Issue 13

Consumer Currents

Issues driving consumer organizations

KPMG
cutting through complexity

Too much info?

How to identify the consumer metrics that really matter

We've been hearing a lot about Big Data recently. The idea that businesses have too much information has captured the media's imagination, and it seems everyone has a solution. We'd do better to define the problem more clearly.

Knowing a great deal about your customers is not a bad thing. The delegates at this year's Global Summit of the Consumer Goods Forum in Istanbul – which focuses heavily on the challenges facing consumer markets retailers and manufacturers – are in an infinitely better position than their counterparts were historically. In the past, retailers had to rely on intuition or blind luck to guess who would buy what, when and where.

Thanks to the proliferation of loyalty cards, and the evolution of highly detailed EPOS and ERP systems, companies no longer have to wait two weeks to find out their inventory is in the wrong place, or their prices have gone from cutting-edge to uncompetitive overnight.

But using data in the right way is crucial. Dunnhumby (which conceived the Tesco Clubcard) recently pointed out that companies continue to devote 80% of their marketing spend to acquiring new customers, even though Retail 101 teaches that sustainable growth is best served by initially focusing on your current clientele. Knowing more about the people you do business with should logically lead to keeping them happier. The ongoing attrition many retailers experience suggests we aren't at that stage yet.

As we point out in our investigation into data on page 10, social media adds a layer of complexity to proceedings. In theory, online channels tell you *why* – not just what – your customers buy. In reality, they can be noisy, partisan and inconclusive. Which is why we set out to find companies that were mining social media (and more traditional data) to create something genuinely useful. From Amazon and Tesco to innovative US restaurateur Darden, we've uncovered some fascinating insights.

Technology is changing the retail landscape in other ways, too. On page 4, we unveil a new KPMG survey of consumers globally that shows just how radically smartphones are changing customer attitudes, and suggests e-commerce is more embedded in mature markets than even optimistic commentators might have imagined.

Elsewhere, we revisit two vitally important developments of recent times for consumer goods companies. Organic produce was once heralded as the next big thing, but as we discover on page 16, the picture on take-up is mixed – though in some markets, there is considerable cause for optimism. On page 20, we take the temperature of the CIVETS – the "second wave" of emerging economies acronym-loving analysts told us would conquer the world – and find plenty of opportunities for businesses prepared to take a long-term view of complex, and sometimes contradictory, markets.

We return to data on page 22, to uncover how multinationals are using the lessons gleaned from the world's highest-octane motorsport to deliver better service and streamline operations. The best companies are searching far and wide in their quest to understand the numbers. But they're also remembering there's a person behind every statistic. Starbucks, for example, is now exporting the idea of asking customers for their names in store from North America to other markets. For some, it is a cause of considerable disrespect. Others believe it's a welcome personal touch. Sometimes, when you're getting overwhelmed with Big Data, it pays to start small.

Willy Kruh
Global Chairman, Consumer Markets
KPMG International

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ConsumerCurrents is published by Haymarket Network, Teddington Studios, Broom Road, Teddington, Middlesex, TW11 9BE, UK on behalf of KPMG International. **Editor** Robert Jeffery **Production Editor** Sarah Dyson **Art Editor** Nina Udeen **Staff Writer** Katie Jacobs **Sub Editor** Danny Plunkett **Contributors** Simon Creasey, Rob Dwyer, Paul Glader, Jeremy Hazlehurst **Picture Editors** Dominique Campbell, Jenny Quiggin **Senior Account Manager** Alison Nesbitt **Managing Director, Haymarket Network** Andrew Taplin **Cover image** Ian McKinnell/Getty Images.

Off the shelf

The game-changer in your pocket

Smartphones are redefining the retail landscape faster than previously thought, says a new KPMG survey. Are companies ready for the new reality?

Most examinations of the impact of the latest generation of digital devices focus on how they reshape the way we communicate and access information. But the most profound implications could involve shopping, and the knock-on effect for the prevailing retail model, according to an insightful new KPMG study.

Consumers and Convergence 5, the latest annual survey from KPMG International, asked 9,600 people from 31 countries how they use technology. The key finding for retailers: willingness to compare prices and complete transactions on mobile devices has rocketed. In total, 7% of respondents name a mobile or smartphone as their preferred shopping device, up from just 1% in 2007.

More significantly, 38% globally have used coupons from a mobile device, and one in five has scanned a barcode to compare prices. Shoppers preferred buying online to visiting a store in almost every category of goods; groceries and luxury goods were notable exceptions.

"New technology such as smartphones and tablets is empowering consumers like never before," says **Mark Larson**, KPMG's Global Chair of Retail and a Partner in the US firm. "Companies have to learn to deal with that." Back-end processes have often struggled to keep pace with change, says Larson: "Multi-channel supply chains can still improve further – for example, by using point-of-sale data to build a picture of demand, which can impact on the way supply chain operations are configured."

Far-sighted companies should also explore the benefits of location-based marketing and ensure their mobile platform is more than just an optimized version of their web assets. Retailers such as jcpenney have long developed specialized apps (it was one of the first to build a Facebook store), but others will follow suit: the *Retail Horizons* report from KPMG and the US National Retail Federation says 69% identify m-commerce as a key strategic concern.

Download the KPMG report ***Consumers and Convergence 5*** by scanning the QR code or visiting **www.kpmg.com/convergence**.

Nexttech

ERP as an app

Many tech-watchers grumble that consumer-oriented apps are nimbler and more useful than their business equivalents. Not any more. A new generation of apps aimed at major companies is taking business information into real time, harnessing mobile devices to mimic the best ERP systems without the clunky hardware.

Dubbed Action Apps by market leader Actian, they co-ordinate EPOS data with just-in-time inventory information, and can sync with customers' own mobile devices in certain circumstances, giving an up-to-the-minute picture across a company's platforms.

Early adopters include French home-improvement giant Groupe ADEO, which says it sees apps "directly affecting business efficiency". Companies rethinking their approach to data will be tempted to follow in its footsteps.

Trace elements

Why Dodd-Frank's new rules on mineral use could have a nasty sting in the tail for consumer markets businesses

What do a cellphone, a light bulb and a gold necklace have in common? They all contain minerals mined in the Democratic Republic of Congo – and for consumer markets companies, that could spell a regulatory headache.

A 'conflict minerals' provision in the Dodd-Frank Act requires US-listed companies to report even trace usage of materials, including tin and tungsten, as a sanction against militias who have taken over mining in the Congo and its neighbors. If companies don't comply, they risk fines and may raise NGOs' hackles.

Clarification of the provision, and subsequent enforcement, lags behind other areas of the Act, but is expected soon. The list of items affected is extensive. Almost every consumer product with electronic parts contains a derivative of one of the minerals covered, as do the likes of coffee cans, cookie tins and jewelry.

"The ruling is likely to be intractable," warns **Brian Hegarty**, US Audit Leader for the Food, Drink and Consumer Goods sector practice and a partner in the US firm, "which makes it imperative that companies begin questioning suppliers and building an audit trail into their supply chains now."

Minerals mined in the Congo are regulated

With the National Association of Manufacturers putting the cost of compliance to US businesses at up to US$9bn-US$16bn, a trace of scandal could prove costly.

Rethinking milk

The content of the average milk bottle has been largely the same for decades, but a New Zealand challenger brand is showing a healthy disdain for tradition as it takes on the market.

A2 Corporation markets milk from herds that produce only A2 beta-casein milk protein. It says its products "may assist with your digestive wellbeing", and consumers seem to be persuaded: H2 2011 profits were up three-fold, with revenues at US$24.6m.

In Australia, where supermarkets are stuck in price wars over milk, A2 sales grew 31% at Coles in 2011 as other premium brands dropped 27%. A2 now accounts for 4.7% of the country's fresh milk. "Our competitors do not have a clear point of difference," says A2 Chief Executive Peter Nathan.

Consumers are buying into A2's health message

The company has entered a joint venture in the UK and is planning infant formula for Asian markets. But the A2 concept has a checkered past: a previous venture ended in liquidation and a fine for misleading health claims. The new, unrelated A2 Corporation is clearly in tune with a growing market for healthier milk.

Trend Spotting

Europe's good news story

Russian consumer markets companies are developing resourceful business models – and their vertical integration might catch on, says **George Pataraya**, Head of Consumer Markets, KPMG in Russia

Economists find it hard to agree on where Russia is heading, and how fast. But on one thing, most can coalesce: within a decade, this country of 141 million will become the largest consumer market in Europe. Every major consumer markets company needs to factor Russia into its future thinking.

The reasons for Russian optimism include the cashing in of the country's demographic dividend, gradual modernization in sectors including retail, and sheer momentum. Although it is impossible to decouple prosperity here from the volatile oil and gas markets that underpin the economy, there is every indication Russia is poised to capitalize on global demand.

"Russia will become the largest consumer market in Europe"

Economic growth naturally creates a middle class some believe will account for half of Russian society by the end of the decade. (The Economist Intelligence Unit says Russian GDP will rise 36% over the next five years.) This multi-layered group is by some measures mature and more economically active than the rest of Eastern Europe, exhibiting a taste for luxury. Their purchasing decisions may occasionally seem irrational to outsiders, but they are highly focused on brand, to the detriment of own labels and smaller players. In food and beverages in particular, they have proved stubbornly reluctant to trade down.

While western Russia is relatively saturated, retail in the east represents an opportunity, albeit one that requires local knowledge to circumvent limitations on commercial real estate. At present, local players from Moscow or St Petersburg remain the most likely to acquire within the country, but the 2011 deal that handed PepsiCo a controlling stake in dairy and beverage giant Wimm-Bill-Dann for US$5.4bn may mark a watershed. With only a few products truly national in scope, and only a handful of genuinely competitive local supermarket retailers such as Magnit and X5 (not to mention the current lack of internationally active companies, Baltic Breweries being a notable exception), it is hard not to see more inbound players following the likes of Danone, which has a strong foothold in Russia's dairy sector. Consolidation is on the cards in food, retail and more.

Those who have proved they are in it for the long haul have banded together to fight the corruption and rampant bureaucracy that are well-established, if overstated, features of Russian business life. Of greater significance for the future are the models successful businesses have developed to overcome restrictions in infrastructure and the underdeveloped agriculture sector. Here, vertical integration is a way of life: yoghurt manufacturers, frustrated by their supply chains, are buying cows; brewers own vast swathes of land to ensure the beer keeps flowing. Multinationals who invest or acquire here disregard these developments at their peril: smart players are coming to realize the business models they develop to service the Russian market can have wider applications. Russia, far from playing catch-up, could soon be leading the way in many sectors.

"Emerging economies are suffering because of central bank policy in the US and Europe"

Wesley Batista, CEO of Brazil's globally acquisitive food group, JBS, is angry about currency wars – but soaring consumer demand for meat helps him sleep soundly

Food is generally more buoyant than other sectors in times of global recession. But our ongoing appetite for meat has surprised even the most optimistic commentators. Per capita consumption rose from 41.3kg to 41.9kg between 2009 and 2010, says the Worldwatch Institute. Much of this was driven by the growing middle classes of the BRIC countries, but even in the world's most developed economies, the switch was to cheaper cuts rather than vegetarian alternatives.

By 2050, global demand for meat is expected to have risen 80% from 2010. China will account for a disproportionate share of this increase – consumption in rural areas averages 50kg per person per annum, less than half the rate in the country's urban centres.

The regions best placed to grow their meat production are in Southeast Asia and Latin America. And Brazil's JBS, the country's most successful food multinational, and by some measures the world's largest meat processor, with 10% of global slaughtering capacity, is ready to feed the world.

JBS can trace its origins back to 1953, when José Batista Sobrinho opened a small slaughterhouse in Anápolis, in the state of Goiás. The initial operation could process five head of cattle per day. Today, JBS has 140 production units worldwide, more than 120,000 employees and generated US$33.6bn revenue in 2011 from its 90,000 head of cattle-per-day capacity.

Serial acquisitions were the bedrock of the company's growth – even before Brazilian businesses were significantly active on global M&A markets – and following its 2007 IPO, it picked up the largest player in beef, Colorado-headquartered Swift & Co, for US$1.4bn. A controlling stake in Pilgrim's Pride, one of the world's largest chicken producers, soon followed.

JBS works in the US, Australia, Mexico, Paraguay, Uruguay and Argentina, in addition to its home nation, and derives 75% of its income from foreign operations (it also exports to Mexico, China and the US, as well as Europe and Africa). Integrating its acquisitions has been far from plain sailing. Pilgrim's (as it is now known) accounted for the company's 2011 losses of US$41.5m, though JBS expects it to be profitable in 2012. It was associated last year with an audacious bid for the meat assets of Sara Lee, a move whose failure spooked the stock markets.

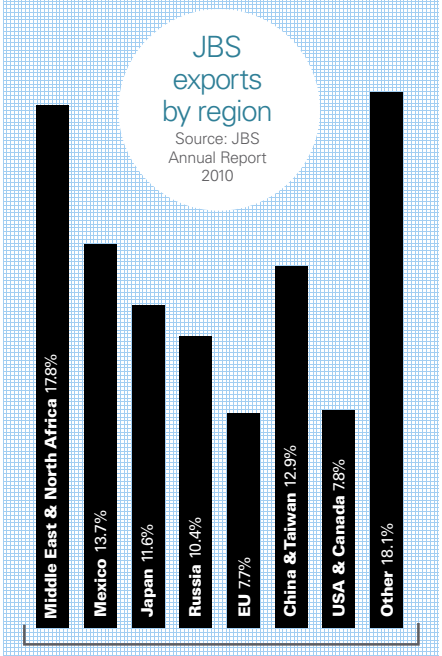
ConsumerCurrents asked Wesley Batista, the founder's son and President and CEO since his brother Joesley became Chairman in 2011, to map out the future for the company, meat and the Brazilian economy.

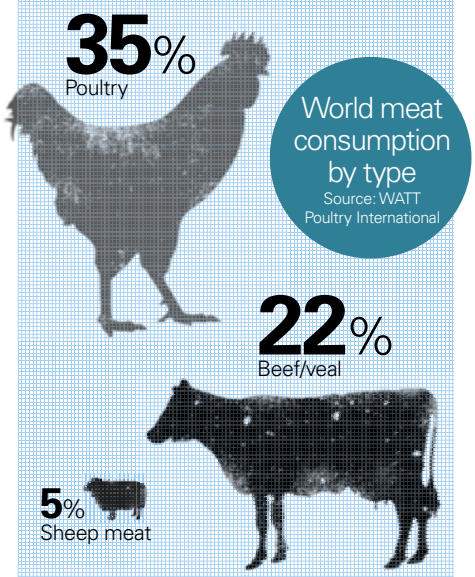
What is your current M&A strategy?

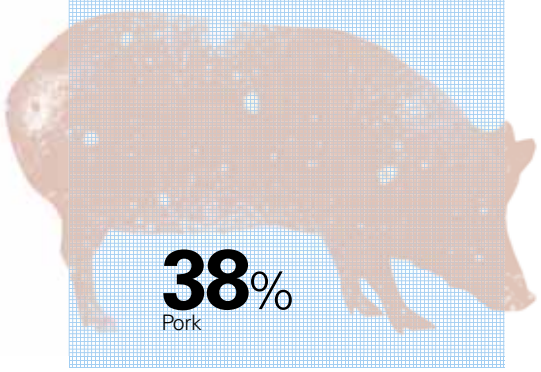
Well, we made a lot of acquisitions in the last five years. We went to the US and bought companies there; a beef company, a pork company and one of ▶

Wesley Batista is following in a family tradition as CEO of JBS, the meat giant

Global appetites







the largest chicken companies in the world. We also made acquisitions in Australia and a lot of other countries. So in 2011 we spent the year only looking inside our business – we didn't make, or look at, any acquisitions. We were very focused on finalizing the integration of the businesses we had bought and we are still focused on this process – to identify the remaining opportunities we have to capture value.

But in 2012 we are looking for new opportunities to buy companies. If we buy, it will be at home because we believe the Brazilian beef industry is starting a new growth cycle and we are looking at any opportunity we can find to expand our business here. That doesn't mean we will buy something tomorrow or even next month, but that's the type of target we think will be strategically beneficial to JBS.

Can you rule out deals outside Brazil?
It's hard to say that we will not look at any opportunities outside Brazil but our focus is to expand in Brazil. The probability that we will be looking at targets in the US, Mexico or Australia is very small. And this is not because we don't have a good view of those economies. It's more related to the fact that we now believe there is more value to expand the beef business in Brazil.

JBS has grown through acquisitions, which is a notoriously difficult strategy to get right. What has been the key to identifying targets?
The first thing we ask is if it fits with our strategy to expand our business in the protein and food sector. Second, is it the right country to operate in? And third, is it the right asset? This is a broad set of criteria but a target has to fit them.

If you offer us a good asset in a country that we are not comfortable operating in, or a country in which we are not optimistic about the economy, we won't be interested. Nor will we be interested if the company is in a good market but the asset isn't right.

Cross-border integration can be hard. How will JBS get that right?
Integration is about having the right people in the right positions. If you don't have the right team, you can have everything else in place but you will fail.

Why are you looking to spin off Vigor, your dairy unit?
We believe the market doesn't value Vigor at the right level while it is inside JBS. The market sees us as a meat company and the kind of multiples that JBS trades at don't equate with Vigor, which is a consumer brand business and should trade at a much higher multiple. The decision to separate Vigor was taken because we believe that we can create value for our shareholders if it trades as a separate company.

How have your Brazilian businesses benefited from the growth in the country's middle class?
It has had a very clear impact on demand for our products. To give you an idea: Brazil is exporting one million tonnes less beef now than it did five years ago, and this is because more beef is being consumed in the domestic market. This is a clear sign of how the middle class is growing in Brazil and changing its demand for protein. And the same trends are visible in other protein and in diary. The link between GDP growth and the demand for protein is clear, so I can see this trend continuing.

Is the way the Brazilian government is managing the currency helping JBS?
We welcome the way the Brazilian government is doing everything it can to try to make Brazil more competitive. The real's exchange rate is a huge component of this equation – Brazilian industry is more competitive when the real is at a more realistic, long-term exchange rate with the dollar. So we think the government is doing the right thing. Over time, Brazil has been losing competitiveness because the real is much stronger, which is adding cost to Brazilian exporters every year.

But this appreciation is because the mature economies are flooding the markets with cheap money – namely Europe and the US. This is artificial depreciation of their currencies – it's not related to the fundamentals of the Brazilian economy. The emerging economies are suffering because of the policies of the central banks of the developed countries. That's why we are pleased the Brazilian government has made this a key priority.

Is demand from your key export market of Asia stable?
Globally, Asia accounts for one third of our exports. China is growing in terms of protein demand and we are selling more and more to that market every year. But it's not just China; the whole of Asia is growing. Indonesia is growing a lot and importing a lot more protein every year – and a lot of other Asian countries are too.

"Brazil can double beef production using the same amount of land by being more productive"

China is the world's biggest pork producer – but is also a huge export opportunity

Are you concerned about signs of the Chinese economy slowing?
No. If China reduces growth to 7% it is still growth of 7%. Even if it's 6% it is still a large number and still a huge opportunity for protein sales.

What about the challenges for Brazil?
A lot of people say infrastructure is our biggest challenge. I think this is an issue but not the biggest. The biggest is education – it is something that money cannot buy. Infrastructure can be fixed in a relatively short period of time if you invest enough money. But for me, education is the bigger issue because even with the right investment it will take decades to fix.

What innovations do you foresee in the meat industry?
It starts in the farm – they are adding technology and using genetics to improve efficiency. There are also innovations in how we manage and process our products which are adding productivity. Innovation is continuous and present in all areas of our business and it is very important to us.

Does regulation threaten the type of innovation taking place in farming?
I think regulation is one of the challenges we face as an industry. But it's a question beyond regulation: how do we keep growing in a sustainable way? The world will continue to demand more protein and so we will need to produce more protein. But on the other hand we need to do this in a sustainable way – environmentally as well as economically.

The environmental aspects are definitely a challenge. For example, China is the oldest, biggest pork producer – and its challenge is how to continue to produce hogs in a sustainable way. The Chinese face water scarcity and environmental problems as they seek to expand.

Capacity issues are just as prevalent in Brazil, where meat production is blamed for eating up the rainforest...
A lot of people talk about deforestation, but Brazil has lots of room to expand. For example, we can double beef production using the same amount of land that we currently do by being more productive. By adding technology to land that is already open, we have a great opportunity to grow our business. And the demand is definitely there.

Which is why you want to buy Brazilian companies?
Exactly. When you look around the world, Brazil is the only country that can continue to grow beef production in a big and sustainable way.

"In-store marketing isn't about the guy with a gut feeling. It's becoming analytic"

GO FIGURE

You know more about your customers than ever before. But how much of your data is actually helping your bottom line?

Two terms nicely sum up just how much data is sloshing around the world these days. The first is 'zettabyte'. Some analysts think that's the amount of information, in bytes, that is now on the internet. It's a one followed by 21 zeroes. The second is 'data puking', a phrase that, while not pretty, aptly suggests that a lot of this information is undigested and unwelcome.

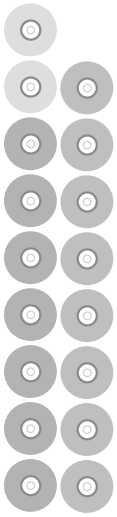
Consumer markets companies, and retailers in particular, will be only too aware of both phenomena. The development of ERP systems opened up the possibility of disseminating business information across stores and even continents. The advent of the internet led to an exponential increase in the amount of customer information and insight available. But social media may be the straw that broke the camel's back.

Twitter's global penetration among internet users is around the 10% mark, but already 177 million tweets are sent every day. "Whether you like it or not, thousands or even millions of people are talking about your brand or organization," says KPMG's Eddie Short, a Partner in the UK firm and former Group Head of Business Information at tobacco giant BAT.

"Facebook, Twitter and the like are creating enormous amounts of information – infinitely more market and brand research than you could ever possibly need.

"The problem with social media is that you can Google a point of view and prove almost anything. And it all originates from outside your organization. The right investment in governance controls, policy and procedure is of fundamental importance, so you can say: 'This is the information we have bought or have from our own sources, and this is what we have from other sources. How confident are we of its veracity?'" With social media, a relatively small number of people account for a disproportionate amount of content, so it's easy to overreact to bad mood music.

With new social media channels making the potential amount of brand-relevant information almost limitless, it is tempting to simply give up in the face of the flood and stick to age-old sales metrics and time-honored intuition. But just as Billy Beane's ▸



90% of the world's current data has been created in the last two years

US$6.5bn

How much data breaches cost US businesses in 2011

15 out of 17 industry sectors in the US have more information stored per company than the US Library of Congress (235 terabytes)

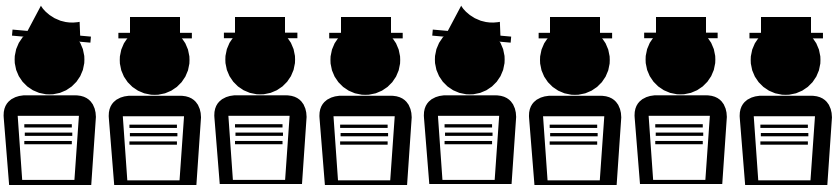
40% Projected growth in global data generated per year vs **5%** growth in global IT spending

Sources: IBM; *Big data: The next frontier for innovation*, McKinsey & Company; Online Trust Alliance

Each product purchased in Tesco has **45** pieces of data attached to it

1.5 million

The shortfall in data-savvy managers and analysts needed to make sense of big data in US businesses



Sources: *The Times*, *Big data: The next frontier for innovation*, McKinsey & Company

mastery of baseball statistics took the Oakland Athletics to new heights in *Moneyball*, so certain companies are learning how to manipulate a new generation of data to their advantage.

For Short, the key is "using" rather than simply "collecting" information. At its most profound, customer insight can help shape product development, pricing and branding. But there's a skill to it, he says: "It is important to take points of view and try and steer them, give some direction and engage with stakeholder communication, not just let them run riot."

The virtue of loyalty

Few companies navigate this path more proficiently than data consultancy Dunnhumby, which conceived and runs Tesco's Clubcard loyalty program, arguably the world's foremost retail data collection exercise. Half of all British households use a Clubcard, and Dunnhumby (now owned by the supermarket giant) processes six million transactions a day, building a comprehensive picture of Tesco's customers, their preferences and their shopping habits.

Tesco shares this data with around 200 suppliers. And now it's actively playing in the social media space, having bought BzzAgent, a "word-of-mouth marketing agency" that signs up "agents" to sample products and talk about them through social media channels. The ensuing conversations are gold dust for marketers. "Word of mouth is powerful online. Nobody will walk up to your trolley and say: 'That's not very good,' but they will on the web," says Mark Hinds, head of Dunnhumby's Tesco business. "We are moving past loyalty to advocacy." BzzAgent claims an average increase in sales of 6.3% for its partner brands.

But social media isn't the only route for collecting, or using, data. And increasingly, the real insights are happening offline, in stores and malls, where metrics are foggier.

The big buzz in consumer markets circles is around "shopper marketing", says retail consultant Gary Hawkins, who defines it as interpreting and interrupting (or positively influencing) the path to purchase in store. Even though shoppers are generally trying to avoid impulse purchases and manage budgets, snap decisions taken in the aisle are still huge drivers for high-margin items. "That has brought about a need for retailers and brand marketers to understand customer behavior in the store," Hawkins says.

Analytics company RetailNext uses data taken from existing in-store security cameras to track customers. It can discover how they move around a store, how much time they spend in certain places (their 'dwell') and the rate of dwell-to-conversion. RetailNext customers include Barnes & Noble, American Apparel and luxury writing brand Montblanc, which says it saw 20% sales hikes after optimizing store layouts.

Even supermarkets, which are "pretty advanced" in customer insight, have something to gain from these metrics, says RetailNext Chief Marketing Officer Tim Callan. "Most of the information that they traditionally get is on sales. But what they have

Three businesses that learned to love the numbers

Groupe Casino
The French supermarket giant has developed an iPhone app which lets customers compile a shopping list before they visit the store, and pushes offers based on their preferences. Casino's long-standing pricing technology gets rid of discrepancies between stores (or between shelf and till) in an instant, and allows the chain to react quickly, and roll out changes in an instant, when its rivals shift their price points. Tesco is following in its footsteps with an app that gives customers the fastest route around a chosen store based on their shopping list.

Darden Restaurants
An early adopter of technology – it first analyzed point-of-sale data in the 1970s – the company behind the Olive Garden and Red Lobster chains uses software to predict the number of guests in any of its 1,900 outlets at any time. The information helps organize staffing and ordering, as well as optimizing preparation time. Darden claims to have reduced overtime across its 180,000-strong workforce by 40%, and food waste by 10%. Customer comments are delivered electronically, and a Meal Pacing program helps deliver an order to table within a minute of being cooked.

Amazon
The online behemoth uses the language of social networking to recruit customers as its data miners. By making its recommendations process feel like a collaborative effort, rather than a hard sell (principally through its "Betterizer" tool), it gains cheap insight that is invaluable in marketing and predicting inventory levels. Amazon asks customers to rate old purchases, and allows them to disallow recommendations that don't reflect their personal taste. With 100 million visits per month, Amazon is now believed to be expanding its online ad metrics.

Eddie Short
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Eddie is a Partner in KPMG in the UK, where he leads the Business Intelligence practice. He has over 20 years experience helping multinational organizations to leverage their data and information to create bottom-line business value.

been missing is what happens in the lead-up to that. Let's say you run a promotion and sales don't go up. Did people come to the store and not buy, or not come to the store? Knowing that helps you work out the problem, and till data doesn't give you that knowledge."

At the cutting edge of in-store data, things are getting even more granular. Employees can be asked to wear tiny wi-fi boxes to track their movement and align it to customer patterns to create new shift rosters that ensure no area is ever under-staffed in a busy period. Weather sensors show the effect of heavy rain or baking sun on customer behavior, accessing their "thought process and emotional state," says Callan. UK-based Path Intelligence picks up signals from customers' mobile phones to track them as they move around shopping malls. This can help influence store proximity in particular.

As Hawkins says: "In-store marketing is moving towards becoming a science. We're no longer talking about the guy who has been in the industry for years and has a gut feeling about what will increase sales. This is becoming very objective and analytic."

Joined-up thinking

Manufacturers are getting in on the act, too. Unilever's Chief Supply Chain Officer, Pier Luigi Sigismondi, says the company has introduced demand-sensing software to hone its inventory management systems as it moves to a demand-driven value chain.

But the hardest part of the data puzzle can be aligning what you learn from your customers with what you already know. Traditional ERP systems just aren't designed to deal with the amount of data now being produced, or present it in ways that are readable and useful to either marketers or the finance department. Providers such as Oracle and SAP are coming up with big solutions for big data.

"You can get hold of information quickly – for example, at point of sale – and slice and dice it any way you want," says SAP's Adrian Simpson of the new generation of ERP. "You don't just have to use it the way that it comes to you in an IT report. You can get inside the data so much more quickly." CRM, EPOS, warehouse and supply chain data is coming together as the much-vaunted ERP 'dashboard', which can be revelatory when it comes to quickly making and implementing pricing decisions.

It sounds like a playground for savvy marketers. And in some ways it is. But the cloud on the horizon is the customers themselves.

They also have information, especially about price, and Short says he sees too many retailers and manufacturers drawn into a race to the bottom as they slash prices to react to the threat of real-time data. That gets even harder when retailers haven't joined up pricing and stock availability across their own channels.

A consumer backlash against sharing data has yet to materialize on a significant scale. But Dunnhumby's Hinds is mindful of the danger. "The key is that [sharing data] should add to the shopping experience. If you do it cleverly and it works, it's good. If it's done badly, it's intrusive". Or as Short puts it: "The important thing is to be trusted". Even in a brave new world, some things remain the same.

"Social media is creating more brand and market research than you could ever need"

Moneyball **made data fashionable. Now brands are clamoring to get in on the action**

The curse of the social media mob

Rapidly mobilized online campaigns can harm companies' revenue as well as reputation. How do you stay on top of the Twitterati?

Pink slime – the unappetizing name for meat filler made of finely ground beef scraps and ammonia hydroxide – was a staple of the US diet for years. The problem: Americans didn't know it.

In March, that all changed. Celebrity chef Jamie Oliver took to Twitter to tell his millions of followers that pink slime was nestling amid their children's school lunches. The effect was instantaneous. Appalled Twitterati mobilized, lobbying the US Department of Agriculture. Pink slime was mentioned 16,481 times on social media in one day. Eight days after the surge began, the USDA announced that school districts would be able to opt out of serving the controversial additive.

A few months on, the aftershocks are still being felt: meat giant Tyson Foods announced that its beef sales had fallen 10.7% in Q2 2012. Beef Products Inc. shut three plants. AFA Foods filed for bankruptcy as beef orders plunged. "The unwanted controversy over lean, finely textured beef temporarily destroyed demand for ground beef, and beef in general, virtually overnight," says James Lochner, Tyson's Chief Operating Officer.

The speed and scope of the backlash was vast, but it is not an isolated incident. Consumer companies without a foothold in social media monitoring are at risk of being overtaken by events. "Things don't stay hidden for long," warns Sanjaya Krishna, KPMG's US Digital Risk Consulting Leader. "And when the light of day shines on them, it shines brightly."

A recent KPMG Public Company Audit Committee Member Survey found that only 8% of respondents believed their company would be ready to respond adequately in the event of a crisis going viral through social networks.

While tabloid scare stories are nothing new, social media invites and empowers consumers to take action. Recent campaigns have led to a sportswear clothing giant being forced to rethink its pricing policy, wiped 10% off the share price of a fast food chain and caused one of the world's largest food processing companies to have its Facebook page overrun with negative comments.

"The impact of social media can be significant, both in terms of your market share and consumer perception," says John Hair, KPMG's US Lead for Risk and Compliance, Social Media. "And this stuff doesn't go away. It stays online and can be reignited with staggering speed and reach. You can't underplay the need for monitoring."

"Social media monitoring data should be included in an overall enterprise risk management programme," says Krishna. Simply including data that matches search phrases companies believe are important to them will not necessarily provide true insight. Businesses should be familiar with the influential sites and people whose commentary can trigger potential reputation issues, and the topic areas where they might arise.

SOCIAL MEDIA FRONTIERS

Pinterest
The fastest channel to reach 10 million unique users, Pinterest allows members to create image collections.

Orkut
Google-owned, with 66 million users, most in India and Brazil. Brands can buy targeted ads.

Qzone
Holds 44% of the Chinese social media market – making it a vital channel for companies.

John Hair
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John is a Director in KPMG in the US, where he serves as lead for Risk and Compliance services in the area of social media. He helps clients deal with the opportunities and risks related to proper governance of the dialogue that business is opening with the marketplace via social media.

"If you're a confectionery manufacturer, you should be watching out not only for discussions related to candy, but for things like dental health and childhood obesity as well," says Hair. "The next generation of social media monitoring tools, in fact, don't even rely on user-defined phrases to focus their search. They analyze word patterns in postings to reveal which topics are gaining steam, positive and negative."

Many consumer markets companies follow NGOs that have taken them to task, so they are ready to respond to breaking concerns. PepsiCo has set up a 'Mission Control' centre for its Gatorade brand, where consumer chatter is closely monitored by the marketing team.

Speed is paramount in a social media crisis – this is no time to hunker down. "It becomes a circular firing squad," says Krishna. "Media outlets pick up on what bloggers say, even if it's inaccurate. You need to monitor on a 24/7 basis and be prepared to respond quickly. Social media doesn't respect the working day."

It's crucial to provide social media guidelines and training for employees, keep an eye on them online, and be aware of what suppliers, partners and even celebrity endorsers are saying.

Strategic integration of social media also helps. A 2012 survey by the Society for Human Resource Management found that only 28% of businesses have a social media strategy (this rises to 37% among multinationals), and only 12% have an employee dedicated to social media.

If crisis strikes, it cannot be managed within most existing marketing and communications structures. "The standard PR tactics of 'delay, deflect, defend' will not work in these situations," says Eileen Brown, author of *Working The Crowd: Social Media Marketing for Business*. "It's not an authentic message. You need to reply in the same space." Brown suggests identifying a 'trusted advisor' within the company who engages with consumers on social media every day. In a crisis, they can act as the first line of defence, where a company's PR team might be viewed with suspicion.

Crucially, engaging – not ignoring – is the only way to reduce fallout. As Google CEO Eric Schmidt said in response to British government plans to limit social media in the wake of the 2011 London riots: "It is a mistake to look into the mirror and try and break the mirror… if you have a problem, use the internet to understand what that problem is."

Online, consumers can vent easily – but engagement can help limit the damage

Whatever happened to organic?

It was the global phenomenon that would herald a new age of premium products. But then recession struck. Can a transatlantic trade agreement make the market viable at last for multinationals?

At a sprawling farmers' market in the former Soviet section of Berlin, they're forming queues for a slice of the organic lifestyle. Germans and tourists alike are clamoring to sample a range of expensive regional cheese from the Alpenkäse stall. Not that owner Marc Lämmle is a model of optimism.

"This year, business seems a bit tougher, a bit harder," he says, in between offering cheese from the end of a knife. At the same time, "People still buy cheese. It's not like selling a Rolls-Royce." Lämmle can foresee continuing profit in selling organic cheese by the slice. But for larger businesses, the crystal ball is harder to come by. Organics were supposed to herald a food revolution, delivering handsome margins predicated on a growing and increasingly aware middle class. Yet they remain a fickle and confusing area for producers, retailers and investors who must navigate a wide range of geographically differing consumer requirements, and unexpected pitfalls.

In places, organic food is more profitable and is growing faster than the broader market. And a recent EU-US equivalency agreement on organic standards could go a long way to expanding trade between two regions that already make up 90% of global sales in the roughly US$59bn industry.

Bilateral trade across the Atlantic currently makes up less than 5% of those sales, as organic food largely remains a regional, premium-priced luxury product. Starting in July 2012, organic products that were limited to one continent or the other can now be sold freely between the two.

"It will open up some opportunity because a greater variety of products will be available, perhaps coming more from North America to Western Europe," says Diana Cowland, an analyst at Euromonitor.

Multinationals have been relatively slow to embrace the market. But in recent years several have begun to quietly acquire brands that could help them gain a foothold. Coca-Cola bought juice-maker Odwalla for US$181m; Kellogg acquired granola brand Bear Naked for US$60m in 2007; and Kraft has owned vegetarian specialist Boca Foods since 2000, doubling the brand's sales to more than US$70m.

Nestlé, like its peers, has made acquisitions of the sort of premium brands and natural products that organic-loving consumers tend to buy: San Pellegrino water, PowerBar energy bars and Skinny Cow ice cream. The company has also tweaked its motto to de-emphasize candy bars and shift to health and wellness: "Good food, good life."

But when it comes down to it, Nestlé Chairman Peter Brabeck-Letmathe thinks

Organic remains a popular label for so-called "foodies", but mass-market take-up is slow

organic products (known as 'bio' in parts of continental Europe) are less important than a general good health message for a company that had sales of US$91bn in 2011 – despite its emphasis on creating "shared value" for local producers. "It sounds good. It is good. We have to help our farmers who make these products. It allows them to create added value for people who are willing to pay for it," Brabeck-Letmathe said during an interview at the Salzburg Festival. But "it's a privilege. We also have to think of the world food supply."

Thinking differently

Even though dairy is the biggest category of organic products worldwide, with US$6bn sales in 2010, some food companies are moving organic lines to 'natural' categories which don't involve the rigorous regulation or higher prices of organic. US-based Dean Foods repositioned its Silk and Horizon milk brands to natural, which cut into overall organic sales. Ocean Spray moved some beverages from organic to non-organic.

"Private labels are successful because they offer organics at competitive prices"

"Provenance, ethics and sustainability are still big areas of consumer interest, although these can increasingly exist without the 'organic' label," says KPMG's Richard Peberdy, a Partner in the UK firm. "For example, consumers are willing to spend more on free range eggs, as they associate the product with healthier, happier animals. They do not necessarily expect added benefits from an organic label."

But though the trend to downplay the organic label seems increasingly pervasive among marketers, some experts advise not to throw the baby food out with the cranberry juice. They say multinationals should be careful not to give up too quickly on the organic market, which still has room to grow and wind in its sails.

"Some categories are doing very well. Others are not," says Cowland. "It takes a lot of strategy. You have to target the right consumer. In most instances organic is more expensive so you have to offer customers a product that they are willing to pay the extra cost for."

Farming in countries such as Greece is likely to become more organic

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Richard is a Transactions Services partner at KPMG in the UK. He has more than 15 years of experience working with national and global food companies.

Organic baby food, for example, "was incredibly resilient during the recession," she says, with brands such as Germany's HiPP Organic and the US-based Hain Celestial Group experiencing strong growth. Sales jumped 7% in 2011 to more than US$1.8bn and could reach US$2.3bn by 2015.

Organic rice is selling strongly because of interest from the Chinese middle class. Organic coffee grew a whopping 8% globally in 2011. Euromonitor expects organic packaged foods as a whole to grow more than 4% per year until 2015. While that's down from the double digit growth rates the industry saw in 2006-2008, it's still above the overall packaged food level of 2% in 2011.

"The products that have done well have an element of functionality," Cowland says. "Baby food has added minerals and vitamins or nutrients like omega-3. You are getting added benefits. Consumers believe they can get more for their money."

Similarly, some regions are more interested in organic products than others. While the UK has seen a slowdown, demand in Germany – Europe's most developed market for sustainable produce, with penetration across all socio-economic groups – remains strong. Asia Pacific, North America and Latin America also have organic sales rates approaching pre-recession levels.

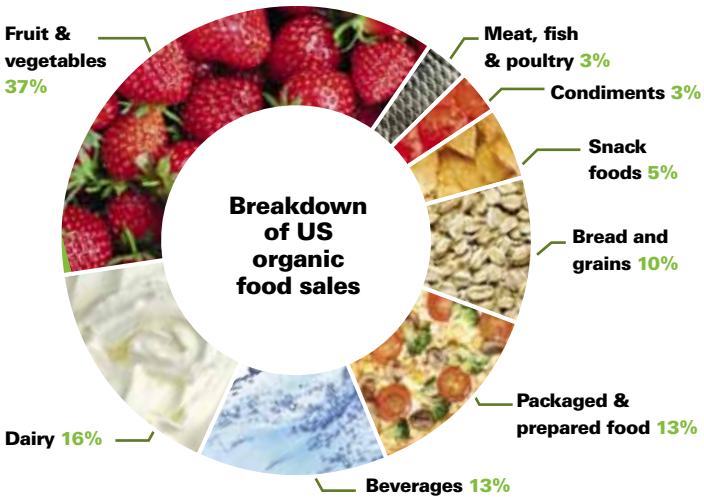
"In the UK, people perceive organic products as more expensive than their conventional counterparts even though it is not always true," says Cowland. This perception is borne out in retailers' figures: the only British supermarket to enjoy an organic sales lift over the past couple of years is the high-end retailer Waitrose, which is dramatically outperforming the market. Other retailers have reduced shelf space devoted to organic.

Despite recent efforts from large discount retailers in the US to use their buying clout to bring down industry prices of organic food, demand blunted by recession has halted their ambitions. "Is the [discount retail] customer ready to embrace a full set of organic products? The answer is no, not yet," says George Siemon, Chief Executive of Organic Valley, the largest organic cooperative in the US and a supplier of discount retailers.

In parts of Europe, things are very different. Discount retailers such as Lidl have expanded space and held 30% of German organic sales in 2010, up from 20% in 2006. One secret of their success

> **"The products that have done well have functionality or some added extras"**

Wealth benefits



Source: Nutrition Business Journal

Global organic food sales

2006	US$40.2bn
2007	US$46bn
2008	US$50.9bn
2009	US$54.9bn
2010	US$59.1bn

Source: Organic Monitor

"ORGANIC FOOD IS NOT A FAD… IT'S A WAY OF LIFE"

"I always felt bigger is better," says Irwin Simon, CEO of organic and natural food conglomerate Hain Celestial Group. And since founding the company in 1993, he has been true to his word: Hain is now one of the largest processors of natural and organic foods in the world, selling more than 2,000 certified organic products in 50 countries. With revenues of US$1.13bn it's living proof that it is possible to monetize organic, given time.

Since its inception, Hain has acquired dozens of 'mom and pop' brands, including Earth's Best organic baby food, Linda McCartney meat-free products, Soy Dream non-dairy beverages and Celestial Seasonings teas. It now owns 45 brands, and remains acquisitive. In the past year, its European operations made three closely watched purchases: the UK's Daniels Group, makers of Covent Garden Soup; Danival, a French organic food group; and GG UniqueFiber, which makes high-fibre bakery products in Finland.

This year, Hain will introduce 40 new grocery products and plans acquisitions in the US, Asia and Australia, says Simon.

Though the company's share price suffered at the height of global recession, in 2011 it achieved sales of US$1.13bn, an annual increase of 23.3%. Little surprise that Simon is bullish about the future. "I don't think natural and organic food is a fad," he says. "It's a way of life.

Fruit and vegetables are the most successful organic sector in the US

is extensive and innovative ranges of private-label organic products at competitive prices.

Private-label organic is an under-the-radar success story elsewhere, too. US supermarket Safeway's O Organics is fast becoming the leading organic food brand in the country, according to research company Organic Monitor.

The private label now houses more than 300 certified organic lines and exceeds US$400m in annual sales. It has expanded into food-service outlets and is developing a presence in Latin America, Asia and Africa. At specialist natural foods retailer Trader Joe's, 80% of all stock is own brand. It currently has yearly sales of over US$8bn.

"Retailers are proving to be quite successful with private labels because they offer organic products at competitive prices," says Amarjit Sahota, President of Organic Monitor. "In some cases, the organic products are cheaper than conventional ones."

Looking to the future

The new trade agreement means producers won't have to re-certify or adopt new organic standards when selling abroad. Farmland devoted to organics is expected to increase in the US, as well as in EU countries with export-oriented food industries such as Italy or Greece.

That has implications for M&A, says Peberdy, who expects growing interest in healthy and natural foods. "Organic will benefit from this, though acquirers will require further analysis on the importance of organic within this wider category." Organic Monitor expects an uptick in the European organic sector, where small and mid-size businesses could grow or merge.

Consumer prices are likely to stabilize, with a wider selection to choose from. US grocers can more easily carry organic pasta, chocolates and cheese from Europe.

However, the EU and US hold just 30% of global organic farmland, with the bulk in 160 other nations in Asia, Latin America and Africa. And Brabeck-Letmathe is just one critic who believes the wealthier, organically conscious consumer class in Europe and the US has reached saturation point. Awareness of organic products in China and India is low and there are few guarantees consumers there will care about (or be willing to pay for) them.

Economic growth in BRIC nations, and recovery elsewhere, will sway the cycle back in organic's favor. Peberdy feels better storytelling could also help: "In the past, marketing has focused negatively on non-organic food being bad rather than promoting the health aspects of organic.

"The bigger challenge is for organic to resonate with consumer values of ethics and sustainability at an accessible price point. If the industry can crack that, it will really take off."

Whether the trade agreement alone will be enough to spur the much-promised organic consumer revolution is unclear. But it serves as a sign the major players believe there is a market still to be tapped – and the long-term desire exists to monetize it.

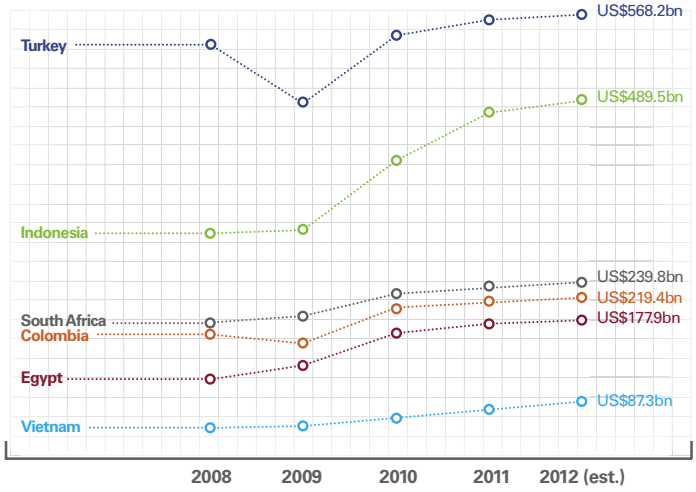
The state of the CIVETS

These six countries were billed as the next BRICs. But are their consumer markets performing?

Behind the numbers

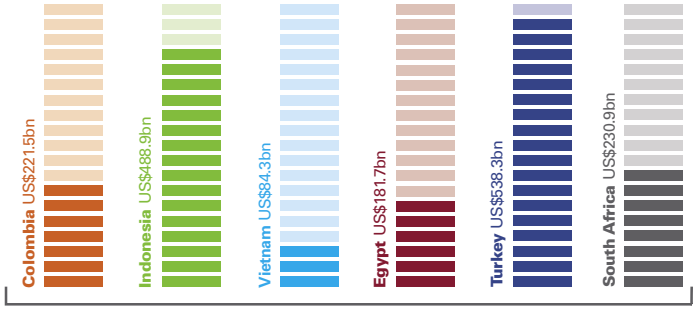
CIVETS ride the storm

Annual consumer expenditure



Ready to spend

Annual disposable income (2011)



Source: Euromonitor International

COLOMBIA

STATE OF THE MARKET

It's not all coffee… Colombia was named by JP Morgan as the second-most-promising country in Latin America for investment. Disposable income has doubled since 2006, but the current GDP growth rate of 5% will need to pick up if Colombia is to reduce poverty and narrow income gaps.

STRENGTHS

The Colombian government is rated the most business-friendly in Latin America, with the country offering major tax breaks for business and relatively good labor flexibility. It is earlier in its growth cycle than more developed Latin American countries, so has more room for expansion.

WEAKNESSES

The 9.7% rise in the peso against the dollar this year has left exporters paid in dollars struggling to meet overheads in local currency. The diminished guerrilla violence still constrains growth. Infrastructure is poor: it costs more to truck cargo from Bogota to ports than to ship it across the world.

CONSUMER STARS

Hypermarket operator Grupo Exito, Colombia's largest retail chain, opened 64 new stores in 2011, making a total of 351. It recently acquired controlling shares in Uruguayan stores Disco and Devoto, setting its sights on expansion.

FOREIGN INVESTORS

FDI hit a record US$14.8bn in 2011, but most is in oil and mining. In retail, France's Carrefour is a major presence with 70 hypermarkets. Luxury brands including Ferragamo are moving into Bogota. Last year, Unilever acquired Colgate-Palmolive's Colombian detergents business.

THE VERDICT

"Colombia's growth means it is popular for companies to enter the country, so expect to face strong competition. The leaders in the consumer market right now are sugar mills, while home-computer equipment and footwear markets are strong. Regulatory changes present a threat."
Claudia Sofía Ramos, Partner, **KPMG in Colombia**

INDONESIA

Thanks to earlier banking sector reform and a consumer boom, Indonesia had one of the strongest economies in the G20 in 2011, growing by 6% with inflation its lowest (at 3.8%) since 1998; retail sales have risen 20% to US$13.8bn.

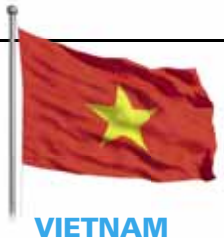
A large population (239 million), 50% of who are under 30, and a burgeoning middle class: up from 1.6 million in 2004 to 50 million now, and expected to hit almost 150 million by 2014. Little wonder brands are excited: income growth and low inflation has fuelled sustained spending on consumer goods.

Indonesia's geography and poor infrastructure put it 75th in the World Bank's 2010 Logistics Performance Index, well behind Thailand, Malaysia and the Philippines. Many companies are family-owned, led by an aging patriarch – legacy issues loom. Contradictory laws can appear out of nowhere.

High-end lifestyle retailer MAP reported a 79% jump in profits last year, helped by its 40% stake in Samsonite Indonesia. It aims to see a further 25% growth this year, with plans to open 300 more stores (it has 1,065 already). Retailers Ramayana and Matahari are also strong players.

FDI jumped 18.4% to US$19.3bn in 2011. In 2011, Unilever announced a US$600m investment in its production base. P&G has spent US$100m on factories. Japan's 7-Eleven is a hit with young Indonesians: it entered the market with 20 stores in 2010 and aims to have 117 by year-end.

"Companies must understand the complexities of product distribution. The penetration of products and market perceptions can vary considerably. The population is far from homogeneous and you shouldn't treat the market in simplified demographic terms."
Thomas Thrasher, Partner, **KPMG in Indonesia**



VIETNAM

Recent challenges faced by Vietnam include inflation at 18.6% in 2011, compared with 9% in 2010. The Central Bank has increased the refinance interest rate to 15%, up 7% since November 2010. GDP grew 5.89% in 2011, down from 6.78% in 2010. Despite it all, retail sales rose last year.

Vietnam has a high literacy rate of 94%. Annual disposable income has risen over US$20bn since 2008. Rural households represent more than 70% of the population and their spending is on the rise.

The market is fragmented and difficult to reach. While foreign-owned retailers can register for an operating licence, they are generally only allowed to open one outlet and expansion is subject to an 'economic means test'. Local governments can arbitrarily limit access to the domestic market.

Masan Consumer, the market leader in fish, soya and chilli sauce, increased its 2010 revenue to US$272m from US$96m, attracting private equity firm Kohlberg Kravis Roberts, which bought a 10% stake.

The consumer goods sector accounts for 25% of M&A – most investment comes from Japanese companies. Kirin Holdings recently took a 57% stake in soft drink producer Interfood Shareholding. FMCG corporation Unicharm bought a 95% stake in hygiene product company Diana for US$128m.

"There will be a battle between local brand and channel owners for access to consumers. Foreign entrants should understand exchange controls, restrictions in distribution channels and market segmentation to select business models and forms of market entry."
KP Chong, Head of Markets, **KPMG in Vietnam**

EGYPT

The economy has lost about US$40bn since the political revolt began. GDP rose 1.6% last year and the government says it needs an extra US$10bn to deal with the upheaval. Long-term prospects are better: retail sales are forecast to grow by an annual average of 11.6% in the five years to 2015.

A growing, young population. Between 2011 and 2020, per capita consumer expenditure will soar 47%. A new middle class benefited from the liberalization of the economy prior to 2010. A new regime is likely to embrace wealth-redistribution policies, helping more people out of poverty.

High income disparity. Political change brings legislative uncertainty. The Egyptian pound looks set for more devaluation (it fell 3.6% in 2011). Inflation is squeezing consumers.

Hypermarkets are increasingly popular; El-Hawary opened the first domestic-operated store, Hyper One, in 2005. Dairy and juices producer Juhayna Food Industries (with 34.9% market share) plans to invest over US$99m on establishing in-house farming capabilities to ward off foreign competition.

Carrefour, Spinneys and Makro entered the market in recent years. Mall development has attracted brands including Nike, adidas and H&M. Sweden's Electrolux bought appliance maker Olympic Group in 2011 for US$404m.

"With 81 million potential customers, nearly half of them under 20, Egypt has a vast consumer market that should appeal in the long term to any investor in retail activity. Short-term issues including inflation and legislative uncertainty limit growth potential."
Robert Tashima, Regional Editor, Egypt, **Oxford Business Group**

TURKEY

Last year, only China's economy grew faster than Turkey's among major markets: the country's GDP growth hit 7.8% in 2011. But a major slowdown is needed if inflation is to climb down from over 10% to the government's 5% target. And a current account deficit of US$77bn is a hindrance.

Turkey has a youthful population of more than 75 million. Increased spending power has helped niche markets and brand awareness develop. Tourism attracts foreigner shoppers, especially from the Middle East, Russia and CIS member states. Political stability has brought a more liberal economy.

A high level of competition means a land grab for retail locations. Turkish consumers have to budget more for food than those in other European countries, so market sentiment is closely linked to food prices. Further structural reforms to fiscal policy may be required to improve competiveness.

Food manufacturing conglomerate Yıldız Holding is a US$10.9bn player, with international interests through luxury chocolate brand Godiva. Koç Holding is Turkey's largest company, and the only one featured in Fortune's Global 500. It is active in food processing, white goods and DIY retail.

Tesco has announced plans to invest US$129m, opening 51 new outlets. Diageo acquired Turkey's leading spirit producer Mey Içki for US$2.1bn, while Anheuser-Busch InBev will launch high-end beer products in partnership with Carlsberg. Nestlé is investing US$54.8m in a new cereals plant.

"Establishing a presence in Turkey is relatively easy. However, companies should carefully analyze their operating models before entering the market. The country has some issues it needs to address to achieve sustainable growth, but there are opportunities."
Fikret Selamet, Consumer Markets Sector Leader, **KPMG in Turkey**

SOUTH AFRICA

South Africa was hit hard by the global recession, but GDP growth picked up to an estimated 3.5% in 2011. It has the 20th largest retail market in the world. Consumer goods sectors including white goods are reliant on imports, but retail is dominated by resurgent, home-grown companies.

A fast-growing black middle class now has more total spending power than the white population and a desire for luxury goods. Households' disposable income is growing by 4.7% a year. Strategically, the country acts as a gateway to the rest of Africa.

Although infrastructure in South Africa is better than the rest of sub-Saharan Africa, supplies of raw materials continue to be uncertain. High unemployment (23.9%) and corruption levels act as brakes on consumer spending. Companies can get caught in a web of regulatory and trading barriers.

Furniture retailer Steinhoff acquired France's Conforama for US$1.66bn last year, to become the world's second biggest household goods retailer. It is considering further expansion. SABMiller is the world's second largest brewer.

Foreign direct investment more than tripled last year to US$4.5bn, boosted by Wal-Mart's highly significant US$2.4bn purchase of a controlling stake in retailer Massmart. Nestlé recently invested US$70m to expand its South African operations as part of a continental push.

"South Africa is increasingly being seen as a springboard to the rest of Sub-Saharan Africa. A newcomer might find it challenging to break in, so acquisition of an established operator is the best bet. The opportunity is enormous."
Daryll Jackson, Head of Africa Consumer Markets, **KPMG in South Africa**

Race for the prize

Can the same technology that gives 200mph supercars a crucial competitive edge help manufacturers get on top of business data?

Watching the first Formula 1 race of the year in Australia in March, a global television audience of more than 200 million will have been blissfully unaware of the astounding undertaking involved in getting the cars on to the grid. Constructing, testing and fine-tuning F1 machines can cost each team more than US$60m a season, as 400 staff fret over the precise alignment of 11,500 components.

Every detail matters because victory is measured in 1/100ths of a second. And far-thinking FMCG (fast-moving consumer goods) multinationals have now realized the technology behind the world's most popular motor sport can put them ahead in their own equally frantic race. UK-based McLaren (eight-times winner of the constructors' championship) has seized the opportunity to share lessons with corporates.

Early customers have included Procter & Gamble and GlaxoSmithKline. "With digitization, our goal is to standardize, automate and integrate systems and data so we can create a real-time operating and decision-making environment," says P&G CEO Bob McDonald.

With more than 500 sensors feeding over a billion data points from drivers Lewis Hamilton and Jenson Button in the course of a Grand Prix weekend, McLaren ought to know a thing or two about the subject. Though P&G is keeping its cards close to its chest, the F1 expertise could help it improve demand forecasting and competitor price monitoring – allowing it to dynamically adjust stock or pricing on the fly in the same way McLaren's trackside team might instruct a driver to alter his traction control mid-race. New data modeling tools could be developed to feed into business intelligence systems.

Within P&G, the project is being led by the company's information and decisions solutions (IDS) division, which is tasked with driving business simplification, increasing efficiency and delivering technology-enabled innovation.

"McLaren are the benchmark for taking incredibly large, complex sets of real-time data and turning them into very simple but effective visuals for rapid decision-making," says Dave Ubachs, CIO and Shared Services Manager for P&G UK, Ireland and Scandinavia. "We're ırning to spend less time looking in the ar-view mirror and focus on predicting e future with advance simulation and enario planning to keep us ahead of e competition."

P&G has gained insight from the lture of a very different organization. Ve have seen their fantastic discipline analyzing and capturing knowledge d then reapplying it. There is no better monstration of this discipline than the depth after-race reviews conducted as on as the drivers leave the podium," ds Ubachs. It might be a stretch · FMCG product managers to see emselves in a similar light to super-fit vers facing the same physical forces a fighter pilot. But when it comes to nning, every second counts.

ESSONS FROM FORMULA 1

Strategy is an evolving process

ter the first corner of a race, our strategists et their plan," says McLaren's Geoff McGrath.

Anticipate everything

Laren estimates it plans for "thousands" of enarios, from crashes to extreme weather.

nformation is powerful

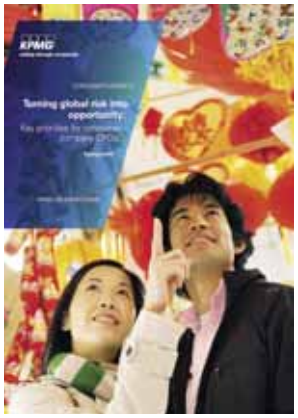
tailers, says McGrath, can use real-time data move inventory where it is needed.

Insights

KPMG member firms provide a wide range of studies, analyses and insights for the Retail and Food, Drink and Consumer Goods (FDCG) industries. For more information, please visit **www.kpmg.com/retail** or **www.kpmg.com/FDCG**.

Current publications

The Converged Lifestyle: Consumers & Convergence 5
This fifth annual KPMG survey of nearly 10,000 consumers from 32 countries around the world looks at trends in consumer behavior and preferences with respect to e-commerce, online trust, device preferences and social networking.



Turning global risk into opportunity: Key priorities for consumer company CFOs
This report highlights the strategies finance leaders are using to help their businesses navigate turbulent environments and achieve growth.

Global M&A in Consumer Markets: Pursuing growth in an uncertain world
How do KPMG M&A professionals in 23 countries expect economic and industry trends to affect M&A activity in the consumer sector over the next 12-18 months?

Product Sourcing in Asia Pacific: New locations, extended value chains
This report highlights opportunities for consumer goods companies to reduce costs and improve efficiency by optimizing their sourcing strategies in this critical region.

2011 China Retail Loss Prevention Survey
This report outlines recent developments in prevention of inventory shrinkage in the Chinese retail industry. It examines measures retailers have taken to prevent inventory losses, and identifies opportunities for Chinese retailers to further reduce these losses.

The chocolate of tomorrow
The chocolate landscape is changing, with emerging economies replacing the traditional powerhouses of growth. This report looks at the factors driving the market globally and asks what the chocolate bar of 2030 will look like, including input from KPMG partners and industry practitioners.

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