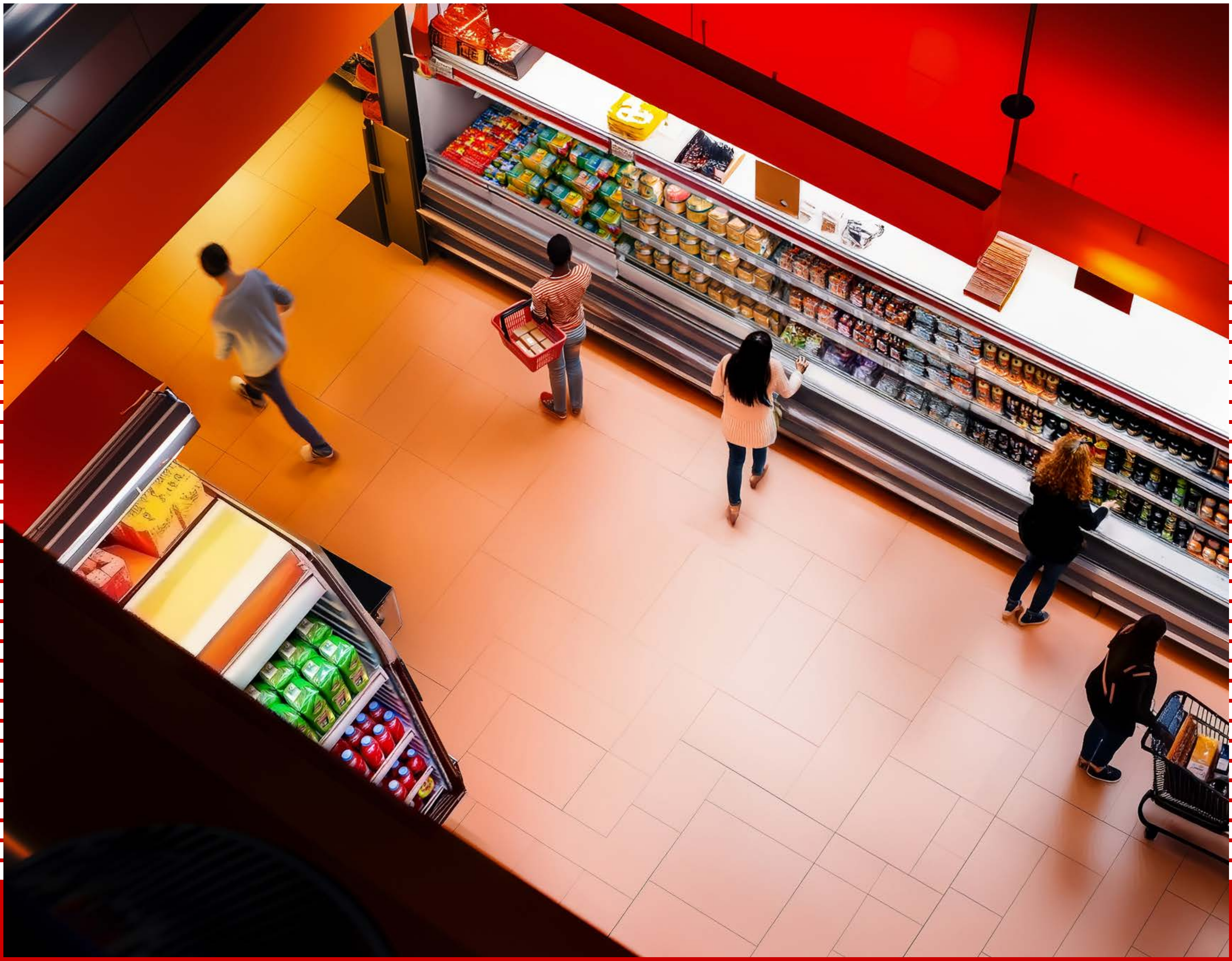

Consumer Products Report 2025: Reclaiming Relevance in the Gen AI Era

With inflation no longer clouding the agenda, CPGs must meet the moment.

Authors and acknowledgments

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At a Glance

- Global sales of consumer products grew more slowly in 2024 as unsustainable price increases ran their course and volumes only picked up modestly.
- Amid a steep drop in shareholder returns, CPGs urgently need to regain lost ground and accelerate their digital transformation.
- CPGs can do this by rethinking their growth algorithm, reinventing themselves to achieve continuous productivity gains, and redefining an AI-led and technology-driven model.

For consumer packaged goods companies, 2025 is shaping up to be a year of strategic clarity. To the CPGs that take bold action, it offers renewed hope of reinvention.

These conclusions from Bain & Company's second annual *Consumer Products Report* might seem counterintuitive. After all, executive teams began the year facing considerable uncertainty. Geopolitical instability threatens to undermine supply chains and increase regulatory complexity. Consumer behavior is in flux amid economic hardship, fragmenting needs, and volatility from trends such as the rise of weight-loss jabs.

That isn't the whole picture, though. Crucially, performance distortions created by rampant inflation have now largely cleared. The growth challenges emerging in even sharper definition are substantial. That's undeniable. But the continued pressure on both sales and profit can no longer be seen as a potential blip. It's becoming clear that some CPGs are currently ill-adapted to the new normal.

This heightened clarity is one reason why the stage is set for CPGs to rewrite their growth playbooks and reclaim their relevance with consumers. The rising importance of technology—including generative AI—offers them more cause for cautious optimism. Leading CPGs have the scale needed to pull off the big technology bets that can truly transform consumer experience and create a renewed edge in the gen AI era.

At Bain, we believe that growth is still very achievable for both incumbents and insurgents in the consumer products sector. A CPG that turbocharges the portfolio it has today while transforming itself for tomorrow can seize opportunities in 2025 and beyond.

The 2024 growth scorecard

A year ago, we highlighted how CPGs needed to reset their growth agenda, having become too reliant on price increases. That dependence eased a little in 2024 as inflationary distortions abated. However, amid ongoing weakness in consumer confidence, the task of restoring profitable, volume-led growth remained very much unfinished as the industry entered 2025.

Amid ongoing weakness in consumer confidence, the task of restoring profitable, volume-led growth remained very much unfinished as the industry entered 2025.

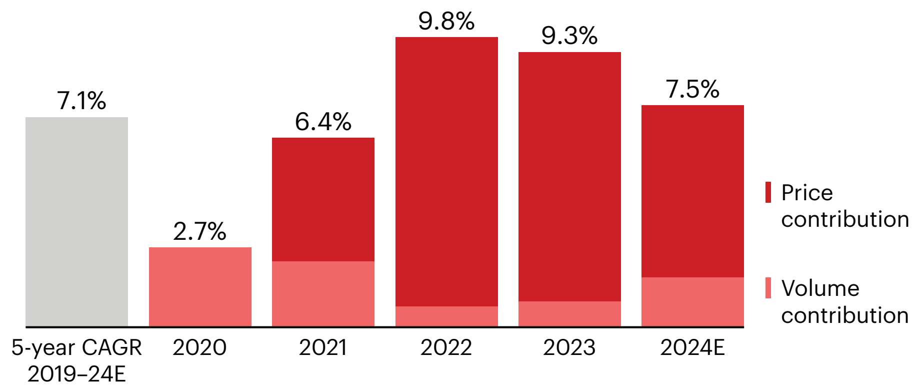
Globally, retail sales value for the consumer products industry—spanning food, beverages, and household and personal care products—is estimated to have risen 7.5% year over year to $7.5 trillion in 2024, down from 9.3% growth in 2023 and 9.8% growth in 2022 *(see Figure 1)*. About three-quarters of 2024's sales growth is likely to have come from price increases rather than volume gains. That's healthier than in 2023, when the figure was 90%, but still more unbalanced than pre-Covid norms. With limited room for further price increases, it's likely that volumes still have a long way to go before overall sales growth trends upward again.

The slowdown in sales growth in 2024 was felt across categories, although it was more pronounced in food and nonalcoholic beverages, which were lapping very high price increases in 2023.

In developed markets, sales growth for consumer products dropped from 7.7% in 2023 to 4.5% in 2024, with disappointingly flat volumes despite more moderate price rises. The weaker growth reflected the cumulative

Figure 1: Industry sales growth slowed in 2024 amid smaller price rises and limited volume gains

Revenue growth for the consumer products industry



	2020	2021	2022	2023	2024E
YoY price growth	–0.3%	5.1%	10.3%	8.7%	5.9%
YoY volume growth	0.8%	2.8%	0.8%	0.9%	1.7%

Notes: Categories exclude consumer health and tobacco; alcoholic beverages and soft drinks data inclusive of both off-trade (retail) and on-trade (B2B) sales, for all other categories, data reflects off-trade sales only; revenue based on manufacturer selling price (MSP); price and volume based on retail selling price (RSP)
Sources: Euromonitor; Bain & Company

impact of many months of high inflation: Prices in the US and the European Union in late 2024 were more than 20% higher than in the first quarter of 2020. When Bain surveyed US and European consumers in October, cost of living was still their top concern; about 80% of respondents said they were cutting their spending.

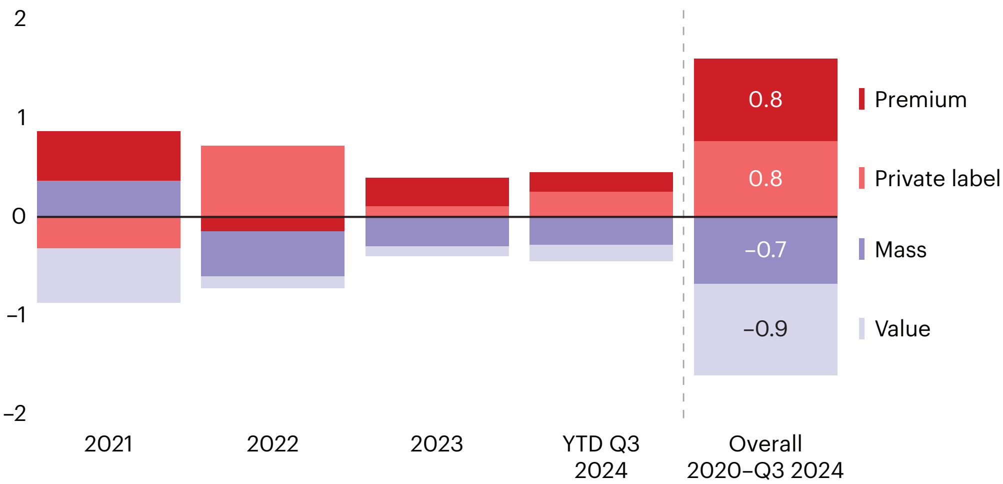
Facing baked-in inflation, US consumers focused their spending on products they felt offered the best value for money, whether that be from lower-cost private label or more highly differentiated premium segments, at the expense of the value and mass segments *(see Figure 2)*.

Emerging markets continued to be the biggest growth engine for consumer products *(see Figure 3)*. They posted an 11% year-over-year increase in retail sales value—broadly in line with recent years and more than twice the rate of developed market growth in 2024. The 3% volume growth recorded in emerging markets—against a backdrop of smaller price increases—equated to almost all the volume growth recorded by the consumer products industry globally.

The double-digit emerging market sales growth was achieved despite slower-than-expected growth in the key markets of China and India. In China, frail consumer confidence combined with extreme price competition in online channels to create persistent deflationary pressure that tempered continued volume growth for consumer products. In India, sales growth was slower than expected yet still relatively robust amid muted demand.

Figure 2: In the US, premium and private label products won market share again, as mass and value struggled

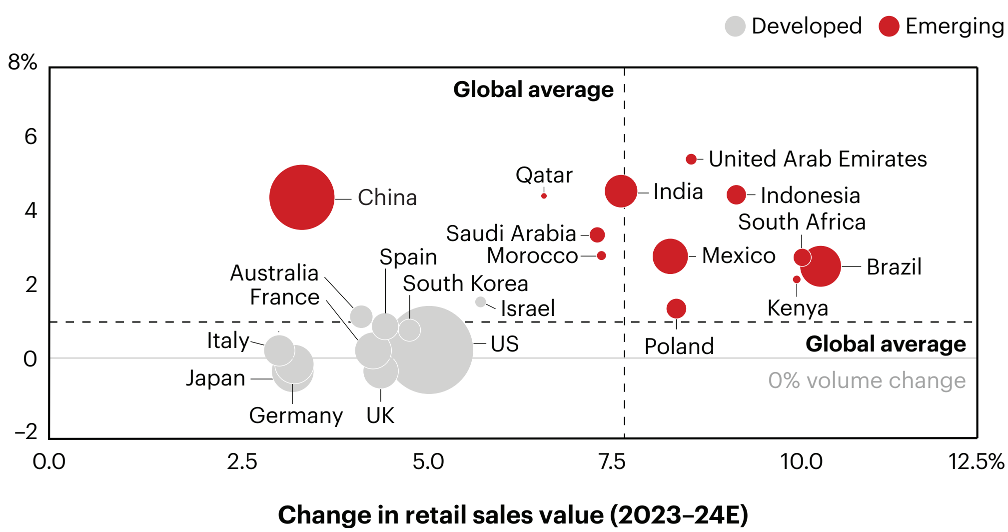
Year-over-year change in US consumer products market share, percentage points



Note: Brands with base year price greater than 2x the median price have been categorized as "premium," brands with base year price less than or equal to 0.5x the median price have been categorized as "value," and the rest are categorized as "mass"
Sources: Nielsen IQ; Bain & Company

Figure 3: Emerging markets once more accounted for most volume growth in 2024

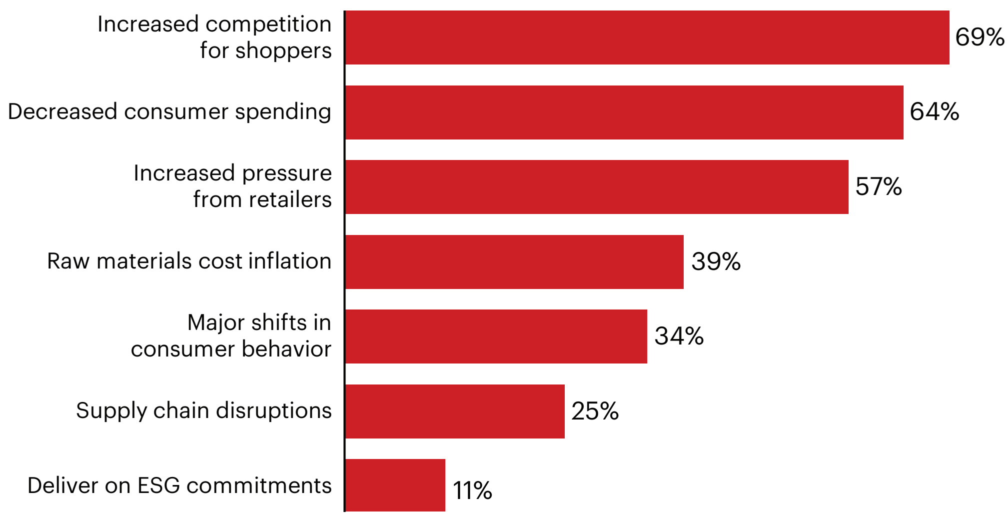
Change in volume (2023–24E)



Notes: Percentage change in volume is calculated as weighted average; for India, percentage change in retail sales value and volume are based on two-year compound annual growth rate to September 2024; retail sales value in USD based on fixed exchange rate
Sources: Euromonitor; Bain & Company

Figure 4: Competition for shoppers has supplanted input costs as the top industry concern

Share of executives selecting as a top three challenge in 2025



Source: Bain Consumer Products Annual Report Executive Survey, September 2024 (n=96)

The modest rebalancing of growth away from price increases in 2024 reflected an easing of the input cost pressures that had been pushing prices ever higher. As some (but not all) commodity costs eased, there was a marked change of focus in the C-suite. In our previous report, where we asked consumer products executives what the biggest external challenges had been in 2023, the high cost of raw materials headed the list, having been cited by more than 80% of respondents. Now, as executives look ahead, they rate input costs as only No. 4 on their list of preoccupations. Instead, the biggest challenges for 2025 cited by executives in our survey are increased competition for shoppers, decreased consumer spending, and increased pressure from retailers *(see Figure 4)*.

Top CPGs are under pressure

The challenging dynamics of 2024 have placed disproportionate pressure on the biggest CPGs. As inflation recedes, it's clear that the old large-scale CPG growth model is not fully fit for the new normal that's emerging.

In the first half of 2024, the top 50 CPGs by revenue globally only posted 1.2% year-over-year revenue growth. In the US, as top CPGs' growth stalled, insurgents captured about 40% of the overall growth in consumer products in the first half of 2024, a hugely outsized gain relative to their market share.

While the full profit picture for 2024 is yet to emerge, top CPGs globally appear to have improved their earnings before interest and taxes margin in the first half, aided by lower input costs. However, EBIT margins remained lower than pre-Covid levels due to ongoing pressure from supply chain volatility affecting some raw materials and the upward trend in selling, general, and administrative (SG&A) spending.

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Meanwhile, the technology ecosystem is evolving at an unprecedented pace, demanding visionary leadership and further investment to keep pace. However, early indications suggest that CPGs remain in a wait-and-see posture that could cause them to fall further behind. Bain surveys have found that 84% of executives in other non-tech industries count generative AI among their top five priorities, while only 37% of CPG executives do.

Challenged performance and uncertainty about sources of future growth have not gone unnoticed by public markets. The five-year annualized shareholder return for the largest CPGs by market capitalization fell by more than half versus the prior period *(see Figure 5)*. This decline reflected lower margins and weaker multiples as investors discounted the sustainability of price-driven growth.

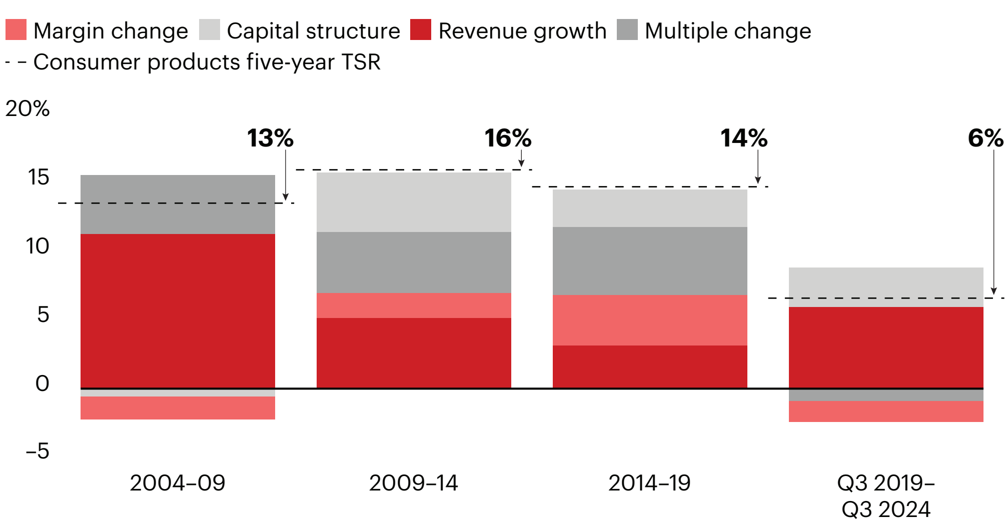
The declining returns offered by these top CPGs have led them to fall behind other consumer-facing sectors on total shareholder return (TSR), particularly those that have done a much better job of adopting digital technologies to transform their business models and optimize customer impact, such as tech, financial services, healthcare, and retail *(see Figure 6)*.

Top CPGs are also contending with a number of key trends that will increasingly shape tomorrow's consumer products landscape:

New shifts in consumer behavior. Emerging trends are poised to deepen. One is the increased concern about ultra-processed foods: 50% of consumers say they want to eat less processed and ultra-processed food. Similarly, the use of GLP-1 weight-loss medications leads to significant changes in consumer behavior that often persist even after consumers stop taking them (see the Bain snap chart "Weight-loss Drugs Aren't Just Changing Waistlines"). Profound shifts will also emerge where changing consumer behavior combines with macro trends such as migration, the redefinition of family units, and aging populations (see the Bain Consumer Lab research *Beyond Trends: Eight Consumer Economies of the Future*).

Figure 5: Investors in CPGs have seen their five-year return fall by more than half amid weakening margins and multiples

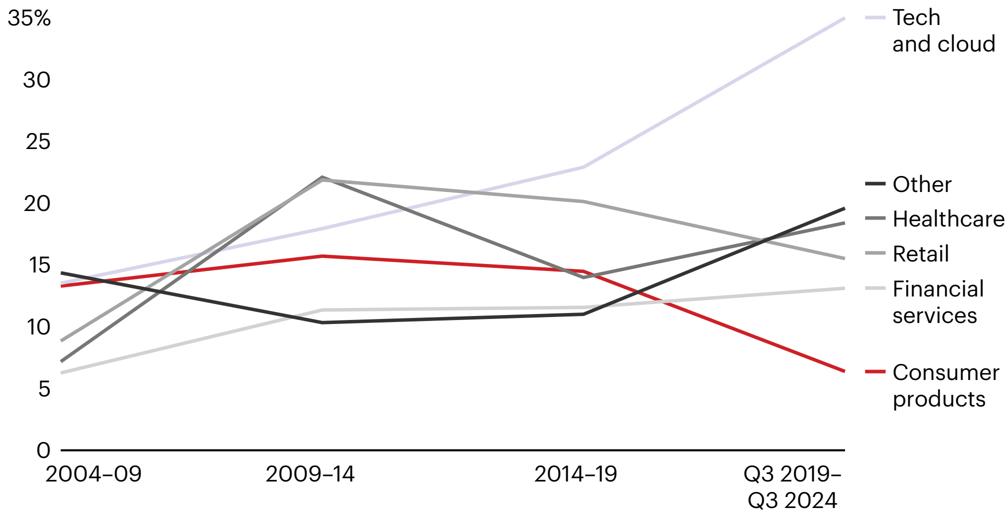
Annualized total shareholder return for big CPGs by source



Note: Analysis represents results for CPGs present in the top 2,000 public companies by market capitalization across sectors during a given period (typically between 50 and 70 CPGs based on data availability)
Sources: S&P Global Market Intelligence; Bain & Company

Figure 6: Returns from consumer products lag those of more digitally transformed sectors

Annualized total shareholder return by sector



Notes: Based on analysis of top 2,000 global companies by market capitalization as on the last date of each end period based on data availability, categorized by industry (including approximately 50–70 consumer products companies based on data availability in each period); other includes advanced manufacturing and services, services, energy and natural resources, and communication and media sectors
Sources: S&P Global Market Intelligence; Bain & Company

Fragmentation of the global economy. The shifting power balances and resulting fragmentation of global markets will be another disruptive variable for top CPGs. Greater protectionism may spark conflicts and more supply chain uncertainty—in addition to the raw material cost increases and general disruption already being caused by climate change. CPGs may need to navigate a post-globalization patchwork of clashing regulations and tariffs, adjusting their local business models to cope (see the Bain Brief "Tariffs: The Costs of Inaction").

The growing power of generative AI. Through the adoption of tools such as ChatGPT and Google AI Overviews, generative AI is already reshaping how consumers learn about, research, and engage with brands on their path to purchase. Adoption of AI could eventually accelerate the disintermediation of CPGs that remain rooted in old-school search advertising and don't learn quickly how to stand out in AI recommendations. Advanced retailers are already exploring the use of AI to streamline and tilt supplier negotiations in their favor.

The upheaval ahead offers opportunity as well as challenges. Bain research has shown that winners often pull away from the pack in periods of industry-wide turbulence by making bold, growth-oriented moves. In the next section, we suggest how CPG executive teams can address these challenges and build a lasting competitive advantage over the coming months.

An opportunity for reinvention

To win back investors, top CPGs must get the basics right, rediscovering volume growth to regain ground lost to smaller insurgents and local incumbents that have done a better job of appealing to consumers. They must also invest in productivity programs that improve margins and free up cash to support further investment in priority areas such as technology, advertising, and promotion. Crucially, to improve both their sales and profit momentum, top CPGs will need to build and scale digital tools that will allow them to operate more efficiently and effectively.

CPG leaders recognize the dire need to return to the fundamentals of strong performance. When we surveyed consumer products executives about their priorities for 2025, reducing costs and improving efficiency was No. 1, just as it was a year ago. Consumer-related investments such as marketing and premiumization are also high on the 2025 strategic agenda. However, to return to consumer-led growth, stronger multiples, and higher margins, CPGs need to do much more than optimize their existing operations and portfolios. To achieve that deeper transformation, they must:

- **rethink their sustainable growth algorithm,** by maximizing current profit pools through superior execution and making bold portfolio moves that expand categories or open up new profit pools;

- **reinvent themselves to achieve continuous productivity gains,** by simplifying today's portfolio and operations to generate growth and finding a distinctive focus for tomorrow's business; and

- **redefine an AI-led and technology-driven model,** by honing their ability to roll out value-generating digital tools at scale today and reimagining their entire business for tomorrow.

Crucially, these transformative efforts cannot be standalone items on a checklist. CPGs must reclaim consumer relevance by putting the consumer at the heart of their reinvention, ensuring that all their efforts—whether related to portfolios, capabilities, or evolving technology—outperform in serving consumer needs, today and tomorrow.

Rethinking the growth algorithm

Maximize current profit pools through superior execution. Nimble, consumer-focused insurgents and local challengers have shown that growth is still possible in consumer products. Our experience shows that CPGs can boost sales growth by 3 to 5 percentage points and gross margin by 200 to 300 basis points through a more granular, data-driven approach to marketing, sales execution, and revenue growth management. Even in more mature categories and markets, we see examples of better targeting of new consumers and occasions yielding strong results. For example, Kraft Heinz's Philadelphia posted 4% year-over-year sales growth in the US in the first nine months of 2024, while Beiersdorf's Nivea achieved 9% organic sales growth in Germany in the first half.

Expand categories or enter new profit pools through bold portfolio moves. In stagnating developed markets, winning CPGs will step-change innovation and M&A to expand categories or take the company into new profit pools. Successful examples include Mars' expansion from pet food into pet services and AB InBev's use of its distribution networks to create new B2B revenue streams. As once-globalized markets fragment, many CPGs will need a new global portfolio model to seize the formidable opportunities that still lie ahead in emerging markets, which are set to account for about three-quarters of industry growth by 2028. In some cases, that new emerging markets model will involve more reliance on homegrown innovation and talent, as well as local partnerships. Rigorous scenario planning across trade flows, tariffs, and supply chains will be key as post-globalization takes hold, as will deeper commitment to digital technology across emerging markets.

Reinventing for continuous productivity gains

Simplify today's portfolio and operations to generate growth. With volumes barely growing overall, companies need to find savings to fund growth initiatives and absorb any overruns from once-in-a-generation digital investment programs. Two-thirds of the CPG executives we surveyed said productivity was a top three priority for 2025. Yet current efficiency plans may not generate the savings needed to stimulate consumer demand and create a funding buffer for digital transformation. The solution is a consumer-centric approach that, with the aid of digital tools and AI, simplifies SKUs, supply chain operations, and overheads wherever possible, keeping complexity only where it benefits the consumer. In our experience, reducing SKU complexity can increase sales growth by 2 to 5 percentage points and margins by 100 to 400 basis points.

Find a distinctive focus for tomorrow's business. Simplification alone won't be enough. Many large CPGs are being held back by structural encumbrances such as supply chains built for another era and slow-growing assets in fading categories. Further deglobalization is likely to increase the urgency for addressing this legacy. CPGs need to identify where scale remains beneficial and where a lighter footprint could boost performance. Successful CPGs will reinvent themselves by reallocating resources toward assets that provide a distinct competitive advantage while ruthlessly streamlining noncore activities through divestment, outsourcing, or new partnership models (see the Bain *Global M&A Report 2025*).

Redefining an AI-led and technology-driven model

Scale to accelerate. Advances in enterprise resource planning (ERP) and AI are reshaping what digital technology can do. For many CPGs, this creates a once-in-a-lifetime chance to achieve a technology-fueled transformation. Our survey of CPG priorities for 2025 shows a mounting recognition of that opportunity: We saw a 24-percentage-point surge in the proportion of executives prioritizing AI and other new data capabilities, while strengthening technology foundations has become another C-suite preoccupation.

Aided by new tools, CPGs can boost sales through data-driven initiatives in areas such as personalization and "perfect store" sales execution, as well as next-generation marketing mix models. AI pilots show strong potential to unlock big savings by automating content creation in marketing and streamlining supply-chain and back-office processes. Whether pursuing top-line or bottom-line goals, executive teams need to build a repeatable capability to scale up successful pilots quickly. Many CPGs must also figure out how to connect tech rollouts to their larger financial goals. For instance, according to our survey, even though 90% of CPG executives said their organization is thinking about AI uses, only 6% said they had a plan for using AI to create business value.

Reimagine the business. Tomorrow's winners will embrace a digital and AI-led business model that brings them closer to consumers and creates industry-leading efficiencies in areas such as media spending and the most complex workflows. A deeper connection to consumers is crucial to head off the disintermediation threat posed by AI being used in purchase decisions by shoppers, potentially shutting out brands. That intimacy can be achieved by reinventing existing capabilities (e.g., through hyper-personalizing marketing and using consumer data more holistically) and staking out territory in new ecosystems (e.g., by taking an active role in automated meal planning and shopping innovations that might otherwise exclude CPGs).

Executive teams will need a clear, integrated, and flexible digital roadmap. Successful CPGs won't be impeded by perfectionism; they'll build cohesively toward big bets via near-term digital uses, while always testing and learning. Crucially, they'll draw on their existing scale advantages and their unique capabilities and assets to carry out a total business reinvention—across data, technology, and talent.

Improved visibility and new digital possibilities

The uncertainty during the last five years has been a real test for the consumer products industry, demanding immense resilience across the whole organization, from executive teams to frontline employees. With greater visibility and accelerated adoption of digital tools, 2025 will offer the sector an opportunity to reclaim relevance with consumers while navigating the challenges that lie ahead. For those CPGs ready to embrace the opportunity, this is the time to sharpen strategic agendas and make confident choices in order to thrive in the gen AI era.

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