# How do Consumer Packaged Goods (CPG)and Retail Companies put their Wheels Back in Motion?

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## Executive Summary

The COVID-19 pandemic has taken the world by storm and has created a deep impact on the core industries. The impact has been more profound in verticals such as CPG and Retail, which depends on a unique ecosystem. The engines running CPG and Retail has hit a stumbling block, caught in the headwinds posed by COVID-19. Given this backdrop, they need to quickly recalibrate themselves and navigate to the next normal. At this point, both CPG and retail industries are looking at solutions that can help them achieve the following objectives:

- Clearing existing inventories
- Getting better in demand prediction
- Opening more digital channels in the post COVID -19 world
- Evaluating alternative supply chain to mitigate risk
- Optimising cost

In this White Paper, we look at the multi-pronged challenges confronting the CPG and Retail industries in the current context and how Nihilent can help you with best of breed solutions in navigating the crisis and beyond.

# What are the Key Focus Areas for CPG and Retail Companies?

Not long ago, as businesses we were all busy in closing financial year 2019-20 and planning for the year 2020-21. Within a period of few weeks, the entire world is dealing with multiple complex challenges. It has been so sudden that responses have been quite reactive and even most developed economies are struggling to deal with the situation. While health and safety of human life have been the primary focus for all countries and communities, after a prolonged lockdown situation many countries are now dealing with severe economic consequences. International Monetary Fund (IMF) has already projected a global recession of at least the size and scale of 2008 or worse and considering the levels of unknowns, every government and businesses are busy doing scenario planning. The impact through business travel and tourism, supply chain restrictions and lower confidence is growing. Business as usual has been disrupted significantly, and practices that started as temporary measure may change the ways of working permanently.

As social distancing is the key precautionary measure in this pandemic, CPG and Retail sectors are struggling to even ensure their basic business continuity. They are not only dealing with abnormal demand situations in certain categories, they are dealing with supply chain disruptions, last mile delivery challenges and most importantly unpredictable customer buying behaviors. Many of the CPG and Retail organizations had limited digital presence, they are quite severely impacted in this crisis and looking at a totally different operating model for future. Companies who have made significant progress in digital have done much better in their response and are now getting busy to make necessary tweaks in the digital strategy to take the lead.

Some of the common top focus areas for leading CPG and Retail companies post our recent discussions with industry leaders over the last few weeks include:

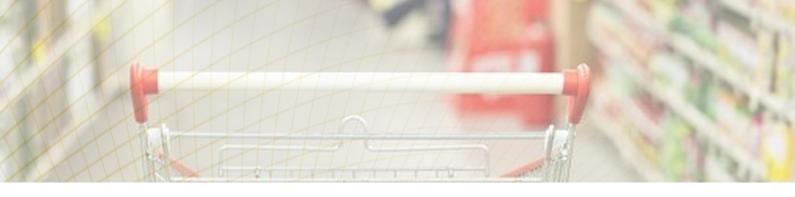## Clearing Existing Inventories and Getting Assortment Planning Right

Once lockdowns are relaxed, getting the existing stocks cleared would be one of the key priorities for the CPG and Retail organizations. While many of them are thinking about various discounting and other actions related to promotion to get their inventory cleared, some are trying to solve this challenge in a bit more holistic way. Traditionally CPG companies were dependent on retail outlets for the last mile sales. In many cases, the forward distribution has been a black box due to independent third party systems and as long as products are lifted from their warehouse and on time billings are ensured, CPG companies were happy. This way they not only lost visibility on the last mile sales but also lost the customer connect.

Going forward, building deeper understanding of new demand spaces, end to end visibility of the supply chain, direct understanding with their clients would be extremely critical for them to rotate to the next normal. The account managers and other resources need to be repurposed based on a modified operating model that aligns with the changed consumer behavior and market conditions.

Technology and Digital would play a major role in connecting these dots. Analytical use cases would provide end to end visibility of every touch point in the supply chain. Real time analytics would enable companies to faster decision making. New models are emerging in the areas of Assortment Planning, Pricing Strategy, and Forecasting.

## Getting Better in Demand Prediction

During COVID-19, while some CPG companies and retailers are experiencing unprecedented demand surge, others are witnessing shrinking sales numbers at this current juncture. Capacity to predict demand accurately is the key to adapt to the present uncertain situation. Higher forecast accuracy not only ensures on-shelf availability of product with reduced inventory, but also simultaneously manage the firm's cash flows more efficiently. No single forecasting algorithm is precise across all product categories. Therefore, it is always suggested to apply combination of algorithms from statistical and machine learning fields to improve accuracy of forecasts across different product categories. Moreover, integrating external event specific data with internal data helps us to refine the forecast accuracy further. Organizations need to apply Artificial Intelligence (AI) in improving demand forecasting at a micro level and devising the right response to optimize inventory at a store level. This approach is extremely relevant for the CPG and Retail industry to navigate through the current uncertain situation and emerge stronger.
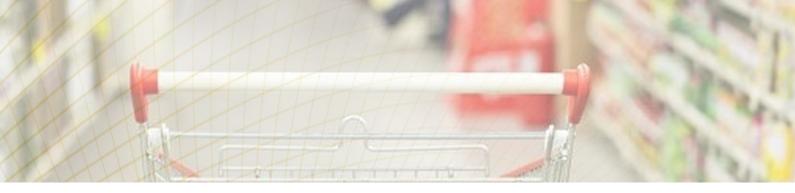
## Opening More Digital Channels

It is anticipated that social distancing would continue for quite some time as a way of life. Consumer preference would be more on the digital channels where physical proximity is not required. One thing is quite clear, things that can be done digitally, consumers would prefer to get that service digitally. Things like AI, Augmented Reality (AR) would play a major role to ensure that there is no compromise on the customer experience. Digital would be the key focus for CPG companies and retailers from e-commerce to marketing to new ways of working. To accelerate this journey companies would look for cloud computing to meet the scalability, security and flexibility requirements. Visual analytics solutions can help enforce social distancing and help in complying with newer hygiene requirements would be of great demand.

## Evaluating Alternative Supply Chains for Risk Mitigation

Given many countries are in lockdown state, CPG and Retail companies need to identify alternative or additional sources of supply to ensure that the post COVID-19 demands are met. Implementing technology for supply chain designing, planning and scheduling would be critical. However, the models need to be relooked at and there should be sufficient flexibility in the system to get specific market information sourced through account managers and field sales teams. End to end real time visibility would also be key to ensure that services are not disrupted any further. Command and control set up leveraging real time data analytics would be crucial to match supply with demand.

Companies now need to look into diversification of manufacturing and supplier network as a risk arbitrage measure. While split production across multiple countries, plants and teams may help to navigate the current situation.

Organizations need to determine their supply chain components in terms of resiliency—workforce, raw materials, packaging, warehouse space, access to transportation—and address them in order of priority.

## Optimizing Cost

During times of crisis, it is critical to closely manage working capital and evaluate capital spending to cut or delay nonessential or nonstrategic items. This is relevant for all CPG and Retail companies.

Cost optimization has to be looked at a very holistic way and not really zooming in on some obvious items. Every penny that can be saved, should be saved during periods like this. CPG and Retail companies need to look at their business processes to find possibilities of further efficiency automation, digitalization and get savings. They should also revisit their sourcing strategy to develop alternative sourcing mechanism and real time comparison between vendors and suppliers. End to end visibility of the supply chain would provide them details on the potential choke points. Inventory optimization is again a proven cost mechanism for the companies to achieve cost optimization. Analytical solution such as category wise spend, omni channel performance, cost benchmarking etc. provide the right decision support to optimize cost.

For example, players in spiking categories will see a short-term impact on costs as they build workforce redundancy to ensure continued operations, accelerate production and increase logistical flows. However, they may not be able to recover those costs immediately. Players in decelerating categories or with exposure to declining channels will rapidly face decreasing demand, along with difficulties receiving payment from customers / distributors that face a cash crunch.

# How Nihilent can help CPG Companies to Get Back to the Next Normal?

Nihilent's CPG and Retail practice is focused on addressing industry challenges around Customer Engagement, Omnichannel Presence, Payments, Supply Chain Management, deployment of business-critical enterprise technologies like ERP systems, along with profitable trading.

We help CPG companies and retailers grow their business through specialized eCommerce, PoS (Point of Sale), Advanced Analytics and Machine Learning-Driven solutions, ERP Implementation services, UX Testing, Bespoke Application Development, Application Integration Services, and Mobile Solutions. At Nihilent, we bring a holistic approach to helping our customers transform to an end to end digital business.

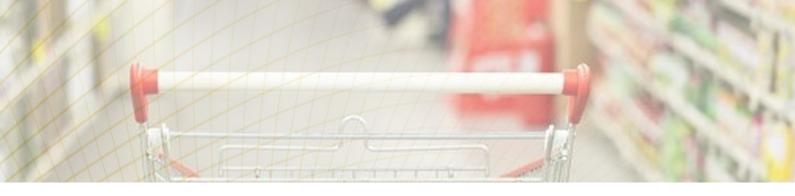## Incentivization and Loyalty Management Platform (ILMP)

Nihilent's Incentivization and Loyalty Management Platform can help CPG companies to get their inventories cleared by launching the right campaigns. This solution is already helping various Fortune 500 OEMs and medium level organizations to plan their supply chain network more efficiently and effectively. Along with planning supply chain ILMP is also helping global leader of digital service provider for their customer adoption.

Areas where this platform helps CPG and Retail companies are:

- Industry agnostic solution
- Includes last mile sales to cover end to end value chain
- Campaign wise ROI tracking of sales activity
- Enablement so that benefits reach to actual influencer
- CPG companies to stay connected with influencers/retailers and end consumers at all the time
- Tracks product movement and get better in your demand prediction and supply chain planning.

## Cloud-Based E-Commerce Platform

If you still don't have an e-commerce, this is the right time to build an intelligent platform! We offer rapid development of an e-commerce platform that has been intuitively designed so that your consumers love shopping with you. With our unique development methodology by leveraging Cloud, we deliver a platform that is secure, scalable, and device agnostic, ensuring unified experience across channels and again all of this in accelerated way.

## Omnichannel Marketing Analytics

Our SightN2™ for Omnichannel Marketing Analytics solution arms marketers with breakthrough insight and simplified decision-making tools to improve marketing performance. Marketing analysts, managers and agencies now have access to the previously hidden insights with easy-to-use dashboards, enabling strategic and tactical decision-making for high impact digital marketing.

## ReSense : AI Driven Retail Analytics

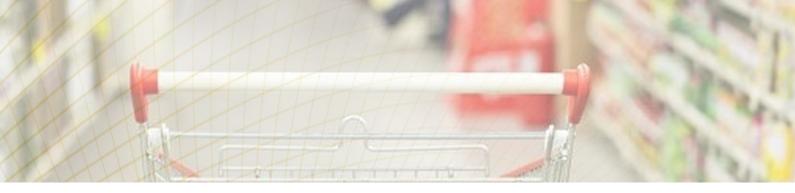Segmentation of SKUs for devising store and category specific response

- Identify slow- and fast-moving products based on recent sales data
- Create sales and inventory matrix to identify product segments (high sales-low inventory, low sales-high inventory, etc.)
- Utilize insights from segmentation to design customized response plan for optimum demand and supply continuity

Demand forecasting using advanced analytics

- Ensemble multiple advanced machine learning including deep learning, and statistical techniques to enhance forecasting accuracy
- Refine forecasting model with external situation specific information (e.g. number of COVID 19 cases, time till lockdown notifications, etc.)
- Retrain forecasting models daily with new data

Pricing strategy by analyzing demand and price sensitivity

- Determine discounts using economic models such as Price Elasticity, Substitution and Income Effect, etc. Deploy AB testing to refine price optimization across stores
- Develop product bundles using product affinity rule for higher sales and faster inventory liquidation
- Online Pricing tool for the Sales teams to operate in real time and provide offers to customers in a compliant secure system

## Nihilent's Digital Factory as a Service

As more things move from physical to digital, traditional ways of digital transformation would not be able to fulfill the speed, skill and scale requirements that is presented by COVID-19 pandemic. We need brand new thinking, agility and adaptability in our execution and sharp focus in customer experience.

Nihilent offers very specialized digital factory as a service which brings all the necessary elements to accelerate client's digital response. Our digital factory framework helps clients in their continuous cycle of ideation, incubation and industrialization. We bring in all necessary elements of people, process, technology and governance to make sure that our clients can achieve faster time to value.

## CONCLUSION

COVID-19 pandemic has raised many critical questions for companies and its consumers. Things like social distancing, lock down imposed by governments, travel restrictions are putting huge pressures on business continuity. When immediate priority for most organizations is to ensure health and safety for its employees and ensuring business continuity, they are also preparing themselves for post COVID-19 world. One of the industries which has been impacted quite severely through this pandemic is CPG and Retail and we have tried unpacking some of the challenges that they need to address quickly.

There is no doubt that technology would play a vital role in solving many of these challenges, Nihilent is fully prepared to partner with CPG and Retail companies globally and help them rotate to the new. Our consulting, analytics and digital expertise bundled with our deep understanding of CPG and Retail industries help us maximize value for you.

## About the Author

**Atalanta Kar**
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Atalanta has over 17 years of experience in diverse roles in Consulting Industry – Management Consulting, Digital and Technology, in geographies extending to South East Asia, India, Australia, Japan and China. He comes with a track record of C-suite advisory, envisioning business transformation, leading major client engagements and building great teams. Prior to joining Nihilent, he has worked in various leadership positions with leading consulting companies like HCL, TCS and Accenture.

Atalanta drives global sales and business development at Nihilent and is passionate about unlocking the trapped value for our clients. With a keen interest in technology and digital, he has a strong focus on supporting and enabling clients to maximise their business potential through the adoption of new technologies and agile solutions, add value to their business and facilitate growth. He holds his post-graduation in Business Administration from Indian Institute of Technology and bachelors in Industrial Production engineering from Visvesvaraya Technological University.

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## About Nihilent

Nihilent is a global consulting and services company that uses human-centered approach for problem-solving and change management. Nihilent's comprehensive range of expertise in customer research, process and technology enables newer heights of business performance.

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