Moving from Defense to Offense
Six Winning Strategies for Growth in Consumer Packaged Goods
Competition in the North American consumer packaged goods (CPG) market has heated up in the past 10 years. Consumer preferences are shifting—people are demanding value and specialized products, and they are spending across channels. The greatest economic downturn in decades and slower than anticipated recovery have also significantly impacted growth (see Figures 1 and 2).

In the face of slowing growth and increasing competition, CPG companies have been targeting their cost base as a means to shore up profitability. Some cost take-out programs are aggressive (targeting billions in savings), and involve restructuring, de-layering, zero-based budgeting and supply chain optimization. Mondelez International, for example, is targeting annual savings of $1B by 2017 through global operating model restructuring. Others are less transformative (targeting millions), mostly focused on SG&A expense scrutiny and manufacturing rationalization to reduce costs.

Reducing costs is a critical activity—but it isn’t the only way to build an offensive edge in today’s competitive marketplace. To stay relevant, stable and strong in the changing consumer/channel landscape, businesses must pivot their focus to reinvesting savings to drive growth.

Figure 1: Year on year growth, per segment

Source: Consumer Goods & Services—Macroeconomic Drivers for Change document, Euromonitor International 2014 Data
We are seeing forces across consumers, channels and products that are exacerbating the already competitive CPG market and adding complexity.

**Diverging consumer segments.** Middle class buying power is eroding, shifting to affluent consumers. Median United States household incomes have fallen steadily since the mid-2000s, sinking to $52,000 in 2013, while the wealthy have seen their share of overall income increase.1 This income gap has driven an upmarket segment focused on premium offerings, such as Nespresso coffee. It has also produced a lower-market segment focused on low-cost products and stores such as Dollar, which grew sales by 5.7 percent in 2014.2

**Increasing demand for healthy ingredients.** Rising demand for healthier products is forcing CPGs to revamp entire product lines. CPG companies are trying to respond and protect their prominent categories by reformulating ingredients, adjusting marketing messages and shifting trade spend. Cereals are eroding as consumers now want higher-protein dairy offerings. In response, CPG companies that offer cereals are now infusing products with protein and increasing their Greek yogurt exposure. PepsiCo branched out from its full-calorie and diet carbonated soft drinks by launching Pepsi True, which contains 40 percent less calories based on its ingredients—a combination of stevia and cane sugar sweeteners.3

**Convergence across categories and industries.** Consumer preference for healthy foods has given rise to a number of new product-related innovations. Upmarket baby food companies, like Ella’s Kitchen, have broadened their focus and tout their product’s ability to appeal to both moms and babies. Multiple CPGs have begun to highlight the restaurant-like qualities of their product lines, such as ConAgra with its P.F. Chang’s offerings. All of this suggests that delineations between products, and even industry sectors, are rapidly becoming a thing of the past.

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Push to more convenient packaging. Today’s on-the-go consumers want packaging that can satisfy their busy lifestyles. Specifically, they have a hunger for re-sealable packaging, “speed scratch” cooking options and global experiences. Campbell’s is striving to appeal to such consumer preferences through its “Go! Soups” which are stored in convenient, eco-friendly pouches and come in a variety of ethnic flavors.

Rise of new channels. Today’s on-the-go nature of consumers has influenced shifts in channel preferences. Consumers are migrating away from traditional grocers and toward one-stop supercenters. High-income buyers and millennials are making more online and Club purchases for food and beverages. Mass-market buyers are shifting as well, increasingly spending at Dollar stores and Small Format grocers. CPGs are modifying their product lines to help these channels generate demand, providing exclusive SKUs.

In the wake of the consumer, channel and product shifts explored previously, Accenture research and analysis hints that two key axes will likely drive the market’s evolution. The first is consumer characteristics. More specifically, the preferences and demographics of shoppers that drive CPG spend. Along this consumer axis, one of two futures could emerge:

• **Middle market dominance.** The mass-market consumer segment grows and emerges as the key place for CPGs to “win.”

• **Consumer polarization.** Unique consumer groups—differentiated by income, ethnicity or age—control the market.

Food for man—and his best friend: Honest Kitchen produces dog food on human-food lines, and touts owners’ ability to consume its mixes and products.

Brand resurgence: Coca-Cola reintroduced its citrus-flavored SURGE product in limited supply after a 12-year hiatus. The product appeals to nostalgic customers and also drives exclusivity as it is only sold via Amazon.

The second axis is channel preferences; where consumers choose to make their CPG purchases, across categories. Again, two extremes could materialize:

• **Basket convergence.** Consumers select “primary” channels for the vast majority of their consumables needs, and turn to alternate channels for “niche” buys only.

• **Basket divergence.** Consumers spread grocery purchases across a range of traditional and emerging channels by category. There is no single dominant channel.

Considered together, the axes of consumers and channels lend themselves to four scenarios that may occur in the future (see Figures 3 and 4).

Figure 3: Channel preferences are shifting

<table>
<thead>
<tr>
<th>Channels</th>
<th>Consumers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basket Selection Divergence</td>
<td>Middle Market Dominance</td>
</tr>
<tr>
<td>1. Distributed Spend</td>
<td>4. Distributed Preferences</td>
</tr>
<tr>
<td>2. Polarized Market</td>
<td>Consumer Polarization</td>
</tr>
<tr>
<td>3. Narrow Focus</td>
<td></td>
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</tbody>
</table>

Source: Accenture analysis
Future scenarios present a wakeup call
The shifts in the CPG market toward greater consumer polarization and basket selection divergence suggest a more fragmented, more competitive landscape than today with different types of consumers spending across a variety of channels.

**Distributed spend.** Only a handful of companies will target the broad middle. The majority of CPG companies will sell across channels, and they will compete to be category leaders based on mass channel preferences, such as convenience, health and wellness.

**Polarized market.** Due to divergence, CPG companies will be compelled to decide how to specialize—which consumer, which channel, which segments? Sales forces will shift focus in accordance.

**Narrow focus.** CPG product lines will evolve based on which channel reigns dominant. There will be a renewed focus on value to appeal to consumer demand and to counter Private Labels that deliver exclusive products.

**Distributed preferences.** Marketing capabilities will need to be robust in order to garner attention in dominant primary channels and to appeal to divergent consumer segments.

Accenture research, client conversations and project experience suggest that of all these scenarios, Distributed Preferences is the most like to occur. Consumer preferences have already begun to diverge across multiple axes, including income, race and age. At the same time, we see dominant channels emerging for particular categories—e-commerce wins for apparel, for example, while specialty grocers drive most organic purchases.

To survive this shifting market and remain competitive, CPG companies should employ a structured approach to assessing portfolio investment options—one that is guided by an understanding of these expected shifts in both consumers and channels.

Figure 4: Future CPG scenarios

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Most Likely to Occur</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Distributed Spend</strong></td>
<td>Rise of 'broad middle' / mass market consumer. No primary channel loyalty—20% basket across channels.</td>
</tr>
<tr>
<td><strong>3. Narrow Focus</strong></td>
<td>Rise of broad middle / mass market consumer. Primary channel loyalty for majority of basket prevails.</td>
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<tr>
<td><strong>4. Distributed Preferences</strong></td>
<td>Rise of consumer extremes, such as value, Hispanics, and Millennials.</td>
</tr>
</tbody>
</table>

**Definition**
- **1. Distributed Spend:** Rise of 'broad middle' / mass market consumer. No primary channel loyalty—20% basket across channels.
- **2. Polarized Market:** Rise of consumer extremes—value, Hispanics, millennials. No primary channel loyalty—20% basket across channels.
- **3. Narrow Focus:** Rise of broad middle / mass market consumer. Primary channel loyalty for majority of basket prevails.
- **4. Distributed Preferences:** Rise of consumer extremes, such as value, Hispanics, and Millennials.

**Market Implications**
- **1. Distributed Spend:** Rise of mass market drives industry consolidation—handful of firms targeting 'broad middle'.
- **2. Polarized Market:** Divergence drives CPG specialization—either A) firms break up to target niche consumer/channel segments, or B) re-focus current resources.
- **3. Narrow Focus:** Product lines evolve based on which primary channel dominates (e.g. Club requires fewer SKUs, larger sizes / packaging, etc.).
- **4. Distributed Preferences:** Dominant primary channel evolves to meet wider range of consumer extremes; demand targeted innovation from CPGs.

**Company Implications**
- **1. Refocused Sales Forces**
  1. Portfolio Focus Critical Marketing Specialization
  2. Refocused Sales Forces
  3. New Capabilities
  4. Shift In Portfolio Strategy
- **2. New Sales Capabilities**
  1. Focus Portfolio on Mass Market Channel Exclusivity
  2. Alliances To Rejuvenate Mass Categories
- **3. Mass Value Props.**
  1. Marketing Capabilities Key
  2. Divergence Of Portfolios
  3. Shift In Resources
- **4. Shift In Portfolio Strategy**

Source: Accenture analysis
Six strategies for moving from a defensive approach to an offensive advantage

While our clients' business situations vary greatly, we see a common thread among the leaders: they have aggressively begun pivoting their focus from cost takeout to more holistic, profitable growth. C-suites at these companies have an intimate understanding of what consumers want across industries, constantly monitor external trends and regularly assess their end-to-end business operations with a critical lens. They've begun translating these forward-looking insights into the following six different strategies for reinvesting in growth (see Figure 5).

Figure 5: Six strategies for CPGs to pivot to growth

1. Revamp your offerings
2. Get closer to your customers
3. Choose your channels
4. Protect the core
5. Innovate the business model
6. Grow through inorganic innovation

Source: Accenture analysis
1. Revamp your offerings

Leaders regularly innovate across a wide range of offerings—ranging from making packaging more convenient to expanding into cross-category bundling—to ensure they remain ahead of the competition in the eyes of their target consumer. Who is making these moves? To name a few, Hershey’s developed stand up, re-sealable pouches that use less shelf space. Unilever created half-size deodorants to help urban shoppers living in smaller spaces to downsize their toiletries.

Companies like PepsiCo have pursued joint ventures to expand offerings and branch into new territories. The company’s joint venture with Sabra enabled PepsiCo to become a leader in the expanding Hummus category, while its 2012 Muller joint venture allowed it to tap into the rapidly expanding Greek Yogurt category. Both of these moves suggest a strategy of targeting the changing preferences of mass-market consumers.

2. Get closer to your consumers

With the proliferation of social media and multiple digital engagement channels, the ability to influence and impact purchase has increased substantially. Industry winners excel at using data and analytics to closely monitor shifting consumer preferences across channels. Furthermore, they funnel these insights throughout their organizations to augment core capabilities, such as innovation, shopper marketing and pricing.

A large, global snack food manufacturer is using predictive analytics to analyze multiple categories and customer segments. Through data diagnostics, statistical modeling and a what-if simulation dashboard, the company is gaining clearer insights on past performance, it is seizing new opportunities for optimizing trade spend and it can plan for the future with the help of predictive planning and selling.

3. Choose Your Channels

Leaders do not follow the pack—they determine the optimal channel mix for their specific business. Those determinations are based on what consumers want and what the portfolio strategy demands. Go-to-market structures and investments should align with these channels to drive sales.

Figure 6: Channel growth

Market Size by Channel
($B) (Grocery & Consumables, 2014)

<table>
<thead>
<tr>
<th>Channel</th>
<th>Market Size ($B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supermarkets</td>
<td>$462.3</td>
</tr>
<tr>
<td>Supercenter</td>
<td>$207.5</td>
</tr>
<tr>
<td>Convenience</td>
<td>$177.7</td>
</tr>
<tr>
<td>Wholesale Club</td>
<td>$102.1</td>
</tr>
<tr>
<td>Drug</td>
<td>$61.1</td>
</tr>
<tr>
<td>Mass Merchant</td>
<td>$47.9</td>
</tr>
<tr>
<td>Limited Assortment</td>
<td>$34.6</td>
</tr>
<tr>
<td>Dollar</td>
<td>$30.3</td>
</tr>
<tr>
<td>eCommerce</td>
<td>$24.4</td>
</tr>
<tr>
<td>Super Warehouse</td>
<td>$21.6</td>
</tr>
<tr>
<td>Fresh Format</td>
<td>$15.9</td>
</tr>
<tr>
<td>Other (Small)</td>
<td>$13.0</td>
</tr>
</tbody>
</table>

Channel Sales Growth
(5 year CAGR)
Macro trends, such as shifting demographics (e.g. the rise in 55+, urban and Hispanic consumers), are pushing CPG companies to tailor their offers in the respective preferred channels in order to penetrate these segments, drive volume and build brands. Some high performers are executing tailored approaches for unique channels, making their top offerings smaller for Dollar, larger for Club, for instance. It is anticipated that the strongest growth will come from non-traditional channels.

4. Protect the Core

Leaders know their value proposition because they regularly evaluate the consumer types, categories, channels and markets where they excel. These companies also measure how they perform against the competition in each of their areas, and make forward-looking investments to ensure that these advantages remain intact. Investing in the future often calls for re-educating consumers. For example, Nestle invested in its marketing efforts for a challenged product line—its Stouffer’s brand—by increasing spending and launching an ad campaign focused on the quality of the ingredients in Stouffer’s products.7

For some CPG companies that realize certain brands aren’t fortifying the core, there is a safety valve: private equity.

CPGs in recent years have increasingly sold distressed business units or brands to private equity firms, allowing them to limit their losses and refocus on their existing core business.

5. Innovate the Business Model

Market winners are always looking to expand. To do so, they monitor shifts in consumer demand to predict where the market is heading. These businesses tailor their product innovation strategies and go-to-market model to these shifts. By aligning with the future of the market, they are able to get a leg up on the competition in identifying and capturing new pockets of growth.

For example, in the Frozen Processed Food category, the consumer desire for freshness has opened the door to new players, like Annie’s, that focus on simple, natural ingredients. Similarly, demographic shifts have opened up the playing field to new entrants. Private Labels that deliver ethnic foods are growing market share (16.3 percent in 2014) perhaps due in part to the rise in millennials, who have multi-ethnic preferences for products like burritos, curries and potstickers.8 Across all of these examples, the companies that remain most relevant are the ones that not only keep the closest pulse on consumer buying patterns, but also rapidly adjust their products and channels to mirror preference shifts.

6. Grow through inorganic innovation

External market factors, among other forces, are prompting leaders to enact operational changes at CPG companies. Private equity firms are pushing the CPG market to transform and CPG companies themselves are buying and selling brands to run offensive corporate strategies.

The common denominator across all of these changes is that high performers realize that acquisitions and transformative partnerships can allow them to better deliver on their value proposition and accelerate growth. These companies regularly assess and acquire targets in adjacent spaces and pursue unique partnerships—sometimes with companies from other industries. For example, P&G partnered Tide Pods with high-end designer Tracy Reese on her first washable clothing line targeting affluent consumers.

Given the volume of innovation being driven by smaller companies that operate in niches, CPG companies would be well served in borrowing a leaf out of the pharma playbook in taking a more venture-led approach to investing in new innovation. This allows them the ability to be at the forefront of future trends, and it also potentially lowers the cost of acquisition before these innovations reach the tipping point.

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6. PepsiCo news releases
8. Euromonitor International CPG Industry Data, 2014
The CPG market is changing dramatically and at speed. Cost cutting has become a “way of life” for almost all CPGs as they work to improve margins. However, the new reality is that CPG businesses must get the most out of the scarce dollars they have by becoming more sophisticated about how dollars are allocated to categories, and how the business model can support those strategic decisions. Cost cutting is necessary, however, investing in business model innovation and enacting portfolio shifts that drive growth and bolster the long-term business strategy are equally important.

Charting the right business model course will only become more important in the future, as consumer expectations around products and channels continue to rapidly evolve. The strongest players will make bold moves early—and often—to allow sustainable growth.
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