PREPARING FOR A DECADE OF UNPRECEDENTED DIGITAL DISRUPTION

TECHNOLOGY VISION 2017 FOR CONSUMER GOODS
The consumer goods industry is at the early stages of a tectonic shift. Think about the massive change experienced in the retail sector, where the continuing migration of consumers and retailers to online channels has proved nothing short of revolutionary. Those same forces are now beginning to reshape the marketplace for consumer goods.

According to a report jointly produced by the World Economic Forum and Accenture, consumers globally have access to more than one billion different goods. These are being offered by traditional consumer goods companies, as well as dynamic new entrants. The increasing choice consumers enjoy today has two key impacts: 1) more empowered consumers, and; 2) weaker loyalty.

With that in mind, it’s perhaps surprising that there’s not greater awareness of the digitally-driven turbulence ahead. Cross-industry research for the Accenture Technology Vision 2017 shows consumer goods companies in the bottom quartile with regards to anticipation of either moderate or complete disruption from digital.

While they may not anticipate disruption to quite the same extent as many other industries, consumer goods companies recognize the need to invest in innovation. Eighty-eight percent of industry executives agree that they must innovate at an ever-faster pace simply to keep up with their competitors.

It’s not hard to see why. Innovative technologies are changing consumer expectations, reshaping relationships between suppliers and retailers, and redefining how organizations are structured, staffed and managed.

As online commerce has come of age, it’s enabling multiple new forms of competition, particularly from small, highly-targeted market entrants. Each one may only be taking a small bite from the overall marketplace, but collectively they’re starting to have a significant impact on market dynamics and the profitability of major players.

That’s not all. Amazon® is using the strength and reach of its technology platform and the detailed consumer insights it provides to directly challenge consumer goods businesses on their own territory. Just a few statistics bring this home. For example, through AmazonBasics, its own-brand batteries, Amazon now takes 34 percent of the multi-billion dollar battery market in the US.

We believe the consumer goods industry will change more in the next 10 years than it has over the past 40. All of these changes present major challenges as well as opportunities for individual consumer goods businesses and, in particular, their technologists. Companies need to plan how they reduce their traditional technologies’ cost to be able to invest in ‘the new’. This is no small feat.

**THE FIVE TRENDS COVERED IN THIS YEAR’S ACCENTURE TECHNOLOGY VISION FOR CONSUMER GOODS DESCRIBE HOW TECHNOLOGY IS HAVING A PROFOUND IMPACT ON THE SECTOR AND WHAT BUSINESSES CAN DO TO ADDRESS THE CHALLENGES AHEAD.**

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1. Digital Transformation Initiative: Unlocking $100 Trillion for Business and Society from Digital Transformation, WEF and Accenture, January, 2017
Artificial intelligence (AI) is about to become a digital spokesperson for companies. Moving beyond a back-end tool for the enterprise, AI is taking on more sophisticated roles within technology interfaces. From autonomous driving vehicles that use computer vision, to live translations made possible by artificial neural networks, AI is making every interface both simple and smart—and setting a high bar for how future interactions will work. It will act as the face of a company’s digital brand and a key differentiator—and become a core competency demanding of C-level investment and strategy.

Companies are increasingly integrating their core business functionalities with third parties and their platforms. But rather than treat them like partnerships of old, forward-thinking leaders leverage these relationships to build their role in new digital ecosystems—instrumental to unlocking their next waves of strategic growth. As they do, they’re designing future value chains that will transform their businesses, products, and even the market itself.

Driven by a surge of on-demand labor platforms and online work management solutions, legacy models and hierarchies are being dissolved and replaced with open talent marketplaces. This resulting on-demand enterprise will be key to the rapid innovation and organizational changes that companies need to transform themselves into truly digital businesses.

We shape technologies so it adapts to us. The new frontier of digital experiences is technology designed specifically for individual human behavior. Business leaders recognize that as technology shrinks the gap between effective human and machine cooperation, accounting for unique human behavior expands not only the quality of experience, but also the effectiveness of technology solutions. This shift is transforming traditional personalized relationships into something much more valuable: partnerships.

Businesses are not just creating new products and services; they’re shaping new digital industries. From technology standards, to ethical norms, to government mandates, in an ecosystem-driven digital economy, one thing is clear: a wide scope of rules still needs to be defined. To fulfill their digital ambitions, companies must take on a leadership role to help shape the new rules of the game. Those who take the lead will find a place at or near the center of their new ecosystem, while those that don’t risk being left behind.
AI IS THE NEW UI

AI will help enable consumer goods companies to embed their brands into consumers’ lives. Sixty-eight percent of industry executives believe AI will have a significant impact on the industry over the next three years. It presents a mix of risks and opportunities for companies making high- and low-engagement products to better interact with consumers to help predict what they want.

For high-engagement products AI could open the door, through a conversational interface, to a much more personalized, interactive and trusted ongoing relationship between company and consumer. To achieve that, CPG businesses will need to consider what voice(s) and personality they need to connect with specific consumer segments. Should they, for example, have a retailer voice, a brand voice, a consumer goods company voice? Which will gain most traction with which consumer segments? There’s a whole range of unknowns to address.
For low-engagement products, the picture is very different. AI operating as a user interface (UI) is something of a misnomer. That’s because AI offers the potential to eliminate the user interface altogether. The future will bring a world where AI is able to drive individualized predictive replenishment at huge scale so that consumer needs can be fulfilled directly into consumers’ homes.

This may seem like fantasy but there are already real cases. For example, appliance manufacturers like Whirlpool Corp. are now offering auto-replenishment of detergent in partnership with Amazon Dash.\(^4\) Initiatives like these for various low-engagement products could radically reshape traditional routes to market. The complexity growth will be huge. Instead of supply chain end-points being situated in retail outlets, they will shift directly to consumers’ own homes.

The threat is that there will be far fewer opportunities for consumer goods companies to get their brands in front of the consumer. Predictive-replenishment removes the need for the consumer to make decisions about which product they’ll choose on a daily, weekly or monthly basis. For example, a consumer might set up a subscription with Amazon to automatically select the best deal for laundry detergent.

That would remove the need for the consumer to ever think again about that product. It also means Amazon becomes the face of the purchase decision, consigning manufacturers to a “fight to the death” promotional battle.

Seventy-eight percent of industry executives say AI will revolutionize the way we gain information from and interact with customers. As they seek to establish and maintain more direct relationships with customers, the ability to track and respond to fast-shifting customer sentiment will be more important than ever, AI-enabled analytics hold the key to starting and sustaining these vital new conversations.

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**OF CONSUMER GOODS EXECUTIVES ACKNOWLEDGE AI’S GAME-CHANGING POTENTIAL FOR HOW THEY WILL GAIN INFORMATION FROM AND INTERACT WITH CUSTOMERS.**

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For consumer goods companies, the optimal division of labor along the value chain has been fine-tuned over decades. Now, however, as companies seek to optimize their profitability and performance during a period of disruption, there’s likely to be a radical shift in the most appropriate division of labor in the sourcing, production and supply of products.

This shift will see companies hedge their bets on prevailing value chain relationships by working with a wider range of suppliers and business partners. Industry executive agree: 76 percent believe their future competitive advantage will be determined not by their organization, but by the strength of the partners and ecosystems they choose. By embracing the power of digital platforms, and the business benefits these platforms enable through the enablement of ecosystems, leading companies will be able to grow their businesses and pursue new go-to-market strategies.
Take the oral health ecosystem that Beam Technologies, Inc., connected toothbrush manufacturer, has created. The toothbrush not only supports better brushing, but also collects data on brushing habits. This data links to insurance and dental providers to give discounts on services or insurance premiums. Data is central here, and the players are non-traditional partners from different industries, who have joined to provide a wider solution around a consumer need.

As well as extra-industry ecosystems like this, intra-industry ecosystems are forming, redefining industry players’ traditional roles. For example, a UK-based beverage packager enables soft-drink manufacturers to meet changing consumer needs with special format packaging. Most bottlers are reluctant to add the complexity that soft-drink producers’ special sizes or formats introduce. This is where the UK packager comes in, making the niche and special sizes that soft drinks manufacturers need.

Research for the Accenture Technology Vision for Consumer Goods 2017 highlights the importance companies in this industry attach to ecosystems, and the platforms that support them. Over 92 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.”

Succeeding in an ecosystem-driven marketplace calls for a much more open approach than most consumer goods companies have traditionally followed. Data sharing and third-party participation constitute the lifeblood of any ecosystem. Of course, that needs to respect the privacy and security of consumer information. And indeed, our research shows that one-third of industry executives cite cybersecurity as their number one concern about their participation in ecosystems. But, those concerns aside, there are plenty of areas where collaboration will be beneficial.

The point is that, in an ecosystem, responsibilities can change all the time. Companies that are ready and willing to cede a degree of end-to-control over everything and, instead, embrace a more flexible and fluid approach to what they do, will emerge as ecosystem leaders.

**Recommendations**

- Redefine the role of your company and develop a strategy for becoming a player in a consumer-centered ecosystem. Expect to step beyond traditional industry boundaries to develop the ideal role for your company in this future.

- Identify and reinforce core, strategic competencies and advantages. Plan to collaborate in remaining areas not considered core.

- Develop a clear strategy on how to derive value from relationships with industry and technology disruptors, investing in/partnering with a target short list of business partners who bring innovation or next-generation capabilities.

- Restructure internal processes and your technology architecture to quickly connect/integrate/remove 3rd parties from your ecosystem. Adjust procurement policies to become more accommodating of “niche” suppliers.

- Recognize that each brand can become a platform for goods and services as a means to engage an ecosystem of consumers. For example, an athletic equipment or apparel company as a fitness hub. Or, an organic food brand as a community for healthy lifestyles.

- Reevaluate your security policies and procedures to mitigate risk presented by operating with a wider range of business partners.
Consumer goods companies have to manage two main types of work: core “run-state” work on the one hand, and project-based work on the other.

Run-state work encompasses core activities associated with the production and supply of a wide range of brands and products delivered into the hands of consumers every day. For consumer goods companies, run-state work is the activity that creates a stable demand for labor. Think of this as the baseline labor requirement.

Project-based work, meanwhile, is often focused on discrete programs geared to achieving a specific outcome where the resource requirement is transient. Both kinds of work will, in certain circumstances, be well suited to new ways of sourcing and managing labor via workforce marketplace platforms. However, this is particularly the case for project-based work.

Using technology platforms for labor sourcing can provide ready access to in-demand skills, without the need to maintain a permanent team for occasional duties.
For example, P&G Corp. recently completed a pilot program using Upwork, Inc.’s freelance management system, Upwork Enterprise, with impressive results. Products from the pilot program were delivered faster and at lower cost than with conventional methods 60 percent of the time. The company is now looking to expand their efforts in this area, committing millions of dollars in funding over the next two fiscal years.

Other consumer goods companies appear to be adopting a similar approach. Of the consumer goods executives we surveyed for the Accenture Technology Vision 2017, almost 85 percent indicated that they plan to increase their organization’s use of independent freelance workers over the next year.

As they move to embrace new workforce technologies, companies will need to give careful consideration to the issues that arise in any marketplace. For example, spikes in demand for certain skills could drive up market prices for that skillset. To manage this, they’ll need to fine-tune predictive capabilities so they have better line of sight into when and where certain skills will be needed. This will help avoid skills shortages at times when appropriate skills are needed most.

It’s all a question of achieving balance between the internal workforce and the workforce beyond the company’s boundaries. Finding ways to operate securely with on-demand labor is one challenge. Engendering loyalty is another. With many consumer goods companies in fierce competition with one another, protecting intellectual property and preventing innovation from leaking to rivals is a high priority. To mitigate these challenges, companies will have to create incentives that promote a sense of belonging, even if that’s only for a relatively short period of time.

Over time, we expect to see a higher proportion of all work moving to project-based models that shift the emphasis from executing processes to achieving outcomes. This will coincide with technology increasingly automating the baseline labor requirement. This raises the stakes for the ability to source labor from a marketplace. Seventy-eight percent of industry executives already see this as a key source of competitive advantage.

### Recommendations

- Spend time fully understanding your baseline labor requirements versus the additional variable capacity and new skills needed to compete in the digital economy.
- Take great care in selecting workforce marketplace platforms. Evaluate platforms against your own ethical standards to ensure they are not viewed as a means of circumventing employee protections.
- Develop and document the critical internal capabilities, HR policies, governance and tools that must be developed to support a blended workforce.
- Evaluate any security concerns and risk associated with short term employees sourced from marketplace platforms (especially in R&D/innovation). Build in process/technology management to address those concerns and risk.
- Explore and document the business areas that would most benefit from access to on-demand labor. For example, sales territories with very low coverage might be addressable via talent sourced through specialized on-demand marketplaces.

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The traditional four “P’s” of product, price, promotion and place, are shifting to the four “E’s” of experience, exchange, evangelism and everywhere.

This reflects how experiences are supplanting products. Personalized, interactive and shareable, they constantly evolve to provide new ways to meet changing consumer needs. This new emphasis on experience is driving some consumer goods brands to create new physical presences built around the experience that a brand represents, and in direct competition with other retailers and leisure businesses. Examples include the Magnum® pop-up Pleasure Stores, that allow consumers to make their own Magnum in high-profile retail locations in the UK. Consumer goods companies now have access to abundant data and, as a result, they’re able to not only understand customer journeys, but also influence and participate in them.

Getting right to the heart of the “micro-moments that matter” in consumers’ day-to-day lives is a source of real and lasting value. Doing so will help companies to earn a trusted role, with consumers giving them permission to make relevant suggestions and interventions when they’ll have the greatest impact (and be most welcome). Little surprise, therefore, that nearly 80 percent of consumer goods companies say that offering a personalized customer experience ranks among their top-three business priorities, with the overwhelming majority (90+ percent) also believing that consumers will pay a premium for personalized products and experiences. To deliver on this, these businesses need to harness data and analytics that will support new go-to-market strategies to cater to far more numerous, diverse and distinctive groups of customers.

When it comes to production, process automation and robotics provide a foundation for rapid experimentation and the ability to build personalized products with little friction and much reduced lead times. Take Adidas AG for example; its Speedfactory pilot in Germany combined revolutionary manufacturing technologies with customization and digital interaction to rapidly create and deliver new designs for customers through a fully-automated process.6

It’s a great example of how companies can use digital technologies to get close to their customers, understand what they need and deliver on-demand. The era of mass personalization is upon us.

**RECOMMENDATIONS**

- Carefully study the journeys your customers and employees take with your company, products, and/or services.

- Use behavioral insights to develop a clear understanding of your brands and products most applicable for moving to an experiential model.

- Consider and continue to invest in experiential retail stores where potential exists to generate more engaging customer experiences. Feed analysis and insights back into product/service development.

- Use analytics and automation to “follow” customers through the full consumer lifecycle. Incorporate learnings to develop new features and services that anticipate their needs.

- Look for opportunities to customize products to ever smaller market segments. Challenge manufacturing functions to keep up with the implications on the variety of produced goods.

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Consumer goods companies now have access to unprecedented amounts of data about every area of their operations, from the supply chain to the consumer experience.

Consumer data is a source of huge potential for consumer goods companies, but its use also raises complicated issues. At the same time, consumers, with some regional variation, are empowered by data and information that has the power to inform their decisions and change their relationships with the very consumer goods companies.

Reconciling these positions requires consumer goods companies to have a laser focus on the highest ethical standards and their core value drivers, in their supply chains and in the stewardship of customer data. As ecosystems proliferate and companies have the potential to share more data with more partners and people than ever before, it’s incumbent on them to ensure that they assume responsibility for security and privacy. As rules and regulations differ so sharply across geographies and industries, keeping on top of developments is critical.

The GDPR (General Data Protection Regulation) is set to come into force in May 2018 and will impact all companies trading in the EU or processing the personal data of subjects residing in the EU. Rather than seeing the regulation as simply more red tape, consumer goods businesses can use them as an opportunity to enhance trust with stakeholders – including consumers. As well as providing companies with the chance to retain and extend connections with existing consumers, they can use their enhanced credibility to seek new business opportunities.

Visibility into procurement is another important focus. Technology is enabling the whole supply chain to monitor and share details, in real time, about raw materials, components, stock levels, product locations and delivery dates. One startup, Provenance, aims to enable consumers to track the origins and supply-chain journey of a range of products, both online and in-store, enabling consumers to see whether their ethical and environmental requirements are being met. It’s a great example of how being transparent about the things consumers care about will earn their trust.

Ensuring products’ integrity is also being transformed by new technology. For example, some retailers are already using blockchain’s distributed ledger technology to authenticate high-value products, guard against counterfeiting and to track stolen goods. Reassuring consumers about the nature and traceability of products, ingredients, nutrients and origins underpins trust in any brand. Companies that put together this integrated view will have taken major steps towards capturing the rewards of becoming a trusted supplier. Not doing so may alienate concerned consumers and increase the risk of losing sales.

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1 https://www.provenance.org/technology

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