



## 2022 consumer products industry outlook

**Overcoming new challenges in the battle for trust**

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## **Outlook methodology**

*In addition to insights derived from client work and prior research, Deloitte surveyed 100 senior executives from a mix of food and beverage, household goods, personal care, and apparel companies in November 2021. Most of the companies are multinationals, all with more than \$1 billion in revenue.*

# State of the industry

For the consumer products (CP) industry, the year ahead is likely to be one of strong financial performance. As with last year, driving greater revenue is the top goal for executives in Deloitte's 2022 outlook survey (93%). The "no-regret moves" companies undertook during the prior year's uncertainty are paying off.<sup>1</sup> And despite rising costs, at least half of CP companies surveyed expect their operating margins to increase. This coincides with an environment conducive to raising prices for end consumers, a large factor in why two-thirds of publicly traded companies are already reporting higher profit margins relative to pre-pandemic levels.<sup>2</sup>

But 2022 will likely also come with some significant challenges. Supply chain struggles are unlikely to be resolved fully or quickly, labor is hard to come by and keep, and costs of all kinds are increasing rapidly. All are affecting the industry's ability to achieve desired growth. As evidence, nine in ten executives surveyed rate supply chain issues as the greatest threat to growth. Additionally, six in ten say labor shortages (and separately inflationary pressures) are already threatening growth this year. Getting ahead of these obstacles will likely be essential to a successful 2022.

That's how consumer goods companies view the challenge anyway. Through the eyes of consumers, retail partners, and employees, things may look different. These key stakeholders have a more fundamental lens for understanding the current barriers for the CP industry: Trust.

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# Trusting perceptions

Trust is the foundation of any meaningful relationship, be it between people or organizations. Trust is built through actions that demonstrate a high degree of competence and right intent, often with a wide range of stakeholders, resulting in exhibited capability, reliability, transparency, and humanity.<sup>3</sup> Given that, to understand where CP companies stand today, consider the following:

- Supply chain issues result in stockouts. Stockouts break the inherent promise of reliable availability and hurt perceptions of competence—not just of retailers but also of CP brands themselves.
- Labor shortages reduce production and, in some cases, can affect quality and service levels, further harming perceived ability

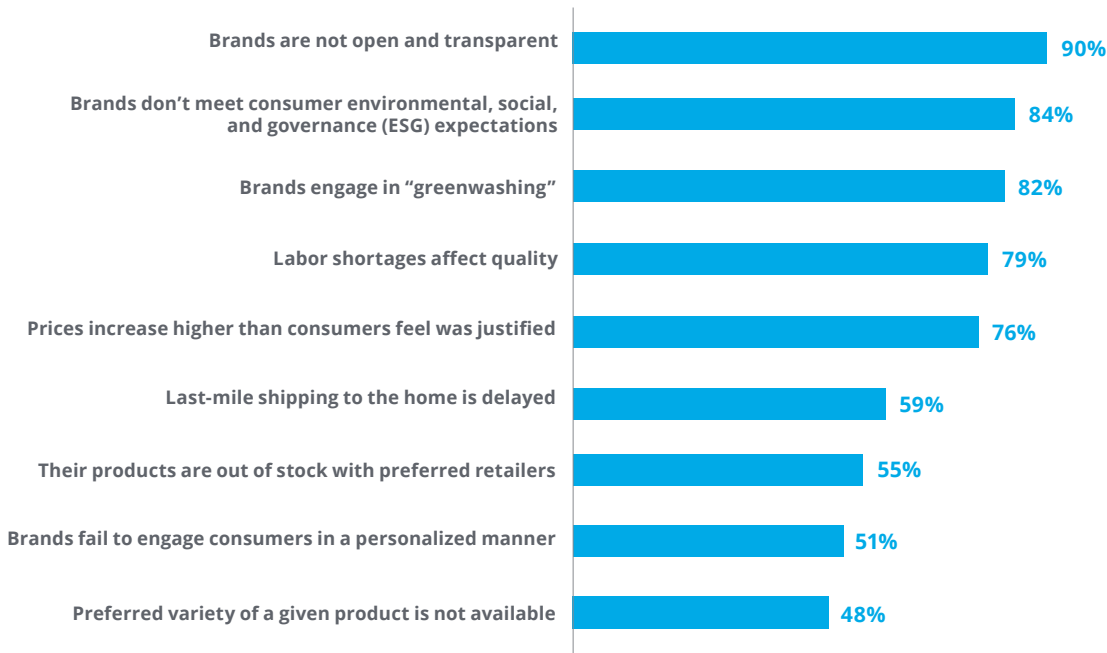
to competently deliver on promises. Workers who don't trust a company to create a sense of belonging are also unlikely to accept job offers or stay.

- Rising prices that jump beyond what is seen as justified break the promise of a fair deal. The very intent and motive of a CP company comes into question.

Add to these more factors like shipping delays from online channels, accusations of “greenwashing,” a potential lack of personal engagement, or a general loss of trust in organizations—and it all amounts to an important moment for the industry to focus on trust (figure 1). In fact, nine in ten executives surveyed say the industry must work harder to retain trust.

**Figure 1. When do CP companies lose consumer trust?**

*Percentage of executives who agree consumer trust is lost in CP companies when . . .*



Source: Deloitte's 2022 Consumer Products Industry Outlook Survey

## Economic outlook for consumer products

The baseline outlook for 2022 is for relatively strong growth in consumer products, even amid continued supply chain stress and labor shortage, though both should gradually abate.



During the pandemic, governments, businesses, and individuals undertook actions that set the stage for strong economic growth in 2022. However, these actions and other circumstances also produced challenges for the year ahead that are new to the global consumer products industry.

During the pandemic, many governments provided considerable financial support to households, enabling them to avoid economic ruin as businesses shut down and social interaction was considerably reduced. In addition, household saving increased dramatically during the pandemic as people spent less on services. Moreover, financial portfolios and home values performed well. While some consumers are certainly leaving the pandemic worse off, the average consumer enters 2022 with money to spend.

But the shift in spending has consequences. First, businesses that had initially reduced production early in the pandemic struggled to meet enhanced demand. Moreover, the requirements of social distancing limited the ability of factories to sustain production at the desired level. Transportation of goods was also suppressed by disruption of the shipping industry. The combined result was a significant increase in the cost of production and transportation.

Meanwhile, labor markets were disrupted. Early in the pandemic, many people dropped out of the labor force, and participation has yet to return to pre-pandemic levels. This has left businesses struggling to find workers and raising wages to attract them.

With high demand, disruption of supply chains, and a shortage of labor, inflation has emerged as a problem for the first time since the 1970s. The question now is whether this will be short-lived or sustained.

In the United States and Europe, inflation has surged, although not yet in China and Japan. Price increases have largely been concentrated in those categories that have been most disrupted by supply chain problems. As supply chains gradually recover, and as people return to the labor force, inflation should abate, thereby not necessitating a radical tightening of monetary policy. Meanwhile, major central banks have begun to reduce monetary stimulus and will likely raise short-term interest rates in 2022. However, as 2021 drew to a close, bond yields remained at modest levels, indicating that investors are confident that inflation will be restrained.

—Ira Kalish, Chief Global Economist, Deloitte

# Three imperatives in 2022's battle for trust

Fair or not, trust is in the eye of the beholder, or in this case, stakeholder. As companies seek to meet their growth needs, 2022 will likely mark a battle for trust. Two-thirds of executives surveyed said that building trust was their company's highest priority, and even more said it was their company's most valuable asset. As a result, the overwhelming majority of executives said they are investing significantly to prevent the erosion of trust. Why are they investing? There are many reasons, including the one most in line with the times, which also happens to be the most universal finding of the survey—*companies that have high consumer trust are more resilient (95%)*.

This year, leading CP companies will work to build trust in three primary ways:

1. Increasing transparency
2. Expanding digital engagement
3. Investing in the future of work





**IMPERATIVE 1**

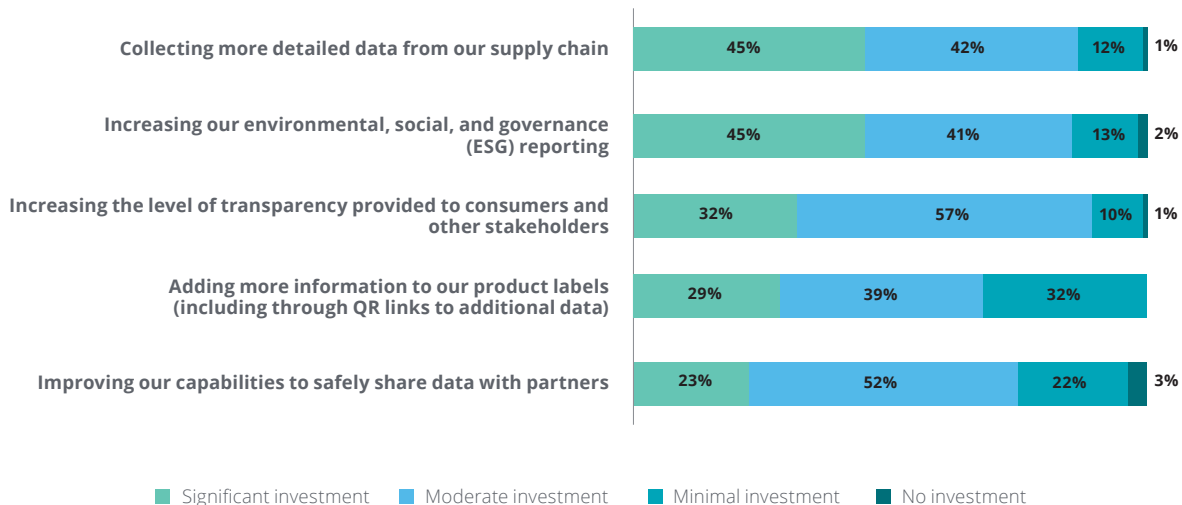
# Transparency

Trust and transparency intuitively go hand in hand. Consumer brands that are not open and transparent are most at risk of meaningfully losing trust with consumers, according to nine in ten executives surveyed. Consumer product companies are putting their money where their mouth is (figure 2). Six in ten companies are making at least a moderate if not significant investment in 2022 in increasing the level of transparency provided to consumers and other stakeholders.

Becoming more transparent isn't just a matter of changing a company's overall approach or attitude toward openness. Transparency requires an underlying infrastructure. Data needs to be sensed and captured in the first place. Sensing the data can come in the form of manual reports from suppliers or more sophisticated IoT instrumentation. The data won't do any good if it stays in its own silo. It also should be interconnected and shared in a common standard with other systems inside and out. Finally, providing a sea of raw data is unlikely to have the intended effect. Companies should understand and communicate the meaningful data, in context. Intelligence, artificial or otherwise, is needed to help with sensemaking for those who need to consume the data.



**Figure 2. How companies are investing in transparency**



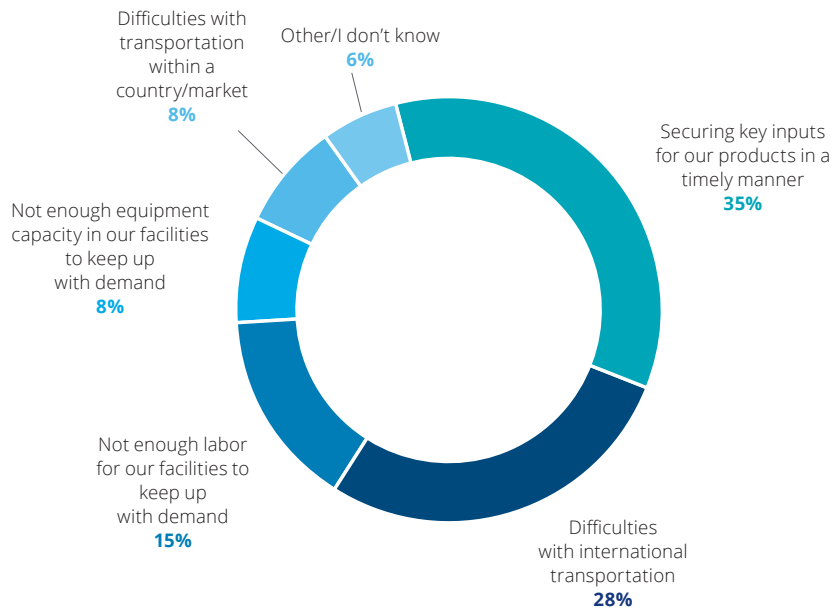
Source: Deloitte's 2022 Consumer Products Industry Outlook Survey

Where might increased trust through transparency show material benefits for consumer product companies? What problems might it help overcome?

Consider the supply chain. Ninety percent of executives surveyed said that their company experienced significant challenges to secure inputs and/or get products to market and keep them in stock. Some companies will be exceptions and find their own workarounds. However, it is a problem that will likely be with many in the industry for some time, as indicated by seven in ten companies believing significant disruption will extend through the entirety of 2022. It is also a multisided problem, upstream and down, though upstream problems like securing key inputs or international transportation are more frequently cited (figure 3).

Having data to share across the supply chain can improve integrated planning and overcome some of the hurdles of getting products to market. Knowing and sharing the detailed origin data for ingredients, work conditions, and more can improve safety and allow companies to make—and back up—health and other claims. This includes for completely new product offerings and brands. This aspect of trusted transparency gains increased in importance when considering that the industry sees the most important innovation in the coming year happening with sustainability (figure 4). Transparency systems help substantiate sustainability benefits.

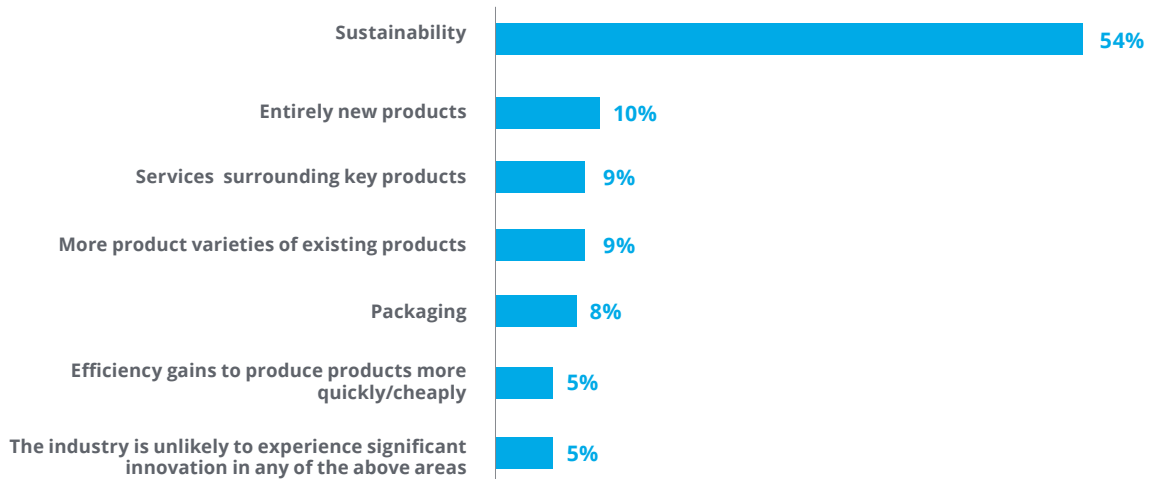
**Figure 3. Most difficult supply chain challenge**



Source: Deloitte's 2022 Consumer Products Industry Outlook Survey



Figure 4. Most important area for consumer products innovation in 2022



Source: Deloitte's 2022 Consumer Products Industry Outlook Survey

There is certainly room to improve, but sustainability reporting overall is one area where consumer product companies are already ahead of other industries. According to global trust performance research conducted by Deloitte in 2020 and 2021,<sup>4</sup> 68% of consumer product companies surveyed publish an integrated report (including financials and their impact to environmental and social governance

metrics), whereas for other industries only 54% are doing the same.<sup>5</sup> Perhaps related, the industry is similarly ahead of others in ensuring the supply chain is aligned with sustainability goals and environmental and social governance metrics (75% vs. 65% in other industries).

**IMPERATIVE 2**

# Digital engagement

Half of companies surveyed believe that consumers lose trust in brands that fail to engage with them in a personalized manner. CP brands are changing their go-to-market strategies to do just that. This change is needed in part because the consumer and their circumstances are changing.

For instance, the consumer is bifurcating financially. Some consumers are coming out of the pandemic better off than before while an even larger number are now somewhat worse off. Consider that one-third of consumers are worried about making upcoming payments, and over half are worried about not having enough in savings.<sup>6</sup> While those consumers who are better off are seeking niche and premium offerings, others who are struggling might be seeking out basic or value offerings. Smaller, specialty brands are providing products on the premium end and accessing consumers through online marketplaces in ways they couldn't previously. Seventy-one percent of executives surveyed said challenger brands and new entrants will threaten their company's own growth in the next one to three years if not already. At the same time, retailers are offering private-label products, and hyper-scaled online retailers are using their superior consumer data to do the same. Traditional, large CP companies are often stuck in the middle.

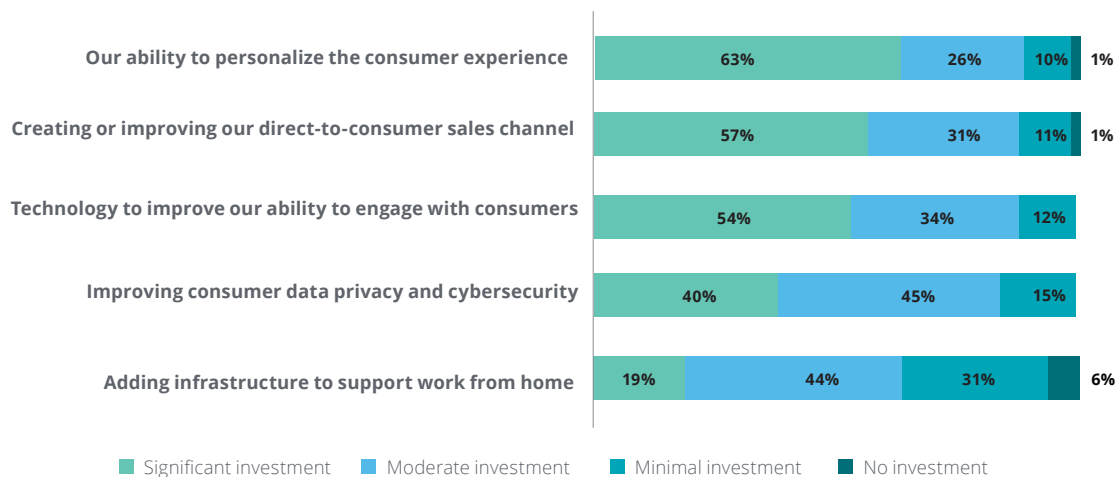
Inflation is also changing the consumer's circumstances. Nine in ten companies surveyed think their input cost will increase in 2022. A similar eight in ten believe they will be passing on those costs by raising prices. But only half of companies (54%) believe prices can be

raised without materially decreasing consumer demand, signaling a perception that some consumers will be unable or unwilling to pay more. At least in the case of fresh groceries, 84% of consumers who noticed increased prices thought they were raised more than justified, demonstrating the potential to erode trust with these price-sensitive consumers if handled improperly.<sup>7</sup>

Of course, the "bifurcated consumer" and "price-sensitive consumer" are oversimplifications. Consumers are individuals. They should be engaged as individuals if traditional CP companies are going to compete and grow. Engagement is like engaging gears: It takes two to work. Perhaps especially for the consumer, they need these systems to be worth engaging in. CP companies should deploy systems that listen and understand and then respond appropriately in a personalized manner. The only way to do that, at scale, is digitally. They still need to meet the consumer where they are, so omni-channel with increasing emphasis on digital is the way companies are moving and investing (figure 5).

Digital engagement systems, including increasingly popular direct-to-consumer platforms, are an important way to increase transparency. They can be the means not only to personalize offers but also to share data on sourcing, labor, carbon reduction, safety, freshness, and more. They, of course, also collect data on consumers. Here is where the lens of trust can be especially important. Customers won't engage and share data with companies they don't trust. Control and protection of privacy should be designed into the system to build and maintain that trust.

**Figure 5. Where companies are investing in digital engagement in 2022**



Source: Deloitte's 2022 Consumer Products Industry Outlook Survey

**IMPERATIVE 3**

# Future of work

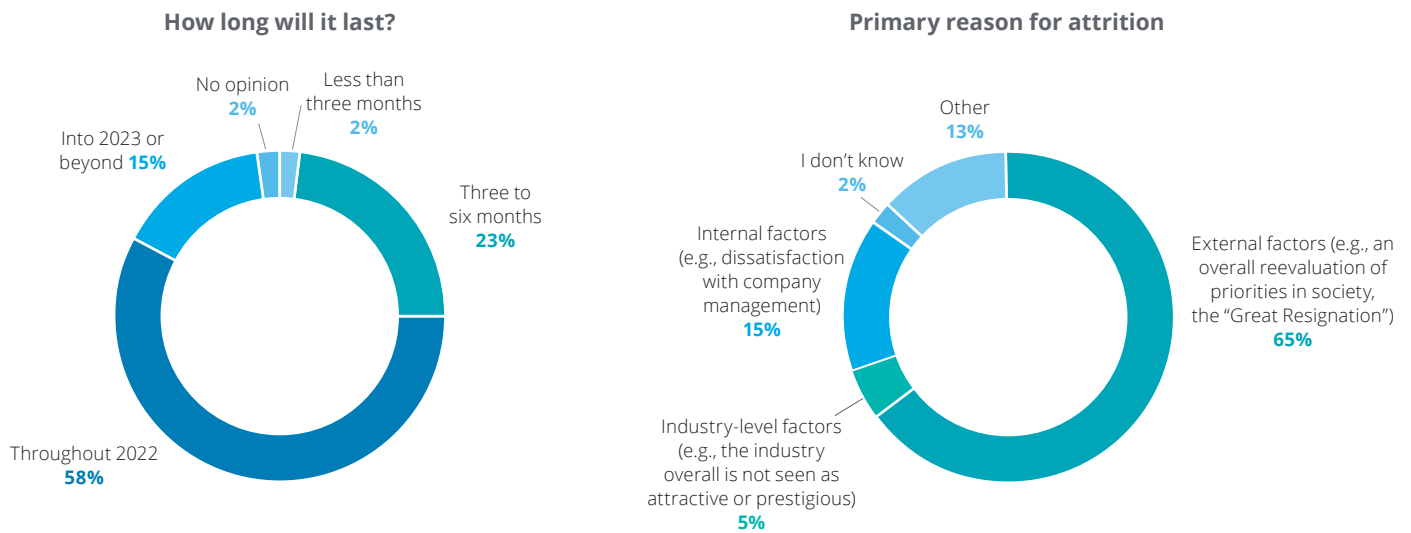
If labor shortages affect quality, eight in ten executives report it will cause consumers to lose trust in a company. Nine in ten say that when employees don't experience a sense of belonging in the workplace, they become less trusting of their employers.

We know people are leaving. Just over half of CP companies in the survey experienced a meaningful increase in voluntary attrition in their non-managerial workforce. Unfortunately, the duration of this jump may be long lasting. The reasons are primarily external, but that should not discourage companies from fighting to keep their people (figure 6).

Consumer product companies may be facing an immediate problem of getting enough people and skills. But there is a bigger picture happening as well. Technology and new sources of talent are changing the nature of work, workplaces, and the workforce. It could be a mistake to merely add technology and automate work as it is done today while keeping the same skills profiles and worksites companies have now. Instead, many companies are putting people

squarely at the center of their future of work visions, humanizing work, and rallying around outcomes that inspire and energize. As they rearchitect the work itself and adapt the workplace—both physical and virtual—to better fit that work, they will likely be much better prepared to unleash the workforce and face challenges like today's high attrition rates.

**Figure 6. Expected duration and causes of heightened levels of voluntary separation**

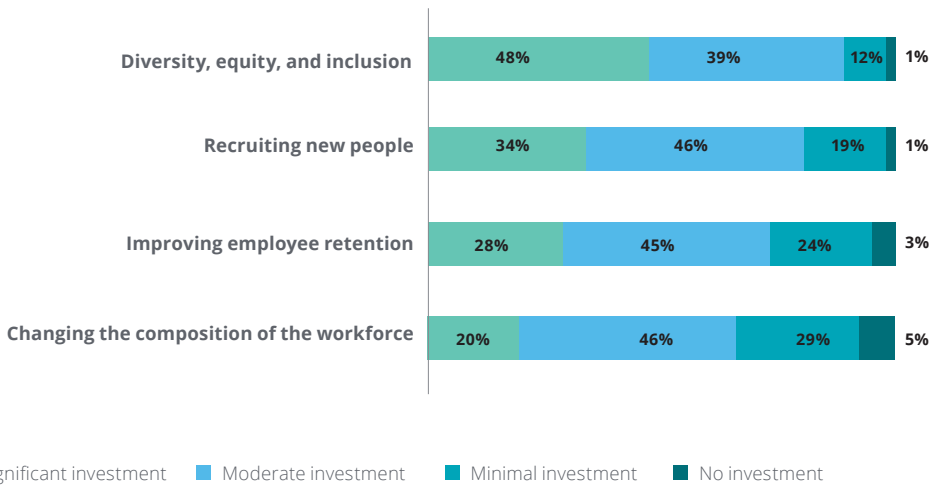


Source: Deloitte's 2022 Consumer Products Industry Outlook Survey (specific to the non-managerial workforce)

So, the future of work isn't about waiting for tomorrow. It is being built by the investments companies make today. As was found in earlier research,<sup>8</sup> the highest investment, focus, and energy is going into diversity, equity, and inclusion (DEI). Companies report that embracing equity as an imperative is not only something they feel is the right thing to do but also a cornerstone strategy for winning the war for talent. The war is indeed on, and one in three are investing significantly in recruiting new people. However, the fact that two-thirds are investing moderately at most in one of the industry's greatest challenges could be cause for concern (figure 7).

Regarding DEI, the consumer products industry appears to be on par with others but has a long way to go. According to Deloitte's longitudinal trust research previously mentioned, 64% of CP industry respondents say their companies have goals and standards for diversity, equity, and inclusion. You can only manage what you measure. Fifty-eight percent actively measure performance against diversity, equity, and inclusion goals. Fifty-five percent prioritize diversity, equity, and inclusion in the organization's hiring and retention methods, policies, and programs—all on par with other industries that also have more progress to make.

**Figure 7. Where companies are investing in the workforce in 2022**



Source: Deloitte's 2022 Consumer Products Industry Outlook Survey

## '5 in 10'

### Five big ideas with the potential to change the industry in ten years

While the 2022 Consumer Products Outlook focuses on the next year, Deloitte is also keeping an eye out for potential game changers looming on the horizon. Some are already playing a small role today. Others may never fully manifest. But forward-looking companies assess, invest, and prepare now. By the time change is obvious, it may be too late.



**1. Digital goods:** Some argue the metaverse isn't so much a place but a point in time when consumers start to value large components of their digital lives more than their physical ones. What happens to traditional CP sales when consumers are willing to pay as much or more to dress, equip, consume, and experience digital offerings as they have for analog ones? Technologies, such as blockchain and nonfungible tokens (NFTs), are opening new paths to digital scarcity and ownership, and some see a trillion-dollar market.<sup>9</sup> Currently the companies capitalizing on this opportunity are experienced in software economics and run platforms. Should digital goods become a major source of competition, it remains unclear if CP companies can adapt. At least people will still have to eat. Right?



**2. Automated buying:** Many people don't like expending the effort to comparison shop or even keep close track of frequent purchases that need replacing. They are also not all that good at it. Artificial intelligence (AI) shopping agents and auto-replenishment systems are imperfect now but may get dramatically better. Seventy-seven percent of executives surveyed think consumers will auto replenish fast-moving consumer goods in 10 years. The question that arises then is, "who benefits?" Will CP companies disintermediate retail with DTC channels interacting directly with consumer AI agents? Or will retailers benefit as they use their superior end-consumer data to provide their own offerings in ways that appeal to AI agents making more "optimal" decisions?



**3. Ambient computing:** Instead of technology needing to be on or immediately in front of you, it is becoming so ubiquitous it can be around you, everywhere and always. Cheap sensors, cameras, high-speed connections, screens, projectors, speakers, and more are all making it possible. A major benefit is that interaction with intelligent systems can be passive as well as active. Imagine common household goods enabled by a digital services wrapper, which could come to life in the environment automatically when consumers use them. The power to reach consumers and collect their data could turn marketing on its head—if companies can find a way to be trusted by them. Already six in ten executives (61%) think marketing will be almost entirely digital in the next 10 years.



**4. Edge manufacturing:** Renewed interest in shorter supply chains, as well as additive manufacturing technologies like 3D printers, could move production closer to consumers. This opens the possibility for custom products and for co-creation with consumers. For decades, CP companies have pursued the benefits of scale. What happens when mass production is no longer the model, when the power of the customization interface is more important than the brand, when computer-aided design (CAD) and manufacturing bill of materials (MBOM) files are open sourced, or when decentralized autonomous organizations (DAOs) with blockchain-based governance structures move beyond purely digital pursuits to collectively own additive manufacturing machines and compete with traditional companies?



**5. Post consumption:** Buying less by buying better. Some consumers will make more purchasing decisions based on sustainability. They'll want fewer, more sustainable new items and will reuse them when possible. Others will be compelled to buy less as rising costs force more of their wallet to be dedicated to nondiscretionary spending. Governments could intervene with new sustainability regulation or even in the economy (or the economic system itself). By choice, circumstance, or mandate, all could lead to less consumption. Examining just one facet, what happens to the consumer *packaged* goods industry if disposable packaging is shunned and essentially prohibited?

# Closing thoughts

Consumers, partners, and employees get to decide for themselves how much they trust your company. Companies themselves, on the other hand, should trust that their stakeholders will eventually see them for who they really are based on demonstrated competence and intent over time. Trust is something that can be measured and monitored, an important step to implement for companies getting started on this journey. As they pursue transparency, digital engagement, and the future of work to rekindle trust among their stakeholder groups, companies should also note that these imperatives are all interconnected and work best in concert. For example, transparency data can be shared in digital engagement systems. Those engagement systems can be used to engage with employees as well. DEI and other future-of-work initiatives generate data that should be shared openly. In fact, embracing equity as an imperative extends beyond the workforce and out into the market and society at large. In short, a holistic and coordinated approach across these imperatives is more likely to show high returns.



**Transparency**



**Digital  
engagement**



**Future  
of work**



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