



Building a Consumer-Centric Supply Chain in Consumer Goods

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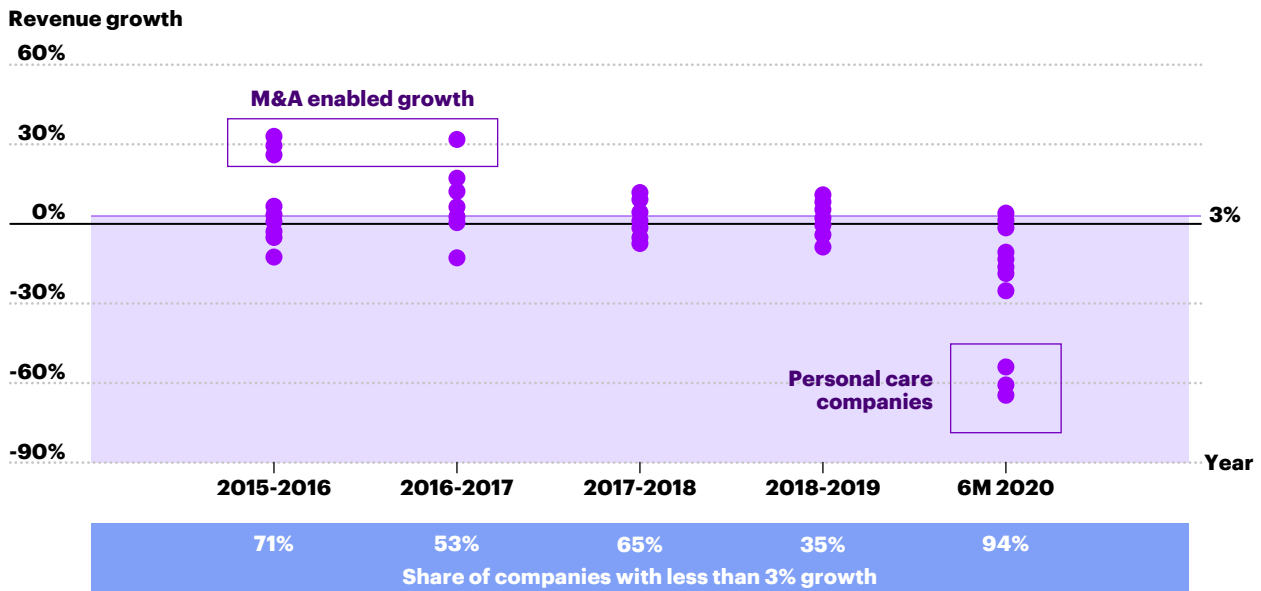
Consumer packaged goods (CPG) companies are under intense pressure to regain profitable growth.

Yet, 94% of CPG food and beverage businesses are seeing growth of less than 3%.¹ Growth across industry segments has been trending downward over the past five years, bottoming out in 2020 due to the unprecedented impact of COVID-19 (see Figure 1).²

CPG companies have been struggling to meet increasing consumer and customer demands. Then the pandemic struck and exposed that most large, global CPGs do not have supply chains that are agile and responsive enough to withstand such disruption and complexity.

Figure 1: Declining growth for incumbent CPGs

Growth has been declining for CPG companies (in food and beverage) globally over the past five years with a small uplift in 2018-2019 that was soon diminished by COVID-19.



Source: Capital IQ, Accenture analysis

¹ Accenture calculations based on Capital IQ data

² Ibid.

For CPG companies, it's no longer enough to have an engine of efficiency. Supply chains must become laser-focused on delivering the outcomes that enable the company to meet consumer and customer needs. The value of these outcomes will vary by consumer segment. Since it is neither possible nor practical to be differentiated across all outcomes, CPGs will need to prioritize which are most important to each consumer segment. Then, the organization must align around building the required capabilities to deliver these outcomes.

Companies must reimagine and digitally enable the supply chain to be consumer-centric.

Value at stake

The supply chain can help a CPG organization to pivot to growth rather than just being a cost center. Those CPG companies that do not invest in essential capabilities that enable resilience are holding growth hostage.

Our analysis indicates a \$10B company that develops an intelligent supply chain could grow revenues up to 3% through improved availability of the right products, better customer service and reduction in lost sales.

It could increase profitability up to 4% through cost reductions and improve working capital by up to 2%. Furthermore, such a company could also increase trust and sustainability through reduced energy consumption and carbon emissions.

Delivering on consumer value propositions

Accenture's 2020 Supply Chain Survey of 178 supply chain and operations executives in consumer goods shows a small group of companies that have excelled versus their peers. The survey provides insight into the top value propositions CPG businesses are now focusing on (see About the Research). The survey finds that CPG companies have prioritized for the next three years a focus on the following consumer value propositions: Connected consumer experience, price competitiveness, and trust and sustainability.

Connected consumer experience:

The focus on a connected consumer experience has been emphasized amid the pandemic. Ecommerce was already growing, and the growth from the past 10 years has doubled since COVID-19.³ This is no surprise as people spend more time at home and are buying products online through ecommerce websites, social media outlets and through subscription models. In fact, interest in subscription models surged during the pandemic, and 80% of new users plan to continue to use them.⁴

To deliver a connected customer experience, CPG supply chains must be **tailored**—providing the right product proposition for each channel and consumer segment and adapting the portfolio as preferences change. They must also be **responsive**—meeting consumer and customers' demand shifts across products and buying channels.

Price competitiveness:

Offering price-competitive products and services has become essential during the pandemic and recession as customers are more conscious of price. More than half (54%) of consumers are shopping more cost-consciously by buying budget brands.⁵ Delivering on the outcome of price competitiveness requires a supply chain that is optimized, operating cost-effectively to provide price competitiveness and contribute to the company's profitability.

³ Accenture Consumer Goods COVID-19 Consumer Pulse Research – Wave 8 (growth from 16% in 2019 to 27% in April 2020 of US ecommerce penetration in % of retail sales)

⁴ Accenture Consumer Goods COVID-19 Consumer Pulse Research – Wave 8

⁵ Ibid.



Trust and sustainability: Companies are focusing on sustainable products and services as well as sustainable (green) supply chain and manufacturing. Operating with responsible and sustainable practices builds trust and does good for society and the environment.

Seventy-eight percent of consumers are making more sustainable purchases, and 93% plan to stick with these beyond the pandemic.⁶ Sustainable supply chains provide end-to-end transparency and optimize for sustainability to drive trust and demonstrate social responsibility.

Supply chains that are agile and responsive are more resilient to disruption and better equipped to deliver on a variety of customer value propositions. But CPGs must make choices about what's most important. They should prioritize desired outcomes per segment and then build the right capabilities to deliver them. Only a small number of companies have successfully done this.

⁶ Ibid.

What capabilities do leaders focus on?

Our research identified a small group of customer-centric CPG supply chain leaders.⁷ They report higher maturity than their peers in:*

- **Customer and product segmentation.**
This is the single most differentiating capability among customer-centric supply chain leaders. These companies identify segments with the same requirements and organize their capabilities so that they can deliver the required outcomes for these segments.
- **Design to margin capabilities and collaborative and agile innovation.**
These capabilities provide the ability to deliver the right product portfolio at optimal cost. Leaders report they do this more not only within their company, but also across the ecosystem.

Segmenting for service and savings

Facing increasing complexity in its supply chain, a global alcoholic beverage manufacturer wanted to drive down unnecessary costs and complexity while improving service levels. The company chose to move to a segmented supply chain with a differentiated service offering per segment.

Using a data-driven segmentation model with a service catalogue per market and a granular cost-to-serve tool, the company could offer the right service to the right customer at the right cost levels. As a result, the business experienced a 14% savings on logistics.

⁷ Accenture; Customer-centric supply chains: A license for growth; <https://www.accenture.com/us-en/insights/consulting/customer-centric-supply-chains>

* CPG supply chain leaders report average revenue growth of 13% (2017-2019) and attribute as much as 52% of that revenue to their supply chain initiatives.

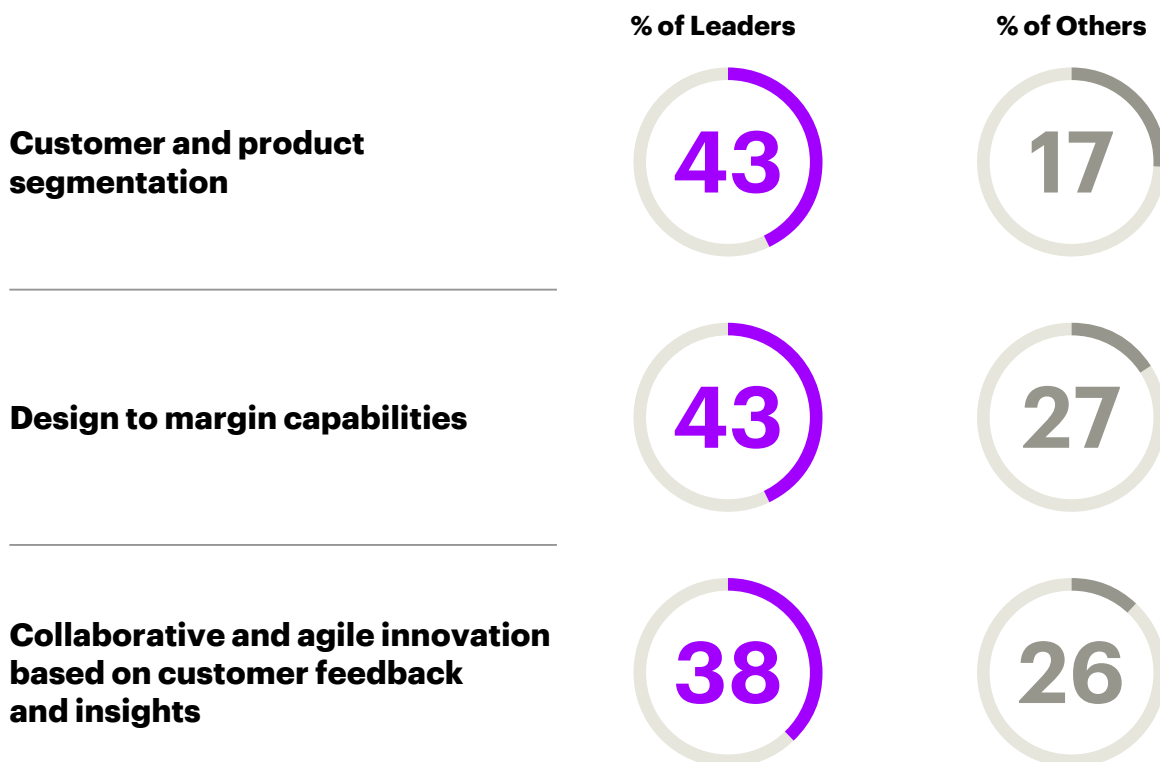
- **Concurrent planning and execution.**

These capabilities enable responsiveness and resilience based on synchronized planning and execution which allows the company to plan and re-plan the total supply chain based on the latest data insights.

Leaders have strategically invested in areas that would help them to shape more customized products and services, while their peers often struggle with a variety of challenges and spreading investments across capabilities (see Figure 2).

Leaders are more mature compared to others in key capability areas.

Figure 2. CPG supply chain capability maturity – leaders vs. others.



Source: Accenture 2020 Supply Chain Survey

Boosting profitability through segmentation

One leading consumer goods company has made segmentation a key element of its supply chain strategy. The company sells consumer household products across a wide range of categories. When the business sought to differentiate its products and service offerings to meet evolving customer needs, it implemented supply chain segmentation.

The company started with understanding consumer, customer and partner needs. It captured the voice of consumers, shoppers, retailers, suppliers as well as internal cross-functional teams. Using that information, the company shaped its supply chain segmentation. Next, the company translated product requirements and market needs into the corresponding supply chain capabilities and design. The program has allowed the company to balance growth from product offerings and markets while reducing costs, enhancing profitability and, importantly, improving service.

In just over 5 years, the company achieved more than \$40 million dollars in value through:

- Substantial profit improvement by moving specific products into an efficient, low-cost value chain
- Several million in incremental revenue through better service and improved responsiveness (including 50% lead time reduction in specific processes)
- Deferment of capital investment.

The new consumer-centric supply chain

Building a consumer-centric supply chain calls for rethinking the supply chain configuration, advanced technologie and people. Our research showed CPGs' legacy supply chain operating models and organizational structures are a barrier—so it's time for change.

Configuration

CPGs need to establish a set of supply chains with a network and assets that meet the needs of each segment. The supply chain assets need to be leveraged at scale across these segments, where possible, to manage the cost base and adjust dynamically to enable responsiveness and resilience. Some companies are adopting more asset-light structures in which they outsource a significant portion of assets and use an ecosystem to be more flexible.

Asset-based supply chains lack the flexibility to make changes quickly and their static “one size fits all” setup limits their ability to achieve segmented outcomes. Our research found that 35% of CPGs say that their supply chain and manufacturing capabilities are not flexible enough to provide differentiated offerings and experiences.

Advanced digital technologies

Customer and product segmentation, collaborative and agile innovation and other mature capabilities rely on digital technology. One of the top three issues that companies cited is a lack of the right digital architecture and digital capabilities to be connected across the enterprise and ecosystem. This connectivity is needed to enable cross-functional decision making that leads to a consumer-centric supply chain.

Today, many companies are replacing their ERP system with modern architecture. They build this as a digital core that provides the core data and processes. However, it isn't enough to provide the digital capabilities to be an “intelligent supply chain.” Legacy systems with deteriorating functionality are difficult to modify and connect to the new applications that are needed to deliver on emerging consumer value propositions. Instead, CPGs need a supply chain capability that supports capabilities such as concurrent planning, segmentation and agile innovation (see next page “Four types of ERP transformation journeys”).

Four types of ERP transformation journeys

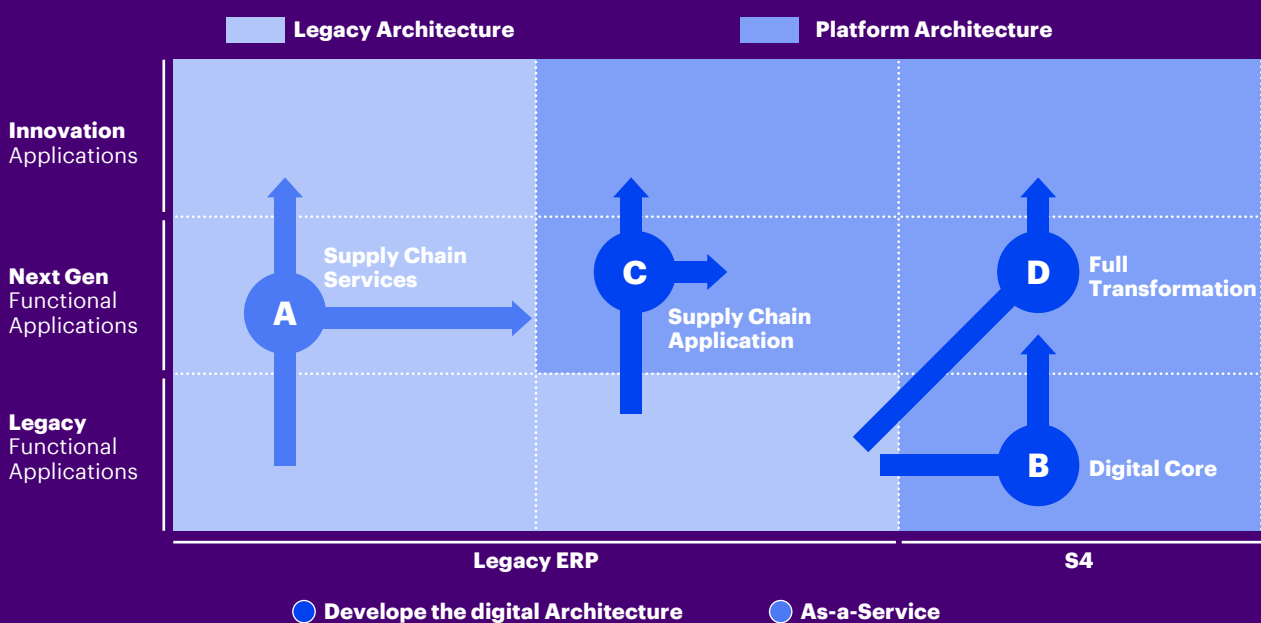
As companies transition from legacy technology to next-generation technology, they need to decide on an approach that enables them to meet strategic objectives. At a high level, we have seen companies take four transformation journeys for their ERP and supply chain applications as outlined in Figure 3.

It shows on the horizontal axis the transformation of the core ERP from legacy to modern cloud-based ERP, this provides a robust core of standard data and processes such as sales, distribution and production to support harmonization. On the vertical axis are the supply chain-specific processes on top of ERP. This moves from legacy to next-generation solutions then ultimately to adding innovative apps. At the same time, the transition is from legacy architecture to a platform-based architecture on cloud technology to improve flexibility and scalability.

Journey A represents quick interventions to add advanced capabilities, for instance forecasting or inventory optimization, by sourcing them as a service as they continue to use legacy applications.

Journey B moves to the next-gen ERP first to put the core capabilities in place. Often this is combined with A if the company cannot do the full transformation, but still needs some advanced capabilities. **Journey C** first transforms the supply chain capabilities and postpones the core ERP. The key is to do this on the modern platform architecture to ensure a future-proof setup. Finally, through **Journey D**, some companies see the need and have the resources to make total transformation of both ERP and supply chain-specific capabilities.

Figure 3: Four technology transformation journeys





People

Among the CPGs we surveyed, 24% said that their business does not have the right organization structure and incentives to drive collaboration. Many CPG organizations are siloed, and this hinders customer-centricity in the supply chain. Current accountability is process-based and optimized for a siloed domain versus demand-driven, cross-functional decision making. These silos trickle down into the way talent is skilled. Many employees are skilled for a single functional domain and don't have access to analytics and capabilities that will support strategic decision making.

Begin the journey

CPGs should invest in capabilities that will deliver on the value propositions and outcomes they have prioritized. These will be different for every business—and almost no business can do everything. But what will be the same across companies is the need for the right technology that will enable innovative capabilities within the supply chain, flexible processes that enable the business to provide differentiated offerings and experiences, and the organizational structure that will allow cross-functional decision making, collaboration and an agile response to new challenges or opportunities.

1. Shape the vision

CPGs must understand the experiences that customers, shoppers and consumers now expect, and then shape the capabilities to enable a fast response. The vision should factor in each segment so the business is not trying to do everything for everyone. A clear vision will inspire the organization, its customers and its partners to help in the transformation journey and to allocate the resources and effort to accomplish the transformation. Consumers and customers are critical players that can help co-design the journey to be a supply chain centered on high-quality customer service and customer experiences.

2. Define the initiatives

CPG businesses should explore a portfolio of projects that can deliver short-term results but also allow the innovation needed to enable continuous improvement initiatives, build adaptive capability and support the company's long-term vision.

3. Get the right operating model and technology in place

Organizational structures, processes and technologies can be barriers to creating a consumer-centric supply chain. Leading CPG businesses understand the value of humans + machines. Technology can improve the quality of decision-making at speed via digitized processes while also freeing people to focus on making complex, strategic and cross-functional decisions. This magic only happens when the underlying structure is silo-free and optimized for cross-functional collaboration.

By establishing this strong foundation and organizing around outcomes, CPG companies can meet the needs of today's consumers who have new preferences and behaviors. Doing so is critical to growth. There is no better time to focus on consumers and customers and strengthen the supply chain for the future.

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About the Research

Accenture surveyed 900 supply chain and operations executives in 2020 in 10 countries and 9 industries, including 178 in consumer goods. Total respondents included VP/Director (60%), SVP/EVP (21%) and C-suite (19%). To identify 'Leaders', we asked supply chain executives in our sample to identify the customer value propositions their supply chains were addressing during the 2017-2019 timeframe. We also asked them to self-assess their supply chain's contribution to their company's overall revenue and revenue growth experienced while driving these customer value propositions growth during the same time period. The companies making it to the top quartile on both counts are our Leaders. They achieved an average revenue growth of 13% between 2017 and 2019, and attribute as much as 52% of that revenue to their supply chain initiatives. In contrast, others who have registered an average revenue growth of -5% over the same period, say that their supply chains have only 17% impact on their revenue.

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