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3 Questions Every CPG Industry Executive Must Address in 2022

Including evolving consumer habits, inflationary pressures, and rising production costs

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2022 CPG Industry Outlook Overview

For the last two years, the market conditions for the CPG industry have been largely positive. The pandemic caused favorable consumer behaviors, such as pantry packing, that directly impacted CPGs compared to other industries. When the pandemic first started, American consumers had evident behavioral shifts as a result of their inability to travel, dine in at restaurants, go to the movies, or any other regular activity. Instead, Americans turned to at-home entertainment and home cooking. While that was a clear behavior shift, it was only part of the equation.

Any CPG industry leader will remember how difficult it was to keep items in stock. The pandemic "pantry packing" behavior kept nearly all categories of CPGs in high demand for almost all of 2020. It also led consumers to disregard concerns about price and brand and buy whatever they could find available on the shelf. This lack of concern about price was aided by the fact that most consumers experienced a simultaneous increase in income as a result of government stimulus, enhanced unemployment benefits, and wage increases. Together, these factors created an environment in which rising costs for production could easily be passed onto the consumer due to their increased demand for products, their price inelastic attitude, and their hoarding buying trends. As a result, CPGs simply decreased the number of discounts they typically offered, which covered any rising costs.

These favorable CPG conditions in 2020 slowed at the end of 2021, and will certainly be gone by 2022. As of now, Prevedere's outlook projects that the industry will face new challenges in the next year as consumer behavior changes and uncertainty in the market remains high. These challenges primarily start with a weaker consumer with lower income levels than the past two years as government stimulus and benefits expire. Additionally, inflation has hit its greatest level in decades, and already impacting many Americans. At the same time, consumer behavior is shifting as some consumers return to pre-pandemic trends such as traveling, eating at restaurants, or being less reliant on online shopping for goods.

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#1 Will consumers continue their new habits or revert to pre-pandemic behaviors?

The first question CPG executives must navigate in 2022 is whether consumers will continue with their new pandemic habits or revert to pre-pandemic behaviors. There are a lot of habits companies will need to monitor, including whether consumers will continue to pantry pack or whether consumers will primarily buy groceries online or in person.

To navigate this challenging landscape, CPGs need to first understand which pandemic habits are sticky versus temporary. For example, the recent increase of online grocery orders may continue for the next few years regardless of pandemic conditions. On the other hand, it's safe to assume that restaurant dining will likely return to pre-pandemic levels in the near future as the pandemic eases.

How to Address Changing Consumer Habits

Once a brand can discern which habits are temporary and which may persist more permanently, they need to map the relationship between each habit and its impact on specific business categories to plan accordingly. However, CPGs need to be agile as new habits could continue to emerge. At the same time, there could be temporary reversions, such as increased pantry packing, each time a new variant and wave of COVID returns.

CPGs can remain agile by monitoring and mapping these evolving habits in real-time with external data so they can adjust their business plans and take advantage of new opportunities throughout the year.

#2 How will inflation impact spending?

Inflation has been all over the news in recent weeks and the reality is that price pressures will not diminish any time soon. In fact, the Consumer Price Index hit a nearly 40 year high of 6.8% in November 2021.

Normally, inflation of this degree can be felt by consumers across the income spectrum. However, like many economic trends in the last two years, current inflation is unprecedented as it is not impacting all Americans in the same way.

So far, wage increases have been keeping up with growing inflation, allowing most consumers to maintain spending levels.

How to Address Inflationary Pressures

Notably, consumers that are experiencing the greatest inflationary pressures are Americans at the lowest income levels as well as those that have recently made major purchases such as homes or cars.

While only some consumers are being heavily impacted by inflation, the number is expected to grow in the coming months.

CPGs need to understand which of their consumers are being impacted by inflation and how their habits are changing in response to these pressures.

#3 With limited opportunity for promotion, how can costs be managed?

Consumers aren't the only ones feeling the effects of inflation right now - manufacturers across the CPG industry have also been hit hard by inflationary pressures. The price of goods has steadily risen throughout the last year as the supply chain has produced limited inventory.

At the same time, inflation has driven production costs up through a variety of channels including wage growth. This creates a similar environment to the last two years, but without the benefits of consumers having a pandemic mindset coupled with additional income.

As consumer demand fades and they return to their pre-pandemic price-conscious mentality, CPGs can no longer pass additional cost increases along to the consumer, which presents a significant challenge across the industry in 2022.

How to Manage Rising Costs

To manage increased costs, CPGs should focus on consumer segments that will continue to spend despite rising inflationary concerns.

The key to managing costs and maximizing revenue until inflation stabilizes will be identifying and targeting segments of Americans that still have disposable income and are not focusing on the cost of goods as heavily.

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Best Practices for Forecasting and Planning in 2022

In order to successfully approach forecasting and planning in 2022, CPGs must accept there will be continued uncertainty throughout the economy from evolving consumer behaviors and the uneven impacts of inflation across industry and consumer segments.

In response to this uncertainty, CPGs need to prioritize scenario planning across all of their categories and brands. While the only guarantee for 2022 is that there will be uncertainty, scenario planning can help mitigate some risks and allow CPGs to plan for whatever may come in the next year.

CPG companies that leverage scenario planning now will be best positioned to pivot as market conditions change.

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CPG companies planning in 2022 are in uncharted waters.

From increased inflation and labor market shortages to supply chain challenges and ongoing COVID, the question on every business leader's mind is, "how will we navigate these ongoing sources of uncertainty?"

Our scenario planning solution was built using Prevedere's AI Engine, which can be integrated into any data lake or data warehouse or imported into most BI and analytics tools, including Microsoft PowerBI, Tableau, SAS, Excel, and many others.

Contact us to learn more about improving planning, forecasting, and risk management with a clearer view of future performance under different economic scenarios.

For more information, please contact
(888) 686-7746 or inquiries@prevedere.com

Economic Scenario Planning helps companies plan for what's next.