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How consumer
goods companies can
future-proof their
business with web3

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EXECUTIVE SUMMARY

Over the next five years, changing consumer behaviors and new technologies will transform the ways that consumer goods (CG) companies interact with consumers. Cognitive devices, the metaverse, and other advances are blending the immersive, digital, and physical environments—a shift that will be more pronounced in the countries of the Gulf Cooperation Council (GCC).¹ CG organizations in the GCC should be prepared to meet the demands resulting from the region’s demographic changes, such as population growth and rising numbers of tech-savvy millennials² and gen Z consumers.³

In particular, web3, a decentralized approach to the Web, offers CG companies in the GCC a chance to update their business and operating models to serve consumers better, improve productivity, and future-proof their organizations. CG companies should adopt web3 technologies such as decentralization, blockchain, token-based economies, and extended reality with two main objectives: to enhance the consumer experience and to improve supply chain performance.

It is imperative that organizations start their web3 journey now. CG organizations can begin with incremental improvements—both top-down and bottom-up—and iterate from there to achieve significant transformations.



web3

THE CHANGING CONSUMER GOODS SECTOR

New technologies and shopping behaviors are causing rapid changes to CG in the GCC region. Consumers increasingly demand a localized and hyper-personalized experience in all digital and physical channels. CG companies have an opportunity to exceed these fast-developing consumer expectations. Research shows companies with a consumer experience mindset record revenues that are between 4 percent and 8 percent higher than those of the rest of their industry.⁴

Many consumers are now exploring new immersive channels such as gaming, the metaverse (a virtual world), and distributed social (which is similar to email but for social networks) for their shopping experience. They are also becoming increasingly conscious of the environment and the sustainability of the sources of the products they consume. These factors now influence their buying choices and consumption patterns, especially among millennials and gen Z.

Population growth and demographic trends in the GCC are also significant factors. The Middle East and North Africa region, which has a population expected to double in size in the first half of the 21st century, will become a critical region for global CG companies.⁵ By 2040, more than 271 million children, adolescents, and youth under 24 will live in the region, offering significant opportunities in CG.⁶ The COVID-19 pandemic has reshaped consumer behaviors as well, with 72 percent of Middle East consumers saying they have increased their online shopping activity as a result of the pandemic. At the same time, 44 percent of shoppers say they feel more encouraged to buy from local retailers, while 60 percent say they seek more effective delivery or collection services.⁷

Changing consumer expectations are also influencing supply chains, making provenance and traceability vital themes in building consumer trust. Such concerns are spreading around the world. For example, 52 percent of consumers in the U.S. say they are interested in supporting sustainable brands and want CG companies to make meaningful efforts to be more ecofriendly.⁸ Companies need to provide transparent information about their actions and products to build and retain trust among stakeholders.

However, supply chains have become more expensive, sophisticated, and complex, spanning multiple regions and involving disjointed entities (some of which use outdated technologies). As a result, companies face challenges in gathering and sharing detailed information with consumers. Worse, these factors can slow management decision-making, which can negatively affect business outcomes.

For example, when a container ship blocked the Suez Canal for six days in March 2021, it spotlighted the bottlenecks in the GCC supply chain. More recently, supply chains have been vulnerable to the rising price of fuel and geopolitical tensions. Organizations have had to make quick management decisions to avoid supply chain disruption, low product stocks, lost sales, and consumer dissatisfaction. These issues highlight the need for the CG sector to modernize its supply chains and increase transparency, traceability, intelligence, and resilience.



CONSUMERS INCREASINGLY DEMAND A LOCALIZED AND HYPER-PERSONALIZED EXPERIENCE IN ALL DIGITAL AND PHYSICAL CHANNELS.

UNDERSTANDING WEB3

As CG companies in the GCC strive to adapt to, and capitalize on, these shifts, they can find many opportunities in the distributed business models enabled by web3. To understand how to focus on those opportunities, it helps to look back at how Web technologies have developed. When the internet first took off in the 1990s, it was web1. Newspapers and magazines started creating digital media experiences, which required them to update their business model to incorporate the changes from print media. That was followed by web2, in which new digital experiences were enabled by social media and smartphones. New players emerged, and existing organizations again had to adapt their business models. In web2, centralized entities, such as social media companies and accommodation providers, assumed ownership of content and monetized it.

Web3 is the latest phase of digital development. It incorporates technologies such as the distributed Web, artificial intelligence (AI), blockchain, extended reality, cognitive devices, and distributed apps. Collectively, these elements enable more immersive experiences than previous digital technologies. They empower users to control more of the content. The distributed business model of web3 gives content producer-owners⁹ the autonomy to plug their content into any constellation (a decentralized network) to maximize its utility, and to unplug if they wish to. In that sense, web3 is a move away from centralized entities.

Some web3-native companies, such as Ethereum, provide a constellation for development and commercialization that can house distributed business models. They also provide the environment

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for such web3 building blocks as decentralized identity (peer-to-peer identity validation) and decentralized finance (peer-to-peer financial services with no central authority or intermediary involved in trading, lending, investing, and other activities).¹⁰

The estimated total global potential market for web3 is anticipated to grow to between US\$2.6 trillion and \$12.5 trillion over the next decade.¹¹ These technologies have the potential to transform the consumer experience, create supply chain efficiencies, and make CG companies more competitive.

HOW LEADING CG COMPANIES ARE ADOPTING WEB3 TECHNOLOGIES

Some industries, such as banking and financial services, are already on the leading edge of adoption, using distributed ledgers of the kind enabled by blockchain, tokens, and smart contracts (which execute automatically when an established set of terms and conditions is met) in trade finance and international payments.

Meanwhile, many global CG brands are starting to pilot web3 applications and new business models.

- Gucci has created “Gucci Town” and “Gucci Gardens” and sells virtual merchandise to customers on Decentraland, an extended reality world.¹²
- Nike has created a virtual storefront called “Nikeland” on Roblox, an extended reality gaming constellation. Nikeland enables users to buy virtual goods from the company and participate in a Nike-branded gaming experience. Through late 2022, Nikeland had had over 21 million visitors.¹³
- Unilever is employing web3 and the metaverse. The company has formed a multi-disciplinary group across its marketing, finance, legal, media, procurement, and licensing teams.¹⁴ The multi-disciplinary group at Unilever is shaping its approach so that the company’s brands appear in immersive experience constellations.

TWO OPPORTUNITIES IN THE CG SECTOR

To structure their web3 efforts, CG organizations in the GCC should focus on two specific applications: enhancing the consumer experience and improving supply chain performance.

Enhancing the consumer experience

Rather than a one-size-fits-all model, GCC consumers demand a highly localized, contextualized, and hyper-personalized experience. Currently, most CG companies struggle to provide that experience. They collect and mine consumer data, but their insights often fail to factor in local conditions, beliefs, cultures, and regulations and therefore lack localization preferences. Also, the approach of exploiting personal data to develop more personalized recommendations is increasingly perceived by consumers as invasive. Consumers are concerned about who in these centralized entities has access to their personal user data and how it could be misused.

Consumers are also keen to engage with brands in ways that go beyond traditional brick-and-mortar, Web, and digital channels. For example, consumers expect brands to engage with them in new immersive channels such as gaming, the metaverse, and distributed social, requiring CG organizations to rethink how they can deliver a truly omnichannel¹⁵ consumer experience.

Web3 offers the opportunity to create a richer consumer experience while protecting consumers' data. As with their content, in distributed business models, data ownership stays with the content producers and resides on a distributed ledger. Each content producer-owner has the power to decide which aspects of their data they choose to share, with whom they are willing to share, and on which channels they wish to engage with the brand. Distributed AI models use this consumer-owned content to provide consumers with localized, contextualized, hyper-personalized, and omnichannel experiences. In return, consumers can be rewarded for the data they share and the value it generates for companies—for instance, via non-fungible tokens of the ecosystem in which they participate. For example, a consumer could share data about her dental issues in the health and dental hygiene ecosystem. This shared data can be used by a distributed AI model of the consumer products company that is also part of the ecosystem to hyper-personalize the features of its product that can be beneficial in addressing the consumer's dental issues.

CG organizations should develop their consumer experience and personalization strategies toward this model of consumers as content producer–owners. The overarching objective should be to deliver a superior consumer experience and maximize the value proposition for content producer–owners to increase their loyalty to brands, a loyalty that is reinforced by higher switching costs within distributed business models.

Improving supply chain performance

Companies are under tremendous pressure to make their supply chains cost-effective and environmentally sustainable. Recent research reveals that increasing efficiency and managing or reducing costs in supply chain operations top companies' lists of priorities over the next 12 to 18 months. Automating processes and analytics is also in the top three priorities of most organizations.¹⁶

Web3 technologies can help CG companies achieve these goals by building a supply chain in which participants do not need to know or validate the other participants. Blockchain-based capabilities can make supply chains paperless, transparent, and high-speed. For example, the Global Shipping Business Network (GSBN), a blockchain-based consortium, is aiming to simplify trade workflows with solutions that provide visibility, collaboration, traceability, and analytics.¹⁷ Using data science and AI-based capabilities, CG organizations can develop autonomous intelligent supply chains to predict consumer expectations, automate decision-making, and more accurately meet consumers' demands.



PREPARING FOR THE TRANSFORMATION: TOP-DOWN AND BOTTOM-UP

Given the scope of change underway, and the market opportunities it presents, CG leaders in the GCC, the wealthiest part of the Middle East, cannot wait and watch. They must understand the transformations that are occurring, assess how those changes will affect their operating models, and take steps to capitalize on them, using a two-pronged approach:

1. Launch structured top-down measures to maximize opportunities from distributed business models and web3. These include:

- Baseline the organization's current capabilities.
- Benchmark the industry and competitive landscape.
- Identify new market opportunities.
- Set new "north star" objectives (long-term aspirational goals).
- Design the organization's target capabilities and operating model.
- Formulate strategies and prioritize distributed business models.

2. Develop bottom-up, interactive, and complementary pilots. These include:

- Pilot the prioritized distributed business models.
- Test and validate the benefits of the distributed business models.
- Scale up the business model across the organization.

CONCLUSION

CG leaders in the GCC must transform how they operate to keep up with changes happening in the sector. A critical part of such efforts is the adoption of web3 technologies so that they future-proof their business models. Although the transition is happening quickly, most companies are still in the earliest stages. This presents an opportunity for them to create a first-mover advantage by being bold and setting ambitious goals for web3. If they act now, companies can create significant value by becoming more agile, resilient, and consumer-centric.

ENDNOTES

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