OUTLOOK JUNE 2022

FORECASTS, STRATEGIES AND RESULTS

Inflation, Assortment, Supply Chain and Growth in the Consumer Packaged Goods Industry

ADVANTAGE SALES

EXECUTIVE SUMMARY

As inflationary costs continue to impact the consumer packaged goods industry, more than 70% of manufacturers plan to increase their list price in the second half of 2022 — and more than 60% of retailers plan to pass nearly all of those increases on to shoppers, according to "Advantage Sales Outlook | June 2022," based on the responses of 99 Advantage Sales clients and customers to online surveys between May 2 and May 16, 2022.

Just 2% of manufacturer respondents said they have taken no price increase since March 2020 — and more than one-third are taking their third or more price hike. The list-price hikes are planned even as nearly 60% of manufacturers report they've experienced unit volume declines over the past six months as they've increased list prices. One in five manufacturers has experienced a unit decline of 6% or more.

Among the report's other key findings:

- While 74% of manufacturers say they are likely to address inflation by reducing trade spending, the same percentage of retailers do not want manufacturers to do so. Retailers prefer manufacturers reduce SKUs (more than 90% prefer this strategy) and increase list prices (65% prefer) to address their increase in costs.
- Three-fourths of manufacturers have cut trade spending in the past 12 months — and four in 10 say they'll continue to decrease this spending in the second half of 2022. If deflation happens, however, 80% of surveyed manufacturers plan to increase their trade spend.
- As shopper habits change, nearly half of retailers plan to reduce grocery and beauty SKUs, while close to one-third will expand the number of alcoholic beverages they carry.
- Despite anticipated supply chain challenges, nearly eight in 10 manufacturers say their supply levels will improve in the second half of 2022. Only 6% predict their supply will decline; 15% believe there will be no change.
- After the supply chain normalizes, most retailers (65%) believe their top driver of growth will be optimized promotions. More than 40% of food manufacturers say the same. Most (52%) nonfood manufacturers believe expanding distribution at existing customers will be a significant key to growth.

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METHODOLOGY

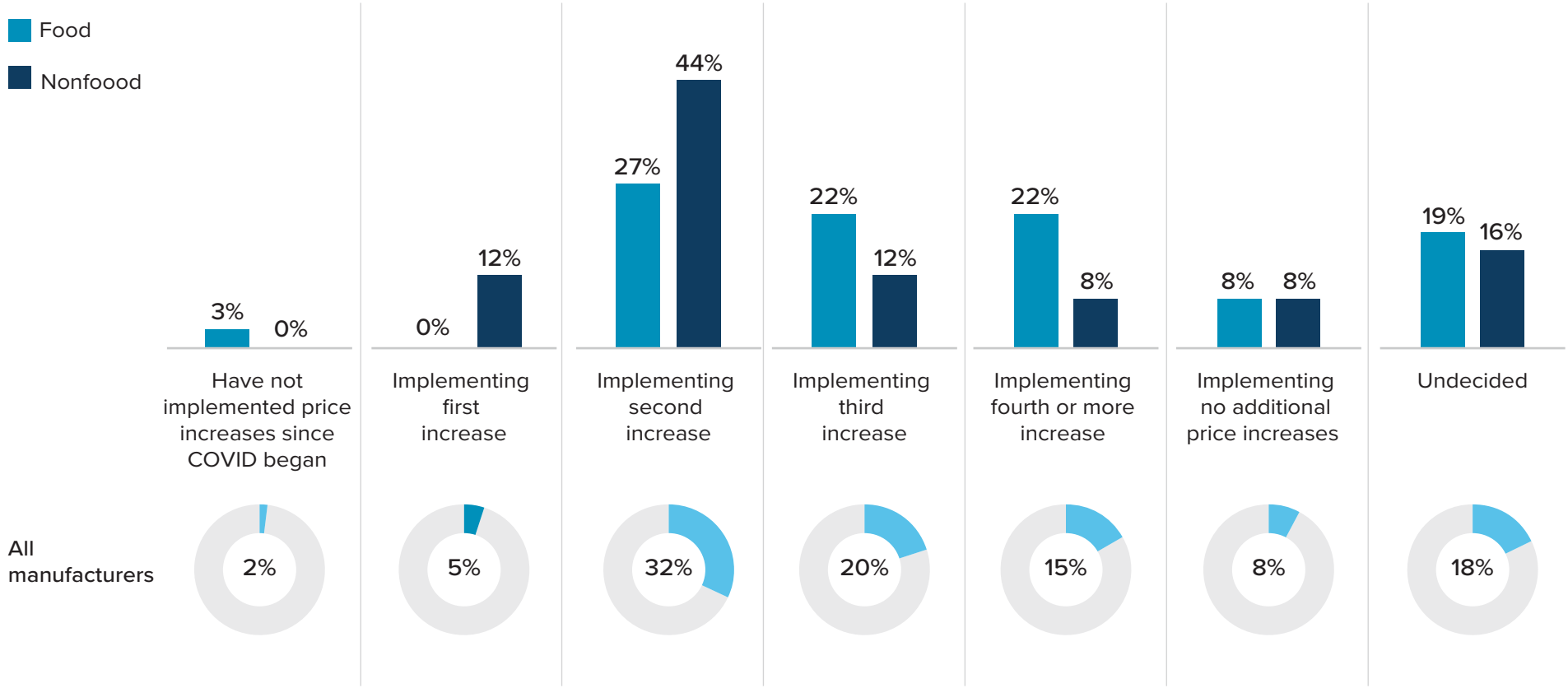
"Advantage Sales Outlook | June 2022" is based on responses by 58 consumer packaged goods manufacturers representing 65 brands and 34 grocery retailers and others to online surveys conducted May 2 through May 16, 2022. The surveys and insights are products of SMARTeam, Advantage Sales' consumer goods research agency.

INFLATION-DRIVEN ACTIONS AND IMPACT

Driven by continued inflationary costs of raw materials, transportation, labor and packaging, 72% of manufacturers, most of whom have already increased prices at least once during COVID, plan to bump list prices during the second half of this year. More than one-third will be taking their third, fourth or even more price increase since March 2020.

Significantly more nonfood manufacturers than food manufacturers will take their first or second price increase since the pandemic began. Food product makers are more likely to be taking their third, fourth or more price increase. A full one-fifth of food product manufacturers have not decided if they'll take another price hike in the second or third quarter.

Manufacturers' Expectations for Price Increases in Second Half of 2022



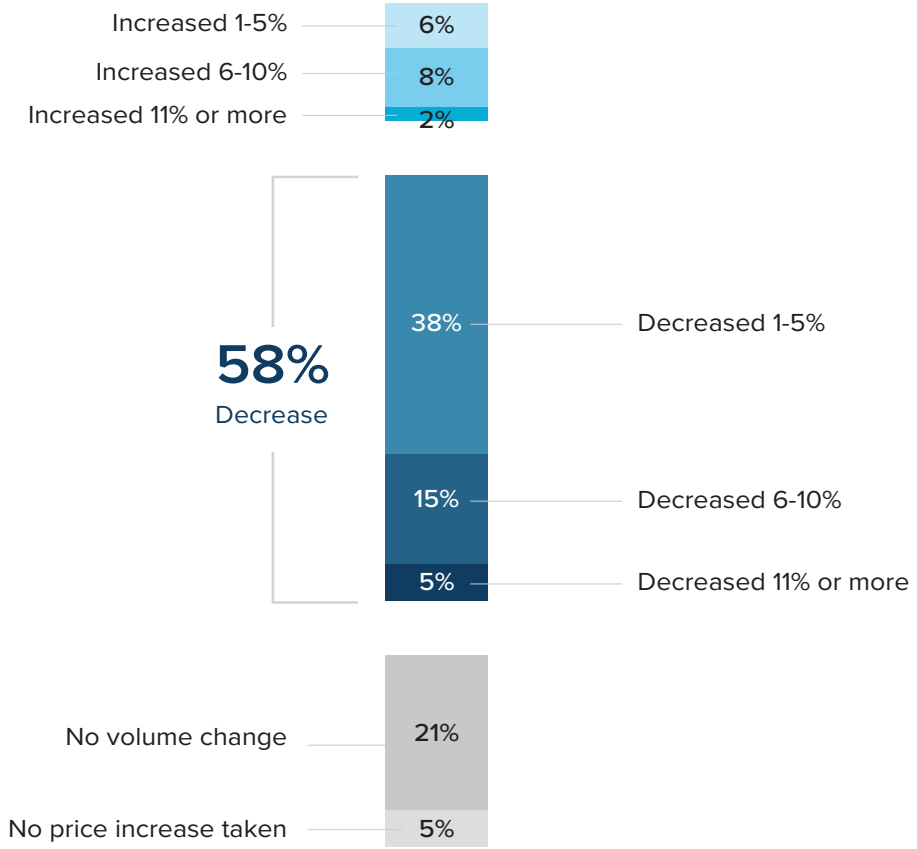
Advantage Sales Outlook | June 2022 based on surveys of 99 consumer packaged goods manufacturers, retailers and others. May not add up to 100% due to rounding.

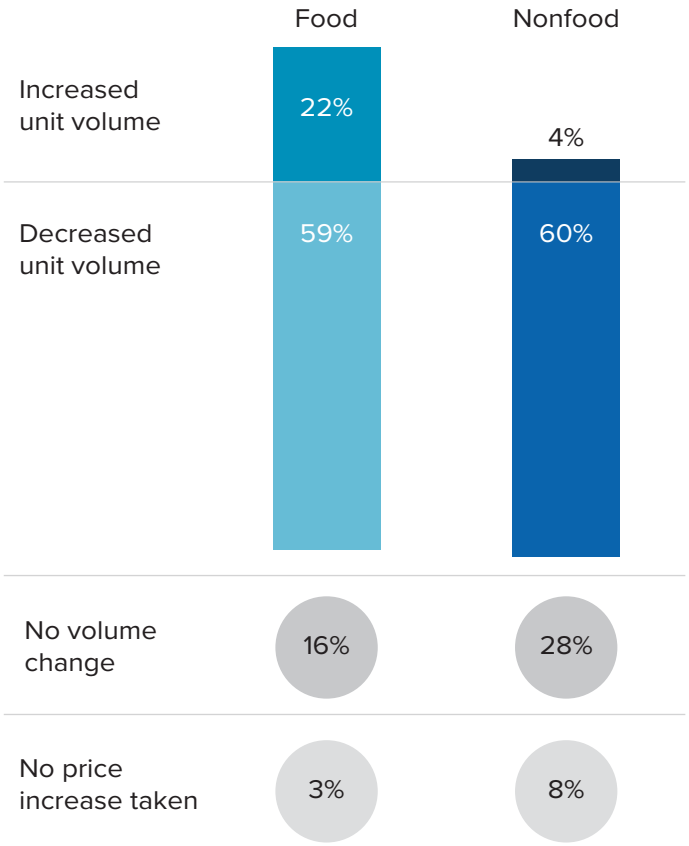
The price hikes are planned even as six in 10 manufacturers report they've experienced unit volume declines over the past six months as they've increased list prices. A full one in five have experienced unit volume declines of 6% or more.

Food and nonfood product makers' volumes have been impacted much differently, though. One in five food manufacturers have experienced volume increases since increasing list prices in the last six months, compared to just 4% of nonfood item manufacturers.

Manufacturers' Volume Change Since Increasing List Prices in Past 6 Months

(% of manufacturers)





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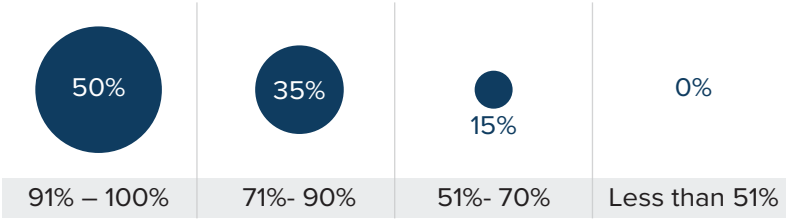
On the retail side of the pricing equation, half of retailers say they've passed most (more than 90%) of the past 12 months' price hikes on to the shelf — and even more, 62%, plan to reflect most of the upcoming increases in the retail price.

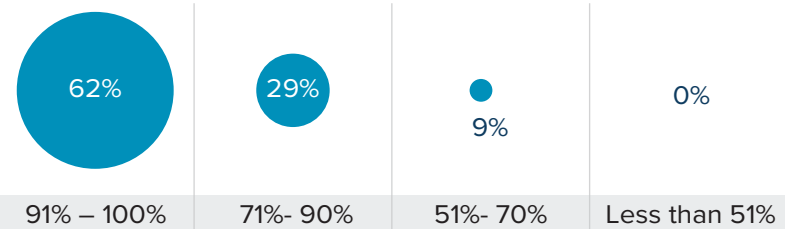
Percent of Manufacturer Price Increases Passed to the Shelf Over Past 12 Months

(% of retailers)



Retailers' Plans to Pass Second-Half List Price Increases to the Shelf

(% of retailers)



Advantage Sales Outlook | June 2022 based on surveys of 99 consumer packaged goods manufacturers, retailers and others.

But manufacturers are doing more than raising list price to offset inflationary pressures. Their top strategies include investing in supply chain efficiency, reducing trade spending, enforcing payment terms, reducing SKUs and reducing other marketing spends. Fewer are launching new items to hit preferred prices, reducing product innovation or consolidating their distribution centers.

Manufacturers' Strategies to Offset Increased Costs

(Other than list price increases)

100%

	Likely	Neither likely/ Unlikely	Unlikely
Investments in supply chain efficiency	91%	5%	2%
Reduction in trade spending	74%	9%	17%
Enforcing existing payment terms	71%	20%	9%
SKU reduction	63%	14%	22%
Reduction in other marketing spend	63%	15%	22%
Formula change	40%	18%	42%
New, modified, enforced bracket pricing	40%	26%	34%
Packaging change	29%	32%	38%
Moving production	26%	29%	45%
Launching new items to hit preferred prices	22%	26%	52%
Reduction in innovation	22%	31%	48%
Consolidating distribution centers	15%	32%	52%

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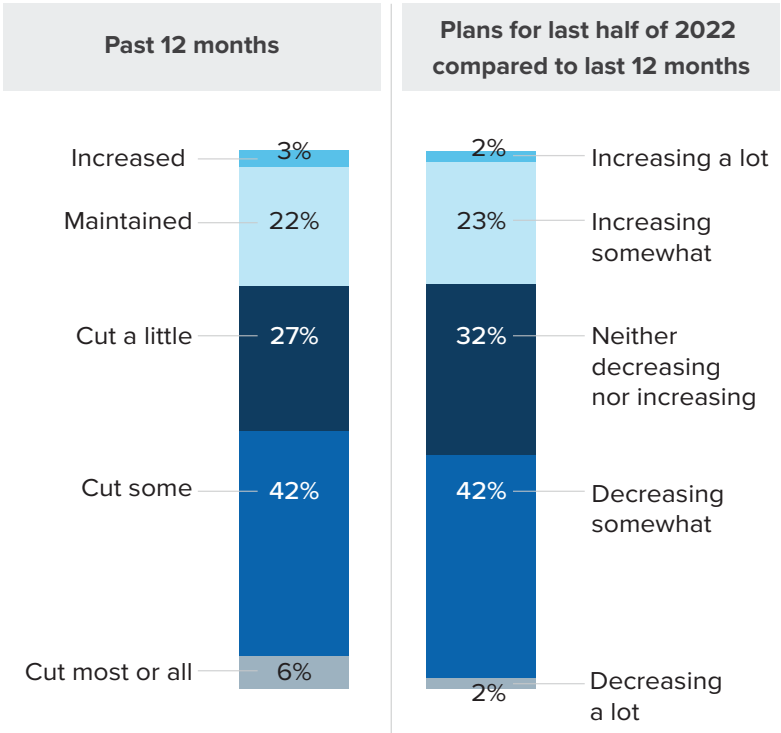
In the past year, three-fourths of manufacturers have cut trade spending.

In the past year, three-fourths of manufacturers have cut trade spending — and 44% say they'll decrease their trade promotion spending in the back half of 2022 compared to the previous 12 months.

Manufacturers' Trade Spending



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If retailers had their way, though, manufacturers would address inflationary costs by reducing SKUs and increasing list prices — reducing trade spending is their least preferred manufacturer course of action.

Retailers' Preferred Actions by Manufacturers to Address Inflation

(% of retailers)

100%

	Greatly prefer	Somewhat prefer	Do not prefer at all
SKU reductions	71%	21%	9%
List price increase	15%	50%	32%
Packaging change	15%	44%	29%
Reduced shopper marketing/ retail media investments	9%	29%	50%
Trade reduction	3%	15%	74%

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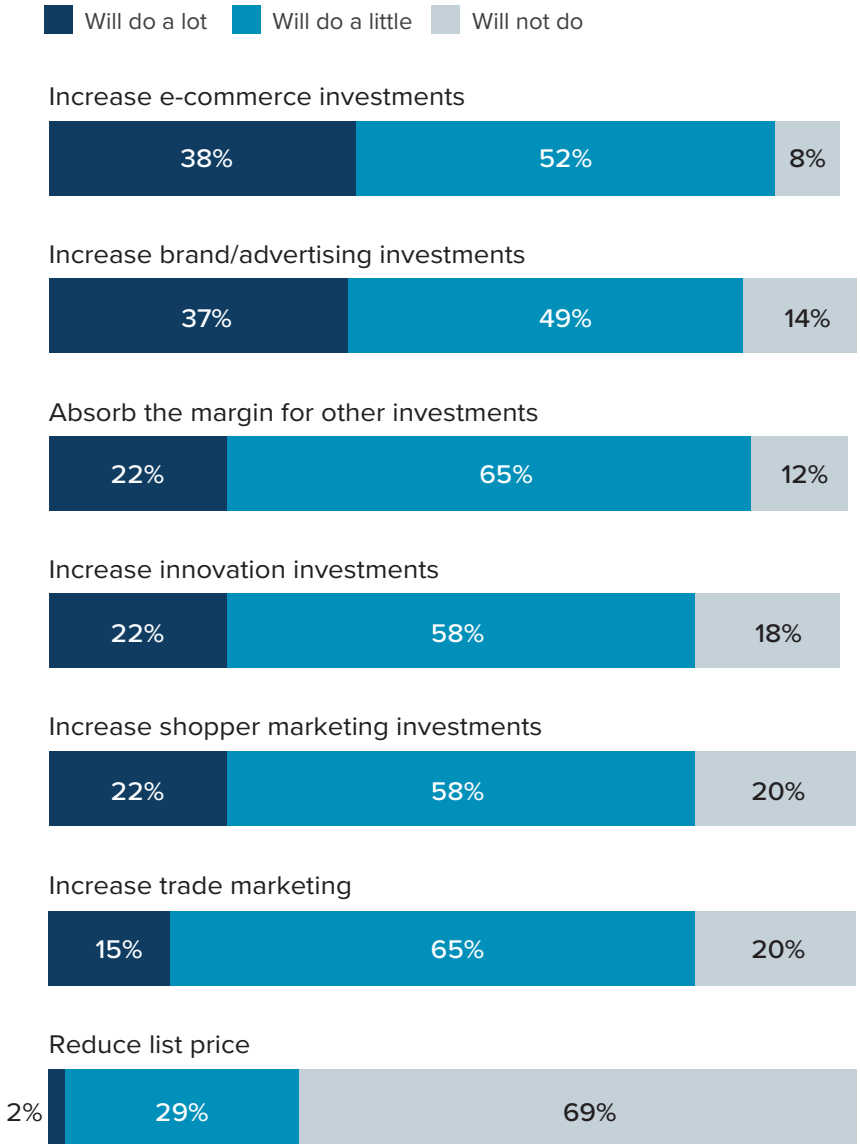
Manufacturers' Plans If Costs Decrease in Next 12 months



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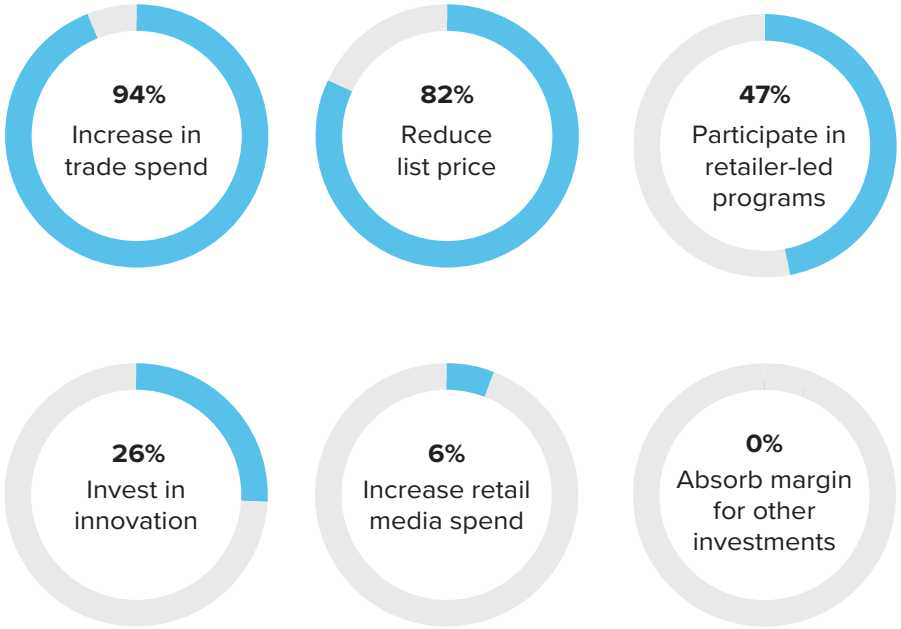
If costs fall during the next 12 months, about 90% of manufacturers plan to increase their investments in e-commerce and/or their brand and advertising. Eighty percent will increase their investments in innovation and/or shopper marketing.

Fewer than one-third will reduce their list price — a stark contrast to the 82% of retailers who would like to see list price reductions if supply normalizes in the near future and manufacturers' costs fall.

If costs decline, nearly every retailer (94%) would like to see an increase in trade spending. Almost half would like manufacturers to participate in their retail programs and more than one-fourth would like them to invest in innovation.

Retailers' Preferences for Manufacturers If Costs Decrease*

(Respondents selected Top 3)



*Assuming near-future normalized supply. Advantage Sales Outlook | June 2022 based on surveys of 99 consumer packaged goods manufacturers, retailers and others.

PRODUCT ASSORTMENT

If retailers follow through on their plans for changing up product assortment, the number of alcoholic beverages and fresh produce SKUs found in stores will grow, while grocery items, beauty products and general merchandise assortment will decrease.

Retailers' Plans for SKU Assortment
(% of retailers)

↑ Increasing → Staying the same ↓ Reducing

Alcoholic beverages
32% ↑ 46% → 4% ↓

Pet food/pet care
25% ↑ 32% → 32% ↓

Produce
25% ↑ 61% → 0% ↓

Grocery
21% ↑ 29% → 46% ↓

Health and wellness
21% ↑ 54% → 18% ↓

General merchandise
18% ↑ 32% → 39% ↓

Deli
18% ↑ 50% → 18% ↓

Refrigerated food
18% ↑ 64% → 11% ↓

Fresh meat/seafood
18% ↑ 54% → 11% ↓

Nonalcoholic beverages
18% ↑ 71% → 0% ↓

Beauty
14% ↑ 36% → 46% ↓

Bakery
14% ↑ 61% → 18% ↓

Dairy
11% ↑ 68% → 14% ↓

Front end
11% ↑ 64% → 14% ↓

Frozen food
7% ↑ 68% → 25% ↓

Baby food/baby care
4% ↑ 64% → 25% ↓

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Chart does not include "not applicable" responses.

Nearly three-fourths of retailers say they will increase the number of SKUs available online; none plan to reduce their online SKUs. More than half will increase online SKUs sourced from physical stores and nearly as many will increase online SKUs via a third-party marketplace.

Interest in new product launches is on the rise, as one-fifth of retailers say they will accept more product innovation this year compared to their pre-pandemic new-product strategy. When supply normalizes, eight in 10 will allow new item introductions outside category reset periods.

Retailers' Plans for Online SKUs

(Respondents selected all that apply)

74%
Will increase SKUs

- **52%** Sourced from stores
- **45%** Via third-party marketplace
- **16%** Sourced from dark stores/hubs/warehouses

26%
No change in SKUs available online

0%
Will decrease SKUs available online

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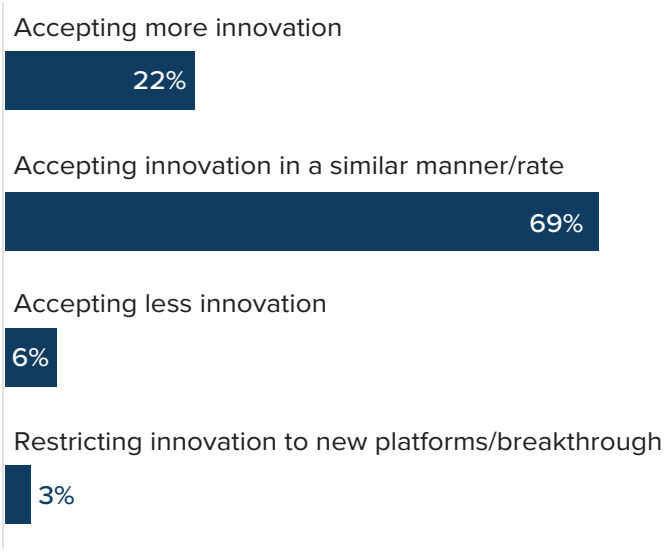
Nearly three-fourths of retailers say they will increase the number of SKUs available online.

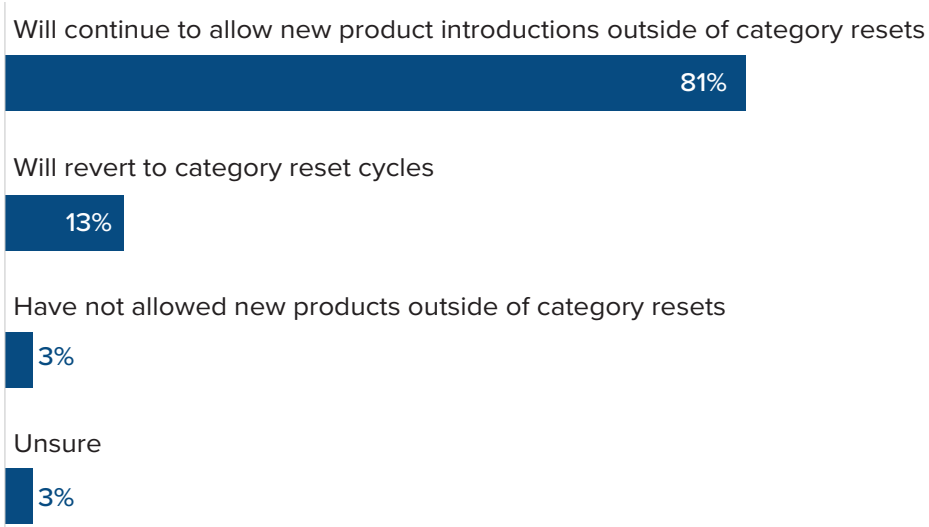
Retailers' Approach to Innovation

(Compared to pre-COVID)



Retailers' Plans to Accept Off-Cycle Product Introductions

(When supply chain normalizes)



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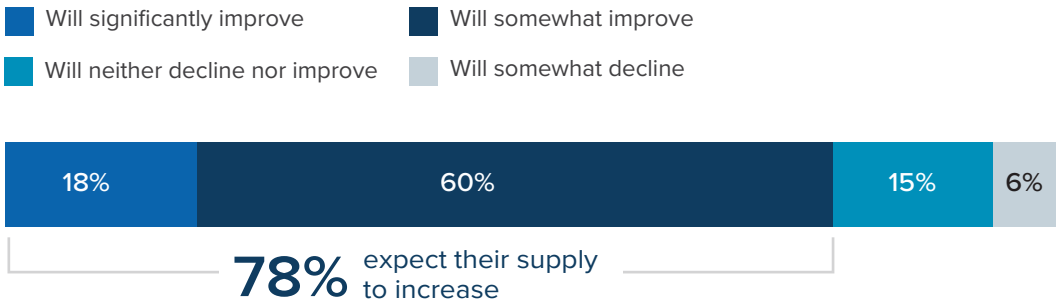
SUPPLY CHAIN CHALLENGES AND STRATEGIES

After more than two years of navigating supply chain disruption and increased costs, nearly eight in 10 manufacturers expect their supply to increase in the next six months. However, most do not predict significant improvement and 6% foresee supply declines.

But even as they are relatively optimistic about supply levels, more than half of CPG manufacturers surveyed say challenges around securing raw materials and around transportation will greatly affect their business for the rest of the year. Nearly as many believe manufacturing labor and packaging will pose significant challenges.

More than one-fourth of manufacturers say retailer penalties, port or overall congestion and manufacturing capacity will greatly affect them.

Manufacturers' Predicted State of Supply



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Extent Supply Chain Challenges Will Affect Manufacturers' Business in Next 6 Months

(% of manufacturers)

	Great extent	A little	Not at all
Raw materials	59%	36%	5%
Transportation	53%	44%	3%
Manufacturing labor	42%	55%	3%
Packaging	42%	50%	8%
Retailer penalties	28%	59%	13%
Port or overall congestion	28%	56%	16%
Manufacturing capacity	28%	53%	19%
Forecasting	17%	73%	9%
Retail labor	8%	59%	31%
Other distribution challenges	5%	61%	33%

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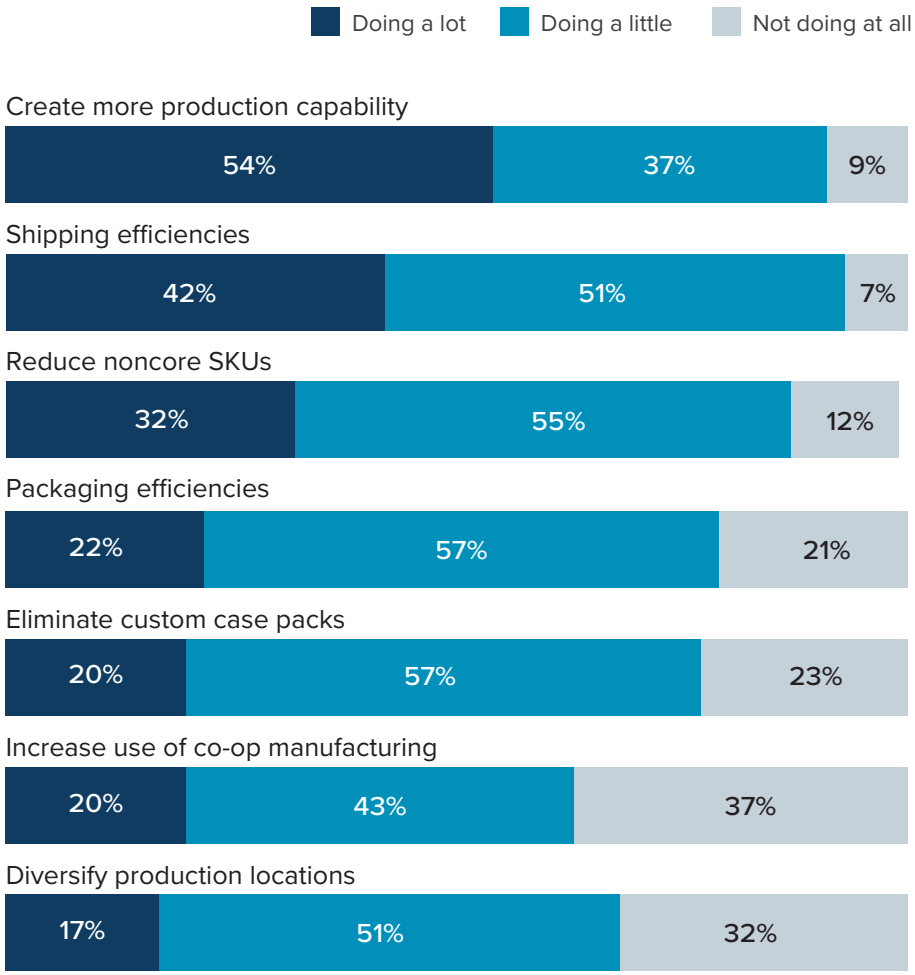
To achieve supply efficiencies, about 90% of manufacturers are creating more production capacity, focusing on shipping efficiencies such as order size and frequency and cutting non-core SKUs. Nearly 80% have recently or plan to address packaging efficiencies and/or eliminate custom case packs.

Manufacturer Strategies to Achieve Supply Chain Efficiencies

(Have done recently or plan to do in 2022)



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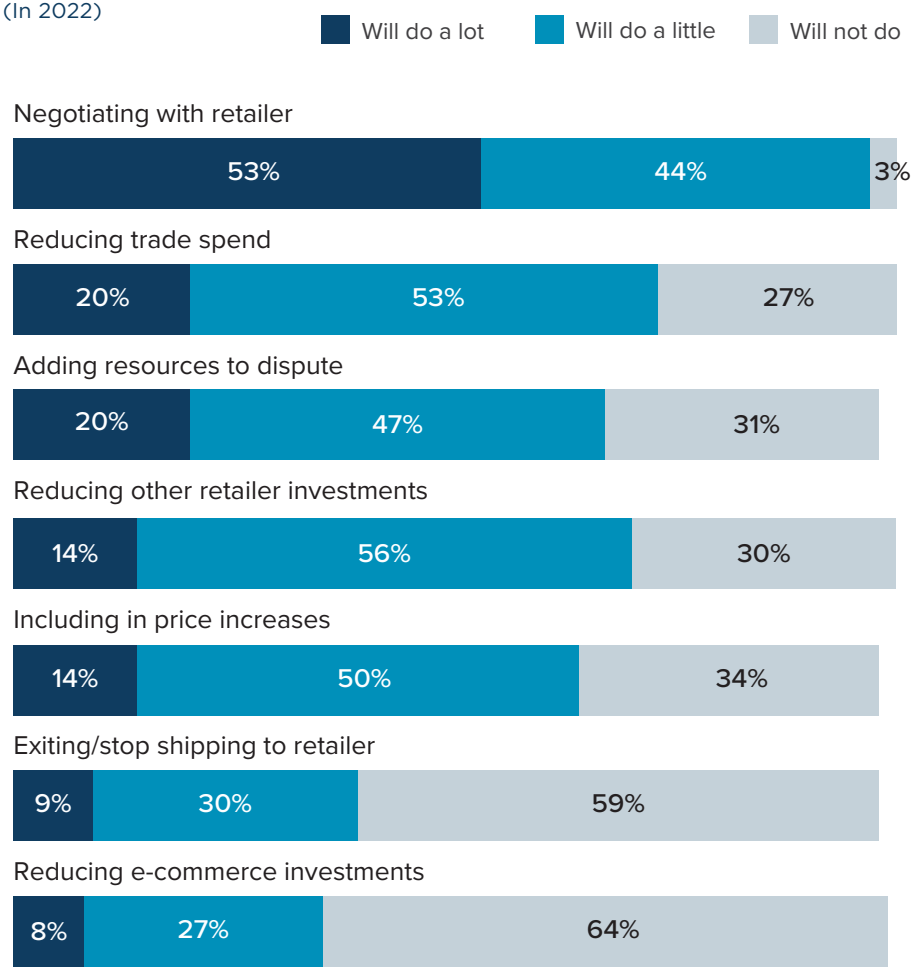
As supply chain disruption has led to an increase in the fees and fines retailers are charging manufacturers that are unable to fill orders on time or in full, most manufacturers are budgeting for and managing penalties by negotiating with retailers (97%) and reducing trade spend (73%).

Manufacturers' Strategies for Managing and Budgeting for Retailer Fines

(In 2022)



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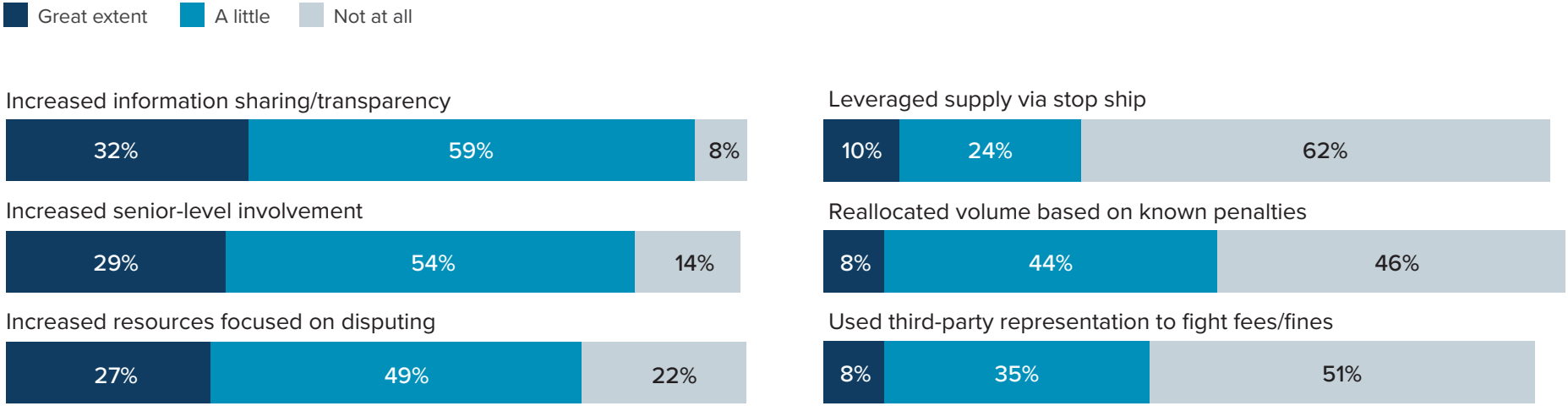
The three most effective strategies for mitigating retailer penalties, manufacturers say, are sharing more information and being more transparent (nearly one-third say they've been able to mitigate penalties "to a great extent" over the past year by doing this); increasing senior-level involvement (29% say the strategy has helped them mitigate penalties "to a great extent") and adding resources that are focused on disputing the fines and fees (27%).

Manufacturers' Strategies for Mitigating Retailer Penalties

(How much respondents have been able to mitigate fines/fees)



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Nearly one-third of manufacturers have significantly mitigated retailer penalties through greater information sharing.

FUTURE GROWTH DRIVERS

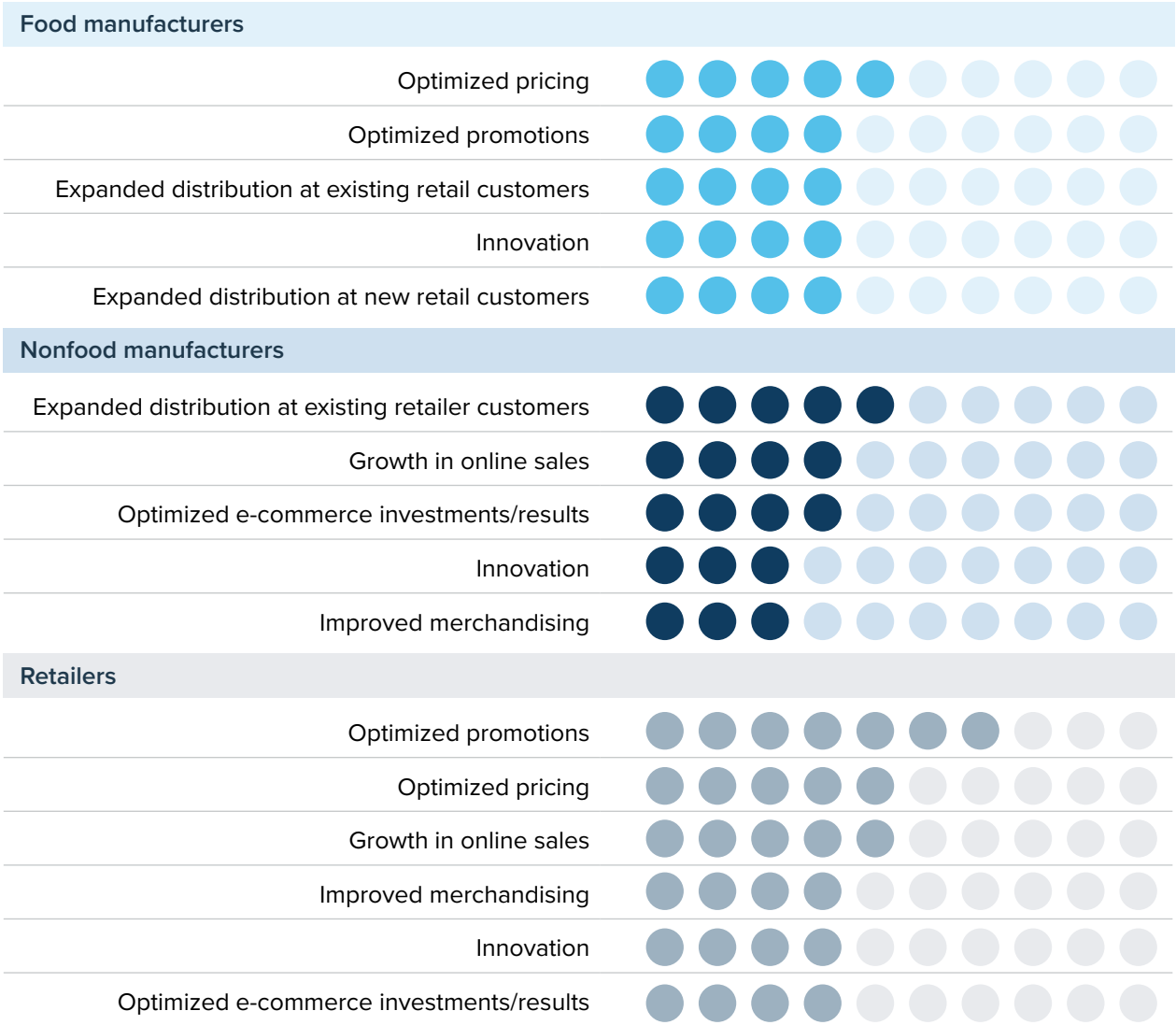
As the supply chain normalizes, manufacturers and retailers have different expectations about what will drive their growth. Food product manufacturers see significant growth coming from optimized pricing and promotions, expanded distribution at existing retail partners and product innovation. Nonfood manufacturers are looking first to expanded distribution, then increased online sales and related optimized e-commerce investments and results.

Most retailers, however, believe their most significant growth drivers will be optimized promotions, optimized pricing, growth in online sales and better merchandising.

As manufacturers and retailers continue to face supply chain abnormalities and inflation not seen in decades, they're focused on mitigating the impact of price increases and identifying areas of growth — but their perspectives and preferences don't always align. The state of the marketplace, though, has manufacturers and retailers leaning toward more frequent and more effective communication and greater transparency, which will benefit everyone even as inflation and supply chain woes wane. ●

Significant Drivers of Growth When Supply Normalizes

(Respondents selected all they consider "significant"; Top 5 listed*)



* % of respondents rounded to nearest 10%. Advantage Sales Outlook | June 2022 based on surveys of 99 consumer packaged goods manufacturers, retailers and others.

ADVANTAGE SALES

For more survey results and insights, contact
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