

An illustration of a woman in a blue coat holding a baby and a clipboard, standing in the doorway of a red brick house. A shopping cart filled with groceries is in the foreground, and a delivery truck is partially visible on the right. The scene is set at night with two yellow lanterns on the wall.

# Digital commerce in the supermarket aisle: Strategies for CPG brands



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# Digital commerce in the supermarket aisle: Strategies for CPG brands



## An underrated opportunity

In an era when you can buy practically everything online, why do many people still get most of their food, household consumables, and personal care items from a physical store, often a supermarket? Is it because they love to stroll the aisles? Don't want to pass up the free samples? Or is it more because consumer packaged goods (CPG) companies and retailers have yet to create a compelling online or mobile shopping experience for the majority of consumers? New research suggests that there may be more truth in that last possibility than many CPG executives realize. Those who continue to underrate the e-commerce channel's growth potential may be missing a substantial market opportunity, as consumer willingness

to embrace digital commerce is being further amplified by the rapid pace of technological change. Because growth and differentiation remain difficult for the mature CPG industry in developed markets, being an early digital commerce adopter may be one of the few ways to secure a competitive advantage.

## Packages at the doorstep

*Sophia opened the front door to her home to pick up several packages that had just been delivered. The first box had a dress and a sweater she had purchased online from a favorite fashion retailer. Sophia had been shopping at that retailer for over a decade—at first fondly flipping through paper catalogs, and now searching through the catalog on her tablet. While*



*she enjoyed shopping for clothes at the mall occasionally, she appreciated the convenience of purchasing online and receiving the clothes at her doorstep. The second box was a large box of diapers for her daughter, Emily. The only experience that was worse than lugging a large box of diapers to her car with Emily in her arms was running out of diapers. And, truthfully, Sophia just didn't enjoy shopping for necessities like diapers and basic groceries. The third box had hard-to-find vitamins, a multi-pack of nutrition bars in a new favorite flavor that she had recently sampled, and a bottle of shampoo in a scent that had been discontinued at the mass merchandiser located a few miles away.*

*Just a few years ago, there would have been only one box, with a dress in it, at Sophia's door. The proliferation of boxes began with the birth of Emily and the recurring deliveries of diapers. Sophia added more and more items for a range of reasons. With diapers, it was the convenience*

*of delivery that spurred her initial purchase. For the vitamins, Sophia did not want to drive across town to a nutrition store that might or might not have them in stock on the shelf. For the nutrition bars, it was the price discount that she received for purchasing in bulk. And for the shampoo, it was the frustration of a long-time preferred fragrance no longer being offered at the local store.*

Sophia's experience is representative of many others'. Most shoppers have purchased apparel, footwear, and books online, and many have purchased consumer electronics and toys online. When it comes to traditional CPG products in food, beverage, personal care, and household consumable goods, the percentage of consumers who purchase online is lower, but it is expected to grow quickly, according to our recent survey of 2,040 online shoppers. More than a decade after online shopping

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## ABOUT THE STUDY

The research described in this article encompassed two web-based surveys conducted in September 2013. One survey polled 43 US CPG industry executives and senior managers; the other, 2,040 adult US consumers. The research also included six CPG and retail executive interviews conducted in August and September 2013, and 14 case studies developed from secondary sources.

Sixty percent of the executive survey respondents worked at food companies, while the remaining executive respondents worked at beverage, household goods, or personal care companies. All executive respondents had at least some digital commerce experience; 65 percent spent at least 20 percent of their time on activities related to digital commerce (for example, e-commerce, digital marketing, mobile, and/or social media). A majority of the executive respondents (51 percent) were from large companies that recorded annual sales of more than \$10 billion a year. Respondent roles and titles reflected a broad range of expertise in marketing/branding, sales, IT, and digital-related areas.

The consumer respondents, aged between 21 and 70 years, were screened to target consumers who were the primary shopper and food preparer in their household and had purchased a product online in the past six months. The majority of the consumer respondents (66 percent) were female. Forty-two percent reported an annual household income of less than \$50,000, 36 percent earned between \$50,000 and \$99,999 annually, and 21 percent earned \$100,000 or more annually.

The CPG and retail executives interviewed all had experience with digital commerce activities such as e-commerce, digital marketing, and social media. The interviews covered four topics: executives' expectations for future CPG sales through digital commerce and their views on what could be driving e-commerce adoption; the challenges and opportunities for CPG companies in the e-commerce channel; the digital strategies CPG companies could adopt to better serve consumers in-store and online; and perceived consumer attitudes and behaviors related to online purchasing of food, beverages, household consumables, and personal care products. We included retail executives in our interviews because they have digital commerce experience across product categories and have also partnered with multiple CPG companies to grow e-commerce sales.

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became mainstream, e-commerce for CPG products is finally arriving on our doorstep.

## Disconnects at different levels

CPG executives aren't blind to the growing importance of e-commerce in their customers' shopping habits. Indeed, 92 percent of CPG executives in our study agreed with the statement, "The e-commerce channel is a strategic sales channel for CPG companies."

Yet there is a disconnect between these executives' expressed opinion and their companies' readiness to execute. Only 43 percent of CPG executives in our study thought that their company had a clear, well-understood digital commerce strategy. In other words, the perceived importance of e-commerce to CPG companies has not, in most cases, translated into a fully developed strategy and plan to capitalize on the e-commerce channel. Furthermore, fewer than one in seven CPG executives self-assessed their company's digital commerce capabilities as "advanced" across 15 digital commerce areas, including e-commerce vision, processes, talent, and having a single view of the consumer. One retail executive in

our study reinforced this point: "CPG executives tend to have very little consumer experience from a retail perspective. They may not fully understand what is going on, since e-commerce for CPG products represents very small [market] share."

The disparity between CPG executives' and consumers' views of future e-commerce activity is even more striking. Consumers' expressed intent to purchase CPG products online far outpaced executives' expectations for both time periods (figure 1). Executives expected 35 percent growth in one year and 76 percent growth in three years; consumers who were already purchasing products online, on the other hand, expected to buy 67 percent more in a year's time and 158 percent more in three years. This difference suggests that CPG executives, while appreciating e-commerce's growth potential for the products they sell, may be underestimating the size of the opportunity.

What about the potential for e-commerce to drive incremental revenue, as opposed to revenue cannibalized from other channels? Here, too, CPG executives' views differed from consumers' in ways that suggest that

**Figure 1. Expected growth in sales of food, beverage, household consumables, and personal care in e-commerce channels**



**Survey question:** What percentage of your/consumers' food, beverage, personal care, and household consumable purchases/sales are/would be made online today? In one year? In three years?



**Figure 2. CPG executives seem to be underestimating the potential of the online channel to drive completely new/incremental sales**

	 Consumers	 Executives
Completely new/incremental sales	10%	2%
Primarily new/incremental sales	20%	24%
A balance between incremental sales and a shift from other channels	55%	45%
Primarily a shift from other channels like grocery and mass merchandisers	11%	26%
Completely a shift from other channels like grocery and mass merchandisers	4%	2%

**Survey question:** Thinking about this time last year, how would you characterize the shift in your online purchases/the source of revenue growth in e-commerce CPG channel sales?

Graphic: Deloitte University Press | DUPress.com

e-commerce may become a more significant channel than many executives believe (figure 2). CPG executives felt that only 2 percent of the past year's growth in e-commerce revenue came from completely new sales representing incremental revenue. In contrast, consumers stated that 10 percent of their online food, household consumable, and personal care purchases over the past year had been completely new—that is, purchases that they would not have made at all had the online purchasing option not been available. That said, nearly one out of four CPG executives surveyed do believe that sales via e-commerce represented *primarily*, though not completely, incremental sales.

## Why e-commerce for CPG now?

Are CPG executives underestimating the e-commerce opportunity? And if so, where are the sources of this opportunity? Highlights from our study indicate that consumers may indeed be ahead of CPG executives' expectations in their attitudes and behaviors around e-commerce.

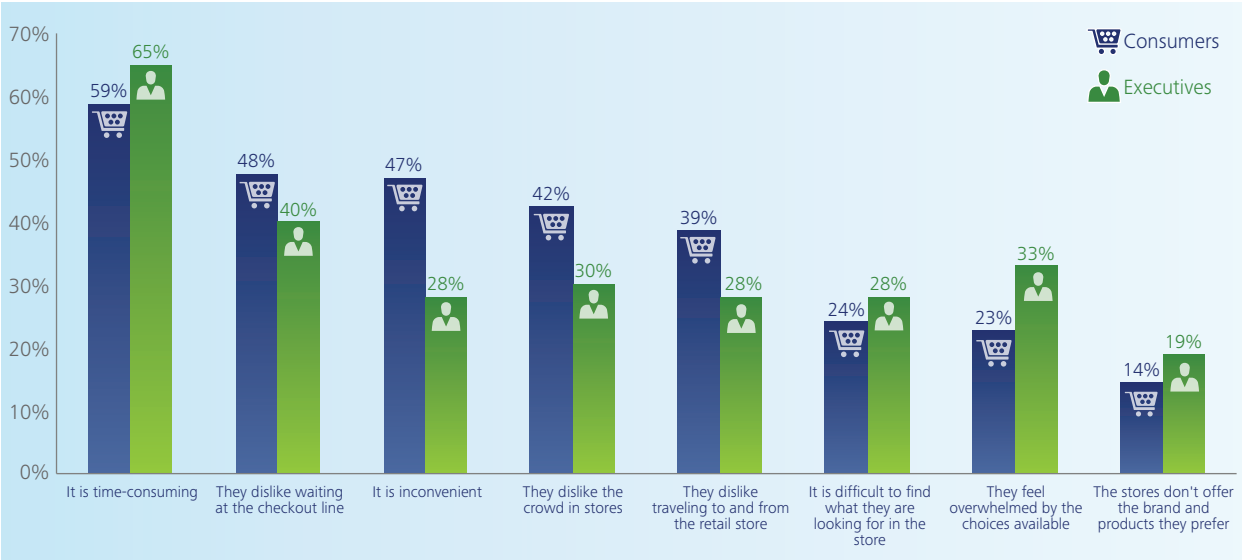
**A large population of “indifferent” shoppers represents untapped market potential for e-commerce.** A sizable segment of consumers neither like nor dislike shopping at

supermarkets for CPG products—they are “indifferent.” On average, 41 percent of the consumers we surveyed neither liked nor disliked shopping for CPG products across five product categories—beverages, non-perishable foods, perishable foods, household consumables, and personal care—in grocery or mass merchandiser stores. Another 7 percent disliked or hated shopping in such stores. What this means is that nearly half of all CPG product shoppers have no particular attachment to the physical shopping experience—and therefore, given the right incentives, could be enticed to shop online for at least some CPG products.

Furthermore, while most executives correctly estimate that most consumers who dislike grocery shopping dislike it due to the time it consumes (59 percent of consumers) and waiting at the checkout line (48 percent of consumers), fewer executives recognize additional factors that many consumers dislike about grocery shopping (figure 3). These factors include inconvenience (47 percent of consumers), the crowd (42 percent), and traveling to the store (39 percent). In the words of one consumer surveyed: “[Buying online] is easier than traveling to crowded stores, dealing with parking, waiting in slow check-out lines, and finding



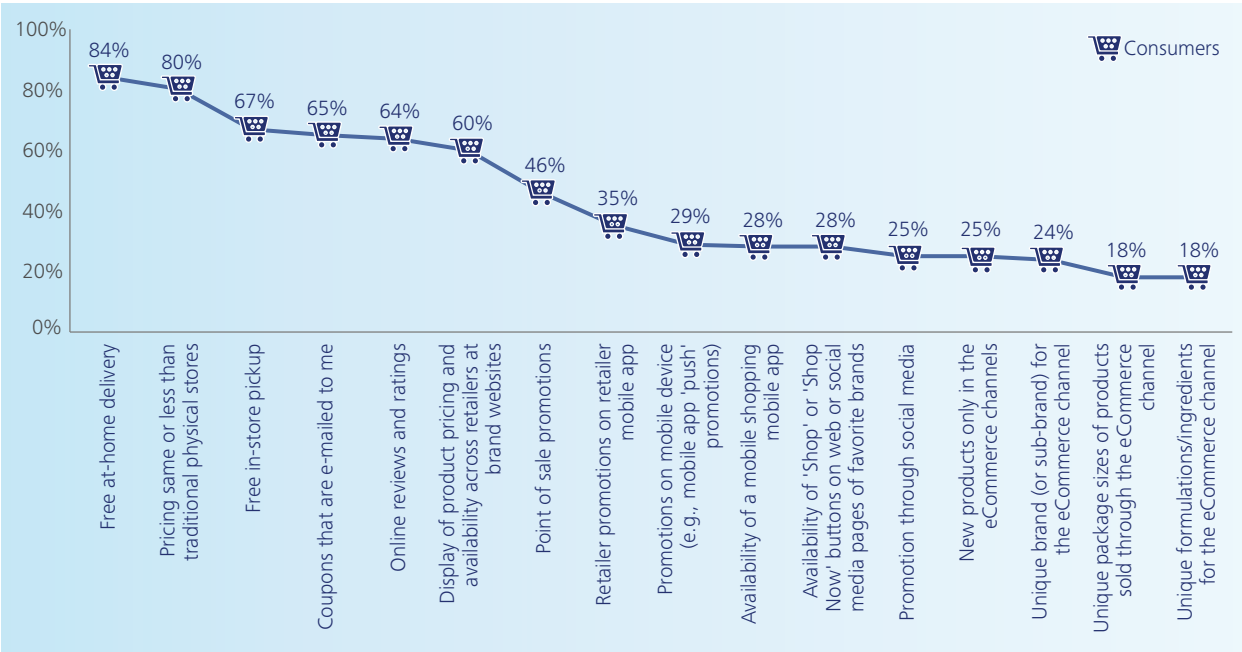
Figure 3. Why consumers dislike or hate shopping for CPG products



**Survey question:** Which of the following statements describes why you/consumers “dislike” or “hate” shopping in these CPG categories?

Graphic: Deloitte University Press | DUPress.com

Figure 4. Reasons consumers buy online



**Survey question:** How important are the following in influencing your decision to buy online? (Figures indicate the percentage of consumers who rated each factor as “important” or “very important.”)

Graphic: Deloitte University Press | DUPress.com



out the store is out of the product you want to buy.” Another consumer raved about “the ease of purchase, no crowds, no driving to the store, and no hassle [with e-commerce]. Just sit back and wait for delivery!”

**Digital commerce enablers are improving, while impediments are eroding.** Attributes related to shipping, pricing, and promotions dominate the enablers and impediments that serve as drivers and obstacles for consumers purchasing online. Enablers include free at-home delivery (84 percent of consumers surveyed state this as very important or important), prices that are the same as or less than at traditional physical stores (80 percent), free in-store pickup (67 percent), e-mailed coupons (65 percent), online reviews and ratings (64 percent), and the ability to see product pricing and availability across retailers at the brand website (60 percent) (figure 4). In the words of one consumer surveyed: “I like the convenience of looking at products online and having them delivered right to my door. There is a larger selection, and very often, there are better prices.”

When CPG executives were asked to identify actions that could increase e-commerce sales, responses included “easier and less expensive delivery,” “[greater] alignment with retailers and in-home delivery,” and “[better] pricing for appropriately sized bundles.” These are all areas where retailers and CPG companies are improving digital offerings to the consumer, as suggested by our executive interviews and case studies. For instance, both traditional and e-commerce retailers are rolling out in-store pickup and more affordable at-home delivery options across the country, primarily in larger metropolitan areas that have both a sizable consumer base and the population density to support cost-effective distribution. To indicate the size of the opportunity, placing distribution centers in just the top 50 metropolitan statistical areas (MSAs) in the United States would allow a company to potentially offer pickups or affordable at-home delivery to over half (54 percent) of the US

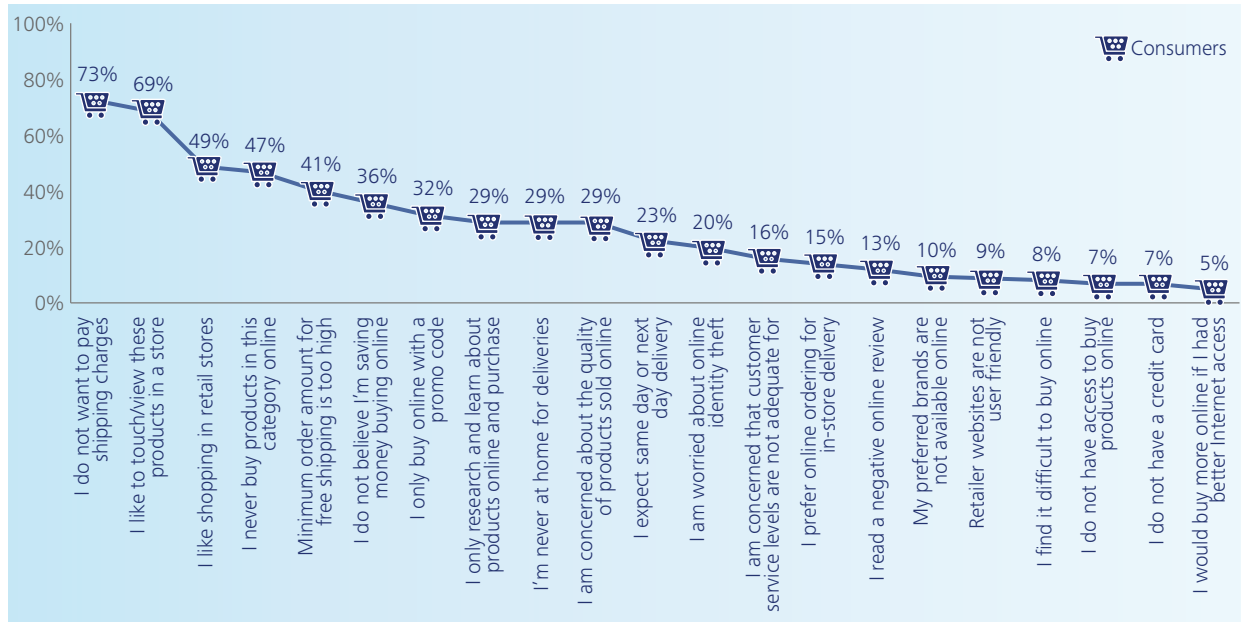
population.<sup>1</sup> One consumer who had moved from an urban area with prevalent at-home grocery delivery longed for an affordable delivery option in her new locale. In her words, “When I lived in [a different state], I would do a majority of my grocery shopping online because [the grocery store] offered shopping/delivery service. Not doing it myself was worth the service and delivery charges. But no grocery stores offer online shopping or delivery in my [new] area.”

In fact, consumers cite a wide range of reasons for shopping online—and not all of them have to do with free shipping or price. These reasons offer CPG companies a variety of potential non-price-related levers for encouraging consumers to shop more online. In particular, consumers appear to value the multiple convenience- and experience-related attributes of online shopping. One consumer views e-commerce as allowing her to shop at her own pace: “[E-commerce is] not crowded as grocery stores, and I can do everything at my own speed.” For another consumer, online shopping makes it easier to try new items: “[Buying online] is more convenient. Seeing new items online (in advertisements or on social media sites) leads to me purchasing them right away from a website.” For a third consumer, convenience is all about having access to product information: “I can find specialty health products for which I can read product information and online reviews, and compare prices.” And for another consumer, convenience means the ability to lock in recurring purchases: “I enjoy being able to subscribe to my regularly purchased items and have them delivered to my home on a consistent schedule.”

Impediments to e-commerce adoption in CPG are often the flip side of enablers. These include not wanting to pay shipping charges (73 percent of consumers surveyed), believing that the minimum order amount for free shipping is too high (41 percent), or not believing they are saving money buying online (36 percent) (figure 5). One consumer we surveyed said, “I would purchase more online if I knew



Figure 5. Reasons why consumers do NOT buy online



**Survey question:** Please indicate how well each statement describes why you have NOT purchased a product online that you purchased in grocery stores or at mass merchandisers. (Figures indicate the percentage of consumers who rated each factor as “describes me completely” or “describes me very well.”)

Graphic: Deloitte University Press | DUPress.com

reputable, cost-efficient sites that offered free home delivery and returns with excellent customer service, should that ever be necessary.” Impediments also include areas where brick and mortar has some inherent advantages, such as the ability to physically touch and view products in a store. Even here, however, technology can partially address these impediments through means such as videos of products and reviews.

There are several ways that CPG companies can help accelerate the erosion of impediments to e-commerce adoption, including visibility to expiration dates, improved product photos and information, and leak-proof packaging. Some consumers, for instance, are looking to mimic the action of a consumer at a store who reaches to the back of the shelf to find the food container with the latest expiration date—an action that is not readily imitable online. One consumer surveyed stated: “I don’t buy food [online], usually because I worry about how long it’s been sitting in a warehouse. I’d purchase more food if I knew how fresh it

was before purchasing.” Furthermore, the use of outdated photos can dissuade otherwise interested online consumers: “One problem that concerns me with the food category is the pictures of the products are outdated. For example, I wanted to purchase [a product online], but the picture showed the old version of the bag’s design. If they didn’t think to update the picture, how can I be certain the product I’m getting isn’t old?” Still another factor that CPG companies could address across categories is the need for leak-proof packaging better suited to the rigors of at-home delivery. One consumer surveyed stated, “I wish the manufacturers would put a foil seal on all liquid products, as I would purchase all my household and personal care items from them if they did. I have yet to receive anything that is leak-proof to this day . . . by the time I receive it, it’s one-third empty. Frustrating!”

Given ongoing efforts by both traditional and e-commerce retailers to make online shopping more attractive, it is not surprising that consumers are purchasing CPG



products online and expect to purchase more CPG products online in the future. Sixty-one percent of consumers in our study stated, “I buy more products online today than last year.” Looking forward, 60 percent of consumers stated, “I want to buy products from more categories online”; 64 percent stated, “I want to reduce the number of trips to the store”; and 58 percent stated, “I want to have more products delivered to my house.”

**Digital commerce is for all generations.**

Online shopping is not just for tech-savvy Millennials and time-starved Generation Xers like Sophia with careers and growing families.<sup>2</sup> Older consumers, including Baby Boomers,

also expect to increase their online purchases of CPG products. Broadly speaking, the consumers we surveyed fell into four age groups, each with several defining characteristics (figure 6):

- *21–29 years old (primarily Millennials):* Many Millennials have recently entered the workforce (47 percent work full-time and 20 percent are students), and their income levels are not very high (only 31 percent have annual household incomes greater than \$50,000). Not many have children in the household (33 percent). Laptops (57 percent) and mobile devices (19 percent

**Figure 6. Capturing growth from four distinct personas of the e-commerce consumer**

		21–29 years old	30–44 years old	44–59 years old	60–70 years old
Common cross-generation online purchase decision influencers (% important or very important)	Free at-home delivery	81%	85%	82%	87%
	Pricing same or less than stores	78%	82%	78%	81%
	E-mailed coupons	71%	68%	64%	59%
Generation-specific online purchase decision influencers (% important or very important)	Unique package sizes	26%	21%	15%	14%
	New online-only products	35%	26%	25%	18%
	Social media promotion	38%	30%	24%	13%
	Mobile shopping app available	45%	36%	22%	15%
	Promotions on mobile device	46%	35%	24%	17%
Percentage of consumer’s food, beverage, personal care, and household consumable purchases that are made online	Today	9%	9%	8%	7%
	In the next year	16%	15%	13%	11%
	In three years	23%	24%	20%	16%
	<i>Implied 1-year growth</i>	69%	73%	65%	61%
	<i>Implied 3-year growth</i>	150%	178%	152%	143%
Compared to this time last year, how consumers characterize the shift in their online purchases	Completely new sales	8%	7%	12%	13%
	Primarily new sales	16%	16%	23%	26%
	A balance	57%	57%	54%	51%
	Primarily a shift from other channels like grocery and mass merchandisers	15%	14%	8%	7%
	Completely a shift from other channels like grocery and mass merchandisers	5%	6%	3%	2%

Lowest across generations
Highest across generations



smartphones and 10 percent tablets) are preferred for online shopping.

- *30–44 years old (primarily Generation X):* With several years of work experience, Generation Xers have higher average household incomes than Millennials (58 percent have annual household incomes greater than \$50,000). Most have children in the household (54 percent). Their use of mobile devices for shopping (14 percent smartphones and 15 percent tablets) is similar to the Millennials, but Generation Xers also use desktops (25 percent) and laptops (46 percent).
- *45–59 years old (primarily younger Baby Boomers):* Even as retirement looms (57 percent work full-time and 13 percent are retired), younger Baby Boomers' income levels have reached new highs (62 percent have annual household incomes greater than \$50,000). Very few have children in their household (21 percent). Laptops (49 percent) and desktops (38 percent) are preferred for online shopping.
- *60–70 years old (primarily older Baby Boomers):* Most older Baby Boomers have retired (70 percent), but they still have considerable household income (68 percent have annual household incomes greater than \$50,000). Household sizes have shrunk as children have moved out (the average household size is 1.9). Laptops (40 percent) and desktops (48 percent) are preferred for online shopping.

The four generational groups share several common drivers for purchasing online, such as free at-home delivery, prices that are the same as or less than at brick-and-mortar stores, and e-mailed coupons (figure 6). However, differences between groups are also notable. Younger consumers are much more likely to place importance on unique package sizes, new online-only products, social media promotion,

mobile shopping applications, and promotions on mobile devices.

While the expected growth rate of online shopping is slightly higher for Generation X and Millennial respondents than for both sets of Baby Boomers, consumers in all generations expect to increase their online CPG purchases over time (figure 6). Additionally, older consumers' online purchases are more likely than those of younger consumers to be completely or primarily new sales instead of shifts from grocery stores and mass merchandisers. For example, 35 percent of online sales to younger Baby Boomers and 39 percent of online sales to older Baby Boomers were completely or primarily incremental sales, compared to only 24 percent of online sales to Millennials and 23 percent of online sales to Generation X.

Clearly, it is not just Millennials and Generation X consumers who are interested in shopping for CPG products online. As Baby Boomers age and their physical mobility declines, the convenience of at-home delivery of CPG products may emerge as a much more important attribute. One Baby Boomer survey respondent acknowledged, "In the event my mobility became an issue, then I would probably do more online shopping for food and beverage and household consumables."

**Digital commerce today offers CPG companies fundamental advantages in reaching consumers that are not available in traditional physical channels.** While CPG executives cite the effectiveness of promotion through social media (71 percent of executives surveyed saw this as very effective or effective), digital point of sale promotions (71 percent), e-mailed coupons (71 percent), and the availability of "shop" or "shop now" buttons on Web or social media pages (69 percent), our interviews and open-text survey responses suggest that CPG executives may not have a complete view of the advantages of e-commerce. In fact, some seem to have adopted a wait-and-see approach. One CPG executive survey respondent remarked, rather passively, when asked what actions could grow e-commerce sales: "Best to let this new [digital commerce]



strategy grow and be there for when the market is fully ready.”

According to our interviews and case studies, e-commerce’s advantages over traditional physical channels include the ability to access consumers via near-ubiquitous mobile technology, to target consumers with personalized offers based on online shopping/browsing data, to test new products more cost-effectively, to offer a wider selection of products than would be feasible in a brick-and-mortar store, and to enable consumers to lock in automatic repeat purchases (figure 7). Granted, certain aspects of traditional brick-and-mortar shopping, such as the ability to see, touch, and smell actual products and the instant gratification of taking home a purchase immediately, cannot be replicated on the online channel. But the opportunity does exist to leverage and combine e-commerce’s advantages over physical shopping so that its net appeal outweighs that of the brick-and-mortar channel.

## A recipe for e-commerce success

Whether or not they think their companies have a well-realized e-commerce strategy, many CPG executives recognize that digital commerce is important in gaining competitive advantage across the entire path to purchase. Not only is digital commerce seen as a way to improve brand awareness (90 percent of CPG executives surveyed rate this as very important or important) and drive product trials/initial purchases (86 percent), but it is also perceived as having an important role in driving repeat purchases (93 percent) and reconnecting with lapsed consumers (88 percent).

Input from the CPG executives in our study also paints a picture of what are seen as “table stakes” for a successful e-commerce strategy:

- A clear and well-understood digital commerce vision and strategy
- The development of partnerships with retailers and social media platforms
- Obtaining a single view of the consumer enabled by technology
- Building a talent base and organization with digital commerce skill sets

But CPG companies shouldn’t stop there. Based on our research, we suggest that CPG executives also consider the following:

1. Target the indifferent brick-and-mortar shopper with convenience-oriented offerings
2. Use digital commerce to promote both large established brands and emerging niche brands
3. Drive new product trials more effectively and efficiently through targeted social media product introductions and mailed samples
4. Be there for impulse purchases whenever, wherever the impulse strikes
5. Rethink brick-and-mortar assortments as digital commerce grows
6. Pursue profitable online sales of low-volume SKUs, such as niche flavors and fragrances unable to gain shelf space in traditional brick-and-mortar outlets
7. Consider direct-to-consumer as only part of the answer
8. Focus technology investments to improve consumer behavior insights, enhance the consumer experience, and engage the consumer



**Figure 7. The digital commerce “balance sheet”: Digital commerce offers companies more advantages over traditional brick-and-mortar shopping than many CPG executives may think.**

## ADVANTAGES OF DIGITAL COMMERCE:

- Ability for consumers to shop anytime, anywhere they have a mobile device or computer
- Ability to access consumers via near-ubiquitous mobile technology
- Ability to target consumers with personalized offers based on online shopping/browsing data
- Ability to assess competitive landscape by analyzing online assortments, pricing, and product availability data
- Ability to extend brand experience beyond in-store shopping and product use
- Ability to cost-effectively test new products
- Ability to cross-sell across non-CPG categories based on sales history and contextual information
- Ability to up-sell and cross-sell within CPG categories based on sales history and contextual information
- Ability to offer a wider selection of products
- Ability to lock in repeat purchases (potentially with subscription-based discounts)
- Ability to obtain, aggregate, and curate product reviews
- Ability to create video and other content demonstrating use of product

## DISADVANTAGES OF E-COMMERCE:

- Consumers' inability to touch, view, and smell products
- Consumers' lack of the instant gratification of getting a product immediately
- Consumers' dislike of having to pay for shipping or in-store pickup
- Difficulty in routing consumers through certain online "aisles" while searching for a particular product (to enable browsing and encourage impulse purchases, analogous to placing milk at the back of the store)
- Difficulty/cost of product returns
- Limited ability to replicate the social aspects of shopping (e.g., interacting with friends and neighbors at the store)





## 1. Target the indifferent brick-and-mortar shopper with convenience-oriented offerings

*“This is a real behavior change. It just would never occur to me to buy the typical [CPG] commodity stuff online. So you’d have to bring the possibility to my awareness [in addition to offering] free delivery and comparable prices.”*

—Consumer survey respondent

The small percentage of consumers surveyed who dislike or hate shopping for CPG products in grocery or mass merchandise stores (on average 7 percent across five product categories) are not the only plausible adopters of e-commerce. The “indifferent” consumer—the 41 percent of the consumers we surveyed who neither liked nor disliked shopping for CPG products in traditional grocery or mass merchandiser stores—represents a large segment of consumers who are not emotionally attached to the physical shopping process and might consider online shopping options if they were offered. For some consumers, purchasing CPG products online is something they have simply never actively considered: “While I buy personal care products online, I never really considered buying groceries online.”

Creating awareness among indifferent consumers about the convenience of online shopping—via channels that stock one’s own brands—will also be essential. One respondent emphasized the importance of having an assortment that is “broad enough for me to shop my entire list and either pick up or have it delivered.” Other convenience-related attributes include access to product information, the ease of trying recommended new products, and the ability to lock in recurring purchases, in addition to spending less time in the supermarket. The risk (or opportunity) for CPG companies is that indifferent consumers, when given increasing options for buying online, will likely shift brand preferences based on convenience- or price-oriented factors. One

consumer we surveyed went as far as saying, “Free delivery ranks first. Having the right brand, second.”

## 2. Use digital commerce to promote both large established brands and emerging niche brands

*“Early successes in digital commerce were from smaller brands in our portfolio, from brand teams that, frankly, were less risk-averse to experimenting with social media. For these brands, success meant appealing to a small group of consumers. On the other hand, the larger brands were later to the game. They found that their already strong consumer base and awareness translated to consumers searching for products online, and they needed to be where their consumers were migrating to.”*

—CPG executive interviewee

In the endless digital commerce aisle, there is plenty of room for big brands as well as niche brands. The digital channel can help drive sales growth for strong brands with a high volume of recurring purchases as well as for niche brands (or low-volume SKUs) that have a devoted fan following. For big brands, digital commerce increases a brand’s marketplace impact: Companies with well-known brands benefit from not only the brand’s name recognition as consumers search for products online, but also from the ability to promote their products through placement, social media, and partnering with retailers. For niche brands, digital commerce increases the brand’s agility and reach: Digital promotions cost much less than brick-and-mortar promotions, and offering a product online can allow a company to build up demand until it reaches a level that justifies stocking the product in brick-and-mortar stores. In addition, brands of all sizes can benefit from product reviews and social promotion to build awareness and drive purchases.



### 3. Drive new product trials more effectively and efficiently through targeted social media product introductions and mailed samples

*“In the old days, [we] had to do hundreds of focus groups to get to the answer for new products—and then hope the research was correct. With e-commerce, you have a perfect lab experiment.”*

—Retail executive interviewee

Traditional new product trials for major CPG brands require a large, coordinated effort. Not only do companies need to mount national advertising and promotional programs, but they must also attain shelf space at retailers, ramp up production capabilities to manufacture at scale, and route products to distribution centers and stores for the launch. Digital commerce enables companies to make new products broadly available without incurring many of these challenges.

Some companies are using social media commerce to launch new products and gauge their reception by consumers. For instance, H. J. Heinz has launched several limited-edition new products on Facebook before their launch in retail stores, using consumer response on Facebook to decide the future of each product. In March 2011, Heinz introduced a limited-edition ketchup flavored with balsamic vinegar in the United Kingdom. Out of an initial production run of 1,057,000 bottles, it gave away 57 bottles for free to food bloggers before the product’s launch on Facebook, sold 3,000 bottles on Facebook before the product’s retail launch, and sold the remaining bottles in retail stores.<sup>3</sup> The company used the same playbook for the product’s US launch, selling it first on Facebook in November 2011 and then introducing it in retail stores in December 2011 as a limited-edition offering.<sup>4</sup> In May 2012, Heinz added the product to its “standard line-up of ketchup offerings” due to “overwhelming consumer fanfare.”<sup>5</sup> Since then, the company has adopted the same approach for other product

launches in the United Kingdom and the United States.<sup>6</sup>

Similarly, online channels can be tapped for piloting new CPG products prior to large-scale rollouts. CPG companies can test new products or product variants in online channels, tweak products based on early consumer feedback, analyze e-commerce sales trends, and consequently use their R&D dollars more efficiently.

### 4. Be there for impulse purchases whenever, wherever the impulse strikes

*“[I purchase CPG products online] because I can do it at 3 a.m. when I am thinking about it.”*

—Consumer survey respondent

As fulfillment of online orders becomes quicker, non-planned or impulse purchases are likely to increase in the digital realm. Brands need a strategy to prompt and tap into this desire for immediate gratification. The challenge in wooing the “anywhere-anytime” shopper is to “make the shopping experience relevant to the way [they] want to shop.”<sup>7</sup> CPG companies should aim to be there for the shopper via e-commerce and mobile sites whenever the impulse strikes—whether it is at home, in a store, or anywhere else. They should be able to act rapidly on the shopper’s desire and willingness to make a purchase—whether by providing tools such as an online shopping list functionality or routing consumers to a retailer where they can buy or order the product. They should be careful to route the shopper to a channel that can fulfill his or her impulse at the desired level—whether he or she wants to take the product home immediately or is willing to wait a few days for delivery. And CPG companies should view impulse or unplanned purchases as opportunities to use an automated recurring purchase functionality to convert similar future impulse buys to regular purchases.



## 5. Rethink brick-and-mortar assortments as digital commerce grows

*“Start with a large selection . . . and let consumers decide the assortment.”*

—Retail executive interviewee

Brands should let the purchasing behavior of online consumers drive their assortment decisions for both the online channel *and* brick-and-mortar stores. Online sales performance can be used by sales teams to convince a retailer to offer a large selection of a company’s products through the retailer’s website and keep best-sellers on the physical shelves. Online sales data can also help CPG companies update, reposition, or replace lower-productivity SKUs in both physical and online stores. The same data can help companies decide which variants should be sold primarily or exclusively online to complement the brick-and-mortar assortment. For instance, if a particular flavor sells well online but does not have the inventory turnover to justify a physical retailer’s giving it shelf space, CPG companies should consider making it an online-only offering. The assortment on the shelf at brick-and-mortar supermarkets may narrow to SKUs with the highest productivity along with a rotating inventory of new or niche products that are either popular enough to justify continued stocking, or that are offered to build demand for online purchases when the SKU is rotated out of the physical store.

## 6. Pursue profitable online sales of low-volume SKUs, such as niche flavors and fragrances unable to gain shelf space in traditional brick-and-mortar outlets

*“Most of the products I buy online are only available online, or their availability is not consistent in local stores.”*

—Consumer survey respondent

With physical shelf space at a premium and e-commerce making consumers more able to seek SKUs with limited (or nonexistent) in-store availability, we see the emergence of a profitable long tail for CPG companies. Many consumers have unique preferences in terms of flavors, formulations, colors, and fragrances; they may be willing to pay more for a product they prefer but that is no longer easily available to them. In our consumer survey, respondents reported turning to e-commerce for “sizes,” “dietary needs,” “flavors,” “specialty items,” and “fragrances” not readily available in their local stores.

As an example of how e-commerce can help CPG companies sell products with intermittent demand that often do not get shelf space at brick-and-mortar retailers, Kraft Foods Group’s Crystal Light beverage mixes launched a new direct-to-consumer (DTC) e-store in 2013 for US consumers.<sup>8</sup> The online store currently offers dozens of SKUs, including some exclusive online-only products and flavors difficult to find in retail stores.<sup>9</sup> For some consumers—including a few who provided product reviews—the website has become the destination of choice for particular flavors that are no longer stocked in their local stores.<sup>10</sup> The website, which offers seasonal promotions and discount deals, kicked off its launch by offering free shipping for first-time purchasers, discounts on large orders, discounts for registering with one’s email address, and free product offers for shoppers who referred friends.

Besides providing an outlet for low-volume SKUs, the online channel offers CPG companies better visibility to demand for lower-volume SKUs that can help companies more efficiently manufacture and distribute them. Due to the steady stream of new and seasonal products that displace existing products on store shelves, the aggregate sales of the displaced lower-volume SKUs could account for a sizable portion of many CPG companies’ online sales over time.



**Figure 8. Importance of and investment in new shopping-related technologies**

	Innovations/technologies	
	Important in influencing consumer behavior (1)	Increase in expected investment (2)
Social referral (social following to drive engagement, social amplification of promotions or brand offers, social shopping, referral and recruitment of talent)	79%	70%
Mobile market research (e.g., self-reporting consumer research, testing research hypotheses through a mobile workforce)	72%	67%
In-store shopper behavior and engagement (e.g., in-store engagement, in-store tracking [consumer-enabled], in-store tracking [retailer-enabled], vending and kiosks)	68%	74%
Mobile payments (e.g., mobile payment technologies that rely on infrastructure investment, mobile payment technologies that bypass traditional POS infrastructure)	67%	60%
Mobile consumer engagement and incentives (e.g., mobile offers presented to consumers, self-reporting—rewards for reporting shopping behavior)	66%	68%
Augmented reality (e.g., second-screen interactivity, development toolkits and capabilities, platform technologies for interactive packaging)	65%	56%
Dynamic pricing (e.g., in-store shelf tags that enable dynamic pricing)	60%	49%
Web/text mining (e.g., social mining, text mining, web mining)	59%	58%
Data markets (e.g., collection, cleansing, and sharing of multiple consumer data sources)	58%	49%
Mobile e-commerce (e.g., mobile or mobile-influenced shopping)	58%	67%
Smart sensors (e.g., sensors that monitor product, merchandising, and shelf availability, sensors that track product/asset movement through the supply chain)	55%	42%
Crowdsourcing (e.g., data and information crowd-contribution platforms)	53%	47%

**1. Survey question:** How important are the following innovations/technologies in influencing consumers' purchase behavior? (Figures indicate the percentage of executives who rated each area as "moderately important" or "very important.")

**2. Survey question:** How do you expect your company's investment in the following innovations/technologies to change in the next year? (Figures indicate the percentage of executives indicating that they expected investment to "increase" or "increase significantly" in each area.)

Graphic: Deloitte University Press | DUPress.com



## 7. Consider direct-to-consumer as only part of the answer

*“We expect sales via our own website to only be a small portion of our business because most consumers prefer the convenience of shopping in one or two places for a basket of goods across brands and product categories. For me, the value of our website is in learning about consumers and offering relatively low-volume SKUs that are not typically stocked in stores.”*

—CPG executive interviewee

DTC e-commerce sites like Kraft’s can play an important role in a CPG company’s e-commerce strategy. However, DTC should be only part of a well-rounded e-commerce effort. The reason is that consumers typically shop for CPG products by channel, seeking to fill a basket with diverse brands across product categories rather than to buy a basket of brands produced by one company. Consumers expecting to find a good selection of products in multiple categories on any given shopping “trip” may not find it convenient to shop online at a company’s DTC website unless that company offers such a selection. For all but the largest companies, this may mean that branded DTC sites have only limited appeal.

Additional tactics, such as partnering with retailers to make products available on their online sites, can help CPG companies make their products more findable on non-branded online channels. CPG account teams can align with e-commerce retailers along the sales, marketing, and supply chain functions, viewing the retailers as strategic partners similar to partners in other channels.<sup>11</sup> Pricing and promotions should be planned in collaboration with key online retailers with the objective of expanding category sales for both the CPG manufacturer and the retailer. Further, on a company’s branded DTC site, we recommend that companies compete on attributes

other than price—such as customization, the availability of hard-to-find variants, and the chance to try out new products—to limit cross-channel conflict with retail partners.

## 8. Focus technology investments to improve consumer behavior insights, enhance the consumer experience, and engage the consumer

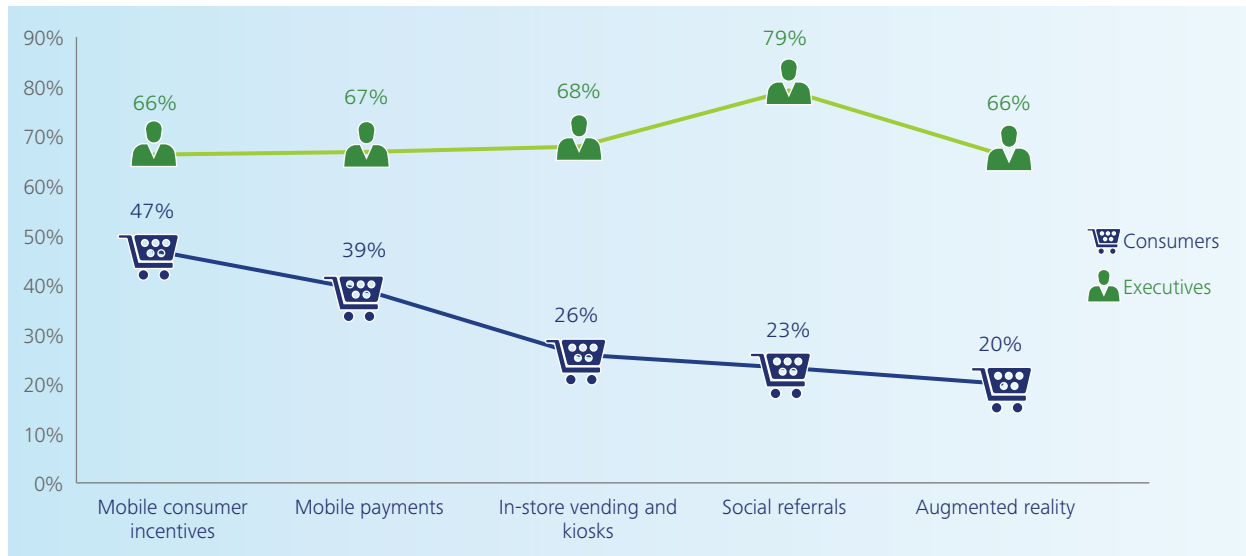
*“Websites, mobile devices, and social media [are] now your first point of contact before the store shelf.”*

—CPG executive interviewee

We expect the importance of digital commerce to be amplified by the rapid pace of technological change. Digital technology has already permeated the path to purchase, as today’s consumers use websites, social media, and mobile apps not only for researching products, comparing prices, and making purchases but also for providing feedback to peers and even companies. Companies can use data analytics to capitalize on the influx of data from mobile apps, social media, digital marketing, and digital commerce transactions. Such capabilities can enable companies to identify consumer preferences and trends, manage their product assortment, deliver personalized marketing messages, refine pricing and promotional strategies, and better connect with target consumers. The confluence of technologies such as social computing, mobile, and data analytics seems poised to play a prominent role in deepening customer relationships, increasing agility to achieve new market growth, and accelerating innovation.<sup>12</sup>

Most CPG executives in our survey planned to increase technological investments to enable a variety of digital activities: in-store shopper engagement (74 percent of executives), social referral (70 percent), mobile consumer engagement (68 percent), mobile market research (67



**Figure 9. Importance of technology innovations as perceived by executives compared to consumers**

**Survey question:** How important are the following technologies for shopping online or in influencing your/consumers' purchase behavior? (Figures indicate the percentage of respondents who rated each factor as "important" or "very important.")

Graphic: Deloitte University Press | DUPress.com

percent), and mobile e-commerce (67 percent) (figure 8). More than half of all CPG executives rated these as moderately important or very important in influencing consumer behavior.

On the other hand, when comparing executives' beliefs about consumers with the actual consumer survey findings, we found several areas where CPG executives overstated the relative importance of technological enablement to consumers (figure 9). For instance, mobile consumer incentives, mobile payment, in-store vending and kiosks, social referral, and augmented reality were all rated as very important or important by a higher percentage of executives than consumers. These gaps indicate the potential for overinvestment in some technologies by CPG executives.

Companies may wish to consider focusing their technology investments by applying the litmus test of, "Does this investment increase your understanding of the consumer and enhance the consumer experience in a way that helps you generate additional sales or margin?" Leaders should be alert to ways that technology can help pursue these aims throughout the path to purchase. For pre-store planning, CPG

companies can use digital media to become a part of the planning process by offering features such as online product comparison tools. During in-store shopping, technology can enhance the in-store product experience and deepen the brand conversation to help consumers save time and make better decisions; it can also allow CPG companies to pursue greater collaboration with retailers, shopping-related application providers, and payment companies. And during post-purchase, companies can take advantage of technology to extend the product experience as well as to build a lifecycle view of consumers through sophisticated data analysis.

## More packages at the doorstep

*For Sophia, her typical shopping cadence would take her to the grocery store once a week, the mass merchandiser every other week, the club store once a month, and the occasional trip to the dollar store to fill in. She noticed her basket changing and shrinking over time in each of these stores as she had more and more products delivered at home via e-commerce. When her*



*grocery store of choice launched a home delivery service and the mass merchandiser began to offer online orders for pickup in stores, she gladly began using both options. Her primary complaint—the lack of free shipping or too high a minimum purchase price for discounted shipping—eroded as her e-commerce basket size increased. Today, the products she purchases online run the gamut from products she would have bought at the grocery store, to those that she would have purchased at the club store or the mass merchandiser, to those that she would probably not have bought at all if they had not been available online. The convenience of digital commerce got her to this point, and it continues to expand her basket in new CPG categories.*

If the consumers in our study can be believed, digital commerce is poised to become

an important revenue driver for CPG companies that can successfully pull the levers of awareness, convenience, and experience to entice consumers to shop more online. Working with retailers to make products widely available online is essential, as is a strategy that considers how shoppers use digital technologies to make decisions throughout the path to purchase. Besides the revenue the e-commerce channel may generate, companies can also benefit from the insights into consumer preferences and buying habits that can be obtained from data collected online.

The research sends CPG brands a clear message: The market is ready for e-commerce. Are you?





# Endnotes

1. Annual estimates of the population of metropolitan and micropolitan statistical areas, April 1, 2010 to July 1, 2012, US Census Bureau, Population Division, March 2013.
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