



# The Essential Role of Ecommerce Data & Analytics in CPG Innovation

**White Paper**



# Introduction

The COVID-19 pandemic has shaken up the consumer product goods (CPG) industry. While some companies were left struggling for survival, others have seen exponential growth with never-before-seen spikes in demand. As consumer preferences continue to fluctuate and the future remains uncertain, it is not the time for companies to “wait and see” what lies ahead. Brands, manufacturers, and other retail stakeholders that look beyond the immediate challenges and into the next new normal -- **with an eye for innovation** -- will be the true winners.

However, where can leaders find areas to innovate amid the rapidly shifting consumer and market dynamics? How can research and development (R&D) and executive teams feel confident that their new ideas will offer the elusive qualities that drive consumers to buy (and repeat their purchase)?

## Through this white paper, you will learn:



1

**Why the traditional sources of consumer data and insights are diminishing in power to support product innovation.**



2

**Why eCommerce purchasing data and insights are the new secret weapon for CPG innovation, and why Amazon insights, in particular, offer a competitive advantage.**



3

**The benefits that R&D teams are experiencing by incorporating eCommerce data analytics into their innovation toolkit.**



# The Traditional Sources of Consumer-Centric Innovation Data

In the last several decades, CPG brands that have invested heavily in R&D have seen significant business growth. For example, nutritional brands have focused R&D resources on not only ensuring their products are scientifically supported and effective -- but are also aligned with consumers' changing preferences as it relates to key ingredients, packaging, affordability, and more.

To stay current with consumers' evolving preferences, R&D teams have historically relied on a mix of qualitative and quantitative insights:



**Qualitative insights** may come from a salesforce in the field, or colleagues located across the country who gather feedback directly from buyers and others working within brick and mortar (B&M) stores. Typically, these front-line allies regularly report back on which products are well-received, or which are not hitting the mark (and why), enabling R&D departments to cultivate product development strategies that match customer input.



**Quantitative insights** related to consumer demand have normally come from B&M point-of-sale (POS) data. Collected by store scanners, this data includes sales of every unit scanned from every shopper and every trip. POS data has several compelling qualities, helping R&D answer key questions such as:



- **What are my brand's top-selling SKUs— overall and at each retailer?**
- **What is my brand's share within a given category and how does that compare to competition?**
- **In growing categories, where can my brand capture a piece of the pie?**



## The Blind Spots of Traditional Data

Insights from the field and POS data will continue to be critically important for brands to understand general consumer attitudes and consumption trends already happening in-store. However, neither are the optimal data source to drive product innovation in today's retail landscape. Why?

**Innovation today requires the unique power to understand the consumer of the future, or accurately predict levels and areas of growth in consumer spending.**

Here are some specific examples as to why **POS data** has “blind spots” for predicting consumption trends:



1

### **POS data is limited to what will fit on the physical store shelf.**

B&M category managers habitually select an assortment of products for their store that are already proven winners from past seasons, while de-prioritizing seemingly less popular preferences and newer brands. This means that those who rely on POS data for driving innovation are not viewing the complete breadth of consumer choices, are largely analyzing products that are already mainstream, and will likely miss out on important trends coming from lesser known but up-and-coming brands whose visibility is critical for predicting future category dynamics.



2

### **POS data is typically reported from several months in the past.**

In a B&M-only model, this made sense. Business planning was typically done annually, with periodic reviews of sales performance. However, this same process does not translate to today's omnichannel environment where consumer behavior and engagement with products and brands change quickly. The COVID-19 pandemic, in particular, has shown us how consumer behavior can vault years into the future in a matter of a few weeks. To innovate, brands need near real-time consumption data at their fingertips to catch consumer trends as they emerge, make decisions at warp speed, and be first to market to outmaneuver competition.

3



# eCommerce Data as the New Secret Weapon for Innovation

If traditional sources of data for tracking consumer preferences are not sufficient, where should CPG brands turn? The answer is eCommerce data—specifically, the consumption data coming from Amazon.

**Amazon sales data offers the first indicator of emerging CPG trends, enabling brands to predict areas of growth in consumer spending faster and more accurately than any other market research tool.**



**Here are key reasons why Amazon data is the best predictor of trends.**



## **Amazon data includes the complete range of products and brands.**

Unlike traditional data sources coming from B&M that lack today's breadth of consumer choices, Amazon is unique in that it provides an endless digital shelf across nearly all categories. In fact, 66% of consumers start their product searches on Amazon, knowing that the marketplace provides a better product range than in-store or other sites (1).

Amazon data also includes products from both legacy brands (i.e., brands that originated by selling in-store) and digitally-native brands (i.e., brands that originated by selling online only). The number and market share of digitally native brands are growing at an alarming speed, given Amazon's low barriers to entry, plus their nimble ability to innovate quickly and release cutting-edge products to customers well before larger, traditional brands.

Reacting to the uptick in consumer demand for immunity supplements during the COVID-19 pandemic is just one example of how digitally native brands are formidable players and need to be tracked closely to fully understand market shifts:

## **ZINC**

**By Q3 2020, zinc was seen as a high-growth VMS category.**



5 of the top 20 zinc brands on Amazon in Q3 were digitally native, yet had \$0 sales or only nominal sales in January and February of 2020. Those brands went from less than \$10,000 in sales for all of January and February to generating over **\$500,000** in revenue in just the month of May. (2)



The marketplace's breadth of product options and brands, coupled with its dominance of eCommerce (i.e., more than double the market share of the next nine companies combined, including eBay, Walmart, Best Buy, Apple, and others), positions Amazon as the truest microcosm of consumers' evolving preferences.

2

### Amazon data is available in real-time.

Unlike traditional data sources, Amazon data is available in real-time, adding a layer of business agility that is crucial to innovation. Brands cannot afford to wait for market insights to be introduced to them only periodically, such as during quarterly meetings. Alternatively, companies need to build their internal capabilities to analyze consumer data in real-time and implement swift decision-making to capitalize on micro-pockets of growth in our ever-changing new reality.

## Key Benefits R&D Teams Experience with eCommerce Analytics

Today, forward-thinking CPG brands are combining the power of Amazon data with analytics to confidently innovate. Here are some examples of how Amazon data analytics offer key benefits in the R&D process:

1



### Simplified and streamlined R&D to increase speed to market.

When Amazon sales data is effectively analyzed through software, R&D teams are able to view comprehensive category trends across a multitude of dimensions, such as by brand sales and share, top-selling products, and product pricing. R&D teams are empowered with a consistent source of truth to quickly verify any hunches about market dynamics to layer into their other research, move R&D activities forward, and meet the needs of its customers before other competitors have the chance.

**Brands leveraging Amazon sales analytics have reported, on average, saving 90 days or more of research while simultaneously deriving higher-quality insights to guide strategic decisions around product development.**



2

**Quicker executive buy-in with more focused attention on high ROI projects.**

Investing in innovation is not for the faint of heart.

**85%**  **of new products typically fail.**

and the cost of new product development requires considerable upfront investment – from research, quality testing, and manufacturing, to distribution, marketing, sales training, etc. (3). Largely attributed to these aforementioned risks, some CPG brands have announced during the COVID-19 pandemic that they will trim their innovation pipelines by 50% or more to focus only on the most promising projects (4).

With Amazon data analytics, and its power for predicting areas of growth in consumer consumption, R&D leaders have the right insights to present to executives about which products in the innovation pipeline will best meet customers' evolving preferences and generate the strongest return on investment (ROI).

**R&D teams no longer need to base recommendations on anecdotes or a gut feel and can shift to prioritizing projects that have the greatest opportunity to drive company growth.**





### 3 More precise alignment with consumer demands for affordability, attributes, and packaging.

While small moves across brands' portfolio strategy may have worked well enough in the past, today these moves are less likely to meaningfully improve top line revenue. That is why R&D teams are leveraging Amazon data analytics to move through the minutiae of consumer preferences and understand what is truly driving purchasing decisions along various dimensions, including price, package configuration, sustainability, and attributes (e.g., serving size, flavor, dosage, delivery format). By backing up product development decisions with this granular detail from Amazon's expansive dataset, R&D teams are able to design products with more precision than ever before.



## Conclusion

Investing in innovation, especially as the retail environment faces uncertainty, may seem daunting— but the undeniable fact is that innovation in this moment is imperative. CPG companies that take a consumer-centric, analytics-driven, agile approach to innovate will be the winners in this new normal, while those that fail to innovate will likely be left behind.



## Sources



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