2019 CONSUMER PRODUCTS INDUSTRY TRENDS

CLARKSTON CONSULTING

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Only 12% of the Fortune 500 from 1955 remains in business today. Consolidation, brand erosion, technological innovation, retailer growth, and the emergence of digital competition have impacted the composition of today's largest global businesses.

The consumer products industry, once known for its role as a driver of economic stability, is facing more competition today than ever before. The industry has hit a point of critical mass where consumer expectations, market dynamics, and technological breakthroughs have created a landscape ripe for transformation. Being relevant in the consumer products market now requires an intense focus on the way your business competes, engages consumers, and drives decision-making.

A CONSUMER-CENTRIC ORGANIZATION IS THE ONLY OPTION IN THE 21ST CENTURY

Don't find what works for organizations like yours - find what works for consumers like yours.

Consumer products (CP) companies today are bombarded from all sides with directives to become leaner, faster, flatter, nimbler, and more agile. As new startups and competition in the market boast speed and agility, consumer products companies feel the pressure to compete. This mindset, while understandable, is not conducive to long-term consumer relationships or sustainable growth.

That's not to say that speed or agility aren't valuable goals – in fact, they're critical for a modern consumer products company. The drivers to achieve them, however, are the areas where CP leaders can focus to better structure their organizations for sustainable success. That is, don't build a fast organization because consumers value speed, instead build an organization that can understand and act on what consumers value. This subtle shift in mindset and strategy reflects a broader and longer lasting organizational trait offering true returns – consumer-centrism.

Consumer-centrism has been a term in the CP world across a variety of functions for years. Only now, backed by an empowered consumer voice and an analytical understanding of consumer preferences, can a CP company embed consumer-centrism within their organizational structure. In order to be effective, consumer-centrism must run deep through all areas of your business as the key tenet for how the organization runs. No department or functional area is exempt. With a definitively consumer-centric approach, your organization will realize the traits to institutionally:

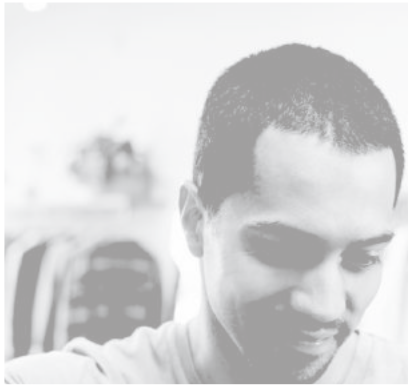
Consumer-centrism has been defined using a variety of metrics, concepts, and theories but what is a truly consumer-centric organization?

Consumer-centrism begins with an organization purpose-built to sustain a strong relationship with the consumer.

A key attribute allowing direct-to-consumer start-ups to make headway in the market is their strong relationships to core constituent consumers. Brands such as Harry's, Yeti, or Glossier are built and driven by that close connection to their consumer. These brands, at their foundation, are built with a strong understanding of and connection to their core consumers. For anyone competing in today's CP marketplace, this relationship with the consumer is required to anchor and enable organizational consumer-centrism.

Strong relationships with consumers today are built on a foundation of communication and transparency. Where open communication and transparency may have been viewed as marketing or PR initiatives previously, CP companies must now systematize these qualities cross-functionally in order to create deeper connections with consumers.

In fact, **a study by the MIT Sloan School of Management** shows that today's consumers are more cognizant of and focused to supply chain transparency than ever before. For years, this has clearly been particularly true in the food and beverage space, where consumers have held an increasingly critical eye to how their food is sourced, made, transported, stored, and delivered. But CP manufacturers in apparel, consumer healthcare, beauty, and more will develop stronger bonds with the 2019 consumer by instituting increased transparency and communication criteria across their business. Surface-level commitment to communication and transparency yields surface-level results – authenticity must be a key measure of success.

Millennials and generation Z, while less loyal to specific brands than previous generations, are extremely passionate about what is important to them. Consider this their personal value proposition. As these generations continue to grow in purchasing power, their well-documented mistrust of big brands can be ameliorated via strengthened relationships focused on the values they have come to regard highest. These are consumers born of the nigh-infinite access to information afforded by the internet and mobile devices - authenticity, transparency, and communication are hardwired into how these generations view the world.

Reconceptualizing the drivers for organizational qualities such as speed or agility will be critical to your business' long-term success. It's imperative that you stop the groupthink of "We must be fast because consumers want fast" and transform the mindset to "We must continuously understand what our consumers value." Understanding the subtle distinction between these two mindsets separates innovation leaders from the rest in the CP space.

Consumer-Centrism in Action

Consumer products manufacturers and brands can demonstrate consumer-centricity in different ways based on what matters most to their consumers. Multinational food company Tyson Foods has made significant investments in developing and enhancing transparency within their supply chain. As consumers have become hyperaware to the source, transportation, and sustainability of their food, building robust capabilities in transparency and traceability demonstrates commitment to the things that matter most to Tyson consumers.

For Tyson, this commitment to their consumer's values goes far beyond a press release or empty advertisement – they've partnered with SaaS provider FoodLogiQ to embed the technological and analytical capabilities necessary to enable whole chain traceability. Beyond that, Tyson has also partnered with the Environmental Defense Fund (EDF) to further develop and support sustainability.

Where consumer-centrism means traceability and transparency for leading food companies like Tyson, it will be different for your unique consumer and require the organizational ability to understand and act on your consumer's unique value proposition.

Diversity and inclusion creates consumer-centrism for all.

In 2019, we now know that true consumer-centrism comes from the demonstrative service, understanding of, and engagement with all consumers. Building upon this, ensuring that your organizational structure, no matter its form, is layered with targeted, purposeful diversity and inclusion initiatives enables the ability to serve the broad range of consumers in our globalized world – that is, diversity serves diversity.

Today, we also understand that diversity is more than just age or race or gender. Diversity of thought, backed by differing backgrounds, perspectives, and experiences, is critical to bring out the best of your organization and enable more effective decision-making. It's essential that any modern CP organization incorporate different perspectives into the key decisions that drive their business forward.

Countless studies have demonstrated the positive impacts diversity and inclusion can bring to organizations, allowing them to improve decision-making, access a broader talent pool, **improve productivity,** foster innovation, and even **improve revenue.** Just recently, the World Economic Forum's Global Competitiveness Report for the first time included diversity as an indicator for innovation and productivity.

As with transparency, authenticity is a key measure of success in diversity and inclusion. Consumers are smarter and more aware than ever before with a hypercritical eye for organizations simply seeking to **fulfill a quota or check a compliance box.** CP companies must take a candid and straightforward approach to including diversity and inclusion within every functional area of the business from marketing and communications to procurement and manufacturing. Trade groups, such as the **Billion Dollar Roundtable,** already espouse the advantages of supplier diversity, touting both benefits to the business' bottom-line and the overall economy.

Decision-making structures and processes should be analyzed for unconscious bias in order to free your business from those inherent limitations and to improve appeal to multicultural consumer segments. Taking diversity and inclusion from an HR-only responsibility to an organizational one enables broader perspectives that encourage innovation. This will ultimately allow for growth in new markets and demographics.

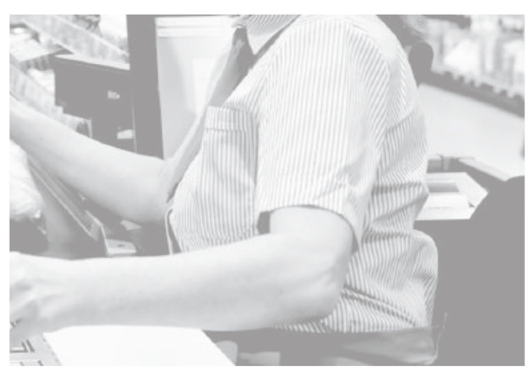
Consumer-centrism empowers employees at all levels to serve consumers.

"Customer service shouldn't be a department; it should be the entire company." – Tony Hsieh, Zappos CEO

Over recent years, retailers and e-commerce giants have realized significant growth from business models that empower employees at the front line with tremendous authority to better assist customers. Companies like Amazon, Zappos, Nordstrom, or Harley Davidson have made a name for themselves as customer service powerhouses, enabling new growth and intense brand loyalty with organizational strategies, structures, technologies, and values that place the consumer above all else. What sets these companies apart is the very idea that customer service is more than a policy, it's a way of work.

As CP manufacturers move ever closer to their consumers, embedding the ability and ambition to serve the consumer in all functional areas is a strategic imperative for 2019.

For many organizations, the idea of empowering manufacturing or accounting employees to better serve the consumer may seem like a stretch. For some, it's an awareness shift – empowerment first requires understanding. Serving the consumer effectively requires an employee to appreciate how their own actions, however far removed, impact the consumer both directly and indirectly. Leadership must push accountability down to enable an employee to drive change within their areas of responsibility insofar as there are demonstrative benefits to the consumer. Creating consumer-centric KPIs and metrics for processes and functions across the business is the first step to understanding. As a further extension, your business should be designed to reward consumer-centrism in order to properly motivate and engage employees in the process and culture of consumer-centrism. Artificial intelligence and machine learning (AI/ML) technologies are more accessible to help employees across the organization understand consumer needs. Some CP organizations are exploring ways to tie performance evaluations closer to how employees have positively impacted the consumer.



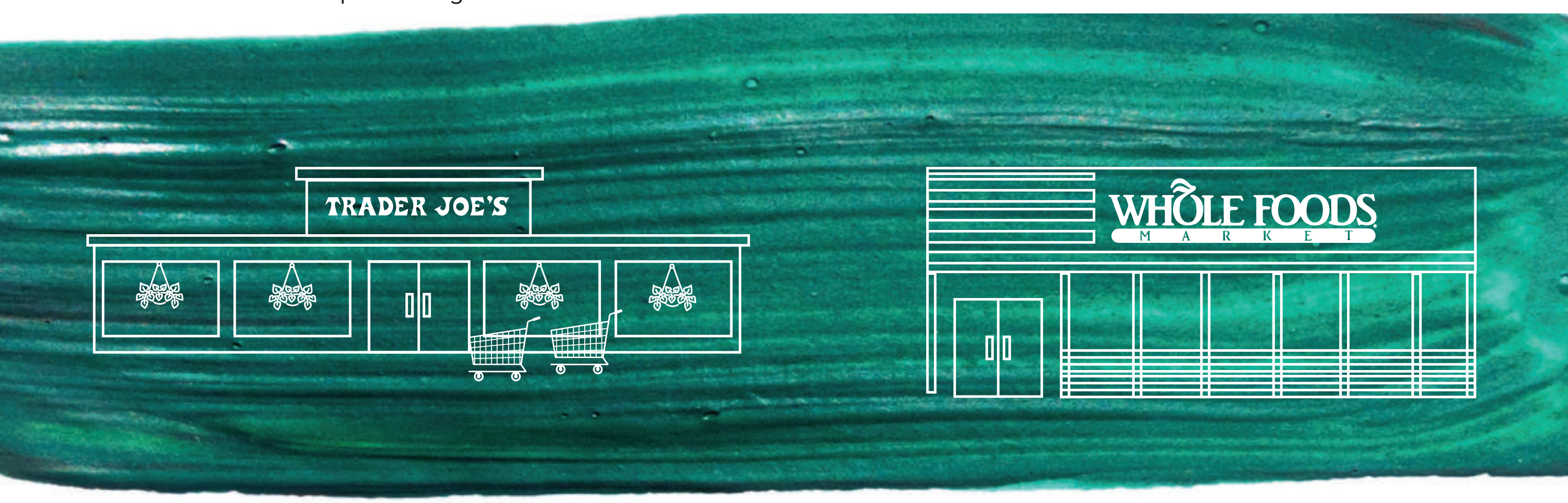
DIRECT-TO-CONSUMER STARTUPS BRINGING DISRUPTION TO THE MARKET

According to Forbes, since 2013, $17 billion in sales has moved from large CP brands to small ones. Furthermore, the smallest segment of the CP universe, companies making less than $100 million annually, is the fastest growing – well outpacing the established brands in the industry. Navigating the forces of competition in 2019 and beyond requires an understanding for how these smaller brands are disrupting the market and what large enterprise businesses can do to grow in the new landscape.

In an increasingly complex commerce environment with shifting consumer dynamics, smaller brands are able to leverage many qualities inherent to their creation to drive differentiation and market share – namely, these brands are digitally-native, nimble, omnipresent, and hyper-personal. Larger, established CP companies of course have the advantage of scale but the past few years have proven that's not the differentiator it once was.

Nimble decision-making is an oft-referenced strategic asset for small CP startups. Their ability to quickly make and enact decisions, normally backed by direct consumer feedback and data from digital interactions, is further boosted by both the simplicity of their organizational structure and the immediacy of their largest purchasing channels. For traditional CP brands with the legacy impacts of multiple acquisitions over decades of successful growth, the resulting inbuilt bureaucracy, organizational silos, and process rigidity has limited the ability to react more effectively to market forces.

Retailers, with their desire to differentiate in the eyes of their shoppers, have also leveraged these smaller startups as a vehicle to ensure that the products they are carrying on their shelves are unique. In many ways, retailers such as Whole Foods, Trader Joe's and Wegman's have leveraged smaller up-starts as an extension of their private label strategy, allowing them to carry products that their shoppers would not find down the street. While the retailers benefit from more engaging products; on the start-up side, with little experience in brick-and-mortar or the ensuing logistical needs for managing a physical retail presence and inventory, the retailers afford not only the necessary capabilities but also can provide even further consumer and purchasing data.



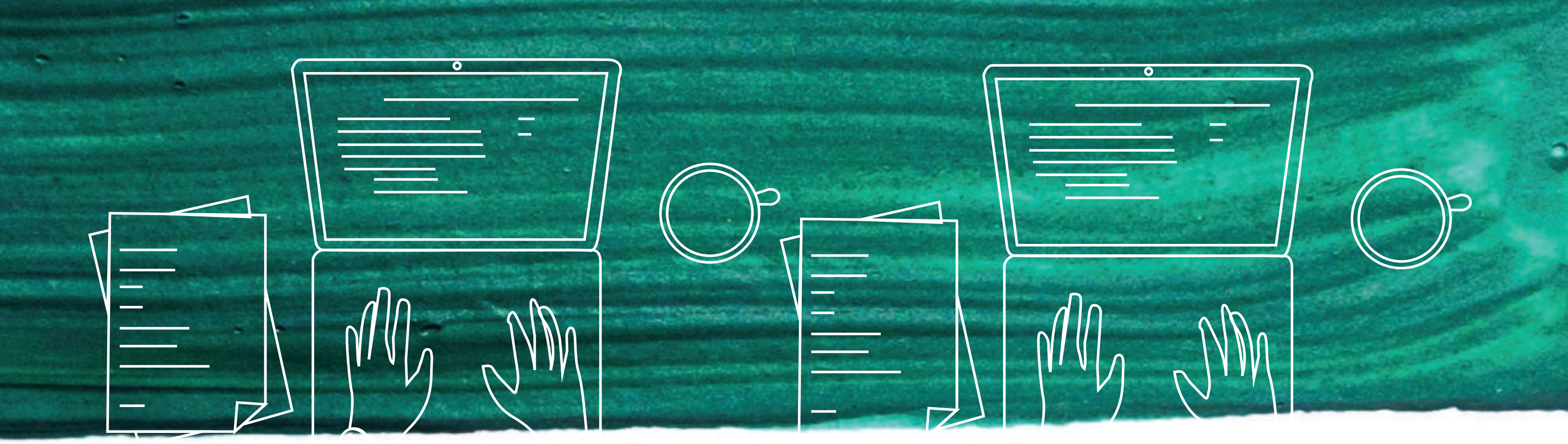
Typically, smaller CP start-ups are born direct-to-consumer. From the onset, this forces an intense focus and connection to the consumer, allowing them to rigorously hone that relationship early and often. With a DTC approach, these brands are also able to leverage that relationship to improve and manage the consumer experience as opposed to CP manufacturers dependent on retailers optimizing the experience --- retailers who must concurrently manage their own priorities, strategies, and brands.

But it’s not just the direct path to the consumer allowing smaller CP firms to gain market share – they’re exploiting digital tools and capabilities to better understand and reach their core consumer groups. Leveraging social media to engage customers, create a dialogue, and gather feedback, these brands are acting more as stewards of consumer preference than manufacturers of consumer goods. Beauty wunderkind Glossier, for instance, has capitalized on an intimate understanding of their consumers to create in-store brand experiences using Instagrammable displays, artwork, and packaging with better appeal to millennials and Generation Z.

At just 33, Glossier founder Emily Weiss also demonstrates a further advantage – these brands are led by and born of the consumers they’re winning most consistently – millennials. With the youngest end of the millennial spectrum just entering the workforce and the older end edging to their 40s, this is a segment any CP company wants to engage.

While most leaders of these start-ups might be still in their 30s, it has almost nothing to do with their age that’s allowed them to succeed – it’s a deep, in this case born, understanding of their target consumer. Regardless of age, leadership must be able to understand and act on the values, drivers, and priorities of their core consumers. Leveraging advanced data and analytics has allowed similar advantages for established CP brands and manufacturers.

More forgiving trends in private capital have also buoyed the growth of CP start-ups. Where venture capital may have been hesitant in the past, the same firms are now allowing CP start-ups a longer grace period to achieve profitability. In doing so, the companies are able to fail fast and learn from their failures quickly to realize growth without financial pressures straining the organization. There’s also been a sharp rise in recent years of VC’s like Silas Capital or Beechwood Capital, specializing in the CP industry, creating an even wider potential playing field for more competition.



Addressing the new dynamics for competition with DTC start-ups.

In reaction to disruption by small-midsize businesses and DTC startups, established CP companies have a relatively limited arsenal of options – acquire, spend, or innovate. As with any strategic decision, each path forward brings its own series of challenges and opportunities.

Acquisitions are a straightforward strategy for tapping into new or growing customer segments that may be as yet unreachable for large consumer goods players. History has proven that while the deal-making may seem clear-cut, integrations post-acquisition are anything but. Not only are back-office functions, systems, and data incongruous and creating complexities but the client-facing brand and messaging can falter and begin to lose the very consumer segments that drove the acquisition.

Recently, more acquiring companies have taken a laissez-faire approach, allowing their acquisitions to continue operations as before and only layering in new efficiencies or integration points in a slow, incremental process. Increases in technological and out-of-industry acquisitions have also reinforced the blurring lines between CP and tech as consumers continuously seek the technological capabilities that big tech has created in all areas of their lives. In CP, the M&A market has been particularly active so those seeking new acquisitions must also be sensitive to over-valuation. In these instances, it's become readily clear that **due diligence** should be carried out with an industry-focused team that understands the nuances and complexities of the specific CP segment. The best audit or legal team isn't enough, they must also bring a deep understanding to the industry to evaluate and structure a deal with honest returns.

Outspending is increasingly an exercise in spinning tires. Despite their advantages in size, resources, sales teams, and manufacturing footprint, large CP manufacturers are still losing market share. Traditional models for increasing spend in reaction to competition simply won't work anymore. Some CP manufacturers are repurposing dollars to form in-house incubators and venture capital funds. Over the course of the past few years, we've seen brands such as Kraft-Heinz, Nestle, and L'Oreal launch their own proprietary incubators. Tyson Foods launched Tyson Ventures in December 2016 with an investment into plant-based protein maker Beyond Meat. In-house incubators and venture capital funds can afford major CP brands the opportunity to explore entirely new market segments and form new partnerships in the consumer goods ecosystem while minimizing risk.

Arguably, true innovation is the most successful path in reaction to start-ups and increased CP competition. Naturally, that makes it the most difficult to effectively accomplish. Cracking the innovation challenge requires an almost perfect storm of diversity, creativity, data, and talent. Innovation is also a numbers game in that organizations must be willing to put in significant time and money to fail over and over before realizing any gains. Thankfully, vast increases in data and consumer understanding have created more-informed research and development efforts. As with any strategy in the CP world now, consumers must be at the center of innovation and drive the decision-making process constantly.

A MARKET OF ONE - PERSONALIZING THE ENTIRE BRAND EXPERIENCE

For decades in the consumer goods industry, volumes have been written on how companies can improve their shopper, customer, consumer, and (with increased emphasis on digital) user experience. Just as the rise of omnichannel has driven a need for a consistent and seamless experience, market dynamics now require consumer goods leaders to use a holistic view of every possible interaction with the brand. Managing the entire brand experience is now critical to remain relevant and resonate with consumers.

Think about your brand experience as a constant with consumers cycling through each phase in an infinite loop. With this understanding, it's clear that major consumer brands must conscientiously and continuously assess and hone their brand experience. Break your brand experience into the 4 critical phases - The Search, The Purchase, The Use, and The Feedback. Each is inextricably linked, with actions from one inevitably impacting outcomes in the other. The brand experience can be impacted by the effects of any interaction with the company – including everything from their employees' social media posts or the behaviors of market influencers to the impact of out-of-stocks at the shelf.

Traditionally, consumers relegated their focus and energy to The Purchase and Use phases with emphasis to the economy of the product, i.e. how cheaply could they buy something and how much value could they derive from it. But now, consumers are reserving much more time and energy to The Search and Feedback phases, pouring hours into researching, studying, and comparing products and then going online post-purchase to provide feedback, both positive and negative.

We also now live in an environment where consumers, particularly younger generations, are weighing experience over ownership. In fact, The Center for Generational Kinetics and travel website Expedia conducted a study that found **74% of Americans value experience over things.** Again, reading the trends and impacts of the technology landscape provides key indicators for the CP world. The rise of the gig economy with companies like Uber, AirBnB, DoorDash, or TaskRabbit has foreshadowed CP's current environment. These are companies that don't own their products, instead they own their consumer's experiences.

For the CP industry, the impacts of this consumer psychology shift to business are deep, wide, and far. In order to effectively engage consumers, consumer goods leaders must rethink their business and develop a marketing strategy that's less product-focused and more experience-focused. For many, this comes as no surprise and ad spend has proven it. In Clarkston's own analysis of Super Bowl advertising, ads have shifted to focus less on the product or service and more to a particular way of life, experience, or social consciousness. This focus is now extending beyond advertising - the sum of all aspects of your business must now leave consumers with an emotional connection to that brand experience.

The key to success is making your consumer feel like your brand, its products, messaging, and more were tailor-made for them. Consumers expect a level of personalization that goes beyond their name on the product. They want to feel like a brand understands and is built to their unique preferences. Personalization does more than satisfy a need for consumers, it helps them bridge the gap into an experience. A truly personalized brand experience requires the unity of information, innovation, and communication to form the unique consumer value proposition that effectively meets consumer expectations and generates positive returns for your business.

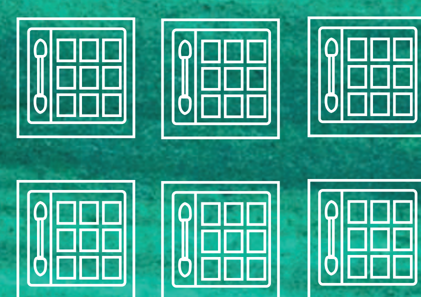
MEETING TODAY'S CHALLENGES

Business Transformation

This may be surprising to consider, but even if your company has been lauded as an industry leader in innovation and consumer-centricity, you can probably learn from digitally-native companies. Achieving an appropriate level of intimacy with consumers, through transparency, communication, and brand experience, may require your organization to invest significantly in business transformation initiatives.

As a food company, if you are not constantly monitoring the safety of your food supply chain and investing in innovative traceability technology, your consumers may quickly find your label claims inauthentic.

As a retailer, if your point-of-sale system requires your employees to take too long checking out your shoppers, you may be missing out on lost sales at checkout.



As a cosmetics company, if your influencers get caught up in a highly-publicized (festival) scandal, your brand can easily be caught in the cross-fire.

Each of these challenges are very different, which is why it is important to understand the appropriate journey for your company to achieve the vision for your enterprise destination. With an enterprise destination mapping exercise, you can determine your organization's goals and prioritization to build the organizational structure, leadership, and enabling technology for the future.

Data + Analytics

The road to a personalized brand experience is paved by data. Organizations of all sizes are looking to analytics to enhance decision-making, mitigate risks, and unlock new opportunities for efficiency and growth. Success in analytics isn't just about the newest technologies or having the best data - it requires practical, targeted, and deliberate approaches to create the most value from your analytics program.

CP companies have made strides in this area but need to continue becoming more data-centric. As a result, business intelligence, supply chain, and logistics companies will continue to offer enormous value to CP companies. CP organizations that can leverage intelligence to anticipate and react to sudden and continuous change gain a powerful edge over their competitors.

CP organizations that can leverage intelligence to anticipate and react to sudden and continuous change gain a powerful edge over their competitors. Today, data can come from a wide range of sources, including owned first-party data, second-party cooperatives, and subscribed third-party data, as well as the enormous amounts of data embedded in the company's own internal processes. All this data can be maximized and monetized to improve consumer and brand experiences.

A concerted focus in analytics can improve your organization's effectiveness in a measurable way across every function, including sales, marketing, customer service, supply chain, logistics, manufacturing, IT, and finance.

Digital

The current digital environment has blurred the lines between retail, e-commerce, and CP manufacturers. Through technology, companies can focus more on connecting with consumers on an emotional level to product a strong emotional connection to the buying experience. The key to getting started is setting your digital-first strategy. By redressing the bias and culture of the organization away from traditional channels and behaviors, you can set your company up to be ready for the changing world. This is not a radical change that should happen overnight, rather, a gradual change.

As you set your digital-first strategy and consider the cultural and organizational impacts, the technology evaluation must also be addressed. For example, if your processes and systems are not currently optimized for the agility required to be successful in e-commerce, begin designing your change roadmap. By 6 months into your digital transformation, you should have at least evaluated your e-commerce strategy and platform, your pricing and analytics capabilities, your ERP solution, your CRM, and trade promotion management applications. Conduct a thorough analysis to determine if your existing landscape can meet the requirements on the future. About 2 years after setting your digital-first strategy, you can expect to see some significant changes in how your organization operates.

Your new digital organization needs to prepare for the blurring lines of manufacturing and retail across every key component of the go-to-market. Price, promotion, placement, and product are just as relevant in the digital world, but you need to adjust how you approach them by updating your strategy and upgrading your processes and systems.

TAKING THE FIRST STEP

The consumer products industry continues to undergo a non-stop onslaught of change and disruption. Looking at the above issues influencing the market, it can be difficult to prioritize and strategize the initiatives that will drive the most effective impact for your business. Not one of these challenges can be solved in a silo or through a single project but the most important step, as usual, is the first one.

How will your business get started and overcome the waves of disruption? Below we've outlined three essential, basic actions that can start your business down path of consumer-centrism, data-backed decision-making, and business transformation.

1. Assess your data landscape.

Before seeking out new ways to collect or purchase data, bring together leaders across all areas of your business to evaluate, understand, and share the data already being collected. Remember, all data is valuable. Each consumer data point must be compared, referenced, and cross-referenced to understand its context. Trace how data moves through your organization to identify where silos may exist.

2. Conduct a decision-making appraisal.

Review the framework for how decisions are made in your organization. Follow the thread to understand the impacts to all functional areas and ultimately (and most importantly) the consumer. Identify the components to each decision with multifunctional impact to pinpoint the opportunities to drive cross-functional collaboration. Rank these decisions from most to least impact to the consumer and identify the current stakeholders involved. Do those stakeholders encompass diverse backgrounds and perspectives? With this understanding, you can begin the transformation of your decision-making structure to create more impactful, effective outcomes for your business and consumers.

3. Define accountability for artificial intelligence and machine learning in your business.

Moving forward, artificial intelligence and machine learning will be requisite components for reaching your consumers effectively. Successfully initiating an AI/ML initiative within your business requires a firm, organizational understanding of who "owns" AI/ML. Ownership will largely depend on your consumers, it could fall to sales, marketing, IT, or operations but it's crucial to understand ownership now to drive results in the long run.

ABOUT STEVE ROSENSTOCK

A recognized expert in sales and marketing optimization, supply chain management, business process, and more, Steve Rosenstock serves as a Partner and Consumer Products Industry Lead at Clarkston Consulting. In his role, Steve sets the strategic direction to enable the firm to best serve clients across the consumer products industry in navigating new market dynamics, technological innovations, and critical business challenges.

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