Omni-Channel Strategies for CPG Companies

Abstract

Real-life proof points show that omni-channel and direct-to-consumer digital strategies are great areas of opportunity for CPG companies. Not only is e-commerce delivering value to CPG companies by engaging higher-spending, loyal customers, and driving incremental sales, it is also influencing off-line sales positively. But to be successful, companies will need to realize that omni-channel may require more than an e-commerce implementation. In order to truly delight the consumer, CPG companies will need to develop supply chain capabilities that align to an omni-channel strategy, and fulfill consumer orders quickly and profitably.

The information and number of "e-commerce success stories" shared during the Consumer Analyst Group of New York (CAGNY) conference show that the conversation has evolved from "should we do it?" to "win where the shopper shops"[1] and "digitally enhancing our competitive edge".[2]

Real-World Direct-to-Consumer (D2C) Experiences

After years of experimenting with D2C based on analyst forecasts for the channel and the work of channel innovators, CPG companies now have a readily available pool of real-life business case studies showing that going "direct to consumer" works.

Key observations and insights shared during the CAGNY conference included the following:

- **The consumer is increasingly relying on e-commerce channels for purchases**
  The implication of this shift from mass to e-Commerce channels is that companies unwilling to leverage direct-to-consumer channels for fear of cannibalizing their sales could see their revenues diminish and overall market share decline.
- **E-commerce delivers tangible business value to CPG companies**
  By engaging higher-spending, loyal customers, and driving incremental sales, companies are also influencing off-line sales positively. One of the implications is that CPG companies should strive to be early entrants into the direct-to-consumer e-commerce channel, so they can establish and grow brand loyalty for their products before their competitors do. Laggards may very well be putting themselves in a disadvantaged market position that will be hard to recover from.

In July 2015, Kantar Worldpanel, a global company focusing on consumer and shopper insights, forecasted that online sales for Fast Moving Consumer Goods would hit $130 billion by the end of 2025, up from $35 billion in 2015.[3]

The Potential Value for Early Entrants/Adopters

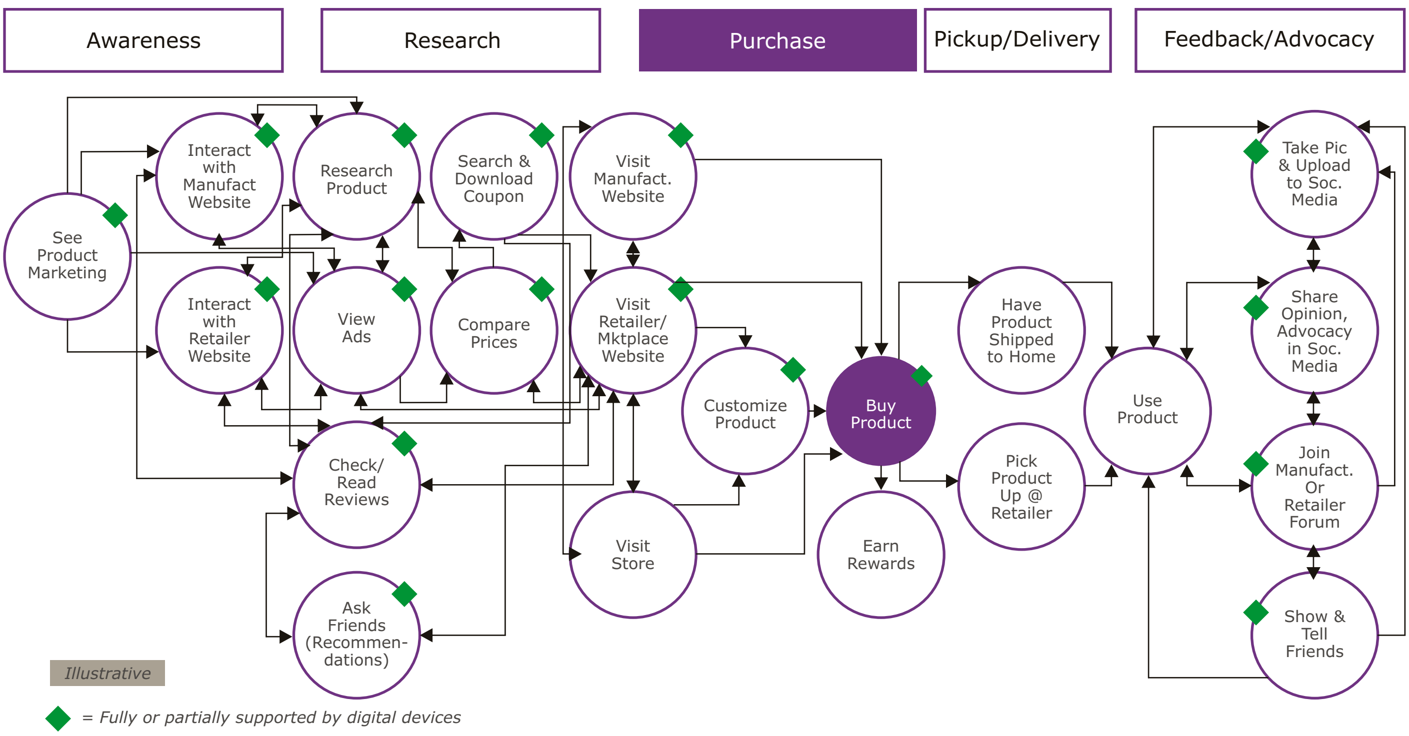
Market research firms and analysts still play a prominent role in showing how the e-commerce channel is evolving, and depicting the overall value potential for it. At a macro level, the forecasts for CPG e-Commerce performance potential are significant.

Just as e-commerce has evolved and matured, so have the granularity of reports and data published by research firms. Data published by MEC, a specialist e-commerce consultancy based in the UK, shows that online sales can have a significant multiplier effect—in some cases nearly 10X—on offline ones, clearly suggesting that digital shelf and virtual store presence are key for CPG brands.[4]

Another example of category-level insights from 1010data showed that in the US in 2015, the top ten growth categories in CPG e-commerce grew 60–85% YoY. Leading the way were laundry detergent, toothpaste, and health snack bars. The largest categories in terms of online sales included pet foods, moisturizers, fragrance, facial cleaners and coffee.[5] So clearly the product category matters, and having more granular data and insights is key to making the right decisions on which categories CPG companies should focus on or experiment with.

Keys to Going Direct

Even though the topic of channel cannibalization has not fully gone away, evidence of direct-to-consumer successes has led many CPG companies to embark on, or consider, their own omni-channel journey. To implement successful direct-to-consumer solutions and initiatives, CPG companies need to consider a new world in which consumers buy their products and interact with their brands through multiple channels in a non-linear fashion—from awareness through purchase, to feedback and advocacy using social media.



A consumer's non-linear path to purchase in an omni-channel world

The key questions for many CPG companies now include: How can we unlock value by leveraging omni-channel? And, where should our inventory be in order to cost-effectively fulfill demand while delighting our consumers? To answer the challenges posed by these questions, many companies will have to design new or additional supply chain capabilities from the perspective of the consumers, while still retaining the ability to change, refine, and continuously improve them over time. This outside-in approach will help ensure that the overall Consumer Experience is taken into account as companies make business process capability and design decisions that could potentially be market differentiators and drive higher sales, as well as loyalty for them.

- Can we forecast, plan and execute so our inventory is at the right place, at the right time, at the right cost?
- Do our Supply Chain processes, organization and solutions have the flexibility an agility to adapt to changing consumer behavior?

- Do we have the right supply network to cost-effective service and delight all of our consumer?

- Do we know what marketing campaigns and promotions will be the most effective based on how and where consumers want to interact with our brand and purchase our products?

- Do we have access to information on all transactions by channel and consumer segment?
- Are we collecting all relevant social media information about our consumers?
- Do we have a 3600 view of the consumer?

- How do consumers want to interact with our brands and purchase our products?

Outside-in perspective for designing consumer-centric supply chains

The starting point of this outside-in approach is to understand how the end-consumer wants to interact with a company's brands and purchase/re-purchase their products. One will need to understand how the shift in buying patterns, as well as the use of technology, have led to non-linear consumer journeys, and how these might further evolve in the future.

In addition to understanding all consumer touch points, companies will also need to get a handle on how to best stimulate demand. They will need to know what marketing campaigns, promotions and delivery channels will be the most effective for their consumer base. Developing these consumer insights will require the aggregation and analysis of structured and unstructured data, so the best value propositions are delivered to their various consumer segments at the right time, on the right device.

Once there is a base-level understanding on where the demand will come from and the programs that will be put in place to shape demand, companies will be able to model supply network scenarios in search for the right solution to deliver the required service level for omni-channel consumers profitably.

Companies should make sure they can forecast, plan and execute so their inventory is at the right place, at the right time, at the right cost, and ready for fulfillment. Their supply chain organizations will need to be far more tightly integrated with sales and marketing as they bring products into the online channel, and continuously reassess and optimize the supply chain to adapt to changing consumer tastes and purchasing behaviors in agile fashion.

Conclusion

To ensure a consumer-centric approach and results, companies should design the overall omni-channel value chain from the outside in. They first must gain understanding of how end-consumers want to interact with a company's brands and purchase their products, and how their buying patterns, as well as their use of technology, have led to non-linear consumer paths to purchase. Once the newly developed supply chain capabilities are in place, companies will need to continuously adapt and refine their direct-to-consumer channel as consumer purchasing behaviors continue to evolve. This will require the implementation of new digital business processes, an upgrade of supply chain organizational capabilities, as well as the leverage of modern integrated business planning solutions.

In today's competitive market, CPG companies can no longer sit idly and wait for others to show the way on how to leverage omni-channel to drive growth in their industry and draw closer to the consumer. The winners in the marketplace will be those companies that are early entrants and can deliver superior end-to-end consumer experience.

References

[1] "Visibility into the Future," Kellogg Company CAGNY Presentation, February 17, 2016

[2] "Digital Enhancing Our Competitive Edge" slide from the L'Oréal CAGNY Presentation, February 19, 2016

[3] "Accelerating the Growth of e-Commerce in FMCG: 2015 Edition," Kantar Worldpanel, July 7, 2015

[4] Adapted from "The Ecommerce Opportunity for FMCG Brands: Sales & Halos," MEC Commerce, April 2015

[5] "CPG Killed It in E-Commerce in 2015," 1010data, January 2016

About The Author

Will Ruiz

Will Ruiz is a Consulting Partner and Leader of TCS' North America Consumer Goods & Retail Consulting Practice. He has over 25 years of experience in the areas of new product development, manufacturing operations and strategy, business process innovation, and large-scale IT-enabled business transformation.

Contact

Visit TCS' Consumer Packaged Goods and Distribution unit page for more information

Email: global.cpgsolutions@tcs.com

Subscribe to TCS White Papers

TCS.com RSS: http://www.tcs.com/rss_feeds/Pages/feed.aspx?f=w
Feedburner: http://feeds2.feedburner.com/tcswhitepapers

About Tata Consultancy Services Ltd (TCS)

Tata Consultancy Services is an IT services, consulting and business solutions organization that delivers real results to global business, ensuring a level of certainty no other firm can match. TCS offers a consulting-led, integrated portfolio of IT and IT-enabled, infrastructure, engineering and assurance services. This is delivered through its unique Global Network Delivery Model™, recognized as the benchmark of excellence in software development. A part of the Tata Group, India's largest industrial conglomerate, TCS has a global footprint and is listed on the National Stock Exchange and Bombay Stock Exchange in India.

For more information, visit us at www.tcs.com

TCS Design Services I M I 12 I 16