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2023 consumer products industry outlook

Pursuit of profitable growth in challenging times

Methodology

Deloitte surveyed 150 consumer products executives from an industry proportional mix of food and beverage, household goods, personal care, and apparel companies in November 2022. Most of the companies are multinationals, all with more than \$500 million in revenue. For this year's edition, we conducted additional surveys with executives in Japan and China (50 in each country) to expand our view into those unique consumer markets. Survey questions were developed through an analysis of trending topics found in company communications and disclosures using an AI-assisted analytics tool, as well as through internal surveys and interviews with Deloitte client leaders in each consumer market. Finally, we conducted a financial analysis of consumer products companies in the top 30th percentile of performance based on three-year average total shareholder return, return on assets, and economic margin productivity as well as three-year revenue and EBITDA growth to ensure they fit our profitable growth profile.

Introduction

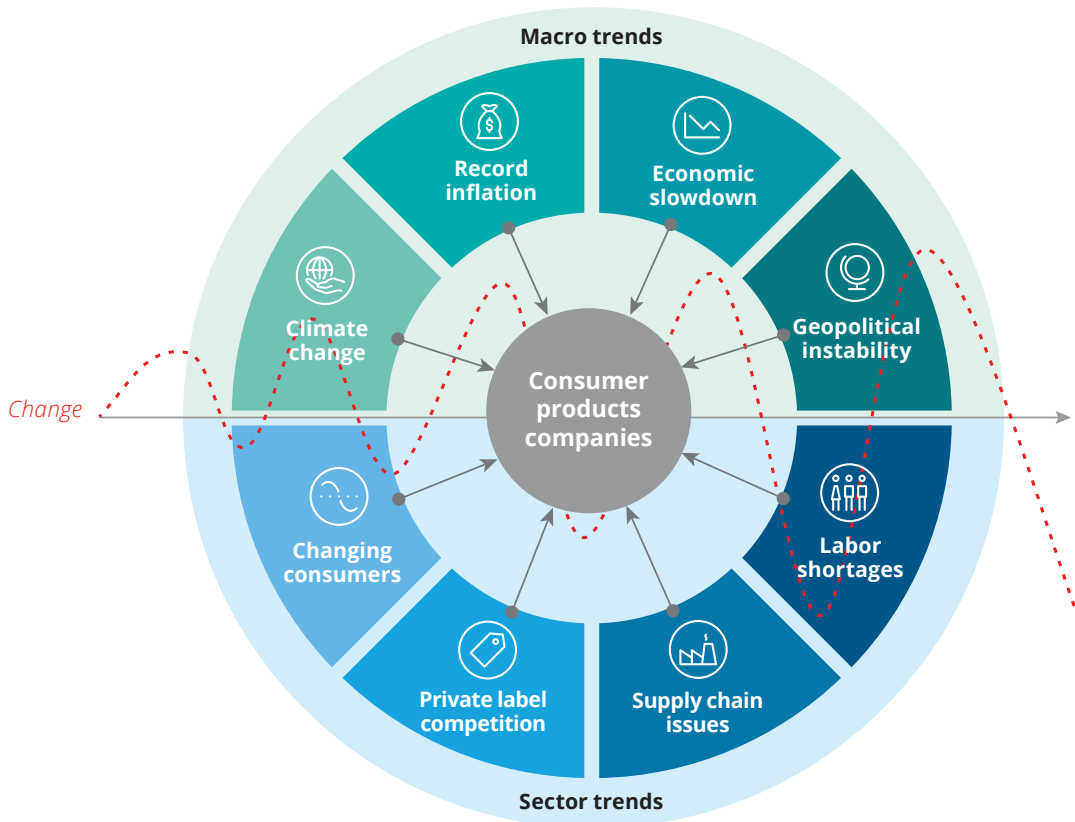
Feeling a little frazzled?

While the industry benefited from strong growth tailwinds, the past few years have been anything but plain sailing.

Whether you are a food and beverage, household goods, personal care, or apparel company executive, seven in 10 respondents say being an executive in the industry is more stressful today than it was five years ago. For three in 10, it is a lot more stressful (see methodology).

In almost any direction you look, the squeeze is on. Record inflation, supply chain issues, labor shortages, global conflicts, climate change, and a potential recession—each in isolation is challenging. Combined, they could be overwhelming. Industry executives surveyed think many, if not all, of these challenges will be with us in some form throughout 2023, and new surprises are now the norm.

And consumers' heads are likely spinning. They have seen everything from lockdowns to reopenings, fear to go out to free-for-alls, labor power to potential layoffs, office life to work-from-home, hankering for home goods to revenge spending on services, and savings growth to savings decline, through several cycles and back again. The context keeps changing. Hence, decisions made by individuals also change. Major demographic, political, environmental, technological, and cultural shifts are underway that forecast more change to come. Executives in our survey think keeping up with the changing consumer will be one of their greatest challenges.



Consumer products, as an industry, is based on stability and consistency. Now the squeeze and whipsaw of change could make this one of the most difficult periods to navigate in recent decades. In this environment, perhaps the best signal of success comes from those who manage to achieve profitable growth. To pull that off, they must now solve a more complex objective function—investing to keep consumers engaged while finding ways to do more with less.

So, what sets these forward-leaning companies apart? We look to the specific actions profitable growth companies take to get results. At the highest level, we find that profitable growth leaders are:

- Making investments that will help them adapt to the demands of the changing consumer, including in direct-to-consumer platforms, product innovation, digital marketing, and analytics.
- Using this opportunity to try to grow market share through several means, including pricing differentiation and inorganic growth.
- Taking creative approaches to transformation and, in some cases, pursuing vertical integration.
- Improving supply chains by enhancing data capture and transparency.
- Placing more emphasis on delivering against environmental, social, and governance (ESG) goals, even though the economic environment could make it a continuing challenge.

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A good or bad year for the industry?

Consumer products executives surveyed are of two minds about the year ahead. On the one hand, they are negative about the macro environment. Eight in 10 respondents say they are neutral or leaning pessimistic about the global economy and geopolitical stability. Seven in 10 assume high energy prices and higher input costs will be with us for a year or longer. The same holds for supply chain challenges and the Russia-Ukraine conflict.¹

At the same time, despite these headwinds, they are bullish on their own companies. Three in four are optimistic about their company's performance (74%) and its strategy (80%). Time will tell if that optimism is warranted, especially as more than one-third of the top performers in our financial analysis have analysts that cover them forecasting negative earnings per share growth.

Consumers also bring their perspectives and realities. Globally, four in 10 consumers surveyed feel their financial situation worsened over the past year. This sentiment is prevalent across income groups and connected to significant shifts in spending intentions. Less than half (43%) have paycheck money left over at the end of the month after expenses. Only one in three are optimistic that their financial situation will improve in the next year. These same consumers are two times more likely to be worried about their savings and delaying large purchases. They're also 1.5 times more likely to be concerned about monthly payments (which may signal future credit defaults).²

So, although individual companies may have their unique reasons for optimism, there are scenarios where consumers exhaust their savings and face a softening labor market, leaving little for continued expenditure.³ Consumer products companies should not ignore such downside possibilities. (For an economist's perspective, see *The economic outlook for the consumer products industry*).



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The economic outlook for the consumer products industry

The pandemic shocked the global economy, but so has its aftermath. The consumer products industry enters 2023 with an economy experiencing ruinous inflation, rapid tightening monetary policy, and recessionary risk. Consumer behavior and supply chains are still disrupted, and crises from war to weather add to the turmoil. All things being equal, it would take time for the global economy to return to normalcy. But uncertainty and fear undermine political support for a return to the basics of globalization. The coming decade, therefore, will be different than before.

Inflation arrived largely as a consequence of supply chain disruption, amplified by the whiplash of consumers rapidly switching from services to goods in the pandemic. Now, with the pandemic perceived as being over, consumers are shifting back to services and cutting spending on goods. This development should help alleviate inflationary pressure but creates some headwinds for consumer product sales. Oil and other commodity prices have declined as the global economy has weakened, providing additional hope for reduced inflation and cheaper transportation and inputs for the industry.

Still, once it goes up, inflation is hard to bring down. The International Monetary Fund (IMF) forecasts worldwide average inflation to remain stubbornly high at 6.5% in 2023. Central banks in Europe and North America are rapidly tightening monetary policy to stifle inflation. The US Federal Reserve is likely to continue tightening by raising interest rates until it is objectively evident inflation is receding. These actions may increase the likelihood of recession.

One casualty of war is the global market for grain and fertilizer, much of which is produced in Ukraine and Russia. Disruption of production and distribution led to a big increase in food prices, which is likely to persist, especially given the fertilizer shortage. Weather and climate are also playing their roles. For example, drought in the United States affects transportation on the Mississippi and cattle production in ways that may be felt for a few years. Combined, this means greater price sensitivity on the part of consumers, at least in advanced economies.

Speaking of consumers, although labor markets are tight in Europe and North America, wages have not kept pace with inflation, thereby leading to a decline in real incomes. In the United States, consumers have offset this problem by dipping into their savings. In Canada and Europe, however, real spending has declined. Japan's economy has lately seen improvement as COVID-related restrictions were lifted, and pent-up consumer demand led to strong retail spending growth. On the other hand, the sharp rise in energy and food prices and a falling yen have weakened household incomes. In China, retail spending was growing, but slowly. The state of global consumer health factors into the IMF's modest forecast for real GDP growth of only 2.7% in 2023.

Although global supply chain stress has eased since the worst of the pandemic, supply chains are not yet back to normal. As consumer products companies struggle to obtain the inputs and commodities they require, they also face a changing geopolitical and business environment. This involves governmental restrictions on technology transfer, fraught relations between the world's greatest powers, and increased regionalization of supply chains. It also involves new efforts by global companies to reinforce supply chain resilience and redundancy, partly by diversifying supply chain processes and no longer depending on just one country or supplier. As a result, we may begin to see a consumer products industry emerge that is, in many ways, more diverse than before.

—Dr. Ira Kalish
Chief Global Economist, Deloitte

Checking in on challenges

With reasons to be optimistic or not, the industry is nonetheless expected to face several challenges, including some holdovers from the prior year—namely, labor, supply chain, and inflation.⁴

Labor

Of the three big challenges executives called out for 2022, labor made the most positive progress—though the nature of the challenge may be changing. This year 42% of companies surveyed say they have a problem with higher-than-normal levels of voluntary attrition, which is down 13 percentage points from 2022. More than half of executives either think labor shortages will be over in six months or are already no longer a problem for them. Only 8% think workforce issues will be extremely challenging for their company in the year ahead.

Our past research suggests some companies may have taken steps to improve their labor profile, including by embracing diversity, equity, and inclusion (DEI)—a top strategy we've seen several food industry companies use to improve overall hiring and retention.⁵ Our financial analysis reflects top performing companies also invested in more automation to improve productivity (e.g., using machine vision to improve quality control and reduce material waste on production lines). Still, the labor challenge is likely being aided by expectations of a deteriorating economy and subsequent effects on the labor market. The conversation shifted from the Great Resignation to talk of layoffs in other sectors spilling into consumer products. We see this in our data: 69% surveyed are not going to increase their rate of hiring or may even decrease it. One in four plan layoffs.

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Supply chain

Supply chain operations may have seen improvements from the height of the pandemic disruption, but it still rates as a top concern among industry executives: 62% of respondents expect supply chain issues will be quite or extremely challenging in 2023.

The industry is still adapting to large shocks and new ways of thinking. For instance, almost half of companies think just-in-time as a supply chain strategy will need to be replaced (48%). Similar numbers are worried about the reliability of supply from once dependable markets (57%) and worry that a lack of trade collaboration among countries will further affect their ability to do business with those suppliers (47%). At the same time, the labor cost differentials that initially attracted them to these markets have significantly eroded, making the argument for continued use more tenuous.⁶

As half of our respondents (52%) say they are shortening their supply chains to de-risk, we expect 2023 will bring more nearshoring. Freight companies see this change coming too. Half of transportation companies are actively preparing for nearshoring by their manufacturing clients, while another third are exploring what action they should take to accommodate a shift.⁷

Additionally, the need for supply chain data to meet sustainability reporting or other regulatory or safety objectives continues to expand. For instance, seven in 10 executives surveyed agree that sustainability needs the same rigor as financial reporting. But only 3% of consumer companies say they can produce sustainability data that is as accurate and verifiable as their financial data, mainly due to the need to account for third-party suppliers (i.e., Scope 3 emissions).⁸ Or take the case of the United States, where Food Safety Modernization Act (FSMA) Rule 204 may constitute the most substantial food traceability requirements in decades.⁹ Then there's the European Union, which plans to require a "Digital Product Passport for textiles" that will include data on circularity and other environmental aspects.¹⁰ These and similar needs will likely challenge consumer products companies to get more and better data from their supply chains.

Inflation

Prices are already up. 2022 set the record for higher consumer packaged goods (CPG) prices (aided by the top performers in our financial analysis, which all increased their prices multiple times in 2022).¹¹ Central banks are doing their best to fight inflation and prevent higher prices. Nonetheless, eight in 10 companies in our survey plan to raise their prices further in 2023. Those higher prices are helping to boost revenue expectations, with 83% expecting higher revenue in the year ahead.

Still, 56% of companies surveyed say sales growth will be quite or extremely challenging. Growing unit sales will be especially difficult as elasticity becomes a more significant headwind. The industry splits down the middle on whether consumer products companies can raise prices without materially affecting demand. Only 48% think they can get away with raising prices in this sense. The rest either do not (39%) or don't know if they can (13%).

With sales, companies call out the difficulties of keeping up with the changing consumer. Two-thirds of executives agree that consumers' purchasing preferences have changed considerably over the past 12 months. The top problematic changes from an executive point of view were a decreased willingness to pay higher prices (63%) and consumers trading down to lower-cost offerings and options (57%). That includes 41% who recognize a new consumer openness to buying store brands (aka private or own labels). But executives see the changing consumer as a more generalized change. Changing preferences, be they dietary or fashion, was listed by more than four in 10 as very problematic for their company.

Improvement in operating margins will likely be harder than revenue in these inflationary times. Half of the companies surveyed expect their margins to be the same or to even shrink this year. Margins are the number one challenge in our survey (68% quite/extremely challenging). In addition to consumer price sensitivity, companies suffer from cost inflation in their supply chain: 82% expect input costs, be they grain, plastic, fabric, or packaging, to go up further in 2023. And potentially lower unit volumes produced on the same fixed cost base could wreak havoc on production economics.



The industry splits down the middle on whether consumer products companies can raise prices without materially affecting demand.

Not all markets look the same. To create an ever-more globalized outlook for the consumer products industry, we conducted additional interviews and surveys with executives working in China and Japan for their take on those unique markets.

The view from Japan

Japan's economic context is mixed. Recent lifting of COVID-related restrictions unleashed pent-up consumer demand and led to strong retail spending growth. On the other hand, the sharp rise in energy and food prices, combined with a falling yen, have weakened household incomes. Meanwhile, the government has offered monetary and fiscal stimulus to offset the negative headwinds coming from the global economy.

Japanese executives see increased input costs, high energy prices, and a slowing global economy lasting into 2023 and beyond. However, these executives remain confident about the prospects for their industry's and their organization's performance, with the majority expecting revenue, market share, and profits to increase. This optimistic view likely includes expectations of improved inbound demand critically important to several Japanese consumer product companies. Japanese executives also rate their jobs as less stressful than their Western counterparts do.

Japanese companies expect to protect their margins by increasing productivity, with supply chain and operational

excellence being the top investment areas. To pursue that strategy, Japanese businesses are aiming to improve transparency, especially around product information for consumers and exchanging more data with partners. Growing market share may be important, but investing in M&A to meet that objective is less of a priority in Japan.

In terms of challenges, most Japanese executives agree that consumers' declining willingness to pay higher prices and their changing channel preferences will be problematic for their company. One in two see the increase in prices as likely to negatively impact consumer demand. But when it comes to labor shortages, they are more optimistic than European and US executives who are three times as likely to say the workforce crisis will last through 2023.

To better serve changing consumers, Japanese companies are putting emphasis on their digital strategy. Executives agree that their organizations will need faster product innovation, better analytics, and more omnichannel sales capability to meet changing consumer preferences.

The view from China

China's economy is growing slowly. This reflects COVID-related factors, which hinder consumer interaction; a struggling property market; electricity shortages due to climate change policies; and headwinds from the global economy. Retail spending was growing, but slowly, with November numbers declining. The outlook is for continued modest growth with increased volatility.

Nevertheless, Chinese executives have a high level of confidence about the prospects for their industry's performance and are also less stressed than their Western counterparts. While they are not so worried about the global economy or geopolitical instability, maybe due to being less exposed to it than the West, they recognize that the global economic slowdown, currency devaluation, and higher energy prices are crises that will impact their industry for the next year and beyond. In response, Chinese businesses expect to improve their operating margins by increasing prices and investing in profitable growth and operational excellence. However, one in four Chinese executives see price increases as a risk that could lead to a deterioration in consumer demand.

In terms of their organization's performance expectations, Chinese executives are rather bullish. A large majority expect revenue and profits to increase in 2023, and one in two expect their company's market share to rise.

Chinese executives are clear on where meeting their business objectives will be challenging, including in their supply chain operations, sales growth, sustainability, and digital transformation.

Even more so than in the West, Chinese organizations are focusing their strategic efforts on adapting to the changing consumer. To do so, Chinese businesses say they need better analytics capabilities, faster product innovation, and more data from consumers. As a result, they have a clear focus on accelerating the move to digital platforms and technologies, including personalizing the customer experience and improving data security.

Pursuing profitable growth

Growing sales and margins while chasing the changing consumer in an inflationary and challenging economic environment won't be an easy task. We look to companies on track for profitable growth in our survey (N=71) as well as those from our financial analysis to discover possible drivers of their impressive success.

The best are like the rest

Before we look at what sets these profitable growers (PG) apart, it is just as important to understand how they are the same as all other (AO) companies in the survey. For instance, profitable growers are essentially just as likely to come from any industry subsector—such as food and beverage, household goods, personal care, or apparel. They are also well represented across company sizes, headquarter locations, and public or private ownership categories.

It doesn't appear that these profitable grower companies are especially lucky in many respects either. They share similar expectations on input cost increases (PG 83%; AO 81%), their ability to raise prices without materially affecting demand (PG 45%; AO 51%), and competitive factors such as their susceptibility to private-label offerings (PG 76%; AO 65%). When assessing challenges, profitable growers rate supply chain, digital transformation, product innovation, sustainability/ESG, and even sales growth as a little more challenging than all other companies. Profitable growers see only two areas as less challenging: margins (PG 59%; AO 76%, which fits the definition) and labor (PG 24%; AO 49%). Regarding labor, profitable growers are more likely to keep hiring on pace and less likely to plan layoffs.

Given inflation, growing margins may be more challenging than

growing revenue, so it would be fair to assume that profitable growers will place more emphasis on keeping costs down. However, that is not what we see in the data. All other companies are just as likely as profitable growers to say their companies will focus on decreasing costs in 2023 more than in prior years (77% each). Both kinds of companies are essentially tied in the likelihood to prioritize improving productivity and efficiency (PG 90%; AO 88%), and almost all companies are making investments in margin improvement and cost transformation (94% each).

It appears, though very important as table stakes for any company, a focus on cost will not be a primary differentiating factor for profitable growth. In other words, companies are unlikely to squeeze their way to success. Instead, profitable growers will likely be the ones that find a way to manage the tension of investing in more engagement and preserving unit volume economics while also unlocking new efficiencies and lowering costs.

Difference in action

A clearer picture emerges from where profitable growth companies invest their attention and financial resources. Tracking their priorities and investments, we see meaningful differences in five areas. Profitable growth companies are:

1. Embracing the changing consumer
2. Going for market share
3. Creatively transforming
4. Driving data through supply chains
5. Prioritizing ESG

Profitable growth will be
our measure of success for
consumer products in 2023.

1. Embracing the changing consumer

What consumers want has changed dramatically and frequently during the past several years, and profitable growers expect that trend to continue. Eight in 10 executives in our survey consider the changing consumer as one of their greatest challenges, and 93% say keeping up with changing consumer demands is a priority (+22 percentage points higher than all other companies).

But when it comes down to it, profitable growth companies are finding ways to get closer to consumers, mainly through more significant digital investments that help them engage and personalize. For example, some companies let consumers try on clothes virtually or provide AI-enabled product recommendations. Others are working behind the scenes to improve sales and customer lifetime value performance with predictive analytics models working in close to real time.

Investments in direct-to-consumer (DTC) channels and in protecting the consumer data that makes these systems function also rate highly in the plans of profitable growth companies. But be warned that DTC models at large incumbent brands have struggled for profitability and are not for the faint of heart.¹² A business-to-business wholesale model differs from direct retailing, and it can be hard to do both. New regulatory and technological changes to consumer tracking, for example, around cookies and opt-in requirements, are making it harder still by increasing customer acquisition and marketing costs.

Getting closer to the changing consumer	Profitable growers	All others	Percentage point (pp) difference
Investing in creating or improving a direct-to-consumer sales channel*	93%	42%	+51 pp
Agree improving consumer data privacy and cybersecurity is critical to digital strategy	89%	61%	+28 pp
Investing in technology to improve ability to engage with consumers and employees*	86%	50%	+36 pp
Investing in ability to personalize the consumer experience*	86%	54%	+32 pp
Agree the ability to personalize the consumer experience will be key to differentiating offerings	80%	65%	+15 pp

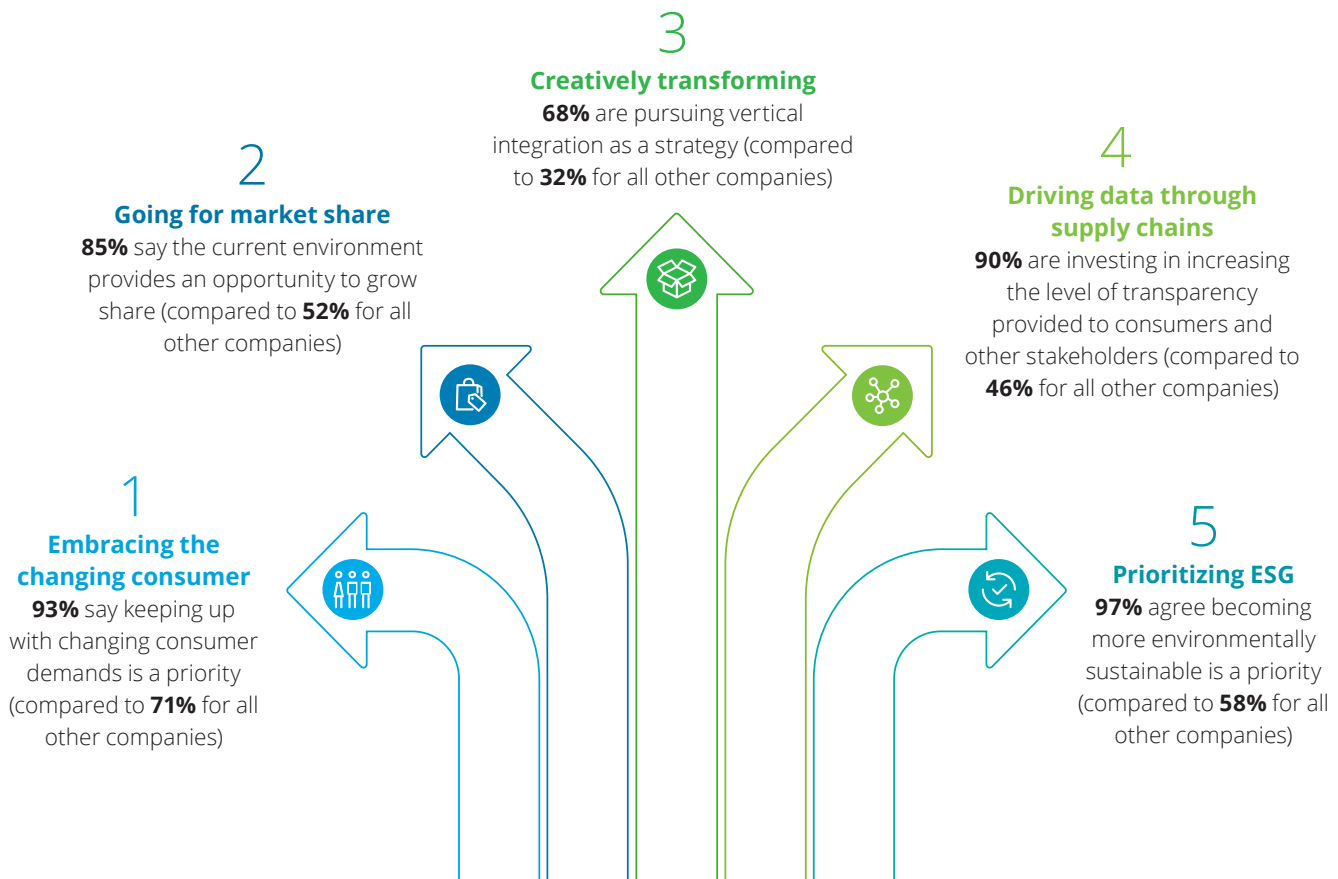
Based on Deloitte's analysis of executive interviews for the 2023 consumer products industry outlook. N = 150: Comparing responses of Agree and Strongly Agree; *N = 53: Comparing responses of Significant and Moderate investment.

Another way profitable growers embrace the changing consumer is by prioritizing new products and services created to meet evolving needs. They invest more in product innovation and use data from their digital engagement systems to quickly identify new opportunities. Successful companies in our financial analysis also pursued product premiumization. We saw this innovation strategy gain popularity over the past year, as premiumization helps to justify price increases to consumers by providing additional value.¹³

Improving product innovation	Profitable growers	All others	Percentage point (pp) difference
Prioritizing the introduction of new products/services*	86%	46%	+40 pp
Investing in product innovation	77%	42%	+35 pp
Using sophisticated analytics to identify opportunities for new brands and products	77%	56%	+21 pp
Investing in health and wellness trends	72%	53%	+19 pp

Based on Deloitte's analysis of executive interviews for the 2023 consumer products industry outlook.*N = 53: Comparing responses of One of our very top priorities and A clear priority. N = 150: Comparing responses of Increased Somewhat and Increased Significantly. N = 150: Comparing responses of Agree and Strongly Agree. N = 150: Comparing responses of Significant and Moderate investment.

Profitable growth companies are investing their attention and financial resources differently in five major ways:



2. Going for market share

Profitable growth companies think the challenging business environment expected for this year provides an excellent opportunity to grow share (85%, +33 percentage points higher than all other companies). They are more likely to say growing share is one of their top priorities. The top companies in our financial analysis are all growing share relative to their peers on a three-year basis. Such share growth is important as, among other benefits, it helps improve unit volumes and opens subsequent opportunities for economies of scale.

How do they plan to go about it? Some may raise prices yet keep them lower than competitors and use promotions. The potential to undercut on price is there as those companies that don't anticipate profitable growth may have their hand forced—they are four times more likely to say their input prices are increasing significantly. Seven in 10 profitable growers are looking to grow their share by investing in emerging markets. And as pointed out earlier, they are investing in more innovative products to attract changing consumers. But the most dramatic differences are in marketing (including digital marketing) and expanding by acquisition.

Going for market share	Profitable growers	All others	Percentage point (pp) difference
Plan to increase market share in 2023	85%	49%	+36 pp
Investing more in marketing and advertising	79%	30%	+49 pp
Prioritize expanding by acquisition*	48%	21%	+27 pp

Based on Deloitte's analysis of executive interviews for the 2023 *consumer products industry outlook*. N = 150: Comparing responses of Increased Somewhat and Increased Significantly. *N = 53: Comparing responses of One of our very top priorities and A clear priority.

3. Creatively transforming

Profitable growers are changing their businesses as consumer needs evolve. For some (two-thirds), this involves transformation through divestitures and portfolio optimization. Creative examples in the marketplace include joint ventures and innovative partnerships with private equity to turn over businesses that would operate better externally. Some brands might even be able to form private equity funds to facilitate these deals.

Profitable growers are doing something else unique: vertical integration. Integration may provide flexibility in times of significant turbulence. It is not without potential downsides, but it can be used as a lever to gain greater control, ensure supply, and protect margins from input cost increases. Ratings agencies and financial firms suggest vertical integration is behind the success of meat companies in recent years, crediting integration with increasing their efficiency, providing a natural hedge to input price swings, and improving traceability.¹⁴ In another example, research in the fashion industry reflects backward integration enables companies to gain more data and improve their ability to make product-specific claims, such as around sustainability.¹⁵

Creatively transforming	Profitable growers	All others	Percentage point (pp) difference
Pursuing vertical integration as a strategy (i.e., owning more parts of the value chain)	68%	32%	+36 pp
Investing in divestitures and portfolio optimization	66%	44%	+22 pp

Based on Deloitte's analysis of executive interviews for the 2023 *consumer products industry outlook*. N = 150: Comparing responses of Agree and Strongly Agree or responses of Significant Investment and Moderate Investment.

4. Driving data through supply chains

Like cost cutting, the supply chain is a priority for almost every company. More than nine in 10 companies in our survey are investing in supply chain improvement and operational excellence, so it doesn't differentiate. Additionally, those companies that say they are moving beyond just-in-time supply chain strategies are about as likely to be profitable growers as any other consumer products company.

However, supply chain data is an area where profitable growers stand out. They are much more likely to invest in data capabilities and want to share more data with consumers and partners. This data can help power smart labels to help consumers make better decisions and can help supply chain partners coordinate and optimize logistics. Companies with these capabilities are likely better positioned to meet tracking and traceability requirements. And it enables other capabilities, such as assessing supply chain carbon footprints (79%, +38 percentage points higher than all other companies) and monitoring and complying with ethical working practices (89%, +25 percentage points higher than all other companies). Examples from higher performers in our financial analysis include new product labeling systems incorporating carbon emissions, ocean acidification, and biodiversity—all enabled by supply chain data.

Supply chain data	Profitable growers	All others	Percentage point (pp) difference
Investing in increasing the level of transparency provided to consumers and other stakeholders	90%	46%	+44 pp
Investing in improving capabilities to safely share data with partners	76%	50%	+26 pp
Making a significant investment in collecting more detailed data from supply chains*	48%	21%	+27 pp

Based on Deloitte's analysis of executive interviews for the 2023 consumer products industry outlook. N = 53: Comparing responses of Significant and Moderate investment.

*Compares only Significant investment.

More than nine in 10 companies in our survey are investing in supply chain improvement and operational excellence.

5. Prioritizing ESG

Profitable growers are more committed to environmental, social, and governance objectives. Examples from high performers in our financial analysis include investments in reusable packaging and bottles, deforestation prevention initiatives, sustainable palm oil sourcing efforts, and climate-smart farming practices.

A differentiating factor is that profitable growers invest in improving their ESG reporting. Those that do this tend to outperform in making sustainability progress, based on past research¹⁶. And their investments in DEI may be helping profitable growers, as they don't need to emphasize hiring and retaining top talent in their priorities at the same rate as all other companies (45%; -30 percentage points lower than all other companies).

Note that the economy's continued deterioration may make it more difficult to keep these priorities at the top of the list. Though many consumers value sustainability, we've already seen signs of a pullback in willingness to pay a premium for sustainability.¹⁷

Prioritizing ESG	Profitable growers	All others	Percentage point (pp) difference
Agree becoming more environmentally sustainable is a priority*	97%	58%	+39 pp
Investing in increasing environmental, social, and governance (ESG) reporting*	83%	50%	+33 pp
Increasing the company's positive impact on society is a priority*	76%	50%	+26 pp
Investing in diversity, equity, and inclusion (DEI)	75%	47%	+28 pp
Plan to participate in the circular economy	68%	44%	+24 pp

Based on Deloitte's analysis of executive interviews for the 2023 consumer products industry outlook. N = 150: Comparing responses of Significant and Moderate investment or comparing responses of Agree and Strongly Agree.
 *N = 53: Comparing responses of A clear priority and One of our very top priorities or comparing responses of Significant and Moderate investment.

Bringing profitable growth to your company

It may not be differentiating, but all consumer products companies should consider addressing cost and efficiency this year. There are many levers, including SKU rationalization, value engineering to strip away non-valued features, changes in price-pack architecture, renegotiating supplier prices and payment terms, cutting labor costs and increasing productivity, reengineering service delivery, and adopting intelligent automation such as AI and machine vision to reduce material loss. Which levers work best and which have already been pulled will vary from company to company.

But many of the most successful companies are doing more than addressing costs. They are making the investments necessary to adapt to the squeeze and whipsaw of change. Those leaders interested in taking this path should consider asking themselves the following questions:



Embracing the changing consumer

- The same consumer will make seemingly inconsistent decisions in different contexts. Do we go to market in a way that is consumer-centric or context-centric?
- Are we investing sufficiently in technology that will allow us to engage, personalize, predict, and adapt to changing consumer contexts?
Do we have channels that can reach them directly?
- What more can we do to protect the consumer data needed to run these engagement systems and preserve consumer trust?
- Are we innovating new products and services as consumers' needs rapidly change? Do we have the analytics and market



Going for market share

- While taking steps to ensure profitability, will our cost structure support relatively smaller price hikes so that we can take share from weaker competitors? Can we use promotions, increased advertising, or product innovation to win over new consumers?
- Is there an opportunity to grow share through acquisition? Have decreased valuations made such purchases more feasible in our



Creatively transforming

- Are there parts of our portfolio no longer viewed as supporting future growth? Instead of selling them to competitors, could they become stand-alone entities attractive enough to secure private equity funding?
- Vertical integration can help companies gain more control over cost and availability. Are there parts of our supply chain where margins paid seem excessive? Or others where we have struggled with timeliness, availability, and predictability?
- Could vertical integration allow us to develop unique product claims or features, such as sustainable or equitable sourcing, product traceability, or proprietary formulations?



Driving data through supply chains

- How can better supply chain transparency translate into higher sales and enhanced consumer trust? What data do our consumers want to have most? How can we best provide it to them?
- What digital investments and ecosystem partnerships do we need to prioritize to make our supply chains more transparent and accountable?
- Would more data from our supply chain enable us to make new, valuable product claims (e.g., sustainability)?
- How can better visibility of my supply chain improve efficiencies?



Prioritizing ESG

- Have we made public commitments on sustainability goals, and are we living up to them? Are we confident our consumers will pay for sustainability differentiation or does it simply meet their baseline expectations? Can we decrease the cost of sustainability?
- Do we have the necessary systems and processes to report on progress? Are our systems for sustainability tracking as good as those for financial reporting?
- Can we more fully embrace equity for our employees and other stakeholders? Can we assess how those efforts provide returns, such as better talent retention rates?

Authors

Leon Pieters

Global Consumer Industry Leader
& Consumer Products Sector Leader
Deloitte Consulting B.V.
+3 188 288 2517
LeonPieters@deloitte.nl

Nick Handrinis

Vice Chairman and US Retail
& Consumer Products Leader
Deloitte LLP
+1 203 905 2723
nhandrinis@deloitte.com

Justin Cook

US Consumer Products Research Leader
Deloitte Services LP
+1 617 437 2071
juscook@deloitte.com

Céline Fenech

UK Consumer Products
Insight Lead
Deloitte LLP
+44 (0)20 7303 2064
cfenech@deloitte.co.uk

Jagadish Upadhyaya

Research & Insights Manager,
Consumer Products
Deloitte Support Services Pvt. Ltd.
+91 99890 22430
jupadhyaya@deloitte.com

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