



CONSUMER CURRENTS

Issues driving consumer organizations

**Africa's new dawn:
The continent's
shoppers are ready
to do business.
Are you?**

Data driven
How analytics can
inspire innovation

Brand value
Drop the gimmicks
and be authentic

Issue 21
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Consumer Currents

“Though not without challenges, Africa is the greatest opportunity facing brands and retailers in the world today”



Willy Kruh

Global Chair, Consumer Markets
KPMG International

 @WillyKruh_KPMG

Someone suggested to me recently that business no longer resembles a game of chess, it's more like ice hockey – and the most important thing is to follow the puck. I'm not sure I entirely agree. It seems to me that the major players in the world's consumer goods markets are still playing a kind of chess – but they are facing multiple opponents at the same time and are compelled to make their next move in a very short space of time.

This is true in developed economies but also in such a rapidly changing market as Africa, the greatest opportunity facing retailers and brands in the world today. Though still beset by poverty and conflict, the continent is home to the world's fastest growing middle class, and the IMF says that nominal GDP per capita has risen from US\$571 in 2001 to US\$1,750 in 2013. Africa is not without its challenges but, as we suggest on p6, this is a good time for enterprising manufacturers and retailers to make relationships, learn about consumers and build a business there. The experience of Pioneer Foods, profiled on p20, is instructive: they are looking beyond a tough home market to expand across the continent.

Most leaders in consumer goods probably secretly worry that the market is changing faster than their organizations can adapt. How leaders use that fear can mark the difference between success and failure. The good news is that there are tools companies can use to manage this challenge. The starting point is your organization's mind-set. Companies that achieve sustained, value-adding growth have, as we explore on p18, an 'outside in' mentality, which helps them focus on their present – and future – customers, reflect on how technology will transform their business and be alert to the disruptive impact of digitally savvy, well-financed start-ups. Brands that lag behind may find their business 'vaporized' in a similar manner to Tower Records, Circuit City and Borders.

In their quest to understand the growing complexity of their business, many pioneering companies are turning to predictive analytics. As we discuss on p14, data science has helped companies raise revenues – and quality – without pushing up their costs. They recognize that technology is breaking down barriers between markets and they want to ensure that if an Uber, iTunes or Airbnb-style disruption occurs in their market, they are ready.

Some companies find that sticking to what they do best – and continuing to fulfil their original brief – whilst paring away unprofitable deviations, is the way forward. On p10 we reveal how, 35 years on, Muji is still growing its original proposition, while others are seeing the need to diversify to survive.

Organizations keen to consistently innovate might learn a trick or two from Pablo Picasso. As we suggest on p22, his public image as an eccentric artistic genius is only half the story: he was a fierce competitor whose innovative audacity kept him at the top of a fast-moving, trend-hopping industry for decades.

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

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Predictive analytics can help you to make smarter decisions for your business

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China has designs on fashion

As their industry shifts away from manufacturing to services and retail, Chinese consumers have embraced *haute couture*



Chinese exports
Rihanna wearing
a gown by
Beijing-based
designer Guo Pei

MADE IN CHINA
Number-crunching
Chinese economic
change

20%

Increase in labor
costs per year
2008-2012

51%

Percentage of
GDP held by
service industry

US\$16.8bn

China's spend
on luxury goods
in 2015

US\$84bn

Predicted Chinese
luxury sales
by 2020

Sources: New York
Times; statista.com;
The Economist

entertainment have experienced a renaissance as the country shifts its economy toward consumption. In 2015, the service industry accounted for 51% of the GDP, up from 44% in 2011.

With rapidly rising incomes and a shift in attitude toward displays of wealth, the luxury service industry and luxury goods are experiencing favorable fortunes. Dr Tina Zhou of luxury research consultancy Fortune Character Institute notes: "In the past, luxury goods were seen as a symbol of wealth and status for Chinese consumers. Now they buy luxury goods for their own enjoyment."

In 2015, the country's luxury spend reached US\$16.8bn, accounting for 20% of global luxury sales. It's expected sales will reach US\$84bn by 2020, with purchases by Chinese abroad set to reach US\$97bn.

While China alters its spending habits and steps away from low-value manufacturing, global economics are shifting. Many goods can no longer be branded 'Made in China,' or 'Made in Taiwan' as they are 'made in the world'. Using the 2011 report *Capturing Value in Global Networks*, your US\$400 iPad may say 'Made in China' but only US\$10 of that has anything to do with the country.

Jessie Qian, Head of Consumer Markets for KPMG in China, says: "The government's strategy – to move up the value chain and to stimulate the consumer economy – looks sensible in the long term. And the country has the resources to achieve its goals: by the end of this year, for example, more robots will be working in China than in Japan."

Time is Money, Efficiency is Life," was once the billboard slogan which greeted ferry passengers from Hong Kong to China's manufacturing hub, Shenzhen, and with good cause. Since it overtook the US in 2010, China has held tight to its status as the world's largest manufacturing power, making televisions, smartphones and clothes cheaply due, in part, to low rent and favorable taxing.

However, it is no longer cheap to produce inexpensive goods in China, largely because of labor costs, which rose by 20% a year between 2008 and 2012.

Premier Li Keqiang addressed the issue in his Work Report at the National People's Congress in 2014, stating China needed to readdress its economic plan and "rebalance away from investment

and trade toward domestic consumption and service industries."

The shift to secondary and tertiary industries has been noticeable. While China has lost ground in the labor-intensive manufacturing of clothing and toys to Vietnam, Bangladesh and Sri Lanka, the country has become the largest exporter of high-tech products in Asia, particularly mechanical and electronics, overtaking Japan, with a 43.7% share of the market.

In Shenzhen, the hub of China's manufacturing industry since the 1970s, factories have diversified. Rappo Technology Co. previously made computer mice and keyboards, but now produces consumer drones.

Tertiary industries such as financial services, insurance, tourism and

Next tech Drones set to take off

Question marks remain over the safety of drones – the Federal Aviation Administration's (FAA) guidelines for the use of unmanned aerial vehicles are a work in progress – but their validity in terms of usage is no longer questioned.

In the UK, police forces are using drones for everything from crime-scene images to searching for

missing persons, while engineers at the University of Catalonia, Barcelona, have developed a drone with thermal vision technology to allow park rangers in Africa to catch rhino poachers. And researchers at Harvard have developed drones to deliver medical supplies to remote locations in the developing world.

But while companies such as DHL concentrate their efforts on

delivery drones, the future success of drones largely rests on the commercial sector.

In a report by technology consulting firm ABI Research, it was noted: "By 2019, the commercial small unmanned aerial systems (UAS) sector would have revenue of more than US\$5.1 billion – five times the revenue of the consumer drone market and more than twice the

revenues of the combined military and civil market currently dominating the industry."

Not every suggested drone use is a success. In the US, the 'Tacocopter' has been officially grounded by the FAA, and Singapore-based Infinium Robotics have delayed the release of their 'flying waiters' as the drones have yet to prove they can carry enough to be useful.

Customer first



Keep the consumer in sight

Understanding your brand and knowing your customers are the first steps to creating a profitable customer strategy, says **Julio Hernandez**, Global Lead for KPMG's Customer Center of Excellence

Are you deriving enough profit from your customers? No matter what product or service you're selling, your CFO's answer to that question will probably be 'No'. Saying you will align your customer strategy to your profit goals is significantly easier than actually doing it – which is why so many consumer goods companies are wrestling with this challenge.

The best place to start is your brand. Understand what your brand represents to customers, what your promise is to the marketplace and how that compares to your rivals' proposition. It may be that your promise is no longer competitive and that you need to rethink what your brand represents.

To make a realistic assessment, it is important that you understand who is buying from you, why they're buying from you and, for that matter, why – and what – they're buying from the competition. If you know all that, it's much easier to understand which customers you want to retain, nurture, acquire or discard (although, in a social media age, be very careful about how you do the latter) and define a profitable mix.

When you've done that, it will be much easier to decide how best to communicate, engage and interact with the customers you want to focus on – and start differentiating how you manage your relationship with them based on their values, profile and needs. Which channel are they most likely to use? Are they more likely to be motivated by price or experience? And how much time do they wish to spend with your brand?

As obvious as this may sound, it's vital not to lose sight of the consumer. A trap many companies fall into is to focus on what they can sell to their customer – not what their customer

"A trap many companies fall into is to focus on what they can sell to their customer – not what their customer wants to buy from them"

wants to buy from them. Successful brands strike the right balance. And to do that, they have to deliver – which means a realistic SWOT analysis of their operational capabilities, future requirements and the resources and investment required to reap the forecast rewards.

Many companies define their customer strategy with a slogan – and underpin that with a handful of key attributes. But turning that strategy into increased profit will take time, work and determination. Good strategies often fail because the message doesn't cascade down through the organization – and people don't understand how to apply it in their everyday jobs.

The good news is that, with the right words, deeds and expectations, defining – and implementing – a more profitable customer strategy is achievable. And in a consumer marketplace where competitive advantages seem slimmer and less durable than they were five years ago, it could make all the difference.



Read the label
Shoppers want to know more before they buy

Knowledge is power

KPMG invests in Label Insight, which breaks down a product's attributes in forensic detail, helping reduce risk and drive revenue

Customers and regulators are demanding more transparency about the products that are bought and sold. That demand isn't going away. Quite the opposite – it's likely to become more intense."

So says **Bryan Furlong**, Director of Investment Business Operations at KPMG Capital, as he explains why the company has taken an equity stake in Label Insight, a leader in the US\$2.3bn consumer product data market. The company's proprietary technology enables companies to look beyond basic product information and analyze 13,500 smart attributes, which can help manufacturers:

- Comply with product data initiatives launched by retailers, government agencies and industry organizations
- Integrate product data into mobile and e-commerce apps
- Search and compare product claims and certifications
- Optimize product assortments to meet consumer needs
- Drive better outcomes in sourcing, merchandising and innovation.

Furlong says manufacturers need granular knowledge of their product to cope with a fast-changing, complex regulatory environment. Yet such in-depth analysis can also help manufacturers boost revenue. "Some companies find out that they aren't making claims for their product, for example in terms of health and wellness, they could be making.

Sometimes, the right kind of analysis can give you a new understanding of what's selling and why. You might look at the attributes of your most popular products and realize that what they have in common is a particular ingredient, like chia. You can then, if you wish, adjust your product formula accordingly."

The demand to analyze products in such forensic detail is strongest in the US, where the SmartLabel scheme – a QR code shoppers can scan with their phones in store or access later via a tablet or computer – is taking off. The new labels provide instant access to 350 attributes including animal welfare, health claims, social

compliance programs, GM ingredients and information about sustainability. America's Grocery Manufacturers Association predicts that four out of five packaged grocery goods will be using this scheme by the end of 2017.

Label Insight's first-to-market SmartSPEC system helps brands to participate in the SmartLabel scheme and position themselves as transparent brands customers can trust.

"After some of the challenges we have seen affecting the food and drink industry in recent years, trust has become a critical issue for customers and regulators," says Furlong. "And with the services offered by Label Insight, we can help companies take the action they need to maintain that trust and protect – or enhance – the value of their brands."

13,500

Product attributes a company can analyze using Label Insight's proprietary technology



Africa ascending

Can Africa be a tough market to break into? Undoubtedly. But not being there at all could be an even greater risk. *ConsumerCurrents* explains how to navigate your business across this complex continent

Executives who look at traditional media images of African poverty and conflict, and then turn away, are missing an unrivalled growth opportunity in what is tipped to become the world's leading consumer market. "I think there is a lot of demand which is not served," says Pierre-André Têrisse, food giant Danone's Executive Vice President for Africa.

For companies considering entry into Africa, opportunities are endless. A happy cocktail of demography, improving living standards and urbanization is set to serve up a growing pool of customers eager to access new products and experiences. Smart businesses are adding an African dimension to their portfolios.

"The biggest threat is not being here," says **Bryan Leith**, Chief Operating Officer of KPMG's Global Africa Practice. "The Chinese and, to almost the same extent, the Indians, are really capitalizing on the African opportunity. The rest of the world tend to be more risk-averse and are holding back, and if they continue to do so, they will find that all the low-hanging fruit has been picked," says Leith.

Africa's population is set to grow faster than any other place on earth, from around 1.2 billion people today to double that by 2050. At the same time, urbanization is expected to concentrate consumers with changing tastes and growing income in more readily accessed areas. By 2030, 50% of Africans are expected to live in urban areas, up from 36% in 2010.

"Those people are increasingly urbanizing, having more disposable income and so you have this emerging middle class that is moving out of the subsistence stage into the age of consumerism," Leith says.

In 2010, the African Development Bank estimated that 34% of the continent was middle class, defined by those who

"Companies that are successful in Africa have a level of execution which is very, very good"

earned between US\$2 and US\$20 a day. This group is expected to grow to 1.1 billion by 2060. This includes people who are on the cusp of poverty as well as those who can afford to purchase durable products. A consumer with an income of US\$1,000 a year can already afford to buy an array of consumer products. Once earning more, he or she tends to add non-food purchases, such as beer, soft drinks and prepaid mobile phones.

"With access to television, people can experience whole different cultures... their expectations are changing from basic survival and basic food needs, to be more aspirational. They want more consumer goods, white goods and all the fast-moving consumer products," says Leith.



These developments in Africa are set against the backdrop of a key new factor: technology.

"Technology is enabling things to develop at a faster pace," says Leith. "Advancement of individuals is exponential compared to what we have seen in the rest of the world."

Many Africans now have access to a mobile phone. This liberates them from a key infrastructure shortfall. Leith points to many who have "never had a landline, yet they now have access to a smartphone, so they have just leap-frogged the technology."

Companies are also using technological innovations to broaden their African offering. For instance, retail is moving into the banking space, allowing customers to deposit and withdraw cash using tills at stores in different locations, even different countries.

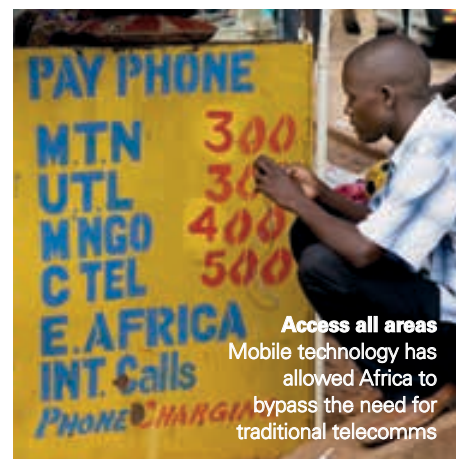
Beyond the opportunities delivered by those trends, companies can benefit from tax incentives as resource- and agriculture-rich economies seek to diversify. And for global brands coming into an African market, particularly when there is an established business, exploiting operational efficiencies can be a good earner.

Danone recently restructured its African division, says Têrisse, who stepped into his role running the African business 18 months ago. "Raising the level of execution," was key for the company, including improvements to production, distribution and sourcing.

What companies need to know

"Successful companies I have come across in Africa so far, are not necessarily those that have incredible products. They are run by people who have a level of execution which is very, very good," Têrisse says.

Experts have key recommendations for consumer and retail businesses' first foray into Africa: embrace diversity, leverage local



Access all areas
Mobile technology has allowed Africa to bypass the need for traditional telecomms

knowledge, be ready to anticipate problems and access the benefits of regional groupings.

"Much of the outside world often wrongly regards Africa as one country, rather than a continent with 54 very different countries," says Leith. For instance, North Africa, on the Mediterranean coast, is more aligned with the Middle East and Europe. In sub-Saharan Africa alone, there are 26 French-speaking countries.

"A newcomer should not try to treat the whole of Africa as if it is one market," says Dr Marietjie Theron-Wepener, Head of Marketing and Stakeholder Relations at the University of Stellenbosch Business School in South Africa.

Realistically, no company coming into Africa will want to enter the continent wholesale. Entrants would likely be choosing from the countries that offer the biggest potential growth in consumer demand, including South Africa, Mauritius, Nigeria, Morocco, Botswana, Tunisia, Gabon, Ghana, Namibia and Egypt. "It's better to cut your teeth in one of the more established markets and then expand," Leith says.

Partnering with a local company in a joint venture, taking over an existing business or using local advisors can all help to steer you through the customs and business practices.

"The best way to carry out research is to have a partner on the ground in the country where you want to set up shop," Leith says.

A key benefit of this is avoiding corruption: "It means you won't get into the corruption net everyone fears in Africa, because things like that are avoidable." ►

Market opportunity

Know your market

Companies will also need to build strong relationships with local stakeholders, so they are fully aware of the local context and can avoid potential problems. Danone, for instance, was surprised when a ban on plastic packaging was introduced in Ivory Coast. The company adapted quickly and was out of the market for only five months, but that experience underscores the risk.

"We didn't have enough local listening and contact with the regulators," says T  r  sse. "It hasn't been too costly for the brand, but it shows that if you are not well connected with the various stakeholders, understanding the local context, it can not only be difficult for you to develop your offer... you can basically have a business destroyed."

Since African countries can be just like any other potentially volatile business environment, companies also need to constantly monitor risks and be ready to anticipate problems, according to T  r  sse. For instance, a company might make a product using an imported ingredient. If the currency then appreciates, the choice is either to lose margin, or protect margin by increasing price and losing sales volumes.

"This is typically the kind of thing which you can anticipate... always looking at the different options, trying to understand, what are the conditions today and what could the conditions be tomorrow, and trying to manage your company and your portfolio with that in mind," says T  r  sse. "If you don't anticipate what could happen and if you aren't prepared, then you can be hurt badly."

Africa is a long way from establishing a group of nations like the European Union but there are increasing moves to get a community of states, Leith says. For now there are three key groups, the Southern African Development Community or SADC, the Economic Community of West African States or ECOWAS and the East African Community or EAC. These groups offer increased benefits to business, with nations recognizing that foreign direct investment in their regions can be positive for their economies. Efficiencies abound: a retailer, for instance, could put its distribution center in one nation and ship goods to others, rather than catering for each separately. "It wouldn't be possible if there was not the ability to freely transfer goods from one country to another," says Leith.

What consumers want

Approaching different countries with a one-size-fits-all plan will not work in Africa: many consumers look for locally relevant brands they can connect with. Danone, for instance, works to understand consumers in Africa by staying close to them. The company's Africa business employs 10,000 people, only 20 of whom are in its Paris office. The rest, many of them locals, are in various African markets.

"We are following this logic, which is not to take brands from the rest of the world into Africa. We are into the logic of trying to understand what the African consumer wants, using the team locally," T  r  sse says.

While there are some African consumers demanding expensive brands, most of the population cannot afford premium goods, so new products need to be "affordable, available and attractive," T  r  sse says.

Attractive products should offer a perception of quality, may be fun and answer to a local need. Making sure your product is readily available means considering routes to market in many different places, some of which may be hard to access. In these circumstances, easily portable products are important. Affordability relates to the importance of price point. As well as a price per liter, price per unit is a key consideration in many African countries. Consumers and shopkeepers alike may have little storage capacity for products, so it's important to offer small formats. Snacks, products for people on the go and for individual consumption work well.

Appealing to local pride is a good approach. "In many countries there is an appetite for products which are local, which represent the country, and play on the pride of the country," says T  r  sse. In Senegal, Danone's partner, La Laiterie du Berger, created Dolima, which in the local language, Wolof, means 'give me more'. The yogurt range is branded with a Senegalese identity, including the colors of the national flag, and builds on the pride of a Senegalese product: milk from local herders.

Indeed, companies ignore local preferences at their peril. Leith points to one South African retailer which went into a Francophone nation with English language labels on products. Consumers preferred French labeling and the project floundered. "Such a basic thing that could have been picked up at the feasibility stage actually caused them to fail in that market," says Leith.

Five key learnings



Bryan Leith
Chief Operating Officer,
KPMG in Africa
bryan.leith@kpmg.co.za

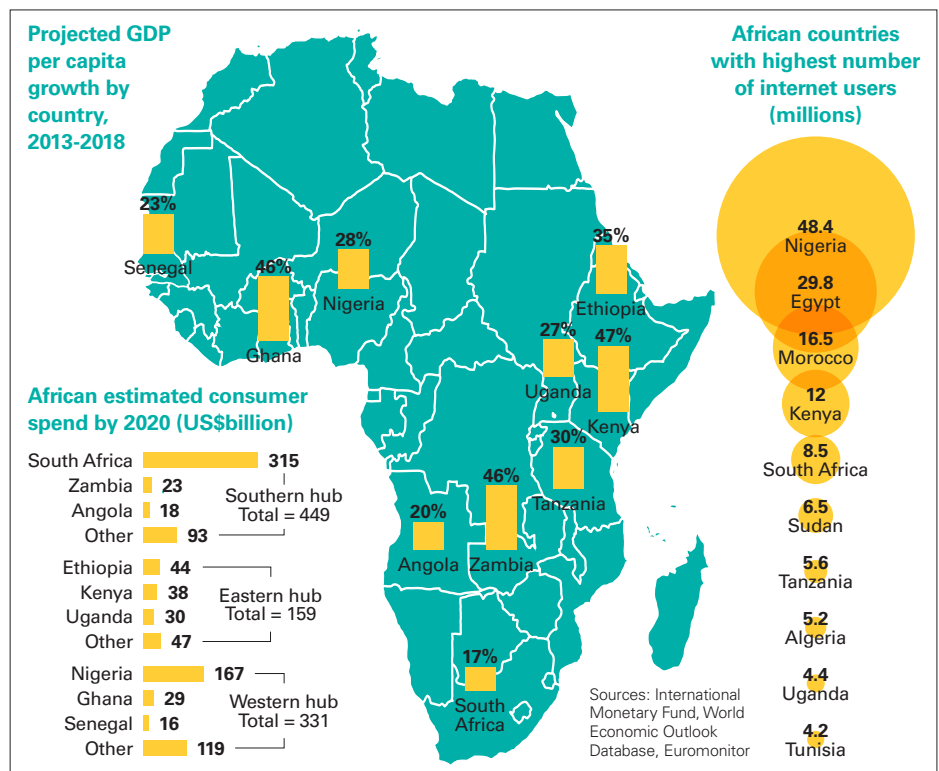
1 Africa's population is expected to double by 2050. This creates huge opportunities in retail and consumer markets. At the same time, people are increasingly urbanizing and have more disposable income, creating an emerging middle class.

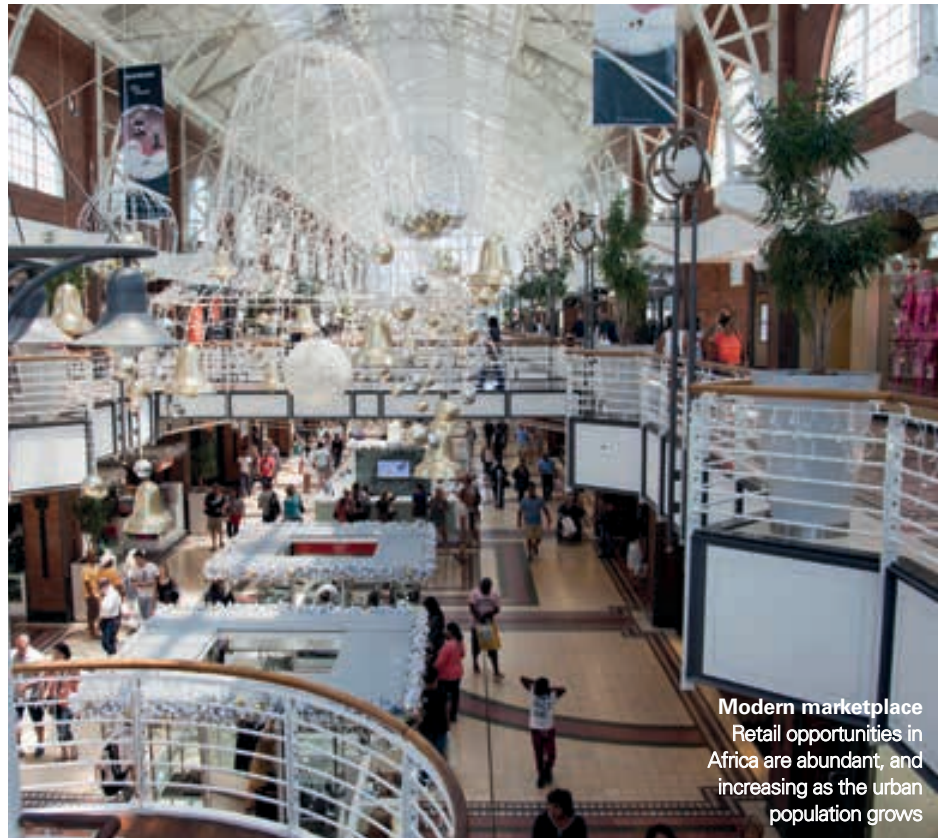
2 Consumers' aspirations change No longer concerned simply with basic survival – and influenced by culture and television – they want fast-moving consumer products, other consumer goods and white goods.

3 Technology is catalyzing development. Access to a smartphone means many Africans are no longer held back by lack of landlines. Retailers are moving into the banking space, offering cash through their tills.

4 Companies that come into Africa must recognize its diversity. In fact, they are coming into one of 54 African countries. They need to do their homework on consumer preferences and business practices.

5 A local partner is advisable. Companies could enter a joint venture with a local player, take over a local business or use advisors. The local experts will help with research, which is key to any successful venture.





Modern marketplace
Retail opportunities in Africa are abundant, and increasing as the urban population grows

But despite a multiplicity of nations, cultures and markets, all Africans respond to personal, or one-on-one contact, says Theron-Wepener. "Although the middle and upper class on the continent is extremely savvy regarding mobile (electronic) technology, this needs to be balanced with interpersonal (relationship building) approaches," she says.

Big communications company MTN Group Limited has been successful in this area, Theron-Wepener says. The company "ensured contact with clients on the ground by having small stores under umbrellas everywhere, where they sell air time."

MTN regards selling through street vendors and mobile agents in areas such as taxi ranks and malls, as very important, says Simo Mkhize, General Manager of Informal Channels for MTN SA. The company manages more than 4,000 agents and in addition there are around 100,000 street vendors selling MTN solutions and products. "The reach and ubiquity of these channels ensures that MTN products are easily accessible to our customers wherever they are, including in those places where formal retail networks do not have a presence," Mkhize says.

How to tackle the challenges

To be sure, companies moving into an African market are going to face many varied challenges. They may need to navigate poor infrastructure, a lack of data and financial restrictions. And they will need to maintain strong operational controls.

"The road, rail, ports and airports in South Africa rival the best in the world, but that is not

the case in other African countries," says Leith. Companies need to consider the logistics of how to take their products into a country, assessing the quality of infrastructure such as roads, electricity and water. Teaming up with local logistics providers is smart, Leith says: "they know the ropes."

As in some other emerging markets, most companies that erect a large manufacturing plant would make sure they have dedicated power generation facilities and water supply rather than having to rely on the local municipality. "Being prepared to be off the grid is essential," Leith says.

"One South African retailer went into a Francophone nation with English labels. The project floundered"

New shopping centers are being built in major African cities with independently maintained infrastructure a key attraction, since that takes the responsibility away from the retailer. "It's far better to be part of a large shopping center where your needs are automatically met, rather than going into a standalone unit," Leith says.

Another challenge in some African countries can be access to quality data, says Leith, citing Malawi as one example. "Reliable statistics and information about consumer trends, consumer demands and living standards is sometimes quite hard to get," he says. But that tends not

to be the case in primary African markets such as Nigeria, South Africa and Kenya.

Growth initiatives in Africa can also be stymied by lack of money, says T  r  sse. "There is a limit to African expansion coming from the absence or restriction of money," he says.

Restrictions on imports or a lack of hard currency can limit what is brought into a country. Another issue can be that there just isn't enough money available in the trade and a company's expansion can be slowed because other parties lack finance to proceed, T  r  sse says.

"A lot of the limitation comes from that again in a continent which, from what I have seen for the past 18 months, is not constrained by demand... but is really constrained by the offer, ie. there is not enough offer of good quality (and at the right price) on the market," says T  r  sse.

There are often simple reasons why products that consumers are keen to buy are not available. "Some items cannot be imported or manufactured, they are too expensive to produce or companies aren't performing well enough to bring a product to the point of sale," says T  r  sse.

Companies also need to be rigorous in the way they run their business. If not, the risk is that they will lose control of their business and lose money, says T  r  sse. A company acquired by Danone in Nigeria had tried to expand too quickly under its previous management. "They did not control tightly enough the deployment of agent after agent. If you are not strong enough you basically get into issues of no control and you can very quickly lose performance and lose money," he says.

But regardless of the challenges, Africa presents the last big opportunity for companies to stake out new markets and develop generations of fresh consumers. "It really is the last frontier," says Leith. ■

"If a product is simple, customers gain more freedom & versatility"

The importance of understanding your brand is undisputed, but maintaining growth with a single proposition is never easy. *ConsumerCurrents* finds out how Japanese group Muji continues to expand

The reasoning behind the name of a store or brand isn't always obvious, and often has little to do with the products sold within, or the ethos of the company. Think Tesco or Apple. But Mu, meaning "without," and jirushi (shortened to ji), meaning "brand" lies at the heart of the Japanese retailer, Muji, or Mujirushi Ryohin. Enter any Muji store and the minimalism of the products is like a slap in the face with a Bauhaus stick, the emphasis on simple and, in some eyes, austere designs with functional, recycled packaging. The company's Chairman, Masaaki Kanai, has said: "The idea was to create a product that is truly needed, in its needed form, within a reasonable price, and to balance quality and price."

Muji's "No Brand Quality Goods" is a philosophy the company has fostered since its beginnings in 1980 when, as an antithesis to the existing ►



The why of Muji

Masaaki Kanai, Chairman of Ryohin Keikaku Co Ltd, has said the essence of the brand is in the simplicity and usefulness of its products

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品



Inside business



Zen benefits

Simplicity and uncluttered home storage go hand in hand with great design, a formula that has made Muji's affordable products popular around the world

consumer society awash with foreign-made, luxury brands, Japanese supermarket chain Seiyu GK set out to produce 40 household items with the tagline “Lower priced for a reason.” Wrapped in clear cellophane with brown tags and simple red lettering – a stark contrast to the garish Hello Kitty and Pokemon logos Japan is synonymous with – the emphasis was placed on products that were useful to the end-user.

Seiji Tsutsumi of retail giant Saison and Ikko Tanaka, a graphic designer, created products with three simple principles: appropriate materials; reviewing the production process and simplifying packaging. According to Muji’s website: “Our clothes must feel good on, our stationery must be practical and our household goods must be easy to use. This may seem elementary, but it has always been a primary goal to ensure Muji customers should never pay for what they can’t use – added extras and fancy packaging.”

Some consider Muji products to be an extension of the Japanese Zen way of life. According to the *New York Times*, “Muji re-educated the Japanese on what it is like to live with Zen, exhorting harmony between stoicism, design and comfort.” Muji’s products do undoubtedly bring a

“We go to our customers’ and families’ home spaces and look at the problems they have, then come up with product ideas that will help”

sense of calm. Their color palette consists of dark blues, grays, whites and black, nothing loud or offensive, and the materials they choose are natural – cedar, natural cotton and unbleached paper. Even their advertising, via a booklet called *The Why of Muji* conveys a sense of peace. But whilst a feeling of Zen tranquility may be a by-product of living in a ‘Muji’d’ home, the company’s focus remains on affordable products offering solutions to everyday problems. Naoko Yano, General Manager of the Planning and Design office of Muji’s Household Division, says: “We have just continued to be simple. If the product is simple, customers gain more freedom and versatility when they use it. Simplicity is very important to us.”

Muji’s culture of products characterized by function and affordability has

enjoyed a steady growth in the last 36 years. The company currently operates around 700 stores worldwide, with plans to reach 888 by 2017, the majority of the new ventures are planned overseas in countries such as China, India and the US, where the Muji philosophy has been wholeheartedly adopted. Their product range has developed from nine household products and 31 food items to encompass 6,500 pieces, over 4,000 of which are designed to make everyday life just that little bit easier, whether space-saving wall-hung CD players or acrylic storage solutions.

According to the company’s 2015 year-end report, Muji is currently in what it calls its ‘jump’ phase (preceded by ‘hop’ and ‘step’), defined by growth abroad and efficiency at home.

Keeping it simple

Key to Muji’s success, particularly abroad, seems to be their determination to stick to their original ethos. Kenya Hara took over as art director in 2001 from Ikko Tanaka (part of the original creative team behind the Muji concept) and is credited with revitalizing and refocusing the company. Soon after assuming his new duties, Hara noted: “I found the company was at a standstill with the original idea, ‘No design’, which was advocated at its inception. They also had more than 250 outlets and sold more than 5,000 items, including products that deviated from the initial Muji concept or were low cost, but of substandard quality.”

To the casual observer, Muji products could be described as basic, rudimentary, but that belies the foresight and planning which has gone into every one. Once a month, Naoto Fukasawa (product design), Hara (advertising), Ichiko Koike (copywriting) and Takashi Sugimoto (store environment) meet to listen to staff about what is happening in-store, their observations fed directly into product creation. Via the company’s ‘observations’ technique, Muji also harnesses its knowledge of the consumer, visiting both spacious and compact living quarters of young and senior individuals. Yano says: “We go to our customers’ and families’ houses and look at the problems they have cleaning their home spaces. People do things unconsciously that make their homes messy, so we come up with product ideas that will help.”

Muji have applied the same hands-on technique to their expansion overseas. In the US, a country synonymous with brands, Muji’s brandless brand philosophy has been embraced – Muji items at the MoMA retail for a 30-50% mark-up in dollars compared to the yen price. Conscious that American consumers may have reservations over the brand’s simplicity, US stores allow you to ‘Muji Yourself’, stations enabling consumers to put their own stamp on products such as notebooks and clothing. The group’s marketing strategy is slightly different in America: keen to give customers confidence in its brand by explaining how its products are developed, it has hired the revered Japanese industrial designer Naoto Fukasawa to design its small kitchen appliances.

The company’s East Asian operations, excluding Japan, increased profits last year, in no small part due to strong sales in China. Key to their success has been what the company’s President, Satoru Matsuzaki, calls ‘indigenization’, products tailored to specifically meet the needs of the Chinese market. Matsuzaki uses the example of Muji’s household items: “The water bottles and rice cookers we currently have available are popular, but too small for Chinese consumers. They need to be altered to meet local demand.” In Hong Kong, middle class families of three adults living in a 40sq m space are regularly observed. Very much the norm in the city, as Yano observed, despite the small space, “the people of Hong Kong love to shop and do not like throwing things away. In that situation, we are thinking about how the spaces could be tidied up, Muji style.”

The same observations will take place in India, where Muji are taking advantage of new foreign trading laws. Matsuzaki says: “India is our next big Asian market with immense growth potential. India’s young, educated population gives Muji a ready cache of prospective customers.”

Little appears to be standing in the way of Muji’s growth. Profits are on the downturn in previously established European territories. But once more Muji’s reaction has been to examine what needs to be done at a local level. According to Matsuzaki, “European stores offer less product variety than our Japanese locations. We want to pursue large-scale renovations and expansions at stores in the UK, France, Italy and Germany while enhancing product variety.” By always keeping the customer at the heart of their business, constantly re-assessing consumer needs, and incorporating cost-cutting into its design philosophy, Muji boasts a business model worth following. ■

The making of Muji

No-brand quality goods

Japanese supermarket chain Seiyu GK launched Mujirushi (no brand) Ryohin (quality goods) in December 1980, aiming to offer cheap yet good quality products for the home.

U-shaped spaghetti In a bid to cut prices, Muji cut waste, finding uses for elements ordinarily discarded, their U-shaped spaghetti the left-overs cut off to create straight spaghetti.

Environmentally-friendly

Muji “restricts the use of substances that may have a

significant impact on people or the environment” and

“reduces waste by standardizing modules, facilitating disassembly and by reducing packaging.”

Muji Car 1000 In 2001, Muji applied their no-brand, no-frills philosophy to the first Muji car. In collaboration with Nissan, the low-cost, low-emission, fuel-efficient car was a variation of the Nissan Micra incorporating recycled materials where possible. The 1,000-car run was only sold online.

Inside information

Analyzing your company's performance data provides insights into changes that humans miss, and helps you make smarter decisions on everything from stock control to store location. It can also help build a business model that will fight disruptive newcomers

If you're not already using predictive analytics as an FMCG brand or retailer, you ought to be. The chances are that your competitors (current and emerging) are already profiting from advanced analytic capabilities, helping them, to take just one example, to cope with the growing need to make decisions in real time.

Predictive analytics – a form of business modelling – is about being able to spot what's coming, what's changing, or what's subtly different from one context to the next, to a degree that exceeds human capability. With greater foresight and deeper insight, FMCG manufacturers and retailers are better able to adjust their stock and services, store layouts and pricing to gain a competitive edge.

The potential applications are diverse. Furniture giant IKEA is experimenting with predictive analytics to cut checkout queues at peak times, using mobile signals to monitor customer movement inside buildings. In the US, specialist retailer American Eagle Outfitters employs a team of PhD-level data modelling specialists to closely track – and learn from – consumer behavior across the company's physical and online channels, so it can deliver what customers want.

What these and many other retailers have realized is that serious data science holds the key to growing revenues and profits without pushing up costs or sacrificing quality. It provides the basis for new differentiation, enabling brands and retailers to pre-empt consumers' needs and desires, and launch product lines and services that enhance the customer experience.

Accessible to anyone

Probability calculations can help organizations spot when consumers are likely to defect to a rival, or when their propensity to buy may be highest, so that timely, relevant, personalized messages and offers can be delivered.

"Predictive analytics has become pervasive," says **Bill Nowacki**, Managing Director of Decision Science at KPMG in the UK. The rise of cloud-based analytics capabilities and services has, he says, made it much easier for organizations to develop a sophisticated analytics capability without having to become experts internally. "Platforms like Microsoft Azure make very sophisticated capabilities accessible to anyone, so it's not only the big brands with deep pockets that have the advantage."



Many other industries are exploiting predictive analytics. Sports teams crunch historical and current performance and injury data to improve results and maintain fitness with tailored training and therapy programs. Utilities and infrastructure companies use predictive analytics to target maintenance spending and keep services running.

For brands, predictive analytics offers a way of making sense of customer sales data and consumers' social data – which provide a lot of clues about changing moods and early purchase-decision triggers. New digital opportunities are emerging. For example, brands are starting to assign digital properties to drink containers to create a new line of communication with consumers beyond the point of sale.

This early foray into the Internet of Things via 'connected packaging' could generate an exciting new data flow to improve brands' understanding of customers' behavior. Diageo's whisky brand Johnnie Walker is innovating with its Blue Label product, using a sensor tag (an antenna and integrated circuit) printed on the bottle label. Once scanned by the consumer's smartphone (using Near-Field Communication technology), this forms the basis for a unique interaction with a specific



consumer. The initial aim is to push out relevant information to the consumer, but the ultimate goal is that data will flow both ways, providing the basis for advanced consumer behavior analytics, fed into marketing and R&D teams.

In retail, predictive analytics can help brands and retailers stay ahead of emerging trends in an age when the potential influencers of consumer behavior have become so numerous and complex that companies can no longer rely on human instinct and experience to spot subtle shifts, variances and opportunities. Predictive analytics uncovers these discreet insights by analyzing the reams of data that organizations are collecting about customer transactions and behavior (alongside other data, such as stock information, location-based data, and so on). Armed with this insight, managers can start to do things differently.

"Take any chain of stores and typically they will all be stocked similarly, even though each trading location is very different," Nowacki says. "Retailers talk a big game about tailoring their activities to each customer base, but there is a disconnect between these goals and the execution."

Old habits can be hard to break, but until now it's been hard for retailers to make the

Cool combination

Analyzing sales and temperature records will tell ice-cream retailers that for every degree rise over 18°C, sales increase by 10% over winter levels

Data science holds the key to growing revenues without pushing up costs or sacrificing quality

case for different models on a store-to-store basis. Defaulting to the flagship store model has seemed less risky when there has been only a store manager's hunch or a one-dimensional set of sales figures to go on.

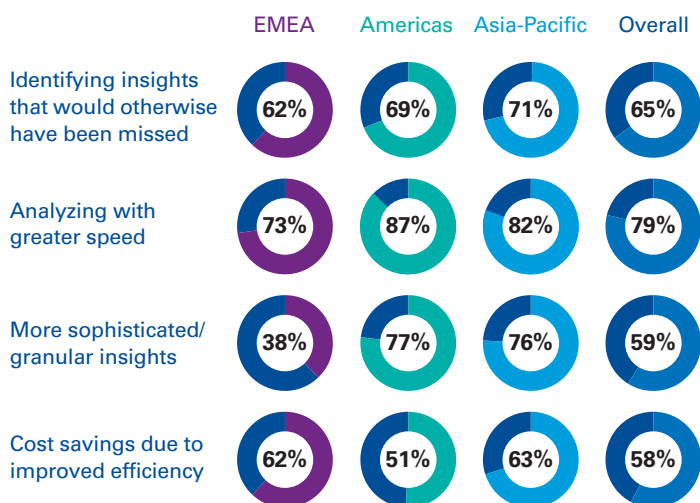
Bringing decision 'science' into the equation allows retailers to be bolder in their approach to outlying stores. With detailed, multi-dimensional data to call on, managers can compare and contrast local and national sales and take into account local demographics, the position of the store in the town, and the impact of local events on a particular day of the week (so that if nearby elderly residents are bussed into town every Wednesday, stock and promotions are adjusted accordingly).

"We use 6,500 different indicators to create a detailed picture of a retail environment and to predict customer behavior," Nowacki says. "These include the position of the building in relation to other stores and to the nearest bus stop, and the ratio of home ownership to renters in the area."

All this information needs to be used efficiently. The key to a slick supply chain is 'farm-to-fork' visibility, so that as soon as a customer orders a ham sandwich, the next pig is being taken to market. Accurate ►

Predictive analytics

What do companies feel are the benefits of using data and analytics?



Source: KPMG Capital's *Going Beyond the Data* report 2014

forecasting isn't just about looking at past or current sales; it's about anticipating what customers will do next, making and adjusting decisions on an ongoing basis.

"What retailers haven't figured out yet is how to weave machine-based analytics into the fabric of everyday decision-making," Nowacki says. "It's not a case of replacing human decisions, but creating and putting decision engines next to a company's decision-makers."

Companies need to assess the quality of data used as the basis for future projections, so that when the probability of certain outcomes is calculated, companies can have confidence in the actions they take. The more sophisticated and reliable the analytics, the smarter retailers can be.

"Every decision could be better with more insight," Nowacki says. For instance, retailers could use predictive analytics to adjust their offers and maximize yield at different times of the day or week, as when it's the end of the season and time to clear summer or winter stock. "Instead of a single, all-encompassing decision being taken, it's about interconnected decisions and being able to pre-empt the situation at 10am, 4pm or 8pm."

Seeing the bigger picture

Staffing levels can be a delicate area for decision-making, but data science can resolve the debate by providing an irrefutable and objective case for why a particular store needs more or less people, and how that might vary at particular times.

Predictive analytics can help refine pricing variations between outlets. Nowacki points to the example of a fuel retailer whose pricing strategy was to sell petrol at 2-4 cents per gallon below its nearest market rival. "They had 1,000 stores and saw Shell and British Petroleum as their competitors," he says. "But in many areas, this picture didn't bear out – perhaps because rival garages were further away, or because local people preferred the personal service they got from the smaller guy.

Objective findings helped demonstrate the variation." In such circumstances, KPMG provides 'heat maps' of the trading areas around stores, which are as unique as a thumbprint.

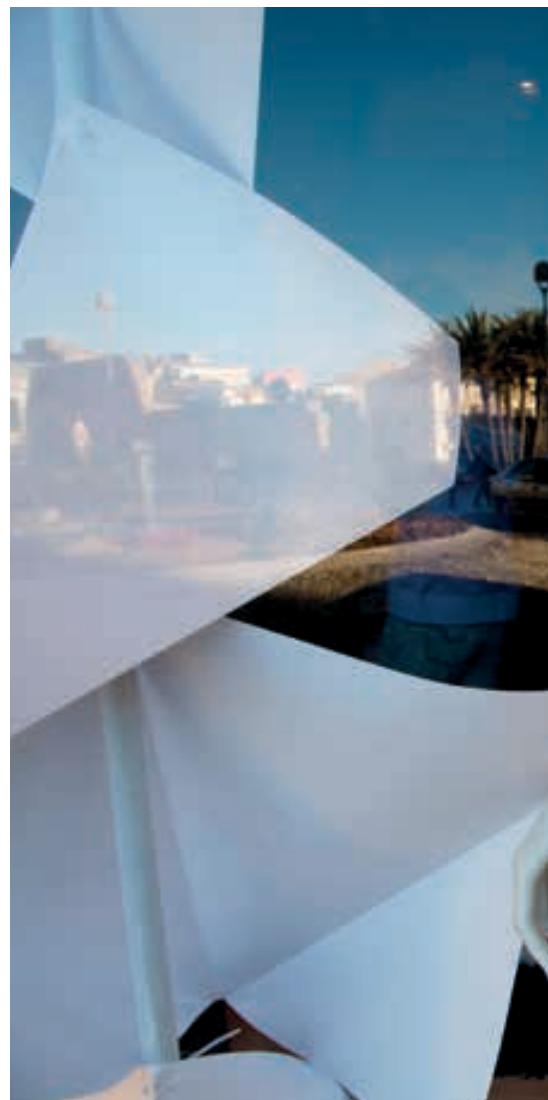
Predictive analytics isn't just about matching stocks, store layouts and staff levels to consumer demand. It can help managers see the bigger picture. Owners of shopping malls need to ensure the optimum configurations and positioning of stores, to draw customers in and maximize footfall. Predictive analytics can drive initial planning and promotional activities.

One of IKEA's location analytics pilots predicted queues at cash registers at its concept store in the Netherlands. It demonstrated up to 30% reduction of queue times is feasible during peak times. Casinos use predictive analytics to keep customers spending money for as long as possible, for example by optimizing the position of slot machines, entertainment areas, food outlets and bars. Arenas and stadia use analytics to model and predict crowd behavior, to improve safety and reduce the risk of crush incidents.

Predictive accounting allows organizations to make more astute decisions based on customer behavior recorded through loyalty cards, air miles schemes and gift cards. With deeper analysis, brands and retailers can forecast, for instance, the proportion of gift cards that are likely to remain unredeemed. If it emerges that 10% are regularly unclaimed – a percentage that may rise for a certain kind of customer – the issuer can re-invest those savings or re-target promotional activity to address the missed additional sales (gift cards usually result in add-on spending).

Tighter targeting is a priority for most retailers and brands. Online, customers leave a strong data trail when they register and complete transactions on a site. The tools for analyzing those data trails are similarly advanced, now helping to sift out new, discrete categories of visitors, even down to the way they navigate web pages.

Sander Klous, a professor in Big Data Ecosystems at the University of Amsterdam,



Taking stock

Retail analytics can inform decisions on everything from staffing levels to the best time to clear seasonal items

"Just look at music, taxis and travel. If you don't embrace analytics, plenty of new entrants will"



and Managing Director of Big Data Analytics at KPMG, explains how this works in the context of a Dutch media company. “They have looked at visitor patterns for the purpose of selling advertising space to clients,” he says. “Beyond identifying whether someone is male, female, an adult or a child, they’re applying machine learning to discover more about the behavior patterns and different user categories.”

“For example, a Category A viewer is characterized by rapid mouse action and a tendency to look at the top corner of the screen. In some contexts, that can be more powerful than knowing the user’s age or sex. The media company can then use this knowledge to improve click-through rates and negotiate higher prices. Similar machine-learning algorithms could be applied to improve the performance of retailers’ online stores, by influencing what goes where on its pages.”

This is where the boundaries between predictive and prescriptive analytics start to blur. “From a technology perspective, prescriptive analytics involves more mature use of machine learning and cognitive computing,” Klous says. “In the future, we can expect to see this kind of technology being used – in customer support, for example – to build up

a more complete picture of the customer’s situation and history before he or she is put through to a live agent, so they don’t waste time proposing solutions that aren’t appropriate. Using machine learning, the system will have deduced what kind of customer you are and the type of response that will work best for you.”

Prolific experimenters

Retailers should experiment continuously to explore such opportunities. “If you want to be at the forefront of being data driven, you need a different attitude,” Klous says. “Booking.com, the online travel agency, experiments prolifically on a tiny percentage of clients, and performs dozens of experiments a day. If 90% of these fail, it doesn’t matter because at this scale they’re learning a lot about what does and doesn’t work.”

Bricks and mortar retailers need to adopt a similar mindset, he adds. “Experimentation isn’t a privilege reserved for online businesses,” he says. “The cycle times may be longer offline, but the same needs and opportunities exist. Willingness to experiment is really more of a cultural thing. IKEA has put a lot of effort into experimentation.

“Standing still is far riskier,” Klous warns. “You don’t need a crystal ball to see what’s coming. Just look at the music, travel and taxi industries. If you don’t embrace analytics and the new opportunities they highlight, plenty of new entrants will.”

The good news is that FMCG companies don’t need to get bogged down in the technology or the complex mathematics of data science. “Companies should aim to be technology light,” says Nowacki. “Think of it like a bank making credit risk decisions when they have a client in front of them, asking for a loan. In just a few moments, the clerk can get a decision based on the information given, yet the credit risk analysis and quote is being done in the cloud. Retailers have an opportunity to use cloud-based services in the same way to make data-driven decisions.

“When it comes down to it, they need to consider what will happen if they do nothing. Whether it’s Amazon’s drones delivering internet orders within an hour or something else, companies need to ask themselves how much longer they’ll maintain brand affinity when that’s what they’re up against. Disruption is coming, not only from small, new players but from the big behemoths, so it’s only a matter of time before they’ll feel the squeeze.” ■

Key learnings

1 Embrace change – it’s coming anyway. As brands and retailers focus on growth, intelligent analytics will create new business opportunities and help to keep competitors at bay.

2 Review the range (and quality) of data available to you, which could help you to predict future behavior (for example, past sales information combined with location-based activity monitoring, or online social behavior).

3 Develop a culture of analytics, and of experimentation. Get buy-in from the top and create processes to foster and enable this.

4 Encourage staff – and managers – to be more analytical in their decision-making and to move away from a ‘gut feeling’ culture, by ensuring the data is at the disposal of decision-makers.

5 Draw on external skills and technology-based services rather than bringing everything in-house.

To explore the analytics opportunity in greater detail, download KPMG Capital’s report, *Going Beyond the Data: Achieving actionable insights with data and analytics*: <https://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/Documents/going-beyond-data-and-analytics-v4.pdf>

How safe is your brand?

Companies must be ready to adapt if they want to retain customer loyalty and keep up with the pace of change

*"In OUR country," said Alice, "you'd generally get to somewhere else – if you ran very fast for a long time, as we've been doing."
"A slow sort of country!" said the Queen.
"Now, HERE, you see, it takes all the running you can do to keep in the same place."*

Like Alice and the Red Queen in Lewis Carroll's *Through The Looking Glass*, today's consumer brands must move very fast to stay where they are.

Globalization has encouraged competition – in many markets, the big brands are not fighting for market share with traditional rivals but with emerging local players. Digital technology is eroding the barriers to entry that protected many sectors – and making it easier for new entrants to reach consumers. Having lost faith in institutions – especially governments and banks – consumers are becoming more skeptical about brands. A survey by marketing agency Havas found that only one in five North American consumers – and one in three European shoppers – trusted brands.

Kes Sampanthar, Executive Director of Research at KPMG's Innovation Labs, says: "The disruption in the marketplace wrought by changing demographics, exponential technologies, and rapidly evolving business models is affecting some of the largest brands. Companies need to understand the signals of change and develop strategies to ensure they remain relevant."

If they don't, they may become victims of what industry expert Robert Tercek calls 'Vaporization'. Digital technologies are vaporizing the likes of Circuit City, Tower Records, and Borders. Although many best brands rankings suggest their value is rising year after year, research into the prices brands have been sold for paints a different picture. Studying 6,000 M&A deals between 2003 and 2013, researchers Dominique M. Hanssens and Christof Binder found that brand valuations had declined by nearly half in that period.

The traditional theory of brand equity, created in the 1980s by marketing consultant David A. Aaker, says it has three main components: awareness,

qualities associated with a brand and loyalty.

Awareness used to be straightforward, if expensive. The right TV commercial could reach from a third to 60% of the target audience. Not any more. Digital technology has seemingly made it easier to connect to customers, but in reality the very nature of the connection has changed. Digital media makes it easier for consumers to validate the authenticity of companies. With a Western consumer typically exposed to more than 3,000 logos a day, brands face a different struggle: cutting through the clutter, and making an authentic connection.

As Steve Jobs famously told the marketing team at Apple: "This is a very noisy world and we're not going to get the chance to get people to remember much about us, so we have to be really clear what we want them to know about us."

Ensuring your brand is associated with the right qualities is harder too. The old-school conversation between brand and consumer was a monologue. Social media has democratized

that and changed the nature of the conversation; consumers are part of multi-way conversation not only with the brand but with each other. Some brands have engaged actively in the new media but sometimes ceding control to their followers on Facebook, who suggest ingredients and recommend improvements. Embracing transparent and open dialogues with customers is not in itself a solution; it is table stakes.

Advertising agencies have used stunts, humor and talking animals to make their pitch, but these after-the-fact campaign gimmicks are often disconnected from the values the company stands for. Yet some brands that have the strongest associations have dared to innovate. Apple's Think Different campaign positioned the company on the side of those "crazy enough to think they could change the world"; what most miss about the campaign is it captured the essence of Apple's brand – Thinking differently was in Apple's DNA. More recently, Dove's Campaign For Real Beauty was the highlight of a brand-building strategy that, according to Aaker,

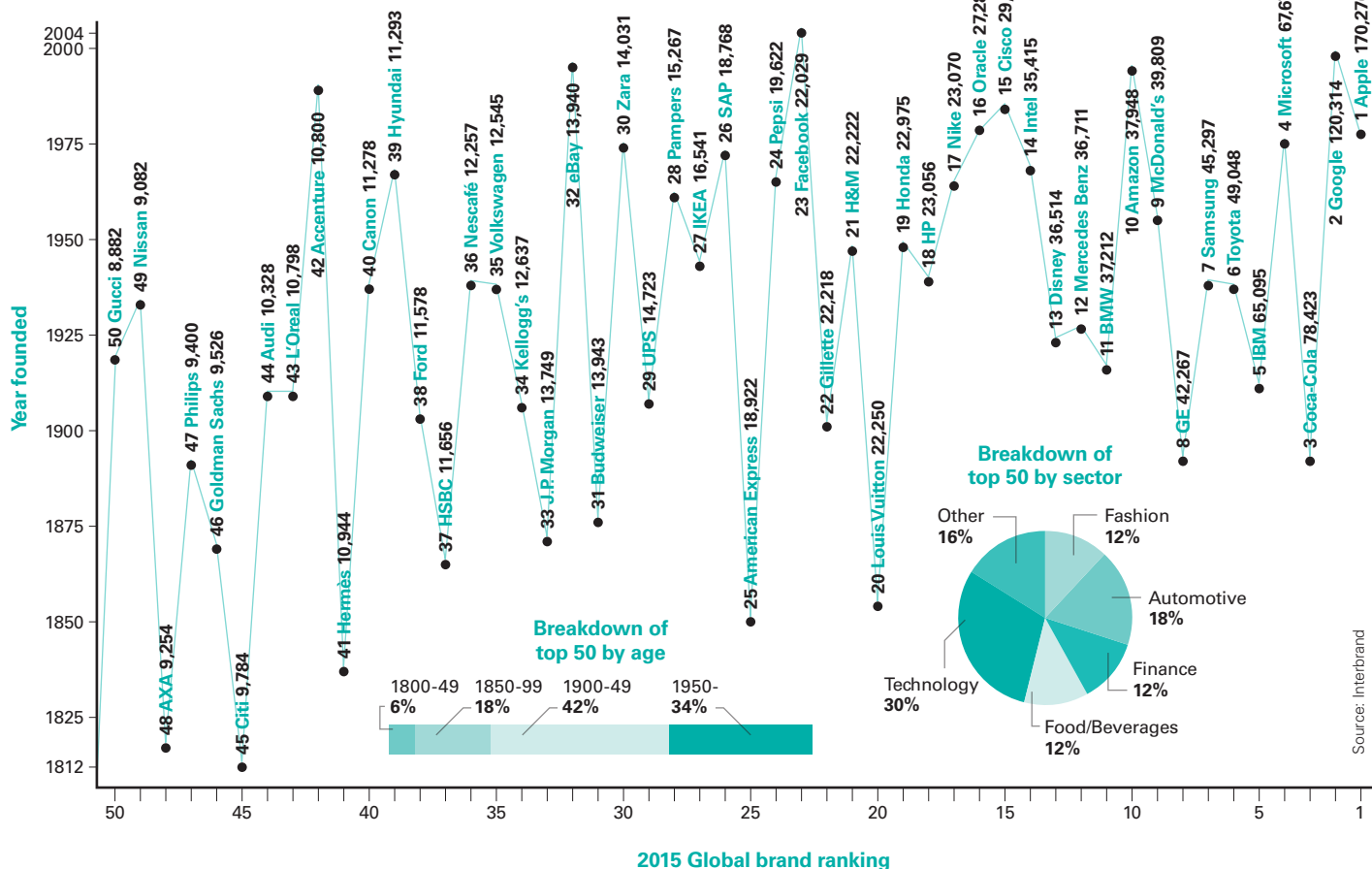


Lovely returns
Dove's global Campaign For Real Beauty has multiplied the value of the brand by a factor of 20



Wassup?
Budweiser's award-winning ads cemented the brand with a younger audience and became a worldwide hit

Top 50 best global brands & their brand value (US\$ million)



Source: Interbrand

helped multiply the value of the brand by a factor of 20 since the early 1990s.

Even though Budweiser's Wassup? campaign reached a younger audience when it launched, would it be as effective today, when it is no longer competing in a me-too marketplace? The craft beer movement that taps into the values of the younger generation has left some traditional companies flat-footed.

Loyalty is even more problematic. One of the historic purposes of a brand was to guarantee quality: you knew you were getting the real thing if you bought Coke. Now, in the digital area shoppers are far more sophisticated about how they find brands to trust. They turn to friends through social media for that assurance and today there is a plethora of tools to enable this kind of authentic word-of-mouth conversation.

There is also conflicting evidence about how deeply consumers want to engage with brands. One senior marketing executive at a drinks company said: "People don't want to engage with brands because they don't care about them." Caring is the important point. It's true consumers don't want to engage with brands they don't care about, but just because something is a commodity doesn't mean consumers can't care. Dollar Shave Club and Uber are examples of previously commodity experiences (razors and taxis) that mean something to customers.

Yet is loyalty as important as Aaker suggests? In his book *How Brands Grow*, Australian academic Byron Sharp argues that the chief function of a brand is to ensure the shopper

Key Learnings



Kes Sampanthar
Executive Director of Research
at KPMG's Innovation Labs
ksampanthar@kpmg.com

1 Consumer goods companies need to sense the signals of change and look past the standard ways of assessing the market. They need to pay attention to changing demographics, behaviors, expectations, and values. Plus, they must look at start-ups and VC investments to know where the smart money is going.

remembers them at the point of purchase. He argued that, for big brands, the best way to grow market share was to target the casual buyer, not the loyalist. The idea of the casual buyer is changing. Where we are moving from weekly grocery store visits to delivery and subscription services, the construct of casual vs. loyalist is no longer enough. We are getting at the nature of brands being a short-cut heuristic to build trust. If the product and company don't match the brand values being espoused, no amount of marketing is going to convince clued-up consumers.

Every market – from razors to footwear – is vulnerable to a savvy start-up in the vein of Uber or Airbnb with an innovative product or service

2 Branding and marketing need to be authentic and tied to the company's and customers' values. Products and services must come first, and marketing needs to augment the message through the disparate media and social channels.

3 Don't assume you're safe. The market is now so volatile – and consumer preferences so hard to read – that even iconic brands are vulnerable if they don't adapt. The technology industry has shown how swiftly brands can fail. This disruption is unprecedented in our lifetimes.

and authentic messaging.

"Companies need to look at their business from an 'outside in' perspective," says Sampanthar. "You need to understand how your brand and company are perceived. Looking at changing customer behaviors and demographics, exponential technology, what start-ups and venture capitalists are focusing on, you can develop strategies that are effective."

In a marketplace where companies can reach customers through platforms like Apple and Google, and capital is used to design authentic customer experience, this trumps disconnected marketing, product development and customer satisfaction. ■

To boldly go

South Africa's Pioneer Foods cannot be accused of having modest ambitions. Within five years, CEO Phil Roux wants it to be the reference point for FMCG in South Africa

Name **Pioneer Foods** Founded **1997** Headquarters **Cape Town, South Africa** CEO **Phil Roux** Website www.pioneerfoods.co.za

On the African continent you would be hard-pressed to find a CEO as fired up as Pioneer Foods' Phil Roux. His personal vision for the Cape Town-based food and beverages group, after three busy years at the helm, is for it to be "the reference point for FMCG, certainly in South Africa" within five years.

Today, Pioneer is the second-largest listed FMCG player in the country; the official aim is to take the number one spot with a 'strong African footprint and globally recognized scale'.

The signs are good. In a difficult market, Roux has taken Pioneer to new heights. The business has a current market capitalization of US\$2.3bn. It makes and distributes wholesome, high-quality food and drink products, and owns such popular South African brands as WEET-BIX, Lipton Iced Tea, Ceres, SASKO and Safari.

Although Pioneer has an international outlook, exporting to more than 60 countries and with modest operations in the UK, Namibia and Botswana, it trades primarily in South Africa, an emerging market with many distinct challenges.

"We're a populous nation but with a growth rate that has slowed significantly," Roux says. "This has created a lot of social tension."

Consumers' ability to spend is restricted. Unemployment is high and economic inequality has widened. There are also other tensions. "South Africa is very unionized; we've seen attempts at wage negotiations and horrific cost creep," Roux says.

On top of muted consumer spending, El Niño has brought some of the worst drought conditions Africa has ever seen. Political blunders have taken their toll and some 60-70 per cent of Pioneer's cost base is hard-currency influenced. Rising competition has created further pressure as FMCG players battle for their share of a slow-growth market. "As a business we are building shareholder value and growing returns, which isn't easy in current conditions. It demands hardened resolve," Roux says.

In such circumstances, Pioneer is doing exceptionally well, driven by Roux's clear vision

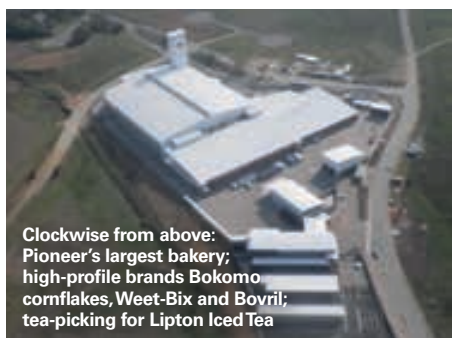


Cutting edge
CEO Roux plans to sharpen Pioneer Foods' competitive advantage in a challenging South African market

and no-nonsense approach. He admits it's been "quite a journey." He joined the group in April 2013, bringing experience from Coca-Cola, Sabco and Tiger Brands to the role. Since then he has restructured the operations – divesting underperforming product lines and focusing on those most relevant to today's customers.

These include desirable 'functional food' or food/pharma fusion lines, which play to consumers' growing appetite for healthy eating.

"Reduced sugar and salt are big issues, and there has been a general rise in consumer consciousness, so correct labeling and declarations are very important," Roux says.



At a glance

1. Pioneer Foods formed in 1997 from a merger between South African bakery business SASKO and breakfast cereal specialist Bokomo.
2. The group has three main divisions:
 - Essential Foods produces wheat and maize products, pasta, rice, beans and other dried vegetables. The business includes a large bakery.
 - Groceries looks after breakfast cereals, rusks, cake mixes, baking aids, dried fruit products, nuts, sweet and savory spreads, processed salads, long-life fruit juices and more.
 - International. Pioneer Foods International (PFI) is now a distinct business, driving growth outside South Africa. It is based around an export business model, managed across Africa and the Rest of the World.
3. Pioneer Foods was listed on the Johannesburg Stock Exchange (JSE) in 2008.
4. Joint venture partners include Heinz, Wellington's, HP, John West, Lea & Perrin's, and most recently breakfast health foods specialist FutureLife.
5. Today Pioneer Foods is the second-largest, listed fast-moving consumer goods (FMCG) player in South Africa; its goal is to become number 1 within the next five years.

"We're responding to all of that." This has involved some reengineering of product formulations, though Pioneer was never in the sweet treats business. The main thrust has been to bring more of the inherent health and wellness qualities of the group's products to the fore, and adding complementary lines. Pioneer's recent acquisition of a 50 per cent stake in FutureLife is a significant part of that strategy – so significant that Kellogg South Africa challenged the joint venture (it was finally approved late last year).

FutureLife takes Pioneer into smart food territory – pharma-licensed breakfast products, with high protein or high vitamin content, that meet customer needs and offer healthy margins. To safeguard those margins, Pioneer has to be hyper-efficient. The company already uses state-of-the-art technologies in manufacturing and distribution, but is always looking to improve.

"Costs and efficiencies are a big focus," Roux says. By which he doesn't mean cutting corners. "We don't skimp. Our 44 manufacturing and milling operations are world class. We buy the best possible equipment, and then the best operating systems to get the most out of these investments."

The group recently replaced its 750-strong bakery fleet with more efficient, new-generation vehicles, which consume less

"We have flexibility in the balance sheet to make acquisitions here, elsewhere in Africa and beyond"

fuel, and whose capacity can be better optimized with "the right vehicles for the given geography or route," Roux says.

To achieve its performance goals, Pioneer has to be agile and act fast. As part of its restructuring drive, individual business units have been given 'enormous latitude' to do what's required to further their goals. "We changed our operational model and capitalized on some parenting advantages," Roux says.

He's picky about who the company hires. "All of our competitors can access the same technology, so our differentiation is down to our brands and our people. Our people are incredibly smart. We have a culture of winning, and we demand the best. Anyone without that mind set won't be happy here."

Happy customers matter too, of course, and most South African consumers now have

mobile phones. "Connectivity is real, so digital marketing is something we've had to address," he says. The company runs some creative social media campaigns (for example an anchovy paste campaign to support penguins and seabirds), and last year helped the community by pledging US\$580,000 to a youth center project in the Mbekweni township outside Paarl.

Connectivity may have raised consumer awareness, but so far it hasn't changed their fundamental shopping habits: online grocery shopping isn't as relevant yet in South Africa as in more developed markets. The local distribution structure is different – it's more large wholesalers and local stores, so online grocery sales haven't taken off yet.

For a business so deeply embedded in South Africa, these conditions are something Pioneer must work with. "South Africa is our economic engine," Roux notes. The group's primary goal is to improve its competitive position and its financial returns at home, by doing more of the same – focusing on cost efficiency and honing its brand differentiation.

Beyond that, Roux is more guarded about the group's plans – save to hint that its horizons are broadening. "We have some flexibility in the balance sheet to make acquisitions, not only here but elsewhere in Africa and beyond." ■

Lessons from other industries

Cubism for breakfast, then Neoclassicism for lunch: Picasso never shied away from change



Art attack

Prolific, rigorous and unrelenting in his innovation, Picasso led where many rivals feared to follow

"Good artists borrow, great artists steal." That was Pablo Picasso's characteristically sardonic way of acknowledging the debt he, as the greatest artistic innovator of the 20th century, owed to the many painters he learned from – they included El Greco, Paul Cézanne, his friend and rival Georges Braque and the African artists which, with their bold representation of human forms, helped inspire Cubism, the art movement with which he became synonymous.

Managers trying to ignite innovation in their own organizations could learn a lot from Picasso. Though he played up to the public image of an unpredictable genius who cared about nothing but art, he was productive, determined and fiercely competitive. While rivals agonized over one idea, he made dozens of iterations until he got it right. As he said: "What comes out in the end is the result of the discarded finds." His painting *Les Femmes d'Alger* (1907), which appears in more art history textbooks than any other modern work, initiated the idea that paintings didn't have to mirror nature, they could function as diagrams – symbolic representations of invisible truths.

One of the overlooked traits that made Picasso so innovative was his mastery of process. His father was a traditional painter. From the age of seven, Pablo learned his craft so thoroughly that he is often described as the most technically adept painter of the 20th century. He found mastering techniques so easy that he seldom struggled to express his vision whether he was painting, sculpting or creating a collage. Picasso family legend has it that the boy's first word was "piz", short for lápiz, the Spanish word for pencil.

He also had an instinctive sense of where the action was. Today, Silicon Valley is a magnet for wannabe dot.com millionaires. In the 1900s, Paris – and specifically Montmartre – was the center of the artistic ferment that created the movement we now know as Modernism.

Picasso's intellectual independence – though associated with movements, he was no slave to them – enabled him to make three fundamental, revolutionary innovations in less than two decades: co-founding Cubism (with Braque), inventing collage as an artistic technique and developing assemblage in sculpture. His thoughts ran so free that, as scholar Meyer Schapiro put it: "In the morning he made Cubist paintings, in the afternoon he made Neoclassical paintings." Unlike many businesses that try to fit innovation into their existing models and processes, Picasso chose an approach that suited his subjects, so in 1917, he produced masterpieces in the styles of Cubism, Pointillism and Naturalism.

Picasso's career proved that there are many kinds of innovation. Not content to experiment purely with his art, he broke new ground with the materials he created with. He used industrial coatings and, in his Cubist period, when he couldn't find the right bright color in oils, he used a shiny house paint called Ripolin. Later, he pioneered the use of such everyday objects as wire, cardboard and string in sculpture.

One of the traps organizations fall into when they try to ramp up innovation is to throw a lot of resources at the problem. Yet Picasso proved that setting limits could be just as productive. As he said: "For a long time, I limited myself to one color – as a form of discipline." That approach inspired two of his most successful styles: the Blue Period and the Rose Period.

Asked once to name his favorite Picasso period, the artist said: "The next one." In his heyday, his relentless commitment to innovation dismayed rivals. Russian painter Vassily Kandinsky wrote that Picasso was, "driven madly onward... He makes a wild leap and there he is, standing on the other side, much to the horror of his followers. They had just thought they'd caught up with him, now they must... start the climb again." That is the kind of enduring competitive advantage every business would love to have. ■

Key learnings

1 Innovation is like a muscle – you have to keep flexing it or it gets weaker. Many organizations become complacent after one successful innovation. Picasso innovated consistently for 20 years.

2 Learn from the best Picasso would learn from anybody – Old Masters, friends or rivals. Too many organizations have too narrow a focus when assessing the market and applying those lessons to their innovation strategy.

3 Be disciplined Innovation is not simply a matter of investment, sometimes constraints can spark breakthroughs.

4 Innovation isn't all about product Any department of an organization can be innovative – just as any aspect of an artist's work (be it their ideas or the materials they use) can be.

5 Avoid legacy mindsets Too many organizations are trapped by their own successes – and the urge to repeat them. Picasso didn't stick to one movement, style or medium and that independence kept him at the forefront of the art world for decades.

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For more information or to request a proposal, contact us at consumersmarkets@kpmg.com

Contacts

kpmg.com

Global contacts

Willy Kruh

Global Chair,
Consumer Markets
+1 416 777 8710
wkruh@kpmg.ca
KPMG International

Mark Larson

Global Head of Retail
+1 502 562 5680
mlarson@kpmg.com
KPMG International

Dan Coonan

Global Executive,
Consumer Markets
+44 20 7694 1781
daniel.coonan@kpmg.co.uk
KPMG International

Elaine Pratt

Global Marketing,
Consumer Markets
+1 416 777 8195
epratt@kpmg.ca
KPMG International

Regional contacts

Mark Larson

Americas

+1 502 562 5680
mlarson@kpmg.com
KPMG in the US

Nick Debnam

Asia Pacific

+852 2978 8283
nick.debnam@kpmg.com
KPMG in China

Rajat Wahi

Europe, Middle East and Africa

+91 12 4307 5052
rajatwahi@kpmg.com
KPMG in India

Country contacts

Trent Duvall

+61 (2) 9335 8871
tduvall@kpmg.com.au
KPMG in Australia

George Svinos

+61 (3) 9288 6128
gsvinos@kpmg.com.au
KPMG in Australia

Carlos Pires

+55 11 2183 3148
capires@kpmg.com.br
KPMG in Brazil

Jessie Qian

+862 1 2212 2580
jessie.qian@kpmg.com
KPMG in China

Henrik O Larsen

+45 52 15 00 63
hlarsen@kpmg.com
KPMG in Denmark

Eric Ropert

+33 1 5568 7190
eropert@kpmg.fr
KPMG in France

Mark Sievers

+49 (40) 32015 5840
marksievers@kpmg.com
KPMG in Germany

Rajat Wahi

+91 12 4307 5052
rajatwahi@kpmg.com
KPMG in India

Luigi Garavaglia

+39 02 6763 2407
lgaravaglia@kpmg.it
KPMG in Italy

Akihiro Ohtani

+81 3 3548 5804
akihiro.ohtani@jp.kpmg.com
KPMG in Japan

Jose Manuel Gonzalez

+52 55 5246 8769
gonzalez.manuel@kpmg.com.mx
KPMG in Mexico

Rene Aalberts

+31 206 568 046
reneaalberts@kpmg.com
KPMG in The Netherlands

George Pataraya

+7 (495) 937 4446
gpataraya@kpmg.ru
KPMG in Russia

Dean Wallace

+27 (11) 647 6960
dean.wallace@kpmg.co.za
KPMG in South Africa

Carlos Peregrina Garcia

+34 91 456 3516
cperegrina@kpmg.es
KPMG in Spain

Fabien Lussu

+41 58 249 46 29
flussu@kpmg.com
KPMG in Switzerland

Liz Claydon

+44 20 7694 3483
liz.claydon@kpmg.co.uk
KPMG in the UK

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