

SEVEN TOP TRENDS SHAPING THE CPG INDUSTRY

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INTRODUCTION

Given how digital is impacting every part of the CPG value chain, companies need to be awake to the emerging trends as they can potentially have a make or break effect

E-commerce which till a few years back was of peripheral significance to the CPG industry is now one of the biggest drivers of change and innovation in the sector. The numbers representing growth are quite staggering with McKinsey¹ believing that the online space will account for anywhere from 10 to 30 percent of total industry sales growth in the next five years. This equates to a market opportunity of USD 15 Billion to USD 50 Billion.

Given how digital is impacting every part of the CPG value chain, companies need to be awake to the emerging trends as they can potentially have a make or break effect. This article discusses key trends that will define the CPG space in days to come.

1 THE GROWING IMPORTANCE OF E-CATEGORY MANAGEMENT

As the boundaries separating online and offline channels blur,

CPG companies are increasingly looking for avenues to stand out in a competitive landscape. Data analytics could be of much help to such companies which are trying to identify the best and most profitable channels to sell select SKUs and pack sizes. While some companies have created exclusive online brands, there are others differentiating their brands by associating them with specific channels. For instance, L'Oréal offers a recharging hydration hair kit only on Walmart.com. Keurig offers a 24-pack of K-Cups on its website while selling larger pack sizes on Amazon. The company offers its broadest product assortment online and uses the digital channel as a learning lab for all other channels.

2 TAPPING SOCIAL MEDIA FOR RICH CONSUMER INSIGHTS

Social media, if used effectively, can become a key tool for marketers to understand and even



shape consumer opinion. According to McKinsey¹, almost 26 percent of the purchases are being done based on recommendations, a majority of them being online reviews. For CPG categories, the online-research rate among purchasers of cereal is 45 percent, while it's 55 percent and 65 percent for soaps and cosmetics respectively. So it's no wonder that CPG companies are increasingly using social media to understand the needs, gaps, brand equity, and purchase behavior leading to significant input for targeting, positioning as well as new product development.

3 COORDINATING PRICING AND PROMOTIONS ACROSS CHANNELS

Consumers are increasingly becoming price conscious. With best deals on their mind, they are actively comparing prices across online and offline channels. This has warranted the need for companies to deploy analytics to gain deeper insights about price sensitive consumers and also identify specific channels and SKUs which are not likely to see much traction vis-a-vis strategies such as differential pricing. Similarly, promotions across various

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1. <http://www.mckinsey.com/industries/consumer-packaged-goods/our-insights/the-digital-future-of-consumer-packaged-goods-companies>



channels need to be well coordinated to avoid a situation of cannibalization. CPG companies have been in the habit of offering online coupons that could be transferred to a loyalty card and redeemed at stores. They are also using geo-targeting to provide real-time deals when a consumer approaches the store.

4 EXTREME PERSONALIZATION AND INTERNET OF THINGS

All data analytics currently revolves around the ability of a company to understand its consumers more deeply. To be able to send a unique

offer to every consumer – earlier thought to be specific to retail – is becoming a focus area for CPG companies. They are increasingly spending on understanding consumer journeys online – to understand the purchase path and utilize that to drive in-store sales.

A few years from now, CPG companies would be deploying sensors in physical products to gain more insights about consumer behavior. Technology-driven sophisticated analytics methods like machine learning will enable extreme personalization for CPG companies and enable them to offer uniquely customized

marketing deals to consumers, based on their past behavior and consumption patterns.

5 MARKET MIX MODELING DRIVING HIGHER SHARE OF DIGITAL MEDIA SPEND

Digital marketing including mobility now accounts for 22 percent of global advertisement spend and could grow to as much as 27 percent by 2017, according to eMarketer². Digital is slated to overtake the TV advertisement spend in the coming years. CPG companies have been able to analyze this trend using marketing

2. <http://www.mckinsey.com/industries/consumer-packaged-goods/our-insights/tough-choices-for-consumer-goods-companies>

mix models and are reallocating budgets towards digital. They are also focusing on reducing time to collate data, so that the marketing mix models can use this 'ready-to-consume' data to turnaround insights quickly.

6 PREDICTIVE DEMAND FORECASTS AND AGILE SUPPLY CHAIN IN E-COMMERCE

One of the areas where big data has made a significant impact is demand forecasting. Traditionally, forecasts were based on point-of-sale data, largely culled from past trends. With the advent of e-commerce and the availability of sophisticated technologies such as Market Basket Analysis, CPG companies are actioning insights that are predictive and forward-looking in nature.

The agility of the process brings supply chain much closer to real time than before and CPG companies are investing heavily in revamping the backend in this manner.

7 INVESTING IN AN INTEGRATED IT INFRASTRUCTURE - DATA 360

In what has been a positive trend, a few big CPG companies have already started investing in some form of Centre of Excellence (CoE) framework for data analytics and digital analytics. This is however inevitable. In an era where data has grown exponentially, it becomes critical for CPG companies to invest in an integrated data strategy. This will enable to drive holistic results through meta-analysis even as big data and digital gain further ground.

CONCLUSION

The accessibility of internet over mobile devices has led to an overdrive in CPG e-commerce. It's no wonder then that industry experts see e-commerce as one of the top game-changing influencers over the next five years. The rising popularity of e-category management among CPG players only re-affirms how quickly online

is catching up with offline in terms of sales and strategy. Amidst this, the presence of big data and digital has inundated companies with massive amounts of data, hidden in which are business critical information and insights. However, harnessing the power of this enormous data would require companies to invest in data storage and management capabilities, and facilitate the seamless integration of all online as well as offline channels.



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