



10 IMPERATIVES

FOR CONSUMER PRODUCTS BUSINESSES



ALVAREZ & MARSAL

PROFIT



CONSUMER PRODUCTS BUSINESSES FACE THE LARGEST GROWTH OPPORTUNITY IN THEIR HISTORY.

They also face some of their biggest challenges, for which their history does not prepare them well. Those that find recipes for success in both high growth and developed markets will be the winners. However, most developed markets are characterised by depressed consumer spending, volatile input costs, brutal retail competition, squeezed margins and tougher regulation. In addition, the digitisation of media and channels is requiring go-to-market models to be rethought.

Winning in these challenged markets requires strong category and brand propositions, effective integration of the marketing mix through the line, truly differentiated execution at the point of purchase and rigorous cost control.

More and more consumer products businesses are focusing on the larger growth opportunity represented by the creation of two billion new middle class consumers in the high growth markets of Asia, Latin America and Africa over the next two decades and, in particular, understanding and responding to the needs of consumers in these markets with products they want at prices they can afford.

We see 10 Imperatives for consumer products businesses in deciding “where to play”, understanding “how to win” and executing on strategy:

- Making **the right choices** about where to play;
- Creating and realising **compelling value propositions** for consumers, shoppers and customers;
- Building **winning operating models** that enable the successful execution of strategy;
- Creating **win-win opportunities** with retail customers;
- Exploiting **new media** to innovate and build direct relationships with consumers;
- Creating an **agile, cost effective supply chain and minimising supply chain risk**;
- Developing more **sustainable business models**, products and consumer propositions;
- Rethinking IT investment priorities to keep pace with the business and minimise risk, especially in the area of **data security**;
- Winning the **war for talent** by being a better place to work;
- Coping with **growing regulatory pressures**.

MAKING THE RIGHT CHOICES ABOUT “WHERE TO PLAY”

1 Winning in today's challenging markets requires consumer products businesses to make careful choices about “where to play” and “how to win.” Growing competitive intensity and ever more discerning and value conscious consumers make it vital to focus the right products and services on the right consumer segments through the right channels — at the right price — and with the right marketing and trade marketing support. In today's fast changing markets, the categories and channels that delivered profit just a few years ago may no longer be viable with current cost structures. Having detailed insight into consumption trends and patterns has become an increasingly prominent piece in informing such investment choices.

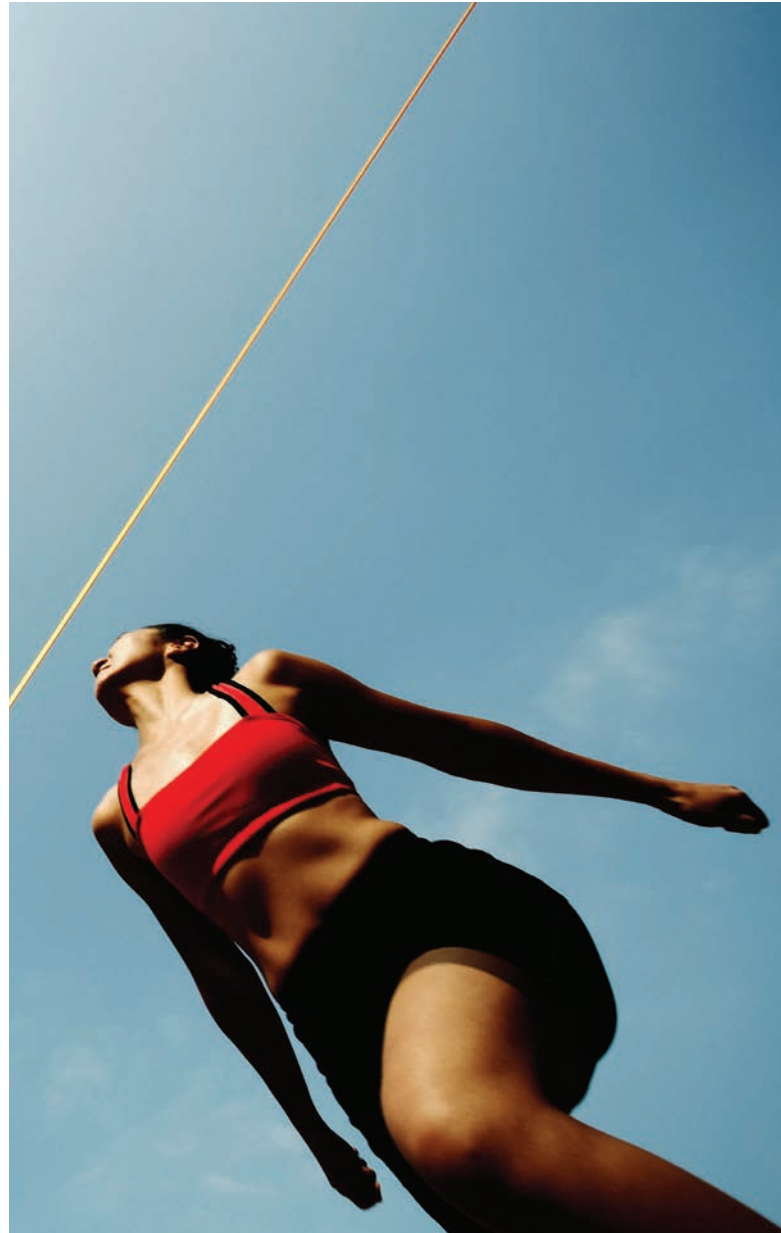
As a result, we are seeing an explosion in the amount and type of data collected and the use of advanced analytics including neuroscience, ethnography and cultural understanding.

Consumer products businesses will exploit both organic and inorganic mechanisms to develop their category, brand and geographic portfolios. Many are serial acquirers of businesses that complement their existing footprint in the categories in which they choose to play. Acquisitions in the sector are usually driven by strategic considerations such as:

- Increasing category share in existing markets;
- Building out the category portfolio and more closely aligning it with consumer trends;
- Strengthening the negotiating position with the trade;
- Capturing channel and go to market synergies; and
- Establishing a category presence in new markets, especially the high growth markets of Asia, Latin America and Africa.

Effective commercial and operational due diligence of potential acquisitions and post-acquisition integration are therefore core competencies.

Some of the most significant growth opportunities lie in high growth markets such as those in Asia, the Middle East and Latin America. Exploiting these opportunities is not easy and careful preparation is required. Many of these markets, China for instance, are highly price competitive and present complex go-to-market challenges. Moreover, products that are successful in one geography will not automatically be successful in another. Issues of style, taste, fragrance, branding and price point may all get in the way. More and more leading consumer products businesses are therefore relocating substantial parts of their consumer research and R&D capabilities closer to these markets, with Singapore being the location of choice for many in Asia because of the availability of local talent and active sponsorship of the Enterprise Development Board (EDB) of Singapore.





CREATING AND REALISING COMPELLING VALUE PROPOSITIONS

2 Having established clear strategic focus on the categories in which the business chooses to develop a winning leadership position, the next step is to develop compelling value propositions at category and brand level for both the consumer, shopper and customer. This requires the effective use of consumer, shopper and customer insight to understand the need states and preferences of different consumers, appreciate how these needs translate into shopper missions and drivers of choice in store, and to understand how we use information of different types (signage, colour, branding, smell, on-pack content, mobile data, nutritional guidance etc.) to inform choice in store.

It all starts with using data to create insight that informs an engaging overall category story that makes sense to the shopper and consumer. Value propositions are developed, tested and refined within a coherent brand architecture that drives product innovation, engages the consumer and informs choice. If well executed, it avoids the vicious downward spiral of commoditisation that we have seen in many categories and markets and provides a platform to drive margin accretive growth.

Successful execution requires, however, more than just a compelling category story and brand value proposition. There are 4 other critical pre-requisites for success: (1) a pricing architecture that underpins the category strategy, including aligned supplier and retailer margins to incentivise profitable growth; (2) a well integrated through the line marketing mix so that, for example, in-store activity is reinforced by broadcast and social media; (3) a well-conceived trade investment / promotion strategy that supports the category strategy; and (4) insight based compelling execution at the point of purchase that brings the category story to life for the shopper and makes the fixture shopable.

In reality, most consumer products businesses fall well short of this ideal today and the goal of driving profitable growth therefore remains elusive. Only fragments of the huge amounts of data being captured are typically turned into actionable insight. Commercial processes operate in silos, getting in the way of effective teamwork across marketing, trade marketing and sales. The skills required to do these things well are in short supply across the industry. The prize for those that can develop and execute winning category strategies, integrating all the pieces, is therefore substantial — ultimately making the difference between success and failure.

ESTABLISHING A WINNING OPERATING MODEL

3 Senior executives in consumer products businesses are addressing all of these issues as they look to drive top-line growth, improve margins and strengthen free cash flow. There is no one-size-fits-all operating model that is right for every business. While certain common principles apply, such as the integration of marketing, trade marketing and sales within the right commercial model, each consumer products business needs an operating model that is right to deliver its strategy. A multi-category domestic business needs a different operating model than a single category global business and a highly regulated business differs in many ways from a less regulated business. For many multi-nationals, the target portfolio of global versus local brands and the mix of investment priorities between the two is a key shaper of the operating model and decision rights in market.

Many consumer products businesses are adopting international “Comco / Opco” structures comprising a commercial business unit responsible for marketing, sales and finished product distribution and a supply business unit focused on optimising product availability, quality and cost. These structures are typically designed to be as tax-efficient as possible with a substantial portion of earnings recognised in low tax jurisdictions. Back office functions are typically consolidated and are often outsourced. There is growing interest in the opportunities presented by more broadly based global business services entities, though in practice few consumer products businesses have yet gone beyond traditional shared back office services.

CREATING WIN-WIN OPPORTUNITIES WITH OUR RETAIL CUSTOMERS

4 Today consumer products businesses typically spend 15 – 20 per cent of revenue on trade expenditure, that is on below the line demand generation activities. With extreme pressure on prices and margins resulting from cost conscious consumers and brutal price-led competition between retailers, companies are reassessing every aspect of their pricing waterfalls and the margin accretion opportunities are usually substantial.

Priorities include:

- Understanding channel / customer and product profitability to identify sources of margin erosion;
- Identify consumer pricing elasticities and pack / price preferences by channel;
- Align pricing architecture and category strategy to provide a clearer offer;
- Improve promotional effectiveness — strategy, planning, execution and evaluation;
- Create win-win opportunities with the trade; and
- Understand costs to serve to inform the design of commercially and legally defensible trade terms.

Tackling these issues requires more than just clever analytics and insights however, they represent major commercial change management challenges both internally and externally.



EXPLOITING THE NEW MEDIA LANDSCAPE

5 The fragmentation of traditional media and explosive growth of Internet use, mobile and social media are transforming the way consumer products businesses think about new product innovation and communicate their brand propositions. Disruptive social technologies are enabling consumers to engage in innovation, developing ideas and concepts virtually. Consumers can now become co-creators in the new product development process. Consumer focused businesses need to encourage and exploit this in their innovation processes.

Consumers are bombarded with marketing messages about competing products and offers throughout their daily lives through every medium imaginable. The challenge is how to be impactful, relevant, resonate and build relationships with consumers to have the greatest positive impact on brand loyalty and choice. Critical to success is the alignment of messaging at every stage in the path to purchase and at the point of purchase itself, requiring effective integration of marketing planning and execution through the line.

In this ever more fragmented and changing media environment, the point of purchase itself becomes a critical part of the overall marketing mix that requires the retailer to accept supplier collaboration in in-store execution. The quality of the category shopper insight brought to the retailer, the strength of the category proposition and the impact of the proposed activation are all critical to winning this permission. New strategies are emerging to drive retail advantage. This “shopper marketing” is now firmly part of the overall marketing mix, though few consumer products businesses are yet as good at it as some leading retailers.

MAXIMISING AVAILABILITY, MINIMISING COST, MITIGATING SUPPLY CHAIN RISK

6 Consumer products businesses face the twin challenges of improving supply chain performance while minimising risks. Investments in product innovation and demand stimulation can only be realised if the product is actually available for the shopper to buy. The very high levels of promotional intensity that characterise today's mature markets create highly volatile patterns of demand with the consequent risk of stock-outs and lost sales. Most consumer products businesses need to raise their game in demand planning and management, using past promotional history to model future uplift and off-take profiles and (near to) real time demand signals to make near-term corrections.

Agile production capacity and the right production planning techniques linked to product demand profiles are also key parts of the jigsaw to provide the highest possible levels of customer service at least cost. Establishing an effective Sales and Operations Planning (S&OP) process to balance demand and supply over a 1 – 18 month rolling time horizon and to underpin profit and cashflow forecasting is a fundamental prerequisite for success in market.

Shrinkage is still a major issue impacting on-shelf availability with research suggesting it affects approximately 2 per cent of sales. Consumer products businesses are beginning to realise there are many root causes besides malicious losses and that more formal collaboration and data integration across the value chain can make significant improvements.

The physical supply chain also continues to be an area of focus for many. Supply chain professionals in consumer products businesses are focused on production footprint and distribution network optimisation and effective third party distribution management, with product security especially high on the list of priorities for high value products in sectors such as tobacco, alcoholic beverages, and personal care and luxury goods. In the food sector, issues such as traceability and chill chain integrity are top priorities. With 50 per cent of total supply chain cost typically residing between the back door of the store and the shelf, there are very substantial opportunities for supplier / retailer collaboration to drive out handling cost inefficiencies.

Strategic sourcing and procurement are key focus areas. The same two billion new consumers that are creating substantial new opportunities for consumer products businesses are also shifting the balance of global demand and supply for energy, water, foodstuffs and a whole range of other commodities. Key developing economies such as India will massively increase food imports over the next few years. Supply risks are prompting governments such as those of China and Saudi Arabia to acquire large tracts of fertile agricultural land in other countries such as in Central Africa. Argentinian soy and Brazilian beef are, for example, no longer available to Europe. Thai poultry and New Zealand lamb are likely to soon go the same way.

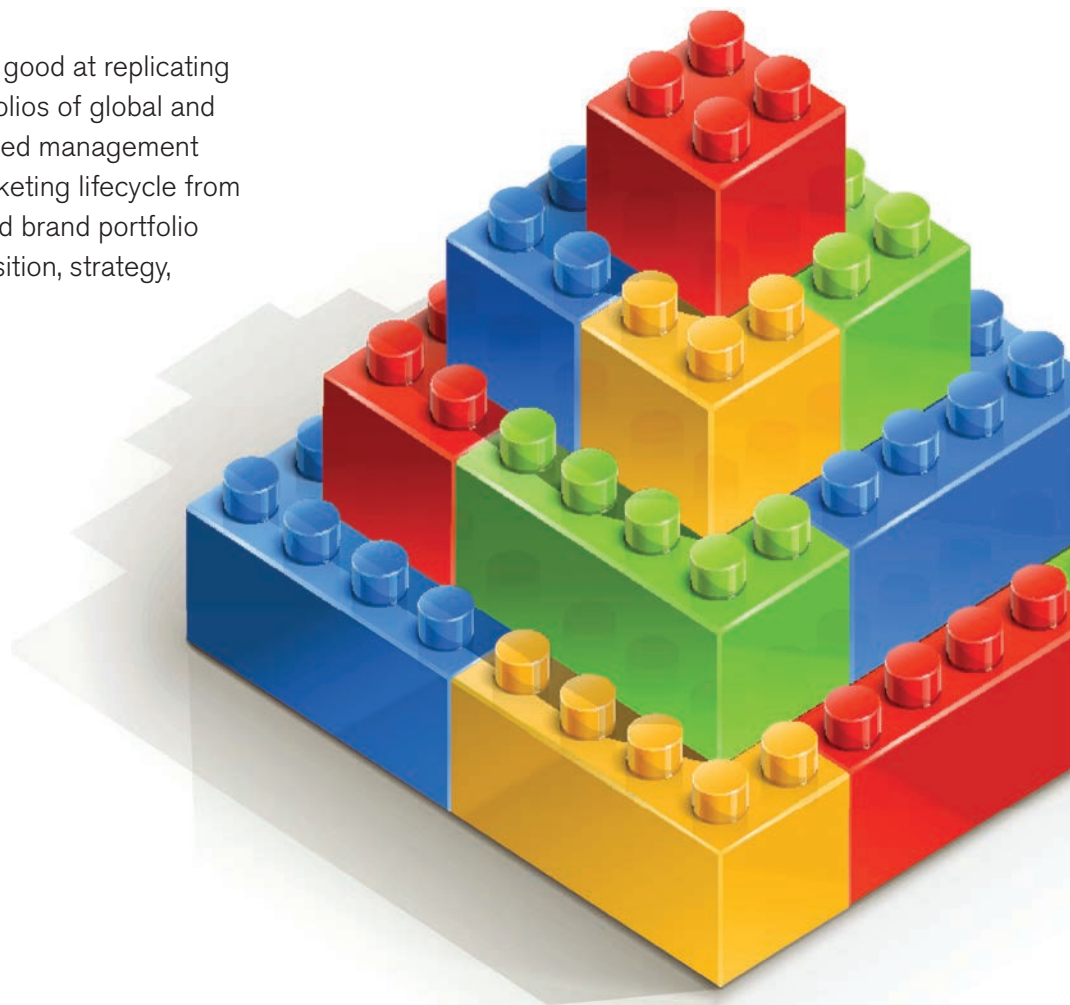
In many cases traditional sources of supply can no longer be assured and businesses need to re-think their sourcing approaches. In food, this will be good news for some domestic producers. A number of global consumer products businesses are already responding to supply risks by creating more vertically integrated supply chains for the strategic commodities on which they are dependent, prime examples being coffee, cocoa and palm-oil.

“ENOUGH, FOR ALL, FOREVER”: BUILDING A TRULY SUSTAINABLE BUSINESS MODEL

7 The world’s leading consumer products businesses are setting the standard in establishing more sustainable business models and are beginning to take consumers on the journey to more sustainable patterns of consumption. The CEOs of almost every top 20 consumer products business (and others) completely understand and sponsor the need to transform their operating models to be truly sustainable in the broadest sense — and are well embarked on this journey.

These businesses are already very good at replicating marketing excellence in their portfolios of global and local brands and have well developed management frameworks that cover the full marketing lifecycle from market opportunity assessment and brand portfolio development to brand value proposition, strategy, planning and activation.

Only a handful of top tier consumer products businesses have, however, taken the first steps in combining their leading thinking on sustainable business practices and living with what individual brands stand for in the minds of consumers. The first businesses that truly embed this thinking in their strategies and brands, and leverage sustainable thinking relevant to each individual brand, are the most likely to nurture the brands that will be relevant to our children and our children’s children. This requires businesses to embrace new thinking about how to bring together frameworks for marketing excellence and sustainable living.



RETHINKING IT INVESTMENT PRIORITIES

8 The right business information systems are a key enabler of an effective business operating model and can be a powerful positive competitive differentiator. There is a clear strategic imperative to get common core (ERP and reporting) systems in place across the business without over-complicating them so that the business can focus its IT investments on the things that make a real difference in the market. However, not all consumer products businesses have found this an easy road. In many companies the business has not waited for IT in pressing forward with ambitious programmes of web based consumer engagement. While this has allowed direct-to-consumer marketing and selling initiatives to progress, it has also created major risks for some of the world's best known businesses. Web sites have proliferated and consumer data gathered without clear policies and controls around cookies, data privacy and cyber fraud protection. Some major multinationals have many hundreds of web-sites, even thousands in a few cases. Enterprise risk functions often feel ill equipped to tackle the issue, leaving it firmly in the hands of the CIO. CIOs therefore face the twin challenges of retrospectively putting controls around existing web development without getting in the way of the business, plus providing the right, highly responsive, support for the business in the digital space going forward.

Re-equipping an IT function to support the business in this new digital world has profound implications. Skills that were built over many years to support major, multi-year ERP programmes will be much less in demand. Web development skills will be key — using a new set of technologies and much shorter development lifecycles. Moreover the conflicting demands on resources between “run the business” and “change the business” remain and are often accentuated by the increased pace of change and the need to re-skill and restructure the IT function itself.



WINNING THE WAR FOR TALENT

9 The most important aspects of any business operating model are the talented leaders and managers that drive the business and their alignment behind common goals. Consumer products businesses are not alone in recognising the acquisition, development and retention of talent as a key strategic priority, often made even more important by the need to resource new businesses in the fast growing markets that represent the largest growth opportunities. Talent development strategies in the industry usually need to

combine selective acquisition of high calibre resources with carefully designed learning and development programmes, addressing both general leadership skills and specific functional competencies such as brand marketing, key account management, finance and HR. Talent retention needs to be supported by a well designed operating model that empowers and helps individuals to succeed, recognises this success and rewards them well. Companies that have a reputation as being a great place to develop a career will have a clear advantage in the war for talent.



COPING WITH GROWING REGULATORY PRESSURES

10 Consumer products businesses face a growing burden of regulation affecting the way they do business, the products they sell and how they sell them. Competition authorities typically monitor very closely the business practices of companies who are dominant (over 40 per cent share) or trending to dominant (30 per cent and rising) in their chosen product categories, looking in particular for evidence of discriminatory pricing, unjustified trade terms and abuse of market power. The category definitions used by, for example, the EU are very granular (e.g. wet cat, dry dog) and even mid-sized businesses can get caught.

Product related regulation is also becoming more demanding, including category specific direct product taxation. Governments around the world are becoming increasingly interventionist with three overlapping strategic objectives: protecting and improving public health; shifting consumption to more sustainable patterns of behavior; and increasing tax take to address fiscal deficits.

The food sector has been a particular focus for much of this regulation including nutritional labeling, allergen information, health warnings, ingredients bans and specific taxes in different countries on, for example, fat and sugar content. Point of sales related regulation is also growing with restrictions on the types of products that can be sold in or near schools and, in the case of tobacco, retail display bans and plain packaging. There are growing controls on product advertising, especially related to children and products that are deemed to

be bad for health. Tobacco and alcoholic beverages are subject to increasing levels of excise duties as governments try to make the products unaffordable to consumers, with the rules often differing widely from market to market.

Major multinationals face the added complexity of tracking and responding to this constantly evolving regulatory environment across, for some, upwards of 100 countries. Few businesses have established the governance, operating model and tools needed to manage this complexity well but best practice models are emerging. Those that do will have a competitive advantage over those that don't.

But regulation also can open new growth opportunities. For example, regulatory changes in the US resulted in pharmaceuticals companies developing consumer marketing competencies to communicate directly to patients who can then, in turn, influence the prescribing medical practitioners. Global players can leverage these new competencies into other regions and markets where regulatory frameworks allow.





ACTION MATTERS

In summary, whilst there are formidable challenges in the near future, the leading consumer products businesses are addressing most if not all of them. However, these challenges require more than incremental change — they require determined action and leadership if businesses are to adapt. Leaders need to confront the inevitable tensions directly and lead their business and their consumers through the transformation.

A&M CORE PROPOSITIONS FOR CONSUMER PRODUCTS BUSINESSES

CATEGORY STRATEGY AND GROWTH

We make extensive use of carefully designed primary research and other data sources to help our clients develop insight into the needs and preferences of their consumers and shoppers. We use this insight to inform a compelling category story, brand architecture and product portfolio. We then work hands-on with our clients to ensure successful execution.

Execution includes establishing the right pricing architecture and trade investment / promotion strategy to underpin the category strategy, including aligned supplier and retailer margins to incentivise profitable growth. It includes optimising the through-the-line marketing mix so that, for example, in-store activity is reinforced by broadcast and social media. It includes designing and implementing compelling execution at the point of purchase. And perhaps most importantly, it includes helping our clients develop the commercial capabilities required for sustained category leadership and profitable growth.

OPERATING MODEL TRANSFORMATION

Businesses need to be clear about the capabilities required for the successful execution of strategy and to establish the winning operating model that will deliver those capabilities. As such, the operating model is the essential link between strategy and execution and provides the business with a platform to drive category leadership, improve consumer relevance, and optimise go-to-market and geographical strategies.

There is no one-size-fits-all operating model design. At A&M, we work closely with our clients' leadership teams to establish consensus on their strategic objectives and to identify the critical capabilities required to deliver on these objectives. Our experienced practitioners then use a combination of proven methods and tools, established design guides and deep sector expertise to lead organisations through the operating model development process including major process design, agreement on decision rights, organisation design, performance management framework and enabling technology requirements, with a major focus on stakeholder alignment through the whole process.

We also work in partnership with our client leadership teams as coaches and advisors through the process of successfully realising the right target operating model including, for example, transition planning, leadership development, functional capability development, change programme management, performance management system development and enterprise architecture / business systems implementation.

PRICING AND PROMOTIONAL EFFECTIVENESS

Of all the performance levers a consumer products business can pull, pricing has the most direct impact on top and bottom line performance. We use advanced and predictive analytics to understand consumer pricing elasticities, identify true customer profitability, maximise returns on trade promotion investments, align incentives for profitable growth between retail and supplier and identify remedies for margin leakage. We also bring our broader commercial experience to bear to ensure that the pricing architecture supports the category growth strategy and margin objectives.

We also recognise that implementing new pricing and terms usually represents a major change management challenge, both internally across the commercial teams and externally with trade customers. A&M's experienced operators have spent many years in senior commercial roles in the industry. We are uniquely equipped to work in partnership with our client's commercial teams throughout this change journey to ensure that new pricing and terms are implemented successfully and are sustainable.

SALES AND OPERATIONS PLANNING (S&OP)

An effective S&OP process can create powerful positive impacts on the business, giving the CEO confidence that the demand and supply teams are working together to deliver the vision and strategy.

At A&M we can design and implement, or reinvigorate your S&OP process using a framework of diagnostics to review the full process through multiple lenses using self-assessments, interviews and observations, and workshops to make recommendations for improvement.

SUPPLY CHAIN EFFECTIVENESS AND RISK MANAGEMENT

The final link between the consumer product business and the retailer is one of the most challenging supply chain links around. Exacting product configurations, multiple delivery points, reducing / more frequent deliveries and constant cost pressure add complexity to an already high pressured environment. Highest on-shelf availability is as much a challenge for consumer products businesses as the retailer itself; coping with, and thriving on the complexity is where consumer products businesses can gain competitive advantage and gaining prime position with the retailer and selling more product.

At A&M we work with clients on the most complex problems helping them to embrace complexity and maximise opportunities from an end-to-end supply chain value perspective, from store consumer through retailer to manufacturer and on to their suppliers.

PROFITABILITY ANALYTICS

Companies can't rely anymore on past frameworks to generate sustainable profitability, they must constantly challenge and improve understanding and processes that impact the bottom line. Challenging revenue growth prospects, pressure on trade spending, complexity increase, raw materials prices and currency volatility are some of the challenges organisations are facing. The ability to rapidly and systematically analyse profitability is becoming crucial for successful decisions and performance.

A&M diagnoses problems and develops insights to determine performance gaps and fact based causes, creates comprehensive scenarios quantifying opportunities, develops actionable strategy and solutions for change and activates performance improvement plans, ensuring approach, systematic process and tools are embedded into the organisation to ensure short and long term benefits.



ABOUT A&M

Our mission has always been to improve operating and financial performance and accelerate positive change, whether serving as trusted advisors or in interim management roles. We work with, and focus on, the Fortune 500 and FTSE 100.

We get to the heart of our clients' challenges quickly, bringing an approach built on the firm's operational and restructuring heritage and core principles: speed of analysis, practical business experts and hands-on delivery. Our teams work with companies to drive significant, sustainable performance improvement across their operations, seizing the right growth opportunities and improving profitability in the face of top and bottom-line challenges.

Leadership

- Focusing senior resources at every stage of the delivery process
- Forging consensus around credible, deliverable solutions
- Engaging and partnering with the organisation

Managing Complexity

- Proven track record in managing complex, high-profile situations
- Delivery through assured leadership and hands-on support

Operational Heritage

- Proven, fact-based, financial approach
- 30 years of operational experience and deep sector experience
- Ability to provide interim executives for rapid implementation

Senior Resource Depth

- Global reach
- Executives drawn from industry, professional services firms and financial institutions
- Extensive Board-level operational experience

Practical Bottom-Line Orientation

- Focus on delivering rapid results
- Overarching focus on improving bottom-line results
- Coordinate short-and medium term objectives and credible plans with achievable milestones

Learn more about A&M services to consumer products businesses:



For more information or to meet with one of our senior retail leaders in a location near you, contact us at : consumerproducts@alvarezandmarsal.com



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