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CONSUMER CURRENTS

Issues driving consumer organizations

Brand equity
Why should your customer care about you?

Deal or no deal
The secrets of making acquisitions that create value

Home truths
What connected consumers want

Issue 23
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Consumer Currents

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"Whether you are a global powerhouse or a start-up, innovation is the best defense against obsolescence"

"If you do not change direction," said the ancient Chinese philosopher Lao Tzu, "you may end up where you are heading." In such a time of disruption, it is easy to lose focus. The real danger for retailers and manufacturers in today's consumer goods industry is not the disruption itself – but relying on yesterday's logic in the quest to create a viable future.

We must deal with the marketplace as it is, not as it could have been, or as we would like it to be. As the global consumer and retail industry is being transformed by three revolutions at once – geographic/geopolitical, demographic and technological – the need to listen to past, present and future customers, with no filters or preconceptions, is more urgent than ever.

On p6, Olaf Koch, Chief Executive Officer of Metro, the European food wholesale group, explains why the need to read the market has prompted it to devolve authority to business units which are closer to customers. He believes that freeing managers to respond to changes in their market has improved their motivation and performance and is helping the business to become more agile.

Metro's experience shows that the competitive landscape in the world's consumer markets is more complex than the media would have us believe. Start-ups have generated most of the industry's growth but they have not had it all their own way. As we discuss on p16, many established players – such as Diageo and Unilever – have used the cash at their disposal to acquire innovators or support them through new venture capital funds.

Earlier this year, we titled our Global Consumer Executive Top of Mind survey *Think like a start-up*, encouraging companies to accelerate change, be clearer about their purpose, and dare to challenge conventional wisdom. Innovative new companies have been rightly lauded although, as we explore on p26, some have had to recognize that it can pay to think like an established multinational. Such apparently mundane corporate functions as HR, compliance and marketing can, if not managed effectively, threaten the business.

Whether you're a global powerhouse or an emerging start-up, innovation remains the best defense against obsolescence. This is especially true for brands and manufacturers assessing the future of the connected home. A giant leap for consumers, builders, retailers and brands, the reinvention of the home is a transformational opportunity, as we explore on p10. The connected home is certainly too groundbreaking to be reductively promoted, as one supplier has done, as the chance to "be the Tony Stark [Iron Man] of your house".

The question of obsolescence is prompting much soul-searching among brand owners who are examining how, why and when to engage with consumers in a marketplace where technology has made business transparent. Just as good management defeats a bad economy, changing consumer tastes can create opportunities for savvy brand owners. As Damian Ferrar, Executive Creative Director of advertising agency Jack Morton Worldwide, observes on p20: "If you simply meet expectations, you will become irrelevant. If you shape expectations, you can transform the market, your business and the world around you."

I trust you will find this edition of *ConsumerCurrents* useful and insightful.

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KPMG

"
Digitization has the potential to create much more value for customers
OLAF KOCH p6
"

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Convenience Japan-style

In retail, touch really can be golden

If shoppers hold a product in their hands, they are more likely to make the purchase

I'm writing about a box. This is a box with a sense of history… Anyone who receives it can recall the first time, exactly where they were, who was giving it to them and, most importantly, why."

This opening to Christian Davies' essay *Ode to a Little Blue Box* is not so much about the container but its iconic Tiffany packaging. Davies is now the Creative Vice President of Global Design & Innovation at Starbucks, and his words explain why companies invest millions to find the right weights and textures for their brands. This is the science of haptics – interaction involving the sense of touch – and it's a critical factor in consumer-purchasing decisions.

Haptics is a powerful form of non-verbal communication which explains how the things we touch shape the way we feel. Although the concept has been around for decades, our understanding of haptics is deepening by the day.

A Procter & Gamble study conducted 21 years ago found that people were more likely to purchase a product they could feel – and were even willing to pay more for it. From this and many subsequent studies, it's clear that the sense of touch creates a connection between people and objects. The simple act of holding something creates a kind of psychological ownership that drives purchase. This is known as the 'endowment effect' – the idea that people ascribe more value to things because they own them.

The endowment effect explains why, in a famous neurological experiment, participants first given a Swiss chocolate bar refused to trade it for a coffee mug, whereas participants who were given the coffee mug first refused to trade it for chocolate.

"The endowment effect works even if you don't own the object," says Sebastian Haupt, a German psychologist and co-author of the book *Touch! Der Haptik-Effekt im Multisensorischen Marketing*. "It can be triggered just by physical contact. We even get a similar effect if we see someone nearby holding a magazine or newspaper."

But while the act of touch is a powerful trigger, there are other factors at work. An increase in weight gives a product greater gravitas. In one experiment, people were asked to evaluate a job candidate while holding either a light or heavy clipboard. When holding the heavy clipboard, people viewed the candidate as expressing a more serious interest in the job.

Bricks and mortar retailers have long understood the power of touch. Consumers are particularly likely to want to get tactile with furniture, jewelry and clothes before they make a purchase.

A 2017 RetailDive consumer survey found that, despite the e-commerce boom, shoppers haven't changed their minds – 62 percent said they preferred to touch a product before purchasing it.

This poses an obvious dilemma for e-tailers. Some are looking to virtual reality to provide consumers with an immersive shopping experience but researchers at Bristol University in the UK have developed a way of using ultrasound to make people feel they are handling 3D objects.

Mark Larson, Head of Consumer & Retail, KPMG in the US, says companies should think 'haptically' when launching new products. "In a market where competition for consumers is fiercer than ever, every advantage counts. So the next time you create a product, hold it in your hands. You could be communicating more than you thought."

Clothing stores have a tactile advantage over their fellow e-tailers

Loss aversion and endowment effect

Class A	Class B	Class C
89% Chose coffee mug	10% Chose coffee mug	59% Chose coffee mug
Students were given a coffee mug, then later on, the option to trade for a bar of Swiss chocolate.	Students were given a bar of Swiss chocolate, then later on, the option to trade for a coffee mug.	Students were given a choice of either a bar of Swiss chocolate or a coffee mug.

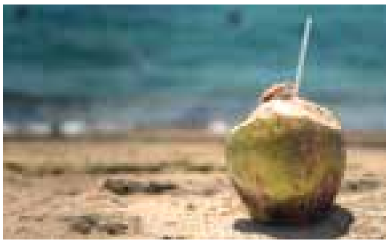
Water makers toast new flavors

It may be the oldest consumer product of all, but water is still being reinvented. The flavor of the hour is coconut water, an electrolyte-rich drink famed for its hydrating properties, low sugar and rich nutrients, which generates US$2.3bn in global sales.

Coconut water has its rivals. Maple, cactus, birch, bamboo, almond, olive, ginger, rose, banana and artichoke – collectively known as 'plant waters' – are booming as consumers seek alternatives to sugar-sweetened drinks. In an industry first, the US Food And Drug Administration has said drinks group Asarasi can market its water, filtered from maple trees, as 'organic'.

In the UK, birch water – a traditional tipple in China, Russia and Scandinavia – is now sold by Waitrose, in a deal with UK brand Sibberi.

African water firm Tanzamaji has launched 'prehistoric' bottled water, taken from Tanzania's Lake Tanganyika, one of the world's oldest lakes. At $15 for a 12-ounce bottle, it's not cheap but, as founder Rebecca Ruefer says, "No other human has ever consumed this water."



Chatbots signal age of Industry 4.0

Artificial intelligence (AI) is transforming manufacturers and retailers across the globe, according to the 2017 KPMG *Global Consumer Executive Top of Mind* survey.

The survey of 526 companies shows that many have embraced Industry 4.0: 37 percent are using chatbots and one third the Internet of Things and 3D printing.

With opportunity comes risk. "Companies should think strategically about this," says **David Neely**, Managing Director, Technology and Process Enablement at KPMG in the US. "How do they want to leverage these technologies across the business? Where is the value? And who is the logical owner of these technologies, which can lower costs, reduce risk and improve service?" are questions posed by Neely.

You can download the report here: *kpmg.com/CMsurvey*

Next tech ambient computing

If you've asked a personal digital assistant to shop for you, you have used ambient computing.

The term refers to an ecosystem of sensors and connected devices that work seamlessly together with minimal human input, 'talk' to each other, and learn and adapt as they go.

Applications include a connected thermostat for buildings, which learns occupant behavior and adapts accordingly. Bosch uses sensors to gather data and provide preventative maintenance for industrial equipment. By 2020, experience designers could use ambient computing in stores – with consumers' approval – to sense location, identity, temperature and other environmental and social cues, monitoring moods and deeds. It sounds Orwellian but it could revolutionize bricks and mortar stores.

Customer First

Company culture

If you want staff to be customer-centric you have to make your common purpose clear, says **Julio Hernandez**, Global Lead for KPMG's Global Customer Center of Excellence

Herb Kelleher, the founder of Southwest Airlines, was known to arrive at airports at 3am to help clean out planes. His commitment personified the company's message to its staff to show passengers a 'warrior spirit' and a 'servant's heart'. The same principle has been applied by Dan Cathy, President and co-founder of the Chick-fil-A fast food chain, who says: "If we have to keep telling people what to do, we're not modeling the behavior ourselves."

When it comes to creating a customer-centric company, the likes of Kelleher and Cathy don't just lead by example, they put the policies into place to define what their brand stands for and make that common purpose clear. A succinct explanation of what you want your customer to experience emotionally can provide the foundation on which you develop your customer service.

Customer-centric companies transform their culture by making sure that the voice of the customer is heard in every part of their business. Too many companies struggle with sharing customer information across departments. Yet with technology, such insights can be used to train staff, inform business planning and improve best practice.

Recruitment is even more important. Turning staff into brand ambassadors may sound clichéd, but this is what the best customer-centric businesses do. People need to know how to apply your brand values in their jobs. This needs to happen because consistency is key. Companies that don't reinforce the brand values, experience and message – or take their eye off the ball – soon pay the price with reduced sales, lost customers or brand erosion. When you create the right culture, your company will never stop listening to the customer and marketplace, adapting and delivering on your brand proposition to the customer.

At Chick-fil-A, employees' parting words after each transaction are "My pleasure". This is an unexpected touch in a fast food restaurant and came, Cathy says, from his father, who heard reception staff use the phrase at the Ritz-Carlton.

You can't expect consumers to engage with your brand if your employees aren't engaged with you.

"Our business is about relationships, not software"

By decentralizing decision making and boosting employee engagement, food wholesale group Metro can better serve its SME customers, says CEO Olaf Koch

While the operating systems of most of the world's businesses have been transformed by digital, the hospitality industry has remained largely analog. Tracking of sales, automation of wholesale food ordering, and data collection and analysis are far from being standard practice – most of the businesses rely on the instinct of chefs and managers.

German wholesale and food specialist group Metro sees the digitization of this time-honored process as a major transformational opportunity for itself and its customers. So much so, that one of the world's largest wholesale and retail companies recently split its operations in two, separating its consumer electronics division from its food wholesale business. Seen as a radical move by some, Olaf Koch, Metro's CEO, regards this as a natural progression. "A conglomerate is always seen as lacking focus," he says. "We now have a clear, pure agenda on both sides of the organization, which will be good for investors who don't want to invest in a blend of businesses."

Metro sees huge growth potential in its wholesale and food specialist operation. The operator of over 750 cash and carry stores and the hypermarket Real aims to offer its customers in the hotel, restaurant and catering sector digital solutions to ease their operations as well as the ability to harness data and use it to determine and control the many variables that shape their business.

Koch has an enviable track record, having been a member of the Metro board since 2009 and previously held senior roles at DaimlerChrysler and Mercedes-Benz as well as private equity group Permira and Hugo Boss.

Here Koch explains why he believes employee engagement and localization are critical to Metro's success.

What is Metro's strategy?

In our wholesale business, we aim to help SMEs – independent restaurateurs, café owners and small grocers – be more successful. In the 25 countries we are in with our store operations, we have given local teams the authority to tailor the business to suit their audience. The hospitality industry in Europe is, on the SME side, almost analog. We're talking about 1.8 million entrepreneurs in Europe who generate annual sales of approximately €420bn (US$497bn) sell-out value. The operating system of most of these businesses is a piece of paper and a pencil. Replenishment is driven by gut feeling, not data. By making data accessible, we can be an enormous help. More accurate replenishment will lead to less shrinkage, save money and help the environment. With data, you know instantly if it was a good day, which part of your restaurant did well and which didn't.

What is the biggest impact technology has had on your business?

We are in a transparent market. In a split second, one can find out the price point of a product, its pros and cons, and the quality of service. Yet if we build relevance, and show commitment to customers, that is also apparent in a split second. These insights have changed our priority from operations to customer dedication. We have to consciously acknowledge that the customer decides success and failure in our business – and anticipate and meet their needs and wishes. They are voting every day in favor of our offering – or not – so we aim to continuously offer better value for customers. We are doing this much better than we did five years ago, but we know there is still room for improvement.

If we're clear about who we are serving, we can adjust the offer and the format accordingly and initiate a cycle of interaction with customers about where we can do ▶

METRO

■ The Metro Cash & Carry company was established in 1964. In that year, the first full scale Metro Cash & Carry wholesale store opened in Mülheim an der Ruhr with selling space of 14,000 square meters. That was a new dimension in food and non-food wholesale.

■ In the following decades, Metro Cash & Carry expanded across Europe and entered into Asian markets as well. Under the umbrella of Metro Group, further sales lines, for example, in food retail, consumer electronics and the department store business were added.

■ In July 2017, Metro Group was demerged into two companies: a wholesale and food specialist operating under the Metro brand and a consumer electronics business operating under the Ceconomy brand.

■ In the business year 2016/17, the new Metro generated sales of €37.1bn (US$43.9bn), with over 150,000 employees worldwide. Metro Cash & Carry, which includes the Makro brand in several countries, has 759 stores in 25 countries, with sales of €29.9bn (US$35.4bn). Real, the hypermarket business of Metro, has 282 locations in Germany and generated sales of €7.2bn (US$8.5bn) in 2016/17.

A Metro Cash & Carry store in India: the business is profiting by giving local teams more autonomy

better and supply incremental value. For us, customer centricity is directly correlated to employee engagement. We are not producers. We don't run a chemical company. We are not in the software business. We are in the relationship business. So our priority has been and still is to raise employee engagement. We are now at 76 percent – the industry average is around 64 percent. Strong employee engagement has an even stronger impact on customer satisfaction. You can see this reflected in the Net Promoter Scores. At the best stores, the store manager, department managers and associates work very closely together.

What major trends do you see shaping your sector?
Out-of-home consumption is growing almost everywhere in the world – that reflects the fact that lifestyles, working hours and the image of food is changing. Food is perceived differently and is much more appreciated than it used to be. So while the out-of-home consumption food service will keep growing, we are focusing on that – the business with hotels, restaurants and caterers (Horeca) in Europe, Asia and in the megacities around the world where we are present. That's all very encouraging.

The one doubt some people have is about the small convenience stores mainly in Eastern Europe and whether they will be marginalized by modern retail. In our view, they will be exposed to more competition, but the proximity of – and service offered by – neighborhood stores will still be an advantage. If we combine our existing offer with value added services including franchise models and digital tools as well, we can.

How has global volatility influenced Metro's strategy?
It has intensified our determination to distribute more authority locally. The typical Metro format was driven by standard operating procedures (SOPs), and we had SOPs for almost everything. In 2012, we allowed countries to adjust the product range. In 2015, we said to local managing directors: "Here are the keys, you are now the CEO. You are free to adjust the product range, marketing mix, whatever. You cannot touch compliance, financial reporting, bookkeeping, food safety, quality or the brand. Otherwise, you're free. You are now fully empowered, but this comes with responsibility."

Furthermore, we changed our boardroom culture into an operating partner model. This means that we have moved from a traditional governance to an active ownership model which ensures much higher proximity and decisiveness. Every company has a dedicated operating partner with whom they develop a value creation plan. This has helped us operate in some tough markets and further differentiate us from potential competition through a very focused positioning. Teams are quick to make the necessary decisions and they're not waiting for head office approval. We have only been doing this for around two years, but we've made massive progress in that time. If I, as an employee, can identify with my organization – because it's localized and run by people who have the passion to serve the local community – it should make me even more motivated.

What are your next steps in terms of employee engagement?
Earlier this year, we as a management board team concluded internal roadshows with people here on our campus in Dusseldorf, where we went through the whole strategy, in an interactive way, bringing people more into the discussion about why are we doing what we're doing, and what's coming next. One of the

Five key learnings

1 Customer satisfaction is directly related to employee engagement. If your staff are happy, there's a much greater probability that your customers will be happy.

2 Keep it local. By giving more authority to local executives and allowing them to make their own decisions, it gives them the passion to make their business a success.

3 Data is power. Whether you're a small café or a huge conglomerate, having the data to know exactly what you're doing and how you can improve is vital.

4 Disruption only works if you do it well. The successful use of technology driven by a clear solution is difficult to beat.

5 Focus on your customer, not yourself. If your customer says: "That's the channel I want to use", don't ignore it. Give them what they want.

outcomes of these sessions for us was: we must do much more of this as an executive team, to have open conversations, giving insight into what we're thinking and why because we know that employee engagement is driven by purpose. You don't get this through annual conference speeches, town hall meetings and nice documents. We need to intensify the interaction between executives and associates, no matter what level of hierarchy you're in. One of the first steps taken as new Metro was that we moved the entire head office into open space, thereby fostering interaction beyond department structures and hierarchy levels.

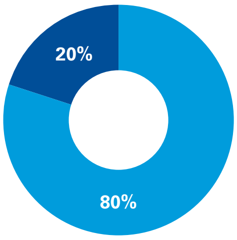
Do you anticipate a new company setting up in your business and using technology to disrupt the market?
The way we are positioned, in making sure that we are driven by a solution, means that if we do it well, we are hard to replace. Technology will massively change our business model, but I don't see the disruptor on the wholesale side that can easily jump in there. We are disrupting ourselves in the way we think about value creation yesterday, today and tomorrow. Furthermore, wholesale strongly is a relationship business, and personal relationships can hardly be replaced by technology. We steer our business on loyalty related KPIs such as the number of recurring customers and their revenue share. We focus on the Net Promoter Score as KPI to measure customer satisfaction in order to make sure that we maintain that USP, which also is a barrier for market entry.

What is the prime focus of your technological investments?
It is being able to digitize a significant percentage of the market. This is where we focus our time and people investments on. Let's imagine that out of the 1.8 million Horeca enterprises in Europe, we digitize 20 percent. That's 360,000 businesses. All of them will benefit from digital tools, from consultancy and support as well as from a platform for knowledge sharing and community building. For the first time our customers will possess a relevant data set. With that data set they can achieve more. We will be able to provide analytics, smart forecasts and advise on how to optimize their business. We could automate the supply chain between our customers and their suppliers. As one of them is Metro, we are already prepared for that. If you fast forward, AI could play a role in continuously making our customers' businesses more attractive.

What do you see as the greatest challenges ahead?
That we on the one hand continue to foster entrepreneurship through more authority on a local level and on the other hand take more advantage of the scale of our group. We need to permanently improve our capability to provide solutions to our customers through unique assortment, value added services or digital solutions. We also need to strengthen our effort to work with data. We have an incredible data set, which we can use to optimize our business and become more relevant for our customers. Providing similar services to customers is the next logical step.

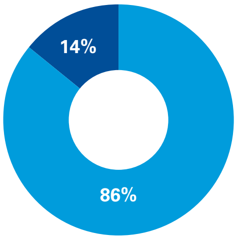
What do you see as the big opportunity?
Digital will be a game-changing opportunity. For us it has the potential to build much more relevance and value for our customers, cement our links with the community, and help us establish ourselves as a very meaningful partner for SMEs. ▮

CHARTING METRO
Sales by operating segment 2015/16



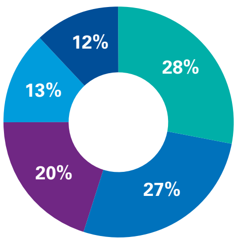
● Food retail (B2C)
● Wholesale (warehouse & foodservice) (B2B)

Earnings before EBITDA 2015/16



● Food retail (B2C)
● Wholesale (warehouse & foodservice) (B2B)

Sales by geography 2015/16



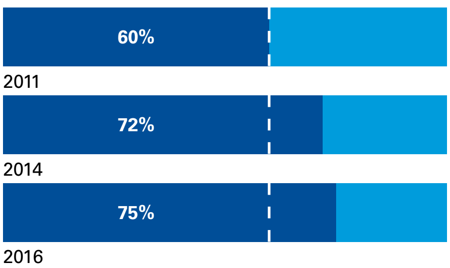
● Asia
● Germany (Metro wholesale)
● Germany (Real)
● Eastern Europe
● Western Europe (excluding Germany)

High sales from recurring customers 2015/16

% of customers
● Recurring ● Others

% of sales
● Recurring ● Others

Employee engagement survey



Industry average – 64%

Source: Metro AG

The home of the future

As connected technology changes the way consumers live, retailers and manufacturers must start thinking outside the box

The Monsanto House of the Future, which opened in 1957, is one vision of a 21st century home

The connected home of tomorrow, they say, will be full of smart gadgets like internet-connected fridges that will order milk when you run out.

Except that it won't quite be like that. This oft-cited and silly shorthand for the networked future home fails to capture the scale of change that is coming, or the risks it presents to established businesses.

The connected home will, of course, have connected devices but it won't be fridges with a web presence that matter or toasters with an Instagram account (although that said, someone has already invented the selfie toaster). Smart gadgets will only represent a tiny part of the opportunity.

Those that adapt to the forces that are already reshaping how we all live and buy are set to profit in new ways, not least among them consumer brands, while those who don't adapt to change, including retailers, face a potentially existential threat.

Counter-intuitively perhaps, in some cases the consumer won't be where the value lies at all for businesses selling into our homes, and big beneficiaries could include utilities and insurers (see p15).

A retail revolution

The change taking place now amounts to a new era. Post-Second World War, the dominant retail model has moved from independents to chain stores to multi-format to online and multi-channel.

Now a new model is emerging: the platform, says **Paul Martin**, KPMG in the UK's Head of Retail. "The big picture is that more people will become part of large platform ecosystems and a larger share of their spend compared to today will go towards those ecosystems."

These consumer platform 'ecosystems' operate on five pillars, says Martin:

Customer The large numbers of people who are at the center of the connected home.

Connectivity This is the infrastructure connecting devices, and is typically owned by telco and broadband organizations.

Cloud The vast amounts of computing power and strong data security, which are fundamental to the connected home.

Content This encompasses a wide range of content from the obvious, such as audio and video media provided by Netflix or Spotify, but also things like access to insurance.

Kit The hardware that forms a network in and around the home from fire alarms and thermostats to doorbells and connected cars.

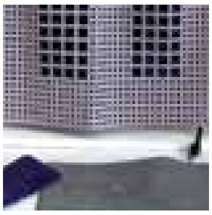
Typically most organizations have expertise in one pillar – retailers occupy the customer

Four future smart devices

Innovations for tomorrow's connected home from MIT Mobile Experience Lab

FLOC

A wearable clip and docking station that works as a smart entertainment system. At a party, for example, the FLOC can gather vocal info and movement patterns from wearers to choose music.



Sol-Charge

This smart textile charging system, controlled by a mobile app, integrates a solar curtain that harvests energy, and powers an inductive mat/phone sleeve, which charges devices wirelessly.

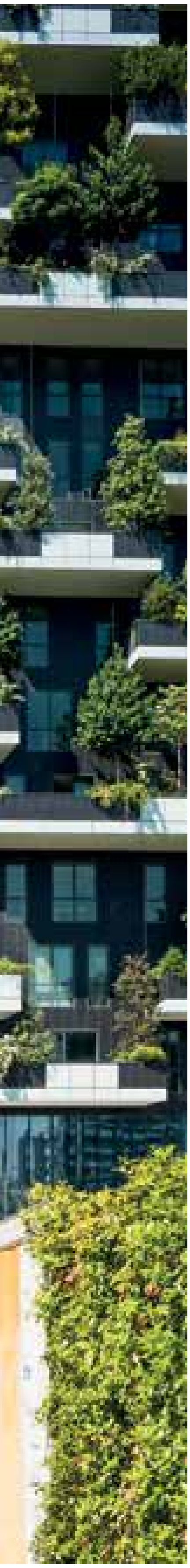
Box of holdings

This intelligent storage system has boxes with RFID readers, which read digitally tagged objects stored in them. A phone app allows the user to search, browse or manage their items.

Cookbox.net

A kitchen appliance that augments shared cooking experiences through artificial intelligence, computer vision and social networking, including allowing users to see each other cooking.

Using photovoltaic energy to make the apartments more self-sufficient, Milan's green tower blocks host 100 varieties of trees and plants and 20 species of birds



"Retailers absolutely have an opportunity to participate but they have to think differently from the way they do now"

pillar; the broadband and telcos, connectivity; hardware manufacturers the kit pillar.

It is a defining shift in the market that amounts to a new retail epoch, says Martin. Every player will have to establish itself as part of a platform-level proposition that serves the connected home. Occupying one pillar in isolation will no longer be enough for organizations to thrive.

Build, buy or collaborate?

Businesses will need to straddle these pillars. Those who are not platform players and who don't act to build, buy or collaborate with others to join complementary pillars risk being disrupted, says Martin. "For the likes of certain large European grocery or home improvement retailers, I'm not sure what the evolution is after omni-channel if it isn't platform. The question for C-level leaders is, who can provide all these different ingredients?"

Established players will have to start cooperating very soon if they are to capture the opportunities, says Curt Schacker, Senior Vice President of Connected Devices for EVRYTHNG. "Retailers absolutely have an opportunity to participate but they have to think differently from the way they do now. Selling a gadget is only a starting point for a longer-term customer relationship.

"They are still operating in very siloed worlds based on how supply chains and sales channels work. New ways to collaborate and new relationships need to be built along with new business models."

Buying into an adjacent pillar is only an option for the most cash-rich companies, while building a new competence from scratch in another pillar poses its own risk, says Martin.

"A lot of the traditional players that have ventured into these new adjacencies have really struggled because it's quite far removed from their core business model."

Tesco's acquisition of online music and film service Blinkbox in 2011 is a good example. The acquirer did not thoroughly understand the business and it ultimately failed to work.

The challenges are great, says Martin. "The complexity of doing this is manifold and a lot of businesses are hamstrung by thinking inside the box."

Such risks means that for many the strategic choice will be to find partners, says Martin. "Collaboration will be key but in forming these partnerships there are lots of questions to answer. There will have to be ecosystems of equals, which establish who owns the customer, how to share data and what the share of revenue is.

"To collaborate, businesses are going to have to think of different ways they could operate, probably in many cases as joint ventures. The tech businesses are more enlightened about how you do this. They will invest in a business but not get involved directly."

The possibilities are vast and examples of the model are coming thick and fast, with online companies such as Alibaba making forays into physical stores. Emerging platform businesses include luxury platform Farfetch, which sells products from over 700 global boutiques and brands.

IKEA's recent acquisition of TaskRabbit shows a retailer which is thinking about building its business across the platform. It has also publicly declared that it is looking for other such acquisitions that will enable it to rapidly develop new competencies.

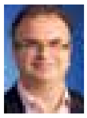
Another case of considered strategic positioning is home audio business Sonos, which has started to launch its own retail outlets and also has strength in the connectivity pillar given its capabilities with streaming music, says Martin. "It will challenge traditional high-end home entertainment."

The risks and rewards

In this new ecosystem, brands could even become platforms in their own right and come to rely less on traditional retailers.

The various emerging subscription fashion offerings such as Trunk Club and Thread might also enable brands to increase their reach without conventional retailers. The same also applies to food offerings such as HelloFresh and Blue Apron, which could benefit from the growing ease with which consumers can set up an order in the home. "Not many are profitable today but they are ▶

Five key learnings



Paul Martin
Head of Retail, KPMG in the UK
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1 Businesses will need to be part of large platform ecosystems. It won't be enough to just occupy one pillar of the connected home platform.

2 Collaboration is crucial. Joint ventures may work better for businesses than simply acquiring another company that is far removed from their core model.

3 Brands will be able to bypass retailers. Brands can disrupt the market by creating online subscription models and creating their own platforms to sell from.

4 Act now to avoid being left behind. With rapid adoption rates of new technologies, traditional retailers need to make sure they work quickly to become integral to the connected home.

5 Think innovatively. Retailers should look at how they can insert themselves with partners at various points of the customer life cycle, such as moving home.

starting to disrupt the grocery market, turning it from a transactional to a subscription model that is heavy on healthy eating," says Martin.

For the more mundane consumer goods, the increasing reliance on smart home devices to help us automate our weekly shop is both a threat and an opportunity for FMCG brands.

A platform consisting of consumer home goods brands that have joined forces to bypass retailers is one way brands might utilize the connected home and the platforms that serve their occupants.

They also face a fight among themselves, however, and will compete to be the preferred items on a default shopping list that your AI-driven home 'concierge' will order regularly, says Rosie Picton, Associate Director at the Space Doctors brand consultancy. "This virtual fight for mindshare has big implications for retail. Buying space in supermarkets will become less of a priority."

Shopping by voice in particular means we are more likely to request our home AI to pick up the brands we already know, posing a great opportunity for brands that make themselves memorable, but potentially threatening those who don't get inside our heads, says Simon Gosling, Futurist at agency Unruly.

Connected appliances such as printers, which can automatically order replacement supplies, will also benefit certain brands.

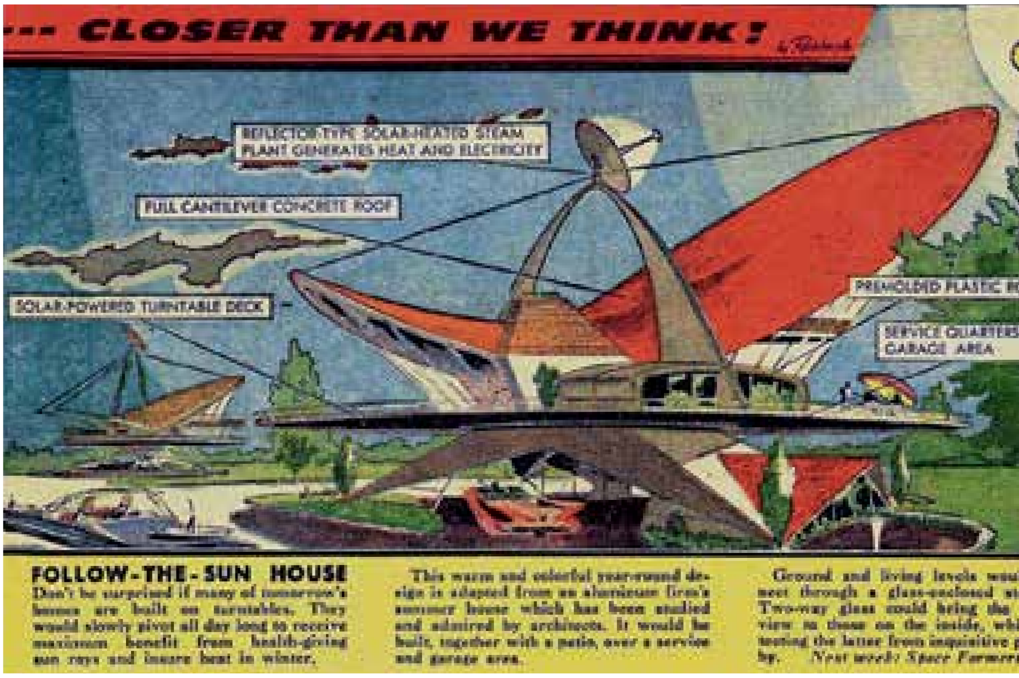
"Brands now need to consider the outside world as the brand awareness experience and inside the home or the car as the point of sale. So driving down the street I might see a poster for KitKat. Traditionally, I would have to drive to the service station, now I just add it to the basket and in an hour I have it delivered," says Gosling.

The retail response

How should the traditional retailers respond? "My observation to them is that winter is coming," says Martin. Given the rapid adoption rates of new technologies, those that move too slowly or who make the wrong moves may find their core business quickly cannibalized, he adds. "The pendulum swings at a much greater speed today."

A quick tactical win is to ensure you make it easy for consumers to use their connected devices to reach you, says Gosling. "Tesco has made it easy for me to move my shopping list onto my [voice-controlled] device, which is a good example of what retailers need to be doing."

Gosling also says retailers who sell connected products can do more.



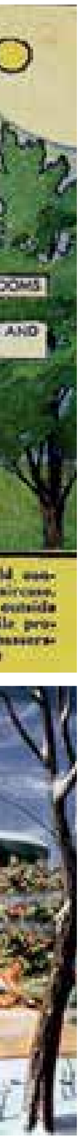
"Brands need to consider the outside world as the brand awareness experience and inside the home as the point of sale"

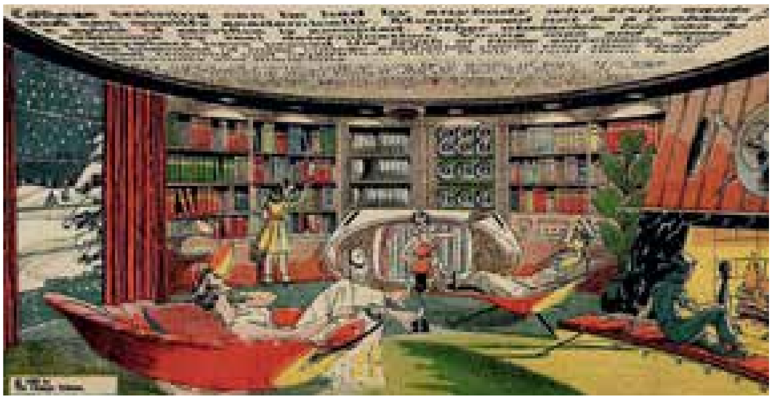
"People are not using voice-controlled devices to their fullest potential. Establishing 'know-how' counters to train shoppers in store or offering a service where you can talk to a person to set it up in your home is a big opportunity for electronics retailers."

"Concentrating on enhancing the physical retail experience, the factors that drive people to come to your store rather than buy in the home is the other part of the competitive response," adds Gosling.

Retailers as well as brands can also use data from devices to find the best ways to meet their customers' needs, says Dr Mark Smith, CEO of ContactEngine, a specialist in helping automate omni-channel customer conversations. "The connected home allows you to do things like know when someone is in for a delivery or proactively let them know their energy bill is more this week than last."

Those that work out how machines can offer rich and more personal consumer interactions are the ones that will gain the





most. "You have to be sensitive with that and it has to be mutually beneficial," says Smith.

Retailers will need to imagine how they might extend their reach with new partnerships, says Martin. This means looking at the customer life cycle of the connected home and points at which they might insert themselves with partners, from the house purchase to utility bills, furniture, car ownership, garden maintenance, groceries and holidays. "Today nobody has a relationship with any particular home builder. When I buy a new home, nobody says 'we have a preferred home instance provider'. A home improvement retailer could offer help with the garden or a grocery retailer could offer a home delivery deal."

The best approach of all, though, is to begin, says Martin. "My motto is think big, start small, act now."

Visions of the future from the 1950s and 60s included a sun house that swiveled to get the most solar energy, a video phone, a glass-domed solarium, driverless cars, personal robots, giant walking machines and an electronic home library

"No app required"

Why the consumer isn't always central to the connected home

Putting the consumer at the center of the value proposition is not the only or even the best way to realize the opportunities of the connected home, says Curt Schacker, Senior Vice President of Connected Devices for EVRYTHNG.

Simply selling smart gadgets to consumers represents a tiny opportunity, not least because they are demonstrating they do not want gadgets for their own sake and certainly don't have the appetite for managing them.

"A smart home with 20 apps to use to manage these devices is utterly untenable. I would argue it has made consumers' lives less convenient and more complex, they are voting with their feet by not buying these things. 'No app required' would be my slogan," says Schacker.

The real promise, instead, is in the data generated by connected devices and many of these will be virtually invisible to the consumer. It will seldom be the occupier of the connected home that makes use of it, says Schacker. "It will be manufacturers and lots of other actors: utilities, market researchers, retailers, other service providers. Everyone potentially has a stake in that data, although if you do not get consumers to accept that proposition the data never goes anywhere."

Schacker cites the new generation of very cheap, low power sensors that will enable new services. "We will be streaming sensing of anything and everything. Sensors will be unbelievably cheap and small. Networking is becoming ubiquitous thanks to LPWAN networking-cellular low power networks for devices."

This new era of sensing will keep us safer and healthier and it will be unobtrusive, only demanding our attention when it is warranted. For example, moisture-sensitive sensors in a basement that detect a flood early. "That has a tremendous value, all without opening an app or having to do anything."

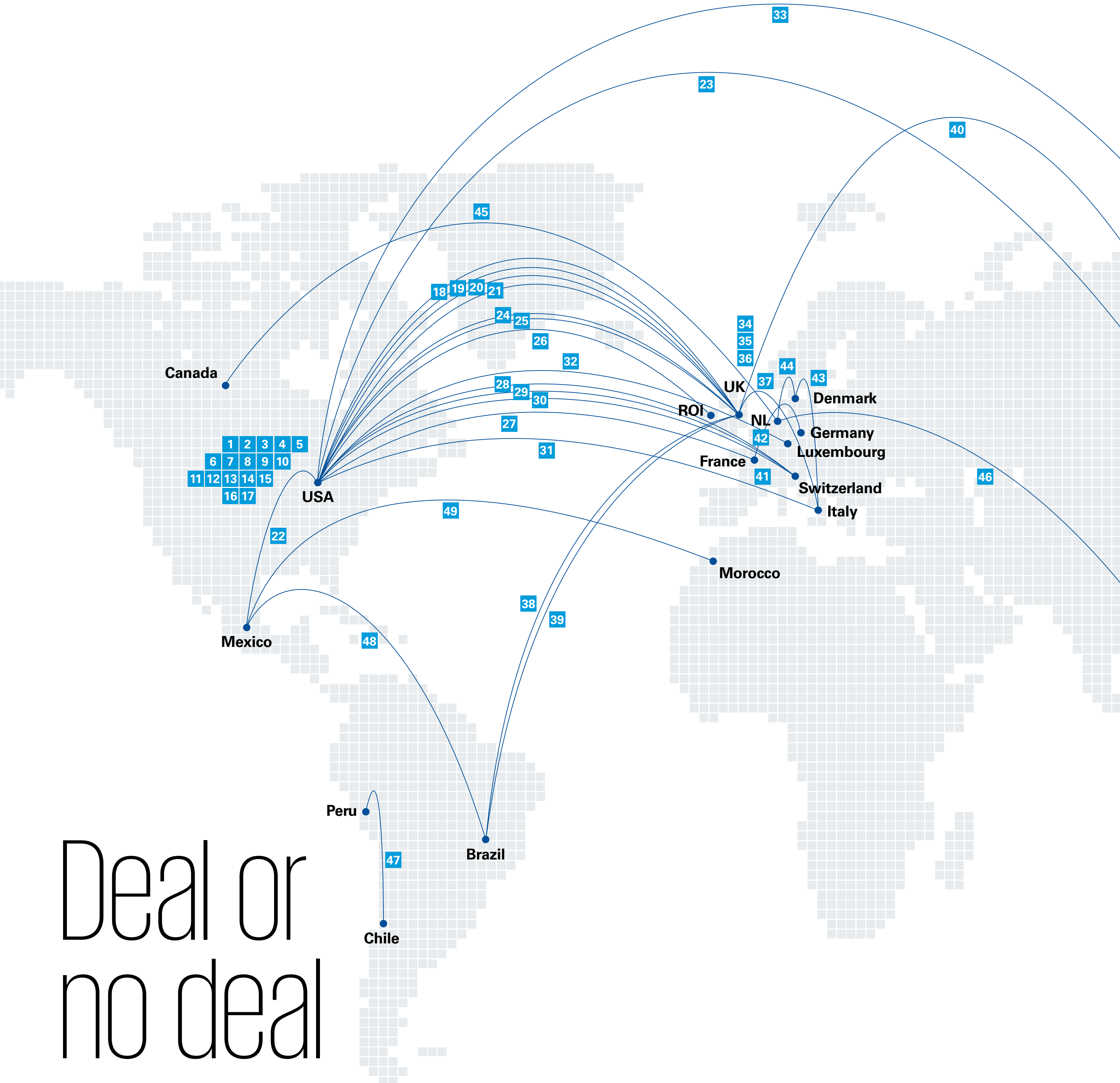
These kind of telematics for the home have potential across several sectors, says Schacker, who helped develop telematics for the Hubble space telescope. "The primary use case will not typically be for the consumer but for the insurance provider, for example, and the requirement for consumer interaction is almost non-existent."

Given that flooding alone is one of the most costly sources of claims, the potential for savings using flood sensors is huge and could turn a 6,000-year-old industry on its head, says Schacker.

"An industry that has always worked the same way is about to change in a fundamental way. Insurance may be the killer app of the Internet of Things but the arguments hold up across the board. Energy companies have a massive stake in how these devices could be used and helping customers optimize their use of energy, perhaps in partnership with government and utilities."

Data will be the prized intellectual property, so the parties that control it will be in the best position to capture the most value from it, says Schacker. "A very basic question is who is first party to the data and who buys the data? If my insurance provider gives me devices to help detect carbon monoxide or a rodent infestation, it might very well be that the insurance companies are the owner of that data."

Smart robot dogs are cute, but do consumers want them?



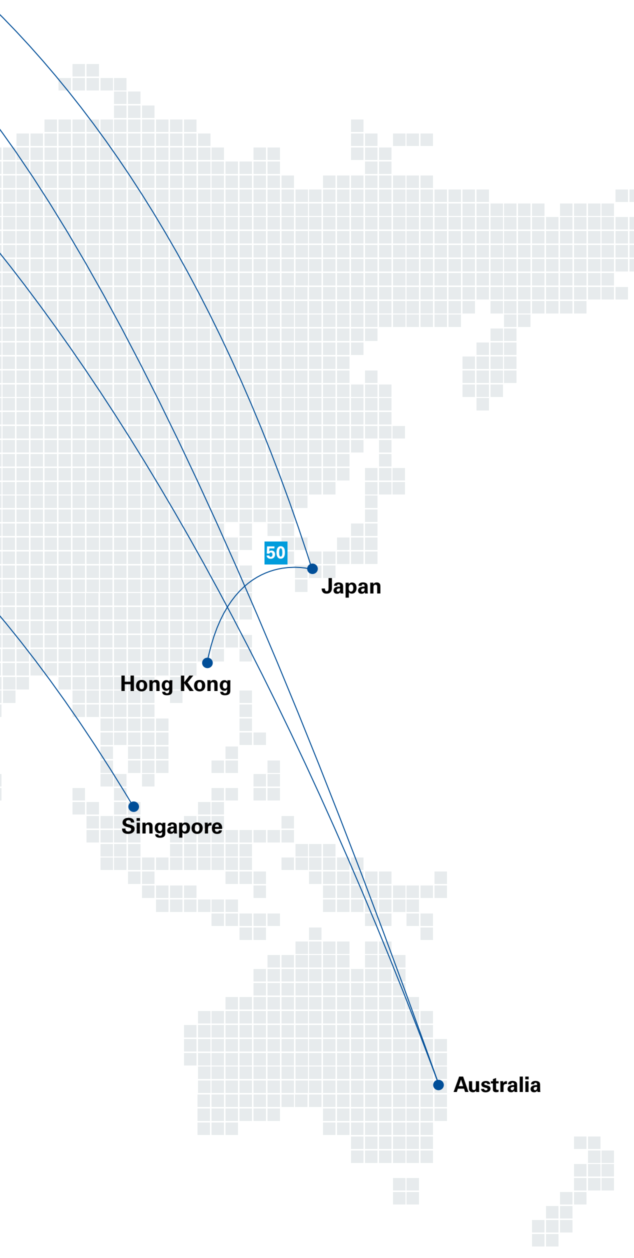
Deal or no deal

You've got your eye on a new acquisition, but is it really worth it? Having the right business model is key to success, says KPMG

Nostalgia is a seductive liar. It would be understandable if many veteran executives in the consumer goods industry indulged in misty-eyed reverie about the good old days, when double-digit growth was the norm, channels to market were straightforward and consumers were slavishly loyal.

In truth, business life was never that simple or rosy – there were still recessions, wars, corporate failures – but the memories contain some truth. In the heyday of the big multinational manufacturers and retailers, as **Mark Belford**, Co-Head, Consumer & Retail Banking at KPMG Corporate Finance in the US, puts it, "It was possible to succeed with what I call an inertia-based enterprise. If you had the products, distribution and marketing, the business would almost look after itself."

Life – especially if you run a global brand – just isn't that simple any more. Take growth, for example. **Liz Claydon**, Head of Consumer & Retail for KPMG in the UK, says: "Companies are finding organic growth harder to come by. Our barometer of leading consumer packaged goods companies shows that the median compound annual organic growth rate decreased from 4.2 percent in 2015 to 3.4 percent in 2016. Companies can grow faster – the top performer has enjoyed a median organic growth of 7.7 percent over the past



Source: Foodbev; Haymarket Media

Significant acquisitions in the global food and drink sector in 2017

	Who	Acquired	How much (USD)
1	**Kellogg's** (US)	**Chicago Bar Company** (US)	**$600m**
2	**AB InBev** (US)	**Virtue Cider** (US)	**Undisclosed**
3	**The Riverside Company** (US)	**Parker Products** (US)	**Undisclosed**
4	**Albertsons** (US)	**Plated** (US)	**Undisclosed**
5	**Innophos** (US)	**Novel Ingredients** (US)	**$125m**
6	**B&G Foods** (US)	**Back to Nature Foods Company** (US)	**$162.5m**
7	**Hormel Foods** (US)	**Fontanini Italian Meats and Sausages** (US)	**$425m**
8	**E&J Gallo** (US)	**Germain-Robin** (US)	**Undisclosed**
9	**Grupo Bimbo** (US)	**East Balt Bakeries** (US)	**$650m**
10	**Campbell Soup** (US)	**Pacific Foods** (US)	**$700m**
11	**Diageo** (US)	**Casamigos** (US)	**$1bn**
12	**JM Smucker** (US)	**Wesson (Conagra)** (US)	**$285m**
13	**Amazon** (US)	**Whole Foods Market** (US)	**$13.7bn**
14	**US Foods** (US)	**FirstClass Foods** (US)	**Undisclosed**
15	**Tyson Foods** (US)	**AdvancePierre Food Holdings** (US)	**$3.2bn**
16	**Sovos Brands** (US)	**Michael Angelo's Gourmet Foods** (US)	**Undisclosed**
17	**WestRock** (US)	**Multi Packaging Solutions** (US)	**$2.3bn**
18	**Pilgrim's Pride** (US)	**Moy Park** (UK)	**$1.3bn**
19	**McCormick** (US)	**Reckitt Benckiser, food activities** (UK)	**$4.2bn**
20	**Post Holdings** (US)	**Weetabix** (UK)	**$1.8bn**
21	**TSG Consumer Partners** (US)	**Brewdog** (UK)	**$124m**
22	**Coca-Cola** (US)	**Topo Chico** (Mexico)	**$220m**
23	**AB InBev** (US)	**4 Pines Beer** (Australia)	**Undisclosed**
24	**DS Smith** (UK)	**Interstate** (US)	**$1.146bn**
25	**Reckitt Benckiser** (UK)	**Mead Johnson Nutrition** (US)	**$16.6bn**
26	**Kerry Group** (Republic of Ireland)	**Ganeden** (US)	**Undisclosed**
27	**Danone SA** (France)	**WhiteWave Foods** (US)	**$12.5bn**
28	**Nestlé** (Switzerland)	**Sweet Earth** (US)	**Undisclosed**
29	**Nestlé** (Switzerland)	**Blue Bottle Coffee** (US)	**$500m**
30	**Barry Callebaut** (Switzerland)	**Gertrude Hawk Chocolates** (US)	**Undisclosed**
31	**Parmalat** (Italy)	**Karoun Dairies & Central Valley Cheese** (US)	**$130m**
32	**JAB Holdings** (Luxembourg)	**Panera Bread** (US)	**$7.5bn**
33	**Seven & i Holdings** (Japan)	**Sunoco LP** (US)	**$3.3bn**
34	**Unilever** (UK)	**Pukka Herbs** (UK)	**Undisclosed**
35	**KP Snacks** (UK)	**Butterkist** (UK)	**Undisclosed**
36	**Tesco** (UK)	**Booker Group** (UK)	**$4.6bn**
37	**Associated British Foods** (UK)	**Acetum** (Italy)	**Undisclosed**
38	**Britvic** (UK)	**Bela Ischia** (Brazil)	**$66m**
39	**Unilever** (UK)	**Mãe Terra** (Brazil)	**Undisclosed**
40	**Unilever** (UK)	**Weis** (Australia)	**Undisclosed**
41	**Lactalis** (France)	**Stonyfield (Danone)** (France)	**$875m**
42	**Lactalis** (France)	**Omira** (Germany)	**Undisclosed**
43	**Royal Unibrew** (Denmark)	**Lemonsoda (Gruppo Campari)** (Italy)	**$94m**
44	**De Kuyper Royal Distillers** (Netherlands)	**Cherry Heering (Peter F Heering)** (Denmark)	**Undisclosed**
45	**Refresco** (Netherlands)	**Cott** (Canada)	**$1.25bn**
46	**Jacobs Douwe Egberts** (Netherlands)	**Super Group** (Singapore)	**Undisclosed**
47	**Hortifrut** (Chile)	**Talsa** (Peru)	**$160m**
48	**Grupo Lala** (Mexico)	**Vigor** (Brazil)	**$1.84bn**
49	**Grupo Bimbo** (Mexico)	**Adghal** (Morocco)	**Undisclosed**
50	**Toridoll Holdings** (Japan)	**Tam Chai Yunnan Noodles** (Hong Kong)	**$132m**

six years – but it is becoming difficult to grow the business by launching a new product or taking an existing product into new markets where competition from local brands is intensifying."

On top of that, the business is having to cope with changing customer preferences, digital technology and disruptive innovators, many of which are funded by private equity investors or venture capitalists for whom the potential rewards justify the risks. The spectacular success of Dollar Shave Club, the subscription model grooming company, began when a group of venture capitalists decided to put money into several start-ups that would disrupt Procter & Gamble's business. They didn't all work but five years after Dollar Shave's launch in 2011, the company was acquired by Unilever, for US$1bn, according to media coverage. That, as Belford says, is the kind of return that will encourage investors to make similar bets.

In response to such radical and rapid change, the major players are looking to simplify their model – in KPMG's barometer, the companies that generated most organic growth often focused on a single market and a single brand. That means rationalizing their portfolios – which is why we have seen, for example, Unilever putting its spreads business up for auction – but also strengthening them in the right areas – which is why Unilever has also acquired fast growing South Korean skincare brand Carver Korea for US$2.7bn.

Time for a good deal

There are, according to **Mark Harrison**, Deal Advisory Partner at KPMG in China, good reasons why acquisitions seem particularly attractive now. Interest rates are at historic lows, many companies have large cash reserves and many global groups recognize that the right acquisition can help accelerate change. The global volatility in the sector is also driven by businesses in emerging, relatively high-growth economies looking for new markets, know-how and technology. ▶

The Western perception is that corporate China's appetite for foreign acquisitions has diminished as companies heed recent government warnings about the need to invest in their domestic market, yet Harrison says this is an over-simplification. "If you want to acquire companies with technology to assure the food supply, or invest in infrastructure projects in Bangladesh, allied to the One Belt One Road project, this is clearly now supported by government policy. However, non-core investments not aligned with government policy such as a football club or real estate will likely be more challenging." Food and drink remains of strategic importance to China – if it can improve the safety and image of its brands, domestic players could increase their market share – so Harrison expects its companies still to be in the market for the right acquisition.

The difficult bit is making sure you have the right deal. The crux of the problem, as Clayton M. Christensen, the world's most influential innovation guru noted in his *Harvard Business Review* article *The Big Idea: The New M&A Playbook*, is that: "Many executives fail to distinguish between deals that might improve current operations and those that could dramatically transform the company's growth prospects. As a result, companies too often pay the wrong price and integrate the acquisition the wrong way."

The right business model is key

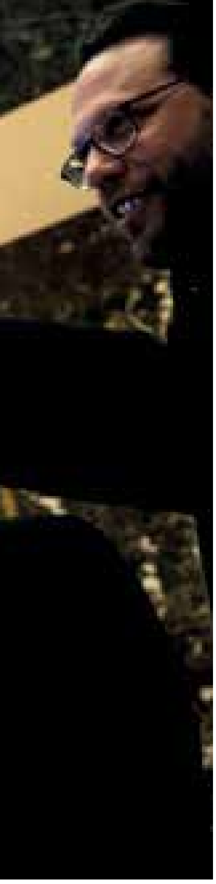
As Belford says, the easiest way to build a rationale for an acquisition is to calculate the impact on unit cost. Yet that means that, in effect, there is a confirmation bias in favor of acquisitions that improve performance. The trouble is, CEOs often overestimate the gains to be made from such deals, pay too much and fail to integrate the target properly. Even if an acquisition is well integrated, Christensen argues, it rarely changes the company's trajectory because investors anticipate – and discount – such improvements as soon as a deal is announced. This matters because, as Alfred Rappaport and Michael Mauboussin noted in their 2003 book *Expectations Investing*, "it is not earnings growth per se that determine growth in a company's share price – it's growth relative to investors' expectations."

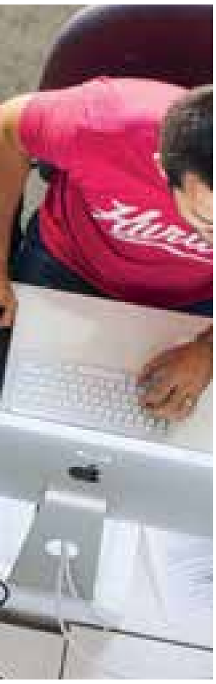
This is especially true today when, as Belford says, the relationship between shareholder and corporate leadership is more volatile than ever. There are, he says, about 10 activist investors who can create anxiety in North American boardrooms. In October 2017, billionaire hedge fund manager Nelson Peltz narrowly lost his expensive campaign to win a place on the board of Procter & Gamble and challenge the company's current business model.

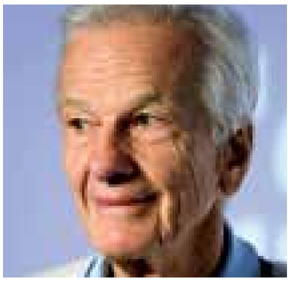
Christensen argues that business models are at the heart of why some acquisitions work and others don't. It's hard to integrate a business if you don't understand it and he says that four elements of every acquisition's business model are critical:

- The customer value proposition. Whether the offering helps customers do a vital job more effectively, conveniently or affordably than the alternatives.
- The profit formula. How the revenue model and cost structure ensure that the company generates profit and the cash to sustain operations.
- The resources. Employees, customers, technology, suppliers, products, facilities and cash – companies use to deliver the customer value proposition.
- The processes. Manufacturing, R&D, budgeting, sales and marketing. Plugging resources into the existing business is, usually, not that difficult.

Integrating the other elements is trickier. As Claydon says, "Many of the big brands are acquiring disruptive start-ups, often through their own venture capital arms. They recognize that their operating models and processes can be too bureaucratic and that they need the agility and speed of a start-up. The challenge then is to remember why they are buying the company – keep the talent with the right incentives, and try to retain what made the customer value proposition so distinctive."







“Will the company make you look cool and help you appeal to a new audience?”

Given that the world’s companies spent, the *Sunday Times* estimates, US$4.4tn on acquisitions in 2015, it may sound absurd to suggest that all these issues are not thoroughly thought through. Yet many clearly are not. “You can’t think about post-acquisition execution too early – or too deeply. These deals generate a momentum of their own but sometimes soon after the deal is done, companies realize they may have limited experience with what they’ve just bought,” says Harrison.

Sometimes, Belford says, deals can go awry because companies drill down too hard on the numbers. “Don’t get me wrong,” he says, “there is no point in paying too much but often companies don’t proceed because they don’t factor in the intangibles. There is a ‘soft power’ aspect to every acquisition. Will the target company make you look cool and help you appeal to a new audience? Will it lead to you working with innovative suppliers? How committed are their customers – if they’re fiercely loyal does that make the target more valuable?”

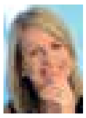
Such questions are particularly critical when assessing the worth of a disruptive start-up. Typically, as Christensen notes, these find a niche because their product is simpler and more affordable than existing offerings. Envisaging how effectively they will move to higher-performance, higher-margin products is difficult, so many investment analysts play it safe and underestimate growth. This makes the deal look riskier to an acquisitive CEO who might pull back from the kind of target that could – if it achieves what Claydon calls premiumization – change the company’s trajectory.

Every day the wrong businesses are bought for the wrong purpose at the wrong price. Yet this needn’t be the case. Acquirers who do their due diligence thoroughly increase their chances of success. Belford also says that companies need to be realistic about their own culture. “One piece of advice I always give to companies is ‘Know thyself’. Don’t buy an innovative new start-up if you’re going to micromanage it and destroy its entrepreneurial vigor. Or buy something so complex that you don’t have the time to integrate it effectively.”

This is the question, Claydon says, every acquisitive CEO must ask themselves, is it faster, more economical and more effective to buy something that you could, given enough time and money, make yourself? For an increasing number of consumer goods companies, seeking to create or defend value in a hyper-competitive marketplace, the answer to that is likely to be ‘yes’.

Investors in disruptors: Bill Gates financed ‘clean meat’ start-up Memphis Meats (top left); CEO of Science Michael Jones backed Dollar Shave Club (center); Google co-founder Sergey Brin invested in a project to produce synthetic meat (left); activist investor Nelson Peltz (top); 3G Capital founder Jorge Paulo Lemann (above)

Key learnings



Liz Claydon
Head of Consumer & Retail, KPMG in the UK
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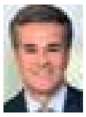
1 Acquisitions can deliver faster growth for consumer goods companies. They are a quick way to access new markets, sales and distribution channels and capabilities.

2 Buyers need to dig deep to create value. Companies need to reflect on how their M&A strategy aligns with their overall strategy, how easy or difficult integration will be, and whether the target will really deliver sustainable growth.

3 The acquisition of Dollar Shave Club has been a wake-up call for the FMCG giants and an inspiration to private equity investors. Many of the big brands are looking to accelerate change and become more adaptable, and are investing in the disruptors through venture capital funds.



Mark Belford
Co-Head, Consumer & Retail Banking, KPMG Corporate Finance in the US
mbelford@kpmg.com

1 Think creatively about ROI. The numbers on any deal have to stack up but you can miss the bigger picture. Acquiring a certain firm could make a big difference to your company’s image, making the acquisition more valuable.

2 Growth can no longer be taken for granted. Many companies have been content to grow with the economy but that only works when the economy is growing at more than 4 percent a year. Companies need to generate – and accelerate – growth to satisfy investors and acquisitions can be an effective way to do that.

3 Know thyself. Be realistic about how you will manage an acquisition. If you are buying an innovative start-up, you won’t deliver the expected value if you run it like every other unit.

Mark Harrison
Deal Advisory Partner, KPMG in China
mark.harrison@kpmg.com

1 Think about the execution. Some companies acquire a business only to realize later that they have limited experience with it. Questions like ‘what’ and ‘how’ can accelerate value creation.

2 Be adaptable. Countries have different business models. For example, Chinese business leaders are often more interested in joint ventures or partnerships than outright acquisitions.

3 Respect local knowledge. Consumer goods companies think globally, consumers don’t. So if your acquisition in a new market is predicated on the assumption that you can sell your popular product lines there, think again. Consumer expectations in such sectors as food, drink and cosmetics can be very culturally specific.

Loyalty lives – it's just been reinvented

In an age when technologically empowered customers increasingly expect instant gratification, how do companies ensure their brands remain relevant?

Brands are wasting time fighting for loyalty in a digital age where competition is fierce, unpredictable and plentiful. That's the view of Roberto Meir, CEO of Brazilian media agency Grupo Padrão: "It's dead. Brand loyalty is impossible. In an era of instant gratification, it's about who gives me more now. It's about rewarding me, rewarding my loyalty and trying to be a fair company."

With consumers increasingly time-poor, deluged with information of varying veracity, and, through the magic of e-commerce, faced with a choice of goods that is almost stupefying, it is much harder for brands to cut through the clutter.

The rise of mass production in the 20th century forced companies to think about ways to differentiate their products. This was good for consumers too – it reassured them that if they bought a bottle of Coke, it was the real thing, that the quality and the taste would always be exactly the same.

Companies that did this well, invested heavily in quality, consistency and visibility, created iconic brands that became assets in their own right and delivered sustained profits decade after decade.

Mass communication – TV, radio and print – drove the globalization of brands, owned by companies that spent millions of dollars on 'share of voice' advertising. If the product broadly met expectations – remember all those detergents that promised to clean shirts 'whiter than white'? – shoppers stuck with it.

That is a slightly simplified history but it is a useful reminder of how complex the relationship between consumers and brands has become. The dispute now, in essence, is about how much consumers genuinely care about brands. Some experts insist that for many consumers, their engagement with a brand begins and ends with remembering the name. Others argue that all a product needs to do is fulfil the practical need it was designed for. Yet many consumers – particularly Millennials and Generation Z – see brands as an extension of themselves and seek an authentic connection with them.

"Brand is no longer this mass-advertised statement about a product. It is much more about being able to build a connection with the individual customer in the way he or she wants," says **Matthew Hamory**, Consumer & Retail Strategy Practice Lead and Principal at KPMG in the US. "Loyalty is now driven by the experience of and interaction with the brand, not just the product."

Meir says: "Now that you must do business in the light of the day, naked, everything is much more difficult. In the good old days, the consumer didn't participate in any kind of decision. Now they do. They follow everything. So, they want to participate, to be engaged. It's not just about what you want. The brand belongs to the consumer."

The challenge for brands is to develop compelling, persuasive stories to attract them. Damian Ferrar, Executive Creative Director of advertising agency Jack Morton Worldwide, says: "The consumer market

With so much choice, changing tastes and busier lifestyles, it is hard for brands to make a personal connection with consumers

Fashion brands can show they are responsible by being involved in environmental campaigns such as the Greenpeace Detox Catwalk 2020 (right)

Tracking the top global brands

Source: Interbrand Best Global Brands, 2017

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1	Coca-Cola	Coca-Cola	Coca-Cola	Coca-Cola	Coca-Cola	Coca-Cola	Apple	Apple	Apple	Apple	Apple
2	Microsoft	IBM	IBM	IBM	IBM	Apple	Google	Google	Google	Google	Google
3	IBM	Microsoft	Microsoft	Microsoft	Microsoft	IBM	Coca-Cola	Coca-Cola	Coca-Cola	Coca-Cola	Microsoft
4	GE	GE	GE	Google	Google	Google	IBM	IBM	Microsoft	Microsoft	Coca-Cola
5	Nokia	Nokia	Nokia	GE	GE	Microsoft	Microsoft	Microsoft	IBM	Toyota	Amazon
6	Toyota	Toyota	McDonald's	McDonald's	McDonald's	GE	GE	GE	Toyota	IBM	Samsung
7	Intel	Intel	Google	Intel	Intel	McDonald's	McDonald's	Samsung	Samsung	Samsung	Toyota
8	McDonald's	McDonald's	Toyota	Nokia	Apple	Intel	Samsung	Toyota	GE	Amazon	Facebook
9	Disney	Disney	Intel	Disney	Disney	Samsung	Intel	McDonald's	McDonald's	Mercedes-Benz	Mercedes-Benz
10	Mercedes-Benz	Google	Disney	HP	HP	Toyota	Toyota	Mercedes-Benz	Amazon	GE	IBM

continues to shift, shaped by the socio-political landscape. The significant recent shifts are driven by more audacious audiences. What I want, when I want it and where I want mindsets are augmenting the values people have historically focused on."

Understanding those mindsets is not easy. The digital age has enabled brands to develop a relationship with consumers through channels that never existed before. If you are selling baby products, you can, through digital technology and big data, target parents of babies of a certain age and tailor your messages. Every message is relevant, there is no wastage and you have the statistics to quantify effectiveness.

The counterblast to this approach is that, to succeed in the long term, brands need to attract new customers, not just delight existing ones. Byron Sharp, Professor of Marketing Science and Director of the Ehrenberg-Bass Institute likens many ideas that are considered "sound marketing practice" to "Roman generals consulting pecking chickens". Marketers who worry about the right digital channel – and whether it fits the brand's personality – are missing the simplest of marketing skills, such as making the product visible on the shelf. "An industry feeds off this misplaced idea that if we just crack the code and convince people we are best for them, sales will come flooding in," says Sharp. His research suggests that the 'light buyers' – who purchase a product or service once or twice a year – are more important to a brand's long-term prosperity than loyalists.

Ferrar disagrees with elements of this analysis, saying: "Loyalty isn't dead, but where our loyalties lie is shifting. It's no longer about what a brand looks like, but how it makes you feel that's important."

A personalized experience

Customers require a different relationship with brands. Research by KPMG suggests that brands must go beyond offering purely economic rewards and develop a deeper understanding of their customers to deliver broader benefits. Loyalty programs enable businesses to break through the 'noise' to achieve differentiation – 60 percent of consumers said they would shop at a store with slightly higher prices to earn rewards for loyalty.

Brands that harness their customer data to deliver a personalized loyalty experience that is accessed across multiple channels, and offers customers clear opportunities to progress and redeem their rewards, will achieve what KPMG calls 'smart loyalty'. Getting this right can pay off: repeat customers typically spend 33 percent more compared to new customers.

The old demographic divisions are blurring as digital natives dominate consumer markets. There are more 23-year-olds in the world now than any other age. Global subscription-video service Netflix no longer categorizes customers by age, gender or geography, creating 1,300 'taste communities' based entirely on past viewing behavior.

Harley-Davidson used to target the middle-class but as household wages stagnated, began offering customers with no experience a chance to shift gears in store by fixing a Fat Boy to a dyno roller. UFC fans see Harley's logo pasted onto the middle of the caged octagon every week. This blend of experiential and targeted marketing partly explains why they sold four times as many bikes to 18-34-year-olds as their closest competitor. Even so, this iconic brand has to keep finding ways to attract the next generation of riders.

So how can a brand stay relevant? "We're living in the expectation economy where data and technology have redefined service and connectivity. If you simply meet expectations, you will become irrelevant. If you shape expectations you can transform the market, your businesses and the world around you," says Ferrar.

"It's easy for companies to mistake high market share for brand loyalty," says Hamory. "They're not the same thing. A lot of brands with very small market share have stratospherically high loyalty, because they target very particular segments.

"We ask companies to really honestly look in the mirror and think if your brand disappeared tomorrow, what would happen to your customers? Would they switch to something else, which implies you're pretty replaceable or would there actually be a hole in the market to be addressed?"

Hamory believes brands have to think more broadly about the customer experience, and that begins with pinpointing when consumers are in exploration mode – browsing for ideas or in need of advice. This stage gives brands the chance to capture awareness and convert potential customers.

Hamory says that it is crucial not to neglect the post-purchase phase either, and simply assume that if a consumer has bought the product once, they'll buy it again. "We see a lot of good innovation recently from direct to consumer start-ups making sure they engage with the customer after purchase, which tends to be through digital and social channels. That engagement is a powerful opportunity to keep people involved with you and be top of mind."

Act innovatively

Brands that focus on delivering innovative ways of disrupting goods and services are flourishing. For example, Houzz, a platform connecting 40 million homeowners and home improvement professionals cleverly combines a social network with an online marketplace. Its success has prompted IKEA and the John Lewis Partnership to offer similar services.

Leveraging influencers is important too – people are more likely to trust people than brands. Chinese consumers rely heavily on social media and user-based content. Shanghai-based makeup retailer, Lily & Beauty, paid US$3.4m for a video advertisement created by Papi Jiang, a satirical video maker who has amassed a following of over 10 million. (To add context, a 30-second Super Bowl spot costs US$5m.)

People prefer to search the internet, listen to friends and family and read review sites before purchasing. Meir sees this as a trend brands must heed: "On social media, people can report any kind of news and those words grow much faster than something reliable and so, tomorrow you can report anything about a company because you saw something in real time on the internet. How will companies manage this kind of crisis?"

"If your brand disappeared tomorrow, what would happen to your customers? Would they switch to something else?"

Research by US tech company Podium said that 93 percent of consumers admitted to checking online reviews. Most wouldn't touch a business with less than 3.3 stars on their favorite review website.

"Many companies act as though they can control their message through social media but you need to be part of the conversation," says Hamory. "You have to be authentic and when you make mistakes, you can't just brush them under the rug in the way you could even 10 years ago. You need to participate in the conversation along with your customers."

Authenticity is paramount for many consumers. Peter Freedman, Managing Director of The Consumer Goods Forum, says: "In a world where people have less time to engage with a multitude of brands, social media plays a big part in getting that message of authenticity across – word of mouth being arguably the strongest advocate of a product or service. These two-way interactions are an opportunity to represent the brand on a human level, show personality and give an insight into the lives of customers."

Consumers want brands to be more accountable for the actions they take – in terms of their products and services, and their brand proposition, but also how they respond to wider socio-economic changes.

Greenpeace launched the Detox Catwalk 2020 campaign in 2011 and asked fashion brands, retailers and suppliers to shun hazardous chemicals. Brands like H&M, Burberry and Nike signed up. The first Green Carpet Fashion Awards were launched earlier this year in Italy, organized by Livia Firth, with Gucci, Tom Ford and Giorgio Armani among the winners.

Big data can improve the consumer experience yet the volume of data can perplex brand owners. Customers are not dots on the screen. You need to understand what kind of relationship customers want with you – not what kind of relationship you create through hyper-targeting and data collection.

The emphasis on data mining can obscure the fact that, sometimes, it is better to look wider than deeper. Emmanuel Faber, CEO of food and beverage group Danone told the KPMG 2017 *Top of Mind* survey: "You get a lot of tactical information: that person is located there – which means I have a selling opportunity – but I'm not sure how much strategic information you get, in terms of consumers' longer-term behavior that would dictate a significant shift in brand positioning. Food is about human science, so it's vital to keep an eye on sociology, food styles and habits."

Ensuring a brand's relevance in the 21st century is tough. In the past five years, brands that once looked impregnable have lost significant market share. The question brand owners need to keep answering, Roberto Meir says, is: "How are you going to build something different with consumers and bring solutions that improve their daily lives?"

Five key learnings

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1 Understand individual consumers. And have direct conversations with them through social media and apps.

2 Find out when people are in exploration mode. This is the opportunity to engage a different set of customers before they are close to the buying decision.

3 Keep customers engaged with you post-purchase. This will help make consumers loyal and less likely to consider competitors.

4 Show you care. Social and environmental responsibility matter more than many brands think.

5 Loyalty is driven by the whole brand experience. It is not just about the product and mass advertising any more.

Convenience stores have become an integral part of Japanese life

A bricks and mortar success story

Customer focused, relentlessly innovative social hubs, konbini (Japanese convenience stores) are thriving

When the Japanese insist you can buy anything at a *konbini* (convenience store), they're not exaggerating. In 2014, if you had US$160,000 to spare, you could buy a custom-painted anime-themed car at a 7-Eleven. If you run your own business in Tokyo, you can purchase electricity from your local Lawson store. And if you want to see Korean pop duo Tohoshinki in concert, you can book your tickets via FamilyMart.

Japan is carpeted with *konbini*. And so, increasingly, is the rest of Asia as the country's three leading chains – 7-Eleven, Lawson and FamilyMart – export the format to China, Malaysia, the Philippines and beyond. Compact, yet packed with an astonishing variety of fare, these stores can reduce even hardened foreign journalists to rapturous, gee whizzery. Yet there is nothing miraculous about *konbini* – they prosper because they fill a need.

The convenience store format was imported from the US in the early 1970s – when 7-Eleven, Lawson and FamilyMart all opened stores in Japan – but the concept has been brilliantly adapted. The Japanese government did its bit, allowing them to sell

“Super-saturation is an amazing motor for innovation, because it drives competition”

stamps in the 1980s, a policy that paved the way for them to evolve into community centers where you could pay your utility bills.

Property is so expensive in urban areas that many stores have less than 1,000 sq feet of floor space. To maximize revenue – and customer convenience – many open 24/7. (Crime rates are so low that people have no fear about shopping late at night.) Within these small spaces, stores typically pack in 2,000-3,000 products – varying from neckties to newspapers and beer to *bento* (a traditional take-out meal in a box, eaten for lunch or dinner).

Food is the biggest revenue earner: it accounts for 59.1 percent of Family Mart’s revenue. Snacks and meals may cost more than in supermarkets but they are fresh (food is usually delivered to a store between two and five times a day), good quality and constantly changing. Each chain has a signature snack (see panel right). They draw on their deep, data-driven knowledge of consumers to relentlessly develop new products. For example, *oden* (hotpot), traditionally a warming winter treat, is now on sale all year long – with new flavors in summer. To make distribution cheaper and easier, stores are often clustered together in the same neighborhood.

The *konbini* format has, so far, defied a boom in e-commerce: since 2006, FamilyMart estimates, the format’s sales have soared by 55.4 percent in Japan. There are now around 60,000 stores nationwide and the big three – which account for 90 percent of the market – look set to build or rebuild another 1,000 in the next year or so.

Like many retailers, Lawson and FamilyMart have recently struggled to grow profits, partially due to competition from other discount stores, but both are bullish about reversing that trend. 7-Eleven has profited from its huge promotional spend and private label business.

With supermarkets moving into hot foods, competition isn’t going to get any easier. Yet some consumers are fiercely loyal to *konbini* – 40 percent of their customers are single men.

American cultural anthropologist Gavin H. Whitelaw said: “Super-saturation is actually an amazing motor for innovation, because it drives competition.” The chains have kept diversifying – Lawson will soon move into banking services, while 7-Eleven is ramping up its private label. They are also collaborating to manage their greatest common challenge – a shortage of labor – with innovative new technology.

In the West, many retail chains talk about turning their stores into social hubs. In Japan, *konbini* already are. Whitelaw, who clerked in one, recalled: “People came in to kill time before meeting friends or catching the train. Parents turn to *konbini* when sending their children out for their first shopping errand. The *konbini* is a cultural institution – integral to Japanese society.”

The chains proved Whitelaw’s point in 2011 when Fukushima was struck by an earthquake, a tsunami and a nuclear accident, touring the devastated area bringing essential supplies to displaced victims with mobile convenience stores in trucks. Even now, six years after the disaster, Lawson and e-commerce giant Rakuten are testing drone delivery to the region.

In hyper-competitive retail markets, with e-commerce eroding bricks and mortar’s market share, retailers are searching for an edge that makes them stand apart and strengthens their bond with their customers.

Could *konbini* provide an answer? These distinctive stores generate billions of dollars partly because they have woven themselves into the fabric of Japan’s daily life. ▮

At a glance

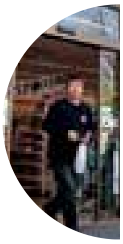
FamilyMart
Founded 1973
Number of stores in Japan 18,125
Corporate news
The chain merged with Uny in 2016.
Signature snack
FamiChiki fried chicken

Lawson
Founded 1975
Number of stores in Japan 13,264
Corporate news
Mitsubishi Corp now owns 50 percent of Lawson after paying US$1.4bn to take control of the business.
Signature snack
Premium roll cake

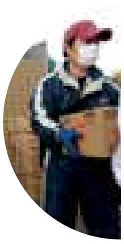
7-Eleven
Founded 1974
Number of stores in Japan 18,572
Corporate news
7-Eleven’s parent company also owns retailer Ito-Yokado and Denny restaurant chain in Japan.
Signature snack
White Fromage baked cheesecake

Key events

1973
The first *konbini* store in Japan is opened by Seiyu Group (later becoming FamilyMart). 7-Eleven and Lawson soon follow.



2010
7-Eleven opens its first eco-friendly store in Kyoto, powered by solar energy and fitted with electric vehicle chargers.



2011
FamilyMart and Lawson respond to the Fukushima tsunami, earthquake and nuclear accident by shipping food and drink to the area.

2015
Lawson collaborates on anime *Konbini Kareshi* (Convenience Store Boy Friends) about youngsters who meet up in a store.

2017
Lawson offers care for the elderly at nine of its stores, as well as widening aisles for wheelchairs and making print larger on price labels.

2025
The deadline set by 7-Eleven, Lawson and FamilyMart to introduce self-checkouts into all of their stores.

When start-ups need to grow up

The road from small disruptor to global brand can be hazardous – but there are ways to manage the risks

Uber continues to innovate, offering helicopter services in Brazil

Five key learnings

1 Be responsible for your own mistakes. When you have erred, admit it, apologize, rectify it – and do so quickly.

2 Get the help you need. Few founders of start-ups – not even Steve Jobs – are expert in everything. Hire the expertise you need.

3 Embed values. Start-ups that grow fast can lose sight of the values that foster a healthy corporate culture, so have strong, clear values that you share with staff. PepsiCo CEO Indra Nooyi has raised the bar on this, sharing ambitious sustainability goals, to be achieved by 2030, with employees, investors and the media.

4 Fire your friends. They may have been among the happy few who founded the company, but they are not indispensable.

5 Process counts. Innovators get the glory but as start-ups grow, process, structure and strategy are key.

Young, agile and innovative, the start-up is everything that is exciting about modern business. The Kauffman Foundation estimates that one in every five jobs in the US is created by start-ups. Companies such as Airbnb, Facebook and Uber are seen, for good or ill, as the corporate titans of our age.

Between 50-90 percent of start-ups fail – usually, according to *Fortune*, because people don't want the products or services they offer – but the survivors must adjust to changing expectations. As Emmanuel Faber, CEO of Danone, said in KPMG's 2017 *Global Consumer Executive Top of Mind* survey: "There are things that consumers tolerate from smaller brands that they wouldn't from other brands. When I say 'consumer', the reality is that all the stakeholders, including regulators, are inclined not to look closely at smaller brands, but as soon as it grows, it starts to face the same problems as bigger brands. Take class actions. You'd never get a class action if you are a $20m company in the US, but as soon as you become a $500m company, you can be a nice brand but you still get the class action."

Uber's travails have been well publicized but in essence it probably suffered because it didn't develop some of the back-end functions – eg HR departments that worry about culture or a marketing department to make sure consumers are aware of your product – that established firms accept as the price of doing business. The founders of failed French web content start-up Dijiwan realised this, noting that: "A good product idea and a strong technical team do not guarantee a sustainable business. One should not ignore the business process."

Uber is trying to manage its crisis, with a change program, a new performance management process, a continued commitment to innovation (eg the launch of a helicopter-hailing service in Brazil) and a new CEO – former Expedia boss Dara Khosrowshahi replacing Travis Kalanick.

Kalanick's resignation highlights a thorny issue for many start-ups: when should the founder move on? On average, by the time a successful venture is three years old, only 50 percent of founders remain as CEO – and less than one in four of those go on to lead their company's IPO. As most founders believe their firm won't perform when they're gone, this change is often forced by investors who decide the entrepreneur doesn't have the skills required to be CEO of a big business.

It's a tough call to make. The shift to a more professional, process-driven culture may alienate long-serving staff who preferred the "Wild West feeling of a start-up", as one veteran put it, and see new managers as a threat to their prospects.

As start-ups grow, big ideas can be less critical than small details. Fearing that room-sharing service Airbnb would harm the hotel trade and short-term lets, city authorities in New York, San Francisco, Barcelona and Berlin launched legal challenges. Airbnb then updated its terms of service to inform users about local laws. Sometimes, it collects hotel taxes for cities. "Any government can shut you down, so you have to play the regulatory game," says Gerald Faulhaber, Professor of Business Economics at the University of Pennsylvania.

You can't launch a successful start-up without immense self-belief. Yet founders must stay grounded enough to confront brutal realities and to recognize when they need help. As Bill Gates said: "Success is a lousy teacher. It seduces smart people into thinking they can't lose."

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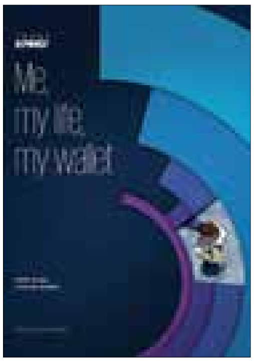

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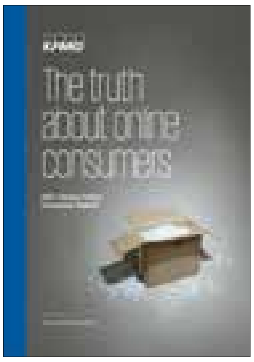

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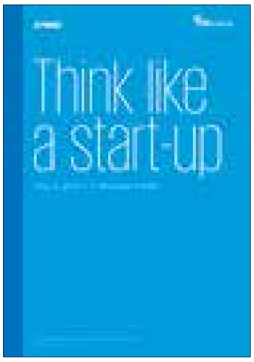

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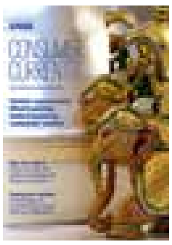

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