

ACHIEVING PROFITABLE GROWTH IN CONSUMER PRODUCTS

Practical digital transformation



New technologies are fundamentally disrupting the business model for consumer products companies around the world. Relationships between manufacturers and retailers – and the consumers they share – are changing, and new business models are emerging. This is a challenge, certainly, but also a tremendous opportunity.

As the physical and digital converge and consumers' paths to purchase become increasingly non-linear, we estimate that the digital market for consumer products globally will double from about \$219 billion in 2018 to over \$440 billion in the next five years, making it an urgent priority for consumer products companies.

In light of this, companies are investing billions in digital transformation across their businesses to position themselves for this growth. However, we are concerned that much of that investment is wasted. Based on our research, more than half, or approximately \$50 billion, of digital marketing and trade spend globally is wasted. Digital transformation must be targeted, measured, and tailored to be profitable.

AlixPartners surveyed over 1,100 consumer products executives across six countries who are or have been decision makers for digital transformation to better understand how consumer products companies can successfully drive profitable, top-line growth. The synthesis of these thoughts, worries, and complaints illustrates a digital journey that is frustrating for most with significant cultural obstacles. It also shows that senior leaders may be significantly over-estimating their company's progress in this journey, versus those further down within the organization. To navigate these issues, success will require persistence and pinpoint investment.

YOU SAY TOMATO...

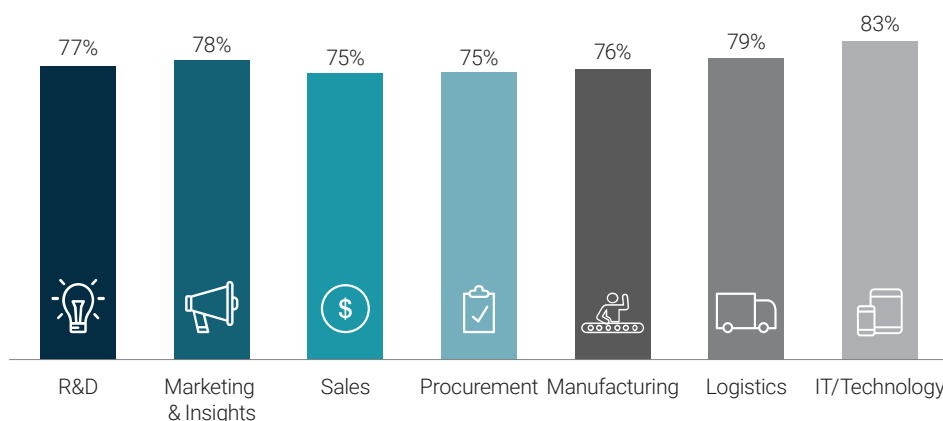
Not surprisingly, we found that 'digital' means vastly different things to different people in different markets.



But there is agreement that digital transformation is reinventing the entire business model for consumer products companies.

FIGURE 1: HOW DO YOU EXPECT THE FOLLOWING FUNCTIONS TO CHANGE AS A RESULT OF DIGITAL TRANSFORMATION OVER THE NEXT FIVE YEARS?

Percentage expecting significant to very significant change



Source: 2019 AlixPartners Global Digital Transformation Study

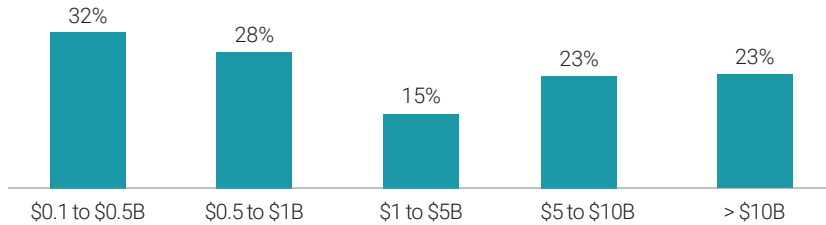
Technology, which enables digital transformation, has migrated from a back-office function to the commercial front end to now permeating the entire organization. The borders that long existed between 'technology' and the 'business' are coming down, allowing for greater agility, higher connectivity, and deeper insights. Today, technology truly helps define the business.

Digital transformation is, therefore, business transformation.

DIGITAL JOURNEYS

Where companies are on the path toward digital transformation depends greatly on both their size...

FIGURE 2: SHARE OF DIGITAL LEADERS BY COMPANY SIZE
Percentage of rating nine or ten on digital maturity scale

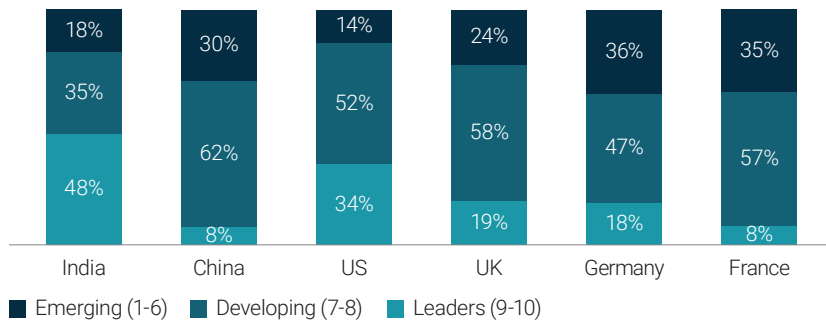


Source: 2019 AlixPartners Global Digital Transformation Study

...and their country of origin.

FIGURE 3: WHERE ARE YOU ALONG THE DIGITAL JOURNEY?

Please rate on a scale of one to ten with ten being fully digitized and one being just starting



Source: 2019 AlixPartners Global Digital Transformation Study

PHYSICAL AND DIGITAL CONVERGENCE

Digital and physical commerce are rapidly converging in what we estimate is an approximately \$220-billion top-line growth opportunity for consumer products companies. In 2018, global digital commerce for consumer products totaled \$219 billion.¹ By 2023, we estimate that this will grow to \$440 billion. Digital commerce will, therefore, be a significant driver of future growth for consumer products companies.

And this growth will largely be incremental to traditional brick-and-mortar businesses. In our study, over half of the companies that are fully digitized or close to fully digitized (the 'leaders' in figure 4) strongly agree that digital commerce will not cannibalize their traditional businesses.

1. Including food, beauty, and household products. Euromonitor International

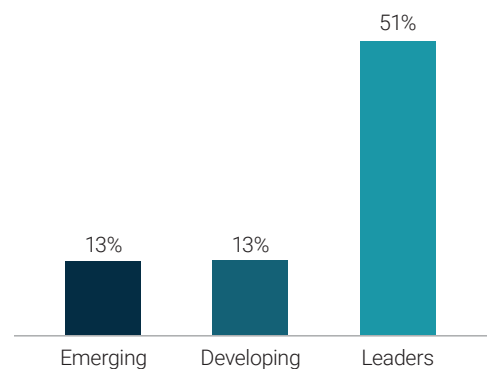
Both the largest and smallest companies by sales report being furthest along in the process of transforming the business. For the smallest, this is likely because many are digital natives, having been formed recently without the burden of outdated systems or culture. For the largest, these companies can use their significant resources to invest in transforming their businesses, further propelling themselves along the development curve.

Mid-sized companies, however, are lagging behind, with only 15% of companies between \$1 and \$5 billion in sales identifying themselves as digital leaders. Without the resources of the largest companies, but still burdened by legacy systems and ways of working, they are struggling with the necessary transformation of their businesses.

Across countries, companies have a very different view on how advanced they are along the digital journey, with a 22.5 percentage point gap between the most digitized (India) and the least (France).

FIGURE 4: DIGITAL COMMERCE IS LARGELY INCREMENTAL TO TRADITIONAL BRICK AND MORTAR BUSINESS

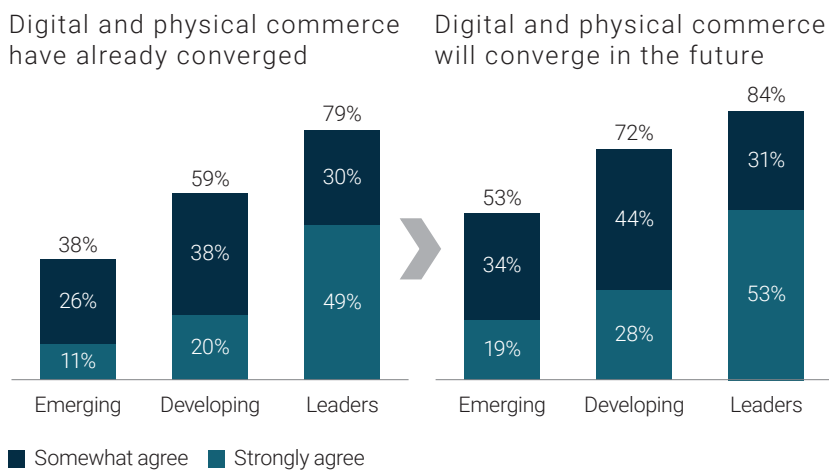
Percentage strongly agree



Source: 2019 AlixPartners Global Digital Transformation Study

Digital and physical commerce are converging, and those further along the digital journey see this largely as already having happened.

FIGURE 5: EVEN COMPANIES LAGGING IN DIGITAL TRANSFORMATION SEE DIGITAL AND PHYSICAL CONVERGE IN FUTURE



Source: 2019 AlixPartners Global Digital Transformation Study

With this convergence, consumer products companies have little choice but to pursue a digital commerce strategy. The growth potential significantly outweighs any potential channel conflict. Companies must meet their consumers where they are, and winners will be those that harness the full potential of the increasingly non-linear path to purchase.

As one respondent to our survey said, "Winning will be playing in both [physical and digital] and adjusting resources depending on where [consumers] are on that journey... It's not a conflict or collisions, it's where the consumer is going and where companies have to go."

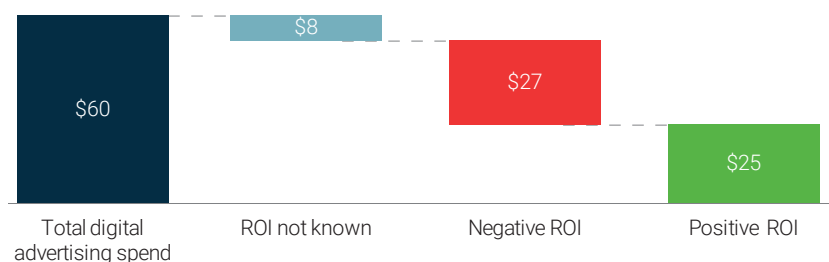
However, despite the importance of digital to their future, many companies still lack appropriate focus on digital transformation as a key component of their strategy.

We analyzed the earnings calls of the 125 largest public consumer products companies globally for the four months leading up to May 17, 2019, and searched for terms such as 'e-commerce,' 'direct-to-consumer,' 'online,' 'Amazon,' and other terms suggesting that digital strategies were being discussed. Fully one-third (or 42) of these companies made no reference to these terms in their calls with investors.

DIGITAL MARKETING: WASTE NOT

Much of traditional marketing and trade spend is wasted. But based on our survey, digital marketing and trade spend aren't much better.

FIGURE 6: WHAT PERCENTAGE OF DIGITAL ADVERTISING SPEND IS EFFECTIVE/DELIVERING POSITIVE ROI? (US\$ BILLION)

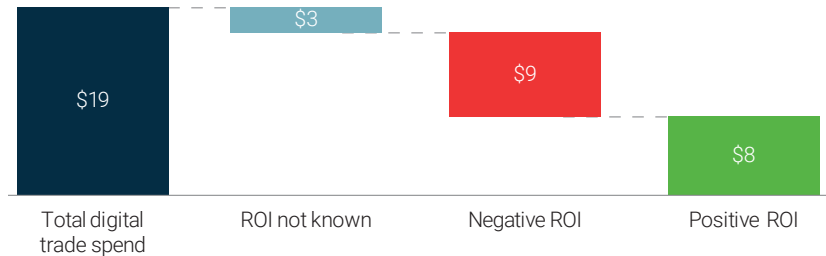


Source: Cadent Consulting, eMarketer, AlixPartners Analysis

In 2018, global consumer products advertising spending was \$242 billion, of which digital advertising accounted for \$60 billion. Based on our survey, more than half of that digital advertising spend had either a negative return or its return was not even measured.

Similarly, while digital trade spend is perceived as more effective than traditional spend, the vast majority is still ineffective. In 2018, global consumer product trade spending was \$518 billion, with \$19 billion digitally-enabled. However, based on our survey, \$9 billion of that had a negative return.

FIGURE 7: WHAT PERCENTAGE OF DIGITAL TRADE SPEND IS EFFECTIVE/DELIVERING POSITIVE ROI? (US\$ BILLION)



Source: Nielsen, Cadent Consulting, AlixPartners Analysis

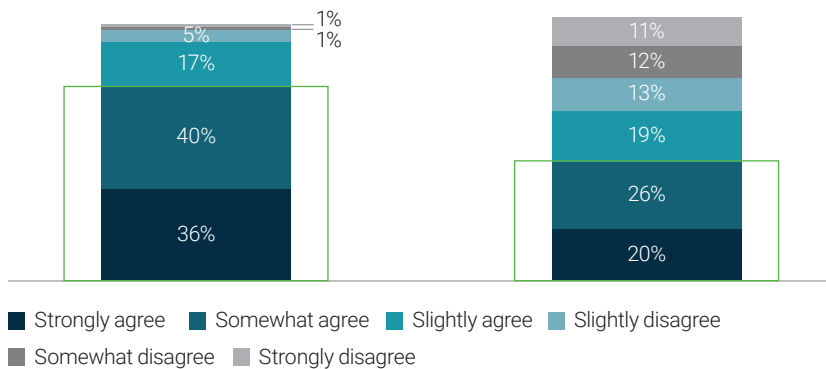
Digital marketing and trade spend should be more precise and targeted than traditional methods, with greater opportunities for consumer engagement and data analytics. However, this promise remains elusive for many, who, in our survey, expressed continued frustration in their inability to track and measure outcomes given more complicated marketing models and distribution channels. "If you can't measure it," one respondent indicated, "then I'm skeptical of it."

BUSINESS ORGANIZATION AND CULTURE

FIGURE 8: DIGITAL TRANSFORMATION IS AN ENABLER OF BUSINESS TRANSFORMATION BUT FOR MANY IT HAS BEEN A FRUSTRATING JOURNEY

Digital is an enabler of business transformation

Digital transformation has been frustrating journey



Source: 2019 AlixPartners Global Digital Transformation Study

As paths to purchase become increasingly fragmented and non-linear, it is now more critical to focus efforts on digital marketing. There is a learning curve involved, and it takes time to get ROI from digital marketing.

The leaders in our survey reported that they are approximately 70% more efficient in driving positive ROI than those beginning their digital transformations. Success is, therefore, achievable with the appropriate investments and fine-tuning to get it right.

Winners in this area will be able to take savings to spend in other areas or directly to the bottom line.

Digital transformation is an enabler of business transformation but for many it has been a frustrating process, particularly for those furthest along in the journey. For digital leaders, 67% indicated that they strongly or somewhat agreed that digital transformation has been frustrating.

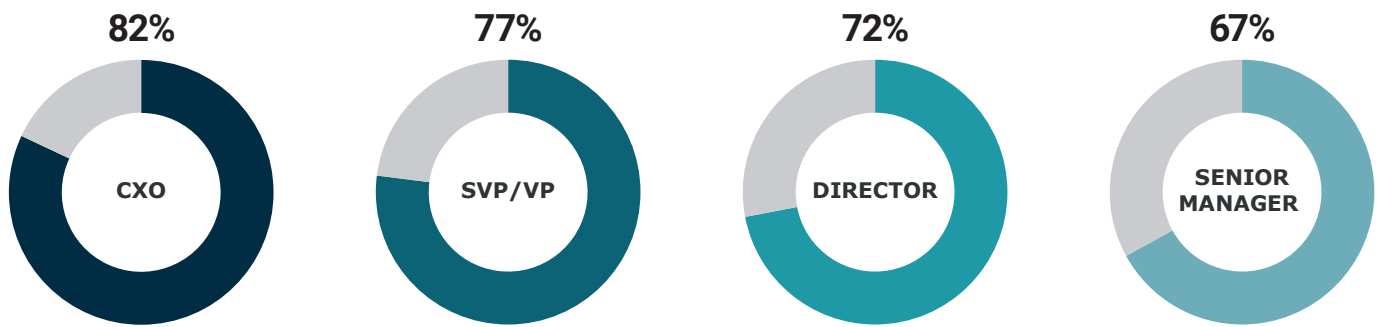
This problem may be driven, at least in part, by differing views across the organization on where they are along the journey. Those further down in the organization, closer to the day-to-day, see the transformation process as lagging.

A lack of talent and adequate funding is also adding fuel to organizational frustrations, compounding pains felt down the lower ranks.

Even for those further along the digital journey, barriers still exist. While they may have done a relatively better job at attracting the right talent and encouraging experimentation within their organizations, affecting the overall cultural change that is necessary for successful business transformation remains the key challenge. For many large, established consumer companies, their legacy brand strategies, a core strength, make it difficult to pivot to digital strategies, and the sheer size and complexity of the organizations make cultural change difficult. Many can successfully innovate at the micro level, but applying those changes across the whole organization proves more challenging.

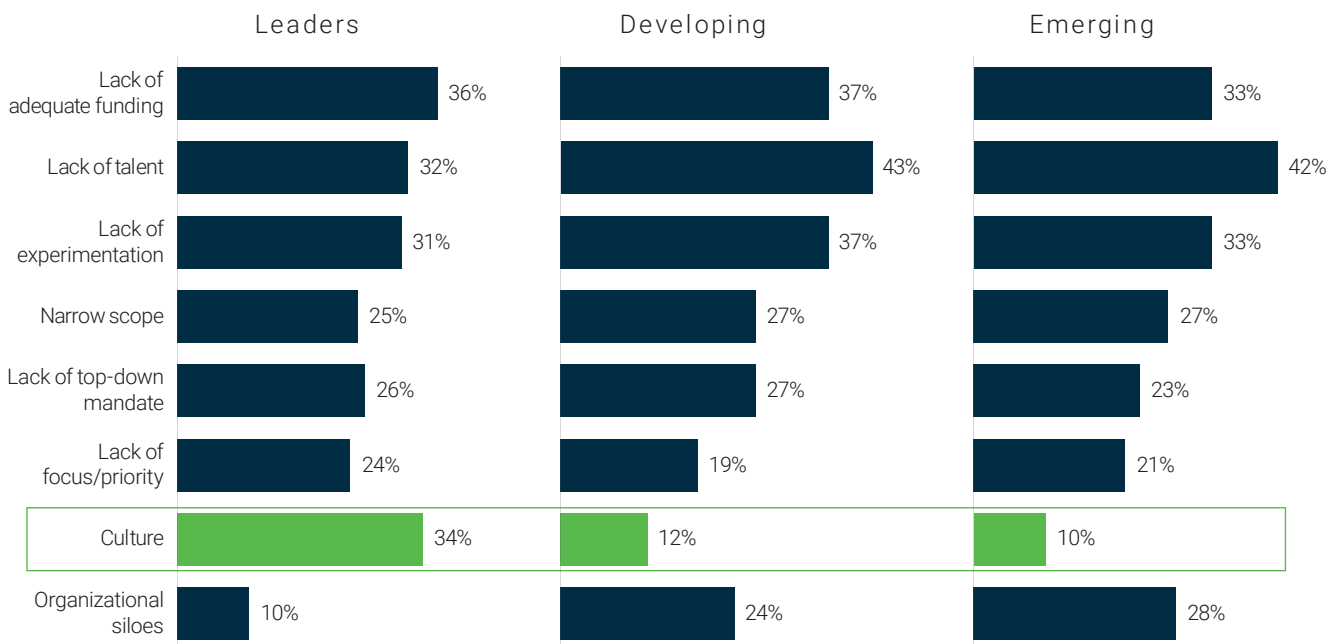
FIGURE 9: WHERE ARE YOU ALONG THE DIGITAL JOURNEY?

Please rate on a scale of one to ten with ten being fully digitized and one being just starting
Managers who rated 7-10 (by level/seniority)



Source: 2019 AlixPartners Global Digital Transformation Study

FIGURE 10: TOP THREE BARRIERS



Source: 2019 AlixPartners Global Digital Transformation Study

The path to profitable growth:

TARGETED, MEASURED AND TAILORED

Digital and physical commerce are converging in a \$220 billion top-line growth opportunity for consumer products companies. Digital will be a significant driver of future value. Our research shows that consumer products companies should be taking four steps to position themselves for this future:

1 START WITH LEADERSHIP

Digital transformation is truly business transformation, and this process must be driven from the top of the organization. Leaders must provide a clear strategic vision for why change is necessary and where the company is heading, as well as sufficient resources to ensure success.

For digital transformation to be successful, company leadership, starting with the CEO, must shatter traditional cultural, organizational, and structural silos that are frequently the most intractable impediments to change.

2 BUILD THROUGH A CULTURE OF EXPERIMENTATION AND INCLUSIVITY

Reward risk taking. Inertia and institutional paralysis are antithetical to successful transformation. Only by celebrating the successes, and embracing the failures, in this messy and frustrating process will the organization be galvanized toward change.

Keep lines of communication open, particularly from those lower in the organization who are on the front lines. Our research shows that leaders are more optimistic about the progress of digital transformation than those in the rank and file. What do they know that those at the top do not?

3 ACCELERATE WITH SPEED AND AGILITY

Sometimes the immense burden of what must be achieved can be overwhelming. Getting some clear wins for the business in digital transformation can help empower the organization to keep moving forward. Focusing on specific, actionable, and sometimes smaller initiatives, with measurable results, can lead to broader transformation. Known high-ROI projects, such as pricing and marketing effectiveness, can provide momentum to the process.

Hire the best talent and, where gaps in internal capabilities exist, identify the right external partners to help accelerate the process.

4 BUT REMAIN PRECISE AND THINK HOLISTICALLY

Understanding data and using those insights to inform strategy and allocate resources is key. Merely throwing money at the problem is not a recipe for profitable growth.

Bring to the digital transformation effort a portfolio management mindset. Digital transformation is comprised of a multitude of potentially high value, but also high volatility projects. There will be failures. If a strategy isn't working, be prepared to shift or even shut a project down completely. Success in the end will be measured by the return on the portfolio, not on any one project.

Companies don't become digital overnight (unless they were born that way). Tomorrow's winners will be those that take the right steps today.

SURVEY METHODOLOGY

Qualitative research overview:

As a stepping stone for quantitative research, we interviewed consumer products executives with current or past direct responsibility for digital transformation efforts.

Quantitative survey overview:

We conducted a quantitative online survey of 1,110 executives in six countries who are or have been decision makers for digital transformation.

| COUNTRY | COUNT |
|--------------|--------------|
| US | 201 |
| China | 209 |
| India | 200 |
| UK | 200 |
| Germany | 200 |
| France | 100 |
| Total | 1,110 |

| SUB-SEGMENT | COUNT |
|----------------------------|--------------|
| Food and beverage products | 548 |
| Household products | 368 |
| Health and beauty products | 194 |
| Total | 1,110 |

| ANNUAL REVENUE | COUNT |
|-------------------------------|--------------|
| >\$10 billion | 73 |
| \$5 billion-<\$10 billion | 165 |
| \$1 billion-<\$5 billion | 350 |
| \$500 million-<\$1 billion | 341 |
| \$100 million -<\$500 million | 181 |
| Total | 1,110 |

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ABOUT US

For nearly forty years, AlixPartners has helped businesses around the world respond quickly and decisively to their most critical challenges – circumstances as diverse as urgent performance improvement, accelerated transformation, complex restructuring and risk mitigation.

These are the moments when everything is on the line – a sudden shift in the market, an unexpected performance decline, a time-sensitive deal, a fork-in-the-road decision. But it's not what we do that makes a difference, it's how we do it.

Tackling situations when time is of the essence is part of our DNA – so we adopt an action-oriented approach at all times. We work in small, highly qualified teams with specific industry and functional expertise, and we operate at pace, moving quickly from analysis to implementation. We stand shoulder to shoulder with our clients until the job is done, and only measure our success in terms of the results we deliver.

Our approach enables us to help our clients confront and overcome truly future-defining challenges. We partner with you to make the right decisions and take the right actions. And we are right by your side. When it really matters.

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