ARE CITY SHOPPERS GETTING SECONDHAND TREATMENT?

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CONSUMER PACKAGED GOODS COMPANIES WITH A ONE-SIZE-FITS-ALL NATIONAL ROUTE-TO-MARKET STRATEGY ARE USING YESTERDAY’S TOOLS FOR TODAY’S OPPORTUNITY: GROWTH IN DEVELOPED MARKET CITIES.
Developed market major cities drive roughly 50 percent of the world’s GDP. Just under 10 percent of the world’s population live in these 163 developed market cities today. Consumer packaged goods (CPG) consumption is expected to reach $13.2 trillion by 2025 in those same cities, accounting for 60 percent of total CPG consumption in major cities globally.

Cornering this market is an opportunity no CPG company wants to miss, yet most are losing market share to niche brands and disruptors in developed market cities. Many large CPG players have lost touch with the needs of city shoppers. To woo these consumers back into the fold, CPG companies need to adopt a city-specific route-to-market (RTM) approach. When they do, the opportunity is worth the effort: we have seen growth as high as 30 percent.

Those who win in major cities win the growth game. What follows are learnings Accenture Strategy brings to its work with CPG clients as they transform business models to regain their foothold in developed market cities.

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ACCENTURE STRATEGY HAS SEEN GROWTH OPPORTUNITIES AS HIGH AS 30 PERCENT WHEN COMPANIES ADOPT A CITY-SPECIFIC STRATEGY.
DEVELOPED MARKET CITIES = EXPONENTIAL GROWTH OPPORTUNITY

Accenture Strategy research indicates that the top 15 cities in developed markets have a growth potential over three times that of their counterparts in emerging markets.5

While absolute dollar growth of shopper spending in emerging market cities is 37 percent higher than in developed market cities—$4.1 trillion versus $2.9 trillion over a 10-year span—the opportunity is more concentrated in developed markets.6

*(See Figure 1.)*

**FIGURE 1. THE DEVELOPED MARKET CITY OPPORTUNITY**

<table>
<thead>
<tr>
<th>Absolute Growth (2015-2025, in US Bil)</th>
<th>10-Year Growth Rate</th>
<th>Change in Per Capita Spend (USD, 2015-2025)</th>
</tr>
</thead>
<tbody>
<tr>
<td>New York</td>
<td>28%</td>
<td>$7,997</td>
</tr>
<tr>
<td>Los Angeles</td>
<td>30%</td>
<td>$8,162</td>
</tr>
<tr>
<td>Shanghai</td>
<td>123%</td>
<td>$3,586</td>
</tr>
<tr>
<td>Dallas</td>
<td>49%</td>
<td>$6,519</td>
</tr>
<tr>
<td>Houston</td>
<td>44%</td>
<td>$8,431</td>
</tr>
<tr>
<td>Beijing</td>
<td>130%</td>
<td>$3,146</td>
</tr>
<tr>
<td>London</td>
<td>40%</td>
<td>$3,985</td>
</tr>
<tr>
<td>Chongqing</td>
<td>114%</td>
<td>$2,482</td>
</tr>
<tr>
<td>Phoenix</td>
<td>57%</td>
<td>$8,927</td>
</tr>
<tr>
<td>Washington</td>
<td>33%</td>
<td>$8,453</td>
</tr>
<tr>
<td>Chicago</td>
<td>25%</td>
<td>$6,635</td>
</tr>
<tr>
<td>Atlanta</td>
<td>43%</td>
<td>$6,140</td>
</tr>
<tr>
<td>Tokyo</td>
<td>11%</td>
<td>$1,781</td>
</tr>
<tr>
<td>Guangzhou</td>
<td>123%</td>
<td>$4,315</td>
</tr>
<tr>
<td>San Francisco</td>
<td>34%</td>
<td>$9,864</td>
</tr>
<tr>
<td>Top 15 Developed</td>
<td>31%</td>
<td>$5,945</td>
</tr>
<tr>
<td>Top 15 Emerging</td>
<td>122%</td>
<td>$3,231</td>
</tr>
<tr>
<td>16+ Developed</td>
<td>29%</td>
<td>$11,226</td>
</tr>
<tr>
<td>16+ Emerging</td>
<td>77%</td>
<td>$1,439</td>
</tr>
</tbody>
</table>

Smaller brands are capitalizing on this insight. In the Food and Beverage sector alone, over $110 billion in sales will likely shift to smaller CPGs by 2020— the equivalent of four Kraft Heinz-sized businesses.

These newer brands are doing for city shoppers what large brands have neglected—finding points of inconvenience and eliminating them, or mastering ways to tailor offerings to a small area. Their RTM approach is finely tuned. For instance, in San Francisco’s Chinatown, brands will typically have more success catering to the preferred local flavors—coconut, five-spice powder, etc. In primarily Latino neighborhoods in New York City, customers might want guava paste or a wide selection of chorizo. In Manhattan, prepared foods and low-carb choices tend to sell well, dictating a larger array of these items on the shelves. Similar examples can be found in London, where leading French biscuit brands can be found in almost all local grocery stores in French-populated Kensington, while scarce in leading retail chains in the same neighborhood.

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**THE TOP 15 CITIES IN DEVELOPED MARKETS HAVE A GROWTH POTENTIAL OVER THREE TIMES THAT OF THEIR COUNTERPARTS IN EMERGING MARKETS.**
City shoppers need their own journey map or they will migrate to a competitor who “gets” them.

In Montclair, New Jersey, a shopper seeking a carton of milk may have 24 outlets to choose from in a three-square-mile radius. Move 19 miles east to New York City (NYC), and she will find twice as many outlets in a third of the area. Add into that mix alternative models for grocery delivery in NYC (e.g., Instacart) and non-traditional stores such as vegan friendly, and the world for CPG companies gets increasingly complex in major cities.

In order to win in the midst of such complexity, major CPG companies must reconfigure their RTM to “think cities.” The city RTM needs to be fine-tuned to the diversity of liquid shopper expectations, cater to the abundance of physical and digital fulfillment options, and differentiate a company from its competitors.
The city RTM should take into account:

**VARYING JOURNEY EXPECTATIONS.**

City shoppers place a higher value on immediate gratification, product quality and “being on trend” than suburban shoppers. Because city shoppers tend to be time-poor and on the go, they are willing to use services like grocery delivery or prepared meal drop-off. One in four city shoppers wants to be on trend, compared to one in five suburban shoppers. And city shoppers also are less price sensitive than their suburban counterparts, with 32 percent citing lower price as a motivation to buy compared to 42 percent of suburban shoppers. (See Figure 2.)

**FIGURE 2. WHY SHOPPERS BUY—CITY VS. SUBURB**

WHAT MATTERS MORE TO...
MICRO-SEGMENTED OFFERS.
Ethnic groups and extreme income clusters are just two of the many differences that tend to be magnified in any developed market city. In a compressed space, many microcosms exist. If the store on West Fifth sits in Little Italy but the store on West Seventh is in Greektown, the offers attractive to shoppers who live in the area will need to be highly differentiated.

DIFFERENTIATED SELL-OUT.
A city RTM takes more time and planning because it tends to be store-specific rather than region-specific. One planogram with slight variations does not work in cities because of the diversity of demand, as well as store layouts and formats squeezed into a relatively small footprint. The local family-owned grocer will stock for the locals and seek out relevant products. Therefore, differentiated sell-out strategies become critical to stand out in the sea of choices across physical and digital channels.
IN CITIES, PRODUCTS DO NOT SELL. HOLISTIC CONSUMER EXPERIENCES DO.

Time-pressed, digitally progressive city shoppers were early adopters of replenishment subscription-based shopping, ecommerce and a host of other new business models. Globally, city shoppers are more than two times as likely as suburban/rural shoppers to adopt new business models as their dominant or secondary way of purchasing (30 percent versus 13 percent).11

To give city shoppers the experience they desire, large CPG companies must quickly establish themselves in city-specific ecosystems, partnering with last-mile delivery service providers, open innovation platforms and user-generated content providers. For instance, The Honest Company partnered with TaskRabbit to allow consumers the opportunity to have their spring cleaning done with Honest Company products—emphasizing safe cleaning formulas, yet effective results.12 This removes many large CPG incumbents from fulfilling TaskRabbit’s customer journey map.
In cities, last-mile delivery takes on increased importance, given the more complicated logistics of shopping where many residents forego cars. In 2015, Amazon Prime Now began partnering with local supermarkets to offer one- and two-hour delivery on products. In New York, Prime Now customers can get speedy delivery of prepared foods from Gourmet Garage and Westside Market, while shoppers in Amazon’s hometown of Seattle can choose from more than 10,000 items available from PCC Natural Markets. As CPG companies work with retailers, but also continue to grow their own direct-to-consumer sales, finding the right platforms and business ecosystems becomes extremely important.
If companies can cater to city shoppers’ preferences, they are looking at growth prospects that rival emerging markets. But, to regain their fair share of city shoppers, they need to create a city-specific RTM. While there is no one-size-fits-all prescription to determining a city RTM strategy, a few first steps will help position companies for success:

**Understand the city shopper journey map.** Develop a dynamic and agile shopper experience model based on those needs specific to city shoppers. Remember that the diversity inherent in a single mile in a developed city can far surpass that of many suburbs.

**Build capabilities that support executing a city-specific strategy.** Establish a salesforce coverage model that targets micro geographic segments in NYC, Chicago and London. This team will need the support of advanced shopper analytics, including means to identify “hot zones” with a high concentration of stores and purchasing power for focused expansion.

**Partner with providers who can deliver the experience your city shopper wants.** With the constantly evolving ecosystem of providers around the shopper orbit, partnerships serve to provide new ways to reach and fulfill the needs of your shopper. From door-to-door delivery to in-store babysitting, city shoppers are looking for an easy end-to-end experience.
AT A TIME WHERE GROWTH IS ELUSIVE FOR CPG COMPANIES, THE OVERLOOKED DEVELOPED CITY SHOPPER IS WAITING. AND WITH $13.2 TRILLION\(^{14}\) AT STAKE, THE TIME TO GET SERIOUS IS NOW.
NOTES

2 Ibid.
4 Accenture Strategy insights based on client experience.
6 Ibid.
9 Ibid.
10 Ibid.
11 Ibid.
13 Jeff Wells, “Will Amazon Prime Now help online grocery grow, or is it a deal with the devil?,” Retail DIVE, January 30, 2017.

ABOUT ACCENTURE

Accenture is a leading global professional services company, providing a broad range of services and solutions in strategy, consulting, digital, technology and operations. Combining unmatched experience and specialized skills across more than 40 industries and all business functions—underpinned by the world’s largest delivery network—Accenture works at the intersection of business and technology to help clients improve their performance and create sustainable value for their stakeholders. With more than 411,000 people serving clients in more than 120 countries, Accenture drives innovation to improve the way the world works and lives. Visit us at www.accenture.com.

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