

Consumer Packaged Goods An Industry Overview



People hate to be sold, but they love to buy. This axiom drives the consumer packaged goods industry, a multi-trillion dollar per year behemoth encompassing many of the products we regularly purchase. Despite the presence of inflation and the lingering effects of the global pandemic on supply chains, a specific volume of consumer spending is necessary.

For example, the single greatest dollar volume of purchases is made in grocery stores. People will put off buying their next new car or scale back vacation plans, but everyone eats and drinks. The industry, of course, extends well beyond food and drink to cover cosmetics and personal care items, pet supplies, over-the-counter meds and supplies, and cleaning products. All told, the industry employs one in ten Americans and at least that much of a percentage worldwide, plus there are the vendors, suppliers, and distributors who are also affected.



Did you know

- The CPG industry spends more on advertising than any other sector
- US consumers spend nearly **\$4 trillion per month** on CPG products
- Gen-Z is now **40%** of the global consumer market

Perhaps the industry's most pressing issue is the state of the supply chain. One study says that more than half of global CPG companies will shrink in size over the next five years because of supply chain inefficiencies. At the same time, the industry anticipates continued growth for the balance of the decade and beyond.



Trends driving the industry

If you noticed one of the points above, then you know that the market skews young. That means a heavier reliance on digital channels, for shopping, for advertising, and for consumer feedback. This is a generation heavily influenced by, well, by influencers who live online. Traditional advertising will not reach this audience segment; as such, digital advertising is predictably growing. However...

- It's not just young people who want an omnichannel environment; it's every consumer segment with access to a smartphone or laptop. And it's not as simple as using multiple channels to reach multiple audience segments; it's also about integrating those channels to create a seamless user experience. Doing so tends to be rewarded with higher sales overall and more repeat customers.
- Consumers love convenience and this has two parts
 - **The convenience of doorstep delivery**
 - **The convenience of flexible payments**

Multiple retailers, from Amazon to Walmart to local merchants, provide free or low-cost delivery, often same-day service. And consumers will pay more to get their things faster. On the payment side, buy-now-pay-later is becoming a way of life for many people as merchants spread the cost of goods purchased across a small number of equal installments instead of demanding full payment upfront.

- This is a generational preference, but it cannot be ignored due to the size of the segment driving it. A commitment to sustainability matters. Whether the issue is the environment, social responsibility, or animal welfare, a sizable cohort of consumers makes values-based purchasing decisions.
- Service personalization is impacting every industry, and the growth of consumer data and the ability to analyze it have made this a must-have. It is especially critical for direct-to-consumer brands, who are typically ahead of the curve in shaping the user journey, because they have to be. And the biggest disrupter to the one-size-fits-all approach is the subscription model, which is built around creating individual solutions.

A surprising trend, given a tenuous economy, is the allure of premium products. Luxury health items, in particular, are in high demand, to the point where such purchases take precedence over vacations or other disposable income purchases. It seems counter-intuitive since the threat of inflation typically means luxury items are the first to go, but health cuts across all strata. Consumers who can afford luxury items in any economic conditions are unaffected, and others are making tradeoffs to buy things they value.



The obstacles ahead

Three quickly recognizable problems are inflation, lingering supply chain kinks, and the same labor problems that plague other industries. The first two result in people adjusting their spending habits, which is reflected in the trends above. The last item, labor, also has an effect but is out of the consumer's hands.

Payroll is typically the single largest expense any enterprise has, and a shortage of qualified, dependable employees usually means labor costs increase, which has a cascading impact on prices. Along with re-evaluating what they buy, people are adapting in other ways: cooking at home more often instead of eating out or having meals delivered; basing many grocery purchases on specials or buy one, get one offers; and buying more white label products instead of name brands. It's an open question whether this is a reaction to the times or the start of a habit, and it's also not the challenge confronting the industry:

- Meeting the demand for sustainability. No industry uses more single-use plastics in its packaging than CPG, and there is no easy fix for that. Plastic is far more durable and cost-effective than paper packaging, presenting a tradeoff – are you willing to pay more for goods with more environmentally friendly wrappers, and how much more? There is an argument to be made for either material, but each also has its drawbacks.
- Managing inventory: this is a greater concern in tough economic times when purchasing decisions change. Overstocked warehouses are now a luxury for many businesses, but at the same time, it is necessary to have goods either on hand or within easy reach to ensure timely delivery.
- Adaptability: trends and behaviors in the marketplace and among customers, are changing in real-time, and keeping up is essential for survival. Marrying up buying habits and consumer expectations with demand forecasting and product delivery is not necessarily new, but it takes on heightened importance in a time of instant gratification.
- Cybersecurity: reliance on digital technologies to make operations more efficient also creates potential exploits for malicious actors. This issue is not unique to the CPG industry, but that does not lessen its importance. Data breaches and ransomware attacks are ever-present threats that no company can afford.

There is also the potential for change within the regulatory environment, be it regarding product safety, environmental factors, or something else. Each regulation impacts operations, often increasing costs, but only so much of that can be passed on to consumers before they balk. The industry is fraught with contingencies and potential contingencies, which impact planning and budgets and, ultimately, customer satisfaction.



Where we fit in

The connection between users and brands is more important than ever, and an overlooked aspect in creating stickiness in the relationship is the role of customer service and support. We are familiar with the digital transformation, having ushered numerous clients in multiple industries through necessary changes. Outsourcing service is not much different from outsourcing any other function that is not part of an organization's core business. The challenge is finding the right partner who will treat your customers as their own, working as brand ambassadors to increase customer retention and develop loyalty.

Our client list includes numerous firms in the CPG space. That experience has created a working knowledge of the service-related issues companies worry about: scalability to handle growth, flexibility for managing peak periods, consistent quality, and providing "wow" experiences. Those service imperatives are backed by:

- *Data analytics for real-time insight that enhances the customer experience and supports business outcomes*
- *Omnichannel proficiency – chat, voice, email, and social media*
- *Retention expertise and a track record of generating new sales*
- *Scalable support in onshore, offshore, and nearshore locations, plus a robust work-from-home option*
- *An industry-standard training program for all new hires on the value of the user experience and how to create the conditions for delivering it*

If you don't give your customers what they want, a competitor will. Often, it's a matter of paying attention to what your customers are saying. Our closed feedback loop feature does that every day. As agents interact with consumers, we learn about their wants and needs, hear their ideas, and get an insider's view into their thought processes. That data is then shared with clients, who can use it for informed decision-making that is responsive to the voice of the customer.

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