# EUROPE'S CONSUMER GOODS INDUSTRY BAROMETER 2022

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# The context: Supply chain disruption and increased costs

**The business environment for the consumer goods industry in Europe has experienced dramatic shockwaves in the past two years: the uncertainties linked to Brexit, the COVID-19 global health crisis, the war in Ukraine, and now the energy and inflation crisis.**

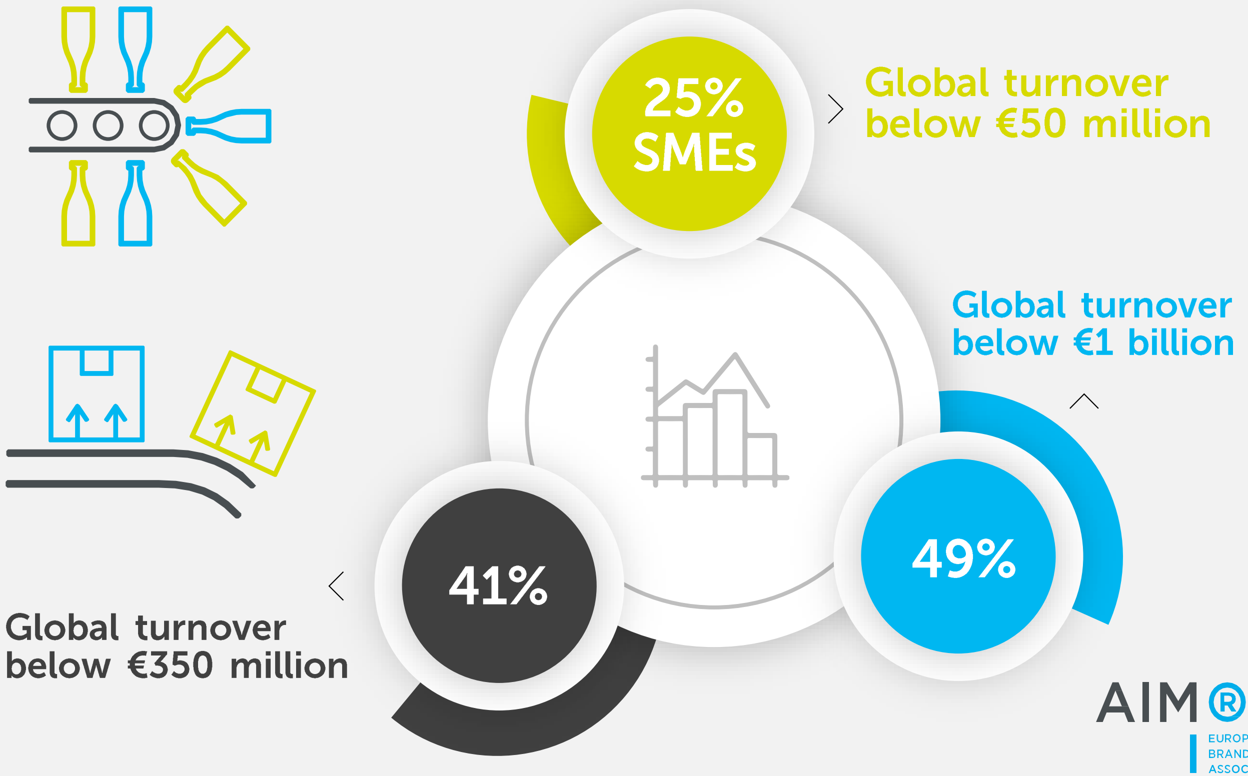
This has led to constant and **unpredictable overlapping crises**, causing widespread uncertainty and disruption, which all consumer goods manufacturers need to navigate.

Requiring **swift action and agility to adapt complex supply chains**, these crises have also increased administrative challenges to ensure that the necessary raw materials and ingredients reach production sites to be transformed and ultimately delivered to Europe's consumers.

A survey[1] of 664 manufacturers in the food/beverages, homecare, and personal care consumer goods sectors, shows that the **impact of these evolving challenges is strong and consistent across all sizes of business**.

1. Pan-European survey conducted July - November 2022 with the support of AIM, AISE, CosmeticsEurope and FoodDrinkEurope.

## Of the 664 manufacturers surveyed:

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# The effects on commodities and on packaging

Supply chain disruption and increased costs mean a significantly changed landscape for consumer goods manufacturers in 2022

## Commodities / raw materials

**75%**
of companies have experienced sourcing challenges to find components

**43%**
of companies have experienced over 30% cost inflation of these components

**57%**
of companies have therefore had to make modifications

**14%**
of companies have experienced over 60% cost inflation of these components

## Packaging

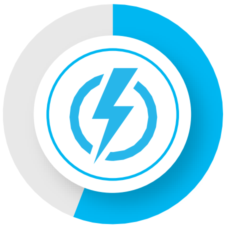
**61%**
of companies have had to modify packaging because they could not source it

**36%**
of companies have experienced over 30% cost inflation of packaging

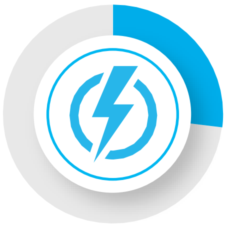
**9%**
of companies have experienced over 60% cost inflation of packaging

# Further challenges to production

## Energy



**56%**
of companies have experienced an increase in energy costs of at least 30%



**27%**
of companies have experienced an increase in energy costs of at least 60%

## Labour shortage

No less than **70%** of companies have been exposed to labour shortages to some degree, with nearly a quarter **(23%)** of them experiencing a doubling of labour cost inflation

## Transport & logistics

**31%**
of companies have experienced over 30% of cost inflation in transport and logistics

**9%**
of companies have experienced over 60% of cost inflation in this area

## Late payments by customers

Nearly a third **(31%)** of manufacturers have been exposed to late payments from customers downstream, which has had a knock-on effect on suppliers upstream

**31%**

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# Being at the centre of the value chain means absorbing shocks from all sides

**Faced with these challenges, several consumer goods manufacturers have had to take hard, but unavoidable, decisions – and quickly**. This is a particular challenge for consumer goods manufacturers who are in the centre of the value chain, with suppliers upstream striving to meet continued demand for ingredients, components, packaging, and all else that forms part of the creation of consumer goods, and retailers downstream exacerbating the pressure within the supply chain that needs to be alleviated through sharing the cost burden.

**83%**

of companies have had to make changes to maintain their production because of the impact of cost inflation

**57%**

of companies have had to reduce their production for some of their products

Confronted with increased and unexpected costs, **manufacturers have been negotiating with retail customers** to responsibly reflect part of the increased cost of production into their pricing. However, this has been difficult to obtain:

**96%**

**of companies have had to absorb unplanned costs in 2022**, as only 4% of companies have been able to pass on the full cost of inflation downstream in the value chain to retailers.

# Manufacturer-customer relationship

These pressures come after the difficult years of **COVID-19**, where some routes to market were closed for long periods of time, with a particularly negative impact in the tourism and hospitality sector. The one route to market that remained open was the retail grocery market – although several retailers in apparel experienced severe challenges through imposed lockdowns.

For some, an absolute refusal to help absorb some of these costs has led to difficulties, particularly because they rely on just a few main retailers active in **highly-concentrated markets**:

**"no tariff increase by our 2 most important retailers means we are losing money on 45% of our turnover"**

**27% of manufacturers** have been threatened and (partially) delisted by customers during discussions:

**"retailers threaten to delist products if we don't keep the price the same"**

Lack of willingness to accept the realities of the supply chain disruptions is forcing different kinds of economic decisions:

**"the cost increase (40-45%) we experience as manufacturers far exceeds the price increase (15%) retail accepts: we can only reduce production to avoid insolvency"**

**Everyone is absorbing costs. Only one third of manufacturers have passed on up to 50% of those cost increases, which means that the majority of manufacturers are absorbing not just cost inflation with input costs, but also the cost of adapting the supply chain to all changes required.**

# Impact on consumer prices

Consumer prices are set by retailers based on the competitive environment in which they operate.

"Belgian consumer organisation Test-Achats recently found that "you pay on average 7% less in a Colruyt store in Flanders than in a Colruyt store in Brussels or Wallonia" [3] "

€ €€

**35%**

of international retailers[4] have increased the consumer price at **a price level higher than the price negotiated with manufacturers.**

**20%**

**Only one fifth** of other retailers have set prices at a higher level.

"Grocery customers increased their consumer prices very often more than needed"

2. AIM, Insights on Assortments and Prices in Europe

3. Test-Achats.be, 4 May 2021, Supermarchés: la concurrence profite aux consommateurs

4. For example: Ahold Delhaize, Carrefour, Intermarché, Casino, Colruyt, Rewe, Spar, ICA or Jeronimo Martins.

# Impact on production

## In order to sustain their activities and to manage an economically viable business:

**56%**

of companies have already **reduced production** of their assortment.

**76%**

of companies **plan further reduction of production** if they cannot find some way of sharing the cost burden.

**36%**

of companies, particularly SMEs, **will have to make cuts**, regardless of whether or not the cost increase will be passed on.

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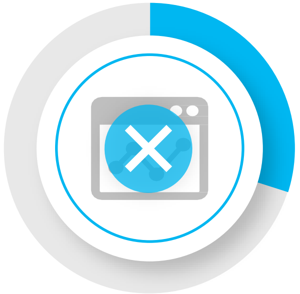
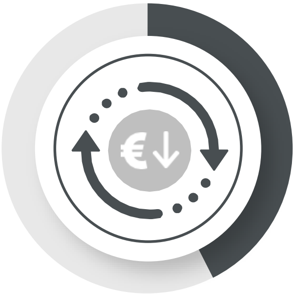
# Impact on the Future

Cost inflation is one of the many issues facing the supply chain. It has had a direct impact on investment and employment. For 2022, 32% of respondents have suspended R&D, 23% of them have reduced their workforce, and 42% of them have reduced planned investment/Capex. **In 2022, less resources meant less investment and innovation, impacting 2023 prospects.**



**32%**

of companies have suspended R&D.



**42%**

of companies have reduced planned investment/Capex.

**23%**

of companies have reduced their workforce.

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