POI European Summit

Successfully Navigating Growth in the New CPG and Retail World

Promotion Optimization Institute • May 2019 • SS Rotterdam

How to survive in an era of agile consumer product **challenger brands**

May 16th, 2019

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THE BEST RUN **SAP**

Agenda

- Introduction

- Trends, Disruptors & Challenges
  - How are large CPG companies responding & finding new opportunities ?

- Where is the Growth and How to Maximise It?
  - Direct to Consumer (D2C) - the biggest growth opportunity
  - 5 disrupting forces
  - Playbook - how to make a D2C brand

- D2C with next generation AI and continuity commerce

- What Next

- Q&A

Trends, disruptions & challenges

In the next decade, **90%** of the growth in the consumer products industry will be driven by companies that engage more deeply with consumers.

You may already know about Bonobos, Warby Parker, Away, Glossier, Beauty Pie[1,2], Casper, Beer52, Harrys and Dollar Shave Club. These are all brands that were born online selling directly to customers via e-commerce, cutting out the middleman.

These D2C challenger 'piranhas' are increasingly taking revenue and market share[3] from established CP companies and their brands.

Year on year existing indirect retail channels have only provided 1-2% growth for most CP Companies – at best, as retailers are increasingly finding their growth from private label products.

CP Companies are responding with their own new brands, D2C innovations and acquisitions. The latest being Edgewell's acquisition of Harry's, Unilever's acquisition of Graze with Kraft Heinz expanding it's Springboard incubator.

1 https://www.racked.com/2018/1/9/16862498/beauty-pie-makeup-new-products-marcia-kilgore
2 https://www.forbes.com/sites/tiffanyyoung1/2018/12/08/marcia-kilgore-founder-of-beauty-pie-on-disrupting-everyone-from-estee-lauder-to-glossier/#4673df112d45
3 https://www.atkearney.com/consumer-goods/article?/a/swimming-with-the-piranhas-and-reinventing-the-mass-consumer-model

Trends, disruptions & challenges

eMarketer has reported that CP Companies have identified direct to consumer competitors as a bigger challenge than Amazon,

Which is demonstrated by this analysis from CB Insights showing a mapping of D2C challengers to brands and products from P&G.

What Is the Biggest Ecommerce Challenge Facing US Brands?

% of respondents, Sep 2018

- Private label products 10%
- Other 12%
- Direct-to-consumer competitors 27%
- Counterfeit products 11%
- Amazon's growing influence 20%
- Shipping and storage costs 21%

Note: numbers may not add up to 100% due to rounding
Source: Feedvisor, "Brands & Amazon: Insights, Opportunities, and Concerns in the Age of E-Commerce" conducted by Morning Consult, Jan 23, 2019
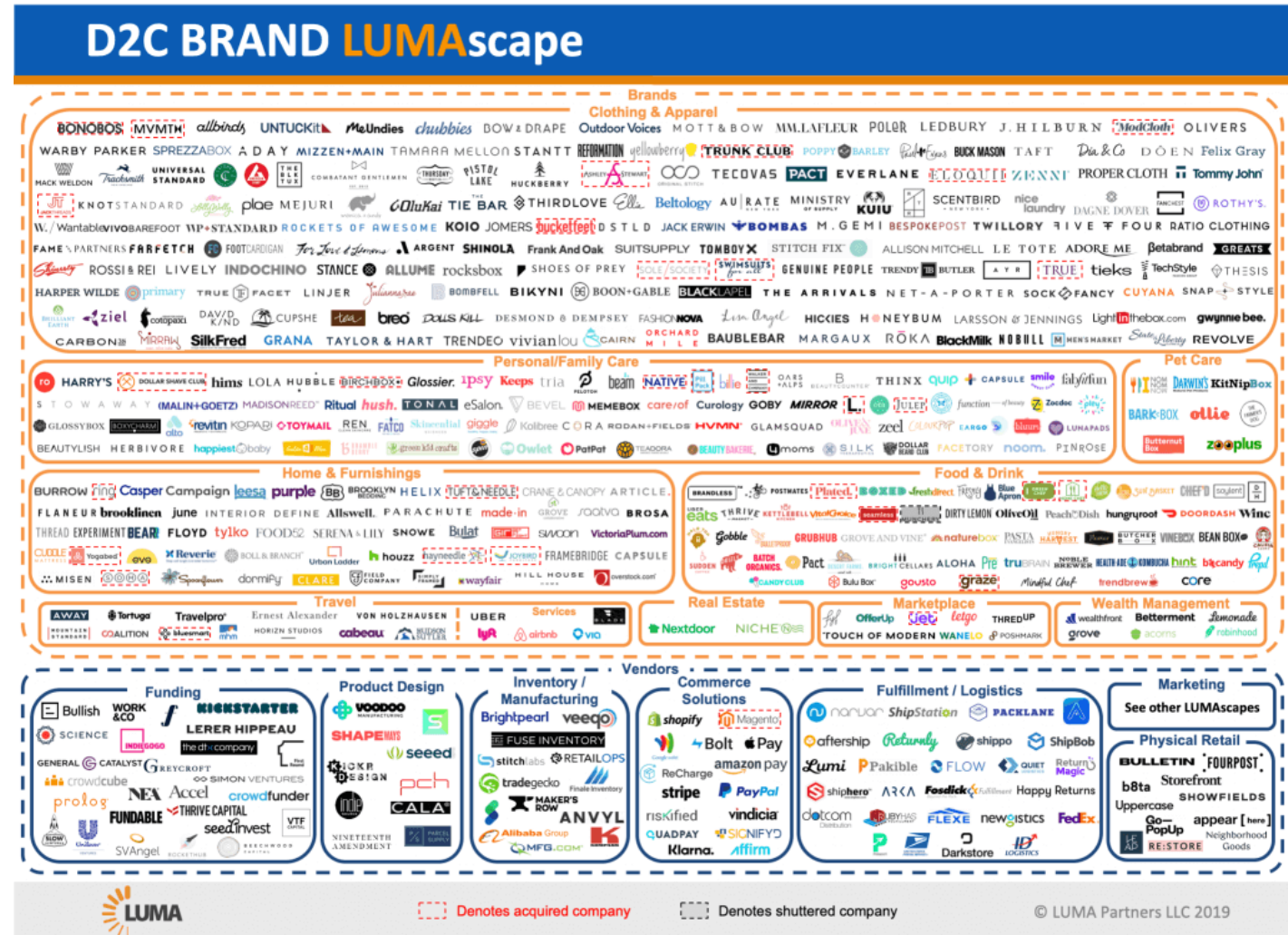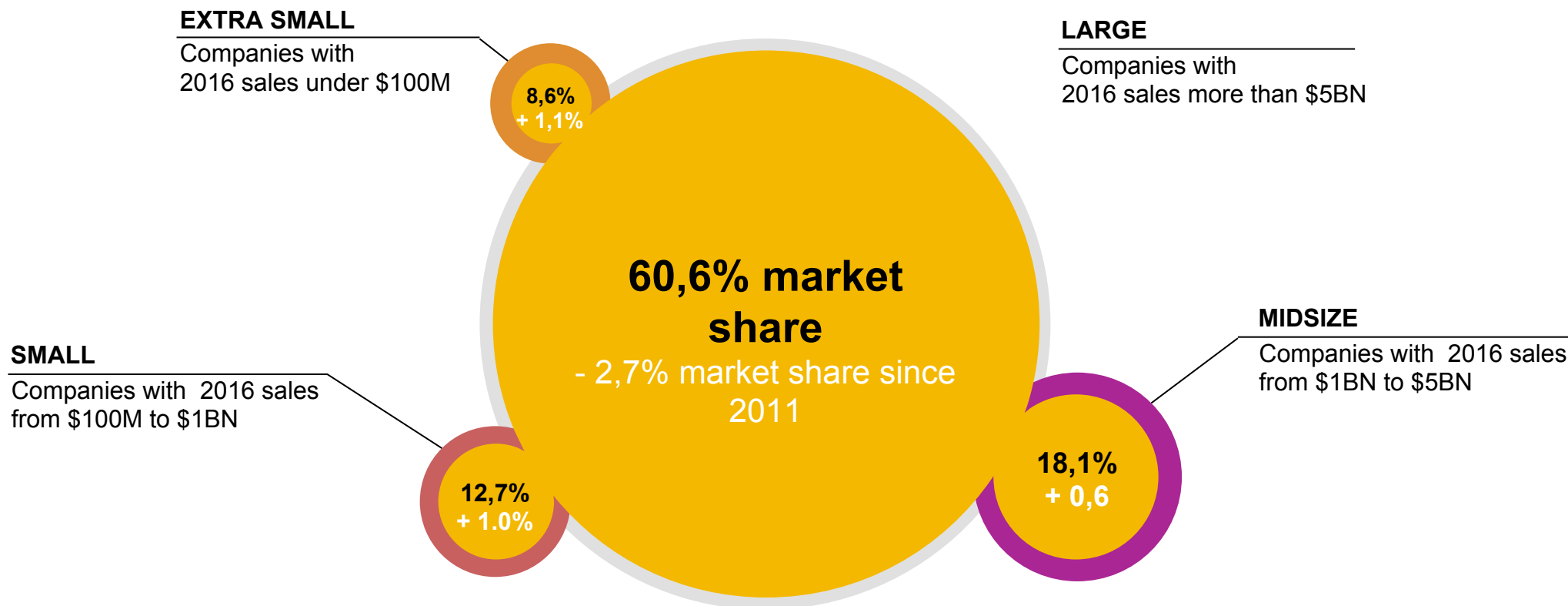
244787   www.eMarketer.com

Unbundling Procter & Gamble

www.cbinsights.com

How many D2C Competitors ?

Approximately 400 new D2C digital natives.

Investors are betting on these taking share from CP companies.

Top 15 have received > $2.2Bn in VC funding by 2018

Estimated D2C investments > $9Bn by 2018

D2C BRAND LUMAscape

Trends, disruptions & challenges

Winners have been small and mid-sized challengers

EXTRA SMALL
Companies with
2016 sales under $100M

8,6%
+ 1,1%

LARGE
Companies with
2016 sales more than $5BN

60,6% market share
- 2,7% market share since 2011

SMALL
Companies with 2016 sales
from $100M to $1BN

12,7%
+ 1.0%

MIDSIZE
Companies with 2016 sales
from $1BN to $5BN

18,1%
+ 0,6

Source: IRI and Boston Consulting Group,

Direct to consumer - Trends

Competing with direct to consumer challenger brands.

- New direct to consumer startups typically have data insight and direct marketing advantages over established brands with competing product categories[1]

- Existing CP companies are adopting a number of strategies to preserve revenue impacted from challenger brands, which includes[2]:

Develop own D2C[4]	Acquire D2C[3]	Partner for D2C	Optimise all routes[5]
Establish own competitive direct to consumer products, selections & fulfilment capabilities (e.g. Nestle's Nespresso)	Acquire challenger brands (e.g. Unilever's $1Bn acquisition of Dollar Shave Club and Graze & now, Edgewell $1.4bn for Harry's[6])	Partner with retailers for fulfilment of subscription orders (e.g. P&G's Gilette Club)	Optimise all other routes with REX, Trade Management, B2B & Account Based Marketing

1 https://fuelbymckinsey.com/article/the-new-rules-of-food-and-beverage-innovation

2 https://www.mckinsey.com/industries/consumer-packaged-goods/our-insights/should-cpg-manufacturers-go-direct-to-consumer-and-if-so-how

3 Advertising Week: Why Unilever is smart to 'Graze' on the potential of direct to consumer

4. Unilever wants to double direct to consumer sales

5 Unilever isn't relying on ad agencies to build direct relationships with 1bn consumers

6 https://www.digitalcommerce360.com/2019/05/09/schicks-parent-to-buy-harrys-for-1-37-billion

# Consumer Product Company **Preparedness**

A POI survey of CPG companies published in the 2019 State Of The Industry report found companies are at very different stages of having eCommerce capabilities – and by extension, preparadness for executing a Direct To Consumer strategy …

More than 50% of companies either didn't know or didn't have an eCommerce capability or were still working on it.

22% of those that did have a strategy were opportunistic in their approach, indicating further development of capability would be required.

Only a quarter of respondents would be near having a capability to truly enable a D2C channel.

Describe Your Organization's eCommerce Capabilities:

https://poinstitute.com/wp-content/uploads/2019/02/2019StateofIndustryReport-FINALFORWEB-1.pdf
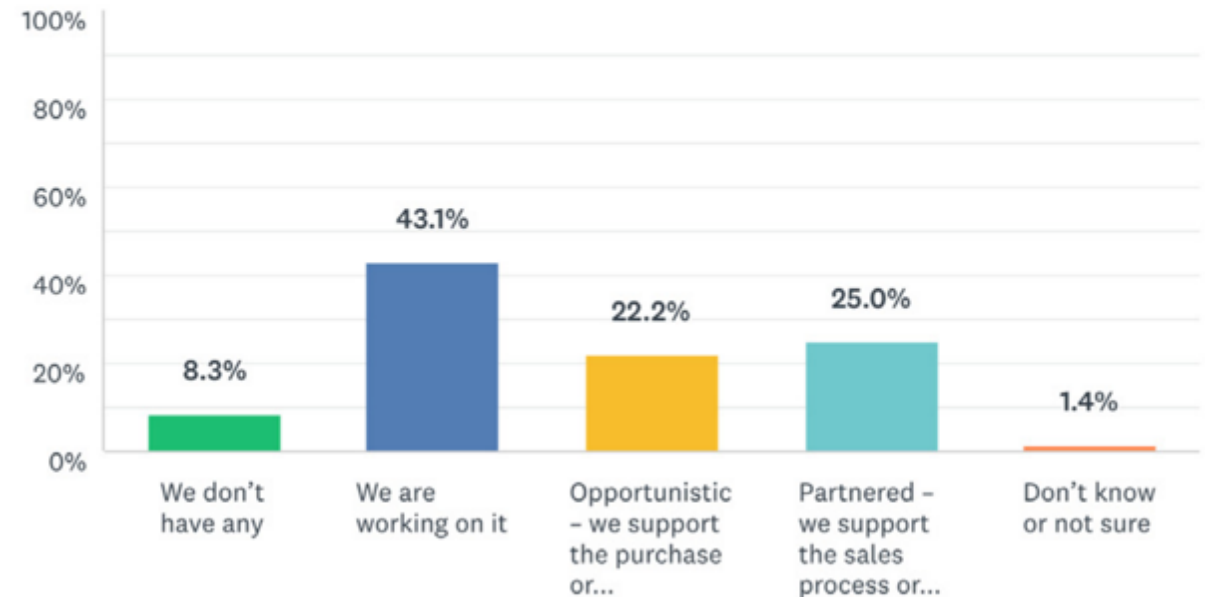
Where is the growth & how to **maximise it ?**

CP - Multiple business models and routes to market
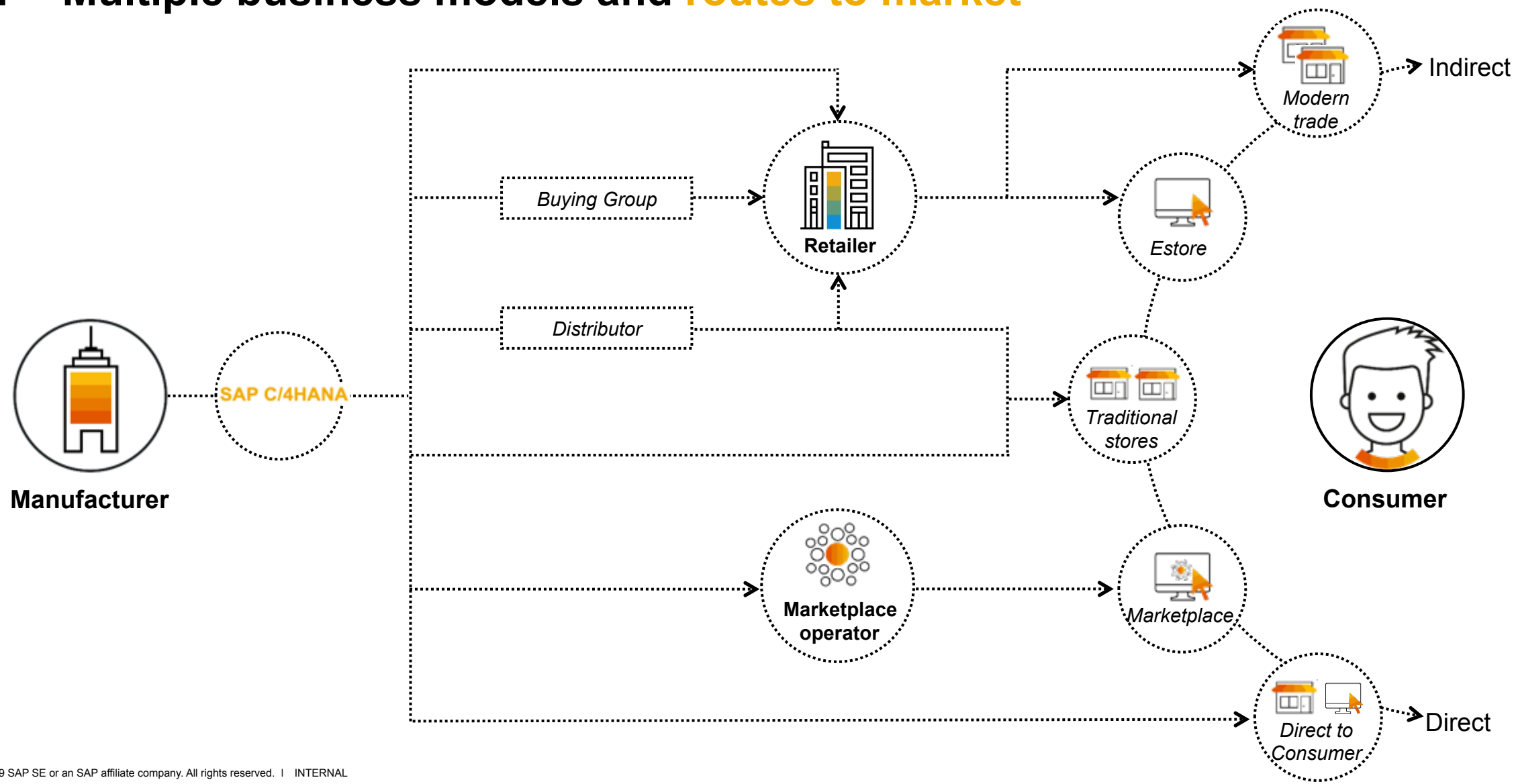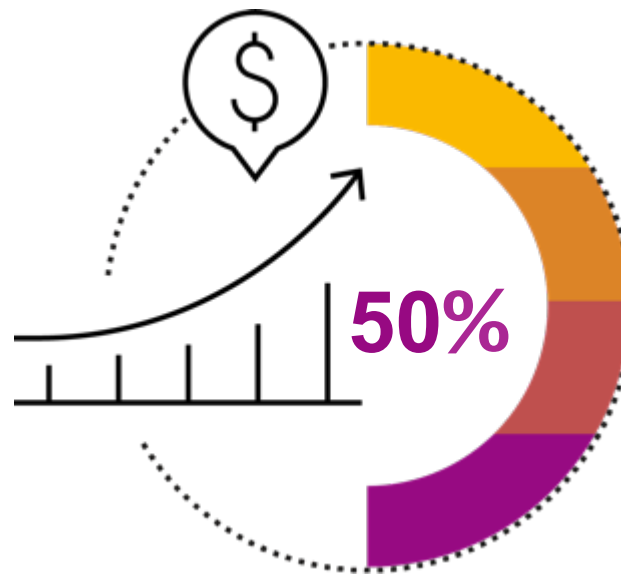
Where is the growth ? Direct to Consumer

Manufacturer

SAP C/4HANA

Buying Group

Distributor

Retailer

Modern trade

Estore

Traditional stores

Marketplace operator

Marketplace

Direct to Consumer

Indirect
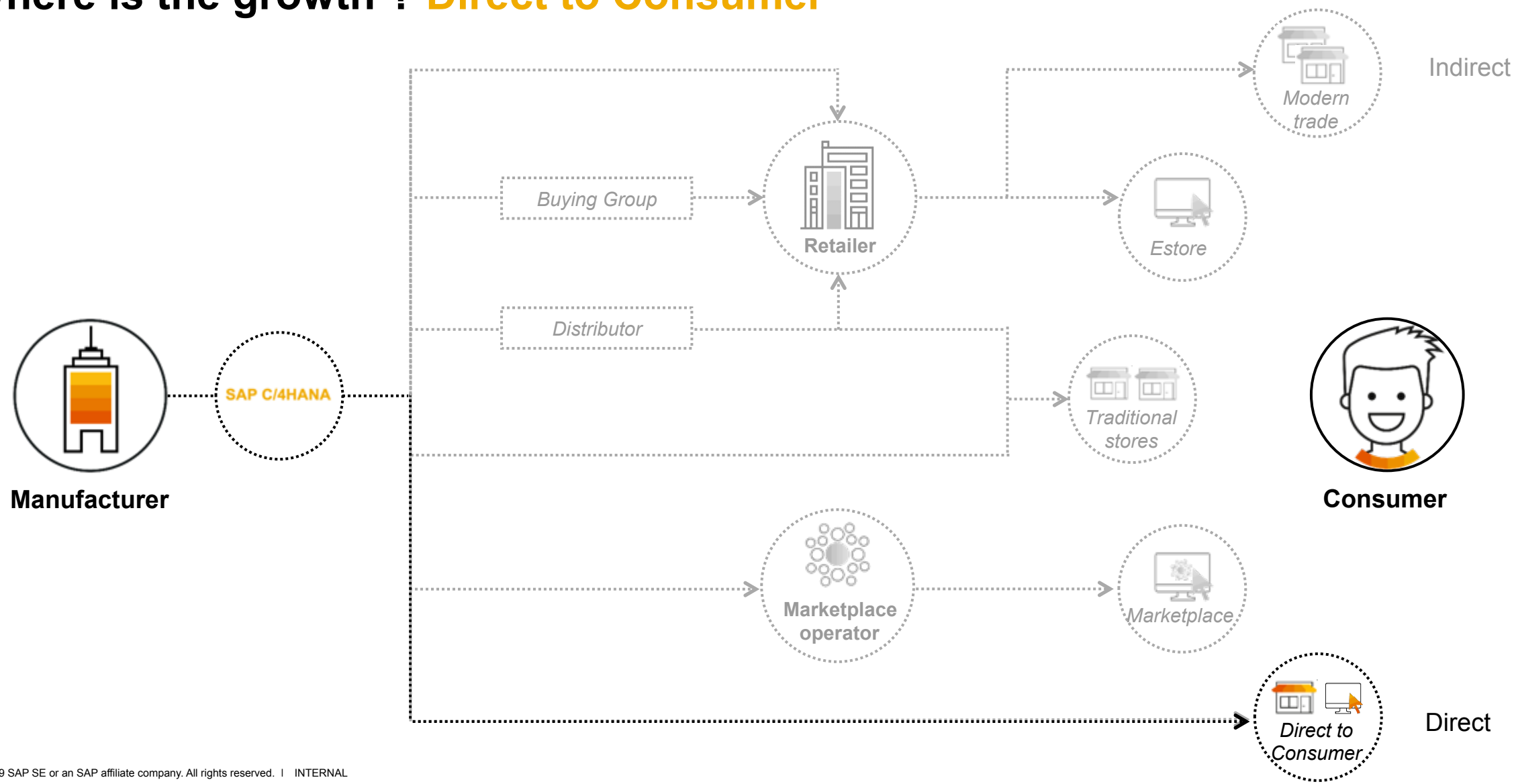
Direct

Consumer

Reason to invest in Direct to Consumer?

Direct to Consumer model - key facts that matter

5%

**Revenues
generated through
direct channel**

50%

**Contribution to
future revenue growth**

Direct to consumer - Trends

Sustained growth of Direct to consumer subscription services[1]

- The subscription eCommerce market **has grown more than 100% every year for the past five years** & the largest D2C brands generated > $2.6bn of revenue

- 15 percent of online shoppers have signed up for one or more subscriptions to receive products on a recurring basis

- E-commerce subscribers tend to be younger urbanites with money

- There are three broad types of subscriptions: replenishment, curation, and access. Curation services, are by far the most popular (55% of total subscriptions), suggesting a strong desire for personalized services.

- Replenishment services have particularly high long-term subscription rates: 45 percent of members have subscribed for at least one year.

- Providing and selling a service is different to selling a product. Customer service is essential as is offering service flexibility and options to meet consumers needs - including changes, pausing, cancelling and also researching & understanding why consumers change services & subscriptions are essential capabilities

E-commerce subscriptions, %		Key consumer value	Description	Example companies
Subscribe for replenishment	32	Save time and money	Replenish the same or similar items	Amazon Subscribe & Save, Dollar Shave Club, and Ritual
			Primary categories are commodity items such as razors, vitamins	
Subscribe for curation	55	Be surprised by product variety	Receive a curated selection of different items, with varying levels of consumer decision making required	Birchbox, Blue Apron, and Stitch Fix
			Primary categories are apparel, food, beauty products	
Subscribe for access	13	Gain exclusive access	Membership provides access and can convey additional "VIP" perks	JustFab, NatureBox, and Thrive Market
100%			Primary categories are apparel, food	

McKinsey&Company | **Source:** McKinsey analysis

1 https://www.mckinsey.com/industries/high-tech/our-insights/thinking-inside-the-subscription-box-new-research-on-ecommerce-consumers.

Focus on the customer - Five forces transforming the customer experience

Digital First
Global scale and adoption of new digital businesses

Customers for Life
From selling products to subscription services

Trusted Data
Data needed for personalization, but not at all cost

Single View of Customer
Customer at center of the business

Holistic Customer Experience
Requires connecting front- and back office

What is required to create a D2C brand ? A brief D2C playbook:

Product Proposition

Serves unmet needs
Resolves customer pains
Ultra convenient
Clear value proposition
Purposeful brand story
Aligned to customer values
Product provenance
Supply transparency
Company ethics
Detailed product data

Marketing

'Chief Growth Officer'
Digital first / only
Authentic
Very targeted
Data driven
Content & story focused
Respects consent
Leverages advocates
Focus on earned media
YouTube & video media
Uses influencers
Focus on social & wom
Paid placement
Podcasts
Email to continue story
Personalised

Direct Sales Channel

Legacy free eCommerce
Rapid deployment
Mobile first or app based
PWA
Strong brand story content
Great product imagery
Subscription capability
Continuity selling
Bundling &
Membership
Social registration & login
Chat & chat-bot service
Customer service responsive
Repeat purchase incentives
Plan for market expansion

Fulfilment & Continuity

Fulfilment partners
Fulfilment flexibility
Need to fulfil single units
Fulfil kits / bundles
Return of single units
Warehouse impact
Pick and pack operations
Use D2C focused 3PL
Customer defined replen
Surprise & delight

Analysis & Insights

Data obsessed
Test & Learn led
Average order value
Customer lifetime value
Performance & conversion
Surveys for experience
CSAT & NPS
Track CX trends
Uses sentiment analysis
Builds detailed profiles
Predicts subscription churn
Social engagement
Influencer identification

What is required to create a D2C brand? Not just eCommerce….

Harry's web sales soar in the past five years

Harry's Inc.'s 5-year web sales CAGR is 195.2%

Year	Online sales
2014	$6.0 million
2015	$30.0 million
2016	$100.0 million
2017	$195.0 million
2018	$269.1 million

Online sales
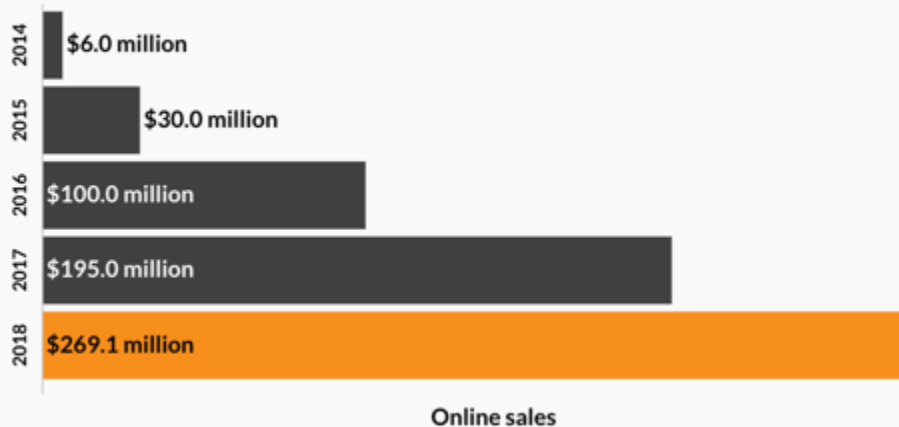
Source: Internet Retailer Research 2019

"Selling directly to consumers is something large CPG companies have struggled with," Tripp says. "Large CPG brands that want to survive—and thrive—will need to upend the existing engagement model, tapping into the established relationships DTC brands have built with consumers."

Top online grooming retailers ranked
Dollar Shave Club grabs the most 2018 web sales

Retailer	Web sales
Dollar Shave Club	$325.13 million
Harry's	$269.10 million
ondemand.gillette.com*	$3.45 million
Schick.com	$1.25 million

Source: Internet Retailer Research 2019
*Sales via Gillette.com redirect to this URL

The big difference between the two big D2C shaving product startups and the incumbent approaches ? The playbook – even with an ecommerce channel, technology investments and fulfilment in place – **the focus needs to also be on customer acquisition, customer data, targeted marketing, insight and service.**

SAP CUSTOMER EXPERIENCE FOR YOUR DIRECT BUSINESS MODEL

MARKETPLACE: BECOME THE ONE-STOP-SHOP FOR YOUR CONSUMERS

You want to be relevant and offer to your consumer a complete shopping experience: start selling them your products, your partners' products and services.

SELL DIRECTLY TO YOUR CONSUMERS THOUGH A DIGITAL OR EVEN PHYSICAL STORE

It's about knowing directly your consumers, providing what they want and how they want: is a shopping experience that moves from carts to hearts reinventing your business model

B2C Commerce & Marketplaces

Provide consumers a fast and personalized shopping experience that looks great and works across channels

B2C Marketing

Understand your B2C customers and engage with them intelligently. Use AI algorithms to increase effectiveness

Service

Give consumers an excellent omni-channel customer service experience and proactive services using AI.

Subscription

Provide subscription based commerce building a closer relation with consumers

Consumer Identity

Build the consumer profile across properties with security, transparency and in compliance with personal data regulations.

Product Content

Get the right products information in front of the right customers across channels. Syndicate product catalogs to online retailers and marketplaces

SAP CUSTOMER EXPERIENCE FOR YOUR INDIRECT BUSINESS MODEL

MODERN TRADE: TRADE MANAGEMENT AND RETAIL EXECUTION EXCELLENCE

Modern trade continues to represent a key route to market. You want to efficiently monitor and optimize your trade activities while implementing a perfect store strategy to improve trade ROI.

TRADITIONAL TRADE: SCALE SALES PROCESSES WITH AN INTEGRATED SOLUTION

Profitably serve your fragmented trade: leverage self service ordering processes still providing high personalized experiences and reduce the overall cost of serving your B2B customers.

Trade Management

Improve trade investments and enable a new level of collaboration with your modern trade leveraging in imbedded AI technology

.

Retail Execution / Perfect Store

Enable perfect store initiatives to guarantee product availability and compliance within each store and every time

B2B Commerce

Manage your traditional trade in an very efficient way and providing consumers' like hyper-personalized experiences

B2B Marketing

Leverage analytical capabilities to manage at scale your trade partners and support your field. Use AI scoring to trigger customer specific initiatives

Service

Give your customers an excellent omni-channel service and deliver seamless service in the field.

SAP CLOUD FOR CUSTOMER
Retail Execution / Perfect Store

PERSONAS:
Sales Operations, Sales Management, Key Account Management (KAM)
Sales Representative/Merchandiser or KAM
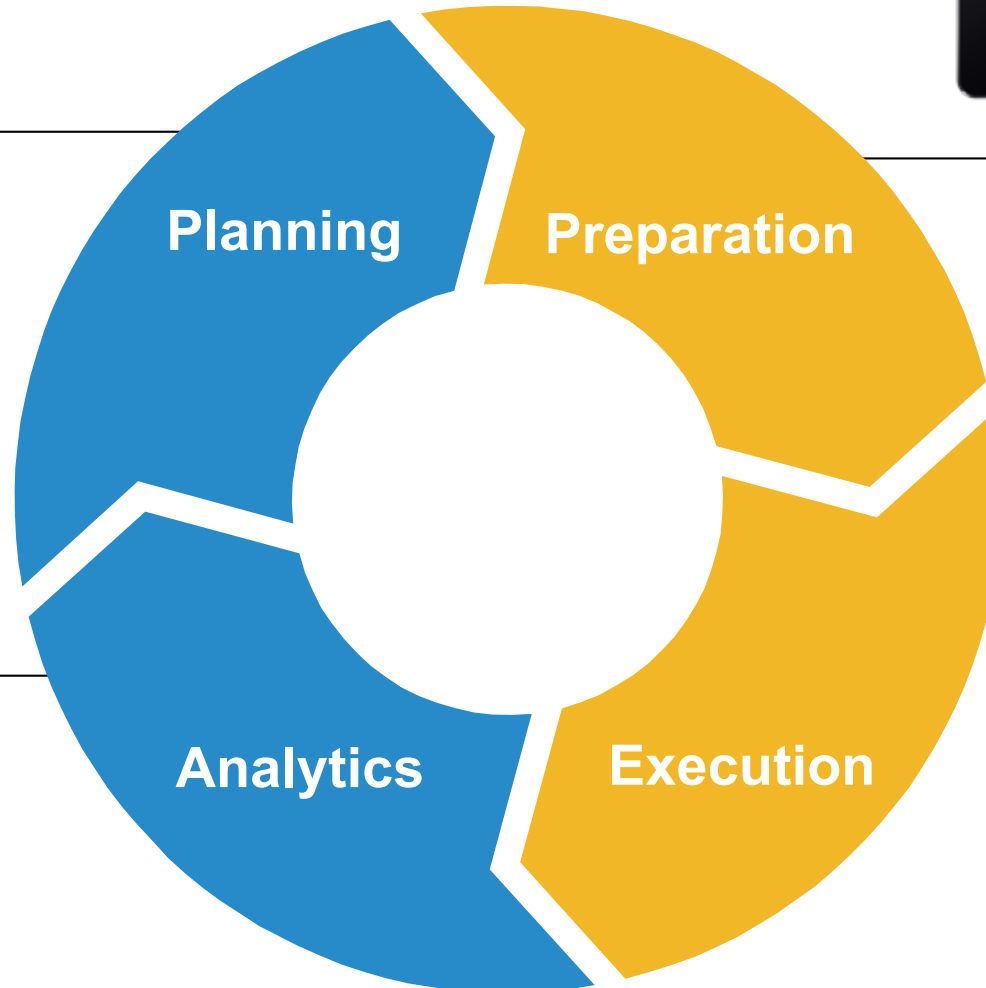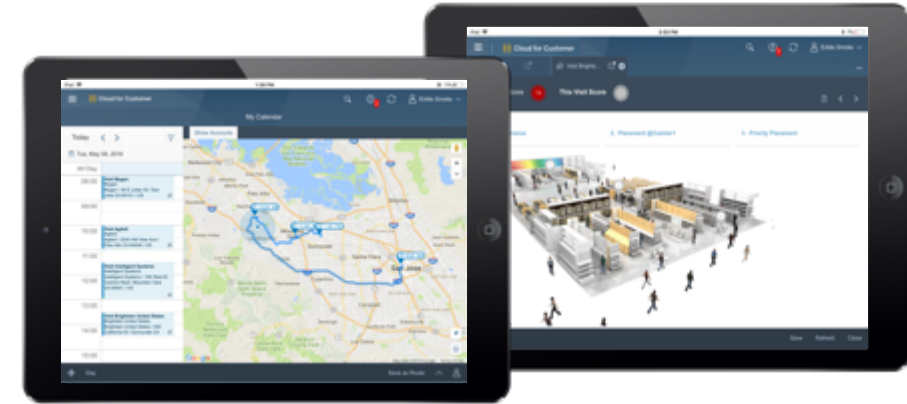
Planning

- **Route optimization with maihero partner solution 'maiTour'**
- Territory planning
- Survey and priority planning
- Headquarter route and visit planning
- Content and picture Assignment

Preparation

- **All back-end customer data available to sales rep in one UI**
- 360-degree store view
- Order history
- Visit task and audit preparation
- Check past notes and results
- Check content and pictures
- Check store performance

Execution

- **Imaging Intelligence, AI recognition**
- **Guided perfect store execution**
- Drive priorities in store
- Product-/ competitor product audit
- Store-/ shelve checks
- Promotional activities and documents
- Manage and install POSM
- Orders management (Including Pricing)
- Asset check and service
- Collections
- Visit summary and next visit planning

Analytics

- Audit analytics
- Survey results and scoring metrics
- Perfect store analytics

Welcome to SAP REX Demo

Select user of the SAP REX app so that they can manage their Dashboard

Merchandiser / Retail Sales Representative

VISIT EXECUTION

OPTIMISED VISIT PLANNING
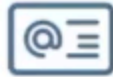
AD-HOC VISIT PLANNING

PERFECT STORE EXECUTION

ANALYTICS

IMAGE RECOGNITION

SAP

What if you
could enable
D2C in **days**?

Three truths in delivering experiences:

Experience
defines the brand

The brand is the sum of collective experience, shared.

Customers
don't see channels

Shopping is a seamless activity crossing channels and devices.

Convenience
is king

Products become services; services become bundles.
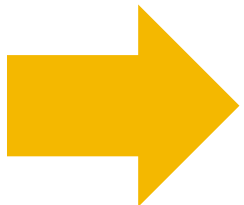
To deliver a better brand experience for the consumer, and profitability for the brand, Direct-to-Consumer has to be part of every CPG's omni-channel go-to-market strategy

Mobile is the device

~70%
of traffic is on mobile.

Mobile
is always within reach. Perfect for consumable & household replenishment.

Apps
connected to devices for richer experiences
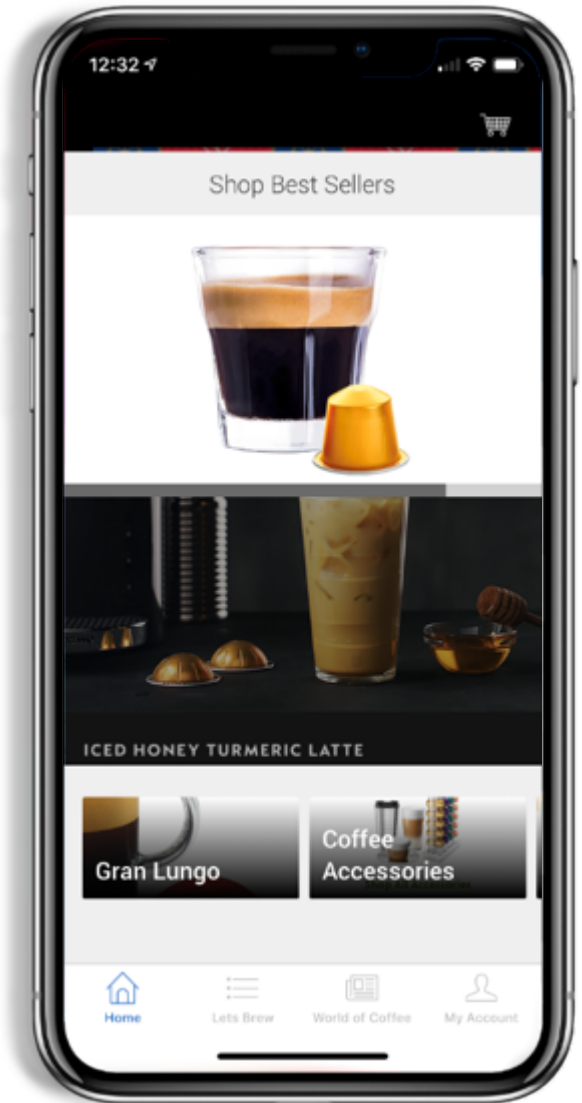
But mobile experience is ripe for reinvention

Many standard commerce features were built for desktop & need rethinking for mobile.

Why build today for yesterday's platform?

Data entry or checkout

Use of limited real estate
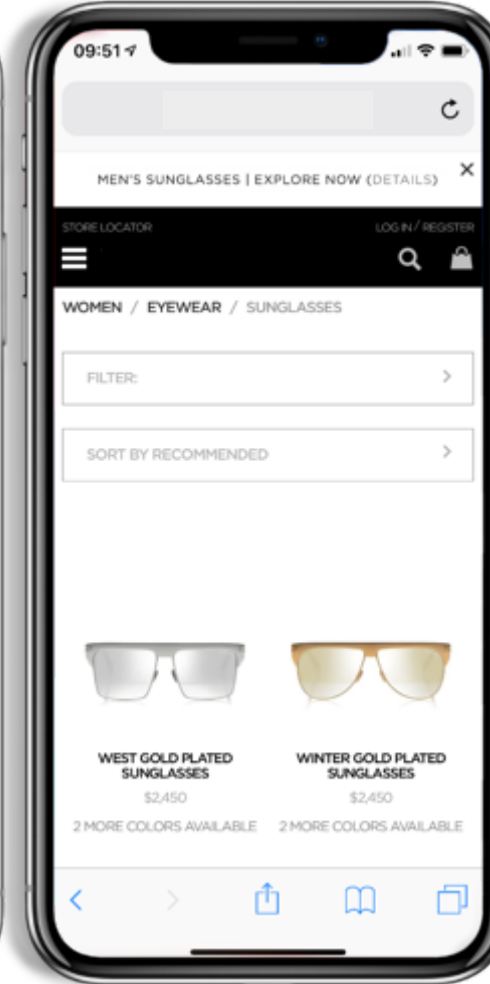
Facets, filters, drop downs, check boxes are all designed for a mouse, not fingers
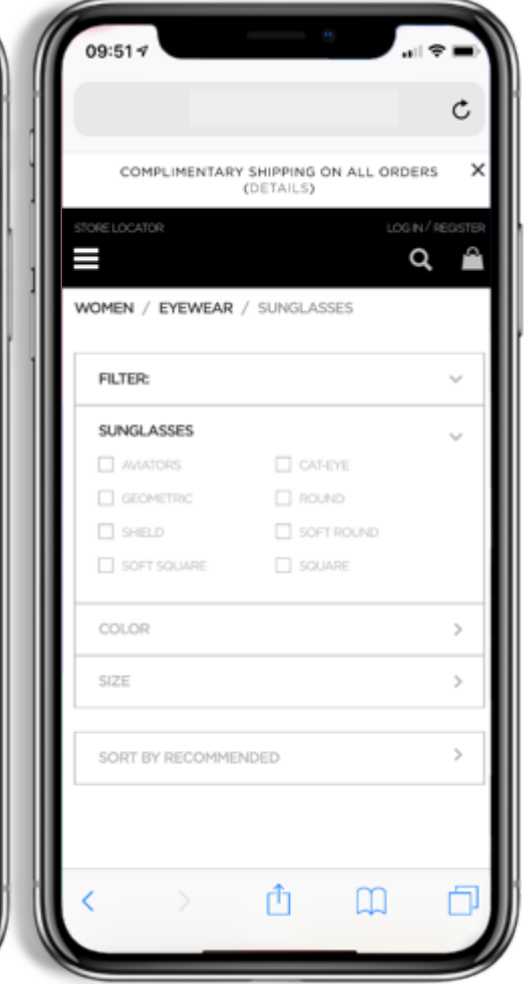
Don't build for desktop. Build Progressive Web Apps

App like experiences delivered in a browser, but without the download

- Finger based navigation
- Tap, pinch, swipe etc

Runs anywhere a browser runs

- Mobile, tablet, desktop, kiosk, TV, in car…

Leverages capabilities of the device

- One tap-buy (e.g. Apple Pay, Google Pay)

Faster than mobile web

- Progressively downloads frequently used items and caches locally for a faster app-like experience

Progressive Web

Native App

For CPG's eCommerce optimization is especially hard
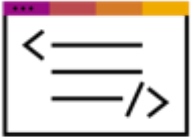
Rules are too rigid
- Many merchandising rules are 'set and forget' and do not adapt to changes
- Rules are fundamentally simplistic and ignore individual customer contexts

Merchandising is manual
- CPG companies aren't traditional retailers – they may not have dedicated merchandisers
- Most merchandisers find there are not enough hours in the day to optimize all products and categories
- Prominent exposure and / or promotions cause partial or full stockouts
- Incorrect products or categories exposures and positioning causes significant loss of profit

Site optimization is hard
- A/B & multivariate testing is time intensive, and only measures a point in time
- Lift can be transitory as customers get used to new changes or customers change behavior.

Introducing the Mobigram

The AI mobile store

Automatically created,
uniquely for **each individual**

Automatically **optimizes
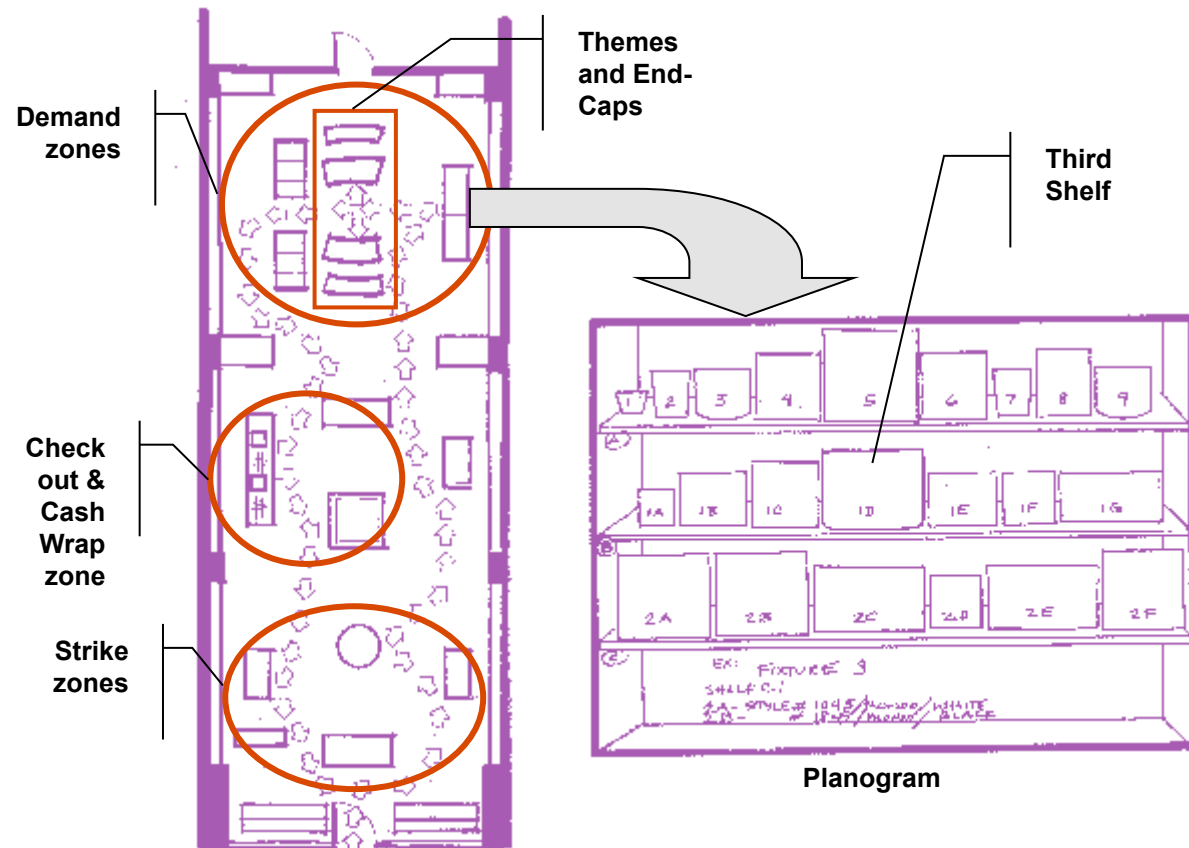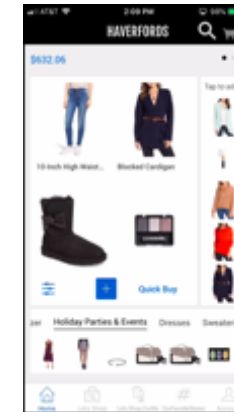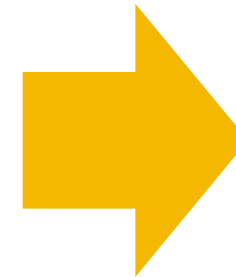profit** for the brand or retailer
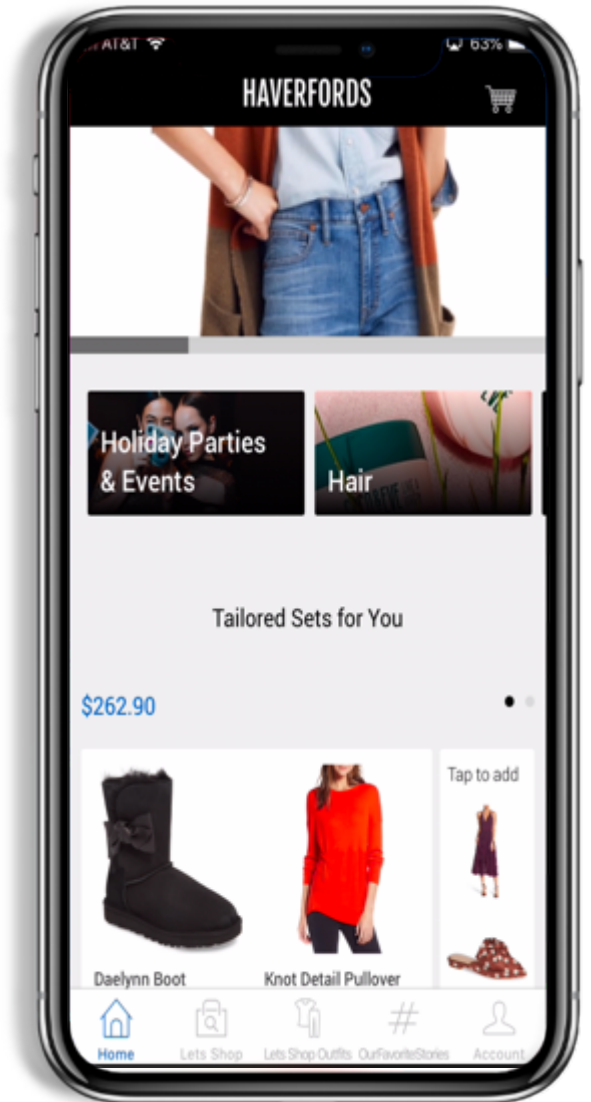
How to revolutionize planograms in the digital world

In the physical world we use planograms to optimize how and where retail products should be displayed, usually on a store shelf in order to increase customer profit
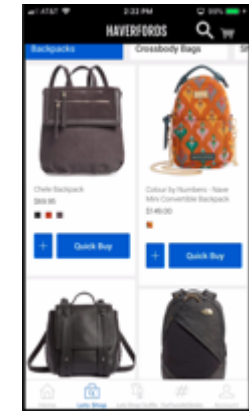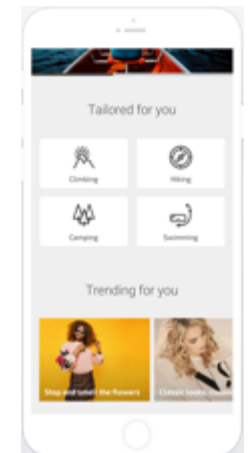
Old world

Demand zones

Themes and End-Caps

Third Shelf

Check out & Cash Wrap zone

Strike zones

Planogram

New world

Themes / End Caps are **now** Tailored Sets

Third Shelf is **now** Mobigram Category Browse

Cash Wrap Zones are **now** AI Next Sells

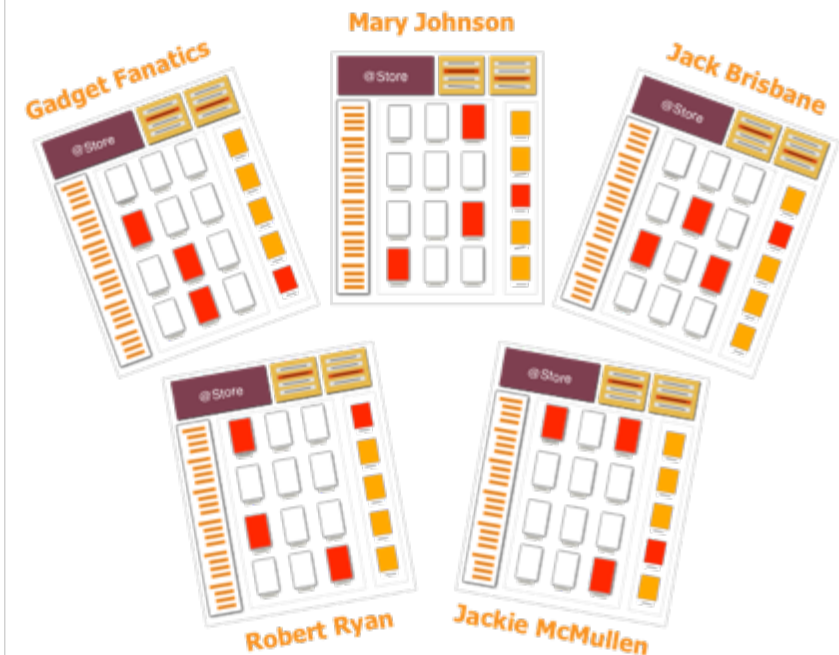Strike Zones are **now** AI Tailored Categories

Science of Retail

Designed
and modified 4-6 times per year
based on buyer data

If a store could
modify the
planogram
for every
customer
they would

Future of Commerce

Gadget Fanatics

Mary Johnson

Jack Brisbane

Robert Ryan

Jackie McMullen

Mobigram experience
individualized
based on category management

How the Mobigram works: Real-time Digital Category Management

This grid has been re-ordered to move higher velocity, higher margin products to the top to max profit.

This product should not be on the home page carousel in the 2PM to 4PM EST time slot.

Targeted lifestyle categories will drive up to 8% more profit in these category. See AI Trend Category component for new category to launch.

Your sales in this category dominate the site, see detail to entice customers to purchase from new categories to max profit.

You should add another color variation to this product to maximize profit

This product has the highest velocity - Our AI will increase its exposure across the channels

This product is being featured in your physical stores, you should leverage exposure here.

This product has an unseen negative gross margin. It should be delisted

This product's sales velocity indicates an immediate reorder to max profit

This product is near sell out, don't remove from site, start tracking shadow demand immediately.
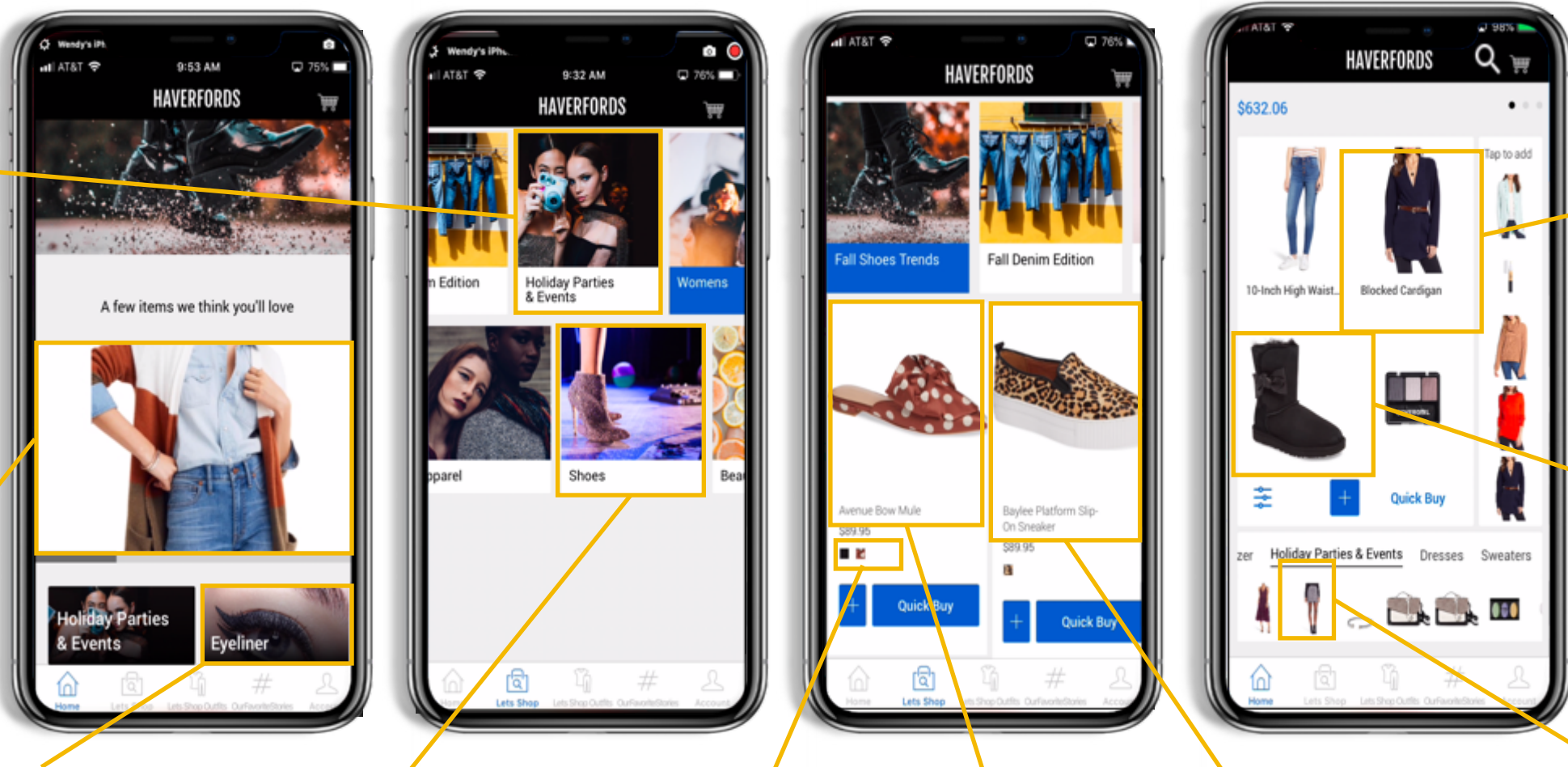
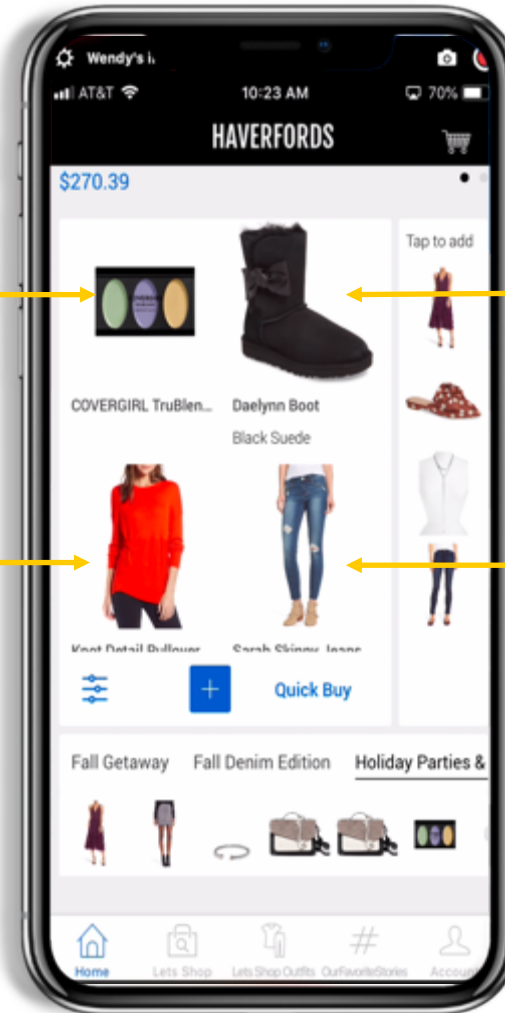# How the Mobigram works: Real-time Digital Category Management

Individual products featured in the Tailored Set are dynamically adjusted based on the customers' real time context & inventory levels

Cash Machine

Proven high volume and high conversion.

Underexposed Hidden Gem

Given increased exposure due to high margin and inventory position.

Traffic generator

Proven link to profitable order.

Fast rising inventory

Inventory rising faster than sales, so product is given more exposure that usual.

Continuity commerce

Generate recurring revenue streams and high order profitability with auto-replenish orders
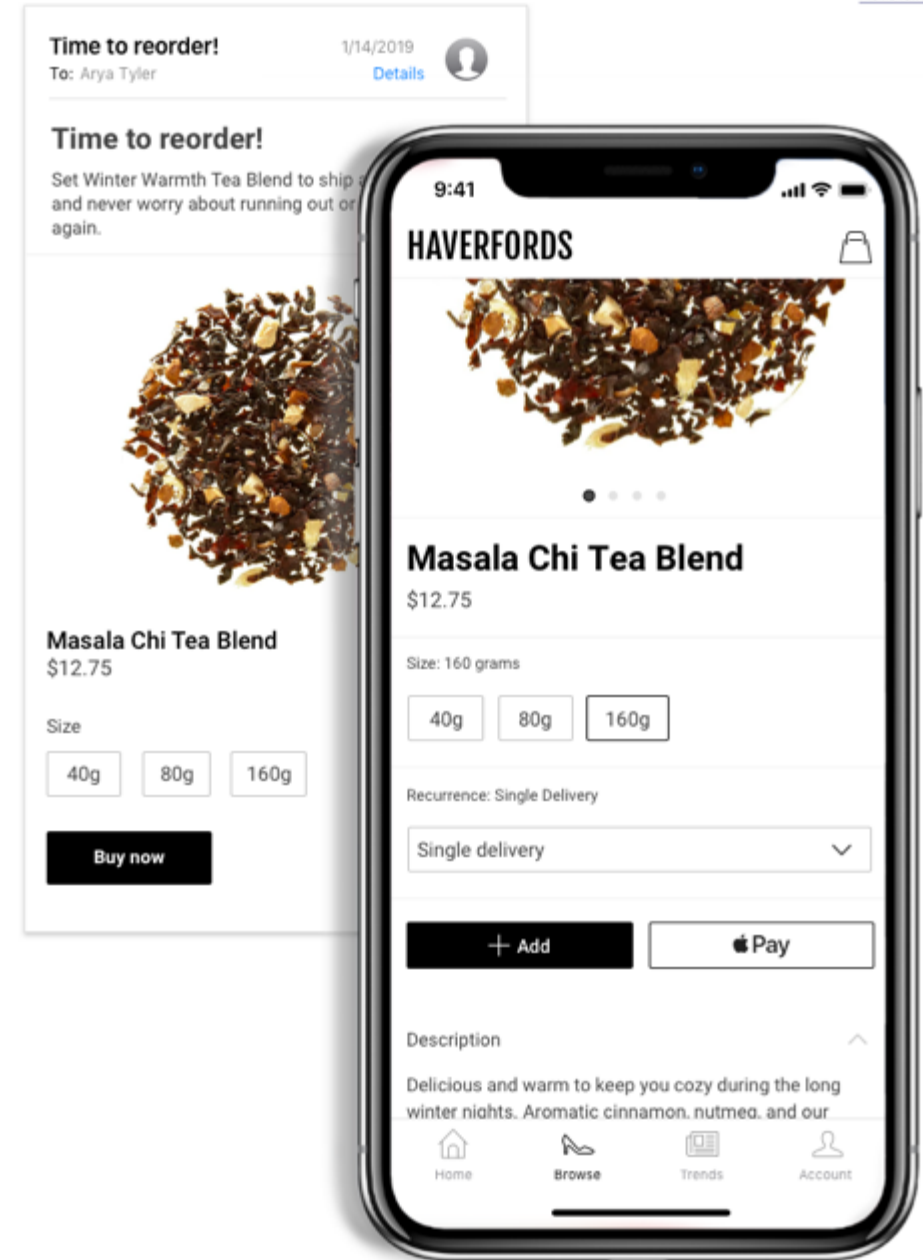
Make it easy to buy with beautifully simple experiences

Launch in days with built-in Distributed Order Management

Leverage built-in AI to drive automated reorder prompts and next products to sell each customer

AI : Which products to sell on Continuity (and which to avoid)

Replenishment Push

Identifies which products to put onto continuity, e.g. high margin consumable products which customers need, but don't usually buy.
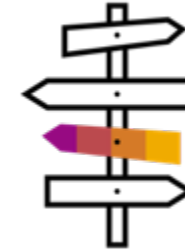
→ **Increase sales, and profit through buying economies**

Reduce predicted excess inventory

Identifies products where inventory is rising faster than sales, suitable for temporary continuity programs to reduce excess stock.

→ **Reduce excess inventory without price markdowns**

Prevents cannibalization and substitution

Automatically monitors for cannibalization to prevent substitution of lower margin products.

→ **Preserve profitability**

AI : Automatically optimizes continuity to maximize profit

Inventory optimization

Ensures that products required for continuity programs are automatically reserved from inventory to avoid out of stocks.

Surprise and delight

Automates the timing and delivery of surprises and trial products to maximize inventory turns and create stickiness.

Shipment timing optimization

Automatically determines the optimal timing for each product delivery to maximize stickiness and inventory turns.
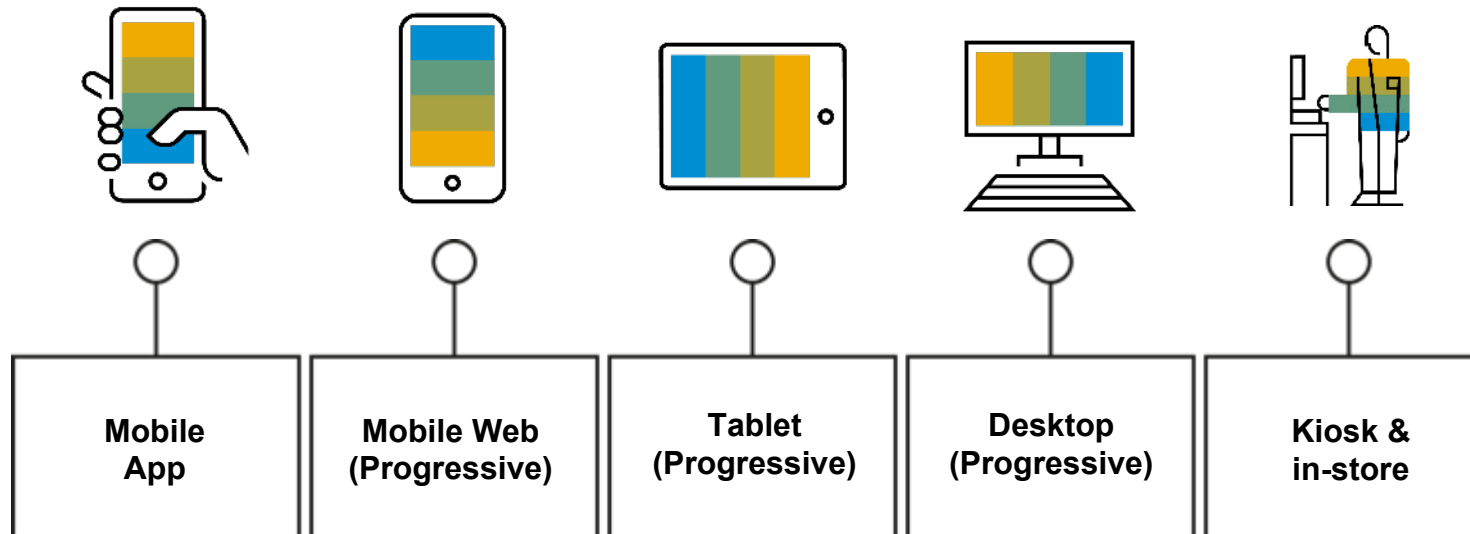
Payment collection optimization

Optimizes when to collect payments and number of retries to minimize write-offs and bad debt. Payment schedules are separated from product shipments.
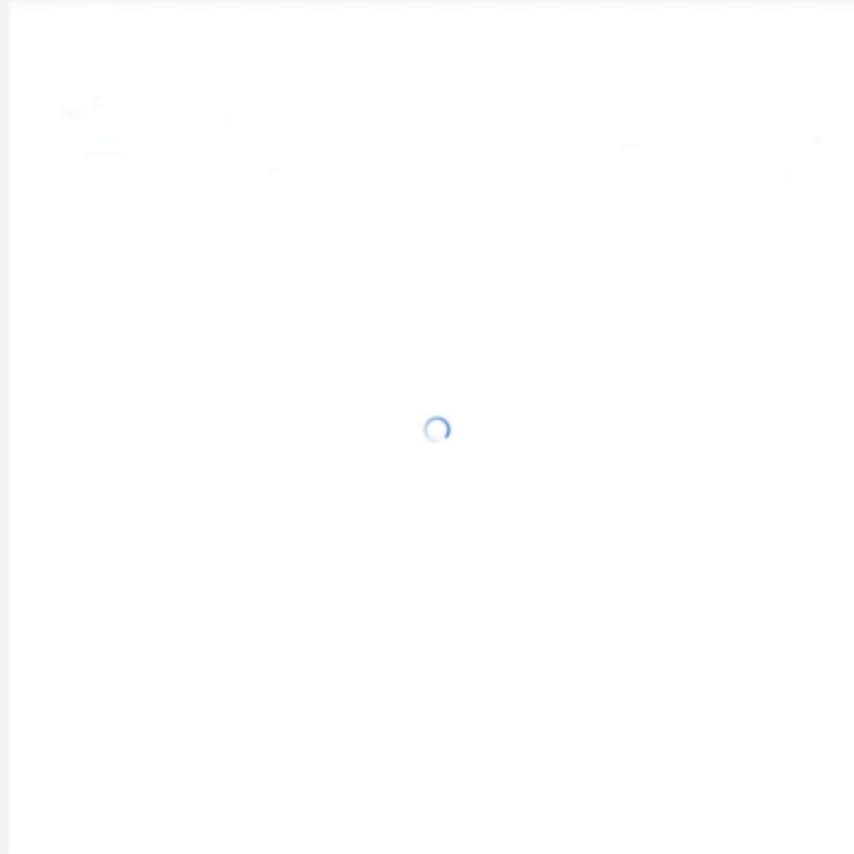
SAP Upscale Commerce

- **Next generation** B2C commerce platform designed specifically for Direct to Consumer and retail industries

- Can also extend your existing commerce system with **rich mobile, cross-channel and in-store experiences**

- Flexible deployment – **Go live in 7-14 days**

- **Intelligent AI** merchandising and digital category management built in

- Distributed Order management and **continuity commerce** built in

- **Native experiences** across a wide range of devices, starting with mobile

| Mobile App | Mobile Web (Progressive) | Tablet (Progressive) | Desktop (Progressive) | Kiosk & in-store |

Build beautiful experiences in days

Key takeaways

- Largest single area of growth - direct to consumer

- Opportunity for CP companies – grow, acquire, partner and optimize

- Focus on 5 key areas – Digital First, Single View of the customer, Customer for Life, Trusted Customer Relationships, Holistic CX front to back

- Supporting solutions – B2C Marketing, Transactional Commerce, Customer data management, product content syndication, customer services & qualitative customer experience analytics

- Rapid enablement of D2C for CP companies with SAP Upscale Commerce …. 'This is going to change the world.'

Thank You

POI European Summit

Successfully Navigating Growth in the New CPG and Retail World

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