2 minute nsight

February 14, 2022
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Inflation reaches unprecedented heights and increases 7.5% YOY a look over the last 10 years shows the acceleration of the CPI index (Figure 1). Costs are being pressured from all angles of the economy: commodities, labor, transportation, fuel and more.

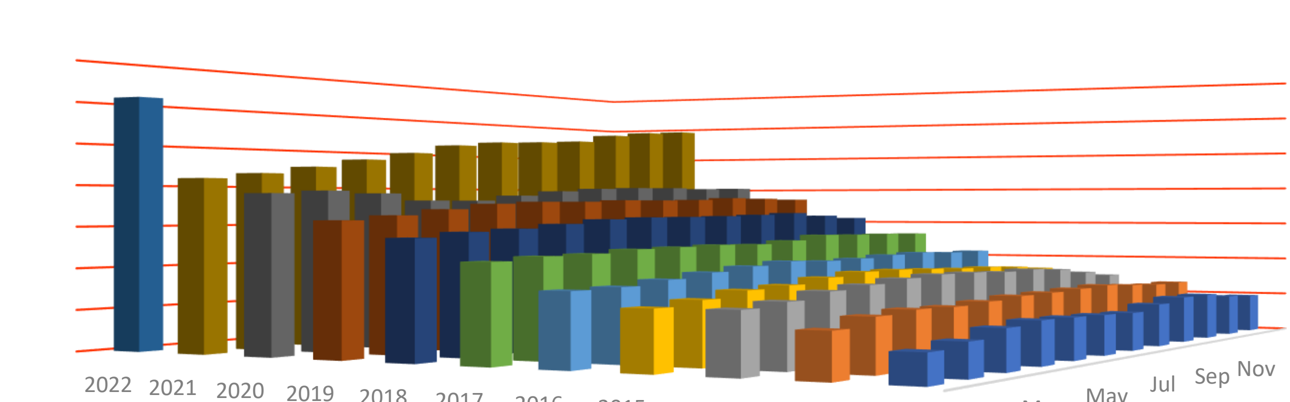

Figure 1: BLS -Unadjusted CPI Index

Impacts are being felt in both food at home and food away from home with the largest contributions coming from fuel and meat. Both retailers and suppliers have no choice but to pass these 40 year high increases on to their shoppers. Major manufacturers are publicly discussing increases in excess of 10% and see this as an opportunity to reset margins levels and use their momentum with revenue growth strategies to drive more value for their shareholders.

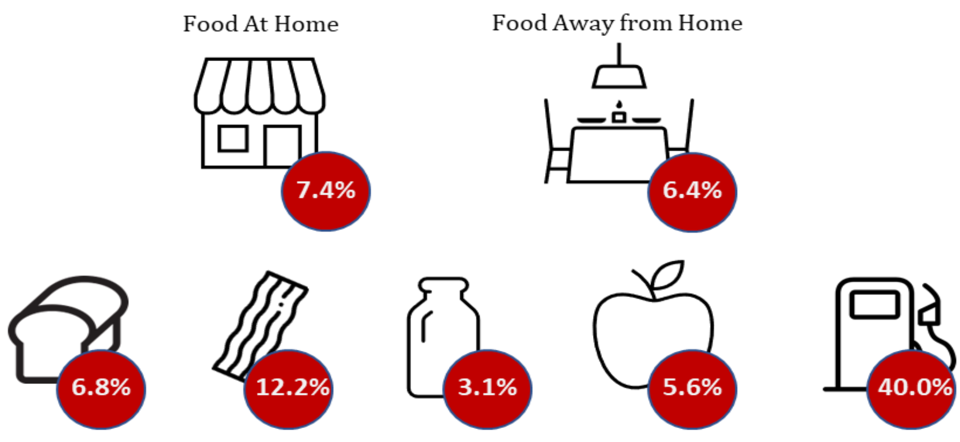

Figure 2: Inflation by Commodity & Consumption Area

Retailers should be looking to leverage their private label portfolio as a point of value, profitability, and differentiation for shoppers. While Private label brands will also face cost pressures retailers must turn to those items to keep shoppers from price shopping across channels as price sensitivity will inevitably increase in the coming months.

The risk that CPG's face is further accelerating the migration from branded products to private label brands through overly aggressive cost increases. While CPG revenue growth will be inflated by these cost hikes a balance will need to be maintained between volume growth and trade optimization strategies, to ensure they are positioned to grow organically once inflation begins to stabilize.