Over the last fifty years, change in the consumer products industry has been incremental. The industry has largely been defined by behemoth organizations generating sales through a consistent, yet conservative, approach to innovation, which has resulted in predictable year-over-year increase for the industry over the long haul. However, in recent years, the pace of change has increased. Innovation has been fueled by smaller, disruptive companies, and their commitment to the e-commerce channel, including their established relationship with Amazon. These nimble companies are breaking down the barriers to entry by redefining the importance of convenience, engagement, and relevancy within our industry. Categories are expanding and companies are partnering, acquiring, and divesting at an increasingly pronounced rate, all while consumer expectations continue to rise.

In the 2018 Consumer Products Trends Report, Clarkston Consulting evaluates how artificial intelligence, personalization, and digital transformation will be influencing and transforming business decisions this year and beyond. We will discuss how these trends will impact the way in which companies should manage the financial health of their organizations and how you need to identify new ways of working, adopt innovative technologies, and define organizational skillsets to successfully transform your business.
**LEVERAGE THE DIGITAL FOUNDATION**

Digital innovation continues to play a huge role in disrupting our businesses and must be embedded into how consumer products companies operate. Digital impacts how you manage your business, engage with consumers, manage retail relationships, sell product, transform your supply chain, and how you enable strong customer service. Further, it lays the foundation for many new trends that will become increasingly important in the near future, including artificial intelligence and personalization.

As a point of reference, consider how digital has impacted the social and business landscape. In 2017:

- There were **4 billion** global internet users.
- According to a Consumer Intelligence Research Partners report, Amazon Prime had **90 million subscribers** in the United States in Q4 of 2017, doubling its membership over the past 2 years alone.
- There continues to be a rise in popularity and use of voice-search assistants, with a recent study by Google stating that **62%** of regular voice-activated speaker users were likely to buy something through this technology in the next month.

Through the years, long-standing **traditional consumer products companies** have led innovation in the industry, influencing consumer demand, share of mind, and shelf space at retail. However, more recently, digitally-native companies have been prime disrupters and have broken down the barriers to entry by challenging the status quo and offering consumers a new experience through agile business models. Over the past few years, these companies have realized a vast majority of growth in our industry, leveraging their direct-to-consumer business models, technology capabilities, and an ability to engage with consumers to steal market share from their larger competitors. Often stuck in their traditional business models, many consumer products companies need to identify new ways to transform their businesses for the future.

A great example of this is **PepsiCo** who, through its vending brand Hello Goodness, is leveraging digital capabilities to promote its more health-conscious brands, including Sabra, Sun Chips, and Pure Leaf. These machines engage with the consumer through a digital point-of-sale touch screen containing nutritional information and pairing ideas, while offering PepsiCo insights into real-time consumer preferences that could shape future innovations.

Beyond digital innovation ‘in-house,’ a common path being taken by companies is an acquisition or divestiture strategy to align portfolios and adopt new capabilities and technologies. As an example of this strategy, **P&G recently acquired Native**, a natural personal care brand. Beyond Native’s leadership in the natural product category, P&G cited their direct-to-consumer online model and alignment with other key digital initiatives as primary reasons for the acquisition. With potentially billions of dollars at the industry’s disposal thanks to historic tax overhaul in the United States, the pace of these acquisitions will only increase in the coming year. As U.S.-based consumer products companies increase their resources to fuel growth, pay down debt, and increase shareholder value, expect to see more tech acquisitions or ‘tech-quisitions’ in 2018. In fact, more consumer products are buying technology companies and creative agencies to support their digital engagement strategy and to amplify their voice in the market.

As a consumer products company, you need to establish a strong and integrated digital foundation that will enable the adoption of future transformative trends and unveil new opportunities for growth.
The key to personalization, more than anything, is the ability to learn and engage. Learn about your consumers; what they want, need, desire, and expect. Learn about your products; their performance, quality, and optimal pricing. Through these learnings, engage with your consumers to enhance their shopping experience with your brands, products, and experience. By engaging with consumers and learning critical pieces of information along their journey, you have the power to transform your relationship with your consumer, providing an enhanced experience and ensuring that you are tapping into their unique value proposition.

Through learning and engagement, you can better understand consumer preferences; why they change, what they expect now, and what they might expect in the future. While data collection and analysis has been a start of personalization, the opportunities with analytics and artificial intelligence will become more profound and complex, bringing personalization to a new level. Looking ahead, the challenge for consumer products companies will be to balance the level of personalization with the cost of operating efficiently.

In recent years, one of the biggest consumer trends is health and wellness products that are personalized in a “ready-to” function for consumers. Ready-to-wear, ready-to-shave, ready-to-eat. With the assistance of data and technology, companies are looking at capitalizing on trends as a way to boost sales and gain market share. Let’s consider the food and beverage space, where large food companies are making investments in meal-kit companies across the industry. Nestlé led funding for Freshly last year, which raised $77M in new funds. Campbell Soup invested $10M in Chef’d, and Unilever invested in Sun Basket.

Part of what drives the growing market for product personalization is the continued rise of the educated consumer. Technological access to near-infinite information and buying choices empowers even the average consumer to enjoy a position of power and a position of choice. Take Harry’s for example, a vertically-integrated men’s shaving company with a direct-to-consumer and ready-to-shave business model. Harry’s owns the process from manufacturing of the razors to direct sales, which has disrupted the category as Harry’s products are half the cost of the competitors. This gives Harry’s the flexibility to apply learnings and innovations quickly to multiple layers of their value chain.

Personalization in consumer products is no longer a marketing problem. It is the leaders of the future that look at personalization cross-functionally and bring personalization beyond traditional marketing tactics to create an exciting consumer experience.
According to The World Economic Forum, we are experiencing our 4th industrial revolution, or Industry 4.0. One of the most remarkable things about Industry 4.0 is the speed at which it is upon us, as we are still acclimating to the impact of the 3rd industrial revolution and digital technologies and capabilities. This revolution is characterized by combining technologies and evidenced by the blurring the lines between the physical, digital, and biological spheres, and is set to disrupt us again.

Still in its infancy, artificial intelligence is already all around us, from self-driving cars and facial recognition to virtual assistants. For the consumer products industry, artificial intelligence is currently being applied with visual recognition of products in the digital landscape or the experience that Amazon is offering with Amazon Go.

The foundation for success in artificial intelligence is rooted in data and analytics. The accuracy, integration, and application of data is what drives the effectiveness of all artificial intelligence opportunities and opportunity for learning. Artificial intelligence, for example, enables organizations to capitalize on personalized, authentic, and relevant experiences for consumers through the entire lifecycle, including post-channel awareness. The lines continue to blur between manufacturers and retailers and the effective use of AI will enable companies to move closer to embracing direct-to-consumer models. According to Gartner, the future for organizations is not to personalize channel experiences, but rather to completely remove the concept of channels to the consumer at all, enabled through the effective us of AI and deep learning techniques.

Under Armour has been making strategic moves to become a digital fitness company for a number of years including the acquisitions of MapMyFitness, EndoMondo, and MyFitness Pal. What started as a fitness apparel company has evolved into a digital health and fitness company, leveraging data and technology capabilities to improve consumer engagement, create a connected community, provide information for new innovations, and improve engagement with the consumer post channel. Recently, Under Armour launched a next generation version of wearables, the UA SpeedForm which is a connected shoe that analyzes and informs its fitness tracking user platform UA Record Solution. Under Armour has made learning through digital a distinctive capability for their organization, which has allowed them to transform for the future.

Another example of a company using artificial intelligence to create a personalized experience, is what North Face has been able to do with the Watson App. Through a series of questions, North Face leverages artificial intelligence technology to identify the right jacket for the consumer online. What may have traditionally been the role of the store associate, through the power of artificial intelligence, North Face is creating a personalized, unique experience for their e-commerce consumers.

In addition to improvements that AI provides directly to consumers, the opportunity for operational efficiencies is appealing to supply chain professionals through the use of blockchain. Most recently, the announced joint venture between Maersk and IBM, pending regulatory approval, is aimed at the ‘digitization of global trade.’ Blockchain capitalizes on the opportunity for full transparency in the supply chain through more efficient information exchange. In addition to speed, the level of transparency and traceability will improve, and can eventually turn into a level of transparency companies can offer directly to their consumers. There is a clear value proposition here for companies with global trade, especially those in the apparel and footwear and those with a regulated supply chain like food and beverage and health and beauty companies.

The opportunity to leverage next generation technologies is enormous and the competitive nature of the industry requires consumer products executives to get started with their proof of concept projects now.
Looking ahead, opportunities across digital, personalization, or artificial intelligence cannot be thought of as simply tactical initiatives that reside in functional areas of the business. Instead, these opportunities should be addressed cross-functionally as distinctive capabilities that will drive competitive advantage in the market.

Traditionally, organizations might approach digital as something for your ‘IT organization to solve’, or personalization a strategy that is ‘owned by marketing,’ however this strategy would be flawed. This age-old functional mindset is wrought with modern challenges where:

- Ownership of processes and information is closely protected
- Roles and responsibilities are designed around conventional requirements
- Efforts to drive efficiencies lead to narrow functional focus
- Leaders are incented to protect their function to maintain financial resources

To win in today’s market and truly unlock the opportunities outlined above, organizations will need to build an organizational form that creates cross-functional business operations around distinctive capabilities, identifying their capabilities as more than functional responsibilities. They will approach business trends with a cross-functional mindset and they will prepare for their journey with a structured approach where:

- Distinctive capabilities are identified and valued
- Teams work collaboratively, not sequentially
- Proactively seek a mix of backgrounds, skills, and perspectives
- Organizations focus on bringing capabilities to scale

Ultimately, by putting cross-functional teams at the heart of your distinctive capabilities, companies will be able to approach opportunities around digital, personalization, or artificial intelligence to better connect with consumers and win in today’s market conditions.

Consumer products executives face a unique challenge, balancing the needs of today vs. the required investments for tomorrow. In the short-term, financial health remains paramount, as executive leadership needs to deliver their short-term goals related to market capitalization, top-line revenue, and profitability, all while optimizing shareholder returns. However, they need to deliver these financial returns with a keen eye on the future, with the speed of change so pronounced. In fact, 75% of the S&P 500 expected to be different within 15 years and three companies expected to delist within the next five years. To manage this balance, the consumer products industry, now more than ever, needs to evolve as traditional strategies that have proven effective through the years, will no longer drive success.

Leading consumer products businesses partner with Clarkston Consulting to address and adapt to the most critical industry challenges stemming from evolving consumer expectations, a highly competitive landscape, and an unrelenting pace of change. Our people combine industry and functional expertise to deliver solutions that fit your business, your goals, and your future. At Clarkston, your purpose is our purpose.