

A young girl with blonde hair in a ponytail is leaning over a wooden dock, looking into the water. The scene is captured in a close-up, low-angle shot, emphasizing her focus on the water. The background is a blurred view of the water and the dock's structure.

accenture

Grow beyond the basics

Success means more than the bottom line.
Change how you see value, and you'll find
new ways to grow.

CPG Growth and Innovation

Over the next five years, the top 20 consumer packaged goods (CPG) companies (those with over \$10bn revenue) are estimated to grow five times slower than their smaller category competitors.¹

As consumer expectations and behaviors continue to disrupt category norms, we have reached a tipping point. Reliance on traditional business models in core markets is no longer enough. Many are already venturing beyond traditional lines of industry, competition and responsibility in search of growth. The CPG landscape as we know it has permanently blurred. The “peer” of yesterday is the “competitor” of today; the “competitor” of today may be the “partner” of tomorrow.

In these uncertain and uncharted times, Accenture has identified four imperatives to help grow share over the next five years.

1.

Financial success alone isn't enough

2.

Growth is increasingly found in unfamiliar places

3.

Don't go it alone

4.

Data shows the way

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**1. Financial
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1. Financial success alone isn't enough

It is no longer possible to understand and report performance in purely financial terms. Traditional measurements of financial growth will remain critical—but not in isolation. The most forward-thinking CPGs are beginning to measure environmental and social progress with a similar level of scrutiny as they would cash, margin and profit.

Measuring the rise of new faces of growth

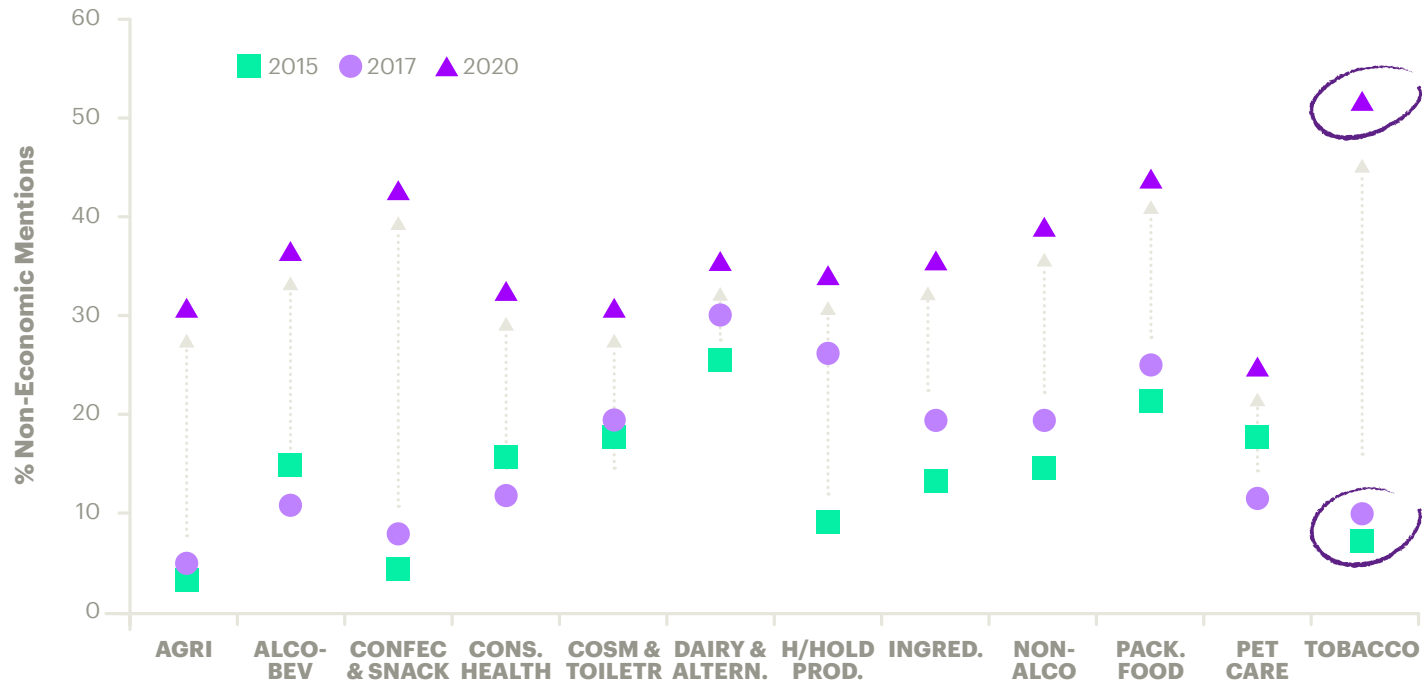
Accenture conducted an AI-powered scan of nearly 700 earnings reports across 12 CPG segments between 2015 and 2020 to understand how the relative share of focus between different faces of growth had shifted. We found that while in 2015, 90% of companies' reported focus was on financial performance; in 2020 it was down to 60%.

CPGs are beginning to measure environmental and social progress along with financial metrics.



1. Financial success alone isn't enough

Change in % of Non-Economic Earnings Report Mentions (2015–2020)



This phenomenon is not unique to certain segments. Our analysis indicates that CPG companies across all categories have made a conscious communications shift to align with the role and responsibilities that consumers, investors and broader stakeholders expect of them. For some, this represents a more dramatic change. Tobacco for example, has evolved from being one of the most financially driven categories in 2015 (92% of mentions in earnings reports) to the least (48% of mentions) five years later.²

Source: Accenture analysis

1. Financial success alone isn't enough

There are no shortcuts to authentic purpose

A note of caution: these new faces of growth can't just be about creating marketing headlines. All talk and no action is counterproductive. Increasingly, consumers and investors are holding companies accountable to their stated purpose through very deliberate investment choices. In a recent survey, CEOs revealed that almost half of their investors are now engaging directly with them on their global goals.³ Indeed, Larry Fink, CEO of one of the world's largest investment firms, Blackrock, has even threatened to oust companies from their portfolio if they do not demonstrate a strong corporate purpose. In Fink's words, "profits are in no way inconsistent with purpose—in fact, profits and purpose are inextricably linked".⁴

Consumers are redefining what they value. More than 50% of consumers say they are making more sustainable choices during COVID-19 and will continue to do so beyond the pandemic.⁵ The brands who get it right are reaping the rewards. For instance, Unilever has identified 28 Sustainable Living Brands within its portfolio—brands that contribute to stated environmental and social goals.

New pockets of growth

The impact of the pandemic has, and will continue to, challenge spending power. Accenture's Consumer Research shows 54% of consumers are now shopping more cost-consciously, with 42% trading down to lower-priced brands. However, new pockets of value have also emerged. For example, 12% of consumers are now increasing their spending on premium brands, and only a minority of these are higher-income consumers. We're witnessing increased spending on small luxuries in times of hardship, e.g., the "nail polish effect"—as nail polish is now the #2 trending product on Shopify.⁶ Companies need to identify and seize these types of "pop-up" value pools.

1. Financial success alone isn't enough

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These brands have consistently outperformed the average growth rate of the rest of the portfolio since the metric was introduced in 2014.⁷ Similarly, Danone's Manifesto brands stand for purpose: a commitment to help improve people's health, as well as to help protect our planet. These brands grew at a faster rate than the rest of the portfolio.⁸

Consumers increasingly seek to make purchase decisions for reasons beyond just price, but often still find it difficult to make informed choices. For example, inconsistent messaging and competing labeling standards in the physical and digital aisle make it difficult to meaningfully compare any two products or services. While some companies are therefore 'winning' with these consumers, there is an opportunity for the industry as a whole to come together to empower an educated choice.



2.

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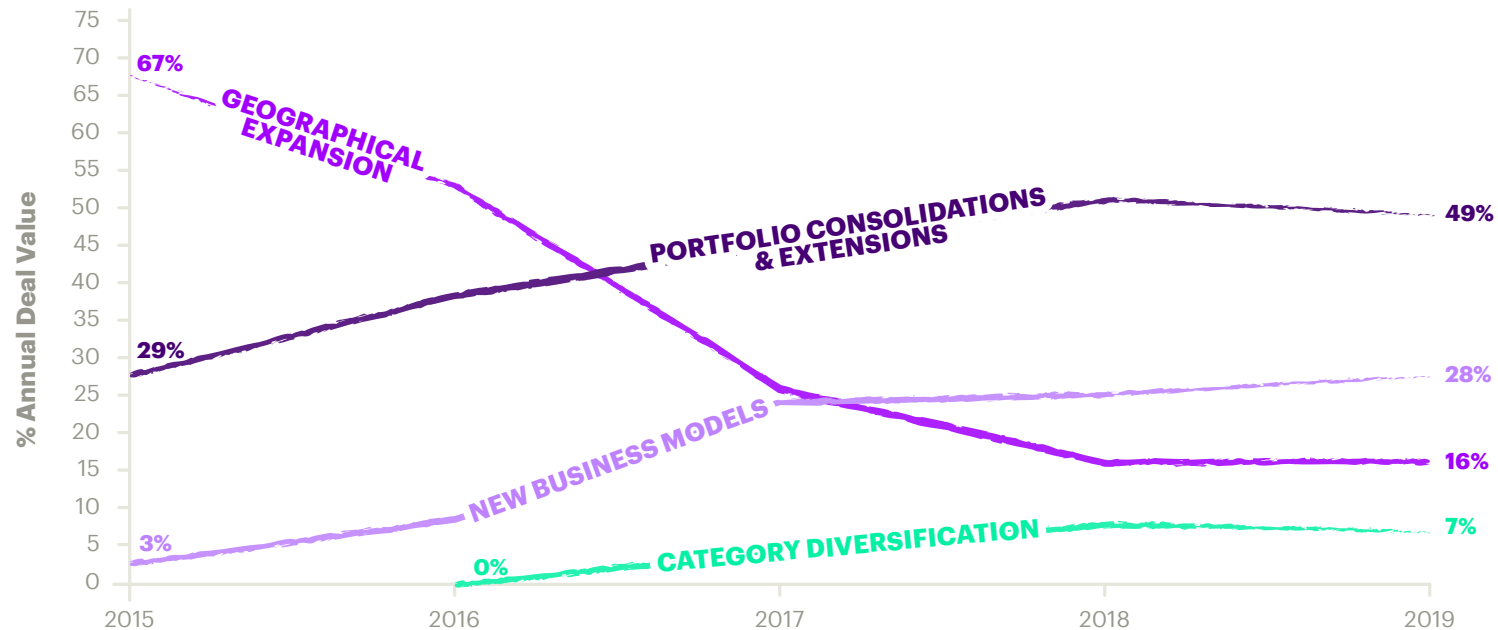
Historically, the largest CPG companies have turned to geographical expansion as a reliable avenue of growth. One route to new market entry was through acquisition, offering global brands the prospect of high growth rates and the potential to erect even higher barriers to compete through large marketing budgets and monopolies of distribution.

Over the past years, the increasing complexity and digitization of the route-to-market have democratized the competitive landscape. This contributed to rerouting the flow of CPG investment away from “buying in” to new markets and towards developing flexible business models that, with the help of data and analytics, are more efficiently scalable across markets.

The analysis shows that geographical expansion is no longer top of mind and top of wallet. A study of more than 1,000 M&A deals and \$730bn of spend over the past five years reveals that deals focusing on geographic expansion have fallen from 67% of total spend in 2015 to just 16% last year.⁹ In fact, the actual number of these deals has remained relatively steady over that timeframe. The average deal value in 2020 is roughly 1/10th of what it was in 2015, having steadily decreased year on year.¹⁰

2. Growth is increasingly found in unfamiliar places

Change in % of total M&A Investment (2015–2019)



Source: Accenture analysis

Instead, CPGs are increasingly exploring unfamiliar spaces in the search for growth—namely investment into new business models or even entirely new categories. Last year, 35% of M&A spend was on adjacent categories and new business models, compared to just 3% in 2015. We focus on three arenas where we see the greatest activity. However, it should not be an “either/or” choice between these. Many are already playing in points of intersection, and this will continue to blur as propositions evolve.

2. Growth is increasingly found in unfamiliar places

Creating 360 Category Experiences: Leveraging new capabilities and touchpoints to redefine the way consumers experience traditionally physical products.

Consumers expect great experiences, not just products. In a world where many consumers spend the majority of their time and money at home, a number of CPGs are seeking new touchpoints to transform the in-home category experience.

AB InBev and Keurig's joint venture, the Drinkworks Home Bar seeks to "reinvent the night in" by enabling consumers to create single serve draught beer and cocktails. This year, it launched nationally in the US. Cosmetics and Beauty companies, L'Oreal (Perso), Shiseido (Optune)

and P&G (Glossy) have all launched devices enabling consumers to personalize, create and dispense skincare formulas without ever leaving their home.

As experiences evolve, the blending of digital and physical offerings has become more commonplace. Nestlé's intention is to "inspire wellness beyond the plate" through partnership with customized lifestyle app with/n™.¹¹ This represents not only an additional consumer touchpoint, but the potential to evolve from a brand to holistic wellness partner.



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Increased Direct-to-Consumer (DTC) Presence: Growing the DTC channel to deepen consumer intimacy and insights.

In the past year, the launch of “PepsiCo Pantry” and “Heinz to Home” dispelled the myth that a DTC proposition is relevant only for select categories. Rapid growth in digital channels has only accelerated with COVID-19, and 66% of all 5-year global market growth is estimated to come from ecommerce.¹² Reliance on brick-and-mortar retail is an increasingly risky stance, for even the largest CPGs.

Following its acquisitions of Dollar Shave Club and Graze, Unilever continue to build its DTC strength

by acquiring Tatcha, a Japanese-inspired skincare company with outstanding social media and digital presence.¹³

In other areas, Nestlé spent more than \$1bn this year on the acquisitions of DTC meal kit players Freshly and Mindful Chef, while AB InBev has launched a beer webshop, offering next-day delivery for five of its brands.¹⁴ While the purpose and economics of these DTC models will differ by product type, the trend remains consistent.

2. Growth is increasingly found in unfamiliar places

Shift to Adjacent Categories: Move into entirely new and unfamiliar categories in search for higher growth

Many companies are entering entirely new categories. P&G's \$4.2bn acquisition of Merck's OTC division, and Nestlé's global launch of a vitamin subscription program through its Persona acquisition signify strong intentions to compete in the high-growth consumer health space.¹⁵ Others are using portfolio innovation as a steppingstone into new arenas. As convergence accelerates, traditional category share is no longer an accurate barometer of competitiveness.



3.

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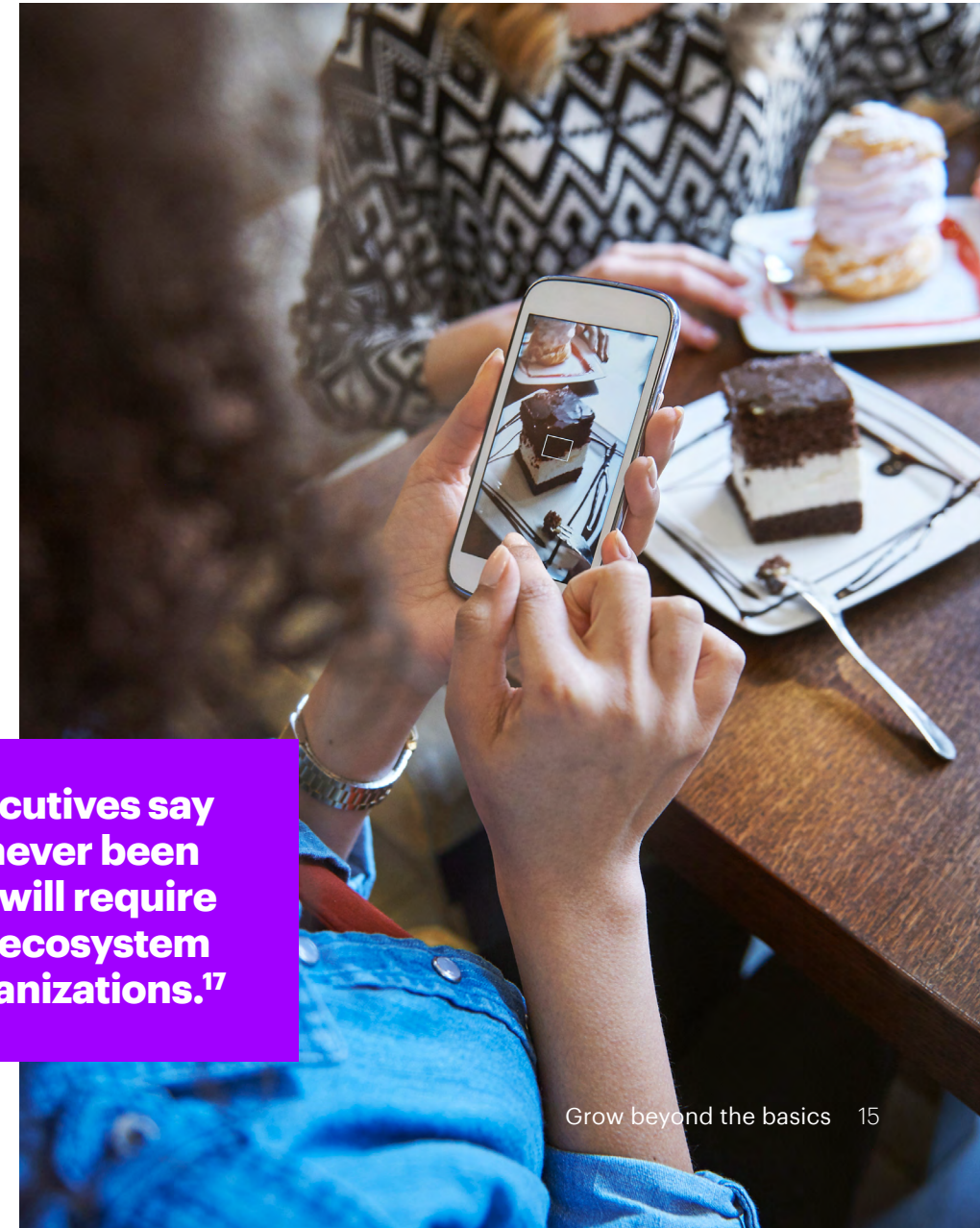
Just as businesses look beyond industry lines to find opportunities for growth, they must look broader and wider for the right partners to help drive innovation.

Operating within a wider ecosystem is no longer a differentiator in its own right, but simply the table stakes to compete in this fast-paced, complex and expensive environment. Almost 60% of executives surveyed are now trying to drive growth through building ecosystems.¹⁶

A key to company growth is identifying and orchestrating an ecosystem of partners who complement gaps across talent and capabilities. With unprecedented demands on speed to market, innovation now sits at the heart of many of these partnerships.

With retailers of all stripes actively encouraging the participation of smaller players, in part to dilute the competitive edge of the big brands, the ability to build and maintain these sort of ecosystems at scale also represents an opportunity for the big players to maintain their competitive edge.

Three-quarters of global executives say that innovation stakes have never been higher, and getting it “right” will require new ways of innovating with ecosystem partners and third-party organizations.¹⁷





4.
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Whether pursuing new consumers, categories or collaborators, businesses must make data-driven decisions.

The ability to access and extract insights from different forms of consumer data will be one of the biggest differentiators on the journey to growth—but it isn't easy. A majority of CPG executives (89%) view data and artificial intelligence (AI) as an enabler of their strategic priorities, yet 74% acknowledge they struggle when it comes to scaling it across the business.¹⁸

To extract true value from data, companies must create a “unified view of demand” that captures deep insights about customers and consumers. Some companies are already ahead in this journey. For instance, Coca-Cola uses intelligent vending machines around the world to mine huge volumes of consumer data.¹⁹

A data-driven view of demand is critical to unlocking new opportunities for growth. Companies that successfully scale data and AI achieve nearly 3x the return on investment and a 30% premium on key financial valuation metrics.²⁰

Some companies have already automated the process of mining data-rich marketplaces for cross-channel insights to inform growth in real time. The Mohawk Group is on a mission to create the “world’s most consumer-centric product company” by allowing data to guide the way. Its AI engine scans real-time marketplace trends and browsing habits to optimize sales of existing product while

simultaneously innovating new product opportunities.²¹ With 78% of searches on Amazon now unbranded, the potential for AI-led disruption is huge.²²

However, data alone cannot drive disruptive innovation—it’s the critical combination of human and machine that harnesses insights and channels them into growth. Seventy-six percent of executives agree that organizations need to dramatically reengineer the experiences that bring technology and people together in a more human-centric manner.

How to start

The path to growth has never been so complex. Faced with myriad choices, it's time for businesses to make clear and deliberate choices.



How to start

While there is no one-size fits all solution, these principles can help guide the journey:



Pressure-test your purpose.

Define your organization’s fundamental reason for being and the broader purpose you serve. This is not a marketing campaign or a company tagline. To move forward authentically with purpose, CPGs must hold themselves accountable at every level of the business with transparency and rigor. This cannot be just a top-down exercise. Empower employees from every function with the framework to make purpose-led decisions to get there quicker.



Choose partners wisely.

Build a deep understanding of existing and emerging consumer touchpoints and be realistic about areas of strengths and weaknesses. Proactively seek partnerships to unlock capabilities and access to new experiences. Avoid falling into the “transactional trap.” Instead, frame partnerships in models of shared incentives and success to grow together. And build the capability in human resources, finance and procurement to be able to visualize, manage and contribute to a healthy ecosystem.

How to start



Rely on data.

Redefine the role that data plays to unlock growth, identifying new consumer trends and responding quicker to capture growth spikes and demand. Be clear on the true potential of insights that can be extracted from existing customer and consumer touchpoints within the business, while being intentional about those gaps that ecosystem partners can help close.



Tap into the power of human + machine.

Develop AI, cloud and machine learning capabilities to automate tactical innovation and growth opportunities across channels, but also explore the new human-machine combinations that can unlock growth in new, different ways.

In today's market, CPGs must do much more just to achieve the same levels of growth.

Ever-increasing consumer expectations and complexity are necessitating moves away from the core and even beyond traditional lines of industry. Even growth itself is being redefined in the eyes of consumers and shareholders.

For those able to manage this increasing responsibility and complexity, today presents the perfect time to reset, renew and evolve for future growth.

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