



Back to the Future — The Consumer Goods Industry

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One of the most taken for granted yet astounding marvels of the modern world is the retail supply chain for daily-use products. While often an afterthought, our ability to access simple products like a tube of toothpaste, laundry detergent or a bag of chips has contributed meaningfully to increased life expectancy, quality of life and productivity in the U.S. over the last 200 years. If we look back to 1837, the year when soap maker James Gamble and candle maker William Procter merged their respective businesses in Cincinnati, the life expectancy of the average American was around 35. While it is almost impossible to imagine a time when we had to make our own soap—Procter & Gamble (P&G) launched its Ivory brand in 1879—we can still appreciate the positive contributions these simple products brought, and continue to bring to consumers today, as many of these decades-old products are still found in consumer pantries.

Despite being staples in American households, the consumer packaged goods (CPG) industry is at an interesting crossroads. Consumers, particularly younger consumers, are increasingly interested in health and wellness trends, are more discerning about product ingredients and are concerned about the environmental impact of the brands they support. Consequently, the CPG industry has a unique opportunity to help reshape the conversation on health, wellness and environmental issues over the next decade. There will be winners and losers, but those who are able to capitalize on these trends will be able to charge more for their products and gain market share.

The Rise of Consumer Brands

Since their founding, CPG companies have focused on simplifying everyday tasks and using strong marketing campaigns to educate and draw in consumers. In fact, many of today's household brands were created to solve a problem based on the science and needs of the day.



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Believe it or not, Coca-Cola was first sold in pharmacies as a patent medicine, while Corn Flakes were invented by John Kellogg and his family, who were some of the earliest advocates of vegetarian diets, germ theory, clean living and health reform. These are just two examples, but the list goes on. The rise of these national brands throughout the 20th century slowly redefined the American household, with certain brands becoming aspirational and a representation of the prototypical American household. How we define the prototypical American household has certainly changed over the past few decades, but what hasn't changed is the reach of national consumer brands.

Despite the advances and progress that we have made in simplifying daily tasks and making sure consumers are fed, Americans are finding that they are sicker than ever, with six out of 10 adults having at least one chronic illness and four out of 10 having two or more. According to the CDC, chronic diseases are the leading cause of death and disability in the U.S. and are among the leading causes of the \$3.8 trillion spent on health care annually in the U.S. While there are many causes for these illnesses, two of the leading risk factors—obesity and poor nutrition—are preventable. With over 70% of the U.S. population now considered to be either obese or overweight, CPG businesses have an opportunity to take an active, holistic approach in reshaping the conversation on what it means to live a healthy lifestyle, providing consumers with better options from the food they eat to the products they use to clean their homes to the personal products they use—their whole ecosystem.

The Future of Consumer Packaged Goods

So, what does the future of the CPG industry look like? To be successful over the next 100 years, we believe companies need to return to their health and wellness roots. Daily-use consumer brands have a unique opportunity to influence and redefine what it means to live a healthy lifestyle, and we believe companies actively moving in this direction will be the strongest positioned for the long term. Health care is constantly evolving and while we are good at diagnosing and treating illness in the U.S., CPG companies can play an important role in *preventing* illnesses—and that starts with what we eat and the personal care products we use on a daily basis.

Throughout the 19th and 20th centuries, CPG companies mastered simplifying consumers' lives through convenience products, building trust and brand loyalty along the way. Today, CPG companies are in the next phase of their evolution—providing consumers with useful products, but also providing them with the products they need to support a healthier lifestyle.

As of May 31, 2021, Diamond Hill owned shares of Procter & Gamble Co.

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