

CONSUMER CURRENTS

Issues driving consumer organizations

Recipe for change

What the health and wellness boom means for your business

Analyze this

How many shops do you need? Let data help you decide

Fashionable view

Jaume Miquel, CEO of Tendam, reflects on the power of loyalty



Consumer Currents



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“Companies that get stuck in the present may find themselves stuck in the past”

How much of your time do you spend on the future? This may be a strange question, but in this moment of unprecedented change, the present can be so daunting and demanding that it is easy for executives in the consumer and retail sectors to forget that the best thing they can do for their companies is not to react but to lead change. To do that, they need not just to understand the future but to create it.

Many retailers and manufacturers have launched unsuccessful transformation projects in the past decade. Even in more predictable times, the old school approach to change management – “let’s announce a five-year program in which we change every part of the business” – had obvious weaknesses. There was always a risk that, in year two, the organization’s appetite for change would diminish. Leaders would begin looking at each other and thinking, “Do we have to go through three more years of this?”

The real world also stubbornly refused to conform to corporate plans. Imagine if, in 2006, you had embarked on a five-year program to transform your e-commerce offering. That strategy would have been rendered obsolete, 18 months later, when the iPhone was unleashed.

It’s better to lead change than be led by it. This is especially true as digitally native platform companies, built on data, empowered by technology and accustomed from birth to rapid change, disrupt consumer markets. Recognizing this, manufacturers and retailers have invested heavily in technology to understand, connect with and better serve the customer. They realize that what distinguishes leaders from laggards is the quality of the customer experience they deliver. Yet too often, while the customer-facing part of the business is doing something new, the rest of the organization is stuck doing something old.

As we explore in our article on p20, successful companies don’t just digitally connect with consumers, they connect every part of the business. This isn’t something leaders can do instantly, or as part of a grandiose five-year plan, but incrementally, by applying new thinking to one unit of the business, testing the approach, learning from it, refining it, building on it, repeating the process elsewhere and, to maintain momentum, sharing success stories.

This isn’t a quick fix but, well managed, it could prove a lasting one. A study by KPMG International and Forrester Research found that connected enterprises across a range of industries and geographies were likely to retain more customers, spend less money on each customer contact and enjoy greater revenue growth.

Management theorists tell us that one trait that typifies successful change leaders is openness to data – or, if you will, to learning things they didn’t know. In an age when data is transforming the consumer and retail sector, sophisticated analytics can help organizations make the right changes. As we discuss on p26, analytics can give you fresh insight into everything from store location to product selection and, most importantly of all, the cost to serve a customer.

There is a lot of merit in the idea that, particularly in the consumer and retail sector in the 21st century, all management is change management. Companies that get stuck in the present may find themselves stuck in the past. The future is worth a significant amount of any manager’s time.

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

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II

Now customers
have the power
to make their
voice heard

II

JAUME MIQUEL p6



Contents

04

OFF THE SHELF

The male grooming boom; managing machines; and consumer decision-making

06

FIRST PERSON

Tendam CEO Jaume Miquel on rebranding and why you can always keep improving

10

BLOCKCHAIN

How this technology has the potential to streamline supply chains and break down barriers

14

HEALTH AND WELLNESS

As consumers become more concerned with their diet and health, how is the food industry reacting?

20

STRATEGIC THINKING

Digital transformation is about more than just customers

24

CASE STUDY

How Rent the Runway is building a closetless future

26

STORE DATA & ANALYTICS

Using retail intelligence to increase ROI

30

LESSONS FROM OTHER INDUSTRIES

Be a disruptive innovator like jazz icon Miles Davis

31

INSIGHTS

KPMG International's latest reports



26 Analyzing the retail environment

Men heed the call of beauty

Image-conscious male consumers are buying more cosmetics than ever

In South Korea, they call the look "chok chok" radiance, meaning dewy glow. Traditionally a feminine quality, this look is now being adopted by South Korean men as they emulate their idols, notably K-Pop stars and actors. The look is so popular that, Coresight Research estimates, the country's men use an average of 13 beauty products a month.

Where South Korea leads, the rest of the world is starting to follow. This year alone, L'Oréal has launched a men's grooming range with David Beckham, while Chanel has launched Boy De Chanel, its first make-up range for men, in South Korea with a global roll-out to follow shortly. In China, hundreds of young male vloggers share beauty tips online.

Chanel's slogan – "Beauty is not a matter of gender, it's a matter of style" – sums up a change in the cultural zeitgeist which,

Euromonitor forecasts, will drive global sales of men's toiletries, shaving products and fragrances to more than US\$60bn by 2020.

In some ways, the boom is not as new as it appears. In the 1970s, keen to sell what is essentially a perfume to men, the industry embraced the term 'aftershave'. In the UK, Brut gave the game away with an advertising campaign starring sporting heroes that encouraged men to "splash it all over". Nivea For Men, launched in 1986, was a harbinger of change to come and the brand's parent company, Beiersdorf, launched a website for men's grooming products last year.

Yet the revolution now seems to be gathering momentum. As reported in *Bloomberg Businessweek*, Beckham said: "The majority of guys I know do look after themselves." Social media has encouraged this new attitude, especially among

Generation Z. In the US, start-ups in skincare, antiperspirants and hair dye, backed by hundreds of millions of dollars in venture capital, are eschewing macho marketing for more gender-neutral adverts and packaging.

In South Korea, looking good is an economic imperative – employers expect job applications to include a photograph. The perceived need to emulate celebrities' smooth complexions has sent sales of face cream soaring.

"In consumer and retail in the West, where many sectors are growing slowly – if at all – men's grooming products are a significant opportunity for manufacturers and retailers," says **Anson Bailey**, Head of Consumer & Retail, ASPAC, KPMG China. "Yet the established players will need to move quickly – and wisely – if they are to compete with a new wave of start-ups, inspired by Dollar Shave Club."

Looking good

– The growth of men's toiletries will outpace that of fragrances and shaving products by 2020, according to Euromonitor. It also estimates that 81 percent of men's grooming products are bought at bricks-and-mortar stores.

– **More than one in three Korean men in their twenties use moisturizer, according to Coresight Research.**

– There are 29 million posts on Instagram with #beard, according to L'Oréal.



Next tech a-commerce



After e-commerce and m-commerce comes a-commerce – a is for automated and reflects a trend, which originated in the finance sector, for time-strapped consumers to 'outsource' their shopping to AI-powered personal

assistants. One of these is Finery, an app which organizes purchases into a 'wardrobe' sorted by designer, color and type. Users receive styling and product ideas.

Another start-up, FindMine, provides 'Complete the Look'

technology for e-tailers, to suggest further items to shoppers.

"Retailers need to explore how they can use AI to streamline the entire shopping experience," says **Mark Larson**, Head of Consumer & Retail, KPMG in the US.

In AI we trust

As algorithms and chatbots become increasingly integral to retailers' products, pricing and customer communications, who is managing the machines? That's the question KPMG International's 2018 *Guardians of Trust*¹ study poses.

The study pinpoints new types of failures that can occur with AI, such as the 'superhuman' behavior problem where machines outpace humans, causing unpredicted consequences, especially in the way bots interact with each other.

Or when smart machines act in ways that seem dumb to humans, particularly in the field of visual recognition. Machines have also been known to pick up biases or bad habits from human behavior.

In the survey of 2,200 global IT and business decision makers, 92 percent said they are worried about the impact on reputation if their organization's data and analytics models do not work as intended

Only 36%
of decision makers
in retail have a high
level of trust in
their company's
use of data

or are inappropriately used. Only 36 percent in retail said they have a high level of trust in their company's use of data and analytics.

"The governance of machines must become a core part of the governance of the whole organization. The goal is to match the power of AI with the wisdom to use it well,"

says **Dr Thomas Erwin**,

Global Head, KPMG
Lighthouse Data
Driven Technologies.

Organizations that approach the technology strategically and thoughtfully – and are transparent about the way data is handled – will find it easier to build trust. The core business and C-suite must also take responsibility for analytics and AI to ensure quality, effectiveness, integrity and resilience.

You can download the report at kpmg.com/guardiansoftrust

¹A commissioned study conducted by Forrester Consulting on behalf of KPMG International.

Retail's experience economy

From live demos to AR technology, here are five ways stores are creating experiences for their customers:

1 The connected store With touch-screen mirrors where shoppers can request different sizes, connected clothes racks and log-in stations, luxury e-commerce platform Farfetch has launched its 'store of the future', which it plans to roll out globally. Designed to act like an 'offline cookie', it syncs online and offline data.

2 Co-creation Last year, a pop-up Adidas store in Berlin let shoppers design wool sweaters, which were knitted by a machine in 4 hours.

3 Augmented reality technology Teen retailer Tillys created an AR snowboarding experience in the US, which offered discounts and a chance to win prizes. Shoppers downloaded the app and scanned the in-store AR Tag to play. It achieved an 80 percent conversion rate.

4 Consumer packaged goods experiences

At Kellogg's cereal café in New York City's Union Square, visitors can craft their own cereal creations.

5 Live demos Samsung shows its appliances in action at its Toronto experience store (below), which features a kitchen with live cooking demonstrations and on-site tastings, plus a TV experience zone.



Customer First



The future is personal

A new approach to understanding consumers is needed, says **Julio Hernandez**, Customer Advisory Leader, KPMG in the US and Global Lead, Global Customer Center of Excellence

We have reached an inflection point, where the collision of three revolutions – geographic (& geopolitical), demographic and technological – is disrupting and redefining the consumer goods industry. The combined impact of these revolutions is unparalleled.

The underlying drivers of human decision-making have become exponentially more complex in recent years. That is why transactional data, traditional market research and demographic profiles – long used to inform decisions – can no longer completely explain what customers are doing, or why they're doing it.

Consider the far-reaching influence of Millennials, who tend to value experience over ownership, be digital natives and think about the values and authenticity of the brands they transact with. As this generation transfers its tastes to others – often their Baby Boomer or Gen X parents – are we facing a future where there's a bit of a Millennial in all of us?

While certain life stages and events are enduring, the way different generations move through them is changing too. Delayed home ownership and parenthood. Unretirement – by choice or necessity. All these factors influence the customer's wallet.

To construct a new way of thinking about the changing customer, we embarked on a research program to discern the voice of the consumer. To understand today's multidimensional consumer requires a multidimensional framework – which we call the 'Five My's':

- My motivation: the characteristics that drive behavior and set our expectations.
- My attention: the ways we direct our focus.
- My connection: how we connect to information, devices and each other.
- My watch: how we place a value on time, and manage its constraints.
- My wallet: how our need to spend and save changes at different points in our lives.

Together, these dimensions can help companies navigate the complexity of consumer decision-making and changing attitudes and behaviors.

For those manufacturers and retailers who are bold enough to concede that they might not know as much about their customers as they would like to, the opportunity to do so is theirs.

You can download *Me, my life, my wallet*, at kpmg.com/knowyourcustomer

"The customer has always had the power. The difference today is that now they know it"

Tendam CEO Jaume Miquel explains how the fashion group's rebrand has helped define its offering to consumers

What's in a name? One of Europe's largest fashion retailers has recently chosen to call itself Tendam – inspired by the words 'tandem', suggesting teamwork, and 'trends'. For most of its 138-year history, the company has been known as the Cortefiel Group so the change symbolizes a new direction. The man tasked with moving the business in new directions is CEO Jaume Miquel. Tendam owns five brands – Cortefiel, Pedro del Hierro, Springfield, Women'secret and Fifty (an outlet store chain) – operates in 90 markets and in

2017/18, its last financial year, generated income of EUR1,155m (US\$1,334m).

Miquel previously worked at other clothing brands including Levi Strauss & Co. and Timberland. Joining Cortefiel in 2006, he was responsible for repositioning the Women'secret brand and growing the business. In 2015, he also took the position of general manager of Cortefiel and Pedro del Hierro brands before taking over as group CEO in 2016. The reorganization that started two years ago, with Miquel's appointment, is clearly working. Tendam's like-for-like sales were up 4.8 percent in 2017/18 and e-commerce grew by 26 percent (it is now more profitable than the group's bricks-and-mortar stores). The group has moved directly into significant new markets such as India and Norway and has opened new stores in eight countries.

Yet as Miquel tells *ConsumerCurrents* in this exclusive interview, he and his management team know that the company needs to change faster, be more innovative and deepen its understanding of consumers in order to keep progressing.

How would you summarize the company's strategy?

We believe we have a distinct opportunity in terms of market positioning. There is a clear niche in between fast fashion and affordable luxury and we want to be strong in that niche. When you look at it globally, there are not many multiformat, multibrand or multicountry brands or companies playing in that segment, which is the natural segment for us to be in.

Positioning is one part of our strategy. The other part is how you serve that segment and we believe that there are many opportunities to create brands – not chains – that help people to dream and share values that are above fast fashion. We still want to create brands that are approachable – elevated, but approachable.

Our customer relationship management program helps this happen. The card holders in our loyalty schemes are central to our strategy. We have loyalty clubs for Cortefiel, Pedro del Hierro, Springfield and Women'secret. There are more than 22 million people associated with our clubs, which gives us the capacity to generate loyalty, engagement and be more personal. Some people believe this is probably the company's greatest asset, even more than our real estate.

What is the thinking behind the creation of the Tendam brand?

It was a natural evolution. The Cortefiel brand was officially built in 1945 and was ►



then one group, one brand. Thirty years later, Springfield was born, followed by Women'secret and Fifty. So the reality we were facing one year ago was that we were one group with four brands defined by one brand. It wasn't the best situation to be in. Right now, with Tendam we have one name that defines the whole group and our corporate values, and one brand that has been liberated of the burden of carrying the group's name. That way we can develop values that are much more related to the product, the store and the consumer.

How are you positioning your brands?

Brand positioning is the same for all brands. We don't want to be in fast fashion, but in the growing segment between fast fashion and affordable luxury. This segment accounts for around 20 percent of the total market, but it can grow easily by capturing sales from above and from below.

The Women'secret customer is aged between 25 and 45 and more cosmopolitan. The Cortefiel customer is 45 or over, and likes smart dress and casual (but mostly smart). The Springfield brand focuses on customers between 25 and 35 who want casual wear. These brands do not cater to teenagers since we see that segment as too volatile and risky.

Which markets offer the greatest opportunity for Tendam?

We see growth practically everywhere. We see it across the channels, including online. We see it in all the loyalty clubs, which integrates growth between online and offline. We also see growth from a geographical point of view. I would like to explain what I mean when I say practically everywhere. There are markets in which we are not present. Sometimes I'm asked why we are not in the

UK and I always answer the same: too expensive, too crowded. But there are other markets with a big appetite for our brands, such as Russia, Mexico, the Middle East, Africa, and India, in which we are growing. In China, our presence with Springfield is growing. In Spain and Portugal we still have plenty of room to grow. In our group's five-year plan, we are considering an increase of around 500 stores, 45 percent operated by us and 55 percent by franchisees.

Do you see common consumer trends emerging across the countries you operate in?

There are common trends, it is true, but also differences: developed markets and emerging markets. In developed markets there is one trend about the maturing consumer. The typical pyramid of demographics is starting to reverse and we have to be mindful of that. This is an opportunity for us because our target groups are predominantly aged 50 or over and that gives us the opportunity to move forward. In the emerging markets we see a big growth in younger consumers buying casual wear. Globally we see new trends in sustainability and technology. We think all the brands in the market need to take greater responsibility in terms of developing new, imaginative products and services. Leisure and technology companies have been very smart connecting with customers and bringing new reasons to buy. In our case, we need to accelerate our efforts.

What impact are smartphones and online shopping having on your business?

You cannot go against reality. People get informed and buy through mobile phones, online or in store. This is a big opportunity. With our shoppers, who were only buying in physical stores and now are buying online too,

Tendam in numbers

1880

The year the group's original company, a family-owned haberdashers in Madrid, opened for business.

€98.6m

The net profit (US\$114.8m) posted by Tendam for 2017/18, as the group's reorganization plan bears fruit.

1,296

The number of stores Tendam owns and operates worldwide. The group also has 692 franchises.

91

The number of markets Tendam currently operates in. It opened three stores in the Iraqi capital Baghdad earlier this year.

6%

The percentage of group sales derived from e-commerce. Online sales grew by 26 percent in 2017/18.



Tendam CEO Jaume Miquel believes the company needs to keep innovating its brands to stay ahead

the incremental spend is stronger. If we look at people who were only buying online and then started buying also in our physical stores, the spend is also incremental. From that perspective it is positive. We have made an effort to become one channel so that people can keep buying online and offline seamlessly. We have also focused on profitability on the digital side. This has probably been one of the industry's biggest challenges – to make sure that we are paying attention not just to the growth, but also to profitability. Right now if our EBITDA margin overall for 2017 has been 14.7 percent and our EBITDA margin from online is close to 26 percent, I don't see this as a threat, but as a clear opportunity.

What future do you see for bricks-and-mortar stores?

In 2016 and 2017 we carried out a big store portfolio rationalization to make it more



“Even after the best ever season in fashion, there is always something you can improve”

efficient. That implied a reduction of the total surface of our own operative stores globally by 5 percent and in the case of Cortefiel by around 10 percent. In the future you will have the stores you really need. They will not be the same. The level of connection with online will be stronger. The client decides where and how they want to buy and where and how they want to collect the product or have it delivered. We need to move to a format of a store that is fully flexible, that doesn't have the same size and type of product per country and with a stronger omnichannel presence than we have today.

What are you doing to get closer to your customers?

Lots of research. Every quarter we research every brand deeply, looking at ourselves and the competition, in terms of window product, pricing, promotion and advertising. We have created an online research club in which we test the reactions of customers with our apps, competitors' apps and in other web pages. We are also working on personalizing CRM, incorporating experts in analytics, AI and machine learning to get better insights. Our capacity to capitalize on the 22.3 million loyal customers of

our clubs is very high. Right now we are just scratching the surface.

How have customer expectations changed in the past five years?

The customer has always had the power. The difference today is that now they know they have the power. They also have the power to make their voice heard. In the past, social media was not so evident and their voice was not so loud and clear. Consumers now have so much you have to be more creative to encourage them to buy new things. The fact that customers are more sensible about – and critical of – corporations and countries than they used to be, is a good thing for countries and for companies.

What are the greatest challenges and opportunities facing the company?

We have to be loyal to the plan and not only enjoy the success. One thing is to celebrate and another, to relax. Sometimes people confuse both. We have just finished a final year results presentation and we said to the analysts that a 48 percent rise in EBITDA is very good, but if you sit and just enjoy you won't even grow by 5 percent next year. You have to stay focused and alert to stay successful. You also have to be intelligent, by reading the markets, the consumers and the signals, looking at all the opportunities, always thinking what to improve and ready, when necessary, to adjust the plan. In fashion, even after you've had the best season ever, there's always something that can be improved. That is something we should never forget.

How does Tendam encourage innovation?

Some say you should only innovate to a degree, say 6 percent. People are starting to realize that is the wrong approach and we are totally reworking our basics with nearly all the brands. We did it three years ago with Women'secret and we are doing this now with Springfield, Cortefiel and Pedro del Hierro because we need to upgrade and change our approach. There are other programs related to innovation in technology and sustainability. We have created a new position in the group, Chief Customer Officer. The idea is to encapsulate the one channel strategy and to accelerate it. At the same time there is one new area within this structure that we call 'next store', which is trying to identify what stores will be like in 10 or 15 years' time and to start moving towards that. Is this enough? Probably not, but at least we are starting to innovate.



Blockchain can allow companies to track the use of products such as boots and clothes, but public buy-in for the technology is absolutely essential

Is blockchain the next killer app?

Don't let the hype deter you, this technology has the potential to transform supply chains

Revolutions seldom run smoothly – as one US retailer recently discovered to its cost. After mooting a proposal to place sensors in its boots and clothing, the company was surprised by a consumer backlash. The idea was not to snoop on the customer, but to track the performance of the products. Even so, the media dubbed the scheme “creepy” and invasive and the retailer abandoned the plan.

Welcome to the exciting, strange and imperfectly understood world of blockchain. There has been more than a whiff of the dotcom bubble about blockchain lately with the technology being hyped as a panacea.

All this is enough to make businesses wary of all claims for the technology, yet blockchain and distributed ledger technology could truly have profound implications for retailers and brands, not least in its potential uses to transform supply chains.

New business models

How so? By offering the means to tackle the inefficiencies resulting from the information silos that trap data inside discrete parts of individual enterprises. Sharing disparate data on the blockchain enables them to be synthesized inside and beyond the enterprise in ways that create new value.

In this way, blockchain can offer broad new business capabilities, particularly, when combined with technologies such as the Internet of Things and artificial intelligence (AI), says **Sam Ganga**, Partner, Digital Strategy & Transformation, KPMG in the US. “One of the key elements it brings to the table is improving the visibility of information across enterprises. In this sense it can transcend what we would consider to be the traditional boundaries of the company and so could completely redefine how you conduct business. It potentially requires you to reconsider your workforce model, your operating model and how you are interacting

with suppliers. It could open up space for new business models.”

Operating a blockchain that gives instant access to the information in it down to the tiniest details, creates opportunities to drive new efficiencies, create new relationships and compress some of the delays that bedevil existing supply chains.

“It is solving business problems that have been tough to crack before, such as showing the entire chain of custody and provenance to predict freshness and reduce spoilage,” says Ganga. “What would it mean to retailers if they could reduce spoilage by 100 basis points inbound or on the shelf?”

A grocer might be able to tell instantly where a consignment of produce came from, the date it was picked and whether it had the right refrigeration from farm to shelf. Such granular detail about factors such as likely spoilage rates can mean appropriate action is taken.

“The blockchain is not just a repository of data, it can be used to drive valuable analysis,” says Ganga. “It can tell you not to take delivery of this particular consignment of fresh produce or take it at a discount and sell it quickly because based on the chain of custody information in the blockchain, it shows it was sitting in the dock beyond its freshness window.”

The implications for reducing the frequency and cost of recalls is obvious. Being able to quickly identify a bad batch of eggs, for example, might in turn enable individual consumers to find out if their purchases were among a bad batch, assuming PoS systems become linked into the blockchain.

As supply chains are currently configured, it can take a week or more to track the food in a supply chain that has been affected by a disease outbreak. In April 2018, over 172 people in 32 US states became ill with E.coli from eating contaminated lettuce. It took several weeks to find where the lettuce ►

Five key learnings



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1 Reconsider operating models.

Blockchain offers an opportunity to change the way you run your supply chain, to achieve efficiencies and savings.

2 Link up your supply chain.

Blockchain can connect many third parties in a secure, trusted way, making it easier to track items and interact with suppliers.

3 Benefit from data analysis.

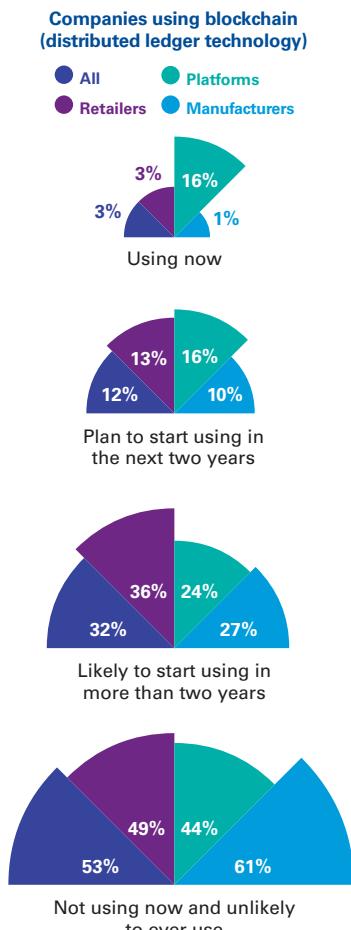
Use the detailed data blockchain provides, such as spoilage rates and location of products, to help drive business decisions.

4 Improve visibility.

Blockchain can help build trust between retailers and customers, offering evidence of provenance, as well as stopping counterfeits.

5 Collaborate with partners.

Form consortiums to build blockchains that are big enough in scale to be effective.



was grown. With blockchain, it would theoretically take a couple of minutes. Some trials along these lines are already underway, including a major US food retailer partnering with Nestlé and some other manufacturers to track the origin of fresh produce.

"Because of the nature of blockchain's distributed shared ledger you can improve the visibility of information in a way you can't with any other technology. The fact that the data is immutable significantly improves trust in data, particularly among consumers. We are going to compress some of the intra-company and inter-company relationships that have been the slowest part of supply chain processes," says Ganga.

It is the open, networked nature of blockchain, which enables the linking of many hundreds or thousands of parties in a given supply chain in highly secure ways, that makes its potential value so great. Using conventional shared databases to do this is not only much costlier, but also is more vulnerable to single point failures or cyber attacks, says **Jan Reinmueller**, Partner and Head of Digital Village at KPMG in Singapore.

"It means you can do away with reconciliation problems as there is one trusted repository of all the relevant information rather than different systems trying to align with one another. You can track where a problem happens to specific routes,

logistics companies and times so you can quickly identify the root cause and so improve the overall quality of the supply chain."

What is currently a static and sequential process of sourcing could even in future be responsive to demand signals and trends from the market, helping suppliers and retailers anticipate seasonal demand.

The operational savings could be vast, says Peter Fedchenkov, the co-founder and CEO of INS, which is building a decentralized grocery shopping ecosystem based on blockchain technology. "It will increase the velocity of the supply chain, decrease the number of errors, lower processing, database and reconciliation costs."

At the moment every party in a transaction has to reconcile its own databases and devote considerable back office time and expense on this and, in particular, to dealing with errors. Blockchain promises instead a single immutable set of data shared across parties, showing clearly what happened in a transaction and whether a consignment was paid for or not.

Greater supply chain visibility might enable brands and retailers to build trust with consumers about the provenance of products, offering proof that extra virgin olive oil is really unadulterated or that salmon is not caught by slave-labor fishing boats.

Multiple trials are showing how this can be done where suppliers are required to provide proofs via photographs and QR codes that are then uploaded via smartphone and embedded in the blockchain ledger.

"If you want to minimize counterfeit products or eliminate other sources of fraud in the supply chain or ensure trust in the ingredients of your products, blockchain can be at the center as a key enabler," says Ganga.

Creating transparency

There are multiple efforts to demonstrate the real-world utility of blockchain here. De Beers has started tracking diamonds from miner to retailer using blockchain to authenticate gems and ensure they don't come from conflict zones. The Blockchain Food Safety Alliance, a consortium led by IBM, JD.com, and a large US food retailer, is using IBM's blockchain platform to bring efficiency and transparency to global food supply chains.

But blockchain's utility is not universal. Using it to create transparency across every aspect of the supply chain, even when it comes to food, may not be straightforward. Where assets change physical form – for example, to track wheat on its journey from crops in fields, to flour, to bread – it becomes harder to track them digitally.

The challenges are not stopping some from trying. Denver's Coda Coffee Co. offers blockchain-traced coffee, enabling buyers to see the date and location of every stage of the process from harvest, washing and drying to export, roasting and retail.

Blockchain is very much in the experimentation phase. Barriers to its effective deployment are still numerous, not least of which is the ability to scale. Massive numbers of rapid transactions will have to be processed efficiently on these blockchains, an issue that still bedevils energy-hungry Bitcoin.

Becoming more agile

For retailers and manufacturers, the path dependency of their existing ways of working is a further obstacle. "They will find it hard to move from their existing core systems to something that has not been proven. There have to be a few dozen use cases for these barriers to be broken," says Fedchenkov. "Test and learn. No one can predict what will work and what won't so the best strategy is to be open to it and try."

"If you want to ensure trust in the ingredients of your products, blockchain can be at the center as a key enabler"

Some organizations have appointed a blockchain ambassador responsible for directing experiments and ventures inside and beyond the organization, says Fedchenkov. "They become the center of knowledge and connections in the company on blockchain-related projects.

"They are the driving force in educating the organization on the benefits and potential concerns. We've seen this in a few FMCG companies such as P&G. It's the best way to experiment rather than random people from different departments doing things in an uncoordinated manner."

A further uncertainty every organization must grapple with is the lack of clarity as to what shape blockchain networks will take. Only the largest retailers or brands are likely to have the resources to build and maintain their own blockchains.

It may be that competitors collaborate in key areas to realize efficiencies. A consortium approach will help build the scale required and make signing up new suppliers easier. In some instances blockchains could be mandated and run by regulators; in Abu Dhabi, for example, the financial regulator is building its own ledger.

Organizations could end up participating in a mix of blockchains, says Reinmueller. "Look at what areas you want to collaborate in and which ones your competitive advantage and IP are in. There might be some areas where you will want to share your data for the wider good and others where you want to do it yourself. No one competes on risk. If you have blacklisted suppliers, would you share this with your competitors, say over issues of modern slavery? I think you should. It makes sense for competitors to become collaborators who share data in certain use cases."

While the shape that blockchain technology will take is not clear, Reinmueller says its value is. "It is an absolute killer app. It will revolutionize everything we have seen so far and change the way we work and interact. By greatly facilitating and speeding up intra-company relationships, in time parts of the supply chain could even be largely automated and able to optimize themselves."

The blockchain may thus in the near term become the means by which supply chains source, deliver and return goods making them

far more responsive, thanks to blockchain and AI, says Ganga. "In five years, we might be looking at a supply network that is purpose built and self-selecting through the use of sophisticated algorithms finely tuned through the use of machine learning."

That is certainly the expected direction of travel. In KPMG International's *2018 Global Consumer Executive Top of Mind Survey*, 60 percent of companies say that most supply chains will be demand-driven and customer centric by 2020¹. If blockchain does become central to such transformation, many may lag behind. The survey revealed many companies have yet to commit to blockchain initiatives. Just 3 percent of all companies are using it now, only 12 percent plan to use it within two years and 53 percent claim that they are never likely to use it.

This could prove a costly mistake, Reinmueller says. "It opens up new business models. The technology will go through the curve faster than other technologies have. Once we have nailed scalability, it will take off and every business which has an intermediary will be disrupted!"

¹2018 Top of Mind Survey, KPMG International and CGF.

Direct to consumers via blockchain?

Blockchain can help manufacturers circumvent the intermediaries that lie between their brand and their customers, giving them more control over presentation and pricing.

"We believe blockchain has great potential to enable manufacturers to deal direct with consumers, potentially replacing wholesalers and retailers," says Peter Fedchenkov, CEO of INS.

While brands already sell direct online to consumers, the INS blockchain-based platform is designed to streamline the process using blockchain through smart contracts and by automating payments and fulfillment.

INS's peer-to-peer online marketplace can help brands engage directly with consumers, take more control of the data and reduce supply chain friction, using logistics providers that bypass traditional wholesalers. In theory, it also reduces their reliance on retailers and helps them compete with retailers' rival private label products.

Shoppers can use such channels to deal direct with a range of brands, make savings, earn loyalty rewards, and access smaller, local or artisan products that mass bricks-and-mortar retail cannot easily accommodate.

How significant such a channel could become is an open question. Fedchenkov admits that such ventures may only achieve an eventual market share of 3 percent to 5 percent.





Food for thought

Offering healthier products could be a matter of life or death for the food industry

A revolution is cooking. What are we going to do about it?"

This is the call to action that Emmanuel Faber, CEO of Danone, made at the annual global summit of the Consumer Goods Forum (CGF) last year in Berlin. "We are losing them," he said of the world's consumers. "They are getting out of our shops, out of our brands. They are going for food without the food industry. Not only without us, but maybe against us."

In his keynote speech, Faber outlined the approach of the world's biggest yogurt maker to the boom in consumer health and wellness. Touching on modern global issues such as obesity, malnutrition and climate change, Faber unveiled Danone's 'One Planet. One Health' manifesto, which calls on companies and consumers to adopt healthier and more sustainable eating and drinking habits. To underline its commitment, Danone bought US organic food producer WhiteWave in a US\$12.5bn deal in 2017, making the company the world's largest producer of organic food.

"Emmanuel Faber says that adopting healthier habits is a matter of life and death for our industry," says **Emmanuel Hembert**, Advisory Lead, Consumer & Retail, KPMG in France. "When you push natural and organic products, you can position yourself to be ahead of the game. You really need to renew your consumer base and talk to the new generation."

According to Euromonitor International, the global market for health and wellness reached US\$686bn in 2016 and is expected to grow to US\$815bn by 2021¹. Companies from the very large (PepsiCo, KFC, Unilever, Coca-Cola) to the very small are using the principles of health and wellness to appeal to consumers who are examining what they put into their bodies, its environmental impact and how it can contribute to a better version of themselves. Combined with government efforts to reduce the amounts of sugar and saturated fat in food and drink, and an increasing lack of trust in big business, established brands have to work hard to defend their market share.

The 2018 Edelman Trust Barometer² found that in 16 out of 28 countries people were ▶



more likely to distrust business than trust it. In the food and drink sector, trust fell by 4 percent to 62 percent and trust in consumer packaged goods fell by 3 percent to 60 percent.

Campaigners and governments across the globe have expressed concern about the sugar content in soft drinks, and consumption of carbonated soft drinks has fallen slightly in the UK largely as a result of the sugar tax.

As well as considering the impact on their health, consumers want a clear sense of purpose as a reason for purchase. According to a recent report by Kantar Consulting³, purpose-led brands have seen their valuation surge by 175 percent over the past 12 years, while brands uncertain of their role have seen a more modest growth of 70 percent.

"Between revenue and social footprint, many brands now have more power than elected leaders," said Robert Jan d'Hond, Global Lead, Brand Practice at Kantar Consulting, "and there is a clear expectation from consumers that this power is used for positive change."

The industry is taking the issue seriously. The CGF, the largest global association of retailers and CPGs, has a health and wellness program. Mobilizing multiple stakeholders such as manufacturers, retailers, NGOs and government agencies, this initiative is already making a difference: in 2016, CGF members reformulated 160,000 products. Peter Freedman, Managing Director of the CGF, says the

industry is investing more time and money in healthier products than ever before.

New status symbols

It should come as no surprise that health and wellness is a huge global trend. The basic human desire to be physically fit and aware of exactly what we're eating and drinking is a fundamental survival technique. Yet over the

"When you push natural and organic products, you can position yourself to be ahead of the game"

past decade, the rise of social media has increased the visibility of people who take it to the next level, which has driven the industry to grow exponentially.

David Mattin, Global Head of Trends and Insights at TrendWatching.com, says: "In the past 10 years, we've been in the situation where health and wellness has become a bigger part of people's mindset when it comes to asking themselves, 'What is my version of the good life?', 'How should I be living?' and 'Who do I want to be?'."

These fundamental questions are ones that, on some level, we ask ourselves daily. The traditional answers revolved around material possessions, such as a large house or nice car. Yet the nature of consumer status is shifting from the external to the internal, from what we own to who we are.

"Many people in the developed world are so affluent that those traditional status

markers don't carry the power they once did," says Mattin. "So status display among consumers is far more about who you are as a person. You aspire to be healthier, smarter, more connected, but also more emotionally and mentally balanced. Status is one of the biggest drivers of human behavior in affluent societies once material needs are met, and health and wellness is a massive part of that picture."

That picture is one that, increasingly inevitably, is going to be shared on social media. While your yoga session would once have gone unnoticed by anyone outside the room, now every detail can be logged on Twitter. "Social media has become a platform for consumer display," says Mattin. "This is why all these people are on Instagram doing their yoga poses, taking pictures of their very healthy food, running then posting the details of their run on Facebook direct from their wearable device."

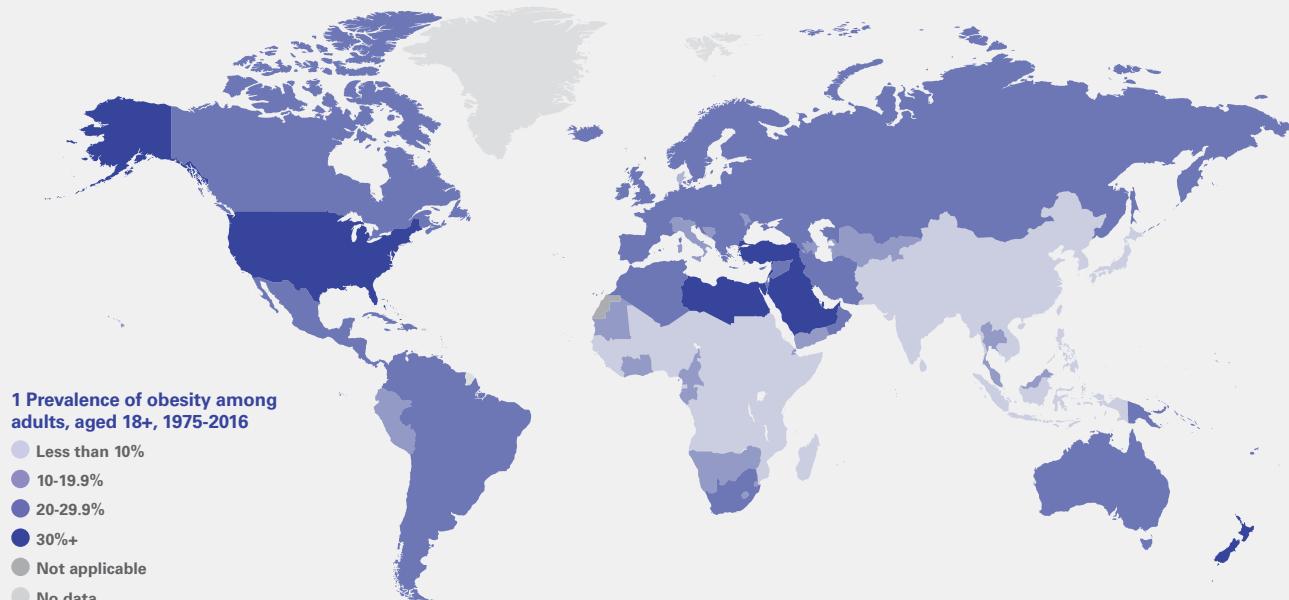
The health and wellness trend is being led by the young. Those aged between 18 and 30 have the time and enthusiasm to dedicate a significant chunk of their lives to pursuing a vision of the ideal self – and telling everyone about it. "The trend of health and wellness spreads across all ages, but there's a clear concentration in the Millennials," says **Brian Hegarty**, KPMG in the US Audit Partner in the Consumer &

Retail Practice. "Social media and technology plays very strongly in that age group, but they are also the people that are creating the apps and businesses that are defining the trend."

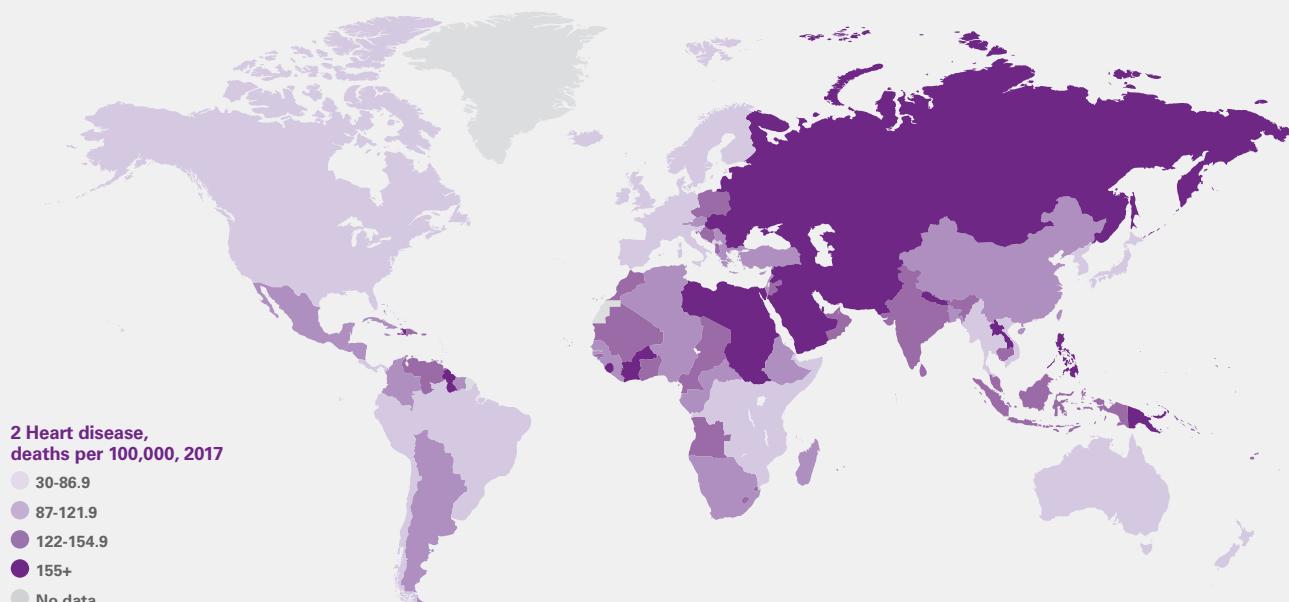
Changing lanes

Start-ups' agility and lack of legacy products make it relatively simple for them to bring healthy products to market, whereas large multinationals have a tougher time altering an established product range and convincing customers of their health credentials.

"It's definitely a challenge for the large multinationals," says Hegarty. "Their legacy products are big scale and highly profitable, and healthy, nutritional products are often more expensive to produce. They are, by nature, going to have higher input costs and you can't always have that price differential to maintain that same margin. It's a tough ▶



Source: 1 World Health Organization 2017, Global Health Observatory



Source: 2 World Health Organization, Age adjusted death rate estimates, 2017
Calculations provided by World Life Expectancy



Source: 3 World Health Organization 2018, Global Health Observatory

Five key learnings



Emmanuel

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1 Healthier habits are key to corporate survival. Developing and promoting healthier products keeps businesses ahead of the game and customer centric.

2 Industry-wide initiatives can impact the whole diet and habits of consumers.

Collaboration among companies is a very powerful way to promote new behavior.

3 Focus on your products.

If your products aren't right then consumers will not be interested in them, whatever leverage your brand gives you.

4 Millennials are driving change.

They are creating businesses leading the trend, and have helped health and wellness become mainstream over the past two years.

5 The pleasure principle is still paramount.

The social and pleasurable aspects of food must be at the heart of health and wellness strategies.

needle to thread, to maintain your highly profitable base and, at the same time, find that innovation that keeps moving your overall portfolio to have a health and wellness focus."

Nestlé has renovated 8,856 products to make them healthier and has pledged, by 2020, to add 750 million portions of vegetables and 300 million portions of nutrient-rich grains, pulses and bran to its products and remove all artificial coloring.

"Most of the multinationals have put out very ambitious health and wellness goals for their product portfolios," says Hegarty. "But not every consumer is ready to take that journey. It's about maintaining that balance of providing those legacy products while being responsive to emerging trends and being innovative."

Not every big brand foray into the healthy eating trend has been successful. Companies can suffer poor sales and ridicule if they get it wrong.

Agile start-ups

For every big brand misstep, there are plenty of start-ups finding success using healthy foods and large social media followings. The Avocado Show in Amsterdam is the world's first all-avocado restaurant, serving an entire menu's worth of the trendy superfood. Since it opened its doors in March 2017, the owners have received more than 150 franchise requests. They plan to open in at least two new European locations this year.

French start-up Feed has recently raised \$17.4m from investors for their 'meal in a bottle' range of drinks and bars. To appeal to their Millennial customer base, all of Feed's products are gluten-free, lactose-free, vegan and non-GMO, and they contain enough fats, fiber, proteins and other nutrients to serve as a stand-alone meal. Feed's products are available in many French supermarkets and online, and it ships to more than 30 countries.

"To be successful, you have to bring the whole package to the consumer," says Hegarty. "Innovation is vital and it's got to include the health and wellness objectives you want to achieve, as well as elements such as sustainability, non-GMO and locally sourced ingredients, recycled packaging and other things that really drive the social media conversation."

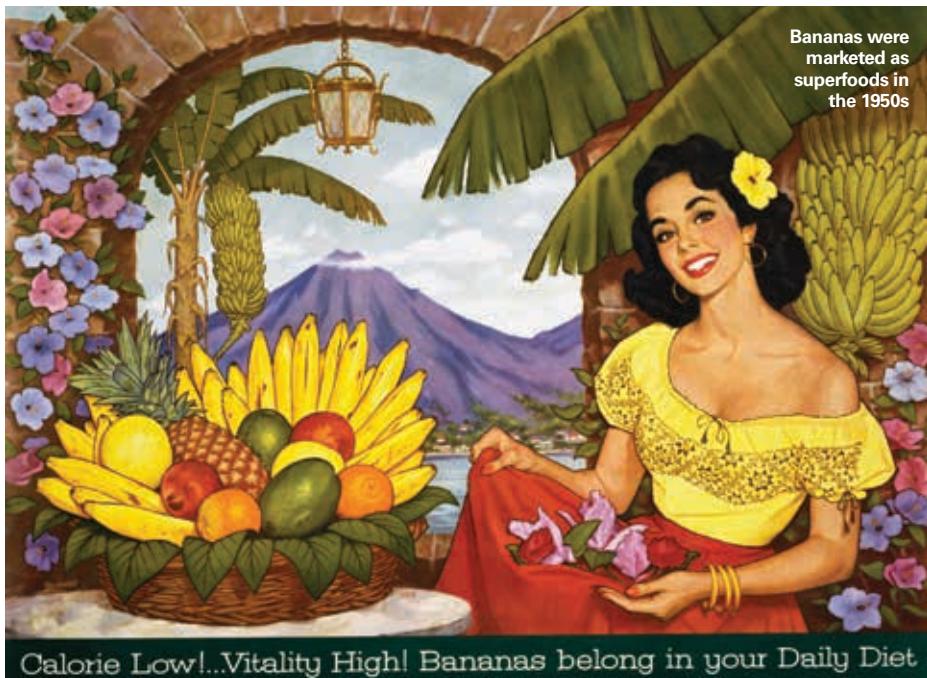
Hembert of KPMG in France says that manufacturers need to put their energies into getting the products right. "If you look at history, manufacturers' marketing teams used to be made up of product managers, but they became brand managers. Big difference. You need to come back to the products."

Innovation, healthy products and building connections with the consumer are all important, but it is critical not to ignore another vital ingredient: the taste. "The pleasure of tasting and eating food is still very important," says Hembert. "Danone included this in its manifesto, that an important dimension of health and wellness is the pleasure and social aspect of food. If you forget the pleasure, then food just becomes a commodity."

The health and wellness trend has given many start-ups a way into the food and drink sector. With Americans spending over \$600bn on groceries last year, the rewards for disruptive young companies, focused on Millennials, can be immense.

Founded in 2012, Brandless offers a simple pricing model: everything from soup to shampoo costs \$3. Organic and non-GMO, their products tick the various health and wellness boxes, while their lack of branding minimizes costs. The company, which is based in San Francisco and Minneapolis, uses data and analytics to understand and predict which products consumers use, and they have donated nearly 200,000 meals via their partnership with the charity Feeding America.

"Ethics and the provenance of food is a hot trend," says TrendWatching.com's Mattin. "When you have a vision of your



personal status that's all about who you are as a person, what you want to say is 'I am more ethical. I am more enlightened. I am more socially conscious than the next person.' The questions of 'Where does this food come from, is it ethical, is it sustainable, is it good for the planet?' are increasingly potent."

Transparency through technology

It's not just start-ups that are using technology to be more transparent with consumers. The French supermarket chain Super U uses social media platform Snapchat Stories to inform customers, via QR codes on labels, of the provenance of its fish and whether they were caught ethically.

As digital technology is central to the whole health and wellness boom, this trend is not going to go away anytime soon.

It's highly likely that consumers, governments and campaigners will increase the pressure on companies to provide healthier products. Many countries are fighting the obesity epidemic. In 2008, Japan introduced the 'Metabo Law', which stipulated that adults over 40 should have their waists measured once a year. Men with

"The trends pushing wellness such as social media and e-commerce are only going to accelerate"

waistlines larger than 33.5 inches and women with waistlines larger than 35.4 inches can be advised to seek counseling or dietary advice. Their employers can even be fined if staff do not meet these standards.

Most countries are focusing on sugar and processed foods as targets for higher taxation. With 75 percent of Chileans either overweight or obese, according to the country's health ministry, the government has brought in a series of restrictions to help citizens lose weight. Over the past two years, it has put an 18 percent tax on sugary drinks, required black warning labels to be put on all foods high in sugar, salt, calories or saturated fat and, from 2019, will ban all junk food adverts aimed at children.

Experts are warning of the dangers of eating 'ultra-processed' foods, which now make up about half the food bought by families in the UK (50.7 percent), Germany (46.2 percent), Ireland (45.9 percent) and Belgium (44.6 percent)⁴. More

than half of Americans' calories come from ultra-processed foods⁵, a diet which has been linked to cancer. Countries such as France and Brazil specifically warn their citizens against eating high levels of ultra-processed foods.

"The health and wellness trend will keep gaining momentum," says KPMG in the US's Hegarty. "If you look at Generation D, which is our first generation born into the digital age, the trends that are pushing health and wellness such as social media and e-commerce are only going to accelerate."

In short, health and wellness is no passing fad. Looking closely at your products and their ingredients, as well as your relationship with your customers, will help your business stay fit for the future.

"The thing with real trends that are meaningful is that they are founded in basic human needs that never change," says Mattin. "Health and wellness is a fundamental part of human nature."

A manifesto for health

Danone thinks a commitment to healthy food is essential for the planet, as well as future profits

"We believe a healthy body needs healthy food. And healthy food needs a healthy planet. All with healthy ecosystems and strong, resilient social structures. We simply can't have one without the others." That, in a nutshell, is the philosophy at the heart of Danone's 'One Planet. One Health' manifesto, launched last December.

The food and beverage group, which sells its products to more than 900 million people across the globe, is not the first CPG business to make such public commitments. Nor will it be the last. Yet the manifesto reflects the deeply held conviction of CEO Emmanuel Faber (pictured right) that change is no longer an option, it's a necessity – for Danone, its suppliers and the people who buy its brands.

So what does this manifesto mean in practice? It provided the rationale for the acquisition of US organic food

business WhiteWave. The concern that the industry wasn't changing fast enough prompted Danone to join forces with Nestlé, Unilever and Mars to launch a new lobbying group, the Sustainable Food Policy Alliance, in July.

Through the Danone Institute, the company has worked with partners to explore a range of health and wellness topics, including whether a long-term decline in family meals in developed economies – only one-third of British families eat at least five meals together every week – is adversely affecting children's eating habits.

Danone's commitment is reflected in its day-to-day activities. Each year, the group improves the nutritional value of 30 percent of its products.

Another priority is to make healthier options more attractive to children. Superhero-shaped water bottles have proved successful, as have smaller bottles and designs for wider mouths.

After discovering that, in 2006, water accounted for only 12 percent of Polish children's fluid intake,

Danone launched a 'Mum, Dad: I prefer water!' educational program that has reached 700,000 children and 800,000 parents. A similar program, to encourage healthy eating, has been rolled out to at least 30,000 children, aged 9 and 10, in the UK.

In August, the group's investment arm led a US\$10.6m funding round for German start-up Mitte, the inventor of a countertop water system for the

home, which will enable consumers to select what minerals they want in their water. More such deals in the health and wellness space are likely: the group has indicated it wants to buy 20-25 start-ups by 2020.

The commitment is also reflected in the company's procurement. Cécile Cabanis, Danone CFO, says: "'One Planet. One Health' is all about the way we use resources. We have a responsibility to ensure we create more value from fewer natural resources. It is also about making sure we acknowledge the necessary changes in what we do to play our part in the food revolution and to connect this vision through our brands. In other words, we must do business with purpose."

In accordance with Danone's manifesto, in 2017, 88 percent of its revenues came from healthy product categories. If you're going to satisfy consumers' desire for a purpose to purchase, it helps to have a purpose yourself.



¹ Health and Wellness in the US, Euromonitor International, June 2018. ² 2018 Edelman Trust Barometer, The State of Trust in Business, Edelman.

³ The Purpose 2020, Kantar Consulting, April 2018. ⁴ Public Health Nutrition, January 2018. ⁵ BMJ Open, volume 6, issue 3, March 2016.

Making connections

To deliver a distinctive, loyalty-inducing experience, customer centricity needs to be a focus for every part of the business, not just sales

What do consumers want? That question is reverberating more loudly in boardrooms across the world than at any time since the Great Recession of 2008. Companies in the consumer and retail sector have invested billions endeavoring to answer that question. Much time and money has been spent fleshing out such fashionable concepts as 'omni-channel strategies' and 'customer-journey mapping' but, if pressed, few managers could honestly say they really know what consumers want.

In some ways, it's easier to say what shoppers don't want. In her Issuetrak blog, Sarah Spangler identifies five things they definitely don't like: sales staff who are rude to them (or ignore them or can't help them); mistakes in billing them; having the wrong goods being delivered (or the right goods delivered to the wrong place or at the wrong time); confusing returns policies and a product that doesn't do what they bought it to do. To which, you could easily add two more bugbears: long checkout queues and complicated online ordering processes, with hidden (or poorly explained) delivery charges.

These seven deadly sins have one thing in common: they degrade the quality of the customer experience – and that matters because, as **Duncan Avis**, Customer Solutions Leader, KPMG in the US and Global Connected Enterprise Architect, says: "In many different sectors – and in many countries – success is defined by the quality of the customer experience. How distinctive is it? How seamless is it? How personalized is it? Does it create value for the customer

– and for that matter, your company? We call this 'experience centricity'." These are mission-critical questions for manufacturers and retailers as they try to survive and thrive in an industry experiencing unprecedented change.

"Divinely discontented customers"

In his latest annual statement to shareholders, Amazon CEO Jeff Bezos explained why the need to please consumers is more urgent than ever: "One thing I love about customers is that they are divinely discontented. Their expectations are never static – they go up. It's human nature. People have a voracious appetite for a better way, and yesterday's 'wow' quickly becomes today's 'ordinary'. I see that cycle of improvement happening at a faster rate than ever before. It may be because customers have such easy access to more information than ever before – in only a few seconds and with a couple of taps on their phones, customers can read reviews, compare prices from multiple retailers, see whether something's in stock, find out how fast it will ship or be available for pick-up, and more. These examples are from retail, but I sense that the same customer empowerment phenomenon is happening broadly across everything we do at Amazon and most other industries. You cannot rest on your laurels in this world. Customers won't have it."

Inspired by the success of platform companies, putting the customer at the heart of the business has become a fashionable soundbite among executives, but is it really the key to improving performance?

"Many companies have doubled-down on the front line of customer interaction, investing time, money and resource in an effort to become more customer centric. Many businesses have made substantial progress but they weren't getting the return they expected," says Avis.

To get to the bottom of the issue, KPMG International commissioned Forrester to research 1,200 organizations in different



sectors and countries. The study found that only 24 percent of the companies surveyed had actually connected the entire enterprise in their effort to become customer centric¹.

What did this mean in practice? Avis cites the example of data. Truly connected enterprises share data quickly and freely so that the supply chain leader has the same information as the head of sales. If that doesn't happen, the supply chain may not be able to deliver what the sales department has promised the customer. "You have to remember how big a change this is," he says, "we're going from a model where you ship pallets of shoes to one where you deliver one pair of shoes to an individual customer."

The metrics of sofas

When data is siloed, out of date or inaccurate, executives may find it hard to know where they generate value and if they are really satisfying the customer.



“Success is defined by the quality of the customer’s experience. How distinctive is it?”

One of the most notorious recent examples of misleading data is the sofa that took 22 weeks to arrive in the New York apartment building of Priyanka Asera, Head of Retail at Eft Supply Chain & Logistics Intelligence, where it was left in the lobby. When Asera complained, the company replied: “Our notes indicate your apartment doesn’t have an elevator so we successfully delivered the couch to your lobby.” Unfortunately for the company, the building did have an elevator – the sofa had been left in front of it – and it had failed to notify Asera that it had been delivered. According to the business’s metrics, this was categorized as a successful transaction. No wonder the KPMG/Forrester study showed that 45 percent of CEOs did not have great confidence in the data they used to make decisions.

“Becoming a truly connected enterprise – and delivering a great customer experience

– isn’t just about investing in the customer-facing side of the business,” says Avis. “We have identified a broad range of eight capabilities [see panel on p23] that companies need to develop. Some of them are obvious – getting your product, pricing and customer strategy right. But some of them aren’t, for example, investing in the right customer technology is important, but it’s just as critical that staff have the technology they need to do their job.

“We have seen many companies not take their staff with them as they pursued customer centricity, only to have it come back to bite them later. Sometimes, that’s been because the entire organization is not aligned to the goal, on board with the agenda or agile enough to change.”

In an age when consumer preferences are more unpredictable than ever – with Millennials especially likely to be ‘experience centric’ rather than loyal to a brand – agility ►

Luxury has long been at the heart of customer service for prestigious hotels

is the new resilience. Yet, as Avis says, agility isn't something any organization, large or small, can fix by waving technology at it. "To embed the customer perspective in everything they do, companies need to have a clear vision from the executive team, align the organization behind that vision and make people and culture a priority."

For CEOs impatient for change – or rendered impatient by restless investors – prioritizing people and culture may sound like something that will take too long. Yet Avis says, this is just something that has to be done: "The bottom line is that people who don't like their jobs are unlikely to deliver a great customer experience."

One of the favorite mantras of J. Willard Marriott, who started out selling root beer before diversifying, in 1957, and founding the famous chain of hotels that bears his name, was: "Take care of your people and they will take care of your customers."

Intriguingly, KPMG International's *2018 Global Consumer Executive Top of Mind Survey* found that 24 percent of 'digitally mature' companies believed that one of the key benefits of technological transformation was improving employee engagement and performance².

Recent attempts to make US corporations more agile have been stymied by skeptical middle management, unconvinced by the new CEO's agenda; leaders who failed to recognize that digital transformation was not just about applying new technology to an old business model, and insular bureaucracies which couldn't grasp the imperative for change. That is why Avis says, it is also important for companies to reach out and draw on the best-of-breed third-party expertise from partners, allies and vendors.

In a global marketplace disrupted by platform companies, no one business can be the best at everything. In reality, they never could, but the disparity between an organization's strengths and weaknesses is becoming more dangerous as the marketplace becomes more volatile.

The good news is that volatility can be an opportunity, as well as a threat. Retailers that move on from the old business model – buy low, sell high and optimize everything in the middle – and focus on a digital value chain based on collecting data (about customers, products, competitors, lifestyles and locations), generating insights and then acting on them are well placed to succeed.

The importance of "why?"

The biggest factor restraining digital transformation, according to the *2018 Global Consumer Executive Top of Mind Survey*, is uncertainty over the return on investment.

"Many companies have not taken their staff with them as they pursue customer centricity"

Avis says that, done right, there is no doubt that becoming a truly connected enterprise, and investing in all eight of those capabilities, will be worth the money.

"The research on connected enterprises showed that they retained 88 percent of customers (compared to 33 percent with weaker omni-channel strategies), reduced their cost per customer contact by 7.5 percent (compared to 0.2 percent for other companies), and generated 9.5 percent more revenue (compared to 3.4 percent)."

Those are compelling figures but, Avis cautions, companies can't get there tomorrow if they aren't realistic about where they are today. "You can start by asking what your customers are telling you about the services and products you are delivering to them – are they satisfied, promoters, profitable? If not, where is the breakdown occurring." Asking tough questions will help managers define the customer experience they want to deliver based on a clearer, deeper understanding of what customers value, how effective that proposition is in the marketplace, and what the organization needs to deliver that experience.

In the real world, every company has to succeed in the present – and the future. That is one reason (of many) change management is so hard. Avis says managers can improve their chances of success. "Less than a decade ago, organizations would look to execute a five-year plan that was officially supposed to change everything." The problem is that, as management theorist Rosabeth Moss Kanter remarked, "Everything looks like failure in the middle."

By the second year, Avis says, "executives may be looking at each other, asking, 'Have we really got three more years of this?'" A wiser strategy, he says, would be to take one part of the business – for example, a group of products, develop that into a connected enterprise, learn from that and move on to another part of the organization, taking due care to publicize success to maintain momentum for change.





Connecting the enterprise

Momentum is critical. "Why?" is not a question that can be answered once and for all. It is a question that needs to be answered again and again as the organization transforms itself, step by step, into a truly connected enterprise. That is the only way, Avis says, "companies can design and deliver a seamless and personal customer experience that continually meets evolving expectations across all physical and digital touch points to drive engagement, satisfaction and loyalty."

During that transformation, answering the question "why?" may involve organizational change. "It's not that the traditional functions – sales, marketing, operations, finance – disappear, it's more that they become less important than the need to deliver capabilities across the entire enterprise."

A truly connected enterprise will have a culture that is driven by insight and the agility to turn those insights into actions that create experience centricity. Even in an industry being buffeted by as much turbulence as the consumer and retail sector, some things don't change. The old adage "The customer is always right," coined in 1909 by Harry Gordon Selfridge, founder of Selfridges department store in London, still applies. The question CEOs need to ask themselves is: "Are we always right about the customer?"

¹Competing for growth: creating a customer-centric, connected enterprise, KPMG Customer Advisory, November 2017.

²2018 Top of Mind Survey, KPMG International and CGF.



Pioneers of customer service: (clockwise from far left) chef Paco Roncero presents his new creations to diners in Madrid; President George Bush announced America's first customer service week in 1992; Elizabeth Arden persuaded American women it was socially acceptable to wear make-up in the 1930s; film director William Castle famously arranged for inflatable skeletons to swing over the audience during screenings of his horror movies; Southwest Airlines CEO Herb Kelleher was renowned for serving drinks to passengers on flights



Is your business connected to serve the customer?



Duncan Avis

Customer Solutions Leader, KPMG in the US and Global Connected Enterprise Architect davis@kpmg.com

The eight capabilities of a connected enterprise

1 Advanced data & analytics

The ability to enable and activate a data, analytics and insights-driven culture that leverages integrated, single view of customer and product to deliver an optimized experience across all touch points.

2 Product, pricing and customer strategy

The ability to deliver relevant, innovative valuable

and consistent products, services, experiences, pricing and offers that are targeted to most profitable customer segments and balance cost to serve.

3 Experience centricity

The ability to design and deliver a seamless and personal customer experience that continually meets evolving expectations across all physical and digital brand touch points to drive engagement, satisfaction and loyalty.

4 Seamless commerce & channels

The ability to deliver a convenient, marketing, sales, service and secure commerce transaction

experience that meets customer preferences across all channels while ensuring payment technologies are consistent.

5 Responsive supply chain & operations

The ability for a customer to receive efficient and responsive operational services when, where and how it is convenient for them and in a way that is transparent, enabled through advanced analytics.

6 Organization alignment & people capability

The ability to organize to deliver customer perspectives with employee experience management and matrixed and agile

organizational structures with integrated aligned performance management.

7 Technology architecture & enablement

The ability to leverage digital technology architectures and solutions to effectively and efficiently deliver customer experiences, provide employees with enabling digital tools and maintain information security.

8 Partnerships, alliances & vendor management

The ability to effectively leverage third-party entities to increase speed to market, reduce costs or supplement capability gaps in delivering the brand strategy.



Name **Rent the Runway** Founded **2009** Headquarters **New York** CEO **Jennifer Hyman** Website www.renttherunway.com



Rent the Runway offers more than 550 brands for rent

The closet in the cloud

Rent the Runway's designer labels and streamlined logistics have given women the option to borrow clothes rather than buy

In an age where we stream music, rent other people's homes and hire cars by the hour, why not borrow our clothes too? That's the rationale behind US start-up Rent the Runway, which has been dubbed the 'Netflix for clothes'.

Co-founders Jennifer Hyman and Jennifer Fleiss came up with the idea of a women's fashion rental service while doing an MBA at Harvard Business School in 2008. (Fleiss stepped down from an executive role in the company in March 2017 to pursue other projects.) There's nothing new about hiring clothes – men have been renting tuxedos from Moss Bros for decades – but women had not been catered to. Hyman, Rent the Runway's CEO, said the initial challenge was "getting women to understand renting was a viable – let alone a smarter – alternative to spending hundreds of dollars on dresses they would wear just once".

Hyman and Fleiss foresaw the rise of the sharing economy 10 years ago. Since then Airbnb, Uber and Spotify have become global brands. And with Millennials leading the shift in consumer preference to experiences and access instead of ownership, it is perhaps no surprise that the average Rent the Runway customer is 29 years old. "Our lives today demand access over ownership, as our society becomes increasingly more fast-paced, mobile, and on-demand," said Hyman. "Rental is no longer unusual but a norm."

The New York-based business originally focused on renting designer dresses for special occasions. Now, its online model gives women across the US the option to rent their clothes. A back-up size is included and free shipping, insurance and dry cleaning are all part of the service. In an Instagrammable world, where image is

“Your physical closet will become a relic of the past just like CDs, landlines, DVDs”

everything, Rent the Runway gives customers the opportunity to be seen in designer outfits, such as a Missoni gown (US\$1,755 retail, only US\$265 to rent).

Now Rent the Runway is looking beyond black-tie events to “build the closetless future” where consumers can rent clothes for their everyday life. In 2016, it launched a subscription service. With the RTR Unlimited plan, which currently costs US\$159 a month, members can rent as many clothes as they want, four at a time, from more than 550 brands including Diane von Furstenberg, Tory Burch, Vera Wang, Marni and Helmut Lang.

In October 2017, the business targeted more price-sensitive consumers with a second subscription service, RTR Update. For a monthly fee of US\$89, members can rent four items a month from more than 200 brands. The company also makes the point that renting the latest fashion trends is more environmentally responsible than the throwaway model of fast-fashion.

At the start, the founders had to persuade designers to work with them and convince skeptics that they would not lose sales. “We want to be a sales and marketing channel that supports designer brands by introducing them to new customers and arming them with data,” said Hyman.

Describing itself as being a “fashion company with a technology soul,” the start-up has built a reverse logistics network, using its own proprietary technology. All orders are processed through a 250,000-sq ft fulfillment center in Secaucus, New Jersey, where they are able to turn around returned clothes, repair and dry clean them and send them out to new customers in a day.

When stores make sense

Though Rent the Runway started out as a pure play e-tailer, it has opened five bricks-and-mortar stores in the US, which carry a rotating selection of inventory. The stores also act as local distribution centers, allowing outfits to be couriered to nearby customers. Every customer who visits a store reduces Rent the Runway’s shipping costs.

These high-tech hubs have self-service tablets, iOS-based scanners and kiosks that allow customers to drop off worn items and



The lowdown on RTR

1 The idea for Rent the Runway came when Jennifer Hyman’s sister Becky was trying to find something to wear for a wedding, but despite having a closet full of clothes felt she couldn’t wear a dress more than once.

2 Hyman and Fleiss emailed their rental concept to Diane von Furstenberg to get her input. When she learned about the idea, she loved it and became their mentor.

3 The company’s strategy is to beta test every new concept. At first, the founders bought dresses from shops and tested the idea of renting among Harvard students. Before opening physical stores, they trialed a pop-up store in their New York office.

4 The company stopped featuring real fur on the site in February after a campaign by PETA supporters.

5 Rent the Runway’s growing subscription service accounts for 50 percent of its total revenue.

pick up new pieces. This is balanced with traditional customer service: clients can book an appointment with a personal stylist and try out handpicked looks.

Last autumn, the company launched its first national TV advertising campaign, which posed the question of what people can do with their closet when they’re not storing clothes in them. Alternative uses showcased included workouts and karaoke.

“We’re making the point that in a world where your closet is in the cloud, and you have this constant access to a subscription to fashion, that your physical closet will become a relic of the past just like CDs, landlines, DVDs,” said Hyman.

A growing sector

The global online clothing rental market is estimated to reach US\$1,856m by 2023, according to a study by Allied Market Research¹. North America accounted for a 40 percent share of the global market in 2017, followed by Europe. New-style fashion rental start-ups have sprung up around the world. In the US, Le Tote and Armarium are among Rent the Runway’s competitors, while Black Tux caters to men. There are sites such as Girl Meets Dress in the UK, Chic by Choice in Europe and Glam Corner in Australia. If this manifestation of the shared economy keeps growing, it could force fast-fashion retailers to rethink their business model.

¹Online Clothing Rental Market, Allied Market Research, March 2017.



Data on shoppers can help retailers generate revenue by selecting a precise location for stores

Crunching the numbers

Understanding data can be the difference between success and failure for retailers

Data and analytics are invariably portrayed as something new and technologically powered. They aren't. In 1885, the British government became alarmed by rumors of a Russian invasion of Afghanistan. An official in London disproved the scare stories by analyzing the Russian military's annual contract for flour. With no more flour ordered – and no plans for bakeries en route to Afghanistan – he correctly concluded that an army could not invade without bread.

Today, powered by AI, machine learning and increasingly affordable software

packages, data and analytics have become more mysterious – and yet more crucial. That is especially true in retail which has the unsought distinction of being transformed by three revolutions at once: geographic, demographic and technological.

In such a turbulent marketplace, making appropriate use of data and analytics could help executives answer three of the most profound questions facing retailers:

- Which stores should you keep, close or open?
- Where precisely should you locate those stores?

– How can you make your stores more effective?

Getting the first question right could, in itself, be the key to survival – as the continuing demise of so many famous retail names demonstrates. In the US last year, according to Fung Global Retail Technology, there were around 9,452 store closures, 53 percent higher than in 2008, when the global recession was at its most devastating. In the UK in the same period, the Centre for Retail Research estimates that 5,800 shops shut their doors. In other countries, the likes of Carrefour (in France and elsewhere), Dagrofa



Five key learnings



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1 Retailers need to make more effective use of data to rationalize their portfolio of bricks-and-mortar stores and eliminate costly over-supply.

2 The recent shop closures are a long overdue correction, but bricks-and-mortar stores, though in need of reinvention and renewal, will still be the main channel for years to come.

3 Too many retailers have a lot of data, much of which is unstructured, and have not fully integrated data and analytics into their business.

4 Loyalty programs are valuable sources of data but retailers need to look beyond to identify such critical metrics as their share of the consumer's wallet.

5 Retailers may need to think radically and work with external partners that are used to delivering data analytics. Those partners may include platform companies.

(Denmark) and Sweden's ICA (which has sold its Norwegian grocery business) have, to varying degrees, rationalized their stores.

At the same time, there is a counter narrative – thousands of new shops have also opened in the UK and US, with budget chain Dollar General recently celebrating its 15,000th store – but all this volatility makes it imperative that retailers make decisions on the basis of an accurate, up-to-date, picture of the marketplace.

The wave of store closures has prompted doom-laden speculation about a 'retail apocalypse' yet **Paul Martin**, Head of Retail, KPMG in the UK, says that in many areas such a correction was at least five years overdue. "In most developed markets, there is 35-50 percent more retail space than the industry needs. The old retail model – that you have a presence in every sizeable town – has been stood on its head by online shopping, especially in the UK where it accounts for around 20 percent of total spend

(and 28 percent of non-food spend). The pressure on retail is relentless – and comes from all directions: platform companies, new regulations, new business rates, the need to invest in their digital offerings are merely the most obvious. Given that the retail market in the UK is essentially stagnant – it hasn't grown significantly in real terms for decades – the over-supply of retail space has to be addressed, or it could lead to more business failures."

The experience of retailers in the US and UK, Martin believes, will be a harbinger of future change in other markets – notably France and Germany, where e-commerce's market share is much lower (though growing fast). As stark as that sounds, Martin says that although "Physical stores will remain the most important retail channel for years to come – they are pivotal in terms of providing a sensory experience for the consumer – their role will unquestionably have to change."

To understand what that change might look like, he argues, retailers need to make far more effective use of data and analytics. If they don't, they may struggle to compete with more forward-thinking rivals and, crucially, with platform companies which have data at the heart of their business.

To be fair, retailers have long recognized the power of data. The need to get information about shoppers instead of simply rewarding them persuaded Tesco's Marketing Director – and future CEO – Terry Leahy to decide to replace Green Shield stamps with a Clubcard scheme back in 1993. Such programs have helped drive growth but, in an age when data is more critical and more voluminous, are they still fit for purpose?

There are, says **Bill Nowacki**, Managing Director of the Decision Science Initiative within KPMG Lighthouse, KPMG in the US, five questions that such schemes should be able to answer using quantifiable data: "Are customers enthusiastic about the program? ▶



Five key learnings



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1 Managers need to engage with data. Algorithms that seem to emerge, as if by magic, from a 'black box' are less likely to be trusted by managers and more likely to be ignored.

2 Transactional data, demographic profiles, and traditional market research are no longer sufficient to understand consumer behavior.

3 The challenge is often not so much how much data you have – but how well you use it. Netflix can predict a viewer's choice of movie with 75 percent accuracy, using predictive analytics.

4 Retailers that don't master analytics will struggle to deliver the personalization that many consumers increasingly demand.

5 Using data and analytics to create a detailed, granular picture of a retail environment can enhance companies' return on investment in their shops.

Is it easy to use across multiple channels? How much of sales growth and customer retention is due to the program? How many customers are 'points' obsessed – and does the program treat them differently? And is the program delivering a satisfactory financial return?"

Retailers who cannot answer those five questions satisfactorily need to reinvent the program. Yet even a shiny new state-of-the-art loyalty scheme will only tell retailers part of the story – it can reveal what a percentage of your customers are doing, but not necessarily why. Nor can it tell you what your customers are doing when they shop elsewhere. Unless you validate it with other authoritative data, you have no idea how accurate it is. In a marketplace where technology has made consumer behavior so unpredictable, it can't tell you what customers who never shop with you are doing and why.

So when it comes to the critical decision to open, close or keep a store, such data – even when augmented by traditional market research and old school demographic profiles – might not be that useful.

Loyalty programs are a symptom of a sector where too many companies silo data, struggle to gain actionable insights from it and ignore it or misuse it. As Nowacki says: "Executives need to trust the data, and to do that they need to understand it. There is so much complexity in business now – which is a reflection of the complexity in the markets – that companies are using much more

sophisticated methods, and the algorithm that helps them make the decision seems to emerge from a black box. Executives who get a little closer, who endeavor to understand, who ask 'What data are we using?', 'Why do we use that?' are much more comfortable with it."

Finer details

Making data transparent can engender trust. As Nowacki says: "No matter how sophisticated analytics might seem, they're always easy to understand. You can take the most complicated analytics in the world, explain it to a 7-year-old child, and they get it." That trust becomes more critical if retailers are to use new kinds of data to become truly customer centric. At the moment, too many companies still don't vary their product range from store to store. This doesn't have to be the case. Using 6,500 different indicators, KPMG member firms can create a detailed picture of a retail environment, predict customer behavior and advise on product selection.

KPMG can draw on everything from neighborhood crime rates to the quality of public transport links and the proximity of ATMs to understand a specific retail environment. In many cases, the cliché about the devil being in the detail applies. "Small differences – such as locating a store 300 yards further along the street – can have a really significant impact," says Nowacki. Research by retail consultancy TCC Global suggests, for example, that only 3 percent of British shoppers would take more time to reach their preferred grocery store. And why would they? The study found that the average British shopper has a choice of 11 supermarkets, 10 of which are easy to reach.¹

There is nothing new about location-based data. Yet, according to KPMG International's *2018 Global Consumer Executive Top of Mind Survey*, it has not yet become the norm among traditional retailers and manufacturers². Only half of the 530 companies surveyed said they were using real-time location-based data (physical customer tracking using GPS or sensors) to understand consumers, while two out of three said they were crunching data about the local area (demographic, competitors, crime statistics, weather, traffic). In a striking contrast, 88 percent of the platform companies surveyed already rely on location-based data.

The great strength of technology, Nowacki argues, is the vast number of permutations it can analyze. Neuroscience suggests that, as human beings, we are only capable of

considering a specific problem in six or seven different ways. That tends to encourage a kind of confirmation bias in which we draw on the last analysis we conducted, or our gut instinct, instead of being guided by data.

If retailers understand a retail environment in granular detail, they are more likely to make informed decisions about where to locate a store, whether to keep it open and what selection of stock would generate the most revenue. KPMG recently helped a leading international food retailer expand its footprint in the UK. Drawing on those 6,500 indicators, it was able to create accurate forecasts of customer demand by location, by the product category and for specific parts of the day. "In this way, they were able to rigorously test new locations before investing significant capital," says Nowacki. "Ultimately, they were able to get a better return on their investment in new stores."

An enjoyable experience

One way retailers could make their stores more effective is to improve the experience. KPMG International's *The truth about online consumers* survey found that more than half of consumers prefer to shop in stores to see an item or to try it on, yet only 23 percent say they actually enjoy going to a store.³ Although the concept of 'retailtainment' was first mooted by American sociologist George Ritzer in 1999, it is clear that many shops still haven't got the message.

Some grocers are simplifying their stores to make it easier to shop. In the UK, Tesco has trialed a program to combat shopper fatigue in 50 stores, trimmed its number of SKUs by 20,000 to 70,000 – at one point it offered 64 variants of dishwasher tablet – and rearranged product lines to fit customer expectations by, for example, putting all its home-baking products together. The program has helped the UK supermarket to consistently grow like-for-like sales since 2016. In the US, a national supermarket chain monitors when shoppers enter its stores, uses predictive analytics to estimate when they are likely to reach the checkout and make sure enough tills are open. The program cut the average waiting time from 4 minutes to 26 seconds, giving shoppers a much more satisfying experience.

Data and analytics can be used to make product selection, pricing and promotions more effective. "Many retailers talk a big game about differentiating their activities between stores," says Nowacki. "But many of them still sell the same range

in stores that are in completely different retail environments."

To acquire a granular understanding of their environments – and their customers – retailers need to change their mindset. "The retail sector's capability for mining data is not that great," says Martin. "They have a lot of data, a lot of it is unstructured and data analysis is not part of their DNA." Although retailers can do a lot internally to improve their ability to analyze data – as a start, by ensuring that it is shared across functions – Martin suggests they need to think more radically, and consider whether they want to own or rent the expertise. "It might make more sense for retailers to partner with a business that has been built to deliver data." A small but significant number of retailers

are partnering with the very platform companies they are competing with.

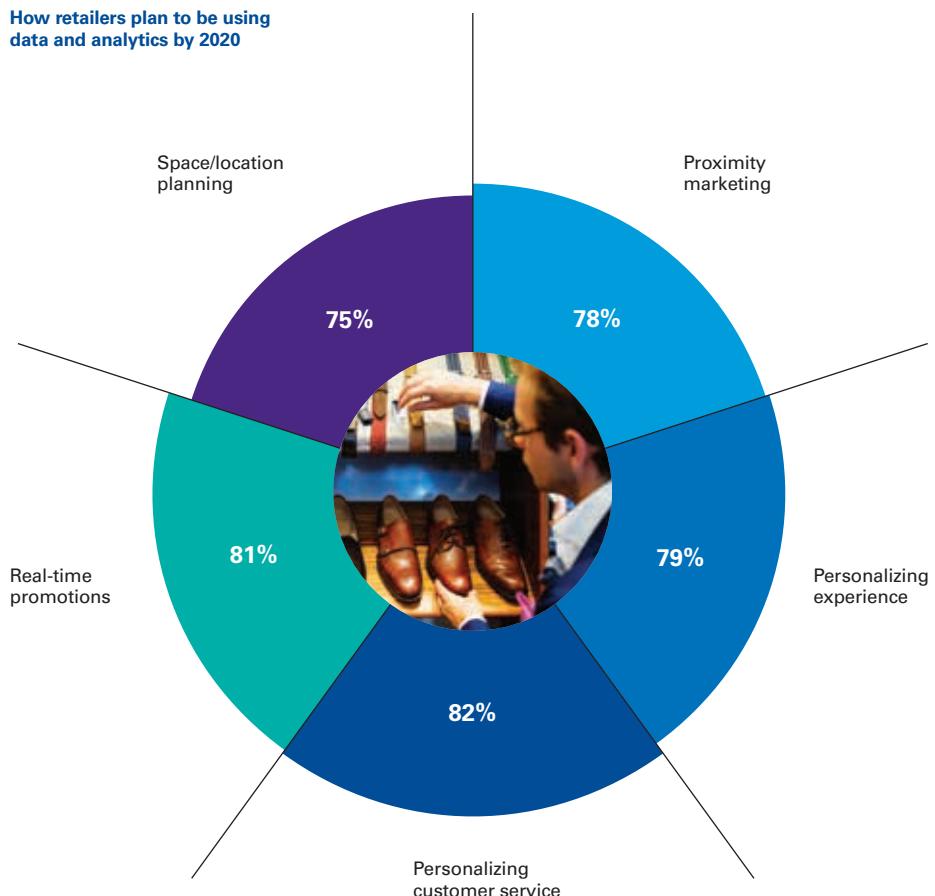
As retailers analyze their bricks-and-mortar stores using data, they are much better placed to understand which catchment areas they should exit, which areas they should stay in (and how to make them generate more revenue) and what areas they should move in to. "The whole point of data analytics is to enhance your return on investment," says Nowacki. "The more you know, the better placed you are to see disruption not just as a threat but as an opportunity."

¹UK Shopper Loyalty Study, TCC Global, 2017.

²2018 Top of Mind Survey, KPMG International and CGF.

³The truth about online consumers: 2017 Global Online Consumer Report, KPMG International.

How retailers plan to be using data and analytics by 2020



Using data to better target and engage consumers

50%
of companies use location-based data

65%
of companies use data about the local area

88%
of platform companies use location-based data

Source: 2018 Top of Mind Survey, KPMG International and CGF

Playing outside the box

What jazz musician Miles Davis can teach us about disruptive innovation

“If you're not making a mistake, it's a mistake." That fearless creed made trumpeter and composer Miles Davis one of the greatest disruptive innovators of the 20th century. As he said once – he was never one for false modesty – "I've changed music five or six times."

Born on May 26, 1926, Davis grew up in East St Louis, Illinois. At the age of 18, he discovered modern jazz – through the music of Dizzy Gillespie and Charlie Parker – and briefly played in Billy Eckstine's orchestra.

Big bands were never really his thing. Convinced that jazz would die without innovation, Davis searched for a structure in which musicians could interact more creatively. He loved quartets and quintets, where barriers could be knocked down and genres transcended.

Some geniuses cannot abide other geniuses. That was not Davis's way. In 1947, his quintet included the supreme saxophone player Charlie 'Bird' Parker. At other times, he brought the best out of a variety of gifted collaborators. Most of his quartets and quintets were, you could say, innovation labs that worked their magic in a studio.

"I have to change," Davis said once, "it's a curse". In 1948, experimenting with the orchestrated music that became known as 'cool jazz', he fronted a nine-piece band. Six years later, he reinvented himself again, pioneering the music of 'hard bop' with a quintet. Davis created groups that looked incompatible on paper but, through live, fervent interaction in the studio, produced great music. There were no hierarchies – musicians played as equals, not as hired hands. His eye for talent helped. Many musicians left him to lead their own groups. The constant search for musicians kept him fresh, exposing him to new ideas.

In 1959, Davis recorded *Kind Of Blue*, a multi-million selling album that pioneered new ways to create musical harmony. The easiest, most lucrative next step for Davis would have been to cut *Kind Of Blue* 2 but, like a marketing manager looking beyond a market-leading product and trying to gauge the future, he experimented with 'free jazz', rock, and – in a bid to reach young black Americans – funk and hip-hop. That

innovative impulse led him to reject a role in Duke Ellington's orchestra because: "I didn't want to put myself in a musical box, playing the same thing night after night."

Jazz pianist Horace Silver said of Davis: "He had that knack of just putting something together at the last minute and it would come off sounding great." But Davis's apparently improvised brilliance was founded on years of practice, reflecting on music and hearing young musicians. In 1953, inspired by the self-disciplined regime of boxer Sugar Ray Robinson, Davis gave up heroin – and took up boxing in his spare time.

Many businesses are averse to mess, but Davis embraced it. He was thriving on chaos decades before Tom Peters wrote the book. He made honest mistakes as he pursued change. Yet many companies would be proud to be as innovative as Davis was between 1948 and 1972. His mantra, "being creative is not about standing still, it has to be about change" should be pasted on the walls of R&D departments.

Like many disruptive innovators, from Thomas Edison to Steve Jobs, Davis remained unsatisfied. Towards the end of his life – he died in 1991 – he said: "I've come close to matching the feeling of that night in 1944 in music, when I first heard Dizzy and Bird – but I've never quite got there."

Five key learnings

1 Organization is crucial.

A small, non-hierarchical group with the time and space to interact is more likely to drive innovation.

2 Repetition kills

innovation. Davis's refusal to be "stuck in a box" helped him remain receptive to new concepts.

3 Talent is key.

Though Davis had some longstanding collaborators, the need to replace departing talent ensured a constant infusion of ideas.

4 Innovation is about

perspiration as much as inspiration. As Davis said: "You have to find your own way to learn. There's no shortcut, no accident. You have to practice and study."

5 Chaos is the new

normal. Actually 'no normal' is the new normal, and Davis radically reappraised his performance – and his product – every few years.



Trumpeter
Miles Davis:
a one-man
innovation lab

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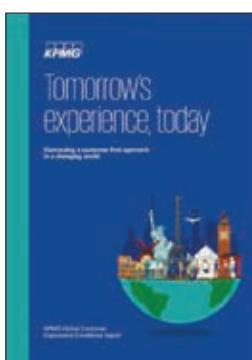
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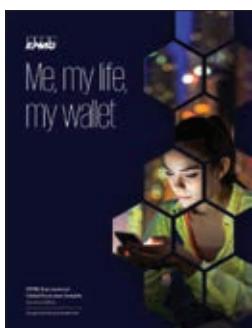
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