Digital Transformation a Pressing Concern for CPG Manufacturers

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The game has changed for consumer packaged goods manufacturers, and right now many firms are playing catchup.

Every business is being disrupted by mobility, e-commerce and more informed consumers. But for consumer packaged goods (CPG) makers have been slow to adapt, and now manufacturers in the space are finding it is time to get serious about digital transformation or watch market share go to those who do.

The CPG market represents an annual value on the order of roughly $2 trillion, according to common estimates. It is typically defined as “fast-moving,” low-cost consumer products usually associated with daily consumption, and/or perishable goods that must be replaced on a short-term basis. Think food, beverages, clothing, tobacco and household products like soap. There also is a significant sub-market of more durable CPGs with longer sales cycles and higher prices such as home appliances.

For most of the last 100 years, CPG manufacturers have relied heavily on brick-and-mortar store outreach and mass-market advertising campaigns to drive sales. The market for CPG was competitive, but the business model was stable and decidedly old-school.

All that started changing with the rise of big data and online purchasing. CPG manufacturers realized they could harness these new customer data sources and drive competitive advantage. This led to a sudden need to harness and manipulate enormous densities of customer information in real-time, and CPG manufacturers began looking for better ways to focus internal and external operations on the needs for customer-direct response.

Once that awareness began to take hold, enterprise resource planning (ERP) software started becoming important, signaling the first wave of digital transformation for the CPG space. ERP not only lent itself to immediate customer-centric operations, it also offered efficient ways to trap, store, and manipulate extended information intrinsically.

But Then Came Mobile E-Commerce

If only things had stayed where they were.

Today’s CPG market faces a number of significant challenges above and beyond fighting amongst each other on store shelves through better customer data. Chief among those concerns is added competition from global brands that have moved into the market, the need for ever-more evolved manufacturing and distribution processes to keep pace with the sophistication of the competition, and a constant downward pressure on prices due to online shopping.

This last challenge, e-commerce, largely took CPG firms by surprise.

That’s because at first CPG goods didn’t lend themselves to online shopping initially. As recently as 2013, online sales accounted for less than 1 percent of the total sales of packaged food and a paltry 3 percent in non-food areas, according to research by the consultancy, McKinsey.

By 2015, however, e-commerce began to bite. Innovative experiments in e-commerce began appearing, and consumers started taking to buying their CPG goods online.

Amazon Pantry, for instance, let consumers who owned an Amazon Prime subscription fill a box with selections of more than 2,000 products and ship them for a small fee. Amazon also started its Prime Now program, which offered delivery to the home within one or two hours, and its Dash Button, an Internet-connected device placed anywhere in the home that provided one-touch order refills.

Regional grocers also began finding success with "click and collect" pilot programs in which products were ordered online and picked up in stores, and CPG manufactures such as Campbell's found they could drive additional sales with data-driven adjustments such as offering customizable soup packaging for millennial shoppers.

The shift for CPG came not when consumers got online, as it did for many other manufacturers. E-commerce took off for CPG firms when consumers adopted mobile devices as a primary means of connecting (and buying) online.

Mobile-device owners engage in online research and purchases at higher rates than the overall population, McKinsey found, and CPG categories are particularly popular. For mobile internet users, the online-research rate among for cereal among purchasers is 45 percent, according to McKinsey, with soap at 55 percent, and cosmetics at 65 percent.

After the emergence of shopping from a mobile device, the CPG market would never be the same.

How CPG Firms Are Adjusting

They are not adjusting well.

CPG firms still faces a number of principal concerns as digital disruption drives the market forward.

Because e-commerce hit the CPG space relatively late, many manufacturers have been slow to adjust and currently have non-standard or custom solutions that are not keeping up with cloud computing trends, online shopping integration and real-time analytics. This has created a digital mess for many CPG manufacturers.

At an operational level, this technology systems situation also has led to difficulties meeting changing customer needs, which is particularly threatening given the response times necessary to efficiently deal with today's global business demands.

CPG manufacturers today need many things if they are to successfully modernize, but three stand out as most pressing.

First, they need to acknowledge the expanded need for business information. While many CPG manufacturers have engaged in developing deep databases related to production, finance and inventory, they have paid little attention to useful information at strategic business levels. This deeper use of data has to improve if CPG manufacturers are to keep up.

Second, CPG manufactures must recognize existing system standards. System processes are always evolving largely driven by market demand. Until recently, however, CPG firms have not oriented themselves to the acceptance of standard engineering processes, nor have they typically recognized operating standards at a best practices level. This lack of standardization must be overcome quickly and with purpose.

Third, CPG manufacturers need to embrace constant improvement more fully. The pace of change within the CPG space, and the technology that makes that change possible, is moving very fast. CPG firms aren't used to needing such nimbleness, but they better start learning fast or startups and big players such as Amazon or global firms coming from other markets will cannibalize their markets. Adjustment is now done constantly and in real-time.

Some of this can be handled with better technology investment. ERP systems, themselves a bit behind the curve when it comes to cloud computing until recently, now deliver many of the technological tools for addressing the above challenges.

Digital transformation in the CPG space requires more, however; it also will take a fundamental rethink of how manufacturers operate and engage with the market.

Can it be done? Absolutely. Will it be done? That's an open question. Consumer packaged goods aren't going away, but some of the manufacturers who make them might be if they don't both acknowledge and embrace the sea change in the CPG market today.

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