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Consumer Products: Small and Midsize Consumer Products Firms Are Using Technology to Sharpen Business Practices and Improve Customer Engagement

THE BRIEF

Small and midsize consumer products (CP) firms around the world are seeing their businesses transform in a variety of ways, especially in how they interact with, and meet the needs of, their customers and consumers. These firms, typically with fewer than 1,000 employees, have to meet the same business performance standards as large enterprises, which means transforming themselves to meet changing customer requirements and the need for improved supply chain management. Rather than simply react to new competitive challenges, successful CP firms are reinventing the ways they do business, leveraging technology to sharpen business practices, improve agility, and better serve customers and distributors. Indeed, the new business required to meet revenue and profit growth expectations is unlikely to come from traditional sources. CP firms will find and retain competitive advantage through digital transformation and effective engagement with modern, digitally enabled consumers, defining, in great part, the winners and losers in this industry.

INDUSTRY DEFINITION AND CORE ATTRIBUTES

Small and midsize consumer products firms, typically with fewer than 1,000 employees, manufacture, market, and sell consumer packaged goods. Manufacturing may include the use of contract manufacturers, and sales will typically be through distribution intermediaries (wholesale or retail customers) or direct to consumers, the end users.

Included in the consumer products categories are the classic food and beverage segments, health and beauty aids (HBA), and household products. The fashion and apparel segments are also considered part of the consumer products industry. All of the different product

types generally share high profit margins, though with relatively modest annual growth rates, usually tied to GDP and other broad economic indicators. While business growth is often tied to gaining market share at the expense of competitors, in keeping with a relatively mature market, there is also significant opportunity associated with new product introductions and even category creation.

Consumer products firms can have a local or regional focus, though a growing (and now significant) share of small and midsize CP firms are expanding their reach globally using new distribution approaches, including online sales. This requires small and medium-sized businesses (SMBs) to have most of the same capabilities as large enterprise companies as they are held to the same business performance standards as these larger competitors by their customer base.

The most profound change facing the consumer products industry is the central role of the consumer. Connected and empowered, consumers are demanding much more from the products they buy and the companies with which they interact. For small and midsize CP firms as well as larger firms, this means a shift from “moment of truth,” where the decision to purchase a company’s product is made and executed, to “moment of opportunity,” where the focus changes from a transaction to a relationship. This relationship is built on the CP firm’s ability to anticipate customer behavior, habits, and needs and then to respond effectively — in terms of not just the product but also the way in which the consumer engages with that product. Advanced technology will play an important part in this transformation, with constant engagement, monitoring, and analysis of consumer interactions setting the stage for the proactive, anticipatory product and program refinement that will be essential to long-term success.

REVENUE GROWTH AND CASH FLOW IMPROVEMENT ARE THE KEY BUSINESS PRIORITIES FOR SMALL AND MIDSIZE CONSUMER PRODUCTS FIRMS

Small and midsize consumer products firms understand the importance of revenue growth as the key to their success (and long-term survival).

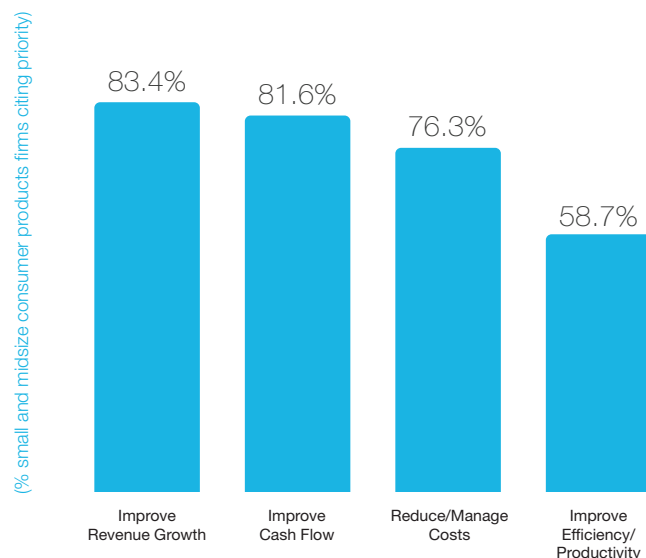
Even in developing countries, revenue share growth is more likely to come from existing competitors than from overall organic market growth. This is not really a dramatic change from priorities in years past, but the sources of revenue growth are certainly changing. The struggle for market share and revenue gain is increasingly intense in the current business environment, with local, regional, and global competitors now vying for their share. Doing more business with current customers and expanding business in new areas will simply not be enough. Rethinking business operations and customer/consumer engagement practices to find new areas of opportunity will be essential for successful consumer products firms. At the heart of that success will be two interrelated areas: improving new product development and closer and more effective customer engagement.

Revenue growth, whether as a result of category expansion or gained at the expense of competition, is inexorably intertwined with the ability to bring new products to market in a timely and efficient way. While some products and categories can endure for decades, the reality for many consumer products companies is that 50% of a company's annual revenue can come from products introduced within the past three years. IDC expects this to grow to 70% by 2020, which means that companies must develop and move large numbers of new product ideas through their innovation process to ensure a continuous flow of new products and keep customers engaged while strengthening internal operating efficiency. This is a particular challenge to the SMBs that do not share the same "deep pockets" as their larger competitors. The critical importance of healthy cash flow is key to maintain an adequate pipeline of innovation and to subsequently support new product launches with adequate marketing support. Customer and consumer engagement will play a key part in new product development and nurturing. It can extend beyond just the product to the consumer's entire experience with the product. Small and midsize consumer products firms that can do this better than their larger counterparts will be able to gain competitive advantage, reflected by market share gains.

Fortunately, for SMBs, large enterprise competitors no longer have the inherent advantage of the consumer's "ear." Advances in social business, networks, and the early use of IoT mean that the consumer is reachable by any business, and external ideas are now "fair game."

FIGURE 1

Top Business Priorities for Small and Midsize Consumer Products Manufacturers



n = 1,889, n = 125 for small and midsize consumer products firms only

Note: Multiple responses were allowed.

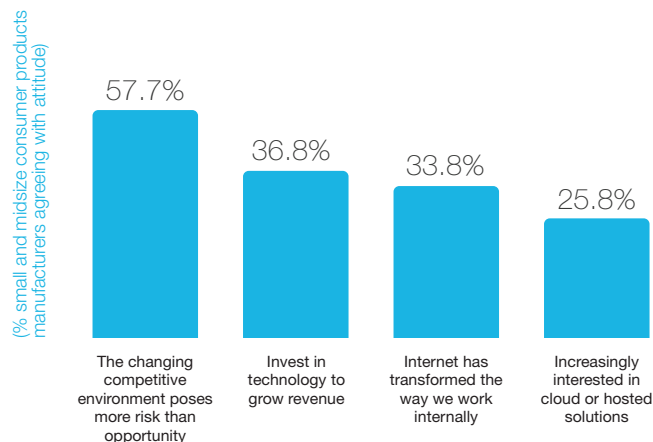
Source: IDC's Worldwide SMB Survey, 4Q15 (United States, United Kingdom, Germany, Japan, India, China, and Brazil)

WHILE RECOGNIZING RISKS IN THE COMPETITIVE ENVIRONMENT, CP FIRMS UNDERSTAND THAT TECHNOLOGY INVESTMENT OPENS NEW OPPORTUNITIES

More than SMBs in any other industry examined, SMBs in the consumer products sector agree that the changing competitive environment poses more risk than opportunity (see Figure 2). Of course, about 42% of those surveyed see more opportunity than risk. This ties directly to risks associated with a “just sell the product to the customer the way we always have” approach and underscores the need for alternative and compelling types of consumer engagement. This also plays to the somewhat conservative nature of the industry, where traditional mechanisms for growth such as trade promotion and price competition seem to be a higher priority than “engaging” consumers with greater value and stronger emotional ties that translate into higher loyalty and higher margins. We are not suggesting that price and promotion aren’t important, just that they don’t necessarily tap into the things that modern, digitally enabled consumers view as differentiators in their purchase decisions.

FIGURE 2

Attitudes Informing Small and Midsize Consumer Products Manufacturer Technology Investment



n = 1,889, n = 125 for small and midsize consumer products firms only

Base = percentage of small and midsize consumer products manufacturers citing 6 or 7 on a 7-point agree/disagree scale

(7 = strongly agree), respectively

Source: IDC's Worldwide SMB Survey, 4Q15 (United States, United Kingdom, Germany, Japan, India, China, and Brazil)

Indeed, the challenge for consumer products firms of all sizes is to protect the base business (which may well be conducted in a traditional fashion for many years to come) while taking advantage of new growth opportunities and new forms of engagement. This is a singular opportunity for SMBs that are often not as invested in the status quo as larger businesses and are more adept and agile in responding to changing needs and expectations.

Technology plays a significant role in allowing small and midsize consumer products firms to sharpen business practices. Effective use of cloud resources, advanced analytics, and social media technologies is increasingly expected rather than viewed as exceptional by customers and business partners. Firms agree that they must invest heavily in technology to grow revenue (more than to save money or reduce costs) rather than just avoiding revenue declines. IDC expects to see a high correlation between revenue growth in small and midsize consumer products firms and willingness to adopt new technologies effectively and efficiently.

FOCUS ON REVENUE GROWTH AND CASH FLOW MANAGEMENT WILL INFORM TECHNOLOGY INVESTMENTS IN SMALL AND MIDSIZE CONSUMER PRODUCTS FIRMS FOR THE NEXT DECADE

The dual goals of revenue growth and cash flow management mean that small and midsize consumer products will have to manage customers, consumers, and innovation more efficiently and effectively than they do today — and this means better business processes enabled through new technologies.

- **Manage cash flow and profitability:**
 - Achieve ruthless cost reduction with analytics, cloud, robotics, and 3D printing
 - Manage cash flow dynamically with analytics, cloud, and networks
 - Optimize working capital with analytics, cloud, and networks
 - Improve cost controls and manage customer profitability

- **Drive business growth and customer retention:**
 - Extending services and innovating successfully with social business, IoT, and cloud for global growth
 - Contextual marketing to understand core value contribution
 - New businesses/new products with IoT, social, and cloud
 - Competitive differentiation with cloud, networks, IoT, and social
 - Digital transformation of sales and marketing, supply chain, and finance
 - Global trade

SMALL AND MIDSIZE CONSUMER PRODUCTS FIRMS USING ADVANCED TECHNOLOGY TO SHIFT TO MOMENTS OF OPPORTUNITY

- The transition to a consumer-focused rather than a transaction-focused relationship will provide meaningful competitive advantage to small and midsize consumer products firms. The largest firms have significant infrastructure investment, relationships, and business models that are resistant to change. In contrast, SMBs can leverage higher levels of

customer intimacy (with a coordinated “single view” of their customer) to anticipate consumer needs and trends in a proactive way rather than a reactive way.

- With the consumer and the customer at the center of information gathering and business planning, the role of wholesale and retail partners becomes especially important. Real-time tracking of goods and responses to promotional efforts will be crucial, which means that consumer products firms will need greater insight than ever across the distribution chain. This is not to displace the role of channel partners but to work in coordination with them, sharing intelligence and insight to provide as rich and satisfying a customer experience as possible.
- Technology will also enable the layering of services as a complement to products, especially in response to new customer insights. This might be something as simple as access to cooking or recipe instructions for food products or something more complex such as health monitoring linked to running shoes. Older systems, limited IT budgets, and a reluctance to engage in very large/long IT implementations can increase the appeal of cloud and/or hosted applications, which require less up-front investment and (ideally) can be integrated effectively into a firm’s current IT environment.

TAKEAWAYS

Despite conservative traditions associated with traditional selling markets and historical stability in business operations, CP firms, especially small and midsize firms, face a profound change in the nature of their business that will require a rethinking of business practices and processes in response to the changing competitive environment. Technology, especially in support of digital transformation, can play a critical role in enabling the capabilities that SMBs will require:

- **Customer and consumer engagement is the starting place for revenue growth for small and midsize CP companies.** If firms in this industry segment are going to meet their internal goals for revenue growth and cash flow generation, they are going to have to do it by changing the way that they engage with both customers and consumers to provide a more personalized and engaged experience.
- **Flexibility is an SMB advantage in appealing to new customers.** The challenge for consumer products firms of all sizes is to protect the base business (which may well be conducted in a traditional fashion for many years to come) while taking advantage of new growth opportunities and new forms of engagement. This is a singular opportunity for SMBs that are often not as invested in the status quo as larger businesses and are more adept and agile in responding to changing needs and expectations.

- **New technology provides leverage, allowing SMBs to forge stronger relationships at scale.** Technologies such as social networking and commerce networks allow CP firms to reach a broader base of customers and consumers and enable interactions that facilitate the purchase experience, the usage experience, personalization as necessary, and a productive feedback loop for both current product improvements and ideas for potential new products.
- **Adjusting processes in response to customer and consumer needs can make an important competitive difference.** Taking the customer's or the consumer's viewpoint often seems more revolutionary than it really is. Modern postponement practices, where the final configuration of a product is left to the last possible moment, for example, can give the appearance of personalization from a mass-market supply chain; having a "marketing" relationship with a consumer does not also mean a direct commercial relationship.
- **New partnering and networking initiatives should be considered to expand capabilities and be more responsive.** In keeping with where new business/solution provider relations will be heading, small and midsize CP firms should explore becoming part of wider business/solution provider networks with customers, suppliers, and service providers. Rather than try to be everything to everyone, firms can partner effectively with different specialists to offer comprehensive products and services to customers and consumers that they might otherwise have struggled to manage. Such an approach could facilitate digital transformation in an effective and affordable way, with resources from multiple sources curated and coordinated for maximum impact.

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