Meeting Evolving Shopper Needs in an Ever-changing World

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CPG brands are faced with a chaotic market and reactive shoppers

Introduction

2023 has been a rocky year, to say the least. CPG brands have been faced with increased material costs, supply chain issues, inflationary pressures, and rapidly shifting consumer behaviors. Unfortunately, these are all impacting their bottom line and increasing prices across the board.

In response, brands are being forced to reconsider their growth plans and adjust to the market. This may include cutting products from their assortment, adjusting prices to cover rising costs, focusing on one retailer over another, or moving online to reach new markets. The key is to make these changes intelligently.

This requires looking at retail sales data, consumer behavior, competitor pricing and promotion tactics, outside factors, and more. The more comprehensive your understanding of the factors impacting your sales, the more intelligent your decisions will be.

Looking not only at your product assortment and category but at individual SKUs and their trends may unlock new insights. Different categories are facing completely different challenges, so there's no simple solution for CPG brands to maintain their growth.

Some of the key topics we'll cover in this eBook are:

- How consumers are reacting to inflation
- The growing demand for sustainability in CPG
- Omnichannel shopping trends
- Tips to keep pace with rapidly shifting consumer needs

+45%

The unit price change for chicken eggs over a four-week span

Source: NIQ, Total US xAOC, 4 weeks ending April 1, 2023 - Unit price % change. *Annual sales >$100 million

Growing and Declining Categories in the US

What's hot				What's not			
Category	Omni Abs. $ Growth	$ % Growth		Category	Omni Abs. $ Change	$ % Change	
		In-store	Online			In-store	Online
Eggs	+$3.3B	+48%	+46%	Scented wax air freshener	-$56M	-14%	+24%
Prepared cocktails	+$341M	+47%	+28%	"3 in 1" haircare product	-$15M	-17%	+12%
Cough, cold & flu remedies	+$1.8B	+44%	+65%	Facial toner	-$22M	-20%	-8%
Ramen	+$409M	+32%	+36%	Cognac	-$51M	-10%	+10%
Oat Milk	+$155M	+32%	+33%	Cauliflower	-$58M	-9%	-11%

Source: NIQ Omnisales, Total US, Latest 52 weeks ended Dec, 31 2022 vs. year-ago

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The State of the US Shopper

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The State of the US Shopper

With the markets in disarray, one thing is clear, this is an unsettling time for many consumers. NIQ research confirms that shoppers intend to change their spending habits to combat growing economic insecurity. Nearly two in five global consumers **(39%)** feel they are in a worse financial position this year.

Unsure about the future and bracing for extremes, consumers are in a constant state of skepticism. And with the looming prospect of further disruption down the road, consumers remain cautious with all forms of spending. This is causing CPG categories to grow or shrink at a more rapid pace than most brands have anticipated.

In fact, consumers plan to spend less on most discretionary spending categories, where out-of-home dining **(44%),** out-of-home entertainment **(41%),** and clothing **(40%)** are leading the list of where consumers plan to trim their wallet allocation.

As shoppers buy less and split those purchases into wants versus needs, brands will need to work harder to engage them. Traditional marketing tactics may return to win back consumers who have shifted their purchases to value brands and retailers. But understanding consumer motivations and their new habits will play a key role in brand growth going forward.

Consumers are more willing than ever to change their lifestyles to protect their wallets, the environment, and the future. Many are facing increased costs across the board and are being forced to reevaluate. But not all shoppers act the same, so audience segmentation is necessary to identify key pockets of growth and adapt effectively.

50%

of Shoppers say they are willing to stock up when an item is on promotion

Source: NielsenIQ 2023 Consumer Outlook Survey

CPG Prices continue to trend higher than the rate of CPI

Source: U.S. Bureau of Labor Statistics – Consumer Price Index

NielsenIQ, Total US xAOC, 4 weekly periods ending April 1, 2023

Shoppers and Inflation

Shoppers and Inflation

CPG inflation has been hurting American shoppers' wallets since April 2020. In tracking grocery prices for March, NIQ's latest data shows some relief, but shoppers are still grappling with high prices. To deal with these pressures, consumers are changing their behaviors and trying to make their dollar go further.

But that doesn't mean that price is the only thing they care about. Understanding the different methods they're using to cope with the pressure is key.

With that in mind, here are **5 ways** consumers are dealing with inflation:

1. Value Shopping

The importance of value-based retailers is still increasing, with shoppers turning to stores with lower prices. Value retailers' sales jumped **8%** in March compared to the previous year, capturing **42.6%** of CPG sales.

Promotional sales remain a key driver of growth, with **50% of shoppers** willing to stock up when their brand is on sale. However, brands must avoid promoting too aggressively to win back shifted share, as this is not a sustainable profit strategy. Promotions should be used purposefully to build brands, not to undermine loyalty.

2. Bulk Buying

Another notable way consumers are seeking to save is by buying larger package sizes. A **quarter of Americans** are buying larger sizes of products with long shelf lives as a savings strategy to get a lower cost per use. Unfortunately, this means many premium brands are losing out on sales to less-expensive alternatives.

Brands may want to reconsider their product packs going forward to avoid getting overlooked on shelf or run promotions that entice shoppers to purchase more products. This is especially true for FMCG products.

Source: NIQ, Total US xAOC, 4 weeks ending April 1, 2023; NIQ, Total US xAOC, 4 weekly periods ending February 25, 2023

Shoppers and Inflation

3. Focusing on the Necessities

When inflation is high, CPG brands aren't just competing with each other for dollars, they're competing with entirely separate industries. Shoppers' wallets are being strained by increased energy costs, rising rent, and other necessary living expenses.

This means CPG brands are fighting for a smaller slice of the pie. If you sell necessary products (toilet paper, FMCG goods, personal care, etc.), you're in a good position, though price increases are still a risk. Otherwise, you may need to adjust your pricing and promotion strategy to keep your market share.

4. Going Private Label

For years, retailers have been working to improve the quality and packaging of their private-label product offerings. But inflation has helped drive growth even faster. These brands, which on average provide **10%** savings compared to national brands, maintained growth in March, up **9%** as consumers sought value for money. Private Label captured **19.2%** of the consumer wallet for CPG sales during this month.

To stay competitive you may want to identify pockets of the market that private label isn't reaching and align your products and marketing to leverage these sales.

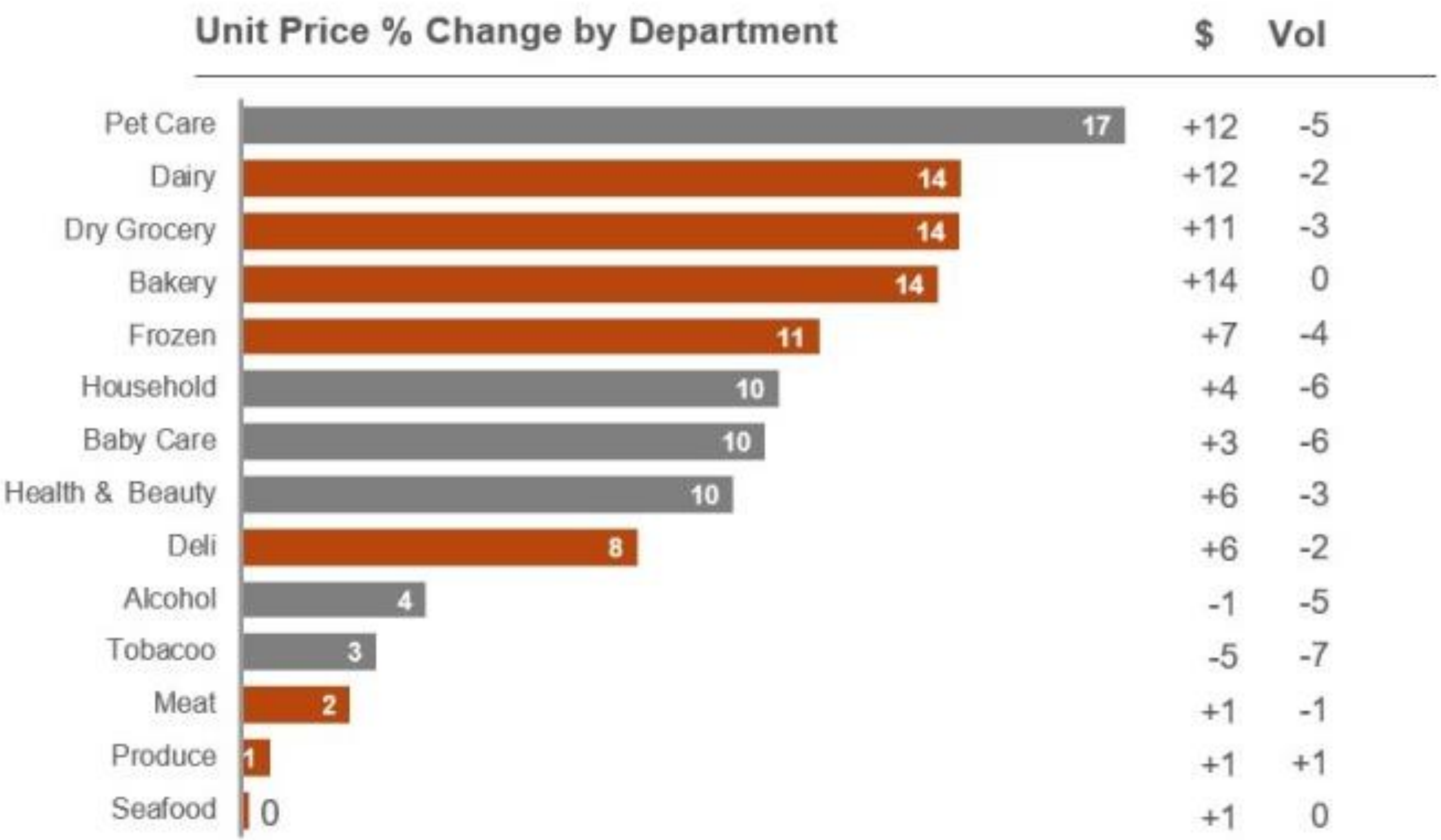
5. Buying Affordable Luxuries

Though inflation is straining shoppers' wallets, they aren't ready to cut out all non-value products. Instead, many are choosing to spend on "affordable luxury". That is, they are selecting a handful of premium products they're willing to splurge on or saving up to spend big on major events.

This opens up new opportunities for premium brands to keep growth strong. Building brand equity or aligning your marketing and sales efforts to coincide with seasonal celebrations may be a good move.

Source: NIQ, Total US xAOC, 4 weeks ending April 1, 2023

CPG Unit Sales Continue to Soften as Prices Remain High



Understand Your Category

Not all categories are facing the same challenges. While the declining consumption of CPG products compared to the same period last year is a concern for the industry as a whole, departments are seeing major pricing differences.

Food inflation continues to lead the charge at **10%**, with a consumption decrease of **2%**. Non-food prices increased by **8%**, but unit sales declined by **4%** compared to March 2022. Still, the trend is slowly going downward. As prices continue to stabilize, retailers and manufacturers must continue to seek new drivers of growth, like innovation, promotion, and targeting growing consumer cohorts such as the aging population and multicultural communities.

Source: NIQ, Total US xAOC, 4 weeks ending April 1, 2023 Vol = Units

Shoppers and Sustainability

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Shoppers and Sustainability

There's no question that sustainability is still a major trend in 2023. In fact, almost all consumers **(95%)** say they are trying to take some action to live sustainably. And they're backing this up with their wallets.

The continued growth of sustainability-minded consumers is causing a few shifts in the market. It's also changing the face of sustainability as a whole. Understanding this shift will be key not only this year but for the future.

Here are **five sustainability** trends shoppers are driving:

1. Sustainable Packaging

For many years, the CPG industry thought of sustainability in terms of packaging — reducing single-use plastics and disposable items became causes for shoppers, brands, and retailers across the world. For today's shoppers, sustainable packaging is the lowest bar for their sustainability needs.

This means brands that aren't using sustainable packaging are behind the ball. A growing number of shoppers **(46%)** want brands to take the lead on creating the sustainable change they're looking for. Missing the mark early can be hard to recover from.

2. Social Responsibility

Consumer demands for sustainability go beyond the products themselves. Responsible sourcing is one of THE MOST important sustainability claims to **45% of consumers**. Making a difference in the world is a major factor for many sustainable consumers.

Brands that take an active role in driving social change are building equity that can pay dividends. Don't be afraid to tout your commitment to change. And if you aren't there yet, it's never too late to start.

Source: McKinsey and NielsenIQ 2023 Sustainability Report; NielsenIQ 2023 Consumer Outlook Survey; NielsenIQ The changing story of sustainability

Shoppers and Sustainability

3. Organic Ingredients

Organic claims make up the largest share of all sustainable product attributes and for good reason. Consumers care about their health and organic claims meet that need AND their sustainability demands. Organic certifications are a common way to leverage this consumer demand.

NIQ research also shows that **47%** of consumers are very likely to choose a brand if it has health benefits for them as well as the planet. Brands that do a good job of leveraging organic claims can see tremendous upside by killing two birds with one stone.

4. Plant-Based

In our recent study with McKinsey & Company, we found that products making claims like "plant-based" had a **4.7%** growth differential over their peers. This makes sense as **15.5 million** Americans follow a Vegetarian lifestyle with around **2 million** of those following a purely vegan lifestyle.

This market is continuing to grow, and you can see the markets reacting with more plant-based options hitting shelves. Adding new product offerings or innovating in the plant-based space can be a smart investment for long-term growth. These products also tend to meet other sustainability needs.

5. Free-from Claims

Shoppers don't just care about what's in the products they consume, they look for what isn't there. "Free-from" ingredient trends have sustained over several years, and claims like paraben-free, allergen-free, and gluten-free now make up a significant portion of the market and are slightly outpacing total category growth.

If you aren't leveraging these claims on your packaging or in your marketing, you're missing out on an easy opportunity to connect with sustainable consumers.

Source: NIQ 2023 Look Ahead Webinar; McKinsey and NielsenIQ 2023 Sustainability Report; NielsenIQ 2023 Consumer Outlook Survey; NIQ The plant-based revolution: From niche to the future

The Omnichannel Shift

The Omnichannel Shift

While eCommerce shopping has been growing for years, it is the mixing of channels that truly defines the current and future retail landscape. Omnichannel shopping means that brands of all sizes are now visible in-store, online, and through apps.

According to NIQ Omnishopper data, 2022 brought close to 15 million new online CPG shoppers to the table. These are shoppers that historically only shopped in-store but now embrace multiple channels for their shopping needs. Within the US, **86%** of CPG dollar sales are represented by "omnichannel shoppers." This has helped drive the revenue opportunities in the omnichannel space to **$1.54 trillion**.

Yet, the omnichannel retail landscape in 2023 is a bit complicated. Today, more consumers than ever are choosing to shop with an omnichannel mindset. But retail tracking has become more complicated for brands that are choosing to embrace the omnichannel experience.

Unfortunately, many brands are only seeing a part of the picture via retail sales or a third-party company. Avoiding duplication in their sales is complicated and acting on inaccurate data leaves them in the dark struggling to keep pace as their competition takes more shelf space and grows. This is especially concerning when consumers are mixing their channels in a single shopping trip.

In fact, more than **one in five (22%)** shoppers now plan an in-store shopping trip combined with a prior online order. This means consumers are taking every opportunity they can to seek out products and make purchases in a way that is convenient for them.

If brands aren't accurately tracking these sales, they can invest their time and energy into ineffective strategies that won't land. Keeping up with the omnichannel shift requires accurate, up-to-date data, insights into how consumers are shopping and why, and the ability to stay agile. As more consumers make the shift to an omnichannel mindset, brands that fall behind will likely struggle to catch up.

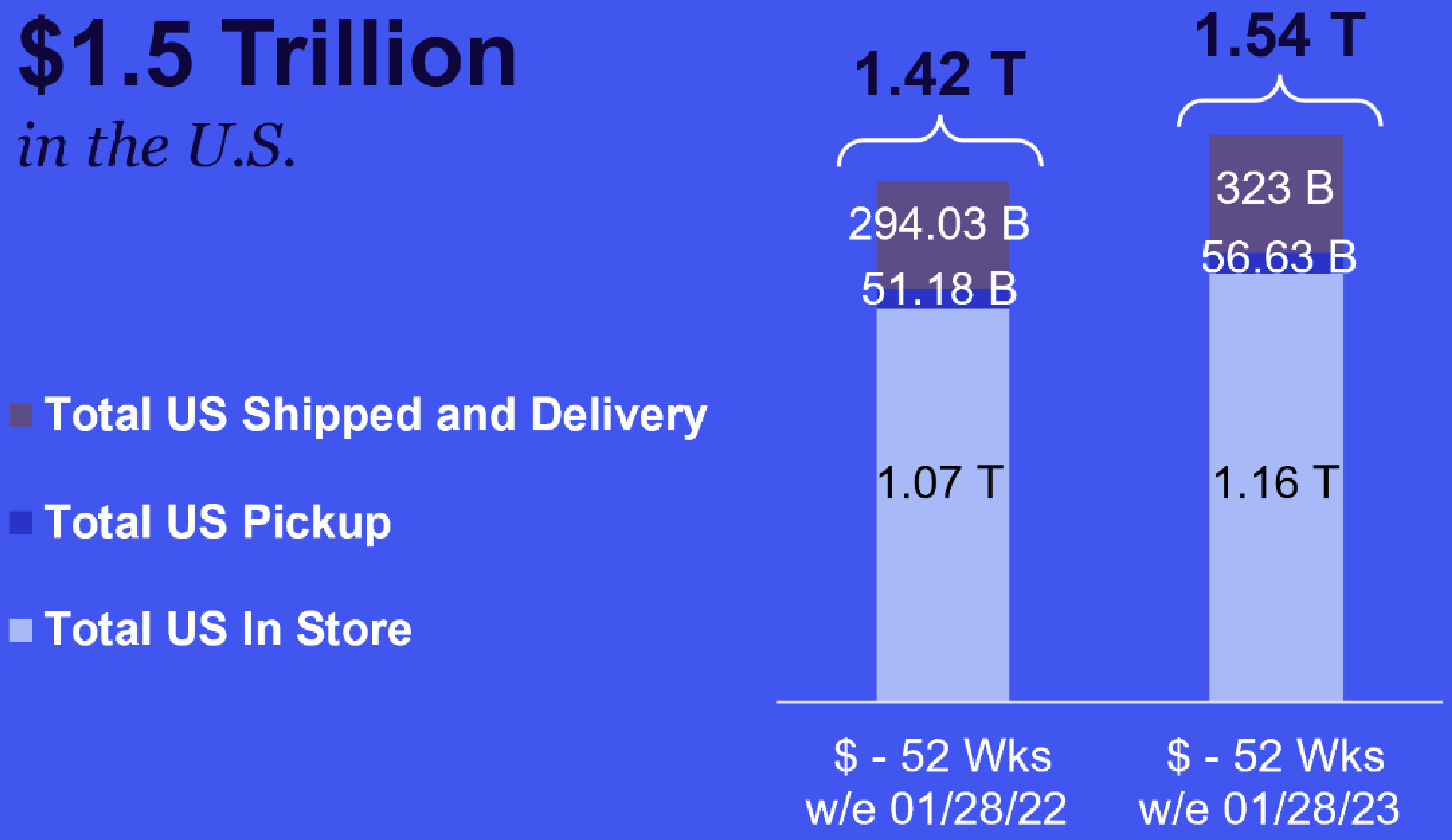
Sources: NIQ Omnishopper, Total US, 52 weeks ending 12.31.22

The Omnichannel Shift

The Omni Opportunity Currently Sits at

$1.5 Trillion

in the U.S.



The split between in-store and online activity continues to widen, but the pace and extent of that widening varies by department. While many eCommerce insight leaders have at least a partial view into holistic omni performance metrics, they are often lacking the right level of granularity when it comes to department and category – leading to potentially misguided omnichannel strategies and activations.

NIQ's omni data also shows that more food dollars are being spent in-store than online. But notably, within the U.S., 21% of online CPG food is being purchased on Amazon. When examining this department alone, we're talking about a **21% blind spot**.

Source: NIQ OmniSales Measurement, Total US, Prev 52 Wks – w/e 01/28/23

Key Tips for Meeting Shopper Needs

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Key Tips for Meeting Shopper Needs

Understanding shopper motivations, what they expect from brands, and the outside factors affecting their wallets can help you build a solid growth plan. But you also want to ensure you don't deviate too far from your brand or core audience when acting on these trends.

With that in mind, here are 3 key tips for meeting evolving shopper needs:

1. Engage them Often

It's nearly impossible to connect with customers if they don't remember you. Engage with customers and prospects through social media or other marketing efforts while touting the different product attributes or value propositions you know they're interested in. Just make sure you use the channel that's right for your brand.

In a joint study with Dash Hudson, NIQ found that brands that entertained their audience on TikTok grow at a rate **34% faster** than those who didn't.

2. Optimize Pricing & Promotions

With so many consumers tightening their belts, pricing and promotions are under the microscope. Take the time to adjust your pricing strategy and set an effective promotion plan to maximize margins while meeting consumer needs.

Pricing is the most critical lever impacting the commercial results, above fixed, variable costs, or even volume sales. Indeed a **1%** improvement in price equals an **11%** improvement in margins.

3. Highlight Relevant Attributes

Products with relevant ESG claims are on the rise. In our recent study with McKinsey & Company, we found that in two-thirds of categories, products that made ESG-related claims grew faster than those that didn't. Even better, products with ESG-related claims saw **+1.7%** higher sales growth over 3YA than products without.

If you aren't highlighting such claims on your product packaging or web listings, you're leaving money on the table.

Source: NIQ and Dash Hudson Entertainment Score Report; McKinsey and NielsenIQ 2023 Sustainability Report

What You Can Do to Meet Shopper Needs

NIQ can help you get a Full View of the market

When the market is shifting, you need to be on top of your game if you're going to come out on top.

NielsenIQ offers emerging and growth brands access to the same best-in-class, accurate data and high-quality insights that Fortune 500 brands leverage—at a price customized for their budgets.

We also know that businesses at different stages have diverse needs. Whether you're looking to nail your next retailer pitch, are expanding distribution, or need to defend your turf, we have the data and tools you need to succeed.

Some of the solutions we can provide include:

- POS & Shopper Data
- Product Attribute Trends
- Omnichannel Sales Data
- Demand Forecasting
- Pricing & Promotion Optimization
- Assortment Optimization
- Expert Insights into Market Trends
- And More

Learn More About NIQ

See Our Emerging Brand Solutions

For more insights:
niq.com/global/en/insights/

About NIQ

Arthur C. Nielsen, who founded Nielsen in 1923, is the original name in consumer intelligence. After decades of helping companies look to the future, we are setting the foundation for our future by becoming NIQ. We continue to be the undisputed industry leaders as evidenced by our experience and unmatched integrity. As we move forward, we are focused on providing the best retail and consumer data platform, enabling better innovation, faster delivery, and bolder decision-making. We are unwavering in our commitment to the ideals and passionate about helping clients achieve success.