CONSUMER PACKAGED GOODS: A BOLD PURSUIT OF GROWTH

The quest for growth is driving waves of change in strategy, leadership and culture

Historically, the global consumer packaged goods (CPG) sector has gone through numerous cycles of breaking itself apart and reassembling itself in different permutations. Consolidation is one of the major strategies in this current phase of reinvention. "You are either going to consolidate or be consolidated" is the maxim — and mandate — for many leaders in the sector today. One of the most interesting developments is the significant increase in M&A activity between traditional industry players and either outsiders or emerging companies in order to pursue opportunities in high-growth markets. Examples include Suntory's acquisitions of GlaxoSmithKline drink brands and Beam, AB InBev's purchase of Grupo Modelo, Berkshire Hathaway and 3G Capital's acquisition of Heinz, and recent announcements of Smucker's acquisition of Big Heart Pet Brands and Diamond Foods' purchase of a majority interest in Yellow Chips.

With prospects and profits softening in emerging markets, tepid growth in North America and an innovation cupboard insufficient to fulfill growth expectations, well-heeled investors, CEOs and their boards have turned to mergers, acquisitions and investments in promising markets to stimulate growth, drive innovation, increase efficiencies and expand returns on invested capital. Some have discovered an additional benefit from these strategies: the acquisition of businesses, brands and talent can inspire an evolution in their organizational culture — with tangible results for the business. By integrating the cultural patterns of new, high-performing businesses, some organizations have become more focused, more nimble decision-makers, increased their risk tolerance, deepened consumer understanding, and boosted individual accountability and ownership.

M&A Activity at a Glance

A snapshot of transactions in the CPG sector from 2012-2015

Acquirer	Acquirer Country	Target	Target Country	Transaction Date*
Smucker's	United States	Big Heart Pet Brands	United States	2/3/2015*
Diamond Foods	United States	Yellow Chips	Netherlands	2/4/2015*
Suntory Holdings	Japan	Beam	United States	4/30/2014
Bayer	Germany	Merck & Co.'s consumer care business	United States	10/1/2014
Tyson Foods	United States	Hillshire Brands Company	United States	8/8/2014
GlaxoSmithKline	United Kingdom	Novartis' global vaccines business	Switzerland	4/22/2014*
AB InBev	Belgium Brazil	Oriental Brewery Co.	South Korea	3/31/2014
Yildiz Holding (Ülker)	Turkey	United Biscuits	United Kingdom	11/12/2014
Archer Daniels Midland Europoort B.V.; ADM Europe B.V.	Netherlands	WILD Flavors GmbH	Switzerland	10/1/2014
Mars Petcare	United States	The Procter & Gamble Company's Iams, Eukanuba and Natura	United States	8/1/2014
Post Holdings	United States	MFI Holding Corporation (Michaels Foods)	United States	6/2/2014
Darling International	United States	VION Ingredients Nederland; VION Ingredients International; VION Ingredients Germany	Netherlands	1/7/2014
Mizkan Group Corporation	Japan	Conopco's North America pasta sauces business (Ragu, Bertolli)	United States	6/30/2014
Symrise	Germany	DIANA S.A.S.	France	7/29/2014

*M&A announcement date when the acquisition has not yet been closed.

Source: Capital IQ

The boom in consolidation and cross-border activity driven by companies in Asia Pacific, Latin America and Europe is rapidly changing the landscape. How the sector will ultimately shape itself remains to be seen, though it presents an opportunity for companies that are consolidating to create new, unified organizations that are equipped to compete in new markets and operate on a worldwide scale.

Making the most of these opportunities, however, requires CEOs and boards to look beyond the traditional measures of financial and operational performance when considering an acquisition. Senior executives need to evaluate the talent and organizational culture elements of each side of the acquisition and determine which skills and cultural attributes best align with and will advance the strategy. Maximizing the benefits of consolidation requires that CPG companies evaluate talent for the must-have leadership capabilities, put the right people in the most critical roles based on objective assessments, and adequately plan for the evolution of the organizational structure and culture.

We spoke with a host of CEOs and CHROs around the world for their firsthand insights into the leadership, organizational and cultural implications of CPG sector consolidation and expansion into emerging markets.

This article includes perspectives from senior leaders at this representative list of CPG companies:

- AB InBev
- Ajinomoto
- Big Heart Pet Brands
- British American Tobacco
- Coca-Cola Enterprises
- Coty
- The Hershey Company
- Imperial Tobacco Group
- Mars
- Pinnacle Foods
- Shisheido Group
- Thai Union Frozen Products

The key acquisition drivers in today's environment

For some, acquiring other CPG companies offers and almost immediate point of entry into their priority growth markets.

While there are often complex motivations for M&A activity, we've observed a few common drivers in the current CPG environment. For some, acquiring other CPG companies offers an almost immediate point of entry into their priority growth markets.

According to Renato Semerari, president of categories and innovation at Coty, growth will come from emerging markets and "if you don't take a slice of that pie, you cannot win." Interestingly, the definition of "emerging" or "growth" market has shifted. Paul Michaels, who retired as president of Mars at the end of last year, says the company considers the U.S. a growth market and one of the few that is developed yet has areas of untapped opportunity. Kevin Sneader, chairman of Asia at McKinsey & Company, agreed, noting, "The U.S. is the biggest emerging market today." Another CPG executive observed, "Five years ago everybody was trying to get into Brazil and rapidly chasing China and Russia, but the bottom line was certainly not positive. Now we're seeing foreign capital investing in North America, such as Suntory Holdings' acquisition of Beam, because the North American market looks more attractive than some of the emerging markets did five years ago. We are seeing more global capital coming back into North America and more North American and global companies reprioritizing their core businesses." An increasing number of companies from developing markets are stepping up their acquisition activities to gain entry to new markets and become global players, as seen in the acquisition of United Biscuits by Ülker of Turkey, also owner of Godiva.

Brand is a key differentiator in an increasingly commoditized sector and some organizations acquire to revitalize their brand portfolios. In China, Western companies like L'Oreal have been acquiring local, fast-growing premium brands as their mass-market brands have stagnated. Additionally, organizations with stalling performance but strong legacies are often prime targets for acquisition. Most recently, Berkshire Hathaway recognized the opportunity in Duracell's uncertain long-term prospects in a declining category. Conversely, some predict the rise of a "reverse merger" in which healthy companies are the acquisition targets. In this scenario, rather than larger players folding smaller organizations into their cultures, the large organizations are adapting to the cultures of the smaller, but better-performing organizations they acquire.

"Smucker's bought Sahale Snacks, which is a really little business," observed one CPG senior executive. "Campbell's bought Plum Organics and Bolthouse Farms, which are culturally vibrant, exciting places. You've got some of the big legacy companies buying some of these smaller companies and they're really doing a good job of trying to embrace how the smaller organizations go to market, what their philosophy is and how they behave as leaders. There's a certain humility that is emerging from the big companies. They say, 'look, our organization is performing lower than we need it to be and we've got to be more open-minded to following somebody else's model.'"

Talent implications: The skills to assess before the acquisition

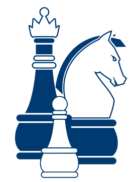
While financial performance, market share and brand strength are evaluated as part of M&A due diligence, some companies may not realize the full value of assessing talent during the process. Yet having the right leadership in place is vital to long-term success, not only in a newly combined organization, but in a competitive, evolving sector. According to Nicandro Durante, CEO of British American Tobacco, talent needs to be one of the first issues addressed during an acquisition. With functions through-out the organization from supply chain to HR interacting with the target's management team, he says the assessment of leadership talent is not a "one-man job, it is a company job."

"Before we move forward with any acquisition, we do a deep-dive assessment on talent, organization and culture," said Kevin Walling, CHRO at The Hershey Company. "We've recently developed a robust and holistic methodology to assess and consider the culture and talent components. We focus on critical commercial skills, leadership capability and how the organization wins in the marketplace through their talent and culture. We want to know with certainty how to support leaders with valuable insights and knowledge to enable them to act with greater focus, specificity and speed during the integration phase," he said. As part of its pre-acquisition due diligence, Ajinomoto has found it can be valuable to use a third party to evaluate the target company's management and executive coaches to help with the transition process.

Agility and adaptability

As part of the M&A process, the senior leaders we spoke with almost universally assess for learning agility, adaptability and a tolerance for ambiguity. "As business nowadays is becoming quite volatile and getting more complex, we need to look beyond the usual competencies and experiences we normally look for," said Rosanun Chankasame, human resource business partner to CEO of Thai Union Frozen Products. "We need leaders with learning agility who can shift gears to adapt to new requirements or even new roles, who can manage under ambiguity and can engage teams through strong communication and influencing skills." Over the past 10 to 20 years, the industry prized machine-like efficiency in order to create multitudes of the same product, according to Durante. Now, CPG companies need agile supply chain leaders who can manage change on a global scale.

Strategic decision-making and bias for action



In a rapidly changing environment with competing demands, the importance of restraint cannot be overstated. "I think leaders need to have the ability and the courage to say 'no' to a lot of other things that may seem important at the time, but that you recognize will be a distraction," said Robert Gamgort, CEO of Pinnacle Foods. At the same time, it is important that leaders know what to say "yes" to and then quickly take action. Semarari looks for leaders who can grasp issues and make decisions swiftly. "Leaders of the future need to speed up, be brave and lean forward," he noted. However, finding such decisive leaders can be difficult.

"One of the biggest challenges that we've faced in the last few years has been the resistance to drive change with the speed and conviction that is needed," said Pamela Kimmet, senior vice president of human resources at Coca-Cola Enterprises. According to Kimmet, today's business dynamics require that the organization fundamentally changes how it organizes, responds to changes in the marketplace and manages costs. "There has been a lot more hesitation to push for these kinds of changes with speed. Leaders of the future need to distinguish themselves as being better risk-takers, demonstrating deeper analytics, a stronger bias for action, who also have the conviction and ability to evangelize and inspire and get their teams committed to doing this."

Enterprise mindset

In addition, uniting two separate organizations in an acquisition requires leaders with an enterprise mindset. "We believe that when people behave as owners, they make better decisions because they're here for the long term," said Carlos Brito, CEO of AB InBev. "We always say that we hate to have 'executives' instead of 'owners' because they are in companies for two, three or four years and they're there to build their resumés, not to build the company. That's the huge difference — owners are here to do something much bigger than themselves."

Succeeding in growth markets

As CPG companies pursue growth opportunities outside their home markets, they need to cultivate local leadership talent versus simply deploying a senior executive from headquarters. "Having as much local talent as possible is better for both the consumer and the strategy," said Durante. The Hershey Company found it important to balance the number of expats while accelerating the development of local leadership and talent. As a result of bringing on more local leaders and providing opportunities for career growth, the company has delivered exceptional growth and has experienced lower attrition rates than many of its competitors. "As the Chinese proverb says, 'The best time to plant a tree was 20 years ago. The second best time is now,'" said Walling. "We've been investing in and cultivating local talent in high-growth regions for several years and I am confident that this new wave of talent will become the future Hershey leadership that will help enable growth across the globe."

At the same time, there cannot be such an emphasis on local perspectives that the broader global strategy is lost. At Coca-Cola Enterprises, a leader is sent to new markets who can inject the organization's "immune system" and carry the overall culture. Hershey has immersed newly hired local leaders for months at a time in other regions so that they can learn the business outside of their home markets. In Russia, some Western CPG companies have installed the characteristically entrepreneurial CEOs of the local companies they acquire across the entire business to preserve continuity and valuable firsthand knowledge of operating amid the country's complexities. In many cases, Ajinomoto's approach has been to split the top roles of a function into two — a head and a deputy — with one position held by a local leader and the other by an expat.

Growth markets should also be empowered and encouraged to be generators versus absorbers of best practices. A key priority for Aileen Richards, executive vice president of people and organization at Mars, is to transform developing country organizations into thought leaders and give local talent the confidence and expectation that innovation is part of their role. "Unlocking the leadership expectation of an entire country, not just of an individual leader, and really pushing the country's contribution as part of the innovation mix is an untapped source of opportunity," said Richards. Brito observed how this goal has come to fruition for AB InBev, whose China team has transformed into

What does it take to become a CPG CEO?

Current CPG leaders identified the key steps that can help pave the way for senior industry executives aspiring to the top role.

Embrace digital.
To realize the promise of big data, adapt to e-commerce's growing prevalence in the space and use social media as a brand-building lever, industry CEOs need to understand and be ready to pursue the business opportunities technology presents. Joining a board of a digitally active company can help aspiring CEOs become more fluent in both the possibilities and risks.

Expand your own unique vision.
Rather than simply executing an existing strategic plan, executives will need to bring their own vision and goals for the organization. As a corollary, Brito predicts that future chief executives will need a greater grasp of corporate affairs in order to serve as the communicator of that vision broadly and become an organization that consumers root for.

Obsess over the customer.
According to Michaels, future CEOs will need a deep understanding of and empathy toward the customer. In an increasingly consumer-driven world, aspiring CEOs need to be fluent in the consumer's needs and behaviors.

Take the non-linear career path.
Next-generation CEOs will need a wide range of experiences across functions, business sizes, categories and geographies. Beyond understanding consumer needs in new markets, knowledge of governance practices are vital as companies expand. For example, Ajinomoto looks for leaders with strong internal control and governance expertise in regions where the company's cash-on-delivery model may be more vulnerable.

Be able to make tough decisions.
As Gamgort noted, every chief executive wants his or her picture taken cutting the ribbon, but it is vital he or she is able to make difficult, unpopular decisions.

Commit to efficiency — financial and operational.
Using the 3G model as inspiration, future CEOs will be increasingly called upon to squeeze the most value out of every dollar. CEOs must also be able to demonstrate that value based upon a strong grasp of the organization's financial issues and pressures. Understanding the day-to-day operational realities provides a more complete picture of the business and is gained by time spent in general or category management.

a developer of best practices and one of the most innovative places within the organization.

Direct consumer products experience has become less of a priority for some as they seek local leadership talent. "We used to believe that we needed leaders from within the industry as we used to focus too much on supply chain," said Thirapong Chansiri, CEO of Thai Union Frozen Products. "No more. We now believe in leadership capability versus industry-specific capability. Consumer insight and thinking is so critical in an innovation-led business like ours. We are now often looking at profiles with strong marketing skills." Shisheido also seeks strong marketing skills in leaders for emerging markets because they are expected to act as stewards of the brand.

Evolving the organizational structure and culture

Nearly every leader we spoke with emphasized the powerful role culture and organizational structure plays in the success of a CPG company in this environment. In the case of an acquisition, senior leaders need to consider which elements of the culture and organizational structure align best with and will help to advance the strategy. At the same time, the structure needs to be flexible enough to adapt to changing marketplace dynamics and potential shifts in strategic goals.

As CPG organizations consolidate and expand into new regions, many are moving toward a matrix structure. New business units introduced into Thai Union Frozen Foods used to remain fairly autonomous, but the company is now piloting a matrix structure to encourage greater synergy. While Shisheido's new geographic markets operate autonomously and report into headquarters, the company plans to design a matrix structure in order to grow as "one global Shisheido." Walling has found that the matrix enables organizations to support high-growth regions within a larger global enterprise and Big Heart Pet Brands is also operating under the same structure. However, it is important to note that the matrix structure is not a panacea for all consolidating, geographically expanding organizations in the industry; it requires substantial "dial-twisting" to achieve the right balance of global reach and local autonomy.

Additionally, the organization must be supported by a clear culture, which, as a concept itself, can be nebulous. The manifestation of the shared values, beliefs and hidden assumptions that shape how work gets done and how people respond to one another and to marketplace developments, culture is unique to every organization. In a merger, it can be especially challenging to decipher the "unwritten rules" of two separate organizations, requiring leaders to examine which elements of both organizations' cultures to reinforce or decide to develop a new culture entirely. While often perceived as "soft," a company's cultural patterns can translate into tangible results by encouraging growth, innovation, customer focus and high performance.

Yet culture cannot be created or maintained by a single individual, but requires the commitment and consistent actions of leaders throughout the consolidated organizations.

"I have a strong belief that you can declare a culture on a piece of paper and it doesn't really matter," said Asad Husain, executive vice president and CHRO of Big Heart Pet Brands. "What matters is how leaders lead — that becomes your culture." While launching its standalone pet business (previously part of Del Monte Foods) and the sale of its consumer products division to Del Monte Pacific, Husain and CEO Dave West met with the board to identify leaders for the organization and then established development plans for these leaders (many of whom had not yet operated at the executive level) in order to ensure that new leaders were prepared to both help define and lead within the culture.

To help make sure the culture "sticks," Michaels advises that leaders explain the "why" of culture from the very beginning of integration rather than simply dictating changes. Richards says leaders can underestimate how culturally destabilizing it is when thousands of people join your organization who didn't choose to; clear communication about the culture will help people "decode the undecodable." Senior leadership also needs to invest in and nourish relationships in every market; Kimmet will spend a week in a local office to evaluate the tone and understand who is talking to whom. Working on the culture is an ongoing endeavor that requires sustained efforts to ensure negative behaviors don't come seeping back in. For example, Walling says rewarding smart risk-taking, decisiveness and innovation can help transform established ways of working and provide new avenues of growth and speed throughout the enterprise.

Instilling an ownership mindset within an organization also can be a powerful driver of performance. In his early days as CEO, Gamgort used the analogy of driving your own car versus a rental car.

"This company had been run with that renter mindset for a very long time. There were very rational decisions, but they were made with a very short timeframe in mind, with the backdrop that we won't have to live with the long-term implications of all these decisions. After the acquisition, we were trying to flip it not only from a strategic standpoint, but culturally to the orientation that we're going to live with the decisions we make today for the next 10 years, so let's make sure that we're making the right ones. That was a really important shift in how we thought about this business from the start." For Brito, identifying this ownership mindset in acquired talent is so paramount that he personally interviews the top 70 to 80 leaders of an acquired organization in order to assess for fit.

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Conclusion

Consolidation has been a strategy of choice to adapt to the CPG sector's changing landscape, especially as more organizations recognize the need to pursue growth in emerging markets. In addition, growing competition, increasing commoditization and more powerful consumers are requiring many organizations to examine not only M&A activity and integrating another company, but to think more broadly about the types of leaders, organizational structures and cultures they need to succeed going forward. As the industry reassembles itself during this time of change, CPG companies also have the unique opportunity to decide how they will shape themselves.

Authors

Frank Birkel	Arthur S. Brown	Jonathan Harper
Kyoko Hattori	Claudia Lacy Kelly	Joseph M. Kopsick
Ricardo R. Rocco	Gabi Schupp	Malini Vaidya

SpencerStuart

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