2022 CONSUMER PRODUCTS TRENDS

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Since the onset of the COVID-19 pandemic, the consumer product industry has faced its share of struggles – supply chain disruptions, global lockdowns, labor shortages, spikes in online shopping, and an evolving consumer base. Many companies had to implement new business models, such as pursuing direct-to-consumer channels and exploring the eCommerce market, to respond to these disruptions and adapt to an increasingly digital landscape. The pandemic also forced consumers to consider their values and priorities, more actively pursuing companies that also had a commitment to those values and leaving years of brand loyalty at the door.

For the past 2.5 years, the industry has adapted and responded to these disruptions and to the needs of its consumers in the best way it could. Now, it’s time for CPG companies to be more proactive. Whether it's diversifying supplier networks to establish resilience, being more intentional with revenue growth management strategy, or investing in recruitment and retention efforts for labor and talent, CPG businesses must position themselves ahead of the curve to better anticipate and meet the needs of consumers and remain competitive and profitable in this industry.

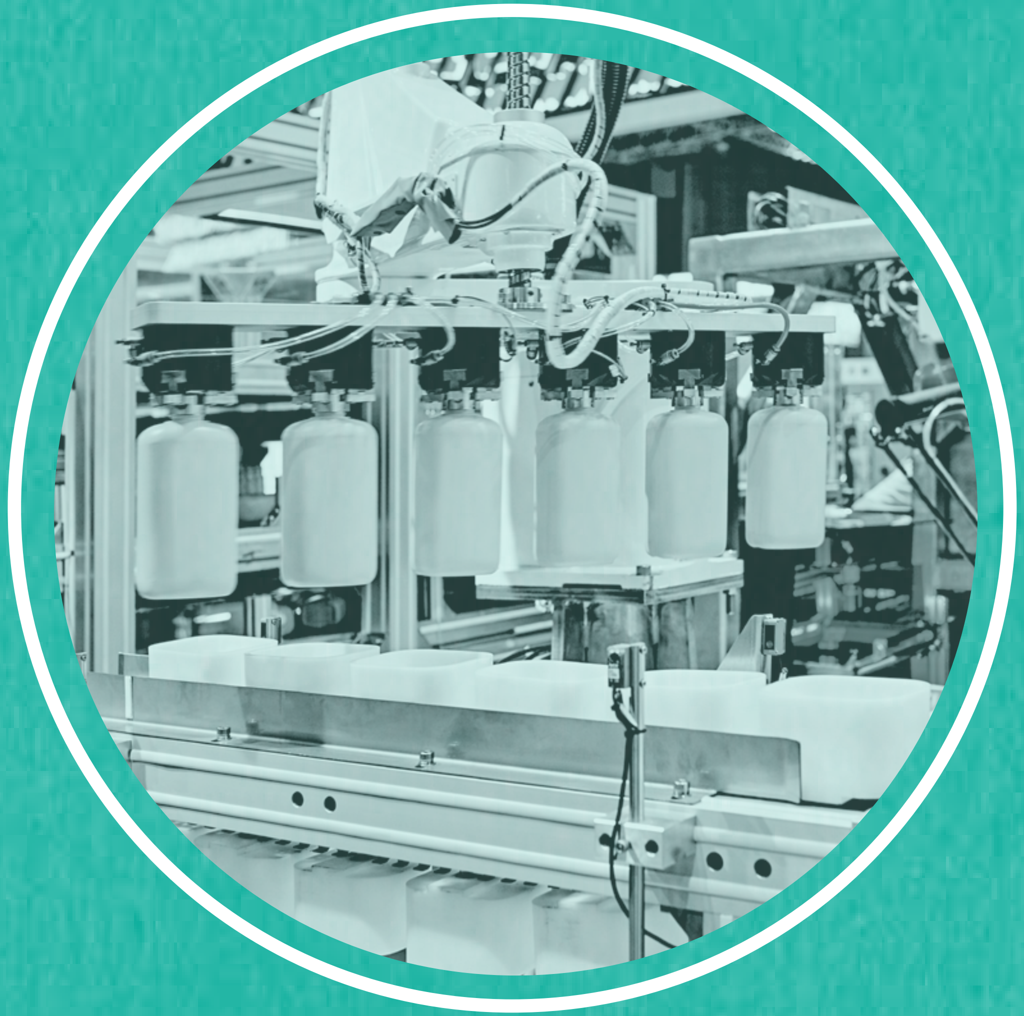
Here are five consumer product industry trends that companies should be mindful of as they consider ways to take a more proactive approach to business in 2022.

TREND #1
Supply Chain Resilience

TREND #2
The Nature of Competition

TREND #3
Routes to Market

TREND #4
Consumer Base



TREND #5
Labor and Talent

TREND 1: **Supply Chain Resilience**

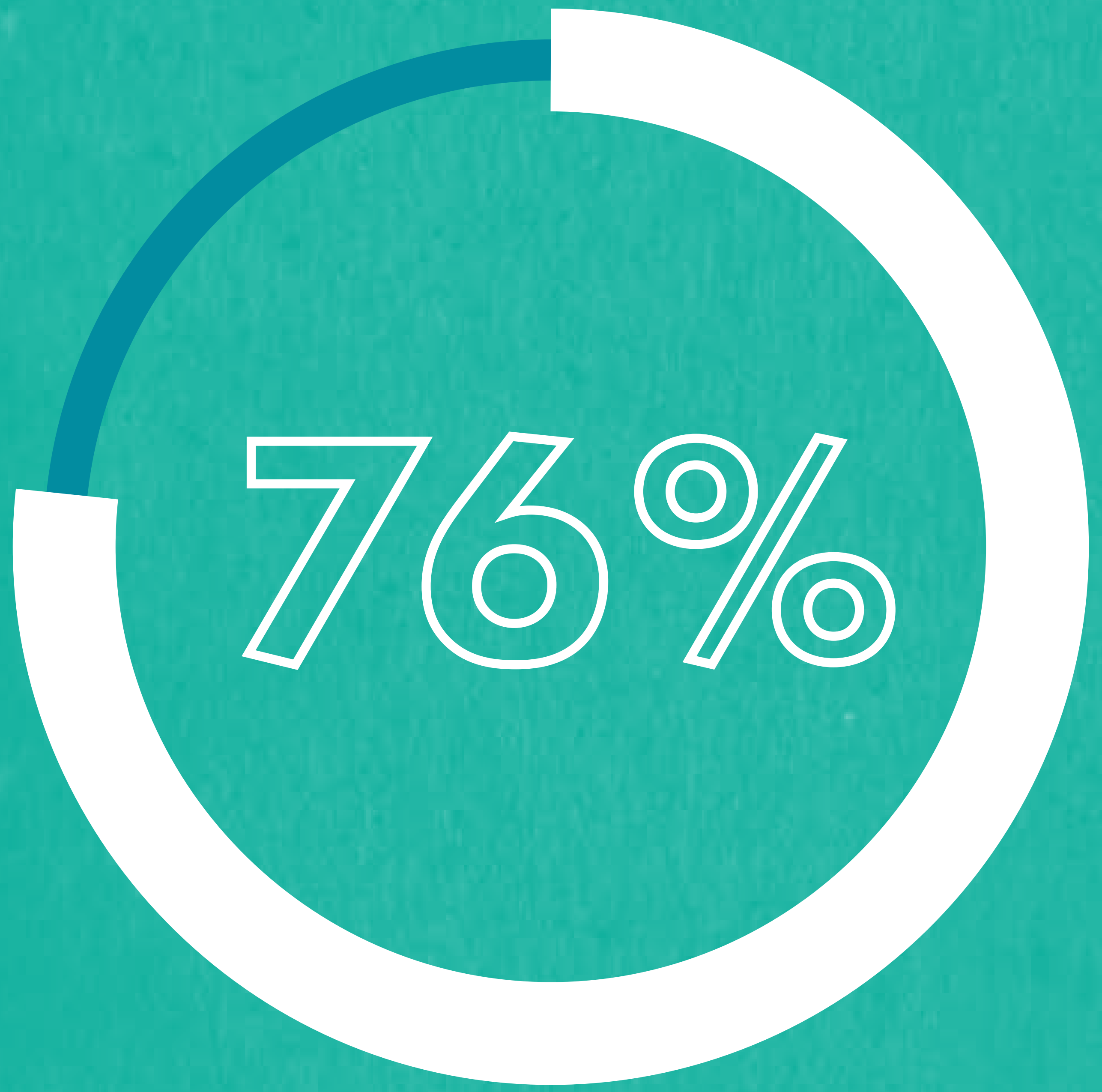
COVID-19

COVID-19 highlighted the weak points in the industry with supply chain volatility, so much so that a Global Supply Chain Pressure Index was created to measure potential disruptions. Consumer product companies experienced textbook supply and demand issues – empty warehouses, backed-up shipping containers, global lockdowns, raw good and labor shortages, all-time high price of shipping containers, among other issues, during a huge uptick in demand contributed to supply chain disruptions worldwide.

TREND 1: **Supply Chain Resilience**

COVID-19

For years, CPG companies deployed a strategy based on leanness; limited inventories and limited suppliers to produce the lowest cost to serve was an approach based solely on profitability and shareholder interests. These strategies, however, inhibit the ability to meet those huge upticks in demand and prohibit supply chain resilience.



According to Gartner, 76% of supply chain executives said their company is facing more frequent disruptions in their supply chain compared to three years ago.

TREND 1: Supply Chain Resilience

Rise in eCommerce

The eCommerce market continues to grow, as consumers appreciate the convenience and flexibility that the digital landscape provides.

Consumers are expecting more options for same-day or two-day delivery. While impossible to compete with same-day or two-day delivery options from eCommerce giants like Amazon, it is important for CPG companies to find ways to differentiate themselves in the eCommerce market.

TREND 1: **Supply Chain Resilience**

Rise in eCommerce

eCommerce growth also means an increasingly important focus on eCommerce fulfillment and providing a seamless experience for the changing needs of the consumer. For CPG companies, the supply chain plays an elevated role; they need to invest in solutions to ensure profitability while also meeting consumer expectations and needs.

TREND 1: Supply Chain Resilience

Geopolitical Instability

Prior to the pandemic, the global supply chain was already complex. Now, entering the third year of the COVID-19 pandemic, growing geopolitical uncertainty is still a threat.

A particularly important geopolitical consideration for the global supply chain is the strategic rivalry between the US and China. The former administration tried to maximize authority to disrupt US-China supply chain business, and protectionist policies aimed at hindering industrial competitiveness in China are encouraging CPG companies and the US government to rethink their strategies to build a resilient supply chain.

Supply chain disruptions stemming from geopolitical instability and uncertainty will continue to be inevitable. Already, we've seen the current administration take steps to intervene to provide some source of relief for companies.

TREND 1: **Supply Chain Resilience**

CPG companies must rely on data and analytics to provide visibility to inform decision-making and better manage supply chain disruptions. Technological solutions that provide predictive analyses and supply chain transparency will enable businesses to be more agile, resilient, and responsive.

Additionally, it's imperative that businesses work to diversify their supply chain networks and identify alternative sourcing strategies. Supply network flexibility is necessary to alleviate challenges brought on by supply chain disruptions, and partnerships or 3PL providers can provide more stability for a business and ensure resilience in the face of future challenges.

TREND 2: **The Nature of Competition**

Over the past decade, the consumer products industry has experienced a boost in innovation due to the growing number of **new entrants** in the market. We are increasingly seeing smaller companies and aspiring entrepreneurs enter the field, making a true, lasting impact through digitally driven business models.

TREND 2: **The Nature of Competition**

New entrants to market – many digitally born and digitally driven – are challenging reputable CPG companies and brands who have worked for years to establish consumer loyalty. They're using "business models that are asset-light, information rich, and heavily instrumented" and acquiring customers through both a DTC approach and efficient consumer engagement strategies.

Going digital is no longer a suggestion. The challenge for CPG companies is to keep a consumer-centric approach – prioritizing consumer loyalty and engagement – in addition to that digital presence to remain relevant and competitive.

TREND 2: **The Nature of Competition**

The CP industry has also seen an **increase in DTC**. While there are low barriers to entry, many DTC brands are struggling to remain competitive and profitable. Take, for example, Warby Parker, a DTC eyewear company that has experienced increased sales but widening losses as it struggles to predict future operating results despite a loyal consumer base.

TREND 2: **The Nature of Competition**

How can CP companies remain relevant and profitable in the DTC space?

An investment in DTC allows CPG companies to build direct relationships with their consumers, better understanding and anticipating their needs through first-party data and opportunities for testing the market. Pursuing customer engagement strategies, like loyalty and reward programs, will encourage consumers to want to buy from your company. Consumers don't just want your product; they want a good experience getting your product.

A consumer-centric approach to the DTC business is imperative to stand out in an increasingly competitive industry. Investing in consumer engagement will benefit them and your business.

TREND 2: **The Nature of Competition**

The CP industry will continue to see a **blurring of lines** between CP and retail. Increasingly, companies are establishing an omnichannel presence as they as recognize the benefits of a hybrid approach with eCommerce and brick-and-mortar stores. As such, companies looking to pursue this approach need to invest in a holistic strategy that prioritizes the consumer while also achieving a profit.

TREND 2: **The Nature of Competition**

Mergers and acquisitions are an avenue to retain a competitive advantage in today's market. We're seeing CPG businesses shed categories and segments of their business to become more focused on a particular area. For example, Unilever attempting to buy GSK's consumer healthcare assets while allegedly disposing of its food business is an example of how CPG giants can strategically scan the market to remain key competitors.

If CPG companies are strategic and intentional in their approach to M&A, they can successfully expand their consumer base, gain a competitive edge, and contribute to industry-wide innovation.

TREND 3: **Routes to Market**

According to one study, the total number of digital shoppers worldwide grew by more than 1 billion from 2014-2021.

SOURCE

Online sales increased during the pandemic, and the desire to keep shopping online will only continue to increase post-pandemic. According to one study, the total number of digital shoppers worldwide grew by more than 1 billion from 2014-2021 (Statista). Profitability in eCommerce, then, presents a challenge for CPG companies, as advertising and shipping costs are higher than typical associated retail costs. Businesses must consider how traditional routes to sales and marketing have evolved and what steps they must take to ensure profitability and success in a rapidly changing market.

TREND 3: **Routes to Market**

We're also seeing an evolution of the sales organization. A shift toward a **DTC model** means that CPG companies must have the customer at the forefront of their sales model. *What are the consumer's needs? Where do they prefer to shop? How do they want to shop?* Businesses should use first-party data to analyze the wants and intents of their consumers and pursue a sales model that meets those needs,

TREND 3: **Routes to Market**

We are also seeing a rise in **digital and social selling**, like Social Commerce Platforms and Social Media Storefronts, These platforms allow brands to conveniently sell products to consumers through social media and directly engage with them through their purchasing experience. Through integration with eCommerce engines, live shopping experiences, and advertising partnerships, consumers find ease and convenience in this experience.

TREND 3: **Routes to Market**

As more companies continue to invest in new selling channels and ways to engage customers through virtual experiences, such as live-stream shopping and Metaverse, we can expect further growth in the approach to digital and social sales. Brand partnerships and retail collaborations also offer an opportunity for CPG companies to build channels for sales, break into new (or existing) markets, and drive revenue growth.

TREND 3: **Routes to Market**

CPG companies are increasingly focusing on **revenue growth management (RGM)** as they look to navigate pricing pressures and challenges and analyze the most effective promotional strategies. Changes in the digital landscape and consumer behavior have challenged the traditional approach to RGM. Companies need to make an intentional effort to assess the aspects of RGM – trade promotion, pricing strategies, product innovation, and consumer engagement – to evaluate which factors will contribute to success and profitability

TREND 3: **Routes to Market**

$168.72 B

One report states the eCommerce fulfillment market size is expected to hit $168.72 billion by 2028.

As the digital landscape and eCommerce continue to expand, investing in **digital marketing** is absolutely vital, One report states the eCommerce fulfillment market size is expected to hit $168.72 billion by 2028. With this in mind, CPG companies need to consider the best ways to engage with and meet the needs of their consumers in a digital world.

TREND 4: **Consumer Base**

It's imperative for CPG companies to consider not only its own values, but the values of the consumer. Trends like sustainability and DE+I that were growing increasingly relevant in 2019, 2020, and even 2021 are here to stay.

Consumers want to see a true commitment to sustainability, DE+I, transparency, and health and wellness, among others. It is not enough for CPG companies to check a box or meet a quota; consumers are paying more for sustainable products and leaving brand loyalty at the door more than ever before. In the chart, we can see a glimpse of the needs and wants of the pre- and post-COVID consumer.

VALUE/PRIORITY	PRE-COVID	POST-COVID
Sustainability	▪ Commitment to sustainability was a bonus but not a top consideration or priority for consumer decision making.	▪ As of July 2021, 63% of people say they value CP sustainability in purchasing criteria. ▪ 42% of Americans are willing to pay more for sustainable products or services. ▪ Circular sustainability is a key focus.
Health/Wellness	▪ Health and wellness already strong prioritizations for individuals but were exacerbated by the COVID-19 pandemic. ▪ Emphasis on physical health and mental health.	▪ Continued prioritization of health and wellness. ▪ 48% of consumers said they prioritized their health and wellness more now compared to two years ago. ▪ Consumers are actively seeking out good-for-you, good-for-environment products.
Brand Loyalty	▪ Consumers had a high sense of brand loyalty. ▪ COVID-19 caused consumers to break ties with brands due to product availability, business closures, etc.	▪ CPG brands must align with a consumer's values. ▪ 33% of consumers more likely to purchase a brand if it aligns with their values.
DE+I	▪ In 2019, the World Economic Forum's Global Competitiveness Report included diversity as an indicator for innovation and productivity for the first time ever.	▪ Consumers are more likely to buy socially responsible products. ▪ Companies must make good on DE+I commitments or initiatives promised; consumers expect it.
Experience	▪ Initiatives or services, like BOPIS and subscriptions, were considered temporary, only done out of necessity for safety.	▪ Now, consumers expect seamless purchasing experiences, fast shipping, easy returns, and more. ▪ It's about the overall convenient, personalized experience.

TREND 5: **Labor and Talent**

46%

Generation Z and millennials now make up 46% of the full-time U.S. workforce

SOURCE

Nearly ¼ of manufacturing industry is 55+, and as the Baby Boomer generation begins to approach retirement age, there is a major concern for how their learned skills/knowledge will be passed on to the next generation of workers. Generation Z and millennials now make up 46% of the full-time U.S. workforce (Gallup), yet among this group, there is a decreased interest in hands-on manual labor, particularly after shift to remote work/learning environments following the onset of the pandemic. Additionally, this generation seeks to work for a company that values employee wellbeing; provides a diverse and inclusive workspace; and encourages growth – if not, they'll leave.

This demographic shift coupled with supply chain struggles is leaving the CPG industry with an extreme labor shortage.

TREND 5: **Labor and Talent**

So, how can the CPG industry recruit and retain talent amid a labor shortage and "employee market"? Companies can prioritize upskilling -- expanding an employee's skillset. A report by the World Economic Forum (WEF) calls companies to "anchor upskilling and workforce investment as a core business principle."

This serves as a retention and recruitment tool, as 65% of workers believe employer-provided upskilling is especially important when evaluating a potential new job (Gallup). If businesses invest in upskilling, they're creating a "long-term sustainable engine for talent recruitment, development, and retention," which is absolutely essential to attract the talent that might otherwise choose other booming industries, like technology. Businesses can invest in partnerships and long-term collaborations with academic institutions and third parties to recruit, train, and promote workers in the industry.

65% of workers believe employer-provided upskilling is especially important when evaluating a potential new job

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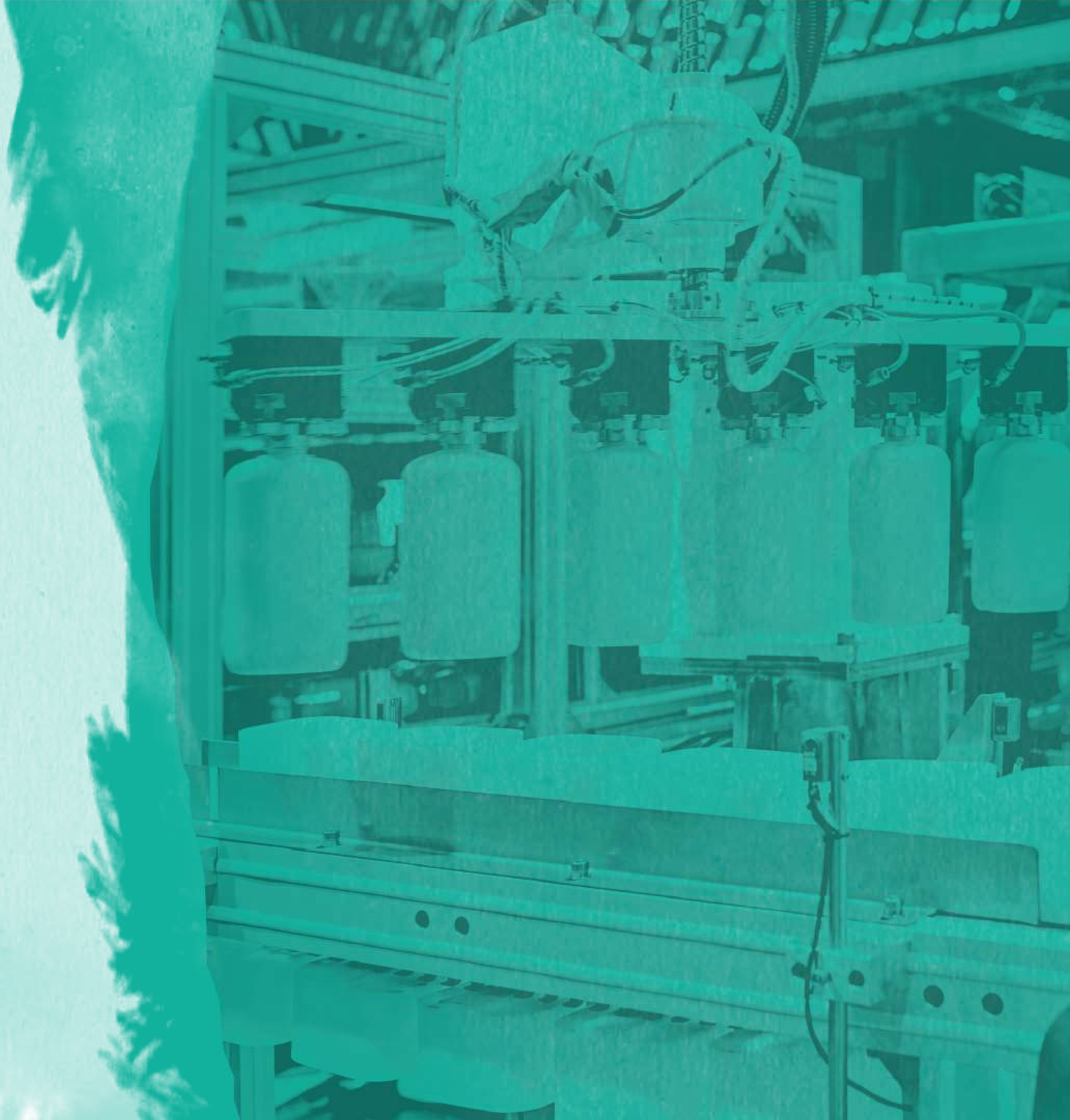
TREND 5: **Labor and Talent**

Companies can also leverage robotics and automated manufacturing to help automate processes and speed up simple, repetitive tasks. This does not replace the need for a human workforce; however, it does provide those workers with more time to focus on higher-value tasks in roles that might be more appealing to incoming workers.



CONCLUSION

The consumer products industry continues to experience both innovation and disruption as a direct result of the COVID-19 pandemic and the changing needs of the consumer. Global supply chain disruptions, a shift to eCommerce marketing, and continued geopolitical instability remain obstacles for industry supply chain resilience.

As new competitors enter the market, companies must explore DTC channels and M&A strategies to not only more effectively engage with consumers, but to also retain a competitive edge in today's market – one that is increasingly digital, and one in which it is difficult for companies to stand out. Businesses must also reassess their current approaches to sales and marketing to pursue a consumer-centric strategy, all while prioritizing the evolving needs, demands, and values of the consumer.

Additionally, amid talent and labor shortages industry-wide, it is imperative that companies allocate time and resources to upskilling employees and invest in strategic partnerships to recruit, train, and promote workers within the industry.

What once were short-term solutions to quickly meet the needs of the consumer during COVID-19 must now be intentional and sustainable, and these trends will continue into 2022.

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