Embracing change to seize opportunities in the consumer products sector

Consumers' expectations about their customer experience will continue to change radically over the next few years. They often want products at a lower price point, delivered faster and with greater convenience at no extra cost.

How will consumer products companies turn these challenges into opportunities? To respond to changing demand, forward-looking businesses across the sector are focusing their strategies on a number of key consumer trends, explored in this report.

Emerging technologies, shifting demographics, evolving consumer preferences and increased environmental awareness are all driving radical change in consumer products markets.

Key takeaways

- Technologies like smart dressing rooms are helping retailers to reinvent the customer experience
- Use of big data and analytics to provide deeper insights into consumer behaviour is a key area of focus
- Innovation in route-to-market concepts can help companies stay ahead of the competition
- More businesses are set to push ahead with direct-to-consumer strategies to bypass retailers
- Emerging economies and a growing global middle class are creating important new markets
- Brands are waking up to the power of diversity and inclusion messages
- Responsible, eco-friendly consumerism is becoming more mainstream

Cynthia Labonté, Canada
Global Lead: Consumer, Retail & Luxury Group
cynthia.labonte@penrhyn.com
+1 514 864-5459

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Technology and the customer experience

As with almost every other industry, technology is the key driving force behind change.

One prominent example of this is the use of self-service checkouts in supermarkets. NCR Retail Solutions, which specializes in digital retail applications, continues to see year-on-year growth and recently launched 10,000 self-service checkouts at 1,200 Wal-Mart stores.[1] This self-service trend is rapidly evolving: stores with no checkouts at all were introduced by Amazon Go in 2018.[2]

In retail fashion, consumers searching for a seamless shopping experience are becoming familiar with so-called smart dressing rooms, which ship new items into a customer's dressing room personalized to their style and size.

In Palo Alto in the US, a firm has developed a smart fitting room mirror, the MemoMi, which allows for a virtual fitting by comparing pictures of garments in the mirror. It even sends images on to others for their opinions on social media. Neiman Marcus has acquired these mirrors for three stores in the US, leading to a 250% increase in inventory turnover and sales up 30%.

In New York, designer Rebecca Minkoff's boutiques feature 8x11ft screens on which the customer can choose clothes and complementary items. The screen allows customers to see how an article will fit (virtually), without having to try it on. The technology also records data on every item's label in order to calculate how many times it is picked up. This information is then transmitted by radio frequency to the company's CRM system.[3]

Other uses of technology to optimize the customer journey include sending personalized promotions to consumers in-store, according to their choice of products. Elsewhere, information about shoe colors and sizes can be displayed on a screen when prompted by customers walking on a 'magic carpet' system used by footwear company Ugg. And interactive shelves used by jeans manufacturer Levi Strauss provide product details on a tablet for any item customers pick up. This clever application also links directly with inventory – just one example of many automatic inventory management approaches being introduced.

It's estimated that technology applications will provide a 3% saving in operating costs through self-checkouts, $89-348 billion in real-time in-store promotions, and $79-158 billion in revenue per year by optimizing store layouts.[4]

Deeper consumer insight

Consumer products companies are also increasingly using technology to gain deeper insight into consumer behavior through the use of big data, analytics and machine learning.

Translating this information into appropriate business strategies can provide a strong competitive edge, increase customer engagement and drive up sales.

This trend has been accelerated by the ubiquity of smartphones and tablet technology, which allows for more precise data gathering on consumer behaviour, and more accurate customer profiling and segmentation.

Effective investment in data analytics can help consumer products companies to optimize their marketing expenditure and have a stronger impact on consumers.

Nike's acquisition of data analytics company Zodiac, for example, reflects the growing demand among consumer products players for deep insights into consumer behavior.

Innovative concepts

Companies in the consumer products industry will need to continue to put innovation at the top of their strategic agendas to stay ahead of the competition.

Instead of investing in traditional routes, which can be time-consuming and resource-heavy, companies are coming up with more agile approaches and testing new concepts in stores and online.

For example, we have seen some retailers using hush-hush 'secret stockrooms' for VIP clients, such as Totokaelo in New York, or combining fashion, design and art, as with X Bank in Amsterdam. Maison 10 in New York is keeping its collections fresh by offering a small selection of items for short periods – 10 items in 10 different categories for a 10-week timeframe, so just 100 items in total available online and in stores. This concept has even been extended to include 10 artworks for each 10-week period, with 10% of sales donated to one of 10 charities.[5]

Larger retailers are also trying more personalized and localized store concepts. H&M, which has generally

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> "India's clothing market is expected to be worth $59.3 billion in 2022, making it the sixth-largest in the world."

used the same offering across all of its international locations, opened a new concept in 2018 in Stockholm. This store embraces more local tastes and has a smaller selection of clothing items, which are displayed more loosely on color-coordinated shelves.[6]

Canadian retailer Staples is transitioning from an office supplies chain to a working and learning company, with a new store concept launched in 2018. The business is amalgamating the shopping and working experience, offering different working environments to cater to entrepreneurs, students, teachers and other professionals.[7]

We can expect to see more innovative route-to-market strategies over the next few years.

Direct-to-consumer strategies

The direct-to-consumer (DTC) approach is already proving very successful. Competition in this segment has grown significantly over the last few years, and we have seen many new consumer products players, including wholesalers, developing their own DTC strategies. The challenge is how to sell directly without impacting on relationships, and therefore sales, with retail clients.

DTC has become a major threat to conventional consumer products companies. For example, Gillette has launched online DTC sales of blades for its shavers. And after two years, Unilever's acquisition of Dollar Shave, which has 60% of online sales in the shaving category[8], appears to be achieving its objective of providing market insights to improve product development, design and marketing.

Developing a bespoke DTC strategy or acquiring an organization that already has a strong DTC channel can be an effective way to gain more insight and data on consumer behavior, which can give consumer products companies that all-important competitive edge.

Digital disruption and technological advances are likely to allow more consumer products businesses to push ahead with DTC strategies to bypass retailers over the next few years.

Globalization and demographic change

Adapting to the needs of an aging population across much of the world represents another key challenge for consumer products companies. At the same time, the sector clearly needs to understand the shopping habits and preferences of the millennial generation of digital natives.

Growth in and partnering with organizations in emerging markets will give consumer products companies access to a wider range of consumer insights and synergies.

Despite more subdued global economic growth, in part due to the slowdown in China and tensions around its trade war with the US, growth rates in emerging economies are still predicted to be higher – 4.5% in 2019 and 4.9% in 2020 – than in advanced economies – 2% this year and 1.7% next year.[9]

By 2030, current emerging markets will comprise seven of the world's top ten economies by GDP, with China in first place, followed by India (2nd), Indonesia (4th), Turkey (5th), Brazil (6th), Egypt (7th) and Russia (8th).[10]

The burgeoning economic power of these new markets is bringing social transformation too. It is projected that by 2020 there will be 3.2 billion 'middle class' consumers globally, up from 1.8 billion in 2009. Almost none of this growth will come from advanced economies – instead, it will occur primarily in Asia, Africa, and Latin America.[11] These wealthier populations are of course an attractive target for consumer products companies.

For example, India's clothing market is expected to be worth $59.3 billion in 2022, making it the sixth-largest in the world. No surprise then that more than 300 international fashion brands are expected to open stores in India in the next two years.[12]

Casualwear giant Gap, which recently announced plans to close stores in North America, is performing well in emerging markets. Gap has around 170 directly run stores in mainland China, Taiwan and Hong Kong and has made inroads into countries such as India, Vietnam and Thailand. The company is expected to continue investing in these promising markets.[13]

Diversity and inclusion

Consumer goods companies are also increasingly focusing on products that embody diversity, inclusion and equality. Brands such as Starbucks, Papa John's, Victoria's Secret, and H&M all received criticism in 2018 because of remarks by employees and executives, or because of their choice of advertisements. Companies need to ensure that their marketing and brand images are representative and respectful of the communities they serve.

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"In the era of #MeToo, companies that act more responsibly over their brand messages are being heard."

In the era of #MeToo, companies that act more responsibly over their brand messages are being heard. Proctor & Gamble's launch of Gillette's new campaign, "We believe: The best men can be", attracted controversy. P&G CFO Jon Moeller said: "It's a part of our effort to connect more meaningfully with younger consumer groups."[14]

Nike's ad featuring former NFL star and activist Colin Kaepernick is an example of how a brand can make a strong statement. Kaepernick was made famous not by his football career, but by his decision to stand – or kneel – for his anti-racial violence beliefs. "Believe in something, even if it means you have to sacrifice everything," was Nike's powerful slogan. Many expected sales to drop. Instead, year-on-year online sales growth nearly doubled.[15] Despite the fact that American opinion was split down the middle over Kaepernick's actions, this was a risk Nike was willing to take.

Pre-defined concepts of beauty are also being challenged – in favour of a celebration of individual uniqueness. Self-expression and acceptance are becoming more important as consumers place greater importance on whether they can connect and identify with brands. For instance, Chanel has recently launched its men's makeup line, Boy de Chanel, perhaps encouraged by L'Oréal's 2016 decision to hire its first CoverBoy, James Charles.

In a telling remark that neatly sums up these trends, Verna Myers at Netflix has said, "Diversity is being invited to the party. Inclusion is being asked to dance."[16]

Ethical choices

Responsible consumerism, while nothing new, will continue to grow in importance and become increasingly mainstream in the years ahead.

Consumers are seeking brands that make eco-friendly choices, are responsible in terms of human capital and the environment, and make consumers feel better about themselves by helping them make conscious ethical decisions.

Evidence of this over the last few years includes retailers prohibiting plastic bags in their stores and manufacturers cutting back on plastics in packaging. One in three consumers say they prefer eco-friendly options, even at higher prices.[17]

Retailer Toms is known for its commitment to giving away one pair of shoes for every pair sold. Its shoes are also sustainable, recyclable and made with vegan materials.[18] In sportswear, Patagonia has been committed to using organic materials since 1996, and even uses recycled bottles for its fleece jackets. The company has also been reducing its carbon footprint and investing in repair centres to increase the longevity of its products.[19]

Looking ahead

Innovation in branding, store concepts, products and marketing, will be key to gaining competitive edge. Brands should not be afraid of standing by their convictions, being authentic to what they represent and what they wish to convey to the consumer, if they want to become a "love brand". Stepping outside pre-defined concepts and conventions will certainly contribute to achieving that goal.

It's clear there are huge opportunities for consumer products companies – but only if they embrace the influential trends of these changing times.

Consumer products companies looking to capitalize on these trends are therefore recruiting top talent to drive their expansion plans and reach new markets with vast potential to increase both sales and profitability.

In our next white paper, we'll look in detail at the C-suite talent implications of these trends.

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Executive search in a fast-changing world

These are challenging times for the consumer, retail and luxury sector as it strives to deliver a seamless shopping experience and adapt to advancements in technology.

To successfully compete on this global stage, consumer products companies must have robust digital strategies and strong brands. They must act quickly to find leaders who thrive on digital innovation, can master data analytics and understand how it translates to consumer behavior.

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Penrhyn combines global reach and cross-border industry expertise to offer clients a truly international perspective to their executive resourcing requirements. We provide our clients with bespoke solutions to identify world-class talent.

Founded in 1979, Penrhyn has a proven track record in leveraging the extensive insight, capabilities and resources of its international network to help clients transition to the next level.

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Cynthia Labonté:
cynthia.labonte@penrhyn.com / +1 514 864-5459 ext. 307

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