CORPORATE TRANSFORMATION SERVICES
FROM THE INSIDE OUT

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Press Review: The Trends Shaping Corporate Transformation

Companies in need of transformational change – because of activist pressure, unsustainable costs or an outdated business model – are grabbing headlines: some of the biggest and best-known organizations are struggling to stay relevant and satisfy their shareholders.

The following articles offer useful insights into the trends shaping the corporate transformation landscape:

Consumer goods: Big brands battle with the 'little guys'

For years, the world's largest fast-moving consumer goods (FMCG) companies offered investors "the security of Swiss government bonds with some growth and yield thrown in," says James Edwardes Jones of RBC Capital Markets in this *Financial Times* analysis piece. That is no longer the case because they are barely growing and losing market share to smaller, nimbler rivals. How can they keep investors happy?

Some interesting figures are used to illustrate the point: sales and/or profit growth has slowed at 34 of the 50 biggest FMCG companies, according to Bain & Company research. Their revenues grew at an average of 7.7 percent per year between 2006 and 2011, falling to just 0.7 percent between 2012 and 2016.

What are the giants – the likes of Kraft Heinz, Nestle, Kellogg's, General Mills and Unilever – doing to tackle this slump? The article identifies four courses of action: innovate (although "such groups have been remarkably slow at spotting the changes in tastes," the article points out), restructure, cut costs or make acquisitions (i.e., buy the smaller challenger brands).

Finally, the article looks at what is at stake: the FT estimates $70 billion in lost value is the result if FMCG companies grow by two to three percent over the next three years, as Bain forecasts, rather than returning to around five percent, as the market is pricing in based on current valuations.

Global companies extend use of zero-based budgeting to slash costs

Zero-based budgeting (ZBB) is on the rise, according to the *Wall Street Journal*. It is a tool that helps finance managers to plan a department's budget by starting from scratch each year, rather than basing it on the previous year's spending. The approach "forces managers to justify costs and evaluate benefits every 12 months," according to the Wall Street Journal.

What has resulted is that firms saved an average of $280 million per year, according to a survey of 85 companies using zero-based budgeting by Accenture. More than 90 percent of surveyed firms used it to reduce spend on travel, facilities, legal and professional services; over half cut their sales and marketing budget; 43 percent of companies slashed their headcount; and 42 percent cut their cost of goods sold by deploying ZBB, the study showed.

ZBB began in the consumer goods sector but is now being used by companies in the automotive, chemicals, life sciences and retail sectors, among others. One of the most important lessons learned in Alvarez & Marsal's approach to corporate transformation is the willingness to assess 'the way things have always been done' through new lenses, and to reevaluate sacred cows. A&M are using this approach in some of our biggest corporate transformation engagements.

Investing: Activism enters the mainstream

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This *Financial Times* article considers the differences between the first wave of activists who came up in the 1980s and the so-called ‘sons of activists’ seeking to drive shareholder returns today. However, the most useful points from a corporate transformation perspective are the explanations offered for why activists pursue transformational change as a way of improving investor returns.

> ***“Activists have had to become more operational, strategic and longer-term investors in order to deliver company changes that drive shareholder value.”***
>
> ***-Andrew Bednar, Partner***
> ***Perella Weinberg Partners***

In the early days under activists such as Carl Icahn and Nelson Peltz, “the most common requests were for spin-offs, a sale of the company, a management shake-up, board seats, share buybacks or a restructuring.” Now, “activists have had to become more operational, strategic and longer-term investors in order to deliver company changes that drive shareholder value. The quick sale for a premium is less common today,” says Andrew Bednar, a Partner at Perella Weinberg Partners.

Activists’ success in improving operations has also made the activist-management relationship less confrontational. Companies which accept the need for change are more likely to succeed in taking the necessary action to drive returns.

“Shareholders feel that there is no monopoly on good ideas,” says Rich Grossman, a Partner at Skadden Arps. “They don’t always agree with the activists, but I think management teams and boards are in large part listening to what they have to say and evaluating what makes sense.”

Stay informed about the key issues driving companies to seek meaningful, lasting change in [From the Inside Out](), our corporate transformation newsletter.

GOT A QUESTION? CONTACT AN INFLUENCER
ANSWERS ARE ONE CLICK AWAY

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With over 3,000 people across four continents, we deliver tangible results for corporates, boards, private equity firms, law firms and government agencies facing complex challenges. Our senior leaders, and their teams, help organizations transform operations, catapult growth and accelerate results through decisive action. Comprised of experienced operators, world-class consultants, former regulators and industry authorities, A&M leverages its restructuring heritage to turn change into a strategic business asset, manage risk and unlock value at every stage of growth.

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