

# CPG ORGANIZATIONS SEEK CONSUMER-CENTRICITY IN 2020

Five key leadership themes from CAGNY 2020

**“By capturing & analyzing more granular consumer-level data, we can...customize communication & execute in every store with precisely the right products in the right location at the right price.”**

— Hugh Johnston, Vice Chair & CFO, PepsiCo

Today’s consumers are more in control of the purchase funnel than ever before, which has forced organizations to rethink everything they do. CPG companies continue to work toward more agile & adaptive decision-making across the enterprise in order to keep up with everchanging consumer demands.

The overarching theme across all the presentations at CAGNY (Consumer Analyst Group of New York) 2020 was the goal of becoming more consumer-centric. As CEOs, CFOs and other executives reviewed company performance in 2019 as well as shared an outlook for 2020, consumer-centricity was at the center of every presentation.

## Customer Activation

In order to meet the demands of consumers, traditional customer relationships for both brands & manufacturers must evolve. **Co-creation or co-manufacturing partnerships** offer increased value for customers, such as established, private-label brands seeking to improve product/category innovation and increase speed-to-market.

**“The consumer revolution is driving customer transformation...as customers are looking for a new kind of supplier or ‘co-creation partner,”** William Lynch, Head of Investor Relations, Kerry Group.

**Insight collaboration** is paramount as brands must work more closely with their retail customers in terms of marketing and data, by sharing insights that ultimately drive sales. These brands must also master secondary search activation across 3<sup>rd</sup>-party eCommerce platforms and search engines.

**Local execution** is key as well. Restructuring its business helped PepsiCo become more locally focused, by “tailoring & optimizing resources to better capture the differing consumer needs in different continents.”<sup>1</sup> Several companies have taken this hybrid approach in order to enable growth opportunities by getting closer to their consumers and deploying global capabilities to win locally.

**Talent Implications:** The changing landscape of retail means that local activation is critical, the concept of a centralized customer team is now outdated. Instead, CPG companies must operate hybrid models. For relationships to evolve, leadership must be more strategic & innovative, with a willingness to experiment & take risks. They must be highly data-driven, providing insights that improve effectiveness & autonomy within local markets.



## Evolution of CPG & Retail Relationship:

- (2000)** **Emergence of Key Accounts:** first global accounts between brands & retailers
- (2005)** **Strategic Account Management:** CPG marketing budget devoted to key accounts
- (2010)** **Collaboration:** brands skip distributors and supply retailers directly
- (2015)** **Online + Private Label:** brands unsure where to focus resources
- (2020)** **Customer Activation:** collaborative & insight-driven decision-making

<sup>1</sup>Hugh Johnston, Vice Chair and Chief Financial Officer, PepsiCo

## Product Innovation

CPG organizations are confident in their ability to meet consumer demands with forthcoming product innovations. Companies have placed their bets in three categories: **product premiumization, alternative proteins and technology-enabled solutions.**

**Premium Products**, which command higher price points, are proliferating across categories. General Mills' has launched a \$13 box of cereal, a category that has been in long-term decline is finally starting to stabilize and General Mills' is doubling down on high margin product to take advantage of this. In the last few years, Colgate has extended its toothpaste offerings from "better and best" to "good, better and best" and widened the pricing margin between each from \$1 to \$2 more per tube.

**Alternative proteins** captured most of the spotlight, as plant- & nut-based products were highlighted by almost every company. *"Plant-based alternatives for protein only capture a small percentage of the market opportunity. Just 17% of consumers have used meat substitutes while 69% are receptive to trying plant-based protein alternatives,"* explained Dean Banks, *President, Tyson Foods*. Protein alternatives are a critical part of food & beverage company portfolios and are only in their infancy.

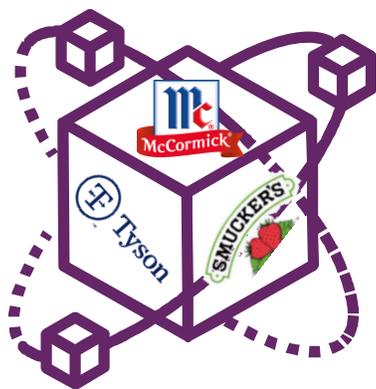
**Talent Implications:** Leadership must transform R&D processes to create a 'digital-first' R&D organization and innovation capability, using new technologies & platforms to dramatically simplify and speed up development. They must also be highly commercial, bringing consumer feedback directly into the R&D process by utilizing data, modelling and simulations to enable entirely new streams of innovation & revenue.

***"Our focus remains on executing our strategies of superiority, productivity, constructive disruption and improving P&G's organization & culture to deliver balanced top-line & bottom-line growth"***

*— David Taylor, President & CEO, Procter & Gamble*

## Technology Enablement

Procter & Gamble's CEO, David Taylor, highlighted the company's focus on "superiority, productivity (and) constructive disruption" as they seek to utilize technology across the value chain.



This begins with building new manufacturing & automation centers that bring together artificial intelligence/machine learning, robotics, and other emerging technologies, which foster more consumer-led innovation and enhance product speed-to-market. Some brands—such as Tyson, McCormick and J.M. Smucker—are using blockchain technology to track products throughout the supply chain, in order to provide consumers/suppliers with a view into product source & quality.

Technology enablement continues across channels, particularly through eCommerce. This requires data-driven marketing and channel strategies, as well as having robust systems in place to properly mine incoming data, in order to create differentiated consumer experiences.

Lastly, consumer products themselves have become increasingly tech-enabled. Many brands have integrated cutting-edge technology into new products—i.e. Colgate-Palmolive and P&G introducing toothbrushes that scan the inside of your mouth to provide personalized insights into healthier teeth.

**Talent Implications:** Technology & commercial teams must be connected and aligned throughout the organization. Top digital & technology leaders must possess consumer-centric DNA, with the ability to simplify complexity, apply analytics to commercial performance and deeply understand consumer behavior across platforms. Commercial leadership should be highly data-driven and bring a strong understanding & advocacy for technology enablement. Structurally, the product & digital teams must sit at the intersection of back-end technology and go-to-market functions.

## Sustainability

Beyond purpose-led, environmentally friendly products & operations, brands emphasized the need to integrate sustainability into the enterprise strategy. Sustainability must be fully aligned with commercial ambitions and support the business by increasing brand & societal value. CAGNY presenters shared their organizations' current & future ESG commitments, with robust targets around sustainable ingredients, environmental impact and mindful consumption. For example, many pledged, within the next 5-10 years, to have 100% of packaging be recyclable and 100% of ingredients be sustainably sourced as well as to reduce GHG emissions and water use by large proportions.



Unilever is leading the pack in terms of one, integrated strategy. Graeme Pitkethly, their CFO, reemphasized their **“purpose is to make sustainable living commonplace, as people with purpose thrive, brands with purpose grow and companies with purpose last.”** CPG companies must be fully transparent, as consumers care about how a product gets made as much as the product itself, as well as authentic by giving brands a voice and driving positive change.

**Talent Implications:** At the highest level, this involves appointing a chief sustainability officer to demonstrate an enterprise commitment to advancing sustainability initiatives as well as establishing an ESG committee within the board of directors. Throughout the entire organization, this requires a cultural emphasis on sustainability and transformational business leaders who look beyond near-term profits and embrace their role as change agents. Effective sustainable leaders possess both the mindset to identify sustainability opportunity & risk and the skillset to address & seize it.

## People & Culture

Keeping up with a diverse & agile consumer base requires a diverse & agile workforce. To enable this, many CPG companies have made recent structural changes focusing on delayering the organization, removing silos across functions

& business units and more localized execution. The reporting changes made sought to create simpler & faster organizations in which employees are more accountable to contribute beyond function/category.

Every brand wants to be more consumer-centric, but to do so, many are focusing on promoting a culture of consumer intimacy, collaboration, faster execution, empowerment and diversity & inclusion. To fully enable a more dynamic workforce, companies are heavily focusing on their culture. **Despite this being a key message throughout CAGNY, the present leadership of the 30 companies significantly lacked diversity.**

**Talent Implications:** To truly promote diversity & inclusion, boards and executive teams must reflect the increasing diversity of their consumer base. Regarding organizational structure, there is no one size fits all; however, a hybrid model provides a strong balance of local capabilities with global support. The right structure, coupled with leadership who act as culture carriers will allow for a more agile, collaborative working environment.

### Diversity at CAGNY 2020

Of the *presenting CEOs*, **89% were white males.**



Of the leaders who *spoke at the podium*, just **4% were female** and **10% were ethnically diverse males.**



Of the *overall group of executives onstage*, **8% were female** and **10% were ethnically diverse males.**



Source: Russell Reynolds Associates Proprietary Data