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WINNING THE HEARTS OF DIGITAL CONSUMERS

Consumer Goods & Services Technology Vision 2018

Content

Introduction

THE RULES OF THE GAME

in Consumer Packaged Goods (CPG) have changed drastically over the past decade. But the disruption we've seen to date is only the start.

The CPG industry will see more change in the next 10 years than it has in the last 40. The evidence is clear. The performance of CPG incumbents has been steadily declining. Of total sales growth in CPG, the top-25 companies in this sector have captured just three percent. That's in stark contrast with the 97 percent sales growth achieved by the small, nimble players who are entering and disrupting the industry all the time.[1]

So, why is this happening? Simple answer: how consumers behave and what they want has changed. Thanks to the ubiquity of digital communication channels, consumers are now hyper-connected to their peers and other influencers who increasingly guide their choices and alert them to new products. What's more, behaviors have transformed. Better informed than ever, consumers know what they want and how to get the best deal. They also demand and expect a fast, personalized service that's fully engaged with them and flexes to meet their changing needs and desires. And they want to be involved in the co-creation and personalization of products that meet their lifestyle needs and supports their values, interest in sustainability and living healthier lives.

As a result, larger monolithic brand propositions are no longer winning. Focused, smaller brands with targeted appeal are rapidly moving in front. These smaller players, born-digital, are ready and able to engage with consumers who are just as likely to find product inspiration via Instagram or Snapchat as they are through conventional marketing channels. And there's more to come. Voice technology, for instance, is the latest innovation to capture the attention of consumers and brands alike.

Unlike internet and mobile technology that required consumers to learn new skills, adopting voice commerce may prove easier for them because it combines two familiar things: digital shopping and oral communication. As consumers become increasingly familiar and reliant on new technologies, we can expect them to develop new habit-forming shopping behaviors along the way.

In this new era for CPG, channel mastery is critical to retain consumers. But that's by no means the end of the story. CPG incumbents must use those channels to create new, interactive relationships with consumers that deliver highly personal, contextually-relevant and immersive experiences. To achieve this, they need to be data-driven, with agile and responsive value chains, and equipped to innovate at speed to identify and act on new sources of growth.

It's a radical shift in emphasis. A larger portfolio of smaller brands, components and services have to be delivered in different ways that more than simply meet consumers' needs. They have to exceed them.

So, what's the solution?

MOVE TO BECOME A MODERN, CONNECTED CPG ENTERPRISE

At the heart of building the connected CPG enterprise is the mastery of new technology, agile delivery methods and the ability to capture value from data. These are fundamental to learning and adapting quickly, designing with a customer-centric mindset, and releasing new features as rapidly as possible. To achieve all this, CPG companies must commit to changing their IT architectures to enable the successful adoption of DevOps and lean delivery methods. Reimagined as flexible, decoupled architectures, these enable large companies to think and act like start-ups, supporting rapid change that responds to fleeting market opportunities.

And as the technology revolution continues to accelerate, the new lightweight architectures will be fundamental to enable game-changing technologies such as machine-learning, artificial intelligence (AI), IoT and more.

This new reality is explored in Accenture Technology Vision 2018, which focuses on the development of the "Intelligent Business". Rather than just using products and services, people are feeding information and access back to companies. To deliver integrated innovation, these companies need a profound level of insight into people's lives.
For the intelligent business, this level of connection—and the degree of trust it requires—calls for a new type of relationship. It's not just business. It's personal.

The impact for CPG companies is clear. They must evolve to operate in a world that's moving faster all the time. Just as fashion had to move from predictable seasonality to offer new lines at far higher frequency, CPG companies must embrace the fast model. Doing so will enable them to innovate at speed, effectively partner throughout their ecosystems to deliver differentiated products and services, and be agile enough to respond to fast-changing customer expectations. For this to happen, CPG companies need to focus on three of the technology trends featured in Accenture Technology Vision 2018:

- **FRICTIONLESS BUSINESS—BUILT TO PARTNER AT SCALE**
- **DATA VERACITY—THE IMPORTANCE OF TRUST**
- **CITIZEN AI—RAISING AI TO BENEFIT BUSINESS AND SOCIETY**

FRICTIONLESS BUSINESS

Today's consumers expect a frictionless experience. CPG companies must deliver to those expectations, at an unprecedented scale, across traditional and digital channels, spanning distribution, delivery, aftersales and so on. And becoming a frictionless business requires an open IT architecture.

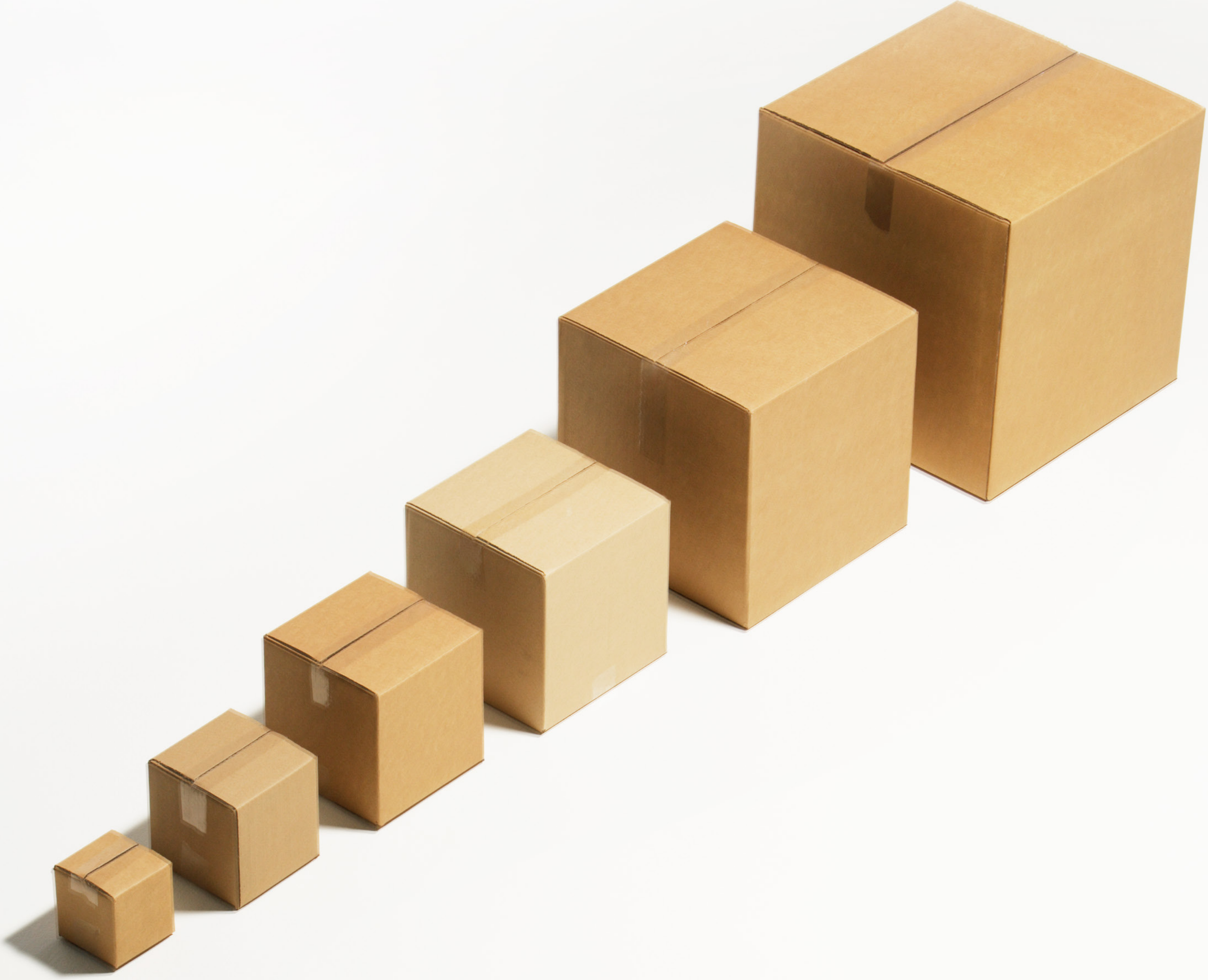
Legacy business systems were built to deal with hundreds of thousands of customers, not hundreds of millions. Developing an architecture that can operate at this scale requires a totally different approach from the past. In today's world, outdated systems are major obstacles to growth. What's more, in today's marketplace the ability to compete through strategic technology-based partnerships is fundamental to success. They can increase their channels, reach and speed, as well as being a source of innovation for new products, services or other experiences.

CPG executives recognize this. In research for this year's Technology Vision, 90 percent of executives agree that the strength and impact of their ecosystem relationships will hinge on how well their technology can support these new partnerships.[2] Accordingly, 94 percent expect to increase their use of microservices over the next 12 months.[3]

By investing in technology changes, CPG companies will be able to redefine how they operate in the future, creating a business that can 'sense and respond' to market conditions and then scale. Those partnerships will become increasingly diverse and specialized across every facet of the CPG value-chain. That means, for example, working with companes like Amazon as a distribution partner, rather than viewing them as a competitive threat. But that's really just the start. At every point on the value-chain, from source to sell, new partners (and new technologies) will be essential to transform operations and deliver experiences that truly delight and engage consumers.

Look at Nike, for example. In 2017, they announced a strategic partnership with Amazon to sell its products directly. Nike also became one of the first companies to sell through Instagram, leveraging these new partnerships to access consumers that are vital to its continued growth.[4] At the other end of the value-chain, a consortium comprising of AB InBev, Accenture, APL, Kuehne + Nagel and a European customs organization has successfully tested a blockchain solution that can eliminate the need for printed shipping documents, with the potential to save the freight and logistics industry hundreds of millions of dollars annually.[5]

Almost all Accenture Technology Vision 2018 respondents say they're working with more partners than they were two years ago.



DATA VERACITY

To operate as a truly connected enterprise, CPGs need to treat data as an asset to share across their organization and externally with ecosystem partners.

Doing so demands a reciprocated responsibility to manage and maintain the data as a reliable and accurate asset. It's surprising, even with global enterprise resource planning (ERPs) and global operating models, how many CPGs still struggle with their master data management. This hampers the value they can derive from their existing ERP investments, as well as making it challenging to engage effectively with customers and consumers across channels.

Businesses across every industry are spending heavily to determine what they can get out of data-driven insights and technologies. But as they make these investments, they also need to pay close attention to what's going into those technologies. Even the most advanced analytics and forecasting system is only as good as the data it's given to crunch.

At a more tactical level, the success of new CPG industry partnerships, using microservices, blockchain and so on, will depend overwhelmingly on the quality and accuracy of the data they share. This trend, "data veracity" examines how, in a world that's more data-driven than ever, inaccurate and manipulated information threatens to compromise the insights that CPG companies will increasingly rely on to plan, operate and grow.

Left unchecked, the potential harm from bad data becomes an enterprise-level existential threat. According to our research, 82 percent of CPG executives agree that as organizations rely on data-driven decisions, the issues of data integrity will grow exponentially.[6] But tellingly, the same percentage agrees that even though organizations are basing their most critical systems on data, many have not yet invested in the capabilities to verify the truth within it.

As CPG companies pursue closer and more personalized relationships with their customers, data becomes a core source of competitive advantage. And that means the veracity of the data they hold becomes even more critical.

To defend against data vulnerability, CPG companies must invest in building confidence in three key, data-focused areas: provenance (verifying the history of data from its origin throughout its life cycle); context (the circumstances around its use); and integrity (securing and maintaining data). As things stand, there's a lot of work to be done. By way of example, many CPG businesses were struggling—just days before its implementation—to get to grips with the new demands arising from the EU's General Data Protection Regulation (GDPR).

So, what do they need to do to address the data veracity challenge? Some of the most foundational steps revolve around ramping up existing efforts: embedding and enforcing data integrity and security throughout the organization, while adapting existing investments in cybersecurity and data science to address data veracity issues.

A further priority for CPG companies should be to invest in developing a "data center of excellence", drawing from both their existing and new data science and cybersecurity capabilities. It's what Kimberley-Clark has done with its development of in-house automated media buying and consumer behavior analytics. The business is acquiring new insights into how consumers behave at various stages of their journeys across different channels and touchpoints and how they engage with loyalty programs. In addition, data analysis has enabled Kimberley-Clark to change how it buys both conventional and digital media to more productively target spend as well as inform its creative output.[7]

CITIZEN AI

AI can only be as effective as the data used to train it.

As connected businesses use and share vast quantities of data, CPG companies seeking to capitalize on AI's potential to enable personalization, responsiveness and agility, will have to take responsibility for how AI will behave out in the real world. Much more than a technological tool, AI has grown to the point where it often has as much influence as the people putting it to use, both within and outside the company. According to our cross-industry research, four out of five executives (81 percent) believe within the next two years, AI will work next to humans in their organizations, as a co-worker, collaborator and trusted advisor.[8]

There's still a lot of work to be done in this area. Seventy-six percent of CPG executives agree that organizations in this sector are not prepared to face the societal and liability issues that will require them to explain their AI-based actions and decisions. Addressing this will become an ever more urgent priority as CPG companies extend the use of AI across their operations.[9]

CPG companies plan to use AI solutions for consumer support, more than any other area. And 72 percent of executives seek to gain greater consumer trust and confidence through transparency in their AI-based decisions and actions.[10] Some are already leading the way. For example, coffee business Illy has joined forces with OrderGroove to create a coffee subscription service. It uses data and OrderGroove's Anticipate AI engine to ensure consumers only receive what they need, when they need it. Illy claims that increased customer satisfaction is boosting loyalty and driving life-time value. In other words, it's building trust.[11]

And in a world where trust is the currency of business, raising AI to act responsibly is critical. Unconscious bias and unintended discrimination against specific consumer groups can cause lasting reputational and financial damage.

For example, researchers at the University of Virginia found that an AI looking at a photo dataset amplified predictable gender biases. Indeed, it went so far as to categorize a man standing next to a stove as a woman.[12] Extrapolate that to any number of real-world situations, and it's easy to see the threat as decisions get taken with little if any human intervention.

On the horizon…extended reality

Accenture Technology Vision also examines trends that are nascent today, but set to be hugely influential in CPG in the near future. “Extended reality” (XR) is one of them.

Virtual reality (VR) and augmented reality (AR) will be increasingly used by CPG companies to deliver immersive experiences that extend reality for consumers—allowing consumers to virtually experience products in their environment before making a purchase decision. That’s what L’Oréal is looking to achieve with its recently announced acquisition of AR business ModiFace to create innovative services that will help L’Oréal’s customers discover, try and chose products and brands.[13] CPG businesses will also be able to expand their talent pool thanks to the ability provided by XR technologies to more cost- and time-efficiently train people wherever they are in the world.

As the first technologies to let people experience omnipresent abilities, relocating them in both time and place, XR will bring about the end of distance. The significance of this for how people experience and interact with CPG companies is game-changing. Businesses need to keep pace with the rapid developments in this space.

To win the hearts of digital consumers, CPG companies will need to be data-driven, agile, connected, responsive and innovate at speed. Not just meeting the needs of consumers but exceeding them.

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