Tech-Clarity
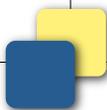
Reducing Cost of Quality for Consumer Packaged Goods

Top CPG Performers Move Beyond "Brute Force" to Drive Quality and Compliance

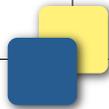## Table of Contents

*This summary is an abbreviated version of the report and does not contain the full content. A link to download the full report is available on the Tech-Clarity website, www.tech-clarity.com.

If you have difficulty obtaining a copy of the report, please contact the author at jim.brown@tech-clarity.com.

Executive Overview

Quality management is critical to the success and profitability of a Consumer Packaged Goods (CPG) company. According to Tech-Clarity research, <u>Successful Products Begin and End with the Customer</u>, over three-quarters of CPG Companies say higher quality is required to drive competitive differentiation. It's also clearly important to deliver customer satisfaction, safety, regulatory compliance, corporate responsibility, and overall company profitability.

To better understand how they address this crucial need, we surveyed over 175 CPG companies and examined their quality management challenges, processes, organizational structure, technology use, and performance. We found that these businesses face significant quality management issues. We also discovered that they're taking action. Specifically, about two-thirds of CPG companies are going beyond what's currently required by adopting formal quality management processes and systems such as those used in the pharmaceutical and life sciences industry.

> *CPG companies are mitigating quality risk through "brute force" quality management that adds significant operational cost.*

A key finding of the study is that while companies are able to avoid significant negative quality impacts relatively well, many suffer from excessive internal costs related to quality challenges. Based on these findings, we believe that CPG companies are mitigating quality risk through "brute force" quality management that adds significant operational cost. Top Performers, however, achieve better quality results at lower cost. How do they do this? The survey shows that they take different approaches to managing quality. Specifically, they are more likely to:

- Take a more integrated approach to quality along geographic, organizational, and product lifecycle dimensions
- Adopt a more digital approach to managing quality, relying less solely on paper and isolated electronic documents
- Enable quality management with more automation and advanced technology, including automated data collection, analytics, and product documentation automation
- Use more integrated solutions to manage quality and pursue a platform approach to quality solutions

Top Performers are able to simultaneously improve quality and maintain cost of quality. Others can learn from them to reduce errors, rework, and adverse events without incurring excess internal cost.
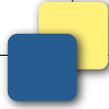
Conclusion

Quality Management is crucial for CPG companies, but they face significant challenges. Although CPG companies report they are relatively effective at preventing significant issues, they face excess Quality Management related costs.

Top Performers, on the other hand, are able to achieve better quality results from both quality and cost perspectives. They appear to have broken out of the paradigm of "better quality or lower cost, choose one." They do this by taking a more holistic approach to quality, using more advanced tools like analytics, and leveraging more automation.

> *Top Performers take a much more holistic, integrated approach to organization, processes, and systems.*

Beyond the individual tools they use to manage quality, Top Performers take a much more integrated approach to organization, processes, and systems. They are more likely to have integrated data and processes, integrated systems, and pursue a platform approach for Quality Management. Our conclusion is that an integrated, digital approach to Quality Management in the CPG industry drives better business results from both quality and cost perspectives.

> *An integrated, digital approach to Quality Management in the CPG industry drives better business results from both quality and cost perspectives*

Recommendations

Based on industry experience and research for this report, Tech-Clarity offers the following recommendations:

- Take a holistic view and approach to quality
- Move away from brute force Quality Management practices
- Adopt automation for more current, trusted data
- Adopt advanced tools like analytics to improve quality
- Move to a digital approach
- Integrate quality systems
- Leverage a platform of solutions to enable more holistic, integrated quality to improve quality without increasing cost, or reduce cost and maintain quality

About the Author

Jim Brown is the President of Tech-Clarity, an independent research and consulting firm that specializes in analyzing the business value of software technology and services. Jim has over 25 years of experience in software for the manufacturing industries. He has a broad background including roles in industry, management consulting, the software industry, and research. His experience spans enterprise applications including PLM, ERP, quality management (QMS), service lifecycle management, manufacturing, supply chain management, and more. Jim is passionate about improving product innovation, product development, and engineering performance through digitalization and the use of software technology.

Jim is an experienced researcher, author, and public speaker and enjoys the opportunity to speak at conferences or anywhere he can engage with people with a passion to improve business performance through digitalization and software technology.

Jim can be reached at jim.brown@tech-clarity.com. You can read additional research, watch Tech-Clarity TV, or join the Clarity on PLM blog at www.tech-clarity.com. You can also follow Jim on Twitter at @jim_techclarity, or find Tech-Clarity on Facebook as TechClarity.inc.

About the Research

Tech-Clarity gathered and analyzed over 175 responses to a web-based survey on Quality Management. Survey responses were gathered by direct e-mail, social media, and online postings by Tech-Clarity and Dassault Systemes.

The responding companies were a good representation of the CPG industry, including Food (39%), Water (20%), Non-alcoholic Beverages (19%), Materials / Ingredients (18%), Alcohol / Alcoholic Beverages (17%), Cleaning Products (17%), Nutrition / Nutraceuticals (15%), Specialty Chemicals (14%), Beauty / Personal Care (13%), Flavors / Fragrances (13%), Paper Products (12%), Paints / Pigments / Inks / Coatings (11%), Over the Counter Drugs (8%), Footwear / Apparel (7%), Tobacco Products (7%), and Others (2%). Note that these numbers add up to greater than 100% because some companies indicated that they are active in more than one industry.

The respondents represented a mix of company sizes, including 7% greater than $5 billion (US Dollars or equivalent), 13% between $1 - $5 billion, about a quarter (24%) between $250 million to $1 billion, 17% between $100 and $250 million, and about one-third (34%) below $100 million. The rest did not know or chose not to share (5%).

The respondents reported doing business globally, with about two-thirds doing business in Western Europe (65%), one-half of companies doing business in the North America (50%), about one-third doing business in the Eastern Europe, and others from the Asia-Pacific regions (13%) and Latin America (12%). Note that these numbers add up to greater than 100% because many companies indicated that they are active in more than one geography.

The respondents were comprised of one-half (49%) who were manager level and 20% director level. Another 16% were Vice-President level and 13% were in executive, "C-level" roles. There was very little representation from individual contributors.

The responding companies performed a variety of functions in the CPG industry, including Production (60%), Marketing (42%), R&D (28%), Distributor (28%), Retailer (25%), Testing (22%), and Other (2%). Again, these numbers add up to greater than 100% because many companies indicated that they perform multiple roles in the industry, as expected.

About the Sponsor

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