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. 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.

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. 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. 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.

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. 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.

As used in this document, “Deloitte” means Deloitte Consulting LLP, a subsidiary of Deloitte LLP. Please see www.deloitte.com/us/about for a detailed description of our legal structure. Certain services may not be available to attest clients under the rules and regulations of public accounting.
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. 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 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.

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.

References
5. Merriam Webster. Merriam-webster.com
# Tech Trends 2017: A consumer products perspective

**Deloitte Consulting LLP Thought Leaders**

<table>
<thead>
<tr>
<th>Introduction —The Kinetic Enterprise</th>
<th>Dark Analytics</th>
<th>Machine Intelligence</th>
<th>Mixed Reality</th>
<th>Everything-as-a-service</th>
<th>Blockchain</th>
<th>Exponentials watch list</th>
</tr>
</thead>
<tbody>
<tr>
<td>Darwin Deano</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Principal Technology</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tom Schoenwaelder</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Principal Monitor Deloitte</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bonny Smith</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Senior Manager Deloitte Digital</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Remzi Ural</td>
<td></td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Senior Manager Data Science</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sujit Acharya</td>
<td></td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manager Data Science</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jason Aardsma</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Manager Strategy &amp; Operations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>John Ugaste</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Manager Deloitte Digital</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jenny Yi</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Senior Consultant Strategy &amp; Operations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kyle Hebenstreit</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Senior Consultant Strategy &amp; Operations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Caroline Ling</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Business Technology Analyst Deloitte Digital</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Reimagining the Consumer Products Organization as an ecosystem of services

A new business imperative is helping shape strategic and operational decision making: The shared economy is taking hold at the enterprise level. Just as ride-sharing companies leveraged technological advancements, shifts in consumer behavior, and a flexible, on-demand workforce to create new opportunities in transportation-as-a-service, many corporations are reimagining the very nature of their offerings—to customers, suppliers, internal constituents, and competitors—as services.

Less than two years ago, Robert Tercek coined the phrase “dematerialization” to describe shifting consumer preference for physical products—consumer electronics and fixed media (cassette tapes), for example—to software-enabled services like streaming audio⁶. Today, dematerialization is happening in multiple industries simultaneously—finance and payment systems, automobile ownership and transportation, labor and manufacturing, health care and medicine—and moving up the value chain to transform the corporate environment³. Now commonly referred to as everything-as-a-service (XaaS), this concept is poised to drive the evolution of business models across industries, including consumer products—rapidly.

Amazon is a highly visible example of this paradigm shift. Amazon has begun commercializing internal capabilities as services. Amazon Web Services (AWS) provides secure server space to companies like Netflix, AirBnB, and BMW. Amazon has similarly packaged internal operations such as customer service, financial services, fulfillment, and warehouse systems for external customers. The company is reportedly even laying the groundwork for its own shipping business.
XaaS for consumer products

A common misconception of XaaS is that it applies only to technology companies and services. In reality, XaaS is a mindset. While a robust technical architecture is required for enabling this transformation, XaaS relies on a vision of business capabilities, products, and processes not as discreet vertical offerings but as a collection of horizontal services that can be accessed and leveraged across organizational boundaries.

While there are many successful examples of XaaS across business processes, the XaaS benefits cases are showing highest growth and adoption when derived from maturing concepts like the contingent workforce, factory-as-a-service (FaaS), and analytics-as-a-service (AaaS). By helping organizations productize personnel, infrastructure, and analytics capabilities, XaaS expands the breadth of operating model designs that can lead to strategic and financial upside.

Strategically, this wider view of XaaS gives organizations increased agility and adaptability: By expanding capabilities beyond the core, companies can reduce reliance on key products, markets, and geographies, consequentially reducing pressure from legacy challenges and competitors. The XaaS framework can help organizations evaluate these opportunities and quickly strengthen the company’s overall position, regardless of the area of transformation.

XaaS can provide topline opportunities for most companies, which also improves metrics such as revenue-per-employee if the firm chooses to execute a contingent workforce model, for example. While the revenue opportunities may readily present themselves, many organizations are likely to struggle with cost management in transitioning to XaaS. Allocation of capital expenditures versus operating expenses can confound managers; without careful oversight, XaaS might be immediately—and mistakenly—classified as all operating expense. Cross-functional collaboration mitigates this challenge: IT should work with audit and finance to determine which portion can be allocated as capital expenditure.

The rise of Zero-Based Budgeting (ZBB) in consumer products companies can also help with financial and reporting challenges, since ZBB allocates funding based on program efficiency and necessity rather than on budget history. XaaS efforts are largely new business opportunities so an approach like ZBB can help control the bottom line while organizations extend existing operations to these new and diverse opportunities.

The consumer products XaaS framework

The XaaS journey can be fraught with challenges; to that end, we propose a framework for identifying and commercializing XaaS opportunities for consumer products organizations. Every organization operates in a unique ecosystem of technologies, capabilities, and resources that can be segmented as strategic, core, or foundational. Viewing XaaS through this framework can help leaders decide where to play and where not to play.

**Strategy**

- **Strategy starts on the edges:** Identify noncore, commoditized functions that offer high levels of efficiency as the first-in-line for XaaS transformation. Operational capabilities that are easily standardized for business process outsourcing (BPO), robotic process automation (RPA), or offshore outsourcing provide likelihood of success for transformation.

**Core**

- **Protect your core:** Identifying nonessential process as “pilot” programs allows the company to function without disruption and lends learning opportunities for future, high-value XaaS transformation closer to the core. It is important to be mindful of the viability of a service that will not diminish the company’s core competitive advantages.

**Foundation**

- **Shore up your Foundation:** After you’ve identified areas of operationalization, organize your foundation to provide support where appropriate and ensure there’s no compromising of key capabilities. Transforming internal services introduces an element of risk to a company’s competitive position, and it’s critical to mitigate potential operational risks by securing a reliable foundation.
The XaaS playbook
Execution: The devil is in the details—and the communications

As popularly quoted, Jamie Dimon, CEO of JPMorgan Chase, has stated, “I’d rather have a first-rate execution and second-rate strategy any time than a brilliant idea and mediocre management.” Without a first-rate execution, an XaaS strategy is likely to do more harm than good. Effectively executing an XaaS offering will require laser focus on two necessities: an effective communications plan and an agile-driven roadmap.

In upfront and ongoing communications, define the “what” before the “how,” so your organization can focus and align on the optimal future state first. With alignment on what constitutes a robust and successful future, work back through an implementation plan built on an agile-driven approach. The market is moving fast and revitalization of key functions in your organization is a significant undertaking. One pathway to success without fundamental negative impact to the core is to move fast and iterate. Embracing this pace and process will help you drive more smoothly toward the “what” your culture has aligned behind.

Culture matters
Embracing XaaS may require significant cultural change for your organization—and cultural acceptance is absolutely critical. Evaluate your existing culture for aptitude and appetite for change: You should measure and fully understand the adaptability of your workforce. Start with conversations among peers to establish a shared vision, followed by formal communications, knowledge-sharing programs, and XaaS learning opportunities. As a critical mass of advocates builds, offer more education and training to drive awareness and understanding of the positive impact XaaS could have for your business, financially and culturally.

XaaS is already showing clear emerging signs of the potential to provide tremendous upside to consumer products companies. Whether achieving cost savings through operational efficiencies or topline growth through building net-new revenue opportunities, leaders must identify the potential positive and negative impact on their businesses. How these impacts will be realized depends on the approach to evaluating and executing opportunity areas. The consumer products XaaS framework and the XaaS playbook provide guidance on how to think about this broad and evolving trend so leaders can properly approach XaaS and leverage it to their organization’s advantage.

References
Contact us

Darwin Deano  
Principal  
Deloitte Consulting LLP  
ddeano@deloitte.com

Kyle Hebenstreit  
Senior Consultant  
Deloitte Consulting LLP  
khebenstreit@deloitte.com

Special Thanks: Rebecca Alexander

Follow  
@DeloitteCB  
@DeloitteOnTech

Explore Deloitte’s other trends reports  
Tech Trends 2017: The kinetic enterprise  

View the complete Tech Trends 2017—  
A consumer products perspective:  
www.deloitte.com/us/2017consumerproductstechtrends

Deloitte.

This publication contains general information only and Deloitte is not, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor. Deloitte shall not be responsible for any loss sustained by any person who relies on this publication.

Copyright © 2017 Deloitte Development LLC. All rights reserved.