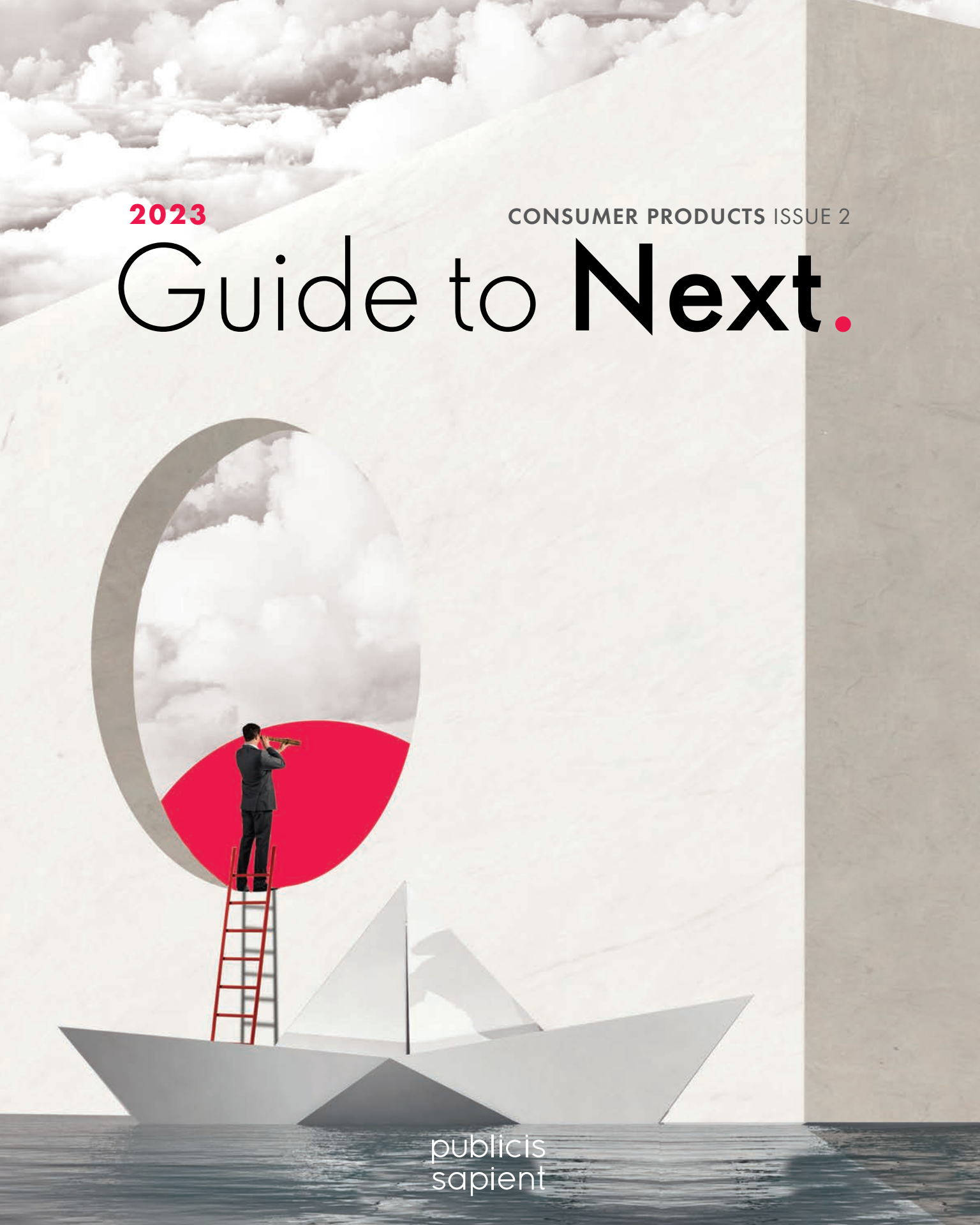
2023

CONSUMER PRODUCTS ISSUE 2

Guide to Next.



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2023

This year's outlook on what's next and how Consumer Products firms can strategically plan for changing customer demands.

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Digital Operating Models

HOW THE CONSUMER PRODUCTS INDUSTRY IS TRANSFORMING ITS OPERATING MODEL FOR A DIGITALLY ENABLED WORLD

As consumer product brands enter a new era, companies are transforming from siloed conglomerates into consumer-driven digital businesses. How and why are the top performers choosing to restructure?

In 2023 and beyond, consumer products (CP) companies have an opportunity to completely transform their business through customer engagement. What's stopping them? It comes down to whether or not their digital capabilities and strategy are centralized, which can empower digital transformation.

Conglomerates like Kellogg's, B&G Foods and Unilever continue to separate into specialty category companies to focus on key growth areas and become more agile. But digital capabilities are one part of the business that can benefit from staying together.

"These companies are about to add a new business complexity, and rightfully so, because specializing will be more profitable," said Dan Liebermann, managing director at Publicis Sapient. "But if they want to maintain a digital experience that's cost-effective and maintains some level of consistency to their customers, they can't split into multiple digital models. It won't work."

So, what will? Many CP firms are looking into core digital hubs that house capabilities like data and marketing under one roof. According to Liebermann, while it's a really tricky thing to pull off—especially for newly separated companies—this approach can help achieve consumer engagement and get results from new technology.

What is a digital-first operating model?

A digital-first operating model is different for every company, but it revolves around one thing: making digital capabilities a priority.

Many CP firms have little alignment on digital strategy, data and technology across departments, brands and regions. Switching to digital-first operating model prioritizes a digital investment. One way to create a digitally enabled company is by putting digital at the center.

"It means having some sort of core, ideally a digital core, where all digital capabilities sit in one group and have full control of digital investments and budgets," said Sabrina McPherson, senior managing director at Publicis Sapient. "So, marketing and data are handled centrally across all brands under one umbrella."

FOR EXAMPLE, A DIGITAL CENTER OR CORE MIGHT CONTAIN THESE SERVICES FOR THE ENTIRE ORGANIZATION:

- Digital commerce
- Content services
- Consumer services
- Marketing/merchandising
- Digital media
- Data and analytics
- Digital product management

In a less mature digital operating model, all of these services might be handled regionally or on a brand-by-brand basis. With a more mature digital-first operating model, they could be handled by a central entity.

"Many CP firms have limited digital resource dedication or alignment on digital standards," McPherson said. "There are digital initiatives embedded in every different brand or business, but they're not leveraging across the business to do digital in an efficient way, nor are there core standards or excellence around it."

A digital strategy might not be a new idea for consumer products brands, but investing in completely new organizational models to support digital strategy is just beginning to gain traction.

Why CP companies are transforming their operating models

Two main factors are motivating CP firms to make a change: reducing costs due to inflation and remaining relevant against the competition. These issues are also driving the various specialty spin-offs within the industry.

REDUCING POST-COVID-19 INFLATION COSTS FOR CONSUMER PRODUCTS BRANDS

Many consumer products brands are also looking for innovative ways to cut costs because of sustained inflation.

While companies anticipated an eventual recovery after COVID-19 lockdowns, a massive rise in costs for key raw materials is straining the return to "normal." CP brands are facing smaller-than-expected margins, and they have to make tough decisions on what to invest in and where they can cut costs.

At first glance, the costs of building out a new digital-first operating model are daunting for many firms. But in the long term, having a central data hub can save CP companies money and time across brands, especially when utilizing first-party (1P) data.

"If I don't have a consolidated digital operating model, I'm having to figure out who a consumer is many times for many different brands," Liebermann said. "I'm going to create a frustrating experience for customers when they visit any of my emerging digital properties, and it will be at least three times more expensive for me to fix things."

“Consumers are expecting seamless interactions on their mobile or desktop, across offline and online; they expect always-on engagement. As a manufacturer, you have an opportunity to engage with them across all these multiple touchpoints and be top of mind.”

SABRINA MCPHERSON, SENIOR MANAGING DIRECTOR, PUBLICIS SAPIENT

REMAINING RELEVANT IN A DIGITAL ENVIRONMENT FOR LEGACY BRANDS

In the past, traditional, siloed marketing methods and regional retailer relationships were enough to sustain business operations for legacy CP brands. Today, almost all companies in the industry are looking to build direct and deeper relationships with consumers, which is directly enabled through digital channels and capabilities.

“Standards of how brands engage with consumers are set by digital natives that often are outside of the CP industry. Consumers increasingly expect any brand to know them almost better than they know themselves,” McPherson said. “Delivering on this ever-rising bar of expectations requires digital content that is always evolving, timely and personal, which is why you need this hub in the center to be able to have those insights on a more frequent basis.”

Research has shown that consumers are no longer as loyal to specific brands as they once were, and they are more willing to seek out new brand options after negative experiences. Inflation and rising costs are also pushing consumers to pull back on spending and seek brands with lower costs.

This creates a key opportunity to tap into new digital channels to consumer relationships and collect 1P data. Even if it doesn’t make sense for a CP brand

to invest in a direct-to-consumer (D2C) commerce channel, D2C digital marketing is a must.

To serve personalized ads for multiple brands to the same customer profile through Pinterest, Spotify and email, for example, business units from different brands and regions will need a centralized structure to share information and work together.

OPTIMIZING CONSUMER PRODUCTS ORGANIZATIONS TO HANDLE DIGITAL TOOLS

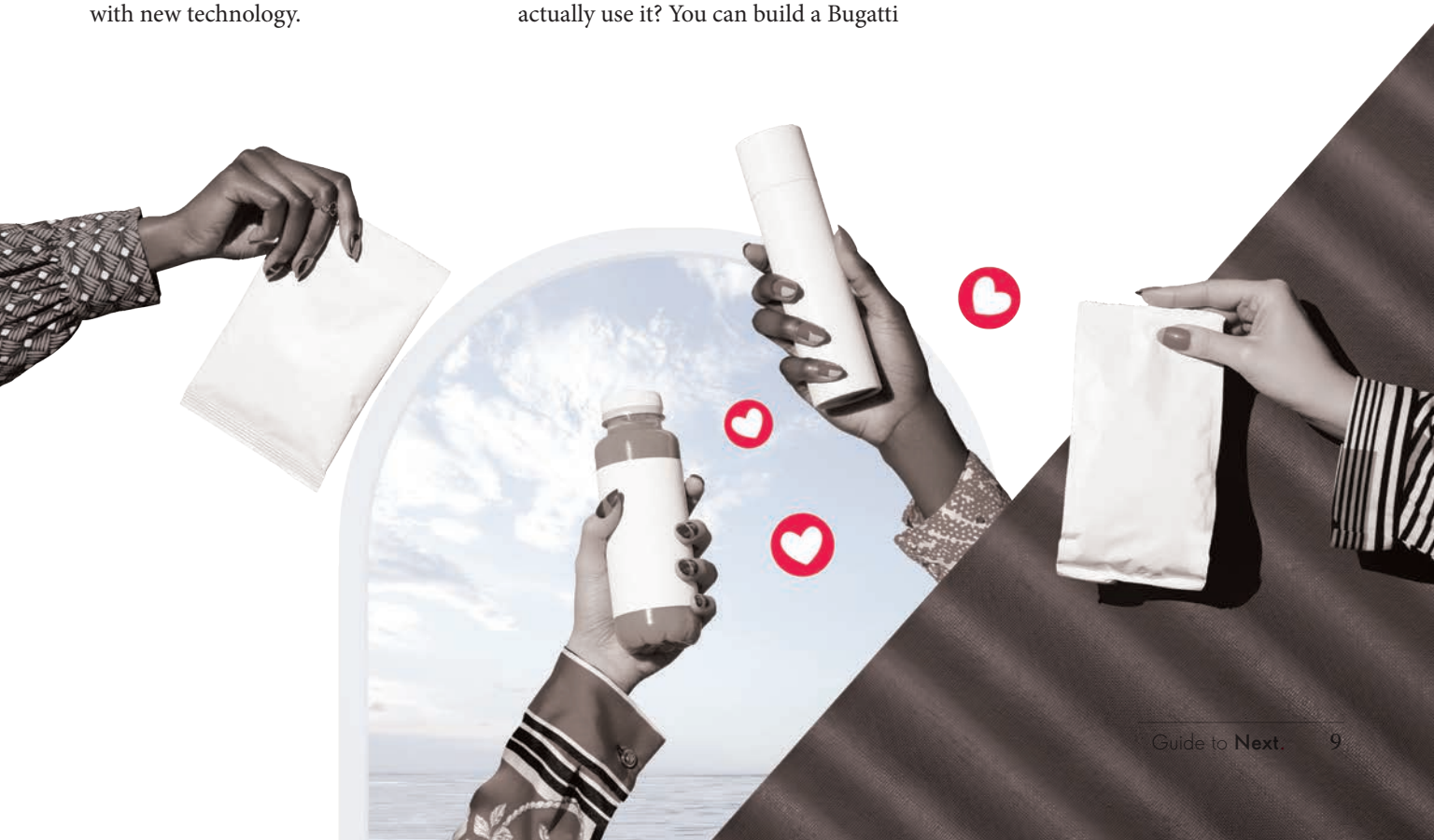
Some consumer product companies have even decided on a digital-first operating model after trial and error with new technology.

CP firms often invest in a D2C channel, digital marketing, cloud migration or another data-heavy initiative to modernize the organization and achieve growth.

Then, after purchasing technology platforms, consulting work and training, they discover they aren't reaping the expected benefits. This is because while the technology improved, the organizational model did not.

"Migrating to Amazon Web Services (AWS) might turn a lot of heads, get various press releases, and by all accounts is a good thing to do," Liebermann said. "But how do you actually use it? You can build a Bugatti that can go 200 mph, but you give it to someone and they might drive it 20 mph and crash into a tree. It's about preparing people to use new tools at their maximum capacity."

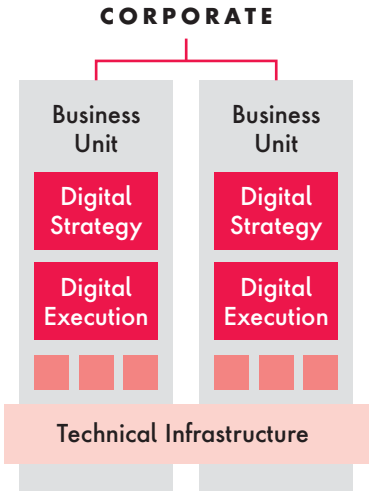
Whether companies have already invested in digital or are just starting their digital journey, the operating model is an often overlooked yet significant factor in success.



The three stages of digital operating model transformation

GENERALLY, MOST CP FIRMS THAT HAVE INVESTED IN DIGITAL CAPABILITIES START WITH A DECENTRALIZED OPERATING MODEL THAT IS NOT TRULY "DIGITAL-FIRST." THEN, STEP-BY-STEP, FIRMS CAN BEGIN TO CONSOLIDATE THEIR DIGITAL CAPABILITIES—FROM BEING DECENTRALIZED TO A DIGITAL CORE.

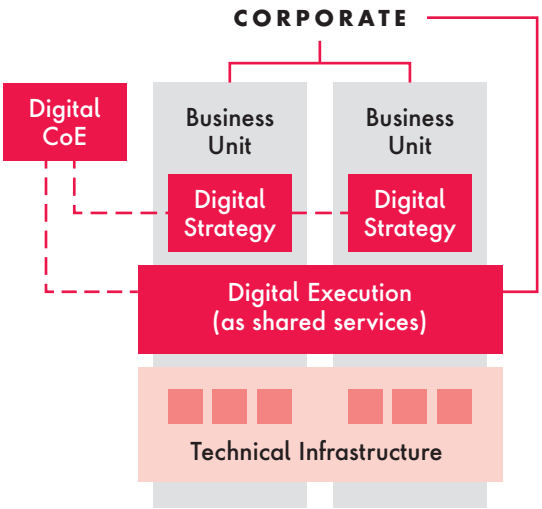
A DECENTRALIZED DIGITAL OPERATING MODEL



In a decentralized digital operating model, digital is a low priority, and it's siloed separately within different units. This model is not "digital-first."

Each business unit manages digital strategy and delivery independently with very little exchange. This model isn't scalable, and it often comes with a lot of cross-region duplication. Usually, digital solutions are purpose-built for specific needs or groups, and there's minimal digital resource allocation.

A DIGITAL CENTER OF EXCELLENCE

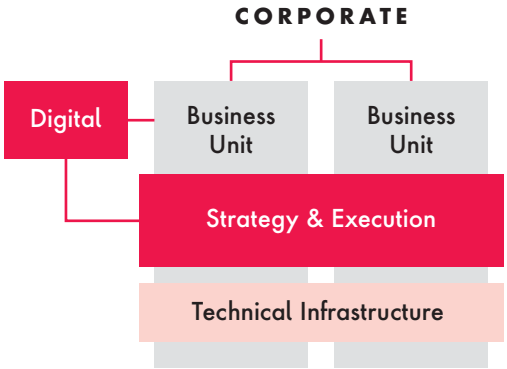


The next level of digital maturity is creating a digital center of excellence (DCoE), which is the top priority for many CP brands in 2023.

"This digital center of excellence is really there to help business units adopt best practices and help share what 'good' looks like when it comes to digital," McPherson said.

This operating model creates expertise and consistency for digital across business units and provides a single source of digital metrics and data. However, the digital strategy and execution are still left up to siloed brands and regions—and the center's success still relies on the separate business units' budgets.

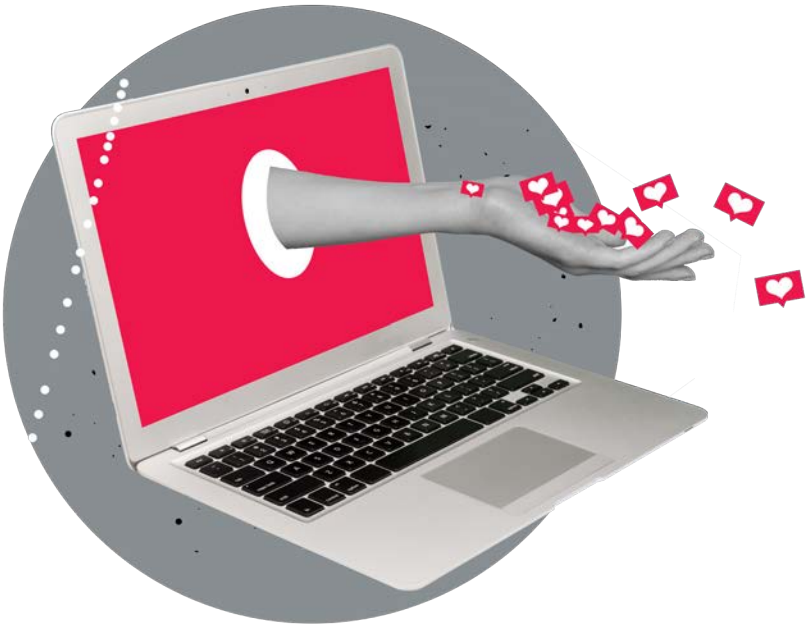
A DIGITAL CORE



A digital core operating model is an advanced model that the vast majority of CP firms haven't yet adopted, but it is vital to the success of digitally native companies and brands. This model gives a centralized digital hub full control of all digital investments and budgets as well as digital experience and OKRs.

While regions would still have a limited ability to execute digital strategy, they'd use solutions and resources from a global digital team. When CP companies adopt this top-down mentality to drive acceptance across the organization, it makes it easier for each business unit to adapt to digital changes. "This model is about moving from a focus on technology platforms to one of high-impact digital outcomes," McPherson said. "The digital organization moves from being just a service provider to a solutions partner."

How can consumer products firms prepare for a digital-first model?



While the goal of transitioning to a digital-first operating model is to create more speed and agility, successfully moving digital to the center of a company takes longer than expected.

This is something that CP firms often struggle with, as it can take over a year to see results. With other business model changes, it's quite easy to employ a "test-and-learn" strategy to try new ways of working or new technology. But with true organizational changes, results are slower to take root.

"Lots of companies want to know if we can try this new operating model within a month just to see what it looks like," Liebermann said. "But you need to build out the foundation first. You can't build a new house without the foundation."

1 Taking a step-by-step approach to operating model transformation

The first piece of advice companies can lean into is building a DCoE before creating a true digital core.

This center of excellence requires not only a team and, ideally, a chief digital officer, but also talent that can build out standards for key digital capabilities, such as digital marketing, data and analytics, digital product management and consumer insights.

Focusing on developing a high level of knowledge around these key capabilities will help integrate a digital hub into your organization—and better achieve buy-in throughout different business units. And the ultimate goal for a digital hub? Budget and decision-making power.

"If you're just a center of excellence and you don't have budget or decision-making control, you can only indirectly influence what each market is doing as far as how much they want to spend on digital marketing and how much they want to spend on digital experience building," McPherson said.

2 Focusing on accountability and organizational culture

A key component to the initial success of a DCoE is the culture around digital strategy and change, which can often be looked upon as a secondary factor, or the "softer side" of digital compared to technology. "Solving not just the operating component, but also the cultural component, is the hardest part, and it takes time," Liebermann said.

CP firms can stand up a solid DCoE or hub, but if business units aren't motivated to utilize that center of excellence through projects and budgets, they're not going to be able to contribute at maximum capacity.

"Companies experience a version of buyer's remorse. The investments have been made, and the return isn't there. And they realize it's more about the people and process components and not about the data, the tool or the luminary behind it. When the culture is there, a centralized digital operating model creates a powerful synergy. The people, processes and technology can work together, and the return becomes incredibly clear," Liebermann said.

Democratizing Net Zero

HOW CONSUMER PRODUCTS COMPANIES ARE DEMOCRATIZING SUSTAINABILITY

As climate change concerns grow, CP firms are welcoming consumers and competitors into their plans to become more sustainable.

Sustainability KPIs present a unique challenge for consumer products (CP) firms compared to other standard metrics. When it comes to product margins, return on advertising spend (ROAS) or out-of-stock (OOS) rate, each company has individual results. Achievement is separate, and success is exclusive. The same can't be said for sustainability, a different kind of business goal.

One company's success in carbon neutrality or recycled packaging is not removed from another company's failure; both companies are facing the same future. The end goal of sustainability is a collective success—for companies and consumers alike—because one company's progress alone cannot possibly sustain the planet's health, even if it looks good on an annual report.

So, what does this mean for CP firms in 2023? Scott Clarke, vice president of consumer products at Publicis Sapient, says the future of sustainability will be "democratization." Instead of using sustainability as a unique selling point or guarding green solutions internally, companies will tackle the planet's health as a shared problem with a shared solution. While this shift comes with obstacles, it will also create freedom to connect with consumers and competitors in more innovative ways than ever before.

"If you're serious about doing something good for the environment, sustainability can't be delivered in a competitive way," said Clarke. "You have to be willing to work as a collaborative ecosystem, tackling sustainability problems alongside consumers, competitors, academics and government bodies."

CP companies should be earnest about sustainability—and not just for altruistic reasons. Not only are consumers interested in sustainability, but they're also willing to invest more in brands that are truly sustainable. A majority (62%) of Americans said they'd pay more for sustainable products in a recent Publicis Sapient survey. Similarly, 77% said they avoided certain firms or products for their environmental impact at least some of the time.

What does it mean to "democratize sustainability?"

Traditionally, sustainability has been viewed as a fraught question between companies and consumers. Who should take ownership? Consumers are encouraged, often by corporations, to make drastic changes to their daily habits in the name of sustainability. From eating vegan, to switching to reusable containers, to avoiding air travel, there's not a single area of life where individual behavior can't be altered to help the planet.

Meanwhile, corporations are expected to do the same. Consumers are relying on brands to fundamentally change their business to be more purposeful in their actions, especially as their size and scale have substantially more impact compared to individual actions.

However, neither companies nor consumers are substantially rewarded by the free market for making the sustainable choice. This economic dilemma creates the assumption that neither party is motivated to make a change. The opposite is actually true. For starters, most consumers do, in fact, want to change their individual behavior, but many just don't know how. Not only are there a myriad of different actions to take, but the rules and messages are also uncertain, and most societal systems are not well-equipped to handle them. Corporations face a similar problem.

The idea of democratizing this vague idea means breaking down the stigma and shame surrounding sustainability. Rather than shifting responsibility to the consumer, CP firms can uplift them by making it easier to do the right thing.

You can incentivize and empower people to make better choices and reward them for making the right decision. But you have to be transparent. You can't be seen as an enemy of the environment and then turn to the consumer to ask them to do more.

SCOTT CLARKE

Vice President of Consumer Products, Publicis Sapient

How can CP firms enable consumers to be more sustainable?

The number one place to start for any firm is bridging the say-do gap, or the gap between what consumers say they believe in and what they actually do in practice.

COMMUNICATION AND EDUCATION ON CONSUMER PRODUCT DISPOSAL

For example, 95% of Americans say they recycle. Yet fewer than half of them know the basics of recycling, according to a recent survey. CP firms are racing to develop recyclable packaging for their products, but many well-intentioned consumers will not dispose of that packaging in a sustainable way. Additional research shows nearly two-thirds (63%) of consumers say they're more likely to purchase products that are well-marked with recycling instructions. Yet roughly 60% say disposal instructions on items are hard to find and that there's a lot of conflicting advice on recycling.
"The product itself is only one element of that end-to-end journey," said Clarke. "If I buy the most sustainable product but then waste some of its contents or fail to recycle it correctly, that has significant carbon implications."

Traditionally, recycling information is communicated via a small logo or fine print. However, research shows that this is not enough to really make sure products will be recycled. CP companies have the opportunity to step up their communication and educate consumers on exactly how they can recycle their products in a sustainable way. This could be in the form of instructions on the back of the box or a how-to video within a product description, given that 69% of customers prefer video to text when learning about a product. Companies can even include an instructive insert on how to dispose of the product or packaging.

Not only does this make efforts to create recyclable products more worthwhile, but it also builds trust, relevancy and loyalty with consumers.

INCENTIVIZING CONSUMERS TO PRACTICE SUSTAINABILITY

But this is just the first step; actually getting consumers to follow through on recycling or other disposal instructions is another process. One way to incentivize sustainable actions is through consumer rewards. The rewards can come in many different forms, from meaningful experiences, to QR codes, to apps.

For example, Volkswagen turned a staircase that was next to an escalator into a working piano to incentivize people to be more active and use less energy. This prompted more and more people (a 66% increase) to take the stairs instead of the escalator because it would play a song and offer a fun experience.

In Canada, a CP company introduced a smart sensor on the back of recycling bins that would allow consumers to scan the QR code on the back of products to see whether or not they're recyclable.

Companies have also used accompanying apps to empower consumers to make the right choice. In the U.K. and France, a CP company created a mobile app that informs people of the most sustainable choice in a particular category, such as skincare. The app also rewards the consumer with loyalty points for purchasing the most sustainable product.

However, it's important to understand that consumers have reasonable limits. "In an urban area, you can encourage consumers to walk versus drive to the store. But you can't expect the same from someone living in most rural locations, where the closest store may be 25 miles away," said Clarke.

USING SPECIFIC LANGUAGE TO DESCRIBE SUSTAINABILITY EFFORTS

Another aspect of sustainability is the actual choice of the products themselves. CP companies have started introducing carbon-neutral food and beverage products to the market, with corresponding product labels to attract climate-conscious consumers. However, nearly six in 10 consumers don't actually know what that term means or define it incorrectly.

The same issue presents itself with other terms, like GMO-free, because only 52% of consumers know what GMOs are. If CP companies want consumers to choose and, in many cases, pay more for sustainable products, they need to better educate them on what sustainability entails.

CP companies can go beyond a small logo or label to be more specific in how certain products are helping the environment—through more detailed, engaging messaging on different channels. This can also help to combat "greenwashing." Research shows that among European fashion brands, 59% of green claims are misleading. Part of this issue is the use of vague terminology in product marketing that many consumers gloss over or even misinterpret.

You only need to look toward rising grassroots influencers such as TikTok star Andrea Cheong to see the power of customers in calling out brands for greenwashing. She represents the growing wave of consumers using their purchasing power to identify exaggerated sustainability claims and shift their purchases toward cleaner, "slower" brands that put intense focus on measurable and focused impact.

"Be very clear about how your product, or your company, is giving back," said Clarke. "What specifically are you doing? Companies can't hide behind broad concepts of environmentalism and net-zero targets because no one understands what they actually mean."

This also means that companies should be transparent about failures and missteps at the same time. CP firms can more effectively incentivize and educate consumers on sustainability if they, too, are open and humble about their decisions and mistakes.

Overall, democratizing sustainability is a combination of three efforts: educating consumers about the ramifications their choices have on the environment, nudging them to make a smarter decision and then empowering or rewarding them for making that decision.

"Companies should be applauded for what they're doing when it comes to sustainability across the entire supply chain," said Clarke. "But they have a bigger opportunity and responsibility to help consumers make more sustainable choices, too."

However, democratizing sustainability is not limited to the actions of consumers. The idea extends to other stakeholders in the business ecosystem, like competitors and government entities.

“Closed ecosystem competition between players and categories is what drives a lot of environmental inefficiency. Often, sustainability comes from litigation, or maybe fear of financial loss, because a purely cost-driven market does not incentivize environmentally friendly behavior. But if companies in the same industry can cooperate, they’ll actually be more efficient across their supply chain.”

EMMANUEL KRANTZ, SENIOR DIRECTOR OF CUSTOMER EXPERIENCE AND INNOVATION, PUBLICIS SAPIENT

How can CP firms create a sustainable business ecosystem?

Historically, CP firms have invested in private and self-sustaining business models, from suppliers to manufacturing and transportation. While this serves the business when it comes to the bottom line, it causes slower growth when it comes to sustainability.

“Closed ecosystem competition between players and categories is what drives a lot of environmental inefficiency,” said Emmanuel Krantz, senior director of customer experience and innovation at Publicis Sapient. “Often, sustainability comes from litigation, or maybe fear of financial loss, because a purely cost-driven market does not incentivize environmentally friendly behavior. But if companies in the same industry can cooperate, they’ll actually be more efficient across their supply chain.”

COLLABORATE WITH OTHER FIRMS ON TRANSPORTATION, SOURCING AND MANUFACTURING

There are a few different opportunities where CP firms can collaborate to achieve sustainability goals, like net-zero targets. For example, if a clothing brand is looking for a more sustainable way to wash clothes as part of the manufacturing process, it can partner with a detergent brand and an appliance manufacturer as well. These three companies can work together to nudge consumers to make more sustainable choices about how they wash and dry their clothes, as well as improve the sustainability of their own practices in a cooperative way.

> Ultimately, if CP firms can embrace sustainability as not just another KPI, but a collaborative effort, where the focus shifts from 'direct to' to 'direct with,' the opportunities are endless.

SCOTT CLARKE
VICE PRESIDENT OF CONSUMER PRODUCTS, PUBLICIS SAPIENT

Collaboration can even exist between competitors within the same industry. For example, within telecommunications in the U.S., T-Mobile and Nokia are partnering to offer 5G connectivity to their consumers on new networks through T-Mobile's 5G Open Innovation Lab.

"The more companies can cooperate within their supply chains, the more environmentally efficient they can become," said Krantz. "If you look at large-scale carbon emissions, it comes from deforestation and transportation of goods. If companies work on these issues in a coalition format, they can make a larger impact."

One way consumer products firms can collaborate on the back end is through selling products or raw materials to companies within the same industry. For example, if two manufacturers are utilizing the same agricultural raw materials, they can use the same crop source to reduce deforestation on additional land, or share transportation logistics to reduce emissions for multiple vehicles.

LEVERAGE PUBLIC-PRIVATE PARTNERSHIPS TO REWARD SUSTAINABLE CHOICES

Finally, the third major stakeholder in the sustainability conversation is the government, which is sometimes perceived to be at odds with consumer products firms or consumers themselves. Certain bills and laws are interpreted to favor corporations or consumers to the potential detriment of the other party.

Sustainable legislation, such as the Right to Repair Law in New York state or the U.S.-proposed Climate Risk Disclosure Rule, pressures corporations to make changes through potential legal consequences. Consumer products firms have the opportunity to work with lawmakers and other government organizations to not only abide by this legislation, but to also proactively partner on sustainability initiatives that reward consumers.

For example, Unilever has partnered with the U.K.'s Foreign, Commonwealth & Development Office on a TRANSFORM initiative to fund environmental entrepreneurs in East Asia and Sub-Saharan Africa. Other CP firms are involved in an agribusiness sustainability task force that's part of Prince William of Wales' Sustainable Markets Initiative (SMI), which is striving to transition to regenerative supply chains by the end of 2022.

Patagonia has taken sustainability collaboration to the next level by transferring its non-holding stock (98%) to an environmental non-profit called the Holdfast Collective. Founder Yvon Chouinard described the move as "going purpose" rather than "going public." Purpose-driven public-private or private-private partnerships like this have the ability to effect change on a much larger scale, especially if there are goals and targets attached to them.

Sharing the burden of sustainability

While sustainability targets are significant and daunting, the power of democratization and bringing in partners to work together on climate change will make the journey a lot easier. Not only can different stakeholders share the burden of climate change, but they can also face the challenge in a much more powerful way, whether that's through consumer messaging on recycling, government partnerships or even manufacturing collaboration.

Predictive Analytics

HOW PREDICTIVE ANALYTICS CAN CHANGE THE CP INDUSTRY

While the growing crystal ball of first-party data can predict anything, it can't predict everything. Which predictive analytics use cases will provide the most ROI for consumer products firms in 2023?

If a consumer products company could predict exactly what their customers wanted and what they'd do next, they'd be able to serve customers in more meaningful ways and transform their organization. In fact, 62% of consumers think companies should anticipate their needs, and 61% are comfortable with companies using relevant personal information in a transparent and beneficial manner.

From brand.com websites, to omnichannel marketing, to subscription models, CP firms have customer data that could be used to predict the future. The announcement of a "cookieless future" and global shutdowns set CP companies on an accelerated path toward new digital channels that get them closer to the consumer.

"CP brands have been discussing predictive analytics for years. But what's different about 2023 is that CP companies have become much smarter in understanding how data, including artificial intelligence (AI), can be used to inform key business decisions and enhance human experiences," said Scott Clarke, vice president of consumer products, EMEA and APAC, at Publicis Sapient. "This knowledge—together with an increasing capacity to gather large amounts of data, as well as increased computing power and algorithmic capability—affords CP brands the opportunity to do predictive analysis at scale."

While the practice is still in its inception among CP firms, a Stanford study analyzing 30,000 manufacturing establishments across industries revealed that businesses that use tools to automate prediction achieve nearly $1 million more in annual sales compared to non-adapting competitors. CP companies that can successfully integrate data from multiple sources and automate for high-value use cases will be able to scale and benefit from this growing technology.

What does "predictive analytics" mean?

To start, "predictive analytics" means using historical and real-time data to predict how people will behave in the future—from first-party or third-party consumer data, to social media comments, to weather patterns. Either manually or automatically, companies use this data to determine many different things: what kind of advertising content customers will engage with, which SKUs should be discontinued, at what time marketing emails should be sent or how much inventory should be sent to specific retailers.

The difference between predictive analytics and general data analytics is the predictive algorithm that harnesses the power of the data to turn it into a proactive decision-making tool.

"A lot of CP companies say they are data-driven businesses," Clarke said. "But for many, the extent of their analytical maturity is the ability to describe what has happened. Few can systematically understand or explain why something has happened, and fewer still have the ability to link cause and effect and predict what will happen on the basis of a given action." In fact, a recent Gartner survey reveals that only 53% of marketing decisions across industries are influenced by data in general, let alone predictive analytics. The ability to use data to make decisions in a proactive, predictive manner remains a source of competitive advantage across the CP industry—and for many CP companies it has emerged as the elusive North Star.

Differentiating the predictive analytics hype versus the reality

Many remember the classic predictive analytics story from Target that went viral in 2012: The retailer sent coupons for baby products to a pregnant teenager who hadn't publicly disclosed that she was pregnant. It's unclear whether Target's pregnancy prediction algorithm was that advanced at the time or it was just an interesting coincidence, but the story elevated the potential power of AI in business use cases, especially marketing.

Since then, some AI use cases have created an inflated perception of what predictive analytics can do for businesses. The root of this problem is a misunderstanding of how to implement predictive analytics. Businesses need to have the right mixture of relevant expertise and clearly defined use cases to see significant ROI from this strategy.

Thus far, many CP brands have been focused on just one aspect of predictive analytics: building up consumer data sources and figuring out new ways to integrate and store that data. While this has been crucial for an industry that previously didn't rely on consumer data, most brands have yet to take the next step.

"More data is not necessarily the answer," Clarke said. "The vast majority of data you capture may not be relevant to the decisions you need to make every day as a business. Defining the right business questions and use cases—and understanding how to deliver those use cases—should really be the focus."

So, what are the top use cases for predictive analytics in the consumer products industry for 2023, and what steps should CPs take to become successful? The areas where they can make the most impact on their customers are predictive content, demand forecasting and consumer trends insights.

Optimizing digital content with consumer data

As many CP firms transition to a digital-first organization, online content becomes the priority, which can be much more dynamic and personalized. In 2022, 73% of consumers expect companies to understand their unique needs and expectations, up from 66% in 2020. Not only do consumers love digital content personalization, but it also boosts revenue. Businesses that personalize web experiences see an average sales increase of 19%.

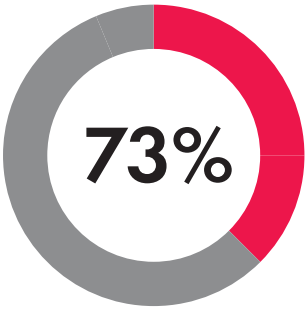
"A CP brand may want to recommend a new product to consumers, but the value propositions for different demographics might be very different," Clarke said. "You might like a new caffeinated beverage to give you an energy boost while working out; another person might drink it to keep them awake while studying. The exact same product is being recommended, but the content being used to inspire people would be very different."

Implementing predictive analytics allows CP companies to automatically serve the optimized homepage or ad to the consumer who's most likely to identify with it based on an algorithm that learns over time. One way businesses can gather data to create dynamic websites and customer journeys is clickstream analysis. As CP firms invest in their brand.com websites, tracking certain metrics—such as where consumers click on pages, how much time they spend on different portions of the homepage and what steps they take on the path to purchase—can help determine which products and content appeal to customers.

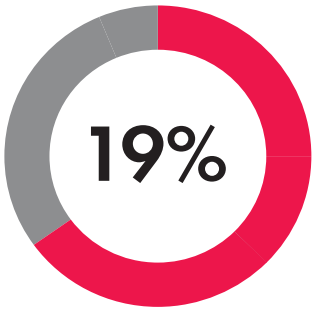
"Understanding which clicks are intentional versus unintentional—and being able to test different content combinations for different types of users—will become increasingly important and a mandate for CP companies," Clarke said.

Some CP firms are partnering with third-party technology to deliver dynamic content, while other firms are building out analytical capabilities in-house. For example, Mondelēz partnered with an outside provider to create personalized CTV ads across devices based on data like geography, weather and other third-party information. Kraft Heinz has instead built out a Customer Data Platform (CDP) with AI/Machine Learning capabilities, called "Kraft-O-Matic," to improve ad efficiency and discover other customer insights.

Whether in-house or external, it's important that firms use a cloud-based CDP that can integrate with all different data sources and that retail partners can easily access in real time. It's also crucial to use KPIs to embed data into daily working practices instead of continuing with legacy processes.



CONSUMERS WHO EXPECT COMPANIES TO UNDERSTAND THEIR UNIQUE NEEDS AND EXPECTATIONS



AVERAGE SALES INCREASE IN BUSINESSES THAT PERSONALIZE WEB EXPERIENCES

Navigating demand forecasting using AI/ML algorithms

Another crucial post-pandemic use case for predictive analytics is inventory management and demand forecasting. In many instances, COVID-19 broke formulas and algorithms put in place to determine consumer demand. Major global events can negate even intelligent machine learning based on years of data. How can CP firms use predictive analytics during "unprecedented times," especially with a lack of consumer visibility compared to retailers?

One way to begin creating a new demand forecasting model is by incorporating consumer behavior insights from new digital channels. Rather than factoring in just the typical variables, like seasonal purchase patterns from retail data, firms can factor in customer data from D2C channels. "What are the sites they're visiting? What content are they reacting toward? What product are they liking the most? This gives you insights that can go into demand forecasting," said Elizabeth Papasakelariou, group vice president of consumer products for Publicis Sapient North America.

Consider that 90% of the world's data has been created in the last two years, according to the U.S. Chamber of Commerce. From weather to social media trends to Google search data to first-party customer data—and second-party data from retailers—CP firms have a variety of sources that, once integrated, can help to create more accurate demand forecasts. However, it's crucial to have a scalable, cloud-based data-sharing platform before integrating new data sources. To start creating a more accurate demand forecasting algorithm, firms can slowly integrate external data to increase accuracy.

For example, US Foods migrated from an on-premises SQL data server to the cloud to unify internal and external data for demand forecasting. Because of the newly streamlined data ingestion, the company uses additional resources to incorporate weather and clickstream data from its e-commerce business to create more accurate forecasts. Now, according to a data scientist at US Foods, this data collaboration platform saves the company $100,000 per year.

Another CP firm, Campbell Arnott's, integrated its supply and demand planning data to decrease manual forecasting and improve overall forecast accuracy. This allowed the data team to test for erratic demand scenarios—and begin to use a weekly-based forecast—as well as increase prediction accuracy by 15%.

The first step to being able to integrate new types of data sources for demand planning is having a solid data-sharing backbone that works for external partners—and internal talent that can experiment with the data to create more accuracy for future demand.

Predicting consumer trends for product development

Another growing digital frontier in CP is predictive analytics for the research and development of new products. From fashion to food and beverage, customers' behavior and preferences are constantly changing, and using data to predict these trends is becoming a mandate.

"If you aren't learning something about your consumer that your competitor doesn't know, then you're not competitive," Clarke said. It's not necessarily about collecting more data; it's about creating and testing new and unique use cases for customer data.

Many CP firms are already using predictive trend data through social listening algorithms and new data channels, such as "smart" devices like coffee machines, thermostats and more. Data from these channels can work together in unison to form powerful behavioral insights and help inform where to focus R&D efforts.
For example, the Keurig smart coffee maker allows users to customize their coffee through a Wi-Fi-enabled app. The coffee makers can track which types of coffee and flavor combinations customers are using, and the company can use that data to predict customer trends and develop new K-Cup products.

The AI company Tastewise mines data from restaurants, social media and online recipes to see which ingredients and foods are trending. Rather than look at surveys or industry reports, the company allows CP firms to analyze real-time online content from millions of different sources.

However, in order to see results, brands have to take the next step and test these new products, styles or variations that may be vastly different from the company's previous legacy. "Most companies want growth, and you don't get that through optimizing what you have today," said vice president of data and AI at Publicis Sapient Simon James. "You have to be prepared to test new things. A zero tolerance to risk is not the safe bet that you think it is."

Predictive analytics also come into play when deciding which products to de-list or sell. Unilever, for example, created an AI-powered tool to determine which products should be discontinued based on first-party and retailer data. For large CP companies with hundreds of brands, using historical data from different sources will be crucial to determine which products under those brands are fit for a digital future.

The first step for CPs is to identify a use case for a new product and determine which data sources could be informative for that use case. Rather than reactively jumping on trends to inform SKU rationalization, CP firms should be proactively deciding which brands or product categories are ripe for experimentation—whether or not current data sources can give a well-rounded recommendation.

Getting started with predictive analytics

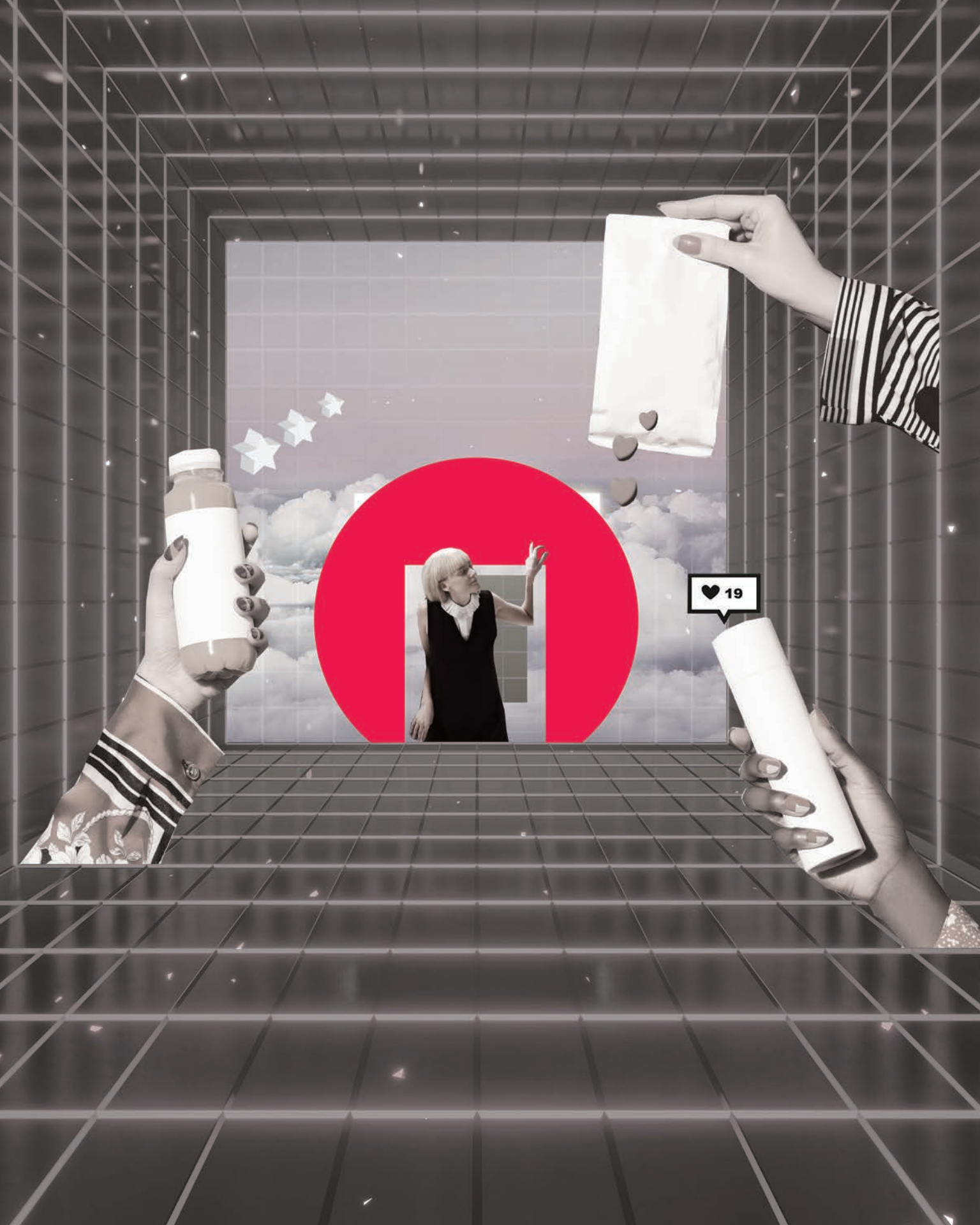
For CP companies that aren't experimenting with predictive analytics, there are a few important considerations to keep in mind in 2023. The first is data privacy. "If anything happens, like a data breach, you're going to lose some of your consumers," Papasakelariou said.

Another key consideration for CP leaders is change management for analytics technology and processes. It takes time for teams to get acclimated to new data sources for decision-making, and executives should make sure they have buy-in and provide training to account for the adjustment.

"People must be held accountable to acting on data," Clarke said. "Teams also need to be creative and inspired in terms of coming up with the right use cases (i.e., the things that you're going to measure and inform through the data)."

Finally, as firms begin to use data more creatively to predict the future, companies that can easily share and view data in real time will be able to use their data more efficiently and creatively.

"Ultimately, anything is possible today," says Clarke. "So figure out what you want to know and why, and then think about where that data is coming from, how to activate it and how to manage it."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Brands in the Metaverse

WHAT DOES THE METAVERSE MEAN FOR THE CP INDUSTRY?

How should consumer products companies create an authentic engagement strategy for this next-generation commerce channel?

SUMMARY

- **Research shows that the majority of consumers aren't on metaverse platforms—yet.** CP brands should first reinvigorate their Web 2.0 social media strategies to ensure they translate to Web 3.0 and appeal to young consumers' need for authenticity.
- **Web 3.0 technologies, like the metaverse and virtual reality, will soon move to owned brand channels rather than trending metaverse platforms.** Rather than betting on current Web 3.0 companies, CP brands should upskill employees and build Web 3.0 talent.
- **More than half of consumers are worried about harassment, inclusion and data privacy in the metaverse** and expect brands to address these Web 2.0 issues before the adoption of Web 3.0.
- **Gaming is the most popular metaverse activity so far**, and consumers aren't interested in purchasing NFTs or cryptocurrency that doesn't provide any added rewards or value.
- **CPs should consider building longstanding partnerships with retailers** and implement first-party data management strategies across channels.

Several years ago, consumer products brands questioned whether they should engage with consumers on social media. Today, it's not up for debate.

Social platforms are a key part of a brand's overall marketing strategy—through organic social posts, social media ads and sponsorships through influencers. In 2023, eMarketer predicts that CP digital ad spend will reach $41.69 billion, higher than every industry except retail. But what about engaging with consumers in the metaverse?

It's a difficult question for CP companies to answer. Some firms, like Unilever, have already developed many metaverse experiences for different brands, like their Magnum ice cream brand's virtual museum, as well as their Closeup dental care brand's "City Hall of Love" for couples who aren't legally allowed to marry in the physical world.

Other companies have devoted consumer engagement resources elsewhere, given that 60% of people are still unfamiliar with the metaverse, according to Publicis Sapient research. On top of that, Web 3.0 (the next era of the internet, based on virtual reality and decentralization) is rapidly evolving.

Is there a rationale for being one of the trailblazers of this nebulous, not-widely-adopted space? Not for obvious reasons.

"Do CP firms need to create a Roblox game experience or mimic what has already been done in the metaverse? No," said AJ Dalal, managing director, Data & Web3 Strategy at Publicis Sapient. At least not yet.

In 2023, CP brands will have the opportunity to meet consumers where they are and plan out a strategy for where they'll be soon. The key component to success on the digital channels of the present and future? Authenticity, powered by data analytics and internal knowledge building.

"A CP brand shouldn't invest in the metaverse, or even TikTok, just because it's in the news or because other companies are doing it. You should invest because you understand who your consumer is, and because you know your consumer is on that platform or going to be on that platform."

SABA ARAB, MANAGING DIRECTOR, PUBLICIS SAPIENT

Connecting with consumers on social media

While companies should certainly be planning for the metaverse, social media platforms currently provide a better ROI for consumer engagement. According to recent Publicis Sapient research, less than 10% of U.S. respondents use Sandbox, Roblox or Decentraland compared to 25% of respondents that use TikTok, 42% of respondents that use Instagram and 67% of respondents that use Facebook.

Before investing in consumer engagement in the metaverse, CP companies should re-evaluate their current social media strategy to build connections, express their core values and be more authentic. Consumers will still be looking to connect and transact with brands on these familiar social media platforms for years to come.

However, the key is not to reinvent the wheel every time a new piece of tech or platform is introduced. It's important to build out a consumer engagement strategy with enough flexibility that it can be applied to different networks, including TikTok or the metaverse. Rather than redefine a strategy to match a new platform, brands should evaluate how new networks will fit into their current strategy. If your current brand voice on social media isn't coming across as authentic to consumers, it won't translate in the metaverse, either. A large part of the challenge when it comes to building authenticity through consumer engagement is a loss of creativity or a lack of risk-taking. "The most successful ads are the ones that feel the most natural," said Elizabeth Papasakelariou, group vice president of consumer products at Publicis Sapient. "A brand will say they didn't get engagement on the content they planned. And it's like, 'This is the brief you gave your creator, and it feels canned.' You have to give power and freedom back to the creatives." When brands attempt to mold influencers or creators into traditional advertising spokespeople, consumers will keep scrolling.

Another key aspect to authenticity online is making sure the message, technology and data are working together. The right customers need to hear the right message at the right time through efficient targeting. As CP firms create and manage their customer data platforms (CDPs), it's essential that marketing teams can take ownership over the data and use it so that each target demographic is receiving a message that is authentic and relevant to them.

When the metaverse does eventually overtake social platforms as the primary hub for social connection, CPs will still need to let creative teams and influencers guide authentic content, with the proper data management and marketing across channels to back it up. As for right now, CPs can focus on connecting with younger demographics on platforms that are already popular.

Upskilling CP employees in Web 3.0 technology

Consequently, 2023 is a year for brands to build metaverse and Web 3.0 knowledge and strategy. The first step to preparing for widescale adoption of technology like AR/VR and non-fungible tokens (NFTs) is upskilling employees. Because Web 3.0 adoption remains somewhat low, brands that are investing in knowledge now get the chance to be proactive—rather than reactive—as consumer expectations around the metaverse evolve.

Being prepared for Web 3.0 doesn't necessarily mean investing heavily in a specific technology company or metaverse platform. In fact, because the space is changing so rapidly, focusing solely on any one application may prove inefficient.

Almost one-third (29%) of consumers expect that brands will instead embed metaverse experiences directly on their owned websites and social platforms, according to Publicis Sapient research. This could include anything from 3D product demos, virtual showrooms and stores or brand experiences created for avatars as part of the typical e-commerce experience. Therefore, a safe Web 3.0 investment for CP companies can be internal—rather than external—to prepare for this change.

To get employees engaged and learning about future technologies, companies can implement internal Web 3.0 training programs through learning management software. This training can include anything from metaverse to blockchain to cryptocurrency topics that will be standard parts of business strategy in the next decade. The goal is not to create a strenuous or difficult program, but one that employees find interesting and useful. Providing meaningful and ongoing training is a known factor in retaining talent, as well as creating a consistent presence in Web 3.0 itself. This training can cultivate "early adapters," or employees that lead the charge in developing prototypes of Web 3.0 or metaverse experiences—and who will also help guide their peers in learning new skills.

As the space advances and changes, so will the training, and key internal stakeholders can lead the movement. Not only does this opportunity show current employees that your organization cares about innovation, but it also helps attract new employees as well.

We know in the next five years, a large percentage of graduates will have some type of Web 3.0 training as part of their curriculum. If we aren't creating a culture of innovation around this, then we could lose talented folks to a company that invests in Web 3.0.

AJ DALAL
Managing Director, Data & Web3 Strategy, Publicis Sapient

Understanding how to develop a strategy for the forthcoming metaverse involves understanding what's broken about the user experience in Web 2.0—from the perspective of younger generations. Rather than making bets on which metaverse technology company or platform will take off in the next three to five years, CP brands should identify unique Web 2.0 pain points that could be solved with Web 3.0 technology and/or ideas, like VR/AR, NFTs, blockchains or decentralized, autonomous organizations (DAOs).

Defining a metaverse strategy for CP brands

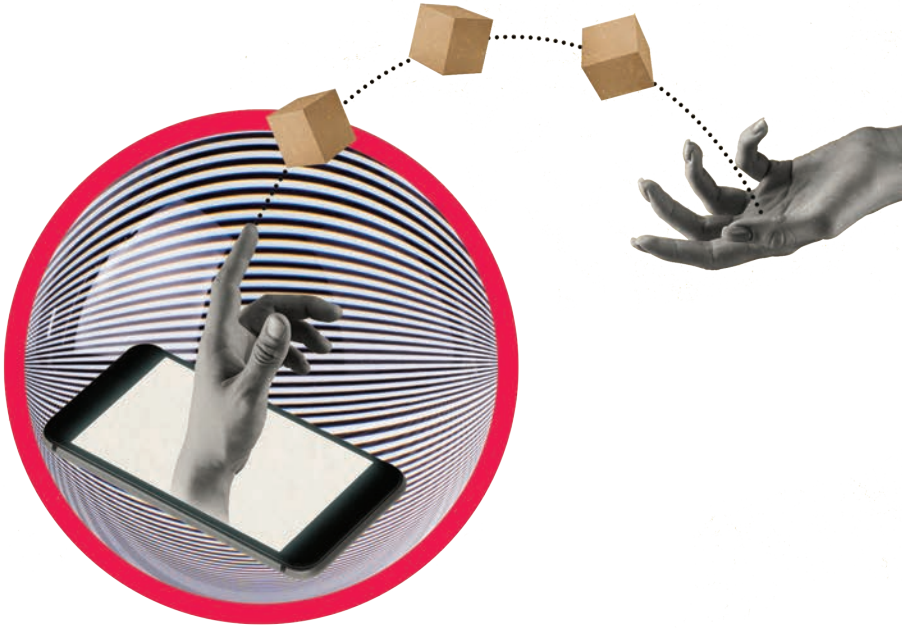
Another way that CP companies can be proactive in the metaverse space is by redefining their brand values and purpose in the context of Web 3.0.

While brand values and strategy should show continuity across all forms of media, CP brands need to expand their thinking to accommodate the attitudes of future generations. Generation Alpha and Generation Z are growing up spending time on TikTok, Instagram and Roblox, and they don't necessarily see these platforms as modern or advanced.

"The newest generation of consumers looks at the world differently," Dalal said. "Older generations see companies like Apple, Google or Meta as innovators. Younger people have seen these companies in control for a long time, gaining record profits. And they don't see how their life is any better or see any growth for themselves. So they're saying: Let's fix what's broken."

According to Publicis Sapient research, more than half of consumers (57%) are concerned about their safety and protection—including sexual harassment—in the metaverse. A similar majority (58%) agree that there needs to be a way to verify identity in virtual worlds. Harassment and anonymity are two issues that have been difficult for social media platforms and young users themselves to manage on Web 2.0, and CP brands should be proactive in their solutions to these problems with their metaverse strategy before they emerge again.

Another key frustration for CP brands and users alike is transparency around customer data. Younger generations are beginning to realize just how valuable their data is to brands, and CP companies are searching for ways to get first-party data themselves without the obstacle of tech conglomerates. More than half (59%) of U.S. consumers worry that their data and information will be collected in the metaverse. While first-party data is a key draw for CP companies creating digital and metaverse experiences, consumers expect brands to do better on Web 3.0.



In response, some companies are looking into a "zero-party" data exchange as part of their Web 3.0 strategy (i.e., an exchange that asks consumers permission for any relevant information and allows consumers to proactively share data). In return, consumers receive some sort of benefit or value for giving brands their information, potentially in the form of an NFT.

Zero-party data can come from surveys, games, questionnaires or loyalty profiles, which could be stored through blockchain technology. Customers could earn rewards by providing their information to brands—all within an interactive online environment.

"You can provide rewards and utility for engaging in metaverse experiences," Dalal said. "Not just for a limited time. Make the experiences decentralized, available and open for anyone."

It's important to recognize the shift in audience demographics for the metaverse when determining what type of experiences to invest in. The average age of a metaverse user is anywhere from 16–27, and while experts predict this pool of users to increase drastically, adoption will be much higher among Generation Z and younger.

This age group is incredibly values-driven, persuaded by social proof and looking for personalization, hence the reason many consumer products brands are looking at gamification as a foot in the door to these virtual worlds. According to research from Publicis Sapient, 29% of U.S. respondents between ages 18 and 34 are interested in playing video games in a metaverse space.

Before designing a Web 3.0 experience, like a virtual game, CP companies should decide on their brand values, how they fit into their metaverse and Web 3.0 strategy and how they play into expectations and attitudes from younger demographics. Then they can use that strategy to inform the experiences they create.

"Values in the metaverse should be a lot more organic," Papasekalariou said. "You will already see inclusivity built in from the start. Right now, a social page is only for this group, or only for that group. The metaverse going to be open to all, and I think that's the biggest difference."

For Gen Z, inclusivity is important, and that doesn't end with diversity in marketing campaigns or events for marginalized groups—it even extends to ownership and inclusion within brands' Web 3.0 strategies themselves.

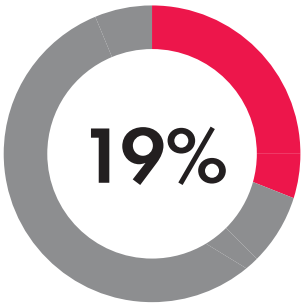
"The current Web 3.0 community is very passionate," Dalal said. "And Web 3.0 is being built on the principle of decentralization. Companies should be transparent in sharing their Web 3.0 roadmap with their community."

Unlocking a new digital revenue stream

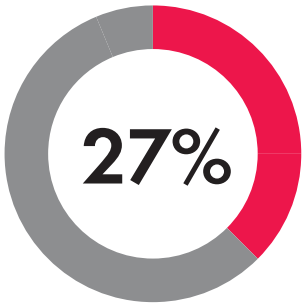
As companies begin to build out and publicize their metaverse and Web 3.0 roadmap, two very important questions surround value generation: What new revenue opportunities can the future internet provide for CP firms, and which use cases should brands be focusing on?

An interesting and unexplored opportunity for many companies is digital asset, or NFT, sales. Younger generations are more open to acquiring digital assets—which are much cheaper to create and sell—than ever before. When it comes to ongoing supply chain challenges, digital assets don't require the same resources that traditional physical assets do.

However, many CP companies can't just create exact digital replicas of their physical products. While many food and beverage brands have already filed for trademarks for digital candy, chips and other snacks, it's unclear how users will interact or whether they'll purchase virtual items, especially food. Thus far, only 19% of U.S. consumers from age 18–34 have gone shopping in the metaverse, compared to 27% that have played games, according to Publicis Sapient research. The digital asset market is a high-growth space for brands to experiment with, but in these early stages, CP firms shouldn't rely on revenue from direct digital asset sales.



OF U.S. CONSUMERS AGES 18–34 HAVE GONE SHOPPING IN THE METAVERSE



OF U.S. CONSUMERS HAVE PLAYED GAMES IN THE METAVERSE

Instead of pivoting straight to commerce in the metaverse, some brands are using it to build brand engagement and awareness, similar to building engagement on traditional social media.

Heineken, for example, chose to ironically launch a new beer product in Decentraland, playing on the fact that it can't actually be consumed in the metaverse. The brand didn't sell digital assets, but the successful campaign generated traffic and buzz around the accompanying physical product.

Unilever experimented with a virtual "Metathon" event in Decentraland for the Rexona deodorant brand. However, rather than create digital assets of their new adaptive deodorant sticks, they designed digital wheelchairs and running blades for metaverse avatars.

This new potential for a revenue stream from digital assets presents a challenge for brands: What new digital assets can your brand provide that consumers gain value from? For example, a diamond jewelry company might not create exact replicas of diamond earrings. Instead, they could sell diamond tattoos for metaverse avatars. The exact possibilities and plans will vary depending on each brand's values and authentic strategy.

In 2023, companies can prepare for or test digital assets while understanding that until the metaverse is widely adopted, most customers won't be motivated to purchase virtual products.

According to Publicis Sapient research, only 11% of consumers ages 18–34 are currently interested in purchasing NFTs in the metaverse. However, when asked about experiencing a vacation destination, attending events or interacting with friends and family, 20% or more of those consumers want to try these things virtually.

Brands have an opportunity to expand past the trend of virtual games to capitalize on new activities to build buzz and gain insight into what customers want in the form of digital assets.

"In 2022, we saw a gold rush of companies launching non-fungible tokens, or digital assets, and a spike in value," Dalal said. "But now, brands are realizing that they need to offer some type of utility or value proposition within NFTs that answers the question of, 'Why should I own this?'"

Preparing for metaverse partnerships in 2023

In 2023 and beyond, metaverse platforms will continue to host events like the "Metathon" and other one-off games, but they'll also become home to larger, long-term retail shops, giving CP firms a chance to create activations and partnerships within them.

According to Publicis Sapient research, 17% of U.S. consumers ages 18–34 want to visit their favorite brand's virtual store in the metaverse. Now is the time for consumer products brands to incorporate collaboration into their Web 3.0 strategy. "How will they create their own positioning within retailer worlds? How will brands play along? These questions are really exciting," Papasakelariou said.

For example, Carrefour and P&G collaborated to create a game in P&G's metaverse called "LifeLab" featuring the Mr. Clean mascot. The experience allowed users to compete to clean different areas of a virtual home using P&G products to win a coupon.

While this was just the start of the companies' experimentation together, the partnership demonstrated what a future retail experience could look like. Just as CPs and retailers connect and share data for social media campaigns or retail media networks, similar opportunities for collaboration are being built for the metaverse. However, CPs can see the metaverse as a clean slate—and an opportunity to build new ways of working from the ground up.

"How will you share data within new ecosystems and decide what the role of the CP is versus other players? You need to begin building technology to enable that," Arab said.

As CP brands create new metaverse experiences, Web 3.0 strategies and upskilling programs, they can recognize that this new world isn't predetermined by old rules, and that authentic brand values combined with customer-centric principles can be built in from the start.

CPs shouldn't think of the metaverse, or any social media, as purely a commerce channel. It's a marketing and buzz channel, and it's about building the followership and the love.

SABA ARAB
Managing Director, Publicis Sapient

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ELIZABETH PAPASAKELARIOU
Consumer Products Lead, North America
elizabeth.papasakelariou@publicissapient.com

SCOTT CLARKE
Consumer Products Lead, EMEA & APAC
scott.clarke@publicissapient.com

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