The Global Language of Business

Charting the Growth Journey:

From Product to Profitable Business

How small brands achieve growth through strategy and partnerships

A study from GS1 US® in collaboration with Longitude

Longitude

A Financial Times Company

Executive Summary

Ambitious startups selling unique products have more opportunity than ever before to reach a broad and diverse consumer base.

Big players still dominate, but small consumer packaged goods (CPG) companies are gaining ground: since 2013, more than $17 billion of CPG sales has shifted from large players to small brands.[1] Small brands with a clear vision and the right strategy more readily forge a path to growth and success. But navigating the rapidly changing retail environment while scaling up is a huge challenge, and many are struggling to take advantage.

The research conducted by GS1 US in collaboration with Longitude (see "Research Methodology") identifies best practices for small companies to achieve sustained success in the U.S. retail market.

1 The product is just the beginning

Small businesses that focus on the "bigger picture" learn how to position themselves within the market.

2 Master channels and content

Investing in a diverse mix of sales channels provides a solid foundation for growth.

3 Partnerships make the difference

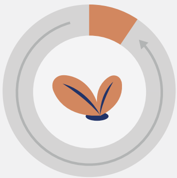
Seeking the right support to supplement limited resources can fast-track growth.

The Growth Mindset

We analyzed the responses to our survey and found stark differences in business attitudes and processes between growth leaders and laggards. We use the terms below in this report to distinguish between these survey respondents.

Growth leaders

Over the past 12 months, small brands that reported more than **25% revenue growth**



Growth laggards

Over the past 12 months, small brands that reported a **revenue decline**

Research Methodology

GS1 US, in partnership with research firm Longitude, a Financial Times company, conducted an online survey of 513 leaders of consumer packaged goods (CPG) companies in the U.S. Of these, 75% were from smaller companies with less than $1 million in sales, and quotas were set to ensure an even spread across six industries: Apparel, Food & Beverage, Arts & Crafts, Health & Beauty, Electronics, and Home & Garden.

The survey findings are supplemented with industry insights obtained from interviews with small CPG owners, retailers, and solution providers.

Respondent Profile

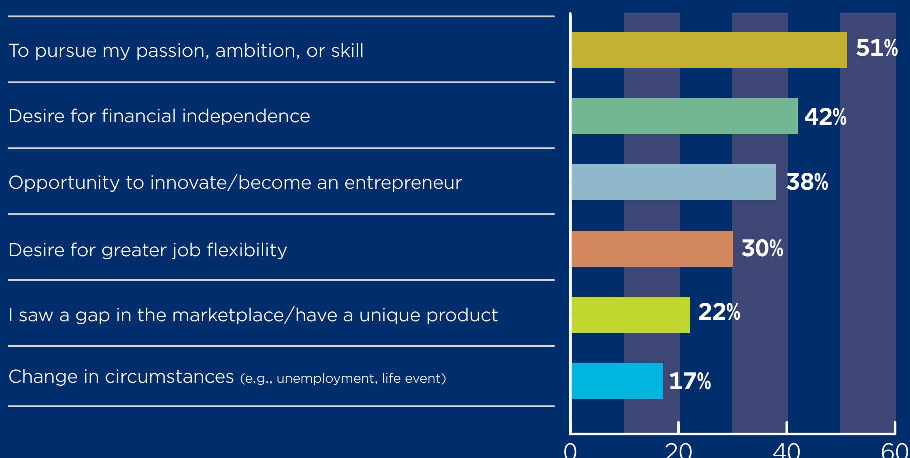
513	CPG companies in the U.S.
75%	from smaller companies with less than $1 million in sales
	Apparel
	Food & Beverage
	Arts & Crafts
	Health & Beauty
	Electronics
	Home & Garden

[1] Retail Wire: Why haven't CPG giants figured out what makes small brands so popular?

51% say their biggest motivation for starting their own business was to pursue their passion, ambition, or skill

What were your biggest motivations for starting your own business?

Respondents were asked to rank their top two options



1 The Product is Just the Beginning

"Often the entrepreneur has a lot of experience creating the product to solve a problem they see. Invariably they run into difficulty because to create a product is one thing. To create a business requires a whole host of other expertise."

Joanne Domeniconi
Co-Founder of online marketplace The Grommet

There's a significant difference between launching a product and growing a company. Half of those who start a small brand do so to pursue their passion, ambition, or skill, and many focus too heavily on product performance over other aspects of running a business.

Some small businesses, however, are learning how to grow and position themselves. How are they doing it?

1 **Focusing on the product**

2 **Directing attention to consumers and their needs**

3 **Building a complete channel strategy**

4 **Focusing on partnerships to accelerate success**

1 The Product is Just the Beginning *Continued*

"I need to automate to grow but cannot afford to do so. Money and finances are a big stumbling block: I'm looking for investors, but they don't know me or my product. I have to educate people about my unique product."

Genga Ponnampalam
Founder of GoVeggies

When our survey asked what factors are most likely to impact growth over the next three years, 61% of small brands cite customer demand for personalized services and products as a top trend.

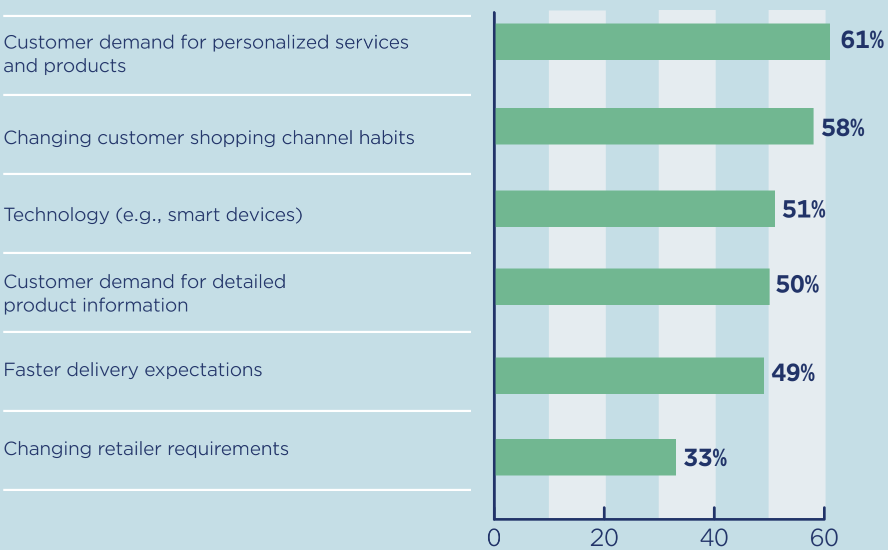
Almost as many (58%) anticipate that changing customer habits—such as where they make purchases (online or in store)—will impact their brand's growth. Reflecting this expectation that customers want more variety, nearly half (45%) of the companies surveyed say their primary objective for the near-term future is diversifying their product range.

Focusing on customers and their needs is an important foundation for growth, but finding the right balance between building a customer following and managing diverse business challenges is a major concern for many of the brands studied. The top challenges small brands juggle as they pursue growth include unpredictable demand for their products, lack of time and resources, and unpredictable cash flow.

Building closer relationships with retailers can help brand owners better manage these issues. Surprisingly, only a third of brands surveyed view changing retailer requirements as a top-three trend that will affect their business (see below), meaning that many may be ignoring key channel considerations for reaching customers. Investing in a channel strategy and finding the right external support partners will help brands work successfully with retailers and significantly increase their potential for growth.

Trends impacting growth over the next three years

Respondents were asked to rank top three choices



What are your biggest objectives for the next three years?

Respondents were asked to rank top three choices

2 Master Channels and Content

The next step on the growth path is building a sales channel strategy. Small businesses have to look beyond the immediate pressures of starting a business to understand—and invest in—a diverse sales channel strategy that positions them for future growth.

Many underestimate the business advantage of using different channels and using them effectively. A 2018 NRF survey found that multichannel shoppers spent $93 more on average than those who only used one channel.[2] But an unfocused approach won't suffice to reach these prospective shoppers: brands need to provide the right product information for the right channel.

Entering new sales channels is difficult, and it's not surprising that cost and customer reach are the biggest drivers behind channel selection. Small brands start out with the channel that gives them the most direct control, which is why their own websites are by far the most commonly utilized channel (see right). This could help them tap into a growing trend—online sales of consumer packaged goods increased by 35.4% in 2018.[3]

97% | **of those using an online marketplace have recorded revenue growth in the past 12 months**

Next in line of importance are local retailers. With 93% of U.S. shoppers preferring to go to small and local retailers[4] to find what they want, this is a critical channel for smaller brands. What's more, according to the senior executives interviewed, it's often easier for brands to build relationships with these retailers.

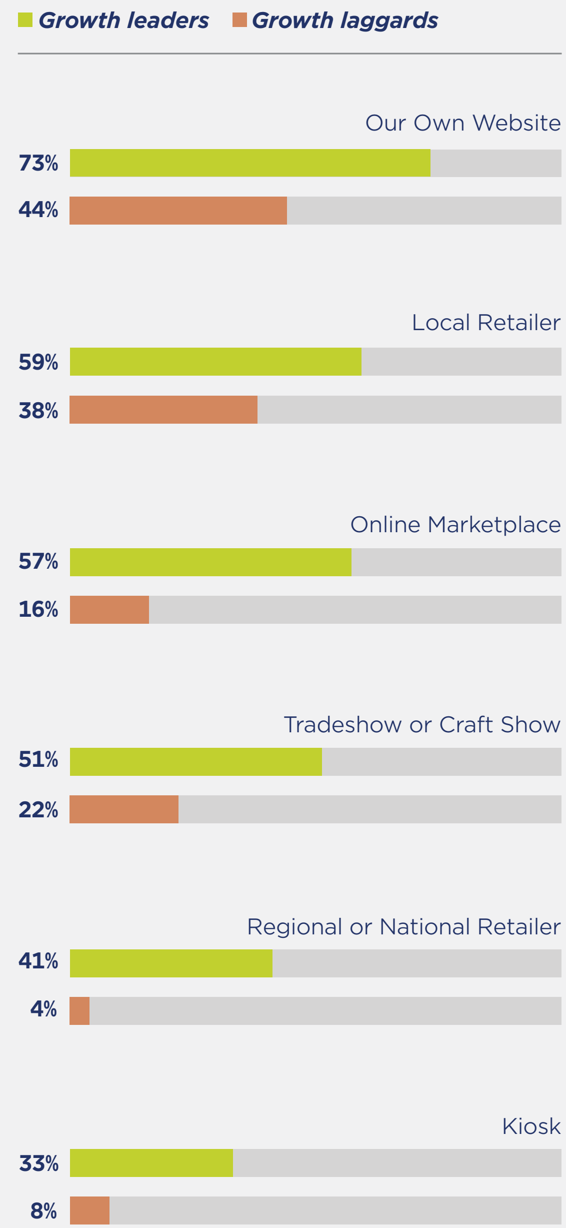
Online marketplaces are also an essential channel, with revenues on these platforms expected to more than double to $40.1 billion globally by 2022.[5] These marketplaces can expose small brands to potentially millions of new customers, as well as ease the burden of back-end operations such as billing, fulfillment, and returns. The survey supports the importance of this channel: 97% of those using an online marketplace such as Amazon or eBay have recorded revenue growth in the past 12 months.

Diversity is critical. However, brands must be careful not to overlook the long-term impact of the right channel mix. The research suggests that investing in a wide range of sales channels is an important success factor: the growth leaders use an average of 3.1 sales channels, compared with growth laggards, who sell into an average of just 1.3 and are far less likely to be using each of the different channels than the higher-performing group (see right).

While almost half (44%) of the companies surveyed say they understand which are the right sales channels for their business, only one-third (34%) use more than one channel. And despite the strong business case for using a variety of routes to market, almost half have not yet developed a long-term sales channel strategy.

[2] NRF: Thanksgiving weekend multichannel shopping up almost 40% over last year
[3] IRI: IRI Finds Consumer Confidence Making Big Impact on E-Commerce Growth
[4] SmallBusiness.com: Here's Why 93% of Shoppers Prefer Small and Local Retailers
[5] Coresight Research: Quick Take: The Boom in Marketplace Platforms

Growth leaders are more likely to sell across all channels



Master Channels and Content *Continued*

“Small brands underestimate the power of good product information and the resources required to implement it. They underestimate it in terms of its size and the complexity of generating that product information, and they underestimate it in terms of the positive impact that doing it effectively will have.”

Michael Hauck
Director Product Management, Salsify,
a product experience management platform

Product information boosts sales. Small brands struggle when preparing products for sale through external channels—half describe it as burdensome. Yet that product information can have a powerful impact on channel performance.

Half of the brands surveyed have seen a direct correlation between completeness of product information and the number of products sold.

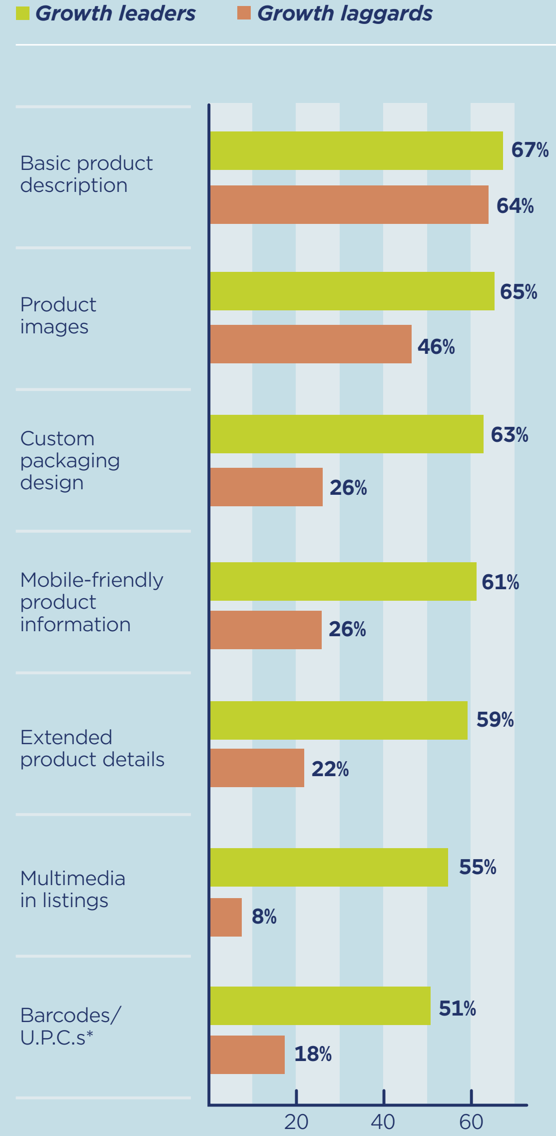
Consumer trust is the number one benefit that companies in our survey gain from having complete product information. Growth leaders are more likely than the growth laggards to provide extended product details—especially rich content that consumers increasingly use to aid in purchase decisions (see right).

Erik Elfstrum, CEO at caffeine-alternative producer pureLYFT, agrees. “Incomplete product information and U.P.C.s* [universal product codes] shows a lack of experience to potential retail partners,” he says. “Distributors and/or retailers get a little nervous when you don’t know what you’re doing. So it’s an important step to understand that you need to have consistency from retailer to retailer.”

Leading companies are also almost three times more likely to use barcodes/U.P.C.s* than declining brands. Few of the laggards’ group recognize the value of U.P.C.s* for their business, which suggests they’re overlooking the potential that product identification has in taking their business to the next level.

Growth leaders recognize the value of U.P.C.s* and product information

Growth leaders are more likely to provide detailed product information



*In this publication, the letters “U.P.C.” are used solely as an abbreviation for the “Universal Product Code,” which is a product identification system. They do not refer to the UPC, which is a federally registered certification mark of the International Association of Plumbing and Mechanical Officials (IAPMO) to certify compliance with a Uniform Plumbing Code as authorized by IAPMO.

3 Partnerships Make the Difference

> **"If I were a smaller vendor trying to get into Target, my approach would be to use a consulting team or a merchandising team that specifically helps bring vendors into Target."**
>
> **Andrew Beitler**
> Director of Store Operations, Target

The next step of the growth path is developing critical partnerships. Going it alone may work when entrepreneurs are first developing their products. But to build the business, small brands have to look outward to partnerships and a diverse supply chain. The formula for success is to leverage partnerships with distributors and retailers who multiply brands' efforts and help them understand the retail landscape. Also, seeking outside business support is critical for moving a business forward.

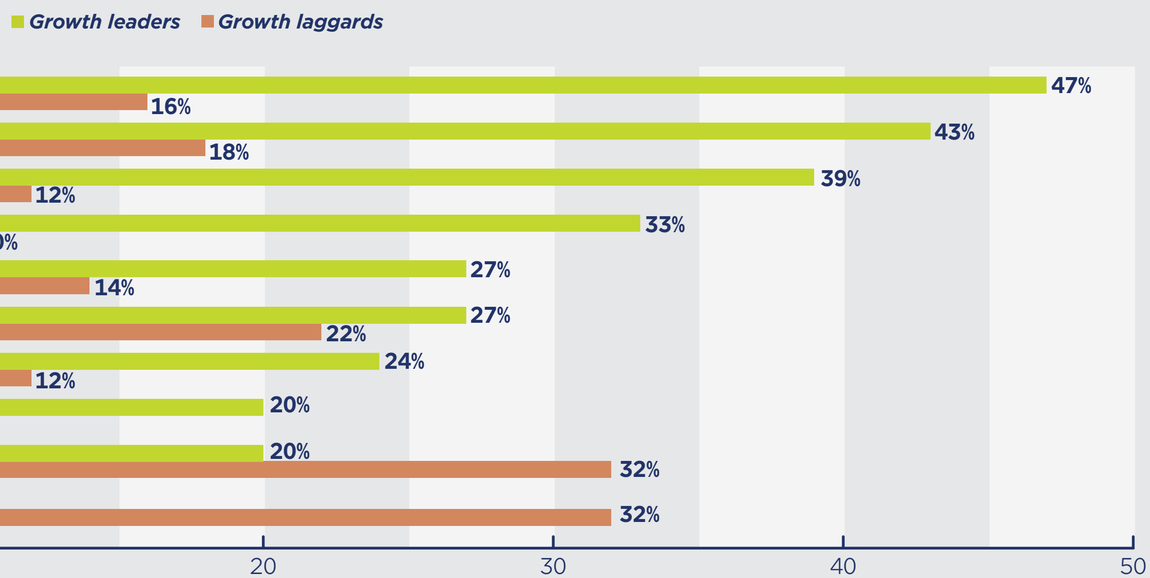
"The more people you speak to, the more ideas are generated," says Andrew Jacobs, CEO at JAM Paper. "I have advisors I speak with on a regular basis—suppliers and vendors—just to get a pulse of what other people are saying. Sometimes, someone's saying something before I realize that it's happening."

More than half (55%) of growth leaders agree that partnering with a retail broker or consultant has been critical to understanding what it takes to grow the business. And the growth laggards are four times more likely to say they do not use any external partners. Could investing in professional guidance help to fast-track their growth journey?

Who should these smaller vendors turn to? They can learn from the practices of growth leaders, who are most likely to enlist the following support:

1. **Barcode services, e.g., printing and labeling**
2. **A content provider to assist with website/product listings**
3. **A business advisor, consultant, or retail broker**

Growth laggards should consider investing in more support



Conclusion

4 steps toward growing a small brand

Creating a product and bringing it to market is hard. But it's just the first step to becoming a successful brand. The growth leaders in our research show what it takes to grow a business: a channel strategy with complete and accurate product information and partnerships for guidance and support.

1

Think business

Products and customers are only the beginning.

2

Develop channels

Don't allow short-term challenges to distract you from a long-term sales strategy.

3

Focus on information

Providing rich product content is critical to winning sales and connecting with today's consumers.

4

Seek guidance

Supplement your limited expertise, time, and resources with those of external partners who can help take your products to market.

About GS1 US

GS1 US®, a member of GS1® global, is a not-for-profit information standards organization that facilitates industry collaboration to help improve supply chain visibility and efficiency through the use of GS1 Standards, the most widely used supply chain standards system in the world. Nearly 300,000 businesses in 25 industries rely on GS1 US for trading partner collaboration that optimizes their supply chains, drives cost performance and revenue growth while also enabling regulatory compliance. They achieve these benefits through solutions based on GS1 global unique numbering and identification systems, barcodes, Electronic Product Code (EPC®)-based RFID, data synchronization, and electronic information exchange. GS1 US also manages the United Nations Standard Products and Services Code® (UNSPSC®).

About Longitude

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