Capgemini

Imagine ...

there's no retail

A thought experiment

Sometimes, a thought experiment helps us to look over the horizon and see the changes ahead more clearly. Imagine an advanced alien, or someone from the future, visiting us and looking at the world of consumer products. Consumer researchers and consumer advisers probably exist in all corners of the universe – so, what would they say about where we earthlings stand in 2019?

Consumption on earth has entered a digital transition phase. Although possibilities unleashed by nascent technologies are being explored, certain limitations remain:

- An in-between stage in trade still dominates, and this, for the most part, is the interface to the consumer. In many cases, the consumer still has to physically go to a business and, in some cases, do so during opening hours.
- Digital channels through which consumers can order any time, any place, are multiplying. However, these channels are not yet interlinked to a satisfactory, seamless degree.
- Consumer products manufacturers usually only know their customers superficially. They generally don't have any direct contact or much data on them. They buy their so-called knowledge about their customers through antiquated forms of secondary market research. But, they do have regular contact with their distribution partners in trade.
- CP manufacturers make their decisions heuristically, based on experience, feedback from retailers, and market research. The transition to a true data- and customer-centric model is just beginning. As is so often the case with historical disruption, just a few companies stand out in terms of innovation and radical change.
- Decisions made by consumer products companies are primarily product- or marketing-oriented. The more lifestyle-oriented the goods, the more the focus is on marketing. This is a historically antiquated push model. The switch to a pull model, with a demand-driven supply chain, has yet to take place.
- Driven by the growing success of online pure players, distributors (CP manufacturers' partners) have started transforming into omnichannel companies. However, they face well-known problems: how to shift to a data-oriented, open culture, and how to shift decision-making power to the point of sale, marketing, and IT. This suggests that an ingrained culture will prevent many companies from handling the change in time – just like on other planets.
- Overall, just a few thought leaders have outlined the first vague sketches of a future in which consumption is predictive and personal.

A vague sketch of the future of consumer products

It seems that our alien researcher not only knows exactly what to criticize in 2019, but also has a pretty clear idea about which way our journey is headed. That's not true, of course, unless this alien is particularly arrogant or haughty. But even though we can't know for sure, we can distill a few abstract guidelines from their critiques:

1. In the future, consumption will be "predictive" and "personal." This inevitably goes hand in hand with CP companies having to transform into data- and customer-centric businesses. Product centering, especially the push variety, will be a thing of the past.

Location will no longer play a decisive role. Instead, consumption will take place wherever the customer wants. This may mean that retail is completely eliminated, that consumer product companies take over the function of trading, or that retail also reinvents itself and continues to play an important, albeit very different role.

2. The most successful consumer products companies will be those that achieve the best "predictive score," (those that understand customers' rational and emotional needs and desires better than their competitors). The ability to intelligently transform big data into smart data with advanced analytics and data science is therefore indispensable when it comes to keeping up with the competition.

So, we have a clear, if abstract, picture of the future, but a more concrete vision is still missing. And this vision consists not of a single image, but of many images, depending on the target group, segment, assortment, etc. Each company will have to find or create their own image during their digital transformation.

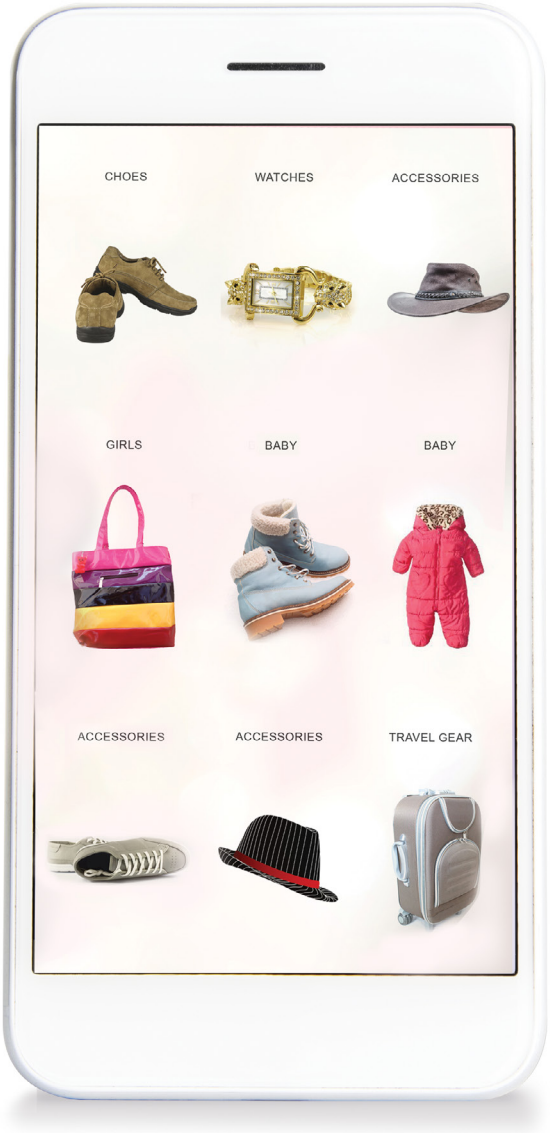
Digital transformation – two definitions

When it comes to digital transformation, most people think of technology, and that's certainly not wrong – digital transformation is the new technology that shakes, destroys, and occasionally creates new markets. Of crucial importance, however, is the impact this new technology has on existing business models – and these aren't always disruptive. For example, the invention of the CD didn't change the existing business model. It merely replaced records and tapes with better technology. Moreover, major labels retained their central position, discovering and marketing bands and then bundling a dozen of their songs, even though the average consumer only wanted to buy two or three. Apple started a partial disruption with iTunes, unbundling the albums and thus significantly weakening the position of the labels. The consumer, however, still owned the music she had purchased, so the model wasn't completely disrupted. Apple's successful ecosystem platform between labels and consumers simply got rid of the middleman. Only Spotify et.al have completely disrupted the business model, rendering the ownership of individual pieces of music by the consumer obsolete thanks to streaming. Only access matters now. Music-as-a-Service. Access instead of possession.

There are many examples of the introduction of digital technology that are important and sometimes decisive when it comes to competitive advantage, but by no means disruptive. For example, if a retail chain digitizes their supply chain to produce better forecasts so that they are never out of stock, this is a complex use of technology but it doesn't change the existing business model. Ultimately, it is about process, organizational and quality improvements, which can be described as incremental and not disruptive, as illustrated in the following graph.

In the sense of disruptive interpretation, we must consider the effects it has on the business model. This leads to the following definition of digital transformation:

digital transformation is the act of questioning an existing business model against the possibilities of digital technology."



If we apply this definition to consumer products companies, the following digitization projects are incremental and non-discriminatory, although many of them certainly have substantial competitive impact:

- **Introducing online channels/multichannel projects** Establishing new channels, be it with retail partners, your own online store, or a platform such as Amazon Marketplace, is essential for most products these days, as the consumer expects to be able to do everything at any time and on any device. However, it doesn't change the existing business model. These are just new channels, whose interaction must be seamless.

- **Digitizing the supply chain/introducing demand-driven supply chain concepts** In the consumer products market, which is usually characterized by intense competition, an efficient supply chain is very important in terms of cost advantage (lower inventory levels and the ability to understand and react to trends) because an efficient supply chain makes it easier to respond faster to new fashions and changing demand. However, the existing business model remains unchanged.

- **Introducing new technologies at PoS/Smart Digital Store initiatives** It is certainly important to make up for the disadvantages physical business have compared to online channels. Ultimately, the only way to integrate the brick-and-mortar business is by using digital technology to de-anonymize it into a functioning omnichannel concept and by collecting and evaluating data based on relevant information and good recommendations. But again, this does not change the business model.

- **Introducing digital communication channels** The way in which businesses communicate with customers can be described in terms of consequences: companies have been following customers through the channels they use, from the newspaper, to the radio, to the TV, and now to apps, and on into the social media sphere, etc. Companies have to be active and ready to communicate wherever their customers are. The introduction of new digital technology is crucial here, but it still doesn't change the business model.

This list goes on, and looking at recent consumer market developments, digitization is certainly "the new name of the game." Nevertheless, almost all initiatives are just incremental innovations. The importance of this should not be underestimated because without multi/omnichannel concepts, without a digitized supply chain, without a communicative presence in the new digital channels, competitiveness is no longer achievable. That said, the more fundamental threat comes from new, disruptive models. Some markets, for example music, have already experienced this. Others are right in the eye of the storm. If we want to understand disruptive digital transformation in the consumer products sector, it helps to look at markets that have already gone through it.

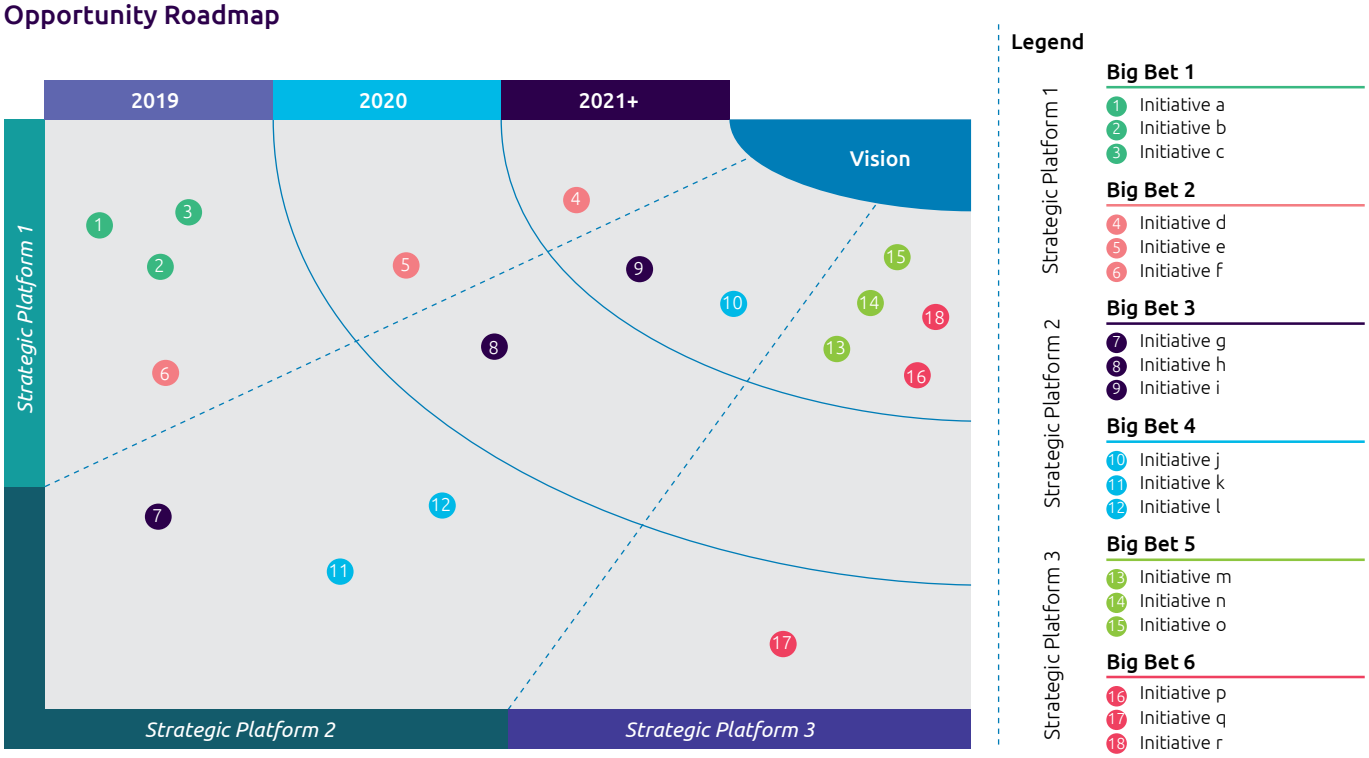
A look at the disruption in the auto industry

When considering digital disruption in the automotive industry, it helps to ask the fundamental question: "what is a car?" You may think: "What kind of question is that? Every kid knows that! A car is a vehicle with a motor, a steering wheel, seats, a drive shaft…" But, from the vantage of automakers, that's just the product-oriented definition. But, because we've used it for decades, and nothing in the market has changed the business model, we've come to see this definition as invariable. We simply take it for granted. Psychology calls this a pathological path dependence, a phenomenon that also occurs in the corporate culture, making it difficult for acting managers to look beyond the status quo. But if you look at the companies in the emerging mobility market, you will find completely different definitions, which are based on fundamentally different business models. How do you define a vehicle, for example, from the point of view of a telecommunications company? It's a traveling SIM card that provides communications services, whether it be the driver's personal communication with other people or the internet, or, to a much greater extent, machine-to-machine communication during maintenance, traffic flow, service, etc. The underlying business model is the distribution of access and data packages. And how is Google's business model based on the car? After all, Google is a leader in the development of autonomous vehicles. Despite all the innovations (cloud services aside) the model is based on advertising revenue. People go online to browse or search for something, and Google makes money by selling advertising space. The more information Google gets from the searcher, the better, because it can then offer more individualized advertising. Surfing the net while driving is so far limited for obvious safety reasons. But autonomous driving can and will change that. So, for Google, the vehicle is another place to search the web where its established business model can and will be used. In addition, Google can then also collect data from the physical world and get a broader view of the consumer, which can make advertising even more individualized and valuable. It's certainly clear what a car is for Amazon – it's just another screen, another place for online orders – and the expansion of the data collection to gain a more complete picture of the consumer applies to Amazon as well as to Google.

If you condense all that, you get a picture of the disruptive developments in the mobility market. In the future, it will no longer be about the product-oriented view (who builds the best, fastest, most beautiful vehicle). It will be about the job the car does (how do I get from A to B cost effectively, fast, and in a way that allows me to work, watch a movie, etc.) Needless to say, we can expect that there will be an app-based platform in the future that will allow metamodel journeys from A to B. Uber and others are merely the harbingers.

The most promising opportunities are further detailed and evaluated based on strategic fit, benefit and effort

Opportunity Roadmap



Intended year for mass roll-out

From product to job-to-be-done

As mentioned above, CP companies have always been product-oriented. This is obvious from their advertising messages. Specific product attributes and benefits, communication, and thinking continue to dictate the way CP companies behave. Harvard professor, Clayton Christensen, on the other hand, has used the "jobs-to-be-done" method to help companies overcome the product-centric way of thinking by asking what job a product actually does for the consumer. What sounds so simple is in practice a complex issue with sometimes significant, or even existential, consequences. People never had a real need for typewrites, but they did want a tool that would help them write. Then, as PCs came along and word processing programs such as Microsoft Word conquered the market, we were confronted with tools that could do that job much better and more comfortably. The typewriter market was annihilated and with it product-centric manufacturers who failed to understand the job their product did for the consumer.

Christensen describes his approach to understanding what kind of job US fast-food restaurants should do in the morning when people make a quick stop at the drive through on their way to work, school, or wherever. A product-oriented analysis, backed by market research, would hone in on the typical American breakfast and come up with something involving "bacon and eggs."

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A product-oriented analysis, backed by market research, would hone in on the typical American breakfast and come up with something involving "bacon and eggs." Christensen's research suggests that most customers want something that is filling, yet quick and easy; something they can consume as they drive. They concluded that bacon and eggs or burgers and fries don't meet that need. A milkshake, on the other hand, fits the bill. Ironically, this project started with the product-oriented question of how to improve milkshakes, using the usual analytical techniques: consumer survey, taste testing, ingredient variations, etc. Only when the direction of the analysis was reversed did the findings described above emerge.

With the jobs-to-be-done mindset, we can now look at various consumer goods and ask ourselves what job they are supposed to do. Do I need actual dishwasher tablets? Not necessarily, because the job is to clean dirty dishes. This is currently solved very efficiently by combining dishwasher with tablets, but in the future, other solutions are possible. Do I need running shoes? No, only derivatives. I might want to lose weight and get in shape, and to achieve this goal the running shoe is just one piece of the puzzle.Reflecting on this problem or on the job to be done, we can start thinking about the opportunities digital technology can or does provide. Imagine a provider who has accurate data about my body (how I move, what I eat, etc.) and who, based on that data combined with an intelligent algorithm, tells me how I can lose weight or get in shape – a kind of Body 360 Operating System. This obviously includes personalized nutritional and sports advice, which may or may not include running. And when I do run, the software knows which shoe is best for me, based on my physical data (weight, foot shape, history of medical issues, etc.). So, it's about thinking how digital technology can help with jobs that existing products are thought to solve best. The running shoe example shows that:

- Data-driven platforms will infiltrate almost every area of life and develop individual solutions based on AI-supported analytics.
- Products are just a means to an end, a piece of the problem-solving puzzle, a job to be done.

In order to understand these jobs and develop a new vision, a new value proposition, based on the possibilities digital technology delivers, Capgemini has developed a procedure which is presented below.

The Capgemini Method: From objective to digital vision to opportunity roadmap

In most cases, projects that develop a new vision start with open and creative brainstorming led by a specialist. This approach may or may not yield good results. Creative elements also come into play in Capgemini's approach. After all, an unknown future is at stake. But what is decisive is that we use the scientific method to arrive at hypotheses that are backed by solid knowledge. First of all, the goal must be set in common. Is it a digital vision for the entire company, or a limited area (a single country, a specific product range, a subsidiary, etc.) in order to learn and experiment in this limited area an?

The goals should be based on existing problems that are analyzed using the jobs-to-be-done method. A consumer products company, for example a detergent producer, should look beyond the product-oriented view and ask what job the detergent should actually do and what problems their product has. Then, one could get examples of the following findings:

- Of course, consumers want their laundry to be cleaned quickly and efficiently.
- But they also want it to be cleaned in a sustainable and ecological friendly way.
- They want tips or special products for complicated and stubborn stains.
- They want everything about the product, application, and dosage to be intuitive.
- And they want the detergent to be compatible with their washing machines.

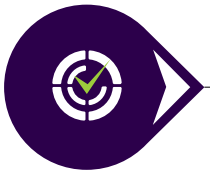
When we compare these insights with the current market reality, we can, in most cases, already determine where deficits exist. And, we can get the first disruptive ideas about how the job required by the consumer can be solved by something other than an existing product. Maybe the consumer will only ever buy laundry detergent for their washing machine because there's no other way to get their clothes clean – just like you used to have to buy cars to get from A to B until shared services came along. But, is a sort of Laundry-as-a-Service, which doesn't entail buying and owning products, possible? Or, could laundry one day be done by a central service in a smart building in a smart city? And, beyond these fundamental considerations, we also get insights into less obvious subareas that harbor immense potential. The product description or the dosing instructions may be undervalued by the consumer (in other words, insufficiently understood).

Did you write them on a leaflet or the product because that's how it's always been done? Are there other ways – an interactive app, a forum, Alexa? And with the customer's understandable desire for hardcore stain solutions, you quickly come to realize that even if you don't have a perfect idea right away, you need to know the individual customer and their washing problems in order to help them. And currently, this is hardly the case.

These considerations and discussions lead to the formation of basic hypotheses and evaluation criteria. In our example, evaluation criteria can include how easy the app is to understand, or what solutions are offered for special stain problems. A hypothesis could be: the customer only buys products he believes to be credible and environmentally sustainable. This hypothesis may seem pretty obvious, but the problem lies in the term "credible" and it may unveil existing problems in communication.

A digital vision can be derived based on rigid, scientific methodology that contains a tangible digital roadmap

GOAL SETTING



Activities

- Understand status quo & set project objectives
- Define project scope & plan
- Align goals & KPIs with relevant stakeholders & management

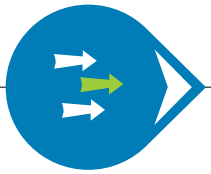
Exemplary tools

Project plan

Results

- Kick-off Workshop

DIGITAL VISION



Activities

- Discover & assess the context (e.g. market trends, competitors, customers)
- Develop hypotheses for digital vision
- Synthesize the digital vision

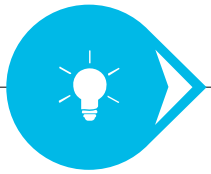
Exemplary tools

Illustrative context view

Results

- Strategic hypotheses
- Digital Vision

OPPORTUNITY ROADMAP

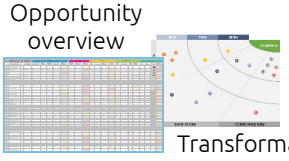


Activities

- Derive & evaluate initiatives
- Review initiatives with key stakeholders
- Prioritize opportunities (e.g. according to benefit, effort, timeline)

Exemplary tools

Opportunity overview



Transformation map

Results

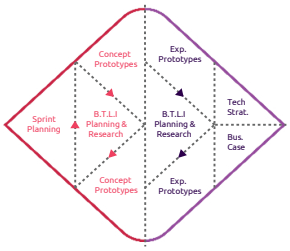
- Opportunity Prioritization Workshop
- Prioritized opportunities

DEVELOPMENT

Activities

- Detail prioritized initiatives Build proof-of-concept
- Develop & build prototypes
- Pilot & start roll out of new solutions

Exemplary tools



Prototyping process

Results

- Proof-of-concept
- Prototypes
- Ready-to-implement solution

In a further step, these findings are systematized and various hypotheses relating to the same area are grouped together (for example everything about individual problem solving) – we call this a platform. And if you then reword and enrich the hypotheses (communication regarding environmental sustainability is based on an official seal and takes place interactively via an app), you transform the hypothesis into an opportunity.

Since this phase generally results in a multitude of platforms and many opportunities, we need a way to prioritize them. For this, internal evaluation criteria – in our case, economic impact, improving the ecological image, or increasing the understanding of the individual consumer, are used –are then combined with a weighting factor. The following graphic clearly summarizes the individual steps. It is important to understand that these considerations and discussions cannot be conducted in the vacuum of an isolated office, but that all relevant parties (consumers, retailers, functional areas of the company, logistics partners, agency and communication partners, IT providers) have to be part of the process.

The next step leads to concrete solutions. The abstract opportunities have to be differentiated into concrete solution prototypes. In our example, a detailed description of the app, which enables the IT department or service provider to create prototypes, must be created. Since this usually leads to varying amounts of effort and time, a chronological sequence is formed for implementing and testing the prototypes. We call this the opportunity roadmap.

The results of the prototypes, which are usually collected from select test markets, target groups, etc., have to be rigidly and systematically evaluated. This always leads to a modification of the original hypotheses and opportunities – this is simply the nature of the theoretically never-ending process based on the scientific method – trial and error. Ultimately, however, the modified opportunities associated with the defined platforms represent (almost) all the pieces of the puzzle that, in their entirety, comprise the digital vision – not just abstract an abstract one, but with a whole series of measures that bring the vision to life. And, last but not least, they are tested for the defined company goals. Capgemini has the end-to-end capabilities to accompany and control the process from start to finish.

Conclusion

Just as the media and telecommunications markets have been completely disrupted and turned upside down by digital transformation, so too will the consumer products markets be. There is no doubt about that, but no one knows ex ante which new concrete business models will shape the market. That said, we are not without recourse in our journey towards an unknown future. The jobs-to-be-done method, combined with Capgemini's hypothesis-based scientific methodology for developing digital visions and value propositions with corresponding concrete roadmaps, provides navigational tool for a successful journey. After all, if there is to be no retail in the future, we, as a consumer products company, should be prepared. And if there still is, it will be a different kind of retail.

About Capgemini

With more than 190,000 people, Capgemini is present in over 40 countries and celebrates its 50th Anniversary year in 2017. A global leader in consulting, technology and outsourcing services, the Group reported 2016 global revenues of EUR 12.5 billion. Together with its clients, Capgemini creates and delivers business, technology and digital solutions that fit their needs, enabling them to achieve innovation and competitiveness. A deeply multicultural organization, Capgemini has developed its own way of working, the Collaborative Business Experience™, and draws on Rightshore®, its worldwide delivery model.

Learn more about us at

www.capgemini.com

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Achim is leading the Global Sector Domain Customer Engagement in Consumer Products and Retail. He focuses on digital strategy, digital transformation and new business models with a strong focus on customer centricity.

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