

Industry View 2020



Powering every day.

At the dawn of a new decade, it is a consumer's world. Empowered by new technologies and extraordinary access to information, consumers are driving change at an unprecedented pace.

Nowhere is that clearer than in the consumer packaged goods (CPG) industry. Effective CPG leaders are leaning into what consumers demand today and forecasting what they will want tomorrow — all while ensuring affordability and availability of products Americans depend on every day.

CPG leaders are guided by the wants and needs of their consumers, while balancing a host of other issues that impact their business every day that are largely invisible to consumers. Consumers see a brand of shampoo they like now has packaging made from recycled plastic; they do not see what went into creating it, from the manufacturing

company's focus on sustainable innovation to the number of regulations — federal and state — the new packaging had to comply with to arrive on the shelf in front of them. But CPG executives have eyes on all of it.

Industry View 2020 is the inaugural report examining the issues of greatest concern to these leaders. Through a survey of 28 CEO or equivalent-level executives from Consumer Brands Association's membership, ***Industry View 2020*** looks inside the minds of those at the helm of America's most iconic brands.



What Keeps CEOs Up at Night?

Global CPG companies face a host of challenges. CPG leaders were asked to rate the issues affecting their business in 2020 on a one-to-seven scale, one being the lowest and seven being the highest rating. Their top five responses in each category are below.

TOP ISSUES IMPACTING THEIR BUSINESS

Complying with a patchwork of state regulations	5
Concerns over plastic and packaging issues	4.92
Disruptor brands or private label	4.67
Transportation capacity costs	4.56
Complying with federal regulations	4.52

TOP POLITICAL ISSUES AFFECTING THEIR BUSINESS

New state government regulations	5.11
Tariff and trade wars	4.89
Marine debris/plastics and packaging legislative proposals (state or federal)	4.41
Election outcomes	4.37
California's Proposition 65 and other disclosure regulations	4.37

TOP FOCUS AREAS IN 2020

Attracting and retaining talent	5.7
Being more sustainable as a company	5.52
Managing external brand/reputational risk	5.11
Improving diversity and inclusion efforts	4.93
Offering competitive employee health and benefits plans	4.48

TOP THREATS TO CONSUMER TRUST

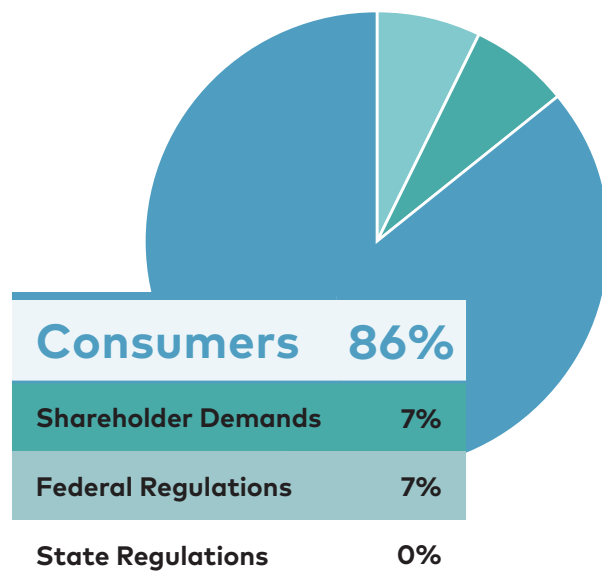
Misinformation (from bloggers, social media, etc.)	4.86
Conflicting science	4.14
Untrue or overstated marketing claims	3.86
Failures in the system (recalls, bad actors)	3.82
Negative assumptions about corporations	3.82

Consumer as change agent and de facto regulator

CPG products are used by every American, every day. From their coffee in the morning to their toothpaste at night, consumers depend on these essentials — and deserve safe, reliable and effective products that meet their needs and wants.

The CPG industry is heavily regulated by both federal and state government agencies. But when it comes to making business decisions, consumers drive change. **Eighty-six percent of the CEOs surveyed ranked the consumer as having the number one impact on their decision-making, establishing consumers as the de facto regulator of the industry.** Nothing else came close — not even shareholder demands, which only seven percent ranked as number one.

TOP INFLUENCES ON DECISION-MAKING



The success of CPG companies is in their relationships with consumers, relationships dependent on trust.

Consumers have more options than ever before to engage directly with brands. From social media to review sites, their wants and needs are driving unprecedented change and a vast range of product innovations. Organic, gluten-free, paleo-friendly, paraben-free, made with activated charcoal or coconut oil ... the list is endless and the CPG industry is constantly evolving its products to respond to the consumers it serves.

The success of CPG companies is in their relationships with consumers, relationships dependent on trust. **The top three threats to consumer trust — misinformation, conflicting science and untrue claims, in that order — center on the need for reliable information** and underscore the importance of improved transparency and strong regulatory oversight.

The state regulatory environment is a top issue for the industry.



The CPG industry is heavily regulated. Much of that regulation is smart, valuable and strengthens consumer trust in CPG products and companies. But regulation becomes more complicated and has more adverse effects on consumers when it is inconsistent, conflicting or patchwork — and examples of this challenge abound at the state level.

California, for example, may pass a regulation intended to serve as a model, and New Jersey and Wisconsin may decide to use the model but change it slightly in each case, leading to compliance headaches that can ultimately hurt consumers. Creating unique products to accommodate each state's rules threatens to reduce access to products and can add cost for consumers.

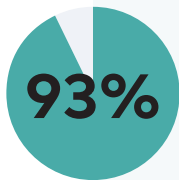
Ensuring availability and affordability of products for consumers explains the acute concern about state regulations specifically. **Forty-three percent of CPG leaders said state regulations create more burdens for their business in terms of staff time and compliance costs, three times the number (14%) who believe federal regulations have a more significant impact in terms of time and cost.** CPG leaders also call out a "patchwork of state regulations" as the number one issue most likely to impact their business in 2020.

CPG executives cite the growth in state regulations as their top political challenge, too. New state regulations are the political issue that CEOs say is most likely to affect their business in 2020.

Sustainability occupies the minds of CEOs more than any other single issue.

Sustainability is critically important to CPG leaders, just as it is to American consumers. When it comes to what they are focusing on in 2020, sustainability is second only to attracting and retaining talent.

From water conservation to recyclable packaging to reduced emissions, sustainability initiatives are assuming increasing importance.



More than nine-in-ten (93%) CPG leaders estimate they spend more time on sustainability issues today than they did five years ago.

In 2004, Linda Fisher was named the chief sustainability officer at DuPont. She was the first person on record to have the title, but in less than 16 years, the ranks of fellow CSOs have grown. In the CPG industry, **71 percent of respondents said that sustainability either reported directly to the C-Suite (57%) or was a C-suite position in their company (14%).** Another 21 percent described it as a leadership role that does not report to the C-suite. Only seven percent said it was not considered a leadership position.

Sustainability has many facets, but none have received the public attention that plastic and packaging waste have in recent years. Concerns over plastic and packaging waste were, on average, the second-most likely issue that CPG leaders said would impact their businesses in 2020, narrowly trailing patchwork state regulations. While patchwork state regulations were number one, many packaging challenges are a direct result of inconsistent and conflicting rules across 10,000 local recycling systems — rules that breed confusion for packaging designers and consumers alike.

Plastics and packaging legislative proposals also rank high on the list of political issues CEOs believe will affect their business in 2020. Trailing just behind new state government regulations and tariff and trade wars, plastics and packaging proposals rank third.

Lower on the list of political issues CPG executives anticipate will affect their business in 2020 are climate change policies. The low ranking should not be misinterpreted as low priority. Respondents were asked for their thoughts on the emerging issues that will take on greater focus in the coming years and **climate change was a repeated theme they expect will gain a larger share of voice.**



Transportation costs still loom large for CEOs, even as pressures have eased.

Though *Industry View* is in its first year, had this same survey been fielded at the end of 2018, transportation costs would likely have factored higher on the list of business concerns. Barely more than a year ago, the cost of getting CPG products to consumers rose sharply, driven in large part by a truck driver shortage that skyrocketed market rates for moving goods.

Since then, the pressure has eased and, while the issue is still on the minds of CPG leaders, its intensity has lessened. That said, transportation costs ranked fourth in terms of likelihood of impacting their business in 2020. One-fifth (20%) of CEOs surveyed rated transportation costs as a six or seven, on a scale of one to seven, in terms of likelihood of impacting their business. It appears that while the issue is not at the top of the list for CEOs, **the cost volatility experienced in 2018 has not been solved for outside of what companies can do on their own, and it is only a matter of time before it returns.**

Another supply chain issue that is more nascent and not yet atop the list is traceability. CPG leaders shared in open comments their expectation it will grow in importance in the coming years. The ability to trace a product from ingredient sourcing to the consumer's home is improving through technology that allows for new and deeper disclosures in the supply chain.

Technologies like blockchain can transform how manufacturers share product information with retailers and could be a means of keeping contaminated ingredients from ever entering the supply chain. Traceability may allow consumers to understand the origin of the aloe leaf that was used in their lotion or the cocoa bean that went into their chocolate.

As consumers seek more transparency about what their products are made of, CPG leaders are mindful of being ahead of the curve. Many companies offer more information to consumers online through digital disclosure tools like SmartLabel™. Household cleaning products manufacturers, in particular, are providing unprecedented information, above and beyond what is required by federal and state law.



Other highlights show the depth and breadth of issues CPG leaders face.

While many of the results laddered to key themes, there were notable highlights in the responses.

THE NEW NORMAL FOR TRADE POLICY?

What happens in Washington has direct and indirect effects on the CPG industry and, accordingly, the 2020 election is a top political issue that CPG leaders are watching. But when it comes to specific issues, tariff and trade wars ranked second on the list of political issues CPG leaders anticipate affecting their business in 2020.

After a volatile 2019 that reexamined longstanding trade norms — primarily with China, Mexico and Canada — trade negotiations with the European Union, United Kingdom and Japan are also on the table for this year. Trump administration officials have shared that they see the U.S.-Mexico-Canada Agreement (USMCA) as a template for future negotiations.

CPG leaders are watching trade negotiations closely, given the industry's exports have grown 148 percent in the last 15 years, from \$41.5 billion in 2003 to \$102.7 billion in 2018, outstripping growth in both manufacturing and total U.S. goods exports.

BUILDING A TALENTED WORKFORCE

With low unemployment, it is a job seeker's market. Attracting and retaining talent was the clear number one focus area for CPG leaders, averaging a score of 5.7 when evaluating on a scale of one to seven, where seven is the highest focus. The CPG industry directly employs 2.3 million people — more than 20 million including indirect employment — and ensuring that many positions are filled by the best possible candidates is a challenge on the mind of CEOs.

ERA OF CONSTANT CHANGE

Consumer packaged goods is an industry changing like any other. And, like other industries, CPG is experiencing disruptor brands.

CPG leaders may be concerned about disruptors that could be bad actors — not following best practices or regulatory rules, for example — but it is more likely that industry executives see opportunity in startup brands. These new players inspire innovation that pushes the industry forward, ultimately delivering new options to consumers. They can also provide investment or acquisition opportunities for larger CPG companies aiming to get high-demand products to more consumers.

CONCLUSION

CPG leaders' top issues are hardly their only issues. Every issue in this report is set against the backdrop of changing consumer preferences driving transformation in the industry. CPG executives are constantly asking themselves how they can deliver the best possible product to the consumer while contending with an ever-growing list of considerations.

Today's leading issues reflect the focus of the Consumer Brands Association's agenda: building trust in the industry; championing smart regulatory policy; enhancing packaging sustainability; and creating frictionless supply chains. The results from *Industry View 2020* prove that those issues remain top priorities for CPG leaders and, importantly, the consumers their companies serve.

