Growth amplified

Consumer products companies build on strengths and purpose to accelerate profitability

Consumer Products
State of the Industry
Executive Survey 2023

kpmg.com/us

Key takeaways

Consumer products companies are looking far and wide at strategies and investments that will continue their growth trajectory into the future.

KPMG LLP surveyed more than 100 executives from among the largest US consumer products companies about the state of the industry. We found consumer packaged goods (CPG) leaders are largely positive about their ability to find growth opportunities while acknowledging the need to allocate more resources to areas such as technology and talent to support their goals. The trends we uncovered include:

CPG executives have confidence their companies can continue strong performance in the coming year. However, inflation, and slowing consumer demand are still very much "front of mind."

Data and analytics (D&A) is a strategic priority across the enterprise, and CPGs are proving themselves to be technology players with advanced capabilities. Still, many struggle with data quality, validity, and proper governance necessary to leverage the full power of artificial intelligence (AI) and machine learning for predictive analytics.

Organic growth has regained priority. CPG companies are finding new ways to leverage the power of their portfolios, including category extensions and new packing formats, to increase volume through existing and new distribution channels.

With the high cost of capital, deal-making is on simmer. CPGs are using M&A selectively to enter high-growth pockets of demand as extensions of their current positioning.

CPGs are intent on building revenue growth management (RGM) capabilities to accelerate the top line, using data and analytics as the amplifier of profitable growth.

Supply chains are stabilizing, but the challenge to reset high cost bases is prompting CPGs to double down on digital investments to create greater intimacy with omnichannel consumers and influence behavior at the point of purchase.

What's inside

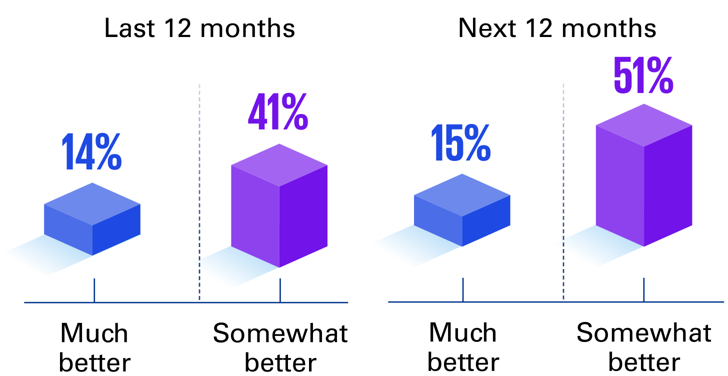
The industry looks ahead with increasing confidence

Consumer products executives foresee continued strong performance in the coming year, but inflation concerns and softening consumer demand are still "front of mind."

Many consumer products executives say their companies have performed better than they anticipated.

Even more, two-thirds of CPG executives, see a solid year ahead as long as the economy remains relatively stable.

CPG executive sentiment regarding performance



55%

of consumer products executives say their companies' performance was better than they expected over the last 12 months, and they're even more positive going forward.

66%

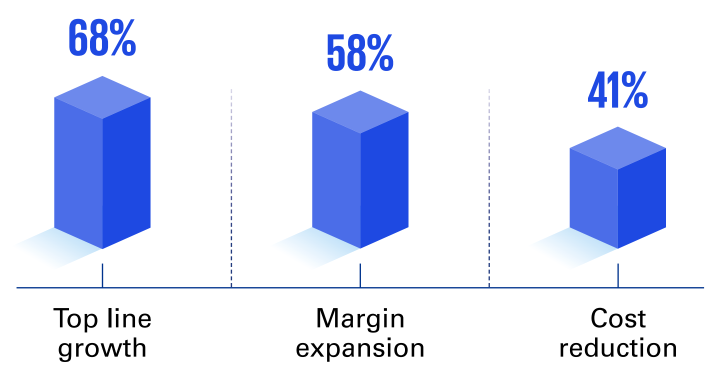
anticipate better performance in the next 12 months.

KPMG CPG state of the industry survey; respondents who selected much better and somewhat better than expected.

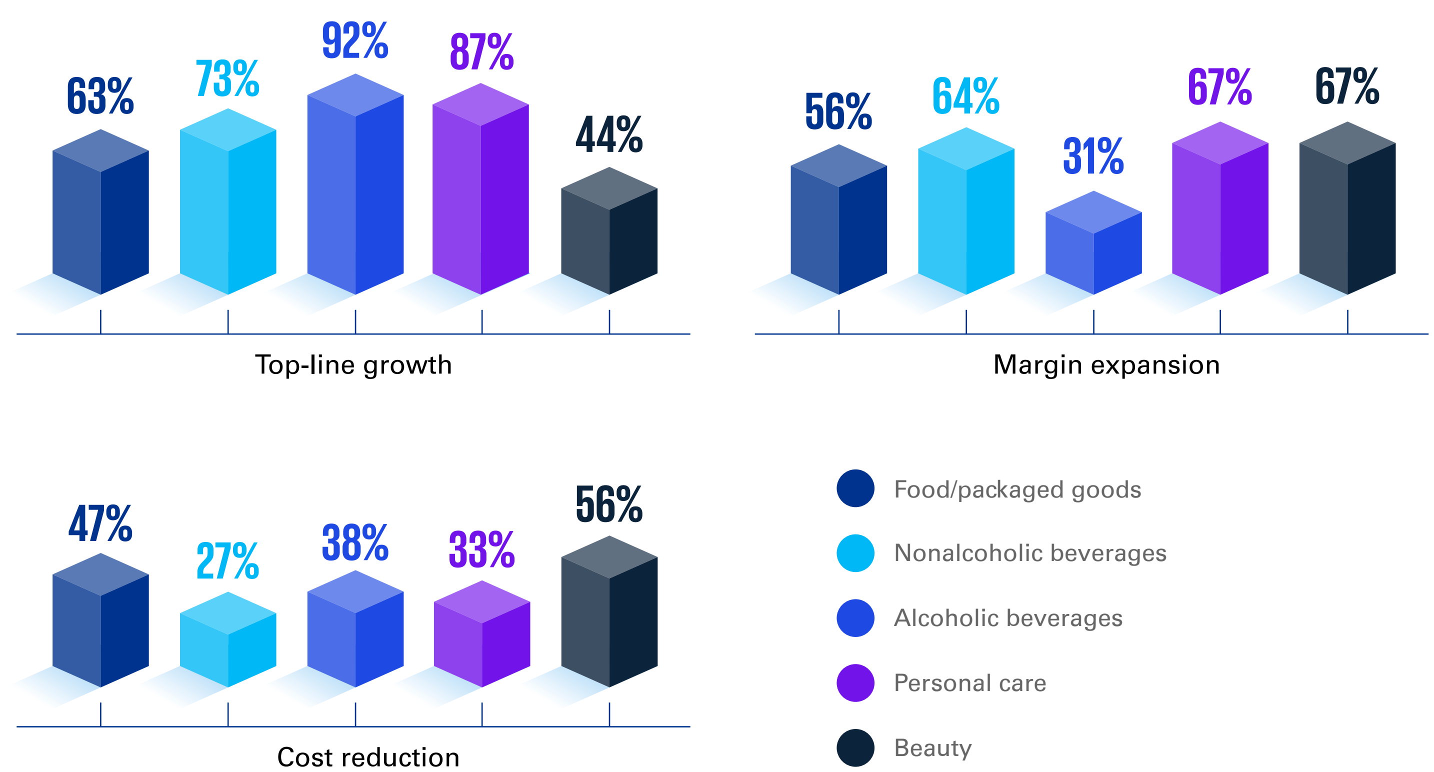
Top-line growth is highest on the priority list this year.

The largest percentage of CPG executives, 68 percent, say their companies are prioritizing top-line growth over the near term. However, their simultaneous attention to margins and cost containment will also influence growth bets and shape transformation efforts. Consumer products subsectors are mostly in line, with beauty companies standing out for their more balanced profit and loss management approach.

Company focus areas for the next 12 months, all sectors



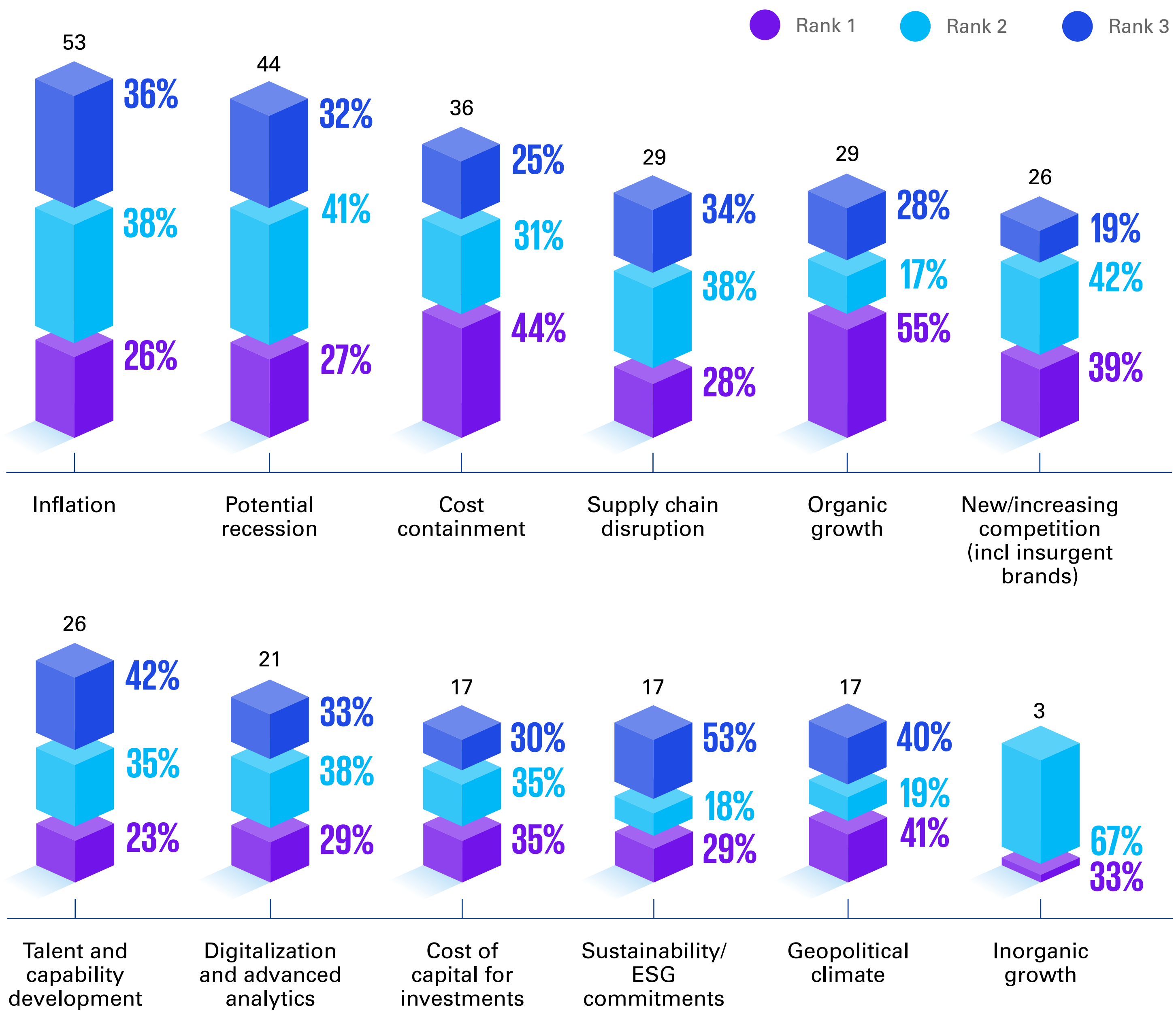
Company focus areas for the next 12 months by subsector



Economic worries remain.

Even though consumer products executives expressed confidence that their companies can perform well over the next 12 months, several issues outside of their control could impact margin and efforts to contain costs. Raw goods, transportation, labor, and other prices remain high. The US economy had balanced on the edge of a recession even while the labor market stayed tight, impacting operations and productivity.

Major concerns for business for the next 12 months



Revenue growth management capabilities accelerate

Revenue Growth Management (RGM) is getting an upgrade with D&A as the amplifier of profitable growth.

RGM is a primary focus of transformation for the next year.

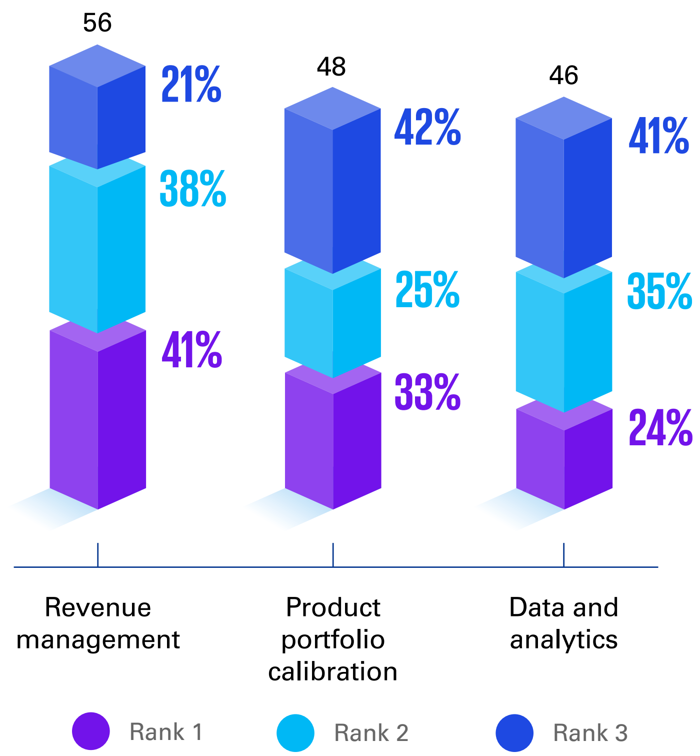
Companies are turning to D&A-enhanced RGM to make more targeted and personalized demand-generating investments. With improved insights from viewing price, promotion, and product mix in conjunction and at a much more granular level, they are poised to expand top-line growth while protecting margins.

More than half of all consumer products executives point to RGM as a top-three transformation priority, which is echoed across all subsectors.

70%

of consumer products companies plan to apply RGM levers for **pricing, promotion, and product** mix in the next 12 months.

Transformation focus/priority over next 12 months

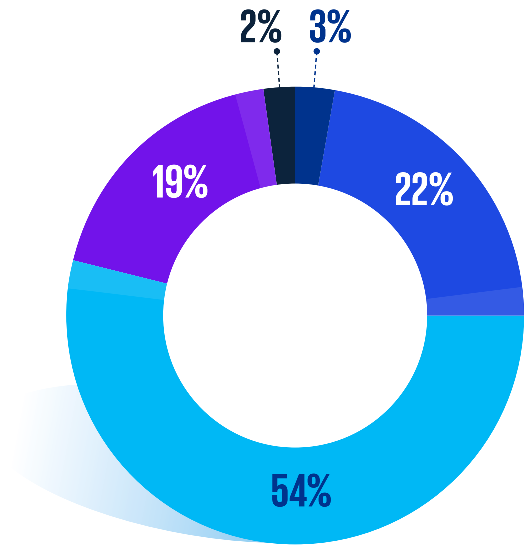


RGM capabilities are progressing rapidly.

More than half of consumer products executives describe their companies' RGM capabilities as "competitive," and approximately 20 percent believe they are "advanced" or "pioneering" with tech-enabled full integration into business processes.

These findings echo discussions at the 2023 Consumer Analyst Group of New York (CAGNY) annual conference, where multiple consumer products CEOs described transforming RGM as a priority.

RGM capability maturity*



- **Limited** – no use of revenue maximization or acceleration
- **Evolving** – scarce use of revenue maximization or acceleration
- **Competitive** – common methodology and processes with several initiatives to drive growth through pricing, promotion and mix optimization
- **Advanced** – tech-enabled RGM fully integrated into business processes (e-commerce and digital)
- **Pioneering** – embedded into daily routines including advanced analytics, monitoring, AI, and realtime optimization

*Revenue growth management: efforts to drive sustainable, profitable growth from your consumer base through a combination of price, promotions, trade management and assortment strategies

The RGM engine, turbocharged with data analytics

Revenue growth management is experiencing a revival as a top priority for consumer goods companies in today's inflationary environment.

Most leading CPGs have successfully grown their top-line over the past two or three years, but that growth came at the cost of encroaching on their gross margins. Continuing more pricing rounds or trying to address each RGM lever of pricing, promotions, or mix in isolation is not solving the margin problem. Meanwhile, increased input costs, particularly for labor, have become a long-term issue and geopolitical uncertainty continues to inflate energy, commodity, and other prices.

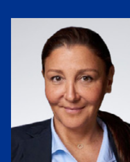
Many companies are purposefully investing in their revenue growth management capabilities, and their ambition is to address all three RGM levers in an integrated way to accelerate and increase revenue more profitably. Investments are steered toward enhancing cohesion across RGM technology, i.e., data storage, modeling, and analytics applications such as promotion optimization, price optimization, point-of-sale potential, and portfolio optimization.

The ability to set pricing in conjunction with promotions is critical to preserve the category and brand purpose—and to avoid underpricing, overpromoting, and having the wrong product on the shelf.

The effort to amplify RGM is inextricably connected with data management. With increased online shopping, channel shifts, and constantly evolving consumer behavior, data has exploded in volume and ubiquity. The additional strain on CPGs requires greater focus and investments into data strategy and governance to ensure data quality, validity, and veracity. In the absence of good data, even the most sophisticated analytics and leading tech stacks won't help to meaningfully predict and forecast demand and patterns.

RGM should be an enterprise capability, not confined to a small group of commercial leaders. Managers across the board—brand, category, manufacturing, demand planning, sales, and finance—all should be immersed and embed the RGM capabilities into their daily routines.

When RGM is done right, the margin expansion potential is significant: between 200 and 500 basis points.



Zeynep Koller

Principal, Advisory,
Strategy – Consumer Products
KPMG LLP

Organic growth leverages the power of the portfolio

CPG companies are planning to increase volume through existing and new distribution points and channels.

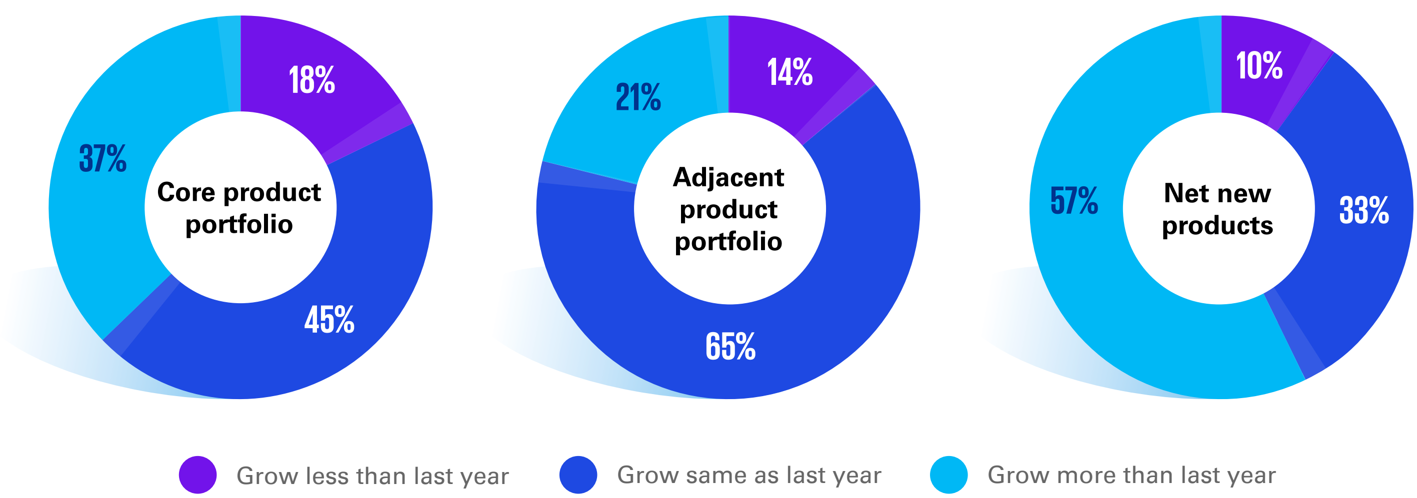
Consumers crave innovation again.

After the pandemic period when many consumer products companies put product development and acquisitions on hold, they once again plan to deliver new offerings.

Well over half (57 percent) of consumer products executives expect net new products to demonstrate the most year-over-year growth, corresponding to the refocus on innovation and increased channel investments. Some subsectors, like personal care and beauty, expect even more growth from new products.

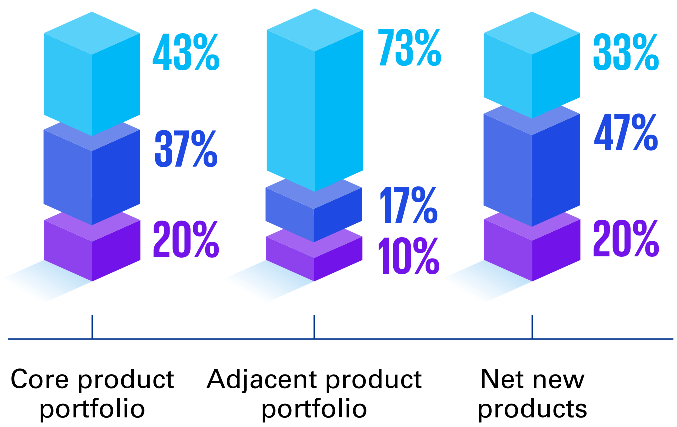
Many CPG companies invested disproportionately in their core products and iconic brands, which experienced a revival during the pandemic when consumers sought nostalgic experiences. Looking ahead 12 months, core products should continue healthy growth, according to 37 percent of executives. Within certain segments, beauty and personal care companies, in particular, expect more growth in new products, whereas food companies see more opportunity in adjacent products.

Anticipated growth from core, adjacent, and new products

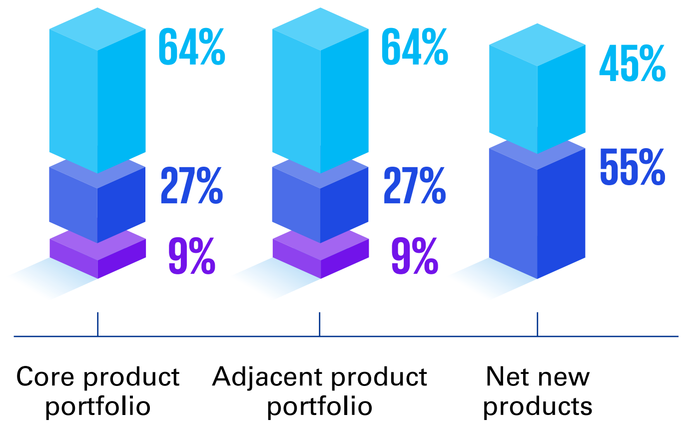


Anticipated growth from core, adjacent, and new products by segment

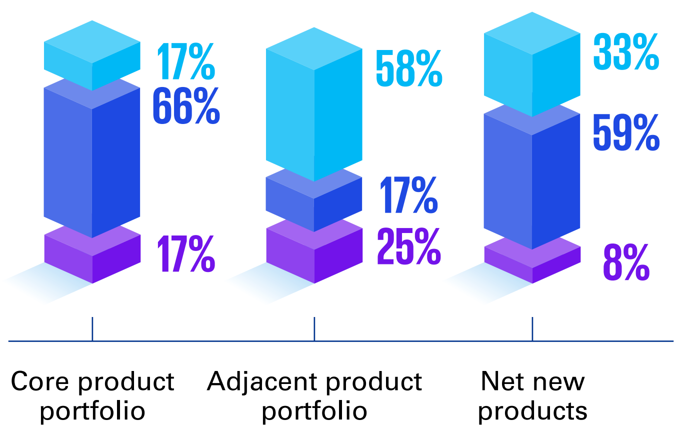
Food/packaged goods



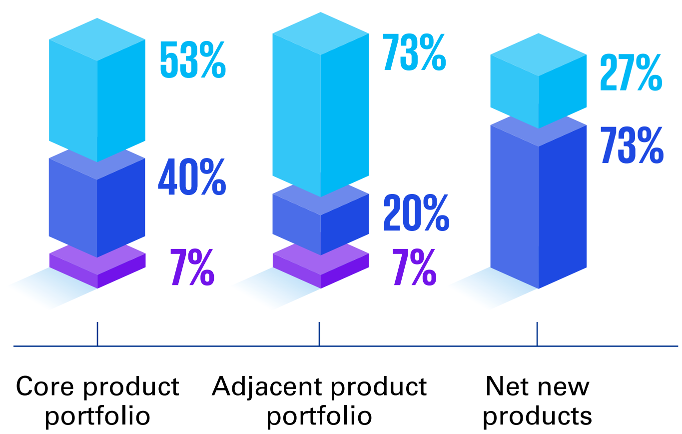
Nonalcoholic beverages



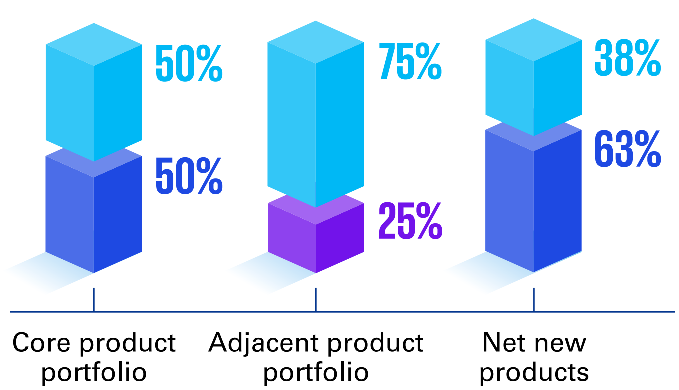
Alcoholic beverages



Personal care



Beauty

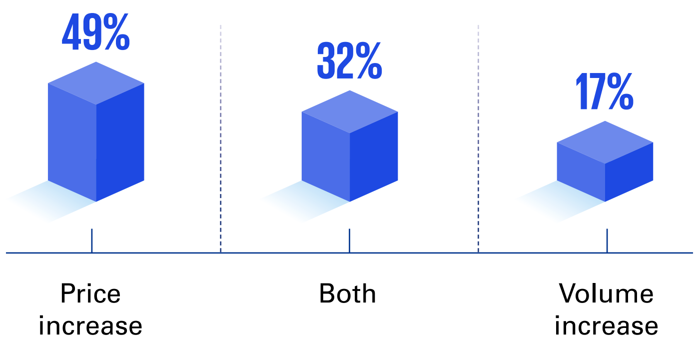


- Grow more than last year
- Grow same as last year
- Grow less than last year

Pricing rounds hit the elasticity ceiling.

Revenues benefited in the short term from inflation-related price increases, the primary source of revenue growth in the last year. But companies across most subsectors can't push pricing strategies much further before consumers balk.

Revenue growth source

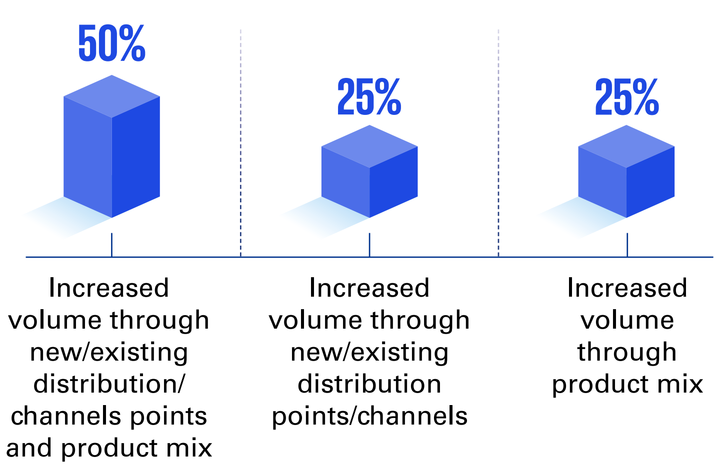


Targeted portfolio calibration will help drive volume.

With most pricing rounds behind them for now, CPGs are pivoting to top-line growth via volume through new and existing distribution channels and/or product mix. Of the companies that reported increased volume, half used both strategies and many will continue to experiment with these growth levers in a slow deal market. Beauty companies noticeably focused more than other subsectors on increasing volume.

Given the inflationary environment, more consumer products executives expect big box retailers—which have wide online reach to bargain hunters—and discount stores to experience more growth in the next 12 months relative to other formats.

Volume growth source



Private label surge pushes rethinking on competitive strategies.

Private labels account for 18 percent of consumer spending on packaged goods and have outpaced branded-product growth over the last several years.[1] Retailers are being incentivized by margins in the 25-to-30 percent range, compared to low single-digit margins for sales of branded products.

Once in-stock levels return to capacity, the impact on CPG companies will become more clear as reorders decline based on the infiltration of private label as well as on lower pricing, promotions, discounts, coupons, and similar appeals to consumers in an inflationary environment. How big or small the dent in CPG portfolios depends on where inflation tracks.

Utility products within food and personal care portfolios are under greater pressure than many other categories. Consumers are less brand-driven here than they are for other products that offer an experience they can only get from their favorite names. CPG companies in these segments can review price points and promotions around utility products so they can better compete against private labels where their brands have less power.

Many CPG companies are upping their game against private label competition through a variety of strategies, including:

- Infiltrating more categories
- Offering a broader range of price points
- Extending licensing agreements with retailers and quick service restaurants (QSRs)
- Creating their own private labels
- Relocating and/or consolidating manufacturing facilities to improve margins
- Introducing packaging innovation
- Investing in digital to connect with consumers and tailor offerings around them.

50% **of CPG executives say growing private label competition has impacted their portfolios to "some or large extent" in the last 12 months**

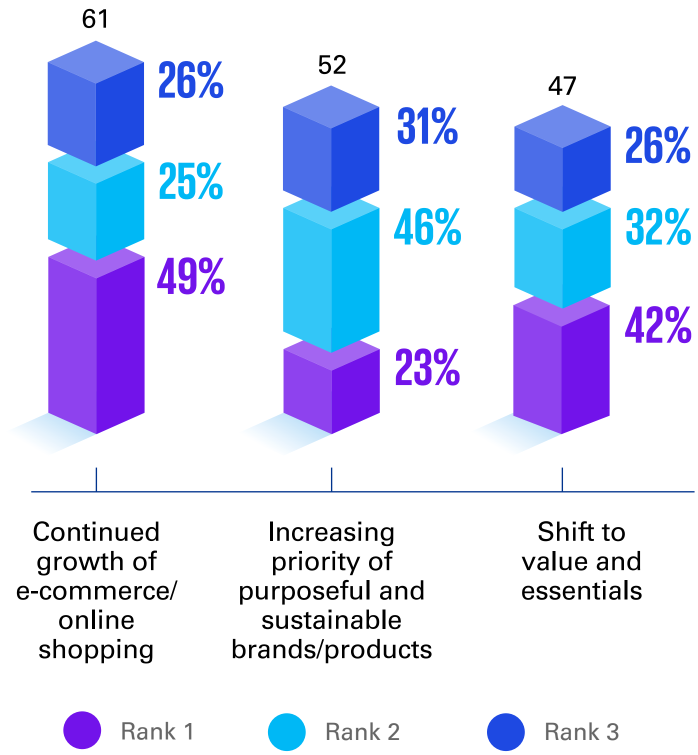
The top consumer trends in online, sustainable, and value shopping steer investment decisions.

The largest number of consumer products executives ranked the continued growth in e-commerce and online shopping as a top-three influence on their priorities and investments this year.

Consumer demand for sustainable brands and products is second, directly correlated with the two most important reasons consumer products companies say they are increasingly focused on ESG products and practices: consumer expectations and reputation management.

Finally, the consumer's lens for value and preference for essential over discretionary purchases are still important. Companies are offering different pack sizes among other price pack architecture strategies to create affordable choices; pursuing white label opportunities; and expanding distribution in big box and discount stores where bargain hunters shop.

Consumer trends influencing priorities and investments



Consumer products companies plan to expand their presence over the next 12 months in **indirect retailer channels serving cash-strapped consumers.**

63% of consumer products companies expect their business models will evolve toward more e-commerce and other **strategies to connect directly with consumers**

42% plan to launch their own brand websites and other **digital business models** as soon as this year

61% are looking to grow in **big box retailers**

42% are growing their **discount store** distribution

[1] NACS, "Private Label Accounts for 18% of Total CPG Spend," February 3, 2023

Flexibility
can keep ESG mandates on track

Over the last year we have been hearing from consumer products executives that they have increased their focus on ESG, but more so on the environmental than social and governance matters. And there a several reasons why.

Climate-related disclosure and other environmental regulations impacting corporations are multiplying out of all jurisdictions, from local and state to federal and international governing bodies. Big retailers and other CPG customers who have announced commitments to achieving net-zero carbon emissions on a deadline are pushing their partners on sustainability like never before.

Meanwhile, shareholder activism around ESG is nothing new, but lately there's a disproportionate focus on the packaging space. One might even call 2023 "the year of packaging" given the number of CPG and partner initiatives to introduce eco-friendly innovations in biodegradable, recycled, and reusable wrapping.

Of course, not everyone agrees on the appropriate level of corporate ESG effort and investment. It's not uncommon to see pushback from business owners and board directors concerned with additional costs, whether it's changing the packaging or investing in wholly new sustainable product innovation and business models.

Since younger generations tend to elevate environmental concerns and older generations likely dominate the C-suite, the divide isn't surprising. The cost-conscious have a point: only so much added expense can be pushed on to the consumer.

Buyers want sustainability but there's still a limit to what the average person will pay.

With myriad ways to realize ESG within consumer products, it helps for companies to start by defining a set of priorities keeping in mind the current environment (inflation, supply chain disruption, and other exogenous factors). Then they can stay close to their key ESG mandates with an "accordion" approach, expanding ESG investment when possible and pulling back as necessary in order to meet stakeholder expectations over time.

Julia Wilson

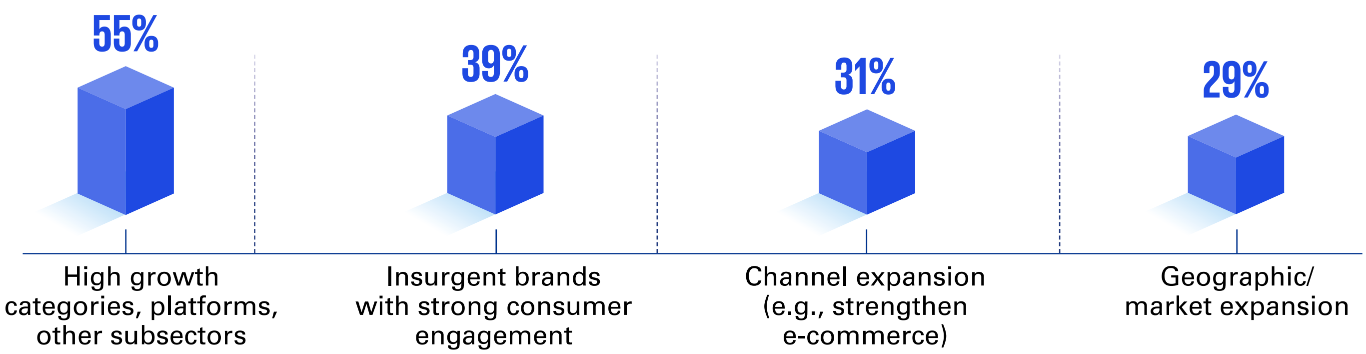
Principal, Advisory, Strategy and ESG
KPMG LLP

M&A continues in select high-growth pockets

With the high cost of capital, deal-making is on simmer. But some CPG companies are exploring opportunities to expand their current positioning into areas where they see untapped consumer demand.

Approximately half of CPG executives expect little or no growth through acquisition. Those companies that are considering M&A for revenue expansion are focused on select high-growth categories and insurgent brands that can give them an edge.

M&A targets for deal-focused CPG companies



High-growth categories and subsectors

Survey respondents provided free text answers to the following question:
What are some of the high-growth categories or high-growth subsectors you are targeting?

Food

- License brands
- Snacks with story
- Private label
- Coffee
- Higher-end products
- Specialized beverages
- Plant-based meat
- Sustainable food

Alco bev

- Private label
- E-commerce
- Health
- Luxury segment
- Ultra-premium beer

Beauty

- Masstige
- Niche
- Hair care
- Professional skin care
- Tech

Non-alco bev

- Cocktail mixers
- Mocktails
- Baby
- CBD

Data and analytics is a strategic priority

CPG companies are proving themselves to be technology players with advanced capabilities. Still, many struggle with data quality, validity, and proper governance to fully leverage what they are building.

Companies want more out of their D&A investment.

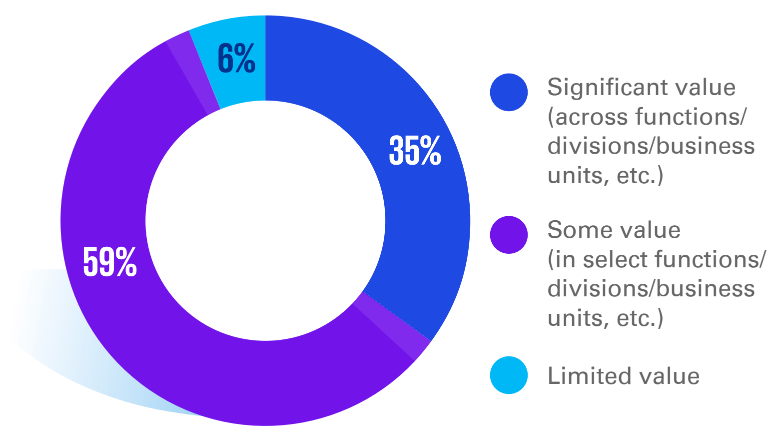
Since the influx of "big data," CPG companies have invested heavily in D&A, although many have come up short in converting data into insights and business applications. D&A use cases still tend to focus on demand sensing and forecasting, followed by retailer collaboration and connecting with consumers.

However, D&A is no longer viewed as just an enabler. More than one-third of consumer products executives see data analytics as a critical capability to drive profitable growth. The transformation of consumer products focus areas, including RGM and supply chain, hinges upon a D&A program that spans business units, segments, and functions.

In order to better convert their pools of data into meaningful insights and drive business performance, CPG companies are making more targeted D&A investments. One out of four executives say their companies have increased or plan to boost budgets and resources for D&A efforts. These investments are increasingly steered toward creating a digital core and AI capabilities, all to better predict and create real-time insights into consumer needs and patterns.

Forty percent are investing in cloud-based D&A applications, and nearly the same percentage have dedicated teams to help ensure their data assets are leveraged effectively across the organization.

Sentiment around D&A value added within organization



D&A capabilities assessment

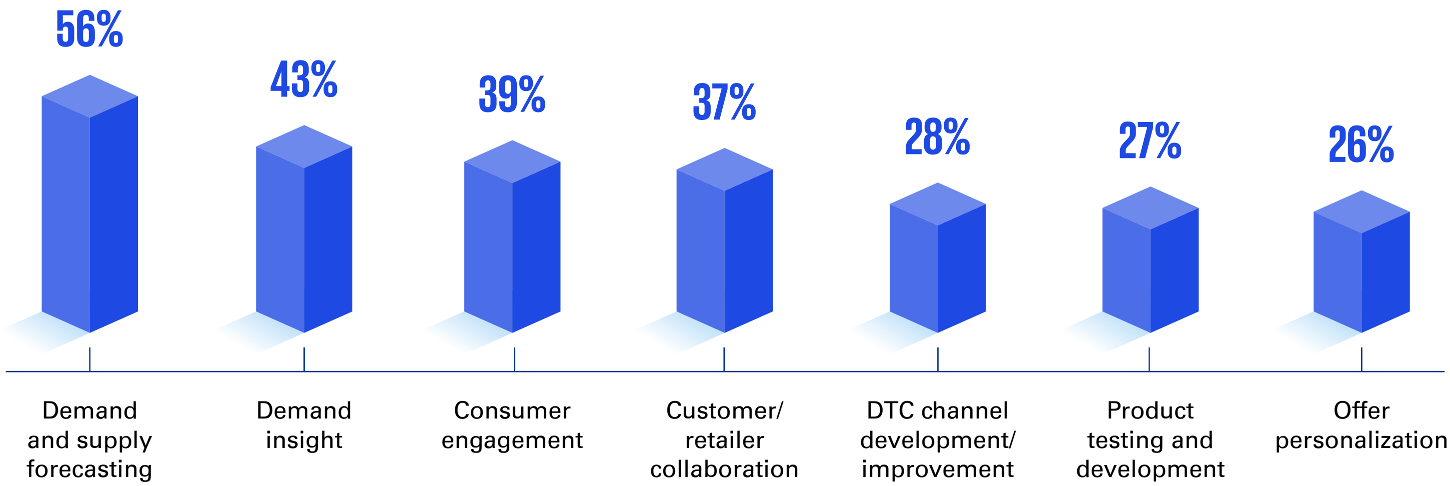
40% are **developing D&A capabilities** leveraging cloud technology

38% have **dedicated D&A teams** for collaboration and solving business issues

26% **increased D&A budgets** and resources or will in the next 12 months

20% made D&A a **#1 or #2 priority**

Areas where D&A is expected to create value



Data governance has become critical to all digital progress.

All industries struggle to contain and qualify their data, but the challenge is multiplied for consumer products companies given their omnichannel reach to billions of customers.

CPG executives identify data governance as their primary D&A capability issue. Without it companies can't produce the sophisticated analysis and insights to stay close to their customers and grow profitably.

Even after data is clean and structured, useful analysis and successful integration across systems require significant resources and training.

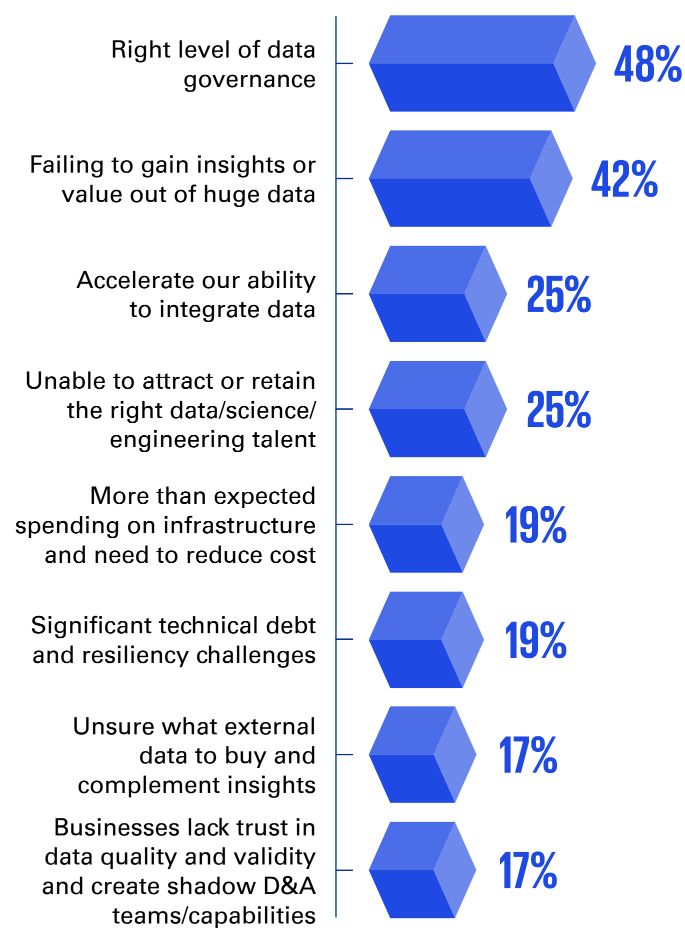
These challenges aren't unique to consumer products but relate directly to the top data analytics risk—trust. Executives are demanding data-driven results, but their business leaders don't always believe the D&A output or know what to do with the insights they're given.

CPG companies can start by determining an overall digital core and data strategy involving a cross-section of business units, divisions, and domains to identify the most critical use cases. This work informs the right data products and solutions to build, while investment in data governance and cloud-based applications helps establish a single source of truth—an even greater need than before given the rapid development of AI and Generative AI use cases.

49% of consumer products executives consider **data quality the biggest risk** to their efforts to implement successful data analytics capabilities

48% say the **biggest challenge is data governance**

D&A capability challenges



Feeling data rich but value poor

Our survey reinforces what we consistently hear: CPG executives don't see the return on investment expected for the resources they're pouring into data procurement, data analytics strategies, and technology platforms. Where is the untapped value they were promised?

Despite a fair degree of cynicism, CPG leaders aren't pulling back on data investments. On the contrary and as we discuss throughout our survey results, insights enabled by quality data and robust D&A capabilities are vital for demand forecasting, customer engagement, RGM, and every other top initiative and business need.

Often, IT organizations are responsible for acquiring, managing, and integrating the bulk of a company's data-related assets, and executives are demanding tangible business outcomes from that time and investment that are clearer and faster than ever before. But the challenge doesn't sit with IT or the data analytics team or any one function alone. Establishing a data-centric organization that produces business value isn't just a matter of acquiring more data and investing in platforms, but a transformation that is tech-enabled yet business-led and founded on sound strategy, operating model, and governance. Unless CPG leaders approach their data journey that way, that untapped value at scale will continue to elude them.

For example, many companies are focused on establishing foundational technical capabilities—the building blocks of a solid D&A program—but governance can lag and data quality concerns can spread.

Business users consuming data products need reasons to believe the data is reliable and the insights are valuable and trustworthy. Otherwise, the sentiment "In data we *don't* trust" continues.

Meanwhile, IT may be stretched thin (resource and budget wise) to implement and deliver data products but business leaders don't necessarily see a direct correlation between the IT team's efforts and path to business outcomes. Too often it looks like IT is introducing new technology for technology's sake.

Demonstrating D&A's impact through quick wins along the longer data-led transformation journey remains one of the more effective means of showing value early and often. And those quick wins must come from use cases developed in close collaboration with the business.

In fact, developing and proving D&A use cases together, and tying D&A to business outcomes, is part of an effective change management strategy. It brings business leaders along on the D&A journey with the technologists and data analysts, and it allows CIOs and their teams to be able to articulate the value of D&A in the context of business value creation. The leader of the D&A program can become—should become—the change agent the organization needs for the results they've been looking for. In this way, CPG organizations can begin to resolve that feeling of being data rich and value poor.

Martin Sokalski

Principal, Advisory, Lighthouse
KPMG LLP

Barry Raghunathan

Managing Director, Advisory, Lighthouse
KPMG LLP

Transformation
creates a wave across the value chain

Data analytics enhancements. Shifting product portfolios and distribution channels. Extensions into high-growth categories.

The strategies that consumer products executives say they are planning in pursuit of more profitable growth can unlock new sources of value. And that value has to be captured appropriately from a tax perspective.

As companies go through digital transformation and implement other significant changes to what they produce and how and where they do business, their actions ripple across the value chain. Focusing on digital transformation alone, new technology will change operating models, business models, customer interactions, and ways of work, to name a few.

As companies invest in innovation, tax needs to be involved in how those technology assets are structured.

One risk is that the company won't price transactions according to where the value is created. For example, a company's procurement team had in the past extracted profit through a pricing activity within the function, but with automation, half should be attributed to the digital assets that enabled the profit going forward. If the digital assets are owned elsewhere, outside of procurement, the profit should reflect the shift.

Or perhaps a company is so successful with the development of technology to improve supply chain management that margins have increased significantly. If the company has not changed its operating model from a tax perspective, a tax authority could find that the structure isn't fit for purpose. The value chain changed, and pricing doesn't reflect the value that's being created in a particular jurisdiction.

When the tax department is plugged in at the earliest point in a transformation, it can offer solutions around digital capabilities, such as digital marketing and data hubs or establishing a data center of excellence. These planning solutions not only help protect against risk, but can also create value—and even help pay for investments in the future.

Erik Oliverson

Partner, Tax, International – Value Chain Management
KPMG LLP

The consumer products industry has experienced just a fraction of AI's power

Companies applying AI to solve business issues will invest even more in AI technology to optimize their portfolios and improve customer segmentation.

AI capabilities are a work in progress.

Only about 40 percent of consumer products executives say their companies are applying AI technologies to the business, but the number is likely much higher. Most CPG companies have been using AI for years, but how and how frequently they use it is evolving. Now that AI is embedded across multiple applications and platforms, the technology is less outwardly visible to users.

The majority of executives describe their companies' AI maturity as "evolving." They acknowledge some gaps in AI skills and expertise and indicated a need for better governance and technology around the data that feeds AI machines.

75%

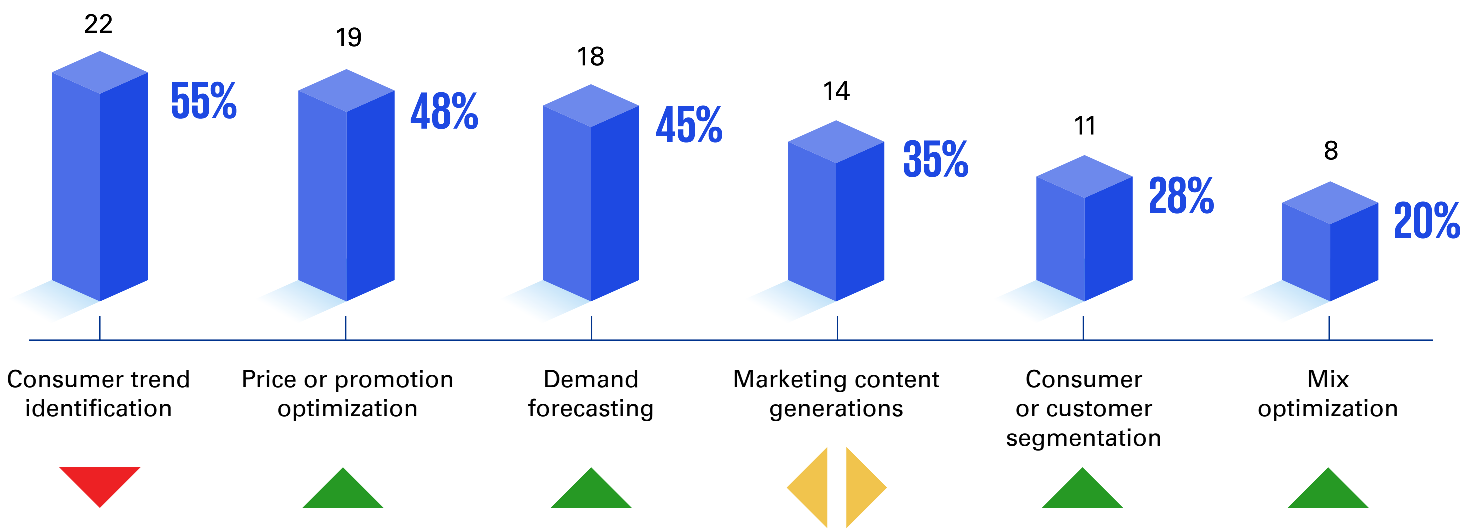
of consumer products companies are still evolving their capabilities and application of AI, recognizing the need for more transformation across people, processes, and technology to extract AI's full value potential.

Consumer products use cases are expanding.

Those with AI capabilities have, to date, typically used the technology to help identify consumer trends, determine price or promotion strategies, and forecast demand.

Going forward, these companies plan to stretch AI to do more customer segmentation and mix optimization. Other uses cases, including improved data analysis, will expand as companies become more comfortable and familiar with AI's benefits.

Current AI applications and anticipated change in AI usage for the next 12 months



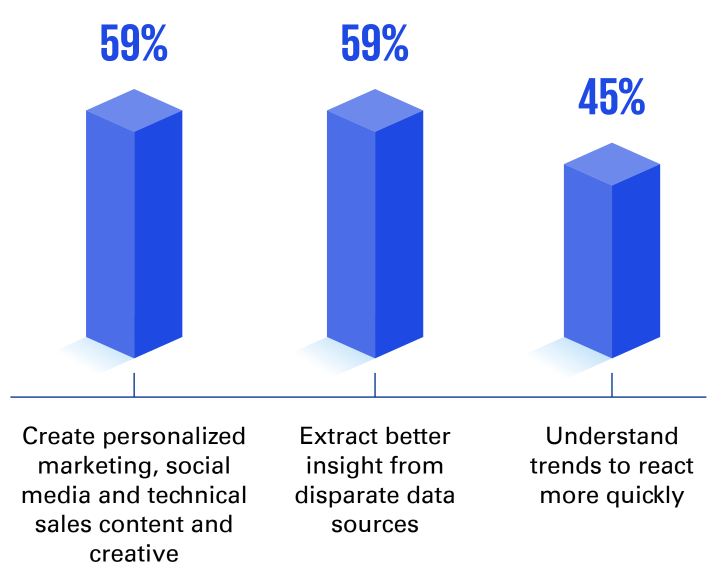
Generative AI is generating excitement, and not much more (yet).

The momentum of generative AI across the business world is exploding. In consumer goods and retail, generative AI has the potential to boost creativity, personalization, and productivity.

Some companies are starting to explore the promise of generative AI in the consumer goods space, particularly for content creation and data analytics according to nearly 60 percent of respondents.

Regardless of where a company is in its AI journey today, consumer products leaders should begin developing a strategy and a plan.

Generative AI applications among CPG companies exploring the technology



Realizing the full value of data, analytics, and artificial intelligence

D&A has been around long enough that for many, its application and benefits have plateaued. Companies have exhausted their access to available data or they don't have the cross-functional visibility expected.

As more consumer products companies push to the next level of D&A maturity, they see the need to integrate automation, machine learning, and AI into D&A capabilities, as well as modernize their architecture to support the new tools.

The logical next step, now underway across the industry, is to migrate data into the cloud and leverage cloud technology to hyperscale analytics and AI capabilities. The cloud also makes it possible to centralize the workbench of D&A tools for broader access and adoption.

There's a growing trend to make D&A an enterprise function, breaking down the silos between data scientists and business stakeholders for analysis that more closely ties to strategy.

Company leaders also are shifting their mindset from "we need to do AI" to "we need to get our data organized to actually use AI." Companies are scrambling to catalog their unstructured data, establish better governance, combine cross-functional data, and take other actions needed to achieve predictive analytics. This is proving to be a lot harder for companies than originally anticipated, but they must get their data house in order to fully harness the power and ecosystem of AI tools, including generative AI.

And we're just at the very beginning of understanding generative AI's power. Its potential within corporations is perhaps most clearly seen in sales and marketing functions where it can support content creation and sales, but there's so much more.

For example, D&A helps consumer products companies slice and dice customer information to inform decisions. Two-thirds of US consumer and retail senior executives surveyed by KPMG expect apply generative AI for improved with customer data analysis.[2] But combining generative AI and D&A capabilities could help predict trends and generate product and marketing ideas that would never have entered the human mind.

Meanwhile, across consumer products functions, generative AI could potentially identify production errors, generate test cases and test automation, synthesize legal documents, detect fraud, and much more. More than three-quarters of executives involved in manufacturing expect to use generative AI to optimize production schedules, according to the survey, and 69 percent will use it to improve inventory management.

We are in the earlier stages of practical application of generative AI in the corporate setting, but it's rapidly evolving. It's not too early for organizations to imagine the possibilities of generative AI strategies and applications tailored to the consumer products industry and to their own specific business needs.

Kelly Combs
Director, Advisory, Lighthouse
KPMG LLP

[2] KPMG, 2023 KPMG Generative AI Survey, June 2023

Digital talent tops the wanted list

The ongoing demand for digital expertise continues to impact the talent acquisition and retention agenda.

Consumer products companies have skill gaps to fill across the enterprise.

A large percentage of executives describe their companies' digital capabilities as still evolving, with particular gaps in areas such as marketing and AI applications. They want more expertise to better plan and use digital investments, manage data quantity and quality, and adopt new ways of work.

25%

of CPG executives rank talent and capability development as a top-three business concern for the next 12 months.

25%

ranked labor availability as a top-three supply chain challenge.

28%

of those planning digital supply chain transformation point to upskilling employees as the biggest barrier to progress.

25%

say their inability to attract or retain the right data science and engineering talent is a challenge to building D&A capabilities.

36%

say lack of talent is a D&A risk.

Much of the digital expertise desired is probably already in-house.

Universities and colleges are churning out graduates with digital and coding experience, now required learning across a multitude of majors. This growing pool of digital talent is joining consumer products companies in junior roles, without the ability to leverage their digital competence.

Meanwhile, the digital and creative void at senior leadership levels is becoming more apparent. Even when "digital rock stars" are hired, they don't often have full autonomy or authority to drive the digital transformation at the highest level where it's needed. In this sense, consumer products companies don't necessarily lack digital talent, rather, they don't empower it.

Companies are starting to recognize the missed potential.

In addition to upskilling, consumer products companies that realize their talent strategies have been stagnant are starting to move personnel around to match digital skills with gaps, as well as adjust or create roles around digital capabilities. They're also paying closer attention to make sure digital talent is in place across functions and roles, to coordinate often-fragmented data and technology: to look around corners with data insights, identify issues before they become problems, and engage with customers.

Strategic workforce planning gets creative

Consumer products companies trying to stay one step ahead of interconnected trends impacting their growth and productivity have renewed their focus on strategic workforce planning—this time around, with even more of an automation angle. Business leaders once asked, “what do I want to build, buy, borrow, or base” for talent gaps. Given massive advances in technology and new ways of work, they ask an additional question, “what do I think I can bot?”

Even though it’s not widely used, generative AI has become a large part of the conversation because of its potential impact on roles and career architecture. The technology is likely to reduce demand for certain skills and experience and, in some cases, take on wide swaths of responsibilities.

As consumer products companies continue to ramp back up from the pandemic lows and with economic recovery, they may not look to rehire what they’ve let go. Some are considering a more heavily contingent workforce. Others plan to upskill employees for digital and other proficiencies they can’t find in the marketplace or afford to bring on board. However, the industry is still trying to address the challenges of training the “deskless” employees who have little or no access to computers and phones.

Meanwhile, retaining the talent consumer products companies already have, especially for shift work, is more difficult than ever. Employee power to demand higher wages and greater flexibility grew during the pandemic when many consumer products workers became essential. Nonexempt employees also are looking for equitable and consistent promotion, compensation structures, as well as the flexibility that more closely mirrors those of their office colleagues.

With slim margins, consumer products companies have largely reached the ceiling of what they can pay, but they can’t afford turnover, either. This is forcing them to lean into total rewards and become more imaginative.

One idea is the “portable” or “universal” job that can be performed in any number of company locations should employees want or need to travel. Another concept that’s been floated is the “Uberization” of shifts, allowing workers to “bid” on schedules that fit their personal lives and reward those willing to take on less-desirable shifts. The concept has been limited so far due to the likely impact on operations, including the inability to predict or plan skills available for specific production.

Robin Rasmussen
Principal, Human Capital Advisory
KPMG LLP

Marketing capabilities lag digital ambitions

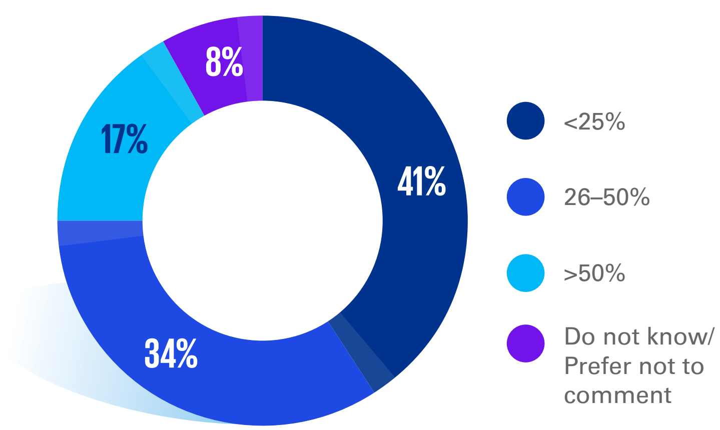
Sales and marketing spend stays tilted toward category leaders amidst inflation.

One-third of brand portfolios are in market-leading positions, which guide CPGs in their portfolio calibration efforts and demand-generating investments. Approximately one-third of companies are allocating between one quarter and one half of their demand-generating budget to these products with a steady customer base.

Companies seek the right balance of digital and traditional marketing.

The greatest percentage of consumer products executives, 41 percent, say their companies allocate less than one-quarter of their marketing budget to digital initiatives and describe their digital marketing maturity as still “evolving.”

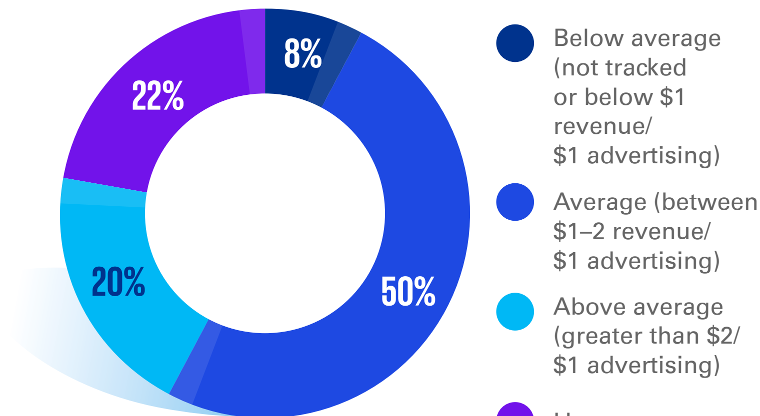
Marketing budget allocation to digital initiatives



Many are likely still contemplating the right allocation to digital marketing investments, which includes trying to measure the impact of that investment. Most CPGs only see an average return on their digital marketing investments due, in part, to their inability to sense and respond to demand signals. Their responses support the argument to boost digital allocation but also to ensure the infrastructure, expertise, and training exists to extract the most value. Until then, the ROI for digital marketing investment remains throttled.

Based on social media audits and online reviews, brands have much more room to engage consumers. With increased and targeted digital marketing investment, they can create greater intimacy with omnichannel shoppers and have greater influence on consumer behavior at the point of purchase.

Average marketing ROI across brands



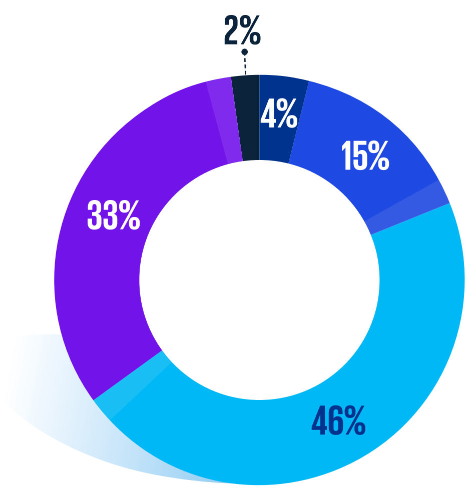
Go-to-market capabilities rely on better coordination and data management.

Go-to-market channel segmentation and customer personalization are table stakes, but nearly two-thirds of executives say their companies have not incorporated data insights or leveraged e-commerce to a great extent.

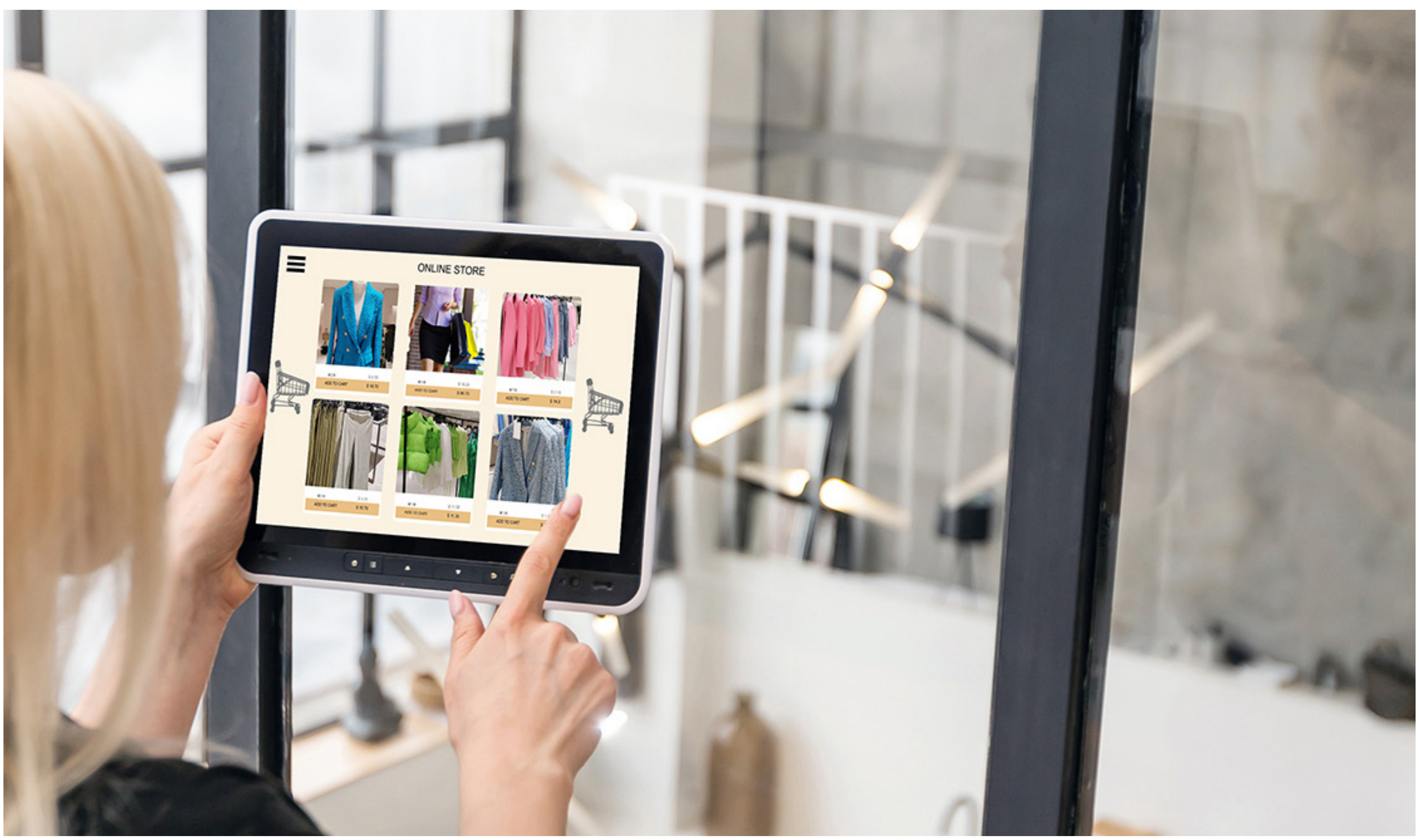
With exponentially growing data sets, fragmented ownership between marketing (brands and pricing) and sales (promotions and retailer interactions) will only widen. These silos often hinder the collaboration companies need to delight consumers.

A true customer-centric organization brings the two functions together to organize capabilities, address pain points, and calibrate go-to-market approaches.

Go-to-market (GTM) capability maturity



- **Limited** – GTM not segmented by channels or customers
- **Evolving** – some GTM segmentation for channels and customers but no personalization and disjointed e-commerce
- **Competitive** – segmentation and personalization of channels but not data driven, and e-commerce not a significant channel
- **Advanced** – presence across channels with personalization through data and winning in e-commerce
- **Pioneering** – (hyper)personalized offering in all channels informed through data and winning in e-commerce



Introducing
order-to-digital marketing

In a pricing environment that continues to weigh on consumers, it's no surprise that consumer products companies are directing a large portion of their overall marketing spend on keeping their familiar brands visible. New product rollout and innovation has been difficult while people are psychographically focused on how expensive everything is.

Digital marketing, done well, offers potentially more for the marketing dollar while CPGs themselves continue to battle inflationary pressures. And yet, they aren't spending as much in the digital channel as one might expect due to two interrelated roadblocks on the path to digital maturity.

The first is no surprise. The need for digital talent is a common thread across all industries. Consumer products leaders say they can't find people who understand enough about digital marketing to make an impact. However, our observation is that they likely do have incredible talent among younger employees.

Next-generation workers are inseparable from digital. Rapidly evolving digital and coding curricula in education fuels digital talent that is flooding entry level roles.

However, this incoming talent rarely has authority to make decisions impacting customers. Additionally, the gap between their digital knowledge and that of senior leadership is often painfully wide, and brands that don't listen to these digital natives can come across as irrelevant, out of touch, or even tone deaf.

The second roadblock is the tangled marketing technology ecosystem created over a decade or more as companies bought the "bright, shiny new objects" but didn't properly integrate new tools or train users.

When companies say they want to be more innovative, many turn straight to technology investment without the right experience in place to plan the marketing architecture and buy and use the most appropriate tools. The resulting underused marketing technology stack is expensive to maintain and doesn't extract full value for the spend.

Companies also like to say they are customer driven, but a closer look into many consumer products companies finds a massive disconnect between marketing and sales. This time the problem is leadership and culture that reward competition over collaboration.

Consumer products companies rely on what their business customers are experiencing with retail consumers, but this information is not always shared across the organization. Likewise, data-based insights from marketing don't always make it to the point of sale.

Some brands have invested in and created a data-driven culture that uses advanced analytics. This competitive advantage leads to consistent portfolio alignment, growth, and ability to unlock profitable demand. The C-suite can encourage open channels of information and a structure to collect and organize data for making better decisions not only around sales and marketing, but also investment and M&A strategies as well.

Mitchell Caplan

Managing Director, Advisory,
Customer & Operations Commercial
KPMG LLP

Jason Mowery

Managing Director, Advisory,
Customer & Operations Commercial
KPMG LLP

Supply chains respond with digital recalibration

Supply chains are addressing repercussions by investing in digital to recalibrate operations.

Consumer products companies get some supply chain relief.

Two-thirds of consumer products executives report greater supply chain stability over the last 12 months, finally reaping some reward from their significant investment in digital transformation since COVID-19. Many companies also have calibrated their product portfolios to better prioritize supply chain capacity and preserve service levels.

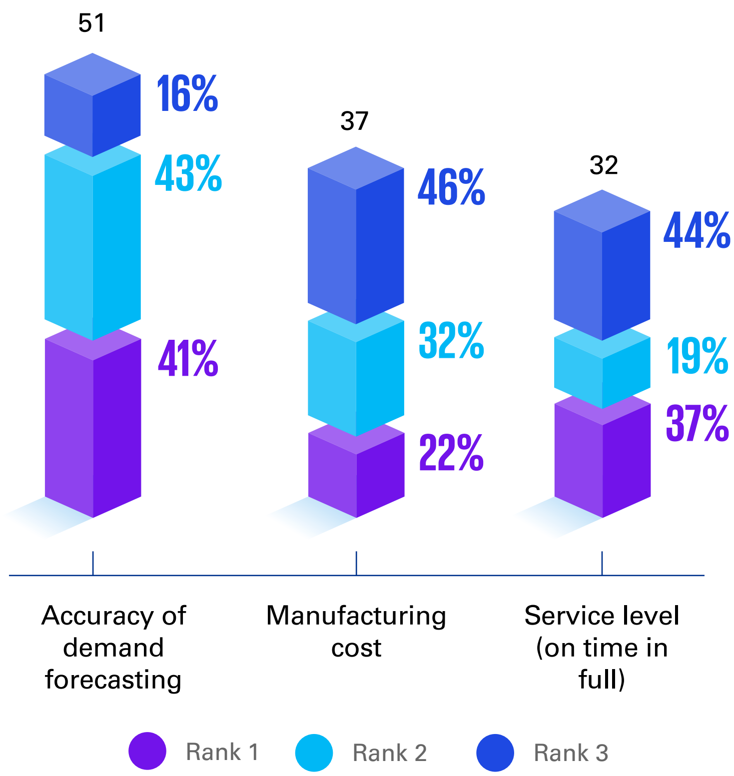
However, repercussions from significant disruption are still felt in targeted areas. For example, the supply chain labor market remains very tight. Manufacturing job openings are still 50 percent greater than prepandemic averages, and logistics has continued to experience large and frequent swings over the past three quarters.[3]

Companies are also recalibrating their ability to accurately forecast demand and manage inventory efficiently, ultimately impacting the in-stock level and cost of serving their retailers.

66%

of consumer products executives say supply chain performance has stabilized since last year. Yet, challenges remain.

Top supply chain challenges



[3] KPMG Supply Chain Stability Index, Q1 – 2023

Digital initiatives are in the works.

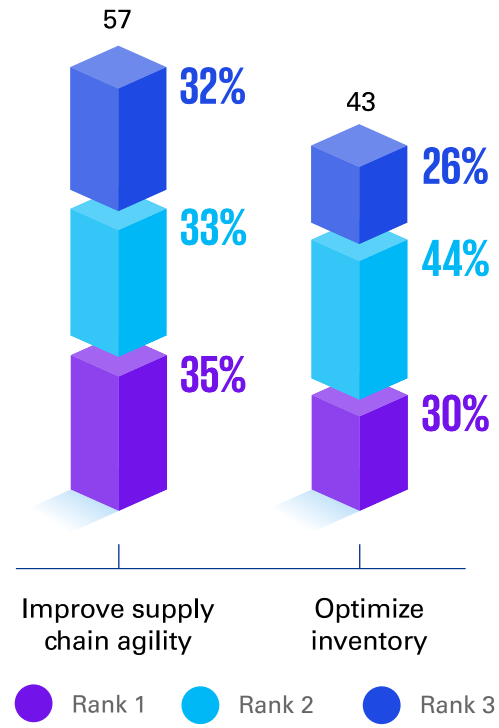
Almost 70 percent of executives say their companies have plans—and many have increased budgets—to invest in digital supply chain transformation. Given efforts to reset the cost base, consumer products companies are largely focused on investments to improve agility, inventory optimization, and operational costs.

69%

consumer products companies plan to improve supply chain performance with digital capabilities in the next 12 months.

Plans for digital supply chain transformation

Digital supply chain investment priorities



Increased investments are planned across the range of supply chain technologies.

Analytics and intelligence

- Artificial intelligence and advanced analytics
- Business intelligence and analytics
- Big data

Foundational solutions

- Machine automation
- Supply chain planning solution

Execution excellence

- Control tower
- Internet of Things

Categories for which survey respondents anticipated increased investment level for technologies planned on integrating.

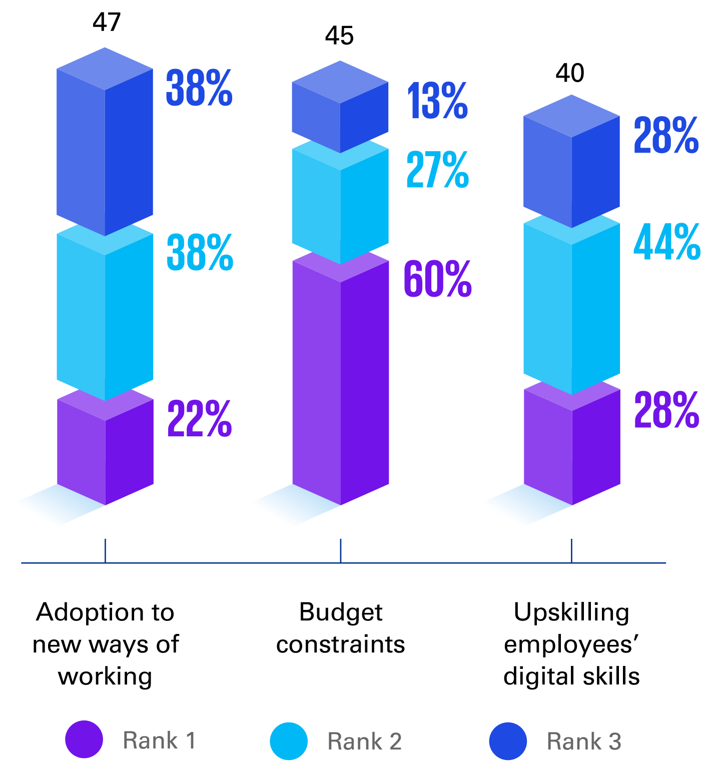
Transformation hinges on solving the talent equation.

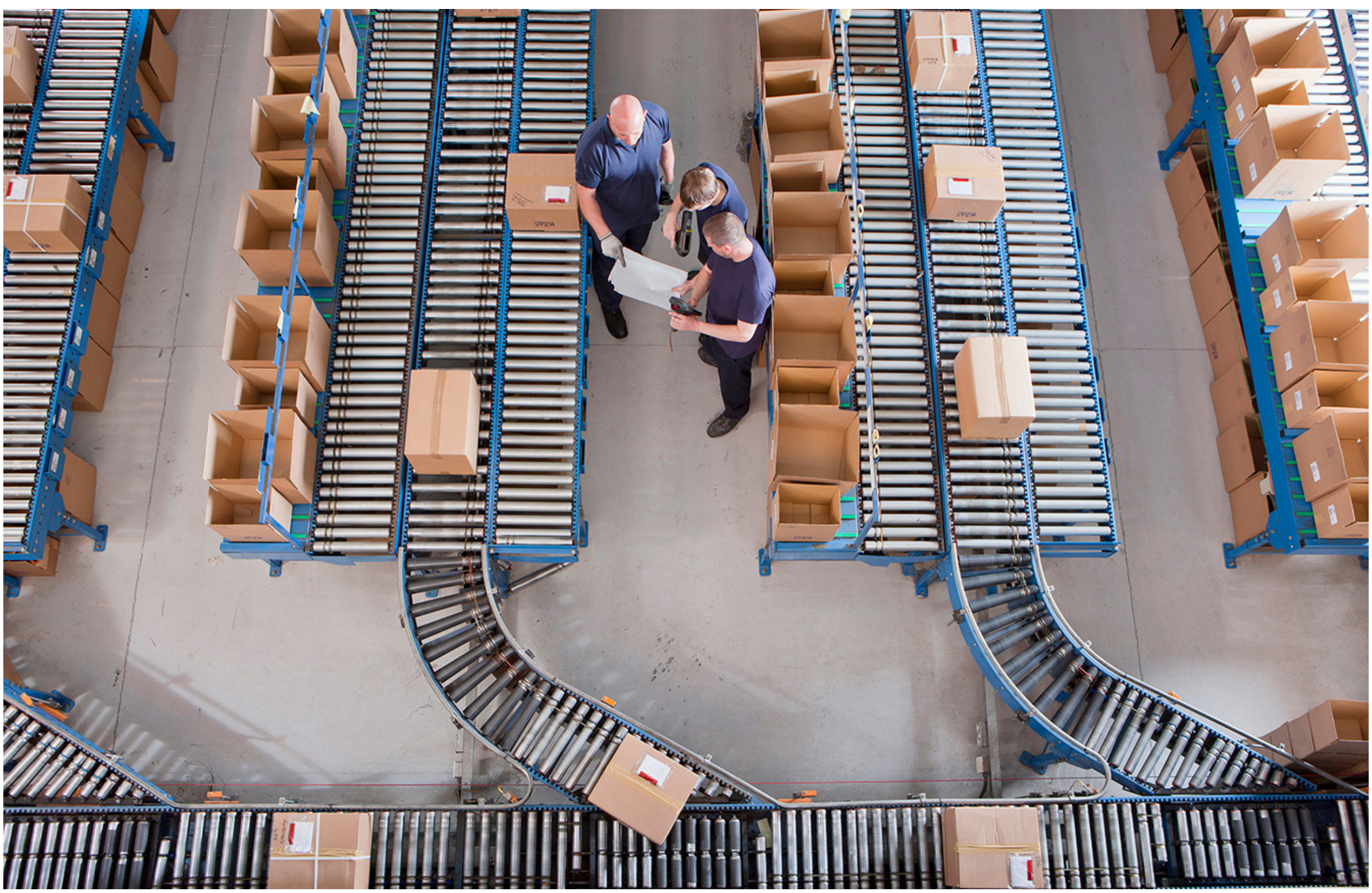
CPG supply chains continue to evolve their digital proficiency, as transformation potential is not fully realized without sufficient upskilling and training. As investments in digital literacy grow to improve workforce preparation, new ways of working are becoming equally important to drive workforce adoption.

Digital adoption relies heavily on transformation scope and organizational involvement. For example, an AI initiative that optimizes outbound shipments may impact a wide range of responsibilities in manufacturing, logistics, and transportation. In turn, this cross-functional team participates in transformation delivery and helps smooth adoption across a broad section of the organization.

Contrast this with a digital initiative to improve forecasting of inventory. As critical as the output is in helping steer the supply chain, digital adoption in this case is confined to a singular role of the demand plan.

Barriers to effective transformation





Digital fluency: The missing link in the digital supply chain

In response to the demand volatility experienced over the past few years, supply chains took significant measures to recalibrate their portfolio and capacity to ensure service levels were maintained. With recent alleviation in freight and commodity prices, CPGs are now taking the opportunity to invest in digital to address the repercussions of cost and inventory while improving operational agility.

If the pandemic has taught companies anything, it is that organizational competency and adoption are critical to advancing the digital transformation agenda. A supply chain is only as good as its people. And while new ways of working are often acknowledged as a strategic pillar for operations, the primary tactics taken to date have not always yielded the expected outcomes.

Digital literacy programs have been a cost-effective tactic for organizations to upskill their workforce. But to be effective, the program should be calibrated to each supply chain function. Each function carries a distinct set of workforce needs based on organizational maturity and nature of responsibility. Digital simulation and automation are more prominent skills required for manufacturing and distribution, whereas in planning and transportation, machine learning is more valuable.

Digital supply chain transformation is only as effective as the supply chain workforce that enables it.

Establishing digital organization structures is the primary tactic used by CPGs to democratize capability across the supply chain. The inherent risk lies in the creation of multiple digital silos where a supply chain analytics team, manufacturing engineering team, and IT applications team run independently of each other when by definition they should operate as one. Leading companies institute robust governance models to mitigate this concern.

Moving forward, digital supply chain enablement needs to evolve from an emerging technology skillset to a digitally fluent Operations Excellence capability.

Jim Lee

Managing Director, Advisory,
Customer & Operations Commercial
KPMG LLP

How KPMG can help

Transforming transformation in consumer and retail

Bold insights. Big value. Better outcomes.

With deep sector knowledge and experience, we help consumer and retail (C&R) companies transform their businesses to drive growth, modernize operations, take out costs and gain competitive edge. We believe people and culture make the difference in driving transformation success and creating lasting change. We focus on helping C&R companies identify and realize greater strategic, financial, and operational value across the enterprise. We leverage new technologies and digital capabilities to adapt to changing market conditions, accelerate outcomes, drive positive impact, and enhance client experiences.

We focus on identifying and realizing greater value at every step.

We know people and technology make the difference in driving transformation success.

We unify transformation across the enterprise to deliver better outcomes, faster.

KPMG Elevate accelerated performance improvement.

Our Elevate approach is a comprehensive performance assessment focused on driving rapid, sustainable EBITDA improvement. Targeting revenue, operating margin, cost structure, and working capital optimization, we apply a deep functional analysis tailored to management's strategy and desired outcomes.

Data strategy and foundation.

We help organizations navigate the complex D&A landscape to build a permanent "data muscle" for the enterprise that can support truly data-driven business decisions. The desired result is an accelerator for innovation that can provide insights to better contextualize actions, personalize messaging, and drive a more customer- and consumer-centric approach.

Integrated revenue growth management.

We work closely with companies to unlock incremental growth and profitability through a unified approach across RGM levers—pricing, promotions, and assortment—supported by advanced and integrated analytics capabilities. With forensic-level intelligence, we help identify opportunities that can maximize value and accelerate conversion.

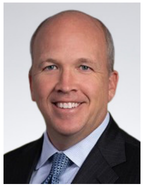
KPMG Consumer Products state of the industry survey details

In April 2023, KPMG conducted a survey of executives (director level and above across functional areas at consumer products companies with at least $500 million in annual revenues.

Among over 100 survey respondents:

- Approximately 50 percent are vice presidents
- Nearly half work for consumer products companies with more than $10 billion in revenue
- One-third represent the food/packaged goods subsector.

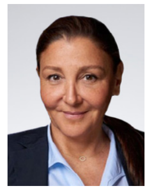
Contact us



Matt Kramer
National Sector Leader
Consumer & Retail
614-241-4666
mattkramer@kpmg.com

Duleep Rodrigo
National Advisory Leader
Consumer & Retail
213-817-3150
drodrigo@kpmg.com

Sam Ganga
National Consulting Leader
Consumer & Retail
312-665-1736
sganga@kpmg.com



Zeynep Koller
Principal, Advisory,
Strategy – Consumer Products
617-320-9440
zkoller@kpmg.com

Jamil Satchu
Principal, Advisory, Strategy
312-665-8460
jsatchu@kpmg.com

Contributors

Sudipto Banerjee
Principal, Advisory, Strategy
sudiptobanerjee@kpmg.com

Mitchell Caplan
Managing Director, Advisory,
C&O Commercial
mcaplan@kpmg.com

Kelly Combs
Director, Advisory, Lighthouse
kcombs@kpmg.com

Jim Lee
Managing Director,
Advisory, C&O Commercial
jimlee@kpmg.com

Jason Mowery
Managing Director,
Advisory, C&O Commercial
jmowery@kpmg.com

Erik Oliverson
Partner, Tax, International –
Value Chain Management
eoliverson@kpmg.com

Barry Raghunathan
Managing Director,
Advisory, Lighthouse
braghunathan@kpmg.com

Robin Rasmussen
Principal, Advisory,
Human Capital
rlrasmussen@kpmg.com

Martin Sokalski
Principal, Advisory, Lighthouse
msokalski@kpmg.com

Julia Wilson
Principal, Advisory, Strategy
and ESG
juliawilson@kpmg.com

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

kpmg.com/socialmedia