IT LEADERS: SEIZE THE OPPORTUNITY TO DRIVE DIGITAL TRANSFORMATION
“IT FEELS LIKE WE ARE TRYING TO CHANGE THE TIRES WHILE DRIVING THE CAR.”

Ask any CPG executive about digital disruption and they will most likely share a similar sentiment: Digital now stands as the gatekeeper to growth in just about any industry.

For years, grocery manufacturers had the formula down. Keep a watchful eye on supply-side size and scale, distribute inventory as widely and inexpensively as possible, and profits would follow. Compared to today, it was a simple world with traditional, mass-produced products distributed via a limited number of traditional channels.

Digital disruption has proven that formula to be obsolete. Modern consumer mindsets and preferences combined with technology have made it so that nimble disruptors are eating into grocery manufacturers’ profits at a rapid pace. (See “The changed growth equation.”)

Incumbents are competing for survival against disruptors unencumbered by the limitations of legacy technology and entrenched norms. To survive and thrive, grocery manufacturers must evolve into modern enterprises, built on a reinvented agile operating model and equipped to enable entirely new business models.

Large grocery manufacturers must leverage digital capabilities to fuel this agility—so no matter the consumer preference, the channel, or the technology, the company is there waiting for the consumer, providing the right product or service to fulfill their individual needs.

Transforming into an organization that designs for delight, reorients to deliver, and operates on flexible platforms to adapt with agility is the key to the true differentiation large grocery manufacturers have been chasing. **Are IT leaders ready to seize this opportunity to be the agent of change driving digital transformation?**
THE CHANGED GROWTH EQUATION

Growth in grocery manufacturing has not disappeared; small disruptors are simply capturing a disproportionate share of industry value.

Disruptors are commandeering growth by anticipating changes to the traditional growth equation. They are often taking advantage of diminished barriers to entry, delivering compelling consumer experiences by leveraging enormous amounts of data to extract forward-looking insights, and adapting to ever-changing consumer and customer preferences. These advantages are built upon consumer-centric organizations that are agile, human, intelligent, and connected; attributes that few—if any—incumbents have been able to replicate.

Accenture analysis shows that traditional CPG market leaders generated a revenue CAGR of less than 1%, while new nimble disrupters grew +130% per year over the same time period.¹ The rather obvious fact that successful CPG start-ups are achieving high growth rates prove that CPG is not a ‘no growth’ market; incumbents are simply not capturing the available growth.

At this pace—and with the US Food & Beverage category expected to grow at a CAGR of only 1.8% from 2016 to 2020—large CPG players will lose significant market share, and face potential obsolescence.² The average tenure of companies on the S&P 500 has decreased from 33 years in 1965, to 20 years in 1990, and estimated to be 14 years by 2026,³ thus reminding us that no company is safe and industry dislocation is a fact of life.

Figure 1: Category growth in 2016

![Figure 1: Category growth in 2016](image_url)

* 16,000 small manufacturers with at least $100,000 in annual sales

Source: Nielsen: Amid the FMCG Downturn Small Manufacturers Are Tapping Big Growth
DIGITAL IS NOW

Grocery manufacturers won’t be successful if they think of digital transformation as a future need-state; digital disruption is happening right now, in every industry. Look no further than Amazon’s recent purchase of Whole Foods for an overt example of how quickly the grocery world is changing.

Given the dramatic change already happening, what are companies waiting for? Accenture interviewed 22 grocery manufacturing executives, with backgrounds in IT, Marketing, Sales, eCommerce, Merchandising, and Supply Chain and while many of these executives articulate a need to “be digital” with a sense of urgency, the industry is still playing catch-up.

Over 80% of individuals we talked to confess that they are still trying to figure out what digital means to their business. For instance, 32% still view digital as exclusively pertaining to Marketing and eCommerce, rather than as a foundation for all company operations. And 27% of the individuals interviewed see the potential value of digital capability building, but struggle with where to start. All agreed that they have yet to find the right formula to quantify the value of digitization, holding out hope for one master calculation to fall into their lap.4 A single silver bullet is unlikely, but as grocery manufacturers destroy functional silos and data silos, collaboration using a complete picture of the operating ecosystem will reveal the right metrics to measure the value of digital transformation.

Research by Accenture and the Grocery Manufacturers Association (GMA), as well as experience, show that, to achieve this, most successful companies focus on three core areas, enabled by digital capabilities, to make transformation a reality:

- **CONSUMER, CUSTOMER, AND EMPLOYEE DELIGHT**
  - Understand stakeholders to design delightful experiences and services which help continually renew relevance and drive growth

- **A REORIENTED BUSINESS**
  - Run on a value-obsessed operating model focused on consumer-centricity and a culture infused with flexibility

- **FLEXIBLE PLATFORMS**
  - Creation of a scalable, agile company through technology-driven innovation and analytics, modular offerings, and dynamic support

Achieving success is an intricate journey; one that requires agility, clear ownership and dedication to collaboration, and actionable change. IT leaders have an opportunity to take ownership and drive change.
Most large CPGs are currently just beginning their journey to the modern enterprise, supported by a digital infrastructure that can quickly position the entity to capture growth. Today, consumers define what matters; they want what they want, when and where they want it.

Accenture’s ethnographic study of US grocery shoppers revealed that consumers’ behavior determines their definition of “delight”, behavior which is driven by their shopper mindset. A far cry from traditional demographic segmentation, these mindsets (Figure 2) reflect the value the individual assigns along two spectrums: emotional to functional, and personal to social.

Figure 2: US Grocery Shopper Mindsets

<table>
<thead>
<tr>
<th>Emotional</th>
<th>Personal</th>
<th>Functional</th>
</tr>
</thead>
<tbody>
<tr>
<td>HEDONIST</td>
<td>Driven by desires and dreams</td>
<td></td>
</tr>
<tr>
<td>NURTURER</td>
<td>Driven by altruism and aspiration</td>
<td></td>
</tr>
<tr>
<td>ACTUALIZER</td>
<td>Driven by goals and standards</td>
<td></td>
</tr>
<tr>
<td>PROVIDER</td>
<td>Driven by role and values</td>
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Source: Accenture Research and Fjord Grocery Shopper Mindset proprietary study
One commonality across the mindsets is that the grocery shopping experience for US consumers still revolves around the brick and mortar store - but with an overall path to purchase that has expanded to navigate a hybrid online/offline ecosystem of inspiration, planning, purchasing, and fulfillment (Figure 3).

**Figure 3: US Grocery Shopper Path to Purchase**

![US Grocery Shopper Path to Purchase diagram](image)

Source: Accenture Research and Fjord Grocery Shopper Mindset proprietary study

Multiple channels, diverse consumer demands for increasingly personalized products, partner ecosystems collaborating to deliver dynamic consumer experiences—all re-set the bar for consumer expectations and contribute to the agility imperative. Channels will morph, with some becoming obsolete. Consumer demands will shift as demographics, mindsets and desires change. And ecosystems will continue to become the primary model for doing business in the industry. For example, sixty years ago, the milkman was a critical channel for the US grocery shopper, and over time that channel became obsolete due to technological advancements and societal changes. One can argue that channel may be reappearing with a slightly different appearance as a personalized grocery delivery service—in fact Netherlands’ startup Picnic’s founders describe themselves as the “modern milkman” giving drivers dedicated routes and encouraging relationship-building with the consumer.5

These new consumer-defined definitions of delight may necessitate different sales, marketing and supply chain models running in harmony—potentially even converging. This level of service cannot be delivered without an integrated and agile operating model which can with the IT backbone to work on two speeds: one for efficiency to support the core business and one for agility to support the new.
One noteworthy and repeated response was that a lack of clear ownership of digital strategy and its execution thwarted efforts to build a modern enterprise.

In an Accenture survey of CEOs, 50% of those surveyed named the CMO as one of the top five individuals most responsible for the disruptive growth agenda in their organization; 36% put the CFO in the same grouping—perhaps due to the data-intensive nature of digital.

This ambiguity leaves digital ownership in the organization up for grabs. During one interview, an executive from a large North American CPG company shared that their IT department tried to lead the digital charge twice, but was unable to get traction. Now Marketing is giving it a go, with varying levels of success.

Even with clearly defined ownership, speedy digital transformation is stifled when many companies still operate in silos. They continue to ignore digital potential across the business, instead thinking department by department. As one executive for another large North American CPG put it: “Our organization has not fully opened its eyes to how much digital capability building could do for the organization outside of the marketing function.”

Without cross collaboration—amongst functions, brands, business units, etc. - and a clear leader for the digital charge, grocery manufacturers will not reclaim their share of growth. Silos must be actively broken down, with Marketing, HR, IT, Supply Chain and all other traditional functional areas represented at the strategic and operational table. Digital requires buy-in and input from all corners.

“OUR ORGANIZATION HAS NOT FULLY OPENED ITS EYES TO HOW MUCH DIGITAL CAPABILITY BUILDING COULD DO FOR THE ORGANIZATION OUTSIDE OF THE MARKETING FUNCTION.”
One often ignored silo is the company itself—the collaboration imperative extends outside the organization as well. Seventy-six percent of executives agree that their competitive advantage will not be determined by their organization alone, but by the strength of the partners and ecosystems they choose. The future is predicated on ever-more complex consumer solutions which can only be successfully delivered by cross-industry ecosystems that redefine traditional roles.

Rebuilding a company’s foundation is no small matter. Digital tools and capabilities can be effective in breaking down silos, but it takes people to truly break down organizational walls. And when that happens, digital transformation at speed can begin. IT executives have an opportunity to lead their organizations through this operational and organizational transformation.

BUILD FLEXIBLE PLATFORMS TO ADAPT WITH AGILITY

Digital disruption has reallocated power in the industry from companies that think in terms of projects and initiatives to employees, customers and consumers who think in terms of experiences.

To deliver the right experiences, grocery manufacturers need to flex their platforms to support interconnected products, services, and offerings rather than discrete and static objectives. Grocery manufacturers must operate as a platform capable of simultaneously delivering a variety of business models—some old and some new and dramatically different. This approach will position the company to redefine the path to growth.

Unfortunately, many grocery manufacturers are held back by traditional operating models—and an IT infrastructure—designed for legacy economies of scale. In a rapidly changing world, IT can be the catalyst for change by taking bold action and embracing transformative technologies to catch up and begin to keep pace. Doing so will position them to get ahead of continuously accelerating change and drive future success.

By understanding how digital technologies can unlock business value, IT leaders can set the strategic direction for digital transformation. The business and IT should collaborate to put the technology and tools in place to support an agile organization, one equipped to continuously renew technology and to detect and adapt to the next wave of disruption. To achieve this, IT needs the external awareness to understand how technology enables disruption by changing consumer expectations and makes new business capabilities possible.
Figure 4: Critical technologies and capabilities for grocery manufacturing

Here are a few examples of how they can be applied to achieve flexible platforms:

**AGILE ANALYTICS** give grocery manufacturers a real-time pulse on customer experiences and consumer preferences. Companies can personalize interactions and design for a better experience, something their agile digital counterparts do as a matter of course.

**Think about this:** German eCommerce merchant Otto recently took stake in tech startup Blue Yonder to develop an analytics engine which can predict what their consumers will buy, before they even think about buying it. The technology enabled Otto to reduce returns by 2 million items per year and decrease their surplus stock by 20%. Additionally, they are now able to predict, with 90% accuracy, their sales for the next 30 days.8
Because **AI AND COGNITIVE COMPUTING SOLUTIONS** are adaptive, interactive, iterative, and contextual, they can unlock tremendous value in a digital world that thrives on personalization and real-time relationships. AI can help better predict the needs of grocery consumers and proactively tailor experiences that delight.

**Think about this:** McCormick spin-off Vivanda leverages AI to develop an individual “Flavorprint”—essentially a fingerprint for the human palate which can be generated for any food or beverage by mapping 16,000 aroma chemicals to 33 flavors and 17 textures along with dietary and nutrition attributes. Consumers can generate a taste profile through Flavorprint to help identify their most compatible food and beverages and receive highly personalized recommendations. Vivanda’s mission is to enable our food ecosystem partners to better meet their consumers’ needs.9

**AR/VR** will redefine the way manufacturers plan, manage, and sell, allowing consumers to touch and feel products—and those of the competition—before purchasing, from the comfort of their own home.

**Think about this:** Niantic’s Pokémon Go, an augmented reality mobile game, partnered with Starbucks to brand 12,000 locations as PokéStops, and entice gamers with a limited-availability drink.10 Pokémon Go users play the game by moving themselves within pre-set geo-fences at actual locations. Niantic’s partnership with Starbucks shows how technologies now influence more than just consumer clicks, but physically direct individuals as they go about their lives.

The design of augmented reality apps are opening up new avenues for consumer-business interactions. However, to build digital trust, businesses must work to design products and services that complement consumer goals in addition to their own. In the case of Pokémon Go this could be related to health or the amount of time one spends playing the game—as it is designed to be an always-on mobile application.11

**TWO-SPEED IT** enables modular offerings, and in turn greater flexibility. Grocery manufacturers need to utilize multiple IT delivery channels: one to “keep the trains running” and another for truly disruptive innovation. This requires an ecosystem of partners to enable rapid scaling of necessary capabilities while simultaneously liberating resources for leading edge and next generation capability building.

**Think about this:** online fashion retailer Lesara committed to acting like more of a tech startup than fashion brand to achieve their ambitions. They developed a “trends analysis tool” and an ecosystem of partnerships enabling them to go from identification of a new trend to in-home delivery in ten days. The retailer has seen sales increase by 175%.12
**AUTONOMOUS VEHICLES AND DRONES** will redefine how grocery manufacturers deliver products to their customers and end consumers. Traditional distribution methods are too rigid to meet the dynamic and custom demands of future consumers. Approximately 75% of shipping costs are attributed to labor, meaning these capabilities will make the flexibility the digital economy demands both operationally and financially feasible.\(^\text{13}\)

**Think about this:** in October 2016, Anheuser-Busch partnered with Otto (Uber’s self-driving truck subsidiary) to achieve the first commercial use of autonomous trucking. The truck carried 45,000 cans of Budweiser across 120 miles of highway in Colorado from Fort Collins to Colorado Springs. A driver monitored the vehicle from the truck’s sleeper berth, only taking the wheel when driving on and off the highway ramp. Ott’s co-founder, Lior Ron, expects the technology will increase safety and decrease cost as the truck will be able to operate 24 hours a day, 7 days a week...eventually eliminating the driver completely.\(^\text{14}\)

**3D PRINTING** is already disrupting traditional manufacturing, and will very likely lead to the convergence of R&D, production, and distribution. For example, in grocery manufacturing, replacement parts for equipment will be printed closer to the facility, enabling more agile and modular manufacturing operations. This modularity will enable companies to easily respond to consumer demands with dynamic products and services—perhaps bringing consumers on site to immediately incorporate prototype feedback and rapidly accelerate speed to market.

**Think about this:** Adidas is partnering with Silicon Valley startup Carbon and leveraging 3D printing technology to produce the Futurecraft 4D—it’s first scaled production of a shoe using this technology. This has enabled them to fine-tune the formation of the sole using their library of running data and will eventually allow them to easily customize and personalize shoes for consumers. Carbon’s technology will position Adidas to produce more than 100,000 of the shoes by the end of 2018.\(^\text{15}\)

These technologies, capabilities, and waves of execution are not sequential. If a company does not have the fundamentals in place today, it needs to move with speed to develop them across the enterprise while simultaneously testing and learning to improve for tomorrow. This model requires companies to incentivize innovation and collaboration so they can position themselves as the next disruptor, rather than the disrupted.
HIT THE GROUND RUNNING

Grocery manufacturers who want to capture growth should focus equal energy on getting the fundamentals right while building their vision around the leading edge and next wave technologies and capabilities.

Unfortunately, there is no one-size-fits-all traditional roadmap for becoming a modern grocery manufacturer—every company must design context-specific solutions that fit the needs and strategic imperatives of its consumers, customers, and employees.

More broadly, though, a few key immediate considerations apply across the board:

**Eliminate data silos.** Successful future operating models are an ecosystem of partnerships, and modular data solutions that can be easily shared with those partners, is the price of entry. Focus energy on bringing together the pockets of data across the enterprise and from the broader partner ecosystem. Integrating them allows the organization to produce valuable insights which will fuel new products, services, and opportunities.

**Test and learn.** Be willing to invest in ideas that may fail. It is the only way to encourage true innovation from employees and ecosystem partners. And if an idea fails, learn from it while moving on to the next quickly.

**Establish a dedicated team.** Digital transformation will not succeed if it is treated as a side project. Focus right-sized teams on the fundamentals and innovation (around leading edge and next wave) to determine the next big idea that will improve the experiences offered.

But, these are just the basics. To be truly successful, grocery manufacturers need to evolve to a modern enterprise which can operate at two speeds: one for efficiency to support the core business and one for agility to support the new.
IT has an opportunity to be the agent of change for grocery manufacturers to do this, anticipating disruption and bringing expertise in innovation and execution that will reinvent the organization. Tremendous leadership is required to drive grocery manufacturers beyond those immediate actions to become critical ecosystem partners, to thrive in a world reliant on on-demand workforce platforms, and easily adapt in uncharted territory that will likely be accompanied by an uncertain regulatory environment.

The technologies are what will enable incumbents to compete with disruptors, but IT teams cannot do it alone—all functions have a part in digital transformation. Leading the charge and helping to establish the right mindset across the organization will position the company to better meet the challenges of nimble digital competitors. Growth is within reach, but a digital bridge is required.

“USING DIGITAL TECHNOLOGIES TO ACHIEVE TRUE DIFFERENTIATION, RATHER THAN PLAYING CATCH-UP WITH DISRUPTORS, IS EVERY IT LEADER’S OPPORTUNITY TO GRAB THE BATON AND ACCELERATE THEIR ORGANIZATION’S RACE TO THE TOP THROUGH THE DIGITAL REVOLUTION.”
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SOURCES
1 Capital IQ, press, and Accenture Research analysis
2 Accenture Research analysis of Euromonitor data, July 2017; included Packaged Food, Soft Drinks and Hot Drinks
4 Insights derived from Accenture analysis of GMA partner interviews
6 Accenture 2016 CMO Insights
7 Accenture Consumer Goods Tech Vision 2017
12 businessZONE.co.uk. How Lesara increased its sales by 175% to a ‘high double-digit million’. February 13, 2017.
13 TechCrunch. The driverless truck is coming, and it’s going to
ABOUT OUR RESEARCH
To help determine how IT leaders in the grocery manufacturing industry can help guide their companies to success, Accenture and the Grocery Manufacturers Association (GMA) interviewed 22 CPG executives representing various areas of the business and 14 Accenture subject matter experts. Our aim was to identify opportunities and challenges facing these organizations, as well as to understand their perspective on how to compete in the digital era. We also conducted ethnographic research to determine the modern grocery shopper mindsets driving behavior along the consumer journey.

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ABOUT GMA
The Grocery Manufacturers Association (GMA) is the trade organization representing the world’s leading food, beverage and consumer products companies and associated partners. The U.S. food, beverage and consumer packaged goods industry plays a unique role as the single largest U.S. manufacturing employment sector, with 2.1 million jobs in 30,000 communities across the country that deliver products vital to the wellbeing of people in our nation and around world. Founded in 1908, GMA has a primary focus on product safety, science-based public policies and industry initiatives that seek to empower people with the tools and information they need to make informed choices and lead healthier lives. For more information, visit gmaonline.org.

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