Think like a start-up

How to grow in a disruptive market

2017 Global Consumer Executive Top of Mind Survey

kpmg.com/cmsurvey

growth

"Revolution is just around the corner"

Willy Kruh explains why businesses must respond to geographic, demographic and technological changes to survive

Our fifth annual Global Consumer Executive Top of Mind Survey reveals that 35 percent of respondents have experienced growth of 6 percent or more a year. This is great news for them. But for manufacturers and retailers across the globe to achieve comparable – or better – results, the key is understanding that growth is as much a mindset as a market condition. Companies that manage change by becoming customer centric throughout their operations can accelerate growth.

I see three revolutions coming. First, a geographic revolution. Heading towards 2030, the bulk of the global consumer base will be a billion new customers from China. The second is demographic. As digital natives, today's consumers are driving online sales. The 'Do It For Me' generation wants something that gets the job done efficiently and effectively – even if it makes a larger impact on their income. So enhancing customer experience is crucial. The third revolution is technological. In the age of the smartphone, ensuring customers can buy what they want, when they want is vital.

Businesses need to use data and analytics wisely to understand their customers. The pace of social, economic, technological and environmental change is only going to accelerate, and adapting to it – being agile – is key. The bigger you are, the tougher it is to be agile, but there is a real opportunity for those who dare to lead the pace of innovation. Companies that evolve, innovate and truly understand their Millennial employees and customers will likely succeed, be they old or new, large or small.

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"Consumers want authenticity"

Peter Freedman says engaging consumers and building brand loyalty is all in the narrative

Start-ups have successfully disrupted the consumer goods industry because they have been able to understand consumer trends. Yet their success has spurred established players who, it's fair to say, are all now obsessed with increasing the pace of change.

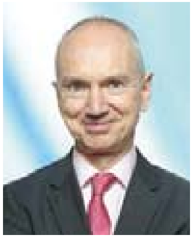
Today's consumers want instant gratification, as well as a narrative or story behind the products they buy that resonates with them. Consumers are looking for authenticity – products that have been created by a couple of individuals whose names they know, and are produced in a certain place.

In some ways, smaller start-ups have an easier ride when it comes to creating authenticity. One of the challenges for established brands is that there are some negative associations when it comes to big business, but even they can build trust by being transparent about their products.

In a world where people have less time to engage with a multitude of brands, social media plays a big part in getting that message of authenticity across – word of mouth being arguably the strongest advocate of a product or service.

There are still ways to build brand loyalty in a market where heritage is no longer as important as relevance, but of course you need to be able to innovate at least as fast as your competitor.

Whatever narrative you choose, it needs to tap into what's most important to your consumers. Identifying those trends and picking the ones that will provide a sustainable business opportunity is the key to success.



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What do high-growth companies in the consumer goods and retail sector have in common?

36%

rank consumer trust and loyalty as their number one priority

43%

have full integration across their supply chain

69%

are successfully using data analytics to predict consumer behavior and preferences

39%

believe competition from new entrants will be the biggest industry disruptor

Customer centricity

How customer centric are you?

The need to win and keep consumers still dominates the agenda for many manufacturers and retailers. The results of the 2017 Top of Mind Survey show that customer loyalty and trust remains the top priority for 33 percent of respondents, but there is clearly work to be done. The industry's leaders recognize the challenge: 39 percent admit that, when it comes to personalizing the customer experience, their company's capabilities are only poor to fair.

In a hyper-competitive marketplace, where industry leaders identify changing customer preferences as their biggest concern, the rewards for getting it right are significant. The survey results showed that companies with the strongest customer centric capabilities – including data analytics, supply chain agility or customer engagement – were also more likely to have higher revenue.

Read more on p8

"Understanding how consumers are changing and how your brand can serve them goes back to the power of data."
Julio Hernandez,
KPMG International

Changing consumers

What do consumers want?

Consumers are more unpredictable than ever as Millennials become the critical demographic for manufacturers and retailers.

Companies have never been able to access as much consumer data, yet many are still grappling with how to turn this knowledge into actionable insights. Some point to consumers' shrinking attention spans, while others to increased choice (a factor in almost every sector).

Consumers are more likely to pay heed to influencers on social media – 82 percent say they would follow a recommendation made by a micro-influencer, which means that they probably have as much say in defining the perception of a brand as the company itself.

Understanding consumers and capturing their attention is exponentially more complex than it used to be – and companies need clarity about their offering to the market. The upside is that the far richer interaction with consumers can help businesses get it right.

Read more on p20

"The key challenges facing businesses today focus on understanding these shifts in consumer tastes and influences."
Joel Benzimra, KPMG International

Supply chain

Can your supply chain deliver?

Companies are still dissatisfied with the speed and efficiency with which they develop, manufacture and deliver products – and that is clearly revealed in this survey. These concerns reflect the fact that too many supply chains remain driven by product – rather than demand – and are not aligned closely enough to the business's strategic goals.

Yet by moving towards a genuinely demand-driven supply chain, companies can boost sales, cut costs and reduce inventories. This will also make it much easier to embrace the technologies that are already starting to transform the industry and the supply function, especially robotics, virtual reality and artificial intelligence.

Read more on p36

"In the future, every part of the supply chain will rely on artificial intelligence, because the network of AI systems will design the supply network."
Erich L. Gampenrieder, KPMG International

Automation

Will automation make the difference?

Artificial intelligence, mobile computing, cloud computing, the internet of things and robotics are transforming how companies develop, produce and sell goods. This is the start of a revolution which will, over the next few years, see robots deployed across the industry, significantly impacting its cost base.

Yet there are challenges that AI and machine learning need to deal with right now. Although four out of 10 companies say they are using AI to improve customer service, for many companies online shopping is still far from frictionless.

The enormous potential of these technologies will only be fulfilled if manufacturers and retailers overcome the obstacles that have hindered the application of new technologies in the past – lack of clarity about internal ownership, confusion about best strategic use, and failure to grasp the infrastructural challenges.

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"A key question when implementing automation is who is the logical owner of it within the organization."
David Neely, KPMG in the US

Disruption

How do you plan for disruption?

There is more to disruption than Uber. The consumer industry is operating in an environment where economic growth will remain subdued, geopolitical tension is high and consumer trends, shopping channels and media are all fragmenting.

Yet many companies, this survey suggests, are going back to the future, relying more on historical sales data than fresh insights into consumer behavior. That mindset is changing with such companies as L'Oréal, Metro, Grupo Bimbo and PepsiCo challenging themselves by asking: how would we disrupt our business?

Strategically, disruption is a challenge for every business in the consumer sector, be they manufacturers or retailers. Larger global concerns may find uncertainty easier to manage, but history suggests that in the 21st-century consumer marketplace, it's harder than ever for businesses to bounce back when they've lost a competitive advantage. For many CEOs, taking volatility out of the business is a key goal.

Read more on p62

"Disruption is not a word you hear often in the Chinese consumer industry. Change is happening faster, and on a greater scale, here than in any other market."
Christoph Zinke,
KPMG in China & Asia Pacific

Thought leaders

For more in-depth insights, read our exclusive interviews with these global business leaders

Mike Coupe
CEO, Sainsbury's **p16**

Greg Creed
CEO, Yum! Brands **p18**

Roberto Meir
CEO, Grupo Padrão **p31**

Brian Newman
Executive Vice President, Global Operations, PepsiCo **p32**

Stefano Pessina
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CEO, Grupo Bimbo **p74**

Are customers really at the center of your business?

By creating a customer centric business, you can decide where to play, what to do and how to win – and be better placed to deliver the growth that stakeholders expect

"The purpose of business is to create and keep a customer," observed management guru Peter Drucker in the 1950s. For manufacturers and retailers serving the consumer, that mission remains, it's just that creating and keeping customers has become significantly more difficult in the past 60 years – and particularly in the past five. Companies have not been complacent, pumping billions of dollars into customer service programs – but is the investment really paying off?

The American Customer Satisfaction Index (ACSI) suggests that these investments have, at best, incrementally improved the customer's experience. In the third quarter of 1994, when the ACSI started, the overall figure across the whole US economy stood at 74.8. At the end of 2016, it had risen slightly to 76.8. For some consumer products – notably apparel, food manufacturing, personal care and cleaning products and soft drinks – satisfaction had actually declined marginally over that period. The ratings for breweries were the same at the end of 2016 as in 1994, while customers had become slightly more satisfied with supermarkets and department stores.

To be fair, consumer goods and services' satisfaction scores were not untypical. The industry that most dramatically improved its ratings was cellphones – up from 69.0 in 2004 to 79.0 in 2016. Yet that improvement in satisfaction has leveled off, increasing by only three points in the past five years.

The ACSI is only one metric – although, in broad outline, the findings are mirrored by its UK equivalent – but does it show that the industry's investments have not delivered the anticipated return? Or that customers are much harder to satisfy? Probably both.

Many consumer industry executives say that customer expectations are increasing, becoming more complex, changing more quickly and are often harder to fathom even than they were a few years ago. Sensing the signals of change isn't easy if you continue to see the market through the traditional lens. Consumer goods companies need to take a broader, more holistic view, that takes into account changing demographics, behaviors, expectations and values and the patterns of start-ups and VC investments to deepen their understanding of the future of their business, their sector and their customers.

SPEED TEST
Around 42% of Australia's mobile shoppers say slow delivery puts them off buying online, according to a PayPal study

One of the difficulties is that the pace of change – even in terms of consumer preferences – varies enormously from sector to sector. Mike Coupe, CEO of Sainsbury's, concedes that the supermarket sector has seen more than its fair share of disruption, but points out: "Customers are shopping around more because there are more shops, more choice and some strong online players. At the other end of the spectrum, the top ten products we sell today are the same as they were ten years ago. Chicken tikka masala is still the best-selling ready meal in the UK, as it was ten years ago. Chicken breast fillets are still the top-selling item – as they were ten years ago. What people buy is not changing anything like as fast as where and how they're buying it."

Retaining customer loyalty

Yet in an uncertain marketplace, even iconic brands and retailers are vulnerable – a fact their leaders seem to recognize. The 2017 Top of Mind Survey shows that customer trust/loyalty remains a top three priority for 33 percent of companies over the next two years. Nearly three out of four executives identified this area as very to critically important to the success of their business. The other top-ranking priorities were product and pricing strategies (29 percent) and customer experience (26 percent). In comparison, such previously hot issues as talent management, geographic expansion and social and environmental responsibility were a priority for less than 20 percent.

Brand loyalty is a particular concern because, as the 2017 Edelman Trust Barometer shows, distrust of business has seldom been higher. Brands have not been immune to this skepticism, with studies showing consumers have less faith in them, don't trust them to handle their data and are more cynical than ever about the traditional forms of advertising that are used to promote them. One intriguing finding from the Top of Mind Survey is that only 56 percent of executives in China considered brand loyalty/consumer trust as a key issue. This does not necessarily mean they are ignoring

Issues of critical importance to company's success

FOOD FOR THOUGHT
In 2016, spending on food accounted for 17% of monthly incomes in China, according to Credit Suisse's research

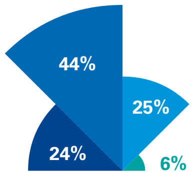
YOUTH CLUB
India has more Millennials than any other country in the world. The UN estimates that more than 356m Indians are aged 19-34

NET GAINS
In China and South Korea, one fifth of apparel and footwear sales are generated digitally, says Mintel

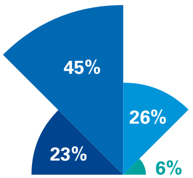
How companies assessed their capabilities linked to customer centricity

- Excellent
- Good
- Fair
- Poor

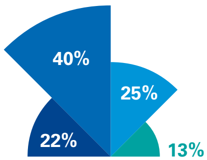
Being personally engaged with our end-customers/users



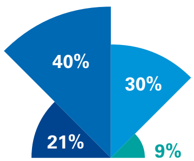
Providing a compelling customer experience



Using data analytics to predict customer preferences and behaviors



Offering customization and personalization



Source: 2017 Top of Mind Survey, KPMG International and CGF

the challenge – it could be that they recognize that brand loyalty is just weaker among Chinese consumers than in some developed markets.

The suggestion that "The customer is king" is one of the oldest marketing mantras, but this is not the same as actually having a customer centric organization. As **Julio Hernandez**, Global Head of Customer, KPMG International, says: "Many companies define their customer strategy with a slogan – and underpin that with a few key attributes. But they still fall into the trap of focusing on what they can sell to the customer – not what the customer wants to buy from them."

KPMG's research suggests that truly customer centric organizations have a number of common characteristics. They are more likely to:

- collaborate with partners/suppliers
- embrace a culture of innovation and collaboration
- personally engage with end-users/customers
- use social media to promote their brand and engage with consumers
- drive digital transformation throughout the business
- have an agile, demand-driven supply chain
- invest in the right technologies
- provide a compelling customer experience
- have an effective pricing strategy across channels
- use data analytics to predict customer preferences and behaviors.

For the purposes of this research, firms with "excellent" capabilities in 7 or more of these areas were considered to be more customer centric.

How to transform your company

In terms of corporate evolution, Ranjay Gulati, Professor of Business Administration at Harvard Business School, has identified four stages in the journey to customer centricity. Initially, companies are product-driven, focused on the excellence of their technology, with a diffuse understanding of their customers. Once they start investing in market research, they acquire a basic understanding of their customers and can begin to target them in a much more segmented way, but the research they have is not used to influence product development or inform strategy. This is the stage at which many companies become complacent, thinking they are 'customer centric' because they know more about their customers. One large US consumer electronics retailer offers striking proof of this tendency. Management thought they knew their customers pretty well and were shocked to discover that 55 percent of their customers were women – and they didn't like the in-store experience which, given that the shops had been designed to suit men, was understandable.

Organizations only begin to become genuinely customer centric when they turn insight into action and shift their focus from selling products to solving customer problems. This, Gulati suggests, may lead businesses to become agnostic about whether they produce all the outputs needed to solve customers' needs and develop an eco-system of partners and collaborators to meet demand. The return on investment for this kind of corporate transformation is, Gulati's research suggests, both clear and dramatic. Between 1999 and 2007, his study of 500 companies showed that those with a deeper commitment to customer centricity grew sales by 233 percent, rather than the 10 percent achieved by the typical company in the Standard & Poor's 500. The Top of Mind Survey also shows a clear correlation between high growth companies, and their level of customer centricity.

With that kind of ROI – and the realization, reflected in last year's Top of Mind Survey, that companies need to become customer centric, why have so many businesses found this goal difficult to achieve? One reason is that too many companies focus on a single customer metric – the Net Promoter Score (NPS) is particularly popular – as if this is a magic formula that guarantees success. The need for clarity and focus – particularly during times of great organizational change – is understandable, but executives need to put such data into a broader, subtler context. Knowing that a customer is satisfied is useful, understanding why they are satisfied – and applying that knowledge – can help transform the business.

Customer centric organizations are less likely to regard customer metrics as mere market research and more likely to use them as critical performance data that shapes strategies, tactics and decisions. To do this ▶

X APPEAL

Generation X shoppers (born between 1966 and 1981) make 19 online transactions a year, KPMG research shows

successfully, these organizations need to ensure that customer centricity infuses the entire operation – their supply chains and logistics departments as much as sales or marketing. New technologies and data analytics can help businesses do this – indeed the Top of Mind Survey shows that customer centric companies are significantly more likely to have adopted cloud computing, advanced data analytics, e-commerce and mobile commerce than most companies – but ultimately an organization's culture may have the decisive say.

As Stefano Pessina, executive vice-chairman and CEO of Walgreens Boots Alliance, says: "I have always tried to make every company I've managed – or am managing – customer centric. The big challenge is changing people's mindsets and that doesn't happen overnight. People have to actively believe this, and consequently they will behave and work in accordance with that belief." L'Oréal has a similar stance – its leaders emphasize that listening to the market is not the prerogative of any one program, department or level of management, but is a responsibility shared throughout the organization.

Customer centricity programs can fall short for a variety of reasons. Organizations may operate in silos, with customer service championed by some functions which cannot influence other parts of the business. The programs can be stalled or dropped because leaders can't see the return, lack the bandwidth to drive the transformation properly – or because they are too focused on short-term sales and revenue metrics. Often, businesses don't have the IT they need to do the job – or don't know how to use the technologies – an obstacle that becomes apparent when they try – and fail – to map the customer journey across different channels.

Mark Larson, Head of Consumer & Retail, KPMG in the US, says: "KPMG has identified eight key areas of focus – they run all the way from product pricing, customer strategy and experience down through the supply chain, technology, data analytics, organizational alignment and people capability – that are critical to an exceptional customer experience and to enable growth for today's consumer companies.

"Most organizations are focused only on a few, but the higher performing ones are investing in most of those capabilities and they are among the more successful enterprises."

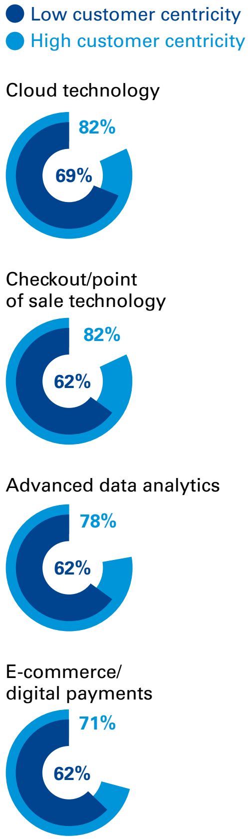
The HR aspect of the transformation is often overlooked. Olaf Koch, CEO of German wholesale group Metro AG, says dissatisfied staff are unlikely to lead to satisfied customers: "In my view, the relationship between employee engagement and customer satisfaction isn't linear, it is exponential." Measuring that engagement is, for Metro, a key metric driving customer centricity. "Many good strategies," Hernandez says, "fail because the message doesn't cascade down through the organization – and people don't really understand how to apply it in their everyday jobs."

One of the challenges is creating a culture that genuinely hears what consumers are saying, as opposed to what the organization would like them to be saying. As Roberto Meir, CEO of Brazilian media agency Grupo Padrão, says, this problem is even more acute in a digital age: "Doing business in the light of day, naked, is much more difficult. Today's consumers want to be engaged – which means it's not just about what you want, the brand also belongs to the consumer." Meir says that part of the problem, particularly at large corporations, is that it is often unclear who has internal ownership of the customer. This may explain why some organizations have started appointing Chief Customer Journey Officers (CCJOs).

Understand your data

The trend for expert consumers – also known as influencers and key opinion leaders – who become virtual co-owners of the brand, is particularly prevalent in China. **Dr Christoph Zinke**, Leader of KPMG's Global Strategy Group in China and Asia Pacific, says: "The key opinion leaders, on social media platforms such as WeChat, have large followings – a couple of million is not exceptional – and immense power. Manufacturers and retailers want to use these channels to reach consumers but it is expensive and also, to some degree, difficult because they are putting their brand in the hands of people they don't know that well." Yet the opportunity provided by WeChat – a platform which claims to offer 95 percent of global luxury brands and process 1 million transactions per minute – is too vast for companies to ignore.

Which technologies companies are most likely to be using

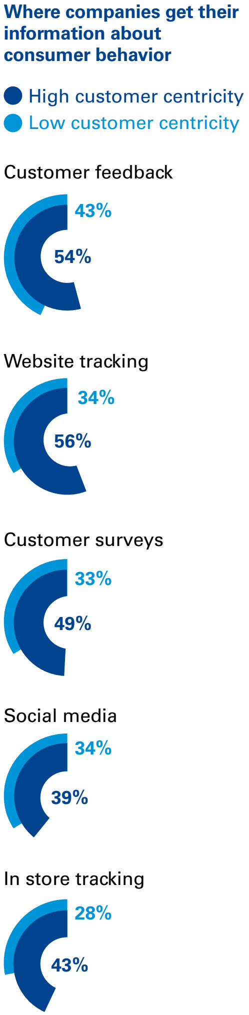


Source: 2017 Top of Mind Survey, KPMG International and CGF

SOCIAL SELLING

Chinese social media app WeChat estimates that 200m of its 800m users have linked payment cards to their account. One in three users spend more than $34 a month via the app

MEAL DEALS
Nearly six out of ten US Millennials use food delivery services every month, according to an American Express study



Source: 2017 Top of Mind Survey, KPMG International and CGF

Digital start-ups – where data is part of the infrastructure of their business – may find it easier to obtain a clear sight of the customer. **Liz Claydon**, Head of Consumer & Retail at KPMG in the UK says: "Organizations need to have a single view of the customer and understand what they need through whichever channel they engage with you on. That comes down to really clever data technology and analytics. The big global companies can struggle with the complexity of the systems and the sheer amount of data they've got, which makes it harder for them to be as flexible and adaptable as a start-up – yet many big brands get it and know that they've got to get better at it."

That realization is reflected in the Top of Mind Survey, which found that 39 percent of companies rated their ability to deliver a personalized customer experience as only 'fair' or 'poor', 38 percent felt the same about their data analytics capabilities to predict consumer behavior and one in three were not confident in their ability to continuously monitor customer engagement.

Peter Freedman, Managing Director of The Consumer Goods Forum, says these "remarkably honest" findings reflect the reality of a disrupted market. "The fact that so many disruptive companies are growing shows that, by definition, they're appealing to consumer needs and have spotted those before some of the established players who may find it hard to discern what's important in what is a lot of noise." The survey findings also suggest, as Freedman says, that most companies recognize the urgency: "Established companies, particularly when it comes to manufacturing, branding, R&D and retail do have some huge advantages over start-ups and almost everyone I speak to has woken up to the need to respond to consumers more quickly and are absolutely obsessed with increasing the rate of change."

Larger businesses can learn to be agile

The idea that persuading large corporations to change is as easy as teaching elephants to dance has become something of a cliché – one which some global players are now disproving. L'Oréal has turned expert consumers into co-creators to launch Colorista, a hair color range for Millennials, through NYX, the professional make-up business it acquired in 2014. This success was not the work of a moment. Seven years ago, the group's CEO Jean-Paul Agon talked to some friends about the future of digital technology and realized that, as he put it, "a tsunami was coming". He declared 2010 "the digital year" and, even though he admitted that not many of his staff knew what that meant, it triggered a host of digital initiatives. In 2016, six years after Agon mobilized the company, L'Oréal's e-commerce revenues grew by 33 percent .

PepsiCo has successfully mobilized to manage its own 'tsunami': meeting increased customer demand for healthier foods. Though synonymous with fizzy soft drinks and cheese-flavored snacks, the company now generates 45 percent of revenue from what it calls "guilt-free" products. These include everyday nutrition products with nutrients like grains, fruits and vegetables, or protein, plus diet beverages and other beverages with 70 calories or less per 12-ounce serving, and snacks with low levels of sodium and saturated fat. No one can accuse Indra Nooyi, PepsiCo's CEO, of just walking the walk when it comes to healthy eating. In the past two years, the company has acquired KeVita, a maker of fermented probiotic drinks, developed an organic version of its Gatorade drink and announced ambitious new targets to make its products healthier. The company has pledged that, by 2025, at least two-thirds of its global beverage portfolio volume will have no more than 100 calories from added sugars for each 12oz serving.

The geographical revolution in the global consumer marketplace – particularly the rapid growth of the middle class in Africa, China and India – is making customer centricity more complex. Quite a few fashion brands have stumbled in the Chinese market after designing products to cater for 'local tastes' that generated a backlash because they were seen as condescending, clichéd or in poor taste. Unilever has been successful in rural markets in emerging economies. Managers at Hindustan Unilever, the group's Indian subsidiary, spend one month a year in a village. This striking approach to customer centricity has helped it develop such innovations as PureIt, a low-priced water filter and single-sachets of hygiene products to appeal to consumers with little disposable

GROWING GULF
Retail sales in the Gulf states are expected to reach US$285bn by 2018, says a study by Ventures Middle East

income. The latter idea was so successful, Unilever has rolled it out across developing markets and now sells about 27 billion of them a year.

Those initiatives reflected an understanding of consumers' lives that went beyond data analytics – a topic that intrigues Emmanuel Faber, CEO of Danone, who believes that even Artificial Intelligence (AI)'s ability to extract insight from data will not provide all the answers. "You get a lot of tactical information from analytics: that person is located there and is doing this. That means tactically I have a selling opportunity. And through digital I can reach that person and stimulate sales. This is very important – but we also need strategic information in terms of consumers' longer-term behavior, changes of habits that would dictate a significant shift in the way your brand or product offering should be positioned.

The conversation must evolve

"We need to develop soft science about lifestyles and sociology, because we really need to have quantitative analysis, and a very qualitative, thoughtful approach to make sense of it. One way for us to put consumers at the center of the organization is to revise the way our brands connect to people's lifestyles – not starting from what the brand wants to propose, but how the brand gains the 'right' to be part of the consumer's conversation with their community."

Gaining that right is harder because, Faber says, the strategy for driving demand has changed: "The approach is different from 20 years ago, when so many of us used the push strategy with TV advertisements. We are at a point where consumers are increasingly on the pull side, so you need to understand where the pull is, not only through data tracking, but also by developing meaningful conversations between the brand and the consumer."

These conversations can help companies clarify their offering to the consumer. Many brands and retailers have become confused as to whether quality, value or convenience are driving their business model and have convinced themselves they can compete equally on all three. The survey shows that quality (or experience) is the primary priority for 51 percent of companies, compared to 32 percent that are most focused on value and 17 percent on convenience. Companies focused on convenience are the most likely to be seeing steady or declining sales.

In reality, the question for businesses is not so much about which model they choose as it is about whether they are realistic about their proposition. As Sainsbury's CEO Coupe says: "One of the pillars of our strategy is selling great products and services at fair prices. We don't aim to be the cheapest but we aim to offer great quality at fair prices and therefore great value."

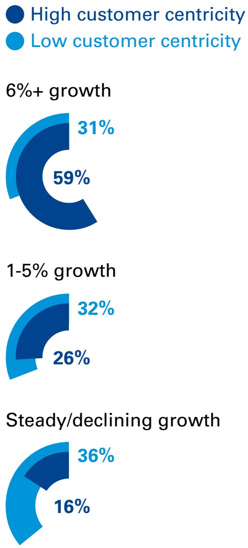
For most manufacturers and retailers, customer centricity is an aim, rather than an accomplishment. The survey shows that high-growth companies – those with revenues increasing by 6 percent or more – were more likely to rate higher on capabilities related to customer centricity, especially mobile technology, mobile commerce and data analytics. As businesses become more customer centric, it becomes easier to decide which customers you want to retain, nurture, or acquire and design a profitable customer strategy.

Many firms are realizing that true customer centricity involves admitting that you don't have all the answers. As **Willy Kruh**, Global Chair, Consumer & Retail, at KPMG International, says: "The more successful companies realize that there are too many challenges for any one business to handle on their own and they're reaching out to subject expertise, 'been there done that' local talent, engaging in joint ventures, and looking for partners to innovate with."

The reference to 'local talent' is apposite. The US accounts, Mintel estimates, for less than a third of global consumer spend. As brands have found in China, cultural ignorance is not easily forgiven. "How the industry views the market is still too heavily weighted in favor of the Anglo-Saxon western business model," says Kruh. "Companies need to adapt to the mosaic of cultural differences that exist around the world – sometimes in individual markets. Are they doing enough to ensure their proposition is genuinely different?"

For Zinke, success comes down to knowing where to play, how to win and what to do. The companies that are clear on how to win and execute well, he suggests, "will be those who act the fastest on customer insights and implement from strategy through to results" ▮

Customer centric companies are more likely to have strong revenue growth



Source: 2017 Top of Mind Survey, KPMG International and CGF

SMART APP
Starbucks' Mobile Order & Pay already represents 10% of total transactions at its high-volume stores in the US

"Executing a better experience is vital"

Julio Hernandez, Global Head of Customer at KPMG International, says CEOs must remove barriers to get closer to customers

Companies recognize that, in an age of disruption and volatility, customer experience is a primary differentiator and a key weapon in the battle for loyalty. Many executives are also thinking that new business models could disrupt them and that, in a transparent marketplace, loyalty is not as strong as it used to be. Companies recognize the new reality, understand they need to get closer to their customers, and realize that they need to translate customer insights into a better experience.

That means having the right data and analytics – not only to set the right experience, but to measure and understand the impact. It's all down to execution – knocking down barriers in the business, so that it operates in a unified manner. We're seeing a lot of energy from companies which recognize what is at stake, but, based on our research, some CEOs need help knocking those internal barriers down.

Understanding how consumers are changing and how your brand can serve them goes back to the power of data – listening to customers, talking to them, observing them. We all recognize the opportunities of personalization for customer experience – yet some companies are struggling to deliver personalized communications, because they are not using data to predict customer preferences and behavior.

Personalization needs to be founded in deep customer insight. According to the results of the 2017 Top of Mind Survey, companies are saying that they will continue to analyze historical sales data to predict what's going to happen in the future. That can be useful, but they need to build on that.

They need to understand what customers are telling them with primary research, blending that by listening to social media to understand trends and attitudes, and figuring out how to navigate the marketplace. Digital channels are where our customers live. It's where they communicate, and where they expect you to pay attention. Companies recognize this, but are they listening in the right way?

Part of it is having the right technology and platforms to be able to capture that information. But it's also having the willingness to pay attention to it – spending time to understand what is being said, then figuring out how to act on it. That will be different by market – and customer segment – and businesses will need to build the muscle to do that. It could mean a big capital investment, but it could also mean renting that capability by collaborating with a third party who has that specialist expertise.

Although good companies recognize the importance of getting closer to customers, sometimes they're so busy operating their business they find it hard to pay attention. CEOs know they need to anchor their business around their customers, the markets they want to win, and who they're trying to serve. Yet unless companies translate that into actions that their organization can deliver – at every level – it's just a platitude.

A good customer experience isn't just down to technology, such as a clever app, it's about hiring – and training – the right people. If the person behind the counter is rude, you will never use the app again.

Companies say customer centricity is critical but many CEOs are asking how they get the organization to act on it. How do they ensure the business operates as one, as opposed to a completely fragmented business that thinks about their individual function, not the customer?

CEOs are questioning whether their organizations truly understand customers, know what they need to offer, and are able to do so. The capability question is getting more air time in the board room, because companies want to ensure they deliver a better customer experience rather than just designing one.

Julio Hernandez
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DIGITAL FIRST
Companies that build their infrastructure around data, like Uber, are well placed to personalize the customer experience

Mike Coupe, CEO, Sainsbury's

"A kid in California is probably dreaming up a disruptive technology we haven't thought of"

Sainsbury's Group CEO Mike Coupe reflects on building a flexible, sustainable business model

How is digital technology changing Sainsbury's business?
Twelve years ago our food online business accounted for less than 1 percent of sales. As we stand, our grocery online business is pushing towards 8 percent of sales. We also acquired home retail group Argos because of their digital capability. Well over half of that business is now online – or initiated online. As a group, in the Christmas quarter, around 20 percent of our sales were online.

Do you see online continuing to grow?
A clicks-and-bricks strategy will predominate in the UK. But 20 percent of online sales could well become 30 percent in the next five years. We now live in a world where having something delivered the same day is normal. So it's also about being able to compete as customer expectations grow.

Do you see disruptive innovators, such as Uber and Airbnb, entering your markets?
In the UK, certain discount retailers are the biggest disruptive force today. In ten years' time, it's likely to be an online retailer. But there's probably a kid in California dreaming up a technology that will disrupt this industry, that none of us have thought of. Our job is to build a business model flexible enough to cope with whatever comes our way.

How have you tried to put your customers at the heart of your business?
We are pretty ruthless about holding a mirror up to ourselves to make sure that the basic things that we do – like stocking our shops and staffing them with friendly people – we do consistently well. Grocery shopping is habitual – people tend to buy the same things week in, week out – so anticipating, and fulfilling, customer needs will be driven by how well we capture and apply data, and that will be driven by artificial intelligence and algorithm-based marketing.

The world has been quite volatile over the past year. Will that change your business?
The biggest driver of our sector is household disposable income. Until that starts to be disrupted by foreign or local politics, it doesn't really interfere with people's day-to-day lives. With Brexit there's an obvious hit in our business: everything we import is now a lot more expensive.

What other challenges do you face?
The cumulative effect of property taxes and employment costs will have a profound effect on the UK retail industry, putting a disproportionate burden on companies like ours, which employ a lot of people and own a lot of properties. We are competing with specialist online retailers or firms that don't employ many people and so don't necessarily have the same burden. That is a big deal.

Is the perception that consumer preferences are more volatile correct?
I always start from the premise that I have no idea how consumers are going to behave. So, let's build a business model that allows us to adapt quickly to their changing needs. Customers are shopping around more because they have more choice, there are more shops, and you've got six pretty strong online players. At the other end of the spectrum, the top ten products we sell today are the same as they were ten years ago. Chicken tikka masala is still the best-selling ready meal in the UK and it was ten years ago. What people buy is not changing anywhere near as fast as where and how they're buying it. The big story is that people are shopping more frequently and go to more outlets. The proportion of the population that shop in Sainsbury's has actually gone up, but they're spending less when they come. That's challenging. Yet in many aspects of their purchasing behavior, people remain creatures of habit.

GROWTH STRATEGY
Sainsbury's is looking to clothes and value-added fresh foods to help it grow

Greg Creed, CEO, Yum! Brands

"The secret is to have a $10bn brand and make it feel like a $10m brand"

Yum! Brands CEO Greg Creed explains why the future of food is about improving the customer experience

How would you define your business?
With our three global brands – Taco Bell, KFC and Pizza Hut – we are not in the functional 'food as fuel' business. We're in the business of delivering superb food experiences for customers and we do that by creating great experiences for our employees. We are changing from owning restaurants to putting them in the hands of our franchisees. A small variation in same-store sales can have a big impact on operating profit. Franchisees take the volatility out of our business and letting them handle day-to-day operations frees us to build the world's most loved, trusted and fastest-growing restaurant brands.

How are you planning to improve the customer experience?
We're championing the customer experience like never before and bringing aspects back in-house. If you're in customer service, you can't outsource the experience, so we're looking at front-of-house, point of sale and apps. We must also get back to really understanding what our customers want. For example, we observed that Millennial consumers at Taco Bell drive-throughs weren't buying as many soft drinks. We realized that our real competition was the family pack of soft drinks at home, which were effectively free to our consumers, so simply cutting prices would have made no difference. Instead, we created a unique drink that was only available at our outlets.

How important is new technology?
At Pizza Hut we're investing in technology to make it easier to get a better pizza. If I can order a shirt online in one or two clicks, why can't ordering a pizza be that simple? For Millennials, the more frictionless the transaction the better. And better often means easier, which can be anything from how they order to how they pay and how much they pay. Taco Bell is an edgy Millennial brand, which is why we focus on engaging consumers through social media. You can't out-cool a cool brand, but you can become a cult brand with a deep emotional connection with consumers. The secret is to have a US$10 billion brand and make it feel like a US$10 million brand.

What kind of growth do you expect?
Last year was a landmark for us: we successfully completed the separation of our China business, returned US$6.2 billion to shareholders and launched a multi-year transformation plan to become a one-of-a-kind global franchisor. We've talked about going from around 4-5 percent system sales growth a year, excluding foreign exchange, to 7 percent over the long term. I am confident we can. Fried chicken is enjoying a renaissance and Mexican food sales are up as this sector moves outside the US. There is also an opportunity for us to grow in the pizza category – focusing on a digital-delivery centric model will allow us to do so.

Has recent volatility affected Yum!?
Not dramatically. We have more than 43,500 restaurants in over 135 markets. Some countries will always be up and others down. We're on target to be at least 98 percent franchised by the end of 2018, which will reduce costs and risk. Spinning off the China business has also made us less volatile, while giving them the chance to expand.

What is your biggest challenge?
Within the company, some people will wonder how we can accelerate growth in this environment. We must have self-belief, but we'll need to act differently, think differently and lead differently. We are on track with our refranchising and cost-saving initiatives, which are making our organization more focused, more franchised and more efficient. The transformation of Yum! is well underway and I'm confident in our three-year plan.

FRANCHISING KING
Becoming at least 98 percent franchised will reduce Yum!'s capex to US$100m by the end of 2019

What do consumers want?

With demographic certainties breaking down – and technologies and lifestyles changing shopping habits – manufacturers and retailers need to rethink their strategies

The deceptively simple question – what do consumers want? – has many answers. **Dr. Christoph Zinke**, Leader of KPMG's Global Strategy Group in China and Asia Pacific, says: "In Shanghai, what customers want is to have fresh food delivered to their door within 30 minutes – and if it's late or they do not like the quality they won't accept delivery and you won't get paid because they only pay by WeChat when their order has arrived."

In Nigeria, what customers want is an app that allows them to participate in Lagos's famous Balogun market, so they can buy stuff, haggle and chat with people without facing the rigors of travel or heat.

In Brazil, consumers are intrigued by hairceuticals – haircare products that claim to reduce hair loss by blending natural and medicinal ingredients – with Mintel estimating that the clinical shampoo market expanded by 37 percent between 2010 and 2015, at a time when the economy was struggling and unemployment stood at around 14 percent.

In India, more than in any other major consumer market, what most consumers want is to order something online – and pay cash on delivery. Data from market research firm Nielsen found that, at the end of 2015, 83 percent of online shoppers in that country had paid for their purchases in cash.

The three-second audition

What almost all of the world's consumer markets have in common is that they are moving much faster than they used to do. Alex Baldock, CEO of British retail group Shop Direct, which owns very.co.uk and Littlewoods, has even gone as far as to say: "You have three seconds to seize the customer's attention. It's called thumb-stopping. The three-second audition."

WALK ON BY

52 percent of US shoppers bypass their closest grocery store – 68 percent are seeking lower prices, says Hartman Group

This phenomenon is often attributed to Millennials but their growing influence is only one – albeit the most dramatic – of the social forces changing the consumer goods industry. At the same time, the world is experiencing a rapid growth in the middle class (especially in China, India and Africa), an aging population (by 2030, UN research suggests, 56 countries will have more people over 65 than children), urbanization (globally, there are 37 megacities, each with a population exceeding 10 million), more women in the workplace and smaller households. All of these factors are playing out in different ways in different geographic markets and in different sectors.

The 2017 Top of Mind Survey suggests that most business leaders recognize that tomorrow is likely to be radically different to today. Of the 469 companies that expect to see an increase in volatility over the next two years, changing consumer behavior was identified to be the top driver (cited by 52 percent).

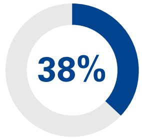
Specifically, respondents expect the most disruptive consumer behavior trends over the next two years to be declining brand loyalty (38 percent, and even higher in Europe), online shopping (33 percent), expectation for immediate service (30 percent) and demand for personalization (29 percent).

It's clear from these findings that manufacturers and retailers know that change is coming – at a scale and speed unprecedented in the history of the consumer goods industry. It's also clear that many of them recognize what needs to be done: 34 percent aim to attract new customers by creating more personalized customer experiences, 31 percent plan to increase advertising online and on mobiles and 30 percent plan to personalize their marketing communications. The other tactics being deployed to win customers vary from an increased focus on social media (28 percent), creating experiences that would resonate with Millennials and Generation Z consumers (27 percent), adding more authentic brands to the product mix (25 percent of those surveyed, but a more pressing priority for companies in the food and drink sector) and investing more heavily in mobile channels and apps (24 percent).

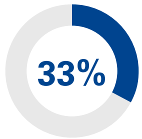
These percentages suggest that many manufacturers and retailers are facing the future – and trying to shape it – rather than denying it, but is the industry doing enough? The Top of Mind Survey shows that 68 percent of companies believe they offer a consistent, seamless customer experience across all

The most disruptive consumer trends

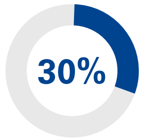
Declining consumer loyalty to brands



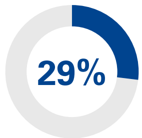
Increasing preference to shop and buy online



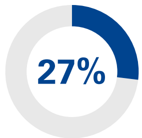
Increasing expectation for immediate service



Increasing demand for personalization



Increasing social and environmental consciousness

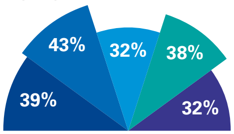


Source: 2017 Top of Mind Survey, KPMG International and CGF

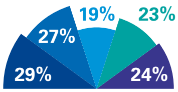
Consumer disruptors by region

- North America
- Europe
- Middle East/Africa
- Latin America
- Asia Pacific

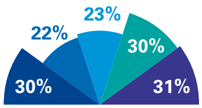
Declining consumer loyalty to brands



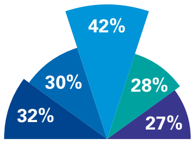
Increasing demand for authenticity



Increasing social and environmental consciousness



Increasing expectation for immediate service



Source: 2017 Top of Mind Survey, KPMG International and CGF

SNACK ATTACK
French Millennials typically snack four times a day, on top of their usual meals, a Food Service Vision study found

channels but do their customers agree? It is certainly hard to reconcile this confidence with the frequency with which online shopping carts are abandoned, consumer complaints about having to fill in too many surveys or the ongoing decline in brand loyalty.

Willy Kruh, Global Chair, Consumer & Retail at KPMG International, wonders if boardrooms understand the urgency – or the scale – of the demographic changes that are already remaking the industry. "Millennials have turned the world upside down. Apple, craft beer, Airbnb, Uber have all been driven by them. Their behaviors, although not homogeneous geographically, have certain common threads: being digital natives, not going to stores to buy, driving online sales, putting a premium on experience and wanting things delivered and done for them – that's why they're known as the Do It For Me generation. Let's take Airbnb as an example – it started five years ago, just two guys who were looking for a decent place to stay, and now it's got twice the market capitalization of Hilton Hotels. There are hundreds of these examples."

Just Eat is one of the many companies capitalizing on the 'Do It For Me' trend – it is partnering with restaurants to deliver meals to homes, promoting its service with the slogan "Don't cook, just eat". The food delivery sector has seen a phenomenal level of start-ups – and closures – but Just Eat has proved relatively durable. Founded in 2001 in Denmark, the company estimates it had more than 17.6m active users by the end of 2016, reported revenues of US$486.4m and says it is already profitable in Australia, Brazil (through an alliance with iFood), Denmark, France, Ireland, New Zealand, Norway, Switzerland and the UK and is investing in Canada, Italy, Mexico and Spain, where it sees great scope for long term growth.

As **Jessie Qian**, Head of Consumer & Retail for KPMG in China, says: "Home delivery is so popular it's actually helping neighborhood restaurants in China. In the past, people had to go to a diner, but now, within a 3-5km radius, you can place an order, pay a delivery fee (roughly equivalent to US$1-2), have the meal delivered to your apartment and eat any time you like."

Food delivery start-ups in China and Germany continue to attract sizable investments with the involvement of such companies as Alibaba and Rocket Internet. This sector may not be for the cautious investor but the zeitgeist suggests that, in the long term, this could be a lucrative market for the survivors. In March 2015, for the first time, data from the US Census Bureau showed that American consumers spent more on dining out (US$52.3bn) than on food at grocery stores (US$49.7bn).

The US Food Institute estimates that American Millennials spend 44 percent of their food dollars – the equivalent of US$2,921 a year – on eating out. This is not a purely American phenomenon: last October *The Australian* suggested that Millennials – or the 'Smashed Avocado Generation' as they were described, in reference to a popular breakfast food – were not buying houses because they were spending too much on food. Millennial consumers hit back, saying avocados were more affordable than property, but the controversy was indicative of a similar trend.

Some global fast food chains are said to be considering entering the food delivery business while supermarkets are examining their business models. As Mike Coupe, CEO of Sainsbury's, says: "Five years ago, people would have said you were mad if you had suggested that a taxi company would be a major disruptor, but Uber Eats is trying to fulfil some of the things that we do. By the very nature of the markets we serve, it is easy to pick off a sector and disrupt it at a micro or macro level. I always start from the premise that I have no idea how consumers are going to behave, so it's our job to build a business model that can adapt quickly to their changing needs."

Underestimating Millennials

Millennials already have immense market power – a recent study by market research firm Nielsen, estimated that in the US alone they directly account for an annual consumer spend of US$65 billion – yet Kruh believes that, as impressive as such statistics sound, they probably underestimate this generation's impact. "They are already influencing other demographics – partly because other generations are using much of

BOOM TIME
E-commerce in China grew 26 percent in 2016, accounting for 15 percent of retail sales, the government says

the same technology. Baby boomers like me are saying 'Hey, there's a little bit of Millennial in all of us'. Their example is resetting other consumers' expectations."

In China, Qian says, the Millennial demographic is transforming the country's culture and its consumer marketplace. "The Chinese Millennial thinks – and behaves – very differently to their parents. The traditional Chinese attitude was to save money for a rainy day but the Millennial consumer has grown up in a society that has much more choice and, as our country becomes wealthier, they have much more disposable income and are more willing to spend – not just the money they have today but the money they expect to have in future. That's why Peer To Peer (P2P) lending is so popular in China and why Millennials will buy anything from smartphones to trainers on a one-year instalment payment plan."

The frenetic pace of China's consumer market is reflected in one striking Top of Mind Survey finding: 39 percent of companies in China say the most disruptive factor in their market is the consumer's ever-shortening attention span.

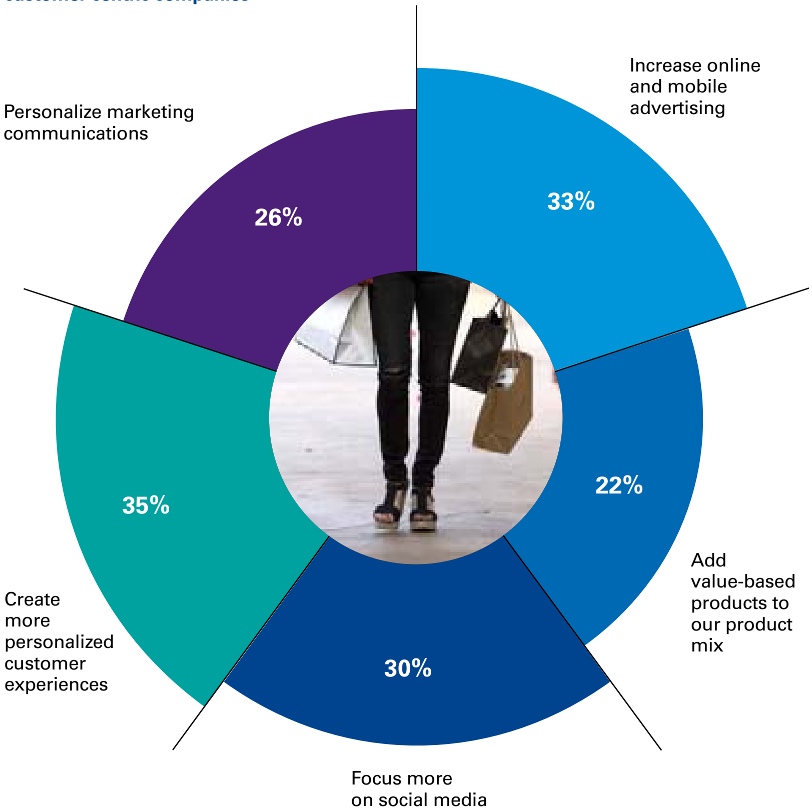
Although the Western phenomenon of 'conspicuous consumption' is still considered in poor taste in China, Millennials are, Qian says, keen to show their individualism by buying boutique brands: "If other people say 'oh you're different, they'd regard it as a compliment. They want their personality to be recognized by society and they live for themselves – and not for their parents' expectations."

Selling the experience

Millennials in China may value the joy of ownership more than their counterparts in other countries but they still judge a transaction on the quality of their experience as much as on the product itself. "Enhancing customer service is the need of the hour, especially for Millennials," says Kruh. "That's why they will spend on things like travel, even though it might form a large chunk of their disposable income."

Despite the continuing shrinkage in the amount of bricks and mortar retail space in the US and UK, stores can expand their share of wallet – and share of mind – by looking beyond the transaction and making the

Top marketing tactics for attracting new customers – customer centric companies



Source: 2017 Top of Mind Survey, KPMG International and CGF

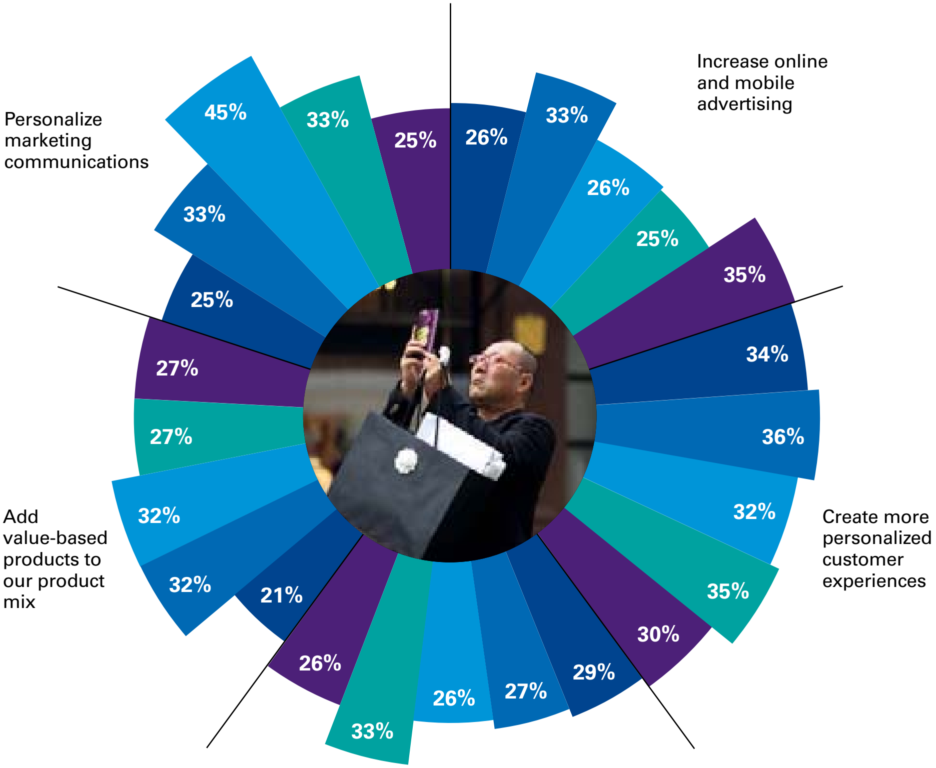
38% of Chinese companies said that declining customer attention spans were the most disruptive factor in their market.

43% of companies in Europe said that declining brand loyalty was the trend causing the most disruption.

35% of retail sales are made online. The highest average is in the UK (44 percent), and the lowest is in Australia (21 percent).

Top marketing tactics for attracting new customers – all companies, by region

- North America
- Europe
- Middle East/Africa
- Latin America
- Asia Pacific



Source: 2017 Top of Mind Survey, KPMG International and CGF

Brazil: the comeback story

Politics has not been kind to Brazil's economy. As **Carlos Pires**, Head of Consumer & Retail at KPMG in Brazil, says: "We entered a recession two and a half years ago and the political volatility has not helped. This has been tough for many Brazilian consumers – and we have to give them more purchasing power before we see any major growth."

Yet agribusiness grew by 17 percent in the first quarter of this year, while e-commerce is estimated to have increased by between 10 and 13 percent in 2016, albeit from a low base, as shoppers seek the best value. Longer term, Pires says the online potential is enormous: "We have a young population – 62 percent of Brazilians are aged 29 or under – and two mobile phones per head."

Digital technology has paved the way for successful start-ups such as food delivery firm iFood and sports goods etailer Netshoes, which shows that the consumer sector is still attracting investment, within Brazil and from elsewhere.

Marcus Vinicius, Head of Retail at KPMG in Brazil, says: "If we look at the medium term, consumer markets will probably grow significantly. The big question mark is how fast this growth will come."

physical experience of shopping more enjoyable. At its most basic level, this can mean delivering on shorter checkout queues, putting fresh fish on ice to waft the aroma throughout the store, or improving the quality of in-store assistants. (Some of these assistants may be robot mannequins, primed to observe the flow of shoppers, and share their data.)

Yet a better experience can also entail different store formats – hybrid restaurant/retailers, proving popular in the US, being just one example – livestreaming events into store (as Burberry has done with fashion shows) or a complete reinvention of the store, as pioneered by Nike's new showcase in New York, featuring a full half-size basketball court (which gives players real-time feedback on their performance), a fitness lounge and personalized studios.

Nike's initiative is innovative but Roberto Meir, CEO of Brazilian media agency Grupo Padrão, says it is not for everybody: "For Nike, this is a compelling experience proposition. You can play soccer or basketball there – they're buying your time – but it doesn't mean you'll spend my money there, you might buy your sneakers somewhere else. For Nike, this is a marketing proposition – they're promoting their culture and deepening their understanding of consumer behavior. But how many companies can afford to do that? It requires a lot of money and training. Physical stores need to find an equation where they can provide an experience that connects to – and builds – a community and gets the community thinking about them as part of its daily life."

Tommy Hilfiger's new digital showroom in Amsterdam offers a similar glimpse of a high-tech future for bricks and mortar. Using an interactive touchscreen table, customers can view every item in the upscale apparel brand's collection, click to reveal price, options and sizes and even design their own custom orders by dragging and dropping items onto a blank background to create different looks. The brand expects to use this technology at all of its showrooms worldwide within two or three years.

SAVING UP
Between 2009 and 2014, Japanese Millennial households cut spending by 30 percent, according to official data

Daniel Grieder, CEO of Tommy Hilfiger, said: "We believe this technology will revolutionize fashion. Bricks-and-mortar stores won't die out, but they will definitely change."

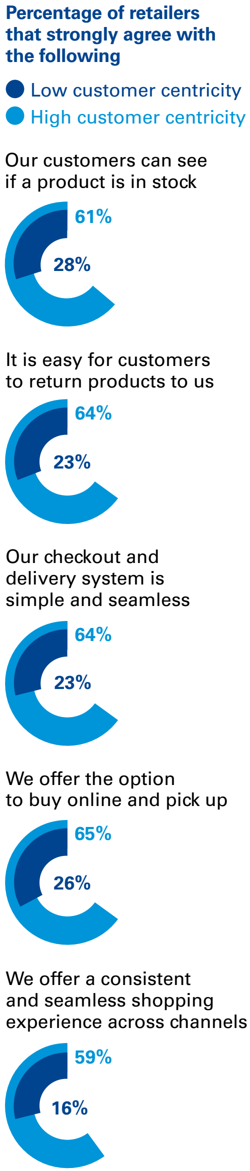
That change is already happening – in many markets. **Marcus Vinicius**, Head of Retail at KPMG in Brazil, says: "We have a clothing brand where you can basically go into the store, get on their computer, design your own clothes, and send the file to a 3D printer and collect your order a couple of hours later."

Although much industry analysis has focused on the need for traditional retailers to be more creative, as Kruh says, Millennial-minded customers are expecting companies' online proposition to deliver an experience too. After some painful trial and a lot of error – remember the bursting bubble that followed the turn of the century dot.com boom – a new generation of digital start-ups has prospered by delivering a rewarding experience.

Sometimes, that experience is directly related to the act of shopping. As **Liz Claydon**, Head of Consumer & Retail for KPMG in the UK, says: "Thread.com is quite an innovative clothing start-up. It's a bit like an online personal shopper, you go in and say 'I'm looking for a wedding outfit', you fill in a style questionnaire, upload photos if you want, your information is reviewed by a human stylist and, using algorithms, the site comes back with advice. If you like what it recommends, you can buy the clothes directly from them and it shares the revenue with brands. You feel like you're having a personalized experience, but it's really enabled by AI."

Thread.com is far from the world's only personalized stylist service but its success in the UK – it has raised US$16m in funding since it was founded in 2013 – shows that digital start-ups can still find rewarding niches even in developed markets.

Yet etailers need to raise their game too. One of the critical characteristics of a good online shopping experience is simplicity. Greg Creed, CEO of Yum!, which owns KFC, Taco Bell and Pizza Hut, says: "The more frictionless the experience the better. If I can go online and order a shirt, or a book, with a few clicks, why can't I order a pizza the same way? We're



Source: 2017 Top of Mind Survey, KPMG International and CGF

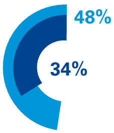
PEER REVIEW
Around 30 percent of the world's online shoppers post reviews online, according to a KPMG study of customer behavior

EXPERIENCE ECONOMY
Between 1981 and 2012, the average price of a US concert ticket rose by 400 percent, according to government figures

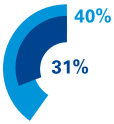
Percentage of retailers that strongly agree with the following

Average
High growth

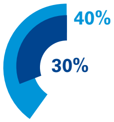
Our customers can see if a product is in stock



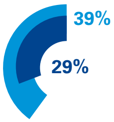
It is easy for customers to return products to us



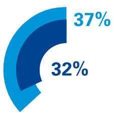
Our checkout and delivery system is simple and seamless



We offer incentives/ discounts to new customers



We offer detailed information about product ingredients/sources



Source: 2017 Top of Mind Survey, KPMG International and CGF

investing in technology to make it simpler to order a better pizza but sometimes you need a lot of technology to make it simple. If you're talking about Millennial consumers, better really means easier – and easier can be anything from how they order, to how they pay and, given the financial pressures on them, about how much they pay. If you make that experience as frictionless as possible, Millennials will reward you."

As the Top of Mind Survey indicates, for many manufacturers and retailers, one of the keys to delivering a better experience is personalization. Yet customer centric organizations understand that this is not an end in itself, says Mark Larson, Head of Consumer & Retail, KPMG in the US. "Companies have to make sure that the level of personalization delivered matches customer expectations. It's a fine balance between driving growth and managing costs."

There is a balance to be struck here. Too much customization and personalization online and you can alienate a customer who does not have an exact product in mind and is looking for inspiration. Part of the pleasure for a significant number of online shoppers is making a surprising discovery – and even the 'If you like this, try this…' prompts don't completely fulfill that need.

Although companies need to know which channels their customers are using, they should – as far as the consumer is concerned – be channel agnostic. This can be culturally challenging because, as Stefano Pessina, CEO of Walgreens Boots Alliance notes, his company makes a greater margin when selling in-store, but consumers enjoy consistency – whatever channel they are using to make a purchase.

Unconscious decisions

In the world of the "three-second audition" many consumers, Alan G. Lafley, former CEO of Procter & Gamble and management thinker Roger Martin have argued, are not actually making a conscious decision to purchase at all. They are indulging in what Daniel Kahneman, the Nobel Prize-winning economist and psychologist, has defined as Type 1 fast thinking. In this mode, Lafley and Martin argue: "The brain is not so much an analytical machine as a gap-filling machine. It takes noisy, incomplete information from the world and quickly fills in the missing pieces on the basis of past experience."

With this kind of consumer behavior, familiarity is key – which makes it all the more important to make the process, to use Creed's term, "frictionless".

The perils of too much friction, *Bloomberg Businessweek* argues, are perfectly illustrated by social media pioneer My Space, which wearied its users by offering "a dizzying number of features" that made the service much richer functionally but turned the website, in the words of one of its own executives, into a "massive spaghetti ball mess". Despite the backing of News International, it soon ceded market leadership to Facebook, which offered users a much simpler, more convenient, and familiar experience.

Authenticity matters

Too much strategic focus on different customer channels can also obscure the necessary truth that, in many respects, what consumers want hasn't changed all that much. Shoppers have never relished being lied to or buying products that don't actually do what they're supposed to do and, courtesy of digital technology, can now share their discontent in an instant.

In a world where consumers increasingly look to their peers to validate their purchasing decisions, the authenticity of a brand is critical, says Peter Freedman, Managing Director of The Consumer Goods Forum. "Word of mouth is arguably the strongest advocate of a product, brand or service. Social media is a big part of that and, as a consumer in that conversation, you want to have a story to tell about why a product or brand or service appeals to you."

One story that many of today's consumers want to tell, Freedman says, "is a narrative about this being a small business, an authentic business, with a product that emerged in the minds of a couple of named individuals, is produced in a certain place – and I know where that is – and so on. Part of that desire is a reaction to consumer concerns about big

SHARE OF WALLET
In the US, 65 percent of the typical household shopping budget is spent in-store, says a study by Big.commerce

business: some of these are politically stoked, but they are still real."

Freedman concedes that it is easier for smaller start-ups to emphasize their authenticity but says global corporations can overcome what he describes as a "slight deficit of trust" by being completely transparent about their business and by making themselves relevant to communities.

So, for example, PepsiCo has made public a series of strategic social and environmental goals in its ambitious Performance With Purpose program and, at a tactical level, is showing the work of local artists on the bottles of its new product Life Wtr.

Larson says: "If you understand your customer, and what's important to them, it makes sense for your brand to be seen as standing for something that they value. This can take on a lot of different forms. For example, TOMS takes a donation from every sale to give their shoes to those in need, as does Warby Parker contributing glasses. Once you truly understand your customer and what's important to them, then your brand is going to stand for something more meaningful than just being the best – and ultimately, that's how you're going to grow sales."

Though some industry analysts are skeptical about the rise of the socially conscious shopper – a trend Mintel calls the "new consumerism" – surveys suggest there is some substance behind the hype. In a recent study by media agency Mediacom, 49 percent of British consumers said they would pay more for a brand that supported a cause that was important to them. There is a crucial difference between saying and paying and one factor that may be inhibiting shoppers from acting is widespread skepticism about the claims that brands make on their own behalf – in the same study, 65 percent of consumers believed that brands tended to overstate their environmental credentials.

In a recent global KPMG study of 18,430 consumers titled The truth about online consumers, 51 percent of respondents said that ethical and environmental considerations impacted their purchase decisions. This was particularly evident in Asia (60 percent) and in Latin America, the Middle East and Africa (each with 57 percent). Ethical considerations were less likely to influence consumers in Australia (41 percent) and Europe (41 percent). North Americans tended to be close to average.

AFRICA RISING
Between 2011 and 2015, the proportion of global food and drink launches with an African ingredient rose by 41 percent

Meir says businesses need to set the tone, not just in their policies – "What are you doing to help the environment? Are your products made by people in low paid jobs?" – but in the way they communicate.

For Meir, this messaging starts at the very top: "Today, visionaries are just normal-looking guys wearing sneakers, blue jeans and a plain black T-shirt. No expensive watches, no gold. In the past, the big guy was the guy wearing the most expensive suit with the most expensive shoes. That guy is not impressive to Millennials. You need to have a proposal to engage with this generation. They will want to follow you if they have a cause, a purpose, and a sense of belonging but not just because you are the biggest or the oldest – they don't care about that."

The Top of Mind Survey findings suggest that brands and retailers may be missing a great opportunity. Only one in seven rated social and environmental responsibility as critically important to their business, a finding that seems particularly puzzling when set against companies' widespread and pressing desire to engender customer trust and loyalty.

Given that 40 percent of British consumers in the Mediacom survey said they had stopped buying – or never purchased – a brand because of its perceived values and behaviors, ignoring such concerns seems short-termist. It is probably significant that, in the Top of Mind Survey, 70 percent of customer centric businesses identified sustainability as a key priority.

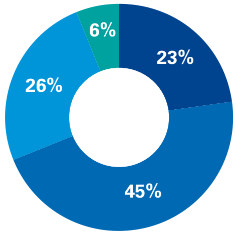
An inflection point?

Some bestselling brands have shown remarkable longevity: Louis Vuitton has been selling luggage since 1854; Coke started out as a soda fountain drink in 1886; Snickers was launched in 1931 and Tide laundry detergent made its debut in 1946. Yet in the consumer markets, a growing number of manufacturers and

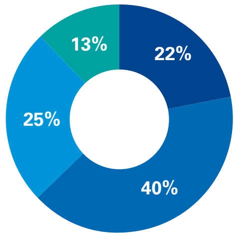
How companies rate their capabilities

- Excellent
- Good
- Fair
- Poor

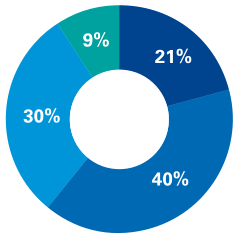
Providing a compelling customer experience



Using data analytics to predict customer preferences and behaviors



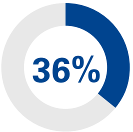
Offering customization and personalization



Source: 2017 Top of Mind Survey, KPMG International and CGF

REAL THINGS
"Authenticity" was the key word helping sell items on eBay in 2016, research from the University of Birmingham, UK, suggests

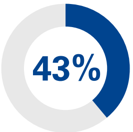
Customer experience



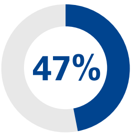
say customer experience is critical to the success of their company

This is particularly true for:

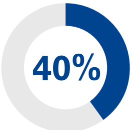
Companies with lower online sales



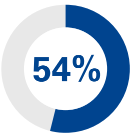
Companies with higher growth



Companies that are currently or planning to use AI



More customer centric companies



Source: 2017 Top of Mind Survey, KPMG International and CGF

retailers are operating in a world where, as Rita Gunter McGrath, Professor of Management at Columbia Business School, has suggested, industry boundaries are no longer clearly delineated, markets are likely to be disrupted and a strong competitive advantage, once created, is far less certain to endure.

The survey suggests that companies are aware of this: 22 percent said that new entrants could become their main competition over the next three years, a view that was remarkably consistent across the regions. These entrants could be start-ups, existing players diversifying (particularly likely in those markets where companies from food and pharmaceuticals are vying for the health-conscious consumer's spending) or the growing number of online platforms – be it Alibaba in China or Tata Industries' e-commerce site Cliq – that are still growing and proliferating.

In McGrath's view, most markets are at what Intel founder Andy Grove calls an "inflection point – a time in the life of a business when the fundamentals are about to change." The trouble with inflection points, certainly as far as conventional corporate strategies are concerned, is that it can be difficult to distinguish the signals from the noise.

The 2012 launch of the Dollar Shave Club used a subscription model perfectly suited to what Kahneman would call Type 1 fast thinking, gaining 8 percent of the US$3 billion American market for blades and razors before it was acquired by Unilever in 2016. That start-up – and the launch of rival Harry's – certainly surprised the established brands. Procter & Gamble, which owns market leader Gillette, now sells razors, blades and detergents through a subscription model.

Michitaka Sawada, CEO of Japanese consumer products group Kao Corporation, says: "There will always be disruptive innovators we haven't thought of. The digital age has really changed the game. Nimble, smaller companies can, all of a sudden, go into the market with a unique offering. Given that Millennials have different expectations, the combination of these trends can be quite volatile."

In a marketplace where a start-up can reach 20 million consumers in weeks (without a massive marketing spend in the traditional media), where Tesla (founded in 2003) has a bigger market capitalization than Ford (founded one hundred years before), where 90 percent of the top 100 CPG brands are losing market share to smaller rivals (according to a 2015 study by Catalina), manufacturers and retailers need to reinvent brand loyalty.

Giving a brand a deeper purpose can help – as long as the proposition is credible and as long as your customers genuinely care. The recent KPMG consumer study found that consumers' final decisions (when buying online) were most commonly influenced by price (27 percent), followed by product features (23 percent) and brand (22 percent).

Products that do the job

Yet businesses can build loyalty by really understanding customer motivation. Even with smart data analytics this isn't easy – many consumers don't even know what drives their decisions – but it may be helpful, as Clayton Christensen, the Harvard Business School Professor, put it, to remember that: "When we buy products, we are actually hiring them to do a job."

The jobs underlying most products are, McGrath says, remarkably consistent: "Take communication – from smoke signals to the Pony Express, to the telegraph to the internet, our basic job – to send messages – has not changed but how that job gets done has changed dramatically."

If companies keep focused on the job itself – rather than how exactly it is done at a particular time and place – they could invent a compelling proposition before competitors do. Nestlé has proved that even large, global players can do this, with the launch, three decades ago, of coffee machine and capsule service Nespresso. In 2006, the group proved that it was not afraid to disrupt itself by launching a lower-cost alternative to Nespresso, Dolce Gusto.

Companies could then benefit from the upside of the ongoing decline in brand loyalty. As Kruh says: "It is much easier to lose customers today than ever before – but look at what the likes of Uber, Airbnb and Apple have done – if you think like a start-up, it is also easier to win them." ▮

"Growth should be part of your DNA"

Joel Benzimra, KPMG's Global Head of Advisory, Consumer & Retail, explains why growth needs to come from deep within your company culture

The relationship consumers have with brands has changed dramatically. They have become 'activists' through their ability to influence company behavior and brand development. Firms need to understand these shifts in consumer tastes and influences and adjust their business models to them. This is the essence of any growth strategy.

To achieve this, businesses need the right insights into what to do and where to do it – and to be resilient and focus on the places where they can build competitive advantage. One characteristic of fast-growing businesses is that they make clear strategic choices. They know where they want to play and where they do not want to go and focus accordingly.

The discipline and alignment you put in place is critical – and so is the company's leadership. At a company such as L'Oréal, for example, growth is part of the DNA because it has consistently been the message of its leadership since the day the company was born. It boils down to people. People – not processes – generate ideas, innovation and growth.

Every company can expand its business. Even in traditional categories like chocolate, companies with the right strategy and the right execution have grown. Swiss chocolatier Lindt has done a remarkable job by producing more innovative and, premium products targeted at a well-defined consumer segment. They own the relationship with their consumers and a meaningful share of their revenues now come from direct-to-consumer sales. They are growing at around 8-9 percent per year in a CPG market that is expanding by around 3-4 percent. And this increase in revenues has mainly occurred in mature developed markets.

High-growth markets in developing countries can seem more attractive but they are more volatile, as we can see in places like China or Brazil. It doesn't mean you shouldn't be there, but accept the volatility, hedge the risks and be sure to understand the local specificities. This is key to success.

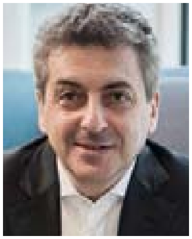
A CPG acquired a leading company in Eastern Africa aiming to use this company as a platform to grow the brand in the rest of Sub-Saharan Africa. The brand was great for Kenya and surrounding countries, but they couldn't sell it in Western Africa because consumers there wanted either a genuinely local brand or something more international.

Companies looking to manage the channel shift to more online sales need to recognize that this is not really about using technology to know your consumers better, it's more about how quickly you can adapt your organization and way of thinking to cope with these changes. Ask yourself how you are going to enable change and what you need to do to achieve your goals.

Product-focused companies are becoming more service-oriented as they seek growth opportunities. Blue Apron does not deliver food but a meal solution: ingredients and a recipe. This taps into the consumer trend of wanting things to be easier, faster, more personalized, with a more enjoyable experience.

This is not only an online trend. Nespresso has been a pioneer, moving Nestlé from selling a product to delivering a coffee experience within an integrated ecosystem. If you want to grow, you have to think about your ecosystem, from innovation to delivery.

The leading spirits companies are doing precisely this, creating an 'entertainment ecosystem' by helping consumers create cocktails, find the best spots to go out, join exclusive clubs or organize a party at home. These ecosystems seamlessly combine products and services around expert advice or convenience and include new technologies to produce personalized 'Nespresso-like' connected dispensers of spirits, etc.



Joel Benzimra
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HOW TO GROW
Whatever the market conditions, companies with the right strategies, leadership and culture can achieve growth

Thought leader

Roberto Meir, CEO,
Grupo Padrão

"If your company is not involved in e-commerce it doesn't exist"

Roberto Meir, CEO of Grupo Padrão, explores the challenges facing retailers and brands

What's your impression of the global consumer market?
First, all of us are becoming like Millennials – we want everything in real time. There are challenges in adjusting big corporations to the Millennial mindset. They will want to follow you if they have a cause, a purpose and a sense of belonging. And not just: "Oh, this is the biggest corporation in the world". They don't care about that. It's not about what I have; it's what I am.

So, in this scenario, what happens to brand loyalty?
It's dead. In an era of instant gratification it's about who gives me more now. It's about rewarding loyalty and trying to be a fair company. Look what's happened with the rise of Warby Parker in New York. Two guys from Harvard decided to sell spectacle frames for US$95, delivered to your home. Then for every pair of frames you buy, they send money to a non-profit organization to provide glasses for people in developing countries. Now they are valued at US$1.2 billion.

So, you would expect more of this kind of disruption in consumer markets?
For sure. Right now, there are a bunch of people who are trying to disrupt every kind of business. You have to practice e-commerce – if your company is not there, it doesn't exist. When you integrate artificial intelligence or analytics into your business, you can also create remarkable moments for your consumers and their communities.

What is the future for retail?
Retail is probably the most challenging business to be in, but I don't believe the bricks and mortar model is going to die. Even some of the big etailers are planning to open new stores because it gives them more scope to sell their culture and understand consumer behavior. There will be fewer stores, but companies will have to find an equation where they can provide an experience that connects with people and builds a community. A supermarket in Italy is using augmented reality to suggest what products you could add to your cart. It's an incredible experience. You don't have to own a big store, just a showroom – an interactive screen could allow you to check in 3D all the properties of the products, anything from appliances to sneakers, and then have your customized item delivered to your home.

Do corporations find it hard to listen to consumers in an unbiased way?
Yes. Now that you must do business in the light of the day, naked, everything is much harder. In the past, the consumer didn't participate in decisions. Now they do, they follow everything and want to participate, to be engaged. It's not just about what you want. The brand belongs to the consumer.

The problem is that the customer does not belong to anyone within the corporation. We all know who owns finance, marketing, HR but who owns the guy who brings money into the company? The set answer is nobody, because the customer belongs to marketing, engineering or sales. Then when, as a customer, I ask a company to solve a problem, I enter the world of *The Flintstones*. I ring the customer satisfaction center and realize that nobody likes me any more because instead of a customer I become a costomer, that's C-O-S-T. When I'm making money for the company I'm good, but now I'm costing the business money because it's after-sales.

Brian Newman, Executive Vice President, Global Operations, PepsiCo

"Technology is making us more agile. We think: 'How do we have fewer touches?

Brian Newman, PepsiCo's head of global operations, says technology is helping them drive innovation

STRETCH GOALS
PepsiCo's drive to cut greenhouse gas emissions will stimulate creation of new technology

What are the key opportunities for PepsiCo?
In terms of global strategy, our biggest opportunity is to accelerate growth in what we call 'guilt-free' nutrition. This refers to everyday nutrition products with nutrients like grains, fruits and vegetables, or protein, plus diet beverages and other beverages with 70 calories or less per 12-ounce serving, and snacks with low levels of sodium and saturated fat.

To deliver that growth you need innovation. We spend a lot of time thinking about what types of innovation the consumer is asking for, and making sure that we are agile enough to develop the necessary packaging and production

Underlying everything we do at PepsiCo is a focus on Performance with Purpose. We are striving to reach our recently announced sustainability goals, which include reducing waste, improving water usage, and reducing greenhouse gas emissions by 20 percent by 2030.

How has digital technology changed your business?
A lot. Traditionally we've been a bricks-and-mortar manufacturer and brand owner of products sold to the retail channel, but digitalization is disrupting everything from the consumer to the supply chain. Technology, electronics and apparel were way ahead in terms of online sales. It took a while for grocery and fruit and veg to catch up, but consumers are looking for a more seamless shopping opportunity, accelerating the time it takes to deliver, so we need to adapt and partner with the right teams to deliver this.

How far have you progressed in terms of digitalizing the supply chain?
We're at different stages in different places, but we're leveraging technology to drive efficiency and effectiveness. It's taken out over US$1 billion a year in productivity each and every year, so it's making us more agile and able to think: "How do we have fewer touches? Or even have zero touches? Could we respond more quickly?" Digitalization and automation are key for a lot of our warehousing. Frito-Lay is one of our leaders in trying to move new products closer to the consumer, directly from manufacturing sites to retail outlets. From an economic perspective, we're trying to source more

Or even have no touches?'"

LOCAL SUPPLY CHAIN
Even a global company like PepsiCo sees the advantage of acting like a local player

locally. At PepsiCo, we have great global scale, but we also recognize the benefits of acting like a local player. Being able to shift sourcing is important when you have pressures from the economy or climate.

How significant is automation?
Very. Using advanced robotics and autonomous vehicles help to manage cost savings, increase productivity and improve efficiency. We can run 24 hours using machines, which enables us to put human capital and costs where they create the most value, and leverage technology to do day-to-day chores requiring fewer skills.

Looking ahead, what do you regard as PepsiCo's key challenges?
Agility and speed to market. In our e-commerce business, you learn something called 'fail fast'. You try to develop something and get it to market quickly so you can learn from the feedback, adapt, and improve. With our mega-brands, we excel in delivering products to meet customers' needs and that consumers love; but, we're always striving to bring new innovations to market faster. As a result, we're trying to leverage the feedback

loop with the consumer to launch, adapt, and relaunch as necessary.

What impact are Millennial consumers having on your business?
Millennials want instant gratification. They're not shopping as much in stores as online, so our content needs to resonate with them. They are shopping on mobile devices, so it's a smaller screen, and the volume is often turned down, so we need to change our advertising to reach them. Consumers love brands that speak to them. You run the risk that online the consumer may be overwhelmed by the profusion of smaller brands and confused about what a brand stands for.

At PepsiCo, 22 of our brands sell in excess of US$1 billion a year. With brands of that scale, you want to make sure you have clarity of purpose and relevance on what each brand conveys.

In terms of listening to consumers, how difficult is it to ensure that you get the right insights?
Nobody has a crystal ball, but you need the right network and partnerships to reach different consumers, feedback loops and markets. About a year ago, we launched Kickstart, an offshoot from the Mountain Dew brand which contains more added real juice for people to 'kick start their day'. It soon generated several US$100 million in revenue. We're launching lower calorie, lower sugar sparkling products like Lemon Lemon and Izze. When you develop these new products and then launch them globally in quick succession – it has a lot of power. Milestones like these build confidence that we are listening to the consumer.

Thought leader

Stefano Pessina, Executive Vice Chairman and CEO, Walgreens Boots Alliance

"In healthcare you need a lot of clear thinking to control the explosion of costs"

WBA chief Stefano Pessina talks about opportunities in health, beauty and wellness

How will your company deliver growth?
Walgreens Boots Alliance are a pharmacy, health and wellbeing business, and we want to bring pharmacy, health and wellbeing to as many people as possible. Growth will come from new products, partnerships, acquisitions and new markets. We will develop in all four areas and improve our offering to customers. Of course, it's easier to grow in the countries where you already operate and can quickly win additional market share as the results will come sooner. Entering new markets is an exercise for the future – you see the benefit in two to four years. Emerging markets are very promising for growth, but also more risky.

How is digital technology affecting you?
We have to change the way we do business to attract customers, giving them additional opportunities to contact us, shop with us and retrieve information. We also have competition from e-commerce companies, although we are less exposed than others as we mainly sell drugs and products related to healthcare and beauty. Our customers like to come in and touch our products and talk to a pharmacist or a beauty advisor. E-commerce is a source of revenue for us, although it's less profitable than traditional channels.

Do you believe bricks and mortar stores will disappear completely?
No – at least not in the next 50 years. And particularly not in our business, where so much of what we sell is medicine, and we provide important healthcare advice.

There's a lot of talk about the need for companies to be customer centric
We have always made a big effort to convert the companies we manage to being customer centric. The fact that more people are going in this direction is confirming what I have always believed. It must be part of your DNA.

Will there be more disruption in beauty?
In the future, the scent of a perfume could be delivered to your mobile phone. Beauty is easier in store – it's also a way to treat yourself, a way to relax. People want to look at and touch the products, and talk to the beauty advisor: they're often buying the experience more than the product.

Are customers still going into your stores as often as they were?
There is probably a little less footfall due to e-commerce, but for us it's marginal. If anything we should rationalize the products we offer to the public, with a little less choice but better quality products and service. Then we would generate more revenue and a better margin for each transaction.

What are the key challenges facing Walgreens Boots Alliance?
We are in a relatively stable market, so some of the challenges are internal. If we are trying to move the company, particularly in the US, towards a more service-centric model, we have to change mindsets and you can't do that overnight. In a market like healthcare you need some clear thinking to help control the explosion of costs around the world. When you are under pressure you need to work hard to rationalize – this can be a big opportunity, particularly if you are able to do this quicker than your competitors.

Do you feel that you have derived value from recent acquisitions?
Definitely. Mergers and acquisitions give you the opportunity to create a lot of value. Our aim is to have a low double-digit growth in earnings every year, and we do it by improving the quality of our business. We do that in terms of our industrial operations, not through financial engineering, so we can create true value from the acquisitions and mergers we make.

DECISIVE LEADERSHIP
Pessina has run WBA since 2015 after masterminding Walgreens' acquisition of Alliance Boots

Is your supply chain ready to deliver?

Having a fully integrated supply chain that can bring products to market in a way that enhances the customer experience – and grows the business – requires innovation and vision

In essence, the mission for any supply chain leader in the consumer goods industry is the same as it ever was: to get the right product in front of the right shopper at the right time and for the right cost. It's just that, in a world where shoppers can buy in-store, on a website, social media, via their smartphone and, with the advent of the connected consumer, by pressing a button at home to ensure they never run out of their favorite brands, that mission has become exponentially more complicated. The delivery options, too, are less straightforward: the consumer may want to collect it from a store, receive it at home, at work, or have it sent to a locker (the preferred option in Germany).

Robots in warehouses may be the most visible evidence of the new technologies that are rapidly transforming the consumer industry supply chain, but at present the most significant driver of change is the smartphone. Manufacturers and retailers need to embrace this while planning for another even more revolutionary technology: artificial intelligence.

Erich L. Gampenrieder, KPMG's Global Head of Operations Advisory and Global Center of Excellence, says: "In future, every party in the supply chain will rely on artificial intelligence (AI), because the network of AI systems will design the supply chain and automatically select the most effective chain."

AI could help firms handle the changes wrought by the smartphone – and the apps that empower it – which have facilitated the Millennial consumer's innate desire for instant gratification. Expectations for delivery or in-store collection have shrunk from three business days to next day, same day, and now, sometimes, within the hour. The 2017 Top of Mind Survey underlines the impact such demands are already having on the industry: 73 percent of companies give customers the option to buy online and collect; 69 percent offer free delivery and 62 percent deliver the same day.

The premium on customer experience – which Millennials and Generation Z consumers increasingly expect to be personalized – is a direct challenge to the traditional supply chain model, which was designed to deliver a large quantity of product efficiently at low risk and low cost. The quest to reduce costs – coupled with the opening up of many new countries to the global economy – led to the creation of complex supply chains that span the globe.

Cost will always remain a focus, but Gampenrieder says the choice that manufacturers and retailers now have to offer consumers is a compelling reason for organizations to explore – and adopt – a new model of supply that links different networks to the appropriate customer segment. "Companies are making customer service and brand loyalty a priority but many of them aren't recognizing the part that supply chains can play in that. No matter how good your product or pre-sales service is, you need the product to be delivered in a way that at least meets the consumer's expectations to ensure their loyalty," he says.

The delivery experience – and the returns process – can win or lose customers. In a 2016 study of online shoppers in the US and the largest European markets by delivery management technology providers MetaPack, 38 percent said they would never shop with the same company again after a poor delivery experience, while 48 percent said a company's returns policy had deterred them from making a purchase.

FLYING HIGH
In North America, 26 percent of firms say they are using drones – compared to 6 percent in the Middle East

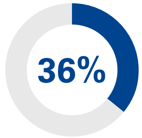
Where are we now?

The 2017 Top of Mind Survey suggests that many consumer-facing companies need to invest time, money and leadership in their supply chains. Only one in three organizations say they have fully integrated their supply chain, while 56 percent say they have integrated more than half of their supply chain. By 2019, just over half of companies expect to have integrated their supply chains.

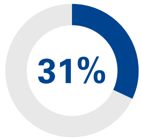
This matters because, as Gampenrieder says, "The demand that emerges most consistently in the survey is for greater speed – speed of delivery, speed of manufacture, speed to market and the speed with which companies can go from concept to finished product." The survey found that improving distribution was top of the supply chain agenda for 36 percent of

Top supply chain priorities

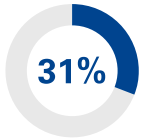
Improving distribution speed and efficiency



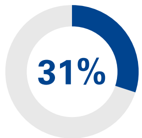
Improving manufacturing speed and efficiency



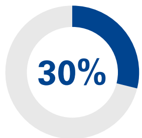
Forecasting trends in supply and demand more effectively



Ensuring quality and adherence to standards throughout supply chain



Measuring product profitability

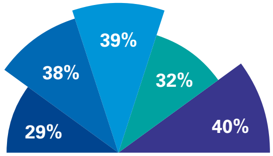


Source: 2017 Top of Mind Survey, KPMG International and CGF

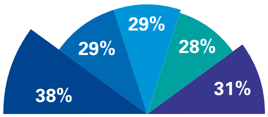
Top supply chain priorities, by region

- North America
- Europe
- Middle East/Africa
- Latin America
- Asia Pacific

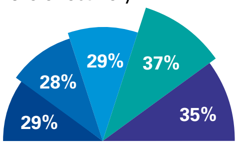
Improving distribution speed and efficiency



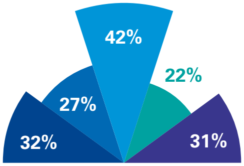
Improving manufacturing speed and efficiency



Forecasting trends in supply and demand more effectively



Measuring product profitability



FAST TURNOVER
In the FMCG category, Nielsen estimates that around 300,000 products a month are launched worldwide

IT'S PERSONAL
Marking its first WeChat sales, Cartier couriers, carrying fresh flowers, delivered 88 bracelets to 18 Chinese cities

companies, with 31 percent aiming to make their manufacturing speedier and more efficient, and 31 percent focusing on more accurate forecasts of supply and demand.

In a world of instant availability, where 52 percent of executives admit that changing consumer behavior is making the marketplace more volatile, the tried and trusted method of placing a forecast on the system, driving demand against that forecast, and relying on consumers to buy whatever you predicted 12 weeks ago just isn't going to work.

In a marketplace where trends, fashions and preferences are changing faster than ever before – a process accelerated by the regard Millennial and Generation Z consumers have for influencers and social media contacts – being able to react swiftly to these shifts could distinguish success from failure.

Demand-driven supply chains are still a relatively new concept, so there is no one-size-fits-all model and it is easy to make mistakes. There may be company cultural issues to consider, especially if supply chain's role is considered to be about process, not policy.

As **Andrew Underwood**, who leads KPMG in the UK's Supply Chain Management team, puts it: "Many people who run supply chains are trained to just do what they're told. Understanding consumer demand is usually driven by sales and marketing – and too often the supply chain just makes what they're told to do work. This is especially true when it comes to new products. Essentially they are not able to sense-check what they are required to do, let alone do the analysis and explore whether it would be more profitable for the company to rationalize its stock keeping units (SKUs) when a new product is launched."

So there may well be conflict if supply chain leaders become involved in more creative areas such as analysis, exploration and rationalization when managing risk and bottlenecks, meeting customer demands and performing efficiently. Clear policies about roles and prioritization for change are needed to manage internal politicking.

Supply chain leaders can help here by producing simple, impactful graphics – easily grasped by peers who may be hesitant about change – rather than weighty reports about improving performance, which may well get sidelined or not read at all.

Technology is a key driver, with 27 percent of companies improving inventory and resource-tracking with technology such as radio frequency identification (RFID) or near field communication (NFC) scanning. An enterprising minority of companies are also turning to 3D printing, virtual/augmented reality and robotics to improve the speed and efficiency of manufacturing.

A growing number of supply chain leaders recognize that the best way to exploit these technologies is through collaboration: between buyers and suppliers, buyers in different sectors, buyers in the same sector, established players and start-ups (in which the larger group may invest), and established players and the best academic research institutions.

From models to archetypes

For these initiatives to succeed, organizations need a much more accurate picture of their supply chain, how it serves consumers today and how it could serve them tomorrow. The first step is to reframe the problem. As Gampenrieder says: "There is no one supply chain. In the past year, the bi-modal supply chain has become fashionable – the idea being that you have one supply chain that focuses on efficiency and another that focuses on another need, for example, speed. That is a very simplistic model. It is more helpful to think about supply chain archetypes and how they relate to your customers."

These archetypes could be efficiency, flexibility, and capability – which might mean, for example, speed of response. These archetypes could help the organization profitably serve different customer segments. Efficiency – especially cost – will be critical for some consumers. For others, it may be how fast a product can be delivered – or how personalized the delivery experience is.

To effectively segment your supply chain – and understand which approaches are appropriate for which customers – you need accurate data – and the skills to analyze it. This is a serious challenge for those companies who have integrated less than half of their supply chain – one in eight respondents in the Top of ▶

DEMAND DRIVEN
KPMG's research shows that demand-driven supply chains can boost sales by 1-5 percent and cut costs by 5-10 percent

Mind Survey. Yet even companies that are further ahead of the curve can struggle with this issue.

Since 2008, supply chain leaders have performed heroically, taking billions of dollars out of their company's cost base. Yet ironically many businesses still don't know which products in their portfolio are genuinely profitable.

This lack of transparency is, Gampenrieder says, costing businesses money. "Supply chain leaders can go to their CFOs with a compelling argument to run an initiative to provide the right data because they could then calculate the contribution of every SKU. Just imagine what they could do with that degree of transparency. You might decide, strategically, that even if a product is not making a profit, it's still something you need to have in your portfolio, but it does mean that your decision will be supported by facts, not gut feeling."

Such data could make a significant financial difference to businesses. As **Paul Martin**, Head of Retail for KPMG in the UK, says: "If the rule of thumb is that 1,400 SKUs cover 80 percent of a food-shopping trip, does it make sense to have 2,500 SKUs in your store? Reducing complexity – and complexity is always costly – can help you compete."

If retailers and brands could precisely calculate which SKUs generated 80 percent of their sales – and adjusted their portfolio accordingly – they could either increase their margin on each transaction or pass on the savings to the customer.

The Top of Mind Survey shows that nine out of ten customer-centric companies are using data analytics in procurement, customer segmentation and product portfolio management. Difficulties with finding the right talent has hindered their efforts: significantly, 31 percent of executives were not confident that they had the right data analytics skills within the organization. Yet these companies have, at least, begun the process of building a supply network that is focused on understanding the latest customer behavior trends, fulfilling expectations more efficiently and driving growth. Demand driving supply, rather than supply driving sales.

HOME GROWN
In Berlin, Metro supermarket grows such products as wasabi mustard greens in-store for consumers to buy

The dividend for building these networks is clear. "Our research shows that companies with supply chains that are truly driven by demand can grow sales by 1-4 percent, cut operating costs by 5-10 percent and reduce inventory by 20-30 percent," says Gampenrieder. In a marketplace where companies are looking to take every last cent out of cost – and win every cent spent by the customer – these figures offer a significant return on investment.

Rethinking sourcing strategies

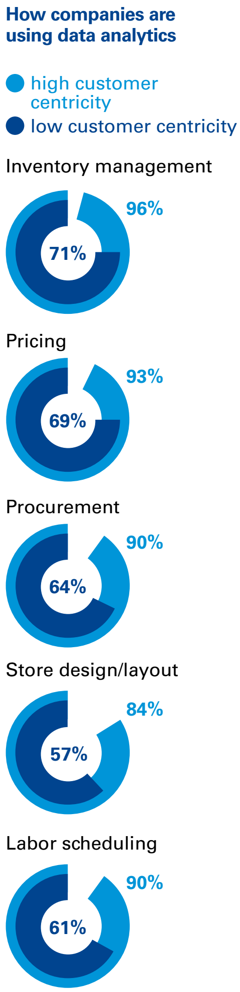
Changing patterns of consumer demand are encouraging many firms to reappraise their sourcing strategies. As Emmanuel Faber, CEO of Danone, says: "We want to offer products that are genuinely considered by consumers and their communities to be at least locally relevant and, even more importantly, locally made, prepared, related or rooted."

To that end, the food and beverage giant has created a cluster of 30 units, across seven regions, that effectively form the organization's infrastructure and make locally rooted decisions. Food has always been culturally specific and, despite the globalization of fast food chains and some brands, the consumer urge to buy local, driven by concerns over sustainability and rising nationalism, is a global trend.

Catching this wave, global food wholesale group Metro AG has decentralized its decision-making to give individual countries the authority to tailor their product range to local needs. Although this program only started 18 months ago, it is already stimulating Metro's business in India, where there are eight major regional variations in cuisine.

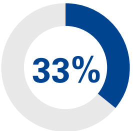
Even as global a company as PepsiCo recognizes that it can make sense to behave like a local player in some markets. For instance, it continues to tailor Quaker to local taste preferences and routines around the world – expanding the brand into new categories and enabling more consumers to add whole grains to their diet.

That kind of thinking has driven beauty company L'Oréal to invest heavily in R&D in China and, more recently, in a new lab in Johannesburg, South Africa.



Source: 2017 Top of Mind Survey, KPMG International and CGF

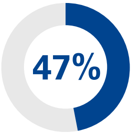
Supply chain integration



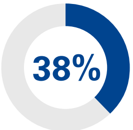
say all or nearly all of their supply chain functions are integrated.

This is particularly true for:

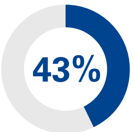
Companies with a higher % of online sales



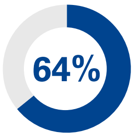
Companies with Customer Experience as their top priority



Companies with higher growth



More customer centric companies



Source: 2017 Top of Mind Survey, KPMG International and CGF

LOCAL HEROES

In 2016, global consumer spend on local brands grew 3.9 percent and 2.6 percent for global brands, says Kantar Worldpanel

The haircare market in South Africa was, Euromonitor estimated, worth around US$450 million in 2016 and L'Oréal is determined to develop a range of original haircare products to suit the tastes of middle-class African women rather than merely import brands developed for black consumers in the US.

The other attraction of local sourcing is that it significantly reduces risk, one of the most pressing supply-chain priorities for 25 percent of CEOs interviewed for the Top of Mind Survey.

"One European automotive group recently lost millions in revenue when one of its suppliers couldn't supply parts," says Underwood. "Companies are asking themselves: 'How do I de-risk the supply chain?' They have this long, complex, unwieldy supply chain that stretches across the world, and they want to reduce that risk. One thing would be to make the product closer to the end market, and not to have your products or components travel halfway around the world to reach customers."

Fast and furious

The need to get to market faster is also reshaping supply chain strategies. The trend of 'fast fashion' surfaced in Japan as long ago as 2008. With the growing influence of Millennials – who have been dubbed by some industry analysts as 'Generation Now!' – 'fast fashion' has gone global and reset consumer expectations in many other sectors, from food to luxury goods, spurring many firms to focus on accelerating their cycle from design to launch.

Dr. Christoph Zinke, Leader of KPMG's Global Strategy Group in China and Asia Pacific, says that many companies in China are focused on going from concept to delivery in four to six weeks. For the more than 10m businesses that sell their wares on WeChat, timescales and demand can be much less predictable. In February, Givenchy teamed up with WeChat blogger Tao Liang, aka Mr Bags, to sell 80 exclusive pink handbags. It took just 12 minutes to sell them, generating revenue of US$173,652. Luxury sports car brand Maserati sold 90 cars of their new model in less than ten seconds, generating US$ 12million in revenue. Both brands were prepared for that frenzy, but imagine the strain on their supply chains if one of WeChat's key opinion leaders had recommended them, without warning them in advance.

British online fashion brand Boohoo now turns around collections in two weeks and has grown into a US$378m business since it was founded in 2006, having recently diversified into the US. That success has been built, in part, on the fact that 75 percent of its suppliers are based in the UK.

Fast Retailing, which owns the Japanese brand Uniqlo, has announced plans to go from design to delivery in 13 days as it seeks to grow revenue by 70 percent by 2021. To achieve that – and boost direct-to-consumer sales – the company plans to automate its operations as much as possible, tracking products from packaging to delivery, offering faster delivery options in Tokyo and using AI to forecast sales patterns.

That kind of speed – and its impact on, for example, inventory costs – will benefit brands and retailers. Yet the primary reason for trying to shorten the sales process – and accelerate delivery – is because, in many sectors and countries, if companies don't, they simply won't be able to compete.

Delivering in real time to Millennials who, spoiled by apps and smartphones, expect a slick user experience – and don't easily forgive those who disappoint them – is especially critical when consumers can complain in real time.

With the kinds of investments Uniqlo and others are making, the supply chain is at the dawn of a new era in which networks will increasingly be designed – and managed – by AI-powered software.

Billions of dollars are being invested to deliver this solution which, Gampenrieder says, is reaching a critical stage. "If you look at it in context of the classic six-stage service cycle, AI has moved from exploration through to innovation and is now in development, which means it is ready to be used – and mature enough for companies to build a case to ensure they benefit from it."

These new AI-driven supplier networks would be able, Gampenrieder says, to manage anticipatory shipping; flexible sourcing (where the system can react ▶

STORE KEEPER
Australian firm Shelfie is in talks to roll out 2,300 stock-checking, price-scanning robots in UK supermarkets

promptly and cheaply to redesign the process and learn from that); real time demand alerts (with warehouse stock levels automatically reported to the AI system); and real time monitoring of transactions. They would also be able to learn from events to make supply as seamless as possible.

"With advanced planning and scheduling tools, we have been able to explore events in detail for some years," says Gampenrieder. "Now this process can happen automatically. If an event occurs a set number of times in a certain period, the system will analyze the problem and learn from it to develop a solution."

Used correctly, Gampenrieder says, AI could turn supply networks into engines of growth, offering new services to customers. "To take one example, you can already provide a predictive maintenance service to a retailer, warning a supermarket that three of their refrigerators could go down in the next 24 hours. Many companies who think about Industry 4.0 would say, 'Isn't this a cool app/feature?' instead of thinking about a new business model or service that can be generated, supported by the app/feature."

The importance of innovation

Traditionally, CEOs have not expected their supply chains to be innovative. Indeed, innovation in this area has almost been perceived as risky. That is starting to change. One leading smartphone group has, for example, worked with a KPMG firm to develop a system that allows category managers to incorporate feedback from social media into their supplier evaluations. In years to come, not innovating may well be the riskiest thing supply chain leaders can do.

To create an entrepreneurial, value-creating supply network, organizations will have to overcome some internal cultural obstacles.

Forecasting trends in supply and demand was a key concern for 31 percent of companies in the Top of Mind Survey. Yet only 16 percent said they considered aligning their front-end and back-end operations to be a top priority.

This failure may be partly historical: in the evolution of many organizations, the technological capability to share information is a relatively recent development. Internal politics may play their part too – one function may not see the bigger picture or understand the benefits.

LOGISTICS
Autonomous driving of trucks could reduce freight costs by 40 percent a mile, a report by logistics group DHL estimates

Sometimes, the buy-in from the top is lukewarm, transient or unhelpful – supply chain transformations take time to bed in and too many companies are tempted into making too many changes at once, which makes it harder to measure whether you are achieving your objectives.

Supply chain leaders are not always adept at making their case, sometimes because they are not steeped in the nuances of wider business conversations. This increases the risk that the board, not comprehending the significance of the gains to be made, may prioritize other issues that seem more pressing or immediately rewarding.

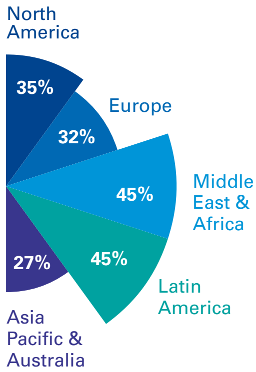
In the past, when the consumer was more predictable, competitive advantage more enduring and routes to market were fewer, a manufacturer or retailer's business model might last for decades – along with its supply chain model. Today, in many sectors, established players are having to fight for share of wallet with a host of new competitors, many of them start-ups, driven by new business models and financed by investors who can see the profits to be made in disruption.

As **Willy Kruh**, Global Chair of Consumer & Retail for KPMG International, says: "Many different models are being formed: subscription models (Netflix), freemium (LinkedIn), on-demand (Uber), marketplace (eBay) and experience (Apple). As a consumer company, you need to understand what's driving these models, how your business fits in – or doesn't – and whether this model is relevant for you."

With an easier route to market, start-ups can rapidly change the competitive landscape, forcing established players to rethink everything from their customer proposition to the design of their supply chains.

In a world where companies may find it desirable to operate several business models at once, their supply networks will need to be responsive, capable and flexible. The challenge for supply chain leaders is to create networks that can be reinvented as the business reinvents itself. ■

Fully integrated supply chains by region



Percentage of companies with integrated supply chains by proportion of online sales

29%

Where online sales account for 30% of revenue or less

40%

Where online sales account for 31-60% of revenue

47%

Where online sales account for more than 60% of revenue

Source: 2017 Top of Mind Survey, KPMG International and CGF

"Supply chains can inspire brand loyalty"

To improve the customer experience look to your supply chain, says **Erich L. Gampenrieder**, KPMG's Global Head of Operations Advisory and Global Operations Center of Excellence

Businesses understand the need to improve customer service – and to improve their speed to market – but some companies have been slow to recognize how the supply chain can help them achieve those goals. This is surprising because if customers don't like the way you deliver your products, they are much less likely to trust your brand and stay loyal.

The drive to improve faster and reach the market faster is modifying the way organizations think about their supply chains. Traditionally, the focus has been on minimizing costs and risks. The opening up of emerging markets to the global economy facilitated this quest, but has created some truly complex supply chains.

Reducing cost will always remain a priority but companies are beginning to take a more holistic view in which the desire to make savings is balanced with an assessment of the impact on customer satisfaction.

Even for those companies for whom cost is still top of mind, the emphasis is changing. Many businesses are looking to take the complexity out of their supply chain. They need to do this intelligently – it's not as simple as just taking out a number of poorly performing suppliers – but it can make supply chains significantly more economical, effective and responsive.

The obvious place to start is portfolio management, an area where different functions have different perspectives. If you talk to sales, they will want to sell every product everywhere they can – especially when it comes to new products – and they won't particularly worry about the expense. For production, the key metrics are unit cost and utilization rates.

Supply chain leaders can bring their expertise to the fore here. They are better placed than anyone to understand which products are genuinely profitable and which aren't. At KPMG, we take a holistic view of product profitability – some stock keeping units (SKUs) that are unprofitable at the moment may be strategically vital to the business as it goes forward – but it's important that these decisions are informed by facts, not gut instinct.

When you've looked at your portfolio, the next question is: how do you get your products to the customer? This brings us to the topic of network design and some key issues. Where do we produce what? Do we produce it, or does it make more sense for a third party to produce it? What does our make or buy analysis say? Do we cluster certain products on one site globally, which makes our supply line more efficient? Where do we do the packaging? What is our policy on inventory? Do we use – and this is a very big topic at the moment – postponement management?

There are a lot of significant strategic and tactical decisions to be taken. These are all things that organizations need to simulate and put into scenarios before they make decisions.

What is clear is that, with this improved and massively increased power of information technology, you can now do something you couldn't even five years ago, and really begin modeling your supply chain.

In this competitive environment, it's not good enough to look at your supply chain and apply some very simple criteria to cut out a number of suppliers. It's very easy to get those decisions wrong. With the analytics available today, it is not that difficult to model supply chains, using algorithms to explore very complex problems, and calculate what is really optimal for your organization and the customers you serve.

There is nothing quite so pointless in business as doing something very efficiently that doesn't need to be done. In a market experiencing many kinds of disruption at once – where business models can rewrite the rules of competition almost instantly – supply chain leaders do not have time to waste on unnecessary complexity.

Erich L. Gampenrieder
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KPMG International
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SMART DATA
Designing the optimal supply chain to serve your business – and your customers – is now possible with data analytics

"Creating value through digitization is a historic opportunity"

Olaf Koch, CEO of Metro AG, says digital will be a game-changer for the food wholesale group

What is Metro's strategy?
In our wholesale business, we are there to help SMEs – for example, independent restaurateurs, café owners and small grocery stores – be more successful. In the 25 countries we operate in, we have given local teams the authority to tailor the business to suit their customers.

The hospitality industry in Europe is, on the SME side, almost entirely analogue. We're talking about 1.8 million entrepreneurs in Europe who generate sales of approximately €420 billion sell-out value (US$470 billion). The operating system of most of these businesses is a piece of paper and a pencil.

Replenishment, for example, is driven by gut feeling, not data. By making data accessible, we have an enormous opportunity to help and support. Replenishing more accurately will lead to less shrinkage, save money and help the environment. With the data, you know instantly if it was a good day, which part of your restaurant did well and which didn't.

What is the biggest impact technology has had on your business?
We are in a completely transparent market. In a split second, one can find out the price point of a product, its pros and cons and the quality of service. Yet, if we build relevance and show commitment to our customers, that is also apparent in a split second.

These insights have changed our focus from operations to customer dedication. We are in the relationship business and we have to consciously acknowledge that the customers decide success and failure. Thus, we need to anticipate and meet their needs and wishes. If we're clear about who we are serving, we can adjust the offering and the format accordingly and initiate a cycle of interaction with customers about where we can do better and supply incremental value.

For us, customer centricity is directly correlated to employee engagement. We are a people's business. As a result, our focus has been, and still is, on raising employee engagement. We are now at 76 percent – the industry average is around 64 percent. If you ask me, the correlation between employee engagement and customer satisfaction is not linear: it is exponential. You see this reflected in the Net Promoter Scores: at the best stores, the store manager, department managers and associates work closely together.

Has global volatility changed your strategy?
It has intensified our determination to distribute more authority locally. The typical Metro format used to be driven by standard operating procedures (SOP). In 2012, we allowed countries to adjust the product range. In 2015, we said to our local managing directors: "Here are the keys, you are now the CEO. You are free to adjust the product range, marketing mix, whatever. You cannot touch compliance, financial reporting, bookkeeping, food safety, quality or brand. Otherwise, you're free. So please never fall back on the excuse of blaming head office." Furthermore, we changed our boardroom culture into an operating partner model. Every company has a dedicated operating partner with whom they develop a value creation plan. This has helped us operate in some tough markets. Teams are quick to make the necessary decisions and they're not waiting for head office approval.

What is the big opportunity for Metro?
To strengthen the relationship to our customers by building more relevance for them. In this context, digitization will be game-changing. For us, it has the potential to create much more value for our customers, cement our links with the community and help us become a meaningful partner for SMEs.

THE RELATIONSHIP GAME
Understanding both our people and our customers is vital to the success of our business

Emmanuel Faber, CEO, Danone

"If you want to be fit for the world we operate in today, you need locally rooted decision-making"

Danone CEO Emmanuel Faber says success will be driven by a mix of local and global brands

How would you define Danone's strategy?
Our strategy flows from our mission: bringing health through food to as many people as possible. We are building a portfolio aligned with long-term healthier food trends, with a mix of both global and local brands. We want to offer products that consumers genuinely consider as at least locally relevant, and more importantly, locally made, prepared, related or rooted.

How do you expect Danone to grow over the next few years?
Essentially from consumers switching to our categories. We've chosen categories that are among the top ten fastest-growing in the food space globally, whether that's water, baby food, medical nutrition, plant-based products, organic products or fresh dairy. People are adopting them as part of their diets – that is where we expect most of our growth to come from.

Is data key for understanding consumers?
Yes. The question is: how much tactical information do you get from e-listening to consumer data or data analytics versus strategic information. You get a lot of tactical information: that person is located there – is he or she doing 'this'? I know that when he or she is doing 'this', I have a selling opportunity, which is very important. But I'm not sure how much strategic information you get, in terms of consumers' longer-term behavior that would dictate a significant shift in brand positioning. Food is about human science, so it's vital to keep an eye on sociology, food styles and habits. One way to put consumers at the center of our business is to change how our brands connect to them, starting with how a brand gains the right to be part of a consumer's conversation with their community.

Consumers are becoming more interested in brands that take care of the environment and communities. How does Danone fit into that?
Consumers have different expectations of brands today. They want more transparency and to be able to trust brands. And they are looking for people behind those brands who

INNOVATION DRIVE
Danone has created a function to stimulate innovation, reporting directly to CEO Faber

are authentic activists. We believe that eating and drinking well contributes to better health, and we want to promote healthier and more sustainable eating and drinking practices that nourish the health of individuals as well as the planet. This is the Alimentation Revolution that Danone wants to inspire and drive.

What are some of the concrete actions Danone has taken in that perspective?
We strive to be a game changer to foster positive solutions. For example, we are increasing the number of choices we offer consumers through initiatives such as the Danone pledge on sustainable agriculture, naturality and transparency in the US, and offering more choices about the use of GMOs or not, while also enhancing transparency with clear information on product labels. We also actively engage in the circular economy for key resources like milk, water and plastics. And we have committed to become a carbon-neutral company. Meanwhile, our partnership with B-Lab underscores our long-standing commitment to business success and social progress. By certifying as a B Corp, we will be making sustainable business mainstream. This is also a clear move towards enhancing the transparency of our actions.

The past year has been particularly volatile. Has that had any impact on your business?
Several societal and consumer trends have led us to accelerate our program of localization. We have 30 clusters, which are small groups of countries in seven regions, that operate as the backbone of Danone. If you want to be fit for the world we operate in today, you need locally rooted decision-making. That's why we delegated company-wide decisions to the regions.

What would you say are going to be Danone's greatest challenges in the future?
Improving execution in everything we do is currently a key priority. We're developing new products and paying even greater attention to putting them in the market in an optimal manner. The big challenge for us is maintaining the balance between discipline and freedom, speed and preparation. It's a serious one because we are facing increased local competition that is not very disciplined but is actually very agile, and also from companies much bigger than us that are probably not as agile but much more disciplined. So we must be sure to put a very, very strong focus on our execution.

Can automation grow your business?

Embracing new technology is vital for your business. But what you adopt – and how you implement it – can make all the difference to your company's performance

If you don't have an AI strategy you're going to die. That was the bold claim made by Devin Wenig, President and CEO of e-commerce platform eBay, at the e-commerce event ShopTalk in March in Las Vegas. **David Neely**, Managing Director, Technology and Process Enablement, KPMG in the US, doesn't go that far but he does say: "Over the next two years, we believe that a rapidly expanding number of businesses will use these technologies to lower costs, reduce risk and improve service. Companies that sit on the sidelines risk being put at a competitive disadvantage." On recent evidence, regaining a competitive edge in a consumer marketplace that is changing so quickly – and on such scale – is significantly harder than it was five years ago.

The fifth annual Top of Mind Survey shows that a discrete array of technologies at different levels of maturity – AI, mobile computing, cloud computing, internet of things, virtual/augmented reality, robotics and 3D printing – are already transforming the businesses of manufacturers and retailers across the globe. The internet of things has attracted investment from 33 percent of the 526 companies surveyed, while 34 percent say they are using 3D printing and 32 percent have installed robots to perform basic repetitive tasks. A surprisingly high number – 38 percent – say they are using chatbots (though it is possible that many companies are not distinguishing between bots and other automated voice products) and 21 percent have embraced virtual/augmented reality. The fascination with these technologies is remarkably consistent globally, though North America has led the adoption of robotics and drones, while virtual/augmented reality is particularly popular in the Middle East and China.

The survey suggests that many manufacturers and retailers have joined what is called the Fourth Industrial Revolution but are they moving fast enough? The International Federation Of Robotics estimates that 40 percent of the robots installed worldwide in 2016 worked in the automotive sector, while as few as 4 percent are deployed in the consumer industry. The planned level of uptake looks set to change dramatically by 2019, according to the findings of the 2017 Top of Mind Survey, with 64 percent of companies expecting robots to perform basic repetitive tasks in their business and 47 percent saying they will be using Artificial Intelligence (AI).

REALITY BITES
More than half of Chinese consumers say they use VR or AR once a week, according to research by Worldpay

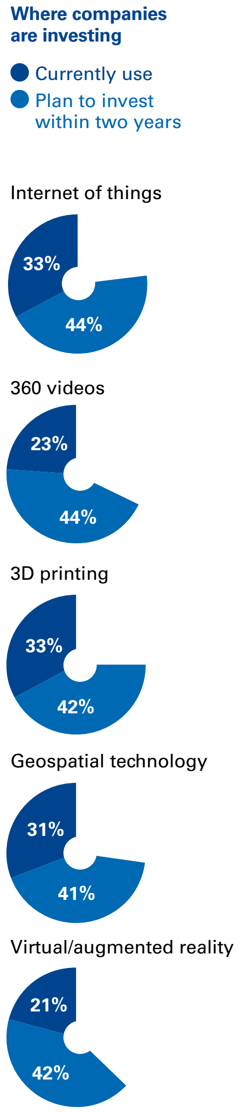
The curiosity about AI and robotics in the C-suite is immense – as is awareness of possible risks – yet Neely cautions that companies need to look further than hiring a few robots in the warehouse or spending US$25,000 on a robotic sales assistant such as Pepper (tens of thousands of which have been installed across Asia and Europe). "Companies have to think strategically about this," says Neely. "How do they want to leverage these technologies across the business? Where is the value? How are they going to organize to support this? What are the resources required? What are the new processes and governance they need to put in place? You need to think through those issues before you build a technological capability that can have a significant impact on your business."

Less cost, more efficiency

The 2017 Top of Mind Survey reveals that early adopters of AI and robotics among manufacturers and retailers in the consumer goods industry have a variety of motives. The most obvious one, lowering operating costs, is cited as a key benefit by 27 percent of businesses using basic robotics and by 23 percent of those investing in cognitive robotics (AI-powered machines that can learn).

The desire to be more efficient and agile is driving investments in drones, robotics and the internet of things. Sometimes, efficiency can be as simple as keeping shelves full – a practice that can be slow, and expensive, for staff to do. In the UK, supermarket chain Morrisons has reduced gaps on shelves by 30 percent after trialing a new AI-driven solution.

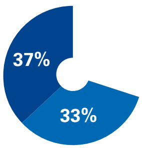
In its quest for efficiency, Ocado, the UK's online food retailer, has begun to revolutionize its distribution. Using armies of robots to collect products from a densely packed three-dimensional grid, it can reduce the average time taken to pick a customer crate from around two hours to 15 minutes. Ocado is also



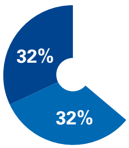
CUSTOMER SERVICE
At German fashion retailer Solebox's Berlin store, a robot delivers shoes from stock to the shopper in-store

TEST FLIGHTS
JD.com will trial the use of drones to deliver food from agricultural areas to cities in Shaanxi province

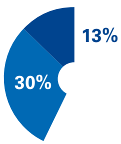
Chatbots



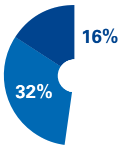
Robotics – basic



Robotics – enhanced



Robotics – cognitive



Source: 2017 Top of Mind Survey, KPMG International and CGF

collaborating on Soft Manipulation (SoMa), an intriguing project funded by the European Union to develop a robotic arm that can pick fruit without crushing it.

Cost and agility are at the heart of PepsiCo's investments. Brian Newman, Executive Vice President, Global Operations, says that advanced robots and autonomous vehicles are helping it "manage cost savings, increase productivity, and improve efficiency. We can run 24 hours using machines, which enables us to put human capital and costs where they create the most value, and leverage technology to do the day-to-day chores requiring fewer skills. Leveraging technology takes costs out of the system to drive greater efficiencies, while we simultaneously train our workforce to adapt to new technology." PepsiCo's interest in automation is also spurred by what Newman describes as "the need to significantly reduce our development cycle time – from iteration through commercialization and delivery on shelf."

Technology for growth

Historically, the implementation of new technologies hasn't simply cut costs and improved efficiencies, it has driven growth. AI and process automation can help companies handle a greater volume transactions without growing the workforce – for many organizations growth is constrained by the expectation that they are not allowed to hire. The latest technological revolution is an opportunity for manufacturers and retailers to drive revenues by launching services and solutions that create new touch points with consumers.

The 2017 Top of Mind Survey shows that many firms are focusing on this. Enhancing the customer experience is key for 27 percent of companies with chatbots, 24 percent of those investing in augmented/ virtual reality and for a fifth of those using 3D printing.

AI is already transforming e-commerce – a revolution led by 'digital first' brands and etailers – but, even though four out of ten companies surveyed say they are using AI to improve their customer service, there is so much more that can be done both in terms of execution and strategy.

Let's look at execution first. Studies by the Baymard Institute suggest that 68 percent of online shopping carts are abandoned before purchase – which means fewer than one in three shoppers actually complete their purchase – a failure which, Business Intelligence estimates, costs the consumer goods industry at least US$4 trillion a year. Fully cognitive websites could recoup most of those lost trillions by taking customers on a much easier journey, ensuring that they buy before fatigue or distraction strikes, thereby increasing their average spend and, by crunching shopping patterns, remind them to replenish their favorite brands before they run out.

The quality of customer care companies offer could, Neely says, be more consistent: "You see companies in the marketplace with big customer service organizations and, when a request comes in from a customer, the analysts figure out how to respond to it. Often they'll handle similar requests in different ways – it can be slow, time-consuming and, in terms of what it delivers to the customer, inconsistent. So why not use machine-learning technologies to interpret emails, recognize the different kinds of questions customers ask, and automatically select the appropriate response that best meets the customer need?"

Used appropriately, AI could help companies resolve one of the conundrums created by the many different ways consumers can now shop: how do they ensure that the consumer is offered a clear, consistent view of the business at every touch point?

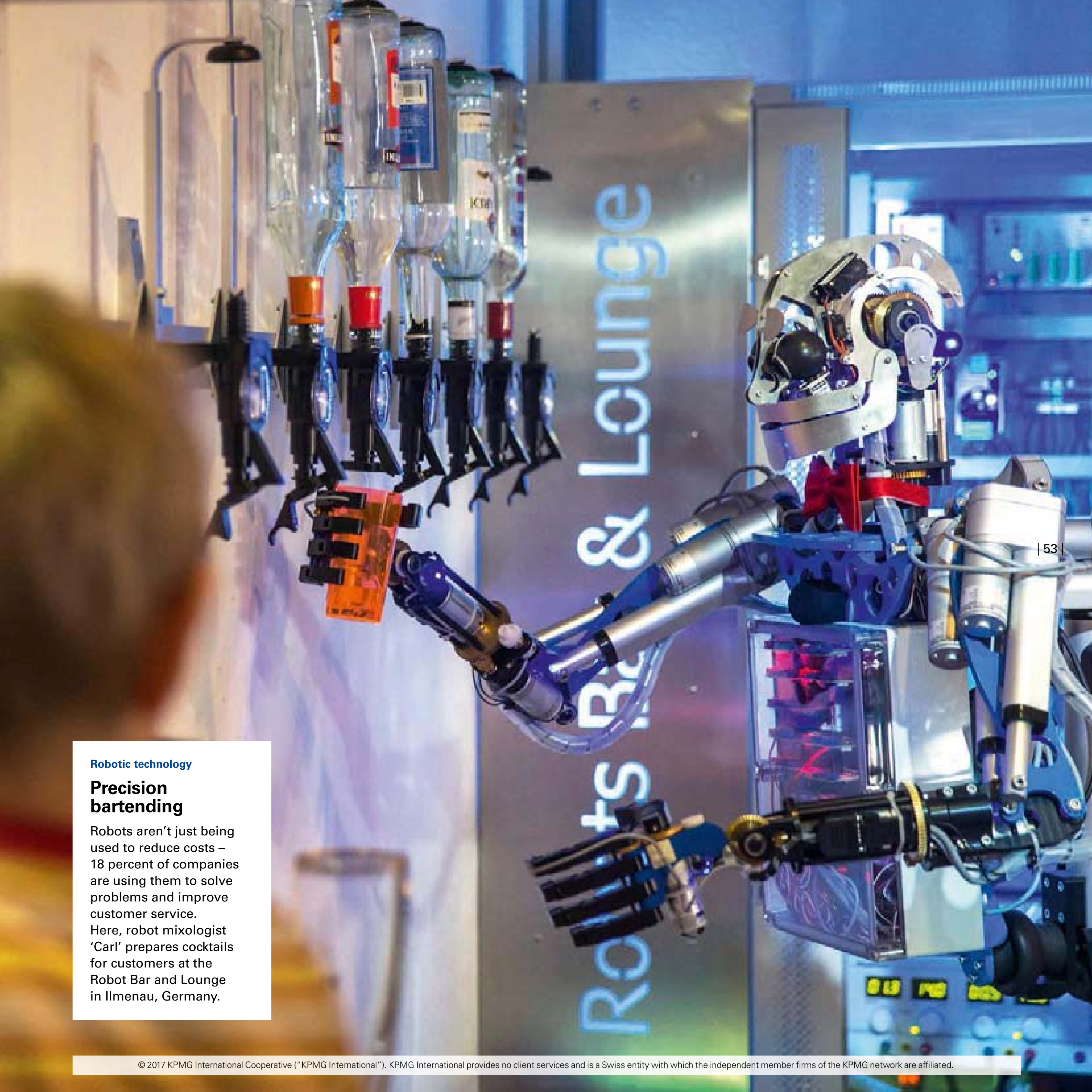
As Roberto Meir, CEO of Brazilian media group Grupo Padrão, says: "As a consumer, as soon as you get a problem, you call the customer center and you realize they don't like you any more because, as it's after-sales, and you're no longer making them any money. You've stopped being a customer and become a costomer. That's C-O-S-T."

Companies who want to change that mentality face another operational obstacle. Digital infrastructure firm Dimension Data estimates that in 2017, the typical customer service center will support an average of nine channels, but it also found that only 36 percent of those centers could track a customer journey across all of those channels. ▶

3D printing

Treats with personality

A 3D-printed strawberry ice cream in the form of North Korean leader Kim Jong-un is unveiled at an ice cream parlor in Shanghai, China. Around 33 percent of companies are already using 3D printing in some form and 42 percent expect to be using it within the next two years.



Robotic technology

Precision bartending

Robots aren't just being used to reduce costs – 18 percent of companies are using them to solve problems and improve customer service. Here, robot mixologist 'Carl' prepares cocktails for customers at the Robot Bar and Lounge in Ilmenau, Germany.

Artificial intelligence

Rich pickings for supermarkets

UK online supermarket giant Ocado is rolling out one of the most radical innovations in retail automation yet. The Ocado Smart Platform uses armies of robots to pick products from a densely packed three-dimensional grid or 'hive', which lowers pick time from two hours to 15 minutes. By 2019, 64 percent of consumer goods companies will be using basic robotics.

Augmented reality

'Try before you buy' beauty products

Augmented reality is helping to drive more customers in store in Japan by allowing them to see how make-up products will look before they buy. Around a quarter of companies say the primary benefit of VR is to enhance customer experience.

OPENING UP
Facebook is creating a shared open resource of data for programmers to develop chatbots that can hold conversations

Losing track of consumers will not help brands or retailers solve another conundrum: how do they mine the vast amounts of data they are accumulating to make their proposition more relevant?

While 65 percent of companies say they have invested in advanced data analytics, only 33 percent say they use it regularly to help them segment customers. This is particularly striking because 84 percent of the high-growth companies – with revenues that are increasing by 6 percent or more a year – say data analytics is at the heart of their customer segmentation strategy.

The question managers should be asking themselves, says **Willy Kruh**, KPMG's Global Chair of Consumer & Retail, is: "We know a lot more about our customers but are we really any the wiser?"

This question resonates with Emmanuel Faber, CEO of Danone, who says: "Using AI to analyze data to get closer to the consumer is, for us, more of a priority than robotics." For Faber, AI is part of the answer – it can extract insights from the tactical data about consumers that will create more selling opportunities – but it needs to be accompanied by qualitative, almost anthropological, research into the long-term lifestyle and health trends that will help it to keep its brands relevant.

Overwhelmed or empowered?

At the moment, too many businesses – and marketing departments – find themselves overwhelmed by data, rather than empowered by it.

Greg Creed, CEO of restaurant group Yum!, says: "Too many companies think that, because they have data, they have a secret weapon. Yet we need to distinguish between observations – what's going on? – and insights – why is it going on?"

The strategic need is for retailers and manufacturers to use AI to drive the kind of innovations that thrill Millennial consumers, who are so hungry for new experiences they will spend money they don't actually have.

Recent research by pollster Harris found that 48 percent of Millennials in the US either have received – or would be willing to receive – shopping recommendations from a chatbot.

READY TO BUY
37% of American consumers say they would be willing to make a purchase through a chatbot

Their deep desire to engage with brands has encouraged such innovations as virtual reality apps for cosmetics, start-ups that use smartphone photos to select the right bra size for shoppers, product matching software that will recommend the right wine to accompany a meal, an app through which customers can order a coffee just by saying what they want, a service enabling customers to purchase new razor blades with a one-word text and visual search technologies through which consumers can share a photo of their favorite item of celebrity apparel with a retailer who will help them find an equivalent.

Many companies are already using AI in their product development – 85 percent of customer centric companies in the Top of Mind Survey said they were doing so. In the summer of 2016, the world's first range of beers brewed with the aid of AI were launched by Intelligent X. Codes printed on the bottles direct drinkers to the company's Facebook Messenger bot which quizzes them about their preferences and processes the data to spot trends and recommend changes to the brewing process.

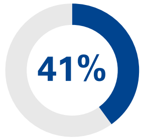
Other companies – such as Irish food-tech start-up Nuritas – are being even more ambitious, using AI to discover how to unlock the molecules in foods that could fight many diseases.

In the retail sector, companies are experimenting with self-driving carts, stores with no staff that can open 24/7 and be 99 percent managed by an app (one has already opened in rural Sweden), and smart shelves that read shoppers' moods and use that insight to boost sales (although, it must be said, the latter initiative runs the risk of alienating consumers who are concerned about their privacy).

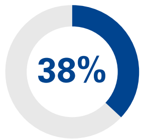
None of these are revolutionary breakthroughs in the vein of Uber and Airbnb, where technology has created new business models. And, as Neely says, companies need to focus rather than play with each "fancy new tool" that comes on to the market. Yet this discrete array of technologies is already pointing to a future where, if brands and retailers are bold, agile, and innovative enough, they can stop fearing disruption and drive it for the good of their business.

Most common uses for AI/machine learning

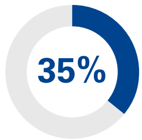
Customer service



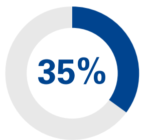
Warehouse optimization and automation



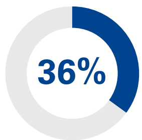
Smart shopping carts



Product design



Demand forecasting



Source: 2017 Top of Mind Survey, KPMG International and CGF

"CFOs take the lead in introducing robots"

David Neely, Managing Director, Technology and Process Enablement at KPMG in the US, urges companies not to get left behind as intelligent automation transforms the industry

Artificial intelligence and process automation will give early adopters a significant competitive advantage within the next two years. The rationale for investing in these technologies is compelling. For many manufacturers and retailers, reducing or containing operating costs is a priority. The value proposition for robotic process automation technology, essentially applications that carry out a business process just the way a human worker does, is pretty straightforward – it offers businesses the ability to free employees from repetitive, transactional activities. If the bots perform these repetitive tasks, you free people to focus on higher value-added work.

Beyond simply automating processes, these technologies, through the use of Natural Language Processing (NLP) are also being used to improve customer service, one of the key issues for companies in the 2017 Top of Mind Survey. Chatbots, for example, can provide high quality, consistent and more efficient customer interactions for companies with large service operations.

Intelligent automation technologies are changing the economics of outsourcing and shared services operations and are allowing companies to fundamentally rethink their operating models. Companies can achieve the cost savings of outsourcing while retaining functions in-house or create virtual shared services without the need for physical co-location.

One of the challenges is knowing exactly what technology to invest in and how to apply it to your business. Companies that say: "Hey, there's this cool software out there, let's play with it", are unlikely to successfully embed this new capability. The companies that have been most successful in leveraging these technologies at scale have viewed intelligent automation as an enterprise capability. They have taken a strategic approach to matching software functionality with business needs and then defined the organization, processes and governance to support and sustain the capability.

A key question that arises when first considering implementing intelligent automation is determining the logical sponsor and owner of it within the enterprise. There is no single right answer to this question, however – we frequently see CFOs leading the initial evaluation and introduction of these technologies. As the capability takes hold, we see companies evolving Automation Centers of Excellence to support delivery of automation services to the business at scale.

Over the next two years, we believe that a rapidly expanding number of businesses will be using these technologies to lower costs, reduce risk and improve service. Companies that sit on the sidelines risk being put at a competitive disadvantage.

GROWTH PLAN
Robotics can help companies grow – and handle more transactions – without needing to hire more staff

David Neely
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Aliko Dangote, CEO, Dangote Group

"Build from the ground up, and you can solve problems before they arise"

Aliko Dangote reveals the vision that will help his group grow fourfold in the next three years

One of Africa's largest manufacturers, Dangote Group has many businesses – food, cement, steel, real estate, telecoms, haulage, port management, oil and gas – united by one purpose: to meet the 'basic needs' of Nigerians with local, value-added products and services.

In 2016, group turnover was US$3 billion. CEO Aliko Dangote is predicting fourfold growth over the next three years. In most of its markets, Dangote has a share in excess of 35 percent. It claims 65 percent of the Nigerian sugar market, despite two large competitors, while its flour-milling business is set to process over 1 million tonnes of wheat. Dangote explains this success in one word: quality. "From the start, we knew customers wouldn't trust our brand," he says, "because they've been used to one brand for over 50 years. So we make sure our quality is the best and we name a very good price". Would they be prepared for a price war? "We don't need to crash the price unless someone wants to take us on. Then we'd be ready."

To guarantee quality – especially in new markets – Dangote invests in its own high-tech equipment, infrastructure and logistics, rather than buying established firms. In Africa, where new technologies don't reach every country at the same time, the CEO likens buying a company to buying a new home. Take on a business whose facilities are out of date, and you have to work harder to make money. By building from the ground up, you can solve problems before they arise.

"Most assets in Africa are old assets that people sweat to make money," Dangote says. "When you move in, you see a lot of leaks and burst pipes. Our strategy has been to go in as a greenfield project and build from scratch. We build the company, get into the market, then we compete."

Dangote can be flexible. At one stage, the company sold its food business Tiger Brands, but bought it back after it floundered. It's now doing nicely again.

As diverse as the group's portfolio is, Dangote says: "We never go into a business that we don't understand. We study the business first, and learn about it until we believe we are competitive, then we invest. With cement, we asked: 'Can we produce the same quality cement as Lafarge [the biggest rival in Nigeria]? In areas where some competitors have been there for 50 years before us, we've taken market share, with no adverts – nothing."

Dangote's diversity helps individual business units. There are synergies between its companies that mill flour and make pasta and noodles, just as there are between the firms that grow sugar and make fertilizer.

The Nigerian economy has endured tough times. "The key thing for us," Dangote says, "is to interact with the government to develop policies that allow the economy to grow. If that happens, we will grow as well."

Dangote doesn't expect events such as Brexit to hurt the group. "With our refinery and petrochemical plant, we want to export within West Africa and Central Africa," he says. "The same with rice – even if we plan to produce five times what we do now, Nigeria will consume it all, or we can export to ECOWAS."

If anything, Dangote sees opportunities: "Prime Minister May has been very busy trying to find new partners. President Trump is changing a lot of things, such as NAFTA. Eventually Africa will benefit. It offers more advantages going forward."

INVEST IN TECHNOLOGY

Dangote's policy of having the right infrastructure and tech in place helps the business grow

Alexis Perakis-Valat, President, L'Oréal Consumer Products

"We disrupt ourselves. L'Oréal still has a start-up spirit. There are no taboos"

L'Oréal's consumer products chief Alexis Perakis-Valat says digital is helping it partner with consumers

How would you define L'Oréal's strategy?
The first thing is we are passionate about beauty. We have been passionate about beauty for more than 100 years – we've become quite knowledgeable about it – and we are only interested in beauty. We call our strategy universalization, by which we mean globalization that captures, understands and respects differences – be they differences in desires, needs or traditions – to meet the beauty aspirations of women and men all around the world.

Where will L'Oréal's growth come from?
In the modern cosmetics market, there are four billion consumers. We already reach a billion of them, and our goal is to reach another billion. To do that we are accelerating the deployment of game-changing innovations, strengthening our make-up business, developing products to suit rising trends and maximizing our digital clout. Many of our brands are well loved on digital: Maybelline New York has more than 30 million followers on Facebook. And this has helped e-commerce sales of our consumer products: they grew more than 30 percent in 2016.

What impact has digital technology had on your business?
Digital is an inspiration for innovation. It has made our relationships with consumers richer. It has made it easier for us to reach expert consumers, particularly in professional make-up with our NYX Professional Makeup business. We co-created Colorista, a hair color range for Millennials, with influencers.

Do you expect to be disrupted by new, technologically empowered competitors in the manner of Uber and Airbnb?
At L'Oréal, we say it's healthy to worry – about the market, about disruption, about technology. And that has to be the mindset throughout the company. Social listening is a way of life for us. It helps us to understand the latest trends and get there first. We invest more than US$1 billion a year in R&D, because only strong research can create cosmetics that generate real results. But innovation is a dialog between science and marketing – so we listen to consumers on every continent, observe their behavior and explore their beauty rituals. That way, we can invent products in a country, for that country.

And we disrupt ourselves – L'Oréal still has an entrepreneurial spirit. You can make proposals here and nobody will say: 'We've never done it this way'. You can make your proposal, we listen, and debate. You have to fight for your idea, but there are no taboos.

The past year has been volatile. How has that affected L'Oréal?
Beauty is resilient – in 2016, the world cosmetics market grew 4 percent. At L'Oréal, we have a saying about needing to be poets *and* peasants and, like peasants, we have two feet on the ground. That helps. We've been living in a volatile, uncertain, complex and ambiguous world for a while, but that's truer now than it was even a year ago.

What is the biggest challenge for L'Oréal?
Talent. At some companies, process is more important than people. At L'Oréal it's the other way around. It's about people. What do we mean by that? Let's take the Asia Pacific market: if you're going to thrive in countries so different from your country of origin, diversity has to be at the heart of everything because that's how you understand the cultural differences. In the world of beauty, Asia Pacific is a center of creation – there are trends starting now in China, Japan and Korea that will invade the world – and we need to be the first to understand them to succeed there and elsewhere. Diversity is key if we're to catch those trends early.

TALENT MATTERS

People are more important than process at L'Oréal and diversity is key

Can disruption become an opportunity?

Facing three revolutions – geographical, demographic and technological – at once, a growing band of consumer goods companies are learning to lead disruption, not fear it

One brand perfectly encapsulates the forces that are disrupting the consumer goods industry in the 21st century: the Dollar Shave Club. Seven years ago, two men – Michael Dubin and Mark Levine – met at a party and griped about the cost of razor blades. Out of that conversation – with US$45,000 of their own money and some incubator capital from Science Inc. – sprang a start-up that attracted a lot of venture capital and changed the dynamic of the men's shaving market with its pioneering subscription model. Last year it was acquired by Unilever for US$1.5 billion.

As **Liz Claydon**, Head of Consumer & Retail at KPMG in the UK, says: "Dollar Shave Club was a wake-up call for many big brands. Smaller start-ups have a potential route to market that just didn't exist in the past. For every 20 successful start-ups, there will be thousands that we don't see, but those kinds of success stories – and those levels of returns – will attract the attention of private equity investors."

The funding for the right disruptive idea certainly exists – and it could come from private equity investors, venture capitalists or Silicon Valley tech giants. Tomorrow Ventures, the VC firm founded by Eric Schmidt, Executive Chairman of Alphabet, has backed the California meal delivery business Lyfe Kitchen and online grocer Relayfoods in Virginia. Food tech start-ups attracted a record US$5.7 billion in investment in 2015, according to research by CB Insights.

The Dollar Shave Club story may be spectacular but it is far from unique. Birchbox has popularized the subscription model in the US cosmetics market. British start-up Graze has grown significantly in the snacks market (its products are now sold through 43,000 Walgreens stores in the US). Delivery Hero, the food delivery service backed by Rocket Internet, is considering a public listing that may value the company at US$4.5 billion only six years after it was launched. Coupang, founded in 2010, is now South Korea's largest online retailer, generating revenues of around US$1.7 billion in 2016 (it made a loss, primarily because of its massive investments in logistics and distribution).

As Peter Freedman, Managing Director of The Consumer Goods Forum, says: "For the past four or five years, start-ups have provided most, if not all, of the growth. There has been an unusual amount of start-up activity – especially in food – and it's hard to see that changing." That view is certainly reflected in the 2017 Top of Mind Survey: 35 percent of executives expected new competition to disrupt the industry.

Although big brands remain hugely resilient, some are finding it hard to generate growth. Nielsen data for the US consumer market in 2016 estimates that sales for the 20 largest consumer packaged goods companies were flat, yet sales for smaller brands grew by 2.4 percent. This scenario does not surprise Emmanuel Faber, CEO of Danone, who says: "There is an element of natural regulation as to how many smaller brands can get bigger, but having said that, if you take any food category, the smaller brands are growing three or four times as fast as the top 100. That is why larger brands must reinvent themselves in ways that are meaningful to consumers."

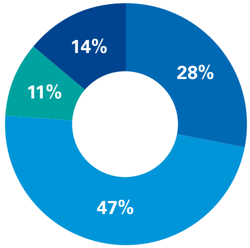
Managing three revolutions

The difficulty for the consumer industry's leaders is that they cannot afford to focus on just one aspect of disruption. As **Willy Kruh**, Global Chair of Consumer & Retail at KPMG International, says, manufacturers and retailers have to navigate three revolutions at once. "One is geographic – the arrival, by 2030, of a billion new consumers in China and 500 million in India. The second revolution is demographic. Millennial consumers, although not homogeneous geographically, have certain traits in common: being digital natives, looking for an experience, being willing to share rather than own, and wanting things now. And in North America alone, Millennials will inherit more than US$30 trillion, so guess where your customer base is coming from. The third is technological. The global penetration of mobile phones – studies suggest that two billion people already use a smartphone at least once a month – is enabling consumers to buy what they want, when they want and how they want it. With social, economic, technological and environmental change continuing – and accelerating – companies will need to be agile to survive."

Globally, eMarketer estimates that online shopping is worth around US$1.9 trillion but the repercussions of

Expectations for industry volatility over the next two years

- Expect to see a significant increase
- Expect to see a moderate increase
- Expect to see a slight increase
- Expect to see no increase



SMART SHOPPERS
Eight out of ten US smartphone owners use them to shop, says Google, and 84 percent of those use them in store

PROTECTIVE ATTITUDE
Seven out of ten CEOs told the 2017 KPMG CEO Outlook survey that protecting customers' interests was a key goal

Source: 2017 Top of Mind Survey, KPMG International and CGF

Top external disruptors

35%

Competition from new entrants

30%

New business models

27%

New technology

27%

Increased number of retail channels

22%

Growing influence of Millennials and younger generations

Source: 2017 Top of Mind Survey, KPMG International and CGF

FEEL THE HEAT

A heatwave in Russia in 2010 cost the economy at least US$7bn, destroying 39,000m² of agricultural land

the technological revolution have been particularly significant in the US, where e-commerce accounted for less than 12 percent of total retail sales last year, according to Forrester Research. Credit Suisse forecasts that 8,600 bricks and mortar stores will close in America by the end of 2017, more than the number that disappeared in 2008, the first year of the Great Recession. In 2016, nine American retailers filed for bankruptcy; ten did so in the first four months of 2017 alone.

The growing might of online stores, changing consumer habits and the expansion of e-commerce into new product categories are driving this shift, but it is also possible that America had too many retailers and too many stores in the first place. Analysis by Felix Richter at Statista.com suggests that the US has 21,528ft² of retail space per 1,000 people, compared to 9,967ft² for Norway, 2,637ft² for Spain and 1,948ft² for Germany.

It's worth noting that e-commerce has still to disrupt the US grocery market – Bloomberg Business Week estimates that only 1 percent of this US$1.5 trillion industry has moved online. This suggests there may be further turmoil ahead, especially with European discount chains entering the market.

Opinions differ on the future growth of online shopping globally. "In the UK, 22 percent of transactions by volume across the sector were online so, by definition, 78 percent were still made through traditional bricks and mortar stores," says Claydon. "Online growth has been significant – and we see it continuing over the next years – but our latest thinking is that it will tail off at around 35 percent.

"People still want to experience the store and the products. E-commerce is a big part of the luxury sector but most people will not want to spend £1,200 on a trenchcoat without trying it on. They might go online and order it to get a better deal but they've experienced the brand. The customer experience, what stores look and feel like, is becoming much more important, especially with the Millennial consumer."

The problem here might not be the bricks and mortar channel itself but that companies have not adapted their approach to suit the new realities. As Freedman says: "If a shop was appropriately sized ten, 15 years ago, it might not be the optimum size today. Similarly, the convenience of proximity is more of a factor now than it was a decade ago. The disruption here is that the stores of yesterday are different from the stores of tomorrow – which may be smaller and in new locations. The dynamic between stores and virtual will play out in different ways in different categories and different countries but few of the people I talk to expect the bricks and mortar store to disappear."

Roberto Meir, CEO of Brazilian media company Grupo Padrão, says: "In physical retail, you don't need a large store today. Imagine a big shopping center, you have five or six different shoe companies. The consumer wants to buy some sneakers. So, the first thing is he must choose your store. The second thing is, he needs to look for a brand you hold in your store. The third thing is to find a sneaker for a particular field, for running, tennis, etc. The fourth thing is to find the right size and color. Then he can try them on and see how they feel. As it's out of the question for you to have this entire inventory at your store, it becomes more like a showroom – an interactive screen would allow you to check all the properties of the products in 3D. A consumer will go to check the product and size and if the store doesn't have the right color, they will send it to your home tomorrow. That's the proposition."

While traditional retailers are closing bricks and mortar stores in the US, digital-first brands such as eyewear specialists Warby Parker, men's fashion brand Bonobos, and Rent-The-Runway (a Netflix-style rental service for fashion) are opening them – along the lines that Meir describes. Bonobos, which aims to have 100 stores by 2020, has found that its shops increase conversion rates and average purchase values. This trend is not confined to the US: Alibaba recently acquired an 18 percent stake in Lianhua Supermarkets to give it access to more retail space only a few weeks after leading a US$1 billion investment in Chinese food delivery start-up Ele.me.

The need for agility

Agility is certainly the key to managing two other challenges facing manufacturers and retailers: growing anxiety about health and wellness among consumers and governments, and geopolitical uncertainty.

The survey suggests that health is of particular concern in the Asia Pacific region but its impact, especially on the food and drink sector, is global – as is evident from the number of national, state and city governments that have introduced – or may introduce – a soda tax. These initiatives may not solve the problem but regulators feel that the scale of the oncoming crisis compels them to do something. In the US, for example, the State of Obesity NGO estimates that obesity among children (aged 2-19) has tripled since 1980.

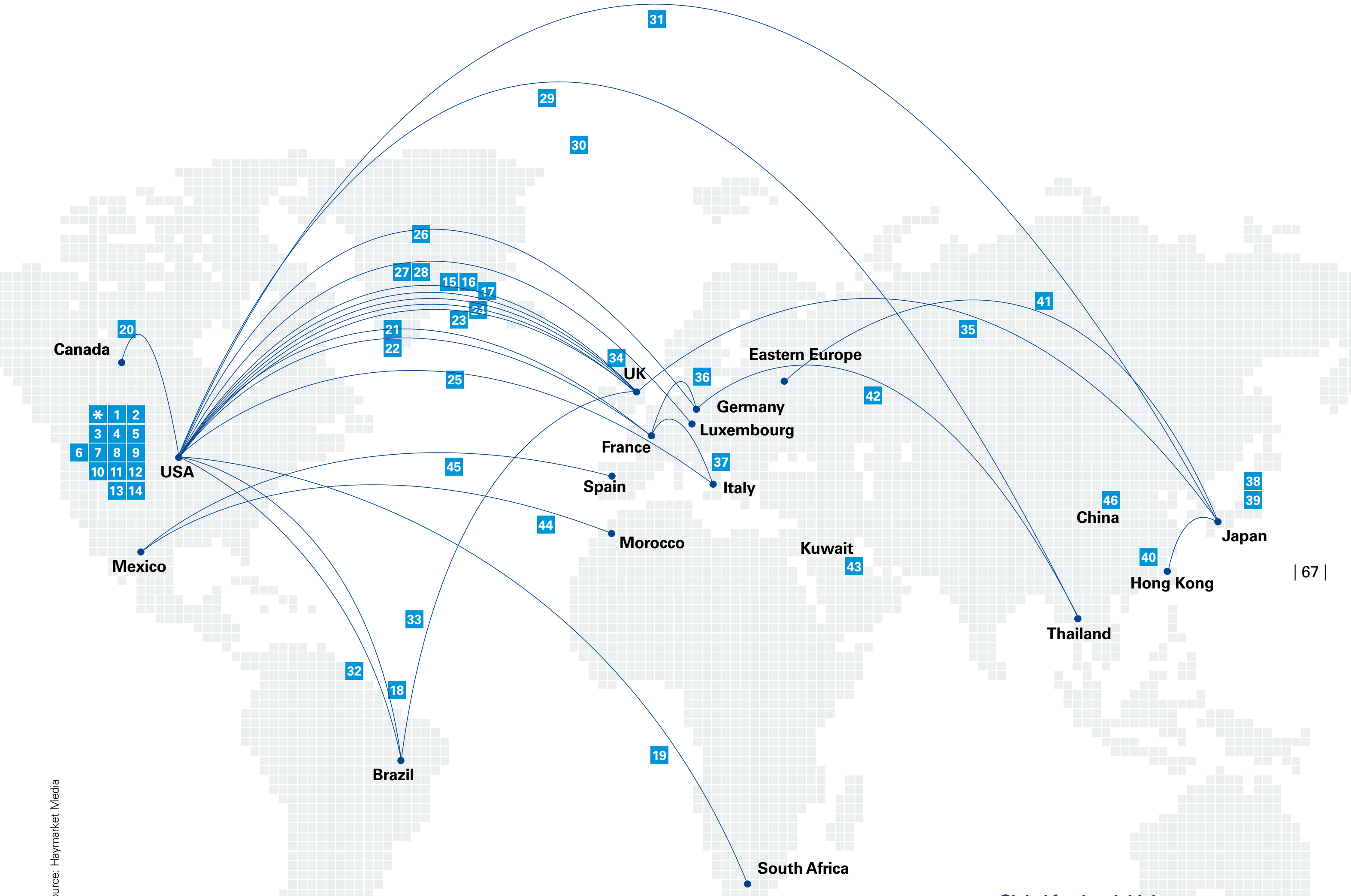
Manufacturers are making substantial investments in R&D to reformulate products so they contain less sugar and fewer calories. Freedman says: "The CGF's research suggests that the number of products being formulated or reformulated is rising dramatically. It's not uncommon for 20-25 percent of a company's product portfolio to be reformulated within 18 months." As Freedman points out, although many smaller brands are growing strongly, this is one area where global brands may have an advantage, if they can make good use of their large R&D budgets.

In five years, PepsiCo's R&D spend rose by 45 percent. In October 2016, it announced product development plans that included reducing added sugars, saturated fat and sodium levels while concentrating its focus on whole grains, fruits and vegetables, dairy, protein and hydration. As Brian Newman, Executive Vice President of Global Operations at PepsiCo, says: "The greatest strategic opportunity for us is accelerating the shift in our portfolio to guilt-free offerings, which include everyday nutrition products with nutrients like grains, fruits and vegetables, or protein, plus diet beverages and other beverages with 70 calories or less per 12-ounce serving, and snacks with low levels of sodium and saturated fat."

Helping consumers adopt healthier diets is central to Danone's strategy. Faber is convinced that big food and drink brands need to be more transparent. "People are more concerned about their health and they do not always trust the way brands are approaching this, which is why you see ingredients being more important than brands," he says. "Consumers want to pierce the corporate image and see what's truly

Significant acquisitions in the global food and drink sector in 2016/17

	Who	Acquired	How much
*	**Amazon** (US)	**Whole Foods Market** (US)	**$13.7bn**
1	**Hershey** (US)	**barkTHINS** (US)	**Undisclosed**
2	**PepsiCo** (US)	**KeVita** (US)	**$200m**
3	**Roark Capital Group** (US)	**Jimmy John's** (US)	**Undisclosed**
4	**US Foods** (US)	**FirstClass Foods** (US)	**Undisclosed**
5	**Constellation Brands** (US)	**High West Distillery** (US)	**$160m**
6	**The Campbell Soup Company** (US)	**Habit** (US)	**$32m**
7	**Tyson Foods** (US)	**AdvancePierre Food Holdings** (US)	**$3.2bn**
8	**Sovos Brands** (US)	**Michael Angelo's Gourmet Foods** (US)	**Undisclosed**
9	**Walmart** (US)	**Jet** (US)	**$3.3bn**
10	**Gores Holdings** (US)	**Hostess Brands** (US)	**$2.3bn**
11	**Southern Wine & Spirits** (US)	**Glazer's** (US)	**$17bn**
12	**WestRock** (US)	**Multi Packaging Solutions** (US)	**$2.3bn**
13	**Apollo Global Management** (US)	**The Fresh Market** (US)	**$1.4bn**
14	**InBev** (US)	**Karbach Brewing** (US)	**Undisclosed**
15	**Post Holdings** (US)	**Weetabix** (UK)	**$1.8bn**
16	**TSG Consumer Partners** (US)	**Brewdog** (UK)	**$124m**
17	**Sysco** (US)	**Brakes Group** (UK)	**$3.1bn**
18	**Kellogg's** (US)	**Parati Group** (Brazil)	**$430m**
19	**Coca-Cola** (US)	**Coca-Cola Beverages Africa** (South Africa)	**$3.15bn**
20	**MTY Food Group** (Canada)	**Kahala Brands** (US)	**$310m**
21	**Pernod Ricard** (France)	**Smooth Ambler** (US)	**Undisclosed**
22	**Danone SA** (France)	**WhiteWave Foods** (US)	**$12.5bn**
23	**Reckitt Benckiser** (UK)	**Mead Johnson Nutrition** (US)	**$16.6bn**
24	**Reckitt Benckiser** (UK)	**Mead Johnson** (US)	**$17.9bn**
25	**Parmalat** (Italy)	**Karoun Dairies & Central Valley Cheese** (US)	**$130m**
26	**Bayer** (Germany)	**Monsanto** (US)	**$66bn**
27	**JAB Holdings** (Luxembourg)	**Krispy Kreme** (US)	**$1.4bn**
28	**JAB Holdings** (Luxembourg)	**Panera Bread** (US)	**$7.5bn**
29	**Thai Union** (Thailand)	**Red Lobster Seafood Restaurants** (US)	**$575m**
30	**Charoen Pokphand Foods** (Thailand)	**Bellisio Foods** (US)	**$1.1bn**
31	**Seven & i Holdings** (Japan)	**Sunoco LP** (US)	**$3.3bn**
32	**iFood** (Brazil)	**SpoonRocket** (US)	**Undisclosed**
33	**Britvic** (UK)	**Bela Ischia** (Brazil)	**$66m**
34	**Tesco** (UK)	**Booker Group** (UK)	**$4.6bn**
35	**Asahi** (Japan)	**Miller Brands UK** (UK)	**$2.9bn**
36	**Lactalis** (France)	**Omira** (Germany)	**Undisclosed**
37	**Gruppo Campari** (Italy)	**Grand Marnier** (France)	**$616m**
38	**Morinaga & Co.** (Japan)	**Morinaga Milk** (Japan)	**Undisclosed**
39	**Mitsubishi** (Japan)	**Lawson** (Japan)	**$1.4bn**
40	**Toridoll Holdings** (Japan)	**Tam Chai Yunnan Noodles** (Hong Kong)	**$132m**
41	**Asahi** (Japan)	**SABMiller East Europe** (East Europe)	**$6.6bn**
42	**Thai Union** (Thailand)	**Rügen Fisch** (Germany)	**$46.1m**
43	**Adeptio** (Persian Gulf)	**Americana Group** (Kuwait)	**$2.35bn**
44	**Grupo Bimbo** (Mexico)	**Adghal** (Morocco)	**Undisclosed**
45	**Grupo Bimbo** (Mexico)	**Panrico** (Spain)	**$209m**
46	**Mengniu** (China)	**China Modern Dairy** (China)	**$1.067bn**



Source: Haymarket Media

Global food and drink acquisitions by sector

	2015	2016
1 Soft drinks	46	74
2 Packaging	66	64
3 Dairy	41	58
4 Ingredients	55	51
5 Wine	38	49
6 Spirits	28	41
7 Beer	56	37
8 Bakery	15	31
9 Services	17	27
10 Meat	20	23

Mark Larson, KPMG in the US:

“What we are seeing is acquisition becoming a new kind of R&D as businesses realize they haven’t got all the expertise they need”

614

The number of acquisitions in the global food and drinks sector, according to research by Zenith Global and Foodbev. This is 32 percent higher than five years ago.

TAXING TIMES
Mexico's Public Health Institute says fizzy drink sales fell 12 percent in 2015 after 10 percent sales tax was introduced

behind the label with a nice American farmer on it. That's why, when ingredients are deemed to be healthy by the consumer – like wholegrain, non-GMO or 'free from' – they are moving to the front of the packaging."

In this climate, the fast food business would seem especially vulnerable but Greg Creed, CEO of Yum! Brands, says there has been no significant impact on his group, which owns KFC, Pizza Hut and Taco Bell. "We have healthy options on our menu but they only account for 2-3 percent of our sales." As Creed points out, the boom in gourmet burgers, many of which are less healthy than equivalent offerings from the fast food chains, suggest that taste is still the defining factor for many consumers.

The UK's referendum vote to leave the European Union last year is merely the most dramatic example of the geopolitical turbulence that is affecting many consumer markets. In Brazil, consumer spending – and confidence – has been hit by a long-running political crisis that has prevented the government from passing the reforms required to revive the economy. The belief among business leaders is that, in the medium to long term, the country's consumer spending will start to grow again but only executives with a crystal ball are able to say when that recovery will start.

In the Middle East and Africa, 40 percent of companies saw social unrest as a significant cause of volatility, and 57 percent anticipated economic problems in certain countries. In Europe, 24 percent expected Brexit to make business more volatile. The immediate impact on exchange rates has forced many British retailers to rethink their supply chains to reduce cost while, in mainland Europe, uncertainty about the future of the European Union may hindered economic recovery, which is now gaining momentum.

Consumer confidence remains high in China, even as the economy gradually adjusts to a 'new normal' of single-digit growth; in India, where the economy remains buoyant; and in the US, where consumers may be spending in anticipation of the benefits they might expect to accrue from forthcoming reforms to healthcare and taxation.

This cumulative disruption prompted Jon Moeller, Chief Financial Officer at Procter & Gamble, to tell the media in April 2017: "There are probably more causes of volatility today than at any time in history." That sentiment is reflected in KPMG's 2017 CEO Outlook report: this survey of 1,261 CEOs from across the world found that 65 percent are confident about the global economic outlook. That might sound encouraging but the figure is significantly down from 80 percent in the 2016 survey.

Businesses have no choice but to live with geopolitical uncertainty. Daniel Servitje, CEO of Grupo Bimbo, the world's largest baking group, which is based in Mexico, says: "We can grow in good and bad times in most markets" and the company's global expansion has reached North America, Latin America, Europe, Asia, and recently entered Morocco and India.

Embracing disruption

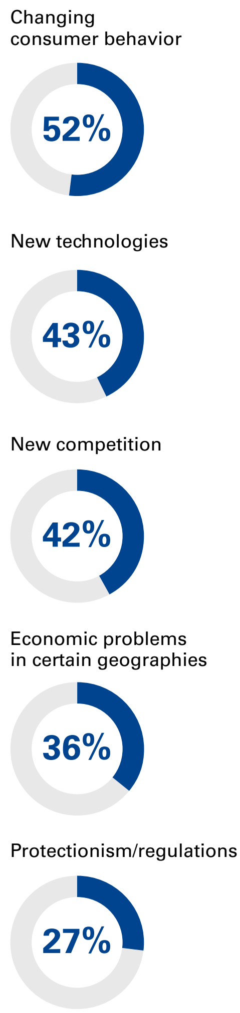
Five years ago, many of the world's major manufacturers and retailers were primarily concerned about protecting what they had. As a senior executive at a European consumer group says: "Some companies held back from online because they feared they would cannibalize our business. Yet if you think along those lines, you are thinking egocentrically, rather than from the consumer's point of view. If a customer says: 'That's the channel I want to use', you can't ignore it. It's not a question of cannibalizing your business, it's a question of being relevant."

The view that the best way to survive disruption is to lead it is increasingly being accepted by many established manufacturers and retailers. There is a balance to be struck – executives need to manage today's business efficiently while positioning themselves to meet tomorrow's demands – but many companies are changing their strategies, structures, and business models.

Businesses such as Danone, Metro, L'Oréal and Unilever have, to differing degrees, decentralized their decision-making. "The key here is that these are huge behemoths and they need to maintain their control as a global organization while allowing their regions to be nimble and make decisions quickly," says Kruh.

A recent study by Harvard Business School, which crunched corporate data from the US and 10 OECD countries, found that local decision-making helped firms – and the countries they operated in – manage

Anticipated causes of volatility

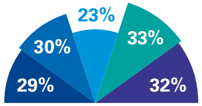


Source: 2017 Top of Mind Survey, KPMG International and CGF

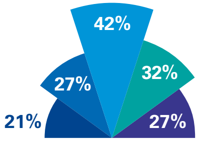
Top external disruptors by region

- North America
- Europe
- Middle East/Africa
- Latin America
- Asia Pacific

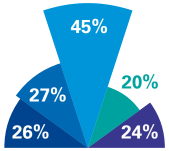
New business models



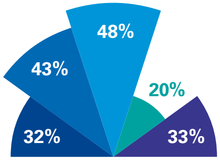
New technology



Increased number of retail channels



Competition from new entrants



Source: 2017 Top of Mind Survey, KPMG International and CGF

OFF BRAND
One fifth of British consumers have boycotted a brand after a scandal, according to a 2017 survey by YouGov

turbulence more effectively, concluding that decentralization could account for 16 percent of international differences in GDP growth since the Great Recession of 2008-09.

At the same time, many of the major players have decided that the best way to compete with start-ups is to invest in their own. Since 2013, premium drinks group Diageo has released funds of more than US$30m through Distill Ventures, its accelerator program for entrepreneurs in the spirits sector. These include two new whiskey makers – one Danish and one Australian – and Seedlip, the world's first distilled non-alcoholic spirit. By marketing Seedlip initially through Michelin-starred restaurants, Diageo hopes to make it the world's premium non-alcoholic spirit.

As Claydon says: "Many of the big global companies are looking to disrupt themselves and have set up venture arms to help them think and operate differently. InBev, Unilever, General Mills and Kellogg's all have venture capital arms."

Tyson Foods has announced the creation of a US$150 million fund to focus on alternative proteins, food waste, and digital tools to track food. Along with General Mills, it has invested in Beyond Meat, an LA start-up founded in 2009 to develop animal-free meat products. Campbell Soup has launched its own US$150 million fund and, earlier this year, invested US$10 million in a strategic alliance with American online meal store Chef'd. Pernod Ricard has taken a slightly different route to achieve the same goal: setting up an incubator internally to accelerate growth.

As Airbnb, Apple, and Uber have so decisively proved, competition doesn't always come from the obvious places. While the food delivery/aggregator space has attracted sizable investment globally – despite some well publicized failures – it is possible that, in the long term, restaurant chains may face a more significant threat from the kind of convenience stores – notably 7-Eleven, Family Mart and Lawson – that are now proving so successful across Asia.

In Japan, the cost of property means that many of these stores are compact, yet they sell a wide range of products and services – anything from hot snacks to airline tickets – regularly update their product portfolio (focusing on improving their food offerings) and are opening new outlets. Lawson is looking to offset slow growth in its home market by expanding in Thailand and China. This is an expensive strategy – even for a company now wholly owned by Mitsubishi Corp – and the chain is considering switching to a franchise model to drive revenues and reduce losses.

Acquisitions as a new R&D strategy

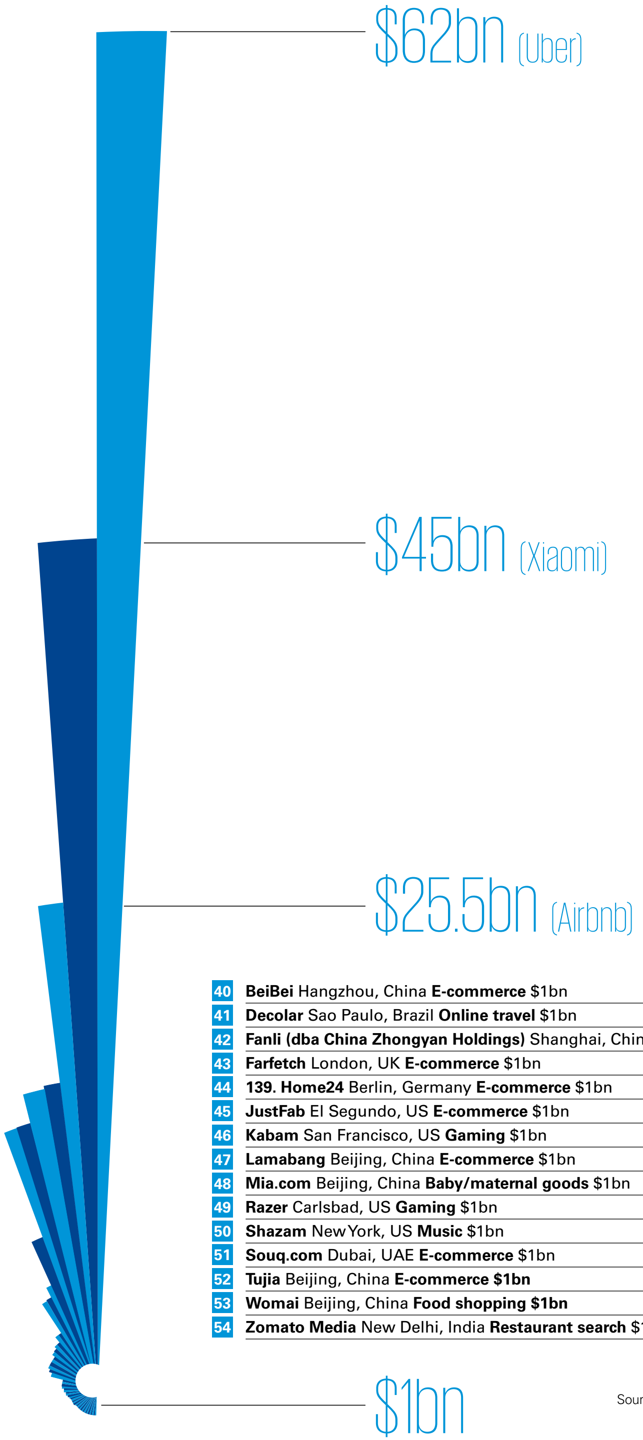
Some manufacturers and retailers are being more aggressively acquisitive. "For an increasing number of companies, making acquisitions is the new R&D," says **Mark Larson**, Head of Consumer & Retail for KPMG in the US. "Companies recognize the need to acquire expertise and ideas that they might not have been able to develop in-house."

This expertise can be anything from a promising new product – many established cereal and snack brands are buying nutrition businesses – to artificial intelligence to data analytics. For Japanese consumer products group Kao Corporation, organic growth remains top priority but it is open to acquiring chemical companies that offer technological synergies. For many Chinese companies, the motive is to acquire know-how, intellectual property or access to foreign markets.

The 2017 Top of Mind Survey suggests that although acquisitions are a low priority for many, they are of particular interest to companies already using AI, businesses that regard themselves as very customer centric, and firms with sales of US$5 billion and over. The acquisition of customer data was one of the reasons Unilever was so interested in acquiring Dollar Shave Club.

Many companies in the consumer goods and retail business are acutely aware they need to accelerate the pace of change if they are to keep pace with the market. As Michitaka Sawada, CEO of Kao Corporation, says: "The speed and the scale at which things are changing is enormous. The environment and the business market are very volatile but despite this we have not been able to change the way we do things, the way we think. All this has been on conventional lines and I feel a very strong sense of urgency that we need, very quickly, to close the gap between the change that we are seeing outside and the reluctance to change inside. That is a great challenge."

The start-ups reshaping the consumer industry ranked by market capitalization



CONSUMER GOODS UNICORNS

1. **Uber** San Francisco, US **Transportation services** $62bn
2. **Xiaomi** Beijing, China **Consumer electronics** $45bn
3. **Airbnb** San Francisco, US **Lodging services** $25.5bn
4. **Didi Kuaidi** Beijing, China **Transportation services** $16bn
5. **China Internet Plus** Beijing, China **Internet services** $15bn
6. **Flipkart** Bangalore, India **E-commerce** $15bn
7. **Spotify** Stockholm, Sweden **Streaming media** $8.5bn
8. **Lyft** San Francisco, US **Transportation** $5.5bn
9. **Coupang** Seoul, South Korea **E-commerce** $5bn
10. **Snapdeal** New Delhi, India **E-commerce** $5bn
11. **UCar (dba Shenzou Zuche)** Beijing, China **Transportation** $3.6bn
12. **Global Fashion Group** London, UK, **E-commerce** $3.4bn
13. **Jawbone** San Francisco, US **Consumer electronics $3.3bn**
14. **Meizu** Zhuhai, China **Consumer electronics $3.3bn**
15. **Delivery Hero** Berlin, Germany **Food delivery $3.1bn**
16. **Machine Zone** Palo Alto, US **Video games $3.1bn**
17. **Ele.me** Shanghai, China **Food delivery $3bn**
18. **Fanatics** Jacksonville, US **E-commerce $3bn**
19. **Vancl** Beijing, China **E-commerce $3bn**
20. **Wish (dba ContextLogic)** San Francisco, US **E-commerce** $3bn
21. **HelloFresh** Berlin, Germany **Food delivery** $2.9bn
22. **Garena Online** Singapore **Video games** $2.5bn
23. **Blue Apron** New York, US **Food delivery** $2bn
24. **Instacart** San Francisco, US **Grocery delivery** $2bn
25. **Trendy Group** Hong Kong **E-commerce** $2bn
26. **One97 Communications** Delhi, India **E-commerce** $1.8bn
27. **Mogujie** Hangzhou, China **E-commerce** $1.7bn
28. **The Honest Co.** Los Angeles, US **Consumer goods** $1.7bn
29. **WePiao** Kagochima, China **Mobile ticketing** $1.6bn
30. **Koudai Shopping** Beijing, China **E-commerce** $1.5bn
31. **Skyscanner** Edinburgh, UK **Flight/hotel search engine** $1.6bn
32. **Deem** San Francisco, US **E-commerce** $1.4bn
33. **Lazada Group** Singapore **E-commerce** $1.3bn
34. **Auto1 Group** Berlin, Germany **E-commerce** $1.2bn
35. **Eventbrite** San Francisco, US **Ticket marketplace** $1.2bn
36. **NJoy** Scottsdale, US **e-cigarettes** $1.2bn
37. **Warby Parker (dba Jand)** New York, US **Internet retail** $1.2bn
38. **Shopclues** Gurgaon, India **E-commerce** $1.1bn
39. **58 Daojia** Beijing, China **E-commerce** $1bn
40. **BeiBei** Hangzhou, China **E-commerce** $1bn
41. **Decolar** Sao Paulo, Brazil **Online travel** $1bn
42. **Fanli (dba China Zhongyan Holdings)** Shanghai, China **E-commerce** $1bn
43. **Farfetch** London, UK **E-commerce** $1bn
44. **139. Home24** Berlin, Germany **E-commerce** $1bn
45. **JustFab** El Segundo, US **E-commerce** $1bn
46. **Kabam** San Francisco, US **Gaming** $1bn
47. **Lamabang** Beijing, China **E-commerce** $1bn
48. **Mia.com** Beijing, China **Baby/maternal goods** $1bn
49. **Razer** Carlsbad, US **Gaming** $1bn
50. **Shazam** New York, US **Music** $1bn
51. **Souq.com** Dubai, UAE **E-commerce** $1bn
52. **Tujia** Beijing, China **E-commerce $1bn**
53. **Womai** Beijing, China **Food shopping $1bn**
54. **Zomato Media** New Delhi, India **Restaurant search** $1bn

Source: Fortune Magazine 2016

"To understand disruption, come to China"

In the world's second largest consumer market, Chinese consumers – and companies – are changing so rapidly it's hard to keep up, says Christoph Zinke

Disruption is not a word you hear very often in the Chinese consumer industry. Change is occurring faster, and on a greater scale, here than in any other consumer market, but this is regarded as business as usual.

The greatest disruption of all is social and economic. Ten years ago in China, the middle class didn't really exist. Today there are 300 million middle class consumers. By 2030, there will be 600 million – that is equivalent to the middle class of the US and Western Europe put together.

Growing prosperity breeds growing expectations. China's consumers also expect to be served faster, and channels such as Tmall, WeChat or Alibaba – which have hundreds of millions of users each – are dictating how supply chains need to respond and evolve. For consumer products, demand can soar overnight because something has been hyped on WeChat. In luxury goods, if Chinese consumers had their way, the traditional 'seasons' – which, in the West, last for three months or half a year – would change every month.

This means that consumer-facing supply chains have to respond faster than ever. This is a big ask and, in my view, if you judge them on speed and reaction times, firms such as Alibaba and Tencent are probably two to three years ahead of their Western counterparts.

In China, they talk about online to offline (O2O), or using the closest point to a consumer – such as a physical store – as a modern distribution center to cover the last mile. A large Western grocery chain might have 50,000 SKUs, in China the secret is knowing which 1,400 SKUs cover 80 percent of demand, focusing on serving a consumer's key needs at a good quality and doing so in the simplest possible way.

Not every player in the Chinese consumer market will evolve that quickly but the fastest – the likes of Alibaba, Tencent or Tmall – will definitely beat their rivals. In the West, an FMCG giant can take a decade to revive a beauty brand. In China, they ask: "Why did it take 10 years? Were their customers waiting all that time?" Uber is disrupting many markets but in China it is being disrupted by local taxi hailing company Didi.

This attitude reflects Chinese consumers' lack of brand loyalty and focus on value. They have gone from almost no choice to infinite choice in a relatively short span of time and their tastes keep changing. When the consumer market opened up, a Western brand was a guarantee of quality or authenticity. Today, they're much less impressed with Western brands. It's not a nationalistic, or protectionist impulse, it's just that they move on so quickly. In many market sectors in China today, new products and brands are being created – or established global brands are acquiring a local flavor – which creates an interesting regional dynamic, where China leads and most other countries – with the obvious exception of Japan and South Korea, which are disruptive in their own ways – follow.

Some of the biggest players in China have diversified to become what I like to call 'integrated disruptors'. Alibaba is not just a retailer, it is becoming a large player in financial services, with retail banking, wealth management, insurance and a growing financial operation. It's about how you expand your share of the wallet and your share of mind. They're very smart about putting that into different business units to avoid over-diversifying and over-complicating. Their execution is almost flawless. If they make mistakes they respond quickly. The leaders of these groups are always thinking how all this plays back to their core activities and core consumers. You don't find Alibaba researching flying to the moon. Right now, they're focused intently on China and Asia Pacific. It will be fascinating to see how this model works when they move into the US and Europe.

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TASTE BUDS
Western grocers have found China challenging – partly because it has at least 20 distinct cuisines

"It matters if a company is seen to be authentically contributing to society"

Kao Corp CEO Michitaka Sawada reveals why understanding consumer values is vital

How would you describe Kao's strategy?
Our strategy is that we pursue the 'Kao Way' – integrity is the pillar of our corporate strategy. That's not just about compliance, it's about being true to who we are, to walk the right path as we do our business. And that leads, again, to us going deep into the essence of things through our R&D to acquire the best scientific knowledge, and to try to offer the best to our consumers by applying the technologies we have developed. So, the Kao Way is like a compass that we refer to if we are facing difficulties or are unsure what to do. For many consumers, especially Millennials, it matters a lot if a company is seen to be authentically contributing to society. Another important aspect of the Kao Way is to offer 'half a step ahead' proposals to consumers: products that delight and surprise them.

How will Kao grow its business?
We have a lot of assets related to our core businesses of toiletries, beauty, health, and cleaning products – and we need to leverage them to grow our business and move into new fields. Our main pillar of growth will be to grow organically. In an aging society, the greater part of our growth will come from health. Not only in products and foods but other value propositions that maintain and improve people's wellbeing. We could acquire new assets in the B2B area, specifically in chemicals, if we find technological synergies.

How is digital technology affecting the company's business?
With smartphones, consumers are digging deeper into information and having more one-on-one conversations about a particular topic. So we no longer have a mass market. As consumers' values diversify, we will need to adapt the way we do business. With purchasing points also diversifying, the conventional model of making our products conspicuous through mass marketing – TV advertising – must change.

How do you evaluate consumer behavior?
We engage in three major initiatives. With our echo system, we collect vast data from consumers on everything from complaints to suggestions to improve our products. We have a team that follows how consumers discuss our products on social media and the key messages are reflected in our product development. And we do lifestyle research: making home visits and interviewing consumers one-on-one to understand their inner needs and behavior.

What steps has the company taken to encourage innovation?
One strength of our innovation capabilities is that we have always translated the findings from our extensive research into new technologies and value propositions for our consumers. One example is our new foam hand-dishwashing liquid detergent. Consumers spray the dishwashing liquid onto greasy dishes and if you leave it for a few seconds, the grease is removed just by rinsing. Driving innovations that create value for the consumer is an all-out company-wide initiative. By simply changing the way you approach things, you create the opportunity to offer new ideas and build new businesses. In the digital age, there are vast opportunities for us to provide more benefits to society.

What is the biggest challenge facing Kao?
The rate – and the scale – at which things are changing is enormous. It's a volatile market but despite this, the way we do things, approach things and how we think has been along conventional lines. I feel a very strong sense of urgency that we need to close the gap between the volatile, huge change outside, and the reluctance to change inside.

THE KAO WAY
The group has been innovating since 1890 when it launched Japan's first high quality soap

Daniel Servitje, CEO, Grupo Bimbo

"Ten years ago, I would have said 'food is very local'. Now that's not necessarily the case"

Grupo Bimbo CEO Daniel Servitje explains the baking group's recipe for success

What are Grupo Bimbo's core businesses?
We're a baking and snack company. We probably have as big a share of our business in developed markets as in emerging markets. We come from an emerging market economy in Mexico, and we're the leaders in the baking industry globally, but we see many more opportunities to build market share in emerging economies.

What has been the biggest impact of digital technology on your business?
E-commerce has been growing fast but from a very low base. Digital technology can help us simplify our business and take out cost. We're mostly focused on leveraging technology to have the greatest impact on the cost of distribution, and in parts of our logistics operations.

Does being in an emerging market help?
In emerging markets, companies can have a better understanding of the complexities, the risk, the way to go to market. They tend to be more patient about the outlook and the opportunities.

How do you expect to grow the business?
By developing each market whenever we can and allowing each country to seize the opportunities in their core business. We try to stick with the industry we are in, because we are still in a very fragmented market and, even as leaders, we have less than 5 percent of the market globally. Our focus is organic growth, but we have been quite aggressive with acquisitions in the past 10-15 years.

Is your competition changing?
The big companies face similar challenges. I haven't really seen the big CPG companies making a lot of changes in their model. Trendy businesses, like the US organic food companies, are being bought by CPG firms or companies investing in venture or private equity type deals, but it's on the margin. It's not as significant as a new business model.

What are Grupo Bimbo's key challenges?
Understanding changes in how consumers think and act, and how technology can allow us to win. We see a lot of opportunities in our industry, especially in emerging economies where products like ours are not as developed and the industries are not as mature in terms of the way retailers are organized. I believe we have a substantial organic growth path in these countries in the next 10-15 years. We base our business on long-term plans, and that gives us more patience to overcome ups and downs.

Consumers are more likely now to change products or try new brands. Why is that?
It's a reflection of more information, and customers' willingness to try new things because they have read about them and experienced them with friends. You see it everywhere. The amount of choice in packaged food and prepared foods in all countries is expanding significantly. As they have more choices, they become more adventurous in trying new things.

How culturally specific is baking?
How we view the world now – with mobile phones, sharing information, and the globalization of restaurants and news – has influenced taste. If you had asked me ten years ago, I'd have said, 'food is very local'. Now it's not necessarily the case. So we've been able to develop products in one market and launch them elsewhere. We're also looking at the penetration and frequency of consumption of cakes, snacks and bread. That's an opportunity in established markets. We're trying to execute our offering better at stores, keep our products relevant and ensure our business model is as low cost as possible, so our products remain affordable.

WORLD LEADER
With less than 5 percent of the global market, Grupo Bimbo is the world's largest baking group

Brain food

With the world's consumer and retail sectors at an inflection point, we recap the key learnings from the 2017 Global Consumer Executive Top of Mind Survey – and look at how the industry's leaders can turn insight into action

Insights

Achieving growth

Three out of ten companies forecast over 6 percent revenue growth this year.

84 percent of high-growth companies (with revenues up by 6 percent or more) use data analytics to segment their customers.

Three out of four companies expect to generate more than 10 percent of their revenues from new products in three years' time.

35 percent of companies in Mexico/Latin America increased revenues by 10 percent or more.

Customer centricity

There is a clear correlation between how customer centric a company is and how fast it grows.

52 percent of high growth companies say that customer trust and loyalty is critical to their success.

Customer centric companies estimate that 44 percent of their revenue comes from online sales.

68 percent of companies believe they deliver a consistent, seamless, customer experience across all channels.

Actions

Achieving growth

Embed growth into your culture. Growth is not just a market condition, it is a mindset. Companies that prioritize growth throughout the organization are more likely to outperform the market.

Examine your product offerings. In a rapidly changing market, relevance beats heritage.

Be a disruptor. Even large, global companies can disrupt markets if they are agile, build the right networks and dare to innovate. You don't have to be a start-up to think like one.

Customer centricity

Test how seamless and consistent your customer's experience really is. Companies that don't get this right are losing significant revenue.

Hear the signals. Customer centric companies invest in social listening and ask consumers and influencers to help them create and innovate.

Truly customer centric businesses are agnostic about the channels customers use – and will work with external partners if it meets the customer's needs.

Consumer behavior

Declining loyalty to brands is regarded as one of the most disruptive consumer trends by 38 percent of companies.

Shortening consumer attention spans is cited as the top disruptor by 39 percent of companies in China.

Personalizing the customer experience is a top priority for 34 percent of businesses.

One third of companies in Asia-Pacific regard health and wellness as a disruptive factor.

Understand what level of personalization is appropriate for your customers and deliver it.

Appraise your brand. What does it stand for? Do consumers know what it stands for? Does it have a social or environmental purpose? Do your customers care?

Crunch the data. With or without AI, companies can use data analytics to develop actionable insights and anticipate trends. The scale and pace of change in consumer markets rewards businesses that get there first.

Reinventing supply chains

Faster, more efficient distribution is key for 36 percent of companies – and 31 percent want to improve manufacturing in the same way.

Only 33 percent of companies have fully integrated their supply chain.

Free delivery is offered by 68 percent of companies. Same-day delivery is offered by 62 percent.

For 42 percent of businesses in the Middle East, measuring product profitability is their top supply chain priority.

The task of creating a truly demand-driven supply chain has never been more urgent. In China, for example, companies that don't plug their supply chain into social media apps could be losing sales.

Using new technology strategically can turn your supply chain into a driver of growth.

Fully integrating your supply chain is key if you want to improve your speed to market, moving more quickly from concept to delivery to respond to rapid shifts in consumer demand.

Harnessing automation

Four out of ten companies using – or planning to use – artificial intelligence want it to help them improve customer service.

64 percent of companies expect to be using robots to perform repetitive tasks by 2019.

Only 36 percent of companies that have invested in AI are using it to forecast demand.

Nearly three out of ten companies in the Middle East are using virtual/augmented reality – more than in any other region.

Ask the right questions before you invest. Do you have the capability to manage AI and robotics or do you need to acquire it? Will these technologies change your strategy or business model?

Manage demand. Once you start using AI, every function will want it. Focus on where it can have the biggest impact on performance.

Don't get left behind. Companies that don't exploit the potential of AI risk falling behind the curve – in terms of operating costs and customer service.

A world of disruption

More than half of companies say that changing consumer behavior is the biggest cause of volatility.

42 percent of companies expect the market to become moderately or significantly more volatile in the next two years.

Six out of ten customer centric businesses expect a moderate or significant rise in volatility.

Four out of ten companies say technology and new competition are driving volatility.

Embrace the three revolutions – geographical, demographic and technological – that are reshaping consumer markets and explore their impact on your strategy, business model and portfolio.

Make good decisions faster. With consumer tastes so uncertain, enable local markets to shape their destiny.

Ask whether you need to take volatility out of your company. Risk can generate a good ROI but would your investors be happier if your business was more stable?

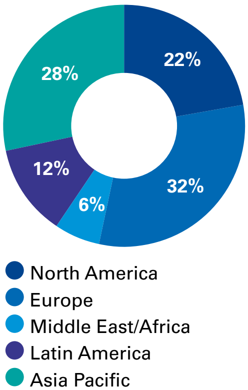
About the survey

526 executives from many of the world's leading global brands were surveyed in March/April 2017

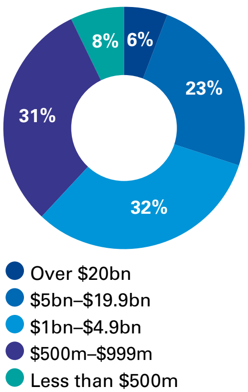
This fifth annual survey was conducted by telephone and online during March and April of 2017. A total of 526 executives from companies headquartered in 31 countries participated.

The respondents are senior executives at global companies from the food, drink or consumer goods manufacturing and/or retail sectors, 92 percent of which had at least US$500 million in annual revenues. Fifty-four percent of the respondents are at the Board or C-level, including 25 percent who are the CEO or President of their company.

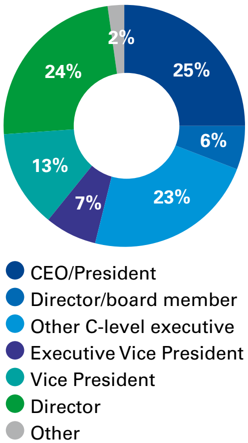
Location of company headquarters



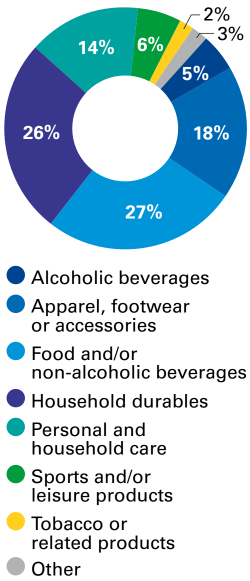
Annual revenue of respondent company



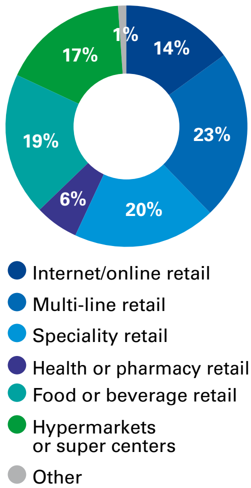
Role of participating executive



Source of revenue for respondent company



Type of retailer – for retail respondents only



About KPMG

KPMG is a global network of professional firms providing audit, tax and advisory services. Collectively, they employ 189,000 people in 152 countries across a range of disciplines.

KPMG is organized by industry sector across our member firms. The Consumer & Retail 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.

KPMG firms 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 (CGF) 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 3.5 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 more than 50 manufacturer and retailer CEOs.

The CGF'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: Environmental & Social Sustainability, Product Safety, Health & Wellness and End-to-End Value Chain & Standards, each of which is central to better serving consumers.

The CGF'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 CGF serves its members throughout the world.

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

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