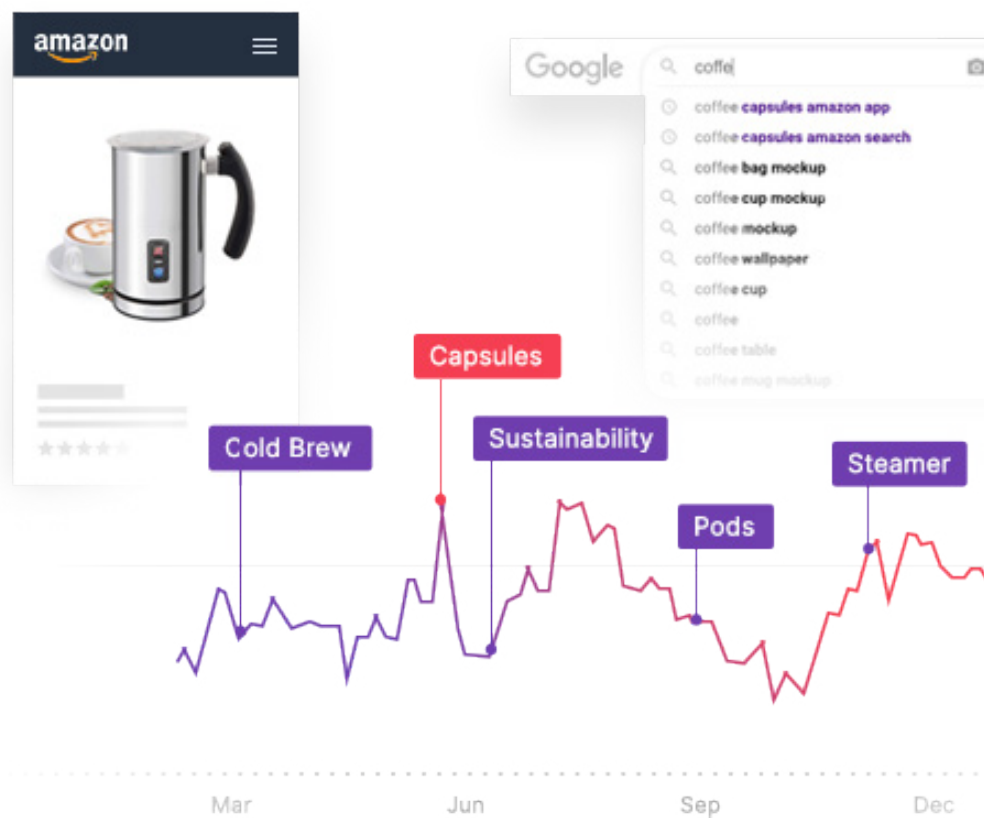


The Future of the Consumer Goods Industry

Using AI to capture e-commerce opportunities



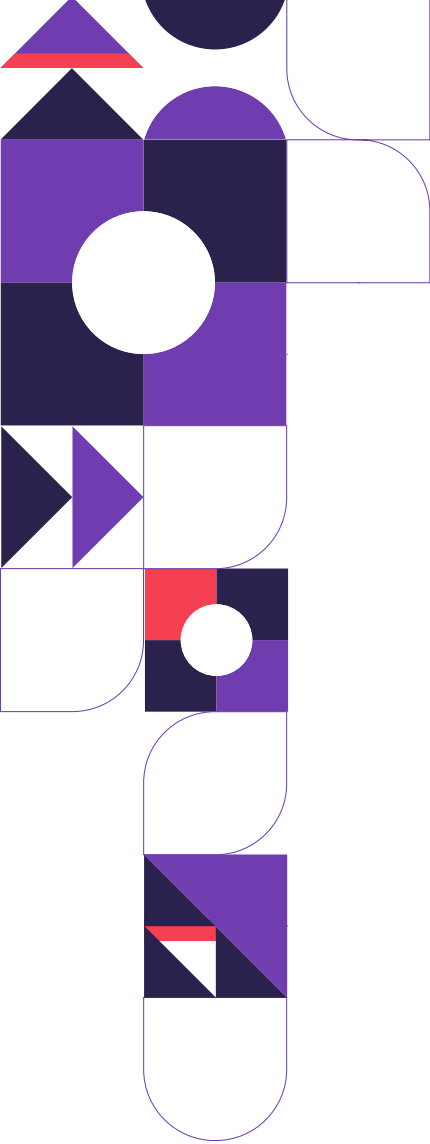


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Introduction

Consumer goods companies stand at a crucial crossroads. Traditionally, the business has not required high levels of digital sophistication.

Strong relationships with retailers combined with big-ticket brand marketing (advertising on primetime TV, in magazines, newspapers and on billboards) helped support robust margins, profits and revenue growth. Loyal customers valued brands enough to shun lower-cost alternatives, while rising levels of affluence across the globe helped expand the target market.

Unfortunately, those conditions no longer apply. The business landscape had been shifting gradually for many years, but Covid has accelerated the pivot to e-commerce. Consumers have become more discerning than ever, faced with tighter budgets and armed with better tools to compare the price and value of each purchase.

An influx of digital-savvy new brands has also provided stern competition and disrupted the status quo by capitalizing on some key market trends:



The ability of e-commerce platforms to accommodate a much greater variety of products has opened up a long tail of niche demand



The dynamics of search-based purchasing has leveled the playing field and meant established brands no longer command the same 'share of shelf' as in-store retailing



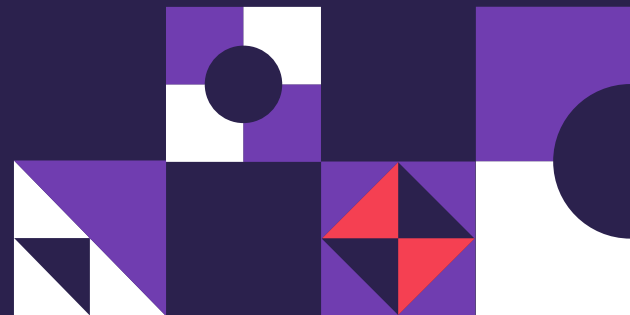
Direct-to-consumer strategies have also been proving increasingly successful, spurred on by sophisticated digital marketing and improved delivery logistics

In today's increasingly digital world, consumer goods companies need a new set of tools and skills to maintain brand loyalty and capture market share.

Six Steps to Master the Digital Battleground

Recognizing that many consumer goods companies lack digital maturity and need to up their game, what are the key areas to focus on? What do they need to master this new battleground?

We have outlined six key business areas that companies can use artificial intelligence to improve:



STEP 1

Understanding your customers' perspective



STEP 2

Sizing markets dynamically



STEP 3

Digitally tracking the competition



STEP 4

Continuously fine-tuning content



STEP 5

Optimizing advertising strategies



STEP 6

Detecting new trends and opportunities

The Digital Imperative

The shift to e-commerce represents a new paradigm for consumer goods companies. Digital represents a completely new way to interact with customers. Advertising and product positioning must be much more targeted than in the past.



Consumer goods are “one of the least digitally mature industries.”

- A 2020 McKinsey study

The problem is that most consumer goods companies are not at the right level of digital maturity to transition to this new paradigm. A 2020 McKinsey study found that consumer goods are “one of the least digitally mature industries.” The same study also found a clear correlation between digital maturity and business performance. Between 2010 and 2018, growth in shareholder returns for the top quintile of digital and analytics performers was 19.2 percent, approximately 60 percent higher than the 12.3 percent CAGR for bottom-quintile companies.

In Summary

- The competitive landscape is shifting rapidly
- Consumer goods companies are behind the curve when it comes to digital maturity
- ◆ Digital maturity is a key contributor to business success
- Consumer goods companies need to close the gap and rapidly improve their digital skills

19.2%

Growth in shareholder returns for the top quintile of digital and analytics performers.

12.3%

Growth in CAGR for bottom-quintile companies



STEP 1

Understanding your customers' perspective

E-commerce is not the same as bricks-and-mortar retailing. But one constant remains: product positioning and situational advertising can be crucial to driving sales.

While in the physical world of retail, every consumer walking down the store aisle sees the same products; in the digital world things are radically different. Every search on an e-commerce platform will typically return a different 'virtual aisle'. How your products feature within those virtual aisles is crucial.

The first step is gaining an understanding of all the virtual aisles that are relevant for your products and experiencing those aisles from your consumers' perspective. That task cannot be underestimated and is something that requires a smart application of AI to address.

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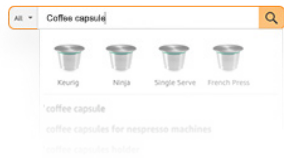


STEP 2

Sizing your markets dynamically

Understanding the size of your addressable market is a key capability for consumer goods companies. Unfortunately, e-commerce platforms fail to provide market sizing and market share data to their community of suppliers and merchants. That means companies need to dynamically infer their own market sizing (and market share) information through the use of advanced analytics.

Knowing exactly what consumers are searching for, how often they search, and how many sales are being generated in each aisle – these are all crucial pieces of information that will help assess the size of each potential market opportunity and devise optimized sales, product positioning and marketing strategies.



Branded Search Ratio

12% Your brand	32% Competing brands	66% Unbranded search
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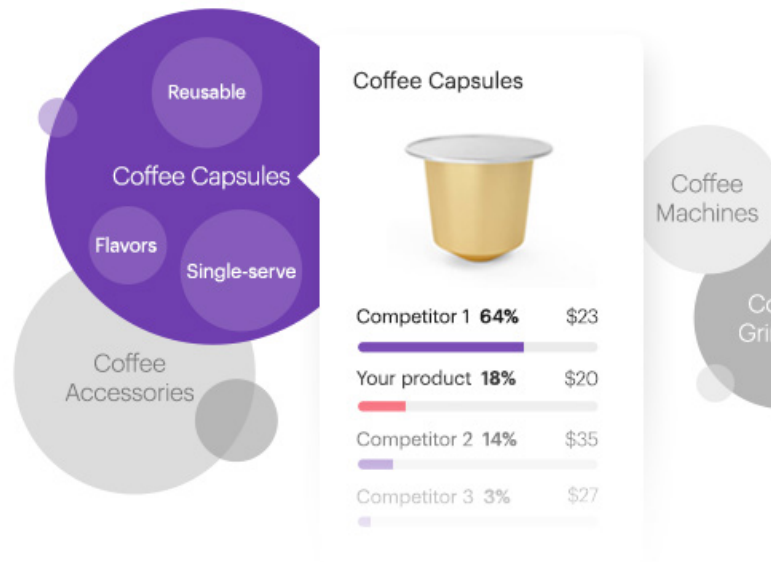


STEP 3

Digitally tracking the competition

When it comes to product positioning, it is vital to know exactly who you are competing against. Every 'virtual aisle' yields a different mix of competitors, each with its own strengths and weaknesses. Identifying and tracking those competitors is crucial.

The challenge lies in the fact that virtual aisles are dynamic, changing much more frequently than those in stores. That means sophisticated analytics are needed to continuously monitor competing products, along with their pricing strategies, aisle positioning and consumer reviews. Monitoring all of these data points can reveal key trends and potential opportunities. Whether your competitors have adjusted their pricing strategy, changed advertising focus, or revamped their product descriptions and positioning - tracking the competition in real-time is a crucial input into fine-tuning your strategies.



Including the right keywords can help ensure products are well placed in the right virtual aisles.



STEP 4

Optimizing your content

Having analyzed customer search trends as part of your dynamic market sizing (Step 2), organizations need to optimize their product content to take advantage of that analysis. Product titles and descriptions make a big difference in how products are positioned in response to different searches. By including the right keywords in both product titles and descriptions, and optimizing back-end keywords (not visible to consumers), organizations can help ensure products are well placed in the right virtual aisles.



STEP 5

Maximizing the impact of your advertising

Unlike traditional forms of 'broadcast' advertising, digital adverts are highly targeted by nature. But knowing exactly how best to channel advertising budgets is a careful science. Organizations need to incorporate all available data points to optimize decisions relating to:

- The type of advertising that works best. For example, choosing between banner ads or sponsored products, or whether to sponsor a search results page or product page

- The right virtual aisles to target
- Which search terms to target within each aisle. This will depend on whether the campaign is defensive (protecting the brand), offensive (targeting specific competitors) or in key battlegrounds (where a lack of brand loyalty means consumers can be won over more easily)
- ◆ Which products to advertise in each location
- The most effective messaging to use in each location

Given the fluid nature of e-commerce, all of these decisions need to be dynamically refined in response to changing conditions.



STEP 6

Detecting new trends and opportunities

E-commerce platforms offer a treasure trove of data, but organizations need the right tools to tap into and analyze that data at scale. Monitoring virtual aisles should reveal changes in consumer habits and preferences, alerting of potential surges in interest for particular products or early warning signs that a market is cooling off.

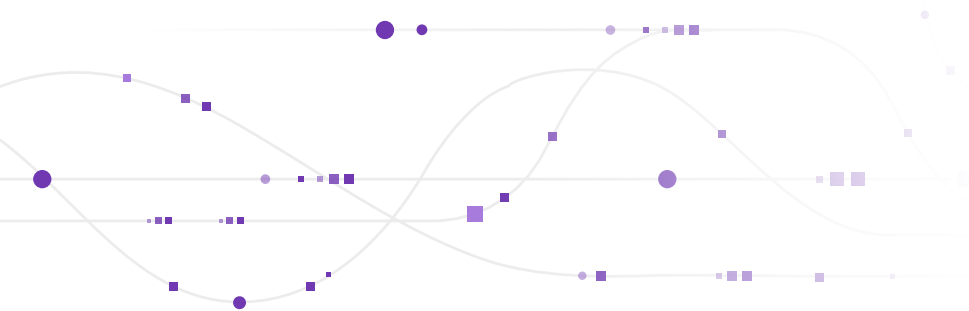
These kinds of analytics are not only helpful in optimizing supply chains but can also feed into product development strategies to tap into new markets.



Conclusion

The consumer goods industry faces significant challenges. The shift to e-commerce has undoubtedly been accelerated by the Covid pandemic. Meanwhile, a surge of digitally-savvy upstart brands is threatening to lure away evermore cost-sensitive consumers, not only putting pressure on revenues but also margins.

Responding to those threats requires traditional organizations to up their game when it comes to digital technology. More specifically, they need to leverage artificial intelligence to monitor e-commerce platforms, understand buyer behaviors, analyze competitive threats and market trends, while feeding all of that information into optimizing product positioning and advertising strategies.



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