Consumer CEO Review 2023:

Cautious optimism as leaders look inwards to drive growth

Objective and methodology

In the first quarter of 2023, Russell Reynolds interviewed over 50 Consumer sector CEOs, Presidents and regional or divisional leaders (please see the appendix for a full list of the executives we interviewed). We selected leaders across a variety of geographies and Consumer verticals to get a true sense of what opportunities and challenges their businesses are facing.

In this paper, the fourth of our annual Consumer CEO reviews, our goals remain unchanged: to gain first hand insights on market conditions for 2023; to assess what business decisions are being made to face into these conditions; and ultimately to determine the leadership requirements businesses will need to achieve their goals.

Market Conditions

By a considerable margin, the words 'cautious optimism' were most commonly used to frame responses to this part of the discussion. This caution is heavily influenced by macroeconomic challenges and uncertainty, whereas the optimism is driven by a belief in their companies and teams. All those interviewed stated that it is very hard to predict what will happen in the coming year but barring any fresh shocks many remain buoyant regarding the global economy. Within this, several themes emerged:

"My outlook for continued growth in 2023 is guarded optimism, despite a high number of unusual macroeconomic circumstances. It's less about the macro influences and more about what we're capable of achieving as a business."

Mark Clouse
Campbell Soup Company

Focus on the essentials

Among those interviewed, firms operating in essential goods & services categories were the most optimistic. Consumers generally continue to be more cautious with their spending, which has had a more pronounced impact on product and retail categories deemed as discretionary, and has also had an impact on subscription services, which have seen some rationalisation. There has also been a trend towards switching down from premium to value offerings.

"Looking at the inflation trend and looking at the current context we are cautiously optimistic about the future. Employment numbers are solid, real wages are beginning to increase. Food and beverage are active and resilient categories, we are now at a moment where the consumer feels the need to celebrate, get together and relax. "
- Roberto Martinez, President, Pepsico Mexico Foods

Experiences over goods

"I would describe conditions as reasonably favorable, not a bad market. Traditionally consumers cut back elsewhere before spending less on our category, and then they try to trade down - but we continue to see positive demand" - CEO, Global Consumer Firm

We received numerous reports that consumers continue to spend excess savings at above pandemic levels on experiences, services, media and travel, and less on discretionary goods, such as apparel and durables.

A point on price

The impact that inflation has had on consumers was cited as the most common risk raised for firms with exposure to US and EMEA markets. Leaders pointed to the fact that while inflation continues to rise, it is likely to peak in the worse affected geographies this year. While many firms have priced in for inflation, the speed and shape of recovery after this period of sharp price rises will be a key determinant of future performance, particularly for firms working in packaged goods and retail.

"Inflation is still a risk. We've had years of record inflation and it's led to multiple price increases from manufacturers for goods. The consumer has been remarkably resilient, but as the household savings rate dwindles and stimulus money goes away, it's something we need to monitor." - Sean Connolly, CEO, Conagra

"2023 will be another year of solid growth, partially triggered by inflation. Increasing volumes becomes more challenging with the accumulation of price increases as they impact the consumer wallet." - Laurent Freixe, EVP & CEO, Latin America, Nestlé

Channel shift

The pandemic saw a significant shift to online channels. Whether this momentum will continue was a source of significant uncertainty amongst respondents. While it does appear that ecommerce revenues have scaled back somewhat from pandemic peaks, they remain high, even allowing for inflation. In the US, the NRF reported March online sales values were up 12.4% year on year, whereas in the UK they rose 8.3%. Volumes remained consistent or fell marginally, as much of this uplift was caused by price rises.

"The best strategy in challenged times is offense. We have seen resilience in online channels and therefore have focussed heavily on digital channels, ecommerce and innovation investment." - Walter Geiger, Head of Global Consumer Business Unit, Galderma

An eye on China

China's re-opening will have an impact for China itself, as well as the rest of the world, both from a demand and supply perspective. Globally, the return of the Chinese consumer is expected to have a significant positive impact on consumer businesses, although within China, expectations are more cautious.

"The way in which Chinese consumer demand returns will be absolutely crucial for the beauty industry." - Vincent Warnery, CEO, Beiersdorf.

"I think China will rebound, but high double-digit growth is likely over. Export has been a big driver for Chinese growth in the past, but as the currency is getting stronger and labor costs are going up, China doesn't have the advantage anymore." - Larry Feng, MD, Mars China.

Business Consequences

After a period of respite after the tumult of the past few years, businesses have largely adapted and are focussed on building resilience for whatever future headwinds they may face. They are delivering on this ambition by investing in their teams and leaders, as well as re-evaluating products and pricing. When asked what they are prioritising to deal with ongoing economic uncertainty, CEOs pointed to **cost cutting** measures, investments in **technology**, commitments to delivering on **ESG initiatives** and retaining and developing critical talent.

"Any company that comes up with a new playbook that straddles market risk effectively and strengthens their business model will win in the market"

Niren Chaudhary
CEO, Panera Bread

Optimising for the current climate

As a result of rising input costs, firms have seen increased short-term pressure on margins. Managing these costs is an ongoing battle and firms have been required to look inwards, optimising their people and organisational strategies to ensure both their leadership and front-line staff are future fit. In addition to this, while we heard in prior iterations of this report that the previous two years have been a period of substantial innovation, leaders are now tempering these ambitions and returning to more traditional, growth centric, operating models.

"Last year we were focussed on supply and price, this year we are committed to optimising and standardising all that we do under one P&L. This is particularly important given the period of acquisitions and other disruption we have just been through." – CEO, Global Consumer Firm

Technology investment

The pandemic accelerated the focus on technology as businesses rushed to upgrade their digital offerings. The pandemic 'goldrush' in categories such as food, electronics and homewares, meant that many firms delivered on 5 years of technological innovation in the first two years of the pandemic to capture demand. While the volume of purchases made via digital channels has flattened in most geographies, the share of sales made online remains substantially higher than pre-pandemic. For some categories such as retail, leisure and hospitality however we have seen firms review their technological investment and, in some cases, rationalise the technical & tech talent debt accrued in recent years. For some consumer firms such as those in Consumer Goods, there is continued opportunity in technological innovation, whether business to business or within supply chains, and therefore demand for technological talent in these sectors remains higher.

"Companies need to be leveraging technology. If you're not on the front foot in terms of innovation, it will be hard to keep up as things change rapidly. The pandemic accelerated the use of technology, and the whole dynamic has shifted aggressively." – Tom Hayes, CEO, Ocean Spray

What to do with ESG ?

Firms are changing the dialog around ESG, reflecting on what improvements to their practices can be made to meet commitments. ESG is moving from a series of initiatives to being deeply embedded throughout the business.

"We are approaching sustainability and broader ESG ambitions the same way we have approached DE&I for years: not as an initiative but integrated into every corner of how we run our business. We have always found that when the business reflects the guests we serve, we have more empathy with our customers and serve them better." - Brian Cornell, CEO, Target

Customer pressure has risen for 'ethical by default' products and services, whether this reflects more ethical sourcing of ingredients, improved employee conditions or digital features making ethical purchasing choices simpler.

"We are doubling down on sustainability. Customers want to make sure that our brands are going that way. The clients that we represent put a lot of thought into sustainability." - Terry Seremetis, Head Business Unit, Consumer Goods, DKSH

Leadership Implications

We have seen a number of changes to the leadership recommendations this year. The key trends were a focus inwards on **building cohesive teams, hiring selectively and using culture as an engine for growth.** Where firms do have to look externally, we have seen them become selective.

"The market isn't in the crisis it was a year ago, but the supply of top talent and competition for the best people will always be tight. We need to constantly create development opportunities for our people. We must be a great place for people to work."

Lawrence Kurzius

CEO, McCormick

Building cohesion among teams

"Twelve months ago, everything was about attracting and acquiring talent. Now it's about making the most out of the talent you have. That's our biggest opportunity." - Heather Wallace, CEO, Curology

One of the most striking differences between this iteration of the report and previous years was the near unanimous focus on improving cohesion and effectiveness among Executive Leadership Teams (ELTs). After several years of substantial disruption, heightened M&A activity across the market and shifts in business models and consumer behaviours, ELTs have been put under considerable strain. Many leaders have reflected on this and are investing in means to better build team cohesion and ensure that these teams are running as effectively as possible.

'After a tumultuous period for our sector, we are focusing on building belief and engagement within our teams, to do so we are focussing on better use of the data we have and rigorous discipline in how we execute' - Tim Brett, MD WE & Emerging Markets, Pladis

Hiring selectively and targeting for adaptability

"We need leaders who have been through crisis and have toughened through difficult times. We don't have time to hire people who don't know what to do. We need people to come in and do the job right." Walter Geiger, Head of Global Consumer Business Unit, Galderma

Hiring was reported as having slowed across the respondent group, with leaders being significantly more selective when opting to hire new talent. Where hiring was taking place, the most sought-after skills were a proven track-record of agility and adaptability in order to build resilience. Leaders expect any new hire to hit the ground running and come into the organization with a firm grasp of what is required of their role and how it fits into the wider skill set of the ELT.

"We are seeking leaders who are adaptable to change and have a high degree of resilience in a volatile environment. They must be focused, with clarity of ideas and direction." - Daniel Isart Managing Director, West and Central Europe, Kimberly-Clark

Utilising culture as an engine for growth

"Culture is the most important factor in attracting and retaining talent - specifically, a culture built around growth. One that provides opportunities for advancement and can help build a rewarding career. Target's culture is all about care, growth and winning together." - Brian Cornell, CEO, Target

Leaders were very clear on their plans to double down on understanding and actively shaping culture to ensure they attract and retain key staff, as well as using it as a tool to galvanise growth initiatives. Leaders are looking to focus interventions for maximum benefit, and make sure they have the tools to adequately measure the current state of play, and the impact of the actions taken to drive transformation.

"Organizations that attract great talent will thrive. To do that, you have to invest in culture. Don't think about people as a cost-people are the front line of your brand and should be invested in as such." - Michael Osanloo, CEO, Portillo's

Four talent imperatives for the year ahead

The pressures on Consumer leaders have never been greater, with significantly more complexity and broader requirements. The role of teams remains fluid, with the skill burden continuing to shift at a rapid pace. In the face of these challenges, leaders are building talent frameworks and learning and development processes to build resilience, agility, and ensure growth is aligned to future strategy. This gives rise to four talent imperatives for the current climate:

"Twelve months ago, everything was about attracting and acquiring talent. Now it's about making the most out of the talent you have. That's our biggest opportunity."

Heather Wallace
CEO, Curology

1

Understand
What are the skills and experiences of your current leadership team? What are their strengths and weaknesses? How do they map against their roles today and how may these evolve?

2

Develop
On the basis of the above, how do you close the gaps? What coaching and development or other programmes may be needed?

3

Align
How do you build strategic alignment and cultural consistency among your top teams?

4

Plan
Minimise downside risk through effective succession planning for next generation leaders

"The definition of leadership never stops evolving. It is key to listen with empathy. Leadership comes down to continuous improvement and if you can listen, you can keep improving. As Winston Churchill said 'courage is what it takes to stand up and speak but also what it takes to sit down and listen'." - **Steve Cahillane, CEO, Kellogg's**

At Russell Reynolds Associates, we can help your organization to succeed by:

- Identifying and investing in the right leaders for your Board or C-suite using our decades of executive search experience
- Carefully examining the capabilities of your existing Board or C-suite and benchmarking them against the current market
- Carrying out executive assessments which look at how your executive team lead and their likely impact, their strengths, and areas for improvement
- Psychometric testing to look for positive leadership traits and any potential behavioral derailers
- To get a deeper understanding of the capabilities of your C-suite and uncover which gaps you need to plug, request a consultation with one of our C-suite success experts

Interviewees:

Company	Given name	Surname
Academy Sports	Ken	Hicks
Beiersdorf	Vincent	Warnery
Conagra	Sean	Connolly
Campbell Soup Company	Mark	Clouse
Carlsberg	Chee Kong	Lee
Clarins	Alan	Zhong
Curology	Heather	Wallace
Diageo	Alvaro	Cardenas
Direct Wine	David	Gates
DKSH	Terry	Seremetis
Edgewell	Rod	Little
eDreams ODIGEO	Dana	Phillip Dune
Electrolux	Ramon	Sariego Villar
Eu Yan Sang	Dominic	Wong
Fresha	William	Zeqiri
Galderma	Walter	Geiger
Hudson's Bay Company	Sophia	Hwang-Judiesch
Intersport Deutchland (5 EU countries)	Alexander	von Preen
IQOS/Philip Morris International	Stefano	Volpetti
Jenny Craig	David	Pastrana
Kimberly-Clark	Daniel	Isart
Kellogg's	Steve	Cahillane
Louis Poulsen - Design Holding	Søren	Mygind Eskildsen
Luxasia	Wolfgang	Baier
Mars	Larry	Feng
McClatchy	Tony	Hunter
McCormick	Lawrence	Kurzius
Nestle	Laurent	Friexe
Nomad Foods	Stefan	Descheemaeker
Ocean Spray	Tom	Hayes
Otto Group	Alexander	Birken
Panera Bread	Niren	Chaudhary
PepsiCo Mexico	Roberto	Martínez
Nueva Pescanova	Ignacio	González
Pizza Express	Paula	MacKenzie
Pladis	Tim	Brett
Portillo's	Michael	Osanloo
RB-Holding	Daniel	Barth
Richemont	Pierre	Fayard
Symrise	Heinz-Jürgen	Bertram
Target	Brian	Cornell
TGI Fridays	Ray	Blanchette
Toscana Resort Castelfalfi	Mounir	Husseini
Veepee	Fabio	Bonfà
Witt Group	Patrick	Boos
Zenga	Luca	Lo Curzio

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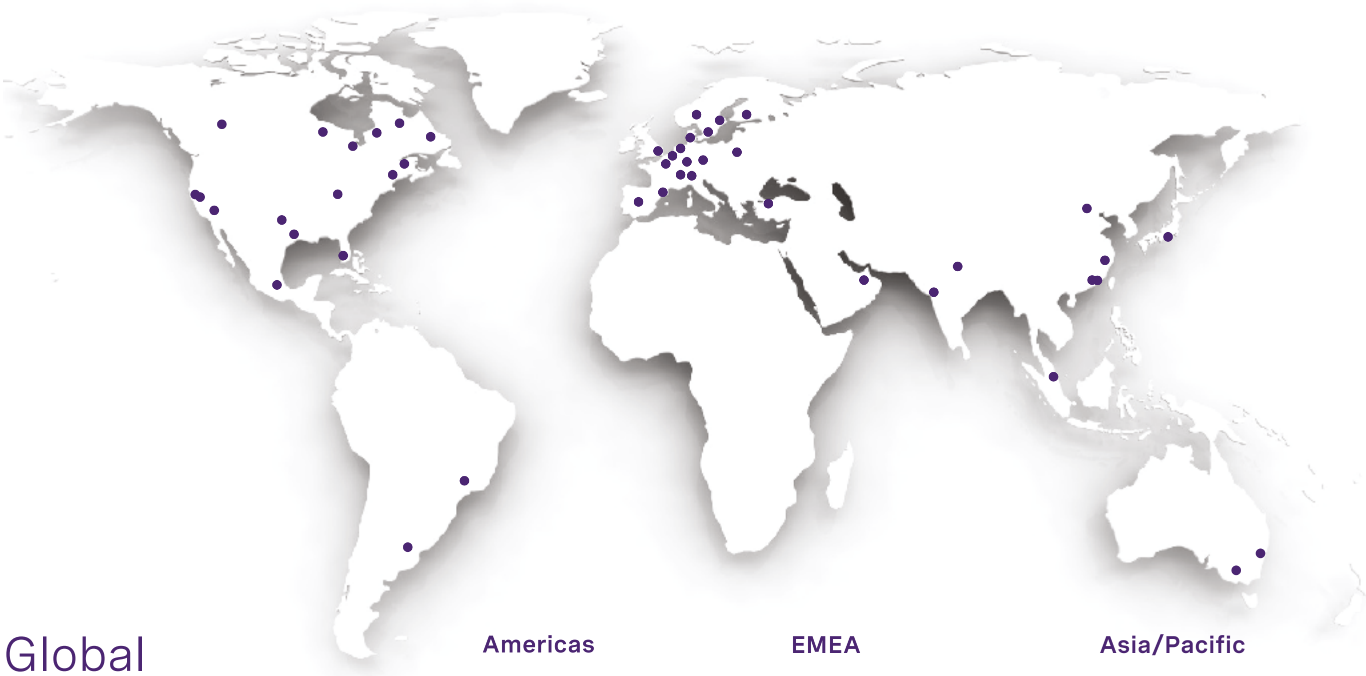

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