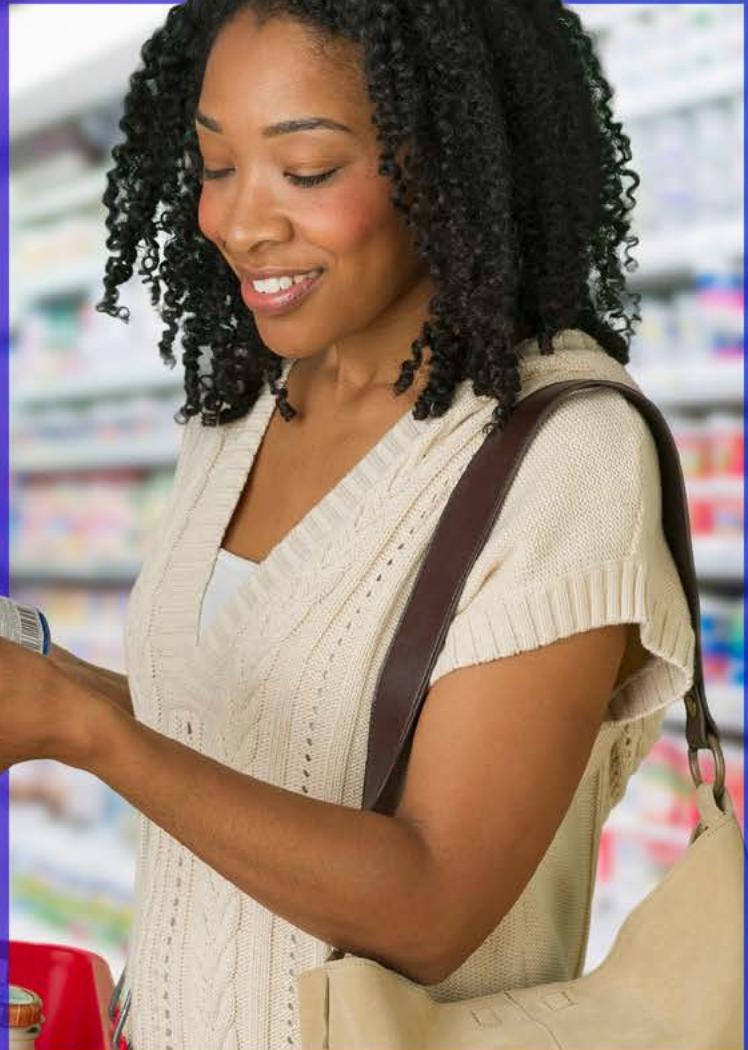


CAGNY 2024

Consumer products trends



Consumer products companies are leveraging core brands in pursuit of growth

Consumer products manufacturers entered 2024 largely confident, with the specter of recession growing less ominous and the prospect of a proverbial soft landing rapidly gathering momentum. Although margins remain thin, companies are using the improving economy, and the accompanying upswing in consumer demand, as an opportunity to transform their brand portfolios and achieve efficient growth.

To get a sense of what consumer products companies are thinking in the moment, we attended the recent Consumer Analyst Group of New York conference (CAGNY), which highlights the strategies and goals of leading consumer products organizations over the coming 12–24 months.

There was much discussion at CAGNY about the trend toward “advantaged” markets, i.e., the most vibrant categories and emerging or “must-win” markets. Another focus was on growth derived from strong, core brands supported by ever-more precise product innovation, marketing, commercial excellence, and resilient supply chains. In this era of perpetual pressure and scarce resources, productivity programs are the norm, with much of that output driven by data-rich artificial intelligence (AI) and other new technologies.

The following are five key, broad-based themes we heard at CAGNY. Also included are specific priorities relevant to each theme as highlighted at the conference by a some of the industry’s premier brands.



Theme 1: Doubling down on iconic/core brands

Master brand building and pursuing growth by promoting iconic or core products was a common thread across almost every consumer packaged goods (CPG) company. Investments extended across multiple areas of commercial activation, which is particularly important in core categories. At the moment, although breakthrough innovation is certainly an objective, it is far exceeded by efforts to achieve simple commercial excellence alongside logical brand extensions.

CAGNY participant insights:

McCormick

The herbs, spices and flavor giant said 85 percent of sales derive from their top five brands. McCormick's proprietary expertise in consumer taste preferences is translating into flavor solutions that are uniquely suited to many growth segments.

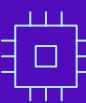
Key priorities:



Driving core category leadership through volume growth initiatives and innovation



Brand building through influencer and social partnerships



Proprietary technologies to create consumer-centric flavors



The company is investing in brand-building initiatives, while using proprietary research and social-media-driven insights to understand consumer sentiment and align its plans with consumer needs. The long-term trends fueling brand development initiatives include consumer interest in healthy, flavorful cooking, new flavor exploration, and a bias toward trusted brands.

Kraft Heinz

Executives of the food and beverage leader talked about their proprietary “brand growth” system, which drove 12 percent year-over-year growth and led data-driven brand agency Kantar to name the company one of its “iconic” brands.

Key priorities:

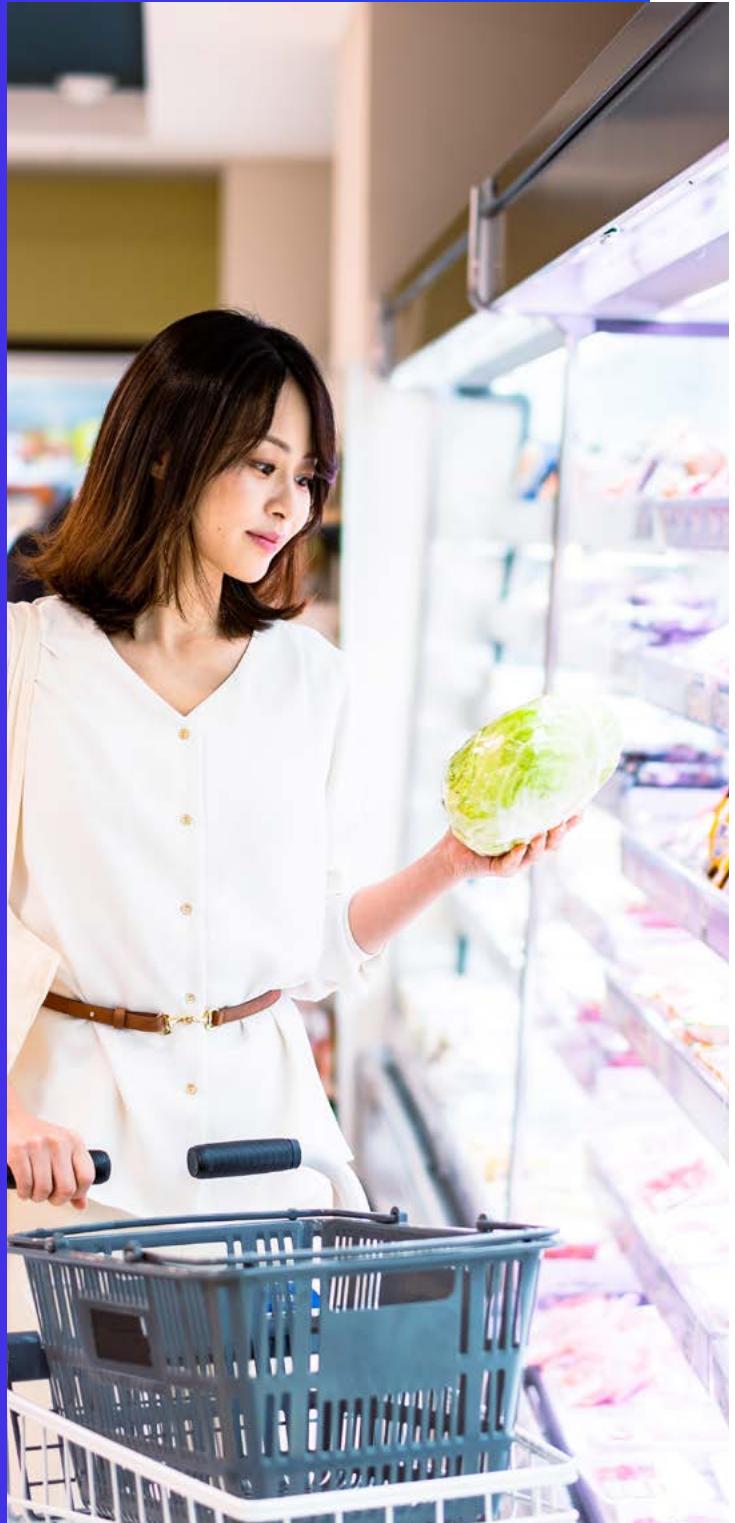


Embracing digital transformation by scaling data analytics, machine learning, and automation capabilities



Focusing on sustainable efforts

The new Kraft Heinz brand growth system is driven by a systematic methodology to monitor brands globally by tracking critical key performance indicators across brand resonance, product and package delivery, value equation, and omnichannel execution. In addition to doubling down on brands, this presents a very data-driven approach—likely a departure from past practice.



Theme 2: The hunt for and scaling of growth

This is the inorganic counterpoint to theme #1. While mergers and acquisitions are still on simmer for many companies, they remain an important growth pathway. As CPG players search for and position themselves to scale growth, they are disproportionately leveraging their core portfolio. Some, as mentioned above, have materially calibrated their product portfolios to emphasize broader consumer demand spaces, emphasize extended occasions, or cover more category price points.

CAGNY participant insights:

J.M. Smucker

Tying back to the Hostess acquisition, CEO Mark Smucker unwrapped a Twinkie on stage, took a bite, and said "...tastes like growth..."

Key priorities:



Mitigating stranded overhead costs from the pet segment divestiture



Introducing new Hostess product innovation focused on flavors and seasonal offerings aligned to current consumer trends

In 2023, Smuckers introduced new packaging and a bold marketing campaign embracing the brand's heritage. The company has extended the program into 2024 as it continues to invigorate the brand's appeal to younger consumers.

Kellanova

Executives highlighted their plans for growth in differentiated footprints (e.g., Africa), categories, and brands (Pringles doubled since acquisition).

Key priorities:



Exploring white space opportunities in markets such as Poland, Brazil, Mexico, Thailand, and the Philippines



Leveraging data analytics for consumer insights, operational improvements, and increased supply chain efficiency

Kellanova is committed to following its growth strategy with its first focus areas being "differentiation" and "innovation."

Theme 3: Transformative portfolio shifts

Many companies have seen transformative shifts in the nature of their business. The motivation for these shifts was a combination of the need to 1) manage businesses by their routes-to-market and distribution characteristics, such as direct store delivery versus warehouse vs direct-to-consumer, 2) align with businesses' core capabilities, such as scaling large brands and broadly integrating various enabling capabilities, and 3) focus on products/brands that drive profitable growth.

CAGNY participant insights:

Kellanova

In October 2023, the former Kellogg Company split its business into two segments focusing on cereal and snacks. Kellanova also reignited its natural and organic portfolio by expanding the appeal of existing brands with a number of core brand extensions.

Key priorities:



Introducing premium brands and developing overarching food credentials to meet changing consumer needs



Increasing access to global brands and enhancing existing natural and organic portfolio



Adopting a new marketing model that emphasizes efficiency and effectiveness



Using digital transformation to improve supply chain efficiency



By adopting a new marketing model that emphasizes efficiency and effectiveness, they are able to optimize their spending, reach more customers, and increase brand loyalty. Leveraging data analytics, personalization, and digital channels, they can tailor their messages and offers to the right audiences at the right time. Using digital transformation to improve supply chain efficiency, Kellanova is able to reduce costs, enhance quality, and speed up delivery.

J.M. Smucker

The long-standing food and beverage leader recalibrated its pet brands portfolio and made a big bet in sweet bakery snacks by acquiring well-known Hostess Brands.

Key priorities:



Divesting lower-margin businesses, specifically pet food brands



Expanding distribution in grocery, and mass and club retailers, including multiple points of distribution leveraging on-shelf and in-aisle displays and at checkout

Smuckers is focused on delivering growth across key platforms, such as coffee, Uncrustables, dog snacks, and cat food, while successfully integrating and strengthening the company's new presence in the sweet baked snacks segment.



Theme 4: Value creation x.0

Instances of companies splitting, divesting, or recalibrating their portfolios are clear examples of a disciplined approach to allocating resources on the basis of ambition and investment levels. This strategy aligns with the growing recognition that even the most mature brands need attention to maintain their standing. The result has been an exploration of ecosystem partners, which can provide complementary knowledge, capabilities, and reach.

CAGNY participant insights:

International Flavors & Fragrances (IFF)

IFF maintains a significant focus on productivity as it seeks to revitalize growth. Company leaders acknowledged the company's focus on accelerating revenue growth by exceeding customer expectations, leveraging innovation, and utilizing its considerable global platform.

Key priorities:



Identifying parts of the business that do not align with its overall strategic objectives or do not possess the growth potential or profitability required to justify continued investment



Delivering on an accelerated productivity agenda to enhance margins

IFF places a strong emphasis on breakthrough thinking across its businesses, with an investment of approximately \$650 million, or 5.5 percent of sales, in its total innovation budget.

Clorox

Leadership developed a strategy geared toward an uncertain and volatile environment, which proved prescient. This strategy is anchored by an AI-enabled digital core meant to bring ideas to life quickly and an upgrade of its 20-year-old enterprise resource planning system in an effort to improve data access, surface insights faster, and enable more agile decision-making through digital technology.

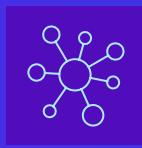
Key priorities:



Fundamentally changing innovation process through signal sensing



Using generative AI (GenAI) for digital prototyping and virtual market testing for immediate feedback



Investing in supply chain optimization and expansion, particularly for cleaning products

Clorox representatives spoke about a “boundary-less operating model” aimed at transforming the way the company operates by establishing a repository of centralized ideas around efficiency, while simultaneously focusing on building new-frontier capabilities to support brand building, marketing, personalization, and innovation.



Theme 5: Deliver winning consumer/customer experiences

In past years, many brands have fallen short on the issue of their consumer/customer promise to deliver desired and uncommon experiences. Home and personal care companies, in particular, signaled a common objective of delivering differentiated brand benefits through science.

CAGNY participant insights:

Colgate-Palmolive

Company representatives at CAGNY showcased research and development resulting in product innovation with science-backed benefits and means to corroborate their credentials from “chair to sink” within professional channels (vets, dentists, salons).

Key priorities:



Building data-driven capabilities across the organization



Focusing on driving growth and brand penetration



Closely collaborating with retailers through the use of “clean rooms” to share insights that will better serve consumers



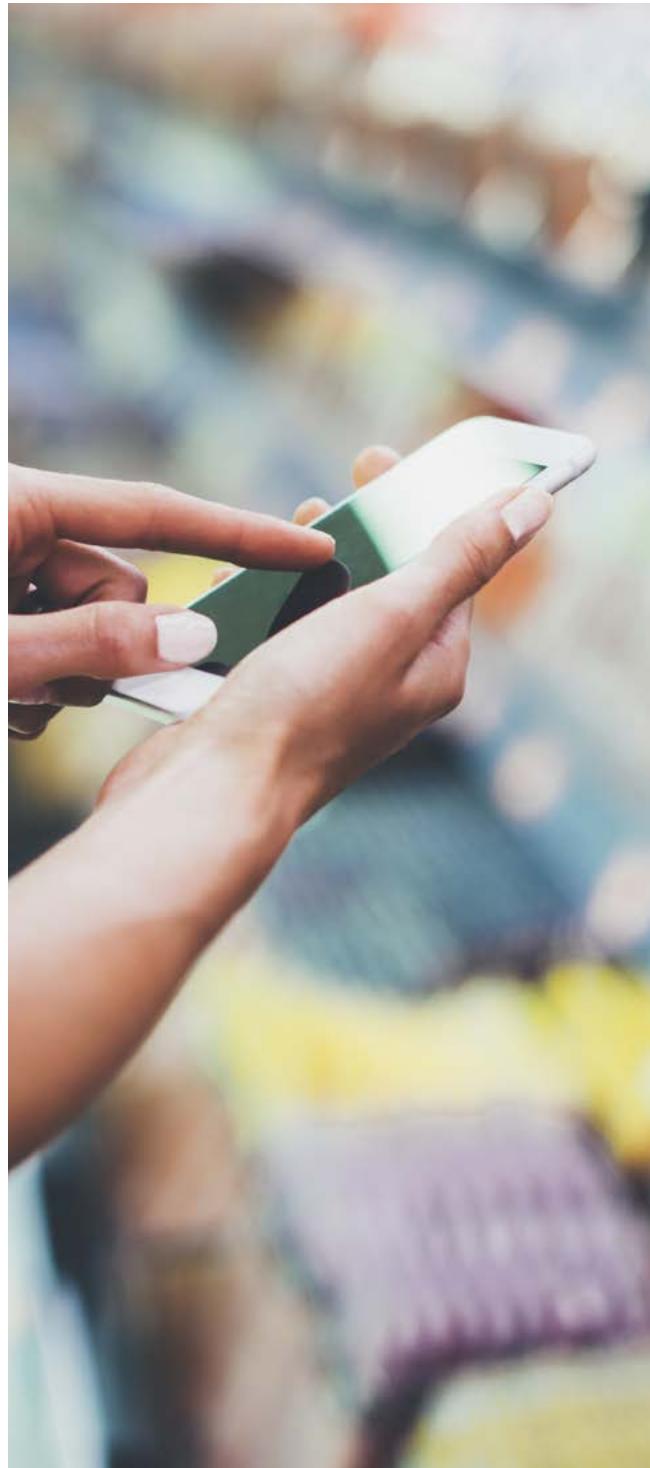
Colgate is leveraging AI in its innovation process to predict consumer behavior, identify ingredient trends, and improve product development. It is also employing GenAI to speed up product development by creating new concepts gleaned from consumer insights and testing them with digital twins, significantly reducing time-to-market.

Looking ahead: The path to innovation

Improving economic conditions notwithstanding, companies across various consumer products subsegments continue to face challenges and risks in a dynamic business environment. When we talk about continuous innovation/reinvention, we are envisioning a structured approach and operating model that enables organizations to continuously identify an ever-changing array of growth and profit pools; dynamically manage investments and resources across the organization with an enterprise digital twin; and build the technology, people, and processes to realize value on an ongoing basis.

Unfortunately, this capability is rare across the CPG ecosystem. Continued portfolio rotation is the norm. Workforce upskilling and reskilling is constant, but still immature. The movement toward third parties as a source of new ideas and capabilities is a good step, but not enough. We are curious to see what comes next in the systemization of innovation.

Despite the uncertainties, leaders across the segment spectrum made clear to the assembled analysts at CAGNY their determination to adapt and thrive by leveraging their core strengths and seizing opportunities for expansion and market penetration.



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