

The Consumer Packaged Goods (CPG) industry: Ripe for better planning

Today's consumer has more control in the buyer-seller relationship than ever due to an abundance of always-discoverable product and price information, and an increasingly competitive environment that is often characterized by incumbent leaders being disrupted by emerging market entrants.


At the same time, traditional operational and commercial models that were historically successful have become increasingly ineffective in generating and sustaining growth in most enterprises. A confluence of disruptive trends is forcing many CPG companies to rethink their business planning and decision-making capabilities, while they also seek more sources of competitive advantage to win in today's marketplace.

How do leading CPG companies thrive in an ever-changing market that summons hastened product life cycles and time-to-market, coupled with calls for greater customer-centricity, and ultimately, an overwhelming need for better business planning? They implement a connected planning platform to bring people, data, and plans together for better business outcomes.



KEY STATISTICS

 Over the next decade, **90 percent** of growth in the CPG industry will be likely captured by companies that successfully engage directly with consumers.¹

 By **2020**, the contribution of new products (less than three years in the market) to overall revenue will likely increase by **20 percent**.¹

1. Source: IDC Technology Spotlight: Overcoming the Innovation Crunch in Consumer Packaged Goods; July 2019.



This paper examines (i) the key trends that have impacted the CPG industry, (ii) the challenges that it is facing, and (iii) how connected planning is reshaping the industry, while yielding increased operational efficiencies, reduced risks and costs, and greater revenue opportunities and competitive advantages for those enterprises that implement it.


Key trends shaping the CPG industry


Several key trends are currently reshaping the CPG industry. Over the past year, we have witnessed CPG innovation and experimentation in several crucial areas—such as proliferation of channels, cross-channel customer interactions, increased number of new products and brands, and exciting product displays—with broader implications for the industry at large.

The year ahead promises to continue with this pace of change, bringing with it a myriad of new and exciting developments. *Here's a quick look at several CPG industry trends that further summon the need for connected planning:*

Influx of technology advancements.

Technology advancements, coupled with enterprises' pursuits of customer centricity, are at the heart of current industry trends we are seeing:

 Expansion of cloud platforms and solutions allow consumer product companies to develop proprietary technology to drive shorter innovation cycles and create a continuous and interconnected supply chain to drive operational efficiencies.

 Technology is at the heart of industry and consumer trends, such as:

- The growth of direct-to-consumer (DTC) brands
- The emergence of branded pop-up stores
- Online retailers developing a brick-and-mortar presence, while also investing in smart packaging
- Technology makes on-demand access to information possible, leading to full transparency in consumers' ongoing interest in health and wellness, organic foods, and sustainability.

Consumers are purchasing CPG products online more than ever.

In fact, nearly half of US consumers are purchasing groceries online, marking an enormous increase from just a few years ago, according to research by the Food Marketing Institute. The same study projects that online grocery sales will make up 20 percent of all grocery sales, becoming a \$100B market by 2022.

An omnichannel future.

While there may be a perception that disruptive e-commerce platforms are continuously disrupting legacy business models, the nature of the on-demand economy may not be as large a catalyst for change as some believe. That's because multi-channel business strategies already are a prominent market force that's larger than digital marketplaces themselves. Adopting an omnichannel strategy may sound enticing, but the reality for many companies is that it is difficult to pull off. The real challenge, whether you start as a digital or physical retailer, is how quickly you can get to that vision while meeting top and bottom line objectives.

The rise of connected supply chains.

With the remarkable growth in digital connectivity and technological advancements, the established model of a traditional supply chain—that entails a sequential movement of materials, finished goods, capital, and information through assets and from place to place—is being disrupted. Many CPG companies are choosing to move away from traditional planning to dynamic, interconnected systems—featuring Internet of Things (IoT), artificial intelligence (AI), and blockchain technologies—that can seamlessly integrate consumer demand patterns and ecosystem partners.

An increase in mergers and acquisitions (M&A).

Mergers and acquisitions are at a 15-year high in the CPG industry, and global M&A activity among the world's top 50 CPG companies jumped 45 percent to a 15-year high of 60 deals last year according to a report by OC&C Strategy Consultants. CPG industry leaders understand that industry growth is concentrated online, which is why they are either adopting the strategies of smaller direct-to-consumer brands or outright acquiring them. Unilever, for example, purchased Dollar Shave Club and Sunbasket within the last few years. The recent wave of M&A illustrates a new approach to globalization, bringing together offline and online market presence.

Trade wars and other global events disrupting supply chains.

There does not appear to be any near-term end in sight for how recent global events, including trade wars and global pandemics, will impact the CPG industry. For example, consider the mobile phone industry, which features rather complex supply chains. Your phone that is assembled in the United States or South Korea may have component parts manufactured in China or Japan. Such sophisticated supply chains have formed through decades of globalization, making them difficult to unwind. When new tariffs and regulation disrupt supply chains, the need for better business planning and optimized supply routes becomes even more important.

QUESTIONS CPG INDUSTRY EXECUTIVES MUST ANSWER

- How do we deliver both top and bottom line growth, in the face of significant competition?
- How do we up-level business planning to track and forecast new angles of category and socioeconomic disruption with analytical methodologies that can gauge their impact?
- How do we develop and dynamically adjust our plans to drive increased return on our investments?
- How do we develop effective pricing and promotion strategies, thresholds, and guidelines to hit financial goals?
- Do we have clear, real-time visibility into customer profitability and category/brand financial performance?



The digital mission of CPG companies is to be able to create and offer engaging consumer (end- user) and customer (mainly retail) experiences at scale.³

³ Source: IDC Technology Spotlight: Overcoming the Innovation Crunch in Consumer Packaged Goods; July 2019.

Challenges facing the CPG industry




It is not enough for CPG companies to meet the needs of consumer segments; they must further meet and exceed the needs of individual consumers both in ways they expect and in ways they have not yet imagined. There must be an emphasis on meaningful and timely innovation—in terms of products (pipeline), the business models required, and the ways of engaging differently with consumers and shoppers at a much more personal level. Consumer and customer expectations in the various consumer products market categories may make this strategy mandatory, but implementation success and efficacy will ultimately determine profitability and competitive differentiation.

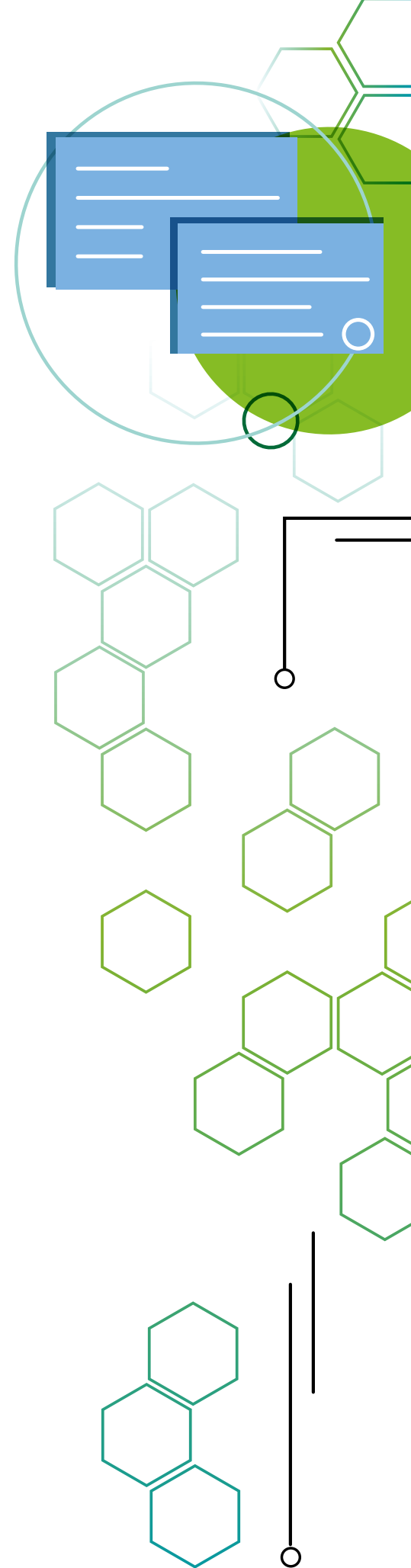
The role of business planning is central to the overall success of the CPG company: but particularly important to a best-in-class new product development and implementation (NPDI) process. Both Deloitte and Anaplan have long evangelized the notion of a singular, integrated business planning platform, which we view as central to the intelligent enterprise in Industry 4.0. It is the holistic business planning process that connects all the various planning functions across the business to enable the alignment of commercial, operational, and financial performance goals. The key is that these plans are not developed and managed in isolation; rather, they are managed as part of a cohesive, connected, and enterprise-wide approach.

The solution: Commercial planning

Legacy planning as we know it is now dead, while a new era of innovative business planning—connected planning is upon us.

Ultimately, a connected planning platform is critical to successfully formulating digital transformation and top-tier innovation programs. For example, Deloitte's Commercial Planning solution is designed to allow datasets from different functions across the enterprise—from sales and marketing, to finance and supply chain—to efficiently integrate and speak with each other, while transforming day-to-day decision making. Its cloud-based, preconfigured commercial planning platform with integrated advanced analytics is designed to transform commercial planning capabilities and unlock enterprise value through:

-  **Integrated planning processes:** Align on targets (top-down), account and brand plans (bottom-up), as well as tight integration with long-term strategic planning and trade promotion management
-  **Optimal commercial investment allocation based on predictive analytics:** Allow users to efficiently allocate annual marketing, sales, customer, and trade investments and dynamically manage shifts throughout the year
-  **Artificial intelligence and machine learning scenario modeling capabilities:** AI and ML capabilities identify internal and external factors impacting key commercial processes and provide ability to run various scenarios for end-to-end planning
-  **Increased trade promotion effectiveness and efficiency:** Embed predictive and prescriptive analytics into the planning process, providing granular visibility and near real-time insights into promotion plans and expected ROI
-  **Improved demand accuracy:** Enable accurate anticipation of demand providing better collaboration across commercial, finance and supply chain organizations



DISRUPTION: JUST THE TIP OF THE ICEBERG

While the CPG industry continues to undergo significant change, it appears that what has been noted above may only be the tip of the iceberg. The fundamental changes that digital technologies bring to today's consumers have only given us a glimpse into what's to come, as potential future disruptions include:

- An even more connected ecosystem (with more ecosystem players)
- Shopping increasingly blended into everyday routines—happening anytime, anywhere
- Subtle, but increasingly personalized, influences exerted through the consumer's engagement across multiple channels
- Streams of purchases taking place in real time, making the notion of online checkout carts/baskets less relevant
- More AI-based shopping service recommendations that help consumers make informed decisions

The path forward

Across the CPG industry, business growth is increasingly tied to innovation and effective collaboration (across functions and within the ecosystem). In fact, an innovation crunch faces many companies whose ability to bring new products to market lags behind what is now required to meet revenue growth goals.

The challenge for CPG companies, therefore, is to support the market requirement for innovation quality and quantity, and we have argued in this paper that a connected planning capability is critical to a best-in-class innovation program.

As you think about the state of innovation at your company, consider the following:

- What will a connected, integrated planning capability mean for innovation in your business? Is it important? If so, why?
- What value will you get from a planning facility that has the bandwidth to be a strategic engine, rather than a tactical engine, for business growth?
- How much value do resources allocated to improving the planning process generate for your business versus the disconnected firefighting that exists today?
- Explore modern digital technologies. They are necessary ingredients to enable rapid, accurate decision making.
- Find a platform vendor that can partner with you to drive connected planning throughout your business.

As noted above, the potential benefits of a connected planning approach are significant and measurable. Better business planning can mean faster, more successful innovation, and this yields the ability to achieve greater revenue and profit goals, while increasing operational efficiencies, and reducing risks and costs. Leading CPG companies in this realm have leveraged it to redefine channel strategies and seize competitive advantages by responding to disruption and exceeding customer expectations.



Get in touch

Get in touch today to learn how we can help enhance business planning and execution across your enterprise.

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