

CONSUMER PRODUCTS INDUSTRY PERSPECTIVE

2017

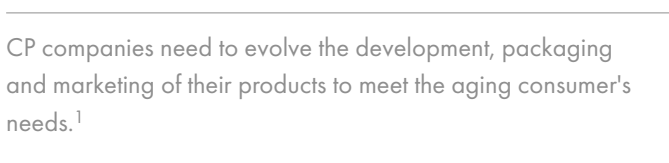
Key Competencies of a Modern Consumer Products Company

Back in 2010, Clarkston introduced our **Speed & Agility Index**, within which we stated, “with consumers harder to predict, successful product innovations harder to anticipate and sales harder to forecast, the speed with which companies are able to adapt has become the single most important enabler of success.” As we look towards 2017, with today’s consumers more educated, more connected and more engaged than ever before, both consumer products manufacturers and retailers are being challenged by an increasingly unrelenting pace of change within the industry. These consumer dynamics are redefining tried and true business processes, channels of distribution, strategies for growth, and key competencies required to realize competitive advantage in today’s ‘modern consumer products industry.’

Changing Face of the Consumer

Today’s consumer, with increased access to information, has an expectation to attain what they want, when they want it and, where they want it, making the ability engage with and adapt to today’s consumers an absolute imperative for CP companies. To do this effectively, it is important to first understand the foundational shifts with today’s consumer.

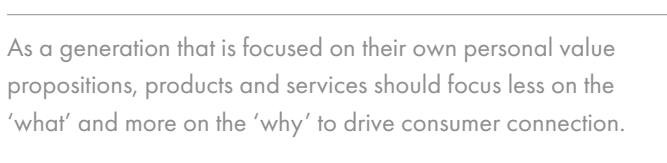
Aging Population



Consumers over 60 years old make up 12% of the population, expected to reach 17% by 2030 and 22% by 2050.¹

CP companies need to evolve the development, packaging and marketing of their products to meet the aging consumer’s needs.¹

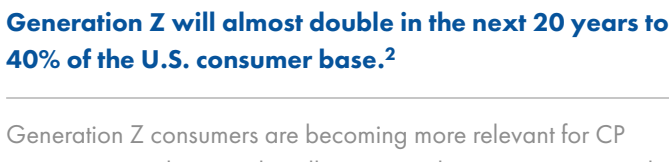
Working Millennials



Millennials account for 24% of the U.S. population, having a pronounced impact on today’s consumer behaviors.²

As a generation that is focused on their own personal value propositions, products and services should focus less on the ‘what’ and more on the ‘why’ to drive consumer connection.

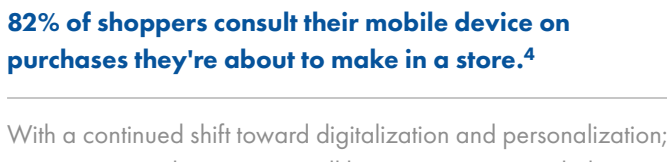
Coming of Age Consumers



Generation Z will almost double in the next 20 years to 40% of the U.S. consumer base.²

Generation Z consumers are becoming more relevant for CP companies, as they are digitally savvy and carrying increasingly significant buying power.³

Digital Consumer



82% of shoppers consult their mobile device on purchases they’re about to make in a store.⁴

With a continued shift toward digitalization and personalization, engagement with consumers will happen in a personal, direct way before, during, and after the shopping experience.

Urbanization



Global city dweller population is rising at 65 million each year and they are more connected than ever.⁵

Urbanization is on the rise, creating a need for innovative distribution and delivery models to meet expectations of instant gratification, from order to delivery.

Multicultural Consumer



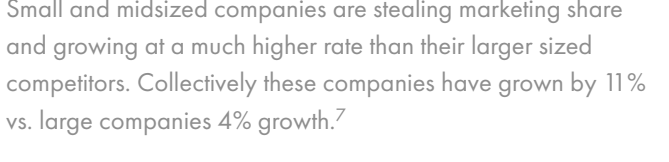
Making up 38% of the U.S. population, multicultural buying power is growing at an exponential rate.⁶

Manufacturers won’t earn these consumers’ trust simply by altering product attributes or packaging design. They need to create a brand experience that understands, appreciates, and engages with a multicultural consumer.

The Evolution of Growth

By definition, consumer staples are considered to be ‘non-cyclical,’ meaning they should always be in demand and less prone to the ebbs and flows of a changing economy and associated pricing pressures. Traditionally, this has led to steady and predictable year over year growth for the CP industry. However, the various ways with which our industry is growing is challenging the status quo. Barriers to entry are being broken down, channels of distribution are evolving, categories are expanding, and companies are partnering and divesting at an increasingly pronounced rate.

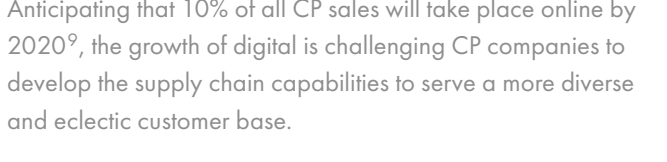
Diminishing Barriers to Entry



There was an \$18 billion market share shift from large to small and mid-sized business in the last 12 months.⁷

Small and mid-sized companies are stealing marketing share and growing at a much higher rate than their larger sized competitors. Collectively these companies have grown by 11% vs. large companies 4% growth.⁷

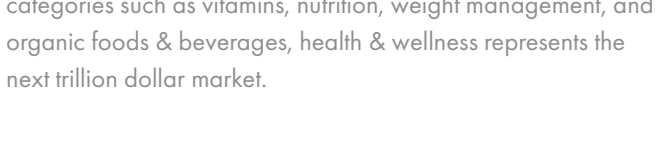
E-Commerce



CP e-commerce sales rose 42% the past 2 years and are estimated to surpass \$10 billion in 2016.⁸

Anticipating that 10% of all CP sales will take place online by 2020⁹, the growth of digital is challenging CP companies to develop the supply chain capabilities to serve a more diverse and eclectic customer base.

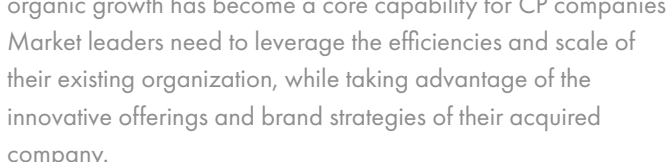
Health & Wellness



Over the last 12 months the Consumer Healthcare Market has grown by 7%.¹⁰

Fueled by demand from health focused consumers and driven by categories such as vitamins, nutrition, weight management, and organic foods & beverages, health & wellness represents the next trillion dollar market.

Merger & Acquisition



Global merger & acquisition activity at an all-time high.

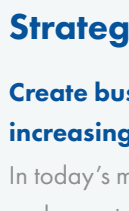
The ability to quickly vet deals and align M&A activity with organic growth has become a core capability for CP companies. Market leaders need to leverage the efficiencies and scale of their existing organization, while taking advantage of the innovative offerings and brand strategies of their acquired company.

Key Competencies of a Modern Consumer Products Organization

Through the years, investments in leading processes and systems have allowed CP companies to make strides towards increased supply chain efficiencies, optimized marketing and sales spend, and overall operational excellence. With many of these foundational capabilities in place, taking into account the Changing Face of the Consumer, and The Evolution of Growth in our industry, the seven competencies outlined below pinpoint specific areas in which CP companies need to invest to ensure they remain relevant and competitive into the future.



Strategic Innovation



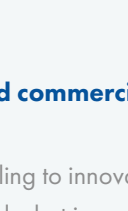
Sales & Marketing Alignment



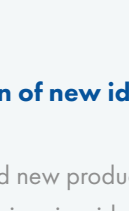
E-Commerce and Digitalization



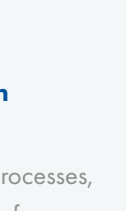
Integrated Planning



Revenue Growth Management



Actionable and Focused Analytics



Quality and Regulatory

Strategic Innovation

Create business value through the development and commercialization of new ideas in an increasingly competitive market environment.

In today’s market, consumer products companies are struggling to innovate around new products, new processes, and new strategies. There is often a lack of alignment around what innovation truly is, misguided notions of creativity, over-investment in commercialization vs. ideation and a focus on incremental steps vs. revolutionary ideas. Looking ahead, there is an opportunity for organizations to better understand and find creative solutions to their most critical business challenges that require breakthrough innovation.

Sales & Marketing Alignment

Commit to organizational revenue and profitability KPIs across brand, shopper, and trade marketing functions.

Consumer products companies have a strategy focused on execution at retail and leverages trade marketing dollars as its fuel to drive retail customer growth. Marketing is focused on brand building activities with the end consumer and taps into its consumer marketing budget to drive towards this end. Organizationally, these two functions need to instill a process to work more effectively and dynamically together over the course of the year, allowing for an optimized investment of their marketing dollars to drive a more favorable consumer experience and overall demand.

E-Commerce and Digitalization

Reevaluate traditional sales, supply chain, and marketing processes to meet the continued rise and impact of e-commerce.

A recent study showed that 92% of consumer products executives feel that e-commerce is a strategic imperative and sales channel for their business. However, this same study showed that only 43% had a clearly defined strategy and organizational processes and capabilities to support this channel.¹¹ Where smaller businesses have leveraged e-commerce as a means to enter and disrupt the market, all consumer products companies need to create a forward thinking digital strategy that will allow them to serve not only Amazon, but understand the various nuances of the B-to-B and B-to-C channels and their impact on traditional channels of distribution.

Integrated Planning

Integrate across the business, planning horizons, supply and demand, and partners to satisfy demand and maximize profitability.

While a traditional definition of Sales & Operations Planning tackles the objective of balancing supply and demand, there are other important elements that need to be incorporated into an effective Integrated Planning process. The ability to execute key strategic initiatives across functions, manage rapid response to supply issues and integrate product lifecycle planning is critical to success. Further, and what should never be overlooked, the organizational excellence required to ensure a commitment to these processes and a mindset that supports collaboration, transparency, and continuous improvement is what will truly drive success.

Revenue Growth Management

Develop sophisticated pricing, promotion, and assortment strategies with a focus on company and retail customer profitability.

Too often, consumer products companies have a myopic view of success, focusing on their own internal KPIs, measures, and profitability. Taking profitability to the next level, consumer products companies must collaborate with retailers to drive mutual benefit for both parties. Working together, there is tremendous value to be realized through an increased focus on sophisticated pricing, promotion, and assortment strategies that take into account consumer needs, demand, and industry trends. Through this, overall category growth will be realized.

Actionable and Focused Analytics

Leverage the growing volume of available data to drive strategic insights and activate them to drive tangible business value.

In recent years, consumer products companies have become extremely sophisticated with their ability to process large volumes of structured and unstructured data to drive strategic insights for ‘pockets’ of the business. While these areas of the business, often specific brands, customer teams, or functional groups have been able to make key business decisions based upon these insights, true opportunity is still being missed. This will be realized when organizations instill the processes and mindset to effectively share these insights across these functional, customer, and brand silos. The ability to learn from one another and more effectively activate analytics throughout the organization is where competitive advantage will be gained.

Quality and Regulatory

Navigate an increasingly regulated environment and develop the necessary processes and systems for FDA compliance.

To meet the demand of today’s consumers, CP companies are developing and marketing products across the food, cosmetic, and consumer healthcare industries that are ‘good’ for you. This has led to a rapid increase in cosmeceuticals, functional foods, and consumer healthcare products being introduced across the industry, leaving companies increasingly susceptible to stricter FDA regulation. Organizations will need to establish the regulatory and quality functions to remain compliant in this increasingly regulated environment.



About the Author

Steve Rosenstock leads Clarkston Consulting’s consumer products practice and has been helping senior executives in the consumer products industry address their business challenges for the past 20 years. He is recognized as a cross functional thought leader, delivering operational efficiency, strategy and business results in the areas of trade promotion optimization, supply chain management, organizational change management, and business process design.

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For detailed information about how we work with consumer products companies, visit our website: www.clarkstonconsulting.com