Operating for more than a century and in 200 countries, one consumer products company had seen its fair share of economic, market and consumer ups and downs. But there was something about today’s unpredictable environment that was different. The company knew that to remain competitive, it needed better visibility into what it was selling globally, to whom, and how volatile consumer, economic and market forces would impact future sales.

The company was already collecting reams of data on its financial and operational activity. But its employees had little or no access to that information – data they needed to make strategic, effective and timely decisions.

The company was unable to turn its information into insights in a way that enabled it to systematically link strategy, planning, execution and reporting. Instead, it had to rely on a combination of instinct and experience, supported by ad hoc analysis.

The company recognized the need for a structured approach to improve both tactical and strategic decision-making. Management needed to make faster, more informed decisions on a global basis to prioritize growth initiatives, and the company needed to enable country managers to use local insights to adapt to shifting consumer demands.

By employing a holistic performance management approach that integrated driver analytics directly into reporting tools and decision processes, the company was able to improve its decision-making. For the first time, the company had a unified perspective on brand growth, geographic opportunity and competitor behavior.

Its next step was to use its strategic plan drivers to compare investment scenarios and articulate a strategy. This strategy could be readily converted to operational targets and programs because the strategy was specific and actionable down to the driver level.

The future of decision-making

Using driver analytics to improve insights and decisions

Operating for more than a century and in 200 countries, one consumer products company had seen its fair share of economic, market and consumer ups and downs. But there was something about today’s unpredictable environment that was different. The company knew that to remain competitive, it needed better visibility into what it was selling globally, to whom, and how volatile consumer, economic and market forces would impact future sales.

The company was already collecting reams of data on its financial and operational activity. But its employees had little or no access to that information – data they needed to make strategic, effective and timely decisions.

The company was unable to turn its information into insights in a way that enabled it to systematically link strategy, planning, execution and reporting. Instead, it had to rely on a combination of instinct and experience, supported by ad hoc analysis.

The company recognized the need for a structured approach to improve both tactical and strategic decision-making. Management needed to make faster, more informed decisions on a global basis to prioritize growth initiatives, and the company needed to enable country managers to use local insights to adapt to shifting consumer demands.

By employing a holistic performance management approach that integrated driver analytics directly into reporting tools and decision processes, the company was able to improve its decision-making. For the first time, the company had a unified perspective on brand growth, geographic opportunity and competitor behavior.

Its next step was to use its strategic plan drivers to compare investment scenarios and articulate a strategy. This strategy could be readily converted to operational targets and programs because the strategy was specific and actionable down to the driver level.
What's the issue?

Making the right decision is hard. Companies have to frame the questions properly, find the right data to support the analysis, and do all this in a way that is transparent and repeatable. As consumer products companies enter new, highly competitive markets, decision-making becomes more complex. Companies flexible enough to make quick decisions are more likely to succeed in today’s fast-paced, volatile environment.

In 2012, EY commissioned a survey of 285 senior executives globally from across the consumer products sector. Of those who participated in the survey, 81% indicated that they needed to improve their decision-making speed and level of insight. Survey respondents suggested that their people spent too much time making decisions based on intuition, working on mechanical tasks and focusing on unnecessary detail. Instead, they wanted their people to be adding more value through better use of leading indicators, conducting root cause analysis of issues, and linking strategy with resource allocation, planning and reporting.

Many companies understand the forces that drive value. But they often underestimate the level of effort required to consistently correlate the impact of the most significant drivers across a variety of dimensions (including product, channel, geography, market, segment or business unit). And few ultimately understand the ripple effect the impact can have across the entire enterprise.

To improve their performance management capabilities and drive profitable growth, companies need to take a more encompassing approach that not only implements driver analytics, but also uses the analytics to mathematically link business strategies with the market, competitor, operational and financial forces that drive value and, by extension, good decision-making.

Companies able to remain flexible and make quick decisions are more likely to succeed in today’s fast-paced, volatile environment.

A fully developed performance management approach that uses driver analytics as its engine enables companies to identify a changed driver, such as a shift in consumer demand. More importantly, the approach gives companies the tools to determine root causes and conduct “what-if” scenarios to assess the impact across every element of the planning and management cycle – from forecast to capital allocation to operational planning and performance reporting.

Driver-based decision-making

<table>
<thead>
<tr>
<th>Action</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>* Use driver-based approach in planning processes</td>
<td>* Streamlined and linked planning processes</td>
</tr>
<tr>
<td>* Link outcome metrics to drivers mathematically</td>
<td>* Refocused growth initiatives</td>
</tr>
<tr>
<td>* Automate variance analysis to reveal root causes</td>
<td>* Increased business insight</td>
</tr>
<tr>
<td>* Conduct “what-if” scenarios</td>
<td>* Improved strategic decision-making</td>
</tr>
<tr>
<td>* Develop driver-based dashboard</td>
<td>* Accelerated decision-making cycle time</td>
</tr>
</tbody>
</table>
Why now?

The volume of data consumer products companies are collecting is mind-boggling. Managing petabytes of information is now the new norm. More and more, unstructured data is at the core of consumer products company decisions. Real-time retailer information, geo-positioning data from consumer smartphones, vast amounts of social media data all have to be managed and analyzed to drive insights and value for the business.

Many companies have invested heavily in information systems as part of this quest for data collection. But while the systems have helped to reduce transaction costs, they have been less effective in improving decision-making.

Even companies with rigorous analysis capabilities find that their analytical methods are often not well-understood by decision-makers and don’t connect quickly enough with the organization.
How does it affect you?

Traditional approaches to decision-making tend to focus on financial statement line items and ad hoc reporting. These approaches typically exclude key external and operational drivers, limiting a company’s ability to make fully informed decisions.

The result is decision-making that is often intuitive versus fact-based, backward-looking rather than future-focused, time-consuming and not easily repeatable.

More and more, unstructured data is at the core of consumer products company decisions.

Companies experiencing transformational events such as acquisitions, divestitures or business reorganization use driver analytics to increase shareholder value post-execution.
What's the fix?

Consumer products companies can improve their decision-making and business performance by focusing on the actions below.

<table>
<thead>
<tr>
<th>Defining value drivers</th>
<th>These can include market, competitor, operational and financial drivers. Drivers need to be quantified and linked to outcome metrics and other drivers. Tying outcome metrics to drivers mathematically creates a robust framework for planning, reporting and decision-making.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automating variance analysis to reveal root causes</td>
<td>This analysis focuses on revealing root causes that may otherwise have gone unnoticed. For example, if a revenue target is missed, a driver-based analysis may reveal a root cause to be a decline in units as opposed to price based on a smaller market size, even though the market share has exceeded plan.</td>
</tr>
<tr>
<td>Conducting “what-if” scenarios and sensitivity analyses to improve strategic and tactical decision-making</td>
<td>Drivers enable fact-based evaluations of business alternatives, as well as the ability to run risk-specific scenarios.</td>
</tr>
<tr>
<td>Streamlining decision support and analysis</td>
<td>Traditional approaches require several management layers for ad hoc analysis and the application of intuition or personal judgment. Driver insights streamline decision-making by creating a consistent structure and basing decisions on fact, not intuition.</td>
</tr>
<tr>
<td>Facilitating a culture change</td>
<td>To accurately determine the scale and scope of a performance management program, companies need to understand their culture. In preparing for an organizational shift, companies will need to understand their culture’s ability to embrace change, how the implementation of a robust performance management program rooted in driver analytics will be supported within the organization, and the steps necessary to link the culture shift back to strategy.</td>
</tr>
</tbody>
</table>
What’s the bottom line?

Leaders who use driver analytics as part of a complete performance management transformation can improve both their strategic and operational insights — and by extension, their decision-making.

When the drivers behind decision-making become institutional knowledge, there is an opportunity for everyone to evaluate and absorb what’s driving the business. This shared understanding of drivers improves the quality of decision-making across the organization. Companies waste less time and money on collecting, formatting and analyzing immaterial or distracting data points.

Once consumer products companies grasp the power of driver-based performance management, they will uncover the insights they need to make better strategic decisions, transform their operations and propel profitable growth.

Maturity path for performance management

Level one: Ad hoc

- Planning is rudimentary; reporting is limited to external financial standards.
- Planning calendar and templates change frequently.
- Management reporting is inconsistent over time and across the organization.
- Tasks are highly manual with low repeatability.
- Decision support is not a priority.
- Reporting and planning take place within G/L and spreadsheets.

Level two: Business intelligence

- Planning and reporting are automated, but analysis is labor-intensive, highly variable and overly detailed.
- Demands for decision support are addressed by brute force.
- Spreadsheets are stand-alone with centralized consolidation.

Level three: Integrated decision support

- Strategy, planning, investments and management reporting are integrated.
- Rolling forecast shows continuous improvement.
- Planning and management reporting shift to a driver-based approach with less detail.
- Analysis is standardized across drivers and dimensions.
- Decision support becomes an integrated part of planning and management reporting.
- Purpose-built, multidimensional tools automate entire process and data management.
- Analysis is driver-based and root cause.
Want to learn more?

The answers in this issue are supplied by:

Gregg Clark
Americas Advisory Consumer Products and Retail Leader
Ernst & Young LLP
+1 860 725 3815
gregg.clark@ey.com

Pilar Dostal
Senior Manager in Advisory, Performance Improvement, Strategic Direction
Ernst & Young LLP
+1 720 931 4381
pilar.dostal@ey.com

For related thought leadership, visit www.ey.com/consumerproducts
We want to hear from you!

Please let us know if there are subjects you would like 5: insights for executives to cover.

You can contact us at: fiveseries.team@ey.com

Let’s talk growth

Slow global economic recovery, changing consumer needs, shifting political landscapes and greater regulatory oversight continue to shape how organizations do business. In an increasingly complex environment, organizations are looking for new ways to increase revenue, boost margins and drive profitable growth.

Growth can come by exploring new markets or through acquisition. For many leading organizations, however, growth comes from within. They embrace innovation as a catalyst for change. By redesigning business models, using emerging technologies, improving the effectiveness of business processes and focusing more effort on the consumer, organizations can accelerate their performance in today’s fast-paced, highly competitive business world. Learn more at www.ey.com/grow

© 2013 Ernst & Young LLP.
All Rights Reserved.

SCORE No. BT0324
ED 0714

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

ey.com/5