

# 2020 Marketing Spending Industry Study – Year End

# COVID CATALYST



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# Executive Summary

The COVID-19 pandemic is a global tragedy impacting humanity, economies, politics, and healthcare infrastructure. One of the lesser, but unintended, consequences is the pandemic's impact on consumer packaged goods (CPG) marketing spending and shopper behavior.

This report, building on Cadent's pre-2020 Marketing Spending Survey, integrates input from over 700 manufacturers, shoppers, and retailers with the latest year-end insights.

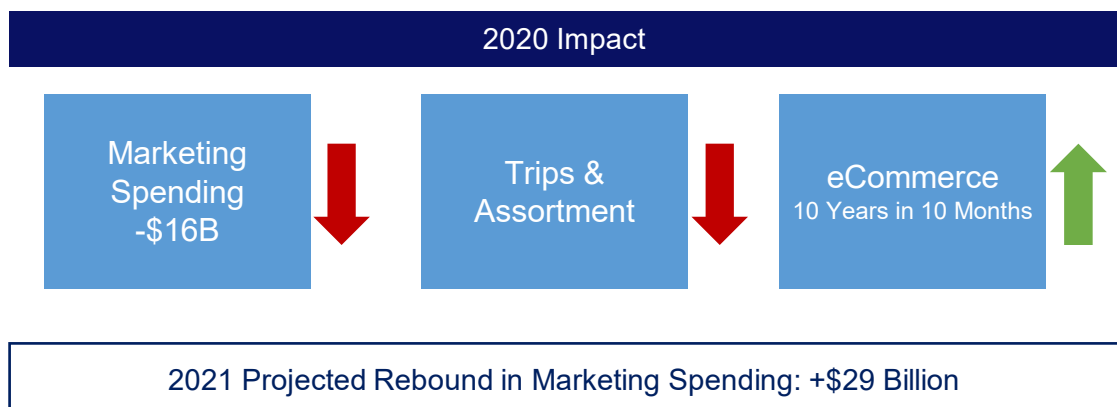
The report is entitled, COVID Catalyst. COVID has catalyzed trends that were already developing:

1. Marketing Spending Catalyst: -\$16 billion in 2020 (1.5% of CPG sales). Reductions occurred in almost every type of marketing spending including advertising, consumer promotion, trade promotion, and shopper marketing, with the lone exception being digital, up double digits.
2. Trip and Assortment Catalyst: Fewer, bigger trips and shopper hoarding resulted in supply shortages as the system had been operating with lean inventories and just-in-time production. This resulted in significant out-of-stocks. Surprisingly, sales did not appear to suffer, partially due to demand transfer from out of home. We will see more focus on assortment optimization in 2021.
3. eCommerce Catalyst: 10 years of eCommerce growth was compressed into 10 months going from 11% of sales in 2019 to 19% in 2020.
  - o eCommerce was the #1 growth factor for both manufacturers and retailers in 2020. Many of these changes are expected to continue, including home delivery, click-and-collect, and mini distribution centers/dark stores.

## 2021 PROJECTION

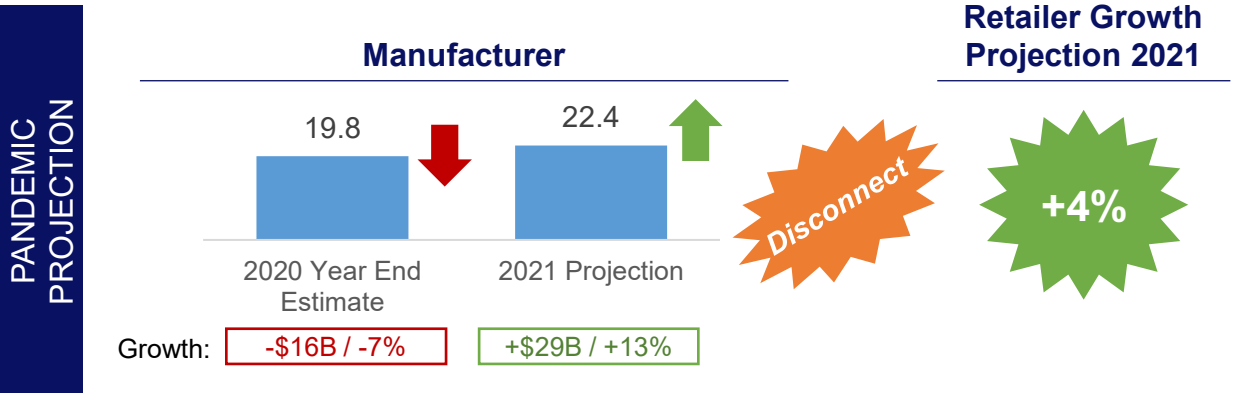
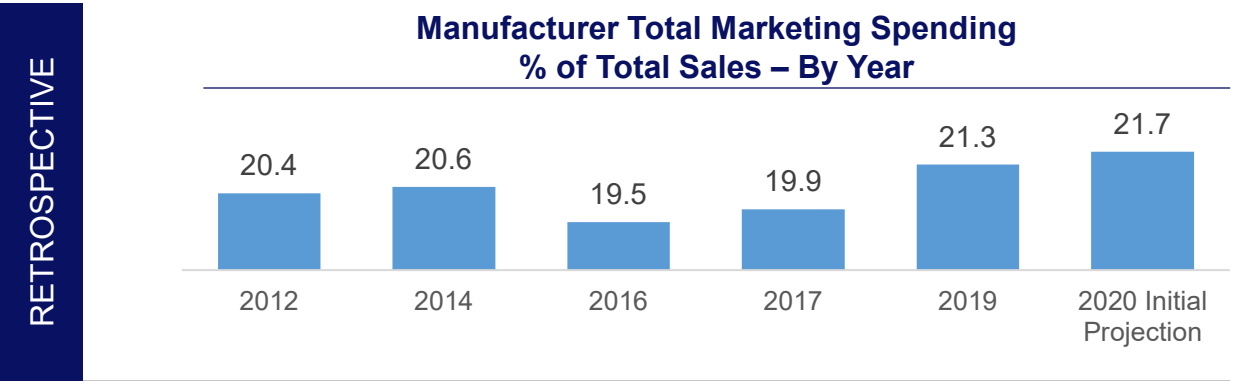
Newton's third law states that "every action has an equal and opposite reaction". In 2021, however, we expect a magnified reaction in marketing spending of nearly 2x the rate of the 2020 decline with digital being the primary driver.

We expect to see clear winners and losers emerging. As eCommerce grows it will attract additional digital spending and create a virtuous cycle.



# Total Marketing Spending

Total marketing spending, including trade promotion, was anticipated to increase by 0.4 share of sales in 2020, but it actually declined by 1.5 points or \$16 billion. Expectations are for a dramatic rebound in 2021 (+13% \$) as forecasted by manufacturers. Retailers, however, are only expecting 4% growth in marketing spending.

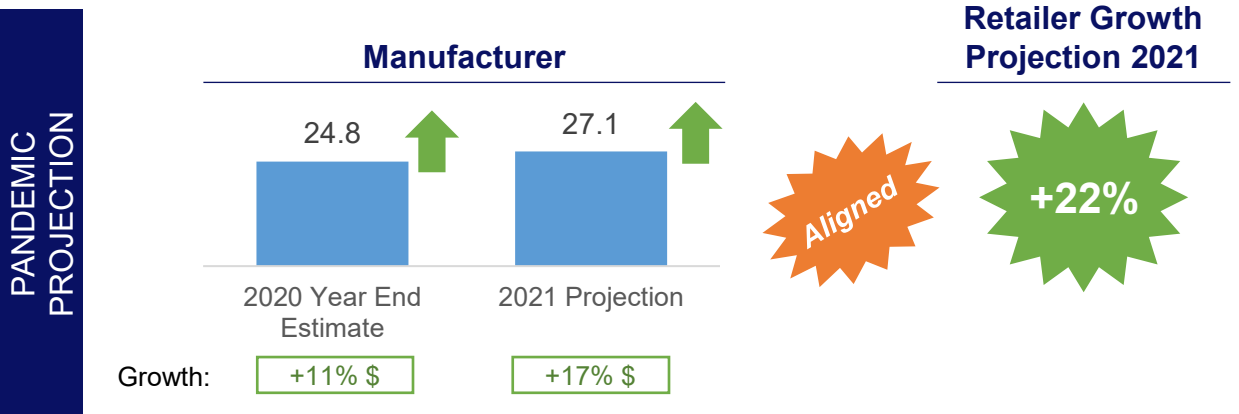
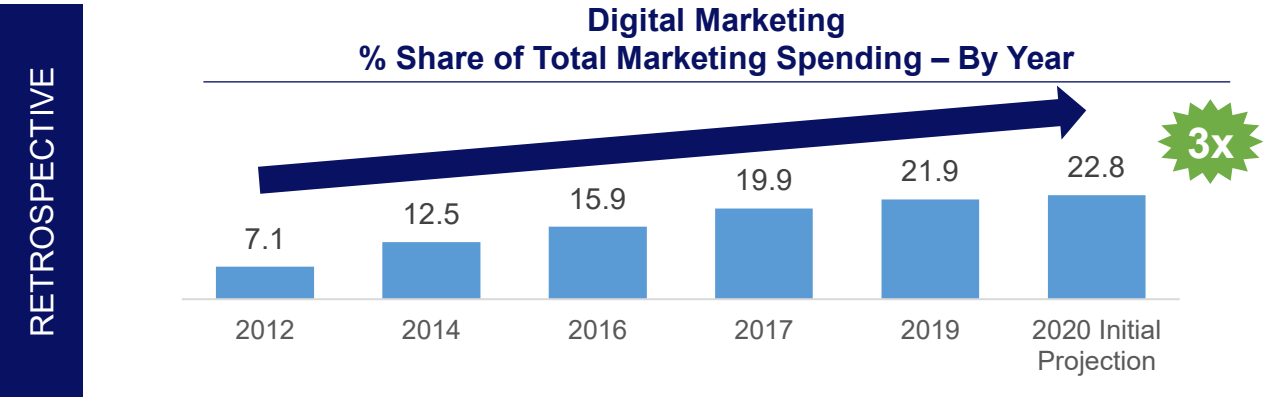


- RATIONALE**
- ### 2020
- “Unprecedented growth without marketing spending.”
  - “Tight inventories compelled us to reduce spending.”
  - “Total spending decreased due to COVID impacting certain classes of trade.”
  - “Spending shift from Q1/Q2 into Q3 when stay-at-home orders were lifted.”
- ### 2021 Projection
- “We will need to renew spending to drive growth and build share. We are planning for a recovery versus a down year in 2020.”
  - “Our supply situation will improve so we will return to increased support.”
  - “We expect an economic recovery and are optimistic about our sales and budget.”
  - “Consumers are purchasing products for: eat at home, clean at home, work from home. All of these have changed the basket like never before.”

Note: Manufacturer quotes unless noted

# Digital Marketing

Digital Marketing was the lone spending uptick during COVID. While digital spending was anticipated to increase by 1 share point as a percent of overall spending, it actually increased by 3 share points and is projected to increase by nearly the same amount in 2021. This is a clear step change and a predictor of long-term investment patterns. Moreover, 76% of retailers rated digital marketing as effective in 2020 and shoppers believe that its awareness and influence has been accelerating.

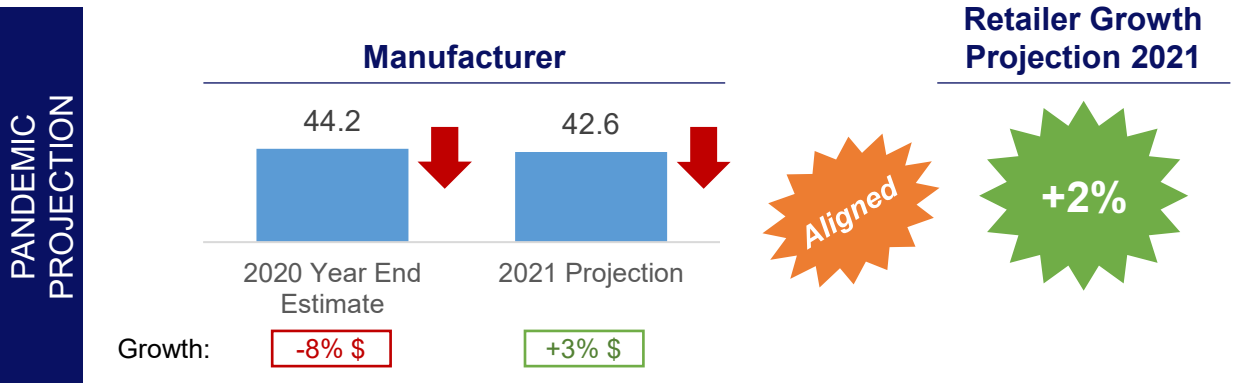
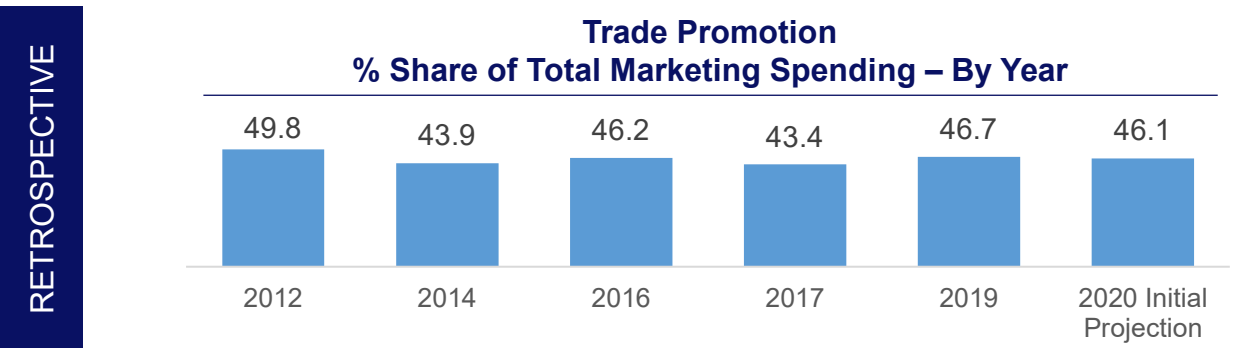


- RATIONALE**
- ### 2020
- “Given pandemic risks, we shifted our channel focus to eComm and digital spending.”
  - “We simply followed the consumer; that’s where the demand was. COVID helped us pivot to digital shopping behavior much faster.”
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- ### 2021 Projection
- “Digital will continue as shoppers will be in the store less often. We will focus on our digital platforms. We will continue to invest in digital and eCommerce as this trend continues.”
  - “Shopping behaviors have changed, and they’re not all going back.”
  - “We will target personalized marketing, and digital is a great means to achieve that.”

Note: “Other” marketing spending (≈2%) excluded from totals

# Trade Promotion

Trade Promotion declined in 2020, reaching a near low for the past 10 years but still remains the largest spending component. The primary drivers of this decline were supply constraints and cancellation of retailer promotional events. Both manufacturers and retailers expect little change in 2021. However, as shoppers favor feature and display (93% effective), we would not be surprised if growth exceeds projection, as over half of retailers still rated trade promotion as effective, even in 2020.



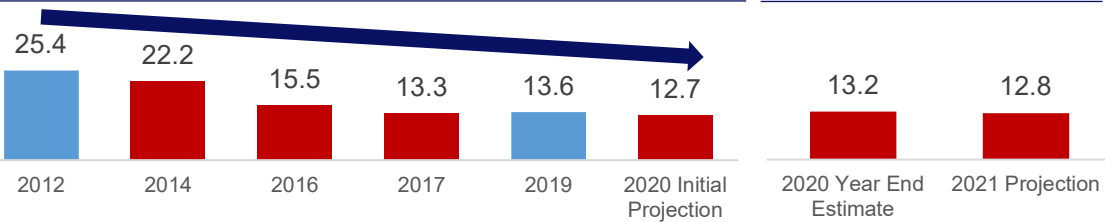
- RATIONALE**
- 2020**
- “Retailers reduced or canceled promotions, so our spending was reduced.”
  - “We had huge product supply issues, so there was absolutely no need to promote.”
  - “We were out of stock and couldn’t keep up with the demand, so we cancelled all promotions.”
  - “Having product available was our biggest issue.”
  - “Manufacturers severely cut back on retailer driven events, which created an image of price gouging for us.”
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- 2021 Projection**
- “As COVID subsides in the second half of 2021, retailers will expect their manufacturer partners to lean into trade promotion to address foot traffic.”
  - “We will continue to face the high sales bar achieved during COVID and will need to promote more aggressively.”

# Traditional Advertising/Consumer Promotion/Shopper Marketing

Traditional Advertising continued a decade-long decline. In 2021, retailers are projecting a double-digit decline; fewer than 25% of retailers believe advertising is effective. Marketers project a slight increase, but a decline in share.

TRADITIONAL ADVERTISING

**Traditional Advertising**  
% Share of Total Marketing Spending – By Year



**Retailer Growth Projection 2021**



**2020**

- “We cut advertising due to declining sales from COVID and only supported new product introductions which were difficult to place in store.”

**2021**

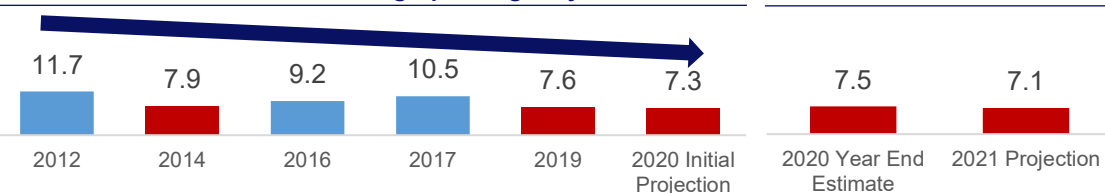
- “We anticipate most of this focus will be on delayed new products for 2021.”

Growth: -5% \$ +2% \$

CONSUMER PROMOTION

Consumer Promotion has plateaued at a relatively low 7-8% of sales. Only 26% of retailers rated it as effective in 2020 and both manufacturers and retailers anticipate little change.

**Consumer Promotion**  
% Share of Total Marketing Spending – By Year



**Retailer Growth Projection 2021**



**2020**

- “We had an opportunity to increase our investment in consumer promotions which were under-weighted.”

**2021**

- “More consumer promotion will be channeled into retailer-specific events.”

Growth: -4% \$ +2% \$

SHOPPER MARKETING

Shopper Marketing has also stabilized at 7-8% of sales, and we believe it has found a comfortable balance between equity building and price focus. 70% of retailers rated Shopping Marketing as effective this year; both manufacturers and retailers are expecting reasonable increases in 2021.

**Shopper Marketing**  
% Share of Total Marketing Spending – By Year



**Retailer Growth Projection 2021**



**2020**

- “We had to cancel event marketing efforts due to COVID and the shift to digital.”

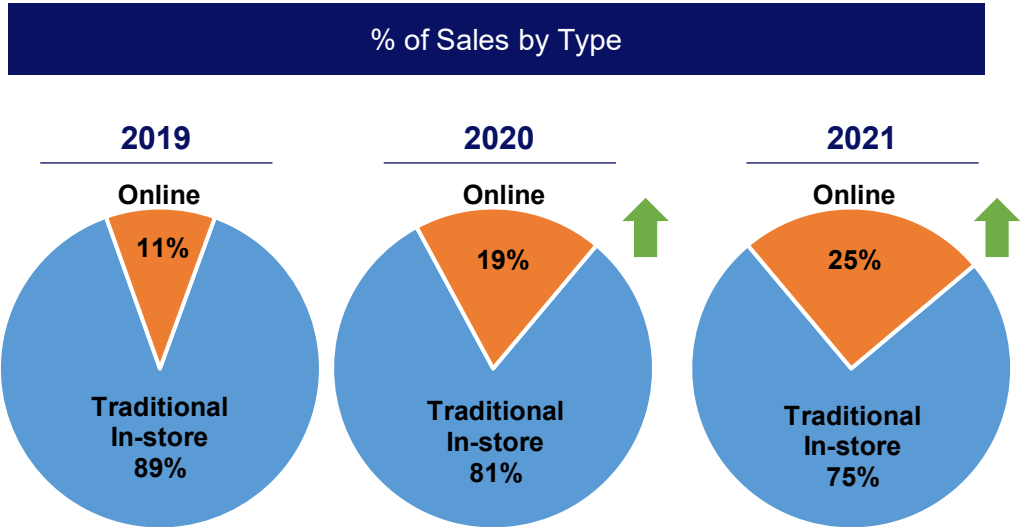
**2021**

- “Out-of-stock issues will be reduced next year, and we need to attract more shoppers in-store and engage them to spend more time and money.”
- “We will continue to target areas of growth, including brand awareness and shopper value.”
- “Shopper missions have been targeted. They are spending less time in-store, which minimizes the impact of traditional vehicles like secondary displays, etc. We need to be more innovative.”

Growth: -1% \$ +10% \$

# eCommerce Share Nearly Doubled in 2020, Compressing 10 Years of Growth into 10 Months

- Growth projected to continue in 2021








Online Method	2019	2020	2021
Order/Pick-up	2%	3%	4%
Order/Delivery	7%	13% ↑	14%
Order from Manufacturer Website (DTC)	2%	3%	7% ↑








eCommerce growth will propel digital spending creating a virtuous cycle

# Top Manufacturer and Retailer Drivers and Constraints

eCommerce was the unequivocal driver of growth in 2020, while supply chain was the biggest constraint. Reduced item assortment had some impact but should be neutral to positive in 2021. Retailers regard Private Label as a much greater growth driver than manufacturers.

2020 (% Net Impact +/- Ratings)		
Factor	Manufacturer	Retailer
 eCommerce	+52 pts	+100 pts
 Supply Chain	-56 pts	-49 pts
 Retailer Relationships	6 pts	+12 pts
 Reduced Item Assortment	-23 pts	-12 pts
 Private Label	-26 pts	+62 pts

2021 (% Net Impact +/- Ratings)		
Factor	Manufacturer	Retailer
 eCommerce Growth	+71 pts	+95 pts
 Supply Chain	-19 pts	+26 pts
 Retailer Relationships	+41 pts	+24 pts
 Reduced Item Assortment	-1 pt	+25 pts
 Private Label	+20 pts	+88 pts



# Action Plan

The impact of COVID will continue in 2021, but we do expect a significant rebound in total Marketing Spending. Total Spending is expected to accelerate by 13% or \$29 billion. This should benefit agencies, retailers, and consumers. There will be an acute need to exceed 2020 sales levels driven by COVID spikes. This will require innovative planning, investment, and marketing strategies to grow in 2021.

The growth in digital is a continuation of a mega trend. Traditional marketing levers of advertising and consumer promotion will decline or remain relatively stable. Shopper Marketing will grow and Trade promotion increase, but its share of total Marketing Spending will decline.

The COVID Catalyst has 3 critical implications for your business in 2021.



**1 Double Down on Digital:** Regardless of whether you're a manufacturer or retailer, shopper behavior has changed. Shoppers are using digital to research and eCommerce to purchase. We expect to see continued growth in core eCommerce, as well as a greater movement to social commerce which will attract more digital spending.



**2 Optimize Your Mix:** Retailers, consumers, and manufacturers suffered supply constraints and assortment limitations in 2020. The sales impact was not as dire as predicted. Retailers will place increased pressure on core assortments to address true variety vs. duplication. Utilize new, innovative, optimization approaches to address this critical need.



**3 Accelerate and Own Omnichannel:** Address eCommerce opportunities for insight, purchase, and delivery, incorporating shopper journeys, decision hierarchies, need states, and activation. Address trip frequency concerns with an omnichannel approach and optimized marketing mix to strengthen Brick & Mortar (81% of sales in 2020).

In summary, this has been the most turbulent year in consumer packaged goods in memorable history. While CPG was relatively unaffected during the Great Recession in 2008, COVID has impacted many aspects of our industry. Those who forget the recent past are doomed to repeat it, playing catch-up long after COVID. However, those who successfully leverage this COVID Catalyst and adjust accordingly will not only win now, but also be best positioned for long-term growth.

# Cadent Consulting Group Overview

## WHO WE ARE

Cadent Consulting Group, established by the founders and senior leadership team from Cannondale Associates and Kantar Retail, is a marketing and sales management consulting firm serving the Consumer Packaged Goods (CPG) and Retail industries. We offer a broad array of information, insights, capabilities, and expertise across the manufacturer, retailer, and shopper spectrums.

## OUR MISSION

Our Mission at Cadent is to help our clients drive growth and profitability while optimizing go-to-market investment and organizational productivity. We aim to translate insights into competitive advantage for our clients.

## OUR FOCUS



## OUR HISTORY IN INDUSTRY RESEARCH

Cadent's Management Team, while at Cannondale Associates, published the first Category Management/Leadership Industry Study in 1994, followed by the Trade Promotion Industry Study in 1995 and the annual PoweRanking® Study in 1997. Over 30 years of experience in category management, trade promotion, shopper insights and industry best practices has deepened our knowledge and expertise across manufacturers, retailers and consumers/shoppers.



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