

Issue 14

Consumer Currents

Issues driving consumer organizations

KPMG

cutting through complexity

Power to the people

Why the most successful retailers never stopped hiring – even in a downturn

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How retailers and suppliers are collaborating to maximize returns



Hardly a day goes by without another pundit making headlines about the digital future, when every aspect of life and work will take place somewhere in cyberspace. But, as every executive in a consumer company knows only too well, as far as consumers are concerned, the future is now. The penetration of smartphones in developed countries is nothing short of remarkable, and adoption rates in developing countries are in the double digits. Innovation is rapid in certain developing nations, as retailers look to learn the lessons of those left behind when the mobile internet first took off. Stopping and taking stock of how far we have come in the way we communicate and disseminate information, over just the past few years, is awe-inspiring – to the extent that it's hard to imagine how we organized ourselves in a pre-digital age.

Leaving aside the talk of convergence (the next big topic), or just how large the m-commerce market could become, recent leaps in technology present companies with a stark choice. This was illustrated in a presentation by Tesco CEO Philip Clarke, at the Global Summit of the Consumer Goods Forum in Istanbul, titled: "Follow the customer or die". It could be more delicately phrased as a question: if you aren't offering the same (or better) service and quality in the same channels as your customers, why would they stay loyal to you?

Being present in different channels is a good start. But being truly multi-channel, as Clarke and others have realized, means configuring your supply chain to be fully integrated, whether purchases are made in store, online, or on a mobile device. We explore the issue on page 16, drawing on a range of different examples and experiences, and attempt to identify what makes truly integrated supply chains so effective, as well as the opportunities they present for manufacturers to go to market directly.

If that article hints at the tension our rapidly changing consumer landscape has sown between manufacturers and retailers, on page 10 we tackle the issue head-on. The results may surprise even seasoned industry-watchers: suppliers have sometimes tended to regard their customers, particularly the biggest supermarkets, as their greatest competition. Margins have been put under pressure, and consolidation among the biggest retailers means the balance of power is shifting all the time. But the best way for both to gain control of main street is for these giants to work together, leveraging their relative strengths to mutual advantage.

On page 6, Carlsberg CEO Jørgen Buhl Rasmussen explores some of these challenges, and also expands on the brewing giant's march into Russia, its battle to gain a meaningful foothold in the Chinese consumer market and the power of its Danish heritage. On page 14, the Asian agribusiness giant Wilmar International grapples with a different set of pressures, including forecasting demand in fast-growing markets and implementing a fascinating acquisition in Australia.

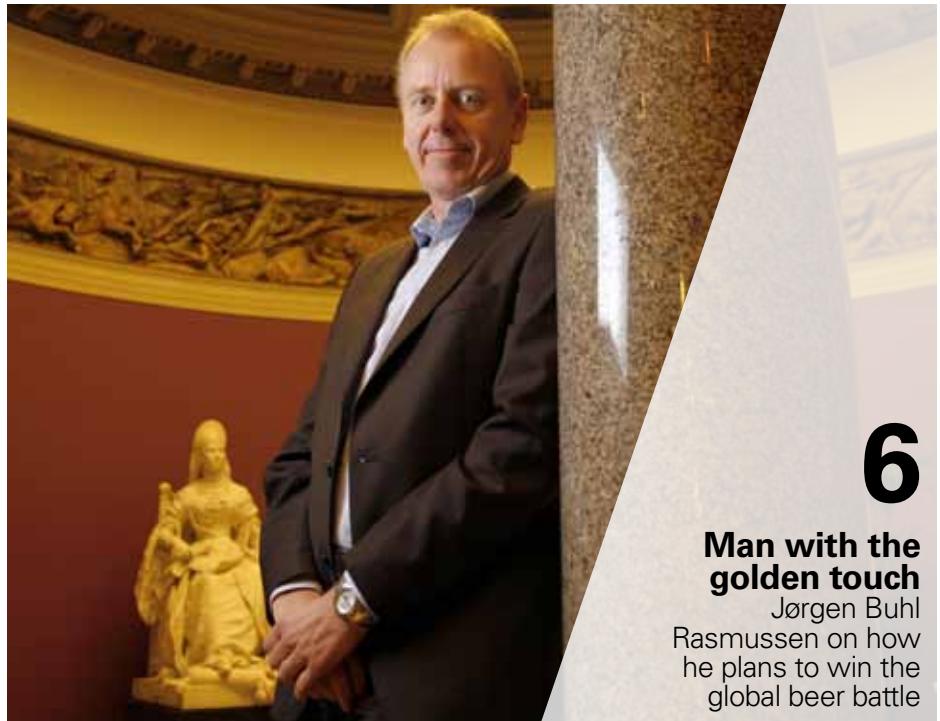
Finally, on page 19, we get to know people – for many of our consumer business readers, the biggest cost and greatest asset their business possesses. The retailers that have weathered recession the most effectively, it transpires, were those who consistently invested in their staff and resisted the temptation to cut from the shop floor at the first sign of trouble. It's a sobering lesson, and a counterpoint to a prevailing wisdom – that people are an expendable asset. Quality of customer service is inextricably linked to the number (and proficiency) of people you employ – an obvious lesson to some, perhaps, but one it is easy to lose track of when all your other assumptions are being so robustly revised and rewritten by macroeconomic events.



Willy Kruh

Global Chair, Consumer Markets
KPMG International

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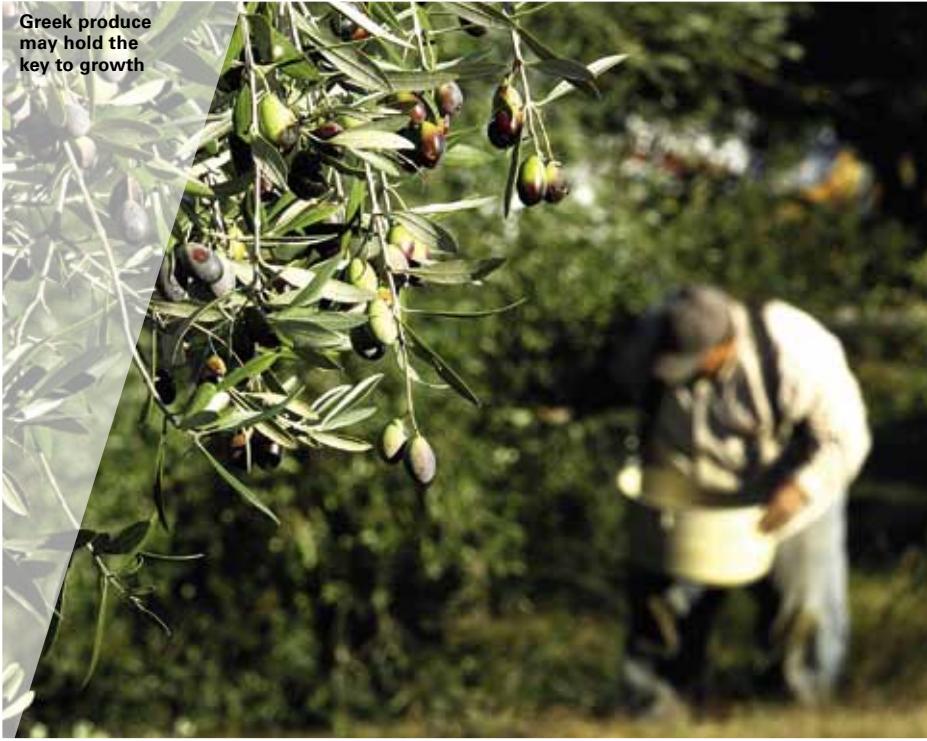
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ConsumerCurrents is published by Haymarket Network, Teddington Studios, Broom Road, Teddington, Middlesex, TW11 9BE, UK on behalf of KPMG International. **Editor** Robert Jeffery **Production Editors** Sarah Dyson, Stephanie Wilkinson **Art Editor** Jennie Owen **Staff Writer** Katie Jacobs **Contributors** Johnny Aldred, Alison Fordy, Damon Frith, Paul Glader, Amy Hanbridge, Stephen Pritchard, Paul Simpson **Picture Editors** Dominique Campbell, Jenny Quiggin **Senior Account Manager** Alison Nesbit **Managing Director, Haymarket Network** Andrew Taplin **Cover image** Corbis/Alamy, Shutterstock. No part of this publication may be copied or reproduced without the prior permission of KPMG International and the publisher. Every care has been taken in the preparation of this magazine but Haymarket Network cannot be held responsible for the accuracy of the information herein or any consequence arising from it. Views expressed by contributors may not reflect the views of Haymarket Network or KPMG International or KPMG member firms.



Off the shelf



Greek produce may hold the key to growth

Can food save Greece?

The indebted European nation could grow its way to health, according to experts – which is why feta cheese, mastic resin and even snails are on the local menu

First, the good news: the type of food products Greece excels in are enjoyed throughout the world, and are particularly popular in fast-growing Asian economies. The bad news: Greece isn't making them.

The debt-strapped European nation holds only a 28% share in the global market for the crumbly feta cheese it made famous, while only 30% of the Greek-style yogurt sold in the US originates in the country. As Greece begins the long road to boosting industrial production and exports, against a backdrop of sweeping cuts to employment and services and the continuing risk of a default on its vast debt, its food industry is being watched closely.

"Local conditions, such as weather and soil, contribute to the production of very

flavorsome products that are of high demand in international markets," says **Peggy Velliotou**, a Partner at KPMG in Greece who believes the local food industry has considerable potential.

A recent report predicted food manufacturing and agriculture could support 970,000 jobs and generate around US\$42bn annually by 2020, accounting for the majority of the country's potential economic renaissance. Velliotou points to several Greek companies with strong growth trajectories, including internationally focused conglomerate Vivartia, yogurt-maker Fage and spaghetti company Melissa Kikizas. She says entrepreneurs are developing wine, beans and even snails (a French delicacy) for export.

Yogurt is a particularly strong bet, and offers local companies the chance to expand their horizons. Products marketed as Greek yogurt are increasingly popular with health-conscious US consumers, and Fage and rival Chobani have built US facilities to capitalize on the trend.

But if Greek food is waking from its slumber, it still has a long way to go. Even when the country does export successfully, such as in olive oil, it often does so in bulk, allowing others to capture much of the value. Meanwhile, domestic demand has collapsed and suppliers and distributors face cash flow problems that leave the whole supply chain unbalanced.

The economic climate doesn't make business easy. The Greek economy has shrunk more than 18% since 2008, according to Standard Chartered Bank in London. Unemployment climbed to 26% in September and the rate of jobless young people under 25 is roughly 55%. The nation's Prime Minister, Antonis Samaras, must negotiate with EU leaders on the timeline for making economic reforms and terms of repaying billions in bailout loans, while trying to stimulate the economy.

Multinationals are understandably jittery. Earlier this year, Carrefour sold its 50% stake in roughly 300 Greek supermarkets to its local partner, the Marinopoulos family, for a nominal US\$1, claiming a loss of US\$270m. The family plans to invest heavily in rebranded stores across Greece and the wider Balkan region, but Carrefour's withdrawal is just the latest in a series of blows for the local economic situation.

On the island of Chios, four miles from the Turkish coast, they're hoping a return to traditional values could help the country rebound. Chios is the exclusive producer of mastic resin, used in foods, soaps, gums, medicines and liquor. Production is increasing at least 10% a year and currently stands at 150 tons; Dr. Ilias Smyrnoudis, a manager at the Chios Gum Mastiha Growers Association, says Greeks are moving back to the island from Athens to cultivate mastic trees.

The association is funding medical research to show how mastic improves digestion and dental health. It has a part-share in MastihaShop retail stores in New York, Saudi Arabia and France. It's the sort of ambitious project Greece needs if it is to return to health – but it will need many more.



Trend Spotting

India's retail race is on

Opening retail to foreign investors is a huge opportunity, says **Mohit Bahl**, a Consumer Markets Partner at KPMG in India. Do they really comprehend the challenge?



To understand why the liberalization of Indian retail has caused such excitement, you need only to look at the numbers: a country of 1.2 billion, 350m of them potential customers. A market that has been estimated at between US\$500bn and US\$1 trillion. Access for foreign retailers is a great opportunity for multinationals – but on the ground, a more fractured picture emerges.

Branded goods and main street stores are no strangers to larger cities, but 'modern' retail still accounts for no more than 5-7% of the market. Opposition centers on the potential damage to India's vast network of 'mom and pop' stores and lingering resentment about foreign interests 'taking over'.

A landmark 2011 announcement was humiliatingly reversed after six days as the ruling party failed to build consensus. The issues never went away, despite investment from conglomerates such as Tata and Reliance who have tried different retail business models without finding the requisite scale.

The government's September 2012 announcement that it will allow 51% foreign direct investment in multi-brand retail (MBR), and full ownership of single brand retail, is calculated to succeed, though it unleashed protests just as frenzied as in 2011, when a furious politician threatened to burn down supermarkets.

It will allow some existing loose alliances to convert to proper joint ventures. However, there remain significant implementational challenges, not least that state governments must give specific permission for MBR projects. Ten have indicated they are likely to offer a green light, but states cannot be controlled from the center and no one is sure whether a change in local leadership could legally reverse those decisions. States are disparate, and if a significant number turn down MBR, it won't simplify the supply chain or help likely foreign investors such as Metro and Carrefour scale up. What's more, 30% of their products must be sourced from 'small-scale' suppliers – defined as those with less than US\$1m in capex – a requirement that has been criticized as impractical but must be seen in the context of the Indian market, where tastes are so specific that a majority of products have to be locally sourced anyway.

Liberalization in India is a once-in-a-lifetime opportunity for multinationals

The type of shoppers multinationals will target are likely to react positively to modern retail, and the pricing benefit and sheer scale of SKUs will eventually be great for the consumer. Farmers are likely to gain, too. The emergence of larger intermediaries should keep more cash in rural pockets and reduce shocking inefficiency in the supply chain (some say 40% of food never reaches consumers).

If the opportunity is huge, the cultural change should not be underestimated. Consumers weaned on personal service won't easily be persuaded to make a weekly supermarket trip or load up on shopping bags. India will forge its own path – and the winners will be those who understand consumers as well as business models.

Big food faces a fight

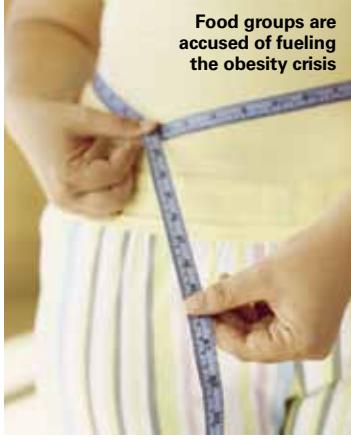
Regulators and lawyers turn their sights on what we eat – but will scrutiny of health claims lead to food inflation?

The lawyers who successfully filed multi-million-dollar cases against tobacco companies in the 1990s have a new target for their ire: the food and beverage industries. A flurry of litigation, primarily in the US, has shaken manufacturers, and led to warnings that consumers will suffer unless rules are clarified.

In just four months in 2012, lawsuits were filed against 25 major US food companies such as H.J. Heinz and General Mills. Also in 2012, chocolate giant Ferrero was sued by an American mother who accused it of persuading her that Nutella chocolate spread was a healthy option: Ferrero settled for US\$3m.

Litigants claim the industry is misrepresenting health claims and contributing to obesity. But the American Beverage Association points out: "It makes no sense for our consumers or our business to put anyone's health at risk." And critics say clear labeling regulations have been held up for years, leaving marketers confused over what they can say about products. They fear further payouts will add to inflationary pressures for manufacturers, raising prices for consumers.

The furore is part of the reason larger food groups are beginning to diversify, says **John Morris**, a KPMG in the UK Partner and EMEA Head of Consumer Markets: "The rise of so-called 'nutraceutical' foods with added nutrients taps into consumer need – but it's also a very useful way to prove you care about your customers."



Nexttech

Augmented reality

Virtual information superimposed onto screens offers the public a quandary: how can we trust what we see? For marketers, the question is simpler: is it really possible to monetize everyday life?

Augmented reality (AR) overlays graphics, audio and more over a real-world environment, enhancing the perception of reality. For the retail industry in particular, the possibilities are endless. The technology will allow consumers to get into new clothes just by looking at them, even smelling and feeling the fabric. Luxury watchmaker Tissot has already implemented an AR campaign, allowing shoppers to "try on" its products online.

IBM is developing an app that allows consumers to log preferences for everything from biodegradable packaging to low sugar content and scan products in store, matching shoppers to products while giving retailers a targeted data pool. Progress will be slower than techies hope, but the potential is very real.

“We all make a choice when we’re thirsty... even **ice cream** is competition for us”

Carlsberg CEO **Jørgen Buhl Rasmussen** has overseen the biggest transformation in his company’s history. Now he’s ready for whatever the market throws at him

From his vantage point on the 20th floor of the Carlsberg corporate headquarters in central Copenhagen, Jørgen Buhl Rasmussen can take in the past and future trajectories of the world-famous brewer within a single expansive sweep. In one direction sits the soon-to-be developed former Carlsberg brewery site which it’s hoped will turn the district into one of the city’suzziest, and the broader horizons the company’s CEO hopes will yield a new generation of beer aficionados. In the other, a steady stream of tourists trickle into the company’s on-site museum, horse stables and tasting rooms.

Since taking the top job in 2007 – after a career with consumer markets companies such as Duracell, Gillette Group, Mars and Unilever – the affable Dane has overseen Carlsberg’s transition from stable lager brand to acquisitive international brewer, competing with rivals such as Heineken, SABMiller, Diageo and AB InBev with tactics including a significant internal reorganization, a major expansion in China and a US\$15.4bn acquisition (alongside Heineken) of Scottish & Newcastle’s diverse brand portfolio.

The company’s rising revenues – which hit US\$11bn in 2011, though profits before tax slid slightly – make it the world’s fourth-largest brewer, with a host of household names including Tuborg and Kronenbourg 1664 alongside its signature tipple. The 57-year-old CEO

talked to *ConsumerCurrents* about the ups and downs of emerging markets, the attractions of craft beer and the pace of consolidation.

You’re ranked as the fourth largest brewer in the world. Will that change in the next five years?

We can all guess, but who knows? Carlsberg will be one of the top global brewers: whether it’s number two, three or five is less important to me. It’s more important that, where we choose to be, we have scale. It requires a lot of investment to build a brewery. If you don’t have scale, it’s hard to make it profitable. I expect Carlsberg, in the long term, to be among the top brewers in the world. We have not yet seen the end of consolidation in the brewing industry.

Are you optimistic about the global beer market?

Europe will be challenging for some time. I don’t expect it to get much better in the near future, with probably some small declines in Western Europe in 2013 and 2014. We expect Asia to continue to grow. Will it be as much as we saw in 2010 or 2011? Possibly, possibly not, but not far from it. We do see a little slowdown in China, but it is still a growing marketplace in general. We expect Asia to grow as a region from a GDP point of view and certainly from a beer market point of view. Consumption is still very low there compared to many other regions.





Carlsberg CEO
Rasmussen has
his sights set on
growth – and
doubling brand
profitability



What are the expectations and risks you are preparing for in China? Government regulation? Local competitors?

Probably all of it. You definitely have competitors and they will be local and global. But Asia for Carlsberg is no doubt a very important growth engine. It's based on the business we have out there today but also on any acquisition we make. We are present in more countries than any of our global competitors. China will be very important, but growth will also come in markets like Vietnam and, in the long term, India. External sources of beer market statistics say in the next five years, roughly half the volume growth – 40-50% – will be from Asia.

How is the current climate for deals?

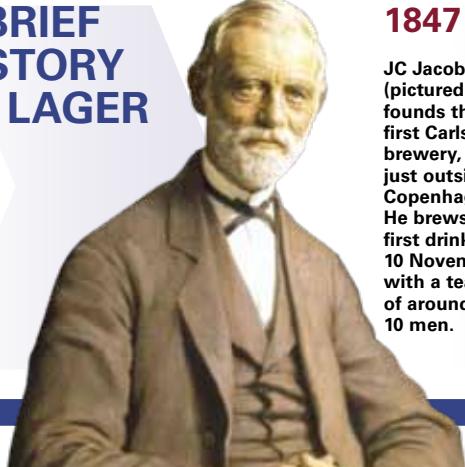
Any takeover target Carlsberg looks at, we won't be alone in doing so. There will be international brewers and local competition wanting to buy. That's why you have to put yourself in a good position in terms of building a relationship. Money is the driving factor, but having a reputation for working well with partners and people is important and can put you in a slightly stronger position.

Carlsberg faces stiff competition in China, from craft brewers as well as the multinationals

Do you just think of other beer companies as competitors, or do you include spirits and wine too?

All of them. I would even argue that one should think much broader. It's not only alcohol: it's also soft drinks and other

A BRIEF HISTORY OF LAGER



1847

J.C. Jacobsen (pictured left) founds the first Carlsberg brewery, just outside Copenhagen. He brews his first drink on 10 November with a team of around 10 men.

1867

Samples are sent to India, Singapore and Hong Kong to prove the beer survives long-distance transit. Later, Carlsberg sets its sights on South America.

1868

Export begins with one barrel of beer sent to Edinburgh. The dark brew is very popular with the Scots, who mix it with their whisky.

1892

The modern bottle cap is invented – bottled lager soon rivals draught for popularity.

1903

Carlsberg and Tuborg agree to share revenue and collaborate on investments. The two companies later merge.

1935

The first canned beer goes on sale in the US in Richmond, Virginia. By the end of the year, 38 breweries are offering lager in cans.



beverages. We all make a choice when we are thirsty and need some refreshment. I mean, even ice cream on a summer day is a competitor... you have to think about how you get to the consumer early enough when they are getting close to decision-making.

Wine has taken a big share of the market, especially around meals, but I think we can change that trend. The beer category has suffered from an image problem, being connected in the last 10-15 years with drunken people on the street sitting with cans. We see more craft beer and specialty beers coming in to offer a different experience. It's making people talk positively about beer again.

How big can craft beer become, and how far can multinationals like Carlsberg stay involved?

Craft and microbrews have penetrated up to 10% of market value in a few selected markets, so it's still relatively small and it can grow for some time. Whether it's Carlsberg behind it or someone else, I don't think it makes a difference. It's all about not being a mass-produced beer: it must taste great and have some unique flavours. We want to play a part because we have the knowledge and the competence.

Are you on track for your stated goals of doubling Carlsberg brand profits by 2015 and being the fastest-growing brewing company on the planet?

I believe we are on track for doubling profitability. The results are encouraging. Are we on track to be the fastest-growing beer company in the world? No, because Russia is 35% of our earnings and in recent years Russia has been affected by external factors: it was hit hard by the financial crisis, and by increases in raw material prices (compounded by a poor harvest). It has also had to deal with increased regulation – all of which has had a negative impact on consumption.

With the Scottish & Newcastle

"In the next five years, roughly half the volume growth will be from Asia"



acquisition we got ownership of the Baltic Beverages (BBH) business, which was a significant transformation. We do believe, based on the footprint we have, that Eastern Europe and Asia are growth markets for a long time. We should be able to deliver on our promise of being the fastest growing, meaning organic growth without acquisition, over a three-year average.

Most of our markets position Carlsberg as a premium brand, at the upper end of the price range. I want to see the growth in premium markets outperforming our average as a company, which has happened in 2011 and 2012.

How would you describe your approach to innovation?

Since I became CEO, we have established a centralized innovation workstream, so the R&D center, consumer insights and innovation marketing people are all part of the same structure. We established platforms, for example female drinks, and we have developed concepts. We had a Copenhagen beer in the Nordic markets, with a very trendy-looking clear bottle, a very appealing look, though the liquids still need some further optimization.

We also launched a product called Beo in Denmark and Sweden – you could call it the first brewed, non-carbonated soft drink, based on natural ingredients. It needs more work, because the concept is not understood by the consumer. We don't call it a soft drink. It's not a beer, or a non-alcoholic beer. Defining the category takes time and you often have to be patient with new innovations.

What did your background in FMCG companies teach you?

The impact of strong execution. I believe the way in which you get your offering in front of the consumer – on the right shelf, at the right price, at the right time – this is how you separate a successful business from a non-successful one. ■

1941

Packaged beer sales surpass draught beer sales for the first time.



1968

Carlsberg opens its first overseas brewery in Blantyre, Malawi.

1988

First step into international football sponsorship with the European Championship. Carlsberg sponsors every such final that follows and becomes an official UEFA partner.

1993

China's Snow Beer is brewed for the first time. By 2009, it is the world's best-selling lager. Today, China is the world's biggest beer producer, brewing 44bn liters in 2010.

2001

Carlsberg merges with Orkla, one of Norway's largest companies. Carlsberg Breweries A/S becomes the leading brewery in the Nordic region.

2006

Total global sales of premium beer (lagers with an ABV of 5% or more) reach US\$151bn, a jump of 75.6% since 2000.

2008

The joint acquisition of Scottish & Newcastle with Heineken is Carlsberg's biggest deal ever. The Danes gain French market leader Kronenbourg.

2012

Carlsberg is now the world's fourth largest brewer and expects Asia to be a big growth market in the coming years.



A delicate

In tough times, retailers and manufacturers have had to resolve their differences and learn to work together. But how do they recalibrate their relationship to drive long-term growth for the retail industry?

To the CEO of a major retailer, it must look like a no-brainer – hard times call for tough measures. With consumers demanding what one retail consultant calls “extreme value”, analysts focusing on the numbers more than ever, and investors unusually willing to seek the dismissal of business leaders they believe are not performing, one easy way to satisfy all stakeholders is to cut costs. And the fast, painless way to do that is surely to pay suppliers less for more or discount their products in store.

Except it isn't quite that simple. In May 2012, worried by the fact that

25.6% of grocery products in Europe are sold using some kind of discount or deal, Unilever's chief executive Paul Polman said: “We will undoubtedly have to stay competitive, but these big promotions and deep cuts are not building brands and consumer loyalty. In many cases, these promotions are turning out to be zero-sum games – down if you do and down if you don't.”

The relationship between retailers and manufacturers is incredibly complex. Retailers are customers, collaborators and, in some cases, competitors of their suppliers. Although the immediate financial benefits

gained from squeezing suppliers are obvious, is this a sound long-term strategy for retailers, manufacturers or the retail industry's consumers?

It's probably worth recapping how we got here. The world's first supermarket, the Upham's Corner Market Co. was founded in 1915 in Dorchester, Massachusetts, yet for decades brands called the shots, insisting retailers stock all sizes of a particular product, limiting supply of certain high-end products when they wanted to and having the edge when negotiating at what price items would be supplied and sold.

Size matters

At the root of this dominance was one crude fact: the companies making the brands were usually much bigger than the retailers they were supplying. That is no longer the case. Twenty years ago, Nestlé, the world's largest



balance

food and beverage company, achieved sales of US\$33.7bn and the biggest retailer made US\$32.6bn. Yet in 2011, while Nestlé's sales had grown to US\$87.5bn, the leading retailer's had ballooned to US\$418.9bn.

The major retailers haven't just got bigger, their reach and market share has changed exponentially as the industry has consolidated. Almost 65% of US food sales now come from the largest supermarkets, while the major supermarkets in France, Germany and the UK have a combined market share of 85%. Ambitious retail giants can transform markets.

The emergence of such global retail giants as Carrefour, Tesco and Metro Group has transformed their relationship with manufacturers. "The retailers are setting the agenda," says **Mark Larson**, KPMG's Global Head of Retail. "They have squeezed manufacturers to lower costs

and tried to maximize the profitability of their shelf space through various marketing pressures, such as asking for more marketing support for shelf placement and promotions. Forward-thinking retailers want to maximize their profits but they know if the balance of power is too heavily weighted in their favor, it's a short-term strategy."

Manufacturers are certainly feeling the pain. "It is very difficult to make a profit as a supplier," says the CEO of one leading apparel manufacturer. "It's so different to 20 years ago. Our biggest competitors now are retail customers. Margins are difficult." Difficult may be an understatement: industry analysts say that in some sectors they have shrunk by 20%.

The boom in retailers' own private labels has piled on the pressure. In the US, one in four products purchased is a store brand – they generated around

Retailers may have the size and reach to demand better terms from suppliers but must weigh their options carefully

"Retailers know if the balance of power is too heavily weighted in their favor, it's a short-term strategy"

Key issues

US\$92.7bn in revenue in 2011. The UK's bestselling skincare range is No7, a brand developed by pharmacy chain Boots (now 45% owned by American retailer Walgreens). The focus in the US is polishing up these brands so stores can charge more and diversifying into such sectors as healthcare and alcohol.

Retailers argue that by playing hardball on costs, seeking marketing support and developing their own brands they are merely doing what their customers want them to do – and protecting their business in an industry which has reached an inflection point, as the digital revolution gets underway.

There is some truth in that. Compared to five years ago, retailers have an enormous amount of data about their customers, but this resource has not always made the consumer any easier to predict. As Larson says: "It is harder than ever to label consumers by any one category. This is an era where consumers trade up to high-value premium brands and down to low-cost commodity goods. The mass consumer has become a hybrid consumer and retailers are having to work harder to expand their market share in a given category and their share of a customer's wallet."

The internet has proved a game-changer, with online shopping making life harder for bricks and mortar stores. When shoppers do visit a store they are significantly better informed than at any time in the history of the retail industry. Retailers and manufacturers have responded by investing billions to acquire deeper insight into customers.

the ability to have input into each other's strategies. With collaboration and trust, they can focus on the big issue: how can they establish a more enduring appeal to their customers?"

There are already signs that collaboration is catching on – even in the unlikely area of private labels. ConAgra, home of such brands as Marie Callender's and Healthy Choice, acquired four store brands in the fiscal year 2011/12 and is now making products for such retailers as Costco, Kroger and Trader Joe's. This move has confounded some analysts but others believe there is room on the shelves for both store brands and traditional manufacturer brands. Nirmalya Kumar, professor of marketing at the London Business School (and author of *Private Label Strategy*), says: "Manufacturers can compete with private label if they have something better to offer. They can never be cheaper than private label but if they can convince the customer they are superior, there's space for them."

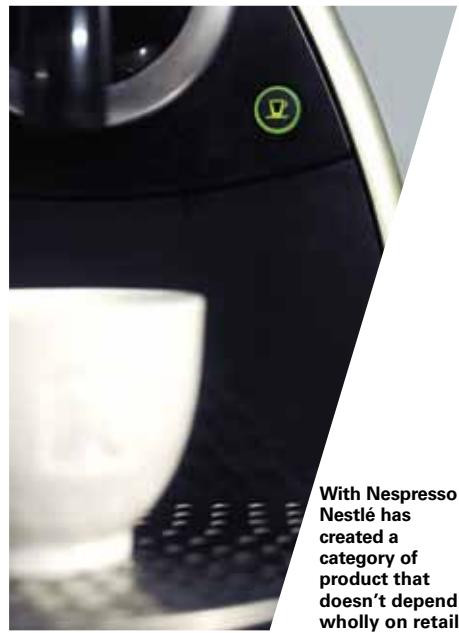
Next big thing

If the retail industry is to develop the kind of innovations it needs to open up new markets and product categories it cannot afford to exclusively rely on either retailers or manufacturers. "It's push versus pull," says Larson. "Suppliers will invest in R&D, developing such new products as Coke Zero or Innocent Smoothies, but equally retailers are on the front line and will demand things that meet their customers' immediate needs."

So when UK retailers identified consumer concerns about fish being difficult to cook or prepare, or that people just don't like handling it, Seachill came up with the concept of Saucy Fish to directly answer those issues. Meanwhile, when Tesco were looking for a premium ice cream to rival the likes of Ben & Jerry's but at a budget price, they got together with R&R who came up with Chokablok for them.

In consumer goods, product development is seldom cheap or easy. So it's often best to let the manufacturer push ahead. It took eight years, 450 product sketches, 6,000 consumer tests and hundreds of millions of dollars in investment for Procter & Gamble to launch its Tide Pod laundry tablet – and it still had to collaborate with an external partner, MonoSol, to develop the film that can stand up to wet hands but dissolves quickly in the wash.

Sometimes, retailers have found it profitable to behave like manufacturers and at other times it has suited manufacturers to behave like retailers.



With Nespresso Nestlé has created a category of product that doesn't depend wholly on retail

With the iconic George Clooney as its global champion, Nestlé's Nespresso, the coffee capsule brand, achieved global sales of US\$3.82bn in 2011, 20% more than in 2010. Kumar says: "Nespresso is particularly intriguing because Nestlé can avoid retailers entirely – consumers can purchase capsules, machines and accessories online straight from the manufacturer."

Yet to keep improving its performance, the retail industry needs to be more ambitious in the way it collaborates. Intriguing win-win collaborations include Campbell's Soup and American supermarket Kroger working together to develop the Simple Meals concept, adapted to make the most of the retailer's end-of-aisle merchandising so shoppers can buy 'grab and go' meals.

"With collaboration and trust, retailers and manufacturers can focus on the big issue"

Larson says: "The companies that will emerge as winners will do so, in part, because they can identify and satisfy the unmet – and occasionally unarticulated – needs of consumers".

This is no small challenge, one Larson suggests might be more easily achieved if retailers and manufacturers work together. "We're coming out of very tough times and the retailer and the manufacturer do their own significant consumer planning and strategies. They could benefit from



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Mark is Global Head of Retail at KPMG in the US where he advises some of the world's leading retailers. He is also a leading commentator on the forces shaping the retail industry.

Through collaboration, retailers and manufacturers could, Larson says, master two great strategic challenges: the supply chain and customer data. A two million square foot automated warehouse in York, Pennsylvania, symbolizes one potential future for the industry's supply chains. A collaboration between such manufacturers as Del Monte, logistics firm ES3 and retailer Ahold, this direct-to-store program has cut costs and carbon usage, reduced the time products take to reach the shelf and shortened the supply chain.

Online shopping will, Larson says, require such flexible thinking on a grand scale: "If we continue down the path of one-hour shipping and same-day dispatch, suppliers will have to straddle some real-time inventory issues and ensure they've got the supply chain and logistics to meet retailers' needs."

Working out how manufacturers and retailers can most usefully share their insight into customers could be even more complicated. "Retailers have more information than ever before but in our experience they can struggle to take advantage of their oceans of data in a systematic way," says Larson.

Manufacturers have long mined data to hone their consumer insights. Home appliances giant Whirlpool has standardized its data to make it more customer focused and help retailers as the brand seeks to reach out to consumers, not just as purchasers but as collaborators who can help shape the products and services the company develops.

Coke is an acknowledged master at this, harvesting data from its Freestyle vending machines, which contain more than 100 brands. Christopher

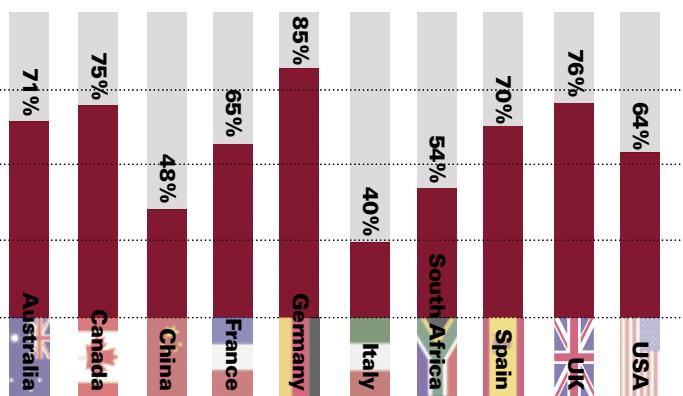
Roberts, former vice-president of retailing at Coca-Cola, has eloquently summed up the goal: "You want to completely understand the science of your shoppers. You want to establish those insights you can turn into tangible actions. The aim is to walk up to your retail partner with a unique, effective, shopper-based solution for their stores."

There's not much at stake here, only the entire future of the retail industry. Yet ultimately, retailers and manufacturers need each other. They just have to adapt to a world where they can be in competition, partnership or bargaining over the terms under which products are sold. "There will always be conflict," says Larson. "Yet they can still collaborate. Even now it's not always about price. Consumers are price sensitive but they will pay more for a brand they trust, like and know what it stands for."

Buying power

Where shops are top

Market share of supermarkets in selected countries (food only)

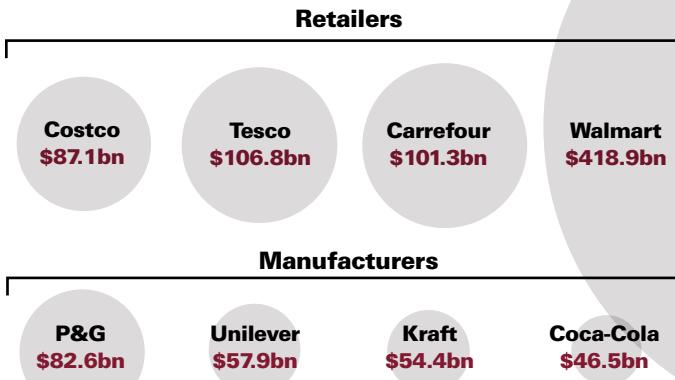


Source: Consumers International/UNEP, dates vary

Where the balance of power lies between retailers and manufacturers

The size of it

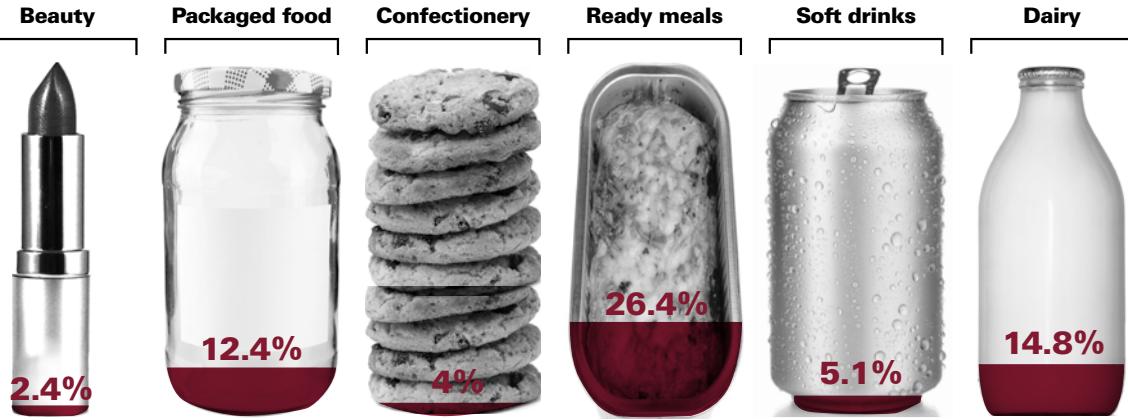
How leading retailers and manufacturers stack up on sales



Source: Annual reports. All figures relate to 2011 net sales.

Private label comes of age

Global market share of private label products in selected categories, 2010



Source: Euromonitor



BETTING BIG on the future of food

Wilmar International hopes its strategic position at the heart of Asia, and its massive Australian sugar acquisition, will help it take on the agribusiness giants. But is supply chain integration the right approach?

The explosion in global population, driven primarily by Asian economies, is giving policy-makers and environmentalists sleepless nights. Martua Sitorus could be forgiven for not being quite so concerned.

As joint founder and COO of Wilmar International, Asia's largest agribusiness, Sitorus (Indonesia's fourth-richest person) is perfectly positioned to satisfy the hungry hordes. His October 2012 increase of his stake in the company to a little over 10% suggests he is confident of doing so.

Wilmar is only 21 years old, but it has grown up fast. While palm oil is its staple product – trading and refining it accounts for more than half the company's income – it also has interests in edible oils, biodiesel and grains across more than 300 manufacturing locations. And though it is lower in profile and less diversified

than many of its agribusiness rivals, its US\$16.4bn market cap means it has quietly grown to become a significant player in the industry.

The short-term outlook is less rosy. Palm oil prices are under pressure and Citigroup has estimated a US\$100-per-tonne fall this quarter, which it says would impact Wilmar's net results in FY2012 by 3% and put further pressure on an already subdued share price. Announcing a fall in net profit to US\$373m for the half-year to July 2012, the company's Chairman and Chief Executive Kuok Khoon Hong acknowledged: "The Group's business model is sound and long-term prospects remain intact as we are well positioned to capture the growth in demand for agricultural commodities, especially in Asia and emerging markets like Africa. However, in the near term,





"Australian agribusinesses don't have the economies of scale required to deal with increased input costs"

the operating environment remains challenging, particularly in China, due to excess capacity in oilseed crushing."

Optimism comes courtesy of the region's demographics. From its Singapore headquarters, Wilmar has key footholds in some of the world's fastest-growing markets. Current global population forecasts show an increase of 1.7 billion people before 2030, averaging around 75-80m new mouths to feed each year to 2050. Almost all the capital expenditure of expanding agricultural production will come from private enterprise.

And then there's China. For the past 17 years, the country's acreage for growing rice, wheat, soybean and corn has been stuck at 19 million hectares – but just to become self-sufficient in soybean would require 36 million hectares. This year, China will import close to 60 million tonnes of soybean, a number inconceivable a decade ago. Its requirements for beef, grains and fats have exploded as its population shifts from agricultural to urban lifestyles.

Australia is another key frontier. There has been considerable media coverage of farms being bought up by multinationals, and a popular perception that the country can feed Asia but may have more difficulty looking after itself, with foreign companies increasingly taking ownership of the local supply chain.

Phillip Napier, a KPMG Australia Partner and the firm's Agribusiness Sector Leader, says: "Even in an

FACT FILE
Name Wilmar International Ltd
Founded 1991
Headquarters Singapore
CEO Kuok Khoon Hong
Employees 90,000
Website www.wilmar-international.com

advanced nation like Australia – with a long history in agricultural production – the industry is fragmented, with a plethora of different industry bodies all vying for attention but providing no clear voice to act on behalf of the industry with government."

Napier says Australian agribusiness is going through significant change as small producers who cannot recoup increasing input costs exit the industry, providing significant opportunities for consolidation. Wilmar, for example, in 2010 made a significant acquisition by seeing off China's Bright Food to pick up Sucrogen, the world's fifth largest sugar refiner. In one swoop, it controlled half of Australia's sugar production, and hinted in analyst briefings at similar purchases across Asia.

Citi analyst Patrick Yau expects Wilmar's position as a leader in oilseed processing and its "best-in-class" focus on consumer products will allow it to "benefit from scale and logistical advantages to consolidate an overbuilt Chinese oilseeds-crushing industry and capture the profit opportunity from China's growing deficit in soybeans." He sees catalysts for growth including the company's interests in sugar in Indonesia and Africa, as well as its ability to scale its consumer division in China for higher margin products such as rice and flour.

In September, Wilmar took a key strategic step in this direction by announcing a joint venture with Kellogg's to use Wilmar's Chinese distribution and supply chain capabilities and the cereals giant's brand recognition and expertise to market cereals and snacks across the world's second largest economy.

It's the type of joint venture that's likely to become more common as Wilmar seeks to dine at the captain's table of an industry undergoing radical upheaval. But the future of soft commodities is still up in the air: the mining industry, which went through a consolidation exercise years ago, has in many ways come full circle as value-added processes such as smelting and refining are increasingly decoupled from core activities. Napier says an integrated focus remains right for agribusiness while there is still so much opportunity for consolidation. Sitorus is betting such a hunch proves correct. ■



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Phillip is the Partner in charge of KPMG Australia's Agribusiness industry sector. He has specialized in the agribusiness, consumer and industrial markets sectors for over 35 years.



GOLDEN RULES

of multi-channel supply chains

You're presenting a united face to your customers – but do your operations really deliver? Here's how the best retailers get multi-channel right, and steal a march on online interlopers



Blame Amazon. Multi-channel retail is often seen as a product of the internet era, but in fact it's nothing new. Sears was a catalog retailer more than 30 years before it opened its first store, and European companies such as hardware and household goods favorite Clas Ohlson started out in mail order. What's changed is that a certain behemoth from Seattle rewrote all the rules of retail.

"Although the underlying secular trend is clearly toward more online activity of all kinds for almost all consumers, the real push toward multi-channel is coming from Amazon," says Kevin O'Marah, a Senior Research Fellow at Stanford Business School who specializes in the supply chain. "It is innovating rapidly in both fulfilment and demand capture. Its investments in distribution centers, packaging design and automation are pushing the rest of retail to follow."

Even away from areas such as music and books, "range authority" often lies with online operators. Online companies can pare prices to the bone, but they can also offer vast selections of goods that exceed even the best physical stores.

Consumer electronics have already been tackled by online merchants, but they are also making inroads into fashion, and even groceries. Asos, an online-only fashion outlet, has posted strong financial results in a period when several of its main street competitors have struggled. Online "flash sales" of surplus stock have changed the apparel business model and propelled start-ups such as Gilt Groupe and HauteLook onto the business pages. US online grocery retailer Peapod has been consistently profitable by partnering with local brick-and-mortar stores to create its own nascent supply chain.

"There are a number of reasons consumers are asking for multi-channel retail and in-store pickup," says **Bolette Andersen**, a Partner in the Information Technology and Services Practice at KPMG in the US. "Perhaps they want to pay in cash, or they don't want to wait for things to be dropped off. Retailers are adapting to what customers want."

For traditional retailers, this can be an opportunity. "Multi-channel is a wake-up call. They can leverage their visibility to customers across channels," says Martin Schofield, Operations Director at retail software company Itim, and a former Head of Logistics at Harvey Nichols. "They have to do something, and many of them are doing so already."

"The big push is coming from the millennials – people who want everything to look like Facebook, and when it does not, it can alienate people from the retail relationship," says **Elizabeth Ebert**, a Director in the Information Technology and Service Practice at KPMG.

Convenience, rather than price, often lies behind the attractiveness of multi-channel operations, she says. "If you think of the footwear market, there is an inventory cost of having those items in the supply chain, but consumers are now more willing to buy online. US shoe retailer Zappos offers free returns. And it is changing consumer behavior."

"Retail has long underinvested in software for managing inventories and supply chains... the only answer is technology"



However, putting in place an effective multi-channel strategy is neither simple nor quick. UK retailer Marks & Spencer, for example, is halfway through a four-year strategy to double its multi-channel sales to US\$1.6bn, and claims 3.4m visits to its website each week – but that has to be set against group revenue for the 2012 financial year of US\$16bn.

Infrastructure is the main reason retailers fail to make multi-channel a reality. Being genuinely multi-channel means investment in technology, logistics, marketing and people: the latter two are easy, but the former can be beyond existing companies with non-scalable CRM and ERP systems. Nimbler online rivals have an immediate advantage here. "Most retailers have cobbled together a solution," says Schofield. "They do not have a real-time infrastructure, their stock position is not quite up to date. They are dealing with legacy technologies." Smart companies, however, have fought back – and here are three ways they're staying ahead of the start-ups.

1 Customer service matters more in multi-channel

"Customer service is the only real defense store-based retail has against e-commerce," says O'Marah. The retailers who understand the importance of good service – which includes a strong and consumer-friendly returns policy as well as good pre-sales advice and convenient delivery or collection – are likely to thrive in a multi-channel environment.

"One finding of a Stanford University study [carried out with JDA, a supply chain software vendor] was that store associates in a multi-channel world will be fewer but more highly skilled and more highly paid," says O'Marah. "The reason for this is an urgent need for expert support in the shopping process with in-store kiosks, smartphone or tablet access to help find the right item and complete the sale, even if fulfilment happens later."

If the retailer can create the right



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Elizabeth is a Director in KPMG in the US's CIO Advisory practice, where she assists clients with the development and implementation of omni-channel strategies, including business process design and technology enablement.

multi-channel strategy, and if they can ensure good customer service, a consistent experience across channels, helpful delivery or collection options, and extend their ranges to meet the "long tail" of consumer requirements, there is every chance they can defend themselves against the online-only merchants.

The first step is being where your customers are. Metro Group – one of the world's largest retailers, which operates a range of outlets, from cash-and-carry to city center department stores – has rolled out multi-channel ordering for its Media Markt and Saturn electronics brands as rivals dithered, and has ensured customer service is consistent. Saturn's mobile store is customized to operate on smartphones, while joined-up internal reporting systems mean customers can take online queries to local shops and be met with genuine insight rather than quizzical looks.

Being joined-up pays off both in customer retention and acquisition. The French retailer Groupe Casino has rolled out a multi-channel strategy, bringing together its online arm, Cdiscount, a specialist in media, electronics and white goods, and its physical stores. Online orders of up to 30kg can be delivered to the retailer's Franprix convenience stores, and larger products to Géant Casino out-of-town outlets. In 2011, Casino handled 1m multi-channel transactions, and expects this to double in 2012.

The company found that 43% of customers using the pick-up service had not visited the pick-up store before, opening up potential new markets. ▶

2 Demand more from demand forecasting

The fundamental challenge of building a multi-channel retail operation is knowing where your products will end up. Demand forecasting in retail is often viewed more as an art than a science. Trying to work out whether a customer will order an item online, by phone, from a mobile device, in a store or a catalog, and whether they will want it delivered at home, to a physical store, or even a third party collection point, might be closer to astrology.

"When companies first started to move towards multi-channel, there was little consistency between the different ways of interacting with the customer," says Ebert. "Now we have an omni-channel concept, and retailers are also looking to interact with customers before a sale happens, by building a community and establishing a relationship. It is more experiential. And they want the store and the website experience to be integrated."

That lack of consistency affects the back office and distribution center. According to Tom Beston, head of the Truesource program at supply chain

standards body GS1, this can cause problems when it comes to ensuring consumers receive the item they have ordered. "Often data is collected multiple times by multiple



departments. The brand owner may enter information for a new line. The buyer might enter information that is accurate in terms of the number of items per case and price, but might not be interested in physical dimensions. The distributor, though, is."

For experts on multi-channel retailing such nuances are important.

Anticipating the needs of customers, and ensuring they are provided with strong pre-sales information and advice, as well as timely and efficient fulfillment, is what makes for a strong retail performer. The ability to offer more in-depth advice – and even to "sell" a product more effectively – is what sets the multi-channel player apart from the online-only operation.

Some of the answers lie in innovations such as the creative use of technology, ranging from QR codes to in-store catalogs or kiosks based on iPads. Others include increasing the skills, and quite possibly incentives, of store staff, even if some technical innovations make it possible to reduce their number.

3 Make sure you know where your stock is

It sounds simple, but with disparate and aging systems, addressing the question of stock availability is anything but.

"The only real answer is better technology," warns O'Marah. "Retail has long underinvested in traditional software for managing inventories and supply chains. The visibility problem starts with poor technology and the complexity of making the right decisions with pricing, free shipping or special services, all of which can kill margins without strong systems to track cost-to-serve." Handled wrongly, multi-channel retail might appeal to the consumer, but it can also frustrate them, and erode profits.



"Nike's online NikeiD range of customized shoes brought in revenues of US\$100m in their first year"

Some of the technical and physical challenges can be addressed through strong relationships with manufacturers and brand owners willing to take on the task of direct-to-customer fulfilment, and by building strong partnerships with 3PL and delivery companies.

Investing in infrastructure can also help: as O'Marah points out, Marks & Spencer uses one integrated distribution centre for its online orders, international business and stocking its stores in the local area. This helps the retailer control costs, but also ensures it has the flexibility to always locate stock where it is needed.

Some retailers might also take out retail floor space, and reduce the number of lines on display, in favor of a direct fulfilment or delivery model. "They might have a mini-distribution center in the back for web and mobile orders," says KPMG's Andersen. "Shoppers, in turn, are looking for more of an experience, as we've seen with bookstores setting up coffee bars."

"We are seeing retailers pursue integration through middleware, and cloud-computing-based systems, including cloud-based point-of-sale (POS) and web systems," says Ebert. "Some of this is emerging technology, but that is what retailers need to become omni-channel."

And if retailers need any incentive to explore the multi-channel world, it's coming from their suppliers. Research in 2012 from the Economist Intelligence Unit found that 24% of consumer goods companies surveyed were already selling directly to consumers. A further 17% were planning to start in the next 12 months. Nike's NikeiD range of customized shoes (ordered through the sports giant's website and utilizing all the tools and tricks e-commerce experts promised the channel would deliver) brought in revenues of US\$100m in their first year. You don't have to be the CEO of a major brick-and-mortar sports retailer to see that as a trend with the potential to seriously disrupt the status quo. ■

The return of people

In hard times, shop floor employees are first to go. So why are the most buoyant retailers upstaffing?



Karl Lacson counts himself among the lucky ones. After graduating from university with a degree in digital art, he spent time unemployed before deciding a career in retail could offer a brighter future. The 28-year-old toured stores in London's Westfield (one of Europe's largest malls) with his résumé last year, and within two days was attending an interview with Calvin Klein Jeans; today, he is a supervisor with the company, and satisfied with his job.

"I enjoy the face-to-face interaction with customers," he says. "I enjoy giving good customer service, and being thanked when that service is appreciated. I'm well aware of the current economic situation and how difficult it is to get a

job. I hear it a lot from friends and family."

But despite the gloomy financials emanating from the retail sector, Lacson's case isn't that unusual. In fact, many of the retailers bucking the trend in 2012 have one thing in common: they've consistently hired, and invested in, staff.

The idea is catching on. Anecdotal evidence says retail's staff-to-customer ratio may be plateauing after years of attrition – almost 51,000 US retail employees were made redundant in 2011, up from 38,751 in 2010 and beaten only by government and finance. And recent research points to the power of customer service in gaining market share.

All of which turns one of retail's long-established rules – in times of

hardship, cut fast and cut deep – on its head. Conventional thinking is that people are the biggest expense most companies have (particularly when you factor in benefits that add 30-50% to the average paycheck) and that choosing part-timers over full-timers, minimizing remuneration or simply shedding them is the best way to address the problem.

"A lot of retailers see labor as a cost to be minimized," says Zeynep Ton, MIT Sloan School of Management Professor specializing in retail operation. "When retailers are under pressure, there's not much they can do about the price of real estate or the cost of merchandise, but cutting labor is so immediate. You see the effect right away."

"The biggest mistake that clients could make is that when something goes wrong, their first step is to cut staff on the shop floor," says **Eric Ropert**, Head of Consumer Markets at KPMG in France. "They cut rapidly and don't take necessary time to understand the reason for their problems."

Many big-name retailers have fallen foul of this thinking, as creditors and bankers demand cuts to the cash flow when times get hard. When a struggling home improvement retailer's new CEO was tasked with reducing costs and boosting profit in 2000, jobs were slashed. In the short-term, the tactic achieved its aim, but the store's famous customer service was ruined. In 2005, it came last in a respected US customer satisfaction index and its share price dropped 8%. "The simple fact is that retail is a labor-intensive business," says retail historian and *The Nordstrom Way to Customer Service Excellence* author Robert Spector. "You have to have people there to take care of customers."

What's more, there is evidence that investing in staff actively pays off. Research by Marshall Fisher, Serguei Netessine and Jayanth Krishnan at The Wharton School found that for every US\$1 increase in payroll, the average store could see an uplift of US\$24-\$28 in monthly sales. And some of today's most successful retailers have spent the last few years defiantly investing in their staff rather than slashing and burning.

Uniqlo's focus on high quality customer service – its new flagship Manhattan store has 520 floor staff, many of whom speak at least two languages – has helped it become the world's fourth largest apparel retailer with projected 2012 revenue of US\$10bn (see right).

On the shop floor

When MIT's Ton studied four retailers who invest in people (Mercadona, Spain's largest supermarket chain, US grocery retailers QuikTrip and Trader Joe's, and wholesale retailer Costco), she found they were all more successful than their direct competitors. At Costco – where internal promotion is the norm and employees earn about 40% more than at other local retailers – sales per employee are almost double that of its largest rival: US\$986 per square foot compared to US\$588. At Mercadona, where every new employee receives four weeks of training, sales per staff member are 18% higher than other Spanish supermarkets and 46% above those of an average US supermarket.

But KPMG's Ropert says companies shouldn't just focus on how much money

having more people might bring in. "Finance is not the main criteria by which to measure it," he says. "The important thing is the quality of customer service."

It's a view that Paolo de Cesare, President of luxury French retailer Printemps, agrees with. "Our culture is based on the quality of service to our customers. We enforce that with rewards, measures and training: we have a Printemps Academy where staff learn the skills they need to deal with customers face-to-face."

Printemps has also carried out extensive customer research to help staff understand the types of consumers who may visit the stores, from loyal regulars to international visitors. "We have created a lot of new roles to best serve these different types of customer," says de Cesare.

One of the most powerful arguments

"The biggest mistake I see people make is to cut from the shop floor when things start going wrong"



Staff in Printemps' Paris store engage Chinese tourists as part of a focus on customer service



for keeping hold of staff (and, just as importantly, training and incentivizing them) is to help stave off competition from the ultra-lean internet. “‘Showrooming’ [where customers view products in store, then buy them cheaper online] is a risk retailers are facing,” says Spector. Ropert says: “It’s fundamental to have shop assistants who not only have a good knowledge of products but can also convert that into sales.”

According to Ton, alongside training and customer insight, success often comes down to the “not very sexy” subject of operations... It’s not just that the best performers invest in people, they continually create operations that allow their employees to be more productive, reduce costs and be at the center of their success. Such retailers are excellent operators. Successful companies have standardized many store

tasks. They know how long each task takes and how much traffic they get in a typical day. They cross-train employees so they can shift from task to task.”

These principles can be successfully applied to other customer-facing industries, such as hospitality. At Japanese restaurant chain Matsuya, every movement required by staff is carefully calculated and reflected in the layout of the kitchen and front of house, maximizing efficiency. US company Darden Restaurants, owner of the Olive Garden brand, uses proprietary Meal Pacing technology to ensure efficient service and invests heavily in staff. Eleven times a year, the company sends 14 specially chosen employees on a trip to Tuscany, Italy, where they spend a week learning Italian cooking techniques. Since 1999, about 850 employees have attended the overseas training, and 80% of them are still with the company.

Ultimately, as Ropert says: “Everything should be organized around the customer.” As most customers want knowledgeable staff to listen to their problems, offer solutions and take their money, investing in people should be a no-brainer. “Companies that do it right, the last place they will cut is the sales floor,” says Spector. “After all, retail has always been a people experience. Consumers visit retailers to get that human touch.” ■



“PEOPLE WANT TO BUILD THEIR CAREER WITH US”

Tadashi Yanai, founder and President of Japanese clothing behemoth Fast Retailing, likes to think big. By 2020, he says, his will be the largest apparel retailer in the world – and people are at the heart of his plans.

Known for its iconic Uniqlo brand, Fast Retailing has hired its way through a global recession and boasts one of the highest employee-to-customer ratios in its market. It expects record financials in 2012 to be its reward, with a 38.7% rise in first-half profits already unveiled.

“Staff are key to our business,” says Lynda Tyler, Senior Vice President – Human Resources. “We aim to delight our customers by creating a shop floor (above) and customer experience that generate excitement. We recruit people able to provide that service.”

Tyler points to the flexibility of the company’s global workforce. Alongside around 50,000 store staff, employees from regional headquarters are drafted into shops at busy times. Warehouse and logistics staff must also be able to handle customers. In Europe, Uniqlo is developing an internal training center led by store managers and immerses promising employees in the business via a ‘Manager in Training’ program.

The payoff comes from staff who are finely attuned to feeding back on customers and products, rise rapidly through the ranks and stay longer. “A decreasing turnover rate is a good sign for the company: it means that our actions make people feel good and they are eager to build their career with us,” says Tyler.

It’s not plain sailing – it requires careful balancing of investments and profitability. But Tyler remains a people evangelist: “The benefits may not be clear in the short term, but if you plan your programs appropriately, you will see them soon.”



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The kindness of strangers

Crowdfunding has helped rock stars and tech entrepreneurs. Could big business be next to feel the benefit of lending from customers, not banks?

Prog rock pioneers Marillion are known for many things: the cut of their denim, the length of their locks and once having a singer known as Fish. Their influence on the world of business funding is less reported, but the veteran British band kick-started a movement that threatens to revolutionize the way companies raise money.

In 1997, shorn of Fish and with their record company reluctant to pay for a US tour, the band raised US\$60,000 by asking fans for pledges in return for a live CD. Two years later, 12,000 of them pre-ordered an album that hadn't even been recorded and the band ditched their record company altogether.

Crowdfunding was born, and is currently making its influence felt in everything from gaming to food service. Today's donors want more than a shiny disc and a letter of thanks, of course: crowdfundingers receive priority service, future discounts or equity. Tech firm Pebble caused a splash this summer by raising US\$10m (including US\$3m in just four days) to take an internet-enabled watch to market through website Kickstarter. "We had tried to raise money through the normal routes, and it didn't really work," says founder Eric Migicovsky. "You don't really want to

spend your time talking to venture capitalists – they're just guys with money. You want to spend your time talking to customers."

Sites have launched across Europe, as well as Brazil, Australia and Japan. The Jumpstart Our Business Startups (JOBS) Act legalized crowdfunding by non-accredited investors in the US. Research company Massolution says crowdfunding platforms raised US\$1.5bn for a million different campaigns in 2011, a figure it expects to double in 2012.

These nimble businesses are accessing funds in double-quick time, at reasonable terms, making them genuine challengers to bigger rivals, though the industry remains in its infancy. More than half of Kickstarter projects fail to reach their funding targets. Relatively few crowdfunded ideas have turned into viable businesses. But the idea has enough traction to pique the interest of more than just start-ups: as established medium-

sized businesses struggle with access to funds, whether through bond markets or banks, they may be tempted to open themselves to all-comers. Though multinationals' shareholders would be alarmed by a large-scale crowdfunding exercise, allowing a subsidiary to explore engaging customers directly could boost engagement and garner good publicity.

"By avoiding the traditional route to market, growing businesses maintain autonomy and raise capital fast" says **Liz Claydon**, Head of Consumer Markets at KPMG in the UK. "It offers a new way for companies with strong ideas but no track record to gain momentum. But traditional backing comes with support that shouldn't be overlooked."

The wisdom of crowds is well established. Companies including P&G and Kraft have used online techniques to engage customers and business thinkers in problem-solving. US engineering business Rite-Solutions pioneered the concept of an internal market, where ideas are floated and 'traded' by employees at all levels, with incentives for those who back winners. The company has an instant, and impressively reliable, barometer of which innovations are worth pursuing, and the revenue to prove it.

To close-minded executives, crowds are a nuisance. And it's true the current vogue for collaboration can be as much about good headlines as best practice. But when businesses can pick up substantial funding – and a loyal customer base – at the click of the mouse, you don't need long hair and loud guitars to think the old way might have had its day. ■

LESSONS FROM CROWDS

1 Anticipation is the best publicity

Apple unveils products with deliberate secrecy; Pebble 'seeded' its watch through crowdfunding.

2 Crowds work both ways

P&G's Connect + Develop program generates ideas, but also licences products to its new allies.

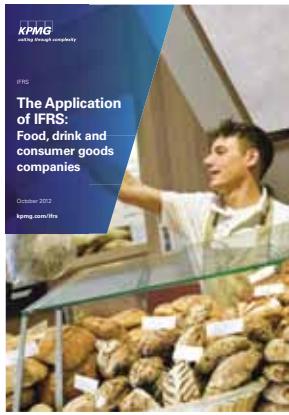
3 You don't know it all

Rite-Solutions' CEO didn't like its new educational game. The internal market did. It made US\$1m.

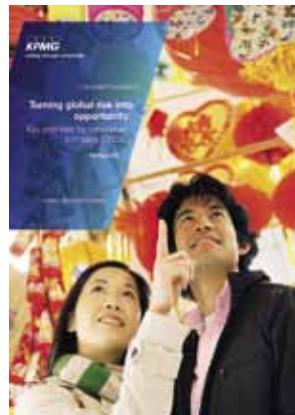
Insights

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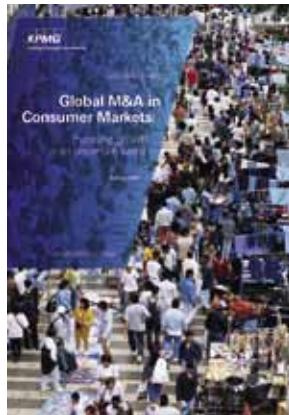
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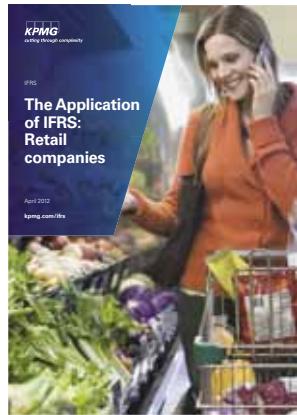
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Publication name *ConsumerCurrents*
Published by Haymarket Network Ltd
Publication no 121237
Publication date December 2012
Pre-press by Haymarket Pre-press
Printed by RR Donnelley