



2015 State Of The Industry:

## Consumer Products

Senior executives at consumer products companies face many critical strategic questions in 2015. Here, L.E.K. Consulting shares its views on the current state of the industry, as well as the biggest challenges and opportunities for consumer products companies.



### What is the Current State of the U.S. Consumer Products Industry?

The industry will be in a major state of flux for the next five to 10 years and will look very different than it does today. The right strategies to help brands succeed along this path are still being defined.

The millennial consumer is the strongest driver of many trends facing the industry. They are less connected with historical brands and more informed through the newest technologies. Millennials have created a “sharing culture” driven in part by social media that fosters information sharing in real time and puts a greater premium on consumer experiences. These changes create a challenge for established brands to avoid becoming outdated to an emerging, powerful buying group and to grow their customer base. Companies can also capitalize on opportunities to attract consumers who may switch to their brand by catering to specific needs of consumer segments (e.g., great value, engaging experiences, and differentiated products and services).

While we expect brands to be highly powerful as a general rule, we also see places where consumers are more confident in themselves and their choices where they do not need a brand badge (mostly in apparel and home furnishings). Recognizing where this is and isn't happening creates both opportunities and threats for market participants.

Furthermore, with the continued evolution of technology and dramatic changes in how consumers shop and make decisions, the marketplace for consumer products is more competitive than ever. Consumers have more choices because it's easier to learn about and compare brands and products against each other, price is highly transparent across brands and channels, and so on. In the end, this raises the bar for all consumer products businesses as they seek to grow.



### What are the Key Challenges and Opportunities?

The biggest challenge for the consumer products sector is the decline of foot traffic in their traditional distribution channels. There are simply fewer consumers shopping in stores every year and this downward trend is likely to continue for some time. Leading companies need to respond by looking for ways to drive shoppers to select their brands and products that don't include price discounting or promotion-driven tactics.

As the world shifts to more pre-shopping and transaction fulfillment online, brands need to figure out how they can ensure that they don't get “lost” in the digital world. When consumers used to shop at stores more often, they could visually see new products and be reminded of your brand. Today, if you're not front-and-center on the homepage, or a few clicks in on your channel partners' sites, brands and new products may never be seen. It is even worse for brands and products that rely more on impulse-buying occasions, but all brands are affected by shopping interactions that are more virtual and less physical.

Nevertheless, brands that focus on innovating and evolving their businesses to meet the demands of today's empowered consumers can gain market share where others fall short. Digital strategy plays a big role here. Additionally, we see opportunity created by the hourglass economy — consumers are still trading up in areas they see value (e.g., premium and healthy foods, personal technology, apparel). The consumer will pay more where they see value and differentiation in something that satisfies a core preference. On the other end of this spectrum, those that can deliver great value for budget-conscious shoppers clearly have an opportunity as the U.S. economy is still far from healthy.

Growth opportunities exist everywhere for those that are innovative and can focus on delivering value for the consumer. Some specific areas where we expect companies to find growth opportunities include health and wellness, international expansion, especially in emerging and developing markets, and focused specialist brands that deliver on specific needs and occasions. We also believe that businesses that are able to harness true insights from consumer and data analytics should be able to evolve their offerings to outpace the growth of those that do not.



## What Burning Issues are Senior Executives Facing?

With so many changes occurring at such a rapid pace, executives have a sense of urgency to adapt quickly. The key question is which of the aforementioned challenges and opportunities are the most important for your business, and how can you address as many of them as possible. This takes brands down the path of:

- **Marketing effectiveness.** Identifying what methods and messages do and don't work in driving customer acquisition, transaction frequency and spend while delivering positive ROI
- **Digital strategy.** The confluence of rapid changes in consumer behavior and the channel landscape create a sense of urgency for brands to adapt quickly and get their digital strategy right
- **Customer focus.** Expanding and fine-tuning customer acquisition, experience and retention initiatives
- **New growth platforms.** Developing new platforms (e.g., categories, brands, services, geographies) that are strategically sound
- **Optimize channel presence.** Ensure that your brand is well positioned in the winning channels, whether they are classic brick & mortar, digital commerce or innovative new models centered on sharing via social networking
- **Innovation.** Consistently delivering compelling innovation in the products you develop, as well as throughout the components of how you go to market
- **Efficiency gains.** Continually striving to operate at peak efficiency; you simply can't be giving up margin points by having sub-optimal store operations, supply chains and overhead structures

## Our Consumer Products Practice

We help companies develop strong customer brands that can deliver profitable growth by focusing on developing actionable consumer insights that lead to clear strategic direction. Consumer products companies benefit from the depth and breadth of L.E.K.'s deep industry expertise across all segments of the marketplace and across a range of services including growth strategies, consumer insight, channel strategy and pricing strategy.

## Meet Our Leaders

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**Jon Weber**  
Managing Director  
Practice Head



**Robert Haslehurst**  
Managing Director



**Manny Picciola**  
Managing Director



**Wiley Bell**  
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**Stuart Jackson**  
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**Chris Randall**  
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