COVID-19 and digital transformation in the CPG industry

Digital transformation in the CPG industry has been positively impacted by the COVID-19 pandemic. Leaders are adapting to new ways to work and win. Together these changes will fuel the new wave for the consumer goods industry.

We are about two quarters into the world's largest psychological experiment, switching out mental models from work-life balance to work-life integration: collaborating in the kitchen, sharing household chores, keeping the kids engaged, adapting to zoom to run the office effectively and then helping the kids with it. It has been quite a steep learning curve on several fronts.

The consumer goods industry just declared their second-quarter results, and it can be said with confidence, it has been quite a performance. Executives have mastered the art of managing the office remotely. It would be one thing to work remotely if this were business as usual; quite something else when ensuring the safety and security of frontline staff, active demand and supply management, and managing cash flows. We have mastered integrated business performance in real-time over the past two quarters.

Market performance during COVID-19

Geographically, it has been a US-led growth these last couple of quarters with the market performing in double digits, something that has not happened in the consumer goods industry in decades. CPG industry, along with its retail partners, has orchestrated resources well to meet the demand. Things were not quite the same in Europe; however, here, supply lines were severely disrupted. The situation in the erstwhile growth markets of Asia-Pacific has been quite the reverse, as well as in parts of Latin America where traditional trade channels have continued to be in lockdown, severely impacting business. A double whammy for the CPG industry with bigger outlays in these regions has been the fluctuating exchange rates, impacting the total dollar value growth for the quarter.

COVID-19 consumer behavior and the future of shopping

In channel terms, e-commerce sales have sped forward five years for the industry, notably so in the categories of pet care, home, health, and hygiene, with firms reporting near 100% growth and e-commerce led recovery in China. This is new ground for CPGs, and it has been quite a performance for this industry all around.

- On portfolio performance, categories such as home and personal care and consumer healthcare have led the growth with high double digits due to a heightened sense of personal safety.
- Packaged food- cereals, prepared food, snacks, and biscuits, all registering high teens growth.
- Home consumption of chocolates and ice creams offset losses from the travel, on-premise, and foodservice channels, gums, and confectionary have not been as resilient. They have lost a third of their revenues in line with the shutting down of on the go channels.
- Prepared food categories are experiencing unprecedented penetration into millennial households as consumers shelter, cook, and work from home.
- Petcare, also registering high teens growth.

- The oral care and paper categories saw flat to mid-single-digit growth, due to challenges of mix and forex. Paper is experiencing increased competition in mid and low tiers from digital-native brands. Beer and non-alcoholic ready to drink beverages have managed to stay flat in the developed markets with packaging formats to capitalize on in-home consumption demand, offsetting the shuttered revenues from game parks, hospitality, travel, and on-premise. The developing and emerging markets with a higher mix of on-premise consumption registered degrowth.
- Bringing up the rear end are the beauty and grooming categories with skincare providing the saving grace with flat to low single-digit growth.
- Prestige, fragrances, and cosmetics have significantly declined with reduced usage and the shuttering of travel retail, salons, and departmental stores. Beauty companies have done well to pivot their beauty consultants and sales online.

Q1 was all brass-tacks- focus on people & community, demand & supply, rationalizing SKUs, and preserving cash. Q2 is when the CPG industry is starting to provide strategic direction and investment choices; some are also revising their earnings guidance upwards.

Working closely through these COVID times we are experiencing first hand, the digital transformation in the CPG industry underway. Here are the five strategic choices that will define growth for the digitally transformed CPG organization. They are:

1. Revenue growth management
2. e-Commerce
3. Unified demand planning
4. Digital brand experience and
5. Data as an asset.

Revenue growth management

Revenue growth management or RGM is a priority in nearly all quarterly results. They clearly demarcate the quarterly performance of CPG firms who have leveraged pricing and pack mix to grow business beyond underlying volume sales. The value unlock with RGM is at the micro-level, e.g., surgical or selected price actions, uncovering pack-channel opportunities based on the marketplace, or continuous optimization of promotion plans to be on track.

Continuous tracking also enables companies to react faster to marketplace changes, e.g., the impact of COVID-19 by sensing, shaping, and fulfilling demand more efficiently. Pack mix is down as much as 50% and driving significant capacity utilization; no one is looking to get back to full assortment post-COVID-19. Categories such as beverages are reconfiguring the pack price mix for large and multi-packs for profitable in-home consumption growth. With grocers moving to delivery, BOPIS, and curbside, instore category management, and range display is fast receding to become a relic of digital transformation.

e-Commerce

eCommerce is the channel in focus. CPGs have quickly learned that this channel operates differently from the regular grocery store aisles. It needs a unified approach to demand sensing, demand shaping, and demand fulfillment, synchronizing with an algorithmically operating flywheel. Of all the transformations underway, eCommerce needs significant upskilling for CPG commercial teams. A new future awaits, as grocers begin to use AR technology to tag ingredients and personalize choices for shoppers, and voice commerce sets new standards for merchandising.

Unified demand planning

CPGs are prototyping AI models for unified demand planning, algorithmically determining the demand plan, feature engineering business drivers, and exploring ML Ops techniques to simulate the demand planning process. This has been tried several times before, but the flux created by COVID-19 is the perfect crucible to innovate and experiment with autonomous AI for unified demand planning. Our experiments with clients during COVID-19 have been very encouraging.

Digital brand experience

Most companies are prioritizing digital engagement, bringing media planning in-house, building their consumer data platforms, automating bid management, and experimenting with cross-selling across their portfolio. This is a significant transformation of the erstwhile agency-led media business. Digital brand experience goes a step further to deliver a direct to the consumer experience. Companies with iconic brands are redesigning their business models to deliver a rich and personalized brand experience, direct to consumers.

Data as an asset

Underlying all this is how CPGs are developing a decision to data platform and an ecosystem for running rapid AI experiments and learning from them. COVID-19 is the perfect storm to experiment with possibilities, and we are privileged to work with the best of breed CPG minds in this space to experiment, learn and build the AI engines that will transform the industry and provide a source of significant competitive advantage to our clients.

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