

# Industry Update

## The shelf is tightening—and competition is rising

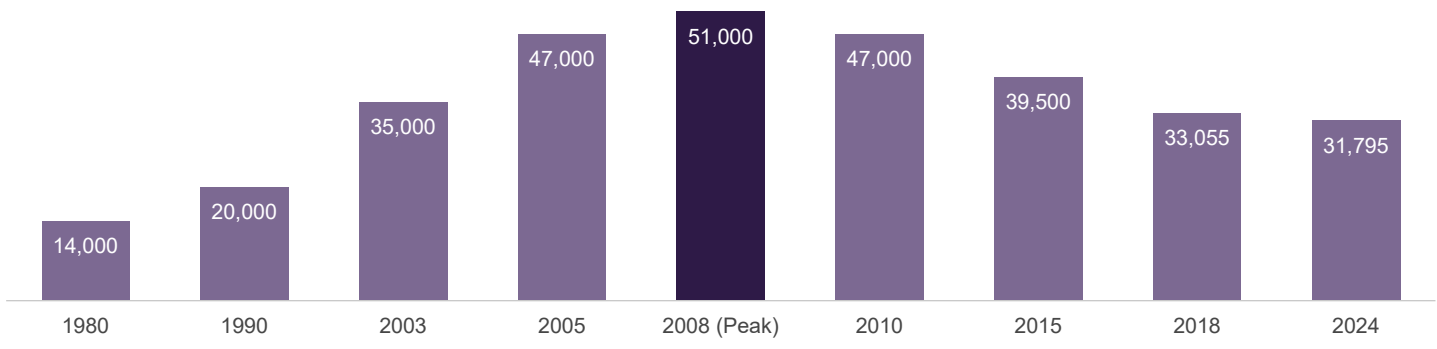
*What mid-market food companies should do about it*

Access to grocery shelf space is tightening and becoming more competitive than at any point in the past decade. Both structural and cyclical elements are at work, the combination of inflation-pressured consumers looking for value, large consumer packaged goods (CPG) companies' rationalization strategies, and margin-seeking retailers looking to optimize shelf space and shift volume to store brands. Amidst the disruption, mid-sized food producers should be taking steps to protect and even grow their share.

More than half of large CPG companies surveyed report they are simplifying portfolios this year,<sup>1</sup> including exiting

underperforming segments and consolidating manufacturing footprints. Like the large CPGs, mid-sized producers need to address consumers seeking value and retailers seeking margin, both to protect what they have and to gain more shelf space as CPGs exit. Unlike diversified manufacturers, mid-sized producers often operate within a single category, with concentrated production assets and limited ability to offset volume losses elsewhere. A single delisting can be devastating. Yet, with the right nimble actions, they can fill space vacated by CPGs rationalizing their product lines and retailers eager to find new products with greater velocity.

**Average SKUs Per Supermarket (estimates)**



### Phase 1: Expansion Era 1980–2008

Consumer choice = competitive advantage. Store sizes expanded ~35%. Rapid SKU proliferation.

### Phase 2: Post-GFC Contraction 2008–2019

Margin pressure and rising operating costs forced SKU rationalization. Retail concentration continued during 2010s with top-20 retailers accounting for two-thirds of sales by 2019.

### Phase 3: COVID & Reset 2020–Present

After a short-lived, COVID-fueled SKU expansion, efficiency-led resets returned. Retailers prioritized core SKUs; small-format stores expanded; and total assortments declined materially from prior peaks.



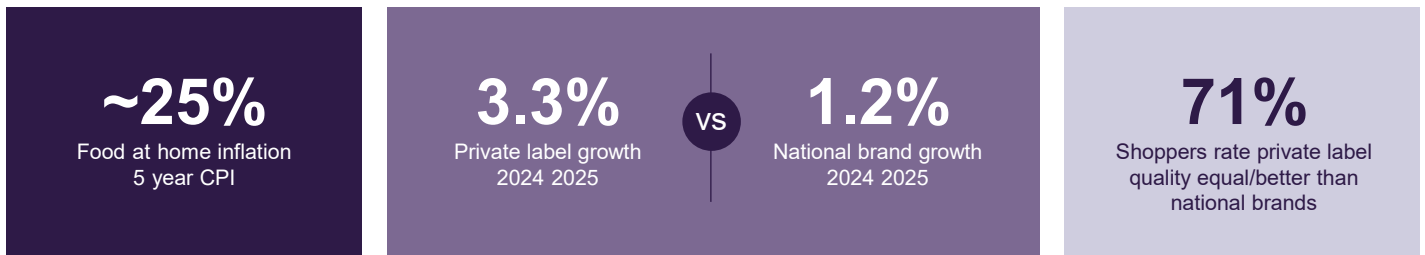
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# Why shelf space is tightening

SKU rationalization is the retailers' response to the pressures to improve margins, reduce complexity, and deliver consistent in-store execution. Four forces are driving this trend:

- 1. The changing consumer.** Food prices are up ~25% over the past five years. Families are struggling with affordability, and customer sentiment is at its lowest point in 70+ years. That's given rise to the value shopper, more concerned about what they get for their dollars than how many choices they have. Shoppers are also paying more attention to the labels on their food and considering healthier choices.
- 2. Retailer margin discipline and productivity expectations.** Retailers are placing greater emphasis on sales per linear foot, inventory turns, and supply chain reliability. Products that do not meet these thresholds are at risk of removal. The rise of limited-SKU stores like Aldi and Lidl demonstrates the returns that a tightly focused shelf can generate.
- 3. Growth of private label.** The combination of food inflation pressures and the successful delivery of private label quality have reinvigorated the value buyer. Store brands offer retailers greater control over pricing and supply to meet price and value-sensitive customers while often capturing greater margin. Private-label dollar sales hit a record \$330 billion in 2025, outpacing national brands by a wide margin on dollar growth.<sup>2</sup>
- 4. Portfolio simplification by large brands.** Major CPG companies are reducing SKUs, closing facilities, and focusing on core, high-performing products. Their moves lead the way in pruning weaker brands and low volume SKUs. CPGs are pressing retailers to yield more space to their flagship brands and higher volume products.



## Category dynamics drive reallocation strategy

Each category in the store is driven by different customer values and buying patterns. Molding your strategy to preserve or grow your shelf space starts here and with the competitive dynamics that have evolved.

### CENTER STORE

#### High pressure, high substitution risk

Shelf-stable categories such as canned goods, condiments, and dry grocery are seeing the most intense competition from private label or store brands. Products here are highly price sensitive. If a branded item doesn't offer clear differentiation—functional benefits, strong brand loyalty, or regional relevance—it is vulnerable.

### PERIMETER CATEGORIES

#### Opportunity through differentiation

Refrigerated and fresh categories tend to reward quality, freshness, and brand with consumers more willing to pay for differences in taste, ingredients, and sourcing. Brands that can demonstrate product superiority or authenticity are better positioned.

### FROZEN

#### Selective growth

Frozen products offer margin stability, but retailers are tightening assortments in commoditized segments. Growth is found in differentiated offerings such as health-focused, premium, or specialty products.

### SNACKS AND BEVERAGES

#### Brand still matters but with limits

Strong brands are still rewarded, but competition is intensifying. Larger players are investing in innovation while trimming underperforming SKUs. Products without a clear differentiation are at risk.

# Where to focus to protect and grow your shelf space

While shelf space is tightening and overall share of wallet is moving toward limited SKU store formats, mid-market brands that deliver the value customers want and generate the margins retailers need will have opportunities. When national brands reduce SKUs, retailers still need to meet consumer demand across price points and product types. You'll want to show you can fill a specific gap. But you'll also need to show you can execute. Reliable supply, strong service levels, and streamlined onboarding are the minimum requirements.

## 1. Hold your shelf positioning

Retailers in today's market have copious amounts of data along with AI tools to make shelf level SKU decisions. Know that when you or your broker enters the line review meeting, the retailer knows everything about your product's performance and may already have a point of view. Your SKU's velocity is important, but so are vendor concentration risk, direct store delivery (DSD) infrastructure, and your relationship.

**Action:** Come prepared with a delist defense kit—one for every key retailer—including velocity versus category average, incrementality, switching risk, and a 90-day triage plan to address an underperforming SKU that needs repositioning. If you are broker-represented, arm your broker with data. If you can, join the call to make sure your interests are well-represented.

## 2. Strategically reallocate trade \$\$\$

As SKUs shift, so too should trade dollars. As you respond to competitive moves and reallocate your SKUs, assess which trade tactics get you the greatest lift. You'll also want to show support for the Retail Media Networks (RMNs), which are now becoming table stakes at key retailers (e.g., Kroger, Walmart), representing an \$8.5 billion sales channel opportunity at the end of 2024 with continued expectations for growth.<sup>3</sup>

**Action:** Start by allocating generously to surviving hero SKUs. Abandoning traditional marketing levers, such as the promotional calendar, temporary price reductions, and BOGO deals, tanks a product's base velocity. While you don't want to put hero SKUs at risk, you can carve out the bottom 10–15% of inefficient trade spend on scan-backs (per-unit rebates paid to the retailer based on point-of-sale scan) that are not driving incremental lift. Many mid-market brands are structurally promotion-dependent and reducing trade too quickly can collapse sales. Restructuring must be gradual and surgical.

Reallocate the lowest-ROI trade dollars into bottom-of-funnel RMN search ads. Treat RMN like performance marketing with special attention to guardrails and return-on-ad-spend targets. RMN can help you hyper-target locally, but don't pay to defend space you've already earned. Also, be careful not to shift to RMN too quickly, especially if you route through specialty food distributors like UNFI or KeHE, which can damage sales channel architecture and distributor margins, putting future purchase orders at risk.

## 3. The capacity crisis

In a market that's looking to shrink the shelf, there's always risk in volume reductions resulting in fixed costs that then need to be spread across lower unit distribution with higher per-unit costs. Ultimately, a weakened competitive cost position results in the risk of further distribution losses.

**Action:** 75% utilization is usually the threshold of sustainable capacity utilization, although the real threshold depends on changeover complexity, labor structure, energy intensity, and debt amortization. Below that number, consider private-label alongside branded production, understanding that margins will dip into the 8–15% range, but at higher utilization, net contribution may be positive. Private label takes time—winning a private label RFP takes 12 to 18 months. Model economics at the plant level as you consider consolidating lines or mothballing capacity.

## 4. The reformulation trap

The industry is moving toward simpler ingredients and functional benefits. In some cases, regulators are adding pressure to limit sodium or sugar or requiring stepped-up labeling. Reformulation brings risks: Removing preservatives reduces shelf life, substituting ingredients changes taste, and premium inputs increase cost of goods sold 8–15%.

**Action:** During disruption, avoid putting your flagship products at risk. If you need to respond to health-forward customers, build a sub-brand or acquire a proven better-for-you brand and accelerate it with existing manufacturing and shelf access.

## 5. Win additional shelf space

When incumbents get cut, shelf space opens for the right mid-market brand. However, retailer buyers are often pushed to reduce the overall number of vendors. They actively avoid the headaches of electronic data interchange (EDI) testing, accounting setup, and supply chain routing that comes with adding a new vendor. The brands that win these slots show they can execute 98%+ fill rates, DSD reliability or routing through existing distributors while offering switching data to prove they can deliver incremental sales.

**Action:** Target the gaps. When a national brand exits, bring syndicated data (Circana, SPINS, or retailer loyalty panel data) to show the buyer your brand fills a need, whether that's a price tier, a functional claim, or a demographic. Expand through regional chains like Wegmans, H-E-B, and Publix that actively seek differentiated brands that large nationals can't manage at store level. Use value channels like Grocery Outlet, Ollie's, or Big Lots to divert delisted inventory. Club channels require different pack architectures and a 6-to-12-month lead time.

## The bottom line

Food and beverage manufacturers face a structural reset, not a cyclical downturn. On the demand side, consumers are trading down to private label, selectively trading up for health and functional benefits, and abandoning brands that lack clear value. That's driving the underperformance of legacy portfolios. On the supply side, excessive SKU complexity—once masked by volume—now inflates cost-to-serve, erodes plant efficiency, and destabilizes execution. As a result, portfolio and SKU rationalization is shifting from a sales clean-up to a core operational and growth strategy, prioritizing fewer, more differentiated products that restore margins, capacity stability, and relevance simultaneously.

The industry has always cycled between SKU proliferation and discipline. Shifting customer preference and behaviors will be fertile ground for an innovation wave that will follow this contraction. Every SKU that a large CPG kills is a shelf that someone else fills.

The companies that come out of this stronger will be the ones whose leadership teams prepared for the reset by restructuring trade spend before the buyer forced the conversation, addressing factory utilization before it cratered, and had the incrementality case ready to fill the gaps their competitors left behind.

<sup>1</sup> Deloitte, "2026 Consumer Products Industry Outlook," January 2026.

<sup>2</sup> Circana, Circana Research Reveals U.S. Private Label CPG Sales Reach \$330 Billion, March 31, 2026.

<sup>3</sup> Grocery Doppio/Incisiv, grocery RMN valuation (\$8.5B), November 2024.