NEXT GENERATION ROUTE TO MARKET CAPABILITIES
FOR DISRUPTIVE GROWTH IN EMERGING MARKETS
The Asia Pacific region will be the consumer packaged goods (CPG) industry’s biggest market by 2022—estimated to contribute 35 percent of the global industry share.\(^1\)

However, the emerging markets in general may well be a pie in the sky for many global CPG companies. Encumbered by traditional distribution channels, these companies continue to struggle to penetrate this promising but high cost to serve market.

CPG companies must act now to realize the potential of the emerging markets. As traditional trade warms up to digital ways of operating, CPG companies have a window of opportunity—for a new digital technology-based approach to route to market (RTM) that will help them survive, innovate and grow. And even disrupt to lead.
INTRODUCTION

The CPG industry has been sitting on the digital transformation fence for long. Limiting its digital focus largely on marketing initiatives, CPG companies continue to overlook the elephant in the room—the high cost to serve traditional RTM in the emerging markets.

Designed in the door-to-door salesman paradigm of the analog era, the current route to market is one of the CPG industry’s biggest barriers to profitable growth in the emerging markets.

For example, the average sales per outlet in the emerging markets region is US$37,000—only about 14 percent of the average sales in Western European outlets. Global CPG brands reach only a fraction of estimated 30 million stores. Even leading CPG companies in India, for example, reach less than 30 percent of the 12 million Mom & Pop stores in the country.

Imagine then the cost to reach a two to five-fold increase in coverage of these small stores in order to capture enough scale for sustainable growth from new consumers. That sort of reach and productivity can only be achieved by digital means.

The good news is that traditional trade is ready for change. A study by Accenture shows that Mom & Pop stores are already familiar with digital—using smartphones and apps and digital payments for transacting with customers.

The bad news: Digital natives like Amazon and Alibaba know this too and are roping in these tiny stores to join their platforms.

There is an urgent need, therefore, for CPGs to take advantage of traditional trade’s openness to technology, now. The window of opportunity could close soon as new disruptive business models change the market’s dynamics.

CPG companies are beginning to integrate and digitize the end-to-end RTM value chain. The gains are obvious—even the simplest shift such as migrating routine field sales tasks to digital modes of ordering has the potential to reduce costs by nearly seven times.

A leading beverage company was able to move over five percent of its sales to a digital platform within the first year of its operation in India. A leading personal care company in emerging markets saw 2x sales in low value outlets by enabling both directly and indirectly served outlets with a digital platform.

Accenture estimates that companies with digital RTM capabilities achieve tangible results in different aspects of the value chain. Our experience suggests that CPG companies that have adopted such capabilities have seen a 20 percent increase in their sales within 24 months of change. Outlet coverage improves 8 to 10 percent, portfolio/assortment mix by 5 to 7 percent and order quantity from 2 to 5 percent, enabling revenue uplift. Salesforce effectiveness jumps by 5 to 10 percent, helping reduce costs.

Even seasoned RTM organizations need to re-invent themselves to leverage the new technologies for growth. While some of their RTM capabilities are market leading, there are gaps in others.

A new approach to traditional trade is needed—one that enables the ecosystem and creates opportunities to collaborate and innovate.
Currently, most RTM organizations in the emerging markets continue to drive sales through salespersons visits. They have fixed routes to keep delivery costs in check, and they employ low productive workforce to keep operational costs low and use static insights that give them limited ability to leverage trends.

Historically, distribution partners vary significantly in their levels of capabilities. Interventions that suit one set of partners may be inadequate for another.

With digital technology, CPG companies are enabling far more effective business operations across different areas. For example, a capacity for automatic reorders is removing the frustration of dealing with frequent stockouts, making stock management a breeze. They use predictive analytics-driven assortments with personalized sales promotions to improve sales. These companies are also helping tiny Mom & Pop shops optimize shelf and store management based on pre-fed data on store size formats and types of neighborhood served.

However, a digital transformation of the RTM would only be possible in a collaborative ecosystem of digitally connected RTM partners. How should CPGs get to that stage?

1. LAYING THE FOUNDATION FOR THE NEW

Our work with clients has shown that the journey from a manual, disconnected and ad-hoc decision-based business to a digitized, connected and insight-led ecosystem involves three phases—Begin with digitizing the current operating model, then transition to creating an insight-driven organization. Thereafter, leverage advanced analytics and technologies such as AI and IoT to focus on optimizing operations, providing real-time support to RTM partners and addressing customer needs based on real-time visibility into what consumers are buying or talking about.
Figure 1: An end to end digital RTM solution drives business value realization through increased visibility & targeting

A connected value chain is best realized with a single scalable platform where the stakeholders can connect to create a common master database. An integrated database with a single source of truth provides greater visibility and control over intermediaries. Leverage the platform to deploy a range of technology solutions—from distributor management systems, Salesforce automation, retailer self-service, digital merchandising to methods of consumer engagement, among others. (See Figure 1).

A leading tobacco company in South Korea has taken digital merchandising to a new level—creating a perfect in-store execution, thanks to a digitized RTM value chain. The company has enabled 40,000 convenience stores to use a platform based on digital image recognition and computing for self-auditing their in-store merchandise. It can track 500 SKUs and visuals and provide stock refresh twice a month. The audits happen in a time frame of fewer than 5 seconds and are done on commonly used mobile smartphones even without internet access.

**DIGITIZE AND INTEGRATE THE RTM VALUE CHAIN**

CPG companies need to establish, integrate and digitize ecosystem partners across the end-to-end RTM value chain.

Such disruptive technology will change the rules of the game in emerging markets too if the CPG companies get their act together on digitizing the RTM value chain.
An integrated and digitized value chain will help CPG companies in using advanced technologies to optimize operations such as trade spends and route planning. For example, trade spend categories could be analyzed and rationalized based on how revenue responds to scheme changes. Insights from trade promotions data could be used to drive sales.

The business outcomes from trade spend optimization alone can be significant as a leading CPG company in India discovered. The company reduced costs by 10 to 15 percent on current trade schemes and discounts and increased revenues by six percent.

With an integrated view of its retailers, the company categorized retailers according to their business performance so as to target investments and promotions which were then managed using econometric modeling. It was able to create deeper retailer penetration through scheme optimizations, and intelligent offers and service differentiation—all based on insights from data.

Benefits of a connected value chain can be accelerated by engaging & training all RTM participants to the new capabilities. Learning through gamification is a proven model to engaging Distributors, Sales persons, Merchandisers and other front line personnel to constantly upgrade their skills, improve their knowledge and get more competitive in the market.

Internal competition in teams, dovetailing individual performance metrics to training, targeting interventions based on specific market performance, eCoaching larger spans are proven to be drivers of improvement.

A leading CPG company in Asia & Africa drove a targeted program that used an interactive and incentive-based learning platform to record a four to six percent uplift in sales; lower attrition rates and better teaming were other benefits of such a program.
2. INNOVATE TO THRIVE

TRANSFORM OUTLET COVERAGE WITH OMNI CHANNEL SALES

As CPG clients improve their outlet reach, they're faced with the “long tail problem” which impacts profitability. Emerging research shows that physical availability of product drives loyalty to products and hence CPGs need to drive outlet coverage. This is especially true for Asia with millions of first time consumers who are making category purchases for the first time in their lives. Using Field Sales for the long tail (traditionally referred to as “C/D class outlets”) dents the profitability due to low order values.

The emergence of a variety of digital channels (at lower costs per traditional sales call) poses intriguing possibilities for RTM CPG operating models. Retailer Apps, SMS Bots, Interactive Chat Bots, IVR driven automated sales phone calls, Tele Sales Agents, etc. are all ready-to-execute technologies that have proven to work alongside the traditional route salesperson in Asia. Omni Channel (seamless between sales channels) RTM has driven improved Sales Person compensation by driving him/her to be an active seller from passive order collector while retailers experience 2x-4x increased engagement with reduced stock outs.

LOWER COST TO SERVE WITH DYNAMIC ROUTING

Whether with Pre-Sales or Van Sales, Distributor margins/ profitability are very sensitive to delivery costs; current delivery routes are heuristic and expensive, eventually driving down distributor effectiveness. Low fleet utilizations combined with bad service levels lead to unhappy partners & customers.

Dynamic Routing at scale can change all that – this is especially needed in the Digital RTM world, where orders keep flowing in on demand & not on fixed schedules. Using daily run algorithms that crunch through distributor specific data (fleet size/ availability, demand points, order prioritization, cost per mile per vehicle, physical roads, etc.), delivery routes are computed based on existing orders and agreed service levels.

A large distributor in Philippines for a Beauty & Personal Care company was able to identify upto 18% savings on fuel costs due to such capabilities. Other benefits include improved delivery performance, enhanced returns on labor, increased fleet utilization and enhanced visibility for improved planning/forecasting.

INCREASE OUTLET PRODUCTIVITY WITH PRESCRIPTIVE ACTIONS

The second wave of the digitization journey is the transformation towards insight-led decision making in the organization. With access to data from partners and customers, the next step is to create a command center capable of performing descriptive and diagnostic analytics and display insights through analytical dashboards.

For example, with analytics, CPG companies can even predict or determine weekly demand patterns or purchase capacity based on past purchases. This capability offers significant potential for cutting inventory costs, reducing stock outs and ultimately improving customer experience.

Analytics could also help optimize supply chain and sales routes. For example, Marico, a leading beauty & hair care co in India uses sales assortment mixed analytics to predict which SKU would sell in a particular channel at a particular outlet and in similar geographies. The company achieved a good precision rate and observed a 16 percent increase in the growth rate.

However, analytics should not be leveraged as just an add-on to enable the business process. Successful CPG companies using predictive and prescriptive analytics in developed markets are also insight-driven...
organizations with the capacity to convert data into actionable intelligence.

These leaders invest in building analytical capabilities to help implement their business strategies, using data-driven insights to make decisions. In the area of route to market, these companies process data to create “next best” actions for system users in their distribution channels and direct orders to sales representatives to follow a specific course of action. (See Figure 2)

Figure 2: Predictive analytics-led next best actions

3. DISRUPT TO LEAD

The journey from a connected value chain to optimized operations brings the RTM organization to the next phase—that of building the capacity to create value chain collaboration in real time.

A host of advanced technologies make it possible to gather and process data in real time, preparing CPGs to lead and disrupt. (See figure 3)

LEVERAGE AI AND IOT

For example, distributors are enhancing performance by using AI-based solutions that predict order quantities and suggest assortment mix for a specific retail outlet the sales representative is visiting. One of the biggest advantages of technologies such as AI and IoT is that they enable a deeper understanding of individual consumer behavior for targeted marketing or greater engagement, as Dole and Heineken have shown, respectively.

Dole, the world’s largest producer and marketer of green groceries and flowers and a packaged goods manufacturer, extensively deployed AI-based tools to speedily test and improve promotional tactics based on the incoming data from their campaigns.6 Heineken, the beer company, which uses AI and IoT-based solutions all along its RTM value chain, had captured the imagination of its customers when it launched an interactive beer bottle fitted with sensors in 2013.7
The adoption of advanced digital technologies to re-invent the traditional RTM value will enable disruptive business models that are based on a deeper understanding of customer needs and behaviour in real time. Disruptive business models leverage innovative ecosystem partnerships. According to the Research for the Accenture Technology Vision for Consumer Goods 2017, over 90 percent of consumer goods executives say that adopting platform-based business models and engaging in ecosystems with digital business partners is “somewhat or very critical” to grow their businesses and pursue new go-to-market strategies.

Consider new models such as subscription-based services and on-demand mobile platforms which are getting increasingly popular. CPG companies might have to consider emulating startups in this regard. For example, Carmesi, a startup in India, sells eco-friendly sanitary napkins through a monthly subscription model that offers customizable elements like dates of delivery and number of packs to be delivered. Several such startups offer weekly or monthly subscriptions across consumer products, especially in cosmetics and fashion accessories.

Disruptive business models also include a focus on omnichannel consumer experiences. In an industry where consumers seek superior and personalized customer experiences across channels, companies with omnichannel strategies are better at engaging customers. Such companies invest in building AI-based analytics capabilities to collect and analyze data across all customer touch points to create a single view of the customer.

As customer segments get more distinctive, numerous and diverse, companies are using social intelligence and socially connected channels to get information on what consumers are saying or buying. For example, crowdsourced data from tracking software companies such as Snapcart give companies access to real-time information on what people are buying. Snapcart, an Indonesian grocery tracking app, gives users cashback offers to upload photos of their receipts on the app. The company then analyzes and sells this crowdsourced data to brands. Similarly, P&G has partnered with Thoughtbuzz—a social media monitoring, hashtag tracking and competitive benchmarking platform—for insights on its online brand presence and on social trends.

Blockchain—the newest kid on the technology block—is opening new ways to meet consumer needs and ensure quality and safety of products. Blockchain allows all the stakeholders across the RTM value chain access the same information while also protecting the data from being tampered with. With Blockchain solutions, CPG companies would be able to track raw materials from when they enter the supply chain, right through until the finished product is shipped to the customer.

For example, JD.com uses blockchain to allow customers to track each piece of Pure Black Angus Beef right back to the farm in Australia where it was produced. Several such startups offer weekly or monthly subscriptions across consumer products, especially in cosmetics and fashion accessories.

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THE APPROACH TO RTM EXCELLENCE

Our experience with global clients suggests CPG leaders are pursuing an inclusive and agile end-to-end methodology that will enable them to co-create, scale and sustain an integrated RTM value chain.

A robust methodology will include a holistic redesign of the RTM strategy, identifying an RTM vision for the organization, monitoring of business benefits from identified levers, developing an RTM change management plan and establishing processes to sustain this RTM. (See Figure 4)

Change management is a critical component of RTM excellence as companies will need to focus on engaging with all the stakeholders so that RTM changes can be sustained. A successful roll-out of the new RTM will need leadership clarity and support.

Figure 4: An inclusive, agile, end-to-end methodology for RTM excellence

- Generate insights about processes and gaps in current RTM
- Develop the RTM change management plan; ensure sustenance
- Deploy RTM capabilities across geographies and derive quantifiable benefits
- Jointly redesign RTM strategy and technologically enable key RTM processes
- Establish RTM vision together and identify impact areas for the short run and the long run
- Co-Create
- Describe
- Scale
- Sustain
- Discover
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