# Guide to CPG Industry

## TRENDS


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## Rising Trends in the CPG Industry

The consumer packaged goods (CPG) industry spans many sectors, including food and beverage, pet supplies, nutrition, cosmetics and toiletries, consumer electronics, cleaning supplies and homewares. While each category has its own demographics and marketing strategies, CPG companies often borrow tactics and strategies from one another. A new trend in the food and beverage market can lend itself to a pet supplies brand and vice versa. The CPG industry also caters to the mass market, both in the brick-and-mortar retail landscape and, increasingly, online.

Therefore, a few broad trends span most CPG sectors. Some of them include:

- A shift towards online marketing and e-commerce.
- Eco-friendly packaging, retail displays and business practices.
- New direct-to-consumer brands and purchasing options coming from traditional CPG companies.
- More stable, diversified and resilient supply chains.

## A Quick Primer on the CPG Industry

Consumer packaged goods include any merchandise that customers use and replenish often, such as snacks, drinks, makeup and hygiene products, paper goods, pet food and cleaning products. They are usually sold in individual packaging, traditionally in physical stores such as club stores, pharmacies, grocery stores and big-box retailers.

The CPG industry is vast because it includes so many seemingly different categories. Before we dive into the latest CPG trends, let's talk a little bit more about the industry as a whole.

- **What is a CPG company?** First, it's helpful to distinguish between a CPG company and a CPG brand. The largest CPG companies often encompass hundreds of CPG brands. For example, PepsiCo is a CPG company that includes many individual brands, such as LAY'S®, Pepsi®, Doritos, Tropicana®, Quaker Oats and many more. The brands are the consumer-facing products lining retail shelves, while the CPG company is the overarching organization driving strategy.

- **How big is the CPG industry?** The size of the industry as a whole can vary depending on what companies you count as CPGs. According to the latest numbers from the Consumer Brands Association (CBA), the CPG industry had a total market size of $1.53 trillion in 2020. CBA also estimated that the industry contributed $2 trillion to the U.S. GDP in 2017, alongside 20.4 million jobs and $1.1 trillion in salaries, wages and benefits. Data for the first quarter of 2021 indicates that the industry continues to surge, achieving 8% year-over-year growth and totaling $1.62 trillion in projected annual sales.

- **What is the difference between CPG and retail?** The CPG industry includes the manufacturers, sellers and marketers who deal with the physical CPG goods. Retail is the sale of those products to end customers, either at the store or online. CPG companies usually work with retailers such as grocery and big-box stores to sell their products. They might also partner with e-retail giants like Amazon.

- **What is the difference between FMCG and CPG?** FMCG stands for "fast-moving consumer goods." It is a subcategory of CPGs. For example, cans of cat food that a consumer buys weekly could be considered an FMCG. In contrast, a container of kitty litter that a shopper replenishes once a month is still a CPG but does not sell fast enough to be considered an FMCG.

## What Will I Learn in This Guide?

In this guide, you'll learn about some of the major trends influencing the CPG industry, including:

- How the digital transformation is driving e-commerce and digital marketing for CPG brands.
- Why sustainability is so critical for CPG companies, and how to incorporate sustainable practices into your business.
- How traditional CPG brands are adopting direct-to-consumer (DTC) e-commerce strategies.
- What CPG companies are doing to bolster their supply chains and tackle some of the unprecedented supply chain challenges they face.

We'll highlight each of these trends by the numbers, some of the well-known CPG companies and brands succeeding with these new strategies, and how your organization can do the same. To see how Creative Displays Now! can help you incorporate these CPG industry trends into the brick-and-mortar retail landscape, get in touch with us today.

**CHAPTER 1**

# CPG Brands Are Finding New Audiences Online

## Chapter 1: CPG Brands Are Finding New Audiences Online

The internet is changing the way CPG brands reach and sell to their audiences. In the past, the CPG industry was slower to adapt to the growing e-commerce sector. While they dominated retail stores, many CPG companies struggled to convince customers to do their grocery shopping online or pay for shipping on small, frequently replenished goods like CPGs.

Today, new developments have jump-started many CPG companies' digital strategies. They've found new online marketing tactics that help them drive more traffic to physical and online stores alike. And, as their retail partners incorporate e-commerce strategies like click-and-collect and shipping to customers directly from stores, CPG brands have new opportunities to enter the market. Some brands are even opening new sales channels on popular marketplaces like Amazon, joining the world of e-commerce for themselves.

## The Rise of CPG E-Commerce

Until recently, CPG brands have been less susceptible to the seismic shift toward online shopping. Once, it didn't make sense to purchase these low-cost consumables online because customers often replenish them on their weekly shopping trips. And even today, many shoppers are still doing just that. However, consumer attitude is changing as e-commerce becomes faster and easier to use. E-commerce has also introduced new options such as free shipping and click-and-collect, making buying CPGs online more feasible.


## What Percentage of CPG Sales Are Online?

E-commerce has been steadily growing in popularity for years. In 2015, e-commerce accounted for 7.4% of global retail sales, rising to 13.6% in 2019 and jumping to 18% in 2020. Even amid these jumps in online sales, physical retailers could still count on strong sales for CPG products, which are consumable and need frequent replenishment. In particular, food CPG products were slow to gain traction in e-commerce as they are the most traditional grocery items.

Because of the recent trends in online sales, CPG brands now realize that e-commerce is a critical market with a high sales growth potential. Experts estimate that in 2019, 4%-5% of all CPG sales in the United States occurred online. By 2022, experts expect that percentage to rise to 10%. Meanwhile, e-commerce CPG sales exploded in 2020, growing from $31 billion in 2019 to $66 billion in 2020. If these trends continue, we can expect a sizable percentage of CPG sales to occur online from now on.

## How Is COVID-19 Affecting CPG E-Commerce in the Long Term?

As the trends for 2020 indicate, COVID-19 had an enormous influence on CPG e-commerce sales. As restrictions on store capacity and consumers' hesitations guided shopping decisions, many people chose to shop for groceries online for the first time.

More than 22 million consumers bought groceries online for the first time in 2020. Those new customers boosted the share of households buying CPG products online to 40%, up from 27% in 2019. In non-food categories, the percentage rose from 45% to 60%, and in the food category, it rose from 19% to 32%. In the 52 weeks ending November 30, 2020, online food and beverage sales spiked 125%, accounting for 12% of all food and beverage sales. Across all CPG categories, analysts predict e-commerce growth to continue.

Buying groceries online, using either click-and-collect or at-home delivery, has changed the way shoppers think about their grocery shopping. Before the pandemic, many shoppers associated CPG products with their weekly trips to the grocery store. While they first tried grocery shopping online to avoid long waits or crowding in a physical store, they've now gotten used to it.

Recent data shows us that shoppers who buy CPG products online steadily increase their basket size over time. In 2018, the average online CPG buyer spent $321. In 2019, it was $348, and in 2020, it rose to $501. With so many shoppers buying CPGs online now for the first time, we can expect them to increase their spending, too. Forecasters estimate that online CPG sales will grow to $103 billion by the end of 2021.

It's also critical to treat online CPG sales as an additional sales outlet rather than a replacement for physical retail. Even amid the most significant e-commerce boom the CPG market has ever seen, the majority of CPG sales still occur in brick-and-mortar stores. CPG brands are finding new audiences by creating products especially for the online market while enjoying strong performance for their mainstays at physical and digital storefronts alike.

## The Rise of Digital Marketing for CPG Brands

CPG products are typically associated with brick-and-mortar retail. As such, at grocery and big-box stores, CPG brands line every aisle with point-of-purchase (POP) marketing and colorful packages that stand out in a crowded store. Successful CPG companies also need to drive demand outside of the point of purchase and have always had a diversified marketing strategy that includes television and print ads.

Digital marketing has also been a critical part of CPG companies' demand-generation marketing, which is gaining even more importance. In 2020, consumer products brands spent an annual $19.4 billion on digital advertising, up from $13.13 billion in 2017. In 2021, CPG brands will invest a total of $22.58 billion in digital advertising. While many brands have found success marketing CPGs online, the CPG e-commerce transformation heightens the need for companies to find new audiences online.

## How Does Online Marketing for CPG Brands Work?

Marketing products online is a complex, constantly evolving job. Trends in internet user behavior pop up rapidly, as do new digital channels. CPGs need to keep up with the evolving digital landscape and continuously adjust their strategy.

For CPG marketers just starting, some of the basics include:

- **Gather more audience data:** In digital marketing, brands must go beyond age and gender demographics. The e-commerce explosion is an opportunity to collect detailed customer data. To start, use data from online purchases and shoppers' online activities to inform your customer personas and craft personalized marketing messages for your distinct audiences.

- **Use location-based messaging:** Current events often affect consumers in different regions differently. A well-crafted message might perform well in a particular area while falling flat in another. Develop specific campaigns that speak to the current concerns of your customers in specific geographic areas. In the digital world, it's easy to target users by location. You can even show users ads when they're closer to a retail store. Among marketers who use location-based marketing, 85% see growth in their customer base, and 77% gain a deeper knowledge of customers.

- **Use many outlets:** Digital marketing offers many channels, such as search engine marketing, social media and paid advertising. Diversifying your digital strategy will help you reach audiences wherever they are online. E-commerce shoppers often provide their email when they check out online, giving your brand the perfect opportunity to build its email list.

**A solid e-commerce strategy can include:**

- Going omnichannel
- Prioritizing product reviews
- Partnering with retailers

## How Are Brands Developing CPG E-Commerce Strategies?

How can CPG companies catch up as online sales take off? The key is in developing a solid e-commerce strategy, which can include the following:

- **Go omnichannel:** E-commerce for CPG brands can take many forms. Some brands may create specific e-commerce stores for specialty, online-exclusive products. Others may sell all their regular products through their website. Meanwhile, they may also be selling their own products through marketplaces like Amazon. In addition to their own online selling, many CPG brands also partner with retailers who have already developed shipping and click-and-collect solutions. With so many ways to shop online, CPG companies need to have a strategy for every digital sales channel.

- **Prioritize product reviews:** A respectable collection of positive reviews can attract more online shoppers. Digital shoppers aged 18-24 expect 203 online reviews for a product they're considering. Many digital and omnichannel marketplaces feature user-friendly review sections on product pages, a crucial marketing avenue for any CPG product. If your brand is new to e-commerce, it's critical to gain more online reviews. Consider asking previous purchasers to share their thoughts or even incentivize them for their feedback.

- **Partner with retailers:** Since CPG brands still gain many sales from brick-and-mortar retail, your e-commerce strategy should embrace retailers rather than compete with them. Omnichannel retailers like Target and Walmart could be a crucial source of e-commerce sales. You can also use your retailer's media to target your customers. For example, some CPG brands offer an online-exclusive deal through a retailer's loyalty program. They can also take advantage of retailer's customer data to target the right shoppers and personalize their messaging.

## Common CPG E-Commerce Challenges and How Brands Have Overcome Them

The increasing focus on e-commerce in traditionally brick-and-mortar product categories create new challenges for CPGs, such as:

- **Logistics:** Getting CPG products to customers' doorsteps is different from delivering in bulk to major retailers. Working with retailers whose store operations act as both the point of purchase and fulfillment centers can help. If selling directly to customers rather than relying on retailers, CPG companies need to invest in transportation, warehouse and fulfillment operations.

- **Growing competition:** Every business is recognizing the potential for reaching new markets online. With so many CPG companies embracing e-commerce and using digital marketing to enhance their customer targeting, brands need to do more to stand out. The best strategy for large CPG brands is to diversify their product offerings to create offerings marketed and packaged for particular customers.

- **Blending digital and in-person shopper experience:** Part of the omnichannel strategy is engaging shoppers wherever they encounter your products and brands. A CPG brand's digital messaging and presence must be consistent with the messaging customers interact with elsewhere.

**Creative Displays Now!** can build creative retail displays that play off your digital campaigns to ensure consistent, omnichannel retail messaging. When your POP displays work off the same messaging as your TV, print and digital marketing strategies, customers can recognize your products and brand on store shelves no matter where they know your brand from. If you're interested, contact us to get an estimate on your project.

CHAPTER 2

Sustainability Becomes a Focus

## Chapter 2: Sustainability Becomes a Focus

Sustainability is becoming a significant focus for many CPG brands, and for good reasons. Amid the pantry-stocking rush in early March 2020, dollar sales of sustainably marketed consumer goods rose 56%. There's clear consumer demand for sustainable goods, whether they feature sustainable packaging or environmentally safe ingredients. Customers also want to buy from brands that share their values and incorporate CPG environmental stewardship into the rest of their business model.

CPG brands are noticing these consumer trends, and 40% are responding with goals for sustainable packaging. Meanwhile, CPG companies are also adopting comprehensive sustainability strategies, including sustainable packaging for their brands' products, emissions reduction and other goals to make their products more eco-friendly.

### Why Sustainability Matters for CPG Brands

The modern consumer responds well to purpose-driven messaging and is looking for ways to be sustainable. For example, in an innovative biometrics study, researchers discovered that 79% of consumers feel deeper connections with brands that share their values and lead with purpose. In the CPG product category of household cleaning products, 95% of brands that use purpose-driven marketing make consumers feel better, and 86% foster a positive emotional connection.

Choosing certain CPG goods can also be a large part of a consumers' personal choice to live sustainably. Since these items are individually packaged, frequently replenished consumables, they can contribute significantly to a household's waste generation. Thus, finding ways to reduce that waste on the product and packaging side can have a huge impact.

An analysis of CPGs across categories reveals that the share of goods with sustainability messaging grew to 16.1% in 2019, up from 13.7% in 2015. Those products accounted for 54.7% of CPG sales growth during that period. Another analysis of CPG products from 2013 to 2018 revealed that products with a sustainability claim grew 5.6 times faster than conventional products. This shows just how much consumers relate to green messaging.

Sustainability is also critical for CPG companies as a whole because customers demand it. In 2019, 93% of business executives agreed that customers would hold them accountable for their environmental impact.

## What Are CPG Brands Doing to Become More Sustainable?

- Certified plastic neutral
- Reusable, refillable bottles
- Design for recyclability
- Sustainable production methods
- Reducing emissions
- Renewable and bio-based packaging materials
- Compostable packaging materials
- Sustainable ingredient sourcing

## What Are CPG Brands Doing to Become More Sustainable?

With so many CPG companies recognizing the need for a long-term sustainability plan, innovative initiatives specifically for CPG products have arisen. Some of the ways that CPG brands are becoming more environmentally friendly include:

- **Certified plastic neutral:** Companies can gain a Plastic Neutral Certification by measuring and reducing their packaging and supply chain's plastic use as much as possible. To offset the rest, they fund the removal of low-value plastic from landfills and incinerators for recycling.

- **Reusable, refillable bottles:** Some companies create more sustainable packaging by manufacturing reusable glass bottles and providing refills. This is a common strategy for green cleaning companies, which may offer a concentrated liquid or dissolvable tablet that the consumer adds water to. Industries from beauty products to food and beverages have jumped on this trend by adding refill stations rather than individual packaging to the retail environment.

- **Design for recyclability:** While many plastic bottles are recyclable, the recyclability doesn't always extend to the caps, pumps and sprayer nozzles. Likewise, packages may contain some recyclable components like cardboard and feature a non-recyclable plastic film window. CPG brands can combat this by designing packaging that's 100% circular and recyclable.

- **Sustainable production methods:** The production methods for CPG products and their packaging can be both sustainable and cost-efficient. Sustainable manufacturing methods can minimize waste by using raw materials more effectively and reduce emissions, water usage and energy usage.

- **Reducing emissions:** Besides reducing carbon and greenhouse gas emissions in production, companies can also reduce emissions by optimizing their transportation logistics. For example, reducing the weight of the packaging can significantly lighten a transport truck's load, which saves fuel. Likewise, optimizing shipping routes can also cut emissions while saving time.

- **Renewable and bio-based packaging materials:** Replacing traditional packaging with materials like bamboo and bioplastics makes packaging biodegradable.

- **Compostable packaging materials:** Certain packaging materials biodegrade even faster than most bio-based packaging, which means consumers can often compost them at home. This feature makes a clear connection with shoppers that your products will reduce their household waste generation.

- **Sustainable ingredient sourcing:** Food, beverage and cosmetics CPG products often contain plant-based ingredients such as corn, palm oil, sugar and coconut oil. When these companies source their ingredients responsibly, they work with farmers who use sustainable agricultural methods and limit their environmental impact. This practice can even extend to the sourcing methods used for paper goods.

## Examples of Sustainable CPG Brands and Companies that Use Sustainable Business Practices

Many big-name CPG brands are embracing sustainability in full force. They are excellent examples for other CPG brands to emulate because they are making real progress toward sustainability and succeeding in the retail landscape. For instance, Unilever found that in 2019 its sustainable living brands grew 69% faster than its other products and accounted for 75% of the company's growth.

In addition to increased profitability, CPG companies can also cut costs by going green. Nestlé saves $0.72 per pound of plastic resin by producing thinner plastic bottles. The strategy reduces chemical usage and emissions during plastic production and makes the bottles lighter and cheaper to transport. Switching from plastic bottles to aluminum cans can also be profitable because aluminum weighs less and is easier to recycle. As another example, Lagunitas Brewing Co. saves more than $1 million a year in utility costs with its innovative water treatment system.

Some CPG brands that are innovating through sustainable packaging and business practices include:

- **PepsiCo:** In 2019, PepsiCo launched a comprehensive sustainability initiative that included goals for agriculture and water usage. They have set an aggressive plan for sustainably sourcing 100% of key ingredients by 2020.

- **The Clorox Company:** Household cleaning products company Clorox has set sustainability goals to reduce its use of virgin plastic and fibers in packaging by 50% by 2030. They also aim to make their packaging 100% recyclable, reusable or compostable by 2025.

- **Danone:** The CPG company behind brands such as Activia® yogurt and Evian® water has set aggressive goals to reduce its carbon footprint. On its planned trajectory, it will reach net carbon neutrality by 2050.

- **L'Oreal:** Cosmetics brand L'Oreal has set the goal that 54% of their new or updated products will feature a formula with a smaller environmental footprint. Additionally, 78% of their new and updated products will have packaging with a lower ecological footprint.

- **Mars:** Mars, the CPG giant behind Pedigree®, M&M's®, Ben's Original™ and many more, has released a comprehensive "Sustainable in a Generation" initiative. By 2025, they will reduce virgin plastic use by 25%, reduce unsustainable water usage by 50%, and reduce total greenhouse gas emissions by 27%. They will continue to cut greenhouse gas emissions by 67% by 2050.

Creative Displays Now! prides itself on creating retail packaging and displays using **100% recyclable corrugated cardboard** containing 60%-95% post-consumer waste.


## How CPG Sustainability Can Extend into the Retail Landscape

Creative Displays Now! prides itself on creating retail packaging and displays using 100% recyclable corrugated cardboard containing 60%-95% post-consumer waste.

As another potential option, point-of-purchase (POP) displays can promote CPG brands' sustainability programs. You might use them to highlight your company-wide goals or if your product or packaging contains clean ingredients. If you want to take your POP display sustainability a step further, you can handle display recovery to ensure it is properly recycled after the campaign.

Creative Displays Now! can design retail packaging and displays using the recyclable and post-recycled materials your customers expect. Contact our team to get an estimate on your green POP campaign or recyclable retail displays.

CHAPTER 3

# Direct-to-Consumer (DTC) Strategies Are Becoming Essential for CPGs

## Chapter 3: Direct-to-Consumer (DTC) Strategies Are Becoming Essential for CPGs

Direct-to-consumer, or DTC, is a CPG e-commerce strategy transforming the industry so quickly that the trend deserves its own chapter. The DTC market, known for subscription services or fast shipping and "hip" marketing, includes everything from mattresses to sneakers. It also includes many CPG startups, which jump-started the trend of buying these products online in the first place.

In the face of small, direct-to-consumer CPG products being sold online in dedicated e-commerce stores, conventional CPG brands are adapting. They're complementing their status as household names with innovative DTC offerings and customer-centric solutions for omnichannel retail.

**DTC brands that sell CPGs often use a subscription model,** which helps them retain their customers with these frequently replenished products.

## What Is a Direct-to-Consumer E-Commerce Strategy?

A direct-to-consumer product is something your brand sells straight to customers, without intermediaries like wholesalers, retailers or online marketplaces. CPG DTC startups like The Honest Company for beauty and baby products, Dollar Shave Club® for razors and Blueland for household cleaning products have disrupted the traditional CPG industry.

Instead of finding placements in physical retail stores, these brands adopt a digital-first approach. They advertise online via social media and ship directly to their end customers through their e-commerce stores. DTC brands that sell CPGs often use a subscription model, which helps them retain their customers with these frequently replenished products.

These brands have grown so popular thanks to the advantages of e-commerce and online advertising in general. The relatively low cost of internet marketing combined with a focus on modern branding lets them gain a following quickly. It also helps them cater relentlessly to their customers. Their digital presence lets them gain customer data and a deep understanding of their base that many CPG brands lack in the retail environment.

While DTC brands were once the disruptors, the successful ones now recognize the necessity of the omnichannel approach, and shoppers can now find many of these digital-native brands at big-box retailers. Likewise, traditional CPG brands, which have long dominated brick-and-mortar retail, are expanding into the DTC market with great success.

## The Rise of DTC and How DTC Startups Are Disrupting the CPG Industry

In 2017, a total of 55.9 million internet users purchased from a DTC brand. By the end of 2021, that number will rise to 95.4 million. During that same period, DTC sales will increase from $6.85 billion in 2017 to $21.25 billion in 2021. Meanwhile, as far back as 2018, 40% of consumers expected more than 40% of their purchases to come from DTC brands.

It's clear from these trends that DTC is a major opportunity for CPG companies, and many brands are jumping in. A 2019 study of consumer brands found that 67% of beauty brands have a DTC website, alongside 60% of consumer electronics companies. While food and beverage companies lagged at 16%, the popularity of online grocery shopping is slowly bringing this sector to DTC, too.

**Benefits and opportunities CPG brands see in the DTC market:**

- Better customer data
- Increased agility
- Higher margins
- Shorter supply chain

## How Are Traditional CPG Brands Adopting DTC Strategies?

Established CPG brands see a significant opportunity in entering the ring with their digital native DTC counterparts. We are now firmly in the "second wave" of DTC, as conventional CPG giants follow in their disruptors' footsteps, with plans to do things even better than before.

Some of the benefits and opportunities CPG brands see in the DTC market include:

- **Better customer data:** Because CPG brands sell through third-party retailers, they often have significant gaps in their customer data. Once they have their customers' contact information and purchase histories from their e-commerce site, they can personalize ads to individual shoppers and gain a 360-degree view of their customers. This can help them sell more effectively in both retail and online markets.

- **Increased agility:** Increased customer data gives CPG research and development teams more information on the customer journey to drive new products. By selling to customers directly, these brands are also more likely to get direct feedback, which helps them improve. Selling online lets companies start with a small number of products to see what is most successful and optimize marketing strategies with A/B testing. All this ensures a faster time to market and a more successful launch.

- **Higher margins:** DTC brands often sell directly to consumers from their owned factories at retail prices. Without retailers and wholesalers taking their share of the profits, this strategy offers higher margins.

- **Shorter supply chain:** When products ship to wholesalers and retailers, it adds links to the supply chain. A longer supply chain increases costs and the chances for delays, shrinkage, shortages and overstocking. When a brand sells directly to customers, products pass through fewer companies and individuals before they arrive at the end user. Items are less likely to become damaged or lost, and the supply chain is easier to manage.

## Examples of DTC Strategies From Top CPG Brands

All these advantages translate into success for some of the biggest CPG products going DTC.

Here's how some of the CPG companies innovating with DTC strategies are implementing the new channel:

- **PepsiCo:** In May 2020, PepsiCo quickly pivoted to digital with two DTC websites, Snacks.com and PantryShop.com. Snacks.com sells snacks from PepsiCo's hundreds of brands and even offers the option for shoppers to build their own variety pack. PantryShop.com leverages the rising trend of at-home meal kits for bundled pantry kits, grouping everything from breakfast foods to classic family snacks. These DTC sites have allowed PepsiCo to learn more about consumer preferences, like what specific customers like to buy and pair together.

- **Nestlé:** Nestlé created a differentiated DTC strategy when they launched the KitKat Chocolatory in select global markets, including Japan, the United Kingdom and Canada. It's a DTC site that offers premium made-to-order chocolate bars with unique ingredients and custom packaging. It's seen great success for holiday gift-giving and allows the brand to test new flavors. Offering products totally distinct from the KitKats available in stores, Nestlé carved out a successful DTC segment without detracting from brick-and-mortar.

- **Colgate:** Hum by Colgate is a smart electric toothbrush that rewards users with in-app prizes like new brush heads. It's marketed online through influencers, social media and other digital channels and leverages an omnichannel sales strategy. The tech-forward design allows the brand to connect with their customers in a way they might not have with traditional retail alone, growing loyalty.

- **Gillette:** Proctor & Gamble's Gillette® had a false start with their DTC Gillette® Shave Club before working out the kinks and embodying a robust DTC model with Gillette on Demand, which launched in 2017. The service offers a traditional subscription plan and also allows customers to text to order refills. This lets them blend the traditional subscription model with single-order purchases.

With the resources of CPG giants, brands like these are taking advantage of the digital moment to create strong DTC offerings that appeal to the modern consumer.

## How Your CPG Brand Can Launch a DTC Strategy

When moving from a traditional retail strategy to a hybrid DTC strategy, you can follow these steps:

### 1. Create an E-Commerce Platform

Brands incorporating DTC need an e-commerce website for their customers to order from. When building your online store, consider your target market. Is it better to associate your store with your mainstay products or mimic DTC startups' distinct, minimalist branding? Either way, the site should be easy to navigate and purchase from.

### 2. Find a Logistics Solution

Shipping products to doorsteps directly from your factory or warehouse requires a different logistics skill set. Instead of packaging shipments in bulk, you must have a fulfillment center to package and ship orders individually. You'll also need a plan for long-haul and last-mile delivery. Meanwhile, e-commerce customers typically expect their orders in two to three days or less, which may be a quicker turnaround than delivering regular bulk shipments to retailers. Look for a logistics provider specializing in e-commerce solutions, alongside some team members to manage DTC logistics.

### 3. Organize Customer Data

Once your e-commerce orders start rolling in, you will have a wealth of customer data to track. Storing data like emails and shipping addresses enhances the customer experience by letting your shoppers make repeat purchases seamlessly, and it's also crucial for digital marketing.

Look for a customer data management platform that lets you leverage this information properly. Consider that product development, marketing and customer service departments may all use the data for distinct purposes and will all need access to it.

### 4. Enter DTC Without Damaging Relationships With Big-Name Retailers

Today, digital-first DTC brands struggle to remain profitable. While DTC sales continue to show strong performance, increasing competition requires more advertising, eating into profits. Many recognize the need to enter the physical retail environment, underscoring the importance of adopting a hybrid DTC strategy.

Established CPG brands still gain a majority of their sales through big-box retail, so it's critical to enter the DTC market strategically and avoid cutting into your retail partners' markets. Many CPG brands do this through exclusive digital products, such as online-only bundles or the ability to customize a product online. This helps companies add a new sales channel without cutting into their existing ones.

**5. Leverage Retail Displays to Take Your DTC Strategy Omnichannel**

Both digital-first and established brands adopting DTC strategies recognize the importance of retail presence. Luckily, many CPG manufacturers increase brand awareness and strengthen sales at brick-and-mortar retail through digital DTC marketing.

Retail displays offer a solution to help differentiate a new DTC product launch in the retail environment. They allow products to stand out in the crowded brick-and-mortar store shelves and attract attention with creative designs and messaging. CPG brands can use them to launch a previously online-only product in stores or as a limited-time promotion to increase awareness for a DTC product.

**Contact Creative Displays Now! to strategize your next retail display.**

## CHAPTER 4

# Building Supply Chain Resilience

## Chapter 4: Building Supply Chain Resilience

CPG trends like e-commerce, sustainability and DTC all place new requirements on the supply chain. Supply networks are becoming more complex and require new competencies to meet customers' and retailers' demands for fast shipping and environmental stewardship.

Recent events have also shown CPGs the consequences of unpredictable demand for an unprepared supply chain. Pandemic-related pantry stocking and raw materials shortages alike strained the supply chain and made stores struggle to keep products on the shelves.

The modern CPG company needs a supply chain strategy that accommodates digital and in-person retail, remains flexible and can quickly pivot amid supplier delays and shortages.


The five basic steps of supply chain management in the CPG industry are **Plan, Source, Make, Deliver and Return.**

## What Does the CPG Supply Chain Look Like?

The five basic steps of supply chain management in the CPG industry are Plan, Source, Make, Deliver and Return. Typically, CPG manufacturers act as supply chain leaders. They forecast future demand to plan how much product they need and where it should go, then source raw materials and produce the goods.

In the Deliver phase, CPG manufacturers supplying traditional retailers may ship their products to warehouses, distributing shipments to individual retailers. They may also work with wholesalers who sell the products in bulk to retailers. The direct-to-consumer CPG supply chain is significantly shorter, with some companies shipping to customers directly from the production plant. In any delivery model, CPGs must also manage returns of unsold or defective products.

Some critical elements of an effective CPG supply chain include:

**Demand Planning**
CPGs that sell online and with retailers face added challenges with demand. Online trends tend to snowball faster and may look quite different from retail sales. There's also a shorter timeframe to prepare for promotions with online marketplaces. Meanwhile, it takes lots of communication with retailers to understand end-customer demand accurately. Therefore CPGs need sophisticated solutions that can predict demand and prepare for significant shifts. They need many sources of data, alongside software or AI that can manage demand forecasting.

**Warehouse Operations**
Omnichannel CPGs also need advanced warehouse operations. DTC and e-commerce strategies require personnel to pick and pack individual customer orders. Meanwhile, the infrastructure for physical retail and bulk orders may include shipping pallets and warehousing equipment like forklifts.

**Packaging Solutions**
Some retailers have specific packaging requirements, while many CPGs may need special packaging for a retailer-exclusive offering. Both of these factors require CPG brands to repackage their goods for individual retail partners.

Omnichannel CPGs may also want to distinguish their e-commerce offerings with special packaging, both for the product and the shipping envelope or box. Orders shipping in bulk to retailers need different protective packaging than individual packages shipping to customers. Thus, omnichannel CPGs must manage packaging supplies and procedures for both inner and outer packaging for multiple sales outlets.

**Inventory Management**
Supply and demand challenges in retail and e-commerce have heightened the focus on inventory management. CPG manufacturers need visibility throughout their supply chain to plan for their downstream partners' inventory needs and communicate with their raw materials suppliers. When managing omnichannel sales, some CPGs may even choose to manage separate inventories for each channel or account for both wholesale and e-commerce sales with one global inventory count.

**Transportation Logistics**
CPGs have distinct strategies to get their products to consumers wherever they shop. That may mean a plan for distributing through e-commerce marketplaces or retailers' distribution systems and straight to consumers via their own distribution or carrier networks. Fulfillment and logistics operations may look different for each segment. For example, companies may rely on a specific distribution network for supplying frequent, high-quantity recurring orders from retailers and another network for delivering to home addresses.

## New CPG Supply Chain Challenges Affecting the Industry

As the CPG supply chain gets more complex with the rise of DTC and e-commerce, companies face new constraints and higher expectations. Some of these new challenges include:

### COVID-19 and Its Aftermath

When the COVID-19 pandemic struck, global manufacturing supply chains faced massive disruptions. From sick workers slowing production to safety restrictions shuttering entire plants, supply chains across sectors faced delays and shortages.

The CPG industry, in particular, had another challenge driving supply chain issues. Stay-at-home orders and safety guidelines started a wave of stockpiling as customers prepared to spend more time at home. Sales growth for cookie variety packs grew 20.3% in early March 2020, while salty snacks grew 14.8% and cheese snacks grew 11.5%.

Guidelines to increase cleaning and disinfection likewise caused increased sales for home cleaning products. Sales growth of cleaning products in March 2020 climbed to 385.3% for aerosol disinfectants, 180% for bath and shower wipes and 148.2% for multipurpose cleaners. Consumers bought CPG products like nonperishable snacks, cleaning supplies and paper goods in bulk, straining manufacturers and retailers' capacities and sometimes causing severe inventory shortages and out-of-stock scenarios.

Regardless of pandemic conditions, retailers have historically seen out-of-stock rates rest at around 8%, which is a costly scenario that they rely on CPG partners to help alleviate. After facing initial shortages, CPG brands quickly adapted and emerged stronger and better able to avoid stock-outs. Now, they're facing the new challenge of managing the supply chain while stockpiling dies down and the initial spikes in demand level out.

### On-Time Delivery and Transportation Issues

The logistics of getting deliveries to retailers or directly to consumers present major challenges to many CPG brands. The transportation and trucking industry has been facing a driver shortage for years, and its ability to deliver goods directly impacts inventory levels. Delivering products on time is critical in the CPG market, as many retailers fine brands for missed delivery windows.

And while 100% of retail buyers say that on-time performance impacts a retailer's willingness to work with a supplier, 73% say they've ended a relationship over delivery performance issues. Consumers also expect fast delivery speeds, with e-commerce giants like Amazon setting the tempo at two-day and one-day shipping and increasingly, two-hour shipping for groceries. All this adds to a need to meet fast-approaching deadlines, while supplier delays and carrier driver shortages make this more difficult.

### Lack of Technology

The CPG industry has been historically slow to adopt new technologies. According to a survey of CPG business leaders, just 11% have access to real-time supply chain data. Supply-chain technology challenges include disparate software systems, lack of end-to-end visibility and difficulties tracking business analytics.

While scaling technological capabilities presents a significant challenge for CPG supply chain leaders, it's also a major opportunity. Predictive planning and demand forecasting tools can help supply chains prepare for upticks and downturns in demand, which is why 56% of retailers and CPG brands plan to increase investments in this technology. Meanwhile, technology can also improve inventory management, warehouse scheduling, and supplier and retail partner communication.


## CPG Supply Chain Trends to Watch

- Diversified suppliers
- Technology upgrades
- Improved supply chain visibility
- Increased safety stock

## CPG Supply Chain Trends to Watch

The CPG industry recognizes the need for increased supply chain resiliency, with 90% of CPG brands planning changes to their supply chain networks and 40% expecting to increase their investment in the supply chain.

With these new investments, CPG manufacturers are adopting many new strategies to keep pace, such as:

- **Diversified suppliers:** Many CPG manufacturers discovered unknown gaps in their supply chain as the entire manufacturing sector faced supplier shortages. Scarcity of raw materials or shipping delays can crop up unexpectedly, especially if natural disasters occur where key raw materials originate. CPG companies can reduce their risk by diversifying their suppliers and adding new backup suppliers to their networks.

- **Technology upgrades:** One of the most popular and successful supply chain upgrades CPG brands have invested in are predictive planning and demand forecasting solutions. Automated forecasting tools with artificial intelligence can react to micro changes that can have widespread implications on your supply chain. Using sophisticated software to forecast demand and manage their supply chain lets CPG brands average 15%-25% improvements in production output and 20%-30% increases in customer satisfaction.

- **Improved supply chain visibility:** The consumer demand for sustainability means that CPGs must analyze the suppliers in their networks and partner with companies that practice environmental stewardship. Food and beverage CPG companies must also verify their suppliers comply with guidelines from the U.S. Department of Agriculture (USDA) and the Food and Drug Administration (FDA). To improve supply chain resiliency and performance, CPG manufacturers also track more information about their suppliers, such as potential employee shortages. With this data, they can combat supply shortfalls.

- **Increased safety stock:** CPG manufacturers have learned that even the best predictions cannot account for every surprise. While most companies sought to eliminate excess supply and high holding costs before the pandemic, that inventory management philosophy is falling by the wayside. Many now keep more safety stock to bolster themselves against potential demand spikes, and retailers often do the same.

## Choosing Suppliers With Expert-Level Logistics and Supply Chain Management

One way to enhance your supply chain is to work with partners that have mastered retail distribution. Creative Displays Now! keeps all our capabilities in-house, including design, prototyping, printing and manufacturing, which dramatically shortens our supply chain. We're experts at creating custom displays on a tight timeline and have a 99% on-time delivery rate.

As an optional service, we can also pack your displays in-house, which helps you get products to your retailers quickly. If you're interested in enhancing your retail supply chain, talk to Creative Displays Now! about your next retail display or retail packaging solution.

CPG brands recognize that they must act quickly to **retain their market share as e-commerce continues to grow.**


## Sharpen Your CPG Retail Strategy With Retail Displays

The CPG industry is evolving in response to unprecedented changes in shopping behaviors, the economy and the global supply chain. While the CPG industry is often slow to adapt compared to other sectors, the rapid pace at which top CPG companies adjust to new trends demonstrates how that attitude is shifting. Now, CPG brands recognize that they must act quickly to retain their market share as e-commerce continues to grow.

The rise of e-commerce is changing the way shoppers buy, shifting expectations for the supply chain, too. Consumers expect both stores and e-commerce sites to be in stock all the time and will always be on the hunt for the fastest way to get the items they need. Thus, CPGs need to streamline and accelerate their supply chains.

Meanwhile, the growing number of sustainable CPG products and their high sales performance shows that shoppers are voting with their dollars and expect CPG brands to demonstrate environmental stewardship. To keep pace, CPG manufacturers need to consider sustainable packaging and merchandising materials alongside more sustainable operations and business practices.

The changing retail landscape often means new competition online and in-stores. DTC startups are finally entering physical retail, and established CPGs are innovating new ways to compete. Sustainable brands are also gaining the upper hand on store shelves. With more competition, brands like yours need a winning CPG marketing strategy for brick-and-mortar retail. That's where CPG retail displays come in.

## What Is a CPG Retail Display?

A retail display is any visual element that helps your product stand out in stores. They include small signs hanging off the shelves, large pallet displays and everything in between. They feature a visually pleasing array of products against eye-popping graphics on the display itself. Most are temporary, made from corrugated cardboard and meant to last just a few months. Others may last for a year or more and feature more permanent materials such as metal, wood and plastic.

CPG brands and product merchandisers commission point-of-purchase (POP) displays and propose them to retailers. When a retailer accepts the proposal, the brand gains a prominent display of products outside their designated shelf space or makes their shelf space stand out with special signage.

## Why Do Retailers and CPG Brands Use Displays?

Retailers and CPG brands both gain tremendously from using temporary POP displays as part of their in-store marketing strategy. Some reasons the retail industry uses displays include:

- **Achieving sales lift:** The top reason for creating POP displays for 30% of CPG brands is to increase short-term sales. Brand representatives also say that, on average, a temporary display increases sales by 23.8%. Retail displays are eye-catching and particularly effective at encouraging impulse buys, which drive much of the market for low-cost, high-turnover CPG products.

- **Introducing new products:** New and established CPG brands can use retail displays to differentiate a new product during its initial launch. Displays help shoppers realize that a new product is available and convince them to switch brands or try something new.

- **Educating customers on products:** Some shoppers may not immediately look at a product and know what it's for or who could benefit from it. A retail display can quickly highlight a product's benefits and how to use it. A creative concept could showcase several products, with graphics describing who each product is intended for. Both retailers and CPGs benefit from educating shoppers on unfamiliar products when they're ready to purchase.

## How Creative Displays Now! Can Help

Creative Displays Now! can prototype and manufacture custom retail displays on a tight timeline. We're a one-stop shop for companies that need a fast, turnkey solution fit for top CPG brands. We understand retailers' requirements, so we can create something 100% custom that your retail partners will approve. Since our primary material is cardboard, our solutions are 100% recyclable and often made with post-consumer fibers.

Make your products stand out and watch them fly off the shelves with custom POP displays from Creative Displays Now! To get started, request your free estimate on custom retail displays or promotional packaging today.

## Thank You!

Thank you for downloading our online Guide to CPG Industry Trends. No matter what product category you represent or whether your brand dominates your category or is still emerging, it pays to stay on top of the latest CPG trends. Your customers are always looking for the latest and greatest new products, and maintaining your market share or overtaking your competitors requires constant innovation.

In this guide, you'll learn where the CPG industry is headed and how successful CPG brands are adapting to trends such as:

- Reaching new audiences via digital marketing and e-commerce.
- Creating more sustainable products and adopting more environmentally friendly business practices.
- Establishing innovative direct-to-consumer strategies that open new markets and supplement traditional retail sales.
- Revamping the CPG supply chain to prevent delays and shortages and become more resilient.
- Using point-of-purchase displays to enhance brick-and-mortar sales and marketing strategies.

If you're interested in how retail displays can help your brand stay relevant or gain attention in a rapidly evolving market, get in touch with Creative Displays Now! We'll create a custom promotional display that will showcase your products when customers are ready to buy and increase sales in the physical retail environment. To get started, tell us about your display needs, and we'll design something perfect for your brand.

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