It’s Time to Reinvent CPGs’ Product Development and Operations
How digital helps unlock profitable growth
Consumer goods leaders are redesigning their products as well as their operations. It’s worth it: Companies that have pursued with what Accenture calls “Industry X strategies” are far more likely to report they increased their revenue and profitability by 30+% over the past three years.
Multiple trends have been reshaping the consumer packaged goods (CPG) industry. COVID-19 exposed vulnerabilities and accelerated the need for change.

Managing supply and demand volatility has become crucial, as the crisis has shifted demand quickly across channels and categories, leaving most of the consumer goods value chains unprepared. This is on top of consumer demand volatility and fragmentation, where consumers expect to be served with whatever from wherever. Companies are not prepared to support that shift.

Consumer trust is even more important than before, as 64% consumers are worried about their health and safety and expect transparency from product manufacturers, and an increasing proportion of shoppers are prioritizing more local brands that they know well.

Profitability across the product portfolios will become a critical focus area after the crisis, especially for categories where demand has dropped considerably. For example, 34% of consumers are increasing their purchase of personal hygiene products while cutting back on more discretionary categories like beauty, home décor and fashion.

Finally, COVID-19 has accelerated the shift to digital commerce and engagement, even for new consumers, supported by home consumption and home working. According to our research, one in five who ordered their last grocery shop online, did so for the first time. And, they expect to increase the frequency of their online purchasing into the future. Unfortunately, most consumer goods companies are not prepared to support that shift.
Now more than ever, CPG companies need to look at their future from three different perspectives:

1. Transform to consumer-centered operations
2. Develop intelligent products to create new value spaces for their products
3. Design to margin to unlock new levels of profitability.

Accenture research has found that an elite group of CPG companies are getting these three things right. These “value-makers,” as we call them, are fully leveraging what Accenture calls “Industry X” capabilities—using advanced digital technologies to transform their core operations, products, consumer experiences and ultimately their business models to become truly consumer-centric.

According to our research, value-makers are six times more likely to have increased their revenue by more than 30 percent and seven times more likely to have increased profitability by more than 30 percent in the last three years using X strategies.³
Current volatility is testing both the strength and agility of CPG companies’ operations, traditionally designed to handle mostly high-volume, blockbuster products. Today, the increasing demand for tailored products is transforming the portfolio, shifting it more to mid-volume and low-volume products—customized products or promotions for different stores or channels.
Our research shows that while the blockbuster products segment shows virtually no growth, more niche products grow at a compound annual growth rate (CAGR) up to 22% and have a far higher margin potential, as they command higher prices (Figure 1). Moreover, the recent supply and demand shocks are exposing the need for agile yet resilient value chains.

Value-makers are more successful than their peers at reconfiguring their manufacturing and value chains to align with this more fragmented consumer demand.

They deploy advanced digital solutions across their operations to achieve new levels of efficiency, especially for more commoditized products. They are developing new capabilities to manage a low-volume, high-variety product supply through new, distributed and segmented operations to align with the fragmented market demand and volatility.
Leaders are redesigning their operations and broader value chains around the consumer (Figure 2), transforming from an obsolete linear model to an agile and localized ecosystem of partners—efficiently orchestrating and integrating an increasingly complex network, with segmented capabilities to cover different sections of the product and channel portfolio. These future operations are designed for the current market demand and future evolution, and will thrive with product portfolio complexity, becoming an engine for profitable growth. Digital is the foundation of this new vision, bringing end-to-end transparency and optimization across the supply network.
For example, Accenture is helping a global confectionary company to build their late-stage packing capability with a new manufacturing, technology and supply chain architecture, decoupling packing from filling operations through an automated storage buffer, as a way to efficiently deal with customized offerings for multiple customers and channels. The business process and technology design will enable assemble-to-order production and overall increased packaging flexibility in a new automated, greenfield fulfillment center. Another large consumer goods company is pursuing the capability to produce with minimum order quantity of one, fulfilling the low-volume and high-variety part of the portfolio, leveraging new manufacturing architectures to bring their product and pack changeover time and cost close to zero.

In general, transforming operations and manufacturing can help companies reduce time to market, respond efficiently to ongoing changes in the marketplace, and continuously experiment with new offerings and routes to market.
Companies want to create and market products that consumers want to buy. In this sense, consumer-centricity has always been at the heart of a CPG company.

Today, however, thinking like a consumer is slightly different and more complex. Companies want to focus on the experience they deliver, to be sure, but they also need to consider how to forge deeper, longer-term relationships, where concepts like brand relevance, trust, security and community come more to the fore. Companies need to align themselves to the values of the consumer. However, Accenture research shows that only 35% of CPG CMOs say they have one integrated end-to-end view of the consumer.4

Digital allows a more frequent and intimate engagement with consumers, sharing targeted information that enables the development of a trusted relationship. This information includes product provenance and authenticity, and tailored messaging on offerings aligned with consumer needs. Digital also enables the gathering of meaningful and granular consumer insights, driving closed-loop product development, for more tailored and winning consumer offerings.
From this perspective, connected products, packaging and services are really about brand relevance—which in this case means understanding consumers and providing them what they want, when they want it, with less risk of service interruption. The goal is for every consumer to say, “Wow, this company really ‘gets’ me.”

Value-makers are living up to this vision by pioneering hyper-customized experiences, while most other companies have only limited capabilities for tailoring their offering. Smart, connected products, packaging and services allow the creation of new value spaces that didn’t exist before, through the experience and the intelligence continuum. This trend is emerging on a few consumer goods categories like beauty, integrating product offerings with personalized digital experiences through apps, for example, enabling new levels of brand engagement.

Leaders from our survey were five times more likely to have shifted to selling connected products and services than were traditionalists. Nearly all of these leaders expect 10 percent or more revenue growth for their connected products and services in the next three years.

P&G’s Opte’ is a smart handheld beauty device able to deliver a personalized make up solution at point of use, opening up a complete new value space in the beauty sector. Philip Morris iQOS, the electronic heat-not-burn electronic tobacco heating system, is a connected product which provides device information and personalization options through an app. The shift to connected products is clearly an emerging trend, slowly shaping new growth opportunities for consumer goods companies.
DESIGN TO MARGIN

It is challenging to monetize new, connected and tailored products.

According to Harvard Business School professor Clayton Christensen, each year more than 30,000 new consumer products are launched and 95 percent of them fail. Only 40 percent of developed products make it to market and of that number, only 60 percent will generate any revenue at all.⁷

CPG companies must now take a different approach, revisiting existing and new product portfolios using a combination of two mindsets: profitable innovation and cost-efficiency. Innovation is great, but profitable innovation is even better. Successful companies will integrate multiple capabilities—focusing on new market dynamics, innovation and business models, as well as product pricing and cost—to maximize margins of their new-product portfolios. Accenture calls this “design to margin,” an integrated approach that offers proven methods and tools to maximize their margins and achieve new levels of profitability (Figure 3).
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**MARKETS**
A sharp focus on customer experience, markets and innovative pricing strategies to influence customer demand

**PRODUCT INNOVATION**
Focus on finding the next sources of growth and disruptive value propositions such as PaaS business models, smart connected products, etc.

**PRODUCT DESIGN & DEVELOPMENT**
Leverage digital and zero-based mindset to significantly improve time to market, efficiency and reduce the cost to design, develop, source, manufacture and service the product.

**PRICE**

**COST**

**GROWTH**

**DTM**: Design to Margin

**Enablers**: Digital, industry specific commodity knowledge, industry specific engineering knowledge, organization structure and talent strategy, capability development

Figure 3. The integrated approach of “design to margin”
A key element of this approach is the integration of priorities and targets across functions (for example marketing, supply chain, design and engineering, manufacturing, fulfillment and aftersales), but also across external partners and suppliers, to create a coherent, data driven approach and platform that unlocks new end to end opportunities.

Over time, thinking about profitability during design and development will become more predictive in nature. For now, we can see aspects of design to margin in how some value-makers are performing analyses of products already in the market. For a leading food and beverage company, Accenture partnered to design, develop and deploy thousands of connected vending machines. The program included organizational changes to scale and grow market share while optimizing the operations and supply chain ecosystem that are critical to profitability and brand perception (e.g., product quality, equipment reliability, theft prevention, service time reduction, etc.).
THE URGE TO REINVENT

A host of benefits await companies that can successfully combine the mindsets of consumer centricity, product innovation and profitability-centered design.

HIGHER GROWTH POTENTIAL:
Leaders generate new revenue streams to drive real, top-line impact. Value-makers are six times more likely to have increased their revenue by more than 30 percent in the last 3 years. Shifting the focus from products to connected services can lead to these new revenue streams. Re-engineered, segmented operations can follow evolving and emerging demand across existing and new channels, supporting the accelerated introduction of new products and services.

GREATER PROFITABILITY:
Achieving new levels of profitability is possible through fit-for-purpose operations that can efficiently serve the fragmented and evolving market, and adapt to current and future demand, as well as to supply volatility. Value Makers are seven times more likely to have increased profitability by more than 30 percent in the last three years. It is important to take an integrated approach to growth, price and cost optimization to protect and expand margins. Leaders reinvest the new profits to fund future growth.

INCREASED TRUST:
The ability to establish trust with consumers is becoming even more important after COVID-19. Factors such as sustainability and sourcing and production transparency are important considerations to compete in today’s market. Leaders leverage the new highly adaptable operations ecosystems to accelerate the shift towards a more sustainable offerings portfolio. Highly integrated and connected value chains provide the visibility needed to minimize waste and provide more transparency to consumers.
The CPG market has changed dramatically, and COVID-19 accelerated many of these changes. Proactively improving operations and products is essential to survive in today’s environment, as are the imperatives to increase margins and growth, and develop the ability to keep evolving and adapting to future disruptive events. Knowing how to harness consumer-centricity, innovation and profitability will separate value-makers from the rest of the pack.
References


2. Ibid

3. All data is from Accenture’s Industry X research, 2019, unless otherwise noted.


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