

Appetite for growth

Assessing the critical success factors in
the rapidly changing food sector



Building a better
working world

Did you know?

- ▶ EY works with the world's leading food companies:
 - ▶ 37 of 42 in the Forbes Global 2000
 - ▶ 26 of 27 in the S&P Global 1200
- ▶ Our food team is part of our worldwide consumer products network which numbers 16,000 professionals



Feedback on *Talking Food*

An update of significant developments in the global food sector

Client comments include:

“Very valuable – better than anything we have in-house.”

“A quick read and gets you grounded on what our competition and peers are doing.”

“Well structured, very interesting and useful.”

“Loaded with industry insights – an extremely useful industry snapshot.”



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Appetite for growth – assessing the critical success factors in the rapidly changing food sector

Food companies are facing challenging times. Caution is the watchword as macroeconomic indicators remain volatile. What are the strategies that will help food companies survive and prosper?

“Companies that have responded proactively to a tougher market environment have on the whole emerged from the financial crisis fitter and leaner, with strong balance sheets. They are focusing on operational excellence, innovation and maximizing volume to maintain growth; optimizing the potential in emerging markets and looking for appropriate transaction opportunities as consolidation in the sector continues.”

Mike Sills
Global Food Co-Leader, Consumer Products
EY

Food companies face a challenging and volatile environment. The need to understand changing consumer needs, innovate effectively and put goods on the shelf at a price that works for manufacturer, customer and consumer continues. Ongoing commodity price volatility, fluctuating exchange rates and uncertain tax and regulatory environments, particularly in emerging markets, make decision-making complex. As emerging markets players take their place on the global stage and start challenging for share in both developed and developing markets, food manufacturers are focusing more closely than ever on the need to maximize volume to maintain growth.

Companies that meet these challenges with a well-designed and well-executed strategy can, and are, doing well. We believe that successful companies will need to:

- ▶ **Find new routes to growth** – prioritizing the right markets and doing the right deals.
- ▶ **Increase adaptability and responsiveness** – optimizing business structures, taking an holistic approach to the supply chain and innovating with agility.
- ▶ **Deliver margin improvement** – improving performance across business functions, managing costs sustainably and getting pricing right.
- ▶ **Sharpen execution** – improving consumer insight, brand and marketing effectiveness as well as collaborating better, transforming the finance function and revitalizing risk and control.
- ▶ **Embrace sustainability** – both in the individual enterprise and the wider environment. Good corporate citizenship must be part of business as usual: stakeholders expect high standards of behavior including strict regulatory compliance, ethical sourcing and positive societal impact.

Whether your interests are domestic, regional or global, we have on-the-ground professionals in every key developed and developing market and we can bring you the resources of our global team, coordinated through a single point of contact. Our strong commitment to the food sector means we can offer you in-depth knowledge, practical experience, strong industry relationships and genuine global reach to help you fulfill your objectives.

This document presents a selection of our work with companies in the sector. Please get in touch with us if you want to find out more, contact details have been inserted at the back.

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



Mike Sills
Global Food Co-Leader
Consumer Products
EY



Patricia Novosel
Global Food Co-Leader
Consumer Products
EY



Maximizing growth opportunities

“Food companies are struggling to achieve their desired levels of growth in established markets. Emerging markets, transactions and improved consumer and customer understanding are the likely strategies of choice for future growth.”

Patricia Novosel
Global Food Co-Leader, Consumer Products
EY

Adapting your strategy to different markets

Innovation and differentiation: the key to developed markets

The leading food companies want to continue to grow in established markets: most are expecting that around half of their business will continue to come from these markets in future. But it is a struggle and they face substantial headwinds. Retailers are powerful and many product categories are commoditized, so raising prices is difficult. Apart from the US, populations are generally aging. Low consumer confidence is widespread in the aftermath of the financial crisis as austerity measures, particularly in Europe, begin to bite. Credit remains tight and rising energy and raw material prices continue to put pressure on companies.

Combating these negative pressures will require innovation, excellent marketing and the ability to offer consumers a proposition that they value, particularly if companies are to continue to mount a credible challenge to private label.

Our food clients are responding by seeking out new retail and marketing channels, investing more in social media and online platforms to learn more about consumers, form a close brand relationship with them and potentially sell directly to them. They are differentiating themselves and adding value by customizing products to the needs of different consumers and channels.

Focus on fast-growth emerging markets

Emerging markets are seen as holding the key to future growth for food companies: of the one billion people projected to enter the middle class by 2030, two-thirds will come from developing economies. Other emerging markets that continue to expand include Bangladesh, Indonesia, Mexico, Pakistan, Turkey and Vietnam. Africa as a whole is an area of growing importance for its combination of exciting demographics, high economic growth potential and lack of local competition.

The opportunities are significant, but so are the complexities. Each market is unique, requiring companies to build new consumer insights, rethink product development and adapt market strategies that reflect local learning. We are seeing many companies adapt products to suit local tastes, wallets and buying preferences.

What attracts food companies to emerging markets?

- ▶ 82% of the world's population live there
- ▶ 92% of the world's births occur there
- ▶ GDP growth is 4%-5% higher than developed markets
- ▶ By 2030, 93% of the world's middle class will live in what is currently termed emerging markets
- ▶ 70% of global GDP will come from emerging markets in the next 10 years

Companies that tend to do well in these markets are typically strong on strategic improvisation and flexible in the absence of hard market data. They learn fast, respond rapidly to changing conditions and are willing to experiment – but they always start with the fundamentals.

- ▶ Do we understand the growth opportunity in this country or region?
- ▶ Where do we stand relative to our competitors?
- ▶ Where should we start – can we leverage an existing presence?
- ▶ What level of investment will be necessary and what are the timescales for returns?

Right deal, right now: pursuing scale and market presence through M&A

Food consistently accounts for the greatest volume of deals in the consumer products sector.¹ Key trends driving current deal activity include:

- ▶ The search for scale and new product opportunities in developed markets.
- ▶ The pursuit of emerging market growth by developed world businesses.
- ▶ Expansion into the developed world by emerging market companies.
- ▶ The assertion of control in joint venture or similar structures by domestic companies in emerging markets.
- ▶ The growth of private label manufacturers, which attracts both corporate and PE buyers.

1. According to EY research since 2007.

Food company leaders say emerging markets will drive future success

“Europe and the US will be, for the next 10 years, low-growth territories. Soon we will have 75% of our turnover in emerging markets, where 2bn more people will be born in the next 40 years, and obviously where most of the world growth is going to be.”

Paul Polman
CEO, Unilever, The Daily Telegraph, 18 August 2011

“It is true that you see in these emerging markets, very strong competitors coming up, just go to China and India. The local and regional players are multi-billion dollar players and they are investing in R&D and they are attracting good talent because of the growth.”

Paul Bulcke
CEO, Nestle, Dow Jones International, 17 May 2011

The scale opportunities from consolidation are still compelling and we may continue to see transformational deals – either defensive mergers or strategically enhancing acquisitions. More companies appear to be focusing on “bolt-on” deals in emerging markets. For these businesses, doing the right deals will be key to their success in a climate where achieving critical mass is all-important.

Creating opportunities for partnerships and collaboration across the value chain are also likely to become a feature of corporate policy. This will be particularly true of developing markets, where business models need to be adapted to reflect local cultures and where companies have an increasing responsibility to promote local skills and employment.

Adapting to local tastes and buying habits in emerging markets

- ▶ Knorr entered Africa with bouillon cubes – a cheap, scaleable “building block” product allowing them to build brand reputation before introducing further products
- ▶ Oreo has adapted to the tastes of Chinese consumers with a less sweet product and a green tea flavoured variety
- ▶ In Mexico, Nestlé reformulated basic food products to counteract typical dietary deficiencies, repricing and repacking them in the local language to maximize consumer take-up
- ▶ Danone has developed products for “base of pyramid” consumers in India and Bangladesh that have lower price points and are fortified with nutrients

Building your brands through local consumer insights

Food companies continue to leverage their understanding of consumers and customers, to identify the core brands that have the greatest relevance, and maximize growth opportunities at every level, including economy, mass and premium markets.

While some companies are reworking the same core product across different market segments, others are focusing on developing entry-level products to draw in new consumers, or adapting existing brands into new geographic territories.

In developed markets, this includes widening product appeal by identifying new usage occasions or tailoring products to the needs of specific consumer segments. For example, extending lighter, healthier options of existing brands or introducing new functionality around wellness.

In emerging markets, developing the portfolio starts with finding answers to fundamental questions:

- ▶ How will consumers use our products?
- ▶ How can we tailor them to reflect local taste and habits?
- ▶ What is our strategy on pack size and price?
- ▶ What proportion of the brand portfolio should be local?

Health and wellness: a new continuing trend

Food companies are capitalizing on growing government and consumer interest in health and wellness through better nutrition to develop products for new niches such as “nutraceuticals,” functional foods containing branded active ingredients, organics and ethically sourced foods.

In the developed world, a key area of focus is relevance to the aging population. Nestlé has created Nestlé Health Science S.A. and the Nestlé Institute of Health Sciences “to pioneer a new industry between food and pharma.” In this new nutraceuticals market, the company aims to create products to prevent and treat conditions such as diabetes, obesity, cardiovascular disease and Alzheimer’s disease.

How EY can help

EY’s strong industry knowledge positions us well to help clients execute on their growth strategies. We have a proven track record in 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 advise on:

- ▶ Market prioritization and market segmentation
- ▶ Growth opportunities in emerging markets
- ▶ Transaction due diligence
- ▶ Transaction tax
- ▶ Merger integration and valuation
- ▶ R&D program management and innovation
- ▶ Monetizing assets

Transaction support

EY is a leading advisor on food transactions, with a network of 6,500 transaction professionals in more than 90 countries. We have been involved in many of the largest food sector M&A deals in recent years. We offer in-depth understanding of food industry issues, businesses and local dynamics to boost our clients’ competitive edge on deals. Our closely integrated teams are highly experienced in serving clients across different cultures, languages and regulatory systems. We are ready to advise on the full transaction life cycle including:

- ▶ Pre-transaction feasibility and structure
- ▶ During-the-deal due diligence and valuation, including brand valuation
- ▶ Negotiations and closing
- ▶ Post-acquisition support, including post-purchase price allocation
- ▶ Tax structuring and capital markets transactions
- ▶ Internal audit effectiveness
- ▶ Legal entity rationalization

Examples of successful projects

Reinventing the growth strategy for a key emerging market

Our client was reconsidering its growth strategy for India in the light of macroeconomic changes and evolving lifestyles – especially in urban areas. Its goal was to increase market share and become a leading player in its chosen categories. We worked with the company to size the market and rank key players, review the product portfolio to understand what was still profitable and to highlight focus categories where the client could be competitive in terms of product delivery and price. This work resulted in a clear, costed strategy and an optimal approach to marketing and promotion that delivered competitive advantage and a route to growth.

Speeding product innovation

We worked with a major consumer products company to analyze its product innovation processes and speed the introduction of new products. We identified a number of improvements in areas including organization design (marketing, new product introduction (NPI) process – and operations) and first factory mover capabilities.

We were also able to identify opportunities to improve the innovation stage gate process and optimize the design to create a more effective NPI organization. As a result of our involvement, the client was able to create a number of innovation manufacturing sites that could speed the global introduction of new innovations to market.

Changing the game through collaboration and know-how commercialization

We worked with a global consumer products company to determine whether it could boost growth by monetizing its business know-how, in particular, its approach to maximizing manufacturing productivity. Given that a typical plant for this company generally runs at 80%-85% reliability compared with the industry norm of 50% or below, both company management and EY professionals were convinced it should be possible to license the knowledge to non-competitors very profitably. EY invested two years in the project and saw the client and the first licensee realize value two or three times greater than anticipated levels. The team has now evolved the concept to learn from the licensees' experience to further improve the product.

Supporting a strategic acquisition in an emerging market

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.



Increasing adaptability and responsiveness

Food companies need adaptability and responsiveness to counter effectively economic, consumer, customer and competitor challenges.

“The total size of the shopper basket in terms of dollars is down. Quick trips are up. People are buying only what they need, and we firmly believe that value is here to stay. We know that to consumers value means quality, nutrition and convenience, not just price. With these insights on value, we are recognized by retailers as truly understanding today’s shoppers. We are working pro-actively with our retail partners on strategies that adapt to a new consumer and customer mind-set. We know more about when consumers are spending their money as well, and we are working with retailers on merchandising programs to appeal to shoppers at the times that work for the shopper.”

Gary Rodkin
CEO, ConAgra Foods Inc.
CAGNY

Food is a fast-moving consumer products subsector and companies must be swift and agile to compete globally. The sector is highly vulnerable to changes in consumer demand and commodity price shifts. Success in emerging markets requires quick decision-making and the capacity to experiment, learn and scale at speed. At the same time, developed markets require an approach based on efficiency and slower, incremental growth.

Optimizing structure to boost competitiveness

Food companies need adaptability and responsiveness to counter effectively economic, consumer, customer and competitor challenges. In pursuit of adaptability, and enhanced local relevance, many companies are favoring simpler, flatter structures with an increased external focus. Local autonomy brings the company closer to the consumer and local market needs and changes, while a globally consistent strategic direction gives the ability to draw on capabilities and resources from anywhere in the world.

Businesses are often charting new territory as we work with them to define their optimum strategy and operating model. The opportunities to improve competitiveness are multi-faceted, including:

- ▶ 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 understands who they are and what is needed to serve them
- ▶ Creating a tax-efficient supply chain
- ▶ Buying and selling the right assets

“Global food companies need to simplify their business structures and move decision-making closer to local markets if they want to respond to market opportunities and challenges with the agility of a focused player.”

Andrew Cosgrove
Global Consumer Products Lead Analyst
EY

Turning your supply chain into a cash contributor

The supply chain is one of the principal levers for delivering organizational agility and enhancing speed to market. It has long been a favorite candidate for cost control initiatives, but there is increasing interest in ensuring it also contributes on the cash side of the business, by making better use of customer and supplier information and operating with greater flexibility. Our work with food companies shows they are looking for more “joined-up thinking” around strategy, commercial, supply chain, direct and indirect tax, as well as opportunities to improve speed of market response.

“Our clients want to make their supply chain the ‘spine’ of the organization enabling both margin enhancement and acting as a catalyst for growth.”

Mike Sills
Global Food Co-Leader
Consumer Products
EY

Enhancing supply chain adaptability and responsiveness

Food companies need to ensure that the supply chain acts as a strategic business enablement vehicle that can really drive top line growth. This means businesses are typically aiming to create long term, sustainable cost savings to support margins in mature markets that can generate funding to drive growth in emerging markets. In emerging markets a different dynamic dominates – namely establishing cost effective and reliable delivery of product to customers and consumers.

EY has identified seven specific challenges (page 15) facing food executives operating across these two market groupings.

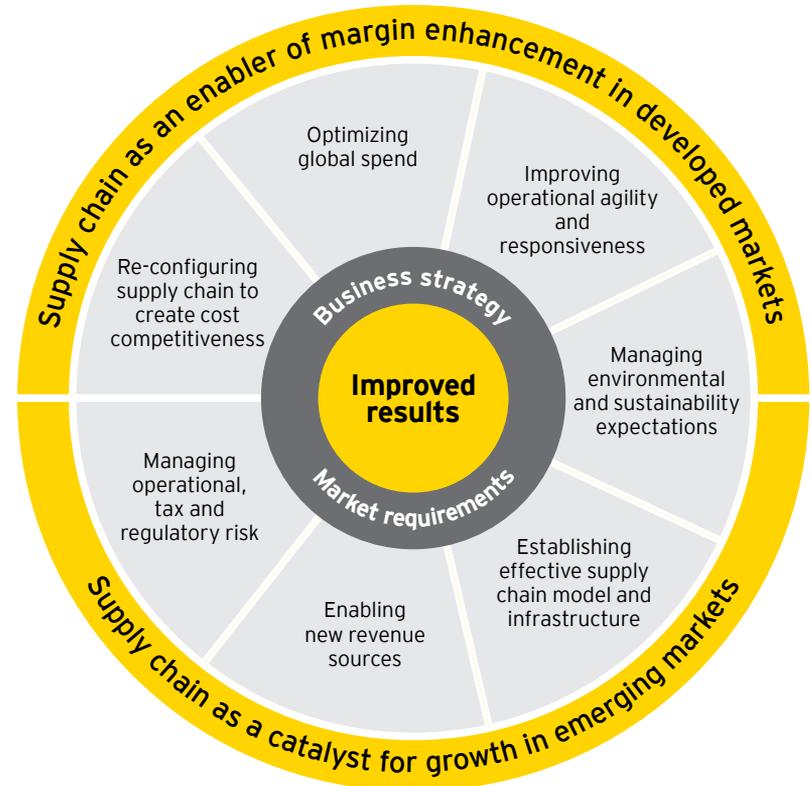
In developed markets the last ten years has seen a closer focus on operating model and in particular the establishment of above-market hubs enabling companies to centralize people and decision-making, increase standardization and benefit from tax advantages. Savings are often substantial – counted in tens of millions of dollars. Alongside the operational centralization there is a parallel move toward customer centricity and a sharper focus on total delivered cost, rationalization of SKUs and removal of complexity within the supply chain.

Agility and responsiveness are also critical in developed markets and companies have focused on strategies including mass customization and delayed packaging alongside cost to maintain growth.

By contrast, in emerging markets the real challenges are around establishing effective supply chain models and infrastructure. Companies are focused on how to set up for success, taking into account logistics and distribution constraints, infrastructure and reliability issues. Some companies have started moving from country to regional planning processes in order to improve risk management, manage shared factories more effectively and so improve cost to serve and cash performance. Outsourcing logistics continues to be a focus as does enabling new revenue sources – gearing up supply chains to support low volume SKU production runs to facilitate rapid in-market testing.

Regulatory changes, supplier stability and quality remain ongoing challenges in emerging markets, with many companies investing in suppliers in order to create a more stable and sustainable environment.

With slow revenue growth in mature markets, the supply chain must create sustainable cost savings to support margins and to help pay for growth elsewhere.



The supply chain must enhance its core competency to become a strategic business enablement vehicle to drive top-line growth.

“Supply chains will continue to leak value until companies take a more holistic, data-driven approach to balancing efficiency and responsiveness.”

Patricia Novosel
Global Food Co-Leader, Consumer Products
EY

Matching innovation to the pace of change in consumer demand

Alongside this strategic and structural change, the product portfolio and innovation process is evolving to respond faster to shifting demand. The key trend is for manufacturers to deliver fewer, more significant innovations or renovations of brands, with a faster rollout.

Rather than innovate centrally, and then adapt or defeature products to suit different price points, companies are increasingly setting up multiple innovation hubs in key strategic markets. The approach is to stay close to consumers, accelerate access to market and consumer data, and build in supply chain flexibility and efficiency to introduce new products rapidly as requirements change. Products, processes and components are being developed primarily with local markets in mind, but redeployed when appropriate in other markets. This more open approach to innovation helps to facilitate a rapid transfer of ideas.

One approach used by Kimberly-Clark is “clustering” – delivering similar products across multiple geographies which share common consumer profiles. For example, if the consumer in New Zealand or Australia is similar to that in the UK or Hong Kong, the company will distribute the same product across all these markets; or it will use its understanding of Korean consumers to tap into neighboring Asian markets.

How EY can help

We have a proven track record of helping food businesses to stay fit and adaptable. Issues we can help with include:

- ▶ Redefining organizational structures and business models
- ▶ Introducing common regional and global processes
- ▶ Supply chain transformation
- ▶ Tax efficient supply chain management (TESCM)
- ▶ Identifying and executing on new strategic relationships
- ▶ Improving the effectiveness of R&D program management in developing new products

Examples of successful projects

Transforming the supply chain operating model to enhance efficiency

We developed a tax-effective business model to help a client underpin its European growth and efficiency priorities. The model was based on a centralized organizational structure and was implemented across the commercial, supply chain and finance functions. We successfully helped the client with all aspects of the transformation, including designing and implementing the changes, transfer pricing model redesign and the development of direct tax solutions. These changes will drive operating efficiencies leading to increased growth rates, increased trading margins and a reduced effective tax rate.

Implementing a new European business model efficiently

We helped the Nordic arm of a major global food manufacturer to implement a new tax-efficient European business model. The group wanted to re-organize country entities into a new legal structure including service branches, procurement branches, sales and production companies. All strategic planning was to be centralized and EY was brought in to project manage the transition to the new structure and help ensure quality was maintained.

Improving effectiveness in performance management

In order to maintain market leadership, a fast-growth consumer goods company in China needed to improve the board's effectiveness in driving the performance of key group functions including financial reporting, HR and IT. In order to facilitate better decision-making, we worked with the company to develop more effective board performance measures and to revise the group's approach to new business decision modeling.



Delivering margin improvement

Managing margins successfully is critically important for food companies. With input costs soaring and pricing pressures exacerbated by competition from private label, margins are being squeezed from all directions. Food companies need a strategically aligned response – including performance improvement and maximizing productivity across the enterprise; sustainable cost management; and reviewing pricing.

“The pressure is on! And at levels never experienced in the food category. Manufacturers need to continue to focus on growth; which always has market and consumer dynamics that companies will never be 100% right in understanding and responding to. In response, food manufacturers are focusing more time and effort on optimizing their internal costs to deliver the operating margins stakeholders demand. Unlike market dynamics and commodity costs, internal operating costs are totally in control of management. Management teams are rethinking every element of global operating models and operational costs to be as lean and competitive in the market as possible.”

Gregg Clark
Americas Advisory Leader, Consumer Products
EY

Improving performance, maximizing productivity

Adopting a flexible operating model is helping organizations to respond to the demands of today's changing business landscape. In emerging markets, supply chain operations need to be geared toward keeping up with the demands of 20%+ growth rates, while in more developed economies, emphasis is increasingly on removing costs and improving customer service. By re-examining their supply chain networks, companies are also getting a wider overview of key political, economic and environmental risks and how they may affect operations.

In optimizing their networks, companies are increasingly moving toward a mixed model, seeking to strike the right balance between farshore, nearshore and onshore production. Relocating operations can bring benefits in terms of cost savings and proximity to customers, but it can also help to reduce customs duty costs and help drive sales growth, especially in emerging markets. Leading companies are also looking closely at their business operating models to align these with market needs. For example, by creating regional centers "above market" companies can improve operating efficiency and help minimize the effective tax charge.

Whichever market they are considering, food companies are conducting much more cost-to-serve (CTS) analysis to calculate better the profitability of a specific account based on the actual business activities and overhead costs incurred to service that customer. With a proper understanding of CTS, when it comes to the annual renewal of a contract, companies can negotiate concessions to remove restrictions that may be impacting their profitability, such as order size or delivery requirements.

Translating strategy into operational effectiveness

Tracking value leakage through the pricing waterfall

Major food companies invest heavily in selling to their customers: it costs them billions every year in discounts and trade promotions. But time and again poor negotiation, erroneous discounting and lack of clear information results in lost value on a significant scale. The two most common causes of value leakage are a basic lack of conditionality around discount offers and legacy discounts which create a lack of clarity on deals. Getting the right conditions and controls in place can help ensure this huge investment works much harder. Food companies help redress the balance of power with retailers by combining increased understanding of both the pricing waterfall and CTS to provide a clear view of efficient and profitable outcomes from negotiations.

Retailers have been pushing for international price harmonization: French retailer Carrefour demanded one price for brands from consumer products suppliers in its top four geographic markets. Previously, there had been as much as 30% difference in prices across the G4 countries.

Making unprofitable agreements less likely

Getting sales execution right requires clear planning and customer segmentation, appropriate incentives and the right information to track performance and improve visibility of returns.

Some companies are still failing to translate their strategic goals into operational instructions for the sales force. Sales teams need a clear trading strategy that segments customers and provides a plan for each channel. They should clearly understand what they may and may not do within the pricing waterfall. This should make it extremely difficult for sales people to make unprofitable deals. Another area that companies are still finding challenging is timely availability and effective use of sales data to track performance, spot problem areas, take remedial action and learn lessons to improve the business.

Cost management: fighting a war on two fronts

Cutting costs is never easy. Right now, food businesses have two fights on their hands: first, running the business as a whole in a cost-efficient way, including effectively managing fixed overhead costs and second, dealing with rising input costs, resulting from raw material and energy price inflation.

In terms of overall business costs, food companies have already implemented many of the obvious cuts to help them through the recession. The big challenge is deciding how and where further cuts can be made – either temporary or permanent – without damaging future growth. Some companies are focusing on leveraging their scale,

rationalizing suppliers and using bulk purchasing for everything from raw commodities to office supplies to achieve sustainable cost reduction. For example, Kraft has globalized its purchasing and reduced the number of suppliers it buys from to reduce costs.

Meanwhile, in terms of raw material input costs, commodity price inflation has had a visible impact on food company earnings. This trend appears set to continue for the unforeseeable future as rising commodity costs are expected to continue placing pressure on margins.

Food manufacturers feel commodity price pressure

Fluctuating input costs expose food companies to a number of risks. Foremost, of course, price rises can cut severely into profits and impact pricing strategy, and present serious supply chain management issues. Ongoing price spikes also make forecasting tough, increasing the overall cost and risk of doing business and making hedging strategy much more complex.

Sara Lee has referred publicly to being “victims of movement of commodities,” and Kraft says its input costs for many commodities rose 20%-30% in 2010 versus the prior year. Morgan Stanley has estimated Nestlé’s raw material exposure at 30%, and dairy firm Parmalat’s at 63%.

The World Bank is predicting at least five more years of food price volatility. Many companies, including Nestlé, Unilever and Premier Foods, are raising prices on exposed products. Research company Sanford C. Bernstein & Co. believes food producers need to “raise prices by up to 1% to 2% for every 5% rise in commodity costs.”

Maintaining brand premiums as consumer value perceptions shift

With a period of prolonged low-growth prospects in developed markets, and with competition in emerging markets likely to increase, pricing pressures are unlikely to diminish. Consumers themselves have undoubtedly reset their perceptions of value and price. Retailers continue to negotiate fiercely and the popularity of private label products has made it more difficult for leading brands to justify price premiums, withdraw promotional support or widen price gaps.

In response, brand owners are working hard to win back consumers, in particular through trade marketing advertising and promotion (A&P) and excellent quality of service to demonstrate the clear value of their brand over lower-priced products. One major challenge is to understand the return on investment (ROI) associated with this spending – many companies struggle to achieve this because they lack the right systems, processes and evaluation techniques.

Another challenge is tailoring pricing strategy not just to developed markets, but to emerging markets. Companies need to introduce consumers to brands at price points that are consistent with local income levels to promote category expansion, as well as taking infrastructure and distribution capabilities into account.

How EY can help

We have extensive experience helping food companies to improve key aspects of business performance to create competitive advantage and position themselves to grow profitably. Typical aspects of our work include advising on:

- ▶ Reducing value leakage through the pricing waterfall
- ▶ Sales effectiveness including:
 - ▶ Customer segmentation and trading strategy
 - ▶ Channel strategy
 - ▶ Rightsizing the salesforce to support the customer base
 - ▶ Improving salesforce execution
 - ▶ Performance measurement and evaluation
 - ▶ Review of system-wide strategy to improve brand performance
- ▶ Analyzing Cost to Serve

Examples of successful projects

Implementing total trade spend framework

A client was looking to improve the way it managed total trade spend to increase oversight and drive improved performance. We were engaged to develop a conceptual framework, help determine the relevant KPIs and outline the change management plan.

Enhancing sales across a portfolio of brands

A client wanted to enhance sales across a range of brands and to ensure its advertising and marketing were protected from potential risks. We helped define the marketing for each brand including: developing the terms and conditions of the marketing activity, identifying risks in the process that could impact the company or brand and providing recommendations to address those risks. As a result of these marketing campaigns, one brand became the market leader in its category, another brand doubled sales volumes.

Revolutionizing the sales and distribution function

We worked with a leading client in India to deploy leading practice sales and distribution processes and building capabilities to create competitive advantage and achieve its long-term vision. Our work included conducting a detailed current state assessment; developing product-price segmentation; streamlining back-end supply chain processes; and building a new sales force organization structure. Results included helping the client to achieve a 600 basis point improvement in sales force productivity.

Auditing media arrangements

We audited a client's media agency contract arrangements in order to improve the management and monitoring of service, decrease media spend and obtain a global view of all markets. As a result of the audits, we identified over-billings, instances of discounts not being paid back to the client and a lack of internal controls at several agencies. We were able to query bills and chase outstanding payments, which meant we retrieved significant funds for our client.





Sharpening execution

The ability to execute in store and in market is a critical success factor for food businesses. Sharpening execution in developed and developing markets is a theme companies return to time and again. So how are they achieving this?

“I’ve always said execution is strategy in our business ... I’ve seldom met a consumer ... who buys ... because they like our strategy. And so, our business is a very simple one of getting the right products at the right place at the right quality at the right price. All the time.”

Paul Polman
CEO,
Unilever

Interviewed by McKinsey Quarterly, September 2009

Improving consumer insight to deliver the “wow” factor

Food companies are focusing on consumer-centricity and the need to “delight,” “wow” or “make each day delicious.”

Brands that don’t deliver this impact and can’t stay in the top spot are unlikely to survive. Food companies are seeking to understand product performance, weeding out tertiary brands and working with retailers to finesse the leading or innovative fast-growth brands that will drive category growth. They are also pursuing much closer relationships with consumers to gain deeper insight about specific tastes across all target segments. It’s deeper than knowing where people live and how much they earn: companies want precise detail on how people like to live, how they spend and exactly how they are using food products, to make the value proposition convincing and develop new ideas on how to extend the brand.

The challenge of moving into new emerging markets presents a steep learning curve for brand owners and raises tough questions. How do you get your product into the hands of consumers you don’t know, in markets you don’t understand, with retailers you don’t recognize? Understanding the speed at which different markets move, and having the flexibility to develop local approaches that still align with the global brand, is key to success here.

Balancing retailer and consumer relationships simultaneously

Deciding how to allocate marketing spend, introducing brands to unfamiliar markets and optimizing digital relationships to boost brand power all present big challenges for food companies, and all involve getting closer to consumers. Brand owners need to understand the implications of change, decide how to build helpful new processes into the way they do business and ensure they have (and properly use) all the financial and qualitative information they need to make sound decisions.

Potentially, the toughest task is simultaneously maintaining retailer relationships and consumer relationships, because this challenges traditional branding and marketing practice. To succeed, food companies need a profound understanding of the underlying economics – how much it costs to do business with global retailers, the true cost of the investment in the consumer relationship, and how best to join up the two. Tying all of this together, to understand the cost of any given market position, will be critical to successful brand development in the future.

Evolving from competition to collaboration

Retailers continue to exert heavy pressure on food manufacturers, negotiating hard on prices and competing directly against branded products with their own private label ranges to lock in higher margins and scale economies.

To counterbalance this risk to their businesses, food companies are moving away from traditional, purely competitive relationships and seeking increased collaboration with customers. They need to understand what matters to retailers, negotiate more

effectively with them, ensure their service levels are met and demonstrate the benefits of a mutually supportive relationship. Typical initiatives include working together on promotions to create overall category growth; jointly reducing supply chain costs; and exploring mutually inclusive benefits associated with the customer experience.

It's also about looking for collaborations with other firms. For example, in the UK, Nestlé and United Biscuits share trucks for transporting their biscuit products to store as they both have the same needs and don't see it as an activity in which they really compete.

Transforming the finance function and increasing rigor of accounting practices

The need for improved management information to support business decision-making is a recurring theme in our discussions with food companies. There is a need for more, better integrated information, faster – for example, in areas such as pricing and forecasting. Many of our clients are also focusing on opportunities to re-engineer the balance sheet and cash flow to boost profitability. Boards want assurance that the finance team is sweating maximum value out of assets such as shared service centers or SAP systems, and they are increasingly open to considering options including partnership models or greater reliance on outsourcing.

Revitalizing risk control and compliance

Food 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 commodity costs. Many companies we talk with find that they do not have the information and tools they need to model price-change scenarios and fully understand the impact of volatility on their profits.
- ▶ Complying with regulation: in emerging markets, complexity and unpredictability are the chief cause of problems; meanwhile, in developed markets the current hotspot is new food safety regulation coming out of the US.
- ▶ Getting corporate governance right: many companies moving into emerging markets are finding this a major challenge.

How EY can help

We support food companies on a wide range of initiatives to sharpen execution right across the business, from driving down costs to making processes more effective, structures more efficient and use of information more insightful. Our work includes:

- ▶ Finance transformation
- ▶ Customer collaboration and customer relationship management
- ▶ Effective brand management
- ▶ Risk management and compliance
- ▶ Efficiency of controls: control function outsourcing and co-sourcing; internal audit
- ▶ Enterprise performance management – improved planning and reporting capabilities

Examples of successful projects

Improving internal controls and risk management processes

We helped a leading FMCG company in India to improve its internal controls and risk management processes, which had evolved in an ad hoc way across various operating divisions. We developed a risk management framework, set up an online dashboard to provide detailed risk information and provided an independent risk management assurance function, all of which contributed to giving the client a genuine overview of the risks across its diversified lines of business.

Building a leading class global finance function

We are working with a client on a finance transformation project to help it build a world-class global finance function, as part of an overall cost reduction strategy. We began with a 12-week rapid assessment engagement, which identified immediate value and cost-saving opportunities and provided insight into finance and other business issues. This enabled us to provide a business case and generate ideas for a design and implementation roadmap for each stage of the team's transformation.

Creating an agile, resilient supply chain

We designed a new planning organization for a client's European operations. Our feasibility report addressed different planning models – business vs. function led – and their likely implications on processes. We provided input into the design of the new planning processes, developed a business case for delivering tangible benefits and proposed a project team structure, approach and timeline. This resulted in the introduction of a new European sales and operations planning process and the standardization and centralization of long-term forecasting and mid-term planning processes.



Enhancing corporate reputation

Leading organizations are focusing intensely on sustainability – particularly social and environmental concerns – making it part of business as usual and reporting publicly on their response to the corporate responsibility agenda.

“Leading food companies are converging around a stance that growth and sustainability go hand in hand. They are increasingly aware that, in the near future, sustainability will be an important driver of growth and that failing to act now will result in them being left behind.”

Doug Johnson
UK Leader, Climate Change and Sustainability Services
EY

Embedding sustainability into business as usual

Reputation and brand trust is paramount for food companies. Customers and consumers want to know that products are safe, labeling is reliable and companies are not damaging the environment or the communities from which materials are sourced or goods produced.

Investors, analysts and opinion formers in the media also expect high standards of corporate behavior and transparent reporting on how food companies are managing social, ethical and environmental risks to achieve a sustainable business.

These challenges are significant, given global supply chains and the difficulty in gaining effective oversight – not just of the top layer of suppliers, but the web of businesses that support them.

“As the role of corporations in society continues to evolve, it is critical that we be very thoughtful, strategic and consistent in how we reach out to our many different stakeholders.”

Indra Nooyi
Chairman and CEO
PepsiCo

Meanwhile, businesses must comply with increasingly stringent regulatory controls on their environmental impact. The last two years alone have seen the implementation of over 250 climate change-related government actions. Companies need to present a convincing case that they are adhering to environmental standards and health and safety requirements, and taking appropriate action.

The challenge is to embed sustainability into business as usual and to harness all these expectations to achieve competitive advantage in terms of reputation and revenue, while ensuring regulatory compliance.

Sustainability: growth driver not cost factor

This requires transformational change, which can only be achieved through a combination of capital investment, capability enhancement, business process changes and changes to performance management measures. Their commitment to greener, socially responsible business practices is leading them to invest in clean technologies and introduce major operational changes to address a range of issues:

- ▶ **Sustainable farming and agriculture** – food producers are no longer just considering the end product and its characteristics; the entire production process is being scrutinized, including the use of pesticides, animal husbandry, biodiversity and soil conservation.
- ▶ **Labor practices** – poor health and safety or the use of child or forced labor, for example in the sourcing of tropical products such as coffee, cocoa and fruit from developing countries, are issues that have the potential to cause significant reputational damage to a company.

- ▶ **Energy efficiency** – a recent EY study revealed 82% of global executives plan to invest in energy efficiency and 64% already report on greenhouse gas emissions in annual reports.²
- ▶ **Water scarcity** – climate change is not just about managing carbon emissions; in response to the changing distribution of water availability, food companies are conducting water mapping analysis in order to judge the impact on their operations and supply chains.
- ▶ **Packaging** – companies need to strike the right balance between reducing packaging to address environmental pressures while continuing to preserve shelf-life and meet food hygiene requirements.

Leading food companies are building integrated sustainability programs to address all of these issues, across the supply chain. These efforts are given board-level support and high external visibility.

Marks & Spencer's "Plan A" sustainability initiative defines 100 commitments across pillars of activity such as climate change and sustainable sourcing. It sets tangible business targets, measures and reports on its performance annually and is transparent about its failings.

Unilever's "Sustainable Living Plan" sets out three goals for the company to achieve by 2020:

1. Halve the environmental footprint of its products
2. Help more than one billion people take action to improve their health and well-being
3. Source 100% of agricultural raw materials sustainably

2. *Action amid uncertainty*, EY, May 2010.

Sustainability and health and wellness: a synergistic approach

Food companies are also capitalizing on growing government and consumer interest in health and wellness to develop products for new niches such as nutraceuticals, functional foods containing branded active ingredients, organics and ethically sourced foods. Creating opportunities for partnerships and collaboration across the value chain are also likely to become a feature of corporate policy. This will be particularly true of developing markets, where business models need to be adapted to reflect local cultures and where companies have an increasing responsibility to promote local skills and employment.

"Nutrition, health and wellness has been our basic agenda over the last few years. Now we are looking at deeper, scientific solutions to personalized nutritional problems and answers to chronic diseases."

Paul Bulcke
CEO
Nestlé

How EY can help

EY brings years of experience of working with many of the largest food and consumer products companies on their sustainability programs.

Our Climate Change and Sustainability Services (CCaSS) professionals help clients to align their business with climate change and sustainability opportunities. We take a view across the business to understand what will work for you – from creating a more sustainable supply chain to establishing clear sustainability programs through to supporting transformational change and measurement of the business benefits.

Reporting on progress on sustainability comes with its own risks, including data consistency, achieving a balance between positive and negative information and the need to continually improve performance. Management, the board and increasingly the audit committee need reassurance that the information reported is robust, accurate and complete.

Our CCaSS services include:

- ▶ Sustainability governance, risk management and strategic direction
- ▶ Sustainability program design and management
- ▶ Review and audit sustainable supply chain
- ▶ Regulation and tax efficiency
- ▶ KPI definition, performance measurement, reporting and assurance, financing and transactions advice
- ▶ Cleantech advisory services

Examples of successful projects

Supporting a leading food company with its sustainability agenda

A leading branded food 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.

Helping a global company deliver against stakeholder sustainability expectations

Both in individual companies and the wider environment, good corporate citizenship must be part of business as usual. Stakeholders expect high standards of behavior including strict regulatory compliance, ethical sourcing and positive societal impact. We worked with a leading global consumer products company to review the group's sustainability report. We provided constructive challenge to the balance and accuracy of the data. This rigorous approach helped management to feel confident about the disclosures being made, as well as providing comfort to internal and external stakeholders that the claims were accurate and fairly represented.



Teaming together

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

Our 10,000-strong global Consumer Products team is supported by our 141,000-strong global organization. This means wherever you operate we work hard to understand your business, integrate with your people and get the job done by delivering the right solutions.

- ▶ We have established close and effective relationships with many of the leading global and smaller local players
- ▶ We work with 28 of the 29 world's leading food companies in the S&P Global 1200

- ▶ We work with 39 of the 49 world's leading food companies in the Forbes Global 2000
- ▶ We understand the challenges facing the industry and how that can affect your business needs
- ▶ We spend time to get to know your business and your needs
- ▶ We provide a regular news digest Talking Food, offering a timely, succinct and unbiased roundup of key developments in the food sector
- ▶ We will work with you to maximize your shareholder value
- ▶ We have Consumer Products leaders at the global, regional and service line level who have extensive experience in the food 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 global food update calls every two months.

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 food issues – for example, through our Talking Food 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.



Sharing insights

We place enormous importance on making the insights and intelligence gained from our global experience in food and consumer products available to all of our clients, to help you compete strongly in this challenging sector. We engage industry stakeholders through research, thought leadership and events to develop the services necessary to meet the industry's evolving requirements.

Our people are equipped 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.

For some examples of the publications through which we share our experience and insights on the consumer products sector please refer to the next page. For copies please contact:

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Here are some examples of the consumer products publications



Talking Food: an update of significant developments in the global food sector



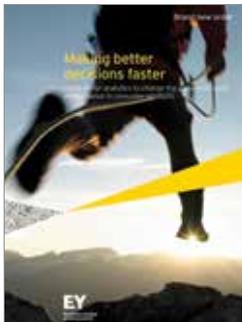
Profit or lose: balancing the growth-profit paradox for global consumer products companies and retailers in Asia's emerging markets



Margin unlocked: integrated margin management to deliver breakthrough performance in consumer products



Disrupt or be disrupted: creating value in the consumer products brand new order



Making better decisions faster: using driver analytics to change the game and boost performance in consumer products



Consumer Products Deals Quarterly: analysis of transactions from each quarter in the global consumer products sector



Cash on the table: working capital management in the consumer products industry, 2013



Conserving value in a changing environment: how consumer products companies are adapting to the tougher reality of the maturing Russian market

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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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