

Delivering results

Key findings in the Retail and Consumer industry

*15th Annual Global
CEO Survey*

Sector summary



Commitments to doing more business globally are accelerating in 2012 despite economic, regulatory and other uncertainties. CEOs see the fundamentals for future growth still squarely in place.

To understand how businesses are preparing for growth in their priority markets, we surveyed 1,258 CEOs based in 60 different countries and talked to a further 38 CEOs face-to-face for our 15th Annual Global CEO Survey. *Delivering results: Growth and value in a volatile world* explores CEOs' confidence in prospects, and how they are building local capabilities and creating new networks for new markets.

CEOs are adapting how they go to market, reconfiguring processes and at times entire operating models. They are also addressing risks that greater integration can amplify and are focused on making talent more strategic to pursue market opportunities.

This is a summary of the findings in the retail and consumer goods sector, based on interviews with 114 CEOs from retail companies in 33 countries and 245 consumer goods CEOs in 45 countries.

“At the moment, the mature markets are slow-growing or in decline with respect to high ticket consumer durables. In North America, the housing collapse and high unemployment have combined to create one of the lowest levels of consumer confidence in decades—which means discretionary purchases get postponed. There are similar consumer constraints in Western Europe as a result of the banking crisis and sovereign debt issues.”

Keith McLoughlin
President and CEO
AB Electrolux, Sweden

Consumers make the rules

When it comes to the theme of this year's survey—delivering growth—the fate of the retail and consumer goods sector, more than any other, is inextricably linked with the fortunes of the individual consumer. Three global trends concerning the consumer currently stand out.

The first is weak demand in the industrialised economies. This is in large part due to persistently high unemployment, the sovereign debt crisis in the Eurozone and the huge fiscal challenges that exist throughout the West.

The second trend is the increasing buyer power of the developing-market consumer. The income disparity between the middle classes in the emerging and developed economies is rapidly shrinking. The ranks of the middle class in the emerging markets are simultaneously exploding, in direct contrast with what's happening in the developed markets, where the middle class is diminishing. To deliver growth, then, global consumer goods companies desperately need the opportunities inherent in the emerging markets.

The third trend is the rise of the digitally-empowered consumer in both the developed and emerging markets. Thanks to technology, today's consumers have a tremendous amount of information at their fingertips; they can shop anytime, anywhere.

All these trends are reshaping the environment in which retail and consumer goods CEOs operate—and the dire state of the industrialised countries has left them feeling particularly sombre. Only 8% of retail CEOs and 14% of consumer goods CEOs think the global economy will improve in 2012. The level of confidence they display has also dropped. Last year, 39% of retail CEOs and 49% of consumer goods CEOs were very confident they could boost their company's revenues over the next 12 months. This year, the numbers have fallen to 28% and 40%, respectively.

Given that the emerging markets are still growing about twice as fast as the developed markets, such pessimism clearly reflects renewed concerns about the situation in the US and Europe. Retail and consumer goods CEOs are worried about how economic stagnation and persistent unemployment in both regions will affect consumers' behaviour.

Making it happen

So what steps are retail and consumer goods CEOs taking to deliver growth in the 'new normal' era, as it's been dubbed? They're looking further afield: a full 60% of consumer goods CEOs think the emerging markets now hold more promise for their companies than the developed markets, although only 36% of retail CEOs think the same. They're working overtime to adapt their approaches to the demands of digitally-empowered customers. And they're focusing on making their companies more efficient.

In short, retail and consumer goods CEOs are refashioning the way they do business to cope with a world where the risks and opportunities are increasingly interconnected but the sources of growth are often local. This presents three related challenges:

- Reconfiguring operations to meet local market needs
- Defending against micro risks that can become macro disruptions
- Making talent strategic

Balancing global capabilities and local opportunities

Greater global integration is reshaping the business landscape, but succeeding in this new milieu isn't just about making products cheaply in one place and selling them in another. It's about becoming 'multi-local'—building the right model and infrastructure, forming the right strategic alliances, offering the right products and services. That's no easy task.

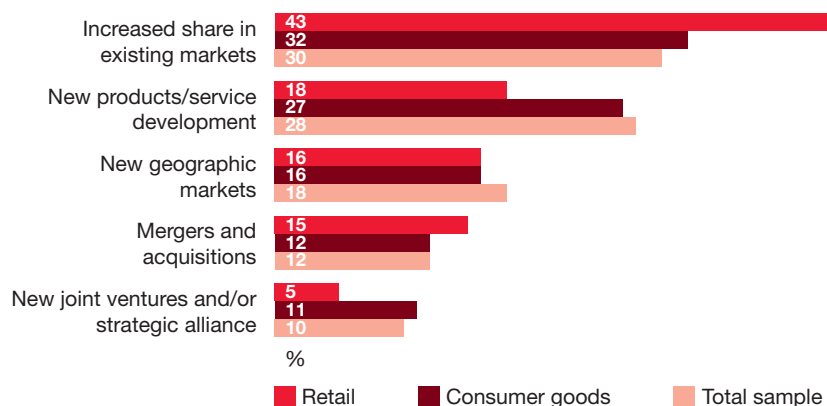
Different markets inevitably have different needs, and bringing global organisation to the local level is a delicate balancing act. It's imperative, for example, to match products with local demand while exploiting the advantages of global scale; to respond rapidly to changing local conditions while adhering to global processes and standards; and to accommodate cultural variations while remaining consistent with global expectations.

Stay home or head abroad?

Given all these obstacles, both retail and consumer goods CEOs are understandably wary about setting up overseas operations. Retail CEOs, in particular, are placing most of their bets on their existing markets: 43% plan to concentrate on the areas in which they already do business, while only 16% plan to head abroad (see Figure 1).

Figure 1: Retail and consumer goods CEOs are focusing on their existing markets

Q: Which one of these do you see as the main opportunity to grow your business over the next 12 months?



Base: All respondents (Total sample, 1,258; Retail, 114; Consumer goods, 245)
Source: PwC 15th Annual Global CEO Survey

That's probably because it's especially tough for retailers to break into new territories. The most successful retailers forge a personal bond with customers—and it's hard to make that connection in a totally different culture. Regulation is another hurdle. India has only just opened up the domestic market to allow 100% foreign ownership of single-brand stores, for example.

Protectionism, inflation and sheer size have made Brazil a difficult market for global retailers as well. Luiza Helena Trajano Inácio Rodriguez, CEO of Brazilian electronics and furniture retailer Magazine Luiza SA, points out that foreign companies often take four or five years to establish a strong presence in the country. Ricardo Neves, one of our local partners, agrees. "Brazil's an economy that in some ways has been very closed, even when compared to other emerging markets. Historically, we've been bureaucratic and put a lot of fences around the internal markets," he explains.

But, as Figure 1 shows, consumer goods CEOs are also putting more emphasis on developing new products for existing markets than heading abroad. This is rather more surprising, since many large consumer brands have already proved very popular in the emerging economies and most consumer goods CEOs believe such markets offer the biggest opportunities. That said, 23% of consumer goods CEOs plan to form new strategic alliances or complete mergers and acquisitions, some of which may involve foreign firms.

Entering a new market by acquiring a local competitor provides immediate access to local facilities and distribution networks. It's certainly a strategy favoured by Erdal Karamercan, President and CEO of Turkey's Eczacıbaşı Group A S. "We still invest in our own brands; but then we also acquire brands that are successful in their home countries/sectors to increase our added

value," he says.

As for where those consumer goods CEOs with foreign forays in mind plan to go, more than a quarter have their sights set on China. The US comes next on the list; it's a top-three destination for 22% of our sample, followed by Brazil (18%), Germany (14%), Russia (10%) and India (9%). The lure of the BRIC economies is clear; consumer goods CEOs are hoping to diversify their revenues and hedge against the impact of regional downturns.

Serving digitally empowered consumers

But many retailers and consumer goods CEOs don't need to go offshore to generate more business. Other research we've recently completed shows that the way people shop is changing. More than half of all Internet shoppers expect to spend more online in the future. And their loyalties are shifting; strong brands are becoming more important than the locations where the goods are for sale.¹

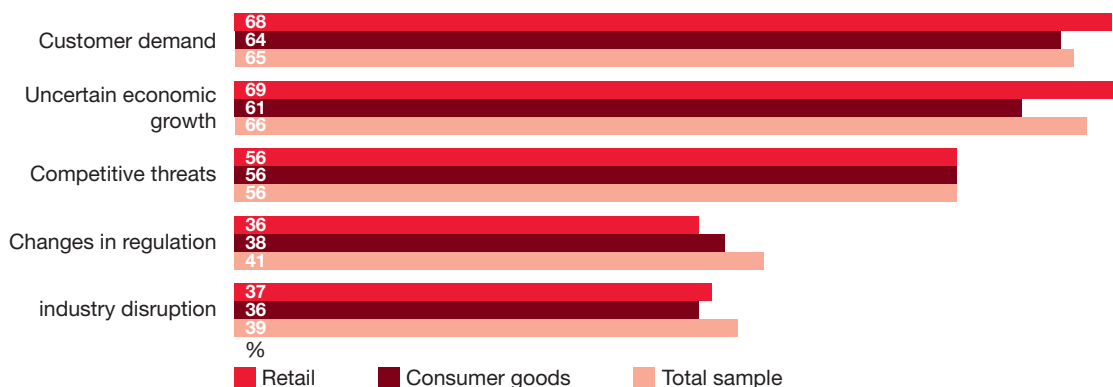
That's got two major implications. First, a retailer with an excellent reputation can sell its wares as easily in Boston as in Bangalore—and vice versa. Second, a consumer goods company with a first-rate brand can sell directly to consumers, a route many are now considering.

Customer expectations and attitudes are changing dramatically, too. Thanks to the Internet and a rapidly proliferating array of personal devices, consumers have more information and more choices than ever before. They're also more vocal—and what they say carries more weight; sales can surge or slump in response to a campaign on Facebook or Twitter.

¹ PwC, 'Customers take control: How the multichannel shopper is changing the global retail landscape' (2012),

Figure 2: Customer demand, uncertain growth and competitive threats top the strategic agenda

Q: Which of the following factors influence your anticipated need to change strategy?



Base: All respondents who stated that they are changing their strategy (Total sample, 888; Retail, 87; Consumer goods, 169)
 Source: PwC 15th Annual Global CEO Survey
 Note: Top five drivers of change listed

“In a globalised world, even localised crises end up having an impact on all economies.”

Luiza Helena Trajano Inácio Rodriguez
 CEO
 Magazine Luiza SA, Brazil

So it makes sense that customer demand and competitive threats should be two of the three main reasons retail and consumer goods CEOs cite for changing their strategies (see Figure 2). They know they’ve got to stay abreast of changing customer expectations by enhancing their digital commerce offerings, integrating the channels they use and investing in powerful analytics programmes to better understand their customers.

Only by doing that can they fend off the rapidly increasing competition. For retailers, it’s rival retailers in other countries and consumer goods companies selling directly to consumers that represent the biggest dangers. For consumer goods companies, it’s the private-label brands to which consumers are turning as they tighten their belts.

Resilience to macro disruptions and micro risks

Globalisation and digitisation are creating new opportunities, then, but they’re also creating new risks—risks that can turn from local problems into macro disruptions. The sovereign debt crisis in the Eurozone is one such example. It’s played a large part in depressing customer demand in the developed economies, as CEOs in the sector are acutely aware: 40% of retail CEOs and 50% of consumer goods CEOs say it’s directly affected their companies.

So how are they responding? Most of them are making their businesses more efficient: 77% of retail CEOs and 76% of consumer goods CEOs have implemented a cost-cutting initiative in the past year, and nearly as many plan to do so again in the next 12 months. But they’re not just cutting costs; this desire for more efficiency extends to the innovation process as well.

Three-quarters of consumer goods CEOs intend to change their R&D and innovation facilities, for example, and a quarter of them have ‘major’ alterations in mind. More than two-thirds are focusing on developing new products and services, as distinct from new business models. Clearly, they’re hoping that new products will awaken developed-market consumers out of their spending slumber.

Retail CEOs are less interested in changing their companies’ R&D. Even so, 61% still plan to make alterations in this area, probably because they recognise that innovation can help companies forge a stronger link with customers. “Innovation is not just about technology,” Luiza Helena Trajano Inácio Rodriguez remarks. “It means having different ways of providing good customer service, because delivering what the customer wants is your obligation. This means that surprising your customers by doing things differently from your competitors is what makes a difference. The same goes for customer service: it doesn’t matter how many processes you invent or how many written procedures you have in place, your relationship with the person you are serving is paramount.”

Building a presence in the emerging markets also brings a wide range of risks, including government instability, civil unrest, natural disasters, corruption and fraud. Indeed, it’s not even necessary to have a physical presence in such countries to be exposed to some of these perils. Many retailers and consumer goods companies that don’t have global ambitions still rely on global supply chains to stock their shelves or provide the components they need.

That explains why almost 50% of retail and consumer goods CEOs are worried about the security of their supply chains, compared to just 34% of the total sample. It also accounts for the concerns they express about exchange rate volatility. A full 64% of retail CEOs and 71% of consumer goods CEOs are worried about the potential for dramatic fluctuations in exchange rates, and their impact on product prices, which is markedly higher than the overall average of 58%.

The talent challenge

Many CEOs say that lack of the right talent in the right place is the single biggest problem they face in trying to expand their companies. Retail CEOs—particularly the former—are much more positive on this front. Only 22% think it’s become harder to hire workers in their sector (compared to the overall average of 43%). And only 46% are somewhat or seriously concerned about being able to recruit people with the skills they need (versus 53% of the total sample).

Yet talent constraints are already taking their toll on a significant number of retailers and consumer goods companies: 35% of retail CEOs and 43% of consumer goods CEOs have seen their company’s labour costs rise more than expected in the past 12 months. Similarly, 22% of retail CEOs and 29% of consumer goods CEOs say their company’s ability to innovate has been impaired. And nearly a quarter have had to delay a key strategic initiative.

Can technology help? Consumer goods CEOs certainly think so. Over the next three years, 44% plan to invest in new

“Companies with the best talent win. So the question is how do you attract, develop and retain the best talent? You have to adjust and make sure that your job offers are tailored to meet these new expectations.”

Keith McLoughlin
President and CEO
AB Electrolux, Sweden

technologies specifically to circumvent skills shortages. One obvious step is to automate key processes, but technology can also play a valuable role in R&D—where, for example, idea management systems can be used to help engineers become more productive. Retail CEOs are more doubtful; only 27% plan to invest in new labour-saving technologies, although many are actively investing in a stronger digital commerce infrastructure.

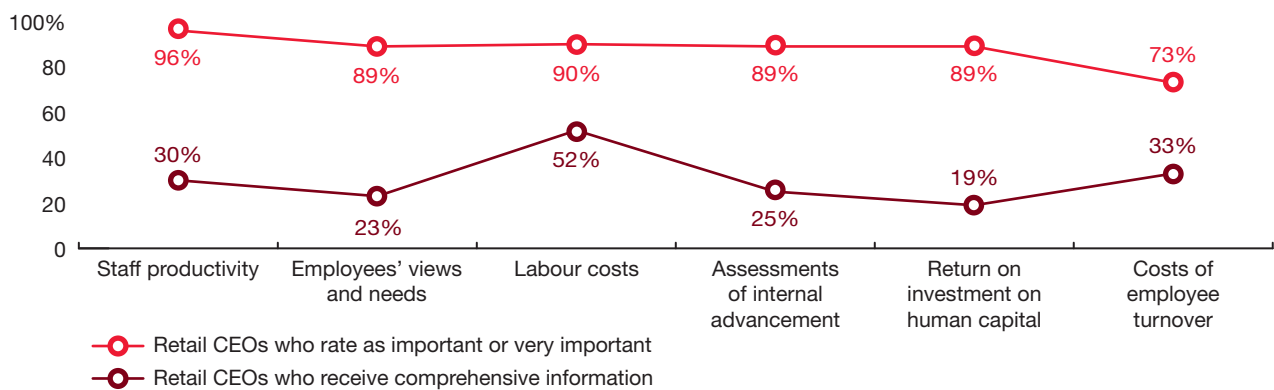
Making talent strategic

Adopting a more creative and flexible approach to the talent challenge is only part of the answer, though. The other is getting the information required to make the right decisions in the first place. Almost all retail and consumer goods companies track traditional indicators like productivity and labour costs. But they're less likely to measure the cost of losing talent or the return they get on training and other such

activities—which are also critical benchmarks. And even those who measure everything that matters don't get the whole story. More than half of retail CEOs would like to get more information on five of the six key pointers listed in Figure 3a. And, as Figure 3b shows, more than half of consumer goods CEOs would like to get more information on all of them.

Figure 3a: Retail CEOs want more information on key talent measures

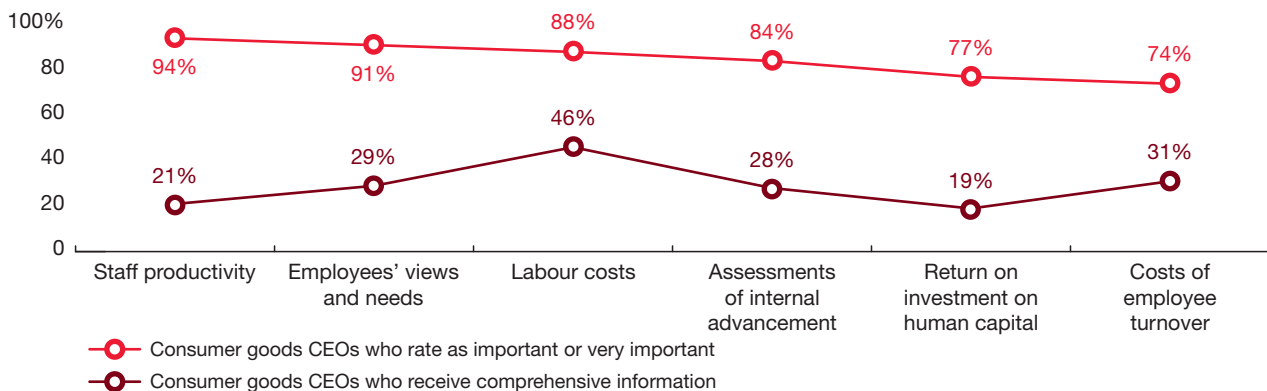
Q: When making decisions, how important is it to have information on each of the following talent-related areas?



Base: All respondents (Total sample, 1258; Retail 114)
Source: PwC 15th Annual Global CEO Survey

Figure 3b: Consumer goods CEOs are also dissatisfied with the quality of the information they

Q: When making decisions, how important is it to have information on each of the following talent-related areas?



Base: All respondents (Total sample, 1258; Consumer goods 245)
Source: PwC 15th Annual Global CEO Survey

What's next?

We've distilled eight key questions from the feedback CEOs have given us in this year's CEO Survey:

1. How local is your global growth strategy?
2. How are you balancing global capabilities with local opportunities?
3. Is your talent strategy fit for growth?
4. Are your innovations creating value for your customers—or just novelty?
5. Do your strategic plans account for the macro impact of micro risks?
6. Are you responding to the needs and constraints of the communities in which you operate?
7. Where are the biggest opportunities for business and government to coordinate better?
8. Does your governance model account for the ways in which organisations' and people's expectations are changing?

Contacts

John Maxwell

Global Retail and Consumer Leader
john.g.maxwell@us.pwc.com

Michael Brewster

Global Retail and Consumer Marketing
michael.j.brewster@us.pwc.com

Susan Eggleton

Global Retail and Consumer Marketing
susan.eggleton@us.pwc.com

Acknowledgements

PwC gratefully acknowledges the contribution to *Delivering results: Key findings in the Retail and Consumer industry* provided by:

Keith McLoughlin

President and CEO
AB Electrolux, Sweden

Luiza Helena Trajano Inácio Rodriguez

CEO
Magazine Luiza SA, Brazil

Erdal Karamercan

President and CEO
Eczacıbaşı Group A S, Turkey



Download the main report, access the results and explore the CEO interviews from our 15th Annual Global CEO Survey online at www.pwc.com/ceosurvey.

www.pwc.com/ceosurvey

PwC firms help organisations and individuals create the value they're looking for. We're a network of firms in 158 countries with close to 169,000 people who are committed to delivering quality in assurance, tax and advisory services. Tell us what matters to you and find out more by visiting us at <http://www.pwc.com/>.

This content is for general information purposes only, and should not be used as a substitute for consultation with professional advisors.

© 2012 PwC. All rights reserved. PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see <http://www.pwc.com/structure> for further details. NY-12-0524