An ACTion oriented approach to consumer products growth

Over the past two years, macroeconomic conditions and shifts in consumer behavior have provided many consumer products (CP) companies with favorable growth tailwinds. Looking forward, the tailwinds are shifting as headwinds such as rising energy prices, persistent inflation, lapsing stimulus packages, and consumer pessimism arise. Such dynamics present a formidable challenge to continued growth (especially volume) momentum throughout 2022.

However, we believe a proactive approach to growth planning—one avoiding traditional pitfalls—can help CPs sustain success, more efficiently deploy commercial teams, and pursue what, in an uncertain climate, may feel like elusive targets.

Dynamic conditions may challenge growth

The economic and consumer behavior tailwinds of the past two years resulted in demonstrable benefits for CPs, but many signs point to a shifting environment.

COVID-19, stimulus packages, a strong employment market, record consumer credit levels, and significant appreciation of financial assets contributed to dramatic shifts in consumer spending.[1] Demand for consumable and durable goods spiked and then held strong relative to service spending, which was interrupted and/or curtailed by the pandemic.[2] CP companies benefited from resilient demand, and the media prepared consumers to expect an inflationary climate, clearing the path for a wave of "riskless" price increases and gainful returns.

In 2021, the results spoke for themselves. The average CP company experienced on average 8% year-over-year growth in revenue, supported by a strong uptick in consumer demand (estimated to be up 15% to 20% across categories).[3] Price increases were hardly a deterrent; consumers' overall sensitivity to price softened as much as 30%, and frugal behaviors such as couponing saw a dramatic decline.[4]

In contrast, recent months have seen the macroeconomy pointing in a different direction. Rapidly rising energy prices have dented disposable income and created spending uncertainty. Financial asset values have been volatile, demand for services is increasing, and geopolitical events are creating a degree of caution. Further broad price increases, like those that characterized 2021 and early 2022, may no longer be palatable for many consumers (and are likely to be more difficult to sell through to retail partners). Meanwhile, supply chain and commodity complications continue to pressure costs, compress margins, and confound planning efforts.[5] These trends can be observed in everyday headlines:

- Average energy prices increased 32% between March 2021 and March 2022[6]
- Energy prices are expected rise more than 50% in 2022, and the consensus from long-term (out to 2040) energy reports is that prices will stay high[7]
- Most consumers (60%–80%) are expressing price hesitations for discretionary spending[8]
- A vast 83% of consumers are concerned with inflation, and more than half aren't optimistic[9]
- Recent consumer polls show 95% plan to change their spending, and 60% will seek lower prices[10]

To learn more about shifting patterns in consumer priorities, financial well-being, spending intentions, and more, view our Global State of the Consumer Tracker.

These trends lead to obvious questions. How will CP companies continue to capture elusive growth targets? How can growth be achieved by doing more with less in order to preserve margins? These concerns will likely be a top priority for many executives—and traditional approaches may not be sufficient to achieve aggressive growth targets.

In our view, the key to success in the new environment will include an increased level of focus on granular, micro opportunities; a detailed understanding of everyday actions required to capitalize on these opportunities; and an efficient, technology-enabled sales force. Now is the time to ACT!

The challenge with traditional methods

In an increasingly challenging economic environment, we believe traditional methods of growth identification may not be sufficient for consumer products companies. This is due to three major pitfalls observed in many organizations.

Non-differentiated growth expectations: Companies often establish high-level growth but lack the organizational alignment required to achieve the stated ambition. For instance, targets may be established for a country/category and then allocated with a "blanket" approach across specific brands or submarkets (e.g., states). In other cases, these more granular targets are defined based on a limited set of data (such as simple, year-over-year increases) without thoughtful application of competitive, consumer, and macroeconomic data. As a result, localized "where to play" choices may be absent or ill-informed, limiting leadership's ability to accurately track expectations for new growth sources. Such an approach can also result in a suboptimal allocation of sales and marketing resources, which should be carefully directed to the largest, most attractive opportunities.

Lack of focused recommendations: We find organizations often lack the ability to provide focused, targeted actions to commercial teams. As a result, sales and marketing functions may find themselves chasing growth in an unorganized, uncoordinated manner—wasting effort and limiting the ability to achieve overall targets. Such an ad hoc approach may be reflective of decisions based on tribal knowledge, past successes, or the latest/greatest (seemingly compelling) piece of information from customers or distribution partners. Decisions made in this manner ignore the granular nuances needed to understand how best to activate micro growth opportunities at a consumer subsegment, ZIP code, or specific retail outlet. In absence of such detail, commercial teams may not understand how day-to-day "blocking and tackling" will result in achieving high-level corporate growth ambitions.

Reliance on sales heroes: Organizations frequently rely on pockets of uneven, siloed excellence within sales teams. As a result, growth is consistently driven from similar sources (i.e., the same sales teams, the same markets, and/or the same consumers), limiting the ability to capture a full range of opportunities or broaden the base of potential demand. This challenge is often reflective of a high degree of variability across commercial competencies, team turnover, or a lack of standardized processes and tools to facilitate growth capture. In a rising-tide environment, these deficiencies are easy to ignore, but we believe the need for more consistent performance will become increasingly important as the external environment shifts.

Assign, Connect, Train—or ACT: A better method for achieving growth

In order to overcome these challenges, we recommend CP companies follow a different approach (ACT), which we believe will help achieve sustained growth amid macroeconomic uncertainty.

1. **ASSIGN growth targets consistently throughout the organization**. This process starts with a clear, top-level ambition aligned across functions (i.e., sales, marketing, innovation). Once defined, the ambition can be disaggregated at a more granular level—across markets, brands, and consumer segments. This process should be conducted consistently and be based on internal and external data. For instance, target growth contributions for a particular market should reflect historical [internal] sales performance, category growth within the market, competitive actions, demographic changes, macroeconomic factors, etc. Such a holistic approach creates more reasonable expectations within localized commercial teams but also increases the confidence in an organization's ability to deliver targets. The outcome of the Assign step is a clearly defined set of data-driven, well-adopted "where to play" choices that aggregate to the organization's overall ambition.

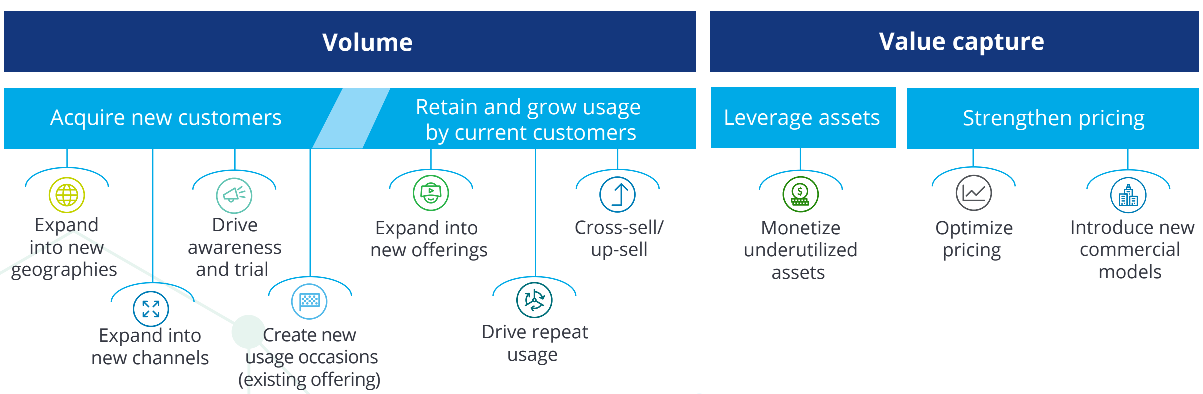
Assign in Action

A leading multinational alcohol beverage manufacturer wanted to better understand how high-level growth objectives could be distilled into concrete market-level targets. We worked with the organization to establish allocation logic, combining internal data points (e.g., category size, category growth) with external data points (e.g., localized market share, granular market size, growth) to consistently assign growth targets across markets and product segments. Creative data solutions were used to make markets (with different data standards/norms) more directly comparable. As a result,, the team balanced prioritization between historically dominant markets or categories and identification of new markets where faster growth was expected. The ACT methodology laid the groundwork for more detailed sales and marketing actions and helped identify more than $200 million in new growth opportunities.

2. **CONNECT targets to micro opportunities.** The goal of this step is to ensure commercial teams are properly guided toward the most attractive growth actions. In order to provide such detail, organizations first need access to hyper-localized data sets harmonized to create a clear picture of potential growth. Such data not only should include internal and granular syndicated data (often at the outlet level) but also should incorporate other external data sets that allow companies to understand factors such as competitive patterns, shopping behaviors, and consumer characteristics at a ZIP code level. Once a complete data source is established, analytical models and algorithms can scan the data and identify or prioritize the highest value opportunities. The evaluation should be conducted across a full spectrum of potential growth levers. By incorporating all levers, organizations are best able to match actions with market nuances (while understanding specific actions will vary by market). The outcome of the Connect step is a repeatable process for harmonizing disparate data sources, defining dynamic algorithms for opportunity identification, and prioritizing actions for commercial teams.

Connect in Action

As organizations seek to understand the next best action for commercial teams, we recommend a holistic approach to growth. Deloitte's Precision Growth framework presents a comprehensive view of drivers and growth levers across both volume and value opportunities. Each growth lever is supported by a data-driven algorithm, which allows organizations to scan granular data sources to understand the priority of the lever for a given ZIP code, consumer cohort, or retail outlet. For instance, awareness may be important in a market where an organization's brands are underperforming relative to growth of the category, the target demographic, and brand growth experienced in similar markets. By automating this algorithm, and sizing opportunities, we are able to help commercial teams understand the highest and best use of scarce resources (with the importance of specific drivers varying across each micro market). We put this prioritization process in practice at a multibillion-dollar food and beverage company, working with commercial leadership to increase sales efficiency and "do more with less." As a result of a standardized approach to opportunity prioritization (i.e., focus on the highest and best use of time), the team was able to shift sales coverage ratios from 20:1 to 80:1. Savings from this effort were reinvested into additional headcount (and technology resources) to expand overall coverage of additional geographies and outlets, expanding the scope for potential growth.



3. **TRAIN commercial teams to think and act differently.** Once the Connect step is complete, a clear action plan should emerge for each local market. However, teams may not be immediately familiar with how best to activate these plans, which often requires new methods, insights, and tools. As a first step, the commercial organization must be trained on the insights and opportunity identification process to build confidence in the required activities. This confidence can be further enhanced by the use of pilot markets or teams, which can help prove concepts and democratize successes more broadly. Over time, commercial teams should be equipped with automated technology to facilitate execution. The best instances of this technology automatically provide prioritized recommendations on a regular basis and allow for a feedback loop to track and measure outcomes (with learnings incorporated into the 'Connect' algorithms mentioned previously). The goal is to standardize sales team performance through data-driven (always-on) recommendations, which focus efforts and limit variability in execution. This not only lessens reliance on sales heroes but also facilitates the adoption of a new approach to growth capture.

Train in Action

A multibillion-dollar domestic consumer goods company was seeking to embed a "next best action" mentality across its sales teams. We worked with the commercial teams to create an outlet-level data lake, on which we developed algorithmic models to generate tactical growth opportunities (for both the manufacturer and retail partners). Once developed and valued, these opportunities were delivered to sales teams via handheld devices, including an intuitive user interface and automatically generated natural language scripts. Though the teams started with a 90-day pilot, the solution was eventually scaled to more than 400 users. Training on data sources, new methods of execution, and a detailed understanding of growth levers resulted in a greater degree of consistency across the sales teams. This consistency was further enhanced by an always-on tracking and tracing program that updated the value and priority of opportunities as conditions on the ground changed. As a result, the company experienced a 2.5% increase in growth relative to the expected baseline.

Capabilities required to ACT

In order to fully execute the ACT process outlined above, CP companies need a set of enabling capabilities, including:

1. ***Comprehensive data sources:*** Understanding how to allocate growth (Assign) and develop opportunities (Connect) requires a holistic view of the growth landscape. This involves the acquisition and use of various data sources, beyond internal and traditional syndicated information. Companies should seek data allowing for continuous monitoring of competitive trends, shopping behavior, customer characteristics, and retail outlet performance at a ZIP code level.
2. ***Centralized source of truth:*** Once the data (or a strong subset of the data) outlined above is procured, companies will need to ensure information is integrated and harmonized into a single source of truth. This will allow for ACT to become a repeatable process, subject to verification, enhancements, and scaling across all commercial teams.
3. ***Opportunity algorithms:*** Consumer product companies also need to develop automated algorithms to allow data scanning to identify opportunities and anomalies. We often provide a library of such algorithms as a starting point for this capability, but these should be transparent and adjustable based on the unique needs of each organization. Business rules should be simple enough to be easily understood, yet sophisticated enough to capture the nuances associated with granular data.
4. ***Detailed (technology-enabled) action plans:*** Ultimately, data and algorithms have little value unless translated into everyday actions for commercial teams. Execution-based action plans should be comprehensive (i.e., scan the full opportunity set) but focus on the highest priority initiatives. They should also be refreshed on a regular basis as markets evolve and initial growth potential is captured. Often, action plans start offline in order to prove the concept, but leading organizations are able to automate and electronically deliver these outputs via handheld devices or other technology solutions.
5. ***Feedback loop:*** The final enabling capability is the use of feedback to test, learn, and improve. Feedback should capture the success and failures of opportunity execution and be used to inform adjustments to the growth algorithms. Such a process will provide leadership with greater insight into day-to-day progress against growth ambitions and enable real-time target adjustments. Closing the loop on ACT will enhance accountability and limit perceptions of being beholden to a static set of recommendations.

Getting started

While our approach may reflect a potentially daunting shift, capabilities can be built over time and, eventually, standardized across the business. This often starts with defining a series of pilot markets, where granular data can be more easily collected, harmonized, and analyzed. Initial recommendations are often shared offline in order to present near-term opportunities. These can be launched and evaluated quickly (we estimate a typical pilot can be fully executed in three to four months).

Successful proofs of concept help build the case for a more fully integrated and automated approach and help identify gaps in data (and data-enrichment solutions) while creating change champions across commercial teams. CP companies do not necessarily need to solve for a complete set of capabilities before shifting to a new approach and starting to ACT.

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