



Mindtree

A Larsen & Toubro Group Company



Winning a Consumer in the **New Era of Trade**

Re-imagining the journey for Fast Moving Global Players



Ravi owns a 'kirana store' (traditional mom & pop store) in the middle of a busy city in Central India. He is a school dropout and aspires to change the small 800 sq. ft. store, into one of the largest convenience stores in the city. He worked in a large grocery chain in Mumbai briefly and has adopted few ideas to provide convenience to his customers.

His day typically starts early in the morning acknowledging all the WhatsApp orders that he has received from his customers overnight to deliver at their home. While his helper at the store runs around for quick home deliveries in the neighborhood, Ravi checks the stock of his fast moving items. He knows his customers very well, what kind of items they are looking for from his store and has a good guesstimate of the quantity of items he needs to have in his stores. He ponders over the idea that the sales rep of the CPG company had mentioned to him about introducing a smart store solution, which provides better merchandise & promotion visibility, and helps him to track, stock & manage his inventory better, thus improving his sales. Afternoons are busy receiving items, understanding promotions and negotiating hard with the sales rep of the CPG company. Many a times, while the sales rep pushes for a dedicated shelf in front of his store for new items, Ravi regrets he does not understand the science behind how much and what will sell when it comes to new items, as he cannot believe what the sales rep says. He also does not understand why the CPG company does not adopt newer ways – transform from physical forms to mobiles for accepting orders or cash to digital payments. Every visit leaves him unhappy as he rarely gets the right quantity of critical items.



A shopkeeper in a kirana store in large city in India

FACTS

- Traditional trade contributes to around 46% of the total trade in whole of Asia, with 30 million mom & pop stores across APAC with average 30 – 40 categories per store.
- Storeowners make gross margins of 10 per cent, of which 5 per cent goes towards opex and the rest is their income. Unlike big box retailers and e-tailers that are struggling to achieve profitability, the traditional stores are profitable.
- Research suggests that tradition retailers are digitally enabled and embracing newer technologies faster in their daily operations to provide convenience to the shoppers and to improve sales.





A buyer, part of the centralized team for supplier management, in one of the largest retailers in US

Betsy has to sit across the negotiation table with the key account manager of an established CPG company the whole afternoon. It is going to be a long and tough conversation; she is aiming to cut down inventory and wants to increase shelf space for the private labels. She cannot afford to provide the shelf space that the CPG Company asks for during the holiday season. She has no option; the retailer has been the margin pressure from hard discounted formats & online channels and wanted the price to be 15% lower than the competition and also expand private brand offerings. Her data scientist team has provided her insights at the lowest granular levels about the declining contribution of the CPG brand with the help of sophisticated Machine Learning models. This was helping Betsy to move from instinct-driven to informed data-driven decisions.

The key account manager of the CPG company, on the other hand, who relied on personal relationships, was not well equipped to handle a centralized function for the strategic supplier management adopted by the retailer, and neither did he have the data insights, making him concede readily. He felt that the category insights were being used to simply demand a price reduction. As an after-thought, he also felt that there was a need to move to a joint win-win relationship and shift from a geographical supermarket approach to a channel agnostic & shopper-centric approach for these negotiations.

FACTS

- ➔ CPG companies still generate most of their sales from developed markets. However, the slow growth leads to new product innovation, newer business models and more collaboration with retailers and suppliers.
- ➔ Winning CPG companies are closely working with retailers to derive a deep understanding of consumers and create customer-specific assortments and marketing programs.
- ➔ Companies are engaged in joint collaborative planning on assortment optimization and space strategy to refine planograms and promotions. They are also moving towards performance and outcome-based agreements, and managing trade funds across channels collaboratively.





EXECUTIVE SUMMARY

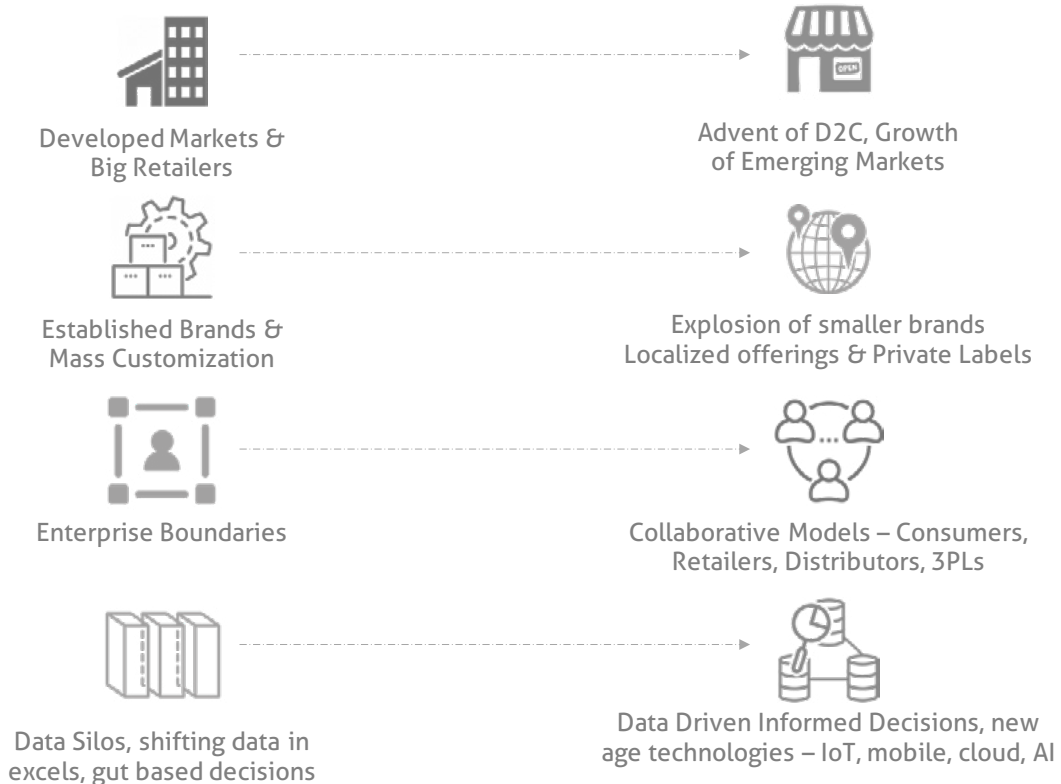
The last decade has seen fundamental changes in the way consumer good companies have conducted their businesses. Analysts initially felt that there would be a crippling decline in the traditional methods of trade in the emerging markets with the assumption that modern trade would quickly scale, expand and acquire customers. However, the economically stressed population could not afford trips to modern stores, while the fragmented & unorganized logistics network could meet the unanticipated surges in demands. CPG companies soon realized that with a better penetration strategy and the enablement of digital tools, they could unlock huge opportunities from the traditional trade network.

At the same time, modern trade in Western Europe and the US witnessed a considerable change with new patterns of consumption, localization and the dilution of accumulated brand value, resulting in the growth of newer categories & private labels, direct to shelf

deliveries and faster fulfilment strategies. In these regions, modern trade contributes close to 75% of sales; but analysts saw a decline in contribution of top CPG brands to category growth because of lack of innovation, thus leading to stagnation in sales.

For both Ravi and Betsy, business is difficult and with the advent of D2C, the intensity of competition has become stiffer for them with shoppers' needs being fulfilled in 2-hour lead times, curbside pickup and free delivery models. The growth of online sales has impacted CPG brands, leading to a transformation from analog sales model of bulk orders and large order lines to a new combination of multichannel selling, faster distribution strategy of smaller order sizes, more complex and labor intensive picking and same day deliveries. Suddenly, CPG companies who continuously fought for the front of store aisles have started learning how to find prominent spaces in the digital channels.

CHANGING DYNAMICS





REIMAGINING THE JOURNEY: COMPONENTS THAT CPG COMPANIES NEED TO RE- CONSIDER

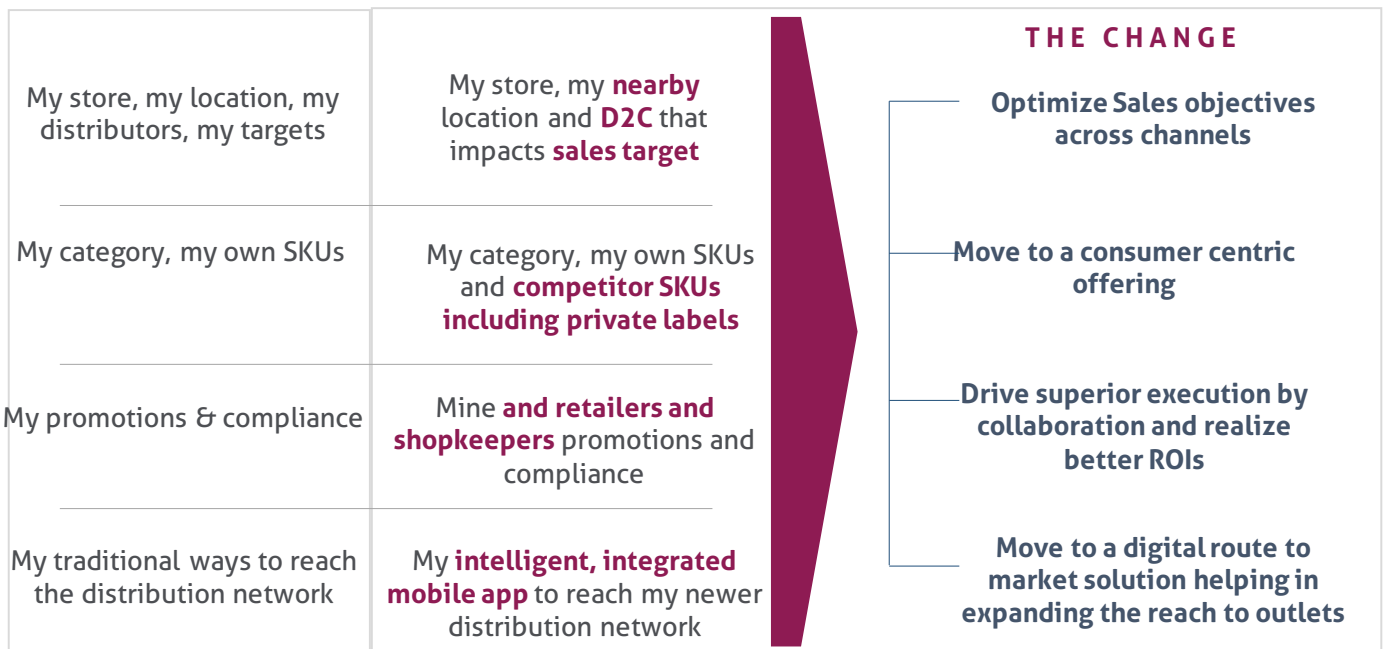
At Mindtree, having worked with some of the leading CPG companies, we realize that they are quickly adopting to agile models focused on brand relevance and shoppers’ needs. The early transformation efforts of a few companies have helped them respond quickly to market changes and evolving customer behavior. While companies continue to evolve newer business models and drive digitization of their core process areas, here are some of the major spaces where they need to focus to effectively transform & create value

1) Agility & Partnership mindset in the way CPG companies serve their accounts

CPG companies need to re-organize their sales team and distribution network across channels, making eCommerce a part of their core business and overcome the internal issues related to channel conflicts to meet

the overall business objectives. It is imperative that the role of account managers and sales teams shift from a geography-specific supermarket to planning a more granular approach: Channel (including eCommerce) – Brand - Consumer, thus shifting from a role of **negotiator** to **partnering with the retailer or the distributor**. This will lead to pushing down the price, which will force CPG companies to live and redesign the distribution network within a lower gross margin structure. In addition, the need to move to D2C (direct to consumer) is a massive cultural shift and a significant investment, affecting the traditional distribution models. CPG giants need to quickly shift away from having a distribution network designed for bulk shipments to stores, which takes 3 to 4 days to fulfil, to one that also includes small-quantity shipments to retailers and to small outlets within 24 hours. This would mean a large shift in inventory positioning and delivery strategy and innovatively solving last mile delivery challenges.

KEY ACCOUNT MANAGER AND SALES TEAM





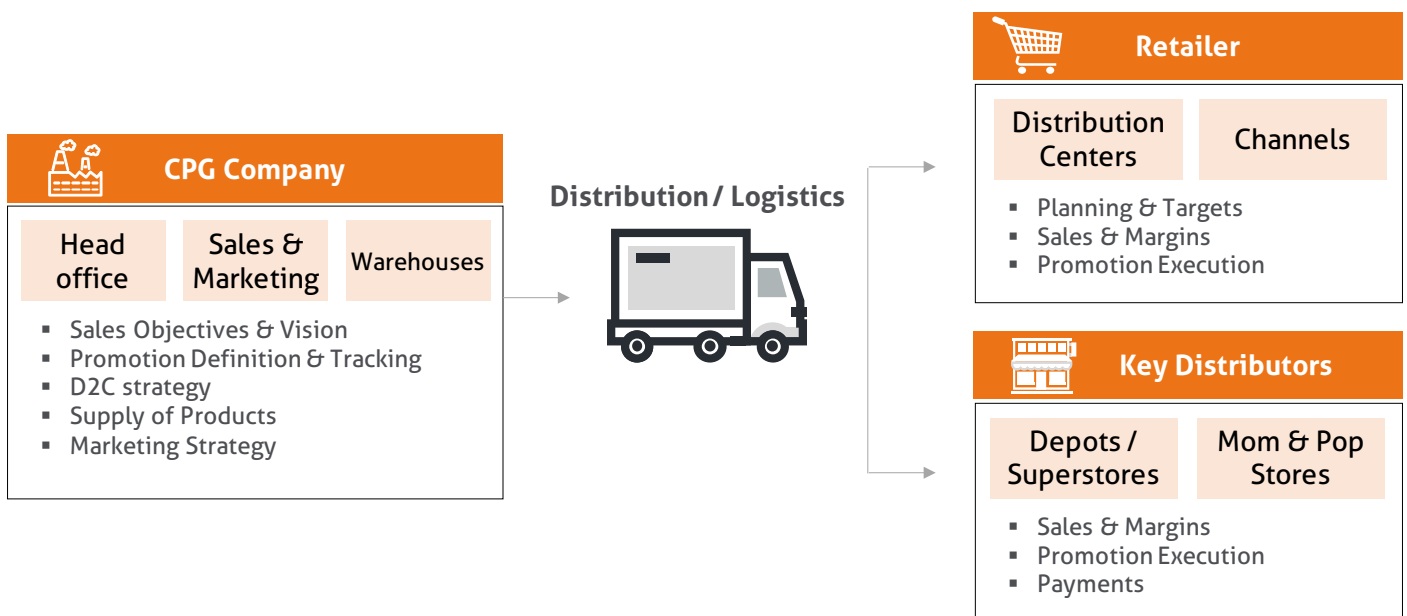
2) Value Chain Collaboration

CPG organizations and their external partners (retailers and key distributors) need to re-define processes to encourage collaboration and break up silos. It is essential to get into data sharing agreements & joint business planning to reduce the gaps. Some of the key issues that can be addressed include:

- Real time POS data, promotion performance & effectiveness, stock positions and retail execution
- Right routing and accurate view of logistics in transit stocks
- Matching claims and ensuring traceability

The adoption of integrated joint business will lead to co-develop financial, promotional, and sales targets and objectives, and jointly plan the execution. Data sharing can help in taking near real-time decisions in terms of demand visibility, stock movements & shelf displays and in post event analytics, retail activity and trade promotion optimization.

However, in some scenarios of data sharing activities across partners, there have been challenges to data quality (in terms of POS and syndicated data), especially at granular levels. There is no simple solution to data quality, but it starts with recognizing the problem and focus on mutually solving it.



Collaboration Platform - Transparency, Trust, Relationship

- Sales Forecasting Accuracy
- Inventory Positions / Out of Stock Scenarios
- Joint Events, Trade Spend Optimization, ROI
- Effective Retail Execution including new product launches



3) Adoption of game changing technologies to serve better

To build an Agile operating model, digitization will play a major role in the next decade. The success of CPG organizations will largely depend on how they can transform into a truly digital enterprise in terms of agility to cater to rapidly changing market needs.

Adoption of digital technologies like voice-based commands, GPS tracking, real-time route optimization solutions and image recognition techniques on handheld devices for field sales teams are helping in better decision making and reducing manual tasks like order taking, inventory status, last mile delivery and retail compliance. More importantly, these technologies are helping field sales agents to improve key metrics around outlet coverage & reach, optimized route to market, targeted merchandizing offerings, understanding the market pulse and new product launches, thus improving the topline. In addition, small mom and pop stores are being provided with mobile apps by CPG companies to place orders on the distributors eliminating the wait time. Using this medium CPG companies are directly tracking sales, communicating promotions and understanding off takes.

In the coming decade, we will see solutions around augmented reality, digital traceability, cognitive computing, robotics, Internet of things (IoT) and drones that will bring about transformational changes, while CPG companies shift to newer business models of on-demand & personalization economy. Nevertheless, the biggest challenge is in terms of the costs and capabilities to move to newer technologies from legacy environments. Though industry leaders will need to relentlessly focus on digitizing their processes, it is essential that they carry out a realistic assessment of the costs and benefits to move to the digital infrastructure and effectively manage the change within the organization in terms of capabilities, culture and decision-making.





4) Applying advanced data science in better decision making

Companies have been collecting consumer data, be it in the form of syndicated data, online browsing data, live stream or social media data. Mining rich insights from these data sources is a 'need to have' core component for a business. Some CPG giants are using deep neural networks with a self-learning model based on a variety of data sources to provide insights around outlet

and SKU level sales forecast, targeted store-specific assortment recommendations and cross sell/ upsell recommendations at the fingertips of their field sales agents. The recommendations are based on store, brand & category performance, store premiumization, neighborhood performance and premiumization, store profitability and size, embedded affinity scores and other variables.

Key areas of focus to generate in-depth insights from syndicated data sources and merging it with web & social data



However, while most CPG companies are trying to make sense out of various sources of syndicated data to understand demand patterns from secondary and tertiary sales, they are viewing & interpreting web and social data in silos. In an era of hyper-personalization, it is essential for CPG organizations to view all the data sources together on the same graph to make a

holistic inference. In the coming decade, new data sources from social, web, and device & sensors will become more important than just the syndicated data for understanding the market, managing performance and having an accurate picture to gain competitive advantage.



How Mindtree is helping large CPG giants gain a strong foothold of their sales & distribution network

With in-depth knowledge of the CPG industry, combined with expertise in technologies such as Artificial Intelligence, Mobile, and Cloud, we at Mindtree collaborate with some of the CPG giants across the globe to build cost-efficient distribution networks and help them improve their profitability.

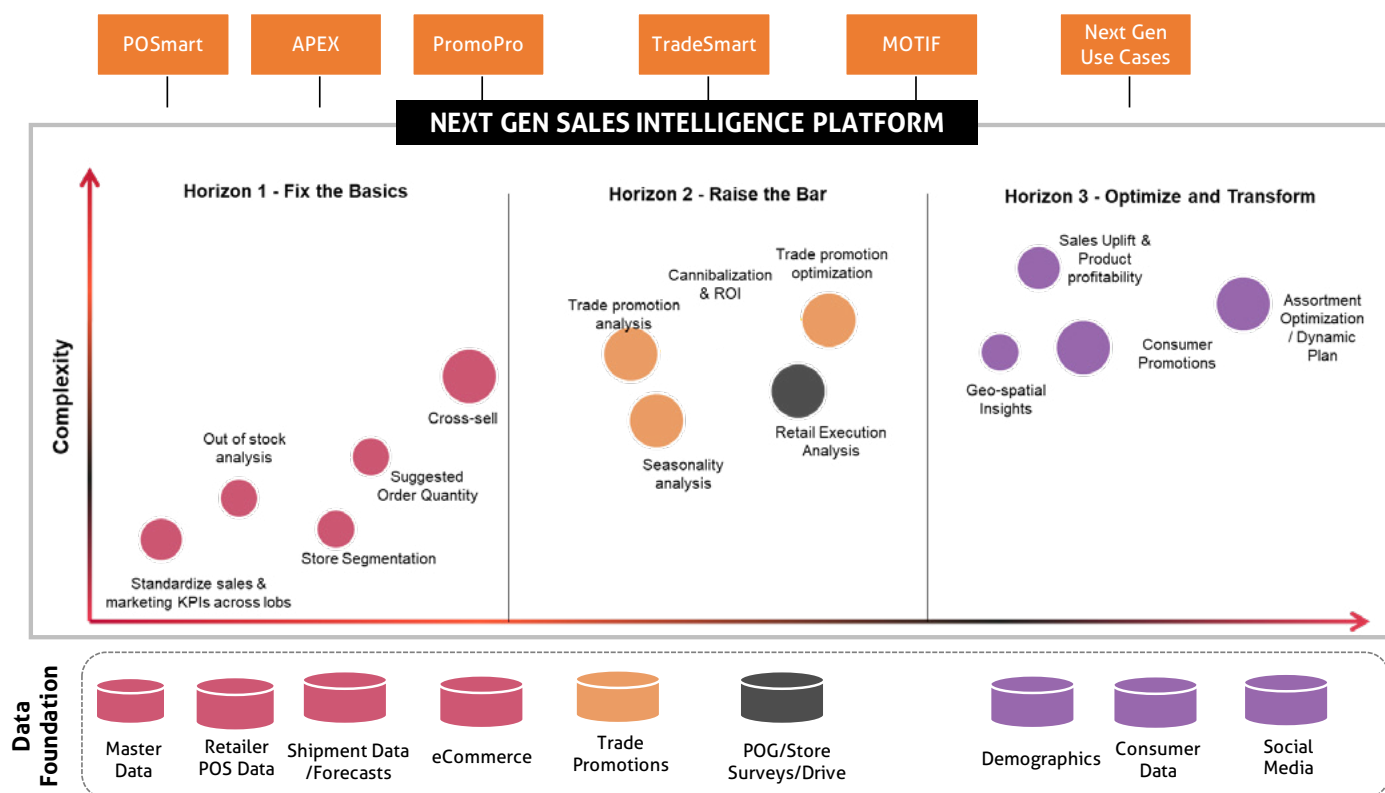
Some of the areas where we have made a significant difference include:

- Transforming sales and streamline distribution networks, thus helping CPG companies to quickly adopt to newer distribution models, reducing the order to cash cycle by 60%, and cost savings of \$15.5M
- Managing trade promotion worth millions of dollars across the globe and helping make the trade spend

more effective through better funds visibility and faster payments

- Enabling field sales executives with better sales decisions by providing sales & promotional analytical insights on the go, increasing growth by 2x for certain segments and improving on-shelf availability
- Enhanced execution of store tasks like planogram compliance, store audits and trade execution using mobile apps for sales agents. In addition, this solution allows them to capture market pulse and competitor intelligence.

Mindtree's **Next- Gen Sales Intelligence Platform** is helping cementing our position in the domain of sales and trade intelligence. The platform enables CPG organizations to harness the potential of data and use business insights by connecting dots to derive competitive advantage. It also helps enable transformation into an intelligent and agile CPG enterprise.





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Mindtree [NSE: MINDTREE] is a global technology consulting and services company, helping enterprises marry scale with agility to achieve competitive advantage. "Born digital," in 1999 and now a Larsen & Toubro Group Company, Mindtree applies its deep domain knowledge to 350+ enterprise client engagements to break down silos, make sense of digital complexity and bring new initiatives to market faster. We enable IT to move at the speed of business, leveraging emerging technologies and the efficiencies of Continuous Delivery to spur business innovation. Operating in more than 15 countries across the world, we're consistently regarded as one of the best places to work, embodied every day by our winning culture made up of 21,000 entrepreneurial, collaborative and dedicated "Mindtree Minds."

Welcome to possible

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