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2023 CONSUMER PRODUCTS TRENDS

Over the past few years, the consumer products industry has experienced both great innovation and widespread disruption. Companies old and new alike navigated new channels, experimenting with digital platforms and technologies to best meet the needs and demands of their consumers, whose values and priorities continued to evolve. But CP companies also had to prove their resiliency and find stability, pursuing new technologies and solutions to enable greater supply chain visibility and flexibility amidst global supply chain disruptions and geopolitical instability.

As we move into 2023, the CP industry – a booming sector expected to reach a market size of nearly $2.5 trillion by 2028 – will have to navigate some of these same challenges as businesses continue to deal with the short-term impacts and long-term implications of COVID-19: inflationary pressures, global supply chain disruption, evolving consumer preferences, and more. Yet, it's important for CP companies to see these macro-trends as drivers for further growth, innovation, and strategic relevance in an increasingly competitive market.

In this piece, our industry experts outline six trends that will impact the consumer products industry in 2023:

FINDING THE IDEAL PRICING STRATEGY

NAVIGATING SUPPLY CHAIN DISRUPTIONS

CONSIDERING OVERALL OPERATIONAL EFFICIENCIES

DEFINING OMNICHANNEL STRATEGY AND EXECUTION

IMPLEMENTING DIGITAL MARKETING STRATEGIES

INVESTING IN DATA + ANALYTICS

1 FINDING THE IDEAL PRICING STRATEGY

Companies across all industries continue to see higher costs, which translates to increasing pressure to raise prices for their customers. Even though higher prices are necessary to balance the higher costs, it's crucial that brands ensure their prices don't serve as a deterrent to a purchase. This begs the question: *how does one set a pricing strategy that retains both their margins and their consumers?*

The answer is to view price as a tool to create perceived value to the customer instead of as a bottom-line number to recoup cost. Price is not just a transactional figure – it's the final piece of brand equity a customer invests in when purchasing a product. Customers don't mind if the price is high as long as they feel the value of the product matches the dollars being spent. This isn't a novel concept, but it's become more important than ever due to the increasingly constricting household budgets. According to a study done by the Harvard Business Review, "Despite heightened price sensitivity, today's consumers aren't necessarily looking for cheap options....people are willing to spend money on products and brands that offer real value and help them reach their goals."

Historically, quality of product or sale add-ons have been the biggest drivers of perceived value, but new innovations in pricing strategy have shown the impact accurate pricing can have on customer attraction and retention. Over the past decade, companies have begun to look at other industries for inspiration to revamp their traditional pricing practices. For example, software firms that once practiced per-seat licensing have shifted to software-as-a-service (SaaS) models that rely on metered usage, and magazine publishers that once offered annual subscriptions now offer monthly ones, too. These new strategies account for how the consumer actually uses the product and allow the customer to choose how much use they pay for, ultimately increasing the value of the product without deterring customers due to a new price.

Customers are becoming ever more sensitive to rising prices, but many are still willing to purchase the products they feel fulfill their value proposition. Pricing strategies are powerful ways to interact with customers and are the final determinant of value. As such, identifying the right strategy is crucial in a high-inflation economy. By looking at new ways to segment a product's price based on the actual usage basis, brands can price at levels necessary for margin management while still answering the call their customers are actually asking for: more value.

2 NAVIGATING SUPPLY CHAIN DISRUPTIONS

Supply chain managers don't need to be reminded of the disruptions of the last few years. Material shortages, increased costs, and longer lead times have had companies continually scrambling to replan. Further, supply chain disruptions are often unpredictable. As much effort as organizations put into trying to anticipate future events, disruptions arise from unexpected causes. So, what can CP organizations do to enhance their resiliency?

- **Improve visibility:** Identifying disruptions as quickly as possible accelerates the ability to resist and respond. Partnering with suppliers to gather regular updates on future plans and availability can provide a forum for identifying supply disruptions. Likewise, partnering with customers can help to recognize potential demand disruptions. Supply chain planning solutions can help to automate these information exchanges, improving speed, analytical capability, and ultimately your supply chain visibility.

In a Logistics Management survey, 72% of respondents said their organizations are dealing with ongoing global supply chain disruptions.
SOURCE

- **Understand your supply chain:** Deep understanding of demand and supply flow is crucial. In order to respond to a new disruption, managers need to understand their end-to-end impact. Thoroughly mapping your supply chain gives you an advantage when disruptions occur by proactively identifying links and dependencies. Leveraging technology solutions to develop a digital twin based on this mapping improves speed and agility through scenario analysis to review impacts and develop alternatives.

- **Streamline supply networks:** Complex global supply networks have evolved as companies have sought material availability and cost advantages. These networks, however, have led to increased risk. Reshoring and near-shoring can reduce complexity and improve resilience – bringing suppliers closer lowers transportation time and logistics complexity, reducing variables and points of risk. U.S. companies have a great advantage here, as North American trade agreements have been in place since North American Free Trade Agreement (NAFTA) in 1994, and continue to grow with 2020's United States-Mexico-Canada Agreement (USMCA).

As a CP organization, your ability to prepare for and respond to supply chain disruptions can be the difference between success and failure. As such, improving your supply chain's resiliency is absolutely mission-critical to mitigate the impacts of material shortages, inflationary pressures, and geopolitical disruptions, among other factors.

CONSIDERING OVERALL OPERATIONAL EFFICIENCIES

As inflation and supply chain disruption loom, CP leaders are tasked with managing their operations as efficiently as possible. We define operational efficiency as a tactic to help mitigate or manage against macro drivers – whether it's a shift in shopping habits, preferences, or supply chain challenges. Focusing on ways to maximize operational efficiency through cross-functional collaboration and data-driven processes will ensure greater agility to react to macro-level impacts.

CP organizations are looking for ways to reduce expenses internally to manage prices charged to consumers. Cost reduction takes a combination of collaboration and data to identify synergies and drive decision-making. Winning organizations are those that prioritize cross-functional goals, benchmarking, and execution to adapt in volatile markets. For example, as marketing teams strive to meet consumer needs for value, they can tap into their supply chain and finance counterparts to enhance their product line while optimizing manufacturing efficiency. Take Del Monte Foods, for example, who did just that by introducing multi-packs of fruit cups and vegetables while maintaining highly automated supply chain processes.

From an organizational lens, there are benefits to appointing people who rotate across teams to spread knowledge, ideas, and collaboration. This process and structure can generate innovative solutions to complex problems. Another approach for organizations seeking greater efficiency harnesses the power of benchmarks that require cross-functional input and engagement. Kellogg has focused on using benchmarks along with technology automation to evaluate their performance across processes to minimize waste and wait times. The business value of benchmarking is realized in on average at 7% of revenue according to a survey by APQC.

As organizations are only as good as their employees, it's critical to invest in individuals so they're keeping up with the latest trends and practices to contribute to agile working environments and cross-functional collaboration structures. Investing in upskilling and reskilling is a great tactic to grow talent internally as a measure to future-proof your operations amidst continuous change.

Companies estimate the business value of benchmarking represents nearly 7% of their average revenue, according to a survey of about 2,000 executives globally released in October by APQC.

4 DEFINING OMNICHANNEL STRATEGY AND EXECUTION

As the number of available channels increases and the technology that enables those channels develops, the customer expectations will continue to grow. CP companies need to be ready to adapt an omnichannel strategy to keep up or risk being obsoleted. By implementing an omnichannel strategy, companies can offer their consumers a consistent experience across integrated digital touchpoints, drive sales through increased consumer engagement, and remove the once siloed shopping experience.

We will see a handful of omnichannel trends affecting shopping behaviors throughout 2023:

1. Leveraging the brick-and-mortar comeback and expanding the omnichannel journey by offering buy online, pickup in store (BOPIS); in-store purchase, home delivery; and online purchase, in-store return.

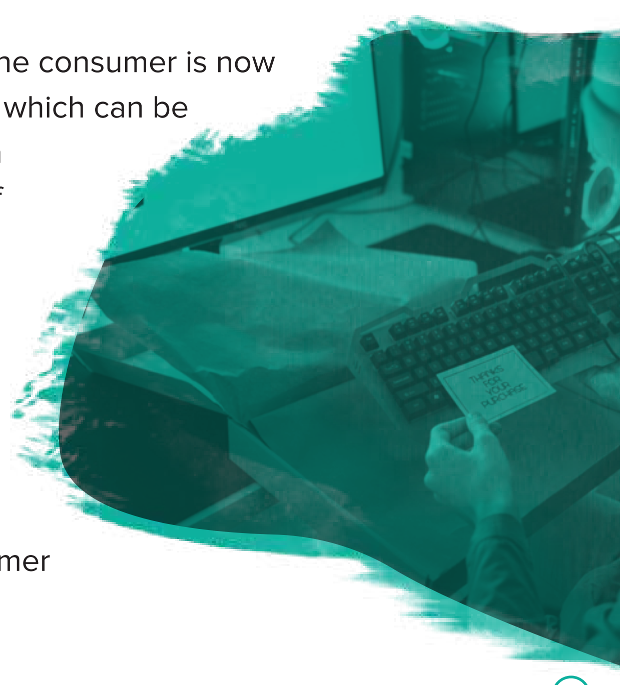
2. The movement toward social selling and pushing the consumer to make purchases through social apps, as global sales within social apps will reach $1,298 billion by the end of 2023.

3. Continued growth in buy now, pay later (BNPL) and flexible payment options as economic downturns, financial uncertainty, and inflation still linger and consumers look for options with lower interest rates than credit cards.

4. An uptick in AI-empowered voice shopping, with 57% of consumers use personal voice assistants like Siri and Alexa daily for ease of use and convenience. With voice assistance, shoppers can easily find and buy what they want without combing through multiple web sites.

5. As perks such as BOPIS become the norm, the consumer is now looking for a more personalized experience, which can be achieved through things like discounts and a personalized shopping experience based off browsing history.

To become a successful omnichannel company, organizations must build multiple touchpoints, standardize their customers' experience, integrate their online store presence with their physical locations, and create a better shopping experience for each customer. The execution of omnichannel strategies will continue to grow as the consumer continues to become more technologically focused.



5 IMPLEMENTING DIGITAL MARKETING STRATEGIES

Digital marketing strategies remain critical for CP companies to establish differentiation, connect with consumers, increase awareness, and gain market share. Some of those strategies include:

- **Marrying Personalization and Privacy:** As we approach a cookie-less future, CP brands are having to re-think their old ways of collecting consumer data and leveraging it to tailor marketing efforts. In addition to the growing mistrust of Big Tech's handling of personal data, data-privacy legislation in both the EU and United States is resulting in the dissipation of third-party cookies and the consumer insights they provide. To create a unique and safe experience for their customers, brands are encouraged to implement a more intentional and transparent data collection process that involves proprietary, first-party practices, finding the balance between privacy and personalization.

- **Boost Customer Experience with Experiential Marketing:** Redesigning the customer experience (CX) in 2023 will be critical for businesses to circumvent the perhaps surprising overall CX quality decline experienced in the past year. Experiential marketing should focus on maximizing the customer experience. For instance, Web3 offers brands the opportunity to create 'phygital' products and experiences that bridge the digital space and physical world. CP brands also continue to find new ways to interact with their consumers with AR and VR; Nestlé has found success using virtual reality in product development to create and test product prototypes quickly, and L'Oréal had focused its strategy on digital transformation, understanding that the future is led by AI and data. To resonate with consumers in the long-term, CP brands need a tailored marketing plan that connects the metaverse as part of their holistic brand strategy.

- **Influencer Marketing Continues to Boom:** The market for influencer marketing continued growing in 2022, expanding to $16.4 billion. A combination of word-of-mouth marketing and social proof, influencer marketing has been deemed just as good, if not better, than other marketing channels by 89% of marketers. Implementing the use of influencers into your overall marketing strategy in 2023 can enable a huge opportunity for business growth, providing avenues to increase brand engagement, improve visibility, and reach new market segments.

The proper marketing technology, or MarTech, stack coupled with a holistic, customer-centric digital strategy will enable the continued success of CP brands in 2023.

6 INVESTING IN DATA + ANALYTICS

For CP companies, embedding data and analytics into their marketing strategy will enable growth and allow them to meet both short- and long-term demand. They will need to lean into good data management, data intelligence, and digital practices to accomplish this.

- **Data Management:** Organizations are now seeing the impact of long-term neglect of data management, which has created silos of differing or non-existent data management practices. The issue is of course that siloed practices end up causing friction in data handoffs and limited visibility across domains where that data could hold real value. Data Mesh concepts are increasing in popularity, which focus on addressing some of these issues by decentralized, domain-driven data ownership. This applies a more technical wrapper to the oft-ignored pleas of data governance initiatives for business ownership. To enforce that ownership, firms are exploring data contracts to deal with old problems of inconsistent structures and schemas in these handoffs. However, you would be correct if the language of "contracts" contradicts the consensus movement toward data democratization. In addition to increased data literacy, firms are also working toward a goal of having all individuals, regardless of technical background, be able to leverage cross-domain data seamlessly. Early frustration with data management hurdles will negate gains in these goals.

- **Decision Intelligence:** Decision intelligence is a practical domain helping businesses accomplish more through their collected data. As organizations grow to better understand the impacts of quality data gathering, we can see a push towards actionable and real-time business driven analytics. Real-time analytics allow organizations to make decisions based on real-time data rather than just focusing on historical data, greatly increasing accuracy. Organizations are also turning to self-service reporting, which allows the business to dig into data without involving the data team. The practice of self-service increases the efficiency of which businesses can determine the "why" behind why certain analytics or metrics may or may not meet expectations. Coupled with reliable, transparent data will lead to organizations generating new business insights they may have otherwise missed due to bandwidth and resource constraints if they were to rely on data experts alone.

- **Digital:** With the constantly evolving consumer, organizations must continue to take strides to be able to meet, and exceed, demands. A 2023 State of Digital Customer Experience Report found that 79% of consumers polled indicated that digital customer experience is extremely or very important to them. To satisfy these consumers, organizations will continue to utilize omnichannel, use tracking, and increase consumer visibility to supply chain and sustainability. There will also be a push to leverage digital data to be able to dynamically apply promotions on different platforms for different customers.

Prioritizing strong data and analytics strategies – and embedding those into an overall marketing strategy – will enable CP organizations to make better decisions, meet short- and long-term consumer needs, and experience sustainable growth.

79% of consumers say that a digital customer experience is extremely or very important to them.
SOURCE

CONCLUSION

Moving into 2023 and beyond, CP companies and leaders will need to remain mindful of the large industry trends and their impact on operations as well as their overall organizational strategy. From defining the right pricing strategy, to optimizing operational efficiency, to embedding data and analytics into your digital marketing strategy, there are a number of strategies for CP organizations to deploy that will allow them to drive growth and realize competitive advantage amidst continued economic and geopolitical uncertainty.