



## Pricing Tools, Sophistication, and Judgment Are More Important Than Ever

To BCG's network around the world,

Inflation continues to be an enormous challenge and will likely stay at above target levels for an extended period. The threat of recession looms. Central banks have made significant rate hikes, while OPEC decided on production cuts in anticipation of softening demand.

All of this paints a volatile picture for firms trying to translate these signals into a pricing strategy. While margin pressures on companies rise, their customers are increasingly vulnerable and becoming price sensitive in many categories, so the simple lever of raising prices is not always possible. And even when it is—and it makes the most sense from a near-term profit perspective—it's critical to stop first and ask: is it the right thing to do and if so, how?

### **Consider Consumer Complexity**

It's important to acknowledge that consumers today are far from monolithic. BCG's consumer behavior research, conducted in Germany, France, the US, and the UK in August 2022, indicates consumer complexity that should be understood and integrated into sophisticated pricing strategies.

There are categories within which consumers, driven by three distinct reasons, expect to spend more than they do today. There's inflation-driven spending on essential items such as gas, utilities, groceries, and housing. There's increased spending due to pent-up post-pandemic demand on things like travel, movies, and live entertainment. And finally there are "no sacrifice" categories, which include

items such as organic food and pet supplies that some consumers are unwilling to do without.

Then there are categories where consumers intend to spend less. They're buying fewer non-essential items, such as clothing, to compensate for higher spending on essentials. They're hunting for deals and promotions in categories like body and skin care, still intending to make purchases but for less. And in categories such as gym memberships and cosmetics, consumers are looking for substitutions, wanting to switch to cheaper alternatives.

## **Pricing for the Future**

In a survey of more than 1,400 pricing decision makers carried out last month, we learned that most companies have protected their margins by increasing prices without differentiating much by SKU, segment, or channel and have not invested in upgrading pricing capabilities. That approach won't hold up in today's environment of consumer behavior divergence and economic volatility. Instead, pricing should be part of a highly sophisticated process.

First, companies need to increase their investment in competitive intelligence, analytics, and automation. But that's not enough. They also need to maintain a human control mechanism to ensure careful judgment as consumers feel more strain, making sure that price moves are strategically aligned and effectively communicated, and that stakeholder implications are recognized.

Consider convenience and small-format stores, where pricing elasticity is considerably lower than in large-format supermarkets. Prices go up in convenience stores, and they stick. But lower-income neighborhoods often lack access to supermarkets, and consumers disproportionately depend on convenience stores for their everyday, staple goods. Companies need to find better ways to meet the expectations of shareholders and investors while serving customers as responsibly as possible.

For a large segment of consumers in many parts of the world, the pandemic's lockdowns left their pocketbooks reasonably full. As a result, many companies were able to respond to severe cost shocks and supply chain disruptions by taking the short-term, high-impact route of raising prices.

But we can't just look at the past—not even the recent past—as a guide to the future. As pressures on consumers grow and as businesses are increasingly scrutinized for their pricing actions, leaders need to be more methodical in order to make the right

moves in the right way. The tools to do this exist. Now, it's about building and applying them, alongside careful leadership judgment, to navigate the stormy seas ahead.

Until next time,



Rich Lesser  
Global Chair

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## Further Reading



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Leaders face an uncertain landscape. The impact of each decision feels impossible to predict, which is why they need strategies that are proactive, resilient, and competitive.

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Inflation is higher than it's been in a generation, but policy makers still have room to maneuver.

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## **Inflation Is Forcing B2B CEOs to Rethink Pricing**

Rather than see B2B inflation as a dire threat, companies should view it as an ideal opportunity to make long-overdue changes to pricing practices. The attention of senior leaders will never be more focused on pricing than it is right now.

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