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Grow beyond your legacy

How CPGs can unlock trapped
value and sustain profitable growth.



CPGs need to change how they operate. Now.

The past decades have been the “era of the brand”, and consumer product groups companies (CPGs) have traditionally been organized to deliver against one model: global billion-dollar brands. Until recently, this approach was wildly successful.

That’s no longer the case. CPGs now need to quickly pivot to find new areas of growth, manage increasing complexity and digitally enable their enterprises. CPGs face threats from new agile and digitally focused competitors who can easily adapt their operations in response to ever-changing market forces. Significant changes to operating models also will be required, as will a fundamental rethink of how processes and tasks are accomplished.

CPGs that will thrive in the future must have responsive, cross-functional processes that are laser-focused on fulfilling consumer, customer and employee expectations—at every touchpoint and across every channel—and at speed and scale. For companies that fail to act, operational issues will morph from merely challenging to urgent. CPGs need to act quickly or lose relevance and market share to emerging rivals.

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But how?

The journey to the high-performing CPG of the future will involve five changes:

1.

Reimagining the operating model to deliver end-to-end value.

2.

Reshaping core systems and processes.

3.

Reconfiguring how work gets done (and by whom).

4.

Adjusting the approach to costs.

5.

Assuring leaders have the capabilities to manage through the transition.

1. Reimagining the operating model



1. Reimagining the operating model

Conventional wisdom used to say that companies cannot operate at scale and be responsive locally. Yet, there are players proving that scale and responsiveness are not mutually exclusive.

By gaining competitive agility through operating models that continuously keep pace with the market, truly agile organizations realized 16 percent EBITA growth over 10 years compared with just six percent for the non-agile organizations¹.

Many CPGs today have operating models that are no longer fit to compete. And C-suite executives already know this:

94%

of survey respondents said their operating model puts their organization's growth and performance at risk²

Success in the future requires organizations to reconfigure the operating model (see page 6). This includes how processes are structured to deliver the right end-to-end experience for consumers, customers and employees. Historically siloed functions of marketing, sales, supply chain, IT and other business services have been a longstanding challenge for CPGs. In the future model, these functions will come together seamlessly to create winning experiences.

Reassessing the operating model will entail thinking strategically and holistically about how to drive cross-functional teams to work together in ways they haven't before. Long-term structural changes to old ways of operating are required to flatten the siloes. Transitioning to this new "horizontal" and connected way of working will require a critical evaluation of the organization's culture and operating practices.

Many companies have tried to address these characteristics of their models in pockets but haven't been able to sustain or scale the approach. The new operating model brings humans to the center of the equation. It focuses on outcomes versus on strictly defined roles. And, it empowers data-driven decision-making at the front line.

1. Reimagining the operating model

Agile operating models have these characteristics³:

1.

Human

Processes and tools are designed around humans and what they care about, from employees to end consumers. A culture that promotes authenticity, continuous learning and delivering on a purpose helps foster entrepreneurial mindsets and lays the foundation for the other characteristics.

2.

Liquid

Companies have porous, “liquid” structures to seamlessly access people, processes, systems and assets from anywhere. Now competitive muscle comes as much from what can be harnessed from outside—across partners, suppliers and adjacent companies.

3.

Enhanced

Continuously adaptive organizations ensure that humans and machines enhance one another. They empower people and automate lower-value activities. To drive productivity and wellbeing, they harness the power of technologies like machine learning to transform core linear operating processes to dynamically respond and evolve.

4.

Living

With the help of new technologies and unprecedented levels of transparency, organizations can create entirely new, more flexible ways of structuring and organizing work to adapt to the market. Nimble, self-organized teams prioritize progress over perfection, with a willingness to disrupt the status quo at a vastly accelerated pace.

5.

Modular

Modular organizations create independent, discrete businesses or capabilities that can be “plugged and played” based on well-defined, standardized interfaces. These players enable multiple operating models under one company to respond faster and disrupt at speed.



2.

Reshaping core systems

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Data is, in many ways, the new currency. But actionable insights are the gold standard that can create real value.

To understand—and then organize around—priority consumer or business outcomes, CPGs must be able to use advanced analytics and artificial intelligence (AI) to turn vast amounts of data into real-time insights across the organization. They need to **become data-led**, which means being able to rapidly operationalize data-generated insights across the entire value chain, reallocating resources across the organization and utilizing ecosystem partners to scale up and down with market opportunities.

Transforming core functions and processes must be supported by a technology architecture that's built for scale and speed. Currently, slow-moving legacy ERP systems

are holding companies back. In their efforts to modernize, too many CPGs focus on a narrow definition of ecommerce—separate from their traditional fulfillment practices—that provides short-term value but doesn't consider the full, connected potential of omnichannel fulfillment capabilities (e.g., click and collect, ship from anywhere, last-mile delivery). Looking ahead, CPGs will need to manage the full range of digital commerce capabilities and ensure they provide a connected and **integrated approach in the process**.

CPGs must define intelligent platform architectures that are modularized and decoupled to enable agility to meet ongoing market volatility. The combination of an

upgraded ERP system and full migration to the cloud provides an unprecedented **ability to leverage data**. For example, SAP's S/4HANA digital core helps provide simplification and standardization, refocusing ERP on core functionalities to enable agility and data consumption by core apps. Industry leaders are creating an intelligent data foundation and architecture that provide a real-time version of the truth across the organization.

3. Reconfiguring how work gets done... and by whom



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Intelligent Business Services (IBS) offer tremendous potential and need to be radically re-thought.

The global pandemic was a catalyst for CPG companies to make big changes to how their supporting business functions will operate. Given the work-from-home practices that arose during the pandemic, organizations are critically re-examining the role of geography to determine how to best organize IBS for maximum effectiveness.

Past models often located IBS teams in single geographies and focused more heavily on back-office processes, but in today's world, that model may no longer work. For example, if an organization can get customer insights from multiple different geographies in real time, business decisions, adjustments to products or refinements to services can be made much more quickly. Also, if employees are recruited and trained with a global mindset, companies can scale services around the globe more easily when

and where they are needed, rather than relying on a single geographic location for talent acquisition. Significant productivity gains should lie in store for organizations that can crack these variables.

IBS of the future will be:

- Human-centric, with end-to-end experience-based services ensuring intuitive, always-on access.
- Digital at the core by harnessing data-driven capabilities to expand and run integrated services across the organization.
- Supported by an agile and capable workforce with a digital-first mindset to unlock new opportunities by human + machine collaboration.
- A strategic part of a value ecosystem to help fill capability gaps and increase speed to market.

A global food company established new customer and consumer services through IBS.

In so doing, they established a platform for simplifying traditional services like financial planning and analysis, and source-to-settle. They also shifted from functional, transactional work to providing end-to-end services across all functions—powered by automation, analytics and innovation capabilities such as an innovation incubator to launch social listening and 360-degree views of consumers.

3. Reconfiguring how work gets done... and by whom

Businesses today often don't have the luxury of sizeable investments to create whole new capabilities. With the ever-changing requirement for new skills and capabilities, organizations struggle to keep up. In response, they should evaluate their ecosystem to determine which partners can help fill capability gaps and increase their speed to market. Leaders who open their organizations to further, deeper relationships with key partners find that this approach breeds opportunity for joint value creation. Rather than a transactional vendor/customer relationship, your partners become strategic, integrated (through IBS) and invested in your success as much as their own.



Henkel cultivates in-house talent by skilling up

On its journey to secure future growth, Henkel needed to foster innovation. The concept of a relationship with a brand is rapidly evolving. And with new brands emerging all the time, there is increasing pressure on large, typically fragmented companies—especially those with multiple product categories for both consumers and B2B customers. **Henkel** wanted to enhance its systems to better nurture existing talent, pinpoint skills gaps and offer targeted learning programs⁴.



4.

**Rethinking
the approach
to costs**

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In the past decade, the CPG industry underwent a significant evolution based on many companies' adoption of zero-based budgeting (ZBB) approaches.

While the sentiment was right and, in the short term, costs were cut, many companies did not achieve full transformation benefits: the changes from ZBB were not sustained, and costs crept back in. Today, however, leading companies are embarking on a more holistic approach to cost management that reframes management and decision-making to drive reallocation against the new areas of value.

Advanced analytics capabilities are essential to providing a new lens into costs. Data-led insights about cost structures and resource allocation enables organizations to monitor, measure and adjust on an ongoing, comprehensive basis.



5. Assuring the right leadership capabilities



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A critical element of the shift to this more value-oriented approach is the capability of the leadership team.

CPG leaders who will lead effectively through transformational times will require different skills than in the past (see Figure 1). The biggest differentiator in the industry is no longer the ability to envision the future, but instead having the mindset and skills to lead the change and guide the organization through the journey. This transformation is profoundly uncomfortable – and requires a different leadership profile. Experience is not enough.

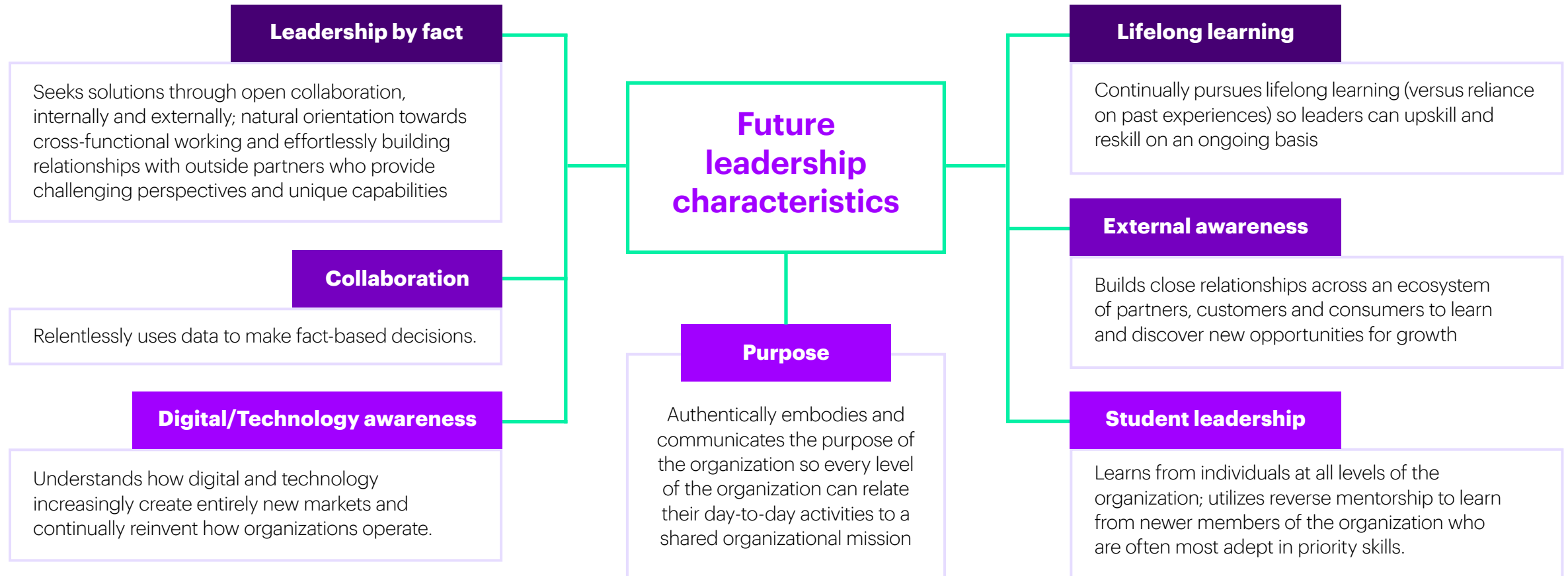
The new leader is human and authentic, continually builds their skills in new areas, and fully embraces the dynamic market opportunities and data and technology-powered capabilities which define the future (see Figure 1).

When leaders have the digital/technology awareness to transform the core and can envision new ways of working and business models, true transformation will begin. CPGs can then collapse traditional organizational structures, modernize complex legacy technology infrastructures, change inflexible cultures and mindsets, and integrate data to make decisions faster and smarter than ever before.

“The new leader is human and authentic and continually builds their skills in new areas.”

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Figure 1: How consumer goods leaders are changing

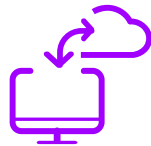


Start your transformation journey

Becoming more value-oriented means new operating models, new ways of working and new technologies. To get started:



Assess how the operating model supports competitive differentiators and where it aligns to the five characteristics of an agile operating model.



Define technologies needed to support consumer-centric processes. Migrate fully to the cloud to enable becoming insight-led and responsive.



Determine required capabilities and skills for end-to-end processes. Identify where automation/machines can supplement people, and how enhanced IBS can accelerate value.



Reframe cost management with advanced analytics that provide real-time costs and asset allocation. Monitor, measure and adjust to reallocate to new areas of value.



Evaluate how executives embody the future-oriented leadership characteristics and ability to guide the organization through true transformation.

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- 2 **Busting the myths of agile, Accenture, 2020**
- 3 **Move fast to thrive, Accenture, 2019**
- 4 **Henkel cultivates in-house talent by upskilling**

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