Keeping pace with consumer needs in a rapidly-changing digital world.
Contents

4 Industry Context: The big visible disruptions

9 Future View: What are the winning strategies?

16 Implications: How companies are reacting

18 What is the key takeaway?
By 2027, half of all S&P 500 companies may no longer exist\textsuperscript{1}. To prevent their own obsolescence, CPG companies must act now.

The priorities? Embracing the digital and analytics capabilities that are powering the industry’s transformation – not through wholesale adoption – but in a targeted way to answer very specific questions. And building relationships with the small and medium-sized players that are rapidly eating up market share.

Many CPG leaders have delayed acting. But now the industry has reached an inflection point: change is non-negotiable.
INDUSTRY CONTEXT:
The big visible disruptions
Consumer orthodoxy:

“CPG companies create, own and manage brands; consumers just consume them”

At one time, the CPG brand manager controlled every aspect of the brand and brand experience.

Today, the consumer determines what the brand means to them and how it fits into their lifestyle. Consumers are not passively receiving marketing messages and product offers. Demanding relevance, they have become active product creators and curators.

New business models have emerged to meet this need, allowing consumers to participate in every stage of the value chain, whether as investor (Brewdog’s crowdfunding model), product innovator (Volition’s customer-inspired product development), manufacturer (Bite’s Lip Labs), marketer and seller (Ipsy’s subscriber vlogging), or employee (Field Agent’s mobile audits).

At the same time, the whole concept of brand loyalty is shifting. Neither monogamous nor promiscuous, today’s consumers are polygamous. They have relationships with multiple brands and select the ones that are most relevant to their needs in each channel, situation, or moment.
New offers orthodoxy:

“It’s all about the product”

Consumers have been moving beyond “products” for years.

First, they wanted services on top. Then, experiences. Now, they are seeking brands with purpose. For CPG companies, this means being authentic, living up to the brand’s ideals and engendering a sense of connection between brand, consumer and the wider community. Authenticity and transparency increasingly determine why consumers choose one brand over another.

66% say a brand’s “great culture” and that “it does what it says it will do and delivers on its promises” are important/critically important.

62% say it’s important/critically important that the brand has ethical values and demonstrates authenticity in everything it does².

Channel orthodoxy:

“A brand has a defined role in the value chain, and needs to optimize for each channel”

CPG companies should think about the marketplace as an integrated experience, not a set of disparate channels.

Above all, they need to reorient their operations to put the consumer, not the brand, at the center of everything they do. Digital technologies and innovations have fueled an explosion in consumer touchpoints. Now, from the home to the office to the hotel to the car, brands have opportunities to engage with consumers that go far beyond the retail store setting.

How consumers decide what to buy is changing too. Traditional media are still key sources of brand information. But other factors are now just as important. Look at Dollar Shave Club. They’ve succeeded by adopting an integrated marketplace approach with a completely new business model predicated on demand for a convenient experience spanning revenue model (subscription), channel (D2C vs in-store), and product (“good enough”, easy to understand.)
Technology & data orthodoxy:

“It’s not your father’s ERP!”

Technology means much more than the enterprise backbone, focused on compliance and consistency.

Success demands something more flexible and digitally native. It means becoming a data-driven enterprise, utilizing big data, data science, new skills and new ways of working to reshape and reimagine not just how work is done, but also the relationships with customers, employees and ecosystem partners that are critical to future growth. Technology needs to be embedded and integrated in every part of the business, actively driving new business opportunities.

Around all this, leading companies build capabilities to define, develop, and deploy new solutions for their businesses and brand experiences. As-a-Service cloud solutions reduce capital costs and bring new flexibility. APIs (application program interfaces) support agility and consistency across mid- and front-office systems. And advanced forms of analytics unlock new insight and value from structured/unstructured data.
Extending far beyond existing supplier and customer value-chain relationships, ecosystems of cross-industry players working together to define, build and execute market-creating consumer solutions are emerging.

These ecosystem partnerships can serve multiple purposes, whether it’s data-sharing, enabling blended offers, innovation, skill-building or education. CPG companies need to identify and tap into the ecosystems that can deliver their strategic objectives – working with a rich mix of organizations to define, build and execute market-creating consumer solutions and developing new capabilities to win.

To kickstart their own ecosystems, CPG companies need new ways to engage with startup and accelerator communities (e.g. hosting competitions, setting up collaborative working spaces, and creating large open-sourced innovation networks).

The number of billion-dollar “unicorn” valuations has exploded over the last five years, bringing powerful new, digital-first brands into the CPG equation and shaking traditional CPG business models to their foundations.

In the US, the top 25 food and beverage brands now generate just two percent of industry growth, while the smallest 16,000 brands account for a huge 53 percent. And this phenomenon isn’t unique to developed markets. New brands in economies like India, China, Indonesia, and Brazil have leapfrogged from outside the top 100 to establish themselves in the top three in just five years.
FUTURE VIEW:

What are the winning strategies?
CPG companies must maintain a balance between the current business and exploring new growth, using data and digital innovation to adapt to evolving consumer needs and realign the business model. This will require a profound cultural shift and willingness to open up to new ecosystems to become an intelligent enterprise.

The overarching strategic decision CPG companies must take? Making a wise pivot from the core business to new engines of growth. This can include targeted acquisitions but it may also mean considering different business models (joint ventures) to increase scale and available capital.

73 percent of CMOs and 67 percent of CEOs in CPG companies want to embrace disruptive growth opportunities, but they don’t know where to find them. By following these four “winning strategies”, they can identify these opportunities and drive radical change:

1. Balanced brand portfolio
2. Integrated marketplaces
3. Agile businesses
4. Digital operations
1. **Balanced brand portfolio**

**What are the drivers for growth?**

Growth will come from realigning the business model and balancing the portfolio to create products, services, and organizations that consumers find relevant. Consumers value authentic brands built on trust, purpose and loyalty. There’s no “one size fits all” and brand preference will continue to vary by demography, category, mindset, and brand lifecycle.

CPG companies must manage their core businesses while launching new growth engines, making acquisitions and divestments, and developing new business models to leverage scale and capital:

- The timing, scale and direction of investment are all crucial – transformation should be ongoing and carefully paced.
- Traditional products will coexist with specialized, digitally-enabled science and services necessitating a modernized acquisition and growth strategy.
- The right partnerships are essential for connecting with consumers and delivering relevant outcomes.

Although they face a challenging environment, large CPG companies’ underperformance up to now does NOT signal the demise of big brands. Instead, it is a function of the following:\6:

**Lack of investment needed to change the playbook to align with the current consumer environment and ineffective brand portfolio management.**

40% (approximately) of leading brands have declining sales because of their failure to adapt to consumer needs.
Integrated marketplaces...without retail as we know it

How will you interact with your consumers and partners throughout the ecosystem?

Successful CPG companies think about interaction in different ways. They’re creating an integrated “living” marketplace, offering consumers relevant products and experiences across an ever-expanding number of touchpoints.

Using detailed insights into how consumers interact and what they need, employees in these companies operate on the front lines where their brands meet consumers: adapting content, offers, even packaging, across ubiquitous channels and experiential moments to stay relevant.

Some of the largest CPG companies are also showing what can be done. Procter & Gamble partnered with Amazon to redesign its iconic Tide brand packaging to fit both the needs of the new channel and the sustainability demands of consumers. Together, they created the new Tide Eco-Box, reimagining the iconic liquid detergent brand package in a ship-safe, environmentally-friendly cardboard box.

Some brick and mortar retailers are developing more flexible relationships with small brands – working with them to prioritize the new ways in which consumers discover and buy their products. For example, paying for sampling instead of signage or promotional discounts.

Look at how Ipsy is completely reinventing the beauty experience into much more than a transactional event. As a “living brand”, the company is bringing together the three Cs – content, community and commerce – to promote individuality and inclusivity while making the experience accessible and affordable for everyone.
Is your business organized to take a lead in the new marketplace, while ensuring inclusive growth for your workforce?

To deliver relevant consumer experiences, CPG companies need to transform to become efficient, agile businesses – leveraging the power of the ecosystem, driven by a new operating model and inspired through cross-functional collaboration.

By leveraging extensive ecosystems, companies will need to do much less in-house than ever before. Co-operation will increase, with companies that were previously competitors working together to deliver value that they cannot create/deliver on their own.

CPG companies will gain competitive agility by embracing five characteristics and making them part of the operating model DNA:

- **Human**: designing around humans and what they care about.
- **Liquid**: seamlessly accessing people, processes, systems and assets.
- **Enhanced**: empowering people with technologies.
- **Living**: creating nimble, self-organized teams, prioritizing progress over perfection.
- **Modular**: setting up discrete, “plug and play” businesses/capabilities.
Crucially, this new operating model must be tuned to manage core products at scale, while constantly renewing the portfolio, leveraging automation for some activities and the wider ecosystem for others. All of this represents a fundamental shift. Technologies are now being introduced that will completely change how people work and interact with smart machines. The CPG worker of tomorrow will be more tech savvy, human+ and continuously upskilled.

New operating models and ecosystem strategies are already proving their value. Look at how IntelligentX invites consumers to provide input on beer flavor and carbonation levels. This information is then fed into an algorithm in real-time to produce new and refined recipes and ‘AI beer’.

By leveraging extensive ecosystems, companies will need to do much less in-house than ever before.

Or what about the cold chain ecosystem partners who are speeding up dairy delivery from Australia to China? Using IoT sensors throughout the supply chain and pooling data, the group, which includes dairy producers, government, a telco and a cold chain company, have reduced turnaround from three weeks to less than 36 hours⁹.
Digital operations

How can your company transform its value chain into a flexible network of capabilities?

To keep up with new consumer requirements ranging from faster purchasing in a “fluid marketplace” to increased desire for sustainability, greater demand for personalization, and localization, CPG companies must reinvent their operations.

The advent of new digital technologies – IoT, AI and Machine Learning, robotics, blockchain and AR/VR – is making it possible for leading companies to design and run operations in new ways. Combined with liquid workforce expectations and new ways of working (from project-based pods vs business as usual and/or greater workforce empowerment within data-driven guardrails) these new technologies enable organizations to make the transition from a linear value chain to a highly interconnected, intelligent supply chain, that can sense and respond to change, continually optimize itself, continuously adapt cost structures through manufacturing and new methods of distribution – and deliver seamless consumer experiences that will ultimately differentiate and grow the business.

Some CPG leaders are achieving success by placing bets on the right digital investments. PepsiCo, for example, is investing heavily in the digital capabilities behind its direct store delivery (DSD) distribution model to improve how it plans its business, segments its customers, and deepens its relationships. Similarly, Danone is co-building a new warehouse with JD.com that uses big data analytics to replenish inventory more precisely and drive quicker turnover for the Danone Waters business in China.
IMPLICATIONS:
How companies are reacting
Traditional CPG companies are willing to change, but some challenges are holding them back:

- How do I develop the ability to personalize for consumer needs but manufacture at scale?
- What should I be doing to redefine ecosystem partnerships to increase internal/external awareness?
- How do I enable my new operating model with technology and data?

Large CPG companies still play an important role in consumers’ lives and, of course, in retail economics. Brand household penetration and repeat purchases are both high and a significant number of leading brands continue to grow. Overall, they’re maintaining market share. Emerging brands also have their place. They are stealing market share (primarily from mid-sized CPG companies) and growing more rapidly than the larger players. Consumers demand them and, recognizing that, retailers are willing to give them shelf space.

The priorities for established companies? Pivot their portfolios toward higher growth and a more profitable mix of businesses. Then, within each line of business, develop an evergreen portfolio of leading and emerging brands to make the overall economics work. Look at what Nestle has done with their coffee portfolio – buying the rights to sell Starbucks at retail (core business) and buying emerging brands like Chameleon and Blue Bottle.
What is the key takeaway?

CPG companies need to transform, fast.

The challenge they face is that they must continue to be brilliant at the basics while investing in capabilities that break new ground and make the winning strategies a reality.

The priorities from now on?

• Orchestrating portfolio strategies to match emerging consumer demands.
• Forging new ecosystem relationships – cross-industry and beyond.
• Reinventing operating models with consumers at the center.
• Integrating intelligent functions into technology architectures.
• Reskilling the workforce for a human+ era.

All these are key to delivering the continuous evolution and relevance at scale that are vital to their future success.
References

1 https://www.innosight.com/insight/creative-destruction/

2 From Me to We: The Rise of the Purpose-Led Brand. Accenture Strategy Global Consumer Pulse Research, 2018


4 https://hbr.org/2019/02/how-global-brands-can-respond-to-local-competitors

5 Accenture CEO and CMO Global Insights Survey, 2018

6 Source: Nielsen xAOC+C)

7 https://www.linkedin.com/pulse/whats-so-special-small-brands-karen-fang-grant/


10 PepsiCo Inc at Consumer Analyst Group of New York Conference, February 21, 2018

About Accenture

Accenture is a leading global professional services company, providing a broad range of services in strategy and consulting, interactive, technology and operations, with digital capabilities across all of these services. We combine unmatched experience and specialized capabilities across more than 40 industries — powered by the world’s largest network of Advanced Technology and Intelligent Operations centers. With 509,000 people serving clients in more than 120 countries, Accenture brings continuous innovation to help clients improve their performance and create lasting value across their enterprises. Visit us at www.accenture.com

Contact

Laura Gurski
Global Industry Managing Director,
Consumer Goods & Services
laura.gurski@accenture.com

Oliver Wright
Managing Director, Accenture Strategy,
Consumer Goods & Services
oliver.wright@accenture.com

Renee Sang
Managing Director, Consumer Goods &
Services, Customer Insights & Growth
renee.v.sang@accenture.com

Join the conversation

@AccentureCPG

Copyright © 2020 Accenture.
All rights reserved.
Accenture its logo are trademarks of Accenture.

This document makes descriptive reference to trademarks that may be owned by others. The use of such trademarks herein is not an assertion of ownership of such trademarks by Accenture and is not intended to represent or imply the existence of an association between Accenture and the lawful owners of such trademarks.