THE DIGITAL CPG VALUE OPPORTUNITY
SEEN BUT UNREALIZED
Conventional wisdom suggests that Consumer Packaged Goods (CPG) is a slow growth industry.

We respectfully disagree.

Instead, the truth is that the drivers of growth have undergone a rapid and massive transformation—and traditional leaders are being left behind. Last year, the top 25 US food and beverage companies drove 45% of category sales, but only 3% of growth; the remaining 97% of sales growth was driven by smaller players. Disruptors have turned “business as usual” on its head, creating new business models based on agile operating structures that engage in a larger ecosystem, all with the goal of unlocking new sources of value.
So what steps do historical market leaders need to take to recapture their share of industry growth?

• Create hyper-responsive engagement models, extending consumer relationships

• Develop hybrid traditional and new business models, combining products and services

• Adopt a modern intelligent enterprise, allowing scale businesses to become agile

Incumbents must reset growth limits through operating model transformation, and unleash business value through new business models.
THE DIGITAL VALUE OPPORTUNITY: SEEN BUT UNREALIZED

The global power brands that have long dominated the CPG industry are no longer untouchable. In the United States alone, more than $20bn in CPG sales shifted from large companies to small players between 2011 and 2016. This highlights the emerging trend of brand democratization, where technology is eliminating historical barriers to entry and smaller companies can engage directly with consumers.

Consumers continue to transform in new and unexpected ways. The consumer path to purchase continues to fragment, with almost half of Millennial consumers scanning at least 2 to 3 different touchpoints before purchasing groceries; this number jumps to almost 70% for health and beauty purchases. 84 percent of Millennials use their smartphones for shopping assistance while in store. Even more startling is the degree to which consumers are also becoming active participants in the value chain, serving as product designer, marketer and salesperson. Approximately half of consumers are open to considering products or services that are provided by other consumers, instead of companies. We also see numerous startups born of this trend—crowdfunded beer with Brewdog, consumer as manufacturer and marketer on Etsy, and even consumers acting as employees and performing in-store audits with Field Agent.

As the line between makers, sellers and consumers is quickly blurring, disruptive business models are changing the competitive landscape for CPG companies. Food and grocery startups providing alternative modes of shopping have attracted $9.4bn of venture capital funding since 2012. In the next decade, we see even more substantial transformation, with disruptive new business models like rent vs. buy, subscriptions and on-demand. Even though many of these models are nascent and not even available to most
consumers, up to a third of consumers say they would shift a large part of their shopping to these models; in fast-growth markets, this figure jumps to over 50% of consumers. ⁸

The World Economic Forum and Accenture estimate that digital transformation in consumer industries represents a staggering $2.95 trillion in value at stake—and to date, CPG disruptors have been taking more than their fair share. ⁹ It is clear that traditional CPG leaders have struggled with the link between digital transformation and financial performance.

THE MISSING LINK: WHAT DEFINES DIGITAL LEADERS?

To better understand the interplay between digital and financial performance, Accenture developed the Digital Performance Index. The results show a tremendous disparity in digital performance across companies, with CPG lagging both disruptors and non-CPG industries (see Figure 1).

FIGURE 1. CPG disruptors and non-CPG industries outperform CPG companies in digital performance by a significant margin.

Digital Dimension Performance

<table>
<thead>
<tr>
<th>Digital Dimension</th>
<th>CPG</th>
<th>Cross-Industry</th>
<th>Disruptors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plan</td>
<td>1.9</td>
<td>2.3</td>
<td>3.5</td>
</tr>
<tr>
<td>Make</td>
<td>1.8</td>
<td>2.3</td>
<td>3.7</td>
</tr>
<tr>
<td>Sell</td>
<td>1.9</td>
<td>2.3</td>
<td>3.3</td>
</tr>
<tr>
<td>Manage</td>
<td>1.7</td>
<td>1.9</td>
<td>3.6</td>
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Accenture conducted an independent assessment of 45+ CPG companies across geographies to identify industry strengths and weaknesses based on four areas: digital strategy, digital production/delivery, digital consumer experience and digital corporate culture/operations. This “outside-in” view of a company’s digital footprint is based on publicly available data.

Even the most advanced CPG incumbents are lagging across the four dimensions measured: Plan, Make, Sell and Manage.

1. **PLAN** reflects whether companies see digital trends impacting the business, plan strategies and budgets for digitization, act decisively on digital, and take a proactive role in the digital development of their industry.

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**Digital Performance Index**

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While CPG incumbents recognize the impact of digital on the industry, they have not seamlessly merged their digital initiatives with their corporate strategy and operations. L’Oréal is one incumbent CPG that has openly declared its commitment to digital strategy, dedicating 32% of its media spend to digital in 2016, hiring 1,600 digital experts and upskilling a further 14,000 employees, and forging a partnership with New York-based tech accelerator Grand Central Tech.10, 11
2. **MAKE** reflects whether companies use digital technology in design, build digital and digitized products and services, and leverage digital solutions to streamline visibility and activities across the supply networks.

- **DIGITAL DESIGN**
  - Only 57% of CPG companies have open innovation initiatives.

- **DIGITAL PRODUCTS**
  - 49% of CPG companies are enhancing their product portfolio with new intelligent/smart/digitized features.

- **DIGITAL SUPPLY CHAIN (IOT)**
  - 28% of CPG companies use IoT technology to streamline their supply chain...

- **DIGITAL SUPPLY CHAIN (BIG DATA)**
  - Only 53% have used big data analytics to manage the supply network.

Many incumbent CPGs employ demand planning and optimization tools to inform forecasting, improve customer service, minimize inventory overstocks, and drive effective marketing. But these basic activities don’t compare with Amazon’s Vendor Flex program, which places Amazon directly in CPG’s distribution centers, streamlining fulfillment with early adopters like P&G.

3. **SELL** reflects the extent to which companies engage consumers through digital means, sell through multiple integrated channels and serve consumers with a seamless experience post-sale or subscription.

- **CONTENT & MARKETING**
  - Behavior trackers, e.g. cookies, are used to monitor online activity of consumers by 85% of CPG companies.

- **INSIGHT GATHERING**
  - 26% of CPG companies provide a users’ forum for consumers to view and comment on products and services.

- **DIGITAL SELLING**
  - 49% of CPG companies provide consumers with a similar purchase experience digitally, off-line, and across different physical stores.

- **DIGITAL SERVICE**
  - 49% of CPG companies provide consumers with access to self service via digital means (e.g. initiate change to order online, submit request on social media).
Unsurprisingly, this is the area in which CPG companies were early to market, particularly with experimentation and investment in digital marketing. Many of the rated companies have announced a significant shift from traditional media to digital media, and partnerships with Google and Facebook; in fact, comparing U.S. digital advertising revenues from the first half of 2015 to the first half of 2016 reveals Google and Facebook accounted for 103% of growth—meaning that in aggregate the remaining players shrank. But is a wholesale shift the answer—and a differentiator? In a recent study, we found that multiplatform TV advertising has a significant halo effect on search, display and short-form video advertising in integrated campaigns; 18% of the ROI typically attributed to these three channels actually should be credited to multiplatform TV.

Moreover, marketing is only one piece of the puzzle; we see CPG companies investing in eCommerce, and there is still much work to be done, including in transforming product, sales and merchandising approaches that have historically served offline channels—and in structuring strong relationships with the must-win online partners.

4. **MANAGE** reflects the extent to which a company can assess the status of its digital infrastructure and capabilities, improve operating efficiency through digital deployments, and attract, manage and renew its talent.

<table>
<thead>
<tr>
<th>DIGITAL INFRASTRUCTURE</th>
<th>DIGITAL SKILLS</th>
<th>DIGITAL TRAINING</th>
<th>DIGITAL ORGANIZATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>40%</td>
<td>47%</td>
<td>47%</td>
<td>32%</td>
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40% of CPG companies highlight the fact that they routinely assess digital infrastructure and digital capability (e.g. IT audit). Less than half of CPG companies provide employees with training on digital skills... Similarly, only 47% offer employees training on digital platforms... Only 32% of CPG companies have initiatives to break silos within the organization to adapt to a digital agenda.
One of the leading companies in this space is P&G. The company has a history of digitizing its enterprise, investing in an analytics backbone to support a single view of data analysis, performance indicators, and forecasting across the company via its Business Sufficiency models, Business Sphere, and Decision Cockpit. As companies complete the “easy” cost-reduction initiatives, we see them beginning to use technology to reset the entire cost-base—for example through robotic process automation. On the horizon are new opportunities in digital organization to foster agility through the operating model, as well as tapping the power of liquid workforce—a flexible, adaptive and responsive employee ecosystem that merges internal and external talent.
While we do find examples of companies leading their CPG industry peers in digital performance, the focus of so-called “digital leaders” remains one of implementing piecemeal digital initiatives, rather than adopting an integrated strategy, supported by a digital operating model (see Figure 2).

**FIGURE 2.** Industry disruptors, not incumbent CPGs, are positioned to capture maximum growth potential.
What does success look like for an incumbent CPG that has successfully rotated into the “new” industry environment? Rotation to the new means both extending offerings beyond the core to new growth areas and ultimately, new business models—and at the same time, transforming the operating model beyond strategic cost reduction and streamlined organization structure to the modern enterprise: an agile op model underpinned by digital technology, focused on executing seamless consumer engagement across multiple business models.

Unlike in previous eras of disruption, there is no leading example in the traditional CPG peer set; most that have moved out of “Table Stakes” seem tethered to the gravitational pull of “Optimized Operations”. Disruptors, by contrast, have adopted new business models extending beyond products to “Living Brands” or even “Living Services”—and have embraced elements of the modern enterprise. They are on the leading edge regarding what and how they produce, how they drive consumer expectations, and how they manage internal operations. The most successful disruptors are the market leading “digital high performers”—companies that combine strong digital with strong financial performance.

Hope is not lost for historical CPG leaders. While disruptors have the advantage of coming of age in a digital world, incumbents bring their own set of advantages to the table: scale, financial resources, massive existing consumer bases, strong retail trade relationships, and deep experience in product development and branding. These assets provide a foundation for incumbents to gather foresight into consumer preferences, to take calculated risks to evolve their product portfolio, and refine their operating model to support the right balance of agility and scale.
GETTING STARTED: BRILLIANT BASICS

CPG leaders can still unlock material industry value by taking note of the basics that small brands and tiny disruptors get right from the start; these companies have largely stolen share by simply being faster, more agile and more relevant.

A leading example of consumer relevance and the power of influence is Ipsy, the beauty platform launched by Michelle Phan, who parlayed her social media stardom into a profitable startup business. With 8.8 million YouTube subscribers (and over 1 billion views on her 300+ videos), 2.2 million followers on Instagram and 3.1 million Facebook followers, she has been able to attract 1.5 million Ipsy subscribers—along with $103 million in venture capital funding.

Another example, IntelligentX Brewing Company, exemplifies a “Living Brand”, displaying high performance in the Make dimension with its unique approach to product innovation and refinement. IntelligentX employs artificial intelligence in gathering consumer feedback—each bottle’s label lists a website where consumers can go to provide input on the flavor, carbonation level, etc. That feedback is then fed into the brewery’s algorithm, which produces new recipes each month, refined using the most recent consumer feedback. While used on a small scale today, it is easy to see how this technology could be used to increase the speed of innovation across CPG segments.
GROW THE CORE: EXTENDING REACH THROUGH MODERN ENTERPRISE

CPGs have already made significant progress in improving their operating models by making incremental enhancements to the cost base, building out business intelligence platforms, tax efficient supply chains, process efficiencies, and digital workforce tools. However, only more advanced transformation of the operating model will maximize growth possibilities. 80% of executives agree that advanced operating models are an enabler of strategic growth; yet only 22% say their company’s operating model is helping them put strategic growth initiatives into action.16 For CPGs in particular, such an operating model transformation will enable incumbents to shift their “manufacturer” mindset to one anchored in a “modern enterprise”.

80% of executives think that digital strategies are an enabler of advanced operating models, but many CPGs are trying to force-fit a legacy operating model into a strategy for success in a digitally disrupted economy.17

Incumbents do not need to make this journey alone. Innovative companies have already emerged to be ecosystem partners in building the modern enterprise. One example of liquid workforce is Quri, a company whose business is sourcing mobile, on-demand “crowd-workers” to visit retail locations and submit GPS validated photos of in-store display conditions. This data allows Quri’s partners—which include incumbent CPGs—to seamlessly identify compliance issues, understand causes, and facilitate quick correction.
How do we define the Modern Enterprise?

- Run multiple business models in parallel
- Deliver a high number of small SKUs profitably
- Serve many distribution points, with faster and smaller drops
- Support a faster brand lifecycle
- Make intelligent, data-driven decisions
- Create a flexible cost base

GROW THE NEW: BEYOND RENOVATION TO INNOVATION

While continuing to grow the core, CPGs must seize the opportunity to unlock trapped value by exploring new business models. We have seen disruptors begin to chip away at the CPG industry by satisfying unmet, and often unidentified, consumer wants and needs. Over the last 5 years traditional CPG market leaders have experienced an average revenue CAGR of less than 1%, while disruptors like Blue Apron, Bai Drinks, and The Honest Company have seen an estimated average revenue CAGR of over 200%. Ten years ago, beauty industry leaders probably did not foresee that subscription services such as Birchbox would gain such widespread popularity. Such trends have created today’s “New” CPG landscape, one predicated on redefining business models around changing consumer needs.
An example of a business model born of consumer intimacy and emerging technology is Stitch Fix, which offers apparel and personal stylist services on a subscription model, and relies on data science and deep personal relationships to drive their success. The company’s chief algorithms officer—a former VP of data science and engineering at Netflix—joined in 2012. Today the company has over 80 data scientists and hundreds of algorithms—like a styling algorithm that matches products to clients; an algorithm that matches stylists with clients; one that figures out how much and what kind of inventory the company should buy; and one that learns from images so it can check a client’s Pinterest pins and learn what styles she’s favoring even if the user has a hard time articulating it in an online form or in comments. The human stylists at Stitch Fix then marry the data with personality—taking what the data is telling them and tailoring selections with information they know from interacting with subscribers, such as a need for an upcoming wedding or job interview. As CEO Katrina Lake says, “[Other companies] use big data to guess what someone ‘like you’ might want; we just ask you, directly, so we know what you want.” Stitch Fix’s customers trust their stylists, and share highly personal information, including body insecurities, social aspirations and personal traumas such as infidelity and divorce. Stitch Fix is using this capability to expand their offerings, including leveraging their vast database of consumer insights to design their own private label products.

The Honest Company straddles the line between “Living Brand” and “Living Service”. This disruptor offers an integrated portfolio and single face to the consumer across all stages of engagement and multiple business models. Consumers can purchase their safe and eco-friendly products both online and in brick-and-mortar stores—or sign up for themed “bundles”—monthly subscriptions of product groupings. The Honest Company has also formed a partnership with TaskRabbit to engage with consumers directly through their home cleaning service. The service is called Honest Cleaning, and users can go on the TaskRabbit website or mobile site to schedule cleaning services, which triggers the tasker will show up for the job with safe, healthy products from The Honest Company.
The music world is an example of the confluence of changes across a value chain transforming an industry. Incremental technological advances slowly changed the medium through which consumers enjoyed music—from the popularity of vinyl records in the 1950’s, to the introduction of the cassette tape in the 1960’s, to the widespread use of CDs in the 1990’s. But by the year 2000 peer-to-peer sharing of audio files, most notably using Napster, had completely disrupted the industry. Musicians and record labels saw their market power vanish. Fast forward another 15 years and consumers still demand the ability to purchase a single song or stream an artist’s music at no charge; however the preference for “experiences over things” has breathed new life into another industry revenue stream: live concerts. Those same consumers who expect to stream music for free will pay top dollar to attend a concert of the same musician.
CONCLUSION

Neither business model innovation nor operating model transformation alone is enough. For companies to fully realize the value of new business models, they must move along both axes and simultaneously transform their operating models while growing the new. There is also no “one size fits all” path to high performance—and indeed, the definition of digital high performance will have advanced even further by the time this publication goes to market; it seems that new technologies emerge as the latest craze every year—whether it be chat bots, virtual reality or voice activated personal assistants.

The speed of change alone ignites the burning platform for incumbent CPGs. By continuing to define themselves as simply product manufacturers, focused on incremental innovation and piecemeal digital capability building, traditional CPGs put themselves at risk of becoming marginalized as nimble digital companies capture the consumer intimacy part of the equation—and with that, the lion’s share of new value.

To discuss how to apply these concepts to your business, contact:

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ABOUT THE
ACCENTURE DIGITAL
PERFORMANCE INDEX

The Accenture Digital Performance Index is a cross-industry assessment framework developed by Accenture. It is based on a comprehensive review of publicly available information contained in investor materials annual reports, financial filings, presentations, etc.), articles, interviews and corporate websites, to check for evidence of digital enablement in specific activities and metrics within each of four business dimensions: Plan, make, sell and manage. Forty-two further business activities and 117 detailed behavior metrics are also evaluated to support the DPI framework. A scale of one to four was used to rate company performance on each activity. A score of four indicates very strong evidence was found, while a score of one indicates no evidence was found.

If you are seeking to master the digital journey toward new business models, the Accenture Digital Performance Index is a great place to start: it can be readily used to assess where your company is on its digital journey, which capabilities are lacking or need to be enhanced, and where to invest.
SOURCES


10 L’Oréal CAGNY Presentation, February 2017.

11 Grand Central Tech NYC website.


14 How P&G Presents Data to Decision-Makers, HBR Online.


17 Ibid.

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