

Digital Insurgents, Emerging Models, and the Disruption of CPG and Retail

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AT A GLANCE

Even as consumer packaged goods companies become more engaged in digital commerce, their perspectives on new competitors can be dangerously narrow. Winning in a “winner take all” digital world requires a deep understanding of emerging digitally influenced business models.

NAVIGATING A NEW LANDSCAPE

Numerous business models gaining traction are likely to disrupt the industry now and in the future. Incumbents must analyze what these models do, how they do it, and why each is attractive to specific consumers in different situations.

IT'S NOT JUST AMAZON

Most management teams have focused on the current disruptive model in their segment and are developing solutions derived from their own past approaches. They should take a more comprehensive view of consumer needs and the options for meeting them.

REDIRECT OR GET LEFT BEHIND

CPG companies need to rethink their entire approach to a fast-changing marketplace or they'll be overtaken by digital insurgents and more nimble incumbents.

It's a whole new game in consumer packaged goods. The combination of digital technologies, new competitors with vastly different economics, and consumers who enthusiastically incorporate multiple shopping approaches into their everyday lives is disrupting, disaggregating, and dislocating the industry's once straightforward business model, long based on strong brands and mutually beneficial retail partnerships. Winning in a "winner take all" digital world is becoming exponentially more difficult, and it requires rethinking longstanding approaches and traditional business models.

The dynamics of the CPG industry are a far cry from the "good old days," when consumer behavior was reasonably predictable and the retail environment was competitive but orderly. Consumers are no longer online or offline. They integrate multiple channels all along the purchasing pathway, and they do so in new and different ways as their particular needs and real-time circumstances dictate. They are also using digital sales channels as primary information sources, moving beyond simple price comparison into information on ingredients or content, packaging options, ease of use, and convenience. (Amazon is the most popular search engine for product-related information.)

The biggest single driver of disruption—on both the retail and supplier sides—has been Amazon, and now others are instigating further disruptive change. Amazon itself continues to innovate and expand its plethora of new business models and services, including most recently making new forays into traditional brick-and-mortar retail. At the same time, click and collect is not only becoming a reality, it is well on its way to becoming one of the biggest changes ever in the US retail landscape. The number of new business models and entrants is on the rise, including direct-to-consumer (DTC) business models that are reinventing traditional value propositions and new entrants that are pursuing personalization at scale, using approaches pioneered by the likes of Facebook and Netflix. The options for how goods are "handed over" from manufacturer or retailer to consumers are exploding and include new methods (such as storage lockers), new locations ("dark stores," for example), and increasingly affordable and ever shorter availability windows (same-day or even one-hour delivery).

Manufacturer and retailer leadership teams are now dedicating more resources to developing strategies and launching experiments. They are embracing e-commerce and the broader need for digital transformation throughout their businesses, recognizing that the digital game requires entirely different skills, organization, culture, and approaches across all of their business functions and systems. But they need to go further. Specifically, they must develop a much deeper understanding of both current and emerging business models, anticipating possible iterations and new options. They must determine not only how they will respond to today's challenges but also how their companies can lead disruption in their core segments. In the winner-take-all world, companies that are not victors will most likely become victims.

This report provides the following:

- A description of the most significant digitally influenced business models and their impact
- An assessment of the expanding options in the handover of purchases to consumers
- An examination of how consumers are responding
- The key conclusions for retailers and manufacturers

New Business Models

It's still early in the game, but digitally driven trends are taking shape that will determine the direction in which different CPG and retailer models evolve as they both influence and adapt to changing consumer preferences, as well as redirect industry economics. As we argued in our first report in this

series, leadership teams can't afford to wait to see how this evolution plays out. (See *The Winner-Take-All Digital World for CPG*, BCG Focus, March 2016.) In a world where about half of all CPG growth is online (more in certain categories and markets), nimble new competitors (and a few established players) are identifying and exploiting better ways to serve consumers. As a result, they are disrupting market segment after market segment and staking out leadership positions that are hard to dislodge. For incumbent players, brick-and-mortar market share and shelf space prominence do not translate directly into digital success. Without forward-looking strategies that encompass new models rooted in digital capabilities, long-successful companies risk stagnation, share loss, and even shrinking sales.

The following are some of the more prevalent digitally influenced models gaining traction with consumers.

AMAZON

Amazon is a phenomenon unto itself, and it continues to innovate and experiment with multiple models that are all aimed at capturing a greater share of its customers' household budgets. In the past few years, the e-tailer has added to its Amazon Marketplace, Subscribe & Save, Prime, and Fresh models an array of new options for consumers that includes Dash, Prime Now, Handmade at Amazon, Home & Business Services, and Amazon-owned specialty sites such as Diapers.com and Zappos. Its delivery options have increased and windows are getting ever smaller—now just one to two hours with Prime Now for most orders in more than 25 cities. Amazon is also entering click and collect with its own brick-and-mortar stores, and it is testing other convenience and pop-up formats. Amazon Go stores, which offer convenience shopping with no checkout counters, represent yet another innovation as the company continues its quest to reduce friction in purchasing—and further blurs the line between digital and traditional retailing. It is no coincidence that Amazon is also attempting to establish itself as the digital nerve center of the home with Echo, its voice recognition device, and Alexa, its cognitive-computing platform.

Several common themes and capabilities characterize most of Amazon's models, among them:

- Raising consumers' expectations by continually improving reliability and reducing the time from order to possession
- Increasing the frequency of interaction with consumers by adding category breadth as well as other capabilities, such as content delivery (video on demand, for example) and intelligent interaction (such as Echo and Alexa)
- Building customer loyalty, or stickiness, with fee-for-membership services such as Amazon Prime, whose members now include nearly half of all US households
- Becoming so ubiquitous and easy to use that consumers see less need to shop—or look for information—elsewhere

We have stated before that every CPG company needs both a strategy and an execution plan for Amazon, and this need only increases as the 800-pound e-commerce gorilla innovates and expands. (See “How CPG Companies Win with Amazon: An Interview with Gabrielle Novacek,” BCG article, May 2016.)

TRADITIONAL RETAILER CLICK AND COLLECT

Click and collect is rapidly moving from the experimental stage in the US to an integral aspect of digital commerce strategy for many, if not most, traditional major brick-and-mortar retailers. Numerous large supermarket chains and mass-market retailers—including Walmart, Target, Kroger,

and Whole Foods—are quickly building out click-and-collect services. Whole Foods launched its click-and-collect offering through a partnership with Instacart, a third-party grocery delivery service, and is testing other models. Target recently began remodeling those stores that do the most e-commerce business, adding more pickup space, signage, and dedicated registers. Target already offers free same-day order pickup at its stores for the vast majority of its online grocery SKUs. CVS has expanded click and collect nationwide, using a third-party startup that allows shoppers to place online orders for free pickup in about an hour, with packages carried to the shopper's car. Grocery pickup is now available at more than 400 Walmart locations in 60 markets.

For most brick-and-mortar retailers, their network of physical locations in high-traffic areas represents an underutilized asset for digitally influenced commerce. For example, approximately 90% of Americans live within ten miles of a Walmart store. Traditional retailers already have strong distribution systems to keep stores stocked, and consumers are in the habit of visiting and shopping on a regular basis. This is a substantial advantage over warehouse-based digital competitors with respect to many perishable products (such as refrigerated or frozen foods) and for busy consumers who often are not home to receive deliveries or don't want deliveries left outside where they live.

That said, brick-and-mortar companies face significant challenges in building up online ordering while converting existing assets to the click-and-collect model. Most stores aren't configured for the service—the majority of their space is devoted to traditional shopper-accessible shelving—and they already face logistical difficulties keeping shelves stocked. Many stores are in “landlocked” locations, with limited options for adding dedicated space to hold customer orders and provide easily accessible pickup points or drive-through service. In addition, offline store economics rely on self-service shoppers as their unpaid “picking” labor force; retailers need additional paid labor to make click and collect work. They also need to manage peak time periods for orders, picking, and customers taking possession of their orders (and demanding increasingly shorter-notice windows). They must also manage stockout substitutions and make decisions for consumers in their absence.

Looking ahead, it's highly likely that the party doing the collecting in many instances will not be the ordering consumer. Others (such as the next generation of UberEATS or fleets of autonomous vehicles) will collect packages on customers' behalf. This has big implications not only for retailers but also for CPG players as they work with retailers on replacing lost in-store impulse purchases with merchandising to consumers at handover or collection points.

CPG manufacturers have many opportunities to partner with retailers to improve the economics and effectiveness of this new hybrid digitally influenced model as it evolves. They can also help experiment with meeting other challenges, such as managing the economics of “dark stores” (those serving only click-and-collect customers), off-peak picking, and separate pickup locations. Traditional retailers need help to get it right, because click and collect will become not only a core feature of their digital commerce offerings and business models but also a key to competitive survival as Amazon and other digitally influenced models proliferate.

NEW PURE-PLAY DIGITAL RETAILERS

Even with Amazon's significant scale advantages, there appears to be sufficient space for new digital startups and approaches. For example, Boxed.com and Jet.com are two digital pure plays that have turned consumers' and competitors' heads. These new entrants tend to fall into three categories: price based, convenience based, and category focused.

Price Based. Many industry observers were surprised when Jet.com surfaced, offering a conventional

product selection and low prices. How could a new entrant compete with Amazon's selection and still be competitive enough on price to persuade consumers to switch? Yet Jet.com's "smart basket" technology, which connects the shopping experience with fulfillment—as well as not charging membership fees—was soon generating 350,000 new customers a month. Using sophisticated pricing technology that provides further discounts based on order sizes, and reducing prices by pulling out supply chain costs, gave customers strong incentives to add more items to their shopping carts.

It's an instructive lesson in the disruptive power of e-commerce: to hold a small startup at bay, the biggest e-commerce players have to sacrifice significant absolute-dollar margins across substantial product volume in core products such as paper towels, soap, toothpaste, and pasta. While an extra 5% on paper towels or pasta may mean little to Jet.com, meeting Jet.com's pricing on every item costs Amazon significantly, given the volume of these products that it sells to a broad base of households. Walmart, the biggest retailer of any kind, was put in a similar position, which is perhaps one reason why it acquired one-year-old Jet.com—for \$3.3 billion.

It remains to be seen how far Jet.com's strategy can be extended. However Walmart plays its cards, Jet.com's brief but spectacular run as an independent company, and the rewards reaped by its financial backers (only one year after going live), indicate that there will be plenty of available financing and market space for similar price-oriented pure-play digital retailers for some time to come.

Convenience Based. While price is always a factor, some new digitally influenced retail models are combining value and convenience to serve a particular market niche. For example, Boxed.com serves consumers and small businesses that want basic products in bulk quantities but don't have the time or access to necessary transportation to shop at warehouse stores. Boxed.com has focused on being mobile first and offers a wide range of categories (including grocery, beverages, cleaning supplies, home and office, bath and body, health, babies and kids, and pet supplies) in bulk, with many items priced comparably or well below Amazon—and without a membership fee.

Such companies often start in a single city or region and expand as their value proposition takes off. Boxed.com was founded in 2013 to serve New York and New Jersey (a densely populated area with lots of small businesses where plenty of people use public transportation for shopping). The company now has almost as much volume on the West Coast and in the Midwest as it does in the New York area.

Category Focused. Perhaps the strongest and potentially most sustainable independent digitally influenced retailer business models involve companies that concentrate on individual categories with which targeted consumers personally identify and tend to use heavily. Examples include NakedWines.com, Babyhaven.com, and petco.com, all of which are among the top 25 fastest-growing e-tailers.

Some CPG manufacturers, especially those with premium or specialty brands, have done most of their e-commerce business through these types of retailers because they do not want to dilute their brand image and they want to avoid pricing or relationship conflicts with their primary brick-and-mortar retail partners. As larger competitors such as Amazon and Walmart have increased the breadth and depth of their assortment (covering more categories and offering more SKUs within categories), these specialty e-tailers have doubled down on category expertise. The next step in their evolution will be to become important "go to" resources in their targeted consumers' lives as they mix product assortment with category-specific expertise and customer service. Many will also seek to become the host hub for communities of passionate consumers: think Pinterest meets Facebook meets Amazon. Johnson & Johnson's BabyCenter.com is one example. This evolution is in its infancy, but in time it will become a competitive challenge for broader-line digitally influenced retailers, as well as a source of additional sales volume for CPG manufacturers.

DIRECT-TO-CONSUMER FROM INCUMBENT CPG MANUFACTURERS

While this model will likely never be a very significant factor in most categories, it can be an important one for some manufacturers. A number of large multicategory CPG companies maintain DTC e-commerce sites, but traffic volumes and sales tend to be modest. Aggressive marketing of a DTC capability can also lead to friction with retail partners. That said, in categories where consumers have strong brand connections, such as pet supplies, some companies have put together multiproduct online offerings that generate significant traffic and sales, and they can be both profitable and a source of growth. They are also a way for companies to use their well-loved brands to stay connected with high-volume users. While individual companies' models differ, they share common elements such as product subscriptions and autoreplenishment, as well as offering multiple options for taking possession of the products ordered.

Perhaps most significant, DTC channels are a direct source of consumer data and insights with few filters. Actively participating in DTC sales gives CPG companies the opportunity to engage directly with their customers, to collect data from those interactions, and to expand their organizations' digital knowledge and capabilities. For example, they can conduct quick, low-risk, and low-cost market tests of new products or product variations. Some companies, such as Petmate, also use DTC to accelerate transitions to new generations of products by selling older inventory, which may not be attractive to their primary retail partners, through their DTC channel.

NEW DIGITALLY INFLUENCED DTC MODELS

These may be some of the most interesting, as well as most problematic, business models for both retailers and CPG manufacturers because they restructure the value chain, building high-power brands with far less time and money than traditional marketers can, and competing directly with the full slate of existing CPG players, traditional retailers, and digital retailers.

Harry's and Dollar Shave Club are two examples of such new entrants. Both companies' direct-sales models go head-to-head with CPG manufacturers, Amazon, pharmacies, and general merchandisers. These startups have identified a significant market segment, and each has structured a very different but equally attractive value proposition: high quality at a more reasonable cost (Harry's) and low cost with reasonable quality (Dollar), both delivered directly to your doorstep when you need it with no additional effort required. They've exposed to the consumer the cost and lack of convenience that characterize the traditional value chain. Moreover, Harry's has used its success in DTC to jump into physical retail. Having built a loyal following with consumers, the company has significant displays inside Target stores, for example, adding incrementally to its threat to traditional manufacturers by attacking their in-store volume. Unilever agreed to buy Dollar, reportedly for \$1 billion, in 2016.

Two other "hot" examples are The Honest Company—film star Jessica Alba's billion-dollar nontoxic-household-products company, which was launched online and still derives about 75% of its revenues digitally—and NatureBox, which offers a customized subscription-based model for healthy snacks shipped directly to customers. Both companies designed their offerings to meet consumer needs that weren't well covered by incumbent players, and they were able to enter the market by selling DTC. They've restructured the value chain to include only what is truly beneficial to the consumer and consistent with their brand promise.

Numerous opportunities across many categories are yet to be discovered and seized upon. One big question is whether these opportunities will be exploited by startups or by existing retail and CPG players.

Expanding Handover Options

For any e-commerce operation, getting the consumer's order into his or her hands—the handover—is the trickiest, as well as the most expensive and scale dependent, part of the equation, one reason why handover options keep proliferating. Amazon, the market leader and lead innovator, either employs or is experimenting with at least half a dozen alternatives including home delivery, click and collect, storage lockers, on-demand same-day delivery, package shipping of regularly ordered items, and Amazon Go. It is also working with other retailers to jointly use their physical networks as distribution points.

The number of options is set to increase as new players enter the game, including companies with deep pockets and innovative startups, and as new technologies come online. Launched in 2013, Google Express has shifted its strategy from fresh groceries to dry goods, health and beauty, and other consumer products and now has delivery partnerships with more than 50 merchants, including some of the largest, such as Target and Costco. The service offers same-day delivery in a few major urban markets, while consumers in suburban and rural areas can receive next-day or two-day delivery. Favor, a startup based in Austin, Texas, promises to deliver anything customers want from within their city in an hour or less; the company operates in 18 cities across the US and Canada.

In addition to the explosion in direct-to-home grocery delivery, delivery times are getting shorter and delivery windows are becoming smaller across other consumer-product segments, including apparel, tools, flowers, electronics, and appliances—all of which are driving significantly more scale and density, leading to better service and higher expectations from consumers.

Transportation players are also adding delivery services. Companies such as Uber and Lyft are expanding from carrying passengers to transporting food, meals, and other kinds of goods to the front door. The rise of these services will be facilitated by growth in click-and-collect options, which could become hubs for “hovering” ride services, much as airports and downtown areas are for Uber and Lyft drivers today. This will not only reduce the cost of trips but also shorten the time from digital order to possession. And autonomous vehicles, which are expected to become a marketplace reality in as little as five years, are tailor made for short-notice delivery to the home or workplace. Multiple automakers and tech companies are racing to get these vehicles on the road.

We expect to see even more companies focused on more alternatives for the hand-over side of the equation, rushing to build scale and densities as the speed and cost of the “pipe” become as valuable as the actual products and brands in some categories. Home delivery is only one option and often not a viable or preferred one. Leaving packages unattended on the doorstep or in a building vestibule invites theft and risks spoilage. Click and collect and storage lockers are increasingly popular, as is handover at the workplace or at short notice or in a tight, reliable window.

For their part, consumers have plenty of options, and so far they appear adept at matching handover method to shopping purpose, paying for faster or tighter-window deliveries when they see a need to do so and using more flexible alternatives when time sensitivity is not so important. Consumers will continue to mix and match and to try out new options as they become available. The challenge for CPG manufacturers and retailers is how to provide the breadth of handover options they need in order to be relevant and compete—and how to manage the economics of each one, which can vary widely according to multiple factors.

Multiple Permutations and Combinations for Consumers

Consumers are increasingly blurring the lines between online and offline shopping. They make choices about not only what to buy but also where and how to buy it depending on circumstance—the situation that gives rise to the need or demand. So, for example, having to buy a quick gift is a different situation from being on lunch break and having to shop for dinner, which is distinct from wanting to take advantage of a wholesale club for bulk purchases but not owning a car. Consumers take different actions—and use different models and handover options—depending on:

- Their need and the specifics of the situation
- Category characteristics
- Selection and availability
- Ease of access and ordering (including both convenience and lack of friction)
- Handover urgency (which can involve where customers are located at the moment and where they are going to be shortly)
- And, of course, price (although this will be less of a primary consideration as digitally influenced shopping evolves)

Consumers may use many models in the course of a week, month, or even day. As a result, there will be no single or dominant e-commerce or handover model. Variances in consumers' preferences and purchasing occasions, as well as differences in retailer business models and economics, mean that multiple permutations and combinations will coexist. The number of options and variants will increase as forward-looking retailers and CPG companies use consumer data to customize relationships and shopping experiences, and as their own ability to personalize at scale becomes more of a marketplace reality.

The key for winning retailers, working in concert with their suppliers, will be to offer a high-quality and robust set of options that provide customers with the ability to customize the mix to meet the needs of each specific situation. The goal is to own the customer throughout every purchasing occasion.

How Retailers and CPG Manufacturers Can Respond

Both retailers and manufacturers must adapt current business and operating models if they are to successfully engage consumers across all (or at least most) of their shopping needs. A prerequisite is developing a full understanding of how all the current and prospective business models engage consumers, as well as of each model's strengths and vulnerabilities.

RETAILERS

As digital commerce giants such as Amazon move into more categories, and offer more purchasing and handover options, a self-reinforcing cycle develops. These retailers become the first choice for more consumers for more occasions, which enables them to build tighter customer relationships that generate more and better data. This, in turn, allows them to more effectively (and opportunistically) anticipate and capture consumers' needs.

The big challenge for retailers is to determine how to make use of their core strengths to become the first choice for consumers in multiple discovery and purchasing occasions (thus becoming a more

regular part of their daily lives) while maintaining profitability. This necessitates not only providing broad assortments, strong content support, competitive pricing, and frictionless ordering and purchasing, but also offering multiple handover options that are feasible regardless of time (including when stores are closed), distance, and method of transfer (click and collect, lockers, home delivery). To get the most from each customer relationship and compel customers to connect with them first—and last—retailers will at a minimum need tools with stickiness similar to those of Amazon Prime (“free” shipping, one-click ordering, and scheduled refills, for example). Using data and analytics to “personalize” relationships will be increasingly important to securing customer ownership.

Grocers have an additional challenge: the need to ensure food safety all the way through the handover chain. In the near term, food safety and traceability will constitute both potential brand reputation risks and opportunities for differentiation. Over time, safety requirements are likely to become more onerous, so smart grocers will stay ahead of this curve and help determine ultimate standards in the integrated digital-physical world. For all retailers, it will be critical to continue experimenting. Building rapid test-and-learn capabilities will facilitate a first-mover advantage that helps further consumer attraction and customer retention.

Retailers will also need to rethink multiple tactical aspects of their business—applying flexible staffing models, for example, so they can accommodate peak times of day for ordering, picking, and pickup. They will also have to determine and explain channel pricing, especially inconsistencies between offline and online pricing, and beef up pricing intelligence and monitoring in order to develop more dynamic pricing strategies. Pricing will have to reflect the full and final cost to the customer, not simply the shelf price.

CPG COMPANIES

The challenges facing manufacturers are no less substantial or complex. Perhaps the biggest is the need to recognize the pervasive influence that digital channels already wield with consumers and the extent to which the online and offline worlds have become irrevocably intertwined along the entire pathway to purchase. Moreover, as retailers develop more integrated, consumer-centric business models in their pursuit of owning the customer and shaping decisions along the purchasing pathway, it will become harder and more expensive for manufacturers to exert their influence on consumers. Even well-established brands risk losing relevance. Some emerging disruptive business models may displace traditional CPG brands altogether.

CPG leadership teams should take three actions:

- Gain an integrated perspective on digitally influenced commerce, recognizing that many new entrants are not simply additional competitors. Instead, they represent completely new, and more comprehensive, business models that over time will blur many of the traditional distinctions between retailers and manufacturers.
- Determine where companies are going to partner and try to influence the development and direction of new models and where they will compete, as well as trying to disrupt the new entrants with their own innovations.
- Undertake broader digital transformation across the business, which means going further than integrating digital sales channels and marketing capabilities, and putting the entire organization on a digital footing—from launching new digital products and services to digitizing internal processes.

The first of these three actions—gaining an integrated perspective—may be the most important

because it will inform all the actions that follow. A common mistake is to think of e-commerce as a new sales channel rather than a series of distinctive and complete integrated business models—many of which appeal to the same consumer at varying times and for different occasions. This leads to many executives approaching the challenges functionally—talking separately about digital advertising on Google, dot-com sales at Walmart, or Amazon pricing policies. As digitally influenced models become more commonplace and consumers interact with them at much higher frequencies along the purchasing pathway, the distinctions among advertising, selling, and pricing blur. Does taking the content, pricing, and trade support actions necessary to secure first-page placement on Amazon have a greater impact on digital sales, offline sales, or brand building? The correct answer is all of the above. Is Harry's a retailer or a manufacturer? It's both, of course. The more significant question in both instances is, Who primarily owns the customer throughout the purchasing pathway? CPG leaders need to think in terms of, and take actions based on, a clear view of complete marketplace business models. While this report tries to introduce, frame, and describe many of the emerging business models that consumers are attracted to, company executives need to develop an even deeper understanding—both personally and across their leadership teams—of how these models work and what makes them appeal to consumers (and under what circumstances).

Second, many leadership teams today are busy reacting to the biggest opportunities (and potential threats) directly in front of them, such as the need to engage and win with Amazon or Walmart or category-specific pure plays (Chewy.com in pet supplies, for example). Such responses are necessary, but they are not by themselves sufficient. The next wave of emerging business models has the potential to be even more disruptive to consumer relationships, the ability to build brands, and the ability to influence and drive purchases. Company leaders must determine where and how they will partner with new players and, more important, where they themselves will play the role of disrupter, seeking to build new models around their marketplace capabilities and brand strengths.

Last, just as management needs to take a more integrated perspective on the marketplace, it should take a similar approach to its own business. Many companies are still working on establishing and developing digital sales or marketing functions or implementing standalone digital strategies. Their approach to strategy, change management, resourcing, and metrics is issue based—how to increase sales at Amazon, for example. They focus on growing the e-commerce business, shifting the media budget to digital channels, and preparing the supply chain to make more frequent, smaller shipments to e-commerce retailers. However, the nature of the challenge isn't simply functional or even digital. Leaders need to take a step back and think in terms of their overall business model and how they can compete and lead in an integrated analog and digital world. Getting it right means integrating digital approaches and capabilities into the company's overall strategy, operations, organization, and processes—not simply developing an e-commerce or digital marketing

approach. This will likely require a comprehensive transformation effort across the entire company. (See *How to Jump-Start a Digital Transformation*, BCG Focus, September 2015.)

It's a daunting challenge, one that relatively few companies are well prepared to meet. CPG companies must think in terms of owning the customer across channels and models, and overcommitting resources, talent, and management attention to the future, which is much more complex and faster moving than the environment most executives cut their teeth in.

The task is urgent. The experience of other sectors shows that once consumers start making collective choices and setting buying behaviors, the pace of disruption is fast. (Take music and consumer electronics, for example, where traditional retailers have all but disappeared.) The choice for CPG companies is increasingly disrupt or be disrupted. CPG leadership teams must move quickly to deepen

their understanding of current and potential future disruptive business models. Only then can they turn this knowledge into a more comprehensive and integrated set of actions that better enable them to not only meet the needs of consumers as they evolve in a highly dynamic marketplace but also develop winning business models, advanced internal capabilities and processes.

ABOUT THIS REPORT

This report is part of a series on the “winner take all” world in consumer packaged goods, cosponsored by BCG and the Grocery Manufacturers Association (GMA). The series examines some of the changes in the CPG industry and presents strategies that companies can pursue in response. It is based on research conducted collaboratively by BCG and the GMA, as well as on BCG client experience.

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