Redefining business success in a changing world

Retail and consumer industry key findings

148
retail executives interviewed

210
consumer goods executives interviewed

pwc

www.pwc.com/ceosurvey

About the 19th Annual Global CEO Survey

In this year's survey, global business leaders voice fresh concerns about economic and business growth. At the same time, they see a more divergent and multi-polar world where technology is transforming the expectations of customers and other stakeholders. In *Redefining business success in a changing world*, we explore how CEOs are addressing these challenges. We surveyed 1,409 CEOs in 83 countries and a range of industries in the last quarter of 2015, and conducted face-to-face interviews with 33 CEOs.

Today's business leaders have a tough job finding growth and delivering results year in, year out. But they know an even tougher task lies ahead: to prepare their organisations for a more complex future where customers and other stakeholders increasingly expect them to do more to tackle society's important problems.

To equip themselves for this challenge – and to build trust and ensure long-term success – CEOs are focusing on three core capabilities. Firstly, they're focusing even more strongly on customer needs as well as drawing on their organisational purpose – what their companies stand for – to define a more comprehensive view of how their business operates within society. Secondly, they're harnessing technology, innovation and talent to execute strategies that meet greater expectations. And finally they're developing better ways to measure and communicate business success.

About the Retail and consumer industry key findings

This report looks in more detail at the views of 148 retail CEOs in 48 countries and 210 consumer goods CEOs in 61 countries and draws on in-depth interviews with:

Elizabeth Smith
Chief Executive Officer
Bloomin' Brands, Inc.,
US

Denise Morrison
President and Chief Executive Officer,
Campbell Soup Company, US

Richard Pennycook
CEO,
The Co-operative Group,
UK

Mikko Helander
President and CEO,
Kesko Corporation,
Finland

André Calantzopoulos
Chief Executive Officer,
Philip Morris International, Inc., Switzerland

Richard Goyder
Managing Director,
Wesfarmers, Australia

Jeff M. Fettig
Chairman and Chief Executive Officer
Whirlpool Corporation,
US

Between 2000 and 2015, Internet penetration increased almost seven-fold – from six to 43% per cent of the the world's population. Since 2007 mobile broadband penetration has multiplied twelve times; currently 69% of the global population is covered by 3G.[1] Technology (along with a host of other factors) has drastically changed how consumers think and act, and retailers and consumer goods companies face profound turbulence as a result. PwC's 19th Annual Global CEO Survey highlights a business environment that's becoming increasingly complicated to read and adapt to.

[1] ITU, http://www.itu.int/en/ITU-D/statistics

New models for new challenges…

On-line shopping has been the single biggest disruptor to hit the retail sector. Tiny start-ups are now selling all over the world, while some major chains have struggled to seamlessly integrate on-line and bricks-and-mortar outlets. Shoppers have set a high bar for retailers by demanding easy, any time access and becoming quite savvy in their use of the Internet to research, compare, and buy. The role of the physical store is changing too, with some segments polarising between local convenience outlets and major 'destination' stores where the emphasis is as much on entertainment as it is on shopping.

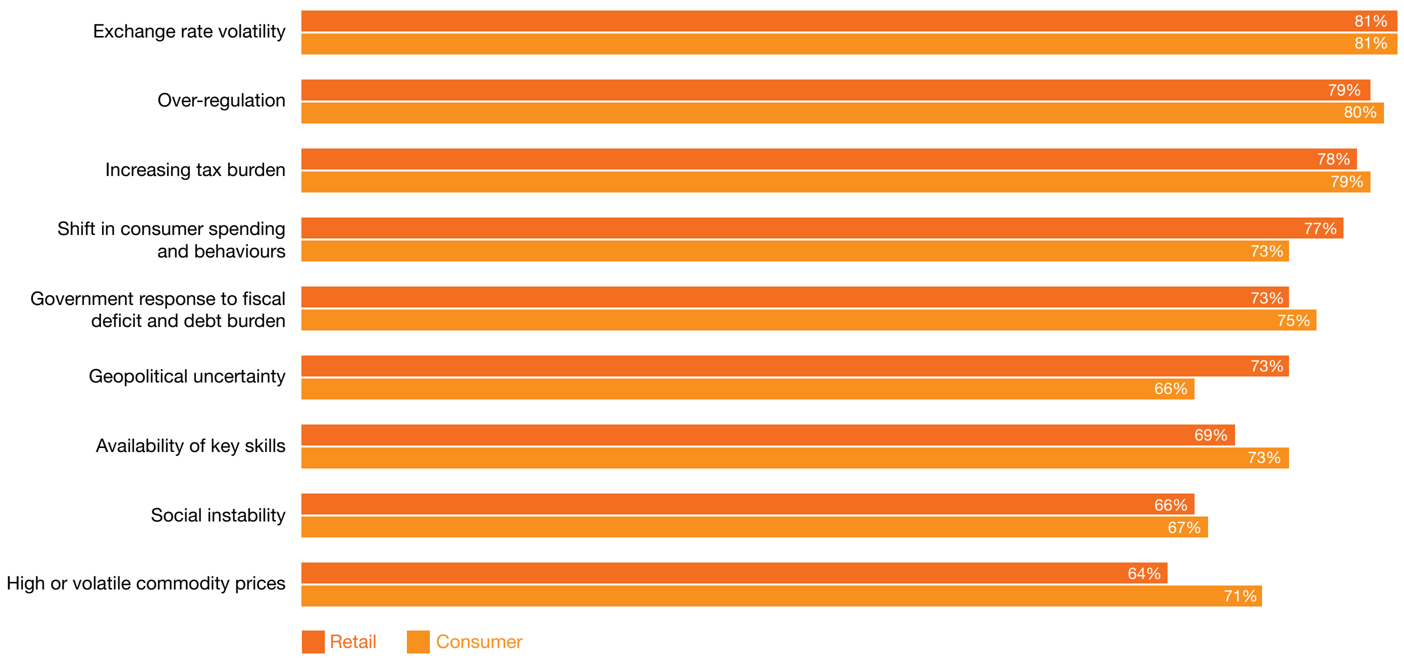
No surprise, then, that 77% of retail CEOs and 73% of consumer goods CEOs say they are concerned about the impact of shifts in consumer spending and behaviour – considerably higher than CEOs in other sectors.

But amid a generally increasing level of uncertainty about business and the global economy by our overall survey population, retail and consumer goods CEOs' general outlook is somewhat brighter. The fact that the opportunities are so enormous no doubt accounts for at least part of the optimism. Forty-five percent of retail CEOs and 40% of consumer goods CEOs are very confident that their company's revenue will grow over the next 12 months, compared to 35% overall. Likewise, fewer retail CEOs (57%) see more threats to the growth of their company today than there were three years ago. Continuing this positive note, 45% believe there are more growth opportunities now than in 2013.

77%
of retail CEOs and
73%
of consumer goods CEOs are concerned about shifts in consumer spending and behaviour

Figure 1: Retail and consumer goods CEOs are most concerned about exchange rate volatility, over-regulation

Q: How concerned are you about the following potential economic, policy, social and business threats to your organisation's growth prospects?



Base: All respondents (Retail, 148; Consumer goods, 210)
Source: PwC, 19th Annual Global CEO Survey

Of the many different political, social and economic risks all businesses face, those that concern retail sector CEOs the most are over-regulation (37% are extremely concerned), exchange rate volatility (36%), an increasing tax burden (33%), and social instability (29%). By contrast, the issues that worry them least are access to affordable capital (20% are not concerned about this at all), unemployment (14%), and the Eurozone debt crisis (14%). Rather surprisingly, given some of the other findings from the sector, 20% of retail CEOs are not concerned at all about climate change, though 34% do cite this as a significant concern. Key concerns for consumer goods CEOs include exchange rate volatility, the increasing tax burden and the availability of key skills.

Supply chain risks top of mind

Volatile commodity prices are a concern for consumer goods companies, requiring them to be more efficient when they are unable to raise prices. Fluctuations change how companies react all along the value chain, not least of which includes retailers. So it's not surprising that both retail and consumer goods CEOs are concerned about high or volatile commodity prices – 71% of consumer goods CEOs cited this as a major concern, as did 64% of retail CEOs. This compares to just 57% of the overall survey population.

Over the years, supply chains have become longer and more complex and thus more prone to potential disruption. Sixty-two percent of retailers are worried about this, compared to a global average of 50%, and 29% are 'extremely concerned'. Such disruptions can stem from a whole range of issues, from extreme weather events caused by climate change, to political unrest and cyber crime. These are risks that require active management, with specific continuity plans, clear lines of authority, early warning systems and a strategy of working with suppliers to build their awareness.

'...companies like Kesko have to put all our efforts into developing our operations and changing our traditional structures and business approach... customers are more and more demanding...'

Mikko Helander

President and CEO, Kesko Corporation, Finland

Addressing greater stakeholder expectations

CEOs have set their radar on a wider range of stakeholders. Customers are at the top – and their priorities are evolving as technology, demographics and global economic shifts collide. As André Calantzopoulos, Chief Executive Officer of Switzerland's Philip Morris International Inc., explains, "The boundaries between a company's internal world and the general public are rapidly diminishing. To me, transparency, ethics and integrity are of paramount importance, together with consistent dialogue with both direct or indirect stakeholders in order to find appropriate solutions."

Retail – on the frontline of change

Social pressures on businesses to act ethically and responsibly continue to grow – and not just from customers, but from employees, investors, business partners and governments, as well. Eighty-five percent of retail CEOs and 84% of consumer goods CEOs told us that they are, indeed, expected to address wider stakeholder concerns than ever before. As Richard Goyder, Managing Director of Australia-headquartered Wesfarmers, puts it, "I think we're a part of the community; we've got to operate as part of the community. I don't think, as a listed company, there's any doubt that our primary objective is to generate returns for our investors. But we have to do that sustainably, we have to do it ethically and we have to do it in a way that contributes to the communities in which we operate."

Climate change and resource scarcity are driving new expectations of consumer goods companies

Consumer goods CEOs are more likely to rate resource scarcity and climate change as one of the top three global trends likely to transform wider stakeholder expectations of their business, with 58% citing this as a factor influencing expectations, compared to just 40% of retailers. It's natural, then, that more consumer goods CEOs say their companies are likely to be developing new ethical products and services in response to changing stakeholder expectations (35%, versus 23% overall). They also feel under pressure to minimise the social and environmental impacts of their operations (41%, compared with 31% overall), and manage these impacts of their supply chains (33%, versus 23% overall).

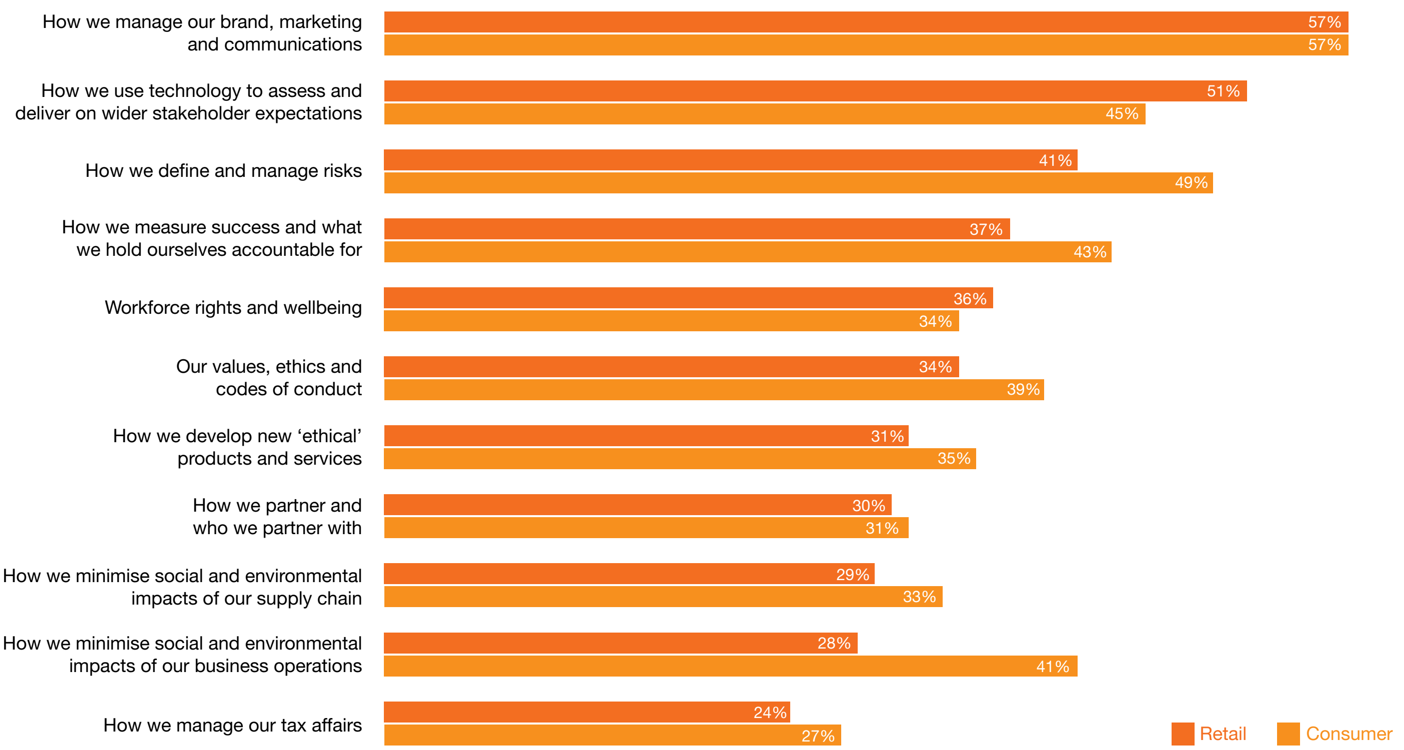
Bringing people together to make a difference in our communities is part of who we are and what we stand for as a business.

Denise Morrison

President and Chief Executive Officer, Campbell Soup Company, US

Figure 2: Retail and consumer goods CEOs are changing how they manage the brand in order to meet stakeholder expectations more effectively

Q: To what extent are you making changes in the following areas in response to changing stakeholder expectations? Respondents who said "significant changes"



Base: All respondents (Retail, 148; Consumer goods, 210)
Source: PwC, 19th Annual Global CEO Survey

Consumer goods company CEOs also say they will make changes to enhance their reputation as ethically and socially responsible employers, in order to attract and retain the best talent, and remain relevant and competitive (38% compared with 29% of retailers). Attracting the next generation of talent may also mean making other kinds of changes. “The younger, digital savvy generation of talent poses particular challenges in terms of working environment, hierarchical structures, engagement, compensation systems and personal development but also tremendous opportunities for more collaborative problem solving, distributed decision making and outward looking culture.” explains Philip Morris’ André Calantzopoulos.

Where next for corporate social responsibility?

Retail and consumer goods companies both have a history of contributing to the welfare of the communities they serve and, in fact, 41% of the retail CEOs who responded to our survey say that their company’s purpose has always focused on their wider social impact.

Sixty-eight percent say their current purpose is focused on creating value for stakeholders, as distinct from shareholders (32%), and these findings are almost exactly in line with the average overall. Large retailers have been pioneers in corporate social responsibility – and leading companies integrate it into all major decisions – so it is slightly surprising that 40% told us they have a standalone programme, as opposed to it being integrated. As many as 58% of retail CEOs and 67% of consumer goods CEOs agree that corporate social responsibility will be core to everything they do in five years’ time. Wesfarmers’ Richard Goyder says, “I think that expectations are going to get higher and higher and higher, and rightly so.”

Social listening tools are one way to learn about what's important to stakeholders: 34% of retailers and 32% of consumer goods companies say they believe they are valuable engagement mechanisms, compared to just 23% of respondents overall. Other technologies which also got strong ratings for their ability to connect retailers and consumer goods companies to their publics were data and analytics (70% retail, 64% consumer goods) and customer relationship management systems (71% retail, 69% consumer goods).

Social media is another potential way to connect with stakeholders, but one that still baffles some retailers. According to Andrea Fishman, a PwC principal and digital strategy specialist, "Retailers, while embracing technology change, are continuing to struggle with the best way to leverage social media to enhance engagement and customer loyalty." Our survey results show that consumer goods CEOs are more advanced in this area than their retail counterparts. Fifty-nine percent of consumer goods CEOs believe social media has significant value as an engagement mechanism – as do 53% of retail CEOs. "Unlocking the value of social media is critical for retailers, as consumers are increasingly relying on social media to inform their buying decisions," adds Fishman.

Keeping up with digital disruption

The Internet has drastically altered consumers' shopping habits, and digital technology is accelerating that change. Retailers especially understand the power of data, and they're becoming more and more astute at using it. Consumer goods companies are fast on their heels, and are at the early stages of creating their own e-commerce sites to target consumers. But keeping up with digital advances – and what consumers are doing with them – is a big task, and 52% of both retail and consumer goods CEOs are concerned about the pace of technological change.

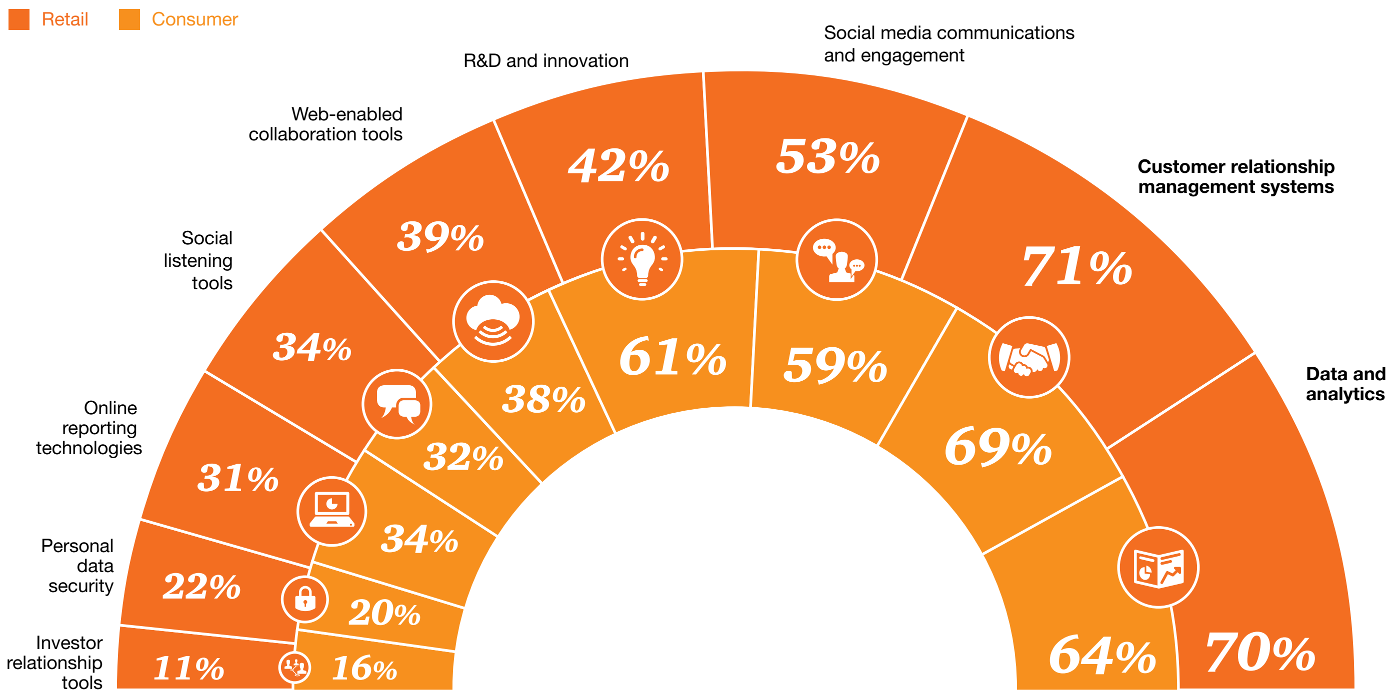
Seventy-four percent of retail CEOs rate technology advances as one of the top three global trends likely to transform wider stakeholder expectations of their business, whereas consumer goods CEOs were less likely to say this (only 60%). Technologies such as customer relationship management and data and analytics rated high with both retail and consumer goods CEOs.

Technology certainly plays an important role in the way our products function, but we believe that our customers are not looking at technology for technology's sake. They want technology that provides time savings, energy efficiency, and improved cooking and refrigeration, but they're not asking us to invent the chip to enable that performance. It's our job to apply technology and make it available to our customers..

Jeff M. Fettig
Chairman and Chief Executive Officer, Whirlpool Corporation, US

Figure 3: Retail and consumer goods CEOs see data and analytics technologies, CRM systems as generating the greatest return for stakeholder engagement

Q: Please select the connecting technologies you think generate the greatest return in terms of engagement with wider stakeholders.



Base: All respondents (Retail, 148; Consumer goods, 210)
Source: PwC, 19th Annual Global CEO Survey

Seventy percent of retail CEOs and 64% of consumer goods CEOs rated data and analytics as likely to generate strong returns for engaging with stakeholders.

According to David Meer, a principal with PwC's Strategy&, retail and consumer goods companies tend to be behind other industries in terms of their investments in and ability to use advanced data analytics. "It's not that they don't believe there is value," Meer goes on to say, "it's that they struggle with putting it into practice. The path to getting ROI is not as clear as it is in other industries."

Elizabeth Smith, Chief Executive Officer of US-based Bloomin' Brands, Inc. describes how her company uses data analysis to improve the customer experience: "We are delivering that customization and personalization that Millennials are demanding. We've doubled our investment in technology and completely rebuilt our technology team this year. Data analysis tells you so much about customer behavior, a couple can walk in the door, and we can say, 'Hello, John and Susan. Nice to see you. We know you like to sit over here, and we've taken the liberty of putting your preferred drink on the table.'"

Given the increasingly digital nature of retail businesses, and the vast volumes of personal and financial data they hold, it's surprising that retail CEOs did not express more concern about cyber threats. Fifty percent say they're either not concerned at all, or not very concerned, whereas 61% of CEOs as a whole are either moderately or extremely concerned. This is an area where the risk of inaction is very high indeed.

Richard Pennycook, CEO of The Co-operative Group in the UK, explains his views: "I think investing in cyber security is simply one of those fundamentals that pretty much every business has to recognise. My beginnings were in retail. I've spent my career in retail. And in those early days if somebody had suggested at Board level, 'tell you what, we're going to build shops with no locks and we won't have any back doors,' the Board would have thought that was completely nuts. Well, you wouldn't do the same in IT terms either. So you have to have that security, you have to have your back doors guarded, and you can't regard that as somehow optional. It's just an investment that you have to make. And it's not one-time, it's perpetual."

Measuring and communicating success

Retail and consumer goods CEOs want to measure innovation and risk better

We asked CEOs where they wanted to better measure impact and value. For CEOs in both retail and consumer goods companies, like their peers in other areas, risk and innovation emerge as the top two areas, with nearly equal numbers of CEOs naming them. Non-financial indicators (including brand), employee practices and environmental impact are some of the other areas that retail and consumer goods CEOs think they could measure better.

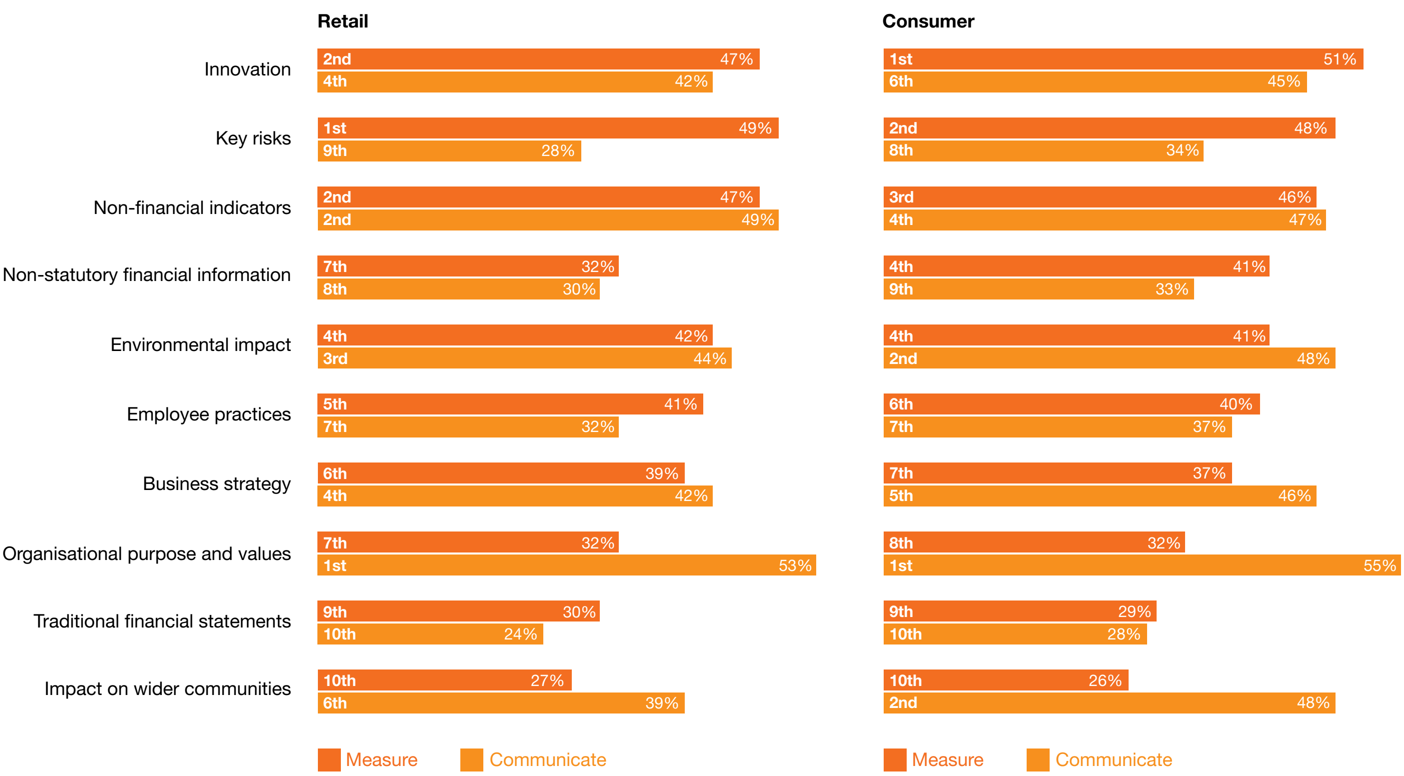
And communication is just as important

But tracking success means little to stakeholders unless companies communicate their results. For both retail and consumer goods CEOs, the top area where they want to better spread the word is organisational purpose and values. Retail and consumer goods companies tell us they're already focused on the long term. Eighty-one percent of retail CEOs and 79% of consumer goods CEOs prioritise long-term over short-term profits. Retail and consumer goods CEOs agree it's the way of the future – 76% of retail CEOs and 81% of consumer goods CEOs agree that business success in the 21st century will be redefined by more than financial profit.

The Co-operative Group's Richard Pennycook puts it this way: "…What we're going to be developing is another leg to our financial reporting, which talks specifically about the value that we've created through the supply chain and through our businesses that customers have helped us to create… And I think that's very important. So when I look at, for example, the work that we do on food waste and making sure that it's absolutely minimised, there's a financial metric there, which says that our food waste is x percent lower than it would have been. I'm not sure that's going to resonate much with people. But when you turn it into a story which says rather than letting food go to landfill, we've provided a million free meals to good causes in the last year, that makes it much more meaningful. I think we have to tell more of those stories."

Figure 4: Retail and consumer goods CEOs are seeking to better measure key risks, innovation

Q: In which of the following areas do you think business should be doing more to measure/communicate impact and value for wider stakeholders?



Base: All respondents (Retail, 148; Consumer goods, 210)
Source: PwC, 19th Annual Global CEO Survey

In summary

From greater stakeholder – especially customer – expectations to evolving technology to uncertainty about the business and global economy, retail and consumer goods companies face an environment that's becoming increasingly complicated to read and react to. And these challenges are not likely to lessen any time soon. Making the organisation's purpose its guiding principle enables it to define a compelling and distinctive customer value proposition, create a business strategy focused on that proposition, and maintain an operating model that can deliver effectively on it. Denise Morrison, president and CEO of US-based Campbell Soup Company, sums it up nicely: "Taking all of those shifts into account, our purpose becomes an anchor in a sea of change. It also is inspiring our decisions about acquisitions, strategies we pursue, capital allocation, and talent we resource to strengthen our core business while we expand into faster-growing spaces."

Contacts

John Maxwell
Global leader, Retail and Consumer
+1 646 471 3728
john.g.maxwell@pwc.com

Mike Brewster
Global Retail and Consumer Marketing
+1 646 471 1705
michael.j.brewster@pwc.com

Susan Eggleton
Global Retail and Consumer Marketing
+1 206 398 3257
susan.eggleton@pwc.com

Explore the data

See for yourself what else retail and consumer goods CEOs told us about leading in complicated times.

www.pwc.com/ceosurveydata

And follow #ceosurvey on Twitter to learn what your colleagues are saying about it.

Acknowledgments

PwC gratefully acknowledges the contribution to *Redefining business success in a changing world: Retail and consumer industry key findings* provided by the CEOs who participated in our in-depth interview programme, listed below. Watch the CEO video interview for more great insights.

Elizabeth Smith
Chief Executive Officer
Bloomin' Brands, Inc., US
Watch the full interview

Denise Morrison
President and Chief Executive Officer
Campbell Soup Company, US
Watch the full interview

Richard Pennycook
CEO
The Co-operative Group, UK
Watch the full interview

Mikko Helander
President and CEO
Kesko Corporation, Finland
Watch the full interview

André Calantzopoulos
Chief Executive Officer
Philip Morris International, Inc.
Switzerland

Richard Goyder
Managing Director
Wesfarmers, Australia
Watch the full interview

Jeff M. Fettig
Chairman and Chief Executive Officer
Whirlpool Corporation, US
Watch the full interview

www.pwc.com/ceosurvey