

Consumer CEO Route to the Top

The profile of consumer products leaders, today and in the future

Global consumer products that have enjoyed steady and consistent growth over recent decades are no longer assured of their momentum and stability. The center of gravity has shifted for major players in the consumer product sector. They are having to contend with a range of issues, from globalization and macro-economic upheaval to the impact of technology on consumer behavior and operations, from changing consumer preferences and priorities to the rise of the Asian middle class.

Almost all of the world's leading consumer products companies have their roots in the West, where the most recognizable and profitable global brands have been nurtured, but this is not a situation that can last. Indeed, research by McKinsey suggests that by 2025 almost half of the world's \$1 billion revenue companies will be domiciled in today's emerging markets, and a significant proportion of these will be consumer businesses competing for customers and talent.

For Western companies seeking to stay competitive at home and capitalize on growth markets, the number one priority is to find leaders who have the vision, agility, skills, experience and background to navigate the many disruptions that undoubtedly lie ahead. CEO succession planning is today recognized to be one of the most critical responsibilities of a board. We hope that this report will stimulate boards to question what a successful CEO might look like in the future and encourage them to remain open to creative options when it comes to appointing the next generation of leaders.



INTERNAL CANDIDATES ARE PREFERRED

Over two-thirds of CEOs were appointed from within the company, confirming a trend that we are seeing among many of the world's largest companies, particularly those in mature and stable sectors.

 **67%**
of CEOs were insider
appointments

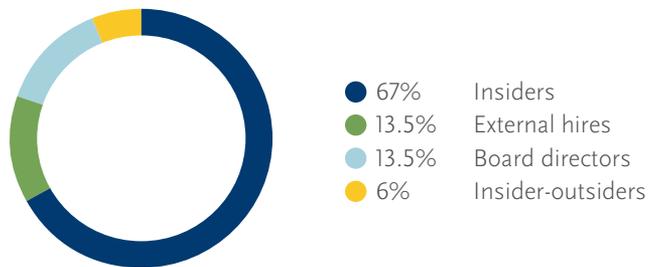
Whereas 10 or 20 years ago it was more common for boards to recruit CEOs with successful track records running other businesses, today they are more likely to give internal candidates the benefit of the doubt — placing a greater value on the insider's intimate knowledge of the business, its culture, products and customers than on the apparent benefits of a proven, high-profile outsider.

This suggests not only that boards are starting the succession planning process earlier and taking a longer-term view about executive leadership, but also that companies are getting even better at developing their own talent. In our experience, consumer products businesses are highly effective at constructing talent management regimes, identifying high-potentials early on, putting them through intensive leadership development programs and providing opportunities for job rotation and exposure to foreign markets.

The remaining CEOs were either appointed from the board (13.5%) or were what we call “insider-outsiders” (6%) — executives from outside the business appointed to a senior role as heir apparent and taking over from the CEO within 18 months. If CEOs in these two categories are included, then insiders account for an overwhelming majority of CEOs currently in situ (86.5%).

Perhaps the converse is more notable in that only 13.5% of current CEOs were external hires.

The relationship of CEOs to the business on appointment



PREVIOUS ROLE

Among the CEOs in our study, the most common stepping stone (52% of CEOs) was the role of divisional CEO (or divisional GM), usually involving an international remit. This position is more akin to the CEO role than a functional head and carries major P&L and general management responsibility — indeed, some of these divisions generate revenues the size of very substantial companies in their own right.

The second most common position held immediately prior to becoming CEO was chief operating officer (25%), a position often used as a stepping stone to prepare insiders for the CEO role.

Only two CEOs (6%) were promoted from chief financial officer.

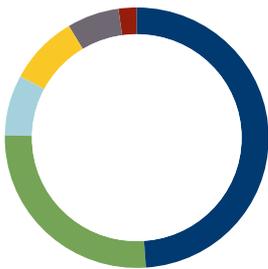
Those CEOs who had run businesses elsewhere were evenly divided between those who ran public and private companies.

52%



of CEOs were divisional CEOs or GMs in their previous role

Previous role held by CEOs in our study



52%	Divisional CEO or general manager
25%	Chief operating officer
7.5%	CEO (private company)
7.5%	CEO (public company)
6%	Chief financial officer
2%	General counsel

MAIN BOARD EXPERIENCE

Over half of the CEOs in our research had been on the board of their own company or as an independent non-executive director of another public company for at least six months prior to their appointment.

Most boards prefer prospective CEOs to have had prior public company board experience because it gives the executive a chance to see at close hand what the CEO role entails. It also helps them understand how a board works and what is expected of the CEO in the boardroom. From our experience advising hundreds of boards on their CEO succession planning, we believe that serving as a board director is one of the most effective ways that potential leaders can learn what it means to be a high-performing CEO.

52%



of CEOs have prior board experience

FUNCTIONAL ROUTE UP

Any executive who reaches the top of a major global organization almost always will have held numerous roles across different parts of the business. No two career pathways are identical and some executives have been exposed to a broader set of experiences than others, but our research shows some clear patterns among the current cohort of CEOs.

 **36%**
of CEOs have strong
backgrounds in marketing

The most common functional background found in the resumes of today's consumer product CEOs is marketing. Given the brand and consumer focus of consumer products businesses, it is not particularly surprising that 36% of CEOs have built their careers through a variety of marketing roles. By contrast, very few CEOs (5%) have sales as their primary functional background (although many of them gained sales experience as part of their early training).

The second most common functional background is finance (21% of CEOs). It is interesting to compare this statistic with the fact that only 6% of CEOs had been promoted directly from the CFO role. This suggests that having a finance background is not a barrier to getting the top job, nor is it sufficient. At some point, in order to position themselves as credible CEOs successors, senior finance executives have to broaden their management responsibilities by taking on a senior general management role.

15% of CEOs came up through the strategy route, one had an operations background and one a legal background.

FAMILY TIES

Six of the CEOs in our sample are members of a family that has full ownership or a controlling stake in the business. The shape of their careers is very different from that of their peer group in the sense that they did not come up through a particular functional route. Instead, they were given general management experience at an early stage in their careers, having been earmarked for leadership of the business. As with family businesses in other sectors, some of these executives have only ever worked for the family business, whereas others have spent some time in professional services firms such as banking or consulting.

DIVERSITY — A MIXED PICTURE

Four companies in our sample are led by women: Indra Nooyi at PepsiCo, Irene Rosenfeld at Mondelez, Allison Cooper at Imperial Tobacco and Sheri McCoy at Avon. Sadly, this picture is not dissimilar to the situation among leading businesses across all sectors (for example, in both the US and the UK, fewer than five percent of CEOs of leading companies are women).

International diversity is a different picture. We looked at companies where the CEO is a different nationality from the nationality of the company (based on its historical roots and headquarters as opposed to its corporate domicile).

36% of executives fall into the category of non-nationals, which reflects two things: first, all the companies in our sample have a truly global footprint and a distributed, international workforce; second, companies in the consumer products sector are among the best at identifying and developing executives with senior leadership potential, regardless of their nationality or where in the world they entered the business. That said, out of the 19 CEOs who are non-nationals of the companies they lead, 13 are Europeans. Two are American, two are Brazilian, one is South African and none are from Asia.

The average age of CEOs is 56. The youngest CEO is Pedro de Andrada Faria of BRF, aged 42, while the oldest is Michael Dolan of Bacardi at 70.

8%



of CEOs in our sample are women

36%



of CEOs do not share the nationality of their company

Our research

To understand more about the background, skills and experience of CEOs in the sector, we analyzed the profiles of the CEOs who run 52 of the world's leading consumer products companies, both public and private.

Drawing on a combination of proprietary knowledge and public domain information we examined the career path of each CEO. This study highlights what we believe to be the key data that shed light on the leadership decisions boards have been making in recent years.

ASSESSMENT — A CRITICAL FACTOR IN CEO SUCCESSION

The foundation of an effective assessment is a comprehensive view of the role of executive leadership in an organization, and the factors that shape specific leadership requirements.

As executive search and leadership advisers for 60 years, we have observed and studied leadership in different contexts and have developed a view on how to help clients think about the role of leadership in their organizations and how to select and develop the senior executives able to make a lasting positive impact on the business.

Spencer Stuart's model for CEO assessment looks at:

- » The organizational context: the near-term and long-term critical demands and constraints from the team, organization and business environment to which a leader must respond
- » Character and interpersonal style: the kind of person he or she is; the nature of the person, his or her emotional drives, values and leadership style, all of which are important when considering alignment with an organization's culture
- » Current and potential capability: the knowledge, skills and deeper characteristics that make up the overall competence of a leader relative to a role
- » Leadership outcomes: the various outcomes expected of a leader based on the intersection of the person's character and capability in context

Our Leadership Capabilities Framework provides an objective set of scaled business leadership capabilities with which we can compare any one executive to any other. The average of this scale is the average executive; the top levels are calibrated to surface distinctions even among outstanding top leaders of the largest global companies.

We look not only at past experience and current capability, but also future potential. A core tool we use to get at an individual's potential is our Executive Intelligence (ExI®) assessment, which targets the characteristics that specifically predict executive capability and business impact.

We also consider a leader's character and personal style and how they fit with the needs of the business and the organizational culture. Our approach to assessing culture enables us to measure executives' cultural impact and alignment and provide practical insights on specific leadership and cultural development opportunities.

RECRUITING THE CEO OF THE FUTURE

Global consumer products companies planning the succession of their CEOs are having to think carefully about the profile of their next leader. There are multiple factors shaping what is required of future leaders, including globalization; macro-economic upheaval; a shifting global political landscape; a growing lack of trust between elites and the populace; disruptive technologies; and changing consumer preferences and demographics.

The CEO of tomorrow will need an international mindset, the right temperament and experience to open up new and emerging markets, and a background in more than one function. He or she should be agile enough to deal with the constant pace of change and be comfortable adjusting to the shifting technology landscape in order to lead the digitalization of the enterprise and connect more effectively with consumers.

Future leaders will need to be deeply passionate about how consumers think and behave — and respond to what they learn in a strategic way. Where growth in global categories is stagnant, the CEO of the future will need to create new businesses and income streams unencumbered by the existing corporate culture. The growing trend towards health, clean food labels and sustainability is evidence of more open-minded thinking at the top. As one CEO put it: “The best people I have seen running consumer businesses are relentless in their quest for deeper understanding; they are always willing to challenge their own assumptions about consumers, always wanting to understand the core reasons for today’s behavior and anticipating the behavior of tomorrow.”

There are, of course, other dimensions to being a successful CEO in the consumer products sector. The fragility of corporate and brand reputation means that the CEO has to be able to steer the organizational culture in the right direction and put in place systems and processes to ensure a strong reputation for the business over the long term.

An analytical mind combined with strong conceptual thinking is a necessary basis for developing a strategic vision — which then needs to be accompanied by an ability to create engagement and build alignment throughout the organization.

What’s more, in an era of slow organic growth CEOs will need to have M&A experience; a high level of financial dexterity; and an ability to foster partnerships with other companies in the supply chain as well as outside the sector.

The key question that boards must continually ask themselves is: where does the company want to be in 5-10 years' time, and do we have the best, most diverse talent to take us there? To answer that question properly, companies must invest in a high-quality assessment program that can accurately predict which executives will succeed in a senior leadership role and which will not. Equally important is the development program arising from such assessments, which should include mentoring, coaching and stretch assignments. (See page 6: "Assessment — a critical factor in CEO succession".)

When it comes to CEO succession, statistics can help boards improve their chances of success by informing their judgments about potential leaders. Ultimately, however, it is all about one board choosing one CEO for one company at a time. The same person could be a success in one context and a failure in another. We hope that this study will give boards the courage to make the best decisions they can, taking into account the current and desired culture of the organization and focusing on the leadership requirements of the changing business and its competitive landscape.

COMPANIES LIST

The following companies were included in our research:

Altria Group	L'Oreal
Anheuser-Busch InBev	Mars
Arla Foods	Mondelez International
Associated British Foods	Nestlé
Avon	PepsiCo
Bacardi Limited	Pernod-Ricard
Beiersdorf	Philip Morris International
BRF	Procter & Gamble
British American Tobacco	Reckitt Benckiser
Britvic	Revlon
Carlsberg	SABMiller
Colgate-Palmolive Co.	Suntory Holdings
Coty, Inc.	The Coca-Cola Company
Danone	The Estée Lauder Companies
Diageo	The Kraft Heinz Company
Dyson Group	Tyson Foods
Electrolux	Unilever
Ferrero	Unternehmensgruppe Theo Müller
Fromageries Bel	VION Holding
General Mills	Whirlpool Corporation
Heineken	
Henkel	
Nomad Foods	
Imperial Tobacco Group	
Japan Tobacco	
JBS	
Kao Corporation	
Kellogg Company	
Kimberly-Clark	
Koninklijke Philips	
Lactalis	
LEGO	

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Privately held since 1956, we focus on delivering knowledge, insight and results through the collaborative efforts of a team of experts — now spanning 56 offices, 30 countries and more than 50 practice specialties. Boards and leaders consistently turn to Spencer Stuart to help address their evolving leadership needs in areas such as senior-level executive search, board recruitment, board effectiveness, succession planning, in-depth senior management assessment and many other facets of organizational effectiveness.

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