

A man with dark hair and a beard, wearing a white surgical mask and a grey apron over a dark t-shirt, is standing in a grocery store aisle. He is holding a red and white product box in his left hand and looking at it. The background shows shelves stocked with various grocery items, including cans and boxes. The lighting is bright and modern.

# OUTLOOK 2021: GROCERY MANUFACTURERS AND RETAILERS

Forecasts and Plans for Sales, Pricing, Supply  
Chain, Assortment and Marketing



ADVANTAGE  
SALES

# EXECUTIVE SUMMARY

After a chaotic 2020, grocery industry players are focused on keeping products available on the physical shelf and leveraging new opportunities on the digital shelf, according to a new survey by SMARTeam, Advantage Sales’ consumer goods insights team.

While product manufacturers and retailers hold differing perspectives on likely sales strength this year following unprecedented at-home consumption in 2020, they share a common view of supply chain and out-of-stock challenges.

According to results of a February 2021 survey of grocery manufacturers and retailers by Advantage Sales:

**Retailers and manufacturers have different outlooks on 2021 dollar sales growth.** Ninety percent of retailers and about half of manufacturers expect sales declines in the second quarter relative to 2020’s pandemic-fueled results. Still, most retailers don’t foresee year-over-year increases for the rest of 2021, while most manufacturers anticipate sales to level off or grow in the second half of the year compared to 2020 results.

**Nearly half of manufacturers plan to increase prices.** Of the manufacturers who expect to increase prices this year, three-fourths say they’ll increase prices 5-10%.

**Both manufacturers and retailers are concerned about the impact of production limitations and insufficient labor.** Every retailer and 81% of manufacturers surveyed are very or somewhat concerned about production limitations disrupting the supply chain. More than 80% of retailers and manufacturers are concerned about labor’s impact on the supply chain.

**Nearly half of retailers plan to decrease assortment.** Supply chain and other concerns have retailers planning to reduce the number of SKUs they carry in 2021; two-thirds report they’ll cut assortment by 5-10%.

**As more grocery sales are made online, most retailers name “improving fulfillment options” as a top e-commerce priority, while manufacturers say “digital marketing” will be their No. 1 e-commerce focus.** Improving online content is the second-leading e-commerce effort cited by both retailers and manufacturers this year.

**Nearly one-fourth of manufacturers say they’ll likely increase trade funds this year, while more than half say they’ll likely increase marketing funds, with an emphasis on digital initiatives.** Asked to select where they anticipate trade funds being most efficiently spent, nearly 70% selected “shift to digital” and more than half pointed to “retailer promotional events.” Whether they are increasing their marketing funds or not, nine in 10 plan to spend more marketing dollars on digital this year compared to last year’s investment. One-fifth of manufacturers surveyed say they’ll pay for increases in digital spending in part through incremental funding.

“Outlook 2021: Grocery Manufacturers and Retailers” is a top-line summary of the industry’s priorities and spending plans for the year and their implications. For a deeper dive into the survey’s results, contact Executive Vice President, Client Solutions Jill Blanchard at [Jill.Blanchard@advantagesolutions.net](mailto:Jill.Blanchard@advantagesolutions.net).

## CONTENTS

Predicting Sales, Planning Price Increases ..... 3

Focusing on Supply Chain and Assortment ..... 4

Investing in the E-Commerce Experience ..... 6

## METHODOLOGY

“Outlook 2021: Grocery Manufacturers and Retailers” is based on responses by 78 consumer packaged goods manufacturers and 22 grocery retailers to online surveys conducted February 1 through 16, 2021. The survey and insights are products of SMARTeam, Advantage Sales’ consumer goods insights team.

# PREDICTING SALES, PLANNING PRICE INCREASES

After nearly a year of sales spurred by unprecedented demand of at-home consumption, retailers are lukewarm about the possibility of dollar sales growth compared to their manufacturer partners' forecast. The majority of retailers expect lower sales relative to 2020 beginning in the second quarter, one year after the pandemic fueled extraordinary grocery sales, while most manufacturers anticipate second-half dollar sales will level out or increase compared to last year's performance.

The cost of many products, though, will rise, as nearly half of manufacturers surveyed plan to increase prices, with most of those increases planned for the first half of 2021. They cite the cost of raw materials, production and distribution costs, and COVID-related costs as reasons behind the increase. Nearly three-fourths of those planning to raise prices expect to bump them up 5-10%.

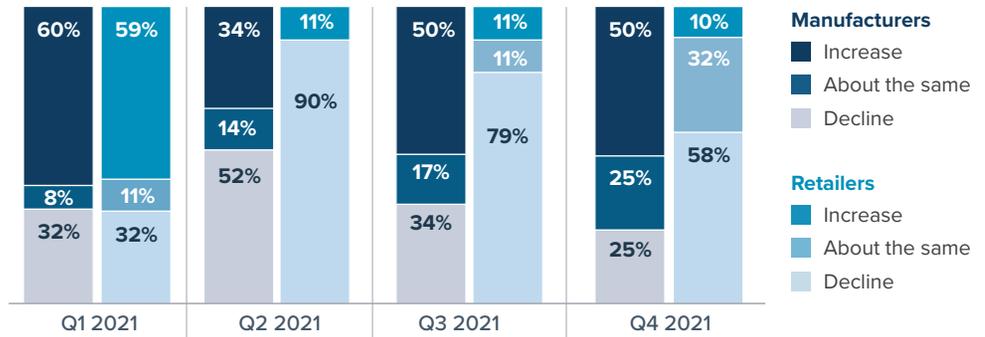
## IMPLICATIONS

Retailers expecting net sales declines may ask for incremental funding to drive sales in the second half of the year. Retailers and manufacturers should align in the first half of 2021 on plans for the second half of the year given the different dollar sales forecasts.

If manufacturers plan to increase prices, they should consider doing this in the first half of 2021. It may be challenging to take price increases after COVID-fueled growth slows, shares stabilize and there is a return to normal.

**“ Nearly half of manufacturers plan to increase prices.”**

### 2021 Quarterly Dollar Sales Expectations

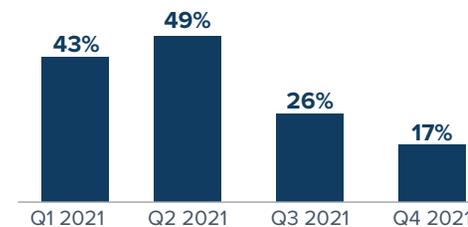


Survey respondents were asked how their dollar sales will compare to 2020 sales. Advantage Sales, February 2021. Percentages may not add up to 100% due to rounding.

### Manufacturers' Plans for Pricing

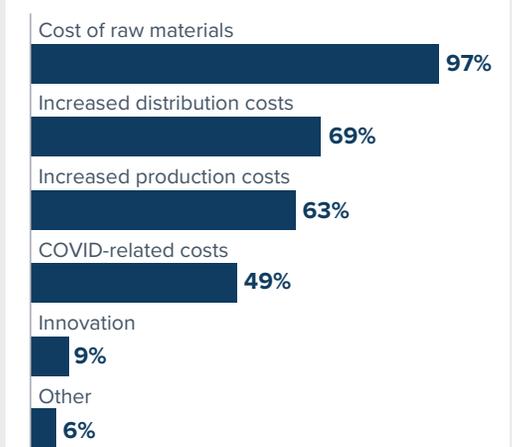


### Timing of Price Increases\*



\* Among those who plan to increase prices. Advantage Sales, February 2021. Percentages may not add up to 100% due to rounding.

### Reason Behind Price Increases\*



# FOCUSING ON SUPPLY CHAIN AND ASSORTMENT

Last year’s supply chain challenges were a wake-up call for the grocery industry. Both manufacturers and retailers remain concerned about supply chain issues, in particular production limitations and insufficient labor, and out-of-stocks.

In fact, seven in 10 manufacturers and retailers say “supply chain” is a top challenge this year. More than half of manufacturers and three-fourths of retailers say “out-of-stocks” will be a top challenge.

Looking closer at the supply chain, both retailers and manufacturers are concerned about production limits and insufficient labor disrupting the ability to keep products on physical and digital shelves. Indeed two-thirds of the surveyed product manufacturers anticipate their fulfillment rates will be about 80% or less in the first half of 2021, but nearly 90% expect rates of about 90% and better by the second half of the year (with 37% expecting “about 100% by the second half”).

Asked about changes they foresee to their supply chain, retailers responded with “a nimbler supply chain supported by increased safety stock,” “SKU rationalization,” “increased demand and not able to keep up,” “getting our fair share of limited supply,” fewer “less-than-load options,” the need to “further diversity supply chain” and “changes in assortment.”

Indeed, supply disruption, empty shelves and changes in shopper behavior have many retailers rethinking assortment, with nearly half of those surveyed planning to reduce SKUs. Of those retailers, two-thirds will trim SKUs by 5-10%.

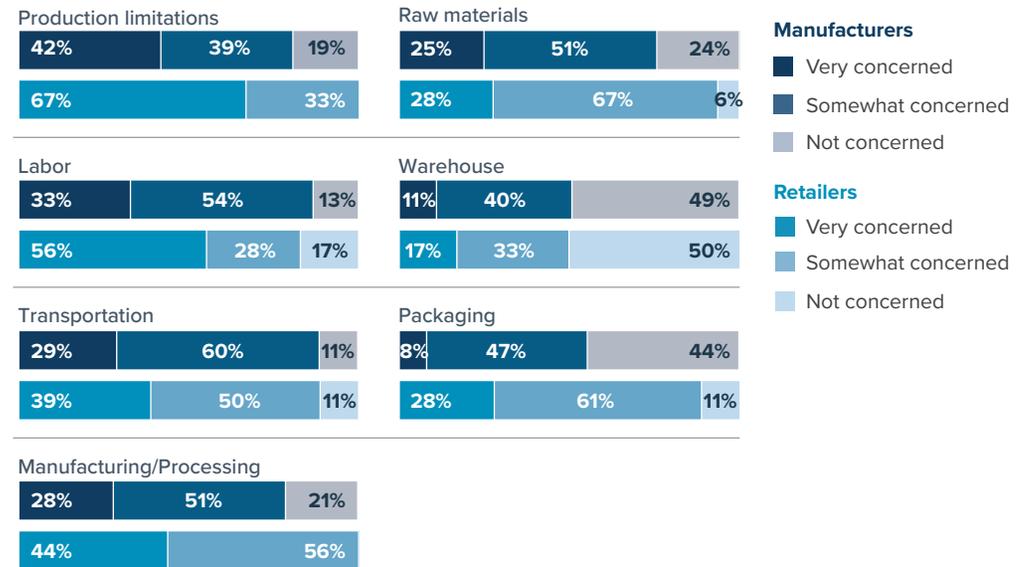
**“ Nearly half of retailers plan to reduce SKUs.”**

## Top 3 Challenges/Opportunities in 2021



Advantage Sales, February 2021

## Manufacturers’ and Retailers’ Supply Chain Concerns



Advantage Sales, February 2021. Percentages may not add up to 100% due to rounding.

The categories being eyed for SKU rationalization include general food (75% of retailers surveyed plan to decrease assortment), frozen (38%), general merchandise (38%), beverages (38%), refrigerated (25%), home care (25%) and tobacco (25%).

There will always be room on the shelf, though, for new products that appeal to shoppers. However, the survey found a disconnect between manufacturers' plans for product innovation and retailers' expectations. Nearly one-third of manufacturers plan to expand their plans for innovation and more than half expect to maintain their current level of innovation work. But six in 10 retailers believe manufacturers will cut back on innovation efforts this year; just one in 10 predict manufacturers will expand their plans for product innovation.

### IMPLICATIONS

Manufacturers who expect production limitations to cause out-of-stocks should address with retailers their supply chain initiatives and improvements to deliver core SKUs in a timely manner and scaling up if demand surges.

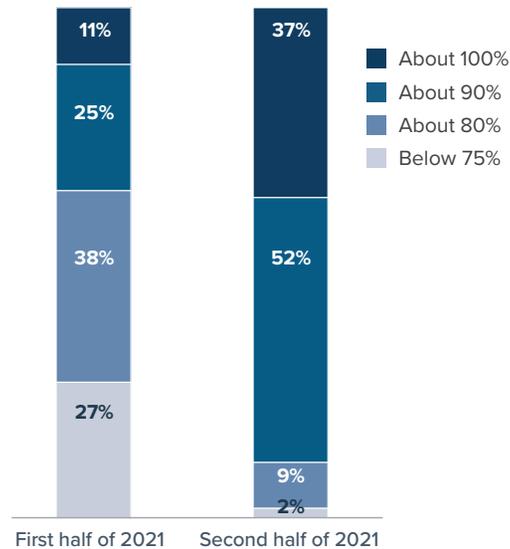
Out-of-stocks can be expected to spur shoppers to switch brands, further eroding brand loyalty. To buttress market share, brands will need to stay connected to shoppers so that shoppers will know how and where to find their favorite brands when temporary out-of-stocks are eliminated.

To keep their brands' place on the shelf as retailers look to trim SKUs, manufacturers should focus on more efficient SKU assortment, emphasizing core SKUs, consistent core item performance and incrementality through innovation. They should also come to the table with a strategy that drives category performance for the retailer and assortment recommendations based on shopper insights.

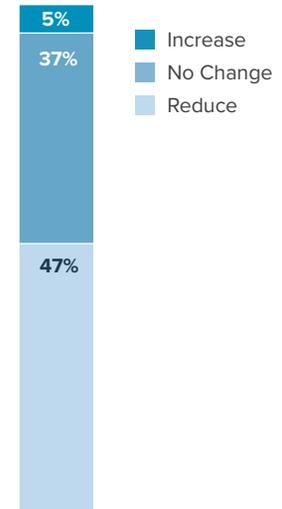
Trimming SKUs can be a win for shoppers if assortment decisions are based on local shopper profiles, needs and other insights.

In the area of new products, innovation-minded brands will need to pivot quickly to develop products that meet shoppers' changing needs. Brands who have done so during the pandemic have won with shoppers and retailers.

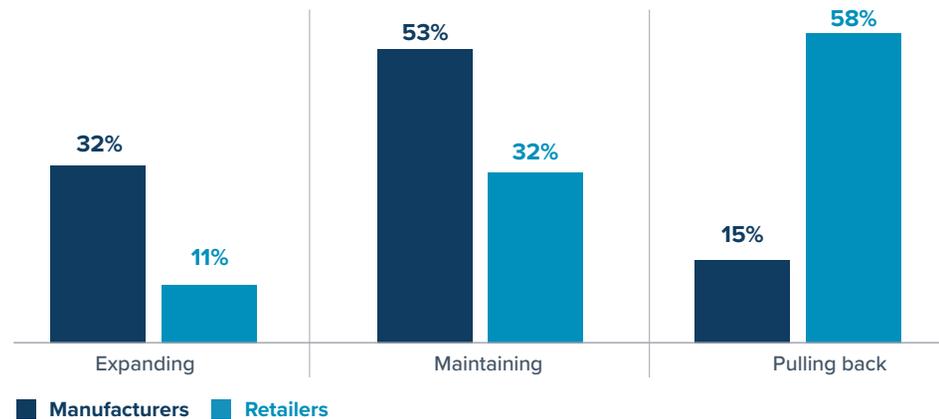
#### Manufacturers' Anticipated Level of Order Fulfillment



#### Retailers' Plans for SKU Assortment



#### Manufacturers' Plans for Innovation and What Retailers Believe Manufacturers Will Do



Advantage Sales, February 2021. Percentages may not add up to 100% due to rounding.

# INVESTING IN THE E-COMMERCE EXPERIENCE

With the pandemic-fueled increase in online grocery sales, retailers and manufacturers are making e-commerce initiatives a priority. While nearly 80% of retailers are focused on improving fulfillment options, most manufacturers are making e-commerce marketing efforts, such as search engine optimization and banner ads, a top priority.

Improving online content, such as basic product page images, videos and descriptions and enhanced content on brand landing pages, is the second leading e-commerce effort for both retailers and manufacturers. About half of manufacturers and retailers surveyed say they will focus on getting more products online.

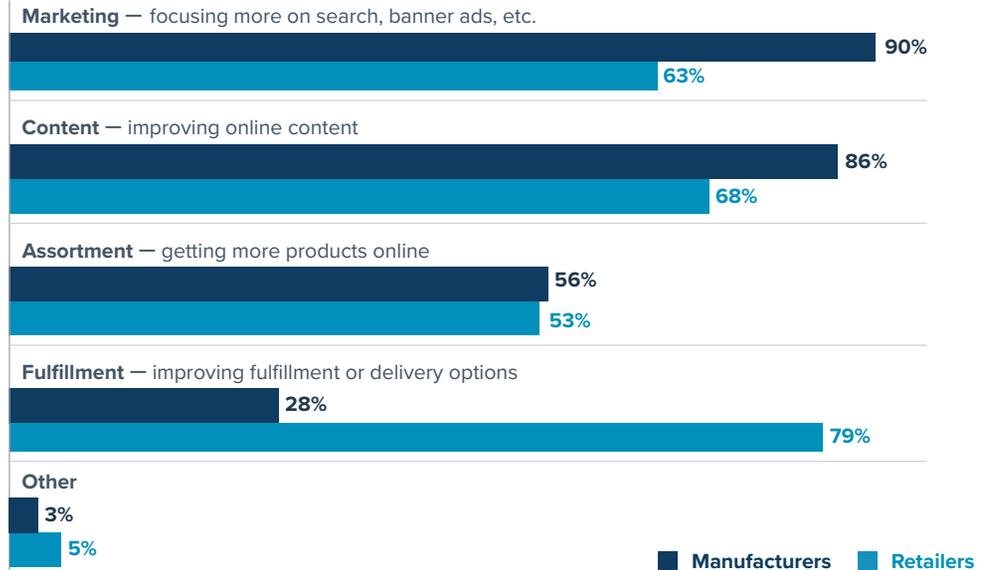
The new importance of e-commerce to brands' and retailers' bottom lines is impacting manufacturers' plans for trade and marketing funds.

Moving into 2021, fewer than one-fourth of manufacturers say they are likely to increase trade funds, but more than one half plan to boost marketing expenditures. When asked to select where they anticipate trade funds being most efficiently spent, nearly 70% of manufacturers selected "shift to digital." Nearly nine in 10 plan to spend more of their marketing dollars on digital initiatives.

Manufacturers expect to pay for increases in digital spending through traditional trade funds (42% of those surveyed), shopper marketing funds (33%) and new funding (21%).

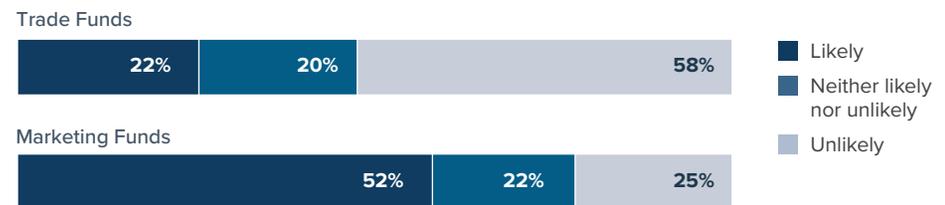
Even so, retailers are more bullish than manufacturers on the potential of online platforms to drive sales in 2021. Four in 10 retailers say digital is the best promotional vehicle to drive sales, compared to only 16% of manufacturers, who believe in-store displays are most effective.

## Manufacturers' and Retailers' E-Commerce Focus



Advantage Sales, February 2021

## Manufacturers' Plans to Increase Marketing and Trade Funds



Advantage Sales, February 2021. Percentages may not add up to 100% due to rounding.

## IMPLICATIONS

Retailers' concerns about fulfillment will lead to a deeper evaluation of the cost versus benefits of last-mile delivery.

With manufacturers increasing their investments in digital marketing efforts, getting the best return on dollars spent will hinge on creating effective content and having a clear understanding of the value of search engine optimization, first-page placement and evolving retail media options. For their part, retailers can more effectively partner with manufacturers on digital campaigns by making data available.

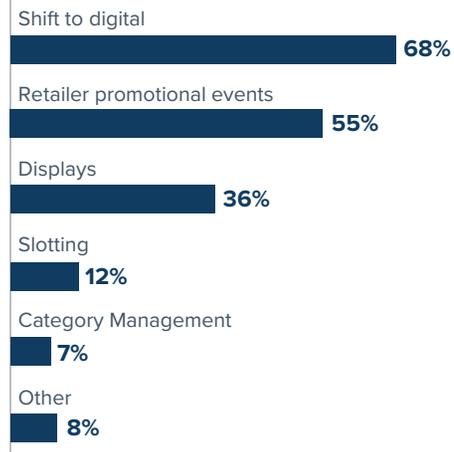
As shoppers continue to blur the line between brick-and-mortar and online shopping, providing a seamless shopping experience will take on even greater importance to achieve brand and retail banner loyalty. While digital marketing and promotions will be key, in-store displays are still relevant and effective.

Brands must align in-store and online efforts and be strategically placed in both places. When considering in-store spending, manufacturers may want to consider positioning displays for the second half of 2021 to accommodate potentially softer sales if at-home consumption declines relative to 2020.

**“ Nearly nine in 10 manufacturers plan to spend more marketing dollars on digital initiatives.”**

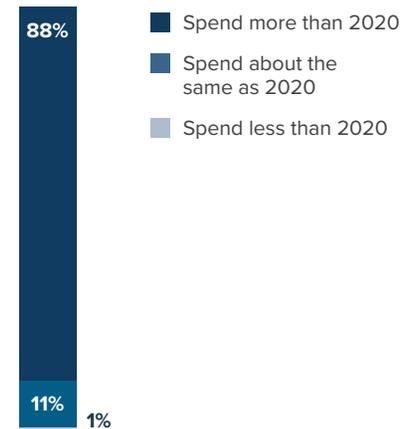
Though the marketplace will be characterized by continued uncertainty and change this year, the grocery industry is clearly attuned to supply chain vulnerabilities and changes in shopper behavior. Learnings from 2020, coupled with stronger communication and greater collaboration, can mean a mutually beneficial journey toward a post-pandemic new normal for product manufacturers and retailers. ●

### Manufacturers' Views on Most Efficient Trade Fund Spending

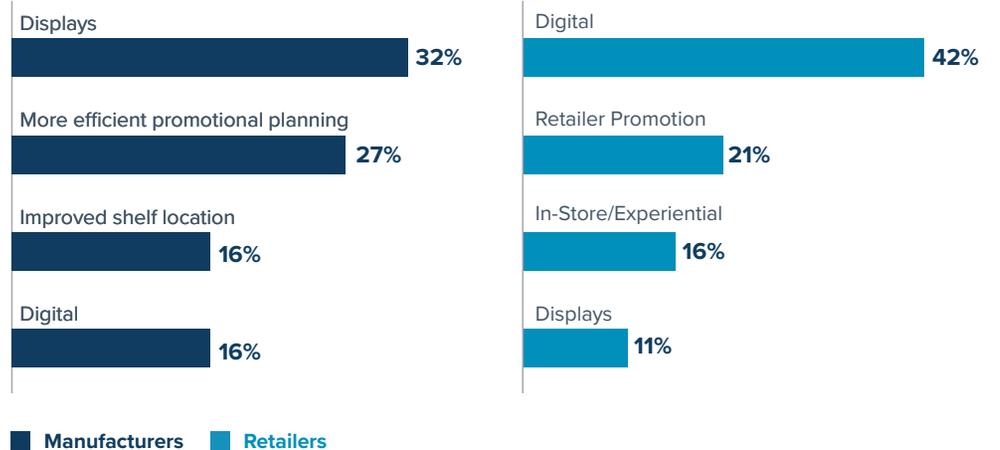


Advantage Sales, February 2021

### Manufacturers' Spending of Marketing Funds on Digital



### Views About Best Promotional Vehicle to Drive Sales



Advantage Sales, February 2021. Top four responses.



For more survey results and insights, contact  
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