



IBM Smarter Analytics:
Consumer products

Consumer products

With access to the right information and the expertise to extract its value, consumer products companies could tap into markets **worth an extra \$20trn by 2020¹**. Access to the best information and insights can **determine success or failure in terms of market performance.**

Having the right information to analyse can ensure that forecasts are met for that key first moment of truth in store. The latest optimisation techniques can lead to **promotions that generate greater consumer loyalty** to a brand. But those businesses that do not realise the value of information **risk being squeezed between powerful retailers and agile new rivals.**

Any change in consumer confidence or a shift in demographics can have a big impact on business performance. Entering the right new market at the right time can turn a company's entire fortunes around. Companies can secure their own future only if they have the foresight to anticipate such events and convert them into valuable insights for the business.

Many in the consumer products industry have been shifting their focus away from Western markets, which were the growth engine for most of the 20th century. For example, Europe's population will fall by one per cent by 2050 – a market that is already largely saturated and stagnant. Instead, they are targeting high-growth developing and emerging markets and their increasingly consumerist middle classes. Africa's population will grow by 34 per cent by 2050, while those of Asia and Latin America will both rise by 15 per cent.² Marked income growth is evident in the Bric countries, while Colombia, Indonesia, Vietnam, Egypt, Turkey and South Africa (the so-called Civets) are also becoming economically significant, with young and growing populations. Most of the anticipated population increases will occur in cities, where people have the best chance of moving up the earnings ladder. Within a decade 20 out of the world's 50 richest cities will be in "emerged economies".

Such changes raise profound questions about how these new consumer markets are best served. For example, the rise of the middle classes in Africa, Asia and Latin America represent an undeniable draw, but the competition for those consumers is understandably fierce.

As the consumer base changes, so does its behaviour and motivation. In the 20th century the consumer products industry grew adept at developing and

selling products in established markets that responded predictably to price, product, place and promotion. Today, new factors hold sway. In every market consumers expect top quality, low prices and high availability. Global brands, once prized, risk becoming less trusted than local brands or those of retailers if they cannot match demand with superior quality at the right price. Private-label goods add to the tension, with retailers increasingly aggressive in promoting their own (higher-margin) brands. As an example, two of the world's largest and fastest-growing retailers – Aldi and Lidl – enjoy robust private-label volume sales and boast parity with major brands in blind testing for some products.

Channels are also more fragmented, with chain retailers, online players and traditional local traders. For example, in Brazil there are 850,000 grocery outlets. In India, 95 per cent of all retail sales flow through independent, family-run general stores and chemists.³ A global consumer products company has to manage the "Big Data" information challenge from millions of customers, including sales force, point of sale and retail audit data.

When you add to all of these factors the ongoing pressure on resources and the environment, there is a widespread need for insights from current and new sources of information, from brand development and product sourcing to manufacturing, packaging, distribution and disposal.

THE NEED TO ADAPT

In this era of global integration, sound business decisions require a broad, factual perspective that takes into account many and varied international forces. The consumer products industry has historically let local market

information dominate its thinking – “small data”.⁴ Companies have been slow to acquire information and analytics capabilities “above market”. As a result, they aren’t prepared to drive growth in a fast-changing global economy.

Additionally, the industry as a whole has become accustomed to analysing and interpreting historical data in limited ways, based on stable commodity prices, physical retail channels, baby-boomer and generation-X consumers in G8 nations who responded to TV advertising and mass marketing. This world is fading rapidly. Profitable growth in the future requires investment not only in information technology, but also in analytical capabilities that are relatively uncommon across the industry.

More than in any other industry, consumer products companies are facing a Big Data challenge⁵ as the volume and speed of structured and unstructured data (eg, media content, social media campaigns, reports from ethnographic agencies and careline transcripts) grow. The importance of digital and mobile marketing, ecommerce and social commerce will add to the challenges as the flow of real-time consumer, customer and operational information increases.

Although more granular and immediate data is harder to acquire and analyse, moving to real-time analytics can help to make the tracking of brand performance, assortment, introductions, promotions and pricing more consumer-centric and responsive.

Monitoring daily data can help an organisation to consistently maximise the performance of promotions, particularly during those first few critical days after their launch. Real-time analysis of consumer demand signals provides valuable insights into whether a promotion is performing as expected and will highlight short-term opportunities in sufficient time for them to be exploited – as opposed to six weeks later.

For instance, IBM has already created a real-time demand-sensing system and a unique algorithm to forecast demand for products at store and SKU level. The system estimates a product’s market share based on syndicated data and models substitution effects for similar products. Even when only price history is provided, forecasts are approximately 57 per cent accurate. This rises to 68 per cent when brand information is added. When product data is incorporated, their accuracy rises to 83 per cent.

What about businesses struggling with pricing data, which is often stored in different formats within and across markets, customers and brands? More time may be spent handling the data than actually analysing it for insights. Mapping out structured and unstructured pricing data to a common pricing model, then cleaning, aggregating and harmonising that data has the potential to make a real difference. By giving a business a consistent view of pricing within and across markets, it takes away the pain of data management, leaving the business free to focus on added-value analytics and insight generation. But it’s not an easy task in a business where this degree of data management is outside its day to day activities.

Take another example: what if a business wanted to integrate its external consumption and inventory data with its internal data in order to improve performance on KPIs, such as rating product availability and promotion effectiveness? Creating an integrated data set could help the company assess the weekly performance of promotions and the daily progress of new product introductions, as well as tracking daily stock-outs and enabling it to identify problems in good time to take corrective action. But for many organisations, this would be outside their capabilities, even though it could generate very healthy results for the business.

Clearly, to secure breakaway performance in the future, consumer products companies need to adapt their information management practices and associated technology. In a recent IBM study, four out of five business leaders saw information as the primary source of competitive advantage⁶.

THE WAY FORWARD

Consumer products companies that can’t take a globally coherent view of consumers, customers and their own operations may limit their own growth and margins. A failure to understand and adapt may open the door wider to retail private-label products or simply the competition. It is time to act. These firms would do well to emulate other industries and create a single, globally integrated version of the truth about their consumers and markets. This could, for the first time, provide definitive answers to key questions such as:

- Where are our highest-value consumers for our brands?
- Which markets are growing – and which channels are most profitable?
- What mix of trade customers will provide the optimum return on marketing investment?
- Where is demand coming from – and for which SKUs?
- Which campaigns will deliver the greatest return on our investments?

All of this necessitates a more industrial approach to the translation of data into information and insights. As data flows in faster, in greater quantities and via more diverse sources than ever, only advanced analytics can help firms to find order in the chaos, make the best decisions and execute them effectively.

WHERE NEXT?

Sustainable competitive advantage requires consumer products companies to extract new value from increasingly varied and sizeable sources of information – structured and unstructured, well understood (sales) and less familiar (social media). The sheer quantity, speed and complexity of data flows could be a barrier to their success unless consumer products companies quickly build or buy the capabilities to turn Big Data into actionable information and insights.

Extracting new insights about consumers or predicting the future of commodity prices is not only about management dashboards and well-formatted business intelligence reports. It also requires a deeper level of analytics. For example, it necessitates the development of capabilities and algorithms to identify consumer tribes in social media, optimise trade promotions, compensate for fluctuations in commodity prices or drive product differentiation. This in turn requires

approaches that put such commercial levers in the hands of everyday business users so that the benefits are available to all.

For many consumer products companies this means additional investment in a Big Data infrastructure and appropriate analytics and optimisation skills. In tandem, consumer products companies need to transform their internal processes and governance structures to ensure that the business is ready to use the new insights being generated, as ultimately it is the “business” part of “business analytics and optimisation” that holds the key.

WHAT CAN IBM DO FOR YOU?

IBM provides strong consumer products industry business and technology consulting expertise, working for three-quarters of the top 50 consumer products worldwide. This includes extensive and relevant experience in business analytics and optimisation, as well as leadership in the world of Big Data. IBM brings virtuosity with virtual infrastructures and massively parallel processing (to distribute, capture, store and manage Big Data in the Cloud), as well as strategic software acquisitions that can take consumer products companies to the next level of capability. You can trust IBM to integrate the most complex data sets and to assist you in creating rapid customer insights, presented on management dashboards in a compelling, visually engaging way⁷.

With competition heating up for consumer products companies across the world, and a serious need to explore commercial opportunities in new markets, can you afford to wait to find out what you know and how you can use it?

83%

accuracy in forecasting demand could be achieved if a company has access to and knows how to use the right data



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