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CPG COMPANIES COMPETE BY BALANCING COST AND GROWTH

AUDIO TRANSCRIPT

MEHUL DESAI: At the end of the day, this is all a change management process. This is all about people. No one individual or no small groups of individuals can make this change happen.

MARK YODER: Hi, everyone. Welcome back to Competitive Agility, the podcast where we unravel the mysteries of agile business operations and how companies can identify and pursue new ways to increase margin and fund investments that will drive growth. I'm your host Mark Yoder. Today, we're discussing consumer packaged goods and how companies can compete by balancing cost and growth. Mehul Desai is with us and welcome back to the show, Mehul.

MEHUL DESAI: Thank you, Mark.
MARK YODER: You've got about 20 years' experience working with Fortune 500 companies and I would consider you an expert in developing and implementing those business strategies and technology solutions that help clients drive new growth and improve just operations in general, right?

MEHUL DESAI: Well, I mean I think definitely it's a learning process. I do believe that the experience helps me to sort of know where I come from, but I think one has to constantly keep in step with what's the changes that are happening with regard to technology, digital and the new business models that are coming. So I consider myself still a student because I think that allows me to constantly keep learning, while obviously tapping into the experience that I've gained.

MARK YODER: Let's jump right in. Disruption, it's everywhere. It's a buzz word. We hear it a lot. No surprise that startups are rocking the boat for traditional CPG companies. You know, if you're a traditional CPG, where do you start? Where is ground zero, how do you break out of that old-fashioned operating model.

MEHUL DESAI: So I think, Mark, that is always the significant question. Most of our clients and my clients, in particular, in the consumer goods space, even in the retail space, but primarily in the consumer goods space, have very established business models. And there's always the feeling of disruption coming in and saying, look, we are going to have to change the ways that we work, but at the same time, we've got keep the ship afloat of the existing business model. We have to still deliver in the existing channels. We still have to deliver to the existing customers and we have to still keep 90% of the business running while we have to figure out how we start turning a significantly massive ship.

We say, look, you do have an established business model to our clients. So keep that in mind, but at the same time, we have to start thinking about new capabilities that you need. And that has to be thought through in terms of like keeping the consumer and the customer needs in mind. And these consumer and customer needs are evolving very rapidly. So I think when we start with the consumer and customer needs, it's an easier conversation as opposed to saying, look, we've got to do these massive changes. But I think the conversation always need to start by saying but, look, let's focus on the consumer and customers. What are they telling us? Are their needs changing? Are they changing dramatically? That's step number one.

Step number two then in the process is, well, what are all these sort of avenues and capabilities that we have available to us? Are they new technologies? Are they new digital tools that are available? Are there new skills in the marketplace that we need to be sort of tapping into to fulfill those needs?

So it's on one hand it's important to keep the current operation alive because at the end of the day, you still must be able to deliver on the near term expectations of the stakeholders, otherwise you won't have the business model to work towards. And you also need to generate the cash that's necessary to invest in the new business model.

But at the same time, it's important and critical, in fact, to start making the pivot to the new. It's essential to start having a vision and while that vision is being created, it's important to start framing the transformation path from the current business model, to the future business model. So in a nutshell, create the vision, keep current operations ticking, so that you can make sure that you're keeping the stakeholders and meeting their and exceeding their expectations and start forming the transformation path. In very simple terms, that's sort of the path that we advise our clients on.

MARK YODER: Pivot to the New is something we hear a lot here at Accenture. It's just a common theme, a common buzz word, right, what does that actually mean to you? What does when you save pivot to the New to a client, what does that mean?

MEHUL DESAI: So, I think what I'll do is I'll try to sort of start by saying that when I look at consumer goods companies, Mark, what you will notice in the last five to seven years is most of these companies have been really good about doubling down and trying to squeeze the inefficiency out of the system. They've started by thinking saying, look, I need to meet and exceed my stakeholder expectations on profitability. And to do that, I need to start taking unproductive – you know, I need to start attacking unproductive processes, unproductive systems and I need to start taking inefficiency out of the system. While you're doing that, it's also very important to establish what is the vision? How do you see the future operating model evolve? What model is the one that will solve for the customer and consumer needs as they evolve towards the future?

So the key question would be how can we use the disruption that we've started to sort of create over the last five to seven years on taking significant inefficiency out of the system and use that to our advantage and start thinking about, well, you know what, since we're anyway disrupting the business operations and the business model to drive that efficiency. We should also use this as an opportunity to start seeding new ideas and start thinking about what the future vision would be, so that we can start moving towards that future vision.

Now if you don't do the second part, which is start painting the vision and start thinking about how the transformation would be to go from where you are today to where you need to be, what tends to happen is that a lot of companies tend to take these dollars out, take their efficiencies, sort of real seriously in terms of taking the dollars out of the system and many of them start dropping those dollars to the bottom line or in many cases, they would start investing them in places where they would end up wasting them.

So having that vision, would actually allow you to make the right choices in terms of where those savings would go. That is the notion of pivoting to the New.

MARK YODER: You mentioned it earlier, it's turning a big ship and for any company that operates at significant scale, transformation like this, could be a daunting task. It could be something that paralyzes a company into just sticking with what they do know. How do you encourage or how do you advise companies to kind of step out and take this risk?

MEHUL DESAI: I think it's important to start by aligning the executive leadership team because I think it always starts with alignment. It is critical that the top layer of the C-suite is fundamentally aligned that we are going to be embarking on something that is going to take time, it's going to mean tough choices, it's going to mean that we are going to have to take care of our people as we take them through this journey and it's also going to mean that we are going to have to be able to working as one team.

So I think alignment of the leadership is always the first step in the process. So, in effect, you have to set up a set of guiding principles, a set of principles that leadership team essentially says, look, when we are going to be faced with tough choices, these are the things we're not going to compromise on and these are the things that we will compromise on. Now because we want to – and examples of this could be that, look, transformation is going to require a fundamental shift in the culture of the organization. That might be a no go for a leadership team and it's important to recognize that upfront, which means that that may change the pace at which the transformation program may occur.

Some companies may choose to say, you know what, we are willing to, in fact, essentially take a chance by changing the culture because we fundamentally believe that changing the culture is paramount driving this company in a different direction. They may choose thereby to challenge the culture in which case they may want to take a more aggressive path.

So the pace, the second part of alignment of the leadership team is grasping the pace of the transformation. Do you want this done in two years? Do you want this done in four years? Do you want this done in five years? The next step then is making sure that we are being very purposeful about a detailed transformation plan that is clear about what we want to achieve in the next 3 months, 6 months, 12 months. It's really important to have a plan. Clearly, plans change. As the business context changes, as the market context changes, one has to be nimble, but what needs to happen is it's important to have that detailed plan that everyone rallies behind and everyone commits to. All of this will obviously fall apart. And I've seen the biggest of transformations come to their knees if you do not recognize that at the end of the day, this is all a change management process. This is all about people. No one individual or no small groups of individuals can make this change happen.

Communication, change management, identifying the catalyst and I would say the individuals who are going to be at the core of this transformation and taking care of them while they are crafting their change journey is critical to this process. So I would say that when I kind of think about how we get companies started on this journey, how do we give them the confidence that, look, this is can be done is by taking them through this very deliberate process in the early stage of a transformation program where we are able to get the alignment, draw the transformation roadmap, make sure that there's still communication and change management plans that are in place and then make sure that they're actually working towards an objective that is sort of in sync with the guidelines or the guiding principles that the leadership team has, in fact, aligned on.

MARK YODER: So let's talk a little bit more about culture. Accenture Research has found that a high percentage of people, both leadership and general workforce, they both believe that company's inability to be agile and grow new skills is a barrier in terms of advancing. Is it really about culture and changing the way not only the way that the leadership team thinks, but it's about how the entire workforce within the company and its vendors think about the business?

MEHUL DESAI: This is an issue that we see in almost every company we work with. And it really is every level honestly. This is not just about skill levels of the people in terms of doing the type of work that they want to do in the New or how they need to work together with each other. It's also about how man and machine work together better. You know, as digital and analytics come into play in significant ways and this is not just in certain functions like technology. This is in every aspect of enterprise. Every function is becoming digitally and analytically enabled. So I think skill levels need to be not just thought through of just how you work with other people and how you have the knowledge of the New, but also how do you work with machines.

Now data and analytics will drive people to be more involved in decision making, there's no question about it. So skills like interpretation, collaboration, decision making, by looking at data, both objective and subjective, is really going to be the critical aspect. And this is where I think what we find is the biggest sort of gap exists in terms of the skill sets is the legacy business models had a lot of people in the company who are focused a lot more on the transactional activities. As machines have taken over a lot of the transactional activities, what they've done is there's a fair amount of capacity that is available. However, that capacity that's available within the companies isn't necessarily ready to take on the new work or the new jobs of critical thinking, interpretation, collaboration. It's about also thinking critically in terms of and, again, when I say critical, I really mean being self-critical for the enterprise to say that do I really need to build these skills internally or can I actually look at my ecosystem partners outside who may actually have these skills already available at scale. And is it easier for me to tap into those skills rather than to try to organically build them and sustain them and try to figure out how I should continue to grow that.

So, yes, cultural barriers, skill barriers is a reality. It is something that every company is dealing with. It's being more thoughtful about it, but it's also realizing that we don't have to do it on your own. There's a whole slew of partners that companies could tap into to negotiate that barrier.

MARK YODER: So ecosystem partners really need to be looked at as an internal asset almost, not this external resource, not something that's on the outside looking in, but they need to be pulled closer, right, bring in your ecosystem partners?

MEHUL DESAI: Absolutely, Mark, and I think that is the critical aspect. If you just think about digital and analytics, you'll find that even some of the most significant companies, it could $30-$40 billion companies. You usually find that the capital requirements who are investing in these kinds of new capabilities are pretty sizable, number one.

Number two, they also find that the skills that are required are almost non-linear in terms of the capacity that they have to scale up on. So think about how, and by the way, even if they co-create those technologies and those platforms and they bring them the skills, what's to say that in two years from now, there would not be a new platform or a new set of skills that would be in demand. That is, I think, where there has to be and, I would say, an internal introspection in terms of when I think about my future business model, what are the capabilities that are really core to my differentiation as a company. And if I believe that those are core to my differentiation, you absolutely should invest in that.

MARK YODER: It's a common theme or a common tactic to, right, spread investments out across multiple options, right? People can't make the hard choice, the tough decision about where to allocate those resources. So hedge your bets, right, spread everything out, but in your opinion what's the smart play? Where should customers, clients, really being targeting investments? What's the thought process to get them there to make the smart decision?

MEHUL DESAI: Mark, it starts with, first, having excruciating forensic visibility into where you're spending the money. It's not unusual for very large companies to realize after sort of – and we work some of these companies where we go in and we start working with them and say, look, do you really understand where all your sales and marketing dollars are? So when you think about growth, the dollars that actually are the most significantly connected to growth are sales and marketing dollars. There's a general tight correlation between if you spend more on say the marketing, you're already likely to get rolled out of that. The question is are those dollars allocated in the right brands? Are they allocated in the right channels? Are they allocated in the right regions? And usually what happens when we go and ask the question, do you understand where these dollars are allocated? The answer in many cases is actually we do not. We have a sense of where they are, but we do not have the most detailed level of visibility into that.

So I think the first of the processes is to just be clear about let's go and create that visibility. Let's make sure we truly understand where the money's going. Once that visibility is available, what we generally found is that there are a lot of ahas. Say, I do not believe that we are, in fact, starving our fastest growing brands in our fastest growing regions while we have been reluctant or rather over invested in brands that have, in fact, not shown the ROI. That always we thought wasn't showing the ROI.

It's important to be objective and metrics driven in terms of helping make those allocation decisions. And once you have that visibility and once you have that aha moment, it's an important to react quickly to that. Very often we find that decisions are held up because there's a fair amount of complexity in the organization because of the way the allocation decisions are made. They're done pretty high level. They're not sort of done at the level of granularity where impact can be driven. I think it's important. You don't have to go and change an org structure to go and drive better decision making. You can always create better governance models within the confines of an existing org structure to still drive the right allocation decisions. And I think that's where we work with our clients to sort of help them figure out, well, how can you sort of drive faster decision making by establishing a governance model in the short term and not wait for a new governance structure to fall or an org structure to fall into place.

I think that's really, in my opinion, and example of how you don't want to hedge your bets, be more provocative, but be driven by data and visibility.

MARK YODER: You've been listening to Competitive Agility. Stay tuned for more insight from Accenture senior leaders on how clients can remain agile in a competitive market.