Managing 4 Margins

What will your retail shelf price be on July 1? October 1? The industry faces a global realignment of our pricing framework. Price increase execution is the number one issue for 2022.

Our business faces unprecedented pressure. Raw materials, international freight, delivery (fuel), and labor have skyrocketed. Manufacturers attempt to protect margins by passing on cost-justified price increases.

All industry partners must work together in a pro-active, transparent process to ensure that our mutual business is protected. Manufacturers do not seek to control pricing. The goal is to keep the shelves full and help all participants manage through the most challenging period in recent history.

Pricing Target

A new price model will impact sales if the action places your brand in a higher pricing tier relative to competition. Normally, export brands aim to fall in the premium to super-premium range relative to locally produced products. For example, a brand shipped from the USA may retail at 30% higher everyday versus a local competitor. Under a price increase scenario, this gap may extend to 50% or more if other brands do not pass on a price increase, or a distributor or retailer grabs too much margin in the pricing realignment.

Manufacturer Margin – #1

Companies raise prices to recoup higher costs and achieve their business goals. The hope is that consumers will continue to purchase the brand at a higher price, with no decline in unit sales volume. Is this a dream or reality?

Distributor Margin – #2

Distributors pay themselves, capturing the difference between price paid from the manufacturer and amount collected from the retailer. With a price increase, distributors supply themselves with a raise. This year, distributors also experienced severe inflation, particularly with higher fuel costs. What is the distributor margin before your price increase versus afterwards?

Retailer Margin – #3

Retailers fiercely guard and track their category profit margin. Most buyers will not miss an opportunity to expand their margins and income. To be fair, retailers also face increased transportation, labor, and e-commerce costs that must be considered. As with distributors, a key metric is retailer margin before and after your price increase.

Trade Promotion Margin – #4

Promotional discounts are critical drivers of incremental business. Some incentives and “back margins” are case rated at a percent of sales. Other activities require a fixed price tag. For example, a chain-wide display program costs $10,000 per week. With a price increase, this may translate to a lower percentage of sales.

Currency, Duties, VAT

In this period of global disruption, there are other line items in your pricing calculation that may experience fluctuations, frequently in a negative direction. These include currency exchange rates, duties, and sales taxes. All may impact your shelf price.

Getting Greedy

The export price model must incorporate four potential margin rates before the new shelf price is established. A risk appears when one participant in the value chain captures a higher margin than the original equation. Everyone would love to increase sales, but ultimately bills are paid with cash, not margin percentages.

Contingency Plans

Inflation appears out of control at this point. Prices only appear to go up. A worthwhile discussion to conduct is “what if” costs retreat? Are price rollbacks possible? What are reasonable expectations from all sides?

Online Price Monitoring

Today, overseas prices can be checked instantly from your home office. This appears possible by monitoring e-commerce websites for leading retailers. This tactic is more accurate and effective than waiting for old fashioned monthly price reports supplied by the distributor.

Act Now

Managers are navigating through a crisis and the stakes are high. All participants in the value chain maintain a vested interest in managing the “four margins” in a balanced way. Fortunately, consumer goods remains an essential industry that will survive and thrive. Winners will act now to minimize the impact and disruption of the global retail pricing realignment.