Factories rust. Brands do not

Received:

Uli Veigel

ULI VEIGEL

began his career at Ogilvy, moved to the client side (Reemtsma) and spent more than 20 years as chief executive officer (CEO) of international communication group Bates (CEO, DACH/CEE 1992–2003) and Grey (CEO DACH/CEE 2004–2012). He also founded a creative agency, Atletico, in Barcelona with two partners and Grey in 2004. He was appointed a Member of the Worldwide Management Board of Grey Worldwide in 2006 and moved to Grey New York in 2013 as executive vice president and managing director for GE Health Care MR. He has handled fast-moving consumer goods, retail, media, automotive, industry, health care and midcaps. He consults his own clients within Uli Veigel Brand Consultancy, founded in 2014. He is a frequent speaker at worldwide marketing conferences such as Brand2Global.

Abstract

The fast-moving consumer goods (FMCG) industry is going through a process of radical change. Brand-leading rules of the past have to be fundamentally questioned, and in many cases discarded. Global FMCG brands are losing thought leadership to Google, Amazon, Facebook, Apple (GAFA) across the board. But this is just the beginning. The good old days are not coming back. The FMCG industry has to redefine its business focus. In the future, investors will often dictate the way forward. For too long, the FMCG industry has ignored artificial intelligence (AI) as a brand-leading necessity. AI will become a substantial driver of revenue growth. So, what are the essentials that FMCG brands can — and need to — learn from GAFA companies?

Keywords

global FMCG brands, GAFA, data, consumer insight, artificial intelligence, investors, new thinking of FMCG brands

GLOBAL FAST-MOVING CONSUMER GOODS BRANDS ARE LOSING MOMENTUM AND MOJO

For years, the world's most iconic fast-moving consumer goods (FMCG) brands had a direct line into the consumer psyche. Their products dominated kitchen cupboards, medicine cabinets and refrigerator shelves. In the late 1950s, toymaker Wham-O sold more than 100 million round plastic Hula Hoops in less than two years — in a world without computers, online shopping or even colour TVs.

But such ubiquity was deceiving. FMCG brands knew in general what 'the consumer' wanted, but they really did not know what individual customers wanted. And how could they? FMCG brands had no sustained contact with individual shoppers. Their direct links to buyers were focus research groups and third-party, bricks-and-mortar retailers, which they did not own and did not control.

For decades, however, this did not matter, and truth be told, they did not care. FMCG brands launched global product campaigns in the same way as the National Aeronautics and Space Agency (NASA) launched moon shots — fragile, one-off, high-stakes ventures that ended with pronouncements of 'mission accomplished'. It has been nearly 45 years since NASA sent a man to the moon, and it has been almost as long since FMCG brands narrowed their distance from the buying public.

Now, this disconnect has become the biggest threat facing FMCG brands. In retailing, the digital powers of Silicon

Uli Veigel,
Grafenstrasse 23, 60433
Frankfurt Main, Germany
Tel: +49-0172-259 22 74
E-mail: uli.veigel@brand-consultancy.de

Valley — Google, Apple, Facebook and Amazon (GAFA) — are the new maestros moderating the global purchases of billions of consumers around the world. GAFA companies know the preferences not only of 'the consumer', but of individual consumers too, and in unprecedented detail. They know even more than big retailers like Wal-Mart. But, as spotty as it is, even Wal-Mart's insight into individual habits is better than that of FMCG brands.

It is no coincidence that these are times of dying companies and brands.

Can FMCG brands get closer to the consumer before it is too late? They certainly can, and they need to start by harnessing artificial intelligence (AI) technology, which GAFA companies have used to redefine the laws of retailing.

FMCG brands desperately need new, effective two-way links to the consumer, to regain control of the product dialogue and maintain their relevance and place in the consumer consciousness. Otherwise, they risk being relegated to commodity goods makers, undermined by GAFA intermediaries, who call the shots, set the prices and take the profits in the new digital retail marketplace.

Time is running out. Look at the carnage out there today:
where are AEG, Kodak, Nixdorf — to name just a few former global players? Everywhere one looks, investment portfolios are being rejigged and overhauled.

Once invincible heavyweights are now fighting for survival, too. Blackberry, Nokia, Yahoo and Twitter are losing value each day in the minds of consumers and investors. Just look at Twitter's stock price: in January 2014, US$70; in July 2017, a mere US$15. Even popular new kids on the block like Snapchat (founded only in 2010) are being pulled down. Snapchat's stock price recently hit its lowest level since its initial public offering. Investors are losing faith, even in the most promising of new digital brands. But the damage is not limited to erstwhile Silicon Valley darlings. FMCG brands are feeling the heat and increasingly fighting against the tide.

Table 1 Brand-ranking of the most valuable brands:

	2006	***2015***	***2016***
Coca-Cola	3	8	13
Marlboro	5	10	12
(Based on criteria such as revenue, earnings before interest and taxes. Sales data are from Euromonitor.) Taking their place, the new winners:			
	Market value (USbn in 2016)		***Year founded***
Google	229		1988
Apple	228		1976
Facebook	103		2004
Amazon	100		1994
By comparison:			
McDonald's	89		1955
Marlboro	84		1924
Coca-Cola	80		1892

Source: BrandZ (2016) 'Top global brands', available at: www.millwardbrown.com.

'Factories rust. Brands don't.' This shrewd observation by Larry Light (chief marketing officer [CMO] McDonald's 2002–2005) rings truer than ever today. But the most valuable FMCG brands are in freefall, and global ranking tables are being turned upside down (Table 1).

The bottom line is that relatively young, global tech brands are displacing established FMCG icons.

FOR FMCG, THE FUTURE WILL NOT GET EASIER

On the contrary, everything will be more complex, faster and much more competitive. What kinds of headwinds are FMCG brands facing today?

A gigantic information overload

This takes the form of a metastasising of information, stoked by turbocharged distributors (bloggers, influencers and YouTube stars) and producing an ever-growing tsunami of content.

In just a single minute (60 seconds!) in Germany, there are

- 2,780,000 clicks on YouTube
- 20,800,000 WhatsApp messages
- 2,400,000 search queries on Google

Devising digital media campaigns has grown chaotic and unpredictable

- Unthrottled Touch Point inflation/digital fragmentation/technological change
- No independent confirmation of media channel effectiveness
- No accepted industry standards (opportunity to see) for evaluating digital chan-nels
- A lack of transparency for media buyers in buying generally, and in programmatic buying specifically
- The traditional widespread lack of trans-parency in the media branch as a whole
- Declining penetration in all major mainstream media categories
- Media agencies that no longer cater to cus-tomers, but focus on trading inventories and rebates to marketers to dramatically boost their own earnings before interest, tax, depreciation and amortization

Marc Pritchard, the chief brand officer of Procter & Gamble (P&G), hit the nail on the head in early 2017 when he said: 'The new technologies also have a very dark side.' He lambasted the growing lack of transparency overtaking the billion-dollar advertising industry. Pritchard was especially critical of opacity in the US digital advertising sector, whose US$70bn volume is now greater than that of television. But even these cloak-and-dagger methods are not producing sales growth. A return to cutting-edge creativity and transparency in the advertising supply chain — that is Pritchard's prescription for an ailing industry. In his first official act, he cut P&G's US digital ad spending in first-half 2017 by US$100m. Who would have thought that possible?

Increasing complexity — and ironically, an increase in one-stop shopping?

Global communications conglomerates are attempting to deliver full-service answers to increasingly complex customer needs — from devising new strategies to even implementing them. But they often fail because vertical industry specialists have deeper knowledge. Often, CMOs are confronted with offers that are impossible to evaluate and compare, or they are bound by global contracts to work with less effective partners in their communication networks. WPP, the worldwide leading communication group, faces a fraught future. Chief executive officer (CEO) Martin Sorrell is warning of fundamental change.[2]

Where does this all lead? The most creative brand geniuses, the ones who really know how to develop and breathe life into brand ideas, are dying off. The new creative generation tends to think first and foremost in terms of new technologies (ie virtual reality) — and often chooses channels that are inappropriate to the product and do not pay off for the brand.

Proven successful advertising formats —but not sexy enough?

Successful advertising formats such as

- Product is Hero
- Problem/Solution

- Brand Environment
- Slice of Life
- Story Telling

are being ignored by the new creative generation because they aren't sexy enough — but is that justified, and does it help the brand? The truly creative branding concept remains the best bet for long-term marketing success — as it always has, and always will.

Disorienting speed and rapid change affecting all aspects of life

How quickly can people — consumers — adapt to change? There are many sources of vertigo:

- Accelerating fragmentation of personal routines and interests
- Changing gender roles
- Hyper-individualisation
- Declining traditional values
- Phobia about the new and unknown

and so on. How can the giant, global FMCG brands keep up? Remember: it is not the big that eat the small, but the fast that gobble up the slow.

Consumers are losing faith in brands

Plummeting brand loyalty and the decline of brands as factors in purchasing decisions are the result of jarring change and an endless proliferation of consumer options. Consider this:

- In 2011, 70 per cent of consumers said they considered international brands to be non-essential. By 2013, this figure rose to 74 per cent.[3]
- Only 57 per cent of global brands are trusted by consumers worldwide; in North America, only 32 per cent.[4]
- Only 40 per cent of brands make products considered meaningful and relevant to consumers.[5]
- 95 per cent of all consumer brand decisions are reached subconsciously.[6]

Where does this lead? The days of iconic FMCG Love brands that once instilled respect and deep affection in consumers are over. And commoditisation is the new, perverse trend.

Traditional market research is no longer relevant and must change to survive

A research concept being heavily discussed at the moment in the FMCG industry is the following grow-boosting concept:

- available in people's minds
- available in the shops
- available with the right product at the right time[7]

If this sounds familiar, it recalls 'AIDA', which stands for:

- Attention
- Interest
- Desire
- Action

and was developed in 1898(!) by Elmar Lewis.

This is the year 2017. The old methods are no longer strong enough to describe the customer journey in detail, and the effectiveness of channels is still a black box.

MOST FMCG BRANDS ARE TOO SHORT-SIGHTED

This is what is missing.

Innovation

The kind that is truly new and innovative and produces tangible results in the marketplace. The kind that couples global technological expertise to local needs and demands. Where are these really barrier-breaking innovations today?

Industry 4.0

Industry 4.0 is the FMCG industry's new mantra: digital, automated, networked. From production, logistics and purchasing down to sales and marketing. With one goal: sell the right product at the right time in the right place. Out of stock, not available — that was yesterday. Unfortunately, this dream is still very far from reality.

Consumer-centric/'The Customer Is King' as corporate 'weltanschauung'

Or, as A. G.Lafley, the CEO of P&G (2000–2009), once put it, 'The consumer is the boss.'

Of course, this is no revelation. Many top FMCG managers already live by this credo. But it is often hard to imbue this philosophy down into the depths of big companies. The classic vertically organised company is structured on a linear matrix system: marketing, customer insight, shopper insight, retail marketing, category management, research and so on — all of these well-oiled, self-sufficient corporate units hinder the cross-fertilisation needed to reach big, important overarching brand goals. The task is simply too complex. Too many levels of hierarchy lead to a destructive silo mentality.

Corporate departments often play hide-and-seek with each other, to the detriment of the big picture and bottom line. Intentionally or not, they do not cooperate but compete, following narrow agendas. This makes it impossible to leverage resources horizontally to fulfil broader, mission-critical goals.

The world's former most valuable FMCG brand is going in a new direction: the Coca-Cola Company has parted from its long-time CMO, Marcos de Quinto, and has eliminated the position of CMO entirely. Instead, Coca-Cola has created the role of chief growth officer (CGO). The new goal is to create a 'growth-oriented and consumer-centred organisation'. What is new about that?

According to Forrester Research, 30 per cent of CMOs in the USA may lose their jobs this year.[8] The reason: 'Lacking skills of the digital transformation.' To run a brand from a consumer-centric perspective, all relevant internal and external data must be constantly monitored and at a manager's fingertips. Data have become the life blood, the nervous system, the alpha and omega of intelligent brand management. To unlock its value, all human impulses — the big needs, wants and wishes — must continually flow through this network. But, many times, they do not. Often, FMCG firms fall down on their own poor data management and fail to capitalise on clues right under their noses. Yes, all of the data are there, but they are hiding in vertical silos in the organisation. And they are never put to good use. And it happens over and over again.

Omni channel management

This is another big sore spot for the FMCG industry. Consumers are shopping here, there and everywhere these days. The FMCG industry is fighting the classic retail battle, as big retailers consolidate and push their own online shops and in-store brands to the fore. At the moment, the FMCG industry is still weighing the merits of online versus offline versus through the line. A simple example:

Amazon buys premium organic foods chain Whole Foods.

- Number of stores: 464
- Purchase price: US$13.7bn
- Debt: US$3bn

In one fell swoop, Amazon enters the retail food business — online and offline. Its vision is nothing short of 'A healthy America!'

The acquisition turns food retailing on its head: a multi-billion-dollar market is up for grabs. Amazon is disrupting retailing at its core. Nothing will be the same. Not surprisingly, Amazon's arch-enemy is Wal-Mart, the world's biggest retailer. But how long will Wal-Mart retain the title? Consider:

- Wal-Mart's main website looks more or less the same to all of its customers.
- Amazon's website is two-thirds individualised to suit every Jimmy, Becca and Katherine and their unique tastes and interests. The site targets individual needs, wants and wishes.
- Amazon has a modern, dynamic structure and logistics: warehouses — infrastructure — low prices — consumer confidence — purchase history — Alexa AI — search visibility.
- Amazon's corporate DNA learns, grows and adapts; Wal-Mart's is static.
- As a result, their market capitalisations as of 30th December, 2016 were:

Amazon, US$355.9bn versus Wal-Mart, US$297.8bn.

This comes as no surprise.

Analysts think Amazon's stock price may double to US$2,000 following the Whole Foods deal. Wal-Mart is looking for a partnership with Google.[9]

Time will tell whether this will work.

FMCG FIRMS ARE NOW SQUARELY IN THE CROSSHAIRS OF ACTIVIST INVESTORS

Worldwide organic growth is slowing in the FMCG industry, and stagnation is at the door. This is a perfect setting for the world's biggest activist investors, who are now gathering for the feast.

These investors have FMCG bosses on the run and are changing the industry dynamic just as much, more or less, as digital disruption, which is still abstract to many, and thus to an extent ignored.

But the revolution led by activist investors is real and cannot be denied.

- Nelson Peltz, who bought H.J. Heinz and Wendys, read Kraft Foods the riot act in 2011. Then his Trian Funds bought into Kraft, and within months, he had broken up the company. What was once Kraft Foods, a strong global FMCG brand, is now Mondelez; one less iconic holding company.
- Peltz's new target is P&G, the impossibly successful FMCG company that has doubled sales every decade and today sells 65 brands to nearly 5 billion consumers in 180 countries. The reason for its success? A laser-like focus on research & development (R&D), consumer insight orientation, branding and communication.

Status 2016:

- Sales US$65.3bn
- Profit US$10.5bn
- Operating margin 20.6 per cent

Trian holds US$3.3bn worth of P&G shares. P&G's market cap is about US$225bn.

Until now, no investor has ever taken on a company the size of P&G. Trian believes that P&G's biggest challenge is its own organisational structure and culture (leadership, passion for winning, trust). In other words, Trian doubts the very things that have made P&G so successful.

- As one further example, Daniel Loeb and his Third Point hedge fund have just taken a stake in Nestlé. Loeb's demand is to buy back stock, sell Nestlé's stake in L'Oréal and raise the dividend.

Often, questions posed by activist investors about brand management are well founded:

- Do all brands in a group fit together under the Best-Owner Principle?
- Must parts of an investment portfolio remain separated, and why?
- Should a company's philosophy and marketing strategy change with the times?
- Do all investments in innovation make sense and jibe with trends and forecasts?
- How does management measure up in terms of market and margin growth?
- Are changes in a company and its culture and processes necessary for digital transformation?

If Warren Buffet is interested in Unilever, it is definitely not because he wants better brand leadership; he wants a higher investment return — through cost cutting, among other things.

DIGITAL DISRUPTION CAN HIT ANY PLAYER IN THE FMCG INDUSTRY, AT ANY TIME

- Consider Dollar Shave Club, founded in 2012, which took on razor market leader Gillette. P&G had bought Gillette for US$57bn in 2005. Dollar Shave's idea was to sell quality razor blades for less, ordered by mouse click and delivered by mail.
- In 2016, Unilever bought Dollar Shave Club for US$1bn.

Why?

- Most successful business ideas capitalise on weaknesses of old business models.
- Digitalisation still has room to grow; Finland, with just 70 per cent internet coverage, is the most wired nation in the world.
- Software and computer prices continue to fall.
- The pace of innovation is accelerating.
- Moore's Law on the doubling of semiconductor speeds every two years still holds.
- Data storage capacity is growing and growing.
- Corporate human resource (HR) skills are in sharp demand, which will only continue to grow.
- Technology companies are becoming more and more attractive places to work. They are increasingly pulling in the best minds, which is further stoking the pace of change. By contrast, FMCG companies are losing the race for the best talent.

Digitalisation is redefining and disrupting all corporate functions: logistics, production, sales, controlling and, increasingly, marketing. This transformation is creating a demand for new skill sets and abilities in job candidates. HR departments are suddenly the new corporate bottlenecks, not to mention FMCG firms' own waning attractiveness as employers.

And that is just the beginning. The obvious can no longer be overlooked: this development will force the FMCG industry to abandon all of its old market life-cycle assumptions.

What do the most successful Standard & Poor's (S&P) companies of the last five years have in common when it comes to generating above-average revenue growth? How could they grow sales so much faster and longer than others? Consider these annual average growth rates[12]:

Facebook	+56%
Amazon	+26%
Trip Advisor	+25%
Google/Alphabet	+21%

GAFA COMPANIES RELY HEAVILY ON AI

"AI First" drives Google, Amazon, Facebook and Apple! AI fundamentally reorders how these companies work and organise themselves.

This development came as no surprise. Nevertheless, it continues to surprise many FMCG leaders.

The first wave:

1973	Personal computing
1989	Internet
1991	Mobile phones
1997	IBM's Deep Blue chess computer

The second wave:

2007	Smartphones/Mobile apps
2010	Apple's Siri digital assistant
2012	Google's Brain
2013	Facebook's DeepFace
2014	Google Now/Amazon Alexa/ Google Car
2015	Google NMT (machine translation), Spotify

The third wave will disrupt and change people's lives as never before. Where will AI lead in 2017–2036?

Sundar Pichai, the CEO of Google, said: 'AI marks the next major computing shift from PC to web to smartphones to AI at the heart of business models and workflow.' AI is based on Big Data, insights and predictions — and can reach the right conclusions and act on them. AI can also be applied to brand management, which could open up enormous, new competitive advantages.

The AI market is forecast to grow to US$153bn by 2020 for these sectors alone: agriculture & mining, consumer services, healthcare, autos & transport, domestic services, industrials and financials.[13]

For this reason, venture capital is flooding into AI[14]:

- 2010 US$321m
- 2016 US$5.09bn

THE GAFA EDGE: RISK-TAKING, RULE-BREAKING AND ROBOTS, ROBOTS, ROBOTS

FMCG giants should seriously reflect on the secret sauce that Apple–Google–Amazon–Facebook are using to dominate the top of the corporate food chain (Table 2).

The climb has been rapid and impressive. A decade ago, no GAFA companies were in the global Top Ten of listed companies. Today, their dominance is indisputable.

And the FMCG industry?

> Coca-Cola earned US$1.37bn in the second quarter — 60 per cent less than a year ago. Sales fell for the ninth quarter in a row, down 16 per cent to US$9.7bn. Of course, part of this may be attributed to the split-off of Coca-Cola's bottling licence holders.[15]

WHAT LESSONS CAN FMCG FIRMS LEARN FROM GAFA, AND HOW CAN THEY APPLY THEM IN THEIR OWN FUTURE PLANS?

FMCG benchmarking must be fundamentally recalibrated in light of GAFA's dramatic success.

Table 2 Facts and figures

Facts and Figures				
	Market cap[a] 2017 (US$bn)	*Sales growth[b] 2017 (%)*	*Profit margin[a] 2017 (%)*	*Profit[b] EBITA (US$bn)*
Apple	744	3.5	31.4	70.2
Google	634	17.7	38.5	32.8
Amazon	461	23.3	9.6	16.0
Facebook	431	35.5	48.7	18.3

[a]Bloomberg Markets.
[b]Morningstar Research.

EBITA: earnings before interest, taxes and amortization.

Innovation is still the key to success.

- The five most innovative companies in the world in 2015:
  Apple, Google, Tesla, Samsung, Amazon
- Apple and Google have occupied the No. 1 and No. 2 spots since 2010.
- P&G, the FMCG company with the highest R&D spending, has dropped year-for-year in the rankings:

  2010/7
  2011/8
  2012/8
  2014/10
  2015/no longer in Top Ten

- Today, Amazon spends more on R&D than any company in the world: US$17.4bn over the last 12 months.
- P&G's spending on R&D has stagnated:

  2014 — US$1.9bn
  2015 — US$2.0bn
  2016 — US$1.9bn

This is still twice as much as Unilever spends on R&D.

The FMCG industry is still dominated by producer-minded thinking. Reorienting a business around customer needs is, sadly, still not a priority. That is why 70 per cent of innovations ultimately fail.

- Is the FMCG industry's outmoded approach to R&D spending the right one for an ever-challenging future?
- Should the industry's transition from a producer to a consumer mentality and orientation not happen faster and be communicated throughout the entire organisation?

MORE 'OUT-OF-THE-BOX' THINKING IS NEEDED: GADFLIES WANTED

Jeff Bezos, the Amazon boss, wants to build robots to secure humanity's future on Mars.

Consider another survival strategy, the introduction of P&G's 'Purpose Brand' corporate philosophy in 2010: 'We will provide branded products and services of superior quality and value that improve the lives of the world's consumers.' The net effect was to shift P&G from a 'selling product' mentality to one based on 'improving lives' and connecting with customers at a basic, personal level: 'Touching Life. Improving Life. P&G.' It was a dramatic, far-reaching step for the company, its brand and its approach to brand management. If this customer-centric focus is really to be taken seriously, should the next CEO not come from marketing, not the finance side?

- All GAFA CEOs lost lots of money at the beginning, but held true to their customer-orientation philosophies until profits started rolling in.
- What can the FMCG industry learn from this?

THE INCREMENTAL APPROACH TO BRAND MANAGEMENT WILL NOT WORK ANYMORE

'Tomorrow's sale growth requires today's dividends.' This is easy to say, but hard to put into practice in many firms. Except Amazon.

Google's Development Department is called 'Moonshots': 'Risky bets on the future with unknown outcomes' is how Obei Felten, the strategy chief at Google X, describes the work. 'We only take up big ideas if they have the potential to affect at least 1 billion people.'

This kind of bold experimentation is unfortunately not part of the FMCG industry's DNA.

- The genetic makeup of FMCG marketing experts favours a step-by-step, incrementalist approach, which is totally understandable: This way of thinking has been drilled into marketers for generations! And it has often paid off big time.
- But is it the right mentality moving forward?

BE AS COMPETITIVE AS YOU CAN BE

GAFA firms always seek to dominate markets:

- Google processes 92 per cent of the world's online search queries.[20]
- Facebook has more than 2 billion users.
- Google X has been working since 2009 on self-driving vehicles. Global automakers used to scoff at Google's plans. They are not laughing anymore.
- 'To be competitive' is a perpetual source of corporate motivation, even paranoia. The next attack always comes from where it is least expected.
- The FMCG industry still defines competitors in terms of direct rivals.
- But will that hold in the future, or do FMCG firms have to prepare themselves for a 360-degree fight with untraditional rivals?

GAFA FIRMS ARE BUILT ON AI

They know that in the future, that's where the battle will be won. FMCG firms must not only regain control of their own data — after short-sightedly slicing spending in this area — but also build the expertise to exploit this new business 'currency' internally and externally.

AI has to be integrated into brand management — as a customer-oriented, self-learning system of 'multiple-lens insights'. These insights are more valuable than ever — but also more squishy, elusive and fast-moving. AI and data are the keys to reorganising FMCG firms to make them fit for the future. Not only that; they give CEOs the clarity to generate stronger return on investment (ROI) returns and get dramatically more out of their media allocation.

AI also has to be more intensively integrated into product development. As horrible as it may sound, AI knows customer wishes and needs better than many organisations do. The last sensational product developments were Pampers and Nespresso coffee capsules.

- Can the FMCG industry thrive with a 'more of the same' approach to data

management? Can FMCG firms simply ignore AI?
- How long can media business players tolerate the shortcomings of their sector, which is a black box filled with large inventories, middlemen, complex rebate systems, ROI-incentivised media channels, and other financial players overshadowing the client's needs?

GAFA COMPANIES LOVE TO INNOVATE BY BREAKING THE RULES

One of the best-known, most valuable brands in the world, Google, reorganised itself into a holding company called Alphabet on 23rd July, 2015. What a grandiose brand name for the company's complex and growing brand architecture: Google, with its sub-brands (Android, Search, YouTube, Apps, Maps, Earth, etc.) and its subsidiaries, which make products in these areas:

Nest	Thermostats, surveillance cameras
Fiber	Fibre optic cables
Calico	Biotechnology, genetic engineering
Sidewalk	Traffic management, advertising
Capital G	Investments
X	Research (ie Google Glass, Project Loon and DeepMind)
Verily Life Science	Biological sciences
Google Ventures	Ventures
Waymo	Self-driving cars

If a project graduates from Google X into a full-fledged business, it gets integrated into this holding structure — as, for example, the auto unit Waymo.[21]

- No successful FMCG holding would ever consider such an organisational rebranding move.
- Will FMCG holdings finally take the chance to look at the bigger picture?

IN LEVERAGING INNOVATION, SPEED COUNTS MORE THAN SELF-PROTECTION

If a project at a GAFA company is not successful, it is stopped quickly. That is what happened to Google's 'Foghorn', which was supposed to generate environmentally friendly fuel from ocean sea water. Ending a failing project quickly is even financially rewarded at Google, so that the firm's innovation pipeline is not adversely affected.

- The Bonus-Key Performance Indicator approach of the FMCG industry looks very different!
- Is it not time to rethink this?

GAFA'S APPROACH TO CORPORATE HR IS EXACTLY THE OPPOSITE OF FMCGS'

The prized HR values within P&G, the world's best FMCG company:

- Leadership
- Ownership
- Integrity
- Passion for Winning
- Trust

The guiding principles of P&G:

- We show respect for all our individuals.
- We are strategically focused.
- Innovation is the cornerstone of our success.
- We are extremely focused.
- We value personal mastery.
- We seek to be the best.
- Mutual interdependency.[22]

These all read like high-quality corporate operating manuals. But for too many big global FMCG companies, the problem is that they all sound the same. And therein lies the dilemma for HR experts: 'wind tunnel' recruiting (finding candidates who pass the stress test) or adherents of Schumpeter's Law (innovation comes from creative destruction). Remember: three of four GAFA companies were based on the founder's own ingenious idea. They hired people obsessed with success, unwilling to compromise: rule breakers, not makers. They preserved the garage mentality even as market cap hit a billion. They employed fanatical believers in their ideas who would sacrifice return before sullying the vision: Schumpeter's ideological heirs.

Of course, there is room for organisations and processes. But it is exactly this freedom to create, this freedom to risk and fail, that gives GAFA its biggest advantage over FMCG: 'Never tolerate business as usual.' GAFA firms have to constantly reinvent themselves; so do their employees.

Google expects all employees to spend 20 per cent of time on projects that have nothing to do with their job descriptions. That is not in the vocabulary of FMCG firms. GAFA leverages this to recruit the best employees. They tend to be self-directed nerds who have their heads in the (computing) cloud and their hands on their smartphones, but may have trouble pronouncing their own names — when they choose to speak at all, that is. But they are highly prized and sought after by GAFA firms.

- Is the FCMG industry's 'wind tunnel' approach to HR recruiting outmoded?
- Has incremental brand management outlived its shelf-life?

FMCG BRANDS NEED TO INVEST IN AI AS THE WAY FORWARD

How can FMCG companies take back momentum and avoid obsolescence? First, they must summon the courage and leadership to change course and do business in a new way. Then, they must adapt their firms to the data-driven realities of the digital era, and lather up with AI. And they had better do it today, not tomorrow.

This means investing heavily in IT, data management and digital infrastructures to unlock the value and connect the dots of consumer data already buried in their vertical FMCG silos. Cash-strapped CEOs will be reluctant to spend heavily on this, especially now, but they must. If not, they will save themselves, and their shareholders and investment partners, into oblivion. Retrofitting global FMCG companies with state-of-the-art, AI-based digital systems — much like those used by GAFA firms — will take months or years and cost millions of dollars.

The projects can initially be financed by cutting spending on advertising and promotions, which is no longer cost effective anyway. Once FMCG firms have functioning AI systems in place and can exploit the value of data, they can target media channels much better, and save even more money.

These new 'self-learning' systems will quickly pay for themselves. Most FMCG firms will have to recruit and import the AI/data-based systems experts who will build these new digital 'Noah's Arks' that will take them to the promised land. The automotive/finance industry is already on that path. Cooperation with AI start-ups is a must. But when they do, FMCG firms can use their new-found consumer insights to devise new, direct digital links to end customers for the first time.

To sum up, FMCG firms must:

- Find the will and courage to change with the times before they get left behind.
- Invest heavily to build new, AI-based corporate infrastructures, recruiting a

new generation of AI/data experts to lead the corporate transformation.
- Establish new direct digital links to individual end customers, just as GAFA firms are doing now.
- Capitalise AI based on horizontal data for sharper and more flexible consumer insights and Mediaplan optimisation. Multi channel selection, marginal utility curves per channel, spending periods – shorter or longer-ROI optimisation per channel.

FINAL FOOD FOR THOUGHT FOR FMCG BRANDS

'More of the same' in brand leadership will not work anymore. It is time for a radical change in thinking. It is time to:

1. Concentrate on consumer-relevant innovation;
2. Invest in holistic data management systems that leverage every part of a company;
3. Capitalise on AI to unleash organisational reforms and create new opportunities and products;
4. Recalibrate recruiting methods to attract workers with 'out-of-the-box' skills;
5. Focus on brand communication that sets a product and client apart from the rest;
6. Implement brand communication in a 'best of class' execution setting.

These are the ingredients for growth. They will help ward off the danger of a hostile takeover. More growth will generate more revenue, more net enterprise value and more shareholder value.

A strong brand is the best guarantee in the turbulent, changing times ahead! In contrast to many factories around the world, brands do not rust, as long as they are cared for and shrewdly managed. It is no longer enough to apply the lessons of the past to the challenges of the future. Now is the time for open-minded, brave experimentation — which smartly bundles resources, detects new opportunities early and quickly acts on them, instead of seeing them only as risks. There is no need for panic; this is not the end of the business as we know it. It is not even the beginning of the end. Rather, it is the end of a new beginning.

References and Notes

(1) ANA, 'Study Finds Rebates and Other Non-Transparent Practices to be Pervasive in U.S. Media Ad-Buying Ecosystem', 7th June, 2016.
(2) *Financial Times*, 24th August, 2017.
(3) Meaningful Brands, Havas Group.
(4) Ibid.
(5) Ibid.
(6) Kantar Worldwide.
(7) Ibid.
(8) Forrester Research.
(9) *Financial Times*, 24th August, 2017.
(10) *Handelsblatt*, 18th July, 2017.
(11) P&G, internet information.
(12) S&P, Global Market Intelligence, USA Today Research.
(13) Merrill Lynch.
(14) CB Insights, industry reports.
(15) *Handelsblatt*, 27th July, 2017.
(16) Strategy & PWC 10/2015.
(17) *Business Week* onlineBar.
(18) *Handelsblatt*, 14th July, 2017.
(19) P&G 2016 Annual Report.
(20) StatCounter.
(21) Alphabet website, Wikipedia.
(22) Ibid., ref. 11 above..