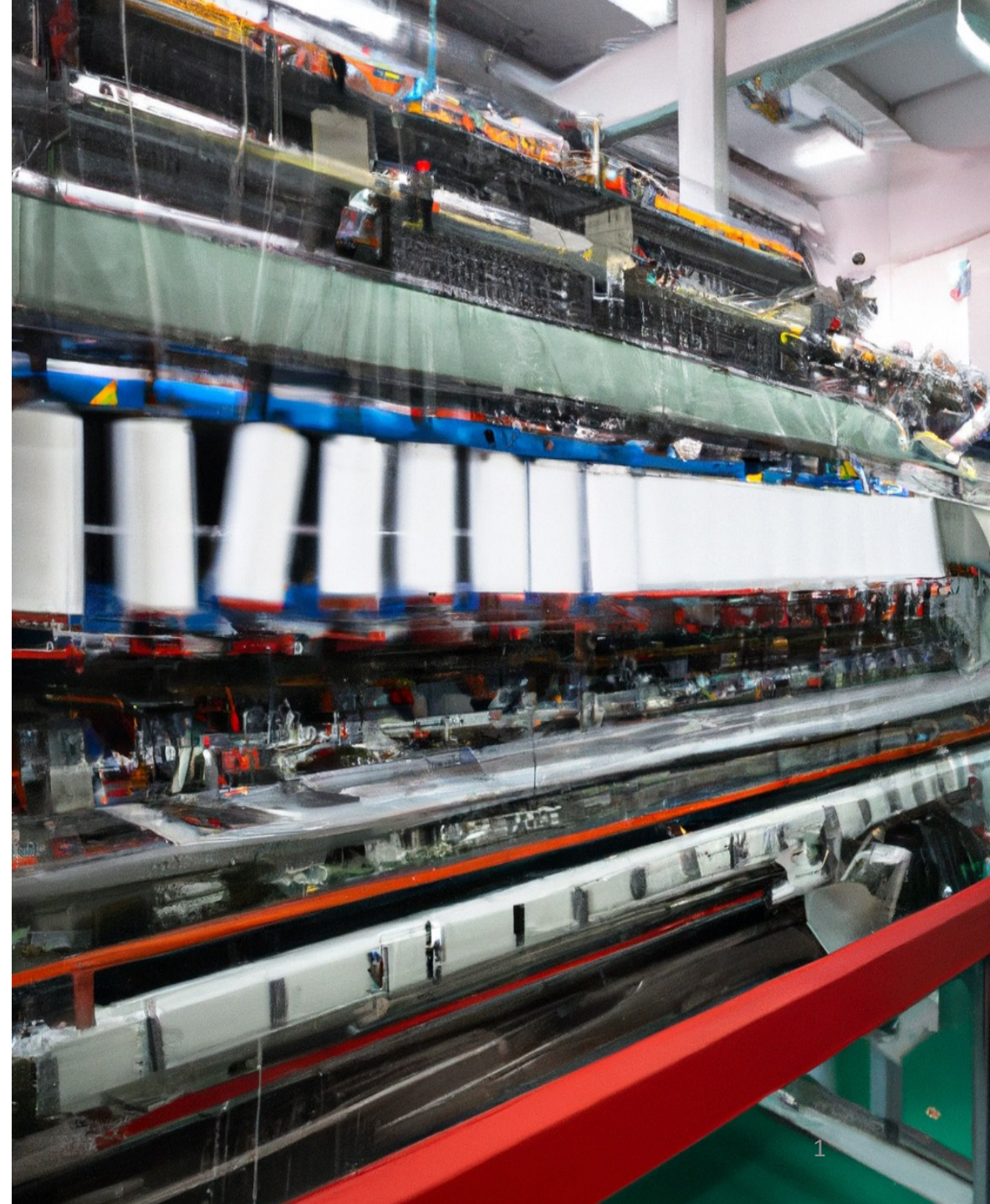


# Point of View: 2023 CPG Industry Market Trends

*Focus on Food Distribution and Textile & Apparel  
Industries in the U.S.*

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# U.S. CPG Industry: 2023 Key Trends & Challenges

Key challenges in the overall CPG industry is an effect of responding to macroeconomic conditions

## Labor



- **Layoffs spark:** The labor challenge is likely being aided by expectations of a deteriorating economy and subsequent effects on the labor market. The conversation shifted from the Great Resignation to talk of layoffs in other sectors spilling into consumer products.

## Supply Chain



- **Supply chain operations:** Supply chain improvements from the height of the pandemic disruption, but it still rates as a top concern among industry executives.
- **Stocking Strategy:** The CPG industry is still adapting to large shocks and new ways of thinking. Almost half of companies think just-in time as a supply chain strategy will need to be replaced. Trend across CPG companies is to shorten their supply chains to de-risk supply shortage.
- **Supplier Nearshoring:** 2023 brought more nearshoring. Companies are actively preparing for nearshoring by their manufacturing clients, while another third are exploring what action they should take to accommodate a shift

## Inflation



- **Inflation Causes:** Supply chain issues and shifting consumer behavior from goods to services during the pandemic led to inflation. Consumers now returning to services, reducing goods spending.
- **War Impact:** Global grain and fertilizer markets hit hard by Ukraine-Russia reliance. Production and distribution problems raised food prices. Fertilizer shortage suggests prolonged price rise.
- **Responses:** Central banks combat inflation. 80% of firms plan 2023 price hikes, 83% expect higher revenue. Sales growth tough, margins challenged due to inflation. CPG firms predict stable or lower margins this year.
- **Volume Cutbacks:** CPG firms foresee higher input costs (grain, plastic, fabric, packaging) in 2023. Costly inputs might force reduced production, affecting economics on fixed cost base.

## Sustainability



- **Sustainability Data:** Rise in the need for supply chain data to meet sustainability reporting or other regulatory or safety objectives continues to expand. Executives agree that sustainability needs the same rigor as financial reporting. But only 3% of consumer companies say they can produce sustainability data that is as accurate and verifiable as their financial data, mainly due to the need to account for third-party suppliers (i.e., Scope 3 emissions) Food Safety Modernization Act (FSMA) Rule 204 may constitute the most substantial food traceability requirements in decades.



# Food distributions Industry Key Growth Factors and Challenges

According to Statista, the market size of the food distribution industry in the U.S. is estimated to be \$974.3 billion in 2023. The industry is expected to grow at a compound annual growth rate (CAGR) of 3.78% from 2023 to 2028.

## KEY GROWTH FACTORS

01

### Increasing popularity of online grocery shopping

Online grocery shopping is becoming more popular, which is creating opportunities for food distributors

02

### Growing demand for foodservice

The demand for foodservice is growing, as more people are eating out

03

### Changing Customer Preference

Consumers are increasingly demanding healthier, more sustainable, and convenient food products

04

### Population Growth

The U.S. population is expected to grow by 0.7% in 2023 and 0.8% in 2024. This growth will create demand for more food

## KEY CHALLENGES

01

### Rising Costs

Food distributors are facing rising costs for raw materials, labor, and transportation

02

### Competition

The food distribution industry is becoming increasingly competitive, as new entrants enter the market

03

### Regulations

The food distribution industry is subject to a variety of regulations, which can be costly to comply with

04

### Food Safety

The food distribution industry is responsible for ensuring the safety of the food supply, which can be a challenge

# Key Deals in the Food Distribution Industry

According to Crunchbase, the size of the investment deals in the food distribution industry in 2022 was \$40 billion. This includes both venture capital (VC) and private equity (PE) deals.



- In January 2023, **McLane Company, LLC**, a foodservice distributor, acquired **Associated Wholesale Grocers, Inc. (AWG)**, a wholesale grocery cooperative, for **\$2.9 billion**. The deal will create one of the largest foodservice distributors in the United States.
- In February 2023, **Sysco Corporation**, a foodservice distributor, acquired **FoodPro**, a foodservice distributor in the Midwest, for an undisclosed amount. The deal will expand Sysco's reach in the Midwest.
- In March 2023, **United Natural Foods, Inc.**, a food distributor, acquired **FreshDirect**, an online grocery delivery service, for **\$1.3 billion**. The deal will allow United Natural Foods to expand its reach into the online grocery delivery market.
- In April 2023, **Wakefern Food Corporation**, a supermarket cooperative, acquired **Gourmet Garage**, a specialty food retailer, for an undisclosed amount. The deal will allow Wakefern to expand its reach into the specialty food market.
- In May 2023, **SpartanNash Company**, a food distributor, acquired **Unified Groceries Cooperative, Inc. (UGC)**, a food cooperative, for **\$2.1 billion**. The deal will expand SpartanNash's reach in the Midwest.

2022

The largest deal in the food distribution industry in 2022 was the acquisition of **FreshDirect** by **Apollo Global Management** for **\$1.3 billion**

- The acquisition of **SpartanNash** by **BDT Capital Partners** for **\$1.1B**.
- The acquisition of **KeHE Distributors** by **Clayton, Dubilier & Rice** for **\$7.3B**.
- The acquisition of **United Natural Foods** by **EG Capital Partners** for **\$5.7B**.
- The acquisition of **Spartan Stores** by **NorthPoint Acquisition Corp.** for **\$2.1B**.
- The acquisition of **Wakefern Food Corp.** by **BDT Capital Partners** for **\$1.9B**.



# Textile and Apparel Industry Key Growth Factors and Challenges

The market size of the textile and apparel industry in the U.S. is estimated to be \$344 billion in 2023. The industry is expected to grow at a compound annual growth rate (CAGR) of 1.96% from 2023 to 2027.

## KEY GROWTH FACTORS



01

### Increasing demand for comfortable and stylish clothing

Driven by the rise of athleisure and the increasing popularity of casual wear



02

### Growing popularity of online shopping

Creating opportunities for textile and apparel companies to reach a wider audience.



03

### Growing demand for sustainable clothing

Driven by concerns about the environmental impact of the fashion industry.



04

### Growth of the global economy

Creating new opportunities for textile and apparel companies to expand into new markets

## KEY CHALLENGES



01

### Rising cost of raw materials

Cost of cotton and polyester, is rising. This is putting pressure on margins for textile and apparel companies



02

### Competition from fast fashion

Fast fashion retailers can produce and sell clothing at a much faster pace than traditional retailers. This is putting pressure on traditional retailers to compete on price



03

### Volatility of the fashion industry

Being a cyclical industry, there are periods of growth and periods of decline making it difficult for textile and apparel companies to plan for the future.

# Key Deals in the textile and apparel Industry

According to Crunchbase, the size of the investment deals in the textile and apparel industry in 2022 was \$11.4 billion. This includes both venture capital (VC) and private equity (PE) deals



2023

2022

The largest deal in the textile and apparel industry in 2022 was the acquisition of Onward Luxury Group by L Catterton Partners for \$3.1 billion

| Month    | Acquiring Company         | Acquired Company | Amount of Deal |
|----------|---------------------------|------------------|----------------|
| January  | PVH Corp.                 | Outerknown       | Undisclosed    |
| February | VF Corporation            | Altra Running    | \$850 million  |
| March    | Authentic Brands Group    | Brooks Running   | \$800 million  |
| April    | Lululemon Athletica, Inc. | Mirror           | \$500 million  |
| May      | Gap Inc.                  | Athleta          | \$1.6 billion  |

| Acquiring Company       | Acquired Company    | Amount of Deal |
|-------------------------|---------------------|----------------|
| L Catterton Partners    | Onward Luxury Group | \$3.1 Billion  |
| General Atlantic        | Allbirds            | \$1.9 Billion. |
| SoftBank Vision Fund 2  | Rothy's             | \$1.2 Billion  |
| Sequential Brands Group | Bombas              | \$225 million  |
| Authentic Brands Group  | Everlane            | \$275 million  |
| Gap Inc                 | Outdoor Voices      | \$750 million  |



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# CPG Industry Investment priorities

A clearer picture emerges from where profitable Mid and Large Cap growth companies invest their attention and financial resources.  
Tracking their priorities and investments;

## Embracing the Changing Consumer

- CPG companies enhance consumer proximity via substantial digital investments for better engagement, like virtual try-ons and AI product recommendations.
- Some optimize sales and customer value with real-time predictive analytics. Direct-to-consumer (DTC) and safeguarding data are priorities for growth. DTC struggles at large brands.
- Balancing B2B and retail is tough. Invest more in innovative products using digital data. Profitable firms focus on premiumization for added consumer value and price justification.

## Going for Market Share

- Companies view the challenging business landscape this year as a chance to boost market share, enhancing unit volumes and scaling opportunities.
- Pricing strategies include staying competitive, utilizing promotions, and potentially undercutting rivals.
- Companies not expecting profit growth face rising input costs. Share growth focuses on emerging markets and innovation. Major divergences occur in marketing (digital included) and acquisition expansion



## Prioritizing ESG

Companies prioritize ESG objectives. High performers invest in reusable packaging, deforestation prevention, sustainable palm oil, and climate-smart farming.

Profitable firms excel in ESG reporting, correlating with sustainability progress. DEI investments aid profitable growers, freeing them from top talent emphasis (-30% vs. all others). Economic decline might challenge these priorities, as willingness to pay sustainability premiums wanes.

## Creatively Transforming

- Two-thirds are transforming through divestitures and portfolio optimization. Creative options include partnerships with private equity for external operation. Some brands might form private equity funds for such deals.
- Profitable CPG firms embrace unique vertical integration, offering flexibility amid turbulence. While not without downsides, it bolsters control, supply, and margin protection. Ratings agencies credit integration for meat companies' success, improving efficiency and price stability. Fashion industry research shows backward integration enhances data and product claims.

## Driving Data through supply Chain

- Nearly all companies prioritize supply chain enhancement, with over 90% investing in operational excellence and moving beyond just-in-time strategies.
- Profitable firms excel in supply chain data investment and sharing with partners and consumers. This data fuels smart labels, enhances coordination, and meets traceability needs. Enhanced capabilities include assessing carbon footprints (79%, +38% higher) and ethical practices (89%, +25% higher).
- Leading financial performers introduce innovative product labeling driven by supply chain data.





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