OUTLOOK MARCH 2022

FORECASTS, STRATEGIES AND RESULTS

Pricing, Supply Chain, Online Sales and Talent Management in the Consumer Packaged Goods Industry

ADVANTAGE SALES

EXECUTIVE SUMMARY

As inflationary costs hit the consumer packaged goods industry, nearly nine in 10 manufacturers plan to take a price increase this year — the second, third or more since COVID for 66% of them — and half of retailers plan to pass most or all of these newest increases on to shoppers, according to "Advantage Sales Outlook | March 2022," based on the results of two surveys by SMARTeam, Advantage Sales' consumer goods insights team.

Despite climbing product prices, half of manufacturers and retailers predict unit sales will grow in the next six months compared to the previous six — just one-fourth foresee a decline in unit sales, according to the nearly 100 Advantage Sales clients and customers who responded to the online surveys between January 20 and February 6, 2022.

Among the key findings:

Two-thirds of manufacturers say price increases have had a net negative effect on their business. Four in 10 believe they have negatively impacted their business relationships. The same percentage say their price hikes have led to increased fees.

Retailers predict shoppers will be less brand loyal as shelf prices rise. About half predict shoppers will transition from branded to private label products (50%), from premium to mainstream brands (45%) and from mainstream to value brands (47%).

A greater percentage of manufacturers (38%) than retailers (25%) believe their online commerce is more profitable now than pre-COVID. Still, more than half of retailers report the rise of e-commerce has led to improved market share.

Retailers and manufacturers disagree on the near future of supply levels. Most manufacturers believe supply will be 81% or higher for the next six months, while only 26% of retailers anticipate the same. More than half of retailers say poor supply and labor challenges are equally to blame for out-of-stocks.

To deal with in-store labor shortages, six in 10 retailers are increasing space devoted to self-checkout and nearly half are attending only to prioritized tasks. Industrywide, companies are hoping to bolster retention at headquarters and in sales roles by focusing on professional development and advancement and by improving their corporate culture. Retailers, much more than manufacturers, are looking to slow turnover with better compensation, including benefits.

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METHODOLOGY

"Advantage Sales Outlook | March 2022" is based on responses by 56 consumer packaged goods manufacturers and 38 grocery, convenience store and drug store retailers and wholesalers to online surveys conducted January 20 through February 6, 2022. The surveys and insights are products of SMARTeam, Advantage Sales' consumer goods research agency.

INFLATION-DRIVEN CHALLENGES, PREDICTIONS AND STRATEGIES

Driven by still-escalating costs of raw materials, transportation and labor, 86% of manufacturers, most of whom have already increased prices at least once during COVID, plan to bump list prices this year. More than one in 10 will take their fourth — or more — price increase since March 2020.

For more than half of manufacturers, the average incremental increase is expected to be 6% to 10%. A full one-fourth will take incremental increases of more than 10%.

These hikes are planned even as six in 10 manufacturers say they've experienced some negative impact after increasing prices, including perceived negative relationships (40%), increased fees in other areas (40%) and a reduction in distribution points (30%).

Negative Impacts of Price Increase on Manufacturers

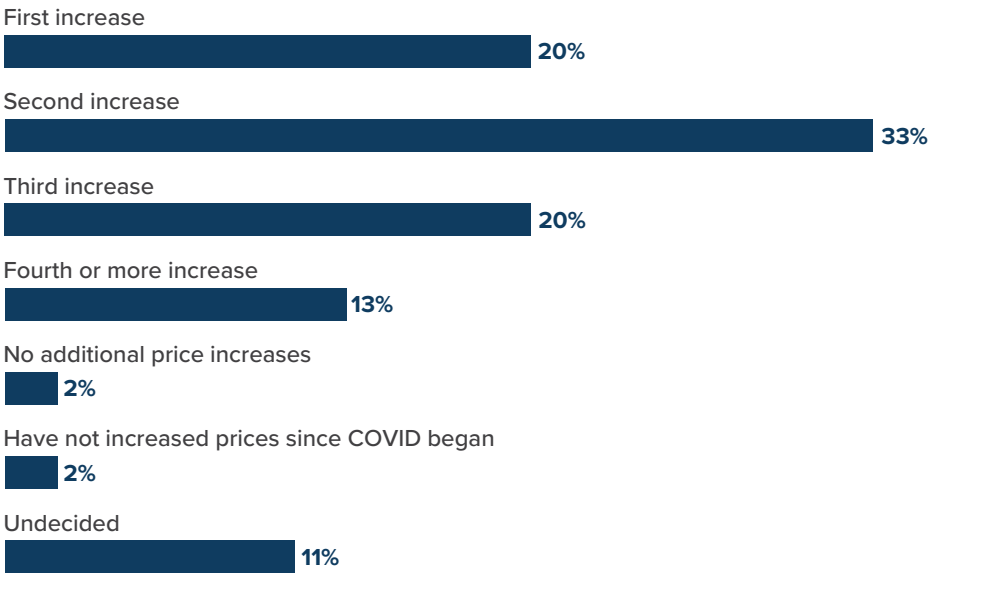
64% Have experienced some net negative impacts

36% No negative impacts

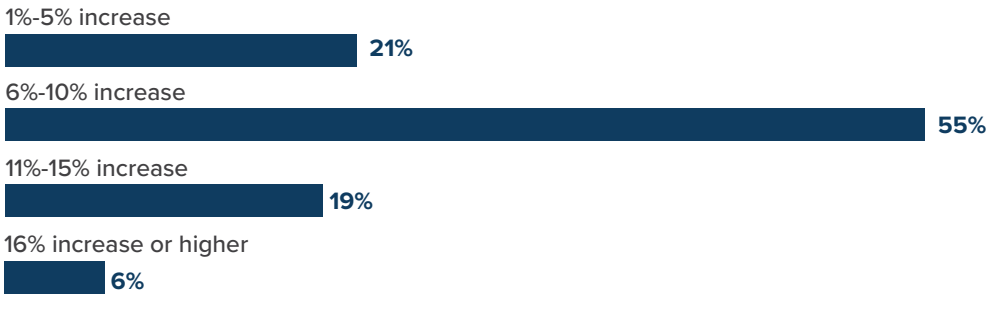
Negative Impacts Felt by Manufacturers
(Respondents selected all that apply)

40%	40%	30%	11%
Perceived negative relationships	Increased fees in other areas	Reduced total distribution points	Lack of acceptance of innovation

Manufacturers' Expectations for 2022 Price Increases



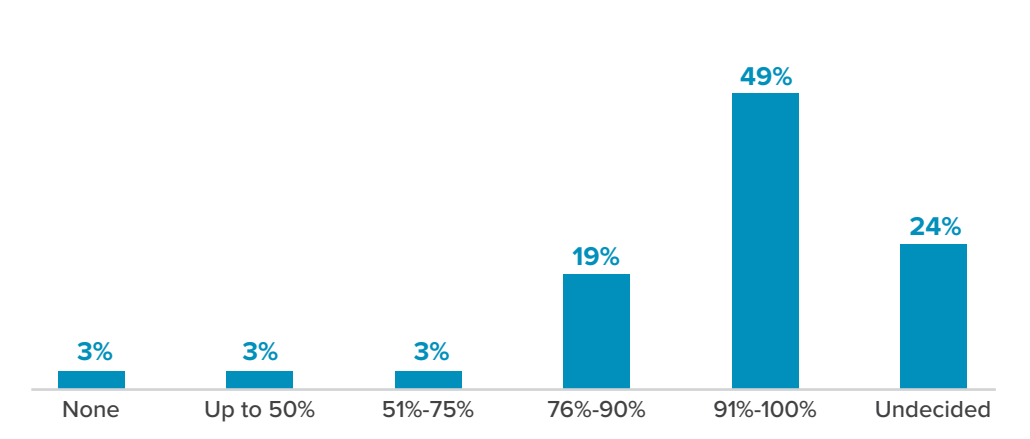
Manufacturers' Planned Average Incremental Price Increase in 2022
(% of manufacturers)



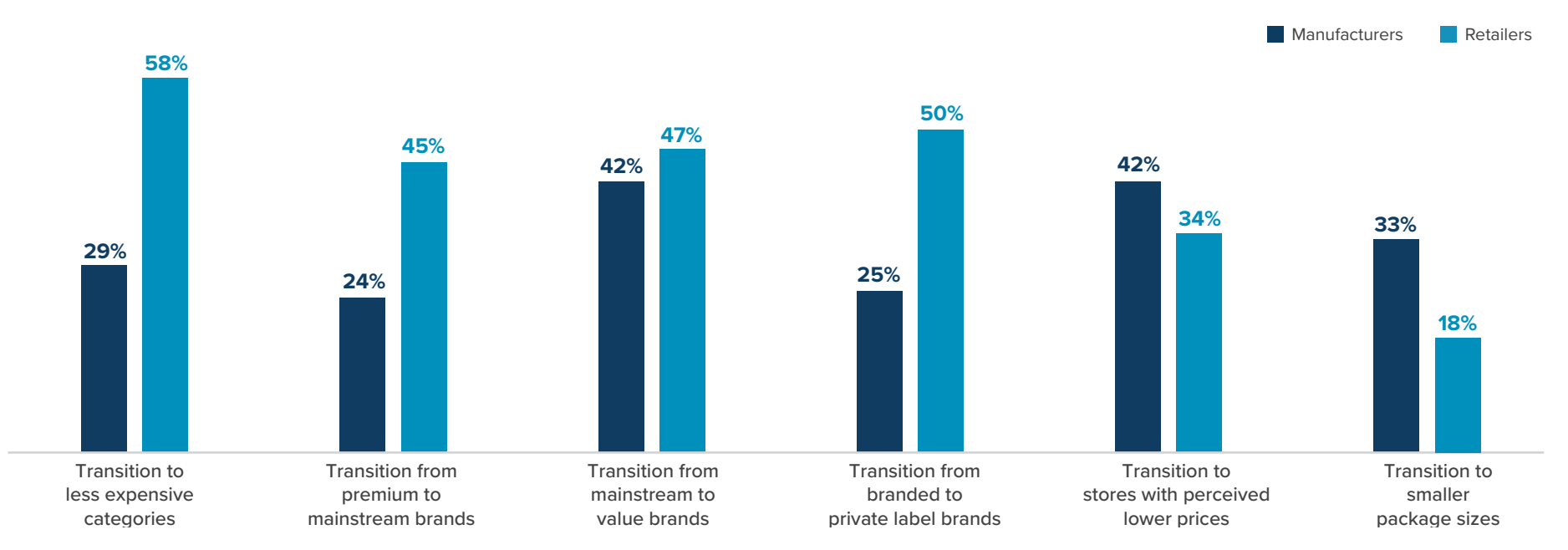
On the retail side of the inflation equation, more operators are passing a bigger piece of each price hike onto shoppers than they have previously. Nearly half say shelf prices will reflect more than 90% of list price increases.

The big question on everyone's mind now is how shoppers will react to these rising grocery prices. Most retailers foresee shoppers being less brand loyal. Nearly 60% believe they will transition to less expensive categories. About half predict shoppers will transition from branded to private label products, from premium to mainstream brands and from mainstream to value brands. As a group, manufacturers are less aligned on the effects of higher retail prices, with about 40% believing shoppers will transition to stores they perceive has having lower prices and the same percentage forecasting shoppers moving from mainstream to value brands.

Retailers' Plans to Pass List Price Increases Onto the Shelf
(% of retailers)



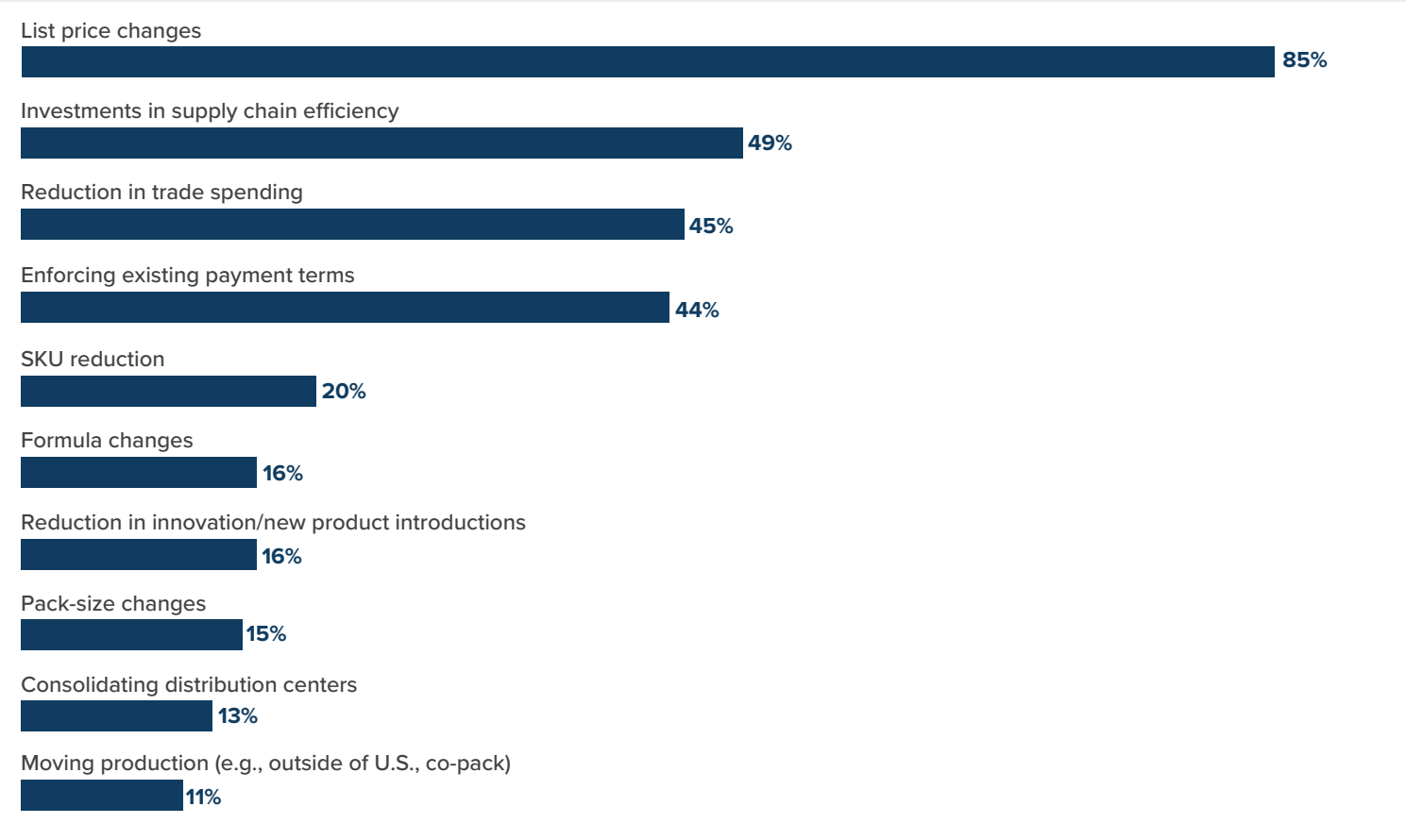
Predictions About Shoppers' Reaction to Product Price Increases
(Asked to rate possible outcomes on a scale of 1-5 from not likely to extremely likely; percent responding 4 or 5 shown below.)



One in five manufacturers are trimming SKUs to reduce costs.

But manufacturers are doing more than bumping list price to offset inflationary pressures. Their top strategies include investing in supply chain efficiency (49%), reducing trade spending (45%) and enforcing payment terms (44%). One in five are trimming SKUs to reduce costs.

Manufacturers' Plans to Offset Increased Costs
(Asked to rate possible outcomes on a scale of 1-5 from not using to using extensively; percent responding 4 or 5 shown below.)

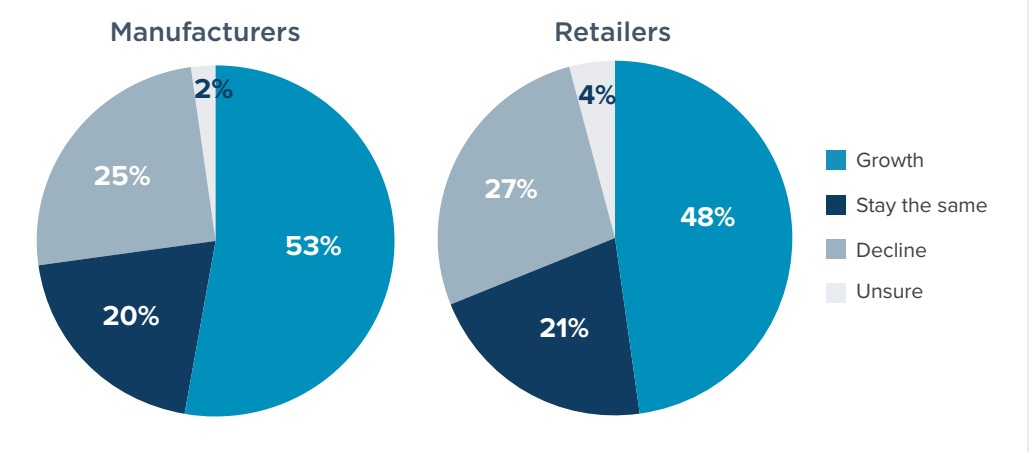


UNIT SALES FORECASTS

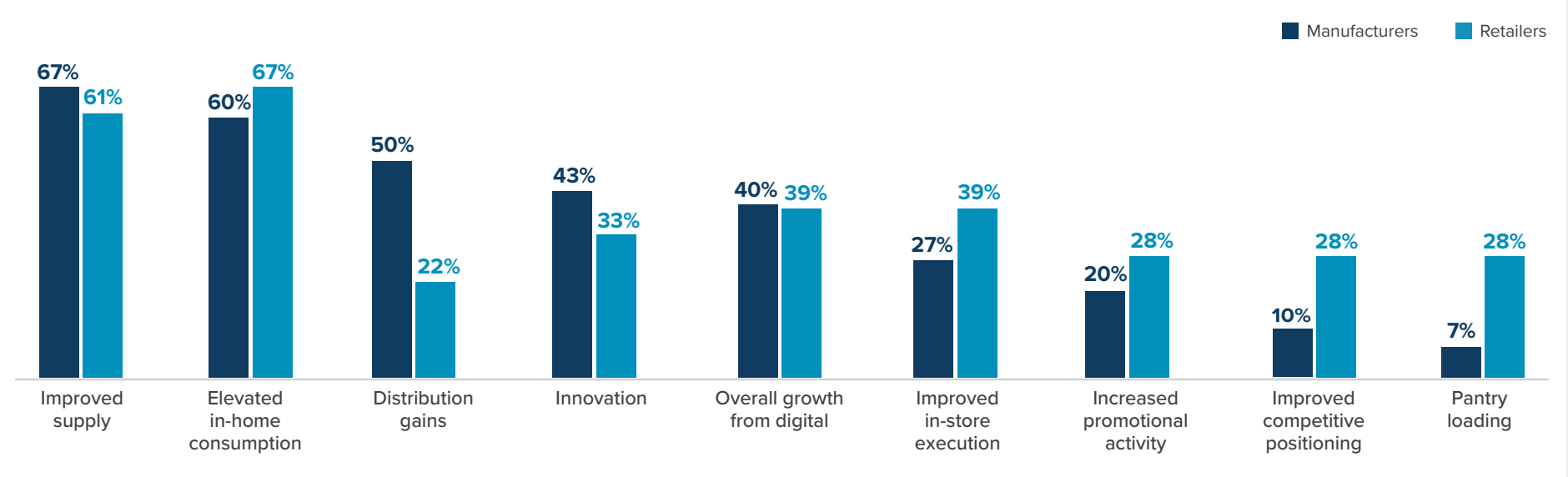
Even as retail prices rise, half of manufacturers and retailers expect unit sales to increase in the next six months compared to the last half of 2021. Both groups agree volume sales will be driven by better supply levels and continued elevated at-home consumption. More than 40% of manufacturers believe distribution gains and more innovation will also push their sales, while nearly as many retailers believe digital platforms and in-store execution will push total retail unit sales.

Improved supply levels are expected to drive volume.

Six-Month Forecasts for Unit Sales

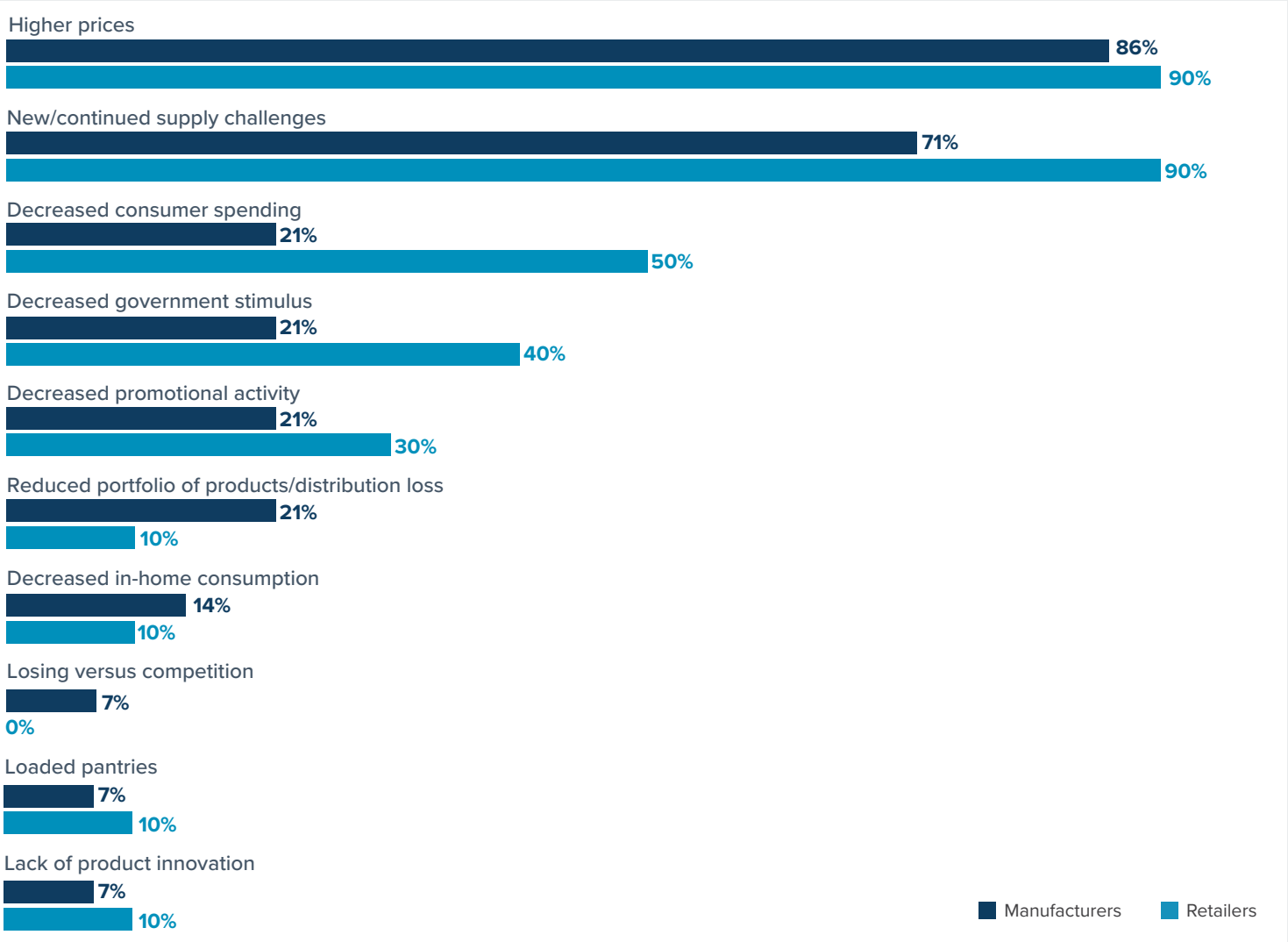


Top Drivers of Unit Sales Growth (Respondents selected all that apply)



Still, one-fourth of industry players believe volume will decline in the next six months, compared to the previous half-year. These manufacturers and retailers agree the top drivers of sales declines will be price increases and supply chain challenges.

Top Drivers of Unit Sales Declines (Respondents selected all that apply)



ONLINE SALES STRATEGIES & INVESTMENTS

With online sales of consumer packaged goods still growing, it's not surprising manufacturers are increasing their investments in online commerce as they look to keep pace with opportunities and address the complexities and challenges of the omnichannel marketplace. More than 70% of manufacturers will increase their e-commerce investment this year compared to last year's spending. Another one-fifth will invest the same amount.

For most, these investments are driven by online sales growth and their desire to reach new shoppers. Four in 10 manufacturers want to position themselves as an e-commerce leader and nearly as many are boosting investments, at least in part, at the request of their retail customers.

Reasons Manufacturers Are Increasing Investments in Online Sales

(Respondents selected all that apply)

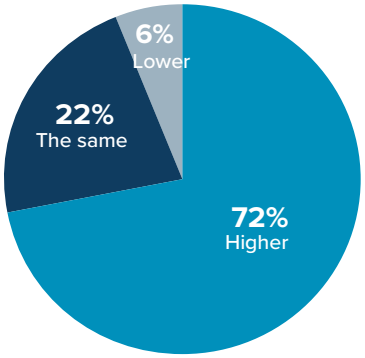
87% Growing part of my business	**51%** Trying to reach new shoppers	**44%** Focus on becoming e-commerce leader
38% Requests from retailers	**26%** Need to maintain dominant position	**21%** Lagging the competition

Most retailers (53%) say the rise of e-commerce has helped them grow market share. But one-fifth report the growth of online grocery shopping has resulted in smaller market share.

E-commerce profitability, however, continues to be a mixed bag for the consumer packaged goods industry. Online sales profitability has grown for nearly 40% of manufacturer respondents compared to pre-COVID performance. Still, one-fourth report their e-commerce sales profitability has taken a hit over the course of the last two years.

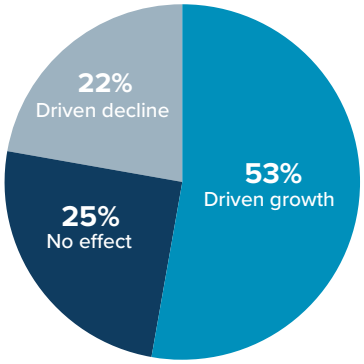
Manufacturers' Investments in Online Sales for 2022 vs. 2021

(% of manufacturer respondents)

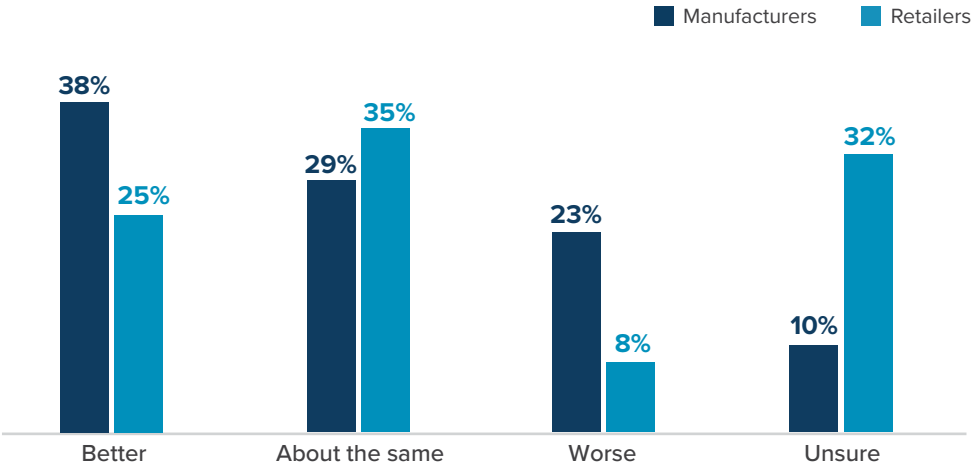


Online Sales' Impact on Retailers' Market Share

(Past 12 months)



E-Commerce Sales Profitability vs. Pre-COVID



On the retail side, online sales profitability has grown for just one-fourth of operators compared to pre-COVID, when online sales were a fraction of what they are now. About one-third say profitability is about the same.

With key metrics, data sharing, reporting, fulfillment and other facets of online sales still evolving, one in 10 manufacturers — and one-third of retailers — say they're unsure if profitability around online sales has increased.

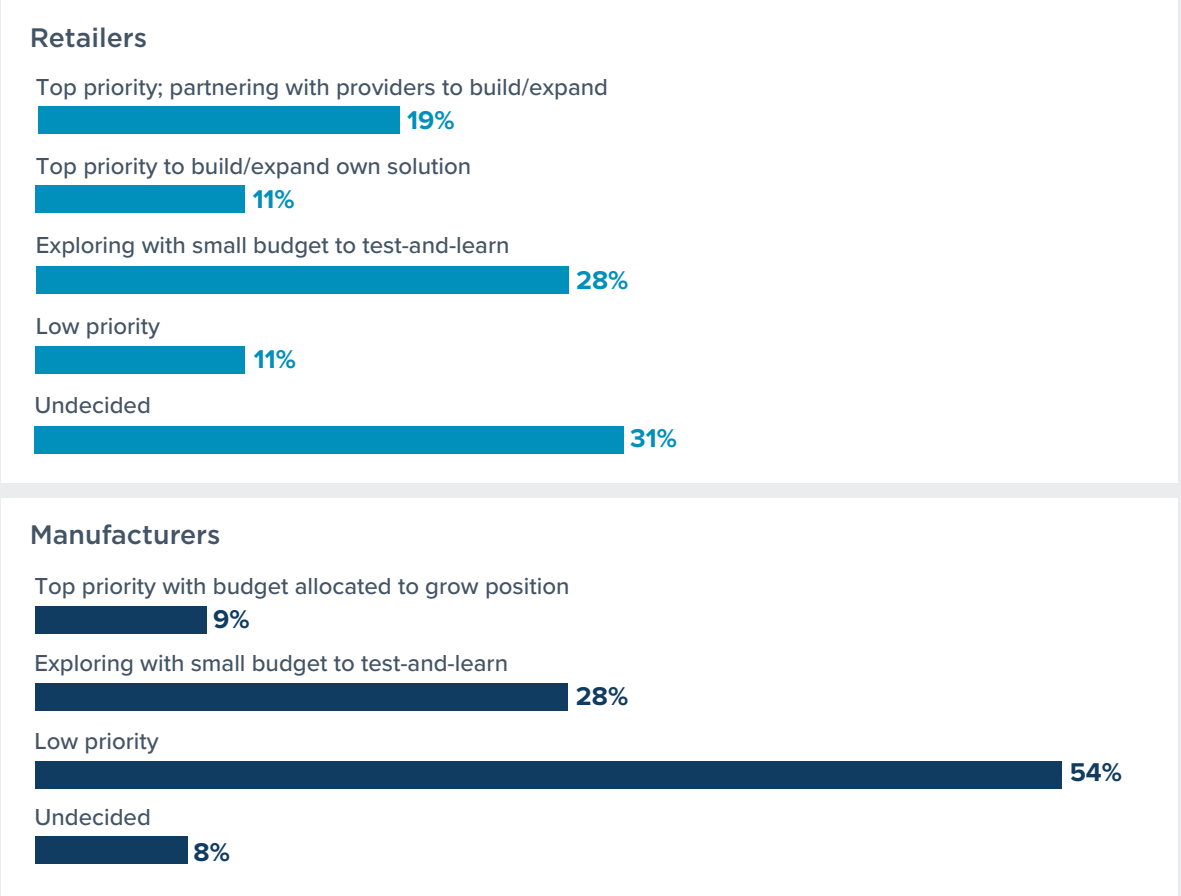
Even so, one area of e-commerce, quick commerce (delivery or fulfillment of online orders in less than 30 minutes), has become a top priority for 30% of the retailers surveyed. Another 28% are allocating some funds to a test-and-learn effort. More than half of manufacturers, though, rank q-commerce as "low priority," while nearly 30% are exploring the service.

As competitive pressures from Amazon grow, the vast majority of retail operators surveyed remain confident in their online commerce positions; more than 80% expect little or no loss in market share to Amazon or other pure-play retailers.

Most grocery retailers expect little or no loss in market share to Amazon.

Quick Commerce Strategies

(Delivery or order fulfillment in less than 30 minutes)



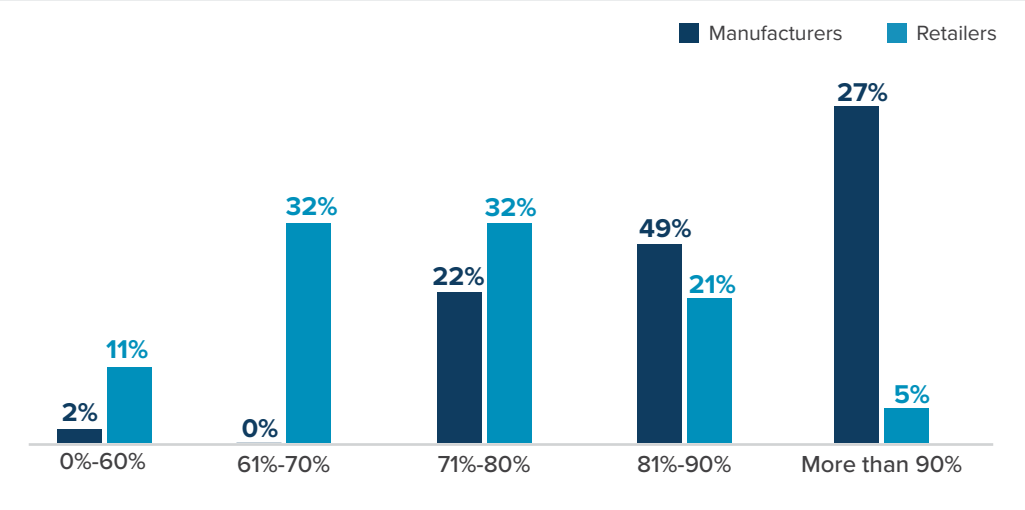
Retailers' Forecast of Market Share vs. Amazon and Pure-Play Competitors

SUPPLY CHAIN CHALLENGES & STRATEGIES

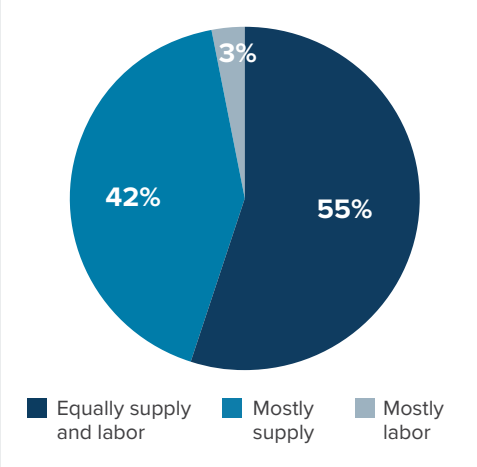
After a tumultuous two years, manufacturers are more optimistic than retailers when projecting supply level for the next six months. Three-fourths of manufacturers anticipate supply levels above 80% — and more than one-fourth predict supply will top 90%. Only 5% of retailers predict supply levels of greater than 90%. More than 40% of retailers believe supply levels will be 70% or lower.

Asked about the cause of out-of-stocks over the past year, more than half of retailers blame supply shortages and labor challenges equally; four in 10 hold only supply chain issues responsible.

Anticipated Level of Supply in Next 6 Months



Drivers of Retailers' Out-of-Stocks
(Retailer respondents only)

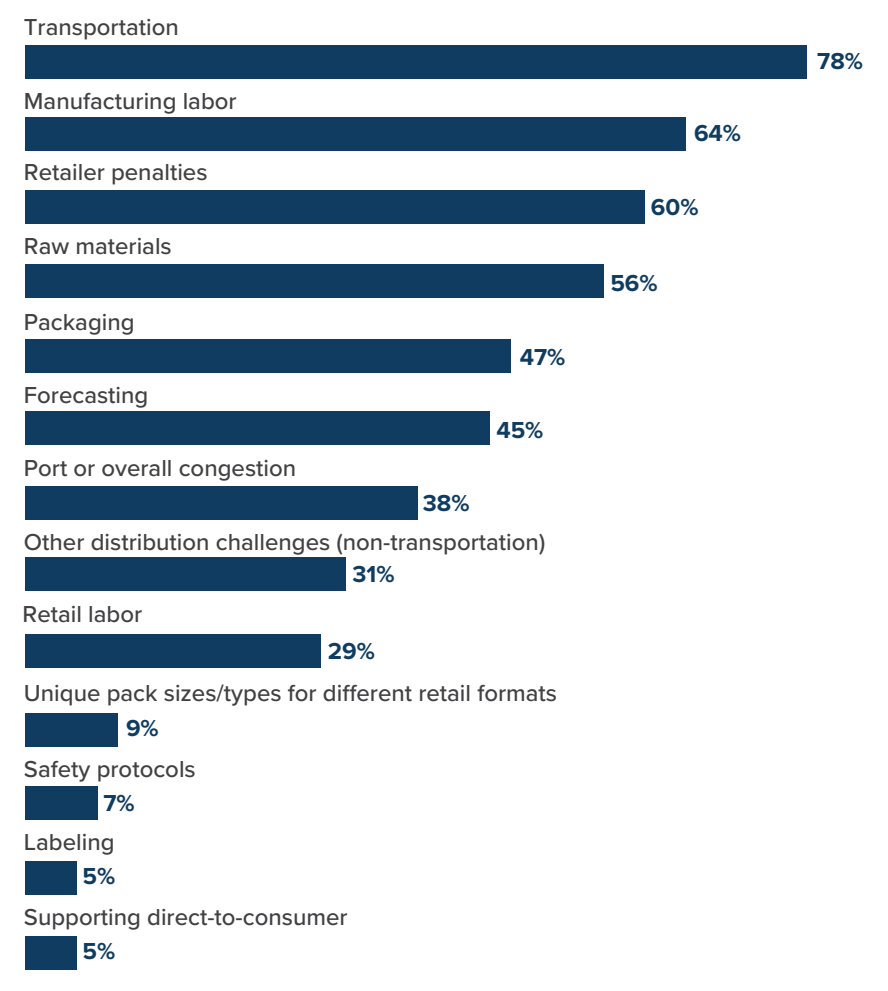


Four in 10 retailers blame supply chain issues solely for out-of-stocks.

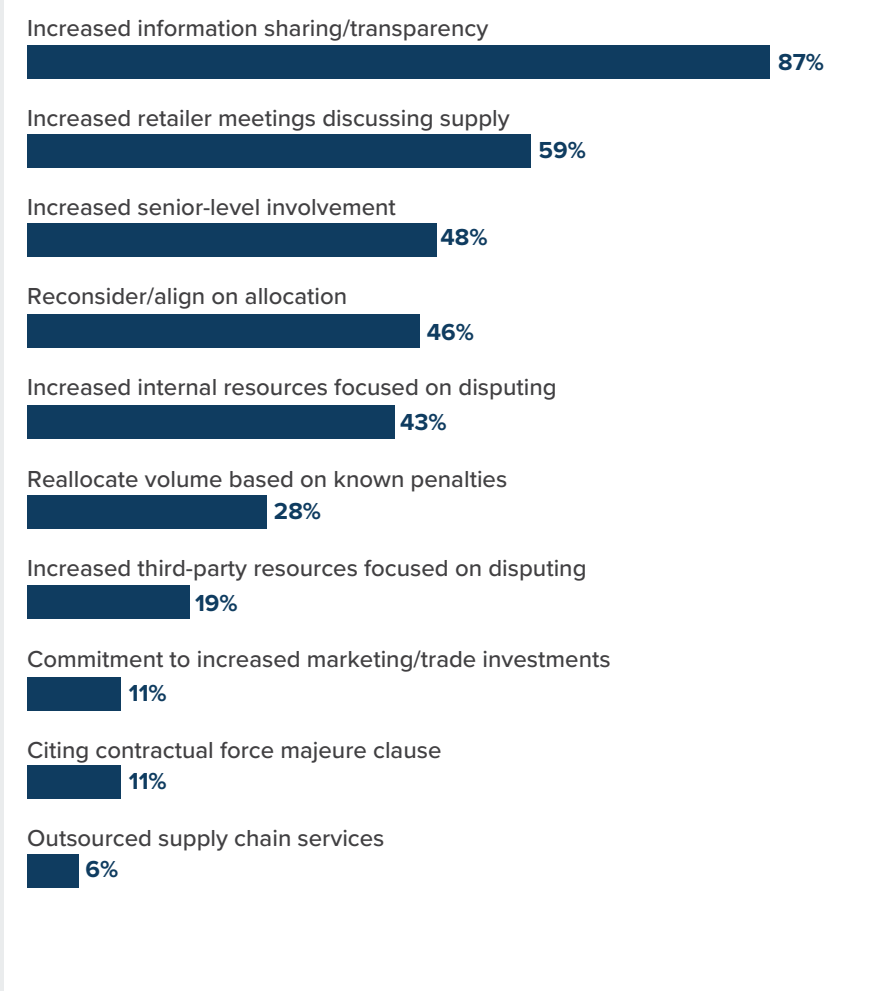
Even as they are relatively optimistic about supply levels, most CPG manufacturers anticipate having transportation and manufacturing labor difficulties in the next six months. Six in 10 predict retailer penalties will be challenging.

To decrease or avoid penalties related to supply and delivery, nine in 10 manufacturers are sharing more information with retailers. Nearly 60% are having more meetings to discuss supply and nearly half are increasing their senior-level leaders' involvement in supply chain discussions.

Manufacturers' Predicted Supply Chain Challenges
(Asked to rate challenges on a scale of 1-5 from no challenge to extreme challenges; percent responding 4 or 5 shown below.)



Manufacturers' Strategies to Avoid/Reduce Retailer Penalties
(Past 18 months; respondents selected all that apply)



TALENT CHALLENGES & STRATEGIES

From headquarters to field offices to the front line, the consumer packaged goods industry is wrestling with escalating labor challenges that began with the arrival of COVID. Eight in 10 retailers say in-store and in-warehouse labor issues will be very challenging this year. Half predict labor difficulties fulfilling direct-to-consumer orders.

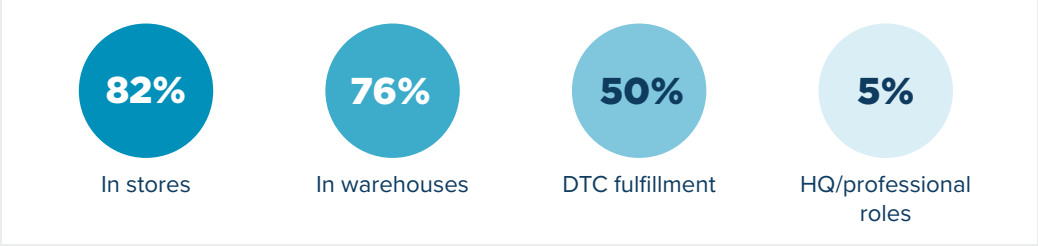
In response to store-level turnover and employee shortages, nearly 60% of retailers plan to add self-checkout lanes, a tactic that will change the use of space and shopper experience. Nearly half of operators say they'll assign employees to only prioritized tasks. A similar number will increase the number of hours each associate works. Four in 10 plan to adjust their promotion schedules to reduce the number of store-level hours devoted to related tasks.

More than one-third of retailers plan to decrease store hours and one-fifth plan to rely more on manufacturer-provided labor.

Eight in 10 retailers say in-store labor will be a significant challenge this year.

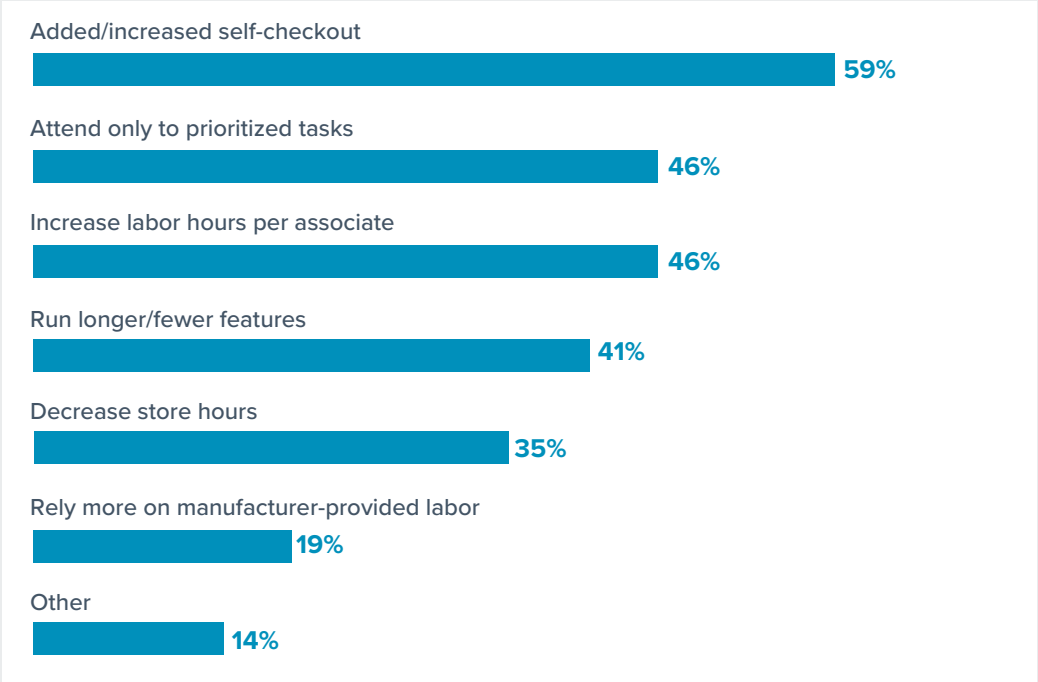
Retailers' Labor Challenges for 2022

(Asked to rate challenges on a scale of 1-5 from no challenge to extremely challenging; percent responding 4 or 5 shown below.)



Retailers' Response to In-Store Labor Challenges

(Respondents selected all that apply)



To better retain headquarters and sales talent, both retailers and manufacturers are focusing on professional development and promoting deserving associates. Retailers, much more than manufacturers, will increase compensation, including benefits, and focus on hiring to support their employees now and as business grows.

Industrywide, more attention and resources are being devoted to improving the work environment through diversity, equity and inclusion initiatives, culture-building activities and employee engagement.

COVID's impact on the world's supply chain, an inflation-fueled economy and individuals' changing shopping behavior continue to play out, prompting the makers and sellers of consumer packaged goods to plan for and invest in an uncertain future to seize on opportunities born of change. ●

Efforts to Retain HQ and Sales Talent in 2022

(Respondents selected all that apply)

	Manufacturers	Retailers
Focus on talent development	61%	53%
Promotions	54%	41%
Increased focus on DEI	39%	44%
Culture-focused activities/event	37%	50%
More engagement activities	35%	29%
Shifting talent to other roles	31%	29%
Increased compensation	26%	50%
More opportunities outside of core job	28%	18%
Hiring to support growth/current talent	26%	50%
Permanent remote work options	26%	35%
More/better benefits	15%	47%
Retention bonuses	11%	21%
Job share/part time options	2%	9%

ADVANTAGE SALES

For more survey results and insights, contact
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