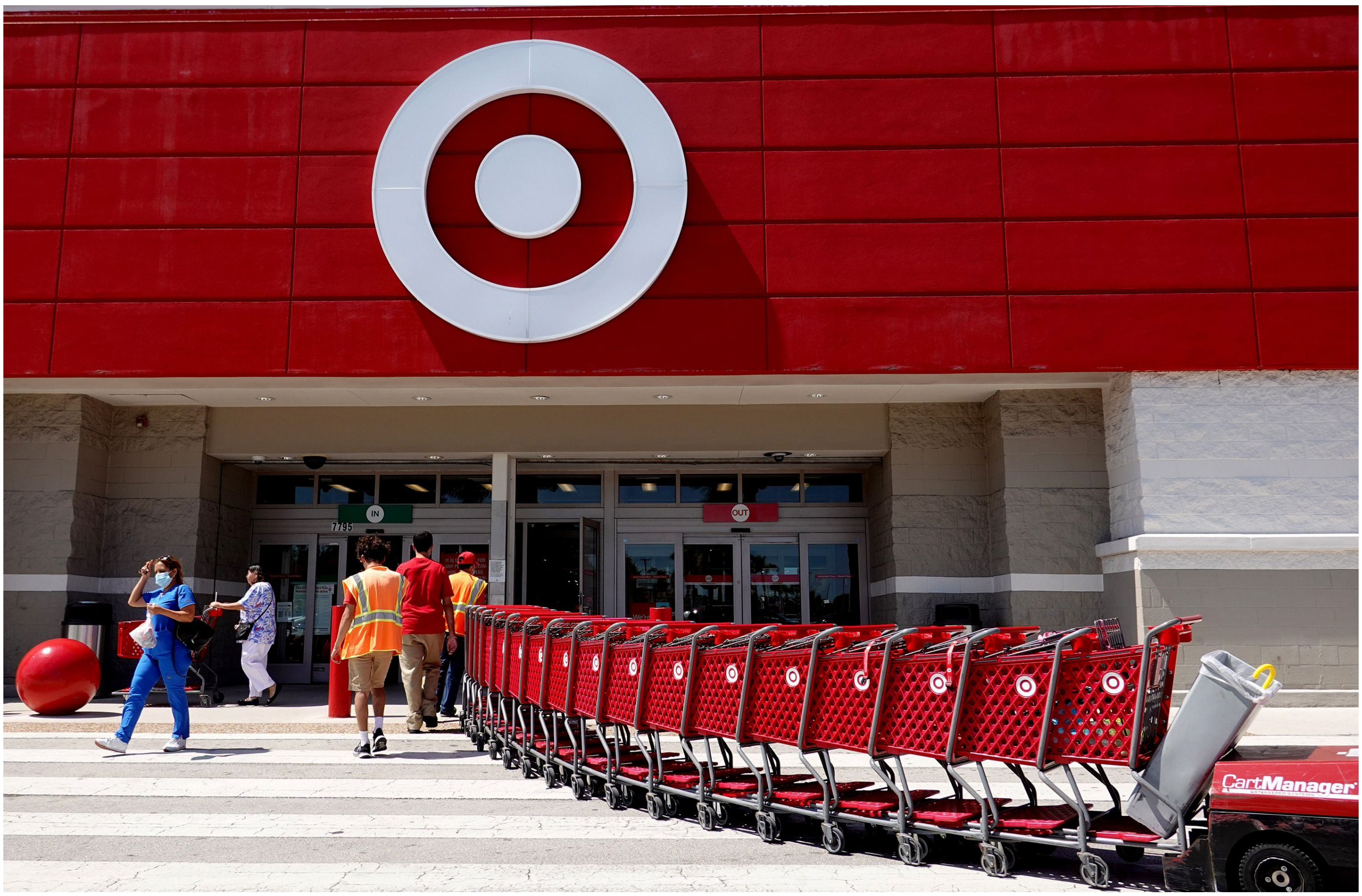
CPG specialist

What Target's Plan to Cancel Orders Means for CPGs

Brands may pull back their shipments, if the price isn't right.

By Shefali Kapadia | July 11, 2022



Carts are brought into a Target store on May 18, 2022 in Miami, Florida. (Photo by Joe Raedle/Getty Images)

After months of building inventory to hedge against stockouts, some retailers now face the opposite problem: what to do with a glut of supply.

In June, Target announced plans to "right-size its inventory," which included markdowns and cancellations of some orders.

The actions to right-size will continue for the rest of the year. So, what are the implications for food and beverage CPGs that supply Target?

Why Is Target Doing This?

Short answer:

Target has too much inventory after months of buying and needs to provide shelf space for the fastest-moving goods.

Longer answer:

The retailer needs to shed what it called "excess" inventory. As consumer demand ticked up, Target ordered goods to keep pace. Inventory in its most recent quarter was up by $4.5 billion YOY, a 43% increase.

Buying and stocking more goods was common practice among retailers last year. Walmart bumped up its inventory by 32% between Q1 2021 and Q1 2022. **Costco** increased its inventory by 26% during the same period.

There were two main reasons why stores bought more inventory, according to **Liza Amlani**, principal of **Retail Strategy Group** and **The Merchant Life**. One: They were afraid of factories shutting down mid-production, disrupting the flow of goods in the supply chain. And, secondly, they wanted to ensure items were in stock.

"You didn't want to have empty shelves," Amlani told CPG Specialist.

In general, there was significant volatility around supply and demand, and most retailers erred on the side of caution.

"The pandemic has created uncertainty for how much and when to buy products," **Manini Madia**, adjunct professor of marketing at **Columbia Business School**, said in an email.

But now, record-high inflation is pushing consumers to cut back on spending. Retail sales are beginning to slip, with May's sales lower than April's, according to the most recent data available from the Census Bureau. That puts Target and other retailers in a position where they need to hold inventory at ports, or lower the price of products on store shelves.

"You have to make room for newness," Amlani said. "You can't just keep building upon the same product assortment."

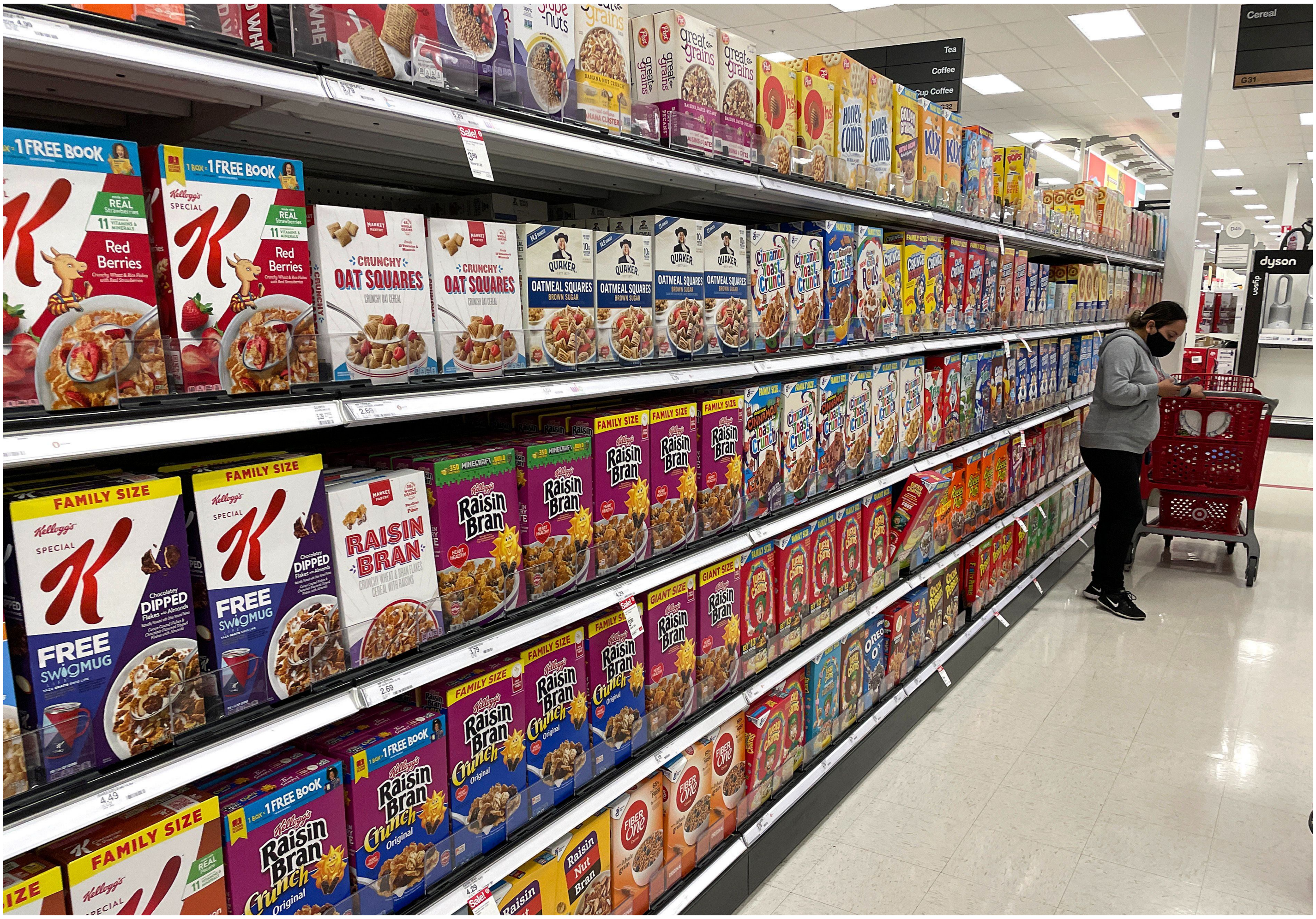
How Are Food & Bev CPGs Affected?

Short answer:

Food and beverage products will continue to be in demand, but Target may put more focus on its private-label brands.

Longer answer:

Food and beverage CPGs don't need to be too concerned about flat-out order cancellations, said **Telsey Advisory Group**'s **Joe Feldman**, senior managing director, assistant director of research and retail analyst.



After months of building inventory to hedge against stockouts, some retailers now face the opposite problem: what to do with a glut of supply.(Photo by Justin Sullivan/Getty Images)

That's because Target said it sees "continued strength" in areas such as household essentials, beauty, and food and beverage. Meanwhile, it's less bullish on discretionary categories such as home.

"Generally, consumables/essentials are selling," Feldman said via email.

U.S. retail and food service sales grew 8% YOY in May. And at Target, Q1 food and beverage sales have grown $1.8 billion over the last three years, **Christina Hennington**, chief growth officer at Target, said on a May earnings call.

Instead, the concern for food and beverage CPGs is how retailers will allocate shelf space and alter pricing for their own brands versus national ones.

"At the end of the day, the 'fire sale' is going to hurt branded product," Amlani said, referring to Target's right-sizing plan.

While the retailer values name brands for building a product assortment, private label is also a top priority for Target, Amlani said.

In 2020, the retailer's private-label brand **Good & Gather** became its No. 1 selling food brand, with revenue of more than $1 billion. Target expanded the brand with 600 new SKUs in 2020 and last year added a plant-based line.

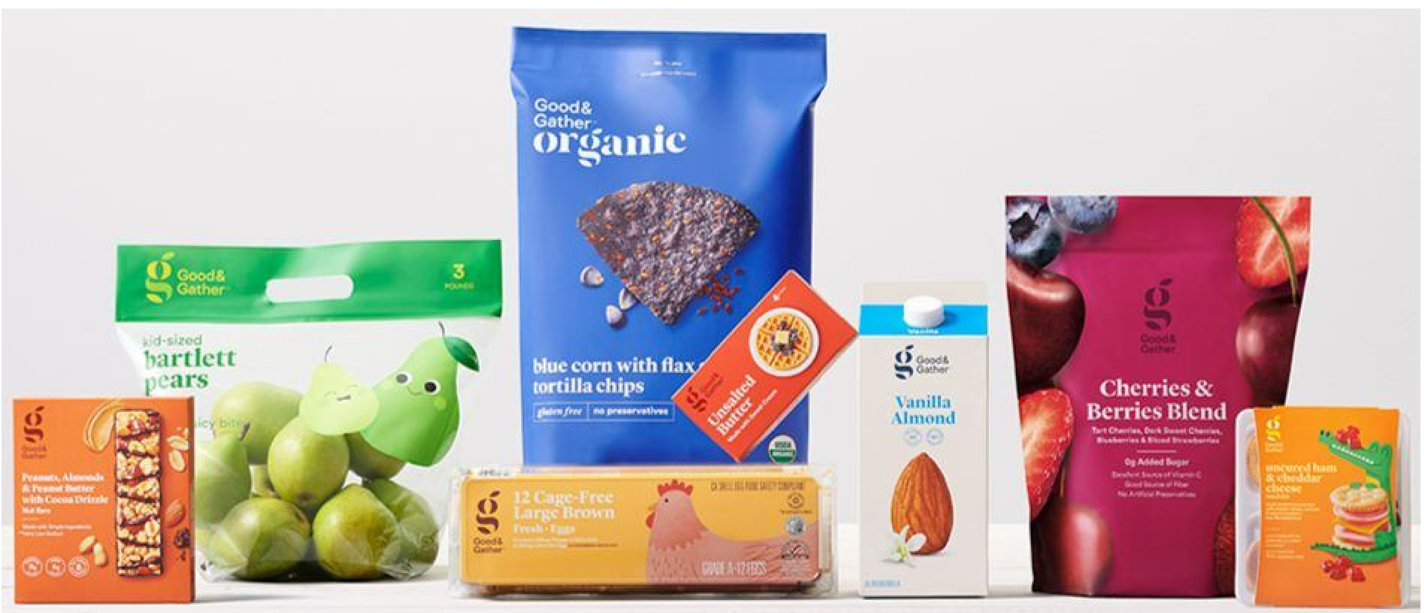
"We continuously benefit from the growing guest affinity for our own brands," Hennington said on the call in May, weeks before Target's inventory announcement. "Our own brand portfolio continues to grow faster than total sales, as it has quarter-after-quarter for years now."

Executives at large CPGs have brushed off the threat of private-label brands, asserting confidence in the recognition and loyalty of their name-brand products.

Elasticity may not be the same for smaller CPGs. Brands such as plantain chip maker **Artisan Tropic**, take-and-bake bagel brand **Bagelista** and **Pan's Mushroom Jerky** made their way onto the retailer's shelves after participating in the Target Takeoff program, which helps CPGs scale their business and enter Target stores. A reduced or cancelled order by a retailer the magnitude of Target could be devastating.

Target has "invested in the Black community, in smaller brands and in local brands," Amlani said. "What is this going to do to them?"

Target did not respond when asked about order cancellations and shelf space allocations.



Private label is a top priority for Target. In 2020, Good & Gather became its No. 1 selling food brand, with revenue of more than $1 billion. (Courtesy of Target)

How Can CPGs Prepare and Adjust?

Short answer:

Update technology to forecast demand as accurately as possible, and be ready to take back and resell products if the price isn't right.

Longer answer:

Target won't be the only retailer to revamp its inventory strategy. Walmart is on a similar course, Amlani said. As retailers shift how they buy, CPGs will have to shift how they sell.

Madia advised CPGs to rethink demand forecasts, using artificial intelligence, automation and other tools that take macro factors, such as inflation, into account. Historical data on shipments and consumption isn't always reliable, given how "consumer behavior patterns change without notice," she wrote, adding that AI "makes CPGs nimbler" and let's them adjust production plans in real time.

Suppliers, including CPGs, are now under greater pressure to accurately forecast and ship to demand, Madia said. Ship too little, and CPGs risk stockouts. Ship too much, they risk markdowns or smaller orders in the future.

If Target wants to mark down a CPG product, Amlani advised the CPG to take back the product, especially if it's shelf stable, and sell it to a different retailer.

"Any sort of markdown or promotional activity within Target will devalue the brand," Amlani said. "That going to hurt [the CPG] for future orders."

CPGs should also be prepared for conversations — and possible pushback from retailers — about price hikes, according to Feldman.

In some instances of CPGs increasing prices to offset costs, disputes have ensued. **PepsiCo** and Canadian grocery chain, **Loblaw Companies**, were in a two-month spat over the price of Frito-Lay products. And Heinz stopped supplying to U.K. grocer Tesco, over what the retailer called "unjustifiable price hikes."

"The retailers continue to negotiate with the CPG companies to ensure low prices for the consumer, which is important in this time of economic pressure," Feldman said.