A Pricing Playbook for CPG Companies Amid Inflationary Pressure

JULY 2021

Four moves will help CPG companies respond to today's inflation immediately while ensuring long-term success

Deaverage
Differentiate price increases across categories, subcategories, and promoted product groups to capture the upside of inelasticity and keep hero SKUs competitive

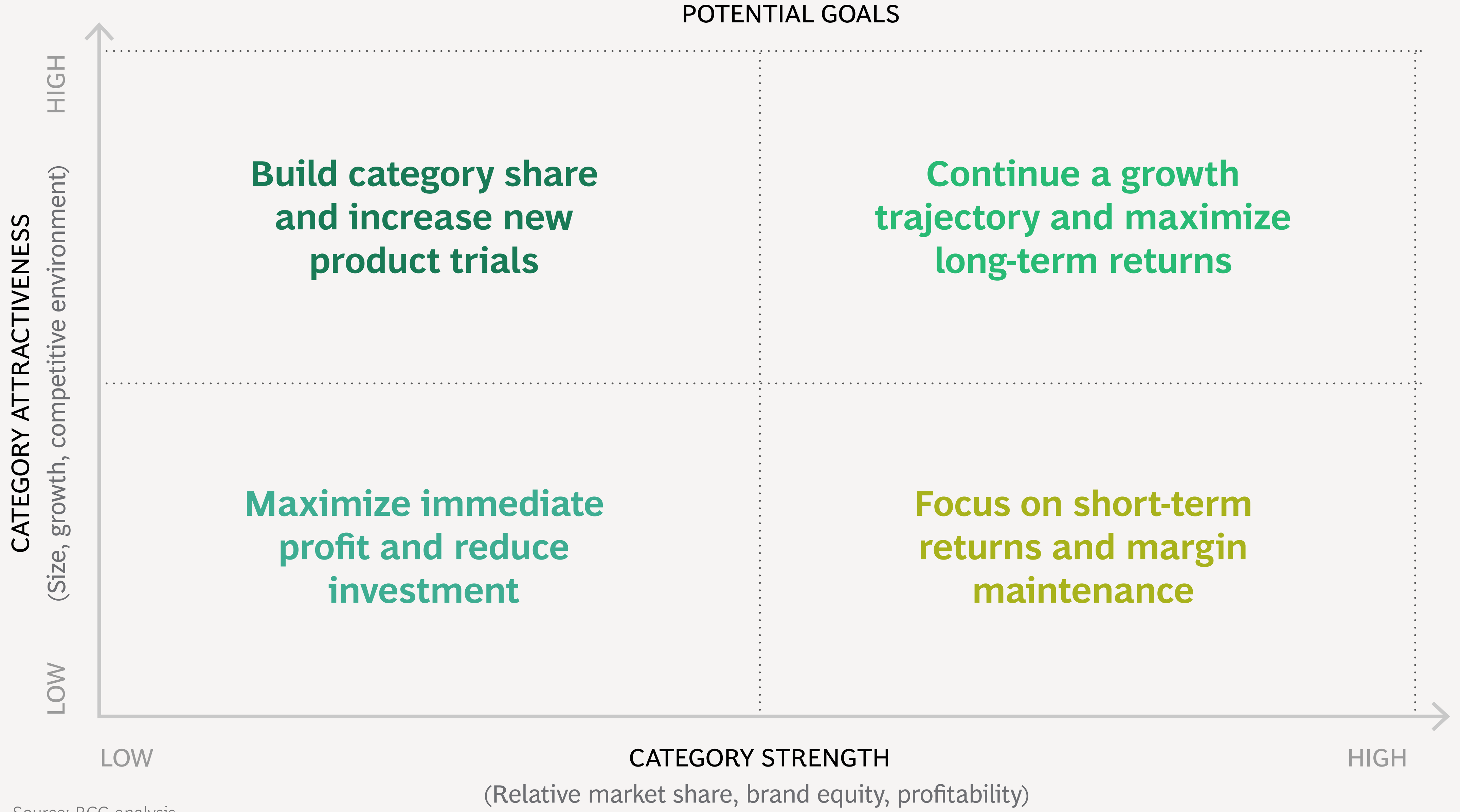
Prioritize shelf price increases
Consider the balance between price increases and reductions in promotional activity

Reset architecture
Be willing to cross so-called magic price points and unlock growth headroom for the longer term

Control for commodities
Build a systematic approach for passing through cost increases to retailers in the future

Source: BCG analysis.

Determine pricing tactics by category, subcategory, and promoted product groups based on the goals of each group



Determining your goal and the balance between share and margin can help inform pricing moves (including tactics and the magnitude of changes)

Source: BCG analysis.

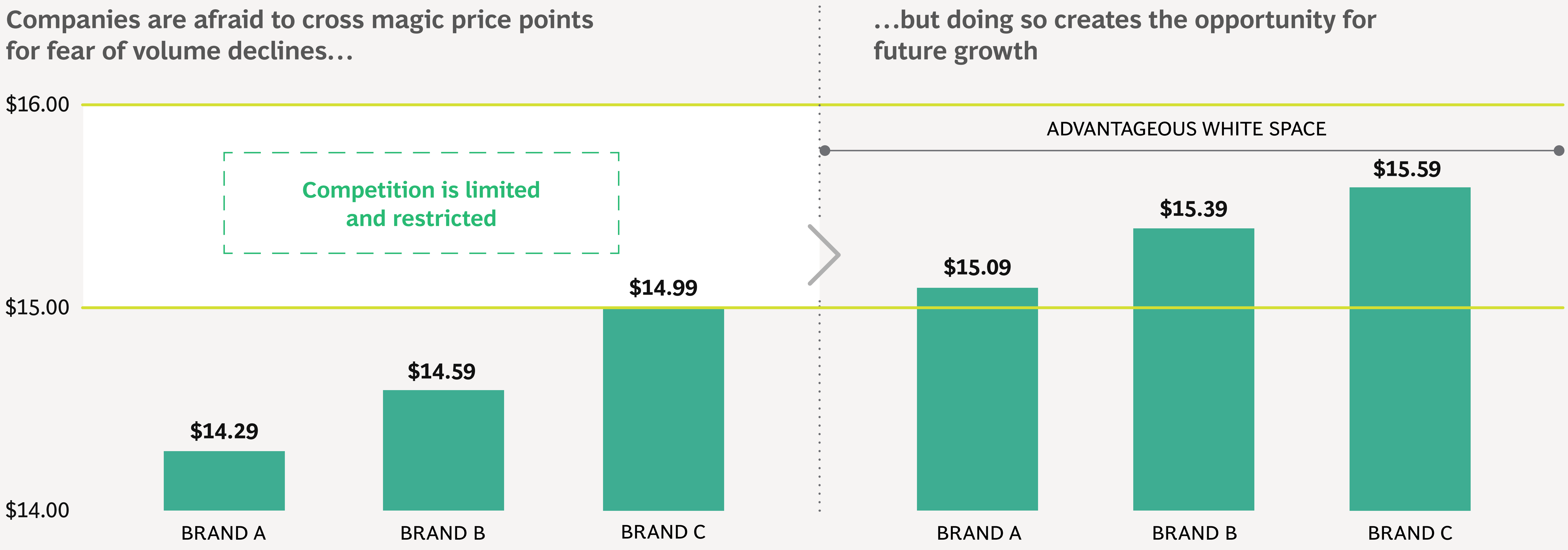
The preferred approach is to raise shelf pricing; then, base tactics on category and retailer dynamics

	Increase shelf pricing or…	**…reduce promotional activity**
IMPLICATIONS FOR CPG CATEGORIES	Better for categories less sensitive to price cliffs (such as specialty cleaners)	Better for categories more sensitive to price cliffs (such as chips and cookies)
IMPLICATIONS FOR RETAILERS	Generally narrows the price gap between everyday-low-price and high-low retailers	Generally widens the price gap between everyday-low-price and high-low retailers

Allows players to set the pricing baseline higher and reinvest in trade spending to gain share

Source: BCG analysis.

Cross magic price points to maintain margins and create long-term category headroom



Source: BCG analysis.
Note: Analysis is for illustrative purposes only. Examples do not correspond with actual brands.

Factor (potentially fluctuating) commodity costs into the pricing structure of product categories that are highly dependent on one or two inputs

COMMODITY PRICE FLUCTUATIONS	**Decrease**	**Minor increase**	**Moderate increase**	**Large increase**
ACTION	Raise trade spending	Minimize passing on costs to retailers	Lower trade spending	Raise list prices
IMPLICATIONS	Pass benefits to customers	Short-term margin fluctuations will likely have limited impact in the long run	Reduce promotional activity or other flexible strategies to offset cost increases	If trade spending has been maxed out, raise list prices

Source: BCG analysis.

Four enablers are critical to CPG players' ability to bring their new prices to market

01

Understand category-level economics
Develop a perspective on category-wide margin changes and ensure that margin pools are split fairly with retailers

02

Craft fact-based, win-win sell stories
Create a detailed narrative to explain rising input costs and demonstrate fairness; articulate a plan for joint value creation and mutually beneficial outcomes

03

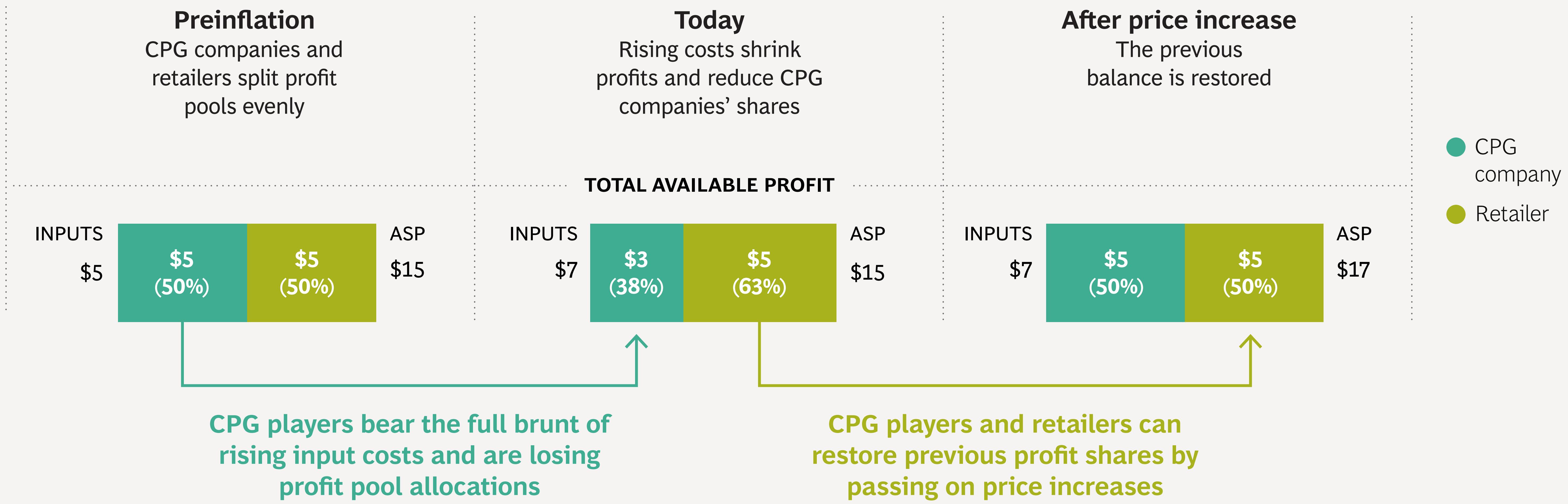
Sequence price moves and communications
Time retailer conversations, public announcements, and shelf changes to maximize buy-in and minimize cross-retailer friction

04

Plan for a response from competitors and private labels
Anticipate scenarios to ensure that price changes are sustainable from share and margin perspectives

Source: BCG analysis.

Capture fair value and restore preinflation margins by analyzing the effects of rising input costs on profit sharing



Source: BCG analysis.
Note: Profit distribution is illustrative, not based on specific products or data. Percentages are rounded and do not necessarily sum to 100. ASP = average selling price.

Follow these guiding principles when negotiating with retailers to convey that price increases are justified

Communicate on the basis of fairness
Acknowledge the successes of 2020...and be upfront about desired outcomes

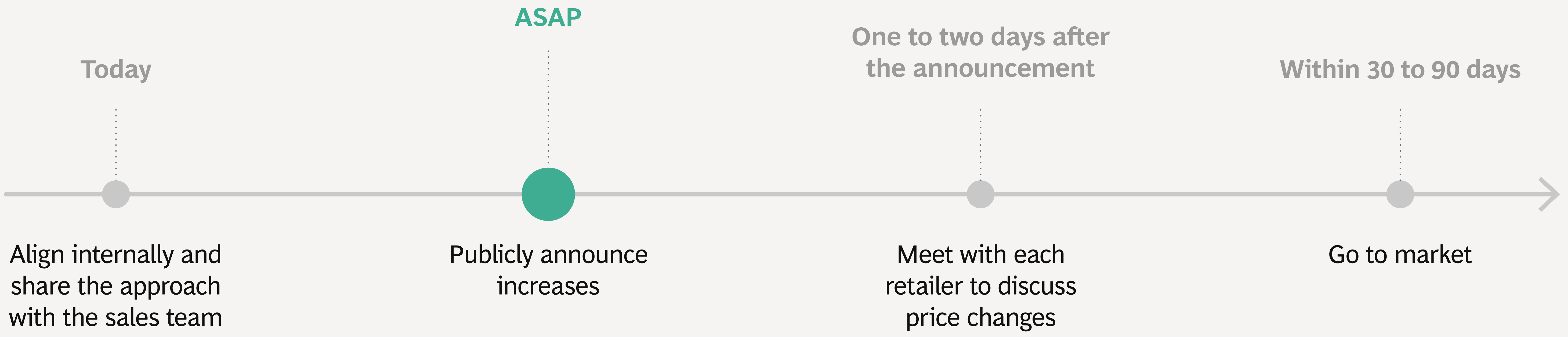
Educate retail partners on the facts
Explain rising costs...and avoid sharing information that could be leveraged in future cost structure negotiations

Prepare for a debate
Determine fair price increases...and be prepared to compromise for less

Tell a long-term story about category growth
Detail how increases will drive joint value creation...and describe them as part of an investment package spanning the value chain

Source: BCG analysis.

Thoughtfully time announcements, discussions, and execution of price moves



Announce a market-wide increase before meeting with customers, reassuring all retailers—everyday-low-price and high-low alike—that price changes are universal

Sources: International Council of Shopping Centers; BCG analysis.
Note: Timeline is illustrative. Timing will vary by needs, partner arrangements, supplier agreements, and other factors.

Anticipate and monitor competitive responses to ensure that price increases achieve share and margin goals

Ask yourself, "If we increase prices, will the competition…"

	INCREASE AVERAGE PRICES?	INCREASE PRICES MORE THAN US?	INCREASE SHELF PRICES?	DECREASE PROMOTIONAL ACTIVITY?
COMPETITOR A	✓	✓	✓	✓
COMPETITOR B	✓	✗	✓	✗
COMPETITOR C	✗	—	—	—
COMPETITOR D	✓	✗	✓	✓

● Increases or maintains relative market share ● Decreases relative market share

Continuously monitor competitors and react with pricing strategies in real time (via trade spending, for example)

Source: BCG analysis.
Note: Analysis is for illustrative purposes only. Examples do not correspond to actual brands.