Consumer Trust: Three imperatives for companies in the CPG industry

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**Sam:**
Welcome to Consumer Speaks, a Deloitte podcast series where you will hear industry specialists share their perspectives and insights on emerging topics impacting the consumer industry. I'm Sam Loughry, the leader of our consumer industry Audit & Assurance practice of Deloitte & Touche LLP. Each year, Deloitte puts out an Outlook for the year ahead in the consumer products industry. Last year’s Outlook focused on a series of no regret moves consumer products companies could make that were generally safe bets with many possible scenarios. Based on the sector performance in 2021, those moves paid off handsomely. We entered 2022 a little more grounded, leading to what looks like another good year for many in the industry. Yet it's not all rosy as there are some challenges that could stand in the way of continued progress. This year’s Outlook is about how consumer products companies can outmaneuver these obstacles through rekindling stakeholder trust.

Today we have two co-authors of this year’s Outlook, Michael Bondar, principal in the Risk & Financial Advisory business leading Deloitte’s Future of Trust offering, and Justin Cook, consumer product research leader for Deloitte’s Consumer Industry Center. Together let’s look for Deloitte’s perspective,
as well as what 100 executives surveyed from the apparel, household goods, personal care, and food and beverage sectors think awaits them this year. Michael and Justin, thank you for joining today. Justin, let me start with you. I understand the outlook for the consumer products industry is pretty good from a financial perspective, but that doesn't mean there will not be challenges. Could you paint us a picture for the year ahead?

Justin:
I’d be happy to, Sam. Thank you for having me on. I’m always excited to talk about our consumer products research, especially the annual Outlook, which as you said, Michael and I wrote this year, along with our national sector leader, Barb Brenner, and my colleague in the UK, Céline Fenech. As far as painting a picture economically, the Outlook is fairly good for the consumer products industry. We were lucky this year, we had Ira Kalish, who is Deloitte’s chief economist, directly involved with helping us develop the economic outlook for the industry. In a nutshell, despite swinging back to services as far as consumer spending and away from goods, especially durable goods, as the world opens back up, the baseline outlook for 2022 is for relatively strong growth when it comes to consumer products. And I’d really recommend reading Ira’s letter on this, which is part of our outlook.

But we also have survey data too, as you mentioned. We have these 100 consumer product executives from various parts of our industry. I’ll apologize in advance, as kind of a research nerd, I am going to use a lot of data to make my points here. To start off with, like last year, as far as goals in our survey, it’s not cost-cutting, it’s not process efficiency, it’s not a whole other number of goals that have been the mainstay for the consumer product space for a while. Instead, it’s driving greater revenue. That was the top goal. In fact, 93% of the execs in our survey indicated that. And so it’s not just that macro view that Ira brought to the table that’s showing growth, it’s at a company level, they’re prioritizing revenue. The bottom line, we know this won’t be the case for every company in the industry, but despite some headwind with rising costs, 47% of the executives surveyed said that they expected their organization’s operating margins are going to increase. Some in the industry are going to be seeing profitable growth. In rising cost environments, margin improvements are going to come from raising prices in some cases. The average consumer entering in ‘22, and it’s certainly not everybody, but they have money to spend and it’s coming from a combination of sources, from the stimulus, from extra savings, from not spending on services and the like because they were closed down or even asset appreciation like stock portfolios. So, they have money and there’s some headroom for price increases, and that’s the good news. But as you say, there are some real challenges, and these are well known. The three big ones we see are:

- **Supply chain**—continued disruptions in supply chain are making it tough to keep products on shelves.
- **Labor**—finding and retaining workers is incredibly difficult for the industry right now, especially for frontline workers.
- **And inflation**—CP companies are facing higher cost for inputs, which may lead to some increase in prices. Excs in our surveys actually said they saw their input cost going up in 2022.

Sam:
Let me turn to you, Michael. You are one of Deloitte’s top leaders on the topic of trust in corporations. I imagine you have your own way of viewing these issues.

Michael:
Hi, Sam, and thank you for having me on. It’s less about me and my way of viewing the issues, but really looking at the stakeholder lens and how they look at these issues. And I think we first have to understand the topic of trust and how do we define it. At Deloitte, we look at trust as the foundation to all meaningful relationships that an organization will have. And the way that companies can build trust is through showing a high degree of competence in delivering whatever product or service that it promises to deliver, but also having the
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right intent behind its actions. Intent being the motivation, the rationale, the drive behind the why you do all these things. And certainly that's in the eye of the beholder, the stakeholder in this case. And these are seen through these signals of capability, reliability, humanity, and transparency. So let's just take our average consumer, although they're very quickly learning about these topics that they previously had very little interest in as they before did not think about the intricacies of supply chain issues. What they see simply is their favorite product or the product they need out of stock, not on the shelf. And that breaks that inherent promise of ubiquitous availability. With that promise broken there is now worry, concern that the company is not as competent as they once thought. That loses trust. Or let's look at the labor challenges. If a CPG company can't staff up, that hurts production, and it may also affect quality. If quality slips, trust takes another hit. Or perhaps let's look at another stakeholder like a prospective employee, if they don't feel a sense of belonging or they don't trust the employer to do the right thing for them, on a topic like diversity, well-being, equity, inclusion, all of a sudden trust is broken again. Take inflation and price increases. If consumers believe they're being price gouged, they're going to question the intent, once again, losing trust in the brand and the organization.

Justin:
I've got some interesting data on price that could give some context. I also do research on fresh food and in our latest report, there was about 80% of consumers that thought prices had gone up more than was justified. We know from looking at the CPI and other indicators, that prices are definitely going up, but the threat of a backlash from consumers is real if prices go up too fast. In our Outlook, about half of the execs surveyed thought that they had pricing power, that they could raise prices without materially affecting demand, but 8 in 10 said that they are going to have to raise prices no matter what. And so that leaves about 3 in 10 execs that are going to have to have their hand forced and essentially raise prices despite the risk. So if you are in the situation where prices are going up and consumers don't feel it's justified, you could have a hit to demand.

Sam:
Michael, we talked about what the consumer thinks about trust. Do consumer products companies get it? Do they recognize the role and importance of trust?

Michael:
Sam, fortunately they do and that recognition is further and further increasing. We saw 96% of CEOs rate building and maintaining trust as a high or essential priority, compared with other business priorities. And over two thirds said it was their company's most valuable asset. And they're also starting to recognize how trust can be lost. We have ongoing research and work on trust across Deloitte as part of our program, but specific to our CP Outlook, 90% of executives believe that companies that are not open and transparent are most at risk of losing trust with consumers. Half of CP companies believe that consumers lose trust in brands that don't engage with them in a personalized manner, and then 79% of executives report that labor shortages affecting quality will cause consumers to lose trust in them as a company. So the short answer to your question is yes, but perhaps more is needed.

Sam:
Justin, what do you recommend consumer products companies do in the year ahead to help rekindle trust with stakeholders?

Justin:
Well, we call out three imperatives when it comes to trust—increasing transparency, expanding the digital engagement that you're doing with your consumers, and certainly investing in the future of work.

Sam:
Why those three? What's so special about them?

Justin:
Michael, any additional advice for companies looking to focus on trust in their 2022 plans?
Michael:
Well, a few things come to mind. First and foremost, it’s the recognition that this wide range of stakeholders from consumers to ecosystem and alliance partners, employees, investors, they have their own calculus and they decide for themselves how much they trust the organization and based on what factors. Companies, on the other hand, they should be very confident that their stakeholders will eventually see them for who they really are based on that demonstrated competence and intent over time. I’d also say that trust can be defined and understood. It needs to be defined and understood within the context of every organization. We believe that trust can be and should be measured and quantified; thus, identifying those potential deficits and opportunities to gain trust and/or rebuild it. Most importantly, trust should be acted upon—acted upon in a very strategic and proactive manner. No company is immune to a breach of trust and its potential implications. What our research shows is that trust is not just an outcome. It needs to be that strategic imperative that needs to be addressed proactively before crisis strikes. Organizations that prioritize trust—in it, focus on it—tend to build up what we refer to as trust equity, a sort of layer of resilience that equips companies to navigate through crisis through that potential trust breach. And that layer allows that crisis to be more of a blip on the radar versus the catastrophic event. So the advice for companies is if you’re not already on the trust journey, you ought to be.

Sam:
Well, that’s our time for today. Michael and Justin, thank you again for joining the discussion. There’s a lot to unpack in our 2022 Outlook for the consumer product sector. To view the Outlook and more consumer insights, please visit our website at deloitte.com or email me at sloughry@deloitte.com. Thank you for listening to Consumer Speaks, sponsored by Deloitte’s Audit & Assurance business. Until next time, take care.