



A&M INSIGHTS

Managing the impacts of price increases through commercial strategy

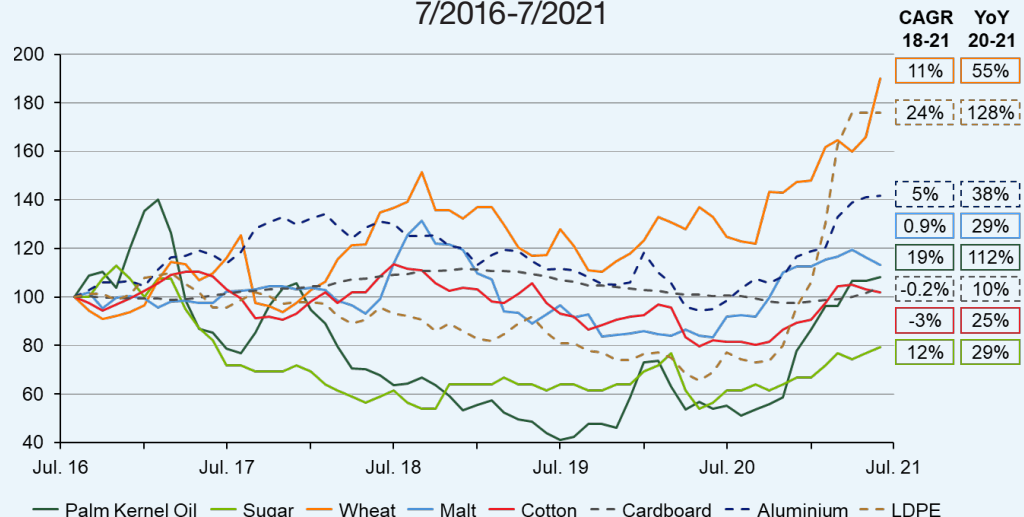
Introduction

The last year has seen a sharp rise in commodity costs, as well as increases in freight rates and packing cost rises for materials such as aluminium and cardboard. Staff shortages due to quarantining have also disrupted supply chains and put pressure on workforce costs. The global economic recovery is the key driver as consumer pent-up demand outpaces supply for goods from big ticket items to FMCG consumable products. Most recently in the UK, the fuel crisis and lorry driver shortage has added further challenge.

Additionally, there has been cost pressure on FMCG companies to invest in innovation as consumer behaviour has responded to the pandemic with a pivot to shopping online and the self-evident climate change emergency has focussed the attention of the consumer further on sustainability and the environment requiring additional investment from manufacturers to compete and maintain share. Hedging strategies that may be in place are running out in many cases, and for those without pass-through price increase clauses in customer contracts, it is prompting the reality of having to pass price rises on to consumers.

Commodity and packaging prices have seen steep rises over the last year

Price development in selected direct and packaging material 7/2016-7/2021



Source: CapIQ, USDA, Bloomberg, Refinitiv Eikon Datastream

For most FMCG companies – particularly those who are not in a dominant leadership position – passing on price increases to consumers is generally a last resort.

Over recent years there has been some moderate price increase (c+1.0%-2.0%) as FMCG manufacturers have managed to absorb typical input cost changes within their P&L and largely avoided the risk of upwards price changes.



As the world emerges from the lockdown disruption around the world, from peanut butter to trash bags to canned soda, CEOs throughout the sector have been preparing the market to accept their price rises. Companies across sectors have announced rises linked with higher costs. It's a question of time when others will follow. Consumer prices will rise.

Price Rises Are Impacting Every Sector



Apparel

Ralph Lauren: Raising prices and reducing discounts, with average selling prices up 17% last quarter

American Apparel: Price increases due to higher shipping costs and stressed supply chains

Crocs: Expecting price increases in 2022



Home & DIY

IKEA: Warns global trading tensions will lead to price rises for customers.

Travis Perkins: Predicts significant timber, copper and steel price rises amongst other raw materials.

Wickes: UK timber price increases passed onto consumers



Electrical Appliances

Whirlpool: Increasing prices in every region of the world driven by commodity cost increases

Samsung: Plans to raise prices of semiconductor wafers used for powering consumer tech

Dell: Warns that PC price rises are likely due to global chip shortages



Food & Beverage

Unilever: 1% price hike Q1, further increase expected.

Coca-Cola: Warns of price increase to offset rising costs

PEPSICO: Expects to 'take good, strong price increases'



Health & Beauty

Procter & Gamble: Price rises on key brands and products announced

Aptar: Announced price adjustments necessary as facing unprecedented cost increases across channels



Household Products

Kimberly-Clark: Price rises for main categories announced as necessary to help offset commodity cost inflation

Reckitt Benckiser: Warned it will be forced to increase prices later this year to deal with rising raw material costs



Toys & Games

Hasbro: Raising prices of toys and games to counter freight and input cost increases

MATTEL: Will be looking to increasing prices in the run up to Christmas



Current pricing activity in market, the consumer awareness of cost pressures and the publicity around price across sectors offers the opportunity to take decisive action. Consumer Goods companies can benefit from applying a structured, rapid and comprehensive approach.

Alvarez & Marsal Advises Six Clear Steps

1

Define the approach by market, by channel and customer segment with a brand by brand view

- Set up strategic, data-led decision process to look market-by-market at the customer segmentation and channels
- Determine how to 'share' out the cost increases amongst customers

2

Optimise terms within Gross to Net investment

- Execute strategic choices to address list prices and discount levers
- Focus on conversion of any non-conditional trade term elements
- Reduce investment in non-strategic customers

3

Drive effectiveness and efficiency from promotional spend

- Focus on absolute incremental FGP and ROI
- Reduce absolute spend to offset price increase, enabling consumers to get used to higher retail prices
- Reduce number of promotions
- Share promotional costs with retail partners
- Avoid month-end volume loading

4

Consider changes to the brand, mix and SKU portfolio

- Focus on core categories, set pack size and volume strategy
- Increase Gross Price in line with Brand / SKU strategy
- Reduce less-profitable SKUs
- Push pack sizes to drive growth through profitable volume
- Consider shift to smaller pack volume to maintain flat pricing

5

Establish accountability and KPIs across the organisation

- Central governance essential for success, coordinating pricing strategy response across central functions and markets

6

Finally, and crucially, a **clear, open and honest communication strategy** must be set with Customer and Consumers



A bold strategic approach is mandatory – focus on implementation and communication is what defines success.



Success

- Define a strategic price increase matrix by brand, channel, segment and customer
- Create headroom to absorb price increases through accelerated value engineering actions
- Initiate strategic push to optimise pack sizes
- Reduce and reset the promotional plan – by brand, pack size, retailer
- Drive performance across operational KPIs and separate price issue from performance
- Set up tracking during implementation
- Develop a top-down communication plan



Pitfalls

- Hide the fact what's happening from customers or consumers
- Short-change the customer by actions that compromise quality or playing games with volumes & packaging
- Apply blanket one-size-fits-all approaches
- Allow subsidiaries free rein – define guiding principles for subsidiaries, “freedom within a framework” only
- Load the task in one team – “all hands on deck”: subsidiaries, functions and central teams



What Expertise Can A&M Bring?

Our people are experienced operators and are equipped with the methods, tools and best practice models needed to realise effective pricing strategies into place:

- We bring solid expertise in tailoring the holistic approach to pricing and addressing the cost pressures within your business.
- We bring rigor and proven analytical techniques needed to optimise terms within Gross to Net investment, drive effectiveness and efficiency in promo spend and implement the optimal brand, mix and SKU portfolio.
- We bring the practice governance, metrics and processes to establish accountability across the organisation



A&M: Leadership. Action. Results.™

A&M has worked with some of the largest European Consumer businesses to stabilise financial performance, transform operations, capture profitable growth and accelerate results through decisive action. When traditional improvement activities are not enough, A&M's restructuring and turnaround heritage rings fact-based, action-oriented leadership to transformation and delivers rapid results.

Our professionals have both operational and advisory experience together with a proven track record in leading businesses through tough, complex situations.

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ABOUT ALVAREZ & MARSAL

Companies, investors and government entities around the world turn to Alvarez & Marsal (A&M) for leadership, action and results. Privately held since its founding in 1983, A&M is a leading global professional services firm that provides advisory, business performance improvement and turnaround management services. When conventional approaches are not enough to create transformation and drive change, clients seek our deep expertise and ability to deliver practical solutions to their unique problems.

With over 5,500 people across four continents, we deliver tangible results for corporates, boards, private equity firms, law firms and government agencies facing complex challenges. Our senior leaders, and their teams, leverage A&M's restructuring heritage to help companies act decisively, catapult growth and accelerate results. We are experienced operators, world-class consultants, former regulators and industry authorities with a shared commitment to telling clients what's really needed for turning change into a strategic business asset, managing risk and unlocking value at every stage of growth.

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