How to grow despite inflation

Protect your margins with proven strategies

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Unlocking better growth

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Inflation: Why it's a problem for everyone

With rising prices, raw material costs, and energy expenses, it's safe to say goods are more expensive than they have been in years. And there seems to be no relief in sight.

Due to rampant inflation rates and the crisis in the Ukraine, Fitch Ratings' March 2022 Global Economic Outlook has cut its world GDP growth forecast for 2022 by 0.7 percentage points to 3.5 percent and for 2023 by 0.2 percentage points to 2.8 percent.

What does that mean? Not only are consumers getting less for the same amount of money but companies from a wide range of industries and stages in the supply chain are also struggling. They now face lower supply and – at the same time – higher costs to create and sell their goods.

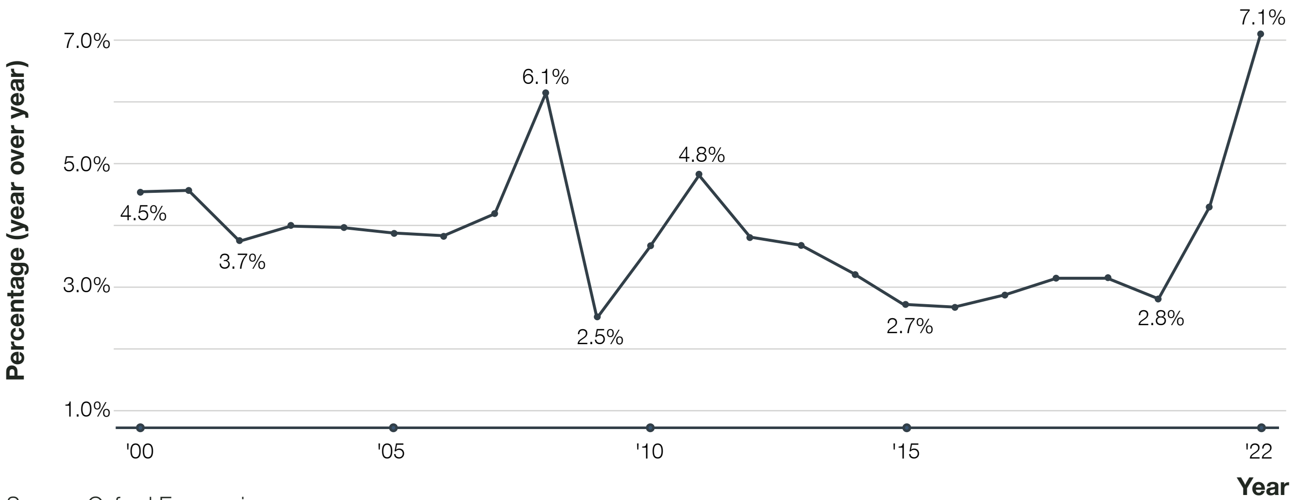
In order to find out how companies assess their current situation and more importantly, to determine concrete recommendations for action, we conducted our Inflation Pricing Study.

How have companies responded so far? And what solutions are there to protect margins and ultimately enable growth?

Higher prices for end consumers

Increasing prices of raw materials, higher costs for energy, and delays in the supply chain have ultimately been passed down to the end consumer. This volatility, when combined with the impacts of the COVID-19 crisis, means we are seeing some of the highest annual inflation rate in more than 30 years.

Global Consumer Price Index Rates from 2000 to 2022



Source: Oxford Economics

Expert analysis

There are implications for everyone.

Tim Brzoska: Consumers are noticing the ever-increasing prices every day when they make purchases – and it's no surprise they're looking to the future with concern. Increased price pressures will have implications for not just businesses but for everyone – including end consumers and stock markets.

Rising costs for companies

With increased costs for raw materials, energy, and wages, costs are rising – and quickly. In addition, consumers are generally being more selective with their purchase choices. These effects are being felt by virtually all industries and are placing an enormous burden on companies.

What options do companies have?

How can companies proceed to protect their margins and initiate growth? One option would be to reduce their own costs. However, this is difficult to do because of the enormous cost increase rates. The much more promising strategy is to raise prices. But this too is perceived as risky by many companies. Loss of volume and alienated customers are just a few of the concerns typically raised.

Expert analysis

What can companies do to counter the effects of inflation?

Dr. Philipp Biermann: At the current inflation rates, optimizing processes will not be enough to counteract the higher costs. In the long term, therefore, companies will not be able to avoid price increases.

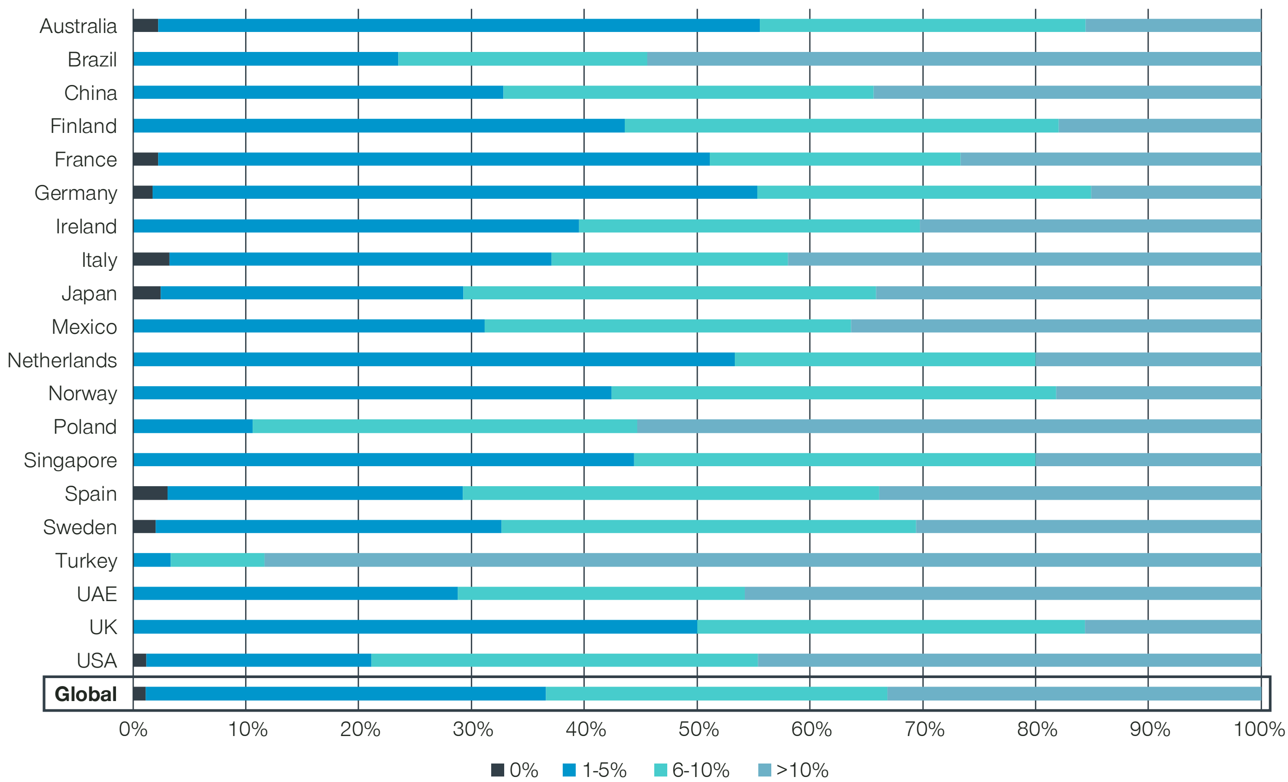
Price increases: What are you most afraid of?

Higher costs in the future

Companies cannot ignore the current inflation rates. And according to the most recent business climate indices, they are not doing so, as seen by the slump in sentiment in the past months. And their outlook into the future isn't very bright either:

Our **Inflation Pricing Study** surveyed more than 3,000 businesses across 20 countries and revealed that a third of businesses (32 percent) expect costs to increase by at least six percent in the coming year.

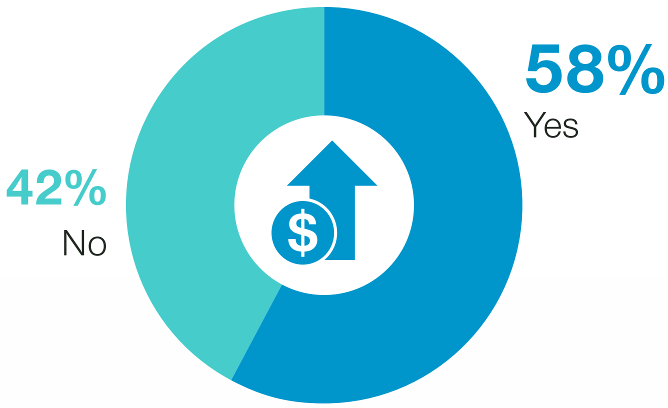
How much does your company anticipate inflation affecting the company's costs? What percentage of cost increases does your company expect in 2022?



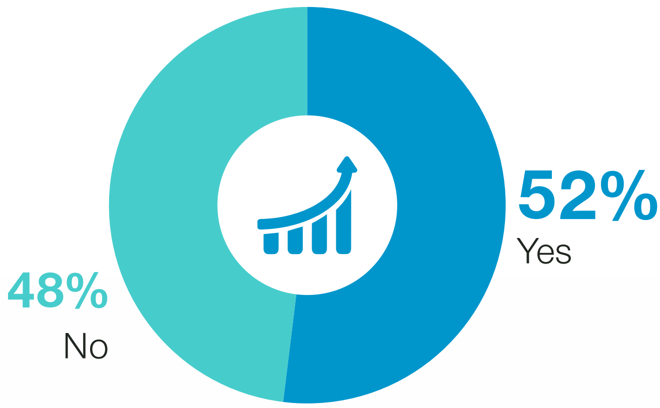
Businesses are avoiding raising prices in anticipation of excessively high volume losses

The logical consequence would be to raise prices quickly and decisively to protect margins. But, this has not happened so far. The global study showed that more than 40 percent of companies have not yet increased their prices, and three quarters of those (31 percent of all companies surveyed) have no plans to do so in future – despite a continuous increase in inflation rates across the last several months.

Has your company increased the price of its products, services and / or solutions in the past few months?



Is your company planning a (further) increase in prices for its products, services and / or solutions in 2022?



Interestingly, it is apparent that those companies who have already recognized the benefits of raising prices intend to continue pursuing this strategy. 41 percent of companies are planning additional price increases, on top of those undertaken in recent months. How effective these will be though strongly depends on the implementation approach applied.

Lack of effective price management

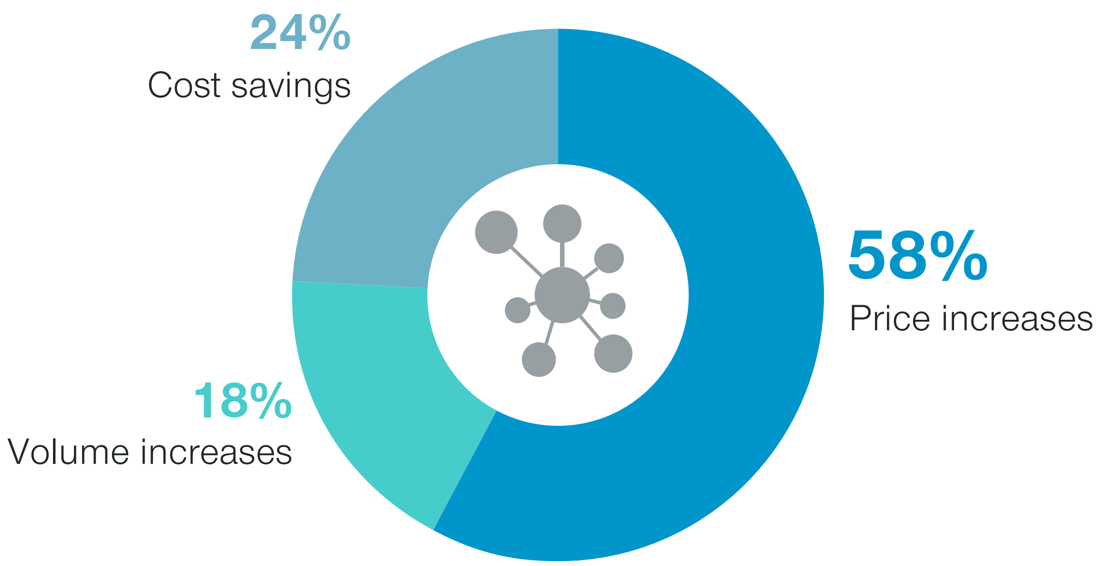
The majority of companies surveyed (58 percent) recognize the importance of price increases to counter the rise in costs but companies are hesitant over the best approach. We are seeing a lack of confidence from businesses about how and when to implement price increases.

Given the typically low inflation levels over recent years, this is something new for many companies to grapple with. However, a lack of effective price management represents a real threat for businesses, including through negative effects on share price and investor confidence. The reality is failure to pass on costs risks significant margin erosion and fundamentally reduces their long-term viability.

Where companies are implementing price increases, one in four (26 percent) are implementing these evenly across their customer base, with no differentiation by willingness-to-pay or profitability. This lack of prioritization represents a further lost opportunity for businesses to maximize the price realization of their price increase programs.

Many price increases are undifferentiated, applied with a scattergun approach

What measures will you implement to counter the rise in costs?



Expert analysis

How can companies improve their price increase strategy?

Kornelia Reifenberg: Price increases are a very sensitive topic, especially for companies with long-standing customer relationships. In these times, it is important to be able to adjust prices as flexibly and promptly as possible. So right now, a well-structured pricing and communication strategy is fundamentally important for companies to survive in the competitive environment. A differentiated approach and systematic preparation of the organization are essential for this.

But what does such an approach look like in concrete terms? What preparations should companies make now for their urgently needed price increases? What factors are crucial for successful implementation? Our experts have mapped out their clear recommendations for action.

Recommendations for action from our B2B experts: Dr. Philipp Biermann and Kornelia Reifenberg

9 steps: Your path to a successful price increase

Configure the levels

1 Inventory

Review existing contracts to identify potential for price increases and derive the overall touchable revenue

2 Define price increase target

Analyze cost trends and price potential and set a clear target

3 Differentiate targets

Set different campaign targets according to customer, product, service and channel

Prepare implementation

4 Define alternatives and escalation rules

Give your sales team alternative price models, pricing clauses

5 Set sales incentives

It will be worth your while to reward successful price negotiations (increases) with a clearly communicated compensation plan

6 Solidify communication

Train price negotiations and explanations in simulations

Find out more!

Roll out initiative

7 Provide additional support with materials

Create battle cards, argumentation guides and negotiation plans to strengthen your sales force

8 Develop performance measurement

Establish relevant KPIs and timelines for negotiations

9 Monitoring and reporting

Create the organizational basis for continuous monitoring of implementation progress in real time

Dr. Philipp Biermann is a Senior Partner in Simon Kucher's Cologne office. He leads the firm's global Business Services Practice and has completed nearly 100 projects on five continents since 1999. He spearheaded projects for air and sea freight carriers and forwarders, rail/road transportation and supply chain suppliers as well as CEP and infrastructure providers.

Kornelia Reifenberg has been with Simon-Kucher since 1997 and, as a Partner for the logistics industry, specializes in commercial excellence, particularly the development of price differentiation and yield management strategies, go-to-market and sales approaches, and the implementation of innovative business concepts.

Recommendations for action from our B2C expert: Tim Brzoska

Tim Brzoska is Senior Partner in Simon-Kucher's consumer sector. Based in the Cologne office, he supports companies in the consumer goods, hospitality, and retail industries with strategy, sales, marketing and pricing challenges. In addition to his consulting work, he has authored and co-authored numerous publications.

Here's how to do it:

Set targets for your net price increase
Sophisticated forecasting of cost developments and alignment with sales and revenue targets are the basis for a successful price increase

Leverage shoppers' willingness to pay
Differentiate your price increase based on price thresholds and value drivers

Develop retailer-specific strategies
Net price targets, communication, negotiations, concessions and impact of the price increase should be tailored to the individual situation with trade partners

Prepare the implementation in detail
Define responsibilities, escalation guidelines, customer communications, and use tools to immediately simulate the revenue and profit impact of price increases and possible trade conflicts

Find out more!

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