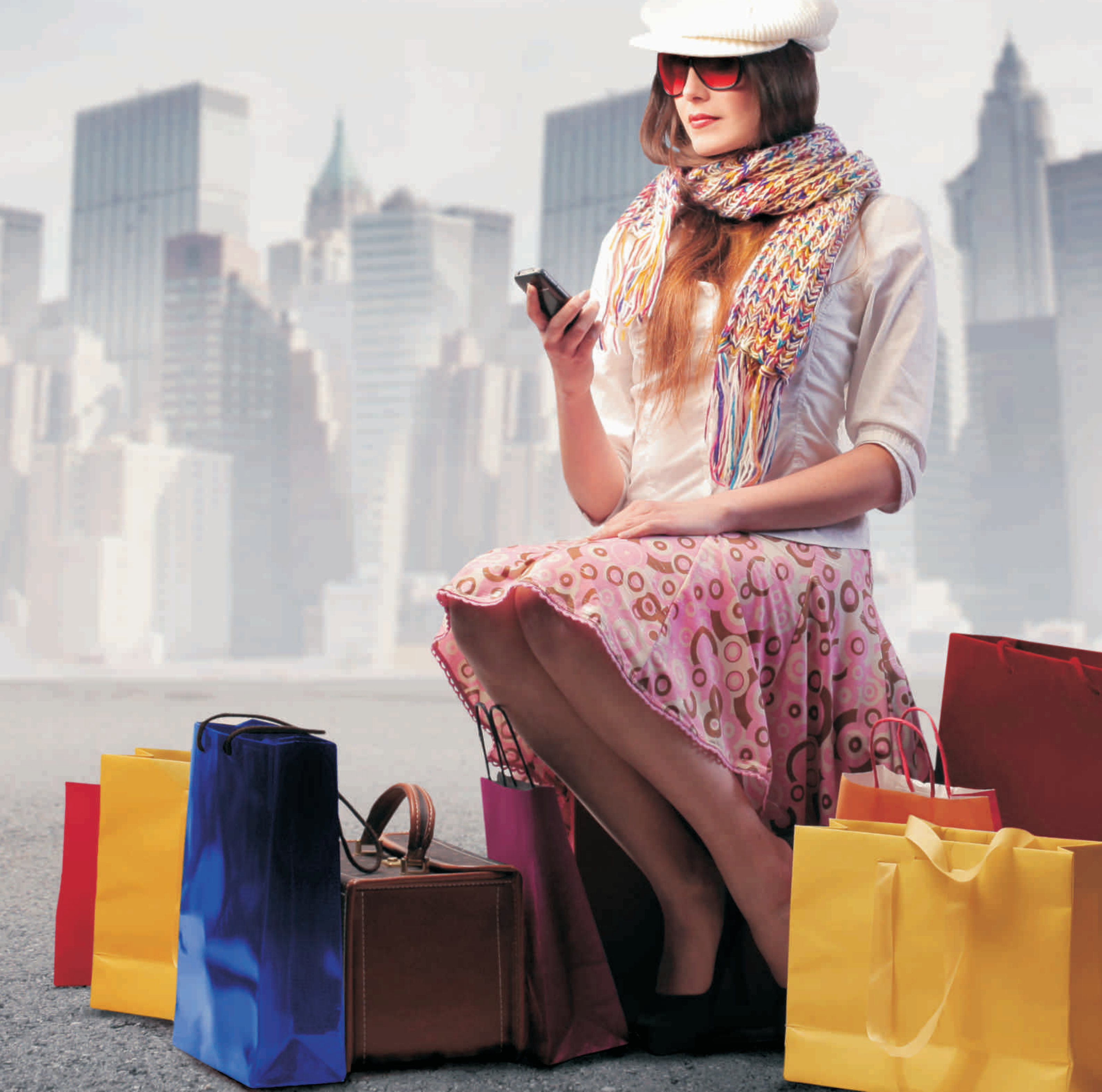
Business-friendly Solutions

TOP FIVE TRENDS FOR CPG & RETAIL INDUSTRY 2015



Investment in Mobile, Social and Analytics

Major CPG & Retail companies are beginning to understand the impact of different digital technologies on their business. This has been brought about by the fact that consumers have started taking control of the brands. These technologies have given a platform to consumers to not only reach to each other as brand advocates or detractors but also to the brand managers. Today, marketers have recognised these platforms, not only to engage with consumers (marketing and feedback) but also as a place where they can trade with consumers and understand the consumer behaviour through the rich amount of user data present on social platforms. As seen, some retailers have missed the e-retail bandwagon and could not ascertain the growth of m-commerce, they need to be on the right track in the social commerce space so that they do not lose the mindshare.

Social, Local and Mobile have combined to give a distinct edge to marketers and as a result, some companies have started to adopt it. Going by the forecast, we can see more of these technologies being adopted. To boost spending and influence consumer choice sets, some companies are using GPS technology to track consumers and deliver mobile messages to those consumers who are in the vicinity of a store.

Other than this, CPG companies have projected an increase of 75% in their current budgets by 2018 and will be spending around $7 billion in the mobile and digital marketing space. An example, which explains the growth of mobile and digital advertising, is Unilever's push into this space as they have increased their expenditure to 20% in m-advertising in 2014 on the grounds that the digital channel has helped them reap a better ROI than the other mainstream channels. Currently, Unilever is engaging with start-ups, which bring innovative technologies in the space of digital advertising and analytics.

In the Indian e-commerce space, the rise of mobile technologies can be attributed to the multi fold increase in revenue through this channel. It is expected that approximately 70% of revenue will be derived from mobile channel across different e-commerce players. Therefore, it is imperative that CPG and Retail companies invest in mobile technologies to reach the consumers, as it is becoming a channel of choice of shoppers.

CPG & Retail companies are also investing in ramping up their capabilities in the analytics segment. For example, Kellogg has invested in predictive technologies platform. Retailers such as Future group has partnered with Dunnhumby to drive insights from the data collected from 300 million customers who shop at Future Group stores. Companies' investment in the analytics domain is on a rise and more activity can be seen in the future in this space.

Our experience: ITC Infotech has helped a global retailer in Increasing Customer Value through greater customer relevance by employing analytical approach. We tried to understand & segregate customer needs and with help of insights generated in the process, we were able to make relevant communication campaign that ultimately lead to increased customer engagement, reduced marketing cost & better revenue realization.

Transformation of Businesses and David taking on Goliath

As the growth for major CPG companies has slowed down, the trend for consolidation and transformation of business has been steadily on a rise. FMCG companies like Unilever, Nestle and P&G are off-loading businesses that are not profitable and have been focussing on their major brands. Focus on innovations and reaching to the local shoppers is high on their agenda. In India, HUL has been on an expansion spree by increasing its distribution network by 50% in the last two years. It has developed low cost distribution models for villages and re launched two thirds of its portfolio. Similarly, ITC has also invested in revitalising its distribution strategy in order to reach one lakh villages directly in a move that bypasses wholesalers. Focus on rural market is to counter the slowdown in urban and semi-urban areas. Companies like Coca-Cola are investing in different beverage brands such as Monster Beverages to extend their portfolio from their core business of aerated beverages realising the consumer need for healthier options.

As the cost of innovation is on the rise in developed markets & market share of local brands taking centre stage in strategy roadmap of leading FMCG companies, they are looking to set R&D base in emerging markets for New product development to counter local brands and take select successful innovations to developed markets as well. For example, General Mills has inaugurated their first innovation, technology and quality center, which is the first major technical center outside their US headquarter arena.

Growth of CPG companies has not only slowed in developed economies but they have been losing share in BRIC countries as well. According to a study by Kantar Worldpanel and Bain and Company, China's FMCG market has slowed by two-thirds since 2011 and Chinese shoppers have started favouring local products over international products.

Another example which points to the trend of smaller and local players beating FMCG giants at their game is the F&B sector. According to Crisil, tier II players are rising firm and are expected to control 40 % of the FMCG segment by 2019. Growth of Paper boat brand from Hector Beverages is one example where a small start-up has become a major player in beverages sector based on their innovative product launches, based on considerations of consumers health related product choices. In OC&C strategy consultant's ranking system, Chinese company Tingyi Holdings has burst into top 50, reflecting that the established players together have lost 0.7% share in China in 2013, 1.3% in India, 1.4% in Brazil and 0.4% in Russia.

This transformation trend will continue in the near future as the major players are realigning their business divisions, that can match the pace of smaller and regional playersviz-a-vizinnovations. Also, we can expect more investment by major FMCG companies into these local players to consolidate their positions and understand the local consumers better.

Our experience: We helped a multi-billion dollar CPG company in transforming their end to end Business processes to make them more agile & flexible with respect to better collaboration with their Modern format channel partners.

E-commerce and Omni Channel Retailing- TheNew Norm

Categories which were till now shy of the e-commerce either due to lack of feasibility in operations or demand from consumers are now investing in the e-commerce space. For example, food and beverage sales is one of the smallest segments in the online space. However, due to change in consumer shopping habits, demand has been generated in the online channel. Different research reports expected major growth for CPG manufacturers and retailers in online grocery sales. Big players such as Amazon and Walmart have realised this potential and have begun to roll out online services for this category. Presence in the digital space is necessary for CPG companies even if it's not for direct selling as consumers online activity has become one of the most influential factors in the purchase cycle.

The trend that big players are investing in online grocery retail is derived from the transformed consumer shopping habits as they have become used tohome deliveries or store pickups in the high involvement categories through the online channels. Also, small regional players and sellers of high margin organic goods have been operating online grocery stores in the past which points to the fact that consumers are receptive to the idea of online grocery shopping.

In other categories, a lot of activity can be seen in the coming months in the omni-channel retail space. Since traditional brick and mortar retailers were faced with threat of slowing sales due to increased competition from online only retailers, most of them have now developed their e-commerce platforms. However, this was not enough to entice the consumer from the online-only platforms. Thus, companies are now looking at omni-channel sales as the key to regain their lost ground. Omni-channel retail gives the convenience of online shopping that can be done from the home or on the go and provides the consumers the flexibility of home deliveries, in store pickups and returns from home or to physical store. Retailers have ramped up their abilities and are using not only fulfilment centres for deliveries but are using traditional retail outlets as hubs for delivery. For example, Walmart expects its sales growth in the e-commerce space for three year period from 2016 to 2018 will be around 30 to 40 percent. Major retailers such as Macy's and Gap have launched programs where shoppers can buy online and pick up in a store. Target is offering free deliveries on online purchases for the holiday season in U.S.

On the other hand, e-retailers such as Amazon are also taking note of the opportunity that omni-channel retail provides and is planning to open up its first store in New York. The store's major focus is not on sales but on providing a platform where consumers can interact with the products, an area where e-retailers lack. Limited inventory for same day deliveries will be stocked and store can be used for pickups and returns.

Keeping in mind the developments, the trend for omni-channel retailing will continue to rise. Collaborations between e-commerce players and traditional brick and mortar retailers can also be seen in order to serve the consumer better and leverage on each other's capabilities to drive sales. For example, in India, Future group has tied up with Amazon to sell its private labels online. This will give Amazon an experienced partner to counter other e-commerce retailers and at the same time Future group will also be able to compete with online only retailers.

Our experience: ITC Infotech is working with a leading CPG company to augment its traditional distribution channels with an online D2C commerce strategy enabling it to market entire set of products & services directly to its consumers &drive benefits around convenience while improving on consumer service parameters around availability, freshness & timeliness.

Focus on Sustainability

Sustainability is a recurring theme when studying trends in CPG and Retail industry. It is a major focus area not only because the companies are accountable to different stakeholders on the issue of sustainability practice but also because sustainability practices in the supply chain unlock a hidden value potential. Retailers are working on sustainability practices by installing efficient lighting systems, improving the efficiency of their refrigeration systems and investing in renewable energy sources. For example, Walmart is working on an ambitious plan to cover 100% of its energy needs through renewable sources.

CPG manufacturers are investing heavily in sustainable sourcing practices wherein they are getting involved at the farm level to source their major ingredients responsibly. For example, Kellogg is providing resources to agricultural suppliers and farmers to help them optimise the use of fertilizers, reduce GHG emissions and water use and improve soil health. Similarly, Unilever is also working towards sustainable crop practices by 2020.

One area of sustainability, which has a lot of visibility, and cost savings are realised at a much faster pace is improvement in packaging. Retailers are working in collaboration with CPG companies to improve packaging that is environmental friendly as consumers are becoming more conscious of the effect of their purchase decisions on the environment. CPG giant such as Unilever has targets to improve recycling and recovery rates by 15% by 2020 and reduce packaging weight by a third. Regulatory measures will also push for more sustainable packaging in the future. Another example, where sustainable packaging has brought about reduction in overall supply chain costs is of Bacardi Party Drinks where it has cut its packaging weight by 90%. This has been done by eliminating the glass bottles in favour of recyclable PET. PET usage has reduced overall weight of the shipments, thus saving on transportation costs and these bottles consume lesser energy in production than glass.

Other than this, CPG companies are keen on reducing their water consumption during production process and phasing out of refrigeration equipment which release hydro fluorocarbons.

Other areas in which CPG and retail companies are working on are improvement of fuel efficiency of their truck fleets. Walmart has developed a truck concept (Walmart Advanced Vehicle Experience concept) for their own fleet which has an improved aerodynamic design, newer technologies and a lighter body.

Thus, a lot of activity is being undertaken by CPG and retail companies on the sustainability front and we can continue to see much more improvements happening in this space.

Our Experience: A leading CPG company employed ITC Infotech's Proprietary sustainability management & reporting tool OptSustain& were able to consolidate the sustainability initiatives at enterprise level and remove redundancy by implementing automated workflow environment

Strengthening the Spine: Supply Chain optimization and Improvements

Trends like transformation of business, setting new sustainability goals or investing in the concept of omni channel – all have one basic underlying need, a redesigned/improved and an optimized supply chain.

Evolution of business models, channels and opening up of new geographies or increased competition of new entrants - organisations are facing new and complex challenges from an operational standpoint. This has led to greater focus and investment in improvement of supply chain. For example, evolved business model of Galderma, a drugs and cosmetics company, has forced the company to undergo a comprehensive sales and operations planning project in order to reduce spare capacity and inventories. Simulation functionality and automatic reporting has led to a more predictive supply chain.

Another example of how trends in CPG marketing are driving operational excellence, is the growing demand and development in the field of automated packaging machines which are flexible as they provide packaging for customised product sizes which is a growing demand of retailers. With the use of sensors, servo motors and encoders, the downtime is very low between changeovers.

Transportation is another area where big CPG companies are focusing for their supply chain optimisation. Companies like Welch, producer of Concord grape juice, has recently invested in TMS. This not only provides them with a planning and execution tool, but will also enable them to undertake improvements and savings by analysing routing guide compliance and truckload and intermodal conversion. Overall, a TMS helps to improve supply chain productivity.

Providing visibility of inventory to the consumer is also one of the major supply chain initiatives that companies are undertaking. ITC, a CPG major in India, has taken the first step in this direction in Indian FMCG space by launching a store locator link on their site. ITC has mapped more than 20 lakh stores, organised retail and kirana outlets, across 150 cities and towns which sell their goods. Store locator provides with near real time information on the availability of its fast moving consumer goods.

Big retailers are investing in software solutions which synchronize their core retail and supply chain operations so that they are able to reduce inventories by improving forecasting accuracy and increase the product lifecycle.

Thus across the CPG & Retail industry a lot of investment is being done to optimize and improve their supply chain. Companies are realising that for any innovation or transformation to succeed, a complementary change has to be made in the supply chain as well. With growth in omni channel retail, a lot of investment will be seen in the near future in the redesigning of warehouse/fulfilment centres, WMS and transportation management systems. Inventory management is also one area that will be given a lot of focus in the coming year.

Our Experience: ITC Infotech worked with one of the largest paper and board manufacturing company to improve their service delivery significantly through complete transformation of their supply chain by finding root causes in all the areas of supply chain and redesigned and implemented a complete end-to-end supply chain planning and performance measurement solutions including structured process guidelines for sales and operations planning, planning optimizers and performance management dashboards.

Way forward

With the CPG & Retail industry gaining fast grounds into an increasingly global market place, businesses are demanding a blend of Strategic Consulting, Operational Consulting and Value Realization through flawless execution. Glocalisation – phenomenon of the modernized world – has a profound effect in the CPG & Retail industry and has created unprecedented challenges such as, maintaining consistency in customer experience, optimizing supply chains in emerging markets and devising methods for developing new products more efficiently. We believe that in order to help the industry gear up for success and be future-ready, consulting firms will have to seamlessly blend industry & domain expertise with management consulting skills, bringing unique capabilities to discover and resolve business concerns of the day.

About Authors

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About ITC Infotech

ITC Infotech, a fully owned subsidiary of USD 7 billion ITC Ltd, provides IT services and solutions to leading global customers. The company has carved a niche for itself by addressing customer challenges through innovative It solutions.

ITC Infotech is focused on servicing the BFSI (Banking, Financial Services & Insurance), CPG & R (Consumer Packaged Goods & Retail), Life Sciences, Manufacturing & Engineering Services, THT (Travel, Hospitality and Transportation) and Media & Entertainment industries.

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