



Highlights

- Business confidence among retail and consumer goods CEOs is up from last year, but still less than in past years.
- Of potential threats to their businesses, retail and consumer goods CEOs are both very concerned about overregulation.
- Two-thirds of all retail and consumer goods CEOs think consumers will favour socially and environmentally responsible companies. The large majority of both anticipate changes will be required to respond to shifts in consumer behaviour.
- 47% of consumer goods CEOs had no climate change strategy in place a year ago, and only 33% of retail CEOs did.

Setting a smarter course for growth

Retail and consumer goods sector findings from the *13th Annual Global CEO Survey*

The business world has changed dramatically in the last 18 months, and the new reality has dramatically impacted retail and consumer goods companies. Will consumer demand rebound? It's clear that no one really knows the answer yet. But what is clear is that a lot of long-term planning will have to be thrown out the window. According to Ian Bremmer, president of Eurasia Group, a leading global political risk research and consulting group, companies will “have to plan with a readiness to make changes on short notice, and you probably need to revise strategic plans much more frequently, with new assessments of the global environment, than you did before this crisis hit.”

The upheaval to business planning and operations came through clearly in the *13th Annual Global CEO Survey*. The survey, conducted in September to November 2009, consists of interviews with 1,198 business leaders from around the globe—272 of those in the retail and consumer goods sectors.

* Excerpted from a PwC-hosted panel discussion on “Winning trends of leading CPG companies” that included Jane Nielsen, SVP & CFO PepsiCo Americas Beverages, PepsiCo; Stephen A. Sibert, SVP Industry Affairs, GMA; Patrick Yost, Director, PricewaterhouseCoopers, Marty Weintraub, Vice President, Karabus Management and moderated by John Maxwell, PwC Global Retail and Consumer Leader.

Background: Some trends:*

- Consumers are spending less—and looking to get the most value for their money. Savvy consumer goods companies are looking for innovative ways to define “value” beyond price.
- Private label continues to gain market share as consumers continue to shop for value.
- Narrower is the new “norm”, and retailers are looking to decrease product assortments on the shelf to cut excess inventory, make more room for store brands and generally create a more efficient, less confusing shopping experience for customers. Some suppliers are cutting the number of products they manufacture in order to get ahead of the game.
- Leading companies are collaborating with partners to deliver innovative trade promotions. A consumer might get a coupon for a significant discount at a second retailer or for an event when purchasing a basket of the first retailer's products.

In brief

Few if any business leaders will forget the last 18 months. The retail and consumer goods CEO responses to the *13th Annual Global CEO Survey* show how they view their current prospects and what changes they are making to adapt.

What's happening to business confidence?

Guarded optimism prevails. Consumer goods CEOs are somewhat more confident than retailers, and both are more confident than last year.

What keeps CEOs awake at night?

A lengthy global recession is at the forefront of retail and consumer goods CEOs' concerns. On the plus side economic turmoil has impacted growth trends favourably in some emerging markets, creating opportunities.

How are CEOs responding to changing consumer behaviour?

Nearly all believe that strategy changes will be required and both feel strongly that consumers will place a higher emphasis on a company's social and environmental practices. A significant portion foresees changes in strategy as a result.

What are the best prospects for growth in the next year?

As was the case last year, the focus will be on existing markets, rather than new markets or new product development.

Some glimmers of good news

CEOs are emerging from the deep uncertainty of the past months and are guardedly confident about the future. 29% of retail CEOs and 35% of consumer goods CEOs are very confident about their companies' prospects over the next 12 months, compared with just 14% and 27% respectively last year. Confidence is still less than it was in previous years, however. This year's higher confidence suggests CEOs believe their

companies are strategically positioned to capture competitive gains in their existing markets ahead of a hoped-for broad-based improvement in demand. Their growth strategies tend to bear this out: The largest percentage is focused on their existing markets and fewer believe that new geographical markets or new product development offer better potential for business growth.

“It made us think about our businesses, our boards, our teams—this was an emergency situation and we were forced to make some important decisions.”

—Carlos Fernandez, *CEO, Grupo Modelo*

Concerns remain

The survey examines how CEOs perceive the risks of the business environment. As is natural after the shock of recent economic events, CEOs are concerned on a number of external threats to growth. Of a broad range of potential risks, retailers were most concerned about the possibility of a lengthy recession, stability of the capital markets, over regulation and potential shifts in consumer spending, in that order. Consumer goods CEOs worried most about exchange rate volatility and over regulation, along with energy costs. Keeping costs in line continues to be on executives' minds, especially among consumer goods CEOs. 68% of consumer

goods CEOs and 64% of retail CEOs said that headcount had either decreased or at best stayed the same last year. Though cutbacks are forecast by 26% in each sector, the good news is, more CEOs see headcount increasing—if only slightly—than decreasing in the next 12 months. Highly-trained specialists will always be in demand, according to Tigran Nersisyan, president of Russian food and beverage maker Borodino Group. “To be honest, just as before the crisis, we still face a shortage of highly trained workers, such as IT specialists, software developers and experienced marketing staff. Specialists of all kinds are in great demand.”

Changing strategies to adapt

Business leaders appear to be split on the lasting impact of the economic crisis, but they are changing company strategies to adapt. Consumer goods and retail are high on the list of sectors most concerned that a permanent shift in consumer behaviour is underway. 64% of retail CEOs and 55% of consumer goods CEOs are either extremely or somewhat concerned about “permanent shifts in consumer behaviour” resulting from the current economic crisis. A large portion expects consumers to spend less and save more in the future.

Consumer goods CEOs are increasing their focus on preparing for systemic risk and low-probability, high impact events—but moderately. 48% anticipate changing their approach somewhat, but only 34% anticipate altering their practices to a large extent or significantly. Retail executives anticipate some or major change to investment decisions as a result of the economic crisis—83% anticipate some degree of change.

“Benetton’s positioning in what we like to call ‘democratic fashion’ is helpful in facing the crisis, however; the consumer on average is spending less and more shrewdly. Spending a lot is less trendy than it has been in the past and consumers prefer to buy greater quantities of products at the same price rather than a single ‘designer’ product.”

—Gerolamo Caccia Dominioni, *CEO, Benetton Group SPA*

Consumers perceive value in reputation

CEOs are bracing for other changes as well, which is why nearly every retail CEO (91%) anticipates making changes to respond to shifting consumer purchasing behaviours, and 89% of consumer CEOs do, as well. Most CEOs agree that new kinds of behaviour offer up new opportunities. Consumer goods and retail CEOs are equally likely to plan to change their strategy as a result of consumers placing a higher emphasis on a company's environmental and corporate responsibility practices before buying; 65% of consumer goods CEOs feel that consumers will favour environmentally responsible companies. A similar percentage expects consumers to play a more active role in the product development process. This is one of those "values" as perceived by consumers.

Even though socially and environmentally responsible practices are on CEOs' radar screens, many in the sector still need to face up to the challenges posed by climate change. 47% of consumer goods CEOs had no climate-change strategy in place a year ago and only 33% of retail CEOs did, compared to 52% in the total sample. More than a third has made no preparations for any climate-change initiatives in the coming 12 months. Given consumers' growing demand for "green" products and practices this is a gap many will need to remedy.

In a related vein, many consumer goods CEOs plan to spend more on advertising and brand building in the wake of the recession—57% versus just 42% in the larger sample.

“Value orientation is driving consumer patterns. Companies that are getting close to the consumer (involving them in product development) are just smart. This isn't really a shift in consumer-corporate strategy or relationships—consumers will go back to spending more freely when they are more confident.”

—Jeff Thompson, Head of PwC Consulting—Europe, Middle East and Africa

Where to look for growth?

Retailers with operations in the area don't see their business increasing in Asia as much as the survey group as a whole (66% versus 82%). Consumer goods CEOs see the landscape somewhat differently, as, out of those CEOs with operations in the region, 78% believe business in Asia will grow.

Better penetration of existing markets was again seen this year as the major opportunity for business growth. 40% of both retail and consumer goods CEOs cited this as their key focus. Fewer saw new product development or new geographic markets as a focus, and fewer yet were planning to pursue M&A or joint ventures and strategic alliances.

Lessons learned in a crisis

Business leaders responding to the survey often cited regrets at not acting quickly enough when conditions turned. Strengthening the resilience of their organisations while remaining on top of opportunities was deemed critical. Other lessons learned:

- Long term planning is critical—but be prepared to change at a moment's notice
- Stay disciplined on costs, but incur them to innovate
- Manage risk in good times, as well as in bad

Resources

To learn more about the retail and consumer goods findings in the *13th Annual Global CEO Survey*, please contact:

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