

## THAT MAKES CENTS



## Let's get digital: Defining times for the CP industry

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**Bobby Stephens:** Hi, everyone. Welcome back to That Makes Cents, the podcast where we get real about consumer trends. Today we're talking about digital, but with a focus on the consumer products industry. Before we get smart on that, let's just answer a few basic questions. First, what exactly is the consumer products industry, and why do we care? Well, you might call it CP, CPG, consumer goods, or something else, but in all cases, these are the everyday items that, if you looked around you right now, you'd probably see them. You might be sipping on them, munching on them, sitting on them, whatever. They're all around. These products stock your fridge and pantry, fall from your medicine cabinet at the best times, like when you have the hot water in the sink on, and likely collect dust in that one weird storage closet or the garage. In other words, they are a key part of everyday life.

Second, why are we focusing on digital and consumer products? Well, despite heavy investments into digital initiatives and a lot of focus, large CP organizations have yet to see the returns they anticipated. I'm very glad to have joining me today Steve Salzinger, a digital adviser to two prominent private equity firms who has a long history in the digital space, and Kevin Rose, a consulting principal here at Deloitte. Steve, thanks for joining us.

**Steve Salzinger:** Thanks, Bobby. It's great to be here. By way of background, I'm a consultant and a private equity digital operating partner, and I focus on digital and technology due diligence for private equity firms who invest in new consumer product opportunities. And I consult for consumer product companies to help them build value-creation plans by adopting digital.

And I started in digital strategy back in 1994, as a research associate at Harvard Business School (HBS). I wrote coursework for the service management and technology groups to help them build the first university-level course on e-commerce. And over the past 20 years, I've started and sold a few consulting companies and technology businesses that serve Fortune 500 media, consumer products, and entertainment companies. And I'm delighted to be here.

**Kevin Rose:** Thanks for having me as well. This is Kevin. I'm very excited about this topic. I've been working with a lot of consumer product companies over the last few years, and I've had a lot of conversations and thought deeply about what digital means within the consumer product industry. I'm also pretty excited for the opportunity to get into a dialogue with

Steve. We've had a few opportunities to work together over the last couple of years and I've always had some really interesting and really fun conversations about this. Just by way of overall background, I've been with Deloitte for about 15 years, the last eight as a partner. Working, again, with consumer product companies and really helping them understand what digital means and understand how to really get most effective around it. So looking forward to this.

**Bobby:** Awesome. Glad to have both of you guys, and this should be a really fun one. Let's start with sort of the notion that—and I hate to say this—but digital has become a bit of a dirty word. And this is a family show, so we want to be careful about dirty words, but you tack onto that transformation, reinvention, evolution, acceleration, all the I-O-N words, and as buzzwords, and you get a lot of word soup. And so the sheer number of organizations trying to recreate themselves as digital-native companies or tech companies is probably countless. So where I'd like to start is for each of you to take a moment to define: What are we really talking about today, and what does digital really encompass?

**Kevin:** Bobby, why don't I take a first shot? And I think, first off, you're absolutely right. I mean, you walk the halls of any consumer product company and there are so many digital buzzwords that are being thrown around, ultimately with very limited meaning to them, because they're just talked about so often in so many different contexts. For me, when I think about digital, what I always think about is, I look at it from both the growth side as well as the efficiency side. What I mean by that is, anything that companies are doing that allows them to really expand how they do business today, using digital and online channels, is a digital play. But it can be both things that from a growth perspective are relatively normal for business, digital marketing, using email as a way to communicate with their consumers.

Or it can be something that's a little bit more out there, using AR and VR as a means to try and do something dramatic. It can also be on the efficiency side. It can be simple things like finance, right? Making a

spreadsheet automated so that they can actually use digital capability to do simple business tasks. Or it can be something super advanced, using blockchain to try and do something really meaningful around their ledger. For me, it actually has a pretty broad meaning, and I think that's really important, because when so many in the CP industry are starting to think about digital, they need to recognize that so many of the activities ultimately fall under that.

**Steve:** I think Kevin is spot-on right. Digital is everything and everywhere now. And the way I like to think about it is in a framework, where you have digital and your digital strategy split into two pieces. One is the front end, and one is the back end. And by front end, what I mean is anything related to a digital experience that touches a consumer—it could be the website, it could be social media programming, it could be even digital coupons. And the back end is anything that helps the company run its business: digital supply chain, digital human resources, even an employee portal.

But even in that simple framework, it could be very difficult to execute. And what I've found is, when digital is everything, what it really requires to be successful is strong leadership and a strong vision. And you know, in consumer products, I've seen organizations that have been very successful, but have been highly centralized with digital centers of excellence. And they've worked. And at the same time, I've seen very successful organizations where you have highly decentralized digital, where digital is being pushed like peanut butter out into each and every brand's business. But ultimately, both of those models can work if you have highly effective leadership that can communicate a clear and engaging direction and a commitment to a winning business model.

**Kevin:** I think you're so right about the importance of having the right leadership in place and having an ability for those leaders to really shepherd digital within the organization. Once you start to get to that place, you start to see some amazing things happen. All of a sudden that sort of front-to-back that both of us described, you



start to get information coming from one side that feeds the other. You start to see a more dynamic model where the real power of digital starts to come into place. All of a sudden, some of the back functions that may not have recognized or seen demand signals coming out of marketing or coming out of sales, they now get to see those things. And you start to see a much more cohesive and a much stronger business as a result.

**Steve:** I think that is a big struggle for especially the larger organizations that are more established, because you look at these large Fortune 500 companies that have hundreds of years of legacy, they have dozens of years of technical debt. They have tremendous brand strength, they have customer data, and they have cash. But you see how, for the past 20 years, while this has been so central to the growth of the digital economy, if they don't have the right execution, if they don't have the right marketing-level or technology-level leadership, they leave themselves open, regardless of all their assets, to huge disruption.

You can look at industries like the subscription razor blade business or the online hipster eyewear business. When leaders in upstart businesses are marshaling teams and resources and focusing their strategy on executing and pure disruption of an industry that might have an inefficiency in their economics, because they're willing to break the rules and act differently, they can do a lot of damage, and they can win. And so, if you're a larger company and you're

trying to compete with that, being able to attract that strong leadership and that focus into your organization is absolutely critical.

**Kevin:** I'm going to do something kind of funny, and I know, Steve, you're going to give me a hard time for doing it, but you know I love to put names on different things that I experience and see within the industry, because I think what happens as a result of that—I call it a lack of focus—are a few things that I tend to see.

One of them I like to call “digital snacking.” The big CPGs, in a desire to try and do things around digital and a desire to try and go after what they perceive to be huge opportunities, are all doing a million little digital snacks. And none of them are large enough in their own right to really be disruptive or really make a difference. But all of them are given some weight or some importance. And ultimately, they're actually competing against each other, and they're not really moving the needle for the organization. Another one that I see a lot is this concept called “hollowing out.” And I think, even in the way we started this discussion, I think it sort of suggests that that tends to happen where all these terms get thrown around: digital, agile, digital transformation. And ultimately, they don't really mean all that much, because with everyone running around and having a different definition of what it means to them, and everyone taking a cue from a senior leader, potentially, who offers a perspective on how digital is important without a real clear direction on what to do about it, ultimately, they're throwing around these buzzwords, and they're hollow. They don't really mean all that much.

And the last one I think a lot about, and I don't know if this name is quite as creative as the other two, but I call it “org fracturing.” And for that one, it's really this issue where because executives are all going after digital in their own right—the CMO is off doing one thing, the CIO is off doing something else, the CFO is off doing something else—and ultimately, everyone is moving in different directions and is literally fracturing the organization, which in many ways is the exact opposite of what you were describing around that clear leadership.

**Steve:** In so many ways, what you're describing is exactly what organizations have faced in the Internet, online services, digital space, since the beginning of the digital era. Whether it's 1995, 2005, 2015, companies would attack this problem by launching dozens of small initiatives. And frankly, it wastes a lot of time. It wastes a lot of resources on uncoordinated ideas that are unfocused. And the good news is that, now that digital has been part of the business world for over 25 years, there is a lot of experienced talent in the marketplace that has led and has experienced these multiple economic cycles. I remember back in 1995, everyone was trying to figure out what to do, and there were probably 500 people in the world that were thinking about consumer digital. Today, there are tens of thousands of great people working in consumer digital who have experience going through positive cycles and negative cycles that know how to navigate digital and built great businesses and great business models.

**Bobby:** You both made great points, such that I didn't even find time to jump in, which was awesome. And I think our listeners probably appreciated that. But for me, the one thing that I heard—and it sounds to me that digital really isn't just about technology—that consumers might be interacting with technology that makes your work more effective, whether that be at headquarters, at a store, in the distribution center. But it also needs to include long-standing issues pertaining to people in leadership. Things like vision, focus, and kind of sticking to it. And, Steve, he made a point there at the end. You put all that in the context of today, a disruptive time, there are likely some similarities between today and 1999 or 2008—you pick the time period—times of disruptions that will reveal the winners. We'd love if you could talk a little bit about that.

**Steve:** Sure. I think it's been fascinating to see two, going on three economic cycles with dot-com boom-and-busts. What you've always seen in good times is people overinvesting in noneconomic ways, while in bad times, inevitably, whether it was in the dot-com crash or the 2008 recession, you

see an interesting, accelerating separation between successful digitally focused companies and those who don't have the business discipline and don't have the focus and, ultimately, as a result of those, don't have the cash to be able to win. In my opinion, it's in the tough times, like I believe we are entering now, that the fortunes of tomorrow are made.

It's when it's tough out there that the competition fades away a little bit. When it's bad economically, bigger companies can buy smaller cash-poor companies than have great teams for cheap. And sometimes, the timing can be more important than the idea. And an old venture capitalist friend of mine once said, with a great idea, being early is the same as being wrong. For example, I graduated in business school in 1994 and, to my knowledge, no one hit it big in the Internet. Meanwhile, a year later, the graduating class of 1995, 10 people sold their businesses for \$100 million or more within the first five years after graduating. Timing does matter.

**Kevin:** Yeah, I think there's a lot you can take away from that. One of which clearly is, I wish I had graduated Harvard in 1995. Other than that, I think what you're saying makes a lot of sense, and I think we also have to factor in when people or when companies are now starting to think about . . . How do you start to take advantage of these things? Bobby, you had done a great job summarizing the idea of leadership, the idea of people in organization. I'm going to add a couple of others that it becomes so important to that mix. I think we have to take into account the consumer, right? I think that in 1995, when all of those great things were being started, it also was because there was an inflection point. Consumers were ready for something.

And I think that holds true today. I also think that companies should think about the capabilities, in a way, because having that data backbone to understand the consumer, having not just the leadership, but also the talent—the data scientists and the designers and all the people who can really start to take advantage—either by having them yourself or by having access really

makes a dramatic difference. It really opens up the right types of opportunities for companies.

**Steve:** You're right. The other thing that all of that brings to bear, though, is the complexity of the way companies need to interact with their consumers and how consumer communications strategy has gotten more complex. And the operating models for managing it are just now starting to take hold. I'll share a story. I was working with a Fortune 500 CMO on digital, and he shared with me one of his greatest frustrations. He said, "10 years ago, I would create a television ad, and it would take me nine months to know if it worked or not. But today, a junior marketing manager launches a Facebook post, and if it goes slightly wrong, it fills up my inbox in 20 minutes." I mean, we're living in a world today where one wrong tweet can bring a business to its knees.

And organizations and executives need to adjust their way of work, and they need to adjust the way they think about their organizational models to handle that. I mean, for example, most big companies' CMOs don't think about their span of management control as if it includes influencers and brand ambassadors, because they don't work for them. But those individuals impact their brands every single day. And as a result, they are requiring CMOs to think about a new way of working, a new way of managing, in a much more complex and frankly, risky world.

**Bobby:** I absolutely love some of the wisdom that you guys just shared. It sort of strikes me that digital is one of another many examples where we should, as professionals, strive to learn from history, take advantage of the few select gray hairs, while incorporating that new thinking. Drawing from experience in other market expansions and downturns, seeing other tech winners and losers, and understand the competitive environment so as to not repeat those mistakes. Also, I do want to reinforce: We can't forget some of the other important components of any transition or transformation, be it digital or otherwise—the people, the leaders, the workforce, the

consumers, and the good old-fashioned kind of back-end operations. In closing, what's the one thing each of you would like to leave our listeners with?

**Steve:** Bobby, I want to focus on the word "consumer" that you use there. In my 20-plus years in digital, if there's one thing that history shows, it's that the kids always lead and the adults always follow when it comes to digital. And today, when it comes to consumer products, though digital is moving fast, it is accelerating, and nothing is driving consumer products faster than Gen Z. I think of it like a Gen Z cliff. Unlike Millennials or Gen Xers, who are both pretty predictable about their behavior, every month, Gen Z is shocking me with how they redefine apparel, how they communicate their point of view, and how it evolves, on gender, through what they wear, through what they think is cool, how they want to be entertained.

And they don't really care about what any other generation thinks. As a result, Gen Zers are the trendsetters for everyone else, pulling everyone else along, whether it's related to sustainable skincare, whether it's related to music, online learning. Look at Greta Thunberg. Look at Billie Eilish. They are leading consumer opinions today, not following. If you want to figure out how to compete for consumer attention in the future, figure out what your relationship is with Gen Z first.

**Kevin:** I think that's great advice. For me, I would probably give the same advice that, frankly, I've been giving a lot of my clients for the last 15 years. Ultimately, this is a business strategy problem in a way. And what people or executives really need to be thinking about is, what is that true north for what they're trying to accomplish vis-à-vis digital? I think, Steve, your points around the consumer make a ton of sense, and I think they have to really think about what they're trying to accomplish with the consumer, but then work through all of that and understand how they're going to use all of the new exciting possibilities through digital to their advantage, but also have the right backbone and the right types of underpinning capabilities to make all that work. Again, some of the operational, some

of the data, some of the things that may not be obvious and may not be as immediately exciting for organizations are just as critical and just as important. And I would say, in that world of true north, leadership is so critical and so key. And all of that needs to be taken into consideration. I'd also like to just point out for a second, Bobby, it's not lost on Steve and I that you mentioned the idea of the gray hair guys giving advice. I think you might've called us a little old. Maybe we can unpack that on a future podcast, if you'll have us again.

**Bobby:** Well, I mean, here's what I heard, and it's sage advice from some wise gentlemen, as you might've said. You have to have a true north, a goal to get to and to get everybody organized around, but you cannot let your peripheral vision be blind to the things that are changing to the east and the west, because they will change and they will change very fast. So like every episode of this show, we could probably keep this conversation going for much, much longer, but we have a time limit. If you'd like to hear more from these two, Kevin Rose and his team have a white paper soon to be published on digital and CP on [deloittdigital.com](http://deloittdigital.com), and you can follow him on LinkedIn. And to learn more about Steve's work, you can connect with him on LinkedIn or visit his site, [salzinger.com](http://salzinger.com). That's S-A-L-Z-I-N-G-E-R.com. Well, that's it for now. We will see you all on the next episode of That Makes Cents. Cents with a C, of course. Thanks.

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