

Inflation provides a cover for brands to boost their margins

Article



The trend: Consumer demand remains strong despite prices rising. That's providing an opportunity for companies to increase prices, or adjust their packaging sizes, to boost their margins.

More on this: While factors such as supply chain challenges, the war in Ukraine, and rising labor costs are driving up supply costs, those are far from the only reasons companies are

giving for boosting prices.

- After accounting for increased labor and raw material costs, **Tyson Foods'** price increases helped boost the company's margin by roughly \$500 million in Q1, said CFO **Stewart Glendinning**.
- **Kimberly-Clark** aims to use price increases to improve its margins, said CEO **Mike Hsu** during the company's earnings call.
- **Constellation Brands** CFO **Garth Hankinson** said the company doesn't want to leave any "pricing on the table," during the company's fiscal Q3 earnings call. That's driven it to "look at this on a market-by-market basis, brand-by-brand basis and we'll take as much pricing as we think the consumer can absorb."
- **Coca-Cola** CEO **James Quincey** told CNBC that while consumers won't "swallow inflation endlessly," the company is raising prices now because of the threat of a recession, which would make consumers more sensitive to price changes.

Consumers keep spending: Companies are seizing the opportunity to pad their margins despite the inflationary environment, as many fundamental elements of the economy are strong:

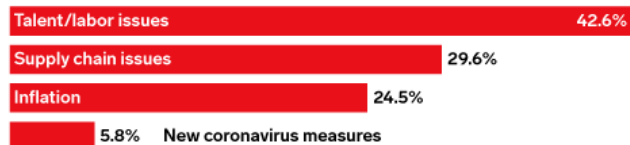
- The US unemployment rate is near record low levels.
- Workers' wages rose 6.0% in March, per the Atlanta Fed's Wage Growth Tracker.
- US consumer sentiment hit a three-month high in early April as positive job and wage trends appeared to outweigh inflation concerns, per the University of Michigan's Consumer Sentiment Index.

Corporate results: Corporate profits are strong, which suggests that companies have not been hindered by the inflationary environment.

- **Corporate pretax profits surged 25% year over year (YoY) in 2021** to \$2.81 trillion, per the US Bureau of Economic Analysis. That's the largest annual increase since 1976, according to the Federal Reserve.
- After factoring in taxes, last year's corporate profits jumped 37% YoY, which was **the largest increase since the Fed began tracking profits in 1948**.

Potential Headwinds to Growth in 2022 According to US CMOs

% of respondents



Note: top 1 response out of a rank of 1 to 5
Source: Chief Outsiders, "2022 CMO Survey," March 2022

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The big takeaway: The inflationary environment provides cover for companies to boost prices beyond their increased costs without facing the type of blowback they would otherwise face—particularly among brands such as **Tide** and **Coca-Cola** that foster tremendous brand loyalty.

- That said, companies have to walk a delicate line because if their increases are too large, consumers could trade down to another brand.