

# FIVE QUESTIONS FOR CPGS AROUND THE WAR IN UKRAINE

## VIDEO TRANSCRIPT

**Oliver Wright:** We recognize the tragedy that is Russia's invasion of Ukraine, and the resulting harm and displacement of so many innocent people. The repercussions of this war are impacting individuals and businesses around the world, as food insecurity, economic risk, supply chain interruptions and other consequences emerge.

I want to take this time today to talk about the implications for the Consumer Goods industry.

***Explanatory sentence for visual - video***

**00:30-00:42** *Russia and Ukraine are significant suppliers of multiple resources and economic uncertainty could impact consumer confidence and demand*

As we know, Russia and Ukraine are significant suppliers of agricultural ingredients, oil and gas, and other natural resources. Also, economic uncertainty could impact consumer confidence and demand.

Russia is the third largest oil producer globally, and the second largest natural gas producer globally – providing almost a third of Europe's oil and gas needs.

While prices have moderated recently,

***Explanatory sentence for visual - video***

**00:55-1:09** *The initial shock: energy prices are reaching record levels.*

the future for oil and gas supply remains volatile and highly uncertain – ranging from a best case outcome of short-lived spikes to a pessimistic scenario where prices jump as much as 200% over pre-invasion levels.

Energy-intensive industries like agriculture would be most heavily impacted. For branded consumer goods companies, the potential impact is less severe; however, these companies could also be subject to ripple effects from upstream and downstream value chain partners.

Ukraine and Russia are top suppliers of many agriculture products. The region supplies approximately 30% of global wheat; other important commodities for the region include corn, barley, and sunflower oil.

The UN Food Price Index has experienced the largest monthly increase since its inception 30 years ago. This is driving increasing concerns around food insecurity and social unrest, and the IMF has repeatedly warned of the impact of continuing food price increases on the economically disadvantaged.

European food and beverage manufacturers have already faced supply disruption as wartime activity damages stock; further supply of these ingredients may be at risk based on Russian sanctions or agricultural interruptions. Unfortunately, Consumer goods companies may not be able to simply shift to alternative supply sources due to the inherent friction in an agricultural system, which is subject to factors including growing seasons, incentives based on local subsidies, and difficulty increasing productivity given supply shortages.

Accenture currently projects that long-term commodity prices could increase between 2 and 4 times, which would impact a variety of staple food and beverage products like bread, pasta, salty snacks, and beer. Raw materials



make up approximately 25% of total input costs, so commodity price increases could materially affect margins.

Oxford Economics estimates the war could have a material impact on GDP growth. In Europe, YOY growth in the Consumer industry is currently predicted to slow from 2.8% in 2021 to 1.6% in 2022 – while, in the US, YOY growth is projected to decline from 2.8% in 2021 to 1.4% in 2022.

Globally, consumer price inflation has already been an increasing cause for concern in multiple markets, with energy prices contributing significantly. Looking ahead, rising commodity costs could drive inflation to an estimated 6.6% in the Eurozone and 7.5% in the US, further depressing consumer confidence and consumption.

Russia is an important consumer market and, for some Consumer companies, generates a material percentage of their sales. With a prolonged conflict and the harsh sanctions imposed on Russia, there could be a negative impact on sales in the region, with further questions about the balance of growth across markets.

Current market uncertainty has impacted the valuation of leading Consumer companies. While food and non-alcoholic beverages are considered necessities, more discretionary segments like beauty and alcoholic beverages have been more severely affected.

In the initial days of the war, Consumer companies focused on ensuring the safety and security of their people. While this remains critical, companies are also examining their supply chains, addressing business continuity, and focusing on cyber-security. In the mid-term, holistic cost management and revenue growth management – as well as the longer-term geographic spread and growth portfolio – will be important areas to consider.

Consumer leaders should be asking the following questions:

- What is the war's impact on input costs and how do we develop a resilient supply chain?
- What are our cybersecurity risks and how can we defend against these challenges?
- How do we have the right revenue growth management solutions in place for a period of high inflation or recession?
- How does the developing situation affect our company's geographic portfolio?
- Where will we find new sources of growth?

Accenture is here to support our clients in these difficult times, so please reach out to us if you have any questions. Many thanks.

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