Consumer Products
Incumbents Strike Back

The IBM Institute for Business Value, in cooperation with Oxford Economics, interviewed 1,002 CxOs from the Consumer Products industry. These conversations included both quantitative and qualitative responses. The analytical basis for this Consumer Products industry report uses 987 valid responses from the total data sample collected.

More than 12,800 CxOs, representing six C-suite roles, 20 industries and 112 countries, contributed to our latest research. We used the IBM Watson Natural Language Classifier to analyze their contextual responses and ascertain overarching themes. We also used various statistical methods, including cluster analysis and discriminant analysis, to scrutinize the millions of data points we collected.

Which way to the future?

The signals are utterly bewildering. As digital technologies transform the world, monopolies are winning big-time. Yet collaborative systems are also flourishing, and even in industries where the competition is shrinking there's still plenty of creativity. Little wonder top executives are puzzled.

Consumer Products CxOs are no exception. They're divided as to whether the focus will be on new or established markets (47 versus 39 percent). And where, previously, they believed that open innovation would predominate, a growing number now anticipate more internal innovation. But there are two points on which they broadly agree: how both value propositions and value chains are altering. A full 65 percent of Consumer Products CxOs expect more emphasis on customer experiences than products over the next few years. Similarly, 63 percent think most organizations will continue to expand their network of partners.

Consumer Products CxOs also say there's been a significant shift in the external factors most likely to affect their organizations in the near future. Market forces continue to top their agendas, with 81 percent citing them as the most important influence on their industry. But people skills have surged into second place, bumping technological factors to third. Sixty percent of respondents now think talent will heavily influence their enterprises – recognition, perhaps, of how automation, artificial intelligence (AI) and analytics are redefining the workplace.

Reinventors race ahead

In the course of our research, we identified three distinct organizational "archetypes," each at a different stage on the road to Digital Reinvention™ (see Figure 1).

Reinventors focus on developing breakthrough products, services and business models; excel at extracting value from their ecosystems; and actively experiment. Their IT strategies are aligned with their commercial goals, and they're superb at managing change – all of which helps them stand out both financially and as innovators.

Practitioners are ambitious but haven't yet acquired the capabilities required to realize their ambitions. They're neither as focused nor as agile as Reinventors.

Aspirationals have even further to travel. They still need to devise a clear strategy, put the right processes and resources in place, and develop the agility to seize new opportunities.

Reading the road signs

So what's actually going on? Four topics stand out from our conversations with CxOs and our work with academics.

Dancing with disruption

The path to personalization
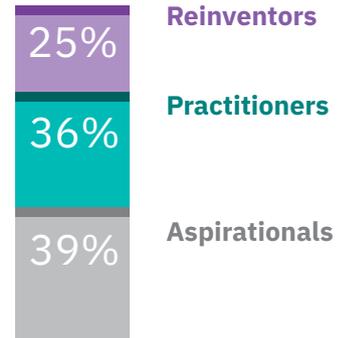
The pull of platform models

Innovation in motion.

"Creating new value for consumers is a vital part of our business model change."

Chief Operations Officer, Consumer Products, Japan

Figure 1

Consumer Products split

Industry archetypes have distinct characteristics that lead to differing vantage points

25% **Reinventors**

36% **Practitioners**

39% **Aspirationals**

Dancing with disruption

Two years ago, CxOs told us they were deeply worried about digital giants and ankle-biters from other industries invading their territory. Now, they're far more relaxed. Only 25 percent of Consumer Products CxOs say their sector is experiencing huge upheavals, and only 23 percent feel an urgent need to transform their enterprises in response. And they're no longer as concerned about outsiders. While 45 percent thought new competitors would flood the landscape in our 2015 study, just 25 percent report the same today. A full 68 percent of Consumer Products CxOs say that the *real* disruption is coming from innovative industry incumbents – once unwieldy enterprises that have reinvented themselves to thrive in a disruptive digital era.

Consumer Products CxOs are responding to this reinvigorated competition in several ways. They're prioritizing market expansion (56 percent) and actively embracing startups as potential partners to accelerate innovation. Unilever, for example, created the Unilever Foundry platform to connect startups with its hundreds of brands.[1] Consumer Products Reinventors also stand out in their willingness to experiment: 73 percent have cultures that reward fast failure and rapid innovation (see Figure 2). Reinventors also choose to increase investments in areas that thrive in a culture of continuous change: consumer engagement (88 percent), digital marketing (85 percent), and the design and development of new products (85 percent).

The path to personalization

Connecting with the customer on a personal level is essential these days, but designing compelling personalized experiences is extremely difficult; it takes a profound understanding of what makes different people tick. Consumer Products CxOs expect to focus in the next few years on those areas most impacted by shifting consumer expectations: marketing tops the list at 62 percent, followed by packaging (50 percent) and the supply chain (49 percent).

Again, Consumer Products Reinventors are ahead of the curve. They approach problems like design thinkers – by empathizing and engaging directly with customers, consulting their partners to get a better picture of the customer experience, and incorporating feedback into planning. The result? Forty-four percent of Consumer Products Reinventors report they are highly effective at identifying unmet customer needs, compared to just 16 percent of Practitioners and only 14 percent of Aspirationals.

"More than technology, innovation has revolutionized our business. We have delivered dreams to our customers."

Chief Marketing Officer, Consumer Products, United Kingdom

The pull of platform business models

One of the most exciting recent trends is the emergence of the platform business model, which connects producers directly with consumers, enabling organizations to grow faster and deliver higher profits. Platforms generate a collective flood of data that reveals a broad view of the customer experience and a treasure trove of previously unidentified needs. Nike's NikePlus app, for example, provides health and training services to customers on a digital platform, and serves as a rich vein of data to help innovate products.[2]

While only 5 percent of Consumer Products CxOs already have platforms, more than a third are actively experimenting with or considering platform adoption – although most of these companies may choose to become platform participants than platform operators. What makes a platform work? We identified three "rules" for success: creating value from reciprocity, capitalizing on data, and committing to innovation. Consumer Products Reinventors fit this profile. They're more convinced of the merits of partnering than organizations that are only considering the platform option. And they're co-creating new products and services with customers to a greater extent (67 percent versus 50 percent of Practitioners and just 32 percent of Aspirationals).

Figure 2

First up

Reinventors are more willing to reward fast failure and successful innovation

Reinventors
Practitioners
Aspirationals

73%   47%   31%
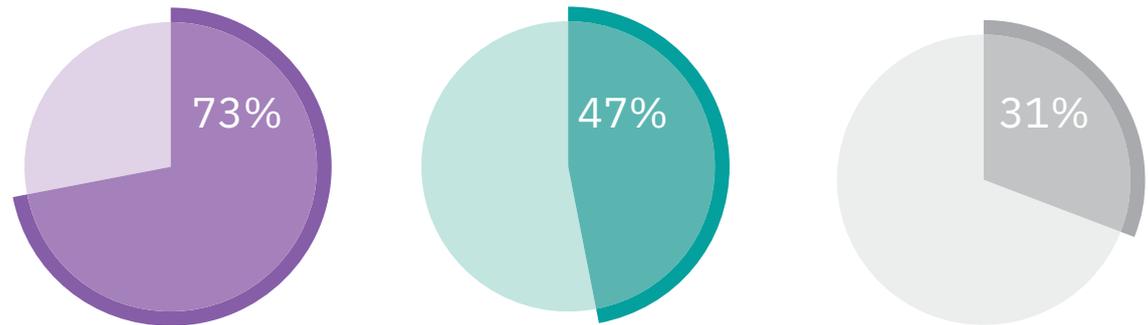
Q: To what extent does your enterprise have a culture that rewards both fast failure and successful innovation?
(Percentage of respondents choosing "to a large extent.")

Innovation in motion

The organization of work is altering dramatically as enterprises collaborate to innovate, and ecosystems replace go-it-alone entities. The smartest C-suites are preparing for the future by creating teams that learn on the fly. Most of the Reinventors and Practitioners in our Consumer Products sample already support collaboration. But the Reinventors have gone much further: 72 percent actively solicit employee input to stimulate innovation (versus 54 percent of Practitioners and 35 percent of Aspirationals). More than two-thirds of Consumer Products Reinventors have also empowered their teams to decide on the best course of action (see Figure 3). The CxOs who head these companies lead through trust.

"Providing good customer service is a continuous learning process and we adapt ourselves as per our customer requirements."

Chief Financial Officer, Consumer Products, China

Figure 3

Reinventors
Practitioners
Aspirationals

Autonomous teams

Reinventors empower their teams to decide on the best course of action

69%
47%
35%
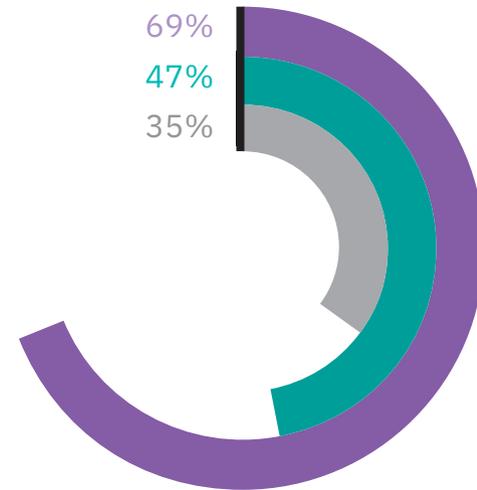
Q: To what extent does your enterprise empower teams to decide on the best course of action? (Percentage of respondents choosing "to a large extent.")

There's more. Consumer Products Reinventors have C-suites that are consistently better than those heading Practitioners and Aspirationals at promoting a culture of transparency and ongoing dialogue among employees. They create the right network of partners, suppliers and distributors, and put in place the right resources, including people with the right skills, to execute their strategies. In other words, they combine a dynamic vision with an open culture and agile operations – and these, as our research shows, are the three stepping stones to organizational dexterity.

Strengthening advantage: Actions to take now

Interrogate your environment. Moments that matter happen across consumer touchpoints. Test assumptions beyond existing silos and drive new strategies. Create opportunities to connect consumers, partners and competitors.

Commit with frequency. Prioritize investments that build consumer trust. On digital platforms – which are inherently transparent – community-generated feedback, if heeded well, can boost brand value and spur innovation in unimaginable ways.

Experiment deliberately. Don't solidify a competitive advantage. Continuously seek ways to evolve with the market and consumer lifestyle changes. Create an open and collaborative culture, look for ways to challenge traditional norms and allow failure as a way to learn and adapt.

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Notes and sources

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