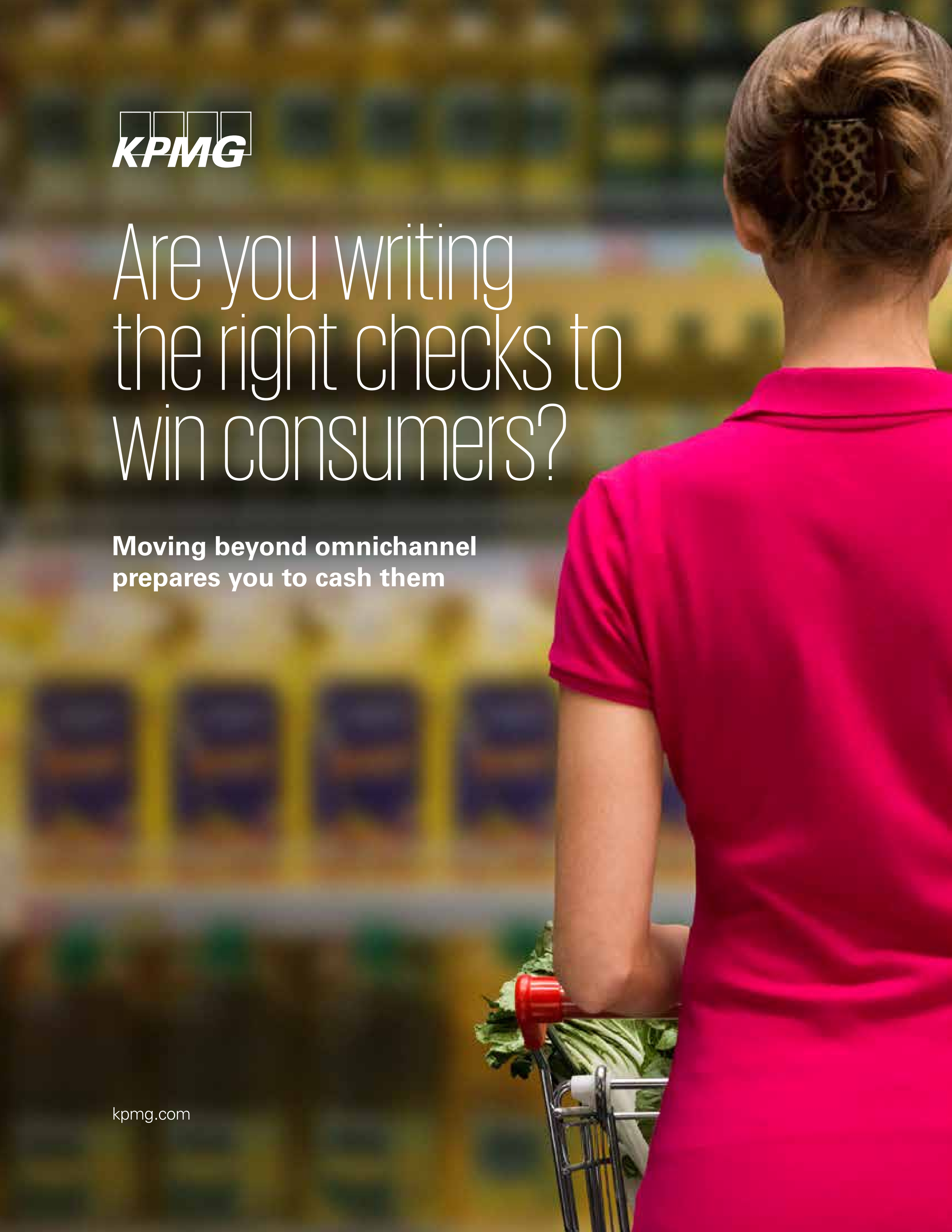

Are you writing the right checks to win consumers?

Moving beyond omnichannel prepares you to cash them

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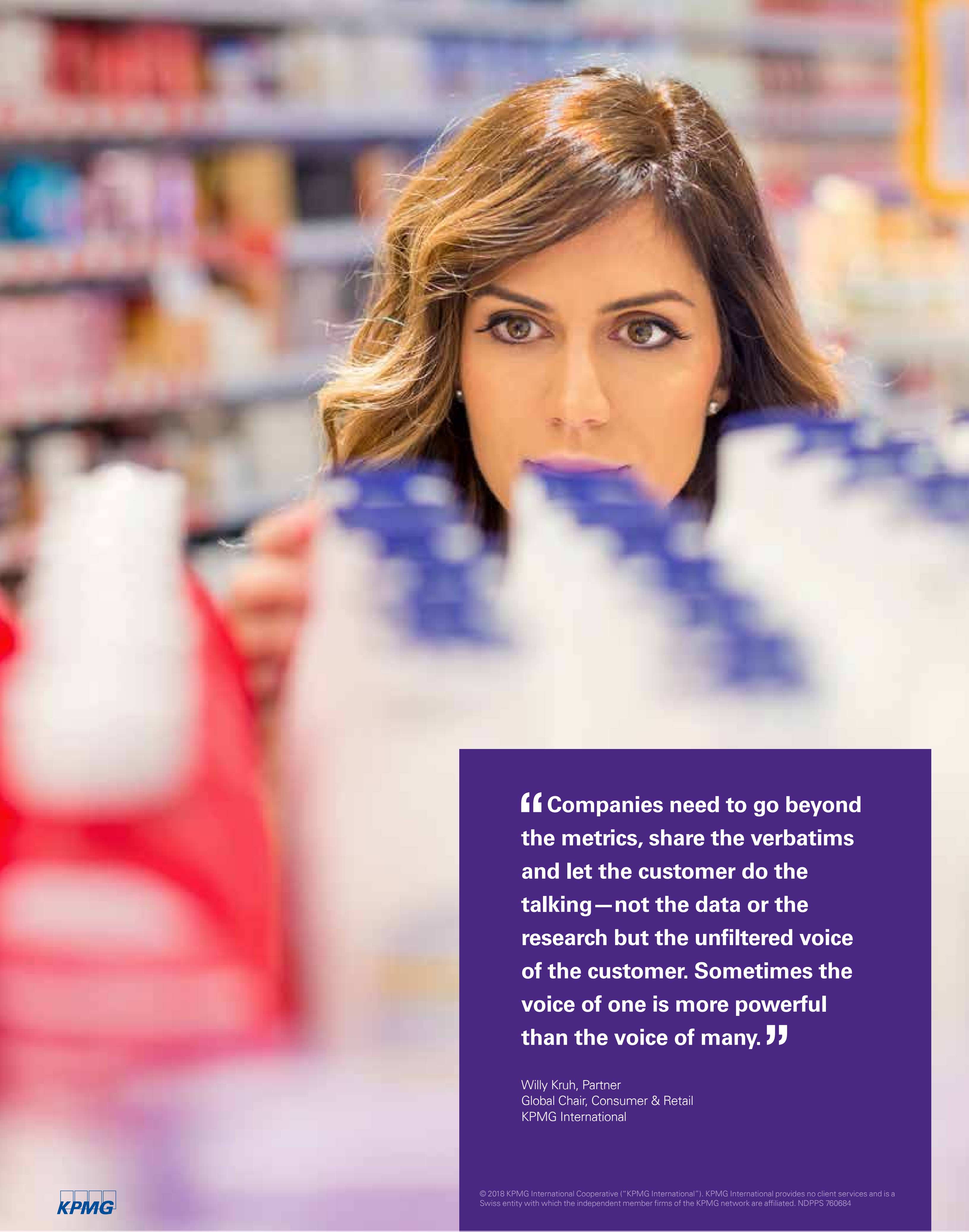


> “Companies need to go beyond the metrics, share the verbatims and let the customer do the talking—not the data or the research but the unfiltered voice of the customer. Sometimes the voice of one is more powerful than the voice of many.”

Willy Kruh, Partner
Global Chair, Consumer & Retail
KPMG International

Moving beyond omnichannel

Consumer packaged goods (CPG) companies worldwide have seen the end of the traditional business model that once linked manufacturers, retailers, and consumers.

Geographical entry points are dwindling, and stores are closing faster than they are opening. The ability to make new markets with product innovation has been largely co-opted by new brands with specific, differentiated attributes. And, like every other business, CPGs are dealing with the demands of digitally adept consumers whose best customer experiences have become what they expect from every customer experience.

As a result, the core of competitive advantage is shifting for these companies. They are seeing the benefits of growth, influence, and market share quickly transitioning away from them and from retailers to a combination of online start-ups and platform companies. These new powerhouses are investing heavily in understanding the modern consumer and offering tailored propositions to meet specific needs. They understand that today's customers will remain loyal only if a brand offers them transparency and superior quality products while actively engaging with them to build a relationship they value.

Like retailers, many CPGs have responded with a largely outdated omnichannel approach, focusing on integrating the physical and digital channels they use to interact with customers. But with once impenetrable business models exposed and at risk, CPGs need to take note of early leaders' direct-to-consumer (D2C) value propositions and business models that are resonating with consumers. What's more, CPGs need to make strategic and tactical moves (e.g., build, buy, partner) to accelerate into the D2C space so they can create a sustainable advantage that is customer-first and customer-centric.

To achieve these goals and ultimately succeed in winning the loyalty of 21st-century customers, CPGs need a holistic, enterprise-wide, "outside-in" approach—an approach that connects the capabilities of the front, middle, and back offices so that customer centricity can become the focus of the entire business. Moving away from the limitations of omnichannel, leaders have begun to adopt what KPMG defines as a connected enterprise or "omni" approach.

With this approach, KPMG challenges the predominant view of omnichannel and elevates customer centricity above and beyond channel interactions. The KPMG Connected Enterprise approach provides personalized customer experiences, relevant products based on customer needs and preferences, and coordinated, connected experiences across all digital and traditional customer interactions.

KPMG International commissioned Forrester Consulting to conduct a study to take a deeper look. Our research shows that while three-quarters of CPGs cite omni as a top or high priority, roughly the same number of CPG organizations at minimum say their omni efforts have not generated the returns they need.

Customer-focused CPGs need specific business capabilities to meet customer expectations and drive growth. The KPMG Connected Enterprise approach focuses on the capabilities CPGs require to understand and deliver against changing customer expectations. And, it identifies steps leaders can take to build these capabilities and thereby create sustainable value from customer centricity.

75% of CPGs cite omni as a top or high priority.

28% or fewer are getting a strong or acceptable return on any single omni ROI metric.

Source: A commissioned study conducted by Forrester Consulting on behalf of KPMG, July 2016

The KPMG difference: Our market-leading perspective

The KPMG Connected Enterprise approach is built on an architecture of eight fundamental and integrated capabilities that can help CPG organizations unlock new value for customers, employees, partners, and shareholders. Customers are increasingly becoming channel and retailer agnostic, passing through complex journeys that are difficult to track and measure. The KPMG Connected Enterprise approach helps to enable companies to understand and deliver against their customers' ever-changing and heightened expectations (Figure 1).

Companies that invest in the eight capabilities are achieving demonstrable success. Indeed, using a measure of omni success that factors in three business outcomes—namely, customer experience, business objectives, and self-reported ROI—our research shows that mature CPGs (those investing in all eight capabilities) are over twice as likely to achieve omni success compared with their less mature peers (Figure 2).

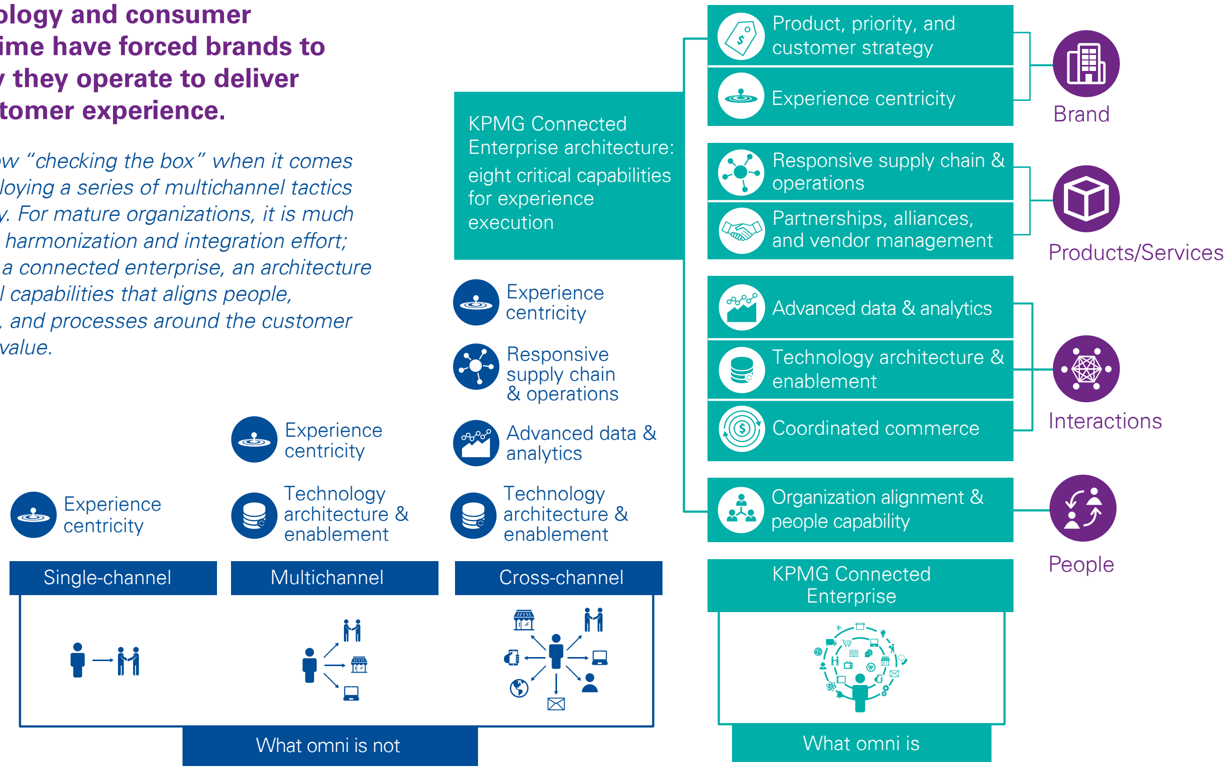
Most companies have already begun the journey in some way, so the goal is not necessarily to start anew. Instead, the goal is to integrate existing investments in a meaningful way. Our research shows the benefits are worth the investment. Mature organizations outperform less mature firms by 1 to 20 percentage points across objectives aligned to all eight strategic omni capabilities. Furthermore, 74 percent of mature firms reported that the experience they provide customers exceeds expectations, compared with just 57 percent among their less mature counterparts.

Figure 1

The KPMG Connected Enterprise evolution

Evolving technology and consumer behavior over time have forced brands to change the way they operate to deliver the desired customer experience.

Organizations are now "checking the box" when it comes to omnichannel, deploying a series of multichannel tactics disguised as strategy. For mature organizations, it is much more than a channel harmonization and integration effort; they are investing in a connected enterprise, an architecture of eight fundamental capabilities that aligns people, operations, systems, and processes around the customer to capture business value.



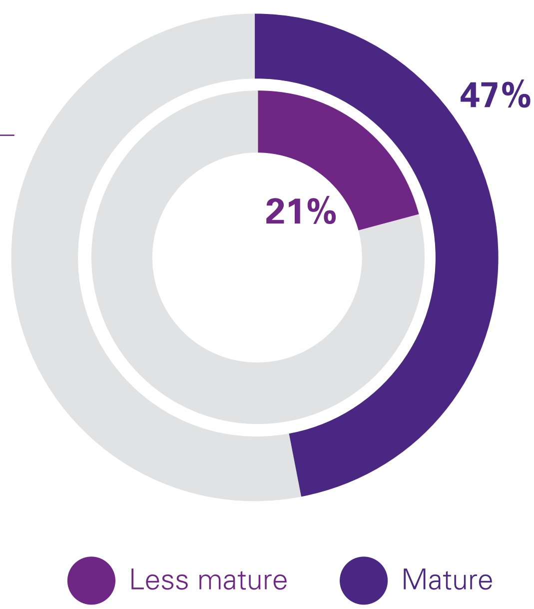
Source: A commissioned study conducted by Forrester Consulting on behalf of KPMG, July 2016

Figure 2

The race for growth is on.

Mature CPG organizations across the globe who invest across eight omni capabilities are over two times more likely to see omni success.

Omni success metric: Customer experience exceeds expectations, successful execution on one or more omni objectives, and ROI achieved on one or more metrics.



Base: 70 global professionals at CPG companies investing in all eight omnichannel capabilities and 230 not investing in all eight capabilities

Source: A commissioned study conducted by Forrester Consulting on behalf of KPMG, July 2016

CPGs need to break from the pack to compete for growth

“The eight capabilities aren’t just about customer interactions. You need to understand your customer and their behavior, but you also need to be able to execute across the portfolio, services and products. It’s spearheaded by the customer, but it’s an enterprise-wide transformation. That’s the only way to convert insights into business value.”

Duncan Avis, Principal
Global KPMG Connected Enterprise Lead
KPMG International

The Forrester study reveals that CPGs have made significant investments over the past 12 months across each of these fundamental and integrated capabilities, including integrated commerce, product strategy, technology architecture, and customer experience strategies that organizations need to operate with experience centricity.

The majority of CPG firms (74 percent) allocated 15 percent or less of sales to their omni budget in the past year; 57 percent dedicated 10 percent or less. The study also reveals that CPG organizations will moderately increase omni investments over the next 12 to 24 months. Most firms (34 percent) predict they will allocate between 11 percent and 15 percent; the group devoting 16 percent or more will increase by 14 percentage points over the past year, from 24 percent to 38 percent. Additionally, 50 percent of both US and German CPG firms will invest 16 percent or more of sales in their omni strategies (Figure 3).

Mature CPGs will continue to invest in omni capabilities to a greater degree than their less mature peers. While 45 percent or fewer respondents from less mature firms indicated they would be increasing investment in any one of the eight omni capabilities within the next three years, between 50 percent and 66 percent of mature organizations will be doing the same.

The United States leads other regions in omni investments. U.S.-based CPG organizations have a leg up on their global counterparts, with 40 percent embracing a holistic approach to omni. Conversely, Canadian, German, and Australian organizations trailed other regions, at just 16 percent. The U.S. CPG firms’ edge on the competition is partly due to the prevalence of indirect selling to retailers though brokers. This means that U.S.-based CPG brands leverage omni strategies to a greater degree in order to reduce the impact of double disintermediation—from the consumer to the retailer and from the retailer to the broker (Figure 4).

KPMG

Figure 3

Investment in a KPMG Connected Enterprise

Investment in the eight capabilities spans the entire organization from customer-facing interactions through to back-office operations.

Base: 300 professionals involved with omnichannel strategy decisions at CPG organizations

Source: A commissioned study conducted by Forrester Consulting on behalf of KPMG International, August 2016

4 key pillars of experience expectation	8 critical capabilities	Significant degree of investment past 12 mos.	Significant investment increase next 12–24 mos.	Front Office	Middle Office	Back Office
Brand	Product, priority, and customer strategy	1	4	+		+
	Experience centricity	2	2	+	+	+
Products/ Services	Responsive supply chain & operations	5	1		+	+
	Partnerships, alliances, and vendor management	5	5	+	+	+
Interactions	Advanced data & analytics	3	2	+	+	+
	Technology architecture & enablement	3	3	+	+	+
	Coordinated commerce	6	4	+	+	
People	Organization alignment & people capability	4	3	+	+	+

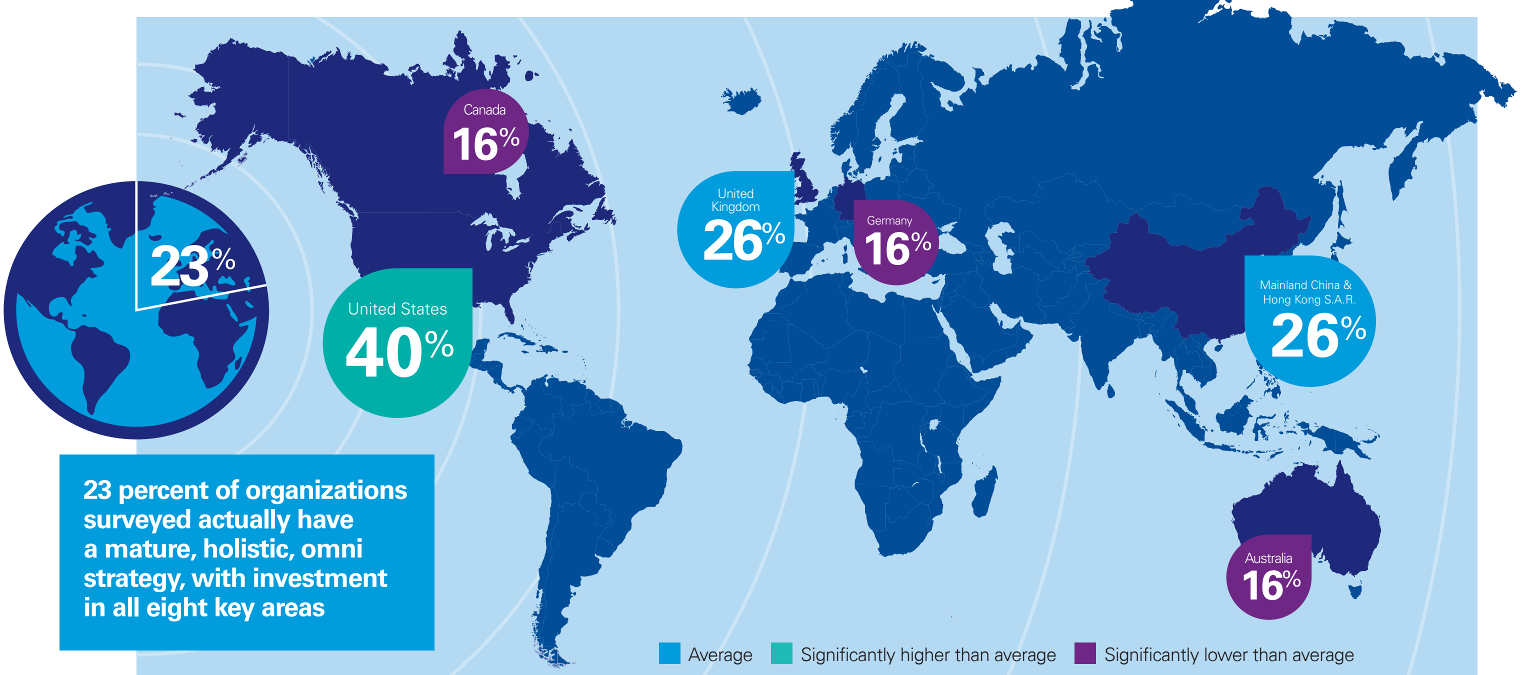
(capability ranking)*

*1=highest investment 6=lowest investment

Figure 4

Global maturity

Significant or moderate investment in all eight capabilities over the past 12 months



Base: 300 professionals involved with omnichannel strategy decisions at CPG organizations; 50 respondents per region

Source: A commissioned study conducted by Forrester Consulting on behalf of KPMG, August 2016

Building a KPMG Connected Enterprise

> **“Customer centricity is extremely important. That’s the future of business. Better execution leads to better operating models, better cost structures, and higher margins.”**

Sam Ganga, Principal
Consumer & Retail Digital Transformation Lead, KPMG in the United States

When the Internet emerged, mass merchants built for retail scale were forced to adapt slowly, painfully, and very expensively to an omni world. CPGs are now facing a similar moment. They are built to ship truckloads of pallets to huge distribution centers. Winning in the future will require personalization, agility, and the ability to pick, pack, and ship items across multiple channels, including direct to consumers.

Aligning the front to the middle to the back office around an outside-in view with the customer at its heart can be an enormous challenge without a properly structured and orchestrated holistic approach. For CPGs, these five major challenges stand in the way of creating a truly customer-centric, connected enterprise:

1 **Business silos.** Despite decades of investment in improving supply chain and operations, CPG firms still struggle to ensure the right inventory levels are in the right places at the right time; 29 percent of CPG organizations cited a lack of near-real-time inventory visibility across channels as a top obstacle to omni success; 26 percent said there were inconsistencies in product and pricing across the different channels. Failure to deliver on these points can be costly, resulting in lost revenue, increased costs, or poor customer experience. CPG firms rely on retailers to share current point-of-sale data promptly so that they can monitor true demand for continuity, promotion lines, and new product introductions.

2 **Technology and data silos.** Organizations need a 360-degree view of the customer if they are to succeed in building processes, products, and experiences around the customer. But achieving this critical perspective is difficult—if not impossible—if data and systems sit in silos. Yet a lack of integration is a top concern for CPG firms; 29 percent reported that customer data is housed in multiple databases, and 20 percent said that systems are not integrated across channels. Worse still, consumers’ changing behavior drives an acceleration in CPG new product introduction and line extension, with SKUs proliferating across channels, exacerbating challenges

to accurate replenishment and effective returns management. What's more, legacy order-management systems (OMSs) and warehouse-management systems (WMSs) often are not integrated and predate omni retailing—hobbling efforts to ship online orders from stores or manage both eCommerce order fulfillment and bulk-store replenishment from the same warehouse. Given these issues, unsurprisingly, one-quarter of respondents admit that they struggle to share data between channels, countries, and locations, or track individual customers across interactions.

3 **Security and compliance concerns.** Data security and regulations about the stewardship and storage of customer data, as well as issues around sharing data with third parties as part of ecosystem-based solutions, are at the forefront of CPG concerns globally. In our study, 24 percent of CPG leaders identify regulatory compliance and concerns around data security and privacy as roadblocks to successfully executing their omni strategy.

4 **Misalignment of people, processes, and partners.** To be successful, the omni strategy must be aligned with internal resources, processes, and partners. Yet, when asked about their top obstacles to success, over one-fifth of CPG firms cited lack of qualified staff, lack of synergy with third-party partners, siloed business units, and misalignment between internal processes and their omni strategy. Part of the issue could be a lack of vision and leadership across the organization. One in five respondents said their organizations have no company-wide customer engagement strategy or their omni strategies lack executive-level sponsorship.

5 **Strategy misalignment.** One out of five omni-strategy professionals at CPG companies say that "insufficient budget" and "lack of executive sponsorship" are among the top obstacles to omni success. Wider research and in-depth interviews with CPG executives show that there is also a broader issue at play. Various business units take a case-by-case approach to individual channel initiatives, rather than a coordinated, holistic approach to an enterprise-wide omni strategy. This is not just an obstacle to success—it also leads to broken or clunky cross-channel experiences for customers.

Overcoming these challenges will help CPGs identify and deliver on customer expectations to enable a connected enterprise. Addressing each of the eight capabilities, from the outside in, will help enable organizations to understand and meet customer expectations holistically and thereby be responsive to them.

Figure 5

Top five obstacles to success

1 Business silos
- Lack of near real-time inventory visibility across both brick-and-mortar and online channels
- Inconsistencies in products and pricing across channels

2 Technology and data silos
- Customer data housed in multiple databases
- Inability to track individual customers across interactions

3 Security and compliance concerns
- Concerns around data security and privacy
- Regulatory requirements/ compliance

4 People/process misalignment
- Internal processes not in alignment with our strategy
- Lack of alignment with third-party partners

5 Strategy misalignment
- Lack of a company-wide customer engagement strategy
- Insufficient budget and lack of executive sponsorship

Base: 300 Global professionals involved with omnichannel strategy decisions at CPG organizations
Source: A commissioned study conducted by Forrester Consulting on behalf of KPMG International, August 2016

Getting to success

The KPMG Connected Enterprise approach has the potential to bring CPG firms financial and business opportunities across the enterprise value chain. Yet, too many brands fail to take a holistic approach to how they build and maintain their omni strategy. In order to transform their approach to omni, CPG organizations must:

1. **Create a unified data and analytics strategy.** CPG brands must break down organizational silos that isolate customer data by creating a culture and infrastructure that prioritizes a unified view of the customer. These organizations should align incentives, processes, and technologies with the goal of empowering line-of-business stakeholders to track customers across all interactions—and by extension, improving the customer experience.
2. **Deliver a unified experience that fulfills the promise to the consumer.** To meet rising expectations, CPG brands must provide consumers a seamless, consistent experience across all channels. The inclination to focus solely on the sales interaction is all too prevalent in CPGs. To win, serve, and retain customers, CPG brands must evolve experience design beyond the sale to include both pre- and postsale interactions. Specifically, CPGs should provide consumers the ability to discover and research merchandise, ensure timely and accurate order fulfillment, and offer a convenient and speedy return and refund process. CPG brands do not own the value chain, so getting these processes right is far more important than it is for other sectors.
3. **Build high-performance technology architectures.** To meet business, partner, and customer demands, CPG firms must tackle legacy system limitations head on. Agile development strategies, as well as cloud and as-a-service models, go a long way in weaning organizations off legacy environments that are impeding their success in an omni world. In addition, CPG brands need to integrate commerce and mobile technology to support automation of routine interactions with retailers and improve advisory interactions with retail category managers.
4. **Tackle supply chain and operational issues.** Our study revealed that CPG firms struggle with inventory visibility and supply chain and operational inefficiencies. To overcome these obstacles, organizations must establish a more granular and timely demand signal so they can anticipate disruptions in physical supply chains. Additionally, firms must extend their omni strategy to partners to ensure the entire value chain is aligned.
5. **Enrich relationships with retailers.** Although CPG brands are increasingly exploring direct-to-consumer initiatives to drive engagement and differentiation, they still rely on selling through retailers for the bulk of their revenue. Successful organizations will invest in digital technologies to improve the performance of their existing retail channels.
6. **Work with complementary partners.** Leading CPG firms will complement traditional retail channels by working with fulfillment innovation partners such as Amazon. As organizations seek to transform their omni strategies, they should integrate e-commerce engines with social networks and syndicate channel-agnostic digital content to their partners.

Figure 6

So, what does good look like for your customers and you?

KPMG Connected Enterprise capabilities	What good looks like for customers	What good looks like for organizations
Product, pricing, and customer strategy	Connection to the brand, relevance of product, and experience	Products/services, pricing, and promotions are optimized leveraging real-time data
Experience centricity	Experience the brand promise across all touch points	Experience decisions made to optimize economic value of priority customers
Responsive supply chain & operations	Receive products and services when, where, and how it is convenient	Leverage innovation-driven demand and inventory management and distribution
Partnerships, alliances, and vendor management	Reap the benefit of partnerships without compromising perception	Identify & leverage synergies with third parties to overcome enterprise barriers
Advanced data & analytics	Personalized interactions with a brand leveraging customer data	Leverage real-time customer data to optimize the experience
Technology architecture & enablement	Frictionless use of technology across the journey and experience	Culture of innovation and agility driving speedy, quality tech implementation
Coordinated commerce	Smooth and secure payments for products/services across channels	Preference-driven and integrated payment mechanisms across channels
Organization alignment & people capability	Smooth and consistent experience across all brand interactions	Culture of inside-out experience centricity

Source: A commissioned study conducted by Forrester Consulting on behalf of KPMG, July 2016

Investing for the future

To deliver on ever-increasing consumer expectations for a true customer-centric experience and to achieve business and financial goals, organizations must take a holistic approach, addressing each of the eight critical capabilities. But investing in these capabilities is only part of the equation—organizations must also have a clear understanding of where and how they are investing so they can benefit from the full value of the KPMG Connected Enterprise approach.

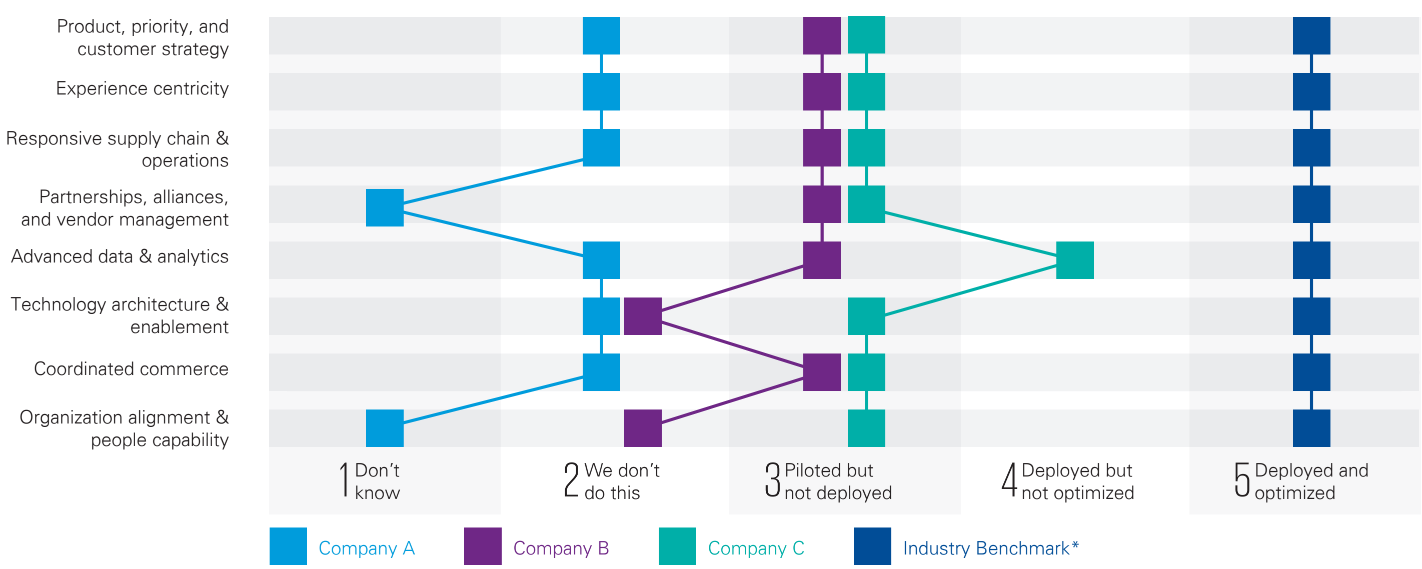
The path forward is to first understand where the organization is today using a maturity assessment that covers all eight capability areas of the enterprise architecture, from front office through middle and back office. This effort can help identify relative competencies versus leading practice. This, in turn, can help to inform the business case and road map for investing in relevant capability areas across the enterprise value chain with a keen focus on unlocking ultimate business value.

Organizations can drive profitable growth by making transformation and business decisions based on what their customers value most. A value-centric mind-set, capability, methodology, and comprehensive measurement system are required to get the economics of customer experience right and capture financial outcomes. The KPMG Connected Enterprise approach can help CPG organizations achieve these goals.

> **"Delivering a great customer experience is the new battleground. With the customer as their North Star, organizations need to integrate existing investments in a meaningful way across the business."**
>
> Julio Hernandez, Principal
> Global Customer Center of Excellence Lead,
> KPMG International & Customer Advisory Lead,
> KPMG in the United States

Figure 7

KPMG Connected Enterprise maturity assessment



* Base: 300 Global professionals involved with omnichannel strategy decisions at CPG organizations
Source: A commissioned study conducted by Forrester Consulting on behalf of KPMG International, August 2016

About KPMG Customer Advisory

KPMG member firms bring together experience in strategy and implementation—as well as far-reaching industry and functional knowledge—to create better customer outcomes that produce better business returns.

That means looking beyond the front office to a wholesale transformation of functions such as marketing, sales, and service—and often linking them to the middle and back office. The resulting organization is closer to customers and can deliver interactions that are seamless, responsive, relevant, and consistent to build greater loyalty and share of wallet.

From ambition to implementation, KPMG professionals work with organizations on their journey to becoming customer centric, balancing cost against customer satisfaction, and making the most of the opportunities to increase revenue.

About the study

2016 Forrester Consulting Global Omni Study

Conducted during the summer of 2016, the research comprised two elements: (1) a quantitative survey of 1,290 business and technology leaders at enterprises in the United States, Canada, the United Kingdom, Germany, Australia, Mainland China, and Hong Kong S.A.R. involved with omnichannel strategy decisions at their organizations and (2) 12 qualitative interviews. Six industries were included in the study: banking, property and casualty insurance, healthcare payers and providers, consumer packaged goods, retail, and telecommunications.

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