CPG Industry Struggles to Find Growth

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eMarketer Editors

Consumer products giant Procter & Gamble Co. on Thursday reported better-than-expected fiscal fourth quarter profit and sales, but if you think this means things are turning up for the struggling US consumer packaged goods sector, think again.

In the latest sign of the overall malaise in the sector, US unit sales of CPG items dipped 0.4% in the year ended Feb. 19, following a flat annual average growth rate between 2013 and 2016, according to a study of actual purchases from a consumer panel of 110 million US households by market research firm IRI. While sales, helped by price inflation, rose slightly by 0.5% to nearly $760 billion, that's slower from an annual average of 1.8% increase in the three years through 2016, according to the IRI data released this week.

"People are buying fewer units," said Susan Viamari, vice president of Thought Leadership for IRI, in an interview. "The industry has really struggled to find consistent growth since the (economic) downturn in 2008."

In fact, annual industrywide CPG unit sales have been flat to negative since 2008, with total dollar sales gains since that time typically driven by factors such as price inflation, she said.

The industry's struggle has been evident with major CPG giants from Procter & Gamble to Coca-Cola cutting costs to drive profit as they redesign products or acquire startup and other higher-growth labels to stoke sales. P&G, for instance, has cut its portfolio of about 170 brands to about 65 labels, which include Tide detergent, Pampers diapers, Gillette shaving products and high-end SK-II skincare line. Coca-Cola, which said in April it would cut 1,200 jobs, on Wednesday said it will rebrand its Coke Zero diet soda as Coke Zero Sugar to speak to consumers' increased demand for what they perceive as healthier choices.

P&G CFO Jon Moeller said on the earnings call Thursday that the company's US market growth slowed from over 2% last year to just above 1% this year and barely above flat in Q4. To gain share, the company has cut prices including on Gillette products in the US.

While Amazon's $13.7 billion deal to buy Whole Foods is another sure sign of online's growing share of the CPG pie, IRI data showed that the industry is still primarily a brick-and-mortar story despite what it described as "fast and furious" online sales growth: ecommerce represents only 8% of total industry sales, according to IRI.

Among the various shopping channels, there's no one standout winner for the latest 12 months data. Supermarkets is the only format that showed an increase, and that was a bare 0.1%. And that increase came in spite of the fact that the number of CPG units bought in that channel dipped 0.3%. Among other channels, both CPG unit and dollar sales at retail segments from warehouse clubs and mass merchants to dollar stores and drugstores all dropped, IRI data showed.

US CPG In-Store Retail Sales, by Store Type, 52 weeks ending Feb 19, 2017
billions and % change vs. prior year

	CPG in-store retail sales	% change vs. prior year
Grocery*	$314.4	0.1%
Club	$83.1	-0.6%
Drug	$49.1	-0.1%
Mass/supercenter*	$32.0	-3.0%
Dollar	$15.7	-0.3%
Hardware—home	$5.0	-2.0%
Health/vitamin	$1.1	-3.4%
Total**	**$759.5**	**0.5%**

*Note: *excludes Walmart; **includes ecommerce*
Source: IRI, "IRI Channel Performance Report," July 26, 2017
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However, by visits, grocery stores, warehouse clubs and dollar stores have seen some increases in trips while consumers have cut back on visits to mass merchandisers and drugstores, IRI data showed. To respond to consumers' "just-in-time shopping," or quick "I need it now" trips that represent nearly two-thirds of CPG shopping trips, retailers have also been investing more in smaller store formats, click and collect service, and subscription-based online sales, according to IRI.

Still, despite the overall sluggish performance, there are some bright spots. Among retailers that have seen a pickup in sales the past year, German grocer Aldi, which said in June it's expanding its US footprint to 2,500 locations in five years from more than 1,600 currently, is the one retailer that's seen sales pickup the past year across all generations, from millennials to boomers, IRI data showed.

Indeed, the expansion of Aldi and the recent entry of its German rival Lidl in the US market has kept US grocers on their toes. The two German grocers, along with Trader Joe's, are part of the so-called deep discount sector that uses mostly store brands to keep prices low and win price-conscious shoppers. Nielsen data released in June showed such deep discounters have seen the biggest increase in consumer grocery shopping visits the past year.

In a potential sign that Walmart's "price-investment" promise to have the lowest price on key items may have gained some traction, IRI data showed the retail giant has gained sales in the past year with price-conscious millennials as well as Gen Xers and younger boomers. Meanwhile, Dollar Tree, which has been adding more refrigerated and frozen food, has won favor with boomers and seniors, according to IRI.

Among the product categories, the beverage segment is one standout winner, outpacing the industry average with 1.9% dollar sales and 1.6% unit sales gains. That's on top of the segment seeing an annual average of 2.4% increase the past three years, according to IRI.

US CPG Total Retail Sales, by Product Category, 52 weeks ending Feb 19, 2017
billions and % change vs. prior year

	CPG total retail sales	% change vs. prior year
Frozen	$196.5	-0.6%
Liquor	$113.8	1.0%
General food	$101.7	0.4%
Home care	$74.8	1.6%
Health	$70.9	1.6%
Refrigerated	$56.5	-2.1%
Beverages	$50.5	1.9%
General merchandise	$48.8	0.7%
Beauty	$29.5	-0.2%
Total	**$759.5**	**0.5%**

Note: includes ecommerce and in-store
Source: IRI, "IRI Channel Performance Report," July 26, 2017
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“There’s a lot of innovation in beverage,” Viamari said, pointing to examples including enhanced water and juice and dairy milk alternative such as almond milk.

The study also pointed to bright spots in the type of categories that provide answers to support consumers’ on-the-go lifestyles. In the “edible” sector, for instance, refrigerated side dishes surged 11%, followed by an 8.9% jump in bottled water. Grocery stores’ increased trips also have partly been driven by their increased grab-and-go food offerings including pizza counter, soup bar and sushi section.

“We eat on the go more now,” Viamari said. Grocery stores “want to you go into the store to grab that cup of soup rather than buying somewhere else. There’s an increased battle for share of stomach.”