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The future of consumer packaged goods: Thriving in an era of constant disruption

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The forces, issues, and strategic imperatives defining CPG today and tomorrow

Consumer behaviors have changed significantly. Some consumer groups are demonstrating a willingness to pay premiums for sustainable and innovative products, while others are engaging in value-seeking behaviors and focusing on essentials. In many categories, brand loyalty is weakening, requiring companies to reassess their value proposition relative to what their core consumers truly want and need, and to focus on developing pricing and promotion strategies rooted in that understanding of willingness to pay.[1]

The companies that make the goods consumers use most frequently—from soap to hairspray to food and beverages—often face a complex and evolving landscape. Shifting consumer demands may be just the beginning. Economic pressures and technological change can create additional challenges for consumer packaged goods (CPG) manufacturers as they try to remain competitive and sustain growth.

The cost of raw materials, logistics, and labor is reducing profit margins. Retailers are evolving their capabilities to include mechanisms to drive digital engagement and personalization, and to monetize their data with retail media networks, putting pressure on traditional commercial strategies and manufacturer margins.[2] Growing demand for e-commerce appears to be contributing to variable costs for shipping and fulfillment.

The growth of digital shopping technologies may also be reshaping the industry. Some consumers seem to expect seamless omnichannel experiences that integrate physical stores with online platforms, which may require CPG companies to make investments in e-commerce capabilities, mobile apps, and social media marketing. At the same time, some consumers are demanding a level of hyper-personalized products.[3] Both AI and advanced data analytics have become critical for tailoring products and marketing strategies to personal preferences on a large scale.

The forces, issues, and strategic imperatives defining CPG today and tomorrow

The six forces

Deloitte recognizes the complexity, speed, and convergence of these economic and social factors and their impact on the CPG industry. We are dedicated to understanding the future of the global consumer and how the forces reshaping culture and society, shifting geopolitics and policy, and technological advancement are affecting CPG companies.

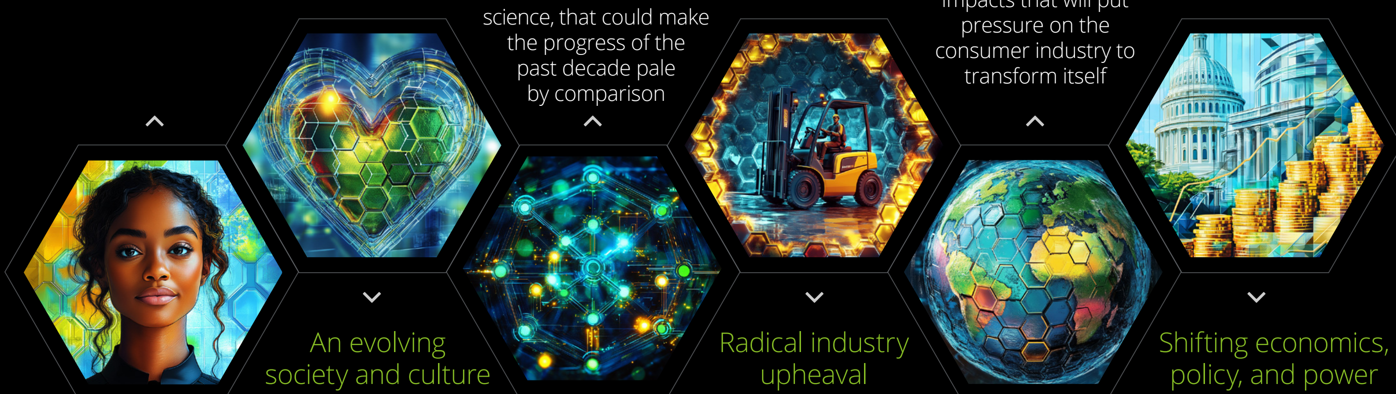
This undertaking has culminated in the identification of six forces (figure 1), in many cases representing unprecedented changes that can impact CPG companies—but also how the consumer industry landscape is evolving at an unprecedented pace.

To help them succeed under these conditions, CPG companies should have an understanding of these dimensions:

- **Issues:** The ways in which the six forces are manifesting today and creating a set of challenges presently confronting businesses.
- **Strategic imperatives:** The decisive actions that can allow businesses to better navigate the issues they're facing today and position themselves to thrive in the markets of tomorrow.

While the six forces span a range of challenges that consumer-facing companies may need to confront in the coming years, these forces represent an initial wave of transformation for CPG companies. This emerging phase is already contributing to change—and creating a set of issues that can shape the future of the CPG industry.

Figure 1. The six forces



Industry issues: Consumer demands driving market shift from mass to micro

CPG companies often operate in a more fragmented consumer market, and they may need to adapt to changing consumer expectations amid intensifying competition, growing operational complexity, and a shortage of talent. Success in this evolving landscape will likely require agility, innovation, and a keen focus on sustainability.

Keeping pace with changing consumer tastes

Rising living costs in many advanced economies[4] are expected to put pressure on consumers, which could drive more cautious spending as shoppers prioritize essentials over discretionary purchases. We see this value-driven behavior across all income levels, leading to reduced store traffic.[5] Some retailers may struggle to maintain profitability as promotions increase and sales shift to lower-priced items.

Talent gaps and organizational inertia stall agility and innovation

CPG companies are likely finding themselves in an escalating battle for talent, particularly in areas crucial for digital transformation. Talent gaps in data analytics, automation, and emerging technologies could threaten the competitiveness of CPG organizations. Meanwhile, cultural inertia and internal resistance can stifle the agility these companies may need to survive in this rapidly changing landscape.

Confronting market saturation and mounting competition

Private labels, global competition, regional players, and niche entrants are eroding sales for established CPG brands, asking them to rely on pricing strategies to drive growth. This strategy, however, could risk alienating consumers and damaging brand relevance.

Rising costs, regulatory pressure, and global instability strain operations

Some CPG companies may be facing mounting operational challenges, such as rising input and labor costs, ongoing supply chain disruptions, expansion of product lines, and tighter regulations. Companies for which exports account for a large share of total revenue or that have high input costs from imported components are expected to be sensitive to trade policy and fragility in supply chains. Global economic pressures may further intensify these challenges, and could make it increasingly difficult for companies to maintain continuity and competitiveness across certain markets.

Portfolios under pressure from lagging innovation and mounting complexity

To rise above the competition and maintain relevancy, CPG companies should look to innovate rapidly across product lines. Adapting core products to meet evolving consumer expectations often requires significant investment, and expanding product portfolios could stretch resources and cloud strategic focus. As demand fragments, it can reduce the likelihood that an innovation might appeal to a large enough market to justify the R&D investment and may require companies to rethink how they develop and commercialize new products.

Shifting retail channels and new models upend distribution strategies

The retail landscape is undergoing significant changes with the rise of e-commerce, omnichannel strategies, and direct-to-consumer models. CPG companies should manage this evolving sales and fulfillment ecosystem while meeting customer demands for seamless experiences across all interactions. This added complexity could force some CPG companies to rethink their traditional market strategies.

Rising demand for sustainability

Addressing environmental and social responsibilities in operations and supply chains while also pursuing other strategic priorities is becoming costly. What's more, some CPG companies may be finding that in a polarized landscape, both action and inaction can carry reputational risks. Failing to meet customers' sustainability expectations can threaten brand trust and risk reputational damage—and could even result in legal and financial repercussions. However, the higher ingredient, production, or process costs of meeting these expectations can be less than the cost of failing to adopt them.

Strategic imperatives for unpacking the future

Grow with new channels and market pathways

CPG companies may need to move beyond considerations such as market share and start thinking about what makes their product relevant to consumers to help them succeed in the new consumer market. Brands that succeed will likely be those that are close to their customers and can identify and adapt to changing attitudes and market conditions quickly.

At the same time, the industry should consider ways to balance these new consumer preferences against the need for growth, efficiency, technological innovation, and sustainability.

We have identified six strategic imperatives that provide a comprehensive framework to help CPG companies navigate this complex and rapidly evolving marketplace.

Companies should consider embracing digital, direct, data-driven capabilities and new ways of getting their products to market that connect with consumers. This may mean leveraging data and AI to enhance consumer experiences and drive sales or collaborating with retailers in adapting large language models (LLMs) that tailor product placement recommendations based on individual shopper needs and preferences.

By equipping sales and marketing teams with real-time data, insights, and recommendations, CPG companies can improve both retailer and consumer interactions and boost sales efficiency and accountability.

These companies can also explore innovative digital channels, including:

- Gaming, metaverse, and social commerce sites. Look for opportunities to “borrow equity” from influencers and other brands or categories.
- Differentiated subscriptions that incorporate personalized product recommendations or curated bundles.
- Specialized formats tailored to emerging channels, such as kiosks and food trucks, that attract value-conscious consumers.
- Hyper-localization, which tailors marketing, packaging, assortment, inventory, and even products to local tastes and preferences, enhancing relevance in diverse markets.
- Retailer-owned media networks and other digital platforms that can deliver audience-based or personalized ads and promotions, driving product discovery and sales.
- Business-to-business e-commerce (eB2B) platforms that provide real-time insights and engagements, streamlining transactions and enhancing the retail experience.

At the same time, CPG companies could consider expanding or enhancing traditional pathways to consumers through loyalty programs that incentivize repeat purchase and long-term loyalty.

Food companies could consider automated mini-kitchens or vending solutions, deployed in high-traffic areas, that use advanced robots and food preparation technology to prepare fresh meals, snacks, and beverages on demand.

Strategic imperatives for unpacking the future

Expand market share through agile portfolio innovation

New sources of consumer data and insight can increase relevancy, unlock new categories, encourage innovation, and help develop new services. Some examples of how this consumer-centric innovation can be applied across industry segments include:

- Health, wellness, and longevity: Wellness-focused product lines aligned with consumer demand for healthier options and increased longevity.
- Personalized nutrition: Biological insights, such as gut biome data, for tailored nutrition solutions.
- Segment-specific product innovation: Targeted products for distinct consumer segments.
- Localized formulation: Products tailored for local tastes and preferences.
- Product customization: Product and service configurations designed specifically for new pathways and channels.

  At the same time, companies can offer unique and engaging product experiences, such as adding bold flavors and multisensory experiences, or creating modular or customizable products that consumers can personalize.

By combining physical products with digital services, companies can integrate consumer experiences and develop at-home product offerings that drive engagement by meeting consumer demand for convenience.

CPG companies can work to attract environmentally conscious consumers with eco-friendly products and sustainable practices and by offering refillable, reusable, or concentrated product options.

To further broaden their customer base, expand into new markets, and diversify their products, CPG companies can consider strategies such as premiumization, in which they could elevate their products by highlighting premium ingredients or packaging to attract luxury consumers. They also can integrate adjacent product categories or blend goods and services, introducing customers who favor one product to another one. AI can help speed product development cycles for recipe formulation, reducing the time to market for new products.

Strategic imperatives for unpacking the future

Scale by expanding market frontiers

CPG companies can fuel growth by increasing investment in new markets, new segments, and new geographies. In the past, entering a new market might require years of study and investment, but new technology and strategies can help to reduce the risk. Once again, agility and innovation are critical. By continuously evaluating market entry and exit strategies, companies can focus on high-growth opportunities and respond quickly to demand surges.

Companies also can develop tailored products for distinct regional markets that meet local consumer needs—moves that not only increase market penetration but also boost brand loyalty at the local level.

These local products may address specific societal needs in a particular region or rely on local ingredients or cultural preferences to appeal to customers. At the same time, companies should work to effectively adapt distribution channels and market strategies and hire talent familiar with local market dynamics.

To help them facilitate these more agile market-entry strategies, companies may consider investing in production capabilities in emerging economies. This can reduce production costs while also strengthening supply chain resilience by moving production closer to the customer, which, in turn, can accelerate local distribution.

The risks of entering new markets can include misunderstanding local customs, culture, or preferences, as well as dealing with different regulatory regimes and governments. Navigating these environments can be challenging, but companies that recognize regulatory shifts can gain a competitive advantage and unlock new growth opportunities. Similarly, companies that can effectively capture government incentives or tax advantages may be able to reduce market entry costs and operating expenses.

When entering new markets or regions, CPG companies should also consider key supply chain issues, including:

- Pursuing vertical integration strategies to maintain control over key facets of their supply chain, confirming quality while reducing reliance on external suppliers.
- Adjusting business models to comply with local laws.
- Building long-term relationships with government entities to benefit from favorable regulations and incentives that can support business objectives.

Another potentially less capital-intensive approach to new markets could be through cross-border partnerships that can broaden economic reach and strengthen competitive advantages in new territories. By teaming up with a player that already knows the local or regional market, CPG companies can leverage existing knowledge and reduce risk.

Strategic imperatives for unpacking the future

Drive breakthrough efficiency and margin with modernized tech

To better compete in markets that are increasingly fragmented and changing rapidly with consumer tastes, CPG companies may need to rely on technology to increase efficiency, reduce costs, and make their supply chains more flexible and resilient.

Developing these technological capabilities should include foundational investments in cloud infrastructure and cybersecurity to strengthen core operations. Companies may also consider adopting blockchain technology to help enhance supply chain transparency and automate complex transactions.

Automation is expected to expand its role in warehouse operations such as selecting items for shipment, packing them, and fulfilling them. Robotic process automation (RPA) and emerging technology such as agentic AI can streamline labor-intensive processes such as customer service, ordering, and invoice reconciliation. Self-driving vehicles, drones, robotic "dogs," and other small robots can optimize delivery routes and package fulfillment.

Smart factory solutions using vision AI, Internet of Things on factory machinery, and predictive or simulation systems on quality and uptime can reduce costs for facility upkeep and confirm that production equipment is maintained at peak efficiency, avoiding costly unplanned downtime for repairs that can interrupt workflows.

AI could also play a growing role in several areas:

- Production line efficiency: Integrated AI-driven systems can monitor and optimize production in real time.
- Productivity enhancements: AI can automate creative and data-heavy processes.
- Customer service: AI-powered chatbots and virtual assistants can provide personalized support.
- Sales execution: By collaborating with retailers, CPG companies can implement AI-powered systems for inventory optimization and order management.

AI and automation also can help enhance competitiveness by increasing supply chain flexibility, resilience, and efficiency. For example, by using advanced analytics, companies can anticipate supply disruptions and adjust inventory levels. They can use integrated business planning (IBP) to identify product offerings and reduce supply chain complexity. IBP can also help companies implement programs that can reduce overhead costs in areas like energy efficiency and logistics. And the use of autonomous vending and dispensing systems, like the automated kitchens mentioned earlier, can help CPG companies to expand product reach and improve placement through automated solutions.

Strategic imperatives for unpacking the future

Revolutionize performance with integrated, predictive operations

Using predictive analytics, companies can scour their operations at a granular level, unlocking untapped value by improving accuracy, responsiveness, pricing, and marketing. By integrating a variety of data from multiple sources, CPG companies can create a unified foundation that enhances both internal and external operations. A few straightforward examples include:

- Machine learning, which can help CPG companies improve financial forecasting and scenario planning, thus anticipating and reducing risk. It also can build demand forecasts at a more granular level of detail to address the shifts and pockets of consumer demand described earlier.
- Predictive supply chain "control towers" that can enhance visibility and responsiveness in real time. By sharing this data across systems, companies can create a seamless network that improves operating efficiency and resource utilization companywide.
- AI assistants—LLMs that use company process documentation and leading practice sales motions and policies—and "sidekick" AI agents can improve workforce training and effectiveness. They also can add consistency to the processes and practices needed to manage an increasingly remote and less experienced workforce.

Turning these analytics on the broader market can provide companies with granular data that helps them recognize shifts in consumer behavior and enables them to adjust production and inventory.

Traditional approaches to pricing, promotion, and demand forecasting treated retail stores as homogeneous. This simplified approach to product-level forecasting meant that promoted product groups (PPGs) were reviewed or changed infrequently. With new computing power and modeling tools—coupled with store-level, audience-level, and SKU-level data—companies can identify new pockets of consumer demand in the "deaveraged" data of stores, consumer groups, and individual product formulations. And with dynamic pricing and commodity forecasting tools, algorithms can align pricing strategies with market fluctuations.

In marketing, machine learning and Generative AI can help companies to personalize their pitches, creating hyper-targeted campaigns. Digital twins can help prediction models by simulating consumer behavior to predict the success of new products before launch.

Strategic imperatives for unpacking the future

Lead with sustainability and social responsibility

By leading with environmental and social responsibility, CPG companies can improve their value proposition, driving growth, building resilience, and enhancing brand loyalty. These efforts should include ethical and transparent business practices—from procurement to labor practices to sourcing to environmental stewardship of supply chains. Transparency with consumers matters more than ever. More than two-thirds of US consumers surveyed spend more with brands they consider "authentic"—those that represent their values and beliefs—and transparency reinforces this sense of trust, fostering customer loyalty.[6] Consumer transparency includes clearly labeling products with accurate ingredient information and avoiding misleading health claims. Transparency should also apply to corporate governance, especially when it comes to AI use and addressing potential biases in the information it's trained from.

These ethical practices should also extend to the broader community. Customers may be looking for brands whose operating models reflect local market dynamics. CPG companies that recognize and respond to this can reinforce product relevance across diverse regions. Other asks could also extend to using corporate influence to provide humanitarian aid and maintain responsible business practices that comply with global human rights standards.

Environmental sustainability is an important and highly visible component of leadership. It can include adopting initiatives to reduce carbon emissions and curb water usage in manufacturing to zero-waste policies or minimizing packaging waste by reducing plastic use and prioritizing recyclable and biodegradable materials.

Energy efficiency is also an important factor in sustainability strategies, and companies should focus on conservation and reducing energy consumption across their manufacturing, distribution, and retail operations.

These circular economy principles for minimizing waste and maximizing resource efficiency should be incorporated across supply chains, operations, and geographies.

Navigating the future

CPG brands face volatility, technological disruptions, and rapidly evolving consumer expectations. Faced with this convergence of pressures, companies may need to rethink sourcing, pricing, production, and retail strategies in real time.

They should balance traditional strengths with new capabilities, maintaining their core competencies while developing the agility to respond to rapidly changing market conditions. This can include embracing digital transformation, fostering a culture of innovation, and building strong connections with consumers across multiple channels.

As the industry moves from mass to micro, a company's ability to understand and cater to increasingly fragmented consumer demands will likely be important. Those that don't adapt could struggle to compete in this rapidly changing and fragmented environment.

Companies looking to navigate and thrive in this new environment should consider these questions:

- What opportunities exist within our product portfolio for innovation that aligns with emerging consumer trends such as health, wellness, and personalization?
- How can we effectively evaluate and enter new markets or geographies while minimizing risks and maximizing growth potential?
- What areas of our operations could benefit most from AI and robotics integration to improve efficiency and supply chain resilience?
- How can we leverage AI and data analytics to enhance our consumer experiences and drive sales across new channels?
- How can we recruit and keep the talent we need to develop and maintain effective AI and data analytics solutions?
- How can we integrate sustainability into our core business practices to help enhance brand loyalty and meet growing consumer expectations?

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Endnotes

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