Point of View

AI-Driven Personalization:
A Must-Have for CPG Companies' D2C Growth

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Abstract

Disruptive technologies such as Artificial Intelligence (AI) will significantly impact the future of the Consumer-Packaged Goods (CPG) industry by transforming supply chains. The digital transformation that was accelerated due to the pandemic has reached a tipping point, and there will be no stopping it now.

As per Forbes, top application areas for digital technologies and analytics can unlock at least USD 490 billion in value for CPG by 2023. The early adopters of AI capabilities have already seen significant growth and retention in their customer base. With exponential digitization, CPG firms are finding new ways to connect with customers and provide a more personalized experience. An exciting development in this area is using AI and Machine Learning (ML) to derive personalized customer experiences.

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AI-driven personalization

Consumers nowadays are purchasing experiences rather than products. They are eager to pay extra because they want to believe that companies know, understand, and care about them. Despite severe economic obstacles, supply chain issues, and price-sensitive clients, CPG companies must build an emotional connection with consumers to gain long-term loyalty and competitive advantage. On top of manufacturing and supplying quality products and services, customers expect more from businesses like CPG, raising the bar for personalization. In fact, according to Salesforce, 66% of consumers expect brands to understand their needs.

For CPG companies to remain profitable and focused, AI-driven personalization will be an important strategic aspect to compete in a crowded marketplace. For instance, McKinsey reports that "personalization can deliver five to eight times the ROI on marketing spend and can lift sales by 10% or more." AI and ML can help companies achieve and even surpass this metric. Large companies like Google understand this, as evidenced by CEO Sundar Pichai's statement about creating a **"personal Google for everyone."**

Economic challenges + Exceeding consumer expectations + Access to enormous data = Enables CPG firms to provide advanced AI-powered personalized solutions.

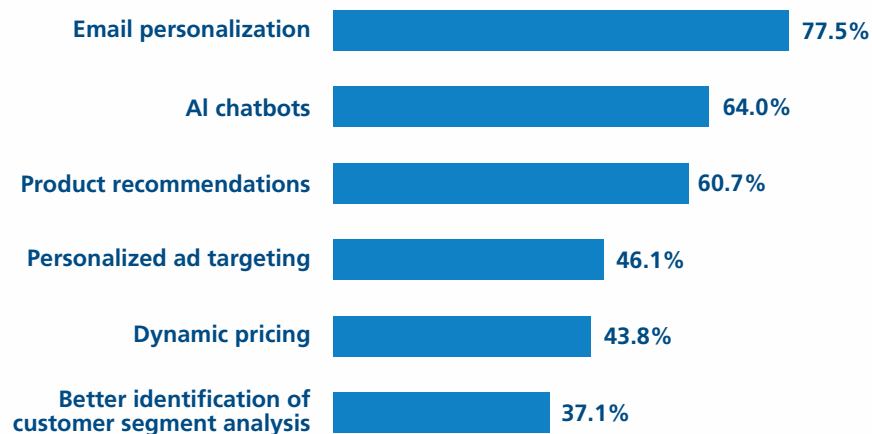AI-powered personalization can provide several benefits to CPG companies. Out of these, one of the most compelling ones is Direct-to-Consumer (D2C) growth. A detailed analysis is discussed in the below section.

AI can help CPGs elevate D2C growth

According to NielsonIQ, the D2C market for CG and food store companies increased by more than USD 58 billion. This growth reflects a technological and innovation shift in the marketplace, forcing companies to provide customized solutions on top of their base offerings. The pandemic disrupted consumer loyalty as many legacy brands were forced to launch their own D2C channels to win back consumers (and drive e-commerce sales). For example, PepsiCo launched PantryShop.com and Snacks.com, while Kraft Heinz launched Heinz to Home.

Going D2C during the pandemic aided CPG firms in developing a community of customers with whom they can communicate, connect, and share feedback. They now have access to a massive amount of 1st party customer data. Personalization, in its various forms, is essentially data-driven. AI-driven personalization analyses data using technologies such as ML, deep learning, and Natural Language Processing (NLP) to customize brand marketing messages (content, products, and services) to the consumers needs.
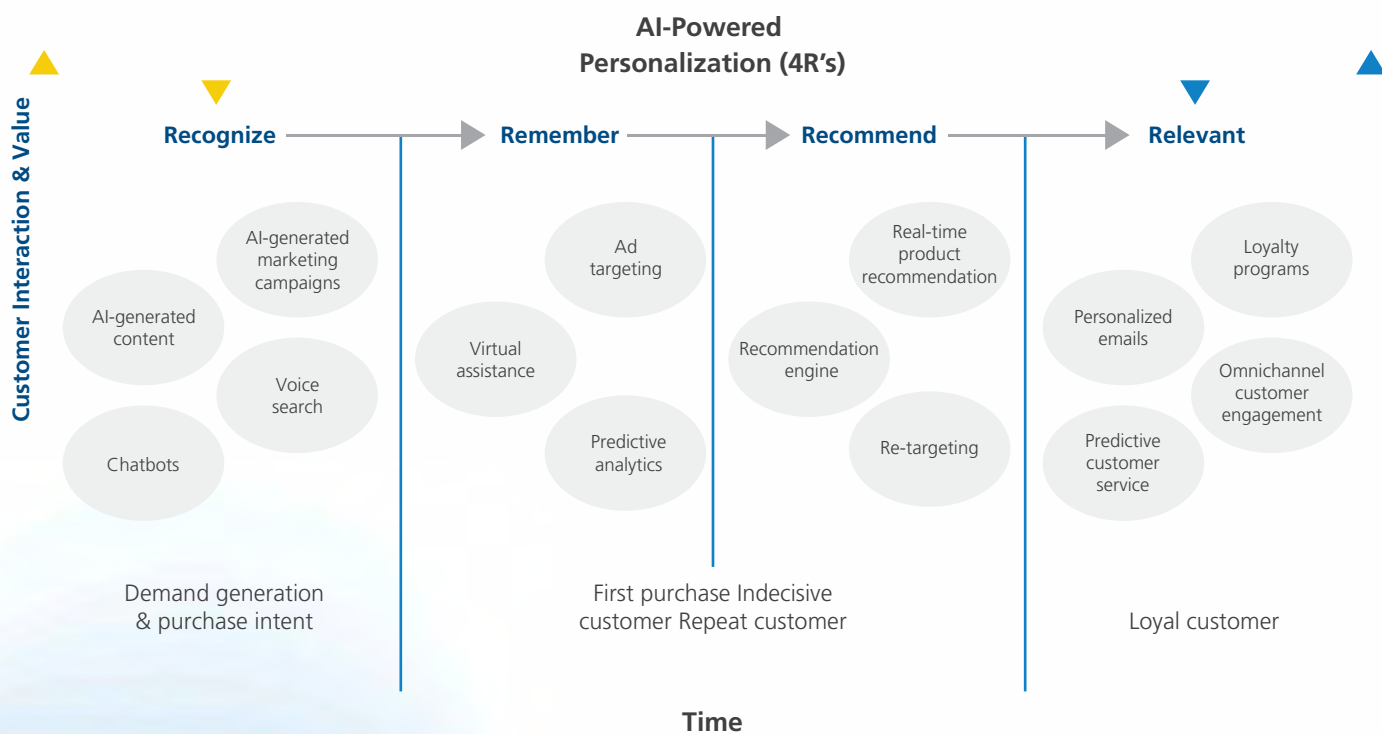
The graph shows how various organizations are driving personalization using AI to improve customer satisfaction-

Category	Percentage
Email personalization	77.5%
AI chatbots	64.0%
Product recommendations	60.7%
Personalized ad targeting	46.1%
Dynamic pricing	43.8%
Better identification of customer segment analysis	37.1%

Respondents were asked to select all options that applied to them
Base: 89 US-based executives whose organizations currently use AI to offer a personalized customer experience
Source: Coresight Research

Leveraging personalization in D2C growth

Let's understand how CPGs can leverage AI to drive personalization. **The graph below shows how AI-powered activities can be leveraged in the customer's personalization journey, covering the 4R model.**

AI-Powered Personalization (4R's)

Customer Interaction & Value

Recognize	Remember	Recommend	Relevant

AI-generated marketing campaigns

AI-generated content

Voice search

Chatbots

Ad targeting

Virtual assistance

Predictive analytics

Real-time product recommendation

Recommendation engine

Re-targeting

Loyalty programs

Personalized emails

Omnichannel customer engagement

Predictive customer service

Demand generation & purchase intent

First purchase Indecisive customer Repeat customer

Loyal customer

Time

Examples of AI use cases for driving personalization

Detailed below are the four areas where AI technologies can be used to improve personalization by CPG firms.

- Targeted marketing and segment analysis
- Personalized product recommendations
- Personal touch
- Advanced customer engagement across all channels

	Targeted Marketing & Segment Analysis	Product Recommendations	Personal Touch	Advanced Customer Engagement
What	**Forty percent** of customers prefer targeted ads aligned to what they are looking for to make the buying process easier. • Customer segmentation • Hyper–personalization • Targeted marketing content- blogs, videos, social ads, campaigns, etc	**71%** of consumers demand personalized messaging from companies • Personalized recommendation engine • Real-time product recommendation	**95%** of customer interactions are expected to be AI-enabled by 2025. • Chatbots • ChatGPT • Predictive Net Promotor Score	**State of Customer Engagement Report** found that investment in digital customer engagement generated an average 90% revenue increase. • Social media engagement • Visual engagement • Personalized digital experience
Benefits	AI helps marketers decrease spend and increase revenue.	Help CPGs to improve sales by enhancing customer shopping experience.	Personalize customer interactions and drive excellent customer support.	Increases customer engagement, in-store sales, and repeat purchases.

Targeted marketing and segment analysis

CPG companies can use AI to shift through complex data and provide improved customer segmentation, resulting in more impactful marketing. When combined with a CRM or CDP, AI techniques enable brands to create personalized ads based on demographics, purchase history, and browsing habits. AI-powered hyper-personalization for consumer products helps CPGs gain insight into brand preferences, shopping frequency, price point sensitivity, and other aspects affecting buying behavior to deliver a more detailed profile. Furthermore, AI systems can assist in creating and delivering customized marketing content such as targeted mobile and social media ads, blogs, messages, videos, and a lot more, depending on the target audience. AI-powered solutions, particularly Conversational AI, can hyper-personalize the various sales funnel stages. A classic example in India is when Mondelez International launched a personalized campaign during Diwali using AI. It enabled a digital avatar of Indian celebrity Shah Rukh Khan to speak to individual vendors depending on the category that the vendor represented. With targeted advertisements, brands can narrow their audience and increase response rates.

Discount and loyalty programs are an old-hat tactic for CPG businesses but are not always very cost-effective. AI-powered segmentation can help identify customer segments to target with discounts and loyalty reward programs. This will help target the right set of people who are more likely to repurchase and close the gap on the revenue lost through original discount programs.

Personalized product recommendations

It important for us to understand that in this rapidly evolving digital world , every customer looks forward to a personalized experience.Yet we find most websites very generic, offering customers no more than one selection. AI/ML technologies should be leveraged to gain customers' trust and confidence. When a consumer visits a website, the AI algorithm is modified to pick up a transaction history, customer's buying pattern, demographic data, interests, and other similar data that can provide appropriate suggestions, resulting in higher order value. Beverage giant Coca-Cola used AI

Algorithms across 60 vending machines in Newcastle, Australia to understand each machine's transaction pattern and give product suggestions to boost sales. Estée Lauder uses the iMatch™

Virtual Skin Analysis tool to analyze users' skin through selfies. The widget provides personalized product recommendations at the end of the customer journey.

Personal touch

According to the latest data, 75% of consumers expect to be taken care of within the first five minutes of browsing a site or visiting the physical store. Chatbots powered by AI are handy in such situations. Chatbots have evolved exponentially from simple rule-based applications to efficient support systems that offer excellent customer support. They use NLP, sentiment analysis, and other AI approaches to grasp the meaning of each customer question and the context, emotion, and nuance. Furthermore, by using AI models like sentiment analysis and predictive Net Promoter Score (NPS), CPGs can proactively stay ahead of the competition. Predictive NPS uses speech analytics to

generate a score for every customer, and this information enables companies to intelligently route calls needing human assistance to the agent best able to handle the customer's needs. Complementing this, generative AI like ChatGPT adds another layer of capability by enabling the creation of delightful interactions.

CPG companies, such as Subway and Slice Pizza app, use Amazon Connect to automatically route calls to the right agent with the appropriate knowledge and skillset based on a prediction of the caller's needs.

## Advanced customer engagement across all channels

AI-powered solutions have a revolutionary range of professional and recreational applications and can help companies make their product offers more appealing and responsive. CPG companies can use

AI-generated personalized offerings to engage with consumers and showcase current advances in the most engaging, innovative, and visually appealing way. This increases customer curiosity and

engagement. CPGs need to activate delightful customer experience across all channels. Starbucks is a classic example of omnichannel AI-powered personalization. It uses gamified offers on the app, targeted media ads, and in-store digital menus based on weather, tastes, and inventory. Companies also use AI image recognition technologies to gain mindshare and increase customer connection through social media. Brands such as Coke, PepsiCo, and Frito-Lay use ML-based image

recognition to create social media contests where customers photograph their products and compete for prizes.

In 2020, Diageo launched an AI-powered digital experience called what's your whisky where AI mapped user preferences in 33 dimensions to give accurate whiskey recommendations. This is currently live in the world's best bars and restaurants.
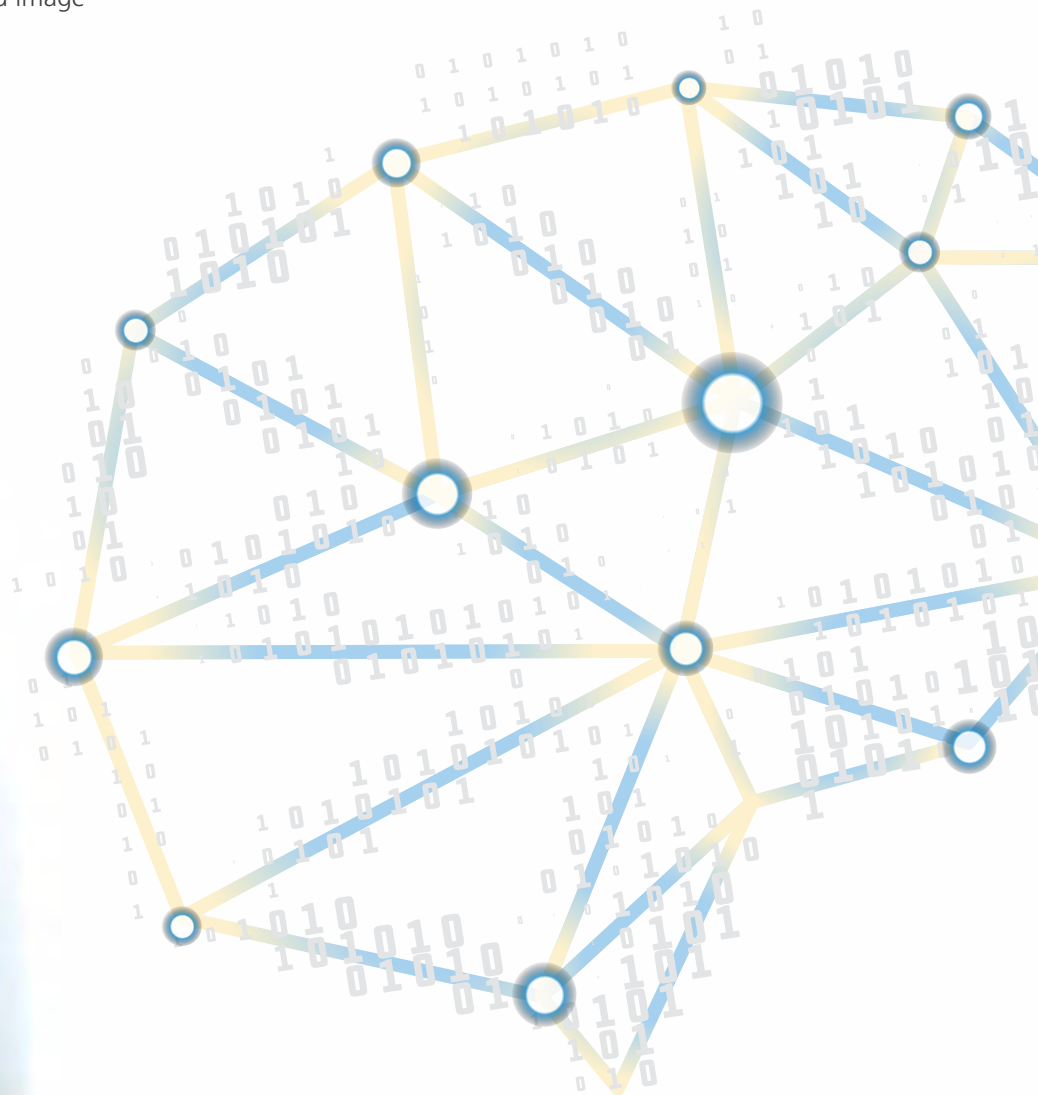
What makes the journey so complicated for CPG companies?

Despite all public and corporate interest in AI, it's not all good news. There are some tasks that AI struggles with when it comes to personalization. A CPG organization must align a well-thought-out strategy across its business functions. The right technology or tool is picked based on customer and market preferences, which can provide a basis for competitive advantage.

The path to deploying an AI solution is not easy. AI can excel in almost any task given the right and meaningful data, but the investment required for achieving this aspect cannot be justified for most CPG companies. In addition to this, AI implementation remains challenging due to a lack of adequate data as consumers demand transparency and want to know how firms use their personal data. A Twilio survey mentions that only 51% of customers trust brands to keep their data secure and utilize it responsibly. These challenges add to fragmented and poor data quality. Organizations may need to consider tackling these issues to establish a solid foundation for implementing AI technologies.

Challenges

> Concerns about privacy and compliance when exchanging sensitive consumer data.

> Data that is fragmented and of poor quality.

> Lack of adequate investment within the organization.

> Inadequate talent pool to implement AI tools and technologies.

Final words

In today's evolving digital landscape, where choices seem limitless, AI-powered personalization has emerged as a game-changer. With AI personalization technologies, customer happiness and engagement can be lifted to a new level. Personalization and recommendation algorithms have become the backbone of the digital world. Using them in conjunction with AI will enable users to easily discover relevant content and products while enabling new categories of competition within the CPG industry.

AI is beginning to revolutionize personalization, enabling an entirely new scale of business that was unsustainable before. We are now at the point where competitive advantage will derive from the ability to capture, analyze, and utilize personalized customer data at scale and from AI to understand, shape, customize, and optimize the customer journey. AI-powered personalization is a win-win for consumers who experience greater satisfaction and organizations who want to stay ahead in this consumeristic competitive landscape.

Author Profile

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Geetanjali is currently based in Bangalore and works as a Principal Consultant. She has handled a multitude of roles as a thought leader across CPG and fashion retail.

Geetanjali graduated from ISB Hyderabad and holds a degree in design from NIFT.