Consumer Markets assurance insights

A quarterly summary for the Consumer Markets sector

December 2024

Table of contents

Introduction

We are pleased to share our quarterly Consumer Markets (CM) insights publication. This report provides some of the latest industry, accounting, and regulatory updates of interest to the Consumer Markets sector. Please contact the authors listed on the last page of this document with any feedback or ideas for future publications.

Strategy for business

PwC's Holiday Outlook 2024

Get ready for a dynamic holiday season in 2024 with a mix of challenges and opportunities that offer a view into trends that could define spending behaviors this holiday season. This year, retail is being reshaped by shifting shopping channels, evolving spending patterns, and the rise in Gen Z's budget. Early sales, Black Friday, and Cyber Monday are driving online shopping, while a notable pivot towards in-store purchases is expected post-Cyber Monday through New Year's Day.

Despite a projected 7% rise in holiday spending, many consumers are approaching the season cautiously due to lingering inflation effects. This is leading to selective spending and prioritization of holiday budgets over nonessential purchases. There is also a growing trend towards sustainable and cost-effective shopping habits, especially among Gen Z and millennials, including increased use of resale/used products and rental programs.

Retailers should look to blend technology with tradition, offering value, personalization, and memorable experiences both in stores and online. Innovations like AI-assisted shopping and seamless omnichannel experiences are essential. Reasonable price, free shipping, and product quality are top priorities for consumers, and retailers that offer discounts and focus on value can build lasting loyalty, particularly among younger consumers. Learn more about the expected trends this season and why it matters to your company in PwC's 2024 Holiday Outlook survey.

Merging digital and physical for seamless shopping

In the digital age, physical stores are evolving into crucial parts of an omnichannel retail ecosystem that merges real-life experiences with digital technology. Gen Z and millennials, with their increasing spending power and preference for technology, are driving this transformation. Yet despite the rise of e-commerce, brick-and-mortar stores remain essential, with many consumers valuing the ability to see and touch products and the immediacy of in-store purchases.

As consumer demands shift and evolve, retailers are encouraged to invest in the store of the future which can help improve customer attraction and satisfaction, along with strengthening operational priorities including security and loss prevention. Enhancements like self-checkout, mobile payments, and store apps are particularly important for consumers under 45. Find more insights and what aspects of the in-store and digital experience to focus on here.

Moving beyond price: A new roadmap for CPG growth

In the dynamic consumer packaged goods (CPG) industry, companies face a challenging environment characterized by increased price sensitivity and evolving consumer expectations. Since 2020, CPGs have achieved significant growth by implementing effective pricing strategies to counteract inflation in materials and labor costs. However, by 2023, the landscape shifted as consumers became more price-sensitive, leading to diminished brand loyalty and a resurgence of private labels. This shift has created a challenging pricing environment, with many brands maintaining steady prices or experimenting with reductions as CPG costs stabilize at levels 20% above pre-pandemic figures. To navigate this complex landscape, CPG executives must consider the implications of changes in demand, which pressures brands across categories to adopt targeted strategies. Discover how CPG leaders are adapting to these changes and positioning themselves for success in this dynamic market here.

2025 Deals Outlook

M&A activity in the consumer markets industry is gaining momentum, fueled by increased consumer and executive confidence, improved financial conditions, and post-election optimism. The CPG sector, particularly food and beverage, is at the forefront of this resurgence, although dealmakers must navigate challenges such as regulatory uncertainties and geopolitical shifts. Companies are strategically leveraging M&A to drive growth, as organic volume growth remains challenging. Despite higher interest rates causing delays in private equity exits, liquidity events are anticipated soon, especially in the food and beverage sector. Larger deals continue at a steady pace, reflecting experienced dealmakers' ability to stay on strategy and realize value despite the slowdown. Meanwhile, smaller tuck-in acquisitions are popular for minimizing risk. Divestitures have increased by 15% as companies seek to optimize their portfolios and unwind underperforming acquisitions.

Looking forward, M&A is expected to play a crucial role in addressing challenges like new tariffs and supply chain protection. Optimism for M&A activity persists, driven by portfolio adjustments and continued consumer spending. Additionally, the integration of emerging technologies, such as AI, is pivotal for acquirers to drive growth and profitability. For more details, read the full article here.

Economic Contribution of the US Consumer Packaged Goods Industry

The October 2024 report from the Consumer Brands Association highlights the significant role of the CPG industry in the economy. The industry is a major job creator and economic contributor, supporting millions of jobs and generating substantial income and GDP contributions. The CPG industry, encompassing food, beverages, and personal care products, is a key player in US manufacturing and distribution. It impacts the economy through investments and a vast network involving transportation and retail.

The report also details the industry's influence across states, with California leading in job support. The analysis, based on government data, underscores the CPG industry's essential role in the national economy. Additionally, the report reveals that the industry's reach extends to every congressional district, making its economic benefits are felt nationwide. This comprehensive study provides valuable insights into how the CPG industry continues to drive economic growth and stability. For more insights, click here to access the full report.

Accounting and financial reporting hot topics

Income taxes: Current and near-term considerations

Given recent international legislation implementing Pillar Two global minimum taxes and imminent changes to income tax disclosures, tax is once again a top area of focus for most companies heading into year end. While this year has already been eventful, companies will need to be alert for other legislative developments and additional Pillar Two administrative guidance that could impact 2024 financial reporting.

Pillar Two global minimum tax

The enactment of tax legislation implementing the Pillar Two global minimum tax continues around the world, with jurisdictional differences adding to the complexity. The objective of Pillar Two is for large multinational enterprises to pay a minimum level of tax (a threshold effective tax rate of 15%) on the income arising in each jurisdiction in which they operate. The foundation of the Pillar Two framework comprises three separate, but interlocking rules known as the Qualified Domestic Minimum Top-up Tax (QDMTT), Income Inclusion Rule (IIR), and Undertaxed Profits Rule (UTPR), collectively referred to as the GloBE rules.

Even if the current year tax impacts are not expected to be material, the computational rules are complex and the related assumptions will require careful consideration. Further, to the extent the tax is not material because of the transitional (i.e., temporary) safe harbor rules, companies will need to have processes, systems, and controls in place to collect the necessary data and support their analyses, including the assessment of any uncertain tax positions inherent in the safe harbor outcomes and/or the top-up tax calculations along with any tax planning strategies that were executed to minimize the tax impact. Finally, companies will need to consider the near-term impacts of UTPR, which operates as a backstop to the IIR, allowing any jurisdiction within the multi-national group the ability to collect top-up tax. The UTPR goes into effect in many jurisdictions in 2025.

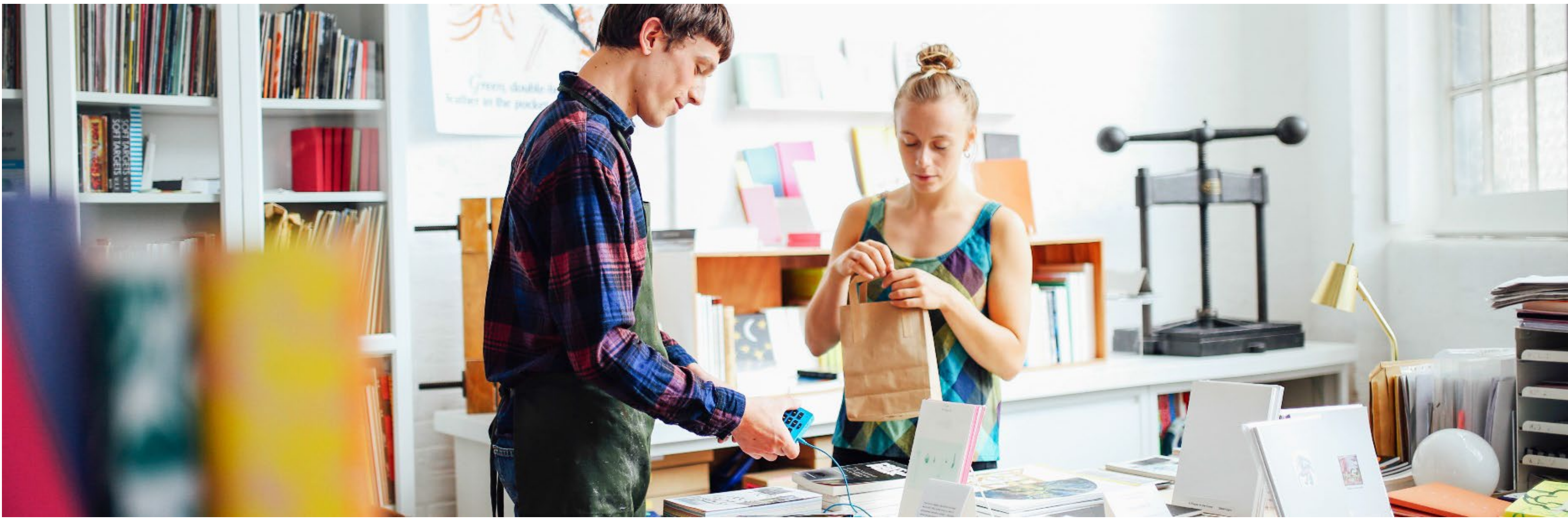
Refer to our publication, Accounting for Pillar Two FAQs, for Q&As to help companies navigate the new requirements.

Getting ready for the new income tax disclosure requirements

Released by the FASB at the end of 2023, public companies will need to provide the new income tax disclosures detailed in ASU 2023-09 for years beginning after December 15, 2024. The new standard requires disaggregated information about a companies' effective tax rate reconciliation as well as information on income taxes paid. Although eporting is not required until next year end, early preparation is crucial because complying with the new requirements may require additional processes and controls to collect data that may not be captured within existing systems. By preparing early in the year of adoption, companies can identify and address data/process gaps well in advance of the reporting deadline.

A company choosing to apply the new guidance retrospectively may want to consider performing a "dry run" in parallel with the 2024 financial reporting process, bridging its existing rate reconciliation to the new rate reconciliation categories. Doing so will help companies collect all relevant 2024 data to be presented with the 2025 information when the standard is adopted.

Refer to our publication, FASB issues guidance on income tax disclosures, for details about the new requirements.



New guidance applicable for the first time in 2024 annual reporting

We are here to help with some final reminders as you prepare to adopt the new segment reporting standard and the remaining requirements for supplier finance program obligations.

Segment reporting

ASU 2023-07 does not change the definition of a segment, the method for determining segments, or the criteria for aggregating operating segments into reportable segments. It does, however, expand the required disclosures, specifically requiring companies to disclose significant segment expenses. A significant segment expense is an expense that is:

- significant to the segment,
- regularly provided to or easily computed from information regularly provided to the chief operating decision maker (CODM), and
- included in the reported measure of segment profit or loss.

All information provided to the CODM should be assessed when determining what information is “regularly provided.” The unit of account to determine whether that information is significant is the individual data point, and not an aggregation thereof.

There is no change to the requirement to disclose, at a minimum, the measure of profit or loss used by the CODM that is most consistent with the amounts included in the consolidated financial statements. Additional measures, however, can now also be disclosed to the extent the CODM uses multiple measures, subject to certain conditions.

To learn more about the new requirements, read our publications, FASB updates segments guidance, and SEC provides greater clarity on new segments guidance, and chapter 25 of our Financial statement presentation guide.

Supplier finance program obligations rollforward

In accordance with ASU 2022-04, calendar year-end companies were required to provide new disclosures about supplier finance program obligations starting in the first quarter of 2023. The required rollforward of those obligations, however, are required for the first time for those companies in their 2024 annual financial statements. The rollforward is required to include:

- Amount outstanding at the beginning of the reporting period
- Amounts added to the program during the reporting period
- Amounts settled during the reporting period
- Amount outstanding at the end of the reporting period.

To learn more, see chapter 11 of our Financial statement presentation guide and listen to our podcast.

SAB 74 reminders

When a new accounting standard has been issued but is not yet effective, public companies are required by SAB 74 to make disclosures about the expected impact of the new standard. As both new standards were issued in November, companies may not have had sufficient time to complete an assessment of the impacts of the new standards. Companies may initially disclose that an ongoing assessment of the impact is still in process and provide more detailed disclosures in future financial statements. Companies should also disclose if a new standard is not expected to materially impact the financial statements. Read chapter 30 of our Financial statement presentation guide for more information.

US GAAP highly inflationary economies: Nigeria and Egypt

As inflation rates in both Nigeria and Egypt have exceeded 100% on a three-year cumulative basis, both economies are considered highly inflationary under US GAAP. Companies will need to remeasure the financial statements for entities in both countries using the company-specific reporting currency. Read our US GAAP summary for more details. IFRS guidance allows for qualitative considerations, which may result in a different conclusion in the determination of a highly inflationary economy. Read a summary under IFRS for more details.

Standard setting

As expected, during the fourth quarter, the FASB issued final standards on the disaggregation of income statement expenses (DISE) and induced conversions of convertible debt instruments.

Disaggregation of income statement expenses

At the beginning of November, the FASB issued ASU 2024-03, *Disaggregation of Income Statement Expenses*, in response to longstanding requests from investors for more information about acompany's expenses. The new guidance requires disclosures about specific types of expenses included in the expense captions presented on the face of the income statement as well as disclosures about selling expenses. The guidance is first effective for calendar year-end public business entities in their 2027 annual financial statements and 2028 interim financial statements. Companies can adopt the guidance on either a prospective or retrospective basis. Early adoption is permitted.

Read our publication for a comprehensive analysis of the new standard and responses to frequently asked questions related to application of the guidance.

After the issuance of ASU 2024-03, the FASB received feedback that the guidance on the initial effective date could lead a non-calendar year-end company to conclude that it would be required to initially adopt the requirements of the ASU in an interim reporting period rather than in an annual reporting period. In response, the FASB issued a proposed update with a comment period that closed on December 10. If finalized as drafted, the ASU will clarify that public business entities are required to adopt the new standard in annual reporting periods beginning after December 15, 2026 and interim reporting periods within annual reporting periods beginning after December 15, 2027. The final standard is expected in early 2025.

Induced conversions of convertible debt instruments

Later in November, the FASB issued ASU 2024-04, *Induced Conversions of Convertible Debt Instruments*. The new guidance clarifies the assessment of whether a transaction should be accounted for as an induced conversion or extinguishment of convertible debt when changes are made to conversion features as part of an offer to settle the instrument.

The guidance is effective for fiscal years beginning after December 15, 2025, with early adoption permitted, and it can be adopted either on a prospective or retrospective basis.

Regulatory update

SEC comment letter trends

The SEC's Division of Corporation Finance's filing review process is a key function utilized by the SEC staff to monitor the critical accounting and disclosure decisions applied by registrants. Our analysis of SEC comment letters identifies the frequency of topical areas addressed by the SEC staff and how its focus areas change over time. Within the Consumer Markets sector, the top five areas of focus in comment letters are:

1. Non-GAAP measures - compliance with Item 10(e) of Regulation S-K and the related compliance and disclosure interpretations
2. MD&A - requirements in Item 303 of Regulation S-K and the related disclosure objectives
3. Segment reporting - identification of operating segments and aggregation into reportable segments, as well as emphasis on the disclosure requirements of ASC 280
4. Revenue recognition - ASC 606 disclosure requirements including performance obligations, transaction price, variable consideration, recognizing revenue, gross versus net presentation, and disaggregated revenue
5. Inventory and cost of sales - disclosure of the basis of accounting for inventory and components of cost of sales, ensuring non-cash items, like depreciation, are allocated to cost of sales, and questioning the calculation of gross margin when such items are not allocated to cost of sales.

Refer to the list of comment letter trends specific to the Consumer Markets sector for the 12 months ended September 30, 2024. Additionally, PwC's Accounting podcast series focuses on the following common topical areas in SEC comment letters:

SEC comment letters - What's trending in 2024

2024 SEC comment letter trends: Non-GAAP measures

2024 SEC comment letter trends: Revenue

2024 SEC comment letter trends: MD&A

2024 SEC comment letter trends: Segment reporting

ESG regulations and your company

In recent years, the demand for transparent and consistent sustainability disclosures has surged, prompting regulators in various jurisdictions to issue new sustainability-related reporting requirements. Entities must now navigate numerous frameworks, including the IFRS® Sustainability Disclosure Standards, European Sustainability Reporting Standards adopted by the European Commission for purposes of compliance with the Corporate Sustainability Reporting Directive (CSRD) in the European Union (EU), and local or territorial specific obligations (e.g., California sustainability disclosure laws), with each having its own focus and requirements. In the US, it remains to be seen what impact the new administration will have on the climate disclosure rules issued by SEC, which have been stayed to facilitate judicial resolution of pending legal challenges. Our Sustainability reporting adoption tracker helps companies understand the requirements of these diverse regulatory landscapes by providing an overview of local sustainability reporting requirements by territory.

Companies domiciled in the US that have operations in the EU may be impacted by CSRD. A US domiciled company with a foreign parent may also need to provide information to the parent for its consolidated reporting. Determining the applicability of CSRD involves some complexities, and companies operating in the EU should perform a careful evaluation to determine scope, requirements and effective dates. Refer to the EU's Corporate Sustainability Reporting Directive for additional information.

For companies within the consumer markets industry, the complexity of reporting emissions will increase for companies operating within extensive value chain ecosystems. As companies strive to meet diverse global sustainability disclosure regulations, they must employ a combination of estimation approaches and actual data collection, despite challenges posed by suppliers not subject to these rules. Read here for actions companies can take now to transform their ESG reporting strategy.

2024 AICPA & CIMA conference

The 2024 AICPA & CIMA Conference on Current SEC and PCAOB developments took place during the second week of December. This highly anticipated annual conference features representatives from the SEC, PCAOB, and FASB, along with many other distinguished speakers discussing both the latest financial reporting developments and what to expect in the coming year. Read here for additional information.

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