

GETTING TO A BILLION OR MORE

Motivation and challenges in the consumer goods SMB market

The industry news is dominated by large, Tier 1 consumer goods (CG) companies, yet the majority of CG manufacturers are actually small to mid-sized companies (SMB) that must compete with giants for their share of shelf, wallet and mind. These SMBs often face the same challenges as their larger competitors when dealing with retail customers and end-consumers, yet have far fewer resources in terms of both dollars and labor, and cannot afford to experiment or fail.

What do these companies really strive for? How do they want to differentiate themselves and what is their ultimate goal? This month, CGT teams up with **Clarkston Consulting** and **SAP** to understand the challenges and motivation behind the SMB CG market and dig deeper into how they operate. We asked about long-term goals as well as issues that may impede the

achievement of those goals, plus the tools they might need to get there. Our research only involved companies with less than \$1 billion in revenue and the results are intriguing.

ULTIMATE GOAL

To understand the motivation for SMB manufacturers, it's important to know how they view themselves and how they would like their customers to view them. Figure 1 shows what our respondents want to be known for in the next five years. For most of them, it's all about having innovative new products that meet consumer needs. This is an overall industry challenge as innovation becomes one of the few ways for brands to differentiate themselves among the proliferation of products available on the retailer's shelf.

FIGURE 1
What does your company want to be known for in the next five years?

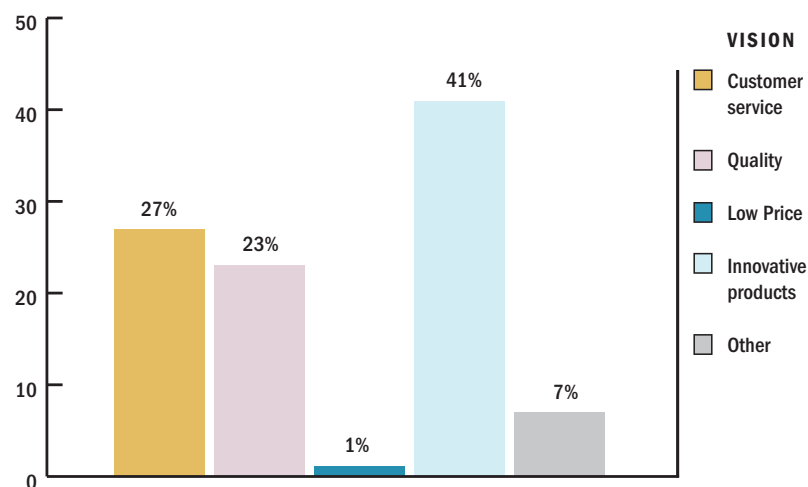


FIGURE 2
What is your company's vision for the next five to 10 years?

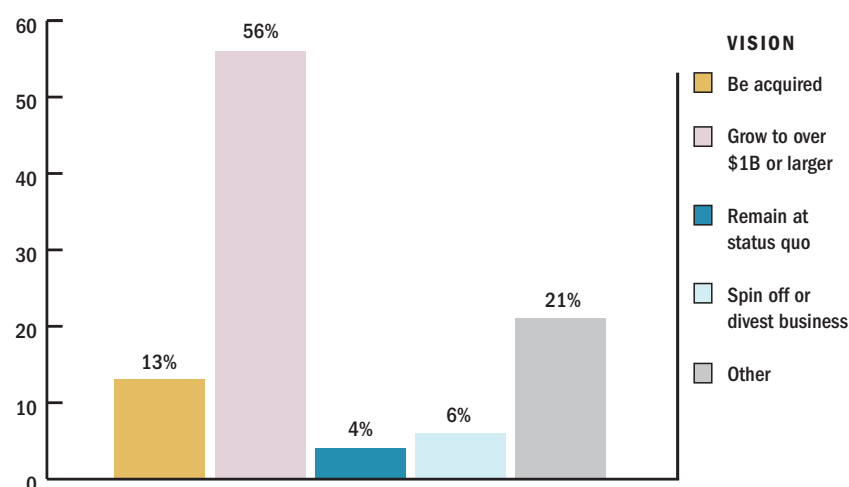


FIGURE 3
Please rank each of the following critical business issues facing your company today:

ISSUE — BY % OF RESPONSES	1-Highest Priority	2	3	4	5	6	7	8-Lowest Priority	Total
Sustainable growth in revenue	15%	43%	22%	6%	7%	2%	4%	2%	100%
Sustainable growth in profitability	49%	12%	25%	7%	0%	0%	5%	2%	100%
Profitable innovation in products and services	11%	25%	26%	16%	12%	5%	4%	2%	100%
Operational efficiency — achieving best practices in your sub-sector	9%	7%	19%	25%	25%	7%	7%	2%	100%
Ability to assess and quickly respond to market drivers	7%	7%	8%	20%	22%	14%	14%	8%	100%
Trade promotion efficiency/effectiveness	0%	10%	5%	3%	8%	30%	13%	31%	100%
Trade partners/vendor relationship	2%	3%	3%	9%	16%	22%	34%	10%	100%
Customer loyalty/retention	21%	12%	1%	21%	12%	10%	12%	12%	100%
Other	0%	0%	0%	0%	0%	17%	0%	83%	100%

Not surprisingly, customer service and quality were next in priority as smaller companies try to connect with customers on different levels. What was surprising, however, was that only 1 percent of those surveyed want to be known for low price. Most SMB companies don't have the infrastructure to compete with the big brands on cost and price, and have found alternative ways to make their mark.

So if new product innovation is the means, what is the end goal over the next five to 10 years for this segment of the market? Figure 2 clearly tells us that these smaller companies intend to grow, with 56 percent intending to grow to more than \$1 billion in revenue and 73 percent of the "other" responses vying to grow at a slower pace. Only 6 percent intend to remain at status quo, debunking the theory that smaller companies all want to stay small.

SMB CHALLENGES

Now that we have a clearer picture of where this market is heading, the next step is to understand the challenges that SMB companies in the CG industry face. Figure 3 ranks the critical business issues that must be addressed to meet growth goals. Predictably, almost half of our respondents cited sustainable growth in profitability as their primary challenge. While sustainable growth in revenue was ranked by 15 percent of those surveyed as their top priority, it was the second highest priority for the rest of the group. Again, growth is the theme, and it's interesting to note that companies are differentiating between growth in revenue versus growth in profitability.

Customer loyalty and retention were top priorities for 21 percent of our survey participants, which are also always top business drivers for CG companies of all sizes. Interestingly, profitable innovation in products and services wasn't a top priority for many, despite the fact that many of our respondents want to be known for innovative products; it was ranked as the second or even third priority for more than half of those surveyed. And trade promotion efficiency and effectiveness wasn't rated a top priority by any company in our survey; in fact, 74 percent ranked trade promotion in the bottom three.

We wondered how those critical business issues were being translated into operational processes. We asked which operational areas needed improvement, and most companies returned to more traditional challenges: Inventory man-

agement is in need of improvement by 67 percent of companies we surveyed, with technology and analysis capabilities tying with procurement improvement for the areas next in need of improvement. The processes that are least in need of improvement include receivables management, labor management and contract manufacturers.

ASSESSING CURRENT CAPABILITIES

Two issues that many larger CG companies are working to improve are innovation in new product introduction and trade promotion management. The SMB market is in line with the innovation priority, but not with the promotional focus.

When asked about current capabilities for new product development, however, most companies ranked themselves as average, with the remainder leaning more toward needing improvement than currently having excellent capabilities. One potential way to improve this process is to adopt a technology infrastructure to support upgraded processes, but our research shows that the SMB market is heavily reliant on manual processes and spreadsheets are the technology most used.

The same thing can be said for promotion management, where many large CG companies are investing in processes and technology to improve promotional efficiency. Yet in the SMB market, 63 percent of our respondents do not have visibility into lift and profitability from their promotional spend, and are again using spreadsheets to support the process.

COMPETING WITH THE BIG BRANDS

In order for SMB companies to survive and grow in the competitive CG industry, they must excel in core business processes and have solid IT infrastructures to support their growth goals. While the majority of the industry believes they need a state-of-the-art ERP platform to achieve best-in-class operating efficiency, only half actually implemented such a solution. Without proper tools, smaller companies will struggle to improve operations and will be unable to benchmark themselves against industry best practices — both vital when competing with big brands owned by companies with deep pockets and best-in-class processes and technology. **CG**

VENDOR PERSPECTIVE: WILL THEY MAKE IT TO \$1 BILLION AND BEYOND?

More than half of our respondents from midsize companies aspire to grow their revenues to at least \$1 billion. Most seek to achieve this with a strategy of innovative products by entering into growing markets or taking market share from their competition. Our respondents also believe that their core business processes can be improved substantially.

In the absence of patent protection, many advantages in consumer products are based on achievable speed-to-shelf rates and sound execution of core business processes in the market. The implication is that long-term competitive advantage cannot be secured without best-in-class execution. Thus, the proposed product innovation strategies of our respondents must be supported by sound execution in order to deliver a sustainable advantage in a very competitive marketplace.

Because problems exist within the execution of core business processes that help companies achieve best-in-class key performance indicators, our respondents' strategic aspiration of growing to \$1 billion or more annually is at risk. Most respondents acknowledged the need for improvement in basic business metrics, such as inventory turns and procurement costs.

However, most respondents indicated that they lack data that is necessary for benchmarking performance and understanding the implications of applying best practices. As a consequence, these companies lack the insight necessary to assess the potential ROI of their IT investments.

Some companies in turn under-invest in basic IT infrastructure, as noted by those that do not intend to invest in enterprise resource planning (ERP) solutions. On the other hand, two-thirds of the respondents stated that ERP solutions are necessary to achieve best-in-class performance; however, these companies manage by impressions and do not have data to assess performance candidly and objectively.

Our respondents are also at risk because their core business strategy of product innovation is enabled only by spreadsheet-based IT solutions. Solutions for new product development and introduction are gaining acceptance and are helping companies improve the odds of success and lessen time to market. In time, those with established solutions for new product development will widen their edge over competitors that use spreadsheets. Ultimately, for companies that do not build a solid foundation of information workflow, this performance gap will manifest in poor bottom-line performance.

There is substantial inertia in the marketplace that must be overcome to trigger adoption of best practices that support the execution of legitimate

innovation strategies. Some suggested steps toward securing the strategic revenue growth goal include:

- Establishing internal key performance indicators, expecting these metrics to improve over time, and never accepting the status quo.
- Working tirelessly to identify and implement best practices by participating in industry forums, tradeshows, conferences and user groups; working with consultants knowledgeable of consumer products; naming a best practice champion; setting a timetable for improvements; and securing early wins.
- Educating leadership on the importance of ERP solutions as the foundation of best-in-class performance.
- Monitoring and embracing technologies that support new product introduction, accelerating success rates and speed to shelf.

By adopting best practices, you will realize operating performance improvements that will trigger some new priorities in your company and drive your company's success. Visit www.consumergoods.com to download a copy of the complete research results.

