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.

**Category Strength**
- Relative market share
- Brand equity
- Profitability

**Category Attractiveness**
- Size
- Growth
- Competitive environment

**Potential Goals**
- Build category share and increase new product trials
- Maximize immediate profit and reduce investment
- Continue a growth trajectory and maximize long-term returns
- Focus on short-term returns and margin maintenance

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.

**IMPLICATIONS FOR CPG CATEGORIES**
- **Increase shelf pricing or...** Better for categories less sensitive to price cliffs (such as specialty cleaners)
- **...reduce promotional activity** 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

Companies are afraid to cross magic price points for fear of volume declines...

...but doing so creates the opportunity for future growth

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

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

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

**Preinflation**
CPG companies and retailers split profit pools evenly

**Today**
Rising costs shrink profits and reduce CPG companies' shares

**After price increase**
The previous balance is restored

CPG players bear the full brunt of rising input costs and are losing profit pool allocations

<table>
<thead>
<tr>
<th>INPUTS</th>
<th>ASP</th>
<th>TOTAL AVAILABLE PROFIT</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td><strong>$5</strong> ($50%)</td>
</tr>
<tr>
<td>$5</td>
<td>$15</td>
<td><strong>$7</strong> ($38%)</td>
</tr>
<tr>
<td>$7</td>
<td>$15</td>
<td><strong>$7</strong> ($50%)</td>
</tr>
</tbody>
</table>

CPG players and retailers can restore previous profit shares by passing on price increases

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

Align internally and share the approach with the sales team

Publicly announce increases

Meet with each retailer to discuss price changes

Go to market

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…”

<table>
<thead>
<tr>
<th></th>
<th>INCREASE AVERAGE PRICES?</th>
<th>INCREASE PRICES MORE THAN US?</th>
<th>INCREASE SHELF PRICES?</th>
<th>DECREASE PROMOTIONAL ACTIVITY?</th>
</tr>
</thead>
<tbody>
<tr>
<td>COMPETITOR A</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>COMPETITOR B</td>
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<td>✗</td>
<td>✓</td>
<td>✗</td>
</tr>
<tr>
<td>COMPETITOR C</td>
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<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>COMPETITOR D</td>
<td>✓</td>
<td>✗</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

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

Increases or maintains relative market share  ☀
Decreases relative market share  ☣

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