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Q3 2020 Campbell Soup Co Earnings Q&A Conference Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Campbell's Soup Q3 2020 Earnings Q&A Session. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions)

I would now like to hand the conference over to your speaker today, Ms. Rebecca Gardy, Vice President, Investor Relations. Ma'am, you may begin.

Rebecca Gardy ***Campbell Soup Company - VP of IR***

Thank you, operator. I hope everyone has had the chance this morning to read our press release and listen to our prerecorded management presentation, both of which are available on the Investor Relations section of campbellsoupcompany.com. In addition, we have posted a transcript of the pre-recorded presentation. After the conclusion of today's live Q&A session, we will post a transcript and an audio replay of this call.

Please note that during today's Q&A session, we may make forward-looking statements, which reflect our current expectations about our business plans, our 2020 guidance and the potential impact of the COVID-19 pandemic on our business. These statements rely on assumptions and estimates, which could be inaccurate and are subject to risk.

We will also refer to certain non-GAAP measures. Please refer to today's earnings release available on the Investors section of our website, campbellsoupcompany.com, for a list of factors that could cause our actual results to vary materially from those anticipated in forward-looking statements and for reconciliations of non-GAAP measures to their most directly comparable GAAP measures.

Joining me today are Mark Clouse, Campbell's President and CEO; and Mick Beekhuizen, Chief Financial Officer. (Operator Instructions)

And now with that, I'll turn it over to the operator for the first question. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from Andrew Lazar from Barclays.

Andrew Lazar ***Barclays Bank PLC, Research Division - MD & Senior Research Analyst***

Love to start off by picking up on some of your comments from today's slides and transcript around household penetration and repeat rates. I think you described soup repeat rates as exciting, especially for new households. And some of the work we've done suggests repeat rates for some of these new trialers is running ahead over the rates maybe shown by this group at this time a year ago. So understanding we're not yet by any means in a normalized environment with many still sticking close to home, would really like to hear your thoughts sort of on this, what you find exciting about it specifically. And maybe while early, what this all implies to you about the potential stickiness of some new consumer purchases, particularly in light of all the investment Campbell is making, obviously, to perpetuate this trend.

Mark A. Clouse ***Campbell Soup Company - President, CEO & Director***

Yes. No. It's a great question. And I think let me just start by maybe providing a little bit of context on how we have seen the cycles of demand through this period in the third quarter, I would describe as containing really 2 very distinct phases of this. I think the first phase, more of a -- I would describe more as a psychological phase where not unlike you might see in a weather-related pantry load, although in this case, it would be the equivalent of a blizzard in every city in the country. It becomes about bringing things into the home that you know are shelf-stable, that are capable of sustaining time and being available when you need it. And like I said, that becomes a little bit more of a response and that was the early phase, certainly, that we saw. And in those periods, it was dramatic demand. I mean, there were times where we would see segments like ready-to-eat soup with demand increases of 140%, which obviously significantly changes what the capacity in the manufacturing plant. The team did an amazing job, I believe, through that phase in ensuring that we could prioritize getting product into the marketplace, into retailers and ultimately into communities. And we made a fairly conscious decision not to constrain that in any way and ensure that we could push as much out as we could. Certainly, that depleted inventories, and we'll talk about that in a moment, I'm sure. But I think that was really the distinct first phase.

The second phase, though, that we've seen and perhaps the one that, for me, one I described it as exciting, is it is giving us an opportunity to really bring consumers into our brands through behavioral demand. And what I mean by that is changes in things that they are actually doing within their life, whether that is the result of being sheltered in place, whether that is the need to build quick-scratch cooking, as an example, as a new skill set. And the role that our products play within those behaviors has really generated, I believe, the sustainment of demand, and more importantly, the repeat. And I think as we watch both the combination of the sustainment of that demand, along with what we're seeing from consumer response and satisfaction with products that they may not have tried in the past, we're feeling very good about that response. And I think the positive momentum that has been built on the businesses, to say the least, we are fortunate that I think we had done all the work we did before this started and really establishing improved quality, a lot of good marketing and resources around informing and helping with usage or recipes and also returning a lot of support to our business, including ramping up Pacific, all of this helped us then as this behavioral phase move forward.

I think as you then look forward from that, and I'd say there's probably a third phase coming here, which is a bit more of the, let's call it, at least the immediate new normal, I think we're encouraged for a couple of different reasons. One is I think some of the behaviors and consumer trends that we've seen I really do feel are going to have stickiness and continue as we go forward. So I think as consumers are building skill sets in things like quick-scratch cooking and another area within quick scratch I would call it simple lunches where our products play an incredibly important role, and so however you see the economy opening back up, I think there will be a slower migration to away from home. I think they will maintain a level of remote working where lunch is maybe virtual schooling in some cases where our products will continue to be highly relevant and that, that behavior, I think, will continue.

I also think that as we come through this in whatever continuum of economic environment you might expect, I do think there is going to be strain. And I think value will play an important role for consumers going forward. And our products, historically speaking, have been highly relevant in those moments of recession or economic pressure.

Now I think there are other trends that we've got to move on to really ensure that we're making the most of this opportunity, and that's the shift to things like online behavior for shopping, for immediate consumption, for buying. And of course, whether it's click-and-collect or home delivery, we are on that case working really hard because we do believe that will be a trend that will continue going forward.

And then I also briefly talked about the shelf in traditional retail. So the other work that we need to be doing right now is to really understand that optimal assortment and making sure that inventory remains kind of balanced with where demand is going to come from, that we're selective and thoughtful about what that assortment looks like while making room for innovation that we still believe is going to be important.

So as I look to the future, although I can't tell you how the demand will hold up, I do think those trends will be consistent and those will be positive for us. And even if they do slow a bit, I do think we are going to be in a position through the balance of the fourth quarter and even into the beginning of the year or just simply the replenishment of our inventory levels and shelf are going to be a positive tailwind as we work through the year.

So that's I think it a little bit perhaps broader answer, but that gives you the -- kind of the view of the cycle that we've been through and why we think that there is still momentum ahead. And of course, we're going to have to remain nimble because I do think it's difficult to predict with any certainty exactly what it will look like, but I think those are all very positive indicators.

Operator

Our next question comes from Ken Goldman from JPMorgan.

Kenneth B. Goldman ***JP Morgan Chase & Co, Research Division - Senior Analyst***

I wanted to ask about the decision to push hard on marketing at a time when demand exceeded your production capacity. I really do appreciate the unique opportunity you have to keep all of these new consumers to lean in on your retention efforts, and I do very much appreciate the value in that. But I also imagine there's a risk of overheating demand, which can lead to some out-of-stock disappointments, so to speak. So just curious how you thought about that balance during the quarter and also how it informs your, I guess, implied fourth quarter guidance as well.

Mark A. Clouse ***Campbell Soup Company - President, CEO & Director***

Yes. It's -- absolutely, it is a balancing act. I do think, though, what is really the name of the game for us right now if we think about the ability to take what is such a unique opportunity and if you think about the strategy of the company, especially on brands like soup, essentially, our strategy was to try to build relevance, attract our lapsed users and open the door to younger households coming into the franchise. And as we said in our remarks, that's exactly what has occurred in this current moment. And so I do -- I don't want to overdramatize the moment, but in thinking about kind of a once in a, certainly, a long period of time opportunity, we want to make sure that we solidify the relationship with these consumers and households.

Now I do think that is different than incenting purchase only. So you may not see the same level of promotional support that we've had historically, but I do think where we're talking about usage, quality and differentiation of our product, how we're thinking about building equity, how we're communicating with consumers in different and relevant ways based on which cohort it is we're working with, whether it is kind of the textbook comfort food that's associated with many of our products or whether it's a fantastic recipe idea targeting a younger household on different media and digital formats that explain how to make risotto with tomato soup, which has been one of the really, interestingly, very, very high demand, a recipe we've seen, and I think the goal here is to not miss that opportunity to drive the equity in connection while not necessarily just spending into selling more product.

And part of this equation also is not us in isolation, right? We're in a moment of probably the greatest level of collaboration I've certainly seen in our industry in a long time with our retail partners. So what we want to do is work together. We obviously don't want to be pushing things that are going to create frustration or disappointment in their consumers and our consumers. But I do think there is a way to kind of thread this needle a bit and try to do everything we can to retain while also not over-aggravating the situation.

So I don't know, Ken, if that gives you a context, but that's -- that is really how we're thinking about it.

Kenneth B. Goldman ***JP Morgan Chase & Co, Research Division - Senior Analyst***

No. It does and I appreciate the challenge. We're in uncharted waters here. I guess for my follow-up, speaking of uncharted waters, as we think about your implied fourth quarter guidance, when you're drawing up an outlook in this kind of environment, one we've never seen before, I'm just curious, do you naturally leave yourself a bit more wiggle room on the downside and the upside sort of a just-in-case factor? I know you said that the implied range does reflect your best estimate at the moment and as it should, right? But I just want to understand kind of what's assumed behind the scenes, maybe to get to the low and high ends of the range, if I could.

Mark A. Clouse ***Campbell Soup Company - President, CEO & Director***

Yes. I think, Ken, what we try to do is -- and of course, this is kind of some new muscle groups that we're all building where you've got such materiality of variables that can change the outlook. But our feeling was let's take a set of assumptions that we feel are best informed by what we're seeing today and what we believe the future will hold, and then let's create some sensitivities around those for different circumstances. And those sensitivities then kind of frame up, if you will, a low side/high side that we use to try to predict it. And in this particular case because we're essentially with 2 months left of a 3-month quarter to finish the year, I did feel a greater sense of obligation to try to give a better view of that world while recognizing that there are some things that are tough to predict.

So I don't think we -- and to answer your question a little more directly, I don't think we ever want to try to put ourselves in a position where we don't have flexibility to react to certain variables that we can't see. So we're always going to try to manage it in that way. But I will tell you, there are scenarios where the guidance would not look conservative and there are certainly scenarios where it possibly could be. But I think what we're trying to do is kind of give you our best effort.

Operator

Our next question comes from Bryan Spillane from Bank of America.

Bryan Douglass Spillane ***BofA Merrill Lynch, Research Division - MD of Equity Research***

So 2 questions for me. The first one, Mark, in the prepared remarks, you talked a bit about -- and I guess, the future of the retailing landscape, just the potential for shelf sets to change and maybe limited assortment. So could you talk a little bit about how that might affect new product development, especially in soups going forward? I think the expectation on our end was that moving into fiscal '21, we were -- we would see maybe more new products, more innovation versus renovation.

So if the shelf sets are going to change, does that -- how does that really change the way you will approach new product development? And then I have a follow-up.

Mark A. Clouse ***Campbell Soup Company - President, CEO & Director***

Yes. I think it's early innings in really trying to process the data and the projection of where we're going as it relates to the shelf. But I do believe that what we're going to want to do is make sure -- and this is -- this would be true in many categories that are building or that have grown relevance, we want to really understand how to utilize that space in the most effective way. And that's inclusive of supporting retailers as many are dealing with the realities of their shelf being both a reflection of what the retail shopping experience looks like while also the online click-and-collect environment as it, in essence, becomes a bit of the warehouse, if you will, for that approach to shopping. And so we have tackled a pretty extensive and very detailed work to try to put our best foot forward in collaboration with customers to try to really identify where that goes.

Now the good news is our knowledge and our understanding of the innovation platforms that we're planning were very much a part of that. And I think that as we look at the future forward, what you're more likely to see is not necessarily us not moving forward with innovation, although, in fairness, there will be perhaps some platforms that come a little later than others just because of some delay as you think about in-plant trials and so forth as you go through this unique environment we've been in, although we're certainly getting that back online and moving forward, but I think that will be part of that assessment. So I don't expect it to stop us from bringing what we believe to be relevant, especially as we're talking about some of these new consumers where we know things like convenience and sipping and some of the flavor, the better-for-you platforms that we've talked about in the past as being at the heart of where that innovation is going to come from I think very much remains relevant and will be part of it. But we may have to answer the question of do we need item number 30 or 40 in some of the tails of our businesses. If you look at our ready-to-eat portfolio, I've talked about this before and actually if you look at our share loss in the third quarter, which I'm sure someone will get to that in a bit, but the reality is that a large portion of that is in that tail of ready-to-serve. So these are some items that we've made the decision perhaps in the short term to rationalize and we need to really think about longer term what the right answer is.

And then I'm going to give you a little bit of a tongue-in-cheek answer here, Bryan. But the other thing is we've got a couple what is performing and behaving like new products in our core. Now I'm going to stop short of calling condensed soup a new product launch. But that is the way we're trying to behave. We're thinking about now in a world where households are using this for the first time, how do we really support it as if we're in this kind of year 2 of new product launches, and let's not jump so quickly to the new item if we think there's real opportunity to continue to build the relevance and the repeat rate in these new households on products that may have been old but is new to them, and I think that's a big part of our strategy, too.

Bryan Douglass Spillane ***BofA Merrill Lynch, Research Division - MD of Equity Research***

I think tomato soup and risotto is probably new to a lot of people on this call.

Mark A. Clouse ***Campbell Soup Company - President, CEO & Director***

Yes. Don't knock it until you try it, Bryan, all right?

Bryan Douglass Spillane ***BofA Merrill Lynch, Research Division - MD of Equity Research***

I'm going to do it. And just one follow-up, Mark, just -- maybe just to follow us up a little bit on Ken Goldman's question. But I think you talked about refilling or retailer inventory, I think one question we get quite a bit is just are we -- have we built a lot of pantry inventory, right? So if you could just give us maybe a quick check on where pantry inventories were maybe before all this started and then where you think they stand today relative to just sell-through and how that affects revenue going forward.

Mark A. Clouse ***Campbell Soup Company - President, CEO & Director***

Yes. And we have a pretty decent mechanism for surveying that to get a bit more of a quantitative view of it. And the numbers that we're seeing are very healthy levels. And in fact, in some areas, we may be -- given the time of year, we are a little bit heavier on inventory levels in the pantry on things like soup. But also given the underlying consumption and demand, if you were to equalize, let's call it, days of supply or weeks of supply in the pantry, in most cases, it's going to be below where it's been historically. We do not believe that we're in a situation where, at some point, the line's going to be snapped and we're going to be deloading pantries. That's just not what the numbers are supporting. So I think we're in pretty good shape there.

And again, I think we'll probably talk at some point about a little bit of the slowdown in recent weeks that we've seen in consumption and demand, and part of it is us racing to try to rebuild some inventory. A lot of people have asked as we've talked about it internally, well, how do you know that -- what's the evidence that there is an outrunning of demand to supply. And I think you see it in, really, in 2 ways. The most obvious is the shipment and the orders that we're getting. So as you watch the third quarter roll forward, we really had -- from essentially March to April, we've really not had any variation in the order demand. As we -- let me just take a second to explain this. So in the beginning, right, we were hit, in many ways, the hardest with demand and we did a really good job. I mean I'm incredibly proud of the supply chain. And even though we're talking about constraints, remember, this is a supply chain that was supporting businesses that had been relatively flat to declining for the better part of the last decade. Now we're reacting to 40%, 50% increases. Building that muscle group has taken a little bit of time, but I really am incredibly impressed and proud of the team and what they've done. But that initial surge, we did very well. You see it in our share, you see it in the consumption. But as we went through that really first phase, we depleted a lot of inventory and we've now been in the process of recovering. So part of what we know is that, that shipment request has not gone down at all. It's really been more about us working with customers to get it right.

The second area and where you can see it is in TDPs. So if you want a more external quantification of where that impact is, you can look at the trending of TDP declines from the beginning of the crisis to where we are now. And essentially, what you'll see is -- and what that does is it reflects what's not on shelf. And so 3% to 4% decline in TDPs during the surge has now gone to double digits. We are starting to see that recover. As we said, I expect through the fourth quarter, and in some cases, it may be as late as the beginning of next year, but we will be back with that inventory in place. And so that's a little bit of the way you can tell from a quantification standpoint.

So not really your question, more on retail inventory versus pantry. But I think in both circumstances, we've got a bit of a vacuum here that we're going to need to fill with supply over the months ahead.

Operator

Our next question comes from Nik Modi from RBC Capital Markets.

Nik Modi ***RBC Capital Markets, Research Division - MD of Tobacco, Household Products and Beverages & Lead Consumer Staples Analyst***

Mark, I was hoping you can just comment on, just given the current state of affairs, how you think about the cost structure longer term? I mean is there an opportunity here to reshape just given how some of the work processes have changed, maybe you have found some incremental opportunities?

And then just thinking about some of the upside that you've seen, is there an opportunity to accelerate initiatives that maybe had planned a year or 2 years out that you feel like you can maybe pull forward now? So any thoughts around that would be really helpful.

Mark A. Clouse ***Campbell Soup Company - President, CEO & Director***

Yes. And you see it in our numbers and the operating leverage that we're experiencing. Maybe I'll let, in a second, Mick highlight a couple of the areas where we're seeing that leverage come through. There's no question that a more optimized or full supply chain is going to be more efficient. At the same time, we don't want to be in extended periods of time where we're not able to supply to meet demand. So I think what we're trying to do is also -- and what we also don't want to end up in is a situation where we're spending and investing in capital ahead of confirmation of the sustainment of some of the demand. So these are all the variables that we juggle to try to put together our best foot forward.

So some areas are simple. So us accelerating, and for example, ensuring that even through this period of remote working, we find a way to safely move as fast-forward as we can on Goldfish capacity where we're adding a new line in our Willard, Ohio facility and we've really worked through the crisis to keep that initiative moving. That one's an easy decision to make.

As it relates to areas like soup, what we've done is we have gone through first, and as we've talked in the past, about optimizing assortment. But I do think there are some particular areas where we want more flexibility even if it's in anticipation over the next year or so, God forbid, we have another bounce-back of the virus. We need to be in a position where we've got a little bit more flexibility. And so what we're looking for there are appropriate investments to give us that flexibility without necessarily putting substantial infrastructure that we may or may not need over time. And we're going to kind of think of that as more of a pay-as-you-go model, right? So we're kind of investing as we move forward to try to meet those needs.

As it relates to other initiatives or growth opportunities, I think we are trying to jump forward as quickly as possible. As you think about, again, our strategy, in essence, what we've seen in this crisis is not a need for us to shift strategy. It's just pushed us forward. And if you think about all the things we've done as a company, whether it's focusing the company by really locking down into 1 geography and 2 divisions and returning focus to our core businesses where we believe that there was relevance and that we could build and expand the user base of these businesses like soup, pasta sauces and Pace on the Mexican side, what this has essentially done is pushed us down that path faster. So we need to be also as nimble as possible, and this is a little bit back to Ken's question on how you're balancing the investments in the fourth quarter. We are trying to move some of those initiatives forward and move as quickly as we can to make sure that we've got all of the further quality improvements done, that we're ramping up some of the new packaging formats, that we're doing the things that we had planned. We're just doing it at a quicker pace as we're a little bit -- or significantly further down the road than we might have expected at this point.

Operator

Your next question comes from Jason English from Goldman Sachs.

Jason M. English ***Goldman Sachs Group Inc., Research Division - VP***

Rebecca, welcome to your first call. You really timed your entrance well. Congrats on a good quarter.

So a couple of quick questions for you. But first, and all kind of building off of the topics you've already touched on, you -- Mark, you mentioned a few times the need to replenish some inventory out there. If we assume that maybe there's like a week of inventory catch-up, that's pretty much going to get you to the midpoint of your organic sales guide for the fourth quarter. And clearly, we've seen a lot of residual consumption strength so far in May, and you're talking -- you're giving us plenty of reasons to believe that some of that's going to stick as we move forward.

So I guess question one is why shouldn't the fourth quarter in terms of organic sales strength in context of potential inventory catch-up look a lot like the third quarter? What are some of the assumptions underpinning your outlook there?

Mark A. Clouse ***Campbell Soup Company - President, CEO & Director***

Yes. Jason, so the most significant one is just the pace at which we imagine and see that recovery occurring. Now in all fairness, I think what we're seeing or what we expect to occur is 1 of 2 things, right? Either demand through the summer remains at a substantially escalated level and if that happens, we are going to be chasing a bit that inventory through the balance of the fourth quarter and probably really into the first quarter of next year. If that demand slows or moderates in the summer, then we will take advantage of that window to replenish inventory as you described. I don't think both will -- I don't think we can support both at the same time, if that makes sense. So I think we kind of see the calibration of this a little bit on understanding where the capacity in the supply chain sits. And I do think we will certainly make up ground as we go because I also do think there will be some relative slowdown in demand as we go into the heart of the summer on certain categories, albeit I would still see it elevated versus where we would have been, say, a year ago. But I think it's going to be the combination of those 2 things together that is what we're trying to calibrate to the assumptions.

And of course, at the same time, we continue to work and are seeing improvements all the time in our capacity and output. And again, a little bit of this is just trying to be pragmatic or thoughtful about how we set expectations as we have confirmed there are no certain things. Does that make sense?

Jason M. English ***Goldman Sachs Group Inc., Research Division - VP***

Okay. It kind of does. But I guess I'm just looking at monthly consumption now comparing it to peak consumption during the key season. And while you're up big year-on-year, you're not as big as you are monthly in key seasons. So I guess I had an impression that your capacity would be able to keep up with the type of demand that we're now seeing. It sounds like that's the wrong impression.

And I don't want to burn that as my follow-up question. My follow-up question is related to costs because -- and Mick, this is probably a question better suited for you. There is some concern that given the strength that you're delivering this year, that you may not be able to deliver earnings -- the earnings are going to have to reset from this elevated level next year. However, there's clearly a lot of expenses that are rolling through your P&L right now. If you stack up the mark-to-market, stack up the COVID-related charge in COGS, stack up the elevated corporate, I get the $60 million of onetime expenses really quick or nonrecurring expenses really quick just this quarter. Is that sort of the right math? Is that what we should expect in the fourth quarter? And is it reasonable to believe that most of that is likely to fall away into next year?

Mick J. Beekhuizen ***Campbell Soup Company - Executive VP & CFO***

Yes. So I don't really want to go into kind of what next year is going to look like. But if I kind of come back to Q3, which is a good question and kind of peeling that back, you're right, we obviously have the impact of the mark-to-market, right, which we also highlighted in the prepared remarks in the gross margin and the impact that it had there give or take about 100 basis points of the 300 basis points of inflation in other.

And then the other piece, which, obviously, a big chunk of it, is within our cost of goods. And as I mentioned, with regard to the gross margin, the COVID-19 incremental costs are obviously captured there. But they're also capturing other parts of the P&L. I'd say if you look at the third quarter, that comes in -- from a total dollars perspective, just purely kind of incremental COVID-19 expenses, you get to about mid-20. So about $25 million. Obviously, that was only for -- it only impacted Q3 for about half the quarter. So maybe that gives you a little bit of incremental perspective.

Operator

Our next question comes from Chris Growe from Stifel.

Christopher Robert Growe ***Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Analyst***

I had a question for you, if I could, first, on e-commerce. We've seen a significant development there of that channel. And I just want to understand how you think you're keeping pace relative to the category development in e-commerce and then how your margins are performing in that business. That's an area you've invested in over the last several years. Are your margins up near where they are in a product sold to the store, for example?

Mark A. Clouse ***Campbell Soup Company - President, CEO & Director***

Yes. Well, let me start by saying, as we know, what I would call more online shopping, order, delivery to click-and-collect, there's quite a bit of difference between the -- between those various channels. I would tell you, on the click-and-collect side, I think we have done a fairly good job of keeping pace. In working directly with our retail partners. And as you can imagine, one of the challenges that is easier to manage on click-and-collect is inventory and assortment.

I think on the more direct e-commerce side, we have, I think, done equitably in those channels to similar companies and businesses, but I think there is opportunity there. I think there's opportunity as we think about how we manage the route to market there, how we make sure that our in-stock levels improve, clearly that being a challenge more universally in the last quarter. But I think even before that, really getting the formula right for our e-commerce customers is extremely important.

And then as you think about our business, where our businesses tend to be a bit more stable, we do well. I think when you're talking about impulse purchases, that's an area where we really are trying to work hard to learn a bit about how do you create that impulse environment in an online world. And that is not as simple as just being available or being at the top of the page. You've got to create a little bit more of a unique dynamic. So one of the other areas that we're investing in the third quarter and into the fourth quarter is really out there trying to test and learn in that space because we do expect that as consumers become more comfortable utilizing these tools, and this is also inclusive of areas like Instacart where you've got a third-party essentially as the intermediary between traditional retail and the consumer but a lot of engagement with the interface on how consumers are ordering or shopping, so there's a lot of places where right now we want to be experimenting a bit more to try to understand some of these dynamics to make us more effective. And I think the great news is there are a lot of resources in the universe, whether it is our traditional retailers working online or more dedicated companies in that space, there is a real openness and willingness to partner. And I think that's always been something that's been a bit more challenging is to access data, but we're finding it to be a more open dialogue and partnership, and that's really going to help us figure it out.

As it relates to margins, the question, I think, is there is no doubt that no matter how efficient it may be, the cost structure in supporting some of these models is creating areas where we have to try to figure out how to mitigate that. So whether it is the fee you pay a third-party shopper, whether it is the additional labor that a traditional retailer has or whether it's just the infrastructure cost of managing a supply chain that may not be organic to the company that's doing it, I think we have to work together to try to figure out what that looks like. And it may be more limited assortment, it may be different pack sizes, it may be a variety of different ways that we want to look at working together. But we do recognize that, that is a reality that's coming and we need to figure out how to do that so it's not a material drain. Now we've looked at the kind of immediate projections. And although I would say I do expect it to be a bit of a headwind, I don't see it as a significant barrier to us continuing to progress on our financial commitments.

Christopher Robert Growe ***Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Analyst***

Okay. A quick one for you, if I could. You talked about some market share losses in soup. I think a lot of that related to inventory and product availability. And then you also mentioned Goldfish, for example, as well. Is that just competitors were able to get more product on the shelf? Have you lost some of these consumers to other categories as they shift around from meals or snacks? I'm just curious there from a high level.

Mark A. Clouse ***Campbell Soup Company - President, CEO & Director***

Yes. It's a really good question and it's a little bit of a different situation. So if you look at soup, for example, no one wants to see share declines ever, and certainly, we've made a lot of progress this year on that front coming into the third quarter. I do think there are 2 areas that you're seeing that are impacting that number. The first is that there is no question that supply has been a challenge, and that's been more of a share pressure of late than it was necessarily throughout the whole quarter. And again, when you think about a world of a contained set of supply on the shelf, when we are not able to fully meet demand, it does open the door to other businesses or other brands that may be left on the shelf or available that has filled in a little bit. And if you watch our cycle, as I said, coming out of that unprecedented push in the beginning where we did pretty well and held up well, we've certainly seen that weight. Now the good news is, I think, in more recent, we're beginning to see that cycle back. And I think over time, we're going to get back to a better place.

The other thing that's happened within soup is there's been a greater migration into the ready-to-serve segment of soup, which actually has more competition. So just as a perspective, on the condensed side, we have an 85% share. On the ready-to-serve side, we have a 44% share. So just inherently, as a larger percentage of consumers are spread out in that ready-to-serve area, it's impacted our overall share. What I am encouraged by is in the third quarter, our chunky business was actually up on share within ready-to-serve, which, of course, is our focus while the kind of all other area of ready-to-serve was down about 0.7 of a share point. So I think where we want to be focused, that looked a little better, but there's no -- that dynamic is occurring.

And then I think the third area on share within soup that's important to continue to mention, I think even coming out of Q2, the one area we talked about is we've got more work to do on differentiating our broth business. And that's the other area where you would have seen some share erosion in that segment especially to a private label where, again, I think we've got to continue to work harder on establishing what the points of difference really are for Swanson. Although I did feel great about the resurgence of Pacific, and we know that's a big part of that equation is getting the supply back up on Pacific where we've done quite well. And there, you see pretty significant movement in share.

On the Goldfish side, it is more of a circumstance where we came into the virus not necessarily on a high level of inventory. And with that initial demand, it's been very dramatic. And aggravating it a bit more has been the shift where we normally have a better balance between portion packs that are more on the go and larger bulk sizes that are used more in home. And as you might imagine, in this environment, the demand has really shifted to the bulk side. So we've made that pivot, and we're addressing it, but not necessarily at the rate that we've seen. And then once that supply challenge was in place on Goldfish, it did require us to do some reductions in promotions collaboratively with customers, which put some further pressure on the business. I'm not concerned long term because really, the share loss you're seeing on Goldfish is to other crackers that are really not substitutes for Goldfish. It's just we share Goldfish against the broader cracker category. I think our ability to recover that and continue to move Goldfish forward, I feel good about. We've just got to catch up. And I think, again, we will do that over the course of the fourth quarter. You'll even start to see some promotional activity coming back in June. And I think by the time we're through the summer, we're going to be in good shape.

Operator

Our next question comes from Robert Moskow from Credit Suisse.

Robert Bain Moskow ***Crédit Suisse AG, Research Division - Research Analyst***

And Mark and Rebecca, I really like this new format. Thank you for making the change.

Rebecca Gardy ***Campbell Soup Company - VP of IR***

Great.

Robert Bain Moskow ***Crédit Suisse AG, Research Division - Research Analyst***

I have -- in your prepared remarks, Mark, you were -- I thought what was very positive is when you said that soup is going to be a much more relevant category going into this fall than normal. Could you talk a little bit about how your retailers are viewing it?

And maybe if you can just get back to, I guess, the inherent tension of coming to the retailer with advice to have reduced variety, I guess, rationalize some of the SKUs, but also indicate that it will be a stronger demand season than normal. Are retailers concerned that they lose a sale if you reduce the variety? And then I have a quick follow-up.

Mark A. Clouse ***Campbell Soup Company - President, CEO & Director***

Yes. Honestly, it is truly a collaboration in discussion. And part of this is, I think everybody is certainly reacting a little bit to the here and now and wanting to make sure that as we go into the next soup season, that we're able to do our best job in supplying demand. And so what we've also said though is, and there's no doubt that some of the SKU rat that we did, although it accomplished the goal of increasing perhaps capacity in the short term, it is not the right answer longer term with what consumers are looking for, especially if you imagine these households working through the variety needs of what cooking looks like and the desire to have greater numbers of options in place.

So it really is a balancing act. I, by no means, expect us not to come back with a fair number of the SKUs that we have that we rationalized in the short term that we think have long-term merits. And I think the customers with us are working to try to figure out what that balance is, and part of it is us being able to provide some confidence and conviction to them on what our ability it is to supply during a greater -- what we anticipate to be a greater demand season.

So I think, Rob, again, where I view this being most effective is if we get the facings and the shelf inventory right for the SKUs that are really going to be in high demand, and we know that, and then the appropriate level of assortment to give the variety that consumers are looking for. And perhaps that may not just mean us giving up some space, but it may be that there's not as much need for some of the redundancy that may be on the shelf. And so in the end, we want to be able to get that balance right.

So I think it's going to be a little bit of a give and take there. But I think so far, it's a pretty, I guess, consensus perspective between retailers and kind of what we're thinking.

Robert Bain Moskow ***Crédit Suisse AG, Research Division - Research Analyst***

Okay. My follow-up is if you do the math between the retail consumption growth that you had in the Nielsen data versus your shipments, it comes down to about $250 million or 3% for the year. Are you quantifying it the same way the inventory burn that occurred? And if so, are you assuming that it spills up gradually in terms of your shipments in the next few quarters? It's a big number.

Mark A. Clouse ***Campbell Soup Company - President, CEO & Director***

Yes. Well, I think, sadly, part of that number is relative to some of the share declines we've seen where our lack of availability enabled other brands or businesses perhaps to consume some of that demand that was there over time. But our inventory levels -- and remember, this is -- to a certain degree, it's kind of a continued pressure to refill inventory. So I don't think, mathematically, I would say it's quite that big. But I do think certainly in the quarter, we were about 10 points lower than what -- from a comparison to consumption and shipments. And I think there is a good chunk of that, that will be inventory.

But the way I would approach it, Rob, is kind of thinking about, okay, most of the retail universe is going to be looking for anywhere from 2 to 4 weeks of supply, and that's probably the way mathematically. We're more thinking about what that number ultimately is.

And then to answer kind of the second part of the question, I think it comes a little bit back to what we were talking about before with Jason on, okay, where does demand remain versus what our full capacity is on how long does it take us to get back to kind of fully loaded and in place. And so I think that -- my sense is that we will see great progress in Q4, but we may -- it may take us a little bit of time in some categories to get all the way back to bright in Q1.

Operator

And we'll take our final question from Michael Lavery from Piper Sandler.

Michael Scott Lavery ***Piper Sandler & Co., Research Division - Director & Senior Research Analyst***

When you talk about the trends that you're seeing in consumer and retail, you characterized that, I think, as in the immediate future. Just curious if you could give a little sense of what kind of time horizon you see, and maybe specifically just getting at some early thoughts on the second half of calendar '20 and into fiscal '21. Obviously, not fiscal '21 guidance, but just some sense of how you're thinking about it and what shapes you're planning there.

Mark A. Clouse ***Campbell Soup Company - President, CEO & Director***

Yes. I think, Michael, I've tended to qualify it as immediate because I do think there's still a lot left to prove, although very encouraging to see the stickiness, if you will, of the household penetration and the repeat. I think we need to kind of get into that third cycle that I described to really understand kind of where we'll be ongoing.

Now I do think, though, it's safe to say that we would certainly expect as we kind of go into next winter, and as we watch the behaviors, we do think those behaviors will continue to be highly relevant. And there's a series, I think, of indicators that we're watching closely to try to get a sense of how much of this really is sustainable beyond kind of the next 6 to 12 months. But I do think that there are going to be some lasting impacts out of this. And I think a lot of it will depend, too, on our ability to really convert on these windows of opportunity to establish that relevancy in a sustainable way. And I think that has a lot to do with our ability to drive that usage and relevancy while also bringing the right innovation to continue to build out that category and try to really, truly return it back to a position of playing a relevant role in a variety of different consumers' lives.

Michael Scott Lavery ***Piper Sandler & Co., Research Division - Director & Senior Research Analyst***

And just a little bit related, can you touch on some of your thinking on seasonality? We've obviously normally seen that in soup, in particular. And this year, it's -- we've all been locked in during some of the best weather possible, and yet, soup certainly has surged. And part of what I'm curious is if that continues in this summer on a smaller base, should we be mindful of a potentially bigger uptick, obviously, again, depending on your capacity and those constraints. But has seasonality changed? How do we think about that?

Mark A. Clouse ***Campbell Soup Company - President, CEO & Director***

Well, I think there's 2 things that we've said all along we thought could be a little bit of an expansion of the seasonality of soup and that was the movement into a bigger role within cooking, which, of course, does change through the summer months. But that need, that ingredient demand and that role we could play, we always felt like there was a bigger opportunity there that might expand deeper into the year than just what we would consider the traditional soup season.

I think the other area that we've experienced a lot of growth and behavior is the role that soup can play in lunches. And I do think the ability for that to be a little less seasonal is possible. And so although I do expect the demand to dampen a bit in the summer, I do think we'll remain in an elevated level.

And so I think those are all areas of opportunity that we're going to continue to work on to try to solidify those behaviors. And I think if we're effective at doing that, we do have the potential to expand the season. But again, these are all things right now that we're still kind of in those early moments and trying to learn from and I guess, just going back to the -- your starting point, that is why I've tended to categorize it as immediate.

But we'll continue to provide those mile markers as we go to try to help everybody understand how we see this going forward, and I certainly would expect as we see you for the end of the fiscal year and we start talking about '21, we'll have a more robust perspective on that as we look forward.

Operator

Thank you. And that does conclude our question-and-answer session for today's conference. Ladies and gentlemen, this concludes today's conference call. Thank you for participating, and you may now disconnect. Everyone, have a wonderful day.