

Cisco Internet Business Solutions Group, Retail / Consumer Packaged Goods Practice

Retail and Consumer Packaged Goods Community

The retail and consumer packaged goods (CPG) industries in the developed world are at the intersection of three broad market transitions, each reshaping the consumer landscape.

The first transition is driven by recent economic forces. Although economists conclude that the recession ended in mid-2009, its effects are still seen in unemployment well above 2007 levels, and in sluggish demand.¹ Although comp-store figures show general revenue improvements in nearly all segments, few retail or CPG executives would proclaim that a new era of growth and profitability has begun.

During the downturn, retailers aggressively trimmed inventories, postponed store openings, and controlled labor costs. Consumers and retailers also reappraised product and brand value. Consumers placed greater emphasis on price and product utility; major retail brands responded by accelerating “own-brand” (private-label) assortments; and leading CPG companies introduced lower-priced products. At the same time, mid- and upper-price retailers complemented current offerings with value-added services and experiences.

The second transition currently unfolding is due to the accelerating evolution of the Internet. Retailers are experiencing growth in e-commerce, which enjoyed double-digit revenue growth even in the depths of the downturn.² Although still a single-digit slice of the overall retail pie, e-commerce now commands more than 25 percent of all consumer spending in selected product categories, and is remaking whole segments of the retail industry. An increasing percentage of business is going online; tangible products such as music and books have become virtual, digital SKUs.

¹ “Global Employment Trends,” International Labour Office, 2010, http://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_elm/---trends/documents/publication/wcms_120471.pdf

² “Retail Holiday Sales Improve after Dismal 2008,” Reuters, December 28, 2009; <http://www.reuters.com/article/idUSTRE5BR0HP20091228>; “U.K. Online Retail Sales Seen Up 13 Pct,” Reuters, January 22, 2010, <http://uk.reuters.com/article/idUKTRE60L01420100122>; “Christmas Sales Brought a Move Toward Stability,” *The New York Times*, January 5, 2010, http://www.nytimes.com/2010/01/06/business/06shop.html?_r=1&partner=rss&emc=rss



Cisco Internet Business Solutions Group (IBSG)

There are many implications for retailers. Manufacturers once beholden to retailers for brand distribution can quickly enter the retail business and compete for consumers. Vast investments in retail real estate—once perceived as a competitive strength—are now a competitive liability. And, consumers accustomed to high-speed, always-available, seemingly limitless Internet search-and-find capabilities are increasingly demanding similar experiences from retailers—whether online or in the brick-and-mortar store.

The Internet is also reshaping business behavior in new ways. Today's network enables retail and CPG enterprises to collaborate via voice, data, and video—bringing, for instance, European buyers together with Chinese suppliers in high-definition, real-time discussions, or enabling research scientists to collaborate across time zones in whiteboard ideation sessions.

A third transition is being forged through rapid consumer adoption of personal digital technology and burgeoning use of social media. The smartphone brings Internet access (and with it, product-price search and shopping) to every consumer's wallet. Gartner, Inc. estimates that 64 percent of consumers worldwide will own a smartphone by 2012. Although we have yet to see and understand the full impact of the smartphone on retail, such devices already enable consumers to shop (from research to purchase) from virtually any location—whether at the beach, the ballgame, or in the aisle of a competitive store.

The effects of social media on retail are just as significant, even though the impacts are harder to quantify. Social media sites have attracted remarkable participation—Facebook alone now claims 400 million active users worldwide³—and public opinions on brands and services are being shaped overnight. Because of this, trend-aware retailers and CPG companies are shifting a portion of their advertising/marketing budgets toward social media channels to secure even greater presence online.

Opportunities for Retail and CPG Companies

In the developed world, the years ahead promise sluggish growth for domestic retailers and CPG companies. Growth then becomes a question of how to increase domestic market share, enter and win new domestic categories, and/or expand globally. Based on engagements with leading retailers and CPG companies worldwide, the Cisco® Internet Business Solutions Group (IBSG) Retail / Consumer Packaged Goods Practice found that the most proactive companies focus on the following areas:

- Creating superior customer experience—in and across all channels—to increase traffic, conversion, and basket size. For example, retailers are winning more market share by adding additional products and services to e-commerce offerings, providing consumers with “flexible fulfillment” (buy online, pick up in store), and by employing increasingly targeted assortment planning by market and store.
- Increasing store and manufacturing productivity through automation of processes and implementation of technologies such as voice-data mobility and IP-based, multiclient operational applications

³ www.facebook.com/press/info.php?statistics

- Creating joint value through inter- and intracompany collaboration. For instance, CPG companies are using new, Internet-based collaboration tools to foster product innovation and speed lab-to-shelf development.
- Speeding product and services innovation
- Pursuing growth opportunities within demographic segments or geographic regions

Transforming Service and Operations Models

The Cisco IBSG Retail / CPG Practice has deep industry experience when it comes to process, people, and technology requirements within the functional areas of labor, product / service design and development, inventory management, order fulfillment and delivery, marketing/promotion, customer behaviors, and finance. Our practice is focused in five key areas:

1. **Customer Experience Beyond the Store:** The multichannel mobile future suggests a blending of the physical store environment with the speed-search-choice attributes of the Internet. At the same time, product commoditization and the consumer's requirement for value suggest that retailers must form new merchandising combinations from physical SKUs and services.
2. **Intra- and Intercompany Collaboration:** Shared data leads to faster and better decisions. Creating an effective, collaborative environment among regional executives, merchants, key vendors, or globally distributed product developers can result in a sustainable competitive advantage.
3. **Inter-entity Efficiency:** Retailers and suppliers want to work together more efficiently, and global companies want to work better across geographies and time zones in order to make better decisions faster. One way to accomplish this is to spend less time and money traveling for in-person meetings. Procter & Gamble (P&G) is one example of how Cisco IBSG addressed such a need. In 2007, P&G decided to relocate its regional headquarters to Panama from Venezuela and Chile. The move included transfers of more than 200 employees and executives, creating some daunting challenges for its Employee Services department. To improve employee services for expatriate executives during the move, our Practice experts worked with P&G to replace phone and Internet help services with Cisco TelePresence™ kiosks, allowing face-to-face meetings between employees in Panama and a help center in Costa Rica. Results included faster resolution of employee payroll and benefits issues; improved employee satisfaction, with 100 percent of employees reporting they were "satisfied" or "very satisfied" with the service; and adoption of a "virtual expert" service, with 65 percent of all employee-initiated compensation questions taking place via the service.
4. **Retail Operational Efficiency and Performance:** The age-old challenges for retailers are how to lower labor and real estate costs while maintaining or improving customer satisfaction, and how to do more with less, especially at a time when competitive pressures and consumer expectations are accelerating. In working with Cisco IBSG experts, a major retailer created real-time virtual connections between a centralized group of expert service personnel and consumers across a range of stores. The results: labor costs were contained and the average retail transaction increased.

- 5. Innovation:** Our aim is to embed innovation—in product development, operational practices, and cost cutting—into retail and CPG organizations, creating lasting idea-generating structures supported by the latest in collaborative technology. Our engagement with a large multinational food-and-beverage company to help it implement an open innovation architecture that would scale across the company's R&D teams led to the development of a collaborative model for increasing innovation in R&D. After identifying the company's key open-innovation activities, Cisco IBSG helped develop an "Innovation Network" pilot conducted with the company's Protein team. Results of the pilot included dramatically shortened response times among researchers (responses requiring less than a day increased from 16.7 percent before the pilot to 47.1 percent; responses requiring three or more days decreased from 33.3 percent to 11.8 percent) and increased interactions between the Protein team and internal/external partners, resulting in stronger rapport and improved access to relevant expertise.

Our thought leadership and extensive customer engagements help retail and CPG CXOs understand the economics of their technology investments and market trends, and how these combined elements will impact their businesses today and in the future. For more information about the capabilities of the Cisco IBSG Retail / Consumer Packaged Goods Practice, please visit our website, www.cisco.com/go/ibsg/retail, or contact:

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The Cisco IBSG Retail/ CPG Practice also works with CXOs in the hospitality and transportation industries. For information about the Cisco IBSG Hospitality Practice, please visit our website, www.cisco.com/go/ibsg/hospitality, or contact:

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More Information

Cisco Internet Business Solutions Group (IBSG), the company's global consultancy, helps CXOs from the world's largest public and private organizations solve critical business challenges. By connecting strategy, process, and technology, Cisco IBSG industry experts enable customers to turn visionary ideas into value.

For further information about IBSG, visit <http://www.cisco.com/go/ibsg>.



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