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Consumer goods industry summary

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Recent events have clearly demonstrated the extent to which the world is interconnected. The crisis which began in the US banking system has spread through the global economy as a whole – and no region has emerged unscathed. This historic moment provides an unprecedented opportunity for companies, governments and individuals to think more deeply about the sophisticated eco-systems of which we are all a part.

The current crisis has highlighted the need for new institutions, new mechanisms, new strategies and – most critically, perhaps – a different mindset among those leading the world’s most important institutions and companies. Every CEO will have to make tough decisions about what actions are required to ensure his or her company’s short-term survival. Yet none can afford to ignore the need to build a business that is agile enough to respond to new situations as they emerge, durable enough to grow over the long term and responsive to the requirements of all its stakeholders.

Redefining success, the PricewaterhouseCoopers 12th Annual Global CEO Survey, explores how CEOs are reconsidering the fundamentals of business in response to extreme operating conditions and assuming responsibility for issues that were once considered outside the scope of industry. We interviewed 1,124 CEOs around the world between September 10 and December 2, 2008. Our findings show that they are collaborating more extensively to balance the interests of increasingly influential stakeholders. They are also seeking new kinds of information to help them anticipate changes in critical business drivers.

Here, we look specifically at what the 130 CEOs in the consumer goods industry think, and how they are dealing with a combination of challenges such as mankind has never seen before.

The business environment

Pessimism prevails

A drop in consumer confidence is one of the key markers of an economic downturn, and few sectors are affected as directly and immediately as the consumer goods industry. Hence the pessimism of many consumer goods CEOs: only 27% of respondents are very confident about boosting their companies’ revenues over the next 12 months, compared with 50% in 2008.

However, they clearly have more faith in their own companies than in the industry as a whole, even though they think the prospects for both are quite gloomy. Only 14% anticipate that the industry will generate higher revenues over the next three years, whereas 31% are confident that they can do so themselves. CEOs in other sectors tend to display a similar bias, but the gap is larger among those heading consumer goods companies than it is in the total survey sample.

This difference may reflect concerns about the impact of private-label brands. A growing number of consumers are buying private-label products, motivated partly by greater price consciousness. But though the manufacturers of famous brands may suffer, not every company will; indeed, some companies may be able to produce private-label goods in parallel with their own brands and achieve a win-win. One positive sign is that only 42% of consumer goods CEOs say they are concerned about low-cost competition, compared with 48% of the total survey population.

Coping with the downturn

Coping with decreasing demand requires a sharper focus on the fundamentals. For consumer goods CEOs, this means understanding customers and giving them what they want, communicating the value of their companies’ products (by

Figure 1

Talent, agility, reputation and customer service are the critical drivers of long-term success



Q: How important are the following sources of competitive advantage in sustaining your growth over the long term?
Base: 130

Source: PricewaterhouseCoopers 12th Annual Global CEO Survey 2009

pricing competitively or justifying a premium) and operating a tightly controlled supply chain.

The top areas that consumer goods CEOs view as important sources of competitive advantage reflect these criteria. Nearly every respondent ranks access to, and retention of, key talent as critical or important. The vast majority also list strong brands, a positive reputation, high-quality customer service, the ability to adapt to change and efficient sourcing or supply chain management as critical or important (see figure 1).

Forty percent of consumer goods CEOs plan to focus on penetrating their existing markets more effectively, believing it to be the best opportunity for growth in the current economic climate. This is consistent with the responses of their peers in other sectors, who are also concentrating their efforts on the domestic front. Conversely, only 17% of consumer goods CEOs intend to focus on new product development, only 16% on mergers and acquisitions, and only 15% on new geographic markets.

Though fewer consumer goods CEOs believe that new product development is now the route to growth – compared with the 27% who did so last year – there are signs that new product development will still remain a priority. Only 29% of those respondents who anticipate that their growth plans will be affected by the financial downturn say that they will cut back on the development of new products and services, while 82% see technological innovation as a source of competitive advantage.

Balancing short- and long-term concerns

Addressing global risks

CEOs in all the industries we surveyed are very worried about the impact of global and systemic risks on the long-term success of their businesses – and consumer goods CEOs are no exception. One of their key concerns is non-renewable energy. Fifty-three percent of respondents believe that the world's dependence on carbon-based energy sources will have a negative impact on their companies, while 57% express anxiety about energy costs (compared with 50% of the total survey sample).

Many respondents are already using various strategies to combat these problems, like reducing their energy costs through operational improvements (86%); substituting carbon-based energy sources with alternatives (56%); and investing in new technologies to reduce their dependence on energy (56%). Such individual efforts are good business and small steps towards stabilising the climate.

However, most consumer goods CEOs recognise that they fall far short of the systemic changes that are required. Sixty-two percent want a clear international framework – a successor to the Kyoto Protocol. Thirty-eight percent also believe that information about the impact of climate change on their businesses is important or critical, but only 12% of these respondents think that the information they currently get is comprehensive. Forty-nine percent would like to know more, while 35% say that the information they receive is inadequate.

Consumer goods CEOs also worry about getting access to other natural resources – particularly fresh water. Fifty-six percent of respondents believe that scarcity of fresh water will have a negative impact on the long-term success and durability of their businesses, compared with just 41% of the total survey sample. And 75% believe that the pressure on natural resources will intensify. Yet only 34% think that scarcity of such resources is a threat to business growth.

This discrepancy may be due to the recent fall in commodity prices and the fact that many CEOs are currently preoccupied with ensuring the immediate survival of their companies. Nevertheless, some consumer goods businesses have already started to experience raw material shortages, and we expect this trend to increase, so a longer-term outlook is critical. Those companies that develop strategic sourcing strategies which take broader issues – like climate change, water scarcity and population growth – into account will enjoy a real competitive advantage.

Managing supply chain risks

Another telling factor for consumer goods CEOs is their ability to measure, evaluate and manage supply chain risk. Over the past 20 years, many companies in the sector have stressed the need to establish closer relationships with their trading partners, foster joint development and increase visibility across their supply networks. So it is not surprising that 93% of the consumer goods CEOs we surveyed say that efficient sourcing or supply chain management is important or critical, compared with just 79% of the total sample.

Extending a supply chain, especially in the emerging markets, brings considerable risks, as ensuring visibility and control becomes significantly more complex. The economic downturn is likely to exacerbate these challenges, as companies will be trying to cut their costs. Consumer goods companies will need to become more innovative about identifying compensating controls. They will also need to be agile in order to cope with sudden changes as suppliers go out of business and to be able

to scale down as demand falls – without impairing their ability to ramp up production when consumer confidence recovers.

Cultivating key skills

A significant percentage of the consumer goods CEOs we surveyed also anticipate having to cut the number of people they employ, as they struggle to keep their companies afloat (31% versus the overall average of 26%). Surprisingly, however, 34% plan to hire more people. This is possibly because the vast majority of respondents recognise the need to maintain a strong skills base, even in periods of great economic turbulence; a full 99% of respondents rate access to, and retention of, key talent as important or critical to the long-term success of their operations.

But finding the right people is far from easy; 62% of consumer goods CEOs say that they have problems recruiting and integrating younger employees, while 56% report difficulties in providing an attractive career path (challenges that beset other industries in almost equal measure). Fifty-eight percent also comment on the limited supply of candidates with the right skills, although this is notably lower than the overall average of 69% – a difference that may stem from greater optimism about the potential for expanding the talent pool. Forty percent of consumer goods CEOs believe that integrating older workers, women and immigrants into the labour force will alleviate the pressure, compared with just 34% of the total survey population.

Collaborating with government to achieve regulatory stability

In fact, the cultivation of a skilled workforce is one of several risks that can only be solved by collaboration between companies and government – but many consumer goods CEOs see room for improvement in this respect. Nearly half of those surveyed do not believe that their governments have been very effective in helping to improve the shortage of skilled labour or in developing clear and consistent long-term environmental policies, for example.

Innovation is one area where collaboration with government can bring obvious benefits. In the UK, for instance, the National Endowment for Science, Technology and the Arts (NESTA) has developed a number of strategies designed to support corporate innovation, including the ‘Open Innovation Challenge’, in which NESTA partnered with Procter & Gamble to encourage collaboration with interested designers and inventors on the development of ideas for new products.

Looking forward

Consumer goods CEOs – like their peers in other industries – now have to juggle more challenges than ever before. They have to contend with immediate problems such as the global recession, while simultaneously taking into account long-term, systemic risks such as climate change and the impact of demographic shifts on the talent pool. The ability to balance these sometimes conflicting demands is fundamental to staying competitive.

As PricewaterhouseCoopers Global Retail and Consumer Leader Carrie Yu explains: ‘In the current financial turmoil, consumer goods companies need to take immediate steps to strengthen and survive through the difficulties. However, they also need to make sustainability considerations an integral part of their strategy, as consumers increasingly demand products that have been made in an ethical and environmentally sustainable manner.’

The majority of consumer goods CEOs clearly agree. Our survey shows that 77% believe the strength of their corporate social responsibility programmes is critical or important in maintaining long-term growth and building a durable business.

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Full findings of the PricewaterhouseCoopers 12th Annual Global CEO Survey are available at www.pwc.com/ceosurvey

For additional information regarding PricewaterhouseCoopers’ consumer sector practice, please visit www.pwc.com/consumer