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A New Era of Value Creation

MODULAR OPERATING MODEL FOR PROFITABLE GROWTH

In recent decades, consumer packaged goods (CPG) companies have increased their value through growth or profitability in three ways. They have grown through expansion into new markets harnessing the power of their global brands, or through localization and in-market execution. In other cases, they have delivered profitability through global efficiency programs like ERP and global business services. Historically, CPG companies were able to reach their goals by focusing on just one of these elements. In the future, they will embrace a new era of value creation by finding the right balance of all three.

There are several factors increasing the complexity in their search for balance including heightened market volatility and expanding consumer awareness. Developed markets have become more competitive, while emerging markets have seen a dramatic slowdown. Disruptive start-ups are using technology to satisfy the needs of the digital-savvy consumer seizing margin from well-established global businesses.

To address these challenges, tomorrow's CPG leaders could achieve growth, profitability and agility targets by focusing on three dimensions. They should also adopt an agile modular operating model that is capable of supporting all three drivers at the same time.

1 **Leverage scale to maintain cost-efficiency.** Many companies are now exploring new ways to drive efficiencies. Tomorrow's winners will continue to pursue aggressive cost-reduction programs while building a culture of sustainable long-term efficiency. The savings they capture will be reinvested, closing the loop between savings and growth.

2 **Laser focus on the consumer and the brand.** Having a global footprint increases exposure to risks that may be particular to each market's commercial environment. The ability to respond quickly holds the key to survival and growth. CPG companies must listen to and know the preferences of their consumers while rationalizing their brands and brand strategies to meet the needs of individual markets.

3 **Enable local agility and superior in-market execution.** Maintaining a high degree of agility in local markets will be essential for reaching new consumers in whatever way is right for them. Likewise, developing or acquiring superior execution capabilities will continue to be a primary differentiator when competing locally.

Support all three drivers with an agile modular operating model. To compete in a world of increasing volatility, CPG companies should look to adopt an agile operating model to meet whatever challenges they may face. It is critical to employ a de-cluttered and flexible operating model that works seamlessly across the functions while simultaneously reducing or eliminating non-working spend. This approach can be used to build capabilities, including talent, technology and reach, at scale, based on a limited number of market archetypes, enabling local markets to quickly switch modules on and off, and make the decision to buy, build or source capabilities at market speed.

Technology will also continue to be a key enabler. There is still significant value to be realized from past ERP investments through expansion and increased utilization, and we see CPG leaders moving away from exclusively traditional IT infrastructure – using the cloud and an ecosystem of service providers to enable a modular operating model. To survive in today's challenging marketplace, CPG companies need to focus on growth, profitability and agility. The winners will be those that manage to find the right balance of all three. ❖