Can technology implementations deliver both financial returns and employee satisfaction?

The consumer-packaged goods industry finds itself in a time that requires strategic focus to capture the benefit that is available for this sector. As technology takes hold across every element of business it is primarily focused on driving tangible ROI with direct financial impact translating into clear shareholder value. This is sound business management but more often it overlooks an important element of the business—the people. Not all solutions drive improvements that provide a satisfying experience for the professional workforce. While it is important to realize financial results often workforce satisfaction does not always follow hand in hand.

How do employers achieve both financial efficiency and workforce satisfaction? Most companies big and small are looking for large gains; step gains that will deliver results and justify the resource effort to achieve these gains. Resourcing generally equates to people and the focus on driving efficiency while attention is not on the core day to day responsibility of these teams. These kinds of initiatives are generally major projects focused on mid to large scale implementations requiring dedicated resources, and have clear trade-offs associated with this focus. In cases like these, big gains are most times achieved through heavier efforts.

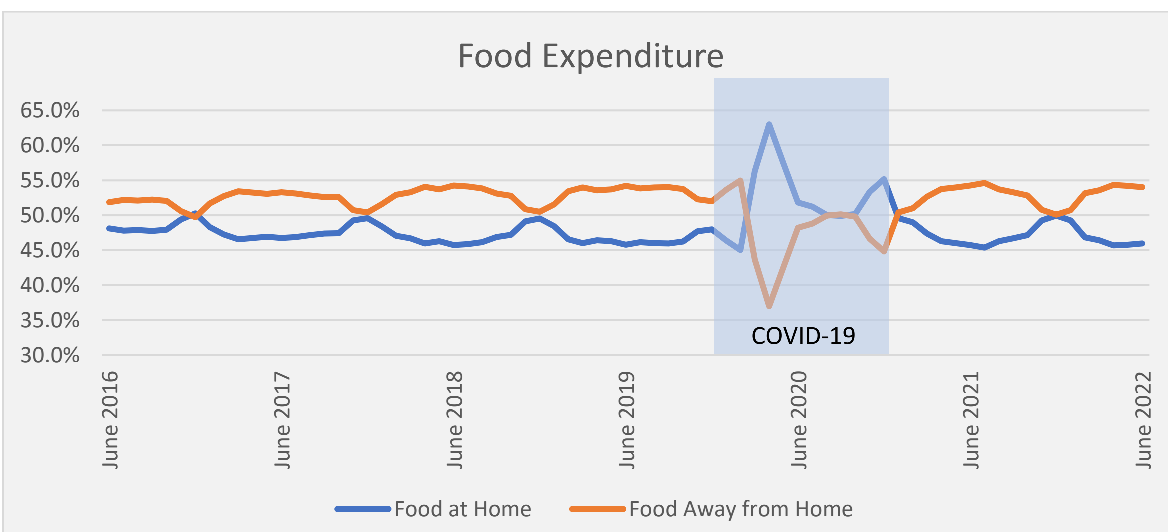
Are organizations focusing enough on the smaller gains that drive financial and strategic growth that require less effort than the benefit they will achieve? Are organizations able to measure the ROI correctly when employees are more efficient at their jobs. These small gains can multiply fast and empower employees to be more strategic by eliminating tactical elements and are often underestimated by executives. In this exciting time of e-commerce, media and brand proliferation, employers should be freeing up teams to formulate and execute clear strategies that will deliver sustainable shareholder value.

As we explore trends that are taking place today, we will do so with a focus on technology that enables your workforce to be more efficient, more strategic, more effective and all this while being more engaged and satisfied. We will review 3 key trends influencing industry change: **inflation**, **revenue growth management (RGM)** and **people**. It is this exciting confluence of people and technology that leads to shareholder value.

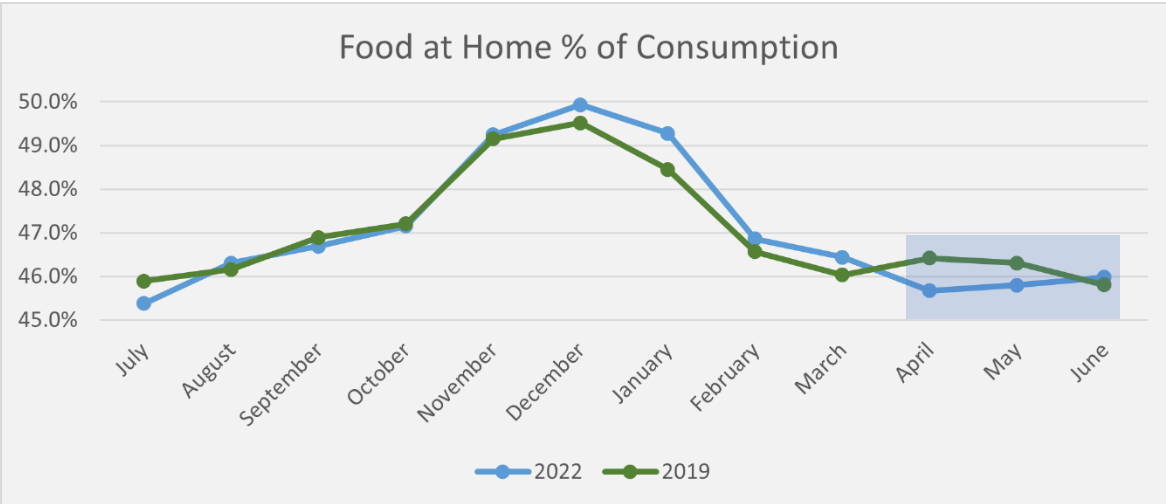
Inflation and the impact on CPG brands

Inflation has reached a forty year high, and food at home is up 13.1%[(1)] . Price increases show limited signs of reversing and the impact to consumers is starting to show. Consumers are spending their savings accumulated during COVID to minimize the impact to their current lifestyles, but we are starting to see expected shifts in behavior beginning to take hold. Food away from home (i.e. Restaurants) as a percentage of consumer food expenditure has corrected and surpassed post COVID levels.

(1) Source: US Bureau of Labor Statistics



We are however starting to see changes in the seasonal trend as consumers are feeling the impact of inflation and moving discretionary spending back to retail food.



Within the retail food channel, we are seeing both trade up and trade down behaviors, as value becomes a focus for consumers. As spend moves away from food away from home they are trading up in stores to compensate for not being able to eat out as often, and we see the perimeter of the store benefitting from this trend. Another big impact is the move towards store brands and lower priced commodity items (e.g. rice, beans).

All of this has an impact on how the share of wallet splits up between perimeter items, store brands and branded product. The obvious loser here being branded product; and while CPG's might be tempted to push consumers towards their own entry level brands, this could prove to be a slippery slope. The risk of downgrading consumers from higher quality more premium brands could have an impact well beyond the stabilization of the economy (whenever that might be) and specifically inflation. CPGs are going to need to leverage data and insights around consumer behavior to navigate without deflating portfolios created by this value mix shift.

Retailers continue to struggle with supply constraints and corresponding out of stocks, and this combined with cost increases from manufacturers is going to force decisions to lean towards the easier answer. Fill the shelves with product you can guarantee will be on the shelf and those that present a value to customers. Retailers are also under pressure to manage the Omnichannel more efficiently while ensuring that brick and mortar decisions (which represent 85%-95% of sales) are data driven and made quickly to be able to react to customer behavior shifts. The decision makers are time constrained and are unable to analyze all the data with the speed necessary; this is where CPG's have an opportunity to influence category decisions to contain the impact from the value mix shift.

How CPG's respond is going to depend on their ability to influence decision making with granular strategies that retailers can execute easily. This is going to be focused on value by adjusting assortment and pricing based on consumer behaviors; and as the economic pressures subside, being able to adapt to shifts to turn high inflationary strategies toward those that favor brands more holistically. The brands that react first will be able to grab a disproportionate amount of share and growth.

Many brands have access to data but are unable to provide frequent insights at the depth needed to influence strategies. Leveraging syndicated data to provide insights is not enough; retailers are looking for customer behavior at a granular level for the geographies that are most relevant. More time is spent pulling and mining data and then packaging insights than developing insights that are going to influence decision making. Technology solutions that free up insights teams and allow them to move retailer strategy is going to become extremely important in shareholder value creation. The technology spend is in most cases low when compared to other investments, but the ROI is not easily measured and because of this it pushed to the bottom of the priority list. Brands that have invested in technology to deliver rapid insights at the appropriate depth are able to win trust with category managers and ultimately are able to influence decisions with positive outcomes for both the retailer and the brand.

The Unintentional Revenue Growth Management (RGM) accelerator

While COVID impacted food expenditure it also impacted the balance of power in the consumer-packaged goods world. Accelerated demand, supply issues and price insensitivity shifted the power back to CPG's. This helped accelerate RGM strategies (specifically around price and trade strategies) as brands were able to raise costs (in many cases recalibrating margins and ensuring shareholder value was achieved) and pull back on trade funds knowing that as long as they could supply product to retailers, they did not risk losing distribution…. they had gained the upper hand!

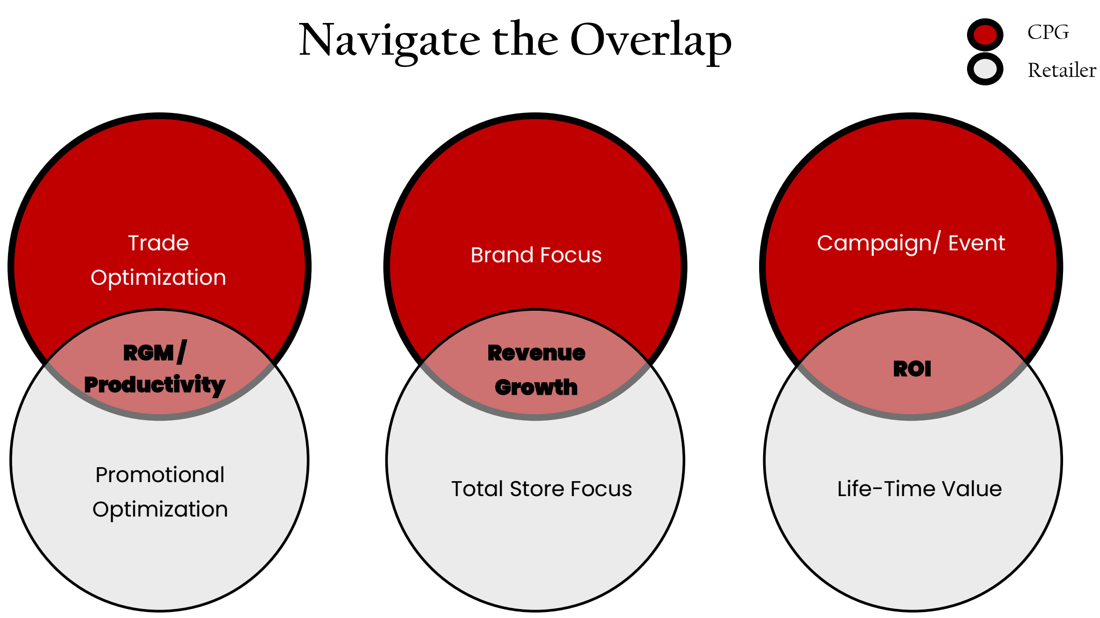
Being able to accelerate these strategies with little to no relationship impact was a dream scenario for CPG's. This is in sharp contrast to what would have been needed if COVID had not accelerated factors that eliminated the need for retail diplomacy. Most likely, communication of trade spend reduction and reallocation would not have been welcomed by retailers and their reactions would have been much different. This would have strained relationships, leading to decisions around assortment, pricing and display negatively impacting brands.

The balance of power is beginning to revert to pre-COVID levels. The shift in consumer behaviors will favor the retailer and they will start to look for avenues to push more value to the customer. RGM strategies are going to be questioned and pressure tested; comparisons are going to be made to pre-COVID timeframes and increased friction is going to build between CPG's and retailers. Retailers will leverage store brands and a more profitable perimeter of store to put pressure on CPG's to increase trade funds to pre-COVID levels. Second and third tier brands will also put pressure on first tier brands as they seize the opportunity to spend more to essentially buy category share.

The reality is that both retail and CPG's are implementing RGM tactics but the lack of transparency creates a level of mistrust with each other's strategy and it is a fight to hold onto what they have. The winning path forward is a complex one that requires technology, understanding, transparency and trust.

Trade and Promotional optimization are being enabled by technology across the industry, and in many instances, these are large implementations directly impacting processes and legacy systems already in place. The importance of getting this right is high but understanding the overlap between these two areas could provide wins for both retailers and CPG's. A large percentage of promotions are not efficient, they require markdown and trade spend, but do not always deliver the best ROI.

The disconnect between Retailer and CPG extends beyond revenue management; brands are interested in gaining share and selling more cases specific to their products, but retailers are looking to optimize across the entire store and at the very minimum, the category. Optimizing a promotion incorporates the halo and cannibalization impacts across the entire store. This might cause a scenario where a sub-optimal brand promotion might drive impact across the entire store making it an optimal promotion for the retailer. At a deeper layer this can also transcend time as the ROI on an event could also have different priorities for CPG's and Retailers. Developing a short-term impact while important is also being coupled with a longer-term lifetime value component. Selling cases next week keeps the lights on but developing long term relationships with customers that see them spend more over their life with the retailer is the ultimate goal.



While technology is being used by retailers and suppliers, the outcomes do not factor in both supplier and retailer lenses - it is only one or the other. While some solutions exist today that promise to address this need, they still have a long way to go. So, building trust becomes an important need and navigating the output of all the different solutions requires a clear and transparent partnership. Suppliers who can leverage data to prove out a combined ROI benefit are going to be able to push forward trade and price management strategies. Insights need to be granular and frequent in a format that is simple, creates buy-in and ultimately drives execution of these strategies. This is going to mean integration of data sets and development of tracking that compares projected results to the actual results, with the appropriate focus across the entire store over the lifetime of the customer relationship with the brand and the retailer.

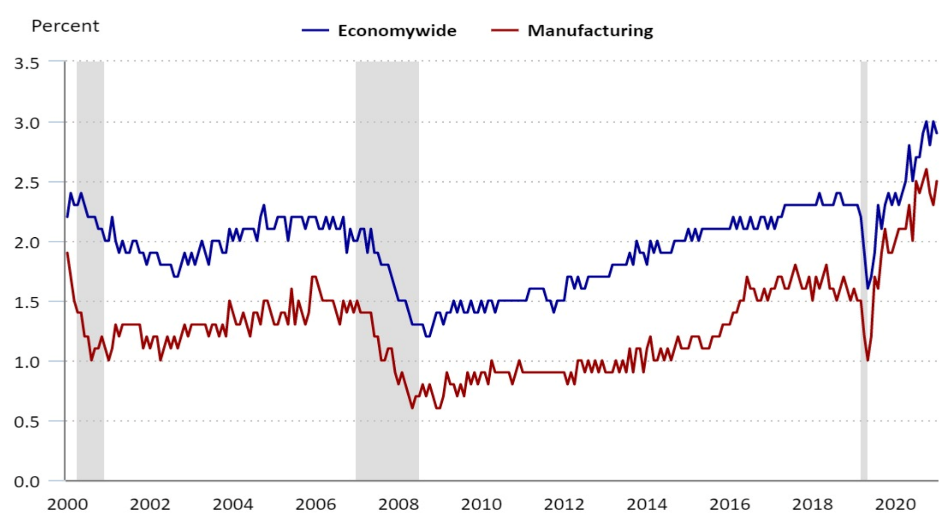
<u>**"The Great Resignation"**</u>

The work environment has become more challenging for employees and employers alike. On one hand the flexibility of working from home and being able to live anywhere (in many cases) provides a flexibility that people enjoy, but it does bring a world where meetings are virtual, and more meetings are required to keep everyone in sync. Managers are forced to meet with teams more regularly to ensure productivity and direction are maintained and spend less time during the day delivering a productive output. Interacting and staying connected has become hard work…. staying in sync on key strategies and finding enough time in the day to do your job in between meetings is a stark reality.

Quit rates as measure by the Bureau of Labor Statistics are at historical highs in a phenomenon dubbed the Great Resignation. This has become another point of impact on employers as the job market has broadened beyond traditional geographical barriers and top talent can find jobs that they believe are more satisfying (whether it be financially or in experience) anywhere in the country. Losing key contributions whether it is because of employees leaving or getting caught up in the new work norms can have a significant impact on an organization; most times this is not felt immediately but over time the impact of losing your experts becomes evident.

Employers are grappling with how to make employees feel valued and many are trying to think of ways to enable employees to contribute to an organization at a high level. While we might not be able to change the "work-from-anywhere" mentality they are going to have to find ways to automate daily tasks to allow employees to contribute at a strategic level. Often mid-tier employees are bogged down with tactical tasks, not able to contribute at a strategic level…and this was this way before COVID!

Chart 1. Economywide and manufacturing quit rates, 2000–21



Source: U.S. Bureau of Labor Statistics.

The new work norm is particularly compounded in the food industry where many retailers are hiring employees across the country and CPGs are forced to disperse sales teams to mirror the geographies of the retailer. There is no more efficiency at the call point for a category. In many cases the call point is not centrally located and while virtual meetings eliminate this complexity (in theory) personal interaction drives a lot more productivity and influence. Retailers are struggling with the new norm and find they have less time in the day to focus on external partners which has ramifications for all of CPG.

Innovation, promotional strategies, and assortment are not easily influenced by the limited personal interactions of today, and the need for deeper insights delivered in a way that communicates the right message in a clear and simple manner is more important than ever before. Whether this is solved through technology or by throwing bodies at the problem it needs to be solved. Retailers are time starved and unable to meet frequently, they are also unable to spend time analyzing data and drawing insights to make the best decisions for the business. Suppliers must become trusted resources to provide non-biased insights that allow for clear and quick decision making. This has become "the foot in the door" for CPG's to drive more of an interaction with retailers if they are willing to invest to gain the trust and attention of retailers with deep insights that benefit the category.

In Conclusion

With all the changes that are being faced in the industry today, C-Suites are having to consider more factors when making technology investments. The strain that large implementations put on employee's core roles compounded by remote work is going to be unavoidable. However, where they can make a difference is by looking for opportunities to automate mundane tasks and reduce churn. Investing in technology to not just enable optimization but to do so in a manner that benefits multiple aspects of the organization as they endeavor to deliver shareholder value. I am not saying that large technology implementations are not critical to progress, but they should be balanced with technology projects that drive automation, that empower employees to be more productive and deliver against organizational strategies in an efficient manner. This means giving them the tools to do their jobs effectively even if the ROI appears lower than some of the larger projects; the reality is that an effective workforce that can focus more hours a day on value driving work is not being considered when smaller projects are evaluated. When executives come to this realization they will create higher levels of job satisfaction, higher levels of productivity and higher level of retention at lower levels of technology investment. The value of utilizing data and delivering insights with the right depth and frequency is one example of how businesses can grow and compete with a relatively low technology investment while at the same time enabling employees to build trust and stronger relationships with customers all while feeling more satisfied with what they have accomplished at work.