



No normal is the new normal

Make disruption work for your business

2018 Global Consumer Executive Top of Mind Survey
kpmg.com/TopOfMind

disrupt

“Growth is not a nice to have, it’s an imperative”

Willy Kruh explains why companies need to move quickly if they are to thrive in a time of unprecedented disruption

Change is one of life’s certainties, so those who look only to the past and the present are likely to be caught out by the future. This is particularly true in the consumer and retail sector, which is being transformed by three revolutions at once: geographic, demographic and technological.

This turbulence is reflected in our sixth annual Global Consumer Executive Top of Mind Survey, in which 31 percent of respondents say new disruptive competitors are redefining the industry. Executives also said that changing technology (25 percent) and competition from platform businesses (24 percent) are significant challenges.

While navigating through a volatile marketplace, companies recognize that digital transformation, artificial intelligence, innovation and customer centricity are all, ultimately, a means to an end – and that end is growth. Growth is not a nice to have – for increasingly exacting investors, it is an imperative. Businesses that fail to recognize this may become footnotes in the history of the industry. Growth is as much about mindset as market conditions. CEOs need to ask if their culture, strategies and business models facilitate growth or inhibit it.

It’s common sense for most companies today to realize that in order to deliver consistent, sustainable growth, they need to spend less time listening internally and more time listening to the customer. Judging from this year’s Top of Mind Survey, this is becoming increasingly evident. The question is: are companies responding fast enough?



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“What have you done for society recently?”

Peter Freedman says companies without a ‘social purpose’ will find it harder to engage consumers and investors

The question remains the same: it’s just that the answer is much more complex than it was five years ago. ‘What do consumers want?’ is the question that is resonating throughout the consumer goods industry – at start-ups and incumbents; manufacturers and retailers; in developed and emerging markets; and online and offline.

The reason this question is so powerful is that almost every aspect of what the consumer wants has changed, is changing and will change more radically in the years to come. This means that everything – the product, the sales channel, the method and speed of delivery – may have to be reinvented too. An array of emerging technologies – especially digital, data analytics and AI – can help companies refocus and repurpose.

Yet technology cannot, by itself, resolve the one change many consumers – and investors – expect from companies. Their forthright question to CEOs is: what are you good for? And that ‘good’ is no longer defined in purely financial terms. For two out of three of the world’s Millennials, ‘good’ is defined by what companies do for the communities, environments and societies in which they operate. With Millennials accounting for US\$2.75trn of global consumer spending, this is not a demographic that retailers or manufacturers can afford to alienate. As the campaign against plastics in our oceans shows, consumer-facing companies that can’t convincingly articulate their social purpose are living dangerously.



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77%

of high-growth companies have
a culture that
fosters innovation

60%

of digital laggards say that
digital transformation is held
back by ROI uncertainty

68%

of high-growth companies
say industry disruption gives
them a competitive edge

58%

of all companies are
rethinking their current
business models

Key findings

Strategic challenges

Experiment, be agile and grow

Companies are boosting margins, customer centricity, agility and efficiency by replacing or augmenting some human activities with technology, and by shifting technology into the cloud. They have to do this to survive and thrive in a world where they face sustained margin pressures, shorter strategy cycles, new disruptive competitors and increased expectations from customers.

In an age of disruption and volatility, manufacturers, retailers and platform businesses need to experiment, become more agile and focus on growth, says **Nicholas Griffin**, Head of the Global Strategy Group at KPMG International.

The 2018 Top of Mind Survey finds an industry aggressively navigating a sea of change, where half of retailers and manufacturers are radically rethinking their strategy, culture and processes.

Read more on p16

“We are witnessing an explosion in the number and diversity of new business models, driven by new technology and sector convergence”

Nicholas Griffin,
KPMG International

Customer centricity

Getting it right is hard – but essential

It’s one thing to say you have put customers at the heart of your business. It’s much harder to make sure you have actually done it.

Yet the Top of Mind Survey shows that those retailers, manufacturers and platform businesses which have invested time and money in turning rhetoric into reality are driving growth in profits and revenues. Customer-centric companies are also more likely to be focusing on – and therefore already dealing with – such critical issues as declining brand loyalty and consumers’ ever-more abbreviated attention spans.

Julio Hernandez, Global Lead for KPMG’s Global Customer Center of Excellence, says that, in a market where the consumer has so many choices, customer centricity is a journey, not a destination. Consumers are changing, technology is changing and the competition is changing, so companies need to keep refreshing their customer proposition to stay relevant and competitive.

Read more on p28

“Being customer centric isn’t a one and done thing. You can’t say ‘We’re going to do a couple of initiatives’ and think the job is done”

Julio Hernandez,
KPMG International

Digital transformation

Are you serving your customer?

For the most successful consumer and retail companies, digital transformation is about using technology to focus on the customer, not just internal efficiencies. When companies get this right, they often see their revenues and profits grow faster than those less digitally mature.

To achieve a successful digital transformation, companies should recognize that technology needs to be connected throughout the enterprise, according to **David J. Evans**, Global Advisory Head, Innovation & Technology, KPMG International. Selling products online is not, in itself, the end game – the ultimate goal is to connect the front, back and middle office so they can deliver the seamless experience the customer is expecting.

Read more on p40

“If you anchor the digital transformational journey in the needs of the customer, you will achieve better outcomes”

David J. Evans,
KPMG International

Smart technology

Don't buy artificial intelligence, build it

Robotics, machine learning and artificial intelligence are already redefining the industry, with platform companies pioneering the use of these smart technologies.

Traditional retailers and manufacturers need to catch up or risk becoming uncompetitive.

Dr Thomas Erwin, Global Head of KPMG Lighthouse Center of Excellence for Intelligent Automation and Data & Analytics, says that companies need to learn to work with these technologies – especially AI – and recognize the cultural challenges ahead.

These relatively young technologies are changing so fast that companies also need to keep their options open. In 10-15 years' time, AI could be making most of the operational decisions in a business. The task of making your company exponentially smarter starts here and now.

Read more on p48

“Businesses that do not trust the data produced by AI will not get the value from their insights and deliver ROI”

Dr Thomas Erwin,
KPMG International



Supply chains

Open up, innovate and collaborate

How demand-driven is your supply chain? In most cases, the honest answer to that is: not as demand-driven as we'd like it to be.

Technology has been deployed to transform elements of the consumer industry's supply chain. What is lacking, too often, is the integration of the function into the rest of the business. The challenge, as **Erich L. Gampenrieder**, KPMG's Global Head of Operations Advisory and Global Operations Center for Excellence, says, is to tear down the walls between functions, then between business units and then between your organization and the external environment, collaborating with customers, suppliers or business partners to create ecosystems that will help manufacturers and retailers compete with powerful platform businesses.

A completely different mindset, embracing sensible risks and opening up the function, will be required in a market where, by 2035, the industry supply chain may start and end in the consumer's home.

Read more on p58

“Companies have focused purely on cost efficiencies but now the need is to balance cost with providing a better customer experience”

Erich L. Gampenrieder,
KPMG International

Thought leaders

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

“The homogenization of shoppers from 20 years ago has gone. Nobody's better placed to listen to customers than an independent retailer”

Mark Batenic
Chairman, IGA p15

“The digitalization of our company will help us get closer to customers and anticipate their needs”

Stefano Pessina
Executive Vice Chairman and CEO, Walgreens Boots Alliance p26

“The Chinese consumer is horribly difficult to please when it comes to new products. Every time they visit KFC they expect something new”

Joey Wat
CEO, Yum China p38

Overview:

Surviving the perfect storm

Overview

At a time when the consumer and retail market is experiencing disruption on an unprecedented scale, businesses must respond fast or face failure

Disruption is now such a familiar term, it is in danger of becoming meaningless. Yet its ubiquity reflects the perfect storm of revolutions – geographic, demographic and technological – that are rewriting the rules of business everywhere and most dramatically in the consumer goods and retail sector.

You don't have to look far to find evidence of disruption – in fact you don't even need to leave the boardroom. Since the beginning of 2017, many global manufacturers and retailers have changed their CEO: American Express, Avon, Bill's Restaurants, Burberry, Campbell, Carrefour, Coca-Cola, Dollar Tree, Domino's, Ferragamo, Gap, General Mills, Hershey, Hostess Brands, Hudson's Bay, IKEA, J.C. Penney, Jigsaw, Kellogg's, Lowe's, Lululemon, Mattel, Migros, Mondelēz, Nestlé, Papa John's, Ralph Lauren, Revlon, Samsung, Sony, Staples, Subway, Sun Art Retail, Superdrug and Yum China. Though these changes were made for different reasons, the accumulation suggests that the torch is being passed to a new generation of leaders.

A new generation that has to deal with a new reality, a world where the new normal is no normal, where everything is volatile – the cost of commodities, the tastes of consumers, the caliber of the competition and the attitude of shareholders. In the past five years, market leaders in such sectors as cosmetics, razors, diapers, ice cream, yogurt and toothpaste have come under sustained pressure – from trendy start-ups and local players.

As **Willy Kruh**, Global Chair, Consumer & Retail, KPMG International, says: "CEOs know that change is coming quickly – and that they need to act quickly – but look at all the variables they have to consider. In the 1950s it was simple. There was no internet. If you had a good product or offered good service, you could keep building stores, knowing that consumers would come to see you. You could attract them by word of mouth or by advertising on TV.

"Before if I wanted to buy a French luxury brand, I had to go to a certain store on Madison Avenue and I had to accept their price, because they were the US distributor. Today the world is my marketplace – I can

buy it online from Paris or Tokyo and have it delivered wherever I want. That has made the market so much more competitive – and will continue to do so."

The most significant of the many variables manufacturers and retailers are having to ponder include how they reach the consumer, what technology they need, whether they want to do everything themselves (a more challenging proposition since the emergence of platform businesses) and how they react to disruptive new competitors – a concern for 31 percent of companies responding to the 2018 Top of Mind Survey. All these – and many other – variables have to be assessed while the market itself is changing at unprecedented scale and speed.

An unrecognizable world

The tectonic shift in the global economy has been going on for so long that the magnitude of the change can be hard to compute. Yet a recent Kantar report estimated that 82 percent of FMCG growth is coming from emerging markets. According to **Anson Bailey**, Head of Consumer & Retail, Asia Pacific, KPMG in China: "58 percent of the world's Millennials live in Asia Pacific and, on current trends, that proportion is only going to increase. To give just one example, the Asian Development Bank predicts that 1 million people will enter the Indian labor market every month for the next 25 years."

The realignment is reflected, Kruh says, every 11th November in China, with the commercial juggernaut called Singles' Day. "On the last Singles' Day, Alibaba generated US\$25bn in sales – three times what Black Friday produces across the entire US – and JD.com did almost US\$15bn. The volume of transactions is staggering."

The advent of such platforms is giving Millennials choices that were not available to Baby Boomers. The decline in brand loyalty – an issue identified by 29 percent of companies in the Top of Mind Survey – is psychological, sociological and technological. As Peter Freedman, Managing Director of The Consumer Goods Forum, says: "Historically, word of mouth has always influenced consumer choices but in an age of social media – where, for example, consumers in

The strategic focus of fastest growing companies

87%

Foster culture encouraging innovation/change

87%

Optimize customer engagement and channels

84%

Reengineer processes to be demand-driven and customer centric

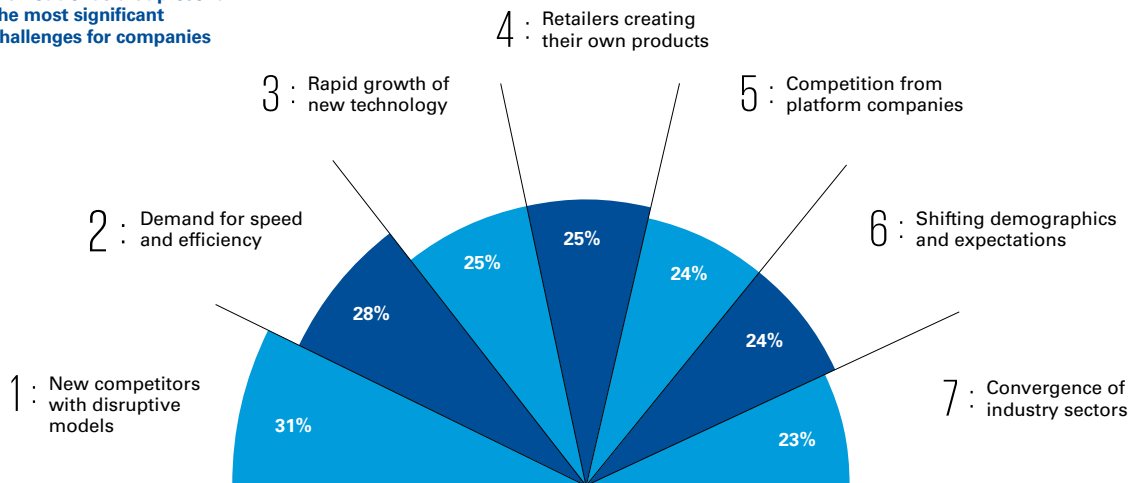
70%

Measure and incentivize progress on strategy

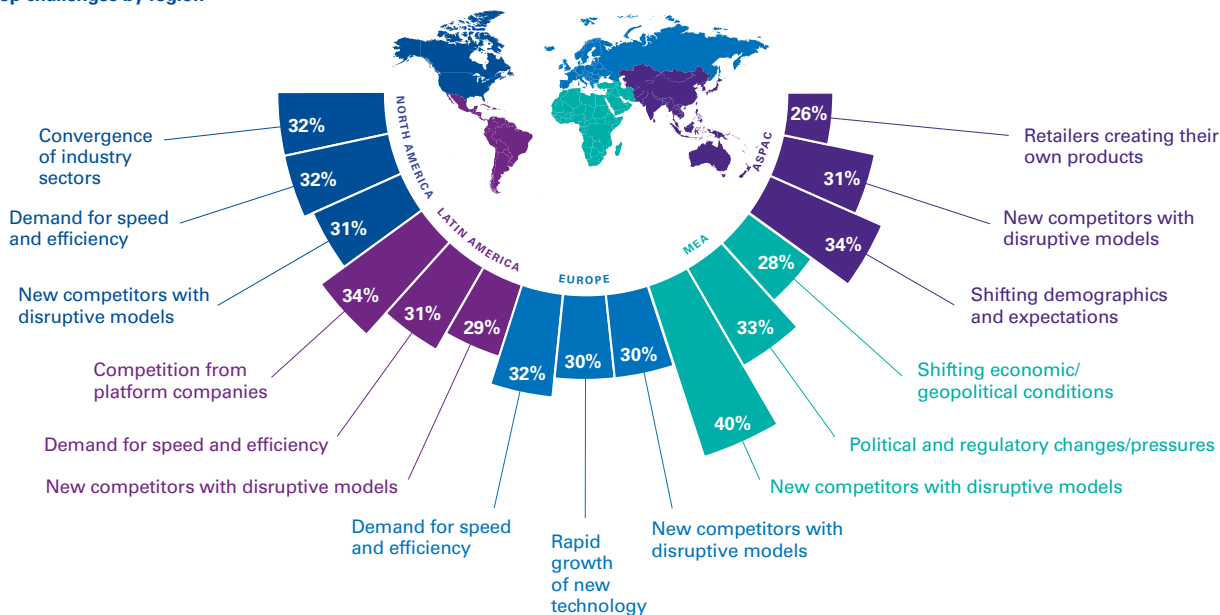
70%

Accelerate digital transformation

Market trends that present the most significant challenges for companies



Top challenges by region



Overview

HEARTBREAK HOTEL

With 4.85m active listings, Airbnb has more rooms than the world's top five hotel chains put together

Consumer sales by channel

Manufacturers

● Now ● In 2020

Physical stores



Own digital channels



Third-party online platforms



Direct personal selling



Retailers

● Now ● In 2020

Physical stores



Own digital channels



Third-party online platforms



Direct personal selling



China consult their key opinion leaders before making a purchase – it has become the most important advocate of a brand or a product.”

The advent of platform businesses such as Alibaba, Google, JD.com and Tencent (which owns the social media app WeChat) has made switching brands virtually frictionless. As **Peter Evans**, Principal, Innovation & Enterprise Solutions at KPMG in the US, says: “People attribute this to the changing taste of Millennials but the reality is that in the past you went to the mall because it was the most efficient way to discover the product – because TV commercials couldn’t tell you every single thing that was on the market – and discover the price. Now you can do both these things, much quicker and more conveniently on your smartphone. If smartphones had existed in the 1960s, we would have used them to shop.”

Keeping brands relevant and resonant is also more difficult than it used to be because consumers know so much about them. Evans says: “Many classic economic theories were based on the idea of perfect information. Yet the brutal reality was that, as consumers, we didn’t have perfect information. Digital technology has brought us much closer to perfect information and that has profound implications for how retailers and manufacturers do everything – how you acquire customers, engage with customers and build the best customer experience.”

In this world, persuading consumers to stand by you is no easy task. Ironically, some of the platform companies, such as Alibaba and Tencent, are showing the way. “These ‘mega platforms’ are reshaping consumers’ behavior and lifestyle in China,” says **Jessie Qian**, Head of Consumer & Retail for KPMG in China. “Within these ecosystems you can go on social media, shop online or in store, pay your utility bills, order meals, book a shared economy bike – they’re very good at creating stickability. As a consumer, you can do so much within these ecosystems, there’s little incentive to go anywhere else.”

The most successful platforms, Evans says, realize the power of openness. “They can build a virtuous circle where they build value, which attracts participants, which builds more value, which attracts

more participants. They can harness new value by engaging their participants – think how popular customer reviews have become.”

The platform problem

The established incumbent manufacturers and retailers are alert to the threat – 24 percent of companies in the Top of Mind Survey identified the rise of platform businesses as a key issue – but this business model poses a complex challenge. “You have three choices: compete, defend or join,” says Kruh. Many have opted to join – more than 150,000 brands are already available on Alibaba, including such luxurious names as Burberry, Dom Pérignon and Maserati. Some large retailers, such as Rakuten, have opted to compete.

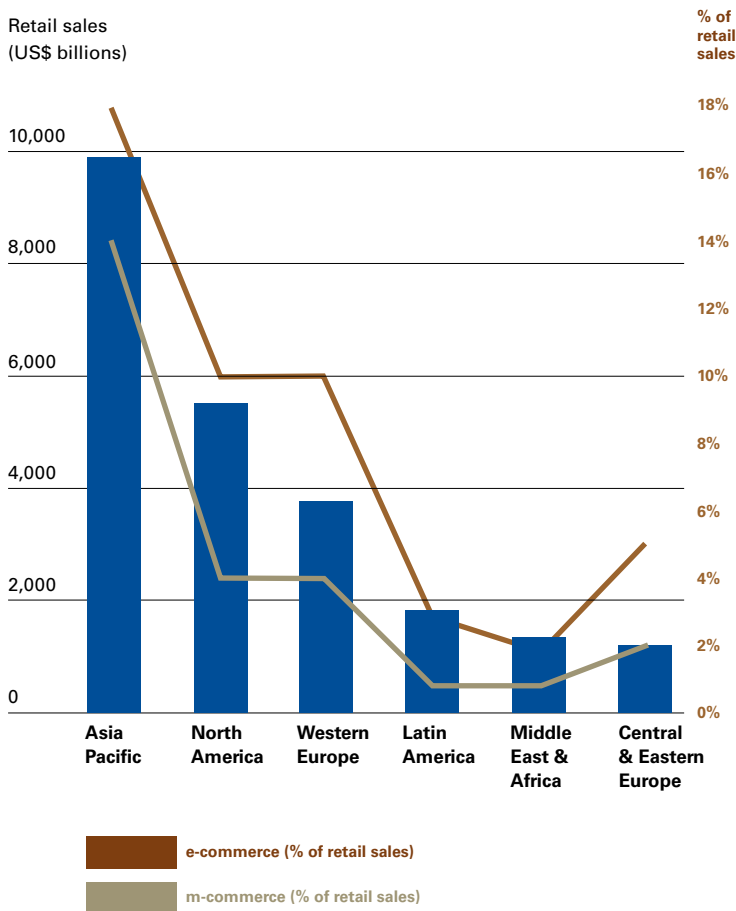
Incumbents looking to defend or compete should, Evans suggests, remember that platforms are not invincible. “They are very powerful but, as we have seen with Facebook, they have high reputational risks. Over the next five years, the governance of these platforms will come under scrutiny, especially when it comes to data rights. We will see innovations that help customers manage their personal data and monetize it. Where do retailers stand on this issue? They could win hearts and minds by helping customers to be better custodians of their own data.”

Platform businesses are not just disruptive for their own purposes, they are also making it easier for other new entrants to disrupt markets. As Freedman says: “If you shop online and find something that looks very like the branded item you were going to buy – but is only two-thirds of the price – you might well be tempted. And if, as an established brand, you don’t work within the platform’s practices and processes, they may well be tempted to hire a manufacturer to create a brandless competitor.”

Many of the barriers to entry that once protected the industry’s giants – limited supply, manufacturing and distribution – have disappeared. Today, speed is probably more important than scale: 28 percent of respondents to the Top of Mind Survey identified customer demand for speed as a top challenge.

The technologically fueled success of so many start-ups has encouraged the belief, both among

Forecasted retail sales 2018



venture capitalists and private equity firms, that many FMCG companies are not that well run. They are vulnerable to digitally savvy start-ups designed to appeal to Millennials, such as beauty group Ipsy, meal-kit delivery service Blue Apron and e-commerce app Wish (which is now worth more than Sears, Macy's and J.C. Penney combined). Last year, there were at least 20 start-ups, CB Insights estimated, looking to disrupt Procter & Gamble's business. These launches might seem to be entering a crowded market but the *Wall Street Journal* reports that although online only accounts for 8 percent of retail sales in the US, it drives 80 percent of the market growth.

With hundreds of start-ups looking for funds to disrupt markets as diverse as bras, toothbrushes and suitcases, many of the industry's major players – notably AB InBev, Alibaba, Campbell, Chobani, Danone, Diageo, General Mills, Kellogg's, Kraft Heinz, Procter & Gamble and Unilever – have launched their own venture funds to back innovative new ideas.

Such funds mark a significant strategic shift from the industry's traditional approach. As Bailey says: "Companies are recognizing they can't do everything themselves. They absolutely need to look at strategic alliances, collaborations and partnerships – to make themselves a center of gravity." Collaborations in the consumer and retail sector, such as the one between the UK's Ocado and a US supermarket chain, are emphatic proof that mindsets are changing – but are they changing fast enough? Many companies surveyed think they're struggling to cope.

Bailey says: "Some of these companies genuinely feel that because they are the market leader, the incumbent, they've got time on their hands and they don't need to worry yet. A few years ago, some companies were saying people would never buy clothes, luxury goods or cars online and they're doing just that." Today's consumer wants to buy here and now. Companies that don't disrupt themselves to meet those expectations should expect to be disrupted – sooner rather than later. ■

DIGITAL DOLLARS
By 2025, global online sales of consumer packaged goods will be worth US\$150bn – 9 percent of the market, Kantar Worldpanel predicts

5 key insights

Peter Evans, Principal, Innovation & Enterprise Solutions at KPMG in the US, on how platforms are disrupting consumer markets

“Navigating a platform world”

1 . Platform businesses use the network effect to achieve enviable growth rates

Platform businesses are the new multinationals. Uber, Netflix and Spotify have all dramatically expanded globally. Platforms have this network effect that can achieve growth rates that traditional companies would envy. It is the ability to create a virtuous cycle, where they build general value, which attracts more participants, which creates more value, which attracts more participants. The fastest arenas for platformization have been information-rich, or easily digitizable businesses. But it's not limited to that. We see, for example, third-party auctions, selling products on the secondary market.

2 . Successful platform companies reach out to third parties to drive innovation

The best platform businesses open up and let others build applications to create new value. This has really taken off with the advent of application programming interfaces (APIs) and software developer kits (SDKs). The smart platforms are not just about supply and demand. There's a whole field of ecosystem management in development in which platforms encourage third parties to build applications that cultivate a host of skills and functions. The mobile app Salesforce1 does this, for example.

3 . Competitors need to be proactive about their platform strategies

Platforms are popping up across the entire value chain of a company. So you need to think where you can leverage other platforms to enhance your business. It could be workplace platforms, supply chain-related platforms, advertising or machine-learning platforms. In the past, you would have gone

to a traditional company to procure these kinds of activities or services. Now, you have to think about platforms, and so your engagement model in terms of acquiring services changes.

4 . Some companies will be able to develop their own platforms

You have to decide if your platform is single-purpose or if it will transform your business so that you can morph into more of a neutral party, which is facilitating exchange rather than selling a particular product or service. The challenge is that platforms tend to be most effective when they're neutral. Or do you decide to purchase an existing platform? Some of the car companies, such as Daimler (which bought urban mobility app moovel) have been experimenting in that space. If you're just interested in selling your product, you should think about how to harness other platforms. For example, IKEA recently bought TaskRabbit, the online marketplace for labor, which employs freelancers, so acquiring a platform doesn't necessarily burden companies with a massive payroll.

5 . Retailers could win hearts and minds by championing customers' data

Platform companies are in the lead and investing heavily in AI capabilities. But we know from recent experience that platforms are not invincible. They have very high reputational risk issues. If a retailer is able to sustain trust with their customers in a way that the dominant platform is not, they may be in a better position. In the next five years, we will see a lot of innovation to help customers better manage – and monetize – their own personal data. Retailers have to figure out where they sit in that landscape. Will they help customers become better custodians of their own data and win hearts and minds that way?



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SALES PUSH
In 2017,
MercadoLibre,
Latin America's
largest platform
business, sold
270m items, 49
percent more
than in 2016

Thought leader

Mark Batenic, Chairman,
Independent Grocers Alliance (IGA)

“What are you famous for? What’s that one item?”

Long-time leader of independent grocers Mark Batenic talks about how they can best serve their communities

What does the Independent Grocers Alliance do?

It’s an organization of retailers who share core values in taking care of the shopper. It’s a franchise model that offers a business platform and guidance on how to run your business. We’re in 32 countries, mainly the US, China, Australia and South Africa.

How are independent grocers doing?

The homogenization of shoppers from 20 years ago has gone away. CPGs are

struggling with this. They’re used to shoving a product out through the system. Today’s shoppers are rejecting that. We think there’s nobody better to listen to what shoppers are saying than the independent retailer.

We’re also pushing our guys to have proprietary products. What are you famous for? What’s that one item that differentiates you and will make a shopper drive or walk past other stores to get to yours? It could be a cookie, a meatloaf mix, whatever.

Is the US market growing? Or is it a case of winning market share against others?

It’s growing. The population growth helps but the shopper has moved towards fresh. There’s a natural growth there. The biggest challenge a lot of the stores have is meeting that new need for fresh, prepared, ready-to-go food. People like the convenience.

When you have more fresh, you’ve got to have resources in the store. Do you have that deli manager? Do you have technicians in those prepared foods departments? A lot of independents have done it very well with training programs. It does drive costs up, and transactions are somewhat smaller, but usually if they’re in perishables, they’re more profitable. The whole idea is to have customers come back every day.

If you’re already running your own store, isn’t going omnichannel a real challenge?

Yeah, it is. If you’re a single store operator, putting a program together can be incredibly expensive. A lot of times they partner with somebody, especially in the delivery area. There are lots of start-ups doing that.

Do you still see a strong future for bricks-and-mortar stores?

We have an average footprint of 25-35,000 sq ft in the US. That was considered small and outdated, but today’s shopper sees it as agile and quick. The most asked question at 4pm every day is “What’s for dinner?”. If you have the solution in your store for that, that’s where you’re going to win.

The other thing is, people are social beings. We see our independent stores as community centers, where people can gather and share all kinds of things.

But the investment is much greater. You could get into a store fairly reasonably from a cost standpoint 10 years ago. Today, it’d take you about a quarter of a million bucks. That’s just to get your foot in the door. But it’s no different than a franchisee who wants to go into a franchise, whether it be fast food or cleaning carpets or something like that. Those are all entrepreneurs.

Is there one issue that concerns your stores more than others at the moment?

Finding qualified help. Entry to the grocery business is always as a stocker, checker or something like that. It has an image of low wages. As we move into more prepared foods, you’ve got to have people who want to learn the rules on all those things. But as the population ages, young people don’t want to go into those jobs as a career. You work weekends. You work nights. That’s when people shop. Without question, that’s the number one concern around the world.



INDEPENDENTS DAY
Batenic believes local retailers are best placed to understand what shoppers really want

It doesn't
matter how
fast you run if
you are on the
wrong track

Strategic challenges

Companies are alert to the threat of market disruption but recognize they need to do more to transform their strategy to compete in a fast-changing world

SHOPPING IN STORE
US Millennials visit stores 17.2 times a month, says Pew Research Center. The average US shopper makes 14.3 visits a month

“I’m a terrified dinosaur,” Jorge Paulo Lemann, the co-founder of 3G Capital, the investment firm which owns such brands as AB InBev and Kraft Heinz, told the Milken Institute global conference in April. “I’ve been living in this cozy world of old brands and big volumes. We bought brands that we thought could last forever. You could just focus on being very efficient. Now we are being disrupted.”

The key phrase in that analysis is: “You could just focus on being efficient.” The past tense indicates that even Lemann, renowned for his ability to take cost out of the business, realizes that to flourish in an ultra-competitive consumer goods industry, where technology is dismantling barriers to entry and blurring traditional demarcations between sectors, new skills and new thinking are required.

At 3G Capital, the process of reinvention is now underway: a new fund, ZX Ventures, has been created to invest in craft beer, e-commerce and home brewing and embrace the challenge of what Lemann calls “self-disruption.”

Lemann is not alone in recognizing the clear and present danger posed by disruption. Such major players in consumer and retail as Campbell, Coca-Cola, Diageo, Hershey, LVMH, PepsiCo, Procter & Gamble, Target, Tesco and Unilever have launched venture funds, start-up incubators and start-up accelerators to nurture, invest and possibly acquire promising new innovations.

Such ventures reflect a necessary shift in strategic priorities, says **Willy Kruh**, KPMG Global Chair, Consumer & Retail. “The CEO survey we do every year shows that 60-70 percent of CEOs believe the next two to three years are going to be more transformational than the last 50. We are in the midst of three revolutions – geographic, demographic and technological – that are colliding with each other and turning the world upside down. And companies throughout the world are faced with a landscape that they’re not used to.”

The 2018 Top of Mind Survey does suggest that companies recognize the challenge – and admit that they need to do more to meet it: 46 percent of

How companies rate the importance of rethinking strategy, products and business models

8%
Low/no importance

31%
Moderate importance

36%
High importance

25%
Very high importance

manufacturers and 34 percent of retailers say they are struggling to adapt to market disruption.

An unfamiliar landscape

The evidence that the consumer goods industry has been turned upside down can be found in store closures (which topped 8,000 in the US last year, 35 percent more than in 2008, in the depths of recession), the rise of new brands (notably Dollar Shave Club, Halo Top ice cream and Chobani Greek yogurt) and the growing power of online platform businesses. Online platform competitors are identified as the most pressing threat for 24 percent of companies – and nearly half of those say they are not well prepared to deal with the challenge.

In Kruh’s view, while businesses will – and should – always look for operational efficiencies, cutting costs is not a sufficient response to disruption on such a scale, happening at such speed. “After the recession in 2007 and 2008, many companies cut costs and tried to straighten their balance sheet to survive. There’s a realization now that they’ve spent enough time on that, they need to grow. And you’re not going to grow by cutting costs. The mantra now is growth. How do we differentiate ourselves? How do we meet the new consumer? How do we keep reinventing ourselves? That’s not about cost cutting.”

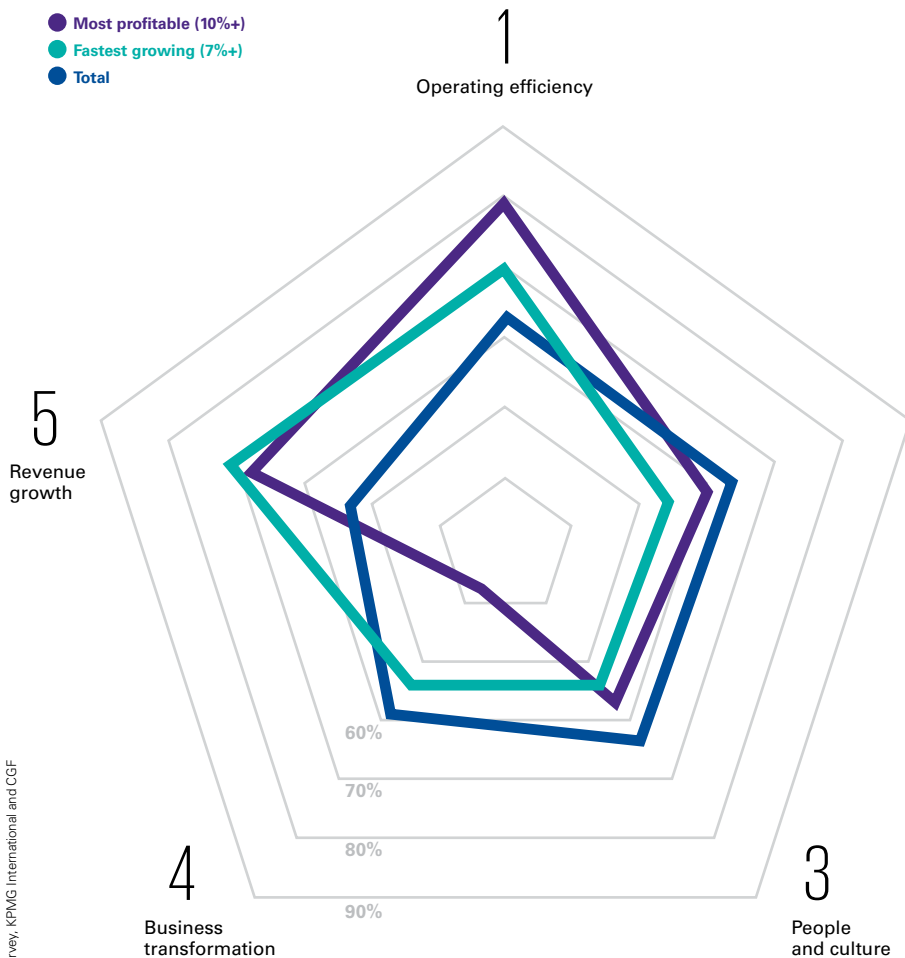
Kruh’s analysis is shared by Peter Freedman, Managing Director of The Consumer Goods Forum, who says: “It’s very difficult to grow a company and reduce costs at the same time – and public companies know that investors want growth. It was acceptable to grow as fast as the economy when the economy grew 4-5 percent every year but companies cannot rely on that any longer.”

There is growth out there – as Kruh points out there will be a billion new consumers in the world by 2030, primarily in China and India – but it is not as easily accessible as it was and the competition for it is likely to become more intense, with new regional players such as Alibaba, JD.com and Tencent aiming to become global powers.

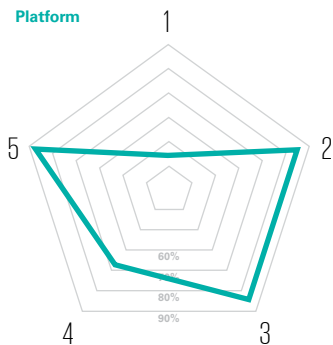
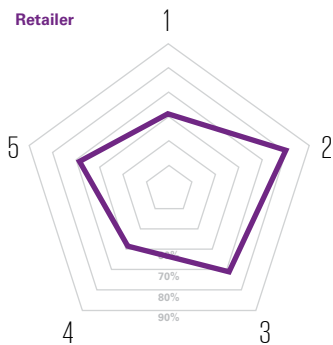
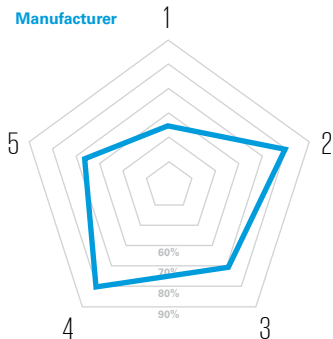
The Top of Mind Survey shows that the fastest-growing and most profitable businesses put

Business strategic priorities

- Most profitable (10%+)
- Fastest growing (7%+)
- Total



Business strategic priorities by company type



Finding the right balance among strategic priorities is paramount. High-performing companies stress operating efficiency and revenue growth



Collaborate to innovate

Bernard Arnault, Chairman and CEO of LVMH, which includes brands such as Louis Vuitton, Dior, Dom Pérignon and Sephora, announced in April the launch of an accelerator program for 50 international start-ups to invent new products and services for the luxury sector. LVMH will benefit from the start-ups' expertise in areas such as chatbot customer service, visual recognition-based predictive technology and biometric wristwear.

significantly more emphasis on increasing sales and operating efficiencies than the industry as a whole and are significantly less likely to focus on governance and culture.

58 percent of companies are developing new – or rethinking existing – business models, which demonstrates a significant industry reinvention. This seems to be a particular focus for retailers, perhaps because their business is at the front line of disruption. The question is: are business leaders being bold enough?

The announcement that Nestlé is to pay an American coffee company US\$7.2bn for an exclusive global license to sell its packaged coffees and teas is evidence that as CEOs search for growth they are prepared to contemplate alliances and arrangements that would have been deemed unthinkable only a few years ago.

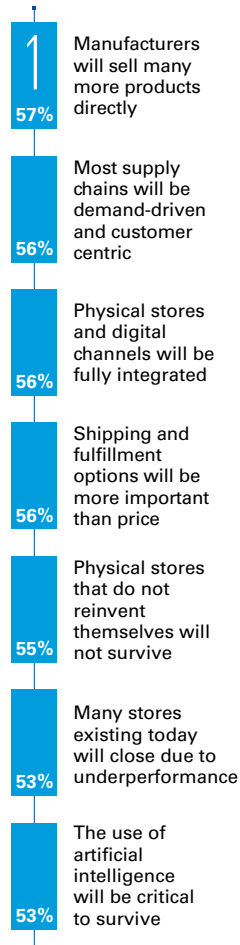
A tipping point?

The recognition by two such powerful consumer brands that it may be more profitable to work together may reflect a tipping point in industry attitudes. **Nicholas Griffin**, Head of the Global Strategy Group at KPMG International, says: “One of the outcomes we are going to see is the emergence of platforms and ecosystems. The principle is a simple one. Invite other players in to help you create a center of gravity that attracts more ideas, resources and customers into your orbit. In that way, you can achieve more, in less time, than if you were acting alone. In the age of social media, word spreads quickly and what used to take years and decades to build can now be done in a few months.”

For Griffin, such strategies are likely to be significantly more effective than an internal restructuring: “In my experience, changing management structures rarely stimulates or drives growth. Developing new business models – and collaborating with partners in different sectors to allow quick sharing of competence and skill sets – are much more likely to galvanize growth.”

The message seems to be getting through, according to the Top of Mind Survey. Rethinking

More than half of board members expect to see the following industry shifts by 2020



strategy and expanding the network of partners, suppliers and service providers are top priorities for most companies seeking to transform their business. Three out of four companies focused on revenue growth had new customer segments, product areas and geographic markets at the top of their agenda.

Over the past three years, Unilever has acquired 19 small, fast-growing companies. The most significant of these purchases are probably subscription-based razor start-up Dollar Shave Club, skincare group Carver Korea and eco-friendly laundry business Seventh Generation.

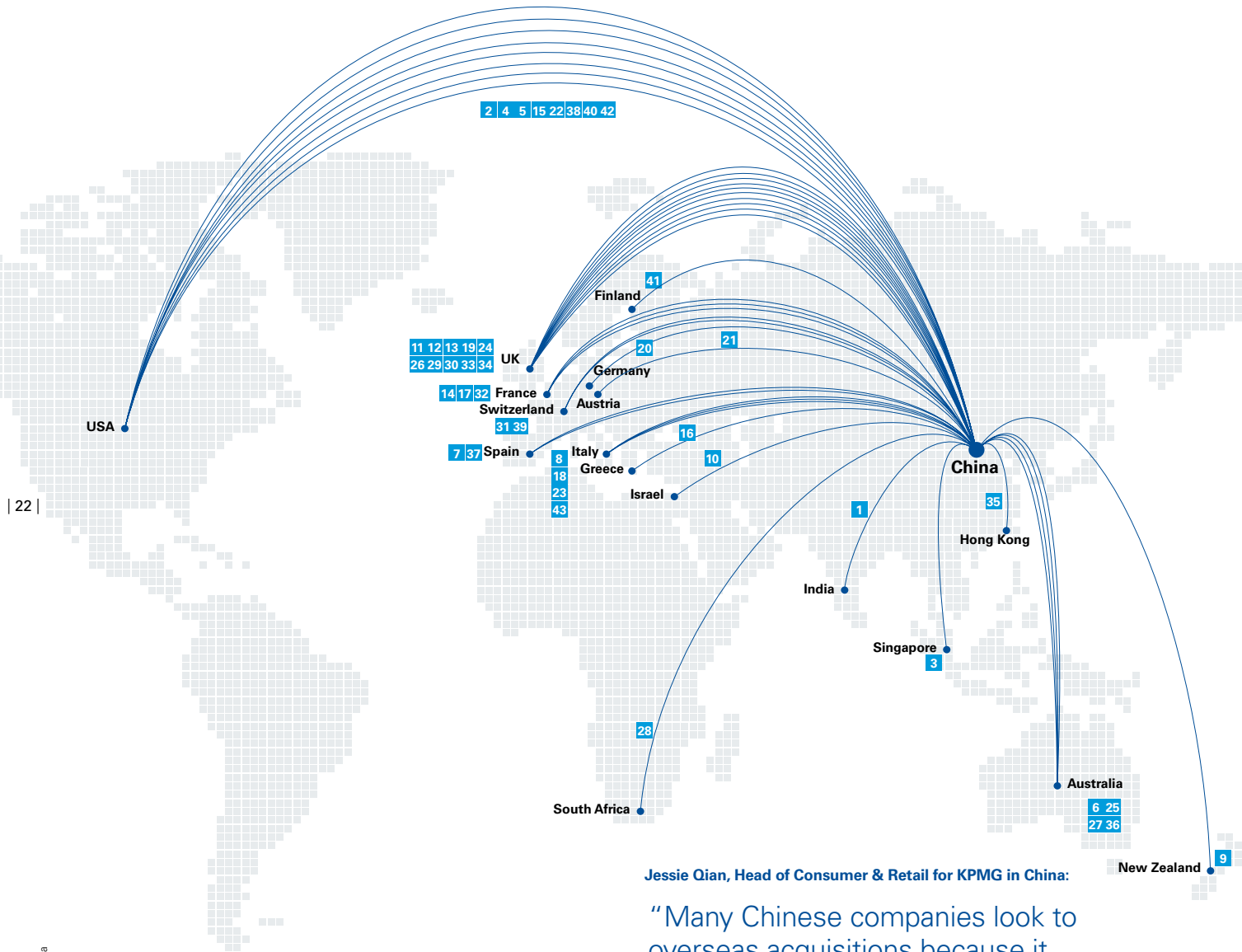
Some retailers have been audacious enough to embrace their rivals. A pilot program by US department store chain Kohl’s, which allows free returns for a major online retailer at some of its Chicago stores, has increased store traffic by 8.5 percent in nine months. In May, Kohl’s also announced that a budget supermarket would open in up to 10 of its stores across the US.

With consumer preferences changing so rapidly, manufacturers, retailers and platform businesses need to look outwards, listen for market signals and be agile enough to respond. When Sean Connolly became CEO of North American food group Conagra Brands in 2015, he identified three factors – “internal focus, bureaucracy, PowerPoint presentations” – as evidence that many consumer-facing companies had metamorphosed to become what he called “the antithesis of agility.”

Connolly took charge of a long-established, Fortune 500 business generating around US\$15bn in revenue, but, as he bluntly told employees, “The risk of not changing could be really disastrous.” Connolly sold off underperforming businesses and streamlined operations. He also invested heavily in innovation, seeking to create a product portfolio that meets growing consumer demand for healthy, organic ingredients. Conagra Brands has refreshed its portfolio with selective acquisitions, such as the US\$250m purchase of Angie’s Boomchickapp ready-to-eat popcorn.

START-UP STORE
KaDeTe, the world’s first start-up supermarket, opened in Berlin in 2018, selling new products from start-ups

Strategic challenges



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Jessie Qian, Head of Consumer & Retail for KPMG in China:

“Many Chinese companies look to overseas acquisitions because it takes a long time to build a brand. They want to acquire technology and bring the brands to China”

OPEN UP
 Chinese home appliance giant Haier runs an open innovation platform, HOPE, made up of 270,000 employees, users, investors, suppliers, researchers and entrepreneurs

Chinese overseas acquisitions in the consumer industry since 2013

	Who	Acquired	How much (US\$)
1	Alibaba	Big Basket (India)	Undisclosed
2	Alibaba	Fanatics (US)	\$170m
3	Alibaba	Lazada (Singapore)	\$1bn
4	Alibaba	ShopRunner (US)	\$202m
5	Anbang Insurance	Waldorf Astoria (US)	\$1.95bn
6	Bright Food	Manassen Foods (Australia)	Undisclosed
7	Bright Food	Miquel Alimentació (Spain)	\$132m
8	Bright Food	Salov (Italy)	Unknown
9	Bright Food	Silver Fern Farms (New Zealand)	\$191m
10	Bright Food	Tnuva (Israel)	\$2.5bn
11	C.banner Int Holdings	Hamleys (UK)	\$153m
12	China Haidian	Dreyfuss (UK)	\$375m
13	Dalian Wanda	Sunseeker (UK)	\$445m
14	Fortune Fountain Capital	Baccarat (France)	\$184m
15	Fosun	Ahava (US)	\$77m
16	Fosun	Folli Follie (Greece)	\$121m
17	Fosun	Lanvin (France)	Undisclosed
18	Fosun	Raffaele Caruso (Italy)	Unknown
19	Fosun	Silver Cross (UK)	Unknown
20	Fosun	Tom Tailor (Germany)	Unknown
21	Fosun	Wolford (Austria)	Unknown
22	Haier	General Electric (US)	\$5.6bn
23	Hony Capital	Mr&Mrs Italy (Italy)	Undisclosed
24	Hony Capital	Pizza Express (UK)	\$1.54bn
25	Inner Mongolia Fuyuan	Burra Foods (Australia)	Undisclosed
26	Jahwa	Mayborn (UK)	\$372m
27	Moon Lake	Van Diemen's Land (Australia)	\$210m
28	Perfect	Val de Vie (South Africa)	Undisclosed
29	Sanpower	House of Fraser (UK)	\$560m
30	Shandong Ruyi Technology	Aquascutum (UK)	\$117m
31	Shandong Ruyi Technology	Bally (Switzerland)	Undisclosed
32	Shandong Ruyi Technology	SMCP (France)	Unknown
33	Shandong Ruyi Technology	Taylor & Lodge (UK)	Undisclosed
34	Shandong Ruyi Technology	TM Lewin (UK)	\$137m
35	Shandong Ruyi Technology	Trinity (Hong Kong)	\$285m
36	Shanghai CRED Real Estate	S Kidman (Australia)	\$274m
37	Shuanghui	Campofrio Food (Spain)	\$958m
38	Shuanghui	Smithfield Foods (US)	\$4.7bn
39	Tencent	Miniclip (Switzerland)	Undisclosed
40	Tencent	Riot Games (US)	\$400m
41	Tencent	Supercell (Finland)	\$8.6bn
42	Tencent	Zam (US)	Undisclosed
43	Zhu Chongyun	Krizia (Italy)	\$35m

Agility is a ubiquitous management buzzword that can cover everything from the speed with which a company can get a new product to market to the adroitness with which it can smooth out a wrinkle in its supply chain. Yet most importantly of all, it's a mindset. In a turbulent marketplace where the new normal is no normal, conventional wisdom can blind management to new realities.

Bricks and clicks

The popular industry narrative of a 'retail apocalypse' would, for example, suggest that manufacturers and retailers should keep closing their bricks-and-mortar stores. The Top of Mind Survey shows that many companies will do this over the next two years – although the shift does not look as dramatic as some scaremongering headlines would suggest. Yet poor performance at stores may be a symptom not a cause – it could just reflect the fact that a company's offering is of declining relevance to consumers. If that is the issue, closing stores may prolong the agony but not change the outcome.

Many countries – notably the US and UK – have more retail space than they need and this problem will become more acute, as e-commerce and m-commerce keep growing. Retailers and manufacturers do not want to be so preoccupied by protecting their stores they are handcuffed to the past. Equally, they need to recognize the industry is only the start of a digital revolution – and it may play out in unexpected ways.

The realization that there is a symbiotic, yet mysterious, relationship between digital and physical channels has prompted many e-commerce brands to open stores. In the US, the pioneers of the 'bricks and clicks' strategy, Warby Parker, have now been joined by bedding brand Boll & Branch (which plans to open 20 stores in the next two years), women's workwear brand MM.LaFleur, beauty start-up Glossier and footwear brand Allbirds.

Strategic challenges

Percentage of sales direct to consumer by sales channel for most recent fiscal year

81%

of sales to consumers by retailers were through physical stores

41%

of sales to consumers by manufacturers were through physical stores

39%

of sales to consumers by manufacturers were through third-party platforms/marketplaces

13%

of sales to consumers by retailers were through their own digital channels

4%

of sales to consumers by retailers were through third-party platforms/marketplaces

In China, Alibaba is looking to fuse digital and physical commerce in a strategy it calls 'New Retail'. Far from closing stores, Jack Ma's company is investing in them, acquiring a minority stake in Chinese grocer Sun Art Retail and recently opening 10 of its own Hema supermarkets in 10 cities across China. Alibaba's strategy has been described – in terms that echo Griffin's point about the importance of ecosystems – as a "fight for user participation" as it seeks to encourage consumers, manufacturers, merchants, app developers and content creators to collaborate with it. The greater the collaboration, the more powerful is Alibaba's 'platform' – a term that, in this instance, embraces physical and digital retail.

The difficulty facing every CEO is that we can discern broad trends – the dramatic growth of e-commerce and in some markets, notably China, of m-commerce – but we cannot say with any confidence what share of global consumer spending digital and physical retail will have in 2030.

Stefano Pessina, Executive Vice Chairman and CEO of Walgreens Boots Alliance, the world's largest pharmacy group, is convinced that stores will be with us for generations. "We are social animals. Even the laziest of us want to get out, visit a store, meet people and ask the beauty assistant or the pharmacist for advice. That's human nature – and that won't change for generations." GuoDa, the large Chinese pharmacy chain in which WBA has acquired a 40 percent stake, plans to open thousands of outlets in the years ahead.

Who eats who for breakfast?

One of the most enduring false dichotomies in business is whether "culture eats strategy for breakfast" or whether it is the other way around. Griffin says that companies that aim to successfully manage change – rather than have change manage them – must recognize you need both. "Any strategic implementation is only as strong as its weakest link. There are probably more choices on where to play and how to win, so the alignment of leadership and the organization's financial, business and operating models is critical."

SELLING FAST

Nike's pre-release of its Air Jordan III Tinker Shoe on Snapchat sold out within 23 minutes

For CEOs running a Fortune 500 consumer-facing company, envisaging the ideal future enterprise is not the most pressing issue, says Griffin. The challenge is managing what can be a very complex transition and balancing two different kinds of risk. Making small incremental changes may seem like it safeguards the business but the danger, Griffin says, is that such companies may find themselves outmaneuvered and irrelevant. Equally, he adds, CEOs need to be clear that anticipating disruption comes with its own dangers – strategic change may put customer relationships, supply chains, market shares and ultimately value at risk.

The modern consumer goods and retail industry has never faced change of this magnitude at this speed. Even well-established market leaders who have relied on their brand equity have proved vulnerable to new competitors, technology and business models.

The sense of urgency is, Freedman says, now permeating the industry. "With some younger CEOs taking over in the consumer and retail sector in the past year or so, there is a sense of what I would call energy rather than optimism – a belief that things can, and will be done."

The next 10 years may well be the most significant, unpredictable and transformative decade in the history of the consumer goods industry. The three revolutions Kruh spoke of – geographic, demographic and technological – will keep standing the marketplace on its head. The pace of change will continue to grow exponentially.

"Many companies are starting to understand what they're facing, understand the upheaval and are dealing with it appropriately, whether it's ridding themselves of non-core products, building their own ecosystem, transforming their business, or making sure they have the right technology," says Kruh.

"It's just that we are operating in a time when there is so much going on, and there are so many variables to consider, that it is a tough row for companies to hoe." ■

5 key insights

Nicholas Griffin, Head of the Global Strategy Group at KPMG International, says companies need to understand disruption and give up old paradigms

“Experimentation and agility are key”

1 . **To survive and thrive, companies are in a race to become more customer centric and agile**

Geopolitical uncertainty, new technologies, changing customer behaviors and shifting demographics are contributing to sustained margin pressures, shorter strategy cycles and increased expectations from customers. The good news is that companies are increasing the rate at which they embrace digital and artificial intelligence technologies underpinned by data and analytics.

A two-step shift is helping companies boost margins, customer centricity, agility and efficiency. First, by replacing or augmenting some human activities with technology, and second, by shifting technology into the cloud. This lowers costs because much of the technology purchased is matched to volume and rented. It also lowers the cost of switching technology providers. The combination of technology and data and analytics is enabling more agile production and a personalized customer experience. Leading companies are already executing on this mission, but most are playing catch-up.

2 . **The diversity of business models has grown due to technology and sector convergence**

This is creating a much richer mix of markets, propositions, customers and channels. Companies are realizing that the old paradigm of attempting to control channels and markets no longer works. The watchwords now are experimentation and agility. One of the outcomes is the emergence of platforms and ecosystems. The principle is a simple one. Invite other players in to help you create a center of gravity that attracts more ideas, resources and customers into your orbit. More can be achieved faster than by acting alone. In the age of social media, what used to take decades to build can now take place in months.

3 . **Any strategy implementation is only as strong as the weakest link**

Successful strategic change requires leadership to be aligned to the organization's financial, business and operating models. Arguably there are more choices available to leaders than ever before on where to play and how to win, so alongside capabilities and readiness to execute, alignment is mission critical.

4 . **The success of strategic change depends on the courage and capability of leaders**

Short-termism and the need to constantly deliver results contribute significantly to leaders' reluctance to do what needs to be done. It tends not to be that people struggle to see pathways to a successful future, but they feel unable to put the current position at risk or they do not feel confident in making what can be a complex transition. Retrenchment, defensive tactics and incremental changes soak up resources and provide a narrative for leadership but ultimately many of the companies that adopt such an approach get outflanked and outmaneuvered and slip into obscurity, irrelevance or disappear.

5 . **The challenge of disrupting your own organization should not be underestimated**

It is not atypical to find that the more successful a company is, the greater the self-disruption challenge becomes. Leading companies invest considerable energy and resources reinforcing success factors and defending positions against competitors. I do not believe that CEOs are failing to see disruption coming. The key challenge is the need to be sure the disruption is a real and present danger because upending a strategy puts customer relationships, supply chains, market positions and ultimately value at risk.



Nicholas Griffin, Head of the Global Strategy Group at KPMG International
nicholas.griffin@kpmg.co.uk

STAY AHEAD
The courage to invest and take risks to bring about strategic change is essential to keep your company relevant

Thought leader

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

“We have to
get closer
to our
customers
and anticipate
their needs”

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WBA chief Stefano Pessina reveals
how digital technology will help
transform the business

What is top of your agenda this year?

First, we are undergoing a process to digitalize the company. In some parts of the business we are quite good in this area and in others we are not very digitalized because we have to rewrite all of our old software. We are also reformatting our stores and have just launched a test in 17 stores in Florida to focus even more on healthcare in the retail side of our business. We want to prepare the company to give a better service to our customers giving them a more focused choice.

How do you expect your relationship with the customers to evolve?

The digitalization of our company will substantially change the relationship with our customers. We have to get closer to them and understand, and if possible, anticipate their needs. We can do this by using their data to improve our service. We are also always working to be competitive on price, especially in the front of store.

How important are physical stores?

People are social, they like to talk to other people, they don't want to stay at home waiting for something to be delivered. Even though online sales are growing at a rate of 30 to 40 percent a year, it could take a lot of time for them to be prevalent. You will always have a combination of online and offline. Bookshops are still opening because people like to hold a book in their hands – to change human nature will take generations.

What do you have in mind for rethinking your supply chain?

We have already done up to 90 percent of what we can do, but we are looking to make the supply chain more efficient, and where we can, integrate our wholesale and retail businesses. 85 percent of

Americans live within five miles of a Walgreens, and in the UK, 90 percent of people live within 10 minutes of a Boots, so we are using our stores' proximity to customers to improve service. We have an agreement with FedEx to deliver and pick up parcels in practically all our stores. We are using this network to cover the last mile from our stores to households.

How easy is it for you to actually disrupt yourself and drive innovation?

We have to do it. If we improve the technological level of our company we make savings, which we can use to finance disruption. I am quite confident about the future. We are very pragmatic, we are not dreamers. But we are also fortunate because the bulk of our business is in pharmacy. And it will not be touched in the medium term, so we have time to do it.

What was behind the move to acquire a 40 percent stake in GuoDa in China?

For many years we have had joint ventures in distribution in China. New regulations have changed the relationship between pharmacies, hospitals and distributors so we decided to reduce our presence as a distributor and increase our presence as a pharmacy. GuoDa is the biggest selling pharmacy chain in China. We have taken a 40 percent stake to help them expand. They want to open 7,000 to 10,000 stores in five years.

Is there a lot of natural growth left to come in healthcare and beauty?

Healthcare, probably yes. I see high single digit percentage growth. In the beauty sector, it will only be 1 to 3 percent, not more than that. But even for healthcare, I don't see the rapid growth that we were used to having in the past.



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PHARMACY-LED RETAIL
Pessina says that Walgreens
Boots Alliance's business model
has "pharmacy at the core"

The secrets to winning customers (and keeping them)

Customer centricity

TRY BEFORE YOU BUY

By 2020, one in four US retailers will offer a 'try before you buy' service, predicts consultancy Brightpearl

As consumers become more empowered and informed, companies that keep their customers firmly front of mind are more likely to grow profits and revenues

"In the end you have to give your customers a voice, you have to truly listen to them and not just make them feel heard. You have to treat them with the respect that they deserve because after all in this world where there is no scarcity of choice, you have to give them a reason to keep choosing you," said Emily Weiss, CEO of new beauty brand Glossier, at a retail conference in March.

In just four years the brand, which evolved from Weiss's blog Into the Gloss, has become one of the beauty industry's biggest disruptors and recently raised US\$54m in a new round of funding. The American company relies on customers sharing recommendations and experiences on social media to drive the creation of new products. More than 70 percent of its online sales and traffic come from peer-to-peer referrals.

Glossier is just one of many new brands that have emerged with customer centricity at the very heart of their business. They have taken advantage of the ability to communicate with their target consumers directly online to learn about them and build relationships with them. It is now quicker and easier for disruptors to connect with consumers and grab market share than it has ever been.

Long-established market leaders in such diverse sectors as mattresses, personal care, apparel and food are facing disruptive competition. Some of the challengers have been started by dissatisfied consumers. Heidi Zak founded online underwear company ThirdLove because the bras she bought didn't fit her properly. To rectify that, she introduced half-cup sizes, which are now worn by one-third of ThirdLove's customers.

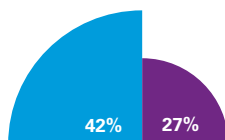
Businesses recognize the challenge. The 2018 Top of Mind Survey shows that understanding customer needs is a top priority for 48 percent of companies. Yet in many cases, management recognizes they have much work to do – and not much time to do it in. One 20-year veteran at a Fortune 100 consumer company told an investor recently: "In 10 years our company will no longer exist. It will be broken up."

As **Willy Kruh**, Global Chair, Consumer & Retail, KPMG International, says, "Brand equity will only

Consumer trends that present the greatest threats

- Customer-centric companies
- Other companies

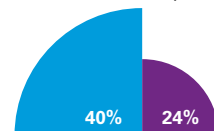
Declining loyalty to brands



Demand for greater value



Shorter attention spans



Greater value from experience



Demand for immediate gratification



take you so far. You've got to keep looking at it, you've got to refresh, you've got to understand today's consumer, and you've got to meet that consumer where they want to be met. If you don't get that experience is such a large part of it, and you're not catering for that and morphing into a business that is based more on experience, then you're going to miss that consumer base. If they're not grabbed by your proposition, they're gone. And they are gone forever."

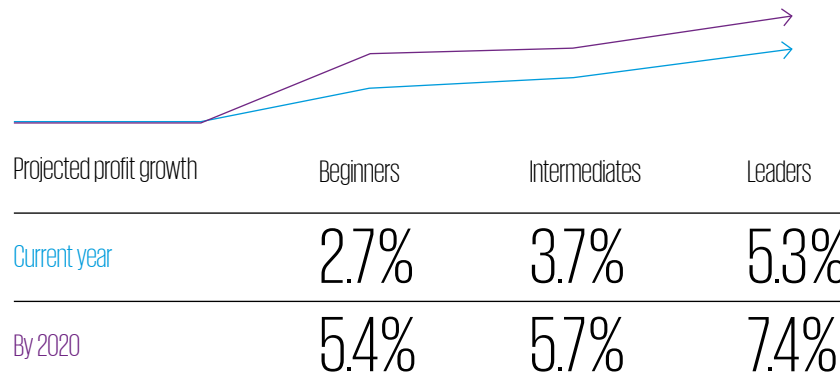
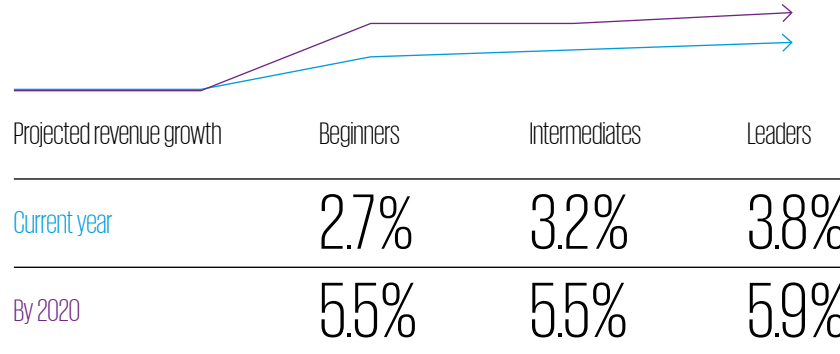
In the war for relevance, traditional companies can still flourish. Low-cost retailer Dollar General Corporation has prospered in the US with a clear customer proposition: "Save time, save money, every day." One of America's fastest-growing retailers (in terms of outlets), Dollar General understands who its customers are, what they want and where they live.

In 2013, the retailer began to focus on opening stores in small rural towns, choosing locations near its target demographic, low-income customers, and more than 40 miles from low-cost chain stores. Dollar General's 14,000 small stores contributed to its US\$23.5bn in sales in 2017. Low prices are critical but so is convenience – almost 75 percent of Americans live within five miles of a Dollar General store – and the 'treasure hunt' strategy of product selection which encourages shoppers to buy a product on the spur of the moment as it may not be in store the next day. As in the UK, where bargain-seeking affluent consumers have helped low-cost grocery chains seize a combined market share of 12.8 percent (according to Kantar World Panel), Dollar General's stores are attracting many more affluent American shoppers.

The complex consumer

Many companies have found themselves out of step with a changing, more informed and more empowered customer. As the recent KPMG report *Me, my life, my wallet*, says, the underlying drivers of human decision-making have become exponentially more complex. Traditional market research and demographic profiles will not help retailers or manufacturers put the customer at the forefront of their strategy.

Customer centricity correlates with growth



The real test for customer centricity comes down to financial performance. The Top of Mind Survey shows that customer-centric companies have higher forecasted revenue and profit growth

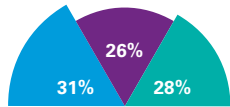
Customer centricity

CHINESE BEAUTY
In 2017, 7 percent of all new color cosmetic products were launched in China, according to Mintel's research

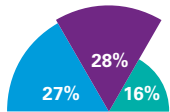
Consumer trends that present the greatest opportunities

- Manufacturers
- Retailers
- Platforms

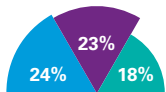
Demand for authenticity and transparency



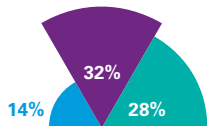
Expectation for brands to engage with customers



Greater value on experience over product or price



Expectation of personalized shopping experience



Demand for personalized products



To understand today's multidimensional consumer, the KPMG report concludes, you need to focus on five key dimensions (the Five Mys).

- My motivation: Characteristics that drive our behaviors and expectations
- My attention: Ways we direct our attention and focus
- My connection: How we connect to devices, information and each other
- My watch: How we balance the constraints of time and how that changes across life events
- My wallet: How we adjust our share of wallet across life events

If companies are to understand the complexity of consumer decision-making, they can no longer afford to look at customers through a single lens.

Few consumers have been as categorized, analyzed and compartmentalized as thoroughly as Millennials. By 2019, the Pew Research Center predicts, there will be more Millennials than Boomers in the US. Generation X and Millennials are moving through life stages at different times to preceding generations. In the past 44 years, Stanford University estimates, the average age of fatherhood in the US has increased by three-and-a-half years, to 30.9 years from 27.4 years old. Yet this is not always reflected in company strategies. As Kruh says: "Where companies are still targeting Boomers, they're missing the boat."

Media coverage of Millennials often focuses on North America but, as **Anson Bailey**, Head of Consumer & Retail, Asia Pacific, KPMG in China, points out: "58 percent of the world's Millennials live in Asia Pacific. In China, Millennials are increasingly tech and brand savvy. They spend a lot of time online doing their research or talking about brands. They are very demanding. They know what they want. They've already researched the price points. They want the product now. They value what other consumers are talking about. They don't trust brands so much but they do trust what their key opinion leaders are saying."

Consumers who are savvy about brands are also likely to be aware of how brands behave. "Millennial and Generation Z consumers are, quite rightly, much more demanding of corporations. They expect manufacturers and retailers to be socially engaged, making a difference to communities, tackling climate change, eliminating exploitative labor practices, promoting healthier lifestyles and reducing food waste," says Peter Freedman, Managing Director of The Consumer Goods Forum.

The same sentiment is, he notes, now changing attitudes in the investment industry with two leading funds – Fidelity and Vanguard – making a very public call for companies to embrace a social purpose. "The focus on plastics in our ocean is a good illustration of how social, environmental and ethical issues can come to the fore in an instant and potentially catch companies off guard," says Freedman.

In the US, a survey by marketing firm the Shelton Group, showed that 90 percent of Millennials want to buy from a brand whose social and environmental practices they trust. Almost two out of three could also name companies they trusted – Patagonia and Gucci were often cited as sustainable.

The Top of Mind Survey shows that social and environmental awareness among consumers was seen as an opportunity by 40 percent of customer-centric manufacturers compared to only 23 percent of other manufacturers.

Keeping in contact

Customer-centric retailers are capitalizing on shifting expectations and preferences of customers. The Top of Mind Survey says that 43 percent of customer-centric retailers and platforms say the 'expectation for a frictionless shopping experience' is an opportunity compared to only 26 percent of other retailers.

Keeping in 24/7 contact with customers is a priority for 46 percent of customer-centric leaders. And this relationship building doesn't need to be entirely online. Some retailers offer a 24/7 customer helpline and clearly publicize it on their website. The ability for consumers to

MEAL DEAL
One in seven US Millennials places weekly orders with food delivery services, says Market Force Information

DELIVERY MODEL
 Japanese clothing retailer
 Zozotown temporarily let
 shoppers decide how
 much they wanted to pay
 for shipping

speak direct to friendly, well-trained and informed staff when they have a query or complaint can help to strengthen the relationship between customers and brands and inspire loyalty.

“Employees are delivering the customer experience so it’s imperative to make sure you treat your employees well and empower them to take care of your customers,” says **Julio Hernandez**, Global Lead for KPMG’s Global Customer Center of Excellence. “People who don’t enjoy their work are unlikely to deliver a great customer experience.”

The power of data

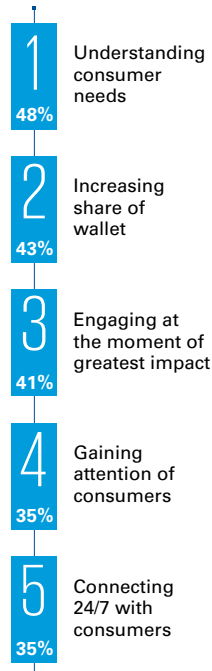
Data is the fuel for powering customer centricity. The Top of Mind Survey shows that customer-centric companies do a better job in leveraging data to target, attract and serve customers. The gap between customer-centric leaders and others is especially large for behavioral, psychographic, real-time, macro data and internal data.

To obtain a 360-degree view of their customers, companies will want to fill these gaps. Hernandez says: “With emerging technology, we can get a lot of information around harnessing the digital ecosystem, the Internet of Things and signals that customers leave behind with data diagnostics, but companies are having a hard time understanding who the customer is and what they want to do to win with them. They have difficulty translating this information into strategies and tactics that could make the company genuinely customer centric.”

Many food and beverage giants admit they were too slow to recognize demand for fresher, healthier fare and the threat of low-cost private label products. “The consumer is changing. Their tastes are changing,” says Hernandez. “Think about the beverage companies, Coca-Cola, Dr Pepper, PepsiCo; they have to have a different product assortment. They’re also wondering what this new world of digital is going to mean in terms of buying their products.”

The cost of not understanding the customer is vividly illustrated by the demise of several iconic retailers in recent years – who for decades were household names, yet failed to survive in the face of

Top customer priorities for companies over the next two years



online competition. For many, their failure to embrace online with conviction or keep up with changing consumer expectations contributed to the erosion of key differentiators such as low prices or a wide assortment.

Retailers that didn’t move fast enough were looking at the world from an inside-out perspective. “If you don’t pop your head up and have your ear to the ground in terms of the market signals, in terms of what the customer sentiment is, in terms of how others are serving your customers, you really do that at your own peril,” says Hernandez.

Today, there are actually many more touchpoints and channels for brand owners and manufacturers to get information about their customers. **Jessie Qian**, Head of Consumer & Retail for KPMG in China, says: “If companies can capture real-time consumer data, they can create a product that is closer to consumer needs and have a faster response to trends. For example in the fashion industry, in the past, you only had Fashion Week, some research trends, or historical sales data, but now you can look at keyword search on the internet, and see what key opinion leaders are talking about to their social network.”

To get value from your customer data, you need to identify what insights would be most useful to the business. As **Ruben de Wolf**, Partner in KPMG in the Netherlands’ Data & Analytics practice, says: “You need to have a focus on specific hypotheses and targets you’d like to achieve. If the data is not good enough, you need to stop instantly because you’re wasting money.”

New brands are being built on data. In the US, start-up Stitch Fix, which reported revenues of US\$977m in fiscal 2017, sends customers a personalized selection of clothes it thinks they will like based on their style profile (which contains 85 data points). And ThirdLove uses data from 8 million customers in its Fit Finder bra service.

Established brands are seizing the opportunity to use data to generate revenue. Discovering that many consumers were searching Google for the ombré hair color – and weren’t happy with the look they were

Customer centricity

APP HAPPY
By 2022, the global consumer spend via apps will top US\$156bn, according to research from App Annie

Defining customer-centric leaders

For the Top of Mind Survey, companies that are highly capable across eight dimensions are defined as customer-centric leaders:

1. Product, pricing and customer strategy
2. Customer-centric experience
3. Partnerships, alliances and vendor management
4. Organizational alignment
5. Seamless commerce
6. Responsive supply chain
7. Technology architecture and enablement
8. Advanced data and analytics

achieving at home – L'Oréal Paris launched an applicator tool Féria Wild Ombré which expanded the market by appealing to new, younger consumers. L'Oréal and Google now partner to discover other such insights to stimulate product development.

Online to offline

Technology and data are helping brands connect with consumers at every touchpoint. And companies are seeing the benefits of online-to-offline (O2O) commerce that draws potential customers from online channels to make purchases in physical stores.

Bailey says: "In Asia Pacific, we are seeing a lot more focus on O2O – the fact that it's not just about online, but you've got to have offline. We see some of the pure-play e-commerce players that are coming into the market. They've also spent resources and money on their own bricks-and-mortar stores or set up their own flagship stores."

AR, VR, the Internet of Things, and connected technology will also transform stores as retailers enhance the in-store experience and integrate online and offline experiences. "China is also leading the charge in automated stores such as BingoBox," says Bailey. Backed by US\$80m in venture capital, BingoBox has opened more than 200 unstaffed, small convenience-style stores where consumers can pay for goods using WeChat or Alipay electronic payment services on their phone 24 hours a day.

The 2017 KPMG/Ipsos Retail Think Tank report *What Does the Future Hold for Our Beloved Retail Stores?* says stores play a crucial role in connecting the physical and the digital world. Success could be determined by calibrating the best mix of retail and e-tail. As well as offering experiences, physical stores provide handy click and collect services, which – with the high cost of online returns – could help improve margins. The Top of Mind Survey says that 58 percent of retailers and platform companies agree that physical outlets will look significantly different by 2020.

Qian says: "In China, the shopping mall is doing very well and convenience

stores are doing well in the cities. But the hypermarket and department stores are facing tremendous challenges. In Shanghai and Beijing, there are these mega shopping malls. They have allocated a large percentage of space to food and beverage outlets, a bookstore and cinema. Consumers will go to the shopping mall to socialize, meet friends and family for dinner or watch a movie. Bricks-and-mortar stores need to transform and provide experiences. People are looking more to enjoy their lives through experience rather than owning a physical, tangible, item."

Though footfall remains a global challenge in developed markets, there is a growing recognition that, in the words of one analyst, "bricks-and-mortar retail is not dead, but boring retail is."

The traditional stores can be successfully reinvented by repurposing them as showrooms (as IKEA is doing in some downtown locations), investing in 'retailtainment' (Samsung now offers a variety of virtual reality demos at its flagship store in New York) and, to be brutally honest, by doing something as simple as hiring more staff.

In a 2018 survey, credit card processor Adyen found that 86 percent of US consumers had left a store because of long lines in the past year. That equated, Adyen estimated, to around US\$47.7bn in lost revenue. The traditional model, which determined staffing as a percentage of a store's revenue, is giving way to a new approach that relates staffing levels to in-store traffic.

Online pure-play retailers have realized that high-profile physical stores can help to build the brand and reassure consumers. Optician Warby Parker was one of the pioneers of this trend, but many others – notably apparel brand Everlane and Outdoor Voices – have followed its lead.

Online mattress start-up Casper, which has generated US\$600m in revenue since it was founded in 2014, now has 18 bricks-and-mortar stores in the US. And after a reported US\$75m investment by Target, Casper products are sold at 1,200 Target stores. Casper's Sleep Shop is designed to create an amazing customer experience, with six miniature homes –

CHECKED OUT
Barclaycard estimates that 41 percent of UK shoppers have failed to complete an online purchase in the past year



元

China's take on the sharing economy

Some shopping malls in China enable consumers to hire a boyfriend with a swipe of their smartphone. The 'boyfriend' is actually a shopping assistant who carries bags and offers advice. They can be rented for 30 minutes for 16 US cents.

共享男友

万达广场 | 滨州
WANDA PLAZA | BINZHOU

Customer centricity

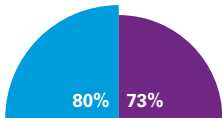
ORGANIC GROWTH
Six out of 10 Australian households buy organic food. A new industry report says the market is worth US\$1.8bn

Data that is used extensively to target, attract and serve customers

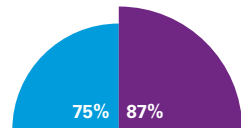
● Customer-centric manufacturers

● Customer-centric retailers

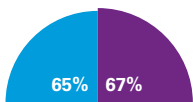
Behavioral data



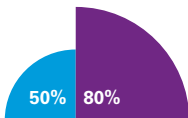
Internal data



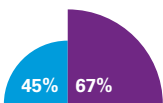
Psychographic data



Real-time, near-real-time data



Macro data



which will change decor every six months – where consumers can try out products, as well as participate in sleep and wellness events. Neil Parikh, Co-founder and CEO of Casper, says the brand will never have thousands of stores, just a couple of hundred, which are useful to test products and understand how customers interact with them.

Manufacturers are also investing in bricks-and-mortar as a way of showing their goods in action, building relationships directly with consumers – it's hard to be truly customer centric if you're only dealing with them through a third party – and taking control of the way their brand is represented. Home appliances giant Dyson opened its latest Dyson Demo in New York in December 2017, which is designed to look like a cutting-edge science museum and focuses on experience not sales (there are no fixed or visible tills).

New ways of thinking

With so many new entrants creating such a wide choice for the consumer, incumbents are being forced to find ways to become more customer centric quickly. "The big CPG manufacturers, Procter & Gamble, Unilever, are all trying to figure out what's the next thing. They're dealing with competition from lots of small players biting at their ankles and coming up with new products. Some of these groups have made M&A into a form of R&D and launched venture funds to understand those categories and recognize when they're going to scale," says Hernandez.

"What I would say is competition and innovation are really driving companies to have to rethink how they do what they do, but they too can harness these innovations. The challenge is that they can be so committed to a business model that it's harder for them to change versus the start-ups who are basically starting with a blank sheet of paper."

Serial entrepreneurs Tina Sharkey and Ido Leffler certainly started with a blank sheet of paper when they launched Brandless last year. The online-only store sells around 200 basic consumer products – which it develops and has manufactured by

partners – for just US\$3 each. That pricing model makes healthier and organic products available to consumers on a budget. Their conviction that Millennials don't want to buy expensive brands is shared by investors, who have ploughed US\$50m into the new venture. One of the beliefs that inspired Leffler and Sharkey to launch Brandless is that, for the consumers they are targeting, too much choice is actually a time-wasting inconvenience.

French cosmetics chain Sephora, part of LVMH, embraced change in October 2017, by merging its digital and in-store teams. As Mary Beth Laughton, the Executive Vice President of Omni Retail at Sephora, says: "It's changed the way we think about sales metrics, engagement and customer experience across channels. We have brought loyalty to the forefront, since we're better able to understand the customer across channels, and use data to appeal to her at every touchpoint and create experiences she cares about. Loyalty is a data-driven ecosystem, so that's hugely powerful."

Brands that invest in putting customers at the center of their whole business (and keep doing so) will have a greater chance of success. The 2018 Top of Mind Survey shows that companies who are customer centric enjoy higher rates of revenue and profit growth than others. As Hernandez says, "When companies do it right, we see from our research that they actually outperform the competition, they get better scores from the customers about themselves. They get more growth and they open up more possibilities."

In today's consumer goods industry, nothing can be taken for granted and everything can be disrupted. This process is being driven by the changing relationship between the consumer and manufacturers and retailers. Personal choice is no longer just about what you buy – and how much you pay – but also about how you buy, when you buy and where you buy. Too many companies have yet to reflect that new mindset in their management structures. That is why, as Kruh says, "The future is personal. Whether you recognize it or not, your company is being run by your customers." ■

5 key insights

Julio Hernandez, Global Lead for KPMG's Global Customer Center of Excellence, on the growing importance of customer centricity

"Become a connected enterprise"

1 . **Knowing who your customers are and what they want takes time, energy and effort**

You need to harness analytics. You have to do both qualitative and quantitative research and you've got to do it continuously as the customer is changing and evolving. Just understanding who the customers are is a big deal for many of our clients. Companies that engage with consumers through a channel partner in a B2B environment or B2B2C environment are much more distant from the end buyer, so it takes more effort to know the end customer.

2 . **Companies need to break down barriers to connect with customers**

We call that the KPMG connected enterprise where a company says: "Hey, I really need to connect with customers on terms that they want. I need to make sure that I connect with my employees so they can execute the commitments that I have made to customers. I need to connect my business across the back office so that the silos don't get in the way of executing the strategy and tactics that we've defined. I also need to recognize that I need to be connected to the partners and suppliers that actually support me." No business today does everything themselves, so being connected with all the stakeholder groups is an imperative.

3 . **Companies need to develop the right culture to deliver a great customer experience**

If companies deliver a really bad employee experience, how can they expect those employees to deliver a great customer experience? Building a culture where employees believe they are working for an organization that cares for them, that treats them well and empowers them to take care

of the customers is equally as important as understanding your customers. Culture starts at the top. A great example of that is Chick-fil-A, the fast-growing chicken sandwich chain. It's not open on Sundays, yet its average revenue is significantly greater than its competitors. Their product resonates with the marketplace, their brand proposition resonates with the marketplace and they hire employees who like working there and care about delivering a great customer experience.

4 . **Take an outside-in view – and look beyond your own sector**

Look at what leaders in other sectors are doing. How a customer gets engaged in a different industry, such as airlines, hotels or hospitals, is going to influence their expectation of their experience with you and your industry. If you don't do that, you're going to miss the trends and engagement models that are changing the world. If you're a major retailer, or a major CPG manufacturer, you ignore WeChat in China at your peril – it has become the singular app where people go to transact, pay, buy, scroll, look and search. You need to understand the competition and comparative practices. There are signals everywhere that can be harnessed.

5 . **Being customer centric isn't a one and done thing**

Becoming truly customer centric is not about launching a couple of initiatives and thinking you've done the job. Why? The market is changing. The way your customers are interacting is changing. Your traditional and new competitors are also changing. So the process of being customer centric and the implications are continuously evolving.



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Global Lead for KPMG's
Global Customer Center
of Excellence
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WAITING TIME
Credit card
processor
Adyen says
86 percent of
US consumers
have left stores
in the past
year due to
long lines

Thought leader

Joey Wat, CEO,
Yum China

“Learning is still the most important determinant of future success”

| 38 |

Yum China CEO Joey Wat reveals how the fast food giant keeps up with increasingly demanding consumers

You worked in a Chinese restaurant for three years when you were younger. What did you learn from that?

Empathy. When I took over KFC, what's the first thing I did? Introduce very heavily subsidized staff meals. When I worked in a restaurant, I knew how important that meal was for me. In Asia, vegetables are very cheap so most families with tight budgets eat them every day. In reality, young people need meat and fried white meat is very good meat. That's how I became strong, physically, working in restaurants. The uniform is important too. Give them a witty, nice uniform and a new T-shirt whenever there's a promotion. From a strategic point of view this might seem unimportant, but do staff care about your strategy? They care about their schedule, uniform, pay and how you treat them. No matter who I am, today or in the future, there's always that little girl in me, working in a restaurant.

What are the biggest challenges and opportunities for Yum China?

Digital and delivery. The entire marketing and customer landscape is changing so fast. Take marketing for example. In the past, the channel was king – so TV advertising was king – now in the digital world, content is king. The channels have become so fragmented – digital TV, websites, social media, key opinion leaders... So you won't go very far without content. And content doesn't mean you have to write something – it could be a product that is so quirky, people find it exciting. Delivery is becoming a lifestyle in China but the critical issue is labor cost. In China, labor costs are relatively low, so for the customer, it comes down to a trade-off between their time and the delivery cost. For many consumers, their time is expensive and delivery is comparatively cheap.

What changes do you see in the Chinese consumer's behavior?

I see two distinct trends. The first is that the Chinese consumer is so horribly difficult to please when it comes to new products. In America, you can sell a new product for a year and the customer is happy. Here, it's hard to keep them happy for four weeks. With so many choices in China, customers expect something new every time they visit KFC. That's very challenging. The other trend is that customers are expecting more and to pay less, so we have to be very careful with our value proposition. We need healthy margins, but it is dangerous to be too greedy.

Is there room for Yum China to grow?

Absolutely. We have put the number out there of running 20,000 restaurants in the longer term. We have over 8,000 restaurants right now, and last year we opened 691. We have multiple flexible store and business models, KFC and Pizza Hut have big stores, smaller stores, convenience stores, so that opens up a lot of opportunities in the future.

How do traditional retailers compete with disruptive new entrants?

We need to be very savvy with digital and delivery. We launched mobile payment back in 2015 and began to build our customer relationship management. Right now, we have 140 million members through our loyalty apps. We know how to use digital channels to spread news of our products and to engage the customers. Newcomers need to learn how to do food safety, cook good food, create products that are difficult to replicate, and control labor costs to stay viable, as well as knowing how to do digital and delivery. Learning is still the most important determinant of future success. Whoever learns the best – and fastest – will survive.



FOOD ON THE GO
Wat says traditional retailers need to be very savvy with digital and delivery to compete

There's more
to digital than
plug and play

DIGITAL DINING
By 2020, 40 percent of restaurant meals in America will be ordered online, Morgan Stanley predicts

Digital transformation that is anchored to the needs of customers will bring companies competitive advantage, improved analytics capabilities and higher profits

The first time someone tried to order a pizza using a talking computer, the pizzeria hung up. It happened in 1974, when Michigan resident Donald Sherman, whose speech was limited by a neurological disorder, ordered a pizza via a computer designed by AI expert John Eulenberg, but the impatient order taker hung up. On the second call, Sherman got through to Mr. Mike's Pizza and history was made.

Digital transformation has been a long time coming. Ten years before that historic computerized transaction, Arthur C. Clarke, who wrote the novel *2001: A Space Odyssey*, predicted a world where: "We could be in instant contact with each other, wherever we may be, where we can contact our friends anywhere on Earth, even if we don't know their physical location. I'm perfectly serious when I suggest that one day we may have brain surgeons in Edinburgh operating in New Zealand."

Much of that has come to pass. Technology is performing a different kind of surgery on the consumer industry, with shoppers in Edinburgh able to buy products from New Zealand with a few clicks on their smartphone. In 2017, according to the Centre for Retail Research, e-commerce accounted for 17.4 percent of retail sales in the UK, 15.1 percent in Germany, 14.8 per cent in the US, and 10 percent in France. In China, the world's largest e-commerce market, estimates of online's share of retail spend vary wildly but industry experts agree on one thing: it is growing fast, possibly by as much as 25-30 percent a year.

Yet established manufacturers and retailers, which defined their business models before the internet existed, have not been as quick to adapt to the transformation of the world's consumer markets as digitally native companies, be they online brands or platform businesses.

David J. Evans, Global Advisory Head, Innovation & Technology, KPMG International, says: "No organization puts their hands up and says 'Hey, give me one of those digital transformation packs.' Market forces are causing the pressure and opportunity for companies to embrace disruption." Companies

Defining digital leaders

For the Top of Mind Survey, companies that say they are at a maturing or advanced stage of digital transformation across the majority of 12 dimensions are defined as digital leaders:

1. Customer centricity
2. Product innovation
3. Demand-driven supply chain
4. Business model transformation
5. An innovation culture
6. Process management
7. Digital strategy
8. Talent and expertise
9. End-to-end integration
10. Use of smart technology
11. Advanced data analytics
12. Digital-enabled physical stores

embarking on the journey should ask what their business would look like if it had been born in the digital age. That will help them understand the opportunities for digital disruption in their industry and create a business strategy that starts from the outside-in.

The right mindset

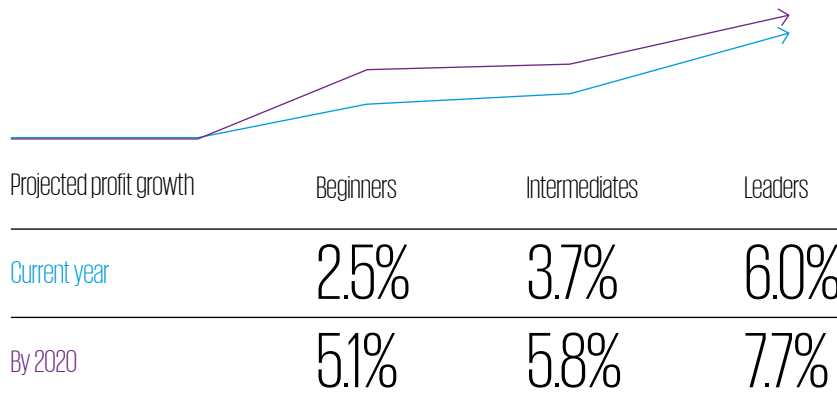
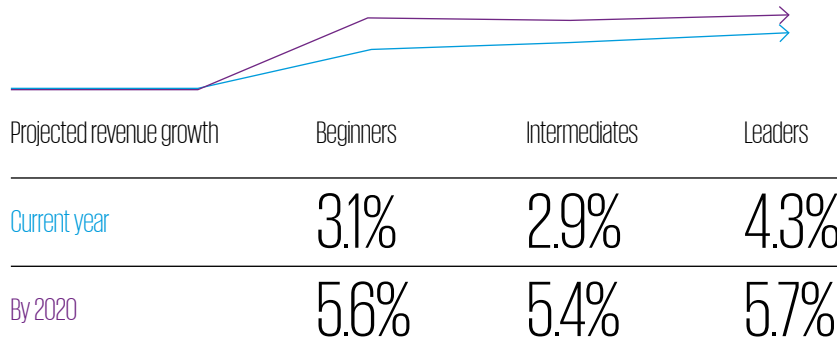
For Evans, the challenge is as much about mindsets as technology. "Even traditional retailers have set up websites but that can be just a box-ticking exercise. Many organizations still struggle to connect front, middle and back office so they deliver the seamless experience the customer is expecting. In some retail organizations, there is a deep-rooted culture that makes it harder to adapt quickly. The new entrants – and the platform businesses – have been able to disrupt because they're not burdened by that."

Established players can learn from the way platform businesses and start-ups are using digital technology to reinvent strategies, processes, customer interactions and business models. By continuously assessing where they are and where they want to be, organizations can keep reinventing themselves as digital technology develops. Organizations that are optimizing their customer offering for smartphones today may be optimizing it for a personal digital assistant in three years' time.

Companies need, Evans suggests, to recognize that the rationale for investing in technology has changed. "If we dial back five to 10 years, when companies were making significant investments in technology, they were focused on trying to make efficiencies within the organization. Generally, those were not necessarily oriented towards a customer journey. The fact that HR creates self-service tasks and those sorts of things doesn't have any impact on the customer. IT service management is handled in a more sophisticated and cost-effective way but again that doesn't have any impact on the customer.

"Organizations are used to spending on technology projects that enable internal business functions but don't enable a desired outcome, be it growth or customer retention. If you anchor

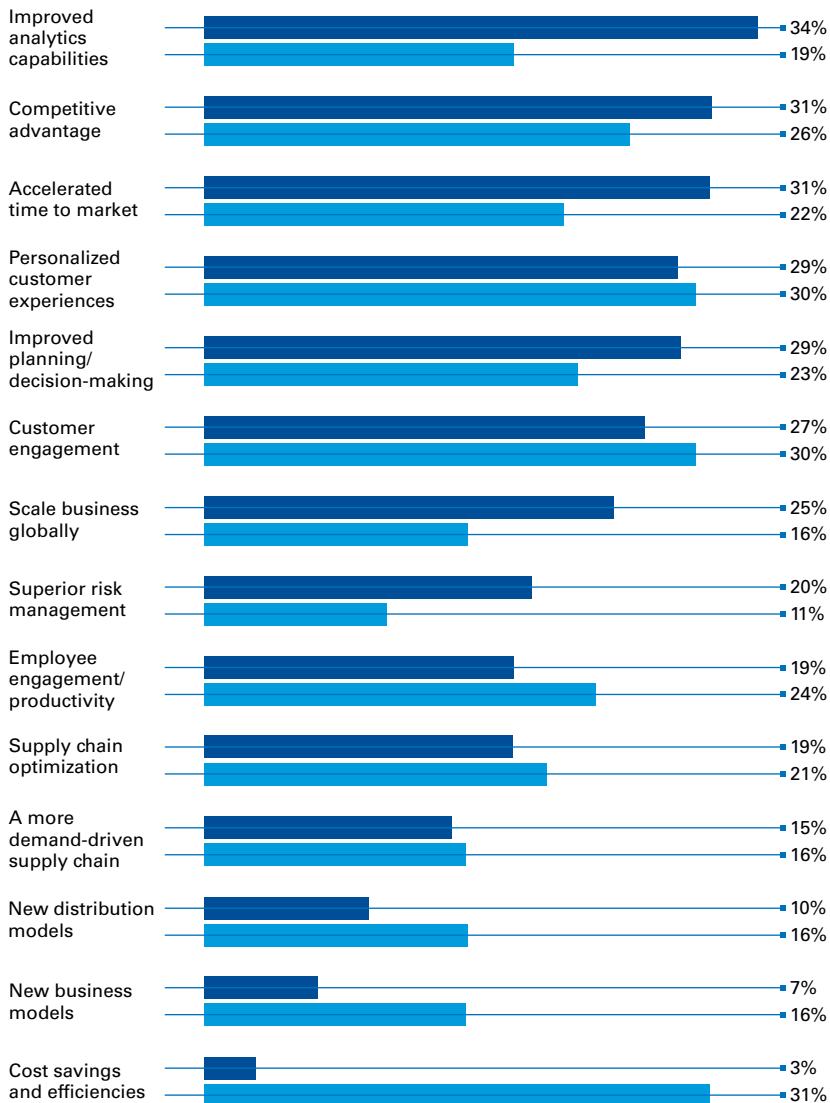
Digital transformation correlates with growth



The Top of Mind Survey shows digital leaders have higher forecasted revenue and profit growth

Digital transformation

Main benefits that companies expect from digital transformation ● All ● Digital leaders



Digitally mature companies are much more likely than average companies to see improved data analytics as a benefit of digital transformation

Digitally mature companies are much more likely than average companies to see global expansion and risk mitigation as benefits of digital transformation

Digitally mature companies are significantly less likely to expect cost savings (which for one-third of average companies is one of the top expected benefits)

DESIGN IT YOURSELF

Asian e-commerce group Lazada is enabling consumers to go online and design their own gaming PC

the transformational journey in the needs of the customer you can achieve better outcomes.”

The good news, Evans says, is that: “You don’t need to go through big, arduous, heavy infrastructure technology investments. With best of breed, cloud-based tools, which have APIs that connect to existing systems, you can be a lot more nimble. That approach gives you speed, agility and the ability to fail fast.”

The wrong priorities

The 2018 Top of Mind Survey suggests that many businesses are still thinking traditionally: 31 percent identified cost savings and efficiencies as one of the main benefits of digital transformation. In complete contrast, only 3 percent of companies we identified as digital leaders (see panel on page 42) considered efficiencies a key benefit. The top three benefits for these digital pioneers were improved analytics (34 percent), competitive advantage (31 percent) and speed to market (31 percent). This does suggest there is a risk that manufacturers and retailers embarking on digital transformation could get their priorities wrong and fail to achieve the forecast return on investment.

Yet digital transformation is achievable – even for traditional retailers and brands. Founded in 1972 as a British catalog retailer, Argos opened a technology hub in 2014. Within a year, it was generating US\$1.35bn in revenue from m-commerce. Like British online grocer Ocado, Argos has developed proprietary technology, which powers its nationwide same-day delivery and store collection service. Online accounts for 60 percent of sales, though three-quarters of those orders are collected in store. Acquired by Sainsbury’s in 2016, Argos employs 300 tech specialists and aims to hire 150 more by the end of 2018.

Eight years older than Argos, Nike is investing millions in its bid to become one of the world’s largest direct-to-consumer brands. Retail stores still have their place – its new 55,000-square foot megastore in New York is designed to be a place where people play as much as they shop. Yet the company’s mission “to be more personal at scale” has led it to acquire consumer data and analytics

business Zodiac, roll out apps for China and Japan, and redesign its logistics network to slash lead times from 60 days to 10 days. The initial focus for the iconic athletic brand’s digital transformation is its global community of superfans. Online sales exceed US\$2bn and the loyalty program is gaining momentum: Nike+ members already spend nearly triple what Nike.com shoppers do.

These are not exceptions to the rule. The Top of Mind Survey reveals that digital leaders grew revenue, productivity and market share faster than the rest of the industry in the past financial year.

With digital transformation, as with any other change management project, companies have to do something that goes against the grain: embrace failure. Omar Haque, Head of Ecommerce at baking giant Grupo Bimbo, which has launched its own technology unit, says: “There are good failures and bad failures. A bad failure is caused by mismanagement. A good failure is when you learn from something that doesn’t work out.”

Digital transformation is one aspect of business where, in the wise words of American management guru Elizabeth Moss Kanter, “everything looks like failure in the middle.” The biggest stumbling block, identified by 46 percent of respondents, is uncertainty about the ROI. This was closely followed by budgetary constraints (45 percent), legacy systems (43 percent), and difficult market conditions (40 percent).

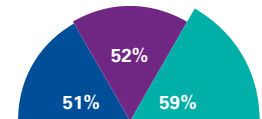
Collectively, these obstacles suggest that managers in many companies are struggling to build a strategy from the outside-in and are still too preoccupied with organizational challenges to see the opportunity – let alone seize it.

Implementing data and analytics is challenging. Experienced managers may see the technology as a threat – but equally digital evangelists need to recognize that human judgment still has a part to play. As **Ruben de Wolf**, Partner in KPMG in the Netherlands’ Data and Analytics practice says: “Managers have the deep knowledge about their business. Our challenge is to draw on their knowledge in big data and AI to develop specific hypotheses that will help them improve their

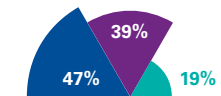
Devices on which US internet users are most likely to notice/act on digital ads, by generation

- Millennials
- Gen X
- Baby boomers

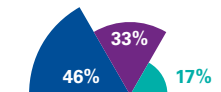
Desktop/laptop



Tablet



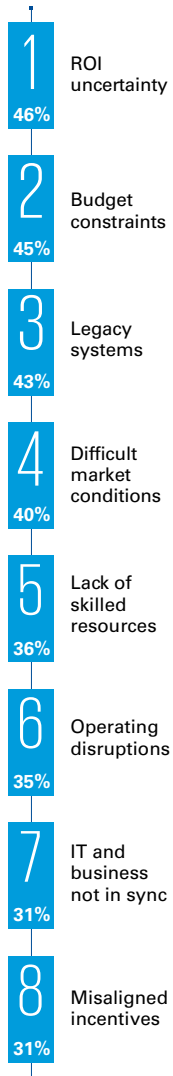
Mobile phone



Digital transformation

GOOD REVIEWS
Seven out of 10 global consumers check online reviews before buying a product, says Ipsos Retail Performance

Obstacles to digital transformation



business. Sometimes, we provide new insights about how things work. Most of the time the managers had a gut feeling about something but nobody believed them. Now they have the data to prove it.”

With 515 million consumers on its platform, Alibaba has so much data on every shopper it can predict and personalize what they want to buy. It can, for example, incentivize someone watching Korean dramas on its video platform to buy Korean cosmetics. The Chinese platform business derives more value from its troves of data by sharing insights with partner brands, notably L’Oréal, Mars, Mattel and Procter & Gamble, helping them to calibrate their products and their marketing strategies to suit Chinese consumers.

As Shoshana Zuboff, Professor of Business Administration at Harvard Business School, wrote: “The game is no longer about sending you a mail-order catalog or even about targeting online advertising. The game is selling access to the real-time flow of your daily life.” In this marketplace, companies who can predict how consumers will behave in future have a powerful competitive advantage.

Collaborating over data

It will not be easy for other manufacturers or retailers to match the quantity and quality of data held by the likes of Alibaba, JD.com and Tencent Holdings, which is why a growing number are collaborating with them. Others may choose to rent data: many of the world’s largest advertising and marketing agencies have built – and/or acquired – large treasure troves of information about consumer behavior, characteristics and preferences.

Some retailers and brands – notably American Express, Rakuten and Tesco – have created their own data businesses. Yum China, the country’s largest restaurant chain with over 8,000 outlets, has made digital and delivery a key strategic priority. After the recent launch of a new ‘Super app’, KFC China has 110 million consumers in its loyalty scheme while Pizza Hut China has 35 million. KFC China is experiencing strong growth in sales from its members, use of mobile payments and home deliveries.

At a much more basic level, companies need to ground their metrics in consumer experience – as the tragicomedy of one sofa purchase proves. At a recent industry summit, Priyanka Asera, Head of Retail at Eft Supply Chain & Logistics Intelligence, recounted how her cream sofa took 22 weeks to arrive and was left in the lobby of her apartment building. Asera’s complaint prompted this response: “Our notes indicate your apartment doesn’t have an elevator so we successfully delivered the couch to your lobby.” Unfortunately, the building did have an elevator – the sofa had been left in front of it – and she was never notified of the delivery. “The way they tracked their metrics, this wasn’t a failed delivery at all,” Asera said. Such metrics are the very antithesis of customer centricity.

Yet data and analytics can help manufacturers get closer to the customer. Keith Weed, Unilever’s Chief Marketing Officer, says: “We are already able to tell a consumer when he’s walking in the park (we know his location) on a hot day (we know what the weather is like there), where the nearest place to buy a Magnum is and send him a code for a discount.”

The end goal for many brands is to own the customer, which is why 46 percent of manufacturers in the Top of Mind Survey said they will sell more of their products direct to consumers in the next two years.

That was one of the rationales behind Unilever’s acquisition of Dollar Shave Club – the business was attractive in itself but also because of the capabilities it had that could infuse the rest of the organization.

Even though many direct to consumer brands have been launched in the past decade, this revolution is only just beginning. Recent research by marketing group IDC found that 38 percent of consumer-facing companies were not selling directly to the consumer at all. Yet Evans says this will change – and change fast. “This is the next wave of disruption that traditional retailers face. The platform businesses have opened this up and manufacturers are taking advantage by creating their own platforms to interface directly with consumers or using a third-party platform to do so.” ■

SHOPPING HABITS
By the end of 2017, 34 percent of US consumers had never bought anything on social media, according to eMarketer

5 key insights

David J. Evans, Global Advisory Head, Innovation & Technology,
KPMG International, on how firms should drive digital transformation

“You can’t win every cyber battle”

1 . **Make sure the customer is at the heart of everything you do**

Many organizations still fail to properly connect the front, middle and back offices, to deliver a seamless customer experience, particularly in regards to supply chain, payment and fulfillment. Every employee should be thinking about the customer. This helps you prioritize where to start on your transformational journey because you’ll understand where the pain points are for customers and discover the opportunities to unlock value.

2 . **Collaborate within ecosystems for faster innovation**

R&D within organizations has changed fundamentally. The M&A function has become the new R&D function. The new R&D can embrace start-ups that can be acquired or partnered with. Organizations are leveraging ecosystems to collaborate, moving away from the value of owning R&D, IP rights or patents on products because the cost and speed with which organizations can develop, maintain and protect those things is eroding in today’s environment. It’s better to be fast and nimble by working within ecosystems to launch new products, optimize services or delivery mechanisms than build them yourself.

3 . **The next wave of disruption will be manufacturers selling direct**

Retailers have had a fair degree of strength over suppliers and supply chains, but now manufacturers can go direct to consumers through their own platforms. Larger manufacturers and brand owners have the luxury of making that investment and customers recognize that it is a viable medium to interact with. But even when they are doing that,

they’re also using third-party platforms. Retailers will face a loss of power in terms of owning the customer and being the interface to the customer.

4 . **The platform model allows new brands to enter the market easily**

Manufacturers have the opportunity to work with platforms to create quality products that they can take to market because the platform is, in essence, the market engine. In some cases, especially in the apparel industry, large platform businesses will ask a manufacturer to create exclusive designs. The products will go direct to the platform without a third-party supply chain or specific branding attached to it. With platforms, businesses can enter the market swiftly with an unbranded or unknown brand, as they don’t have to persuade stores to stock them.

5 . **Companies need to focus to protect themselves against cybersecurity threats**

It’s not a question of if an organization will be hacked, it’s a question of when and how severe it would be. Companies need to keep investing in technologies to protect data, IP and other aspects of the organization. Businesses often try to prevent all attacks, and that’s an impossible battle to win. It’s a question of minimizing the impact, acknowledging the exposure and having the right communication plan. You need to analyze the ‘continuum of the cost’ – the cost to a criminal to do something versus the income from attacks in two axes. If you took both axes and drew a 45 degree line through the middle, to split them, you have to be looking at the ‘why bother effect?’. When you chart the attacks that would fall into ‘high benefit and low cost to the attacker’, you can decide which attacks are most likely and design security protocols, practices and procedures that prevent them.



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CRIME COSTS
In 2017, the average cost of a US corporate data security breach was US\$7.35m, according to the Ponemon Institute

Your business
probably isn't
as smart as it
needs to be

ROBOT STORES
Global retailers will spend more than US\$20bn on robots in 2018, Bekryl Market Analysts forecasts

Successful companies are investing in smart technologies to grow their business, add value, engage consumers, improve performance – and compete with platform businesses

Futurist Ray Kurzweil says humanity is entering an age of accelerated returns. We have reached a point, he argues, where information technology is progressing exponentially, not linearly. “Thirty linear steps gets you to 30,” he told the *Financial Times*. “With exponential growth, it’s one, two, four, eight. Step 30, you’re at a billion.”

Although technologies such as artificial intelligence (AI), robotics, augmented reality (AR) and virtual reality (VR) are relatively immature, they are already making an exponential difference to the world’s consumer goods industry.

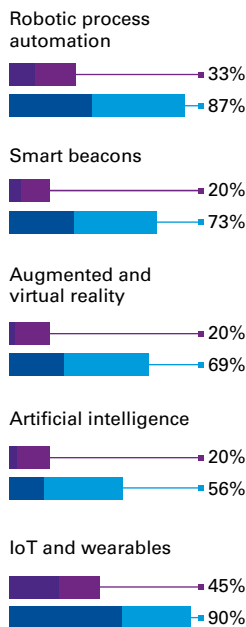
In the Philippines, rice farmers can now dial a chatbot that, after analyzing information about the time of year, land and weather, tells them which fertilizer will most improve their yield. For the Womenswear FW 2018 fashion show, Prada – in collaboration with the mysterious cyber model Lil Miquela – took over Milan in the real and digital world, covering the city with #PradaFW18 billboards and posters and social platforms with #PradaGifs made especially for the occasion. In California, a robot with the rather literal name of Flippy will soon start flipping burgers at 50 stores in the CaliBurger chain. In China, on the most recent Singles’ Day, Alibaba enjoyed record sales of US\$25bn – with 90 percent of those transactions made on smartphones.

These examples illustrate the pace of technological innovation at leading consumer-facing companies, yet they only convey part of the exponential change Kurzweil predicted. The findings of the 2018 Top of Mind Survey suggest that some companies are being much more ambitious. Platform businesses, for example, already invest 13 percent of their revenue in technology – compared to less than 5 percent for the industry as a whole. They are also significantly more likely to have already invested in AI, AR, VR, predictive analytics, open source platforms, wearables and chatbots.

Successful companies are using smart technologies to fulfill a greater vision – and may even drive innovation in that area. By adopting the appropriate technologies, they are looking to

Adoption of emerging technologies

- Digital laggards now
- Digital laggards by 2020
- Digital leaders now
- Digital leaders by 2020



accelerate growth and make more profit. As part of that process, these organizations are abandoning cumbersome legacy systems and embracing cloud-based open platforms. The aim is to accelerate innovation, support advanced digital solutions and extract greater value for the business – possibly by streamlining operations, reducing time to market or offering their customers a much better service.

Yet even this does not quite capture the scale of the transformation businesses are facing. As **Dr Thomas Erwin**, Global Head of KPMG Lighthouse Center of Excellence for Intelligent Automation and Data & Analytics, says: “By 2020, AI technologies will be managing more complex processes compared to single tasks. We are probably only about 10 years away from a world where AI is really navigating a portfolio of processes, and effectively acting as the engine of a company, making operational decisions.”

Getting to that point will require experimentation, cultural change – and a willingness to fail. The introduction of new technologies can broadly be said to follow a familiar pattern. The thrill of innovation gives way to disappointment and doubt before the technology matures and, with expectations tempered by reality, is finally accepted by the market.

You only have to look at the technologies we still describe as ‘emerging’ to understand how unpredictable this process can be. Manufacturers and retailers are now using AR to enhance the consumer experience – earlier this year, Nike used this technology to virtually launch its Deerupt sneaker – more than 25 years since Louis Rosenberg created the first system at a US Air Force research lab. Even the idea of a voice-operated chatbot can be traced back to 1966 when two AI-programs, Eliza and Parry, offered what one researcher called “an eerie semblance of human conversation”.

The human factor

One of the great variables in the successful application of technology is how we – as employees, managers and consumers – react to it. A recent Oracle survey on consumer attitudes to automation highlights some of the challenges. While 67 percent liked the idea of

having a drone delivering their shopping to their door in near real-time, 57 percent regarded apparel recommendations by robots, based on their social media profile, as an invasion of their privacy.

Consumer attitudes differ immensely from country to country. The most important technological innovation for 62 percent of US shoppers, according to a 2018 survey by HRC Retail Advisory, was the ability to buy online and pick up in store. For all the attention companies are paying to AR, this technology was only important to one in six consumers. In contrast, a 2017 survey by Wordpay found that 84 percent of Chinese consumers see AR/VR as the future of retail.

One of the complexities is that the technological base upon which consumer-facing companies must build their innovations is so inconsistent between – and sometimes within – markets. There are slightly more mobile phones in the world (7.7 billion according to Strategy Analysts) than people (7.6 billion, according to the World Population Clock) yet at the same time, according to the UN, at least 4 billion people have no internet access. Even in developed Western economies, the differences are stark: eMarketer estimates that UK m-commerce sales are worth twice as much as in Germany and more than three times as much as in France.

For manufacturers and retailers with global reach, one of the secrets of successfully applying smart technology is flexibility. One major US retailer is scaling back its service that lets shoppers scan and bag items and pay for them on their mobile phones after research showed that customers found it awkward to scan too many items. That change of tack will not deter retailers across the world from automating stores but it is a salutary reminder that customer centricity should be at the heart of every company's approach to smart technology.

The human factor must also be considered within organizations. The first question, Erwin says, is will managers trust what AI and data and analytics tells them? "This is a huge change management issue within companies. We already see this with organizations that don't generate much value from their data. If people

SALES MACHINE
Japan has a vending machine for every 23 people. In 2017, consumers spent US\$60bn at these machines

look at the insights produced by the data and say: 'That can't be right. I'm a seasoned professional in this area, I'm not going to use that but follow my traditional way of decision making', you're not going to get the return from your investment."

Because trust is so critical, companies might need to start small and act fast. As **Ruben de Wolf**, Partner in KPMG in the Netherlands' Data and Analytics practice, says: "If you go to the board and ask them for a couple of million dollars to do an AI big data project, you probably won't get the money. But you'll have greater success if you adopt more of an innovation management approach, creating a business case for a smaller piece of work, showing results and building on it. You need to start small and prove the value."

That approach is likely to prove more fruitful because, De Wolf says, "AI is not something you can buy off the shelf, it's a capability you build with your suppliers, data scientists and your own people. You need to be part of an ecosystem where you bring in the hypothesis, the ideas and work with partners – niche players, the big consultancies or something in between – to build your AI and your data and analytics."

Smart businesses

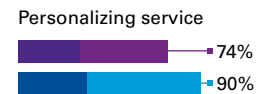
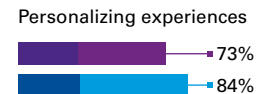
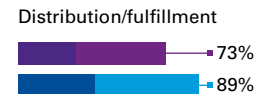
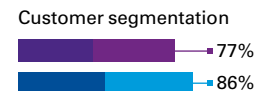
Consumer-facing companies are already experimenting with smart technologies in specific areas. British online grocer Ocado, which has invested heavily in robotics and AI in its supply chain, has formed exclusive partnerships to share its proprietary technology with grocers in France, Sweden, Canada and the US.

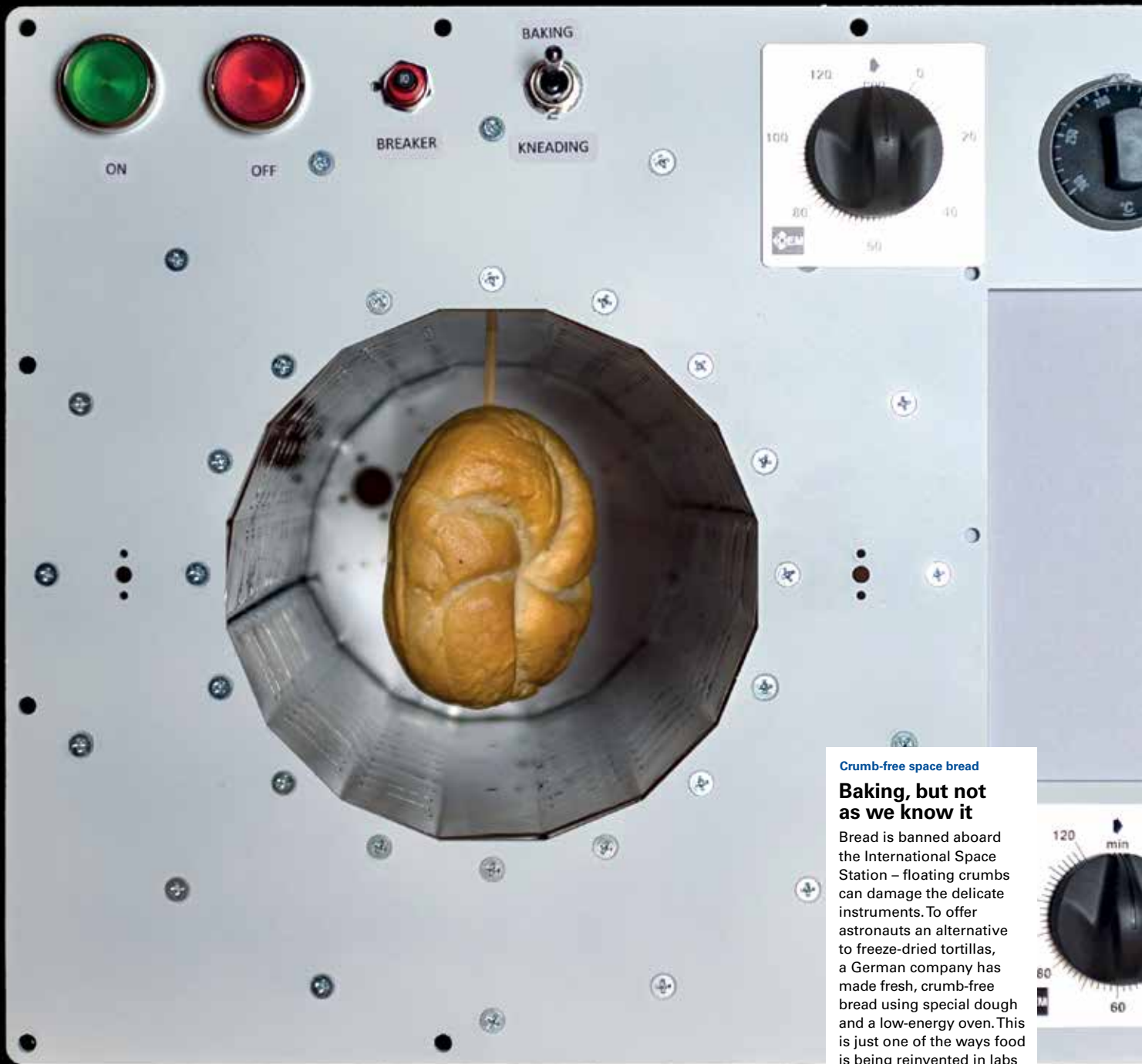
German mail-order and e-commerce giant Otto is pursuing a different strategy. Taking a stake in AI start-up Blue Yonder, it is using AI to analyze 3 billion items – and 200 variables (such as weather and website searches) to predict what customers will buy in the next 30 days.

The system has helped reduce the cost of returns, shorten delivery schedules – some products are delivered direct from the supplier to the customer – and automated ▶

Most common uses of advanced data analytics

- All companies now
- All companies by 2020
- Fast-growth companies now
- Fast-growth companies by 2020





Crumb-free space bread

Baking, but not as we know it

Bread is banned aboard the International Space Station – floating crumbs can damage the delicate instruments. To offer astronauts an alternative to freeze-dried tortillas, a German company has made fresh, crumb-free bread using special dough and a low-energy oven. This is just one of the ways food is being reinvented in labs across the world.



High-resolution artwork

Where art and technology meet

The Netherlands' stunning Markthal has been dubbed the Sistine Chapel of Rotterdam. The 3D digital mural that covers the ceiling of the market hall, housing and retail space was developed in collaboration with Pixar.

Deco
PLANTS &

your life bloom

Car vending machine

The future is cat-shaped

This car vending machine in Guangzhou, China, offers the ultimate test-drive experience. The unmanned, cat-themed 'kiosk' – a joint venture between Alibaba and Ford – allows customers with a high enough credit rating to take a car out for a three-day test drive. The process takes just 10 minutes and you can even buy the car outright.



Urban delivery services

Food on the move

A six-wheeled robot could soon be answering customers' culinary calls in cities around the world. The grocery and takeaway delivery service by London-based Starship Technologies is being trialed on the Just Eat app in the UK. Its radar, nine cameras and ultrasonic sensors allow it to avoid and detect obstacles such as cars and pedestrians.

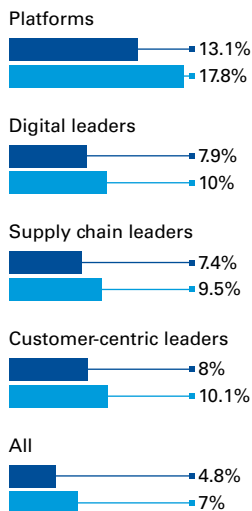


Smart technology

PIZZA EXPRESSED
Silicon Valley start-up BeeHex, a partner of Donatos Pizza and Grote, has invented robots that can 3D print pizzas

Technology spend as percentage of revenue

- Last fiscal year
- In 2020 (forecasted)



orders of about 200,000 items a month from suppliers. Blue Yonder has also teamed up with British supermarket Morrisons which has automated more than 13 million purchasing decisions across its 491 stores and reduced out of stocks by 30 percent.

Customer-centric investments in AI are already redefining bricks-and-mortar stores. While it remains to be seen how many consumers will prefer automation to human interaction, many retailers are experimenting with stores that have no staff and no cash registers where shoppers make purchases with their smartphones or a facial recognition app.

One of the most ambitious of these futuristic prototypes has been developed by Swedish start-up Wheelys for Moby Mart in Shanghai. Customers enter using an app, place their purchases in a smart basket and have their card debited before they leave the store. Each shop is built on wheels and the plan is that eventually it will drive itself to a warehouse to restock, to a customer to deliver an order or on to another village to sell its wares.

Brands are getting in on the act too – Diageo, L'Oréal, Sephora and luxury goods marketplace Farfetch are all, in their own ways, using AI to engage with consumers. Tommy Hilfiger has used AI to implement a 'see-now-buy-now' model that shortens the typical 18-month production process to just six months. The American apparel brand has also opened up the creative process to students whose designs incorporate patterns, colors and styles generated by AI.

The platform challenge

The Top of Mind Survey clearly shows that, when it comes to smart technology, there are a few leaders but many laggards. The most alarming finding – given the recent high-profile cases of hacking and data breaches – is that only 36 percent of companies say they have invested in cybersecurity systems. By 2020, that proportion may have risen to 61 percent.

Despite the pioneering innovations that are taking place, the survey reveals that only 6 percent of companies are using AI, with a further 19 percent planning to do so in the next two years. The concern for incumbents is that the gap between what

they are doing – and what platform businesses are doing – is already wide and likely to get wider still. By 2020, 72 percent of platform businesses will be using AI, compared to 27 percent of retailers and just 15 percent of manufacturers.

Erwin says there are three reasons why platform companies have an edge when it comes to AI. "First of all, platform businesses are built on data. They're starting from scratch, not encumbered by legacy systems, and they realize that data is the prerequisite for everything they do. Second, they have very rigid, highly standardized processes, which makes it much easier for them to intelligently automate right across their processes. And third is their economic power. They have the scale to invest – and the market power to force other players in their ecosystem to adapt to their own vision. They can define how you interact with them and their platform. If you want to be in – and given their market positioning most companies would rather be in than out – you have to let them define the platform and the ecosystem around that platform and, assuming they have got their data and the processes right, that gives them an enormous advantage."

So how should manufacturers and retailers react? Erwin says that many are already experimenting, exploring the art of the possible, and recognizing that they must abandon a model based on the premise that it can take a year to launch a new product. He says: "There are fast followers who grasp the power of these technologies, have applied them successfully to various aspects of their business and have a clear road map for execution."

The one thing manufacturers and retailers don't have on their side is time. The exponential growth in AI-improved data analytics is being driven by such tech giants as Alibaba, Facebook, Google and Tencent. The challenge for traditional consumer-facing companies is to use technology to make themselves exponentially smarter – without endangering the business. The task has been compared to changing the engine on an aircraft while in mid-flight. The challenge is slightly easier than that – but not much. ■

TALK SHOW
By 2020, half of all online searches will be voice-driven, a recent survey by research company Comscore predicts

5 key insights

Artificial intelligence is crucial to future success, but it's something you build, not buy, says Dr Thomas Erwin

"End-to-end automation is near"

1 . **Collect the right data and apply the right tech to derive value from it**

When using AI, retailers and manufacturers should work out exactly what they need to know about their customers to turn data into insights. For example, a multichannel company may want a single view of their customer, to build up a history of where they have touched base with them across particular channels. This allows them to decide what the best offer to the customer would be in that moment. Unless you get your data insights into the hands of people who make decisions or weave them into systems that use them to take action, your insights are worthless. Successful companies will have understood the power of these technologies and applied them with a clear execution road map.

2 . **There is no 'turnkey' solution when it comes to AI – it must be built gradually**

At KPMG, we say you don't buy AI, you build it. The algorithm and the analytics you build can adapt – so it gives you good insights today and greater insights in the future as it learns. If you feed that data into a system that can make decisions, you have human-like cognitive capability, which allows you to automate isolated tasks of increasing complexity. Linking these processes together can help companies achieve end-to-end automation. If you gradually automate a series of processes, eventually you have another AI capability managing that portfolio of processes as a dynamic system that could run operations.

3 . **Managers need to trust their machines – or the investment won't create value**

AI can drive growth but there has to be human buy-in. People are not always comfortable with trusting

machines. They say: "I am a seasoned professional, I'm not going to use that but follow my traditional way of decision making because the machine-generated insight is ridiculous." When this happens, companies will fail to generate the value from their investment.

4 . **Consumer perceptions will affect the future of data privacy**

Trust is very important for customer perspective – for example, Facebook took a well-publicized blow in April 2018 after being accused of misusing users' personal data. There will be more challenges around the use of data and privacy, but at some point, the customer will have to decide between using a 'free' service with great recommendations, or keeping their data private. It will be a personal choice between how much comfort they want and how much data they are willing to give up in return.

5 . **Platform companies are showing the way when it comes to use of AI**

Platform companies started their businesses from scratch in the age of the internet and are not dealing with legacy systems, so they quickly understood how data could drive their business. They also use very rigid processes – there's a lot of standardization among companies like Google in terms of how they make money. This allows them to make automation very simple and apply cognitive automation across their processes. Their market power also enables them to force change on other players in their ecosystem and define the way they interact with them. Within the next two to three years, platforms will have achieved end-to-end automation, where they deem it valuable. The successful platform companies are not afraid to simply try things out and go from there.



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| 57 |

ROBOT RISE
By 2025,
95 percent
of customer
transactions
will be
powered by AI,
according to
Servion Global
Solutions

If you don't
reinvent your
supply chain,
your customers
will do it for you

POLLEN COUNT
Alarmed by the decline in bees, one US retailer has filed a patent for drones to carry pollen from plant to plant

Companies that invest in demand-driven, tailored supply chains to respond more efficiently to consumers, are achieving faster growth in revenues

The modern consumer is hard to please. With so many channels to buy from, so many ways their purchase can be delivered and a growing expectation of almost instant gratification, shoppers are actually doing supply chain leaders a favor. The customer is making a compelling case for manufacturers, retailers and platform businesses to create truly demand-driven supply chains, which can respond effectively to opportunities and threats in real time.

Erich L. Gampenrieder, KPMG's Global Head of Operations Advisory and Global Operations Center of Excellence, says: "For some time, companies have focused purely on cost efficiencies, but leaders have realized that the main purpose of supply chains is to balance cost with keeping their customers happy and providing a better consumer experience."

The 2018 Top of Mind Survey shows that this shift in emphasis is already paying dividends. Companies that are demand-driven supply chain leaders expect their revenue and profit to grow faster in this fiscal year than other companies. By 2020, supply chain leaders anticipate revenue growth of 5.9 percent.

Successful companies are taking their supply chains to the next level, embracing open and collaborative platform models that draw on ecosystems of manufacturers, distributors, partners, suppliers and consumers to create value. Gampenrieder says: "The core concept of demand driven is that, first, you tear the walls down between functions, then the walls between business units, and then open up to your external environment, whether that's towards customers, suppliers or business partners."

French retailer Carrefour recently signed a deal with rival Système U to jointly negotiate purchases with their main multinational food and non-food suppliers. Forming ecosystems like this are increasingly necessary if companies are to compete with large platform businesses.

Creating truly demand-driven supply chains remains an aspiration for most companies, rather than a reality – 60 percent of companies in the Top of Mind Survey agree that most supply chains will be

Defining supply chain leaders

For the Top of Mind Survey, companies that are highly capable across the majority of 12 dimensions are defined as supply chain leaders:

1. Changing customer needs
2. Alignment of metrics and incentives
3. Integrated product development
4. Optimized manufacturing
5. Quality assurance
6. Real-time visibility
7. Rapid supplier communication
8. Redundancy procedures to mitigate risks
9. Scalable technology platform using AI, blockchain or other smart technologies
10. Ability to 'build to demand'
11. Advanced analytics
12. Cloud-based technology

demand-driven and customer centric by 2020, but only one in five companies surveyed say that their own supply chain is deployed and optimized to keep pace with rapidly changing customer needs. And only 22 percent of respondents say they have a fully integrated supply chain now, though 48 percent say they will have one by 2020.

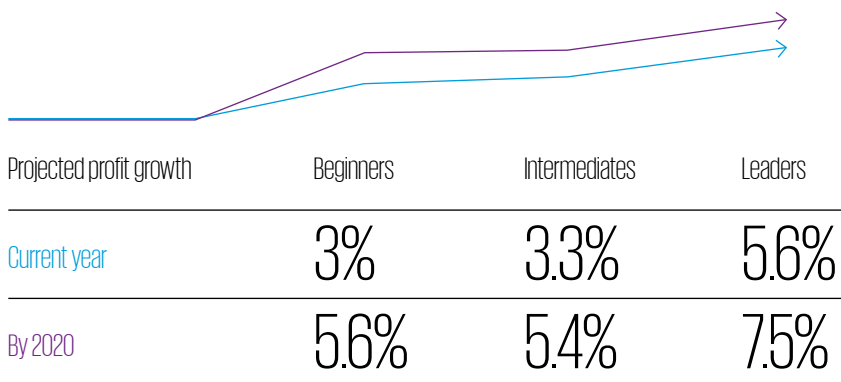
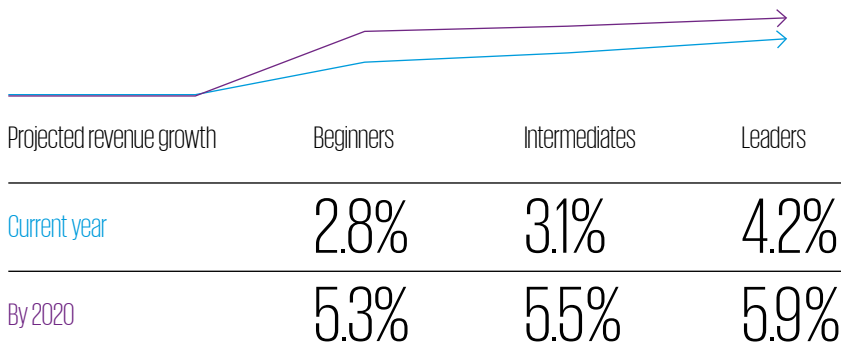
Going straight to the consumer

In the Top of Mind Survey 56 percent of respondents agree that by 2020 manufacturers will sell significantly more products directly to the consumer. "Many of the manufacturers are keen to take more control of today's revenue streams and establish a direct connection with the end users of their products and services to learn what will appeal to them tomorrow. This creation of a direct connection is becoming increasingly crucial for manufacturers to maintain relevance as customer behavior evolves," says Gampenrieder. As platform models expand and manufacturers create their own e-commerce platforms, supply chains will need to be reinvented. "Having the right supply chain capabilities is even more important as major brand manufacturers launch their own direct to consumer offering."

So where should they start? Gampenrieder says: "Manufacturers need to tackle the key gaps in warehousing and logistics and in customer packaging operations so there's just one big capability group that needs to be managed. Another issue is single-piece picking and packing, or it might be slipping in parcel services in partnership with logistics providers, so manufacturers can manage all the volumes they have to deal with. Returns and traceability are big topics, particularly in consumer electronics and apparel industries. Manufacturers and other supply stakeholders are also bound by a variety of regional and global legislation to ensure that all products will be tracked up to the point of delivery."

In a marketplace where trends come and go so quickly – and platform businesses see competitive advantage in shortening delivery times – reducing speed to market is a priority. "It is important not only with supply chain executives, but also with sales

**The return on investment
for demand-driven supply chains**

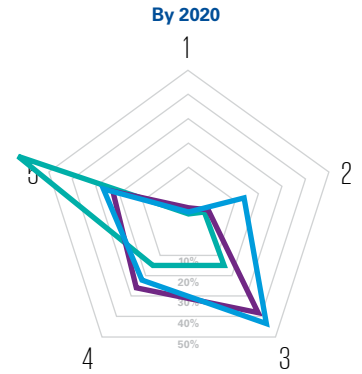
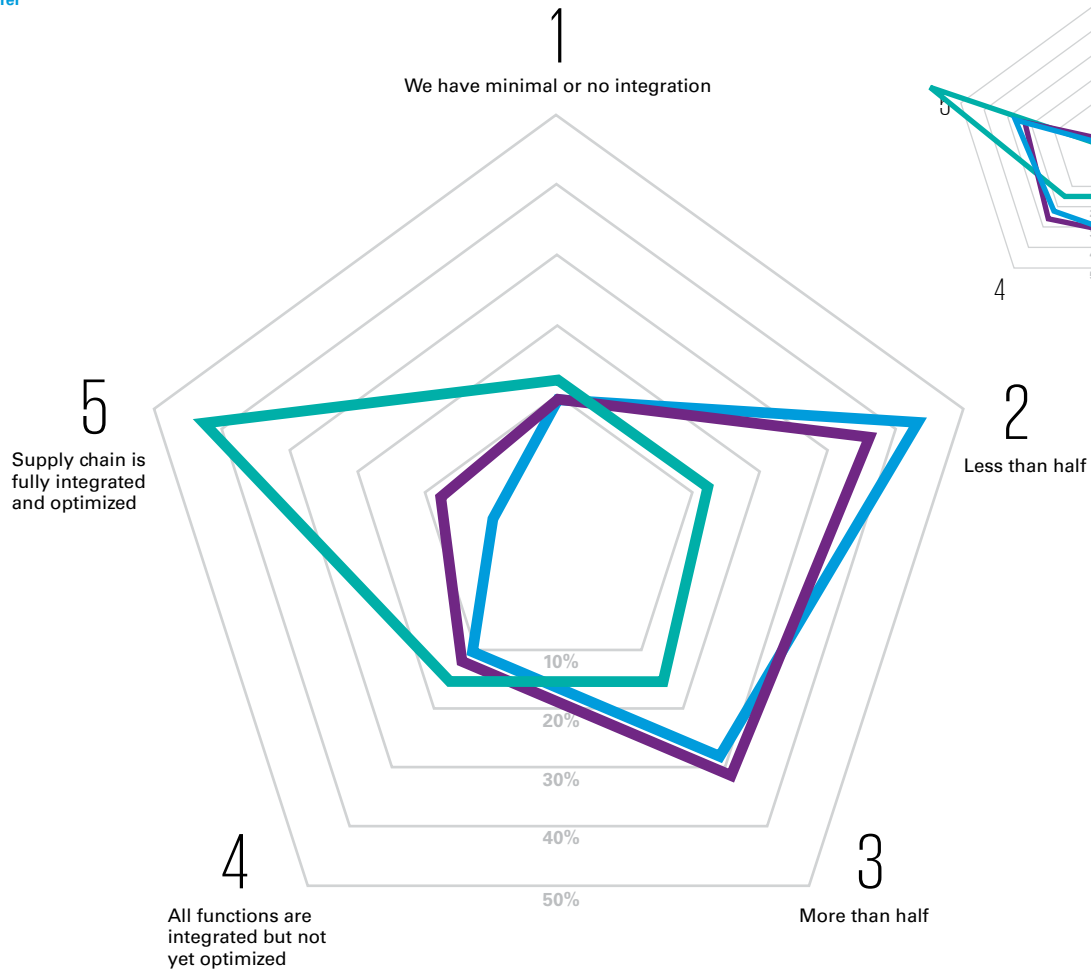


The real test of demand-driven supply chains comes down to financial performance. The Top of Mind Survey shows that demand-driven supply chain leaders have higher forecasted revenue and profit growth

Supply chains

How integrated is your supply chain?

- Manufacturer
- Retailer
- Platform



| 62 |

By 2020, there will be a huge shift towards full supply chain integration for manufacturers, retailers and platform companies

Source: 2018 Top of Mind Survey, KPMG International and CGF

EARLY WARNING
An app by researchers at the University of Pennsylvania can detect diseased cassava plants with 98 percent accuracy

and marketing people. How can we reduce lead times? How can we become faster? Speed is a crucial buying criterion,” says Gampenrieder.

In the apparel sector, fast fashion is giving way to ultra-fast fashion. Emerging brands such as ASOS, Boohoo and Misguided aim to take products from design to sale in two weeks or less.

Putting the customer at the center of the business also means putting them at the center of the supply chain – Boohoo sources more than half of its products from its home market, the UK.

“You can search for low-cost countries to manufacture in, but there’s a recognition now that it can be more efficient to put your manufacturing near to a key market,” says Gampenrieder. “Additive manufacturing can be an enabler for this value lever, too.”

That philosophy has prompted Adidas to open two ‘Speedfactories’ – one in Germany and the other in the US. The factories are completely automated and designed to replenish in-demand products and produce limited-edition customized designs.

Gampenrieder says that autonomous vehicles will influence sourcing strategies. “You have to have low-cost manufacturing located in or near urban areas. You might want to leverage autonomous vehicles to get the stuff to the customer, the last-mile delivery. If you want to move toward that operating model, you need to have local sourcing.”

Food and drink manufacturers are working to configure their supply chains to meet growing demand for local designs, customs and flavors. This trend – along with a need to resolve distribution challenges – has prompted Heinz to seek to acquire local brands in Australia and New Zealand. In China, after crunching data from Alibaba’s Tmall Innovation Center, Mars successfully launched spicy versions of its Snickers chocolate bar.

For some companies, flexibility extends even further. One leading coffee chain furnishes its stores to suit different cultures. In Asia its tables usually accommodate larger groups than they do in the US and UK.

Sometimes, size matters when meeting local needs: smaller packs have helped Colgate-Palmolive’s sales of toothpaste in emerging markets such as Vietnam.

For some brands, local sourcing is part of the solution – in terms of sustainability and in making communities feel they benefit from a business. At Heineken, for example, 42 percent of the agricultural raw materials it uses in its Middle East and Africa operations are sourced locally.

The furor over plastic pollution in the world’s oceans shows that sustainability remains a concern for consumers, especially Millennials. Individual innovations can play a big part. Nike now makes polyester from recycled plastic bottles, reducing energy consumption by 30 percent. The Campbell Soup Company collected information on fertilizer use, water consumption, and yield from its tomato growers and, by categorizing and anonymously sharing that data, helped farmers reduce costs, improve quality and be kinder to the environment.

In China, Carrefour has trialed smart packaging to give its customers information on products using a smartphone app. Advanced image recognition, computer vision and augmented reality combine in a supply-chain transparency tool, including information about place of origin, quality and nutritional content.

The power of data

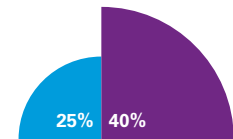
In a world where influencers on platforms such as WeChat can create sudden spikes in demand, companies can manage unpredictability by investing in data analytics and AI. “Emerging technology can help in supply chain planning,” Gampenrieder says. “The competitive advantage will really be determined by speed of understanding what is going on through field learning, AI, and adaptive response to signals in the marketplace.”

Accurate data analysis is one of the foundations of a demand-driven supply chain. The Top of Mind Survey shows that most supply chain leaders make extensive use of internal customer data (loyalty programs, mobile apps, website tracking, customer feedback, transactions), supplier/vendor data, and location data to inform and manage their decisions. New technology ►

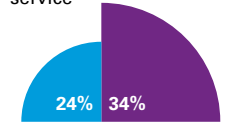
Benefits of demand-driven supply chains

● Manufacturers
● Retailers

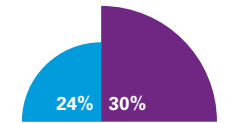
Increased sales



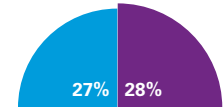
Improved customer service



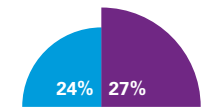
Better able to meet customers’ needs



Greater speed and agility



Higher transparency



ECO ICE CREAM
Ben & Jerry’s is piloting a platform that connects consumers to their carbon footprint at its newest Scoop Shop in London

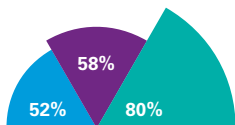
Supply chains

DIAMONDTECH
De Beers is using blockchain to track stones from mine to store to avoid selling 'conflict diamonds'

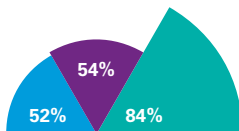
Companies with advanced supply chain capabilities

- Manufacturer
- Retailer
- Platform

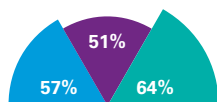
Cloud-based ecosystem



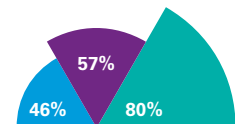
Integrated sales and inventory system



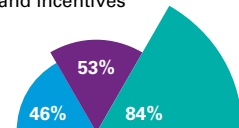
End to end quality assurance



Real-time inventory visibility and tracking



Alignment of metrics and incentives



can cut costs, create efficiencies and serve customers. Robotic Process Automation (RPA), for example, automates and speeds up specific manual processes, eliminating human error. "There is a view that RPA will be able to eliminate about 20 percent of non-value added tasks within customer fulfillment operations over the next two years," says Gampenrieder.

"In customer fulfillment, RPA can play a vital role in bridging multiple legacy systems. It has already proven effective in simple use cases – such as ordering entries from portals into an Enterprise Resource Planning system and customer onboarding. The key is to stay with the things that you can easily replace with an RPA system. RPA is not intelligent, so you need to tell the system what to do. You might build a center of excellence for automation for operational tasks, or help the organization identify suitable cases and then roll them out."

Organizations brave enough to contemplate how to make best use of such emerging technologies, are realizing a once in a generation opportunity to redesign their supply chains. "New manufacturing models are appearing with the advent of smart factories through AI, the Internet of Things, 3D printing, robotics and cloud computing," says Gampenrieder. "We already see virtual reality (VR) and augmented reality (AR) used in operations."

Nestlé is exploring Internet of Things-connected vending machines that automatically replenish. McCormick spin-off Vivanda has developed FlavorPrint, an AI-based platform which matches consumers to food products and recipes. FlavorPrint senses demand by understanding customers' preferences and shares the data to optimize its supply chain. British e-commerce grocery Ocado, which has invested heavily in AI, is to build the online businesses – and supply automated warehouses – for three retailers: ICA, Sweden's largest grocery chain; Sobeys in Canada and French supermarket Monoprix.

Despite Ocado's pioneering example, many manufacturers and retailers have been reluctant to experiment. Gampenrieder says this may reflect the fact that the supply chain function has traditionally focused only on efficiency and cost and,

steeped in that mindset, has become culturally averse to risk.

Nobody is arguing that supply chain chiefs should embrace risk for the sake of it but experimentation is essential if the function is to use these emerging technologies to become truly demand-driven. "The leading supply chain companies run pilots and create organizations either within their own legal entity, or they partner with others or build joint ventures, or separate business units, which do nothing else but this kind of experimenting," says Gampenrieder.

Some companies are looking to innovate. Kimberly-Clark's digital innovation lab launches an annual K-Challenge program asking start-ups to submit new ideas, including supply chain operation solutions. In March 2018, JD.com opened up a supply chain innovation center in China. An AI center in the UK is likely to follow next year, with JD.com investing heavily in the belief that AI will transform its business. The Top of Mind Survey shows that while only 6 percent of consumer-facing companies are using AI, 28 percent of platform companies are.

Where do we go from here?

By 2035, the relentless pressure of consumer demand will have transformed the industry's supply chains. Orders may be placed through digital personal assistants in the consumer's home. Goods may, Gampenrieder says, take just a few hours to travel from the factory to the consumer. The last mile to the home may be fulfilled by an autonomous vehicle or robot courier. Augmented and virtual reality will become standard and additive manufacturing (3D printing) will be driving large-scale production.

With digital personal assistants and 3D printing the supply chain could begin and end in consumers' homes. "A 3D printer could become so small, so reliable, and so cheap that consumers could purchase the raw material, put it into the printer and click a button to create a product, for example, their own kind of Lego," says Gampenrieder. "It's certainly technologically possible. The question is, will the price attract the consumer?" ■

5 key insights

To stay competitive, start collaborating with partners and experiment with digitalization says Erich L. Gampenrieder

“Supply chains must open up”

1 . Create an ecosystem for a more demand-driven supply chain

As routes to market and competition from start-ups increase, there is a greater need for supply chains to become more efficient, agile and customer focused. Major brands are also launching direct-to-consumer offerings to take control of their revenue streams and establish a direct connection with end users of their products and services. To move towards a demand-driven model, companies will need to collaborate with outside partners to develop ecosystems to become more capable in areas such as warehousing, customer packaging operations, single-piece packing, logistics and traceability.

2 . Get efficiencies right first, then start experimenting with new technology

Competitive advantage will be defined by how quickly big data and AI help you read market trends and develop predictive models of product performance. The business case for digitalization can be hard to prove. Consumer goods companies don't have the same 'fail fast, stand up, do it again' culture as the software industry, preferring to rely on functional, efficient silos. Better to get basic supply chain efficiencies right first and then spend a small sum experimenting with new technology to see what works. Whatever level of digitalization you choose, human beings will still stand in the center of these processes – they need to tell them what to do and trust the automated decisions.

3 . Companies should avoid skills shortages by recruiting Millennials

Attracting and retaining talent will be hugely important for the consumer goods industry in their

ability to use, understand and leverage new technologies. Millennials want to work for a company that is using state-of-the-art technology, so this needs to be built into external communications to attract new talent. You also have an experienced group of existing workers with a wealth of knowledge to impart, so mentoring programs need to be created to pass on expertise to talented new employees.

4 . Local sourcing appeals to consumers, increases speed to market and cuts costs

There is more emphasis on local sourcing. Customers feel better buying produce that hasn't been shipped across the world. Locating manufacturing close to key markets can also reduce costs. In the automotive industry you see suppliers moving to Mexico or the US from other parts of the world to cut logistics and transportation times. This 'neighboring effect' is more relevant now than ever.

5 . Think about how your supply chain is likely to look 10 years from now

AI will help make supply chains faster, cleverer and leaner – but only if the entire business is on board. Many managers elsewhere in the business do not understand the supply chain's complexities. In the past, supply chain directors – especially those in the middle layers of a business – have struggled to make a compelling case for the benefits. A value-based management approach, which looks at how AI could impact a range of value drivers across the business, can strengthen the argument. This is a debate supply chain directors need to win. We are at the start of a technological revolution. Organizations that do not seize the opportunity provided by AI, data and analytics, robotics and additive manufacturing, may find themselves at a serious competitive disadvantage.



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STOCK BROKE
Having too much stock – or too little – costs global business around \$1.1trn a year, research group IHL estimates

Brain food

Insights

With the world's consumer and retail sector changing faster than ever before, we recap the key learnings from the 2018 Global Consumer Executive Top of Mind Survey – and explore how the industry's leaders can turn insight into action

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Actions

Market disruption

31 percent of companies see new competitors with disruptive business models as the most challenging market trend.

In Asia Pacific the top challenge is shifting demographics and expectations.

Competition from platform companies is seen as a top threat by 24 percent of companies.

87 percent of the fastest growing companies say that fostering an innovation culture is a strategic priority.

Disrupt yourself to compete with the growth of platform companies and start-ups. Innovation and partnerships could be key to do this.

Have a radical rethink of your business's purpose, products and processes. To survive today's rapidly changing markets, companies need to reinvent themselves.

Look at your business from the outside in. What are your competitors doing? What are your customers doing?

Culture and strategy

46 percent of manufacturers and 34 percent of retailers are struggling to adapt to industry disruption.

58 percent of companies plan to redesign or develop new business models.

The fastest growing companies put emphasis on revenue growth and operating efficiency.

55 percent of board members say physical stores that do not reinvent themselves will not survive.

Create an ecosystem of partners to attract new ideas, resources and customers. This will help you achieve more in less time and is more effective than internal restructuring.

Focus on growth instead of cost cutting. This is essential to respond successfully to the scale and speed of market disruption.

Don't get stuck in short-term thinking or be afraid of risk when it comes to transformation. Be ambitious, but pragmatic.

Customer centricity

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

Understanding consumer needs is a top priority for 48 percent of companies.

Customer-centric companies do a better job in leveraging data to target, attract and serve customers.

46 percent of customer-centric companies rank connecting with consumers 24/7 as a top priority.

Use data and analytics to really understand who your customer is, what they want and how the market is evolving. Make sure this information is translated into customer-centric tactics and strategy.

Refresh your brand. Is your offering relevant to today's consumer and their demands?

Embrace new technology to connect with customers at every touchpoint from online to offline. Make sure the customer experience is seamless.

Digital transformation

Companies that are digitally mature grow revenue, productivity and market share faster than the rest of the industry.

31 percent of all companies see cost savings as a major benefit of digital transformation. Only 3 percent of digital leaders agree.

46 percent of respondents say ROI uncertainty is an obstacle to digital transformation.

Digital leaders are more likely to see improved data analytics as a benefit of digital transformation.

Learn from platform businesses and start-ups, which are using technology to reinvent strategies, business models and customer interactions.

Anchor your digital transformation to the needs of the customer to achieve better outcomes instead of focusing on internal efficiencies.

Be agile. Invest in cloud-based tools which can connect to existing systems. This will enable you to be more nimble and transform quickly.

Smart technologies

Platform businesses invest 13 percent of their revenue in technology compared to less than 5 percent for all companies.

41 percent of digital leaders are using robotic process automation and 46 percent plan to start using it in two years.

Only 36 percent of companies have invested in cybersecurity systems.

By 2020, 72 percent of platform businesses will be using AI compared to 27 percent overall.

Boost your investment in new technologies to keep competitive. Successful companies are using cloud-based open platforms, as well as experimenting with AI, robotics and AR.

Build your AI systems gradually to enable you to achieve end-to-end automation. You cannot buy a system off the shelf.

Put the human touch at the heart of your approach to smart technology. It must be customer centric and you need buy-in from your employees.

Reinventing supply chains

Only one in five companies say that their supply chain is deployed and optimized to keep pace with customer needs.

Companies with demand-driven supply chains see faster revenue and profit growth.

60 percent of companies say that most supply chains will be demand-driven and customer centric by 2020.

40 percent of retailers say increased sales is a top benefit of demand-driven supply chains.

Embrace open and collaborative partnerships between manufacturers, distributors, suppliers and consumers to transform your supply chain.

Speed to market is a priority. Manufacturers need to have the capabilities to satisfy consumer demand. Local sourcing can aid this process.

Experiment with AI and data and analytics to make your supply chains faster and more clever. Companies that fail to do this will be left behind.

About the survey

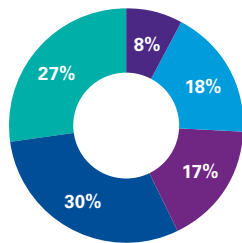
530 executives from many of the world's leading global brands participated in this year's survey

This sixth annual survey was conducted by telephone and online during March 2018. A total of 530 executives from companies headquartered in 28 countries participated.

The respondents are senior executives at global companies from the food, drink or consumer goods

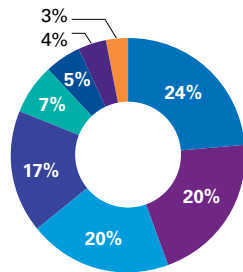
manufacturing and/or retail sectors, 87 percent of which had at least US\$500 million in annual revenues. The companies in the survey represent over US\$3.2 trillion in consumer sales. 79 percent of the respondents are at Board or C-level, including 36 percent who are the CEO or President of their company.

Location of company headquarters



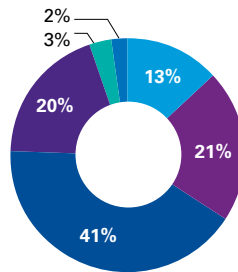
- Middle East/Africa
- US/Canada
- Latin America
- Europe
- Asia Pacific

Primary source of revenue for respondent company



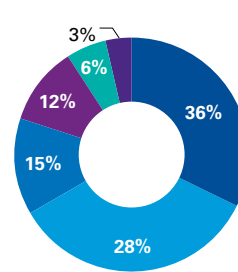
- Food and/or non-alcoholic beverages
- Apparel, footwear and/or accessories
- Diversified
- Household durables
- Personal, health and/or household care
- Alcoholic beverages
- Sports and/or leisure products
- Tobacco and/or related products

Annual revenue of respondent company



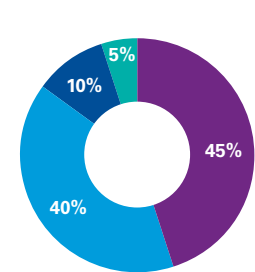
- Less than \$500m
- \$500-\$999m
- \$1-\$4.9bn
- \$5-\$19.9bn
- \$20-\$50bn
- Over \$50bn

Role of participating executive



- CEO/President
- Board member
- Other C-level executive
- Vice President or Director
- Executive or Senior Vice President
- Other

Respondent company by type



- Retailer
- Manufacturer
- Equally a manufacturer and a retailer
- Platform

About KPMG

KPMG is a global network of professional firms providing audit, tax and advisory services. We operate in 154 countries and territories and have 200,000 people working in member firms around the world.

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/consumer

About The Consumer Goods Forum

The Consumer Goods Forum ("CGF") is a global, parity-based industry network that is driven by its members to encourage the global adoption of practices and standards that serves the consumer goods industry worldwide. 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.

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

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innovate



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