CPGs on the hunt for profitable growth

Consumer packaged goods companies are investing in next-generation capabilities, recalibrating their portfolios, and doubling down on brand investments to grow revenue with desired margins intact.

Consumer Products State of the Industry survey 2024

CPG state of the industry: Survey summary

Given continued high prices for everyday goods and apparel, many consumers feel like they must buy less or buy cheaper. For consumer packaged goods (CPG) companies facing high fixed costs and the elasticity ceiling, profitable growth is a challenge requiring new approaches and capabilities. KPMG LLP (KPMG) surveyed CPG executives in spring of 2024 to understand how the industry is grappling with the price-volume tension and found the following:

As prices soften, CPGs are urgently trying to revive volume growth in order to accelerate their top line and preserve margins.

In the US, volume decline is pervasive across categories, from grocery to personal care to household products. The impact is dramatic, particularly considering the ability of CPGs to increase revenue through several pricing rounds over the past 18-plus months. Many CPGs are looking at developing and emerging markets where volume growth potential is greatest but very different capabilities are required.

CPGs are using data and analytics (D&A) to create required data quality and veracity across functional domains to generate accurate insights from D&A and determine how to generate demand across their portfolios.

CPG companies are building more cohesive data supply chains, using D&A insights to more accurately determine how to generate demand across their portfolios, including investing in core brands. In developed markets, the ability to measure the impact of trade investments more precisely is a top priority, allowing CPGs to reallocate their spend to the most profitable channels and customers. Given that a significant share of promotions do not create value for CPGs, increasing the ROI of investment in promotions could be a radical step. CPGs are also calibrating their portfolios which again requires precision around where that complexity supports growth and where it destroys value.

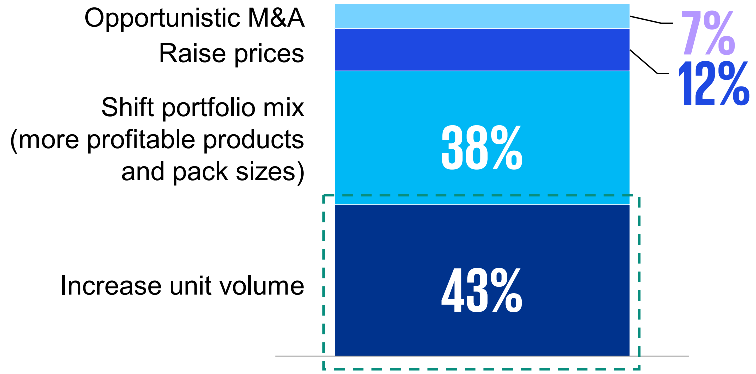
Visibility around customer profitability and unit economics is more important than ever.

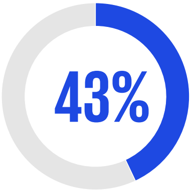
Very few CPGs can answer if their pricing aligns with service levels or know whether it costs more to serve their biggest or smallest customers. They also can’t isolate margins at the product level. The ability to achieve such granularity presents a massive opportunity, not just for CPG supply chain leaders who oversee costs, but also for commercial leaders who are accountable for customer profitability. Understanding product contribution margin can identify underperformers across customers, channels, and products to drive prioritization, resource allocation, and investment choices. With this improved visibility, combined with a cost to serve lens and customer segmentation by profitability, CPGs can help drive profitable growth.

Price-volume tension: Growing volume profitably

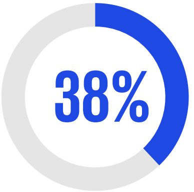
With pricing rounds exhausted, CPGs plan to take a more purposeful approach to growth through targeted promotions, extended price points, and expanded packaging formats. They are also prioritizing marketing, advertising, and promotion to fuel profitable growth. M&A is still important but is more targeted to acquiring new capabilities, entering a high-growth category or finding additional routes to market.

Growth emphasis for the next 12 months



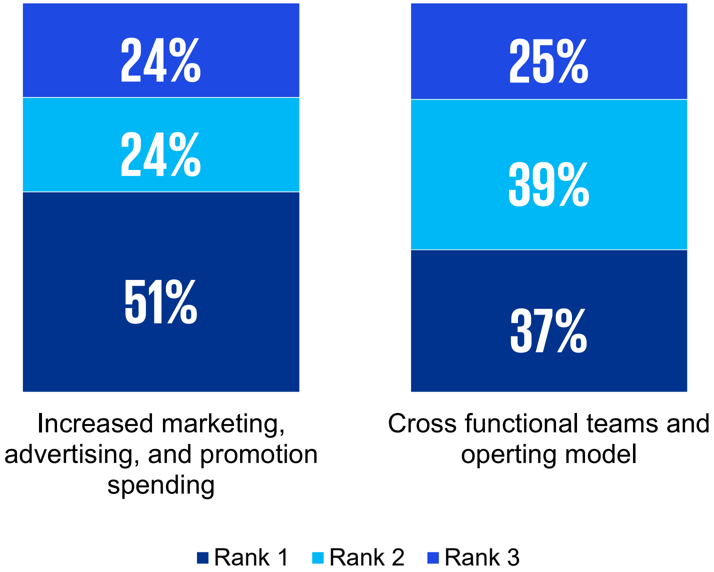


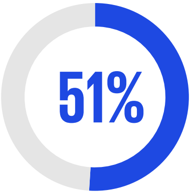
of CPGs say increased unit volume will drive emphasis over the next year



point to a shift in their portfolio mix as a source of growth

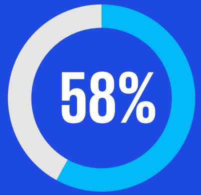
Top investment priorities for profitable volume growth



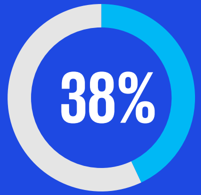


of CPGs say that increased **marketing, advertising, and promotional spending** is their **top investment priority** for profitable volume growth

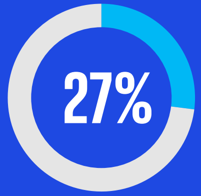
Primary intention of M&A strategy



bolt-on (new capability, category, or channel)



vertical integration support (greater control of value chain)

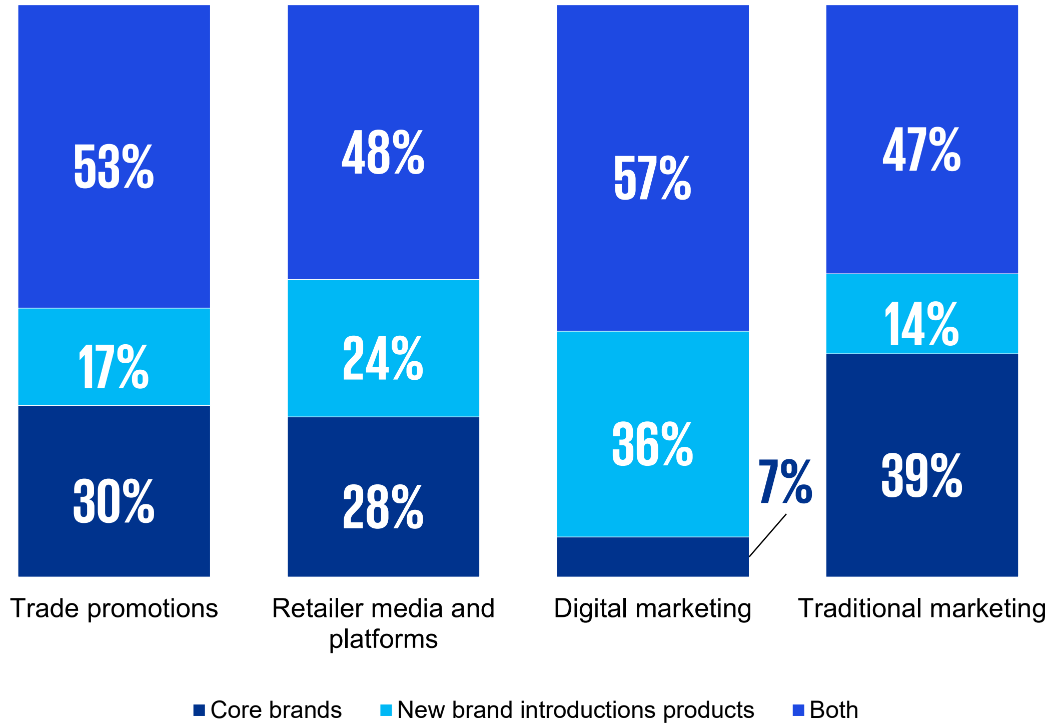


hypergrowth brands

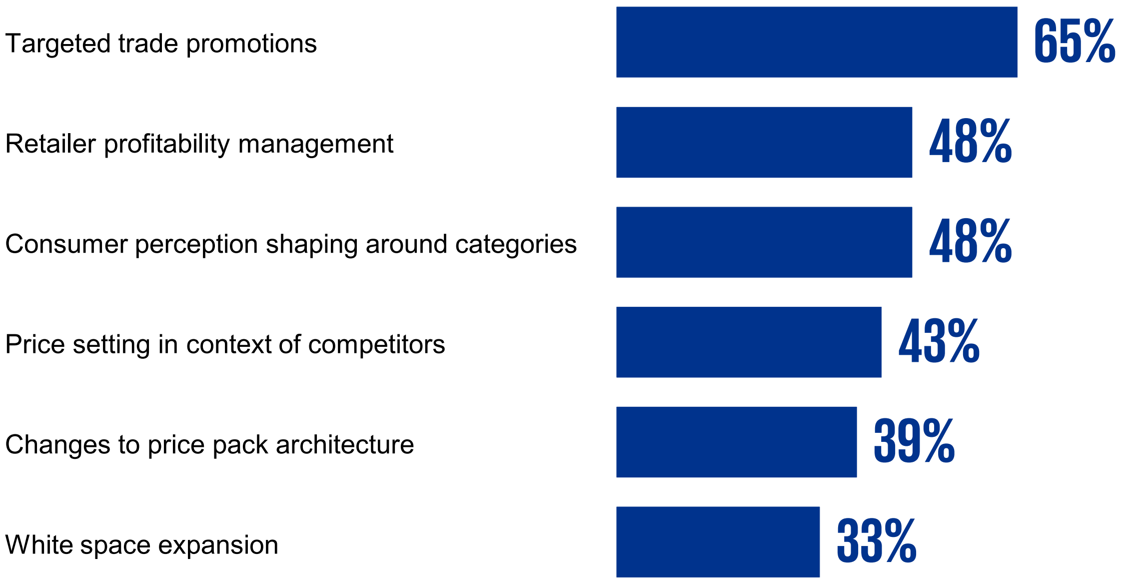
Profitable volume growth: Demand-generating investments

CPGs are steering brand investments toward their core portfolio where they have greater confidence in success. Retail media is growing in importance, and CPGs are still learning how to play in the space. More than two-thirds are focused on getting trade promotions right, particularly since pricing has been exhausted. CPGs are also striving to improve insights into consumer perception and choices around product categories. Revenue growth management (RGM) capabilities continue to evolve, allowing greater precision across promotion, price, and mix—the highest focus for a majority of CPGs.

Planned advertising and promotion spend across core portfolio and new products/brand introductions



Focus areas to drive greater precision in revenue growth management



Profitable volume growth: Portfolio calibration and innovation

CPGs are calibrating their product portfolios to expand margin, alleviate supply chain pressures, and help focus innovation. Many are turning to default interventions, including axing underperformers. CPGs are banking on product innovation and extended value offers to keep customers “in brand” through decreased spending and changing buying patterns. Breakthrough innovation, such as new brands and new applications for new or unmet needs, is where they place their greatest expectations for incremental margin expansion for innovation dollars spent.

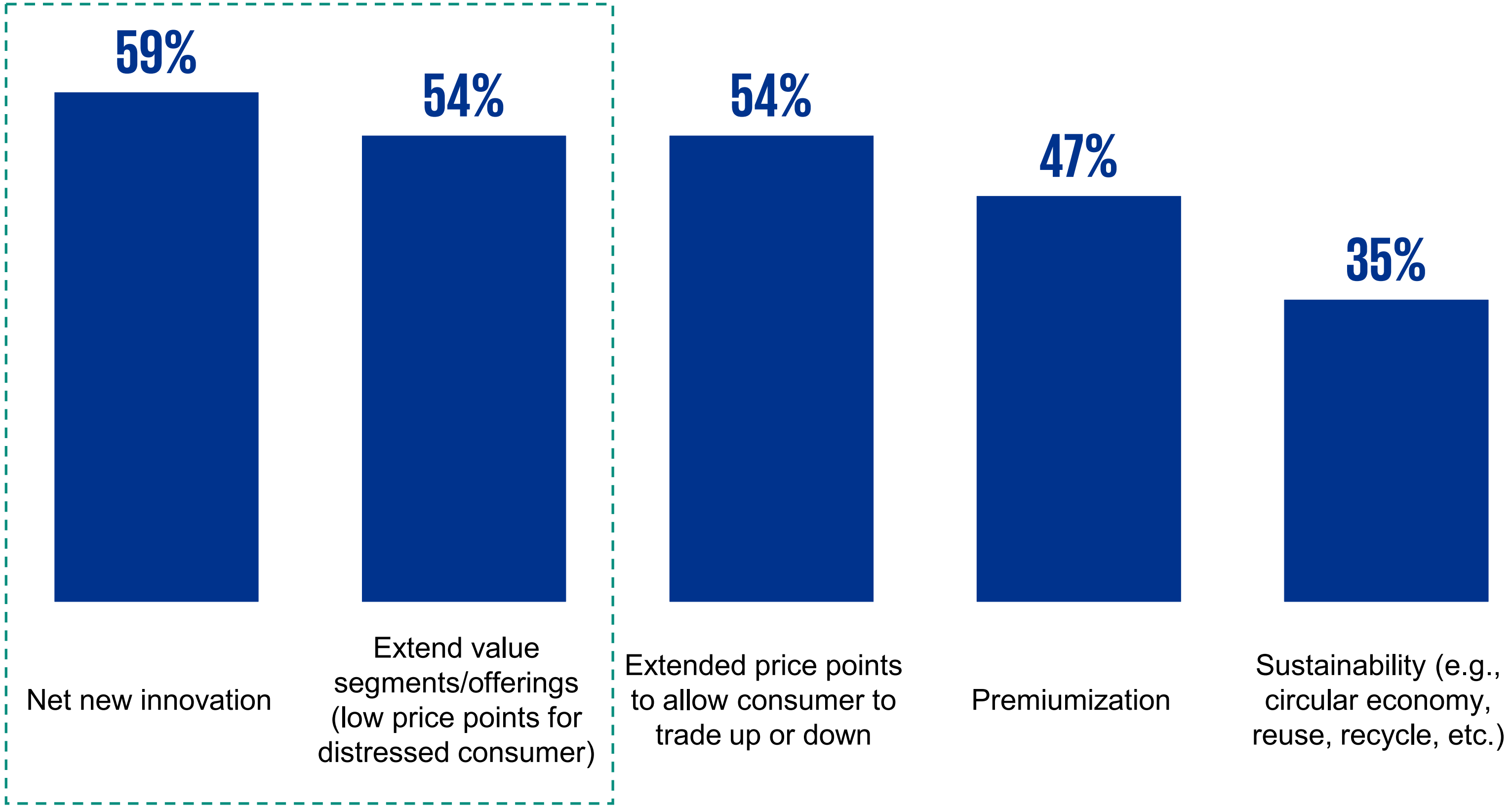
Improving portfolio profitability

46% of CPGs rank product portfolio calibration (shift mix) **#1** among profitability expansion efforts

48% prioritize pruning poorly performing SKUs to increase mix margin

40% are focused on adjusting price pack architecture to better address consumer needs and occasions

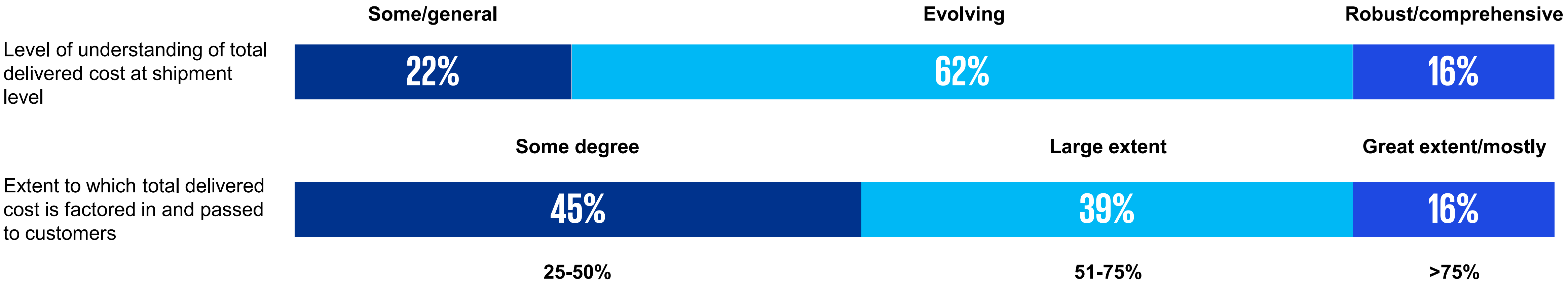
Planned transformation efforts to keep consumers “in brand”



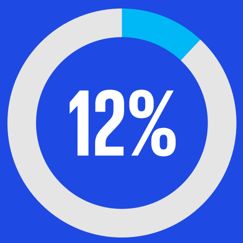
Profitable volume growth: Total Delivered Cost

While most CPGs have a general understanding of their total delivered cost to customers, they do not have sufficient granularity of insight on where to act when cost is out of balance.

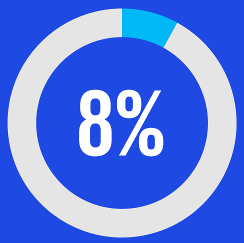
Understanding total delivered cost



of customer orders made lead to negative margins



of customers are loss-bearing due to high distribution and storage costs

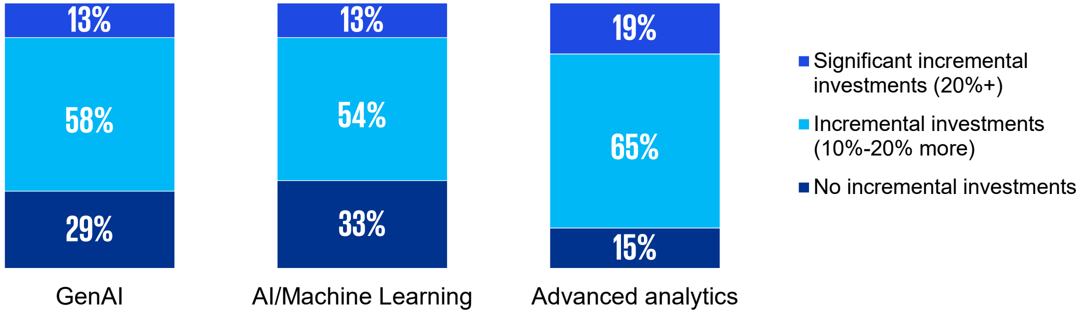


of product range does not contribute to margins

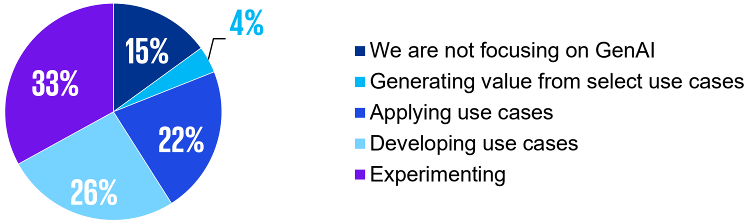
Next-generation capabilities: Advanced technologies

After a year of experimenting and learning, CPGs are making more deliberate investments in artificial intelligence (AI) and advanced analytics where they see the greatest potential for value creation. More than half of companies surveyed say they have developed and are applying generative AI (GenAI) use cases, which look most promising in the areas of customer support, marketing content, and market research.

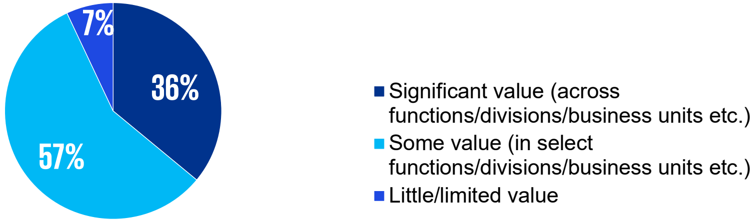
Planned investments in advanced technologies



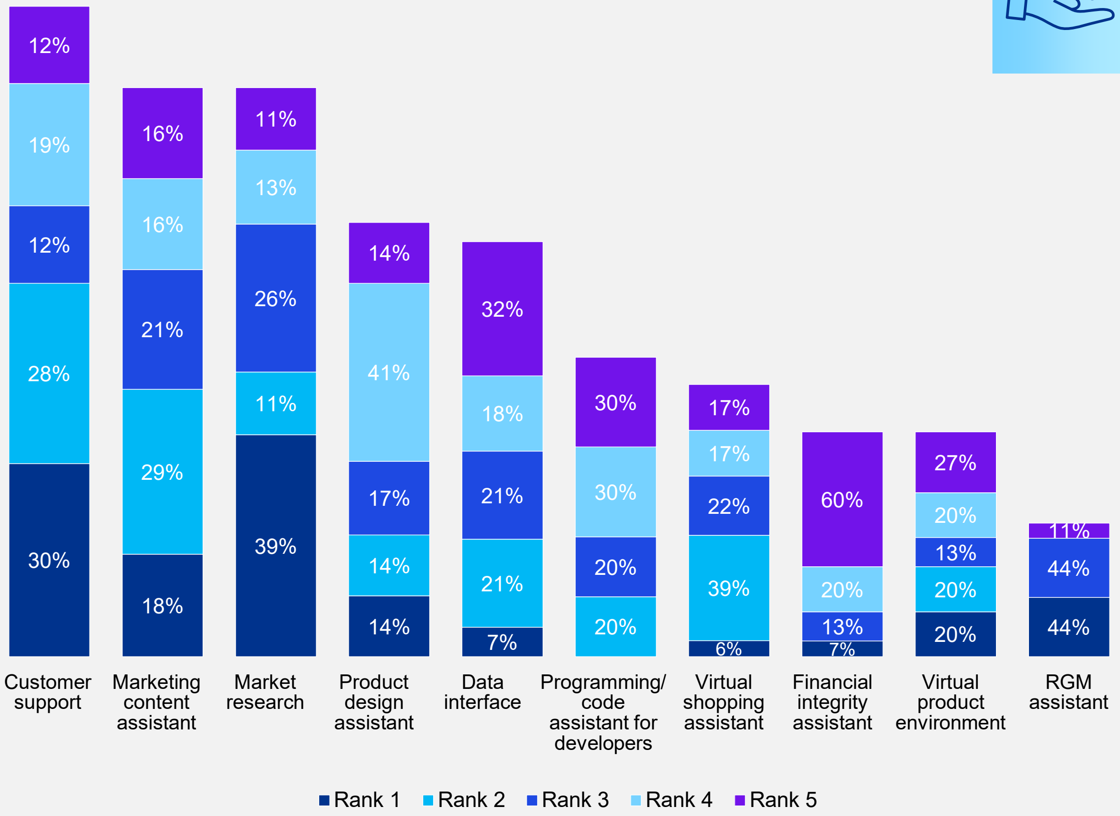
The evolution of GenAI capabilities



Added value from data and analytics

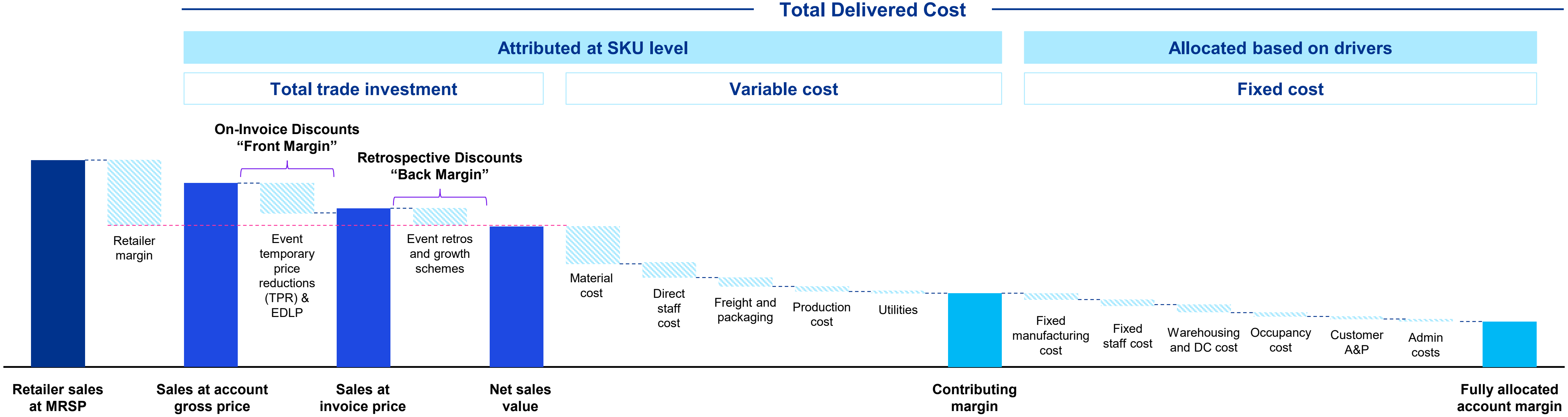


The potential of GenAI use cases ranked highest to lowest



The full transparency in total delivered cost

A typical CPG has opportunities to reduce total delivered cost with further evaluation at the customer, channel, and SKU level. With the right level of granularity and accuracy of margin, CPGs can calibrate each step of their total delivered cost for retailers.



How KPMG can help

With forensic granularity, KPMG professionals help CPG companies better control and calibrate commercial strategies, improve cost bases, and unlock value. We work closely with companies to uncover and understand their demand-generating investments, profitable products and channels, and true total delivered cost to customers.

Total trade investment

Amplify ROI of RGM efforts

- Reconfirm brand and pack purpose by retailers
- Apply long-term pricing ladders
- Evaluate concerted pricing and promotions
- Integrate promotion, pricing and mix decisions

Contribution margin

Isolate unprofitable products

- Calibrate portfolio mix
- Correct under/over pricing
- Adjust resource allocation to the most profitable and fastest-growing segments
- Improve cost of goods sold variance
- Align sales and marketing effort

Total Delivered Cost

Calibrate service costs

- Restructure distribution channels
- Shift customers to different product mix
- Gain volume with low cost to serve customers
- Avoid over-servicing customers
- Negotiate alternate delivery times and frequencies

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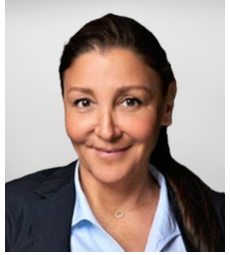

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