



De-risking Pricing Strategy Decisions for CPG Organizations During Periods of Rapid Inflation

White Paper
CPG





The Impact of Inflation

It's been nearly 40 years since we've seen the increases we are currently experiencing in quarter-on-quarter prices on goods in the U.S. ^[1] That equates to nearly two full generations of consumers where the current pricing environment is uncharted territory. For Consumer Package Goods (CPG) organizations, this brings many risks and opportunities. Understanding their end customers' intentions and behaviors have never been more important and getting it wrong is expensive. According to McKinsey, ineffective decision-making can cost the average Fortune 500 company nearly \$250 Million annually in wasted labor expense.

The percentage change in consumer goods' prices doubled in just one year, from 5.9% in Q1 2021, to 11.8% in Q1 2022. ^[2] Just about everyone is feeling the impact of inflationary price increases, which is changing how consumers shop. This point is captured well in a recent Forbes article where it was shared that, "Nearly one-third (27%) of consumers across generations, [including] Gen-Z, Millennials, and Gen-X, said they were buying more store brand/generic items due to price increases. 25% of adults said they were doing more comparative shopping online." ^[3] This shift alone could have enormous implications for companies, especially if they are relying on historical transactional data to make future decisions.

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The Need for a Strategy

The need for strategies that provide scale and rapid insight has become an increasing priority in the marketplace. Procter & Gamble's Q3-2022 report is a great example of the challenges CPG companies are facing. Sales for the quarter increased 7%, and 50% of that was due to pricing increases. However, overall margins still declined due to increased freight and commodities costs. A failure for P&G to recognize how much of their price increases could be passed onto the consumer could have resulted in a significant miss on their earnings estimates. This point is exacerbated further by the fact that consumers are switching to different brands and retailers at a greater rate in 2022 than at any other time since the beginning of the pandemic. ^[4]McKinsey highlights this point: "With inflation at a record high, more people are looking for value; price is at the top of the list of consumers' motivations for switching."


[1] Bureau of Economic Analysis

[2] Bureau of Economic Analysis

[3] Forbes – 26-Jan-2022, Cultivating Loyalty Is More Challenging Than Ever: Here's What Customers Want And Brands Should Know, According To The Latest Data

[4] McKinsey – 4-May-2022, How US consumers are feeling, shopping, and spending—and what it means for companies

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The following strategies are areas to consider as CPG companies look to evangelize the realities of the current macro-economic consumer climate:

1. Prioritize the **voice of the customer** and customer insights & market research efforts over historical transactional data

When companies are making decisions in a highly volatile and uncertain market it is critical that they have access to current and real-time insights to support their decision-making. For example, as costs continue to increase companies have to consider the most appropriate action to 1) maintain or expand market share, 2) achieve revenue goals, and 3) mitigate margin impacts. Increasing price is just one option. Companies can also reduce costs by defeaturing a product or even simplifying the product line, resulting in a reduced need to increase price. These types of decisions can only be made by understanding your customers intentions and behavior in real-time. Now is not a time to cut budgets for predictive insights that uncover what your most valuable customers prioritize the most.

2. Though customer insights should remain a priority, the need for rapid & continuous insights is increasing across the board.

In addition to consumer prices increasing rapidly, there are other factors that may begin to influence consumer spending, such as consumer credit card usage hitting an all-time high of \$930B,^[5] coupled with the risk of the federal reserve raising interest rates further. The impacts of these factors are that the reality of borrowing getting more expensive is real and that payments on the debt will likely increase. Combined with the fact that consumer personal savings, as a percentage of disposable personal income, is at its lowest level since October 2008,^[6] the need for rapid and ongoing insights for businesses is critical. Without these insights, the risk of falling out of touch with the marketplace is a reality. To help offset this risk, consider the incorporation of customer, Key Opinion Leader (KOL), and shopper communities into customer insight strategies. Doing so reduces the risk that organizations will fail to recognize changes in consumer behavior until it is too late. It also presents opportunities to reduce the total cost of ownership associated with traditional market research and creates revenue upside by creating a "knowledge center" for other parts of the business to inform and accelerate innovation.

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[5] CNBC – 10-May-2022, Credit card debt in the U.S. hits all-time high of \$930 billion

[6] Bureau of Economic Analysis

3. Make pricing strategies & customer experience management priorities for your business.

The prior recommendations are supportive elements to prioritizing Pricing Strategy as a focus for Marketing, Insights, and Innovation teams. The inflationary, interest rate, and personal savings pressures previously outlined all contribute to the need to make this a priority as price elasticity is increasingly tested in the market. Beyond making it a priority, the need for continuous, real-time consumer insights and feedback is critically important as the competition for consumer loyalty increases. Organizations who capture and apply this input in real-time can reduce the risk of losing consumers where price remains a key decisioning factor.



Prioritizing Pricing Strategy



Make customer experience a Priority

It is critical that organizations have a clear understanding of how price increases are influencing the consumer journey from the point of need to the point of consumption. For example, are they doing more comparison shopping? If so, how does your messaging and media placement need to change? Understanding changes in the consumer journey will allow you to evolve your communication strategy to better influence and convert consumers, and make sure you are maximizing the effectiveness of your media spend.

In Conclusion...

We can see the effects of price inflation, but it's the brands that utilize strategies, that will set themselves apart in the marketplace and continue to be profitable even with these challenges. As such, OSG can work with your company to look at the ways in which pricing, and customer experience, are impacting the bottom line.

About the Authors



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Prior to joining OSG, Ed spent seven years in Strategic Value Enablement at Pega Systems, Cornerstone OnDemand and Oracle where he partnered with sales leaders to help organizations identify, quantify and realize business value from software investments. Prior to that, Ed was the Vice President of Business Development at Right Management where he focused on selling and building relationships with C-level executives at Fortune 1000 organizations. Ed is a certified Executive Coach and had his own Executive Coaching practice for eleven years, helping business executives develop their leadership skills and grow their businesses. Ed earned his bachelor's degree with a concentration in Marketing at Bryant University. He also earned his MBA from the University of Notre Dame. Ed has a passion for health and nutrition, enjoys jogging, and is in the process of receiving a has a certification in Nutrition Science from Stanford University.



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Shawn Flynn is an accomplished senior leader with over 20 years' experience partnering and leading organizations focused on helping top global B2B and B2C brands deliver business impact. Shawn has extensive knowledge in business strategy, business analytics, and deep value advisory services. Shawn has a highly successful track record of leading groups that effectively synthesize research and data with strategy to convey a meaningful story to deliver impact for customers.

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