the leadership blog

Food industry disruption spells opportunity for ingredients companies.

Here's how they can seize it.

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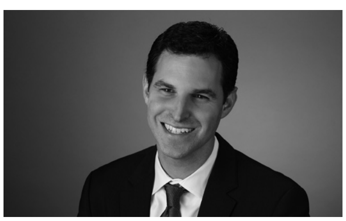

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The combination of 3G Capital's ongoing acquisitions, margin pressure from discounters like Aldi and Lidl and the expectations of activist investors has thrown consumer packaged goods companies in the food space squarely on the defensive. Most have reacted by going into cost-cutting mode, slashing entire layers of marketing and R&D talent from their organizations. This reaction is understandable but may well compromise long-term growth. Yes, there's room for improved margins, but over the long term, there is far greater value to be captured in figuring out how to cater to seismic consumer shifts, from a growing middle class in emerging markets to the complex desires of millennials who scrutinize ingredient sourcing like sommeliers but who balk at eating breakfast cereal because it requires cleaning a bowl. In other words, CPG firms are dialing back their capacity for innovation just when it matters most.

But the imperative to innovate is like risk – it doesn't get eliminated within a system but rather redistributed to different components. Eventually CPG firms will realize that they can't cost-cut a path to growth, but in the meantime, their focus on bottom-line efficiency spells an opportunity for ingredient companies to absorb the marketing and R&D talent the CPG firms are shedding and thus become the new source of insights into, and products tied to, consumer behavior.

For ingredient companies to do this successfully, however, requires several things. First, they cannot assume that even the most successful CPG marketer or R&D leader will be able to make the upstream shift. At a CPG firm, these executives set the tone for the rest of the organization. At an ingredients firm, however – even one committed to innovation – they will find themselves closer to the periphery. These executives thus will need stronger communications and influencing skills to have an impact. They will also need healthy doses of curiosity, engagement, insight and determination – the four attributes that have been shown to indicate agility and potential to adapt to new environments. The talent management function at ingredients firms must therefore evolve to screen for these attributes in hiring, development and promotion.

But innovation requires more than the right talent – it also needs the right culture. Traditionally, ingredients companies have been driven by procurement at one end and sales at the other, which lends itself to a very linear organizational structure and easily quantifiable performance benchmarks. Innovation, however, is neither linear nor easily quantifiable. Instead, general managers must create environments in which competing ideas can be tested and refined – and sometimes combined – in an interative loop that culminates in creative breakthroughs. Harvard Business School Professor Linda A. Hill, a leading expert in how innovation occurs in the workplace, refers to this as *creative abrasion, creative agility and creative resolution.* Establishing this sort of innovative culture requires general managers to act more as orchestra conductors rather than field marshals, comfortable with the paradox of simultaneously unleashing and harnessing a team's energy and focus.

Finally, ingredient companies will have to top-grade their sales capabilities to evolve from selling commodities to selling solutions. Relationship-based selling will no longer be enough. Becoming sources of innovation puts the spotlight on ingredients companies, but they must retain it through compelling data and narratives drawn from a new-found proximity ot the consumer. Conveying insights that CPG firms can in turn leverage in their dialogue with retailers requires a holistic perspective that until now has not typically been part of the ingredients salesperson's role specification.

The effects of the disruption of the food value chain are still being catalogued. However, it clearly presents an opportunity for ingredients companies to increase their impact on that ecology. Seizing that opportunity will require a significant shift in organization and talent management. Companies that commit to that shift, however, will find that they will enjoy a significant competitive advantage during a highly turbulent time.

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