Economic Outlook & 10 Trends for US CPG

2021 REPORT

Presented by

prevedere

CORESIGHT RESEARCH

2021 Economic Outlook and Impact on the CPG Industry

In the CPG industry, growth has long been elusive and unpredictable. A convergence of large-scale trends has contributed to CPG challenges that have accelerated during the COVID-19 crisis. Prevedere offers consumer goods companies an objective view into future category performance based on current economic trends.

The following is Prevedere's economic outlook for 2021 and what it means for the CPG industry:

1) Health of the US Economy
2) 2021 US Economic Outlook
3) Implications for CPG Industry
4) Key Leading Indicators to Watch

HEALTH OF THE US ECONOMY

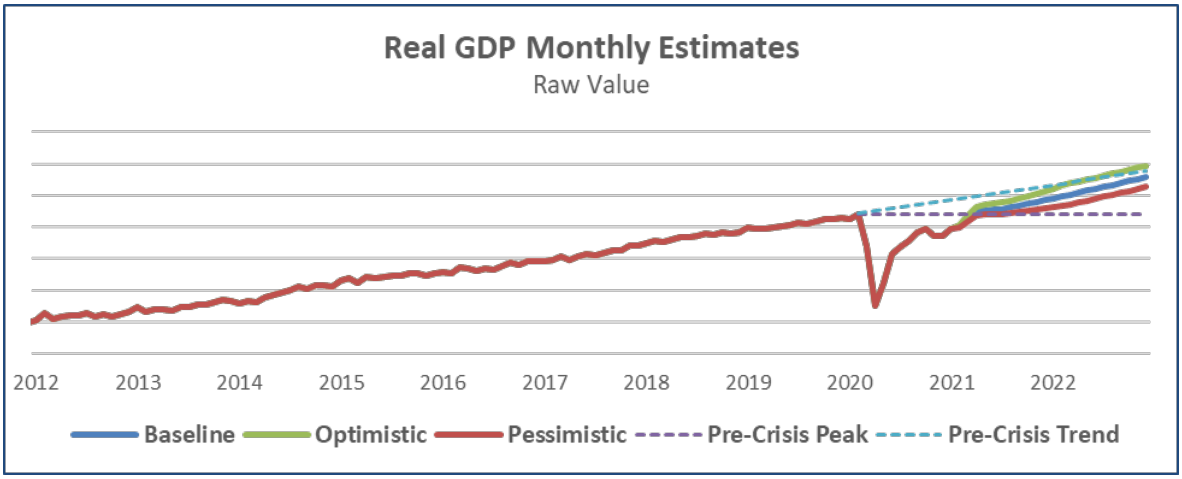
At a macro level, we often talk about being in "economic recovery", meaning that the U.S. saw the worst of the dip in the March and April timeframe, followed by some general degree of incline over the following months.

In past recessions, most people, businesses, and industries would go through a downturn followed by an upturn in unison.

In contrast, this recession has been very polarizing, and it's created a bifurcated economy with micro-recessions and pockets of growth that are very industry and company-specific. This recession has shown to often oscillate at different frequencies on an individual level than the general macro-U.S. economy. This is important to consider when looking at Prevedere's macroeconomic outlook. Ultimately, it will be unique, industry by industry, business by business.

2021 ECONOMIC OUTLOOK

Overall, stimulus measures are expected to super-charge recovery in 2021. Labor Market gains will likely accelerate as personal income remains elevated as a result of fiscal support and rising wages. However, inflationary pressures are growing, fueled by rapid recovery in commodities and global supply chains having difficulty keeping up with increasing demand. There is potential of the economy to overheat and risks to long-term growth if inflation becomes sticky; but for now, the US economic recovery looks strong.



Source: Prevedere

There are areas of opportunity and risk across different industries, but they will present themselves in very different ways throughout 2021. This will likely be a theme of 2021 that, on net, the U.S. is looking at recovery and economic growth. However, there will be elevated risks and uncertainties, and it will not be the same across all industries.

Currently, the U.S. is in a unique situation where 8.5 million fewer people are employed, but the job market feels like the U.S. is back to full employment. Prevedere is expecting GDP growth of around 6% in 2021, creating significant pressure on businesses to keep pace with demand amidst a time when people aren't actively looking for work. A reduction in the labor pool combined with increasingly high demand due to stimulus will put continue to put upward pressure on existing wages across the board. Businesses will need to be aggressive to recruit, train, and retain labor in this environment and will have to be conscious of the pressures on margins this will create.

Andrew Duguay's Takeaways

Chief Economist
Prevedere

"Many CPG categories experienced exponential growth due to COVID's impact on consumer behavior. From pantry hoarding, to cooking more at home, to buying products for DIY projects and activities, CPGs reaped the benefits of a panicked consumer confined at home due to government shutdowns.

The uncertainty for CPGs going forward, however, is that there is so much pent-up demand for specific services restricted in 2020. As panic subsides and restrictions are lifted, a customer's share of wallet will likely shift. Headwinds will come from increased mobility and spending on travel & entertainment as consumers feel more confident around public life."

Leading Indicators

The Prevedere economist team has handpicked a set of indicators that they consider critical leading signals for the economic recovery for the CPG industry following this economic downturn. These are key "leading indicators" that typically turn early in the business cycle and provide clues to a coming change in the economic environment.

CPG (US): Coronavirus Predictive Indicators for Economic Impact

All Categories: Look at these indicators to understand how they are placing upward or downward pressure on the CPG Industry.

Category	Indicator	Relationship	Next Update	Feb 2021	Mar 2021	Apr 2021	May 2021	Jun 2021
First Mover Data	Chicago Fed National Financial Conditions Index	Countercyclic	06-12-2021	-23.74%	-406.10%	-192.12%	-781.95%	
	Economic Policy Uncertainty Index for United States	Countercyclic	06-08-2021	39.01%	-50.04%	-77.11%	-73.44%	-73.27%
	SPDR S&P Retail ETF XRT	Procyclic	06-08-2021	79.78%	164.31%	184.60%	144.99%	122.27%
	US Regular Gas Price	Countercyclic	06-09-2021	2.70%	28.21%	61.00%	63.09%	
Consumer Activity	Google Trends - Hoarding	Procyclic	07-03-2021	-4.26%	-67.67%	-72.33%	-61.82%	
	Initial Unemployment Claims	Countercyclic	06-12-2021	224.78%	-26.08%	-71.24%		
	Personal Savings Rate	Countercyclic	06-28-2021	114.29%	118.75%	4.37%		
	Private Industry - Average Weekly Earnings	Procyclic	07-06-2021	6.13%	6.15%	4.78%	4.66%	
Fast Moving Consumer Goods	Ecommerce Retail Sales	Procyclic	06-15-2021	22.35%	27.87%	23.51%		
	Percent of Consumer Spending on Basic Goods	Procyclic	06-28-2021	3.84%	0.81%	-4.23%		
	Retail Sales - Essential Retailers	Procyclic	06-15-2021	5.50%	3.28%	3.22%		
	Retail Sales - Non Essential Retailers	Procyclic	06-15-2021	0.51%	20.61%	62.38%		
Industry/Supply Chain	Cass Freight Index: Shipments	Procyclic	06-14-2021	6.43%	7.58%	13.21%		
	ISM Manufacturing: New Orders Index	Procyclic	07-02-2021	29.45%	34.65%	65.49%	97.13%	
	Manufacturing - Consumer Packaged Goods	Procyclic	06-14-2021	1.01%	1.62%	4.57%		
	U.S. Imports of Goods from China	Procyclic	06-08-2021	28.14%	49.37%			

Upward pressure on industry

Downward pressure on industry

Economic Outlook Dashboards provide executives with weekly insights on how global forces impact your industry, whether that's a black swan event like the COVID-19 pandemic, less severe shocks like a steep drop in oil prices, or the regular ups and downs of the business cycle. Specific industries include: CPG, automotive, retail, and restaurant, to name a few.

Economic Outlook Dashboards are delivered straight to your inbox every week and include a range of demand and supply side factors to cover the full spectrum of economic activity. Click here for more information.

As the world emerges out of the global pandemic, US CPG companies have witnessed some staggering headwinds that have driven the adoption of advanced technologies, including artificial intelligence (AI) and machine learning (ML), across multiple business functions. In this report, we highlight 10 key trends that we think are impacting the US CPG industry:

1. Sustainability is becoming a priority for CPG companies.
2. Consumer demand for wellness products is rising.
3. Demand forecasting tools are enabling more accurate decisions related to demand, production and supply chains.
4. CPG companies are incorporating AI across marketing functions.
5. CPG companies are improving digital shelf optimization.
6. The digital customer experience is a key focus area for CPG companies.
7. CPG companies are modifying and simplifying their supply chains.
8. CPG companies are responding to demand for personalized experiences.
9. The C2M (consumer-to-manufacturer) trend will gain similar popularity in the West as in the East.
10. CPG companies are investing in developing/improving DTC (direct-to-consumer) strategies.

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What's the Story?

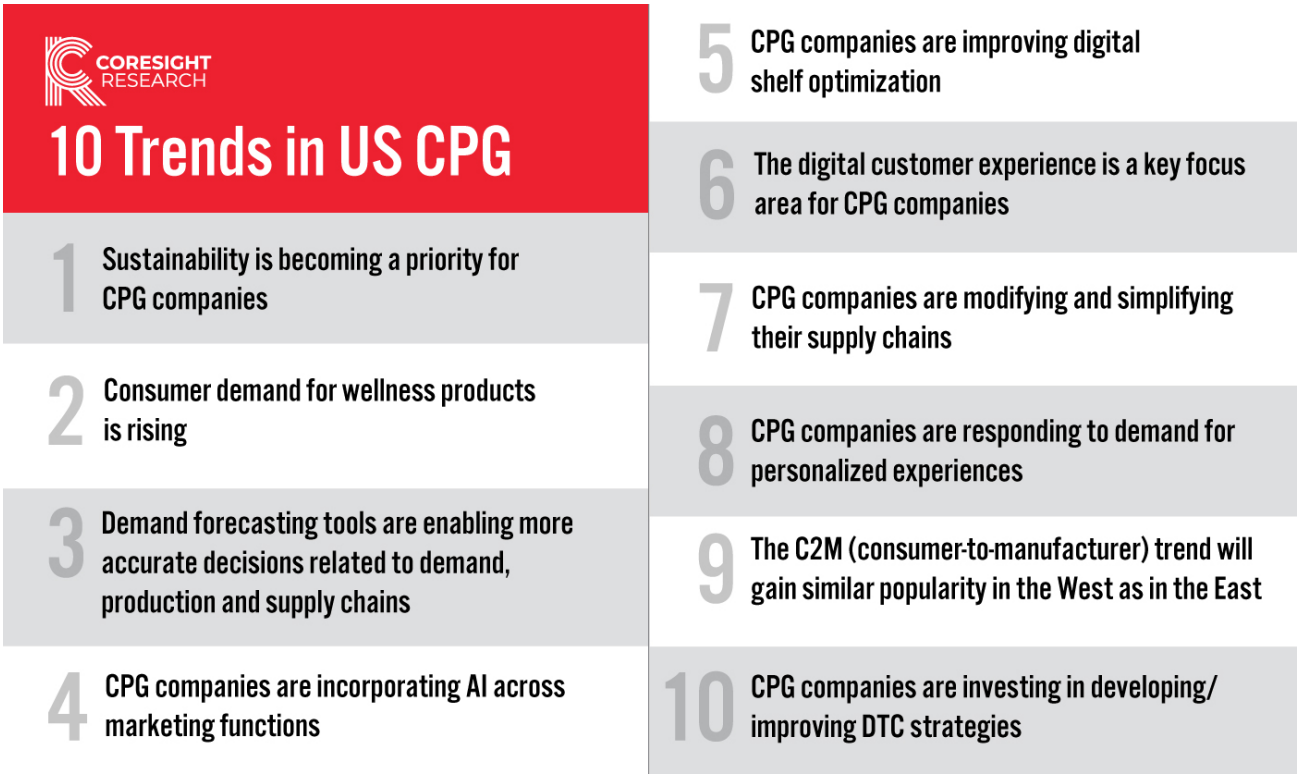
Over the past year, consumer packaged goods (CPG) companies have witnessed myriad challenges related to the Covid-19 pandemic, including volatility in demand, rapid e-commerce expansion, changing consumer preferences, decreased brand loyalty and supply chain disruption.

In this report, we present 10 key trends in the US CPG industry that have emerged from, or become more prevalent due to, the global pandemic. We expect these trends to continue to reshape the CPG industry through the remainder of 2021 and beyond.

This report is sponsored by Prevedere, a company that provides data and technology for Intelligent Forecasting and predictive analytics solutions.

10 Trends in US CPG: A Deep Dive

Figure 1. 10 Trends in US CPG



Source: Coresight Research

We expect AI and ML to become integral to companies' growth strategies and in gaining a competitive edge through Covid-19 recovery and in the long term.

In responding to and overcoming pandemic-related challenges, CPG companies are increasingly adopting advanced technologies such as artificial Intelligence (AI) and machine learning (ML) to support multiple business functions. These enabling technologies are relevant across many of the trends that we explore in this report; we expect AI and ML to become integral to companies' growth strategies and in gaining a competitive edge through Covid-19 recovery and in the long term.

AI is gaining traction in other industries too, and the global AI market is set to grow at a CAGR of 15.2% between 2021 and 2024, reaching annual revenue of $500 billion, according to market research firm IDC.

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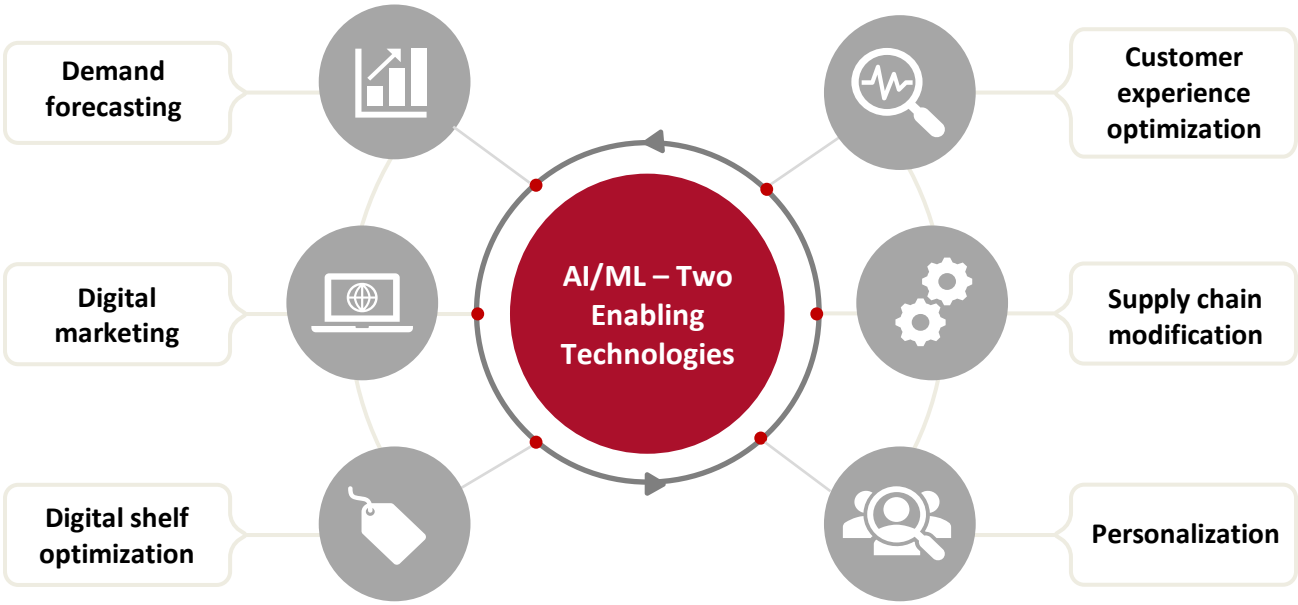
Figure 2. AI and ML: Two Enabling Technologies in the CPG Industry



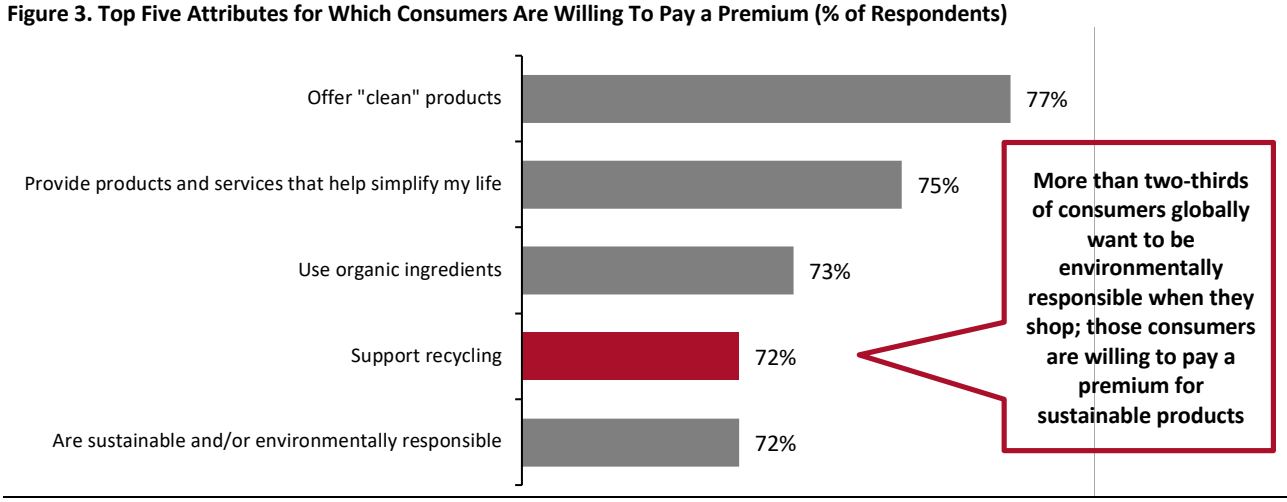
Source: Coresight Research

1. Sustainability Is a Key Focus Area for CPG Companies

Consumers are willing to pay a premium for sustainable products.

Awareness of sustainability is on the rise, and consumers are increasingly understanding the environmental impacts of their shopping decisions. At the same time, they are seeking to shop with brands that align with their values. According to a global survey conducted by the National Retail Federation (NRF) and IBM in 2020, nearly six in 10 consumers are willing to alter their shopping habits to reduce their environmental impact, and eight in 10 respondents said that sustainability is "essential" for them. Furthermore, the study revealed that 72% of consumers are willing to pay a premium for sustainable products, making environmental responsibility among the top five attributes for which consumers are willing to pay a premium (see Figure 3).

Figure 3. Top Five Attributes for Which Consumers Are Willing To Pay a Premium (% of Respondents)



Base: 18,980 consumers in 28 countries, surveyed in 2020
Source: IBM/NRF

Given that sustainability has become a key part of consumers' decision-making process, CPG companies must set up sustainability goals to remain competitive by aligning with shoppers' values—and some players have begun to do this.

Many have goals that revolve around improving their recycling systems and reducing wastage:

- **Coca-Cola**, **PepsiCo** and **P&G** (Procter & Gamble), among others, have partnered with recycling company TerraCycle to pilot a new sustainable packaging model that delivers products in reusable containers to consumers.
- **L'Oréal** signed a three-year partnership deal with Loop Industries in March 2020 to purchase PET resin made of 100% recycled materials, helping to improve the environmental profile of its packaging.

To eradicate food waste, various CPG companies have started upcycling their food waste by using technology that transforms discarded food material into new, nutritious ingredients and end products.

The upcycling trend is likely to gain popularity in 2021 as it aligns with the United Nation's Sustainable Development Goals to reduce per-capita global food waste and shrink overall food losses across the whole supply chain.

- In February 2021, Canadian upcycling company **Outcast Foods** secured $7.9 million funding from venture capital fund District Capital Ventures and the investment arm of the Business Development Bank of Canada.

This upcycling trend is likely to gain popularity in 2021 as it aligns with the United Nation's Sustainable Development Goals to reduce per-capita global food waste and shrink overall food losses across the whole supply chain.

We provide examples of notable sustainability initiatives from select global CPG players in Figure 4.

- Read more Coresight Research coverage of sustainability in retail.

Figure 4. Corporate Sustainability Goals of Select CPG Companies

Company	Target Year	Goal
Anheuser-Busch InBev	2025	All products to use returnable or recycled packaging
Henkel	2025	100% recyclable, compostable or biodegradable packaging Reduce virgin-plastic use across beverage portfolio by 50%
Nestlé	2025	100% recyclable or reusable packaging Reduce the use of single-use plastics by 75%
PepsiCo	2025	100% recyclable, compostable or biodegradable packaging Reduce virgin-plastic use across beverage portfolio by 35%
Unilever	2025	100% fully reusable, recyclable or compostable packaging Increase recycled plastic material content to 25%

Source: Company reports

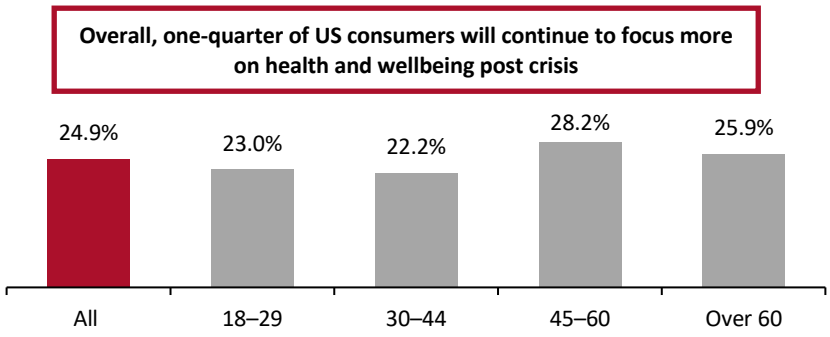
2. Consumer Demand for Wellness Products Is Rising

Since the outbreak of the Covid-19 pandemic, consumer attention and desire for health and wellness products has increased significantly. In its latest estimate, the Global Wellness Institute reported that the global wellness market reached $4.5 trillion in 2018 and estimated that the market surpassed $5 trillion in 2020, driven by heightened consumer focus on good health and wellness amid the pandemic.

We expect this trend to continue: Coresight Research's *US Consumer Tracker* (our weekly surveys) found in December 2020 that one-quarter of US consumers expect to retain the changed behavior of focusing more on health and wellbeing

in the long term. Health and wellness products are popular among all demographics, but particularly among Gen X consumers and Baby Boomers, who are taking an increased interest in healthy living as they move toward their senior years.

Figure 5. US Consumers That Expect To Retain the Changed Behavior of Focusing More on Health and Wellbeing Post Crisis, by Age (% of Respondents)



Base: 438 US respondents aged 18+ surveyed on December 15, 2020
Source: Coresight Research

Due to rising demand for health and wellness products, legacy CPG companies have started entering this space by acquiring health and wellness companies:

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- In April 2021, **Unilever** signed a contract to acquire **Onnit**, a US-based a manufacturer and marketer of functional and nutrition supplements. In November 2020, Unilever acquired a US-based vitamin, mineral and supplement company **SmartyPants Vitamins** as part of the company's initiative to improve its health and wellbeing product category.
- Another legacy CPG company to join this trend is **Nestlé**. The company entered into an agreement in April 2021 to acquire core brands of **The Bountiful Co.**, a US-based manufacturer of vitamins, minerals, supplements and nutrition products, for $5.75 billion.
- In March 2021, **Mondelez International** announced an agreement to acquire a significant share in **Grenade**, a UK-based performance nutrition company in the protein bar segment, for an undisclosed amount. The acquisition is a part of Mondelez International's strategy to expand its footprint in the health and wellness industry. In 2020, the company acquired US-based **Perfect Snacks**, a manufacturer of protein bars, peanut butter cups and other healthy snacks, for $284 million.

One segment of health and wellness that is gaining traction is "clean beauty"—beauty products without harmful or toxic ingredients. During Covid-19, consumers have been even more vigilant about ingredient safety in makeup and skincare products.

Coresight Research estimates that sales of US natural cosmetics and skincare products totaled $3.2 billion in 2020 and will reach $4.4 billion in 2023—representing a sold post-crisis CAGR of 10.3% from 2021 to 2023.

- In April 2021, US capital investment group Carlyle acquired a majority stake of **Beautycounter**, a US-based skin and beauty company specializing in clean beauty, for $1 billion—showing the growing attractiveness of clean beauty in the eyes of investors.

- In February 2021, **Estée Lauder** announced its plans to increase its investment in Canada-based clean skincare company **Deciem Beauty Group** from 29% to 76%. The transaction is expected to close in the current quarter, ending June 30, 2021.

In future, we expect more CPG companies to join the bandwagon; health and wellness will become an essential category for legacy players and new companies.

- Read our separate report on this topic, with a focus on the US: *Six US Industries Benefiting from the Wellness Trend*

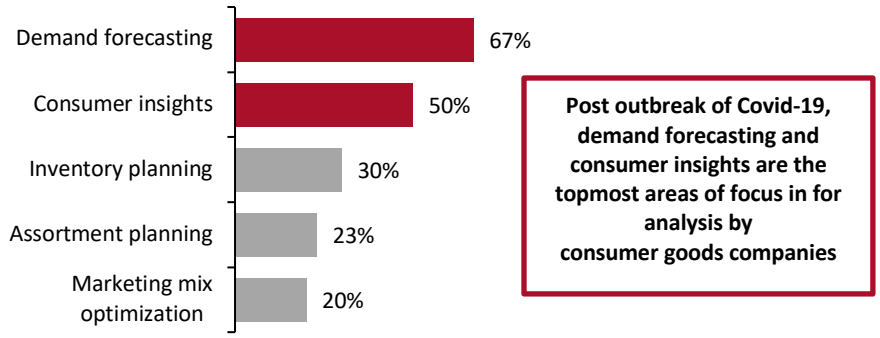
3. Demand Forecasting Tools Are Enabling More Accurate Decisions Related to Demand, Production and Supply Chains

With the acceleration of e-commerce in the past 12 months and the availability of sophisticated technologies including AI and ML, CPG companies are focusing on generating forward-looking, accurate consumer insights to forecast demand.

Companies are using big data extensively for demand forecasting. Previously, forecasts were based on point-of-sale data, collected from past trends. With the acceleration of e-commerce in the past 12 months and the availability of sophisticated technologies including AI and ML, CPG companies are focusing on generating forward-looking, accurate consumer insights.

According to a survey conducted by RIS News in 2020 (post outbreak of Covid-19), demand forecasting will continue to be the topmost area of focus for analysis in 2021, with 67% of global consumer goods companies reporting that it is a key focus for them (See Figure 6).

Figure 6. Analysis Areas of Focus for Consumer Goods Companies (% Respondents)



Base: Global consumer goods executives, surveyed in 2020
Source: RIS News

Companies can use multiple statistical tools to analyze data collected from across the supply chain and predict future trends. Demand forecasting ensures that shelves are stocked and minimizes the risk of inventory shortages or surpluses. Daily and weekly sales data with local and regional details, along with AI-powered analytics, can help companies to forecast demand in both the short and long term, and assess supply chain risks. AI and ML also help companies to integrate data from multiple sources into one cohesive data source and eliminate errors that can be induced at multiple source points in the supply chain.

- Predictive analytics firm Prevedere partnered with a global alcohol brand to improve the brand's demand-forecasting capabilities. Prior to this partnership, the company leveraged historical data to predict sales, which mostly led to over-production. Using Prevedere's smart demand-forecasting tools, the brand was able to build its own models on a weekly basis,

enabling it to make better decisions related to staffing and the procurement of raw materials, according to Prevedere.

CPG companies are also increasingly using demand-sensing technologies for short-term inventory planning. Short-term forecasting has proven critical to understanding and effectively adapting to unexpected shifts in consumer demand amid the global pandemic.

- **PepsiCo** uses demand sensing to generate accurate near-term forecasts that enable the company to quickly respond to any events impacting consumers' buying behaviors. According to the company, PepsiCo has reduced its forecast error for the near term (zero to six weeks) by deploying the demand-sensing solution.

  We expect more CPG companies to employ AI/ML solutions, including demand-sensing technologies, to generate accurate demand forecasting moving forward, with the pandemic having highlighted the importance of effective forecasting due to rapid shifts in consumer behavior.

- Read our *Reshaping Supply Chains for the 2020s* and *RetailTech* reports on demand forecasting.

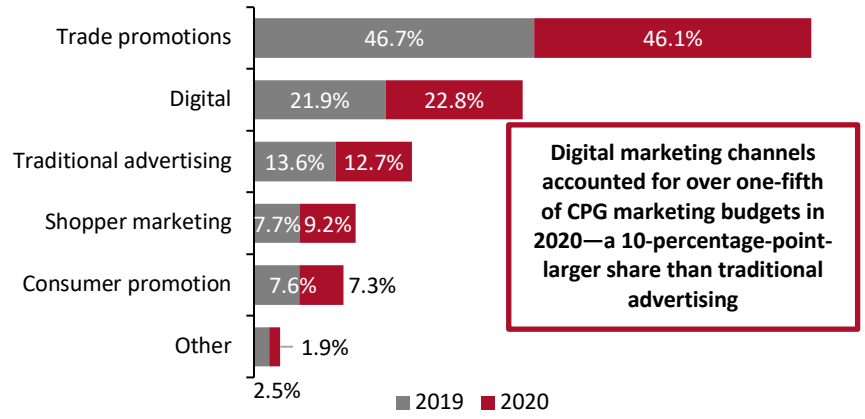
4. CPG Companies Are Incorporating AI Across Marketing Functions

CPG players are extensively using digital platforms to market their products and connect with existing or prospective consumers.

In the e-commerce era—particularly following the pandemic-led acceleration in the consumer shift to the online channel in 2020—it is important for CPG marketers to enhance their digital marketing efforts. Based on analysis of data from IRI, Coresight Research estimates that since March 2020, following the outbreak of the Covid-19 pandemic in the US, the US CPG e-commerce industry has experienced significant year-over-year growth of more than 50% every month to date.

CPG players are extensively using digital platforms to market their products and connect with existing or prospective consumers. According to research conducted by US-based research firm Cadent Consulting, US CPG companies devoted 22.8% of their total marketing budget to digital marketing channels on average in 2020—up from 2019—compared to only 12.7% on traditional advertising (see Figure 7).

Figure 7. Distribution of US CPG Companies' Marketing Spending (% Share)



Base: US CPG companies
Source: Cadent Consulting

Marketers across different industries, including CPG, are extensively using AI to enhance their digital marketing initiatives. According to Jodie Sangster, Chief Marketing Officer at IBM, AI can help companies bring down digital marketing expenses by 50%.

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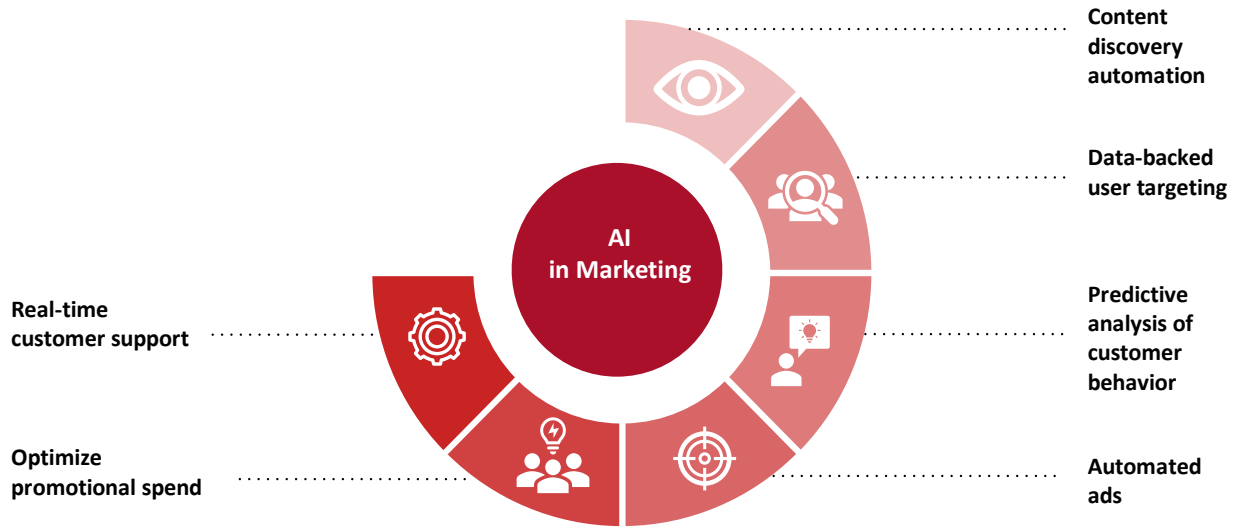
- In December 2020, **Clorox** started using the IBM Watson Advertising Conversations, ML and Natural Language Processing tools to understand its consumers better. The company used IBM Watson to decode what consumers wanted to know about Covid-19 and developed specialized editorial content based on the information collected.
- In September 2020, UK-based CPG company **Reckitt** (formerly Reckitt Benckiser) partnered with Google Cloud to optimize its media spend with the aim of creating a "more natural" digital experience for its consumers. The company will use ML to generate consumer insights and optimize overall media spend.

In Figure 8, we summarize the areas in which CPG companies can leverage AI in marketing to improve their top line.

Figure 8. CPG Companies' Use of AI in Marketing

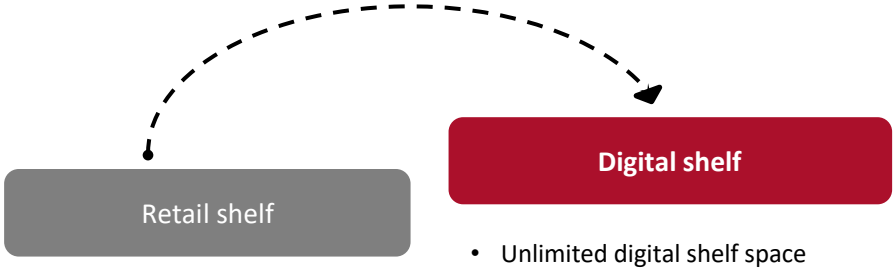


Source: Coresight Research

5. CPG Companies Are Improving Digital Shelf Optimization

In line with the acceleration of e-commerce, we expect CPG companies to further invest in digital shelf analytics and optimization to help consumers find, explore, compare and purchase products online. Consumers are drawn toward products that are easily available: Convenience is the key to win customers in the post-crisis era.

Figure 9. Difference Between Retail Shelf and Digital Shelf



- Limited shelf space
- Products stocked in retailers' physical stores
- Merchandising in stores required planograms and endcap displays
- Online marketing including, Google AdWords, Facebook ads and others

- Unlimited digital shelf space
- Products are stored in warehouses or micro-fulfillment centers
- Product assortment is promoted by targeted digital content
- Online marketing: DTC sites, online marketplace sites and social media marketing sites

Source: Coresight Research

CPG companies are investing in advanced technologies, such as digital shelf analytics, which offer consistent, real-time data about how their products are performing on e-commerce websites and online marketplaces, as well as enabling companies to optimize product visibility. Digital shelf analytics uses external data—including ratings and reviews, pricing and promotions, product information, sales and searches data—to develop detailed, actionable insights for brands.

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- In February 2021, **PepsiCo** entered into a technology deal with e.fundamentals, a UK-based digital shelf analytics provider. Under this deal, e.fundamentals will help PepsiCo analyze, measure and optimize its online sales primarily in Europe. PepsiCo will be able to access retailer category e-commerce data to enhance search positioning and product visibility on the websites of major e-commerce retailers, including Amazon, Carrefour and Tesco.

It will be essential for CPG companies to implement digital shelf optimization strategies to remain competitive in the e-commerce space moving forward.

6. The Digital Customer Experience Is a Key Focus Area for CPG Companies

The importance of the digital customer experience in the CPG industry has increased in recent times, with brands seeking new ways to connect with customers—such as through DTC sales channels.

Unique products, low prices and big discounts are no longer the only parameters that consumers need to remain loyal toward brands. Consumers today need the best end-to-end experience, starting from personalized messaging to seamless payment and frictionless deliveries. CPG companies are using advanced technologies to offer customers what they want—an enhanced customer experience. According to Microsoft, by 2025, 95% of all customer interactions will be through channels enabled by AI technology.

- In July 2020, **P&G** announced plans to leverage data analytics and AI technology from Google Cloud. As part of the new collaboration, P&G merges all consumer, brand and media data to generate real-time insights using Google Cloud's BigQuery.

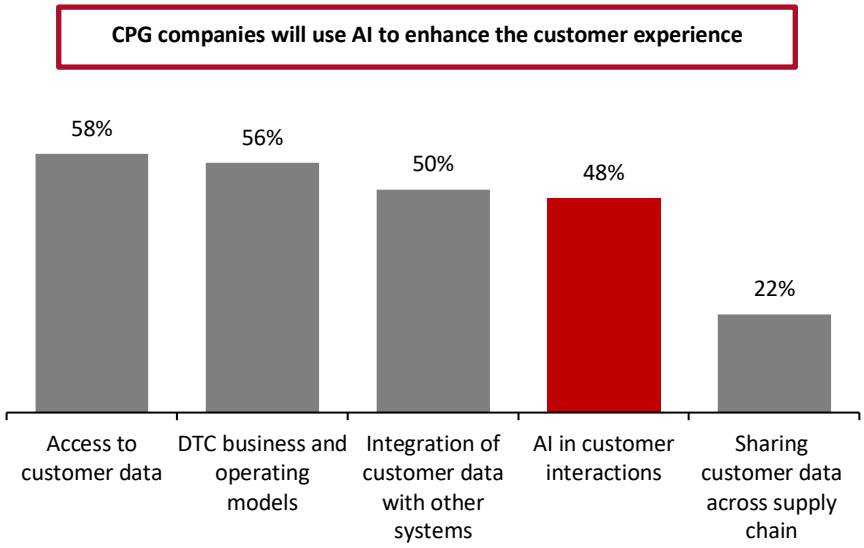
Utilizing AI-driven tools allows customers to mine large and complex customer data sets and generate insights.

CPG companies often have an overflow of data, and they do not always know how to use the data in an insightful manner. Data unification tools help to break down large customer data sets to generate actionable insights. Craig Nowokunski, Vice President of Global Customer Development at Kimberly-Clark, said, "When companies have multiple data sources that are not connected, it requires a lot of manual processes just to harmonize information."

Utilizing AI-driven tools allows customers to mine large and complex customer data sets and generate insights. Furthermore, CPG companies are investing in advanced platform technologies such as AI-enabled chatbots, voice assistants, virtual assistants and automated payment systems to enhance the customer experience.

In a survey conducted by Salesforce and Harvard Business Review in December 2020, more than half of the surveyed CPG executives (58%) reported that their companies will invest in customer data access over the next two years. Furthermore, 50% will invest in integrating customer data with other systems, and 48% will implement AI in customer interactions (see Figure 10).

Figure 10. Customer Experience Investment Areas for CPG Firms over the Next Two Years



Base: 64 CPG executives, surveyed in December 2020
Source: Harvard Business Review/Salesforce

Below, we note two examples of AI being used to enhance customer interactions. This trends closely relates to trend #8, which discusses personalization in the customer experience—we offer further examples of AI in personalization in that section.

In March 2021, **Nestlé** launched its own "cookie coach," called Ruth, an AI-driven virtual assistant tool that responds to customer queries using natural-language AI and autonomous animation.

As part of **Estée Lauder**'s partnership with Perfect Corp., a global beauty tech solutions provider, Perfect Corp. developed the iMatch Virtual Skin Analysis, a self-guided digital skincare diagnostic tool. The tool uses YouCam AI technology to design a personalized skincare regimen. It also enhances the customer experience by offering personalized messages and engaging content to customers.

7. CPG Companies Are Modifying and Simplifying Their Supply Chains

As the world emerges from the global pandemic, CPG companies have been able to release and contemplate the lessons learned and restrategize their supply chain goals.

As the world emerges from the global pandemic, CPG companies have been able to release and contemplate the lessons learned and restrategize their supply chain goals. According to a survey published by Microsoft in 2020, 90% of CPG and retail companies are modifying their supply chains, and around 40% expect to increase their total supply chain investment to achieve speed, agility and resilience goals.

CPG companies have realized the importance of agility and resilience over cost reduction in the supply chain. According to Shelley Bransten, Corporate Vice President of Consumer Goods and Retail Industries at Microsoft, there has been "a significant shift in supply chain strategies as [Microsoft's] customers adapt to meet the demands caused by Covid-19. While cost reduction and efficiency remain a critical priority, we are seeing supply chain agility rise to the top of the list for executives."

Leading CPG companies are deploying advanced technologies such as AI and ML across three key areas to improve supply chain speed and agility:

1. **Omnichannel fulfillment.** A Coresight Research survey conducted in December 2020 found that omnichannel complexity was rated as "very challenging" (32%) by CPG suppliers and grocery retailers. AI/ML tools can support companies in managing multiple sales channels efficiently. ML tools can help companies identify the root cause of issues related to order fulfillment and recommend corrective actions.
2. **Predictive demand planning.** As we discussed earlier in this report, CPG companies are turning to AI/ML tools for demand forecasting and predictive planning.
3. **Flexible operations.** CPG companies are planning to increase supply chain flexibility to meet any future supply and demand shocks. According to recent survey by Microsoft, 53% of the CPG and retail companies are planning to upsurge their investments in flexible operations.

To make supply chains resilient, CPG companies need to develop their in-house capabilities or partner with third-party technology providers that can help achieve supply chain goals. Additionally, companies must coach supply chain managers and encourage the use of advanced technologies in the decision-making process.

- Read our *Reshaping Supply Chains for the 2020s* ebook.

8. CPG Companies Are Responding to Demand for Personalized Experiences

In the near future, we expect more CPG companies to offer personalized experiences, whether they are operating through DTC channels or physical retail outlets or have an omnichannel presence.

CPG companies can use AI and ML to generate personalized communication and recommendations for consumers.

Well-executed digital personalization helps brands direct traffic to CPG brand sites and deepen consumer engagement and loyalty. Personalization primarily includes understanding the consumer through real-time contextual data—including location, purchase history, browsing data and social media data. CPG companies can use AI and ML to generate personalized communication and recommendations for consumers. Companies are increasingly spending on advanced tools that will help them understand consumers' online journeys and communicate personalized offers, for example.

- **Glossier**, a US-based beauty and skincare provider, employed AI chatbot called "Glossy" that offers personalized recommendations to users. It helps users to select the skincare products that would suit them best based on their unique skin types.
- **Kimberly-Clark** uses ML to improve its digital promotions. The company analyzes real-time consumer behavior to deliver relevant, personalized content to each customer.

9. The C2M Trend Will Gain Similar Popularity in the West as in the East

The C2M model has already gained traction in the China e-commerce market and is likely to become popular in the US, including among CPG companies. According to research firm Vzkoo, the China C2M market will grow at a CAGR of 191% between 2018 and 2022 (an estimate made after the coronavirus outbreak) to total $214 billion in 2022.

US CPG e-commerce companies can look at the customer-centric strategies of Chinese competitors and learn how to include C2M models as part of their e-commerce operations.

In the C2M model, manufacturing facilities pivot to produce items after the order is received, shifting from design-make-sell to design-sell-make. One of the key benefits of this model is that it allows manufacturers to meet changing customer demand, especially post Covid-19. Manufacturers use big data to generate user profiles, analyze consumption trends and plan production. The C2M model bypasses traditional intermediaries, including distributors and agents, and lessens avoidable expenses, letting consumers purchase quality products at lower prices. By leveraging this model, CPG companies can reduce inventory risk, as companies produce on demand, and the inventory-to-sales ratio can be reduced.

- In March 2020, Chinese e-commerce giant **Alibaba** launched a new app on Taobao Special Offers that connects directly with factories to create C2M products. Over the next three years, 2020–2023, the company aims to establish at least 1,000 factories that work on the C2M principle and connect directly with consumers.

AI, strengthened by big data, is one of the key factors facilitating the C2M model. It offers manufacturers a detailed view of their customers through the use of analytics tools, behavioral databases and algorithms.

US CPG e-commerce companies can look at the customer-centric strategies of Chinese competitors and learn how to include C2M models as part of their e-commerce operations.

- Read our separate report on key trends in China's e-commerce market.

10. CPGs Are Investing in Developing/Improving DTC Strategies

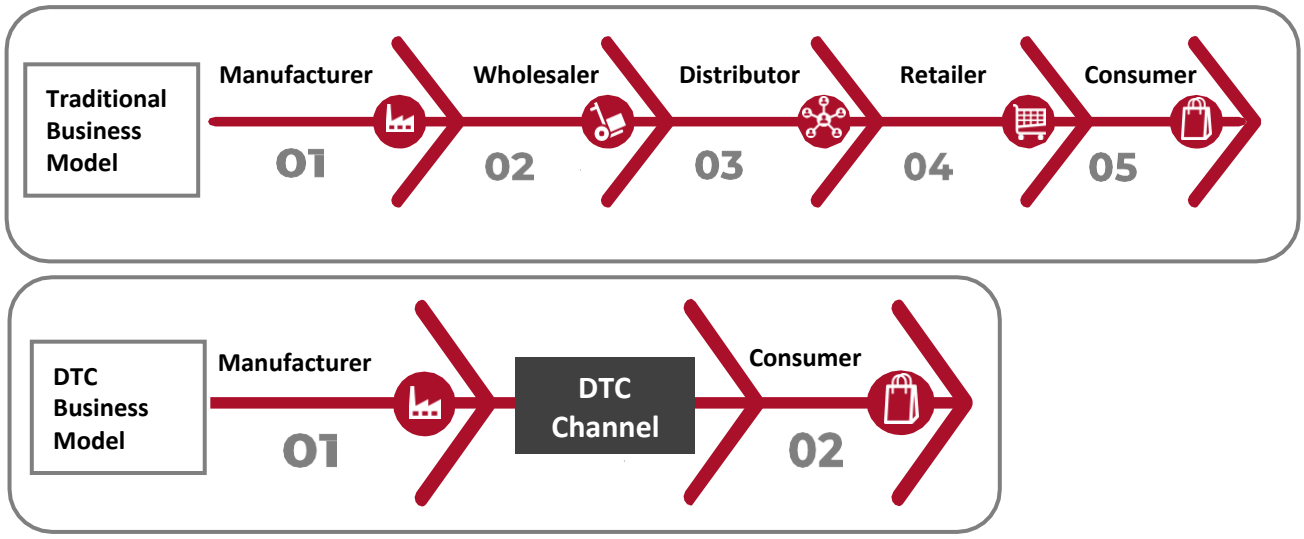
CPG brands are extensively adopting DTC e-commerce strategies. Many CPG companies, including Beyond Meat, Bimbo, Del Monte and PepsiCo, have

invested in building their DTC channels. PepsiCo launched two DTC websites for beverages and snacks—PantryShop.com and Snacks.com—to meet demand for at-home eating in May 2020.

By establishing direct channels, CPG companies aim to reduce the reliance on wholesalers and distributors. There are two primary advantages that the DTC model provides:

- It allows businesses to maintain a higher revenue margin for themselves, which in turn permits companies to lower prices and gain a competitive advantage.
- CPG companies own the relationship with the customer, along with all associated data. This allows companies to monitor user behavior on their websites, send targeted offers and continuously receive feedback to improve their product offering.

Figure 11. DTC Channel Versus Traditional Sales Channel



Source: Coresight Research

The capability to quickly launch an online store and gain access to millions of potential customers is one of the biggest drivers of DTC growth over the past decade. Platforms such as Magento and Shopify empower new CPG brands to quickly open online shops, and they offer technological assistance for operations such as inventory management, payments, shipping, web hosting, marketing, SEO and analytics.

Legacy CPG companies also partner with these providers to gain expertise. In April 2020, **Kraft Heinz** launched its direct sales channel, Heinz to Home, in the UK. Heinz partnered with Shopify Plus to set up the new sales channel.

The capability to quickly launch an online store and gain access to millions of potential customers is one of the biggest drivers of DTC growth over the past decade.

One of the emerging trends within the DTC space is the growing popularity of subscription services. According to the Subscription Trade Association, the global subscription business grew about 12% in 2020. In 2019, there were more than 7,000 subscription box companies globally, and around 70% were based in the US. These businesses are generally concentrated across categories such as food, beauty, and health and wellness, where products are purchased at regular intervals.

- **Birchbox** sends sample beauty products, personalized based on skin tone and hair type, to its subscribers for $15 per month. The subscription box is curated to serve as a channel for customers to purchase products from the Birchbox Shop, which offers more than 500 different beauty brands ranging from mainstream companies such as MAC to lesser-known favorites like Sunday Riley and even two in-house brands.
- **Coca-Cola** launched its Insiders Club subscription box in 2020, where subscribers receive monthly subscription boxes of goodies for a membership fee of $45 per month.

Over the past few years, several DTC brands have started selling through offline sales channels to access a new source of revenue and increase brand awareness. Some businesses have partnered with traditional retailers for shelf space or dedicated sections highlighting their brand, while others have built a small footprint of owned retail outlets, hoping to build brand awareness and enhance customer experience. Established DTC brands can leverage their strong fulfillment network for product delivery if they want customers to enjoy an omnichannel shopping experience.

What We Think

In a traditional business model, CPG players were never the custodian of consumer data. They relied on intermediaries such as wholesalers, distributors and retailers for customer data. However, now that companies are setting up their own direct sales channels (DTC), it will become imperative for them to manage and govern customer data in an insightful manner. By using advanced technologies such as AI and ML across business functions, companies can convert raw data into insightful information.

A primary objective behind collecting customer data is to enhance the customer experience. Companies should employ these technologies to improve the end-to-end customer journey, especially now, with the pandemic-led shift to e-commerce leading to increased consumer demand for online and omnichannel experiences.

CPG companies need to lay down concrete strategies that revolve around using advanced technologies to comprehend changing customer preferences in the post-pandemic world.

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