2022 MARKETING SPENDING

Navigating CPG Marketing Spending in an Inflation Dominated World

December 2022

In This Report

CADENT
Consulting Group

Executive Summary

Think back, 10 years ago – a decade – what were you doing? At Cadent Consulting Group, it's when we first started tracking Marketing Spending. What a difference a decade makes!

Since then, a lot has changed in the world, the marketplace, and specifically in the CPG industry. Many shifts have occurred in the past few years alone, often accelerating changes that were already well underway.

Our 2022 Marketing Spending Industry Study will assess the differences between 'then' and 'now', and importantly, what the implications are for the future.

Marketing Spending is a major component of the Consumer-Packaged Goods (CPG) industry, representing nearly $200B in annual spending. It is a highly strategic decision-making process and one of the most important determinations to be made among CPG executives. The results of these decisions can make or break a given year.

The past several years – through COVID and a general lack of market stability – have seen a notable decline in Marketing Spending as a % of sales. Funds have been tight, and promotions have been limited, especially given supply constraints. This was punctuated in 2022 when Marketing Spending dropped to 17.8%, losing more than 2.5 points compared to a decade ago. However, given growth in the industry, actual spend for 2022 has grown more than 10%, and the future looks bright.

2023 will look different. Supply issues are stabilizing, prices have increased, and flagging consumer demand will need a spark. Many manufacturers are expecting Marketing Spending to make a turn for the better in the coming year.

While this is overall positive for manufacturers, it inherently brings on challenges of its own. How do you allocate Marketing Spending most efficiently and effectively in an environment like nothing we have experienced?

As the saying goes… *"If there's one thing that's certain in business, it's uncertainty."*
– Stephen Covey

Key Takeaways

1 Consumers are changing behaviors amid uncertainty

Higher prices and looming fears are causing consumers to re-evaluate their shopping behaviors in search of savings. Expect consumers to spend less, purchase more store brands, and visit lower-cost retailers.

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2 Marketing Spending is expected to turn around in 2023

2022 was a down year, but manufacturers acknowledge the need to increase spending across the board in 2023 to combat economic pressures and drive sales volume.

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3 Price management is critical in trade, but retailer digital is growing

As a highly effective tool, trade promotion remains the largest bucket in Marketing Spending, with price management becoming increasingly important to win at retail. As retailer digital requires a sizeable portion of the mix, manufacturers must make difficult decisions to optimize remaining funds.

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4 Digital spending beginning to plateau despite ever increasing options

Digital is maturing and leveling out at nearly ¼ of Marketing Spending. However, spend is shifting from less effective content (e.g., Banner Ads, Coupons) to equity building content (e.g., Influencers, Social Media).

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SECTION 1

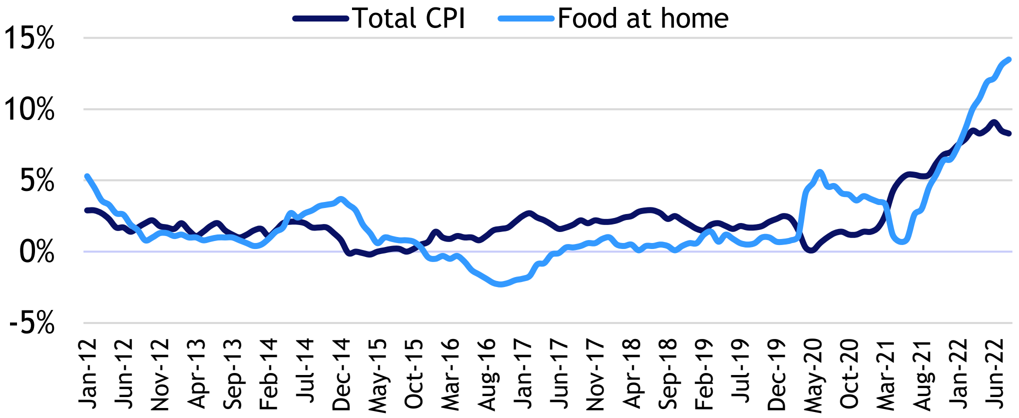
The Backdrop

Historic inflation and persistent supply chain issues are putting pressure on grocery purchases and presenting challenges for manufacturers – creating uncertainty around Marketing Spending strategies

Inflation is having significant impact on the CPG industry

The only thing certain about the future is uncertainty. In 2022, inflation is higher than it has been in 40 years, interest rates continue to rise, and talk of a recession is pervasive. Shopping behaviors have already changed and will likely continue to do so.

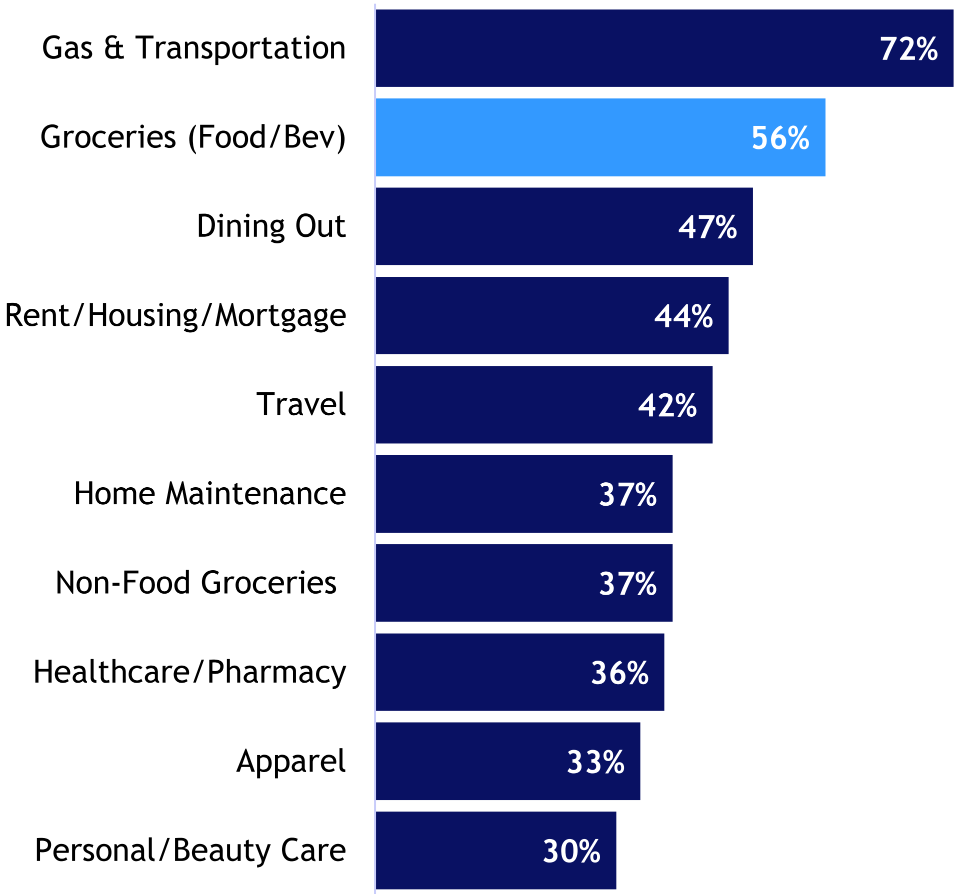
12-Month % Change, Consumer Price Index



Bureau of Labor Statistics 2022

We asked consumers where they are experiencing the greatest pressure points. Right behind gas & fuel, groceries – specifically food and beverages – are creating a major strain on wallets. While other necessities may experience a greater price increase, the regularity of food and imminent need is weighing heavily on consumers.

Where Consumers are Experiencing the Greatest Pressure from Price Increases



Source: Cadent Consulting Group Research

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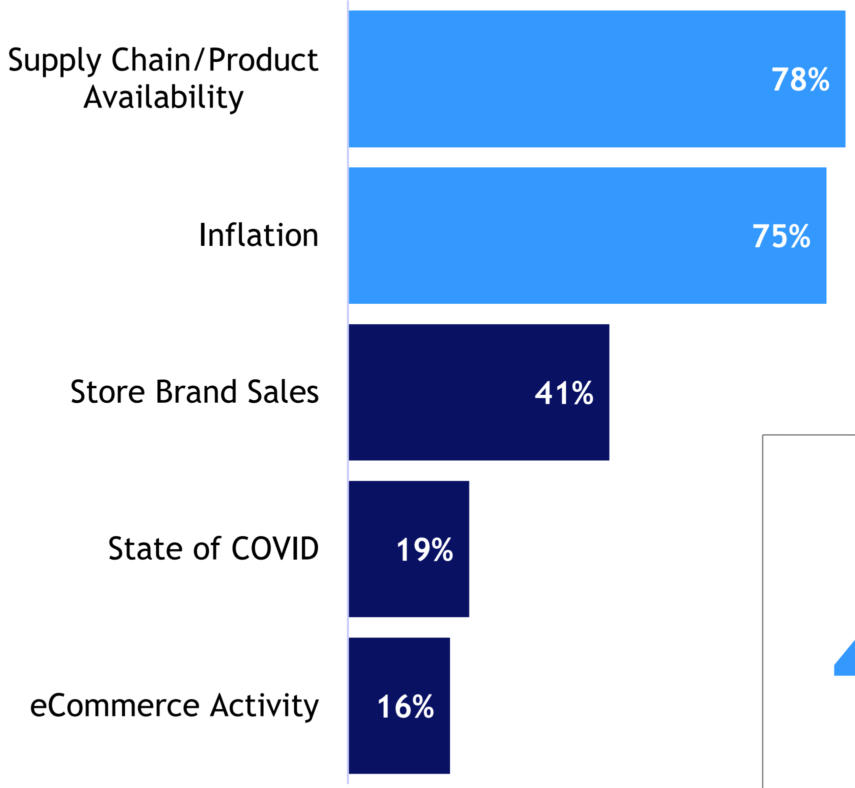
Along with Consumers, Manufacturers are feeling the pinch

The economy may be emerging from COVID, but the aftermath is proving just as difficult for CPG Manufacturers. Inflation is the latest challenge, but Supply Chain/Product Availability issues continue to be problematic – and consumers are aware.

Factors creating sales declines for CPG manufacturers



…And their impact on consumers

36% of consumers say Product Availability has led to a decrease in their shopping, and 24% identify Supply Chain issues as the cause of recent price increases

49% of consumers say that inflation has led to a decrease in their shopping – and while most consumers are not panicking over a recession, the fear has caused nearly 1 in 3 to cut back on spending

As we look ahead to 2023…

42% of CPG Manufacturers are not certain they have made the right Trade Spending Allocations. There is uncertainty around the economy, pricing, and ultimately how consumers will respond to it all.
This uncertainty around spending is the crux of our study.

Source: Cadent Consulting Group Research

SECTION 2

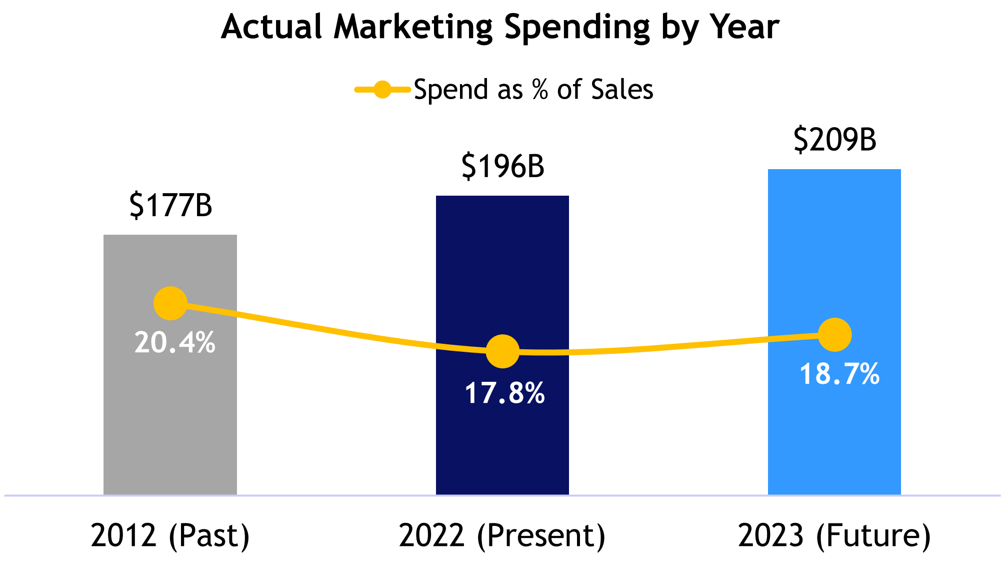
Spending Shifts: How to Plan

As Marketing Spending rises, manufacturers are trying to figure out the right mix of trade promotion, digital, and traditional ads. Economic realities and new marketing avenues beg the question – what works best with *your* shoppers?

Marketing Spending as a percentage is softening, but actual spend is increasing

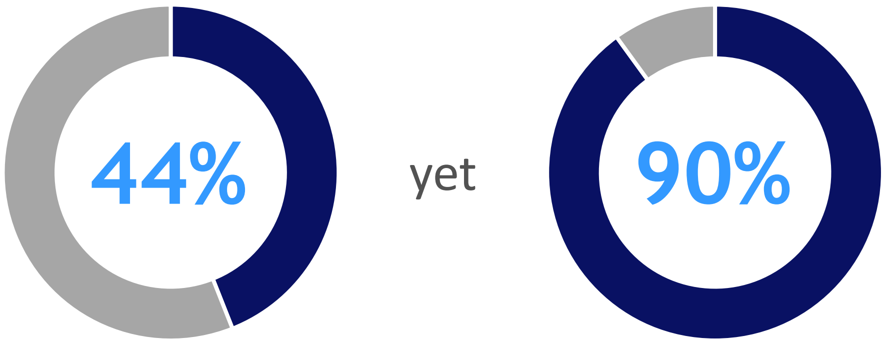
To understand the state of Marketing Spending today, a look back provides helpful context. COVID may have been the most impactful singular event in the past decade, but in a rapidly progressing world, 10 years is a great deal of time.

Overall Marketing Spending as a percentage of Total Sales has declined in the past decade. However, the extraordinary growth of the CPG industry has lifted actual spend by $19B, or +11% since a decade ago – and is projected to increase once again in 2023.



Source: Cadent Consulting Group Research

The Future Looks Bright



of CPG Manufactures saw their spending decrease in 2022

of CPG Manufacturers expect spending to hold steady or increase in 2023

Despite a 'down' year in 2022, Manufacturers expect heightened activity in the year ahead. The magnitude of money being spent on marketing makes allocation one of the most important decisions among CPG executives.

We examine 5 core buckets of spending and how they have trended up and down over the years, including: (1) Trade Promotion, (2) Digital, (3) Traditional Advertising, (4) Shopper Marketing, and (5) Consumer Promotion.

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Spending allocation is a zero-sum game and digital is winning

Manufacturers have had no shortage of options in deciding where funds are best spent. With each additional avenue, established options become vulnerable.

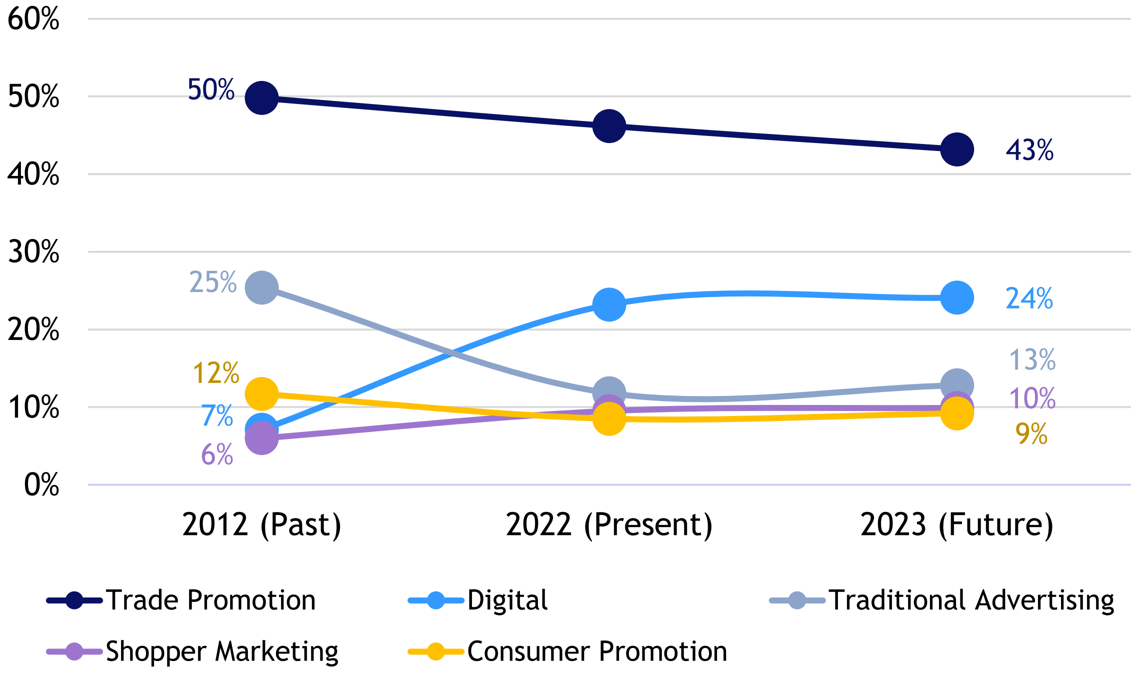
- **Trade Promotion** remains the strong suit in Marketing Spending. While experiencing declines in percent of Total Spending, Trade Promotion still utilizes nearly half of all dollars spent.

- **Digital** spend has more than tripled in the past decade. Amidst a global pandemic and lockdown periods, Digital peaked in 2020 at close to 25% and is settling in at about 23%, slightly above pre-COVID levels. It is expected to increase slightly in 2023 (to 24%), but digital has begun to plateau as this space matures.

- **Traditional Advertising**, once the second largest spending avenue at 25% in 2012, has been halved to just under 12% in recent years, though a slight increase is anticipated for 2023 (13%). This has been the primary source of spending for increasing digital activity.

= **Shopper Marketing and Consumer Promotion** have been the two smallest areas of spending since 2012, fluctuating each year but consistently representing ~18% of total spending, combined.

Share of Marketing Spending by Type:



Source: Cadent Consulting Group Research

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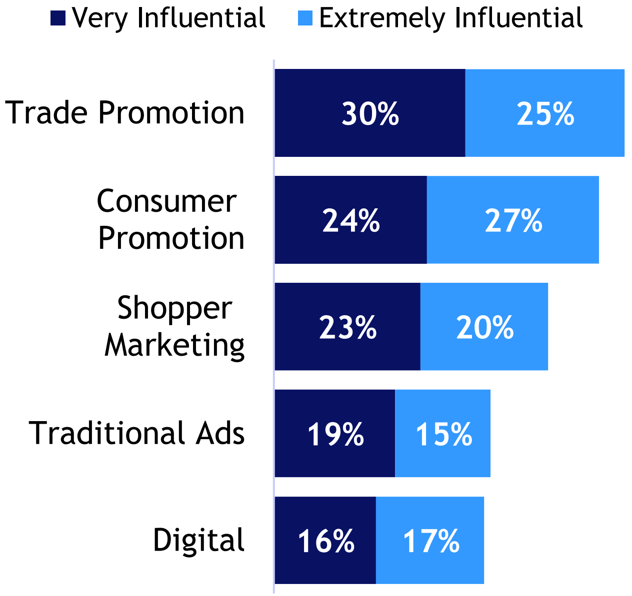
Consumer impact is a driver of generating ROI

At the end of the day, CPG Manufacturers have the same end goal: generate the greatest ROI with the funds available. However, the calculus is not always clear and the trendy vehicles – e.g., Digital – are not always the most impactful.

Marketing Spending Impact on Consumers



Source: Cadent Consulting Group Research

Trade Promotion is the #1 spending route for a reason. A strong offer will always be a draw for consumers and shoppers. Discounts, Displays, Ad Circulars – some things never go out of style.

Digital Spending has risen over the years, and along with it, impact has grown from only 9% of consumers influenced by Digital in 2014 to 33% today. While impact has more than tripled, relative impact remains soft. Across all vehicles, Digital is seen as the least influential from a consumer perspective, however, it cannot be ignored. Plausibly, Digital may simply be the least tested, in conjunction with being the most dynamic. In the vast and ever-changing realm of the internet, Manufacturers are still searching for the right ways to invest in and measure the impact of Digital.

Shopper Marketing and Consumer Promotion may command a smaller share of overall spending, but the impact with consumers – particularly consumer promotion – is noteworthy. Providing offers remains a strong spending strategy and an important part of the overall mix, especially in today's inflationary environment.

"We're finding we need more **targeted** marketing - specific, shopper focused marketing to generate demand"

CPG Manufacturer

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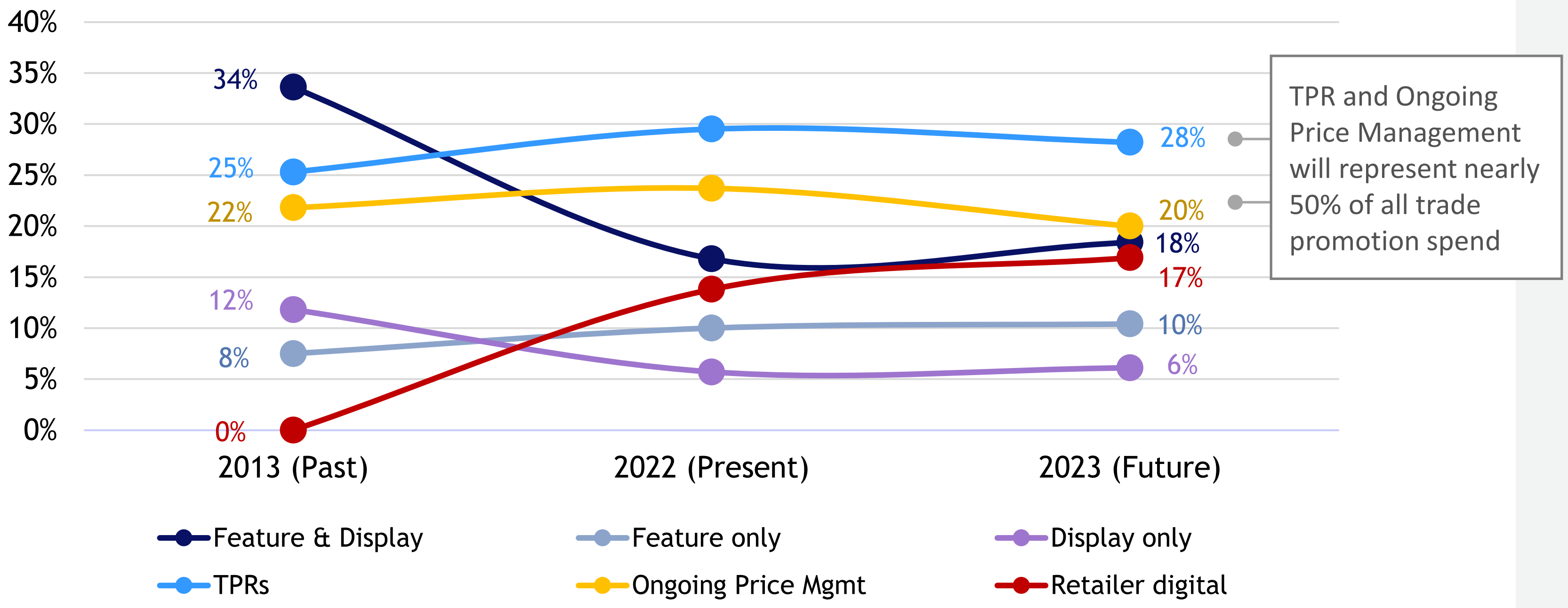
Trade Promotion: Retailer Digital - the new kid on the block

As the largest spending component in the overall mix, Trade Promotion demands a closer look. Since 2013 Feature & Display (F&D) – or quality promotion - has seen a major decline. With these funds, Manufacturers are investing more in Temporary Price Reductions (TPR's). More significantly, Retailer Digital Programming - non-existent a decade ago – now represents 14% of Trade Spending and is expected to increase as retailers continue to expand their digital presence.

Share of Trade Promotion Spending by Type:



Source: Cadent Consulting Group Research

WHAT EXACTLY IS RETAILER DIGITAL?

Retail Digital Media, or RDM, is digital advertising that supports brand commercial activities at a specific Retailer (or eCommerce Platform). It plays a similar role online as at-shelf marketing does in brick & mortar stores. It also supports Omnichannel efforts, sparking an online purchase or sending a shopper into a brick & mortar store.

Online Retailers play an important role. In addition to selling brands, they often serve as primary search tools.

Why does it matter?

Retailers are funneling more brand spending through their platforms. In turn, Manufacturers will need to assess these programs for return on ad spend (ROAS).

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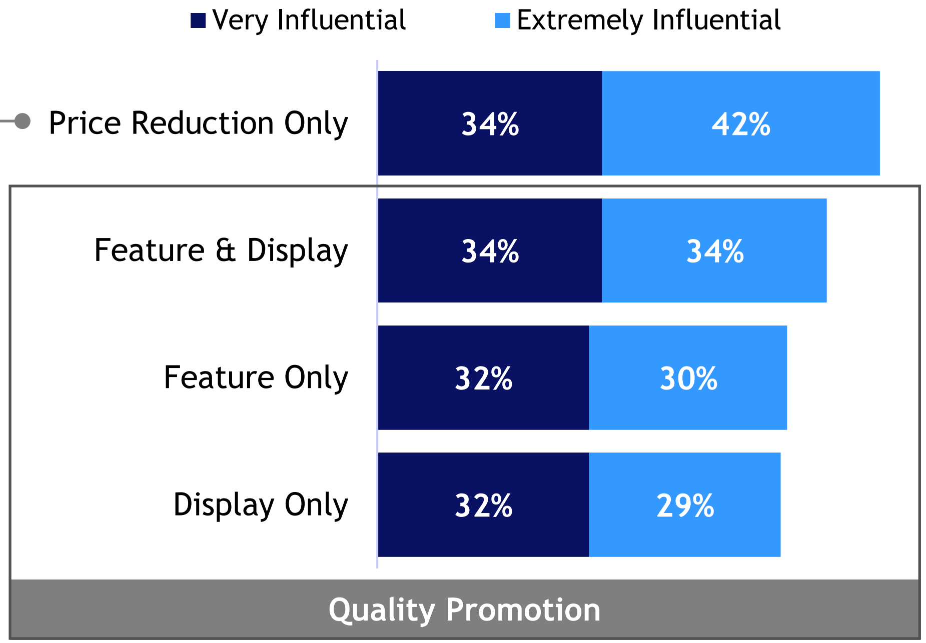
Trade Promotion: Price reductions resonate most with today's consumers

Among the more traditional forms of trade promotion, price reductions – especially in today's economic environment - continue to have the greatest impact. As CPG manufacturers are forced to increase prices, consumers are increasingly searching for ways to save at retail. That said, 'quality promotions' (e.g., features, displays) still play an important role at shelf. For many brands, driving awareness and trial is the top strategic priority. Additionally, Features and Displays offer a way to differentiate at retail in an otherwise price-driven environment.

"Future spend will need to focus on driving price down to **battle inflation** and recession in order to keep velocity up"

CPG Manufacturer

Trade Promotion Impact on Consumers



"We need to activate the brand in a way that creates pull vs. push and be **less dependent** on trade buy-down"

CPG Manufacturer

Source: Cadent Consulting Group Research

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Trade Promotion: Depth or Frequency… that is the question

Preferred Shift in Price Promotions (Manufacturers vs. Shoppers)

(% for 'No Change' not included in chart)

67% of shoppers have recently taken advantage of deep discounts more often than in the past

When promoting on price, CPG Manufacturers must find the right balance between depth and frequency. It's a trade off – steeper discounts mean fewer promotions; more frequent promotions mean lesser discounts.

For 2023, manufacturers surveyed generally plan to increase the frequency of their promotions or stay close to their current strategy. This may create dissonance with consumers. According to shoppers, over half (51%) would like to see brands focus more on deep discounts. As households feel the pressure of rising prices, consumers are looking for major deals.

Nuances exist across categories and consumer groups. While deeper deals attract Food & Beverage shoppers, Beauty and Personal Care shoppers want more frequent promotions. Importantly, promotion tactics can impact long-term brand equity. At the end of the day, Manufacturers and brands need a clear understanding of their category and their shoppers.

What works best for your categories and your brands?

- What drives stronger lifts? Greater incrementality? What delivers a better ROI?
- How will it impact your business longer term? Is there an impact to your brand equity?
- Are you creating habits where your shoppers only buy on deal?

Source: Cadent Consulting Group Research

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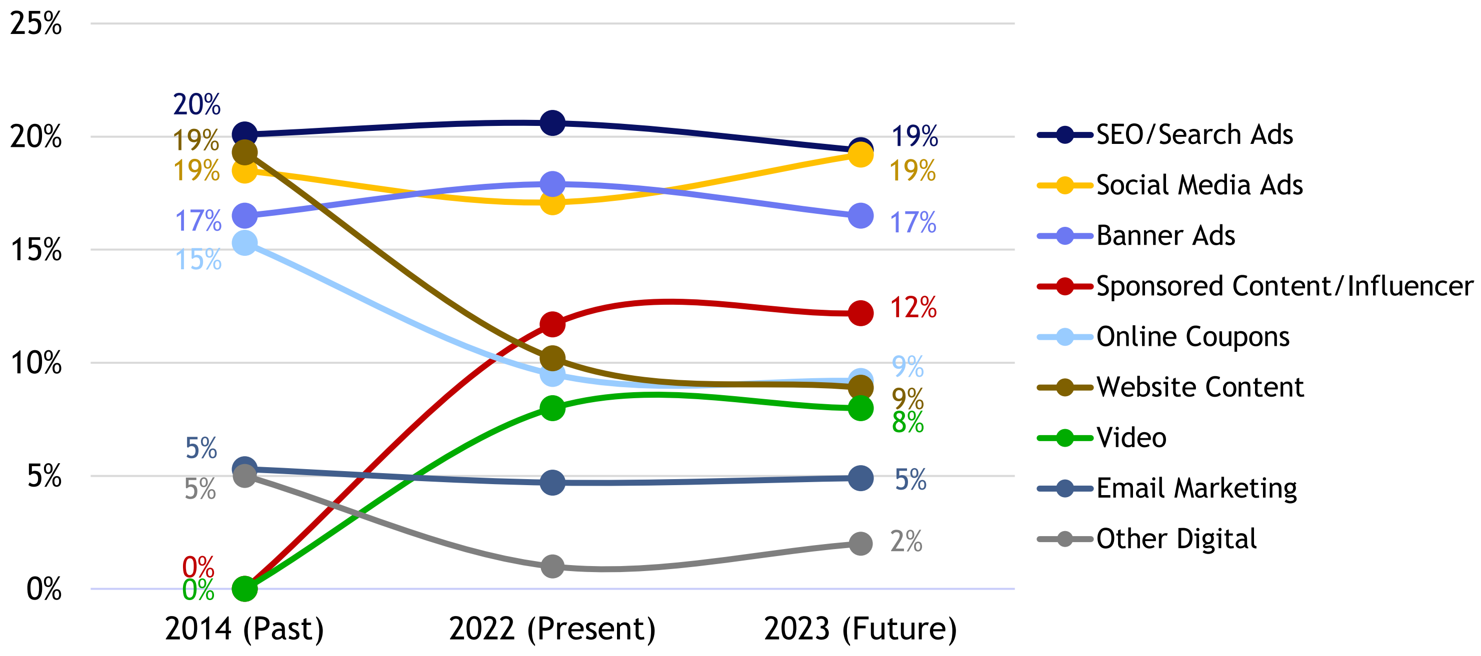
Digital: Content creation shifts to equity-building

Digital has more than tripled its share of Marketing Spending in the past decade, today representing $45B in annual industry spending, excluding Retailer Digital (captured in Trade Promotion). While SEO remains a priority, equity-building content such as Social Media Ads and (recently) Sponsored Content/Influencer Marketing is a key lever in the CPG marketer's toolkit. Meanwhile, Website Content spend has declined as focus shifts from content creation to maintenance and updates.

Share of Digital Marketing Spending by Type:



Source: Cadent Consulting Group Research

THE AGE OF INFLUENCERS

- The New Brand Spokesperson -

Brands are increasingly looking to social media influencers to promote their products. The high share of consumer attention – and ability to build trust - can be an important strategy for large and small brands alike.

Globally, internet users average 2 hours 17 minutes per day on social media[1]

Instagram has 1.3B users worldwide[1] and is the leader in influencer marketing[2]

TikTok is gaining steam, with a user base of 1B users worldwide[1] and a high engagement rate for sponsored content[2]

As of 2021, the broad Influencer Marketing industry is worth $14B[1]. Yesterday's spokesmodel is today's Instagram star!

[1]Statista
[2]Shopify

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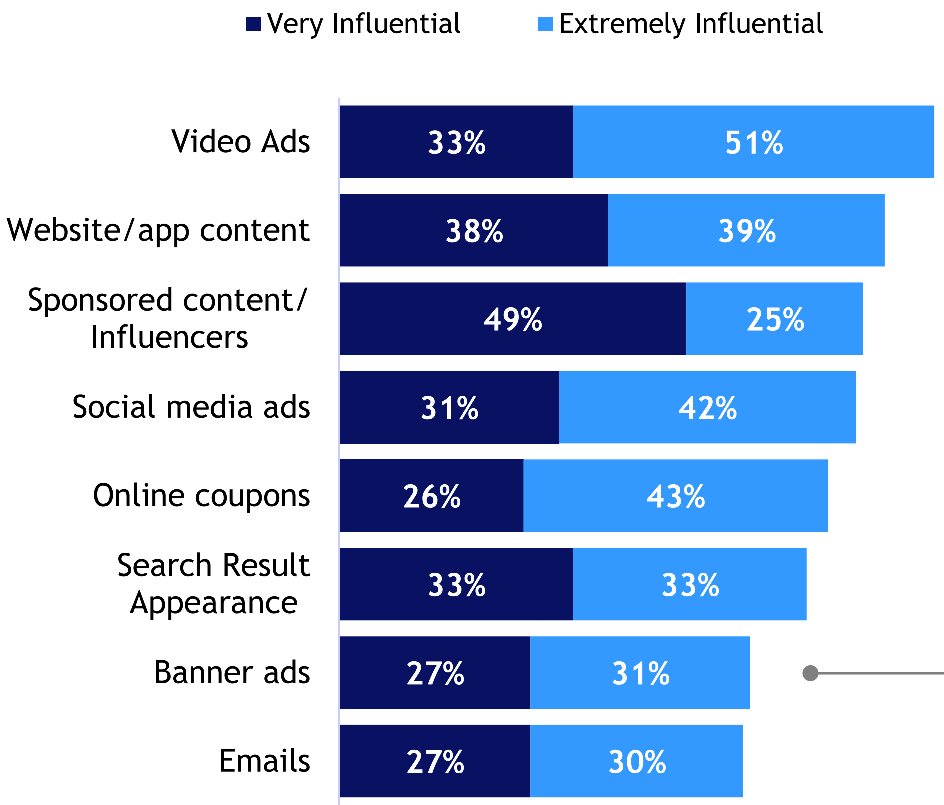
Digital: Common ad tactics are losing power in a saturated online world

As shoppers continue to spend more time online and Marketing Spending on Digital increases, there is heightened importance in finding the right tactics to use. Banner Ads represents the 2nd largest spending bucket in Digital at 18% in 2022, but impact with consumers is lacking. Conversely, more consumer-friendly content such as video ads, sponsored content/influencers, and social media ads tend to have a high impact on consumers. Not surprisingly, spending on Social Media Ads is expected to increase in 2023 and will surpass Banner Ads.

Digital Spending Impact on Consumers



CATEGORY NUANCES

50% influential for Food Beverage

82% influential for Beauty & Personal Care

RETAILER PERSPECTIVE

"People are **numb** to all the ways they get hit and they look at their phones when commercials are on TV… they lose interest and skip or open another app to avoid ads"

SHOPPER PERSPECTIVE

"I feel violated and targeted by banner ads and they drive me crazy. Content delivered by the website/app is most influential… but **influencer** recommended products are strongly considered"

Source: Cadent Consulting Group Research

SECTION 3

Shopper Dynamics: How to Prepare

Shoppers are taking measures to cut costs – adjusting their approach to shopping and leaning on value brands, products, and retailers

Shoppers today are incorporating more ‘cost saving’ behaviors

As budgets tighten for consumers experiencing inflationary pressure, shopping tactics are changing.

Taking the less convenient route:

In the height of the global pandemic, shoppers showed a willingness to pay extra for added convenience, but not anymore. 2 in 3 shoppers claim to buy ingredients to cook meals rather than buying prepared foods. Despite rising fuel costs, 41% of consumers are shopping at multiple locations to take advantage of promotions and price, with 1 in 3 willing to travel to a less convenient location for lower prices.

More intentional shopping:

6 in 10 shoppers are stocking up on sale items, using loyalty cards and strictly following shopping lists in order to cut back on costs. Half of shoppers are building their basket with more Private Label products, and some shoppers are using pack sizes as a budgeting tool, though in two very different ways: Some buy larger sizes to get a lower per unit cost, while others buy smaller sizes due to a lower absolute price.

Cost-Saving Approaches Used by Shoppers in the Past 6 Months
(Top 2 Box: Often or Very Often)

Source: Cadent Consulting Group Research

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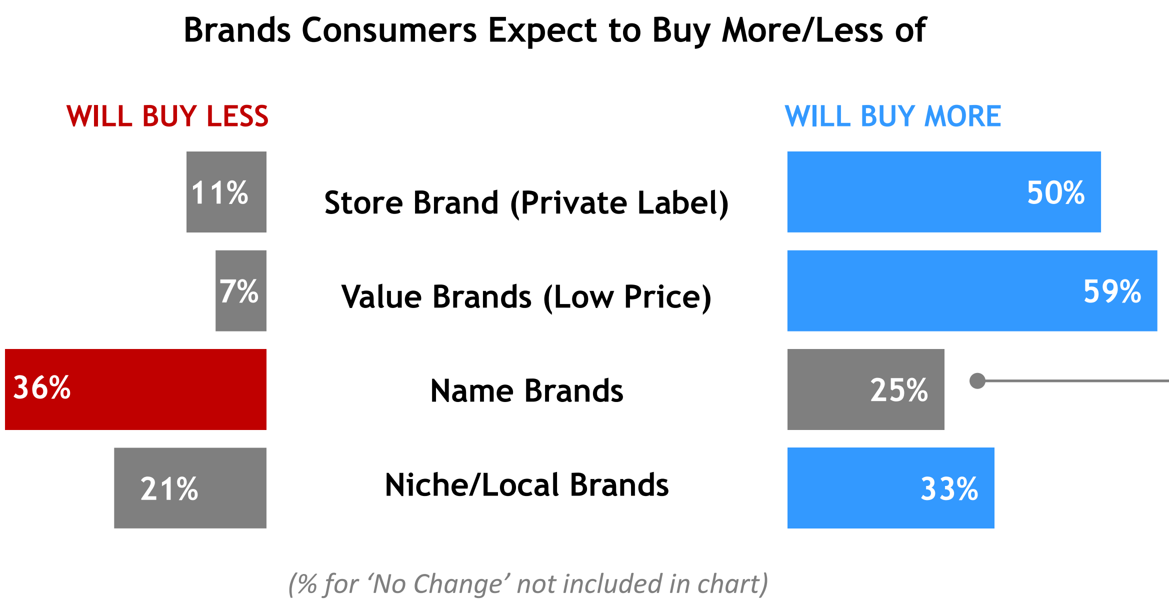
Private Label and Value brands are expected to benefit in the coming year



Not surprisingly, Private Label and Value Brands stand to win in the inflationary environment. Brand name products, conversely, may face headwinds with 1 in 3 shoppers expecting to purchase fewer name brand products in the coming year. This will likely depend on a brand's specific price position within a category, plus the equity it has built among its consumer base. Shoppers have mixed feelings about Niche/Local brands – a third of consumers will buy more, but this will be somewhat offset by the 21% who say they will buy less.

Name Brand Products Being Squeezed

Over the past several years, Name Brand products have experienced growth as consumers flocked to reliable, trustworthy products. However, in a highly price-sensitive environment, that trust is being tested. Name Brand products stand to face pressure on all fronts: from Store Brands and Value Brands due to pricing, and even Niche/Local brands – likely out of a consumer desire to support smaller businesses despite higher costs.

Competing on price is a difficult game for Name Brands and requires a fine balance between providing consumer discounts and adding value to the brand to build equity and loyalty. While discounting may be a necessity, there is a threshold where it becomes increasingly less effective.

In the coming year, Manufacturers will need to strategize on how to build the best value equation for consumers through a variety of levers, beyond just price.

Source: Cadent Consulting Group Research

Shoppers are planning to increase trips to lower-cost channels

Predictably, consumers plan to shop more at Mass and Dollar channels in the coming year, with almost 40% saying they will shop these channels more often and very few saying they will decrease their trips here. Conversely, Natural Food stores and Convenience stores – where prices are generally higher - could see a dip in traffic. Grocery and Club channels can expect to maintain some stability. Grocery retailers will want to ensure they carry a variety of price points and pack sizes in order to meet the needs of a wide range of consumers.

72%

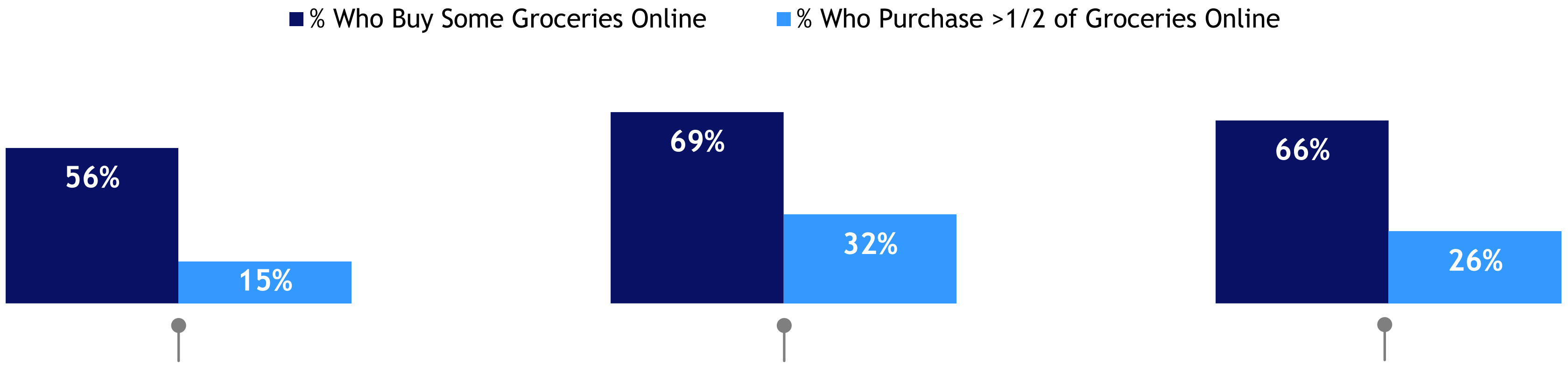
of Shoppers would rather shop at a store that offers low everyday prices than one that offers good sales and promotions

This bodes well for EDLP retailers and aligns with shopper plans to increase visits to Mass Merchandisers and Dollar Stores, but it has broader implications. In order to maintain sales, retailers and manufacturers will need to ensure that base price points are competitive enough to retain shoppers. This will be challenging as Manufacturers continue to see margins erode. Trade spend may need to be utilized for lowering everyday price, however with caution so as not to erode equity and brand loyalty.

Source: Cadent Consulting Group Research

Online shopping: Is it here to stay?

Online Grocery Purchasing Before, During, and After COVID



Pre-COVID	During COVID	Today
While online as a channel was certainly developing, more than 4 out of 10 shoppers did not do any of their shopping online. Further, online shopping in the pre-COVID environment was limited; only 15% of shoppers purchased more than half of their groceries online.	Then along came COVID, and the world changed in more ways than we can count! It was like a click of a button and suddenly 69% of shoppers were purchasing some amount of their groceries online. Plus, significantly, the number who purchased greater than half of their groceries online more than doubled. But has it changed online shopping for good?	Today, 66% of shoppers make some grocery purchases online with 1 in 4 buying more than half their groceries online. While there has been slight falloff since COVID, eComm is clearly here to stay and must be an integral part of any manufacturer or retailer strategy. Online shopping has staying power.

Source: Cadent Consulting Group Research

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SECTION 4

Action Plan: GPS to Put it into Practice

CPG manufacturers & brands will need to equip themselves with insights and evaluate key metrics to optimize their unique Marketing Spending mix

In uncertain times, Manufacturers need a customized approach for their business

A GPS FOR CPG MANUFACTURERS TO PUT IT INTO PRACTICE

Ground in Insights

Know your consumer base

Building an insights foundation around your consumer is critical. To meet their needs, we must understand their preferences, how they shop, and how they are affected by shifting conditions

Stay on top of category dynamics

Effective execution requires a solid grasp of the competitive landscape, pricing dynamics, and category specific behaviors such as price sensitivities & elasticities

Prepare for Action

Begin planning holistically

Plan each year with a balanced approach, weighing consumer behaviors, macro & category shifts, tactic diversity, and retailer goals. Ultimately, an approach that works towards short- and long-term profitability

Evaluate Key Metrics

Metrics can be difficult to calculate for less tangible activities, but that doesn't negate the responsibility. Metrics help brands get a hold on optimal spending levels and which tools are being over/under-leveraged

Stimulate Demand

Get the mix right by channel

Know the key levers each retailer and channel brings and plan your strategy accordingly. Ensure sufficient investment in growth channels and volume drivers

Understand which tools work for you

With a wide range of tools available, brands need answers: Which tactics have the most impact on consumers? Which promotions resonate? Which tools drive trial vs. build loyalty? How does this affect brand equity?

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SECTION 5

Methodology Behind the Report

Methodology

This report cites surveys of roughly 350 U.S. manufacturer and shopper participants who were surveyed in July 2022. In addition, select retailer participants were included for qualitative input. This report also draws on prior Cadent Marketing Spending publications from 2014-2020 for longitudinal trending. Manufacturer participants were focused around relevant CPG categories (e.g., Food, Beverage, Personal Care, Beauty, etc.).

Interviews were conducted online using customized questionnaires.

Contact Us for more information.

Cadent Consulting Group

Cadent is a team of practical strategists with deep roots in the consumer goods industry who bring an actionable, solution-oriented approach to consulting.

At Cadent, we exist at the intersection of shoppers, retailers, and manufacturers. We discover actionable insights across these 3 constituents through customized initiatives for our clients to deliver best in class strategy that helps accelerate profitable growth.

Our Marketing Spending study follows the same approach, keeping shoppers, retailers, and manufacturers in view as we analyze the industry for relevant, actionable insights. We believe the way to win is by focusing on the fundamentals while embracing the complexity.

Cadent Consulting Group Research

Cadent has published studies on Pricing, Private Label and Path to Purchase, and has reported on Marketing Spending since 2012. This 2022 report offers the latest insight.

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