

# **E-COMMERCE**

Are consumer products companies leaving money on the table?



# Online consumer products sales, including direct to consumer, to reach \$175 billion in the US by 2022

New technologies, new competitors, and new consumer behaviors are disrupting the business model for consumer products companies. For companies that have long relied on the power of their brands and retail relationships to drive sales, e-commerce across a variety of channels, including digital retailers like Amazon, traditional retailers' digitally-enabled offerings, and consumer products companies' own direct-to-consumer (D2C) channels, will likely become a prime source of future growth in this industry. Given the fundamental shift this means for companies' relationships with their consumers, a strategic realignment is necessary to position themselves for this digitally-oriented future. Based on AlixPartners research, we believe most consumer products companies are not sufficiently focused on both the opportunity and threat that this represents.

**FIGURE 1: US CONSUMER PRODUCTS SALES – TRADITIONAL VERSUS E-COMMERCE (\$BILLION, FORECASTS FOR POST-2017)**



Consumer products companies currently lag behind many other industries in online sales, with, for example, e-commerce of all types representing about 5% of consumer products sales in the United States,<sup>1</sup> versus 9% for all US retail sales in 2017.<sup>2</sup> The US also trails many other countries in online retail penetration, which represented 23% of sales in China and 19% in the United Kingdom in 2017.<sup>3</sup>

But we have seen in other industries and countries that consumer behaviors can change rapidly with potentially devastating effects, which makes the task for consumer products companies urgent.

Using what we consider a conservative estimate, AlixPartners forecasts that online sales of consumer products in the US could grow to \$175 billion, or 15% of all consumer products sales, by 2022. This would represent a multiple of 3.6 times online retail sales for consumer products in 2017. Companies not positioning themselves with the right digital strategy risk losing sales, market share, and growth potential.

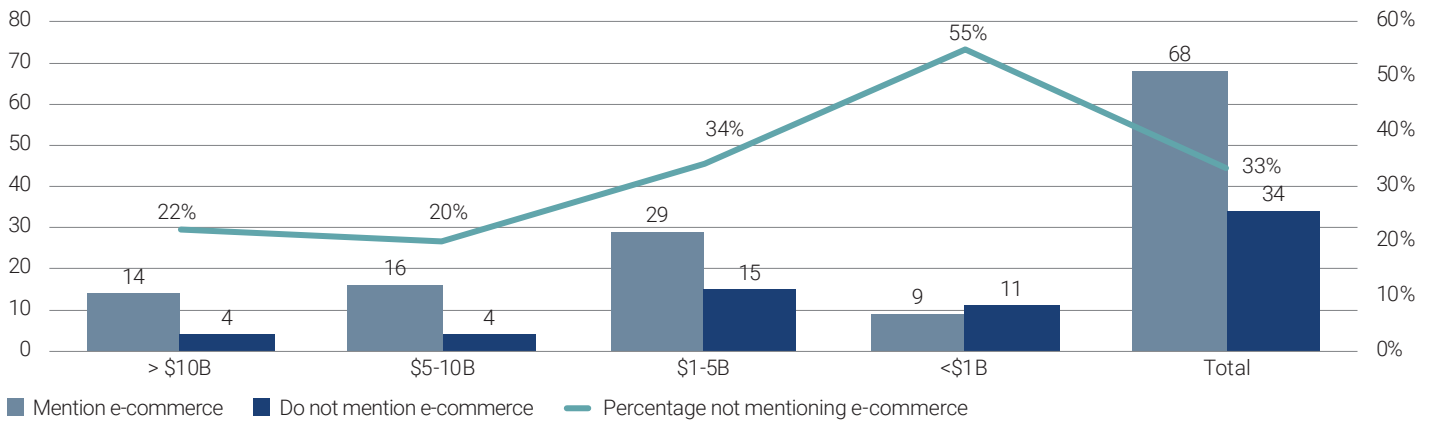
Despite this, however, we believe most consumer products companies are not adapting rapidly enough to the future of e-commerce. Many consumer products companies are not even incorporating e-commerce as a key part of their strategic narrative.

We analyzed the earnings calls of the 102 largest, US public consumer products companies by revenue made during the four months leading up to January 24, 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 34) of these companies made no reference to these terms in their calls with investors. Middle-market companies, those with less than \$1 billion in revenues, were the least likely to talk about digital strategies, with 55% (11 out of 20 companies) failing to discuss this topic in their earnings calls.

1. Euromonitor estimate  
 2. US Census Bureau statistic  
 3. eMarketer estimate

## FIGURE 2: E-COMMERCE MENTIONS BY LARGEST, PUBLIC CP COMPANIES IN US

Breakdown by revenue size, percentage not mentioning the listed, e-commerce terms



Note: Last 4 months as of 1/24/19; largest US-based public CP companies sorted on annual revenue (all companies on list above \$400 million in annual revenue); earnings-call transcripts searched for the phrases 'e-commerce,' 'DTC,' 'direct-to-consumer,' 'Amazon,' and 'online'  
Sources: AlixPartners analysis, publicly-available company earnings-call transcripts

Given the importance of these strategies to their future, we find the absence of a discussion on these topics troubling and indicative of an overall lack of appropriate focus by these companies on e-commerce. Yes, consumer behavior has been changing more slowly in consumer products than in some other spaces, but we expect the change of pace to accelerate.

And many CP companies have been playing catch up in digital transformation, focusing more on internal capabilities rather than external strategies. Clearly, consumer products companies must implement forward-looking, digitally-enabled strategies to connect in new ways with consumers.

Those strategies, which we will discuss in more detail in subsequent articles, that we believe consumer products companies should be pursuing are:

### ASSORTMENT

E-commerce may be an 'endless aisle,' but winning in this channel is not only about product placement but also innovation, differentiation, and exclusivity in order to gain traction with consumers and combat competition.

### CONSUMER EXPERIENCE

Like retailers, consumer products companies will thrive by mastering a consistent, omni-channel presence and by ensuring quality products and timely delivery through collaboration with others in the value chain.

### SUPPLY CHAIN OPTIMIZATION

Choosing and optimizing the right supply chain strategy must be adapted case-by-case, balancing costs, service, control, and pricing.

### OPPORTUNISTIC M&A

In an era of slow organic growth, M&A can be a core pillar of developing an e-commerce strategy to gain market share, enter or realign towards new segments or markets, and gain digital capabilities.

### CAPABILITY

Putting in place the right capabilities and structures, including organization, technology, and measurement, are critical to winning in e-commerce.

Those companies that do not act quickly and decisively to implement the right digital strategies may find themselves driven to change by external forces beyond their control. Competitors, both known and unknown, erode market share and growth potential. Once loyal customers change their allegiances and buying behavior. And investor and market sentiment turn swiftly.

## **CONTACT THE AUTHORS:**

Andrew Csicsila (acsicsila@alixpartners.com)  
Raj Konanahalli (rkonanahalli@alixpartners.com)  
Sundaram Chokkalingam (schokkalingam@alixpartners.com)  
Emily Halperin (ehalperin@alixpartners.com)  
Ron Henry (rhenry@alixpartners.com)

## **FOR MORE INFORMATION CONTACT:**

### **David Garfield**

Global Consumer Products Co-lead  
Managing Director  
+1 312 705 3902  
dgarfield@alixpartners.com

### **Jonathan Greenway**

North American Consumer Products Lead  
Managing Director  
+1 415 848 0323  
jgreenway@alixpartners.com

## **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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