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Industry focus

The digital leap

**How to
drive growth
through digital
transformation
in consumer
packaged goods**



Are you being overtaken?

Digital transformation tops the agenda of most large consumer packaged goods (CPG) companies. But too many are failing to bridge the gap between their aspirations and the achievement of digital goals.

In the CPG sector, smaller companies and new entrants have been growing faster than large incumbents. Examples abound in almost every product category. This growth is driven in part by consumer trends in relation to product choices, such as health and wellness and sustainability. But a more significant factor relates to differing business models. By anchoring their businesses around a set of flexible, digital capabilities and technologies, emergent CPG players have been better placed to win with the increasing number of consumers who are engaging with and buying from brands through digital channels.

The challengers' success also owes much to the fact their capabilities undermine the historical advantages of scale and reach enjoyed by larger rivals. When consumers can be engaged with targeted products and digital marketing, big budgets for mass-market product innovation and large-scale agency advertising are no longer required.

Similarly, as consumers become more willing to trial purchases through digital channels, established distribution relationships with mass retailers no longer offer the same degree of initial advantage. Mass retail distribution remains important for longer term brand penetration but can come later in the maturity cycle and often as a result of active retailer merchandising pull, which is a better negotiating position to be in for brand owners.



Until recently, many large companies failed to take seriously the need to update their capabilities. Instead, they focused on the growth levers that worked in the past – new geographies, adjacent categories and distribution channels – while doubling down on internally-focused productivity programmes. While these efforts may have kept them in the game, they have not helped larger brand owners respond to evolving market dynamics.

It is no longer enough to focus on the five to ten big ‘where to play’ decisions and expect outstanding results. Instead, winners and losers are being determined by their ability to execute – their ‘how to win’ – and execution excellence can only be achieved by adopting digital capabilities and supporting technologies. For large companies, moving from the old model to the new is the core challenge of digital transformation. This means unlearning tried and tested principles that drove success in the past.

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The forces driving change

Consumer behaviour has changed. When choosing products, they are increasingly mindful of sustainability, health and wellness and ethical considerations. Meanwhile, Millennial and Gen-Z consumers in particular are opting for smaller, newer brands that they consider more authentic and innovative.

The way in which consumers learn about, interact with, comment on and buy brands has shifted online and especially onto mobile. US adults now spend around four hours per day on mobile devices, according to data from eMarketer. That is more than they spend watching television. Furthermore, mobile and social media use in some higher growth, emerging consumer markets is even higher than in the US and Europe. Growing ranks of digital-first consumers are driving explosive growth in online buying, both directly from companies and through ecommerce marketplaces.

Retailers and trade partners who CPG companies rely on for access to consumers have also changed. Discounters are seizing share from established players in many mature markets, and physical retail channels continue to consolidate. The trade margin pressure and fight to justify listings for brands solely dependent on retail partners will only grow.

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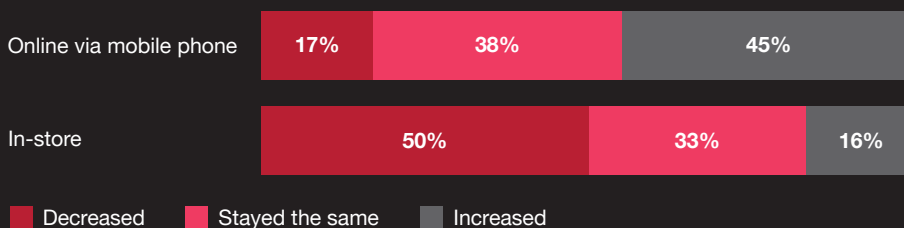
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COVID-19 has accelerated trends

The COVID-19 pandemic has intensified these shifts. PwC's [Global Consumer Insights Survey 2020](#) (GCIS) shows a significant increase in consumers shopping on their mobiles since the outbreak began, with 93% planning to continue doing so post-pandemic.

Most consumers have increased their mobile shopping

Changes in channel shopping behaviour due to COVID-19, non-food items



Source: PwC Global Consumer Insights Survey 2020

Increased use of social media during the pandemic is also fuelling digital engagement with brands. The GCIS found social distancing measures resulted in 50% of consumers using social media more.

However, consumer confidence has been shaken. Before the pandemic, almost half (46%) of respondents to our GCIS survey said they expected to spend more over the next 12 months. However, after the outbreak this figure fell by more than ten percentage points, while 40% of respondents reported a decrease in income.

Supply chain challenges have also intensified, underlining a need to build resilience. Companies are seeking options beyond their current networks and according to PwC's [COVID-19 CFO Pulse](#) survey, 51% of CFOs are planning to develop additional sourcing options.

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A new capability model for CPG

The enduring value levers of the CPG sector haven't changed. Today, the industry remains anchored around product innovation, brand-building, access to consumers, reliable supply chains and efficiency in the back office.

But what has changed is how those value levers can best be activated. Unlocking value and realising competitive advantage now require a set of modern, digital capabilities.

CPG value levers and enabling capabilities

Value lever	Traditional Capability Model	New Capability Model
Innovating product offerings	<ul style="list-style-type: none"> Mass-market product development 	<ul style="list-style-type: none"> Rapid innovation and increased speed to market based on granular customer insights
Engaging customers in brands and experiences	<ul style="list-style-type: none"> Large scale, above the line, agency marketing 	<ul style="list-style-type: none"> Targeted, personalised engagement developed through digital marketing and loyalty, developed in-house and informed by social media listening and response
Driving sales through superior consumer access and optimised pricing and promotions	<ul style="list-style-type: none"> Using trade relationships to access in-store consumers Pricing and promotions based on historical and fragmented data 	<ul style="list-style-type: none"> Full use of distribution channels, including retailer and pure play ecommerce as well as direct to consumer (alongside new revenue models such as subscription) B2B ecommerce to manage trade relationships and improve data Optimised revenue growth management (trade promotions, pricing, channel strategy, account management) processes enabled by advanced analytics
Reliable execution through supply chains	<ul style="list-style-type: none"> Linear, globally-integrated supply chains focused on efficiency 	<ul style="list-style-type: none"> Resilience and agility through diversification and selective near-shoring End-to-end visibility enabled by central control towers Decision-making enhanced by demand-sensing and scenario simulation
Achieving effectiveness and efficiency across core support functions	<ul style="list-style-type: none"> Interface between complex legacy systems and processes More time invested on heavy data manipulation and less time on value-adding activities 	<ul style="list-style-type: none"> Centres of excellence specialising in problem-solving Simplified and automated standard processes, support by agile cloud-based tech, outsourced and offshored where possible

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Two-thirds of all companies say their revenue and profit will suffer if their digital transformation doesn't move fast enough.”

Most large CPG players have significant digital transformation programmes underway and are guarding them carefully, even if there are cuts elsewhere in the business. PwC's recent CFO Pulse survey revealed that while 52% of companies plan to cut or defer investments because of COVID-19, just 9% will make those cuts in digital transformation. Furthermore, two-thirds of all companies say their revenue and profit will suffer if their digital transformation doesn't move fast enough.

However, there is still a big gap between aspiration and achievement. This is underlined by PwC's Digital IQ research, which shows only a small, select group of leading companies consistently realise value from their digital investments. But it also shows being a digital leader unlocks a significant payoff – a 17% higher profit margin growth over three years.

How to respond

So what can CPG incumbents do to increase the chances of successful digital transformation?

1. Develop a clear understanding and precise definition of what digital transformation means for your business

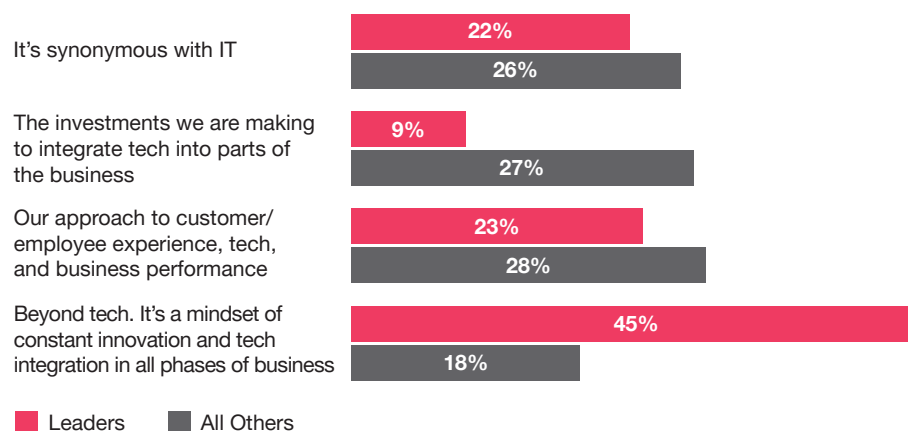
For too many, 'digital transformation' has become a meaningless concept. Not for digital leaders, who have a shared understanding of the nature of digital transformation: they know it isn't synonymous with IT or isolated reactions – such as “let's move to the cloud” – but instead means adopting digital capabilities and supporting technologies holistically across their business. Their strategy is also articulated at the right level – not lost in the weeds of specific technology solutions, nor loftily detached from action. They accept the fact that digital transformation is a continuous journey. PwC's [Digital IQ](#) research shows 62% of leading companies agree that digital transformation doesn't have start and end points.

62%

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Leading companies take a holistic view of digital

Definitions of digital transformation, % of respondents that agree, Digital Leaders vs. All Others



Source: PwC 2020 Global Digital IQ Survey



2. Make digital transformation a strategic and investment priority

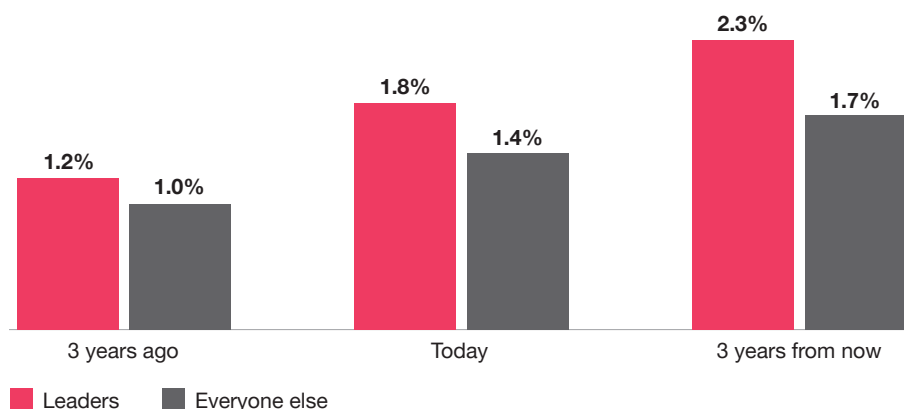
Digital transformation isn't a small, siloed side-project. It should be a pivotal element of the top executive agenda – championed by leadership and backed to the hilt with investment. Leading companies typically invest 33% more in digital initiatives, and 96% of them take a long-term view of transformation against 74% of other businesses. They also invest in people, allowing time and space for transformation teams to engage and collaborate across the enterprise.

33%

more is typically
invested in digital
initiatives by leading
companies

Leading companies invest more in digital

Actual and planned digital investment, % of revenue, Digital Leaders vs. All Others



Source: PwC 2020 Global Digital IQ Survey

3. Ensure you have digitally savvy leaders

It's not enough that senior leaders champion digital change. In fact, there is no difference between top performing businesses and less successful peers when it comes to saying they have a CEO who champions digital (both 72%). It is know-how that makes the difference. More than half (54%) of top performing businesses say their leadership is digitally savvy and helps the workforce think in new ways, against just 41% of less successful peers. Also, 77% of top performers say the executives in charge of digital efforts, such as a Chief Digital Officer, or Chief Transformation Officer, are deeply involved in setting high-level strategy.

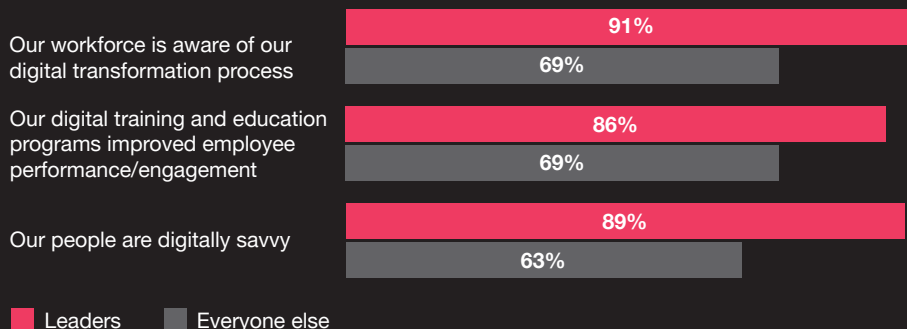
4. Invest in a workforce for the future

Leading companies focus on sustaining their future growth by upskilling employees. Recruiting the right talent is also critical. This means changing how candidates are recruited and becoming a magnet for people with digital capabilities or experience in delivering digital transformation.

Digital leaders also realise success is not just about technology skills. Culture and ways of working, including mental agility and flexible, cross-functional collaboration, are crucial. Traditional hierarchies and command and control structures must also be reassessed if established brand owners are to compete with digitally-native challengers.

Leading players foster workforces that are deeply engaged in digital

Characteristics of the digital workforce, % of respondents agreeing statements are true of their business, Digital Leaders vs. All Others



Source: PwC 2020 Global Digital IQ Survey

5. Progress with speed and control

The most effective digital transformation programmes are executed at speed using an agile, continuous improvement approach of test, learn and scale. Leading companies achieve this with governance models that enable the right people to make the right decisions at the right time – setting the guardrails for teams to innovate and take managed risks. They also galvanise collaboration: 84% of leaders mandate collaboration and cross-functional working. And they put sufficient resources into the change management effort – communicating and measuring progress frequently, and changing course if needed.

77%

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Where to begin?

The journey to successful transformation should start with an understanding of what good looks like in terms of strategy, operating model and supporting technology for each function and cross-functional enabler within the business.

Next, identify the current level of digital maturity, and align on the target state your organisation needs to realise. Then focus on building the distinctive capabilities that will be at the heart of your identity and provide differentiation in the market.

When taking these initial steps, remember no company can be best-in-class at everything. Instead, brand owners should focus on developing a unique set of differentiating and mutually reinforcing capabilities that will drive competitive advantage.

Meanwhile, investments in non-differentiating, “table-stakes” capabilities should be carefully managed, with a focus on maximising efficiency and possibly buying these in as a service.

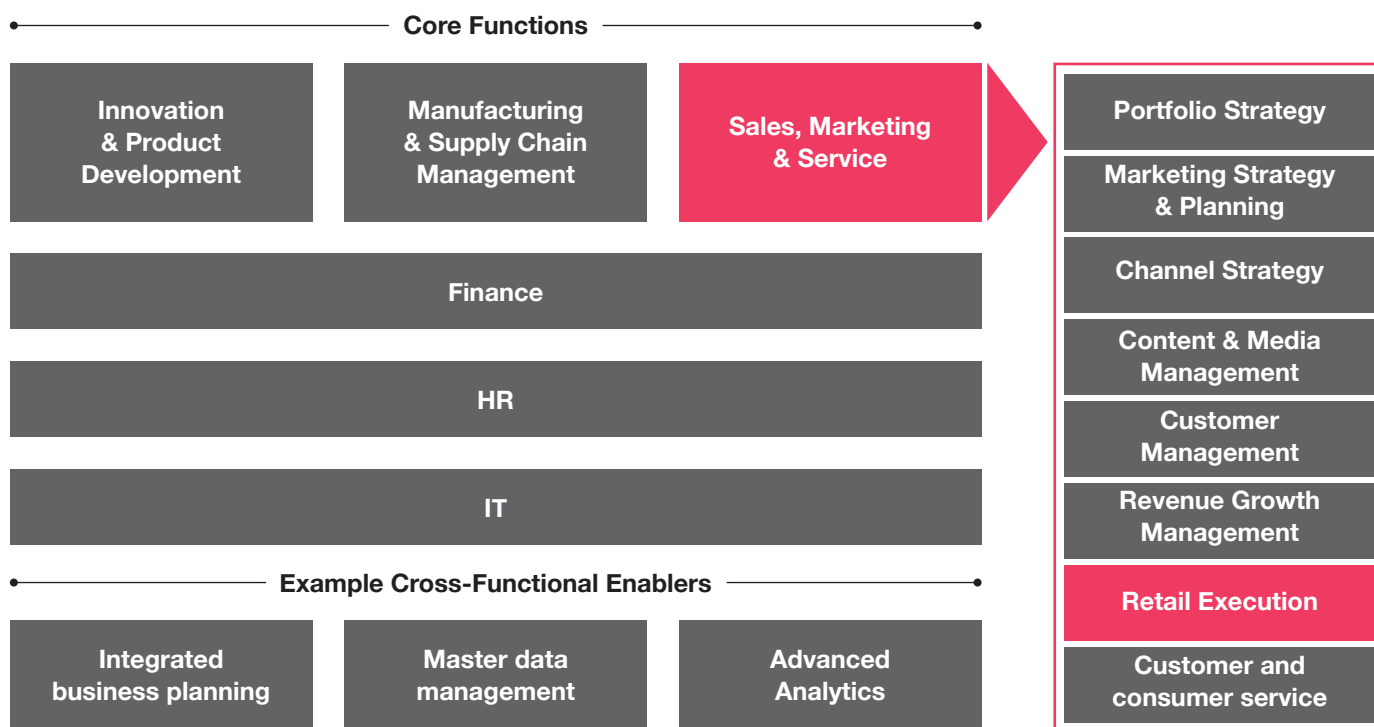
As for when to begin: start today. Harness the energy and engagement with which your business has navigated the pandemic and use it to start closing the gap between digital aspirations and achievements.

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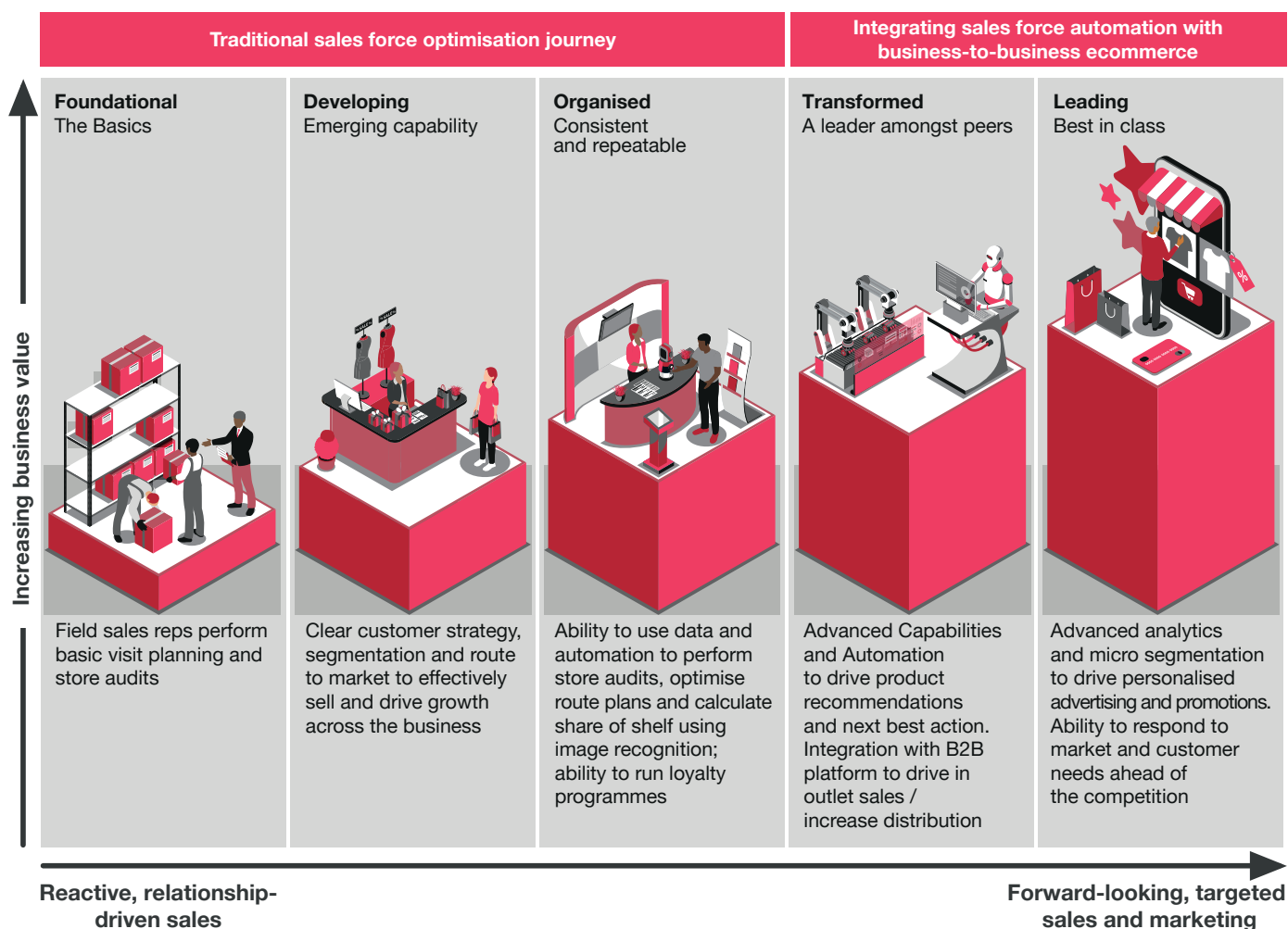
Harness the energy and engagement with which your business has navigated the pandemic and use it to start closing the gap between digital aspirations and achievements.”

To set your digital ambition, you need both an understanding of ‘what good looks like’ as well as a grounded view of your current digital maturity

Functional capabilities maturity framework



Retail Execution



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