

Landscape and Reward Trends in FMCG

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Agenda

- 1 ECONOMIC, CULTURAL AND BUSINESS LANDSCAPE FOR BWS
- 2 GLOBAL BUSINESS AND TALENT CHALLENGES
- 3 COMPENSATION TRENDS
- 4 IMPLICATIONS
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Economic, Cultural and Business Landscape for BWS



External Forces at Play...



Market Momentum

- With trepidation

Consumer Shifts

- Demographics
- Trends
- Expectations

Digitalization

- E-Commerce
- Social media
- Accessibility

Political Instability

- US and abroad

Globalism vs. Nationalism

- Political / social
- Consumer

Young Leadership

- Political
- Business



US Alcoholic Beverage Market Product Mix

- Beer remains the bulk of the industry, by volume and revenue
 - 75% of the beer market is held by 2 large companies – AB InBev and Miler Coors
- The US spirits market is fairly fragmented, with the top three players holding 38% of the total market volume

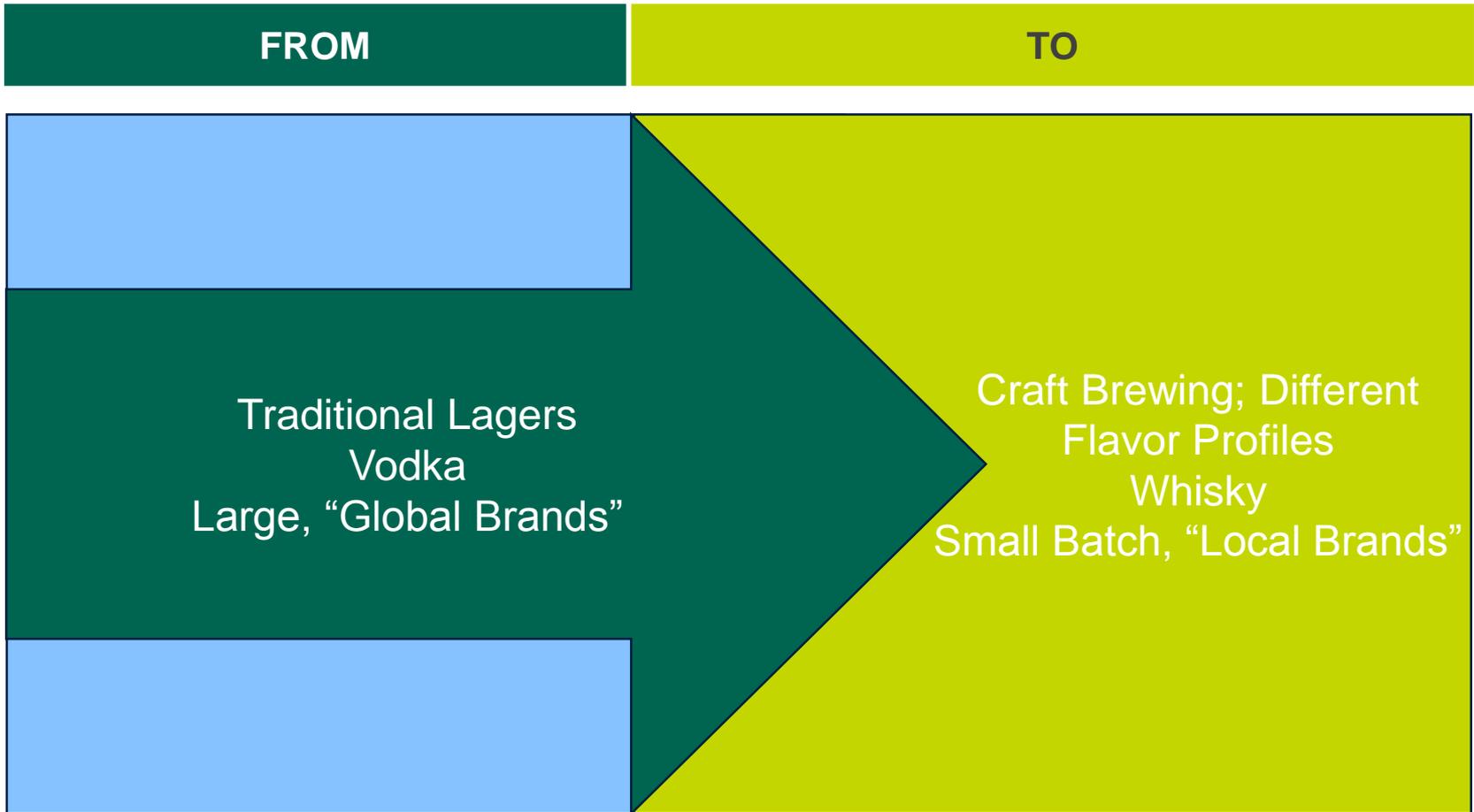
US Alcoholic Beverage Market by Production Volume



US Alcoholic Beverage Market by Revenue



The Industry is Shifting...



Changing Product Mix

BEER

- US Beer market compound annual growth rate (CAGR) was nearly flat between 2010 and 2014
- Craft beers accounted for 11% of the US market volume in 2014, and around 20% of its revenues
 - While the overall beer market barely changed in volume, the craft segment expanded by 18%
- The total number of craft breweries in the US surged 16% in 2016

SPIRITS

- US Spirits market compound annual growth rate (CAGR) was slightly greater, 2.3% from 2010-2014, but is expected to decelerate
- Whiskey consumption is projected to total 140 million gallons in 2020, remaining the second largest segment by volume (Vodka is #1).
- The craft trend is also influencing spirits sales as consumers seek high-end products and unique taste experiences
- The number of micro-distilleries in the US grew from 92 in 2010 to more than 750 in 2015



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Business and Talent Challenges



POLL QUESTION

What are the 2-3 biggest business challenges you are facing?

- A. Changing customer demographics
- B. Impact of online shopping
- C. Supply chain integration
- D. Sustainability
- E. Digitalization opportunities
- F. Threat of global recession
- G. Developing “Next Gen” leaders
- H. Cybersecurity
- I. Attracting / retaining top talent
- J. Global political uncertainty
- K. Other



What CEOs are Concerned About: “Hot Button” Issues

Hot button issues (2017)	Global	US	Asia	Europe	Latam
Global Recession	1	4	1	5	7
Developing ‘Next Gen’ leaders	2	2	3	1	2
Cyber Security	3	3	5	4	10
Failure to attract/retain top talent	4	1	7	10	3
Global political uncertainty	5	8	4	2	6

Source: Conference Board CEO Challenge Survey, 2017



Issues Facing the Broader FMCG Sector



Consumer Demographics

- Aging consumers
- Healthier preferences
- Social media impact

Online Shopping

- New models
- Groceries

Product Innovation

- Being nimble
- Organizing models
- Stage-gating

Supply Chain Integration

- Scale leverage
- Strategic placement

Sustainability

- Environment
- Branding

Digitalization Opportunities

- Marketing
- E-commerce
- Data analytics

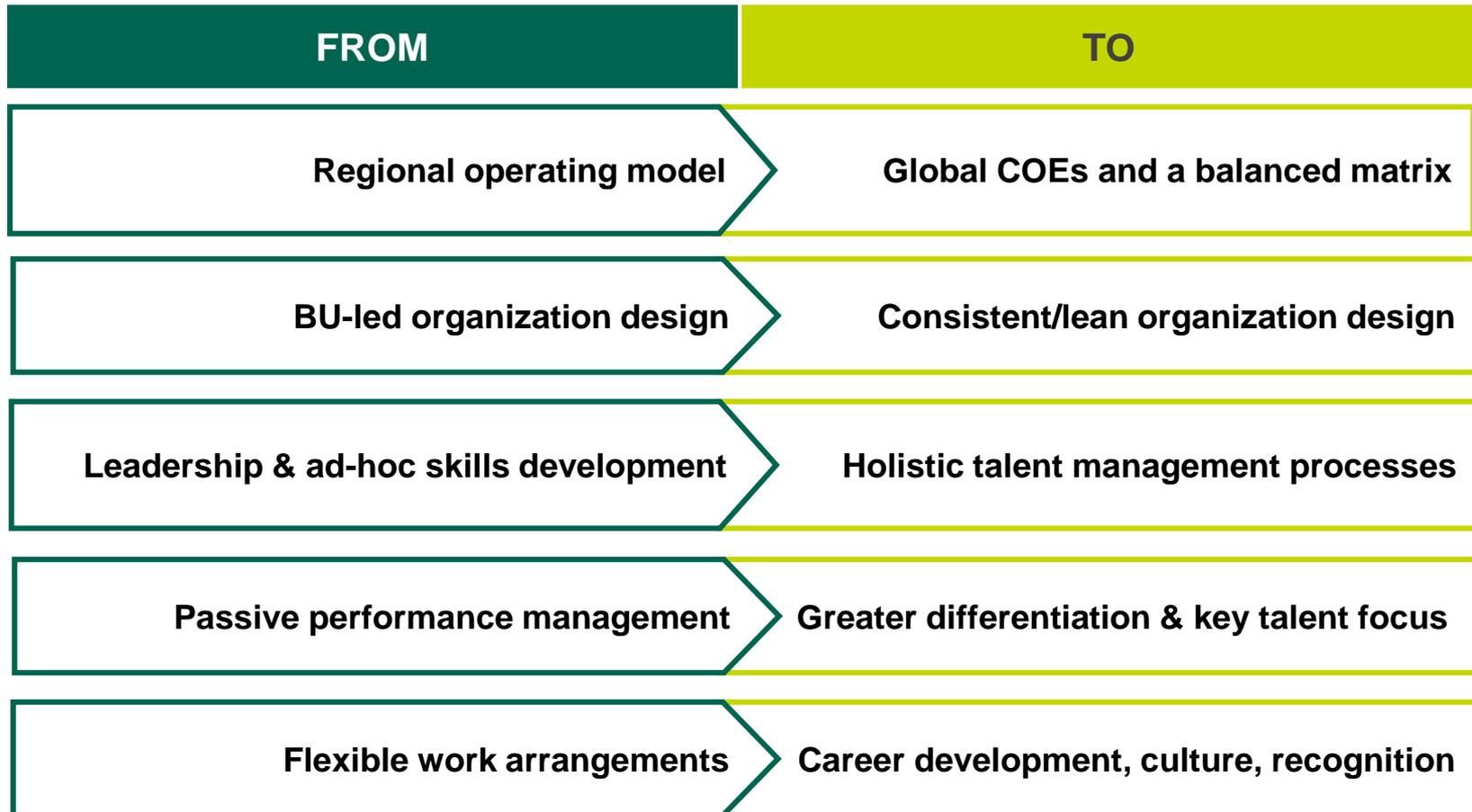
What CEOs are Concerned About: Human Capital Strategies

Human capital strategies (2017)	Global	US	Asia	Europe	Latam
Encourage an open, safe and transparent 'speak up' culture	1	2	1	1	2
Improve performance management processes and accountability	2	1	2	4	1
Provide employee training and development	3	4	3	2	8
Communicate effectively, consistently and transparently	4	5	5	3	3
Enhance effectiveness of senior management team	5	3	4	5	10

Source: Conference Board CEO Challenge Survey, 2017



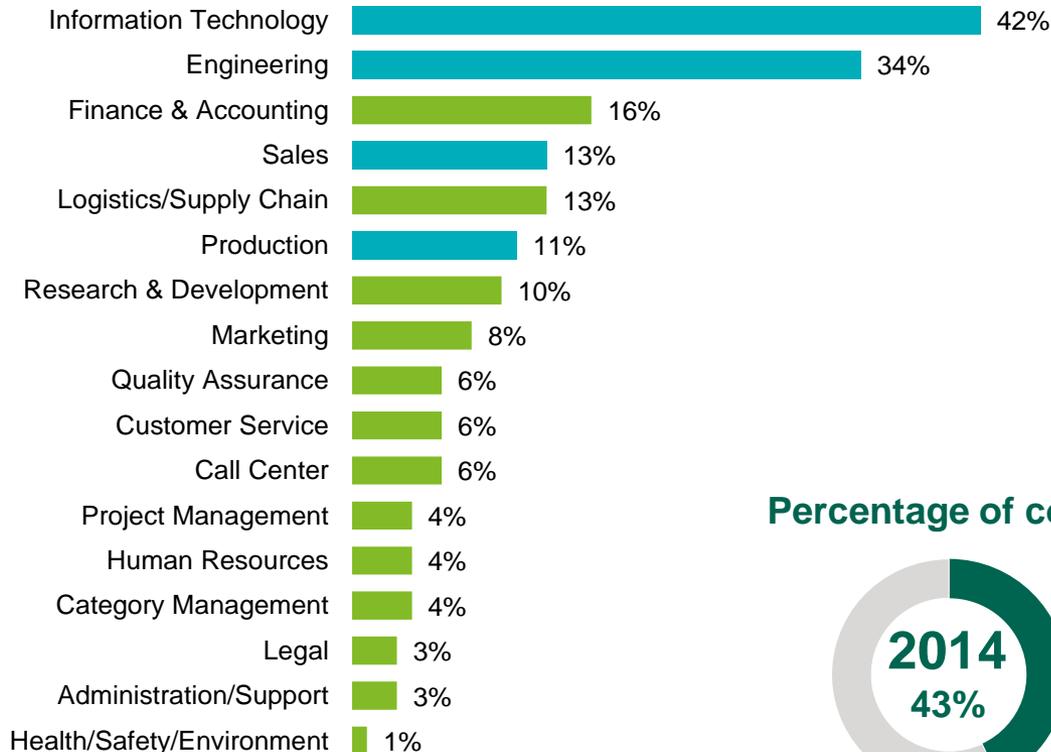
FMCG People Management Trends



Recruitment Challenges (US)

- In 2016, 41% of companies reported experiencing a scarcity of candidates.

Percentage of companies reporting candidate scarcity by job family

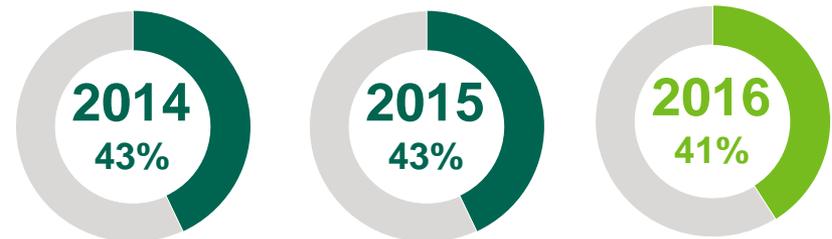


Highest turnover rates in
Production, Sales, IT
and **Engineering**.

11.9%

Average voluntary
turnover.

Percentage of companies reporting candidate scarcity



Source: Hay Group 2017 Prevalence and Planning report



Recruitment Policy - FYI

- Immigration legislation:
 - Dropped DACA
 - H1-B Visa renewal change
- In the next year several US cities and states will enact passed legislation preventing employers from inquiring about salary history during the recruitment process
- The intent is to recognize that historic pay equity bias impacts negotiating power for a new role
- Impacted locations include:
 - Oregon – effective October 6, 2017
 - New York City – effective October 31, 2017
 - Delaware – effective December 14, 2017
 - California – effective July 1, 2018
 - Massachusetts – effective July 1, 2018



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Compensation Trends



POLL QUESTION

What are the 2-3 biggest rewards challenges you are facing?

- A. Aligning reward strategies and policies with business needs
- B. Designing robust reward programs
- C. Effectively managing reward costs
- D. Rewarding and retaining top performers
- E. Communication of reward programs
- F. Engaging the broad workforce
- G. Ensuring externally competitive pay
- H. Fairness and equity in pay
- I. Equipping and supporting line managers in administering reward programs
- J. Ensuring non-financial rewards are meaningful and effective
- K. Other



How Sectors are Paying Globally

These percentages show, overall and regardless of country or level, how much the industry is paying its employees in 2017 compared to other industries.

- US BWS trends approximately 2.5% above US FMCG



Chemicals
8.2%



Construction
-2.0%



Financials
3.6%



FMCG
1.7%



High Tech
1.3%



Industrial Goods
-1.1%



Life Sciences
9.3%



Natural Resources
3.0%



Oil & Gas
21.9%



Retail
-12.6%



Services
-3.6%

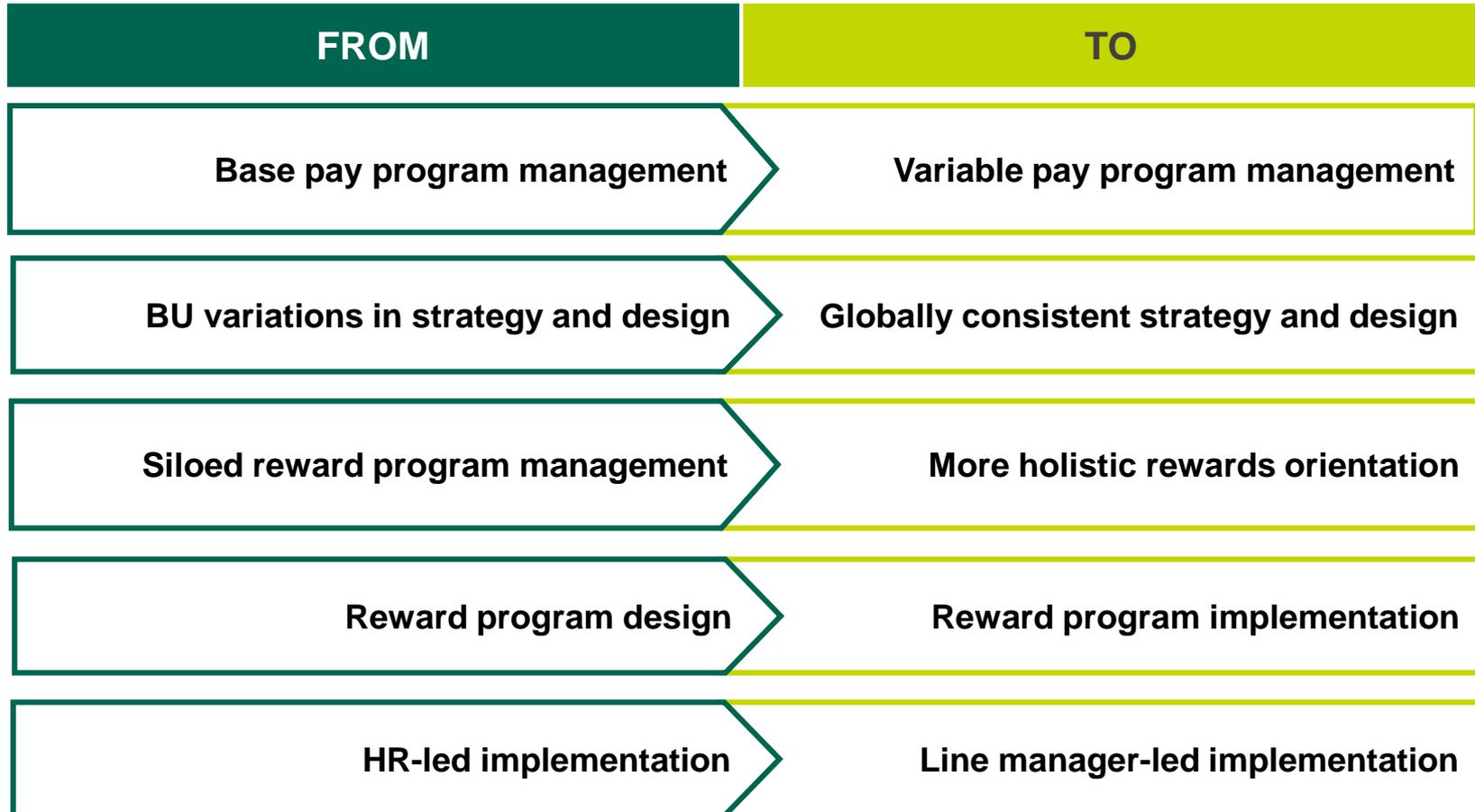


Transportation
-2.3%

% – Globally, overall, how much the industry pays compared to the general market



FMCG Reward Trends



(*) Hay Group, WorldatWork, Loyola University Chicago research & Hay Group client experience



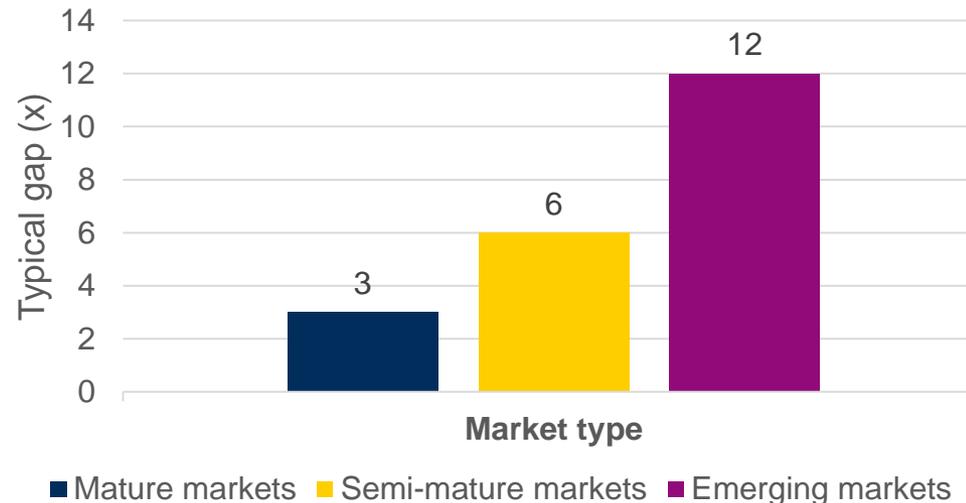
Transparency and Data Access

- **Everybody is an expert on pay! How?**
 - Technology – sites like Glassdoor, Payscale, Salary.com – allow employees to easily get comparative data
 - Much more about pay in the news
 - Pay for CEOs vs the average employee and top 2% vs. others
 - Pay for men vs women
 - Sometimes this presents only half the story, but increases employee awareness and interest in pay as an issue
 - Result – more ‘amateur experts’ on pay!



Pay Differentials – Managers vs. Individual Contributors

- Comparing pay between a senior manager (KFHG level 20), and entry level professional/ skilled manual level (KFHG level 12)
 - This gap has been rising in every region in the world – rising in twice as many countries as it is falling – and the rises are much bigger than the falls
 - Linked to the polarizing labor force, there is little pressure for pay rises at the bottom, shortage of key skills at the top
 - Countries that buck the trend mostly have strong labor unions, who are holding up pay at the bottom end



Source: Hay Group PayNet.



Reward Policy - FYI

- 2016 legislation to change FLSA guidelines and wage limits did not come to fruition
- Recently proposed tax reform presents changes to previously tax-favorable programs – primarily for executives:
 - As proposed under the bill, any compensation deferred under a *nonqualified deferred compensation plan* shall be includible in gross income when there is no longer any *substantial risk of forfeiture* (i.e., taxation occurs upon vesting, not on payment or settlement)
 - Existing deferred compensation arrangements to be included in income by 2025 or, if later, the year it vests
 - Elimination of performance-based exception under Internal Revenue Code (IRC) Section 162(m)
 - As proposed under the bill, the ability for public companies to deduct performance-based compensation in excess of the \$1 million cap would no longer be permitted



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Implications



Better Communications About Reward

- There is an increasing requirement to effectively communicate pay
 - Everybody knows much more about pay, and can easily compare theirs
 - There is much more attention on pay fairness, and expectation that gaps should be closed, not allowed to increase
 - Even if this is at odds with the ‘facts on the ground’ in the pay market
 - Global trends are creating new winners and losers
 - This seems ‘unfair’ to the ‘losers’ – but isn’t something that companies can do much about
 - Companies are stuck in the middle – and will have more explaining to do
- HR departments will soon be in the business of talking about pay – both internally and externally



Better Communications About Reward (cont.)

- Communication and clarity – specifically:
 - Clearly communicating to employees how pay is determined in the organization - and the things that make pay different for people and roles that look similar
 - Articulating the career ladder for each function in the organization
 - Clearly describing the skills and expectations for each job and level in the organization – and how these link to reward
 - Making sure that employees know how they stack up against the skill set needed for the ‘next role up’
 - In short – demonstrate that there are a clear set of principles to decide pay – and share what those principles are
 - Then, when you have mastered communicating this to your employees, start communicating some of it externally. Clarity creates confidence that things are fair, which makes you an attractive employer!



Aligned Reward Strategy and Policy

- Having a credible reward policy that is in line with what is practically affordable
- A decade of relatively low pay inflation has resulted in organizations struggling to use their pay bands in the way they were designed for
 - Limited salary increase budgets have made it difficult for organizations to move people through pay bands in line with their contribution to the organization
 - This results in large numbers of employees clustered towards the bottom of the bands, and pay practices lagging behind stated pay policies
- This gap between policy and practice has created one credibility challenge for organizations' reward policies and how they communicate reward to their employees
- Another credibility challenge arises out of a lack of internal consistency caused by legacy arrangements and the time it can take or difficulty of moving people into new policies



Keeping Talent – Predictors of Employee Retention

	Employees planning to stay for > two years	Employees planning to leave < two years	Gap
Confidence in ability to achieve career objectives	64%	31%	33%
Trust & confidence in senior management	60%	35%	25%
Opportunities for learning and development	71%	45%	25%
Benefits that meet employee needs	68%	45%	23%
Company shows care and concern for employees	62%	39%	23%
Company is effectively managed and run well	73%	51%	23%
Adequately authority to do job	73%	51%	23%
Employees paid fairly for the work they do	53%	31%	22%
Supervisory coaching for development	67%	45%	22%
Support for employee creativity and innovation	70%	48%	22%
Cross-work unit collaboration and support	63%	41%	22%
Company direction and goals are the right ones	73%	51%	22%

Source: Hay Group Employee Opinion Norms (2017)



Evolution of Work Has an Impact on Rewards

There is an accelerating trend towards:



- More agile working
- Team-based organization forms
- The development of career/experience pathways that typically involve cross lateral as well as hierarchical career progression

Most reward structures are not aligned to these approaches to work and career design



- **They are job-based** and work on the premise that the job is fixed and relatively timeless
- **They are hierarchical** – there's little incentive to develop a portfolio of skills when the quickest way to increase pay is a promotion to the boss's job



A Reward Manager's To-do List



Assessing Reward Effectiveness and ROI – a Template

	External \$\$ benchmarking	ROI benchmarking
Quantitative (£)	<ul style="list-style-type: none"> Compensation and benefits surveys Total remuneration surveys Total employment cost benchmarking Reward design prevalence surveys 	<ul style="list-style-type: none"> ROI/productivity analysis Compensation vs. operational ratios Turnover rates key talent retention Bench strength – quality & quantity Cost of replacing workers
Perceptual	External perception benchmarking	Internal perception benchmarking
	<ul style="list-style-type: none"> Comparison of employee opinion survey w/other organizations Employer brand/reputation. benchmarking (e.g., best places to work, most admired companies) 	<ul style="list-style-type: none"> Employee opinion survey (longitudinal), focus groups Perceptions of reward effectiveness, fairness, competitiveness, preferences Perceptions of alignment with business strategy, performance
	External	Internal



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Q&A



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