Shrinking wallets, growing needs

Consumer packaged goods companies (CPGs) must navigate a new challenge.

The world is still rebounding from the global pandemic, the war in Ukraine rages on, energy prices remain high and consumer price inflation persists at the highest levels seen in decades.[1] As a result, consumer confidence (measured by the OECD's consumer confidence index) is even lower than it was during the peak of the pandemic.[2]

Grocery prices in the U.S. are 13% higher than they were a year ago,[1] 80% of households in the U.K. had less disposable income in August than they did a year prior.[3] Under this strain, people are not only re-evaluating spend and making trade-offs, they are doing so with a set of priorities that has been redefined in the last two years. CPGs cannot rely on an existing playbook; they must design new strategies that cater to the unique circumstances of the ever-changing human being.

In Q1, CPGs saw sustained volumes despite price increases—a result of pent-up demand and pandemic savings. As such, 60% of CPG executives planned to raise both prices and production levels in the next 6 months, and only 20% believed that consumer spending would be under pressure in 2022.[4] But swift changes in the economy and in human behavior have called this assumption into question.

Most people are not equipped to bear another round of price increases. Even before the war broke out in Ukraine and energy prices began to skyrocket, 2 out of 3 individuals Accenture surveyed said that they faced budget constraints[5] and the situation has only deteriorated further. Low-earning households in the U.K., representing one in five U.K. households, had 'negative disposable income' in August, meaning they could not cover the essentials needed to keep their households running.[3] In the U.S., after consumer confidence plunged to the lowest point ever recorded in June 2022 and inflation hit a 40-year high, consumer confidence remains well below levels seen during the height of the pandemic.[6] CPGs need to prepare for continued price increases to impact volumes.

To better serve consumers and protect share of wallet through this cost-of-living emergency, CPGs need to act with empathy, understanding how existing needs and budget constraints impact human desires. This crisis is different from any we have faced before, and people have changed in often surprising and counterintuitive ways. Brands need to abandon their preconceptions to understand the everchanging consumer's redefined priorities and the resulting trade-offs they are willing to make amid a new crisis—and those they aren't.

CPGs and consumers have misaligned views of the world:

In February 2022...

20%

of CPG executives believed consumer spending would be under pressure[4]

2 in 3

consumers faced budget constraints[5]

New priorities

Consumers will spend on essentials and priority luxuries—but how they define these is surprising

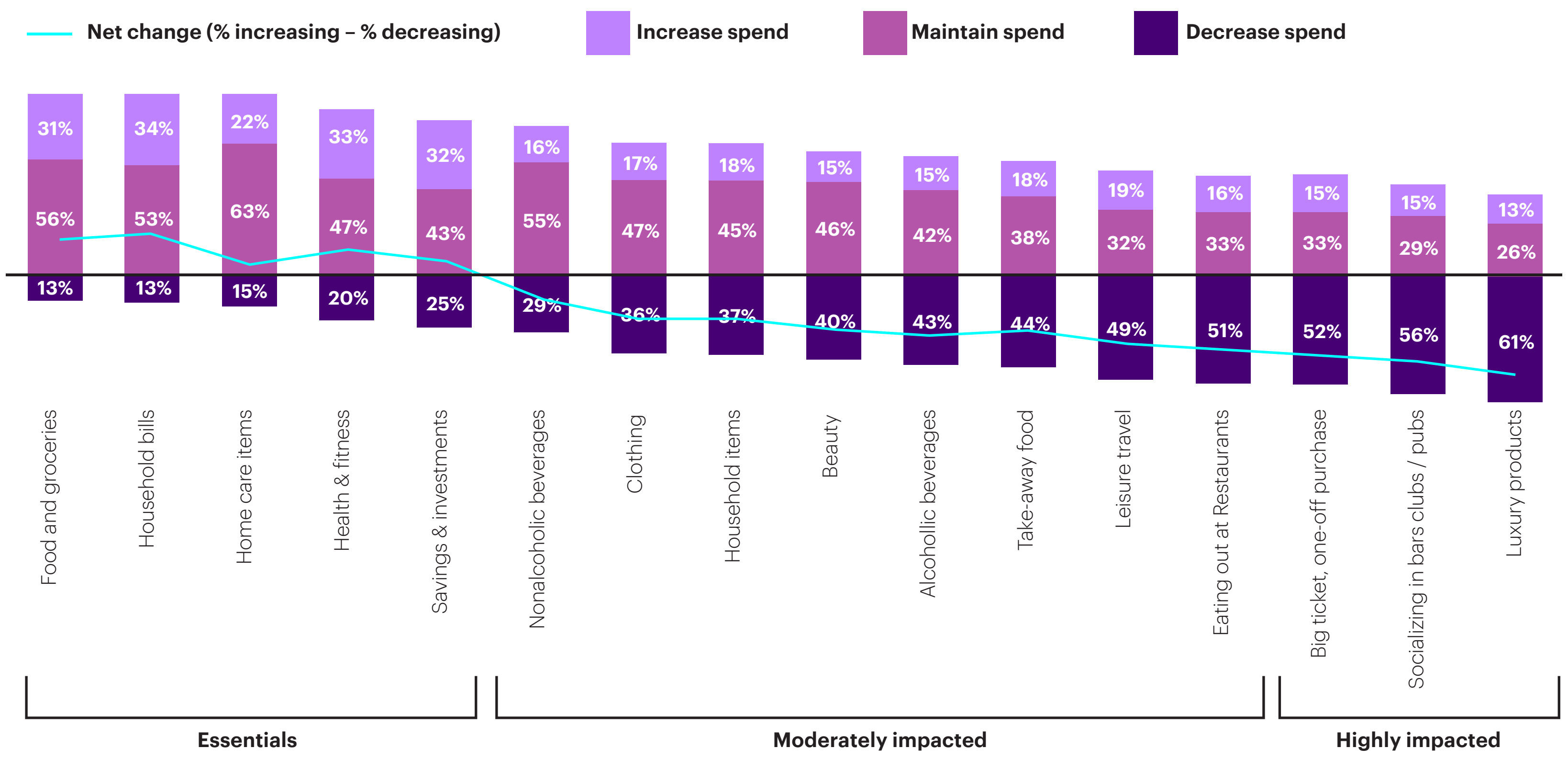
The last two years of health crises and lockdowns have reshaped human needs and priorities. Suddenly, health and wellbeing is a necessity—not a nice-to-have. At the same time, experiences and services provide opportunities for indulgence in unexpected ways—at-home ocassions are thriving and demand for travel experiences that individuals have been missing has returned. Even amid increasing financial pressures, they are willing to sacrifice spending in other areas to purchase both new essentials and new luxuries.

Figure 1.

Health and wellbeing are now seen as an essential alongside groceries and home care, while take-away food and leisure travel fare better than other luxuries

Expected category spend changes in 2022

% of consumers expecting to increase, maintain, or decrease category spend in the next 12 months and net change (% increasing – % decreasing)



Source: Accenture Consumer Pulse Survey Wave 2: 7th–25th April 2022 Note: "Essentials" are categories for which a higher proportion of consumers expect to increase spend than decrease. "Moderately impacted" categories are those for which higher proportion of consumers expect to increase or maintain spend than decrease. "Highly impacted" categories are those for which a higher proportion of consumers expect to decrease spend than increase or maintain.

New essentials

The global pandemic made health and wellbeing a top priority for consumers. Spend on foods with health claims grew 4.7% YoY in 2020 on average, compared to 0.9% for those without.[7] As seen in Figure 1, not only is health a priority, but consumers now consider health and wellbeing an essential good, similar to groceries and soap.[8] Even as they cut back in other categories, 80% of people plan to maintain or increase spend on health and fitness in the next year.

Health and wellness is expected to see an incremental increase of over $1T in spend between 2020 and 2025,[9] and any CPG can tap into this growing opportunity—whether in a traditionally health-oriented category or not. Even alcohol players are exploring non-alcoholic beverages (a high-growth segment) and adding health benefits to products. Corona Sunbrew, for instance, is a non-alcoholic beer infused with vitamin D for the 'sun-starved and the sober-curious.'[10]

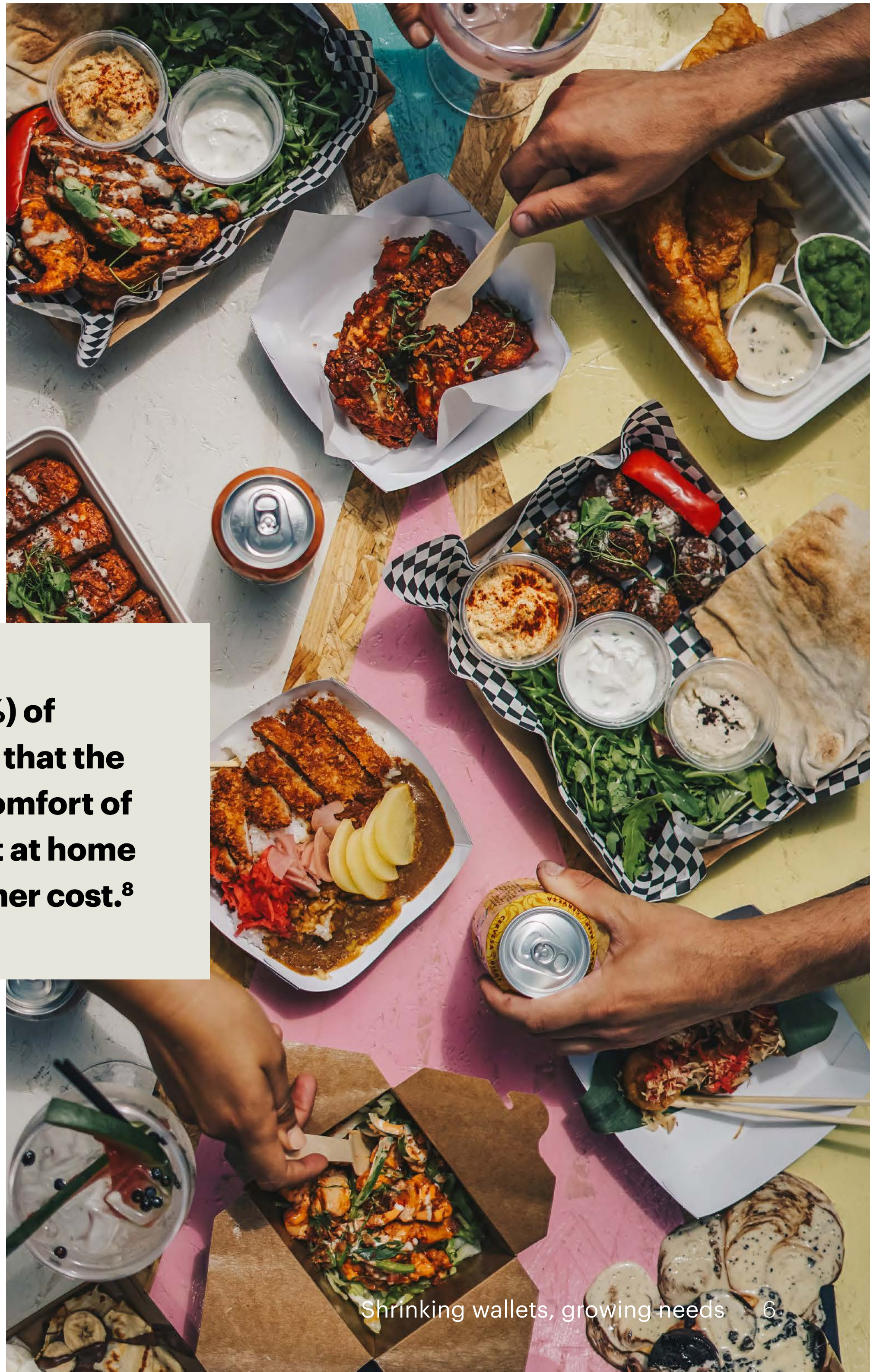
New luxuries

Even when times are hard, people need to indulge and to feel pampered, even temporarily. In the past, we talked about the lipstick effect: The fact that consumers under financial strain would still treat themselves with little luxuries like lipstick. At present, they are treating themselves with experiences and services instead. As of April 2022, U.S. consumers were spending proportionately as much on services as they had in 2019. And despite financial strain and rising travel costs, consumers are still so eager to get away that 2 in 3 are likely to return to pre-pandemic travel levels this year.[5] However, not all experiences are equal.

The at-home occassions we grew accustomed to over the last two years, such as eating and socializing, are now among consumers' top treats of choice. While consumers cut back on eating out during past crises, our research suggests take-away food will be more resilient going forward—with even the budget squeezed planning on maintaining spend in the next year.[8]

CPGs have permission to pursue the new luxuries of choice: 64% of consumers would be interested in services provided by traditional product providers[5] (e.g., virtual classes and consultations, entertainment and subscription boxes). Yet as the cost-of-living crisis deepens, even services could come under pressure. Understanding which treats meet consumers' redefined priorities will be critical.

More than half (56%) of consumers still feel that the convenience and comfort of ordering food to eat at home is still worth the higher cost.[8]



New ways of living

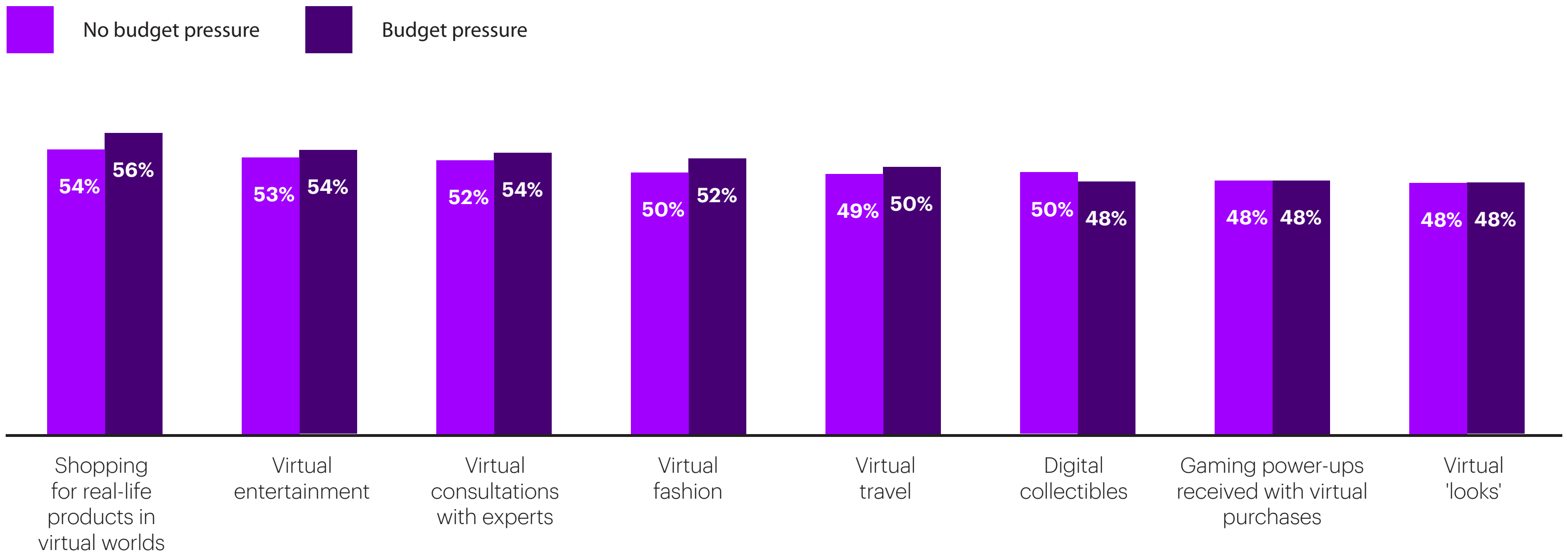
CPGs might be skeptical about the metaverse, but consumers are ready to embrace it—and many already have

During the pandemic, people turned to digital channels out of necessity. They discovered how to fulfill their needs for connection, entertainment, health and more virtually. Today, over half (55%) of consumers say that more of their lives and livelihoods are moving into digital spaces;[12] at the same time, the metaverse has arrived—presenting new opportunities to explore, create, connect and escape from the realities of life.

Figure 2.

Metaverse interest is resilient to financial pressures

Interest in buying products and experiences in a virtual world
% of consumers with / without budget pressures who would be interested in buying



Source: Accenture Q2 Pulse Conaumer Survey: 7th-15th Feb 2022

This isn't just talk. Among the more than 11,000 consumers we surveyed, 64% had already purchased a virtual good or taken part in a virtual experience or service in the past year. That figure is expected to rise as 83% show interest in making purchases via the metaverse.[5]

To those that think the metaverse is only for the young and the rich, think again. Our data shows that metaverse interest spans generations. Gen Z (58%), to Millennials (61%), to Gen X (53%) and even Baby Boomers (34%) are all interested in shopping for real-life products in virtual worlds. And 53% of middle- and low-income consumers are interested—not far off from the 63% of high-income consumers who are. Notably, interest in metaverse purchases is nearly identical between those with budget pressures and those without (see Figure 2), suggesting that it will maintain its importance even as consumers' wallets are squeezed going forward.

While this may seem counterintuitive, the barriers to the metaverse are lower than one might think. Consumers are not actually required to invest in expensive tools and equipment to participate; many companies are developing metaverse experiences that are accessible right from a person's phone or computer. This means an arena once dominated by luxury goods and an affluent clientele is now open to all with internet access. McDonald's even filed a trademark for a virtual restaurant in the metaverse that will deliver a real burger and fries to consumers at home.[13]

Any brand that wants to not only retain relevance but build deeper consumer relationships and find new sources of revenue during these challenging times must start activating this platform.

The metaverse allows people to satisfy real-world needs, such as the need for human connection, but also have experiences with each other and with brands that are not available in the physical world. Absolut vodka's Absolut.Land welcomed consumers to the Coachella festival via the meraverse. Visitors could grab drinks at the digital bar, find exclusive festival fashions, hit the anti-gravity dance floor and visit a museum gallery filled with the brand's history.

New approaches to sustainability

Making sustainability work for our wallets

One might expect that in times of financial pressure, people would forego sustainability. However, our data shows that people are taking action to live responsibly. More than half of those surveyed (55%) are trying to uphold their sustainable values.[8] This holds true for those with (56%) and without (54%) squeezed budgets, showing that sustainable values are not dependent on income.

One of the biggest shifts we see compared to two years ago is a marked shift towards conscious consumption (shopping for only what we need and making it last), but the ways in which consumers go about it varies. Our data shows that sustainable behaviors that help people save money are gaining traction among those whose budgets are squeezed (see Figure 3). People are choosing sustainable options that are budget-friendly, such as refilling, group buying and buying second-hand or recycled items. In Mumbai, Unilever's HUL is piloting 'smart-fill' machines that allow consumers to refill household products in-store using their own containers. The products on tap are up to 20% cheaper than the bottled version on the shelf.[14]

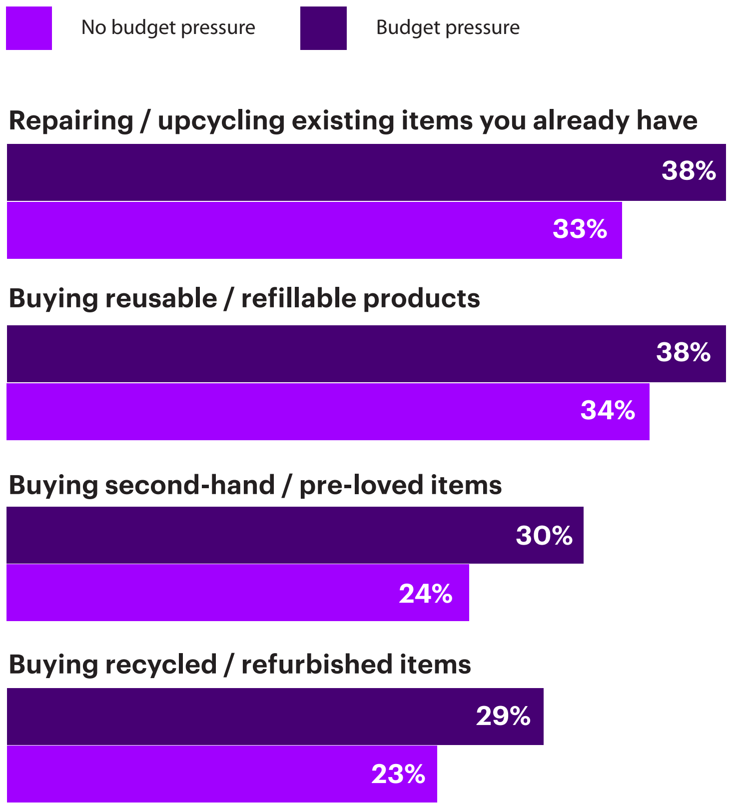
As consumers continue to tighten their belts, these habits are likely to accelerate. CPGs must innovate with offerings that deliver on values and value: Innovations that are good for the planet, good for the wallet and good for the consumer.

Even those who are doing well financially are buying more strategically today: One in two high-income consumers are more likely to only buy the items and quantities they really need as compared to two years ago.[5] At the same time, 53% of high-income consumers are now more willing to spend on fewer, better-quality items (so that they last longer) compared to two years ago. This shows that there are still premiumization opportunities around sustainability and bodes well for willingness to spend on sustainability once the economic crisis passes.

Figure 3.

Sustainable habits accelerate when wallets are squeezed

Sustainable behaviors by financial situation
% of consumers who have increased behavior in the last two years



Source: Accenture Q2 Pulse Consumer Survey: 415th Feb 2022

What to do now:
Three key considerations

Consumer priorities and behaviors continue to evolve. There are three considerations CPG leaders should keep in mind as they design future strategies in a volatile environment.

One

Drive growth through new leadership skills

Two

Fuel growth through empathy

Three

Organize around the human being

People face pressing challenges, ranging from cost-of-living pressures to health crises to the climate emergency. Fortunately, human advancements and technology are making it possible to solve for the previously unsolvable. However, historical skills and competencies are not enough; leaders need to move from a reliance on industry experience to market-leading expertise in emerging technology—and, increasingly, science. Leaders translate this expertise into opportunities that impact people and business. Take, for example, the metaverse. Everyone is talking about it, but few understand its true potential. It is not simply another marketing channel or a way to sell NFTs.

The metaverse will redefine human needs and behaviors and provide uncharted business opportunities across every aspect of the value chain. Imagine monitoring real-time behavior with a 24/7 focus group of millions of users to enhance research and development or generating synthetic forecasting data to better develop planograms and optimize the production line. Future leaders must be able to create an inspiring vision and new solutions, fueled by these technology-driven advancements.

One

Drive growth through new leadership skills

Two

Fuel growth through empathy

CPGs can only be successful if they truly understand the complexities facing the human being and translate this into meaningful action. In today's inflationary environment, consumers are looking for both affordability and little luxuries—leading to the need for strategies such as barbell pricing. CPGs must also look to options that are both sustainable and budget friendly. This requires companies to shift the burden of sustainability into their own operations, driving affordability through changes in processes and manufacturing.

Over the longer term, CPGs who understand changing priorities can create new market opportunities—for example in holistic wellness solutions. The Beauty Chef understood this and positioned itself at the wellness-beauty intersect by amplifying its range of topical skincare products with nutritional supplements that improve gut-health and make skin glow.[15] Acting with empathy creates headroom for future growth and opens the door for the redefinition of the industry.

Three

Organize around the human being

One

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It starts with understanding people, but that isn't all; CPGs must reimagine their business through the lens of the consumer. This means radically rethinking talent, processes and technology around human needs and inviting the consumer in as a collaborator. At its simplest, this might mean integrating data, systems and analytics across the consumer journey to surface appropriate insights and drive next best action. It could also require a complete reorganization of the operating model. Look at Turkish e-commerce leader Hepsiburada: They structured cross-functional teams (from product development to marketing and sales) around distinct consumer personas (e.g., "working moms") to design end-to-end experiences tailored to the specific persona.[16] The most disruptive CPGs actively bring the consumer in as a collaborator, co-creating with them to design, market and sell new offerings. The result is human-driven solutions that are truly consumer owned and loved.

The world will continue to change. The CPGs that lead with new leadership skills, drive new solutions rooted in empathy and organize around human needs will be the ones to win the hearts and minds of consumers.

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14 HUL
15 The Beauty Chef
16 World Economic Forum

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About the Research

Accenture's Consumer Pulse Survey offers ongoing insights into consumer outlook, sentiment and behaviors. Accenture surveyed a representative sample of 11,311 consumers from 16 countries: Brazil, Canada, Chile, China, France, Germany, India, Indonesia, Italy, Singapore, Spain, Sweden, UAE, UK, USA and Vietnam. The survey was conducted online and targeted consumers who have made purchases for their household in the past six months. Respondents were split evenly across gender and age group. This survey was conducted between 7th and 15th February 2022.

This was supplemented by two further research efforts: A survey of 150 executives within the Consumers Goods, Retail and Travel Industries in the US, UK and China (conducted between the 18th and 25th February 2022), and an additional consumer survey conducted 7th – 25th April 2022, which included 10,085 respondents from eight countries from the original survey: Canada, China, France, Germany, India, Italy, UK and USA.