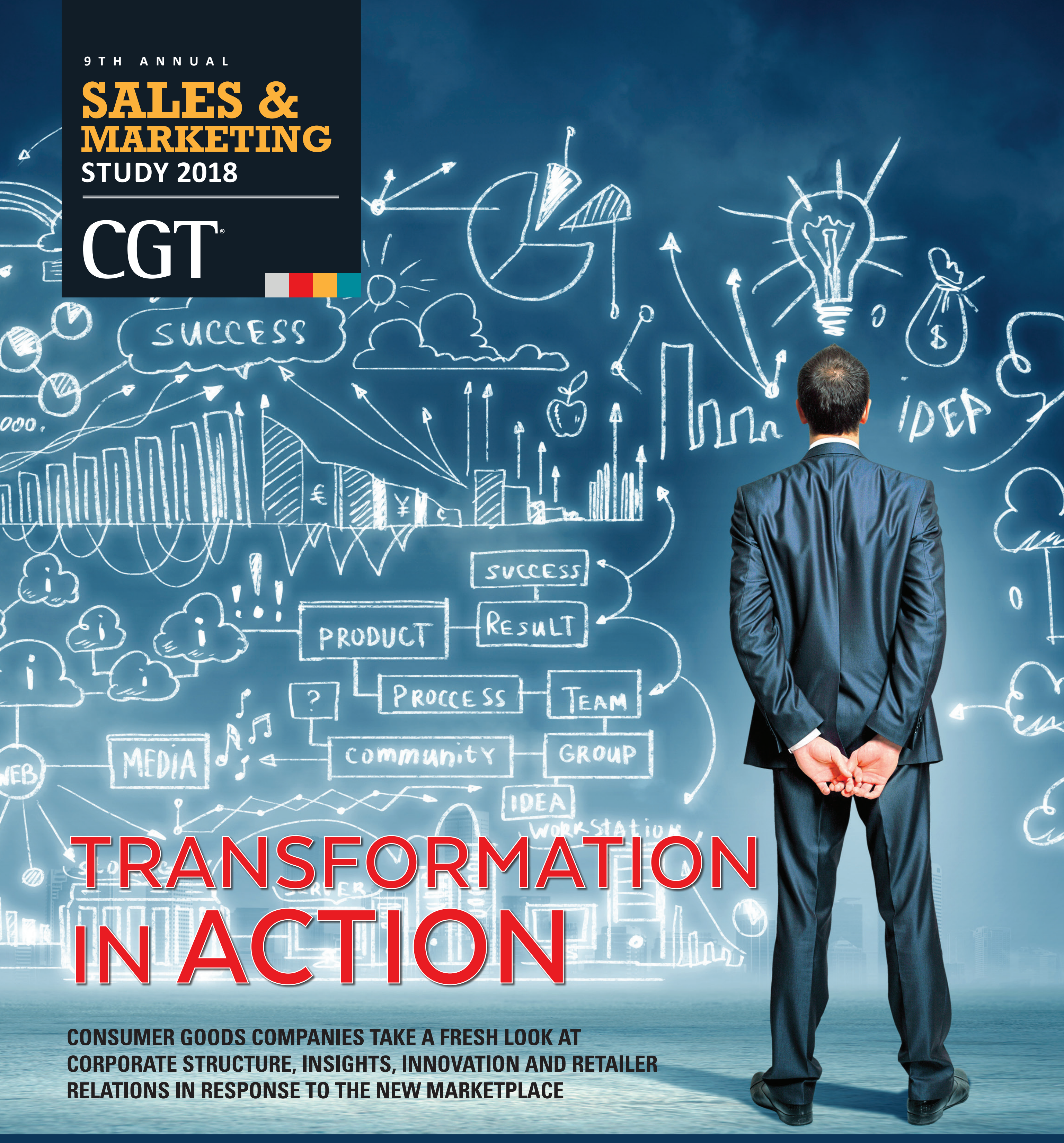
9TH ANNUAL

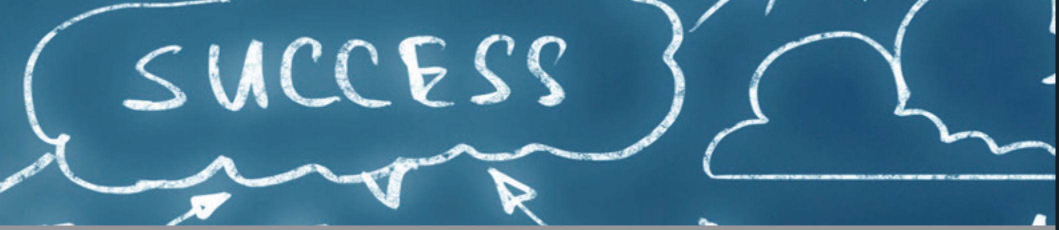
SALES & MARKETING STUDY 2018

CGT



TRANSFORMATION IN ACTION

CONSUMER GOODS COMPANIES TAKE A FRESH LOOK AT CORPORATE STRUCTURE, INSIGHTS, INNOVATION AND RETAILER RELATIONS IN RESPONSE TO THE NEW MARKETPLACE



EDITOR'S NOTE

Confronting the Consumer-Driven World

Peter Breen
Editor-in-Chief, *CGT*

A search for "best toothpaste" on YouTube generates 9,250 results. So who needs to know what "4 out of 5 dentists recommend" when you can consult with "Teeth Talk Girl," a YouTube channel run by a registered dental hygienist that has 3,788 subscribers.

It's not likely that Teeth Talk Girl is having much impact on the world's toothpaste preferences. (She's not a fan of whiteners, by the way.) But the point is clear: Any brand trying to make an impression with consumers these days has a lot of other voices with which to contend — including a whole lot of those self-same consumers, armed with simple technology that makes it as easy for *them* to reach a mass audience as it is for a multi-billion dollar consumer goods company.

Meanwhile, one of the world's most important consumer goods retailers is working very hard to automate as much of the buyer-seller relationship as possible. "You're increasingly not working with humans over there," says Sam Gagliardi, IRI's senior vice president of e-commerce, in reference to Amazon.com.

Buyers at some traditional retailers are focusing more on smaller brands because looking for unique products "is what's driving the consumer back into the store," according to RangeMe founder and chief executive officer Nicky Jackson. The online product-sourcing platform for retailers showcases more than 125,000 different suppliers, exemplifying the new competitive landscape.

As if these issues aren't enough to send the traditional sales and marketing-driven consumer goods company into a business transformation frenzy, let's not forget the potential of direct-to-consumer selling. "I truly believe every brand owner is going to become a retailer," suggested industry advisor Andy Walter, a former IT and shared services leader at Procter & Gamble, at the recent Retail & Consumer Goods Analytics Summit.

Driving the Right Balance

Chief marketing officers now devote more than one-fifth of their budgets to technology, according to Gartner. More specifically, they plan to quadruple spending on analytics in the next three years, says Deloitte. In sales, mobile field tools providing access to deeper data are making retail execution a real-time activity.

Consumer goods companies are scrambling to find the tools needed to effectively react to all the changes taking place. That task, too, has become harder than it used to be, due to the explosion of new technology that's occurred.

And it's no longer just back-office business tools that need to be considered. Even consumer technologies — smart appliances, voice assistants, wearables — are providing new ways for product manufacturers to engage with audiences. What makes it doubly exciting is that these technologies also act as windows into consumer behavior that can be analyzed to develop even stronger engagement.

One area for the industry to consider, however, is avoiding an over-reliance on technology — for example, the way that programmatic advertising seems to have let some organizations put their marketing strategy on autopilot along with their ad campaigns.

"The tools of our craft have never been so sophisticated," said Eric Reynolds, chief marketing officer at Clorox Co., at the IRI Growth Summit in March. "We worship at the altar of data and technology now." But Reynolds warned against blind devotion that would let marketing "evolve into a series of transactions involving data," with brand building being forsaken entirely. "Technology shouldn't change *what* we market, but *how* we market," he advised.

Put another way, the goal for brands is to "serve consumers in ways that are distinct to [the brand] and personal for each" individual, said Adam Sussman, Nike's chief digital officer, at the recent ShopTalk conference. "Technology is most powerful when it serves people."

Our goal with this year's 9th annual Consumer Goods Sales & Marketing Study was to examine the various ways in which companies are learning to do that. Enjoy.

Simon Ellis
IDC Manufacturing Insights

THE PROGRESS REPORT

'Improvement' Is for Losers

CONSUMER GOODS COMPANIES ARE TAKING STEPS TOWARD TRUE TRANSFORMATIONAL CHANGE

In the nine years that *CGT* and IDC have collaborated on this report, the general topics that we've covered haven't really changed much, because the areas that consumer goods companies cite as critical for running their businesses have remained pretty consistent.

But at the same time, we've shifted the theme of these topics from "How do I improve what I already do?" to "How should I be doing these things in the future?"

Digital transformation of the sales and marketing functions has become the single biggest issue in the consumer goods industry, so we'll focus a lot of this year's discussion on how that's playing out at some companies. It's not just digital for its own sake, however, but rather how these technologies can let businesses behave differently in fundamental ways, to do things that were not previously possible — or at least not practical.

Depending on whom you ask, companies are either undergoing a gradual but consistent shift to digital business models — or facing bankruptcy tomorrow if they don't adopt digital today. While the reality is likely somewhere in between for most organizations, it's certain that the future for any CG lies with digital.

In early 2018, IDC updated and amplified the following predictions, some of which were first presented in last year's report:

1 As much as 90% of industry growth over the next decade will be captured by companies that successfully engage directly with consumers.

The decades-old battle for control between consumer goods manufacturers and retailers is over and the winner is … the consumer — who is relentlessly connected, craves individuality/personalization, and is intolerant of complexity and latency. As older consumers give way en masse to the Millennial and Gen Y generations, this "problem" gets worse. That, as we've said, is a consumer goods company's worst nightmare — but also its greatest opportunity. Companies that figure out how best to engage with these in-control consumers will be positioned to capture more than their fair share of growth.

2 In the next few years, as barriers to entry continue to fall, smaller, newer competitors will wrest 10 to 15 share points from traditional, large enterprise players.

Less than 3% of industry growth in the last three years came from traditional players. While small entrants historically have always earned a significant piece of the pie, many analysts believe their share has never been higher. As one prime example, nearly half (49%) of the 200 top-selling packaged goods launches in 2017 came from small suppliers with annual revenue of less than $1 billion, according to IRI's annual "New Product Pacesetters" report *(see more on page 20).*

No one believes this to be an anomaly anymore, because new competitors to traditional businesses are appearing in ever-growing numbers. The historical barriers to entry (manufacturing capabilities, technology — a workforce) have disappeared; they've either become "commodities" or are now available via the cloud. Entrepreneurs have long started businesses out of their garages; the difference these days is that they can build up a global customer base while still *in* the garage.

Another factor is that, as consumers look either for personalized products or items that appeal to their generation, smaller competitors are better positioned to be flexible and take risks.

3 Successful businesses will adopt and adapt capabilities to capitalize on the growing "front edge" of the industry while ensuring that the traditional base business is properly supported.

The challenge for traditional players is

"Entrepreneurs have long started businesses out of the garage; the difference these days is that they can build up a global customer base while still *in* the garage."

the balancing act of protecting the base business while finding new ways to capture growth. While most of the industry conversation centers on digital disruption, most current business is still conducted with conventional products through traditional retail — and will remain that way for some time.

Appealing to younger consumers through new and novel ways is important, but so is making sure that the existing business is properly served (even as it shrinks). Companies able to do this well will be the ones that thrive.

4 By 2020, one-third of consumer goods companies will have made gains through digital transformation, with the remainder held back by inflexible/outdated business models, processes or functional structures.

IDC research finds that one of the biggest gaps currently between digital thrivers and survivors is in the area of leadership, which holds the critical responsibility of creating a vision for the direction their companies must head. Yet despite all the obvious industry indicators, many leaders are still not ready to change direction by adopting new business models or functional structures.

What's more, not every company that has a vision will be able to fully leverage its investments in supply chain and the other areas of digital transformation (which has many dimensions). But we already see some leaders laying out a roadmap for their companies to evolve.

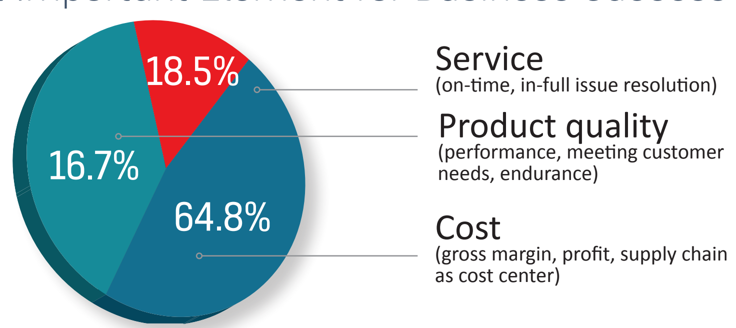
As noted last year, noteworthy examples include Bayer's move to join with Monsanto to increase agricultural innovation, and Under Armour's investments in technology-enabled products and health information (a recent security-breach setback notwithstanding). These moves required executive leadership to recognize how both the business model and enabling processes must change — and not just incrementally, but fundamentally.

5 Within five years, the majority of large consumer goods companies will have reached a level of trade promotion maturity that lets them leverage sophisticated optimization tools.

The concept of trade promotion is going to change in the coming years as direct-to-consumer sales and private-label brands inevitably grow. But as we noted earlier, traditional trade will persist for many years. Trade promotion has been problematic for many companies that have less than full visibility into performance and lift. This is changing — and has to change. The tools are available, the data is available, and within a few years, we expect that true optimization — of promotion planning, execution and analytics — will be a reality for all large players, and many small and medium-sized ones as well. (Also on the horizon is broader, greater alignment of the commercial spend. *See page 30.*)

FIGURE 1

Most Important Element for Business Success



SOURCE: IDC 2018 CONSUMER GOODS SURVEY

6 By 2020, the contribution of new products (less than three years in market) to overall revenue will increase by 20%.

Many product categories already experience high SKU churn. IDC expects this to accelerate over time, as consumers become more demanding of personalization and product differentiation.

For these projections, we define new products as both "Horizon 1" launches such as line extensions and variants, and "Horizon 2" innovation like new brands and new value propositions. Winning companies will most assuredly focus more on the latter.

This won't happen in all product categories, of course, but it almost certainly will in health & beauty and personal care. One of the implications here is the need for companies to up their game in the new product development and implementation process (*see page 20*).

7 Data, Data, Data … and Quality

Though not a "trend" per se, the subject of data and data quality is essential to discuss. Many people IDC speaks with think of the Internet of Things as an "instrumentation problem" and, while that may have been true to a degree in 2016, it's now really a "data and analytics problem." You can capture all the sensor data in the world, but it's not useful if you don't have accurate data quality and comprehensive analytics capabilities.

As we move rapidly into a world where the consumer has become the primary driving force for the industry, consumer goods companies are confronting some tricky questions — in particular, how to shift from a mass-market world to one that values per-

sonalization and customization.

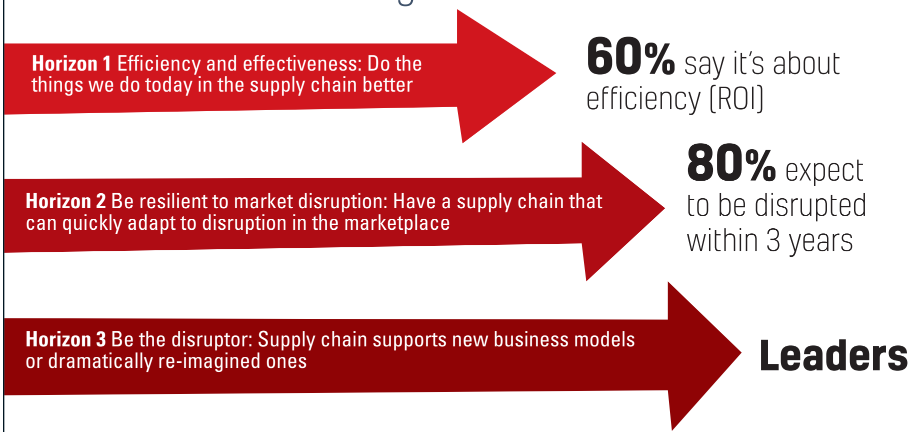
The other implication for a consumer-centric world is that the focus for many businesses has shifted. While cost and service remain important, of course, the majority of companies now place the greatest emphasis on product quality (*see Figure 1*).

This shift has been occurring for a few years, but as illustrated in the chart, almost half of consumer goods companies now cite product quality as most important.

The other profound implication from our discussions with consumer goods companies is the nature of competition. If lateral competitors will gain 10 to 15 share points over the next five years, larger companies will be required to change the ways in which they compete. Many of these small, nimble, disruptive new competitors have been digitally enabled, with business models built on competencies that weren't possible in an "analog" world.

FIGURE 2

Three Horizons for Digital Transformation



Being digitally enabled doesn't guarantee business success, of course. But consumer goods companies cannot succeed without it. While many traditional companies are modernizing to be more resilient to external disruption, the real leaders are striving to become the disruptors (*see figure 2*). ●

ORGANIZATION

Taking the '&' Out of Sales & Marketing

E-COMMERCE IS HELPING TO FINALLY BRING THE FUNCTIONS TOGETHER

BY PETER BREEN

Of all the fortified walls separating business units in the typical consumer goods organization, none has been thicker over the years than the one between sales and marketing.

The division has proved to be dysfunctional at times, with a lack of communication often leading to counter-productive, even conflicting activity at retail, where sales-side trade promotion programs would overlap with (and possibly nullify) marketing-driven consumer promotion or mass media campaigns. Such misalignment would work back through the supply chain, too, leading to poor inventory planning.

"In an age when sales channels and marketing tactics are more numerous and complex than ever before, alignment has never been more critical," says Lora Cecere, founder of Supply Chain Insights. "Yet alignment is still elusive for most companies."

Among the reasons are conflicting performance incentives, according to Cecere. "The sales department is focused on volume and effectiveness, while marketing is incentivized on market share. Meanwhile, the supply chain organization is focused on cost mitigation."

However, every recent appointment of a chief growth officer or chief demand officer (by Coca-Cola, Mondelez International, Kellogg and Colgate-Palmolive, among others) has created another crack in that historic wall, as consumer goods companies increasingly acknowledge the fact that sales and marketing need to have the same marching orders.

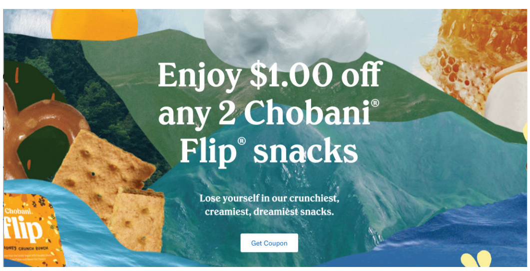
A big reason why is that e-commerce has blended the two roles more than ever before by eliminating the distinction between consumer and shopper, closing the gap between the onset of a consumer need and the completion of a purchase designed to fill that need. While the traditional purchase funnel is still there in theory, a consumer can now get from start to finish in a few seconds and a couple of clicks.

A Cultural Shift in Yogurt

"How can you not have sales and market-

ing integrated," asked Peter McGuinness, who after four years as chief marketing and brand officer at Chobani was named chief marketing, commercial and demand officer last summer. The new position (if that isn't obvious) signaled Chobani's decision to align sales, marketing, product innovation, insights, analytics and category management into a single, integrated "Demand Creation" unit.

"We're combining all of those people and all of those budgets to [create] a large, connected, non-competitive demand budget. So it's pretty cool," McGuinness explained to *CGT* soon after taking on the role. "We're developing things at the right time for the right reasons, based on consumer and customer feedback."



"There's always been historic, healthy tension between marketing and sales" as companies conducted the long-standing trade promotion vs. brand building debate. "And you'd have weekly status alignment calls," he explained. "But they're [still] separate departments. No matter how much you try ... you're never going to have full alignment. So [uniting the functions] felt like a faster, easier, more enlightened go-to-market strategy."

"And now we're all working early, often and upstream developing the new products and platforms, the packaging, the marketing and all the innovation — and the salespeople are seeing all of that from the very beginning, so they can sell better," he said.

McGuinness acknowledged that Chobani doesn't have the "historical legacy structures" (both tangible and theoretical) that likely keep so many older, traditional CGs from following the same course of action. "We didn't have to tear down walls or deal with silos and fiefdoms," because they never became entrenched at 12-year-old Chobani.

Still, the tools needed to "de-trench" are now available. And the idea that CGs should realign to become consumer- rather than product-centric has, for the most part, gained industry-wide consensus. The only thing still needed is the organizational readiness to start tapping away at the wall. ●

NEW PRODUCT DEVELOPMENT

A Made to Order Marketplace

CHOOSIER CONSUMERS, MULTIPLYING COMPETITORS HAVE CGS RETHINKING PRODUCT DEVELOPMENT

BY PETER BREEN

The average category leader in a brick-and-mortar store has a 13% market share online, according to IRI. Launching a few new flavors isn't going to fix that.

Nearly half (49%) of the 200 top-selling packaged goods launches in 2017 came from small suppliers with annual revenue of less than $1 billion, according to IRI's "New Product Pacesetters" report for 2017. What's more, 40% of the food and beverage products and 25% of the non-food items in that total were launched by brands new to the marketplace.

With Millennials far less likely than previous generations to select traditional, mainstream brands, and with the digital age making it far easier for these consumers to find alternative brands that better match their own preferences, consumer goods companies can no longer rely on brand extensions or "new and improved" product attributes to add much incremental revenue.

The perfect example has been well scrutinized: ongoing efforts by Procter & Gamble's Gillette to top the prior year's "innovation" (and dollar growth) with features and benefits that helped more to increase razor prices than to provide real consumer value. While P&G succeeded in driving incremental growth, it also left the door wide open for startups Dollar Shave Club and Harry's, Inc. to leverage the internet, solve for real consumer needs (price, ease of purchase) that Gillette had been ignoring, and steal share.

"You have to create new and unique value," says Zahir Dossa, who launched Function of Beauty to deliver "hyper-ultra personalization" in personal care. The 2-year-old company's shampoos and conditioners are formulated differently for each specific shopper — whose name is then placed on the bottle. (12 billion formulations are possible.) "You take [your] brand completely out of it and give it to them," Dossa says.

Personalizing the Product

While most CGs aren't taking their brands out of the equation just yet, many are testing the personalized product waters. For one, Nike's "By You" collection lets consumers build their own shoes, starting with the type and including materials, colors and other features.

"By allowing consumers to design and

develop their own shoes, Nike is effectively transforming portions of its innovation process from company-led to consumer-led," Mark Osborn, vice president of digital strategy & business planning at SAP, said in a recent blog on consumergoods.com.

"Previously, Nike would have commissioned expensive, qualitative consumer research studies to predict shifting needs and preferences, and then interpret the findings to make big bets on product innovations and extensions," Osborn explained. "Now, Nike delivers an entirely personalized experience for the consumer while gaining real-time insights at a macro-level into broader shifts in preferences — all at no incremental R&D cost."

Personalizing the Process

Nike isn't quite turning the entire innovation process over to consumers. But it is addressing an important shopping trend while also gathering critical intelligence to fuel the internal NPD process — which, if it isn't clear already, needs to be far less internal than it used to be.

"Membership serves our consumer, and membership serves our business," said Adam Sussman, Nike's chief digital officer, about NikePlus, the brand's app-centered loyalty program. The program has 100 million-plus members worldwide who have become de-facto contributors to the innovation process. "All the data drives optimal product recommendations," Sussman told the audience at ShopTalk in March.

Similarly, Conair's Cuisinart tracks social media sentiment to help drive its innovation, modifying existing products and developing new ones based on what consumers are saying. By gaining a better understanding of consumer need ahead of time, "You can save yourself a lot of time and money when you're engineering a product from scratch," noted Mary Rodgers, the brand's director of marketing communications.

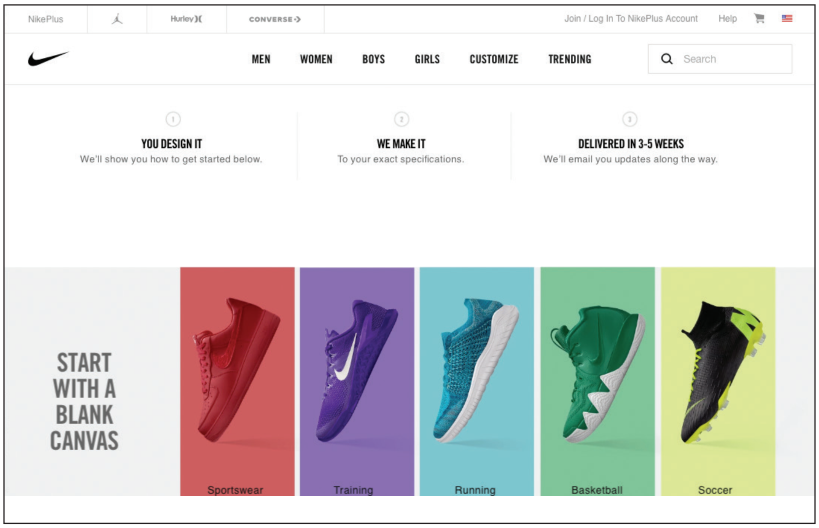
Another strategy that's becoming more commonplace among larger CGs is the use of accelerators or incubators that find emerging brands with potential and shepherd them through the growth process — going the adoption route then birthing the babies themselves, so to speak.

In May, Kraft Heinz presented the first round of recruits for Springboard, a platform the company unveiled in March to nurture, scale and accelerate the growth of "disruptive brands." Among the initial wave were low-carb chips made from egg whites (Quevos), beverages made from aronia berries (Poppilu), and a 400-year-old family recipe for beef jerky (Ayoba-Yo).

overall brand experience. These days, a brand's ability to simplify the fulfillment process can be just as important as the product itself.

For instance, Dirty Lemon Beverages co-founder Zak Normandin thinks the company's unique fulfillment model — direct delivery on orders that can only be placed via text message — is as important to success as the healthy juices it sells.

"Technology provides the ability to offer service beyond the product itself," explained Martin Aubut, chief digital officer for L'Oréal Canada, which is on the lookout for tools that will improve the shopper's path to purchase — as well independent brands that can



Nike By You lets shoppers build their own sneakers from scratch.

Personalizing Beyond the Product

Companies also are using these incubators to find and foster new technologies that can help with another critically important aspect of new "product" development: improving consumer engagement and loyalty by enhancing the enhance the portfolio.

"Stop worrying about launch success and [instead] worry about customer lifetime value," said Aubut, while speaking in March at an event.

His point? Even new product development needs to adopt a stronger focus on the consumer. ●

DATA & ANALYTICS

Going Deeper with the Data

ANALYTICS CAPABILITIES HAVE BECOME THE LIFEBLOOD OF ENGAGEMENT

BY SIMON ELLIS, IDC MANUFACTURING INSIGHTS, AND CGT STAFF

Analytics has become the largest line item on the budgets of chief marketing officers, according to Gartner's 2017-18 "CMO Spend Study," which compares allocations across 13 capabilities. And while it already commands about 9% of the total budget, analytics spending is expected to nearly quadruple over the next three years, according to Gartner.

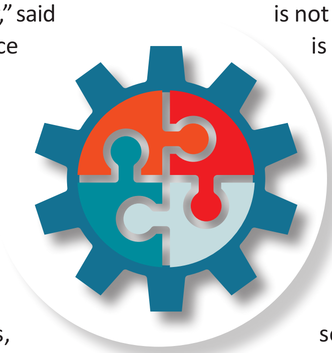
"This significant budgetary commitment is grounded in CMOs' understanding that analytics is central to delivering [consumer] experience; identifying, understanding and growing [the consumer base]; and measuring and optimizing marketing performance," the report states.

The emerging mission of consumer goods companies is to create and offer engaging experiences at scale for both the consumer (the end-user) and the customer (still mainly retailers). It's no longer enough to meet the specific needs of consumer segments; companies must meet and exceed the needs of individual consumers, both in ways they expect and ways they have not yet imagined. The catalyst for fulfilling this mission is, of course, digital.

"Digitalization is a matter of four strategic themes: better, closer engagement and knowledge of consumers and shoppers; a partnership renewal between manufacturers and retailers to mutually grow the category and deliver value to shoppers; automating internal processes to operate faster and more efficiently; and, very often, the opportunity to reinvent business models in which data becomes part of the product," says Vittorio Cretella, principal at VCAdvisory and former chief information officer of Mars, Inc.

"Analytics is an essential enabler across these four dimensions," Cretella says. "What used to be operational reporting focused on "What happened" needs to evolve into strategic insight that explains why it happened and what will happen next."

"Data is the new currency," said Joher Akolawala, senior vice president and global CIO at Mondelez International, while speaking at the Retail and Consumer Goods Analytics Summit in April. Critical to a brand's future success is the ability to understand the DNA of its consumers, and the underlying ability to leverage analytics as a business solution rather than a traditional IT project, he explained. Predictive analytics is the future.



Rules of Engagement

Over the next few years, consumer goods companies will emphasize innovation excellence as it relates to the success of new products (and the number that will be required), the ways in which both consumers and customers are engaged (and how that activity will be funded), and the ability of the supply chain to manage new and different engagement models.

Evolving consumer and customer expectations make this strategy mandatory, but implementation success and efficacy will determine profitability and competitive differentiation. Engaging successfully, and repeatedly, with the consumer is now the central imperative. The "old ways" of engaging with consumers, as well as connecting with customers, will no longer suffice. But engaging with the ultimate user, who might have varied experiences and services over the product's lifecycle, is not a trivial undertaking. There is substantial investment required to achieve that goal, particularly as it relates to data and analytics.

In conjunction with that effort, it must be recognized that CG companies engage with extensive retail networks serving both geographic areas and consumer segments (grocery, drug, club and mass market). These traditional partners, as well as new digital partners like Amazon, will have to be connected.

Retailers, too, now have a greater stake in this game if they want to stay relevant (and in business). CVS Health may once have believed that consumer analytics was an activity "best left to our partners," according to chief analytics officer Robert Darin, while speaking at RCAS. But the drugstore giant now understands that "analytics is how we're going to do business," a competency that must be pervasive throughout the organization — especially since CVS's ambitious mission

TABLE 1

The Importance of Analytics

DIGITAL CAPABILITIES MOST CRITICAL TO BUSINESS PERFORMANCE

	TODAY	IN 3 YEARS
Cloud	#1	#2
Big data analytics	#2	#1
B2B cloud commerce networks	#3	#3
Smart mobility	#4	#4
Internet of Things	#5	#5

is nothing less than reinventing the retail pharmacy experience.

As discussed in last year's report, there are three key elements to tackling this need to engage consumers and connect with customers:

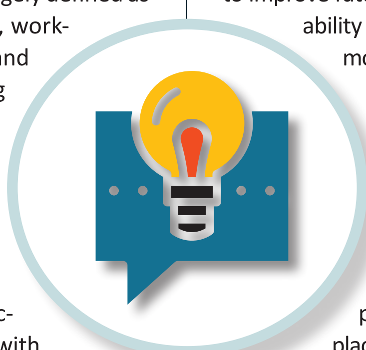
1 **PERSONALIZATION AT SCALE:** As already noted, successful engagement with consumers is what will distinguish winners from losers in the digital marketplace. Offering digitally enabled experiences to individual consumers at scale is a significant challenge, and some of the automated practices currently in vogue (retargeting, programmatic buying) fall quite a bit short of true relationship-building personalization.

Ideally, companies should be delivering personalized products and shopping experiences at the precise time and location that consumers want them — and in an immersive way that meets or even exceeds their expectations. Having the right technologies in place to profitably deliver these capabilities will be key.

2 **ADVANCED CHANNEL MANAGEMENT:** Historically, the role of the retailer has been largely defined as making the original sale, working with the national brand on promotions, and being the location for returns. In truth, however, the retailer is often the "face" of the brand in the eyes of consumers. With the growing strategic priority for manufacturers to engage directly with consumers, brand owners need to change how they interact with their retail customers.

3 **OMNICHANNEL PROMOTION:** An important factor for both consumer engagement and customer connection is the way brands handle promotions while shifting from analog to digital interaction. Whether it's consumer promotions like coupons or trade deals such as temporary price reductions, the ability to manage and align activity across channels has become critical. *(This concept is discussed in more detail on page 30.)*

Adding even greater complexity will be direct-to-consumer commerce, which most CGs are starting to accept as a strategic necessity — if not to actually sell product, then at least to acquire a direct stream of consumer behavior data that can be used to improve future engagement. Here, the ability to move funds across promotional vehicles, engage digitally and get smarter about allocating funds are all key capabilities.



Accelerating Innovation

The ability to offer new products to the marketplace that meet new or unmet consumer needs and, to a lesser degree, the necessity to "beat the fade" by extending or modifying portfolios through new flavors, colors and fragrances, is central to CG success. Implementing a coherent, extended process innovation platform is the first step, but it's not enough. In a digitally enabled marketplace, sourcing new ideas from all quarters — especially consumers themselves — will be an essential skill, as will be the ability to transparently manage all products through the full lifecycle *(see page 20.)*

There are a significant number of competencies required to thrive in a digitally enabled word, but none is more fundamental than analytics. While most CGs recognize the increasing availability of data from myriad sources (much of it coming from downstream), many still worry about having the necessary analytics chops to extract real value — and rightfully so.

When asked in a 2018 IDC survey about modern, digital capabilities with the potential to impact business performance, CG companies cited big data analytics as second highest in overall importance behind only cloud architecture; in three years, they expect it to be most important *(see Table 1).*

Closing the Data Gap

We've previously discussed the notion of a "data gap," where incoming data exceeds the organization's analytics capabilities, and how problematic that will be for companies that don't invest in improvements — as well as how beneficial it will be as a competitive advantage for those that get it right.

Indeed, in IDC's supply chain research, we've noted that comprehensive analytics are central to the future. In the same survey mentioned above, respondents were asked

about their efforts to improve big data analytics, and they cited the following efforts:

- **50%** have implemented advanced analytics capabilities at either an enterprise or functional level.
- **25%** are exploring or piloting new analytics capabilities.
- **25%** don't think they're important.

We'd like to politely suggest to this last, perplexingly laggard 25% that advanced analytics are *critically* important. But otherwise, there seems to be material progress being made toward adopting modern, digital analytics capabilities to handle big data.

We've also discussed in past reports about expanding supply chain intelligence beyond the things we know and the things we don't know to include the things we "don't know that we don't know." Whether it's a potential disruption, a product quality problem or a fast-emerging market opportunity, supply chains that enable proactive steps or fast responses are going to win.

Analytics capabilities mean everything to future success for consumer goods companies, who will have to collect, analyze and generate insights from ever-growing data sources, and then be able to turn them into real-time actions that enhance products and experiences for consumers.

Over the past two years, IDC has conducted a number of surveys that asked respondents about the principal drivers for exploring and investing in digital tools. The top priority has almost overwhelmingly been about consumer/customer needs (as it has in several recent *CGT* surveys as well).

Advancements in machine learning will certainly help improve capabilities tremendously, giving companies the ability to analyze ever-expanding sets of data to uncover actionable insights that would not have been humanly possible to find — or at least not at anywhere near the same speed.

"You have to spend as little time as possible working on the data and as much time as possible developing the impact," said Stan Sthanunanathan, Unilever's executive vice president of consumer and market insights, at a recent industry event. The goal should be "augmented intelligence" that combines the best aspects of machine learning and human understanding, he suggested.

"Both CGs and retailers have been operating for decades with a proven business model that did not rely heavily on data and insights," says Cretella. "That must change starting at the top of the organization, where leaders need to understand and appreciate the importance of making decisions based on facts and not only on experience."

We live in an increasingly data-driven world, with differentiated insights now a vital piece of competitive capital. Many (if not most) CGs still have a lot of internal work remaining to build the cultural understanding, cross-functional processes and data-specific skills needed to gain this advantage.

However, they no longer have a choice in the matter. If you don't believe us, go ask your CMO. ●

TRADE PROMOTION MANAGEMENT

Working Off the Same Page

COMPANIES ARE INCHING TOWARD ALIGNED COMMERCIAL SPENDING ACROSS SILOS

Running a concurrent shopper marketing campaign can improve support for a trade promotion program by 22%; adding a trade promotion component can improve the ROI of shopper marketing effort by 29% (*see chart 2*). The higher the level of integration between the two, the better the incremental results can be, according to extensive data analysis from Foresight ROI.

With data like that readily available, it would seem logical that shopper and trade programs would be planned, sold in and executed in lockstep by this point in time. After all, they're typically conducted in the same venues and targeted at the same shoppers (or at least similar pools). Heck, they even often employ the same marketing tactics.

Then again, the CG industry hasn't always operated logically. These are, after all, the people who used to sell hot dogs in packs of 10 and buns in packs of eight.

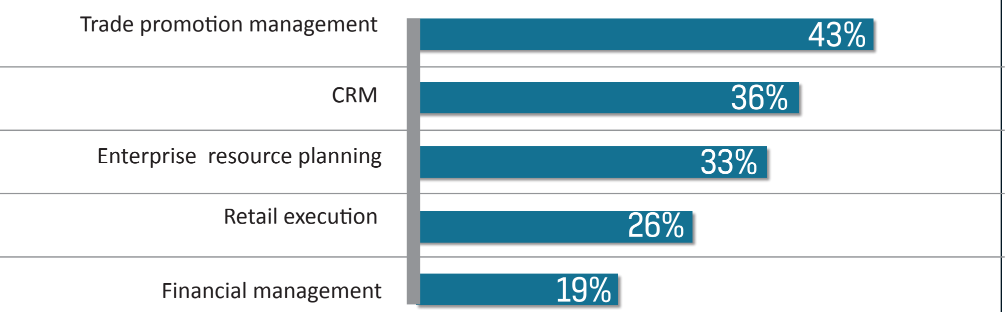
And so, in many organizations, shopper and trade aren't in lockstep — they're simply trying to avoid stepping on each other's toes. Case in point: While walking attendees through a "best practice" example of the annual trade planning process at a recent industry event, the presenter identified the most likely stage at which the shopper plan might be considered.

"Wouldn't it make sense to have someone looking across all of these things?" asks Craig DeSimone, director of global revenue management at Kellogg Co. "Companies need to understand better that this is all a commercial investment," said DeSimone, adding that he believes

CHART 1

Need for Integration

HOW IMPORTANT IS IT FOR A SHOPPER MARKETING OPTIMIZATION TOOL TO INTEGRATE WITH THE FOLLOWING SYSTEMS?



Answers reflect the number of respondents citing each system as important
SOURCE: CGT/CIERANT CORP.

Kellogg is farther ahead than most CGs in this regard.

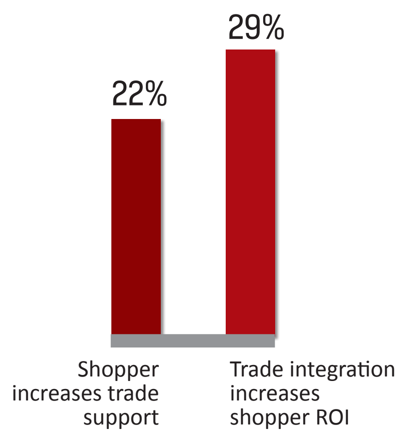
This understanding is becoming even more critical. In fact, there has been recent discussion across the industry not only about aligning shopper and trade activity, but about building systems and processes that will let companies integrate planning and analysis across trade, shopper, national consumer promotion, digital marketing, e-commerce and even packaging to provide a holistic view of all commercial spending. The spider web-style path to purchase caused by the move to omnichannel shopping has made doing so far more of a business imperative than it ever was before.

Moving toward such a broad commercial view requires companies to take a fresh look at the key building blocks they use for planning, execution and performance management to develop better methods of upstream strategic collaboration.

It also might require them to use a "blank sheet" approach for budgeting

CHART 2

Shopper Marketing/ Trade Synergies



SOURCE: FORESIGHT ROI

that could be facilitated by another recent industry trend: zero-based budgeting. Roughly one-fifth of CGs have already forsaken the traditional year-over-year approach to budgeting and are starting from scratch, according to recent research from *CGT* and Cierant Corp.

While some ERP platforms are working on this growing need for alignment, there currently is no single tech stack that will let companies easily analyze all investments together, analysts say. If and when there are, revamping or even replacing existing systems to accommodate the big-picture view will require significant time and resources.

That's why PwC Strategy& suggests initiating the change when the organization is already planning a major technology implementation (like the migration to S/4HANA being undertaken by many of SAP's clients). Such upgrades are an ideal time for companies to determine what business process improvements can be undertaken to make the implementation even more effective.

Taking the First Step

It's hard to imagine full commercial alignment anytime soon, however, when most companies still aren't even doing a good job uniting shopper and trade.

Despite widespread acknowledgment of the need, some standard industry issues have kept this from happening. The first is the aforementioned siloed nature of business functions at most CGs. Trade is a sales activity, and shopper does have "marketing" in its name. Different departments and separate budgets don't lend themselves to easy alignment.

Another issue is the fact, despite the many similarities, the shopper and trade practices aren't quite apples to apples — maybe more like oranges to tangerines, with somewhat different objectives and KPIs.

For one, the short-term analysis typically used to measure trade programs "isn't going to be effective for shopper marketing," DeSimone says. And the longer-term measurement needed to prove out shopper is often more difficult and, therefore, more expensive, to obtain. Marketing mix analysis tools, meanwhile, "only get at shopper a little bit" because of the narrow scope of most programs, he says.

At an even more basic level, many organizations haven't even adopted good processes for managing shopper marketing itself, let alone take steps to align it. As a discipline, shopper hasn't quite refined itself to the level of trade, partly because it's a newer but also because it is nowhere near as big a cost center for CGs.

Trade promotion spending, the second largest line item at most consumer goods companies (after cost of goods sold), represents somewhere between 16% to 25% of gross sales. It's been a necessary evil of the CG industry since the early 1970s.

With that much money at stake (about $500 billion worldwide, according to some estimates), it's become imperative for CGs to track their spending as efficiently as possible. Not that the effort always works: For all the sophisticated management and optimization tools now available, a fair number of companies are still emailing spreadsheets from one department to another.

Shopper marketing as a distinct discipline of the CG organization isn't as old (roughly 12 years, give or take), or as costly (about 2% of sales, according to Path to Purchase Institute). So the impetus to build systems and processes to manage shopper activity hasn't been as strong.

But this obstacle, at least, is being addressed, thanks to the arrival of solutions that can help manage shopper. In addition to the aforementioned Foresight ROI, companies like Cierant and Shopperations are providing tools to help CGs gain greater transparency into their activity.

"There is room for us to be more like scientists and not just artists," says Olga Yurovski, who left her job as a shopper marketing director at what was then ConAgra Foods several years ago to launch Shopperations. "I always felt jealous about not having a system like the salespeople had. They were always so buttoned up with their financial reporting."

84% of companies believe that improving shopper marketing agility and cost-effectiveness has become more critical in the last two years.

The need is understood: According to the aforementioned *CGT*/Cierant study, 84% of companies believe that improving shopper marketing agility and cost-effectiveness has become more critical in the last two years.

Conagra works to make sure that trade and shopper programs are aligned at retail.

Finding Common Ground

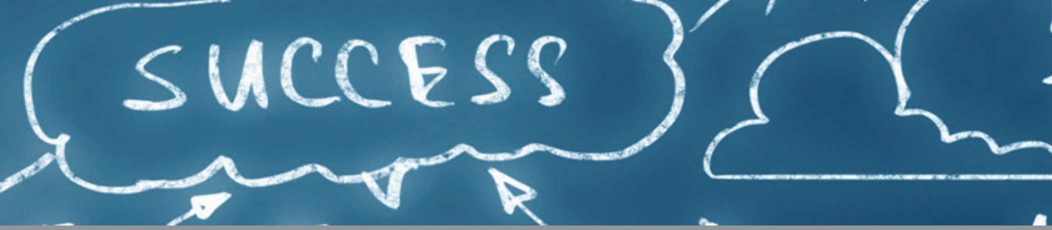
Aligning shopper and trade activity "is absolutely our goal" at Conagra Brands, according to Bob Waibel, the company's senior director of shopper marketing. "We work very hard to make sure that we're aligned with a holistic plan."

The CG operates primarily as a field-based organization, with shopper marketers embedded within the customer sales teams at key accounts like Walmart and Kroger. So shopper isn't so much a separate discipline as the bridge between brand and sales, a mechanism for "bringing the brand plan into the retail environment," he explains.

Conagra currently uses separate tools to manage trade (Blacksmith Applications) and shopper (Shopperations) activity. So the next step will be to gain more detailed clarity by aligning the solutions "sooner, rather than later," Waibel says.

"We are reasonably well aligned with our funding," with trade and shopper activity managed largely from the same budget, says John Clement, director of sales planning & innovation at Welch Foods. The two activities also are considered together during the annual planning process for retail accounts, he says.

"Some of it is just a function of our size and the way we're set up. We don't have a 10-person shopper marketing department



that's located somewhere else," because shopper sits within the sales department, Clement notes. "We're a team that's working together consistently throughout the week" and in constant contact with field teams. "So we're not disconnected."

The company uses TPO software from T-Pro Solutions (and other tools) to keep the activity adequately aligned. "We're getting better at it," Clement says.

In general, then, the industry does seem to be heading in the right direction. Wayne Spencer, president of T-Pro Solutions, thinks shopper marketing management/optimization tools will be adopted faster than their trade promotion counterparts were. "You need to merge the two silos to optimize the two investments," he says. "It's a natural progression."

The first thing companies must do is "realize what the opportunity is," says Rick Abens, chief executive officer and founder of Foresight ROI (and another ConAgra veteran). Abens believes that most CGs are working to align the two functions. "It's just a matter of degree and the level of success."

Increasingly, the level of overall success for CGs will depend on how well they do in aligning their commercial spend. ●

CONSUMER ENGAGEMENT

Something to Talk About

MARKETERS ARE SCRAMBLING TO 'ARTICULATE' STRATEGIES FOR CONVERSATIONAL COMMERCE

BY PETER BREEN

There's a simple reason why voice assistance became an immediate sensation with consumers, according to Joel Warady, chief sales & marketing officer for Enjoy Life Foods: "We've had a voice for 5,000 years."

Adoption of "conversational commerce" is expected to be swift, with online researcher comScore, Inc. expecting 50% of all searches to be conducted via voice by 2020. There already are 50 million voice-first devices in the market; 19% of Amazon Echo owners have used their device to make a purchase, comScore says.

What's more, 85% of consumer interaction with companies will be conducted without human involvement by 2020, according to Gartner. That means CGs need to quickly find new ways to make themselves heard — literally as well as figuratively.

"If there isn't a voice strategy in place for 2019, you should feel very uncomfortable," advises Warady. "Start with something small [now] because it will be a vital part of the overall strategy."

"Assistance is the new battleground for growth," said Ted Souder, retail head of industry for Google, during the Path to Purchase Summit last March. The digital giant is still trying to figure out "what voice search results look like" and "what voice ad units look like," he said. Heaven help brand marketers when they do.

Talking Shop

Tackling this trend adds two more critical items to the digital transformation punch list at consumer goods companies. The first is to adopt voice as a direct-communication vehicle, something that at least a few marketers feel has positive benefits.

"Voice is a powerful way to elevate the brand experience in everyday life," said Mark Berinato, vice president of experience design at Panera Bread, which last year put together a cross-functional team of designers, IT personnel and product managers to start working on a strategic plan.

Replacing those clunky, text-based chatbots on brand websites is one obvious move. (Vendors like Voysis, profiled on page 45, have emerged to help CGs do that.) Scores of brands also have created skills for Amazon's Alexa, currently more to test and learn than to achieve any specific objectives.

Beiersdorf's Eucerin brand recently launched a skill that lets consumers answer questions to determine the product best suited for their particular needs. Product information cards detailing the ultimate recommendation are sent to the consumer's smartphone for reference when a purchase is made. (Skills currently can't accommodate transactions.)

The recent "Bottle Genius" campaign talked whiskey shoppers at a New York City liquor store through the selection process.

19% of Amazon Echo owners have used their device to make a purchase.

While it gets most of the hype (in part due to some recent incidents of miscommunication), Amazon currently only has a small share of the voice assistant market because most activity occurs through smartphones, says Ethan Goodman, senior vice president of shopper experience at The Mars Agency, which helped Eucerin build the skill. But for obvious reasons, it is a leader in shopping-related activity.

Mars also recently created a "Bottle Genius" skill that helped shoppers in a New York liquor store find the right whiskey. Shoppers talked to an Echo device attached to a custom-built, illuminated shelf that lit up to identify the recommendations.

The Shelfless Digital Shelf

The other vital "to do" item for CGs is figuring out how to work through third-party personal-assistant services like Alexa, Google Home, Microsoft Cortana or Apple's Siri — all of which operate independently, and some of which might have competitive strategies in mind: Alexa only recommends Amazon's own products when queried about diapers, baby wipes or batteries, according to reports.

"You need to be the No. 1 result right now" or you're probably out of luck, says Goodman. Alexa typically uses the current Amazon Choice item for the product category, he notes, so optimizing product pages on Amazon.com can help.

Looking ahead, it likely won't be long before voice assistance moves beyond technology devices and becomes embedded in standard home appliances (and homes themselves), apparel and other everyday items.

"We know that new voice technology may not have high penetration with our entire shopper base," Rob Ciaffaglione, Beiersdorf's team leader for shopper and customer marketing, told *Shopper Marketing*. "We believe that, over time, voice is the future." **CGT**

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