

Intelligent Innovation in the Consumer Packaged Goods (CPG) Industry: Faster, Cheaper, Local



Executive Summary

The consumer packaged goods (CPG) industry is undergoing a major transition as the shopper becomes a major driver of innovation through e-commerce, omnichannel retailing, and mobile platforms. Based on the increasing demands of its end users, companies have found that they must create new products, achieve faster time to market and lower operational costs in order to remain competitive and address stockholder concerns.

The key to creating an innovation-driven organization is to build upon a new, more collaborative business model. This allows organizations to engage powerfully with the consumer, integrate processes and ideation across the value chain, and support expansion into emerging markets. By streamlining operations and shortening time to market, manufacturers, wholesalers, distributors, and retailers are able to manage risk while bringing innovative products that serve a larger market base.

Innovation in the CPG Industry

Continuous product innovation is the lifeblood of the CPG industry, keeping the brand alive and the shopper engaged. In an environment where one in five state that they are always looking for new products,¹ innovative merchandise is the basis for growth. New products extend the life of core brands, and targeted subbrands help to make the company more profitable.

Today's global marketplace makes continuous innovation all the more critical in order to both market global brands and localize them for regional tastes and cultural expectations. CPG organizations are playing in a larger field of competitors, with products and associated services becoming an integral part of corporate strategy. Companies need to create and effectively manage an integrated innovation culture that supports extended global R&D teams to capture new ideas, speed time-to-market, and provide customer service.

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In this economic environment, however, investments, even in new product innovations, are highly scrutinized by management. In 2010, for example, just over 1,600 new products were introduced in the United States. Less than 25 percent of these achieved \$7.5 million in sales, with only 1.1 percent earning above \$50 million.²

Even these numbers are more conservative than they appear; 88 percent of food and 92 percent of nonfood new products are line extensions, as opposed to original new merchandise. By splitting off subbrand offerings, companies are increasing profitability by executing based on specific products, stock management goals, or market interactions.³

Despite rising commodity costs, the industry is now beginning to recover. Companies are focusing on growth in emerging markets to augment both the top and bottom lines. The value of shipments in the CPG industry rose 6 percent to almost \$124 billion in 2010 as compared with the previous year, while the manufacturing sector achieved shareholder returns of 15 percent.⁴

To build on this success, CPG organizations must support true innovation to remain competitive in an increasingly challenging global marketplace. Currently, only about half of all companies feel that they have a culture that supports innovation strategies, or that their innovation and corporate strategies are fully aligned. Such companies routinely underperform their more creative competitors. By comparison, organizations with highly aligned cultures and innovation strategies have an average of 30 percent higher enterprise value growth and 17 percent higher profit growth.⁵

To achieve completely aligned innovation strategies, CPG companies need to reconsider three corporate infrastructure priorities:

- **Shopper-driven:** Social media encourages and enables consumer-originated, interactive content devoted to issues relevant to CPG brand categories⁶
- **Integrated innovation:** Today's collaboration solutions that allow companies to take innovation approaches once owned solely by R&D and apply them across the company to develop ideas, resolve problems, and discover new opportunities
- **Flexible operations:** Open, multidevice environments that use information sharing and exchange to support business operations in multiple and developing countries⁷

Shopper-Driven Innovation

The key driver of shopper-driven innovation is the acute observation of spontaneous, unstructured customer behaviors and needs. By inviting the shopper into the process, companies build their knowledge of product user expectations and desires, which translates into innovation insights. Based on the networked CPG environment, companies have the ability to:

- Create a total customer experience along with the product
- Understand the customer's behavior, media consumption, and time expenditure
- Create a flexible platform for interaction between customers and employees

This provides CPG companies with deeper and more accurate market segmentation. Input and feedback may emerge from Twitter feeds, Facebook walls, blogs, chat rooms, podcasts, personal videos, advisory and focus groups, special events for network members, and 1:1 real-time specialist and advisory communication. This, in turn, provides the opportunity to discover previously unknown niche markets, the creation of new niche markets, and extension of existing product lifecycles. The acquisition of new behavioral insights helps drive early identification of new, fast-growing markets and new category opportunities.⁸

Integrated Innovation

Traditionally, new product development has been the sole responsibility of R&D teams. Idea development and product portfolio management have been handled by engineering specialists, with other teams becoming engaged later in the development process. However, today's powerful networked collaboration capabilities support integration of innovation into business strategy, including:

- Combining resources across traditional functional divisions such as marketing, IT, and manufacturing
- Support for more radical and disruptive innovation to stay ahead of the competition, including high-speed and low-risk product development
- Improving the understanding of innovation tools and techniques across the company

This approach blurs the lines between product and service, encouraging customer involvement, extra-fast development, and increased responsiveness. It may also impact company

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organization in order to manage and assimilate a rapidly growing portfolio of products and services.⁹ Networked information sharing and collaboration becomes critical to building closer relationships up and down the supply chain.

Flexible Operations

Today's rapidly deployed, multidevice networking environments are increasingly becoming critical to the business, requiring a new approach to the CPG corporate infrastructure. Companies can:

- Use more integrated approaches to managing global supply chains to penetrate emerging markets
- Integrate multiple technologies, enterprise systems such as product lifecycle management (PLM), and partner solutions to support the supply chain
- Lower the cost of innovation in emerging markets with rapid local network deployment

Converged networking helps to adapt to a range of market environments, supporting the overall company strategy while remaining agile to meet changing needs. This supports innovation in emerging markets and across global supply chains, allowing CPG companies to remain flexible and accommodating within a rapidly shifting infrastructure.

Facing the Challenges of True Innovation

In contrast to other industries, increased research and development spending for CPG products does not appear to correlate with growth. In fact, there has been no statistically significant relationship between financial performance and spending on R&D for several years. Understanding this is particularly important as innovation spending rises: After a drop in 2009 of 3.5 percent in global innovation spending, R&D outlays surged to 9.3 percent in 2010 as companies gained confidence in the worldwide economic recovery.¹⁰

Companies therefore face the challenge of how to achieve profitability when simply investing in in-house product development may not be the best choice. Complicating matters is a new technological innovation that is dramatically transforming the CPG value chain: the smartphone.

Embracing the Challenge of Mobility

According to a GS1 study, 62 percent of today's shoppers have used a mobile device to purchase goods, while 42

percent of shoppers have used one to access product information from within the store.¹¹ From their phones, these shoppers compare prices, read product reviews, check availability of other brands, and make decisions based on outside and largely uncontrollable sources of information.

This game-changing technology has made it critical for manufacturers, distributors, wholesalers, and retailers to find new ways to improve market share and profitability. As shoppers become more mobile and brand-ambivalent, increased pressure is being placed on the supply chain to deliver innovative new products faster and at a more competitive price. Analysts predict \$163 billion in worldwide mobile sales by 2015, while projections estimate that \$38 billion will be spent on mobile ads in the United States and Canada during the same timeframe.¹²

However, the mobility paradigm also provides new opportunities to CPG companies and retailers, and addresses the issue of how to maximize return on investment for R&D. Mobility networks provide the critical benefit of rapidly capturing shopper insights through social media networking that allows consumers to provide immediate feedback and input to the company regarding their experience and the decision-making process. With processes in place to gather and analyze this information, companies are able to feed data straight back to R&D teams, providing a new type of actionable guidance to product developers. By including the voice of the customer at the research level and throughout the development cycle, engineers become better and more responsive innovators.

At the same time, companies can trim operating expenses and reduce risk by using mobility internally to improve worker productivity. Smartphones and tablets give employees instant access to information in corporate and manufacturing facilities, and in the field to support distribution and sales. Building mobility into corporate workflows promises to have a significant impact on the CPG operational costs over the next few years.

Managing the Innovation Process

Innovation is a complex process, involving many participants and many separate steps on the road to a final approval. It often encompasses experts, developers, and facilities spread across a wide geographic area. Along the way, R&D teams must research, brainstorm, prototype, and test products, while remaining in alignment with corporate branding and goals.

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Today's networked collaboration capabilities help to foster this process, driving creativity and new insights across geographic borders and time zones. Distributed, heterogeneous R&D and extended teams are able to work together using advanced conferencing and remote whiteboard systems to develop, manage, and mature each project into a final approved product. Today's flexible video capabilities also allow remote experts and team members to oversee the prototype production line, resolve design issues, and monitor consumer testing. The result is a product that can be:

- Brought to market more quickly and efficiently
- Designed to be responsive to expert, consumer, and testing feedback
- Marketed in high volume via a fast-moving supply chain to multiple channels

Innovative Ways to Reach the Consumer

Mobility has also opened the door to new technology capabilities that give companies direct access to consumers. Kiosks, shelf help, and other examples of SoLoMo (social local mobile) technologies enable direct-to-consumer selling. SoLoMo offers a mobile-centric way to find product information on demand: Through a kiosk or tablet located in a mall, in-store

“shelf help,” and in train stations or other public areas, users can search the web, interact with applications, view videos, and download information onto their phones. They may interact with the system using touch screens, cameras, speakers, microphones, or credit card scanners.

Conclusion

Social media and new collaborative technologies offer many opportunities for the CPG industry to transform its business processes. With a lean, collaborative, more cost-effective organization, companies are able to become more focused on providing outstanding products and a new integrated consumer experience.

At the same time, firms may now take advantage of their new capabilities to expand into new global markets, niche markets, and forward-looking channels. They can expose their products to new demographics, move more rapidly to expand manufacturing facilities, and adapt items to meet cultural requirements. Based on continuous consumer feedback, more efficient innovation practices, and improved operations, CPG companies are now in position to build their companies to support sustained growth and competitiveness.

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