



HOW CPG LEADERSHIP CAN DRIVE GROWTH

AUDIO TRANSCRIPT

Renee Ertl: Hi, I'm Renee Ertl. I'm glad to be here today with Oliver Grange, Managing Director in Accenture's Consumer Goods Practice. We're here today to talk about how consumer goods companies can position themselves for future growth. Thanks for joining us today. So Oliver, could you describe what growth looks like in the consumer goods industry today?

Oliver Grange: A long time ago, or at least it feels like a long time, in a world before COVID, the big global consumer goods companies were already challenged to profitably grow. So category growth was largely going to smaller players and regional players as well, actually. If you look to the future, the path to growth has therefore been fundamentally reset. So consumer goods companies with over 10 billion of revenue, we estimate to grow five times slower than their smaller category competitors.

The big players were struggling with rapidly changing consumer expectations, the new competition from those smaller, more digitally-native companies, because they were agile, in a word. They were taking share enabled by data analytics and able to operate with a much greater clock speed. And therefore they're getting much of the category growth, and they're expected to continue to do so for the next several years, absent change of approach from some of the bigger CPGs.

So as a result, you see we've sort of reached a tipping point. That reliance of big CPGs on traditional retail models is no longer sustainable as it was, and growth is increasingly being found in more unfamiliar spaces.

Big CPGs can't just rely on their typical business models in their core markets, so they're having to look outside of those traditional lines of industry competition and corporate responsibility in search of those new growth areas.

Renee Ertl: Yes. And what are some of those non-traditional places where CPGs are pursuing growth today?

Oliver Grange: So, you're right, CPGs are increasingly exploring unfamiliar spaces to find new opportunities for growth. So they're investing in new business models or adjacent categories or even trying to invent or reinvent entirely new categories. And that rush to new models is accelerating the convergence of different industries and blurring some of those traditional lines of competition.

Now, particularly, with what's happened with COVID, you see consumers spending increasingly more time and money at home. So what are some of those new touch points that are required to transform the in-home experience and the new occasion that's been created? And given that COVID's lasted for the time that it has, clearly habits have formed. And so that occasion is going to last beyond the pandemic experience that we've been going through.

Now, in terms of the in-home experience, one of the examples that we've looked at a lot is AB InBev and Keurig. They've created the Drinkworks Home Bar to allow consumers to create single-serve drop down cocktails so you can create a night out at home.



We've seen Nestle launch subscription programs for vitamins, P&G bought Merck's OTC division, and there's lots of other examples.

I mean, a year ago, who would have thought that we'd see L'Oreal making a major presentation at the consumer electronics forum, where last year they unveiled Perso, a device that uses AI to great personalized custom makeup and skincare, and takes them into trying to get some share of what's a 50 billion beauty-devices market.

Renee Ertl: Okay. And are companies thinking differently about how they measure growth?

Oliver Grange: So traditional measures of growth are still important, right? The money will still matter, but they're not the only way to measure progress now. Purpose is coming front and center as being core to investment decisions at board level in consumer products companies, which wasn't necessarily true two to three years ago. Certainly it was being talked about a lot, but you really do start to see, at board level, the presence or absence of the decision being aligned to the company's core purpose as been pretty fundamental.

Now, forward-thinking CPGs are therefore beginning to look at environmental and social progress with, I suppose, a similar level of scrutiny as they would cash margin and profits. So getting that 360 view of value is becoming pretty important in most of the investment decisions and allocation decisions that we see clients taking.

Our analysis was, in 2015, 90% of companies reported focus was predominantly on financial performance. But by last year, by 2020, that number had dropped to 60%, so leaving space for some of those other levers to take some share. And we also see CPG companies, across all of the segments, making a more conscious shift to align with their responsibilities; the consumers, broader stakeholders, investors are expecting of them, and they are expected to have a strong purpose. Also, employees are driving them here as well.

Unilever were very strong here, and seven of their top 10 brands are all sustainable-living brands, and sustainable and purpose-driven innovations accounted for more than 30% of their sales in 2019. And that's only going to accelerate out of COVID, as well.

And if you take the consumer lens more generally, more than half of consumers say that they are making more sustainable choices and will continue to do so beyond the pandemic. So companies need to figure out how they are going to grow and how they'll measure this growth.

Renee Ertl: Oliver, you have described new portfolio plays, new categories, and new measurements of growth. Are you seeing CPGs partner in new ways?

Oliver Grange: Completely. The business model has been so successful for consumer companies for 50 years is getting more complex, and getting more complex in terms of understanding it, but also in terms of being able to serve it appropriately. And complex typically means more expensive, so it makes sense not to try and do everything yourself. So they are looking broader and wider for the right partners to help drive growth.

Our research finds that probably almost 60% of executives are now trying to drive growth through building ecosystems. And that can be ecosystems of talent, it can be ecosystems of companies that are providing them with services, and then also to partner, actually, on specific products and growth innovations. And the right partners can complement gaps across talent and capabilities. Where are you strong and where are you perhaps not as strong and you could then leverage an ecosystem partner to close those gaps and enable you to compete more quickly and to turn around things faster? And speed is something we're hearing a great deal of from some of our clients at the moment.



So if you look at Mars, they've got a new global coalition called Kinship, which is defining a great in the future of pet care across health care, science, nutrition, to investment and collaboration with startups. It's largely autonomous to Mars and operates across sort of the typical industry boundaries. So you've got startups focusing on owner meet-ups, payments, virtual [apps 00:07:10], all these sorts of things that broaden the ecosystem.

And then if you looked at ventures, say P&G's Venture studio partners with startups and inventors to build businesses and brands within the CPG space, so you can increase the portfolio breadth. An example would be Zevo. It's a small plug-in device. It's a start up that was partnering with P&G to reinvent people's experience with, of all things, home pest control, which again is a new take on, in this case, an almost \$20 billion industry.

Renee Ertl: Okay. So now let's turn to data for a moment. How are CPGs using it in their pursuit of new consumers, categories, or collaborators?

Oliver Grange: So I think data and analytics, because I think the two are important to say together, it's going to be one of the biggest differentiators on the journey of big CPG to growth. And the amount of data available today is staggering, but 76% of consumer-products executives acknowledge they'll struggle when it comes to scaling data across the business; so getting it there fast enough to be able to use effectively.

Different functions need different types of data. Some need the same data for different purposes. And the Holy Grail, I suppose, is having a truly holistic data model for consumer goods where there's clear structure around what data is required, where it comes from, how to use it, and then how to measure success.

No one's really cracked this yet, from zero party data all the way through to data that comes out of companies and systems. But once you get to that truly holistic data model, I think there'll be huge value, particularly in driving the growth agenda.

And so CPG has got to leverage the wealth of data available to them and then apply the analytics to create those deep insights about customers and consumers.

For some years, with their Freestyle platform, Coca-Cola had been using intelligent vending machines, which are enabled with AI to mine vast amounts of consumer data in order to innovate drinks and flavors, optimize locations, and drive consumer targeting and loyalty. But data alone can't drive disruptive innovation. There is a critical combination of human plus machine that creates and harnesses end science, and then channels them into growth.

So, in essence, every company will be fully data-driven in 10 years. The ability to access and extract insights from different forms of consumer data and customer data and all the other varieties and flavors will be one of the biggest differentiators for growth.

Renee Ertl: Oh, yes. And so much change is happening in the industry and it's happening fast. Oliver, do you have any advice for CPGs trying to figure out the path forward?

Oliver Grange: We suggest sort of four steps to start. So first one, pressure test your purpose. Define what your organization's fundamental reason for being, and the broader purpose you serve and your ecosystem serves, and hold your business and your ecosystem accountable at every level with rigor. Measure the success.

Secondly, choose those partners wisely within that ecosystem. So proactively seek partnerships to unlock capabilities and access to new experiences, and then frame those partnerships in models of shared incentive and success to grow together. If your incentives are aligned, then there's more chance your ecosystem will be healthy in the long run.



Thirdly, data, data, data. So rely on those data-led insights. Rethink and redefine the role that data plays to unlock growth. Identify those new consumer and customer trends and respond faster. The speed, the agility, is something that, again, we hear a great deal from on consumer goods in terms of having a real, tangible, competitive advantage.

And then, lastly, as we just discussed, tap into that power of human plus machine. So develop those AI cloud and machine-learning capabilities to help automate some of the executional, repeatable tasks across channels, so you free the humans up for more strategic, value-added work.

Renee Ertl: Oh, and thank you, Oliver, for these tremendous insights into the opportunities for growth in consumer goods. Any final thoughts?

Oliver Grange: Well, thank you for your time. If I was to leave you with one message, it would be this, that whilst finding and delivering growth is an increasingly complex task, these are also exciting times with abundant opportunities. So today is a great time for CPGs to reset, renew, and evolve for future growth.

Renee Ertl: Thank you again, Oliver. And thank you for listening to this podcast. For more information, please visit www.accenture.com/consumergoods.

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