



Is your company's
operating model
trailblazing –
or trail-gazing?



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Consumer products leaders know they must change how they operate. Many have already started. But are they transforming for today or tomorrow? EY commissioned MIT SMR Connections to conduct a global survey of 370 business leaders from consumer products companies to explore how they are changing their operating models — and whether what they’re doing now will be sufficient to succeed in the future. Following is the first in a series of articles on the survey findings.

Reshaping operating models has become a burning issue for consumer products companies in recent years. Eighty-seven percent of respondents to our survey believe that they must transform for the future, and 85% have already embarked on this journey.

COVID-19 may have been an accelerating factor, with 31% of respondents commencing change in the year-plus since the pandemic began. But more than half (54%) say they kicked off transformation programs before COVID-19, a finding that indicates such plans were on company agendas before the pandemic forced their hands.

However, COVID-19 isn’t the only factor influencing future business operations. Changing consumer expectations, industry convergence, accelerating technological change, and the increasing prominence of sustainability are all driving disruption. Not surprisingly then, 79% of survey respondents expect that their key performance indicators will be substantially different in five years’ time from how they measure success today.

The survey findings also raise questions about whether companies have a clear view of the operating models they need to build and credible ways of doing so.

While the imperative for change appears strong, many respondents (49%) believe their operations can meet their current objectives, while a comfortable majority (75%) feel that they have the right capabilities in place for transformation. Still, for many consumer products companies, two key questions remain unanswered: Exactly what’s driving their transformation efforts, and how do they intend to achieve their goals?

Put another way: Many consumer products companies realize they need to keep their transformation journeys moving but lack a clear vision for how to reach their destinations. If that summary seems to describe your own organization’s status, its operating model may very well qualify as a “trail-gazer” rather than a trailblazer.

Typically, companies also look to improve operations by investing in existing capabilities or acquiring new ones, both of which take time. But survey results clearly indicate that change may be needed sooner rather than later. Sixty-eight percent of respondents see a need for integrated data and analytics capabilities within two years and, for most, the bulk of their objectives sit within a five-year time horizon. This indicates that companies don’t have much time left to achieve the goals they’ve established for themselves.

Respondents’ optimism also contrasts with the challenges they face. Seventy percent see the difficulties of upgrading their technology infrastructure as a significant barrier to change, while 68% view their companies’ ability to keep up with volatile market forces as a significant challenge. These findings illustrate a conundrum in which companies have expressed confidence in existing competencies but also see two key change drivers as barriers to their transformation.

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Following are three recommendations for companies looking to become operating-model trailblazers:

1. Build a clear strategy that anticipates multiple needs

Successful consumer products companies will need operating models that can support evolving business needs, and leaders recognize this requirement. However, many leaders seem to lack clarity about their vision and priorities. In other words: Some organizations seem uncertain about why they're tackling operational transformation.

More than 70% of respondents feel that clear leadership is needed to navigate required changes in technology and data. At the same time, 63% cite divergent internal strategic priorities as a significant barrier to change, and 55% see the inability to develop a transformation road map as a major hurdle. Companies seeking to transform without clear objectives and road maps risk expensive failure, which will push them further behind in their efforts to win consumers.

2. Focus on where you need to change

Operating models include a wide range of capabilities, from supply chains to talent pools. Asked where they needed to transform "to a great extent," respondents chose almost everything, including supply chain (48%), finance (48%), talent (48%), marketing (46%), manufacturing (46%), sales (45%), strategy (45%), and R&D (43%).

Responses to a question asking them to rate their current capabilities showed much greater variation. Some areas, such as digital operations, reflected relatively high levels of development. Others, such as talent, were generally viewed as less mature.

Implementing plans to change virtually everything, and to do so immediately, would, of course, be a huge undertaking. In addition, such an approach may not address where existing strengths lie – and risks shifting focus away from where change is most urgently needed.

Ideally, companies will be able to rely on operating models that remove silos and use technology and data to integrate their business function. But each company will have to prioritize based on its individual needs and capabilities.

3. If you want to transform quickly, don't go it alone

Many of the companies surveyed may struggle to meet their transformation goals as fast as they'd like if they focus only on developing or acquiring their own capabilities.

We asked respondents how quickly they anticipate the need to address six operating model practices.¹ Looking across those activities, 21% to 30% of respondents see them as critical now, 31% to 38% anticipate needing them in one to two years, and 18% to 35% see implementation as being three to five years away.

Most respondents say they typically acquire or develop the required capabilities for those practices in-house. However, those approaches can be slow and inflexible compared with partnering or outsourcing, which appear to be much less favored.

During the pandemic, consumer products companies have made changes at speeds that wouldn't have been possible without partnerships. Some turned around direct-to-consumer (D2C) operations in weeks or months with support from third-party platforms and logistics providers – efforts that might have taken years on their own. Given the time frames companies are setting for themselves, building an ecosystem of trusted partners is likely to be a crucial factor in helping them acquire skills and capabilities quickly, without the investment or effort required to do the job alone.

¹ The six operating-model practices were embedding digital technologies; integrating data and analytics; creating an integrated business ecosystem; embedding environmental, social, and governance (ESG) considerations; connecting silos to enable scalable innovation; and leveraging a people-centric model for decision-making.

Summary

Consumer products companies clearly recognize that they need to change for a very different future. Some have already embarked on this journey, setting ambitious goals for themselves. For many, though, the expectation for their current capability to deliver contrasts starkly with the barriers they face and the wide-ranging priorities they've identified. In addition, the timelines they've identified are exceptionally challenging if they expect to build these capabilities in-house or through acquisitions.

This article is part of a series examining operational transformation in consumer products companies, undertaken in conjunction with MIT SMR Connections. A full report on the findings of the survey will be released in November 2021.



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