



RUI BARBAS

Nestlé US

Chief Strategy Officer

NAVIGATING THE PRESENT AND TRANSFORMING FOR THE FUTURE

Consumer packaged goods (CPG) companies have been severely tested during the pandemic, as shutdown orders upended long-standing patterns of eating and consumption. To understand the impact of COVID-19 on the sector, Hunter Williams, partner in Oliver Wyman's Retail and Consumer Goods and Pricing, Sales and Marketing practices, along with Sirko Siemssen, Global Retail & Consumer Goods Practice Leader, spoke with Rui Barbas, Chief Strategy Officer at Nestlé US. The conversation covered the massive changes that have taken place as a result of the crisis, as well as the long lasting impacts Rui expects to continue into the foreseeable future.

The past months have been full of challenges for CPG companies. How has COVID-19 affected your businesses so far and how did consumer needs evolve during this time? How are you looking at 2021?

For a large food and beverage company like Nestlé, COVID-19 had a tremendous impact on business, and it is still affecting us.

First, when you consider the massive spike in demand for in-home CPG products, across most of our categories, you can imagine the impact that had on our supply chain. Supply chains are not necessarily built to cope with sudden massive increases. Our biggest challenge and commitment has been: How do we continue to ensure our products are on store shelves and we are serving our consumers, while keeping our people safe and supporting the communities in which we operate? Our teams across the company, especially in our factories and distribution centers have come together to deliver on these challenges.

Second, the needs of the consumer have evolved under the impact of COVID-19, with both structural and cyclical effects on food and beverage companies and CPGs at large. For example, at Nestlé, a vast majority of our US business is in-home products, with a much smaller percent representing the out-of-home business. Since the beginning of the pandemic, we have been seeing consumers cooking

and eating at home more than ever before, which we have taken to calling the "at-home revolution." The consumer has been reintroduced to in-home cooking and baking, and I think there is a structural component in this, not just a cyclical aspect. People are evolving their habits, and we believe this is an evolution brought on by the pandemic but one that in many ways is taking hold for the foreseeable future.

Nestlé and other CPG companies are also being challenged to fill in the void left by the loss of out-of-home experiences available to them right now: How do you get that out-of-home experience in home? Now that you cannot go out to your favorite coffee shop or bakery, how do you replicate those powerful experiences indoors? Consumers are becoming their own baristas; they are trying new coffee recipes and trying to reproduce the café experience. Our Starbucks At Home site has seen increased traffic since the start of the pandemic as consumers are increasingly searching for recipe content, and we are supporting them on the website and via social with ideas, recipes, and techniques to try.

Another profound consumer-driven impact was the very significant acceleration in grocery e-commerce and direct-to-consumer (D2C) penetration, which more than doubled two or three months into COVID-19 and continues to hold. In some categories, it almost tripled. I wouldn't call it a trend — it was more of a speeding up of a shift that we were

already seeing on the horizon for the industry. The immediate challenge was dealing with the reality of exponential growth essentially all at once.

Looking forward, most of the consumer trends and impacts will persist into 2021 and potentially into 2022, with some consumer behaviors shifting for the long term.

In addressing those consumer changes and trends, which adjustments and priorities would you highlight for the consumer products industry?

There is a health crisis and an economic crisis. We need to create products and solutions to help consumers get through both. We are committed to meeting the needs of financially fragile consumers, as well as the needs of those who are not able to leave their homes because of shutdowns, yet at the same time want to have the out-of-home dining experience.

Also, certainly, e-commerce, D2C, omnichannel, and other trends are here to stay. We at Nestlé were talking about those trends and our approach to them long before the pandemic. The priority of embracing a truly omnichannel approach — of bringing offline and online together — was obviously reinforced and accelerated as a result of COVID-19. Also, the pandemic has accelerated the much-needed digital transformation across all aspects of the value chain — not just in the way that you

engage consumers, but also in the way that you run your supply chain and backbone.

Despite all the transformation going on, in a crisis it is crucial not to lose sight of the future and of your long-term strategy and goals. For example, take sustainability — at Nestlé, our purpose is to unlock the power of food to enhance life today and for generations to come and being a sustainable company is a key part of that. It is also a core element of our long-term strategy globally, both from a business perspective and the point-of-view of the consumer. Throughout the pandemic we have not only kept focused on our commitments, but actually advanced the efforts we have been making across our markets. For instance, in the US we have announced industry partnerships to reduce greenhouse gas emissions and made great strides in packaging innovation. These elements are very relevant for the planet and consumers expect it —

and the pandemic has not and will not divert our attention from it, neither in the US or abroad.

Finally, so much has changed in this year. I hope that some of the new ways of addressing and embracing change, including the empowerment and agility in decision-making, will remain in the post-COVID-19 landscape.

Zooming in on the out-of-home trend that seems to have been disrupted, and the D2C trend that you highlighted: Will out-of-home dining see a rapid comeback? And how does your investment in Freshly (a service that delivers direct to the consumer fully prepared, fresh and healthy meals ready in under two minutes) fit in?

Out-of-home dining will come back, but it will continue to face some challenges. Right now, there's a lack of comfort among consumers about eating

There is a health crisis and an economic crisis — and we will need to create products and solutions to help consumers get through those twin crises.

out that will take a bit of time to wear off. In the long term, we believe part of the consumption that shifted in home will stay — people will slowly start to look for out-of-home experiences when they feel comfortable, but their habits and preferences as to how they balance in-home and out-of-home time may have shifted. Consumers have gotten reintroduced to the enjoyment and comfort of staying and cooking at home and that will factor into how we as people come out of this period. Also, many operators in the out-of-home dining sector are potentially struggling financially. All in all, it will require a lot of partnerships between out-of-home operators and others to work together to rebuild and reimagine the out-of-home dining sector. That said, some of the out-of-home channels are starting to bounce back, which is great to see.

Freshly is indeed a D2C meal-solution proposition and fits nicely with our focus on delivering a wide variety of delicious food to consumers when and where they want it — be it directly in their home, in retail stores, or online. We want to provide unbeatable convenience, choice, and ease to our consumers wherever they are and however they choose to shop.

We had taken an equity position in Freshly back in 2017. This is not simply something that we are doing in response to COVID-19. Our interest in the D2C business model predates Freshly. If you think about the Nespresso business, that's a D2C

Consumers have gotten reintroduced to the enjoyment and comfort of staying and cooking at home and that will factor into how we as people come out of this period.

business we started more than 20 years ago, long before the term D2C was coined. We also recently acquired other important D2C players such as Mindful Chef in the UK and Persona, a personalized nutrition business. In a nutshell, investing in D2C is a continuation of a path we have been on for a long time and a structural trend that we see continuing in the future. Today, there's both the consumer demand as well as the required level of preparedness from a supply chain standpoint to make these D2C business models effective.

Moving on to digital preparedness: It seems to be the big differentiator between the “sheep and the goats.” A key factor in that preparedness, in terms of infrastructure, is data analytics. How has 2020 accelerated that agenda?

Across the entire value chain we relied upon analytics — be it consumer-driven analytics, production analytics, demand-signal analytics —

and digital at large because we had to run business much more digitally and dynamically during 2020. We will take those learnings and experiences and continue to run even more efficiently looking ahead. As for understanding where consumption was headed during the pandemic, we were guided to a great degree by digital enablement, which helped shape how we planned demand and supply, how we operated, and how we engaged.

In this context, how have you approached the issue of not being able to fully rely on “like for like” comparisons that are so central planning and running to the retail and CPG supply chain in 2020/21?

Look, the past nine months and the foreseeable future have been anything but business as usual. Like-for-like comparisons were difficult in 2020, and will be difficult in 2021. That forces leaders to think through the expected impact of COVID-19, both in

terms of the elevated consumption, and the future as the vaccines are rolled out. Because of this you need to approach financial budgeting in a much more dynamic way and with a great deal of scenario planning — of course leveraging a lot of analytics and digital tools. Also, this is where the role of the CFO and heads of strategy become paramount. They will need to keep different planning scenarios in mind as we navigate this unprecedented period in a very agile manner.

You are one of the most global companies. At the same time, there are different approaches to COVID-19 across regions and countries. Does this create new challenges between global ambitions and local reality?

What you're saying is valid. Having said that, food and beverage is very local: The large majority of our products sold and consumed in the US are also produced in the US and that is the case with almost all our regions and markets globally — the products are produced close to consumption. I would also add that the balance between local and global hasn't changed for us. We are a global

company in a localized way: Global frameworks of operating, but agile ways of executing locally. And this in a sense helped us navigate the pandemic — because our local markets had their own local supply chain versus a global supply chain, which during the pandemic became problematic for many.

Finally, is there a moment that stands out that you'll remember 10 years from now?

There are a few memories that I feel will be lasting ones. The first is looking at the numbers early on and realizing the enormity of the coming challenge for our supply chain. The fact that there was not a material interruption in the food and beverage supply chain in the US really speaks volumes about the supply chain resilience. Of course, there are always issues here and there, but generally speaking the industry held firm and rose to the challenge. The agility of retailers, manufacturers, and suppliers to cope with the spikes in demand was simply unbelievable. Seeing the front line coming together to help the country and world get through the crisis has been amazing to me, and I

have been humbled by their response. It helped maintain consumer confidence in the food supply chain and reassured the consumer that the shelves were not going to be bare, thus reducing panic shopping. There's no playbook for that and it will stick in my mind forever.

Witnessing the massive acceleration of e-commerce in just a few weeks also stood out: The expansion of the food and beverage e-commerce infrastructure in the US practically happened overnight. It was there previously but not to the extent that we see today. And it's not transient demand: We're seeing a new plateau. And so, we also have to quickly evolve our business model and projections to sustain that.

Lastly, I am so proud how we at Nestlé came together for our communities. From partnering with the Red Cross globally to feeding seniors in New York City with Freshly to donating more than 2 million meals to Feeding America and more than 4 million bottles of water to relief organizations, we mobilized in the US and around the globe to support our consumers and our communities.

Oliver Wyman is a global leader in management consulting that combines deep industry knowledge with specialized expertise in strategy, operations, risk management, and organization transformation.

In the Retail & Consumer Goods Practice, we draw on unrivaled customer and strategic insight and state-of-the-art analytical techniques to deliver better results for our clients. We understand what it takes to win in retail: An obsession with serving the customer, constant dedication to better execution, and a relentless drive to improve capabilities. We believe our hands on approach to making change happen is truly unique — and over the past 20 years, we've built our business by helping retailers build theirs.

For more information, please visit: www.oliverwyman.com

CONTACTS

Sirko Siemssen

Global Retail & Consumer Goods Practice Leader,
Germany
sirko.siemssen@oliverwyman.com

Maria Miralles

Retail & Consumer Goods Practice Lead,
EMEA and LatAm
maria.miralles@oliverwyman.com

Frederic Thomas-Dupuis

Retail & Consumer Goods Practice Lead,
North America
frederic.thomas-dupuis@oliverwyman.com

Pedro Yip

Retail & Consumer Goods Practice Lead,
Asia
pedro.yip@oliverwyman.com

Ronan Gilhawley

Retail & Consumer Goods Practice Lead,
Australia and New Zealand
ronan.gilhawley@oliverwyman.com

Rainer Muench

Retail & Consumer Goods Practice Lead,
Germany
rainer.muench@oliverwyman.com

Nordal Cavadini

Retail & Consumer Goods Practice Lead,
Switzerland
nordal.cavadini@oliverwyman.com

Coen De Vuijst

Retail & Consumer Goods Practice Lead,
The Netherlands and United Kingdom
coen.devuijst@oliverwyman.com

Eric Bach

Retail & Consumer Goods Practice Lead,
France
Eric.BACH@oliverwyman.com

Copyright © 2021 Oliver Wyman

All rights reserved. This report may not be reproduced or redistributed, in whole or in part, without the written permission of Oliver Wyman and Oliver Wyman accepts no liability whatsoever for the actions of third parties in this respect.

The information and opinions in this report were prepared by Oliver Wyman. This report is not investment advice and should not be relied on for such advice or as a substitute for consultation with professional accountants, tax, legal or financial advisors. Oliver Wyman has made every effort to use reliable, up-to-date and comprehensive information and analysis, but all information is provided without warranty of any kind, express or implied. Oliver Wyman disclaims any responsibility to update the information or conclusions in this report. Oliver Wyman accepts no liability for any loss arising from any action taken or refrained from as a result of information contained in this report or any reports or sources of information referred to herein, or for any consequential, special or similar damages even if advised of the possibility of such damages. The report is not an offer to buy or sell securities or a solicitation of an offer to buy or sell securities. This report may not be sold without the written consent of Oliver Wyman.