Economic Headwinds, Supply Chain Chaos and Customer Retention Worries Ripple Through CPG and Retail Sectors

With the ongoing chaos of recent U.S. trade policies unsettling the global economy, retailers and CPG companies fear that tariffs, or even the threat of them, may cause inflation, reduced consumer spending, and a global recession. Long-term planning, strategic investments, and recruitment are the chief concerns for retail and CPG leaders, according to Protiviti's latest Executive Perspectives on Top Risks Survey.

Uncertainty is incredibly high now. Despite a 90-day pause (on April 9th, against most countries except China), the complete economic impact of the Trump administration's proposed tariffs remains uncertain, depending on full implementation, duration, counterbalancing policies, and the extent of retaliatory measures from trading partners such as China and the European Union.

How should companies respond? Now is the moment for retail and CPG firms to prioritise financial mobilisation, encompassing sensitivity analysis, scenario planning, and cost accounting. Read Protiviti's latest viewpoint on how CFOs can be the voice of reason in these troubled times.

Significant pressure was already on retail and CPG companies prior to the recent instability. Now, because of the ongoing events, many are considering pulling back on discretionary projects and spending. They are also weighing cost-cutting measures against the need to keep market share and presence.

How to plan effectively without offloading disruption costs onto consumers and losing them to competitors is another major concern. Complicating matters further is the challenge of meeting consumers' expectations for personalised and seamless shopping. Retail and CPG leaders ranked this risk second only to supply chain uncertainty in the survey.

Supply chain concerns

Since the pandemic, retailers and CPG companies have been working to diversify their supply chains despite facing many disruptions, including port strikes, labour shortages, high inflation, and shifting tariffs and trade threats. Not surprisingly, most retail and CPG survey respondents (58%) selected the uncertainty surrounding their core supply chain ecosystem as the **No. 1 top risk issue**.

Tariffs are directly affecting supply chains. Increased costs from foreign suppliers, longer lead times because of supplier uncertainty, and potential demand reduction from price increases are all potential consequences for retail and CPG businesses.

The Consumer Brands Association, which represents CPG companies, for example, issued a statement warning that tariffs applied without an adequate understanding of risks are likely to bring deleterious shockwaves throughout nearly every critical supply chain.

What's next: The precarious supply chain environment requires enhanced scenario planning. Data-driven insights from advanced analytics can improve pricing and inventory decisions; however, collaboration across teams is equally vital for better decision-making and implementation. Companies frequently overlook the execution of even the best strategies, resulting in missed opportunities and inefficiencies.

Customer loyalty and retention

With increasing competition and changing consumer behaviours, sustaining customer loyalty remains a pressing challenge. It was ranked the **No. 2 risks** by the retail and CPG respondents.

Consumers have always loved having choices in where and how they shop, and today, there are more options than ever. They also expect their shopping journey to be seamless, which, in today's parlance, means companies need to offer a truly magical omnichannel experience. This is no easy task in the face of dominant players like Amazon and Walmart.

CPG and retail companies must differentiate themselves by creating unique brand experiences that resonate with consumers. They should explore innovative approaches, such as personalised customer interactions using AI technology to offer insights and make shopping personal.

Some retailers have gotten it right or are trying to. Lululemon, for example, is often cited as a successful example, having cultivated a strong brand identity that appeals to its target audience.

Stubborn inflation and labour challenges

Rising costs continue to impact pricing strategies, supply chain expenses, and overall profitability. These cost pressures are leading to margin compression. This is likely to get worse before it gets better.

The cost of labour is also rising and was cited as the **No. 6 top risk issue**. At least 23 U.S. states are set to increase minimum wage requirements in 2025, adding further cost pressures. Like how tariff disputes with U.S. trade partners could increase inflation, enforcing immigration policies against migrant workers might drive labour costs even higher.

Not surprisingly, the survey results show the economic situation, including inflationary pressures, is the **No. 3 top risk issue** for CPG and retail leaders. Executives at Target and Best Buy echoed these concerns in their earnings and investor meetings early March, with Best Buy CEO Corie Barry warning that he expects the company's vendors to pass along some level of tariff costs to retailers, "making price increases for American consumers highly likely."

Top 10 near-term risks for CPG and retail companies	2025 Response	Top Box (4 or 5)
	n = 73	
1. Uncertainty surrounding core supply chain ecosystem	3.66	58%
2. Sustaining customer loyalty and retention	3.53	49%
3. Economic conditions, including inflationary pressures	3.52	51%
4. Ability to attract, develop and retain top talent, manage shifts in labour expectations, and address succession challenges	3.52	51%
5. Talent and labour availability	3.49	51%
6. Increases in labour costs	3.45	51%
7. Third-party risks	3.29	45%
8. Rapid speed of disruptive innovations enabled by new and emerging technologies and/or other market forces	3.26	38%
9. Heightened regulatory change, uncertainty, and scrutiny	3.16	40%
10. Substitute products and services that affect the viability of our business	3.11	37%

The **No. 4 and 5 risk issues** all relate to labour challenges:

- Ability to attract, develop and retain top talent, manage shifts in labour expectations, and address succession challenges.
- Talent and labour availability.

Labor shortages and high turnover rates make it difficult for companies to maintain a skilled workforce. There is also the paradox of rising wages pushing against decreasing purchasing power because of inflation. This divergence poses a significant challenge for consumer brands, considering employees also double as consumers. It suggests that retail and CPG companies should speed up the use of AI and automation to address labour challenges and reduce costs.

Key takeaways from the survey:

What are the next steps or actions companies should take? Here are some key takeaways from the survey:

1. **Pricing and scenario planning:** Robust scenario planning capabilities are crucial for retail and CPG companies right now, particularly regarding pricing. Smart inventory and pricing strategies will help to build customer trust. Investing more in data analytics will be key to predicting changes in consumer spending and managing inventory. Here are a few actions to consider:

- Leaders should look to build effective cloud FinOps to enhance cost transparency, cost management and cost optimisation.
- Now is also the time to review supply chains for potential optimisation and cost savings, as well as resilience. Some suppliers might no longer be viable options, prompting a swift shift to stay competitive in the market.

2. **Labor challenges:** Automation, including recent technologies like agentic AI, will help organisations address some labour shortage challenges.

- Companies must develop innovative work models by reimagining and restructuring roles. To address rising labour costs, companies should consider variable labour sources where costs could be scaled up or down quickly to respond to major shifts in the market.

3. **Technology modernisation:** Continued investments in technology modernisation are crucial for maintaining competitiveness.

- Leveraging AI and automation will be critical for efficiency gains, as leaders will need to do more with less.
- The survey results suggest the sector needs to pay more attention to AI and cybersecurity to remain resilient.

4. **A holistic approach is needed**: Clearly, the survey results underscore the importance of addressing a multitude of risks through strategic investments. The interconnectedness of these risks calls for a holistic strategy and using cross-functional teams to make informed decisions and implement solutions effectively.

To learn more about our Executive Perspectives on Top Risks Survey, read the executive summary and full report at www.protiviti.com or http://erm.ncsu.edu.

About the Executive Perspectives on Top Risks Survey

We surveyed 1,215 board members and executives across a number of industries and from around the globe, asking them to assess the impact of 32 unique risks on their organisation over the next two to three years and over the next decade, into 2035. Our survey was conducted online from mid-November 2024 through mid-December 2024. For the near-term outlook, each respondent was asked to rate 32 individual risks on a five-point Likert scale, where 1 reflects “No Impact at All” and 5 reflects “Extensive Impact.” For each of the 32 risks, we computed the average score reported by all respondents and rank-ordered the risks from highest to lowest impact.

We also asked executives to share their perspectives about long-term risks (over the next 10 years – 2035) by selecting the top two risks from each of the three dimensions (macroeconomic, strategic and operational). For each of the 32 risks, we calculated the percentage of respondents who included that risk as one of their two top risks for each dimension.

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