2014 Consumer Products Trends

The Consumer Products industry is confronted with many of the same challenges faced in recent years. CP organizations will continue to seek new and differentiated ways to engage with their consumers, while also managing evolving brand loyalties and shifting buying patterns. The tug-of-war dynamic facing the manufacturer-retailer relationship will persist. Retailers will adapt to changing shopping preferences and manufacturers will fight the pricing pressures and shifting brand affinity from retail store brands. With these fundamental issues as a backdrop, this paper highlights a selection of specific trends which we feel will have a uniquely profound impact on the industry this year.

Managing Products across Many Channels

Complying with Increased Regulatory Scrutiny

Embedding a Culture of Analytics

NEW

Oiling the New Product Commercialization Engine

Managing Products across Many Channels

Historically, the consumer products value chain was linear and straight forward. Consumer Products manufacturers partnered with long-standing suppliers to develop products. They then sold their products to retail customers for distribution through brick and mortar stores who, in turn, sold their products to consumers. However, with the internet firmly established as a key player in the shopping cycle – either as a destination for purchase or a vehicle for research and advocacy – the ability for CP companies to manage the evolution of various channels of distribution has become a more critical part of the strategic agenda.

Diversification of Channels

In the past, consumers have relied upon traditional retail outlets such as grocery and mass merchandise for the majority of their purchases. Today, CP companies see their consumers gravitating towards the online, dollar and club channels. While it is reasonable to expect that certain consumers shop in certain channels (e.g., budget conscious consumers within the dollar channel), this is not always the case. Often individual consumers consider multiple channels for their purchases. To manage this, manufacturers need to better understand who is shopping in each of these channels and then cater the distribution of their products to meet those specific consumers' needs.

Channel Blurring

In an effort to leverage the growing strength of their brands, leading retailers are expanding their offerings into tangential categories that meet the needs of their shoppers and consumers. Building on their brand association with health and wellness, Walgreens, as an example, has a stated mission to lead the 'blurring of retail channels' by selling fresh fruit in their stores and providing immunizations and pharmacist consultations for consumers.[1] This represents an opportunity for manufacturers to expand distribution of their products into 'non-traditional' outlets, while also providing guidance to their retail partners expanding into new categories.

Shift in Strategies

Manufacturers are now challenged with managing an environment in which their retail customers are often their greatest competitors, and their end consumers are often their most influential marketers. In the coming years, more and more CP manufacturers will sell their products directly to the consumer through a combination of flagship brick and mortar stores and their own e-commerce sites. Considering this proliferation of channels, manufacturers should assess their retail investments around items such as trade spend, packaging and human capital, and adjust accordingly.

Measuring Success:

- How is the revolution of retail impacting your current / future allegiance to traditional big box retailers?
- How are you assessing new, innovative channels of distribution for your products?
- Do you have both frontend and backend capabilities in place to support a direct to consumer strategy?

Complying with Increased Regulatory Scrutiny

Companies with products ranging from Food & Beverage to Beauty & Cosmetics will be experiencing increased regulatory scrutiny in the areas of quality, safety, product definitions and marketing claims. These regulations will be coming from a host of sources – federal, state, even retailers – making compliance even more complex. To mitigate this risk, 2014 will see an uptick in companies kick starting efforts to evaluate their backend systems, manufacturing equipment and processes to make sure they are compliant with changing regulation. While complying with these new regulations can be costly, changes in product design, manufacturing, sales, marketing and distribution can put companies at risk of complying, costing them even more.

Food or Drug?

In recent years in the Food & Beverage industry, the FDA has issued warning letters concerning the blurring line between supplements and food and beverage products. Looking ahead, with consumer demand moving more towards health based products, companies must ensure that products marketed as supplements are not also represented as conventional foods.

Ensure Validation

In the Health & Beauty industry, the FDA will be playing closer attention to companies that manufacture cosmetics that contain medicinal attributes. In consideration of this, these companies - at least from a validation perspective - will be best served to consider themselves drug companies. This means that, from R&D processes, to computer systems, to manufacturing equipment, every aspect of the business must be validated and in compliance with FDA regulations.

False Promises

Over the past year Subway was forced to change the length of their sandwiches to literally be a 'footlong',[2] Naked Juice had to compensate consumers for the false promise of 100% all natural juice[3] and Kellogg's paid a $4 million fine for claiming that Mini-Wheats make kids more attentive.[4] Going forward, as companies attempt to lure customers in with promises around the value of their products, they will need to more strictly evaluate the claims made in their marketing materials and on their packaging.

Measuring Success:

- What organizational structures and processes do you have in place to keep your company in compliance?
- How are your marketing, R&D and legal teams working together to ensure your marketing claims are accurately representing your products?
- How are your validation and IT teams engaged in creating and maintaining a validated computer systems environment?

Embedding a Culture of Analytics

The proliferation of data and the need to more effectively drive actionable insights has moved to the top of the list of management priorities. However, today's CP leaders have grown up in Consumer Products and their success has often come from their innate abilities to make gut-based decisions for their companies. What seems to be continually overlooked is the cultural shift that must take place to support these efforts. Going forward, organizations must structure business problems strategically, experiment when needed, leverage insights from data, make decisions based upon those insights and have the conviction to stick to those decisions.

Driven from the Top

To be successful, there needs to be a transformation from the C-suite. Leaders and key decision makers must embrace the power of analytics and push down a mindset that promotes a reliance on empirical data, phasing out the historical approach of "going with your gut." Successful companies like P&G, Amazon, Walmart and Google have all built their business models with data analytics as a core value.

Test and Learn

Throughout the organization, the difficult change is to indoctrinate a new generation of managers to the value of a 'test and learn' philosophy within an analytical framework. Leading companies accept mistakes during experimentation and use them to provide valuable information, reduce risk and create value in the future. In particular, there is great opportunity to leverage this philosophy to better test and evaluate the success of various trade promotion programs.

Contextual Insights

The continued growth in data has increased the demand for a new set of skills within CP companies. Organizations need data analysts to ask the right questions and understand the broader business context. They need to not only have the ability to crunch numbers, but also the capability to develop insights and strategy from the data. Those organizations that are able to mine and analyze all data forms, from structured loyalty, POS, warehouse and syndicated data to unstructured customer tweets, Facebook comments and social media blogs will have a distinct competitive advantage.

Measuring Success:

- Are you making decisions around your Trade Promotion spend based on intuition instead of analytics?
- Are you creating a culture of "test and learn," allowing your reports to make mistakes while experimenting with new ideas based on an analytical framework?
- What talent management strategies do you have in place to acquire, develop and maintain analytical skills?

Oiling the New Product Commercialization Engine

NEW

Historically, the Consumer Products industry was focused on a culture of innovation and the ability to continually deliver innovative new products. In recent years, the innovation engine has slowed considerably due to changing consumer trends, evolving channels of distribution and a risk-averse mindset permeating the industry. With companies becoming so operationally lean and efficient, the ability to quickly innovate and drive profitable new products into the market will be THE key indicator for future success.

Explicit vs. Latent Needs

As Henry Ford so famously stated, "If I had asked people what they wanted, they would have said faster horses." A recent industry study showed that over 50% of 'new products' are actually brand extensions as opposed to breakthrough products. Consumer Products companies are attempting to drive innovation through faster horses, different colored horses and horses delivered in new packages. While small strides and steady growth could be realized from 'tweaking the engine,' true innovation and transformational growth comes through revolutionary products that drive consumer loyalties.

Quick to Market

With consumer likes and dislikes changing so quickly, innovation needs to be a continual process witha strategy that is less about placing big bets and more about a test and learn approach. This will allow companies to incorporate consumer feedback along the way and ensure that products that hit the market are aligned with changing demand.

Driving Category Growth

To drive long-lasting growth, the overall impact of new products needs to be considered. Too often companies deliver new products to market that cannibalize their existing brands. They essentially rob Peter to pay Paul, as opposed to developing a strategy that drives growth across their entire portfolio of brands and products. Further, companies also neglect to consider the importance of driving category growth and product innovation in a way that drives mutual benefit for their retail customers. This approach not only drives market share, but also brings new bodies through the retailers' doors.

Measuring Success:

- How is your organization balancing bottom line operational efficiency with top line growth through innovation?
- Does your current R&D pipeline contain both incremental and disruptive innovations?
- How are you partnering with your retail customers for innovations that are mutually beneficial?

where
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when
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NEW ARRIVAL
how
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About the Author

Steve Rosenstock leads Clarkston Consulting's Consumer Products practice and has been helping senior executives in the CP industry address their business challenges for the past 19 years. He is recognized as a cross-functional thought leader, delivering business results in the areas of trade promotion optimization, supply chain management, business intelligence, and business process design.

Interested in Reading More?

- Navigating the Retail Revolution: Insights for Consumer Products Manufacturers

- Voice of the Customer: Why it Still Matters for Consumer Products Companies

- Analytics & Insights Indicator: Industry Benchmarks on How Companies are Using Data to Drive Decisions

- 2014 Food Trends Report

- 2013 Consumer Products Trends Report

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Access Steve's blog here.

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1. Walgreen Ready to Blur the Retail Channels in Stores Across the U.S., Januray 2013.

2. Subway pledges to make all its Footlong sandwiches 12 inches, Los Angeles Times, January 2013.

3. Naked Juice Class Action Settlement Offers Up to $75 Per Consumer, ABC News, August 2013.

4. Kellogg's Consumers Proved to be Attentive, $4M Attentive.

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