



CHANGING CONSUMER TASTES: PRODUCT INNOVATION AND LAUNCH INITIATIVES GAIN PROMINENCE

The Consumer Packaged Goods (CPG) industry is evolving in response to changing consumer attitudes and expectations. Modern customers desire specific items and aren't willing to wait through the long production cycle of the past. CPG companies are finding innovative ways to quickly design, produce and distribute highly targeted products to keep up with the ever-changing demands of buyers.



Changing consumer tastes: product innovation and launch initiatives gain prominence

Today's marketplace is flooded with more diverse products than ever. However, consumers in an Instagram-obsessed, instant gratification-seeking culture are changing tastes and expectations at a pace CPG companies can't maintain.

Big brands need to rethink product innovation and launch initiatives to satisfy consumers and shareholders - in a world of influencers and increasingly short attention spans.

Changes in consumer attitude and engagement coupled with market shifts require the CPG industry to transition from a product-centric approach to a consumer-centered one. Big companies fail when they resist evolving to address consumer needs.

Digitalization allows companies to learn more about their consumers, better understand their demands, and maintain connections after the point of purchase.

What are the factors driving this need to change?

Mismatched cycle times

The CPG traditional production model, in place since post-WWII, does not support quickly changing trends. Long and infrequent innovation, sourcing, manufacturing, and shipping cycles often end with products consumers no longer need or want. Companies should seek to shorten their cycle times to capitalize on the ever-changing tastes of buyers.

Pricing power

Big CPG manufacturers do not have the channel power they enjoyed and relied upon to set costs in more traditional market settings. Because consumers perceive a large number

of CPG products as commodities that are non-differentiated, increasing prices are likely to result in lower sales. Manufacturers also have less control of the online channel, compared to traditional physical retail, in a market where buyers can search globally for the product that meets their budget.

Pricing pressure

Globalization of markets, higher number of dollar stores and discount grocery stores, and the prevalence of Amazon and other online options have ratcheted up pressure for CPG companies to sell at lower prices.

Meanwhile, some market segments have demonstrated a willingness to trade up, using factors like locally sourced or organic ingredients as the deciding factor over price. This trend generally leads to lost sales for CPG companies whose products lack a high end or niche flair.

Limits on efficiency

CPG companies have traditionally been some of the most efficient globally, with the ability to measure and leverage every dollar spent in production and distribution of everyday items. A singular focus on efficiency eventually leads to diminishing returns.

As Michael Porter eloquently stated in his seminal work on competitive advantage, operational excellence will only take you so far. At some point, productivity benefits are outweighed by the cost and risk to achieve them. While efficiency should always be a priority, something else is needed - differentiation.

Customer satisfaction, net promoter score, and other consumer-driven indicators serve as stronger and more manageable measures of success. Operational metrics like equipment utilization or labor productivity are finite, inward-looking measurements. Evolution to outward facing signs like consumer satisfaction that have more upside can drive improvements and move closer to a consumer-centric belief system.

Data overload, lack of insight

Data analytics is valuable in any industry, but it is dangerous to rely on large amounts of quantitative data which may sometimes be inaccurate or irrelevant. As the hype of big data has subsided and reality has set in, our client experience has shown that thoughtful, predictive analysis of smaller, qualitative data sets paired with human insight enables companies to make more effective decisions. Companies should share information quickly and apply their ideas in a short cycle, design sprint approach.

A race to the bottom

As the low-cost arms race moved from Walmart to Amazon, the most tempting pricing strategy for CPG companies is still to reduce prices. However, this approach is not sustainable; prices can only go so low while still maintaining quality and generating acceptable shareholder returns. CPG history is littered with companies whose competitive response was to sell "a lot for a little," eventually selling nothing at all when forced to close their doors. Forward-thinking companies create differentiation to complement price as one of several factors consumers consider in a purchasing decision.

Today's consumers make emotional decisions so it is vital to appeal to their sense of happiness or confidence. Remind them what is "good for them" and the planet. Promising emotional value in place of the lowest price is a more consumer-centric and lucrative model.

Consumer feedback may also indicate buying criteria outside of price. Coca-Cola North America is a good example. In a move away from volume-priced savings, customers told Coke they wanted smaller bottles and cans - and they were willing to pay for them. The result was an increase in revenue, even though there was a dip in the overall volume of sale. In this case, a consumer-centered approach to understanding purchasing decisions led to product innovation and increased revenue.

Flexibility is key

CPG companies should follow the lead of the fashion and software industries which have flexible production schedules and resources that allow them to react quickly to consumers' interests. These industries are swift to

pick up on a trend and then design, source, and market products while the demand is still high.

While software's virtual nature enables more frictionless supply chains, fashion has proved that rapid development and launch is possible with physical goods as well. It is possible to apply the same principles to the world of consumer packaged goods.

Strong relationships across the demand and supply chain help companies become and stay agile. A rush order from a significant client may affect an entire facility's production schedule for days. Product managers must cultivate collaboration and trust, so plants and suppliers prioritize their orders, even when they change based on demand fluctuation.

While orders dictate production schedules, it is equally important to have more transparency and real-time feedback. Listen more closely to consumer needs and update plans accordingly. To avoid product obsolescence and static inventory, increase flexibility for rapid production.

While predictive analytics crystal balls reduce forward-looking uncertainty, integrated responsiveness is the key to make the supply bullwhip a thing of the past.

Even so, efficiency is still important to improve responsiveness. Evaluate the manufacturing process to identify unnecessary steps and production bottlenecks. Despite the Lean and Six Sigma revolution, wait time is still a significant component of manufacturing cycle time. Only about five percent of the actual time between order and delivery is value-added in most consumer packaged goods products, taking up valuable time in the production cycle but adding no value to the product or consumer.

Done vs. perfect

Agile mindset companies launch new products quickly and continually improve them while on the market, instead of waiting to introduce a perfect and final version. This mindset is more achievable in a digital (virtual) setting, but CPG companies should develop relationships with material sources, production factories, and distributors who can make changes with a shorter lead time.

Swift innovation, timely launch, and flexibility for revisions will allow CPG enterprises to capitalize on important trends before it is too late.

Tear down silos

The traditional model of a sales team, a brand team, a development team, and a launch team working in isolation and successive cycles is outdated. An organizational mind shift may be needed to generate a culture of collaboration. These teams should work together to introduce new innovative products quickly and with a short turnaround.

Employees should also have a voice. Development teams can mull data to make assumptions about consumer needs, but CPG employees are on the front line, interacting with end users. Through direct communication with consumers, employees can interpret their needs and anticipate conflicts. Digitization has made employee feedback easier to gather through collaboration tools that can send timely and specific information about the consumer experience back to companies.

Addressing change

Consumer behavior is changing and will continue to change at a rapid pace. CPG firms need to accelerate digital technology adoption to anticipate consumer priorities and purchase incentives and, in turn, develop and launch innovative new products that meet changing demands. By becoming more responsive and flexible from creation to distribution, CPG companies can achieve a sustainable rhythm that serves their diverse markets and still generates sufficient shareholder returns.

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