



CONSUMER CURRENTS

Issues driving consumer organizations

Golden opportunity: What's driving India's booming consumer market

War for talent

Have you got the skills to manage the digital revolution?

Customer centric

How Diageo is transforming under CEO Ivan Menezes

Issue 22

kpmg.com/consumercurrents



Consumer Currents

“New ideas often come from a customer, who decides they want something different and they want it now”



Willy Kruh

Global Chair, Consumer Markets
KPMG International

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“However beautiful the strategy is,” Winston Churchill once remarked, “you should occasionally look at the results.” That has seldom been more apt than in today’s global consumer marketplace, where simply knowing what your customers really want has become exponentially more complex than it was before the advent of smartphones, the internet and social media.

You get a sense of the scale of the task from the industry leaders who feature in this edition of *ConsumerCurrents*. On p20, Michele Buck, incoming President and Chief Executive Officer of Hershey, sums up the group’s transformation in one telling phrase: “We’re a knowledge company that happens to make chocolate and candy.” The company’s founder, Milton S. Hershey, made caramels by hand when he started the business in 1894. Today, the group has its own ‘mission control’ to track, in real time, the discussion of its brands on social media.

On p6, Ivan Menezes, Chief Executive Officer of Diageo, the drinks company with a portfolio of world-famous brands, defines his task in simple terms: “The biggest challenge I give myself is how do you keep a large company feeling small?” The power, value and reach of Diageo brands such as Johnnie Walker whiskey, Tanqueray gin and Smirnoff vodka is immense but that hasn’t stopped the company innovating, either by developing new products internally or investing in promising start-ups. For Menezes, the need to innovate is so compelling that the group is raising productivity so it can reinvest the gains to drive growth.

It’s important to be clear about what digital technology hasn’t changed in the consumer industry. As Sir Ian Cheshire, chairman of British retail icon Debenhams, succinctly notes on p14: “Retail remains a business where you sell goods that don’t come back to people who do.” Debenhams’ customers do come back – they typically visit their stores once a week. Even so, Sir Ian recognizes that his business needs new skills – and a greater diversity of experience – to flourish in a marketplace where customers expect to buy what they want, where they want and however they want.

The challenge for retailers – and brands – is that, as they strive to acquire the digital skills they need, they are engaging in a war for talent with the giants of Silicon Valley, movies, television and computer games. Yet they have to succeed if they want to go to market quicker and embrace new ideas which often come not from a late-night board meeting or R&D brainstorm, but from a customer who decides they want something different and they want it now.

One consequence of the digital revolution, as we explore on p18, is that brands and retailers now have a wealth of personal data about their customers. In the same way that humanity discovered fire long before we knew how to make it, many companies have not really thought about how it can be put to good use – and how their customers might feel about that.

What blurs the lines even further is that different cultures and generations have divergent views. In a new report, *Crossing The Line*, we found, for example, that 88% of Japanese consumers really didn’t like the idea of personalized billboards, whereas six out of 10 Chinese consumers thought they were cool.

In an age of soundbites, the challenges facing consumer goods companies will not be fixed by pithy slogans. The future will belong to those companies that find the opportunities in the present that have gone unnoticed by their rivals.

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

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Diageo CEO Menezes says global collaboration is key to the group's success

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“Our goal is to be the best performing, most trusted and respected company in the consumer products world”

Ivan Menezes, CEO, Diageo

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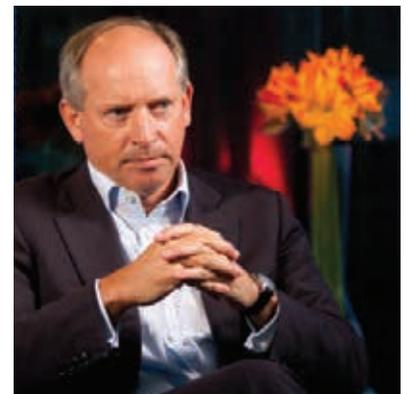
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Warby Parker works with non-profits who train people to give eye exams and sell affordable glasses

Brands that do good

To attract Millennial consumers, many brands are realizing the need to act responsibly – and to be seen to do so

Don't be evil. Not a bad idea. It may not have been emblazoned across Google's masthead, but when the company's founders penned its manifesto in 2004, they wrote: "Don't be evil. We believe strongly that in the long term, we will be better served – as shareholders and in all other ways – by a company that does good things for the world even if we forgo short-term gains." Since the 2015 restructuring, the motto has been slightly diluted to "Do the right thing" but it's a message modern consumers have taken to heart.

According to last year's Cone Communications/Ebiquity Global CSR Study, "Nine out of 10 consumers expect companies to do more than make a profit, but also operate responsibly to address social and environmental issues." With 84% of global consumers actively seeking responsible products, it is vital companies are seen to do good.



COMPANIES WHO CARE
Big-hearted conglomerates

US\$446.7m

Gilead Sciences' charitable cash donations in 2015

2m

People in need who got eyecare via Warby Parker

US\$2 for every US\$1 given online

Amount donated by Bank of America to charity Feed America

Sources: *Fortune Magazine*, with *The Chronicle of Philanthropy*

Car manufacturer Tesla has shunned fossil fuels in favor of sustainable technology, shared patented information about batteries and electric charging stations and worked with competitors to boost the roll out of electric vehicles. Such transparency helped Elon Musk's company record US\$4.0bn of revenues in 2015.

Millennial consumers expect brands to stand for more than the products they sell. Music-streamer Spotify already has a cool image but has endeared itself to Millennials by partnering with the Starkey Hearing Foundation to provide hearing aids in the Philippines.

While the likes of adidas, Marks & Spencer and Nike have incorporated good into their company thinking, a raft of start-ups have embedded CSR from the get-go. London-based Bella Kinesis donates US\$5 from every purchase to the Mann Deshi Foundation, a charity in India that provides rural women with a business education. "We wanted to create something that empowers women worldwide," say founders Shaleena Chanrai and Roshni Assomull. In Seattle, women's running apparel

company Oiselle has partnered with Every Mother Counts (EMC) to launch a branded collection of clothing from which all proceeds go to the charity.

Some companies have adopted a 'one for one' model, in which they donate an item for every purchase a customer makes. Online optician Warby Parker has a slightly different approach: it tallies up the number of glasses sold and makes a monthly donation to its non-profit partners, which covers the cost of sourcing that number of glasses. Under this program, which trains staff in developing countries to sell spectacles at affordable prices, two million people in need have already benefitted.

Doing good can bring benefits of its own. The 2015 Nielsen Global Corporate Sustainability Report found that sales of brands committed to sustainability grew more than 4% globally, while those without grew less than 1%.

"In a world where trust in big businesses has been eroded – and social media can amplify reputational risk – it is vital that brands show they stand for more than making money," says **Mark Larson**, Head of Consumer and Retail, KPMG in the US.

Next tech Robots

Artificial intelligence is far from new. In 1956, some researchers at a conference in Devon, UK, announced that a robot as intelligent as a human was imminent. Since then there have been pitfalls and stumbling blocks, but with the emotionally expressive humanoid Pepper emerging as the face of Nespresso in Japan, it seems there's little robots can't do.

Robots have been trumping humans in warehouses for over

a decade. Smaller, faster and more affordable than before, bots can quickly span warehouses the size of six football fields. Locus robots used by Quiet Logistics, an e-commerce fulfilment provider for the likes of Zara, expect to increase productivity by 800%, because they are fast and don't need breaks or lunch.

Robots are increasingly used in interaction with customers. Pepper will also be asking: "May I take your order?" at Pizza Hut restaurants in parts of Asia. In the US, hotel brand

Hilton is trialing Connie (named in honor of Conrad Hilton), the hospitality industry's first Watson-enabled robot concierge.

The International Federation of Robotics recently forecast that, in 2018, 1.3m new robots will enter the global workforce.

Yet even advanced humanoid robots still have their limitations. "They may not be able to talk to consumers in detail about their orders," says Ross Knepper, an assistant professor at Cornell

University who has studied human and robot interaction. "That may be frustrating for consumers."

"Companies need to be prepared," says **Robert Bolton**, Partner at KPMG's Global HR Centre of Excellence. "Robots may seem like a marketing gimmick but the return on investment could be significant. With these technologies, there's a slow burn, and an acceleration that is likely to surprise us. The day when they'll be working alongside people is not far off."



Keep the consumer in sight

Your customer is entirely focused on one transaction – theirs. You focus on millions, all of which you aim to manage and execute well, says **Julio Hernandez**, Global Lead for KPMG's Customer Center of Excellence. Look at it that way and it's easy to see why many brands and retailers invest heavily in customer service. Yet in many boardrooms, there is a nagging suspicion that their business is working hard to serve customers – but not intelligently. And studies suggest that consumers aren't impressed: a 2014 ContactWorld survey found that 76% of respondents claim to have shunned a brand after a bad experience.

The solution to the conundrum sounds simple enough: delivering the right service at the right cost to the right customer. But what does 'right' mean exactly – especially in a marketplace where consumers expect a response to their queries in minutes, not hours, where they may register their discontent in a host of online communities and where keeping track of (and staying connected to) consumers across an array of touchpoints has never been more complex.

“76% of respondents claim to have stopped doing business with a brand after a bad experience”

Defining 'right' starts with a question: given your brand promise, where do you want to compete? Your answer will be influenced by economics – the cost of each transaction to the business – and by customer needs, and the way they want to interact with you. Once you know who you are doing business with, who you want to do business with – and understand the practicalities of the marketplace – you can design the appropriate customer experience that suits your goals and is economically feasible for your company.

It might be helpful to think in terms of balancing execution and expectations. If you execute below the customer's expectations you may drive them away, yet if you over-deliver without a good reason, for example, their projected lifetime value to your business – you are drawing down your profits.

With that in mind, you can streamline and rationalize your customer service offering. Every time your company intervenes in a transaction, the higher your cost per order, so it makes sense to design a customer experience that requires as little action as possible by your staff. For similar reasons, you may want to encourage consumers to buy online, use Facebook and Twitter for marketing or sell direct from the web as many start-ups are now doing.

Defining – and delivering – the right kind of customer service isn't easy. Smart companies realize that what's right today may be wrong tomorrow, as technologies, markets and customer needs evolve. And always remember that digital has changed the rules of engagement for good. If you make customers unhappy in the physical world, they may tell six friends. If you make them unhappy on the internet, they can tell 6,000.

The art of craft

As the food and beverage sector adapts to ensure its survival, a new ethos of small-scale manufacturing is helping keep companies afloat

Craft beer has been the surprising consumer boom of the past decade. But is this a one off? According to Mintel's Global Drinks Analyst Jonny Forsyth: "Millennials are a key driver of 'craft', which appeals to their quest for quality over quantity, individualism over the mediocrity of being part of the crowd, and the appeal of locally made products with an authentic story."

Analysts say the main 'craft' categories being transformed are:

Cider A 2014 Mintel report revealed that only 8% of drinkers consider cider a sophisticated tippie. So applying the craft ethos of quality, flavor and innovation could give the drink a much needed makeover. Brands such as Citizen Cider and California Cider Company's Ace have enjoyed huge jumps in sales – 39% for the latter in 2015.

Olive oil If you were a Cretan fisherman in the 1960s, you probably drank a glass of olive oil before breakfast. The oil may have lost cachet since but could it make a comeback? The fourth biggest brand in the US now is California Olive Ranch, run by Silicon Valley veteran Gregg Kelley, who wants olive oil to be as prestigious as fine wine.

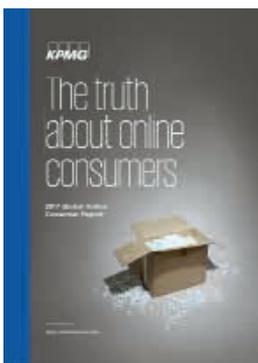
Spirits Ten years ago, there were 50 craft distilleries in the US. Today, the American Craft Spirits Association says

there are 769. Fashionable, young consumers are happy to pay higher prices for authenticity in their drinks. Distillers are drawn to whiskey and gin, the latter especially appealing because it's a 10-day process from grain to glass. In 2015, 49 gin distilleries were founded in the UK.

Soft drinks Fancy a Madagascan cola? Or how about Sicilian lemonade? The success of the UK's Fever Tree brand, founded in 2005 and expected to report sales of US\$150m in 2016, is one example of the premiumization of soft drinks. Brands are looking to distinctive glassware, provenance, new ingredients (such as watermelon, pomegranate, sarsaparilla) to woo consumers.



Connected consumers



KPMG's new report, *The truth about online consumers*, examines how brands and retailers can stay ahead of consumer needs and preferences.

Each of the 18,430 respondents had made at least one online purchase in the past 12 months. Across the globe, Asian consumers had made 22 purchases a year, North American 19 and Western Europeans 18. The report also found that in Asia, brand was the biggest driver of purchasing decisions whereas in the other regions, price was more important.

The KPMG report offers vital insight into the world's online consumers. To download the full report, visit kpmg.com/onlineconsumers.

First person



Ivan Menezes, CEO of Diageo, says the secret of the company's success is reading the market, innovating and managing volatility

“We need to be agile so we can read the signals”

How do you drive growth when you already own a mature portfolio of world-famous brands? Ivan Menezes, CEO of alcoholic beverage giant Diageo, tells *ConsumerCurrents* it's all about innovation

“One of the great things about the Negroni, is that there are so many ways to make a perfect one,” says Ivan Menezes, Chief Executive Officer of Diageo, leaning over the table in his office. Legend has it that the Italian aristocrat, Count Camillo Negroni invented the cocktail in a Florence café in 1919 when he asked a waiter to stiffen his favorite tippie with gin.

Yet almost a century later, the perfect recipe for the Count's creation is contested at cocktail conventions. So, as Menezes is running a global leader in alcoholic beverages – many examples of the group's most famous brands are stacked on a shelf behind him – it seems appropriate to ask if he knows how to make the perfect Negroni. Menezes thinks about this for a moment and laughs, saying: “I'll tell you one thing, the gin is the most important part – Tanqueray or Tanqueray 10.”

Menezes started his career with Nestlé but also worked at a senior level at Whirlpool before joining Diageo's management in 1997. His experience within the group is diverse and impressive. He proved his worth in marketing, working with external entrepreneurs to develop breakthrough innovations and running North American operations before being appointed as Chief Operating Officer in 2012. In July 2013, he succeeded Paul S. Walsh as the CEO of the US\$17bn revenue group that owns many of the most well-known alcoholic brands: Johnnie Walker whiskey, Smirnoff vodka, Captain Morgan rum, Baileys Irish Cream, Tanqueray gin and Irish dry stout Guinness are merely the six most famous.

To outsiders, alcoholic drinks looks like a mature, stable business. There is some truth in that, as Menezes acknowledges when disruptive innovation is discussed: “We are lucky in this business that it takes 10 years to build a truly global brand.” Yet even though

an Uber-style threat to the core business is unlikely, Diageo has identified innovation as one of its six key performance drivers. Last summer, it took a minority stake in Seedlip, a British start-up that distills non-alcoholic drinks designed to appeal to Millennials.

Innovation is something in which Menezes takes a deep personal interest. Describing the burgeoning cocktail culture in some developed markets, he recalls, with smiling enthusiasm, a visit to a recent convention where, “in one part of the bar they were serving cocktails in egg shells.” As he discusses later in the interview, less outlandish forms of reinvention are already reshaping Diageo's business.

As CEO of Diageo, what is your greatest challenge?

The biggest challenge I give myself is how do you keep a large company feeling small? I write a blog – and I do it myself – for our 32,000 employees across the world. We encourage everyone in Diageo to act as if they own the business, many of them share ideas on Yammer – it makes sense for a sales person in Nigeria to help someone launching the same product in Ghana. This is a company where people are very passionate about what they do. We get 97% response to our employee survey, and we believe that you don't need to change who you are to succeed here. We always say, “You bring yourself through the door.” That's part of the magic of Diageo.

What do you see as the greatest external challenge facing your business?

Volatility – be it technological, economic or socio-political – there are widening income disparities and the macro-economic forces are accelerating. Yet our business is geographically broad and, if you look at our brand portfolio and the price points we cover, we feel we are well ►

First person

diversified. The priority is to make sure we are agile, and adaptable enough to read the signals early and respond to volatility faster and more effectively than our competitors.

That's why, over the past three years, my goal has been to put consumers at the heart of our business. Consumer trends are moving faster than ever before and the companies that thrive will be those who interpret and quickly deliver against those insights.

As part of a drive to improve productivity and everyday efficiency, we have committed to saving around US\$800m over the next three years, and two-thirds of those efficiencies will be invested back in the business to drive growth.

It's also important that we develop our global innovation capability, are strong in R&D and have a strategic lens about the big trends and where they are heading.

What kind of innovations are you most proud of?

We're not just talking about products here, we are looking to innovate throughout the whole system. In Africa, for example, we have built what we call the Cube, a low cost, transportable manufacturing unit made out of five containers which makes it easier, cheaper and quicker for us to enter – and test – new markets, particularly those where infrastructure and transport are a challenge.

We also have a pipeline of ideas when it comes to product. For example, we looked at barriers to whiskey drinking – how do you persuade a new generation of consumers that they ought to try whiskey? So we came up with Haig Club, an introduction to Scotch and for consumers of lighter whiskeys. It has the

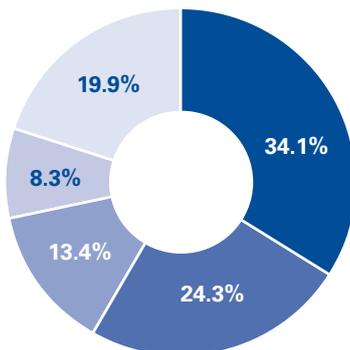


CHARTING DIAGEO

Sales by region

Total sales in %

- North America 34.1%
- Europe, Russia and Turkey 24.3%
- Africa 13.4%
- Latin America and Caribbean 8.3%
- Asia Pacific 19.9%

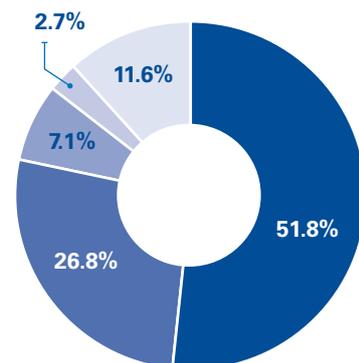


Source: Impact Databank

Operating profit by region

Total sales in %

- North America 51.8%
- Europe, Russia and Turkey 26.8%
- Africa 7.1%
- Latin America and Caribbean 2.7%
- Asia Pacific 11.6%



“Over the past three years, my goal has been to put consumers at the heart of our business”

substance and quality of Scotch with a fresh new look and is blended to match with food in China, one of the initial launch markets, where David Beckham, the face of Haig Club, has extraordinary name recognition.

In November 2014, we introduced Crown Royal Apple, which combines our brand’s Canadian whiskey with Regal Gala apple flavors. This has attracted new customers to whiskey – particularly women – and way exceeded our expectations in its launch year.

I’d say our core direction on innovation is less straight-line extension; more innovation that recruits new consumers to our franchise; and is more disruptive. So we are redirecting our resources to build more sustainable innovation, and less from what we would just call recruiting existing consumers with line extensions. A good example of that would be Orijin, a bitter-sweet fusion of specially selected African herbs and fruits which has been such a success in Nigeria we’re now selling it in Ghana and Kenya and have launched a sister product.

How is the global concern about health and wellbeing affecting alcoholic beverages?

We think that, consumed moderately and responsibly by adults, alcohol can play a positive role at social occasions and celebrations. We have to give consumers the information they need to make responsible choices about drinking – or not drinking – and are running 345 responsible-drinking programs across the world.

The trends, in terms of consumption and binge drinking, are moving in a positive direction. There’s a generational change in

attitude too – 18-21-year-olds have a much more responsible approach to alcohol. In the developed world, I believe it is rare for young people to go out without a designated driver, and it’s not cool to be seen to be drunk.

What we’re seeing is that people are trading up – they may be drinking less but they’re drinking better. Millennials want authenticity, so they’re interested in the skill and craft of after-blending. Yet they also want to treat themselves. That’s why gin has become so popular – it has a quirky, complex taste and feels local and crafted.

How else do Millennials affect your business?

Consumers increasingly expect businesses to create value beyond their economic contribution – but that is particularly true of Millennials. Consumers want to buy from a company that has sustainability at its core. At Diageo, we have three priorities: creating a positive role for alcohol in society; building thriving communities; and reducing our environmental impacts. The targets we have set ourselves are stretch targets and we are making progress – for example, between 2012 and 2015, we reduced the amount of water required to produce a liter of product from 7.2 to 5.1. And this is a continuous process – we aim to have 100 of our key suppliers and third-party operators disclose their water management practices.

After disposing of your non-core assets, Diageo is much more focused on spirits. What role does beer play in your strategy?

Beer accounts for around 20% of our business and has great strategic value. We define

ourselves as a premium drinks business and Guinness is a core part of that. We see a lot of growth for beer in Africa, and as its economies grow, we are seeing more consumption of premium beer there. We are market leaders in Kenya but we also see amazing opportunities in Ethiopia, Ghana, Nigeria and Tanzania. And our strength in beer will help us as we build our spirits strategy. Looking ahead for the next 10 years, Africa is a very important market for Diageo.

There have been a lot of mergers and acquisitions in the drinks sector in the past few years. What is driving that trend?

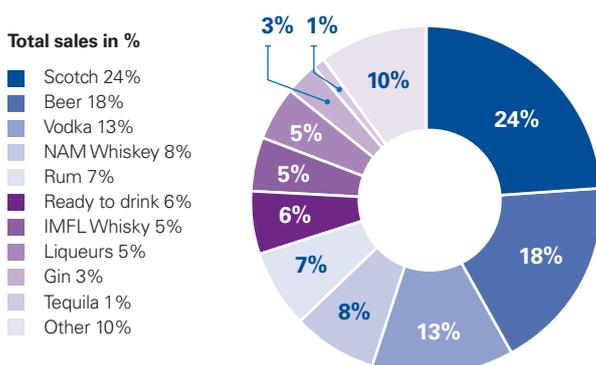
Because it takes a long time to build a truly global brand in this business, you have to be patient, have a good strategy and be prepared for a lot of money, a lot of advocacy and a lot of shoe leather – the founder of Bulleit Bourbon, which we acquired in 2001, started out selling his product bar to bar. So that means companies in this industry will always be looking for opportunities.

We have seen some big consolidations, with companies acquiring voraciously to build their business, but I’d say we have a presence pretty much everywhere we want to be. There are opportunities on the spirits side, which is more fragmented, with many family businesses.

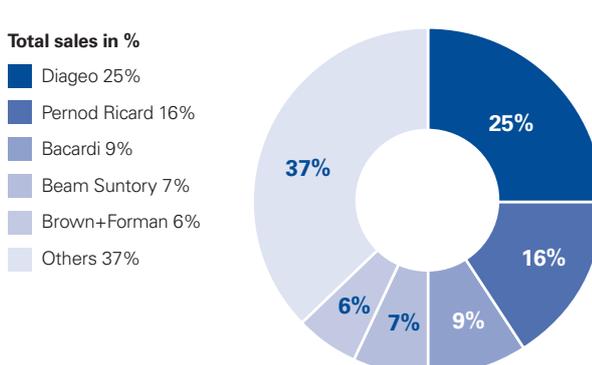
You’ve talked about transforming Diageo. What is your ultimate goal?

Our business is a simple business so let’s not overcomplicate it. Our aim is to keep raising our level of execution so we become the best performing, most trusted and respected company in the consumer products world. [n](#)

Net sales by category



Global share of premium spirits



India: the last great untapped opportunity?

The world's second most populous nation is fast becoming one of the most dynamic consumer markets – and the big brands are taking notice

Emerging economies have fallen out of fashion, as Brazil and Russia struggle with recession and China adjusts to a 'new normal' of slower economic growth. Yet in a global economy fraught with uncertainty, India is still booming. Over the next decade to 2025, India's GDP and its contribution to world trade will almost triple to 6% and it will become the world's third largest economy. Its population of 1.29bn will grow by 2% a year and annual gross income is expected to double between 2009 and 2030.

Rajat Wahi, Partner and Head of Consumer Markets for KPMG in India, says the transformation of the country's consumer economy will be similarly dramatic – consumption has increased more than threefold in the past decade.

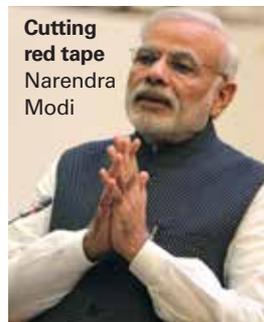
“India is not one country. It's more like Europe with different consumers in different regions”

“Overall consumer spending was US\$0.22tn in the year 2000 but reached US\$1.3tn in 2015. It is expected to grow by seven times in the next 15 years to reach US\$7.3tn in 2030,” says Wahi.

This growth will be driven to a large extent by India's fast-emerging middle class. By 2025, 70% of households will be classed as middle income, up from 54% today. And, says Wahi, the consumer economy will be defined by its youth: “Around 70% of the population is below the age of 45. In the next 10 years among the BRIC markets, India will have the lowest average population age.”



Keep it simple
No-frills products have driven growth in supermarkets like DMart



Cutting red tape
Narendra Modi



Rural revolution
The rise of digital communications has allowed farmers to get better prices

A multi-tiered market
India will be made up of megacities and urban, semi-urban and rural sectors



Top 10 cities in India by GDP



Megacity future

The future will be an ever-more urban one too: 38% of Indians will be city dwellers, and there will be 18 megacities by 2025 compared to four in 2014. The demands of these city regions will be immense; Mumbai's GDP alone will rise from \$80bn to around \$380bn by 2025.

Over the same period, the number of households in the urban economy will increase from 150m to 350m. But there will be other developments too. The hitherto binary urban and rural markets will blur into multi-tiered ones of mega regions, urban, semi-urban and rural ones.

The implications of all this are that market segments and niches will proliferate, stock-keeping units and product options will multiply, and entirely new product categories will emerge as consumers spend more on lifestyle and other non-food categories.

These opportunities are becoming increasingly accessible to overseas brands and retailers as the modernizing Janata government of Narendra Modi rolls back protectionist barriers, simplifies the tax structure and cuts red tape. ▶

Market analysis

Gold rush

Jewelers, such as Tanishq, Malabar Group and Gitanjali Gems, all opened new stores across India in 2016



Shopping changes

Perhaps the greatest beneficiaries of these changes will be food brands, says Wahi. "The big change we are seeing is the rise in on-the-go consumption of food and drink. More people are out of their homes more of the time and this has allowed the growth of new categories across the landscape."

Among the growth areas are dairy, including differing types of yogurt, such as probiotic, along with biscuits, crackers and healthy food categories such as rice cakes. Increasingly, this trend is spreading beyond India's cities. "Rural consumption has been strong in the last few years," says Wahi. "Rural consumers are buying basic staples, packaged goods, chips and soft drinks."

The rest of the average Indian shopping basket is undergoing dramatic change too. "Personal care has seen strong growth over the last four to five years and that trend is likely to continue," adds Wahi. "There are lots of new categories, including hair gels and accessories."

Homewares are another hot category. The arrival of Swedish brand IKEA, which plans to open 25 stores in India by 2025, is an indicator of the perceived potential. This mid-end segment is becoming hotly contested by other incoming global brands such as Muji, which has also opened its first store.

Non-essentials for the home are also booming in line with the overall growth of disposable incomes. Other burgeoning categories include air purifiers and insecticides. "That category has been seeing absolutely amazing growth of 20%, with lots of new products," says Wahi.

As Indians choose to spend a growing share of their disposable incomes on entertainment, he adds, this will have a dramatic impact in the next decade. "With the rise of smartphones and the ability to download information, a lot of consumers will use services like Netflix. Mobile connectivity will be a big enabler."

Devouring data

But probably the most significant new segment in the consumer market in the past 2-3 years has been digital. "There's a very strong desire among the population for more data on the go," says Wahi.

In India, 100m people are online via smartphones at any one time, devouring and generating huge amounts of data and taking up a significant share of discretionary consumption.

Many phones are still relatively rudimentary but smartphone penetration is likely to grow by four times over the next decade, meaning an additional [350m] smartphone users. Online banking should explode as a result.

"As more and more Chinese players come here, there will be a downward push to [the price of] smartphones," says Wahi. "Reliance launched a new service over the last month [costing] 4,000 to 5,000 rupees, or just under US\$100. That's a huge game-changer in terms of access."

The launch of 4G services in India is also imminent. "That will have a massive impact in terms of driving the use of online services."

The next step will be the advent of mobile commerce. Although currently a relatively small – 2% – segment of transactions in India, it is growing fast. M-commerce transactions are expected to grow from US\$2bn in 2014 to US\$19bn by 2019, according to market research firm Zinnov. Boosted by smartphone-enablement, this could rise to US\$120bn by 2020, according to Morgan Stanley.

E-commerce arrives

The promise shown by e-commerce in India is evident from the fierce competition developing between global and domestic sellers. Worldpay expects the online shopping market to grow by 28% a year in the next four years and be worth \$63.7bn by 2020. Other experts are even more bullish. This is being driven by increased access to the internet, the fact that India is the world's fastest growing smartphone market and rising wages (which were up 10% in 2016).

Though the Indian government would prefer local players Flipkart and Snapdeal to flourish in a contest with foreign e-commerce giants, it will not intervene in the market as decisively as the government has in China, so there is everything to play for. The potential of the market is borne out by the many battles going on to improve on and dominate last-mile fulfillment to handle the surge in online sales, even in food retail.

But India's rural populations stand to benefit just as much from the rise of digital communications, says Wahi. "Mobility and connectivity enable them to be better connected to markets and to get better prices. In India, a farmer only gets a quarter of the final price or less. The rest is taken by middlemen. As infrastructure and communication improves, this will increase the availability of information and have a huge impact on farmers' incomes. "The rural economy [has recently been]



outgrowing the urban economy, assisted by government spending a lot of the time and enabling better technologies for online payments and banking, again removing the cut of many middlemen. That will have a big influence on the rural economy. It's going to be a game-changer."

While mobile-commerce will become ever more dominant, there are lots of consumers still close to or below the poverty line for whom the delivery of products is a big challenge, says Wahi. "People will still go to bricks and mortar stores. Tablets and laptops will also still have a role."

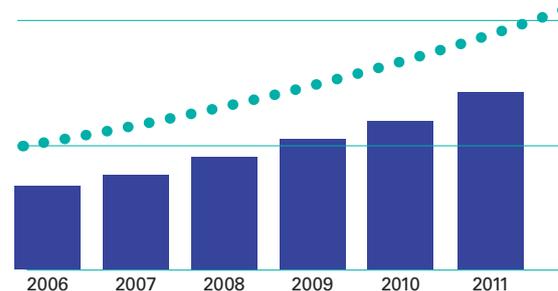
Luxury gap

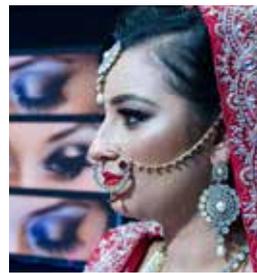
Not every sector that has enjoyed dramatic growth in Western and Asian markets in recent years will share such explosive growth in India as food or digital. The country's middle class is relatively poorer than its Western or Asian counterparts, so luxury remains a small segment.

"The rich travel to spend," says Wahi. "They prefer to go to London or Dubai. The government is also cracking down on the cash economy, with an increasing need to show tax documents [for large purchases]. That has made luxury more challenging and it's nothing like the

India total disposable personal income

Source: www.tradingeconomics.com
Ministry of Statistics and Programme Implementation (MOSPI)





Phone frenzy
Crowds in New Delhi queue for an iPhone 7

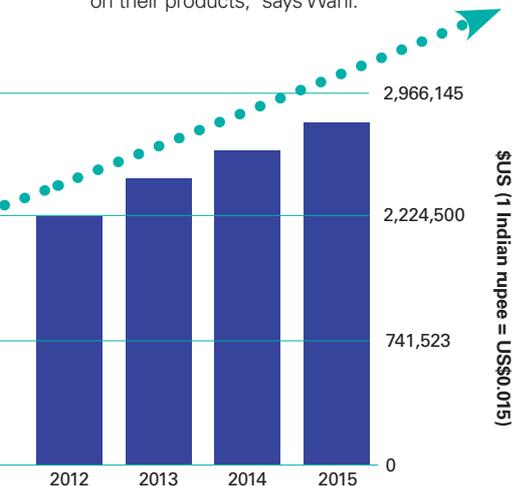
Dressed to impress
Mumbai, Delhi and Bangalore are important centers for India's emerging fashion industry

“Consumer spending is expected to grow by seven times in the next 15 years to reach US\$7.3tn in 2030”

markets in Asia or the Middle East.”

Despite growing public health problems associated with poor environments and the increasing adoption of Western diets, expectations for the health and wellness consumer sectors are similarly muted. Organic produce, for example, remains decidedly niche.

Only the wealthiest Indians participate in these sectors to any significant degree. “By and large it’s not that much of a priority. Although the government is talking about high levels of obesity, diabetes and heart disease, companies will find they will not be able to get a premium on their products,” says Wahi.



Local variations

Incoming businesses must also be alive to the quirks of the Indian consumer market. “It is important to understand what are their markets and target segments,” says Wahi. “India should not be viewed as just one country. It’s more like Europe with different consumers in different regions.

“Understanding the consumer and shopper will be important. There are lots of variants needed to make products more relevant to the Indian market. That could be the size of product or type of packaging. It’s also a highly price-sensitive market.”

Establishing a capable team to build a skills base and training capability will be essential, says Wahi. It is also worth exploring how to apply local research and development and innovation to product development, as well as bringing in appropriate adaptations from other developing markets.

“You have to adapt locally here. They are very price conscious and they demand value, but it’s not just about price. Even IKEA has to do lots of adaptation. People are not big on DIY in India and people come and install the furniture. McDonald’s is another example, omitting beef from its products and with a high proportion of vegetarian dishes.

“Identifying the right business model, whether franchised, own-entity or a joint venture with local partners and taking the time to understand the market is important too,” he adds.

In a number of cases, incoming brands have successfully secured bridgeheads by acquiring local brands.

“They are buying them to take out local competition but also to take ownership of local products the consumers understand,” says Wahi. “In some cases that is the best way of entering this new market, rather than to launch your own brands.”

Five key learnings



Rajat Wahi
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KPMG in India
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1 70% of India’s population is below the age of 45. This will create a consumer economy defined by its youth, with big opportunities across all markets. At the same time, people are increasingly urbanizing, creating an emerging middle class.

2 Markets will be multi-tiered. As well as the rise of immense megacities, there will be areas defined as urban, semi-urban and rural. This will allow market segments and niches to proliferate, allowing entirely new product categories to emerge.

3 Consumer preferences are changing. On-the-go consumption of food and drink is on the rise. This presents a big opportunity for overseas brands and retailers, as the modernizing Indian government starts to cut red tape and allow more new products in.

4 The rise of digital communications will transform how India buys and sells. Online banking and e-commerce will explode over the next decade as an additional 350m smartphone users enter the market.

5 Companies that come into India must recognize its quirks. Every region of India is different – companies need to do their homework on consumer preferences and business practices to hit the right spot.

Cultural competence

If traditional retailers are to stop younger rivals stealing all the growth, they need to recruit, acquire or hire the right blend of skills

Traditionally, retail was a simple business," says Sir Ian Cheshire, Chairman of UK department store group Debenhams. "You sell stuff that doesn't come back to people who do."

Even though the retail sector is already being radically redesigned by digital technology, some elements of that traditional approach have survived. For example, Sir Ian knows that Debenhams' typical customer is a 41-year-old woman who visits their stores 50 times a year and likes to break up her shops with a coffee or a glass of fizz. The challenge for Debenhams – and other bricks and mortar retailers – is to manage the present (pleasing those customers, in part, by ensuring there is always something new for them to consider), while investing in a future which looks more complex, uncertain, and technologically driven.

Change on this scale is rarely comfortable or easy, yet for Sir Ian the issue of most concern is skills. The idea that employers in all sectors are combatants in a war for talent – a phrase coined in the late 1990s – is so familiar it has become a cliché. Yet like many clichés, it contains more than a grain of truth.

"The high-street retail model hadn't changed for 30 or 40 years," says Sir Ian. "To

run the risk of generalizing, the traditional retailer was an intuitive street trader made good, merchant princes who knew how to buy and sell product and ran a centralized, top down, hierarchical company. The business is much more complex than that now."

As an example, he says there is a completely different paradigm for attracting customers in the 21st century. In the 1970s, you could reach 20-30% of the population with one TV advertising campaign, make sure the product was in your shop window and wait for the customers to show up.

"Today there is infinitely more data, the customer's metabolic rate has shot up and you have to manage social media. How do you know which blogger has the most influence?," says Sir Ian. In a world where the customer can come to you in so many different ways, how do you make sure you're not missing out?

Reinventing the retailer

One of the solutions, Sir Ian suggests, is to create a new culture. "You can't have a superhero merchant prince who tells people what to do. We need to be quicker to adapt, to keep reinventing ourselves and figure out what we're going to sell next. To do that you need

much more team building and much less hierarchy. And you need to invest in diversity."

For Sir Ian, diversity is not defined entirely by gender, race, age and orientation – though these all are important – but it is also about different skills, experiences and opinions. "You don't want to lose your culture, but you do need an external refresh. People within the business need to know they can become leaders but you need fresh thinking too. I've always thought that a ratio where you promote two-thirds from within and recruit one-third externally is about right.

"If you don't bring in new people, you run the risk that you keep improving your answer to a specific question by increments of 2% only to find that, when you think you've got it absolutely right, the customer has moved on and is asking a completely different question."

Sir Ian has already turned words into deeds. Debenhams' new CEO Sergio Bucher, who took over last October, was previously head of Amazon Fashion.

Two new non-executive directors diversify the board's expertise. Nicky Kinnaird is an experienced leader in the beauty industry, a part of the business Debenhams expects to grow. Lisa Mayers had a senior role in the



asset management industry where she researched retail, apparel and luxury goods.

Such appointments have helped to build diversity at the very top of Debenhams' business. This is a more considered approach than just buying in a team of digital hotshots, pointing them at your e-commerce business and saying "Fix it." The danger there is that you end up with a narrow, specialized technological solution that doesn't help with the wider, necessary cultural and organizational changes you need to make it succeed.

In other words, this isn't an issue that can be resolved by heading to California's Silicon Valley, London's Silicon Roundabout or Beijing's Silicon Zhongguancun and hiring the best software developers, web designers and data scientists that money can buy.

It's the blend of skills, not just digital and traditional retail, that worries Sir Ian, but is his concern shared across the industry? The *2016 Global Consumer Executive Top of Mind Survey*, published by KPMG and the Consumer Goods Forum, suggested skills were hardly top of the agenda. Although 27% of executives at 400 of the world's largest retailers and brands said talent would be a top priority in 2018, and 26% feared they didn't have the right

The perfect mix

Diversity is not just defined by gender, race and age, but by different skills, experiences and opinions – at all levels of the business

“The value of winning is going up. Firms at number one and two will thrive. Those in third and fourth place will find life awkward”

data analytics expertise in their supply chain, only 22% said talent was key to success in a channel-agnostic consumer market.

Heads in the sand?

Those results may suggest that Sir Ian is an outlier but **Paul Martin**, KPMG's UK Head of Retail, says that isn't necessarily the case. "Sir Ian is more radical than some on this issue. He has been outspoken because he fears the industry is sticking its head in the sand. He has a point: the physical and digital worlds are colliding and becoming one in retail. Traditional stores have to be online and pure play retailers are no longer satisfied with just having an online presence and want bricks and mortar."

Like Sir Ian, Martin says the blend is key. You still need leaders who know how to do the traditional stuff because to lose them would, as he puts it, "be like conducting open heart surgery on an aircraft flying at 35,000ft and changing the pilot, the cabin crew and the engineers." Equally, if retailers are going to reinvent themselves, change their business models and, not least, turn the growing, almost bewildering, amount of customer data at their disposal into actionable insights, they need to find the right digital skills. ▶

Sir Ian Cheshire
The Debenhams
Chairman says
retailers need
to create the right
blend of traditional
and digital skills



The question is: how do they do that? Sir Ian's primary focus is on recruitment and developing the right skill sets internally at Debenhams, yet Martin wonders if retailers need to think more laterally. "The challenge I see is that the caliber of people retailers might want to recruit are likely to prefer to work for funkier businesses – whether they be in tech, games or the movie industry. You might need a team of data scientists but they are probably already in short supply globally. You can retrain some staff to become data scientists but you can't solve the problem just by promoting from within."

Different retailers have already tried different remedies. Those who can afford it, and have faith in their judgment in a sector where picking winners is notoriously difficult, have acquired promising digital start-ups. "For some, the answer has been to set up a tech incubator, but it needs to be in the right place so you get the right vibe and attract the right talent," says Martin. So why don't more retailers share in – and access – the right skills rather than trying to own them outright?

You can see his logic. With customer preferences constantly changing, retailers need to be swifter to respond. The right external partner, given a brief but

unencumbered by bureaucratic obduracy, organizational inertia and legacy mindsets, can help retailers execute quicker and more effectively. As Martin says: "You can build the world's largest machine to translate all the data you have into answers but this could be an expensive and time-consuming process, or you could partner with a business that helps you develop the right questions to get you started."

E-commerce and ecosystems

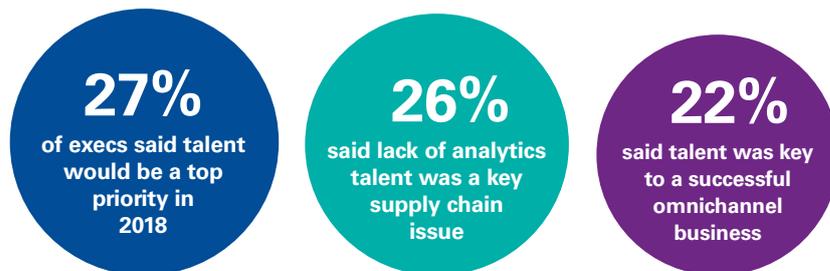
For example, a few years ago, one grocery chain was looking to develop customer data but concluded that it would take two years and millions of dollars to define customer preferences for the project. Yet a start-up offered to develop those preferences in six weeks at a fraction of the price. Similar alliances – for example between a US DIY chain and a digital service that provides electricians, painters and other contractors – are showing promise elsewhere. If these flourish, the retailer may acquire some, or all, of their partner's equity.

Equally, given the risk that, in such a turbulent sector as tech, where so many of today's successes become tomorrow's failures, they may prefer to retain the flexibility

"Creating the right ecosystem of innovative digital partners could free retailers to focus on their core business"



How important a challenge is finding the right talent?



Source: Global Consumer Executive Top of Mind Survey, KPMG and the CGF, 2016

Key learnings



Paul Martin
KPMG's UK
Head of Retail
Paul.Martin@kpmg.co.uk

1 Traditional retailers do not have the skill sets they need to compete in a channel-agnostic market

Department stores are accomplished at doing what they have always done: selling product – and delivering services – to consumers in-store. Yet as retail moves from a business model centered on product and location to one centered on both of these *and* the consumer (and being community centric will also become increasingly important), they need a different range of skills, especially if they are to transform their business digitally. The question is: how do they develop them?

2 There is no one-size-fits-all solution to this skills gap

Retailers will need to upskill internally as well as hire externally. The issue is that retail is not going to be top of the leaderboard for young tech graduates, who are likely to prefer more glamorous sectors such as technology, the movie business and computer games.

Therefore, it will become increasingly important for businesses to develop a partnership ecosystem. Having access to data scientists as a service could be a winning formula.

All of these options come with risks and rewards. The solution will also depend on the size of the company, its organizational structure, culture, products and location.

3 The challenge transcends skills

Even if you could hire the right quantity and quality of data scientists, app developers and web designers, that would not, by itself, resolve the issue. With consumer preferences rapidly evolving, and digital taking a larger share of the business, traditional retailers need to become more agile so they can anticipate – and react to – market trends.

As technology transforms the consumer industry, the rate of change will accelerate, possibly becoming akin to that in the IT industry, and retailers need to change their cultures, business models and organizational structure. For instance, in a market where many companies are appointing a chief customer officer, where do they sit in relation to sales, marketing and IT?

4 The challenge transcends technology too

Technology is essential but don't get locked into a narrow solution. The broader issue leaders must keep top of mind is listening to the market. Are their organizations culturally competent enough to understand shifting customer preferences and turn their knowledge into actionable insights?

5 The reward is growth

In developed economies, retailers can no longer rely on the kind of economic rising tide that lifts all boats. In many western markets, there is likely to be only limited organic growth over the next couple of years. Delivering growth is, therefore, becoming more difficult, and can only be achieved by winning market share. In order to do this, businesses must be better than their competitors and maintain the right blend of skills so they can stay better.

to change partners. There is an argument, Martin suggests, that creating the right ecosystem of innovative digital partners will force retailers to focus on – and invest in – their core business.

This may help retailers develop the agility they need to reinvent themselves. Technology isn't just increasing the consumer's metabolic rate, it's putting a premium on performance. "There is a superscale effect with technology. The value of winning is going up," says Sir Ian. "Companies that are first and second in their market will thrive, those that are third or fourth will find life increasingly awkward."

The skill is to get the pace of change right. Debenhams is a US\$3.7bn revenue business (10% of which comes online; the aim is to double that) with 250 stores worldwide. "Our strength is that we are a house of brands – where customers can discover a variety of things they will enjoy. We've been part of people's lives since 1782," says Sir Ian. "But you don't have a franchise forever. We have to be agile. Change too slowly and we bore the customers. Change too fast, it's uneconomic. The question we have to keep asking ourselves is: what is the value added we provide?" ■

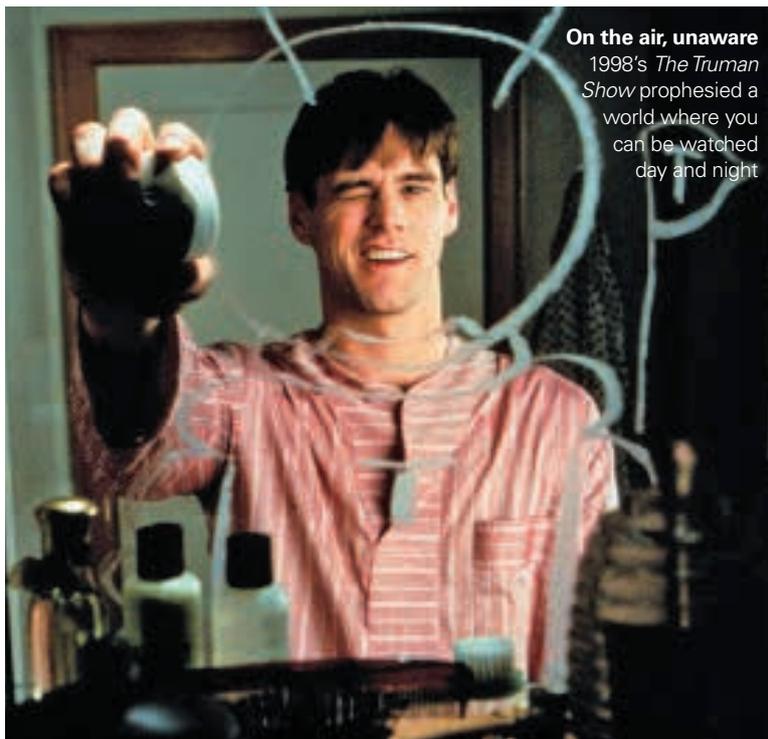
Data: this time it's personal

In a KPMG survey, consumers are concerned about companies collecting their data

Let's imagine you are about to buy the latest top-of-the-range, high-connectivity TV set. What if the brand offered you a hefty discount if you allowed it to collect data on what you watched? Seems harmless enough. Now what about that new expensive comprehensive fitness tracker? Half-price if the manufacturer can collect your data? Deal! But now that your private health data is no longer exclusive to you, how do you know it won't be sold on to interested parties? Insurance companies? Banks? Your employers, present and potential? We need to talk about this...

The pace of development in data collection technology has been so rapid that it has left companies trailing in its wake when it comes to assessing how all this personal data is stored and used. But where the public were once happy to go along with promises of better, more personalized services, now opinion is changing as they discover their privacy is not so private any more. Scary headlines and prophecies of a *Truman Show*-esque world where our every move is subject to scrutiny and analysis are all too common, and brands now risk serious damage if the data they collect is breached or misused.

"Society has barely begun to address the moral and legal questions of what is private and what is public in this era of big data," says **Mark Thompson**, Global Privacy Lead at KPMG International. "Misjudging consumer attitudes



On the air, unaware
1998's *The Truman Show* prophesied a world where you can be watched day and night

threatens mass switch-offs from consumers who feel their privacy is being violated. Very few companies are asking themselves whether they are handling customer information in a morally and legally sound way. It's time they did."

An extensive new global consumer survey, *Crossing the line? Staying on the right side of consumer privacy* (KPMG Privacy Advisory, October 2016), reveals that, on average globally, 56% of people are "concerned" or "extremely concerned" about the way companies handle and use their personal data.

Fears aren't confined to identity theft and fraud. There is a growing sense that citizens are under surveillance: that their phones and web browsers may be recording information about them when they are least aware of it. Although many consumers have tolerated this intrusion

as the price of convenience and a more tailored offering, many more are beginning to question whether the end justifies the means.

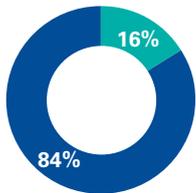
For organizations collecting and handling the data, consumer information is a rich source of competitive advantage. But it can also be a substantial risk if they lose or abuse it. There are heavy regulatory and legal consequences if they do not safeguard it properly, and punitive reputational consequences if mistreatment undermines customer confidence.

While over half of all participants were happy to share basic personal data about gender, education and ethnicity online, 55%

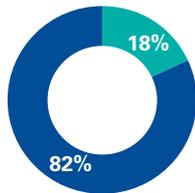
"Society has barely begun to address the moral and legal questions of what is private and what is public in this era of big data"

What do consumers consider 'creepy' vs 'cool'?

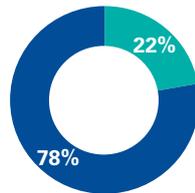
■ Creepy
■ Cool



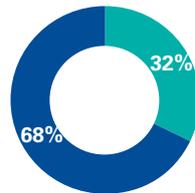
Smartphone and tablet apps used for navigation, chat and news that can access your contacts, photos and browsing history



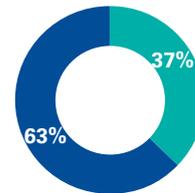
Online retailers that offer savings, speed, convenience, product range and delivery – but sell your data to third parties



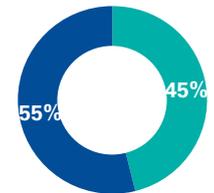
An electronic billboard that greets you by name, asks if you enjoyed breakfast and shows an advertisement for your favorite cereal



You email a friend about a planned Paris visit. Online the next day, you notice advertisements for hotels, restaurants and excursions in Paris



A taxi company that buys your geolocation data so it can automatically offer you a cab ride when you get off the train and head home



Telematics device that reduces your insurance costs, but gives your insurer the right to inform the police if you drive dangerously

had let worries about privacy stop them from buying something online. Consumers in most countries considered control over privacy to be more important than convenience, and there was general unease with online shopping data being sold to third parties.

More than two-thirds of people were uncomfortable with smartphone and tablet apps using their personal data, and high numbers of respondents felt that social media sites and gaming and entertainment companies asked for unjustified levels of personal information.

Much of consumers' wariness is down to a feeling of loss of control. In particular, consumers feel data is being gathered without their conscious approval – and often without their knowledge. To find that there is suddenly a direct correlation between the content of private emails or contained social media activity, and the online ads being served up to them, makes people feel they are being snooped on. Nor do they like the idea that it is up to consumers to read the small print and protect themselves; that their personal disclosures are fair game unless they have opted out.

Where consumers are aware of data being gathered, they are more likely to accept it if organizations are transparent about the practice, the benefits are clear – and in the consumer's interest. This is reflected in consumers' attitudes to different markets. Data treatment is more likely to be trusted in banking (41% felt happier about privacy here), health provision (39%), law enforcement (36%) and local government (33%). Consumers are least likely to trust supermarkets (17%), gaming companies (14%), retailers (14%) and social media brands (13%) with their data.

The more self-serving data collection is seen to be for a company, the more cagey consumers are. For example, while more

than three-quarters of consumers (78%) find the use of telematics devices acceptable for enabling emergency services to track a vehicle, the same proportion resist the idea of personalized electronic billboards. And while 67% could accept smart energy meters transmitting usage information, 63% would object to a taxi company buying their geolocation data so it could propose a cab ride as they get off the train.

The trade-offs between supplier and consumer are intriguing. Some consumers are more amenable to data-sharing if offered an incentive. Almost half (48%) said they would accept a technology company tracking their tablet use if the device had been provided for free. Similarly, 46% said they would allow their viewing habits to be monitored if they got a discount on a new TV.

And just as 49% accepted the justification of collecting emails and browsing history to help law enforcement prevent terrorism, 45% would be willing for an insurance company to pass driving information, captured by telematics, to the police if it meant they benefited from lower insurance costs. Where there is no perceived gain to the consumer, tolerance quickly drops: 84% object to mobile apps accessing their contacts, photos and browsing history; 82% dislike the idea of online retailers

selling on their data to third parties; and 68% are put off by online ads that exploit private email content to improve targeting.

The lesson for organizations seeking to harness personal data is the importance of discreet strategies and clear intentions.

"Companies must act with more discretion when collecting personal data from areas consumers regard as more sensitive, if they wish to retain their trust," says KPMG's Thompson. "While some may still count the exchange of personal data for services as a price worth paying, others will work harder to hold on to their personal data."

As organizations hone their data privacy plans, they may need to offer greater incentives to consumers. "A price difference at the point of purchase would openly acknowledge personal data collection," says **Greg Bell**, Global Cyber Security co-leader at KPMG International. "Currently, consumers have to choose whether to use a service based on a long and complicated set of terms and conditions that almost nobody reads."

Making it easier for consumers to see what they are signing up to is important in reducing risk. "A simple, regulated traffic light system is another potential solution," Bell suggests. "A website that sells on all personal data would come up as red, for example."

"Early indications are that greater transparency and control leads to more open sharing on the part of consumers," he adds. "In an experiment in Italy, hundreds of families used an open sharing system where their information was stored in a secure way and they could control who accessed it. Because the families had confidence in the system, they ended up sharing a lot more information."

"Personal data is the fuel of our future economy – a source of revenue and driver of prosperity – so it is absolutely vital that organizations get on top of this." ■

"Misjudging consumer attitudes threatens mass switch-offs from consumers who feel their privacy is being violated"

A taste for change

Confectionery giant Hershey has come a long way since its founder made caramels by hand, but the business still has an appetite for innovation. Incoming CEO Michele Buck shares its recipe for success

Name **Hershey** Founded **1894** Headquarters **Hershey, Pennsylvania, USA** Current CEO **John P. Bilbrey** Website **www.thehersheycompany.com**

No one could accuse The Hershey Company of complacency, despite its enviable position as the leading chocolate company in the US in 2015 with a market share of over 44%. Digital innovation and imaginative new approaches to the way consumers experience and engage with its products are just two of the core ingredients to a business strategy designed to keep mouths watering and pockets full.

Operationally, the international confectionery giant has a clear line of sight from the factory to the store to maintain a continuous flow of stock. If consumers' tastes change, Hershey is one

step ahead, primed by its real-time window on social media activity. The historic brand is equally committed to perfecting the basics, using the latest consumer insights to help retail partners reinvent the treats aisle and create new experiences that better suit today's appetites.

"The first touchpoint is knowledge of the consumer," says Michele Buck, Hershey's EVP and COO (President and CEO as of March 2017), on digital transformation's impact on the market.

It was 2008 when Hershey first recognized the need to distance itself from its traditional supply-based model (what the company could

sell) and become more focused on demand (understanding what customers actually want) across all of its business functions. Five years ago, the business went a step further, declaring that knowledge would be central to Hershey's competitive differentiation.

"Advances in technology and data have made a real-time market, possible" Buck says. "We used to look at mixed models to understand the impact of our marketing with the consumer – on an annual basis – and adjust accordingly. Now we do that in real time."

Joining up systems across the product lifecycle has been part of the drive to maximize the commercial advantage of data-related opportunities. "We've moved from disparate, isolated databases to fully integrated data," Buck explains. This has involved partnering with data specialists. "We now have a tool where we can look end to end, all the way from the plant, supply chain, procurement and manufacturing to retail, in a closed loop system," she says.

Hershey is now sharing this insight with its retail partners, helping them to review store layouts and displays and optimize the product mix based on current consumer behavior and local customer profiles.

Up-to-the-minute data helps inform marketing beyond the store, too – improving targeting and media purchasing. "We can better isolate the key metric that will enable us to reach the consumer most receptive to our messaging," Buck says.

Customer communication is now more of a dialogue, as a result. Hershey's 'H-Pulse' center in Houston is part news room, part 'mission control' – with 12 video screens. "If somebody loves a product and wants to know where else they can get it, we can tell them," Buck says. "If they have an issue, we have data on that too. We are reaching consumers across every touchpoint, engaging with them on a one-on-one basis."

Hershey can do this in a more timely and geographically relevant way now too, using 'geo-targeted' messages to an individual's mobile as they are sensed nearing a particular retail environment. The company can send messages about products all the way through to purchase – and ensure its products are available and front-of-mind – whether the consumer goes on to buy them in a bricks-and-mortar location, or via a click-and-collect order or home-delivered purchase. "I see it as an extension of how we create demand, leveraging the knowledge we have about impulse categories, to help retailers think about how consumers are purchasing and meet consumer demand in a different way.

Hershey's Michele Buck says the company has embraced the digital age and is developing partnerships in technology and retail





Company founder
Milton S. Hershey



At a glance

- 1** The Hershey Company (Hershey), is the largest chocolate manufacturer in North America. It was founded in 1894 by Milton S. Hershey in Pennsylvania.
- 2** The company makes chocolate and candy brands including Hershey's Bars, Kisses and Reese's peanut butter cups, as well as baking chocolate, cocoa mix, cookies and other snacks. Other popular brand franchises – including Twizzlers, Kit Kat, Ice Breakers, and Bubble Yum – come under Hershey's sweets and refreshment business.
- 3** Hershey markets its products in about 70 countries. The US is Hershey's largest market, followed by the Americas (Canada, Mexico, Brazil, Central America, Puerto Rico), then Asia, Europe, the Middle East, and Africa.
- 4** Beyond the usual retail channels, Hershey has a modest direct presence via its Hershey's Chocolate World stores in major locations in the US as well as Canada, Dubai, Shanghai, and Singapore.

"The challenge is how to create excitement in store," Buck says. "We're not just helping our category; it helps the retailer's whole environment." Just as Hershey's S'mores combination kits inject new fun into confectionery by allowing consumers to get creative, Hershey helps retailers think laterally about their seasonal displays – for example by combining Easter baskets, grass and candy. "Not every retailer does things like that. They've been set up to buy by category," Buck says.

Hershey's most visible extension of the consumer experience can be seen in the spread of its Chocolate World stores (its flagship one in Pennsylvania is a full public 'attraction'), with new ways for consumers to explore and engage with its products. Beyond select cities in North America, there are now Hershey-branded stores in Dubai, Shanghai and Singapore.

"First and foremost, they are marketing vehicles that help us to engage with consumers," Buck says. It's also a great way to test new retail concepts, such as a create-your-own chocolate bar area, where consumers can

"We used to analyze the impact of our marketing on an annual basis. Now we do that in real time"

design their own label on a Hershey bar and decide what they want in the product.

Hershey also has a Global Customer Innovation Center, where it tests technology solutions. Certainly, technology innovation is high on the agenda for Hershey, which is trialing everything from artificial intelligence in manufacturing to auto-fulfillment via e-commerce (through a strategic partnership with a big-name internet retailer in the US).

Buck believes those companies that experiment with emerging opportunities early on will reap the rewards once the technologies move into the mainstream. "You can't be last on the learning curve," she says.

The ability to react to live data in real time is one of the biggest breakthroughs, she adds. "It's something we're very focused on; we're evolving to make everything as real-time as possible. If we have a new product launch, we can quickly see if certain flavors or items are performing better than others and adjust fulfillment accordingly." And when some consumers voiced concern about the shape of its Reese's Christmas Trees, Hershey quickly turned this into lighthearted social dialogue about diversity under the hashtag #AllTreesAreBeautiful, which trended for a while. "In the past, we would have done a very corporate kind of thing – maybe issued a press release," Buck says.

And what about public consciousness, for example around health and sugar? For Buck, there will always be a market for 'treats': the bigger issue is sustainability more broadly. "Consumers now care more about the companies they're buying from, and what they are giving back to society," she says. "Our founder left his company in trust to care for a school for disadvantaged children; about 30% of our dividends go directly to support that school. That central mission is a big piece of who we are."

Hershey also has programs in West Africa, particularly around cocoa, to improve farmers' yields. "Most farmers have mobile phones so we message them about best farming practices throughout the year – based on weather, what's happening with the crops, etc. That merger of sustainability and technology has been powerful."

Again it comes back to sharing knowledge. "If we were just a confection company, we'd be limiting our value," Buck says. ■



Olympian feats

Banning bikini waxes, reporting errors, moving supplies... such marginal gains can collectively transform performance

It would sound glib if the proof weren't so compelling. "Aim for perfection by taking one small step each day..." Sounds like a life hack to scroll past. Yet that credo underpins the stellar performances of Great Britain's Olympians; a hospital in Seattle that has slashed its number of complaints and car maker Toyota, which put the philosophy into best practice decades ago.

In the early 2000s, British Cycling's marginal gains think tank set out to identify every granular contributor to success. Thorough handwashing reduces infections. Bike saddle pain was resolved by a change to saddle tilt and a ban on bikini waxes. Wind-tunnel experiments and integrated performance measurement boxes (fixed under saddles) allow forensic analysis of everything from bike design to rider skin suits with raised rubber strips. The approach was replicated across Team GB, with Rio's gold-medal-winning women's hockey team training to cope with mental stress and handle specific competitive situations (holding on to a lead, going behind to a favorite, seizing momentum when a game was evenly balanced).

Sports teams, like businesses, should never assume they have wrung out every last advantage. "The low-hanging fruit disappeared years ago," says British Cycling's head coach Iain Dyer. "People have been catching up because they saw the gains that we had started to make were things they could copy. Now the marginal gains have never been more marginal and aggregating that has never been more important." Team GB won six cycling golds at the 2016 Olympics in Rio – three times as many as any other nation.

Before the 2012 Games, every sport was urged to share negative feedback on itself. A similar process transformed Seattle's Virginia Mason Hospital. In 2014, pharmacist Andrea Sangrey reported herself for prescribing the wrong drug. "It could have caused harm to the patient," she said. "I was nervous filing a report on myself, but I was thanked for calling myself out. They looked at how it happened and how to

"Aim for perfection by taking one small step each day"

fix it." That year Virginia Mason recorded 50,000 patient safety alerts (PSA). It now targets 1,000 PSAs per month, resolving most in 24 hours (it used to take 18 months).

PSAs enabled small – potentially life-saving – changes, such as better labeling of drugs. Stores of key supplies were moved to patient rooms, so nurses walked 1,200 steps per day instead of 10,000. Nurses spend around 90% of their time on direct patient care, compared to 35% in most hospitals. Primary care – which usually loses money – makes net margins at Virginia Mason, even though it has reduced doctor hours and slashed lab result wait times

Key learnings

1 Apply rigorous data analysis Hard facts may challenge received wisdom: Team GB asked BAE Systems to analyze BMX riders' time in the air to see if seconds might be shaved by staying grounded.

2 Adopt an encouraging, non-punitive approach to error reporting Patient safety alerts at Seattle's Virginia Mason Hospital have transformed operations to help eliminate preventable deaths.

3 Empower shop-floor workers How can an executive spot the opportunity for a marginal gain in a ground-level process? Toyota's alert-screen system allows any worker to flag an assembly-line issue.

4 Think long term Too many companies think identifying marginal gains is a one-off exercise. The gains won't aggregate if you stop adding them on. Team GB is continually on the lookout for new ideas.

5 Embrace real cultural change Many companies install the kaizen trappings without understanding the kaizen philosophy. One company, for example, had installed alert screens, but executives didn't realize they were broken.

by around 90%. Changing room layout and the timetabling of medics' administrative work made the difference.

The paradigm shift followed a 2002 executive trip to Japan to study the Toyota Production System. Hospital Vice President Cathie Furman was struck by "the empowerment of high-school-trained assembly-line workers who felt completely comfortable stopping a multimillion-dollar line rather than sending a defective product to their teammate." What Furman witnessed was kaizen, which Toyota¹ explains as "the day-to-day improvements members and their team leaders make to working practices and equipment."

Kaizen is central to the Toyota Production System, which the automaker has been honing since the 1940s. In essence, kaizen is a philosophy, not a one-off initiative. Daily meetings focus on what "should be done" rather than "what can be done" – for example, the company estimates that 3,000 proposed improvements are made every year at its material handling production sites in Europe – and a focus on pride in the workplace. The credo is: "No process can ever be perfect but it can always be improved."

Matt Parker, head of marginal gains at British Cycling during the London 2012 Olympics, said the team aimed to beat each world record by two seconds. And in Seattle, Virginia Mason's target? The perfect patient experience. That is the kind of enduring competitive advantage every business would love to have. ¹

¹ Sources for Toyota information: Toyota ForkliftsUK <http://bit.ly/2hrngoy> and *Toyota Kaizen Methods: Six Steps to Improvement* Isao Kato (Productivity Press, 2010)

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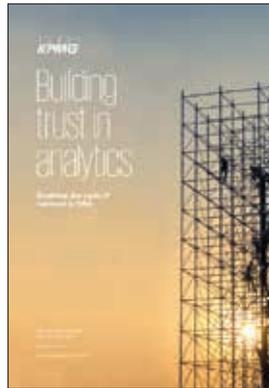
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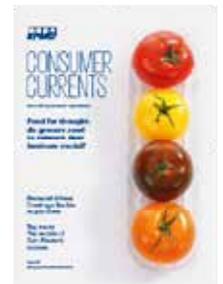
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