



CONSUMER PRODUCTS

2024 Cost Inflation Outlook



How will cost inflation track for Consumer Products companies in 2024, and how can leaders navigate the year ahead?

As we head into 2024, AlixPartners' annual Cost Inflation Outlook presents a fresh set of market perspectives, predictions and expert insights for Consumer Products (CP) companies.

In this edition, we:

- provide market context, by sharing summary insights from AlixPartners' consumer spending surveys for 2023 and 2024.
- partner with leading market intelligence experts ChAI to explore global, AI-powered cost forecasts for the year ahead.

Alongside this, AlixPartners' global team of industry experts share their perspectives on the critical actions CP leadership teams can take to navigate inflationary, deflationary, and other disruptive market forces in 2024, including:

- shifting from pricing to productivity initiatives
- optimizing portfolios
- proactively managing cost structures
- implementing pragmatic digital solutions, and reshaping operating models
- preparing more aggressive margin protection plans
- harnessing analytics more effectively, to improve customer retention, forecast accuracy, and S&OP.

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Heading into 2024, with expected increases in many input costs—and tightening consumer demand—Consumer Products companies will not be able to simply rely on passing these price increases through to consumers. Consumer Products leaders will need to remain vigilant, and redouble other efforts to improve productivity.”

—**ANNA DEL MAR**, Partner & Managing Director, AlixPartners

SIGNS OF A CHALLENGING ENVIRONMENT FOR CONSUMER PRODUCTS COMPANIES

Against a backdrop of budgetary pressures and economic insecurity, it's clear that despite inflation slowing, consumer spending will too.

SUMMARY INSIGHTS FROM ALIXPARTNERS' CONSUMER SPENDING SURVEYS FOR 2023 AND 2024:

37%

of consumers in EMEA plan to spend less in 2024 than 2023; only 17% plan to spend more

26%

of U.S. consumers plan on spending less this holiday season than last year's

41%

of consumers in EMEA in the low-income bracket plan to spend less in 2024 than 2023, followed by 29% of mid-income and 24% of high-income shoppers



EUROPEAN CONSUMERS PLAN TO NET SPEND LESS ACROSS ALL SECTORS. This applies to groceries and non-food, as well as to the restaurants, hospitality, and travel sectors.



43%

of consumers in EMEA expect to spend less on consumer electronics



40%

expect to spend less on home entertainment



36%

expect to spend less on restaurants and bars in 2024 than 2023

46%

of consumers in EMEA aged 65 and older plan to reduce retail spend next year

ONLY

27%

of respondents aged 18-24 plan to reduce retail spend in 2024

Younger consumers seem less willing to let economic conditions impact their consumption habits














Sources:

The Critical Consumer 2024: AlixPartners' in-depth survey of EMEA consumers' shopping preferences and purchase intentions for 2024, conducted in Q4 2023 with more than 10,000 shoppers from the UK, France, Germany, Italy, Saudi Arabia, Switzerland, and UAE.

Holiday Outlook Survey 2023: AlixPartners' annual survey of more than 1,000 U.S. consumers. According to the survey, 26% of U.S. consumers plan to spend less in the 2023 holiday season than in 2022—rising to 38% for households earning under \$45K annually.

2023 COST TRENDS AND OUTLOOK FOR 2024

2023 global price movements for 11 selected Consumer Product areas, alongside forecasts for the next 12 months. Following unprecedented cost inflation in 2022, which slowed in 2023, many commodity areas are predicted to rise again in 2024.

COMMODITY	2023	Q1 2024	H1 2024	FY 2024
 ANIMAL FEED	-15.3%	+2.3%	+6.6%	+12.4%
 CHEMICALS	-9.8%	-3.5%	+3.6%	+3.6%
 CHOCOLATE	+45.9%	+0.5%	-0.7%	-6.0%
 COFFEE	+23.9%	-2.6%	-2.0%	-9.9%
 FATS & OILS	-15.6%	+0.2%	+7.2%	+6.1%
 FLOURS	-23.6%	-1.2%	-0.5%	-2.7%
 METALS	-6.8%	+3.0%	+1.9%	+9.1%
 PLASTICS	-10.1%	+2.4%	+8.6%	+3.3%
 PLASTICS PACKAGING	-11.2%	+2.2%	+7.1%	+6.1%
 SUGARS	+29.0%	-0.2%	-3.5%	-6.0%
 WHITE GOODS	-3.8%	-0.2%	+0.2%	+8.8%

THE VIEW FROM ChAI

"Reflecting on 2023, most commodity markets witnessed a more subdued year than the previous few, as the effect of increasing interest rates was felt throughout the global economy, and a post-Covid revival eluded China's construction sector.

Looking ahead to 2024, the ongoing conflicts in Ukraine and Israel/Palestine present obvious risks of sudden swings in commodity prices. With markets now expecting interest rates to maintain their current level or to decline over the next year, the team at ChAI will be

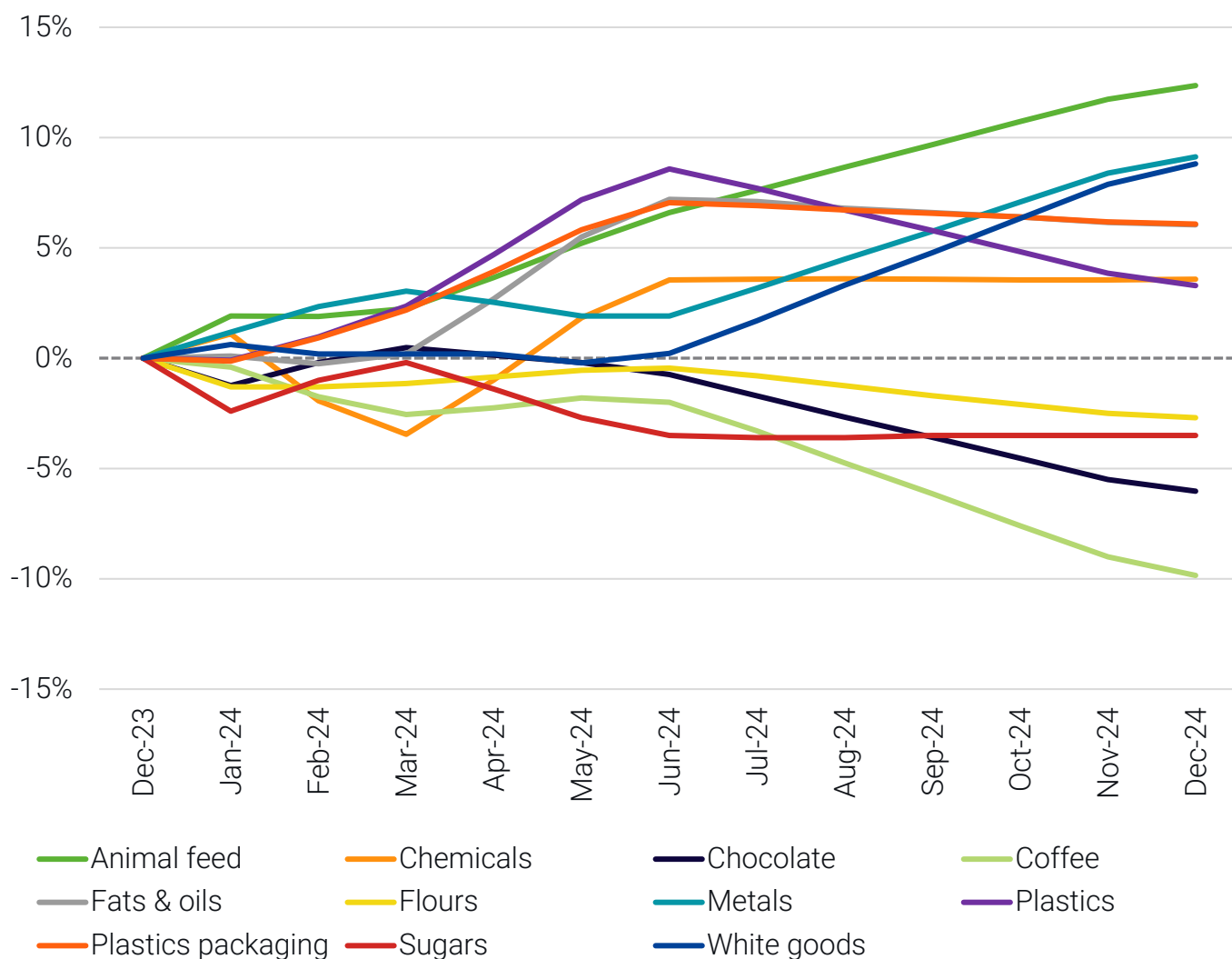
watching to see whether the models identify signs of recovery within global manufacturing, after an extended period of inconsistent industrial data from the world's leading economies.

It will also be worth watching the flows of speculative money within commodity markets, if a more optimistic environment develops as central interest rates start to come down again. In agricultural markets, ChAI's satellite and weather data models will be crucial as El Niño will likely be a dominant theme of 2024."

COST CHALLENGES AHEAD

Looking more closely at the cost outlook for 2024, chocolate, coffee, flours and sugars are on a downward trend, while animal feed, chemicals, fats and oils, plastics, metals, plastics packaging, and white goods look set to rise over the next 12 months.

2024 COST OUTLOOK BY MONTH



ABOUT ChAI

We make the companies whose products we depend on every day more resilient. With over 25 years' experience working on Artificial Intelligence, the ChAI team has developed powerful and proprietary AI tools that compute, in real-time, hundreds of sources of information to provide unbiased and accurate insights, as well as price predictions about specific commodities.

OUR OUTLOOK

Perspectives from AlixPartners' global team of Consumer Products industry experts.

ON DOUBLING DOWN ON PRODUCTIVITY AND REMAINING VIGILANT



ANNA DEL MAR
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“After the shock of cost inflation and the rush to pass through price increases to customers and consumers in 2022, Consumer Products companies spent much of 2023 clawing back deflation-based supply cost, and keeping prices high to protect—and in many cases increase—margin.

Heading into 2024, with expected increases in many input costs including plastics, metals, chemicals, meat and dairy—and tightening consumer demand unlike two years ago—CP companies will not be able to rely on simply passing these price increases through to consumers.

As demand across many CP sectors continues to slide—particularly home improvement, electronics, and premium grocery products—leaders will need to redouble other efforts to improve productivity. They will need to think about maintaining pressure on data-driven cost risk management, coupled with nuanced customer pricing, but will also be looking at portfolios, reducing SKU complexity, re-designing products to reduce cost or enable dedicated pricing, and reviewing overall organizational efficiency.”

ON SHIFTING TO PRODUCTIVITY INITIATIVES



RAJ KONANAHALLI
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“The U.S. PCE continues to show fairly high inflation YoY, but this is moderating when compared with last year. Consumer spending habits continue to evolve, for example trading down from branded to private label; shifts in loyalty; deprioritizing certain purchases to spend on others; higher expectations for free shipping and returns; and sustainability considerations.

Pricing will be less of a lever in 2024 than in recent years; companies are instead shifting to productivity initiatives to combat the headwinds of changing consumer behavior, higher costs, and ongoing supply chain challenges. These initiatives include optimizing portfolios (including rationalizing underperforming SKUs and customers), proactively managing cost structures, implementing pragmatic digital solutions, and reshaping operating models.

Inflationary pressure on wages persists, and U.S. unemployment remains relatively low at around 4%. One conundrum for several companies is whether to pay up to retain employees, or risk losing talent to higher-paying opportunities elsewhere as they navigate an uncertain 2024.

Finally, I expect M&A activity to pick up within the sector, despite the challenging climate, as companies look to strategically acquire accretive assets, while also remaining focused on their core business by divesting non-core assets.”

OUR OUTLOOK

ON SHIFTING FROM SURVIVAL TO A MORE SOPHISTICATED APPROACH



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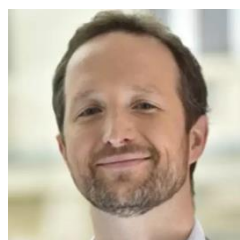
“The last three years have seen extreme supply shortages, lengthening supply chains and rampant inflation; perhaps not surprisingly, we saw the procurement imperative shift towards short-term security of supply.

2023 was about survival; 2024 will be about shifting to a more sophisticated approach—not just in driving year-on-year cost reduction, but also in fostering customer-centric innovation and supporting ESG improvements.

- A critical first step will be reinvigorating the muscle memory of cost reduction, where this was lost or became dormant while costs were increasing. A robust understanding of commodity volatility will be important, ignoring the soundbites to identify the reality.
- A longer-term perspective will be needed—one that puts the consumer at its heart, by refocusing on those product attributes that consumers value and are prepared to pay for, and those they are not.
- Finally, internal and external stakeholder management will be essential in driving both value creation and ESG compliance.

Procurement leaders will see this as an opportunity to take stock of where they are, relative to supply markets, overall business requirements and their ESG ambition—and act accordingly.”

ON RISK MITIGATION



ETIENNE SEBAUX

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“Consumer Products companies have pushed price elasticity as far as they could, but the growth that they will generate in 2024 will not come from further price evolution as consumers can't continue to pay.

The impact of geopolitical instability, rising energy costs and climate change on commodity prices certainly hasn't come to an end, but what has changed is that companies cannot continue to pass on cost increases to consumers.

On the risk side, one point of attention sits in energy costs—we don't yet know how the situation in the Middle East will unfold, but it might result in a significant oil and gas price increase if the conflict expands. We are never far from another geopolitical crisis. Leaders can't anticipate everything, but they can assess their geographic exposure and mitigation plan, including diversifying their sourcing base.

As a consequence of the above, executives should prepare a more aggressive margin protection plan and not wait for risks to unfold to start thinking about it. This includes (but is not limited to) cost optimization, portfolio simplification and overall performance improvement (e.g. manufacturing footprint optimization as overall asset utilization has sometimes drastically decreased, due to last year volume drop).”

OUR OUTLOOK

ON BEING FAIR TO CONSUMERS



JULIAN SHORT
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“Consumer Products companies face more complex pressures in 2024. In the last two years we saw a predominantly inflationary environment, whereas in 2024 we see a threefold issue: a mix of high inflation, lower rates of inflation, and deflation, all potentially co-existing in the same companies depending on category, geography etc., with some significant variations.

The issue is exacerbated by a squeezed consumer purse, meaning consumers may expect price reductions when inflation may still be significant.

The key challenge, then, is how to adjust prices accordingly. A race to the bottom on price isn't the answer; any potential resulting increase in volume rarely counteracts the negative effects on margin.

Finally, the consumer perception of fairness is critical. Whatever the position on inflation and deflation, it should be clear to the consumer that the actions taken on price are fair, if companies wish to retain consumer loyalty.”

ON CREATING ADVANTAGE FROM NEW CAPABILITIES



RANDY BURT
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“Inflation is likely to moderate in 2024 across commodities, logistics, and labour. Signs of this are already emerging, with transportation costs remaining low and externally-driven supply chain disruption largely easing. Even labor markets appear to be normalizing.

At the same time, consumers—across segments—are becoming more value-conscious and discerning.

Early signs of this include an increase in private label sales and growth of food sales in value channels such as dollar stores. With broad-based price increases no longer viable, companies will need increasing sophistication with regard to pricing and personalization—and in driving productivity across the end-to-end supply chain and in SG&A will be essential to maintaining and growing margins.

Generative AI took the world by storm in 2023—but the potential remains largely unrealized. There's a broad and untapped set of opportunities to use Generative AI and ML-powered solutions to improve customer acquisition and retention, organizational productivity, marketing, sales and operations planning, and manufacturing effectiveness—to name a few. The ability to create advantage from the new set of capabilities unlocked by AI will be a marker of success in 2024 and beyond.”

OUR OUTLOOK

ON FOCUSING ON THE FUNDAMENTALS



KARL NADER

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“The outlook for Consumer Products companies is on a more positive path in the Gulf countries; we expect FMCG categories to continue growing, with 50% of consumers in the UAE and KSA highlighting they will increase their grocery spend in 2024. Ongoing price rises are the number one topic across most boardrooms (and most dinner tables).

Discounters are disrupting established channels, and entry price ranges and private label are building scale. CP companies in the GCC will have to rethink their commercial approach beyond just raising prices.

CP leadership teams should focus on the fundamentals in 2024:

1. A data-driven commercial approach, reducing complexity of the range, introducing smart pricing, and engaging with their legacy and emerging channel partners productively.
2. Dynamic inventory management, by strengthening demand planning and forecasting capabilities to buy what you need, when you need it.
3. Controlling direct and indirect costs, prioritizing procurement fundamentals.”



HOW WE CAN HELP

Shifting consumer demand will create a challenging environment for Consumer Products companies. The AlixPartners team can help you mitigate a wide range of inflationary impacts.

OUR TEAM HAS DEEP OPERATIONAL EXPERTISE IN:

MARGIN IMPROVEMENT

OPERATIONS TRANSFORMATION

- Manufacturing Footprint Optimization
- Distribution Footprint Optimization
- Strategic Sourcing
- Cost Price Risk Management
- Commercial Operations Improvement and Revenue Growth

PRODUCT PORTFOLIO OPTIMIZATION

- SKU Complexity Reduction
- Strategic Re-pricing
- Product Design-to-Value

WHOLE COMPANY TRANSFORMATION

OPERATING MODEL ENHANCEMENT AND ORGANIZATIONAL RESTRUCTURING

- Workforce Effectiveness
- Organizational Right-sizing

M&A

- Carve-outs & Divestments
- Post-merger Integration
- Target Due Diligence

DIGITAL TRANSFORMATION

- Process Automation
- Tech Modernization
- Cloud Migration
- Cybersecurity

CASH MANAGEMENT

WORKING CAPITAL IMPROVEMENT

- Payment Terms Optimization
- O2C/P2P Process Improvement
- Inventory Planning and S&OP
- Collections Management

CASH FLOW FORECASTING

- 13-week and 26-week Cash flow Forecasts
- Creditor Negotiations

ZERO-BASED BUDGETING

- Business Plan Validation

ABOUT ALIXPARTNERS

For more than forty years, AlixPartners has helped businesses around the world respond quickly and decisively to their most critical challenges – circumstances as diverse as urgent performance improvement, accelerated transformation, complex restructuring and risk mitigation.

These are the moments when everything is on the line – a sudden shift in the market, an unexpected performance decline, a time-sensitive deal, a fork-in-the-road decision. But it's not what we do that makes a difference, it's how we do it.

Tackling situations when time is of the essence is part of our DNA – so we adopt an action-oriented approach at all times. We work in small, highly qualified teams with specific industry and functional expertise, and we operate at pace, moving quickly from analysis to implementation. We stand shoulder to shoulder with our clients until the job is done, and only measure our success in terms of the results we deliver.

Our approach enables us to help our clients confront and overcome truly future-defining challenges. We partner with you to make the right decisions and take the right actions. And we are right by your side. When it really matters.

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