

**Fusing Digital and  
Trade Strategies  
to Drive  
Mutual Growth**

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***“Taking your TPM TPO  
and Advanced Analytics  
Capabilities to the Next Level”***

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## **How to Make Price and Promotion Work Harder in an Increasingly Digital World**

**April 5–7, 2017**

**Patrick Moriarty**

Executive Director, Advisory, EY LLP

# At the end of this session, you will be able to . . .

- ▶ Identify how digital is disrupting the CPG industry
- ▶ Understand why embracing disruption is important
- ▶ Know how to activate disruption in your organization
- ▶ Articulate how a few companies have used digital to deliver results

Digital POV – CP&R Sector

# 1 | Digital Disruption



“We are in the throes of a transition where every business has to think of their digital strategy.”

– Bill Gates



## Digital Disruption

...a continuous form of disruption to business enabled by data and technology **across the enterprise.**

- ▶ Digital will surpass TV media spend by 2018
- ▶ Consumers are screen agnostic; 70% of digital marketing will be delivered via mobile devices by 2019
- ▶ Digital is changing cost structures across the marketing value chain
- ▶ The Marketing function is undergoing an evolution of mindset and skills led by technology

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“With *digital technology*, it’s now possible to have a one-on-one relationship with every consumer in the world.”

– Robert MacDonald, CEO, Procter & Gamble

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**40%**

of digital data stored in cloud by 2020

**\$18B**

Singles Day Sales in 2016 via Alibaba

**5.4B**

People with mobile phones by 2020

**>50 billion**

internet-connected things by 2020

**Amazon**

Is the **5<sup>th</sup>** largest digital publisher

**\$65.7**

**billion** spent on digital ads in 2015

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**“We are witnessing a seismic change in consumer behaviour. That change is being brought about by technology and the access people have to information.”**

– Howard Shultz, CEO, Starbucks

## Consumer requirements



### Personalization

▶ Fast, mass customization



### Experience

▶ Consistent omni-channel engagement



### Price / Quality

▶ High quality products at reasonable prices



### Omni-Fulfillment

▶ Freedom of choice in products, delivery & payment



### Transparency

▶ Corporate profile, privacy standards, reviews

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“You walk into a retail store, whatever it is, and if there's a sense of entertainment and excitement and electricity, you wanna be there.”

– Howard Schultz, Chairman, Starbucks

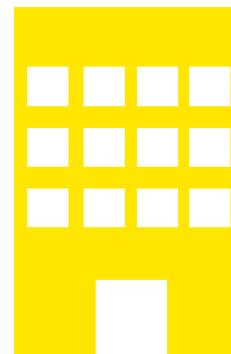
### Evolution is occurring

- ▶ **~\$370B** digital sales in 2017 (US)
- ▶ **72%** of millennials research and shop online before going to a store
- ▶ **84%** shoppers use mobile devices as part of shopping trip
- ▶ **22%** of folks under 45 years old use a **mobile** coupon while grocery shopping

### Foundation is still relevant

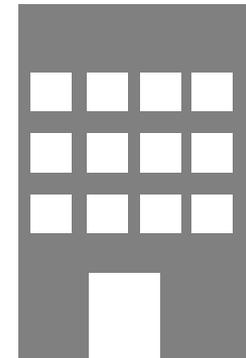
**93%**

Retails sales that occur within stores



**80%**

In five years



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# 2 | Embracing Disruption

Establishing eCommerce excellence

Focusing on purposeful digital marketing

Focusing on shopper engagement

Developing a direct-to-consumer strategy

Adopting new pricing & promotion paradigms



# The disruption is real for the consumer products industry

**Dollar Shave Club & Harry's Paradigm**

**>30%**  
New products come through acquisitions

**20%** ↑  
eCommerce sales in digital marketplaces (US)

**47%**  
Jobs at risk for automation  
(EY Capital Confidence Barometer)

**\$36b**  
CPG eCommerce sales by the end of 2018 (US)  
(GMA Research)

The average total cost of a data breach is  
**\$3.79m**  
per breach  
(Ponemon Institute, 2015)

**52%**  
Fortune 500 churn since 2000  
(Constellation Research)

**>50%**  
CPG growth from digital sources (2020)

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# Transformation to a digital culture is challenging

Many CPG companies are using M&A and agile alliances to build capabilities

**68%** Say they are faced with industry digital dynamics forcing a rapid response

*Petfinder* (a leading online database firm) for online content management support

**59%** Say they don't have internal capabilities to respond to a digital transformation

Under Armour Inc. spent \$710m acquiring 3 top health & fitness application developers

**67%** Say they plan to use M&A to buy rather than build digital capabilities

Unilever spent \$1b to acquire *Dollar Shave Club's* mail service for shaving supplies

*Walmart* spent \$3.3b to acquire *Jet.com*, to grow its e-commerce business

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# While challenging, the benefits are significant

Digital enterprises are more profitable, growing faster, have a lower cost base and are more highly valued by the market



## Profitability

Digitally mature companies with strong transformation programs are on average **26% more profitable** than their industry competitors. Based on a basket of measures including EBIT margin and net profit margin

## 2.5x Growth in digital sales

Digital leaders are on average growing their digital sales at 2.5 times that of their sector peers

## 12% Higher market valuation ratios

Digitally mature companies with strong transformation programs create more value, generating 12% higher market valuation ratios



## Cost

Digital transformation can **cut the total cost base by 9%**, through shifting customer interactions to digital channels and automating paper-heavy processes

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# 3 | Disruption in Action



# CP&R competitive landscape is transforming with digital

## GTM transformation

**Digital transformation:** New product design, informed by customization tracking & IoT feedback

**New channel model:** Installed interactive virtual grocery store in Gatwick Airport

## New businesses

Grocery delivery service grew from **\$1M** in sales to **\$10M to \$100M** in just over 3 years

## Manufacturer democratization

Robotics, 3D printing & simulation technologies ease capital barriers to manufacturing at scale

## eTail

### Redefining business terms:

- Pricing is ~**16%** lower
- Assortment is **17 times** larger
- Cost base is **4%** lower
- Customer satisfaction ratings **highest** in the industry



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# Digital disruption can gain advantage and promotion productivity

## Situation

- ▶ Omni-channel, ubiquitous & promotion centric environment
- ▶ Highly regulated industry with opt-in requirements & PII regulations
- ▶ Low organic growth; focus on share & enhanced services
- ▶ Need margin friendly customer acquisition, high value retention & uptake in new services

## Solution

- ▶ Integrate and unify customer data across disparate data sources
- ▶ Utilize predictive analytics to identify prospects based on behavior triggers
- ▶ Develop dynamic price alternatives based on over 1000 Geo, LTV, product & acceptance profiles
- ▶ Implement next best action methodology across all touch points to reduce churn triggers

## Results

- ▶ Increased prospect targeting (60% to > 90%)
- ▶ Increased speed-to-activate new service offers and “fail quickly”
- ▶ Improved customer experience metrics with direct reduction in churn
- ▶ Vastly improved customer engagement profiles enabling improved efficacy of “look alike” acquisition

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# Case study: technology enablement

## Activation

- ▶ Omni-channel synchronization
- ▶ Multi-platform digital strategy
- ▶ Machine learning based propensity analytics
- ▶ Unified CRM program—next best action at every recognized touch point
- ▶ Real-time testing & simulation

## Technology

- ▶ Multi-channel DMP based infrastructure
- ▶ Highly flexible, cloud-based, big data infrastructure
- ▶ Customized audience management package with open source extensions
- ▶ Data visualization with scenario engine and alert systems

## Action

- ▶ Customer path analysis
  - ▶ Ads viewed (online/offline)
  - ▶ Digital exposures
  - ▶ Retail engagement
  - ▶ Purchase decision
  - ▶ Post-purchase interaction
- ▶ Evaluate, simulate, activate
  - ▶ Dashboards at the points of impact (region/accts)
  - ▶ Propensity algorithms
  - ▶ Manage against objective success/correct/fail thresholds

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# 4 | Activating Disruption



# Collaboration is key

Success requires thinking more innovatively and taking advantage of burgeoning technology & data resources



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# “Innovation distinguishes between a leader and a follower.”

– Steve Jobs, former CEO, Apple Inc.

## Social engagement

“**Consumer Pulse**” analytics scan the **social media** universe capturing and categorizing comments by brand

**Drives real-time customer engagement & risk management**

## Demand sensor forecasting

Uses demand signals rather than historical trend approaches, thus identifying the true drivers in near real-time

**80% improvement in forecast accuracy and ~20% reduction in safety stock**

## Data-driven campaign management

**Real-time testing** for ongoing execution of promotional program with >100MM custom digital touch points per quarter

**70% conversion rate among desired targets driving ~\$1B in annual sales**

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# Q & A

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# Are you ready for digital disruption?

- ▶ What is your digital price and promotion strategy?
- ▶ How are you allocating spend to digital promotion?
- ▶ Which digital promotion tactics are most impactful?
- ▶ How do you analyze ROI of your digital promotions?
- ▶ What processes, resource, and tools are deployed to digital price and promotion?

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