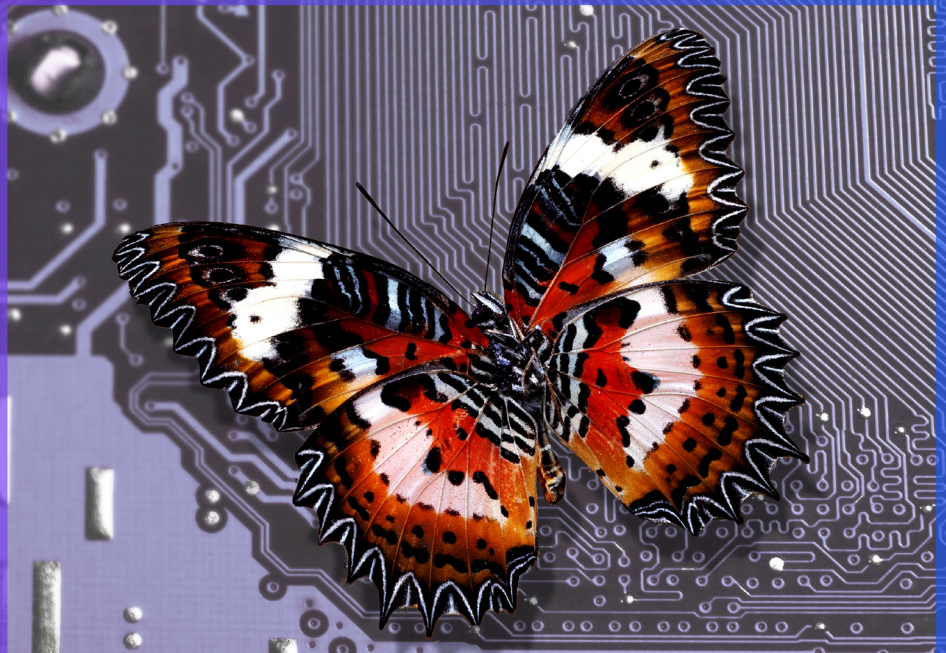# Transforming for growth in C&R

Today, the focus of transformations in consumer and retail businesses is shifting to growth and finding new sources of value. The strategic and financial benefits could be great, but transformation has never been more complex and challenging. Here's how to get it right and capture the most value.

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Executive summary

The disruptions of the past few years forced consumer and retail (C&R) companies to transform operating models, reimagine ways to connect with customers, and rebuild supply chains. Consumers are proving their resiliency, and with the pause of interest rate increases and threat of recession slowly waning, should C&R companies ease up on transformation? No. They shouldn't, and they aren't.

For starters, inflation may be declining slowly, but persistently high input costs—including labor costs—are putting sustained pressure on profitability, and this means that C&R companies still must improve profitability through business transformation.
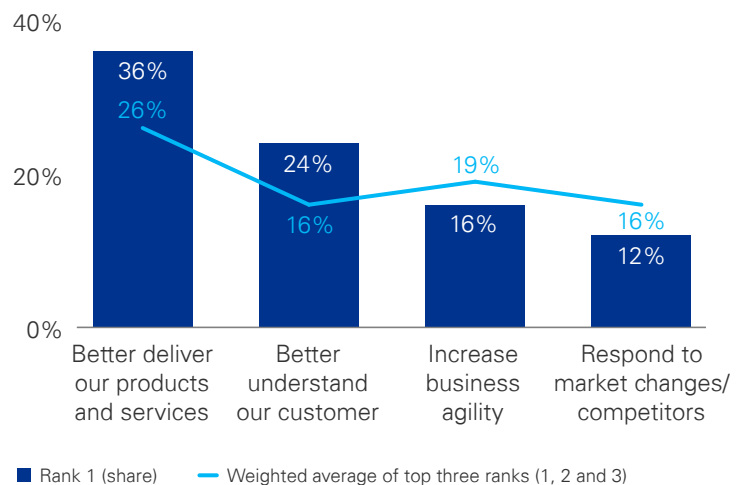
But more importantly, C&R leaders are now seeking transformation as a way to uncover new sources of value and grow. In a KPMG survey of C&R executives, respondents said the top reasons for transformations now are initiatives that enable growth: delivering better products and services, providing a better customer experience, and responding to market changes with greater agility (Exhibit 1).

Aggressively supporting growth strategies now could be an important differentiator for C&R companies. Even if the economy manages a soft landing from the postpandemic surge, C&R companies—such as corporations across industries—will likely face a more challenging business environment: the age of "compound volatility."[1] This is the combination of disruptive events, such as the pandemic and the Russia-Ukraine war, and long-term structural shifts—higher cost of capital, demographic forces that will limit labor-force growth, and a sluggish global economy. Rather than growing at close to 3 percent annually, US GDP growth is expected to average just above 2 percent through 2030.[2]

68% Share of C&R companies that are pursuing enterprise transformations.

Exhibit 1: C&R leaders are prioritizing transformation initiatives that help enable growth.

What are the main reasons your organization pursued transformation (select top three)?

| | Rank 1 (share) | Weighted average of top three ranks (1, 2 and 3) |

Better deliver our products and services: 36% / 26%
Better understand our customer: 24% / 16%
Increase business agility: 16% / 19%
Respond to market changes/competitors: 12% / 16%

[1] See "Mastering compound volatility," KPMG LLP, 2023
[2] BLS.gov

That's good compared with much of the rest of the world, but it means companies will need to fight for growth—with innovative products, better customer experiences, and the right offerings delivered through the right channels. These growth strategies will depend on successful transformation efforts that redefine role—energizing employees with more purposeful work and democratizing the data and analytical tools to extend their capabilities.

The stakes for C&R transformation are high and so are the risks. Transformations have become more complex, more frequent, and overlapping. As in other industries, C&R leaders are presiding over multiple transformation projects and dealing with "continuous transformation," which creates new challenges in coordination and transformation success.[3] We found that 68 percent of companies in our survey were pursuing enterprise transformations, which are more complex and require thoughtful orchestration.

In this paper, we look at the state of transformation in C&R today and how transformations are supporting growth agendas and tapping other sources of value. We also look at the challenges facing C&R transformations, such as managing multiple transformations at once, and offer ways to increase the odds of success.

[3] See "Continuous transformation," KPMG LLP, 2023

What do we mean by transformation?

A business transformation is a significant change in a process, operating model, business model— or an entire organization. A transformation has widespread impact on the organization and requires new ways of working and cultural change. A successful transformation delivers both financial and strategic value—enabling the company to grow in new markets, for example. A transformation should improve efficiency and reduce costs, but it is not merely performance improvement—making existing tasks and processes more cost effective. Transformations are complex, and require dedicated leadership and teams, as well as partners to help with planning, oversight, and implementation.

The C&R transformation agenda

Consumer and retail companies have already undertaken broad transformation efforts to respond to challenges of the past few years. But more remains to be done. Here is what leading companies are doing now—and why.
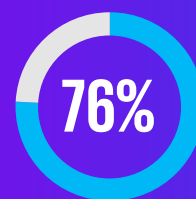
Customer experience.

Why? Consumer behavior continues to shift rapidly and in unpredictable ways. This year, we are starting to see an increase in shopping on social media. Consumers are following influencers on TikTok and buying where the influencers send them. Consumer products companies need to be able to respond to these shifts—and even predict them—to keep up with what customers are doing. For this, traditional sales and supply chain data is insufficient to keep up with such trends. To pick up on consumer shifts quickly and even predict what consumers will do next, C&R companies must layer in different sources of data (e.g., social media) and develop new ways of forecasting.

How? C&R companies that want to defend or increase their "share of experience" will direct their transformation investments toward analytics that help them better understand customer behavior and preferences. It is not enough to track consumer sentiment through traditional metrics to understand how customer expectations are shifting. For example, one retailer is combining transaction data with other information to create personalized content, offers, and communications for specific customers.

How? Given the difficulty in staffing store, companies need to find the right balance of automation and role modification to deliver an in-store experience that will keep customers coming back. More than three-quarters of executives in our survey said a top transformation priority is using technology to address labor shortages. Our research also shows that customers are eager to use some forms of technology such as QR codes for contactless checkout and instant product reviews. This gives consumer-facing store employees more capacity for providing the personal touch that consumers seek in stores. Associates can also be empowered with technology (e.g., tablets) to help answer questions, suggest options, and make the sale. Another aspect if the in-store experience is stored design. Many chains have made great strides in transforming in-store operations for hybrid (buy online, pickup in store), but store layouts have not been adjusted to reflect this new shopping reality.

76% Share of C&R companies executives who want to use technology to address labor shortages.

The in-store experience.

Why? Consumers are back in stores, and our research shows that a key reason for their return is that they crave the in-person experience—not just to see and handle the merchandise, but also to interact with sales staff. But they also expect many of the conveniences that online shopping affords them while in the store.

Data and analytics.

Why? Data and analytics aren't just needed for top decision makers. To build agility and tactical decision-making across the organization, data and tools need to be widely available, not restricted to certain levels of employees or siloed in departments. One reason business leaders are so enthusiastic about generative AI is that it expands access to advanced analytics and has

the potential to augment work of back-office and middle-office employees, whose jobs have not been significantly changed by technology. Indeed, in a KPMG survey, leaders of consumer goods and retail organizations said they would deploy generative AI first in sales and marketing departments.[4]

How?   This will require careful governance to protect proprietary and confidential data, and employees will need to be trained to use the data correctly and responsibly. The introduction of generative AI tools is an opportunity to give more employees access to data that they can use in their daily routines (e.g., creating reports) and to help talent at all levels participate in innovation. It also requires behavioral changes up and down the organization, creating a culture in which insights from data are trusted and decision makers are open to to data that challenge the conventional wisdom and point to new ways of competing and creating value.

> C&R leaders plan to deploy generative AI first in sales and marketing.

Purpose.

Why?   As the age cohort of the customer drops, so does customer loyalty. However, our research shows that consumer and retail brands can win the loyalty of GenY and GenZ consumers by demonstrating that the company stands for their values. More and more, customers and employees need to see that the company is acting on issues that matter to them: decarbonization, diversity, and ethical sourcing. Purpose is also essential for engaging and motivating employees—giving employees in the back office or on the front line a sense of meaning that energizes them and helps them approach interactions (with customers or colleagues) with enthusiasm.

How?   Defining and demonstrating purpose can help companies hire and retain younger employees. Employees that identify with their company's purpose are more engaged and motivated.[5] But companies need to prove that they are doing the right thing, which requires a real ESG (environmental, social, and governance) program. There are many ways to get employees to feel a shared sense of purpose. For example, when adopting new technology, make sure that impacted roles are redesigned in ways that give the employee more meaningful work after routine tasks have been automated. Companies can also show that they appreciate what employees must go through to work for them—including giving up work-from-home days—and help them with on-site day care or other benefits that help employees keep up with family obligations. Leading with purpose is a critical element in successful transformations (See "Lead with purpose," page 9).

Efficiency.

Why?   C&R companies are still dealing with cost pressures, particularly labor. In addition to redesigning customer-facing positions in stores, both retailers and have opportunities to transform back- and middle-office functions and processes. More than 80 percent of C&R leaders in our survey said that cost take-out is still a top priority.

How?   While growth may be the new area of focus, C&R companies have not let up on functional or performance transformations; 64 percent of respondents in the survey said they are currently pursuing functional transformations. Eliminating redundant workflows and automating repetitive tasks can improve productivity and new tools such as generative AI promise to offload more complex tasks such as report writing, research, and communications.

> **84%** Share of C&R of executives who say that taking out costs is a critical component of transformations.

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[4] See "Driving business success with generative AI in consumer and retail," KPMG

[5] Download or listen to "Engaged employees drive customer loyalty in omnichannel world" (kpmg.us)

Making C&R transformations succeed

Across industries, changes in markets, competition, and the business environment are putting greater pressure on top leaders to transform processes and functions. Leaders of large C&R companies, like top executives in other industries, say that they are typically running multiple transformation efforts simultaneously. In a KPMG survey, 60 percent of top leaders said that transformation has become continuous or nearly so. Among C&R executives, the figure was 36 percent. Exhibit 2 shows the top reasons that C&R leaders cite for increased transformation activity.

As noted, C&R companies are initiating enterprise transformations that touch many parts of the company and many groups of employees—this increases complexity and requires careful orchestration to not only keep projects moving, but also to avoid unintended consequences (e.g., negatively affecting an existing process or transformation initiative).

As in other industries, C&R leaders are acutely aware of transformation risks. According to the KPMG Transformation Survey, corporate leaders estimate that only 19 percent of transformations deliver significant value. There are many reasons for disappointing execution. According to C&R executives, the top reasons that transformations come up short is insufficient leadership and stakeholder alignment, and lack of a clear strategic vision.

Exhibit 2: The need for improved profitability is the top reason why C&R transformations are multiplying
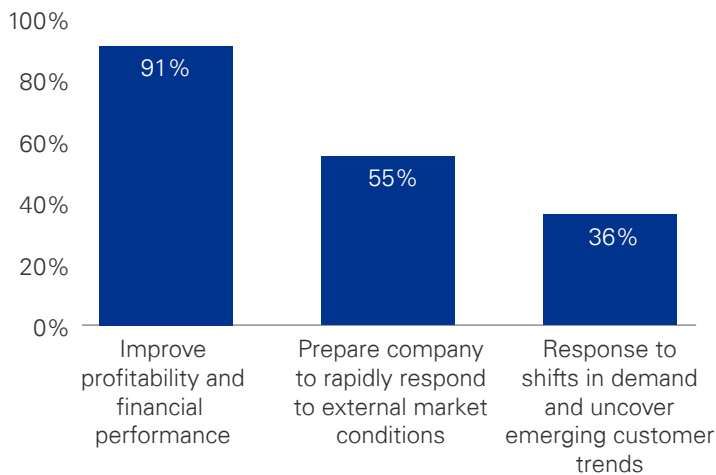
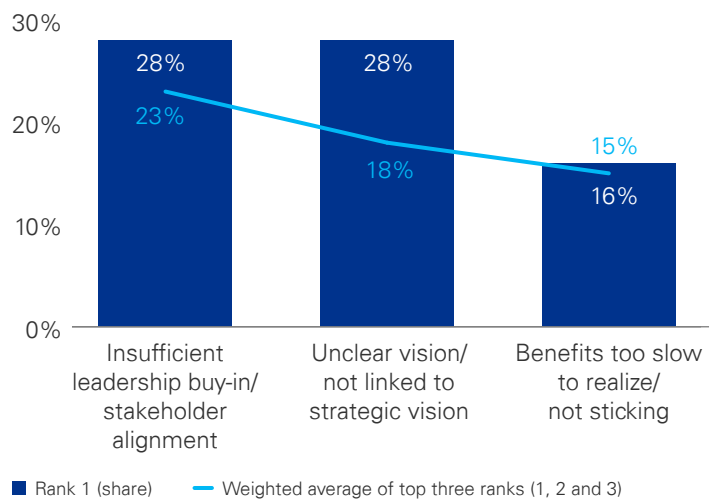Note: Only includes respondents with accelerating pace of organization transformation (rating 5, 6, and 7)

Exhibit 3: Rank the top three issues (1 being the most important) that lead to failed transformations

■ Rank 1 (share)   — Weighted average of top three ranks (1, 2 and 3)

Three priorities for success

Clearly, the need for transformation has never been greater, the stakes have never been higher, and transformation execution has never been more complex. How can C&R leaders make sure their transformations succeed? Based on our work with clients this year, our survey research, and the insights of our C&R leaders, we believe that C&R transformation leaders should focus on three priorities:

1 Find new sources of value

Transformations provide an opportunity to find new sources of value—which can be strategic, operational, or financial. Value can be created with a new process in a back-office function that improves efficiency or by transforming the customer experience to boost sales. As C&R leaders pivot more toward growth opportunities, transformations will need to deliver important strategic benefits, as well as cost improvements (Exhibit 4).

For KPMG, transformation success is defined by value—identified, realized, and quantified. The project should start with a clear definition of value (strategic, operational, or financial). In our survey of top executives across all industries, 80 percent said capturing value is their No.1 goal.

We find, however, that transformation programs often lack clarity around the value goals and how they will be achieved. Before the project begins, leaders need to agree on the metrics for value tracking and set milestones to check progress along the way. Quickly course-correct when it's clear that value capture is in jeopardy. It helps to assign a dedicated leader whose variable compensation is tied to the outcome and make them responsible for tracking and managing value.

Exhibit 4: A view of transformation value for C&R

Growth	
Cost	• Anchored on EBITDA
Margin	• Financially driven benefits
Capital efficiency	• Easy to quantify and tie back to financial statements

Risk reduction	• Differentiated with other value outcomes
Customer and brand	• Reputationally driven benefits
People and culture	• Can be harder to tie back to financial statement; but quantifiable through KPIs

2 Lead with purpose

Transformations are often undermined by unaddressed people and culture issues. A transformation is a change program that requires employees to adopt new ways of working and new ways of thinking. It requires a level of engagement and commitment that can't be expected from people who think of their work as simply a paycheck.

The transformation itself can be a way to increase—or start to build—a sense of purpose that will energize employees. For example, when introducing new technology into workflows, companies can look for ways to make jobs more meaningful. Think about what's happening in fast-food restaurants, With online ordering and in-store kiosks, counter employees are relieved of tasks such as taking orders and making change. The counter employee's job can now be redefined as a customer service role— engaging with customers, and making the purposeful connections that improve the customer experience and build loyalty. Engaged employees become high-impact brand ambassadors.
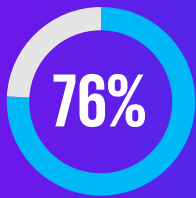
76% Of employees are involved in three or more transformation work streams.

The same principle can be applied to a back-office job in finance or in manufacturing. If the adoption of generative AI means that a financial analyst can get reports written in hours, rather than days, management can redesign the analyst job so that those freed-up hours are used for more meaningful activities, like helping solve a cashflow problem for a business unit. (Identifying the new work that will be accomplished with the freed-up time is also essential for measuring and capturing value from automation.)

A company that leads with purpose is also more likely to attract and retain the talent who have the skills needed today. People who can jump in and make the most of

new tools and digitized processes—and who are creative problem solvers and innovators—are in demand, and C&R companies need to compete for these recruits.

Purpose can help. Younger workers say that they want meaning and purpose in their work, and they insist on work flexibility. One way to build a shared sense of purpose is to show employees that it is worthwhile for them to take on additional costs of childcare, commutes, and other daily challenges that work-from-home reduced. Finding purpose in interactions and incentivizing workers to make meaningful connections increases the engagement, retention, empowerment, and innovation that drive growth. Companies can also demonstrate purpose in more tangible ways: offering work-from-home options as needed or providing assistance for daycare or eldercare.

Finally, successful transformation requires new ways of leading. Not only do top leaders need to communicate clear goals for the transformation and remain visibly committed to the program (loss of focus at the top is a common problem in transformation execution), they must also show how the transformation enhances meaning and purpose in the organization. Employees need to hear the value of transformations, their place in innovating, and how they will be engaged and involved in the innovation. This will build commitment and decrease confusion, anxiety, and burnout.

> **We know engagement matters. When we look at our stores, it is clear that those that score higher on engagement, outperform on financial, customer, and retention metrics consistently."**
>
> Janice Dupré,
> Executive Vice President Human Resources & Chief Diversity Officer, Lowe's Companies Inc.

3 Build the technology and data platform to embed insights everywhere.

Technology and data are the enablers of transformation and the means by which transformed functions and entire organizations get the job done. C&R companies have an opportunity to continually define and pursue strategic advantages by utilizing data and insights—everything from predicting what the next permutation of a snack food should be to helping identify M&A opportunities or market exits and entries. The traditional cadences of integrated business planning can be accelerated to improve agility, and new metrics and data can be used to tell managers in procurement, marketing, and fulfillment what is going on across supply chains.

At the same time, digital tools can also empower employees across the organization, changing the day-to-day work for analysts in finance or procurement—and brand managers and store managers. E-commerce and direct-to-customer strategies require increasingly sophisticated data and analytics to present the right experience for every kind of consumer. McDonald's, for example, is investing in transformation of its online ordering system because that's a competitive advantage.[6]

To enable successful transformations and democratize data and digital tools, C&R companies need modern, flexible technology platforms and a data architecture that provides access to clean, reliable, and timely data wherever it's needed (in secure ways). Inflexible legacy systems that don't easily accommodate new applications and users— and silos of data in departments and business units—get in the way. Companies can start to build the technology and data systems they will need to be competitive by aligning technology and transformation roadmaps.

> "
> **The challenge, in my experience comes in closing the gaps—in technology, talent and trusted certified data."**
>
> Julia Anderson
> SVP, Chief Technology & Information Officer
> Campbell's Soup Company

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[6] Bernard Marr, "The Metaverse And Digital Transformation At McDonald's," Forbes, June 22, 2022

How KPMG can help

KPMG helps C&R clients in their transformations with both custom solutions and our tested transformation methodology. In every transformation, KPMG brings practical guidance and solutions to help clients navigate the journey and realize value quickly—whatever the company's starting point or industry. We help clients achieve greater value by defining value goals (strategic and financial), measuring progress throughout the project, and adjusting as needed. We also help companies orchestrate the multiple transformation efforts that are typically underway in large organizations.[7]

The KPMG approach
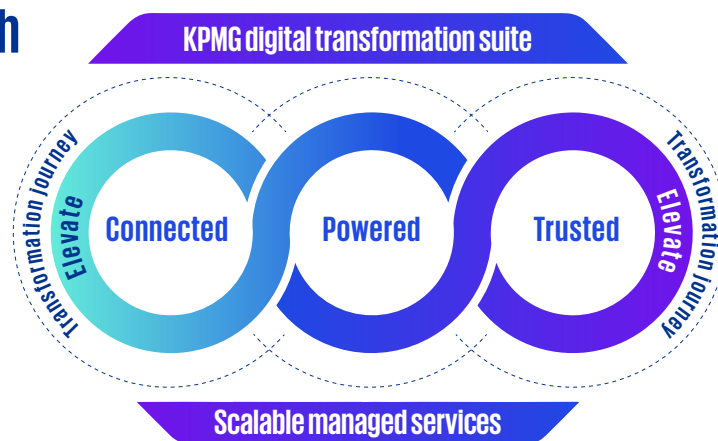
Value. We put value at the center of everything we do, always balancing risk and reward. We carefully monitor and orchestrate multiple transformation projects to ensure successful execution and value capture.

Culture. We also know the critical role people and culture play in making change stick. We emphasize ongoing leadership commitment and help generate employee engagement to create a culture that embraces continuous improvement and innovative thinking.

Technology. Technology and data are the engines that drive transformation. Data-led insights enable our ability to increase financial value by uncovering new opportunities for clients to perform better, profit more, explore new potential, and save costs.

Reimagining experiences. By examining, exploring, and reframing what's possible, we help clients develop processes and ways of working that create better experiences for all stakeholders—employees, customers, partners, and clients.

Elevate: Quantifies value creation opportunities using a data-driven approach—helping to achieve measurable improvements to revenue, margin expansion, cost management, and capital structures.

Connected: Aligns your business around your customers to create a seamless, agile, digitally enabled organization that delivers better experiences and new levels of performance and value.

Powered: Transforms functions with target operating models that are designed with the future in mind for optimized processes, governance, KPIs, people skills, and data.

Transformation journey: Continuously plans and orchestrates transformation initiatives as end points shift to deliver results that matter.

Trusted: Builds trust and confidence in the business and the digital transformation journey by predictably navigating risk and regulation—and delivers on the promise to keep customer data trusted, safe, and secure.

[7] See "Mastering continuous transformation," KPMG LLP, 2023

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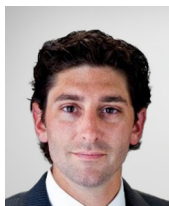*Advisory Industry Leader,*
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