CLARKSTON CONSULTING

2020 CONSUMER PRODUCTS TRENDS

The ever fluid dynamics of consumer behavior are shifting and molding a new reality for consumer products brands. Consumers are looking to create a new relationship with brands, forcing new expectations of trust and transparency. By humanizing their approach, brands can better engage their consumers for a longer, more effective, and more beneficial relationship.

Clarkston Consulting's 2020 Consumer Products Trends Report covers the emerging and growing trends propelling impact and transformation in the industry, including storytelling, the change face of labor, the rise of the trust economy, and evolving geopolitical dynamics. These macro trends are driving forces in the strategies and tactics that will enable growth, innovation, and consumer engagement for consumer products businesses in 2020.

USING STORYTELLING TO DRIVE CONNECTION, ENGAGEMENT, AND UNDERSTANDING WITH CONSUMERS

Today's consumer looks beyond the value of a product alone to the values of the brand that created it. As the consumer's line of sight stretches past the shelves on the aisle to examine how a business operates internally and externally, there are new pressures on consumer products brands to engage consumers on the issues, causes, and qualities they hold dear.

Fairness in wages, benefits, hiring practices, and ethical principles and policies on harassment and discrimination are a piece of the brand story in ways they never were before. These issues, once considered irrelevant to consumers, now have significant impact on the way they view a brand.

Beyond how the business operates internally and engages employees, consumers are also seeking brands that closely support the ideals that matter most to them, whether its equality, sustainability, climate change, or any number of social issues. But demonstrating this commitment isn't as simple as creating a new socially-focused product or launching a marketing campaign. In fact, **studies have shown** that while consumers think it's important for brands to take a stance on political and social issues, the majority of them do not trust a business' motive for doing so.

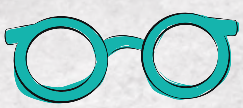
Needless to say, this puts consumer products business in an unenviable position – consumers demand a socially conscious brand but they're simultaneously distrusting of a business acting on that demand. To add to that, this distrust can negatively impact brand loyalty, consumer engagement, and profitability. Within the confines of this dynamic, how can a brand successfully meet consumer expectations?

“Stories are remembered up to 22 times more than facts alone.”

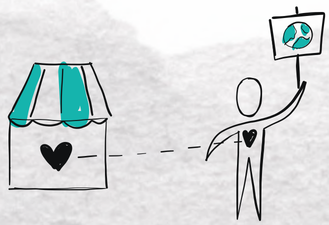
Harnessing the Power of Stories, Stanford Marketing Professor Jennifer Aaker

Effective storytelling allows a brand to both show and tell in order to more fully engage customers in the brand’s morals, values, and commitment to the given issue(s). Studies have shown that our increasingly digital world, while offering connectivity and the “world at your fingertips,” has also increased feelings of isolation, loneliness, and anxiety. It’s not the applications themselves driving this, it’s the often-inhuman nature of the content that accompanies them. With a more comprehensive approach to storytelling, brands have the opportunity to drive true connection with consumers to create a memorable and impactful narrative that not only engenders loyalty but ultimately profitability and growth.

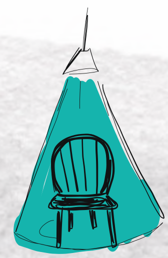
For 2020 and beyond, storytelling is a consumer products industry trend that will shape the way businesses approach marketing, product design, sales, and more. Truly engaging this trend requires that brands:



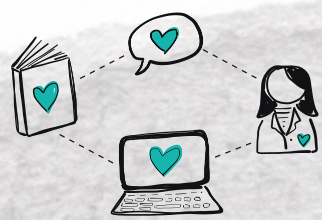
Articulate a clear vision that reflects your brands purpose, values, and moral attributes



Connect your story to your business’ core values and the values, movements, and causes that resonate with your customers



Shed the surface-level notions of the corporate visage to embrace vulnerability and humanize the brand



Consistently embed the story and its message across all dimensions of their business

While digital technologies and social platforms have enabled a greater number of channels by which to communicate with consumers, the psychological foundation and human nature of storytelling is what resonates most. It’s not that the message is delivered via tweet, post, or snap – it’s that the message delivered creates a compelling, focused, and meaningful narrative.

Now, common marketing practices like influencer marketing must be more closely examined to ensure alignment to the brand story. Influencers can be some of the most effective storytellers for your brand if their own values and message reflect yours. CPG brands who do this best seek influencers who are highly engaged, not highly followed. An influencer with 10,000 followers that has a dialogue with their

Influencers with human followers who consistently like, share, and comment on their content. For a ***simple engagement metric****, count the likes and comments per post and divide by the number of followers, greater than 1% reflects a highly-engaged following.*

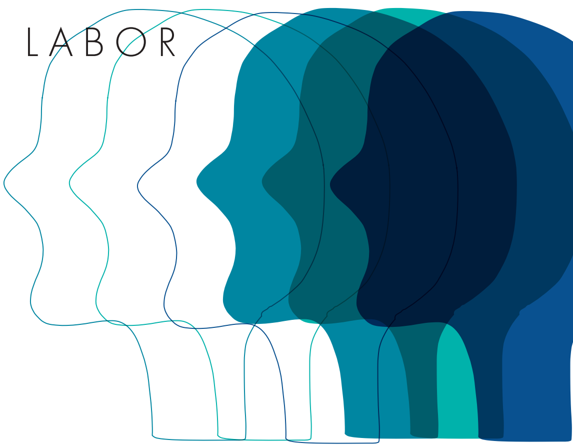
followers born of an engaging relationship will be able to empower your story more than one with 100,000.

Macro trends in consumer buying behavior are changing as consumers themselves change. Generation Z is aging and acquiring **more influence** and purchasing power, with up to **40% of consumers** estimated to be comprised of Generation Z this year. This digitally-native generation is hallmarked by desires for authenticity, conviction for social causes, and expectations for connection at an emotional level – attributes most effectively engaged with a comprehensive approach to storytelling.

The fight for consumer attention is more competitive than it's ever been. Each day, dozens upon dozens of channels, personalities, and outlets jockey for every second of a consumer's attention. The answer to this challenge is not to speak the loudest but to speak the most clearly through an authentic and values-driven approach to storytelling.

> **"A story can go where quantitative analysis is denied admission: our hearts. Data can persuade people, but it doesn't inspire them to act; to do that, you need to wrap your vision in a story that fires the imagination and stirs the soul."**
>
> Harrison Monarth, Author, *The Confident Speaker*

THE CHANGING FACE OF TALENT AND LABOR



Throughout 2019, the U.S. labor market remained strong with 2.11 million new jobs created and unemployment at a 50-year low of 3.5 percent. While a strong labor market typically correlates to strength in consumer demand and confidence, consumer products companies will be facing significant challenges in how they manage talent and labor in 2020.

Just as businesses must shift how they market and sell to a new generation, those same generational attributes will impact the way they recruit, hire, and train. Furthermore, headwinds in the manufacturing sector are forcing businesses to more intensely examine succession planning as generational brain drain begins to impact the long-term continuity of operations.

WELCOMING GENERATION Z TO THE WORKFORCE

With a strong jobs market, the competition for talent increases. As a result of the competitive talent landscape, employers will need to work hard to entice new applicants. Beginning this year, many of those new applicants will be comprised of Generation Z as the oldest among this generation begin to enter the workforce.

Adequately recruiting and adapting Generation Z to your business requires an understanding of their unique generational characteristics. It might be easy to generalize aspects of this generation but some of the most notable attributes may be surprising. For instance, though they're the first fully-digital generation, studies have shown they actually **value face-to-face communication** and interaction at work over the digital channels that the previous Millennial generation pioneered. That said, the instant gratification and responsiveness of digital channels has affected their work styles still. In a work setting, polls have shown Generation Z would like daily interactions with supervisors and near-constant feedback, more so than previous generations.

The economic circumstances of their upbringing has also influenced how they approach career development. As a group whose childhood was defined by the events of September 11, the Great Recession, and nearly perpetual global conflict, it's no surprise this generation **values stability and economic security above other job criteria.**

Integrating Generation Z into the workforce will also require a greater approach to generational training in order to minimize poor communication. While Baby Boomers are retiring in droves, the current workforce remains the most diverse in terms of age in history. With each generation bringing different values and priorities, it's critical to understand what drives these generations in order to bring out the best in each of them.

MANUFACTURING TALENT FOR CONSUMER PRODUCTS MANUFACTURERS

For manufacturers, many in the U.S. have reported setbacks in acquiring skilled laborers. Artificial intelligence and robotics have enabled many businesses to adapt to this skilled labor shortage and simultaneously cut costs. But, manufacturers are faced with an aging workforce - baby boomers are retiring from all sectors of American labor at a rate of **10,000 a day**, often taking institutional and technical knowledge with them as they exit the manufacturing floor. Adding to that, stigmas around technical training have created younger generations that aren't pursuing skillsets, certification, or education opportunities that manufacturers require most.

Addressing this trend in manufacturing talent for consumer products businesses requires both short and long-term solutions. On the short term, succession planning and training should be an immediate priority to bridge the knowledge gap between the retiring generation and those entering or new to manufacturing. Often, training of this nature is ad hoc and informal so CPG businesses should develop formalized, organization-wide approaches with more official training and mentorship programs. On the long-term side, businesses must contend with the perception of low pay, low tech, and low opportunity in American manufacturing. Partnering with vocational schools and high schools to create a pipeline of talent and rebrand manufacturing will help to address the challenges beyond the immediate next few years.

BUILDING EQUITY IN THE TRUST ECONOMY

While businesses are still navigating the gig economy or the sharing economy, the rise of the trust economy is becoming the most potentially impactful to a business' longevity. People now stay in the homes of perfect strangers, hitch a ride with someone they've never met, and buy a product from vendors whose names they don't even know. Underpinning each of these interactions is trust in the process, the technology, and the outcome.

Inevitably, this has bled through to the consumer experience, where the way that consumers research, purchase, and communicate now places a substantial premium on trust. Demands for a greater focus on trust have manifested themselves across multiple dimensions of the consumer experience. Expectations of trust have even permeated to how a business treats its employees with 78% of customers saying "how a company treats its employees is one of the best indicators if its level of trustworthiness," according to the **2019 Edelman Trust Barometer on Employee Experience.** As people, as consumers, and as employees, trust is increasingly the most critical success criteria for a consumer products company. But, consumer products businesses are in a unique position as consumer trust in brands is **falling rapidly** but has **simultaneously risen** as a consideration for a brand purchase.

> **"Transparency will be tomorrow's brand currency."**
>
> \- Arun Ramaswamy, Chief Technology Officer, Nielsen

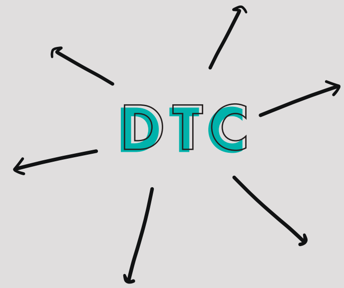
It's relatively easy to see how the industry has found itself in this position as opportunities for breaches of trust have only grown. Over the past few years, businesses in the consumer products industry have been more earnestly developing capabilities to leverage data to improve engagement, innovate, and operate. But consumers have become increasingly distrustful of how their data is being collected, stored, and used. Highly publicized events around data hacking have only made these concerns grow. Furthermore, the rise of deepfake technology has already led to **videos impersonating politicians and well-known figures** for at-times troubling effects. It's not a far stretch to see how the same digital impersonation can be used against brands, spokespeople, and influencers to damage both trust and credibility.

DEEPFAKE TECHNOLOGY:

Technology that leverages artificial intelligence to allow users to generate near-perfect duplicates of videos and images, including people.

While artificial intelligence, machine learning, advanced analytics, and the internet of things can truly transform a business, for a consumer products company, the data that supports those advanced

In 2020, CPG companies will be investing in a variety of areas to increase their trust equity with consumers such as:



expanding direct-to-consumer channels

supply chain traceability

data privacy

corporate social responsibility

technologies must now rest on a bedrock of trust to be successful. **New regulations** are giving consumers greater agency in managing their own data while more **bills are being proposed** with aims to further strengthen consumer data privacy rights.

Embedding transparency in your business will be a challenging and uncomfortable journey but the benefits of investing in a trusting relationship with consumers are evident. Studies have proven that **consumers are more willing to share data** with businesses that are transparent in how it will be used. Also, enabling transparency engenders a more open dialogue between your business and your consumers, creating the opportunity to garner more feedback and solicit input directly to better inform your strategy, marketing, and more.

But most of all, transparency is the foundation of trust. Building trust in your business, your operations, and your relationships with consumers will ensure longevity in an age where disruption is challenging even the most successful businesses.

NAVIGATING GLOBAL DYNAMISM

Significant events in both domestic and geopolitical affairs in 2019 forced unforeseeable challenges on the consumer products industry. Looking forward to 2020, ramifications from many of the events will continue to impact the industry, requiring businesses to reexamine strategic and operational risks, supply chain models, and market opportunities, among other things.

TREADING CAREFULLY IN THE 2020 ELECTIONS

The sure-to-be engaging U.S. election cycle kicked off last year and consumer products businesses should prepare for what will no doubt be a dynamic, even volatile year ahead. Typically, elections with an incumbent president have resulted in **stronger economic performance** but a variety of factors, including the impeachment inquiry of U.S. President Donald Trump, trade uncertainty, and **shrinking in the manufacturing secto**r may have businesses and consumers alike looking toward the election year with caution and uncertainty. For many consumer products companies, uncertainty about the eventual outcome of the election may lead to "wait and see" approach with fewer large investments. For others, however, the record-breaking expansion of the U.S. economy is a signal to take advantage of the current landscape (and perhaps the opportunities afforded my more uncertain competitors) to commit to capital investments or acquisitions.

Consumer activism and the rise of the conscious consumer will have more shoppers and consumers voting with their wallet as they show support for brands whose political values align with their own and eschew those who don't. With **partisanship deeper than ever in the United States**, consumer products businesses should expect a more vocal and demonstrative consumer when it comes to a brand's approach to politics and the election in 2020.

BREXIT STRATEGY

For the consumer products industry, Brexit will have a wide range of probable and potential consequences. First and foremost, following Brexit, firms in the UK will see an increase in tariffs, requiring consumer goods companies to prepare for potential cost increases with any trading or sourcing partners in the country. To that end, it will likely be more difficult and take more time, to move goods to and from the UK. With that, businesses that trade heavily in the UK should be prepared for a greater supply chain investment to handle any delays or complexity as a result. Beyond the supply chain, businesses based in or trading with the UK will be forced to navigate a new web of regulatory standards. CPG businesses will need to determine how they will address, where applicable, both EU and UK product standards. And, while **consumer confidence did see a slight increase** with greater clarity following the Brexit vote in December, indeterminate plans for the withdrawal will likely result in fragile consumer confidence in the coming months.

As one of the largest and more powerful economies in the world, the follow-on impacts of Brexit to the UK can't be ignored. Moving through 2020, businesses in the consumer goods industry must continue to monitor Brexit progress and be prepared to adjust supply chain, quality, regulatory, and marketing operations accordingly.

SHIFTING TRADE WINDS

At the beginning of 2020, the United States and China signed an initial pact bringing an end to the trade war that had plagued both countries and the global economy for nearly 18 months. At the center of the "Phase 1" deal is an agreement by China to purchase $200 billion in U.S. goods and services over the next 2 years. In exchange, the U.S. will reduce tariffs on $120 billion in Chinese products. Outside of these commitments, the agreement also included actions aiming to confront issues around counterfeited and pirated goods with further protections of intellectual property rights.

Just after the ink dried on Phase 1 of the trade agreement with China, the U.S. Senate passed the United States-Mexico-Canada Agreement (USMCA), clearing the way for President Trump's signature. USMCA makes several adjustments to its predecessor, the North American Free Trade Agreement (NAFTA), including specific provisions around digital trade and copyright rules. Furthermore, USMCA notably increased the de minimis threshold, allowing for greater access to U.S. products by Canadian and Mexican consumers.

These two trade deals will bring their own set of challenges to consumer products businesses. It will be critical that CPG companies fully understand the range of mandatory requirements under each deal to ensure compliance and certification by suppliers and other trading partners. With the start of a new trade agreement, it's expected that trade compliance auditing will increase so businesses should be prepared for delays or disruptions to business operations, particularly in supply chain and logistics.

Beyond the above, overall uncertainty permeates the current geopolitical and economy climate. Financial analysts and economists continue to warn of a fragile economy precariously close to a recession.

CONCLUSION

Competing in the consumer products market requires a wide range of competencies, skills, and understandings – particularly in the face of evolving consumer expectations around trust, emotional connection, and engagement. A host of strategic and technical capabilities will be required to meet the above trends successfully but at the center of it all, three key concepts stretch across the trends:

1. DATA – Consumer products businesses now require a spherical view of their business (and especially their customers) in order to compete and win. How your business gathers and uses the data must rest on a foundation of trust. Whether it's creating in-house capabilities or bringing in a managed analytics partner, activating analytics in consumer products is now table stakes to ensure success in the industry.

2. COLLABORATION – Both from a strategic perspective via shared brand experiences, campaigns, and messaging and a technological perspective through collaborative technology platforms, consumer products manufacturers should pursue partnership and opportunities for collaboration in earnest in order to succeed in today's environment. Furthermore, as the line between retail and manufacturing continues to blur, effective collaboration with retail partners is crucial to better understand the customer and meet their needs.

3. SECTOR-AGNOSTIC INNOVATION – Where previously consumer products manufacturers may have looked to similar companies in their own industry for innovation inspiration, it's clearer than ever that the path to innovation winds through any industry or space. Consumer products companies must go outside the bounds of industry lines to find the innovation that's driving connectivity and engagement with consumers.

Moving forward into 2020, a new breed of consumer is expecting more of the brands they purchase, not just in terms of product innovation but in the way they align to consumer values. Effective engagement requires that consumer products companies embed trust in an emotionally driven approach that speaks to the everyday lives, goals, and challenges of consumers.

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