INTERVIEW

KYRIAKOS KYRIAKOU: BIG COMPANIES OVERANALYZE AND THUS LOSE PERSPECTIVE

In his exclusive interview for Central European Business Review, the Regional Managing Director of Nielsen CEE, Kyriakos Kyriakou, talks about lack of trust in the manufacturer – retailer relationship, about consumer data and how companies should work with it, about selling on discounts and promotional spirals, about marketing – sales cooperation and about other interesting topics.

Tell us something about yourself. What are your hobbies? And what would you be doing if you weren't doing what are you doing?

I come from Cyprus and I've been with Nielsen for 18 years. That was my first job, so I've been working for Nielsen all my life. I was recruited when I was finishing my MBA studies in the States. At that time, Nielsen was expanding into Eastern Europe and since I was recruited, I've worked in several countries. I worked in Cyprus, Czech Republic, Hungary, and Belgium and then I came back to the Czech Republic because my wife is Czech. That's why it feels like home to me here.

I have to say I like the industry I'm working in. Ninety-five percent of what we do is with FMCG clients and I think the FMCG industry is fascinating. It includes a lot of work with people. You need to win the hearts and minds of consumers. And this is a big thing. Actually, I started in finance and at some point I was European CFO for Nielsen but then I moved into commercial to be more in the line of fire.

And what would I do if I weren't doing what I'm doing? My hobbies are lots of different sports but probably the most exciting one is race car driving, so I might do something in that area. Or I would like to do something connected with charity work. It might sound a little bit naive but I would like to do something that would pay my bills and let me live the modest life but at the same time it could help make some people's lives more bearable. I mean people that aren't fortunate enough to have all the good things that other people have.

Is there some field in charity work you are concerned about?

I care about underprivileged children, about orphans or about children with some mental disabilities. I call them the ones who can talk to the angels.

Why do you actually like this? Why do you think you should care?

Since I was young, I have been very curious about why people are so different, why some people have everything and some people don't. When you start thinking about such things you get to the point when you start asking what the purpose of life is. When I was younger, at the time I was studying at university, I thought I could change the world. But then I got to the point where I realized I couldn't change it and that it's naive to think that because nobody really can. But I also realized that I can make a big difference around me. If you can change the lives of 10 people and make them smile, I think it's worth doing. It's not about changing the world; it's about making a little difference.

Is it somehow connected with your passion for data, for research and so on?

I think this is something where Nielsen is a little bit misunderstood. Let's take a step back and think about how Nielsen developed. We are a 90 year old company and what have we been doing over this period of time? We've been following consumers. We measure what people watch and what people buy. So whether a consumer is a viewer or a shopper, we follow what he is doing. We capture seven hours of people's time. If you take out the time when people are at work and the time that they sleep, we know almost exactly what they are doing the rest of the time. I think it gives us a great insight into human behavior.

We are always associated with lots of data. We have millions of data points and our job is not to take them and throw them to the clients and tell them: "Here, do whatever you want with it". No, that is not what we do. We measure market shares and trends in time and I believe that we do it better than anybody else. Over these 90 years I don't think that there has been anybody else with a better methodology than us. But data is a commodity and we live in an age where data is everywhere. Twenty years ago when you wanted data you had to go to libraries and search in books but now it's everywhere and we are overwhelmed by it and that's why data has become a commodity. The data is not what we want to be known for. If you look at our mission statement, our mission is to help and provide our clients with the most complex understanding of consumer markets worldwide. Understanding the consumer is about insight and added value that comes from the data. So we don't provide data, we provide solutions based on the insights that come from the data.

As you said, there is so much data nowadays. Do you think it's used properly? Or how is it used? And why is it good or bad?

I think that there is a persisting opinion that the more data you have, the easier it will be to find a solution. I can see that our clients often spend too much time trying to dig through the millions of data points; they try to reconcile data from different sources and figure out why they're not the same instead of actually taking some actions based on some key insights. A lot of people tend to be very reactive, especially for the last 3-4 years after the crisis in 2009. Everything has become very dynamic and consumers are very connected; they are very demanding and well educated, and they know better what they want. And our clients just tend to be very reactive. They look at some data that is two or three months old and they just try to catch up. There are lots of very small companies out there that are agile and they are doing much better than those big companies with their marketing teams and big marketing budgets. It's because these companies are overanalyzing. Nielsen is also a big, corporate monster and I know that it takes time and it's very bureaucratic to make a decision; these companies face the same issues as well. The result of being more reactive is that people pay too much attention to the details and they lose perspective.

There is also an element of risk avoidance. Some clients are very connected to traditional brands, even if they're not making a profit anymore, and they keep on trying to make them winners. I'll borrow a saying from a friend of mine: "feed the growth and starve the losers." If a brand is not doing well, why should you spend so much effort on it? It has been there for 30 years? Ok, fine. Maybe it's been your baby and you got emotional about it but it went full cycle and it's time to let it go.

What is very often done in FMCG is one kind of promotion, i.e. sales. Why are these companies doing this? Why is it that the only thing they can think of doing is sales?

This is a whole different subject. The structures of these big multinationals were based around the supply chain. This means that you produce a lot and you reduce your production cost by producing more and more and more and then you just push it into the market. And there are different ways of pushing it. So you put it out for a market price and if it doesn't sell, you have to discount and discount and discount, then you give 1+1 for free until you get rid of it. This is supply chain economics. But now the whole concept is changing. It's more about pull than push, and companies don't realize that the demand chain is forcing things. That's why they're going to be left behind and they're going to lose.

Why would I produce so much of something that I'm not going to be able to sell at a profitable price and then I will have to discount it by about 50% in order to sell it? It's stupid and it makes no sense. Why not produce things that people want? Unfortunately, we got into a promotional spiral. Especially the Czech market is one of the most over promoted markets in Europe. It's probably number two after the UK in terms of promotions. Almost 50% of all FMCG are sold on promotions. And when I say promotion, I mean either price discount or a banded pack or it's on a hypermarket's leaflet. Promotions cost money. And some categories are so embedded in the consumer's perception that it has to be on promotion for them to buy it -- for example, coffee. Consumers go to the store and say: "Ok, if I don't find it on sale today, I'll find it on sale tomorrow or I will find it on sale in a different store." So they are waiting to find it on promotion.

And what to do with this situation?

The problem is that it's a spiral and producers can't get out of it. I ask our clients what are their business objectives? Is it market share, volume or profit? In this market, you won't be able to achieve all those things at the same time. And the thing is that they know it and understand it but the objective of most of them is market share. They want to keep their brand equity and hope for things to turn around. But this spiral lasts 4-5 years and things are not turning around because the market is over promoted. It's impossible to get to Kaufland or Lidl without promotions and discounts. Those people have to think in the short-term. They think about this year and next year and about how to sustain their market share. They want to keep their brand number one or number two on the market, so it's hard for them to get out of the spiral. We can see a lot of smaller companies that are more agile and not so affected by corporate targets and goals, and they are actually doing better and better. They have a lot to say in terms of innovation as well. They can take a step back and say: "Ok, I don't want to be everywhere."

How to help those companies in a spiral?

Not everyone would agree with me on this, but I think that the local markets still have some potential for growth. More in Poland and Slovakia, less in the Czech Republic and Hungary, but I think there is still room for these countries to grow in the FMCG industry. If I look at the western countries such as UK, Netherlands or Belgium, they are maxed out. In the FMCG industry, there is a market share war. If you want to grow you need to take share from someone else. And I think that in our markets, there is still room to grow the pie. There are many reasons why I think this. For example, the middle class is still growing and developing and in my point of view, the middle class is what moves the economy. Also infrastructure is still improving, so the companies will be able to get their products to more places. There are still lots of places with bad distributional channels.

If you look at retailers and manufacturers, their relationship is very tense. Of course there are exceptions and good examples but you don't see very often a manufacturer and a retailer sitting together and say: "Let's talk and let's see how to improve this category to make it grow." A lot of retailers don't think about proper category management. They just think about how to get the best deal. How to get the best deal from Coke or Pepsi, who is going to give them the best discounts, who's going to give them the best payment terms and then they decide how many products or brands they list from any manufacturer. So there is still some way to go in terms of improving this. Actually, we recently started to work with couple of retailers working together with manufacturers trying to build the categories, trying to reduce "out

Photo: Jan Branč

of stocks" because when you go shopping and the thing you want is not on the shelf, you can do three things: you can either not buy it at all, buy a different brand or you can go and buy it somewhere else. In the first and the third cases, the retailer loses. And this is where manufacturers and retailers need to start trusting each other more. But the environment is such that you can't create trust yet. It's because the Czech market is oversaturated in terms of retailers. If you look at the number of hypermarkets per million citizens, the Czech Republic is second or third in Europe. Those hypermarkets try to survive and get the best deal and on the other hand the manufacturers are getting into these tense relationships in which they need to constantly and continuously discount and go on sale until they reach a point when they will be forced to start working more collaboratively.

And why don't they cooperate? Is it because of fighting or is it caused by the lack of knowledge about cooperation?

First of all, it's a lack of tools. They don't have the right tools. And some people think that they know better than others – their gut tells them so, so it's about the lack of trust as well. And I don't want to sound negative but there's an element of cultural behavior because people intuitively tend to mistrust the ones they're negotiating with. And I see this lack of trust in Europe more than anywhere else, specifically in Central Europe. Of course, it's probably based on culture and history, so it's understandable. But also, there's a fact that they don't have proven tools and this is where my company has a big role to play and we are trying to demonstrate to people who give us the chance that there are ways to work together.

You said that very often there's this gut feeling but they have the data as well. Why would you trust what your gut tells you when you have the data that tell you otherwise?

We talked about retailers, the data they have tells them what the share in the development of sales of each manufacturer and each brand is. But of course, when they negotiate with the manufacturer about which products should be listed in their shops, they start thinking tactically – they think about their P&L. They have the data about sales but different products have different profitability and that depends on how good of deals they get. So if they can get a 20% discount from one manufacturer and 30% from another one, then intuitively they say: "Ok, I'll have better profit here." and what we give them is actually a pretty comprehensive set of data which also contains benchmarking of every product and every manufacturer.

So if we go to Tesco, Tesco knows that if there are indexes of about 80 for a particular manufacturer, the manufacturer is underrepresented in their stores because in the rest of the market the average is 100. So, probably, they are missing an opportunity because that particular manufacturer isn't given enough shelf space. And we give them all this data but I don't know how seriously they take it.

We did research and asked what the role of marketing in the Czech Republic was and found out that only 14% of the companies are led by the marketing department, while 55% of them were led by the sales department. How do you feel about it? Who is actually using and who should be using the data? What is the role of data in business from your perspective?

That's a good point. And it's one of the inherent limitations in the way that most companies are structured. Marketing is so disconnected with what's happening at the top and with sales. And also, the departments have different budgets. Marketing does all the fancy stuff like advertising, media and so on while the sales department is more connected to distribution, merchandising, getting the right deals and so on. They are using different sets of information in order to make their decisions or execute their strategies. Marketing cares about market shares and trends because that's how they are evaluated. But the sales people have different criteria. They are more oriented to in-store execution and care about the percentage of stores their product is available at, whether they have enough stock in the shelves, whether the retailer keeps all his commitments to them and so on. Many companies fail in making the marketing and the sales work together and understanding what is beyond the surface and how one impacts the other. They work separately but at the end of the day, the work of one impacts the visibility and ability to execute in-store of the other. And I think that many companies don't manage to make them interact in an efficient way. And then there are companies who have both of these activities under one control and they're doing well because they are very hands-on and I know CEOs of FMCG companies who roll up their sleeves and look into the marketing data, then into the sales CPIs about in-store execution, put one and one together and make decisions based on that. But the bigger the company, the more separated this is. This is where the major disconnect is created. I've seen many global companies spend more time fighting over allocating the budget between the different divisions instead of actually asking themselves whether they get a good return on investment from it. Because if they don't, it's a waste of money and they should cut the budget.

Are the things we're talking about general and valid for the whole of Central Europe or only the Czech Republic? Are there any differences?

Well, I'm more experienced in this part of the world. I've been running the central cluster which covers the Baltic countries, Poland, Czech Republic, Slovakia and Hungary for the last 12 and half years, so I know this region pretty well. And it's very relevant for this part but it's the same thing that we can see almost everywhere, so it's not anything unique. One of the points is that it's getting companies and their marketing teams very uncomfortable. The whole concept of marketing is changing. If you think of how the marketing concept has been up until now, it was all physical and geographic, so when you were advertising something, you were advertising for a community. If you were segmenting, it was always a physical segmentation; it could be a region or a country, you'd put a billboard there and that was it.

But now, all these traditional marketing techniques have become a little bit ineffective or it's difficult to estimate their return. Because now, the emergence of social media is creating a totally different dynamic, so it's creating different consumer groups that are so huge in scale and magnitude that we've never imagined it. And theoretically, this should have been a marketers' dream. And all the people who use social media and have something good to say expand your marketing team tremendously. And there are more and more people who already have an opinion about most of the products that they want to buy when they walk into a store. They heard something from their Facebook friends, read something on Twitter or Googled it, so they have their own opinion and that's why marketing should become more honest. You cannot mislead consumers anymore. An example of this is when they found horse meat in some products recently. Even though if you look at the substance of the matter, horse meat is not unhealthy, in fact, it's even healthier than beef but the fact that the consumers were misled just killed some companies. If you look at Tesco in the UK, the week after horse meat was found in some of the frozen products, the sales of the frozen products went down by 44% and there are 25-30% of people who said that they'd never buy any frozen products ever again. And that's an extreme damage done to the frozen goods industry and it's caused by just one case. You simply cannot keep this kind of thing secret anymore; it spreads like a wildfire.

So what do you think is the trend? What will the future development in the area of FMCG be?

To maintain success, I think that companies will have to understand that the consumer is becoming more educated, more connected and more demanding, so they have to win the hearts and souls of their customers. So there will have to be people who spend more time on understanding the consumers and what triggers their emotions and how their opinion can be changed. So it's connected with moving from a supply and demand view of economics, you have to sell the things that customers want, not just produce and try to push it to the consumer. And this will require establishing more a personal connection with the consumer. So, it's all about understanding the consumer and companies have to become more connected and they have to understand the dynamics of social media. No one can predict the dynamics and the impact of social media, everybody knows that it has a big impact and it will have a bigger impact as we go on but no one really knows how to actually handle it. I think that companies also have to take a step back and assess their return on investment on a different marketing mix, think about how much money they make from the TV advertisements, how much money comes from the in-store promotions, price reductions, print and other kinds of advertising because they know that 50% of their advertising money is wasted but the problem is that they don't know which 50% it is. So they have to figure out the areas on which they're wasting their money in order to be more flexible.

I think that companies who innovate in crisis times will be much better prepared and in a better position to win when the dynamics change again, because right now there are two groups of companies: one group – which consists of most companies – is pulling back, trying to save on everything including innovation and research and in my view, these things define the destiny of each company and the companies who keep innovating will be ready when things turn around. And focusing on some fields, not just being there, is really important because some companies have so many products that they don't actually know how to deal with them. They try to push everything onto the market but that's not possible because if you ask the retailer to list 20 brands, you're cannibalizing the ones that are actually selling well. You also need to give the retailers some space to keep the old brands that consumers have emotional attachments to.

And of course an area where things have to get better is the in-store activities because right now you see some retailers with such bad and confusing layouts in their stores. And that is where Nielsen has a big role to play as well. If people trust us and allow us to show them the way, we can do great things in order to attract consumers and become more people-friendly, and at the same time help them increase their sales because they are mixing categories and sometimes, the related category is at the other side of the store, so it's a pain shopping there.

Author

Tomáš Poucha
Marketing Institute
Faculty of Business Administration
University of Economics, Prague
Nám. W. Churchilla 4, 130 67
Prague 3, Czech Republic
tpoucha@mkti.cz