

A New Dawn for the CPG Industry



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The consumer is dead Long live people

Chinese live streamer Li Jiaqi sold \$1.7B of merchandise in a single 12-hour livestream.

On average, five new CPG brands have launched every week in the past decade¹.

Within 20 years, half of the S&P 500 will be new.

The ever-increasing pace of change is stunning – and companies are struggling to keep up with leapfrogging consumer expectations. At the same time, technology continues to rewrite the rules of business – and reimagine the possible. Consumer goods companies seeking to build today's best-in-class capabilities will have fallen behind by the time the future arrives.

At the heart of this change is the human being.

The human condition continues to change at an ever-increasing pace. Technology and large-scale cultural forces fundamentally alter how people live, work, and play – and, most crucially for CPG brands – how we seek to satisfy needs ranging from the most basic to the aspirational. The pandemic only accelerated those long-term trends. Today, people are re-entering the world with a set of permanently altered priorities and habits.



Source: Accenture Research



Holistic Health & Wellbeing

I will continue to...

- 68%** Shop more health consciously
- 67%** Spend more time on self-care and mental wellbeing
- 59%** Exercise more
- 53%** Use technology to access health care (e.g., telemedicine)

... And, **85%** of individuals consider **indulgence** an important factor for health



Virtual (Re)creation

42%

Have purchased a physical good in a virtual world

Metaverse for all ages:
58% of Gen Z, 61% of Millennials, 53% of Gen X, and 34% of Boomers are interested in virtual living



Becoming My Best Me

>50%

Plan to **learn new skills** or complete education online

>50%

Are exploring **new sources of income**



Doing Real Good

Even before C-19, sustainably marketed brands...

Grew **7.1x** faster than conventional products – and continue to grow during pandemic

Only 16% of market share, but **55%** of market growth

Price premium of **39.5%** – and increasing

Our Human Needs

These shifting habits, paired with the rapid advances in technology and the emergence of new disruptions like the metaverse, represent an inflection point. By putting real people at the center of their thinking and embracing the potential of new technologies, CPGs have the opportunity to redefine the industry.

Welcome to the new era of innovation – powered by humans

Disruption is increasingly driven by new business models predicated on human and other kinds of data, opening the door to new sources of growth. Data-led business models and engagement will not only differentiate brands, but also provide insight that drives new and continuous innovation. L'Oréal's CEO, Nicolas Hieronimus made the following statement in his speech during CAGNY 2021: It's a virtuous cycle where we know what the consumer wants [and] at the same time, we feed our laboratories and our R&I with this consumer data that will allow them to invent future products².

More than ever, individuals — not companies — are the ones who own and architect the brand. And existing business models prove that consumers expect to be active participants at every stage: as investors through platforms like Indiegogo; as manufacturers with at-home options like Bartsian; and as creators, marketers and sellers through platforms like Etsy.

This shift is creating a tidal wave of innovation — and increased competition. On average, five new CPG brands have been launched every week for the past decade, often with new business models that defy the conventional wisdom about what CPGs provide.



C'est qui le Patron, a dairy company in France, actively involves consumers in the co-development of the product and business model by giving each individual consumer the opportunity to vote on a variety of strategic decisions, including product design, production and even supplier compensation. This unusual consumer engagement has propelled the business to the No. 4 dairy brand in France.

³



Between a rock and a hard place

These changes in human behavior are far from the only challenges threatening the industry's long-term prospects for growth. Competition among deep-pocketed incumbents continues to be fierce. Margins are increasingly under pressure as advertising, raw materials and other costs continue to rise.

Equally threatening is the continuing proliferation of channels and engagement models, with both traditional and online players increasing their span of control over end users. Pioneers like Alibaba reinvent retail through an ever-increasing array of services and platforms — with massive impact. A single Alibaba Taobao live-streamer, Li Jiaqi, sold \$1.7B (USD) of product in one 12-hour span during Singles Day 2021. Fifty-three percent of US consumers begin their product searches on Amazon, and Amazon generated over \$30B in ad revenue in 2021, with 32% growth in Q4.

Even traditional retailers such as Walmart, Kroger and Tesco are monetizing their shopper insights to create new services such as retail media and data services that they can sell to brands to increase profits. The high cost of selling through digital channels, and the complexity of managing brands across so many of them, is forcing CPGs to spend more just to sell the same products.

Proliferating consumer & customer commerce models

All these factors represent existential threats to the industry. As other players capture a larger and larger share of consumer attention, CPG leaders are asking: *What should my role be?*

CPGs have a choice. They can be relegated to being simply the makers of products. Or they can rethink roles and relationships, reaffirming their critical place in the lives of human beings and shaping the future of commerce in this industry.

Unlocking 360° Value

In the past, investors saw CPGs as the providers of slow growth and reliable returns. Increasingly, investors are asking for more, and pressing companies to look at new sources of growth while also demonstrating resilience and responsibility.

Financial success is not enough. Today, CPG companies need to embrace what we call 360° Value. This means looking beyond short-term financials to understand what generates enduring long-term, sustainable value in a world where people are more empowered than ever to choose the companies with whom they engage.

A 360° Value approach balances short and long-term gains and simultaneously fulfills a range of objectives, from financial return to customer loyalty to employee wellbeing and diversity & inclusion to our footprint on the planet.

Importantly, leaders must start to think of these as interrelated priorities, and not simple tradeoffs. Sustainability is a good example, where companies can generate outsized financial return by doing the right thing. Even in the midst of the turmoil created by the pandemic, 60% of individuals told us they were making more sustainable and ethical choices. Analysis of Nielsen data by the NYU Stern Center for Sustainable Business found that sustainably marketed products grew 7.1x faster than conventional products and garnered a ~40% price premium.

Investors, too, are demanding that companies act. Blackrock's CEO, Larry Fink, continues to highlight that "climate risk is investment risk" and that "climate transition is a historic investment opportunity." He predicted that this would be represented in securities pricing, and in his 2021 Letter to CEOs, Fink pointed out that resulting capital reallocation against this opportunity actually accelerated during the pandemic.



The path forward

Breaking free of any legacy mindset or operating model takes time, particularly for large organizations. This includes the long-established approach for achieving industry dominance. Historically, CPGs have focused on winning by targeting current industry best practices. But given the rate at which technology and consumer habits are evolving, what is “best-in-class” will have changed by the time the company gets there. Thus, we encourage CPGs to take a cue from hockey great Wayne Gretzky:

“Skate to where the puck is going, not to where it is.”

Future Ready CPGs make the leap to mastering emerging capabilities in the areas where they must win – before the puck is out of reach.

Future Ready CPGs will be a new breed of human-led, data-fuelled businesses, able to effortlessly reimagine, grow and endlessly reengineer themselves. With 360° Value as their North Star, these companies will have the visibility across their value chain and the flexible manufacturing capabilities to put real human beings — with all their complexity, contradictions and unpredictable shifts in taste — at the heart of everything they do. The transformation to being Future Ready begins when companies learn to incorporate humans as active participants in forging and defining their brands.

The story is simple, and yet profound. Future Ready CPGs will:



Seek and scale new growth, redefining the industry and their growth potential



Create and deliver winning experiences, co-created with people and flexibly delivered as the partner of choice with customers and across the value chain



Power their people so they can be human agents of new growth



Unlock value through seamless, dynamic investment of resources



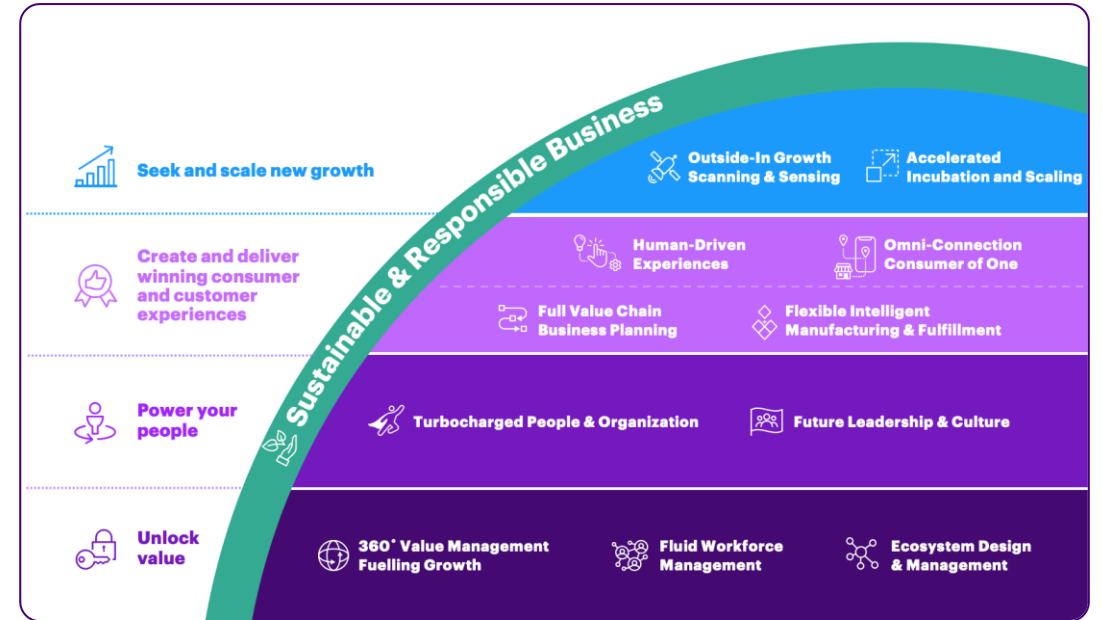
Embrace sustainable purpose, integrated in their strategy, delivered through their offerings and executed through their operating model

Creating the Future Ready CPG

We have defined 12 Future Ready Characteristics that will be essential to CPG success within the next five years.



The CPG Company of the Future: 12 Characteristics



No company today is fully proficient in any single characteristic — much less across all 12 — and you should not seek to be the master of all. By assessing their organizations’ capabilities against each of these characteristics today, leaders can set priorities for change that will drive the highest value for their organization tomorrow.

**Seek and Scale
New Growth**

**Deliver Winning
Customer Experiences**

Power your People

Unlock Value

**Sustainable &
Responsible business**



The Characteristics of a Future Ready CPG

Seek and Scale New Growth

The ways in which CPG companies identify and realize new growth opportunities are overdue for change. They need to move from thinking about the “total addressable market” (as defined by existing CPG categories) to the “total addressable problem” (as defined by human needs).

The old pathways to innovation are not enough; people are demanding holistic solutions. If we are to seize these unconventional — and superbly valuable — opportunities, we must embrace new business models, disruptors and innovations from outside the industry.

Create & Deliver Winning Consumer & Customer Experiences

Future Ready CPGs will be “human first”, collaborating with individuals as co-creators and integrating human needs and preferences into every part of their process — from R&D to marketing to sales — and delivering seamless, relevant experiences for consumers and customers across channels.



Power Your People

For any company, executing on strategy comes down to people – and executives increasingly express concern about their ability to recruit, develop and retain the intrapreneurial, flexible and future-skilled talent they need. Future Ready companies will work to empower and align their people around their organizational purpose, with the skills, insights and technology that enable democratized decision-making – and unbelievable productivity.



Unlock Value

Future Ready CPGs will focus on a more comprehensive definition of value, continually allocating and reallocating resources to meet consumer demand and maximize ROI beyond financials.

Sustainable and Responsible Business

Do well by doing good

Sustainability is an overarching commitment that will inform every aspect of the Future Ready CPG, and must be embedded in every one of the other characteristics. Today's piecemeal approach to investing in change does not meet the rapidly rising expectations of consumers, and often leads to accusations of greenwashing. Tomorrow's leading companies will understand that sustainability drives long-term growth and viability.

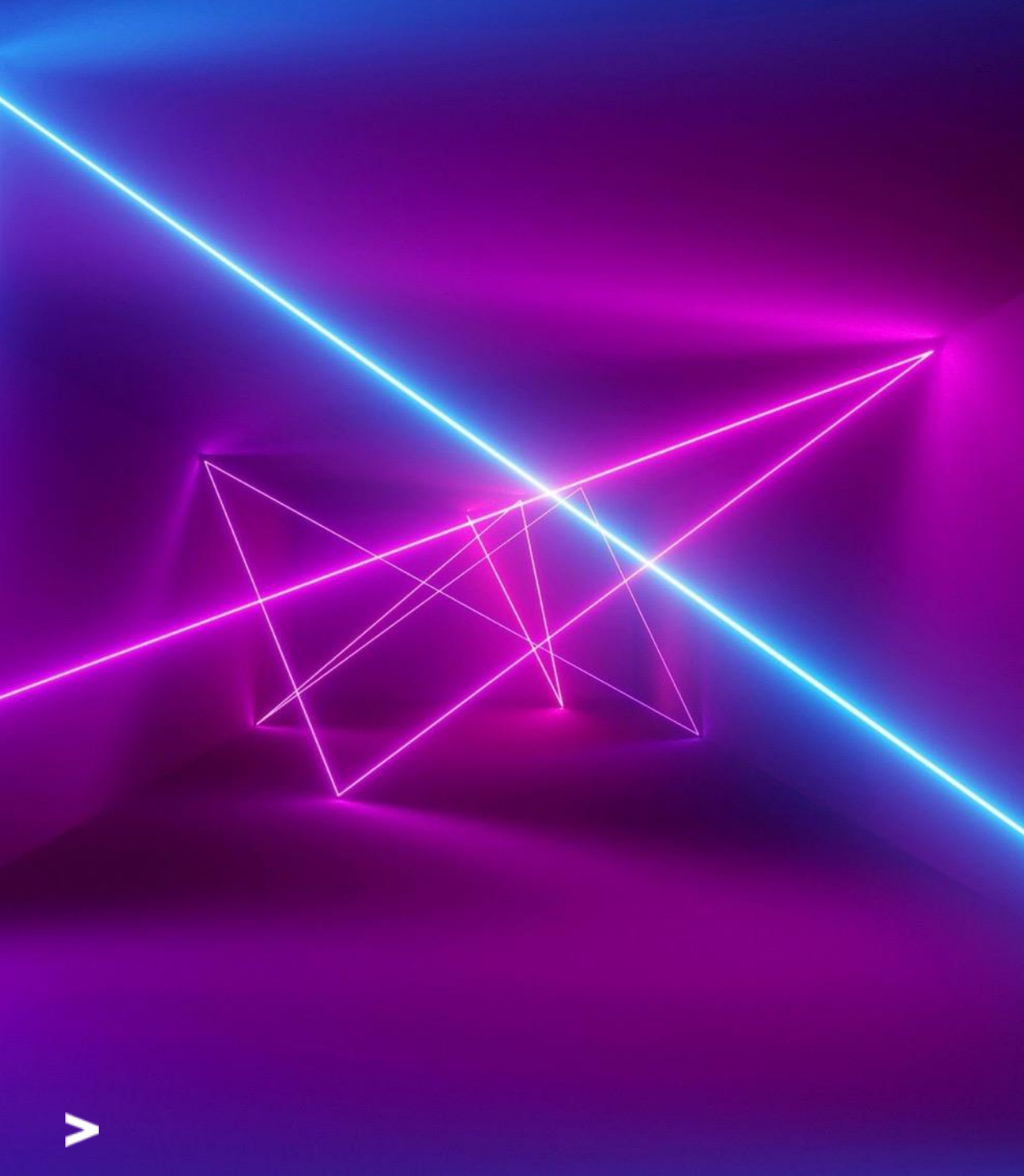
Next steps



No industry can survive in a state of perpetual catch-up. However, too many CPGs, preoccupied with short-term value and mired in a legacy mindset, have fallen behind, while what is considered “best-in-class” continues to advance by leaps and bounds. These 12 characteristics provide a roadmap to building a flexible, Future Ready business that can constantly reinvent itself to align with consumer expectations and better compete with younger, more nimble entrants.

Though Future Ready CPGs will demonstrate proficiency in all 12 characteristics, not all should expect to achieve world-class status in every characteristic in the near term. These characteristics are meant to help leaders forge a clear view of the long-term strategy for their company against which they can execute over the next five to seven years.

Once aligned on a vision, CPGs should assess the maturity of their organization against the 12 characteristics and identify the organizational, operational and cultural obstacles to delivering ambitious net new growth in the near-term and beyond. This will make clear which areas to prioritize to drive the highest value for their organization.



With that roadmap in hand, your organization can invest in the technological solutions, organizational capabilities and human factors it needs to achieve Future Ready status. As your organization embarks on these changes, you must recognize the dependencies among the characteristics. For example, creating and delivering human-driven experiences will become easier when you commit to full value chain business planning, just as flexible intelligent manufacturing and fulfillment will be difficult to achieve without committing to fluid workforce management. As you make progress against each of these principles and characteristics, your organization's definition of value will change for the better, with less emphasis on short-term financials and a better alignment with 360° value.

This is a formidable challenge that requires leaders who are focused but flexible and eager to embrace non-traditional paths. Above all, leaders must maintain a vision of 360° value that places human beings, with all their complexity and contradictions, at the heart of the entire organization, animating employees at every level and setting a course for perpetual growth.

How to get started

- 1 Evaluate your organization's overall strategy** and determine your current performance and level of aspiration against the 12 Characteristics – including those you will prioritize to create competitive differentiation.
- 2 Align your leadership on the prioritized characteristics**, and the timeline for achieving competency in those areas.
- 3 Review your portfolio and transformation plan.** Ensure you have initiatives in place to achieve Future Ready status and that they are complementary and interconnected. Outline and regularly update your transition roadmap.
- 4 Value your organization's ecosystem** to determine whether you have the necessary partnerships and resources to achieve competency in the characteristics you have prioritized—and those beyond. Be clear about which partnerships you lack and devise a plan for creating those working relationships.
- 5 Make the pursuit of Future Ready status an ongoing part of your overall business strategy.** Internalize the understanding that achieving Future Ready status requires the adoption of a new way of thinking, operating and acting—both today and well into the future.



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