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Inflation is Back – What Retail Professionals Need to Know

Sally Martin and Robin Simon
CPG Data Tip Sheet

May 25, 2022



www.catman.global

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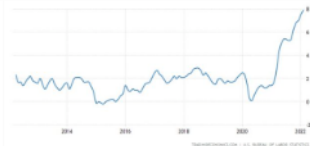
Inflation...It's Back!

APRIL 6, 2022 BY [ROBIN SIMON](#)

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"There are a lot of questions about inflation and how it impacts the business. We would love to hear your thoughts on how we can analyze this topic!"

- Actual reader comment on CPG Data Tip Sheet, 3/22/22

Well, here are some thoughts for you!

Background and Context

Let's start with some basic information: what exactly is inflation and how bad is it right now (March 2022)?

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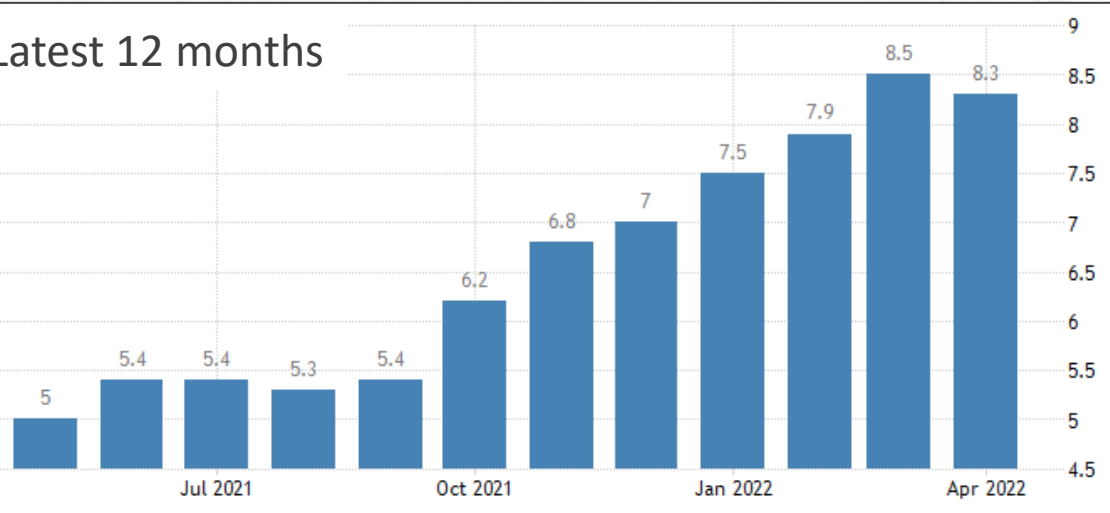
Agenda

- Background and Context
- Things to consider – what will happen to my business?
 - Forces beyond inflation
 - Real consumer view
 - Using existing knowledge
 - Substitutes
 - Consumer segment
- Q&A

Topics we won't cover:

- How to manage your price
- Any specific categories or brands

Latest 12 months



Yes, this is unprecedented inflation, for most of us/you!

Latest 10 years



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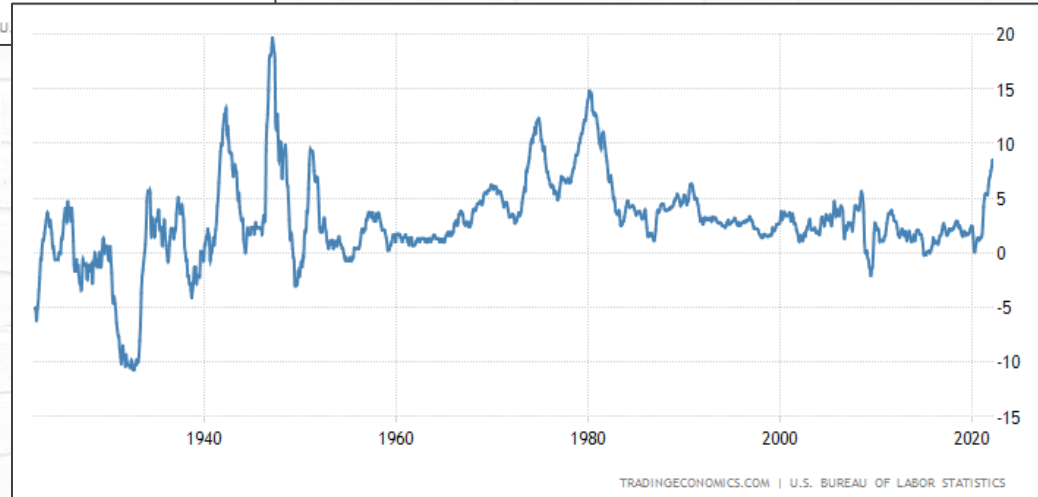
Latest 25 years



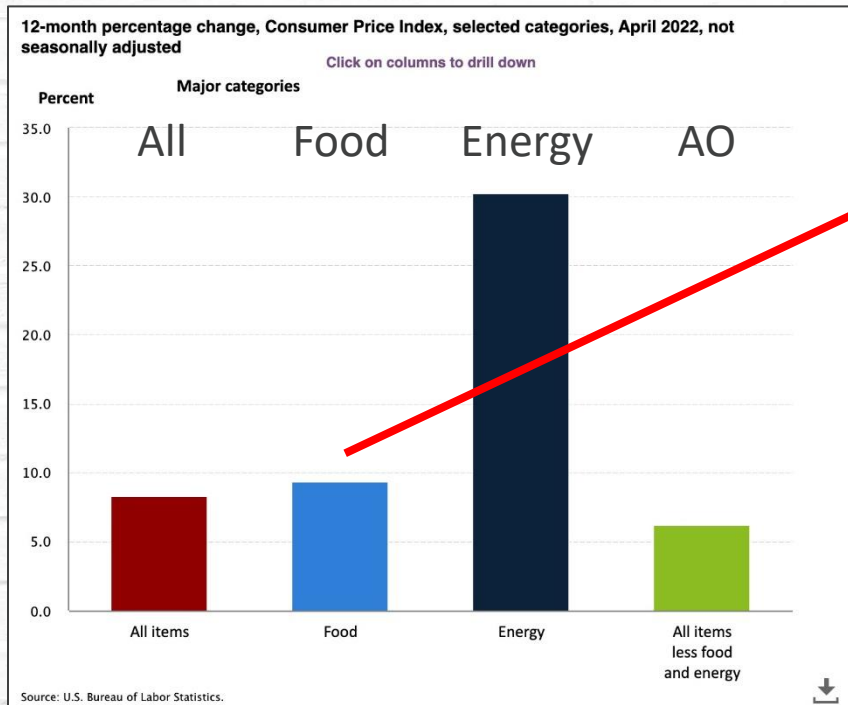
All available history

Good news:

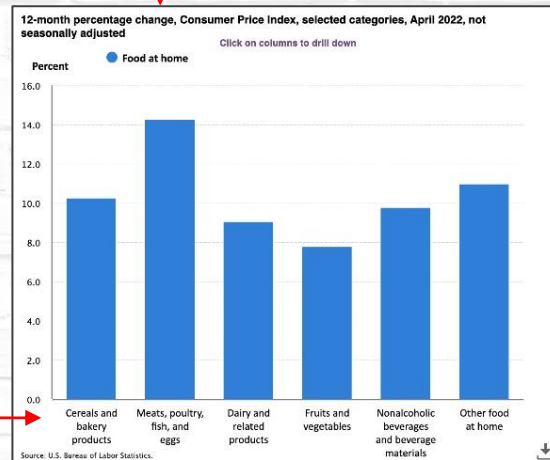
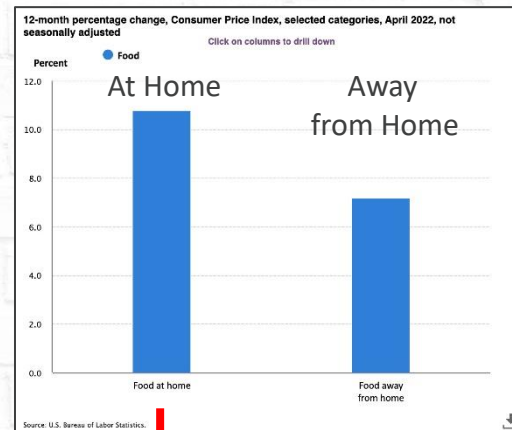
- *Not as bad as in the 70s and early 80s*
- *Not as volatile as 30s-40s*



What goes into the “inflation” number?



Source: www.bls.gov/cpi



Different Food categories

Publicly available data gets very detailed

Table 2. Consumer Price Index for All Urban Consumers (CPI-U): U. S. city average, by detailed expenditure category

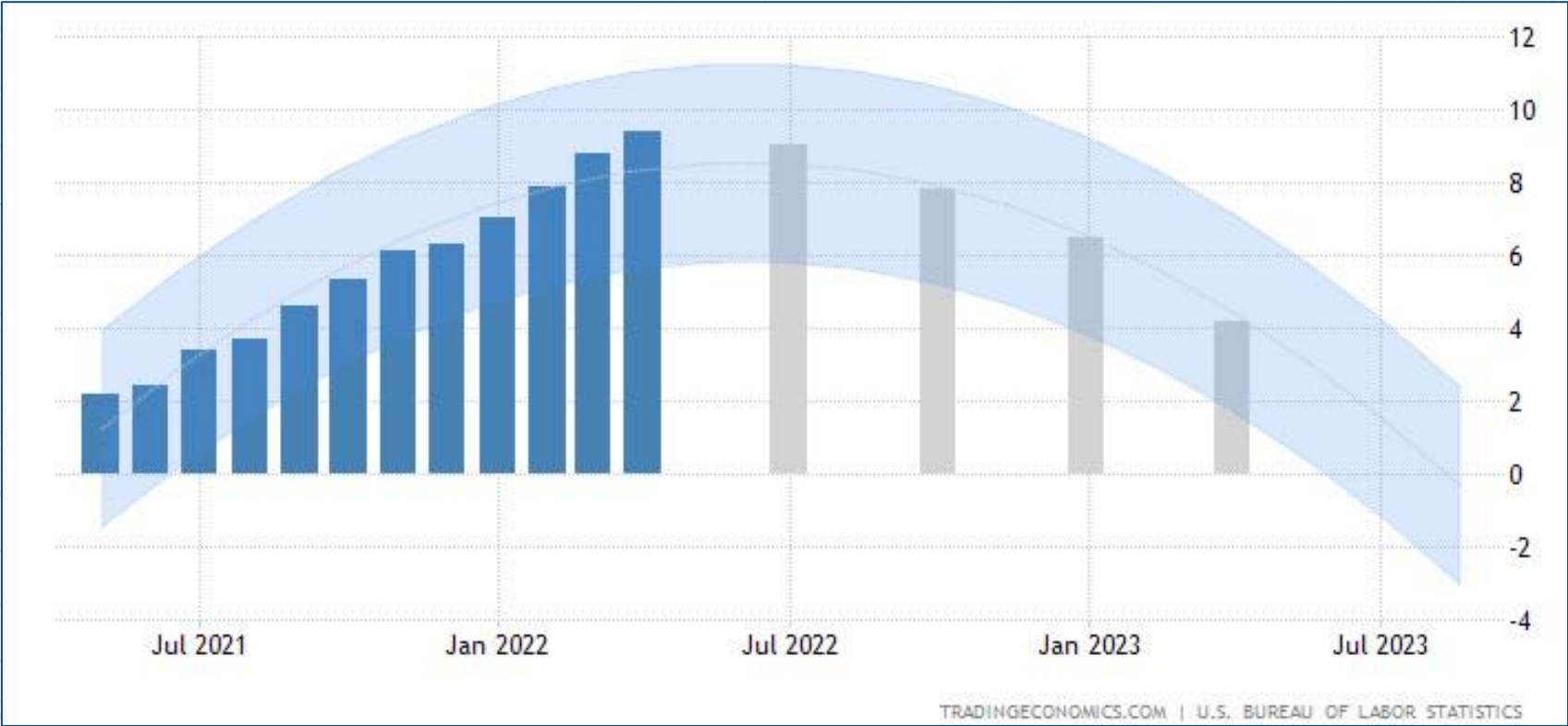
Table 2. Consumer Price Index for All Urban Consumers (CPI-U): U.S. city average, by detailed expenditure category, March 2022

[1982-84=100, unless otherwise noted]

Seasonally adjusted

Expenditure category	Relative importance Feb. 2022	Unadjusted percent change		Seasonally adjusted percent change		
		Mar. 2021- Mar. 2022	Feb. 2022- Mar. 2022	Dec. 2021- Jan. 2022	Jan. 2022- Feb. 2022	Feb. 2022- Mar. 2022
All items	100.000	8.5	1.3	0.6	0.8	1.2
Food	13.405	8.8	1.0	0.9	1.0	1.0
Food at home	8.234	10.0	1.5	1.0	1.4	1.5
Cereals and bakery products	1.043	9.4	1.8	1.8	1.1	1.5
Cereals and cereal products	0.333	10.1	Different inflation rates	1.1	1.3	2.1
Flour and prepared flour mixes	0.054	14.2		2.9	1.0	2.2
Breakfast cereal(1)	0.140	9.2		-1.4	1.1	2.4
Rice, pasta, cornmeal	0.140	9.3	2.7	2.1	0.8	2.8
Rice(1)(2)(3)		8.6	3.2	1.2	0.9	3.2
Bakery products(1)	0.709	9.1	1.4	2.0	1.3	1.4
Bread(1)(2)	0.198	7.1	0.8	1.1	0.4	0.8
White bread(1)(3)		5.9	0.6	1.1	0.6	0.6
Bread other than white(1)(3)		8.5	0.8	1.2	0.4	0.8

What will happen to inflation? Here's one forecast...



What will happen to inflation? Check with your data partner – they will likely have some projections.



Agenda

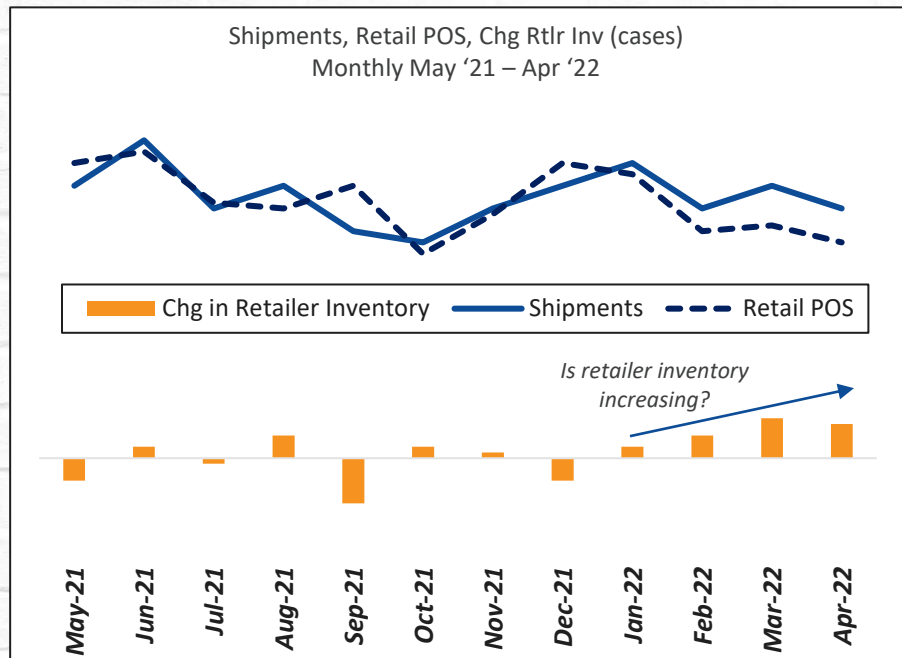
- Background and Context
- **Things to consider** – what will happen to my business?



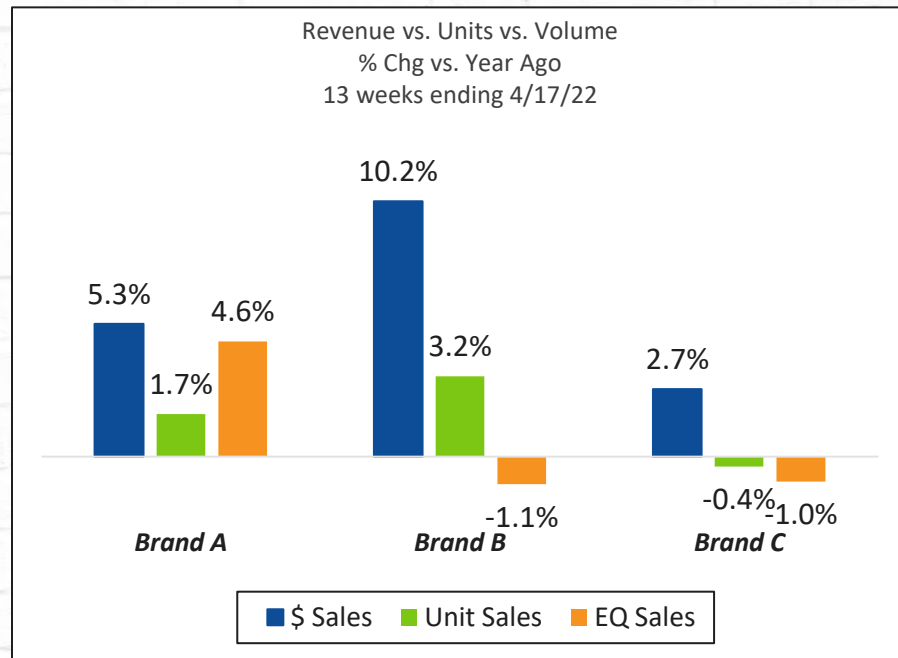
Start without
numbers/data - think
about *what makes sense?*

Understand what's REALLY happening

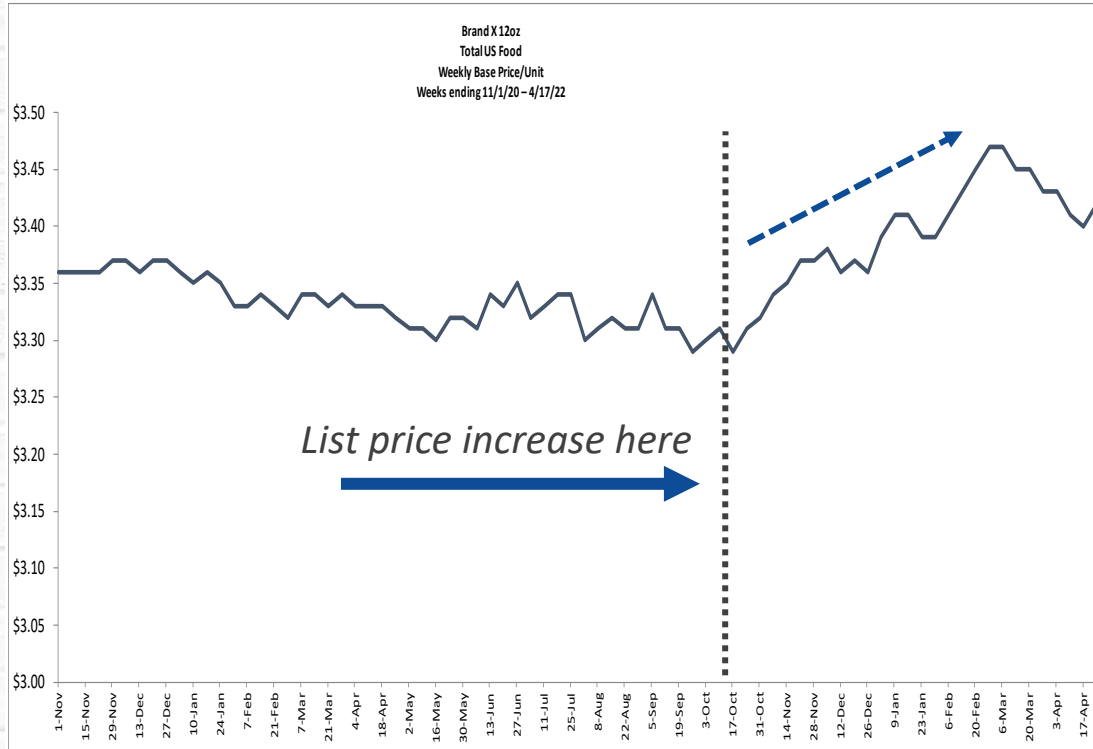
Compare shipments vs. retail



Compare retail dollars *and* volume



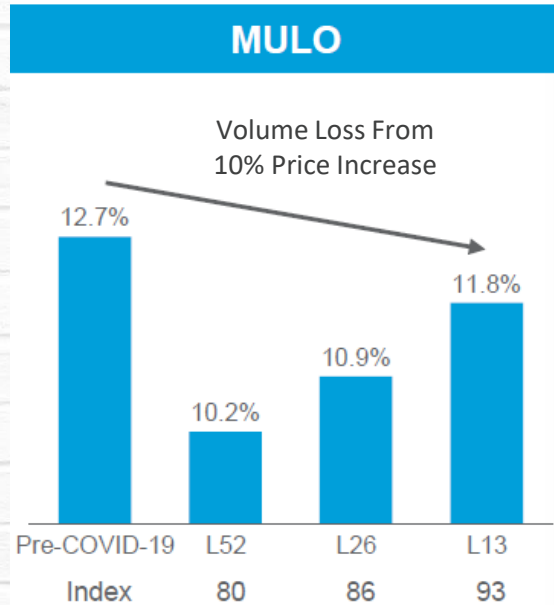
Where is your retail price today? Have retailers passed on your wholesale price increases to the consumer? What will they do next time?



If you are thinking “we raised price last year and it didn’t hurt volume,” make sure you know whether/when retailers passed on that price increase to the consumer.

Price sensitivity

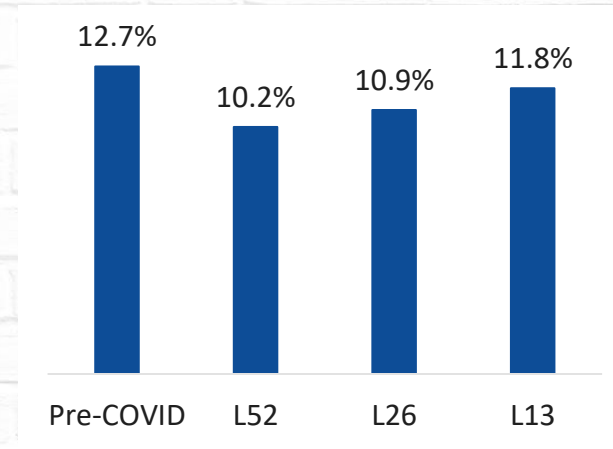
- Do you have a pre-covid estimate of price elasticity for your products? Start with that!



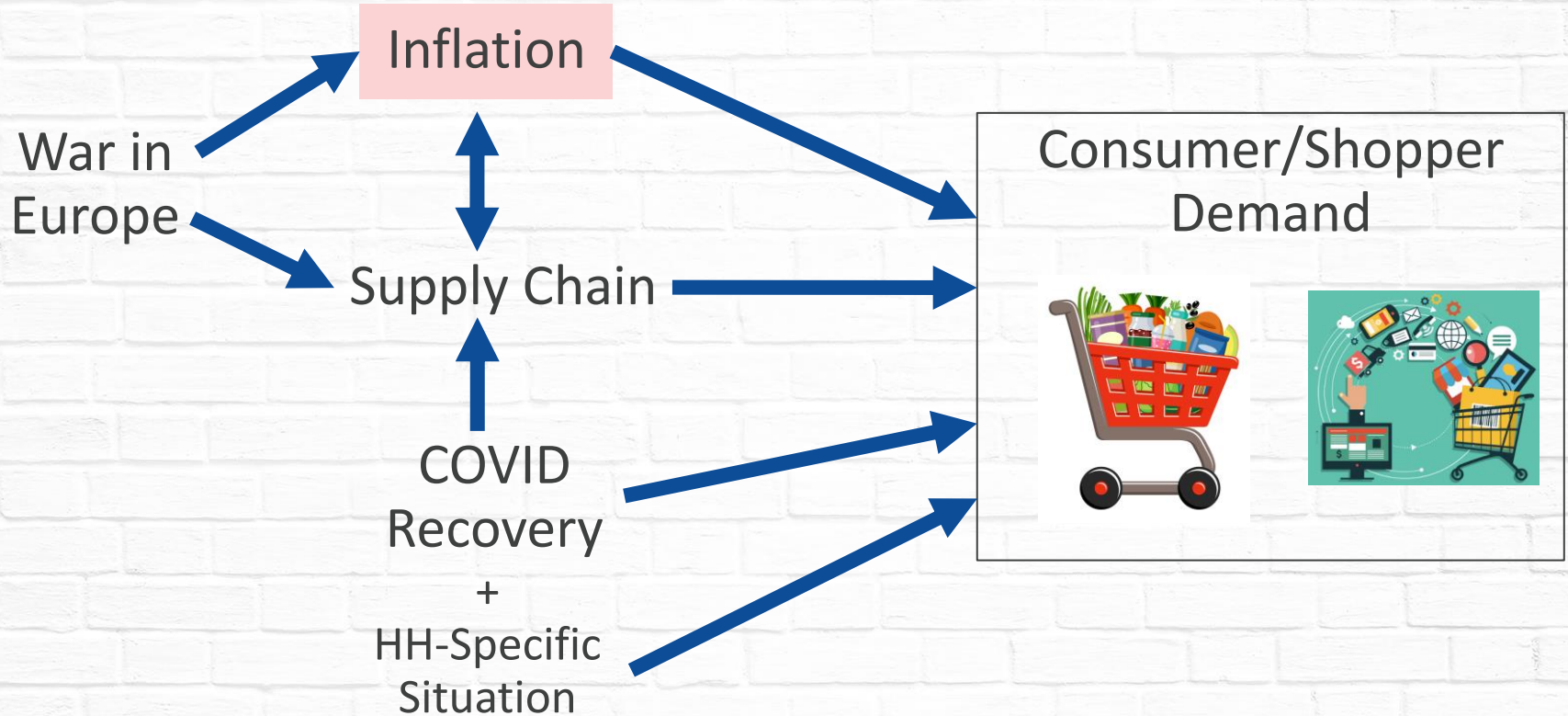
Source: IRI report "Revenue Management in an Inflationary Environment" – May 2022

Price elasticity was down somewhat during COVID but has bounced back substantially.

Beware the deceptive y-axis!



Not Just Inflation!

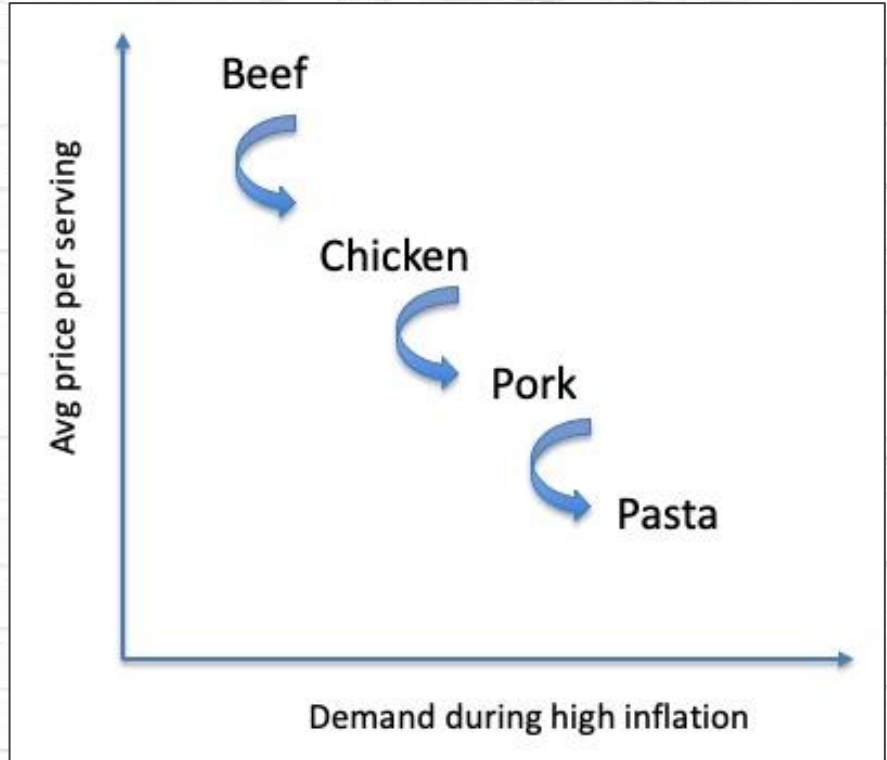


Substitutes

- Think about your category/product and what/where consumers might find substitutes as prices rise.
 - Product
 - Retail channel
 - In vs. out-of-home consumption/usage
- How are prices moving for those substitutes? If prices are rising at a similar rate for all substitutes, the impact of a price change for your product is likely to be lower.

Substitute Products

- Where are you in the value equation for your product and its substitutes?
- Even if overall product demand is pretty fixed (i.e. many household cleaning and paper products), may still see consumers trading down the value chain in response to pricing pressures.
- Demand for premium products (food and beverage, some personal care) tended to be up during COVID as people treated themselves to “at-home luxuries” they did not previously buy.
 - It is possible that sales for those types of products/brands might go the other way now with demand rising for value brands/segments.



Can check on inflation on other categories, *even if not in your database*

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Source: www.bls.gov/cpi

Who is the consumer for *your* brand?

- Reaction to inflation differs by economic situation of the household
- Think about your target/
heavy users

Source: IRI Consumer Panel data ending 3/20/22, Total store excluding fresh.

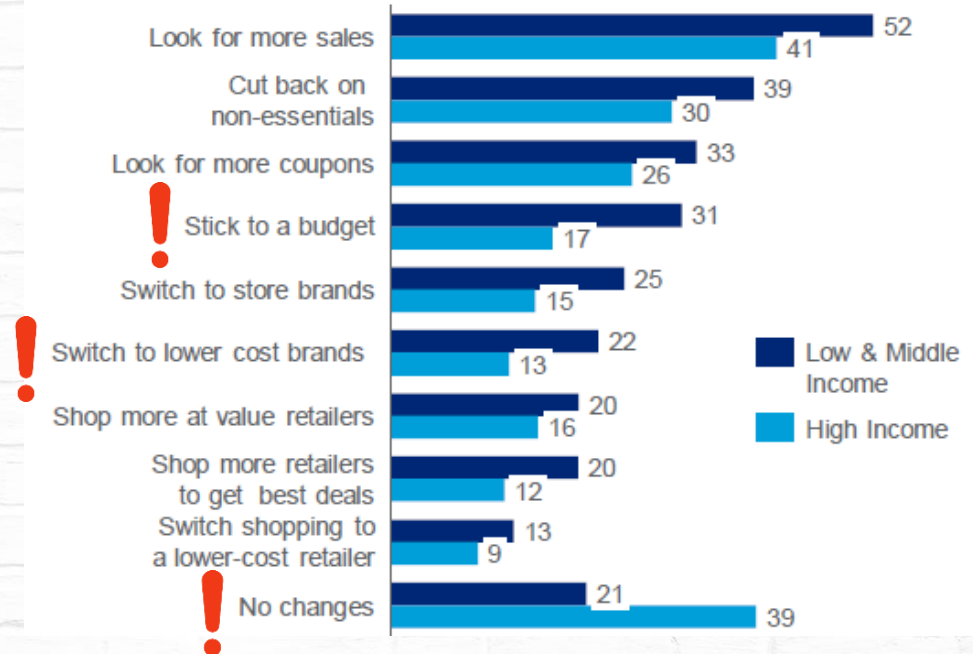
IRI Consumer Pulse survey, March 2022, N= 1,000+

Note: Lower Income defined as <\$30k 1P + \$5k per addl Person

Middle Income defined as \$30-70k 1P + \$5k per addl Person

Upper Income defined as >=\$70k 1P + \$30k all others

Changes in Shopping Choices Due to Increased Prices % of Respondents





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