Consumer product companies face a complex and ever shifting landscape, fraught with significant penalties for missing emerging consumer trends. Every day, they consider their portfolios as they judge whether finite capital should be invested in existing power brands or newer ideas. Layered on top of this is the continual need to improve processes and cut costs to remain price competitive. When these initiatives falter or bad decisions are made, pressure from investors and activists can be intense. Activists can appear who seek to increase the return to equity holders or even break up the company.

The best of these companies are rethinking the processes they use to make informed capital decisions. They have become more nimble and use significant analytics in their decision-making. This has allowed them to think more creatively and see more success when considering an emerging trend, a new geography or even a technology that is synergistic to their existing portfolio.

Not all consumer companies are there however. EY recently conducted a survey of 536 CFOs across sectors, including 109 from the consumer industry. The vast majority of consumer CFOs (69%) say their capital allocation process is only “somewhat successful.” The responses also suggested ways that consumer products manufacturers may be able to improve their capital allocation process.

Consider alternatives to current strategies
The best consumer companies have evolved their capital allocation programs to reflect the changing world. As an example, companies are being more thoughtful about the balance between investing for the future versus returning capital immediately to shareholders. For many years, consumer companies have focused on returning some portion of capital to shareholders through dividends and/or share repurchases. Although these programs can certainly make sense, the prevalence and significance of these programs are higher than other industries that are more focused on top line growth such as technology or life sciences.
Improved decisions with better data and analytics

One of the challenges that consumer companies face is the complex and ever-changing landscape of customers. As a result, the data necessary to make informed capital allocation decisions — or the tools and expertise for analyzing and understanding that data — can be a barrier for consumer companies. This is in fact a notion we see in the survey: insufficient data is seen as the biggest obstacle to optimal capital allocation, with 45% of consumer CFOs naming this as the primary impediment.

This may seem counterintuitive as consumer companies, unlike those in many other industries, have always been known to having access to lots of data on their operations and external information such as POS data. However, much of the data is backward looking and is not as helpful when trying to figure out what consumers may want in the future.

Consumer companies need to move past metrics such as historical sales growth on the existing portfolio and instead use information and analytics to identify new areas where growth is just beginning to bubble up. Best in class companies are using demographic, geospacial, social media and survey data, as well as in-depth consumer interviews that can spotlight the most promising future trends.

Chobani is an example of a company taking steps along this line. It has brought areas including product innovation, commercial marketing, e-commerce, demand finance and others together in one demand department, erasing a siloed structure that Chief Marketing and Commercial Officer Peter McGuinness called “an impediment to our growth” in a 2017 interview with AdAge.

Unilever is another company that has invested in systems to gather and process different types of data and to make sure the data is available to the people who need to use it to make capital allocation decisions. At a 2019 industry conference, the company said it pulls 150 different internal and external data sources into its cloud-based system, helping it better understand its consumers and reach them in a targeted way, while also using the data to inform supply chain and operations decisions.

Many of the best consumer companies recognize that investing capital in building data processes leads to better capital allocation decisions, which in turn leads to better returns and more capital that can be invested in the business.

Focus on long-term strategy

It is not all difficulties for consumer companies when it comes to capital allocation programs. In some areas they appear to be ahead of their peers. For example, they tend to be better at making unbiased decisions, aligning capital allocation goals with long-term strategy, and having the ability to fund projects that meet investment approval criteria.

Almost half (47%) of consumer company CFOs say consistent processes are always followed and capital allocation decisions are free from bias and politics, compared with 40% overall.

Meanwhile, 66% of consumer CFOs whose companies have a formal capital allocation process say it is directly linked to the overall strategic plan, compared with 63% overall. At the same time, the vast majority (91%) say they are typically able to fund all investment opportunities that meet approval criteria, compared with 84% overall. This enhanced ability to fund investments may also be the reason why consumer companies are also more likely to return capital through dividends or share repurchase programs. The real question, however, is whether there are more areas of potential investment that would be apparent with better data and analytics.
Is your capital allocation strategy driving or diminishing shareholder returns?

<table>
<thead>
<tr>
<th>STRATEGY</th>
<th>CORPORATE FINANCE</th>
<th>BUY AND INTEGRATE</th>
<th>SELL AND SEPARATE</th>
<th>RESHAPING RESULTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enabling fast-track growth and portfolio strategies that help you realize your full potential for a better future</td>
<td>Enabling better decisions around financing and funding capital expansion and efficiency</td>
<td>Enabling strategic growth through better-integrated and operationalized acquisitions, joint ventures and alliances</td>
<td>Enabling strategic portfolio management, and better divestments to help you maximize value from a sale</td>
<td>Helping you transform or restructure your organization for a better future by enabling business-critical and capital investment decisions</td>
</tr>
</tbody>
</table>

Conclusion

Consumer companies can feel stymied in terms of where to invest capital effectively due to lack of perceived viable opportunities which in turn can lead to lowered shareholder return. Improving the capital allocation process can help them make unbiased investment and divestment decisions that can enable a company to meet what consumers want today and tomorrow. In order to do this, they need better tools and analytics and more forward-looking data to make decisions. The best consumer companies are implementing these processes into their capital allocation programs in order to be better positioned for the demands of the future consumer.

The recent EY Capital Allocation paper, Is your capital allocation strategy driving or diminishing shareholder returns? poses three questions CEOs and CFOs need to be able to answer:

1. Can we react quickly enough to opportunities and threats?
2. Are we making objective, unbiased decisions?
3. Are we returning cash to shareholders at the right time, and in the right way?

This sector spotlight article examines capital allocation challenges and opportunities in the consumer industry. Other articles examine capital allocation in advanced manufacturing, life sciences and technology.
To learn more and to have a conversation about the consumer industry, please contact us:

Dayton Nordin
US Fairness Opinions Leader
Ernst & Young LLP
dayton.nordin@ey.com
Follow me on LinkedIn

Jeff Wray
EY Global Consumer TAS Leader
Ernst & Young LLP
jeff.wray@parthenon.ey.com
Follow me on LinkedIn

Evan Sussholz
Partner, Valuation, Modeling and Economics
Ernst & Young LLP
evan.sussholz@ey.com
Follow me on LinkedIn

Ben Hoban
Senior Manager
Ernst & Young LLP
ben.hoban@ey.com
Follow me on LinkedIn

Special thanks to Dana Nicholson for her contributions to this article.

About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

About EY's Transaction Advisory Services
How you manage your capital agenda today will define your competitive position tomorrow. We work with clients to create social and economic value by helping them make better, more-informed decisions about strategically managing capital and transactions in fast-changing markets. Whether you’re preserving, optimizing, raising or investing capital, EY’s Transaction Advisory Services combine a set of skills, insight and experience to deliver focused advice. We can help you drive competitive advantage and increased returns through improved decisions across all aspects of your capital agenda.

The views of the third parties set out in this publication are not necessarily the views of the global EY organization or its member firms. Moreover, they should be seen in the context of the time they were made.

© 2019 EYGM Limited.
All Rights Reserved.

EYG no. 001523-19Gbl
1809-2902019
ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax or other professional advice. Please refer to your advisors for specific advice.

ey.com