

# Issue 10 Consumer Currents

Issues driving consumer organizations



cutting through complexity™

## Turning off the taps

How water scarcity  
could threaten your  
future production plans

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Why the rise of  
private labels has  
multinationals  
running scared





**W**hat's in a name? For many of our Food, Drink and Consumer Goods clients – many of whom have invested significantly in their brands, in some cases for decades – the answer is simply “everything”.

But brands are facing a new challenge, not just from other multinationals with sharper marketing budgets or fresher ideas. This time, the adversary is brands' retail partners. Private labels or store brands – which have historically been inexpensive or generic alternatives to better-known brands – have been further transformed over the past couple of years. Cash-strapped consumers, particularly in developed economies, have been looking for lower-priced alternatives in many segments and have increasingly been persuaded to switch from tried and trusted household favorites.

This trend may have begun some time ago but it has accelerated, with the result that by some measures private labels accounted for around 25% of total unit retail sales in 2010. We explore this phenomenon, which shows no sign of slowing, on page 10 of this issue, and highlight how many private labels are becoming recognized as brands in their own right, with reputations for quality and price. That poses a challenge to established brands, which will need to play to their strengths and innovate if they are to grow and survive.

On page 16, we examine the way water has become the number one sustainability priority for many consumer markets companies. Over recent weeks, conversations that we, and many other KPMG partners, have had with our clients have confirmed that planning for a future in which access to water is more difficult is a key point of discussion for many boards. The issue, although significant, is about more than just the operational implications of water scarcity. Multinationals know that taking sustainability seriously has moved beyond good corporate citizenship: it has now become part of consumer psychology.

These issues are altering long-term strategy: but more immediately, turmoil in the Middle East and the tragic events in Japan are reminding companies of global volatility and its potential impact on, among other things, the supply chains they rely on. However, although political upheaval is tough to predict, the growth of emerging markets is most likely to continue unabated. Conventional wisdom states that the world's economic growth in the coming years will be driven by India and the Asia Pacific region, particularly in China. As China's economy shifts from being export-driven to consumption-driven, in line with government strategy, its importance to multinationals will only be amplified.

There is little doubt that China needs to grow organically, and there are naturally concerns about the expansion of credit in major cities. The economy is unlikely to overheat, as some are predicting, but growth may slow. Still, as Nestlé's Frits van Dijk points out on page 6, those companies with established operations in China have reason to be optimistic.

Success in China has and will come, not as a sprint, but rather with organizations taking a collaborative approach, employing people with local knowledge and working to understand the cultural and political nuances of this complex and fascinating country. Buying patterns in each emerging economy are subtly different, and a one-size-fits-all approach is unlikely to work. That's how a company such as Yum! Brands, opening approximately 500 stores per year in China, has been able to make headway while more over-confident or overly timid rivals have failed in the country. Not every business is finding it easy, however – talent shortages, particularly in emerging markets, are affecting even big names. On page 19 we look at the issue, and pose some possible solutions, including employee engagement. And on page 22, we look at an unusual way of developing and retaining staff – using games to sharpen their skills and train them in a fun environment.

Businesses that succeed in China – like those that react most effectively to consumer demand for private labels or the need to embed sustainability in growth plans – will certainly harness the power of social media and innovate. They will also remember the unrelenting focus on product, price, promotion and placement, which the best consumer companies adopt as a mantra. Whichever side of the debate you find yourself on, the basics never change.



**Patrick Dolan**  
National Line of  
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Consumer Markets



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# Off the shelf



## When success is heaven scent

Record numbers of retailers employ smell to influence behavior. But does it deliver – or get up customers' noses?

**C**itrus scents to encourage browsing. Cedar to shift expensive furniture. Talcum powder to nurture a feeling of safety. The rules of using scent to part shoppers from their cash are well-documented and are dismissed by many as apocryphal. Yet smell, far from being an urban myth, is fast becoming the new retail battleground.

The Scent Marketing Institute believes

the fast-growing industry is now worth as much as US\$100m as “ambient scent marketing” specialists jostle to advise retailers how to subtly influence consumer decisions using olfactory warfare.

Fashion giants Gap, Zara and H&M are all on the record as using smell to their advantage, having realized its connection to emotion. Sony has employed mandarin orange in its branded stores to entice female shoppers through the door.

“Seventy-five percent of the emotions we generate on a daily basis are affected by smell,” says brand guru Martin Lindstrom, author of *Brand Sense*. “But

today, 83% of companies appeal to the sense of sight only. Scent has the power to bring a brand to life to a consumer, to build a true relationship.”

Lindstrom says consumers remember a scent and its associated memory with 65% accuracy after a year, compared to 50% after four months when it comes to visual stimuli.

“Scent encompasses the key touch points people associate with a brand,” says Christopher Pratt, Managing Director of ScentAir UK, which has advised H&M. “It makes the shopping experience more exciting. That increases dwell time, which in turn can increase spend, although the main reasons for using scent remain customer experience and brand-building.”

Pratt, unsurprisingly, sees scent gaining in popularity. “Retailers have tried using flashy displays and music, and most wouldn’t think twice about spending money refurbishing their stores. They should be doing everything they can to maximize opportunity. Investing in scent is part of that.”

Research seems to bear this out. When Samsung trialed a new fragrance created by market leader IFF at its flagship New York store, it reported browsing times increased 20-30%. US researchers have found 84% of people were more likely to buy Nike trainers from a scented room, with many also saying they would pay US\$10 more.

Yet not everyone is convinced. Many retailers believe the link to increased spend has yet to be established. Consumer advocates grumble that scent marketing is an invasion of privacy. If it provides a cutting edge, however, retailers won’t turn their noses up at the phenomenon: 40 years ago, says Pratt, most store-owners were sceptical about using music. “Scent could be just as important,” he believes.

## Nexttech

### Sentiment analysis

Asking customers for feedback, and keeping an eye on the latest trends, is second nature to most consumer companies. But in the digital age, these traditional skills have a new name, and an added potency. Sentiment analysis – essentially, trawling the web for consumer opinion on products and service, as well as the buzz on competitors and chattering in the blogosphere about your industry –

can range from automated reports about keywords to highly nuanced, personalized updates delivered in real time.

Luxury brands, keen to stay on top of subtle shifts in perception, are increasingly using it to track trends. But others are using it to run the rule over consumer companies: Google confirmed in December 2010 that it now employs sentiment analysis in its search rankings, so negative customer service recorded by consumer advocacy sites can be penalized. It followed the high-profile case of a US retailer which openly solicited poor online reviews to boost its visibility in search rankings. The battle lines, it seems, have become blurred in cyberspace.



## Playing it safe

Multinationals are lining up to enter India's retail market, but the government still appears lukewarm on liberalization

India boasts around 12 million retail outlets, the highest density in the world, according to The Institute of Grocery Distribution (IGD).

To multinational retailers, India's growing middle class and

accelerating GDP represent a huge opportunity. But while rules on foreign direct investment (FDI) have been liberalized for single-brand retail, multi-brand is still closed to foreign investors.

In November 2010, statements made by Jyotiraditya Scindia, Minister of State for Commerce and Industry, seemed to indicate imminent change. Yet, says the *Economic Times*, recent food security issues mean change is off the agenda again. There is a strong lobby opposed to liberalization, says Nandini Chopra, Executive Director, KPMG in India. "Most large players are pro-FDI now, but opposition continues from smaller retailers."

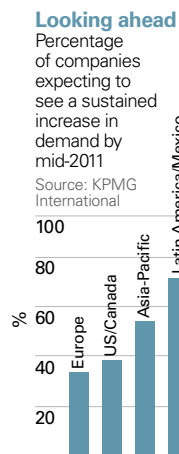
For foreign retailers, the result is confusion. Many have taken stakes in Indian companies or opened franchises, to ensure they have infrastructure in place to capitalize on liberalization. Wal-Mart has entered an alliance with Bharti Retail. Others, including Metro and Carrefour, have opened cash-and-carry stores, where 100% FDI is allowed. Tesco says it will invest in its Indian supply chain in 2011, regardless of legislative change.

Chopra suggests a likely next step will be to separate food and drink retail, which is the most opposed, from speciality retail. "The multi-brand giants are already here," she says. "Some will wait and watch. But some may become more aggressive in the way they invest, using other vehicles to find a way into the market."



## Developing fast

The overwhelming importance of emerging economies to future growth is underlined by a new KPMG International survey, in which senior finance executives in consumer markets companies were asked about the level of demand they expect for their products and services. Companies in emerging economies were 40% more likely to expect a sustained increase in demand by mid-2011 than those in North America and Europe, where demand is not expected to pick up until at least the second half of the year. The full report will be available for download in late April at [www.kpmg.com](http://www.kpmg.com).



## Trend Spotting

### Chinese M&A is a waiting game

Deal markets in China don't always play out as expected, says **Ryan Reynoldson**, Transactions & Restructuring Leader for Consumer Markets, KPMG in China – which means multinationals need to rethink their strategies



Westerners who think they understand the traditional Chinese game of *mahjong* are often left dumbfounded when they see it taking place in its native country. With more tiles, more rules and more players, a round can last for hours – a world away from the simplified version adopted in other parts of the world.

Deal-making in China is every bit as colorful, and intangible, as *mahjong*. According to the *KPMG International Global M&A Predictor*, net debt-to-EBITDA ratios worldwide will fall 18% in 2011, an encouraging sign of a healthy deal market. Given China's insatiable GDP growth, you might expect its companies to be particularly acquisitive, and its consumer market to be a target for multinationals. It isn't quite that simple.

The business press likes to speculate on a Chinese 'takeover' of Western markets. In reality, Chinese consumer markets companies still have an overwhelming focus on the domestic. Even the modest number of outbound plays are generally domestically oriented, aimed at bringing Western brands and know-how into the country.

Acquisitions will happen. Shanghai Bright Food's attempted purchase of the UK's United Biscuits in 2010 was an important toe in the water and we may see the company return to the market. However, Chinese consumer markets companies are likely to remain largely domestically focused until consumer growth slows – an unlikely scenario for some time.

The unbalanced Chinese economy is plain for all to see. The prosperous middle and upper classes are buying Louis Vuitton handbags, fine wines and flats. But that ignores the overwhelming majority for whom food inflation is a far more pressing concern and whose rise up the value chain – while undeniable – is taking place more slowly. The government is using healthcare and welfare reform to try and redirect household savings towards consumption, but the process will naturally be slow.

Where does this leave multinationals with an eye on the Chinese market? Big ticket acquisitions seem to be off the menu for now, as many large Chinese companies are more interested in acquiring businesses abroad than being acquired. With high stock market valuations – typically 40 times earning multiples – it is difficult to find viable targets, even when they are willing to sell.

And yet there are success stories. H.J. Heinz paid US\$165m in 2010 for soy sauce and bean curd manufacturer Foodstar, hoping to tap into a soy sauce market worth up to US\$2bn. Others are enjoying organic growth in the country, or exploring acquisitions of other multinationals' Chinese assets or Taiwanese-owned companies. M&A here requires as much patience as any form of relationship-building in a country still finding its feet on the global stage. The potential rewards, however, mean no deal-maker will be deterred.

**“Chinese companies are not interested in being acquired”**

# "Any company still saying it needs to get into China has already left it too late"

**Frits van Dijk**, Nestlé's emerging markets chief, talks tough on growth

**T**he term 'company man' is often used as a thinly disguised euphemism for narrow-mindedness. But nobody could accuse Frits van Dijk of lacking broad horizons, even though he has spent four decades with the same business.

Currently Nestlé's Executive Vice President and Zone Director for Asia, Oceania, Africa and Middle East, the genial Dutchman has worked for the Swiss food giant in India, the Philippines and Sri Lanka, as well as managing its Malaysian and Japanese businesses for five years each and heading Nestlé Global Waters. He is now charged with masterminding Nestlé's growth in its most important – and diverse – emerging markets, a job which involves 20 days on the road each month, few executives in multinationals have as much direct experience of nurturing new businesses.

How central these markets are to Nestlé is outlined by the company's 2010 financial results, which saw van Dijk's Zone delivering sales of US\$18.2bn, with 8.7% annual organic growth. Many emerging markets achieved double-digit growth, with strong performances in Africa, India and China. Nestlé invested in

India, Indonesia, the Philippines and Equatorial Africa in 2010, and since the turn of the year has opened a US\$91m factory in Nigeria.

*ConsumerCurrents* met van Dijk at Nestlé's global headquarters in Vevey, Switzerland, to ask for his views on future growth – and how he copes with the responsibility of overseeing the company's most vital markets.

## **Nestlé has a stated target of achieving 45% of sales from emerging markets by 2020. How realistic is that?**

I don't think reaching 45% is a dream. Today, the total is about 35%, and emerging markets are growing much faster than the developed world. If you add in factors such as demographics and GDP growth of 5-10% in emerging markets, that has a real impact on purchasing power, whether in China, Africa, India or the Middle East.

## **What defines an emerging market?**

For me, these are markets which still have much lower per capita incomes compared to developed markets, where we see a dramatic shift in people leaving the bottom of the pyramid to become





## First person

emerging consumers – people who earn US\$3-4 per day and can, for the first time, afford to buy basic packaged food and beverage products.

In the next 10 years, we expect another billion people to go from subsistence level to emerging consumer level. Those are big numbers. Our task is to make the relevant products available.

If you talk to emerging consumers, their number one concern is falling ill because they don't have medical insurance. If somebody in the family falls ill, the traditional rice bowl won't be on the table that evening. These consumers are more conscious of nutrition than you might expect.

We have a tremendous opportunity as a company that sells milk products, cereals and seasoning, and we have a very active program involving our Popularly Positioned Products (PPPs), which are fortified with nutrients including vitamin A, zinc, iron and iodine. We have done a tremendous amount of country-by-country mapping of micro-nutrient deficiencies in emerging markets. We know exactly which part of each generation has a deficiency.

### Nestlé has spoken a lot about “creating shared value” (CSV). How does this work in emerging markets?

The concept is not just to create value for our shareholders, but to create value for the societies in which we operate. Clearly, there is a relationship between CSV and PPPs. Take slum areas, for example, whether it's *favelas* in Brazil or a township in South Africa. In these places, we are working with the community, employing local people to take part in distribution.

In the Ivory Coast, we couldn't find local raw materials for our Maggi seasoning range. So we began to work with local farmers to produce cassava. We started with 14 farming families – six years later, we have more than 1,000, which has created a new local economy worth US\$3m in annual economic benefit. Six years ago, there were very few shops in that community. Today, we see shops selling Nestlé products, among others, which shows an interesting multiplier effect.

### Are food security worries also part of the thinking behind CSV?

Absolutely. We are moving towards a food crisis similar to 2007/8. Costs are going up, because global supply and demand is unbalanced. There is clearly not enough food production, and our individual

contribution working with farming communities can partly mitigate that. Governments need to put agriculture higher on the agenda.

### How do you view input prices in the food market?

We'll see high prices in agricultural raw materials for many years to come. Before 2007, agriculture was very low on the agenda in many emerging countries. They prioritized IT, service and industrialization instead. Since 2007, many governments have realized agriculture has been neglected.

### Do you see attitudes towards industrial agriculture changing?

We are starting to. It's high on the agenda in China – in one district we used to work with 3,000 farmers with two or three cows each, but today we see farms with hundreds of cows and automatic milking machines. But let's be realistic: smallholder farms will be around for many years to come. We're very active with them, giving technical assistance to increase milk output, improve feed stocks and vaccinations or raise living conditions.

### How does political instability in Africa affect the business?

It's obviously destabilizing. But we are used to it. One of Nestlé's strengths is that we always find a way to keep working. When inflation in Zimbabwe was over 1,000,000% it was very difficult to find raw materials for our factory. So we had to be flexible and use the materials we had each

day, within the limits of safety and quality.

Our business is very basic. Whatever the economic situation, people still need to eat and drink. We are much more bullish about Africa than many other companies. In the last three years, we have seen double-digit growth on the African continent, which has led to a new manufacturing strategy. We are still importing some products, which can be problematic even in free trade areas, so wherever possible we are moving towards producing them locally.

In 2011, we will open new factories in the Congo, where we've never produced before, Mozambique and Angola. They will be repacking facilities at first, but when the volume increases to a level where we can perform fully fledged manufacturing, we will upgrade them.

### Do you see signs of a slowdown in China, as some economists predict?

We entered China fairly early, opening our first manufacturing operation in 1992. Today, we have 23 factories. We have been growing by double digits for many years. We saw some slowdown during the financial crisis, particularly in the southern areas, but it was very limited. I was surprised by how quickly it came back. We are there for the long term, and in fact have seen an acceleration in the market over the past couple of years.

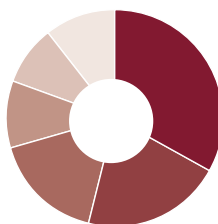
### Some people believe property, rather than consumption, is fueling retail price rises in China. Do you agree?

Speculation on property and the stock market in emerging economies needs to be watched carefully. We all remember the bubble that burst in Japan in the 1980s, and I can only hope that politicians are aware of the potential for that to happen again. But whatever happens, people still need to eat and drink. China's growth won't be a straight line, but it will continue.

### How would you describe Chinese consumer confidence in food?

The memory of the melamine scandal is still vivid – the whole food chain was affected by that. Many consumers to this day are very hesitant when it comes to dairy because of the malpractices that took place. Nestlé did not use one liter of contaminated milk because we control the supply chain and we check the quality on the spot when we buy from farmers. But consumer confidence took a severe nosedive. We have been working closely with the authorities, who have asked us

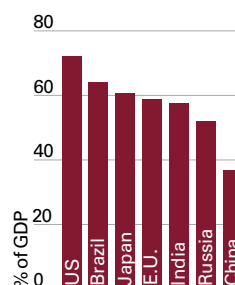
**Emerging fast**  
Nestlé's total food and beverage sales, 2010  
Source: Nestlé



**Total sales in %**

- Americas 33.1
- Europe 20.8
- Asia, Oceania & Africa 16.8
- Nutrition 10
- Waters 8.8
- Other food and beverage 10.5

**Chinese conundrum**  
Private consumption as a % of GDP in selected markets, 2010  
Source: Economist Intelligence Unit



Source: Economist Intelligence Unit



for assistance in setting standards for the food chain, as well as how to monitor food companies. It's sad to see that companies still use melamine in products – they haven't learned, despite people having been executed.

**In hindsight, what might you have done differently in China?**

In general, foreign companies underestimated the potential of local competitors. In dairy, for example, we have some very strong local competition, and I don't think we anticipated that in the 1990s. In hindsight, I would have made earlier investments in the west and centre of the country. Otherwise, we are happy with our progress – don't forget this is a vast country with plenty of opportunities. We have made a huge investment. We're making money in China and we are still investing up front.

**Can you see a time when China is your second-biggest market after the US?**

Yes. I don't pretend to have a crystal ball, but if I look at the kind of growth we are enjoying it could be 5-10 years. It's not a question of if, it's when, through a combination of local and external growth. We are always on the lookout for acquisitions, but we will also invest in innovation and renovation in China.

We can't afford to be complacent in either India or China because we're not alone. We see local and regional competitors emerging who are lean and flexible. They don't always work to the same principles we do. In India, we launched a water brand in 2001. We pulled out after two years because we couldn't compete with local brands. It was a different playing field in terms of compliance.

**Are you surprised by the huge number of companies suddenly investing in China?**

If a company today is still saying it needs to get into China, it's already too late. That train has left. It makes me laugh when I hear companies discovering there is an opportunity in emerging countries. Many Japanese companies are finally getting out of their home territory because there is no more growth there. They're going to China or Europe and they're struggling to adapt. Nestlé's biggest success factor is our ability to think local.

**What are the most important lessons you have learned in your career?**

I've learned to listen before I make my mind up. I've also tried to engage the



Frits van Dijk is bullish about China, where Nestlé is engaging emerging consumers

**"Inflation in Zimbabwe hit 1,000,000% but we found a way to keep working. That is one of our strengths"**

younger generation at an early stage. That means engaging them in responsible jobs, delegating to them effectively. I've learned to take risks – not stupid risks, but calculated ones. We need to do that, because if we don't, our competitors will run away with the opportunities.

**How would you describe your management style?**

I'm very much a team player. I'm very transparent and completely apolitical. People know where they stand with me. I cannot stand it when people have a political agenda. I do a lot of managing by walking around – people like it when you take an interest in what they're doing.

**Do you believe your successor will come from an emerging economy?**

I hope that my successor, or my successor's successor, will one day come from the region I cover. But you have to be careful not to fall into the trap of quotas. It has to be based on skills and abilities. I'm not prepared to compromise.

Any nationality can make it at Nestlé. We spend a lot of time on succession planning. I visit several markets every month, and I always have the succession plan with me. I take time to sit down with the market head and the HR people. But you can make beautiful succession plans and there will always be surprises. ■

# Are bra





# Brands dying?



Cost-conscious consumers aren't retreating from private labels as recession recedes. And that's bad news for manufacturers

**O**n the face of it, these are boom times for consumer brands. Recession is often an enemy of product development, but major retailers' shelves tell a different story.

In February 2011 alone, consumers couldn't move for new product launches. In the US, shoppers at Supervalu supermarkets could pick up a six-pack of Buck Range Light beer for US\$2.99, a price which drew the attention of late-night talk-show hosts' skits. In Spain, visitors to El Corte Inglés shops indulged in a new range of Veckia body lotions and shower gels. And in India, Smart Choice corn flakes were doing a roaring trade at upmarket Spencer's stores.

These launches, however, had one thing in common: they all came from private labels, without a major consumer goods manufacturer in sight. And they're part of a trend which is reshaping retail: across the world, consumers are turning their backs on brand names in the food, drink and consumer goods (FDCG) sector, creating a quandary for manufacturers and a tricky position for mainstream retailers, whose relationships with suppliers are rapidly being rewritten.

Research suggests that the consumer mindset has shifted, perhaps inexorably, making the differences between branded goods and own-label products less important. In January, US consumer intelligence provider Mintel reported that 34% of primary household grocery-buyers did not consider they were giving anything up by opting for an own-label product in place of a branded one. Only 19% were clear that it was worth paying more for a brand. Separate 2010 figures bear this out, showing the penetration

of supermarket labels in the US at 18% compared to 15% in 2007.

In the UK, where 35% of consumers were buying a higher proportion of own-label goods in 2009 compared with the year before, private label brands are even more established. Japanese supermarkets have seen a rise in private labels, while German giant Metro expected its Real brand to account for 25% of food sales in 2010. The aim, said CEO Joël Saveuse, was to increase customer loyalty and profit margins.

"Manufacturers of brands should be worried by consumers moving away from them at the moment," says Jon Wright, Head of Retailing at market research company Euromonitor International. "Consumers are in many cases defining value in terms of price, which is where private labels come into their own."

"In previous economic downturns private label has taken volume and value share from branded products. After the effects of the downturn have worn off, consumers invariably look to replace some of their new private label purchases with branded goods once more, but many do not. The ultimate effect of this is that private labels do not hold on to all of their new consumers, but overall sales share goes up for private label products."

## Deeper shift

The new consumers willing to question the value of branded goods have brought a new term into the marketing lexicon. "Hybrid consumers" do not buy private-label goods simply on principle, but they have identified product sectors where trading down is an option. Foremost among these is cleaning products: in

## Consumer trends

the Mintel survey, more than half of respondents said they did not believe branded cleaning products were any better than own-label counterparts. Dairy products, cereals and fruit juices may also be prominent in hybrids' minds.

Julian Thomas, KPMG's Global Advisory Sector Lead for Consumer Markets, says social media has accelerated the trend: "Consumers today interact more and more through media channels that manufacturers and retailers cannot control. Traditional consumer behavior was based on systematically filtering brand choices to arrive at a final selection. But now, consumers can evaluate a shifting array of options and remain engaged with a brand through social media after a purchase.

"Traditional marketing strategies should be rethought to align with the way the relationship between brands and the consumer has changed."

While the private label phenomenon is global, its impact varies widely by region, says Wright: "Private label penetration is very strong in Western Europe, but has some way to catch up in North America and many markets in Eastern Europe. In other regions, particularly Latin America and Asia Pacific, it has even further to go."

Natalie Berg, Global Research Director at analysis firm Planet Retail, says that in many Asian markets there are still aspirational factors that give branded products great sway. "That's changing, though," she adds, "as large supermarkets like Wal-Mart and Carrefour move in with their own labels, which in turn give a boost

### "Manufacturers of brands should be worried by consumers moving away from them at the moment"

to domestic own-label products." 7-Eleven has particularly aided this phenomenon: its Seven Premium brand now accounts for 20% of sales in its Japanese stores, a significant figure because its sites are generally mid-ranking in floor-space terms.

But the drift to private label is not universal, even in its most prominent markets. Figures from analyst mySupermarket show that over the two years to mid-2010, branded laundry detergents increased market share by 13% in the UK, and branded cleaning liquid by 6%, while bread, fish fingers and baked beans also showed gains for well-known manufacturers.

"There are some indications that in this climate shoppers have not moved away from brands as significantly as in other downturns," says John Noble, Director of the British Brands Group, which speaks for

branded goods manufacturers. "Those that have will be strongly influenced by their new experiences. If the cheaper products they turn to do not perform as well, there is a strong likelihood that they will return to their favorite brands as soon as they are able to.

"Areas where quality is important and the incumbent brand offers a differential advantage have tended to fare better. Where the branded benefit may be unclear – toilet tissue springs to mind – brands have to work harder to explain why shoppers should choose them. There is plenty of evidence that brands that continue to promote their benefits in a downturn emerge stronger."

### Must try harder

For manufacturers looking to counter the rise of private labels, simply slashing prices to match supermarkets' cut-throat offers is often not an option. "Pricing will remain part of the battle," says Wright. "However, in some ways it is a zero-sum game as either brands undermine the strong work they have done previously by devaluing the product they offer or they squeeze their margins so much that it makes it not worthwhile to do anyway.

"Innovation, either in terms of quality, convenience or health and wellness, is the order of the day for brands. Yet that has been the main area where brands have let themselves down. They felt the status quo was acceptable as consumer habits had not changed in the past. The most successful companies, such as P&G



Consumers care less about brand names – but will that change as recession eases?



and Gillette, kept innovating despite the fact that they owned some of the most successful and well-liked brands.”

With a tight focus on a single area (Unilever, for instance, owns more than 400 brands but gains 70% of its sales from 25), manufacturers can get an edge over producers of own-label creations, who may not know their customers as well or be able to invest in product development and marketing strategies.

Sara Lee, which announced in January that it would be splitting into two companies, has spent much of the past several years divesting itself of brand lines. This underlines the increasing importance of tight focus but points towards another trend – that as the skirmishes between brands and own-label intensify, it will be second- and third-tier brands that pay the highest price.

“It’s not healthy for big brands to have too many tail brands,” says Planet Retail’s Berg. “We’re seeing a cleansing process as retailers reduce the number of stock-keeping units (SKUs) and rid the shelves of products,” she says, adding that Wal-Mart has cut SKUs by 15% in recent years. “This is beneficial to brand leaders. [UK supermarket] Asda cut the range of candles available and sales soared. Wal-Mart dropped two peanut butter offerings and, likewise, sales rose.”

For some brand-owners, the rise of private labels is sweetened by the pay-off they receive as “white label” manufacturers of supermarkets’ own products, although margins in this area tend to be lower. Berg says some mid-market brand manufacturers, which were previously resistant to white-labelling, have found capitulating is the best way to keep their own offerings on the shelves.

Branded products are able to leverage buyers’ feelings of heritage and nostalgia (the retro marketing of the Lucky Charms cereal brand in the US is a notable example). And they can use advertising and social media in a way that centers more closely on their products. But inevitably, the very fact that own-labels are selling on their own turf means brands must make more effort, says Wright.

“Without strong advertising or talking directly to consumers, brands are being squeezed out of the shopping process,” he says. “Manufacturers need to be having one-to-one conversations with consumers as much as possible.”

KPMG in the UK’s Thomas says consumer markets companies must understand the “consumer procurement journey” to revise strategy, optimize media

## When brands fight back



### Wispa

Cadbury’s bubble-filled chocolate bar was axed in 2003, but the company’s marketing department came up with an ingenious internet-led campaign to bring it back. More than 500 Facebook groups were encouraged to lobby for Wispa’s return, and on its 2008 relaunch, weekly sales hit 1.2 million bars.

### Salon Selectives

This hair care range refuses to die, having been revived three times in three decades, including a stint under Unilever’s control. First introduced in 1987, it hit

its peak in the 1990s, with 6.5% of the market and annual sales of US\$275m.

### Biba

The fashion label is synonymous with Sixties style, having been modelled by Twiggy (right) and other icons. British department store House of Fraser relaunched it in 2010 and was rewarded as it became its best-selling women’s fashion range.

### Vita Cola

The Eastern bloc alternative to Coca-Cola

went out of business after the fall of the Berlin Wall. But “Ostalgie” (East German nostalgia) has put “Communist cola” back on the shelves and turned it into the reunified country’s number two fizzy drink brand.

### Brim

With its catchy slogan – “Fill it to the rim with Brim” – this decaffeinated coffee brand was once a household name in the US. River West Brands found that 92% of adults over 25 were still aware of the name, and now plans a ‘nutraceutical’ version for a new generation.



spend and fully leverage supply chains: “Organizations that have successfully navigated the new brand environment have revised their marketing portfolios rather than rewriting them. They have exploited social media opportunities while keeping an unwavering focus on the needs of the consumer. Brands should innovate beyond the familiar and deliver to market rapidly, and clearly communicate and deliver on their brand promise.”

The problem is that own-label retailers are having a persistent conversation with their customers. And their “no brand” products have, slowly, become brands in their own right – supermarkets’ premium ranges have become viewed as brands that happen to be manufactured by their retailers. As Devendra Chawla, Business Head of Private Brands at Indian retailer Future Group, puts it: “A label on the shelf becomes a brand by covering the two-foot distance to the trolley.”

Noble remains optimistic for his members: “Brands help people navigate complex markets and help them make informed decisions... the role of branding is arguably more important than ever.”

Manufacturers seem to realize this: many, including Unilever, P&G, Nestlé and Reckitt Benckiser, have banded together to market themselves in television and newspaper ads under the

banner “Brand Power,” trying to persuade consumers that a trusted name counts. The brainchild of Australian agency Buchanan Group, the campaign is now active in 14 countries.

As a fightback, it is a start. As Nestlé CEO Paul Bulcke says, private labels with low margins cannot absorb commodity price rises as well as multinationals, giving them hope of short-term market share gain. But the impression remains that the manufacturer-retailer relationship has shifted. The question is: will things ever return to “normal”? ■



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Grupo Bimbo's range has extended from bread (opposite) to sweeter snacks



#### FACT FILE

**Name** Grupo Bimbo S.A.B. de C.V.  
**Founded** 1945  
**Headquarters** Mexico City, Mexico  
**CEO** Daniel Servitje  
**Employees** 102,000  
**Key markets** Mexico, US, Argentina, Chile, Costa Rica, China

# Baking up a storm

Mexico's Grupo Bimbo has become the world's largest bread-maker by stealth. Now it's ready to start making a big noise about its future

Its name provokes snickering across the English-speaking world. It promotes its products using a cuddly white bear dressed in baker's overalls. It remains steadfastly family-owned, rebuffing investors and buying back many of the few shares it has put on the open market.

Much of what Grupo Bimbo does may seem idiosyncratic. Yet it has proved devastatingly effective. The bread and baked goods company has conquered the US by acquisition, shrewd management and a focus on logistics. With its US\$959m purchase of Sara Lee's North American baking business, it is ready to reach new heights.

In Mexico City, where it was founded by Lorenzo Servitje in 1945, Bimbo's iconic delivery trucks drive thousands of routes every day, taking Marinela biscuits, Barcel snacks and dozens of packaged bread brands to the "mom and pop" stores that dominate the country's consumer landscape. The company grew



## Case study Grupo Bimbo

steadily and by the 1980s already had a stranglehold on the Mexican market, particularly in bread.

Bimbo entered the big leagues in December 2008 when it paid US\$2.38bn for the US operations of Weston Foods, adding cookies and confectionery to its portfolio. Executed at the height of the financial crisis, it was an audacious move that overnight made Bimbo the world's biggest manufacturer of baked goods. It also increased the company's debt by 800%.

Bimbo went about the integration of Weston with a customary fortitude. It set a target of 100 days to bring operations and logistics into line, and spent US\$50m on a business intelligence system that aimed to identify wastage and improve distribution routes.

For 51-year-old CEO Daniel Servitje, son of Lorenzo, the deal was "undoubtedly the most important purchasing decision in the history of the company." Servitje Jr.'s first memory was the smell of baking bread. His approach to growth, however, is deceptively ruthless. Bimbo has always been innovative (it was the first company to wrap bread in clear cellophane); recently, it has invested in oxodegradable packaging on baked goods products, and a joint venture with an alternative energy company to build a US\$200m wind power plant to supply the company's Mexican needs.

Servitje has also had to deal with complexity. Bimbo had 5,000 product lines even before the Sara Lee purchase, and 1.8 million points of sale. In the US, as much of 14% of its inventory is returned unsold, as supermarkets favor busy shelves in bread aisles. In Mexico, Bimbo has helped its customer base modernize by offering microfinance and insurance to local shopkeepers.

Pedro Herrera, an HSBC analyst in the US, describes Bimbo as "conservatively managed but very focused – a step ahead of similar companies in its market." The company is adept at debt management, he says, while the Weston deal has been a "huge success, beyond even what Bimbo would have expected."

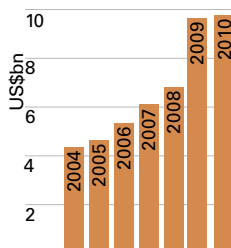
The figures bear this out. Weston gave the company a 38% boost on operating margins, though net income for 2010 was down 9% at US\$445m. The US has now overtaken Mexico as Bimbo's biggest market, with 43% of revenues. The Sara Lee deal will give Bimbo access to the Sunbeam bread brand, among others, in a market with potential for growth. Bimbo believes it has identified efficiency savings and has pledged



## RACING AHEAD

Grupo Bimbo net sales

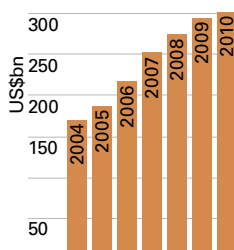
Source: Grupo Bimbo annual reports



## DOLLAR ECONOMY

Total annual Mexican exports

Source: CIA World Factbook



US\$1bn for supply chain enhancements.

A greater push in the States will offset sluggish growth in Latin American countries such as Chile and Argentina, where consumers are reluctant to buy packaged bread. Bimbo also has a small bakery operation in Beijing.

Bimbo is one of relatively few Mexican companies making significant progress internationally, says Miguel Leon, Partner, KPMG in Mexico. "While domestic consumption has been increasing, they have preferred to focus on the Mexican market," says Leon. "However, their proximity to the US, and the way they have been incorporating new technology, positions them well for future growth."

"Multilatinas" like Bimbo are expected to become a force to be reckoned with. But their rise may not be an untroubled one: Bimbo's latest financial results, while showing modest growth in sales, demonstrate the effects of rising commodity costs on the company's bottom line. And as Leon points out: "Security issues, poor infrastructure in agricultural regions and public safety issues are holding back many major Mexican companies from becoming internationally competitive."

Servitje sees a focus on modernization as key to the company's future. "In Mexico, we have been very successful and success typically leads to rigidity and makes it difficult to see changes in our environment," he has said. "This worries me. We should reflect on our current situation while keeping everything open for change." Whatever path Bimbo pursues, it is unlikely to be bound by convention. ■



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## Sustainability

Industrial water use, such as these pipelines in Washington, is a growing concern



# Water: the next sustainability bombshell



**W**hen brewing giant SABMiller tentatively released its “blue sky” plans in 2010 for a floating brewery that could be towed from port to port depending on where water was most plentiful, the business press immediately leaped on the idea of a “beer ship.” Many dismissed it as fanciful, or a publicity stunt. But what SABMiller and other multinationals have realized is that water scarcity is becoming business critical. Restricted access to water, or higher costs to use it, is every bit as vital to their future planning as the better-known issues surrounding oil.

The Water Resources Group, an industry body, says water supply will fall by 40% globally before 2030. Even allowing for a margin of error, that has profound implications. The drinks industry is a visible and intensive user of water, but others are equally at risk – food and consumer goods manufacturers are also heavy water users, and any industry which relies on silicon chips or paper-based products will face a knock-on effect. Little wonder Nestlé chairman Peter Brabeck-Letmathe has made water the company’s sustainability priority and said in 2008: “I am convinced that if we

Oil might hog the headlines, but many experts believe water is the commodity that will become scarcest most quickly – and that’s particularly bad news for consumer goods groups





carry on as we are, we will run out of water before we run out of oil.”

“We all know water is both abundant and scarce. It covers about 75% of the earth’s surface (both in liquid and frozen form), but only around 3% of this water is fresh and able to be used,” says Jo Beatty, a Director in KPMG’s Climate Change and Sustainability practice in the US. Growing populations, rapid industrialization and climate change form a triumvirate of pressures on water’s future.

Water is a global concern, yet its impacts are local. Beatty lists them as: *physical risks*, such as reduced water availability and quality; *regulatory risks* from increased standards and licensing requirements for water abstraction, quality, reuse and recycling, and waste water discharge; and *reputational risks*, including opposition to local water withdrawals and discharges.

“One reason that the issue of water goes unexamined by many leadership teams is that water is low cost. But while it may be cheap, that in itself represents a risk,” says Dr. Nick Wood, Associate Director with KPMG’s Climate Change and Sustainability practice in Australia. “When we do our water strategy work we turn

this around. Where water supplies are at risk, we examine the costs associated with alternative sources of water.”

Wood says companies are beginning to understand that the water value supply chain is full of blind spots and market failures. “Water has not been subject to strategic thinking by users or transparent economic planning by governments. The result? It may be cheap, but it can run out. Its price is not its value.”

## “Companies should understand the real value of water, and how it impacts them”

No single business sector is exempt from the risk of water scarcity. Neither is any region. While many countries in the Middle East have spent heavily on desalination, the World Wildlife Fund (WWF) says the situation is “critical” in India, Australia and South Africa.

Barton Alexander, Chief Corporate Responsibility Officer at drinks company Molson Coors, says water issues affect

his business across the world. And the amount of water used is only one part of the equation. He points to his cotton shirt as an example. “How much water is in this? Do you care where it came from? Was the cotton grown in an area where the water came from natural rainfall, or was it grown where the water was pulled out of the ground for irrigation where people have less access to water?”

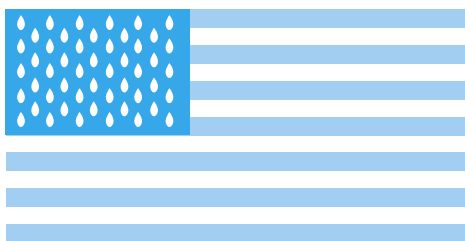
While Alexander says Molson Coors always strives for increased water efficiency, other factors can make sustainability decisions complex. A facility in Canada recently changed the way it washes returnable bottles. The company found it was more energy efficient to use cold water in the new process, but this also meant more water was used. “We had to think about which was more important: energy savings or water use. There was adequate supply so we went with the cold water process and reduced our carbon footprint.”

A strategic focus is the best way to tackle the issue, says Wood. “Many companies can tell us they use four liters of water to make one liter of drink. But they can’t say whether the fruit providers, dairy farmers or

## Sustainability

# H<sub>2</sub>woe

Why water is worrying multinationals



The US needs to spend US\$255bn in five years to safeguard water infrastructure

**↑ 40%**  
Amount global water demand will increase in the next ten years

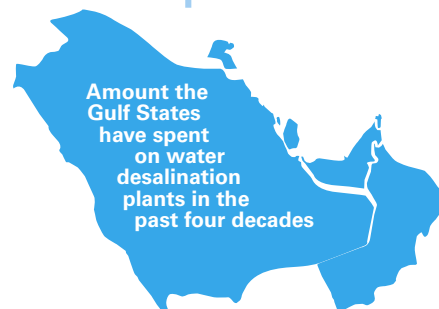
**39%**

Proportion of the world's largest corporations already experiencing negative impact relating to water



For each US\$1 invested in water sanitation, returns are estimated at US\$3-4, depending on the region and technology involved

**US\$21bn**



**80%**

Percentage of the world's population living in areas where freshwater supply is not secure

**2030**

The year the world is projected to face a 40% shortfall in water supply

Sources: American Society of Civil Engineers, Pacific Institute, Carbon Disclosure Project, UN World Water Development Report, UN Economic & Social Commission for Western Asia, Water Resources Network

hop growers will be able to provide them with raw materials or even be in business next year."

Wood recommends conducting a water risk assessment right across the supply chain, and factoring it into risk management and continuity planning. The results can be illuminating – and alarming. The Water Footprint Network estimates that the full life cycle of a glass of apple juice includes 190 liters of water, while a T-shirt uses 2,700 liters. Such estimates are open to question, but there is little doubt that intensive production processes, including industrial agriculture, are a major drain on water resources.

Suhas Apte, Vice President of Global Sustainability at consumer products multinational Kimberly-Clark, wrestles with water on a daily basis. He says the company has used a variety of methods for assessing the impact of water scarcity, including a conservation program and a global risk assessment which included suppliers. "We extended the risk assessment to provide a multi-criteria analysis that brings in a number of factors such as reputational risk, water efficiency, population access to water and sanitation, regulatory risk, and future risks," he says.

Kimberly-Clark's sustainability team also led a water life cycle assessment on its toilet tissue brands. "It revealed that 75% of water use was toilet flushing in the home," Apte says. The company launched

a Smart Flush device which saves up to one liter of water per flush.

KPMG member firms across the globe work with clients to conduct water risk assessments for their operations and supply chains, but most of the emphasis is on identifying the metrics companies need for strategic planning: "Companies should understand the real value of water and the associated economics that impact the company. These include capital investments for new or retrofitted infrastructure and added operational costs for supply, treatment and disposal," says Beatty.

Developing economies are wrestling with complex supply chain issues. In some areas, the local population may lack access to clean water. PepsiCo is one of a number of multinationals to formally recognize the "human right to water." Others, says Beatty, may decide not to relocate or expand manufacturing operations in areas which could face future water issues.

There is still hope. Beatty says far-sighted companies can improve water resources in their local communities, and adopt a "catchment" approach to water use that engages both upstream and downstream use. Those who see water as the "new oil" should consider the reality: some of the finest scientific minds are working to develop viable alternatives to oil. There is no substitute in the pipeline for H<sub>2</sub>O. ■

**"One reason water goes unexamined by leadership teams is that it's low cost. But while it may be cheap, that in itself represents a risk"**



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# Situation vacant

With many parts of the world still grasping for growth, and global unemployment rates at historic highs, major companies ought to have their pick of talent. So why are so many struggling to fill roles, particularly in emerging economies?

**E**ven within the luxury sector, LVMH stands out as one of the most gold-plated companies going. Its brands, from the eponymous Louis Vuitton to Hennessy cognac and De Beers diamonds, epitomize ambition and affluence. In markets such as China and India, the company has admirable expansion plans as a growing middle class seeks its own little slice of luxury.

It may surprise some, then, to learn that while consumers in developing economies may be flocking to buy its

products, the French multinational has considerable difficulty filling job vacancies in those markets. As LVMH's General Manager for the Indian sub-continent, Manishi Sanwal, told India's *Economic Times*: "The Indian luxury industry is still in its sunrise days." Hiring, he says, is a problem. Too few candidates understand the industry, or have retail experience. When LVMH has hired successfully in India, it has recruited from the auto industry. When that fails, it focuses on younger recruits. "We train ►

## The war for talent



**Emerging markets produce candidates, but the right skills can be hard to find**

them and empower them to grow with the organization," says Sanwal.

The company's woes are not unique – either to its sector or the region. As businesses chase ambitious growth targets and introduce more complex operational requirements, the need for multi-skilled, highly motivated staff is huge. Manpower's influential annual survey of employers found that, in 2010, 31% had been unable to fill key vacancies. With global unemployment around 6.5% and multinationals learning to do more with fewer staff, this shouldn't pose a problem. Yet getting the right people in the right place at the right price is a headache.

If there is a "war for talent," it could be said that talent has won. The factors behind this are numerous, but one of the most important is the growth rates large companies are experiencing in emerging economies. Food multinational Sodexo saw modest growth in its largest market, the US, in Q1 2011, but sales in emerging economies, principally Brazil and Chile, leaped 11%. Tesco has reportedly targeted Vietnam, Indonesia and the Philippines for expansion. Swatch announced last year that 28% of its sales come from China.

An endless list of consumer companies have similar stories to tell. Their growth necessitates new armies of skilled employees, ideally located in expanding regions. These include general managers, financial executives and salespeople, as well as technical specialists in logistics and business intelligence. Education systems cannot keep pace: in India, despite hefty investment, there are far fewer business schools than in developed economies, and quality is an issue.

Wage disparities mean established Western-based executives are reluctant to relocate to emerging economies, except for inter-company transfers. Recruitment consultancy Korn/Ferry says the average CFO salary in India is US\$73,000, and other emerging economies are no more generous, with China a notable exception. Any major rise in operating costs due to wage inflation could price multinationals out of local retail markets, and destroy the cost advantage in manufacturing there.

Jim Hinds, UK Country Manager for executive search firm Russell Reynolds Associates, says: "The demand for international candidates is as strong as it has ever been. There are many talented

candidates in consumer products, but the pool of high quality retail executives is shallow. Where international experience has been gained is increasingly relevant, as the issues leaders face in mature markets are very different to those gained in emerging markets."

China's demographics are a particularly potent factor in its fast-shifting talent requirements, says Ellen Jin, Partner for Consumer Markets, KPMG in China: "China is now producing more than six million university graduates a year and people's aspirations are high. There is a tightening labor supply in many areas as China is moving from a manufacturing economy to one based on services and innovation. It all makes for a competitive and pressured environment." China's relatively high salaries are a reflection of the lack of local management experience, says Jin, although she adds: "There are many people now coming through the ranks with five to ten years of working experience who are able to take more leadership roles."

Ajay Bansal, Russell Reynolds Associates' Executive Director in New Delhi, says companies operating in



# Companies who care



**The concept of valuing staff and creating a pleasant work environment has come a long way since the 1940s,**

when a worker at Ford's Michigan plant was sacked for being "caught in the act of smiling" and "laughing with the other fellows". Today, Google is among a number of leading multinationals which allow staff to bring pets to work, while others have experimented with the ROWE (Results-Only Work Environment) system, which dispenses with traditional corporate structures to give employees autonomy over where, when and how they work."

"Employee engagement" – ensuring staff are listened to and feel empowered to question business orthodoxy – has become a priority for companies desperate to reduce employee churn and attract the pick of job-seekers. Research by the UK government found that in businesses categorized as having low levels of

engagement, staff turnover was 51% higher, with productivity, innovation and inventory shrinkage also suffering.

Separate studies of FTSE 100 companies found that 70% now conduct regular staff surveys. At leading retailer J Sainsbury, employees are encouraged to write to CEO Justin King (pictured left) with concerns or suggestions. King personally replies to each letter: he recently received his 30,000th missive.

Japan Tobacco International conducted a global survey of employee engagement and was able to make a number of correlations between satisfaction and business performance: in particular, it attributes its market leadership in Russia to the high levels of engagement among its 8,500 staff there. Caring, it seems, might just pay off.

India have to invest in developing and retaining talent: "FMCG companies have traditionally been talent providers to the Indian consumer sector. Many consumer leaders in India have Unilever or P&G stints on their CVs." But, says Bansal, major consumer companies face competition for executives from other sectors, notably telecoms.

Staff churn rates show why consumer companies are nervous about their ability to compete. HR consultancy AON Hewitt believes the 2010 staff turnover for foreign-owned companies in China was 15%. Multinationals' wage inflation in the country was put at 7.2% in the same year. In the Indian outsourcing industry, anecdotal evidence suggests companies have to handle as much as 50% churn. The Center for Work-Life Policy has forecast that by 2012, companies in India may have five million fewer skilled employees than they need.

"Staff turnover is a big concern," says E. Balaji, CEO of Indian operations for recruitment company Randstad. "It is 15%-20% or greater across all seniority levels, and that is a conservative estimate. Wage inflation is also a problem and the traditional companies, which have been operating here pre-[economic] independence, are the ones hit hardest."

Emerging economies may be the pinch points for these issues, but they are not alone. Several countries, notably the UK,

US and Australia, have tightened visa requirements for skilled workers, leading to complaints from multinationals unable to bring senior staff to the West. Japan, says Manpower, has the biggest skills deficit on earth.

## **"Demand is strong, but the international pool of high quality retail executives is shallow"**

Faced with these issues, businesses are beginning to react. Employee engagement (see box above) has risen up the agenda in many boardrooms. Recruitment strategies have moved beyond graduate fairs to include sponsoring studies, or forming lasting partnerships with universities. Henkel has organized "development round tables" to identify high-potential employees and ensure they are given extra support and encouragement.

"There is a strong trend for learning and development, sponsoring people to go on MBA programs and develop themselves and their career," says Balaji. "Consumer companies are competing with other high-profile technology companies, investment banking and outsourcing for talent."

Others are ensuring they have control of the entire talent value chain. Agribusiness Cargill has found recruitment a problem as it expands into new markets. Its solution? Hire 36 managers in China, train them in the US and send them back to their home country to lead Cargill's operations there. Another major global retailer has asked new executive hires to commit to relocating wherever the company considers appropriate.

Governments understand these issues. China plans to create an "Ivy League" of leading universities. Indian policy-makers are investigating how to nurture creativity. Whether they will move fast enough to please anxious businesses is truly a billion-dollar question. ■



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## Lessons from other industries

Dragons of industry:  
gamers may have a  
head start at work



# How to get ahead of the game

Companies are turning to computer simulations to teach skills and test radical scenarios. Are they just playing around?

The new CEO scrolls up and down the list of options, mulling over the consequences on the screen. With a sudden decisiveness and a click of the mouse he instructs his deputy to shutter the company's Chinese retail operation, making the 2,000-strong workforce redundant and selling its assets to its nearest rival. The board will be furious he has taken such a radical step without consulting them, but the business leader won't be carpeted: he's playing a game where taking outrageous risks is all in a day's work.

So-called "serious games" are big business, and consumer companies are lining up to send staff on courses where they can simulate work environments, take decisions or model strategies. "It basically means they can make mistakes without hurting the business," says Rommin Adl, Executive Vice President of BTS, which runs computerized simulations for companies including

Procter & Gamble, Coca-Cola and Sony. Games can involve taking over as CEO to see how your decisions might affect revenue and staff morale, sharpening sales techniques in a virtual environment, seeing products through a customer's eyes or getting to grips with the intricacies of financial modelling. Prices start in the hundreds of dollars, with bespoke corporate solutions running to six figures. Adl says they can help with team-building, alignment with corporate strategy and developing future leaders.

The solutions on offer are growing in popularity and sophistication. Thousands of European supply chain managers, including representatives of Heinz and

**"Serious games give employees the chance to make mistakes without causing damage"**

SABMiller, take part in an annual contest called Fresh Connection, which lets them make key decisions in a competitive environment. BTS is working on a simulation for two global packaged goods companies and their retail partners, which will let them virtually tweak their supply chains without affecting operations. King's College London's Department of War Studies teaches executives the basics of military strategy to sharpen performance.

Many simulations feature spectacular graphics, including avatar-like characters striding through offices, but Adl says presentation is only part of the battle: "It needs to look good and work well, but the link to what the company is trying to accomplish outweighs those needs."

Serious gaming might sound frivolous, but there's plenty of evidence to suggest the traits of leading computer games – progressing through levels of achievement, being rewarded for success and immersion in a realistic environment – enhance learning. MIT has a serious games department studying the phenomenon. Business thinker Daniel Pink, author of *A Whole New Mind*, says the ability to bring "play skills" into the workplace will be a key measure of future business achievement. Those youthful hours spent with a Dungeons & Dragons set might not have been wasted after all... █

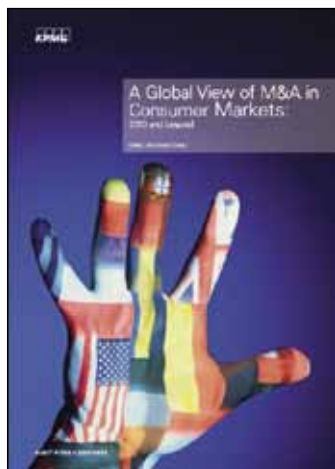




# Insights

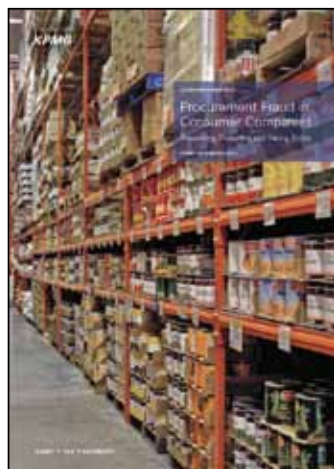
KPMG member firms provide a wide range of studies, analyses and insights for the Retail and Food, Drink and Consumer Goods (FDCG) industries. For more information, please visit [www.kpmg.com/retail](http://www.kpmg.com/retail) or [www.kpmg.com/FDCG](http://www.kpmg.com/FDCG).

## Current publications



### ***A Global View of M&A in Consumer Markets***

A report based on interviews with senior KPMG M&A professionals, who were asked to share their outlook for M&A activity in the consumer markets sectors over the next 18 months.



### ***Procurement Fraud in Consumer Companies***

Procurement is highly susceptible to fraud and misconduct in consumer markets companies. This publication highlights how procurement fraud can be detected and prevented.



### ***Leases for Retailers***

This publication addresses both the business and accounting issues that retailers would face under the new leasing standard recently proposed by the IASB and the FASB.



### ***Revenue Recognition for FDCG Companies***

The revenue recognition standard proposed by the IASB and FASB is likely to significantly impact FDCG companies: in timing and amount of revenue recognized, and the treatment of discounts, rebates and marketing spend.

## KPMG ConsumerCurrents webcasts

Attend live presentations with KPMG's leading authorities on these and other industry topics. Visit [www.kpmg.com/ccwebcasts](http://www.kpmg.com/ccwebcasts) to register for our next webcast or to watch previous events on-demand.

## New publications coming soon

### ***CFO Insights: A global survey of Consumer Markets executives***

This recent survey asked 291 finance executives from consumer markets companies around the world about trends, challenges and opportunities affecting their industry. To be launched in April 2011.

### ***Sustainability reporting in the consumer markets industry***

How do your company's sustainability and CSR reporting practices compare with others in your industry and region? What industry best practices can you learn from? To be launched in May 2011.

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