

Acquia
EXPERIENCE DIGITAL FREEDOM

The Consumer Packaged Goods Industry Today

***CATCHING UP WITH
TRANSFORMING
CONSUMER
EXPECTATIONS***



Introduction

Developments in technology have already transformed nearly every aspect of daily life. That certainly includes the way consumers shop for packaged goods.

Today's shopper is empowered to research and buy everything from laundry soap to lettuce quickly and easily, from any device. Online sales are only increasing, and are expected to reach \$4.8 trillion by 2021.¹ To keep pace with quickly evolving consumer expectations, today's CPG companies are seeking to offer the digital experiences consumers want on the platforms they prefer.

It's a huge demand. And the ability to offer what consumers expect will be key to survival.



FACING CPG INDUSTRY TRENDS

Advances in technology and changes in consumer expectations have upsides for both consumers and CPG companies going forward. But along the way, those developments will also surface plenty of hefty, specific challenges.

TREND 1

New Entrants are Capitalizing on Subscription and Direct-to-Consumer Models

Unencumbered by legacy systems and processes, small, consumer-centric brands are making significant inroads into the approximately \$2 trillion CPG marketplace.²

According to the IAB report “Rise of the 21st Century Brand Economy,” the brick-and-mortar share enjoyed by the largest food and beverage companies has decreased since 2013 from 33% to 31%, now at \$233 billion. That business has moved to several thousand smaller providers who generate less revenue, but boast a combined \$145 billion in annual sales. These upstarts have increased their share of the market from 17% to 19% in the same five-year period.

Disruptor brands are utilizing robust consumer data and an optimized digital experience to unsettle CPG

categories ranging from wellness to pet care and beyond. According to IDC, a full 90% of the CPG market will belong to companies offering direct-to-consumer models.¹ Thriving direct-to-consumer brands are also obliterating the traditional CPG path to growth. For example, Dollar Shave Club’s online sales doubled those of Gillette’s in just three years.

A segment of direct-to-consumer brands entering the CPG industry are wielding another weapon: the subscription model. The model replaces the in-store experience with a more convenient digital one that can also offer more value, while ensuring consistent sales revenue. The subscription market is booming, with more than 100% growth each year over the last five years. The largest entrants generated more than \$2.6 billion in sales in 2016.²

TREND 2

Online Purchasing is Exploding

Consumers are increasingly turning to their devices for goods they previously shopped for in-store. Last year alone, CPG industry online sales grew by nearly 35%, making it one of the faster growing segments in an otherwise slow-growth industry.²

As Nielsen's Digital Shopping Fundamentals 2017 shows, 90% of Fast Moving Consumer Goods (FMCG) growth between 2016 and 2017 was driven by online channels.³

After several renowned failures during the late '90s and early 2000s, groceries were considered a longshot for e-commerce success. But today, according to the Food Marketing Institute, nearly 50% of U.S. consumers are buying their daily bread online.² A survey by Coresight research takes the dynamic further, finding that an astounding 59.5% of U.S. internet users had purchased groceries from Amazon in the last year.²

TREND 3

An Omnichannel Strategy is a Must

The shift to a multi-pronged business approach that offers consumers both online and offline shopping options seeks to suit shifting preferences and offer the best of both worlds. For example, Chinese giant Alibaba has established a cashless physical supermarket that offers both an in-store and online experience. Consumers can shop for their own groceries in the physical store, using their smartphone's scanner to pay, or place an order online and have it delivered to their doorstep in thirty minutes.



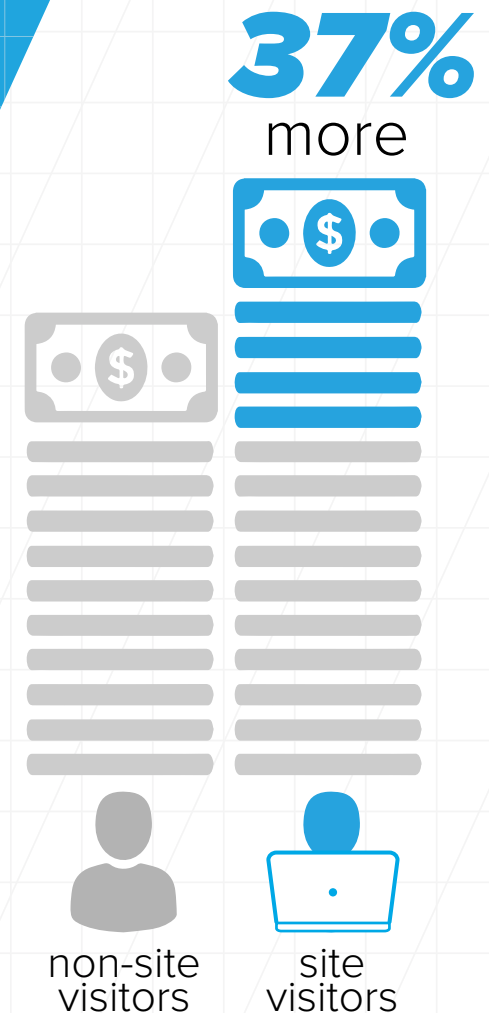
TREND 4

Mass Customization and Consumer-Centric Innovation are Ascendant

Today's consumer expects a personalized digital experience. That expectation is driven by the one-to-one social engagement they've come to expect from brands, thanks in part to AI and machine learning.

According to Gartner, 89% of companies are now competing primarily on the basis of offering a better consumer experience.⁴ And consumers will pay more for that experience—up to 16% more, according to a PWC report.⁴ Consumers want brands to anticipate their needs and personalize their shopping journeys to maximize convenience and streamline the process. Features like a custom digital “storefront” and a recurring subscription model can increase both convenience and the value of the experience.

Today, the consumer experience is a part of—and potentially as important as—the actual product. And consumers amplify their perception of that overall experience. As Amazon founder Jeff Bezos said, “If you make customers unhappy in the physical world, they might each tell six friends. If you make customers unhappy on the internet, they can each tell 6,000 friends.”



CPG Brand
Dollars Spent⁵

TREND 5

Strategic Mergers, Acquisitions, and Partnerships are Booming

To combat the upstarts, CPG giants are looking to simply snap many of them up. According to a report by OC&C Strategy Consultants, mergers and acquisitions among the world's top CPG companies reached a 15-year high of 60 deals in 2018—a 45% jump from the previous year. Examples include Unilever's purchases of both Dollar Shave Club and Sun Basket, a meal kit service.

These acquisitions are more focused on filling gaps in capabilities than on economies of scale. CPG companies want access to new consumer pools, expanded product portfolios, and new business sectors that facilitate cross-marketing. That means smaller to mid-sized companies are appealing targets, offering capabilities like artificial intelligence (including consumer data management and analysis); e-commerce platforms; and cost-effective last-mile delivery solutions.

CHALLENGES FACING THE CPG INDUSTRY

While advances in technology and changes in consumer behavior undoubtedly present significant opportunities to CPG companies, those opportunities aren't without their unique challenges.

Prioritizing Digital Investments

CPG companies today are still managing the impacts of years of cost cutting and economic malaise. That continuing fallout leaves many with insufficiently robust innovation pipelines, resources and funding. That said, digital transformation spending at CPG companies today is rising, and is currently centered on business intelligence, analytics, cloud platforms, e-commerce, and automation.

Merging New Solutions with Legacy Systems

Out-of-date technology, often rapidly implemented without thought to future integration, leads to disrupted consumer experiences, production delays, and plenty of challenges to security and scalability. Larger organizations can quickly lose ground to newer, more agile entrants that are free from musty legacy technology.

Upskilling Employees for Digital-Based Roles

While CPG companies are transforming their business models and the value they deliver to consumers, it's happening more slowly than in other industries. However, according to a report from AccentureStrategy titled *Operate Like a Disruptor*, "Consumer industry disruptors have digitalized 50 percent of their processes, compared to just 27 percent by incumbent consumer industry companies." Now, the CPG workforce must follow suit. In addition to incorporating technology-native millennials into the employee base, many CPG companies are looking to familiarize existing team members with new developments, thereby expanding their skill sets and enhancing their value to the company.

Identifying Opportunities for Digital Product/Service Extensions

To avoid brand commoditization and protect their market share, brand-oriented companies must transform their approaches to create and maintain a meaningful relationship with their end consumers and to identify new opportunities for growth, productivity, and profitability. Simply put, these companies must reinvent themselves. This may involve instituting direct-to-consumer lines of business, subscription services, and more.

According to "Transform Or Be Left Behind: Why CPG Manufacturers Need To Create New Value Propositions For Their Customers" in *Digitalist Magazine*, by 2019, all digitally transformed organizations will generate at least 45% of their revenues from "future of commerce" business models.

CPG companies that move toward a consumer-centric approach will equip themselves to transition to mass personalization with product offerings and value-added services or membership models, and position themselves to capitalize on the next wave of innovation.

"By 2020, smart personalization engines used to recognize customer intent will enable digital businesses to increase their profits by up to 15 percent."

TO GROW AND THRIVE, CPG COMPANIES MUST PRIORITIZE:

1

Supporting Margin and Volume Targets for Profitability and Growth

CPG companies remain focused on growth, and the competitive nature of the industry dictates that companies will continually lose volume to other market players. To combat that dynamic and encourage continued growth, CPG companies must focus on controlling costs and maintaining competitive pricing through innovating in both their products and their processes.

2

Brand Awareness

In a crowded landscape like today's, brand is crucial. Today's consumer has a conscience and expects brands to pay attention to issues like sustainability, human rights, and health.

The brand experience must be consistent. Whether interacting with the website, the mobile presence, or the consumer support line, branding, messaging, and ease of use should remain constant across the website, mobile presence, and consumer support line. Failing to provide that consistency can lead directly to frustration and eventual abandonment.



13% of these brands' CMOs can quantify the impact of their social media advertising ⁵

3

Loyalty and Category Penetration

The best way to build consumer loyalty is to provide not just a product—but also an experience. When CPG companies extend the consumer relationship through content and information that enhances the interaction with the product, consumers are encouraged to develop a deeper attachment and increase their likelihood of repeat business.

4

Partnering with Retail and Distribution Partners to Achieve Targets

CPG companies now have a strong incentive to share responsibility for the overall consumer experience with retailers and even distributors. Making the transition from simply calibrating demand and filling orders to participating in the entire consumer sales lifecycle can help CPG companies build and maintain the vital consumer relationships that can sustain growth.



“New brands are entering markets dominated by big-box retailers and selling similar products in a way that addresses the exact pain points of their niche target market.”

Ben Whitrock, Senior Retail Search Manager, CPC Strategy

FINDING THE WAY: HOW ACQUIA CAN HELP

Savvy CPG marketing professionals aren't asking whether or not they need to transform their consumer experience. They're figuring out what level of investment they need to put into digital marketing platforms, personalization tools, and better methods of engaging with consumers.

Moving ahead, CPG marketers must offer consumers a more intuitive, personalized digital experience, while gaining better control of their brand's digital assets, and

effectively using analytics and insight to drive the most efficient journey for both loyal consumers and shoppers exploring the available options. Digging for data and insights to understand the true effectiveness of each effort is key. Knowing what's working, what's not, and where the gaps lie are all vitally important.

Acquia is the pioneering partner that can help build those experiences and relationships—on your own terms.

“There’s a wealth of data available to brands who leverage online marketing channels to understand the behavior and engagement level of the typical user on site and the relative cost of driving a purchase or a site visit. My advice would be to make full use of that data.”

Anu Verma, Head of Marketing, Care/of

Our web content management and customer journey orchestration have empowered leading brands to create the world's greatest digital experiences. We'll help you establish the more intuitive, personalized digital experiences today's consumers expect—all using open-source technology, all with the required security.

Gain control of your digital assets, deliver the right content at the right time, and tap into the data and insights you need to understand what works, what doesn't, and why. Meet your prospective and converted consumers with what they need at every step of the journey.

For more information about how we're transforming the digital experience in Consumer Packaged Goods, visit www.acquia.com/solutions/consumer-brands

Source References:

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4. *To Survive in a Customer-Centric World, CPG Must Look to DTC*, Brad Birnbaum, *forbes.com*, Oct. 22, 2018
5. *Should CPG Brands Care About User Experience?*, Brittany Hodak, Jul 2, 2018 *Marketing Strategy*

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