Winning in the Digital Channel
The consumer packaged goods e-commerce opportunity

By Thomas Fahey, Mohammed Hajibashi, Ashish Jandial and Sundip Naik
Introduction

Executive Summary

The growth of e-commerce as an integral part of an omni-channel approach that combines digital with traditional brick-and-mortar is destined to dramatically transform how the consumer packaged goods industry does business in the future.

On the upside, it offers direct contact with consumers and new sales channels, enabling manufacturers to grow market share, optimize sales and leverage shopper data to establish sustainable, personalized relationships. It can also help consumer packaged goods (CPG) companies more precisely target micro-segments of consumers with products and offers relevant to their needs. The downside is that existing business models may get disrupted at such a rapid pace that by the time late adopters fully realize the impact, they may be too far behind to catch up.

It is important to underscore that embracing digital does not mean repudiating traditional channels. Indeed, omni-channel is not a singular platform but rather a consistency in the shopper experience, message, content, and processes across assorted channels, some of which are digital and some of which are conventional.

While some CPG companies will go direct to consumer with their own e-commerce sites, the business case for this model can be challenging without adequate scale of business and economics of fulfillment. In our experience, the alternative of selling through eRetailers like Amazon.com, Walmart.com, and other consolidator sites can constitute equal if not greater potential.

Today, however, very few CPG companies are doing this well, largely because they are failing to develop unique strategies for collaborating with eRetailers that allow them to fully leverage the digital opportunity. Instead, they are addressing on-line commerce largely as an extension of brick-and-mortar commerce, ignoring the different processes and sensibilities required in the digital world. In order for CPG companies to leverage their sizeable digital opportunity and profitably compete, they need to orient their organizational capabilities, internal processes, and content in ways that are aligned with the needs of eRetailers. Moreover, they must do this without jeopardizing relationships with their traditional channel partners. They must, in a word, embrace a truly omni-channel strategy.

Perhaps the single most important digital decision facing a CPG company is whether to go direct, sell through eRetailers, or do both. While the direct to consumer e-commerce route works for upmarket brands, as a practical matter consumers don’t often shop for lower priced, every day products (food, beverages, home care, personal care, etc.) on a brand site. Instead, they bundle such purchases through consolidator sites.

Regardless of the channel—unique manufacturer’s site, consolidator’s site, social network, or a brick-and-mortar retail partner—consumers expect a seamless experience and consistency of brand content. If companies are not integrating websites, mobile apps, e-Retailer relationships, and physical stores, they risk doing more harm than good by frustrating consumers and eroding the brand experience.

For better or worse, the game is on! Online CPG sales, expected to reach US $25 billion this year or about 1 percent of sales in 2014, are projected to account for 25 percent of CPG spending within five to 10 years. Along with growth comes a cast of new competitors. “Top brands do not dominate the e-commerce channel as much as they dominate brick-and-mortar retail,” concludes AdAge.

E-Commerce plays a growing role in how today’s consumers research products, review recommendations and feedback from other consumers, make buying decisions, and purchase product. Recent Accenture research found that consumers who shop multiple channels are bigger spenders than single channel shoppers. In addition, the better consumer information gleaned from multiple channels allows companies to more easily up-sell and cross-sell products. In the future, the volume of on-line commerce will only accelerate. Amazon.com, for example, continues to place big bets on the future of digital channels with distribution centers being built in virtually every state. Indeed, Amazon is broadening the spaces in which it plays by expanding into home grocery delivery with Amazon Fresh.

As CPG companies debate their next digital moves, they are well advised to note that Amazon continues to push out its boundaries. While ‘home drone delivery’ has attracted publicity, the company’s patent in 2012 for ‘anticipatory shipping’ may well rival its 1999 patent of ‘one-click buying’ in expanding the e-commerce space. In effect, the language of the patent enables Amazon to ship certain goods even before they are ordered, based on predictive analyses of such data as the consumer’s prior orders, product searches, wish lists, shopping cart contents and even cursor activity. There are various reasons for doing this. Putting the product in a likely buyer’s hands could yield sales that otherwise wouldn’t occur. Additionally, the week or so required to deliver a product would be eliminated, removing the incentive for consumers to buy locally in order to get it quicker. Bulk shipping product inventory to distribution centers in close proximity to likely consumers would also reduce Amazon’s costs.

Whatever the rationale, Amazon is upping the ante in the digital game.

CPG companies are aware of the opportunity and challenge that awaits them. Digital commerce is fast becoming omni-channel as stakeholders leverage a variety of channels to reach their objective and consumers expect companies to use digital data trails to generate deeper insights to better serve them.

CPG companies have correspondingly invested in digital media and social channels but, with some exceptions, their responses remain tentative. Companies find themselves at something of an impasse as they deliberate whether to partner with e-Retailers or, sooner or later, launch their own e-commerce platforms. The uncertainty is understandable. Companies will have a multitude of models to choose from, and should build a segmented strategy based on the product category,
targeted consumer demographic, and geographic focus. The one certainty, though, is that delaying a commitment for too long will likely prove damaging.

What's driving digital disruption?

Whatever the strategy, macro trends driving the shift to digital portend a sea change in the sector.

The rise of a billion new middle-class consumers in emerging markets is a major factor fueling e-commerce. This market, much of it in rural settings without adequate physical infrastructure, will provide most of the sector’s growth in the coming years. Servicing them through brick-and-mortar stores alone is problematic. It would entail building 15 million new stores, requiring an unacceptable level of capital expenditure and take an equally unacceptable length of time. Moreover, these consumers want goods localized to their tastes and needs, not standardized global brands, putting greater stress on traditional marketing and distribution models.

Meanwhile, in mature markets, consumers—particularly aging consumers—are becoming more discriminating as they look to live longer, healthier lives. In making purchase decisions, mature market consumers are attaching increasing value on the personalization of their products rather than accepting a limited number of standardized offerings. Due to the stagnant economy, moreover, they are cash strapped and looking for greater value amongst these choices.

Conventional retail alone, with physical restraints on store size and shelf space, as well as logistic costs, cannot deliver on all of the diverse needs of both emerging and mature markets around the world. The cost of maintaining all variations of all products is cost prohibitive. The only economically viable and successful way to do this is by leveraging digital channels.

Demographics are also bringing about change, as the ‘millennial’ sector, across the world grows and acquires more economic clout. This generation that has grown up with digital and social media is equally comfortable making an online purchase as it is shopping in store. They rely on social networks for product guidance, recommendations and affirmation and they use smart phones for impulse buying. The millennials represent a big opportunity for CPG companies, but one that cannot be fully seized without the addition of digital channels.

Power once held by retailers to shape the marketplace is being undermined by digitally empowered consumers who want ‘anytime shopping anywhere.’ This change potentially augurs well for CPG companies, giving added independence from intermediaries and the potential to exercise more direct control over the market. The digital space constitutes a realm where manufacturers can implement strategy and tactics with a freedom that is unavailable through traditional retail channels.

Given all these factors, it is clear that CPG companies must quickly adopt a seamless omni-channel strategy incorporating the growing needs of a digital consumer beyond, not replacing, their traditional brick-and-mortar operations.

Early eCommerce Adopters

The migration of CPG companies to the e-commerce channel continues to gather momentum (Figure 2). According to Nielsen, online CPG sales are expected to grow at a 25 percent compound rate from 2012 through 2015. What is quite revealing is that even among categories that have been slow to go digital on their own—food and beverage, consumer health, home and personal care—annual e-commerce growth is well above 10 percent (Figure 1). While the bulk of this is on consolidator sites, the numbers reflect the potential opportunity for CPG. Kellogg’s has launched a virtual store for its Special K brand. P&G has a presence with an e-commerce site. And in 2013, Kimberly-Clark began selling Kleenex products directly to UK consumers.

Demographic success, however, has been largely restricted to up-market hard goods. Sectors such as food, beverage, beauty, personal care, home care, and consumer health are not leveraging the e-commerce opportunity with comparable results. Given the cost and complexity of investment in digital, it is understandable why CPG companies have been cautious about going ‘all in’. The clock is ticking, however, and until they are able to formulate distinctive omni-channel strategies and implement processes to execute them, they will continue to lag further behind the digital divide.

E-commerce is on its way to accounting for a much bigger component of total CPG sales. How big is big? A good indicator is Amazon’s announcement to grow its sales to US $100 billion by prioritizing CPG initiatives. Equally important, and more difficult to measure, is digital’s role in the omni-channel mix that promotes consumer engagement through a seamless interface that blurs the line between marketing, sales, R&D, supply chain and service.

Nike is another winner, reporting an increase of 31 percent in web sales in fiscal 2013 to US $540 million (its target is to reach US $2 billion by 2017). Key to its appeal is NIKEID, where consumers are able to customize shoes and accessories. Beyond sales, the company uses Nike.com to scale its brand and category experience to consumers all over the world, using the channel not only to sell the same products online as in stores but also to develop new revenue opportunities only possible with a digital channel.

Omni-channel success, however, has been largely restricted to up-market hard goods. Sectors such as food, beverage, beauty, personal care, home care, and consumer health are not leveraging the e-commerce opportunity with comparable results. Given the cost and complexity of investment in digital, it is understandable why CPG companies have been cautious about going ‘all in’. The clock is ticking, however, and until they are able to formulate distinctive omni-channel strategies and implement processes to execute them, they will continue to lag further behind the digital divide.
Figure 1: Online commerce for CPG categories is poised for exponential growth

US Online CPG Sales ($ Billion)

<table>
<thead>
<tr>
<th>Year</th>
<th>2% of CPG sales</th>
<th>5% of CPG sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>12</td>
<td>14</td>
</tr>
<tr>
<td>2011</td>
<td>14</td>
<td>16</td>
</tr>
<tr>
<td>2012</td>
<td>20</td>
<td>25</td>
</tr>
<tr>
<td>2013</td>
<td>25</td>
<td>32</td>
</tr>
<tr>
<td>2014</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Key takeaways:
- Over 5% of CPG sales in US will be generated through the online channel by 2015
- Food & Beverage, OTC & Personal care will be amongst the faster growing categories online

US Retail E-commerce Sales Growth, by Category, 2010–2014

<table>
<thead>
<tr>
<th>Category</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apparel, accessories and footwear</td>
<td>14%</td>
<td>13%</td>
<td>10%</td>
<td>10%</td>
<td>9%</td>
</tr>
<tr>
<td>Appliances and home improvement</td>
<td>14%</td>
<td>13%</td>
<td>10%</td>
<td>10%</td>
<td>9%</td>
</tr>
<tr>
<td>Art and collectibles</td>
<td>20%</td>
<td>16%</td>
<td>15%</td>
<td>11%</td>
<td>12%</td>
</tr>
<tr>
<td>Auto parts</td>
<td>11%</td>
<td>10%</td>
<td>9%</td>
<td>8%</td>
<td>7%</td>
</tr>
<tr>
<td>Books</td>
<td>9%</td>
<td>7%</td>
<td>6%</td>
<td>6%</td>
<td>5%</td>
</tr>
<tr>
<td>Computer hardware, software and peripherals</td>
<td>9%</td>
<td>8%</td>
<td>7%</td>
<td>7%</td>
<td>6%</td>
</tr>
<tr>
<td>Consumer electronics</td>
<td>14%</td>
<td>13%</td>
<td>10%</td>
<td>10%</td>
<td>9%</td>
</tr>
<tr>
<td>Event tickets</td>
<td>8%</td>
<td>8%</td>
<td>7%</td>
<td>7%</td>
<td>6%</td>
</tr>
<tr>
<td>Flowers</td>
<td>13%</td>
<td>9%</td>
<td>7%</td>
<td>6%</td>
<td>5%</td>
</tr>
<tr>
<td>Food and beverage</td>
<td>20%</td>
<td>16%</td>
<td>15%</td>
<td>13%</td>
<td>11%</td>
</tr>
<tr>
<td>Furniture</td>
<td>22%</td>
<td>23%</td>
<td>19%</td>
<td>18%</td>
<td>16%</td>
</tr>
<tr>
<td>Jewellery</td>
<td>15%</td>
<td>11%</td>
<td>10%</td>
<td>9%</td>
<td>8%</td>
</tr>
<tr>
<td>Movie tickets</td>
<td>9%</td>
<td>8%</td>
<td>8%</td>
<td>7%</td>
<td>7%</td>
</tr>
<tr>
<td>Music/video</td>
<td>10%</td>
<td>10%</td>
<td>9%</td>
<td>8%</td>
<td>6%</td>
</tr>
<tr>
<td>Office products</td>
<td>9%</td>
<td>8%</td>
<td>6%</td>
<td>7%</td>
<td>7%</td>
</tr>
<tr>
<td>Over-the-counter medicines and personal care</td>
<td>14%</td>
<td>14%</td>
<td>12%</td>
<td>12%</td>
<td>12%</td>
</tr>
<tr>
<td>Pets</td>
<td>17%</td>
<td>17%</td>
<td>16%</td>
<td>14%</td>
<td>13%</td>
</tr>
<tr>
<td>Sporting goods</td>
<td>10%</td>
<td>8%</td>
<td>6%</td>
<td>6%</td>
<td>5%</td>
</tr>
<tr>
<td>Toy and video games</td>
<td>4%</td>
<td>10%</td>
<td>10%</td>
<td>9%</td>
<td>8%</td>
</tr>
<tr>
<td>Other</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>Total</td>
<td>12%</td>
<td>11%</td>
<td>9%</td>
<td>9%</td>
<td>8%</td>
</tr>
</tbody>
</table>

Source: Barclays Capital, “Internet Data Book January 2011,” provided to eMarketer, Jan 13, 2011
What Does This Mean For CPG Companies?

The sector’s reluctance to stray too far from established practices is understandable. Typically, CPG companies lack Digital DNA in their corporate culture. Initiatives to establish new consumer-facing aspects of the business can appear daunting. Digital selling poses an operations challenge. In sum, fully embracing omni-channel initiatives not only mandates effective digital marketing, but also requires that such functions as digital category management, supply chain, service, and R&D be connected to the digital sales strategy.

At the same time, however, there is a considerable cost to inaction. The most damaging can be long-term. Failure to implement a robust e-commerce channel will ultimately result in lost market share to competitors who take e-commerce to scale.

The rich opportunities that digital channels afford make it imperative that companies not become ‘frozen’ in indecision about how to proceed. Careful analysis of online consumer behavior with regard to category, brand, and price can clarify the path forward. There are certain products that consumers will buy direct as a one-off from a unique site where the manufacturer can go it alone. Other products are more likely to be bought online from a consolidator site. In some instances, both approaches work. In others, the most effective thing for a CPG company to do is foregoing an independent site and transacting e-commerce by way of eRetailers and brick-and-mortar retailers.

An effective omni-channel program yields considerable ancillary benefits in addition to sales that need to be figured into any calculation of cost/benefit. Consumer-centric analytics is powerfully enabled. Digital interactions provide massive amounts of data that can provide insight into various aspects of the operation from product design to product placement, warehousing, and positioning inventory at retailers. Mining consumer social data and responses provides feedback that can be used for research and production, and can also be used to enhance the consumer experience. Marketing campaigns can be reinvented on the basis of consumer response measured in social media. Supply chain operations reap significant benefits with enhanced optimization in such areas as replenishment, planning, inventory, and risk management.

Successful collaboration with eRetailers is particularly imperative for CPG, since it will typically be the primary route of digital access. To that end, building strong, mutually beneficial relationships and processes is a top priority. Even when purchases are made through an eRetail site, the company website is formative in creating the brand experience that needs to be supported by the eRetailer. Product information and presentation must thus be consistent in all places.

Different e-commerce challenges faced by different business models

Companies have been approaching digital largely through a single model, business-to-consumer. Fully leveraging omni-channel commerce, however, requires multiple channels with tailored operations to address the drivers of other models like B2B and B2B2C.

Where key digital ambitions in B2C are things such as new market entry and consumer intimacy, in B2B they can be efficiency in maximizing field resources or speed to market. In B2B2C, maximizing revenue and market share are typically top priorities.

With B2B and B2B2C, the conceptual challenge is to go beyond regarding the channel as a kind of ‘amped up’ procurement app and, instead, designing it to keep the channel partner at the center of the transaction. This means shifting from a ‘catalogue mentality’ to one that enables easy-to-navigate sales channels, supporting partners looking for portals to replenish inventory or place orders for direct fulfillment to consumers.
Only a handful of large CPG companies have ventured out of the traditional model which is to rely on existing eCommerce providers.

**Online Channel of Traditional Bricks & Mortar Partners**
A CPG company maintains its relationships with existing Bricks & Mortar customers, and rely on those customers to drive & fulfill eCommerce sales through their existing offerings.
Example: Walmart, CVS pharmacy and Peapod by Stop & Shop

**Managed Service Partnerships with Dedicated eCommerce Retailers**
A CPG company partners with dedicated eCommerce retailers (e.g. Amazon.com) to leverage their capabilities. Typically the partner acts as a 3PL, charging the CPG company for warehouse carrying capacity, order management and transportation services.
Example: Amazon.com, Soap.com and Henkel

**New In-House eCommerce Capability**
A CPG company develops their own eCommerce capabilities, from Order Management to inventory planning, warehousing, distribution, & customer service.
Example: Walmart, CVS pharmacy and Peapod by Stop & Shop

Disclaimer: the examples provided in column 2 are examples and not all inclusive.
What it takes to win at digital

If there is one big thing that separates e-commerce winners from the pack, it is their unique ability to cultivate and respond to consumer demand. Other key aspects of their business—strategy, processes, and operations—take their lead from this dynamic. Channel blueprints and architecture reflect how the consumer wants to buy, not how the company is organized. Putting the ‘consumer first’ entails integrated pricing across online and offline channels, visibility into product availability across channels, a single view of the consumer across channels, and flexible ordering built around the consumer’s needs.

To be demand-driven to such an extent, however, has been challenging for CPG manufacturers, as in most cases they do not fully control the point-of-sale.

While traditional CPG companies remain organized around an earlier principle of product push, digital channels operate within a different paradigm. At its core is the individual consumer, interacting with content and processes tailored to engage him or her. From the first encounter with the product until the first moment of truth when a purchase decision is made, digital seeks to sustain dialogue with the consumer. This differs significantly from the industry’s historic roots in standardized and globalized products, mass distribution, and mass media advertising that are more on the order of a monologue.

Marketing and sales ideally blend together in the digital world, continually reinforcing each other and steadily facilitating purchase decisions prior to the point-of-sale. The campaign to elicit engagement is medium agnostic with respect to how key messages are delivered in an omni-channel mix (e.g. digital feeds, social networks, conventional advertising) or where actual transactions occur (e.g. the company’s website, the retail partner’s website, eRetailers, or in stores). The focus of all the activities from supply chain to checkout is to cement the consumer’s relationship with the brand and make purchase as easily accessible as possible.

To fully realize CPG’s sales potential, digital channels layer supplemental requirements onto the enterprise. While they often work in concert with existing systems, they respond to different imperatives in order to support e-commerce’s potential of sparking, enhancing, and sustaining consumer engagement. A successful program may quickly expand but, even with exponential growth, the courting of consumers remains highly customized.

The most persuasive value propositions for the digital consumer are those that optimize time, offer flexibility, and provide a unique and personal experience. Strategy, tactics, and operations must correspondingly address these values. To accomplish this, the entire scope of the business requires integration from branding and market segmentation, consumer acquisition, user experience, and the leveraging of automated supply chain data through to the automated capture of consumer insights to empower proactive responses to changing consumer preferences. Indeed, the capability to leverage digitally captured big data from consumers will, in turn, become a key sales enabler.
Mapping the journey

With some exceptions, most CPG companies today find themselves in a situation where they are not aligned to support online sales. B2C e-commerce is best suited to up-market brands. A B2B2C channel, on the other hand, can be effective with most consumer products, especially due to consolidator sites like Amazon.com. Companies with unique new products or product departures that significantly differentiate them would benefit from heavier investments in the last mile to maximize their capacity to facilitate a direct consumer relationship.

In the early stages, the on-ramp by which some companies enter e-commerce will be via collaboration with their brick-and-mortar customers or with a consolidator. This is a sensible way to gain experience without making heavy investments, although as mentioned earlier, it imposes costs that may or may not be the long-term answer based on the future size of the channel. Other companies will choose to develop their own e-commerce sites early. Some will opt for both. Whichever way, successful journeys begin with the same first step: formulation of a strategic vision with digitally sound definitions of consumers, products, and categories.

What will CPG companies need to do differently?

Product category mix is essential to e-commerce strategy. The established categories of the traditional CPG supply model, with their associated pricing and promotion and distribution flow-through, don't apply to the digital context. The online world is very different from traditional retail. Promotions can be run frequently, even hourly or less; pricing can be tightly segmented or even individualized. Production is not driven by giant box-stores buying pallet loads that require long lead times, but by individual consumers buying in small quantities. In the digital scenario, products will have to be correspondingly bundled with different SKUs and labels, and organized according to criteria that correspond to usage patterns.

Product Content Management must become more robust in order to provide distribution, access and availability, and ultimately automated syndication of product information assets and imagery to eRetailers. This higher level of performance will be required to provide a more compelling, accurate and consistent product experience to consumers across retailer websites. At present, CPG companies often struggle with keeping product content data up to date, particularly with quality imagery that is representative of their brands. Additionally, e-Retailers will have varying requirements for supplemental content feeds that will have to be created and organized by CPG companies. Product content management processes, which remain immature in many CPG companies, are the greatest catalyst to growing market share on eRetailer sites and correspondingly must be a top priority.

Merchandising online can leverage some best practices from in-store such as product placement for complementary items, package deals, and two-for-one opportunities.

Market segmentation is another fundamental strategic building block that needs to be addressed differently. Production and distribution today is organized primarily along regional and national lines. Digital channels, however, place much less emphasis on geography. Instead, segment categories are determined by such markers as ‘urban or rural,’ age, cultural similarities and socioeconomic factors such as ‘working moms’. Consumers can also be segmented in terms of their digital habits with clusters such as ‘traditional,’ ‘open minded,’ and ‘digital enthusiasts.’

A third strategic consideration involves which consumers to target and how to offer them a sufficiently broad array of value propositions. In some categories, for example, the consumer is ‘personalization-driven’. In others, the value sought is replenishment or convenience or wide selection. Consumers can be engaged by appealing to value propositions endemic to the channel itself because of the mass customization digital makes possible. M&M candies, for example, can be ordered online with the consumer’s own message or even photo on each piece.

To fully maximize these strategic opportunities, companies must align aspects of front-office operations with digital requirements. Product catalogues, for example, need to be standardized so that the information and images delivered through different channels is consistent. Content management must extend through to retail partners, to ensure they are using accurate, timely product photos and information. A real-time consumer interface is imperative. Shopping carts must be fully functional, easy to use and wholly reliable. In essence, CPG companies must be able to deliver the right message and product to the right consumer at the right time in the right place.

Success in e-commerce is contingent on exploiting the potential of omni-channel marketing. Spreading a message seamlessly amongst expanding networks—tweets, Facebook, e-mail, YouTube videos—can raise brand awareness to unparalleled heights. In such campaigns, the goal is to engage the consumer and ultimately facilitate a purchase.

What About Supply Chain And Logistics?

On the back end, traditional supply chain and logistics capabilities must undergo a significant transformation to support digital channels (Figure 3).

Suppliers and distributors will increasingly rely on multiple channels—digital and non-digital—to track and move materials and products and streamline their operations and costs. This entails more integrated and scalable technology platforms and back-end processes, more cross channel marketing expertise, more organizational flexibility and collaboration, and more analytics capability to detect changes or aberrations in user and shopper behavior.
Figure 3: eCommerce Operating Model – Key Elements

- **Demand**
  - Predictability
  - Seasonality
  - Order size
  - Volatility
  - Projected sales volumes

- **Product**
  - Assortment breadth
  - Density (weight, Value)
  - Lifecycle
  - Logistic requirements
  - Single / Multi country

- **Distribution Channels**
  - B2C / B2B
  - Company Stores
  - Third party
  - Newco
  - In-house
  - 3PL

- **Governance**
  - In/out source
  - Dedicated Stock

- **Inventory**
  - Shared Stock (with other channels)
  - Wholesale company

- **Logistic Network Strategy**
  - Centralized
  - Decentralized
  - Centralized warehouse
  - Leverage existing warehouses
  - Leverage Store network

- **Customer Returns**
  - Blind / online returns
  - Store returns
  - Mono/multi carrier
  - Residential/pickup

- **Delivery Services**
  - Basic vs premium

- **Stock Planning**
  - Dedicated planning

- **INPUT OUTPUT**
As CPG companies begin to deal more directly with consumers, they must increasingly be able to service anywhere/anytime shopping. This entails more fulfillment options, offering possibilities like online order pick up in store, or same day delivery. As volume scales, back-end complexity and the need for tightly integrated logistics processes correspondingly increases.

Distributed Order Management has become the heartbeat of the supply chain, responsible for making real-time, cost-to-serve based decisions (C2S) of how to fulfill ‘a perfect order.’ As it receives input from an increasingly complex set of B2C and B2B2C sales channels, it must prioritize and direct orders across the available distribution channels. These decisions are dynamic, relying on a constantly changing landscape of promotions, product launches, and brand strategy, not to mention inventory availability and distribution capacity.

Supply Chain Planning will advance to absorb entirely new distribution channels and product patterns. Multi-echelon inventory management becomes the norm as manufacturers may begin to distribute small loads directly to consumers, while maintaining legacy, pallet-picked channels to existing retail partners.

At the tactical level, CPG companies face critical decisions on how to configure their physical network. If shipping direct, existing factories and warehouses require expanded capabilities to deliver fast-moving, item-picked goods directly to consumers, while transport networks and providers strain to deliver these products to millions of new consumers in emerging markets.

In addition to supporting delivery in the “last mile,” manufacturers must also be able to support consumer demands for new distribution channels, such as in-store pick up and same-day delivery. At the same time, they should consider the challenges of receiving and processing returns, inspections, and refunds across all channels. This is an area where even pure-play e-commerce leaders struggle in balancing the necessity of flexible returns with the high costs for returns processing.

Analytic platforms (see Figure 4) enabled by e-commerce make it possible to integrate operations data with shopper insight and business intelligence. The capacity to optimize this information and use it to build closer relationships with consumers, which some companies are already starting to do, will prove to be a key differentiator in the near future.

![Figure 4: An integrated analytics platform to inform e-commerce.](image-url)
Conclusion

E-commerce continues to gain momentum in both mature and emerging markets as consumers increasingly look to digital channels for choice and convenience. While some CPG companies are positioning themselves to seize this opportunity, most are lagging behind. Companies that fail to leverage digital sales channels in a timely manner run a very real risk of being unable to engage consumers or capture market share lost to earlier digital adopters.

There are different ways to leverage digital. In some situations, as with up-market branded products where consumers are accustomed to making a one-off purchase, a direct e-commerce site is appropriate. For most CPG companies, however, the most effective route is via a consolidator eRetailer. A combination of both can sometimes be the right approach. Regardless of the channel to the consumer, it is imperative to develop strategies and operations explicitly designed to enable digital commerce rather than seek to ‘re-purpose’ approaches drawn from non-digital channels.

As e-commerce grows, it will correspondingly impact supply chain operations. Choices will need to be made with respect to in-source, outsource, and co-source options. Key to success will be an internal strategy for segment growth aligned with supply chain processes. Product content management, digital asset management, and supply chain and fulfillment will all be called upon to evolve to support digital channels.

CPG companies can take full advantage of omni-channel opportunities in successive steps. The journey can begin slowly. The most important step, though, is to start.
Mohammed Hajibashi is a Managing Director in Accenture’s Consumer Goods practice. Mr. Hajibashi leads Accenture’s Supply Chain capabilities for the Consumer Goods Industry in North America and globally for one of our most important Consumer Goods clients. He is also the North America Client Account lead for two of our most important Consumer Goods clients. He is experienced in large/global project transformation programs, supply chain strategy, operating model and business architecture design with great experience in all phases of strategy, business process definition, design, development, implementation and integration.

Mr. Hajibashi holds a BS in Mechanical Engineering from the University of Texas at Austin.

Sundip Naik is a Managing Director in Accenture’s Products practice. His 15+ years of experience spans global supply chain transformational programs focusing on tax effective operations, network strategy, transportation planning/execution and distribution re-engineering. Mr Naik’s primary focus is on the consumer goods industry but he also has relevant experiences in the communications, high-tech industries, pharma and retail industries. Mr Naik drives numerous supply chain initiatives at many of the world’s leading CPG companies. He also leads Accenture’s Fulfillment Business Services initiative within North America. He has published papers around numerous topics such as eCommerce for CPG, Dynamic Operations, Sustainable Supply Chain and Demand Driven Fulfillment.

Mr Naik holds a Bsc in Chemical Engineering from Purdue University, and is based in Atlanta.

Ashish Jandial is a Managing Director within the Accenture Digital practice. Mr Jandial focuses on strategic accounts for Accenture Interactive within North America and is the global lead for the Accenture Interactive portfolio with two key Consumer Goods clients. He is experienced in eCommerce and omni-channel strategy, digital marketing operations, social collaboration, retail supply chain operations with expertise that spans all phases of strategy, business process definition, design, development, implementation and integration.

Mr Jandial received a BS in Metallurgy Engineering from the University of Pune, and a MBA in Marketing from the University of Mumbai. Mr Jandial is based in Dallas.

Tom Fahey is a Manager in Accenture’s Consumer Goods & Services practice. He has extensive background in defining and delivering transformational programs across Supply Chain & Operations, including transportation network operations, logistics strategy, procurement, and R&D. He has worked in both the Consumer Goods and Wholesale Distribution industries. He graduated from University of Pennsylvania School of Engineering with Bachelor’s and Master’s Degrees in Systems Engineering, focusing on Transportation & Logistics. Mr Fahey is based in New York.
References


4. Consumers have heightened shopping expectations in the era of omni-channel; 71% expect to view in-store inventory online, while 50% expect to buy online and pick up in-store. Customer Desires vs. Retailer Capabilities: Minding the Omni-Channel Commerce Gap, p 1


10. How significant is multi-commerce? Accenture estimates that we help our clients capture over $100 billion a year in omni-channel commerce and sales, from hotel reservations booked to consumer electronics bought to business-to-business transactions completed. Capturing The Potential Of Multi-Channel Commerce, p 3.

Shaping the Future of High Performance in Consumer Goods

Our Consumer Goods industry professionals around the world work with companies in the food, beverages, agribusiness, home and personal care, consumer health, fashion and luxury, and tobacco segments. With decades of experience working with the world’s most successful companies, we help clients manage scale and complexity, transform global operating models to effectively serve emerging and mature markets, and drive growth through evolving market conditions. We provide services as well as individual consulting, technology and operations projects in the areas of Sales and Marketing, Supply Chain, ERP, Global Operations and Integrated Business Services. To read our proprietary industry research and insights, visit www.accenture.com/ConsumerGoods.

About Accenture

Accenture is a global management consulting, technology services and outsourcing company, with approximately 289,000 people serving clients in more than 120 countries. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world’s most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. The company generated net revenues of US$28.6 billion for the fiscal year ended Aug. 31, 2013. Its home page is www.accenture.com.

Copyright © 2014 Accenture
All rights reserved.

Accenture, its logo, and High Performance Delivered are trademarks of Accenture.