PERSPECTIVE

Disintermediation: Unlocking value at the core of CPG enterprises

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The world population is expected to touch 11.2 billion by the turn of the century[1]. A significant proportion of the population growth will be from Africa, while age distribution will not be uniform in a majority of countries.

Shifts in demographics and the resulting socio-economic changes lead to diversity in consumer requirements and spending patterns. Some consumers with a high disposable income demand value for money while some pay a premium for bespoke products. While one segment of consumers from the digital generation prefers to avoid retail stores by shopping via mobile apps, another segment prefers life-size interactive walls and outdoor shopping. An overwhelming majority of consumers shift from brand to brand and toggle from one shopping channel to another.

Retailers navigate the complex maze of shopping behaviour to monetise psychographic as well as transaction data. Retail strategies that 'sense and respond' to business opportunities enable global retailers to sustain growth. Planet Retail estimates that Amazon will grow in retail sales from US$113.69 billion in 2015 to US$211.20 billion in 2020[2].

The consumer packaged goods (CPG) industry, which drives the growth of the retail sector, does not mirror this growth trajectory. The reason, ironically, is the retail business itself. CPG manufacturers are insulated from shoppers by intermediaries — retailers, distributors, and agents. In the retail market, the customer is king. In the digital marketplace, however, an enterprise with insights into consumers is the emperor.

Disintermediation is a robust growth strategy for the CPG industry. Manufacturers can engage with consumers deeply and more meaningfully, and develop products that cater to a wide range of segments by selling directly. The middlemen – physical as well as digital – add to the cost of products while influencing sales. Almost 100 percent of the cost of goods sold is spent on trade overheads. Retailer markup, margins, and returns, further erode the bottom line.

The retail e-commerce market will grow to over US$3.5 trillion by 2019, but will constitute only 12.8 percent of global sales, according to eMarketer[3]. The anemic growth in e-commerce does not bode well for omnichannel retail given the mass adoption of smartphones in emerging markets. Statista anticipates that the number of mobile phone users will exceed five billion by 2019[4]. It is an opportunity for CPG enterprises to enter into new markets without significant investment. Digital solutions that combine always-on devices, big data analytics, and social media, ensure 'Zero Distance' to the consumer. However, growth through direct-to-consumer marketing requires CPG firms to function nimbly like startups and reinvent the business.

1. Source: United Nations Department of Economic and Social Affairs
2. http://www.emarketer.com/Article/Which-Retailers-Will-See-Highest-Sales-2020/1013446
3. http://www.emarketer.com/Report/Worldwide-Retail-Ecommerce-Sales-eMarketers-Updated-Estimates-Forecast-Through-2019/2001716
4. http://www.statista.com/statistics/274774/forecast-of-mobile-phone-users-worldwide/

Understand the shopper

CPG enterprises need to inculcate a nuanced understanding of consumer micro-segments in order to sell directly to the digital generation. Traditionally, manufacturers sponsor consumer research to evaluate product requirements and identify gaps, but the latency in gaining actionable insights dilutes the purpose. A digital ecosystem maximises shopper interaction. Real-time data from the ecosystem provides rich insights into purchase decisions and influencers such as preferred shopping channels, typical order quantity, purchase frequency, complementary choices, and competing products.

Disintermediation empowers packaged goods manufacturers with direct access to consumer psychographics, macro purchase trends, lifestyle choices of local communities, brand perception, and most importantly, transaction data. The e-commerce model helps CPG enterprises gain insights into buying behaviour which is imperative for aligning product development, packaging, and merchandising, with demand.

Shape the order

Closing an online purchase is fundamentally different from winning a sale through in-store promotions and incentives. Digital channels should combine convenience and transparency to inspire trust among shoppers. Online destinations of CPG brands should be searchable, and at the same time, share the value proposition of each product and facilitate a secure online payment. It should present rich content to help consumers make informed decisions to replenish the shopping cart.

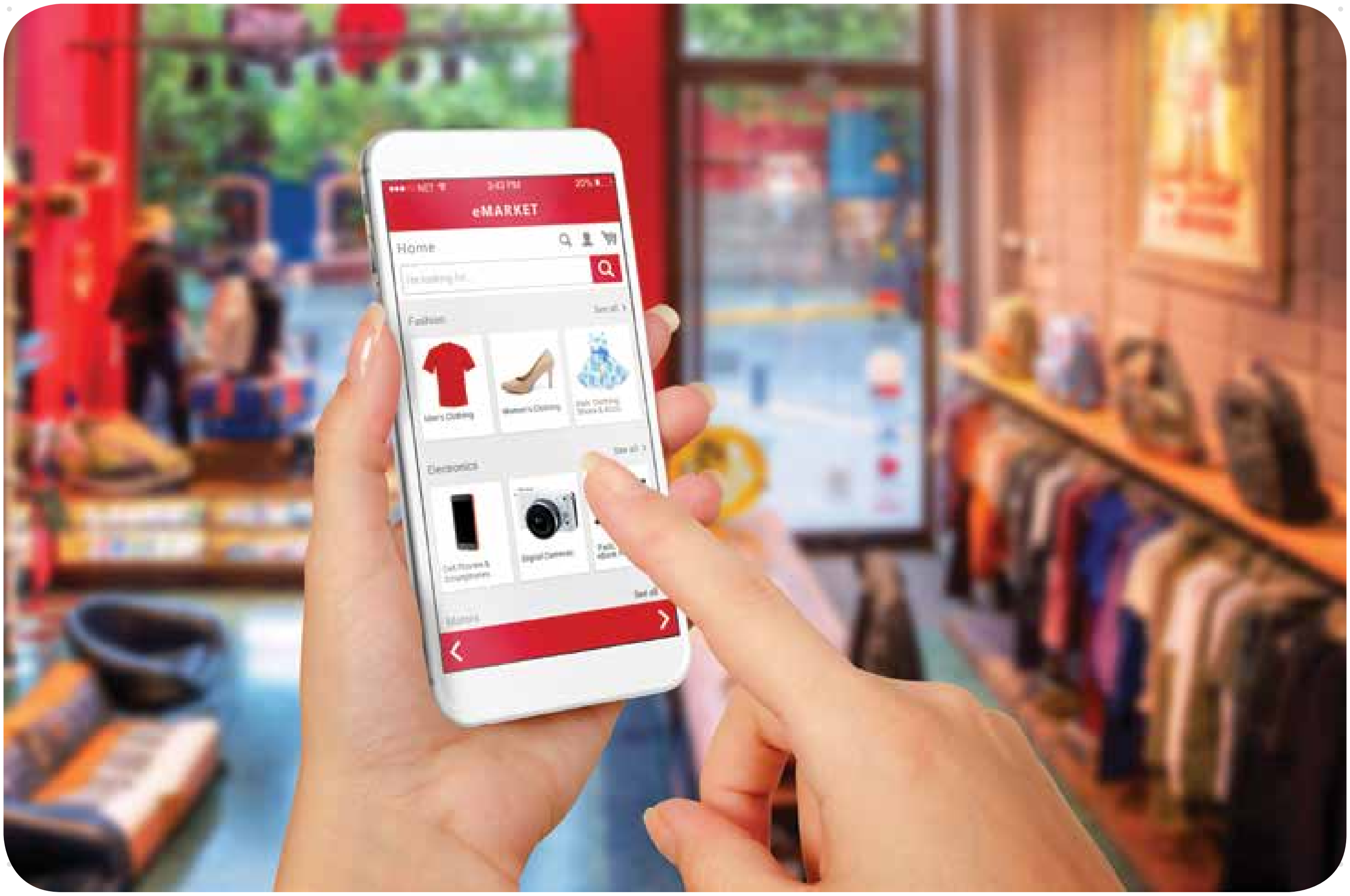
The digital factory model allows CPG brands to consolidate media and marketing operations. It supports brand building and ensures visibility into marketing spend, while incorporating marketplace dynamics into sales and operations planning. Accurate assessment of cost-to-serve streamlines demand planning and rationalises assortment for direct-to-consumer sales.

E-commerce algorithms support direct-to-consumer engagement through the smart analysis of content and marketing effectiveness. Loyalty programs identify the most valuable customers, which streamlines promotions. It facilitates innovative purchase options and product bundling to justify direct delivery. Amazon makes a trade-off between product cost, profitability, and transportation cost, to set minimum order quantity for low-weight products.

Reinforce the supply chain

Data analytics maximises the lifetime value of consumers as well as the profitability of each order. Packaged goods manufacturers can pre-empt comparison shopping through subscription models with customised delivery schedules and loyalty rewards for frequently refilled products and consumer staples such as cereals and toiletries. However, a consumer-oriented supply chain is a prerequisite for prompt fulfilment and direct-to-consumer delivery.

Automation systems and technology-driven fulfilment networks fill the void created by disintermediation. CPG enterprises need to maintain a continuous dialogue with target audiences by ensuring smooth flow of inventory. In addition, enterprises should facilitate returns due to faulty packaging, refunds for delayed delivery, and replacements when the shipped product does not meet expectations. Significantly, direct delivery minimises the cost for the seller as well as the buyer. Warby Parker, an online startup, offers premium eyeglasses at US$95 (a premium pair retails at US$700) by eliminating intermediaries in the supply chain.



Offer experiences, not shopping

Direct-to-consumer commerce allows CPG enterprises to provide experiences based on data-oriented conversations. Insights from shopper behaviour can be used to cultivate customer loyalty by personalising content, pricing, packaging, and product promotions. An app for frequent purchasers minimises the cost of test-marketing new products, product variants, and exclusive combinations, while enriching the brand-consumer dynamic. Further, it helps refine the consumer engagement strategy to encourage e-store visits. The Campbell Soup Company enhances recall value by allowing consumers to create their soup packages and also design their own soup bowls and mugs.

CPG companies can align marketing and branding with purchase triggers when they control the digital shelf. Data analytics helps plan product release, manage brand strategy, and develop experience-oriented layout as well as sales-oriented assortments. Procter & Gamble has pioneered direct-to-consumer processes. The company engages consumers with shopping walls and digital stores. Kraft influences buying behaviour with a unified online destination for recipes, coupons, and store promotions.

Digital technology empowers CPG brands to serve consumers directly. It digitises the shopping path while providing insights for real-time course correction. A holistic ecosystem approach ensures smooth migration to a business model without intermediaries.

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