

Ekimetrics.

Surviving Inflation

**How can data create a competitive edge
by steering price and promo?**

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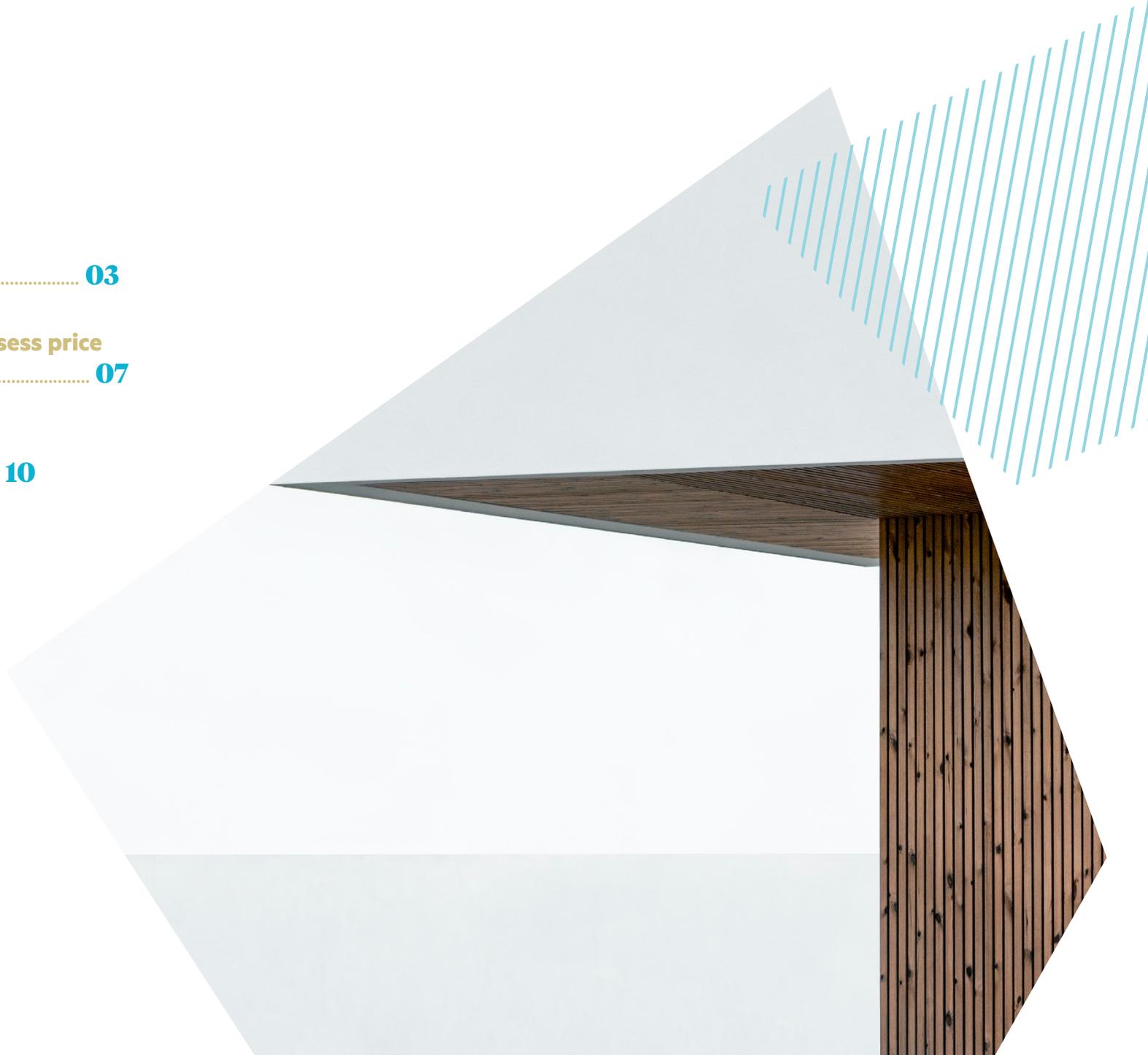
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Introduction

Increase in raw material prices, a global pandemic, war in Ukraine, volatile economic conditions, demand shocks... Recent years have put organizations' resilience to the test. Having made significant efforts to adapt their business to continually changing external conditions, they are now being shaken by rampant inflation. This leaves in its wake rising production costs, shrinking margins, price cuts and loss of volume that disrupt organizations even further.

At double digits, inflation is reaching records not seen since the 1980s — before the Internet era! — and breaking a cycle of many years of price stability. By weakening purchasing power, the price increases once again raise anxiety-provoking questions for brands: Are they strong enough to adapt and remain profitable in the face of soaring costs? What are the risks on volumes? And the impact on market share in a very competitive environment?

Brands are seeing price and promotion in a new light, as a true lever of resilience. They need to dissect, analyze, and twist them to establish a clear strategy that will allow them to enhance on their attractiveness while managing rising costs - those that need to be passed on, those that need to be absorbed. However, managing these levers today requires shuffling the deck to challenge proven strategies, particularly when it comes to the marketing mix. This is where data science solutions for business prove to be a precious asset: By studying all angles of the marketing mix, they allow refinement of possibilities and acceleration of tactical and strategic decisions. By integrating inflation now as an optimization constraint, they can prove to be powerful tools for steering informed, fine-tuned price-promotion strategies. That's what this paper digs into: By looking back at the major disruptions and changes that inflation is causing, we will explain why pricing and promotion can make a difference. This white paper also examines the risks and opportunities of steering this dual strategy and how to use data science to strengthen pricing power and promotional strategy.

Making sense of inflation to leverage your strengths

1 • What inflation really changes

The drastic decrease in purchasing power puts your marketing strategy to the test because :

- **Consumers are refocusing their purchases on essentials.** The current inflation is not only «eroding» consumers' purchasing power: it is even putting their budgets at risk, as shown by the example of some British people who, without a price cap, have been reduced to shutting off their home heating in the face of soaring energy prices¹.

Sunflower oil, sugar, rice, eggs, pasta, toilet paper, beef... These are the essentials showing the most spectacular increases, whether in Europe or the United States. In this context, inflation not only calls into question purchasing habits, it also forces consumers to make difficult trade-offs and simply remove certain products from their purchase baskets. Maybe your products.

- **Consumers are more price conscious than ever.** And they have quickly become price specialists. Because they don't want to give up certain products – even if they are sometimes forced to. They look for cheaper items to meet their needs, they are more interested in promotions, they take the time to compare brands, to compare prices. As a result, they are more cautious, more careful, more price

“ **Inflation puts the concept of pricing, discounting, price changes, promotions, into the spotlight.** ”

conscious, they delay certain purchases that are not considered priorities, reduce their overall consumption, spend more time online to find the best value for money, anticipate their purchases or diversify them among several retailers.²This is evidenced by certain product categories that are experiencing significant volume losses; some spectacular losses in 2022 alone: -27% for cleaning products in France³ and -7% on household care in the US⁴, or -9.4% for meat, fish, and poultry in the UK,⁵ for instance. Knowing that price is the top consumers' top motive for changing brands or retailers,⁶ it is easy to understand the central importance of pricing for a company.

**APAC:
controlled inflation but scrupulous
monitoring to be adopted**

While APAC markets have experienced inflationary pressures over the past year, as has the rest of the world, the magnitude of rises in absolute terms has been more constrained. This is not to say that some markets, such as Australia, Japan and the Philippines, have not experienced significant cost increases, they are simply more isolated cases, while the region as a whole has been more insulated than Europe and the Americas. Companies are expected to increase rises, but with the strong bargaining power of distributors and commercial retailers, combined with the more modest inflation overall, the impact on consumers should be milder.

¹ Electricity tariffs have jumped by more than 50% in 2022 in the United Kingdom. In comparison, France saw its electricity rates jump by 15% in February 2023. (Source: OECD Consumer Prices - February 7, 2023 - OECD (oecd.org))

² Source : <https://go.criteo.com/rise-of-savvy-shoppers/> ³ Source : 2022 Conjecture France, NielsenIQ ⁴ Source : <https://nielseniq.com/global/en/insights/analysis/2023/americans-and-canadians-are-shopping-like-the-recession-is-here/>

⁵ Source : <https://www.jpmorgan.com/insights/research/inflation-cost-of-living> ⁶ How US consumers are feeling, shopping, and spending—and what it means for companies – May 2022 – McKinsey (McKinsey.com)

- Inflation offers only one scenario, that of «losing the least» instead of «gaining the most». Food, energy, cosmetics, textiles, real estate... There is no sector that is not spared by these new purchasing behaviors. This is a strategic issue that has reached the highest levels of organizations – general management and executive committees, financial, sales and marketing departments – which are looking to limit the impact on their bottom line and are wondering how to make the best of the situation.

Marketers have understood that with inflation, it is no longer just a matter of implementing a simple price/promotion strategy to enhance their profitability; it is a matter of managing risk, managing and minimizing unavoidable losses. They are therefore in damaged control mode and are looking for quick, concrete answers to the challenges raised by inflation:

- How to preserve margins and volumes in the short term

- How to find, develop and secure long-term price positioning

- How to define a «consensual» price both for the brand – which must compensate (higher production costs, higher salaries, lower volumes, etc.) – and for the consumers who, already paying a higher price, must be convinced that they are spending their money on the best product value

- Inflation forces you to perfect your radar, that is, to develop your analysis and anticipation skills. By putting spotlighting pricing, inflation is also forcing marketing and sales teams to systematically integrate this component into their strategy. Previously, pricing was considered more of a control variable while the main emphasis was on understanding media. These same brands are now putting a **strong emphasis on price** and, as a corollary, are often asking to better understand price elasticities in addition to media and promo performance.

All these new challenges are shaking up models that have already been tested by several years of various crises. It's not easy to make strategic decisions, especially very quickly, to make the link between prices, product lines and media budgets. It is also not easy to turn them to your advantage during this period. Nevertheless, these same pain points are also their strengths.

2 • Price and promotion strategy, your levers of resilience

Price is one of the most important elements of the marketing mix. Promotion is just as important. But do you really know all the components of this terrific play field?

- **Price is your most obvious marketing lever to fight against rising costs and eroding margins.** It is the lever that allows you to work in depth on your profitability. A price variation can have an impact on the result three or four times higher than an increase in sales of an equivalent percentage at a constant price.⁷ This is even more true in the context of inflation to compensate for part of your losses. Price also embodies your strategic positioning and your brand promise: Are you an entry-level brand or a premium brand, or even a high-end brand? **Your price already «tells the story» of the brand you are, which is why it is a major lever for image and customer engagement.** For that reason, pricing requires consistency and is not flexible. And

as a result, adjustments are made once or twice a year the most, so marketers and finance want to be sure they are making the right moves. And be careful to get all your stakeholders on board with the price, because not everyone “reads” it the same: For finance, the price is often a lever for generating margin; for sales, it is an often bitter negotiation with distributors; for marketing, it is a question of positioning, building consumer loyalty and influencing the brand promise. The lack of a concerted vision, of a common language and of transversality often make it an under-used lever.

- **In inflationary times, promotions allow you to compensate for your potential volume losses,** while keeping control of cannibalization risks and collateral effects on other products in the line.

Keep in mind that there is no single optimal response to inflation across industries (Possibly excluding of fashion retail & luxury): Depending on your price sensitivity, you may have to make a clear choice between pushing volume or pursuing profit, preserving your margins, or maintaining your brand positioning. To make these choices, to study all your options, data science offers you a powerful toolbox, it spans from measuring the price sensitivity across your product line to the ROI and the contribution of the promotional actions, and it does all this with greater granularity

How inflation forces you to assess price and promotion opportunity



When inflation hits – and lasts – you may make decisions in the heat of the moment that could have a longer-term impact not only on your business, but also on your business model. You need to understand all aspects of it to avoid being blindsided, and you'll need to work on your marketing performance in depth.

1 • Understand the real impact of your pricing

• **Can I play “fair”?** In inflationary times, if you decide to protect your consumers and strengthen their long-term loyalty by not raising prices, that means you're willing to trim your margin, maybe by a lot. But not everyone can afford that. Consider that double-digit margins are less exposed to price moves, their model being resilient on price at least in the short term. But sectors experience fierce competition and single-digit margins should be handled very carefully to manage inflation properly. This is where IA and data science should probably be exploited first.

• **Can I offset my cost increases?** If you decide to raise prices – to preserve your profitability enough to cause consternation among your regular customers – you risk losing market share and weakening your volumes. It can be risky to try to pass on your costs to your end customer, especially without having a holistic view of your competitive positioning. Moreover, some of the products in your portfolio are very price sensitive, others are not, and some are incredibly elastic in terms of price. You must therefore take your price elasticity into account very precisely to avoid putting yourself at risk.

A short guide to understanding the impact of your pricing:

1. **Understand your product portfolio and your competitor's environment (both within your own portfolio and regarding external companies)**
2. **Measure the price elasticity of all your products in a given environment**
3. **Identify the potential halo / cannibalization effects within the category**
4. **Simulate the impact of prices changes on volumes/value/profit due to elasticity**
5. **Build several scenarios under constraints, with one clear objective for each scenario:**
 - **Preserve your market share and volume**
 - **Maximize your revenue**
 - **Maximize your profit**
6. **Based on these results, make the decisions that are the most relevant to your strategy with full understanding**

2 • The real risks behind going heavy on promotions.

In general, the immediate reaction to inflation is to offer attractive discounts in order to increase volumes. In fact, even in ordinary times, promotions are often the preferred tool to recover loss of volumes and market share. However, this strategy only works in the very short term, because inflation increases the risks, such as:

- **Starting a price and promo war on your market:** There will always be a competitor ready to respond and undercut your prices.
- **Diluting your margin** – which you were trying to avoid by raising prices – **and degrading your brand image.** How do you do this? By getting your consumers used to lower prices, because you would be constantly offering promotions. Your brand would then find itself stuck between higher-end brands – with a strong brand image that is difficult to match – and private labels, which consumers naturally gravitate towards when looking for the cheapest price. With intense promotions, the risk is to acclimate your consumers to lower prices and to make them less inclined to consume outside of the promotion periods (they are able to wait for Black Friday,

Thanksgiving, Christmas, etc.). This erodes your pricing power. In this case, it will be difficult to recover your reference prices in the future. This is why it is important to have a long-term price-promotion strategy, so as not to damage your image.

- **Don't forget the media.** Of course, it costs more. But reallocating your media budget to finance part of your promotions can only be wise in the short term. In the long term, **if a consumer is going to pay more for your product, there must be a reason to do so.** Your image, your brand positioning, is built through advertising, by communicating the benefits of your products and the overall positioning of your company. In general, the brands that do best during inflation are those that build a long-term brand image through a more compelling price positioning; They get higher prices because consumers are willing to pay for a benefit that is considered «unique.» This is what allows you to be more elastic with your prices.

“ **Inflation puts businesses and our clients in a bit of a unique, difficult spot, because you have to be very conscious about, doing too many promotions and starting to train consumers to think of your brand as lower priced or as a brand that always runs promotion** ”

Because it cuts into your margins, inflation does not give you the luxury of making mistakes. It reinforces the need to really think about the role of your promotions strategically, to understand the mechanics, the negative aspects, the seasonality and the products with which you are the most effective. **Short-term success, long term challenges?** This

is the problem with an aggressive price-promotion strategy. Funding your promotional efforts in the short term degrades your brand building in the long term. To make the most accurate trade-offs on this highly strategic issue, to sort out what works and what doesn't, you need to make sure you have the big picture of your business. Data Science approaches is the decision support tool that provides this holistic view and allows you to navigate with certainty in this most uncertain of contexts: With their advanced analytical approach, you can evaluate all the risks and opportunities, by category, brand, and product.

Navigate volatility with more certainty



How to build a sustainable, successful business without bribing the market with discounts.

1 • Knowledge is power: dig deeper into your own market expertise

• **Well informed, well-reasoned.** To do your job as marketers on a daily basis, you probably already have proven data governance in place to collect and use all the data you've ever needed. But with inflation rates so unprecedented, collecting the right data can be more complicated than it seems. First, there is no history for analyzing your past actions in a similarly constrained context. Second, you don't necessarily need the same kind of data. Perhaps you only needed media data because price and price elasticity were not your focus before. Inflation changes the game. It forces you to **control your data more than ever**. It questions the way you organize your activities. Indeed, we often observe that

the teams in charge of pricing are not necessarily in sync with those in charge of promotions, commercial activities or retailers relations. You'll need to break down the silos that may exist within your organization if you want to have access to the right data, the data that will allow you to really make strategic decisions about inflation. You need to master all the ins and outs of your marketing mix to understand the effectiveness of your price elasticity on your consumers and your brand image, to understand what works and what doesn't in your promotions, to make your short term/long term tradeoffs. Once your organization has readjusted, data science solutions are fantastic tool to gain more insights on the price elasticity of your different offers and on the promotions you run, and to focus your efforts on those that have the best results.

Evaluate true incrementality of past promotions and automate forecast & optimization

For one of our clients – one of the largest global food and beverage companies – we built and deployed an industrialized AI platform in the client's data environment. Given the complexity of the consumer-packaged goods industry, this company wants to generalize the measurement and optimization of marketing and promotions investments. Our solution allows a wide range of users to optimize marketing plans, from strategic planning to granular execution of media and promotional activities.

Outcome:

- **Allocated PFME across brands and touchpoints: +15% Effectiveness.**
- **Fresh insights and improved decision-making thanks to the ability to evaluate the true incrementality of past promotions and automate forecast of promotional plans to identify optimizations: +5% Effectiveness.**

• **Determine your price sensitivity.** With inflation, there are two key questions to ask:

- ◆ Is my product affected by consumer shopping cart prioritizations?

- ◆ What is my priority strategic objective: volume, sales or profit?

For the first question, you need to deepen your own knowledge of the market and the price sensitivity of your products by analyzing the constraints of your sector and your product in detail. Are they subject to strong price constraints? Can consumers do without them or not?

For the second question, you have to pick your battle. Because in inflationary times, you can't win on all fronts. Between volume, revenue and profit, you have to define very precisely the objective you want to protect and maximize and focus everyone internally on the main objective, because the strategy you deploy will differ depending on the objective you choose.

• **Identify your real top competitors.** At Ekimetrics, we often observe that many brands misperceive their own competitive environment. If you represent a traditional luxury fragrance, for example, it is quite possible that you are only comparing yourself to a brand in the same range, while your consumers will indifferently buy another premium brand. But these competitors are taking away sales volume that you could have made in normal times. In order to widen your field of possibilities, you will have to add new competitive data to your marketing mix and use Marketing Mix Modeling (MMM) to understand your positioning in relation to the competition.

• **Know your end consumers better.** In the face of inflation, your promotion strategy can hurt your profitability: it risks cutting you off from consumers who were ready to pay full price and who now benefit from price reductions. This is why it is important to work on your customer segmentation to know where to concentrate your efforts and:

- ◆ On the one hand, satisfy consumers who are looking for promotions and will only buy then. Because if you don't offer them anything, they will probably fall back on a brand that does offer promotions.

- ◆ On the other hand, don't go so far in your promotional intensity that you deprive yourself of full price purchases. So how do you serve different customer segments with different offers? MMM helps answer this question by helping you determine both the range of products to target and the extent of the discount you offer. Crossing the MMM with CRM data allows you to increase your understanding of your customer segments tenfold in order to:

- ◆ Study the impact of different pricing and promotional strategies on all these segments.

- ◆ Find the right balances or reasonable trade-offs between the different types of customers you want to focus your efforts on, and support a longer term commercial strategy.

2 • The “what-if scenarios” of your price and promotion strategy

Granularity. This is what the «what-if scenarios» can do, coupled with a fine-tuned management of your budget allocations – both the type of promotions you can run, and their mechanics or seasonality, with long-term projection capabilities.

- **Building real pricing power.** Many brands manage their promotions according to their competitive positioning and average price,⁸ with a recurring question: Do they risk losing market share if they don't do many promotions compared to more aggressive competitors? Just as we at Ekimetrics have historically analyzed the additional contribution of media to derive ROI, we use specific modeling approaches to predict the impact of price variations – within a given brand's product line, and across the category portfolio, including the impact on competition. This allows us to measure in a very granular way the price position for a product by answering these questions: Can we afford to raise our prices by 10%? Does it impact volume, value, margin? What happens if our competitor makes similar moves?

It's a very powerful tool, especially when prices are changing across the category, and it allows us to test different possibilities to find the winning scenario across millions of options.

Here are some examples of scenarios for developing a pricing strategy within a product line, also based on the specifics of each sector's seasonality:

- ◆ A major company in the textile sector asked us about its price elasticity, based on price increase scenarios: What happens if we increase the price of our products by 5%, 10% or 15% and our competitors increase by 2%, 3% or 7% at the same time? Our models generated a forecast figure, which allowed this brand to manage its risks better by finely steering its production volumes up or down and by making trade-offs between price increases and volume losses over a year.

- ◆ In perfumery, the scenarios concern, for example, the increase of all prices in a product line by about 10%. The simplest answer might be to directly increase all your products by 10%. But, with the calculation of your price elasticity and the scenarios, you can play around with:

- Price elasticity and see the impact on volume
- The current margin
- The competitive environment
- The potential price range

Result: You can opt for a more prudent management of your product portfolio and choose to increase some products by 5% and those of less elastic products by 15%. And try to maintain a stable price for some SKUs to maintain price attractiveness. In this sector, simulation games are used to refine and prepare strategic price plans for the following year and negotiate with distributors.

⁸ The average price is understood as the average of the reference price (= the catalog price) and the «promotion» prices smoothed over the year.

• **Define the best promotion strategy.** In order to project yourself, or even to test-and-learn, the MMM's what-if scenario allows you to analyze the type of promotions and the mechanisms you can put in place to strategically manage your promotional actions, such as:

- ◆ Should I focus on virtual bundles (one product offered for every two purchased) or rather on a loyalty program?
- ◆ If my brand is distributed by several distributors, which distributor is the most efficient?
- ◆ At what time of the year do my promotions make the most sense?
- ◆ Do the promotions apply to an entire line or only a part of the line?
- ◆ Should we continue to promote at the national level (mass market) or should we develop a CRM promotion?

In the CPG sector, some players also wish to have a very powerful optimization tool to deepen the granularity of their promotional actions. To do this, our MMM platform has complementary modules that allow optimization by mechanism, seasonality, and distributor. And to manage their prices in a daily logic.

Measuring your price elasticity is not only about controlling it, but also about achieving the more strategic goal of premiumizing your brand. What-if scenarios allow organizations to gain real pricing power – to control prices without being (overly) affected by the market – both to build their brand over time (without degrading it) and to maintain attractive prices. And to be prepared to anticipate their competitors' actions in order to retaliate if necessary, with an adapted strategy (already proven by the scenario).



Opening

To navigate through the volatility of the market, you need to project yourself and anticipate. And this is what Marketing Mix Modeling is all about: determining the potential impact of a decision on a given activity. By showing you all the possibilities, thanks to very concrete analytical approaches, it allows you to approach inflation with more serenity.

It does not to focus your efforts on the quest for the "perfect" pricing - which does not exist, anyway and can only be read through the prism of this price-promotion mechanism. It focuses on the notion of the «right» price in a given economic situation, your brand strategy and market expectations. This inseparable combo then becomes a crucial compass that determines your data initiatives, to gain competitiveness, reinforce brand value and build it over the long term.

There is another aspect of your anti-inflation strategy that should not be overlooked - one that is just as strategic as price and promotion: your focus on your consumers. With inflation, it's impossible to think only in terms of market share. This the real moment when your customer loyalty strategy is at stake. Reinforcing your brand promise, remaining/becoming the preferred brand, also

means being the brand that knows how to support its consumers in hard times. Other scenarios come into the equation: how to limit price increases to preserve purchasing power, and/or what the essential products are for which increasing prices is not a good strategy? This is another delicate balance to strike so as not to jeopardize one's brand and to hold onto consumers.



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About us

Ekimetrics is a leader in data science and AI-powered solutions. For over 16 years, we've pioneered the use of AI and advanced data science applied to unified marketing measurement, holistic business optimization and broad-ranging sustainability goals.

We help companies rethink the way they operate, so they can reconcile financial KPIs with non-financial goals.

Ekimetrics is an independent firm with offices on three continents. Since 2006, we have led more than a thousand data science projects in over 50 countries, generating more than 1 billion in profit for our customers.

Our approach to data for sustainability

We support our clients with MMM experts to ensure high-impact optimizations through our solution (the combination of a platform and services). Because our teams are trained for sustainability, we also help them adapt their media habits and optimize to the new constraints.

Our teams include data scientists trained in carbon footprint assessment and sustainability methodologies such as SBTi. Several are carbon footprint certified and master the sustainability frameworks (Bilan Carbone®, GHG Protocol, CSRD, TCFD). Everybody at Ekimetrics without exception is also trained in climate change awareness (via Climate Fresk, Digital Fresk and internal upskilling programs.) This gives us unique perspectives into the long-term issues of even those projects that are not specifically sustainability focused. It also means that we can provide a more sustainable long-term perspective to other optimization projects.

The company has its own sustainability journey. To learn more about it, see: <https://ekimetrics.com/who-we-are/>

Contact

Ready to talk or simply curious to learn more? Reach out to our experts to understand how your operational efficiency challenges can be tackled through data science.

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Eager for more case studies or data science insights?

Visit our website: ekimetrics.com

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