

Food and beverage 2012

A taste of things to come



Forward

It has never been tougher to build and sustain a successful food and beverage business than it is today. Food and beverage companies face an array of increasingly complex issues and questions—and the manner in which they choose to respond will shape the future of the industry for many years to come.

Over the past 12 months, the Food and Beverage team at Deloitte has carried out interviews with board-level executives at more than 90 leading manufacturers, retailers, and food service companies from around the world. This research provides unique insight into the current challenges facing the industry. The process started in the United Kingdom, where, in addition to industry leaders, the team spoke to relevant government bodies and undertook a survey of over 1,000 consumers. What you are reading now is the result of the team's global research, presented for the first time.

This report is only a snapshot of what the team has discovered. It focuses on the seven most prevalent strategy and execution issues that the survey's respondents said are affecting their businesses:

Strategy – what stance will you take on key issues?

- Health, nutrition, and corporate accountability.
- Tougher regulation.
- Greenhouse gas emissions and the carbon footprint.
- Food miles versus sustainable development.

Execution – what will shape your future operating model?

- Manufacturing strategies: outsourcing and private label.
- The role of private equity.
- Increasing commodity prices and new supply-chain models.

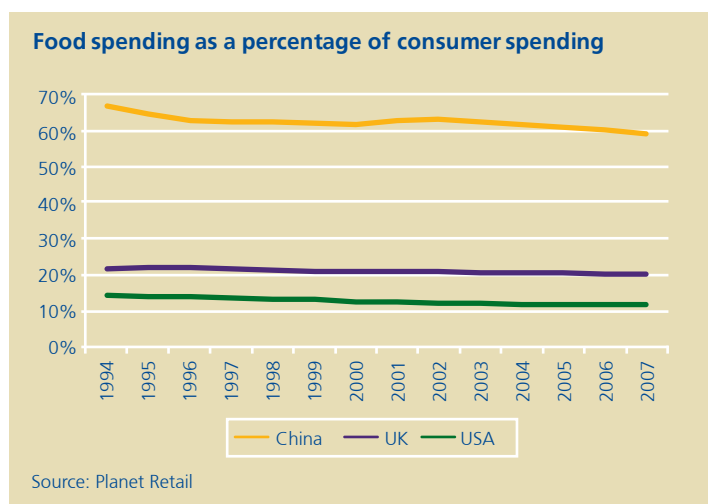
Just as the results for this global report were being finalized, a new and powerful trend started to loom front and center—the dramatic rise globally of base food prices. This has introduced an entirely new set of questions that industry executives will, in all likelihood, need to grapple with in the coming years. To start that dialogue, the report opens with an analysis of and viewpoint on global food price trends.

Many people from around the world have contributed to this report, and we would like to thank those who have shared so many important insights with us. Special thanks go to Ira Kalish (Deloitte Services LP) and Bryna Lee (Deloitte Touche Tohmatsu) for the section on food pricing. We hope you find this report useful and look forward to your feedback and to the opportunity to discuss the future with you.

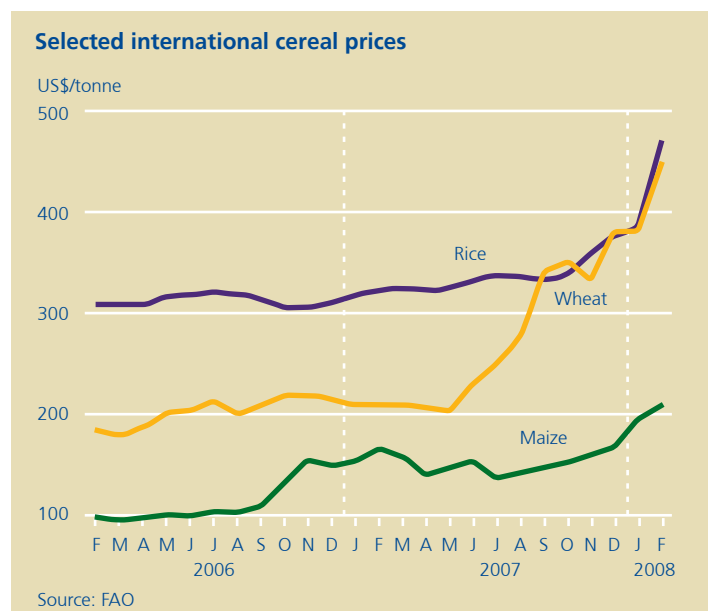


Analysis of global food price trends

Over the past three decades, consumers, retailers, and manufacturers have come to expect food prices to consistently fall relative to consumer income. This was part of a larger trend of declining relative commodity prices. In rich countries, food has become such a modest share of total consumer expenditure (see chart below) that consumers can spend a large share of their total food budget on food services, such as restaurants, rather than simply purchasing ingredients for meal preparation. Low food prices have enabled consumers to purchase high-priced specialty foods, organic foods, and store-prepared meals. It has also allowed consumers to spend far more on many non-food items. Indeed, food retailers have struggled to offer higher value products in order to continue growing.



However, beginning in 2005—and for the first time since the early 1970s—food prices have been increasing substantially (see chart below).



Since 2000, the prices of maize and rice have doubled while the price of wheat has tripled. In 2007 alone, wheat prices rose 52 percent while the Food and Agriculture Organization of the United Nations (FAO) reports that its global food price index rose 40 percent compared to only 9 percent in 2006. This raises several questions:

- Will this trend be sustained or is it ephemeral?
- What impact will it have on consumer behavior?
- What impact will it have on the business strategies of food retailers and suppliers?

First, let's consider how we got to this point.

Causes of increased food prices

Increased consumer demand

Over the past 20 years, global economic growth has been very strong—especially in this decade and mainly due to rapid growth in large emerging markets such as China. As consumer incomes have grown, average meat consumption per Chinese consumer has more than doubled. In India, while grain consumption remained flat from 1990 to 2005, consumption of meat, fish, and dairy products increased substantially¹. This means much higher demand for the grains needed to raise animals, since far more grain is needed to produce one kilogram of meat than one kilogram of bread or pasta. As incomes grow, consumers throughout the emerging world are shifting away from simple grains to vegetables, fruits, meat, dairy, and fish (see chart below). Thus, upward pressure on grain prices is, in part, due to strong demand and shifting consumer preferences.

Change in food-consumption quantity, ratios 2005/1990

	India	China	Brazil	Kenya	Nigeria
Cereals	1.0	0.8	1.2	1.1	1.0
Oil crops	1.7	2.4	1.1	0.8	1.1
Meat	1.2	2.4	1.7	0.9	1.0
Milk	1.2	3.0	1.2	0.9	1.3
Fish	1.2	2.3	0.9	0.4	0.8
Fruits	1.3	3.5	0.8	1.0	1.1
Vegetables	1.3	2.9	1.3	1.0	1.3

Source: IFPRI - data from FAO 2007

Increased industrial demand

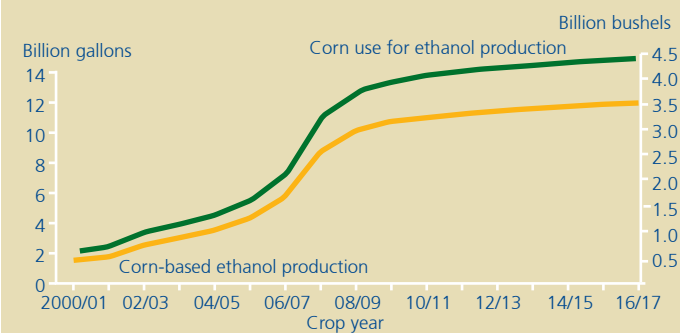
Global demand for industrial use of cereals increased 25 percent since 2000². In the United States, the use of corn for ethanol production increased over 500 percent between 2000 and 2006 (see chart on ethanol production, next page). The principal reason for this was substantially elevated U.S. government subsidies for ethanol production, especially after 2005. This has fueled a sizable global rise in the price of maize. Moreover, the

¹ von Braun, Joachim. *The World Food Situation: New Driving Forces and Required Actions*, IFPRI, December 4, 2007.

² Ibid.

shifting of land from other crops to corn has fueled increases in the price of the other crops. Interestingly, production of maize in the United States has increased dramatically. The problem is that the increase in demand has outstripped the increase in supply. Inventories have dramatically declined and prices have skyrocketed.

U.S. corn use for ethanol production and corn-based ethanol production, 2000 – 2006, 2007 – 2017 projection



Source: USDA Agricultural Projections to 2016, February 2007

Declining agricultural land use and efficiency

Urbanization in emerging countries has meant that land use for agriculture has declined. The result is stagnation in output of critical crops. In China, for example, land devoted to cereal production fell from 2000 to 2005. Notably, rice output declined during this period while output of all cereals rose only modestly. At the same time, however, output of meat and dairy products rose dramatically. Such output requires a huge increase in grain input. The result is a need to import more grain.

One problem in China is that property rights for farmers are not well-protected. Often when agricultural land is converted to commercial or industrial use, farmers are not sufficiently compensated for their loss. Hence, farmers lack an incentive to invest in improving the efficiency of their land. At the same time, there is strong pressure from the government to convert land from farming to other uses.

Global warming may also be having an impact on agricultural output. Droughts and floods in recent years have been blamed on human-influenced climate change and have contributed to substantial losses of crops. For example, drought in Australia resulted in the 2007 wheat harvest dropping to about 50 percent below that of a typical year. In Europe, floods in the north and a heat wave in the south have damaged crops. If the planet continues to warm as expected in the coming decade, global farm output could decline.

Increased oil prices

The energy cost of producing and transporting food has increased substantially due to much higher global petroleum prices. One byproduct of this is that consumers are becoming more attracted to locally sourced foods. Another byproduct is higher retail prices of food.

In part, increased agricultural productivity in the past several decades was due to increased usage of petroleum-based fertilizer. If oil prices remain elevated indefinitely, this could retard usage of such fertilizer and, at the very least, retard productivity improvements. Based on expected supply and demand patterns, it is reasonable to anticipate that petroleum prices will remain elevated for the next several years.

A similar situation occurred from 1973-74 when oil prices quadrupled as a result of the Arab boycott following the October 1973 Arab-Israeli war. As a consequence, food prices surged. Over time, however, inflation-adjusted food prices dropped below pre-1973 levels.

Impact of higher food prices

Trade

Food exporters are benefiting from higher prices. Even in food-importing countries, producers are benefiting from higher prices. Higher food prices could have the effect in some countries of improving income distribution by raising the incomes of rural farmers relative to the incomes of urban consumers. On the other hand, some government policies offset this impact by subsidizing consumers and restricting farm exports.

Subsidies

Governments in emerging markets that subsidize staple foods have had to dramatically increase their expenditures. Poor people in poor countries, especially urban consumers, will either suffer from higher prices or from the financial fallout caused by unsustainable subsidies. There is no free lunch.

In fast-growing emerging countries such as China, governments have better options than in very poor countries. They can ease their fiscal stance by offering assistance to poor consumers in the form of tax cuts or direct cash payments. This would be preferable to price controls that undermine market forces and cost far more to implement. To date, however, China and most other countries have focused on price controls and subsidies.

To deal with higher global prices, some governments are becoming more protective of their food production. Argentina, Russia, and China, for example, have raised tariffs on the export of crops, making it less attractive for farmers to export their goods to the world market. India temporarily banned the export of milk last summer to safeguard supply. This prevented farmers from benefiting from record prices. At the same time, some countries are reducing import restrictions to counter rising food prices. Among the countries that have cut tariffs are those in the European Union, China, Russia, Mexico, Morocco, Azerbaijan, Bosnia, Egypt, Philippines, Taiwan, Bangladesh, India, Nigeria, Ghana, Turkey, and Peru.

In rich areas such as the United States, Japan, and the European Union, the continued existence of expensive subsidies and protection designed to protect farm incomes is anachronistic given high global prices. Moreover, such policies discriminate against poor countries that might benefit from higher export revenue. Nevertheless, political support for such policies remains strong, and global trade negotiations designed to address this issue have broken down.

Inflation

In emerging countries where food accounts for a sizable share of consumer spending, it also accounts for a sizable part of any consumer price index. Hence, higher food prices have caused a temporary boost to overall inflation. If central banks do not accommodate this with increased money supply, then it will merely be a one-off shift in relative prices. Yet preventing a general rise in prices requires higher interest rates which, in turn, risks temporarily slowing economic growth. In some countries (China and Mexico, for example), monetary policy has already been tightened. If this is not done, however, these countries risk higher general inflation. This is what happened in much of the world in the 1970s, the last time there was a general rise in global commodity prices.

In rich countries, heightened food prices are not likely to have a large impact on general inflation.

Impact on consumer behavior

Higher relative food prices should lead to increased purchasing of low-priced private label and discount products and shopping at low-priced retailers. It should also lead to a shift away from eating meals outside the home. These trends appear to be under way. However, increased energy prices and slower overall economic growth also contribute to these trends, making it difficult to identify the impact of higher food prices.

In poorer countries, the rise in food prices is far more serious to ordinary consumers. Already there have been violent disturbances in some countries when subsidies have been reduced. In China, a leading hypermarket's promotion of low prices caused a riot as customers fought to get the discounted items. In addition, sustained higher food prices in emerging markets will necessarily lead to reduced spending on non-food products.

The silver lining

We tend to see increased food prices as a bad thing, and for poor countries this is almost certainly true. But there may be a silver lining for affluent countries. One negative byproduct of low food prices is that consumers are not constrained in the purchase of food. The result has been a high calorie diet for relatively sedentary people. The ultimate result is an epidemic of obesity. Higher food prices might restrain consumption. On the other hand, caloric intake is not the only problem. Today, the typical person in the United Kingdom consumes roughly the same number of calories as he or she did 200 years ago. The principal difference is that the consumer back then led a physically challenging existence and required those calories just for subsistence.

Impact on retailer and supplier strategies

Some food retailers are struggling to hold the line on food price increases. This requires that they either absorb a reduction in margins or, more likely, pressure their suppliers to absorb a reduction in margins.

If retailers or suppliers do choose to raise prices with impunity, several criteria need to be met, including clear product differentiation, strong brand equity, innovative products or services, and, in the case of retailers, a superior customer experience. Experience suggests that consumers are willing to pay a premium for such things. For food retailers, rising relative food prices mean that consumers are likely to switch from eating out to shopping for food for home consumption. All other things being equal, this should stimulate growth.

It should not be forgotten, however, that retailers can benefit from higher general prices. In past episodes of inflation, retailers were able to be profitable even in the absence of efficiency or price competitiveness because an environment of rising prices dulls consumer sensitivity to price differences. That, in turn, reduces the importance of supply-chain efficiency. Moreover, inflation allows retailers to profit by holding inventories of non-perishable products. Finally, in times of product price inflation, margins are no longer being squeezed due to higher employment, energy, or property costs. Thus, from the retailer's perspective, the current environment is not completely onerous.

The future of food prices

With the exception of bio-fuel subsidies, the factors that have caused a steep rise in food prices are not short-term phenomena. Strong global economic growth, rising incomes in emerging countries, elevated petroleum prices, and climate change are not likely to go away anytime soon. Subsidies for bio-fuels are dependent on the whims of governments, particularly the U.S. government. If food price inflation were to become a serious political issue in the United States, political support for bio-fuels might diminish. So far, this hasn't happened.

Thus, we may experience several years in which food prices will increase in relation to the prices of other consumer goods and services. This is unusual but not entirely without precedent.

In the longer term, if market forces are permitted to function, food production will expand, land efficiency will increase, and prices will ultimately come back down. Yet this involves a big "if." Agriculture is one of the last bastions of intense government involvement in, and distortion of, the market. In rich countries, farmers have political clout that is out of proportion to their numbers, often due to a romantic notion of their role in society. In poor countries, urban consumers usually have more political clout, typically because urbanites can more easily create violent disturbances than villagers.

Hence, the ultimate direction of food prices depends heavily on political decisions by political actors. In such an uncertain environment, retailers and suppliers must be prepared for various scenarios, including the worst. They must exhibit flexibility, minimize costs, maintain multiple supply-chain choices, and endeavor to clearly differentiate from competitors in order to maintain pricing power relative to those competitors. This will require strong brand management in several dimensions; not only must retailers and suppliers convince consumers of their favorable value proposition, but they must also convince each other.

The food and beverage industry 2012: a taste of things to come

While food pricing is the most recent and dramatic development, the status quo of doing business is being challenged by a number of important global trends such as offshore outsourcing, corporate sustainability, diversity management, competition for talent, the impact of currency, and the role of private equity, to name a few. The movement of jobs around the world (not the people who perform them) make many companies, and industries, susceptible to offshoring.

Technology has enabled mobility among consumers, but the food and beverage industry has not yet embraced the promise of interconnectivity as an enabling next step the way other industries have.

There are threats and opportunities in all of these trends. The rise of companies in emerging markets may challenge the standing of some established companies. At the same time, there are opportunities for innovative companies to link services and capabilities in new value chains to better serve the changing demands of the global marketplace.

The consumer

Business leaders in this industry are adapting to a considerable socio-economic transition where the Internet, among other things, is creating a more educated and empowered world population. And though the gap between developed and emerging markets will always be there, living standards are increasing everywhere. The upshot is that consumers play a powerful role in how retailers and consumer product companies market to them and interact with one another.

Consumers want choices. And the food and beverage industry as a whole is prepared to respond to consumer demand, with certain dynamics between manufacturers and retailers being played out to address that. Retailers reward product differentiation and innovation because new products offer the best growth opportunities for them, in both existing and emerging markets. Manufacturers, likewise, can become more competitive by innovating and launching new products and segments that, for instance, are not easy to replicate via private label alternatives. And in the food service sector, there is an extremely valuable innovation opportunity for the manufacturer because it is a viable alternative to retail.

For consumers, convenience is by far the most important dynamic, and will continue to be so over the next five years and beyond. Health/nutrition benefits, affordability, taste/freshness, functionality, product availability, and corporate responsibility (CR) issues are among other key consumer drivers.

Consumers demand convenience and are willing to pay more for it. As their work habits and lifestyles change, it's a tradeoff many are willing to make, especially as disposable income rises in many countries. It's all about time, and the consumer would rather buy time than prepare food. Convenience also drives how distribution channels continue to evolve—less so in retail but with significant changes on the food service side, with additional growth potential migrating to the producer.

In many countries consumers are accustomed to a low-inflation environment and are not used to the inevitable price increases that loom ahead. The industry has traditionally competed for market share instead of

conditioning consumers to pay for the value they receive—that is, why they should perhaps pay more for certain things like convenience, nutritional benefits, functionality, availability, fair trade, etc.

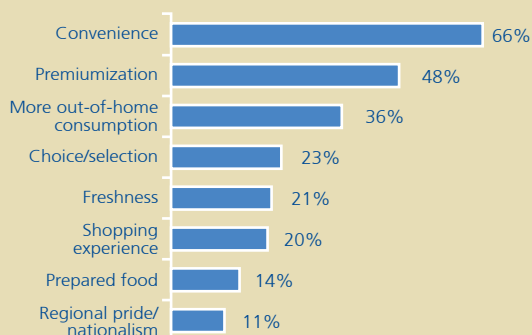
Healthy eating is another critically important consumer driver, a trend that will have considerable influence over company strategies in the next five years. But while consumers want “healthy,” they often don’t know what healthy means and are easily confused. For instance, organic means “not enhanced,” while functional foods usually signify “enhanced.”

Many manufacturers have either reformulated existing brands with organic ingredients, extended their offerings to include healthier branded products, or have acquired or merged with already-existing organic companies. Retailers, too, have redirected their focus toward healthy eating lifestyles. In addition, the options in the area of functional foods will be getting stronger in the next 5 to 10 years. For those eating healthy, there now could be a variety of possible health benefit claims: organic, low salt, added vitamins, etc.

Availability is important, too. It plays into consumers’ hands because with availability they have more choices in price, brand, and in product type. In the way it empowers consumers, choice has become the great equalizer.

Though prominent as a corporate initiative for some time, CR is increasingly rising in importance for consumers as they consider sustainability, ethical sourcing, and food miles, among other factors. Awareness of CR is often driven by the media, by NGOs, and by shareholders. There is, however, an intriguing dichotomy that is observable on a global basis. While consumers are being influenced by these issues, they are often confused or find CR important only until money, taste, or convenience gets in the way. Do consumers like organics? Yes, as long as they can afford them. Do they like ethical spending? Yes, as long as it doesn’t cost too much more.

Key consumer trends shaping the industry



Source: Deloitte global survey of 93 top executives at leading food and beverage businesses.

The aging demographic is probably not the influencer that some think. The industry continually has to look for new consumers and that most likely means younger age sets. There is not a lot of agreement that the older demographic will be a key segment in the next five years, particularly in emerging markets.

Food and beverage executives also do not agree that purpose-focused branding—organics, local-sourced food and beverage products, fair trade and ethical concerns—will represent significant retail categories by 2012. Nor do they agree on the price premium consumers may be willing to pay for them; a 10 to 15 percent premium seems realistic. And many believe that consumers don't really understand what is behind some products—organics being a prime example.

The food service model

Changing out-of-home consumption patterns are driving the growth of the food service sector. The consumer generally makes the choice whether to eat at home or out of the home. To eat at home, the consumer goes to some sort of retailer, buys food, and brings it home to prepare. In the food service model, the consumer leaves the home and procures completed meals to eat, either at the point of sale, back at home, or at another destination.

The shift in consumer preferences toward more out-of-home consumption will have fundamental implications for the manufacturer-retailer dynamic. The pressure on retailers due to the growth of food service will lessen the retail concentration with which manufacturers have traditionally had to contend. Retailers are countering by increasing their own assortments of carry-out and partially prepared foods, among other strategies, but there are practical capital expenditure limits.

The trend toward increased out-of-home spend is not in dispute. But the degree to which this may be a long-term threat to retail food and beverage spend differs by manufacturer and retailer. The food service opportunity does not necessarily play well into the hands of all manufacturers; some have inherently better opportunities than others.

Economics as a constraint

Retailers and manufacturers can develop and be prepared to execute business strategies—culturally, organizationally, operationally—but economic factors ultimately serve as the key constraint. Companies that can't invest cannot execute, and without ready access to capital markets, many cannot invest. Some say they have been constrained strategically because the cost of capital is too high. And manufacturers and retailers who want to innovate, improve, or capture market share are not going to do it without some kind of financial underpinnings—using debt or equity markets.

Currency is one of the major economic factors that influence the food and beverage industry. Since the United States is their largest trading partner and the currency swing has occurred almost overnight, Canadians are the most vocal about the effects of currency exchange. But currency is an issue everywhere (except for China, whose yuan is pegged to the U.S. dollar). The U.S. dollar has also recently dropped to a new all-time low versus the euro. So the downward slide of the U.S. dollar has made it easier for the United States to export to other countries and has also created some unanticipated barriers in the other direction, especially for export-dependent producers.

Economics also serve as the fundamental constraint on the consumer. Disposable income is driving the convenience issue, too. Consumers are making more money but are working harder than ever to make it. And what is driving consumer interest in differentiation and innovation is largely economic—the ability to pay for it. Convenience is one of the key differentiators—the only consumer driver that people are readily willing to pay for. This is not necessarily so with other consumer issues.

Market structure

The top food and beverage companies are divesting unprofitable businesses or businesses that do not strategically fit so that they can focus on core categories.

Public companies in particular are under immense pressure to get the return numbers they need. It is more difficult than ever to squeeze more costs out of the food and beverage industry, hence consolidation efforts to generate growth and create more value—which help reduce competition and strip out costs.

It's not clear that the mergers and acquisitions trend of recent years will continue at its current pace, but that varies somewhat by country. Rather, there appears to be a cyclical process where there is brand consolidation and then de-consolidation, where companies start shedding brands they don't feel are core to their business.

Talent

The industry is suffering from the view that it is less sexy than it once was. Today, fewer good training programs are in place, and talent is not being added to the industry the way it was 25 years ago. But most executives agree that it is essential to attract and nurture the best talent, however difficult that may be. And some companies have done a much better job of attracting talent than others.

To compete in a tight job market, smart manufacturers are also focusing on the talent already in their own ranks, making sure people learn and grow on the job. For employees, being actively engaged boosts productivity and retention. In fact, for many companies, internally developed talent may be the only viable way to build a workforce.

In some countries, rising labor costs that are linked to low levels of work-force productivity must be addressed. This will allow companies to be more competitive globally. In some cases, governments themselves are pushing empowerment programs forward to improve employment equity.

Operational challenges

For the last several years, food and beverage producers have been concentrating on cost containment more than on price increases—from purchasing machinery, getting faster, and working with suppliers, to maintaining prices or reducing increases. For many, it is difficult to pass direct costs on to retailers because strong retailers and retailer concentrations push back on price increases.

Rising input costs are the big factor in food and beverage processing. Energy for some is probably a bigger cost than labor. Inbound transportation costs can also be a big component, and rising input costs present significant operational and financial challenges. In inflationary times, consumers were

trained to accept price increases; today, however, they resist or simply switch brands. Competition makes it very difficult to price through to the marketplace.

Customer relationships

Traditional producer-retailer relationships continue to be tense at times, with manufacturers continuing to show resistance to retailer power. Retailers assert considerable influence over manufacturers in key areas such as pricing, payment terms, and delivery. In some instances, strong retailers continue to get even better at what they do.

Understanding category management is critical and accessing key performance data is essential. Looking at and analyzing consumer data and performing fact-based research is more relevant today than ever. So relying on fact-based information, whether through syndicated research or one's own marketing data, will be more and more important.

One area where manufacturers can always get a seat at the retailer table is by providing truly innovative products; differences notwithstanding, retailers will always pay attention to innovation from manufacturers.

Corporate responsibility and environmental issues

Companies are somewhat divided on the impact that environmental issues will have on the industry. Some see a looming dichotomy over convenience and the use of resources, because convenience usually involves a lot of packaging. What does the consumer really want companies to do? In some cases, packaging serves as a safety enhancement for the consumer, yet many consumers believe that the manufacturer and retailer are far more responsible for food safety than they are.

Consumers are increasingly sensitive to corporate responsibility and sustainability. However, though most executives believe that corporate responsibility is important, some acknowledge that CR issues are not always well understood by consumers. By approaching environmental stewardship and social responsibility as integral aspects of business strategy, some retailers have built their brands very successfully on CR issues. Manufacturers can also find ways to promote CR issues, from reducing emissions to reducing packaging to using better materials.

Nevertheless, environmentally conscious consumers continue to push for more products that reflect their points of view. And some retailers and producers have reacted by moving toward greener practices themselves and now are looking at their supply chain as the next frontier for combating climate change, among other issues. Companies have also learned that eco-friendly policies can help them attract young talent, in addition to potentially increasing productivity and reducing costs.

But CR can also be thought of as a line item on a company's balance sheet, with associated costs and focus. It is not clear that industry executives agree how a company should react to current and emerging CR trends. Indeed, some popular CR concepts are not well understood even by industry executives. Among these concepts are triple bottom-line accounting, an expansion of the traditional reporting framework that considers environmental and social performance in addition to financial performance; and food miles, or the direct environmental, social, and economic costs of food transport.

Regulatory issues

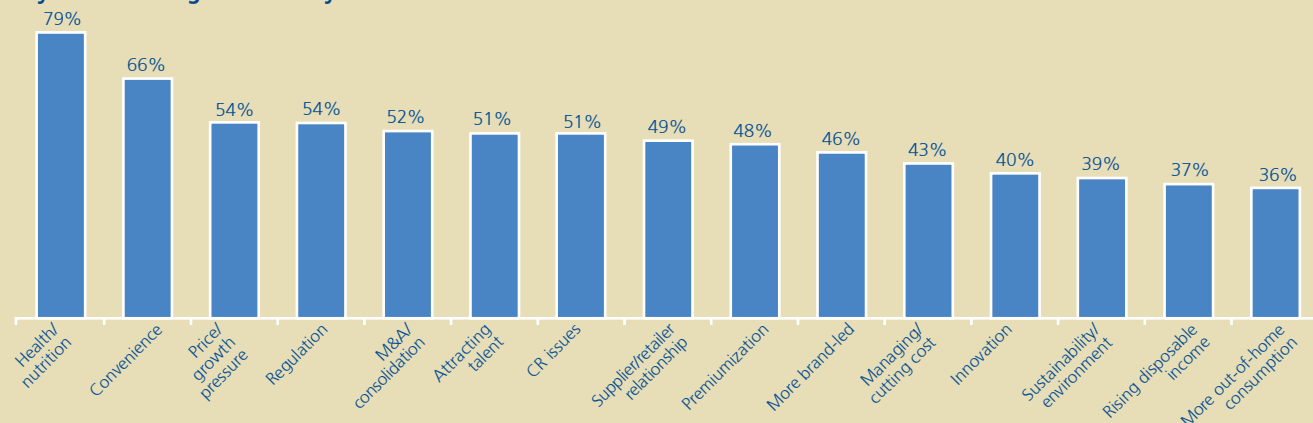
The regulatory environment will get tougher over the next five years. For manufacturers, regulation in nutrition labeling, complete removal of hazardous substances, guarantees of traceability, and production hygiene practices will be a significant burden.

Many industry executives believe that food and beverage safety is already quite high and that the public doesn't fully appreciate how good it already is. But the lack of regulators' market sensitivity in some countries is a big concern. Nevertheless, enforcement is expected to be even more rigorous in the future.

Pressure also comes from consumers. Though the individual consumer is usually ineffectual, large groups of consumers can be quite powerful. When the masses decide to focus their attention on something, particularly an ethical question, they can have great leverage with a company that has, for instance, a food safety issue.

Some executives would like their government to be much more active in the pursuit of international business by supporting marketing efforts in international countries.

Key issues driving the industry forward



Source: Deloitte global survey of 93 top executives at leading food and beverage businesses.

Pillars of success

So, against the backdrop of this changing and challenging landscape, what can food and beverage businesses do to drive profitable growth and value creation? There is opportunity to create substantial value in the industry, and doing so requires businesses to do three things:

- Make the right strategic choices.
- Mobilize to win.
- Get the basics right.

For most businesses, all three are achievable with the right leadership. Here are some thoughts about how to approach each one.

Make the right strategic choices

While food and beverage businesses face many common challenges and opportunities, strategy in the industry is not “one size fits all.”

In the demanding and competitive markets in which all food and beverage businesses trade, it is critical that there be absolute clarity as to the strategy being pursued and how that strategy will be executed. There is no room for ambiguity. Strategies need to reflect the choices that are right for the business, given the available opportunities in the market and the capability of the business to exploit those opportunities, thus creating value. These choices include:

- What type of business do you want to be?
- How close are you to your customers and consumers?
- Are you clear about your future category and product portfolio focus?
- Will you focus on innovation and brand-led organic growth, or will you be proactive in seeking out potential acquisition candidates?
- In what geographies should you operate?
- What channels to market will you exploit?
- What position will you take on the wider CR agenda?

The outcomes to these questions will shape the strategy of the business and determine the capabilities that must be in place to execute that strategy.

Mobilize to win

Having set out a clear strategic direction and vision for the business, the next priority is to mobilize the organization around that vision and establish the right capabilities and operating model for effective strategy execution. With real challenges in attracting high-quality resources into the industry, focusing on the talent agenda is a thread that runs through almost every aspect of mobilizing to win. For most food and beverage businesses this includes:

- Clarity on the required operating model.
- Establishing a clear performance management framework aligned to strategic goals.
- Investing in leadership and management skills.
- Establishing and incentivizing employee engagement.
- Building and promoting fulfilling careers.
- Strengthening commercial insight and decision-making.
- Reenergizing and focusing innovation.
- Driving the total value chain, not just the supply chain.

Get the basics right

At the same time as they mobilize to execute the strategy and drive profitable growth, most food and beverage businesses need to address a range of tactical and operational issues that are important to the effective and efficient running of the business. For most businesses this includes:

- Improving discipline in managing commercial spending.
- Adopting excellent sales and operations planning disciplines.
- Standardizing, strengthening, and streamlining operational and administrative processes.
- Eliminating unnecessary complexity.
- Retaining key talent.

Pillars of success

Make the right strategic choices

Be absolutely clear about “where to focus” based on real understanding of the available profit pools and realistically achievable capability to exploit these profit pools.

Mobilize to win

Be equally clear about “how to win” based on targeting the right consumers, through the right channels, with the right products, and with value propositions that are relevant to both consumer and channel partners.

Get the basics right

Be relentless about “what to do;” in pursuing operational excellence; in planning, forecasting, marketing activation, channel partner investment and supply chain fulfilment, as well as in the ruthless pursuit of business simplification and back office.

The path to success

About this report:

Interviews were conducted in 2007 among 93 top-level executives at leading food and beverage companies in Europe, Middle East, and Africa (EMEA) and the Americas (61% manufacturers and 39% retailers and food service companies).

This report identifies some of the current issues driving change globally in the food and beverage sector today. We welcome a discussion with industry members and would be very happy to hear your views. We invite you to contact one of the team members below or to visit www.deloitte.com/consumerbusiness for more information.

Contacts

Global Consumer Business Leader

Lawrence Hutter
Deloitte United Kingdom
lhutter@deloitte.co.uk

Deloitte Research

Ira Kalish
Deloitte Services LP
ikalish@deloitte.com

Marketing

Kathryn Cordes
Deloitte Touche Tohmatsu
kcordes@deloitte.com

Consumer Products Leaders

Americas
Bruce Westbrook
Deloitte Consulting LLP
bwestbrook@deloitte.com

Europe, Middle East and Africa
Koen De Staercke
Deloitte Belgium
kdestaercke@deloitte.com

Retail Leaders

Americas
Vicky Eng
Deloitte Consulting LLP
veng@deloitte.com

Europe, Middle East and Africa
Richard Lloyd-Owen
Deloitte United Kingdom
rlloydowen@deloitte.com

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