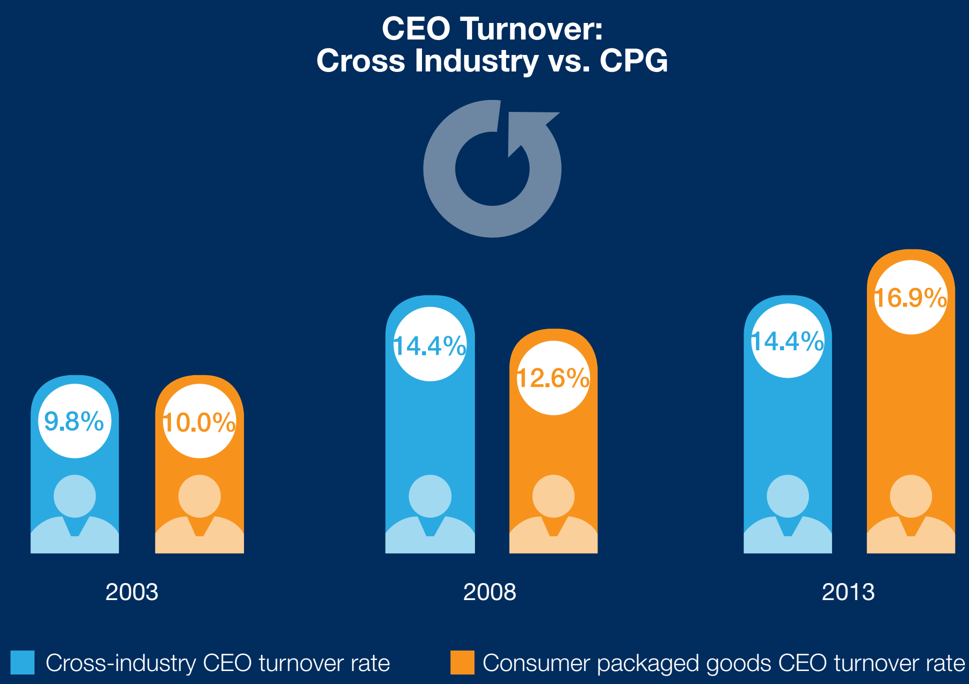
Russell Reynolds Associates

# FIVE KEY ISSUES WORTHY OF BOARD AND CEO ATTENTION IN CONSUMER PACKAGED GOODS

# 1. CEO SUCCESSION

Chief executive officer (CEO) turnover among consumer packaged goods (CPG) companies in 2013 was the highest it has been in the last decade and higher than the global cross-industry average. The recent exit of the CEO at Coty and at Luxottica as well as challenges with CEO succession and the return of A.G. Lafley at Procter & Gamble (P&G) highlight the need for a clear CEO succession plan to mitigate the risk of unplanned, or even planned, CEO departures.




## KEY TAKEAWAYS

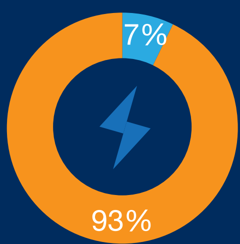
- **Elevate CEO succession on the board's agenda:** There are a number of forces that can keep succession planning from getting the attention it should get; given the greater scrutiny and heightened requirements of regulatory bodies, boards must critically evaluate their current succession plan.
- **Formulate a written succession plan:** This plan should include the skills, competencies and experiences required for the next CEO, as well as assessments of, and development plans for, internal candidates. Furthermore, companies need to establish an emergency succession plan to account for unplanned events.
- **Conduct regular in-depth reviews:** The entire board should assess the succession plan twice a year to determine whether any changes are necessary.
- **Maintain a strong talent pipeline:** Ensure that senior executive development is aligned with the strategic needs of the company. For instance, with the rising importance of digital and emerging markets, CPG companies are increasingly focusing on creating a talent pipeline within these areas.

Source: *2013 Chief Executive Study*; 14 years of CEO succession data in the world's 2,500 largest public companies, Strategy& (formerly Booz & Company), 2014.

# 2. DIGITAL DISRUPTION

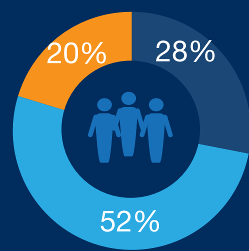
The digital imperative is transforming the speed and shape of CPG companies as they integrate digital marketing and e-commerce, including direct-to-consumer, into their DNA. While digital disruption is recognized, people and skills are far behind.

While **93%** of C-level CPG executives think digital technology will disrupt their organization over the next 12 months …

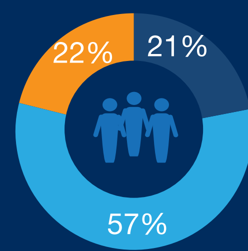



Not disrupted  Minimally to massively disrupted

… Only **20%** of those surveyed confidently agree that their CPG business has the right people to define digital strategy.




We have the right people to define our digital strategy.




We have the right people and skills to execute our digital strategy.

Disagree  Somewhat agree  Agree

## KEY TAKEAWAYS

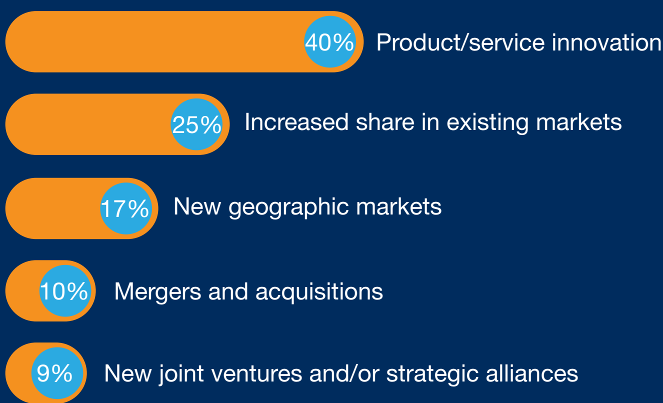
- **Make digital a clear priority:** It no longer is sufficient for CEOs to simply be supportive of digital initiatives. The digital strategy must come from the board and the CEO. In many organizations, responsibility still rests with Marketing. Digital must be seen as an organizational imperative, not a marketing function.
- **Align digital transformation with company strategy:** CEOs need to work together with digital and business leaders to create a connective structure that places digital at the core of the company, enabling them to adapt quickly to changes. Companies also need to remove the processes, systems and silos that stand in the way of an agile corporate structure.
- **Ensure that the right digital talent is in place:** It is important to hire the right digital leaders and talent. Know that emphasis on retention and succession planning is critical to retaining that talent. Due to the shortage of digital talent, look internally for competencies such as intelligence, agility and influencing skills rather than digital experience in potential digital leaders.
- **Understand that future leaders may come from digital:** Digital leaders currently are called upon to lead by inspiring and rallying organizations around common goals. The competencies required—courage and willingness to take risks, talent development and management, change management and influencing—all translate into CEO competencies as well.

Source: *Digital Organization Study*; more than 200 CPG executives surveyed, Forrester-Russell Reynolds Associates, 2014.

# 3. GROWTH AMIDST RISING COSTS AND SLUGGISH CATEGORIES

Economic headwinds in major emerging and developed markets require CPG companies to work harder for profitable growth. Falling short on expectations, CPG companies are focusing on product innovation, geographic expansion, corporate restructuring, mergers and acquisitions (M&A) and alliances to deliver results.

**40%** of CPG CEOs see product innovation as being the main opportunity to grow their businesses over the next 12 months*




CPG CEOs have concrete plans to make changes or already are making changes in their businesses to capitalize on these growth opportunities


## KEY TAKEAWAYS

- **Structure for success:** Refocus businesses on the most profitable categories by:
  - **Divestment of non-core business units;** e.g., P&G is eliminating 100 struggling brands to focus on 70-80 core brands, and Unilever is divesting several of its food businesses.
  - **M&A to access new categories/brands and achieve synergies;** e.g., Suntory has acquired Beam, and Yildiz Holding has acquired United Biscuits.
  - **Corporate restructuring;** e.g., Mondelēz has initiated a $3.5 billion restructuring program to generate savings of $1.5 billion by 2018.
- **Develop a compelling value proposition for the consumer:** Ensure that the marketing and sales functions are insight and data driven to identify and address the needs of consumers.
- **Create a lean operating model:** Decide the right mix of global vs. local brands in core categories, whether to divide business units by category or by geography, whether corporate roles should be strategic or operationally focused, how infrastructure should be shared and which capabilities can be developed internally vs. need to be acquired.
- **Make senior leadership accountable for growth:** Foster enterprise-wide innovation-led growth—Colgate-Palmolive, General Mills, Hershey, Kellogg's, Mondelēz and Newell Rubbermaid are just some of the CPG companies that recently have appointed a chief growth officer.

Source: *17th Annual Global CEO Survey*; 199 CPG CEOs surveyed in 55 countries, PricewaterhouseCoopers, 2014.
*Due to rounding, the total does not equal 100%.

# 4. INCREASINGLY POWERFUL RETAILERS

Due to the rise of private labels, channel blur and industry consolidation, CPG companies are seeing retailers increasingly turning into competitors. Manufacturers need to deliver improved products and value-added category insights to retailers that now demand innovation and creative ideas across merchandising, promotions, shopper marketing and supply chain in support of the consumer goods they carry.

**Top Five Private Label Retailers (US$ billions)**

**2011 — $85.6**

| | |
|---|---|
| Walmart (Save money. Live better.) | $31.4 |
| Kroger | $24.4 |
| Costco Wholesale | $11.2 |
| Loblaw | $10.2 |
| Safeway | $8.4 |

**2013 — $138.4**

| | |
|---|---|
| $49.3 | Walmart (Save money. Live better.) |
| $27.5 | Kroger |
| $22.8 | CVS/pharmacy |
| $20.1 | Costco Wholesale |
| $18.7 | Walgreens |

The top five largest sellers of private label food and grocery items in North America had combined private label sales of $85.6 billion in 2011. **This number increased by more than 50% in 2013 to $138.4 billion.**

## KEY TAKEAWAYS

- **Elevate retail collaboration to the board and CEO agenda:** Strategic priorities must include joint business planning with the company's biggest retail partners.
- **Make top management accountable for collaboration with retailers:** A pioneer in this area, Procter & Gamble set up a team to get closer to its largest customer, Walmart. This team addresses product development, supply chain, marketing and sales issues to ensure that P&G's entire organization is aligned to Walmart's needs and has grown P&G's Walmart business from $400 million to more than $10 billion.
- **Rethink in-store shopper engagement:** Controlling the in-store experience is critical for brand growth, and brands need to understand the elements that impact a shopper's decision journey using predictive analytics and retailer intelligence.
- **Engage directly with customers:** The brand strategy must consider how multiple channels and platforms can enhance each brand's reach, relevance and influence on consumers.
- **Leverage data to create actionable insights:** It is important to invest in talent and capabilities that mine data across platforms and gather insights that inform business, product, media and customer strategy.

Source: "PLB Top 35 Private Label Retailers," *Private Label Buyer*, 2011, 2013.

# 5. MAKING SENSE OF EMERGING MARKETS

Emerging markets are seeing a rise in consumer spending, an increase in modern trade penetration, and a boom in mobile and e-commerce. Yet global CPG companies are struggling in this arena and are hoping that sales from developed markets will offset sluggish growth in emerging markets.

**Multinationals' Gap between Ambition and Execution in Emerging Markets**

**78%** of companies expect to gain market share in emerging markets

**HOWEVER …**

… Only **13%** say they have an advantage against local competitors

Only **9%** of the companies' top 20 leaders are based in emerging markets

**0%** of companies feel their emerging markets capabilities are sufficient

FORTUNE 500

**45%** of companies on Fortune's Global 500 list will hail from emerging markets by 2025

## KEY TAKEAWAYS

- **Give emerging markets a seat at the table:** Ensure that emerging markets have a share of voice with regard to decision making, resource allocation, corporate strategy, product development and go-to-market strategy. Make sure that the job scopes and reporting lines of emerging markets leaders allow for fair access to talent and resources.

- **Develop a C-suite that understands and reflects the company's focus on emerging markets:** Keep in mind that on-the-ground experience in emerging markets is increasingly a stepping stone into C-suite and other leadership roles within global CPG companies—some examples are Diageo's Ivan Menezes, Samsonite's Ramesh Tainwala and Unilever's Harish Manwani.

- **Understand that future leaders may come from emerging markets:** Develop capabilities to attract, develop and retain talent in emerging markets:

  – **Provide a compelling career for increasingly mobile executives:** Increase exposure to different geographies and functions, offer mentoring and coaching, and provide access to top management.

  – **Understand that employer branding is critical:** Ensure that business and human resources policies are flexible enough to address local needs.

  – **Make development of local talent a key performance indicator for local business heads, not just Human Resources:** Track high-potential talent in emerging markets and treat the retention and development of this talent as a strategic priority.

Source: "Time to Reengage with, Not Retreat from, Emerging Markets," 2014, "Playing to Win in Emerging Markets," 2013, The Boston Consulting Group; "Management intuition for the *next* 50 years," McKinsey & Company, 2014.

# ABOUT RUSSELL REYNOLDS ASSOCIATES

Russell Reynolds Associates is a global leader in assessment, recruitment and succession planning for chief executive officers, boards of directors and key roles within the C-suite. With 350 consultants in 44 offices around the world, we work closely with both public and private organizations across all industries and regions. We help our clients build boards and executive teams that can meet the challenges and opportunities presented by the digital, economic, environmental and political trends that are reshaping the global business environment.

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