Reflections of CES 2017: Innovation Transcends Industries and Spurs Emerging Markets

In the latest emerging innovation across every major industry took center stage last month at CES 2017, with product launches that propel global markets from automotive, sports and fitness, software, healthcare, entertainment and retail. Owned and produced by the Consumer Technology Association (CTA), CES, the world’s largest innovation event, which takes place each year in Las Vegas, provided a number of windows into the future of consumer goods and retail.

HIGHLIGHTS OF THE SHOW

During the event’s Friday morning keynote, Qualcomm CEO Steve Mollenkopf introduced the 5G future, a new kind of network with unprecedented scale, speed and complexity. “5G will be the tipping point that builds on LTE and finally enables IoT,” said Mollenkopf. During the keynote, Qualcomm introduced the Snapdragon 835, the first 10 nanometer mobile processor that can deliver extended battery life, built-in security, eye-based authentication, secure audio, on-device machine learning and immersive experiences.

Under Armour Founder and CEO Kevin Plank took the keynote stage Friday afternoon and emphasized the importance of branding, saying that “the key to any brand is to have personality and point of view.” Under Armour is innovating by putting technology front and center, investing $1 billion in health and fitness tech. Plank unveiled three new models of the company’s Record Equipped shoes, which give performance feedback based on workouts. Michael Phelps, the most decorated Olympian of all-time, joined Plank onstage to demo the shoes and talk about UA Healthbox, the most decorated Olympian of all-time, joined Plank onstage to demo the shoes and talk about UA Healthbox, the performance feedback based on workouts. Michael Phelps, the most decorated Olympian of all-time, joined Plank onstage to demo the shoes and talk about UA Healthbox, the world’s first connected fitness system. The keynote wrapped with the unveiling of a new line of sleep apparel, dubbed Rest Win Repeat, in collaboration with Patriots quarterback Tom Brady, designed to rebuild the body while it rests through infrared technology.

Top industry executives and influencers joined global government officials at the annual Leaders in Technology Dinner on Friday evening. Ford President and CEO Mark Fields shared the company’s vision for how the future of mobility will be transformed by connectivity. “Imagine what could happen when the way you get around looks completely different. Cities will change. The way we work and play will change. And socialize will transform. And it will all be enabled by connectivity.”

Friday’s SuperSession “Powering the Sharing Economy to Transform Lives” featured panelists from Grab, the Prime Minister’s Office of Singapore and Lyft. Panelists discussed the potential of the sharing economy to democratize transportation and make travel an enjoyment, not a burden.


The “Opportunities for the Global Innovation Economy” SuperSession, moderated by Time Inc.’s Alan Murray, examined with CEOs from Flex, Ford and Intel how technology companies are leveraging their power to build global brands and advance innovation in a rapidly changing world. The panelists - Mark Fields, president and CEO, Ford Motor Company; Brian Krebsch, CEO, Intel Corp; and Mike McNamara, CEO, Flex - discussed how globalization and digitalization have been the two great trends in innovation over the last 50 years and what we can expect moving forward.

Friday’s panel “The Trolls and Tech: How to Fix Patents” was moderated by CTAs Michael Patrick Hayes and featured Tyler Grimm, legislature director for Rep. Darrell Issa, Artemis Health’s Colm Anawaty, TechNOC’s Julie Sams and InterDigital’s Rob Stein. The panelists discussed the harm and damage patent trolls can do to businesses, as well as how Congress can find a reasonable solution for patent reform. US Patent and Trade-Off director Michelle Lee gave the panel’s opening statement surrounding the agency’s recent efforts, reform and projects to combat the problem. US Representative Darrell Issa (R-CA) made a surprise appearance, delivering closing comments and explaining how patent trolls can devastate small companies.

Saturday’s panel “New President, New Congress. What’s Next?” included Rep. Bob Latta (R-OH); Rep. Eric Swalwell (D-CA); Rep. Darrell Issa (R-CA) and Rep. Will Hurd (R-TX), with moderator Tiffany M. Moore, VP congressional affairs, CTA. The session showed bipartisan agreement about many policies needed to promote innovation and support technological leadership, including high-skilled immigration reform, endorsing strong encryption, flexibility for emerging sharing economy business models and making more spectrum available for commercial and public use. Attending his 35th CES, Rep. Issa emphasized that high skilled immigration reform would be one of his priorities, saying, “We need to make sure the companies who want to expand get the resources they need, including talent.”

Saturday’s always popular Last Gadget Standing, pre-sented by Living in Digital Times, featured the top products unveiled at CES 2017. Hosted by David Pogue from Yahoo! Tech, the innovations showcased included cutting-edge wearables, smart home technologies and connected networks. The Matrix Powerwatch, which never needs charging or battery replacement and displays how much electric power your body is generating and accurately measures calories burned was crowned the winner.

For more information about CES, visit CES.com.
Consumer Goods Industry Sets Bar in Fight Against Forced Labor

The consumer goods industry, through The Consumer Goods Forum (CGF), has advanced its social stewardship efforts in its bid to eradicate forced labor from global supply chains by establishing three “Priority Industry Principles” (the “Principles”). Building on momentum from the CGF’s ground-breaking Forced Labor Resolution, announced last year, the three Principles will help to prioritize action to address the primary drivers of forced labor within the consumer goods industry and beyond. The International Labor Organization reports that there are currently 21 million victims of forced labor in the world and the CGF Board of Directors anticipate that these newly established focus areas will inspire the entire industry, as well as others, to translate the Resolution into action.

Through industry research and stakeholder consultations, the CGF has identified three of the most problematic, yet often common, employment practices across the world that can lead to cases of forced labor - especially amongst vulnerable workers. While the CGF acknowledges that these practices can have complex root causes and diverse manifestations in workplaces, the journey toward eliminating them must begin in earnest. In order to do so, the CGF developed the Priority Industry Principles, to provide further direction to counter these practices. The principles are as follows:

1) Every worker should have freedom of movement. The ability of workers to move freely should not be inhibited by their employer.
2) No worker should pay for a job. Fees and costs associated with recruitment and employment should be paid by the employer.
3) No worker should be indebted or coerced to work. Workers should work freely, aware of the terms and conditions of their work and paid regularly as agreed.

The CGF and its members will now work to uphold these practices in their own operations, and will use their collective voice to promote the adoption of these priority principles industry-wide. As part of a 2017 action plan, members will take individual actions to mainstream the Principles with an initial focus in two supply chains of particular relevance to the industry - seafood and palm oil in Southeast Asia. The development of the Priority Industry Principles was led by the CGF Priority Industry Principles Working Group, co-chaired by Mars Incorporated, Tesco, The Coca-Cola Company, Unilever and Walmart. The working group first researched a variety of globally recognized resources. Then, to complement this research, surveys were deployed to CGF member companies, external stakeholders and the general public at large. Once a draft set of principles was produced, in-depth one-on-one consultations took place with key stakeholders to finalize them.

CROSS-SECTOR COLLABORATIONS

The CGF’s Forced Labor Resolution, approved by the Board of Directors in January 2016, was the first industry resolution designed to tackle forced labor. It has been actively welcomed by a wide range of actors, and the CGF intends to continue its collaboration and engagement with civil society, experts and initiatives focused on tackling forced labor. Oxfam and the International Labor Organization have already put forward their support for the Priority Industry Principles, an approach the CGF hopes will be taken by other key stakeholders.

“The Priority Industry Principles are an important next step in the global fight against forced labor,” said Peter Freedman, Managing Director, The Consumer Goods Forum. “These principles must be mainstreamed on a global scale so that they may lead to the necessary changes needed to remove forced labor from international supply chains. We are therefore committed to supporting our members in the implementation of the Principles in their own operations and we call for their adoption across the consumer goods industry at large. No one company can tackle forced labor alone, we need to work together through cross-sector collaborations to one day soon reach a world free of forced labor.”

“I am delighted that the Board of The Consumer Goods Forum has resolved to confront the very complex challenge of forced labor around the world,” said Emmanuel Faber, CEO, Danone. “Through the gradual adoption of the Priority Industry Principles by CGF members, in collaboration with governments, NGOs, international labor organizations and civil society, we can go a long way to eradicate this daunting reality. Global supply chains must serve local prosperity if the words ‘feed the world’ are to mean anything.”

Left: Noryangjin Fish Market; Below: Oil palm plantation workers prepare to unload freshly harvested fruit. The Consumer Goods Forum has made it a priority to eradicate forced labor all over the world.
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Discussing the Current Consumer Goods & Retail Landscape

The world of consumer goods and retail has been heating up and has clearly become one of the fastest growing and most vibrant business sectors in Southern California. The landscape of managing such businesses has rapidly evolved as well – with laws, regulatory protocols, best practices, consumer and business needs and industry trends seemingly changing by the season.

To take a closer look at how this sector works, we asked Andrew Apfelberg, a Partner with Greenberg Glusker; and Mohamed Sobhy, a Partner with RSM US LLP to weigh in for a discussion.

**Andrew M. Apfelberg**
Chair, Branded Consumer Products Group
Greenberg Glusker LLP

How have recent trends in consumer behavior and purchasing habits affected the consumer goods industry?

Sobhy: Consumer spending patterns are evolving differently than in past cycles; it has not been and will likely not be business as usual for the balance of the decade. A low rate of employment growth could continue to impair income growth; however, there appears to be a number of factors that have altered secular spending trends. Consumer confidence is more or less in line with historic norms, although recent data suggest increased concern and uncertainty, which is not that surprising when considering political and international concerns. Interestingly, economic uncertainty does not appear to be one of the top concerns, although it appears to be holding back investment spending by businesses, which, in turn, tends to hold down increases in payrolls. There are noticeable changes underway. Several factors appear to be impacting spending trends. Retail sales have continued to be disappointing across many consumer products categories. Employment remains on the rise, as are personal income and the savings rate; on the other hand, the number of people unemployed is at a high level, and the number of people seeking employment is low, perhaps reflecting fewer desired job opportunities.

Apfelberg: Two trends stand out to me – (1) reach towards prestige and (2) celebrity/athlete association. With respect to the first, it seems that the consumer has more disposable income or is more “bullish” on the economy and is willing to spend more. Given the handful of more austere years after 2008 when this was not possible or advisable, consumers appear to be making up for it now. With respect to the second, the volume of celebrity/athlete endorsement, licensing and brand ambassador deals I have worked on has grown exponentially. Consumers increasingly want to directly associate with their favorite public figure or to emulate in this way the life led by such public figures. Companies increasingly want to co-opt the image and loyal following of the public figure to build goodwill and drive almost immediate sales. Interestingly, many of the deals with public figures follow of the public figure to build goodwill and drive almost immediate sales. Interestingly, many of the deals with public figures are personal income and the savings rate; on the other hand, the number of people unemployed is at a high level, and the number of people seeking employment is low, perhaps reflecting fewer desired job opportunities.

Why do open and transparent brands tend to be more successful when it comes to consumer products?

Apfelberg: The consumer today gains a significant part of their self-worth and personal identity through the products that they use. It has become more than just thinking that a product is of good quality, a value for the price or that it works well for your desired purpose. Instead, people increasingly want a product to make them “feel” a certain way or to signify to others who they are (or want to be). The brands that are open and transparent have a leg up in this regard because it is quite clear what they stand for and, by extension, what those who associate with them stand for. It also makes the consumer feel more invested in the product and management team or founder which will ideally make them a long time repeat customer.

What are we seeing on the M&A front in consumer products?

Sobhy: In the wake of one of the most contentiously and potentially game-changing U.S. presidential election cycles in memory, hesitation on the part of buyers, sellers, consumers and acquirers across many sectors is entirely reasonable. Although many of the most significant factors for the consumer products industry remain shrouded in uncertainty, the continued and projected outperformance of online sales in this space cannot be understated. Digital disruption in the consumer industry is resulting in a divide among its segments with certain segments seeing their market transformation while others remaining somewhat proof against it. The apparel sector continues to experience change marked by its diverse consumer base. Albert online delivery services and luxury goods remains popular among higher-earning consumers, traditional brick-and-mortar discount chain retailers in the apparel space should not be counted out just yet. On the mergers and acquisitions (M&A) front, despite interest on the part of private equity firms in strong brands, the rate of investment continues to slide. This slide, in tandem with the surge in add-ons as a proportion of overall PE consumer activity, it’s clear that many private equity firms are simply not finding compelling opportunities.

Apfelberg: The market for branded apparel, food & beverage and health & beauty products is particularly vibrant. The large strategic buyers are looking to buy the smaller companies to reduce competition and, more importantly, obtain the sort of product development and penetration into niche markets that the big companies lack. There is a sense that the old way of doing business is getting stale and the easiest way to adapt is to buy instead of recognize the existing operation. The financial buyers are equally enthusiastic about both platforms and add-on deals. There is a significant amount of money waiting or needing to be deployed and PE firms are not afraid to spend it on companies that perceive to have a quality product, strong management team and a defensible or desirable brand. The entry of family offices into deals with public figures has further heated up the market.

What’s next for loyalty programs?

Sobhy: Long heralded as an effective way to excite and engage shoppers, loyalty programs are rooted in the notion that customers, when incentivized, will pledge their allegiance to a retail and remain just that—loyal—to a store or brand. Yet while the initial draw to these programs can be strong, it can also be difficult to maintain the momentum required to safeguard or increase ongoing business, with many retailers seeing activity levels wane after an initial surge at sign-up. As we look into what the future holds for both retailers and consumers, at a time of unprecedented technological evolution and disruptive change, it is clear that effective loyalty and reward programs must move past generic discounts and mass communications. Instead, they move to more thoughtful, personalized plans that target shoppers’ individual styles and preferences, while also appealing to their deeper need for community and engagement.

What tax planning strategies are available to retailers?

Sobhy: Many consumer product businesses including retailers, restaurants and food manufacturers can enjoy improved cash flow through an enhanced tax deduction for the charitable donation of inventory, including food inventory. The IRS allows an enhanced deduction for C corporations that donate inventory. Additionally, the IRS allows an enhanced deduction for all taxpayers that donate food inventory.

What sectors within consumer products are performing particularly well and why?

Apfelberg: My consumer products clients have a strong brand identity all seem to be doing very well at the moment. This is especially so in the luxury or prestige categories. It seems that consumers have the disposable income to afford the branded or luxury product and are willing to spend the money if having that brand and being associated with that brand makes them feel the way that they want to feel about themselves. The consumer products clients I work with that are not branded have struggled more except for those where the product is viewed as superior to the competition. If the product is viewed in more of a commodity manner, it has been tough to get sustained traction.
How can retailers respond to overtime and minimum wage pressures?

Sobhy: On Nov. 22, a federal judge blocked the new federal overtime pay rule. Judge Amos Mazzant of the U.S. District Court for the Eastern District of Texas granted an emergency preliminary injunction nationwide, blocking the Department of Labor’s new federal overtime rule, which would have nearly doubled the Fair Labor Standard Act’s salary threshold from $23,660 to $47,476. The new federal overtime rule was supposed to take effect on Dec. 1, but due to the injunction, companies no longer have to make pay changes by the deadline. However, the overtime rule could still be implemented in the future as a preliminary injunction is not permanent.

What are some of the best ways for a retailer to build its brand and elevate itself from the competition?

Apfelberg: Using a public figure for a license, endorsement or brand ambassador is an incredibly powerful way to differentiate a brand. The company immediately announces to the world who it’s demographic is and what it stands for. If done right, there is instant credibility with a significant sector of the buying community and a sense that the purchase will help the admired celebrity or athlete. It also can give the product increased exposure into aspirational demographics through the personal promotional efforts of the celebrity. But, important, due to the exclusivity provisions contained in these agreements, it is one of the very few times there are real barriers to competition. During the exclusivity period, none of the competitors can get the brand association with such public figure.

What are some of the best practices for a branding or endorsement campaign promoting a consumer product?

Apfelberg: The single most important thing is having true alignment between the public figure and the product/manufacturer. Unless the association is authentic and about more than money, it will not resonate with the public. In fact, it will likely backfire. The second more important thing is for both sides to be clear in their expectations and desires over the length of the campaign and take into account all the different ways that such expectations could get frustrated. If the public figure and the manufacturer have a close working relationship and goals of mutual benefit, you can overcome almost any obstacle and, in fact, will find opportunities that were not apparent at the time of signing the contract. A last thing to consider is for the company and the celebrity to be open and transparent with one another and bring the other “inside the tent.” By so doing, each side will better understand the others objectives, concerns and ways of doing things and be able to adapt or encourage innovation or additional partnership opportunities.

What do you anticipate is ahead for retail in the US?

Sobhy: As retailers seek to vary their offerings to appeal to a more omnichannel customer base, one major way they’re doing so is by optimizing their online sales capability. These days, shoppers expect to interact with brands across a variety of platforms and devices, and relying on brick-and-mortar foot traffic alone to drive a competitive advantage has become increasingly challenging.

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