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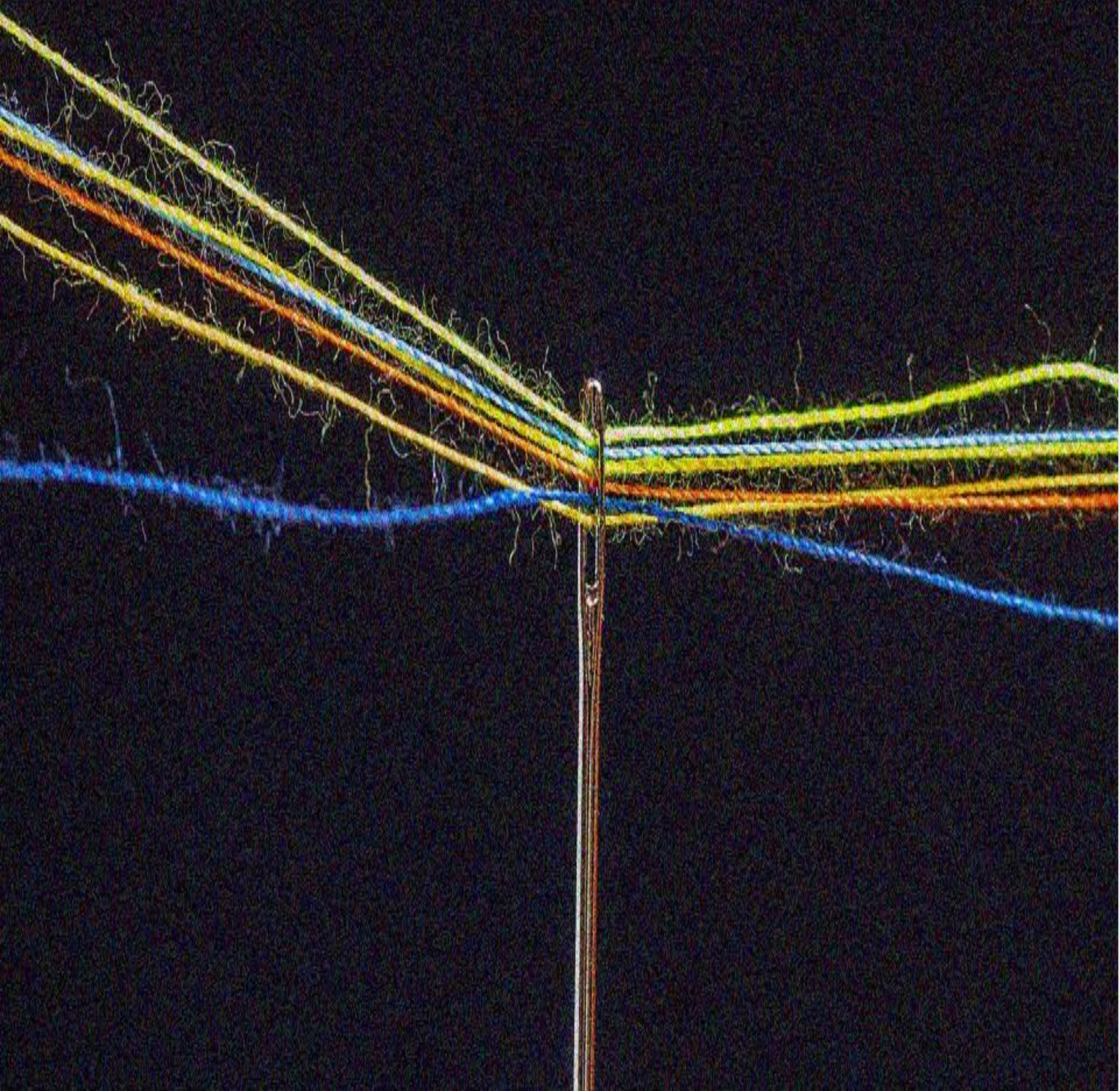

Coping with Inflation:

Right Pricing

in time of

Economic Depression

7 Adjust discounting and promotions, and maximize non-price

Price increases are a given in any inflationary environment. But companies that consistently address total customer and product profitability are likely to weather inflationary cycles better than those that focus solely on cost changes, which can limit the size and frequency of their price increases. These companies typically embed a pocket-price-waterfall approach in their pricing and revenue-management strategies. This can help them to accurately assess revenue retrieved from every transaction, limit unnecessary erosion, and maintain a disciplined, value-based margin level. So equipped, companies can maintain margins proactively through inflationary cycles rather than chase the market.

For example, a manufacturing company facing tight supply and productivity constraints had high manufacturing costs for certain low-volume products and experienced higher demand in a short period than they could supply. Instead of raising prices, they lengthened the lead time on all products to enable more efficient production scheduling. For custom products with higher gross but lower contribution margins than stock products, they increased lead times even further. Sales teams were trained to explain the new service levels and encourage customers to opt for more standardized alternatives. The result was an overall increase in productivity that maintained margins without price increases.

Some distribution companies, faced with unprecedented fuel and labor costs in combination with labor shortages, have abandoned a one-size-fits-all approach to servicing customers in favor of surcharges and fees for rushed delivery or less-than-minimum order quantities. Adding surcharges can allow distributors to maintain service levels and prices in the early periods of inflation and only charge for activities that put significant strains on their supply chain.

2 Develop the art and science of price change

Customers will react differently to price increases according to how price sensitive they are and how much inflation has affected the cost of the products they buy. Instead of making broad price increases that may erode customer trust and demonstrate insensitivity, companies can tailor their inflationary price increases thoughtfully for each customer and product segment.

Best-in-class companies typically ground their price-increase recommendations in analytics that examine their customers' end-to-end profitability, their willingness to pay relative to a comparable peer set, and the margin performance at a product and service level expected from the price change. For example, retailers may pass on most of their cost increases through secondary and tertiary items that are less price-sensitive for consumers while remaining competitive on key-value items. Retailers have long used personalization tools to tailor promotions to consumers whom they know from their behaviors to be more price-sensitive while passing cost increases to products bought by consumers who can absorb them. B2B companies today have dynamic segmentation tools that can allow them to do the same. Adjusting prices based on customers' willingness to pay and on product differentiation can help companies be thoughtful about their price increases now and beyond inflation.

3 Accelerate decision making tenfold

Raising prices as a response to inflation is seldom a one-and-done move. It is full of unintended and unexpected consequences and puts significant pressure on the selling organization. Companies that manage price increases well have a council of dedicated cross-functional decision makers who can act quickly to manage price increases thoughtfully and knowledgeably, approving exceptions and reacting to customer and market feedback.

In a B2C setting, the council can test different pricing actions to build a view of consumer responses in real time, track the impact of price changes across the portfolio, and adjust future prices accordingly.

For example, a consumer durables company had not made any price adjustments with its largest customers for a few years for fear of losing volume. Going into 2021, relying only on price increases for small customers was no longer sustainable. Accordingly, the company created a cross-functional council to lead the price-increase effort and ensure customer acceptance. It also developed a pricing approach based on data and supported by market conditions, business reviews, and performance, to communicate the value the company provided to customers. It was able to pass on its largest price increase without damaging its relationships with its customers. More importantly, the company realized that this approach should be sustained to address future cost pressures.

Companies can use data and analytics to track key metrics, monitor prices and customer reactions, and respond efficiently to competitors' moves, increased stock levels, and other dynamic variables. By becoming more conversant with these critical data, companies can test and learn ways to optimize prices.

4 Plan options beyond pricing to reduce costs

We see best-in-class companies encourage their sourcing and engineering teams to reimagine products most affected by inflation. The aim is to adjust product design—materials, packaging, or even product features—in response to elevated production and servicing costs while maintaining the functionality customers require. Companies without the capability to quickly redesign products often rely on category management to reduce costs by adjusting assortments, reducing SKU complexity, sourcing from preferred vendors, and minimizing inventory.

From a commercial perspective, we see leading companies identifying product substitutes within their portfolios, often private-label equivalents that can be sold at a lower cost than branded products while maximizing margins and increasing the value delivered to the customer.

5 Track execution relentlessly

Value capture must be enabled through relentless execution and performance management. An important key to continuous performance management is providing the newly established inflation council the data and insights it needs to build conviction, enforce price increases, and react to customer feedback. Companies can create a foundational set of leading and lagging indicators linked to analytical models that can forecast margin impact and recommend and guide pricing actions. These can include cost indices, competitor actions on key traffic-generating items, and brief engagement surveys on customer responses to price changes.

Companies that track execution rigorously establish a data infrastructure that allows for a high degree of performance transparency. For companies early in this journey, arming the pricing council with the information it needs is the first step toward establishing a culture of performance that will last well beyond this or the next inflationary cycle.

Tackling the Dilemma of

Right Pricing, Maximum Pricing, & Fair Pricing

Most people will tolerate price discrimination that works against their self-interest. This holds true when they feel they have some control over the prices they pay, such as by choosing where to buy, when to buy, or whether to join a certain organization.

Rob them of this perceived control, however, and they may vehemently resist higher prices. Coca-Cola once proposed the idea of varying prices at vending machines according to changes in the air temperature on hot days. It scrapped the plan after encountering widespread resistance.

The temperature is a condition that customers can't control. Classical economic theory also dictates that a company should serve its own self-interest and, thus, should never leave money on the table. However, research reveals that leaving some amount of money on the table — by charging prices that customers perceive to be fair — is usually more in the company's self-interest than claiming all the value in a transaction for itself.

"Charging fair prices, not maximum prices, optimizes profits over time."

Another side of the paradox is that discrimination—a negatively loaded word usually associated with harm—can be a force for good. The history of prices for air travel shows that price discrimination can be beneficial to customers, companies, and society. Adopting yield management enabled airlines to vary prices significantly from passenger to passenger on the basis of various reservation parameters, such as the timing of a booking.

This form of price discrimination democratized air travel because it opened up greater access to consumer segments that previously couldn't afford it or never viewed it as an option.


Tangerines
399
Maradol
Papayas
199
Solo
Papayas
699
Bagged
799