

OUTLOOK OCTOBER 2021

GROCERY MANUFACTURERS AND RETAILERS

Forecasts and Strategies for Sales, Pricing,
Supply Chain, Assortment and Digital Commerce



ADVANTAGE
SALES

EXECUTIVE SUMMARY

Closing out the year and looking ahead to the first quarter of 2022, consumer packaged goods manufacturers and grocery retailers are predicting continued sales growth as they navigate rising costs and supply chain challenges, rethink in-store space allocation and focus on investments in digital commerce, according to results of two new surveys by SMARTeam, Advantage Sales’ consumer goods research and insights team.

According to results of September 2021 surveys of Advantage Sales’ clients and customers:

Six in 10 manufacturers and seven in 10 retailers expect higher dollar sales in the fourth quarter of 2021 compared to a year ago. Manufacturers and retailers agree price increases will be the top driver of dollar sales growth.

Outside of price increases, more manufacturers than retailers say improved supply will drive growth. Retailers point to elevated levels of in-home consumption and increased consumer spending.

To mitigate rising costs, nine in 10 manufacturers are planning or have taken at least one price increase since the pandemic started. One half have taken one increase. One-fourth are planning or have taken a second. Nearly one-sixth are planning or have taken three or more. Most price increases have been reflected in list price.

Manufacturers are more optimistic than retailers about supply levels. While one-third of manufacturers expect supply levels to top 90% in the last quarter of 2021, none of the surveyed retailers do.

More than half of retailers are expanding their fresh category offering. Four in 10 plan to trim space devoted to tobacco and general merchandise.

Manufacturers say retailers that are winning online are leveraging new shopper fulfillment options, are focusing on online shopper experience and services and have a retail media network. Nearly all retailers surveyed say they have increased their digital investments this year compared to 2019.

Seven in 10 manufacturers plan to reduce traditional trade spending in the next six months. Their top reasons include supply constraints, diverting funds to digital investments and cost increases.

CONTENTS

Dollar Sales and Growth Drivers	3
Rising Costs and Price Increases.....	4
Supply Chain Challenges.....	6
Brick-and-Mortar and Digital Shelves	7
A Look Ahead.....	9

METHODOLOGY

“Advantage Sales Outlook October 2021” is based on responses by 79 consumer packaged goods manufacturers and 36 grocery retailers to online surveys conducted September 13 through September 23, 2021. The surveys and insights are products of SMARTeam, Advantage Sales’ consumer goods research and insights team.

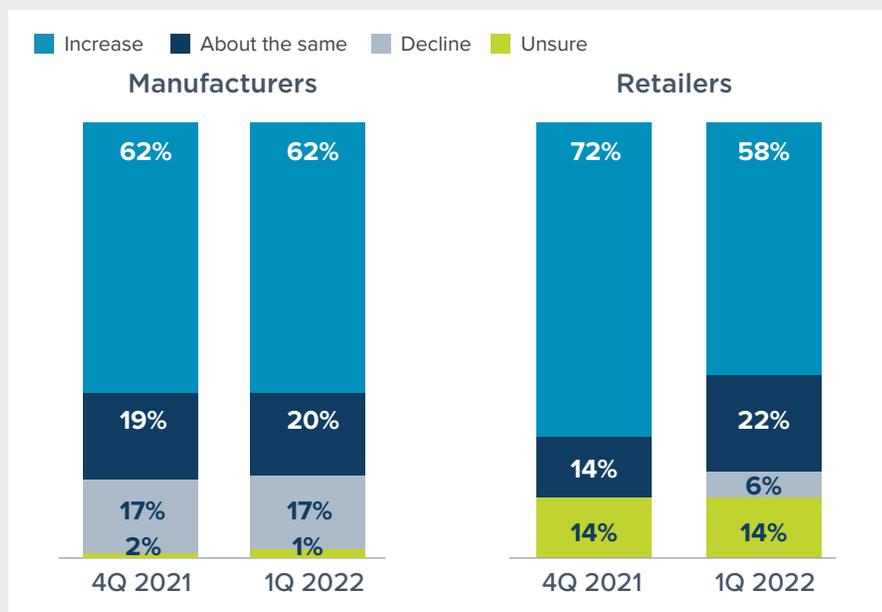
DOLLAR SALES AND GROWTH DRIVERS

Despite the unprecedented, pandemic-fueled growth in grocery sales over the past 18 months, grocery manufacturers and retailers expect higher dollar sales for the next two quarters compared to sales a year ago.

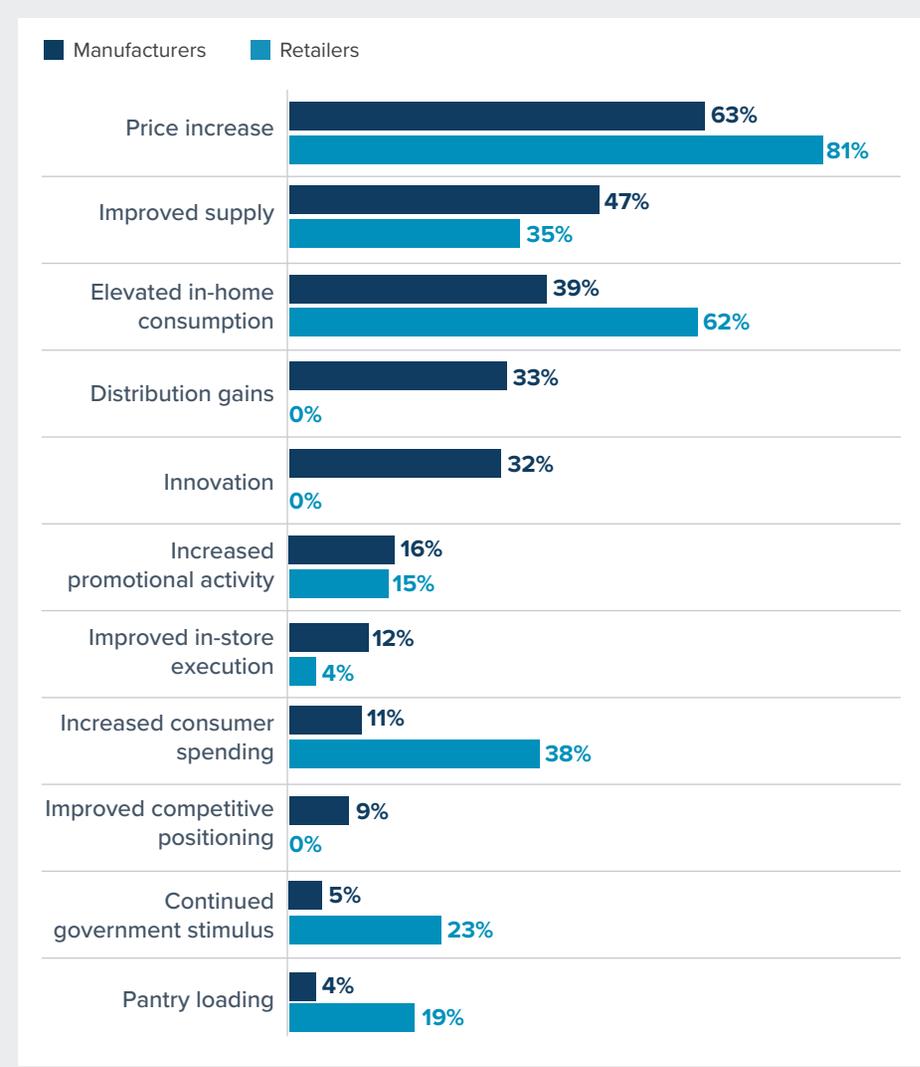
Six in 10 manufacturers and seven in 10 retailers believe dollar sales will increase during the holiday buying period. Fewer retailers, however, expect year-over-year sales growth to continue into the first months of 2022.

Most manufacturers (63%) and retailers (81%) point to price increases as one of their Top 3 drivers of predicted dollar sales growth compared to a year ago. Price increases aside, more manufacturers than retailers say improved supply, distribution gains and innovation will drive sales growth. More retailers than manufacturers point to elevated levels of in-home consumption, increased consumer spending and continued government stimulus as top drivers of sales growth.

Expectations for Dollar Sales Compared to 1 Year Ago



Top Drivers of Dollar Sales Growth Compared to a Year Ago (Respondents chose Top 3)



RISING COSTS AND PRICE INCREASES

As inflationary pressure becomes more intense, nine in 10 product manufacturers point to increases in price as a top strategy for offsetting rising costs. More than half are considering or already reducing trade spending and four in 10 are considering or investing in supply chain efficiency to combat higher costs.

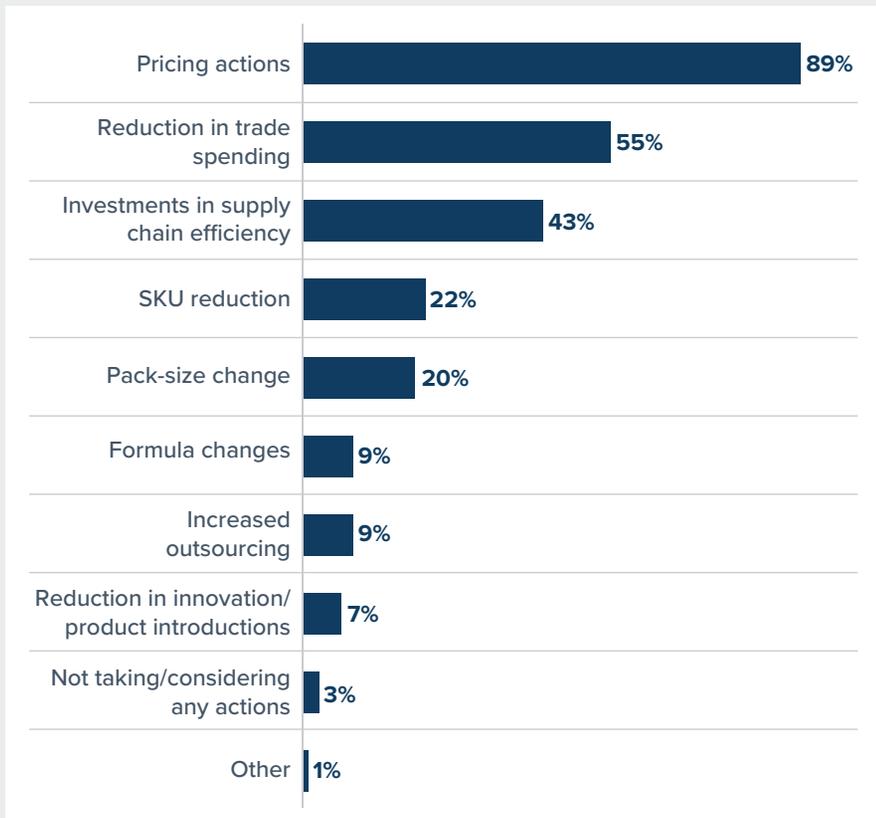
About one-fifth of manufacturers say cutting SKUs or changing pack size are one of their primary approaches to offsetting rising costs.

Looking closer at pricing actions, just 5% of manufacturers say they haven't considered or taken a price increase since COVID. Half have taken or are considering one price bump, another one-fourth are planning or have taken a second and 16% are considering or have taken three or more.

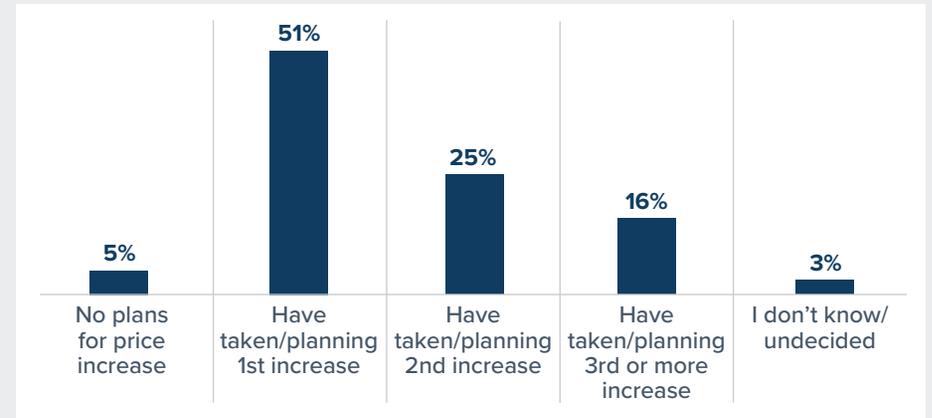
The vast majority of manufacturer price increases (more than 80%) are coming in the form of list price hikes, more so for second and third price bumps.

Manufacturers' Plans to Offset Rising Costs

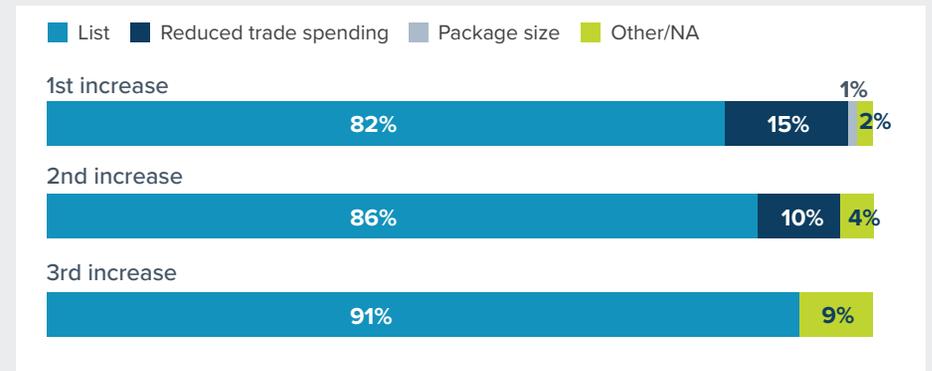
(Respondents chose Top 3)



Manufacturers' Plans for Price Increases



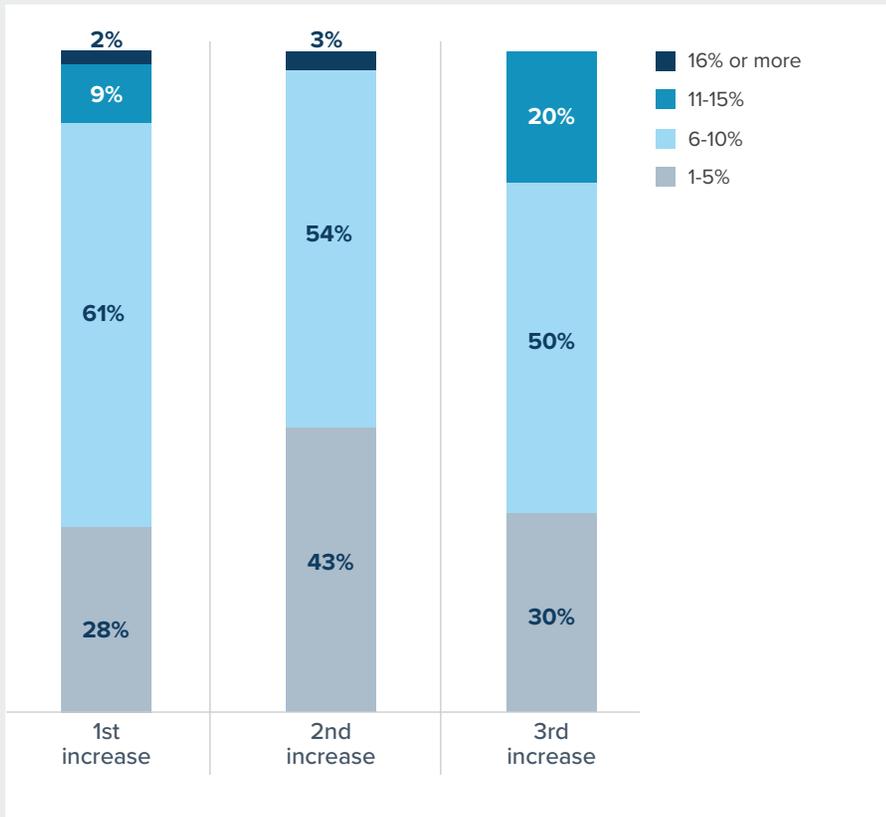
Manufacturers' Form of Price Increases



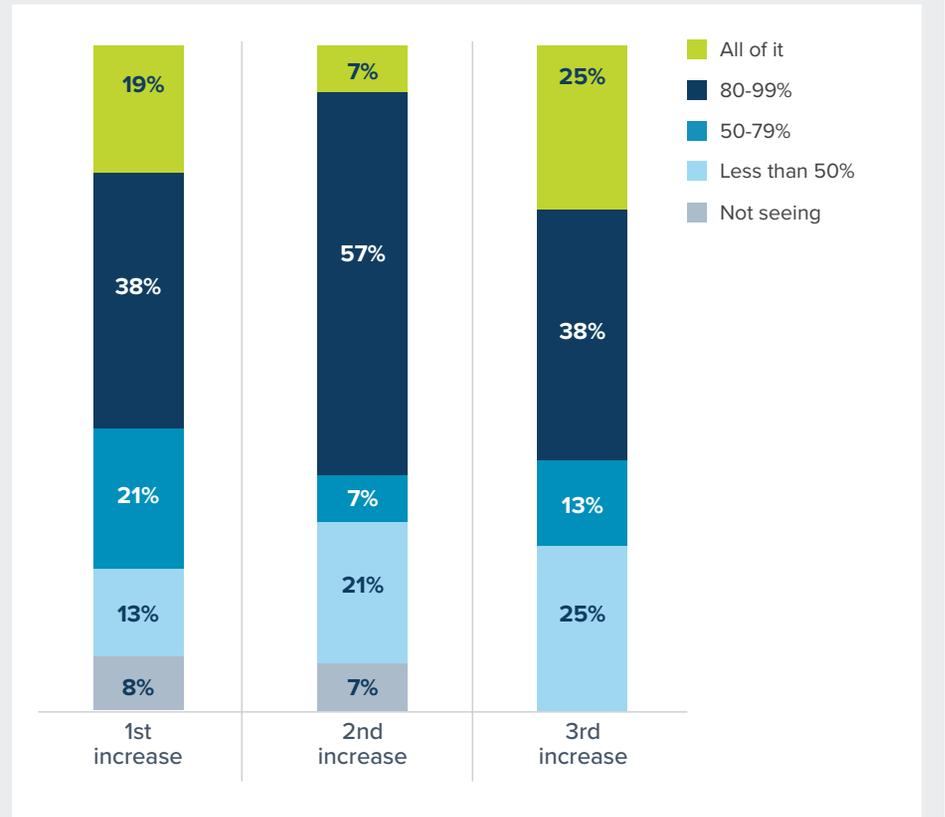
The price jumps are significant: Whether taking their first, second or third price increase, a majority of manufacturers raised their prices by at least 6%. At a third price increase, a full one-fifth are taking hikes of 11-15%.

Most manufacturers taking price hikes (close to 80%) saw at least half — and often much more — of each price increase reflected at the shelf. With a third increase, a full one-fourth of manufacturers saw the total increase reflected at retail.

Size of Manufacturer Price Increases



Amount of Increase Reflected at the Shelf



SUPPLY CHAIN CHALLENGES

After a tumultuous year and a half, manufacturers are more optimistic than retailers when projecting level of supply for the next two quarters. While one-third of manufacturers expect to supply levels to top 90% in the last quarter of 2021, none of the surveyed retailers do. Indeed, more than 70% of manufacturers expect supply levels to top 80% by the end of the year, while only 28% of retailers do.

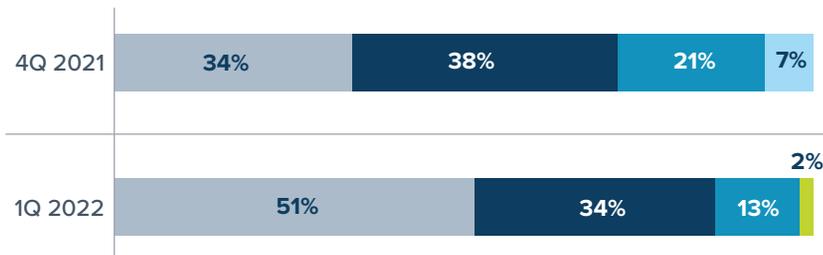
Still, both manufacturers and retailers expect supply to rebound in the first quarter of 2022. Half of manufacturers expect supply levels to be better than 90% after the first of the year, and one in 10 retailers agree.

Even so, nearly every manufacturer reports being challenged by transportation (93%) and manufacturing labor issues (90%). Almost three-fourths say raw material problems are disrupting the supply chain and six in 10 face packaging and distribution difficulties. A full 30% are grappling with chargebacks. Widespread knowledge of supply chain challenges are likely to lead retailers and consumers to alter their shopping behavior, especially around the holiday shopping season.

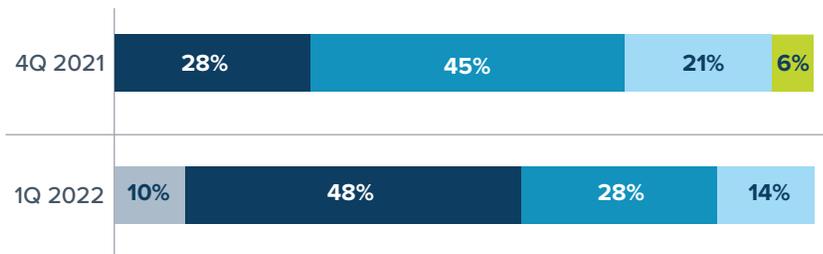
Anticipated Supply Level

More than 90% 81-90% 71-80% 61-70% 0-60%

Manufacturers

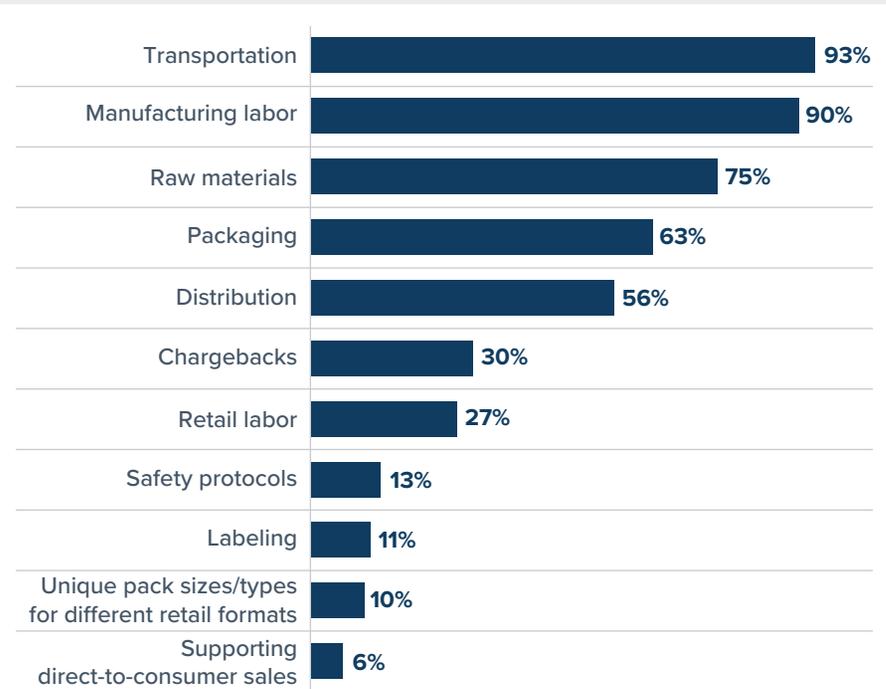


Retailers



Manufacturers' Supply Chain Challenges

(Respondents chose all that apply)



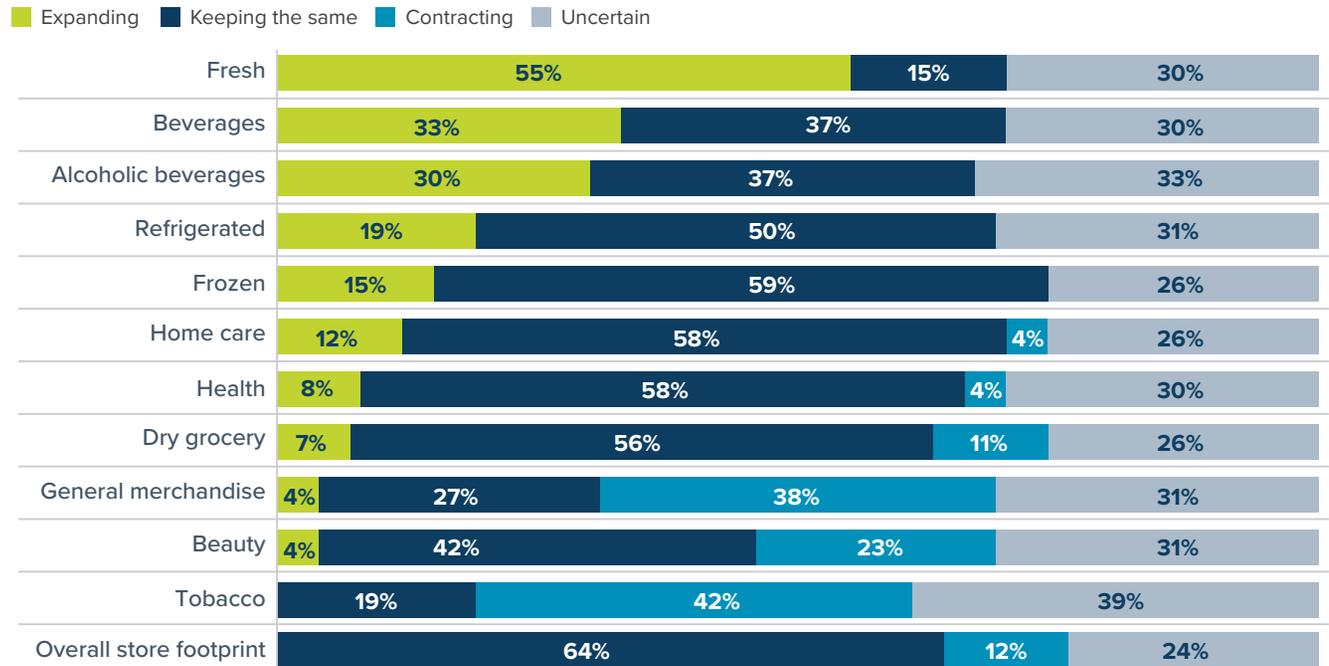
BRICK-AND-MORTAR AND DIGITAL SHELVES

With hybrid shopping the norm, retailers are scrutinizing what shoppers are looking for in brick-and-mortar stores and on the digital shelf — and want to allocate space accordingly. More than half of retailers are expanding their fresh category offering in stores, while about one-third are increasing the physical space devoted to beverages and alcoholic beverages.

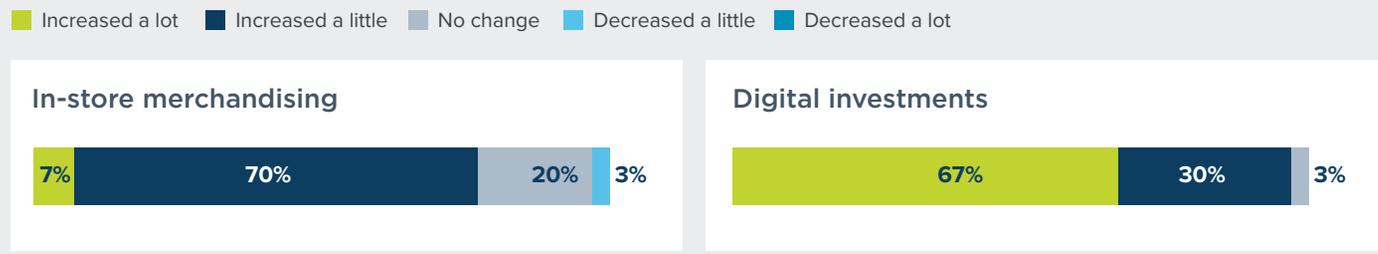
Four in 10 plan to trim store space devoted to tobacco and general merchandise. Nearly one-fourth expect to reduce space devoted to beauty products. However, a significant number of retailers are still considering plans to reallocate space at their physical locations.

In response to enduring changes in shopping behavior, retailers have increased spending in both in-store merchandising and digital investments. More than three-fourths of retailers surveyed have increased their spending on in-store merchandising this year compared to 2019 and nearly all have increased their investments supporting the digital shelf.

Retailers' Space Allocation Plans



Retailers' Physical and Digital Shelf Spend (2021 vs. 2019)

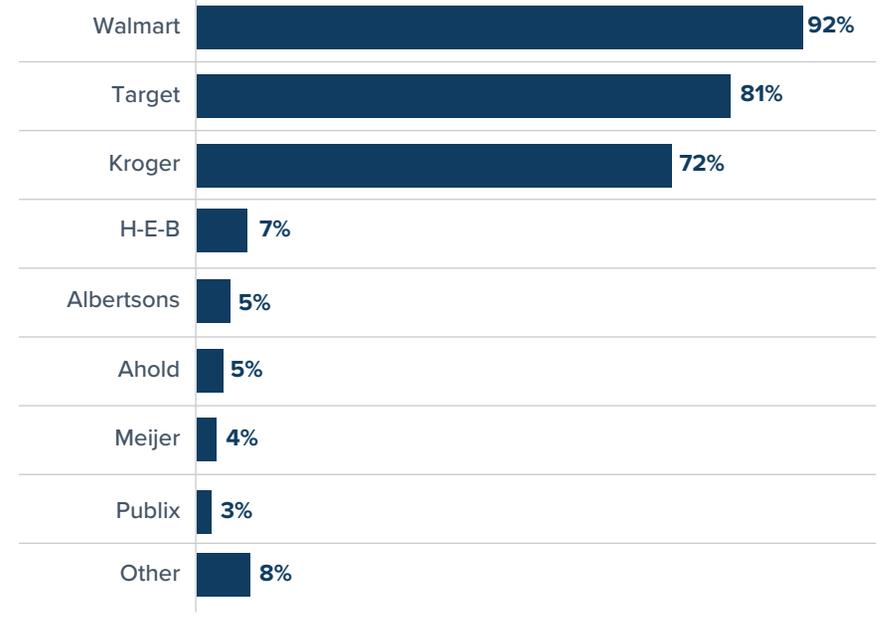


As manufacturers increase support of their retail customers' digital initiatives, they're focusing on return on their investments. Asked which retailers were "winning online," most manufacturers named Walmart, Target and Kroger the top grocery e-commerce platforms, primarily due to their fulfillment options and the customer experience they provide. Nearly half of manufacturers believe implementing a retail media network puts a retailer in a stronger position online.

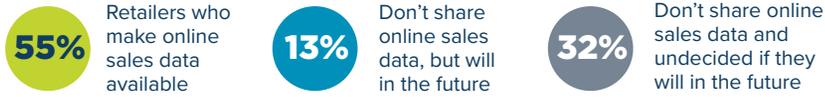
But even as the industry invests in retail media platforms and focuses on improving the online shopper's experience, almost half of retailers aren't yet sharing their online sales data with manufacturers — and one-third say they're uncertain if they'll ever share it.

The most often cited reasons for those who aren't sharing are confidentiality and the need to develop the right systems.

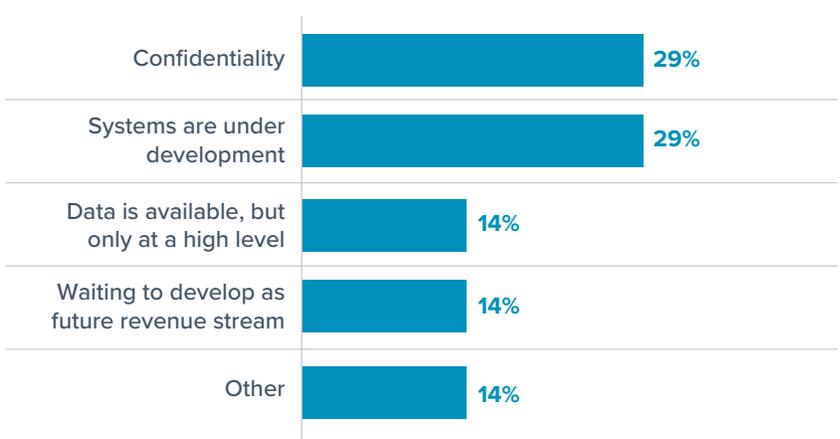
Retailers That Manufacturers Believe Are Winning Online (Respondents chose Top 3)



Retailers' Online Sales Data



Reasons Retailers Don't Share Online Sales Data



How Manufacturers Believe Retailers Are Winning Online (Respondents chose Top 3)



A LOOK AHEAD

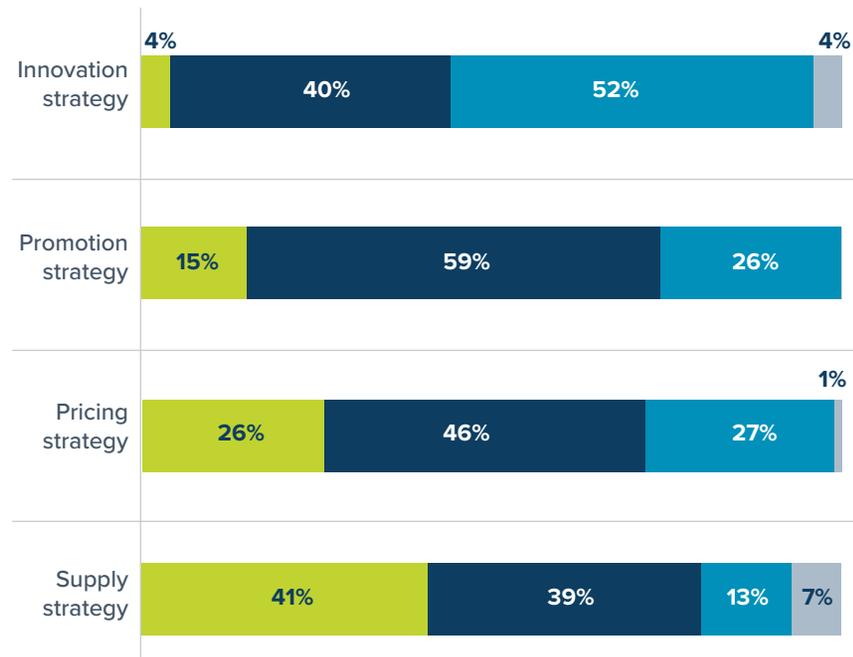
In response to the enduring pandemic and lasting changes in shopping behavior, retailers and manufacturers are rethinking their new product, promotion, pricing and, especially, supply chain strategies as they look forward at the hard-to-predict future.

Eight in 10 manufacturers and nine in 10 retailers say they are changing their supply strategies due to COVID variants — more than 40% of each are “drastically” changing the way they approach supply.

Changes in Strategy in Response to COVID Variants

■ Drastic ■ Mild ■ Not changing ■ Undecided

Manufacturers



Retailers



Three-fourths of manufacturers and two-thirds of retailers say they'll be changing their promotion strategy. For most manufacturers surveyed (69%), this includes a reduction in traditional trade promotions, mostly due to supply constraints, a diversion of funds to digital investments and cost increases.

Manufacturers' Changes to Traditional Trade Promotions* (Over the next 6 months, compared to pre-COVID)

■ Increase a lot ■ Increase a little ■ No change ■ Reduce a little ■ Reduce a lot



*Temporary price reduction, feature, display

Top Reasons for Increasing Traditional Trade Promotions

(Respondents chose Top 3)



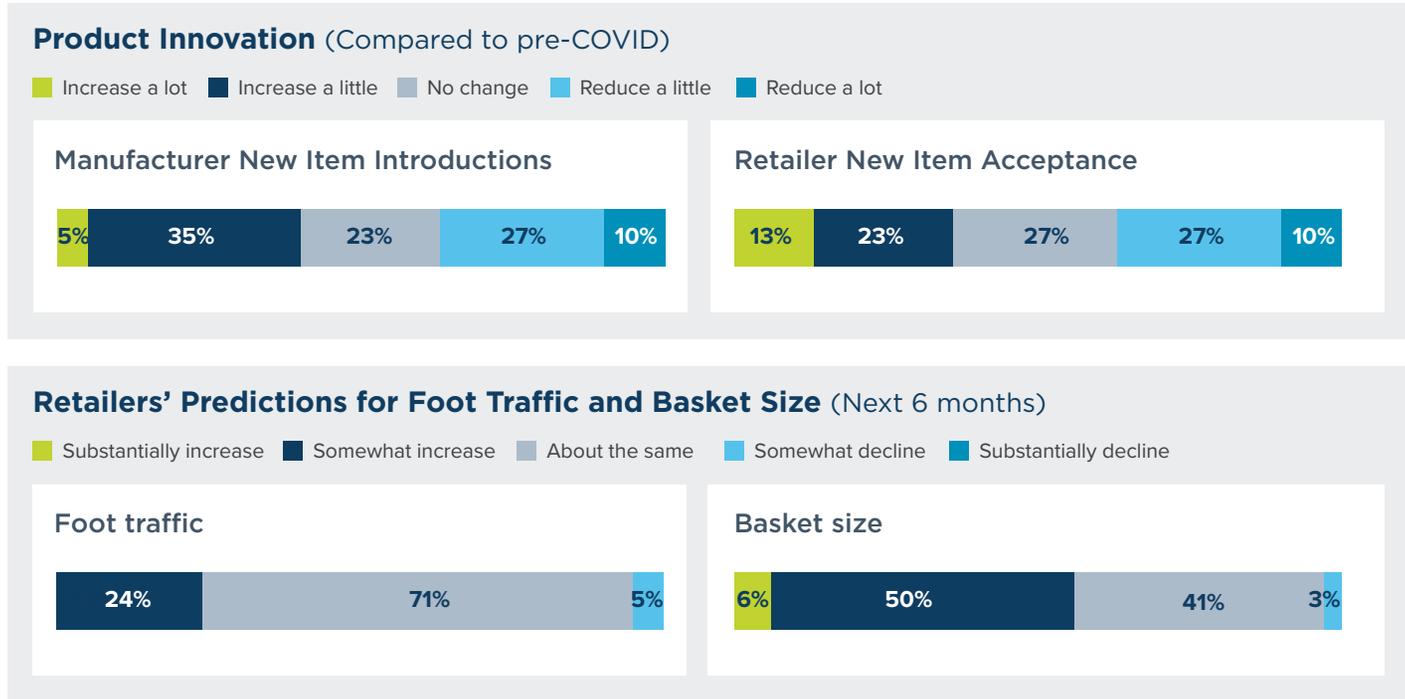
Top Reasons for Reducing Traditional Trade Promotions

(Respondents chose Top 3)



Of those who say they are increasing trade promotion activity, 40% are motivated by the desire to support new products. Indeed, after a pandemic-driven slowdown in innovation, four in 10 manufacturers say they'll increase new product introductions over the next 12 months compared to their pre-COVID level of innovation. Nearly the same percentage of retailers say they'll be accepting more new products compared to their pre-pandemic levels.

Looking ahead to the next six months, most retailers are expecting foot traffic will remain stable, but basket size is likely to increase, which presents opportunities for manufacturers to explore ways to drive plus-one or multiple purchases.



The recent decline in new cases of COVID in the U.S. has spurred cautious optimism surrounding the pandemic's lifecycle and an economic recovery, but grocery manufacturers and retailers have learned to expect the unexpected — and their predictions, changing strategies and investments for the next six to 12 months reflect that mindset. ●



For more survey results and insights, contact
EVP, Client Services Jill Blanchard at Jill.Blanchard@advantagesolutions.net.