



Keys to CPG Growth: Digitalization and Sustainability

In the past five years, CPG companies have faced waves of challenges from their suppliers, the macro business environment and retail partner pressures. At the same time, the business of selling products through wholesale partnership with retailers and direct to consumer has changed tremendously and has become more digitally focused. The endless aisle has waned in importance for consumers while having the product whenever, wherever and however they want it has become a key for success. This need to deliver extreme convenience and consistent product information for the consumer across all channels is now a business requirement. Furthermore, the consumer has become increasingly motivated to become more purposeful in their shopping by making purchasing choices that positively impact the environment and society in general.

This paper will uncover how brands are transforming their business to address the market's needs for more digitalization and sustainability in operations and commerce.

What has shifted in the consumer's mindset?

Consumers have made a generational shift in how they live, shop and what they care about. To remain relevant in the future, CPGs need to be where consumers conduct product research, shop digitally, and know what they want from a brand. Challenges of the last years, including many tragic and memorable news events about climate change, have stirred more interest about being good citizens around the world. Consumers have become more purposeful in their buying, each individually realizing that their choices can contribute to change. This trend is now mainstream, and CPGs are realizing an immediate market need to accelerate their sustainability strategies and provide data transparency of sustainability goal achievement to their stakeholders.

This essentially means CPGs need to organize to be more consumer centric, gather more data intelligently and operate with an integrated approach to sustainability and digital commerce. Technology needs to be unified, data needs to be governed and be transparent from end to end, to realize the goal of continued growth.

The need for a digital transformation to meet consumers where they shop

Multinational CPGs are complex and comprised of business processes that develop, source, manufacture, market, sell and distribute dozens of brands and thousands of products reaching tens of thousands of store locations and

hundreds of other ecommerce sites and B2B distribution centers. The complexity is increasing as many CPG companies have had decades of operations on their legacy models but have adopted various makeshift solutions to remain relevant and appealing to their brand's consumers through direct to consumer (DTC) marketing and growing ecommerce operations.

As a result of this complexity, CPG companies, which have been historically focused on serving the retailer by delivering product innovation and driving analytic value from and for the consumer, have experienced challenges keeping up with the digital demands of retailers and consumers alike. More companies have started to transform their business with the goal of controlling and utilizing their data better to win in this era of agile operations. CPGs that are advancing their digital transformation are becoming more consumer centric and investing in AI and advanced analytics to run their businesses more efficiently to better serve the end consumer and retail partners.

Stakeholders' perspectives on sustainability initiatives



Becoming a leader in sustainability requires a strategic plan, but with information available everywhere CPGs should know the goals and expectations of key stakeholders.

Consumers have adopted more digital approaches to shopping and now do more research online before going

82% of consumers say they want to buy from brands with values that align with their own¹.

to the shelf. While value and convenience are still important criteria in purchase decisions, values, or in other words, purpose-driven shopping has increased in importance. The concern about environmental issues is stronger among younger adults than older generations.

The **investment community** has recently increased their focus, measurement and overall investment in companies that meet environment, social and corporate governance (ESG) goals. Recently there have been ESG-dedicated mutual funds that have gained popularity as the public sees both the societal benefits and the economic benefits of corporations with this mission. Furthermore, boards of directors and other investment stakeholders have increasingly been more interested about ESG issues from an economic and compliance perspective.

Retailer partners are more visible to consumers in their sustainability operations than CPG companies, and those with extensive store networks have tremendous energy use so changes in lighting technology and other consumer-facing experiences can be easily touted. Retail has taken the lead internationally in pursuing these goals. Companies with progressive goals have aligned closer to four of the total 17 goals outlined in the United Nations Sustainable Development Goals (SDGs) with many having a sustainability goal tied for completion in 2030. By understanding Retail SDG goals and working toward helping their retail partners, CPGs can collaborate at a more strategic level to mutually benefit both organizations.

Common Retail UN Sustainable Development Goalsⁱⁱ

- Good Health and Well Being (#3)
- Decent Work and Economic Growth (#8)
- Responsible Consumption and Production (#12)
- Climate Action (#13)

Employees' expectations have gone beyond the paycheck, a good benefits package and career advancement as the only criteria for working for a company. To attract today's top talent, companies can't just provide green platitudes. Companies need to have clear and strong environmental goals, social responsibility, diversity and clear and evidence-based progress. Furthermore, employees want to be part of the journey and would welcome opportunities for employee involvement. True sustainability commitment is a make-or-break issue for employees. A 2023 Deloitte Survey indicated that over 50% of Gen Zs and millennials are examining a company's environmental practices before applying.ⁱⁱⁱ But it is also important after the hire, as younger generations may leave organizations if real sustainability progress is stalled.

Community is important locally and digitally to brands. With the CPG manufacturer's large-scale as well as wide-ranging impact from farmers to local communities to consumers, brands have an opportunity to solve problems locally as well as contribute to solutions globally. Goals are made globally

but sometimes they need to be executed locally. The combination of employee, brand, customer community and even government organizations jointly working on a brand's sustainable mission and execution activities can be powerful in demonstrating true environmental commitment.

Does a growing sustainability focus create problems for companies on a digital journey?

As CPGs progress in their journey of digital transformation, the growing importance of sustainability potentially can be overwhelming to data leaders when they want to achieve both goals. But it is not an either-or proposition. The enhanced technical process and data management capabilities of a CPG organization in digital transformation enables the organization to accelerate their ability to also achieve sustainability goals. In other words, new digital capabilities and improved processes set the stage to better measure and deliver on operational, supplier and product-related sustainability goals.

Reviewing your vision and taking a stand for sustainability

While most CPG companies already have had sustainable goals such as recycled packaging content, reducing plastic in product containers and becoming more energy efficient, they are being forced by their stakeholders to lead from the front in this effort and take more aggressive goals that make a difference. Goals that were made five years ago may no longer be relevant, assertive enough or important to CPGs' stakeholders and don't reflect the urgency to demonstrate improvement.

How should CPGs proceed with all these challenges?

- **Define a long-term set of ESG goals** and where you as a brand and enterprise can make the biggest impact. For example, beverage companies with plastic containers may have more of an impact of reducing plastics which will minimize waste that reaches the ocean. Meanwhile coffee and tea brands may have more of an impact supporting organic and fair-trade harvesting to positively impact the local independent farmers around the world. Strategic choices will have to be made to tie to your brand's ethos while making a difference.
- **Align to corporate and brand go-to-market strategies** by integrating your key goals and tactics, such as: building loyalty among new generations, making brands more purposeful for existing customers, innovate with products that are better for the health of your customers and the world, supporting specific consumer groups and more.
- **Tying to digital strategy** is important when considering ESG goals as investments are likely in place or planned in the CPG organization to connect better with consumers in digital channels, share data among partners and improve the efficiency of the operations. Adding the layer of ESG use cases and opportunities only enhances the ROI of

the investments that have already been made in digital transformation strategy.

- **Partnership in your ecosystem** is important because no brand is an island and by understanding what is important to your consumers, employees, retail partners, suppliers, communities and associations, you can make sure you deliver value to your key stakeholders. By understanding not only what is important for your own organization but also your partner's specific goals, together you can accelerate the achievement of common goals.
- **Building blocks** are important because for a CPG to deliver on ESG goals, work needs to be done differently. Alignment is required, and more data needs to be used and trusted. There is a growing number of sustainable rating companies that provide third-party reviews of supplier operations in a standardized way that can be used to evaluate and manage suppliers. What other technologies and business processes are needed to be developed to ensure that the company is communicating their goals to stakeholders and capturing progress?
- **Transparency and measurement** are the elements of the successful end game for CPG companies. Only by using the collaborative workflows and governance around the data-specific KPIs tied to the original goals will CPGs be able to measure the results and transparently share them with their partners, employees and end consumers. Furthermore, food and beverage ingredients and origin and method details about manufacturing process may also be important to transparently share with customers in an easily understandable format.



To achieve aggressive goals that matter for your customers, CPGs need to deliver better and more sustainable products, support relevant causes and become better corporate citizens. It requires a new way of working, partnering and advanced use of data in a more governed and traceable manner. Siloed disconnected technology and old and even duplicative processes may be obstacles to achieving sustainability and digitalization goals.

Examples of CPGs achieving sustainability success in communities they serve

Many top CPG companies around the world have already made a commitment to make their packaging more recyclable and reduce packaging size and/or plastic waste. CPG companies are pushing the boundaries more and aggressively trying to transform their business for a better more sustainable future. CPG leaders achieving ESG goals are large and small and cover various categories.

P&G has long been a leader in sustainability and has innovated and delivered reduced water usage in its products such as laundry soap, as well as reduced packaging in its products in the past decade. The company continues to reach new levels. In their 2030 goals they commit to: All products are reusable or recyclable, restore more water that is consumed in manufacturing in metro areas with lower water supplies. Furthermore, they also have a NetZero Greenhouse gas goal for 2040^{iv}.

Oatly, founded in Sweden in the 1990's, has a corporate objective of providing alternative, healthy beverages while also being focused on operating in an environmentally friendly way. The Oatly oat milk products grew quickly in the past few years in North America and expanded to more than twenty countries. Their method of production of oat milk, specifically water usage is much more environmentally friendly than almond milk only using 1/6 of the water^v. By 2029, Oatly has committed to using 100% recyclable or reusable material in packaging and has also committed to reducing the carbon footprint per liter produced by 70%^{vi}.

By 2030, a number of the world's largest CPG companies are saying: "we're going to redesign all of our packaging and it will all be totally recyclable"

– Meghan Stasz, Consumer Brands Association⁴

How master data management can help achieve both digitalization and Corporate Social Responsibility (CSR) goals

One of the key roles of master data management (MDM) that benefits both digital transformation and CSR goals is the establishment of better data governance.

Typically, CPGs operate with multiple offices, brands and departments separated, and governance is done individually or in small departments, but it is not often managed, visible or measurable on a global scale. A successful MDM program utilizes data governance to establish accountabilities, accessibility and enhance overall quality and depth of data for any data domains resulting in multiple business benefits.

Data governance implies:

- You have a scope of what will be governed and vision of the goals.
- Definition of organizational roles for data stewardship and ownership.
- Establishment of workflows, routines and business rules to change, enrich, manage, validate and approve data.

Data governance is therefore a key element of digital transformation and, furthermore, will be an integral part of establishing new data standards for sustainable business operations as well as product development. With an institutionalized data governance program, CPGs can use it to set standard-driven approval checkpoints to ensure overall content, quality and enrichment criteria are met. These automated and human-centered checkpoints push the organization forward to reach digitalization and sustainability goals because incomplete and non-compliant master data records won't gain approval, preventing inaccurate and low-quality information from spreading to retailers or the end consumer.

Data governance is not done once and then forgotten in master data management solutions. As the CPG company changes their business practices over time, master data governance provides the capability to revise business rules and standards on how the business will operate going forward. It's an ongoing practice implemented by everyone and supported through technology. MDM, therefore, can both set the standards for processes and enable the effective enforcement of data policies in the organization.

With better managed master data, CPGs will increase transparency within each type of business data. For example, CPGs in the past years have been challenged with supply chain shocks and many are adding multiple suppliers to ensure resiliency for many of the product components. Siloed data can also be challenging because the new product development team may have one version of supplier data and the finance department may have another version which may cause problems of inaccuracy and cause duplicate efforts.



Supplier Master Data Management enable CPGs to have a single view of all their suppliers across their organization which will enable trust and transparency about suppliers' ownership, operations, contact information, certifications, verified manufacturing processes and other qualities that are important to the business.

Product Master Data Management (a PIM solution) is foundational for CPGs that plan to compete in this increasingly digitally driven market. Creating, enhancing and sharing product data and related digital assets (images, brochures, recipes and videos) is a key product need for CPGs. With added abilities from MDM tools to enrich and publish data effectively, CPGs can add product attributes pertaining to sustainability at a category, segment or item level or further customize the attributes based on needs of the sales channel or retailer.

Adding data syndication capabilities to the MDM solution enables CPGs to seamlessly share product information in compliance with the retailers' various data formats

Multidomain MDM is the foundation for trust, transparency and sustainable insight

Achieving an elevated level of data quality and consistency in a single domain of information is a tremendous leap forward for many CPGs. However, enhancing control over a wider range of business data gaining capability to connect several data domains and create an ecosystem of business-critical data can help further drive the value of the data that

CPGs manage to improve decision making. This is generally referred to as Multidomain Master Data Management.

Multidomain MDM allows CPGs to create zones of insight across their data and create unique situations for visibility and data analytics. For CPGs, the product data domain is often the obvious first choice for many companies to address to solve digital commerce and sustainability goals. But sustainability data covers many aspects of business, including supplier data, asset data, location data, B2B customer data and much more. The multidomain approach allows the CPG brand to understand the connection points between the data domains to generate richer analytics, synergies and benefits to stakeholders such as:

Retail customer benefits

Connect product and supplier data to provide retailers with greater visibility into the supply chain and ensure that products meet their standards, and provide the appropriate attribution including regulation requirements, contributing to their ESG goals.

Consumer benefits

Consumer benefits Connect product data and supplier data to communicate more complete and transparent information about how a product was manufactured or sourced, including type of supplier.

Partnership benefits

Connect product, supplier and customer data to enhance supply chain flexibility by better matching supply and demand. Build resilience that ensures consistent and timely product delivery; and negotiate better deals by gaining better insight into supplier and customer networks.

CPGs interested in accelerating their digital transformation and building a scalable solution to aid in their ability to transparently manage and share data with their partners and consumers should look for solution partners to support them in this journey. Managing sustainability information across domains requires an ability to create an understandable context between the domains so you have a 360° approach to sustainability. Integrating sustainability attributes into Stibo Systems MDM allows you to reap the benefits of applying master data disciplines to sustainability data.

For more information on Stibo Systems approach to multidomain MDM please reach: www.stibosystems.com

Notes:

¹Retail Brew. Majority of shoppers want brand values to align with their own: survey (April 28, 2022) – <https://www.retailbrew.com/stories/2022/04/28/majority-of-shoppers-want-brand-values-to-align-with-their-own-survey>

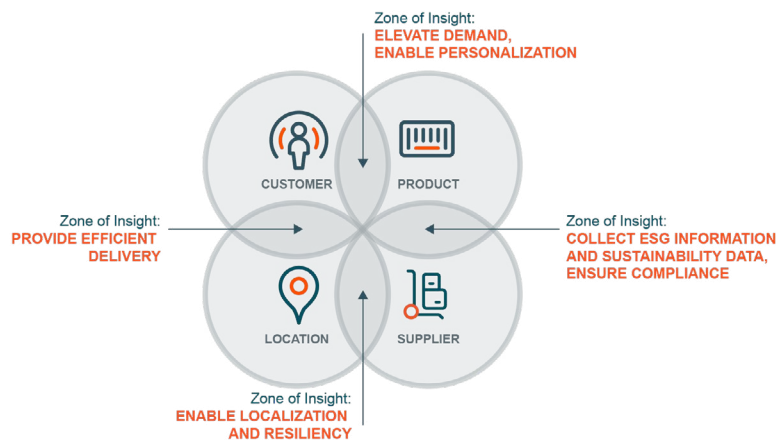
²Journal of Retailing and Consumer Services. Resource reallocation strategies for sustainable efficiency improvement of retail chains (July 2023) – <https://doi.org/10.1016/j.jretconser.2023.103309>

³ABNResource. Deloitte Survey Reveals Over 40% of Gen Z, Millennials Would Switch Jobs Over Sustainability Concerns (June 08, 2023) – <https://abnresource.com/27/sustainability/deloitte-survey-reveals-over-40-of-gen-z-millennials-would-switch-jobs-over-sustainability-concerns/>

⁴P&G: Environmental Sustainability – <https://us.pg.com/environmental-sustainability/>

⁵Oatly: The untold truth – <https://www.mashed.com/247950/the-untold-truth-of-oatly/>

⁶Oatly: Sustainability goals – <https://www.oatly.com/en-us/oatly-who/sustainability-plan>



About Stibo Systems

Stibo Systems is the leading enabler of data transparency through master data management and data syndication. Built on an open platform with scalable, cloud-native SaaS technology, our solutions empower many of the largest and most innovative global companies with better data quality and visibility. This creates a trusted data foundation for enhancing operational efficiency, making informed decisions, delivering superior customer experiences and supporting sustainability initiatives. Headquartered in Aarhus, Denmark, Stibo Systems is a privately held subsidiary of Stibo Software Group, which guarantees the long-term perspective of the business through foundational ownership. More at stibosystems.com.