



The AltoPartners White Paper Series

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FMCG & DIGITAL DISRUPTION – HOW COMPANIES ARE EVOLVING TO REMAIN RELEVANT: OUR LOCAL INSIGHTS

This paper presents commentary and insights from leading AltoPartners executive search and leadership consultants, specialising in Consumer, Retail and Luxury Goods placements and assessments. Established in 2006, our global reach and local presence provide innovative solutions for the top talent needs of today's complex world www.altopartners.com



The AltoPartners White Paper Series – Consumer, Retail & Luxury Goods Practice

At AltoPartners we believe in the power of Human Capital. We believe that the most powerful tool any organisation can have is a person who possesses the right cognitive and emotional ability to fulfil a specific role or complete a specific task. We don't believe there is a problem, challenge or need that exists in modern society that cannot be solved by the collaborative influence of likeminded individuals.

For this reason, we don't settle for mediocrity when it comes to executive search and leadership consulting. We appreciate that our service affects the highest level of organisations around the world and that if the placements of these individuals are successful, then the ripple effect will be felt throughout the organisation's employee base and product output.

We don't limit ourselves by geographical boundaries, we don't allow corporate bureaucracy to limit our bespoke approach or search strategy, and we don't simply rely on existing data to dictate who is right or wrong for the job. We treat every job uniquely and adopt an approach that is right for that job. We will find the right person.

The retail industry is being hugely impacted by technological disruptions that give consumers the ability and freedom to shop however, whenever and wherever they choose. This has taken its toll on brick and mortar retailing in many ways, and companies are being forced to transform or risk becoming irrelevant.

The need for an overarching omni-channel strategy that marries the physical store with the digital, mobile, social media universe is no longer an add-on or extension; it is now a core element of how a company goes to market.

Added to the mix, Big Data is also enabling retailers to individually target consumers on a micro-level. This trend has led to transformations that touch merchandising, marketing IT, and supply chains. For consumer products companies, these changes are challenging brands in new ways and in turn demanding a higher level of leadership.

These changes incrementally impact the organisations from a talent management and human capital perspective, and Executive Search firms are increasingly tasked with looking at how companies have to hire in new people with specific skills – and in many instances create new positions – that will help keep the business relevant. A prime example of this is LVMH's 2015 hire of former Apple executive Ian Rogers as LVMH's new Chief Digital Officer, a newly created position within arguably the elitist, and most established, luxury brand group.



OUR GLOBAL INSIGHTS

Big Issues... Key Trends

According to a study by The Global Center for Digital Business Transformation – a research initiative of IMB and Cisco – retail will be third among the industries most affected by digital disruption in the near future, topped by the technology sector itself and the media and entertainment industry. But, industries seem to be in denial about the disruption – the survey found 45% of companies didn't deem the subject worthy of discussion at a board level. About one-third of companies are still taking a 'wait and see' approach, and only 25% said they are being proactive and disrupting themselves to stay competitive. By 2020, close to 150 million consumers are expected to be digitally influenced in FMCG and these digital consumers alone would spend about \$40 billion on FMCG categories, says the Confederation of Indian Industry (CII) National FMCG Summit Report 2015 released by BCG and CII following the "Re-Imagining FMCG in India" Summit held in 2015.

Top Four Trends

- Consumer Empowerment
 - Ease of access & the rise of "click and collect" services
 - Product and brand diversification – brand loyalty calls for innovative marketing practices
 - Death of the High Street - Retailers rethink their economic model
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The movement towards 2020 Internet of Things (IoT), where everything will be connected and every product can communicate, gives the FMCG retail industry opportunities to constantly be in contact with customers and will result in new services and possibilities. The shift in emphasis is now to the client/customer experience rather than on the product. The power is in the data and the translation of the data to their own market sector. Digital disruption and big data are blurring the boundaries between consumers, stores and consumer brands and has completely transformed how the customer shops, and their expectations in both the physical and digital shopping environment. Big data is enabling a more customised and 'bespoke' approach, treating each customer as an individual. This has the potential to build stronger brand loyalty if done correctly.

Within the Polish market, and across the whole CEE region, the biggest impact on consumers is that the first wave of retail expansion that we experienced over the past 20 years is over. **Expansion in terms of the speed of new physical stores opening is being redefined.** The speed of development has slowed down in terms of physical stores to make way for the e-commerce industry. However, some retailers are redesigning their in-store shopping experience to accommodate customers who will want to "touch, feel and experience" the product in person first before they purchase online –



this leads to greater development in the logistics, supply chain and warehousing industries to accommodate these purchasing behaviour changes.

From the consumers' perspectives, online marketplaces offer near endless assortments and product options, sometimes up to 80 times that of traditional retailers, even in categories outside traditional strongholds such as books and electronics. These online marketplaces also offer unprecedented price transparency and competition among vendors. By aggregating third-party inventory, online marketplaces spread the cost of customer acquisition across thousands of sellers. Consumers can, and increasingly do, compare prices, while seeking and sharing opinions digitally among their peers and online communities of shared interest. Great products are rapidly amplified across a social media network, causing spikes in product demand. Conversely, so too are negative reviews, which can wipe out a product. This requires new functions be created to monitor the market and the consumers to address concerns and product development needs.

Consumer brands have recognised the immense power of social media and shifted focus from traditional marketing platforms to include vloggers (video bloggers), social media influencers and social media platforms as part of the marketing ecosystem. But, most Consumer Packaged Goods (CPG) companies' experiments so far are tactical rather than strategic responses to the challenge of the digital revolution. They are still primarily focused on digital marketing, and only happen in pockets of the organisation, therefore limiting return on investment.

Omni-channel and online marketing are becoming more visible in the Dutch market. Finding the right balance between online and offline retailing is crucial, as demonstrated by the bankruptcy of large retail shops like V&D, but also the successes of Wehkamp, Coolblue, Apple and Bol.com. A large number of retailers invest in an omni-channel retail chain, and in order to maximise the success, it is important that omni-channel is absorbed into the entire organisation, which often means a change in corporate culture is needed. Within the Dutch market, leaders realise the need, but in practice still show resistance.

The Changing Business Model

- Value conscious consumers
 - Differentiated brand and customer experience
 - Seamless supply chain
 - Costs are now both fixed and variable
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In India, the lack of logistics support is hampering last mile coverage, resulting in **the rise of "click-and-collect" services** enabling consumers to order a basket of goods online via their smartphones, tablets and computers and pick the goods up in-store (already bagged up) or from dedicated facilities.



For retailers, long-time drivers of the industry's economics – sales per store and gross margin per square foot or meter – are giving way to new criteria, revenue and margin per household being the most significant. Companies that do not already acknowledge and address this will continue to fall behind their competitors. Those that fail to adapt will potentially become obsolete or non-competitive.

Huge Risks... But Massive Opportunities

We are on the threshold of a dramatic digital disintermediation that will literally rewrite the rules of doing business. It will disrupt existing CPG relationships, whether they are with suppliers, retailers or consumers. It will affect all aspects of the CPG business – how they are structured internally, how they train employees, how they engage with their supply chain and retailers, how they interact with consumers, and how they create and market their products. The so-called top players or dominant retail brands of yesterday may not be those that stay relevant; what worked before might not work now and in the future. Speed of change adaptability and learning agility are not to be underestimated as the must have assets for organisations of the future.

“The changes have been both positive and negative. We now have a vast array of customised products and services, leading to more and more choices. However, it is forcing organisations to become flatter, reducing the number of employees, and at times, having entire industries with more people out in the market than they can ‘recycle’.”

Corinne Klajda, Accord Group ECE /
AltoPartners Poland

Within the Indian market, **risk management is an emerging function across business processes**, be they finance, HR or IT. In this age of omni-channel and connected consumers, and the desire of consumers to be able to interact with brands any time, any place, a seamless customer experience backed by a robust IT infrastructure and fool proof authentication and payment systems has become a necessary investment for most retailers/CPG companies.

Increased information or knowledge about the consumers, their behaviour and all the critical purchasing preference data, opens the door for cyber risk, and possibly increased potential liability on the part of the company. As such, in the USA and in Poland, risk management linked to cyber security is increasingly becoming a key focus area as brand companies become more legally aware of acts and

regulations regarding protection of personal information of customers and consumer protection acts.

Additionally, there are risks that companies must be aware of and build into their strategic and operational risk mitigation plans. For example, investing too much in technology at the expense of the core business is also a potential business risk. But, conversely not investing in technology is also a risk. Lack of expertise across the business and not creating an agile innovative culture can adversely



impact that long-term sustainability of the company, regardless of how much has been invested in technology.

The Business of Digital Transformation

Extensive research and insights point to the fact that digital disruption and big data have had a fundamental impact on brand, marketing and communications, but the impact extends beyond this and points to the need for businesses to change their business/economic models to remain relevant, sustainable and profitable.

Price transparency is crucial as the more empowered the customers become, the more value-conscious they become. Additionally, the new business models have led to high unemployment rates, with short-term contracts on the rise.

Today there is a much wider choice of products within the CEE region, where expectations are moving away from only having quality products to now including the overall customer experience. With better buying power, customers are more demanding and businesses with a well-developed, positive and enticing customer experience, are winning market share and customer loyalty. Within the UK market, not only is it crucial to **create a differentiated brand and customer experience**, but the need to create a seamless experience across all channels – from marketing to procurement to supply chain – is just as crucial as it informs your customer experience and drives repeat purchasing behaviour. Brands have to speak to and resonate with existing customers while addressing new segments, like millennials and GenZ, with holistic customer experience driving the brand communication strategy.

The speed of change in the market requires retailers to be **flexible in their business model** and nimble enough to adapt their approach to meet the changing market demands. Speed is of the essence, with brand or product launch successes now measured faster thanks to social engagements and direct consumer access. Consumer preference – whether stated or unstated – can be reworked into product and distribution strategies. Thus, flexibility is key. Due to their business models, big established companies are less able to be this adaptive and flexible. Often, corporate bureaucracy leaves little focus on what's really going on in the market and in the company. The organisation also

“Industries like music retailing, consumer-electronics retailing, airlines and hotels are visibly going through or have completed several rounds of digital disruption and have seen their business and operating models permanently changed. They have experienced the ‘double whammy’ of digital enabling different sales trajectories and altering cost structures.”

Kunal Ghosh, Accord India/ AltoPartners
India



misses the real connection to the 'shop floor'. In the US and Dutch markets, the number of start-ups is growing fast and they are gaining market share from the traditional/established retailers due to their flexibility and ability to adapt. From an Indian perspective, the majority of the local players are using established platforms such as Amazon and leveraging off their data capabilities, with the big players making significant IT investments in analytics. While, in the CEE region, a number of corporations have had to sell their retail businesses out of survival as they were unable to adapt in time to be more appealing to demanding customers, or they simply had to pull out of many regions to consolidate in fewer regions.

Talent Management – The Changing Face of the Boardroom

Blazent's prediction that "*Chief Data Officers (CDOs) will become the new 'it girls' of IT, creating tension in the C-Suite*" is causing much debate, with executive search professionals increasingly agreeing that CDOs, CIOs and CMOs will need to work in a coordinated effort to drive strategies forward.

Top New Roles

- Global Marketing / Brand Directors
 - Retail Network Development Leaders
 - Innovation Directors
 - Commercial Directors
 - Chief Digital Officers
 - Chief Information Security Officer (CISO)
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Within the UK, there is increasing demand for digital expertise amongst the NED community and in Poland, and across CEE, boards are looking for diversity of skills and digital/transformational skills. In the USA, many retailers have added a CDO to their ranks. The relationships between the CDO and CMO, if the roles are separated, are being worked out, as are the relationships with the CIO. Leaders need to be more open, collaborative, and less territorial and isolated than before. Many boards are quickly adding new Directors who are experts on omni-channel/digital/social media as well as, separately, Cyber Security.

The Netherlands is coming out of a period of economic crisis and the market is growing again. As a result of the uncertainty, boards are now searching for executives

with depth and 'meaning' as cultural fit and value-add are becoming more important.

From a North American perspective, any previous pressures to breakdown silos inside of organisations will evolve from being 'nice to have' to being a 'must have' to maximise performance and fully embrace the Customer Experience, which ultimately does impact the brand. The divide between the Chief Information Officer (CIO) and the Chief Merchandising/Marketing Officer must be



bridged for a company to reach potential. Over time, this reality may open the door for more CIOs to become true core C-Suite players and perhaps legitimate potential successors to the CEO over time.

Consequently, with big data available and being further developed, the future workforce is smaller and flatter, with home offices, flexi hours and 'new' working models introduced to accommodate the needs of different workforce generations.

New Skills and Competences

Executive search consultants are progressively looking beyond the FMCG sector for new appointments. Clients are increasingly becoming aware that the "copy and paste" philosophy that they used before might not always work, thus they are more open to focus on transferable competencies than only considering candidates with the exact skills and roles coming from competitors. Knowledge of technology/mobile/social is now a key attribute for any hire. The ability to plug into the new world of instant feedback, data and analysis has become the norm.

Within an Indian context, there is a need to search for technocrats who understand technology, but equally importantly are able to translate the brick and mortar processes to the online/digital world effectively. People with these skills are not always readily available in the FMCG sector, thus the need to look outside the sector for relevant skills.

Top Skills / Competences

- Adaptability
 - Multi-tasking
 - Ability to engage across all levels
 - Big picture / Blue sky thinking
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Interestingly though, due to the economic crisis in the Netherlands, while the market still wants a 100% match of candidate to industry, deeming it to be a safe bet, a shift to more entrepreneurial skills on boards with people who think like (and are) start-up executives, is on the rise.

Trend Setters

There are brands that are getting it right and have managed to compete and remain relevant during these times of rapid change.

The integration of physical and virtual shopping experiences, across a lifecycle of a product, continues to develop rapidly. This is making the previously intangible aspects of how consumers discover and value goods far more valuable – from how they are paid for, delivered, used, and disposed of. This means that these fragmented aspects of the value chain can no longer be an 'at



arms length' process. They need to be integrated with the manufacturer's brand. Nespresso's market strength is partly wrapped up in its tight integration of all these aspects, ensuring a seamless consumer experience from its concept stores, to its online fulfilment channels, to its dedicated support lines.

In Poland, a local consumer goods (apparel) company started the discussion with Accord Group ECE about their need to have a Chief Digital Officer. First, discussions started with the role reporting to either the CEO or the CMO. After much debate and analysis of their intended business objectives, the company decided that the role should report to the CEO as no excellent candidate agreed to be 3rd in line reporting to the CMO. The search placement was finally from the technology/telecom industry and 12 months later the company is selling its products globally with many successful international developments taking place, including franchising models besides their own unitary brand stores.

Regardless of the sector, the business landscape has irrevocably changed and will continue as consumer demands increase. Strong leadership teams are needed to ensure the company is adaptable, innovative and relevant.

“Understanding the business, the changing market dynamics and the strategic direction of the company allows us to act as their eyes and ears in the market and share our global insights and expertise to enhance their businesses. Developing these trusted relationships with our clients is a key success factor”

Stephen Dallamore
AltoPartners Global Chairman



OUR GLOBAL EXPERTS

The AltoPartners Consumer, Retail & Luxury Goods Practice offers broad experience across the full spectrum of consumer related businesses, from consumer goods manufacturing through to high-end fashion design and retail. The Consultants within the Practice have worked with clients in FMCG, consumer durables, consumer services, retail, luxury goods, fashion, hotels and leisure. Many also have hands-on operational experience of working in these sectors, in addition to in-depth experience of recruiting senior executives for clients around the world. Our expertise in local geographies provides clients with access to international markets, while retaining a central point of contact during the search process.

We have worked with numerous multi-national companies, as well as with smaller listed businesses and leading private companies. We provide our clients with the right combination of market, industry and functional knowledge from within the Consumer, Retail & Luxury Goods Practice to solve their unique leadership team building requirements. We work in partnership with our clients and each assignment has the direct involvement of one or more Partners from initiation through to conclusion. We engage with our clients to challenge their thinking and deliver the best possible result.

For deeper insights into our Consumer Practice area of expertise from the experts cited in this article, please contact one of our practice leaders.

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