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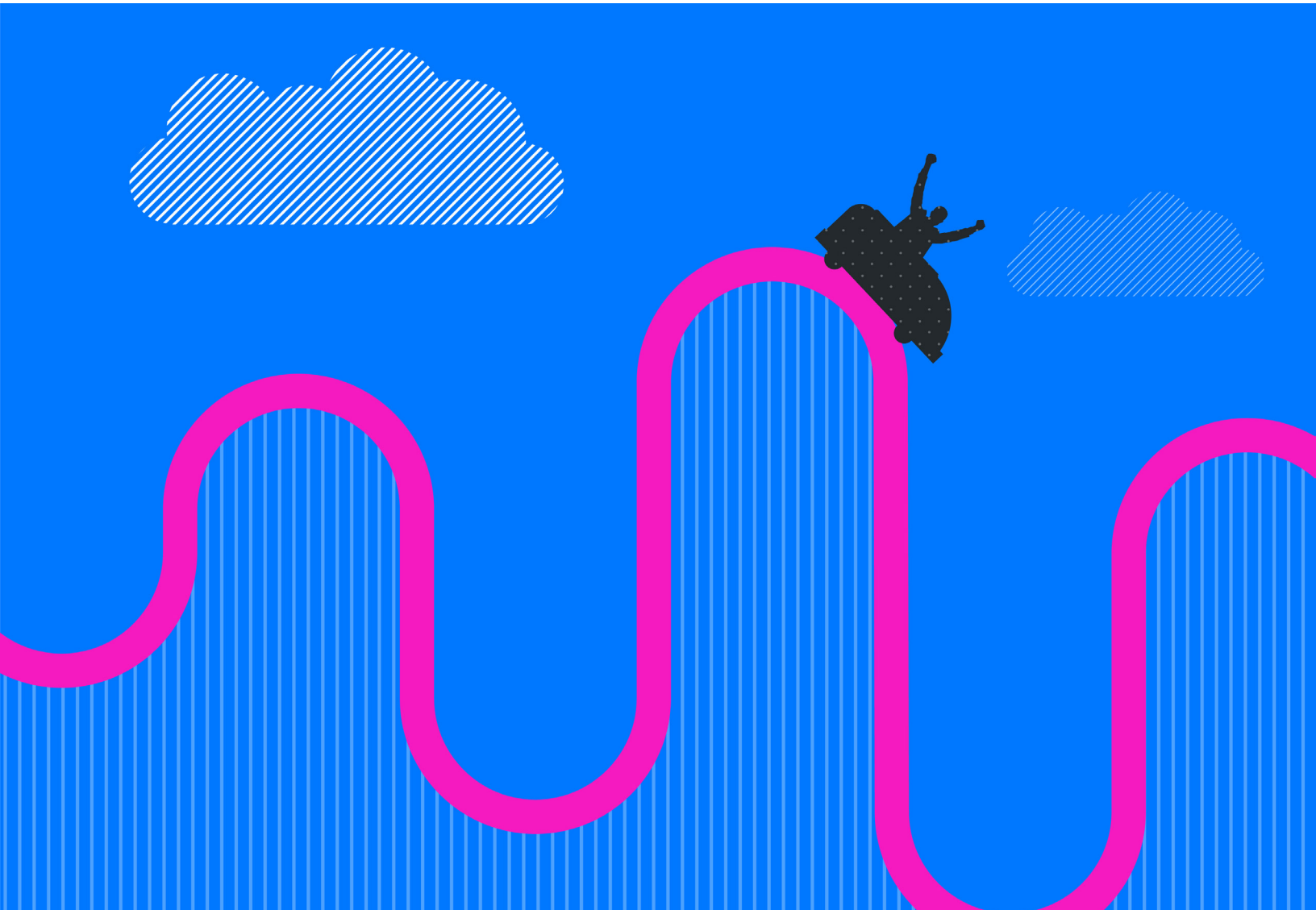
CPG planning for rising gas prices



Gas prices are at historic highs in terms of the numbers you see at the pump.

Combined with higher overall price growth than the U.S. has seen in a generation, consumers are beginning to cut back on spending, especially in areas like luxuries and travel, where they have more room to decide what they actually need. Because inflation has been so high, the U.S. is not experiencing significant cuts in total nominal spending, but real or inflation-adjusted spending is starting to pull back.

Immediate impact of rising gas prices on CPG consumers

Rising gas prices have become a hot-button issue, even among other headlines about economic issues, such as inflation and supply chain delays. Gas prices can have an immediate psychological impact on consumers. Gas is only a small portion of consumer expenditures, but it's one of the few costs where the price is obvious every time you buy it. At the grocery store, many consumers often don't carefully look at the price of milk every single time they buy. At the gas station, prices are front and center, and consumers watch the cost tick up as they wait to fill the tank. Prices are going up nearly everywhere, and although gas certainly isn't the fastest rising price, it's the one consumers feel most obviously since it's right at the pump and at signs on the corner of every gas station

When it comes to CPGs, consumers are looking for value, and value brands are going to do better as consumers look for ways to reduce their spending where they have more choice than perhaps at the gas station. Consumers will be cutting back on discretionary spending to cover increased costs at the pump and on necessities. The biggest risk to CPGs is if inflation significantly outpaces wage growth and cuts deep into the increased wages workers have gained during the tight labor market.

Expectations for 2022

Gas prices will likely stay high through the summer months, which is peak demand and peak gas prices nearly every year, but they should begin to subside in the fall. Already, demand for gasoline is slightly tailing off as consumers are not buying as many gallons and are driving less. In the short term, prices continue to face pressure from the impact of the Russia-Ukraine conflict and tightening of the supply chain. However, the increased production by the U.S. and a smaller than usual summer expansion of demand should contribute to reducing prices in the long run.

How CPGs can strategically plan for high gas prices

There are 4 strategic moves CPG companies can make to meet this challenge.

First, CPGs should look for ways to lock in prices and cut costs. Bringing in costs will go a long way, and the sooner CPGs can lock down costs, the sooner they can strategize on how to offset them.

Second, consider moving transportation to trains whenever possible, as it is a more efficient form of transportation overall and the least likely to experience the effect of major gas price increases. Reducing the amount of time on trucks will help reduce the risk of exposure to unpredictable gas prices.

Third, continue moving towards a blended approach to procurement and production planning, rather than relying on just-in-time processes that can expose companies to increased risk from rising gas and input prices.

Finally, leverage the best available technology to help manage inventories, supply chains, and labor to improve efficiency and reduce risk.

The key to strategic planning in 2022 will be flexibility. Costs are rising across the board, from gas prices to inputs to labor and transportation companies will need to remain agile and adjust to those risks. Make sure your company does not get too tightly focused on a single area and become blindsided by other forces. It's more important than ever to leverage external economic data to help identify and monitor drivers of cost to be prepared to take advantage of opportunities and mitigate risk.

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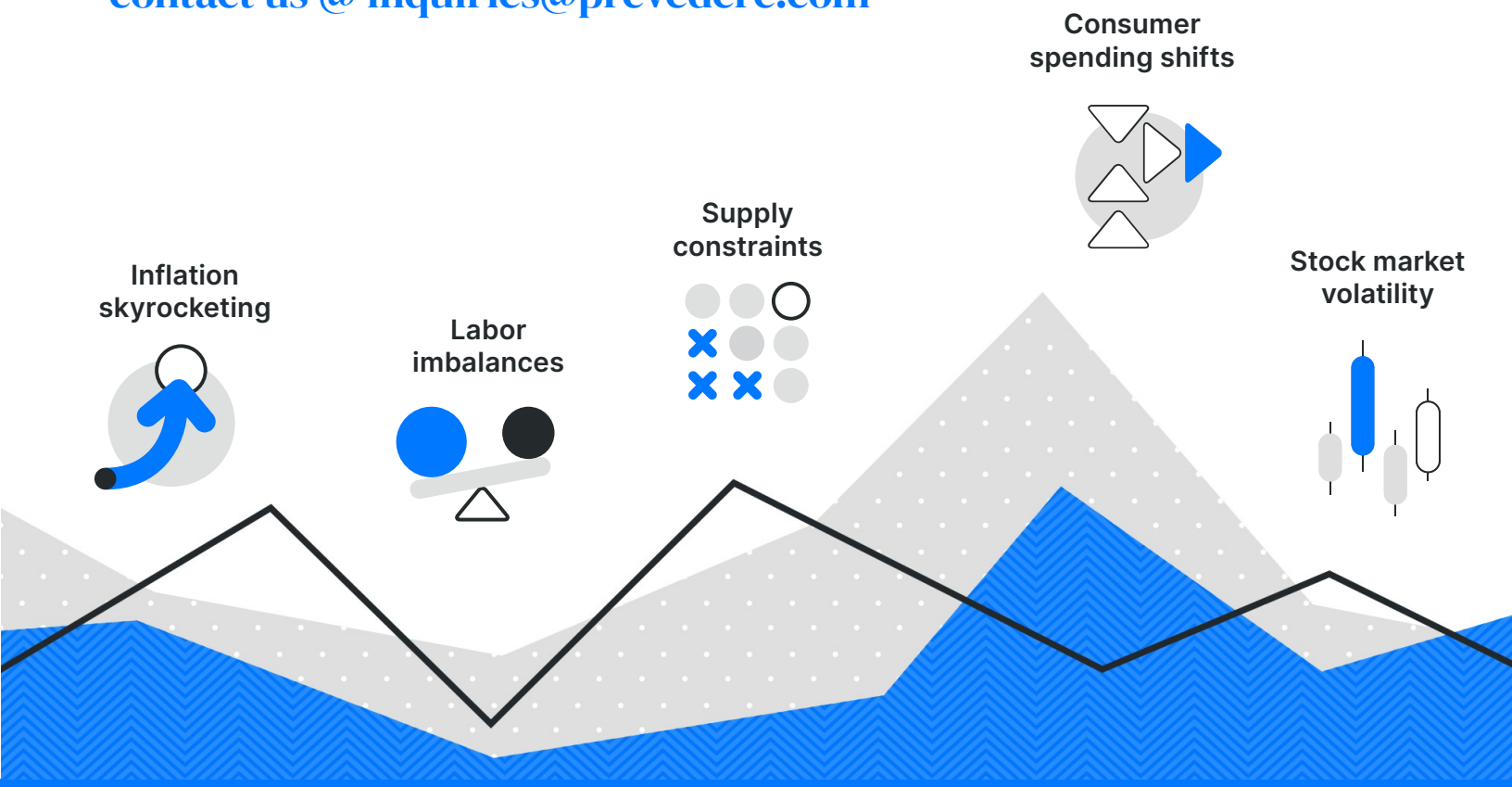

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Thank you

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