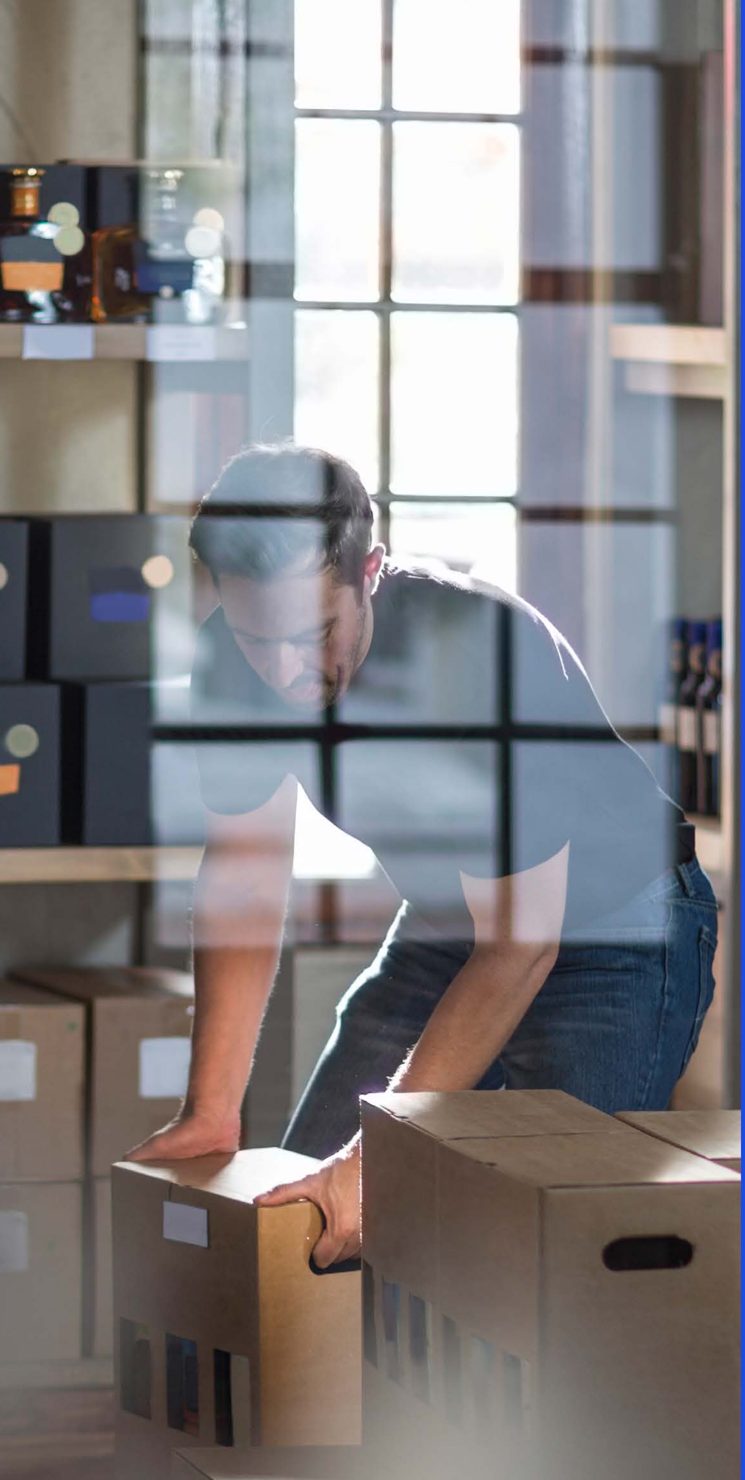
KPMG

# Are you preparing to fail or ready to succeed?

Future-Ready Supply Chain: Consumer Packaged Goods





# Introduction

Pandemic-driven disruption over the last two years has fundamentally shifted the future of Consumer Packaged Goods (CPG) supply chains – from product development through to delivery.

In rethinking operations, the customer remains at the core. Customer expectations regarding personalisation, frictionless experience and instant gratification are being shaped by the rise of digital natives. They seek a similar experience across all purchases and any lapses create immediate disloyalty. Being customer centric in this environment requires a high level of flexibility and responsiveness – the cost of which can be prohibitive in rigid traditional supply chains.

As companies around the world move from 'just in time' to 'just in case', the CPG sector is keeping these aspects close – but the customer closer. There has also been a shift toward micro supply chains, enabling as much of the last mile value-add to be performed as close to the customer as possible.

CPG companies have also turned their focus to breaking down inventory management silos to serve customers more quickly. Some have started to fulfil orders for the same items but source the inventory from different brands, highlighting the commitment to customer centricity.

Logistics volatility caused by ongoing fragmentation in global supply chains is driving CPG companies to:

— rethink their core processes and value propositions

— identify alternative distribution and communication mechanisms

— incorporate new and innovative technologies to mitigate supply chain risk

— reassess the end-to-end structure of networks.

In this, the second part of our 'Future of Supply Chain Insights' series, we outline how to survive and thrive beyond the immediate disruption. As CPG companies rethink the supply chain, they must drive agility, flexibility and digitally-enabled outcomes for the long term.

**Georgie Aley**
National Sector Lead – CPG
KPMG Australia

# Looking ahead

**As we consider the future of supply chains for CPG companies, there are three key considerations that must be front of mind:**

- **put the customer first**
- **use platforms effectively**
- **understand the importance of sustainability**

## Putting the customer first

The CPG sector is seeing an accelerated arrival of round-the-corner industry disruption, fundamentally changing the consumer's relationship with product, brand and the underpinning supply chain. CPG companies have the opportunity to develop an omnichannel supply chain experience to support, inform and connect customers to their products – as well as connecting them with supply chain partners.

### Repositioning supply chains

The pandemic has increased the need for greater resilience and agility across the sector, with a high degree of uncertainty across the processes heavily depended upon to deliver products to the customer. Further, CPG companies must distinguish between their core customer versus their core consumer – a challenging task.

While some CPG companies are seeing success in circumventing disruption by cutting out retail or other intermediaries (e.g. food service, hospitality provider, wholesaler) and going Direct to Consumer (DTC), others are increasing their focus on engagement with their intermediary as the end customer.

Understanding and building a supply chain around this customer is pushing CPG companies to:

- explore new platforms and business models such as same-day-delivery
- identify new routes to market
- embed micro supply chains
- consider new input processes, suppliers, software providers and so on.

In repositioning supply chains to meet customer needs, DTC models are proving to be a success for some CPG companies. However, whether removing intermediaries in the long run proves truly profitable remains open for discussion.

While a DTC model mean CPG companies are no longer sharing profits with as many partners, it also means that all end to end supply chain costs will need to be borne by the one company. This leaves an organisation more vulnerable to adversity not just in manufacturing but also in transport, delivery, communications, procurement and so on.

By capitalising on the rise of DTC, many CPG companies are leveraging e-commerce channels to reach larger groups of consumers more directly. However, organisations face significant challenge in doing so cost-effectively unless they can vertically integrate fulfilment logistics to efficiently service a more diverse customer base.

Companies need to ask themselves what is more profitable: delivering an order of 1,000 cases to one customer or delivering 1 case to 1,000 customers?

## Meeting customer expectations

New pressures on CPG companies to delight the customer are also rising.

Customers expect shorter lead times, cross-channel product availability, seamless end-to-end experience, and new innovative and customisable products. But, the old expectations remain. Managing proliferating production costs, reducing inventory costs, providing on-time and in-full delivery are still core to the brand and product promise.

Four in five business leaders count customer centricity among their organisations' chief priorities in the coming year[1], however, for companies to become truly customer-centric and accurately understand customer's ever-changing needs, they need to embed a customer-first mindset across their entire organisation.[2]

### Shifting product offerings

Current product offerings must also shift to meet customer demand for hyper-personalisation, including highly-customised 'personalised' products and buying experiences. Enabled by additive manufacturing and Internet of Things (IoT), we'll see product produced on-demand, reducing turnaround time and improving outcomes through tailored offerings.

**74%** **of global organisations are prioritising operations with efficiency and agility to fulfil the customer promise as an objective of their digital transformation.[3]**

As a result, CPG companies will move beyond traditional single site mass production to a distributed footprint and network of micro-supply chains. Products will be produced in market reducing the distance and time from manufacturer to customer and enabling market and individual customisation.

### Planning and predicting

Organisations will also need advanced forecasting approaches – such as predictive analytics of internal data (e.g. customer demand and insights) and external data (e.g. market trends, weather and holiday periods). When combined, these provide a much more precise forecast of customer demand. In future, we will even see 'predictive shipping', where products are shipped before the customer places an order. The customer order is later matched with a shipment that is already in the logistics network, and the shipment is routed to the exact customer destination.

CPG companies that adopt these advanced planning and predictive capabilities will have greater visibility of the optimal balance between demand and supply, and a greater ability to maintain optimal capacity throughout the supply chain. Not only does this mean better service, but also more efficient and cost-effective operations.

## Use platforms effectively

The use of non-traditional supply chain platforms is now critical to CPG supply chains, with many brands grappling with rising consumer expectations around the rapid delivery of their digital sales. During the height of the pandemic, 40 percent of US adults bought more items online than usual and 36 percent of them plan to continue buying groceries online after the pandemic.

Only 8 percent of them bought groceries online before. A mobile, digital future is here and companies must find new ways to form partnerships to amass consumer touchpoints.

1 Source – A commissioned study conducted by Forrester Consulting on behalf of KPMG, April 2021; KPMG 2020 CEO Outlook COVID-19 Special Edition, KPMG International

2 Source – Me, my life, my wallet — KPMG International, third edition, 2021

3 Source – A commissioned study conducted by Forrester Consulting on behalf of KPMG, April 2021; KPMG 2020 CEO Outlook COVID-19 Special Edition, KPMG International

Collaboration between platforms across the value chain ecosystem means shared data, resources and strategies. This interconnectedness delivered by platforms allows companies to act and respond more quickly to customer demands as well as accessing new markets and introducing products faster.

### Staying ahead of the curve

Evolution in the platforms used for customers to engage with companies has cut out many touchpoints in the CPG supply chain, again driving some companies to circumvent intermediaries and go D2C. However, this supply chain evolution can create risk where a CPG company underestimates its ability to match the economies of scale and tried-and-tested logistics of a retail partner, when for so long the name of CPG's game has centred on manufacturing.

When executed in an informed and targeted manner, leveraging the diverse platforms available to innovate future supply chain pathways will be an effective means of staying ahead of the curve. Most parts of the supply chain can now be purchased from third parties or sold as a service – essentially, the 'uberisation of logistics'. This can include:

- load sharing
- network optimisation across a collaborative network
- R&D as a service
- own vs rent strategies within the supply chain

For example, many CPG companies are selling their excess capacity – such as bread manufacturers looking to generate revenue from fleet that remains idle most of the day.

## Understand the importance of sustainability

Environmental, Social and Governance (ESG) credentials and brand positioning is becoming a differentiator for CPG companies that protect and deliver on their brand promise, while maintaining a customer-centric approach.

54 percent of customers say that an organisation's environmental or social record has changed their purchasing decisions (up from 45 percent pre-COVID-19). We are seeing a shift towards 'buying into' an organisation rather than 'buying from' it. As customers make their purchasing decisions, they are giving increasing weight to brand purpose and reputation, quality, safety, security, convenience, reliability and value for money.

### End-to-end visibility

Supply chains have tended to lag other functions in progressing an ESG agenda because their operations require collaboration with many partners and visibility across those moving parts can be limited. In fact, the biggest challenge for supply chains is a lack of end-to-end visibility. Without understanding the true flow of materials, it is difficult to know how to decarbonise, reduce energy and plastic, and to implement other sustainable practices.



In a survey undertaken by KPMG, only 13 percent of Supply Chain and Risk Management Industry Executives indicated having complete visibility of their end-to-end supply chain.[4] Astute CPG companies are addressing this barrier by

— embracing digital platforms that leverage operational data, enable visibility and collaboration across the value chain

— educating and working with third parties towards shared sustainability goals

— taking bold steps in empowering consumers with transparency to make informed buying decisions.

## Specific ESG considerations for CPG companies

### Environmental

Consumers will demand proof of ethical procurement, renewable energy use, appropriate waste management and recycling best practices before committing to purchases. Sustainable technologies – including eco-friendly blockchain and the IoT– will be leveraged to verify the end-to-end ESG credentials of products and services. For example, Evocco – a carbon footprint app in the United Kingdom – tracks the climate impact of grocery shopping and offers consumers lower carbon alternatives.[5] Organisations will be expected to walk the talk with ever increasing scrutiny on greenwashing. Social media plays a key role here in transparency and frequency of communication from a brand to its consumers.

### Social

Advances in technologies such as machine learning, data analytics and cognitive automation are also enabling CPG companies to achieve their ESG goals. For example, cognitive automation can be used to continuously monitor the supply chain to ensure a CPG company and its suppliers comply with global anti-bribery and corruption regulations by combining databases to provide evidence of outliers to these regulations.

### Governance

This newfound standard for transparency is supporting the CPG sector with the governance component of ESG by strengthening compliance. For example, CPG companies can use platforms to monitor and report on product sources and traceability, product safety, packaging and labelling compliance – all in a standardised format that meets the needs of regulators and is easily auditable.

4 Source – Supply chain visibility in the digital age – KPMG Australia, 2022

5 From ESG predictions report Looking Ahead: ESG 2030 Predictions (assets.kpmg).

# Building a roadmap for success

**To realise the future ambition of your supply chain, it helps to focus on three key areas to inform your roadmap.**

## 1. Clarify your strategy

Consider how to develop organisational capabilities around your supply chain – build, borrow or buy? How will you define your Target Operating Model across people, processes, structure, technology, data and governance to optimise your supply chain?

Areas to consider include:

- refreshed channel management
- more responsive supply chains
- systems transformation
- implementing alternative supply chains infrastructure such as DTC.

Channel expansion as a strategy offers new pathways to new customer groups, expanding brand accessibility and reach so long as risk is mitigated through supply chain-wide transparency.

CPG companies often operate as a result of evolution rather than design – a function of mergers and acquisitions, frequent restructures, geographical variations and functional empire building. Sound familiar? If so, successful transformation relies on simplification and standardisation, optimising the structures and processes surrounding operating systems to unlock greater value.

**Marketplaces are perhaps the best practice example of channel expansion.**

**Woolworths 'Everyday Market', Bunnings MarketLink, Dan Murphy's Direct from Supplier (previously Connections) are all extensions within the same category – or in adjacent categories – typically fulfilled by a supplier but purchased through aggregator sites from established retailers. The benefit? Strategic, cost-efficient diversification.**

## 2. Understand the cost of complexity vs value of variety

With the supply constraints over the last two years, you may have been faced with a choice between quality and quantity in distribution models. While some CPG companies will find success in diversification, others will need to streamline product portfolios – identifying top priority SKUs by analysing consumer purchase data, among other criteria.

To make the right decisions about which channels and methods of delivery are the most profitable for products, you need advanced analytics for cost-to-serve and segmentation optimisation. These insights are used to decide the optimal portfolio mix of products and services to profitably, effectively meet customer demands.

Next, you need governance across data integrity. Make no mistake – you're only as good as the maintenance of your Master Data. Control Towers and KPI metrics are often flawed by issues resulting from poor maintenance of this data.

## 3. Leverage data to improve competencies, visibility and transparency

From a customer perspective, the precision marketing model on which CPG companies rely is all about combining data and context to understand who and where the consumers are on their individual customer journeys.

Supply chain intermediaries, such as retailers, can often provide a barrier to cross-supply chain visibility, so you may have limited access to transaction data and intelligence. This makes it difficult to target consumers in the critical stages of their purchase journey and gather insights to inform future sales and marketing planning – and plan supply chains accordingly.

How do you combat this? Find solutions that can handle the complexities of 21st century supply chains by being faster, more interconnected and collecting significant volumes of data. As you continue to optimise your supply chain, consider using proprietary consumer data warehousing and analytics.

If you're moving to new models such as DTC, you will need to reconsider data-backed service delivery, people, processes, technology and, most importantly, governance. This may involve using data to track inputs – such as raw materials and components – and sharing that information downstream.

**Renowned American polymath, Benjamin Franklin, said, "By failing to prepare, you are preparing to fail." Wise words indeed.**

**Instead, get your CPG company ready to succeed. First step? Work out where you stand and where you need support. Go through the checklist, marking each box with a tick if you've got it covered or a cross if you haven't.**

# Prepare to succeed: a checklist

- ☑ **I know what my customers want and I'm acting accordingly.**

The ability to think outside-in is key to building a customer-centric business. You're acting on what your consumers want, need and value to ensure alignment with the best consumer experiences in day-to-day life.

- ☑ **I'm operating in an agile way to achieve transformation.**

You've broken down your transformation into specific steps and are implementing through a 'test and learn approach'. You're confident this series of small changes will add up to a significant and impactful transformation.

- ☑ **I've got the resilience to respond quickly and manage risk.**

You have the required visibility, agility and responsiveness to respond quickly to rapidly changing shifts in supply and demand and can proactively manage risks along the way.

- ☑ **I'm keeping it human for maximum impact.**

You understand that AI and automation are key to supporting more seamless interactions for consumers, but you're also keeping the experience 'real' via the quality and passion of your people and sense of purpose. You have capabilities across ERP systems (e.g. SAP, Oracle, Microsoft) to help your people navigate systems implementation from configuration, testing, training and cut-over.

- ☑ **I'm leveraging new technologies to achieve our goals.**

You're using leading edge technologies to serve consumers better and connect your business more seamlessly – whether this is harnessing opportunities available through the cloud, machine learning or advances in data science. You have the support you need to ensure operational alignment to strategy, by transforming your core business functions and value chains through the modernisation of systems, technologies and processes.

## More crosses than ticks? It's time for expert external support.

KPMG can support you as a trusted partner and advisor, collaborating and co-designing your future-ready transformation agenda to ensure you tick every box above.

Together, we'll develop and implement a customer-centric approach across people, operations, systems and processes to put your company at the cutting edge of CPG supply chains. Let's get you ready to succeed.

# Contact us to get started

**Georgie Aley**
**National Sector Lead – CPG**
**KPMG Australia**
**galey@kpmg.com.au**

**KPMG.com.au**



July 2022. 889752927CORPS.