Consumer Packaged Goods

How to get a generous slice of the e-commerce pie

Mindtree

The secret is out. CPG organizations can't ignore e-commerce. But here is the real secret that few will admit to: just launching an e-commerce site doesn't mean you are done and dusted. You need to think about an e-commerce strategy for a digital world. In reality, the confusion starts here and the faster a CPG company sorts out its goals, the faster it is going to get to the **$4.1** trillion pie that e-commerce sales is projected to become by 2020. An indicator that e-commerce makes good business sense for CPG is in the **$13.7** billion Amazon put down for Whole Foods last year. QED.

While the FMCG market has been flat, increasing at a measly **1.6%**, e-commerce during the same period accounted for **4.4%** of all FMCG sales. In other words, there never has been a better time to get down to the brass tacks of e-commerce. To do this, there are three approaches that a CPG organization can consider, each based on business imperatives:

1. Piggy back on an online marketplace such as Amazon.com or Alibaba.com *(great reach)*

2. Ride existing channels and their e-commerce initiatives such as Tesco.com or Carrefour.com for a mix of online and offline sales *(and access all the attendant customer services)*

3. Bet on a Direct2Consumer (D2C) model and set up an independent e-commerce site *(experience the freedom to adjust promotions, products and pricing at will)*

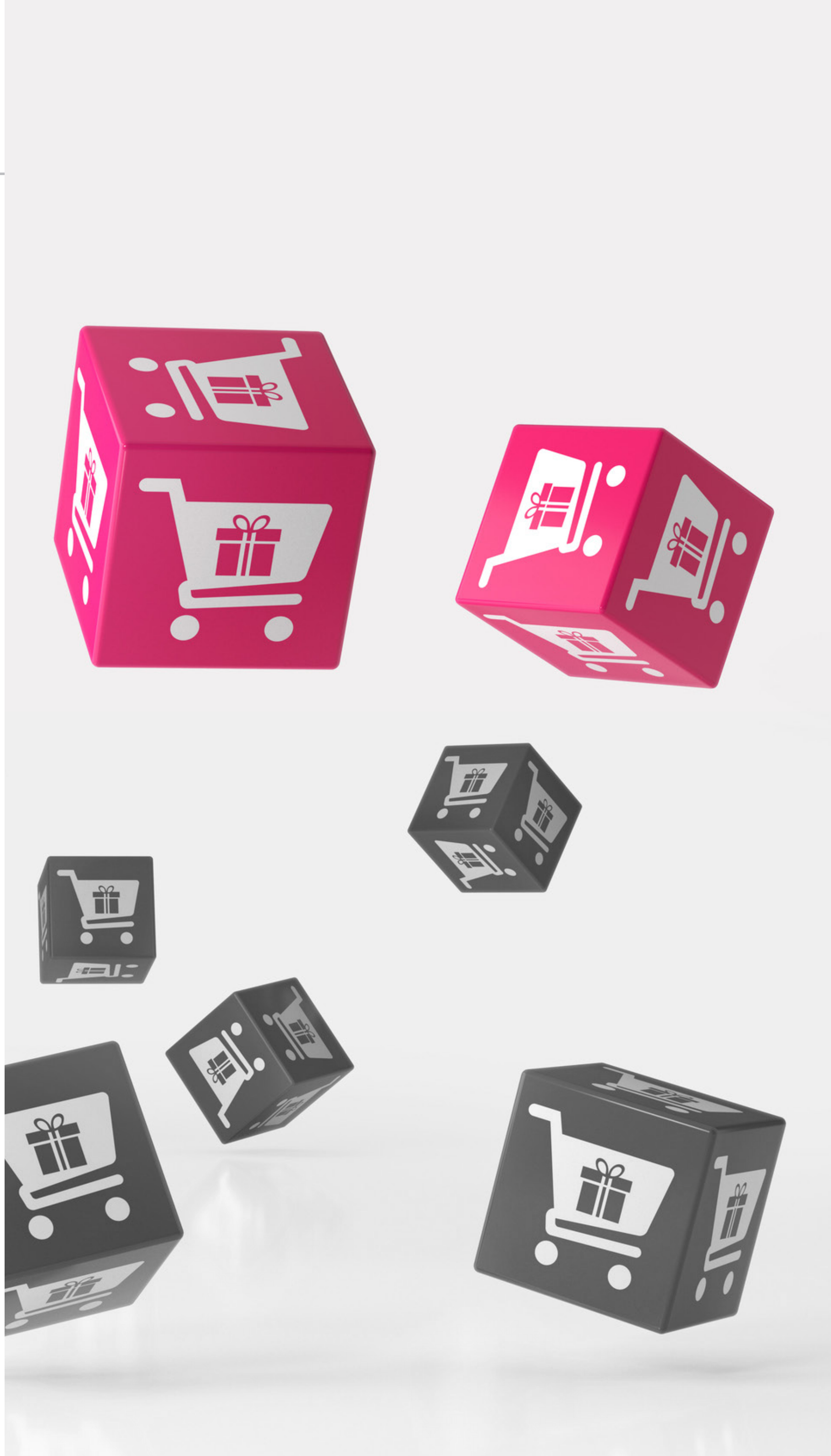
Taking the Right Bets

Options #1 and #2 have worked wonders for the industry. These two approaches have allowed CPG companies to reach new markets at minimal cost. For example, when Dutch multinational dairy cooperative Royal Friesland Campina wanted to take its milk products to Mexico and China, it used a combination of Facebook, online marketplaces and distributors rather than experiment with setting up its own e-commerce sites or relying on TV advertising for the new geos. The results were spectacular. It experienced a **27%** increases in sales and had **11x** more reach than TV by engaging 16 million mothers (or mothers-to-be) in Mexico.

CPG companies wanting to expand to new geos such as Brazil, India and China can follow the same path. It requires minimal investments and only the essentials of fulfilment to be put in place. Online sales of products like laundry detergents, toothpaste, health snacks, deodorants, diapers, protein powders etc., have witnessed soaring online sales for companies using the online-marketplace-distributor-tie-up strategy. Wallet share has grown, the changing purchase habits of customers are being met and new markets are being conquered. What more can a CPG company ask for?

Actually, plenty more.

Options #1 and #2 provide little by way of customer intimacy to a CPG company. The company has no insights into its customers – their profiles, buying habits and needs and therefore cannot target the customer, cross-sell or upsell and improve basket size. The solution is to opt for Option #3 and bet on a D2C model.



The Art of the Possible with D2C

The truth is that CPG organizations are wary of a D2C model - and with good reason. The top 3 turn-offs include the fact that CPG shopping is always part of a shopper's larger mission and that mission is fulfilled better at a marketplace offering a wide variety of products and choices; the complexity of setting up an e-commerce operation along with fulfilment is formidable; and developing a value proposition for the customer to buy directly from a CPG organization is daunting. The last reason is often the most powerful show stopper. Everything else hides behind this.

Developing the Right Value Proposition

Developing the right value proposition can help tap into the growing D2C pool of opportunity. So, here's a simple question: Why would a shopper buy tea bags directly from a CPG company when the same thing can be done at an Amazon.com or a Tesco.com? Some organizations are producing answers to that question, shining a powerful light on the D2C path. Here are five ways you can develop a value-proposition.

Engagement

One of the big challenges on Brand websites is that of fulfilment. Once the brand has developed an engagement either through content-driven marketing or campaigns, most websites fall short at closing the loop by offering an opportunity to buy. Many websites have a 'Store Lookup' implemented. While, this is a good start, it may not be sufficient. Some of the leading websites use capabilities that offer much tighter integration with supermarkets e.g. if you are reading a recipe on Unilever Knorr website, you can possibly add a pack of Herb Infusion Pot to the shopping basket of your favourite supermarket (not just a redirection to their website). What we like about this is that the website is not trying to change the shopper behaviour by making them buy a £1 pack directly, but to add it to their weekly shop. (try this). This is much tighter-integration and error-proof implementation. This helps complete the broken piece in the customer journey.

Inspiration

The recent rise of content-driven marketing aims to inspire the consumer to think about the next logical step. A simple example of this are recipes. Today technology makes it possible to read through a recipe (or scan through a new look on a lifestyle website) and makes sense of the ingredients – which could be food-products, apparel, furniture) and therefore make it shoppable. An interesting example of this is Dulux Paints. The Augmented Reality App allows a consumer to visualise what her room would look like. However, it doesn't stop there, it then allows her to make the tester-pots of these paints shoppable. Same applies to the recipes on the Knorr website.

Convenience

Unilever's $1 billion acquisition of the Dollar Shave Club allows consumers to subscribe to daily essentials like razors, replacement cartridges, shave butters and shower kits. Subscribers get regular supplies that they opt for, saving them time, money and effort. All this for $9/month – allowing them to challenge Gillette.

P&G launched Wash Club that lets consumers get regular Tide Pods based on family size.

The Dollar Shave Club and P&G's Wash Club did not change the core product. Instead, they tweaked the service to improve the value proposition by adding convenience.

Product Innovation

P&G has taken the D2C idea a step further, giving it an altogether real spin. It created Tide Spin , a laundry service that doesn't deliver laundry detergent – it picks up the laundry, does the washing, drying and folding and delivers it back in a (reusable) bag. Talk about changing the value proposition through product (or service) innovation!

Nestle used the Nespresso machines as the vehicle for direct to consumer business. They took it a step further by introducing a Nespresso coffee machine on rent for £1, the rest – from coffee pods to accessories – is available on subscription or on order . The coffee machines allowed Nestle to gain access to a consumer that usually bought via supermarkets.

Exclusivity

M&M literally turns D2C into kid's play. Visitors to their site can customize candy with text, images, colors, blends and packaging or even by occasion (graduation, romance) and holidays (Mother's Day, Christmas) . This is exclusively available on their website. It costs a lot more but targets the occasions market. The same applies to Unilever's Maille website and their exclusive Piccadilly Circus store – where a jar of mustard would cost you £20 and a hamper £70 inclusive of free delivery – a far cry from the £0.85 Coleman's mustard (again from Unilever) that you would find on Ocado. But it is exclusivity that works for M&M and Unilever.

Nestle says e-commerce accounts for 5% of total sales, up from 2.9% in 2012. The company finds e-commerce to be one of the fastest growth areas, up by 18% last year. That is six times faster than its average growth. If Nespresso is not factored into the calculations (because it shows sluggish growth) e-commerce growth is – bingo! – **34% .**

D2C allows some obvious advantages. These include offering customers convenience, innovation, and customization as value. Equally important are the invisible advantages. These include the ability to improve brand image, meet niche/seasonal consumer demands, access better margins, provide free samples, test price elasticity, experiment with product and packaging and, most significantly, acquire customer data.

The Simplicity (and Complications) of Marketplaces/ Distributors

Selling products over a partner marketplace or a distributor's channel is simpler. The marketplace/ distributor platform has, in all likelihood, an online module that allows sellers to register, list and describe products, manage inventory, pricing, discounts, plug into shopping carts, billing, payment along with logistics systems and partners using a bunch of APIs that make everything a cinch.

But in several ways online is like any brick-and-mortar market or superstore environment. Getting noticed is difficult. Ensuring that a specific product (namely, yours) pops up ahead of competition is a challenge. In other words, findability is a challenge.

Building the Analytics Feedback Loop: Findability is a factor of content, imagery and placement. Partner platforms run on the 'search' function to show customers the products they want. Therefore, product descriptions gain the utmost importance. Simply describing a product may not be the most efficacious. Understanding and using the words and phrases customers use to look for a product becomes important. This means having a strong analytical loop that looks at the words customers are using (to search) and quickly putting them into (your) product descriptions.

Right Image for the Right Job: The second factor is imagery. Online shoppers do not have the luxury of picking products/ packs and reading the packaging for contents, product variant and pack size. In addition, product/ pack shots that work on a desktop may not work on a mobile device. Using images that customers can recognize quickly makes a difference to uptake. For instance, with the use of the right hero images, Unilever witnessed uplift of **24%**

The Gondola-end of the Electronic Aisle: Finally, placement on the web page determines findability. It doesn't help that a product shows up on page 3 of the search results on an online grocer's website. No one has the time to looks up page 3. There are third party services that can be plugged into marketplaces to beat the problem. Services like Elevaate, once plugged in, push a given target product higher up in the search results .

There is an additional way to improve findability. This is done by ensuring adverts and 'Buy Now' buttons are placed on any web page based on buyer intent. A system tracks buyers, concludes their intent and optimizes advertising based on the buyer's stage in the buy funnel. These ads can appear on a social media page, blog or within an e-commerce site (or at checkout) that the buyer is browsing. Clicking on the ad or the `Buy Now' button connects the shopper to the CPG company's page within a partner marketplace or distributor's e-commerce website , efficiently completing the customer journey.

A considerable amount of the heavy lifting involved in improving findability can be moved to an API-based platform that automates tasks, leaving nothing to chance or to the vagaries of an individual.

What Should Be the #1 Item On Your Shopping List?

The business numbers, technology trends, tools and consumer habits, all point inexorably to the need for CPG companies to step up their e-commerce initiatives. With the growth in mobile devices and the increasing acceptance of digital commerce across industries – from travel to entertainment and from banking to retail – e-commerce will be a game changer. If you are responsible for sales in a CPG company, put e-commerce strategy, capabilities, skills and partnerships as the #1 item on your shopping list. **For more information on e-commerce or to start developing an e-commerce strategy and ensure flawless execution, write to** info@mindtree.com.

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