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Tech Trends 2017: A consumer products perspective

We live in an age of disruption. Small, nimble organizations are challenging major consumer products players across their brand portfolios, and industry behemoths are struggling to keep pace[1]. Consumer products companies can no longer continue with the status quo; they must evolve and adapt. Organizations who embrace change and innovate are reaping the benefits, those who don't are losing their foothold with 90% of the top 100 consumer brands losing market share[2].

How do the other 10% maintain the strength of their market position? By adapting to embrace disruption and stave off would be competitors through their own evolution. Deloitte center for the edge has identified five catalysts that drive disruption: the economy, enabling technology, platforms, consumer mindsets and public policy[3]. When viewed independently, these five catalysts are not new areas of focus for consumer products. *In fact, all five were referenced in our industry assessment in Tech Trends 2016: a consumer products perspective—Innovation in the digital era*[4]. What has evolved, however, is our perspective on the ways to help future-proof the organization by preparing for and even embracing disruption. One way to do this is to embrace the Kinetic Enterprise.

Kinetic (adj.) of or relating to the motion of material bodies and the forces and energy associated therewith. Active. Lively. Dynamic, energizing[5].

The Kinetic Enterprise

The first known use of the word 'kinetic' was in 1864: when horse and buggy was the dominant mode of transportation, and branding was nascent, at best, during the 'production' era where mass production was rapidly expanding the availability of products and options in the marketplace[6]. This was a time where cultural and technological change brought new challenges and opportunities, creating new products and markets. Given the current state of technological, consumer and cultural change, it is fitting that this word has reemerged to describe the next evolution of business.

The **kinetic Enterprise** describes companies that are developing the dexterity and vision required not only to overcome operational inertia, but to thrive in a business environment that is, and will remain, in flux[7]. These organizations are not only embracing the multitude of technological and operational changes, but rewriting their very DNA to become more agile, flexible and adaptive.

The Kinetic Consumer Products Organization

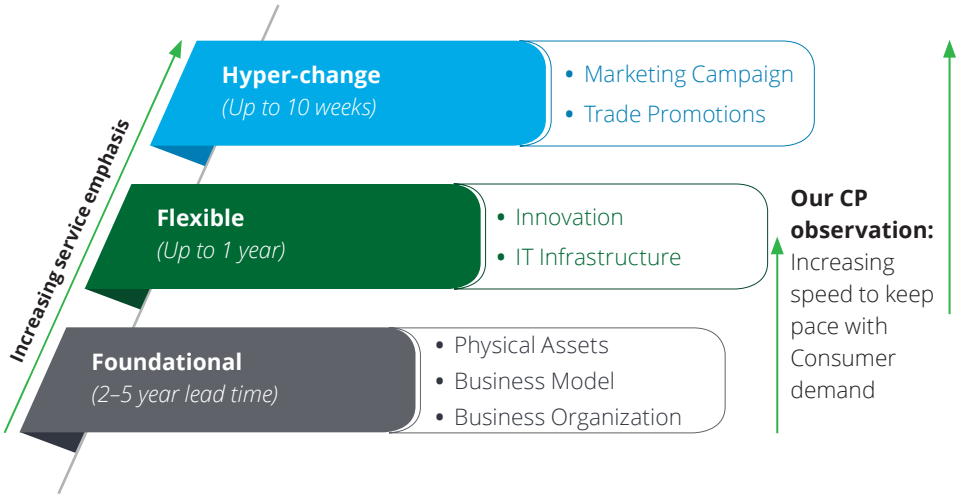
For Consumer Products companies, the definition of the kinetic Enterprise is very much aligned with the speed of Consumer Demand. When opportunities are so dynamic—often with a lifespan as fleeting as a social media trend—CP companies cannot afford to take months to respond. As a result, we are witnessing an active transition from foundational (2–5 years lead time) to flexible capabilities (up to 1 year lead time) and flexible to hype-change capabilities (up to 10 weeks lead time).

To respond to this pace, we view the Kinetic CP Enterprise as a virtual ecosystem of services that extend beyond the walls of the organization. This paradigm shift reimagines the organization not as functional silos and a collection of distinct technology solutions, but rather refocuses on developing the net new capabilities required to be able to orchestrate a collection of services to deliver these functions.

The Kinetic Enterprise perspective allows an organization to access skillsets and technologies and harness brainpower that the organization may not have internally or choose not to maintain as a core competency. The capabilities required to succeed in this environment are flexible, dynamic...and evolving.

Enabling the Kinetic Enterprise

To enable the kinetic enterprise, consumer products companies will need to build new muscles (while continuing to feed their core), and re-wire the 'nerves' that orchestrate movement in those muscles.

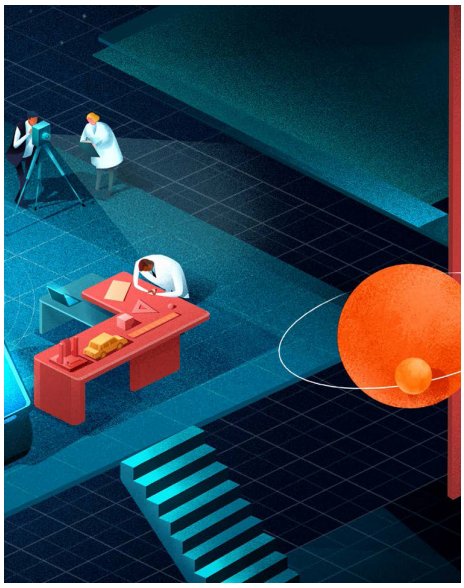


- **Build Core Emerging Capabilities**
  - Consumer products companies should develop the ability to orchestrate an ecosystem of players; not just existing external partners and advisors, but new technologies and providers, on-demand talent pools and resources and flexible, shared supply chain networks. These organizations should embrace data agility and analytics that will evolve, adjust and learn. And the kinetic consumer products enterprise should persistently pursue innovation and evolution in the pervasive atmosphere of zero based budgeting.

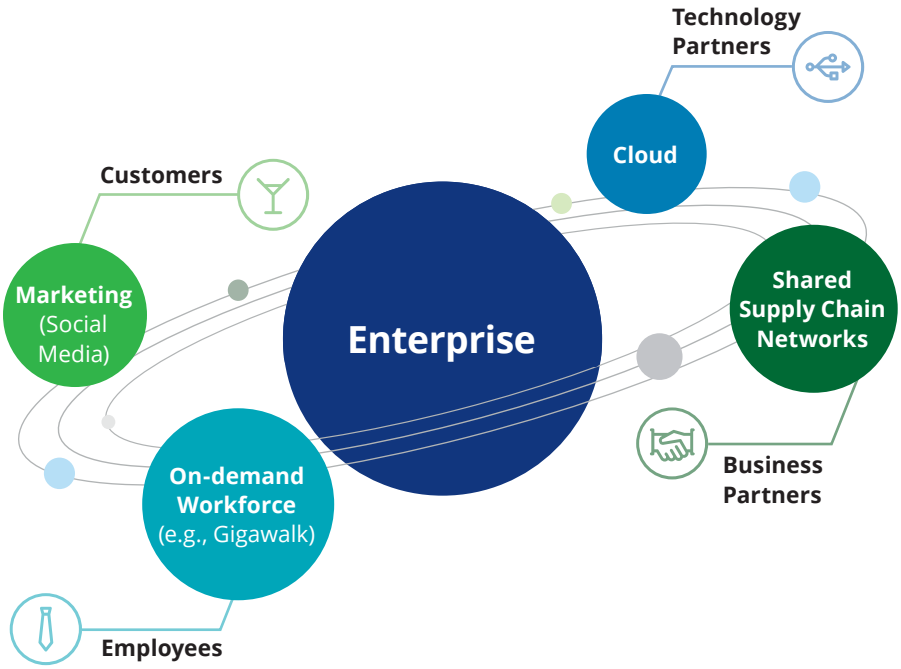
- **Establish an Ecosystem-driven Infrastructure**
  - In order to nurture and sustain the new ecosystem, the organization should build infrastructure aligned to the new service paradigm. As technology rapidly evolves, the organization should establish clear processes and criteria to support build vs. buy decisions. Delayed adoption and inability to move at the speed of the market at the hand of outdated, burdensome evaluation requirements may cost the organization dearly.

  - Operationalizing the ecosystem should balance speed and sustainability. Speed to market alone will not ferry the organization into the future; successful ecosystem orchestration must ensure compatibility of players and stability of core technology infrastructure

  - Metrics and incentives will need to be realigned to reflect the ecosystem approach. In the last fifty years corporations were defined by roles, processes and tenure. But now, in the kinetic enterprise, it's not physical assets and owned resources that matter, but rather the ecosystem as a whole. Tenure no longer reigns supreme, but rather merit and (near-term) impact. It is the realization of meritocracy.



The Kinetic Consumer Products Enterprise



To help make sense of it all and to help you build a roadmap to the Kinetic Enterprise, we present Deloitte's Tech Trends for Consumer Products, an annual in-depth exploration of six trends that are likely to challenge consumer products companies in the next 18–24 months.

From Dark Analytics to a framework for building innovation capabilities to tackle the Exponential Watchlist, these articles embody the spirit of the kinetic enterprise, represent key capabilities required for the consumer products industry to embrace and adapt in an environment of disruption.

The only constant is change—and never has that adage rung more true for consumer products than it does now. *When the rules of the game are changing, you can't afford to sit idly on the bench.*

Darwin Deano
Principal
Deloitte Consulting LLP
ddeano@deloitte.com
Twitter: @darwindeano

Matt Law
Principal
Deloitte Consulting LLP
mlaw@deloitte.com
Twitter: @MattLawManFai

Bonny Smith
Senior Manager
Deloitte Consulting LLP
bosmith@deloitte.com
Twitter: @BonnyLSmith

Paul McGovern
Principal
US Consumer Products Technology Leader
Deloitte Consulting LLP
pmcgovern@deloitte.com
Twitter: @DCPaulMcGov

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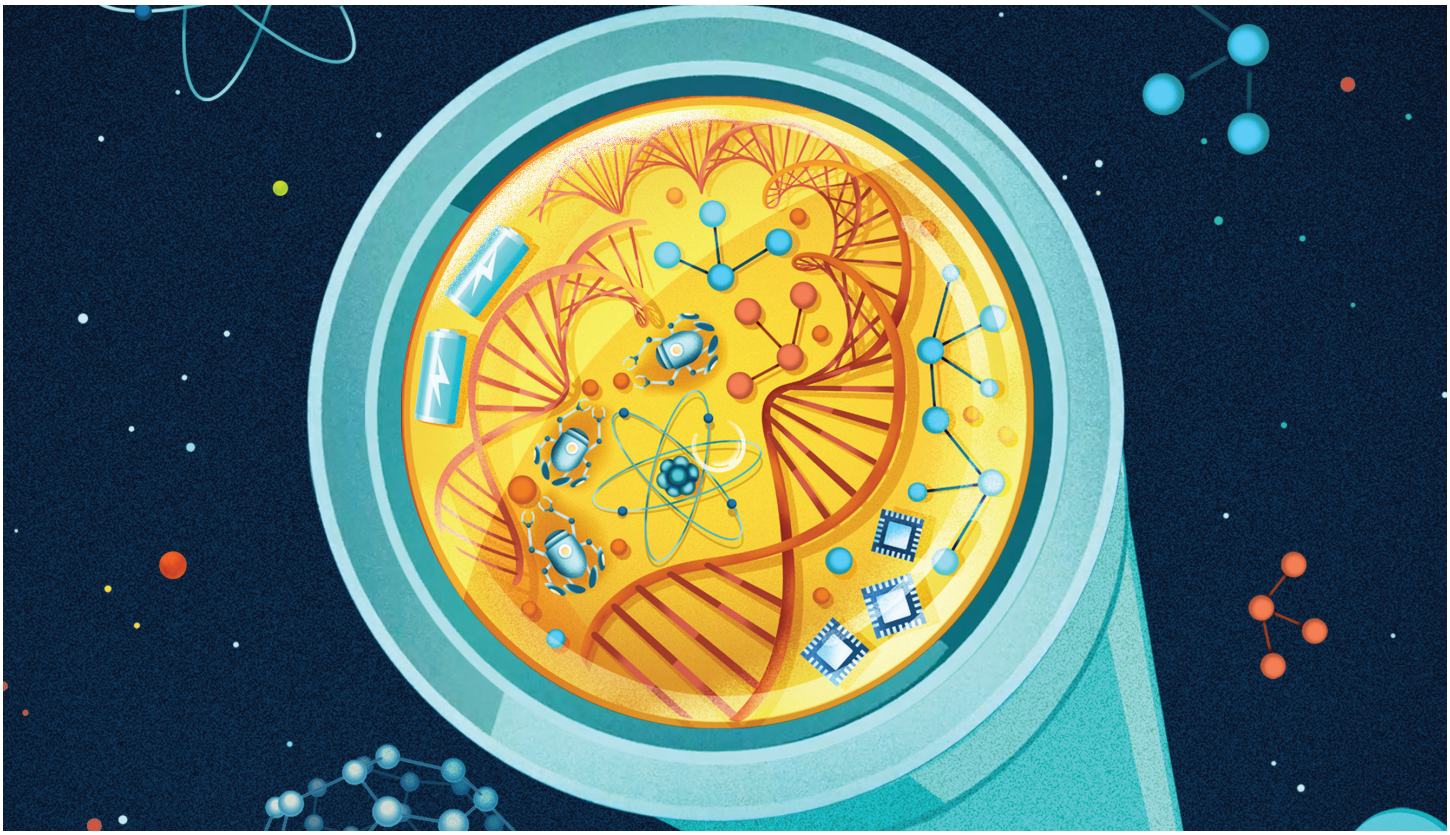
Tech Trends 2017: A consumer products perspective

Deloitte Consulting LLP Thought Leaders

	Introduction—The Kinetic Enterprise	Dark Analytics	Machine Intelligence	Mixed Reality	Everything-as-a-service	Blockchain	Exponentials watch list
Darwin Deano Principal Technology	X				X		
Tom Schoenwaelder Principal Monitor Deloitte							X
Bonny Smith Senior Manager Deloitte Digital	X					X	
Remzi Ural Senior Manager Data Science		X	X				
Sujit Acharya Manager Data Science		X	X				
Jason Aardsma Manager Strategy & Operations						X	
John Ugaste Manager Deloitte Digital				X			
Jenny Yi Senior Consultant Strategy & Operations							X
Kyle Hebenstreit Senior Consultant Strategy & Operations					X		
Caroline Ling Business Technology Analyst Deloitte Digital				X			



Exponential Watch List: Embracing Innovation in Consumer Products

How funding, metrics and incentives can nurture systematic innovation capabilities

For almost five years now, Deloitte and Singularity University have been claiming that disruption is around the corner, and we've spoken widely about the disruptive potential of exponential technologies. A lot has changed over those five years in the consumer products industry. Disruptive new entrants such as Dollar Shave Club, Warby Parker, and Three Squirrel Nuts have made a splash (especially in areas of social impact, business model, and crowd-sourcing innovation). Some startups have come and gone. During the same time period, not nearly as much change has occurred among large consumer products companies as might be expected.

A recent Deloitte study[8] of 44 leading consumer products firms found that those that are able to effectively build systematic innovation capabilities have been more successful embracing exponential change. The capabilities that successful innovators have adopted at a rate that outpaces their peers include funding, metrics, and incentives[9]. These three levers have been grossly underappreciated by other consumer products leaders, with only 32 percent, 43 percent, and 45 percent (respectively) of firms studied demonstrating these capabilities. This presents a clear path for large consumer products companies to better position themselves to embrace exponential technologies.

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Dedicating funding to fuel growth

Innovation demands dedicated funding, separate from core operational budgets. Without it, innovation initiatives run the risk of having funds reapportioned back to core businesses when times get tough. This funding can come in many forms. Some CP firms have seen success in creating innovation centers of excellence, which allow for cross-functional sharing of ideas. Others look to partnering with Silicon Valley through collaborative arrangements, corporate accelerators, corporate venture capital arms, or acquisitions[10]. These methods allow the CP firm to tap into an established innovation ecosystem to overcome cultural and structural barriers to innovation growth. While there isn't a one size fits all approach, organizations who are creating independent innovation groups are overcoming traditional funding barriers to drive innovation in product designs. Unencumbered by timeline or budget, these innovation groups are taking ideas from science fiction like concepts to real life products in the market.

Incentivizing desired behaviors

The right incentives are required to effectively motivate the desired behaviors for embracing exponential technologies. Experimentation and willingness to fail are examples of such desired behaviors. To encourage greater risk taking, many companies go so far as rewarding failure. For example, Indian conglomerate Tata gives out an annual "Dare to Try" award to recognize audacious but failed attempts to create breakthrough innovations[11]. At the social media consultancy NixonMcInnes, the entire company gets together once a month at the "Church of Fail" where they recognize and praise bold failures[12]. Both of these examples show that motivating desired behaviors involves designing the right incentives and that often these incentives are not monetary, but rather embrace a culture of experimentation.

Paying individuals to innovate may actually prove to be counterproductive according to several studies on rewards and motivation. That is because innovation is intrinsically motivated[13]. As an alternative to monetary rewards, some of the most successful incentives are designed to accommodate people's desires for autonomy, mastery, and purpose. Warby Parker, for example, schedules Demo Days where each department can show off the coolest stuff they're working on[14]. Often, just giving employees a platform for showcasing their work can be enough to motivate innovation.

Setting innovation metrics to drive better outcomes

In the consumer products industry, strong metrics to evaluate innovation initiatives are largely lacking. This lack of visibility can make it difficult to motivate favorable innovation outcomes. As the adage goes, "What's measured gets managed." Heineken recognizes the importance of such metrics and actually tracks innovation as a part of its annual report: "We have an ambitious 6 percent innovation rate for the coming years—meaning that 6 percent of our sales will come from new innovations."[15]

While having some metrics is better than none consumer products organizations would likely benefit from tracking a complete set of indicators that correspond to the behaviors and outcomes they want to evaluate.

While having some metrics is better than none, consumer products organizations would likely benefit from tracking a complete set of indicators that correspond to the behaviors and outcomes they want to evaluate. For Unilever, innovation is synonymous with driving responsible and sustainable business growth. To infuse stainability into the very DNA of the company, the company's leadership has developed the Unilever Sustainable Living Plan, which sets clearly defined, measurable targets on everything from how the company sources raw materials to how it gives back to local communities[16]. Progress against these targets is regularly measured and reported, creating a sense of accountability and ultimately driving favorable financial outcomes. This set of Sustainable Living metrics reinforces Unilever's core culture that business decisions should reflect both financial and corporate responsibility returns, as well as investments across the social, economic, and environmental value chain. This story demonstrates how metrics help to correlate behaviors to outcomes, so that companies can understand and improve innovation capabilities over time.

Bottom line

If nothing else, the lack of mass adoption of exponential technologies by large consumer products companies underscores what we have long believed: Innovation is hard work. It takes a highly disciplined approach and effort to embrace innovation and reap the rewards. What gives us grounds for optimism is that we see Evidence of some companies achieving innovation and harnessing the power of exponentials gives us grounds for optimism. Those companies exhibit several common characteristics: systematic use of distinct funding mechanisms, incentives, and metrics. Organizations who share these characteristics are more likely to foster successful innovation. Those companies—and their delighted customers—can be considered winners no matter what "next big thing" hits the consumer products industry.

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Contact us

Tom Schoenwaelder
Principal
Deloitte Consulting LLP
tschoenwaelder@deloitte.com

Jenny Yi
Senior Consultant
Deloitte Consulting LLP
jennyi@deloitte.com

Contributors: Aparna Galiasso, Adrian Kerester, Isha Jindal

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