No normal is the new normal

Make disruption work for your business

kpmg.com/TopOfMind
KPMG and the CGF recently asked 500+ senior executives at global consumer goods and retail companies about their top of mind priorities and challenges.

Disruption is changing the industry at an unprecedented pace. Keeping up is no longer enough. Growth is the only imperative to survive.
The question is: are companies responding to what they hear fast enough?

Most companies today realize that to deliver consistent sustainable growth, they need to spend less time listening internally and more time listening to the customer.
What are the factors hindering and propelling growth in disruptive times?

The 2018 TOM survey breaks it down by strategic challenges, customer centricity, digital transformation, smart technology and supply chain.
Strategic challenges

The 2018 Top of Mind Survey finds an industry aggressively navigating a sea of change.
Key challenges
Old products, models and strategies won’t cut it anymore

46 percent of manufacturers and 34 percent of retailers are struggling to adapt to industry disruption
How do companies rate the importance of rethinking strategy, products and business models?

<table>
<thead>
<tr>
<th>Importance Level</th>
<th>Retailers</th>
<th>Manufacturers</th>
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</thead>
<tbody>
<tr>
<td>Low importance</td>
<td>8%</td>
<td>4%</td>
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<tr>
<td>Moderate importance</td>
<td>34%</td>
<td>31%</td>
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<tr>
<td>High importance</td>
<td>36%</td>
<td>37%</td>
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<tr>
<td>Very high importance</td>
<td>22%</td>
<td>27%</td>
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</table>
58 percent of companies say they will develop new business models
Follow the leaders

70 percent of the fastest-growing companies measure and incentivize progress on strategy
Follow the leaders

87 percent of the fastest-growing companies foster a culture encouraging innovation and change
In my experience, changing management structures rarely stimulates or drives growth. Developing new business models — and collaborating with partners in different sectors to allow quick sharing of competence and skill sets — are much more likely to galvanize growth.

— Nicholas Griffin
Head, Global Strategy Group, KPMG International

Challenge accepted

Take action

Focus on growth instead of cost cutting. This is essential to respond successfully to the scale and speed of market disruption.

Don’t get stuck in short-term thinking or be afraid of risk when it comes to transformation. Be ambitious but pragmatic.
Customer centricity

It’s one thing to say you have put customers at the heart of your business. It’s much harder to actually do it.
Shifts in consumer attitudes, behaviors, and expectations are creating new challenges for consumer companies. Particularly for those that are less customer centric.

Top five consumer trends seen as threats by consumer and retail companies:

- 29% Declining loyalty to brands
- 28% Demand for greater value
- 26% Shorter attention spans
- 21% Demand for greater experience
- 20% Demand for immediate gratification
Follow the leaders

Highly-customer-centric companies are more likely to see “disruptive” consumer trends as opportunities

Top five "disruptive" trends that customer-centric companies see as opportunities

- **40%** Preference for shopping/buying online
- **32%** Expectation of personalized shopping experiences
- **30%** Expectation for brands to engage with consumers
- **26%** Expectation of seamless/frictionless shopping experiences
- **22%** Socially and environmentally aware consumers
Challenge accepted

Take action

- Use data analytics to really understand who your customer is, what they want and how the market is evolving.
- Consumers today are always shopping. Embrace new technology to connect with them at every touchpoint from online to offline.

“Being customer centric isn’t a one and done thing. You can’t say ‘We’re going to do a couple of initiatives’ and think the job is done.”

— Julio Hernandez
Global Lead for KPMG’s Global Customer Center of Excellence
For the most successful consumer and retail companies, digital transformation is about using technology to focus on the customer, not just internal efficiencies.
31 percent of all companies identified cost savings and efficiencies as one of the main benefits of digital transformation whereas only 3 percent of digital leaders consider cost efficiency to be a key benefit.
Key challenges
Many businesses are still thinking traditionally when it comes to digital transformation.

46 percent of companies say the biggest stumbling block between them and digital transformation is ROI uncertainty.
Follow the leaders

Digital transformation correlates with growth

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<td><strong>Projected revenue growth</strong></td>
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<tr>
<td><strong>Current year</strong></td>
<td>3.1%</td>
<td>2.9%</td>
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<td><strong>By 2020</strong></td>
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In the last fiscal year, digital leaders invested 3.1 percent more of their revenue in technology than average.
Challenge accepted

Take action

- Learn from platform businesses and start-ups, which are using technology to reinvent strategies, business models and customer interactions.
- Be agile. Invest in cloud-based tools which can connect to existing systems that enable you to be more nimble and transform quickly.

“If you anchor your digital transformational journey to the needs of the customer, you will achieve better outcomes.”

— David Evans
Global Advisory Head, Innovation & Technology
These relatively young technologies are changing so fast that companies need to keep their options open. In 10–15 years’ time, AI could be making most of the operational decisions in a business.
By 2020, 72 percent of platform businesses will be using AI compared to 27 percent of retailers and just 15 percent of manufacturers.
Follow the leaders

Platform businesses invest 13 percent of their annual revenues in technology compared to less than 5 percent for all companies.
Follow the leaders

59 percent of digital leaders are using big data and predictive analytics

59%
Challenge accepted

Take action

- Boost your investment in new technologies to keep competitive. Successful companies are using cloud-based open platforms as well as experimenting with AI, robotics and AR.
- Build your AI systems gradually to enable you to achieve end to end automation. You cannot buy a system off the shelf.

“By 2020, AI technologies will be managing more complex processes compared to single tasks. We are probably only about 10 years away from a world where AI is really navigating a portfolio of processes, and effectively acting as the engine of a company, making operational decisions.”

— Dr. Thomas Erwin
Global Head of KPMG Lighthouse Center of Excellence for Intelligent Automation and Data & Analytics
Supply chains

How demand-driven is your supply chain? In most cases, the honest answer is: not as demand-driven as we’d like it to be.
Key challenges

The main driver of supply chain improvement should be making customers happier, not improving costs

Only one in five companies say that their supply chain is deployed and optimized to keep pace with customer needs
Follow the leaders

Demand-driven supply chain leaders see faster revenue and profit growth now and into the future

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Challenge accepted

Take action

- Embrace open and collaborative partnerships between manufacturers, distributors, suppliers and consumers to transform your supply chain.
- Experiment with AI and data and analytics to make your supply chains faster and more clever. Companies that fail to do this will be left behind.

“

The core concept of demand-driven is that, first, you tear the walls down between functions, then the walls between business units, and then open up to your external environment, whether that’s towards customers, suppliers or business partners.

— Erich Gambenrieder
Global Head of Operations Advisory and Global Operation Center of Excellence

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