HIGHPOINT ASSOCIATES

2017 PERSPECTIVES AND A LOOK AHEAD

Expert insights from our Senior Advisors on the year that was

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In making any summary statement on 2017, it is tempting for us to join the chorus of superlatives already flooding the Internet as we approach the new year. While 2017 was many things to many people, our job is to *make sense of it* for our clients and collaborators. One of the ways we do this is through the voices of our Senior Advisors, the personification of our commitment to strategic and operational expertise within our firm.

INTRODUCTION

In the following pages, you'll hear from Bob Kaplan on data security, Alex Nesbitt on disruptive forces that will impact industrials globally, Anna Minto on personalization in packaged goods, Pamela Thomas-Graham on luxury brands "dropping" events and Giri Rao's thoughts on tailoring the experience for healthcare consumers. These insights are framed by each advisor's industry focus and each of them present an actionable conclusion – a way forward for leaders looking to improve in 2018.

Anyone looking for broad, predictable themes – in life or in this paper – will be disappointed. A dizzying array of factors created change within each industry and the nature of our partnership with clients is to look deeper, ask questions and avoid quick, convenient conclusions. You'll see that ethos reflected here. Within that approach is a deep commitment to lasting results. For some, an open mind to these perspectives might be the first step toward that goal.

We're looking forward to 2018.

Sumeet Goel
Founder & Managing Director

Richard Berger
Partner

HEALTHCARE

BY GIRI RAO

2017 was interesting for healthcare players, especially for the health insurers. The year started with two anticipated mega-mergers and rumors of other transactions among the regional players. During the summer months, the transactions were called off due to regulatory pressure and the year is ending with rumors of setting up a PBM within Anthem and the progression of yet another mega-deal, this time a vertical integration between Aetna and CVS. Several health plans are also in the midst of leadership changes that promise to marshal a shift in direction. Finally, multiple attempts at repealing and replacing the Affordable Care Act have failed, leading to a temporary "status quo" with uncertainty around federal funding for programs.

Amid this backdrop, it may seem surprising that the industry has shown membership growth and margin expansion with market caps of publicly traded insurers approaching their all-time highs.

So, have the storm clouds cleared and will the players continue to outperform? Not really! If one looks deeper at industry performance, it is clear that membership growth has come from Managed Medicaid and Medicare segments, and stayed relatively flat in the individual and group segments. Margin expansion has been from a combination of increased premiums and reduced medical costs, especially in the individual segment, and that is not easy to sustain going forward.

The key for health plans is going to be how they manage these "retail" segments that have been the source of growth and margins – Medicare, Managed Medicaid and the individual segments.

REGARDLESS OF THE SIZE OF THE MEMBERSHIP, TO SUCCEED IN THIS DYNAMIC ENVIRONMENT, HEALTH PLANS NEED TO:

1. **Understand the consumer:** Many health plans have invested in improving their data and analytics capabilities over the past few years. Now is the time to start taking advantage of these investments and truly understand what drives consumer behavior – social, demographic, product design, etc.
2. **Tailor the experience:** The typical complaint we hear is that products had to be designed a year in advance and there are few levers available to manage costs – while it is true that benefits are designed in advance, the overall consumer experience can be tailored to provide the right environment for consumer decision-making. Providing the right level of support for transactions (e.g., appointment scheduling) and consistent information (e.g., treatment choices), will enable the consumer to act responsibly.
3. **Engage the consumer:** Consumers, typically, have a few moments of truth, which are moments in time to engage them in their health decisions. Health plans need to proactively recognize these moments and be there to support and advise consumers about the right choices – this is the way to build trust and become their health advocate. These could range from being simple decisions for the vast majority of the healthy population to being quite complex for someone who has just been diagnosed with a severe illness.

In other words, understanding and engaging the consumer is essential. This is the only way to acquire, manage and retain the consumer, and, more importantly, gain the trust to be able to advise the consumer about the right choices.

Giri Rao has more than 25 years of experience in assisting clients with strategic and operational transformations. He has served clients in the Healthcare and Insurance industries and has worked with national and regional insurance carriers, BCBS plans, PBMs and other healthcare service players as well as large life insurance and P&C carriers. Most recently Giri has advised several VC-backed firms developing innovative business models on growth and revenue strategies, fundraising and M&A activities.

Previously, he was a Partner at The Boston Consulting Group in their healthcare and insurance practices. Prior to that, he was a Partner at Booz & Company. Earlier in his career he worked at i2 Technologies and American Airlines. He has an MBA in Finance from The Wharton School, University of Pennsylvania, an MS in Industrial Engineering from Purdue University, an MS in Mechanical Engineering from State University of New York at Buffalo and a B-Tech in Mechanical Engineering from the Indian Institute of Technology (IIT), Madras, India.

LUXURY GOODS AND SERVICES

BY PAMELA THOMAS-GRAHAM

One area to ponder in the wake of a radically changing retail landscape: The most notable bankruptcies and closures transpired around mass market retailers – big ones like Toys "R" Us, Macy's, Payless, and Sears/Kmart – as well as well-known niche players like The Limited, RadioShack, Gymboree and Vitamin World. Such drastic news was sparse in the luxury retail arena in 2017. However, we did see failures of other types – Nordstrom's inability to go private and the failed Neiman Marcus-Saks merger, to name two in particular. So, the question here is asking whether the downturn in the mass retail landscape comes home to roost for luxury retail in 2018. Have luxury retailers been able to stave off such radical closures because of their focus on the 1% who might be more price-insensitive, are a higher LTV consumer, and may continue to look for the level of touch and involvement provided by those stores? Or should we expect the retail tidal wave to next hit their shores?

SEVERAL PREDICTIONS FOR 2018:

Food

Food (yes, food) will become a core element of every luxury experience. Luxury malls will continue to upgrade their dining options and any new luxury department store will have to have a destination restaurant or two in order to survive.

Experiences

Experiences and events will continue to become the primary way in which luxury brands interact with their core clients. Van Cleef & Arpels, Louis Vuitton, Gucci and Valentino are all doing stunts right now to get people to experience the brand outside of their traditional retail stores.

Drops

The concept of "drops" will arrive in force. It comes from the music and film industries – you build up a frenzy and then premiere a new song or movie – and that marketing method is all over the fashion space. Sneakers and apparel lines and even Barneys are now "dropping" items unexpectedly to create an event.

DIY

"Do-it-yourself" will continue to be a presence in luxury apparel. Gucci has announced do-it-yourself evening gowns while Coach is prominently advertising customization as a key feature of their holiday offerings. No one wants the same thing as anyone else, it seems. Everyone wants "their" Gucci bag or "their" Coach jacket.

Pamela Thomas-Graham is the Founder and CEO of Dandelion Chandelier Digital Media, an enterprise focused on publishing luxury lifestyle content, and a former Partner with McKinsey & Company where she was a leader of the firm's Consumer and Media & Entertainment practices. She was also the first black woman to be named Partner in the firm's history and served as an expert on corporate strategy, marketing & sales. Pamela worked extensively with luxury apparel brands and retailers as a Partner at the firm, and also worked with a global luxury automotive company on a series of projects.

After leaving McKinsey, she was CEO of CNBC, providing programming to over 200mm homes worldwide, and led the creation and launch of CNBC.com during her tenure there. Subsequently, Pamela was Group President at Liz Claiborne, leading a global, $1.5B business unit responsible for 30 percent of the company's global revenue, covering 18 apparel brands, including the flagship Liz Claiborne brand. Most recently, Pamela was the Chief Marketing and Talent Officer for Credit Suisse. As the first woman to ever serve on the bank's Executive Board, she led the global talent function covering over 50,000 employees and global marketing function for the Global 50 bank.

Pamela has served on the Board of the Clorox Company since 2005 and currently serves as the Lead Independent Director. She recently joined the Board of N.T. Butterfield, the publicly-traded retail bank and wealth management company headquartered in Bermuda. She graduated Phi Beta Kappa from Harvard University, and holds a JD from Harvard Law School and an MBA from Harvard Business School.

IT MANAGEMENT

BY BOB KAPLAN

Recent events, such as the Equifax data breach, demonstrate that discipline and common sense management of IT are lacking in many companies. One result is poorly thought through security frameworks and other IT processes that have serious deficiencies. This is partially the result of IT being delegated away by CEOs rather than being made a critical part of the executive agenda. The unfortunate consequence, as at Equifax and Target, often is the firing of the CEO when something happens. CEOs must take as much responsibility for IT and IT security as they do for revenue and innovation. This means proactive monitoring and reporting on threats and responses and a real seat at the table for top-tier talent. Most importantly, IT security must move from being added on to being built-in to core systems.

LEADERS MUST UNDERSTAND THAT:

- firewalls and other perimeter defenses are not enough;
- your systems will be penetrated;
- you must rebuild core systems to isolate and protect data, encrypt almost everything and provide for constant monitoring and rapid response.

In addition, IT management itself must move from being complacent to paranoid. In this vein, paranoia means a foundational assumption of harm, not an assumption of risk. From here, it's easy to see how a strategy of data hierarchy and separation – holding social security numbers distinct from credit card numbers – limits the effects of a breach instead of perpetuating the "bank vault" myth of data security. When thieves break into a vault, they get everything. When a hacker penetrates a credit card number file… they get credit card numbers. And nothing else.

THIS APPROACH REQUIRES THAT YOU:

- manage IT as a business, not as a function;
- increase the use of checks and balances;
- implement more rigorous process management;
- win the war for talent.

Most CEOs don't have to ask someone else how their products are performing, what they plan to launch in the next quarter or how investors feel about their go-to-market strategy. Ask them about data security and many of them need to ask someone else to offer a credible answer. That approach no longer works and 2018 will reveal more hard-earned lessons in the new reality of privacy and IT security.

Bob Kaplan has more than 30 years of experience as a senior executive and management consultant. He currently counsels CEOs and other senior executives on strategy and organizational issues, primarily within the technology, media, financial services, and utility sectors. Bob has held senior executive positions such as acting CEO and acting CTO for multiple companies, including: Motif Inc., ITM Software, Silicon Valley Bank, Netliant, and Alibris.

Previously, Bob spent 11 years at McKinsey & Company, where he was a Director in the San Francisco and Silicon Valley offices, and a Leader of the Information Technology and Systems Practice. Prior to joining McKinsey, Bob was the Managing Partner of the San Francisco office of the Boston Consulting Group. He also worked at Peat, Marwick, Mitchell & Co. (now KPMG) as a Systems Consultant. Bob holds an MBA from the Stanford Graduate School of Business and a BA from Yale University.

INDUSTRIALS

BY ALEX NESBITT

Industrial companies of all types, whether they be manufacturers, energy producers, or chemical companies, have experienced and developed an expertise managing disruption caused by changes in the business cycle. However, new sources of disruption, similar to those common with consumer-centric businesses, continue to emerge and present challenges that may threaten even the strongest of companies.

The strongest survivors of these disruptions continually think about them, anticipate their arrival, take time to prepare in advance, and then take advantage of the opportunities.

There are some clear and predictable waves of change coming. The burgeoning Chinese economy has created a huge wave of lower income people moving up to become the new middle class. This trend will drive waves of demand for goods and energy starting at the low end of the price spectrum and then rising over time as per capita income keeps rising. Who will take advantage of this trend and what wave of disruption will follow?

The Internet is expanding to move beyond connecting people to connecting things, like machines, appliances, vehicles and the like. The combination of the Internet of Things with advances in Artificial Intelligence that can leverage the huge amounts of data being collected is happening now. How will this disrupt the makers of things and infrastructure like manufacturing, energy, chemicals and utilities?

While you cannot predict the precise nature and timing of the disruption that will hit your company, there are steps you can take to prepare, because as science fiction writer William Gibson put it, "the future has arrived, it's just not evenly distributed."

THOSE THAT PLAN TO THRIVE ON THE COMING DISRUPTION WILL TAKE FIVE STEPS TO GET PREPARED:

1. Be a student of the changes around you and across the globe to find the future that has already arrived;
2. Open your mind to overcome your own cognitive bias and explore the changes you think just can't happen to your company;
3. Explicitly incorporate uncertainty and contingency planning into your strategic planning process using tools like scenario planning;
4. Change your view of the world by diversifying your leadership team to incorporate different mindsets and alternative points of view;
5. Develop opportunity plans where you can take advantage of disruption and contingency plans for where you cannot.

Alex Nesbitt draws on more than 30 years of experience as a consultant and senior operating executive. He is a former Managing Director for The Boston Consulting Group and was one of the leaders of the firm's North American Industrial Practice.

At BCG and as an independent consultant, Alex has served clients across multiple sectors, including technology, financial services, automotive, industrial, and healthcare, and his work has spanned growth strategy, supply chain optimization, merger integration, and organizational restructuring. He also founded and served as CEO of Sameday Technologies, a provider of third party fulfillment services which was eventually sold to Ryder Logistics. Alex holds a BS from Stanford University.

CONSUMER PACKAGED GOODS

BY ANNA MINTO

This past year has been about accelerated evolution, not revolution. Power continued to shift from manufacturers to retailers and big box, and now (more than ever) to online and the new era of Amazon. On the other end, the consumer's power to choose continues to accelerate – with more access to information, more choices at hand, and more products designed with their specific needs in mind. Mega-trends continue with increasing globalization, the rise of the millennials, and focus on health and wellness through to the boomers. Oh, and let's not forget the biggest of all – big data and the role of Artificial Intelligence. So many dynamics at play... yet what, realistically, can today's leaders of the CPG industry do to better position themselves for these dynamics?

My meta-question to all leaders of consumer-centric companies for 2018 is: *Am I preparing my organization for the onslaught of AI&A?* Artificial Intelligence and Automation (AI&A) is rapidly replacing human skills in what I call the 3Ds – things that are Dangerous, Dirty, or Dumb. That's pretty obvious. What is less obvious is the role of human talent and functional expertise. Gone are the days of the well-trained brand manager who can crunch data, derive insight, and take action based on historic learning. That is relatively simple in today's AI&A world, and computers are already taking care of that for us. Our value-added corporate roles will be defined by those things that are different – that are *creative*, that *personalize*, and that take on new radical *perspectives* to ignite the exceptions.

WITH THAT IN MIND, HERE ARE THREE THINGS TO THINK ABOUT AS THE NEW YEAR ROLLS IN:

1. **Are you truly encouraging "creativity"?** People say they like creativity, but the evidence suggests they don't. It's good in theory, but our management incentives are to do as little innovation and as much renovation as possible. In an era where innovation and acts of original creation will stand out more than ever before, what's in it for your team, and how are they incented?

2. **What does "personalizing" mean in your CPG world?** Personalization and customization are easy concepts to apply to many consumer industries like fashion, beauty, health and wellness. But what about the mainstay CPGs? How does "personal" apply to something as mundane as a can of soup? It's a very different approach to that of a product that consumers truly "care" about – like shoes and shirts. Personalization in a two-way world (one that no longer relies on push marketing) has to be more relevant, meaningful, unique, timely, adaptable and easily accessible. Is your offering all of that?

3. **Does your organization's "perspective" embrace the radical?** I'm not just speaking of the old adage about "think outside the box" – that's evolutionary thinking. I am talking about truly turning things upside down, on their heads, and thinking about the "what ifs" from a totally different angle, about the essence of the consumer offer. That's how disruption is fueled.

Anna Minto has more than 25 years of experience as a consultant and executive advisor to Fortune 500 companies, with an industry focus in consumer (packaged goods, retail, grocery, restaurants, beauty and wellness) and significant expertise in leading strategic and change initiatives for large, complex organizations.

As a former Partner and Managing Director at The Boston Consulting Group, she operated across four global offices, and acted as a Lead Officer in the firm's Consumer and Organization Practices. She is also the founder and CEO of Transformational Change, LLC, a company that revitalizes client organizations and changes their trajectories by enriching strategies and embedding change. In addition, she has held various Independent Director positions on Boards. Prior to her time at BCG, she spent three years as a Brand Manager at Procter & Gamble. Anna holds an MBA from Harvard Business School and a BS from McMaster University in Canada.

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