8 Strategies to Manage Price Fluctuations and Supply Chain Problems

by: Garth Hoff

In this article, the author examines the inflationary issues at hand and how pricing can assist in calming the inflation storm and make sure pricing teams are ready for any other disasters they may face. Because let's face it, this won't be the last time we face dramatic shocks to your ecosystem – 2008 crisis, anyone? Garth Hoff is a Principal Pricing Solution Engineer at Pricefx. He can be reached at garth.hoff@pricefx.com.

Before the pandemic, manufacturers and distributors like you faced price fluctuations - but nothing like what you're up against in this post-pandemic world.

You're struggling with shortages, bottlenecks, transportation, weather, and labor woes, all of which have caused wild price swings across the board in any number of industries. What's more, the end is not in sight.

Inflation at the wholesale level has hit an 8.3% year-on-year increase according to a recent U.S. Bureau of Labor report, the largest single annual increase in the department's history. Fuel prices and indices for raw materials used in production are going through the roof and the chances are that your organization is not alone in grappling to keep the persistent price fluctuation under control. **The result is unreliable projections in revenue or margins and, in worse cases, losses in revenue.**

What are you to do?

8 Strategies to Weather Stormy Price Fluctuations

In this article, we show you 8 pricing tactics that you can use to weather the inflation storm and whatever else you get thrown your way.

1. Become proactive with the price fluctuation blues
2. Allocate cost increases by segments
3. Review your changing cost to serve
4. Check your price discounts, rebates, and promotions
5. Scrutinize your product and customer histories for underperformance
6. Protect margin leakage with pricing software
7. Focus on value in the eye of price fluctuation inflationary storm
8. Speed up pricing approvals to battle price fluctuation

1. Become Proactive with the Price Fluctuation Blues

Markets shift every day, and right now, more so than ever. Keeping track of the rapidly shifting price changes manually in vast and slow-loading spreadsheets is stressful. It can take hours to audit each item on your product list line-by-line. As such, manual changes are not only prone to human error but are also likely to be out-of-date by the time they have been completed. Staying on top of the changes allows you to stay competitive and protect your profit.

Protecting your bottom line by responding to price changes in real-time is critical in these wild times. Being proactive, up-to-date, and precise using actionable data to drive your pricing will give you the best chance to protect your margins in real-time. Fall asleep at the pricing wheel and you'll run the risk of rising costs eating into your profits.

2. Allocate Cost Increases by Segments

In this climate of potentially enormous almost-daily price changes, identifying the different segments of your business where cost changes are felt the most is critical. If your product line is difficult to source, has only a few viable alternatives, or is in limited supply or high demand, passing on a cost increase to protect your profit margin can be easier to manage for this segment.

For instance, if the cost of one of your manufacturing components is only a small percentage of a larger, finished product, passing on a small and explained price increase is usually well understood by your customers.

On the other hand, if you have more highly competitive or concentrated segments or a range of customers across different regions where cost impacts are uneven, you may need to allocate cost increases more carefully to protect your margins.

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Ignoring the real-time cost increases in your segments can be a margin-killer.

3. Review Your Changing Costs – "Costs to Serve"

The "costs to serve" elements in your business are best reviewed during an inflationary cycle to be certain that you are passing on the full cost of the service to your customers. The price of many elements comprised in your business are fluctuating like never before, such as:

- Packaging
- Freight
- Warehousing
- Fuel
- Transport and distribution costs

Simplifying those elements and creating efficiencies across areas of your business where only a few elements may exist in small sub-segments will assist in streamlining your costs and keep your business competitive.

Transparently introducing specific service fees like fuel surcharges or same-day delivery charges may be used as a temporary strategy for communicating pricing and cost increases to your customers during these times. Overlooking explanations to your clients for price rises through your rising costs to serve is a dangerous path.

You may lose valuable profit. However, in the worst-case scenario, you may potentially risk losing your client for good.

4. Check Your Price Discounts, Rebates, and Promotions

In times of rapid fluctuation in price and inflation, it becomes critical to audit your discounts, rebates, and promotions, and to dispense with those that are unnecessary. The reduction of on-invoice discounts like promotional, volume, standard, and discretionary discounts, or off-invoice instruments like customer or buying group rebates and payment term costs, can be an effective method to manage your yield-based inventory stocks.

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However, where discounting is required, transforming them from discounts to rebate programs wherever possible should be considered to switch any risk based on performance targets to your customers rather than to your margins. Discounts can always be re-introduced as loyalty rewards after the inflation storm has passed and the threat of them eating into margins has passed.

5. Scrutinize Your Product and Customer Histories for Underperformance

Tough times call for tough actions. The good times might have hidden underlying issues that are now raising their ugly heads. In short, every single pricing assumption and area of underperformance (such as out-of-sync pricing models, outdated segmentation models, due-to-expire expired discounts and promotions, etc.) will need to be reviewed and adjusted for inflationary impacts to price and margin.

When inflation hits, and prices fluctuate, it becomes critical to check past pricing decisions and correct them before any outstanding issues get out of hand and any underperformance illnesses become profit terminal.

6. Protecting Margin Leakage with Pricing Software

With prices and inflation on an inexorable march upward during the last 12-to-18 months, avoiding profit margin leakage as much as possible has become critical. Real-time price setting with granularity, effective control of discounts or negotiated prices, and an understanding of personalized prices to serve defined customer sets have become the gold standard in battling wild price swings.

With a set of detailed analytics, data-driven price setting can support your organizational objectives and enable sales teams to offer only appropriate rebates and discounts, thereby protecting your business' margins.

If your business is complex with many product items and/or a large and diverse client base, you can forget about protecting margin leakage with a manual system; you will never keep up and any potential for leakage can only increase.

7. Focus on Value in the Eye of Price Fluctuation Inflationary Storm

Concentrating on product value in an inflationary cycle is vital, remembering that pricing is based on the perceived value to your customers and a lengthy list of other factors, not only raw

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materials and fuel costs. Begin by transparently communicating to your clients the potential supply chain problems and how the results can affect real-time increases in their order prices.

For example, if express delivery has a premium value to a potential customer, they also need to understand that increasing fuel costs and driver shortages are causing the cost to climb higher.

A strategy of communicating the value and drivers for the extra costs to your customers can be effective. Or, offering lower costs or discounts for 2-day shipping as an alternative to same-day shipping may also be an effective strategy when spiraling costs threaten the value threshold of your products.

By protecting the value of your products, your customers will also respect their value too.

8. Speed Up Pricing Approvals to Battle Price Fluctuation

With the current rate of change and pricing moving at such an unprecedented pace, efficiently keeping up with those changes is of the highest priority. If you still use Excel to manage your pricing, then you might not be at the stage where approvals hinder progress. Alternatively, you might find yourself jumping from system to system to get approval and, if denied, the process starts all over again.

But you don't have to settle for approval ping pong. Recent price fluctuations mean that you have an opportunity to assess your approval workflows and weed out bottlenecks and redundancies. That alone will make it possible for your sales teams to walk into any deal with confidence and close deals faster. Don't allow critical deals to slip through your fingertips with shoddy or slow-to-react workflow deal approval processes.

Manage Pricing Fluctuations Easier with Proactive Measures

By using these tactics, you should be able to weather today's storm and not get caught on the backfoot, losing margin and revenue due to supply chain failures and inflation irregularities.

In case that's not enough, we have a 9th bonus way to improve revenue and margins even in one of the worst shake-ups of the decade. All of the tactics we provided above can be solved using Excel or your current tech stack with a little ingenuity.

Basic tools like Microsoft Excel, custom-coded or consultant-created solutions, and other dedicated price and margin management tools can all deal with price rises to an extent. However, for example, can you imagine going through your entire product list every few days in an Excel spreadsheet to pass on rising shipping costs based on rapidly expanding fuel prices?

It doesn't take a technology nerd to realize that the time taken to perform the task manually is unsustainable and the underlying extreme potential for error. What's more, if you are pricing slowly with Excel spreadsheets, there is quite possibly a handy pile of extra money that you are leaving at the checkout given the current rate of price change.

But if you're looking to more than just weather this storm but every single succeeding storm, then you'll want a comprehensive pricing system that can help you to react quickly and in real-time. The alternative might be akin to filling the holes on your ship with silly putty instead of industrial-grade epoxy. If that sounds like you, then it might be time to start exploring pricing software options.

In the meantime, we have another article that can help you in **Avoiding Inflationary Margin Compression with Dynamic Pricing** and arming yourself with the knowledge and power to proactively adapt to unbridled price swings and supply chain challenges.