The Consumer Packaged Goods (CPG) Industry and Solution Providers

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1. The CPG Industry

The Wonderware Solution Provider Program currently involves some 625 value-added resellers (VARs) and Original Equipment Manufacturers (OEMs), and over 3,000 systems integrators (SIs) worldwide. The Wonderware Solution Provider community is an important part of Wonderware's success. Wonderware relies on their services and expertise to take it into new opportunities and markets. From the 625 VAR/OEMs, approximately 2.5% use Wonderware software to create solutions for food-products machinery in the Consumer Packaged Goods (CPG) industry. Out of almost exactly 3,000 SI companies currently active in the Wonderware Solution Provider Program, more than 46% devote some portion of their practice to serving customers in the CPG industry. 63 % of Wonderware Certified SIs and 82% of Wonderware's ArchestrA Certified SIs are involved in the CPG industry.

But just what do we mean when we talk about the CPG industry? The free reference section at Hoover's online (www.hoovers.com/free/ind/dir.xhtml) includes a useful directory of industries and the following general definition:

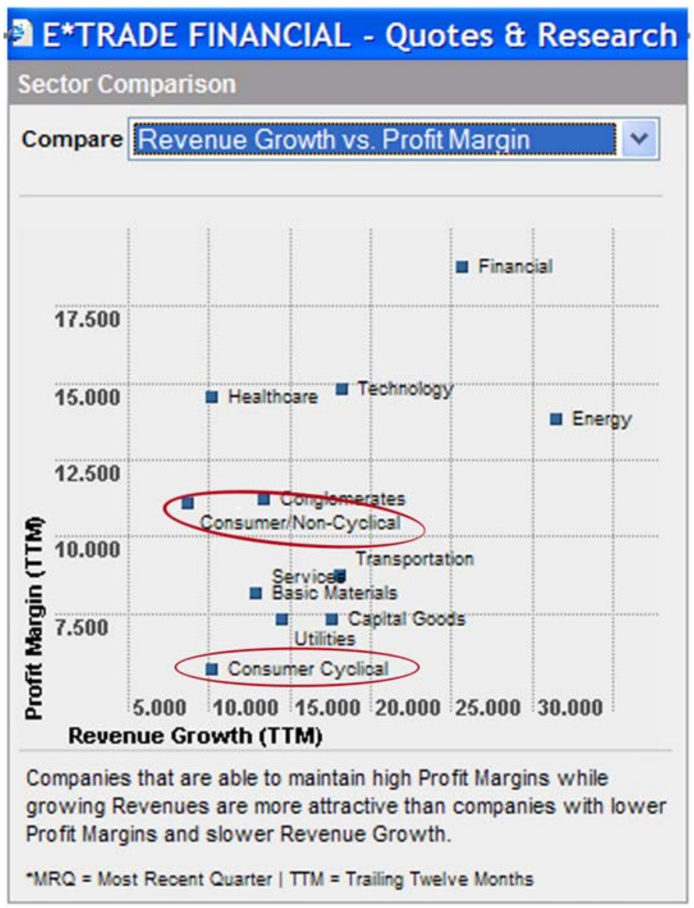
> **Consumer Products Manufacturers -** Companies that design, manufacture and/or market apparel, cleaning products, hand and power tools, home furniture, housewares, linens, and consumer electronics and appliances.

However, things may not really be that simple. It's actually more meaningful to describe the CPG industry as a ***set of consumer behaviors*** rather than trying to draw boundaries around a specific list of product names or brands. And the key behavior that best describes the CPG market is that of ***replenishment*** on some regular or frequent basis. The items are in fact *consumed*, in some sense or another, fairly rapidly. This means that they do have a shelf life – whether it's the perishable nature of a snack food item or the fleeting glamour of a cell phone with features like text or pictures or videos. And of course that can mean that the value of an entire warehouse inventory, for a whole generation of product can go to zero in a hurry!

Those behaviors tend to result in a steady flow of small recurring expenses (for a tube of toothpaste, a pack of beverages or even the latest personal electronic gadget) rather than large infrequent ones like the acquisition of a major capital asset for manufacturing. The problem for our manufacturing customers is that those small replenishable items still require the major manufacturing assets to produce them. The ability to rapidly reconfigure and re-task those expensive production machines and factories when customer whims change – in other words, agile manufacturing – can make the difference between profitability and receivership.

2. Industry Comparisons

The financial research tools at www.etrade.com (account membership required) offer some useful comparisons between the consumer goods industry and other major industry sectors. It's not necessarily the fastest-growing business sector – compared to general technology, financial or energy companies – but certainly respectable when it comes to overall sector profit margins. The non-cyclical sub-category of the CPG industry, in fact, ranks well above the Transportation, Basic Materials, and Capital Goods and Services industries.



The consumer cyclical category includes apparel, recreational products, personal electronics, automobiles and replacement parts such as tires. The non-cyclical category includes beverages, tobacco, personal products, office supplies and food items.

The Industry Browser information tools at the Yahoo! Finance Industry Center (biz.yahoo.com/p/3conameu.html) may surprise you in terms of the relative sizes and profitability of some segments in the Consumer Goods categories. For instance, the top five segments by market capitalization are as follows:

Segment	Market Capitalization ($B)
Auto manufacturers	296
Food – major diversified	281
Cigarettes	269
Beverages – soft drinks	266
Cleaning products	205

The largest segments are not necessarily the most profitable, however. The top five segments by overall profit margin are:

Segment	Net Profit Margin (%)
Cigarettes	17
Cleaning products	13
Beverages – brewers	12
Beverages – soft drinks	11
Confectioners	10

Somewhat surprisingly, the largest segment by market capitalization – Auto Manufacturers – is one of the least profitable at just 1.8%. The sizable and highly visible – but keenly competitive – Electronic Equipment category is squeezed down to just 2.5% overall net margin.

3. What CPG Companies Need from Solution Providers

For our Consumer Packaged Goods customers to succeed, they must deal with a number of internal and external pressures and demands. Those internal drivers include:

- Protecting or increasing profits
- Reducing costs related to:
  - Supply-chain management – Net asset turns on raw materials and finished goods inventories, efficient sourcing decisions and reducing scrap or return rates
  - Manufacturing – Improving operational efficiency and employee productivity
  - Information technology – Cost containment and outsourcing, standardization and consolidation of server assets, increasing reusability, and an application infrastructure that protects and maximizes key databases and information assets
- Mergers, acquisitions, breakups and spin-offs

- Integration (or disconnection!) of supply-chain linkages
- Operational complexity and startup costs – dealing with dissimilar best-practice philosophies, variations in processes, applications and technology, and training to improve and align vital human resources.

External forces and demands that our CPG customers face include:

- Meeting changing customer needs and requirements
- Preserving brand integrity – through product quality and safety as well as regulatory requirements
- Speed to market with more (and often complicated) new products.

Now, with all those pressures facing our Consumer Packaged Goods manufacturing customers, what can we – a world-class community of solution providers and a world-class software supplier – provide to help them face such challenges?

First of all, we can provide a platform for growth – an eco-vision – that can grow and evolve as the fickle customer marketplace changes and the companies adapt. We can offer an architecture built around re-usable components – not just software objects, but encapsulated best practices and intellectual capital. That means lower project-to-project costs and a common service architecture from production to process.

We can deliver an architecture for incremental investment, avoiding the "big bang" approach that held back the promise of advanced manufacturing execution systems (MES) for so long, for example. And we can help them realize the full potential of their significant investments in enterprise resource planning (ERP) systems by delivering real-time information from the shop floor to improve the strategic decisions that drive production, performance and profitability.

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