

Beating Inflation

by: Adam Echter

Looking for a practical, concrete guide for agile actions relevant to your business? ***Beating Inflation***, the new book by Hermann Simon and Adam Echter, gives you the best of both worlds: real-life experience from pricing professionals and state-of-the-art knowledge and research that successful companies are implementing today. In this article, author Adam Echter presents several of the key takeaways from the book that pricers can begin implementing to fight the current unprecedented levels of inflation. Adam Echter (Adam.Echter@simon-kucher.com) is a Partner and Head of the Silicon Valley office at Simon-Kucher & Partners. He will be giving a keynote presentation at the 34th Annual PPS Spring Conference (Dallas - May 2-5, 2023). ***Beating Inflation*** is available for purchase on Amazon and other platforms.



The current levels of inflation are an existential threat to the vast majority of American businesses; most will struggle to maintain profitability in 2023 and many will not survive. The effects of inflation have already manifested in 2022 results: 469 of the S&P 500 (94%) companies reported Q4 revenue as being up 5.65%, while earnings were down 3.22%. This is the direct impact of inflation - more dollars in your bank account but less buying power. Are you prepared to beat inflation?

The speed and magnitude of the current inflation caught many business leaders by surprise. As members of the Professional Pricing Society, you are all on the front lines - I would wager you've been feeling this for some time. As pricing professionals ourselves, my team and I have been right there with you. We witnessed concerns arise in 2020 as economic trends shifted and the inflation wave began to rise. Commodity-driven businesses were hit first in 2021, followed by complex assemblies in 2022, and now labor-intensive businesses like software & services are riding the inflation wave into 2023.

From our front-row seat at Simon-Kucher, we pulled together Partners from all generations and industries to

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work on this problem, which is so unfamiliar to so many of us, having enjoyed sustained low inflation for decades in the U.S. Our founder, Dr. Hermann Simon, contributed perspective from the last inflationary period during the 1970s, my U.S. colleagues and I collected best practices from front-line businesses today, and our Partner colleagues from around the world shared pricing stories and strategies from markets such as Turkey and Argentina, where inflationary rates as high as 50-100% make our current figures look tame. In the end, we brought together this body of knowledge in the book ***Beating Inflation*** to share our findings with business leaders who will need to make tough decisions in this new and unfamiliar environment - you will find some key takeaways here in this article.

Eighty-seven percent of CEOs will look to pricing as the first line of defense against inflation. That is why as a Professional Pricer,

your role will be more critical in the next decade than it was in the last. But leaders need to go deeper and explore how your procurement team, production, supply chain, finance department, and sales all should work together to beat inflation.

Even if the economic situation improves, the greatest impact of inflation will be a psychological one. Consumer sentiment will be affected for years ahead, so every function needs to take steps toward long-term growth. As a leader, your critical role in driving this change throughout the entire organization cannot be underestimated. So where do you begin?

1. Build Agility

The most important thing to do right now is to make sure you have agility. You need the ability to act. Do you have the right people, and can you execute change, even if it is clumsier than you would like? Then get moving.

Quick wins include pricing your primary items at a more segmented level, adding additional monetization tactics such as surcharges, and reviewing your Terms and Conditions (T&Cs) to bring contracts back

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into your favor after a decade of procurement departments pushing back.

2. Passing through cost increases at 100% is sub-optimal

Early in the inflation wave, many believed that passing 100 percent of costs through to customers was the solution. That's not sustainable for this level of inflation. You must look at what happens through the entire value chain and understand fluctuations in end customer willingness to pay. We run the numbers for several realistic scenarios in the book and narrow in on a simple guiding ratio; during sustained inflation, companies optimize outcomes by passing through ~50% of inflation-driven cost changes, recovering ~20% of margin through efficiencies, and will need to eat ~30% in the short term. Elasticity is real, even if the response is sometimes delayed.

Inflation isn't a cost challenge, it's a value challenge. You might say "My costs are going up. How do I communicate this to customers?" But remember it is the value of your product that people are buying. They are not concerned about your cost problems; they are worried about the value of your product.

3. Understand your pricing power

Pricing power is your ability to command the prices you desire for the products you are bringing to market. It's knowing whether you can afford to increase prices

by five or by twelve percent without losing customers.

The inflation wave hits different industries at different times, and when it hits your company, that will not be the time to try to improve your pricing power. The ideal strategy is understanding where your company and its products sit and then being prepared to shift that position over time. If you are a business leader with pricing power, you must recognize this advantage and act upon it. Otherwise, you could find yourself in a price war, and your entire market could fail to keep up with inflation.

4. Use digital to build pricing power over time

Digitalization makes it more difficult to raise prices because consumers will immediately compare. But it also plays another role, giving you new ways to add value to legacy products.

If you are selling goods online and have a five-star rating but your competitor has two stars, that adds value perception and enables pricing power. Digital can also help you improve customer service and delivery reliability, as well as increase efficiency in your operations to help solve part of your cost problem.

5. Inflation eats cash

I've seen payment terms allowing up to 540 days until the money comes in – that's a killer in an inflation environment. Your

finance department needs to pivot to a cash mindset and focus on getting your money as quickly as possible to invest it in assets that keep their value. One landscaping company told us that, rather than keeping money in the bank, they buy high-wear machines, since the machines get more expensive every year. Now is not the time to be complacent; you must challenge your teams to find creative ways to hold onto the money and value you have.

6. And don't throw your sales reps to the lions

Sellers already have a tough job. Now they must shoot for higher increases, more frequently, and in an emotionally charged environment. This will not be easy.

Price increases won't have an impact if your sales organization cannot get them out into the market. It is crucial to understand how to incentivize your sales organization and prepare them for this new environment. Without a closer connection between pricing and sales, sellers risk being mauled by angry procurement departments who are about to lose their bonuses.

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Looking for a practical, concrete guide for agile actions relevant to your business? **Beating Inflation** gives you the best of both worlds: real-life experience plus state-of-the-art knowledge and research. We look forward to seeing how you put it to work as you strive to overcome the impacts of inflation.