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Challenges that Food and Beverage Brands will Face in 2022

Including inflationary pressure, price-sensitive consumers, and changing consumer behavior



Food & Beverage Outlook 2022

This eBook addresses the three key challenges that should be top of mind for every executive across the food and beverage industry throughout 2022. The eBook also shares the recommended approach that executives should consider when developing forecasting and planning strategies in the next year.

The food and beverage industry will experience flat to mild growth in overall sales dollars in 2022, driven by price increases across the board. However, the industry is expected to face a decline in overall volume compared to the last two years as COVID behaviors such as pantry loading and reduced mobility subside. At the same time, consumers and the U.S. economy as a whole will be weaning from the unprecedented stimulus measures over the past two years.

Challenges to the Food & Beverage Industry

#1: What impact will inflationary pressures have on customers and sales?

One of the biggest challenges facing CPG brands in 2022 is understanding the impact inflation will have on consumer spending and sales. Relatively high price increases will continue throughout the year as manufacturers push higher input costs onto consumers.

Additionally, on the demand side, average hourly earnings are no longer keeping pace with inflation, which could result in a pullback in overall consumer spending. Although consumer spending is still up in the short term, it is expected to decelerate substantially in response to persistent higher prices.

#2: Will consumers return to pre-pandemic buying behaviors?

As the U.S. emerges from the pandemic, consumers are rapidly returning to vacations, travel, and eating food at restaurants and entertainment venues rather than at home. The pent-up demand for these activities over the past two years could negatively impact food and beverage purchases at home. While the structural shift of workplace flexibility will keep volume ahead of pre-pandemic levels, it won't be an exact repeat of 2020 and 2021 volumes.

Overall, the food and beverage industry benefited positively from COVID and shifting consumer behaviors during the pandemic. However, the current shift toward pre-pandemic behaviors, even if not entirely, could adversely impact the industry in 2022.

Challenges to the Food & Beverage Industry

#3: How will the end of government stimulus payments impact the consumer?

During the peak of the pandemic, billions of dollars were placed in the hands of consumers for spending on food and beverage brands specifically. Average SNAP benefits per person were significantly higher than before the pandemic as the income verifications were waived and most of those receiving SNAP benefits received the max benefit allotment for their family size.

At the same time, the pandemic EBT program added billions of dollars to food spending and put it directly into the hands of caregivers of children to replace the free and reduced school lunches many students would have normally received during in-person schooling.

Now, the pandemic EBT program is dissipating as only a few states plan on continuing the program this summer and into the next school year and the income requirements for SNAP benefits are returning.

This will result in significantly less government social benefits in the hands of U.S. consumers for spending specifically on food and beverage products.

In addition to the food and beverage specific programs, there were also three rounds of direct stimulus measures and the child tax care credit. During the latter half of 2021, real disposable personal income reached record high levels despite lower employment across the board in the United States.

As this unprecedented amount of government stimulus and support wanes, many shoppers will become more price-sensitive than they were over the past two years. Food and beverage brands should be prepared for this heightened price sensitivity and position prices accordingly.

A row of Galia brand fruit juice bottles on a shelf. The bottles are red and feature a label with a fruit basket illustration. The background is dark, making the bottles stand out.

Best Practices for Strategic Forecasting and Category Planning

Food and beverage brands need to understand the buying patterns of their core demographic and whether they are impacted by inflationary pressures more or less than other demographics. Companies should focus on consumer segments and be ready to pivot away from core consumer segments that are more negatively impacted than others.

Brand awareness and the ability to differentiate from competitors is also going to be key for food and beverage brands as consumers return to more price-conscious decision-making. According to the most recent consumer behavior survey data, the percentage of budget-conscious shoppers has increased as well as the number of consumers who intend to decrease overall spending. Moving forward, focusing on brand differentiation and maximizing value to consumers will be key to attracting customers in this inflationary environment.

Finally, in 2022 and beyond, scenario planning is an absolute necessity. While the economy has somewhat stabilized as COVID's impact wanes, there is still a lot of uncertainty and potential economic scenarios that could play out throughout the year. Food and beverage companies that leverage scenario planning and consider dynamic variables will be best positioned to react strategically to rapidly changing market conditions.

Food & beverage companies planning in 2022 are in uncharted waters.

From 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.**