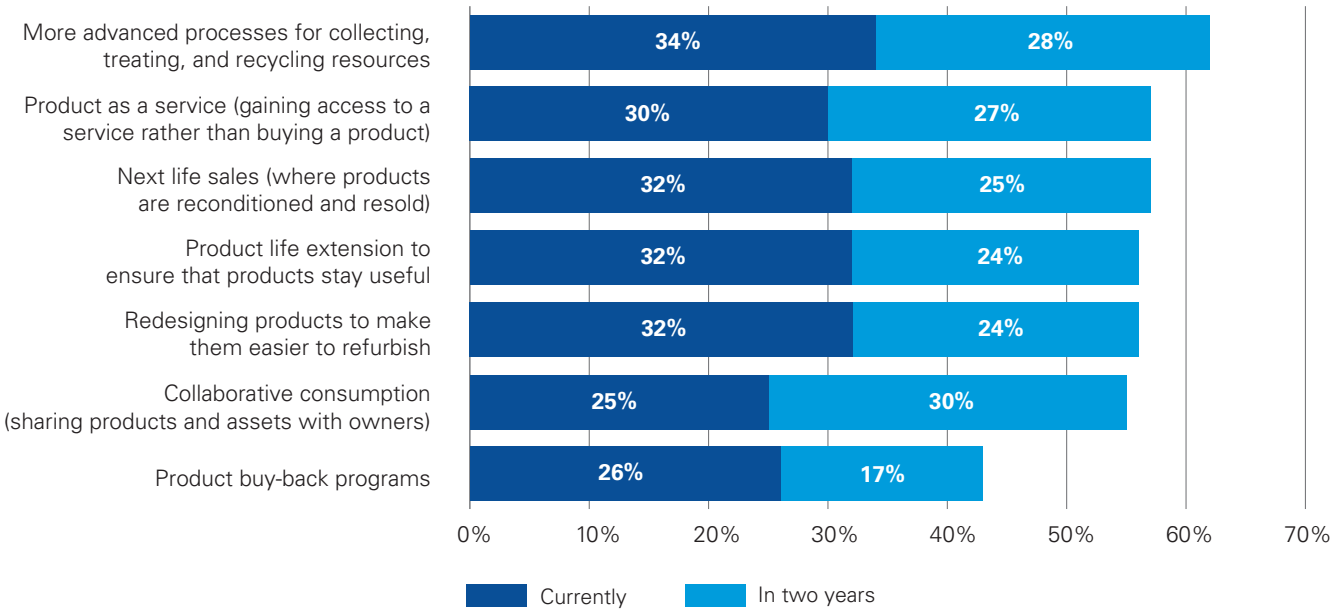
> "A **circular economy** keeps resources in use for as long as possible, then **recovers** and **regenerates** products and materials at the **end** of their service life."

Components of a circular economy business model include:

- **Zero waste processes** — which include more advanced processes for collecting, treating and recycling resources
- **Product as a service** — rather than selling a product to customers, selling them access to a related service
- **Next life sales** — where products are reconditioned and resold
- **Product redesign** — making products easier to refurbish or reuse
- **Product life extension** — ensure products stay useful for longer
- **Collaboration consumption** — sharing products and assets with owners, including peer-to-peer sharing of privately owned products or public sharing of a pool of products
- **Product buy-back programs** — whereby companies buy back products from consumers and provide credit toward future purchases.

Nearly a third of the executives surveyed said that their companies were already using 'circular economy' practices in their business models and that number will nearly double within the next two years (Figure 19).

Figure 19 Circular economy to blossom



Source: Global Consumer Executive Top of Mind Survey, KPMG and the CGF, 2016

> "The circular economy takes **trust** and **loyalty** to the next level because companies **create** relationships with **customers** throughout the product life cycle."

Creating circular products

Many consumer companies are starting to reimagine their products and processes through a circular economy lens. Gavilan explains this new product thinking. "Circular economy is making sure, from generation to disposal, you understand the entire life cycle of your product. Now you're looking at the entire cycle of your raw materials — how your customers are using them and how can you turn them back into your own process or someone else's process."

The circular economy takes trust and loyalty to the next level because companies create relationships with customers throughout the product life cycle, resulting in more touch points and deeper relationships. "It's the difference between persuasion and influence," says Gavilan. "In the linear economy, you persuade people to buy one thing one time. In the circular economy, you influence people to create a lasting purchase decision and a relationship with the product and the company that sold it to you and services it. You generate trust by creating a system in which consumers feel comfortable in the cycle."

Some companies such as Patagonia have built their entire value proposition on circular economy principles. In 1973, when Patagonia was founded, its mission was to 'build the best products, cause no unnecessary harm, use business to inspire and implement solutions to the environmental crisis.'

Five years ago, Patagonia moved demonstrably closer to the circular economy model by launching its Worn Wear program, which combines several circular techniques, including next-life sales, product life extension and product buy-back. This program provides support to customers to repair damaged clothing and equipment themselves or to send the clothing to the company for repair or recycling. Today, Patagonia operates the largest clothing repair center in North America. Patagonia stores across the US also repair clothing. The company offers online iFixit Guides, clothing trade-ins and a resale program at its Portland, Oregon store. If customers resell their Patagonia apparel, the company will treat the next owner as their customer.

Kingfisher is on the same path and has set a target to develop 1,000 'closed loop' products by 2020. For example, the company had a circular approach in mind when it created reusable carrier packs to deliver kitchen worktops. Previously, these kitchen items would be shipped to homes with an excessive amount of cardboard that would need to be discarded. Now the items are shipped in a carrier pack, similar to a pizza delivery bag. After the worktops are delivered, the packaging is taken back and reused. According to Laurie, this product life extension innovation is saving the company £1m (US$1.45m) and reducing cardboard packaging by 2,500 tons every year.

Case study

Kingfisher's commitment to a circular economy

UK-based Kingfisher, a home improvements retailer, was an early adherent of the principles of the circular economy. "The circular economy is about driving economic growth by doing more with less," says Caroline Laurie, Kingfisher's Head of Sustainability.

"The trick to succeeding in the circular economy is focusing on innovation and collaboration," says Laurie. "It's only through collaborating and sharing ideas that you are going to unlock the potential of the circular economy. You need to find the win-win-win solutions, those that are economically viable, offer a great service to the customer and are beneficial to the environment. When you find those sweet spots, you can really begin to gain traction and scale."

Laurie provides an example of circular innovation involving the shipping of wooden pallets. "Businesses like ours ship products from the Far East to Kingfisher's stores across Europe. They used to be a linear asset. In the past, we would put a load of product on a wooden pallet in China, load it on a ship, take it into our store, at which point that wooden pallet becomes waste material."

"Now we've created a 'green pallet' scheme," she says. "The wooden pallets are made from certified timber resources and painted green. They get shipped back to China in the empty containers and get reused until they can't be reused anymore, at which point they enter the recycling streams." Laurie notes that not only does this approach help the environment, it also delivers economic benefits, in terms of reduced cost of purchasing new pallets.

Building a world-class omni business

Building a world-class omni business requires a completely integrated front- and back-end, centered around the customer and powered by advanced technology and analytics. Getting there requires a clear business case and full support across the business and supply chain.

"Is omni business going to be the future?" asks Julio Hernandez, Head of the Global Customer Center of Excellence at KPMG in the US. "Absolutely. In fact, the future is already here. The more important question is, to what *degree* is the future here?"

Hernandez says that companies are still early in their omni business journeys. This is supported by our survey of consumer executives, only 7 percent of whom said they had fully integrated omni businesses. In Hernandez's view, "Most of the emphasis has been on getting the front-end integrated. Companies have focused on developing a common look and feel across the different channels so the brand can come alive. And some companies are making progress on the supply chain piece." But most companies have not yet made the organizational transformation. "They are still struggling with teaching their people new roles and how to interact with customers in an omni business way."

Finding the right omni business approach depends on some basic business fundamentals. Where is the company on the journey to becoming an omni business? What is its place in the value chain? Did it start as a brick-and-mortar or a digital business? What is its financial status and appetite for change?

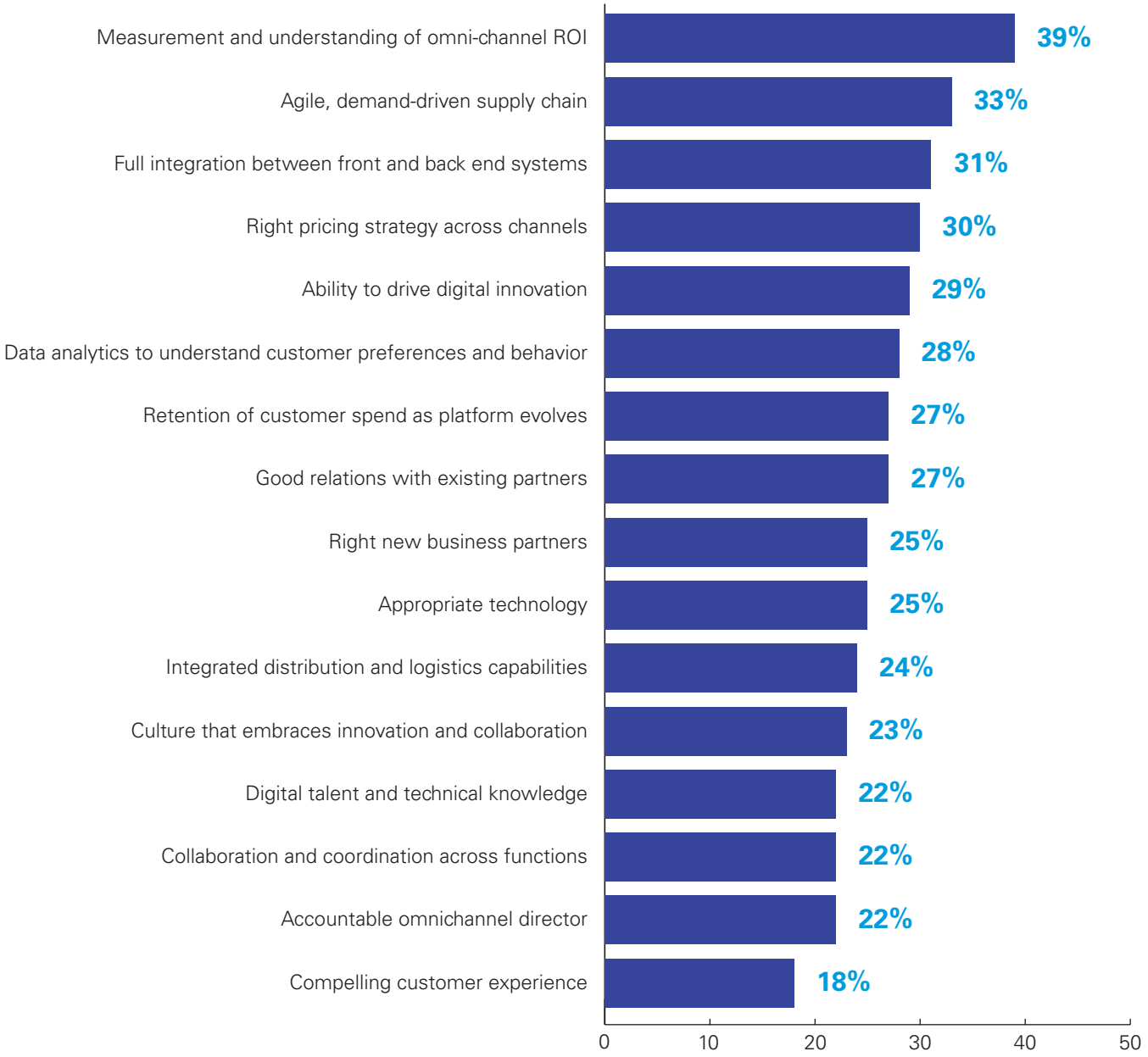
Colleen Drummond, Head of the Innovation Lab at KPMG in the US, says an omni business approach will likely differ for retailers and consumer packaged goods (CPG) companies. "Retailers need a strong digital customer experience or people are going to stop shopping there. Consumers are increasing their use of mobile commerce and if you have a poor mobile experience, they will get frustrated and stop buying from you," she says.

"For most manufacturers, on the other hand, providing a strong digital experience may not be as important," according to Drummond. "However, they will want to know what channels their end customers are using and be sure they have determined the best way to fit into these channels," she says.

Mark Larson, Global Head of Retail at KPMG International, emphasizes that, "Developing a clear plan on how the company will make progress toward an omni business strategy will ensure the buy-in of the entire organization." Given both the potential financial and operational costs involved with any business transformation, being able to measure and understand the ROI of adopting an omni business model is critical to getting the essential top-level support.

Indeed, 39 percent of the omni business leaders ranked the ability to measure and understand omni-channel ROI as a top success factor. The other key factors cited were developing agile, demand-driven supply chains (33 percent), fully integrating the back-and front-end of the business (31 percent), setting the right pricing across channels (30 percent), driving digital innovation (29 percent), leveraging analytics (28 percent) and cultivating good relations with partners (27 percent) (Figure 20).

Figure 20 Success factors for building an omni business



Source: Global Consumer Executive Top of Mind Survey, KPMG and the CGF, 2016

In Hernandez's view, it is the combination of these success factors that sets an omni business apart from its competitors. "The old model was more about the user interface," he says. "Companies would put up websites and mobile platforms and integrate some components, such as online ordering with in-store pickup, but an omni business model goes much further. It entails the complete integration from the front to the back of the house and even to outside partners."

The success factors also vary by the dynamics of the local market. For example, in complex, emerging markets such as China, teaming up with the right business partners can be particularly important, according to Jessie Qian, Head of Consumer Markets for KPMG in China. "Consumer companies coming to China often create strategic alliances with innovative companies that can help them penetrate the market. For companies without the in-house talent, a partnership can be a valuable strategy, because it can be difficult to change the DNA of your own company. Partnerships can help bring in new ideas and business concepts, and help a traditional manufacturer or retailer make the omni business transformation."

> "In complex emerging markets such as **China**, teaming up with the right **business partners** can be particularly **important.**"

Overcoming the obstacles

Of course, building a cohesive omni business is not easy. The omni business leaders surveyed said the biggest challenges they face revolve around having the right technology (33 percent), a culture that embraces innovation (31 percent) and integrated front- and back-end systems (30 percent) (Figure 21).

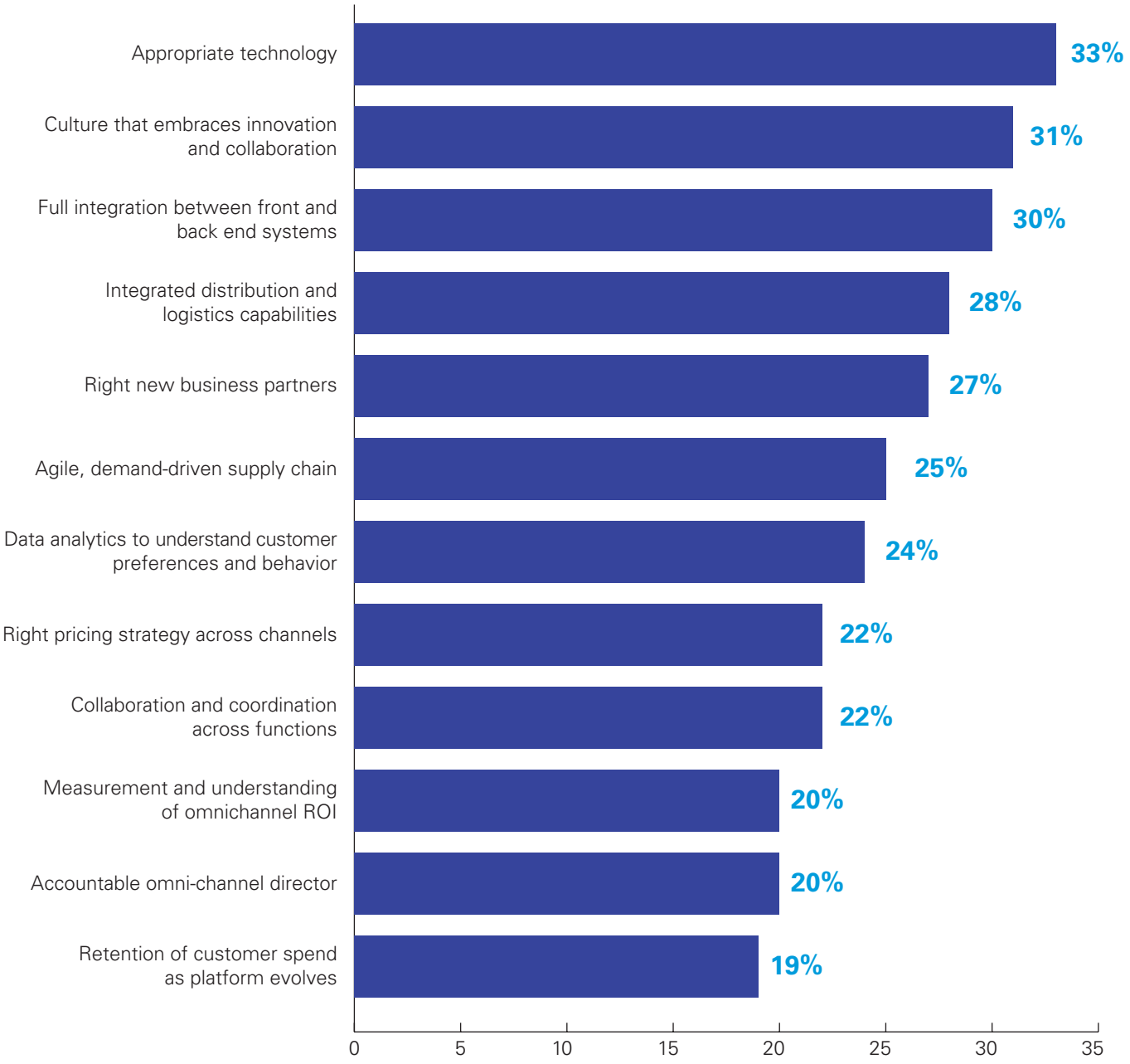
According to Duncan Avis, an Advisor on Digital, Social and Mobile at KPMG in the US, "Developing the capabilities to become an omni business is hard work and companies routinely underestimate the complexity and the cost." The task is made harder because companies must rely on partnerships and alliances. "There are very few organizations these days that manufacture, manage and serve the entire product or experience," says Avis. "Everything is delivered through a set of vendors, distributors and logistics providers. If those partners don't connect to your omni organizational model, then no matter what you promise your customers and consumers, you won't be able to deliver."

While retailers and manufacturers face similar challenges, the survey did indicate that the degree of impact may vary. For example, 32 percent of manufacturers saw integrated distribution and logistics capabilities as a challenge, compared to 22 percent of retailers. Manufacturers also found setting the right pricing strategies across channels to be more difficult (31 percent vs 24 percent of retailers). On the other hand, full integration between the front- and back-end systems was more likely to pose a greater challenge for retailers (31 percent) than for manufacturers (22 percent).

Hernandez thinks the path to becoming an omni business is simpler for retailers. "Other than cost, retailers have less downside to becoming an omni business. But manufacturers are facing some difficult decisions. For example, 'If we go direct, how much do I put my retail distribution at risk?' If you are a CPG executive, you know you need to do it but you may not want to disrupt your traditional retail channels in the process."

> "If [your] partners don't **connect** to your omni organizational model, then no matter what you **promise** your customers and consumers, **you won't be able** to deliver."

Figure 21 Omni business leaders' top ten challenges to building an omni business



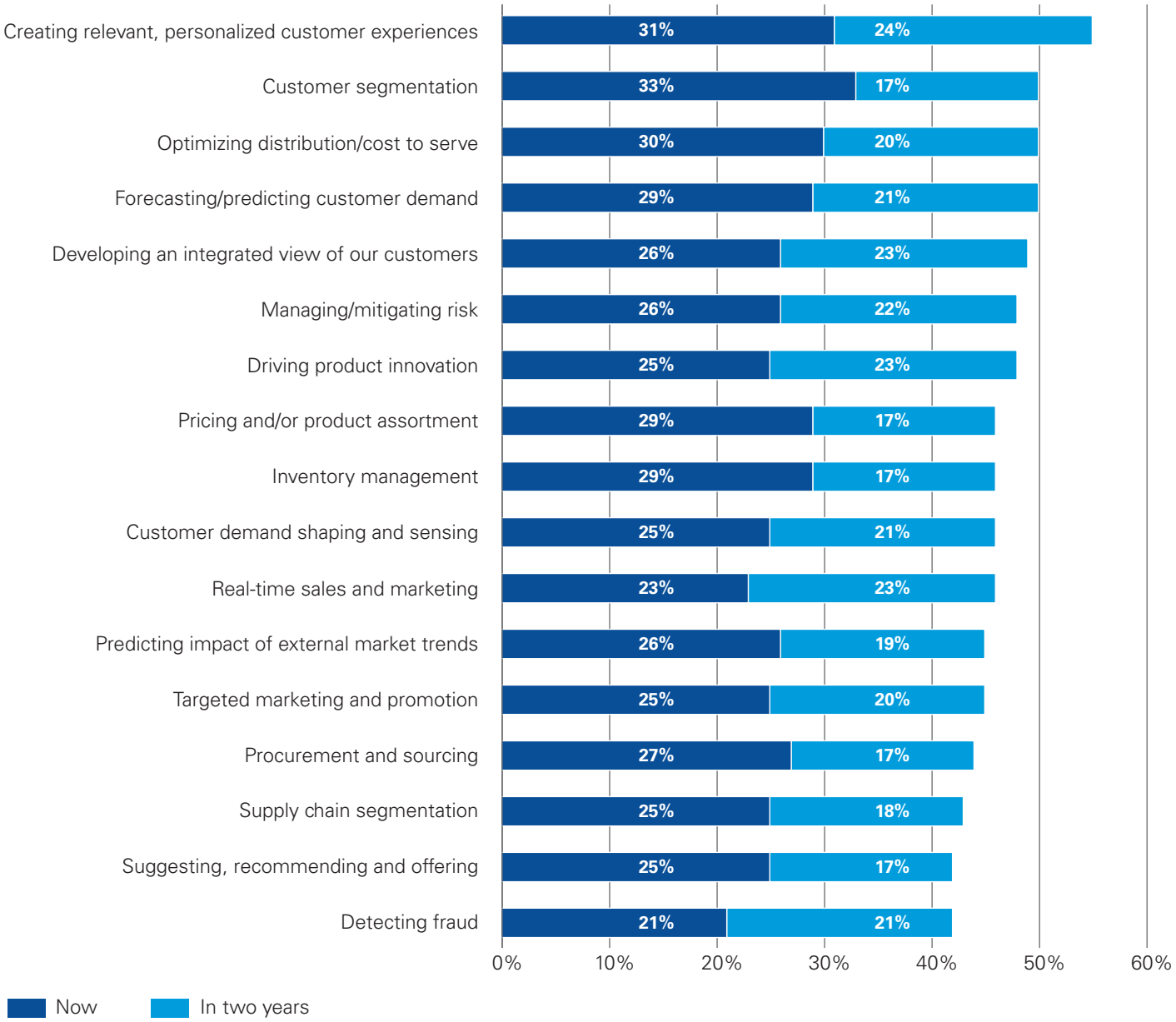
Source: Global Consumer Executive Top of Mind Survey, KPMG and the CGF, 2016

Using analytics to power an omni business model

To improve the performance of business functions and tie them together into a smooth functioning omni business, consumer companies will need to make a step-change in their use of advanced analytics over the next two years. Less than a third of the companies surveyed already use advanced analytics, but in two-year's time, about half of respondents said their organizations will leverage advanced analytics. The range of impacted business activities includes creating personalized customer experiences (from 31 percent today to 56 percent in two years), optimizing distribution (30 percent to 51 percent), predicting customer demand (29 percent to 50 percent), segmenting customers (33 percent to 49 percent) and creating an integrated view of customers (26 percent to 49 percent) (Figure 22).

From personalizing customer experiences to targeted marketing and predicting market demand, today's omni businesses could not function without the use of smart technology and advanced analytics. "Digital technology is the key enabler for any omni

Figure 22 Use of analytics will nearly double within the next two years



Source: Global Consumer Executive Top of Mind Survey, KPMG and the CGF, 2016

business," says Larson. "The necessity of digital technology no longer stops at a company's online or mobile platforms, but it is rapidly becoming integral in the physical store as well as in support of increasingly dynamic supply chains."

"The trouble is," says Hernandez, "organizations have invested in a lot of disparate technologies, some for supply chain, some for the customer, some for the contact center, the mobile app and the e-commerce site. They've made all these investments and now they have to connect all these systems to give their customers a seamlessly integrated experience."

"The infrastructure needs to be harmonized and it must work together, which is going to be a significant undertaking," Hernandez says. "And it's not cheap. Companies have to think about how to earn a profit on their technology investments."

Bill Nowacki, Managing Director, Data & Analytics, KPMG in the UK, says that optimizing the customer journey across channels requires the best analytics. But he believes that companies can use these same analytics for different purposes. Real-time analytics is one example. "Retailers typically use real-time tracking for pushing marketing and making product recommendations. But in manufacturing, especially with bonded items like cigarettes and alcoholic beverages, real-time analytics is used to identify leakage and theft," explains Nowacki.

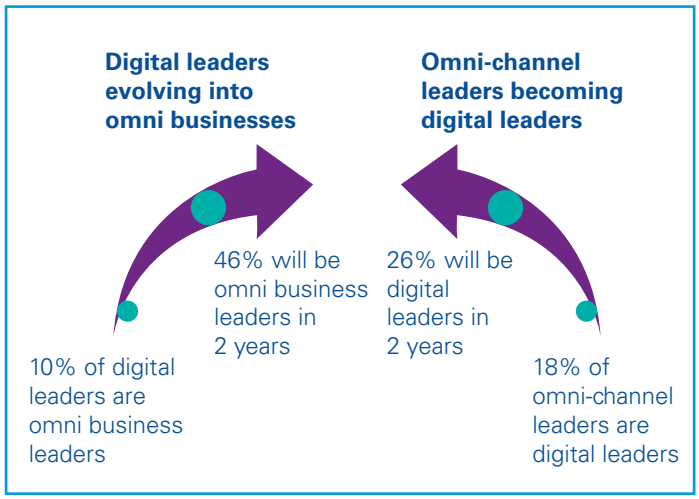
Drummond thinks that digital leaders are in a better position to leverage advanced analytics. "Digital leaders already have the analytics and algorithms built into their business models; it's how they were constructed," says Drummond. "Omni business leaders that are trying to become digital leaders must figure out what to do with analytics and how to weave it in."

Converging models, blurring lines

Indeed, consumer companies that compete against each other can be at very different places along the digital and omni business curve. The KPMG survey results indicated that there are two paths to building a digital-first omni business. At one end of the spectrum are digital-first businesses, those organizations born digital, that build their organizations into integrated omni businesses with both a digital and physical presence. At the other end of the spectrum are the companies that start out as brick-and-mortar businesses and then apply digital technology to create new channels and transform their business models.

As companies progress toward the nirvana of becoming an omni business, the distinction between digital and physical businesses will continue to blur. Ten percent of the digital leaders surveyed are already omni business leaders and 46 percent expect to be omni business leaders within two years. This aggressive growth rate shows that digital leaders understand the importance of extending the number of channels they use to compete and grow their business (Figure 23).

Figure 23 Converging on an omni business model



Source: Global Consumer Executive Top of Mind Survey, KPMG and the CGF, 2016

> "As **companies** progress toward the nirvana of becoming an **omni business**, the distinction between digital and physical businesses will **continue** to blur."

Typically, brick-and-mortar businesses first leverage digital channels for customer engagement, then progress to a full-scale digital transformation. Eighteen percent of the omni-channel leaders are also digital leaders today and 26 percent plan to become digital leaders in the next two years. This relatively slower pace partly reflects the challenge for traditional brick-and-mortar companies, whether manufacturers or retailers, to make the full transformation to a digital-first omni business.

"The process of becoming an omni business is easier for digital-first companies than for traditional and even omni-channel companies," says Hernandez. "Omni-channel companies have to invest in integrating their digital channels with their physical channels. Because digital-first companies don't have the physical channels, it is relatively easier for them to integrate their back-and front-end systems, allowing them to move faster."

"We're seeing digital-only companies coming into the brick-and-mortar space using a flipped business model," says Drummond. "They build their e-commerce platforms and then selectively put up physical stores. At the same time, many traditional retailers develop their digital capabilities through partnerships and acquisitions. In both cases (brick-and-mortar going digital and digital going brick-and-mortar), there's a lot of frenetic activity and massive amounts of money going into the space as consumer behavior continues to tip."

Online eyewear retailer Warby Parker is an example of a born-digital company expanding into brick-and-mortar retailing. The American company started selling low-priced eyewear online in 2010 with the mission of designing glasses in-house and selling them to customers directly. It mails web customers frames to try on before purchasing. The company began opening brick-and-mortar stores in 2013 and today has 30 upscale locations in over a dozen states across the US. The stores provide a halo effect for branding and marketing opportunities that drives online sales. At the same time, the stores are driving sales and profits in their own right, according to the company.

In contrast, 115-year-old Nordstrom illustrates a traditional brick-and-mortar retailer going digital. The Seattle-based company launched Nordstrom.com in 1998 and more recently has made a series of acquisitions recently to complement its brick-and-mortar business. One of those acquisitions is Trunk Club, an online subscription-based business that mails a 'trunk' of outfits to customers based on a survey of their preferences. Trunk Club carries high-end men's clothing from approximately 70 name brands. Shoppers can use Nordstrom's tailors to make adjustments and can return items to the store. Last year, Nordstrom generated 15 percent of net sales online, including Nordstrom.com, Trunk Club and other online channels.

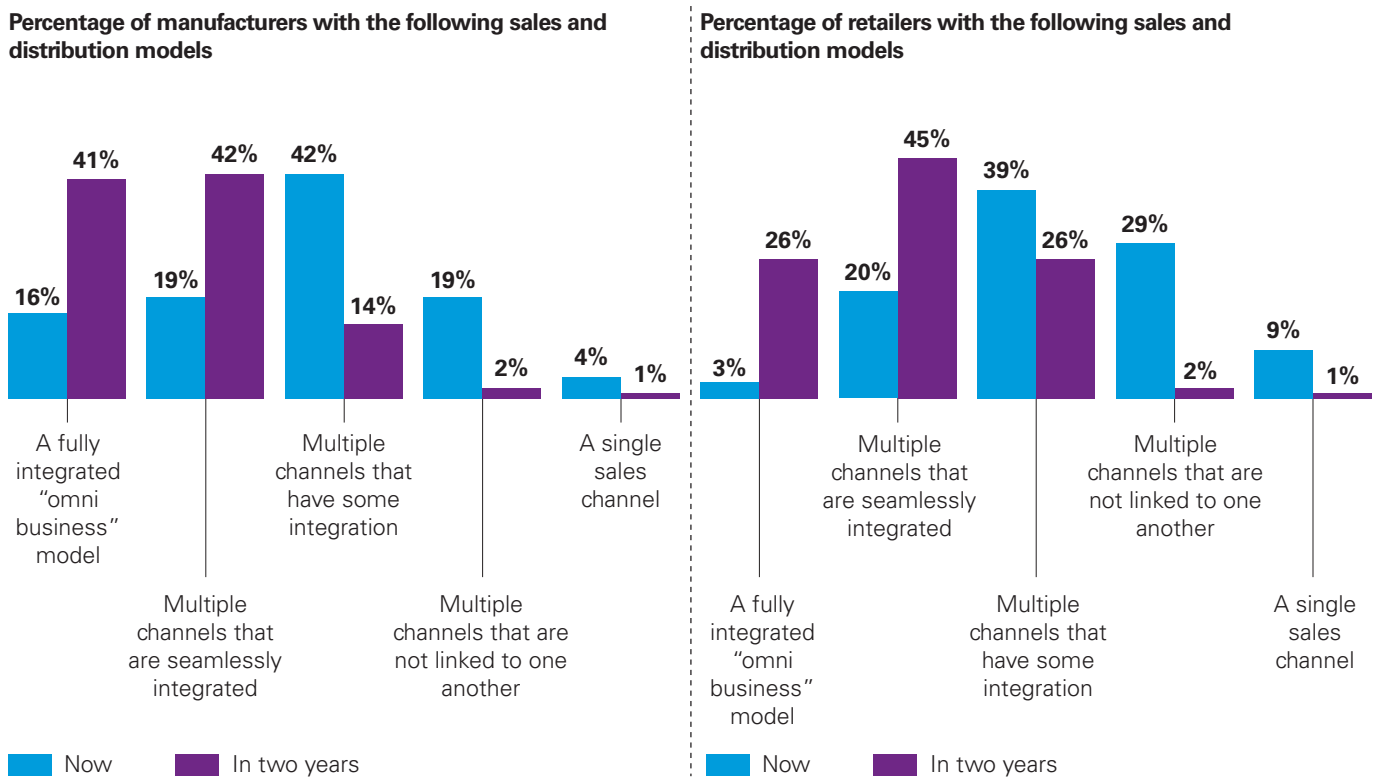
Drummond sees large digital-first companies converging on the omni business model. But there will also be variations on the theme that include digital-only niche companies that focus on the customer experience, where the value proposition is the service rather than the product. "If the value proposition resonates with the target audience, the results can be very disruptive," she says.

Trading places

As companies converge on digital-first, omni business models, the lines of demarcation between manufacturing and retailers are also blurring. Throughout the survey, the responses for the manufacturers and retailers were similar across many areas, from meeting customer needs to setting business priorities. But now, their strategic paths are converging further as they both shift to an omni business approach. By 2018, 26 percent of manufacturers and 41 percent of retailers are planning to morph into fully integrated omni businesses (Figure 24).

"The **process** of becoming an omni business is **easier** for digital-first **companies** than for traditional and even omni-channel companies,"

Figure 24 Both manufacturers and retailers are becoming omni businesses



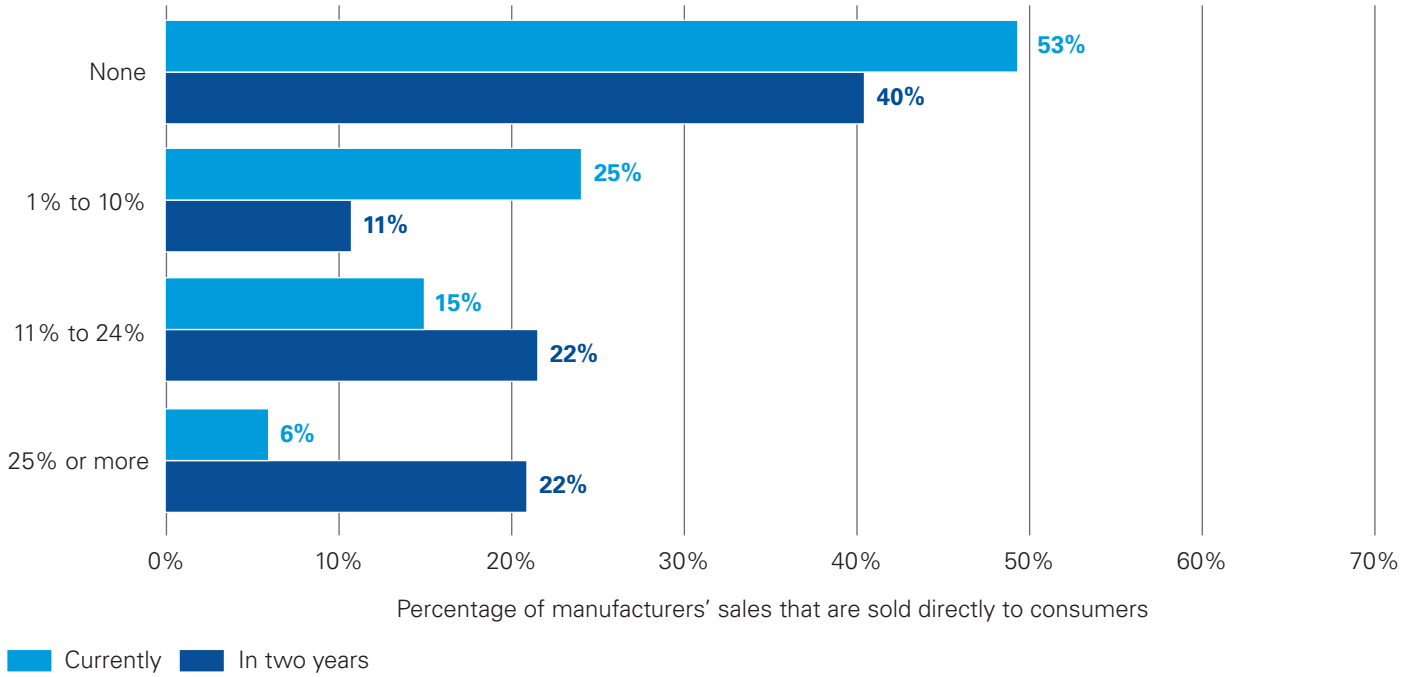
Source: Global Consumer Executive Top of Mind Survey, KPMG and the CGF, 2016

As their business models converge, manufacturers and retailers will increasingly encroach on each other's core business activities. Currently, 45 percent of manufacturers are selling directly to consumers and that will rise to 55 percent by 2018. Likewise, 36 percent of retailers presently manufacture at least some of the products they sell. In 2 years, that will rise to 47 percent (Figures 25 and 26).

"We are seeing momentum in the trend for retailers to manufacture their own products," says Hernandez. "Target, for example, has its own brands now, which are not just white labels, as was historically the traditional practice among retailers. At Costco you can buy Costco chocolate chips or you can select name brand products. Retailers and other retailers are expected to continue to expand their store-branded offerings, typically with greater margins, although they will also continue to offer the name brand products that pull customers in."

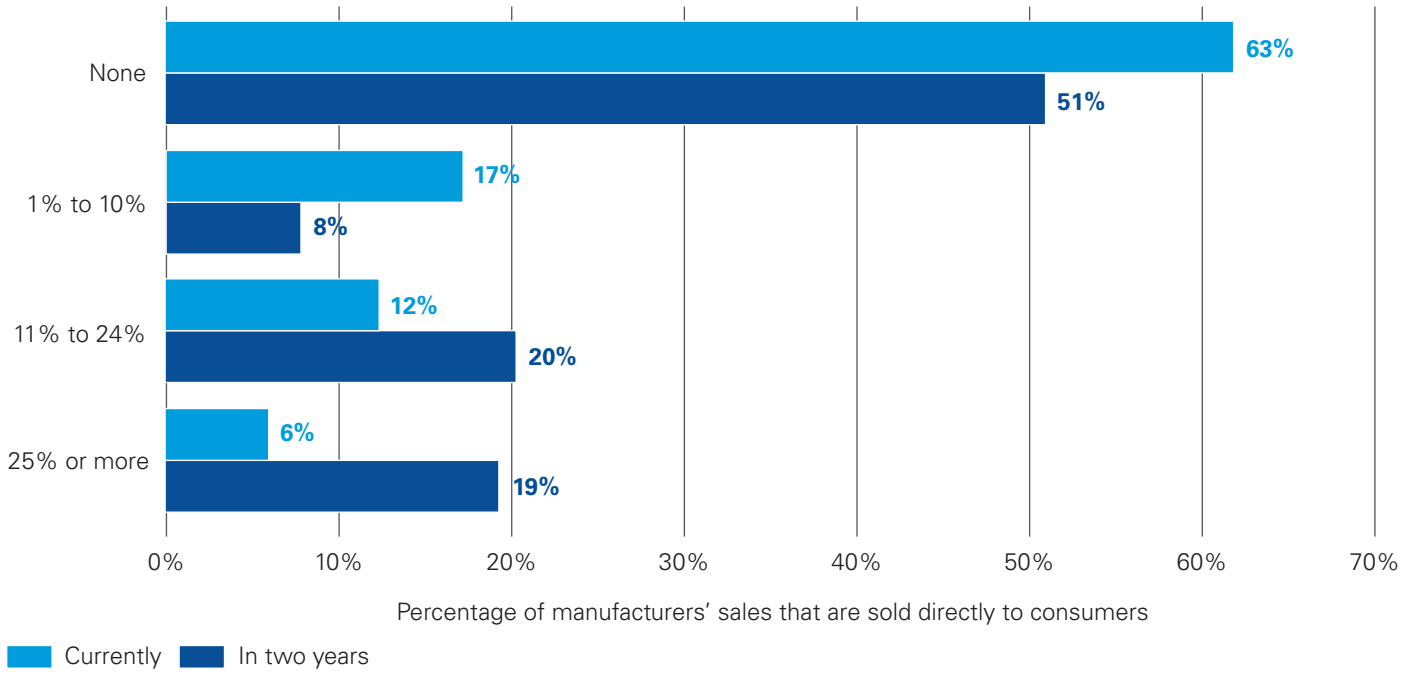
Hernandez believes the pace by which retailers will create their own branded products is sometimes a response to the actions of the manufacturers. If a manufacturer creates a product that is priced too high, customers may want a substitute. Or if the manufacturer increases its direct sales to the consumer, retailers might compensate by creating their own products or adjusting their prices to compete. "Signals come from both sides that determine the competitive response and the collaboration relationship between retailers and manufacturers."

Figure 25 Manufacturers are selling more products direct to consumers



Source: Global Consumer Executive Top of Mind Survey, KPMG and the CGF, 2016

Figure 26 Retailers are selling more store-branded products



Source: Global Consumer Executive Top of Mind Survey, KPMG and the CGF, 2016

Retailers and manufacturers need to work together

Nicholas Griffin, Global Head of Strategy at KPMG suggests that, "The CEOs of manufacturers, retailers and distributors should consider options to work together more closely rather than competing. Disruption has a habit of triggering change that may turn out to have far reaching unintended consequences." Companies creating technology-enabled, omni businesses should bear this in mind.

He reminds companies that ,"The technologies and tools being deployed are widely available and coupled with the emerging trend of sector convergence. It is possible for players from other sectors to enter markets and disintermediate existing relationships because they bring a different mindset, resources, approaches and offers. Collaboration has several benefits. It enhances innovation and stimulates experimentation because it leverages the strengths of each party. The pace may well be faster and the costs can be lower than going it alone. Collaborations are easier to unwind and multiple collaborations create optionality."

In Hernandez's view, manufacturers are justified in having their own retail stores. "If they don't sell direct, how will they get those rich consumer insights? But to avoid alienating their retailers, they have to find an equilibrium point where their direct channel is not too large and the benefits of selling directly flow through to their channel partners."

Larson expects increasing channel conflicts in the next several years between manufacturers and their retail customers. "For many branded consumer product companies or branded food manufacturers, their largest customers are the big box retailers," says Larson. "These manufacturers also want to access the growing online channel. They're forging agreements with online retailers in order to get their products into that channel, but the online retailers are at the same time becoming the bricks-and-mortar retailers' biggest competitors. We're seeing this dynamic developing with the large branded companies today, particularly in the US."

As companies evolve their omni business models, the tensions will wax and wane between manufacturers and retailers and between digital and traditional retailers. "The equilibrium point will change over time," says Hernandez. "If you're a big-box retailer and people are buying more and more online, you have to start closing stores. If a customer really wants to engage with your product or brand, they'll drive the extra few miles."

Case study

Collaboration at the Hershey Chocolate Company

Hershey is very sensitive about preserving a harmonious relationship with its retailers, says Michele Buck. "For us, the vast majority of our sales go through our retail partners. We direct consumers to those retailers. We're tracking consumer behavior on our website and in social media, but we direct consumers to retailer websites to buy," she says.

Even so, Hershey has nine 'Chocolate World' brick-and-mortar stores: four in the US, two in China and one each in Canada, Dubai and Singapore. Buck says these stores are primarily marketing vehicles that provide an opportunity to engage with customers. She explains that, "We also use them to test new store displays and technologies that help shape our thinking more broadly about the retail experience and merchandising solutions. For example, the Chocolate World at our headquarters has an attraction that allows people to create their own chocolate bars."

Hershey's close collaboration with retailers is blurring conventional boundaries. "We are partnering with retailers to develop new solutions," according to Buck. "We are interacting with retailers differently on geo-targeted or location-based messaging and we are partnering with retailers to help them find new ways to sell products. For example, if they have a click-and-collect solution and consumers are now coming into their store to pick up the groceries, then we are helping come up with ideas to maximize sales at the collection point. Likewise, we are partnering with retailers to help them expand their e-commerce businesses."

"**Disruption** has a habit of triggering change that may turn out to have far reaching **unintended** consequences."

Key insights and takeaways

Industry disruption from consumer shifts and technological advances is accelerating the pace of change faster than conventional business processes can react. To keep in front of change, leading consumer manufacturers and retailers are transforming themselves into fully integrated omni businesses, able to respond to the needs of customers across all channels and at any point during their shopping journey. This new breed of consumer business is built on six pillars of operational excellence:

Seamless cross-channel commerce — Omni businesses provide for a seamless customer experience across channels, with cohesive pricing and integrated linkages between digital and traditional channels.

Hyper customer-centricity — Taking customer-centricity to the next level, omni businesses use smart technologies and analytics to target, serve and personalize interactions with a highly segmented customer base.

Digital-first mindset — Digital channels are the first port of call for customers and the fastest way to reach them. Digital transformation enables companies to recast their strategies, processes and business models to achieve higher growth and profitability.

An agile, demand-driven supply chain — The optimal supply chain is fully integrated with the front-end of the business. It has the dexterity to pivot in real-time to respond to sudden shifts in customer demand or market conditions.

Pervasive use of advanced analytics — Omni businesses run on advanced analytics. They use smart technology to enable all parts of the enterprise to work together in real-time to achieve their goals, from tracking customer behavior to predicting market demand.

A culture of trust and integrity — In a market in which customers are better-informed and expect higher standards of ethics, a culture of trust and integrity is essential for doing business. The most successful companies know that trust is the best way to retain customers.

As businesses transition to an omni business model, there will be huge ramifications for the consumer industry. Demarcations among manufacturers and retailers will blur, as will distinctions between brick-and-mortar and born-digital companies. The role of organizations, functional teams and partnerships will shift in the consumer market ecosystem. Companies not already on the omni business path risk falling behind their competitors or dropping out of the race altogether.

Executive calls-to-action

The KPMG survey of 400 consumer manufacturers and retailers around the world and in-depth interviews with executives confirm that an omni business model will be vital to win in tomorrow's consumer industry. The following steps can help consumer companies move towards an omni business model.

Determine the ROI of becoming an omni business

Our study shows that this vital first step is often neglected and can derail omni business plans. Making a business case can be challenging, since an omni approach involves many moving parts and assumptions about future market trends.

To be successful, Erich Gampenrieder recommends a value-based management approach using a value tree to show the impact across a range of value drivers. "The goal is to translate the benefits in a compelling way to make it easy for senior executives to understand the intricacies and give the ultimate sign off," he says.

Accelerate digital transformation to develop a true digital-first mindset

Digital and omni business strategies are inextricably linked. To make the transition to a digital-first company, executives need to think about running their businesses with a digital mindset and develop a digital conception of the business and its operations. Digital-first is not a web or mobile strategy, nor is it a channel strategy. It is a business strategy.

Use analytics to become laser focused on your customers

To be truly customer-centric, companies need to know every nuance of their customers' needs and behaviors. According to Willy Kruh, "That means having the right data, the right tools, the right strategy and the right people." Artificial intelligence and path-to-purchase analytics are particularly important to understand changing customer behaviors and needs.

Pay particular attention to Millennials

"Of all the currents of change running through the consumer marketplace," says Kruh, "Millennials are the greatest disruptor and they have the extraordinary ability to shape consumer behavior." Companies need to build customer experiences targeted at Millennials, make customer communication more personalized, add value-priced products, provide more product information and develop an effective omni-channel approach.

Move to demand-driven supply chain 2.0

To create a next-generation supply chain fit for purpose, companies should take the following five steps:

— Align your supply chain strategy with your wider corporate priorities.

— Be transparent and share information across the supply chain.

— Increase supply chain flexibility (the ability to react to pre-planned scenarios) and agility (the ability to manage the unexpected).

— Structure the supply chain to address local and global competition and evolving government regulations.

— Design the supply chain to be able to meet customer expectations.

Put your trust in trust

"Given what's happening with competition and access to information, trust is the best way to maintain loyalty with your customers," says Peter Freedman. Andrew Underwood recommends six steps to enhance the integrity of your end-to-end systems and to build trust:

— Bring the commercial function and supply chain together to ensure end-to-end traceability.

— Use third-party providers to conduct integrity audits.

— Communicate to consumers about where your products came from and how they were made.

— Build in system resiliency to respond rapidly to disruptions such as contamination, which can be easily traced back to its source.

— Set up demand-sensing processes that enable companies to react quickly to consumer issues.

— Integrate new demand data into existing enterprise resource planning systems and apply advanced analytics, such as sentiment analytics, to understand trends.

Take sustainability to the next level

To deliver greater value in a resource-constrained world, consumer companies should explore new 'circular economy' business models, which includes any of the following practices:

— zero waste and other advanced processes for collecting, treating and recycling resources

— product as a service — selling a service related to the underlying product

— product redesign — making products easier to refurbish or reuse

— next-life sales — in which products are reconditioned and resold

— product life extension — ensuring products stay useful for longer over their life

— collaborative consumption — sharing products and assets

— product buy-back programs — whereby companies buy back products from consumers.

Build an organization to drive change

Transforming to a digital-first omni business requires the right culture, leadership and team. Companies need to take a fresh look at roles, responsibilities and skill sets to build a team that fully understands a company's customers and their changing needs, attitudes and behaviors and with the digital and analytical proficiencies are essential for making the transition to an omni businesses.

Collaborate through communities and partnerships

Today's market disruptions are creating opportunities and challenges that no one company, no matter how big, can deal with on its own. Manufacturers and retailers need to go beyond simple one-on-one partnerships and establish many-to-many collaborations that connect all the parts of their businesses.

This collaboration will enhance innovation and stimulate experimentation by leveraging the strengths of each party. Collaboration with consumers can also drive awareness and loyalty. Through the creation of online, platform-based communities of like-minded consumers and organizations, manufacturers can consult with end consumers about new product ideas or retailers can create physical experiences and offers that cultivate awareness, interest and conversion.

We predict that collaborations will become an increasingly important strategy to accelerate growth and improve agility for customer-centric omni businesses.

About KPMG

KPMG is a global network of professional firms providing audit, tax and advisory services. Collectively, they employ more than 174,000 people across a range of disciplines.

KPMG is organized by industry sector across our member firms. The Consumer Markets practice, which encompasses the Food, Drink and Consumer Goods and Retail sectors, comprises an international network of professionals with deep industry experience. This industry-focused network enables KPMG member firm professionals to provide consistent services and thought leadership to clients globally, while maintaining a strong knowledge of local issues and markets.

We work with consumer and retail clients to help them succeed in the face of a rapidly changing business environment. KPMG's customer, digital strategy, data analytics, cyber security, supply chain management, operations modeling and business transformation practices are a few of the areas in which we have industry-leading expertise and experience, which can help meet the most pressing needs of clients.

For more information, please visit: kpmg.com/FDCG or kpmg.com/retail.

About The Consumer Goods Forum

The Consumer Goods Forum ("the Forum") is a global, parity-based industry network that is driven by its members. It brings together the CEOs and senior management of some 400 retailers, manufacturers, service providers and other stakeholders across 70 countries and it reflects the diversity of the industry in geography, size, product category and format. Its member companies have combined sales of EUR 2.5 trillion and directly employ nearly 10 million people, with a further 90 million related jobs estimated along the value chain. It is governed by its Board of Directors, which comprises 50 manufacturer and retailer CEOs.

The Forum's mission is, 'Bringing together consumer goods manufacturers and retailers in pursuit of business practices for efficiency and positive change across our industry, benefiting shoppers, consumers and the world without impeding competition'. It provides a unique global platform for the development of global industry processes and standards as well as sharing best practices. Its activities are organized around the following strategic priorities: sustainability, product safety, health & wellness and end-to-end value chain & standards, each of which is central to better serving consumers.

The Forum's success is driven by the active participation of its members, who together develop and lead the implementation of best practices along the value chain. With its headquarters in Paris and its regional offices in Washington, D.C. and Tokyo, the Forum serves its members throughout the world.

For more information, please visit: www.theconsumergoodsforum.com.

Acknowledgements

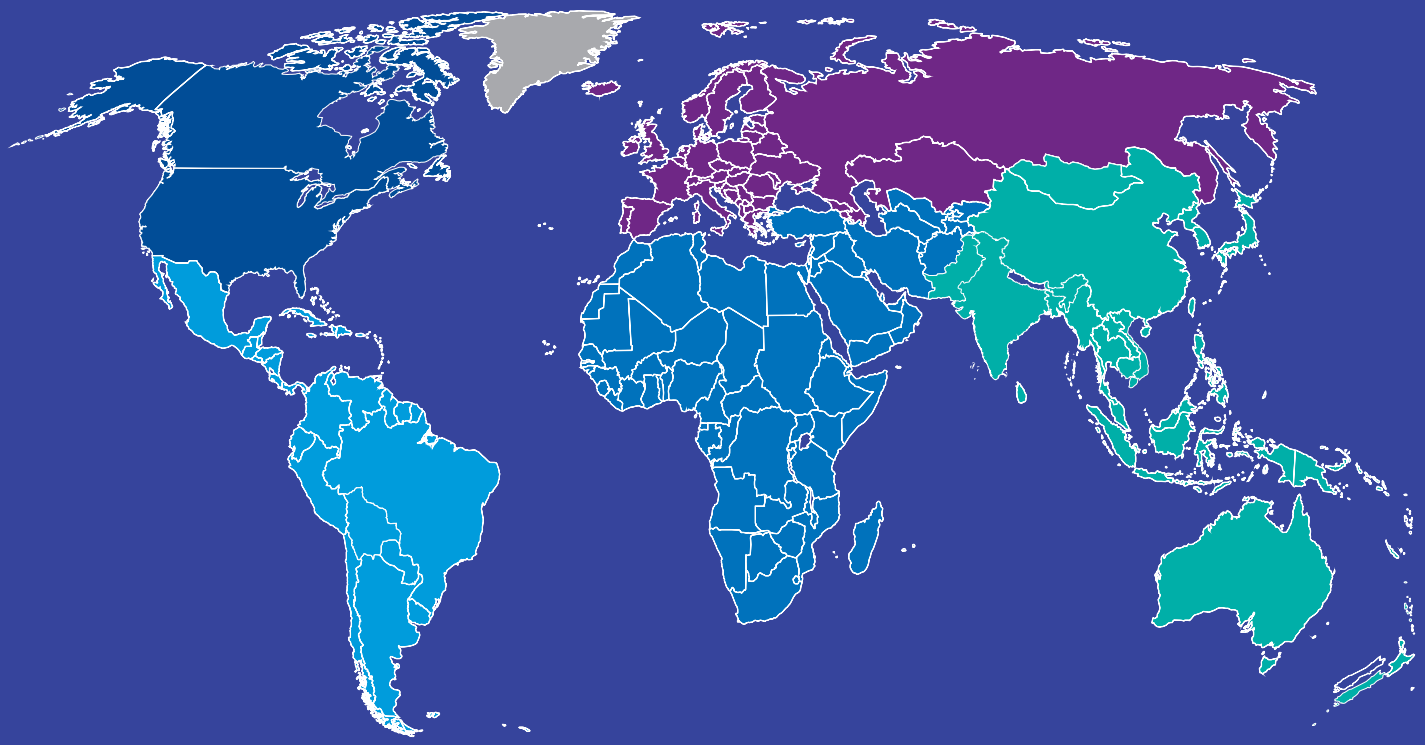
We greatly appreciate the participation of the executives who completed our survey, particularly the following executives whom we interviewed: Gareth Ackerman, Pick n Pay Stores Limited; Jerry Black, Aeon; Michele Buck, The Hershey Company; Caroline Laurie, Kingfisher and; Dave Stangis, Campbell Soup Company.

We would also like to thank the many people from KPMG and The Consumer Goods Forum who contributed to this report, including Duncan Avis, Colleen Drummond, Peter Freedman, Erich Gampenrieder, Ignacio Gavilan, Nicholas Griffin, Julio Hernandez, Jeanne Johnson, Willy Kruh, Mark Larson, Bill Nowacki, Jessie Qian, Andrew Underwood and Rajat Wahi, as well as Lou Celi and his team at Roubini ThoughtLab who conducted the research.

About the survey

The survey was conducted by telephone and online during January and February of 2016. A total of 400 executives from companies headquartered in 27 countries participated in the survey.

Ninety percent of the respondents are C-suite or above, one-third of which are CEOs, Presidents or Board Directors. The primary business of the companies surveyed is manufacturing (48 percent) or retail (51 percent) in the food, drink and consumer goods sectors. Ninety percent have annual revenues over US$500 million, and 17 percent have revenues exceeding US$5 billion.

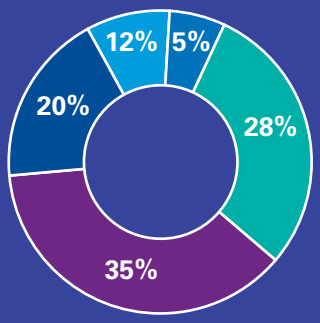


Company headquarters

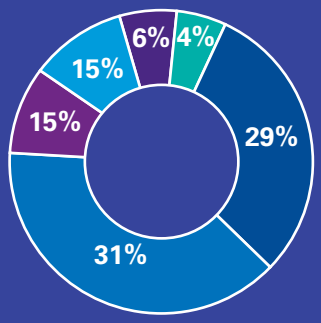
- Northern America
- Europe and Russia
- Africa/Middle East
- Latin America
- Asia Pacific

Executive calls to action

Company Headquarters

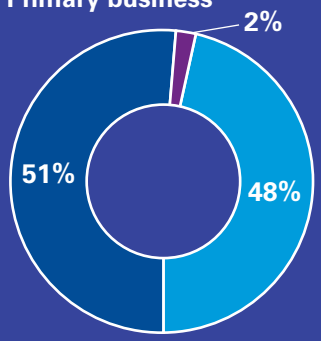


- Northern America
- Latin America
- Middle East and Africa
- Asia Pacific
- Europe



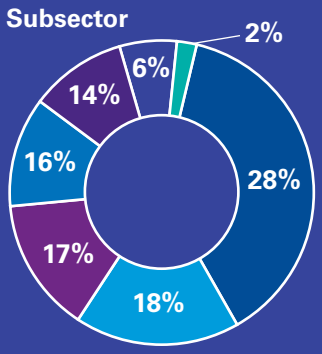
- CEO/President/ Board member
- Other C-Suite
- Chief Informaition/ Technology Officer
- Chief Financial Officer
- Senior VP
- Other

Primary business



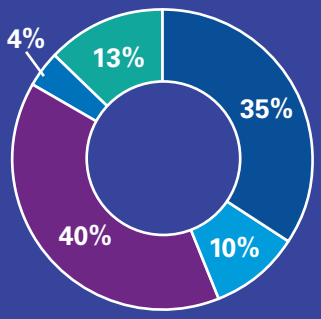
- Retail
- Distributor
- Manufacturing

Subsector



- Food or beverages (non-alcoholic)
- Durable goods
- Non-durable goods
- Diversified
- Apparel and/or footwear
- Alcoholic beverages
- Other

Annual revenue



- Over $20 billion
- $5 billion–$19.9 billion
- $1 billion–$4.9 billion
- $500 million–$999 million
- Less than $500 million

Contact us

KPMG International

Willy Kruh
Global Chair, Consumer Markets
KPMG International
wkruh@kpmg.ca

Mark Larson
Global Head, Retail
KPMG International
mlarson@kpmg.ca

Dan Coonan
Global Executive, Consumer Markets
KPMG International
daniel.coonan@kpmg.co.uk

Elaine Pratt
Global Head of Marketing, Consumer Markets
KPMG International
epratt@kpmg.ca

The Consumer Goods Forum

Peter Freedman
Managing Director
The Consumer Goods Forum
p.freedman@theconsumergoodsforum.com

Isabelle Odesser
Director of Marketing and Communications
The Consumer Goods Forum
i.odesser@theconsumergoodsforum.com

Ignacio Gavilan
Director of Sustainability
The Consumer Goods Forum
i.gavilan@theconsumergoodsforum.com

Tanja Kunz
Senior Manager,
Marketing & Membership Services
The Consumer Goods Forum
t.kunz@theconsumergoodsforum.com

kpmg.com/socialmedia

kpmg.com/app

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2016 KPMG International Cooperative ("KPMG International"), a Swiss entity. Member firms of the KPMG network of independent firms are affiliated with KPMG International. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm. All rights reserved.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.

Designed by Evalueserve.

Publication name: Seeking customer centricity: The omni business model

Publication number: 133663-G

Publication date: June 2016