Using technology to weather the economic storm

Bold IT leadership can help CPG companies survive this slowdown, and better position for the future

Consumer Products (CPG) companies are under pressure. Significant changes in demand and supply variables are impacting CPG revenues and margins. In response, many business executives are seeking (and getting) deep cuts in budget. Not surprisingly, CPG CIOs are paying close attention to their IT spend and the IT value resulting from that spend.

Many are tempted to slow down for the duration – aiming simply to keep the IT lights on, while initiating broad brush across-the-board cuts in spending, and forestalling most IT initiatives.

For some firms on 'life support', there may be few good choices left. Others, however, should take heart from CPG IT leaders who are taking action during this economic uncertainty. These leaders are using this crisis (why waste a crisis?) as an opportunity to step up and truly assert themselves as business leaders. As a first step, they are assessing how best to realign their technology portfolio to address today's business needs and challenges.

These leaders understand well the changed political and investment climate of today – mammoth projects with questionable business cases and arcane technical jargon to justify those no longer considered fit for serious business consumption. Instead, these IT leaders are boldly sponsoring leaner, focused projects to actively reduce the costs of doing business and to renew revenue sources. Simultaneously, they are optimizing their IT spend and realigning their IT operating models for greater agility and better service delivery.

In this article, we present a sampling of ideas that these CPG IT leaders are using to revitalize their technology portfolios. These ideas are based on our own research and on our recent consulting experiences, and we believe they should be considered by all CPG companies in the current environment.

Not to call a spade a spade, but this recession is really hurting and profoundly impacting the CPG industry in ways imaginable and otherwise.

Recent forecasts indicate that CPG earnings will continue to drop globally. By region, European CPG earnings are expected to fall the most, almost 23% this year, while Asia Pacific and US CPG earnings are not likely to be far behind-expecting a fall of almost 20%[1]. Indications are that this decline will continue unabated-as long as the current business uncertainty and volatility continues to dominate. In many ways, this is a situation without other recent parallels.

[1] Duke CFO Global Business Outlook survey, First Quarter, 2009

Dynamic shifts in the CPG marketplace

We see a number of key shifts taking place in the CPG marketplace, some caused by the current slowdown and some not. Fierce competition and a stronger set of retailers have led to much increased pressure on margins. Adding to this pressure are recent trends indicating rapidly changing market-place dynamics and increasingly fickle consumers. Some of these changes include:

Rising private label consumption — As disposable income fell globally from 8.3% in 2007 to 5.7% in 2008[2], sales of private label products and substitutes surged from 5% in 2007 to 10% in the first half of 2008[3].

Changing channel preferences — In 2008, supercenters grew by 4% at the expense of groceries and convenience stores,[4] while some markets, especially the US and Europe, witnessed increasing 'stay at home' consumption trends – a trend especially troubling for the beverages segment.

Varying input costs — Rapidly changing input costs of raw materials, energy and packaging products, are making product pricing and product profitability analysis more challenging than ever. A case in point being the Food and Agriculture Organization (FAO) food commodities price index – it rose an astounding 60% from May 2007 to May 2008[5].

Growing emerging markets — Consumer products demand has been increasing steadily within emerging countries, as developed markets like North America and Western Europe increasingly moderate. For instance, the food and beverage segments in the Asia Pacific and Eastern European regions have grown at 4% and 5.6% CAGR respectively, from 2003 to 2008[6]. While growth in North America and Western Europe over the same period has essentially tapered off.

In order to survive, perhaps even thrive, CPG companies are thus seeking to better understand, and counter these dynamic market trends. For sure, business executives are trying different business strategies and tactics – some more successful than the others. In this paper, we will seek to explore whether technology-enabled business strategies can play an important part in helping CPG companies to better weather this economic storm.

Can IT make a difference?

As a corollary to the tough business environment, CPG IT organizations are also under pressure. Every element of IT expenditure is being questioned, and perhaps being impacted negatively. Many CPG IT budgets are potentially facing sizeable cuts, and this is causing many CIOs to wonder if it will be possible for IT to do much more than "just keep the lights on".

Given this backdrop however, we still believe that indeed, IT organizations can make a significant contribution in this economic climate, while laying the foundation to capitalize on the eventual recovery. Our recent consulting experiences and conversations with clients support this assertion. Of course, the path is not easy and is generously strewn with tough decisions like "where to save?" and "where to spend?"

Changing rules of the game

Inevitably, the rules of the game have changed. The investment climate that IT finds itself in now, is a vastly different one – business leaders have generally become more wary of the big-bang, everything included, IT-enabled projects of yesteryear's - even projects that they may have personally approved not so long ago.

Instead, they are showing an increasing preference for pared-down, focused, prove-as-you-go, expand-if-successful IT-enabled projects - projects with quicker, measurable return, perhaps even cash flow impact, and definitely better control over outcomes. Allowing for better IT directionality and control.

In effect, business executives are expecting IT to weave and turn in real-time, to keep up with the oncoming rush of the uncertain business environment. Some of these changes in thinking were long overdue, but have been hastened by the economic maelstrom.

[2, 3, 4] U.S. Retailing & Consumer Trends: Nielsen Economic Advisor – What You Need To Know, AC Neilsen Report, October 2008

[5] Food and Agriculture Organization (www.fao.com)

[6] S&P and IBIS world report

How can IT help?

Sensing the shifting business realities, CPG IT leaders are using this crisis (why waste a crisis?) as the opportunity to step up and truly assert themselves as business partners. As a first step, they are assessing how to realign their technology programs, applications and infrastructure to best address today's business needs and challenges.

In general, many IT leaders are reviewing their larger IT-enabled projects to determine if less business relevant components need to be pared. For instance, a company may be better off spending on the development of an application that enables data mining for customer insights instead of a workflow application for HR processes.

Concurrently, they are also initiating leaner IT-enabled and IT-improving projects-projects with quicker, measurable returns that can make an active and timely contribution to weathering the current storm. In particular, some of these IT-improving projects are geared to help reduce wasteful IT spend – thus freeing up valuable budget for other leaner, business-focused IT projects.

Of course every business being unique, appropriate IT choices have to be made to address each company's unique financial challenges and business needs. While these choices vary, our research reveals four primary opportunity themes (see blue box) that these CPG IT leaders are actively seeking to capitalize upon – as they fashion together their individual recession-busting technology portfolios. Interestingly, these themes also help position the CPG companies to take advantage of opportunities, when the inevitable upturn comes around.

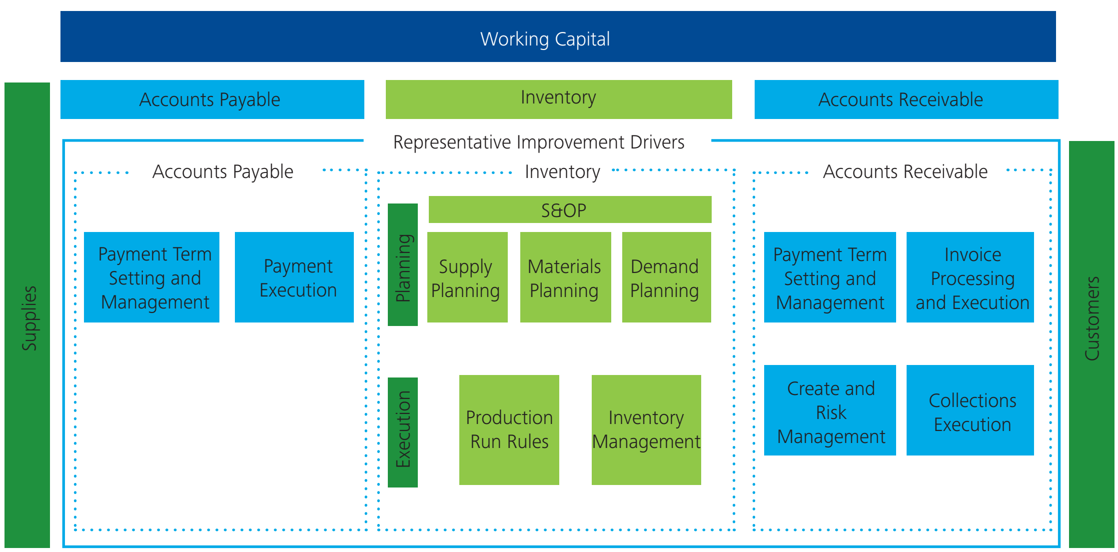
Key IT opportunity themes

1. Reducing the cost of doing business — through optimizing working capital, trade promotions and automating key processes.
2. Renewing revenue sources — by defending and growing revenue streams by optimizing pricing or by direct-to-consumer web innovation.
3. Adopting IT spend optimization as a core IT governance responsibility — and not as one-time fiscal activity.
4. Realigning IT for greater agility and flexibility — by incorporating more nimble and responsive organizational, process and architectural structures, practices and policies.

Opportunity #1 – Reducing the cost of doing business
During normal times, business executives are generally wary of technology opportunities that promise to reduce the costs of doing business. However, IT leaders are finding that this present crisis is acting as a catalyst in helping them to convince supply chain, finance, sales, and marketing leaders alike – to give certain technology-enabled ideas a try. While IT leaders are exploring a multitude of business issues to tackle, the current top concerns seem to coalesce around managing working capital better, optimizing trade promotion spend and automating key business processes.

Working capital optimization – A recent Deloitte analysis of Fortune 100 manufacturing companies found that the rate of working capital growth (up 14.1% from 2005 to 2007) for these companies has far outpaced the rate of their revenue growth (5.7% over corresponding period)[7]. Clearly a worthwhile opportunity to explore.

Exhibit 1: Technology influence on working capital levers



Thus, IT leaders should seek to better answer key questions like:

- How do we improve payables and receivables compliance?
- How do we improve the cash conversion cycle without affecting suppliers and vendors?
- How do we better maintain an optimal product mix and inventory level?
- How do we gain visibility to point of sale/retail demand patterns?

Some technology opportunities that are being considered include:

- **Improving contractual compliance** – through the use of simple and rapidly deployable web based e-procurement and contract management tools. Most companies have a number of these tools in-house – but debate usually rages on the right tool to use. Whatever the tool chosen or implemented afresh (the simpler the better!), standardizing on one tool and improving the adoption of this tool, can lead to much higher rates of compliance to contract spend guidelines.

[7] U.S. Working Capital Management, Deloitte, November 2008.

Simultaneously, this can help decrease the time required to create, review, redline and approve procurement contracts[8] - which can help activate payment terms that much faster.

- **Enhancing functional excellence of existing application assets** – by reviewing the functional fitment of existing ERP and associated supply chain platforms. Many CPG companies are stepping back to ask fundamental questions about the large, enterprise-class investments that they made during the growth years. Many are finding that their systems could be functionally aligned better to cope with the current downturn. For example, functionality built to service demand on a monthly basis might be too slow to react to rapid daily and weekly swings in the marketplace.

Case study: Large food company achieves sales and operations efficiency

A large consumer food company faced a number of challenges, including high inventory levels, sub-optimal supply chain planning processes, and unacceptable customer service levels. In response, Deloitte assisted the company in their efforts to improve information visibility and business intelligence, across the value chain. For instance, they improved the alignment between the sales and marketing functions through the provision of shared business intelligence assets, executive dashboards and scorecards.

Within the first nine months, the project generated $50 million in cash benefits, by reducing inventory levels and increasing customer service levels to nearly 99%.

As another example, a company was able to save millions of dollars, just by tweaking the safety stock parameters assumed by its APS system.

- **Improving sales and operations planning (S&OP)** – by improving demand forecasting and linking forecasts better to operational planning. Many CPG companies are seeking to utilize Advanced Planning and Scheduling (APS) capabilities to gain a competitive edge. Using the network design as a starting point, APS demand planning modules forecast demand for each product SKU in each region – with the forecast validated against simulators that seek to model all known factors of variability. While determining the right factors is still an art, forecasts are better (and get even better over time) – as planners get more adept at choosing the right variables. This forecast is then used to analyze the impact on materials, production capacity and distribution requirements. Many ERP vendors now offer APS modules that communicate with their existing modules, and used judiciously, can provide impressive returns on capital invested. Similarly, SMB companies that are seeking to improve their sales forecasting and operational planning capabilities, are using more tactical solutions like demand planning portals and standalone revenue management modules.
- **Improving inventory tracking and loss prevention** – by selectively deploying smart RFID tags, particularly for higher value product categories, to help reduce the loss of goods and improve the knowledge of inventory within the supply chain. This can improve order forecasting and buying practices, and help reduce the cost of stocking inventory. While RFID business cases have been traditionally harder to justify, the falling costs of tags and readers are helping to make such business cases more attractive now.

Trade promotion management – With Trade Promotion investment averaging 15% of sales for the typical CPG manufacturer, despite mostly negative event ROIs, many CPG companies are rethinking their approach to this area. They are conducting deep business analysis on existing trade promotion practices and policies to understand how to improve spend effectiveness, and ultimately reduce trade spend.

Some improvement opportunities that these companies are exploring include moving to account-specific guidelines (that optimize for different demographics and consumer-buying patterns across accounts), building predictive modeling capabilities, running better post-promotion analyses and synchronizing trade plans developed by sales with overarching marketing programs.

[8] Contract Lifecycle Management Collaboration, Aberdeen – October 2008

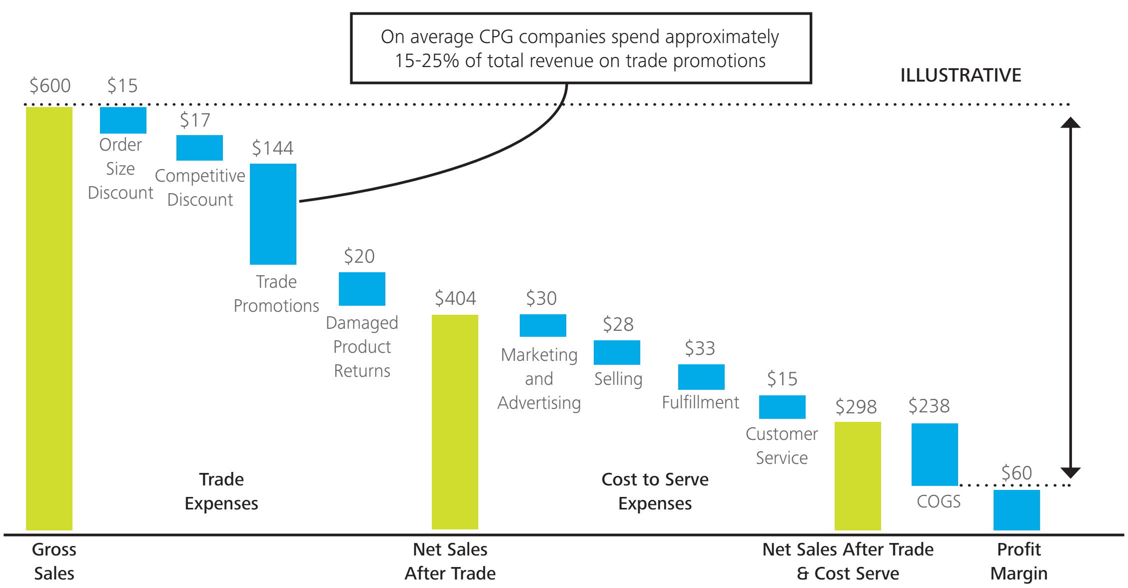
Needless to say, all these changes and others need effective systems enablement to be successful. Thus, CPG companies are:

- **Improving promotion performance** – by implementing and improving the adoption of trade promotion management (TPM) systems that enable sales and marketing teams to better coordinate, implement and evaluate trade promotions. Instead of sales personnel planning promotions by using multiple systems for input data, and then using a multitude of offline spreadsheets, they are able to conduct robust planning, coordinate with marketing plans, execute and track event metrics through one consolidated system. This can help improve spend effectiveness per event and free up sales time so that they can focus on the customer.
- **Enhancing promotion performance further** – through the adoption of advanced trade promotion optimizers (TPO) atop existing TPM systems. These optimizers provide extensive predictive modeling capabilities combined with deep promotions assessment, tracking and improvement analytics. For instance, these tools can extend the window of evaluation to capture the initial 'halo effect' of promotions, and also predict the cannibalization of future period baseline demand. These tools thus can help optimize the effectiveness of trade spend across categories and accounts, not just a single event. Thus, helping to eliminate ineffective trade spend and optimize overall revenue.

While many companies seek to implement comprehensive software packages for TPM and TPO, we believe there is also benefit in developing or implementing simple software solutions that can replace the myriad of spread-sheets and data sources that many companies are still using today to manage their trade promotions processes.

Business process enhancement – The automation of manual processes and the enhancement of semi-automated processes, can not only improve the quality and consistency of outcomes, but can often lead to significant reductions in the cost to serve. And IT is in perhaps the best position to take leadership and responsibility for enterprise business process enhancement – few other functions have such broad visibility to business processes. Thus, IT leaders should be increasingly taking more responsibility for streamlining, automating and improving high-value business processes.

Exhibit 4: Typical CPG trade promotion spend[9]



[9] Demand & Supply Chain Planning – Trade Promotions Management, Deloitte Research, March 2006

Take the case of sales processes. Many CPG companies still use spread-sheets or other simplistic applications to harmonize sales data, manage customer accounts, and keep up with opportunities and interactions within the course of the normal sales cycle. In this specific instance, as a gut check, IT and business leaders might want to ask themselves:

- Is the quality of customer information poor due to manual and spreadsheet based processes?
- How much time do sales reps waste collecting and reporting in a manual fashion?
- Do sales reps 'reinvent the wheel' each time a presentation is customized with customer data?
- How many manual forms do the sales force need to maintain and complete?
- How many opportunities are lost due to the lack of real-time data?

In our experience, high value business process automation opportunities can be found right across the organization. Whether they are found in procurement, logistics, sales, finance etc., the important idea is to pragmatically evaluate if automation will improve business and reduce costs. Some examples of business process enhancement opportunities include:

- **Increasing sales force productivity** – By using Software-as-a-service (Saas) Sales Force Automation (SFA) tools. These tools can be implemented quickly with attractive cost propositions. But above and beyond conventional SFA tools, the technology can free-up precious selling time for the sales force. For example, sales planning and analysis modules can reduce "start to scratch" procedures, while standardizing back office processes-two advantages that can not only reduce costs but also free up sales force time for more productive activities.
- **Enhancing enterprise performance management and reporting** – For a number of companies, the Planning, Budgeting and Forecasting (PBF) and Close, Consolidation and Management Reporting (CCR) processes are still very manual – with rampant usage of spread-sheets and local databases. Automation of these processes using an Enterprise Performance Management (EPM) suite can improve the efficiency of these processes, and perhaps even accelerate the closing of books. Furthermore, these suites can significantly enhance the accuracy and efficiency of financial forecasting to use as a basis for strategic and operational planning.
- **Enhancing management of master data** – by deploying a set of standard processes (automated or otherwise) and tools that enable the consistent definition, cleansing, and ongoing management of data entities, particularly manufacturing data. Benefits include increased data accuracy and improved supply chain collaboration with trading partners.

Opportunity #2 – Renewing revenue sources

Many CPG IT leaders are actively exploring technology avenues to defend existing revenue streams. And pro-actively searching for new revenue sources. Some of these initiatives include exploring non-traditional direct-to-consumer channels using next generation web technologies and the adoption of effective analytical solutions to improve pricing and revenue management discipline.

Direct-to-consumer innovation – Traditionally, CPG companies have focused on above-the-line mass marketing initiatives that do not distinguish customer segments or individual customers very well. The effective use of web channel technology can change this and help grow revenues, while providing a strategic plank against retailers. Although revenues from web channels may be relatively smaller compared to other traditional channels, growth rates can be significantly higher. Some examples of innovations that are being applied in this area include:

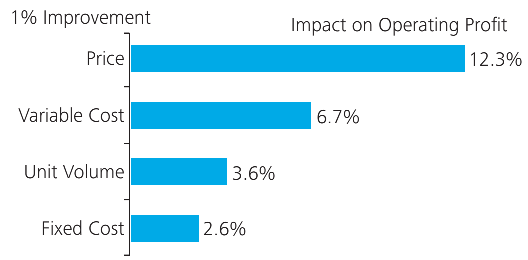
- **Enhanced e-Commerce portals** – While many CPG companies are increasingly using the web to market and sell products, they are also upgrading their web offerings to further enhance revenue generation. For instance, a large food major has built a comprehensive personalization tool on the web that allows consumers to customize gifts for special occasions, while another food major is enabling its consumers to purchase using their mobile phones. Some other ideas being explored are the use of web based streaming videos allied with these product portals-with the aim of establishing personalized consumer connections (think segment of one) and to bolster brand messaging, product loyalty and eventually online sales.

- **E-mail campaigns and search marketing** – Using opt-in or opt-out e-mail messaging can help to influence consumer's purchasing decisions, while providing a low-cost avenue to enhance product promotion and loyalty. These techniques can be particularly effective when synchronized with current news or allied events in the media.
- **Social networking and blogging** – Social networking and blogging sites are becoming increasingly popular for obtaining reviews and feedback on products. A recent Deloitte survey found that 62% of consumers surveyed read peer written reviews. Of those, 82% were influenced in their purchase decisions, by these reviews[10].
- **Co-creation of value** – The internet provides CPG companies with an easy channel to gather strategic information and respond proactively. For instance, some CPG companies are encouraging consumers to directly participate in the new product development process through the web. Their R&D and Marketing departments are co-creating value with their consumers by collecting feedback and consumer behavior insights, on new product concepts and advertising collateral.

Product price analytics – Our research indicates that pricing at most CPG companies remains an ad hoc and inconsistent process. However, we believe effective price optimization can significantly enhance revenue and profitability, especially in this current environment. Deloitte research has shown that a 1% increase in price capture can translate into a 12% increase in operating profit (refer to exhibit 5)[11].

Exhibit 5: Impact of effective pricing on profitability

Pricing can have as much as 3 to 4 times the effect on Profitability than other improvements



Source: Compustat, Deloitte Analysis
Note: Impact estimate is based on the average Fortune 1000 company

One aspect of price management which is crucial in the current downturn is determining the true price elasticity of products, which may be different from before. Advanced analytical tools can play a key role in determining this by comparing and contrasting current and historical prices of products in different areas, using a comprehensive set of market variables. But, over and beyond price elasticity, advanced price analytics can also help to:

- Determine true profitability of each product
- Calculate optimum prices by division, channel, account etc.
- Understand cost to serve by retail consumer and
- Enforce pricing policies to ensure financial plans and go-to-market strategies are in line.

Consumer insights – Contrary to popular opinion, investing smartly in appropriate brand building and consumer intimacy initiatives can result in enhanced revenue and profitability growth – even in a downturn environment. The use of rapidly deployable customer analytics and business intelligence tools can help forge stronger relationships with consumers. These tools can help improve segmentation strategies, and the effectiveness of marketing messages to help increase customer retention and capture.

Case study: Household goods company improves ROI through pricing improvements

A household goods company needed to improve its profitability. It sought to achieve this goal by improving the effectiveness of its pricing. Using advanced econometric modeling, a Deloitte team assisted the company in its efforts to analyze customer loyalty data, gathered from a key retailer. The analysis revealed key insights on consumers' and competitors' responses to price changes, and the pricing levels that would drastically improve profitability for the category as a whole.

Their pricing optimization effort resulted in the company realizing a 5% increase in sales (through significant increases in specific product categories.) Profitability for the manufacturer improved by 4%, while the retailer's overall category profitability increased by 3%.

[10] The View from the Glasshouse, Deloitte Research, 2007

[11] Point of View on Pricing Excellence, Deloitte Research, May 2008

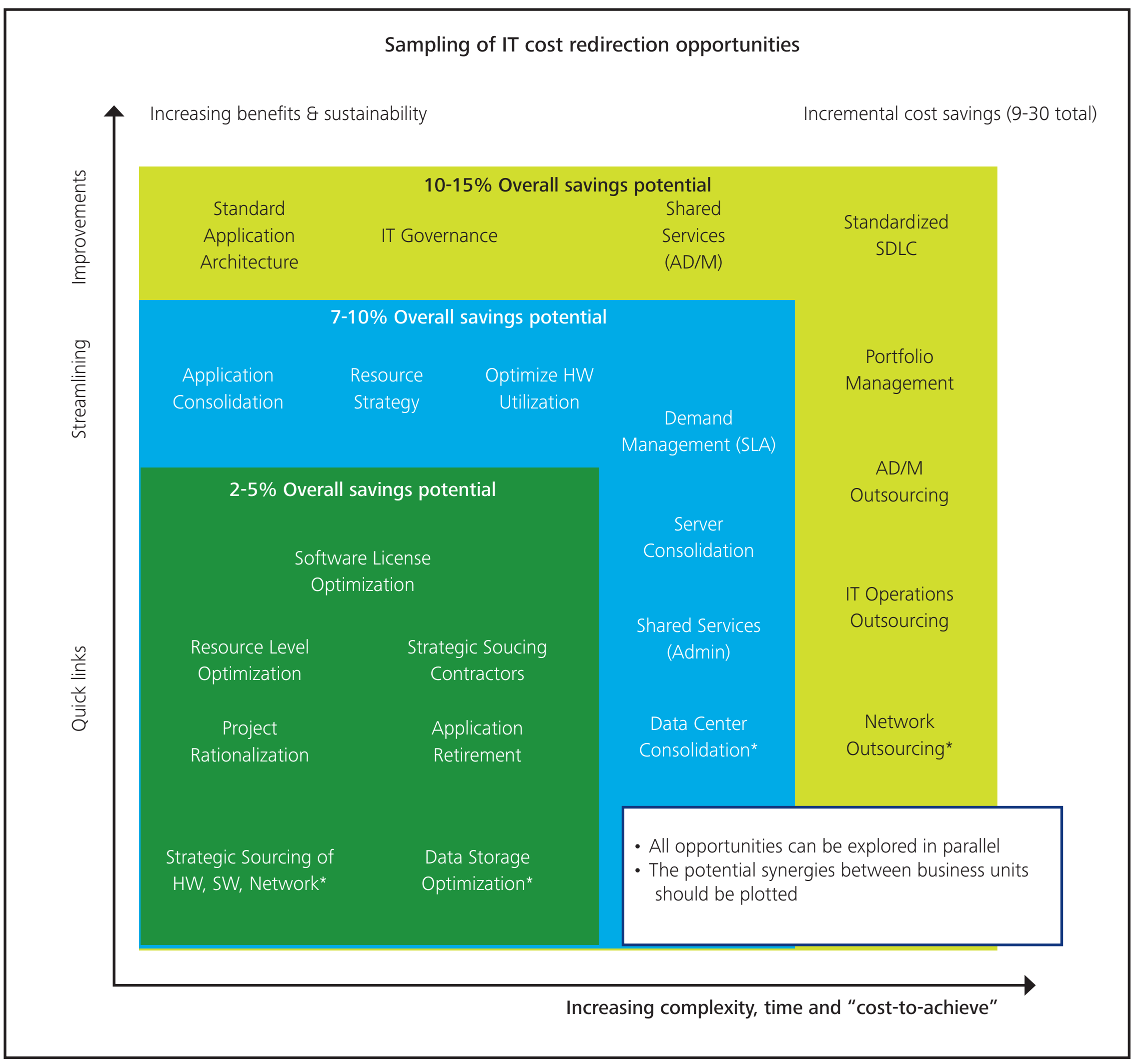
Opportunity #3 – Adopting IT spend optimization as a core IT governance responsibility

Tough times require tough decisions. The ground reality for many CIOs is that their budgets are under pressure. The additional reality is that CIOs need to realign, to some extent, their technology portfolios-if they want to really support the business through this storm. This forces CIOs to make tough choices on "where to save?" and "where to spend?" Thus, a very considered approach to saving and spending is crucial.

Where to save?

Rationalizing IT spend requires a comprehensive view of IT across business silos, technology towers and types of expenses. Done properly, this can lead to significant cost savings (we have seen savings in the range of 10-25%) – with numerous quick hit opportunities and medium term opportunities usually available. Effective IT cost reduction requires objectivity, creativity and discipline in following through. While these efforts can focus on a broad spectrum of IT levers (based on specific

Exhibit 6: IT Cost saving categories by complexity and time with savings potential we have witnessed



organizational needs and challenges), at a minimum, IT leaders should consider the following questions for their own environments:

Data centers and server infrastructure

- Are there redundant/under utilized servers?
- Is there an opportunity to migrate onto fewer, more powerful and more cost effective servers?
- Are there residual retired applications still residing on mainframe/midrange servers?
- Can licenses be optimized? Can service level agreements be lowered?
- Is there a standard architecture across organization?
- Is there an opportunity to optimize/re-negotiate leases?

Networks

- Are tariffs consistent with best-in-class tariffs?
- Are there redundant or duplicate circuits?
- Is there an excess network capacity? Can contracts be negotiated to pay-by-usage?
- Can multiple contracts be consolidated to get volume discount?

End-user computing

- What is the opportunity to create common model standards and builds to drive down maintenance and engineering costs?
- What is the opportunity to rationalize demand?
- Can external providers (e.g. maintenance and repairs companies) be consolidated?
- What is the opportunity to migrate to partially automated helpdesk to reduce number of calls?

Application portfolio

- Are there redundant/rarely-used applications?
- Are there unused software licenses?
- What is the opportunity to optimize third party application licensing schemes (e.g. utilize same licenses between India and US)?
- Is there a standard SDLC?

Projects and initiatives

- How critical are existing projects and initiatives to the functioning of the organization?
- Should non-critical projects be modified?
- How quickly will projects deliver benefits? Can these benefits be measured tangibly?
- How aligned are these benefits to the current needs of the company?

Organization

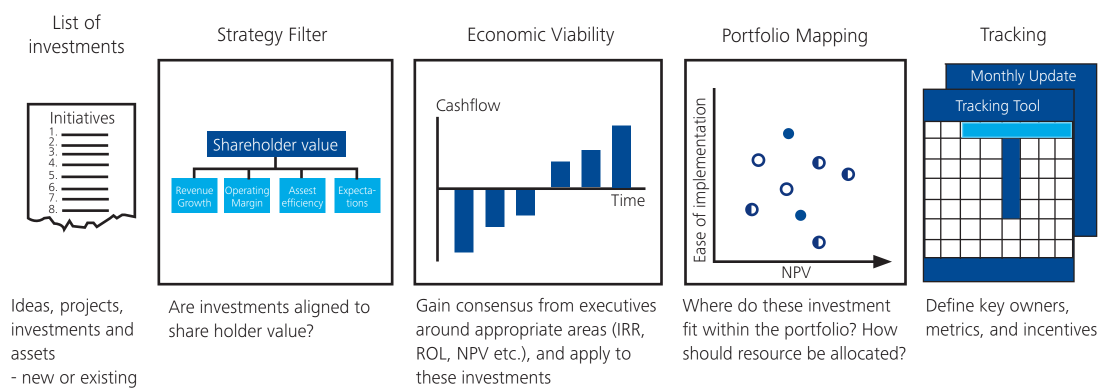
- Should operating models be modified?
- Is there an opportunity to cross-train employees?
- Should labor rates be renegotiated?

Exhibit 6 depicts a sampling of IT cost redirection opportunities categorized into three groups of opportunities, based on the payback period and likely magnitude of return (as described below)

- ***Quick hit opportunities*** – These are activities that involve either reorganization and optimization of existing cost or the termination of cost producing assets. Cost savings can be realized almost immediately with limited effort. We have seen most of these activities performed within a 3-6 month timeframe by each business unit.
- ***Streamlining opportunities*** – Involves more effort and more investment than the quick wins. These activities are aimed at process improvements to achieve longer term benefits. For example, application consolidation can reduce the run-rate for maintenance and operations-not simply a one-time saving.
- ***Longer term improvement opportunities*** – These are significant undertakings that involve fundamental operational efficiency improvements which may have knock-on effects on other groups. Projects are longer term in nature and affect the operating model to reduce the run-rate significantly.

Typically, CPG IT leaders are sequencing these three groups of spend redirection opportunities into a continual cost redirection program – so as to enable increasing cost re-capture and redirection with time. This, coupled with a structured spend program, can help address the spend optimization challenge to the satisfaction of both IT and business executives.

Exhibit 7: Where to spend?



Where to spend?

A structured governance process and discipline in following this process, is a requirement for optimization of the value that IT investments can unlock. Contemporary literature is awash with advice on IT governance and portfolio management, so we will refrain from listing the litany of useful practices. Instead, Exhibit 7 describes some key considerations in determining appropriate IT investments.

Opportunity #4 – Realigning IT for greater facility and flexibility

Transforming to more nimble and effective organizational, process and architectural models can help IT "flex better" with the uncertain and changing business environment. It can enable IT to sense and respond more quickly to environment changes. Thus, many CPG IT leaders are increasingly focused on improving the agility of their IT organizations. The reasons are not hard to find.

In our research, we have found that agile IT organizations are consistently able to:

- Better forecast, perceive and support business opportunities in the marketplace
- Move quickly to support the introduction of new products, and
- Revamp business processes and support new business models aggressively in response to changes.

The effects on their CPG organizations are markedly pronounced. These organizations:

- Show annual year on year revenue growth of 12% vs. 4% for their industry groups[12] and
- Show average annual earnings per share of 36% vs. 7% for their industry groups

But, how do IT organizations get more agile?

We believe that there are fundamentally five IT levers that CIOs should actively consider to become more agile:

- Business and IT alignment
- Governance and management processes
- Enterprise architecture
- Organization structure and talent, and
- Financials

Some key agility opportunities that touch on these areas include:

- *Increasing IT execution velocity* – through improved speed of execution (through focused requirements, rapid development methods and effective program management) and better IT directionality (through more frequent Business-IT prioritizations and focusing on IT projects with quick measurable return instead of large and complex projects that take a long duration and are difficult to measure.) Some CPG organizations will still continue with their larger projects, but will pare or partition these projects into smaller efforts.

[12] IT Agility – Defining how IT can sail with the winds of change, Deloitte Research, September 2008

- *Adopting globalization* – by driving more global and more standard approaches to IT strategy, architecture and business processes. The quality of IT services can be significantly improved through the deployment of standard, robust and global services which are better measured and managed.
- *Transforming to more agile architecture* – including modular data centers or services thinking or plug-and-play architecture thinking. For instance, Service Oriented Architectures (SOA) enabled by an ESB or web services, are helping to reduce architectural redundancies and improve strategic flexibility. A key side benefit is the improved M&A-friendliness of agile architecture – enabling easier, faster and less costly acquisitions or divestitures.
- *Incorporating more nimble organization structures* – by moving towards cross-functional and modular IT organizations, IT talent is quickly able to assume new and different responsibilities as change occurs. Adopting an appropriate IT service delivery model can help enable a CPG company to respond more effectively to market volatility. Examples include creating a database or programmer pools; appointing business-IT relationship managers to better channel and control service delivery; instituting Centers of Expertise (CoE) and Shared Services for appropriate capabilities, or use of sub-contracting and outsourced staff in non-core functions like application maintenance and help desk services.
- *Adopting formal agility governance* – by defining and tracking key agility indicators, across IT, helps improve agility and keeps it visible. The tricky part, however, is translating these indicators into hard business and financial performance measures. Linking agility to current cost impediments, as well as future penalty costs (due to the lack of agility in IT, for e.g., the additional cost of M&A integration due to a less M&A-friendly environment) can prove helpful.

Case study: Global manufacturer improves IT architectural agility

In the wake of a recession, a global manufacturer realigned its Enterprise IT Architecture to drive simplification, standardization and flexibility in each of its operating markets. Deloitte assisted the company in its efforts to group and cluster markets together to identify which markets could potentially support standardized architecture–creating immediate opportunities to phase out a series of redundant local applications

These baseline architectures drove simplification and standardization across the organization, and improved organizational efficiency. It also reduced the cost baseline–for IT and the business. And freed up working capital that was reused by the business–to stay afloat until business conditions improved.

In conclusion

Different CPG companies will make different technology choices, based on their current financial condition (see Exhibit 8), and the type and intensity of competitive pressures being faced by the company.

Categorization

Companies that can be categorized as on “life support” may be forced by necessity to choose projects with payback periods of 1-3 months, while “healthy” companies will likely have the luxury of longer payback time horizons. Exhibit 9 summarizes the sampling of opportunities that were discussed in this paper, along with some payback periods we have seen for those opportunities.

CPG IT leaders who take this crisis as an opportunity to provide bold and effective business leadership, by targeting IT solutions to help weather the current economic storm while positioning for the future, will be much better positioned to finally earn their stripes as true business-IT leaders.

Exhibit 8: Organization financial health

Life Support	Stressed	Healthy
• Technically in detault • Insufficient cash flows • Declining working capital • Increasing debt • High management trunover	• Underperforming stock price • Declining market share • Lagging sales growth • Deteriorating margins	• Leading stock price • Strong market position • Robust sales • Healthy margins

Exhibit 9: Categorization of IT initiatives with payback periods we've witnessed

	Short term payback period (typically 0-6 months)	Mid term payback period (typically 6-12 months)
Reduce costs of doing business	• TPM solutions • Contract management tools • SaaS Sales force automation • Tactical web-based supply chain visibility tools • Improved fitment of existing ERP functionality • Master data management	• TPO solutions • eProcurement tools • Smart RFID tags for loss preventation • Advanced Planning and Scheduling solutions • Automated EPM processes
Revenue renewal	• E-mail marketing • Enhanced existing eCommerce experience • Social networking and blogging • Advanced customer segmentation analytics	• Innovative new eCommerce experiences • Advanced pricing analytics • Co-creation of value • TPO solutions
Optimize IT spend and improve agility	• Software licence optimization • Project rationaization • Enhanced strategic IT sourcing • Server virtualization • Increased IT execution velocity • Data storage optimization	• Application consolidation • Shared services • IT governance • Outsourcing arrangements • Lean, modular, cross-functional IT organization • Application architecture standardization

Authors

Suketu Gandhi
Principal
Deloitte Consulting LLP
+1 312 486 3590
sugandhi@deloitte.com

Damien Ballesty
Senior Manager
Deloitte MCS Limited
+44 020 7303 7609
dballesty@deloitte.co.uk

Debanjan Dutt
Senior Manager
Deloitte Consulting LLP
+1 513 784 7241
dedutt@deloitte.com

Merlin Gardner
Director
Deloitte MCS Limited
+44 117 984 2812
Merlin_gardner@deloitte.co.uk

Shomic Saha
Senior Manager
Deloitte Consulting LLP
+1 404 631 3433
ssaha@deloitte.com

Rizwan Hazarika
Manager
Deloitte Consulting LLP
+1 615 718 4854
rizhazarika@deloitte.com

Additional Contacts

Pat Conroy
Vice Chairman
U.S. Consumer Products Leader
Deloitte LLP
+1 317 656 2400
pconroy@deloitte.com

Nick Handrinos
Principal
U.S. Consulting Leader, Consumer Products
Deloitte Consulting LLP
+1 203 905 2723
nhandrinos@deloitte.com

Visit Deloitte.com
To learn more about our Consumer Products Industry practice and our capabilities within the area of information technology, visit us online at www.deloitte.com/us/consumerproducts.