




INTELLIGENCE THAT DELIVERS

*How FMCG companies can drive
profitable, sustainable growth*



A cosmetics manufacturer has a plan. With a new, aromatic oil – organic, sustainable, and fair-trade – they believe they can produce a unique line of body creams that are both sustainable and cheap. Their prototype was a success – now it's time to scale up and start selling.

The plan immediately goes off the rails. Despite their earlier assurances, the supplier isn't prepared for the quantities involved. The cosmetics company finds another supplier, only to have their cargo sit in a foreign port for weeks. Waves of disruption start to spread now, as another product is wedged into the empty production window, leading to planning, re-planning, endless firefighting and frustration across teams, and ultimately, to an inventory imbalance.

When the oil finally arrives, it's rancid. Once again, another product is rushed into production to fill the gap. Management decides to cut their losses. This year they'll stay the course: the opportunity has been lost.



INTRODUCTION

Traditional supply chains collapsed under the Covid lockdowns, and what grew to replace them is a different beast entirely. Most FMCG companies are beginning to adapt to the new normal, but they're not getting the results they need. Shelves are empty at crucial times. Successful new products fail to scale. And in everyday business functions, margins are evaporating as FMCG companies struggle to accurately anticipate costs and availability.

5 out of 6 FMCG organizations may be under-equipped to manage today's supply chains.

What trends are disrupting FMCG?

Is there something wrong with the actions FMCG companies have taken so far?

What does a successful supply chain strategy look like today?

These are some of the questions we'll be answering. We'll look closely at the new pressures in the industry, and the unique challenges of reacting to multiple imperatives at once. The disruption today is unprecedented, but the opportunities are unparalleled. Armed with the right set of strategies and capabilities, we believe that FMCG companies have a chance to gain a lasting competitive advantage.



1. TRENDS OF THE 2020'S

We identified four consumer trends that are leading customers to change their shopping habits – and their loyalties.

4 consumer trends...

Every year, the Capgemini Research Institute releases our [Consumer Trends Report](#), looking at the dominant retail trends from a consumer perspective. In the most recent edition, we identified four consumer trends that are changing customers' buying behavior, their preferences, and their loyalties.*

1. Ever more personalization

If you're tired of hearing about personalization, here's some bad news: there's a reason this demand keeps coming up, and it's not going anywhere, ever. Why not? Because there's no practical limit to how personalized a product can be, and there are 8,042,528,301 individuals in the world (as of the writing of this report). Products are being individualized to a level undreamed of just years ago, and consumers can't get enough of it.

To see how far this trend can stretch, take the example of Coca Cola's [Freestyle](#) – one of the most interesting projects we've supported in this domain. With the help of a specially developed flavor infusion system reminiscent of ink jet cartridges, a single vending machine delivers thousands of original flavors, meeting every customer's taste. Similar innovations are in the works for other FMCG products. According to our research, 78% of consumers say they will be more loyal to companies that help personalize their purchasing and consumption experience.

2. Seamless channel selection and fulfillment

To put it simply, customers don't care about the channel, they just want what's at the other end. The ideal channel strategy is invisible to your customers. This may be the most thankless job in all of FMCG – the better you perform, the less your customers notice it. The same is true for fulfillment – customers are happiest when you make it look easy. 43% of shoppers say delivery and fulfillment are the most important service attributes, and 45% of consumers ordered directly from brands.

Where the current response falls short

Over the last two to three years, many FMCG companies have made improvements to their supply chain approach, and with some success. But fatigue is setting in. Despite their efforts, many companies face [similar challenges](#):

- With longer lead times and port delays, 70% still face uncertainty related to material supplies.
- With a lack of manpower and frequent breakdowns, 75% still have trouble scaling production up and down.
- With unreliable insight into multiple fronts, 66% still have trouble with basic demand planning.
- Finally, 68% of companies see a role for circular economy in their future, but lack the resources to enact it.

To see why today's challenges are so imposing, let's zoom out and look at the FMCG landscape as a whole.

*All stats come from CTR.

3. Uninterrupted service (despite disruption)

Port closures, railway shutdowns, shutdowns of entire cities – these are what the kids call, “you problems.” Consumers will not pay one cent more to help you through them. They have their own problems to worry about, in the form of soaring prices (in every sector) and unavailable products; they’re exhausted by it, and they’re less forgiving than ever. 58% prefer to buy a similar product from a competing brand in case their preferred product is unavailable.

4. Affordable sustainability

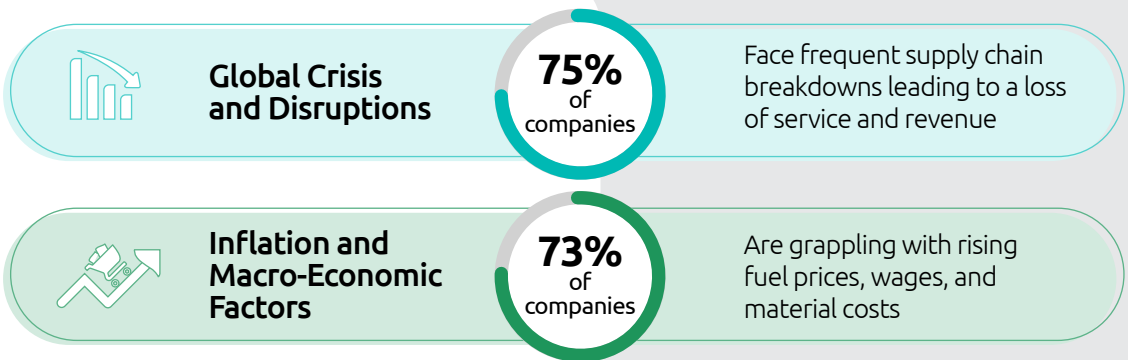
Customers used to view sustainable products as something like luxury products. Not anymore. Customers today want sustainable, but the majority don’t want to pay more for it.

41% of consumers are willing to pay for sustainable products, while 54% say that they value affordability over the sustainability of the product. 59% believe that “sustainable products do not need to be more expensive than similar products that are non-sustainable.”

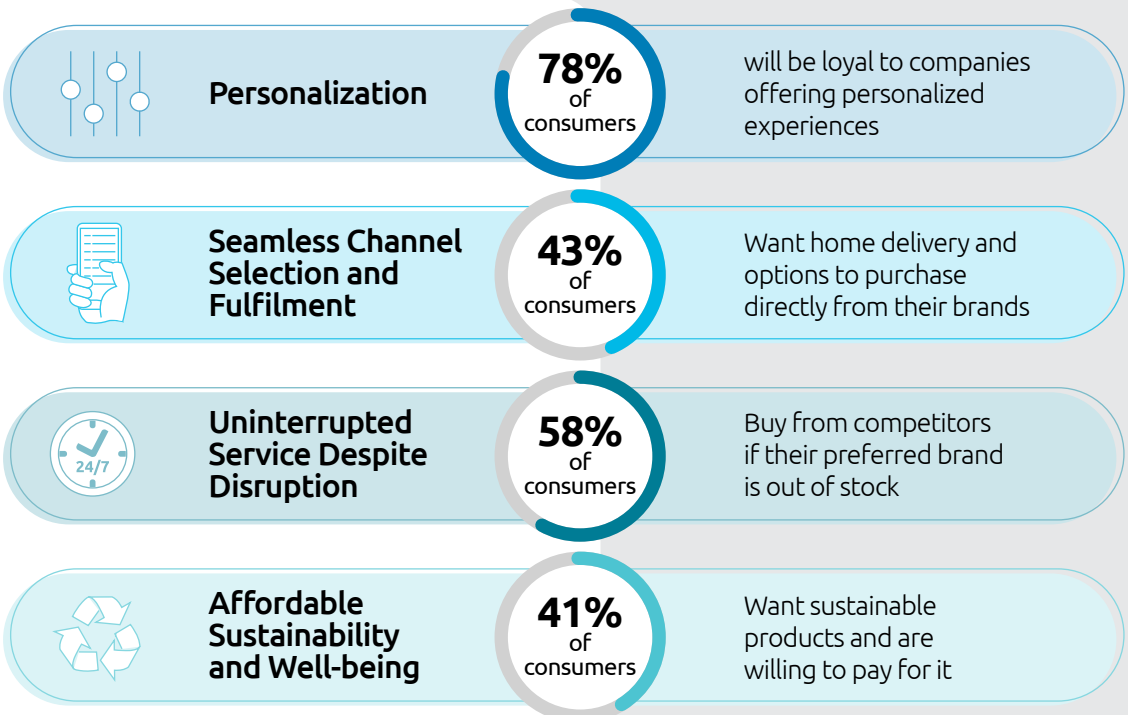
The significance of this trend cannot be underestimated.

Dominant retail trends from a consumer perspective

GLOBAL TRENDS



CONSUMER TRENDS



Source: “What matters to today’s consumer” 2023 Report, Capgemini Research Institute

...and two global trends

While FMCG leaders try to meet these growing consumer demands, they're also up against two formidable global trends:

1. Global crisis and disruption

During the pandemic, people debated what would come next: a return to normalcy? A new normal? Instead, we got war and international sanctions. 75% of FMCG companies have faced delays in inbound supply over the last 2 years, while over 70% were unable to shift production and supply.

2. Inflation and macro-economic factors

The US government estimates that they spent approximately **4.6 trillion dollars** on Covid relief. The EU reports just over **2 trillion euros**. It appears that this money is coming back now, in the form of virulent global inflation on a scale not seen by many countries in decades. The prices of labor, transport, energy, and building materials have risen dramatically and remain unpredictable.

45% of consumers are worried about affording food or other basic household necessities. 67% say that brands and retailers should accept lower prices for the products that they need to survive (i.e., essential items like food, medicine, fuel, apparel, and utilities). Customers are not happy to see costs passed on to them.

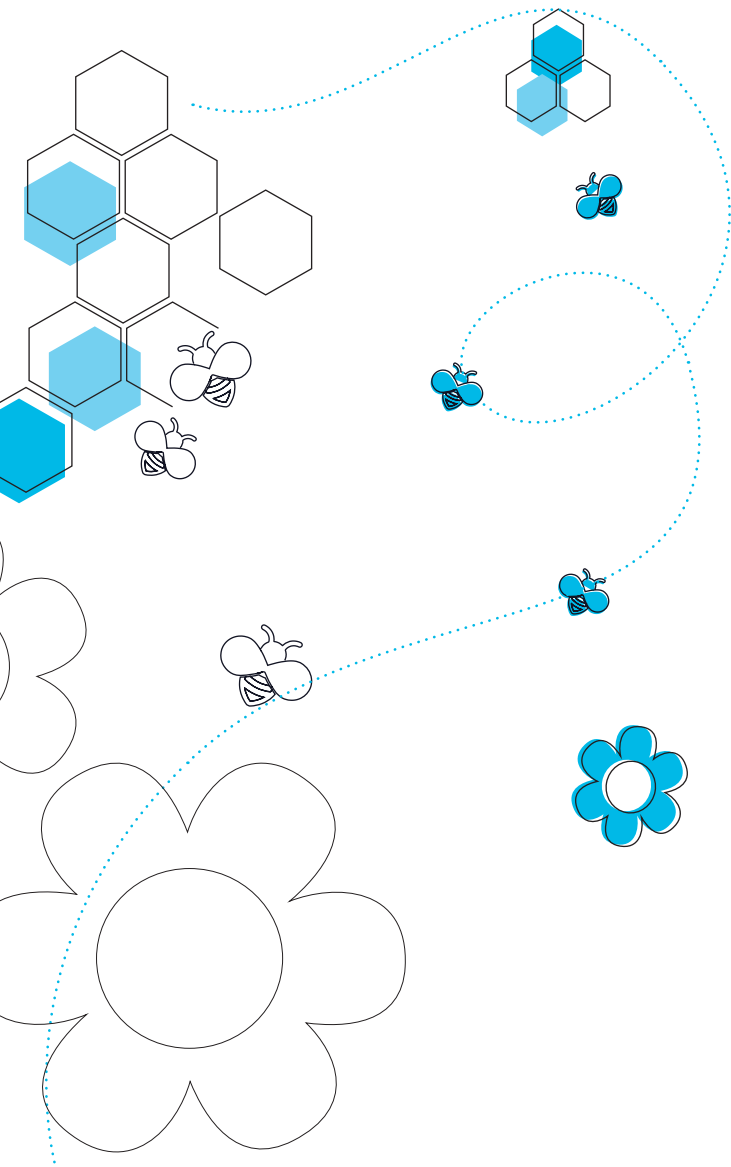
Customers today expect it all, with no trade-offs. And they're getting what they want, as more and more of your competitors learn how to adapt.

No easy solutions

To make matters worse, these six trends compete with each other, compounding the challenges. Let's take just one trend – **affordable sustainability** – and see how it is affected by every other trend:

The remaining five trends all have a tendency to drive up prices, making all products (including sustainable products), less affordable. The global crisis also impedes experimentation – necessary for the development of new, sustainable products. Personalization and seamless channel selection and fulfillment reduce economies of scale and create additional emissions. Every other goal stands in direct opposition to the goal of affordable sustainability.

The same is true for each of these trends, to a greater or lesser extent. Inflation raises the cost of direct delivery. Personalization increases the need for new materials, often in small amounts. Trying to strategize and redefine your supply chain to address all of these trends at once can feel impossible. It's not that there's anything wrong with the solutions FMCG leaders have tried – they're just not enough for the scale of the challenge. There's a whole new FMCG landscape today. Responding to it adequately requires a new kind of thinking.





2. THE NEED FOR AN ADVANCED, INTELLIGENT SUPPLY CHAIN

Driving sustainable, profitable growth today means transforming our supply chains into something intelligent. What does “intelligent” mean in practice? Advanced, intelligent supply chains are about automation, accuracy, and speed. An intelligent supply chain strategy gathers data and analyzes it, bringing everything under the eye of a control tower that gives your team visibility from one end of the supply chain to the other. Intelligent supply chain solutions

comprise many of the approaches you’ve likely already tried, some new, plus some fundamental shifts that increase efficiency and lower costs.

Six elements to aim for

Intelligent supply chain solutions will vary from one organization to the next, but a successful strategy is likely to cover the same basic needs. We divide those into six parts:

1. Your solution aligned with your business strategy, ensuring profitable and sustainable growth across customers, channels, and products.
2. It takes advantage of supplier visibility and collaboration platforms to monitor and enhance the performance of suppliers at each tier, promoting collaboration and sustainable procurement.
3. Touchless forecasting and integrated business planning anticipate customer demand and optimize inventory deployment. This helps create a more responsive supply chain while optimizing service, cash, cost, and sustainability.
4. Digital solutions and automation, such as smart order management and autonomous warehousing and transportation, streamline order orchestration and improve customer experience. These solutions also contribute to more sustainable operations.
5. Reverse supply chain logistics support a profitable circular economy model. This facilitates the efficient reuse and recycling of products.
6. Digital twins provide end-to-end network resilience and sustainable performance control.

6 ELEMENTS TO AIM FOR



The graph below shows some of the opportunities that arise with an intelligent supply chain, together with the types of gains we've seen.

As part of an advanced intelligent supply chain, changes such as these are linked to a holistic, company-wide strategy to avoid the competing priorities effect we discussed earlier.

Increasingly, we hear people speaking of supply ecosystems, and the comparison is apt. The amount of complexity today is staggering, but there are structures, and they work in fairly predictable ways. To interact with that ecosystem, your organization needs to be at least as structured, and flawlessly connected. That's what an advanced, Intelligent Supply Chain gives you.

FMCG ORGANISATIONS NEED TO MOVE TOWARDS 'INTELLIGENT' SUPPLY CHAINS THAT ARE INTEGRATED AND FOCUS ON A WELL-BALANCED SET OF OUTCOMES ENABLED BY KEY CAPABILITIES



1. SUSTAINABLE SUPPLY CHAIN STRATEGY AND OPERATING MODEL

Develop supply chain strategies, including operating model, digital, and data, to deliver the business strategy across customers, channels, and products to enable profitable and sustainable growth.

Segment market, channel, and products to deliver intelligent and resilient network design and performance strategy for ecosystem across network.



2. SUSTAINABLE PROCUREMENT & SUPPLIER COLLABORATION

Visibility, integration, and collaboration to improve resilience, speed, and scope 3 emissions
Drive agility and resilience with partnerships



3. TOUCHLESS FORECASTING & INTEGRATED BUSINESS PLANNING

Disruption-ready planning, demand sensing, inventory optimization, supply optimization; balancing service, cash, cost, and sustainability



4. ORDER ORCHESTRATION & SMART FLOW EXECUTION

Intelligent order management, autonomous warehousing, and transportation to deliver intelligent fulfilment capabilities; underpinned by leading OMS, TMS, WMS



5. SUSTAINABLE LOGISTICS & CIRCULAR ECONOMY

Design and deploy reverse supply chains for a profitable circular economy model
Carbon footprint tracking; driving innovation in last mile logistics with Retail partners



6. E2E NETWORK RESILIENCE & SUSTAINABLE PERFORMANCE CONTROL

Resilient network operations and optimisation

Digital twins, event monitoring, what-if scenario simulation, and risk management for disruption-ready networks through deployment of cloud-based solutions and platforms

Insights on product provenance, emissions, GHG and carbon impact (Scope 1,2,3) to achieve sustainability goals

POWERED BY DATA



3.

INTELLIGENT SUPPLY CHAINS IN ACTION

Here are a few examples of how some FMCG leaders have managed to organize the complexity in their supply chains, and the benefits they're enjoying.

Touchless forecasting

A global FMCG leader had hit a plateau in accuracy. With a Touchless Forecasting solution powered by AI, they gained greater accuracy and visibility into every tier of their supply chain.

Touchless forecasting led to:

- 8 – 10% gain in forecast accuracy, with 3 – 5% improvement in forecast bias
- 20 – 30% productivity gains for the demand planner, accompanied by an 80% reduction in the forecasting cycle time

Demand sensing

A global soft drink leader wasn't satisfied with their forecast accuracy and subsequent overstocking and outages. Emergency transport was eating up their margins and harming their efforts at sustainable shipping.

The demand sensing solution they implemented provided an immediate 22% boost in accuracy, with a 7-day rolling horizon. Planning was stabilized along their entire supply chain, smoothing out production planning, increasing capacity, and lowering transportation costs. Their savings in the first year alone ran into the millions.

A true, intelligent supply chain

Finally, our collaboration with a leading global consumer packaged goods company resulted in a remarkable transformation of their supply chain operations and a new

operating model. By implementing a comprehensive set of changes, the company successfully optimized their processes and achieved outstanding outcomes. The key focus was on developing a connected business operations model to drive end-to-end alignment, efficiency, and future growth through standardisation and digitisation.

Alignment and adoption was key, as they rolled the new operating model out across multiple functional areas. They implemented integrated forecasting for accurate demand projections and facilitated collaboration and alignment with key customers through customer business planning. Integrated supply planning ensured optimal inventory levels and minimized stockouts, together with material requirement planning, order management, and stock allocation. Transportation management streamlined logistics operations, while collections management and claims management enhanced financial efficiency.

Was it worth the effort? The company is able to provide best in class and segmented services, fully leveraging the benefits of scale, cutting-edge technology, and a strong centre of expertise to each of its category groups. These services will enable business priorities of competitive, profitable, consistent, and responsible growth. The company was able to improve productivity whilst effectively serving more than 250,000 customers across 30+ markets. The financial value generated by this new operating model was also significant.

One reason why so many companies are frustrated is that they pour money and effort into plugging a few big leaks, only to be blindsided by an unexpected wave. What this company did so well was to implement changes across the board, from the top down. Not only are they now internally on the same page; they are on the same page with many of their key suppliers. That's an advanced intelligent supply chain in action.

4. A FOUNDATION FOR PROFITABLE, SUSTAINABLE GROWTH



John has a disaster on his hands. His wife's birthday is tomorrow, they've planned a trip together, and he's trying to buy her a present – her favorite perfume. But all the local stores are out of it. He's tried two cosmetics stores already, and phoned two more. Nothing.

Desperate, he texts his friend for advice.

His friend responds with a link.

As the website opens in front of him, John can't believe what he sees. This cosmetics distributor offers same-day delivery – not only to your home, but inside airports, on the other side of security. He can select whatever he wants from hundreds of items and pick them up airside tomorrow. No size limitation, no pouring expensive perfume into tiny bottles, and absolutely no more driving around searching store after store.

It's not just better than the previous store, it's in a different league.

John selects his wife's perfume, together with a couple other items. Then he scans over the website, and sees a link to another page of home goods... with a built-in order schedule, so that all he needs to do is select how frequently he wants his items, and then they'll be grouped together and delivered, automatically, for as long as he wants.

An idea strikes him.

John takes out a slip of paper and writes out:

Happy birthday my love!

For your present, I pledge to handle all our home care shopping for this year.

– Your loving husband

If there is one, underlying message to take away from our report, it's this: an advanced supply chain strategy requires success on many fronts simultaneously. Do that, and a new world opens up. We often hear FMCG companies worried about lagging customer loyalty, and it's true; customers are ready to leave for a company that meets their needs better. Why can't that company be yours?

Your customers have spoken. With an advanced, intelligent supply chain, you'll be ready to answer.



We're seeing great potential for artificial intelligence in warehouse management, demand sensing, customer operations, and in driving growth across value chains."

Mayank Sharma

Vice President and Global Supply Chain Capability Lead, Capgemini



Artificial intelligence can optimize supply chain costs by analyzing real time data, determining, and prioritizing necessary actions."

Pravin Chaudhary

Director and Consumer Products and Retail lead, India Industry platform, Capgemini





Authors

Mayank Sharma

Vice President
Global Supply Chain Capability Lead
Capgemini
mayank.q.sharma@capgemini.com

Pravin Chaudhary

Director
Consumer Products & Retail Lead
Capgemini
pravin.a.chaudhary@capgemini.com

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