

CONNECTED CPG

Navigating the new world with
tech-enabled product innovations

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INTRODUCING CONNECTED CPG

Consumer Packaged Goods (CPG) growth has been challenged by saturation, fragmentation, commoditization, and functional equivalency across brands. With new capabilities accessible through technology, marketers are increasingly connecting CPG products to digital experiences along the purchase and usage journey. The emergence of *personalized CPG products, CPG with services, CPG subscriptions, and digitally connected CPG products* are all evidence of this development.

The global pandemic and the ensuing societal disruption accelerated the adoption of technology. More time is spent on digital devices which offer completely new ways to discover and select products. The expectation is that technology will deliver new benefits and help simplify habitual routines, ultimately reducing stress and increasing confidence.

Examples of tech-enabled CPG innovations taking on these new roles in consumers’ lives include:

- Personalized vitamins that provide **confidence** through DNA testing
- Sustainable detergent subscriptions that are **convenient and foster a sense of purpose**
- Gamified toothbrushes that engage kids with augmented reality, **eliminating routine struggles** for parents and encouraging good brushing habits in kids

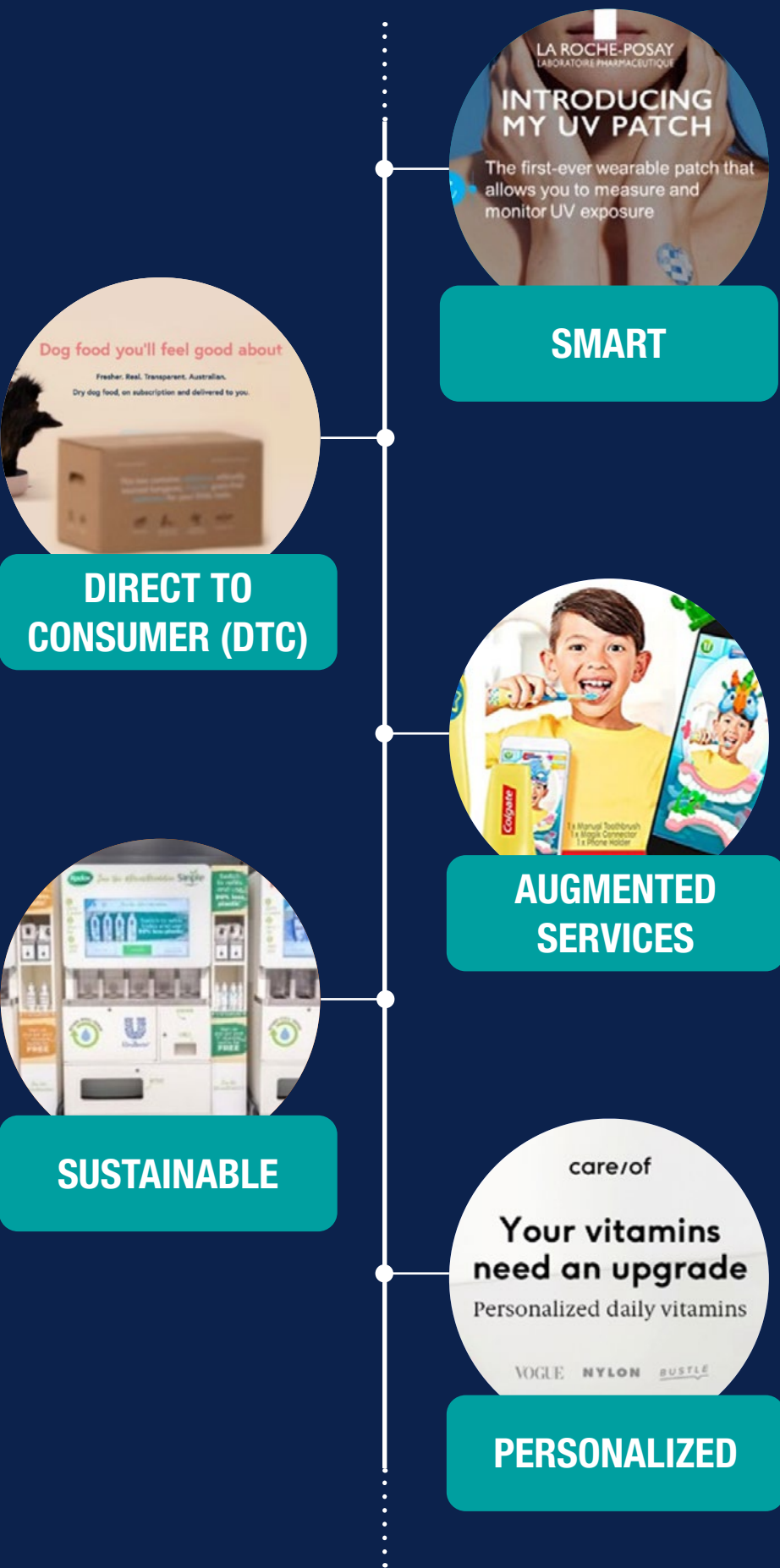
In the seven-year period leading up to 2020, 45% of the \$20 billion global venture capital investment in CPG went to transforming existing products into DTC and other platform-based models; while another 40% are used to launch new CPG products enhanced with services or new business models.¹ ”

Ipsos has been monitoring and facilitating the emergence of tech-enhanced CPG products for several years. We refer to these as **Connected CPG**.

CONNECTED CPG

Tech-enabled CPG Innovations with enhanced experience or business models, that aim to create a deeper connection with consumers.

While many manufacturers recognize Connected CPG as source of growth and are innovating in the space, a **consistent framework** to measure performance and size of the opportunity has been lacking. Often, this leads to arbitrary action standards that are heavily influenced by traditional CPG thinking and ultimately, decisions that lack confidence. After witnessing both success and failure, and with expertise in CPG innovation testing as well as the world’s largest database of business model and experiential products, we are eager to share learnings.



BEHAVIORAL SCIENCE IN CONNECTED CPG

To win consumers in Connected CPG, it's important to understand the behavioral science behind the decisions made in the adoption process. At Ipsos, we believe how consumers choose products and brands is complex and nuanced. The choices we make in different contexts fall along a continuum that simultaneously contains both intuitive and deliberate processing.

THE INTUITIVE TO DELIBERATE CONTINUUM

Our decisions arise along a continuum, where multiple cognitive processes ranging from more intuitive to more deliberate are operating at the same time.

Connected CPG purchase decisions are generally more consequential in comparison to traditional CPG, for which consumers generally make fast and intuitive decisions. The Connected CPG decision process from awareness to adoption is more elaborate, including both faster, more intuitive, and slower, more deliberate processing. Intuitive and deliberate processing are not binary or exclusive; both are present along the entire journey. Depending on the offer and the stage of the decision, the importance of each may vary. The cognitive processing for a regularly bought CPG product is dominated by fast/intuitive thinking, while the evaluation for a digital innovation, a new experience, or a new purchase model involves slower, more deliberate thinking.

However, a Connected CPG offer shares both characteristics. It is both a CPG product with fast processing and includes enhanced components that require more deliberate processing.

The cognitive processing of a Connected CPG proposition thus involves three stages:

- **Intuitive processing of marketing communication** - Whether it's a skippable ad on YouTube, or a post on social media, the viewer only provides a few seconds of attention. At this stage, the cognitive processing is dominated by fast and intuitive thinking. They take a shortcut, comparing the offer with their status quo i.e., what they buy or do today. Do they have a reason to engage? This is the first hurdle, leading the consumer to seek further information about the proposition.
- **Deliberate processing of additional information** - At this stage consumers self-select to learn more. They take time to read and process information like the details of a subscription plan, or the description of a digital experience. While they may read fast or in a disjointed manner, their cognitive processing at this stage has more deliberation than at the initial encounter. This leads to an initial decision to proceed with an action such as signing up or purchasing.
- **Perceived friction** - As consumers act on their decision to sign-up or buy, they encounter friction along the journey. Some friction points are foreseeable such as the need to share credit card information. Other less obvious ones can lead to abandonment.

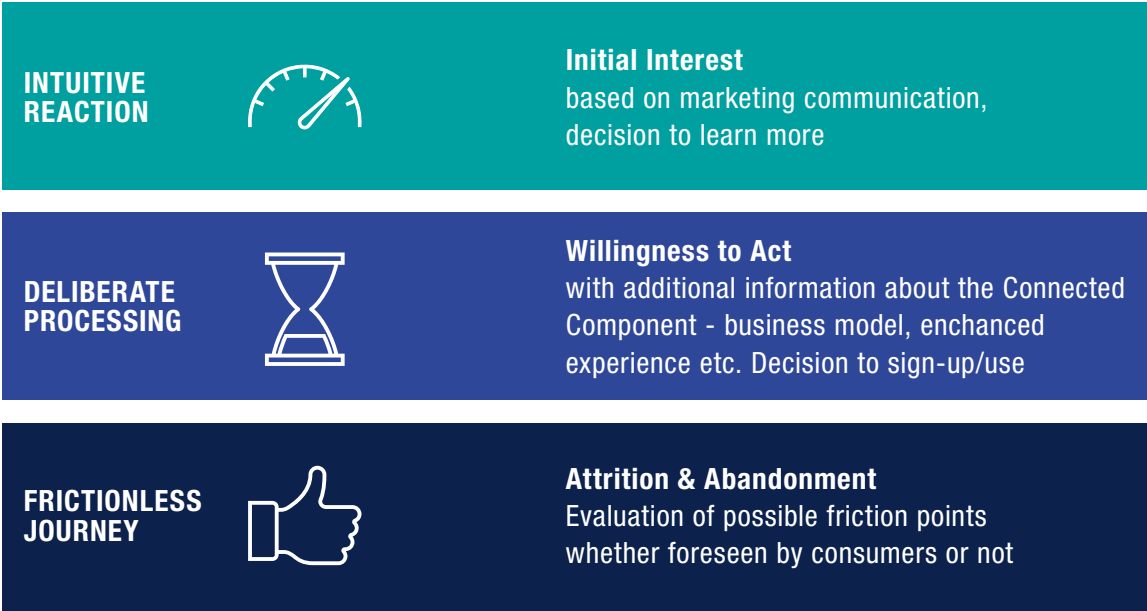
CONSEQUENTIAL DECISIONS

"Am I willing to invest a larger than usual amount of money in the next CPG product?"

"Am I willing to commit to a recurring delivery?"

"Is the trouble of setting this up worth the benefit?"

Figure 1 Connected CPG consumer decision journey



Source: Ipsos Connected CPG framework

TO WIN, A CONNECTED CPG INNOVATION MUST THEREFORE:



Attract and engage at initial exposure with **Intuitive Processing**



Convince the consumer to act (sign-up/buy) as they learn more with **Deliberate Processing**



Avoid abandonment with a **Frictionless Journey** during sign-up/setup and beyond

THE SECRET OF SUCCESS FOR CONNECTED CPG – A TRIAD

ATTRACT AND ENGAGE WITH INTUITIVE PROCESSING

The average consumer processes as much as 74GB of information a day, equivalent to watching 16 movies.² So the fact they are not willing to give more than a few seconds of their time to marketing communication is no surprise. A Connected CPG communication faces additional hurdles since it usually carries more information than a conventional CPG product. It not only has to convince consumers of the inherent benefit of the CPG product itself, but also introduce the new “connected” component which might be central to the proposition. In this fleeting moment, the mission for the initial touchpoint is to trigger enough interest for the viewer **to engage and learn more**. Easier said than done when click-through rates for most social media and display ads track to only fractions of a percent.

With fast thinking, consumers take a short cut and benchmark new information against the status quo - their current entrenched behavior or products. They are risk averse, and the new proposition must provide a clear advantage to trigger further engagement. At Ipsos we have observed the following characteristics among propositions that gain success at this stage:

- **Offer clear point of differentiation.** As the benchmark is often regular off-the-shelf CPG products, the role and benefits of the connected offer must be immediately apparent. For example, if the offer is a personalized chocolate, the personalization benefit should be highlighted and get first attention, before others (such as the taste).
- **A single-minded initial message.** It is often hard to pick a single aspect of a Connected CPG offer to highlight, and marketers often fall into the trap of communicating too much. In a short encounter, this leaves the viewer confused regarding the key message. When faced with such information overload, their risk averse intuition kicks in, causing non-engagement. The initial communication touchpoint may not be the place to introduce details of the connected component which might be best left as a next “learn more” step once consumers are engaged.
- **Paint a vivid picture of how the offer fits into their lives.** Consumers should be able to intuitively visualize what the product can do for them. Uncertainty can result from perceived black boxes or cumbersome components in the journey ahead, which leads to inertia and non-engagement. For example, is the app part of the offer free or will I need to pay?

Consider the case of a premium personalized vitamin available as a monthly subscription.

Clearly this introductory statement in itself has a lot to unpack – it is premium vs. regular vitamins; it offers a health plan including supplements and a quiz to determine the plan right for you. This degree of complexity can undermine initial engagement.

In research, this concept showed weakness in initial interest. This means some consumers

may not even give its connected benefits a chance since they lose engagement at the outset. The same research actually showed that the connected benefits, when introduced in detail, were well received yet “buried” when consumers do not choose to “learn more”. Based on our experience, we would recommend leading solely with the personalization benefit and leaving the additional information to be discovered as people learn more.

Figure 2 Personalized daily vitamin example



PERSONALIZED DAILY VITAMIN PACKS

We create a health plan with vitamins, supplements, and more, that help you feel your best today and support you long-term.

- Take our quiz to tell us a little bit about yourself.
- Get nutrients that work. Get your personalized recommendation. Backed by science and delivered to you.
- Stick with it long-term. Keep the conversation going. We'll adjust as your health needs change, all in our handy app.

YOU KNOW YOUR BODY, WE KNOW THE SCIENCE. LET'S WORK TOGETHER

MADE JUST FOR YOU

A 30-day supply of vitamins tailored to your unique needs, delivered in compostable daily packs.



Vitamin D
1000IU Vitamin D
\$5 1



Iron
30mg Vitamin C, ...
\$5 1



Ashwaghandha
600mg Ashwaghandha Extract
\$8 1

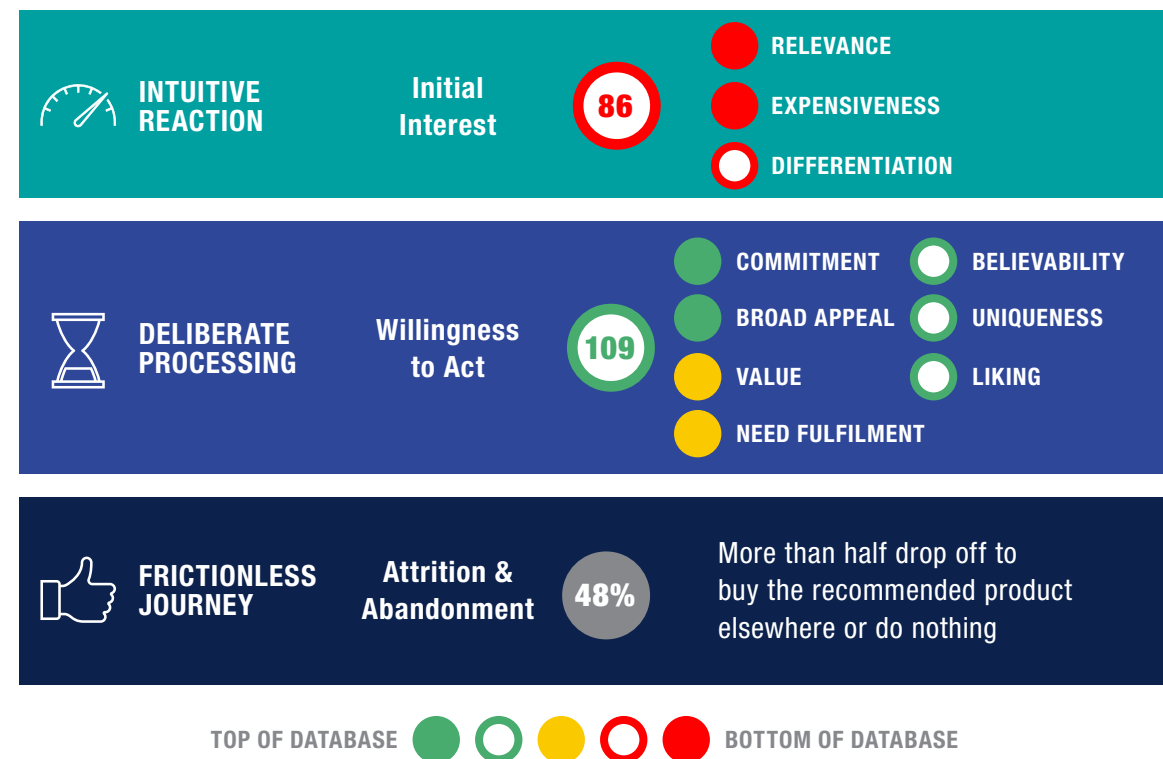
YOUR PLAN EVERY 30 DAYS

Vitamins	\$18
Subtotal	\$18.00
Shipping	\$8.00
Sales Tax	–
Today's total	\$26.00

1300 REVIEWS

Source: Ipsos Connected CPG framework

Figure 3 Initial exposure does not attract engagement, strong connected component might not see the light of day

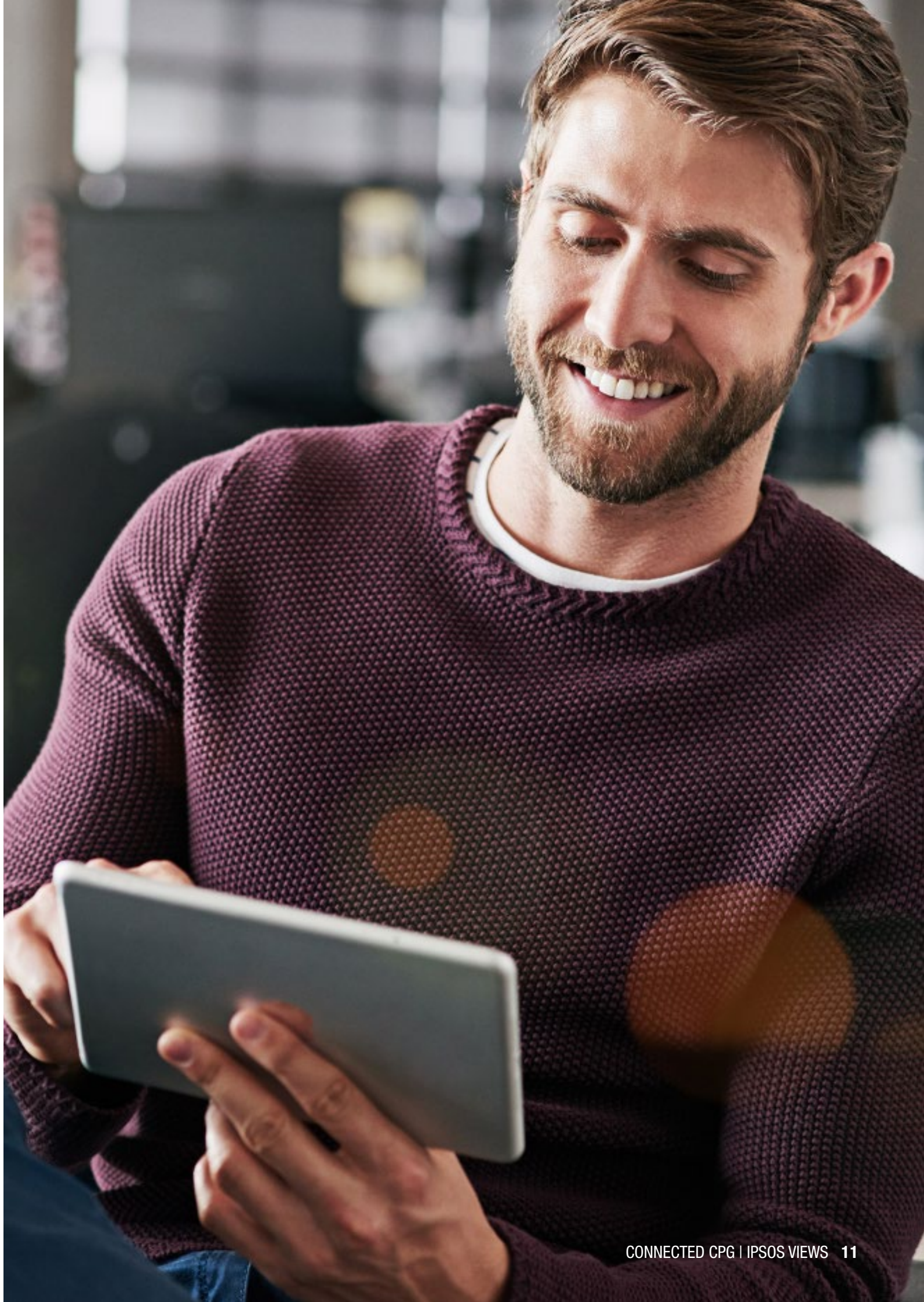


Source: Ipsos Connected CPG framework

Unlike traditional CPG products, consumers usually do not make purchase conversion decisions at the first encounter; a more involved cognitive processing phase usually follows. So, the job for the initial messaging is to introduce the key differentiation points to pique their interest against their status quo. At Ipsos we measure the strength of the initial messaging by mimicking the fast

and intuitive nature of the first encounter and ask consumers to make direct choices between the new proposition and their current product. The time it takes consumers to make these choices is tracked and indicates whether they are enticed to engage with dedication or hesitation due to the quality of the message. The sentiment expressed in free-form adds a further layer of understanding.

Unlike traditional CPG products, consumers usually do not make purchase conversion decisions at the first encounter; a more involved cognitive processing phase usually follows.”



CONVINCE THE CONSUMER TO ACT (SIGN-UP/BUY)
AS THEY LEARN MORE WITH DELIBERATE PROCESSING

Once you have attention and engagement, more involved evaluation or slow thinking begins. Now the consumer starts to look for deeper information to assess if the offer is right for them. The next decision is more rational and we have observed the following characteristics among those that succeed:

- **Enhance my life.** Does the connected offer provide valuable benefits? Is it filling a real need, alleviating a problem, or enhancing life? With tech-enabled business models such as subscriptions, convenience is not a differentiator. It is an expected feature of the offer. A differentiated benefit must go beyond e.g., a gamified experience that encourages my child to perform the right behaviors or a refill model that affirms my commitment towards sustainability. Likelihood to act requires benefits that convince consumers of the value-add to their life.
- **Do it for me.** Technology has brought in a new age of products that proactively identify usage patterns and find ways to optimize it for consumers. For example, connected printers can sense when paper runs low and re-order in time to avoid frustration. The key is to create patterns that meet consumer needs with little to no effort from them. This perception of *having things done for them* leads to a stronger affinity towards offer. Let’s face it, who doesn’t like to feel like a VIP!
- **Give me confidence.** With connected CPG, the ask of consumers is much more than a CPG product off the shelf. With this ask comes the need for the consumer to feel a sense of confidence that they will remain in control during the entire process. Do they believe the claims made about the connected aspect? Do they know exactly when the product will arrive? Do they know exactly what to expect at each stage of the process, from sign-up to usage?

With Connected CPG, the ask of consumers is much more than a CPG product off the shelf.”

To understand the importance of slow thinking, let’s consider the case of a connected toothbrush for kids.

Figure 4 Kids’ toothbrush with Augmented Reality

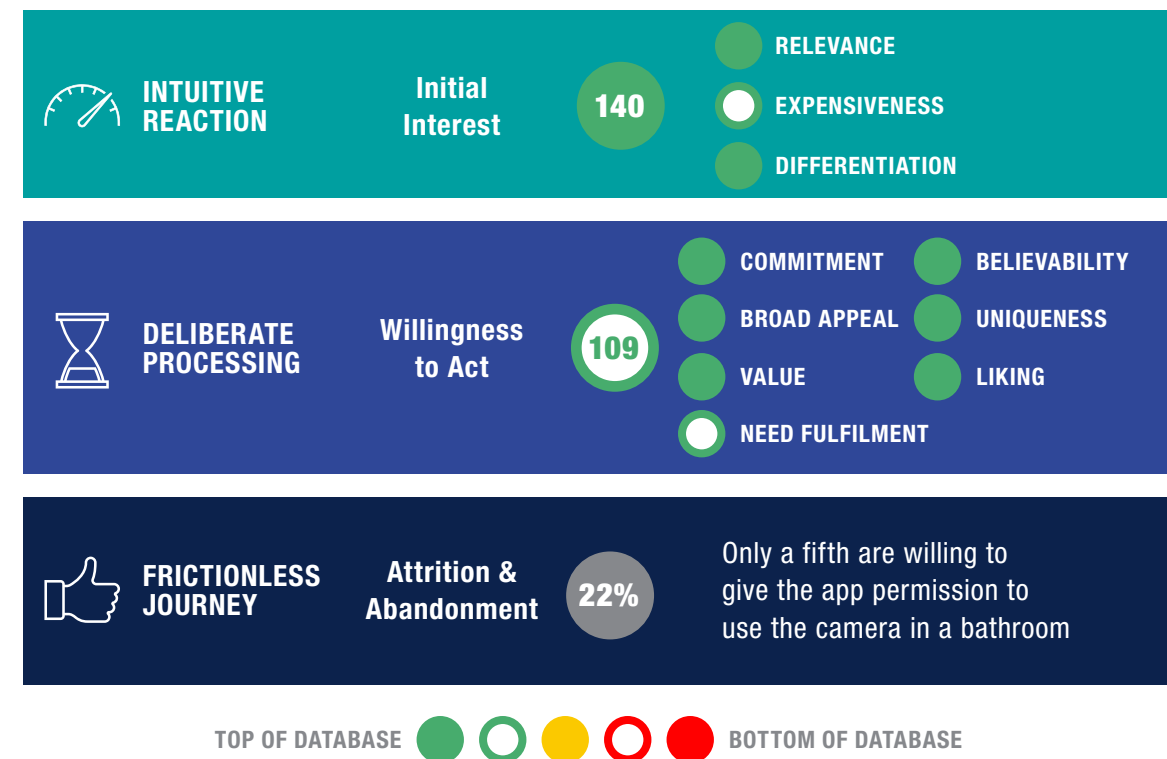
CONNECTED TOOTHBRUSH AND AUGMENTED REALITY APP

Say goodbye to bedtime routine struggles when it comes to getting your kids to brush their teeth. The new manual smart toothbrush is the first app-enabled, connected manual kids toothbrush, specifically designed to make brushing fun while helping your child learn good brushing habits. Working together, the brush, the digital connector and free app help kids learn how to effectively brush their teeth. Recommended for kids ages 5+.



Source: Ipsos Connected CPG framework

Figure 5 Strong connected benefits drive willingness to act



Source: Ipsos Connected CPG framework

The offer clearly highlights the key benefit of eliminating bedtime struggles and making brushing fun for kids, enhancing parents' lives. Visuals show how kids can independently use the app while brushing, doing the job for parents. And the parental dashboard with the ability to

track progress inspires confidence for the parent. With clear information on kit contents, price and compatibility, the offer provides all the pertinent information for a parent to make the decision to buy. This leads to high conversion to purchase among those who choose to learn more.

In summary, as consumers delve into the details of a connected CPG offer, it is important to convince consumers that the offer will enhance their life, do it for them and make them confident. With the world's largest database of

durables, services, and technology (39,000+ propositions) at Ipsos, we provide rich learning through benchmarks, case studies and our experience in the slow thinking aspect of a Connected CPG offer.

AVOID ABANDONMENT WITH A FRICTIONLESS JOURNEY DURING SIGN-UP/SETUP AND BEYOND

Gaining commitment from the consumer that they will buy or sign-up isn't the last hurdle. As they start to follow through with their action, they experience friction at several points in the process. For example, a personalization offer may require sensitive information such as age, health condition, medications etc. Or a sustainable refill offer which requires you to have the container available and find

a store location close to you. While adding a product to the virtual cart creates a sense of ownership, consumers constantly weigh the benefits against each ask along the way. With friction at each step, some foreseen and others unanticipated, many will abandon the journey. Winning at this step results to final conversion and to achieve this requires requires:

- **A clear map of the process.** With a need for early assessment, marketers often do not have detailed information about the user experience that is yet to be built. While the aesthetics, navigation and other areas may not be easy to visualize at this early stage, it is important to consider the essential steps that will be required in the consumer journey. Creating a clear map of these steps allows for early measurement to identify the points with maximum friction and provide an opportunity to optimize.
- **Simplify.** One of the key advantages of a connected offer is access to user information. With this comes the temptation to gather as much information as possible. In our experience, simple journeys lead to higher conversion. Simple in this context refers to minimizing the number of steps as well as the depth of information the user is required to input. For the offer to deliver, what is the minimum amount of information needed from the user? As an example, purchasing with Apple Pay takes away the need to input credit card information and typing in the address. This is valuable simplification, reducing the likelihood of abandonment.
- **Transparency.** Does the user understand why you need each piece of information? Collecting information which does not directly contribute to the user experience can lead to lower confidence. Think like a consumer, retrace each step in the journey and ensure you can identify the benefit to the user of completing each step.

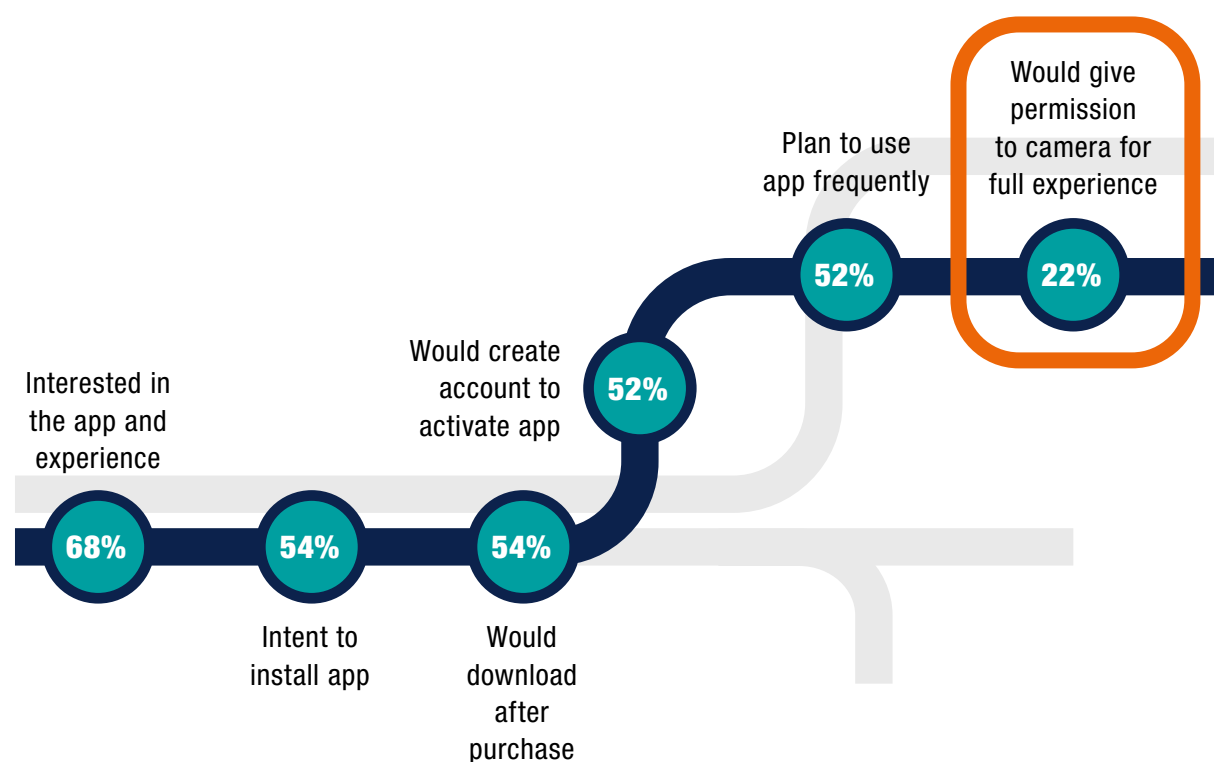


Continuing with the example of the connected toothbrush, where consumers were clearly convinced about the offer, let's visualize the decision journey. First a user must be interested in the app and gamified experience and are thus willing to install the app on their device. Are they interested enough to download the app right away? The time is indicative of their excitement for the offer. Once they download the app, they will need to create an account, and potentially multiple profiles for their children. Are they willing to go through that step? Do they plan for the app to be used regularly? And most importantly, have they grasped the fact that they will need to turn on the camera on their device in the bathroom for their child to use

the app? Some of these steps like downloading and setting up the app are foreseeable, **but most don't think far enough to uncover the fact that they will need to provide camera access in the bathroom.** And while this may be discovered only after purchasing the product, it is a clear point of friction that will reduce the likelihood to use and may even work against the offer in a world where people share their opinions openly on social media.

Visualizing each step of the decision journey, simplifying it to the minimum required steps and transparency are key to the success of a connected CPG offer.

Figure 6 Visualizing each step of the decision journey



Source: Ipsos Connected CPG framework

PLANNING FOR SUCCESS

Long-term success means delivering against this winning formula. Innovation which in essence is genuinely disruptive requires different consideration. This is not just an exercise in delivering more research, it is essential to business planning. Connected CPG carries more risk because it runs against a status quo which may well have been reinforced over many years. It requires more investment and therefore needs more justification and validation. And, it likely has more visibility within the organization given its potential to demonstrate change.

A different set of competitive capabilities will be required to win in the dynamic markets of the future. The rewards however are substantial. Connected CPG can be a clear case of company purpose but, critically, also offers a path to long-term sustainable growth because like any successful CPG product, they deliver trial as well as offer a greater opportunity to lock-in consumers and drive repeat purchases.

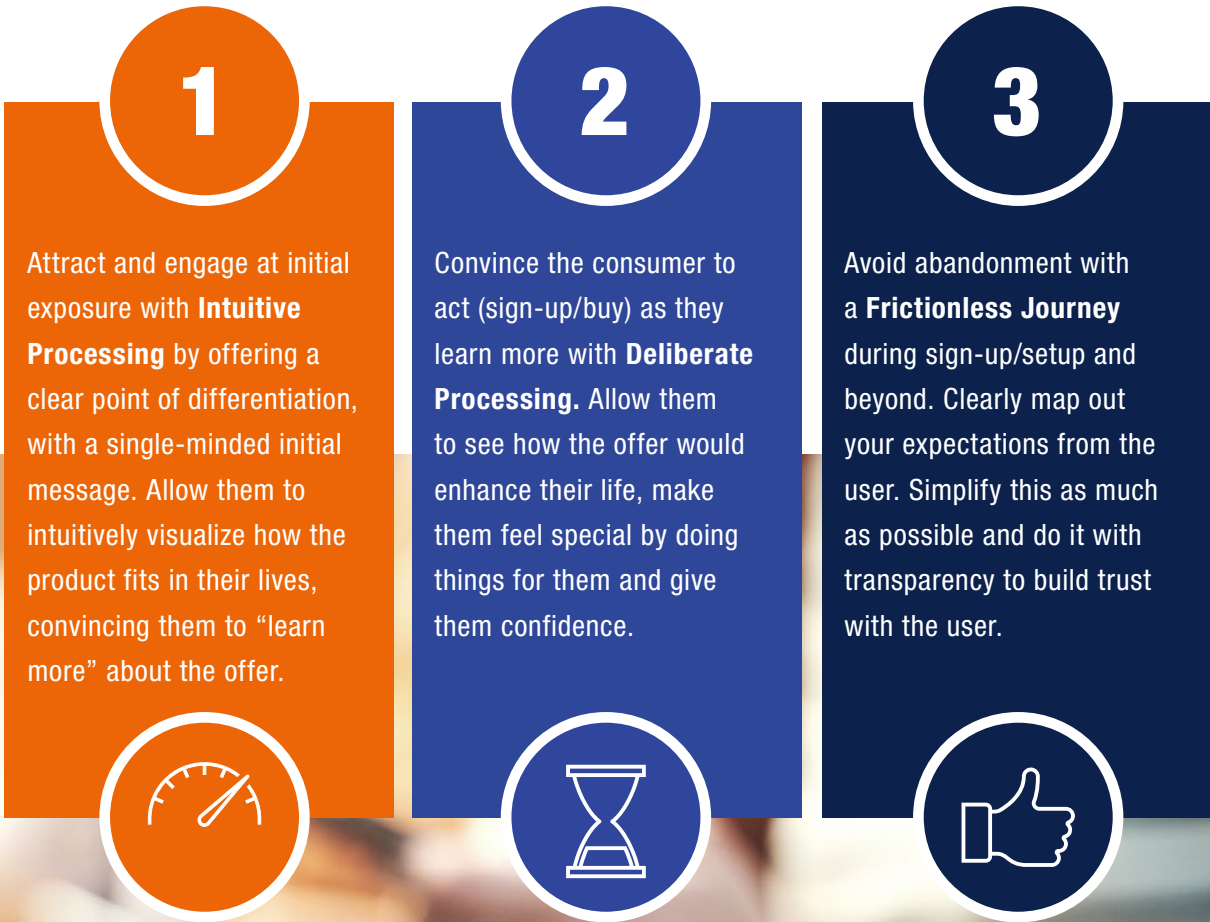
Forecasting their true potential requires an enhanced view that accommodates the consumer discovery and decision process, accounts for the friction and abandonment along the way and estimates repeat not just based on the CPG product but the entire experience of the journey. In a typical CPG forecast, we'd be well set to predict behavior through this lens alone. However, if the innovation requires significant behaviour change, using core CPG models can be misleading. In fact, forecasting in connected CPG requires model adaptation for each individual offer with their unique considerations and journeys.

By employing a forecasting approach true to the well-established principles of triangulation, Ipsos goes beyond the immediacy of competitive context to introduce additional controls to understand each potential drop off point. These are more tactical, related to the decision journey and the specific requirements Connected CPG products place on consumers. Or more fundamentally, whether after the initial buzz, on reflection, a more considered view gives cause to say no.

Connected CPG carries more risk because it runs against a status quo which may well have been reinforced over many years.”

CALL TO ACTION

Connected CPG is clearly a growing area with opportunities to engage consumers with new experiences and business models. **Winning in this space is complex and requires structured thinking beyond the physical product.** We recommend understanding the consumer decision process to guide decisions and optimizing your offer at each step.



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