



# OUTLOOK JUNE 2021

## GROCERY MANUFACTURERS AND RETAILERS

Forecasts and Strategies for Sales, Pricing,  
Assortment and Digital Commerce

# EXECUTIVE SUMMARY

Halfway into 2021, as much of the country is easing pandemic restrictions, grocery industry players are focused on the nature of post-pandemic sales, optimal product pricing and assortment, and return on their investments in digital commerce, according to a new survey by SMARTeam, Advantage Sales’ consumer goods insights team.

While product manufacturers and retailers hold significantly differing perspectives on likely sales strength in the second half of the year and where those sales will be made — online or in stores — they are aligned in one area: the transformative nature of digital commerce.

According to results of a May 2021 survey of grocery manufacturers and retailers by Advantage Sales:

**Manufacturers and retailers are far from aligned on dollar sales predictions.** Six in 10 manufacturers foresee increases in dollar sales through the second half of 2021, seven in 10 retailers are predicting decreases.

**Manufacturers predict a much greater percentage of their sales moving online over the next few years than retailers do.** While 37% of manufacturers expect their online dollar sales to be over 21% by 2025, only 14% of retailers believe the share of their sales being made online will be that high.

**The cost of consumer goods will continue to rise.** More than three-fourths of manufacturers have taken price increases this year or plan to in the future.

**Retailers want fewer SKUs.** Sixty-five percent of retailers are in the process of reducing SKUs. Manufacturers who are most affected are likely to lean into product innovation or promotions to regain lost distribution.

**Few retailers have plans to share their digital data this year.** Only 20% of retailers make their digital commerce sales data available to manufacturers now or plan to in the near future.

**Areas of focus in digital commerce are changing.** Third-party fulfillers Instacart and Shipt are rising in importance, with 37% of manufacturers putting them in their Top 5 e-commerce priorities. Beyond their media spend at Amazon, Walmart and Target, manufacturers’ top area of planned e-commerce investment encompasses basic capabilities such as content, supply chain and data.

**Manufacturers believe there’s great room for improvement in their return on investment in retail platforms.** Only 7% of manufacturers believe a retail media network spend is “extremely effective” compared to their traditional spends with retailers. Regarding their overall digital spend beyond their investments in Amazon, only e-commerce-related investments with Walmart, Target and Instacart received extremely or very effective ratings by more than one-third of manufacturers.

## CONTENTS

Projecting Sales and Price Increases..... 3

Reducing Assortment and Increasing Fill Rates..... 5

Investing in Digital Commerce and Seeking ROI..... 6

## METHODOLOGY

“Outlook June 2021” is based on responses by 69 consumer packaged goods manufacturers and 22 grocery retailers to online surveys conducted May 18 through May 27, 2021. The survey and insights are products of SMARTeam, Advantage Sales’ consumer goods insights team.

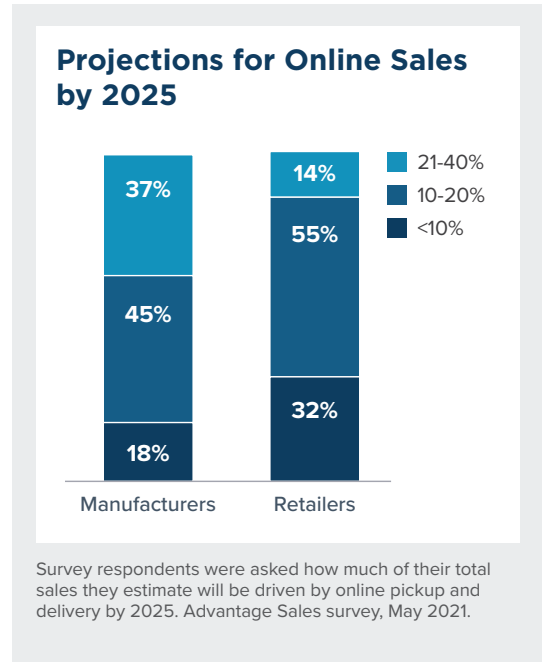
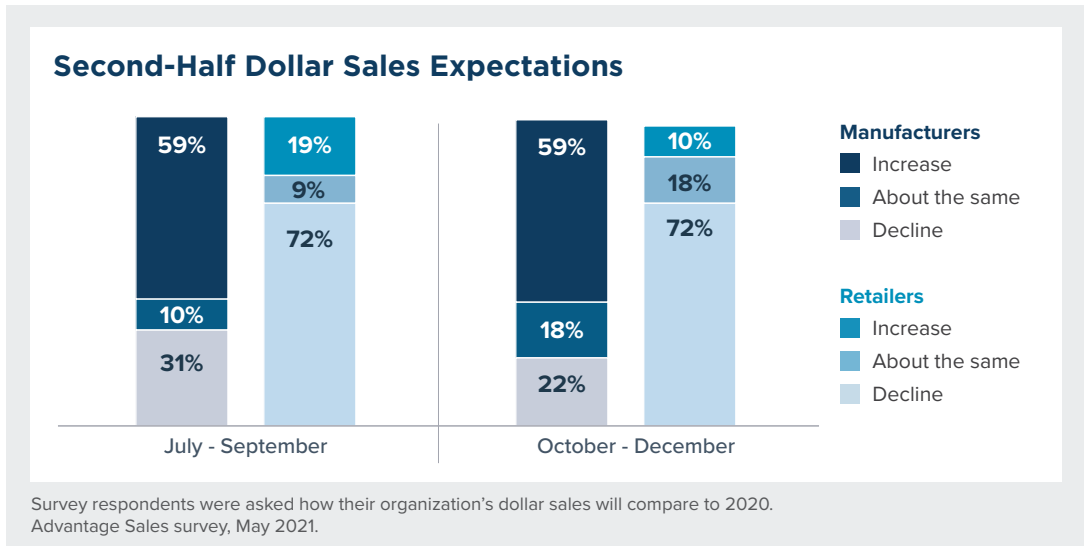
# PROJECTING SALES AND PRICE INCREASES

As the cumulative effects of the pandemic on consumer demand and the supply chain come into focus, manufacturers and retailers differ sharply in their predictions for sales and where they see those sales originating and plans for price increases.

Nearly six in 10 manufacturers surveyed expect third- and fourth-quarter dollar sales to be higher than last year's. However, seven in 10 retailers expect dollar sales to be lower for the rest of 2021 compared to last year's results.

Looking at sales across physical and digital shelves, manufacturers attribute a greater percentage of sales made in the past 12 months to shoppers ordering online for pick up or delivery than their retail partners do. They also predict a much greater percentage of their sales will be made online by 2025. This difference may be attributed to manufacturers' ability to sell their products on numerous online platforms, including Amazon and direct to consumers, and barriers to cleanly identifying and measuring online versus brick-and-mortar sales.

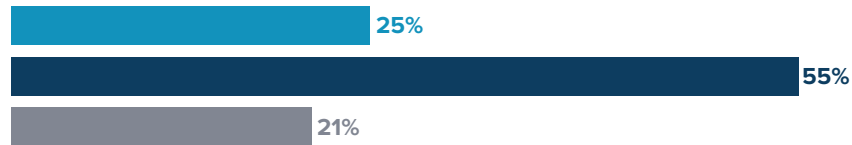
The cost of consumer goods will continue to rise. About one-fourth of manufacturers have taken price increases this year and another half plan to in the future. The Top 3 drivers of price increases are a rise in the cost of materials, distribution and packaging. (See charts, next page.)



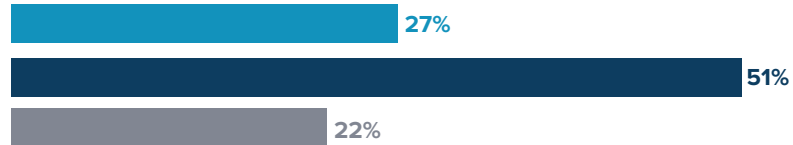
## Manufacturers' Pricing Plans

### Plans for Price Increases

Informed/Will inform of price increase



Took/Will take price increase



■ Have already   ■ Plan to in the future   ■ No Plans/Unknown

### Drivers of Price Increase

Increased product material costs



Increased distribution costs



Increased packaging costs



Increased production labor



Shifting channel mix



Other



Manufacturer respondents were asked about their plans for price increases and what is driving increases. Source: Advantage Sales survey, May 2021.

## IMPLICATIONS

Manufacturers should consider these divergent perspectives on dollar sales and price increases when entering negotiations and look closely at orders that fall short of perceived demand.

Better understanding why there's a difference in perspectives on sales made through digital platforms will identify weaknesses in omnichannel strategies and partnerships. This is an opportunity for brands, who will be more focused on online sales, to leverage their experience in driving e-commerce and help retailers achieve their goals for online growth.

The effects of COVID-19 are spurring most price increases and manufacturers should consider complete transparency when presenting them to retailers. Those who expect a second round of increases should set the stage now.

**“Manufacturers and retailers differ sharply in their predictions for sales.”**

# REDUCING ASSORTMENT AND INCREASING FILL RATES

COVID-19 disruptions caused manufacturers and retailers to take a hard look at their assortments, demand and out-of-stocks, an examination that continues to play out on physical and digital shelves.

Nearly two-thirds of retailers are in the process on reducing their SKUs; none who were surveyed plan to increase their SKU count. This activity has impacted the business of nearly three-fourths of manufacturers, who are most often turning to product innovation and promotions (38% of those who are losing points of distribution) or discontinuing items that have lost significant retail placements (25%).

After a chaotic 2020, manufacturers are more confident than retailers that supply chain challenges will be resolved in the second half 2021. More than three-fourths of manufacturers expect their supply level to be greater than 90% by the last quarter of the calendar year, but only 44% of retailers anticipate fill rates to be that high.

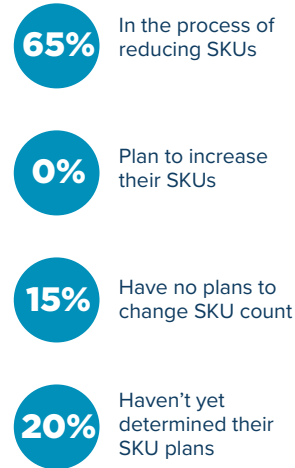
## IMPLICATIONS

With SKU reductions on the minds of retailers, brand innovation must focus sharply on category incrementality and closely align with shoppers' new consumption habits and greater interest in a brand's and product's values and value equation. While brands and retailers are focusing on the digital shelf, brick-and-mortar assortment is still key as it will feed online assortment for the near future.

When discussing sales plans, SKU reductions, out-of-stocks and voids, manufacturers should offer details of supply chain enhancements and fill-rate assurances.

**“Manufacturers are more confident than retailers that supply chain challenges will be resolved in the second half of 2021.”**

### Retailers' SKU Plans



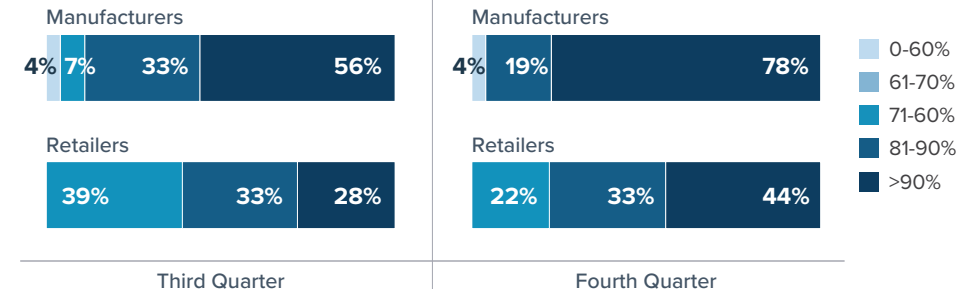
Retailer respondents were asked to describe their plans for SKUs and online assortment. Advantage Sales survey, May 2021.

### Manufacturers' Strategies for Mitigating SKU Rationalization



Manufacturer respondents who said they were impacted by SKU reductions were asked about their plans to mitigate the impact. Advantage Sales survey, May 2021.

### Anticipated Supply Levels



Survey respondents were asked what level of supply they anticipate during the third and fourth quarters of 2021. Advantage Sales survey, May 2021.

# INVESTING IN DIGITAL COMMERCE AND SEEKING ROI

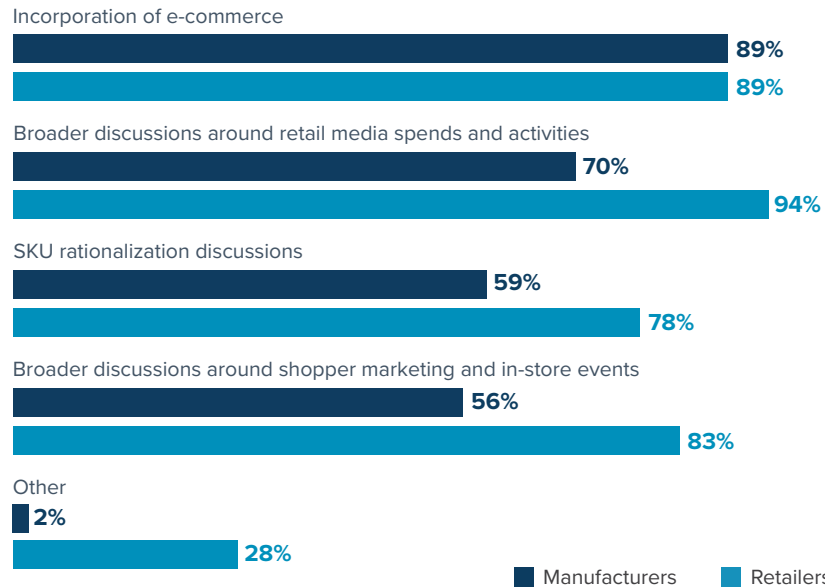
The fast shift to online grocery shopping and indications many consumers will continue to shop this way even as pandemic-related health and safety concerns ease have manufacturers and retailers investing in digital commerce platforms and capabilities.

Indeed, retailers say adding e-commerce and retail media strategies and spending discussions are at the top of the list of changes they'll be making to their joint planning sessions with manufacturers. Manufacturers are equally as interested in adding e-commerce plans to the joint business planning process by the end of the year.

Two-thirds of retailers say a brand's investment in their digital platforms are extremely or very important to the brand's success. Just 6% of retailers say these investments are not important to a brand's success with their retail strategy.

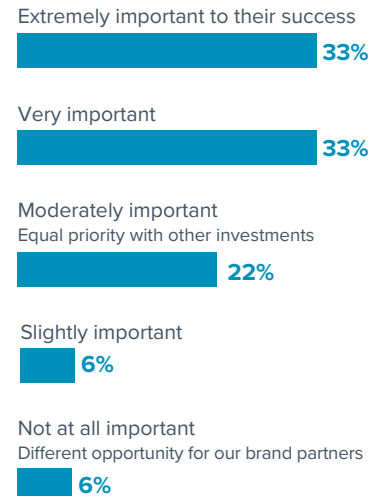
Even so, a large majority of retailers (70%) are undecided about their plans for sharing online sales data with the supplier community. Only 15% of retailers surveyed said they provide this information to suppliers, though another 5% planned to make it available before the end of the third quarter.

## Plans for Joint Business Planning



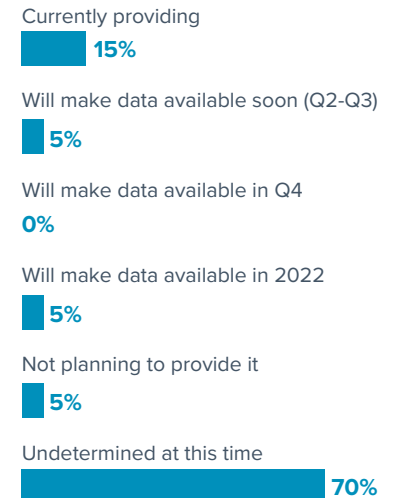
Survey respondents were asked what changes they plan for joint business planning sessions by the end of 2021. Advantage Sales survey, May 2021.

## Retailers' Thoughts on Manufacturers' Investments in Retail Media Networks



Retailer respondents were asked how important brands' investments in their digital platforms were to brands' success with them. Advantage Sales survey, May 2021.

## Retailers' Plans for Sharing Online Sales Data with Suppliers



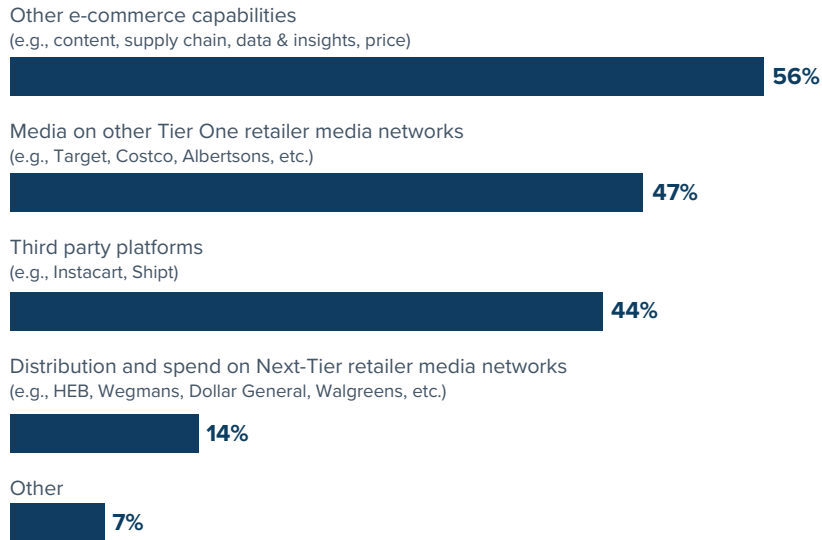
Retailer respondents were asked about their plans for sharing online data with the supplier community. Advantage Sales survey, May 2021.

Outside of investments in online media spends on Amazon, Walmart and Kroger, just under half of manufacturers say tier-one retail media networks, such as Target’s, Costco’s and Albertsons’ RMNs, and third-party platforms, such as Instacart and Shipt, are top areas of focus for current or planned e-commerce investments. In fact, 37% of manufacturers say Instacart and Shipt are among their Top 5 “e-commerce customers.”

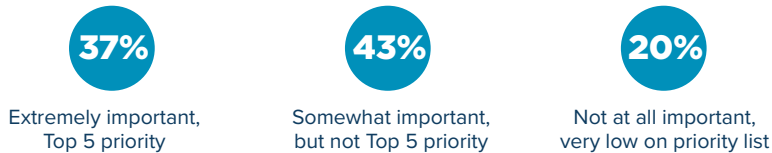
Still, beyond Amazon, Walmart, Target and Instacart, consumer goods makers are not convinced their investments in retail platforms are extremely or very effective. One-fourth or fewer of the manufacturers making investments in other retail platforms rate them as extremely or very effective.

### Manufacturers’ E-Commerce Investments

#### Top Areas of Investments or Planned Investments

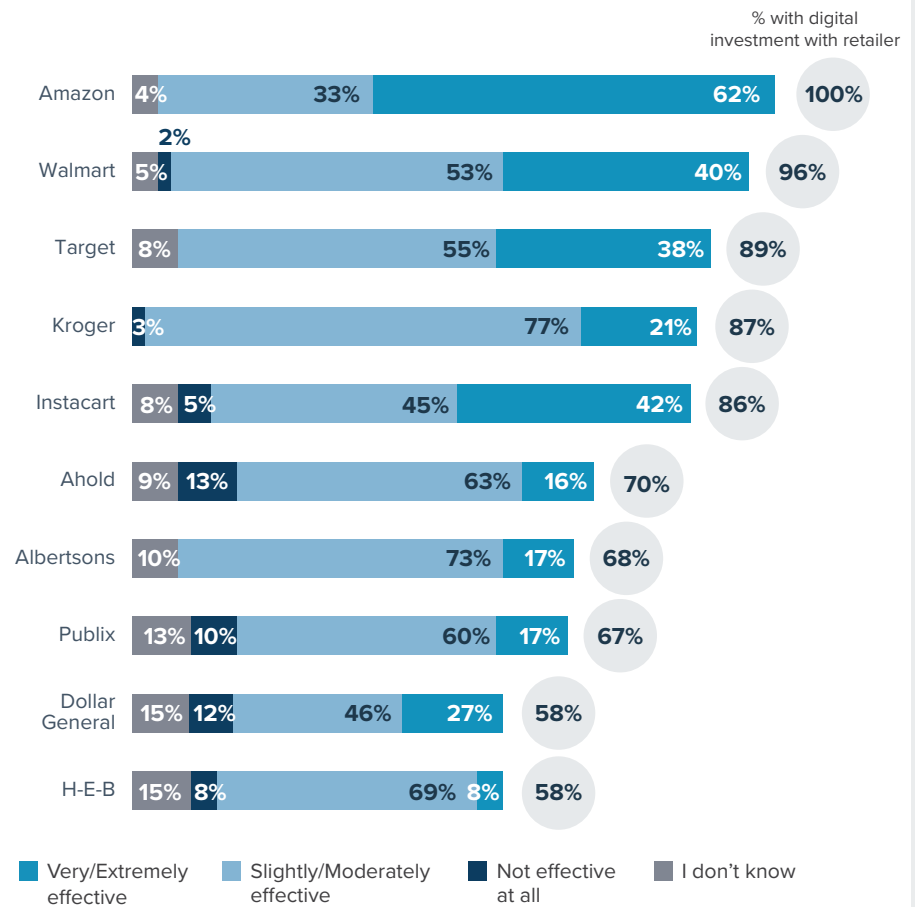


#### Prioritization of Instacart/Shipt



Manufacturer respondents were asked what their Top 2 areas of e-commerce investment were beyond Amazon, Walmart and Kroger and how they are prioritizing Instacart and Shipt fulfillment platforms over other e-commerce customers. Advantage Sales survey, May 2021.

### Manufacturers’ Return on Digital Investments



Manufacturer respondents were asked to rate their return on investments in retailer platforms. Advantage Sales survey, May 2021.

**“ Only a small fraction of manufacturers’ spending in search marketing, digital content or retail media networks is coming from new funding sources.”**

Only a small fraction of manufacturers’ spending in search marketing, digital content or retail media networks — 6% or less — is coming from new funding sources. Most manufacturers are paying for these spends with brand funds (most frequently used), trade funds and shopper marketing funds.

Most manufacturers believe retail media networks are moderately effective spends (56%) compared to traditional retail trade spending.

**IMPLICATIONS**

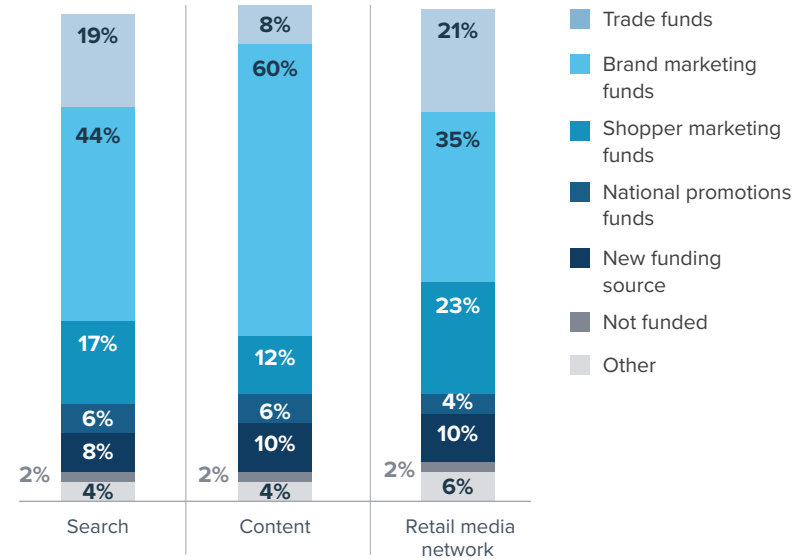
Retailers’ expectations are high for next-generation joint business planning that includes digital shelf strategy and manufacturers should be prepared to talk about investments in retailers’ online platforms and how best to show up online. On the flip side, retailers should provide online sales data to their suppliers and enable manufacturers to better measure the return on their retail media network investments through key performance indicators beyond return on ad spend.

As third-party delivery platforms become a permanent fixture with grocery shoppers, manufacturers must better understand the relationship these partners have with retailers and look to balance investments across both types of digital platforms.

While more attention is paid to online marketing opportunities, and manufacturers tap various funding sources for investments in search marketing, digital content and retail media networks, they should use data as it becomes available to more effectively compare their returns on each digital investment and traditional spend driving in-store sales. Setting digital targets for sales and marketing may help ensure the right balance between in-store and online spends.

While retailers and manufacturers navigate the accelerated change in grocery retailing, greater transparency and more forward-thinking business planning is needed. Closer partnerships and mutual understanding may be two positives left in the wake of COVID-19. ●

**Manufacturers’ Funding for Digital Investments**



Manufacturer respondents were asked where they sourced funding for specific digital spending. Advantage Sales survey, May 2021.

**Manufacturers’ Perceived Efficacy of Retail Media Networks**



Manufacturer respondents were asked to rate the effectiveness of their spending on retail media networks compared to traditional spend on retailer trade. Advantage Sales survey, May 2021.





For more survey results and insights, contact  
EVP, Client Services Jill Blanchard at [Jill.Blanchard@advantagesolutions.net](mailto:Jill.Blanchard@advantagesolutions.net).