A NEW ERA OF TRADE FOR CONSUMER GOODS INDUSTRY

Why Consumer Goods companies need to think digital to reach traditional trade in Asia Pacific
Ramesh\textsuperscript{1} is 35 years old, married with two children and lives in India. He owns a kirana store (Traditional/ Mom \& Pop store) in South Delhi’s famous middle-class neighbourhood, Lajpat Nagar. Raised in a lower middle-class family in the neighbouring town of Vrindavan, Ramesh says he always wanted to do something on his own.

Ramesh proudly declares how he feels he has finally made it from a struggling small town boy looking for work in a ‘big city’, to an owner of this shop, employing others in the same big city. He confidently states that he has a loyal customer base in this neighbourhood. He knows his customers personally and constantly strives to adapt to their needs.

### A DAY IN RAMESH’S LIFE

Like any typical day, Ramesh begins this day at 8 AM. His customers have already started calling him on his mobile phone with their orders. He tells us typically, the customers who call now are homemakers who have just realized as they have run out of critical items (e.g. salt) as they get their families ready for work or for school.

Ramesh promptly sends a delivery boy to make these deliveries. He accepts cash and proudly also declares he accepts payments on Paytm (a digital wallet). After the demonitization initiative in India he says, Paytm payments have become a ‘must have’ for kirana shop owners like him as his customers are now becoming more habituated to these new digital payment modes. He multi-tasks to check the WhatsApp orders of friendly neighbourhood customers.

### THE MYTH OF TRADITIONAL TRADE AND THE REALITY

**MOM \& POP RETAILER PERSONA**
As noon approaches, he notices a small truck stop by. This is the truck of a CPG distributor who visits him once or twice a month. Ramesh has already run out of some important SKUs for biscuits, tea leaves, iodized salt and cooking oil. Ramesh is trying to balance serving multiple customers at the same time as the CPG sales person comes out of the truck to greet Ramesh and takes out paper copies to note his orders. The sales person then runs back to his truck to physically scan for those items, replenishes some of them and makes notes back in the order form.

He mentions he does not have the quantity of tea packets that Ramesh requisitioned for. The sales person tries to pacify Ramesh by showing a flyer of new promotions and products for this month.

Ramesh already upset about losing out customers who are loyal to that tea brand, does not show enthusiasm for the new products. Ramesh pays cash to clear his previous dues and haggles to settle the balance cash once he receives stock of remaining tea packets. May be during next visit, next month Ramesh says.

Ramesh continues to multi-task between his mobile and in-person store visits from customers. He knows what brand of tea his customers buy, what type of detergent they prefer; and if he senses their mind is not made up, he knows exactly what to suggest given their preferences.

Business is tough Ramesh declares, as customers haggle to last rupee, while CPG companies do not understand him. He struggles to manage inventory, his customers and cash.

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**THE MYTH**

Traditional Trade retailers are not ready to embrace the new. So, Consumer Goods Companies still reach traditional trade in traditional ways.

**REALITY**

Our research suggests otherwise. Traditional Trade Retailers are already connected in their personal lives and digitally proficient. To improve relevance to their shoppers, they are ready to adopt digital technology in their businesses.

**OPPORTUNITY**

The opportunity is now for Consumer Goods Companies to leverage digital technology and change the way they approach Traditional Trade Retailers.

**IMPACT**

CPG companies stand to drive top-line growth efficiently and effectively.
EXECUTIVE SUMMARY

APAC WILL BE THE BIGGEST MARKET FOR CPG
Accounting for >30% of global industry share by 2022²

BUT ONLY COMPANIES THAT BETTER PENETRATE TRADITIONAL TRADE WILL UNLOCK THIS OPPORTUNITY³
- Across APAC, consumers buy from more than 30 million stores – compared to 1 million in North America
- Due to high costs involved in physically serving these outlets, CPG companies in APAC are only able to reach 10-25% of the outlets

AS THE TRADITIONAL TRADE RETAILER OF TODAY HAS ALREADY MOVED TO MODERN
Our research suggests that these retailers are already digitally proficient in their personal lives and are ready to embrace digital in the way they conduct their day-to-day business operations⁴

CPG COMPANIES NEED TO MOVE AWAY FROM YESTERDAY’S TACTICS OF ATTEMPTING TO ACHIEVE OUTLET COVERAGE PHYSICALLY

CPG COMPANIES NEED TO:
- Amp up digital RTM strategy to serve traditional trade⁵
- Equip sales personnel, distributors and retailers with digital tools for effective execution of their digital RTM strategy
- Better leverage valuable data from traditional trade to drive business decisions

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APAC CPG – WHAT’S THE SIZE OF THE PRIZE?

A burgeoning middle class in the APAC region will add a total of 400 million new consumers and one trillion dollars in additional consumer spending each year until 2022. As a result, one-third or $750 billion of world’s CPG growth in the next five years will come from one region alone – Asia Pacific. The region will also become the largest market for global CPG, accounting for nearly thirty five percent of global industry share by 2022. More than 60 percent of Asia’s CPG sales will be concentrated in just three countries: India, China and Indonesia.

However, despite the growth opportunity, market penetration has proved to be onerous for Consumer Products Group (CPG) companies. Market leading companies at best occupy a mere 3-10 percent share across key categories. Overall, CPG companies in these markets are struggling to achieve profitable growth.\(^5\)

SERVING A VERY DIFFERENT MARKET

The reason for that difficulty? The nature of the dominant distribution channels. Three-quarters of all CPG sales in APAC are transacted through traditional ‘Mom and Pop’ stores. In comparison, they account for just over one fifth of CPG sales in North America and just under one-third in Western Europe (see Figure 1).

Across APAC, consumers buy from more than 30 million stores (includes 25+ million Mom & Pop or Traditional Retailers), compared with just one million in North America. India alone has more than 12 million Mom & Pop retailers. That vast number of stores spread across a wide geographical area makes it harder (if not impossible) for CPG companies to achieve significant market penetration. The average sales per outlet across India, China and Indonesia is just $37,000. And while the average sales space is at 50 square metres, is equivalent to those in Western Europe, the latter achieves nearly seven times average sales compared with their APAC counterparts (see Figure 2).

FIGURE 1: Distribution Channel Split for CPG Sales: Asia vs. Other Regions in 2016 in % Value

<table>
<thead>
<tr>
<th>Region</th>
<th>Traditional Trade</th>
<th>Other Channels</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASIA</strong></td>
<td>74.2%</td>
<td>25.8%</td>
</tr>
<tr>
<td><strong>NORTH AMERICA</strong></td>
<td>21.7%</td>
<td>78.3%</td>
</tr>
<tr>
<td><strong>WESTERN EUROPE</strong></td>
<td>29.9%</td>
<td>70.1%</td>
</tr>
</tbody>
</table>

\(^5\)
That cost and complexity of physically serving these Mom & Pop stores prevents even the largest CPG players from reaching more than a fraction of the potential number of stores. For example, even leading CPG companies in India reach only 10-20 percent of 12 million Mom & Pop stores. In fact most CPG companies reach much less than 5 percent of these stores. Put simply, the economics of operating in APAC’s traditional trade environment do not add up.

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The current CPG approach to Traditional Trade is **impeding growth**.

So who are the people running APAC’s 25 million+ stores? Our research suggests that a large majority of them are male, married with children and the main breadwinners for their families. As very local businesses, they know their neighbourhood and thrive on their biggest strength: local connections and knowledge of individual shoppers. Typically, these retailers are likely to have built their outlet themselves, from scratch (see Figure 3).

It is a **myth** that these Mom & Pop retailers are still **traditional**.
ARE THE MOM & POP RETAILERS READY

IN REALITY THESE MOM & POP RETAILERS HAVE EVOLVED

Our research reveals that these solo, small mom and pop retailers are already digitally proficient in their personal lives. Almost all of them own a mobile phone and prefer to stay in touch with family and friends through a chat-app (such as WeChat or WhatsApp or Line) or through phone calls. For example, our research found over 80 percent Mom & Pop retailers in China used WeChat and/or phone calls to stay in touch with friends as compared to only 50 percent that preferred physical meetings. Being entrepreneurial, they are open to new ideas, particularly newer ways which help them serve their shoppers better (See Figure 4).¹²

For instance, in China, ~85% of the Mom & Pop retailers across even mid-tier cities and villages are offering digital payments in their small stores. These Mom and Pop store owners reason that their shoppers now prefer to pay through more convenient digital modes of payment – so they are adapting.

FIGURE 4: Digital Readiness of Mom & Pop Retailers¹³

DIGITAL PROFICIENCY IN PERSONAL LIFE

CHINA 84%
Prefer to communicate with family & friends via WeChat or/and QQ

INDIA 60%
Prefer to communicate with family & friends via messaging Apps such as WhatsApp

INDONESIA 50%
Prefer to communicate with family & friends via messaging Apps such as WhatsApp/Line/SMS

DIGITAL READINESS: DAY-TO-DAY BUSINESS OPERATIONS

CHINA 84%
Offer payments in their store via WeChat
>70% offer WiFi in their stores

INDIA 64%
Are willing to use mobile – phone-calls, messaging, Apps to conduct day-to-day operations with shoppers/CPG companies

INDONESIA 20%
Are already using mobile phones to take orders
Far from being unprepared, Mom and Pop retailers are already embracing technology to enhance their day-to-day business dealings. For instance, in China nearly 85 percent of the Mom & Pop retailers, even across mid-tier cities and villages are offering digital payments through Alipay and/or WeChat in their small stores. These Mom and Pop store owners reason that their shoppers now value the convenience of digital technology.

So these retailers are trying to keep up. In India ~70 percent Mom & Pop Retailers take orders for home delivery on their mobile phones.

CPG companies are still approaching these retailers in traditional ways.

**FIGURE 5: Reinventing RTM journey: Components that CPG companies need to consider**

- **STRATEGY**
  - Define sales objectives that would help CPG realize its business vision
  - Organize channels, sales teams and distributor network to align to deliver results consistently

- **STRUCTURE**
  - Drive superior execution in the market with a defined set of processes, metrics, competencies

- **PROCESS**
  - Enable key initiatives to continuously improve in-market execution with supporting capabilities

- **ENABLERS**
  - Drive the change to the new Operating Model with suitable transition management & culture

**FIGURE 6: Case Study: Benefits of Omni-Channel RTM Coverage**

<table>
<thead>
<tr>
<th>CALL OBJECTIVE</th>
<th>FIELD SALES</th>
<th>TELE SALES</th>
<th>IVR</th>
<th>CHAT-BOT</th>
<th>MOBILE APP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. ADD NEW OUTLET</td>
<td>US$ 0.7/call</td>
<td>US$ 0.4/call</td>
<td>US$ 0.2/call</td>
<td>US$ 0.15/call</td>
<td>US$ 0.1/call</td>
</tr>
<tr>
<td>2. IMPROVE SALES</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. REPLENISHMENT</td>
<td></td>
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Sales Long Tail
To capture a growing share of Asia Pacific’s US$ 2.2 trillion CPG opportunity, companies must holistically reinvent the way they go to market, changing their strategy, capabilities, processes and competencies (See Figure 5).

CPG companies need to
• Re-assess current RTM Strategy and change to fully leverage the power of digital technology
• Re-organize operating model with a more optimal channel, sales team and distributor network
• Drive superior execution in the market with a defined set of sales and retail-execution related processes, metrics and competencies
• Enable key initiatives such as salesforce automation, analytics, sales incentives to continuously improve in-market execution with supporting capabilities
• Drive the change to the new Operating Model with suitable transition management & culture

A CPG company’s Route to Market strategy can be significantly enhanced with an intelligent, integrated and holistic Digital Route-to-Market solution.

For example, as shown in Figure 6, there is potential to reduce costs by nearly seven times by migrating routine tasks from traditional field sales to using a mobile app.

Digital tools could fulfill many of the routine, manual tasks field sales agents take care of today. Freed from those day-to-day responsibilities, agents could both expand the number of outlets they cover and enhance the quality of the relationships evolving from largely administrative roles to trusted advisors. That could help CPG companies achieve greater market penetration at lower cost.

For example, armed with regional sales data by outlet on a mobile device, sales personnel would be able to focus on specific retailers underperforming the average. Having to spend less time serving existing outlets opens the possibility of scanning for more to increase the CPG company’s market share. And time no longer spent on routine sales administration and order-taking means more time for merchandising and assortment activities, new product launches and active selling.

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TECHNOLOGY APPLICATIONS TO CREATE WIN-WIN IN TRADITIONAL TRADE
Digital Route to Market has the potential to create win-win with traditional trade retailers. Our research shows, traditional trade retailers face the familiar challenges of managing inventory assortment, stock outs and managing competition, all from a restricted retail space (<50 sqmtr). Their overwhelming priority is to maximize their income by remaining relevant to shoppers – and helping them to do so could be a major opportunity for CPG companies (see Figure 7).

FIGURE 7: Digital can enhance traditional trade interaction across a number of areas

<table>
<thead>
<tr>
<th>STOCK MANAGEMENT</th>
<th>Automatic reorders, optimized assortment including new product suggestions based on customer data/past purchases/stock depletion</th>
</tr>
</thead>
<tbody>
<tr>
<td>CUSTOMER MANAGEMENT</td>
<td>Automated digital payment; avoid stock shortages using optimized stock management, inform proactive suggestions for shoppers based on neighbourhood data/shopping pattern analysis; ways and means to improve personalization, including sales promotions</td>
</tr>
<tr>
<td>SHOP MANAGEMENT</td>
<td>Optimize shelf and store management based on pre-fed data on store size formats, type of neighbourhood served, etc</td>
</tr>
<tr>
<td>FINANCIAL MANAGEMENT</td>
<td>Simplified software to make easier entries, prompt for ideal receivable/credit management and help make a positive impact on their income.</td>
</tr>
</tbody>
</table>
IN SUMMARY CPG COMPANIES NEED TO HOLISTICALLY RE-INVENT HOW THEY GO TO MARKET. THEY NOW NEED TO:

1. Amp up digital strategy to serve traditional trade: A CPG company’s traditional trade penetration can be significantly enhanced (both in terms of total outlet coverage and the quality of interaction for existing outlets) with an intelligent, integrated and holistic digital Route-to-Market strategy.

2. Equip sales personnel, distributions and retailers with digital tools for effective execution of their digital RTM strategy: Digital tools allow for automated orders, optimized inventory assortment, easy payments, reduction of stock-outs & lost sales, easy credit management, better trade promotion management and merchandising.

3. Leverage valuable data from traditional trade: CPG companies stand to benefit from valuable customer and consumer data that will be generated from adoption of digital technology. This data can be used to perform analytics and eventually be used to enhance how CPG companies reach and serve key traditional trade outlet clusters and consumer segments.

By doing so, CPG companies stand to win a greater share of market at a flat or even reduced cost.

CPGS MUST ACT NOW, ELSE THEY WILL LOSE THIS WINDOW OF OPPORTUNITY

We’re already seeing companies such as Amazon, Alipay and Paytm digitally enabling these Mom & Pop retailers.

The window of opportunity to drive profitable growth in this biggest CPG market will not remain open for long. If they do not wholistically re-invent their route to market, CPG companies may find that others have grasped prospects of serving traditional trade in new ways. And beat them to growth.
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6. Euromonitor International 2018, Accenture Analysis
7. Euromonitor International 2018, Accenture Analysis
8. Accenture Analysis
9. Euromonitor International 2018, Accenture Analysis
10. Euromonitor International 2018, Accenture Analysis
11. Based on Accenture Research Quantitative & Qualitative Survey Research Conducted during May-August 2017. Although majority of retailers we came across during the survey using a random sample were male across India, Indonesia and China. In China and Indonesia – interestingly ~40% were women, a surprisingly high number as compared to less than 10% in India
14. Accenture Estimates
15. Euromonitor International 2018, Accenture Analysis
ABOUT ACCENTURE

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SURVEY METHODOLOGY

The survey methodology included two key pieces of research:

Quantitative Primary Research
Accenture surveyed over 600 retailers across China, India and Indonesia to understand their demographics and family profile, key motivation, digital proficiency, digital readiness, high level insights on store management and customer interactions.

Qualitative Research for Persona Development
Based on key themes that emerged from the quantitative survey, Accenture conducted one-to-one interviews of over 20 Mom & Pop retailers across India and Indonesia to develop a further understanding of the drivers and values that influence their decisions, their digital proficiency and readiness, interactions with CPG companies, their perception of current stage and willingness to change these interactions.

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