

Three priorities for accelerating your operating model transformation





Consumer products leaders are pushing hard to transform how their organizations operate. But this is a complex challenge that can be hard to break down into discrete and actionable workstreams. So what will these companies' strategic business needs be going forward and how are they prioritizing the development of capabilities to meet these needs?

EY commissioned MIT SMR Connections to conduct a global survey of 370 business leaders from consumer products companies to explore how they are transforming their operating models. Following is the second in a series of articles on the survey findings.

Leaders at consumer products companies are focusing their transformation efforts on three clear priorities, according to our survey: they want to develop their existing channels and routes to market (56%), grow their core businesses in existing markets (55%) and reach new consumers by entering new markets (54%).

That emphasis on developing what they are already doing might seem like a safe option, but it points to the fact that the pace of change requires transformation even in areas of relative strength. Reaching new consumers is critical, but it's how companies serve consumers with new products and services – how they become more consumer-centric – that really matters.

The pace and scale of change in the industry adds multiple layers of complexity. With that in mind, smart leaders are investing in capabilities that will turn the need to adapt into an opportunity to thrive. Our survey identifies three critical areas they're looking to develop that can provide valuable guidance as you consider your own transformation efforts.

1. Closing the data gap

Data is a key driver of operational transformation: 81% of respondents identify data and analytics as essential to their future success. But some may be underestimating how hard it could be to get up to speed in the time frame they want. For example, 68% say that within just two years they'd need to be using data and analytics to create a single view of all their stakeholders – meaning not just their consumers, but their suppliers, partners and employees as well. They feel that capability will be critical to how their companies compete in the coming years. Yet only 19% say they currently have a leading-edge capability in this space. And 15% still have their data and analytics capabilities

siloes within their IT functions. Closing these gaps within 24 months will be a big task, especially since this data ties back to their technology infrastructures as well as their talent and leadership needs.

Leaders will have to develop data and analytics capabilities across their organizations. Our survey shows that, right now, many are prioritizing the front end of their businesses – where they connect with consumers – over back-end processes. For example, 50% say the most important area for them is market and consumer data, which is critical to serving consumers in new ways.

But it's also important to find ways of building data and analytics into the fabric of the business. Otherwise, your efforts won't yield their full value. For example, while respondents feel they can transform their capabilities in this area, only 71% are confident about actually delivering better consumer engagement. Better data and analytics aren't sufficient on their own. The data you capture is only as good as the technology infrastructure that captures it.

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2. Developing technology infrastructure

Emerging technologies will be critical to a successful transformation, according to 83% of the respondents in our survey. But their views on where they should prioritize efforts in this area reveal a profound paradox: Today, 77% believe they have the technology capabilities they need, and 59% feel they are already at, or close to, leading practice. Yet technology remains one of the biggest challenges they face, with 70% saying that upgrades to their current infrastructure pose significant barrier to transformation.

While respondents are enthusiastic about the potential of innovations in areas such as AI and machine learning, those investments won't deliver full value unless the IT infrastructure has the versatility to support them. An important takeaway: While it's valid to be excited about what's happening at the leading edge of digital innovation, your technology infrastructure needs to keep pace. Otherwise, your overall technology environment will struggle to deliver on the business strategy.

In many ways, organizations face a chicken-and-egg situation. They need better data and analytics, but they also need the right technology infrastructure to capture and use data to make decisions that keep them customer-centric. Yet without data and analytics, it can be harder to make the case for technology investment. Which comes first? That's one reason why strong leadership is important.

3. Engaging new talent

Ultimately, it's people who drive transformation – from senior leadership on down. Talent is the number one operational area essential to transformation success; it was highlighted by 89% of the respondents to our survey. While companies are confident that they can build the right talent for tomorrow, they are less confident about the talent they have for today. Only 46% feel their talent is fully capable of delivering on existing business needs.

This finding points to a significant skills gap. Forty-eight percent of respondents say they need to transform their talent capabilities to a great extent over the next five years. And 61% expect a people-centric talent model to become crucial within the next two years.

Companies will need to adapt their workforces – and their leadership teams – to develop and use the emerging technology and analytics capabilities that will drive success. Leaders will need to run their organizations in ways that reflect and align with the values and goals of tomorrow's talent. Those efforts don't just involve pay, benefits and career opportunities. They're also about creating new, flexible ways of working, better ways of supporting people to perform at their best, and qualitative key performance indicators (KPIs) that go beyond performance improvement.



Conclusion

The fact that delivering this new talent agenda will also require investment in data and technology underlines the extent to which all these transformation issues are connected. Transformation isn't just about pivoting into new business models; the pace of change today requires companies to transform to serve existing priorities as well as emerging ones. The time frames identified for building the capabilities required across key focus areas are ambitious, and if your organization is serious about transformation, you must be mindful of how to manage this change effectively.

Operational transformation requires a holistic view on the interdependencies between areas of capability. When everything is entangled and complex, the sense that "everything is a priority" grows. The risk is that the organization then falls into a form of paralysis in which nothing meaningful happens, or what does happen isn't occurring fast enough. But this is an opportunity for bold leaders to set out an inspiring transformation vision and a clear road map to get there. Ultimately, any successful transformation starts at the top.

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 survey findings will be released in December 2021.

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