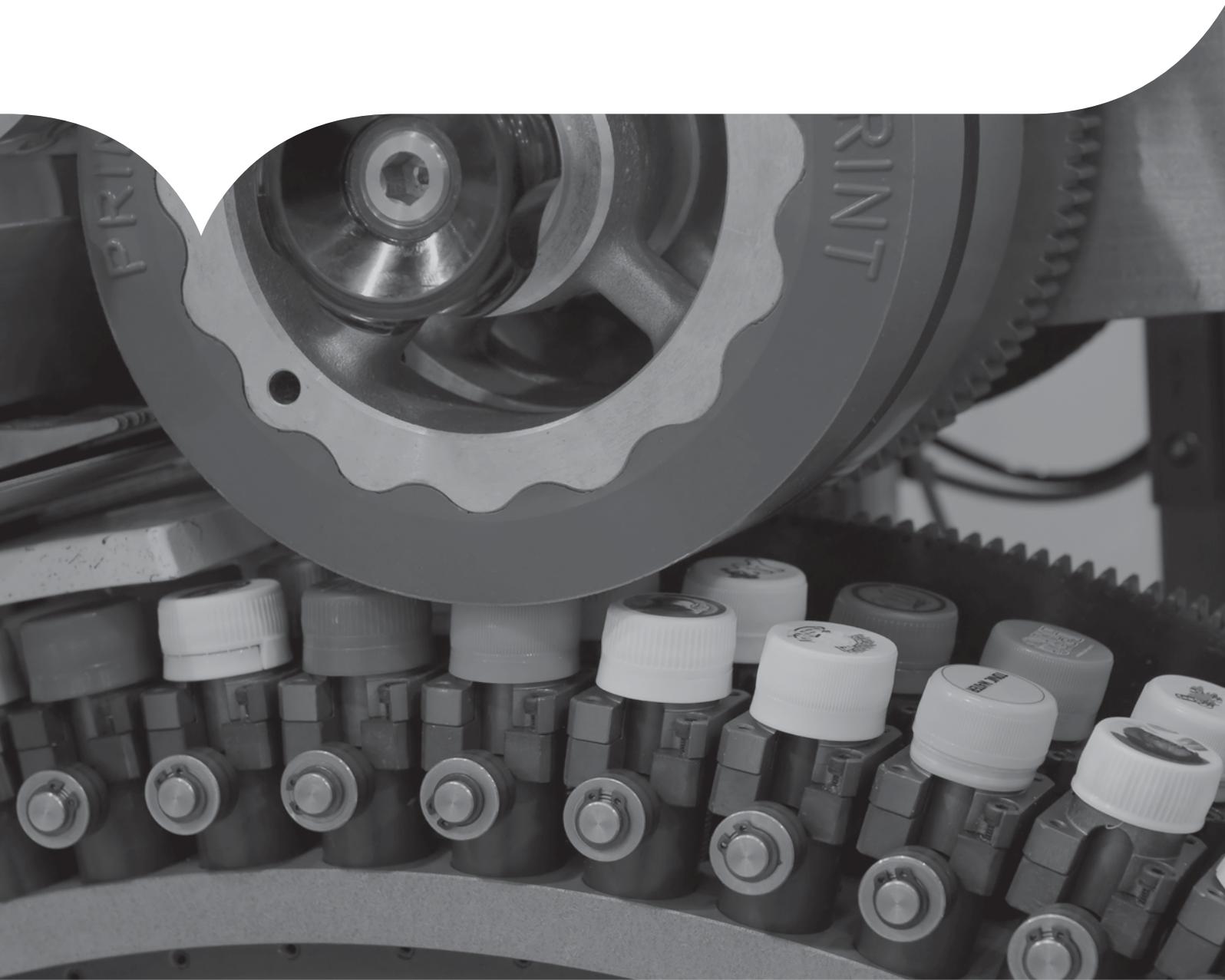




Digital Transformation Benchmark - 2012

Insights for the Consumer Packaged Goods Industry

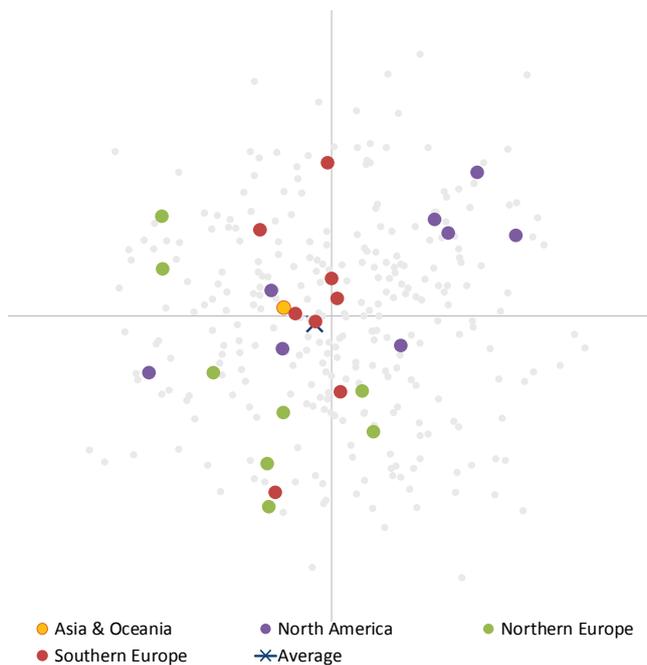


Digital Transformation in the Consumer Packaged Goods Industry

Digital technologies have opened up many new strategic opportunities in the Consumer Packaged Goods (CPG) industry and firms have responded in different ways.

While the industry overall has Beginner status, individual firms show a broad distribution of digital maturity. Some firms are leading the way as Digirati, some are just beginning their journeys, and others are somewhere in between. Considering the responses of the firms we surveyed, some common themes emerge.

Figure 1: firms' positioning in the Digital Maturity Matrix



Interpreting the Digital Maturity Matrix

- The vertical axis measures “Digital Intensity,” i.e. firms’ digital practices
- The horizontal axis measures “Transformation Management Intensity,” i.e. the management practices implemented by the firms around digital transformation

For more information, read the MIT Center for Digital Business and Capgemini Consulting Research Report “Digital Transformation: a Roadmap for Billion-Dollar Organizations” (2011)

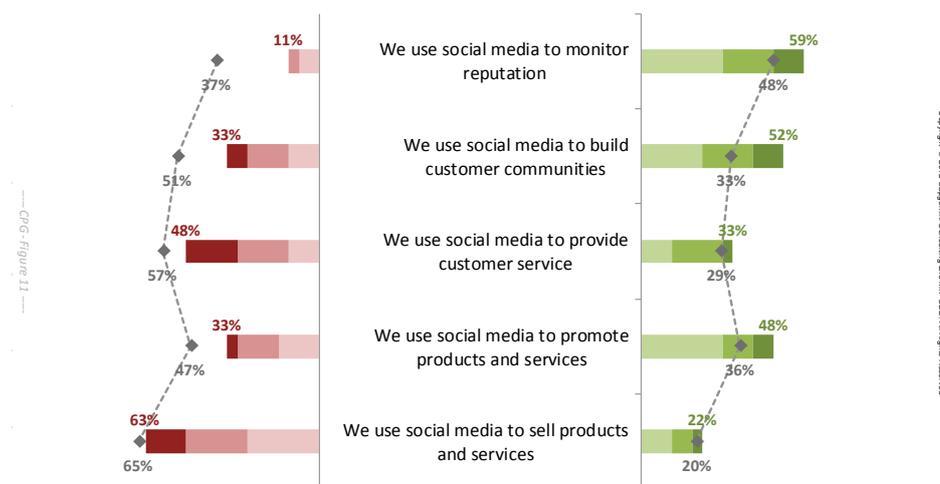
Learning 1: CPG firms are leveraging social media to engage directly with shoppers

CPG firms that responded to our survey highlighted using social media to interact with consumers. More than half report using social media to monitor their brands (59%) and build customer communities (52%). Additionally, 48% reported leveraging social media to promote products and services (see Figure 2). In areas where CPG firms’ relationships

with consumers have traditionally been intermediated by others in the value chain, responses are lower. Only a minority of CPG firms are using social media to sell products and services (22%) or provide customer service (33%).

Expanding the use of social media may be an opportunity for CPG companies to advance their digital maturities, as it is an area of customer experience where Digirati clearly stand out from others in the industry.

Figure 2: use of social media with customers



Legend:

- Red bars represent the percentage of companies disagreeing with each statement (answers 1, 2 and 3 on a scale from 1 = strongly disagree to 7 = strongly agree) in the industry; green bars represent the percentage of companies agreeing with each statement (answers 5, 6, or 7).
- Grey marks represent disagreement (answers 1, 2 or 3) or agreement (answers 5, 6 or 7) across all companies in our study.

Learning 2: Digitizing operations may present opportunities to accelerate innovation and product development processes

In most measures of worker enablement and process digitization, CPG firms score near cross-industry averages, with a few notable exceptions. 59% of CPG companies reported that their employees do not actively share knowledge through collaborative community platforms. Additionally, more than half (52%) stated that they do not design products or services digitally: a 15% gap to the cross-industry average. Both areas may represent opportunities for CPG firms, especially where innovation and product development cycle time are key drivers of success.

Learning 3: By most measures in our study, business model transformation through digital technologies is limited for CPG companies

For some measures of business model transformation, lower scores reported by CPG firms may reflect the limits of Digital Transformation for them. For example, only 19% of the CPG companies we surveyed are transitioning physical products or services to digital ones. This is not surprising, given the industry’s core focus on physical products.

However, in other areas, these lower scores may represent opportunities to advance digital maturity. Two-thirds of CPG firms reported that they did not use digital technologies to customize products or services to each customer. Although nearly half

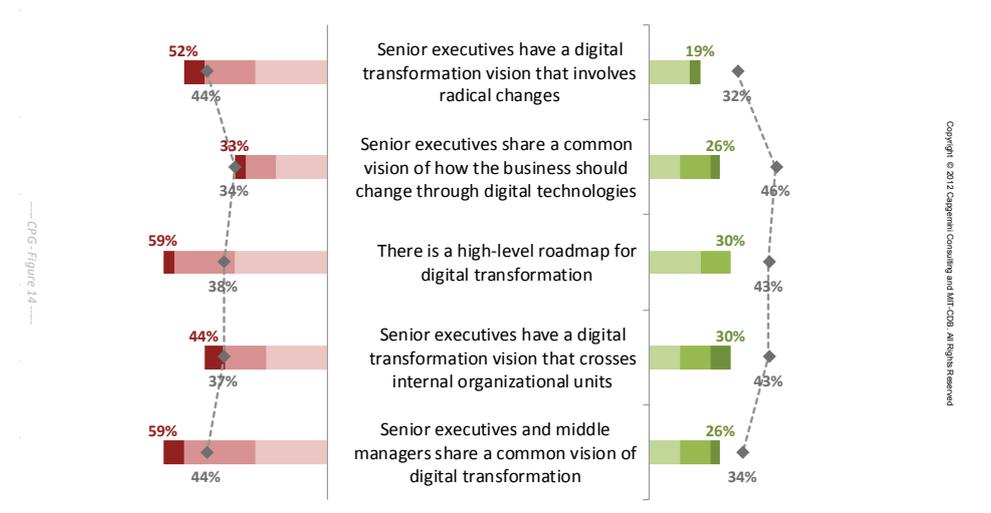
reported linking customer-facing and operational processes, CPG firms are 14 percentage points lower than cross-industry averages in this regard. CPG firms also reported lower scores for launching new businesses based on digital technology (37% compared to a 46% cross-industry average). This may represent an opportunity for CPG companies, considering that over 80% reported that digital businesses are not cannibalizing traditional businesses.

Learning 4: Wide gaps in transformation management practices create opportunities for improvement

As a group, CPG firms score below cross-industry averages in many measures of transformation management practices. In all measures of digital vision, CPG

companies score lower than cross-industry averages. More than half of the CPG companies we surveyed reported that their organizations do not have a high-level roadmap for digital transformation or that executives and managers share a common vision of digital transformation (59% in both cases – see Figure 3). Scores in digital governance tell a similar story. Only a third of CPG companies reported that digital initiatives are coordinated across silos, or that roles and responsibilities for digital initiatives were clearly defined within their organizations (33% in both cases). CPG firms are on par with other industries in terms of investing in skills (48%), but do less in promoting change or funding digital transformation.

Figure 3: digital vision



Legend:

- Red bars represent the percentage of companies disagreeing with each statement (answers 1, 2 and 3 on a scale from 1 = strongly disagree to 7 = strongly agree) in the industry; green bars represent the percentage of companies agreeing with each statement (answers 5, 6, or 7).
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Learning 5: Marketing and IT have a joint role in digital governance

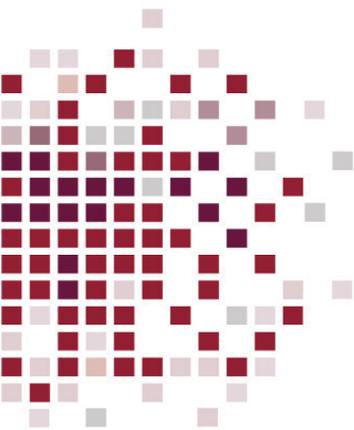
More so than in other industries, Marketing and IT partner in managing Digital Transformation. In nearly half of the CPG companies we surveyed, a combination of Marketing and IT is the primary driver of digital governance, compared to an average score of 38%.

Strong IT-business relationships may be an important enabler for advancing digital maturity. Despite low scores in most areas of

management practices (see Learning 4), IT-business relationships in CPG firms appear at least as strong as in other industries by most measures. More than 80% of companies reported that IT and business executives have a shared understanding of IT's role in the organization. A majority also stated that IT and business executives had a shared understanding of IT's potential as a competitive weapon (74%), as well as a lever to increase the productivity of operations (67%).

Looking at the distribution of digital maturities among CPG companies (see Figure 1), it is clear that there are large differences between firms. Almost one in four have already achieved Digirati status, where a third of CPG companies are still Beginners. The above analysis suggests potential development areas, especially for less mature firms:

- **Leverage social media to interact with customers** – Use of social media with customers is an area where Digirati are clearly doing more than other firms in the industry. Given the opportunities that social media presents to interact directly with customers, CPG firms may want follow the Digirati's lead and expand their use of these channels.
- **Build and communicate a digital vision** – CPG firms may need a stronger digital vision, as well as the leadership to communicate it. Only 19% of companies reported a radical vision within their firms, far less than the cross-industry average. Less than half of the CPG companies we surveyed (41%) reported that top management is actively promoting a digital vision, compared to an average of 60%.
- **Enhance operations with collaboration platforms and digital designs** – Despite average scores in other areas of operational processes, scores for CPG firms are lower in using collaborative community platforms and digital design practices. Given the priority of innovation and speed to market in the industry, improvements in these two areas may enhance productivity.



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This analysis is based on data collected during the second year of our joint research program with the MIT Center for Digital Business.

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