HOW TO PRICE AMID INFLATION

Inflation is on the rise. Rates in the US rose sharply as the economic recovery accelerates. Consumer prices surged by the most since 2008, topping all forecasts. The consumer price index (CPI) jumped 5.4% in June 2021 from the same month last year. But even excluding the volatile food and energy components, the core CPI rose 4.5% from June 2020, the largest advance since November 1991.

CHALLENGES

Consumers change their behavior

Consumers more likely change their spending behavior or their price sensitivity for certain goods. This is highly dependent on the category and on how incomes grow compared to inflation. Figuring out the dynamics at play in your industry and region is key to making the right decision.

Costs change

Depending on your industry, your costs of goods sold (COGS) are influenced by inflation. If you produce bread, for instance, an increase in grain costs is a challenge because you might not be able to push through a price increase. Optimal pricing requires taking both costs and price sensitivity into conderation. Striking the right balance is key when confronted with cost inflation.

Competitors adjust portfolios

Inflation is an exogenous event which affects most of your competitors in similar ways. However, they will not all react in the same way, nor will their actions have predictable effects. Your competitors' changing of prices or pack sizes is one of the most important factors to bear in mind when pricing; consumers will decide between you and their next best offer. As competitor prices changes become more frequent and more pronounced you must react swiftly and with good foresight.

HOW TO TACKLE PRICING AMID INFLATION

1. Diagnosis: Mapping the new territory

- Understand and quantify consumer behavior changes.
- Understand cost changes and its implication on your product cost and margins.
- Gather information about changes in prices, products, and promotions of your competition and understand its impact on your offering.

2. Guiding Policy: Harvesting opportunities

GUIDE

- Create general guidelines on how to deal with the new situation.
- These can be existing guidelines or new ones. For example: focus on market share in segment A; do not increase price higher than X%; stay at least Y% below competitor A.

3. Coherent Actions: Defining concrete steps

- Create a set of concrete actions to benefit from the opportunities found in the diagnosis considering the guiding policy.
- For example: offer product X in channels A and B; increase price of product X while decreasing price of products Y and Z; change promotion Y for product X on channel A.

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- It uses your readily available data
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