

## Coresight Research x Prevedere: The Power of Intelligent Forecasting for US CPG Companies in an Increasingly Volatile World



### THE POWER OF INTELLIGENT FORECASTING FOR US CPG COMPANIES IN AN INCREASINGLY VOLATILE WORLD

On May 18, 2021, Coresight Research hosted an online event in conjunction with Prevedere, a predictive analytics company that provides real-time insights to companies. The event saw Deborah Weinswig, CEO and Founder of Coresight Research, and Rich Wagner, CEO and Founder of Prevedere, discuss the current pandemic-impacted CPG landscape in the US, how CPG companies should view and leverage demand forecasting, and the importance of the digital customer experience. In this report, we present selected insights from the event.

- The US CPG industry is facing unprecedented challenges in demand forecasting due to significant pandemic-driven shifts in consumer behavior and supply chain disruption.
- Demand forecasting is now top of mind among leadership, and not only among operational teams. Companies also need to be agile to keep up with pace of change.
- CPG companies are increasingly turning to artificial intelligence (AI) and machine learning (ML) solutions for demand planning and forecasting. Algorithms for demand forecasting need constant adjustments to ensure accuracy over time, and incorporating external economic data points into the forecasting model is more important than ever.
- Providing a digital experience is a key focus area for CPG companies, enabling them to enhance convenience for customers through payment and customer service. , AI chatbots are one area of technology investment in e-commerce that supports the customer experience—and Microsoft expects this technology to gain traction in the coming years.
- Consumers are now expecting brands to better connect with them. The fast processing of customer data is a core benefit AI and ML, helping CPG companies to spend their time being more strategic; they can use insights from these technologies to drive personalization.



## The Power of Intelligent Forecasting: Key Insights

- **The Current US CPG Landscape: Volatility in Demand and Supply Chain Disruption**

The US CPG industry is facing unprecedented challenges in demand forecasting due to significant shifts in consumer behavior amid Covid-19—most notably, turning to the online channel to make purchases and also buying more groceries. In addition, alongside the acceleration of e-commerce and a challenging physical retail environment (with widespread lockdowns and store closures), the past year has seen pandemic-led supply chain disruption.

Wagner quoted from a leading manufacturing client's internal study that every 3% of wrong data predictions leads to over \$9 million in inventory made obsolete—a sizable amount that could have been used for working capital investment instead.

Weinswig added that in the US CPG industry, increased interest in private labels is leading to decreased brand loyalty.



*Weinswig and Wagner discuss the challenges in demand forecasting that CPG companies are facing*  
Source: Coresight Research

- **Demand Forecasting Is Top of Mind, and Companies Need To Be Agile**

Given the volatility in demand, CPG companies need intelligent demand forecasting. Wagner emphasized that this must reach senior management in order to steer both strategic and operational direction for the company. Wagner shared that demand forecasting is now top of mind among leadership, not only among operational teams: “CEOs and CFOs are striving to understand what drives and what is possible for shaping recovery or strategy,” he said.

To that end, it is no longer sufficient to hold annual planning meetings given the current pace of change; instead, it is increasingly common to see CPG companies hold weekly meetings to boost agility in this era of rapid change.

- **Demand Forecasting Drives Accuracy but Needs Constant Adjustment**

CPG companies are increasingly turning to artificial intelligence (AI) and machine learning (ML) solutions for demand planning and forecasting, to inform accurate decision-making: 60% of CPG companies are using these technologies globally, according to a 2020 RIS survey. AI and ML solve for many challenges in analytics, enabling companies to discover patterns in data and plan production and supply in real time, Weinswig explained.

She highlighted in particular that it is important for companies to have a single source of truth—making forecasting decisions based on just one data source—which is facilitated by AI and ML solutions. Wagner added that companies must ensure they capture the right data in the first place and augment that single source of truth with industry understanding to effectively derive accurate insights. Whilst it is true that individuals from different departments will look at

different data based on their business function, Wagner explained that CPG companies must lay out overall strategic goals to which all operational divisions work toward, to provide a common understanding of how to analyze data and take action.

Furthermore, algorithms for demand forecasting need constant adjustments to ensure accuracy over time. Wagner commented that one learning from the pandemic has been that companies across industries need to change the way they predict their businesses, and that more scenarios must be generated to accommodate for supply chain and demand disruption. Those extra scenarios need to include optimistic, baseline and pessimistic estimates.

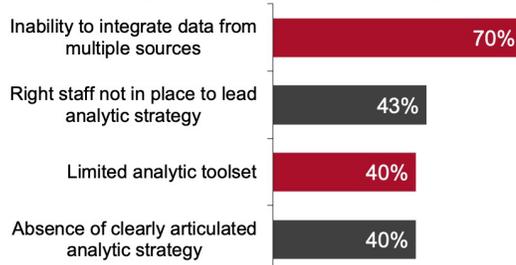
CPG companies also need to cater for changes in external factors—for instance, raw material and gas prices—considering how they would affect consumers. According to Wagner, external factors matter more now than pre-pandemic. In response to helping its clients, Prevedere is incorporating external economic data points into its forecasting model, including near-term high-frequency data, such as weekly proxies of GDP, mobility data and geolocation, etc.

Weinswig added that in the past 12 months, large retailers and CPG companies have been hiring economists internally to better provide their own companies with external economic data points.

## 1 Demand forecasting tools enable more accurate decisions related to demand, production and supply chains

60% of CPG companies are using AI/ML for demand planning and forecasting

Top Challenges in Analytics Faced by Consumer Goods Companies, 2020 (% of Respondents)



Base: Global consumer goods and retail companies, surveyed in 2020  
Source: RIS

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Source: Coresight Research

### How AI and ML address these challenges

- Integrate data into one source
- Eliminate errors induced at different source points in the supply chain
- Discover patterns in data and construct models to create more granular, accurate predictions
- Plan production and supply—from how much to produce to when and where to send—in real time

### • The Digital Customer Experience Is Key in Enhancing Customer Service and Convenience

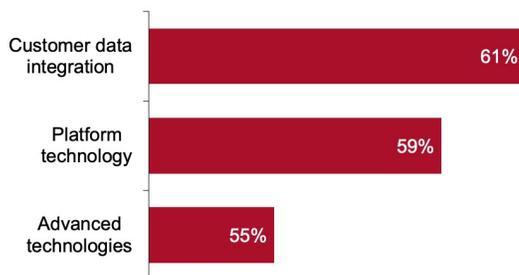
Providing a digital experience is a key focus area for CPG companies, enabling them to enhance convenience for customers through payment and customer service. Wagner said that the current digital revolution is seeing consumers want social elements in their shopping experiences online as much as offline.

For CPG brands and retailers, Wagner suggested that online investments are therefore of paramount importance in retaining loyal customers as well as attracting new ones—such as prompting customers to talk about their experience and repost insights and information.

In addition, AI chatbots are one area of technology investment in e-commerce that supports the customer experience—and Microsoft expects this technology to gain traction in the coming years.

**3 The digital customer experience is a key focus area for CPG companies**

Investment Areas for CPG Companies To Improve Customer Experience (% of Respondents)



- CPG companies are investing in advanced platform technologies including **AI-enabled chatbots, voice assistants, virtual assistants and automated payment systems** to enhance the customer experience
- According to Microsoft, by 2025, **95% of all customer interactions** will be through channels enabled by **AI technology**

Base: 80 chief marketing officers from CPG companies surveyed in 2020  
Source: Accenture

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Source: Coresight Research

• **AI and ML Tools Enable CPG Companies To Drive Personalization**

Weinswig highlighted that consumers are now expecting brands to better connect with them, which is being enabled by the rise of AI and ML technologies. Wagner said the fast processing of customer data is a core benefit AI and ML, helping CPG companies to spend their time being more strategic. They can use insights from these technologies and systematically incorporate external data—including customer behavior and economic conditions—to better drive personalization.

**5 CPG companies are responding to demand for personalized experiences**

48% of consumer goods firms are likely to invest in AI and automation in customer interactions in the next two years (2021–2023)

Personalized recommendations	Personalized communications
<p><b>CPG companies can integrate shopper data, online tools and AI to offer personal recommendations</b></p> <ul style="list-style-type: none"> <li>- Skincare and cosmetics recommendations</li> <li>- Lifestyle and fitness advice</li> <li>- Nutrition and wellness content</li> <li>- Food and recipe recommendations</li> </ul>	<p><b>CPG companies can deploy AI to craft personalized communications</b></p> <ul style="list-style-type: none"> <li>- “Time to buy” replenishment emails, based on past purchases</li> <li>- Surfacing relevant content on websites, in apps and in emails</li> <li>- Curating products on digital channels</li> <li>- Targeted promotions</li> </ul>

Drives traffic direct to CPG brand sites, deepening consumer engagement and loyalty

Source: Salesforce

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Source: Coresight Research



**EVENT COVERAGE**

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