Emerging stronger

The future of consumer packaged goods

pwc

CPG manufacturers that were ahead of the curve in driving greater enterprise agility — or that made a virtue out of necessity and broke down historical barriers to cross-functional collaboration — were best positioned to adjust to the current crisis.

Where are we today?

Consumer goods companies have played a critical role during the COVID-19 crisis, keeping consumers around the world supplied and protecting the vulnerable.

People are making unprecedented changes in how they live.

These changes affect many facets of consumer purchases.

While changes may or may not be permanent, we have reason to believe certain fundamental shifts can occur.

Companies with greater enterprise agility can be positioned to respond to heightened uncertainty, including both supply chain responsiveness and consumer-facing experiences.

During the initial months of the COVID-19 crisis, immediate priorities were clear for the Consumer Packaged Goods (CPG) sector: focus on the health and safety of essential workers, ensure a strong balance sheet and liquidity, and maintain product availability through more flexible and resilient supply chains. CPG manufacturers that were ahead of the curve in driving greater enterprise agility — or that made a virtue out of necessity and broke down historical barriers to cross-functional collaboration — were positioned to adjust to the current crisis.

Now, as CPG companies strive to emerge stronger from the crisis, they are grappling with a sustained level of uncertainty — even as many nonessential retailers and on-premise accounts that were forced to shut are reopening their doors. Significant uncertainty remains, given the potential for further COVID spread and impacts on the economy. Another concern is whether consumer behavior and brand preferences that shifted during the crisis will carry through into the future.

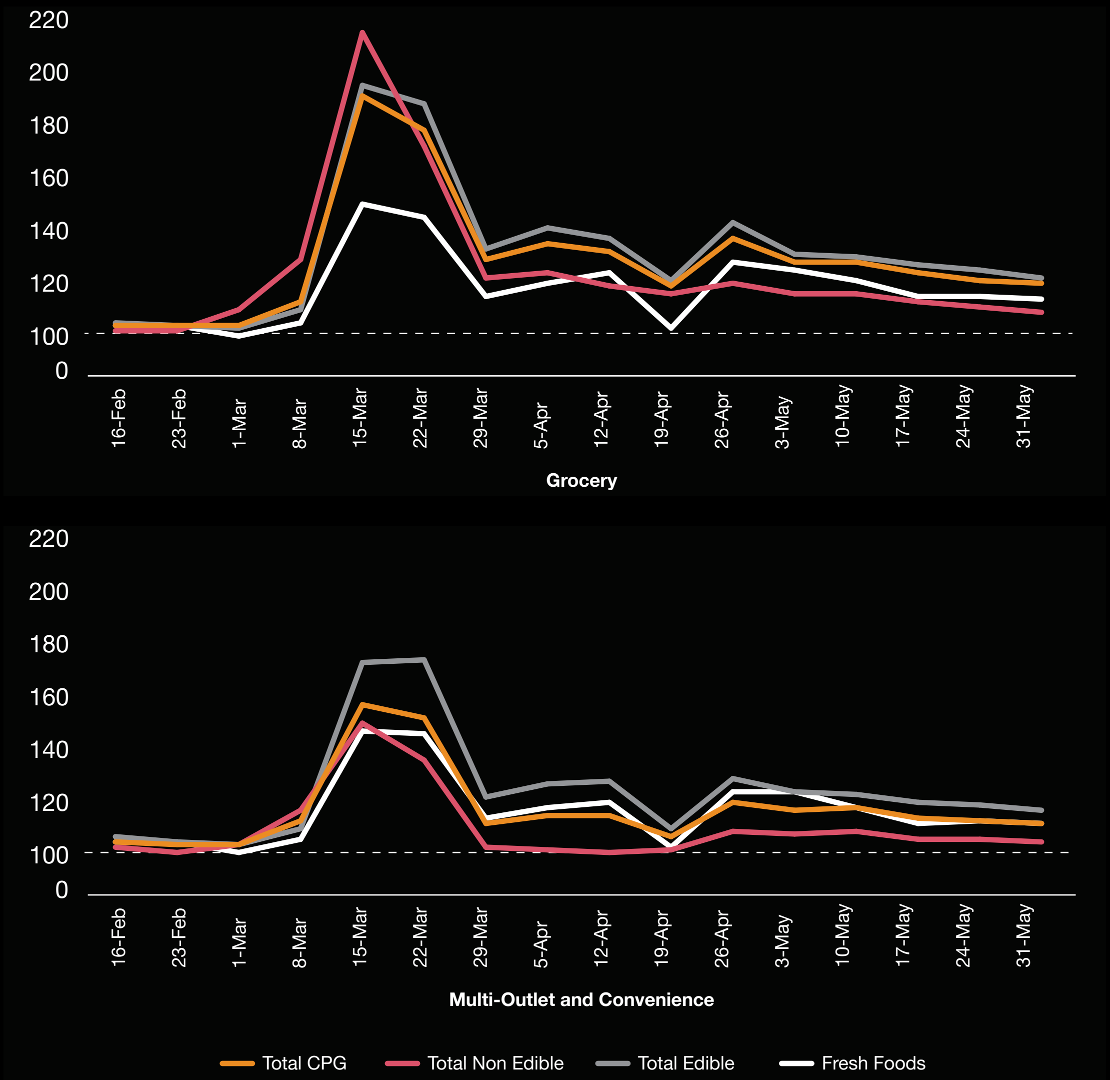
The economic impact of COVID-19 has affected CPG companies less than other sectors like retail — and certainly much less than travel and hospitality. Even so, the impact on CPG manufacturers varies significantly across categories, based on how discretionary various purchases are for consumers. Edible categories like food and beverage, in which growth usually moves more closely with population and incomes, are seeing a significant spike in demand as a result of pantry loading and a shift toward more at-home occasions. Other non-edible categories that are more discretionary saw a smaller increase in sales.

1.8x

more likely to increase spending online if part of a household with children living at home

"Demand levels were significantly impacted across categories as consumption shifted from on-premise occasions to the home, and this trend is likely to persist, as many of those currently working from home continue to do so, and companies take a fresh look at their workforce strategy."

Exhibit 1: CPG sales increased during the shutdown
Weekly YoY change in CPG category dollar sales by channel



IRI CPG Demand index

50%
of consumers are trying new brands

66%
are likely to stick with those new brands

CPG volume has also been shifting online as more shoppers place orders for home delivery or to pick up at the store. While ecommerce sales are increasing as a percentage of total sales in categories like food and beverage — which have historically lagged other categories like apparel, diapers and beauty products — they have not caught up to the levels in those categories. That's partially because of channel dynamics, with online pure plays and mass merchants driving a larger share of sales in non-edible categories. However, the surge in ecommerce orders is largely being driven by shoppers who choose to pick up orders at the store, which is creating an opening for clicks-and-bricks retailers to compete with online pure plays. Indeed, many shoppers are still going to stores and practicing social distancing, and while learned behaviors for online shopping will persist at a higher level than before, there is likely to be a new equilibrium reached, with some reversion toward prior shopping behaviors. Given the trend toward more pick-from-store ecommerce, CPG manufacturers have an opportunity to work with retailers to win the trip and to help lower their cost-to-serve for ecommerce operations.

Exhibit 2: Key sources of uncertainty will persist

Demand levels

- To what extent can prior consumption trends resume or be impacted, and how can this differ based on how COVID spread geographically?
- How can demand adjust across on-premise and at-home occasions as the economy reopens?
- Will brand and store loyalty shift based on consumers' experience during the crisis?

Price point

- How can the mix of sales be impacted across price points?
- How can shifts in demand impact perceived value and price-pack architecture decisions?
- How long can any trade-down effects last, and when will consumers look for more "affordable luxuries?"
- Will consumers' willingness to pay for convenience and quality experiences remain higher?

Consumer behavior

- To what extent can learned behaviors for ecommerce persist?
- How can the mix of delivery vs. pick-up evolve for ecommerce?
- Will the trend toward subscriptions accelerate?
- Will consumers' engagement in experiential events resume to prior levels, or will they seek out more virtual ways to enhance their category knowledge?

> “Similar to past downturns, it will take time for consumers to shift from their current focus on frugality to again embrace more affordable indulgences.”

Even beyond issues regarding reopening, we should expect heightened uncertainty to continue for some time. Demand levels were significantly impacted across categories as consumption shifted from on-premise occasions to the home, and this trend is likely to persist, as many of those currently working from home continue to do so, and companies take a fresh look at their workforce strategy. Moreover, retailers and on-premise venues will need to reinforce trust to win the trip. Throughout the crisis, consumers have also traded down to lower price points to save money and have tried new brands — often unintentionally based on availability. Similar to past downturns, it will take time for consumers to shift from their current focus on frugality to again embrace more affordable indulgences.

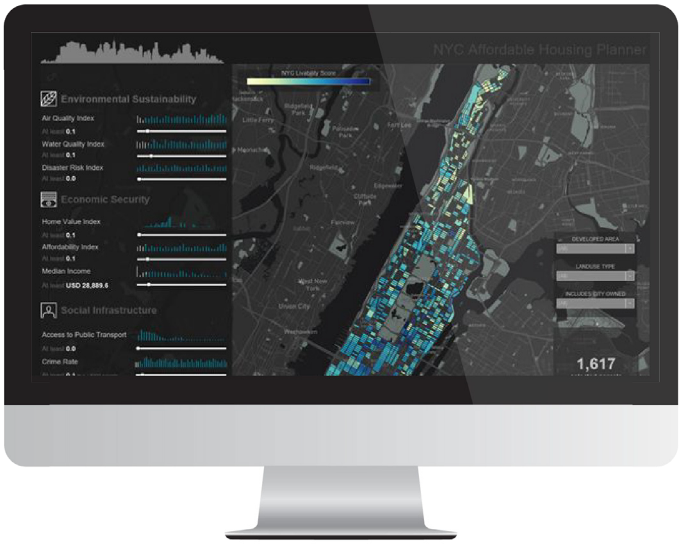
Exhibit 3: Key elements for demand sensing

Predict and mobilize against changes to consumption, channel mix and product demand per ZIP code, using scenario modeling that integrates diverse datasets.

PwC’s Consumer Insights Platform
Consumption habits
Disposable income
Consumer sentiment
Spread of COVID-19
Consumer mobility

COVID-19 Scenarios
Rapid containment and recovery
Slow containment and protracted recession
Recurring virus spreads through 2020

First-Party Data
Sales
Shipment
POS
Planning



Given the multitude of factors driving a sustained high level of uncertainty, CPG companies need to be able to monitor and react quickly to emerging scenarios, to keep shelves stocked while managing inventory obsolescence risks. With such an uneven impact of the virus across geographic markets, CPG companies' ability to react and synchronize supply with demand across markets and channels should continue to require new approaches to increase production for fewer SKUs, while ensuring access to raw materials. CPG manufacturers may also need to break through historical siloes between functions — such as supply chain, finance, sales and marketing — and strengthen their analytics capabilities in order to react more quickly and effectively to demand-sensing signals.

What are we learning?

As CPG manufacturers assess what they are learning and look to emerge stronger from the crisis, several strategic imperatives are coming into focus. They need to make strategic choices to focus their investments across their brand portfolio, occasions, target audiences and local markets. They also should take a fresh look at how they manage pricing and promotions, which will benefit from stronger data and analytics capabilities. These investments can also require a strategic focus on winning with specific retail customers that are key to their growth and profitability.

On the supply side, CPG companies face a strategic imperative to deliver more flexible and resilient supply chains, and to reduce costs without impairing their ability to react quickly. These strategic imperatives represent just a subset of the issues that CPG manufacturers need to address to emerge stronger. In this viewpoint, we are focusing on strategic decisions that companies can face over the medium to longer term, even as they continue to focus on ensuring the safety of their employees and driving execution in the face of significant uncertainty.

Focus investment across the brand portfolio

Demand and preferences for products are evolving, and safety concerns, economic uncertainty and a continued focus on sustainability have led consumers to realize that there are many things they can do without, and a few they can't. Product design and packaging are likely to become more value driven, leading to a different assortment for many brand manufacturers. Shifts in demand have also forced retailers to adjust their shelf space, leading to SKU rationalization.

National brands have benefited at the expense of less established brands, mitigating a trend toward start-up brands gaining share before the crisis. For example, even as alcohol sales at retail stores are up significantly, the number of items on the shelf in the beer category has declined, with the declines most pronounced among smaller craft-brewing companies. Out-of-stocks for prepackaged baked goods resulted in an increase in sales for fresh bread and bagels, as some retailers took advantage of more at-home occasions to drive sales at the perimeter of the store.

> "Demand for products is evolving, as safety concerns and a continued focus on sustainability have led consumers to realize that there are many things they can do without."

Exhibit 4: Factors impacting brand portfolio investments

What's changing?

Channel preferences

Shifts in shopping and delivery choices will impact product and packaging requirements.

Price and value focus

A more frugal consumer can create pressure to reduce product and packaging costs.

Safety concerns

Concerns for health and safety will impact the type of packaging required post-COVID.

More at-home occasions

Increased at- home occasions, with less demand for "on the go" configurations.

Health awareness

Trend toward healthier product formulations will accelerate post-COVID.

Focus on winning at-home occasions through investments in customer experience

The current crisis has resulted in a shift from out-of-home to in-home occasions. With roughly half the workforce working from home, children home from school, and forced closures for out-of-home dining, sports and other entertainment venues, there are far more meals being served at home. Home improvement, gardening and crafts have all benefited from greater engagement in interest areas that involve spending more time at home. This is accelerating a shift toward occasion-based marketing that existed before the crisis and raised the stakes for how brand manufacturers collaborate with retailers to win the trip, grow the basket and deepen loyalty.

Investing in content solutions and other forms of "edutainment" is expected to enable CPG manufacturers to capture a larger share of at-home occasions. Driving online engagement for occasion-based experiences can be key to reinforcing brand leadership. PwC research indicates that consumers are willing to pay 15% more for better experiences. This provides an opportunity to think of innovation more broadly than the product and package, to also include the experiences that deepen consumers' relationships with the brand — from discovery to purchase to usage to advocacy.

75%

of consumers believe companies should maintain changes with positive environmental impacts

Exhibit 5: Opportunities to win at-home occasions

Experiences

Build trust and reinforce brand love via investments in optimized content and personalization.

Activation

Win the trip, build the basket and deepen loyalty via a more coordinated approach to advertising, promotions, and other commercial spending.

Community

Build community around interest areas, fueling engagement in owned media and driving traffic to ecommerce and stores.

> “CPG manufacturers need to ensure the resiliency of their global supply chains, working with their vendors to ensure they can adjust successfully to the new environment.”

Focus on demand generation with high-value audiences in specific local markets

Digital marketing and programmatic advertising provide a way to invest in more targeted campaigns focused on the consumer segments with the greatest upside for growth. As CPG companies invest in stronger demand-sensing capabilities, they can pinpoint their investments to drive sales in local markets with the highest concentration of their target shoppers. This provides an opportunity to further coordinate advertising with local activation investments in collaboration with retailers.

It also provides an opportunity to amplify the ROI across commercial spending more holistically, managing promotions, paid media and other direct marketing expenditures (e.g., content, shopper marketing, sampling, coupons, experiential marketing, sponsorships, packaging changes) in a more integrated and effective way. While campaigns expected to continue including traditional media, the share of spending that is digital and more locally targeted are expected to continue to grow. Integrating campaign elements across the path to purchase is more important than ever.

Focus on pricing and promotions capabilities via stronger data and analytics capabilities

Economic recessions always result in greater frugality and price sensitivity. In the current crisis, however, manufacturers have scaled back the depth and frequency of trade promotions at retail. The surge in demand and shortages at the shelf have provided a respite from an endless series of promotional events at which brands trained the consumer to expect to find items on sale. This provides a window of opportunity to rethink pricing and promotions and focus activation and merchandising on building differentiated experiences, which, in turn, can help reinforce brand equity. Getting the balance right across pricing, assortment and promotion decisions can require integrated analytical capabilities to develop insights and normalize investments, both in-store and online, potentially also including more direct-to-consumer engagement by brands.

Focus on more flexible and resilient supply chains

During the first few months of the crisis, CPG manufacturers responded to rapid shifts in demand signals by adjusting their production schedules — in some cases focusing on fewer SKUs and increasing utilization at their plants to previously unachievable levels. At the same time, they worked with their extended global supply chains to confirm a steady supply of raw materials. This required a more agile approach to decision-making for many firms.

Looking ahead, CPG manufacturers should confirm the resiliency of their global supply chains, working with their vendors to verify that they can adjust successfully to the new environment. As CPG manufacturers revisit their product strategies, changes to their assortment and product design will require ongoing adjustments to their manufacturing and supply networks.

3x

more likely to increase ecommerce purchases if younger and from more affluent households

Focus on cost changes that don’t impact your ability to react quickly

Many CPG companies have already moved quickly to align their operations to the new environment. They have taken stock of their broad set of cost initiatives, accelerating some of them, starting some new initiatives, and stopping others, even if temporarily to focus resources on their immediate priorities. Looking ahead, there may be opportunities to drive further cost improvement, but this should to be done in a way that doesn’t impact the organization’s ability to react quickly to changing demand signals. There are four complementary approaches to aligning on the right long term cost structures. Commercial initiatives drive complexity reduction in the product portfolio that help enable further simplification in sales and marketing programs. Operations initiatives help drive further complexity reduction and leverage flexibility to tailor cost to serve in the end-to-end supply chain. Support initiatives focus on trade-offs across your global / regional / local operating model, end-to-end process improvement and automation, and real estate optimization. Finally, workforce initiatives should leverage the structural shift in virtual collaboration to help drive more efficient talent models even as you increase your enterprise’s agility.

Exhibit 6: Key cost levers

Commercial	■ Lasting changes in consumer demand ■ Acceleration in digital channels ■ Competitor consolidation	■ Cut complexity (e.g., SKUs, service tiers) and tie innovation to new demand patterns ■ Reset salesforce and customer engagement ■ Accelerate integration of legacy and new business models (including ecommerce and direct-to-consumer)
Operations	■ Trade off supplier efficiency vs. survival ■ Mix complexity is rapidly reduced	■ Develop flexible supply, production and logistics networks ■ Rethink complexity while product mix is changed, and adjust specifications from both supply and demand ■ Develop capacity in new regions and drive resiliency from a global supply base
Support	■ Greater need for variabilization and flexibility ■ Low-value work already stopped	■ Invest in end-to-end process optimization and digitization ■ Optimize real estate for remote work ■ Evaluate multi-country service delivery models, including diversity of supply nearshore and offshore ■ Reduce customization to enable better resource fungibility
Workforce	■ Virtual collaboration “trialed by fire” ■ Demanding more flexible and meaningful work ■ Focus on temporary labor impacts	■ Increase the mix of flexible talent based on new technologies, sourcing models or location strategy ■ Update talent management and leadership development to incorporate new roles and competencies that embrace the digital and virtual world

How do we respond?

CPG manufacturers should to take bold actions to position their companies to emerge stronger from the current crisis. Even as CPG manufacturers continue to drive near-term execution, they should to focus on strategic investments to reshape their capabilities and cost structures, proactively remake their industry structure and modernize their workforces. This may involve a balanced set of initiatives that will deliver value within the next six to nine months, as well as moves that can pay dividends further out.

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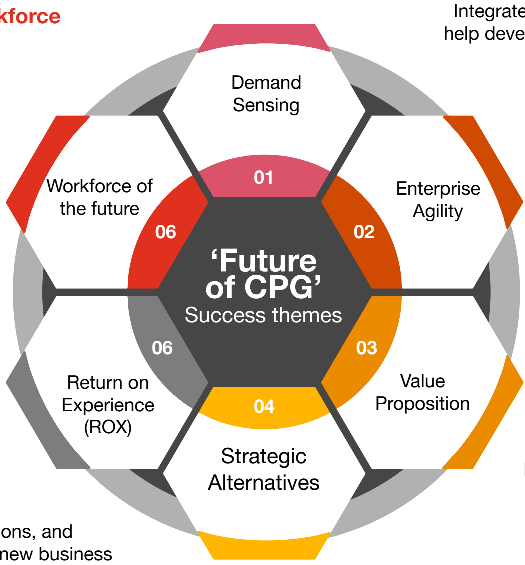
Exhibit 7: Future of CPG success themes



01 | Enhance demand sensing

Integrate broader set of data signals to help develop and adjust plans based on emerging scenarios.

02 | Be more agile

Accelerate digital marketing and ecommerce initiatives. Build more responsive and resilient supply chains. Help drive potential cost reduction without losing flexibility.

03 | Reimagine value

Deliver value through product design and packaging, as well as experiences around the product across the discover, buy, own, and advocate cycle.

04 | Make bold moves

Drive partnerships or acquisitions, and encourage faster adoption of new business models and cost structures.

05 | Boost your ROX

Track value realization with a balanced system of metrics that brings together experience KPIs and operational outcomes. Drive from insights to action to help accelerate value.

06 | Modernize your workforce

Foster digital upskilling, intelligent automation and greater focus on a few critical behaviors to help drive value from engagement in safety, innovation, sustainability and other priorities.

Reshape your capabilities and cost structure

Demand sensing is not a one-time exercise, but an enabler of your capabilities system. Greater enterprise agility is key to act more quickly on demand signals and provide a faster path to value across your capability investments. Enterprise agility helps to realize value over a series of shorter sprints, rather than over multi-year horizons, as is typically the case for larger-scale technology investments. Agility can be applied to capability investments on both the supply side and demand side of the value equation. On the supply side, greater agility helps to sustain ongoing cost reduction without impairing your organization's supply chain responsiveness and resiliency.

On the demand side, it helps to reimagine value from your innovation portfolio, while investing in experiences that deliver greater consumer value throughout the discovery, buy, own and advocate cycle. This can require a more integrated, locally targeted approach to advertising, promotions and ecommerce. Social media also provides both an additional data signal from consumers and a way to engage brand loyalists in new ways to bond and learn with your brand's target audience.

As companies invest in greater enterprise agility and drive a sustained focus on improving experiences, they can benefit from a more integrated and holistic approach to measuring their return on experience (ROX) and driving a faster insights-to-action loop. Developing an ROX system of metrics enables a more holistic approach to assessing the true ROI across your commercial investments for promotions, paid media and other direct marketing expenditures (e.g., content, coupons, sponsorships, experiential marketing, shopper marketing, social influencer campaigns, packaging changes and sampling). ROX brings together experience data with operational KPIs and outcomes, while using simulation and predictive analytics to optimize strategic decision-making.

> "CPG manufacturers should make bold moves to reshape their industry structure, rather than just react to events."

Proactively remake your industry structure

CPG manufacturers should make bold moves to reshape their industry structure, rather than just react to events. Tomorrow's brand leaders can build on brand strength to deliver innovative experiences that enhance value from their products, including new approaches to "as a service" business models that fuse data analytics with experience design and digital commerce. They can change the game for how they collaborate with retailers around data and analytics, pricing and promotions, and delivering the right look of success across both stores and ecommerce. This helps provides a catalyst for both organic investment and inorganic deal activity.

Modernize your workforce

Investments in experience should also include a focus on your employees. Under any circumstances, companies' with better employee experience enjoy higher productivity and lower employee attrition. Employee experience is also key to protecting your brand reputation and fostering a stronger trusted relationship with your brand in local communities. To help drive a step change in employee experience, companies should invest in scalable approaches to digital upskilling and intelligent automation, while driving adoption of a few critical behaviors that are key to evolving their culture. This helps build a movement in your talent in order to channel employees' energy and commitment into specific areas of value, such as safety, innovation, sustainability and other strategic priorities. Toward that end, you can also incorporate data signals from employee experience and adoption of cultural behaviors as part of your ROX system of metrics.

Exhibit 8: Three priorities for CPG manufacturers to emerge stronger

Become your fiercest competitor

- Imagine what a startup or a company you admire would do in your markets.
- Look for precedents for who has solved relevant challenges in innovative ways.
- Think in an unconstrained way to change the game.
- Prioritize areas of focus to become more like your fiercest competitor.

Hack your future

- Take a lean startup approach to accelerate priority focus areas.
- Drive the right trade-offs for value and speed, breaking down silos and reinforcing an agile approach.
- Define the ROX system of metrics that you can focus on to build a faster feedback loop and track value realization.

Energize your culture

- Think like a VC, funding the minimum viable product (MVP) and releasing funding in stages.
- Clear a path for your agile teams, facilitating the right resources and governance.
- Invest in upskilling and employee experience to further drive your ROX.
- Leverage M&A and partnerships in ways that are coherent with your strategy and cultural aspirations.

To emerge stronger and put their companies on a sustained path to higher growth and profitability, CPG manufacturers should engage key leaders in their organization on three priorities.

First, they should convene a set of cross-functional leaders across the business to step back from their current initiatives and ask a simple question: "What would our fiercest competitor do?" They can frame this question either through the lens of a startup brand entering their market or through the perspective of a company they admire. The key thing is to take a more unconstrained view of how to capitalize on strategic opportunities. Then CPG companies can ask what they can do differently to change the game themselves and preempt their fiercest competitor. As their strategic imperatives come into sharper focus, they can then prioritize specific initiatives to move closer to their vision based on value and ease of execution.

The second priority to emerge stronger is to hack the future. This should not be approached narrowly as a technology exercise. Rather, the focus should be on behaving more like a lean startup to foster greater enterprise agility in how to move forward on prioritized initiatives. This will require breaking down the roadmap for strategic initiatives into increments (e.g., three to six months), for which companies can drive progress in agile sprints (e.g., 2 to 3 weeks). Return on experience (ROX) can also be helpful in this context to speed the feedback loop to act on experience and operational data, while enabling a more holistic view across the value that the portfolio of initiatives is driving together. ROX helps to break down siloed behavior across the organization, while providing leaders with more democratized access to the data and insights they need for strategic decision-making.

2x

more likely to outperform peers on both revenue growth and profitability if you have a distinctive culture

Finally, CPG manufacturers should invest in energizing their culture as a priority to emerge stronger from the crisis. PwC research from our annual culture survey over the past 10 years has consistently shown that organizations with a distinctive culture that gives them a competitive advantage are twice as likely to outperform other companies in their industry peer group on revenue and profitability. Your culture is a multi-faceted system that requires proactive attention and nurturing from a broad set of leaders across the organization. Strengthening and evolving your culture requires an understanding of its unique traits, enabling you to prioritize specific behaviors to amplify. The way you engage your teams against areas of value can help to reinforce these desired behaviors, building a movement in the talent to help drive ongoing improvements in customer and employee experience that drive sustained business value.

> CPG manufacturers should take bold action to position their companies to emerge stronger from the current crisis. While uncertainty will remain for many months, there are clear lessons emerging for what it will take to respond to current challenges and navigate through to the other side of the crisis successfully."

The COVID-19 pandemic has caused substantial changes to consumer behavior, and it has already led many CPG companies to move quickly to change their innovation portfolios, operations and marketing in significant ways. As in past economic downturns, it can take months to see which consumer behaviors are likely to persist and where the new equilibrium will settle.

In the midst of this heightened uncertainty, there are key themes that are coming into focus for the future of CPG. Bold leaders can act on these themes today, reimagining their capabilities and engaging their employees to unlock the greatest opportunities to drive value. This can energize your culture, providing a virtuous cycle to drive innovation and improved performance for years to come as you emerge stronger from this crisis.

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