ADAPTING TO NEW CONSUMER REALITIES AT THE SPEED OF NOW

AUDIO TRANSCRIPT

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Near-term consumer behaviors and long-term considerations in Consumer Goods & Services

• There's a growing shift toward e-commerce, rise of omnichannel and surge in the low-touch economy through digital payments and contactless deliveries.

• While organizations have repurposed themselves to respond in the current context, they must also identify new growth paths.

• This will require being digital and data-driven, pivoting to the e-commerce wave and adopting a portfolio approach.

• To prepare for the future, they must create next-gen agility in operations, build shared workforce resilience and generate fuel for growth.

The COVID-19 pandemic has led to what is no ordinary economic downturn, upending the Consumer Goods and Services (CGS) industry. Core changes in consumer behavior, supply chains and routes to market have thrown many companies off balance, while few have emerged winners.

Consumer behavior over these past months has drastically changed, permanently impacting how, what and where to buy goods and substantially accelerating the structural changes shaping the industry. In such a volatile environment, it is impossible to forecast and analyze trends based solely on traditional benchmarks and historical data to manage business. Sub-segments such as beauty and alco-bev have been severely affected as home became the new hub and consumers shifted to core staples. With "Health and Hygiene" as the new priorities, food and home care segments saw a significant growth in demand.

A clearer shift towards e-commerce, rise of omnichannel and surge in the low-touch economy through digital payments and contactless deliveries have impacted channel and route-to-market (RTM) strategies across the industry. Organizations need to continuously reimagine services to meet evolving consumer needs quickly. For instance, several leading CGS organizations have rapidly developed the capability to manage omnichannel commerce and engagement or forged hyperlocal delivery options.

Additionally, resources and investments will need to be continually reallocated, and companies will need healthy ecosystem partners, not just as allies but also as sources of real-time data and information.

Moving from “Now” to “Next”

The rules have changed. It’s the beginning of a new era of business, creating opportunities for organizations with the courage and foresight to change more than what their immediate needs demand.

While organizations have repurposed themselves to respond in the Now, they must also spend time today identifying new growth paths. Lessons from the past two recessions suggest companies that balanced growth and cost management outperformed their competition in the aftermath.

This presents an opportunity—and a need—for many companies to build the competences they wish they’d invested in before: to be more digital, data-driven and in the cloud; to have more variable cost structures, agile operations and automation; and to create stronger capabilities in e-commerce and security.

To be ready for what’s next, CGS organizations must prioritize three goals.

Goal 1 View business through a consumer lens: *Be digital; data and analytics-driven; and AI-led*

Consumer behavior is likely to continually shift as the crisis wears on, hence real-time insight and analytics are fundamental to addressing the challenge. As they continue operations, businesses must stay close to the evolving needs of consumers and build deeper understanding of new demand spaces and paths to purchase. Ongoing and localized insights are essential to respond to new dynamics and trends while anticipating market shifts. Rethinking the process of innovation will be at the heart of reinvention.

CGS organizations need to invest in artificial intelligence (AI), machine learning (ML) and other tools to manage customer interaction and analyze customer behaviors. This will help them provide frontline staff with the insights they need to personalize experiences and add value. That is exactly what a large multinational foods organization in India did. Creating a real-time, automated insights engine, leveraging AI and ML, across sales and operations helped them enable real-time decision-making as well as transform and digitize their processes.

Goal 2 Rethink channels and ecosystems: Pivot to the digital commerce wave

Business model flexibility will be more important than ever, and having ecosystem partners that allow for experimentation and rapid scaling on a variable cost basis would be key to success. With the shift to omnichannel services likely to be permanent, there is a need for a stronger and integrated digital commerce strategy, aligning to new occasions and shopper missions. This needs to be strengthened by decision-support analytics across the e-commerce value chain. From an operating model perspective, one of the main trends is an increase in the adoption of digital platforms to connect directly with consumers. Many fast-moving consumer goods (FMCG) players have co-created products with e-commerce players as online-first products and are getting into last-mile distribution leveraging partner ecosystems.

Goal 3 Invest wisely in what’s next: *Define a portfolio approach for products and businesses*

Economic downturns require portfolio-minded investment decisions. An integrated and forward-looking approach to investment allocation and prioritization can help future-proof businesses. Companies would need to realign their core assets and competencies to changes in the marketplace. They can also put new demand sensing capabilities to work for informed investment decisions.

For example, many CGS organizations have pivoted to offer products and services in the health and hygiene range, from vegetable wash and immunity-boosting drinks to health supplements and facemasks. At the same time, adjacent industry players have forayed into the hand sanitizer space, among others.

The current environment also creates unique opportunities to acquire assets, intellectual property (IP) and talent in the search for new growth pathways. In recent years, many established industries have been threatened by “the rise of the ants”—startups offering services that are cheaper, more transparent and delivered differently. This may be the reverse Black Swan opportunity for some incumbents to acquire underfunded or overleveraged startup threats.

CGS organizations need to take a value chain view to mergers and acquisitions (M&A) to consider how securing cross-industry ecosystem capabilities could improve longer-term competitive agility and resilience. This will help them identify small-scale, opportunistic M&A to acquire discrete/niche capabilities or talent that will generate long-term value.

Gearing up for the Future, the Never Normal

It’s a sprint now, but it’s time to start preparing for the marathon of never normal.

Now more than ever, businesses must think about how they can outmaneuver today’s uncertainty by planning for the more distant future. To position their companies for long-term growth in the recovery, leaders are now thinking about disruption more pointedly and are strategizing to make their organizations more resilient and competitive.

As CGS organizations think of the more distant future, three key areas should be considered.

NUMBER 1 Build business resilience: *Create next-gen agility in operations*

In these uncertain times, success hinges on business resilience and the ability to readily adapt to changing conditions. Indian companies need to accelerate their In these uncertain times, success hinges on business resilience and the ability to readily adapt to changing conditions. Indian companies need to accelerate their strategic ambition, acquire capabilities that set them apart and place growth bets at a time when others are retrenching and recovering at different rates.

Traditionally, supply chains were designed for efficiency. Now there’s a need to redesign them to balance efficiency and resilience. CGS companies need to have purpose-led intelligent supply chains that operate fast, with more agility to fuel sustainable future growth.

Additionally, adopting and adapting distributed global services models (GBS) and advanced data solutions can help automate routine process tasks and allocate talent across regions or time zones. For example, a large Indian FMCG organization embarked on a digital supply chain journey to move toward lean, agile and resilient supply chain operations enabled by AI/ML-based cutting-edge digital platforms. The transition enabled them to respond at scale to the pandemic’s evolution.

NUMBER 2 Workforce of the future: *Create shared workforce resilience*

The type of skills and roles CGS organizations need since COVID-19 are different from what was needed earlier; and the way these roles will be sourced is becoming more innovative and agile. Talent and its sourcing will increasingly become geography-agnostic, thereby giving both organizations and the workforce more choices. The concept of the “workforce” will expand beyond traditional organizational boundaries, and this will be further augmented by the drive toward increased automation, and contactless and digitally driven processes. This “on-tap” model of employment will find greater acceptance and adoption by employers, with increasing realization that fixed costs need to be made more variable.

NUMBER 3 Commit to an elastic cost structure: *Create fuel for growth*

While making temporary cutbacks, CGS organizations must evaluate investments holistically, in a manner that balances the trade-offs between near-term realities and longer-term considerations.

CGS organizations would need to reset the cost baseline for the new reality and enable elastic cost structures by making zero-based cost strategies more effective and implement and sustain a broader culture of cost ownership.

Best-in-class companies are looking beyond traditional cost reduction to move to Quartile Zero, by considering second wave cost reductions and generating fuel for growth. Reducing stock keeping unit (SKU) complexity to streamline cash management; variabilizing costs, including technology (e.g., software-as-a-service and cloud) and outsourcing non-core activities, while investing in greater data intelligence can help better adjust cost structures and manage liquidity.

Take the example of a leading Indian FMCG that is working on achieving cost optimization and value enhancement across all spend buckets of the business. This will help them deliver a bottom-line impact of 2 percent and provide them the fuel they need to growth in a post-COVID world.

The Future will Belong to the Prepared

Winners will combine the sprint on their COVID-19 response with the marathon of longer-term impacts on their operating model. Losers will be, at best, forced to rebuild their brands, values and reputation from the ground up. Or, at worst, they will simply disappear.

CGS organizations that outmaneuver uncertainty—by mitigating immediate challenges while building a better future—will one day look back on the crisis as the darkness before the dawn.

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