

The Transformation Mindset

How Consumer Products Companies Drive Sustainable Growth in an Uncertain World



THE BEST RUN



Midsized consumer products companies are adjusting their approach to business transformation by rethinking traditional organizational priorities, according to a new survey by the SAP Insights research center.

Innovation in technology, products and services, and sustainability surfaced as crucial drivers for growing revenue and efficiency, operating more sustainably, and adapting to new risks. In addition, surveyed business leaders revealed the priorities, opportunities, and threats that they are considering now and for the near future, as well as their transformation plans for elevating their profitability and competitiveness.

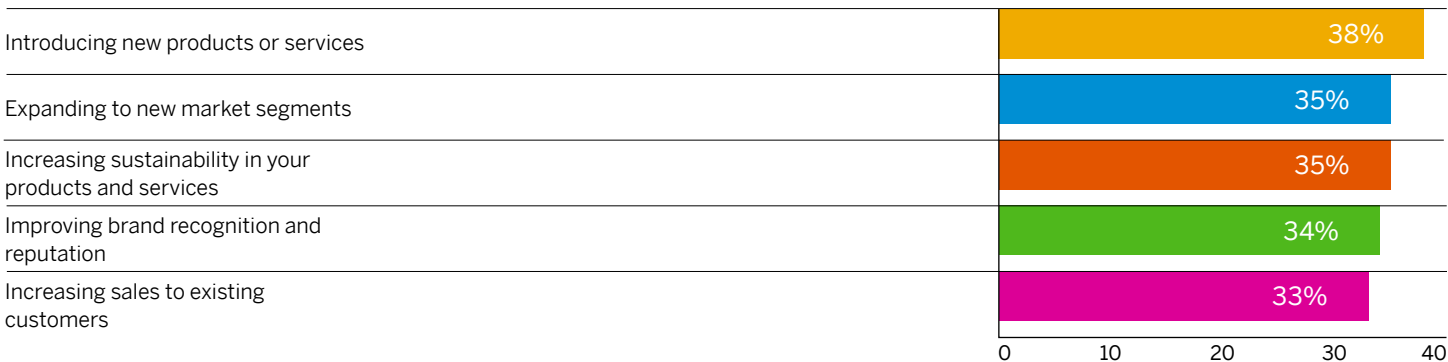
SETTING THEIR SIGHTS ON GROWTH

When asked to rank three key organizational priorities for now and beyond the next 12 months, respondents reported increasing revenue growth as most important, followed by improving operational efficiency and mitigating risks. And they expect these priorities to remain the same beyond the one-year horizon.

With regard to core revenue drivers, business leaders identified increased sustainability of their products and services as a top priority (see Figure 1). This finding suggests that sustainability is a key, albeit new, strategy for growing revenue, joining the ranks of traditional tactics such as introducing new products and services, expanding to new market segments, and improving brand recognition and reputation. Lower on the list was introducing new business models (23%).

Figure 1: Top Three Priorities for Improving Revenue Growth

What are your organization's top three priorities to improve revenue growth?



LOOKING AT SUSTAINABILITY AS A KEY TO REVENUE GROWTH

Our survey shows that sustainability has emerged as an important factor in accomplishing business priorities. Across the board, organizations are incorporating sustainability directly into their business strategies for driving revenue growth and improving efficiency. This represents a significant shift in priorities, with sustainability considered to be connected to overall brand recognition and reputation.

Business leaders from midsized consumer products companies have come under intense pressure from customers, industry activists, investors, and governments to prioritize sustainability.

In doing so, these companies not only reduce their environmental and social impact but also gain the opportunity to run more efficiently. They rely on tactics such as limiting wasteful production practices and packaging, optimizing the use of natural resources, locating plants closer to the consumer, and decreasing the distance that goods travel around the world. In addition, companies search their network to onboard and retain vendors that demonstrate ethical labor practices, regulatory compliance, and the ability to consistently deliver goods that are affordable, safe, and high in quality.

TAKING ON EFFICIENCY DRIVERS

Surveyed business leaders cited cost control, spend management, sustainable operations, and process automation as their top focuses for efficiency improvement. Making supply chains more dependable was also considered important. While increasing emphasis on supplier and partner networks is a traditional supply chain strategy, it's also increasingly viewed as a top driver for efficiency. Other top priorities include divesting inefficient businesses (28%), bringing supply chains closer to markets (24%), and allowing employees to choose their preferred work environment (25%).

Business leaders recognize that these high-priority areas are interrelated and can be tackled together if addressed strategically. By having the right tools to automate lower-value

tasks, gain real-time insights, and collaborate with colleagues, employees can produce more-effective outcomes – including reduced costs, improved productivity, and faster delivery of products to market.

For consumer products companies, rethinking their use of intelligent technologies and data is key to their success. Doing so allows them to optimize sourcing, supply, and promotional and pricing decisions that traditionally required considerable manual human effort and are highly time-consuming. In return, current planning roles can be transformed from determining how many cases need to be produced to understanding and selecting the right algorithms. (see *Figure 2 for the top five priorities*).

Figure 2: Top Three Priorities for Improving Efficiency

What are your organization's top priorities to improve efficiency?



The bottom line: Sustainability is now an essential element of the bedrock activities of growing revenue and increasing efficiency – and achieving these goals requires the right data and enabling technology.

VIEWING RISK IN A NEW LIGHT

It's no longer enough for businesses to think about traditional risk areas, such as thwarting existing competitors and protecting against new market entrants. Instead, these factors have been pushed aside by threats rooted in current emergencies, such as supply chain fragility, resource scarcity, and cyberattacks, that can significantly erode these businesses' brand reputation (see Figure 3).

While these risks are contemporary, they have become more pressing in recent years. For example, keeping shelves stocked is a balance between anticipating what consumers want and producing just enough product to limit spoilage. But when empty shelves result from a recall, plant shutdown, or transportation delay, consumers are more likely to find a comparable – if not, better – product to meet their immediate needs.

For longer-term global risks, surveyed organizations still rank the fear of economic stagnation and global shortages in natural resources at the top of their list. However, they consider employment and livelihood crises, climate change, cyberattacks, and widespread distrust and misinformation as almost equally urgent (see Figure 4).

Business leaders expect their operations to be impacted by the ripple effects of growing economic and societal concerns, including global shortages of natural resources, economic stagnation, and the intensification of employment and livelihood crises and climate change.

Figure 3: Top Three Priorities for Reducing Risks

What are your organization's top priorities to reduce risk?

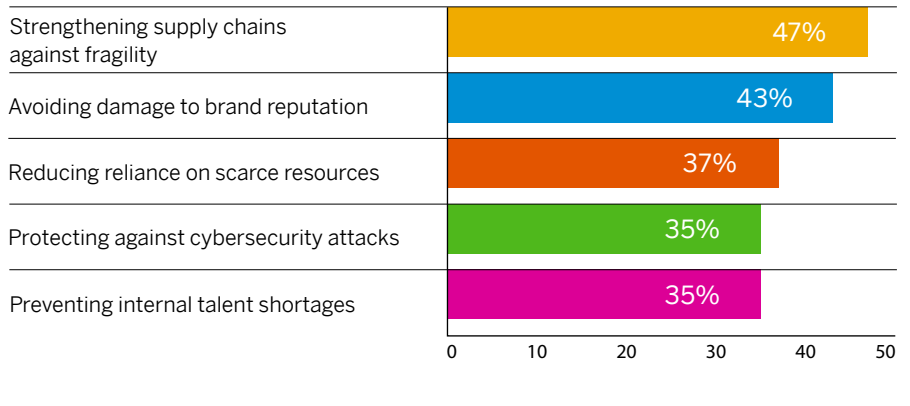
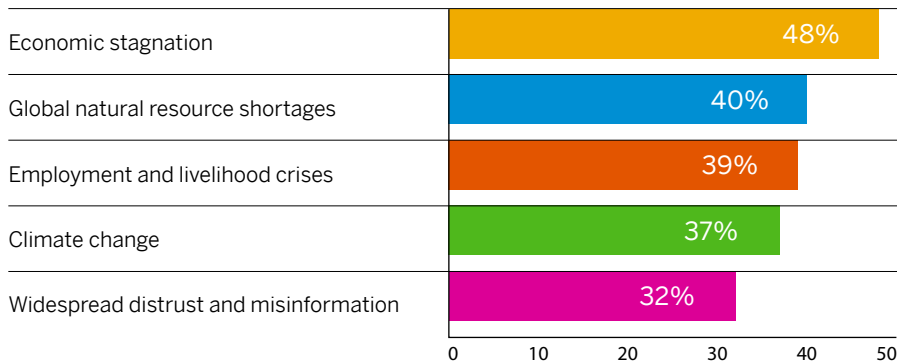


Figure 4: Future Global Risks for Which Organizations Must Prepare

Which of these future global risks will your organization need to prepare for? (Select any that apply.)



Fueling Digital Transformation Progress

Regardless of their size, consumer products companies have a transformation imperative to tackle three critical challenges:

- 1. Increasing global uncertainty and volatility:** Shift the business from a mindset of economies of scale and cost reduction to a line of thinking centered around resiliency, agility, and speed.
- 2. Changing consumer behavior:** Replace traditional product category structures to adapt to consumers who seek the best outcomes, not products.
- 3. Rising number of touch points:** Consider selling through retail online channels, marketplaces, and direct to consumer in response to the increasing variety of ways in which consumers enjoy engaging with brands.

Calling into mind the industry’s growing attention to consumer and customer outcomes, the right transformation drivers separate the leaders from the laggards. Companies that not only survive but also thrive are the ones that are resilient, agile, and fast.

Surveyed leaders recognize this reality, underscoring the importance of their organization’s digital transformation to help increase business performance today, better respond to future risks, and remain competitive. In fact, approximately 90% of respondents see a positive relationship between profitability and competitiveness and their organization’s transformation.

Over two-thirds of respondents claim to have made progress, with 51% transforming some planned areas and 17% completing their journey as initially conceived. However, the survey findings do not portend good things for companies that haven’t already started transforming – most of them expect to make very little progress two years from now.

Looking ahead, participating leaders view technological innovation (81%) as their top priority in the next three to five years, with innovations in products and services (77%) and sustainability (75%) following close behind.

The technologies most sought by midsize consumer products organizations reflect recent hardships experienced during the COVID-19 pandemic and resulting economic disruption and labor shortages.

These organizations are investing in technologies ranging from employee collaboration tools and cybersecurity infrastructure to cloud computing and automated business intelligence (BI) dashboards to transform their processes (see *Figure 5 for the top five responses*). Business process intelligence (61%), application development platforms (58%), and data management architectures (54%) also rank highly.

Surveyed business leaders recognize that their organization’s digital transformation is critical to help increase business performance today, better respond to future risks, and remain competitive.

Figure 5: Critical Technologies for Improving Business Processes

Which technologies are important to the improvement of business processes?
(Select any that apply.)



RECOMMENDATIONS

Without question, leaders from midsize consumer products companies highlighted sustainability as a critical driver for growing revenue and increasing efficiency. And research data shows that they are going beyond the expectations of customers, industry activists, investors, and governments by entering a circular economy focused on minimizing waste. They are also prioritizing outcomes that protect human and animal health and advance social justice in internal and supplier practices in R&D, production, logistics, and labor management.

At the same time, the goals of sustainable operations and products must be balanced with supply chain capacity and inventory availability. Keeping shelves stocked with high-demand products is critical to long-term retailer relationships and ongoing revenue growth. This also means that the supply chain must be resilient enough to pivot to new suppliers and service providers when manufacturing capacities are low, logistics are delayed, and existing resources, components, and ingredients are limited. Plus, operations must be compliant to limit product recalls, and companies must possess the track-and-trace visibility to proactively identify products that may not be safe for consumption or use.

Most growing companies, unfortunately, do not yet have the data management resources required to gain the level of visibility and insights needed to address these challenges. Times of expansion inevitably create new information and communication silos.

The key to overcoming these risks is adopting data management solutions that break down those silos, integrate information sources onto a single platform, and extend visibility and insight across the business. With the help of such solutions, every organization can leverage business intelligence dashboards and advanced analytics to calculate actual profit margins, increase control over costs, and enhance spend management practices by accessing one source for all business-wide information.

Another approach is the use of a business network that connects internal supply chain operations with external suppliers and vendors. Whether they build their own or participate in their B2B customers' network, companies can benefit from the integrated system to gain full visibility into future demand, current supply, plant performance, and emerging risks. Doing so allows the businesses to adapt production operations based on shifts in demand, base costs, marketing campaigns, sales trends, and more.

Last, but certainly not least, midsize consumer product companies can further improve business transparency and real-time data insights by leveraging intelligent technologies, such as artificial intelligence and robotic process automation. They can automate time-consuming, manual activities to reduce errors, increase operations efficiency, and accelerate business outcomes. And more importantly, employees can be redirected to focus on higher-value work and make decisions that contribute more to the overall business success.

THE ROAD AHEAD

In a turbulent period of increased global risk, midsize consumer products companies place high importance on boosting revenue and efficiencies while continuing to mitigate risk and enhance resiliency, speed, and agility. Underlying these fundamental initiatives is sustainability, a new imperative that will become increasingly essential to core strategies in coming years. To make more progress on transformation, which is seen as critically linked to business performance, business leaders need to further improve processes, increasing flexibility and interconnectedness.

Please contact your SAP partner to learn how SAP solutions can help your business transform.

ABOUT THIS RESEARCH

The SAP Insights Midmarket Senior Executive Priority study collected data from 10,507 executives from companies with annual revenues of less than US\$1 billion across 41 markets and 28 industries. Respondents possessed the highest level of line-of-business responsibility and oversight, with titles ranging from director to chief officer. The surveys were conducted from September 2021 through December 2021, with a 10-minute online survey used to collect the data.