

How Inflation has hit the Retail Industry

11th May, 2022



BY NOBEL



Inflation has resurfaced after a decade of tranquil price increases. The persistent COVID-related supply chain disruptions have been a driving factor in increasing consumer costs since some commodities are harder to come by. While inflation is a normal economic phenomenon, the current **3.81%** inflation rate has increased the cost of living for families across the globe.

Worldwide inflation is expected to remain near 5.0% in early 2022 before gradually easing in response to industrial and agricultural commodity price declines. Additionally, the global consumer price inflation peaked from 2.2% in 2020 to 3.8% in 2021 and will average 4.1% in 2022 before subsiding to 2.8% in 2023.

In this blog, you'll learn about the impact of inflation on the Retail Industry.

What is Inflation?

Inflation is an economic term that describes an overall increase in the price of goods and services in an economy, and a by-product of inflation is the devaluation of the currency used within that economy. For example, a clothing retailer that used to pay \$8 for a t-shirt two years ago will now have to pay \$10 for that exact product. The t-shirt hasn't changed at all. However, it has become 25% more expensive. Inflation and the devaluation of currency are part of the reasons why they'd now pay \$2 more for that same T-shirt.

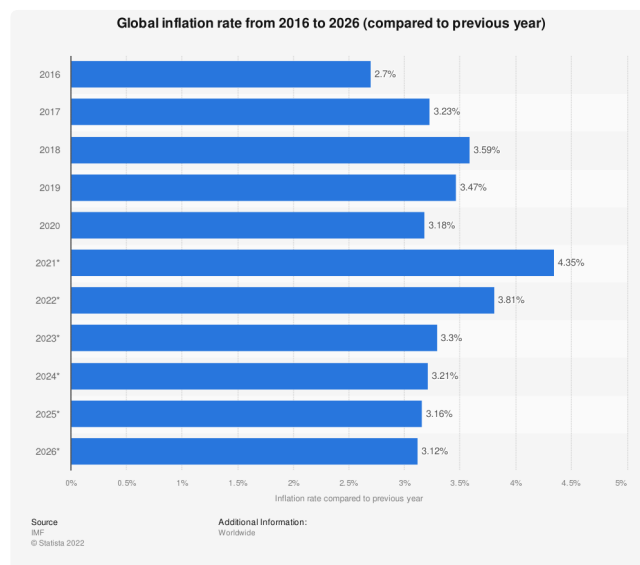


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Impact of inflation on Retail

FMCG

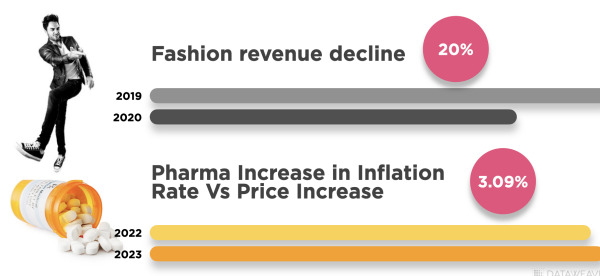
The Fast-moving consumer goods (FMCG) sector will continue to grow because there is growth in **household goods spending** despite the Russia-Ukrainian crisis, global interest rate, and rising fuel prices. In fact, the demand for **consumer packaged goods** rose sharply in countries heavily affected by the pandemic. However, the FMCG sector will see a rise in prices of commodities because crucial resources such as cooking oil, tea, cocoa, etc., become scarce. The persistent shock to the supply chain has forced various FMCG companies to increase their prices. For instance, Mondelez, a Fortune 500-listed snack and beverage company, announced a **6-7%** price increase.



Global Inflation Rate. **Source:** Statista

Fashion

The global fashion industry posted a **20%** decline in revenues in 2019–20. Inflation in fashion is caused by transportation bottlenecks, material shortages, rising shipping costs, and straining supply and demand. The global fashion industry will see complete recovery in 2022. COVID-caused supply and demand constraints have eased, but shoppers will have to reconcile to price jumps in everything from bags to shoes.



Inflation for Fashion & Pharma Industry

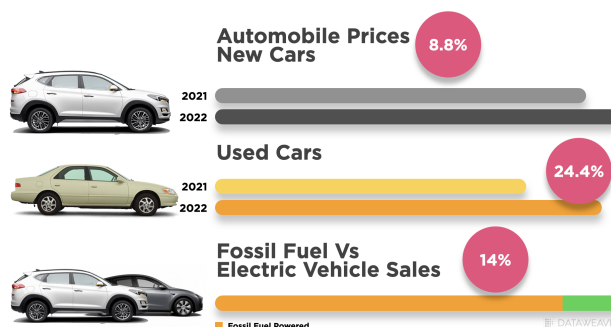
Pharma

Pharmaceuticals are recognized as an essential commodity and therefore have a massive impact on the household budget. Vizient has projected a **3.09%** increase in the inflation rate in drug prices from July 1, 2022 – June 30, 2023. It shows how inflation has a direct impact on prescription drug costs. Notably, retail prices for some of the most widely used prescription drugs are expected to increase **2x** as much as inflation. The demand for pharmaceutical

drugs has been higher post-pandemic, ensuring that consumers' total demand and spending in this vertical will remain unchanged.

Automotive

The rise of both new and used cars has been steeply increasing partly because of the shortage of semiconductors and the backlog from the closure of factories during COVID-19. According to the [Bureau of Labor Statistics](#), there has been a 24.4% inflation in the used car purchase prices and an 8.8% increase in the new car purchase price. Rising oil prices across the globe and the historical oil crisis fuelled by the Ukraine-Russia war have strained many people's budgets. However, the automobile market is seeing an uptake in demand for electrical vehicles (EVs). EVs represented **14%** of car sales between January and June 2021.

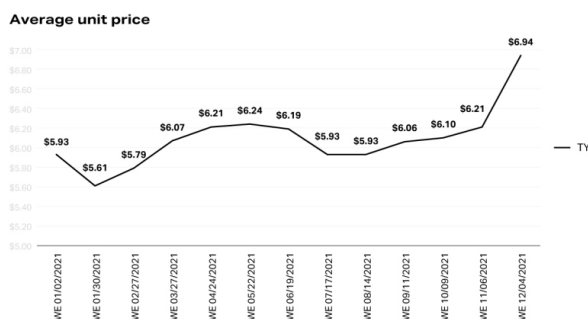


Comparison of New, Used & Electric cars

Beauty

COVID-19 brought new challenges to the cosmetics industry, chief among this being face-covering required by law. In light of social distancing and lockdowns across the globe, consumers were buying less makeup. The rising cost of labor, energy, and raw materials used in beauty products have resulted in a “once-in-two-decade” backdrop for price hikes. The cost of palm oil, a common material in beauty products, has soared 82% in two years due to Indonesian labor shortages. Nevertheless, consumers will spend more time outside the house. Beauty price per unit changes shot up **17%** in-store and online in 2021.

Omni beauty prices up 17% this year



Highest inflation beauty categories:

- ▶ **+31%** Facial skin care
- ▶ **+19%** Cosmetics & nail
- ▶ **+15%** Hair care

Lowest inflation beauty categories:

- ▶ **+5%** Sun care
- ▶ **+3%** Hair removal
- ▶ **+9%** Bath & shower

Department stores (+20%) and mass (+20%) channels are seeing the highest growth in pricing.

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Highest & Lowest Inflation in Beauty category. **Source:** nielseniq.com

5 Things that will help retailers during inflationary times

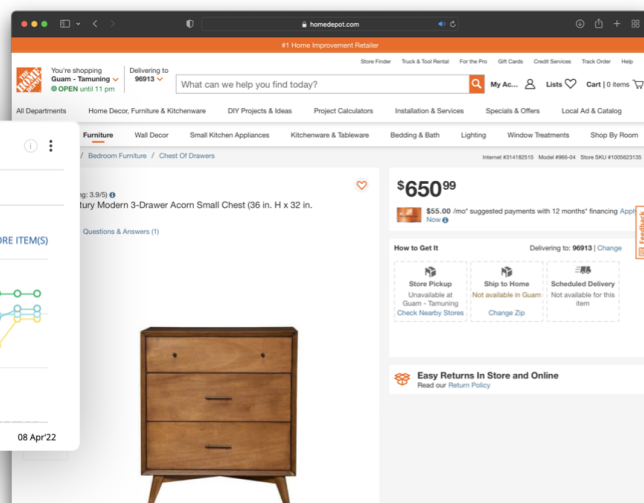
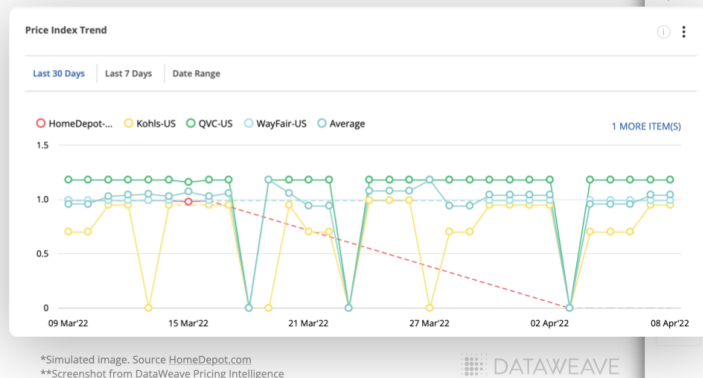
1. Observe Competition

Retailers should follow their competitors closely—when they start to raise/lower prices, consider following suit. Using competitive data to gauge price changes will help in managing price parity. However, excessive discounts and lower prices to gain an advantage over your competitor could backfire in various ways. For example, low pricing may convey that your products aren't as good as your competitors', impacting your long-term brand image. Moreover, lowering prices to sell more doesn't necessarily mean higher profits, **especially during high inflation**. To leverage this strategy effectively, retailers must first identify SKUs that have the highest impact on their pricing.

2. Build a structured and targeted pricing strategy

An **effective pricing strategy** that leverages differences in product, channels, and customers will help retailers to maintain long-term value for their business and customers. However, customers might react differently to a steep price increase. Broad price increases will demonstrate insensitivity and erode customer trust. Instead, retailers can thoughtfully tailor their inflationary price increases for each customer and product segment with a competitive pricing strategy. With a competitive and **historical pricing strategy**, brands can examine their customers' end-to-end profitability and willingness to pay relative to a comparable peer set.

Ensure price competitiveness on the right items



Price Competitiveness for the right items

3. Rethink commercial positioning

The pandemic and rise of inflation during 2020–2021 have profoundly impacted how consumers live and what they value. Understanding how your consumer's needs have shifted and used a **promotion strategy to manage today's inflationary pressures** is crucial. As new behaviors emerge post-pandemic, retailers must prepare for the potential top-line impact of demand

shifts. Rethink commercial positioning and review marketing and packaging strategies, including the potential use of nonuniform and, in some cases, nonprice mechanisms.

4. Ensure price competitiveness on the right items

The Key-Value Item (KVIs) list should be reviewed again, considering changing shopper needs and habits during the pandemic, plus the supply and demand shock that the industry is currently experiencing. Price-sensitive and vulnerable shoppers are finding this inflationary period particularly tough, so brands might require an even deeper investment in KVI pricing. Reinvest base prices on essential products to drive volume for your best price-sensitive (PS) customers. Compete only where you need to be without overspending. Online channels should continue to reflect in-store prices and diverge during this time. [Pricing Optimisation software](#) enables best practices to simultaneously manage a high number of price increase requests.

5. Revisit promotions to conserve costs and preserve [stock availability](#)

Increasing the number of promoted products is a reflexive response to inflation, but it's not the right response for building sustainable sales or longer-term loyalty. Inflationary times offer an excellent opportunity to reset promotional strategies to save money and margin. Retailers can increase sales and seize opportunities with a [promotional pricing strategy](#). Increased promotional activity has a knock-on effect vs pricing position in high-low strategies and erodes overall value perception, creating a vicious circle of more promotions equals poorer value.

Conclusion

Today's economic climate and associated pricing pressures are challenging for retailers and customers. Some companies have responded by announcing an increase in prices across product categories. Companies can manage pricing margins responsibly and profitably during inflation. Determining how and where new opportunities exist can help companies control inflation, drive growth, and remain profitable.

Need help to arrive at the right pricing & discounting strategies to counter inflation? [Sign up for a demo](#) with our team to know how we can help!

- [Nobel Dhar](#)

Nobel is a Customer Success Manager at DataWeave experienced in helping customers from sectors across retail, with a focus on QSR & Quick Commerce players., 11th May, 2022

