Issue 12

Consumer Currents

Issues driving consumer organizations

KPMG
cutting through complexity™

How much?

The politics of pricing – and how consumers are fighting back

The Chinese are reputed to have a saying: "May you live in interesting times." Many consumer markets companies will know the feeling. The tensions in global markets are being played out on a macroeconomic level – huge financial services institutions are trying to unravel their involvement in government debt, the US is dealing with unprecedented deficits, unemployment and the continuing effects of the 2008/09 recession, and add to that the fear of a slowdown in China and other developing economies. But the effects are felt much more locally: by consumers who are feeling squeezed and uncertain and executives unable to make key decisions as they struggle to deal with the wealth of information with which they are bombarded.

Many companies have already responded by becoming leaner and strengthening their balance sheets. Most are also astute enough to know that the winners in previous rounds of economic uncertainty have been those who not only had strong balance sheets, but who also continued to invest or innovate. It's common wisdom that a recession is the best time to increase your market share, but it isn't only ramping up advertising that will see you emerge from turbulent times in better shape. In this issue of *ConsumerCurrents*, we investigate and celebrate some of the ways consumer markets companies can lead as markets take a battering, and leave themselves in better shape in the longer term.

Where better to start than with the supply chain, an area where many businesses have had their head in the sand for too long? Dr William Fung may know more about the subject than almost anyone. As chairman of Li & Fung, the logistical heft behind the rise of Chinese manufacturing, he has helped some of the biggest names source and ship their products. And he warns on page 6 that fast-rising prices mean now is the time to think about future strategies for sourcing beyond China and other popular destinations.

It's a theme explored in a recent KPMG report, *Product Sourcing in Asia Pacific* (see page 23), which found that – from clothing to food and homewares – a new range of regional destinations are emerging. It is hard to overstate the benefits for businesses that move quickly to secure cost advantages and efficiencies in the supply chain, or the price to be paid for making the wrong call, so Dr Fung's words can provide valuable guidance.

Sustainability reporting might seem a less pressing concern, but recent research by KPMG International has found that more consumer markets companies are taking it seriously than ever before. As Ted Senko, KPMG's Global Chief Executive of Climate Change and Sustainability, explains on page 10, deciding what to measure and how is the hard part. After that, as business leaders are discovering, there is common sense in green reporting, both in encouraging consumer loyalty and, equally importantly, reshaping operations to be economically and environmentally sustainable. Yvo de Boer, the former UN Head of Climate Change now leading KPMG's offerings in this field, explains that consumers are still willing to pay more for sustainably sourced products, but that far-sighted companies are using their green credentials as more than just a badge of honor.

Companies wondering whether consumer behavior can be influenced in these interesting times should turn to page 16, where we delve into pricing and discover a range of recession-ready strategies. Major retailers have long since moved away from the staid BOGOFs of business school lore and know they must take a more rounded view of the deals they offer consumers. But as manufacturers exert ever-greater pressure over pricing strategies, there is a significant political dimension to the issue.

It would be remiss to leave innovation out of the equation. Creating strategies to target the consumers and the products of the future requires investment, but imagination may be just as important. On page 20, we investigate the burgeoning market for nutraceuticals, which is taking food groups such as Nestlé, Danone and Kraft into pharmaceutical companies' traditional territory and forcing them to upskill with scientific and regulatory knowledge. On page 14, we profile Gilt Groupe, whose pioneering business model – online flash sales of fashion designers' unsold stock – is causing the luxury retail industry to reassess the way it operates.

These companies are not standing still or waiting to see which way the market falls: they are investing today to nurture new markets and target the next generation of consumers – ensuring that they are best positioned for success in these indeed "interesting times."

Willy Kruh
Global Chairman, Consumer Markets
KPMG International

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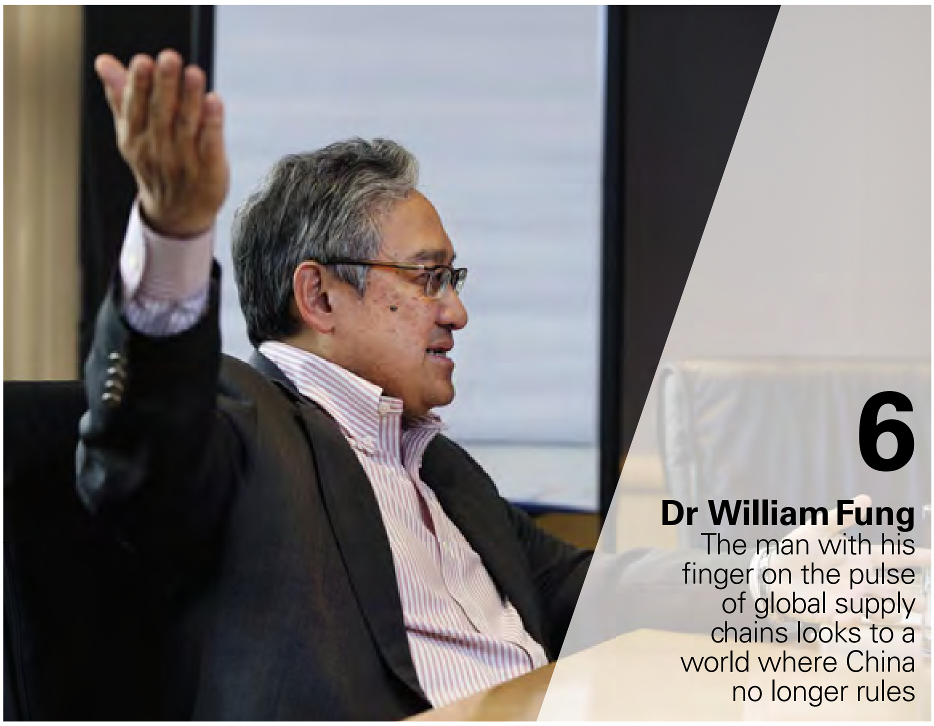

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Off the shelf

Can the markets solve the food crisis?

Emerging economies will be able to hedge staples such as corn

The World Bank's new US$4bn fund will let agricultural companies in emerging economies hedge commodities. But some fear it will only increase market volatility

They have been blamed for everything from the US sub-prime collapse to the destruction of the rainforests. But could derivatives actually hold the key to feeding the world's emerging economies?

The World Bank certainly thinks so. In June 2011, it stole the thunder of G20 agricultural ministers meeting in Paris by announcing an unlikely salve for commodity volatility: a US$4bn fund jointly administrated by JP Morgan, which would allow agricultural groups, farmers and other businesses in developing nations to hedge the price of staples such as corn, wheat and maize.

Given that an inter-agency report commissioned by the G20 had just blamed commodities markets for their role in undermining food security, and French president Nicolas Sarkozy had joined many commentators in blaming them for wider financial volatility across the Western world, the move was "a little surprising," says **Ian Proudfoot**, Asia Pacific Head of Agribusiness for KPMG and a partner in the New Zealand firm. "It's a little like turning to your enemy to help solve your problems."

The World Bank will underwrite US$200m in credit risk, which will be matched by its investment banking partner. The range of products is aimed, it says, at medium-sized agribusinesses and co-operatives, but Proudfoot warns: "Smaller companies tend to be unsophisticated in the way they operate and simply lack the knowledge to use such instruments. The potential US$4bn is a small part of the market, but still leaves exposure to volatile markets."

The commodities that will be hedged are still open to debate. But many emerging nations have already dabbled in the markets at a governmental level: Ghana hedges its exposure to cocoa, which is vital to its economy, while Mexico revealed earlier this year that it had bought futures in corn, the key ingredient in tortillas.

Proudfoot says ambitious Chinese companies are among the most likely to benefit from commodity hedging. Consolidation in various food sectors has seen the country's businesses beefing up and modernizing their processes, and financial instruments could help them internalize their supply chains. "The Chinese government has realized you can't feed an emerging middle class with an almost feudal agricultural system," says Proudfoot.

Nexttech

The Internet of Things

Computers communicating intuitively without human interaction, sharing information seamlessly. It sounds like the sort of nightmarish scenario that spawned a thousand Isaac Asimov novels. But it could take data gathering into previously unimagined new realms.

The so-called Internet of Things will see embedded sensors in retail store products communicating with head office. Individual components can be tagged throughout the supply chain. Inventory management will be revolutionized – many retailers are already adding RFID tags to clothes to make restocking easier. The ability to see an inventory of all the products on a sales floor or in a stock room in seconds leads to real-time information and speedier decisions, and has already proved attractive for some.

But the real fillip is customer data. By understanding which objects customers have picked up, and even aligning this to past purchases, highly targeted recommendations of the kind that websites make in seconds can be taken into an offline environment. The machines are ready to talk – but what are they saying?

You want it *when?*

UK shoppers can get online orders delivered in 90 minutes. Could it help bricks-and-mortar stores regain market share?

Fashion doesn't come much faster than the shipping service being offered by European retail group Aurora Fashions, which is delivering clothes to British consumers within 90 minutes of an order being placed. It sounds like a publicity stunt – but could it actually be a retail breakthrough?

For around US$15, the owner of the Oasis, Warehouse and Coast high street brands will deliver to consumers in London and four other major British cities in double-quick time. Since launching in August 2011, the company claims a record delivery time of 18 minutes.

Aurora has outsourced delivery to start-up Shutl, which maintains a network of independent couriers. But the company has also rethought its logistics, using its store network as pick-up points rather than a central warehouse, with staff incentivized to fulfil orders within a time limit.

Shutl claims the service will give Aurora a head-start over pure-play internet-only rivals such as Amazon, particularly at peak periods. **Marc Schonhage**, a retail partner in KPMG in the Netherlands, agrees: "Bricks and mortar retailers need to get creative as they feel the squeeze from pure-plays and comparison sites. This is an intriguing model a lot of companies will be watching with interest."

Pleased to greet you

Sharp-eyed consumers might spot something a little different about the greeter welcoming them to Duane Reade's flagship pharmacy in downtown Manhattan. For starters, she's not exactly human.

The US drugstore uses holographic assistants at three of its stores, including two at UK airports. Each virtual greeter reads from seven scripts explaining elements of the shopping experience.

"The virtual aspect captures shoppers' attention from the moment they enter the store," says Paul Tiberio, Senior VP of Merchandising & CMO for Duane Reade. "As she is so compelling, customers are then very receptive to the wealth of information she provides."

Australian retailer Harvey Norman is undertaking a similar experiment. And Japanese department stores have used robots to help shoppers find their way around. **Mark Larson**, Global Head of KPMG's Retail practice, says: "Early adopters of such technology will benefit from the novelty factor. But in the long run, businesses will be looking for hard evidence that ideas like this are more than just gimmicks."

Trend Spotting

Brazil's consumer dividend

The country's retail market is changing rapidly. That presents an opportunity, says **Carlos Pires**, Head of Consumer Markets, KPMG in Brazil – but only for companies who move quickly and understand the terrain

The World Cup comes to Brazil in 2014, but it isn't eager soccer fans who are turning the streets of Rio into a veritable United Nations. Suddenly, the air is thick with Spanish, English and a host of other languages – the human face of Brazil's fast-arriving economic maturity.

This most colourful of countries is undergoing a profound, once-in-a-century social change that brings with it a welcome opportunity for consumer markets companies. Business weekly *Istoe Dinheiro* estimates 35 million people will enter Brazil's middle class by 2014, adding to the 32 million who joined its ranks in the seven years to 2010. These new consumers have ample access to cheap credit, and are particularly keen on the latest electronic gadgets. The appreciation of the Real over the past few years has sent prices of tablet computers, PCs and televisions tumbling. GDP grew 7.49% in 2010 and though the economy has slowed in recent quarters, there is little doubt about Brazil's right to sit at the top table of global economics.

"A number of major chains have yet to move into the country"

Natural resources have been the poster child of the Brazilian boom, led by acquisitive companies such as Petrobras and Ipiranga. But consumer markets companies, particularly food retailers, have also benefited. Casino, Carrefour and Walmart form the country's big three, and market consolidation has been rapid. But there are still openings – medium-sized chains in Rio or the north east of the country may be open to acquisition – and a strong chance of further growth in non-food, which has attracted significant investment. A number of major American and European chains, from Target to Tesco, have yet to make a major move into Brazil and may be circling, say some.

They should expect to lose money at first. The Brazilian consumer market is bountiful, but tough. Taxation is baffling in its complexity, and punitive in its size. Logistics are improving, thanks in part to the World Cup and the 2016 Olympics; however, logistic costs are equivalent to around 10% of GDP and getting goods to rural areas remains arduous. And while an unemployment rate under 6% is good news for locals, it has led to wage inflation and a talent shortage in cities. Other Latin American countries, and European nations such as Spain, have begun to plug the gap, supplying willing migrant workers.

Economists fret about a credit bubble, and the number of consumers entering the housing market is a worry. But Brazil has political stability and a government that has refused to interfere with the markets, particularly when it comes to retail. It is making headway on tax, where there is political will to change. Its companies are becoming internationally acquisitive beyond the natural resources sector, backed by government credit and support. For major companies, the question is not when to invest in Brazil, but how.

Download the KPMG report ***What does it take to win in Brazil?*** by scanning the QR code or visiting **www.kpmg.com/WinBrazil**

"In the next five years, prices are only going in one direction"

Dr William Fung's company is a vital cog in almost every major supply chain. But how will soaring costs alter his sourcing strategy?

If you were looking to crown the most influential, best-connected company most people have never heard of, you might start your search at one of the most conspicuous addresses in Hong Kong. Looming over the city's bustling Sham Shui Po district is the headquarters of Li & Fung, the sourcing and logistics company that provides the operational heft behind China's dominance of consumer goods.

Li & Fung does not shout about its achievements, but its value as a power broker in global supply chains inspires awe among its Western rivals. If it is Made in China, Li & Fung knows about it and probably helped it on the journey from factory to shelf.

Founded in Guangzhou, China, in 1906, the company has become increasingly vertically integrated and now offers everything from product design and material sourcing to shipping services for retailers and manufacturers including Walmart, Toys "R" Us and Avon. It distributes in more than 40 countries and turned over US$15bn in 2010, with profits up 27% at US$551m. In July 2011, it announced the acquisition of five companies to boost its design and distribution arms.

Change is in the air, however, for a company that set itself an ambitious (overambitious, say some analysts) target of doubling operating profit in the three years to 2013. Chairman Victor Fung will step down by 2012 to be replaced by his brother, Dr William Fung, currently Group Managing Director. Meanwhile, the landscape is shifting, according to a new report from KPMG International – *Product Sourcing in Asia Pacific* – which identifies rising manufacturing capabilities in Bangladesh, Vietnam and other fast-emerging countries, as well as growth in exports of hard goods from India.

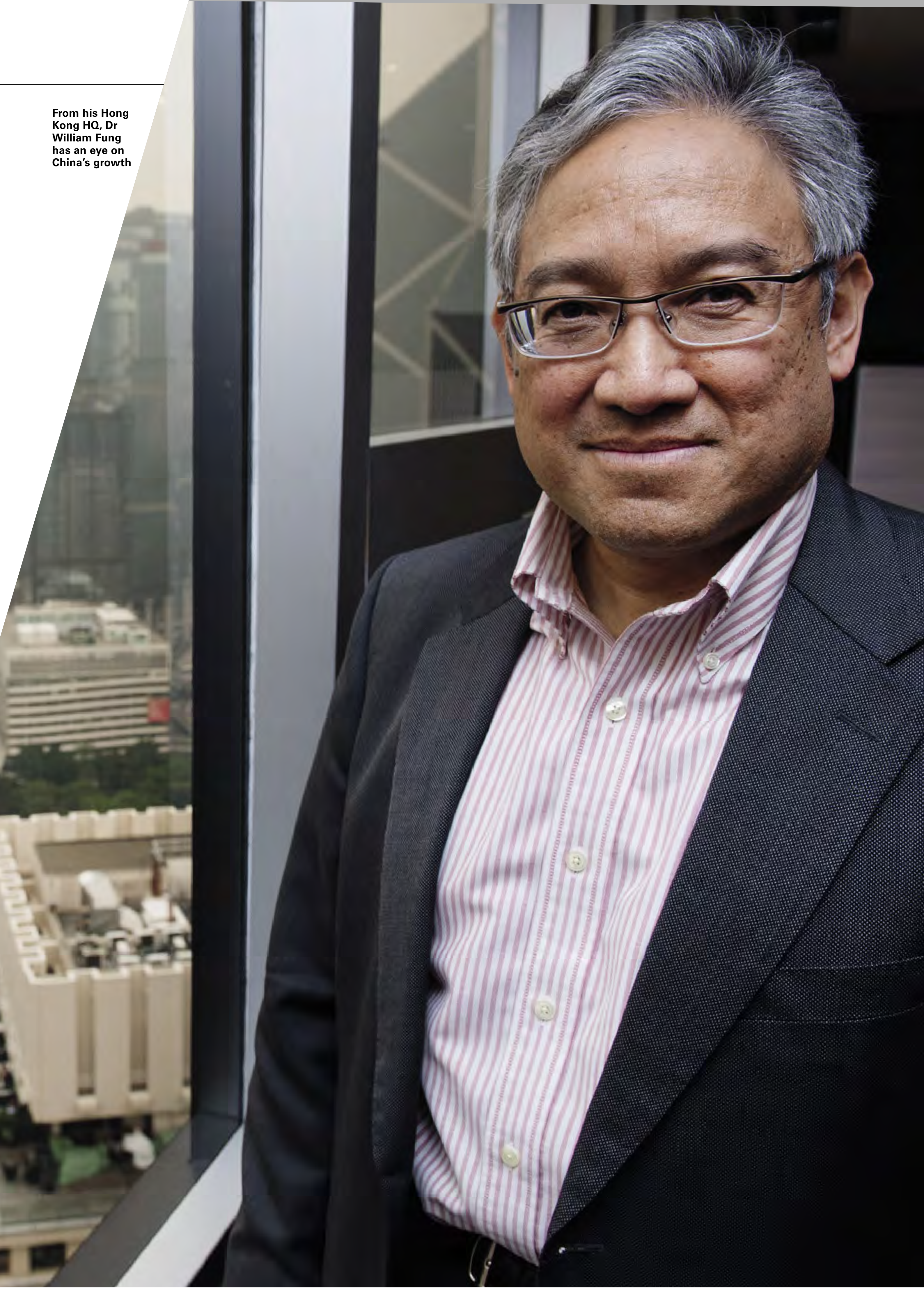
It means multinationals looking to eke out growth in a reshaped economy must consider their options carefully. It also means Li & Fung must stay on top of a changing marketplace while it juggles its own internal restructuring. Which is why *ConsumerCurrents* visited Dr William Fung to understand where Asian sourcing, and his company, will go next.

How do you view the Chinese economy at present?

Right now, there are fundamental things happening in the market relating to China and how it impacts the world. We are preparing for that transition. There will be changes in what is sourced out of China, the way China looks at its export business and the direction it hopes to take.

How would you define that direction?

What we see coming up in the next three years and beyond is a new era. China seems to work in cycles of 30 years. The first cycle was from the founding of the People's Republic in 1949 to 1979, when Deng Xiaoping ▸



From his Hong Kong HQ, Dr William Fung has an eye on China's growth

opened up China to the rest of the world. Almost overnight, the world's workforce increased by around a fifth, impacting every area of labor-intensive manufacturing. From 1979 to 2009, the next 30-year cycle, China fulfilled its first promise: to become the factory of the world.

What we saw in 2009-10 was a second abrupt change in policy after the Foxconn effect [following a series of suicides at Foxconn's electronics factories]. Foxconn's response was to double the wages of its workers over a period of three months. The move was tacitly approved by central government and has since become a distinct policy shift as part of the country's Five-Year Plan, which mandates a 13% annual increase in minimum wages over five years.

What you will see now is the third era of China from 2009 to 2039, in which it will become the world's largest consumer market. That has implications for many things: both for our company and for China as a sourcing market. It has implications for all our customers around the world.

The Chinese minimum wage is already four times higher than other parts of south east Asia. Will a new wage hike hurt its competitiveness?

China is already the second largest economy, but in terms of the consumption economy it is way behind. It only spends about 40% [of GDP] on consumption, compared to around 70% in the US. If money goes into workers' pockets, it will help domestic consumption become the second engine of growth in the country.

The real crux, however, is that China has been looking for another, alternative engine of growth. It wants to follow Japan and Korea and make automobiles and high-end electronics, moving away from just the assembly of goods. It's a long-term strategy: it will use this to push wages up and at the same time force change in its export strategy to focus on high-value goods.

Will China ever compete with Japan in terms of innovation?

Innovation is problematic because China has always manufactured for another market – and until it develops a large domestic market, that's not going to happen. Japan has cutting-edge design because it has a large domestic market: China has never had that. China was designed as an export market, so what did it manufacture? The tastes of Europeans and Americans.

What is your new China strategy?

Our customers are primarily based overseas, in the US and Europe. The whole strategy is about diversification away from China or, I should say, diversification away from the higher cost centers in China to lower cost centers. After that, we are looking towards the next generation of countries. This is a cycle we have seen many times before – after all, ours is a 105-year-old company.

China suffers from a perception that its infrastructure is insufficient to support growth. Is that still an issue?

It's only in the last ten years that China has really worked on infrastructure in terms of building roads. And it has built an incredible network – the road system is now bigger than in the US. Despite this, it's still clogged. They are doing all the right things, but the growth is so explosive that they haven't quite been able to keep up with it. Look at the ports and the airport infrastructure being built: it's incredible what they've achieved, but what is even more incredible is the demand.

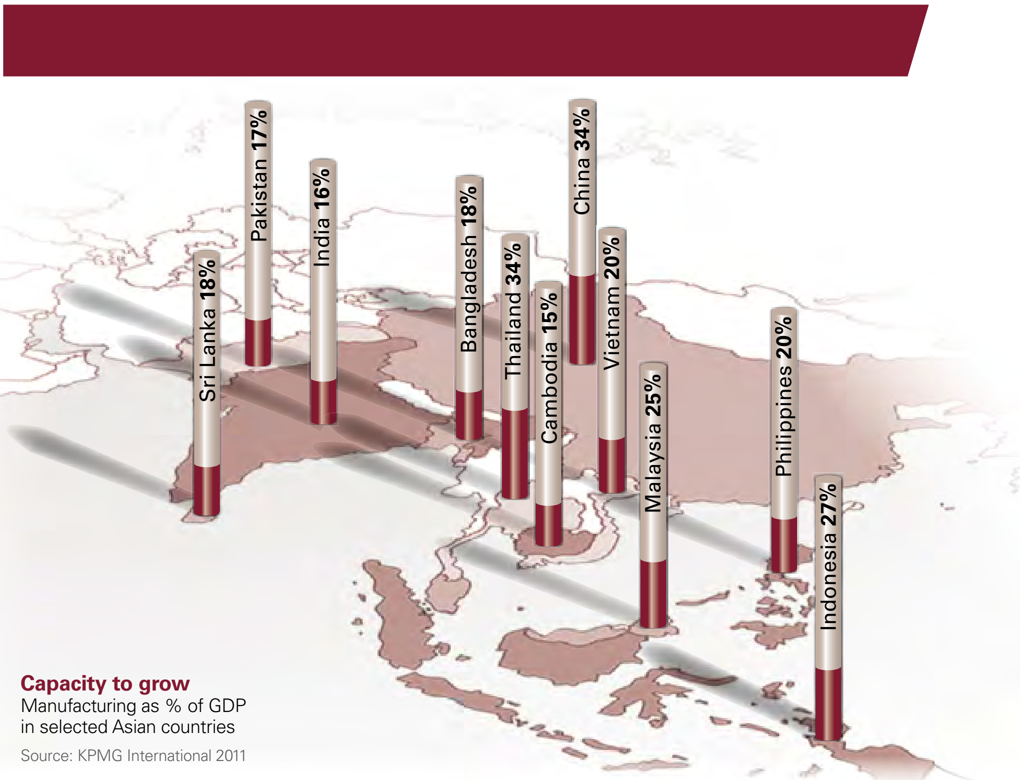
If China is no longer the factory of the world, which countries might take its place?

We are always looking for the next market. These include parts of south east Asia, such as Vietnam and Cambodia, plus a revival in Indonesia. Bangladesh is finally taking its rightful place as a labor-intensive economy. And then there is India. There are one billion people in India and 1.3 billion in China – not that much difference. You add Pakistan, Bangladesh and Sri Lanka, and that's as big as China.

Then, of course, you have the newly developing countries in Africa and Central and South America. A lot of the consumer non-durables we manufacture are labor-intensive, such as garments, shoes and toys. So there are many developing countries that would love to take over what China does not want as it moves from an agricultural to an industrial economy. The march is on. But don't forget the rest of the world will not react like China. China's was a centrally planned economy – in 1979, when Deng Xiaoping opened up the country, it changed overnight.

What advantages do the emerging sourcing markets in south east Asia have over China?

Raw materials. China has a lot of labor, but its Achilles heel is that it doesn't have many natural resources – it has to import them. South east Asia is beginning to deprive China of raw materials. Countries are saying: "Don't export timber, don't export rubber and wood. I want my people to work higher up the value chain, to set up factories to use the raw material." But although these countries have cheaper labor, China makes up for its higher costs by being super-efficient.



Capacity to grow
Manufacturing as % of GDP in selected Asian countries

Source: KPMG International 2011

Will Africa ever enter the equation?

We try hard in Africa but it's hampered by politics. Companies like us will go to Africa and try to find factories, but it will take years to construct infrastructure. Whereas the situation in 1979 in China was totally different. And China was big: nobody can replace that level of production. So the initial short-term effect [of rising Chinese wages] will be an increase in prices.

Are you suggesting the era of low-cost manufacturing is becoming unsustainable?

In 1979, Gap jeans were retailing for US$25 a pair. Today, they are still retailing for US$25 a pair. From 1979 to 2009, prices were kept down by the great abundance of workers in China who were hungry to produce. China subsidized the standard of living around the world, especially in the US, by providing goods every household could afford. But now consumers may have to pay more and as a result will probably consume less. Which is a good thing – now people will not throw away a pair of jeans after wearing them a couple of times.

How are you able to keep your own prices down?

I am asked that question literally every day by my customers: "Can you keep the same prices?" I say I can't. You have got to live through a period of high prices. Yes, there is more to a product line than merely labor, but unfortunately all the other production processes are going the same way.

On the one hand, China and India, the two most populous countries in the world, are now becoming consumer markets – they are consuming more raw materials and energy, meaning raw material and energy prices are going up. In the short term, energy prices are also being driven up by the problems in the Middle East. Plus, most raw materials are denominated in US dollars and the government is depreciating the dollar. All those trends feed into higher prices and in the next five years there is only one way for prices to go: up.

But don't think that sourcing is just price, price, price. Look at the whole system holistically. The biggest cost may not be your production costs, it may be the cost of buying the wrong merchandise. The whole idea of a quick-response market is a very important part of sourcing. Turkey is our quick-response market for European customers, and Central and South America are our largest quick-response markets for the US.

Vietnam is one of the countries Dr Fung believes will challenge Chinese hegemony

> **"Your biggest cost may not be production – it may be the cost of buying the wrong merchandise"**

Which companies do you think are breaking the mold?

Zara. They are buying a lot of their goods in Europe, yet they are making a lot of money. That's because they are quick to market and manufacture late in the cycle, so they are not producing something they cannot sell. If you go to a Zara store in Hong Kong you see "Made in China" stuff. Those garments were shipped to Spain and then air-freighted back based on demand.

The idea of having one area to hold your inventory, rather than holding it in different countries, is part of their strategy. A lot of retailers are allocating their production and shipment to different countries, meaning their products are locked in there: you can't sell them and you have to discount them. Zara has a different philosophy. They are revolutionizing retail.

Li & Fung is growing rapidly. How do you manage to retain control?

Well, you lose a few black hairs [laughs]. It's not a matter of control. It's more about leading than controlling. It's about showing the direction and then making sure that everybody else falls in line. You can imagine that in our business of 26,000 people in 40 countries around the world, thousands of different decisions are being made throughout the day. Our managers must be extremely flexible.

The one hallmark of our strategic planning is the ability to take advantage of trends and change – and change sometimes radically, to the point of reinvention. A manager must have foresight, and if the change required is so dramatic as to warrant a reinvention then they have to do that. That is beyond a lot of people, even if they see the change coming.

Download the KPMG report ***Product Sourcing in Asia Pacific*** by scanning the QR code or visiting **www.kpmg.com/SourcingAsPac**

Reporting green

Understanding how sustainable you are has become vital for large businesses. Do you have the answers to probing questions?

How many of your employees died at work last year? How much less energy are your new stores designed to use? And how is that initiative to make clothes out of recycled packaging coming along?

These are the kinds of questions consumer markets companies and their suppliers will have to answer – and publish – as the drive towards sustainable reporting gathers momentum. It is not enough to be green: you have to be seen to be green. And just to make the challenge a little steeper, the definition of 'sustainability' has now broadened.

It is no longer enough to publish figures that show how much you recycle or how much less CO_2 you emit for every dollar of revenue. You also have to show that the products you sell or make are not being manufactured using child labor, and that you are aware of the impact your business has on local communities.

By becoming more transparent, companies may risk negative media coverage. But they also have the opportunity to build positive brand associations with both consumers and the business community. And in any case, the rapid global spread of information made possible by the internet is making disclosure essential.

"The easiest solution would be to keep your head below the parapet and hope no one asks difficult questions," says Professor David Grayson, Director of the Doughty Centre for Corporate Responsibility at Cranfield School of Management. "But difficult questions are being asked these days. The reality is that, in a WikiLeaks world, information is going to come out anyway."

Does criticism of a company's social and environmental impact matter? While some argue it is hard to identify ROI on the cost of sustainable reporting, the case seems reasonably clear. The consultancy Interbrand has estimated that the world's most valuable brand, Coca-Cola, is worth US$70bn in reputational terms. Any criticism, boycott or misjudged risk that damages it has a financial impact on Coke: the brand is the company's most valuable asset.

Alongside the risks is opportunity. Your ability to win new consumers in emerging markets might be enhanced if more efficient use of resources helps you cut costs and develop newer, more frugal products.

Companies are starting to see sustainability reporting as central to their business strategy rather than a PR requirement. With environmental impact increasingly likely to affect corporate value, information on risks and opportunities must be made available to investors and other stakeholders – in the same way that businesses report on financial performance.

"Companies are increasingly aligning this activity under the CFO, asking the head of sustainability to report to the CFO," says **Ted Senko**, KPMG's Global Chief Executive of Climate Change and Sustainability and a partner in the US firm. "But when it comes to financial reporting, companies have well-developed systems, procedures and internal controls. The information in sustainability reports is much more anecdotal."

Fishing for compliments

Some companies opt for an 'edited highlights' strategy, which dazzles with spectacular figures and prizes: an award here, a million fewer plastic bags there. Norwegian fishing giant Cermaq goes even further, offering five-year statistics on key metrics, disclosing concerns (such as criticism by NGOs like Friends Of The Earth, relations with the indigenous population of British Columbia and fatalities at work) and the international standards it is trying to achieve.

Cermaq's commitment reflects a shift in corporate attitude. In 1999, only 24% of companies across all sectors had sustainability reports. In 2011, this figure had risen to 64%, according to KPMG research. As the charts opposite demonstrate, sustainability reporting is now being taken seriously, and consumer markets businesses – driven by stakeholder interest – are leading the way.

"Many companies started reporting because of external pressure from NGOs, and then because their peers were doing it," says **Wim Bartels**, Global Head of Sustainability Assurance at KPMG and a partner in the Dutch firm. "Now more investors worry about it."

The Carbon Disclosure Project – which acts on behalf of institutional investors to persuade companies to report on the business risks and opportunities presented by climate change – has a collective US$71 trillion in assets under management.

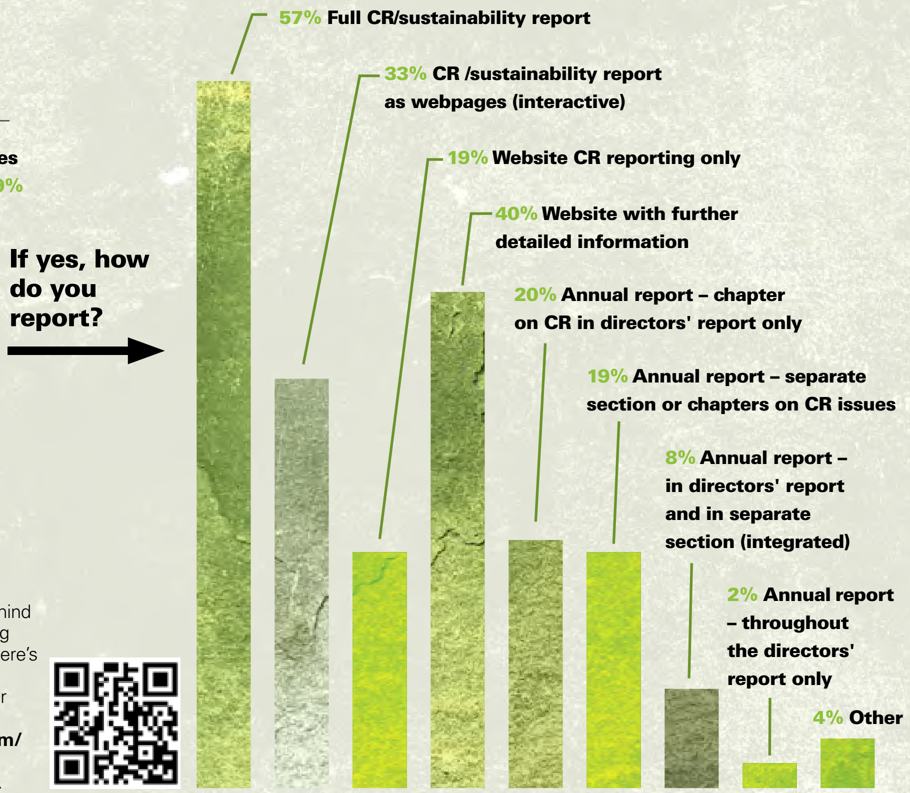
Major corporates are taking note. Coca-Cola's annual report includes the revelation that the company uses 309 billion liters of water a year across its production processes. Procter & Gamble publishes an annual sustainability report separate from its financials, detailing greenhouse-gas emissions by sector and the amount of waste it produces.

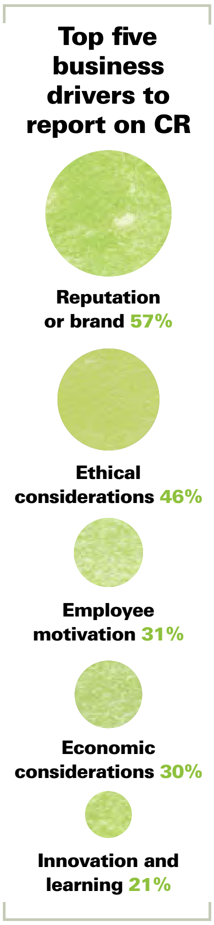
It is relatively easy for a company to acknowledge the importance of sustainability reporting. The difficult part ▶

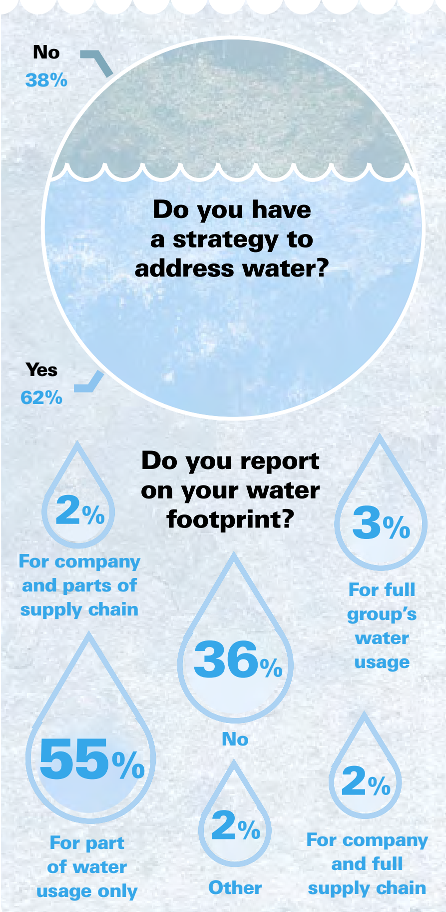
Vital statistics

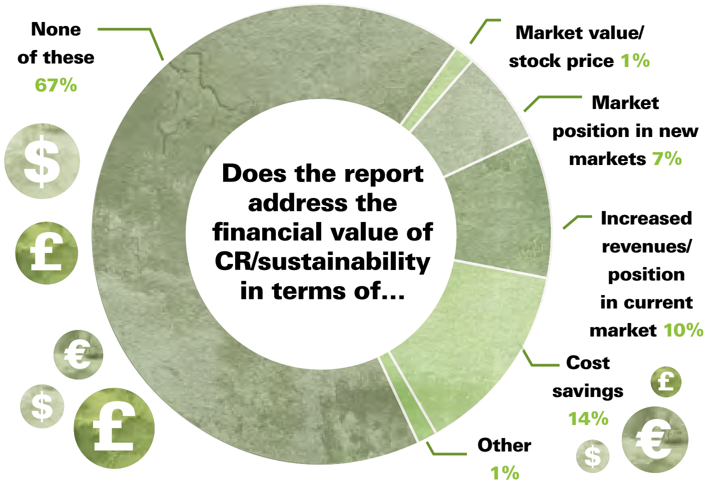
How the biggest consumer markets companies report sustainability

The best companies report sustainability with flair and depth – but overall, the market is varied. That's the picture painted by KPMG International's *Corporate Responsibility Reporting Survey 2011*, which looked at 3,400 of the biggest companies in 34 countries. On this page, *ConsumerCurrents* analyzes the results for consumer markets companies, which lag behind many sectors on reporting (see bottom right). But there's good news on depth of reporting (right) and water strategy (below). For the full report, visit **kpmg.com/CRRSurvey** or scan the QR code on the right.



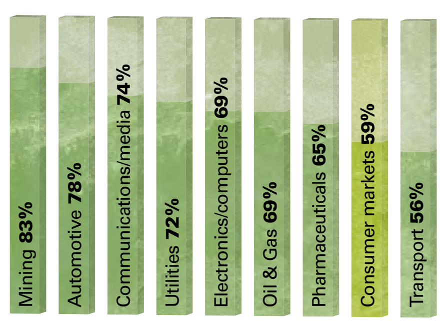






State of the markets

Number of companies reporting sustainability in selected sectors



"Consumers will still pay for sustainability"

KPMG's Special Global Advisor, Climate Change & Sustainability, Yvo de Boer (below), on the fight for commonly accepted goals

Are we moving towards a single, commonly accepted set of sustainability standards?
We are making progress, but the problem is companies have so many different methods for reporting. It not only creates a huge amount of work but it is also very confusing. Significant initiatives are taking place to streamline things and ensure there is one common set of parameters, but that involves extensive discussion.

What are the main barriers to achieving those goals?
It's about agreeing on that common set of parameters companies feel should be reported. You will always have a number of indicators that are company-specific or sector-specific because they're not relevant to everyone. The IIRC [International Integrated Reporting Committee] is in discussion but it's difficult to say when it will reach a conclusion. Companies are in favor of standards but they also want a better understanding of what they are getting into.

How will shareholders react?
Sustainability is increasingly high on the list of shareholder priorities, which is why a growing number of companies around the world are beginning to report in a more integrated way. That information is starting to influence investment decisions and consumer confidence, plus a number of companies see sustainability as a way of cutting costs or enhancing their brand.

Is there a correlation between economic turbulence and lowered interest in sustainability in boardrooms?
I don't see that – partly because being active in sustainability can be a significant cost-saving opportunity for companies. And in a constrained market it can be a significant way of enhancing your brand for consumers.

Many retailers believe consumers will not pay a penny more for sustainability. Do you agree?
No. Analysis shows that consumers are interested in sustainability, and in a number of instances are willing to pay more for it. A lot of retailers are spending heavily on marketing sustainability. But it isn't something that automatically means higher costs. For many companies, it's actually an opportunity to reduce costs. Some retailers have been able to realize very large cost savings in packaging and transport of dairy products, for example.

Do you sense the same enthusiasm for sustainability in emerging economies that you see in the West?
Purchasing power in those countries is much lower. But a number of retailers are reacting by marketing and packaging products in different ways – for example, by selling washing powder or toothpaste in smaller packages that are more accessible to lower-income groups.

is creating processes, procedures and systems to generate robust, meaningful information that can be compared.

For a start, the areas that need to be reported on vary tremendously. While a food retailer might focus on labor conditions among smallholder farmers in Africa, a furniture-maker might highlight the percentage of wood it sources from sustainably managed forests.

Bartels says identifying what is material to a company is part of its learning curve. "The next phase is focusing on the sustainability issues that really matter to businesses – that's when this becomes a management tool."

Once companies have gone through the process of rigorous self-analysis – talking to different stakeholders along the way – the challenge is how to measure and report accurately.

Reporting on the impact of industrial water use poses particular problems. Carbon emissions can be measured by the tonne and retain the same value wherever they are emitted, but the impact of water consumption varies considerably according to whether it is being extracted from a country with an abundant supply of water, such as Scotland, or water-stressed parts of sub-Saharan Africa. Tracking the environmental and social footprints of business partners across complex supply chains is even tougher.

It remains hard to make performance comparisons across companies. "If two companies in the same sector report on carbon emissions, they might have different approaches, scope, definitions and methodologies," says Bartels.

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Corporations are often pursued for their environmental practices – reporting offers a way to tell good news

The search for data

One disincentive to embarking on sustainability reporting is that it costs a lot of time and money. Yet companies need to take reporting seriously. "If you don't have your act together and don't understand the issues, you run the risk of greenwashing," says Bartels.

Plagued by such variables and uncertainties, many companies struggle to find robust data in their sustainability reporting. KPMG's research suggests that almost a third of the largest companies produce a restatement.

"In the financial world, you couldn't imagine a board looking at the financial figures and saying there was a 50% error," says Bartels. "That's no way to manage your business."

"Ensure what you do is as auditable as possible," advises Senko. "But it's also important to invest in systems. If you get it right, you can use sustainable reporting to make business decisions and set strategic targets to hold people to account. That doesn't mean you have to hire new people or change skill sets, but you might need some expertise around the metrics you are collecting."

Technology can help. Software and database tools, connected to remote sensors in factories and supply lines, can make more accurate assessments of resource inefficiencies such as water leaks or heat loss. For companies with global operations, IT is essential to make sense of the mass of data.

The systematic approach, the need for accuracy, and the scope to use data to improve efficiency all explain why CFOs are increasingly being asked to shoulder this task. Senko says internal audit departments are being beefed up, as companies view sustainability reporting as a task requiring forensic analysis.

Progress is being made, but when assessing the reporting practices of 132 companies in the consumer sector for its *Measuring Up: Improving Sustainability in Consumer Markets* report, KPMG found a wide variance in the quality and quantity of information reported and the types of data captured.

"There's still no de facto requirement, whether through regulation or peer pressure, to produce high-quality information," says Senko. "Professional bodies set certain standards but they don't always offer assurance."

CFOs who remain dubious about sustainability reporting may have to reconsider. Such reports are becoming mandatory. A base level of sustainable information is now compulsory in 10 of the world's most significant economies. Since 2009, Denmark has required large companies to include information on sustainability in their annual reports or to justify its absence in a statement. More stock exchanges have listings requirements that include disclosure on environmental impacts and governance.

Adoption of 'integrated reporting' – through which companies connect corporate strategy, governance and financial performance with social and environmental performance – is gaining momentum. In October, the International Integrated Reporting Committee launched a pilot programme it hopes will lead to a new global standard.

Global regulations requiring reporting are far off. The ability to benchmark sustainability information as effectively as its financial equivalent remains elusive. But things are changing.

Bartels believes more time needs to be spent learning about what works and what doesn't before legislation sets reporting practices in stone. "If we don't, we'll create serious cost issues, and we'll end up with a box-ticking exercise – companies will comply, but only because they have to."

FACT FILE
Name Gilt Groupe
Founded 2007
Headquarters New York, USA
CEO Kevin Ryan
Employees 450
Website www.gilt.com

Online fashion aims high

Web-based sample sales are reshaping designers' business models. But will ambitious Gilt Groupe's expansion plans explode the market?

A vast, bright upstairs studio in New York's achingly bohemian Chelsea district. A group of buyers and designers huddle over a black designer dress from one of fashion's biggest names. A photographer looms, ready to capture the perfect shot.

But the ensemble will never reach Manhattan's boutiques, or the fashion-hungry streets of Beijing. It is destined for the 3.5 million members of Gilt Groupe, the online sensation that's disrupting the luxury goods industry with its exclusive sample sales and audience insight.

Sample sales are nothing new in fashion. They began as invite-only events organized by labels or retailers to sell past-season merchandise at vastly reduced prices. Early-morning queues of elegantly dressed women loitering outside improbable warehouses became a familiar sight from the 1980s onwards.

By the turn of the century, French entrepreneur Jacques-Antoine Granjon had taken the idea online. His Vente-Privee business is now the market leader, with sales of US$1bn in 2010. Rivals such as HauteLook, Rue La La and the China-based Glamour Sales site – which claims to have recruited 600,000 members in its first year – have helped create a market with such velocity that major brands cannot launch a new line without engaging the online discounters.

Gilt – launched in 2007 by Alexandra Wilkis Wilson, Alexis Maybank and Kevin Ryan, former CEO of DoubleClick – is the impetuous upstart of the group. But its unique model, and its sheer ambition, are causing ripples in the industry.

Gilt's premise is simple. It launches sales at noon EST, which last 36-48 hours. With 17 events a day, attracting up to 100,000 visitors each, the discounts are deep: from a Derek Lam dress reduced to US$499 from US$1,350 to half-price Burberry boots at US$499.

For brands, the attraction is a gated community that protects the exclusivity they treasure above all. Gilt understands this only too well. "We have two types of customers: our actual members, the shoppers, and our brand partners, who we really want to portray in the best possible light," says Wilkis Wilson.

Maurizio Castello, a partner in Transaction Services at KPMG Italy, says he sees a growing number of brands signing agreements with off-price sites. "These sites' main challenge is operational," he says. "They need to be sure they can deliver in the sizes and volumes their customers demand."

Gilt's logistics are well-regarded. But its cutting edge is its deep customer understanding. "When you receive an email from Gilt Groupe, it's based on everything you've ever bought in the past," says Ryan. "Gilt has an incredible amount of information about its customer base, more than any other e-commerce business… we know every single page any member has ever seen."

This information is invaluable to Gilt's buyers. It means the company doesn't take on inventory risk, placing a reserve order with vendors and confirming quantities only after the online sale has ended. It also frees up working capital.

In 2010, Gilt posted sales of US$270m and expects to hit US$500m in 2011. Recent investments value it at US$1bn, but it has yet to turn a profit. Ryan believes market consolidation will help it into the black ahead of a 2014 target.

Gilt's sales figures would appear to suggest a Midas touch. But analysts point to the finite supply of excess product, and Ryan admits theirs is "an easy business to start, [but] a really hard business to scale." His plan is to use their sophisticated technical platforms in wider markets – Gilt has expanded into menswear, children's wear and home décor. Gilt City is going head to head with Groupon with weekly, location-based deals to Gilt members.

The real surprise was Gilt's leap into full-price merchandise. Park & Bond, its new menswear site, is a natural progression according to Ryan: "Over time, I wouldn't be surprised if 50% of our revenue came from full-price… when you think about it, the market is bigger."

Steven Dennis, an independent retail consultant and former SVP of Strategy at department store Neiman Marcus, says: "Off-price companies have grown rapidly, attracting members and significant investment capital, but the rocket fuel during the height of the recession was the substantial amount of surplus inventory manufacturers and retailers were desperate to turn into cash."

Dennis sees the fashion industry producing specifically for off-price channels, which requires a higher mark-up than Gilt has been prepared to offer. According to some sources, up to 40% of Gilt's womenswear is already exclusive to the site. That could damage smaller brands' equity by forcing them to become discount designers. It could also fatally undermine Gilt's USP, making it effectively just another retailer.

High-end brands' engagement with online retailers is growing slowly. The internet offers a distribution channel, but its marketing value is less clear. "If you want to create a DNA for your brand, the internet can't provide that," cautions **Hélène Béguin**, Head of Luxury Goods at KPMG and a partner in the Swiss firm. But she says a multiple-brand model such as Gilt has a useful operational role to perform for brands in disposing of stock.

Ryan remains characteristically bullish. He believes e-commerce will account for 10-20% of total retail sales within five years and says Gilt will "probably" enter an IPO within three. There are many in the industry who are desperate for them to succeed. But there may be more than a few who privately hope Gilt and its ilk will prove another dot-com flash in the pan.

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Gilt is taking high fashion to the cost-conscious. But how long will the magic last?

Pricing

On the move
Half of consumer goods prices in the US last less than 4.3 months before being changed, says the National Bureau of Economic Research

The price isn't right

Companies have used everything from technology to psychology to sharpen pricing strategy. So why can't they agree on what works?

Management guru Peter Drucker understood the mechanics of business possibly better than anyone in history. But when it came to price, he found himself banging his head against a corporate brick wall.

"The worship of premium pricing always creates a market for the competitor," Drucker explained in 1993, citing numerous examples, from fax machines to autos, where high-end manufacturers had been destroyed by more cost-conscious competition. He railed against the concept of "charging what the market can bear" and "cost-plus" pricing, where executives measure the cost of production and add a pre-determined margin to create a final price. "Cost-driven pricing is the reason there is no American consumer electronics industry any more," said Drucker.

Despite such warnings, businesses continue to suffer pricing disasters. From the auto manufacturer that went bankrupt by continually slashing costs to maintain the holy grail of market share, to the retailer that launched a range of value products that turned out to be more expensive than its existing special offers, nobody seems able to agree an effective strategy that resonates with consumers.

"I'd say 95% of companies don't take the time to get the price right," says Rafi Mohammed, author of *The 1% Windfall*. Robert Shaw, Professor of Marketing Metrics at Cass Business School in London, has worked with a range of leading consumer markets companies. He says pricing is often irrational, if not potentially ruinous: "Prices are sometimes set by people at the top whose only aim is to undercut a competitor, even at the expense of destroying their own products. It is often riddled with company politics."

RIP for RRP

The recession in Western markets has brought pricing into sharp focus, particularly for the retailers who sit at the forefront of the issue in consumer ▶

Step by step
Raising the price of a sale item in stages is 55% more profitable than doing it in one go, according to University of Miami research

markets. "Retailers have traditionally been poor at pricing, and in many instances historically priced goods at recommended retail price (RRP)," says **George Svinos**, Head of Retail, Asia Pacific at KPMG and a partner in the Australian firm.

Competition issues have forced them to consider more dynamic strategies, but the process of change is slow. Many companies have leaped slavishly from RRP to an Every Day Low Price (EDLP) model of the kind pioneered by Walmart, which eschews special offers in favor of consistent low margins. This approach has been aped by European discounters such as Lidl, but it isn't an easy path to follow.

It also doesn't work in every market – in Latin America, some Western retailers have abandoned universal EDLP, as consumers raised on a diet of two-for-one offers are simply turned off by the lack of deals. The rise of couponing in the US (see chart opposite) suggests that consumers there are more educated than ever about the intricacies of discounting.

The resulting confusion is hitting the bottom line. A September 2011 survey from Simon-Kucher & Partners says the EBITDA margin of retailers with clear, effective pricing strategies is 16%, some 25% higher than rivals. As a further example of the schoolyard mentality in play, the same survey found that 83% of respondents who were engaged in a price war said that another company had started it.

Who is getting pricing right, and what are they doing? Svinos points to warehouse club Costco, which uses the cost-plus strategy across all categories, but with a twist: "It claims to add only the cost of service to the basic price, making its margin from membership fees." In tough times, this honesty clearly appeals to consumers: membership-fee revenue was up 10.1% in Q3 2011, alongside a rise in net profits.

Mohammed says Procter & Gamble is among a number of leading consumer goods companies that have been proactive in meeting retailers' needs by "versioning" – introducing cheaper ranges to sit alongside existing ones rather than engage in a price war. Its Charmin Basic toilet

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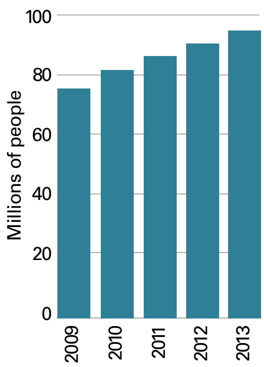
Hunting for a bargain
US consumers using online coupons
Source: eMarketer, May 2011



Inspired by a reality TV show called *Extreme Couponing*, US consumers are scouring the web and regional newspapers for bargains. Police report that stacks of papers are being stolen by desperate shoppers.

tissue and Bounty paper towels have shaken up the sector, and it claims they outperformed even private labels as shoppers traded down in recession. P&G is not afraid to withdraw such products when it believes the market is ready to trade up again, rather than risk cannibalization: in mid-2010, it quietly eliminated its entry-level range of Tide laundry products.

Others used the global downturn to try radical pricing experiments. In 2008, Best Buy offered two years' interest-free credit on all purchases over US$999 and succeeded in increasing its market share. Burger King reasoned that consumers would trade down from restaurants and introduced its first premium range in the US in 2010. Its US$7.19 BBQ smoked ribs were seen as a gamble by many commentators in a fast-food market dominated by discounting, but soon racked up unit sales of 10 million.

Location, location

In many sectors, the proliferation of the internet has turned a price war into a perfect storm. Price comparison websites have combined with location-based technology to empower consumers: when you can see on a map that a product is cheaper within walking distance, or online, you need a compelling reason to stay in a bricks-and-mortar store. Retailers are using services such as foursquare to lure consumers who actively seek discounts, armed with precise data about who (and where) they are. This issue quite literally mobilizes people: Svinos says the Australian sporting goods sector is feeling the pinch because discount websites undercut prices in real time.

Consumers share information about pricing via social networks, creating pressure points that can move markets. Gino Van Ossel, Professor of Marketing at Vlerick Leuven Gent Management School in Belgium, says that thanks to word of (electronic) mouth, consumers in his country are increasingly willing to ship purchases from neighboring Germany, which has a more competitive retail market. This issue is one of many shaping a potentially inflammatory debate within

PRICING STRATEGIES OF SUCCESSFUL RETAILERS

Partitioning Removing a basic feature (like an ice-maker from a refrigerator) and turning it into an added extra people are prepared to pay more for.

Drip pricing Adding taxes or charges to a basic initial price. A tactic of low-cost airlines, it works because consumers fix on the first price they see.

Trading in People feel possessive about something they currently own. By offering them a discount to swap it for a newer model, they are willing to value it higher than they should. Consumer electronics retailers are increasingly employing such strategies.

Payday pricing Shoppers feeling the pinch will treat themselves at the start of the month, when they are newly paid – so special offers are best kept for later.

The compromise effect Put a 'super premium' product next to a premium one and it will look cheap by comparison: restaurants introduce an expensive item to the menu so other meals will seem more reasonable.

Sizing Many stores routinely make the discount price of an item larger than the original price on a label. Yet sales are actually higher when the original price is more prominent, and when the distinction between the two is made as clear as possible.

The perceived price matters as much as the actual price, say marketing professionals

the European Union about whether retailers should be forced to offer a single price across all its markets. Meanwhile, in Australia, a coffee manufacturer lost a court case against a discount retailer importing its products cheaply from Indonesia. Many major retailers have experimented with the "grey market" in a bid to control costs.

These disputes shine a light on the complex relationship between manufacturers and retailers over price. In the UK, these issues reached a head this summer when Pepsi disappeared from the shelves of the country's second-largest retailer, J Sainsbury, following a dispute over price rises. In many parts of the world, the annual round of price negotiations has become a heated affair that results in higher prices for already-squeezed consumers.

In the midst of such issues, retailers can be pulled in many directions as they try to define a coherent pricing strategy. Svinos admires the approach favored by fashion retailer Zara, which often matches store prices with those online. But Van Ossel says the complexity of pricing information presented to consumers means "price perception" matters far more than the detail. This is the basis of behavioral economics (BE), which examines the emotional and cognitive factors behind purchasing decisions and is catching the eye of many multinational executives.

Rory Sutherland, Vice Chairman of advertising giant Ogilvy Group, is a BE evangelist. He believes too many companies adopt "a neoclassical viewpoint on price" and have "woefully underestimated the sales potential of allowing people to pay in different ways".

"In order to buy something, I need to give myself psychological permission," says Sutherland. "Creating a different frame of reference allows that. Some people might be susceptible to rarity buys, being markedly more susceptible to 'only one left' offers. Some are influenced by social proof ('75 people have booked this in the past three months')." Marketers, he says, should ask themselves how many ways they can frame the same offer, then roll them out across relevant channels and markets to discover what works.

BE has influenced furniture retailers, which have learned from the way consumers value (and pay more for) items they make themselves. It has also driven the premiumization of coffee, such as Starbucks Frappuccinos. But, says Svinos, the smartest companies get the basics of pricing right: building internal decision-making processes that enable them to react to the market, learning from successful strategies in their own and other sectors and listening to consumers to understand how their views of pricing are evolving. With markets in flux, they are going to have their work cut out.

Seeing double
In June 2011, an error in a Scottish supermarket saw beer being offered at half price. Police were called after news spread via Twitter, causing a stampede

Eating well

Health-boosting food products are a lucrative holy grail for food companies. But it sets them on a collision course with big pharma

Willy Wonka set teams of eager Oompa Loompas to work developing cavity-filling caramels and vitamin chocolate in *Charlie And The Chocolate Factory*. For the largest global food groups, the goal of offering health benefits with your meal is slightly less eccentric but every bit as enthralling a quest.

Multinationals including Nestlé, PepsiCo and Danone are upstaffing R&D departments, eyeing strategic acquisitions and developing regulatory expertise as they blur the lines between everyday food products, nutrition and pharmaceuticals. At stake is a vast market that shows little sign of slowing its phenomenal growth: the 60% of global healthcare spending analysts Frost & Sullivan say goes towards managing chronic diseases such as diabetes, heart disease and cancer, and the millions of consumers with an interest in preventing such conditions.

The World Economic Forum says costs associated with the five most common chronic diseases will reach US$47 trillion by 2030. For food groups with a ready-made route to consumers, meeting such needs seems attractive – but they risk stepping on the toes of the pharmaceutical industry and entering a regulatory minefield far beyond their current experience.

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Food manufacturers have long been interested in nutrition, which has led to fortified breakfast cereals, vitamin-enhanced soft drinks and margarines with cholesterol-reducing properties. But the difference between such 'functional foods' and the nutraceuticals market – which focuses on management of specific conditions – is less distinct following a series of acquisitions and product launches from the food sector.

Nutraceuticals have, until now, been the preserve of smaller, regional producers, often spun out of pharma groups or with deep links to the sector. These include Roquette, the name behind cereal bars to help digestion and drinks focused on gastrointestinal health, as well as Abbott Nutrition – a division of Abbott Laboratories – which provides nutritional and therapeutic products for babies and children, bars and drinks to supplement adult health and products to support patients with chronic illnesses. According to BCC research, the nutraceuticals market is currently worth US$151bn but will hit US$205bn by 2016.

Buying big

"Governments and NGOs will get behind nutraceuticals because they have the potential to curb rising healthcare costs," says **John Morris**, a KPMG partner in the UK firm. "But the two industries' business models are so different. Food companies will have to invest far more than they currently do and bring in skills they don't currently possess."

Such realities are reflected in the headline acquisitions and investments being made in the functional foods arena. Danone took a majority stake in Swedish company ProViva – a market leader in health drinks – in 2010 and paid US$62m to acquire Medical Nutrition USA, which makes liquid protein supplements for the elderly. Fruit giant Dole has a sizeable Nutrition Institute in North Carolina.

Others have entered partnerships: Mars is working with Switzerland's Barry Callebaut to develop chocolate products which harness the circulation-boosting powers of cocoa flavanols. Kraft has an agreement with TyraTech, which is reported to be developing a cheese that kills intestinal parasites.

Nestlé made its own leap into the market in late 2010, promising a US$510m investment over a decade to "pioneer a new industry between food and pharma." In 2011, it has hit the acquisition trail, tying up four deals including the purchase of US-based diagnostics specialist Prometheus Laboratories and a stake in Vital Foods, which makes drinks to aid gastrointestinal conditions including IBS.

"We believe nutrition is the largest drug in anyone's repertoire," says Luis Cantarell, who was named President and CEO of Nestlé Health Science, a newly created division focused on nutraceuticals. "There is an opportunity for a new model that is closer to the pharma model in terms of value chain but has nutrition as a key element.

"Nutrition is one of the most overlooked elements when it comes to medical conditions. At present, you could say health has no economic value – the only value is in sickness. Nobody pays me to be healthy, but everyone is ready to support me if I get ill". Brain health and fighting cognitive decline, he says, are particularly interesting areas: the company already has a dog food it claims can halt the onset of canine Alzheimer's. In common with its competitors, however, Nestlé faces numerous hurdles as it explores the market. Most immediately, will consumers trust nutritional solutions from a company frequently associated with snack foods?

"Food companies will have to invest more and bring in skills they don't currently have"

Cantarell is bullish: "Nestlé has been in nutrition for many years, and I don't see any contradiction in providing nutritional foods for people. There are no good or bad foods, just good and bad diets. We firmly believe that and if we didn't, we wouldn't be in ice cream or chocolate. Every food has a role to play in diet. It's a question of balance and understanding."

But the more health claims food groups make, the more interest regulators take in their products. In the US, the Federal Trade Commission has taken issue with fruit juice makers who offer "heart-improving" drinks. The European Food Safety Authority has forced health claims off probiotic yogurts.

The result means manufacturers need rigorous testing regimes (including human testing) and the ability to engage rule-makers and medical practitioners. "They will have to demonstrate to the market they have the diagnostic capabilities to produce scientific evidence," says Morris, who believes food makers will "heat up the war for scientific talent" as leading minds are fought over by two industries.

Some have already been burned. The Center for Science in the Public Interest has pursued high-profile cases against fortified foods. Separately, Coca-Cola and Nestlé discontinued Enviga – a green tea that claimed to "burn calories".

Japan's Food for Specialized Health Uses (FOSHU) is a government-regulated scheme that offers a clearer route to market, with more than 250 products licensed. Still, the wait for a truly mainstream nutraceutical continues.

Cantarell is confident Nestlé's operational heft will help it succeed despite the "challenge" of regulation: "We're not trying to replicate the pharma model. It's not a race. We're creating our own solutions." But as Morris points out: "Food groups with price-to-earnings ratios between eight and 12 cannot afford to miss the margins enjoyed by pharmaceuticals companies."

The result could be consolidation in both industries – and, just maybe, a chocolate bar that makes the weight drop off.

India knows no boundaries

Could cricket – and the Indian Premier League – offer a template for taking the country's consumer businesses to the world?

Cricket is not a sport known for its radicalism. For a hundred years, it was a game contested by gentlemen in flannels and, to much of the world, it is a mystery.

In India it is practically a national obsession. When the national team, led by legendary batsman Sachin Tendulkar (pictured) won the 2011 World Cup, celebrations brought the country to a standstill. But it is India's domestic game – and its ability to monetize the fanaticism of the population – that has fascinated marketers and prompted researchers from Columbia, Harvard and others to decamp for Mumbai.

Launched in 2007, the Indian Premier League (IPL) brought US-style razzmatazz to a staid game. Within two years, it was valued at US$1.6bn, making it the world's fifth most valuable sporting property, according to *SportsPro* magazine. In 2011, matchday audiences regularly topped 100 million.

IPL has attracted hefty investment from brands such as Pepsi and Wrigley's. But its runaway success is down to more than canny marketing, and could hold lessons for Indian businesses, and those who want to break into the country.

IPL uses a form of the traditional game called Twenty20. But that is far from its only innovation. Its founders understood that to build a successful property they would need to bypass traditional corporate structures. They attracted some of the country's biggest brands, convincing them of eye-watering returns, until the governing Board for Control of Cricket in India (BCCI) had no choice but to allow them to set up their league under its jurisdiction.

IPL unlocked the value of India's middle class, and the buying power of women. The platform attracted Bollywood stars to associate themselves with the game and ensured they were spotted at matches: some estimates put the female audience for IPL at 45%. And they partnered with IMG, the world's biggest sporting event group, to ensure best practice from the likes of soccer's English Premier League was brought in.

Indian retailers could learn plenty from the IPL. The sector employs 10% of the population, compared to 3.3% in the US, yet there are only 57 Indian companies in the Forbes Global 2000 and only one, tobacco giant ITC, serves consumer markets. Indian companies have struggled to market themselves outside the country, even as its economy has become globally competitive, says **Nandini Chopra**, a Corporate Finance Partner and Head of the Consumer and Retail practice in KPMG in India: "The challenge for Indian companies is to build brands consumers outside India can buy into. While brands like Tata are already familiar in large parts of the world, consumer companies from India have embarked on brand acquisitions in far flung markets including Latin America, SE Asia, Africa and the Middle East."

Not everything in the IPL garden is rosy. Audience growth has slowed as the initial lustre has faded. Even so, cricket bible *Wisden* speculated that Indian clubs could take over moribund English county teams. And that, as the English like to say, simply isn't cricket.

LESSONS FROM THE IPL

1 Partner with Bollywood
India's film industry sells almost every product, but beware: middle class consumers are wary of endorsements that don't seem appropriate.

2 Be audacious
The IPL offers huge salaries to attract the biggest names from England and Australia.

3 Stay in the black
The governing body has incurred no debt, with the onus on clubs to recoup their outlay.

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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** or **www.kpmg.com/FDCG**.

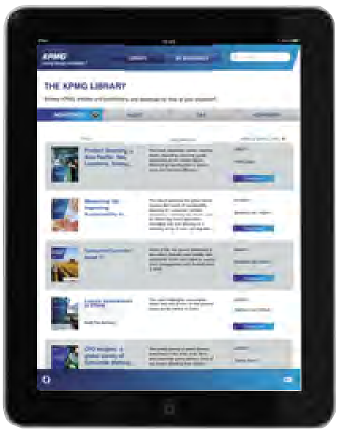
Current publications

CFO Insights: A global survey of Consumer Markets executives
This survey examines the outlook and perspectives of senior finance executives in the retail, food, drink, and consumer goods sectors, on the key issues affecting their industry.

Luxury experiences in China
This survey of Chinese consumers highlights the consumption trends and key drivers for luxury goods in China. The report includes 10 case studies of well-known luxury brands in China.

Measuring Up: Improving Sustainability in Consumer Markets
Sustainability is a key issue for consumer markets companies. What metrics are companies in the food, drink, tobacco, alcohol, luxury goods and retail sectors measuring and reporting on? How does your company compare?

Product Sourcing in Asia Pacific: New locations, extended value chains
This report highlights opportunities for consumer goods companies to reduce costs and improve efficiency by optimizing their sourcing strategies in this critical region.



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This report is based on interviews with KPMG's senior M&A specialists from around the world. They share their outlook regarding M&A activity in the consumer sector over the next 18 months. *Coming in December.*

Consumers & Convergence V
This fifth annual KPMG survey of nearly 10,000 consumers from 32 countries around the world looks at trends in consumer behavior and preferences with respect to e-commerce, online trust, device preferences and social networking. *Coming in December.*

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