# How FMCG can win in a virtual world

Grappling with the new retail reality

Atos

## The unprecedented impact of COVID-19

For decades, fast-moving consumer goods (FMCG) companies have been the choice for investors looking for moderate but constant growth and high profitability. Since December 2000, the FMCG industry outperformed the market by an average of 2.4% per year, returned 0.6 points more dividend and delivered these returns a significantly lower risk.[1] Given this past strength, one might expect the industry to prove to be more resilient than others — even now.

### Below market performance

However, this is not entirely the case. Despite a hefty 25% drop the pandemic began in February 2020, it has still been less severe than the overall market at 36%. Unfortunately, the recovery that followed so far was weaker than in other industries.

FMCG performance from March 11, 2020 (the day the WHO declared a global pandemic) until August 31 has significantly lagged both logistics and the market average.

Most markets had returned to January 2020 levels by August with one notable exception: Retail[2], which gained 46% since the beginning of 2020, despite (or because of?) the pandemic.

So why is retail outperforming? Didn't well-known names like JCPenney, Neiman Marcus, J.Crew and Brooks Brothers go bankrupt?

It is by large because of the success of online sellers. While foot traffic to brick-and-mortar stores selling primarily discretionary goods (including apparel) remains down by as much as 43% from last year[3], Amazon reported a 43.4% increase in North American sales and 33.5% worldwide revenue growth in the second quarter. Online sales of groceries tripled as consumers went online in large numbers to buy food during the COVID-19 pandemic, and Amazon increased its grocery delivery capacity by 160%[4].
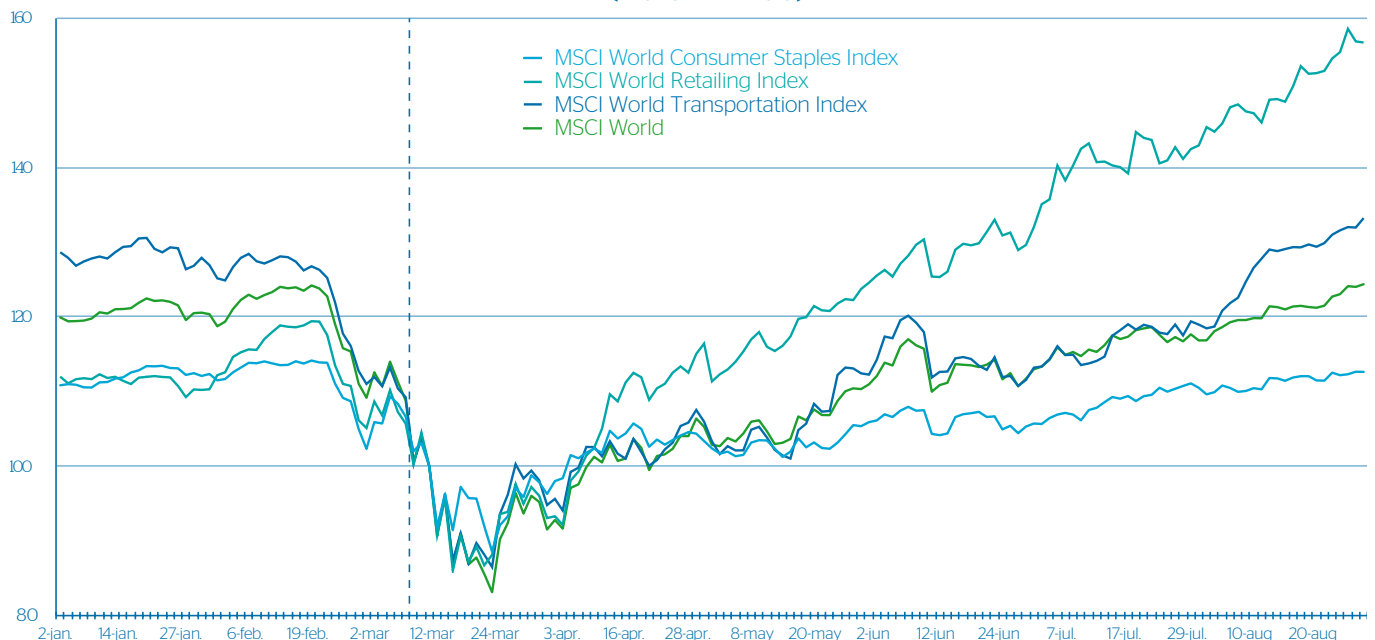
Walmart's online sales have surged 74% during the pandemic[5] and Metro has seen online grocery sales jump 280% in the quarter ending July 4[6]. In the UK, Aldi even had to quickly build an online channel that it previously lacked[7].

There are also new buyers taking advantage of online sellers. Amazon India reported a doubling in Prime memberships before and during the festive season beginning in August[8].

### FMCG online sales surging

The significant shift towards online shopping as a result of COVID-19 lockdowns will not reverse as quickly as it arrived. Permanently higher levels of online consumer products buying will be a feature of the marketplace for some time to come. This presents both a challenge and an opportunity for FMCG companies. To be successful they will need to leverage their inherent strengths in branding and new product development, identify the right online channel strategy to sustainably grow market share, and leverage technology to become ever more agile and adaptive to meet the rapidly evolving needs of consumers.

## Global Sector Indices Compared
### (March 11 = 100)



- MSCI World Consumer Staples Index
- MSCI World Retailing Index
- MSCI World Transportation Index
- MSCI World

Compiled with publicly avalaible data sourced from MSCI.com

## The value of a positive experience

As a result of the new purchasing behavior caused by the pandemic, many customers have realized for the first time that online retailers not only offer electronics or hardware, but also all items for everyday use.

### Learning to buy online in times of need

Certain household products were obviously in high demand at first: Amazon's best-selling household supplies in August 2020 were batteries, disinfecting wipes, toilet paper, liquid dish soap and disinfectant.

Those ordering these products online for the first time will not limit themselves to these items, and quickly learn that online retailers outperform every supermarket in terms of their product range and often the price.

Customers who bought household products online during the pandemic will — at least in part — maintain this learned behavior even after normalization. The trend away from traditional retailers will intensify and accelerate even more if the buying experience was a positive one.

### Customers like the new experience

According to the 2020 U.S. Online & In-Store Grocery Shopping Study from Retail Feedback Group (RFG)[9] Amazon achieved the highest score in virtually every area of online grocery customer satisfaction, including easy navigation to desired products, smooth website/app performance and checkout process, and easy-to-find and apply discounts.

Overall, 36% of consumers surveyed by RFG this year said they were first-time online shoppers.

Amazon stands to see the largest increase in online grocery purchases in the next 12 months, with 52% of shoppers saying they'll do more food shopping with Amazon, compared with 46% for Walmart and 44% for supermarkets.



## Strategic choices and new demands

### New market rules

The growing power of online retailers will change the rules for FMCG.

Market entry barriers are lower. Getting products listed is not an issue with online retailers, as there is no precious shelf-space to compete for.

FMCG companies might sell their products directly, which requires investments in an extended supply chain and a more direct relationship with consumers that does not completely destroy the traditional distribution channels. In other words: how does one become a B2C as well as a B2B2C? What is the value proposition alongside the core product?

Platform pricing has to be both profitable and regionally competitive, and must be adjusted more often. Sales territory protection becomes meaningless.

> **By the numbers:**
> Product ranges of online retailers
>
> - 168 women's razors on Walmart.com
> - 268 ice creams on Tesco.co.uk
> - 300 hand soaps on Target.com
> - 456 bottled beverages on Amazon.com
> - 894 frozen pizzas on Amazon.com
> - 4,000 breakfast cereals on Amazon.com
> - 4,400 candy bars on Ebay.com
> - 20,000 shampoos on Amazon.com

### Private labels

On retailers' online presences, there is a risk of competing brands being placed or presented more exclusively.

FMCG companies will face a variety of diverse and hard-to-manage end consumer markets, in which:

- A tiny competitor might receive better positioning,
- Online-only brands have more flexibility in pricing and conditions, or
- The brand presentation is hard to manage.

Options like setting up your own online retail store, building a micro-site to offer the equivalent of a "shop-in-shop," or partnering with online retail agencies must be evaluated by market, by brand, and in some cases, even by product.

## Rely on your traditional strengths

So, is there any good news for large FMCG companies?
We believe there are indeed. While the rules are changing, the new game can still certainly be won.

### Brand

One clear advantage the FMCG incumbents have are their powerful brands. They give orientation in an overwhelmingly broad product portfolio and can act as a default if the customer cannot decide. The top sellers are usually easiest to find and listed first.

### Speed

Second, the incumbents have a vast edge in experience with product launches. If new products are introduced online by start-ups, their level of success is easy to notice. A response with your own, similar products is easier to organize than ever before, either on your own platforms or others.

### Supply chain

Third, big FMCG players have an established production and supply-chain network. The highest levels of productivity, global reach, consistent quality and fast, accurate delivery will remain important.

### Trust

Finally, decades of customer experiences with well-known products provides the basis for credibly meeting new customer requirements, such as safe, healthy products, sustainably produced ingredients, fair trade, local sourcing, secured origin or carbon-neutral production.

In order to win in the marketplace, FMCG companies will have to continue to excel in these areas. New technologies can help a great deal with that.

## Secure the brand with technology

FMCG organizations must be aware of the risks that digital channels and technologies pose to their valuable brand and take steps to protect it.

Counterfeiting and brand/product impersonation are not new concepts to the FMCG industry. However, with the move to digital channels comes the increased challenge of protecting your brand in an era where reality and illusion are often hard to distinguish.

### Artificial intelligence

Artificial intelligence is one critical tool that FMCG organizations can adopt to combat the rise of product impersonation and mis-selling that is now prevalent on websites, social media channels and eCommerce stores. In the same way that AI-enabled bots can be used to gather competitor intelligence, bots can be used to scrape popular marketplaces and online sites to assess, analyze and identify potential copyright and brand infringements that undermine your brand image.

### Image recognition and analysis

Image recognition and analysis tools are now sufficiently mature that images of counterfeit goods being incorrectly or maliciously marketed as original products can be identified to enable appropriate legal or criminal action to be initiated. Combined with other techniques such as digital watermarking, AI can act as a powerful tool to detect and enforce product authenticity and intellectual property issues on a scale that is unachievable with human resources alone.

AI can also be used effectively in what is increasingly becoming a "review based" purchasing economy. Recent research by the Spiegel Research Center suggests that a product with five reviews is 270% more likely to be purchased than one with no reviews, making it imperative that FMCG organizations pay attention to the reviews posted online about their products[10]. Online reviews are big business. An analysis by the Financial Times showed that nine out of the ten top-ranked Amazon reviewers in the UK were likely to be engaged in some form of "reviews for cash" scheme[11].

While many organizations have woken up to the online industry of purchasing positive reviews in bulk to artificially improve product perception, a battlefront is emerging around fake reviews. In this scheme, fake reviews are posted to undermine consumer confidence — in an attempt to switch customers to similar competitive products that are often cheaper and inferior in nature[12].

### Bot Technology

Artificial intelligence can provide a significant advantage to FMCG organizations attempting to combat these types of malicious activity using similar bot technology to constantly monitor Google search results and popular eCommerce sites to identify suspicious review activity so appropriate action can be taken.

## Blockchain

Technology is not just helping protect authenticity and intellectual property in the virtual world. Physical product authenticity is still a major concern for FMCG organizations to ensure that the health, well-being and trust of their customers is maintained. In a world threatened by industrial-scale fraud, confirming the authenticity and lifecycle of products through a complex global supply chain before it reaches the customer is of paramount importance.

Protecting distribution networks and supply chains from counterfeit substitution, product tampering and theft is an area where blockchain (or distributed ledger) technologies combined with Digital Twins can bring significant benefits to FMCG organizations. Combining such technologies with more established tools for track and trace — such as barcoding and image recognition — can give FMCG organizations a more detailed and transparent view of not only where their products are in the supply chain, but also a digital replica that identifies and react to issues such as tampering, damage and counterfeit replacement. Before embarking on any technology journey, FMCG organizations should

carefully consider how digital solutions will contribute to their overall business strategy and direction. In a fiercely competitive business climate, technology investments should be considered and tested in a way that demonstrates a genuine step change in business performance.

FMCG organizations should consider developing their own digital transformation "playbook" that sets the context for digital investments and identifies the way in which a roadmap of digital interventions will be conducted to maximize the anticipated benefits that new technology adoption is expected to deliver.
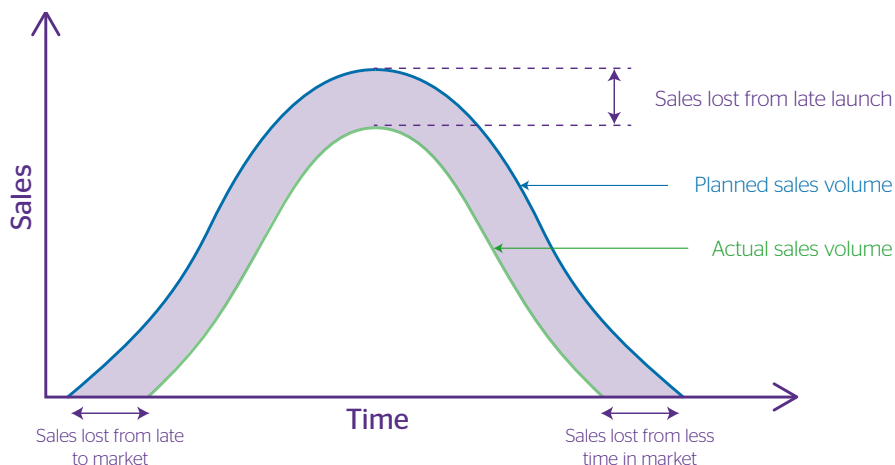
## Increase your agility

FMCG companies should continue to invest in technologies that reduce product development time, evolve production lines, supply chains, distribution and marketing, but there is a growing emphasis to counter new digital challenges.

Unfortunately, IT is often an inhibitor — rather than an enabler — for speed. In 2011, a BCG FMCG speed-to-market survey rated IT integration as the worst lever for faster product launches[13].

Agile companies focus on their most important value drivers and tend to outsource others. From a post COVID-19 perspective, Kearney sees leaner organizations focusing on core activities as one of the top trends for CPG companies[14].



Sales lost from late launch

Planned sales volume

Actual sales volume

Sales lost from late to market

Sales lost from less time in market

## Service Centers

As an example, take application support — the annoying task of operating and enhancing software like SAP. Application support is already often out-tasked to specialized providers, some of which now offer shared delivery models aimed at FMCG — which translates to even more increased speed, experience and cost efficiency.

Those models use specialized centers to support several or all brands and subsidiaries of an FMCG company. This means they have access to a broad and deep CPG application support expertise across the globe, resulting in faster, smarter resolutions and lower costs. It is an opportunity for FMCG to shift more radically to outcome-based contracts aligned to corporate financial scorecards as a way to incentivize the outsourcer's performance and innovation.

The leading providers also utilize the latest in automation technology, passing the benefits to their FMCG clients: Artificial Intelligence (AI) and Machine Learning (ML) help reduce support tickets by 15–18% and cut SLA response times 15–20%. How? Automated resolutions, wherever possible, plus digital assistants for standard and self-service help without helpdesk staff support.

Controlling digital platforms, in turn, requires equally -skilled data analysts with a sound understanding of relevant products, competitors and industry mechanics.

They need powerful tools that enable them to collect vast volumes of data, find patterns, test and implement rules. Big data, eventually from the cloud, and state-of-the art analytics tools are in support.

Retailers have invested heavily in digital labs to innovate[15], and FMCG companies would be wise to establish similar analytics centers.

Customer feedback can and should be collected from an ever-growing number of channels as well. Digital channels even allow for collection of feedback on competitive products. FMCG companies must find ways to automatically identify common issues or opportunities, and to make findings widely available in the company. Artificial intelligence combined with software robots makes it easy to automate and maintain the necessary processes without the impairment of existing systems.

The development of the required software itself must therefore also be agile. Projects with carefully planned comprehensive functionality, thorough testing and enterprise-wide roll-out take years and only will solve problems of the past when available.

FMCG companies need to consolidate their precious designers and developers in agile development centers or software factories that use methodologies like Scrum, Kanban, SAFe and DevOps to constantly collect ideas from inside and outside the organization and turn them into small increments of software that quickly deliver value.

State-of-the-art software factories use distributed agile models that allow internal and third-party staff to work together seamlessly: on-site and remote, on- and offshore, in design, build and integration. The results can be up to a 60% boost in productivity[16].

Other industries even use disruptive situations like mergers and acquisitions (where neglected IT integration is a common source of failure risk[17]) to standardize or transform by creating specialized M&A centers.

A small standing team of internal and external experts drive those projects with a mature and customizable set of standardized methods and tools, managing the complexity of parallel streams and interdependencies.

This includes tools for strategic planning and business case management, application roadmaps, enterprise architecture repositories or communication, mobilization and training plans.

The prize of a speedy and seamless integration or disinvestment is huge.

50 to 60% of the initiatives intended to capture synergies are strongly related to IT, but most IT issues are not fully addressed[18].

## Build a smarter factory

In order to stay competitive, FMCG companies must identify the next level of productivity gains and reduce cost base in production, supply-chain and back-office.

The smart factory concept addresses this by combining technologies like IoT, AI, software automation, robotics, advanced analytics and big data to deliver an understanding of the true status and performance level in their operations at any point in time.
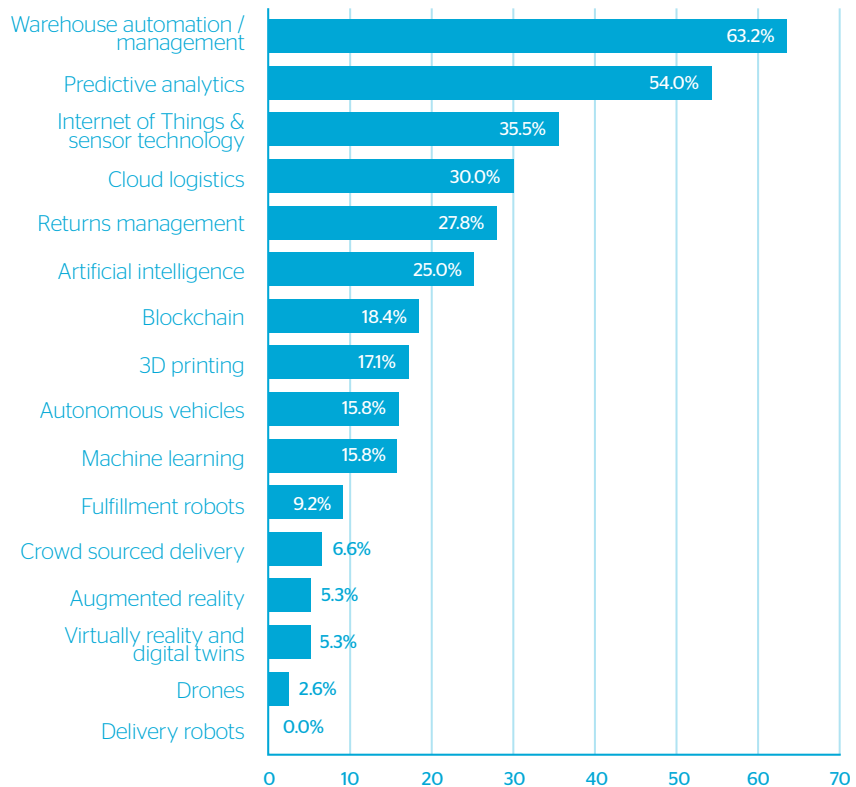
However, a smart factory is not a "one size fits all" or an off-the-shelf solution. A smart factory is created by a unique set of investments in the most appropriate set of enabling technologies for a company's specific situation, performance challenges and business objectives.

### Boundless possibilities

A smart factory predicts events with greater accuracy (market demand, equipment failures, inbound delivery times, etc.) and helps drive improvements in productivity, quality, inventory and operating costs.

It tracks production status and downtime events in real time, enabling operating teams to adapt and optimize production schedules to maximize efficiency and prioritize maintenance activities.

### Which technologies are you currently investing in?

| Technology | Percentage |
|---|---|
| Warehouse automation / management | 63.2% |
| Predictive analytics | 54.0% |
| Internet of Things & sensor technology | 35.5% |
| Cloud logistics | 30.0% |
| Returns management | 27.8% |
| Artificial intelligence | 25.0% |
| Blockchain | 18.4% |
| 3D printing | 17.1% |
| Autonomous vehicles | 15.8% |
| Machine learning | 15.8% |
| Fulfillment robots | 9.2% |
| Crowd sourced delivery | 6.6% |
| Augmented reality | 5.3% |
| Virtually reality and digital twins | 5.3% |
| Drones | 2.6% |
| Delivery robots | 0.0% |



## Reduce downtime

A Smart Factory can accurately measure and track energy consumption using sensor technology – use findings to adapt production schedules, working practices and maintenance/asset replacement as levers to cut energy costs sustainably.

## Track and trace

It can trace inbound supply chain shipments in real time and analyze historical performance to build predictive models which enable inventory levels to be reduced with confidence.

It can use AI-enabled natural language processing to identify patterns in non-conformance events to accelerate root cause analysis and reduce defect rate and investigation costs.

A smart factory reduces downtime by 20-50%[19] with predictive maintenance and cost by 5-10%. It uses additive manufacturing (3D printing) of critical spare parts as a major advantage[20].

It uses data analytics to measure and track material usage and consumption to accurately identify sources of loss — which enables corrective action to be taken to reduce waste and material loss.
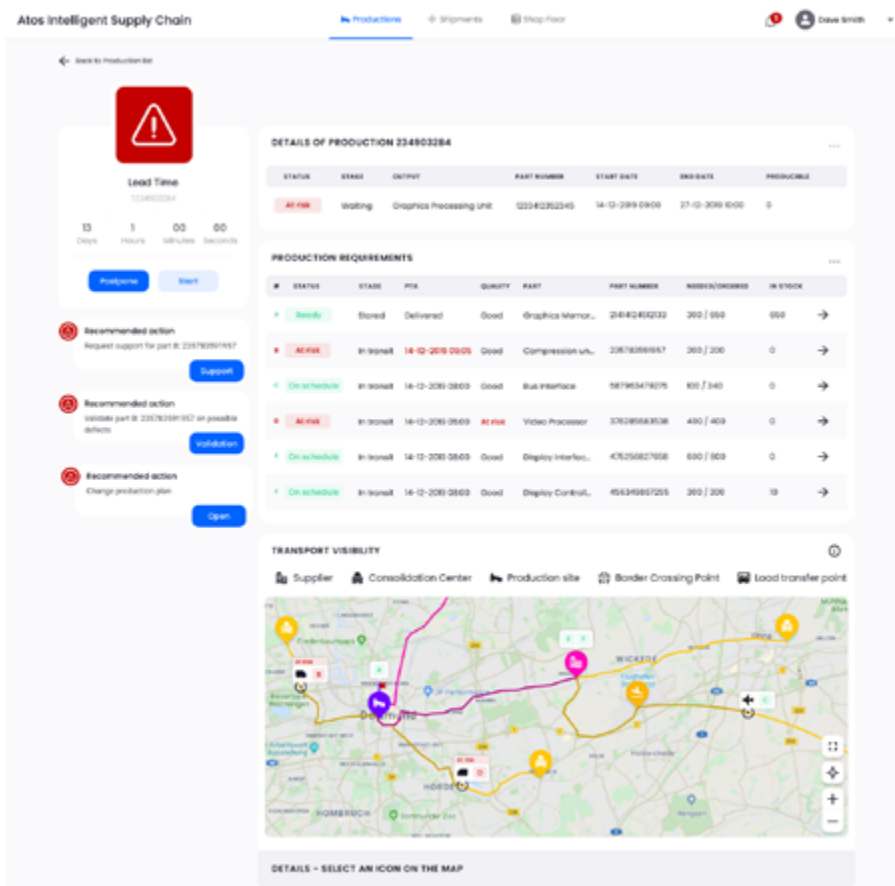
Some smart factories use AI-enabled image recognition technology to conduct fast and accurate visual inspection and measurement activity in confined spaces or hazardous areas

## Innovative

The most visible element of a smart factory probably is the digital workplace on the shop floor. It integrates data into mobile devices from systems that previously operated in isolation, like ERP, PLM and MES. The right data, delivered to the right people at the right time to inform better decisions, enables collaboration and remote work and saves cost by simplifying processes.

Supervisors can record incidents on a mobile device as they occur, enabling automatic workflows, populating performance dashboards and enabling trend analysis to identify systematic problems. Artificial intelligence algorithms can even recommend a course of action.

Essential support documents are often stored in printed manuals or poorly managed data folders, containing several conflicting, potentially outdated versions — years after "information at your fingertips" made us accustomed to finding exactly what we are looking for in seconds[21].

There are, however, some pitfalls to avoid:
- Thinking it's all about the technology
- Over-analyzing and designing, rather than moving quickly into pilots, trials and experiments to test new ideas and get feedback
- Expecting technology investments to deliver overnight success
- Failing to involve your people adequately in defining challenges and shaping / evaluating solutions

We recommend using a solid framework for technologies, processes and roles that allows for a flexible, stepwise and parallel — yet purposeful — approach.

## Smart Factory Architecture: the full set of building blocks
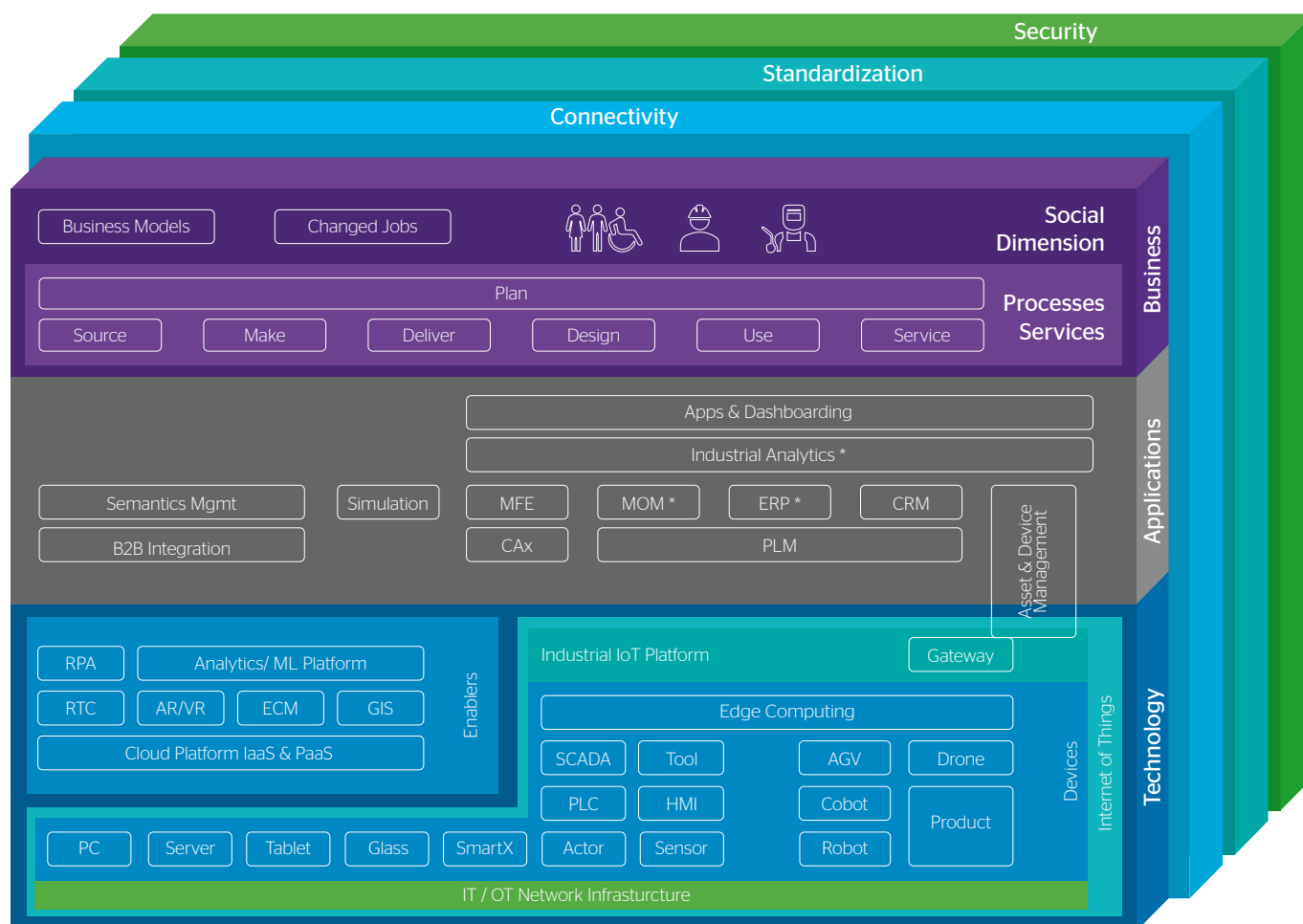


\* In this context it includes views onto the ISA95 areas Production, Quality, Inventory, Maintenance. Inventory shall be interpreted as Inventory + logistics (which manifests the material flow)
Full set of relevant building blocks includes non-manufacturing specific horizontal elements and enabling technology (e.g. Analytics Platform or AR/VR)

## Earn the customer's trust

"Green" attributes like organic, locally sourced, environmentally friendly, sustainable, $CO_2$ neutral, healthy, plastic-free and cruelty-free are a more important factor than ever for buying decisions in many markets.

73% of consumers say they would definitely change their consumption habits to reduce their environmental impact, while 49% are inclined to pay higher-than-average prices[22].

## Growing awareness

Inherent in the value of a brand is the customer's trust in the consistent quality of the product. When traditional claims complement sustainability ones, both have the potential to raise or decrease brand value.

Customers will react sensitively to promises not kept, and expect companies to prove the correctness of their claims.

Again, technology can help a great deal on a vast number of issues. CO2 reduction can be supported by

- Defining the as-is situation with digital decarbonization assessments
- Planning with decarbonization roadmaps
- Brainstorming different steps to take with decarbonization hacks
- Measurement and documentation with decarbonization management systems

## IT for Green

IT can help reduce unnecessary transport through better planning, identify energy waste, or be decarbonized itself.

FMCG marketing will weave information about successful initiatives into their communications — which at the same time, need to become increasingly digital and personalized to manage the consumer relationship on, with and sometimes in contrast to the online platforms.

While traditional print and media marketing has enabled FMCG organizations to promote their brand widely, online and mobile technology enables FMCG to dynamically adapt their customer messaging in response to real-time feedback down to the individual customer level.

Web, mobile analytics and social sentiment analysis have become mainstream tools in recent years. New levels of digital insight can be gathered through the adoption of customer experience platforms that bring new degrees of sophistication to managing customer perception and expectations. FMCG organizations that aggressively adopt such technologies see significant returns on their ability to react to campaign lifecycle events, demographic or environmental behavior changes and competitor challenges.

Technology also enables FMCG organizations to build greater brand loyalty through community. While many FMCG organizations have already built communities of customers through social media channels such as Facebook, Instagram and Snapchat, using digital tools to indirectly stimulate community interest can also be wildly successful for FMCG organizations.

A clear example of this is the way that IKEA supports the "IKEA hacker" communities that are prevalent online. Embracing and promoting the use of its product lines as building blocks that enable customers to personalize and adapt its furniture to their specific needs, IKEA has successfully leveraged an army of loyal customers and interior designers to create additional demand for its products without massive investment in direct marketing. This is no better demonstrated than by the site ikeahackers.net, which has been in existence since 2006 and has nearly 500,000 active followers on its Facebook site.

New levels of customer interactivity and engagement can be created by adjacent or complementary physical and digital services that enhance a core product offering. Using men's grooming as an example, many shaving subscription companies are now rapidly expanding their product portfolio to become lifestyle brands by including skin care, dental care and clothing, in attempt to leverage the perceived convenience that subscription-based home delivery services like cratejoy.com have created.

Creating simple digital tools that enable customers to share their experiences, access continuously updated grooming tips and buy related products creates a simple, easy and convenient experience that customers now demand. We also see these strategies being employed in other manufacturing-oriented industries that FMCG can learn from.

## Don't be a "deer in the headlights"

The pandemic presents the industry with a multitude of challenges and uncertainties:

- Will there be a second wave of sharply declining sales?
- How and for how long will supply chains be affected?
- Will consumers have greater demand for other products in the future?

One thing is already clear: The importance of online retailing for consumer goods will continue to grow — stronger and faster than before COVID-19.

If the FMCG industry wants to find its way back to stable, profitable growth, it must reflect on its strengths and reinterpret them.

Those who can maintain and expand market share will also be able to maintain customer relationships across digital channels. The winners will be the ones who can automatically analyze offers, providers and platforms — and who can develop new products and services in an agile manner.

Standing in the headlights and waiting to see what happens is not a good strategy — either for a deer, or for the FMCG industry.

Atos offers a wide range of services for the FMCG industry that address these challenges to ensure your success. Make an appointment with us to learn more.

## References

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Source: https://www.msci.com/documents/10199/04d4c23a-f633-4bf6-b20d-735e9fb13538

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# About Atos

Atos is a global leader in digital transformation with 110,000 employees in 73 countries and annual revenue of € 12 billion.

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