Adaptation and rapid response for CPGs

Examining e-commerce in the time of COVID and beyond

— BY MARK JUHASZ —

At the beginning of 2021, the coronavirus pandemic continues to influence business operations in Canada. Even with the roll-out of a new vaccine, consumer packaged goods (CPGs) must adapt to a new marketplace significantly re-shaped by e-commerce. Labour markets, products and consumer sentiments have changed how people are eating and this requires important attention across the supply chain. Responses to this new surge in online business depends on the types of CPG in question. In 2019, of the over 7,000 food processing companies in Canada, 88 per cent have less than 100 staff. While some CPGs are export-oriented (71 per cent going to the U.S.), most are locally and nationally-focused.

Leading CPG companies are further integrating e-commerce into their new business developments. According to Nielsen, sales of meat alternatives increased by 129 per cent in 2020 compared to the first nine months of 2019, and plant-based substitutes are finding their way into new products. Consumer pressure is rising on packaging waste, carbon and water footprints and manufacturing ethics, even though a Sustainable Brands 2020 survey found that 59 per cent state the pandemic has made making sustainable choices harder, while 75 per cent add that the pandemic has made them more aware of global issues. Furthermore, a 2020 Innova Consumer survey found that 60 per cent of consumers want to boost their immune systems, with 33 per cent saying this concern increased in 2020, and will remain a trend in 2021. The Hartman Group notes that food and beverage products will see more presentation of benefits such as improved mental awareness, energy, disease prevention and healthy aging.

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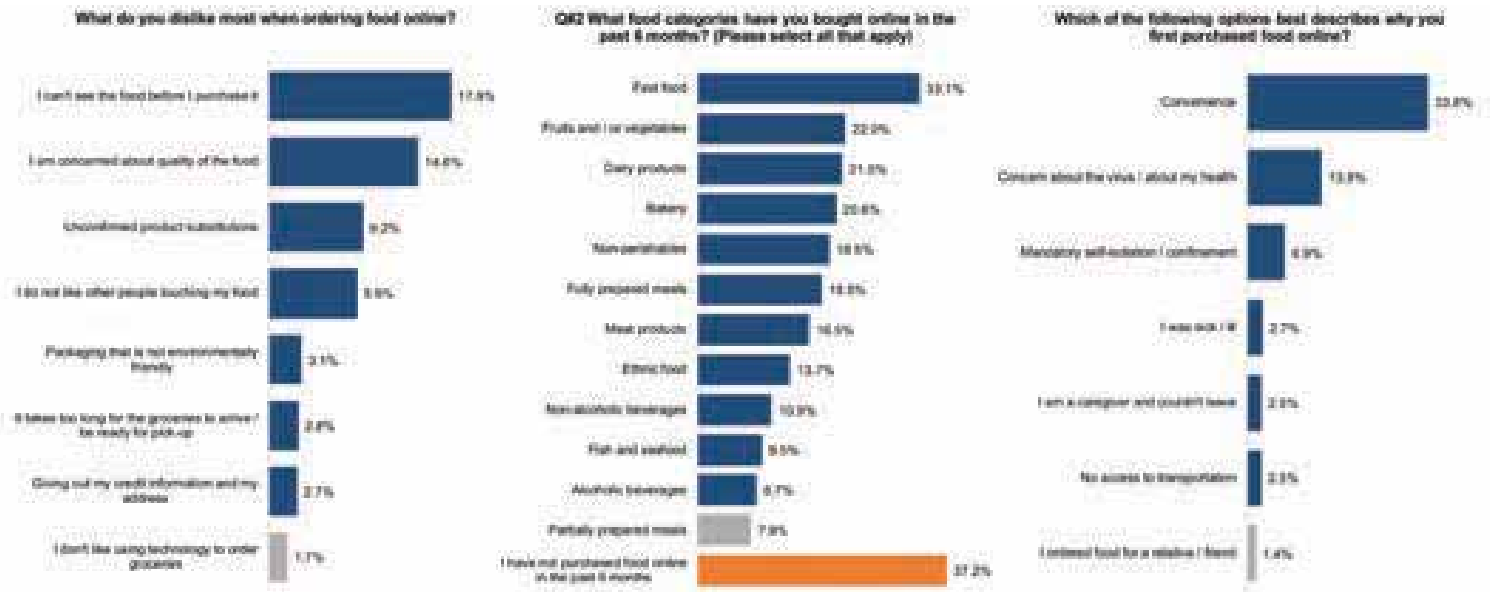

Results from the study "The impact of COVID-19 on the food industry and e-commerce" from the Agri-Food Analytics Lab at Dalhousie University, in partnership with Caddle.

While food retailers remain open as essential services, a Nielsen e-commerce study stated that 30 per cent of shoppers were new to e-commerce in 2020. The sheer economic impact of the pandemic on everyday life paints a mixed picture that includes business closures and bankruptcies. However, many are adapting with updated business models. CPG leaders are challenged by the need for a supply chain infrastructure that meets existing markets, while adaptive to adjustments of online consumers using new digital platforms. In 2019, U.S.-based McCormick Foods partnered with IBM to use AI in reducing time of new product development by mining decades of consumer preferences and attributes. With the surge in online food orders, Amazon has developed a solution for consumers to reserve a "virtual" spot in line during demand spikes when production runs low. Pepsi launched direct-to-consumer (DTC) platforms in 2020 to allow purchase bundling.

Small businesses such as Chicago-based Purely Meat Co. supplied the city's high-end restaurants when sales plummeted 75 per cent at the onset of the pandemic. The company then created a website to sell DTC (direct-to-consumer) and now delivers cases of vacuum-sealed, freezer-ready prime cuts to homes. 2020 also saw the creation of Best of Calgary Foods, a new owner-operated collaboration between 24 of the city's chefs and food artisans. Initially, members of the group tried to go it alone, with the associated third-party logistics and delivery costs, but they then combined forces under one banner, and now deliver bundles of products to customers.

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Indeed, a 2020 McKinsey & Co report emphasizes that DTC is not for everyone, especially smaller operations with limited resources. Customer acquisition costs and the logistics of delivery are important considerations, and CPGs need to remain aware of the broader value implications and unit costs of DTC.

Consumer-centric thinking means that brands must provide the most effective engagement possible, using data and new tools. Food companies must understand that retailers are under pressure to reduce SKU quantities on shelves, trim storage expenses, reduce consumer confusion, reduce consumer time in-store, and to make room for more fresh, ready-to-eat and store-made items. According to Forbes, in 2020, 72 per cent of consumers are using mobile devices to shop in stores, and CPGs can smooth the pathway towards purchase of their products by knowing the preferences of their user types.

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In November 2020, the Agri-food Analytics Lab at Dalhousie University, in partnership with Caddle, undertook a nation-wide survey of over 7,000 Canadians. 79 per cent of the respondents were female, 44 per cent born between 1981-96, and 47 per cent from Ontario. Nearly a third of respondents have recently used e-commerce for either groceries or to order from a restaurant or food delivery service. The leading reasons why food is being purchased online is for convenience (33 per cent), followed by concern over health and the coronavirus (13 per cent). Forty per cent of respondents noted that once the pandemic is over, they will not order food online, while 34 per cent stated they would continue to do so once or twice a month.

Price sensitivity matters with food and e-commerce. Thirty-two per cent of respondents would be willing to pay one to five per cent extra for service delivery costs and 11 per cent willing to pay six to 10 per cent extra, with the majority not willing to pay more. Relevant for CPGs is the response to the question "What do you dislike most when ordering food online?" The two most popular responses were "Not being able to see the food before purchase" (18 per cent), and "Concern over food quality" (14.6 per cent).

In this area, technology-enabled transparency can provide consumers greater information about product ingredient origins. In 2020, McKinsey & Co, suggested the "next normal" will involve continual trials, testing and reiteration of products. Partnerships between CPGs, retailers and their supply chains will be more important than ever to enable direct connections with consumers. A 2020 PwC study noted that younger consumers have a greater tendency towards online food delivery apps and meal kit services, but also expect faster delivery.

According to the NPD Group, CPG brands need to (re)-imagine their customers' e-commerce journey, interaction with their website, and product knowledge while adding personal touches to build loyalty. As the Dalhousie survey highlights, loss of in-person sensory experience now requires rich, detailed images and descriptions of products.

CPGs also must double-down attention on what is called "end-to-end visibility," anticipating disruption to supply chains that could include post-pandemic related climate-, trade- and geo-political impacts on ingredient sourcing, pricing, quantities and product attributes. A 2020 BMO Capital Markets study highlighted the potential for disconnect between consumer-retailer demand signals and production response. Dropping lag times and shortening the adaptation cycle will be critical to reduce the risk of obsolescence or excess inventory. Those CPGs that will emerge nimbler will be driven by insights and feedback loops, and be in-synch with their partners, fostered by an acceleration towards a seamless hybrid of in-store and online shopping.

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