

CONSUMER MARKETS

To stand still is to fall behind

**2015 Global Consumer
Executive Top of Mind Survey**

kpmg.com/CMsurvey
theconsumergoodsforum.com



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Foreword

For the third year, KPMG and The Consumer Goods Forum have conducted this study of the consumer industry to help industry executives better understand the ever-changing impact of industry disruptors, competition and the economy on their companies' strategic priorities.

This report is based on a recent global survey of 539 senior consumer manufacturing and retail executives that have insight and/or influence regarding their company's global strategy. The survey results were analyzed and discussed with a number of consumer sector professionals at KPMG and the CGF around the world, as well as with C-suite office holders within the industry.

The purpose of this research is to provide perspectives to our readers that can help them assess the strategy and focus of their own companies. The cases and insights included throughout the report can help executives identify factors or trends that may need more attention, or to more fully appreciate the challenges and execution strategies of their industry peers.

As you read through the report, please evaluate the implications of the issues covered to your own business and consider how, in the dynamic consumer industry, "the optimal time is usually long before you think it's the optimal time." In the race for continuous growth, those that choose to stand still are actually falling behind.

We also want to extend a special thank you to the executives who gave their time and insights to inform our research. The full report can be downloaded at kpmg.com/CMsurvey.

The optimal time is usually long before you think it's the optimal time.





Introduction

A survey of 539 senior executives in the consumer manufacturing, retail and distribution businesses was conducted by KPMG and The Consumer Goods Forum during the months of March and April, 2015.

The first question asked executives to rate the importance of a number of business areas or levers to the success of their company over the next one to two years. Talent management and human resources (HR), expansion and top line growth, and data analytics were most likely to be rated as “very” or “critically important,” followed closely by consumer health and wellness and consumer trust (see Chart 1).

Chart 1

How important will the following areas be to your company’s success over the next one to two years? Percentage of respondents who said “very” or “critically” important.



Source: 2015 Top of Mind Survey, KPMG International and the CGF, n=539

However, when asked what their number one priority for this year is, nearly half said expansion or top line growth.

As **Chart 2** illustrates, beyond growth, only consumer trust and omni-channel generated even a one in ten response as the top priority. All others — including talent management and HR, which ranked high in terms of importance to company success — fell well to the bottom of the list.

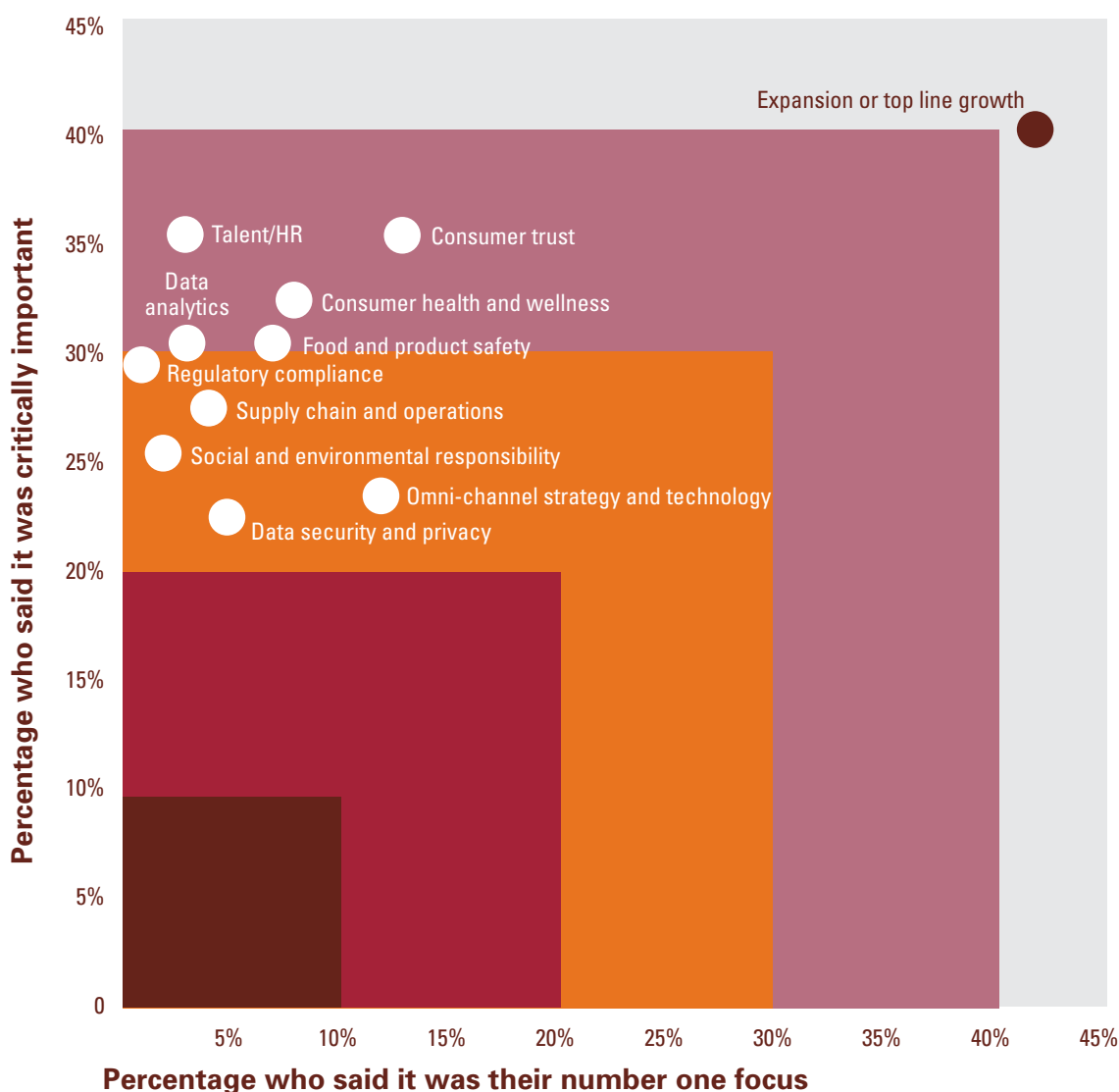
For the near future, the top focus of this industry — across all types, sizes and geographies — is clearly on

expansion and top line growth. While the Top of Mind survey questions have varied over the years, it seems that expansion and growth are more important than ever for consumer executives in 2015.

This report will start by examining why growth is paramount right now — and then on some of the key business levers that can help determine how well companies are prepared to achieve their growth and expansion goals.

Chart 2

How will companies prioritize their most critical issues?



Source: 2015 Top of Mind Survey, KPMG International and the CGF, n=539

While the Top of Mind survey questions have varied over the years, it seems that expansion and growth are more important than ever for consumer executives in 2015.

Case study

Pick n Pay: The consumer is queen — so watch what she is doing and believing

Interview with Gareth Ackerman, Chairman

Pick n Pay, a leading South African chain of supermarkets and convenience stores, understands its customers. Most interestingly, the company understands that even individual shoppers are still not one consistent shopper — as Pick n Pay Chairman Gareth Ackerman puts it, sometimes “she visits as a mother doing her monthly shop, another time for a special treat for her family, or running in for milk. The same amount of money, the same credit card, but a different mindset.” By studying behaviors in the aggregate, and measuring patterns with sophisticated electronic monitoring, Pick n Pay is able to determine the best SKUs to have, the best store formats and the best brands to offer.

The company recognizes the benefit of understanding the values of its customer base. Growth in the Millennial generation, for example, means Pick n Pay must ensure it’s responding to these consumers’ “strong beliefs in principles,” which means the company needs to focus on being a good employer and giving back to its communities. “Doing good is good business” says Mr. Ackerman, and Pick n Pay backs this credence each year by contributing 5 percent of its annual profits to corporate citizenship initiatives.

In living up to their corporate values, Pick n Pay strives to build consumer trust, and for the communities they serve to hold their brand in high regard. This is key in the day and age of social media. As Mr. Ackerman

puts it, “You have to be very careful as to how you manage the total stakeholder relationship. Make sure you look after your communities, because if something goes wrong, you need to be able to limit the downside.”

At the same time, Pick n Pay has been subject to the same business pressures as the other survey respondents. Having just completed an extensive effort to become even more efficient, future growth in profits needs to come from revenue and top line growth. They have centralized systems, for example, to avoid duplication and to buy advertising less expensively.

As with other businesses, too, Pick n Pay worries about silos which can thwart efficiency and effectiveness, especially when you need almost real-time adjustments based on what the electronic data stream is showing. The key device is to have interdependent KPIs for managers, such that their own individual economics depends on the ability of their cross-functional colleagues to team effectively.

A great feature of Pick n Pay’s leadership is that, despite the maturity of the business, the perspective is one of continuing adaptation. They see themselves on a journey — following and serving their consumers.



Pick n Pay Stores Limited

Headquarters:
Cape Town, South
Africa

Business:
Own or franchise
1076 supermarkets
and retail stores
throughout South
Africa and
neighboring
countries

Established:
1967

Annual revenues:
R73 billion
(US\$6 billion)

Employees:
50,000

Brands:
Pick n Pay, Boxer

The goal is to grow

It appears that although there are still some trouble spots, the worldwide economy has emerged from the multi-year recession. The consumer and retail industry should expect to benefit from an increasing consumer confidence, as well as a growing consumer base, resulting from demographic shifts and greater disposable incomes in emerging economies.

In March 2015, the Economist Intelligence Unit projected a steady year over year growth averaging about 3.1 percent per year for worldwide retail sales. Certain sectors, such as food and beverages, clothing and footwear and household goods, have been recently impacted by lower consumer confidence and spending, partly due to geopolitical tensions and currency instability. However, these sectors are expected to improve significantly in 2016, and even well exceed average growth rates expected for the overall retail sector (see Chart 3).

Beyond that, growth expectations are steady, and with the future global economy looking more favorable than the recent past, the message this year is an industry focused on driving revenue growth.

That's the rosy view.

A more realistic economic outlook is not a clear-cut positive forecast. At a minimum, it is evident that any outlook varies depending on the part of the world.

First, the emerging markets have been a consistent source of growth over the past few years, and although growth rates in these markets have slowed, growth in

global consumption will continue to be led by the growing consumer base in China, followed by India. The growth potential of Africa is also significant, but from a lower base. And, while the US seems to have emerged from its recession, the European Union (EU) has not, as its efforts to recover are partially hindered by the events in Ukraine and Russia.

As **Jim Grover**, a Senior Advisor in KPMG in the UK's growth practice, puts it: "This is now an extremely difficult growth environment." He also points to the past few years of slowing growth by the beacons of the industry KPMG monitors (see Chart 4). In his view, the emphasis on revenue growth in this industry is not simply because the trailing winds of the economy seem favorable, but more because the balance sheet work has been done; the extraneous costs are all gone.

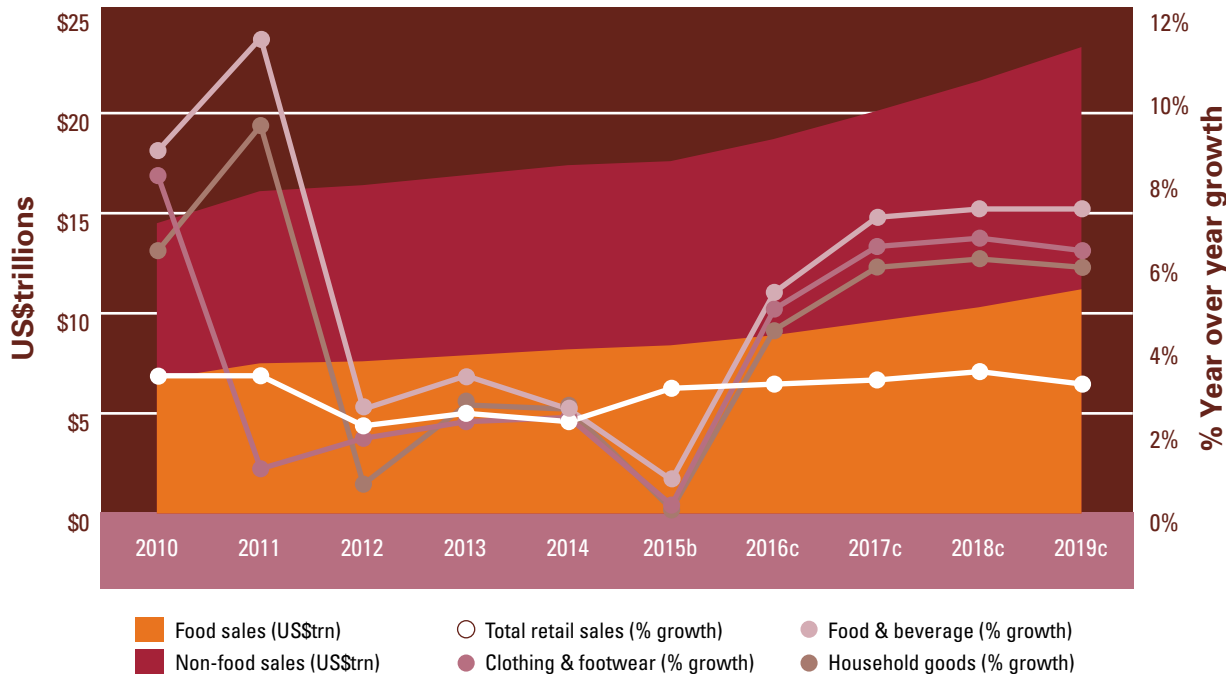
Companies recognize they are going to have to move forward and strive for top line growth. The issue now — and the focus of the rest of this paper — is on "the hard-edged choices," Jim notes, needed to establish or hold an advantage.

Lower consumer confidence in some sectors

Certain sectors, such as food and beverages, clothing and footwear and household goods, have been recently impacted by lower consumer confidence and spending, partly due to geopolitical tensions and currency instability.

Chart 3

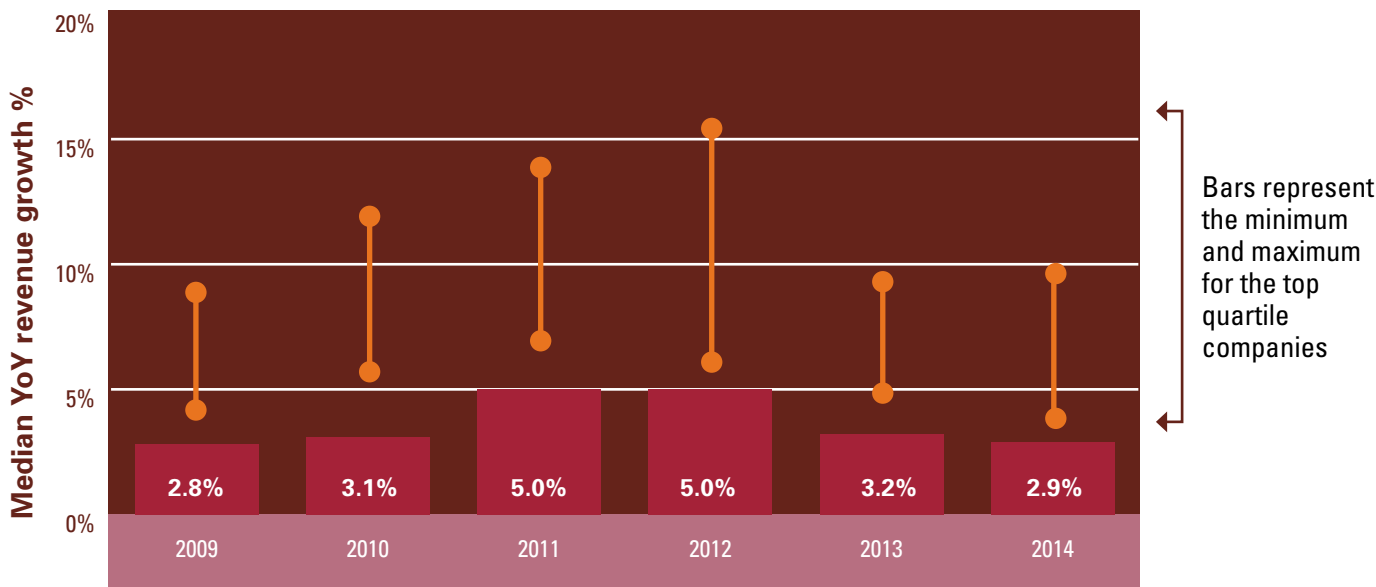
World consumer goods and retail outlook



Source: The Economist Intelligence Unit, March 2, 2015. Sum of 60 countries covered in the EIU's industry service. (b) EIU estimates. (c) EIU forecasts.

Chart 4

Year over year revenue growth



Source: KPMG analysis of 45* consumer companies (median growth), 2009-2014. Companies in this sample represent CPG manufacturers listed in the US and Europe with revenues exceeding US\$0.8m. *The population of companies analyzed varied by year: 2009: 38, 2010: 43, 2011: 45, 2012: 45, 2013: 45, 2014: 44.

The question is how

So, top line growth is *a*, if not *the*, key goal for almost everyone in the industry.

The survey results provide insight into the strategies that respondents plan to consider to achieve top line growth, as well as insight into some potential areas of concern. This report will cover six specific “levers” that, according to the survey and KPMG, are likely to exert the most influence on a company’s ability to grow revenue.

The most prevalent levers for driving top line growth include:

1 Consumer trust

2 Omni-channel

These growth drivers will be discussed in the first two sections. Neither are easily mastered and both are fragile even when grasped. Trust can evaporate in a tweet and omni-channel’s champion today will inevitably be replaced by something new tomorrow. Today, especially in consumer markets, technology advances can quickly disrupt what a company has worked hard to establish by exploiting the least disruptive.

3 Data security

4 Sustainability and corporate social responsibility (CSR)

A potential derail to growth could be a data breach, although most respondents seemed confident about their cyber security preparedness. However, as we will explore, this confidence may be dangerously overestimated.

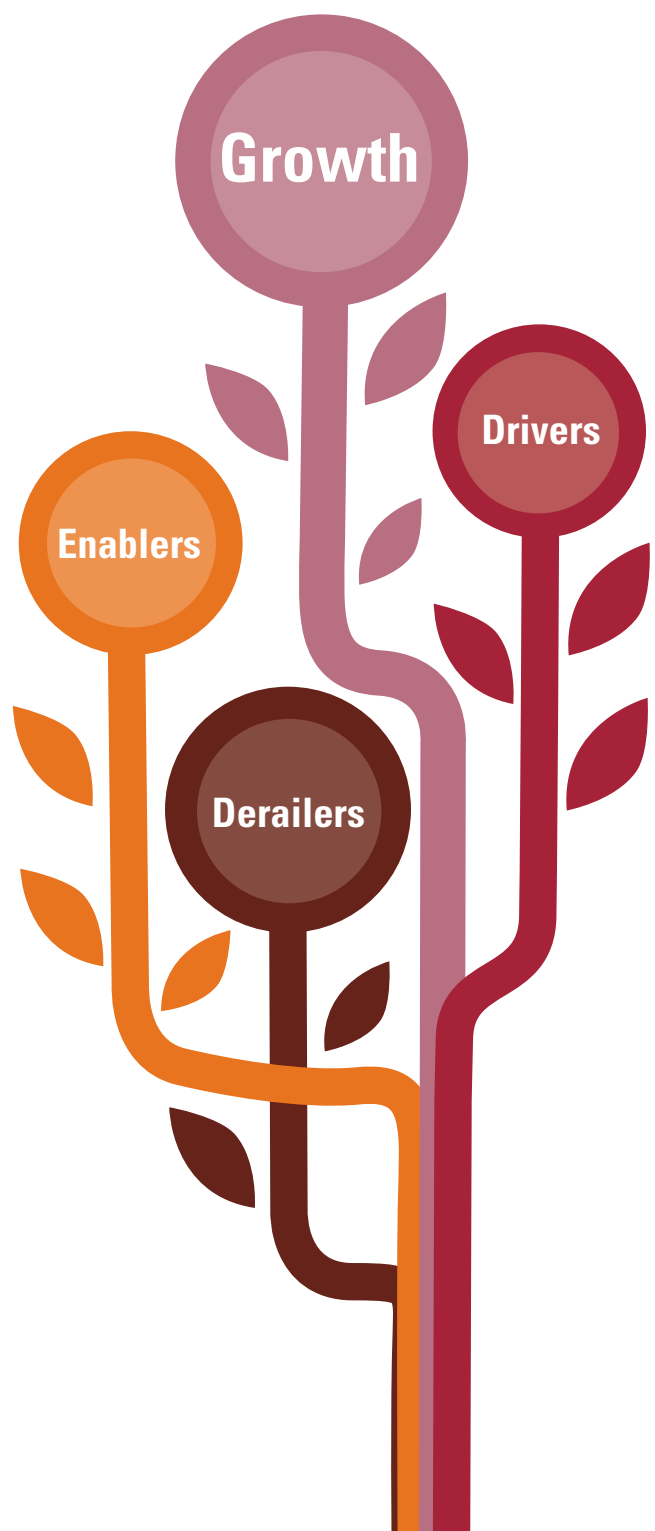
Sustainability and CSR cover several areas, including environmental impact and consumer and employee health and wellness. Issues with any of these or other areas related to CSR can quickly derail a company’s growth. Although, as many companies realize, successful CSR efforts can actually be an enabler of growth, by helping to build consumer trust.

5 Consumer knowledge

6 Supply chain

The last two levers have historically been enablers of growth for consumer companies. And although deemed as important to the companies surveyed, both hold perhaps even greater opportunity for growth than many respondents recognized.

These drivers, derailleurs and enablers must be considered in tandem when companies are planning their routes to growth. And individually, their power to determine success or failure should not be underestimated.



Case study

Kirin Holdings: Growth through forging stronger bonds

Interview with Senji Miyake, Chairman

Kirin, over a century old, sees growth as a critical objective, but it must be growth the right way — in a manner that can be sustained.

The business is actually a multi-regional business, historically centered on beer, but adapting to local tastes and practices, including diversification where beer consumption seems to have plateaued.

A key, according to Miyake-san, is to have several Regional Headquarters, each with a high “level of autonomy” so they can make “timely decisions close to the consumers.” In this manner, Kirin develops stronger bonds with consumers through an appropriate brand portfolio in their market. Unlike other industries, strong global brands in beer are rare, and Kirin feels that the ability to have the right mix for that locality works well and helps them “establish routes to market” for Kirin brands at some point in the future.

The strategy includes monitoring each marketplace carefully, and, for example, introducing craft brews in Japan (where it is a nascent force) after seeing their importance in other parts of the world. One advantage of crafts, Miyake-san notes, is the relative popularity with young legal age drinkers and females. Thus, craft beers serve as a great introduction of the Kirin Group and its brands.

Of course, regionalization alone is hardly unique, and Kirin couples that with an emphasis on developing strong bonds inside its multi-national company. The core is the company’s “HR Exchange Program” in which employees are encouraged to visit (if not transfer to) other regions to learn from local Centers of Excellence. This exchange of “professional knowledge” benefits each geography and the whole Kirin Group.

The final part of stronger bonds is among their consumers. Kirin emphasizes responsible use of its products which should enhance social interactions. In fact, Kirin focuses much of its unique research efforts on the specific occasions of beverage use (including the number of people), aiming to have the right product available at the right time for each occasion.

Doing all this well is what is driving Kirin’s growth — the right way.



Kirin Holdings

Headquarters:
Tokyo, Japan

Business:
Integrated beverages
company in the
Japanese and
overseas markets

Established:
1885

Annual revenues
(2014):
¥2,196 billion
(US\$17 billion)

Employees:
39,894 (at end of 2014)

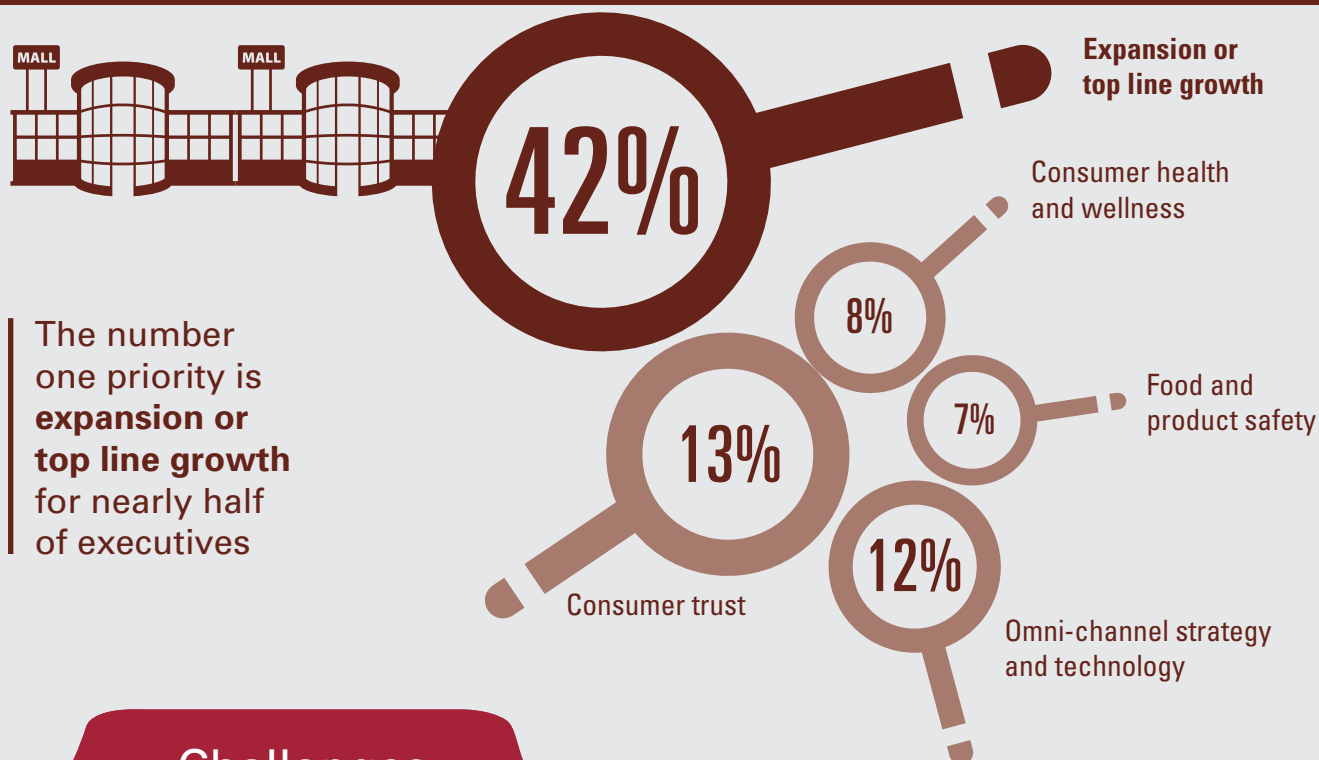
Brands:
Beer:
Kirin Lager, Ichiban
Shibori; Wine:
Chateau Mercian;
Spirits:
Kirin Hakusui
(Japanese Syochu);
Soft drinks:
Kirin Fire, Kirin
Gogo-no-Kocha

Overview of key industry issues — how they ranked

The infographic below summarizes how each of the key levers of success ranked in terms of their level of importance to the companies surveyed, as well

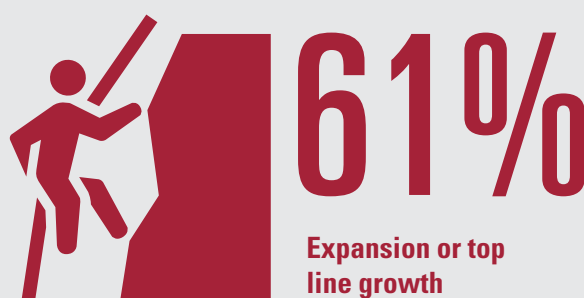
as which were identified as being the top priorities, challenges, and areas for increased investment over the next one to two years.

Top priorities



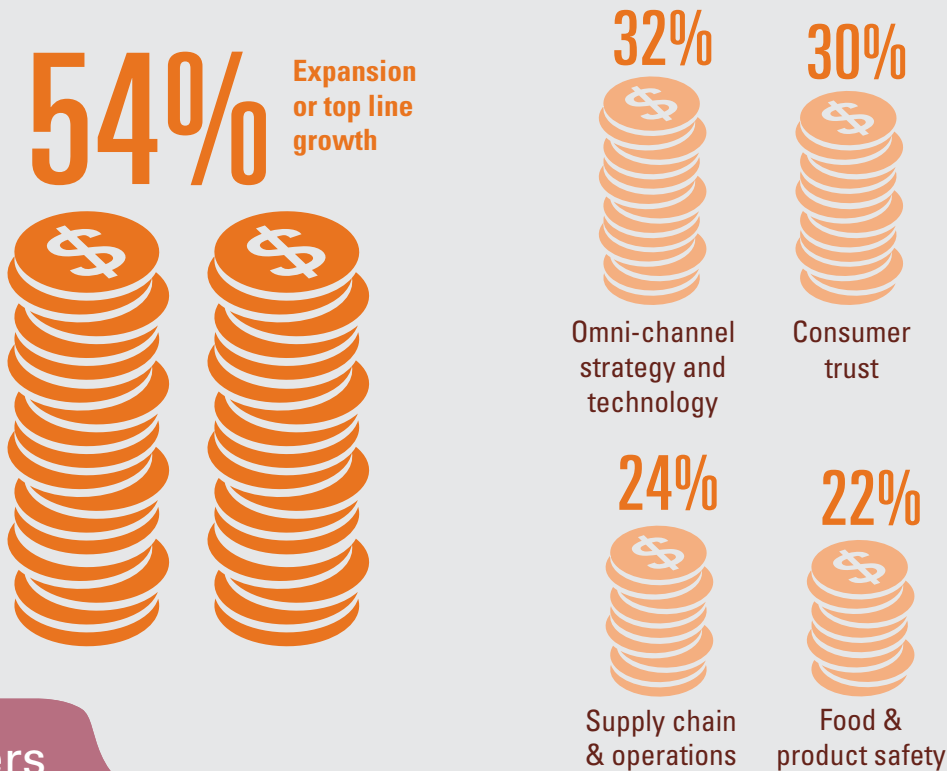
Challenges

Expansion or top line growth is the **greatest challenge**



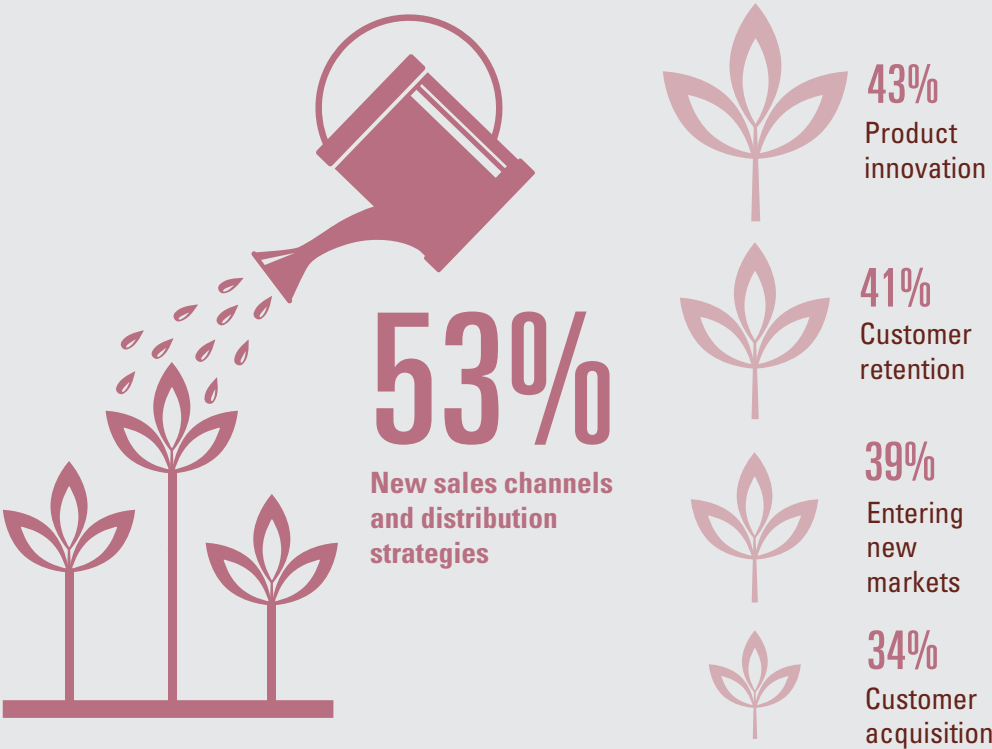
Investments

Expansion or top line growth is the top area for increased investment



Growth drivers

New sales channels and distribution strategies will drive top line growth over the next two years.



1 Consumer trust — building confidence to drive growth

Engendering consumer trust emerged as the top priority following growth. And, while it may not necessarily be a direct pathway to growth, it was identified by nearly a third of respondents as an area for increased investment.

Interestingly, the younger executives (aged 35 and under) were more likely (19 percent vs. 11 percent) than the relatively older executives (aged 45+) to rank consumer trust over top line growth as their number one priority. This is indicative of the shifting priorities of younger generations and business leaders that understand:

- No matter how good your product or service is, you will not be able to grow without credibility/trust and the good feelings engendered by your citizenship. Trust alone cannot sell a bad product; but a lack of trust can thwart the sale of a good one.
- Consumers are demanding more information about the products and services they buy. In fact, about three-quarters of the respondents agreed that “our consumers demand transparency.” In fact, without transparency, or if transparency exposes a problem, growth can be derailed.
- And, while the economics of complying, if not leading, on the various sustainability issues is not always clear, industry executives understand that compliance impacts their ability to grow. When asked about the drivers of sustainable practices at their companies, over two-thirds of the respondents cited the need to build trust for their reputation and brand. Mandatory regulation or cost reduction were much less of a driving concern for sustainable practices.

The 2015 Edelman Trust Barometer (an annual global study from the large public relations advisory) found that “nearly two-thirds (63 percent) of respondents refuse to buy products and services from companies they do not trust” and almost as many “criticize them to a friend or relative.” On the upside, 68 percent say they would recommend a trusted company to others.

It is important to note that the efforts of the Consumer Goods Forum (CGF) (and others) on an industry-wide approach is well supported by Edelman. Their analysis shows four factors influence trust in a given company:

- Industry
- Country of origin
- Enterprise type
- Leadership

The consumer goods industry continues to fare well on the annual barometer — though trailing tech and automotive — and, as the industry keeps working on trust (and the CSR issues which earn and/or help support it), performance should remain strong. Already, five of the ten most trusted brands in the study are from the consumer industry.

Amidst the predominant attitude that building trust is a necessary goal, the top two areas of importance for building consumer trust for both retailers and manufacturers were consumer health and wellness and food and product safety, particularly for the food and beverage companies. The manufacturers were most likely to rank ethical labor practices as their thirdmost top priority, and retailers were twice as likely as the manufacturers to see data security as one of the top issues affecting consumer trust (see Chart 5).

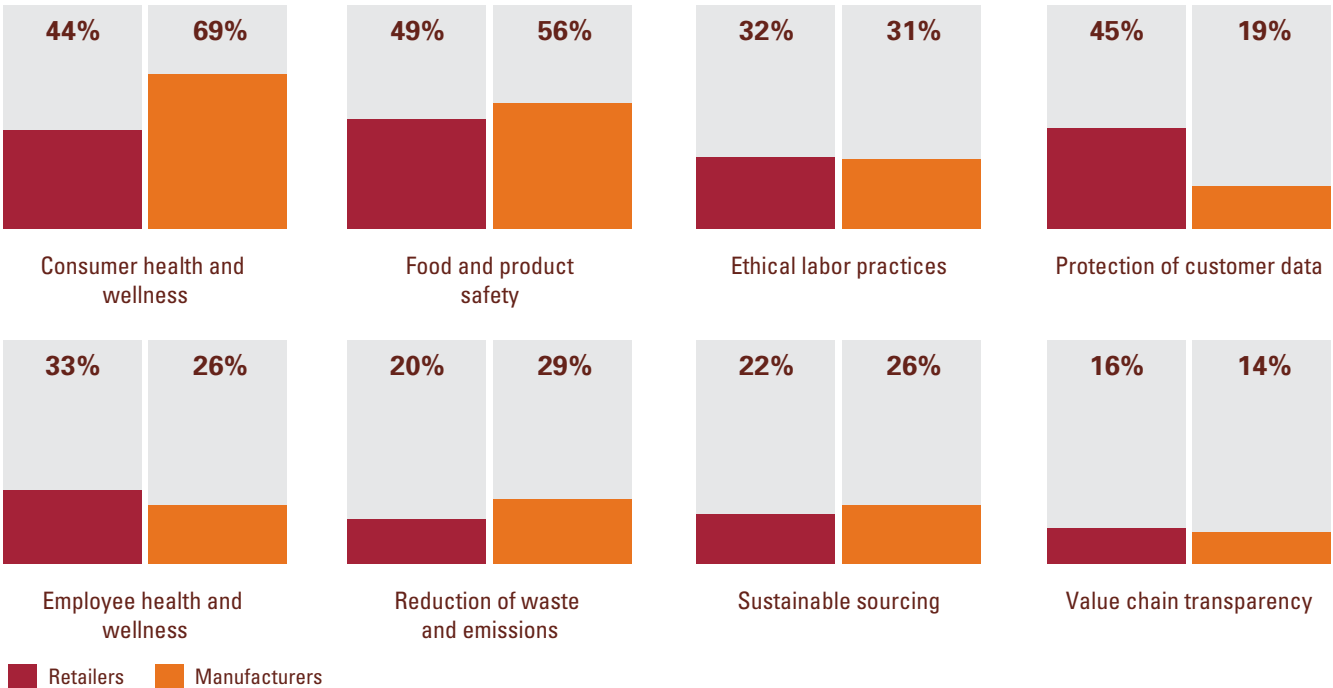
To aid in building and keeping consumer trust, the CGF has issued a set of Consumer Engagement Principles (CEP) (available at <http://www.theconsumergoodsforum.com>) which provides a framework for engaging with consumers to maintain or build trust. The objective of the CEP Project is to establish cross-stakeholder industry guidelines for engagement with consumers using digital channels, such as online, social and mobile. These principles will be a declaration of the industry’s responsibility to engage with consumers via digital channels in a trustworthy manner.



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Chart 5

Areas of importance in building consumer trust (top 3)



Source: 2015 Top of Mind Survey, KPMG International and the CGF, n=539

Top two areas of importance

Amidst the predominant attitude that building trust is a necessary goal, the top two areas of importance for building consumer trust for both retailers and manufacturers were consumer health and wellness and food and product safety, particularly for the food and beverage companies.

2 Omni-channel and technology — how effective strategy can drive growth

The omni-channel term is still relatively new, but technology disruptions are, by now, par for the course for the consumer-driven industry. It has — and will remain — on the bleeding edge of change. Omni-channel has the ultimate goal of letting every consumer shop and purchase on their terms — a tall order indeed.

There are innumerable studies and surveys about the state of play in omni-channel and the numbers change frequently in this dynamic environment. In any event, along with consumer trust, omni-channel is one of the top issues of importance (particularly for retailers). It is also both a key area targeted for investment and a top challenge. This aptly summarizes the issue: omni-channel is both a threat (need to adopt new technology — often before it's totally tested) and, if it works well, an opportunity.

For example, will the latest mobile payment app become the standard and reward early adopters, or will it be the technology that falls by the wayside, leaving the early adopters behind? Bet right on the technology and implement well, and you gain a competitive advantage — but probably only for a while. And if you stay with what you have for too long, the latest evolution will be adopted by your competitors putting them ahead. As the CEO of Aeon points out in the case study on page 14, capital investments are no longer an infrequent one-time decision, but a fluid, on-going issue.

Last year's report focused on omni-channel and since then, some industry players may feel they have a better handle on the challenge. However, it is still certainly high on the consumer executive agenda. In fact, the most often cited strategy for growth this year, "new sales

channels and distribution strategies," undoubtedly has a component of omni-channel for many.

Just over half of the retail respondents say they offer a seamless shopping experience across channels, and slightly fewer offer the ability to shop from a mobile device (see Chart 6). This may represent progress, but many retailers are unable to meet these new consumer demands — demands that competitors are actively fulfilling.

New digital platforms not only offer greater flexibility for consumers but they can also provide consumer businesses with greater insight into their customers, contributing to more profitable decision-making.

Mark Larson, Global Head of Retail at KPMG, points out: "Omni-channel needs to be viewed in the context of merchandising. Leading retailers are analyzing customer responses to different mixes of promotion, pricing and ranges — turning the dials to test and tweak options to better understand the optimal value proposition."

"From a strategic and economic perspective, the insight gained enables businesses to streamline and focus their merchandising to achieve the greatest impact and profitability. Those businesses that have been slower to offer a greater mix of shopping channels or options are missing out on realizing the commercial value of these benefits.



Seamless shopping

Just over half of the retail respondents say they offer a seamless shopping experience across channels, and slightly fewer offer the ability to shop from a mobile device.

Jeanne Johnson, Head of Omni-channel at KPMG, explains how, traditionally, company departments and processes were siloed, limiting their ability to manage and efficiently integrate new sales, promotion or distribution channels. This linear business model has been disrupted as the digital world has consumers “coming at manufacturers and retailers from all directions — and not just through their own channels or in a predictable order.”

The need now, is for companies to become horizontal in order to provide a truly seamless experience for consumers, or, even better, become “diagonal” by allowing for the integration of cut-through emerging technologies such as smart watches or new payment methods that may be controlled by third parties.

She points out that the industry is at a “pivot point” as it deals with how best to organize and coordinate its operations. Each company is somewhere on the path of:

1. Coping
2. Competing effectively
3. Capitalizing on the commercial value of omni-channel

So, it seems that the omni-channel glass is about half full. Not quite as acute a concern as last year, but still recognized as a big opportunity. Of course, as noted, what is an opportunity for those able to grasp it, becomes a risk or weakness for those who do not. The only safe prediction is more bumps ahead, as the industry tries to fully tune in to a truly seamless omni-channel model.

Chart 6

Most common shopping options offered by retailers

(Among retailers only, n=174)



Source: 2015 Top of Mind Survey, KPMG International and the CGF, n=174

3 Data Security — how overconfidence can be a derail

The key headline here is a false sense of security. Over the past few years, breaches in data security, in the retail industry in particular, have received significant negative publicity — often with financial consequences. However, over half of the respondents said that they believe their companies have “sufficient skills and technology to manage cyber security” — while less than one in five (18 percent) said they do not.

Perhaps because they see the main risks as reputational (and not financial, or a threat to their intellectual property), data security is not one of the top challenges for companies nor a target for increased investment. It is also possible that since this is a risk that can be (and usually is) insured against, there is less current concern than for other issues.

Maybe the assumption is that, as with automobile recalls, consumers are becoming accustomed to breaches and will be less and less prone to blame a business. In fact, even those respondents who have experienced a breach show no greater concern about the issue of data security than those who have not (although they are slightly more prone to point to reputational threats as a consequence).

Data security professionals, such as **Tony Buffomante**, who leads the consumer markets cyber-security team at KPMG in the US, points out that threats to companies’ data are “dynamic,” since the “threats are different and more sophisticated than ever.” Data may be targeted by hackers and criminals of course, but also by activists, government or competitors.

Not only are the attackers learning and adapting, but the data the industry players are protecting is changing, too, and not always in a more secure way. As consumer needs and wants evolve, and as the Internet of Things and other technologies create data in new ways, “sensitive data is becoming more mobile than days of the mainframe — and getting more so every day.”

Thus, the drive for growth is actually also driving more threats to security. In fact, as Buffomante points out, often the growth strategy can increase risk directly (e.g., considering M&A, development of new intellectual property or, more clearly, a new POS system or omni-channel approach). And, it is worth noting, these strategies and issues pertain to manufacturers and distributors, not only retailers.

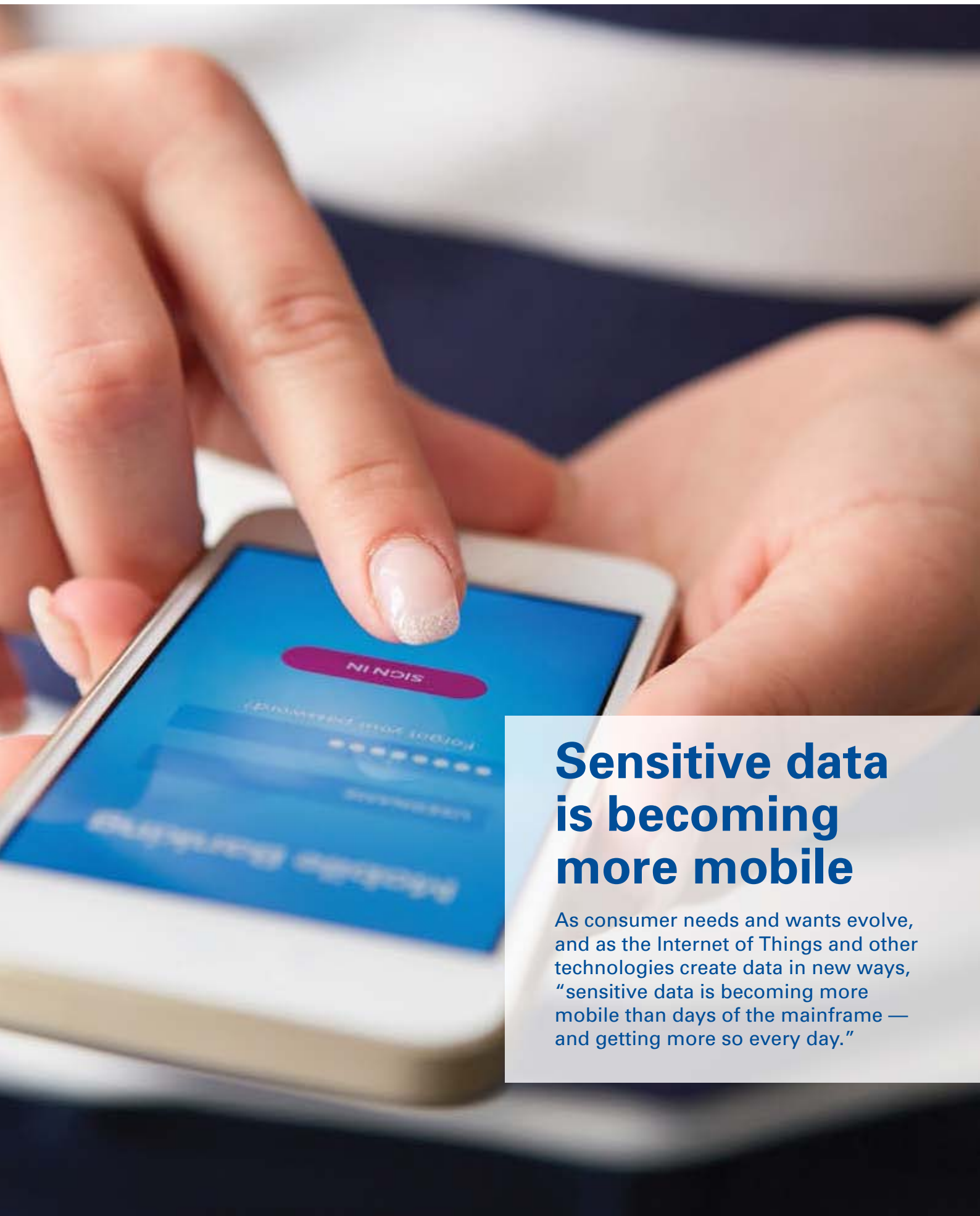
The cyber threats that companies face are ever-changing. And while there is no panacea (“100 percent security is a myth”), there are steps that can help guard against them:

1. Data security is a business issue, worthy of senior attention. “Security needs to be tightly linked with the business strategy and innovation.”
2. Data security moving forward needs to adapt to the growth strategy by identifying what new threats may arise due to new channels, new types of sensitive data, etc.
3. Most importantly, companies need to triage the vital “crown jewels” and focus protection on those elements. Buffomante’s analogy: “Not just locking doors and windows because the attackers can get into the house, but locking the diamonds in the safe.”

You can’t successfully guard all your data — but you can provide security for that which is most critical. You can only do this by recognizing the importance of the need for continuing focus on data security.

Threats to companies’ data are “dynamic,” since the threats are different and more sophisticated than ever. Data may be targeted by hackers and criminals of course, but also by activists, government or competitors.





Sensitive data is becoming more mobile

As consumer needs and wants evolve, and as the Internet of Things and other technologies create data in new ways, “sensitive data is becoming more mobile than days of the mainframe — and getting more so every day.”

4 Corporate responsibility and sustainability can enable growth — or impede it

This area covers a broad range of issues related to companies' compliance policies and efforts to exercise socially and environmentally ethical behavior. Once an option for many companies, consumer and stakeholder pressure, in addition to government and NGO regulation, compliance — and even proactive leadership — in many of these areas are now more likely to be fundamental.

Of the issues related to corporate responsibility, food and product safety, and consumer health and wellness ranked as the top areas of focus this year — not surprising as these areas are most likely to impact

consumer trust. These two areas were also most likely to be areas identified for increased investment this year, and as the respondents' top challenges (see Chart 7).

Chart 7

Rank order of areas related to sustainability and corporate responsibility

	Important for success Top priority	Challenge	Increased investment
 Food and product safety	1	1	1
 Consumer health and wellness	2*	2	2
 Social and environmental responsibility	3	3-4	3
 Regulatory compliance	4	3-4	4

* Ranked much higher for manufacturers

Source: 2015 Top of Mind Survey, KPMG International and the CGF, n=539



Environment versus health

Consumers rarely pay more for environmentally sustainable products, whereas they may be willing to pay more for healthier products.

In these areas of concern, the survey delved into the approach respondents are taking — specifically, do they strive to simply meet existing standards or are they leaders in these areas? A third of the respondents said they are trying to exceed or lead industry standards in the areas of consumer health and wellness and food product safety. Interestingly, respondents were also quite proactive on ethical labor practices (35 percent said they were “trying to lead”) although slightly less were equally aggressive on employee health and wellness (only 24 percent said they were leading).

The CGF focuses on these issues on behalf of the industry, and there has been progress — as shown by adoption of CGF health and wellness resolutions (<http://www.theconsumergoodsforum.com/health-and-wellness-strategic-focus/resolutions>) to:

- Offer consumers and shoppers a range of products and services to support the goals of healthy lifestyles.
- Provide transparent, fact-based information that will help consumers and shoppers make informed product choices and usages.
- Use communication and educational programs to help raise consumer awareness on health and wellness and energy balance to inspire healthier diets and lifestyles

A 2015 survey by the CGF shows widespread adherence to these three resolutions. **Peter Freedman**, Managing Director of the CGF, points out that “consumers rarely pay more for environmentally sustainable products, whereas they may be willing to pay more for healthier products.” He goes on to suggest that social human rights issues are also very important to some purchase decisions — for example, how workers are treated in upstream supply chains.

Freedman is optimistic about further progress (on all of these concerns) and points out transparency and sustainable sourcing as topics worthy of particular improvement.

CEOs and other leaders understand that companies’ adherence to ethical and sustainable business practices are critical to earning consumer trust, which will at some point impact the top line. Several of the executives cited in the case studies echo this point, which is reinforced by **Julio Hernandez**, Global Head of KPMG’s Customer Centre of Excellence: “If companies aren’t trustworthy, they’ll have a leaking bucket problem. Instead of being loyal, customers will leave if they don’t feel like they can trust a brand. Companies need to step back and think about what their brand stands for, and how they can build tangible trust.”

IKEA: Growing for a purpose

Interview with Peter Agnefjäll, CEO

IKEA is typical of our survey respondents with revenue growth as a top priority. However, Peter Agnefjäll makes it clear that the goal is “responsible growth with a vision.” In fact, the vision, articulated by his predecessor (and company founder) more than 70 years ago, remains to “create a better everyday life for the many people.”

While that mission remains intact, growth requires being open to change in society and customer demands. Recognizing change, Mr. Agnefjäll put some specific cornerstones in place as he set an aggressive and public goal of doubling revenues by 2020. The four cornerstones of the “Growing IKEA Together” strategy are: growth, people, sustainability and lower cost.

Pursuant to the fourth cornerstone, there has been a real change in consumers’ perceptions of “value for time,” along with natural aging of IKEA customers who, when starting a college career or first home, were quite happy with the IKEA philosophy of “do-it-yourself” thinking. “We do one part, the customer does one part, and together we save money.” Now, some customers demand “we (IKEA) do more — home deliveries, assembly and installation,” and the ability to design, configure and even buy electronically.

IKEA anticipates shifts and develops products and services to meet them through market research — and a great deal of ethnography through extensive visits to homes.

As we have seen throughout this KPMG and CGF study, the key enabler for IKEA, too, has been a “holistic agenda.” Mr. Agnefjäll recognizes the need to have everybody aware of the company’s goals, metrics and KPIs. As important, the people who work for IKEA must all be a part of the effort and IKEA has to be a “great place to work.” Part of this is a novel two-part incremental bonus system. First, all employees can get an extra month’s pay if the company meets certain specified economic goals. Second, IKEA has a loyalty program for employees. All employees who have been with IKEA for over 5 years share in this second bonus. The point of both is to ensure that profitable growth benefits the employees in finite ways beyond the positive work environment.

However, to make all the work pay off, Mr. Agnefjäll recognizes the “constant area you need to address: avoid silos.” He notes how the 1990s business advice was to delay hierarchical management. The imperative now is to do this (cut layers) horizontally to make the “process from supply to customers as efficient as possible” and to “share the same knowledge.”

IKEA shows how the commitment to growth can be implemented successfully by recognizing the “constant balancing” of interests needed to provide the vision of the everyday life to as many people as possible.



IKEA

Headquarters:
Netherlands

Business:
**322 home furnishing
stores in 28 countries**

Established:
1943

**Annual revenues
(2014):**
**€29.3 billion
(US\$33.1 billion)**

Employees:
147,000

Brands:
about 9,500 products



Talent is at the heart of any strategy

Not all of the areas covered in the survey (e.g., talent management/HR) are discussed in depth in this report, although each one can certainly be vital to a specific growth strategy. As **Ilaria Gregotti**, KPMG's Global Lead for Talent Management notes: "It's time for a mindset shift at the Board level, where talent needs to be discussed and owned as a strategic business issue that is facilitated (but not owned) by HR. At the same time, HR needs to focus on generating true insights for the business and help companies realize their strategic growth objectives through better people practices."

5 Consumer knowledge can be an enabler of growth — but often is not

Looking at the revenue growth strategies of the companies surveyed, more than half said they will be focusing on new channels and distribution methods — or in other words, more effective omni-channel strategies (see **Chart 8**), over the next two years. And by sector, the manufacturers are also very likely to be investing in product innovation (especially those in North America and Asia) and entering new markets, while the retailers are not surprisingly more likely to be focused on customer acquisition, retention and merchandising strategies.

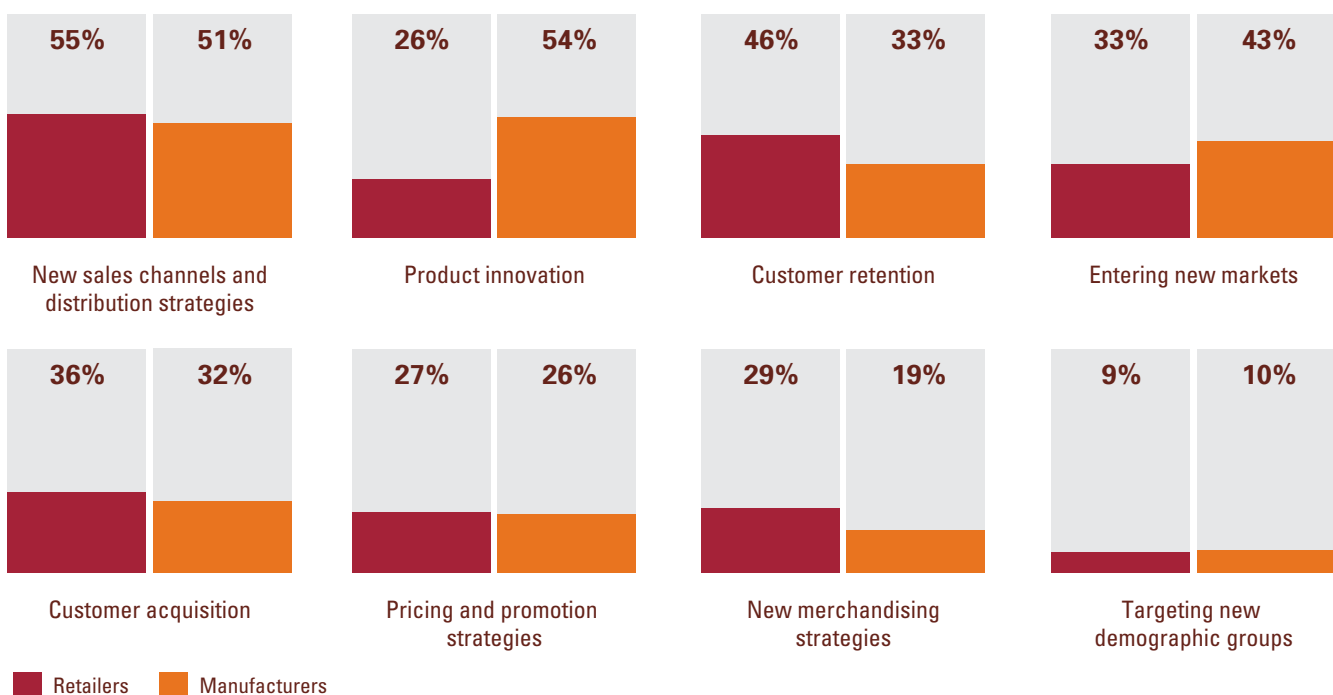
Of course, regardless of age or geography, it is hard to acquire new customers without a clear understanding of what they value and how they (will) behave. Unfortunately, only one in five (21 percent) “strongly agree” they “understand how their customers will actually behave” and a similar proportion (20 percent) say they “know what products our customers are buying from our competitors instead of from us.” (It is worth noting that about 40 percent “somewhat agree” with the statements — at least directionally positive).

The possibilities of data analytics have not yet been fully absorbed and integrated by most companies (an observation echoed in the case studies and expert interviews) and traditional market research has not yet caught up with sampling in an age of digital devices, or with findings of behavioral economics. Therefore, despite having a growth strategy, without deep insight into your consumers’ preferences and behaviors, success is far from guaranteed — creating a key competitive advantage for those able to grasp it first.

Chart 8

Which of the following strategies are most likely to drive your company’s top line growth over the next two years? (Select up to three)

Top strategies for top line growth



Source: 2015 Top of Mind Survey, KPMG International and the CGF, n=539

The industry has thrived in the past on segmenting and targeting specific subsets of consumers, but today many companies may need to shift to being able to target “a segment of one” as **Mark Larson**, Global Head of Retail at KPMG puts it.

His colleague, **Thomas Erwin**, a Senior Partner in KPMG in Germany’s Data & Analytics practice, points to the competitive edge available to those who master “turning data into insight into value.” Many companies are deriving insight from the “abundance of data” now available at little cost. Few have been able to go beyond the data to capture the growth and economic value available from, for instance, “dynamic offerings,” the ability to influence a specific customer journey — with a customized, instantaneous promotion or value proposition that can directly prompt a purchase.

Loyalty strategies (**Chart 9**) such as “exceeding customer expectations” and “proactive customer service,” are effective approaches to satisfying and retaining customers. However, they are also expensive to execute against every customer, particularly if you are not confident that you know exactly what they want.

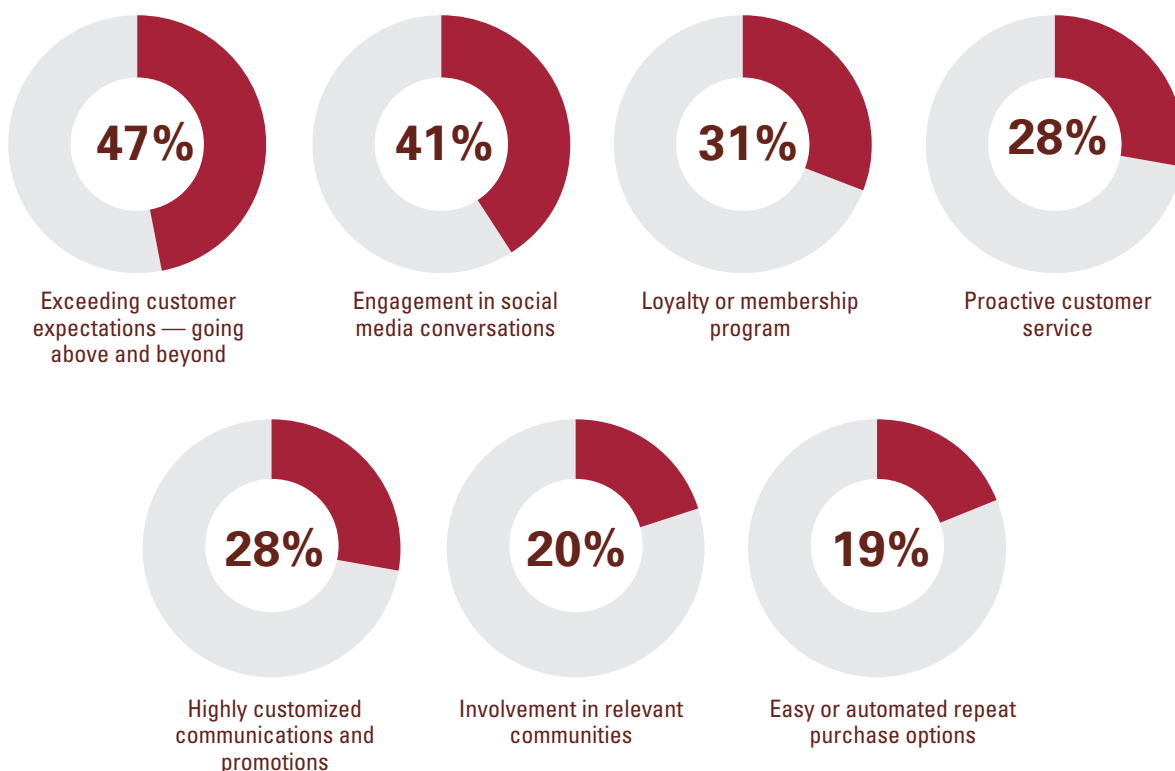
A newer, but increasingly popular strategy, is to create “easy or automated repeat purchase options.” This capitalizes on recent behavioral economics research (by Thaler and Sussman, and popularized in Kahnemann’s *Thinking Fast and Slow*) that illustrates a human tendency towards inertia. Examples of this include online grocery shopping, where regular items are pre-populated in a customer’s shopping cart, or Amazon’s “Dash” push-button technology which enables customers to replenish items such as laundry detergent or razor blades by clicking a Wi-Fi enabled button.

“Loyalty or membership programs,” have paid off for many retailers as have “highly customized communications and promotions” (28 percent) — which has become more prevalent as data collection and analytics have made it easier for companies to identify their customers and their spending patterns.

In fact, many consumer companies that did not traditionally have information about their customers (i.e. a pizza company that had only a phone number; or a food manufacturer, distributing through retailers) have been

Chart 9

Most common strategies for developing loyalty (select up to 3) Top 7 responses



Source: 2015 Top of Mind Survey, KPMG International and the CGF, n=539



Emotionally connected

The average emotionally-connected customer is far more valuable than other customers. In fact, they are more valuable than the average patron in any loyalty program for the brand, if one exists.

moving rapidly to leverage online promotions, product orders and even social networks to build customer databases that provide them with more data about their customers. This data can then be used to analyze behavior to better understand and target their customers. It is likely that highly targeted communications and offers enabled by data and technology will become the norm, and those with the discipline to test programs will develop a distinct advantage.

Loyalty strategies that are more tied to consumer emotions, such as “engagement in social media conversations” (41 percent) or “involvement in relevant communities” (20 percent) are also important and effective. Motista, a company that has studied thousands of consumers across multiple industries, has found that they can statistically separate those with an “emotional connection” to a brand from other customers — and the economics are compelling. The average emotionally-connected customer is far more valuable than other customers. In fact, they are more valuable than the average patron in any loyalty program for the brand, if one exists.

Albeit this is not news to most consumer companies or behavior experts many who believe that ultimate loyalty includes a state of mind — an emotional attachment beyond simple repeat purchase.

Overall, it appears that most consumer companies have a ways to go in terms of truly understanding its customers — ironic, since this industry sector has traditionally been regarded as the master of marketing and the best consumer and market researchers.

Perhaps this gap in knowing the customer is understandable given the forces that have beset the marketplace as mobile devices and social networks have created chaos, and as brilliant e-tailers upset the relationships that had defined the industry for years before. Point of sale innovations promise to keep the turmoil going. Compounding the problem is the recession, which cut headcount of those who had researched and knew the industry.

Companies may also need to shift their hiring strategies to focus on today’s consumers and their needs. Several case studies in this report include this point, and **Ilaria Gregotti** of KPMG in the UK explains: “Expanding into new markets, leveraging omni-channel and other disruptive technologies, and better engaging with and building the trust of customers requires an alignment and nurturing of new skills. Companies won’t be able to grow aggressively if they don’t dedicate senior thinking and resources to this.”

Case study

Aeon Group: Trust in the digital world

Interview with Jerry Black, Executive Vice President, Chief Digital Officer

Aeon has and will continue to grow the traditional way, by knowing and serving the customers and communities in which it operates, and investing in new markets where their values should work well. (Where Aeon decides to make acquisitions, they empower local leadership — and see their role as providing access to new tools such as their credit card, capital, or private brand products).

A key to Aeon's success is acceptance that the consumer industry has changed and that requires a never-ending mindset change by leadership. For example:

- Learning that the old methods of "brand research" serves up only opinions, and that by focusing on customers' uniqueness and local market characteristics, Aeon will "differentiate itself to improve value to customers and store traffic".
- Recognizing the need for combining online user experience with social media and for merging online (i.e. cookie) data with physical store/ locational data to better understand their customers' behavior.
- Anticipating the increasing value of Millennial consumers and tapping into Aeon's own high-potential Millennial employees to help the company better attract and serve this enormous segment.
- Recognizing that today's retail industry requires more specialized skills (e.g. data analysts), and hiring and developing people accordingly; and that capital technology investments can no longer be viewed as one-time events, but rather as an ongoing process.

All of these examples flow from recognizing how digitalization is transforming how customers "experience the world." Thus, it has already and will continue to change how Aeon perceives the market.

In the survey, consumer trust emerged as an important aspect of growth meriting relatively large investments. To Mr. Black and Aeon, maintaining trust is a critical element to everything they do. The secret is "there are no secrets; there are no tricks." He notes that, historically, trust could, in essence, be pushed by mass marketing and the best-known brands tended to be the most respected or trusted ones. Now, "trust is social media likes. That is where consumers formulate their trust."

Transparency is the only way to go — about products, services and sustainability ("a moral issue now; an economic issue in the future). "Aeon understands that consumers really want to understand all the issues surrounding what they buy. And as Mr. Black acknowledges, "bad news travels fast, now more than ever." Hence, performing on your values is the only way to earn and keep trust.



Aeon Group

Headquarters:
Japan

Business:
168 malls plus
611 supermarkets
and retail stores
throughout Asia

Established:
1758

Annual revenues:
¥6,395 billion
(US\$51.5 billion)

Employees:
420,000

Brands:
Topvalu
(over 6,000 items)

6 Supply chain effectiveness can be an enabler of growth — but often is not

This is one of the areas that is important to many (69 percent), but of primary importance to only a few, and a challenge to fewer than one in five. Still, many named it as an area for increased investment and one in three plan to transform their supply chain and operations.

Furthermore, respondents see the opportunity in their supply chains as a growth engine. Developing new sales channels or distribution strategies, for instance, was cited as the number one strategy for growth (by 63 percent of respondents). Entering new markets was the fourth most popular (39 percent) and, of course, that entails supply chain issues, as might product innovation, which came in second (at 43 percent).

So, while supply chain (formerly “logistics” and/or simply “channels”) is a traditional issue for all aspects of the industry, and not named as a main driver of growth in 2015 — new opportunities abound. (Please note, omni-channel, which could be part of “supply chain” to some respondents, was delineated as a separate category in this survey — and, as has been seen, turned out to be an even more important one than “supply chain and operations.”)

Part of the reason for noting this area as a possible enabler flows from the perception of a large group of executives (over one in three) that they currently “lack the speed and agility in our supply chain to effectively compete with new entrants.” Furthermore, the continuing move to electronic shopping — growing now even for fresh food — puts pressure for efficiency on all aspects of supply which is compounded by rising demands (by regulators and/or consumers) for sustainability. And, if revenue growth occurs, the supply chain will have to provide it — and do so efficiently if the bottom line is to grow as the top one does. If, for example, omni-channel often promises purchase whenever and wherever consumers want information and to buy; the supply chain needs to be ready and able to produce it seamlessly.

Regardless of whether supply chain and operations improvements are needed to keep up or to fuel growth, the organization needs a cross-functional, “well-constructed supply chain strategy” according to **Andrew Underwood**, Global Head of Supply Chain for Consumer Markets at KPMG.

When used (as many do) to drive growth, the need and opportunity extends to using supply chain as a source of information (e.g., spotting rising demand as it emerges), and adaptability (e.g., fulfilling that demand immediately when it appears). The idea is to capture and capitalize on all the “additional data, product movement and inventory levels that are appearing, disappearing and coming back into the eyes of the supply chain. Being able to see that data, being able to manipulate that data and turn it into meaningful intelligence is the fundamental opportunity for organizations,” says Underwood.

In many instances, in this industry, partnership opportunities abound — such as manufacturers working collaboratively and sharing real-time information with specific retailer(s) and/or distributors. This can develop winning combinations and opportunities for powerful promotions.

An excellent example of the concept of real-time capture of the supply chain comes from Formula 1 racing. KPMG in the UK has formed an alliance with McLaren to demonstrate to their clients how the system that McLaren uses to enhance race cars using instantaneous information flow from sensors can also be applied to enhance manufacturing performance in the consumer goods industry.



The continuing move to electronic shopping — growing now even for fresh food — puts pressure for efficiency on all aspects of supply which is compounded by rising demands for sustainability.

Case study

Barilla: Good to grow

Interview with Guido Barilla, Chairman

Few companies have become truly global in pasta — but Barilla is on the journey. As the company's Chairman, Guido Barilla, is quick to point out, "we are international in that we adapt our business to meet local preferences" (vs. a "global" company which treats every country the same).

The key enabler to Barilla's international success is their approach to the unique local food tastes and traditions of each country, and often each locale, that it enters. Barilla studies and adopts. More importantly, they hire local talent and actively recruit people who "bring in different views," recognizing this is the "only way to understand and serve the local markets."

A second strategic difference is patience — taking the time to learn how best to serve the local tastes. Mr. Barilla recognizes the advantage of being a private family company where there is less stakeholder pressure for short-term results. They can choose their target markets for expansion and then work carefully to, for example, develop products that are cooked in a wok instead of boiling water.

Barilla's patience and long-term perspective characterizes a third strategy — executing sustainability. And to his company, their promise to be "Good for You, Good for the Planet" is a true commitment to action.

The commitment includes funding a Center (now a Foundation) where hundreds of scientists around the world are dedicated to addressing industry issues beyond just commercial concerns.

For Barilla itself, discoveries from the Center have led to reformulation of 170 products. In essence, this fits the multi-national approach of "product customization with strong brands." The company has a "different finish line" than economics alone — striving for stability, safety and quality and "to be recognized for doing the right thing for society."

According to Mr. Barilla, "for a serious food player, without a commitment to sustainability, you cannot be in business." He sees the growing storm over palm oil and is acting now. He also foresees a crisis coming over waste — in two respects. First is literally disposing of waste as the world population grows, and second is his acute observation that while many in the world die of starvation each year, many others die from overeating.

He takes a similar, non-traditional view of consumer research, recognizing that what worked in the '70s, '80s and '90s does not work now. He cites the fact that the vast majority of new food product launches fail within five years. Yet, managers still use the same type of research — perhaps to "unload responsibility — [relying on research is] a fantastic way to avoid responsibility and thinking."

This relatively small company is setting outsized goals for the industry and leading through its commitment and willingness to think independently.



Barilla Group

Headquarters:
Parma, Italy

Business:
Global pasta manufacturer with distribution in over 100 countries

Established:
1877

Annual revenues:
€3.2 billion
(US\$3.6 billion)

Employees:
8,106

Brands:
Barilla, Mulino Bianco, Voiello, Pavesi, Academia Barilla, Wasa, Harry's (France and Russia), Misko (Greece), Filiz (Turkey), Yemina and Vesta (Mexico)

In summary

Recalling Willy Kruh and Peter Freedman's warning not to wait until you think the "optimal time" has occurred, the most important message from this year's survey is that if you aren't growing, (i.e. 'standing still'), you are likely falling behind.

Because of the digital disruption (and weak economies in parts of the world), the pressure on consumer companies remains intense. It is increasingly hard to derive savings from operations and, in fact, given growing consumer demands for seamless opportunities to shop and buy and know everything about what they are buying, whenever and wherever they are, it will be hard to keep technology and sourcing spending where it is. This survey contains some concerning news, we believe, in that many respondents seem satisfied with their efforts on issues such as data security and omni-channel. KPMG member firms, the CGF (and the respondents themselves) agree that continuous work and effort is required in these areas.

Second, the vast majority note some lack of confidence that they truly understand their customers in an industry that is traditionally known for that type of insight. Without better research and data analytics, growth will be hard to achieve. At a minimum, consumer companies need to be able to monitor the continuing challenges and changes in consumer behavior more generally. The growth winners will be those able to truly understand their target customers' behaviors and how to influence them. It is

hard to discern what might occur in the future, but it is necessary to know as close to real-time as possible what is happening in the marketplace.

Third, it is increasingly evident that traditional silos can no longer successfully provide a meaningful competitive edge. Strategies and implementation now must cut across the enterprise. This is, perhaps, the most important message: omni-channel needs to work with the supply chain, which need to be compatible with corporate citizenship so as to engender trust. All that will only enable great growth if you know the customer well enough to have offerings which will sell — at a price yielding profitability (without a data breach to derail your efforts) and executed by people who are able to manage the strategies. Exhausting, perhaps, but the rewards are there for those that are able to achieve this.

Patchwork responses in one area can only go so far — top line growth in the 2015 environment requires a strategy that considers, at the very least, the drivers, enablers and potential disruptors discussed in this report. Hopefully, the foregoing has provided some specific ideas that can help you achieve your strategic goals.

Understanding customers

Consumer companies need to be able to monitor the continuing challenges and changes in consumer behavior more generally.

The growth winners will be those that are able to truly understand the differences between demographics, ethnicities and geographic location (among other things) in order better target their customers' behaviors and know how to influence them.



Case study

United Petroleum: Growing the old-fashioned way

Interview with Tom O'Brien, CEO

United Petroleum is a prime example of growing by knowing your customer — and competition — and then focusing on the key known drivers.

United has successfully leveraged its (commodity) oil business to provide an edge to the low margin chain of convenience stores it owns. Competitors in that business were major, fully integrated oil companies who are now all exiting the store business, such that United is now more integrated than any other in its geographies (without being a Shell or Mobil).

It now faces new competitors, such as 7-Eleven and Woolworths, both no strangers to retail — but United's weapon has been its laser focus on what its customers value most — inexpensive petrol. With competitive petrol prices advertised outside each store, comparison shopping does not require mobile devices — only a car ready to gas up.

United combines old school and new tech to maintain its important competitive edge. Four times a day, each of United's stations (all of which are franchises) physically sends someone out to observe posted prices at a specific set of local competitors. Prices are then sent electronically to a central system, where an algorithm based on certain protocols is applied and then pricing guidance is sent back to the stations.

And the company's strategy of focusing on prices at the pump does more than just drawing more customers into their stores. Incidentally, United CEO Tom O'Brien, who admits he is "thankful you can't buy fuel on the Internet," says that their sales data shows that the lower petrol prices are, the more customers actually spend in the stores.

Another point of emphasis for United is corporate responsibility. In a low margin industry that is tightly regulated, and with a business model in which United is dependent on the compliance of their franchisees, adherence to corporately responsible policies is critical. As O'Brien says, "we don't get to choose corporate responsibility as an issue, but we do choose how to handle it."

United has an excellent track record, which is at least partially attributable to rigorous audits that are regularly conducted at each station with scores for health, cleanliness and safety. If scores are too low, "there is a serious problem," and if they are repeatedly too low, "we would tend to use the stick more than the carrot."

Finally, with respect to United's growth prospects, O'Brien describes the opportunity in terms of three key retail categories that are emerging through "a continuous consolidation of sorts": big box, or destination shopping stores; online — in which an increasingly wider range of products is available; and thirdly, convenience.

O'Brien predicts that as consumers buy more frequently online or at big box stores, the greater will be the need for a selection of everyday items, from bread to pet food, that can be purchased at convenience stores like United. As a result, O'Brien sees the convenience segment, and United's role within it — using less expensive fuel as the magnet — as a growing one.



United Petroleum

Headquarters:
Victoria, Australia

Business:
Operator of 320+ convenience stores and service stations

Established:
1993

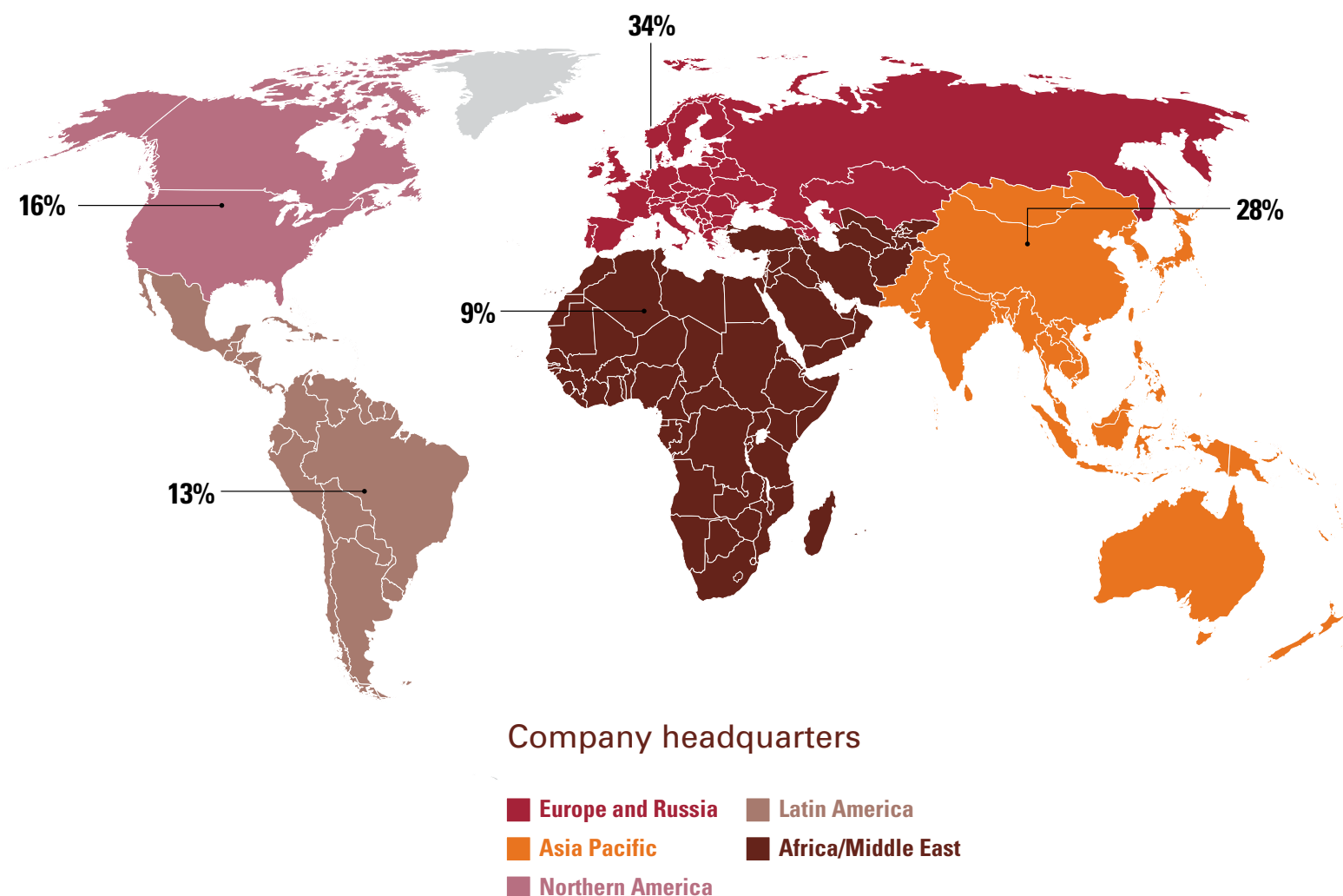
Employees:
over 2,500

Brands:
United, Sweeten Up, Drink Up, Power Up and Tech Up

About the survey

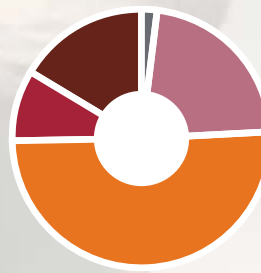
The survey was conducted online during March and April of 2015. A total of 539 executives from companies headquartered in 41 countries participated in the survey.

Three-quarters of the respondents are C-suite or above, one-third of which are CEOs or Board Directors. The companies they represent are primarily manufacturers (48 percent), retailers (32 percent) or distributors (20 percent) in the food, drink and consumer goods sectors. Nearly ninety percent have annual revenues over US\$500 million, and 34 percent have revenues exceeding US\$5 billion.



Respondent profile

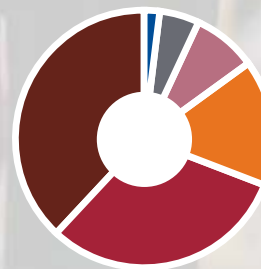
Title



Primary business



Subsector



Company size (USD)



Source: KPMG and CGF Global Consumer Executive Top of Mind Survey 2015.

About KPMG

KPMG is a global network of professional firms providing audit, tax and advisory services. We operate in 155 countries and have more than 162,000 people working in member firms around the world.

KPMG is organized by industry sector across our member firms. The Consumer Markets practice, which encompasses the Food, Drink and Consumer Goods and Retail sectors, comprises an international network of professionals with deep industry experience. This industry-focused network enables KPMG member firm professionals to provide consistent services and thought leadership to clients globally, while maintaining a strong knowledge of local issues and markets.

We work with consumer and retail clients to help them to succeed in the face of a rapidly changing business environment. KPMG's digital strategy, data analytics, cyber security, supply chain management, operations modeling and business transformation practices are a few of the areas where we have industry-leading expertise and experience, which can help meet the most pressing needs of clients.

For more information, please visit: kpmg.com/FDCG or kpmg.com/retail.

About The Consumer Goods Forum

The Consumer Goods Forum ("The Forum") is a global, parity-based industry network that is driven by its members. It brings together the CEOs and senior management of some 400 retailers, manufacturers, service providers, and other stakeholders across 70 countries, and it reflects the diversity of the industry in geography, size, product category and format. Its member companies have combined sales of EUR 2.5 trillion and directly employ nearly 10 million people, with a further 90 million related jobs estimated along the value chain. It is governed by its Board of Directors, which comprises 50 manufacturer and retailer CEOs.

The Forum's mission is, "Bringing together consumer goods manufacturers and retailers in pursuit of business practices for efficiency and positive change across our industry benefiting shoppers, consumers and the world without impeding competition." It provides a unique global platform for the development of global industry processes and standards as well as sharing best practices. Its activities are organised around the following strategic priorities: Sustainability, Product Safety, Health & Wellness, and End-to-End Value Chain & Standards, each of which is central to better serving consumers.

The Forum's success is driven by the active participation of its members who together develop and lead the implementation of best practices along the value chain. With its headquarters in Paris and its regional offices in Washington, D.C. and Tokyo, The Forum serves its members throughout the world.

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

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