

MIT SMR CONNECTIONS

CUSTOM RESEARCH REPORT

A smiling woman with dark hair, wearing a blue long-sleeved shirt and a striped apron, stands in a grocery store aisle with her arms crossed. The background shows shelves stocked with various products.

Becoming Future Fit: Challenges and Opportunities for Today's Consumer Products Companies

ON BEHALF OF:



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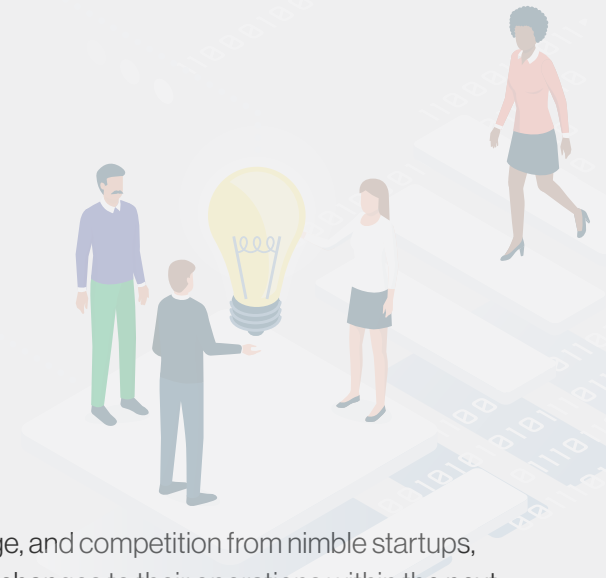
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Introduction



Faced with changing consumer preferences, accelerating technology change, and competition from nimble startups, today's consumer products (CP) companies know they need to make major changes to their operations within the next half-decade to remain successful. But while many have started down the path of transformation, progress is uneven, with some companies stalled by a combination of conflicting leadership priorities and a shortage of the talent and capabilities needed to make change happen. Unless companies find ways to overcome these hurdles in the near future, they will fail to achieve their transformation goals and grow increasingly out of step with the demands of tomorrow's consumers rather than becoming the models of efficiency and responsiveness they wish to be.

These are among the findings in a new MIT SMR Connections/EY LLP Global Consumer Industries research study based on a survey of 370 CP business leaders in 10 countries. Conducted in June and July 2021, the survey asked these leaders about the challenges they face as they endeavor to make major changes in operations ranging from manufacturing and supply chain to finance, marketing, and talent acquisition to meet changing consumer needs.

Though respondents' priorities differed, they were nearly unanimous (98%) in citing the need for transforming how they operate, with 86% saying change is essential to becoming future ready.

There is great uncertainty about whether these leaders are taking the right steps to steer their organizations through the future's challenges. Consumer buying habits are very different from what they were just a few years ago and continue to evolve. Technology is upending the way people select and purchase products — and how they engage both with those products and with the companies that make them. Technological change is also transforming how companies design, produce, market, package, and deliver their products.

What will success look like in the future? What paths should companies embark upon today to be ready for tomorrow? Survey respondents differ on their approaches to transformation, but most agree on one likely outcome: More than three-quarters believe that in five years' time, the very metrics they will use to gauge success will be substantially different from those they use now.

The turmoil the industry has experienced in the past year-plus illustrates leaders' uncertainties — and underscores the urgent need for change that many CP companies express. Yet there's reason for optimism, as they also clearly recognize that while operational transformation comes with challenges, it opens up new opportunities as well.

Becoming Future Fit: Challenges and Opportunities for Today's Consumer Products Companies

A Crisis Hammers Home the Need for Agility

The pandemic created disruption across all sectors of the economy, but for the CP industry, it touched an all-too-familiar nerve. Trade tensions, tariffs, and rising labor costs in Asia had pointed for some time to a need for manufacturing and supply chain diversification. The pandemic pushed problems to crisis level as suppliers and ports shut down, causing severe inventory shortages just as millions of people began working from home and demand for consumer goods shot up. Yet even under these enormously stressful conditions, some companies were able to adjust, revamping multiple production lines at record speed.

“Our company retooled 600 factories worldwide in a matter of just days and weeks to increase the production of hand sanitizer in 2020,” says Leena Nair, then chief human resources officer at Unilever (she has since been named global CEO of Chanel).

Others swiftly changed their approach to management. “Over the past year, our company overhauled its organizational structure to enable faster, more agile decision-making, going from having an approval matrix to becoming a seamless organization that can pivot quickly to meet customer demand,” says John Brase, chief operating officer at J.M. Smucker, the venerable manufacturer of fruit spreads, peanut butter, beverages, and other food products.

The pandemic showed that rapid change is achievable for organizations with the right leadership and the right tools. But achieving wide-scale, permanent operational change won't be an easy lift. Roles and dependencies are changing across the value chain, reflecting the need for companies to forge new networks at speed and scale — a change that's difficult not just logistically, but psychologically as well. Leaders and managers versed in old-school techniques that served the industry well for decades may lack the perspective needed to transition to the future they envision.

The survey results indicate that many CP companies are confident about their ability to reach their objectives but face significant challenges to doing so.

Ambitious Goals — and Big Challenges

Companies have laid out a wide-ranging agenda for near-term growth, expansion, and innovation. Goals they identified as their highest investment priorities in the next three to five years include developing new channels and routes to market (56%), growing the core business (55%), and entering new geographical markets (54%). Other significant investment priorities include developing new products and services within existing categories (48%), launching into adjacent categories (41%), and launching direct-to-consumer initiatives (44%).

Companies will be pursuing these goals in the midst of sweeping changes in market forces and consumer habits that are forcing them to pay closer attention to market segments and react more quickly to consumer demand.

“We're seeing these trends: fragmented demand, shrinking innovation cycles, and increased market volatility,” says Parth Raval, chief growth officer for PepsiCo Foods North America. “We can't look ahead five years; the time horizons are now 18 to 24 months at most.” Consumer preferences are changing as shoppers, especially younger “digital natives,” make choices based on online reviews and content posted by social media influencers, some of whom have amassed millions more followers than the brands they promote. Passion for distinctive new looks or features, particularly in lifestyle products, can take off overnight, disrupting the pace of established business models.

“We're seeing these trends: fragmented demand, shrinking innovation cycles, and increased market volatility. We can't look ahead five years; the time horizons are now 18 to 24 months at most.”

PARTH RAVAL

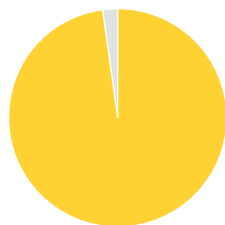
Chief Growth Officer, PepsiCo Foods North America

“People’s taste is evolving way faster than it ever has,” says Vivek Farias, Patrick J. McGovern (1959) Professor and professor of operations management at the MIT Sloan School of Management. “A TikTok video about pasta goes viral, and all of a sudden, we have to respond to that. This is a big challenge to traditional marketing and manufacturing cycles — they’re too slow to keep up. I see that as the overarching challenge going forward.”

Responsiveness is hampered by companies’ use of organizational procedures dating back to the 1980s and earlier, says Cem Karakaş, nonexecutive chairman of Rudi’s Organic Bakery and Promise Gluten Free. For example: “In the stage-and-gate innovation model, you have committees and commissions along the way whose job it is to slow down decision-making and reduce the chance of failure rather than the cost of failure,” he says. “These models are still being used in almost all [CP] companies.”

Sixty-four percent of survey respondents cited functional silos as a significant barrier to transformation. To deal with today’s fast-changing demand, they need to reduce these functional silos and focus on aligning operations to their consumers.

Figure 1:
How do CP companies view operational transformation in terms of urgency?



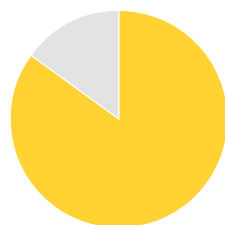
98%

consider transformation a priority.



86%

believe they must transform to be future ready.



85%

already have transformation efforts underway.

“The way business models are architected in the large consumer goods companies, the way they account for profitability and marketing expenses, needs to change. They need to rethink the entire measurement system so they can get a more holistic view of the relationship between them and the customer.”

LEN SCHLESINGER

Baker Foundation Professor,
Harvard Business School

“It’s about organizing your business to match up with consumer behavior,” says Len Schlesinger, Baker Foundation Professor at Harvard Business School. “The way business models are architected in the large consumer goods companies, the way they account for profitability and marketing expenses, needs to change. They need to rethink the entire measurement system so they can get a more holistic view of the relationship between them and the customer.”

A few industry segments are having success experimenting with more agile business models, says Schlesinger, whose previous positions include serving as vice chairman and COO of Limited Brands (now L Brands). “The snack food companies, the Frito-Lays, are getting their arms around this. They’re figuring it out in terms of demonstrating more flexibility and open-mindedness.”

But most CP businesses continue to use manufacturing and marketing procedures that lag far behind consumer preferences. Incorporating omnichannel consumer analytics into their business processes will yield more useful insights about those consumers.

CP industry leaders don’t talk enough about omnichannel strategy, in Brase’s view: “There has been an enormous change in shopping habits, and we need to be at the forefront of that,” he says.

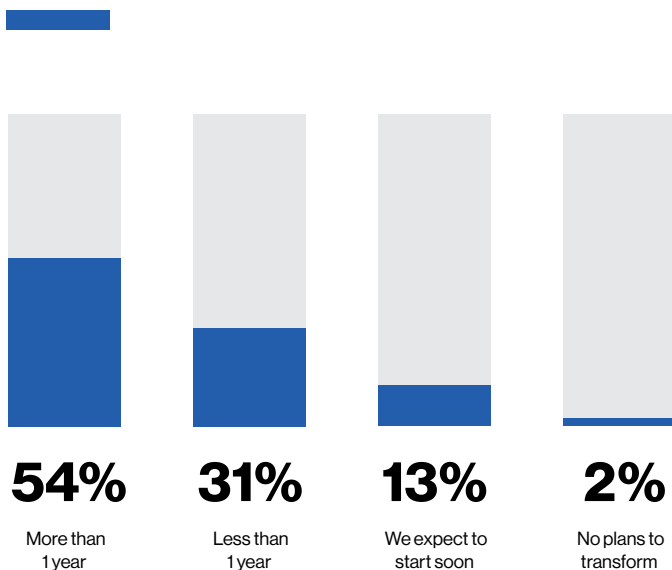
With omnichannel analytics, companies can collect unified, up-to-date information about consumer activity online, in stores, and at service centers and parse it by region, product type, demographics, and a host of other categories, helping them better match inventory to demand. On a broader scale, this data can lead to insights that can make or break a business. Farias cites beverage company Anheuser-Busch as a shining example.

“Anheuser-Busch made tremendous investments in analytics to understand what their customers were looking for,” says Farias, who is also a faculty member at MIT’s Operations Research Center. “They saw the move to craft beers coming and engineered a massive change in the structure of the company, acquiring tons of brands to cement their presence there. Had they not done this, I don’t think they’d be in the position they are in today.”

In the survey, 41% of CP companies said data and analytics were essential to future success. When asked what kind of analytics was most important to them, the top choice was consumer and market data, selected by half of the respondents.

Detailed consumer data could allow large CP companies to better compete with direct-to-consumer (D2C) sellers such as Casper, Harry’s, and Dollar Shave Club, which respond to customers individually, cut out distribution networks, and cash in on consumer-driven trends.

Figure 2:
How long ago did CP companies begin operational transformation?



Riding the D2C Wave

The rapid rise of niche company startups selling goods exclusively online, combined with rapidly changing consumer expectations, is causing some traditional consumer products (CP) companies to rethink their retail strategies.

E-commerce, which has ticked steadily upward for years, exploded during the pandemic, creating a boon for these direct-to-consumer (D2C) sellers, while results for companies relying on brick-and-mortar foot traffic were decidedly mixed.

But not for sportswear giant Nike. Though all of the company’s retail partner stores temporarily shut down in 2020, and Nike itself was forced to close its portfolio of more than 900 shops, its D2C sales spiked to new highs, assuming a much larger proportion of the company’s revenue. Nike now plans to become a 50% digital business by 2025.¹

In the EY/MIT SMR Connections study, 62% of CP companies identified D2C as a critical future trend. Proponents say that D2C enables CP companies to better understand consumers by reaching them how they want to be reached while gaining valuable insights.

So what’s in D2C’s secret sauce?

The key ingredient is data. Success in the D2C space hinges on smart use of consumer information, which enables brands to tailor offerings to individuals and glean insights from analyzing their collective information.

Nike launched its D2C business, which was originally dubbed “Consumer Direct Offense,” back in 2017.² Since then, it has dropped some wholesale partners while collaborating more closely with others, such as Foot Locker, which has integrated the Nike app into its stores, allowing consumers to learn about products, find their sizes, win prizes, and gain access to exclusive releases.³ Nike is also working with select partners who are willing to share customer data and collaborate on delivering personalized experiences.⁴

“D2C is really an information play,” says Nicole DeHoratius, adjunct professor of operations management at the Booth School of Business at the University of Chicago. The owners of consumer information “are going to have better information about consumer behavior. That’s going to make their products and operations better,” she says.

But to achieve these benefits, companies must also know what to do with the data. Nike expanded its analytics capabilities by acquiring four data and analytics companies in recent years, including one specializing in retail predictive analytics and demand sensing.⁵

Other sporting goods companies have followed in Nike’s footsteps, increasing efforts to grow their online presence and unify the customer experience. While D2C may not be appropriate for all brands, it could serve as a good hedge for those with a heavy presence in shopping malls, where performance continues to slide.

Learning From Software Companies and Startups

As they move forward in their transformation journeys, CP companies could benefit from thinking more like software-as-a-service (SaaS) companies, especially when it comes to learning about their consumers.

While consumer products companies tend to focus on their retail partners and other intermediaries, their SaaS counterparts track end customers in granular detail. That's the "North Star" that CPs should be aiming for, says Vivek Farias, Patrick J. McGovern (1959) Professor and professor of operations management at the MIT Sloan School of Management.

"It's going to require org structure change and leadership change that cultivates creativity and encourages employees to not think with the traditional corporate mindset."

ZAK NORMANDIN, CEO, Iris Nova

The SaaS consumer-centric business model analyzes clients' demographics and activity to predict their lifetime value to the company. "Everything flows from that," Farias says. "You have a very clear sense of who's churning and who's long-lived. You understand what the consumer wants. You can personalize."

In addition to increasing retention, consumer-centricity at this level brings insights that can lead to profitable new products. But it also requires adopting more flexible strategies and procedures like those used by startups.

"It's going to require org structure change and leadership change that cultivates creativity and encourages employees to not think with the traditional corporate mindset," says Zak Normandin, CEO of Iris Nova, the text-based on-demand retail ordering platform.

While software companies and startups are both known for moving fast and breaking things, traditional corporate culture discourages risk-taking. That needs to change, Normandin says. So do old habits of adhering to plans set in stone, he says: "I think it's very hard to plan five years ahead. I don't know where the market's going to be. I'm sure it's going to be dramatically different than where it is now, because I've seen that happen already over the last five years."

Thinking like an SaaS company or a startup doesn't mean throwing plans out the window; it means being willing to adapt them to changing circumstances. It's about embracing an uncertain future and constantly testing new ideas.

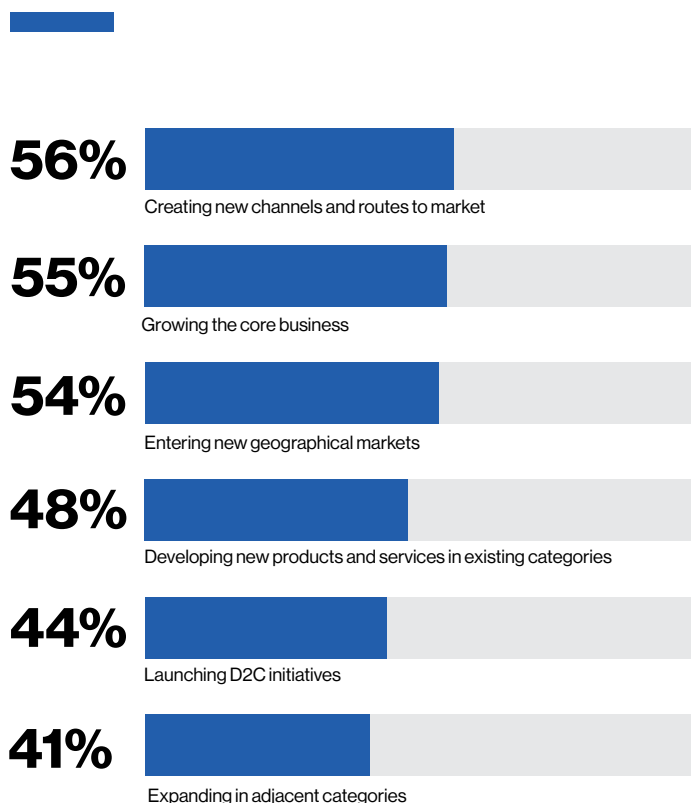
"In the end, it comes down to a mindset and people," Normandin says. "And you need to be OK with taking risks every day."

In the survey, 62% of companies identified D2C efforts as essential to their futures. While developing D2C business lines is not appropriate for all CP brands, for some companies it may be the key to gaining market share in an increasingly fragmented future.

"I think it's really worth it for these bigger companies to pay attention to the small niche players," says Farias. "It's very easy to just ignore them. But the way I see it, that's a huge miss, because that's where the puck is going."

To get full value from their data, companies will also need to learn how to integrate it across operations, enabling them to gain insights, spot bottlenecks, and maximize efficiency. Just 19% of respondents fully agreed that their data capabilities enable them to create a single view of consumers, partners, suppliers, customers, and business processes.

Figure 3:
What are CP companies' top priorities for growth and innovation?



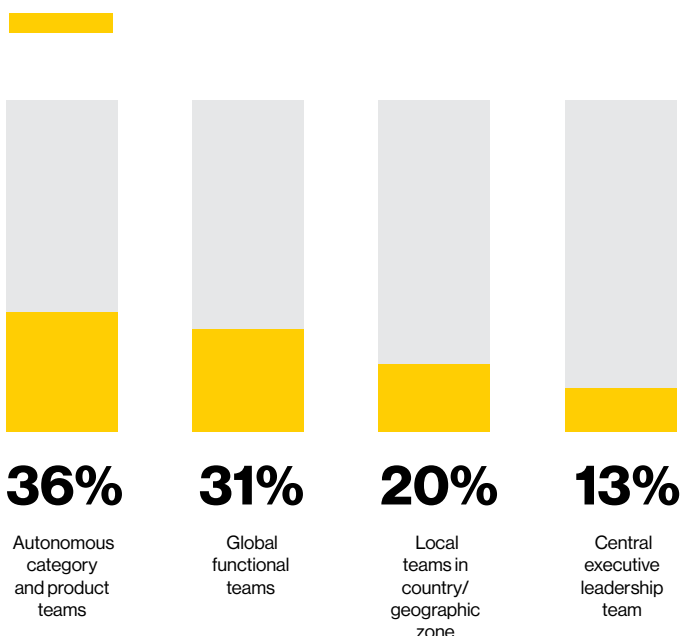
The Path to Success: Leadership and Strategy

To meet their strategic goals, a majority of leaders say they will need to transform their business operations within five years. Business processes that leaders say they will need to transform “to a great extent” within that time frame include finance (cited by 48%), supply chain (48%), manufacturing (46%), marketing (46%), sales (45%), strategy (45%), and R&D (43%).

Leaders also said they need to make major changes to their decision-making and organizational structure. Sixty-one percent said that within the next two years, they need to adopt a people-centric model to make consumers, employees, partners, and stakeholders central to their decisions. In the same time frame, 58% said they need to reorganize their businesses to connect silos and enable scalable innovation. As Brase, of J.M. Smucker, notes in discussing his company’s organizational overhaul: “You don’t have the luxury in today’s world of having a matrix organization where you need three people to approve a decision. Those days are over now.”

These are tight timelines for achieving such major changes.

**Figure 4:
Which teams are responsible for executing CP companies’ operational strategies?**



There is widespread confusion about what is driving the transformation efforts and where they are headed. More than half of respondents say that developing a clear transformation road map is a significant barrier. Nearly two-thirds complain of conflicting and unclear priorities, leaving the impression that, for many companies, everything is a priority.

“For every operational innovation I’ve studied and written a case study about, it was a three-to-seven-year effort just to get everybody on board, align the incentives, and get buy-in,” says Nicole DeHoratius, adjunct professor of operations management at the University of Chicago’s Booth School of Business.

Successful transformation requires strong leadership, careful planning, and enterprise-wide coordination. Leaders need a clear strategy and road map and must unite the entire organization behind them, defining everyone’s roles and responsibilities, and creating and communicating objective metrics for success.

As Farias puts it: “You need to activate the entire company around the mission.”

That isn’t happening at the CP companies we surveyed. Though more than 70% agree that strong leadership is needed to navigate the structural changes ahead, many express uncertainty about their objectives. Some seem uncertain about why they are undertaking transformation in the first place.

There is also widespread confusion about what is driving the transformation efforts and where they are headed. More than half of respondents say that developing a clear transformation road map is a significant barrier. Nearly two-thirds complain of conflicting and unclear priorities, leaving the impression that, for many companies, everything is a priority.

Figure 5:
How are CP companies acquiring
the skills they need?

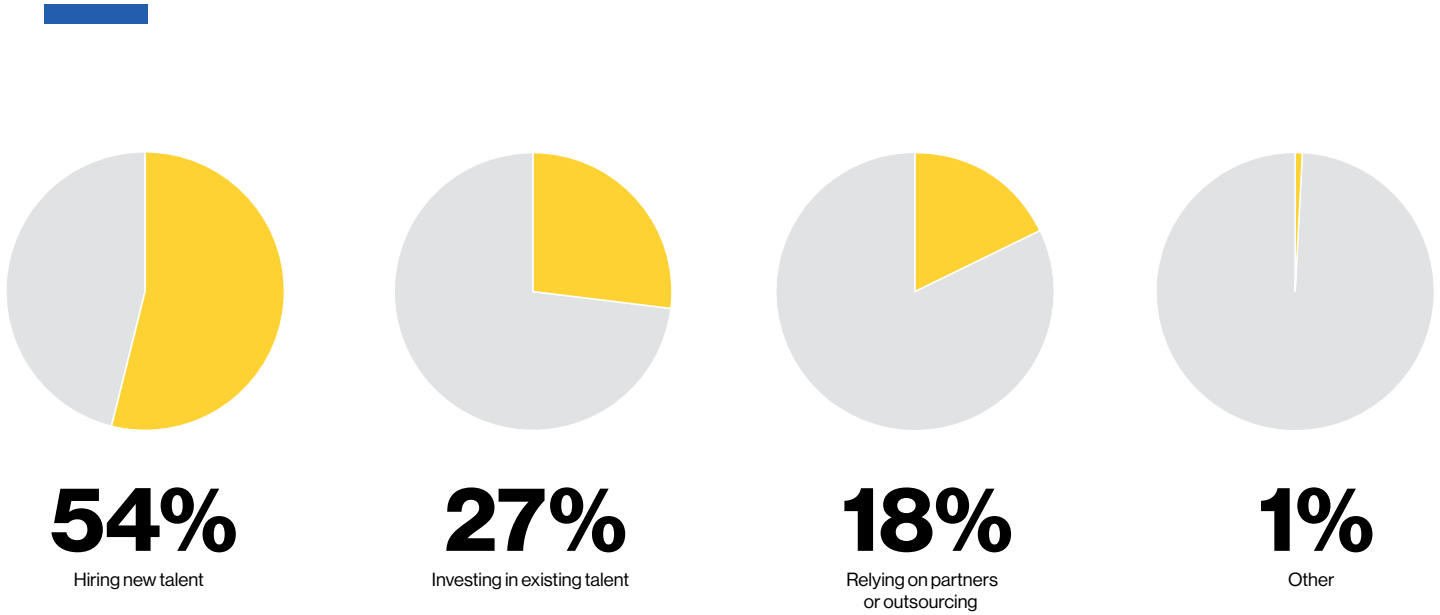
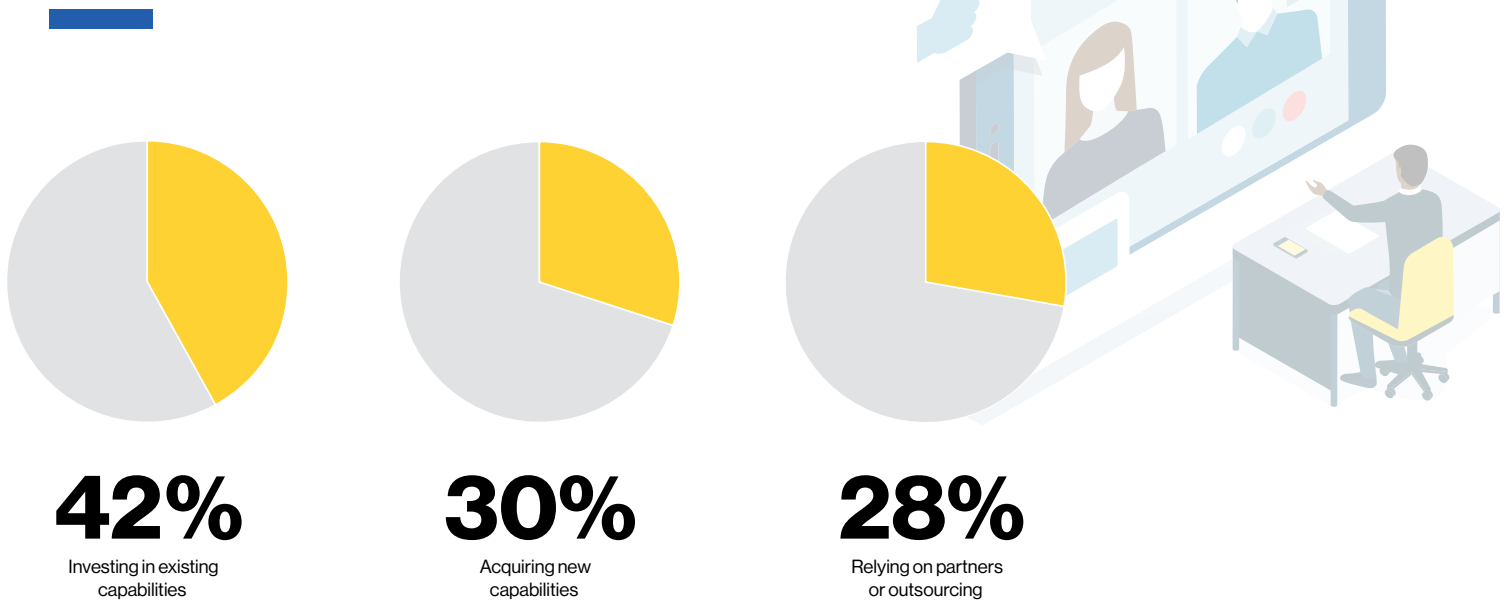


Figure 6:
How are CP companies acquiring
the technologies they need?



Without clear goals and milestones, organizations risk wasting their efforts. “The research I’ve done indicates that one of the top transformation killers is unclear metrics,” says PepsiCo’s Raval.

While most companies believe they have the capabilities in place to achieve the transformation they need within the requisite time, the survey results suggest otherwise. Achieving change of this depth and magnitude requires deep commitment and sustained effort.

“You can’t have a big bang at the end. You can’t say, ‘We’re going to disappear for three years and drive a transformation agenda, and we’ll see you in 2025,’” Raval says. “You need an entire campaign around the transformation efforts so that people understand this is not just a flavor-of-the-week thing; this isn’t something happening in some unseen back office. It’s front and center.”

While many companies say they expect to accomplish their ambitious goals without help, such a plan may not be realistic, given the short time frames they have set.

“You have to realize there’s only so much that you can do at once. You have to make choices so as not to overwhelm the organization,” Raval says.

The survey results reveal conflicting approaches for achieving transformation goals. Companies say they typically make changes by investing in existing capabilities and making acquisitions rather than turning to partnering or outsourcing. For example, 54% said they usually acquire the talent they need, while 27% invest in existing talent, and just 18% said they use outsourcing or partners. Of course, such acquisitions are likely to be especially challenging — and expensive — to achieve, given the ongoing labor shortages.

Fifty-nine percent of survey respondents said working closely with a network of partners will be critical within the next two years to build the kind of integrated business ecosystem they envision — one that creates synergies and efficiencies throughout the organization.

Conquering New Markets With Social Influencers

Hiring social media influencers to spread the word about products is no longer just for makeup artists and the arts-and-crafts crowd. It can be a highly effective tool for consumer brands of all sizes and product types.

Influencers — or micro-influencers, depending on the number of followers they have — can be the key to reaching new customer segments or geographies. What they lack in mass-market reach, they make up for with speed, strong niche appeal, and buyer trust. Companies can use a variety of influencers to promote various product subcategories, and their collective impact can make a substantial difference to the bottom line.

CP companies aren’t built for speed, says Len Schlesinger, Baker Foundation Professor at Harvard Business School. “A big [CP] company has no idea where to start, how to start, how to get the structure for it. And by the time they’ve figured it out, the trend they want the influencers to promote will have gone away.”

Schlesinger recalls the skepticism he encountered when discussing influencers with executives at a breakfast cereal brand a few months ago: “They said they were never going to waste any money on influencers because it was a hugely inefficient channel, and the money paid to influencers wasn’t resulting in outcomes.”

However, the business model is evolving. Many influencers are now willing to work on commission instead of requiring companies to pay upfront for uncertain outcomes. In the case Schlesinger cites, the cereal company finally decided to give influencers a try — and its previously wary executives were astounded by the results. “Three months later, influencers were far and away their most profitable distribution channel,” Schlesinger says.

Cem Karakaş, who is now the nonexecutive chairman of Rudi’s Organic Bakery and Promise Gluten Free, found similar success using influencers to enter a new market.

Company employees convinced Karakaş to set up a D2C channel for selling its baked goods, produced in Ireland, to potential customers in Canada. The company established a network of micro-influencers, each with a following of 4,000 to 9,000 fans, to introduce its products there.

“Within the first 18 months, we generated half of the growth in the Canadian gluten-free market,” becoming second overall, Karakaş says. “We are the fastest-growing player there. And the amount of customer interaction that we’re having in Canada is unbelievable — it’s more than in Ireland, more than in the U.K., more than anywhere. My hat is off to our team.”

This investment-and-acquisition approach holds true across many of the functions companies aim to transform. Even for emerging technologies — which usually require new skills to deploy and manage — 42% said their normal procedure is to invest in existing capabilities, while 30% acquire new ones, and 28% turn to partners and outsourcing for help.

“You need a back end that will support a diverse range of needs and business situations. And that can be done scalably only through the use of outside ecosystems.”

CEM KARAKAS

Nonexecutive Chairman, Rudi's Organic Bakery
and Promise Gluten Free

But in other parts of the survey, companies seem to realize that they will need to adopt a broader, more comprehensive approach to managing change in order to meet their goals. Fifty-nine percent of respondents said working closely with a network of partners will be critical within the next two years to build the kind of integrated business ecosystem they envision — one that creates synergies and efficiencies throughout the organization. Sixty-two percent see that lack of such an ecosystem as a barrier to transformation.

“You need a back end that will support a diverse range of needs and business situations. And that can be done scalably only through the use of outside ecosystems,” says Karakaş. Nevertheless, only 37% of CP companies cited partnerships as a planned way for increasing innovation.

Investing in the Right Technology

In the digital age, transforming operations means making changes to technology. Seventy percent of survey respondents identified their existing technology infrastructure as a significant barrier to transformation.

Companies have set short deadlines for achieving important technology capabilities. Sixty-two percent believe they will need to implement digital technology to monitor market conditions and improve

business activities across the enterprise within the next two years. Sixty-eight percent say they will need an analytics platform providing that all-important single view of consumers, partners, suppliers, customers, and business processes within that time frame.

“Organizations need to have a platform in place so that data about customer behavior can be integrated into operations. There needs to be a single version of the truth,” DeHoratius says.

Integrated data analytics will help companies achieve their omnichannel objectives, revealing consumer preferences across channels. A unified platform can incorporate data not only about consumers, but about suppliers, partners, regulators, and competitors. It will provide a 360-degree view of the entire consumer landscape and enable real-time visibility at a granular level, allowing companies to make timely and accurate decisions about operations across the organization.

Companies also see emerging technologies as important to future success, with 81% specifically citing data analytics and 49% citing AI and machine learning as critical capabilities.

Data analytics enables organizations to achieve optimization and flexibility throughout the value chain, from raw materials sourcing to product design and enhancement to manufacturing and distribution. AI and machine learning algorithms can predict consumer demand trends, leading to new products or enhanced features. They can also lead companies to create innovative products and services that engage consumers, inspire loyalty, and boost sales.

For example, spice company McCormick partnered with IBM to create new flavor combinations based on analysis of 40 years of data about taste.⁶ Diageo takes a personalized approach, asking consumers what kinds of flavors they like and matching them to a single malt whiskey.⁷

McDonald's and other drive-through restaurants are using AI-based digital signs that take orders and recommend menu items based on weather, time of day, traffic, and other factors, instead of asking everyone, “Would you like fries with that?”⁸

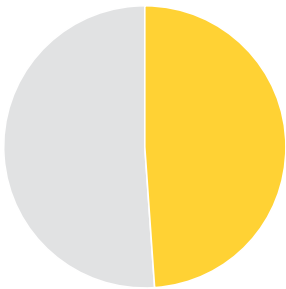
It's not just food companies that are experimenting with AI. Nike patrons can snap a picture of their feet, and computer vision and AI algorithms help them find the right size without having to try on sneakers.⁹ Snap Vision allows consumers to upload photos of apparel items that are out of stock or unaffordable, and its app finds them

similar items available for purchase.¹⁰ Other companies are offering virtual fitting rooms and interactive mirrors.^{11,12}

AI can also be used in manufacturing to predict machine breakdowns, allowing companies to schedule repairs before costly production line shutdowns occur. It can connect customer data to traditionally isolated operating technology systems on the factory floor, where managers can quickly retool production lines to create goods in the styles, colors, or flavors customers want now, instead of those that were popular last month.¹³

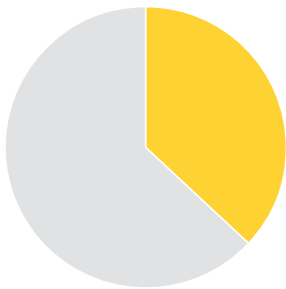
Across the CP landscape, AI applications are growing apace, and the data and analytics-driven AI revolution is just getting started. Adopting these technologies will enable brands to create services that make them stand out, helping them advance more quickly toward their goals of growing the core business, finding new markets, developing new products, and entering new markets. Consumer-centric models will also help them better compete with the D2C startups nipping at their heels.

Figure 7:
Which emerging technologies do CP companies view as most important to their companies' future success?



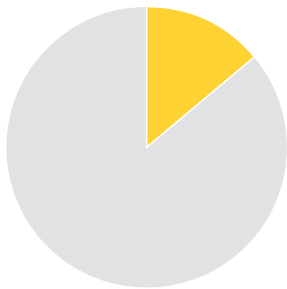
49%

AI/machine learning



37%

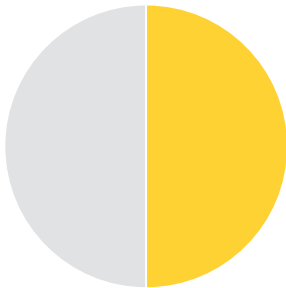
5G/IoT connectivity



14%

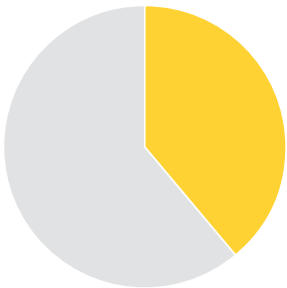
Automation/robotics

Figure 8:
Which area of data and analytics do respondents view as more important to their companies' future success?



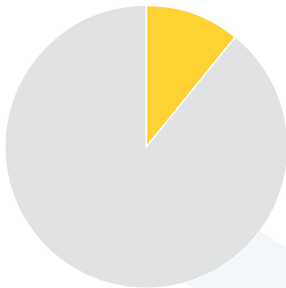
50%

Analytical data



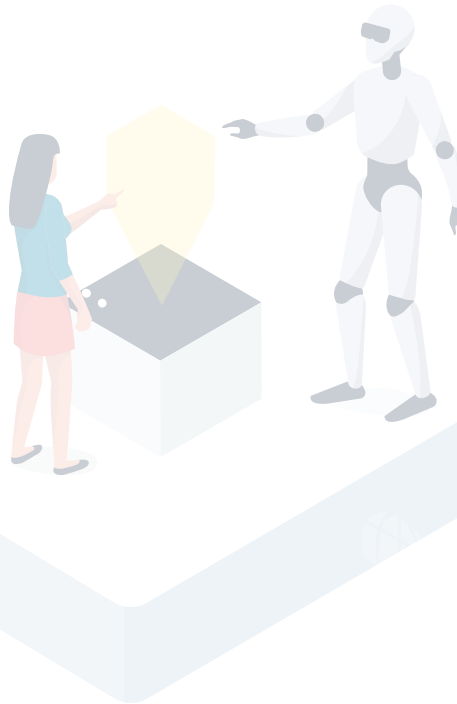
39%

Transactional data



11%

Master data



Finding the Right Talent

Eighty-nine percent of respondents agree that talent development is essential to future success, citing new technology skills as their greatest need. While over half plan to acquire new employees, 47% say they will use creative resourcing, upskilling, automation, and the gig economy to create a flexible workforce. But in an economy riddled with talent shortages, these approaches may not prove successful.

Creating an Effective ESG Program

Today's consumers don't just buy products because of features they like. Most would prefer to buy from brands that support environmental, social, and corporate governance/corporate responsibility (ESG) initiatives. In a recent global EY Future Consumer Index, 73% of consumers said they believe brands have a responsibility to make a positive change in the world.¹⁴

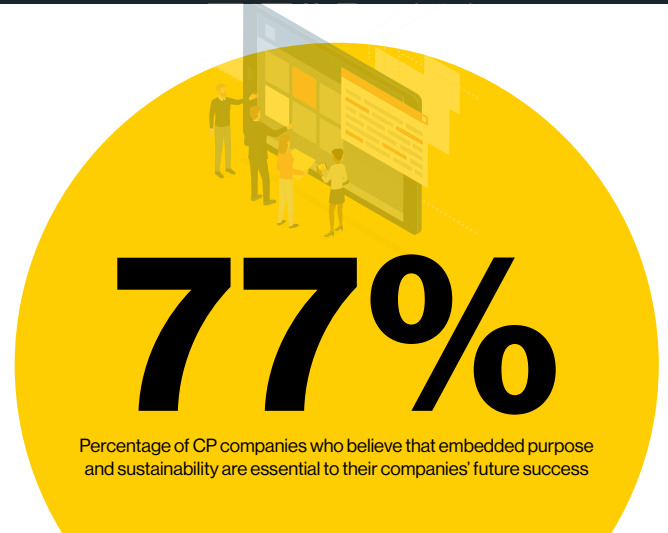
But there's a catch for CP companies: While consumers value products reflecting environmental and social responsibility, many are not willing to pay more for them. For example, 84% of CP companies in the global survey said sustainability is an important consideration when they are making purchase decisions, but nearly half said sustainable products were too expensive. Price remains the No. 1 factor in purchase evaluation, the study found.

By embedding environmentally friendly practices into their operations, companies may be able to achieve both ends. Building products that last longer, create less waste, or produce fewer harmful emissions can drive down costs for buyers, as well as enabling companies to demonstrably meet sustainability goals.

The sustainability trend offers consumer product companies a significant opportunity to do well by doing good. Though sustainable items make up just 16% of CP products in the U.S., they were responsible for 55% of market growth from 2015 to 2019, according to the 2020 Sustainable Market Share Index, published by the New York University Stern Center for Sustainable Business.¹⁵ Sustainable products also sell at a 39% premium over traditionally marketed items, according to the index.

Consumer product companies know buyers are paying attention to the way they do business. In the MIT SMR Connections/EY study, 77% of respondents said incorporating ESG and sustainability into the business will be essential to future success. But just 53% said they had embedded sustainable and ESG practices into all of their business activities, and 29% said their commitments were primarily focused on achieving compliance with the demands of regulators and stakeholders.

For Freshpet, addressing sustainability requires balancing the company's mission of providing fresh, healthy pet food while minimizing the carbon footprint required by the refrigerated distribution system it maintains in retail stores. "We built that into the proposition



right from the get-go," says CEO Billy Cyr. For that reason, Freshpet customers are willing to help the company achieve that balance, he says: "The consumer who buys from us understands that they're paying for pet food with a little bit of premium for utilities because we use wind power."

Sustainability is top of mind for Impossible Foods as well.

"Our mission is to replace animal-based agriculture," says Dennis Woodside, president of the plant-based food company. "So we are, by definition, a sustainable company, and everything we do has to be sustainable — the packaging, the way we operate the manufacturing facility."

But he says there's always room for improvement, both internally and externally. "So we're focusing on that [ourselves] but also looking at our impact on our suppliers, and on how we ensure that our suppliers are sustainable as well. That is important, too."

One way companies can gain traction with ESG is to make technology their friend. For example, using IoT sensors along the supply chain could cut food waste 50% by 2030.¹⁶

Blockchain technology enables consumers to verify that products are sustainably sourced. Starbucks worked with Microsoft to develop a blockchain-based app showing consumers where its coffee beans come from and providing information about the farmers who grow them.¹⁷ Nestlé partnered with a blockchain company to trace the supply chain for its dairy products.¹⁸

Companies can also work with local communities to promote social welfare initiatives. For example, Christopher Mejia Argueta, a research scientist at the MIT Center for Transportation and Logistics and founder and director of the MIT Food & Retail Operations Lab, is exploring ways for food companies to partner with neighborhood markets in underserved "food deserts," supplying residents with fresh produce and other wholesome products.

Embracing sustainability and social responsibility principles and embedding them into operations will enhance brands' reputations and help them thrive in the years ahead, as both consumers and regulators continue to demand greater transparency and accountability.

People with skills in the fields companies need most, such as data analysts and data science, are in high demand. Hiring competition is intense, with many new graduates choosing to work for high-paying, “cool” (cutting-edge) technology companies. CP companies may need to up their salary and benefits packages to try to attract them. Technology also matters a great deal to today’s workers. Forty-nine percent say they’re likely to quit if they’re unhappy or frustrated with workplace technology, a recent Adobe Workfront study found.¹⁹

“Having people work in agile ways — through squads and tribes and cutting through hierarchies — is the future of work. It doesn’t matter so much about the organizational structure. Culture is the new structure. You need to create a team that is horizontally integrated and chasing a big problem to solve together.”

LEENA NAIR

Former Chief Human Resources Officer, Unilever

In addition, CP companies may need to rethink the way work gets done. Fast-changing demands of the consumer marketplace require them to shift away from functional silos to more agile, blended teams. Doing work this way fosters collaboration and creativity and produces faster results.

“Having people work in agile ways — through squads and tribes and cutting through hierarchies — is the future of work,” says Nair, formerly of Unilever. “It doesn’t matter so much about the organizational structure. Culture is the new structure. You need to create a team that is horizontally integrated and chasing a big problem to solve together.”

Employees also want greater flexibility in deciding when, how, and where they work.

Unilever is experimenting with several innovative pilot programs, including a “U-Work” initiative in which people agree to hold their positions for as little as six weeks to six months while retaining the security and benefits of a permanent job.

“It’s an employment contract, not a gig contract, with medical, and health, and pension benefits thrown in,” Nair says.

Companies with traditional hiring and employment practices may want to consider making arrangements with ecosystem partners to

establish a flexible and diverse lake of talent to draw upon when the need for new skills arises. Having a diversified labor pool would also help them right-size the workforce as demand expands and contracts.

Bringing It All Together: The Road Ahead

Consumer products companies know they need to transform their operations to meet a fast-changing present and an uncertain future. In an age when demand explodes with the latest viral social post, and a new twist on selling and delivery seems to pop up every week, traditional management systems and technologies simply can’t keep up. Companies have set ambitious goals for revamping nearly all of their processes, but their timelines are short, and while some are making progress, others are confused about how to manage the transition.

Yet for all the turmoil that surrounds them, leaders are excited about the possibilities ahead. Learning more about consumer habits opens the door to a wealth of opportunities. Working with new talent and partners will bring much-needed fresh ideas. And while the speed of technology change can be dizzying, it’s also exhilarating, ushering in the ability to engage more deeply with all ecosystem stakeholders — consumers, partners, and employees — and serve them better and faster than ever before.

These are the lights at the end of the transformation tunnel that make the journey so worthwhile. Despite the many challenges they face, by working with the right talent, technology, and partners, consumer products companies can unlock the capabilities they need to make their organizations truly future fit. ●

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CP LEADER INSIGHTS

Leena Nair, Unilever



Leena Nair
Former Chief Human Resources Officer, Unilever

U.K.-based Unilever is one of the world's biggest consumer goods manufacturers, with a product line-up of more than 400 brands, from soap to hair care to condiments to household cleaners, and a market footprint that spans 190 countries. So when the COVID-19 pandemic spread across the world in 2020, it intensified consumer trends that the company had already sensed, says Leena Nair, formerly Unilever's chief human resources officer (since named global CEO for Chanel).

Those included the demand for convenience and immediacy abetted by digitization and online ordering; a blurring of home/work boundaries, with people buying fewer deodorant and hairstyling products and more sanitizers and ice cream; and an ongoing fragmentation of needs and preferences along lines of age, wealth, geography, politics, and now vaccination status.

To adapt its business for all of those changes, Unilever is continually rethinking its organization, Nair says. Traditionally, she observes, large companies like Unilever have been organized across a number of matrices: a divisional matrix to handle products and innovation, a geographic matrix to handle marketing and distribution, and a func-

tional matrix to provide leadership. "The question now is: How to do you create greater capacity and capability in the organization and drive greater integration at the same time?" Nair asks. "How do you have people sitting on two leadership teams so that they integrate across two axes of the matrix? We are debating these things because we have to solve for greater speed and greater clarity in decision-making. We have to solve for the right mix of local and global, where you empower people locally within a global framework."

To accommodate a global workforce of 150,000 that's living through the same array of social changes, Unilever is also reinventing the future of work itself, with an emphasis on employee security and flexibility. In New Zealand, for example, the company is piloting a four-day workweek at 100% pay. In the U.K., it's trying a program called "U-Work" that allows workers to commit to a minimum of six weeks' work per year to Unilever, although many work more than this. "The rest of the time they can do what they want, but they get an employment contract, not a gig contract, with medical, pension, and some benefits thrown in," Nair explains. "The core thought is: How do you combine flexibility that people are seeking with employment security? That's because people want to be sure they can put food on the table for their families while working in more future-proof ways."

"We have to solve for greater speed and greater clarity in decision-making. We have to solve for the right mix of local and global, where you empower people locally within a global framework."

LEENA NAIR
Former Chief Human Resources Officer, Unilever

CP LEADER INSIGHTS

Parth Raval, PepsiCo



Parth Raval
SVP and Chief Growth
Officer, PepsiCo Foods
North America

PepsiCo creates food and beverage products that are used more than a billion times each day in more than 200 countries. The company offers a wide assortment of products and brands, catering to a variety of different consumer preferences. As Parth Raval, chief growth officer for PepsiCo Foods North America, puts it: “Consumer-centricity is the true north of how we organize ourselves, the resources we deploy, and the capabilities we build.”

“Consumer-centricity is the true north of how we organize ourselves, the resources we deploy, and the capabilities we build.”

PARTH RAVAL

Chief Growth Officer, PepsiCo Foods North America

The pandemic created a shift in supply and demand, resulting in the need to innovate new products more quickly to adapt to consumers’ changing habits. Responding to these changes is not optional for successful CP companies, Raval says. “Everything we do is in service of what the consumer wants from our products,” he says. Ultimately, the company is shaped by “thick data,” which notes key consumer behaviors and preferences.

“I advise building faster innovation cycle times to create a more responsive operating system,” Raval says. That means creating new jobs that support new capabilities, putting in place clear governance structures, and ensuring hyperconnectivity within the organization; and, finally, thinking more broadly about ecosystems and partnerships. (PepsiCo’s 2021 partnership with Beyond Meat to develop snacks made from plant-based protein is a prime example of the latter.)

Leaders should also leverage their company’s global scale “to bring the best ideas forward,” Raval says. Only then will an organization be more resilient to accelerating shifts in supply and demand and “seismic external shocks” such as the COVID-19 pandemic.

Managing a successful operating model transformation requires a “portfolio approach” led from the top of the enterprise to make sure business units aren’t working at cross-purposes, Raval says. With that structure, he says, senior business unit leaders need to be committed to the transformation efforts and aligned with the larger vision to avoid the “pocket veto.” Most importantly, the change management journey needs to be front and center.

Additionally, the transformation must be communicated clearly to everyone in the organization at every stage in the process through a “steady drumbeat of monitoring expectations, celebrating wins, and, in particular, establishing some quick wins,” Raval says. “This is especially important on a multiyear transformation journey. You want to keep the same level of excitement from that first alignment to the very end, when you’ve reached the point of arrival.”

CP LEADER INSIGHTS

John Brase, J.M. Smucker



John Brase
Chief Operating Officer,
J.M. Smucker

J.M. Smucker is famous for its jams and jellies, but the company also owns a panoply of other recognizable brands such as Jif peanut butter, Folgers coffee, and pet food lines, including Milk Bones, Rachael Ray Nutrish, and Meow Mix.

Perhaps too many brands, in fact. After COVID-19 upended shopping habits, Smucker realized “we had some housecleaning to do,” says John Brase, chief operating officer for the Oroville, Ohio-based compa-

ny. “You learn through a crisis what is most important, and we saw that through the consumer response.” COVID-rattled consumers were retreating to “reliable, trusted brands,” Brase says. That meant, in part, divesting businesses and discontinuing some items to move resources to products and brands that aligned best with the company’s growth strategy.

In part, the cuts reflected the natural pendulum swing in the consumer products industry between portfolio growth and pruning. But that doesn’t ease the pressure to innovate, Brase says — it just means companies need to focus on what he calls “closer-in innovation.”

For Smucker, that meant steps such as eliminating overengineered packaging and investing instead in “the base proposition” behind its

brands — for instance, proprietary technology that gives Folgers coffee beans a better taste and aroma. “It’s not just bringing innovation the consumers are willing to pay for, but taking out things the consumers aren’t willing to pay for,” says Brase.

Related to all that, Smucker has worked to adjust its product lineup for a new marketplace in which online ordering, curbside pickup, and home delivery are just as common as in-store shopping. That has meant shifting from low-profit items such as 30-pound bags of Kibbles ’N Bits to higher-margin items such as Folgers K-Cups. “We had to be really choiceful, and honestly, give up some sales in certain parts of our portfolio because we don’t see a sustainable value equation for the consumer, for the retailer, or for us as a manufacturer,” Brase says.

And to implement all of the above changes more nimbly and stay competitive, Smucker has also flattened its org chart. “We’ve made intense efforts over the last year to really simplify our structure to enable faster decision-making and more agile organizational decisions,” Brase says. “It’s one seamless organization now.”

Only in this leaner form, Brase says, can the company hope to outmatch competing CP giants. “It’s the leading coffee brands we are primarily focused on,” he says. “The companies that have established connections with consumers and have the scale to compete with our brands.”

“We’ve made intense efforts over the last year to really simplify our structure to enable faster decision-making and more agile organizational decisions. It’s one seamless organization now.”

JOHN BRASE
Chief Operating Officer, J.M. Smucker

CP LEADER INSIGHTS

Dennis Woodside, Impossible Foods



Dennis Woodside
President,
Impossible Foods

For decades, veggie burgers languished on grocery store shelves as a niche product. But now plant-based meat alternatives are in an exponential growth phase — in part because Impossible Foods and its competitors have figured out how to deploy ingredients such as heme (genetically engineered from soybeans, in Impossible's case) that make their products look and taste more like meat. "People don't want to compromise that," says the company's president, Dennis Woodside.

"They want the same experience, but they would like something that's better for the planet."

Woodside says skyrocketing growth powered by growing consumer awareness of meat alternatives is the company's overwhelming reality and its main challenge. In early 2020, consumers could find Impossible Foods' three products in 200 retail outlets; today, the Redwood City, California-based company offers more than 20 products in 20,000 locations, including Burger King, Starbucks, and White Castle. Now, Impossible Foods' hair-on-fire problem is finding ways to scale up manufacturing of heme — both at its own plant and at third-party factories — while meeting the company's commitment to sustainable practices.

That's not a bad problem for a purpose-driven company to have, but it's complicated by the unpredictable shape of demand. "You don't know which products are going to grow incredibly fast and which aren't," Woodside says. In his corner of the consumer products world, pricing, packaging, or bundling experiments take months to yield results, and any signal that comes back is attenuated, because "we sell to a distributor who sells to an operator who then sells to the consumer." That means manufacturing investments are fraught with risk, he says: "You have to think, 'Am I willing and ready to make invest-

ment in the supply chain now in order to ensure that, in three years, I have that much volume?' You wind up having to make some big bets."

To hedge against these risks, Woodside says, Impossible Foods tries to hire the right talent. On the sales side, the company looks for both flexible generalists and people who deeply understand the company's multiplying retail channels. On the production side, it looks for those with experience managing a split manufacturing model where the work is "partly outsourced but heavily managed by us." For example, at the company's own heme fermentation plant in Oakland, California, Impossible Foods can determine the true cost of manufacturing and do pilot runs without having to negotiate for line time, Woodside explains. The learning from that plant is immediately applied to third-party facilities that make additional heme and mix it with other plant materials to make the finished product.

"The biggest challenge that we face is how we align supply and demand in a world where demand is uncertain but growing very, very rapidly," Woodside says in summary. "You don't want to undersupply and put yourself in a position where you can't meet demand. That's very expensive. But you don't want to overbuy supply either and then wind up having too much product. You're never going to get it 100% right. You have to accept that."

"The biggest challenge that we face is how we align supply and demand in a world where demand is uncertain but growing very, very rapidly... You're never going to get it 100% right. You have to accept that."

DENNIS WOODSIDE
President, Impossible Foods

CP LEADER INSIGHTS

Billy Cyr, Freshpet



Billy Cyr
CEO, Freshpet

When Billy Cyr took over as CEO of Freshpet in 2016, he believed that the company could transform itself from a “push” business focused on getting its product into more stores into a “pull” business where consumer demand would drive growth — but that the transformation would take at least a year and would mean foregoing profits while the company invested aggressively in advertising. The bet paid off. Before Cyr arrived, Wall Street valued the premium pet-food maker at \$280 million. Now its market capitalization exceeds \$7.5 billion.

Freshpet, founded in 2006, caters to two fundamental shifts in consumer behavior around both pets and nutrition, Cyr says. For one thing, people treat their dogs and cats more like humans — full members of the household. At the same time, consumers want more natural foods for themselves and their pets. “It’s no different than what’s happened in every other food category, where consumers have consistently said they want fresher products with less processing, less preservatives,” Cyr says.

The company spent its first decade solving the questions around the manufacturing, distribution, and shelf life capabilities — and the pricing — needed to deliver steam-cooked meats and vegetables to Freshpet-branded refrigerators in hundreds of stores. Then, in 2017, the Bethlehem, Pennsylvania-based company “dramatically increased the advertising investment,” Cyr says. “And when we did that, we got control of our own destiny. Instead of a retailer deciding to put a fridge in [a store] being the single biggest driver of our growth, now our growth is dictated by how much we spend in advertising.”

Pulling off the switch meant persuading Wall Street analysts that household penetration is a better marker of a consumer product company’s success than store count. It also meant “convincing your stake-

“I think probably the biggest insight that came out of the last year is that you can no longer think about an employee as if your relationship is just with them. Your relationship is with them and the entire universe that they operate in.”

BILLY CYR
CEO, Freshpet

holders that the model that you’ve been operating against has now kind of run its course, and it’s time to shift gears,” Cyr says. “And when you do that, you basically have to forestall profit growth for a year.”

Now the company is growing so fast that it’s investing in additional production capacity. But at the same time, the company has had to find ways to hew to its three guiding principles: what Cyr calls “people, pets, and planet.” That means steps such as buying wind power to offset the carbon footprint of the company’s cold chain — that is, refrigeration. And the arrival of COVID-19, which raged through meat-processing plants in many parts of the country, meant spending millions on extra safety precautions for employees.

“COVID did teach us all about the dependency that we have on so many different resources,” Cyr says. Freshpet’s retail partners faced huge safety and supply chain challenges, while its employees had to figure out how to balance work with caring for children home from school. Says Cyr: “I think probably the biggest insight that came out of the last year is that you can no longer think about an employee as if your relationship is just with them. Your relationship is with them and the entire universe that they operate in.”

CP LEADER INSIGHTS

Cem Karakaş, Rudi's Organic Bakery and Promise Gluten Free



Cem Karakaş
Nonexecutive Chairman,
Rudi's Organic Bakery and
Promise Gluten Free

Cem Karakaş is the former CEO of Pladis Global, a conglomerate of established European makers of baked goods, snacks, and confections, and now sits on the boards of Colorado-based Rudi's Organic Bakery and Ireland-based Promise Gluten Free. He also runs a small private equity fund investing in up-and-coming CP companies. He says major CP brands were protected for nearly a century by three big barriers to entry: ownership of costly manufacturing facilities, access to shelf

space in stores, and the ability to fund massive advertising campaigns. But he says his two decades of experience have taught him that digital channels are dissolving all three.

One niche example: In China, just 6% of biscuits and cookies were sold online in 2016, Karakaş says. By 2018, online sales reached nearly half of the market. And COVID-19 brought another “quantum leap. The rather gradual migration to this new world is now happening all of a sudden.”

If established CP brands want to restructure their operating models for a new online-dominated world where consumers are in charge, they have only a couple of options, Karakaş says. First, they must attract and retain younger, digital-savvy talent, and empower this new generation of leaders by eliminating the traditional “stage and gate” product development processes, which are intended to reduce risk

but also slow down decision-making. In a startup, he observes, “the entire consumer value creation journey” is typically led by a single, small team. “How you can scale that founder's mindset, that entrepreneurial mindset, to a larger organization is, I think, something that we all need to learn,” Karakaş says.

Second, CP companies must build decentralized ecosystems for every part of their business. To illustrate, Karakaş shares a case study in marketing and advertising. “Up until five years ago, if you had a global brand to build, what you'd do is hire a global agency,” which would spend five months and more than \$8 million producing a TV commercial that might air seven months later. “Now you don't need to do that,” he says. “Now you need five, 10, 20 agencies or creative studios that shoot 50 iPhone videos at \$1,500 each, because you're trying to cater to a much more diverse populace” — including social media micro-influencers. As noted elsewhere in this report, Irish bread maker Promise Gluten Free, where Karakaş is the nonexecutive chairman, followed this strategy when expanding into Canada. Karakaş sums up the results — winning a 50% market share in 18 months — as “an immense success story.”

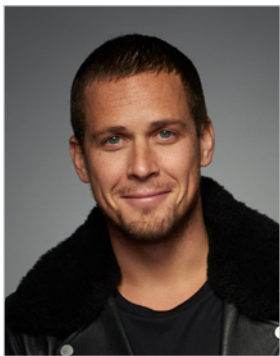
“How you can scale that founder's mindset, that entrepreneurial mindset, to a larger organization is, I think, something that we all need to learn.”

CEM KARAKAS

Nonexecutive Chairman, Rudi's Organic Bakery and Promise Gluten Free

CP LEADER INSIGHTS

Zak Normandin, Iris Nova



Zak Normandin
 Founder and CEO,
 Iris Nova

Iris Nova may have the backing of a CP giant, Coca-Cola, but the venture-funded company is still very much a David weaving its way through a battlefield full of Goliaths. And so its main weapons are efficiency, focus, and flexibility, according to CEO Zak Normandin.

The story starts in 2015 with the Dirty Lemon line of beverages, which is famous partly for its sales model: customers order via text message for direct delivery to their homes.

Dirty Lemon set up Iris Nova as a new parent company to help other upstart CP companies plug into its direct-to-consumer fulfillment platform. The timing turned out to be auspicious, especially as the COVID-19 pandemic trained new generations of consumers to order everything online. “That created a habit and a behavior that is going to now be a part of their lives, probably forever,” Normandin says.

The good news for the young CP brands that Iris Nova assists, says Normandin, is that the barriers to entry today are incredibly low. “If you had \$10,000 or \$20,000, and you wanted to create a new beverage brand, we could do that in probably six weeks’ time,” he says. The corollary, though, is that consumers have endless options and little loyalty to any one brand. On top of that, Normandin says, deep-pocketed CP companies — once lumbering giants — are starting to figure out how to innovate faster, eroding the advantage enjoyed by venture-backed startups over the last decade.

This leaves only one survival strategy for small CP brands — and for Brooklyn, New York-based Iris Nova itself. “Our only goal is profitability,” Normandin says. The theory is that profitability enables growth, and growth allows more risk-taking and eventually makes a

startup attractive to a potential acquirer. Achieving that growth, for Iris Nova, means cutting costs — the company hasn’t spent a cent on marketing in over a year, Normandin says — and being relentless about finding new efficiencies. “I’m not willing to spend money on something that I don’t know is going to provide a return on investment. And the best return on investment for us is just doing more with the time that we have available every day.”

The pandemic taught Iris Nova that flexibility is also essential. “There was a lot that we had built that, because changes in the market happened, it took a while for us to unwind,” says Normandin. “If anything like [COVID-19] happens again, I want to be able to react to that in the fastest way possible. And we’ve changed our entire business model and process to accommodate what I’m expecting to be a lot more fast changes that are going to happen in the years ahead.”

“If anything like [COVID-19] happens again, I want to be able to react to that in the fastest way possible. And we’ve changed our entire business model and process to accommodate what I’m expecting to be a lot more fast changes that are going to happen in the years ahead.”

ZAK NORMANDIN
 Founder and CEO, Iris Nova



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SPONSOR'S VIEWPOINT

Five Design Elements Shape a Future-Fit Operating Model

Right now, we're all navigating some of the most challenging and complex times in living memory. EY commissioned this MIT SMR Connections survey to learn what the leaders of consumer products (CP) companies are doing to make their organizations ready for this new world.

Three clear messages about CP companies emerged from the survey:

- Nearly all recognize the need to change, and most have already begun their transformation journeys.
- They need to build capabilities within a relatively short time frame.
- Generally, they're confident about their ability to transform, but that self-assurance can create risks of its own, given the significant barriers and challenges they've identified.

The last few years have seen profound market disruptions. Some companies have done well by simply enduring, but many have thrived. Yet consumer expectations continue to change. Industry boundaries are blurring. The pace of technological change is accelerating. Sustainability pressures are growing. The future operating environment won't become any easier or any less complex.

While the imperative to become "future fit" is clear, this is a race with no obvious finish line. Leaders must keep adapting their business priorities and strategies to anticipate and reflect volatile market conditions. Doing that requires a different kind of operating model. It needs to be robust so that the organization is resilient and can optimize for today's needs. But it must also be flexible so that the organization is agile enough to respond to new opportunities and challenges as they arise.

Our survey of CP leaders suggests that many companies are reluctant to form partnerships. But we believe successful organizations will be part of interdependent networks that integrate consumers, customers, suppliers, partners, and even competitors.

Success now is about your ability to implement a plurality of strategies — and to execute them all simultaneously. To achieve that goal, we believe that companies need to reconsider how they adapt their operations across five key design elements. Each is critical in its own right, but they're also connected and interdependent. Put another way: When it comes to future-fit transformation, the whole is greater than its parts. These key elements include:

1. A dynamic ecosystem.

Our survey of CP leaders suggests that many companies are reluctant to form partnerships. But we believe successful organizations will be part of interdependent networks that integrate consumers, customers, suppliers, partners, and even competitors. Each will have a role in creating value and will benefit from a share of that value. But how and when they participate will be flexible rather than fixed.

2. Digital DNA.

Companies are prioritizing analytics as they transform, but success also requires capturing, integrating, and sharing data to enable decision-making. The future is about developing genuine “listening organizations” that use data and analytics to create a single version of the truth that facilitates real-time, flexible decisions.

3. Talent flexibility.

How will companies maintain the right balance between flexible employees with the capabilities needed to deliver a range of projects, and people with deep skills in key areas such as technology and data transformation? An adaptive workforce and culture need more automation and new ways of working. That requires creative, skills-based resourcing and an approach to talent development that meets fast-evolving business demands.

4. Innovation platform.

Successful organizations have cultures in which ideas can bubble up from anywhere. Front-line workers who deal with consumers and ecosystem partners daily are often the best sources of innovative suggestions. It's essential to identify and develop the capabilities an organization needs to capture ideas from anywhere, and then test and scale them rapidly.

5. Enduring purpose.

Sustainability and purpose have emerged as key drivers of value. But the survey findings show that embedding sustainability and

environmental, social, and governance (ESG) considerations is viewed as a lower priority than other factors. To transform their operations, organizations must have a clear sense of what their purpose is and ingrain those values into their culture. Sustainability and ESG only unlock value when they are an integral part of the business.

Organizations transformed around these five elements will be better positioned to stay ahead of changing market forces. They'll have better relationships with their consumers, which will pave the way to long-term relationships built on trust. They'll be in a stronger position to collaborate with partners and far more agile, which will support multiple business models and enable them to get products to market faster. As a result, they will lower operating costs, increase commercial success, and drive long-term growth.

— **Kristina Rogers,**

Global Consumer Industries Leader, EY LLP US

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About the Research

MIT SMR Connections conducted a global online survey that drew responses from 370 leaders at consumer product (CP) companies worldwide, including top executives, department and business unit heads, directors, and senior managers. Qualtrics fielded the survey in June and July 2021. To provide a rich context for discussion of the quantitative research results, we interviewed analytics experts, including practitioners, consultants, and academics. These individuals provided insight into current trends and future priorities for CP operating model transformation.

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