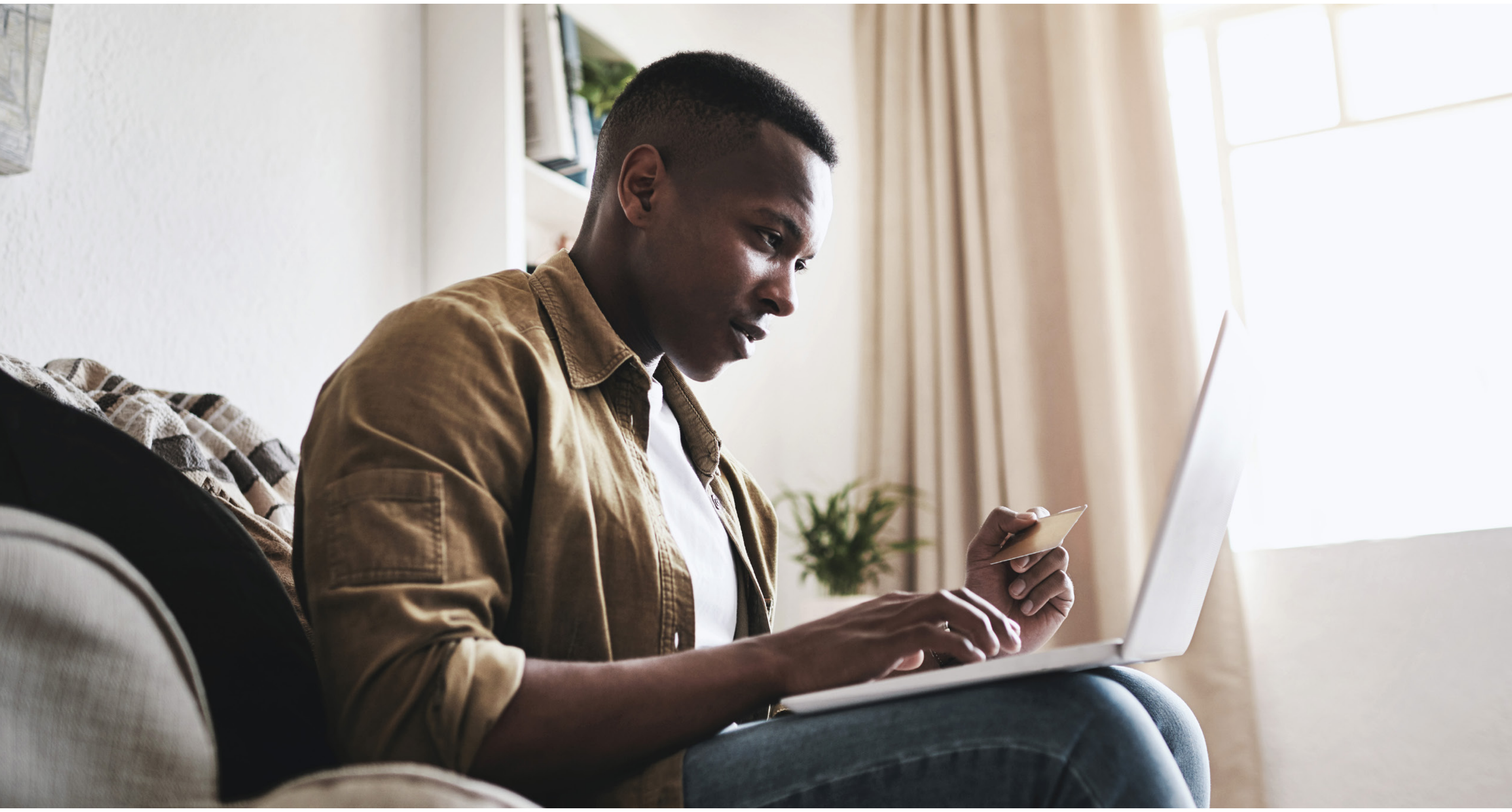
McKinsey & Company

Consumer Packaged Goods Practice

US consumer-packaged-goods advertising in the next normal

The recovery in the United States will be nonlinear and granular. Three marketing capabilities will separate leaders from the pack.

by Marc Brodherson, Jeff Jacobs, Orsi Jojart, and Jane Wong



© PeopleImages/Getty Images

October 2020

At many US consumer-packaged-goods (CPG) companies business has been turned on its head. Even for companies in categories that experienced rapid growth, the past several months have been dizzying.

A historic drop in US consumer confidence was accompanied by pantry loading for essential items such as household supplies (up 76 percent in March) and packaged food (up 46 percent). Meanwhile, spending on discretionary categories slowed drastically. Lockdowns and a shift in consumer priorities toward health and safety condensed five years of e-commerce growth into three months, dramatically reshaping both the consumer path to purchase and the actual points of purchase—patterns that are unlikely to revert back to the pre-COVID-19 normal. Amid the uncertainty, consumers retreated to products and brands that nurture and treat, while supply-chain limitations disproportionately affected smaller companies and pushed spending to established brands.

To address this fluid landscape, CPG companies must adapt their advertising strategies by acting in three areas: finding new pockets of growth, rethinking how they spend their more than $19 billion in advertising, and evolving their advertising models.

Shifting advertising trends

As CPG companies consider resuming their ad spending, they should take into account the impact of a range of factors. One key trend has been the pandemic's impact on how companies engage with consumers, especially through advertising. Several developments stand out:

— *Channel shifts accelerated.* In the immediate aftermath of the pandemic, 87 percent of consumers reported spending significantly more time on media: TV viewing was initially up 10 to 20 percent, though it returned to pre-COVID-19 levels in May and is expected to decline by 11 percent for 2020 as a whole. Meanwhile, streaming doubled, video-game usage and downloads rose by 50 percent, and social-media, video, and messaging apps have fueled a 20 percent increase in weekly time spent with mobiles. McKinsey's July consumer-sentiment survey found that the move to digital will probably endure: consumers indicated that they would continue spending time on activities such as online streaming (67 percent of respondents) and online fitness (60 percent).[1] Advertisers have to rethink their channel priorities to meet consumers where they are—not where they were three months ago. More than half of ad buyers are shifting their dollars from broadcast (53 percent) and cable TV (52 percent) to connected TV (CTV).

— *National campaigns became less meaningful.* Stay-at-home orders, travel restrictions, and a general increase in concern about health and safety changed consumer needs and preferences at the local level. By late July, for example, weekly grocery spending varied widely across the United States: up by 38 percent in Boston, down by 2 percent in Detroit. Messages relevant to consumers in harder-hit states, counties, and communities do not resonate with people living in less affected areas. One beverage brand, for example, found that its TV ads were more than 45 percent less effective in two of its largest markets than in its overall market.

— Companies must therefore take a more market-level approach to customer engagement and respond quickly and effectively to changing conditions on the ground, especially as hotspots emerge in different parts of the country. Companies with more agile, flexible marketing models delivered messages that mattered. One leading CPG food manufacturer, for example, used an agile marketing squad to launch a video ad in less than three weeks. The video, targeted at households that had recently purchased certain products for the first time, increased retention and repeat purchases from this segment.

— *Sports programming stopped abruptly.* According to Kantar, sports programming

[1] "Survey: US consumer sentiment during the coronavirus crisis," August 2020, McKinsey.com.

The evolving and uncertain consumer landscape poses significant challenges for advertisers but also creates an opportunity for CPG companies.

accounts for about 40 percent of all broadcast-ad revenue of the four top US broadcasters. Major US sports leagues are now starting up, but positive tests among professional baseball players have raised the possibility of further postponing or even canceling seasons. Meanwhile, college-football conferences have shortened or postponed their seasons and built flexibility into their schedules to accommodate potential disruption. All of these developments have led advertisers to wonder if a significant number of fans who used to watch sports will fail to tune back in. The growing popularity of esports could present an alternative for CPG advertising in the short term.[2]

— *Media inventory and costs are incredibly volatile.* The advertising rates of nearly two-thirds of advertising sellers have declined since the lockdown began, and the speed and trajectory of the ad market's recovery is difficult to project. Meanwhile, companies that made upfront advertising commitments have found themselves locked into deals that limit their flexibility in reacting to pockets of consumer demand.

— *Nearly overnight, advertising production halted.* More than 50 percent of ad campaigns have been disrupted since the COVID-19 outbreak began. Yet some companies managed to serve up campaigns that captured the moment, such as P&G and TikTok's #distancedance and Gatorade's #PLAYBYPLAY. To manage the creation and execution of content, two-thirds of CPG companies anticipate moving from agencies to in-house teams.

Three ways CPG companies can adapt

This evolving and uncertain consumer landscape poses significant challenges for advertisers but also creates an opportunity for CPG companies to overhaul and modernize their outdated advertising models. A majority of advertisers are looking to ramp up spending in the third quarter of this year, so devising and implementing a strategy that reflects the new reality has taken on added urgency.

To be well prepared for the next normal, CPG companies should consider three key moves:

1. Finding the right pockets of growth
Companies that win in the recovery will be monitoring, in real time, dozens of indicators on the county level (for example, gym traffic by county) to anticipate demand changes at the product level (such as travel-size toiletries). Using these insights, companies can develop commercial plans that span advertising, shoppers, pricing, and supply, with specific thresholds that trigger actions. A global transportation manufacturer, for example, is using a dynamic dashboard of more than 50 metrics to plan for the recovery by predicting demand at the subcountry level across the globe.

[2] Uta Allenstein, Oliver Gediehn, Sascha Lehmann, and Dan Singer, "Esports and the next frontier of brand sponsorships," July 2020, McKinsey.com.

Marketers should also refresh their understanding of the occasions and needs their products serve—and, in particular, the consumer channels that serve trip missions and the media channels that influence informational missions. What was true in the past will no longer predict the future: companies must harness new sources of insight, such as granular social listening at the microsegment level and increased data partnerships with retailers and channel partners. In addition, direct relationships with consumers can help manufacturers rapidly test new ideas and connect with current behavior at the household level.

2. Evolving the marketing operating model

We know a few things about the CPG recovery for certain: it will differ by geography and market segment, and it will be difficult to predict. Marketers that have been winning in the crisis and are positioned to win in the recovery have shifted to an agile marketing model that allows them to launch campaigns in three weeks or less. They use new technologies not only to enable the granular, dynamic targeting and customization of hundreds of versions of messages for each campaign but also to measure and iterate these campaigns within days or weeks. Such marketers will personalize ad content at scale by using data and analytics to inform the contextual placement of ads—for example, what content, time of day, and positioning. One food CPG player used more targeted, personally relevant content to increase sales per media-dollar spent by 13 percent.

This shift to a more agile, granular model is the first step in a data-driven marketing transformation across CPG. Companies have focused on assembling rich data sets (for example, P&G's database has more than one billion consumer IDs) and on using new technologies that target households, granularly and at scale, to create personalized relationships while preserving the efficiencies of buying at scale. PepsiCo, for example, drew on its Pep Worx data-and-analytics platform to launch a new product by identifying and engaging 24 million target households, which generated 80 percent of all product sales in the first 12 months. And agile marketing requires a change in operating model to break down barriers to collaboration, as well as evolving relationships with agencies that co-create marketing campaigns alongside agile teams.

3. Rethinking what and how to buy

After several months of upheaval, executives can't incrementally adjust their media plan and mix; they should update their assumptions and adapt their plan accordingly. Part of this process involves taking a new view of the path to purchase in the post-COVID-19 world. Companies will need to go where consumers are (for example, online and live streaming) and to align advertising with the way consumers are buying (such as retail media for e-commerce). Now is the time for CPG companies to dive into new formats and platforms, digital video ad products, digital audio and podcasts, and interactive kiosks.

What was true in the past will no longer predict the future: companies must harness new sources of insight.

This reappraisal gives CPG companies an opportunity to capture savings in their media budgets and to reallocate capacity more flexibly. Executives should take advantage of the current disruptions—for example, by shifting the mix of upfront and scatter spending and responding to the reduced demand for impressions.[3] They should also accelerate media cycles by capitalizing on the new flexibility and speed they gained during the pandemic's initial stages. Faster, lower-cost production enables messaging tailored to the rapidly changing macroenvironment and could help companies win more flexible terms and shorter lead times with media sellers. Agency relationships will change as well: the best organizations are moving to project-based arrangements characterized by greater collaboration with agile teams and a focus on performance.

The stop-and-start nature of the business environment during the past several months has exposed weaknesses in the traditional advertising models of CPG companies. Although the recovery may start in earnest shortly, its contours have made planning very difficult. Companies that use this time to overhaul their marketing function by emphasizing analytics, agility, and speed will be best positioned for whatever lies ahead.

[3] The scatter market is air time sold closer to the actual programming air date.

Marc Brodherson is a partner in McKinsey's New York office, **Jeff Jacobs** is a partner in the Chicago office, **Orsi Jojart** is an associate partner in the London office, and **Jane Wong** is an associate partner in the San Francisco office.

The authors would like to acknowledge the contributions of Bassel Berjaoui, Julien Boudet, Katie Gordon Motwani, Glen Gullickson, Veronica Retana, and Björn Timelin to this article.

Designed by McKinsey Global Publishing
Copyright © 2020 McKinsey & Company. All rights reserved.