The beauty of success
Going for growth in the household and personal care sector
Did you know?

We work together with many of the best-known names in the sector*

In the last 12 months, we have worked with 96% of the leading consumer products companies in the top 500 of the S&P 1200 and 82% of the leading consumer products companies in the Forbes Global 2000.

Specifically, we enjoy strong relationships at the subsector level, working with:

• 17 of the 18 household and personal care companies in the Forbes Global 2000
• All of the household and personal care companies in the S&P Global 1200

*Based on July 2012 market rankings

Talking Personal care feedback

Our regular news digest, Talking Personal Care, is published monthly and very well received by the industry. It offers readers a timely, succinct and unbiased round-up of key developments in the personal care sector. Comments have included:

“Very interesting and insightful. In just one place I could find news that I’ve got from different sources. You are covering the key topics the industry is following.”

“Very informative.”
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The beauty of success
Limited growth in established markets; challenges around realizing value in rapid-growth economies; increasingly complex routes to market; rising and volatile cost pressures; and increasing pressure to be good corporate citizens are just some of the challenges facing household and personal care (HPC) companies in today’s multifaceted global marketplace.

Responding to these pressures, leading companies are focusing on the fundamentals, including more rigorous execution around core products in existing markets, greater cost reductions to relieve pressure on margins; and better management of counterparty default risks and supply-chain risk.

We believe that in order to stay ahead, successful companies will need to:

- Create growth opportunities in established and rapid-growth markets — understanding their consumers, delivering innovation, engaging consumers via better management of social media and mobile technologies, driving value from the right transactions and choosing where to compete.
- Increase organizational agility — building a lean and flexible supply chain, enabling faster decision-making, analyzing interconnected data and balancing global control with local entrepreneurialism.
- Deliver margin and cash flow improvement — increasing efficiency and reinventing processes to reduce costs, leveraging scale, collaborating effectively with third parties, managing retailers’ demands, working more effectively with retailers and increasing the pricing power of brands.
- Enhance their reputations with consumers and stakeholders — engaging with stakeholders and reporting transparently, ensuring consistency, managing risk effectively and optimizing talent and resources.

Whether your interests are domestic, regional or global, we have on-the-ground professionals in mature and rapid-growth markets and can bring the resources of a global team, coordinated through a single point of contact. Our strong commitment to the HPC sector means we can offer in-depth knowledge, practical experience, strong industry relationships and genuine global reach to help you fulfill your objectives. We help companies to execute better and faster to deliver sustainable value.

Please get in touch with us if you want to find out more.

We very much look forward to having the opportunity to work with you.

Anastasia Economos
Global Household and Personal Care Co-Leader
EY
Creating growth opportunities
“Growth is an absolute requirement for HPC businesses, irrespective of the difficult economic conditions. Responding to consistent pressure from shareholders, companies are focusing on a variety of strategies, both organic and inorganic, to ensure they keep delivering.”

Mark Twine, Global Household and Personal Care Co-Leader
EY

“As the popularity of social media grows, our clients are becoming increasingly aware of how important social media insight is when making critical decisions or avoiding significant pitfalls. We are supporting this decision-making process through listening and analyzing sentiment and trends and then applying our multi-disciplinary professional interpretation and reporting of the results.”

Adlai Goldberg, Leader, Consumer Products, EY

Today’s HPC companies are looking at a number of ways to create growth and value: understanding their consumers; delivering innovation; engaging their consumers; driving value from the right transactions; and choosing where to compete.

Understanding consumers
HPC brands need to develop deep insights into their consumers in order to really deliver a compelling value proposition—in every market that they operate in. Those that don’t are unlikely to survive. The challenge for HPC companies is to leverage their insights to identify the core brands that have the greatest relevance and maximize growth opportunities at every level across economy, mass and premium markets.

One of the routes that HPC companies are exploiting in order to understand consumers better is social media. Beauty product marketing has always enjoyed a certain word of mouth evangelism, and because of this, beauty brands may have the most to gain from engaging in this channel. Dove is a good example of a brand that has used social media to its full potential. With over 300,000 online fans, Dove has transformed the traditional Facebook interface into a dynamic and interactive brand portal.

Clinique is another example of a brand that has successfully engaged with consumers—it was one of the first to solicit and include user reviews as part of its marketing and has a Facebook page at a global level plus local Facebook pages in Germany, the UK, Austria, Switzerland and Saudi Arabia.

Emerging trends
According to research by EY, 14% of consumer product companies currently identify “understanding consumer and market trends” as having the highest potential to create value in their business in the next five years.1

Certainly, understanding consumers in depth will help HPC companies to win when it comes to emerging trends such as the focus on luxury and cosmeceuticals (cosmetics combined with pharmaceuticals), topical products that interact with dietary supplements, and, especially, anti-ageing products, which are gaining in popularity as the world’s population matures.2

As consumers have also become more and more interested in the organic market—not just in the HPC sector—due to an increase in allergies and concerns over chemical safety, companies have listened well and supplied the growing demand.3 These products are generally 30%–50% more expensive than traditional products,4 a fact that has spurred L’Oréal to pledge US$1.2m to the US’ Environmental Protection Agency to fund collaborative research into a toxicity testing system.5

Two other fast-growing market segments are products for men and “tweens” (9- to 12-year-olds).6

1. Disrupt or be disrupted: creating value in the consumer products brand new order. EY, May 2012, p. 18.
2. Personal Care Products Manufacturing, First Research, 19 March 2012.
3. Ibid.
4. Ibid.
5. Talking Personal Care: current developments in the personal care sector, EY, February 2012.
Rapid-growth markets in particular have begun to notice an upturn in the rate of growth in men’s skincare products. Specialists in India and China have put this down to men paying more attention to their looks, while L’Oréal in the UK claims there is a trend towards retrosexuality—a reclaiming of traditional male values that incorporates personal grooming as a sign of confidence.\(^7\)

As for tweens, in early 2011, Wal-Mart began retailing the geoGirl line (also available online at drugstore.com), targeted at tweens customers. The brand’s website (www.geogirl.com) was built for both girls and their parents, providing tips on skin care and body care, creating looks and how-tos along with an option that allows mom to delete the user account. “At the end of the day,” according to Wal-Mart’s vice president of beauty and personal care Carmen Bauza, “mom is the one who makes the decisions.”\(^9\)

Delivering innovation

As companies seek to drive volume growth and seize market share, innovation is a key decision point—in terms of product, packaging and promotion. EY’s research reveals that 17% of consumer product companies currently identify bringing innovations to market as one of the most significant barriers to executing company strategy.\(^10\)

Changing consumer needs and tastes, evolving technology, shortening product life cycles and heavier domestic and overseas competition all increase the pressure to innovate. Businesses need to renew their offerings and business models constantly—and get innovation to people quickly—to protect existing markets and develop new ones.

The perennial problem for companies is managing, measuring and directing that innovation and creativity for maximum return. Bringing new products to market involves a significant investment of money, time and skill—the challenge lies in funding innovation when costs are rising and margins are shrinking. Companies are further hampered by the knock-on effects of the reductions in research and development spending they made during the recession, which have impacted the pipeline of new products.

However, the importance of innovation is clear, as Dr Thomas Foerster, Corporate Vice President for R&D Beauty Care at Henkel commented: “innovation has a great impact on Henkel’s market share gains and its profitable organic growth.”9

Engaging consumers

Creating brand engagement is also vital, and social media in particular is changing the way that consumers and HPC companies interact and how consumers think about brands. As the pace of technology adoption is accelerating, HPC businesses face a far faster business cycle where they have to react rapidly “in real time,” especially as more and more consumers have mobile access to the internet with all its networking and information opportunities.

Exploiting mobile

The International Telecommunication Union estimates that at the end of 2011, there were 4.5 billion subscriptions for mobile PCs, tablets or mobile phones in rapid-growth markets, accounting for 76% of global subscriptions. It notes that mobile penetration in the developing world now is 79%. As mobile opens up as a new channel, ABI Research predicts that by 2015, shopping on the mobile web will generate sales of US$119b, or around 8% of the total e-commerce

Innovation in action

Church and Dwight’s “Tooth Tunes” is a good example of an innovative product launched this year. The product is designed to make brushing more “entertaining” for adults as well as children. As the name suggests, the brush plays a song while being used. Jim Craigie, CEO of Church & Dwight, says: “I just think it’s going to be the biggest hit in toothbrushes since they put bristles on a plastic stick.”\(^12\)

Church & Dwight bought the technology for this tooth brush from Hasbro which had been unable to market it effectively.\(^13\)

Innovation in store layout is also helping to drive the sale of innovative products. Carrefour in France recently launched two “Planet” format stores in Lyon. The beauty areas are highlighted by overhead signage and have matt black floors and low level displays. They also include additional services such as a “Beauty Bubble” where customers can get their hair and nails done, as well as meet a beauty advisor.\(^14\)

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9. Selling to the girl, the mom or both? Global Cosmetic Industry, 1 April 2012.
10. Disrupt or be disrupted: creating value in the consumer products brand new order, EY, May 2012, p. 41.
Exploiting digital and social media
Examples of companies exploiting digital and social media abound, both in rapid-growth and mature markets. Microsoft Advertising Director Neville Taraporewalla comments: “FMCG companies are looking at digital in a big way because the threshold of Indian customers on the Web is 100 million-plus and will reach 300 million in the next 36 months; this will be the largest population of Internet customers in the world.”

Commenting more broadly on consumers’ appetite to exploit new technology to take ownership of brands, Unilever’s Chief Marketing Officer Keith Weed says: “Driven by the rapid advances in social media, the individual citizen feels empowered to take action on his or her own behalf. This trend is set to accelerate rapidly in 2012. We should embrace it by moving from creating brands to curating them — developing an environment so consumers can truly ‘live’ these brands.” This represents a different type of consumer engagement and requires different ways of working.

As a consequence, Mr. Weed notes that Unilever now has global, direct relationships with media companies like Google, Facebook, Microsoft, Twitter and Apple in a way that is not possible with national media companies.

HPC products have traditionally relied in part on word of mouth marketing and so have a lot to gain from social media. Colgate-Palmolive—which currently has 40 Facebook pages—has announced that it will spend 13% of its marketing budget on digital communications such as Facebook and mobile platforms.

Engaging consumers via social media

One example of a product causing a stir on social media was Procter & Gamble’s Old Spice body wash campaign. It became a huge consumer talking point, leading to engagement with the brand on Facebook and Twitter, and online video spots where the “Old Spice guy” answered questions. Mike Norton, a spokesman for Old Spice, said: “It was so far off the chart compared with what we had dreamed about. Also, you get this instant feedback and sentiment analysis from people who had put their trust in the brand and want to be a part of it.” After its release, sales of the product doubled.

Another company whose product went viral was the Orabrush tongue cleaner. It launched with a “reverse marketing model” by creating a buzz online before securing retailer distribution. The initial YouTube movie, which included mini sitcoms featuring dirty tongues and bad breath, followed by a “how to” guide on using the Orabrush, attracted over 15 million viewers and sold so well online that retailers including Wal-Mart and Boots were soon calling the company to ask if they could stock Orabrushes. By October 2012, nearly 50 million viewers had seen the video on YouTube. According to the company’s website, Orabrush is in 15 countries, has relationships with 75 retailers, its products are in nearly 30,000 retail stores globally and it has become the primary tongue cleaner in the world.

20. “Unilever chief Keith Weed on how brands must adapt to ‘evolution by consumer selection,’” Marketing, 29 February 2012.
21. Ibid.
While such examples are clearly compelling and social media may prove crucial when it comes to winning in HPC in the future, it is hard to predict when that will be. Such examples are still few and far between—but the low effectiveness of traditional media is understandably pushing companies to embrace social networks. After all, just 18% of traditional media campaigns generate positive recommendations, while messages sent from a brand via a social network can have a much greater impact.26

Selling direct-to-consumer
In today’s multi-channel world, there are numerous routes to market, and some of the real success stories in HPC are reaching their consumers through innovative direct-to-consumer schemes. Their approaches are diverse—from door-to-door sales to e-commerce strategies.

Unilever empowers people to widen distribution
Project Shakti was launched by Hindustan Lever in India in 2000 in partnership with NGOs, banks and the government. Beginning as an initiative to reach rural consumers that had no retail distribution network, no advertising and poor transport links, it invited women to join self-help groups and gave them the opportunity to become sales reps for the company. They sell soaps and shampoos directly to consumers and receive training in sales, commercial knowledge and bookkeeping—effectively rendering them micro-entrepreneurs. Project Shakti has since opened to men as well, and currently employs 45,000 freelance salespeople selling to 3 million consumers in 100,000 villages in India. Due to the success of this project, Unilever is rolling it out in Sri Lanka, Bangladesh and certain countries in Africa.27

Estée Lauder keeps things personal
Estée Lauder began its e-commerce strategy in the early 2000s, with the UK as its first online platform. Unlike many other HPC companies, however, it chose not to roll out the same platform in multiple countries. Instead, it focused on one country at a time in order to build a truly local offering—devising individual marketing, merchandizing and payment options for each market. For example, in Germany—where the majority of consumers prefer not to use a credit card online—it created a “promise to pay” service, allowing customers to pay upon collection of goods at a post office. The company currently sells online in 11 countries in Europe, as well as the US and Canada. In 2010, Internet Retailer magazine estimated that online sales in Europe had increased 6% on the previous year, to US$107.2m. Estée Lauder is now concentrating on the Eastern European markets, as well as bringing out mobile applications that will allow customers to browse and, eventually, buy products via their phones.28

The Avon difference
If it ain’t broke, don’t fix it—or at least that seems to be Avon’s philosophy, as it has used the same door-to-door sales technique for 125 years. At the beginning, the aim was to reach housewives unable to get to the shops to buy beauty products. Although this still holds true in some countries, its advantage today lies mainly in its exclusivity and the relationship that the sales representatives build with their customers. The sales cycle has remained largely the same over the years, with a new brochure released every three weeks. This means new products as well as old favorites are key to keeping consumers interested. The exclusivity of the brand has also never been compromised, as Avon products can only be purchased through sales representatives or, now, online. Today, Avon is the world’s largest direct seller, with a presence in more than 100 countries,29 and its distribution network comprises more than 6 million representatives.30

L’Oréal goes for glamour
During the New York fashion week 2012, L’Oréal and Glamour magazine introduced a new shopping experience within New York taxicabs that let consumers buy advertised products via their mobile devices. A product was showcased in a video played in the cab and consumers were invited to scan the product code from the video. L’Oréal later reported a 7% overall purchase conversion rate during the week.31

27. Shakti Programme, India, Unilever website, 2012.
Driving value from the right transactions

Another route to growth is driving value from transactions, and this is an area where there remains real potential for HPC companies. Developed-world companies are looking to enter or strengthen their positions in rapid-growth markets with acquisitions and joint ventures. At the same time, rapid-growth market companies are establishing themselves as global players in their own right, looking for opportunities to acquire local competitors and mature-market businesses.

Another trend we are likely to see is a focus on acquiring family brands in rapid-growth markets — although these present their own challenges when it comes to ensuring a smooth assimilation with the parent company. Acquiring companies need to take the quality of distribution networks, manufacturing and infrastructure into account — no matter how attractive the bottom line.

In the last few years, the HPC sector has seen much lower deal volumes and values than the food and beverage sectors, with the largest deal of recent years being Unilever’s acquisition of Alberto-Culver for US$3.7b in September 2010. Two HPC deals were among the top 10 deals in the third quarter of 2012 — Procter & Gamble’s buyout of its Spanish joint venture partner in its European feminine care and diaper business and Church & Dwight’s move into new products with the purchase of Avid Health. It should be noted that although both deals made the top 10, deal values are currently low by historic standards.

While lack of confidence due to testing economic conditions persists, companies will focus on smaller, bolt-on deals. According to the EY Capital Confidence Barometer, of the companies surveyed who expected to do a deal in the next 12 months, 84% anticipate doing a deal of US$500m or less. And according to the Q3 edition of EY’s Consumer Products Deals Quarterly, companies will be sticking with what they know, focusing on their core business and taking market share through smaller acquisitions.

Choosing where to compete

To achieve consistent growth and steady shareholder value, it is essential that companies choose the right battleground on which to compete if they are to win in the HPC sector. Currently, only 29% of global consumer product companies say they are “very good” at choosing where to compete, and in Europe this figure falls to 20%. For HPC companies, at the highest level, the decision rests on weighing up mature versus rapid-growth markets.

Mature markets ...

For consumer products companies operating in mature markets, the macroeconomic environment is tough and not about to change. The age profile is rising and population levels are in decline, so opportunities for growth are less obvious — and companies have to fight hard for market share. However, mature markets such as the US are currently more profitable than rapid-growth markets, so they should not be overlooked.

32. CP transactions landscape: HPC, EY, March 2012.
34. Capital Confidence Barometer, October 2012, EY.
36. Disrupt or be disrupted: creating value in the consumer products brand new order, EY, May 2012, p. 7.
37. Issues to talk about with the management, EY, 2012.
Key challenges in mature markets include:

- Limited volume growth.
- Fast-changing consumer purchasing behavior.
- Declining consumer consumption.
- Increasing customer demands.
- Rising and volatile cost pressures.
- Growing complexity in terms of route to market, in particular the rise of mobile and online channels.
- Currency and foreign exchange instability.
- Steadily increasing pressure to demonstrate greater value to shareholders.

This creates challenges for businesses in terms of delivering margin and cash flow improvement, increasing organizational agility, boosting speed to market, enhancing corporate reputation, maintaining profitability and creating growth opportunities.

Many executives are starting to question the viability of the traditional consumer products operating model. Research conducted by EY between February and May 2012 with 285 senior executives from across the sector and around the world found that 74% of companies believe that significant changes are needed to sustain historic margin levels and two-thirds said they were under pressure to reappraise their operating models.38

... or rapid-growth markets?

Against this backdrop, many HPC companies see rapid-growth markets as the key to future growth. Of the 1 billion people projected to enter the middle class by 2020,39 two-thirds will come from rapid-growth economies such as the BRICs (Brazil, Russia, India, China) and other fast-expanding territories, including Indonesia, Vietnam and Africa.

However, rapid-growth markets are not guaranteed to create shareholder value. Each market is unique, often encompassing considerable diversity at a regional level, requiring companies to build new consumer insights, rethink product development and adapt market strategies to reflect local learning.

What attracts HPC companies to rapid-growth markets?

- 82% of the world’s population live there.
- 92% of the world’s births occur there.
- GDP growth is four to five percentage points higher than in mature markets.
- One billion people will enter the middle class by 2020: two-thirds will come from rapid-growth markets.
- 70% of global GDP will come from rapid-growth markets in the next 10 years.40

Infrastructure is a significant issue for companies in many rapid-growth markets, creating a drag on investment returns. For example, in countries that lack good transport networks, it is only when infrastructure is built that companies will start to see the return on investment that they forecast from the outset. In Brazil, for example, it takes two to three days for trucks to get into the port of Sao Paulo.41

To mitigate the performance drag imposed by infrastructure constraints, successful companies are adopting a variety of strategies, including manufacturing close to the point of consumption; investing in independent power generation capability; working with third-party logistics providers where they exist; and even investing in rail wagons, or using short sea or air freight — where appropriate — to overcome the shortcomings of an under-developed road network.

Responding to pressures like these, Procter & Gamble, Kimberly Clark, Colgate-Palmolive, Unilever, L’Oréal and International Flavors & Fragrances made announcements in 2012 that they would invest a combined US$960m on plants or R&D centers in rapid-growth markets and infrastructure to support them.42

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38. Disrupt or be disrupted: creating value in the consumer products brand new order, EY, May 2012, p. 6.
Strategies for building share in rapid-growth markets

Given the risks involved, caution has been the watchword for many. For example, Procter & Gamble’s “10,000 villages” strategy in China saw the company sending customer research agents to villages, often to live with families, to get a feel for how the rural Chinese population buys and how much they would be willing to pay for HPC products. Such insight has proved invaluable in determining which products and formulations will work for which market segments and is central to considering which product categories will be core to value creation.

In a similar move, Colgate researchers immersed themselves in the lives of villagers in India for two days, observing and discussing their oral care habits and other daily routines. A key learning was that mothers hope for a better life for their children through education. As a result, Colgate implemented a special program that helped build awareness of good oral care habits and offered scholarships to children.

Some HPC companies are also choosing to drive value creation in rapid-growth markets through the acquisition of local brands. For example, Yves Rocher acquired a 51% stake in a Turkish beauty product player, Flormar, for around US$151m, as part of a strategy to expand its exposure to markets outside the Eurozone.

In Q4 2011, Unilever acquired 82% of Russian skincare group Kalina Concern, which had leading positions in the Russian face cream market as well as the hand and body lotion market. The acquisition, valued at US$672m, was part of Unilever’s efforts to rebalance its portfolio away from food toward high-margin personal care products in rapid-growth economies.

In a bolder move, in October 2012, Estée Lauder launched its entirely new hybrid East-meets-West beauty line called Osiao, in China. Instead of just creating one or two products for a specific market, the line is designed to cater to the tastes of consumers across Asia.

Companies are also working in some markets to create a local workforce of sales representatives who build their own networks to sell products—for example Unilever’s project Shakti in India.

But whether companies acquire local brands, introduce their own “Western” brands, or create new products tailored exclusively to local market needs, a key consideration in value creation is pricing. Although spending power is increasing in rapid-growth markets, the gap with mature markets at the center and the base of the pyramid in particular is substantial.

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44. Issues to talk about with the management, EY, 2012.
46. “Yves Rocher to buy 51% in Flormar for USD 150m,” Les Echos, 17 August 2012.
The Body Shop is one company that is planning to grow in India—from 55 stores in 2010 to 150 by 2015—by making its products more affordable to the mass market.49 Other companies are adopting the reverse strategy by promoting the sophisticated, Western, image-led brand values that are proving so attractive among the middle classes. In China, for example, the super premium tier which currently stands at 17% of market sales is growing at a rate of 30%,50 while in Russia executives report that demand for luxury goods remains robust.

Finally, when it comes to choosing where to compete, HPC companies need to take their analysis several steps further than the rapid-growth versus mature markets debate. It is all about focusing on the right areas for your business—not just which market, or even which category, but identifying what’s core and non-core when it comes to growth or value creation.

**Key takeaways for creating growth opportunities**

- Companies need to establish a balanced mature/rapid-growth markets strategy that is right for their brand and products.
- Consumer insight is essential for surviving in any market—research, trend monitoring and forecasting is needed to ensure the right product reaches the right consumer.
- Innovation in product design is key to winning in the HPC market, but this must be measured and managed accurately to maximize results.
- The modern consumer expects to interact with brands across a number of different interfaces, so engaging with digital is essential.
- HPC companies need to work hard to find the right assets at the right price, especially when it comes to entering new markets.

**Challenges for HPC leaders**

- By 2030, 93% of the world’s middle class will live in rapid-growth markets.51 Is your operating approach as localized as your competitors’?
- Do you understand the value of direct-to-consumer sales? Do you employ this strategy?
- How have you changed your business to optimize the digital opportunity?
- How long did it take to integrate your last acquisition? What strategies have you adopted to speed integration?

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50. The Procter & Gamble Co. at Consumer Analyst Group of New York Conference, Dow Jones Factiva, February 2012.

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**How EY can help**

EY’s strong industry knowledge positions us well to help HPC clients execute on their growth strategies. We have a proven record of helping businesses all over the world to create opportunities for growth—and knowledgeable local teams to support strategic moves in all key markets. We can offer advice and support on challenges, including: where to compete, driving value from transactions, delivering product innovation, understanding the consumer/shopper, creating brand engagement and connecting with consumers.
### Examples of successful EY projects

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<th>Enabling better understanding and decision-making through social media analytics</th>
<th>Supporting a strategic acquisition in South Asia</th>
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<td>A leading consumer products company was struggling to influence and control its identity within social media. The firm engaged us to listen, analyze and understand sentiment trends and commentary on its business in social media spheres. We used a third-party technology platform to gather information and apply statistical techniques to identify the opinions being expressed. We applied our professional experience to develop the insights this “listening” produced and to advise on topics such as regulatory compliance and market strategy. This process enabled the social media perspective to be considered and used in boardroom level discussions and decisions.</td>
<td>We worked with a consumer products company to help ensure the smooth acquisition of a significant local company in South Asia that would help provide a platform for future growth. We provided financial and due diligence services to support the purchase price — mobilizing a cross-border team including transactions support, transactions tax, financial reporting and valuations. Local market transactions and accounting knowledge was vital to the successful conclusion of the deal — providing comfort around the financials and essential support to the business development team in its discussions with the board.</td>
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<th>Boosting growth in rapid-growth territories</th>
<th>Reinventing the strategy for market growth</th>
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<td>A leading manufacturer of consumer products and traditional medicine in India was unable to deliver consistent growth due to a suboptimal sales and distribution platform. The company struggled with a cost-intensive and skewed channel structure, an inability to produce accurate forecasts, a marginalized direct retailing infrastructure, and mismanagement of its sales force. In order to jump-start top-line growth, the company wanted to transform its sales and distribution processes. Specifically, it sought to increase distribution depth and width across its portfolio and to employ sales management information systems (MIS) more effectively. EY helped the company to redefine the channel structure through territory redesign, new product price lists, revised channel margins and right-sized manpower. This generated margin improvement of almost 4% and approximately 7% in top-line growth through better channel pricing. Improved capturing and processing of sales MIS has also served to increase distribution reach in select categories by more than 40%.</td>
<td>We helped a leading Household and Personal Care company recreate the strategy for market growth in India. The client had previously entered the Indian market but had met with limited success. We were engaged to formulate specific strategic objectives that would help the company expand its market share. Our approach to develop the growth strategy included estimation of existing market size and market share of key players across different products. We also analyzed the client’s portfolio with a view to understanding which products were profitable and/or competitive and developed a pricing range in line with its competitor’s products.</td>
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Increasing organizational agility
Building a lean and flexible supply chain
Volatility in the supply chain will be a continuing theme in 2013 as retailers seek to drive competitive advantage and manufacturers grapple with supply-side constraints. To compete more effectively, HPC companies are seeking to exert greater control over their supply chains to help deliver organizational agility and enhance speed to market. But how can companies create a supply chain that is both low cost and agile enough to respond to changing conditions?

In established markets, the focus is primarily on driving out costs and reducing the fixed asset base. The last 10 years has forced a closer focus on operating models and—in particular—the establishment of above-market hubs. These help to avoid duplication of functions and costs across a range of local country markets; enable companies to centralize people and decision-making; increase standardization; lock in tax advantages; and provide a focus to drive innovation and supply chain best practice.

In a rapidly changing world, it’s crucial for companies to be more able to respond to change by building a lean and flexible supply chain; enabling faster decision-making; analyzing interconnected data; and balancing global control with local entrepreneurialism.

The challenge for companies is to integrate this approach with the fast-changing and complex business environment of rapid-growth markets, where the key to success is building the capability to respond rapidly to unpredictable demand and the challenge of high, but volatile, growth rates. Leading practice among consumer products businesses focuses on flexibility and adaptability, with investment in technology to support visibility; and strong relationships with local providers to enhance companies’ ability to execute reliably.

President and CEO of Procter & Gamble, Bob McDonald said at CAGNY:52 “One of our near-term priorities and an ongoing objective is to improve productivity in everything that we do. The three main objectives of this work are to ensure that we have the right resources in the right places to capture the growth ahead of us; to increase our agility and speed to market; and to drive cost savings, which will fund our growth in both developed and developing markets.”

52. The Procter & Gamble Co. at Consumer Analyst Group of New York Conference, Dow Jones Factiva, February 2012.
Enabling faster decision-making

A big challenge for HPC companies is simplifying their businesses and reducing complexity.

In particular, the need for improved management information to support business decision-making is a recurring theme in our discussions with consumer products companies. There is a need for more, faster and better-integrated information—for example, in areas such as pricing and forecasting. After all, the faster you can make decisions as a business, the faster you can respond.

In order to meet demand at retail stores as well as possible and improve the accuracy of forecasting, Kimberly Clark has worked on a complete end-to-end overhaul of its supply chain. The company invested in data analytics software that provides far more visibility into real-time demand trends. While this transformation is still ongoing, Kimberly Clark has made remarkable progress in reducing the numbers of customer-facing shipping locations to approximately 20 from 80 and decreased forecast errors by anywhere from 15%-35%.53

Meanwhile at Reckitt Benckiser, the focus has been on changing the culture to enable faster decision-making.54 Under former CEO Bart Becht’s stewardship, a culture of decisive action was created whereby almost every key decision is made in the meeting at which it is first discussed, with board meetings “an Italian family dinner” with everyone vying to be heard.55 This decision-focused strategy has underpinned the company’s success over the last 10 years.

Analyzing interconnected data

Technology is going to start playing a greater role in providing real-time visibility of sales and stocks to support the agility required in the current environment. Currently, 28% of HPC companies rate themselves as “poor” at analyzing complex and interconnected data.56

In one example, Procter & Gamble’s Business Sufficiency program gives executives a snapshot of performance indicators six to 12 months ahead, using tools to develop analytic models to assess:

- Production, shipments and market share
- Sales trends by country, territory, product line, chain and store
- Media and advertising activities
- Regional and national economic conditions57

So-called “big data” is a big opportunity for HPC companies. One area where it may have particular application is in improving demand forecasting and supply chain planning. The volatility of demand has been a critical issue for manufacturers, with customers pushing hard for increased flexibility and responsiveness to meet changing consumer requirements. Customer response to consumer demand—such as the increasing use of promotions and tactical pricing—has only magnified volatility issues facing manufacturers.

Research by McKinsey & Co. shows that by taking into account data from across the value chain (potentially through collaborative supply chain management and planning), manufacturers can smooth spiky order patterns, liberating cash that can be used more effectively to deliver a higher level of service.58 Best-in-class manufacturers are also accelerating the frequency of planning cycles to synchronize them with production cycles. Indeed, some manufacturers are using near-real-time data to adjust production. Others are collaborating with retailers to shape demand at the store level with time-based discounts.

Such innovations require not only the vision and support of senior management, but also significant investment in people and the technology to support them.

56. Disrupt or be disrupted: creating value in the consumer products brand new order, EY, May 2012, p. 4.
57. Ibid.
58. Big data, the next frontier for innovation, competition and productivity, McKinsey Global Institute, June 2011.
Balancing global control with local entrepreneurialism

Deciding where to localize and where to centralize has become one of the key decisions for business leaders in the industry. But for many companies, this remains a challenge. In recent research conducted by EY, just 16% of respondents say that their company is very good at balancing global control with local entrepreneurialism and more than a quarter admit that they are poor at it.

One of the big questions for HPC companies is how to combine the benefits of leveraging scale globally with the local focus required to meet the needs of diverse markets. Strong, empowered local leadership helps ensure a relevant and rapid response to evolving market needs, while a globally consistent strategic direction gives the ability to draw on capabilities and resources from anywhere in the world.

The opportunities to improve competitiveness are multifaceted, and include:

• Clarifying which functions should be in-country and which should sit above market
• Driving global business services
• Creating the right level of understanding of customers and consumers — ensuring the model
• Understanding who they are and what is needed to serve them
• Creating a tax-efficient supply chain
• Buying and selling the right assets

Some consumer products companies take a “glocal” approach — decentralizing decision-making, giving business unit leaders full P&L responsibility to be more nimble and respond faster to local market conditions, while leveraging global scale and capabilities. Others decentralize certain aspects of their business — such as advertising and marketing — while keeping other functions at a global level. A common theme is the importance of clarity of mission and accountability. For example, Hindustan Lever managers in India are empowered to make “on the spot” decisions to offset competition.

Key takeaways for increasing organizational agility

• Streamlining the supply chain is a necessity for most HPC companies, and above-market hubs, investment in new technology, and collaborative supplier relationships are popular ways of doing this.
• The ability to allow for quick informed decision-making and implementation is necessary in such a fast-paced sector.
• “Big data” utilizes technology to accurately forecast sales and stocks — which could revolutionize the supply chain.
• Thinking “glocal” is the new norm, and HPC companies need to embrace local expertise on an international scale.

59. Disrupt or be disrupted: creating value in the consumer products brand new order, EY, May 2012, p. 23.
Examples of successful EY projects

Driving agility through supply chain improvement
A beauty company was looking to enhance agility and boost efficiency by introducing process improvements to its supply chain. The company was experiencing issues around forecast accuracy and inventory management, and service levels were below required levels. Working with the client, we identified inefficiencies in the demand and supply planning processes and were able to leverage industry-leading practices to drive visibility and enhance responsiveness.

Transforming the global supply chain
A global HPC business was looking to capitalize on the transformation of its supply chain organization in Asia and Europe by extending the initiative to its largest region—the Americas. The company needed to partner with an advisor that could validate strategic, functional responsibilities and business processes; ensure the alignment of teams and operating frameworks with the strategy; and develop a governance framework that would ensure that changes were delivered and sustainable.

Working with the client, we were able to confirm over €200m in operational savings and identify an additional €25m in operational savings.

Enhancing strategic data use to increase consumer visibility
We are engaged with a leading consumer products manufacturer that wishes to generate a consistent, enterprise-wide view of key information across every business sector in order to protect and grow its bottom line. Using a combination of driver-based performance management (DBPM) and enterprise information management (EIM), we helped the client create a vision roadmap that will allow it to integrate information strategy into its decision-making processes; prioritize and optimize information that is relevant to business leaders; and make innovative use of strategic information to reinforce key business processes.
How EY can help

EY’s strong industry knowledge positions us well to help HPC clients improve their organizational agility. We have a proven record of helping businesses master organizational challenges all over the world—and knowledgeable local teams to provide support in all key markets. We can offer advice in a variety of key areas, including: reducing complexity and bureaucracy, enabling faster decision-making, analyzing “big” and interconnected data, balancing global control and local entrepreneurialism and building a lean and flexible supply chain.
Delivering margin and cash flow improvement
“HPC companies are under strong pressure to improve efficiency and productivity. Structural cost increases are placing significant pressure on historic margin levels, and at the same time, companies face downward pressure on prices from more value-conscious consumers who are more resistant than ever to price increases. Managed effectively, the drive to reduce cost and improve cash flow can empower people within the organization to be part of value creation.”

Mark Twine, Global Household and Personal Care Co-Leader
EY

Delivering margin and cash flow improvement is essential against a backdrop of rising costs for HPC companies. To do this, companies will need to increase efficiency; leverage scale; collaborate effectively with third parties and retailers; and increase the pricing power of their brands.

Increasing efficiency and reinventing processes to reduce costs

With input costs soaring and growth slowing, HPC companies are continuing to focus on efficiency and productivity programs.

In one example, Unilever’s focus on continuous improvement generated savings of €1.5b in 2011.61 Unilever achieved its savings by dramatically reducing overheads and implementing a wide-ranging set of initiatives across all areas of the supply chain.

Procter & Gamble announced at this year’s CAGNY conference that it aims to save US$1b in costs by 2016.62 The company illustrated the need for such cuts by showing that the cost of a basket of commodity goods that make up roughly half its materials spend has more than doubled over the past 10 years.63 With commodity costs hard to predict and control, some companies are making cost cutting measures in other parts of the business which are easier to manage—for example in marketing or staffing.

In September 2012, Procter & Gamble announced that it may exceed the 5,700 non-manufacturing job cuts it announced in February 2012. CFO Jon Moeller said the company now expected to achieve “the majority” of its initial 10% workforce reduction target by the end of calendar year 2012 and commented: “As part of our productivity work, we’ve identified additional opportunities to cut costs. We expect overhead enrollment over time to be down by more than 10%.”

The company said it would cut US$240m in selling, general and administrative (SGA) expenses in fiscal year 2013, with expenses reduced by US$560m in 2014 and by over US$1b after 2015. Moeller also said that P&G aimed to reduce SGA expenses from 14.4% of sales to 12%–13%.64

However, there is uncertainty over how far efficiency savings can take a company. HPC companies have already pushed cost-saving initiatives to get through the recession, and what we are seeing now is the second or even third generation of cost savings—which are inevitably proving more difficult. The big challenge is deciding how and where further cuts can be made—either temporary or permanent—without damaging future growth.

Some companies will need to go further than targeting cost savings, instead focusing on more fundamental changes such as reinventing their processes to make their business sustainable.

Unilever, for example, faced inefficiencies in its North American co-packing distribution chain, resulting in poor customer service and penalty charges. In response, the company remodeled its distribution chain by launching hubs: co-packers are now delivering their products either to the hubs, from where they replenish the distribution centers, or directly to the distribution centers. As a result, Unilever has been able to increase customer service, reduce transhipment and redistribution costs by 50%, achieve total network cost savings of 4% and avoid an additional expenditure of 30% of networking costs.65

63. The Procter & Gamble Co. at Consumer Analyst Group of New York Conference, Dow Jones Factiva, February 2012.
64. “Will Procter & Gamble cut more jobs than planned?” Cincinnati Business Courier Online, 6 September 2012.
In a similar vein, Japanese HPC business Kao is aiming to improve the efficiency of its procurement processes by creating a “world map” of its suppliers and factories and an associated database. According to a local report, the company aims to retain a cost-to-sales ratio of 43% and ensure alternative sources of supply in the event of any emergency. The database will reportedly contain the details of the “several hundred” suppliers of around 70 ingredients and 30 packaging materials currently sourced by Kao’s global procurement center and will subsequently expand to include information on the 30% of ingredients and packaging materials procured by its subsidiary companies.66

Leveraging scale
Globalization and technology have enabled many companies to drive economies of scale. Many larger businesses have sought to gain cost advantages by centralizing procurement globally or reducing the number of suppliers. This has the advantage of reducing complexity, but it also exposes companies to greater risk and potential supply chain interruptions.

In a recent survey that EY undertook of consumer products companies globally, a quarter (25%) rated themselves as “poor” at leveraging scale and 6% believed that leveraging scale would enable them to deliver the most positive margin mix improvements over the next 10 years.67

Procter & Gamble has chosen to leverage scale in its approach to innovation. Over the years the company built the systems and go-to-market scale that allow it to move an entire innovation — concept, brand, product formulation, package, marketing, and in-store presence — to multiple markets almost simultaneously.

Leveraging its geographic reach and capability, in developed and developing markets alike, it can expand innovation around the world and into millions of homes very quickly.68

Collaborating effectively with third parties
Collaboration with third parties is giving many HPC companies an edge.

One example of an HPC business successfully collaborating with others is Chinese Shanghai J ahwa United Company Ltd. The group initially partnered with the retailer Sephora in Paris and has since entered into similar joint venture agreements with Sephora in a number of continental European markets, including Portugal, Italy, Poland and Turkey. By establishing its products in overseas markets, J ahwa acquired the caché of a successful global brand, which enabled it to secure access to first-tier department stores in China. Currently, most department stores in China prefer brands from companies that are well established in mature markets, particularly the US, Italy and Japan.69

Managing retailers’ demands
Retailers continue to exert heavy pressure on consumer products companies, especially when it comes to negotiating on price and supply terms, which can be a real issue for those companies that are not well integrated.

It is key for HPC companies to effectively manage this changing behavior. Raised expectations are a major cost driver for consumer products companies, particularly in high-cost, fast-growth markets. Up to 60% of the cost of goods sold can be directly impacted by customers’ ordering, planning, logistics and warehousing practices.70

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70. Making the right connections: Building profitable retail relationships through Cost to Serve, EY, 2011.
For example, many large retailers are dictating delivery policies to manufacturers and requiring the use of inventory tracking technology such as radio frequency ID tags.71

Understanding the cost breakdown by product and customer is crucial. In one example, a large UK retailer required a manufacturer to deliver pallets minus the top layer in order to fit the height requirements in its distribution center. This created the need for expensive manual intervention and trucks not running with a full load—which combined to cost the manufacturer £300,000 per year.72

Yet consumer products companies often accede to retailers’ demands without understanding the true impact on cost to serve. To rebalance the equation so that retail behavior drives value, manufacturers have to be able to:

- Identify and address the activities that drive cost
- Model the impact of retailer demands to enable discussions that create joint value
- Align cost to serve with trade terms and operating practices that reward good behavior

To counterbalance increasingly onerous demands from retailers, companies are moving away from traditional, purely adversarial relationships and seeking increased collaboration with customers. Typical initiatives include working together on promotions to create overall category growth and exploring mutually inclusive benefits associated with the customer experience.

Unilever, for example, tried to develop the “Perfect Store” to create optimal merchandising layouts for retailers, regardless of geography or space. In 2004, Unilever UK Foods and United Co-Operatives decided to work together to create the perfect store. Looking at shopper behavior in an existing store and following tests made at a virtual store, they refitted a store in Bradwell in the UK, resulting in weekly sales increases of nearly 9%. The new model was then adapted to other stores in the UK, where sales increased similarly. In 2009, Unilever developed the perfect store concept in the AAC region (Asia, Africa and Central & Eastern Europe) and began implementing it in modern trade outlets across the region. By the end of 2011, more than 3 million shops had already signed up to its program.73

Working more effectively with customers

The trade landscape is changing and consumer products companies need to react accordingly. In mature markets, the hypermarket model is in decline and there is a steady shift toward smaller convenience stores. But look beyond the headline trends and the underlying picture is one of complexity, with different retailers adopting divergent approaches to the composition of store formats. In addition to dealing with complex brick-and-mortar infrastructure, companies must also manage other fast-growing channels, including e-commerce, direct-to-consumer and mobile.

This complexity means that HPC companies cannot adopt a one-size-fits-all stratagem. Propositions need to be tailored by channel and by store format. Because not all channels are created equal, companies will need to invest differentially with customers that have the most room and means to grow.

Collaboration with customers can also be a powerful tool to drive mutual benefit. For example, according to 2012 research conducted by EY, HPC companies use collaborative methods to share insights about how shoppers purchase and use their products, allowing retailers to position and sell them in the most effective way. Lessons from one retailer relationship can often be applied to another, so companies can adapt successful models across different markets where there may be customers with similar characteristics.

To support global tier one clients, some consumer products companies are now organizing by key accounts, rather than brand, in order to move winning ideas across borders more rapidly. In one such relationship, we have seen close collaboration in areas such as supply chain. Staff from the consumer products business work in the retailer’s headquarters as part of the replenishment team to ensure efficient flow of goods from factory to store. They also feed back information from the customer into the product development processes.

Such relationships require careful nurturing, not least because of the cultural shift required, but also to ensure the appropriate trade-off between the strategic relationship and the day-to-day negotiation around transactional issues such as pricing and fulfilment.

Increasing the pricing power of brands

With a period of prolonged low-growth prospects in mature markets and competition in rapid-growth markets likely to increase, pricing pressures are unlikely to diminish. Consumers expect more and want to pay less—as do customers, putting pressure on trade investment and cash flow.

There is concern about the extent to which companies can raise prices in a value-sensitive environment, especially with retailers aggressively competing for shoppers on price. The first company to raise prices generally experiences some market share pressure until or unless competitors follow suit and close the price gap. Procter & Gamble, for example, identified six country-category combinations where it lost so much market share that it had to implement discounts and promotions to win customers back.74

As economic conditions remain challenging, consumers are also likely to continue trading down to private label products—which are becoming increasingly prevalent in HPC—unless companies can offer a compelling value proposition, with 37% of consumer product companies identifying that they are “poor” at increasing the pricing power of brands.75

Retailers such as Boots, a leader in private label in the UK, are achieving good success with highly developed and trusted brands across the health and beauty category. Outside the UK, Boots launched its Serum7 skincare range in Italy and Spain in 2010, while also generating £60m of No7 sales through US stores such as Target.76 Elsewhere, fashion retailers, too, are cashing in on the popularity of private label—as well as the trend for consumers to buy small “affordable” treats in a recession—with Topshop and Primark launching cosmetics ranges and H&M launching an organic skincare range.77

In response, brand owners are working hard—and investing significantly—to win back consumers, with many increasing marketing, advertising and promotion spend.78 Existing brands are being supported and reinvigorated through ongoing investment, while new brands are being introduced—often with input from fashion icons—to meet evolving consumer demand.79

As pricing and brand initiatives proliferate, a major challenge is understanding the return on investment associated with this spending. Some companies can struggle to achieve this because they lack the right systems, processes and evaluation techniques.

Key takeaways for delivering margin and cash flow improvement

- Although many companies need to reduce their costs, savings must be made that drive efficiency, without reducing product innovation or quality.
- Consolidating supplier bases can help companies become negotiating forces to be reckoned with.
- Consumers will continue to expect more for less, so the speed with which innovation and brand differentiation can be brought to market is key for HPC companies.
- In order to innovate without breaking the bank, more and more companies are looking to collaborate with third parties and retailers, reaping benefits for both.

Challenges for HPC leaders

- Costs are rising and volumes are under pressure. Are your margins sustainable?
- Value-focused consumers are trading down to lower-priced products unless they perceive real differentiation. Why are you relevant to them?
- Collaboration is increasingly a prerequisite to drive growth and improve sustainability. Who do you partner with? What benefits does this bring?
- Have you been able to raise price recently? How effective has this strategy been?

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75. Disrupt or be disrupted: creating value in the consumer products brand new order, EY, May 2012, p. 7.
79. Personal Care Products Manufacturing, First Research, 19 March 2012.
How EY can help

EY’s strong industry knowledge positions us well to help HPC clients improve margin and cash flow. We have a proven record of helping businesses in these areas all over the world — and knowledgeable local teams to provide support in all key markets. We can offer advice in a variety of key areas, including:

- increasing efficiency and productivity, reinventing processes to reduce cost, leveraging scale, collaborating effectively and increasing the pricing power of brands.

Examples of successful EY projects

Reducing the cost of controls
A patchwork of disparate IT legacy systems, new ERP systems and various business transformation projects were impeding an EY client from achieving its enterprise-wide targets to reduce the overall cost of controls by 50% and streamline the financial close cycle from 25 to 10 days. The picture was further complicated by a changing regulatory environment, multiple ongoing M&A projects and a number of control deficiencies related to the company’s financial reporting that may have resulted in an inadequate control environment.

Working closely with the company, the EY team utilized a client “hot house” (facilitated session) to develop a holistic approach to the challenges to help a broad group of stakeholders to agree on the radical changes needed to meet the targets. The result was the decision to create a global Controls Center of Excellence to drive a shift towards a 90% use of automated “prevent” controls; minimize manual “detect” controls; and deliver real-time transparent assurance to management along with the desired cost savings.

Structuring trade terms to improve pricing
Adverse market conditions — such as increased retailer consolidation, a complex trade situation and rising input prices — were driving the need for a comprehensive review of trade terms by our consumer products client. Lack of transparency and trade term inconsistencies were also causing pricing challenges.

We worked with the company to design a trade terms framework that would help to resolve pricing challenges and support profitability by focusing on four investment types: scale payments, efficiency payments, sales drivers and promotional investments.

This project was successful because we provided analytical rigor and constructive challenges to jointly develop a solution that identified key areas of value, and focused on the practical implementation of the new trade terms.

Outsourcing internal audit to drive value
A Fortune 500 company wanted to boost its expertise in emerging risks and at the same time reduce the costs of its internal audit function. Corporate challenges around recruitment, training and infrastructure were exacerbated by the need to maintain a team that could communicate in local languages in key rapid-growth markets.

Responding to this need, EY was able to draw on its experienced network to build an integrated global team capable of taking on responsibility for a fully outsourced internal audit at lower cost.
Enhancing corporate reputation
“Maintaining trust across different stakeholder groups is a challenge which requires HPC companies to deliver unprecedented levels of transparency and clarity. Businesses need to keep earning their license to operate, which means demonstrating the value of their activities for shareholders, employees, consumers and the many communities in which they operate.”

Eric Mugnier, Global Consumer Products Climate Change and Sustainability Leader, EY

A company’s reputation rests on a wide range of issues, so HPC companies need to be savvy about engaging with stakeholders and reporting transparently; ensuring consistent messaging; managing risk effectively; and attracting the brightest and the best.

Engaging with stakeholders and reporting transparently

HPC companies need to act in an ethical and responsible manner in order to attract the growing number of increasingly “issue-savvy” consumers. Customers and consumers want to know that companies are not negatively impacting communities or the environment.

Ultimately, firms will profit — taking steps such as minimizing packaging and reducing use of inputs such as palm oil will bring down costs, encourage innovation and generate positive exposure. Companies will also profit from tackling these issues because climate change and the impact of global population trends both have the potential to be major constraints to growth.

As well as having robust strategies in place to tackle issues around sustainability, companies now have to engage with more stakeholders than ever before.

For example, Wal-Mart outlined a set of expectations in 2008 for its global suppliers regarding social and environmental responsibility, requiring that they comply with local environmental laws and regulations, meet higher standards of product safety and quality, and provide greater transparency. Today, Wal-Mart publishes standards on its website, against which all suppliers are assessed.

Increasingly, companies not only have to do the right thing — they have to be seen doing the right thing, which has led to an increase in firms reporting openly on climate change and sustainability initiatives.

For example, Henkel has announced a sustainability strategy to triple efficiency and use one-third of currently used inputs per euro generated by 2030. Meanwhile, L’Oréal’s Italian subsidiary has said it will use only renewable energy sources at its Settimo Torinese facility and aims to achieve zero CO2 emissions from the site.

A company’s reputation rests on a wide range of issues, so HPC companies need to be savvy about engaging with stakeholders and reporting transparently; ensuring consistent messaging; managing risk effectively; and attracting the brightest and the best.

Realizing business benefits from sustainability

The Unilever Sustainable Living Plan, which was launched in November 2010, aims to halve the environmental footprint of the manufacture and use of its products by 2020. John Coyne, Vice President and General Counsel of Unilever Canada, says: “When consumers think about our brands and the sustainability messages around our brand, we think they will look at us, congratulate us for taking a leadership role in this space, and reward us with purchases. That’s how we think our sustainability model will lead us to growth.” In terms of the benefits this brings the company, Coyne says: “Almost all of our sustainability initiatives have actually resulted in win win win: our customers like us for doing the right thing, the environment likes us for running a sustainable business, and last but certainly not least, our shareholders like us because it reduces costs and increases profits.”

82. Talking Personal Care: current developments in the personal care sector, EY, February 2012.
Finally, partly because of the reach and immediacy of digital media, it is imperative that companies not only report transparently but that they ensure their actions and positioning are consistent.

Safety and reliability on the HPC agenda
HPC companies also need to ensure that their products are perceived as being safe to use and avoid any negative publicity that could cause consumers to lose faith in their brands.

HPC products generally fall into two categories: cosmetics or drugs. Any product that makes an efficacy claim is defined as a drug in the US and is regulated by the U.S. Food and Drug Administration (FDA). For over-the-counter “drugs” (which can include products such as antiperspirants, sunscreens and dandruff shampoos), manufacturers are required to demonstrate product safety and efficacy to gain FDA approval, and the FDA regulates claims that can be made on behalf of products.84

Although the regulatory requirements for cosmetics are less stringent, this does not mean that cosmetic manufacturers are entirely in the clear — for example, findings of lead in lipstick in the US, highlighted by the Campaign for Safe Cosmetics, caused significant short-term concern among consumers and substantial negative publicity,85 although reassurances by the FDA served to calm the situation in the longer term.

Even in terms of marketing, HPC companies have to make sure that their products are compliant. The FDA does not allow companies to claim that a product will change the structure or function of skin or other body parts, for example, because that would make it a drug. If it finds out that companies are making advertising claims that go too far, the FDA warns those companies to block sales or it will seize products. For example, Avon’s Anew Clinical Advanced Wrinkle Corrector promises that it will change the skin’s structure and reduce wrinkles by “rebuilding collagen in just 48 hours.” According to the FDA, that type of claim would make the product a new drug, so it is likely that a change to the advertising will be required.86

Anticipating and managing risk
Anticipating and managing risk is key to maintaining a company’s reputation. HPC firms need to plan for disruption — and building resilience along the value chain is not just about investing in great planning and analytics, but having the leadership, responsibility, partnerships and talent necessary to execute it.

HPC companies have significant new challenges to sharpen risk management practices and ensure internal controls are effective — for example, managing pricing pressures, in particular mitigating the effect of rising input costs and complying with regulation.

In rapid-growth markets, complexity and unpredictability are the chief cause of problems; in both rapid-growth and mature markets, companies need to influence the regulation agenda. In countries such as Russia, China, Turkey and Brazil (one of the world’s most complex tax jurisdictions) rules can change overnight — and sometimes apply retrospectively.

Getting corporate governance right can also be a major issue. Many companies moving into rapid-growth markets are finding this a major challenge because of cultural differences, which can mean that local staff and local working practices may not be attuned to global views and processes.

Optimizing talent and resources
Talent is a key factor when it comes to executing effectively. Currently, just 20% of consumer products companies say they are good at attracting and optimizing talent.87 R&D engineers and scientists in particular are highly sought after in the industry, so how can HPC companies attract and keep the brightest and the best when other industries offer greater returns?

This is a particular battleground in rapid-growth markets. In territories such as Russia and Africa, the relative scarcity of local personnel with the language skills and experience needed to operate effectively at a senior level has led to high local staff costs and staff turnover. Companies are having to work hard and creatively to shape an HR environment that offers the challenge, international exposure and career progression required to develop, motivate and retain such staff at an affordable cost.

Taking a proactive approach
Some companies are now taking a highly proactive approach to manage the talent issue. They are tracking the careers of talented individuals from outside the company, even if they are not currently seeking to recruit them. Such an approach enables companies to move fast to secure the right talent as roles become available. “We have a program called ‘Map and Track,’ which selects a pool of people even though we don’t have roles for them today,” says Gustavo Calvo Paz, President of the Middle East, Eastern Europe and Africa region at Kimberly-Clark.

“We track how they are doing in the market, and then as soon as we have a vacancy, we contact them.”88

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84. Personal Care Products Manufacturing, First Research, 19 March 2012.
85. Ibid.
86. “Be aware that many beauty product claims are meaningless,” The Palm Beach Post, 3 November 2012.
87. Disrupt or be disrupted: creating value in the consumer products brand new order, EY, May 2012, p. 7.
88. Ibid, p. 42.
While in the short term the challenge is to up-skill and retain existing staff, many companies are also looking to the future by establishing local training and skills initiatives in partnership with local educational institutions to broaden the base for long-term recruitment.

Unilever, for example, is planning to operate a second global leadership training center in addition to its existing facility in London. The company chose Singapore with the objective of training the leaders of tomorrow in a place where the action is. In India, Hindustan Unilever (HUL) has arranged for 150 of its managers to work outside the country in order to gain international experience and to share ideas across cultures.89

Diversity of talent is seen as essential in tackling these issues. “Diversity is more than a strategic imperative; it’s got to be part of our DNA,” says Bob McDonald of P&G.90 Achal Agarwal, Asia-Pacific President for Kimberly-Clark,91 adds: “I just cannot overestimate how critical it is to have the right talent and capabilities in place, and how easily lack of talent can become a barrier to growth.”

Companies are beginning to recognize the need to develop varied career paths to meet the aspirations of Generation Y that give them experience in different markets, functions and regions.

89. “Unilever boosts ad, R&D spend on EMs,” The Times of India, 30 October 2012.
90. Disrupt or be disrupted: creating value in the consumer products brand new order, EY, May 2012, p. 42.
91. Ibid, p. 36.
Examples of successful EY projects

Enhancing security to thwart counterfeiting
A global HPC group had concerns about counterfeiting of its hair oil brand in key cities of India. The company needed an immediate and detailed supply chain review across key cities in India to identify any weaknesses in its processes that could result in potential leakage.

EY assembled a specialized team to conduct extensive forensic procedures, including intelligence gathering, surveillance activities, test purchases and link analysis. The focus of the investigation was on certain known counterfeiters who had been the subject of multiple investigations and enforcement actions. The EY team determined that not only had counterfeiters infiltrated third-party vendors to siphon packaging material, but also that an active secondary market had developed to trade in the stolen material.

Supporting a leading consumer products company with its sustainability agenda
A leading consumer products company needed to understand where it was heading in terms of sustainable development. We performed a current-state and gap analysis to provide a detailed view of what was being done within the group and compared this against a snapshot of the current, competitive sustainable development landscape. To populate the landscape we benchmarked the company against leading reporters in the industry to understand and quantify gaps. We then highlighted examples of leading practices to enable the group to begin to formulate a focused sustainable development strategy.

Identifying eligible R&D tax credits in a manufacturer striving for sustainability
A leading UK consumer products company’s sustainability program was designed to react to changes in customer trends, legislation and the economic climate. Our professional knowledge of the consumer products industry was crucial to identify eligible projects within the company’s operations that would qualify for R&D tax credits. Working with the company, we were able to make the case that projects designed to integrate sustainable materials into the company’s products, increase product shelf life and extend the development of reusable packaging would all qualify for tax credits.

As a result of our work, the company’s first successful R&D claim resulted in a total qualifying spend for a three-year period of about £40, which generated a tax benefit of nearly £3m.

Setting KPIs for a global sustainability program
A Fortune Global 200 consumer products company wanted to raise its game around sustainability reporting and embrace leading practices. EY helped the company to select the key performance indicators (KPIs) that it would report —internally and externally—as part of its global sustainability program. We assessed current systems and data as well as the accuracy of the company’s statements and claims, reviewed existing governance processes over the KPIs in scope, and carried out a materiality analysis to assess and clarify how reporting decisions were made.

This process was supported with interviews with key stakeholders and assurance over the KPIs themselves. Our report for client management included observations for improving data processes and systems and insights related to sustainability reporting and leading practices in order to help the client build confidence in progressing toward its goals.
“The R&D tax scheme is a great mechanism to fund your R&D activities for product development, sustainability and increasing efficiencies. Our industry-experienced engineers provide the knowledge to enable R&D activities to be identified across the spectrum of your business to optimize your claim.”

Frank Buffone, Head of UK&I R&D Tax Services, EY
EY can provide a range of services to help clients reframe strategic choices, realign the value chain and ruthlessly execute to capture value. The following are some of the services we can provide to help you protect your business, improve your performance and enable change.

- Market prioritization and market segmentation
- Pre-acquisition due diligence assessment
- Synergy evaluation and transaction integration
- Mergers and acquisitions
- Post-purchase price allocation and valuation advice
- Due diligence
- Vendor due diligence
- Decision support
- Pre-acquisition due diligence assessment
- Synergy evaluation and transaction integration
- Valuations and business modeling
- Marketing and advertising risk services
- Consumer pricing
- Global shared services
- Shared service center expansion
- Working capital
- Finance integration
- International tax planning
- Reducing effective tax rate
- Customer analytics
- Order-to-cash effectiveness
- Sales channel management
- Customer collaboration and customer relationship management
- Cost to serve
- Pricing strategy
- Trade terms and pricing
- Global sales excellence

- Market opportunity and value chain
- Mergers and acquisitions
- Internal controls and risk management
- Internal audit effectiveness
- Sales and operations transformation
- Procurement transformation
- SAP implementation
- Performance management and evaluation
- Sales effectiveness
- Global business incentives
- Sales and distribution channels
- Transformation
- Global indirect tax framework
- Transfer pricing
- Global compliance reporting
- Accounting compliance and reporting

- Enterprise performance
- International tax restructuring
- Finance business performance management
- Enterprise information management
- Performance management
- Risk monitoring and controls
- Internal audit outsourcing
- Enterprise risk management
- Performance and reward
- Corporate social responsibility
- Reporting transparency
- Climate change and sustainability services (CCaSS)
- Sustainability audits
- Sustainability assurance
- Environmental due diligence reviews
- Corporate social responsibility
- Low-carbon transformation
- Internal audit of corporate sustainability program
- Sustainability risk services including identification, mitigation and assurance

- Lean and agile supply chain
- Tax-efficient supply chain management
- Global procurements
- Cost to serve
- Global shared services
- Global compliance reporting
- Transfer pricing
- Global sales excellence
- Customer pricing
- Global sales excellence

- Leadership and governance
- Social media analytics
- R&D program management and innovation
- Monetizing assets
- Social media analytics
- Entrepreneurism
- Global IT internal audit transformation
- Enterprise information management
- Performance management
- Internal audit outsourcing
- Enterprise information management
- Performance management
- Risk monitoring and controls
- Internal audit outsourcing
- Enterprise risk management
- Performance and reward
- HR risk management
- Internal audit
- Global shared services
- Global compliance reporting
- Transfer pricing
- Global sales excellence

- Accounting advisory
- GAAP conversions
- Life cycle costing
- Cost to serve
- Global shared services
- Global compliance reporting
- Transfer pricing
- Global sales excellence

- Compliance and ethics
- Risk management and internal controls
- Enterprise risk management
- Risk management and internal controls
- Corporate social responsibility
- Reporting transparency
- Climate change and sustainability services (CCaSS)
- Sustainability audits
- Sustainability assurance
- Environmental due diligence reviews
- Corporate social responsibility
- Low-carbon transformation
- Internal audit of corporate sustainability program
- Sustainability risk services including identification, mitigation and assurance

- Human capital international mobility
- Performance and reward
- HR risk management
- Internal audit
- Global shared services
- Global compliance reporting
- Transfer pricing
- Global sales excellence

- Talent strategy
- HR operating model design and transformation
- HR policy and process design
- Global shared services
- Global compliance reporting
- Transfer pricing
- Global sales excellence

- Balancing global control with local entrepreneurialism
- Enterprise performance management
- Finance transformation
- International tax restructuring
- Finance business performance management
- Enterprise information management
- Performance management
- Risk monitoring and controls
- Internal audit outsourcing
- Enterprise risk management
- Performance and reward
- Corporate social responsibility
- Reporting transparency
- Climate change and sustainability services (CCaSS)
- Sustainability audits
- Sustainability assurance
- Environmental due diligence reviews
- Corporate social responsibility
- Low-carbon transformation
- Internal audit of corporate sustainability program
- Sustainability risk services including identification, mitigation and assurance

- Increasing efficiency/ productivity
- SAP implementation
- Performance management and evaluation
- Sales effectiveness
- Global business incentives
- Sales and distribution channels
- Transformation
- Global indirect tax framework
- Transfer pricing
- Global compliance reporting
- Accounting compliance and reporting

- Environmental due diligence reviews
- Corporate social responsibility
- Reporting transparency
- Climate change and sustainability services (CCaSS)
- Sustainability audits
- Sustainability assurance
- Environmental due diligence reviews
- Corporate social responsibility
- Low-carbon transformation
- Internal audit of corporate sustainability program
- Sustainability risk services including identification, mitigation and assurance

- Global risk compliance
- GAAP conversions
- Life cycle costing
- Cost to serve
- Global shared services
- Global compliance reporting
- Transfer pricing
- Global sales excellence

- Internal audit
- Enterprise risk management
- Risk management and internal controls
- Corporate social responsibility
- Reporting transparency
- Climate change and sustainability services (CCaSS)
- Sustainability audits
- Sustainability assurance
- Environmental due diligence reviews
- Corporate social responsibility
- Low-carbon transformation
- Internal audit of corporate sustainability program
- Sustainability risk services including identification, mitigation and assurance

- Consumer pricing
- Global sales excellence
- Customer pricing
- Global sales excellence

- Human capital international mobility
- Performance and reward
- HR risk management
- Internal audit
- Global shared services
- Global compliance reporting
- Transfer pricing
- Global sales excellence

- Talent strategy
- HR operating model design and transformation
- HR policy and process design
- Global shared services
- Global compliance reporting
- Transfer pricing
- Global sales excellence

- Anticipating and managing risk
- Global risk compliance
- Internal audit
- Enterprise risk management
- Risk management and internal controls
- Corporate social responsibility
- Reporting transparency
- Climate change and sustainability services (CCaSS)
- Sustainability audits
- Sustainability assurance
- Environmental due diligence reviews
- Corporate social responsibility
- Low-carbon transformation
- Internal audit of corporate sustainability program
- Sustainability risk services including identification, mitigation and assurance

- Engagement with stakeholders (including regulators)
- International Financial Reporting Standards (IFRS)
- Financial accounting advisory services
- Commodity trading risk management
- Corporate social responsibility
- Treasury: hedging, refinancing
- Climate change and sustainability services (CCaSS)
- Sustainability audits
- Sustainability assurance
- Environmental due diligence reviews
- Corporate social responsibility
- Low-carbon transformation
- Internal audit of corporate sustainability program
- Sustainability risk services including identification, mitigation and assurance

- Ensuring consistency of actions and positioning
- Accounting advisory
- GAAP conversions
- Cost to serve
- Global shared services
- Global compliance reporting
- Transfer pricing
- Global sales excellence

- Anticipating and managing risk
- Global risk compliance
- Internal audit
- Enterprise risk management
- Risk management and internal controls
- Corporate social responsibility
- Reporting transparency
- Climate change and sustainability services (CCaSS)
- Sustainability audits
- Sustainability assurance
- Environmental due diligence reviews
- Corporate social responsibility
- Low-carbon transformation
- Internal audit of corporate sustainability program
- Sustainability risk services including identification, mitigation and assurance

- Increasing pricing power of brands
- Cost to serve
- Pricing strategy
- Trade terms and pricing
- Global sales excellence

- Increasing pricing power of brands
- Cost to serve
- Pricing strategy
- Trade terms and pricing
- Global sales excellence

- Increasing efficiency/ productivity
- SAP implementation
- Performance management and evaluation
- Sales effectiveness
- Global business incentives
- Sales and distribution channels
- Transformation
- Global indirect tax framework
- Transfer pricing
- Global compliance reporting
- Accounting compliance and reporting

- Leverage scale
- Global business incentives
- Order-to-cash effectiveness
- Sales channel management
- Customer relationship management
- Customer analytics
- Cost to serve
- Pricing strategy
- Trade terms and pricing
- Global sales excellence

- Delivering margin and cash flow improvement
- Enhancing corporate reputation
- Sharpening execution
- Creating growth opportunities

- Reducing bureaucracy and complexity
- Enterprise performance management
- Finance transformation
- International tax restructuring
- Finance business performance management

- Faster decision-making
- Global IT internal audit transformation
- Enterprise information management
- Driver-based performance management
- IT transformation
- IT attack and penetration
- IT risk management, risk monitoring and controls
- Internal audit outsourcing

- Balancing global control with local entrepreneurialism
- Enterprise performance management
- Finance transformation
- International tax restructuring
- Finance business performance management

- Analyzing big and interconnected data
- Global compliance reporting

- Building a lean and agile supply chain
- Tax-efficient supply chain management
- Supply chain transformation
- Procurement transformation
- Sales and operations transformation
- Supply chain operating model transformation
- Global procurement operating model
- Supply chain cost reduction
- Trade optimization
- Operational strategy and performance improvement

- Choosing where to compete
- Market prioritization and market segmentation
- Entry strategy and feasibility
- Pre-acquisition due diligence assessment
- Synergy evaluation and transaction integration
- Mergers and acquisitions

- Delivering product innovation
- R&D program management and innovation
- Monetizing assets
- Social media analytics

- The beauty of success: Going for growth in the household and personal care sector
Teaming together

In order to successfully understand and counter the challenges that HPC companies face, you need to be able to call on the right people, in the right place, at the right time.

Our 18,000-strong global consumer products team is supported by our 167,000-strong global organization. This means wherever you operate we work hard to understand your business, integrate with your people and get the job done.

- We understand the challenges facing the industry and how that can affect your business needs.
- We spend the time required to get to know your business, your processes and your needs.
- We will work with you to help you maximize your shareholder value.
- We have consumer products leaders at the global, regional and service-line level who have extensive experience in the HPC sector. (Please refer to the CV insert at the back of this document.)

Connecting our people together

We hold an annual meeting for our global Top 30 consumer products clients and provide regular global HPC update calls. We also run regular team meetings with clients on a country, functional and global basis. This is done to gain—and share—insights gleaned from the industry on a global basis.

Connecting with you

We place huge importance on sharing our insights and experiences in order to more effectively support our clients’ decision-making capabilities. We deliver regular insights on HPC issues—for example, through our Talking Personal Care publication every three weeks—and run regular team meetings with clients on a country, functional and global basis.

Connecting you with your peers

We strive to offer a range of opportunities to help our consumer products clients stay connected with each other. Our peer-to-peer meetings enable our clients to share experiences and compare approaches in a confidential setting. This gathering delivers insights, offers key leadership perspectives and positions companies for positive actions.
Sharing insights

We strive to utilize our global experience in the HPC and other consumer products sectors fully, making our insights and intelligence available to all of our clients to help you compete strongly in this challenging sector.
We conduct thorough research, thought leadership and events that engage with industry stakeholders and serve to further develop the services necessary to meet the industry’s evolving requirements.

We also place great emphasis on helping our consumer products clients to stay connected. We host CFO networks and issues-based roundtables on hot topics. These peer-to-peer meetings are all confidential, which allows our clients to get the most out of sharing experiences and comparing approaches that succeeded and failed.

Throughout our HPC network, our professionals meet regularly to share leading-practice models and the most effective strategies, as well as discuss changing sector trends, challenges and insights. This type of activity equips our people to share timely, relevant ideas and insights with clients to support their decision-making. Our network pools its knowledge to help ensure a transfer of experience and insight, but we manage the flow of information and never exchange client-sensitive information.

Here are some of the publications through which we share our experience and insights on the consumer products sector. For copies please contact:

Jamie Byrne
+44 207 783 0068
JByrne@uk.ey.com
Meeting our people
We know that HPC companies value relationships with professionals who understand the challenges and needs specific to this sector and who are therefore always ready to deliver results for them. In order to succeed, how can you connect with the right EY people?

Our consumer products leaders at the global, regional and service-line level have extensive experience in the HPC sector. During the time that we have been active in this area, we have established close and effective relationships with many leading global and smaller local players.

You can contact any of our leaders directly to tap into the knowledge and support offered by EY’s global HPC network.
Meeting our people

Global

Anastasia Economos
Co-Global Household and Personal Care Leader
+1 212 773 3491
+1 201 658 8045
anastasia.economos@ey.com

Anastasia is a senior assurance partner in New York, focusing on private equity and industrial and consumer products companies. She has over 28 years of diversified experience with the firm. Anastasia is the global client service partner responsible for delivery of all the organizations services to consumer products clients and is the control and methodology leader for Sarbanes-Oxley 404 implementations. Anastasia leads the Global Household and Personal Care Network of EY professionals to share leading practices and key insights, thereby enhancing our service delivery to our clients. Anastasia is a Board member and former Treasurer of Cosmetic Executive Women and CEW Foundation.

Mark Twine
Co-Global Household and Personal Care Leader
+44 207 951 0735
+44 7770 704737
mtwine@uk.ey.com

Mark is a Director in our Retail & Consumer Products Sector and has been at EY for three years. Mark has over 15 years of experience working in or with companies within the FMCG industry. He spent seven years working in commercial and strategic roles in a large multinational HPC company and a global food company focusing across various categories, regions and channels to market. During his time at KPMG and now at EY, Mark has been responsible for leading our relationships with several large HPC companies, working with them to bring sector insights, market-leading approaches and our best people to tackle the challenges and opportunities FMCG companies are facing today.

Mark Beischel
Global Consumer Products Sector Leader
+1 513 612 1848
+1 513 604 1628
mark.beischel@ey.com

• Global advisory partner to consumer products team
• Significant multi-sector experience

Mark is the firm’s Global Sector Leader for consumer products, connecting our top consumer products teams with our top clients’ needs. Mark started his career at GE, graduating from GE’s Financial Management Program. He has been with Ernst & Young LLP, the US member firm, since 1986, admitted to partnership in 1995. Mark has served several of our largest clients in the pharma, manufacturing and consumer products industries. He is based in Cincinnati, Ohio.
Global Consumer Products Emerging Markets Leader
Kristina Rogers
kristina.rogers@tr.ey.com
Turkey +90 212 315 3000

Global Consumer Products Assurance Leader
Mike Sills
mike.sills@ch.ey.com
Switzerland +44 20 7951 5541

Global Consumer Products Tax Leader
Lisa Vines
lisa.vines@ey.com
US +1 214 969 8186

Global Consumer Products Transactions Leader
Gregory Stemler
gregory.stemler@ey.com
US +1 312 879 3351

Global Consumer Products Advisory Leader
Richard Taylor
rtaylor5@uk.ey.com
UK +44 20 7951 4004

Global Consumer Products Lead Analyst
Andrew Cosgrove
acosgrove@uk.ey.com
UK +44 20 7951 5541

Global Sector Knowledge Leader, Consumer Products
Steve Perry
sperry2@uk.ey.com
UK +44 20 7806 9097

The beauty of success. Going for growth in the household and personal care sector.
About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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How EY’s Global Consumer Products Center can help your business
Consumer products companies are operating in a brand new order, a challenging environment of spiraling complexity and unprecedented change. Demand is shifting to rapid-growth markets, costs are rising, consumer behavior and expectations are evolving, and stakeholders are becoming more demanding. To succeed, companies now need to be leaner and more agile, with a relentless focus on execution. Our Global Consumer Products Center enables our worldwide network of more than 18,000 sector-focused assurance, tax, transaction and advisory professionals to share powerful insights and deep sector knowledge with businesses like yours. This intelligence, combined with our technical experience, can assist you in making more informed strategic choices and help you execute better and faster.

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EYG no. EN0561
CSG/GSC2013/1115394
ED None

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