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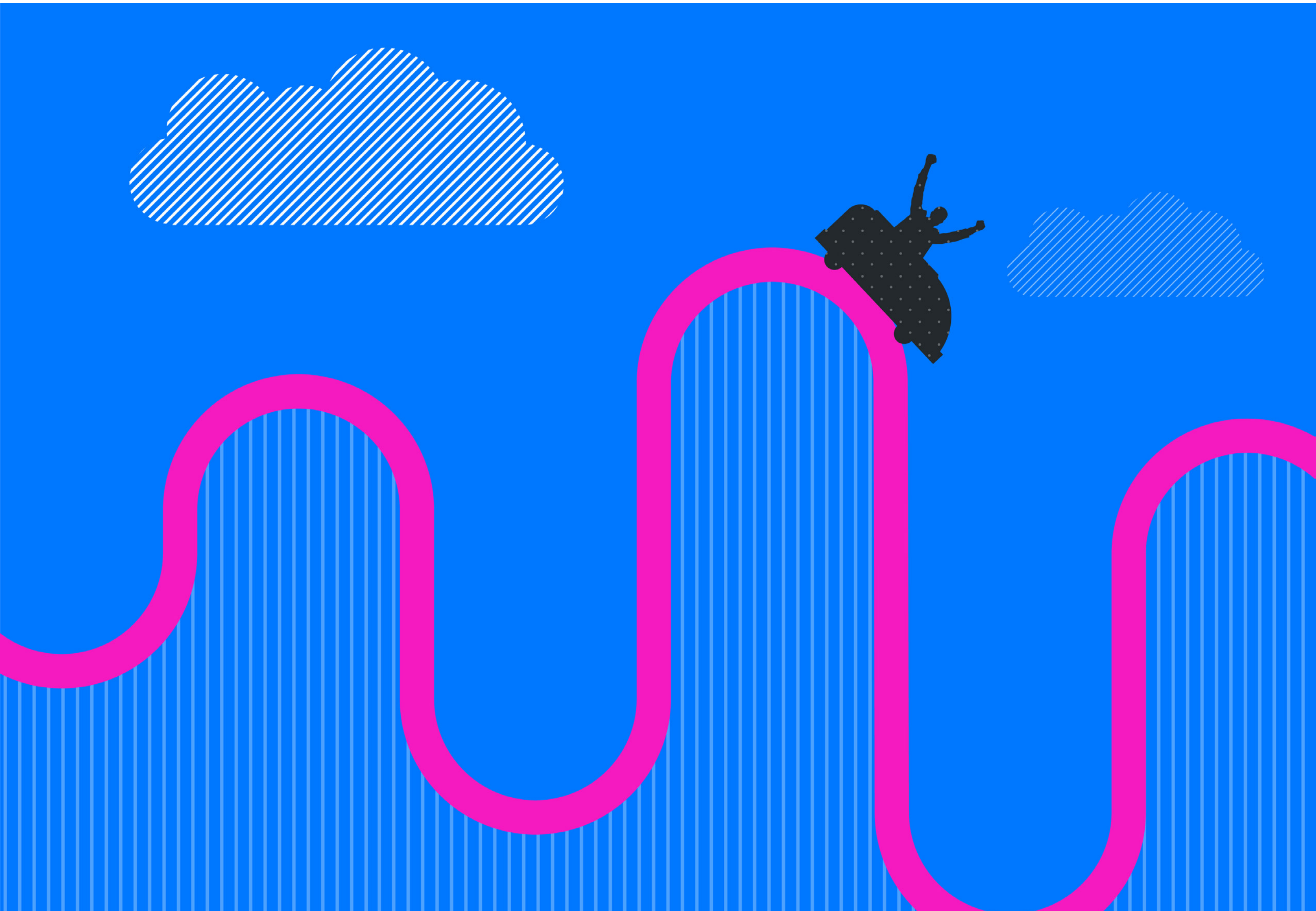
Manufacturing planning for rising gas prices



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 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.

Impact of rising gas prices on manufacturers

Manufacturing has seen pressure from all sides as higher gas prices lead to higher transportation costs, both for their products and the inputs they need to keep their production lines running. Transportation costs are already high and will continue to rise as gas prices move towards a peak. Labor markets are also extremely tight, which is forcing higher pay for transportation industry workers. The pressure on transport costs for manufacturing continues to build up and up.

At the same time, there have been significant delays in shipping, especially with materials and goods through China, which is experiencing significant COVID lockdowns that place continued pressure on supply chains. Additionally, manufacturers are a bit reluctant to pass increased costs on, as they have already had to significantly increase prices this year. Given all of the price pressure, there is a high concern that consumers will pull back from spending or move over to competitors who have not increased prices as much.

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 manufacturers can strategically plan for high gas prices

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

First, look for ways to lock in prices and cut costs where possible. Getting those numbers on the table earlier will help manufacturers get better control over them in the long run.

Second, consider moving transportation to railways as it's a more efficient form of transportation overall and the least likely to experience major increases in price related to gas. Reducing the amount of transport 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.

With today's rapidly changing market conditions, do you really know what external forces affect your organization, when and by how much?

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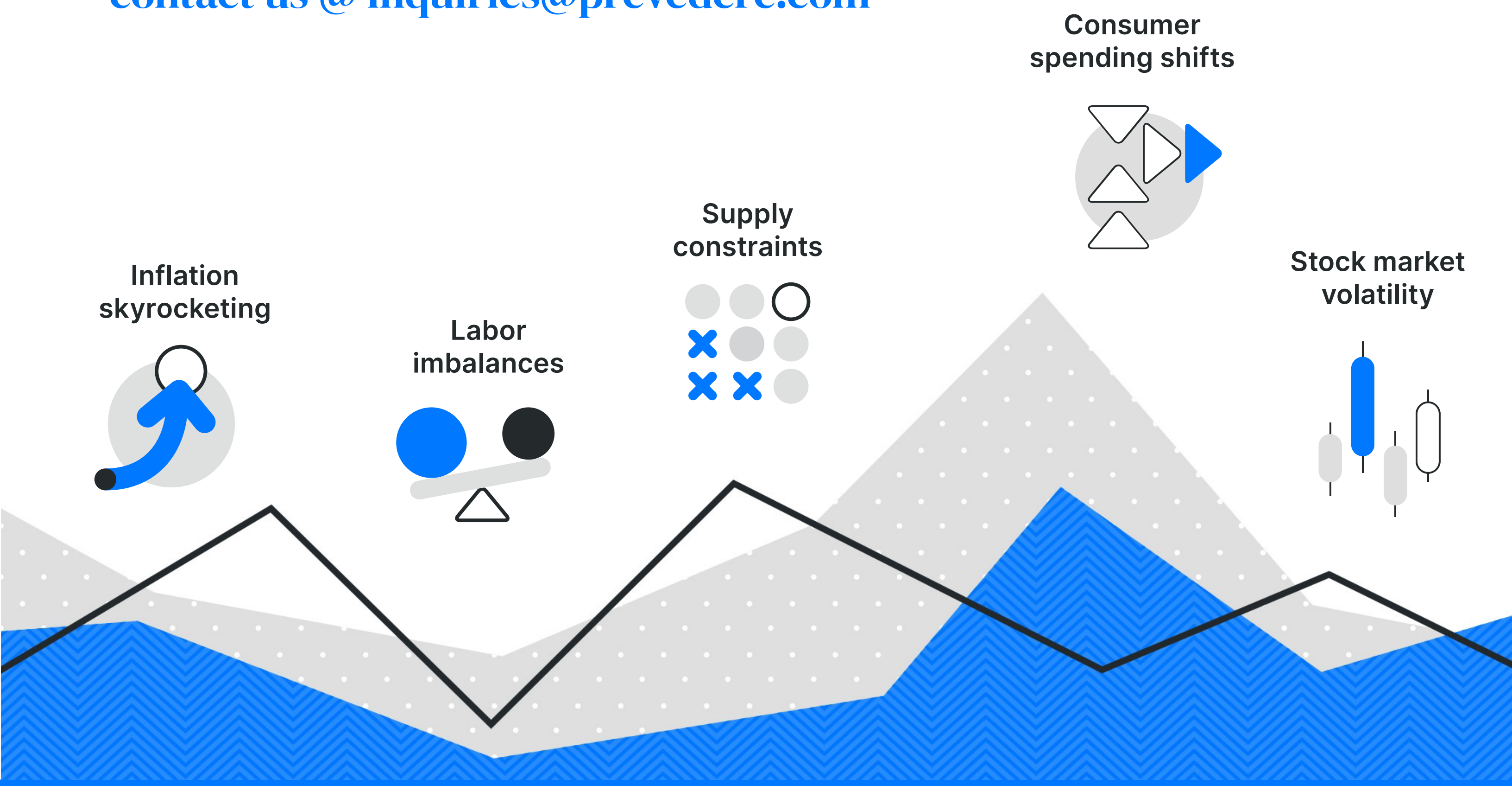

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Contact: **(888) 686-7746** or **inquiries@prevedere.com**