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The Future of CPG: Thriving Amidst Uncertainty

Richard Slayton

MANAGING PARTNER & CEO

Supply chain disruption and inflation continue to challenge executives, but the future of CPG is promising, and the strongest CPG brands look to innovate.

In 2021, mid-pandemic but safely past the initial crisis, we assessed the current state of the CPG market. Having witnessed the sector face heavy demand in 2020, with a 19% year-over-year jump in CPG spending, we were encouraged to see positive data that suggested a continued boom in 2021 and beyond.

Reminiscent of the "roaring '20s" in the previous century, the earliest years of this decade were flush with stimulus money and increased household income. The CPG industry—and especially the food and beverage sector—was thriving, with increased demand and a diversified customer base, thanks to a growing subset of online shoppers. The biggest challenges—besides recovering from a pandemic—were addressing a significant spike in Baby Boomer retirements and navigating the growing focus on DEI and ESG.

Entering 2023, however, the CPG market has met new obstacles—as has almost every industry. Inflation, rumors of a recession, geopolitical factors, continued supply chain disruption, and shifting customer expectations have conflated, pressuring business leaders to either tighten budgets or invest in new innovations. The market isn't any less competitive despite these disruptions, and as a result, 70% of surveyed CPG executives report being more stressed today than five years ago.

How do today's challenges change the expectations for the future of CPG?

The Challenges Facing CPG

Supply chain disruptions and inflation appear to be the twin challenges dominating CPG executives' worries in the current landscape. A Deloitte survey reveals 62% of leaders expect continued supply chain issues. It's a multilayered problem, with a growing lack of international trade collaboration, increasing mistrust in existing supply chain strategy, and decreased reliability in some once-dependable markets. Simultaneously, there is greater demand for supply chains to meet sustainability measures—the data of which is often difficult to produce and even harder to do so with complete accuracy. As a result, supply chain and inventory strategy is top of mind.

Meanwhile, consumers have been feeling the impact of inflation most in their food and beverage purchases. 2022 saw record highs, but Deloitte reported that a majority of CPG companies plan to raise prices even higher in coming months. That said, many executives recognize that consumer expectations, habits, and preferences are continually shifting, which will inevitably impact sales, with or without price increases. Companies hoping to adapt by improving margins will be challenged to do so, as cost inflation isn't slowing down. Margin management and pricing strategies are another area taking priority for CPG executives.

These dovetailing challenges can only be met head on when leaders prioritize operational efficiency. From simplifying production, to cutting back marketing, to implementing automation, this looks different for every company. Notably, investing in talent and enabling cross-functional collaboration are some people-focused tactics that can prepare operations against volatile market trends. The challenge, then, is discerning exactly where to invest versus tightening purse strings—these are make-or-break decisions that will determine how well a company can pivot.

The Future of CPG

Even in a recession, people have basic needs that must be met by the CPG market. The industry's strength is in its necessity for the majority of consumers. This is why revenue continues to grow, despite the current challenges. For food and beverage, in particular, revenue growth is expected to exceed 2022. Functional beverages—like sports and energy drinks—are also projected to achieve vibrant growth. In fact, this is an area of significant investment from big-name brands like PepsiCo and Coca-Cola.

If functional beverages seem like splurge items instead of basic food needs, it's because they are—data shows that even as consumers are hesitant to spend more, they still intend to splurge on select items. Luxury brands are also reaping the benefits of this trend. Although the sector experienced a decline early on in the pandemic, it is now seeing a significant rebound, especially in fashion and through the growth of online sales, which hit 30% for the first time in 2022. And speaking of online sales, it seems clear that the more companies diversify their omnichannel strategy, the easier they will be able to adapt in an evolving CPG market.

The future of CPG growth is promising, but there will be shifts brands need to consider going forward. One of those shifts is in how a brand reaches its audience. Traditional marketing, for example, is being rapidly devalued, while social and influencer marketing, challenging as they are to achieve success in, are increasingly valuable. There is also growing interest in experiential marketing, leveraged through the ever-expanding metaverse and virtual reality.

Data intelligence and real time analytics will also be critical for moving forward with strategy and agility. Greater visibility and insight will be particularly important with the emergence of generative AI across channels and CRMs. Marketing and data are just two examples of areas that CPG leaders must consider as the industry continues to grow.

At the end of the day, however, fears of a recession and pressures of inflation are still very real burdens on the consumer. As a result, building trust as a brand should be a key goal in preparing for the future of CPG. The CPG companies that will emerge as the strongest—today and for years to come—are the ones that understand how to gain and sustain the loyalty of their customers throughout the ongoing challenges in the market.

How are you adapting to today's CPG challenges and preparing for the future?