



2022

# Retail Buyer Report

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# Introduction

The last few years have been nothing short of interesting. Two years of the global pandemic has caused customers and retailers alike to shift behaviors and adapt to a new kind of marketplace and way of living. Labor and supply shortages introduced supply chain disruptions, exposing holes in the overall system. E-commerce is thriving and demand for consumer-packaged goods (CPG) continues to boom. Retail buyers and compliance programs have increased their requirements and fines to fight an abundance of stockout issues nationwide. Every player in the market must rethink their operations. And there is no sure way to predict what will happen from one day to the next.

The result of all of this? The greatest opportunity to capture and expand retail shelf space in CPG history.

Not only does the condition of the market make it difficult for brands to get goods into stores on time, but it is also costing retailers a lot of money. Recent data from the National Bureau of Economic Research reported stockouts reached up to 20% last year, compared to an average rate of 8% pre-pandemic.<sup>1</sup> That totaled \$82 billion in missed CPG sales during 2021.<sup>2</sup> We are still seeing extremely picked over stores and empty shelves nationwide in early 2022.

This ever-changing market requires us to look at the past year and consult experts to understand what we can expect in 2022. This report will detail the industry outlook, data collected from Zipline Logistics' network of 900+ retail buyers, and the opportunity available for brands ready to optimize their supply chain.



“Brands are presented with the greatest opportunity to capture and expand retail shelf space in CPG history.”

# 2022 Industry Outlook

Retail and grocery will certainly never be the same heading into year three of the global pandemic.



## COVID-19

Unfortunately, COVID-19 will continue to play a huge role in the market and our lives in 2022. Even with widespread vaccines and safety protocols, public health officials are predicting the virus will switch from a “pandemic” classification to an “endemic” classification soon. “Pandemic” means a disease outbreak will have an end, whereas “endemic” means the disease is here to stay forever, to some degree. This means COVID-19 is likely to become like our flu: different mutations and variants will continue to emerge on an unpredictable basis.<sup>3</sup>

Until it becomes widely accepted as our new normal, all players in the market must continually evaluate customer behavior and adapt their strategies and offering accordingly.



## CONSUMER DEMAND

COVID-19 surged new levels of demand for consumer-packaged goods that have not quite peaked, according to industry experts. Deloitte’s 2022 Retail Industry Analysis reports that 86% of retail executives expect growth in sales this year. However, recent data suggests consumers priorities may be shifting: 33% of consumers report they are spending more on experiences than possessions compared to a year ago.<sup>4</sup>

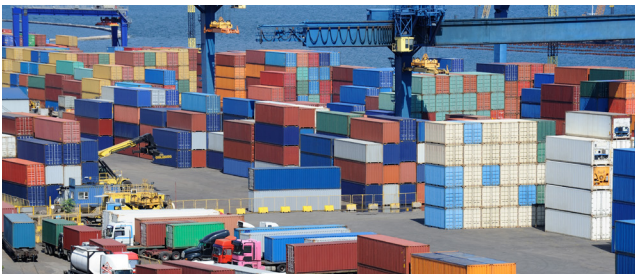
“86% of retail executives expect growth in sales this year.”



## CONSUMER SHOPPING BEHAVIOR

Online shopping is still booming, generating nearly \$1 trillion in 2021. However, brick and mortar stores will not be going away anytime soon with 84% of sales coming from physical stores. In 2022, non-e-commerce sales are projected to total over \$5.5 trillion.<sup>5</sup>

We can expect customer loyalty to continue trending down, with 80% of executives predicting consumers will prioritize stock availability over retailer loyalty in the upcoming year.<sup>4</sup> This means vendors must prioritize getting their products on shelves to stay competitive and turn a profit.



## CONDITION OF THE SUPPLY CHAIN

The condition of the supply chain is dependent upon all the aforementioned factors: fluctuations in coronavirus protocols and outbreaks, supply and demand, labor force participation, and how consumers decide to shop while navigating all these changes in the market. Although there is no way to truly predict how the year will unfold, experts say the supply chain will still be recovering from 2021's challenges deep into 2022.

We are still faced with both global supply and labor force shortages that will not fix themselves overnight. Increased order delays and stockouts will likely be around for the foreseeable future. To combat this, we may see companies increasing investment in automation and artificial intelligence to perform tasks. These automated tasks could be as easy as inventory counts or product restocking and as complex as self-driving trucking or analyzing workflows.<sup>6</sup>



## RETAIL BUYERS

After vendors have navigated all the challenges of the market and their product finally arrives in stores, there is still no guarantee their product is going to get priority on a shelf. This is thanks to retail buyers, who are responsible for planning, selecting, and purchasing goods and merchandise sold in retail stores.

To better understand how retail buyers make these decisions and how vendors can stand out in the competitive market, we surveyed our network of retail buyers. Data detailed in this report was obtained through a survey sent to 900+ retail buyers who belong to some of the biggest retailers in the game including UnFi, Costco, KeHE, Giant Eagle, and Target.

“We are still faced with both global supply and labor force shortages that will not fix themselves overnight. Increased order delays and stockouts will likely be around for the foreseeable future.”

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## IMPORTANCE OF COMMUNICATION AND MEETING ON-TIME DELIVERY

Communication and reliable fulfillment are the most important qualities buyers are looking for in their vendor relationships. In fact, 90% say a supplier's ability to deliver product on time impacts their purchasing behavior of that brand and 66% have ended relationships with suppliers over delivery issues.

Retailers have increased their expectations of brands' delivery performance to combat stockouts, slamming late arrivals with fines to improve timely delivery. Fees piling up are not the only problem brands face when they cannot meet expectations. One retail buyer told us, "If a supplier is out of product, it will be replaced with a competing brand."

Delays are inevitable in logistics, but how you communicate and work through them is make or break. Retailers want to work with the brands who give them the most visibility and transparency. 93% of buyers report having anywhere from 4 to 20 product choices within a given category – so there is nothing keeping them from booting a brand who does not offer this.



## IMPACT OF COVID-19

As previously stated, COVID-19 is only making things more challenging between labor force shortages and spending on consumer goods surging. 76% of buyers reported out-of-stocks in their category increased because of the pandemic. Historically, most buyers were seeing average out-of-stock rates below 6%, but more than half of our network saw this rate jump up to 11% or higher throughout the pandemic. Over half also said it impacted the number of competing brands in a category. "Out-of-stocks have pushed more variety per category which forces more competition and more congestion," one buyer said.

The big themes reported in this year's survey remain consistent with what we have seen in years past, but the aforementioned challenges brewing in the market have only made on-time delivery and communication that much more essential to win shelf space.

**"66% of retail buyers have ended relationships with suppliers over delivery issues."**

# Out-of-Stock Opportunity

Although the competition for shelf space can seem overwhelming, all that empty shelf space presents endless opportunities. That is, if vendors understand how optimized supply chains create value. Successful CPG shippers are those that invest in logistics and find partners that can execute against strict retail compliance requirements.

The table below demonstrates the amount of savings available to companies who understand that not all logistics partners are the same. Who you trust with your freight directly impacts on-time delivery performance. The industry average sits around 77%, whereas a quality partner like Zipline promises 95% of shipments end up on a retail shelf on-time and in-full.

## Out-of-Stocks and Your Gross Profit

How does on-time delivery performance effect your gross profit?

\*This example assumes your product has a 45% gross margin

Revenue	On-Time Delivery Performance	Gross Profit
\$1 Million	77%	<b>\$346,500</b>

Revenue	On-Time Delivery Performance	Gross Profit
\$1 Million	95%	<b>\$427,500</b>

**\$81,000 Gross Profit Opportunity**

Assuming a CPG brand generates \$1 million in annual revenue at a 45% gross margin, they can expect \$346,500 in gross profit when they partner with a broker focused on the number of transactional lanes they can score. These kinds of brokers are rate chasing just like the brands they service, putting quality and timely delivery on the backburner. They are not concerned with saving you money in the long run but are rather focused on their own bottom line.

Unlike other big-box brokers, Zipline Logistics takes a consultative approach when providing transportation and specializes in the delivery of consumer-packaged goods to the strictest retailers. At a 95% on-time delivery performance, Zipline can offer the same brand \$81,000 in transportation costs savings.

What companies might be saving up front by selecting a cheaper option quickly catches up to them when they add up late delivery fines, damaged or ruined goods, and the missed revenue they would make with their product having priority on the shelf.

Also important to note: CPG companies usually budget 7-9% of their gross profit toward transportation spend. For a \$1MM company, that's between \$70,000-and \$90,000. If they master on-time delivery, the \$81,000 in savings we talked about earlier completely or nearly covers that cost altogether.

# Importance of a Trusted Logistics Partner

2022 will be an especially challenging year to navigate for customers, vendors, and retailers alike. With so many factors at play and the unpredictable nature of the market, a trusted logistics partner will be key to ensuring your product gets on the shelf and your brand turns maximum profit.

Zipline Logistics is the only third-party logistics partner in North America exclusively servicing the consumer-packaged goods sector.

We offer all the necessary tools to help your brand meet on-time delivery, stay on retail buyers' good side, and get your product on the shelf:

- Only North American 3PL specializing in retail performance
- Comprised of retail and grocery transportation experts whose world-class customer service ranks five times in the industry average
- National network of 38,000 carriers familiar with retail facilities and the importance of on-time delivery
- 97% of our orders end up on a retail shelf
- Data-driven shipper intelligence tools for full visibility of freight and performance data
- 96% client retention rate



# References

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