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Consumer Packaged Goods Practice

Staying ahead of the B2B ecosystem disruption in emerging Asia

Consumer-goods companies in Asian emerging markets are turning to data, analytics, and digital solutions to realize value in traditional trade.

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June 2020

In emerging Asia, independent grocery stores remain not only a vital channel for consumer-packaged-goods (CPG) companies but also for the economy, supporting millions of households.

Given the scale and proximity of these stores to end-consumers, and despite the inefficiencies emerging from a fragmented system, manufacturers must continue crafting approaches to reach these stores, while reacting to intermediary systems that are becoming increasingly digitized.

In 2017, Nielsen reported more than 13 million small grocers in four Asian countries—India, China, Indonesia and the Philippines—with India alone hosting a staggering 6.6 million (Exhibit 1). The number of small grocers in the region has continued to grow over the past decade, albeit at a much slower pace than the overall consumer food market.

While modern retail formats are gaining market share in emerging Asian economies, a fragmented market system is likely to remain convenient, and hence competitive, as long as these small shops continue to serve their shoppers' needs. The COVID-19 pandemic will likely impact these trends, for instance pushing more consumers to modern online channels and creating short-term supply-chain problems, but the role small shops play in local commerce and social networks assures they will remain relevant even after the crisis passes.

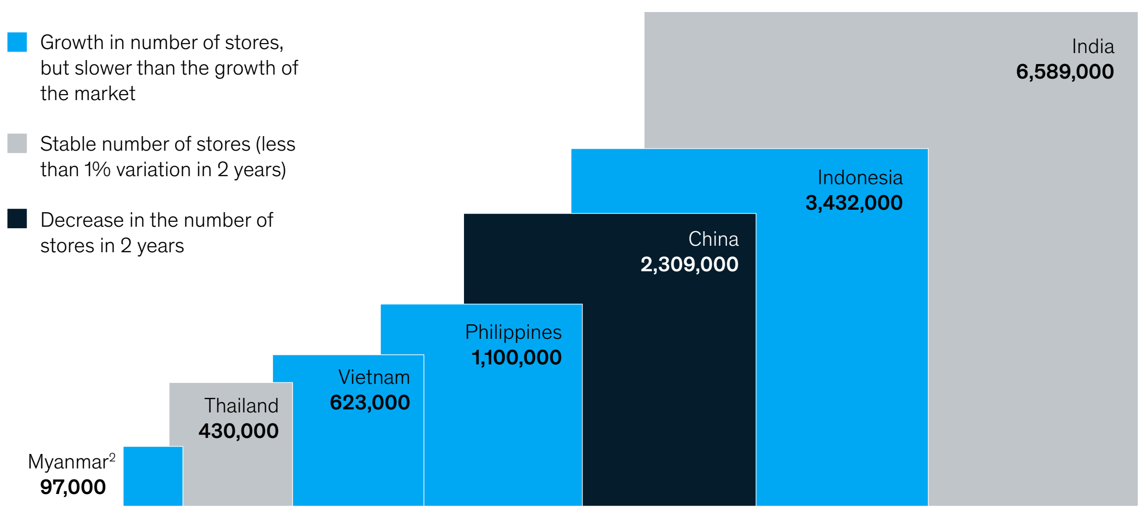
Digital solutions on the horizon

While traditional retail environments continue to offer benefits, inefficiencies along the value chain are likely to trigger a digital-led disruption that large packaged-goods companies should track and, indeed, plan to benefit from.

Exhibit 1

Four Asian countries host more than 13 million small grocers, with nearly 6.6 million in India alone.

General-trade traditional grocery outlets[1] in 2017, number



[1] Includes predominant grocery outlets only
[2] Based on 9 states only.

Source: Asia-Pacific retail and FMCG digital data, Nielsen, 2017; fast-moving-consumer-goods (FMCG) market dynamics, nominal value growth, simple average of last 8 quarters where data is available

There are inherent complexities stemming from multiple, small intermediaries servicing the same routes and the same retailers, often making runs with trucks only partially loaded. The system also leans toward manual processes, which are slower and more prone to inconsistency and inefficiency compared to digital and automated processes. In addition, some small outlets are cash constrained, rely on credit, and are limited in the assortment they can offer, compared to the expansive selection at modern retail stores, leading to shopper shift.

A fragmented route to market also has had an inflexible supply chain. Everything from sales plans to delivery routes is difficult to alter dynamically, and even large companies change their plans only once or twice a year, leaving no room for agile reallocation of resources. Depending on the maturity of modern retail outlets in a specific market, small shops can also burden consumer-goods companies with higher costs to serve.

In addition, consumer-goods companies are hard pressed to use their own digital capabilities to analyze and improve sales at small outlets. While valuable data is available to these companies, it requires consistency, transparency and at-scale investment in advanced-analytics capabilities. As an illustration, some distributors offer outlet-level information and others don't. These challenges make it hard, if not impossible, for companies to produce clear, real-time insights on market trends that can inform their strategy.

Improving the efficiency of traditional trade in emerging markets also helps preserve the small-shop culture. It constitutes an essential element of local livelihoods, provides employment, maintains a social hub for communities, and can be a valuable source of knowledge about micro-markets. While the disruptions brought by technology can address inefficiencies, they can also help small trade outlets thrive.

A preview of what's ahead for smaller emerging Asian markets can be seen in China. Empowered by Alibaba's Ling Shou Tong (LST) platform, small shops and their suppliers are using data, analytics, and digital solutions in the following ways:

— accelerate the shift to digital models and remote interactions, a move made more urgent by the COVID-19 pandemic

— aggregate orders, creating lower costs to serve for individual consumer-goods manufacturers and, as a result, allowing lower prices at outlets

— provide convenience in ordering stock, reducing the chances of items being out of stock

— increase transparency into the flow of goods, allowing suppliers to be more active in these traditional channels, for instance by using targeted promotions

Companies in India are also experimenting with disruptive digitization. The B2B trading platform Udaan, for example, is linking the wholesale-dominant distribution system by connecting sellers and buyers. Jio is building a "new commerce" platform that offers point-of-sale (POS) billing services, digitized inventory control, digitized order placement, among other benefits, and Jio Platforms has recently seen an investment of about $12 billion from Facebook and private equity companies.

Improving the efficiency of traditional trade in emerging markets also helps preserve the small-shop culture.

Across China, India, and some economies in Southeast Asia, a pattern of solutions emerges, driven by entrepreneurs and ecosystems. The services are typically anchored on four elements, with various levels of value-add services on top: a digital ordering application connecting retailers and suppliers, a logistics offering to increase reach and reduce cost to serve, digitized POS systems to improve data collection and usage, and finally, a consumer interface to reach and retain shoppers. (Exhibit 2).

While China and India are among the leaders in digitization in Asia, similar efforts will inevitably find their way into the value chains feeding traditional retail in emerging Asian economies. Already in Indonesia, for example, Warung Pintar and GrabKios are working toward connecting kiosk operators to a centralized supply platform, while digitizing and standardizing some of the retail processes through their competing B2B platforms.

Four tiers of response for CPG players

The disruptions underway in the traditional trade in emerging Asian economies present a significant opportunity to realize value. Established CPG companies active in these markets must track these developments and prepare an appropriate response through four tiers of rising complexity, from no-regret moves to total engagement. The right level of strategic response can be determined by a company's network size, maturity, and "bulkiness" of the category.

Exhibit 2

Ecosystem players are creating multiple digital assets across the consumer packaged goods value chain, that directly address key inefficiencies.

Typical consumer packaged goods value chain

Suppliers and brands	Distributors and wholesalers	Fragmented trade outlets	Consumers

Existing problems in the value chain

Suppliers and brands	Distributors and wholesalers	Fragmented trade outlets	Consumers
• Limited direct connection with final consumers • Increased competitive intensity due to new players and proliferating assortment	• High operational costs given legacy ways of working • Long tail of retailers with high cost to serve • Poor credit availability • Asset heavy operations	• Traditional trade retailer economics under stress • Proliferation of salesmen – hundreds of visits every week • Smaller outlets underserved under the current architecture	• Disconnect between the new "online to offline" journey and the limited availability of options in the physical stores

Typical ecosystem solutions

Suppliers and brands	Distributors and wholesalers	Fragmented trade outlets	Consumers
● Supplier app • Distribution system (ordering) • Analytics suite • Promotion and pricing suite	● Logistics offering • Warehouse • Transport to outlet • Transport to consumer • Financing	● Digitized PoS[1] • Ordering app • Inventory management • Payments • Local promotions and offers	● Consumer app • Loyalty (points) • Promotions • Online/online-to-offline offering

[1]Point-of-sale.

The basics
Without question, companies should defend their core business by working with distributors to identify and resolve gaps that are already being addressed by digital disruptors using technology. Among the measures that can be taken is helping digitize intermediaries to gain access to secondary sales, for instance, by establishing a distributor-management system (DMS), helping distributors to build internal capabilities, and teaching them to use data appropriately.

Companies can also shift from traditional outlet segmentation, which is often based on scale or region, to a more sophisticated approach, such as grouping outlets based on characteristics of the micromarkets and overall growth potential. This would allow companies to create a more relevant assortment, across price points and packaging types, for different types of outlets, increasing throughput. It would also ensure the right service level and delivery frequencies, improving share of shelf.

Strategic alliances
A more proactive approach includes experimenting with smart partnerships. Consumer-goods companies can engage in targeted partnerships that bolster core businesses with minimal channel conflict and complement existing distribution systems. For example, these alliances can open new micromarkets such as underserved geographies, can drive access to new channels such as chemists, restaurants and cafes, and hotels, and can accelerate new product launches and targeted efforts such as premium product sales. Often, these alliances can be tested on a small scale with a range of partners, and once the potential of a particular alliance is proven the initiative can be rapidly expanded.

The current global health crisis may also accelerate the growth in online channels and home delivery services. Consumer-goods companies should watch these trends closely to ensure that they are not left out of these emerging channels.

Proprietary platforms
At the next level, consumer-goods companies can create their own proprietary platforms to serve their route to market for traditional trade, leading the disruption. For most companies the task would require true transformative change, but building a digital platform linking small retailers can enhance loyalty and produce significant efficiencies.

For example, the platform could offer retailers immediate ordering options at any time and include benefits such as same- or next-day delivery, financial solutions, loyalty programs, and real-time data analytics that support smarter promotions and offer advice on stock replenishment or assortment, among other benefits.

Depending on the expected scale and market context, companies can create their own platforms, or team up with other consumer-goods companies for deeper reach and potentially better adherence (because of the increased convenience for the retailer, as multiple apps will compete for their attention). Of course, companies working together from such a platform cannot offer products that compete with one another.

Full ecosystems
The most aggressive option is to build a full-scale ecosystem offering a wide range of products and services, similar to those run by Alibaba LST in China. Though similar to a proprietary platform, an ecosystem looks at serving the market from a broader retail perspective rather than a narrower consumer-goods perspective. This option is more scalable, but also leaves important elements such as the relationship with retailers or the control of the data in the hands of a third party.

When to join the platforms, and under which conditions? The urgency differs by company and category

Different benefits for CPG players
Depending on a company's category and current distribution model, the incentives to join these

Companies with marginal numeric distribution have a strong incentive to join early, while companies with broad distribution have less urgency, and more time to negotiate favorable terms.

platforms and their benefits can vary (Exhibit 3). For example, companies with marginal coverage to traditional trade networks can gain additional reach, and there is a strong rationale for them to join early.

Companies with large distribution networks and bulky products with high logistics costs will be less interested in the additional coverage, but may join the platform for the economies of scale that could reduce their cost to serve. These companies have less pressure to join early and can take time in negotiating favorable terms.

Finally, companies with large distribution networks and low logistics costs—generally those with smaller products like beauty products or spirits, can be more tactical in joining ecosystems and focus on improved access to outlet data or opening promotional opportunities.

Joining … under which conditions?

Beyond the most basic, no-regrets measures, any option involves working with other companies and will likely entail participating in a digital ecosystem. These ecosystems can be very attractive, promising broader distribution networks, better data availability, and even lower cost to serve.

However, this model also poses specific risks for consumer-goods companies. For one, they can increase the bargaining power of digital distributors participating in the ecosystem because of their roles as aggregators and their access to secondary sales data. Channel conflict is also a concern if there are geographic overlaps with legacy distributors, and pricing strategies can be spoiled.

In addition, many large consumer-goods companies have spent decades and substantial resources developing deep distribution systems, and these assets can represent an important part of their valuations. A fully functional ecosystem can change that, giving smaller brands and even the distributors' own private labels equal access to retail outlets.

Of course, consumer-goods companies also bring substantial value to the table. Perhaps most importantly, they have intuitive and fact-based insights into a market's consumer sales landscape based on decades of operations and personal interactions with sellers and customers, as well as access to well-known brands.

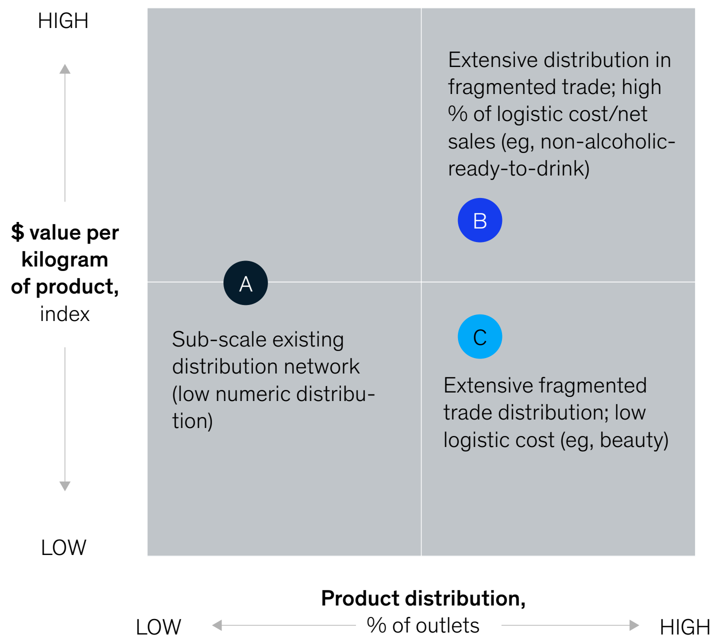
To optimize the benefits of participating in these systems, consumer-goods companies can follow five principles as they work to shape these partnerships:

— **Act quickly:** Online platforms are eager for quality, reliable suppliers, but the distributors' leverage will only increase over time as the ecosystem grows. Often, being the first of your category in the platform ensures a better negotiating position.

Exhibit 3

Companies with limited distribution and companies with high logistics costs have a stronger incentive to join ecosystems early.

What to get from B2B disruptors by product value and product distribution



A

- Significant value in rapidly expanding into offline fragmented trade, therefore likely to join the platforms early
- Can leverage B2B disruptor data and insight (as the platform gives access to additional outlets rapidly) to further develop its own route to market (RTM)
- Start to develop capability to serve offline customers with guidance from B2B disruptor data and insight on portfolio, size, price, and promotion

B

- Limited upside on outlet coverage
- Will join B2B platforms at a later stage, once there is "proof" that the platform can help lower distribution costs; should take the time window to negotiate for better terms
- Data and transparency can help improve RTM efficiency, but is incremental only, given the already high control of distribution

C

- Limited upside on outlet coverage as well as on logistics costs
- Limited strategic rationale to join the platform, typically late joiner
- Data and transparency can improve RTM efficiency, and can leverage B2B disruptors' shared logistic capability to lower logistic cost

— **Set boundaries:** Shape agreements to ensure partners focus on geographies or outlet categories that are currently underserved and minimize conflict with legacy distributors. Ensure the route-to-market structure does not encourage wholesalers to offload low-performing products onto the platform, but rather pushes them to offer the assortment and desired service levels to retailers.

— **Provide creative incentives:** Carefully crafted incentives, such as better commercial construct for poorly performing products, can be implemented with greater speed and flexibility on digital platforms, allowing a more agile approach to marketing efforts.

— **Create enthusiasm:** Work with the platform operators to create exciting offers that are tailored for the channels, such as exclusive merchandise or product packaging that caters to a specific niche.

— **Monitor results:** Digital ecosystems provide the means to respond quickly to market changes and successful promotions. To take advantage of this benefit, consumer-goods companies most closely monitor the market and the results of their activities.

As digitization seeps into the traditional trade networks in emerging Asian economies, consumer-goods companies can exploit their market positions, experience, and capabilities to take a leading role in the disruptions and retain a strong connection to millions of small shops that will remain a vital final link to consumers for years to come.

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