



CPG MANUFACTURERS UTILISE OUTSOURCING TO EXPLORE NEW MARKET CHANNELS

Abstract

Outsourcing for CPG brands and manufacturers can open a new pool of opportunities, including greater innovation, cost savings, and faster time to market. Businesses get instant access to an expert pool of talent with domain knowledge and leverage existing supply chains, market connections, negotiated raw materials costs, and IT systems and solutions.

From the demand for newer products to the emphasis on eco-friendly and ethically sourced items, customer needs within the CPG industry are undergoing rapid and significant changes.

CPG brands are under constant pressure to manage innovation, IT, logistics, merchandising, and compliance while staying competitive in this dynamic

marketplace. As a result, contract manufacturing and packaging (CM&P) has grown by an average rate of 10% over the last five years.

According to a report by PMMI Business Intelligence, third-party logistics (3PL) and fourth-party logistics (4PL) distribution comprise up to 50% of D2C shipping to the end customer.

IT outsourcing is another critical area CPG brands are turning to for scalability and access to new-age technology.

This article provides a comprehensive understanding of outsourcing possibilities in the CPG industry, including those in IT and manufacturing, to explore new market channels.



Benefits of outsourcing in the CPG industry

Traditionally, CPG brands have tried to execute every process in-house. But that causes delays in time-to-market new products and access to technology and logistics. Recently, CPG brands have started turning to outsourcing to improve operational efficiency, reduce costs, and access specialised expertise to explore new market channels.

Cost savings and resource optimisation

Lower manufacturing, IT, and logistics costs are one of the primary reasons

for outsourcing in CPG. By outsourcing manufacturing, packaging, and distribution logistics, brands can cut operational expenses and leverage economies of scale. They can also access a competitive labour market and achieve a competitive pricing strategy.

Third-party service providers consolidate the processes under one roof to provide cost efficiency through economies of scale. They have long-standing commercial relationships with raw material suppliers

and can procure materials at lower costs. Their expertise in process optimisation reduces waste and elevates productivity.

Access to expertise

Finding the right talent pool for all business roles may be difficult in one location. [CPG outsourcing](#) allows companies to tap into a wealth of specialised knowledge with in-depth knowledge of the industry and its compliance requirements.

From sourcing the raw material sustainably to complying with the changing regulations, an outsourcing partner can keep your CPG business up to date. This helps you innovate, develop better products, and elevate quality control.

Focus on core competencies

Outsourcing non-core processes allows CPG businesses to strategically shift their focus on core competencies such as product innovation, marketing, exploring new channels, brand development, and sales. By entrusting secondary operations to an outsourcing partner, a CPG business remains competitive and thrives in a fast-paced market.

CPG businesses that try to execute every process in-house risk spreading their resources too thin and compromising on quality and cost, which are critical deciding factors for long-term success.

Scalability

Seasonality and changing customer preferences cause demand fluctuation. Not every product is in equal demand all the time. Outsourcing provides the flexibility to scale the production up or down rapidly without any impact on internal resources. Since you do not own the fixed assets such as transportation or machinery, you save on the cost of maintaining them.

The ability to scale production reduces waste, improves inventory management, reduces operational costs, and increases operational efficiency. While a competitor with in-house manufacturing will struggle to scale up during high demand, you can fill the gap quickly through your outsourcing partners.

Risk mitigation

By relying on third-party experts, CPG brands can avoid costly mistakes in regulatory compliance. Regular and up-to-

date advice on compliance requirements helps them avoid legal complications and penalties. Outsourcing partners are responsible for maintaining the quality standards of the product, meeting industry regulations, and demonstrating their expertise through relevant certifications.

Shared accountability backed by legal contracts and robust delivery terms and conditions significantly reduces the risk of product recalls, delivery delays, and other quality-related issues.

Access to new-age technology

Technology, whether used in manufacturing, logistics, IT, or distribution, plays a pivotal role in the CPG industry's success. Outsourcing partners have already invested heavily in cutting-edge technology and infrastructure, whether in supply chains, manufacturing, logistics, product and development, or innovation.

By collaborating with them, CPG brands can save significant capital costs and increase product quality and operational efficiency. They do not have to worry about acquiring costly infrastructure and equipment and investing in its maintenance.

Accelerate time to market

In the CPG industry, trends and customer demands can change overnight, and it is crucial to respond quickly. Outsourcing service providers have specialised equipment, expertise, and robust processes to reduce the product development cycle significantly. They leverage recognised supply chains, skilled labour, and advanced technology to produce new products faster and more efficiently, reducing time to market.

For example, a home essentials brand can quickly produce new house cleaning products by leveraging the services of an outsourcing partner with the necessary

certifications and production capabilities.

Higher quality and compliance

Outsourcing gets you instant access to all the quality and compliance regulations currently relevant in the market. Your outsourcing partner has the knowledge necessary to support your line of business. This allows you to launch products that already meet the regulatory standards. For example, an organic food brand may leverage the services of an outsourcing partner [accredited by USDA](#).

Your partner ensures that the product complies with the laws applicable in your geography. This is very useful for mid-sized brands that may find it challenging to manage compliances globally.

Innovation and flexibility

The ability to drive greater innovation and flexibility lets you respond to dynamic market changes without significant capital investment. You can test new concepts or launch limited edition products quickly without a substantial financial risk.

Limited edition products allow you to run premium marketing campaigns and target a specific subset of high-paying customers.

Long-term growth through partnerships

Outsourcing is not a tactical but a strategic partnership that focuses on nurturing a partnership for long-term growth. It is a symbiotic relationship from which both parties benefit equally, fostering a collaborative environment of shared goals. A strategic alliance provides valuable industry insights due to the broad perspective outsourcing partners gain by working with multiple clients.

CPG brands can use this knowledge to make strategic decisions and stay ahead of competitors that may still be struggling with an entirely in-house solution.

Turnkey vs. contract manufacturing in the CPG industry

Turnkey and contract management differ significantly in terms of the scope of services, level of involvement, flexibility and innovation, and cost. Here is the list of differences to keep in mind.

Scope of service

Contract manufacturing is a subset of turnkey manufacturing. In the former, the manufacturer deals with a specific task or a component that forms one part of a bigger product.

The latter takes care of the entire production process, including procurement, manufacturing, quality control, and logistics. This produces a finished product ready for sale as it is.

For example, an organic honey producer supplies multiple brands with a ready-to-use, packaged, and labelled product.

Control

Due to their complete control over the production process, turnkey manufacturers have greater control and flexibility over the quality. They can quickly adapt to new technologies and market changes to provide a competitive edge to their clients.

Contract manufacturers are specialised and efficient in specific tasks but may not provide the same flexibility and innovation. The client must be involved extensively in the coordination and production, which can slow down the process.

Cost

Due to economies of scale, robust processes, and reduced need for in-house resources, turnkey manufacturing can be more cost-effective in the long run. However, the initial cost may be high. On the contrary, the initial cost of contract manufacturing is low, but regular coordination can increase long-term costs.

Not every industry can switch between the two models. However, in the CPG industry, a turnkey solution works well for faster time to market and for exploring new market channels.



Exploring new routes to market

To grow their businesses, CPG manufacturers partner with offline and online grocery retailers. This gives them access to channels they did not have before. However, this also increases the

pressure to innovate and deliver faster.

Whether you are an established brand or are just starting up, outsourcing can help you reduce costs and lower the stress on in-house resources. A CPG outsourcing

partner enables you to reach previously unreachable parts of a region fairly and equitably without in-house staff, high financial implications, and a complex process.

IT outsourcing for CPG manufacturers

IT solutions and technologies are crucial for improving efficiency, inventory, and freight optimisation and driving positive business outcomes. A comprehensive suite of solutions for the CPG industry includes master data management (MDM) , trade promotions management (TPM) , advanced	analytics , and a logistics control tower that helps you understand customer behaviour. Enable end-to-end supply chain visibility and reduce the time it takes to serve a customer, placing a strong emphasis on environmental, social, and governance (ESG) principles.	Outsourcing IT in CPG manufacturing reduces the stress of maintaining and managing a complex system. The savings can be invested in business growth without investing in fixed assets or human capital.
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Conclusion

The best barometer for measuring the success of CPG process outsourcing is the ability to focus on core activities while saving the cost of having in-house systems,	human capital, and fixed assets. By accessing advanced technology, the CPG industry can accelerate innovation, product development, and distribution	to stay competitive. Outsourcing saves you from significant capital and time investment.
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