



August 2021

Retail is still reeling from direct and indirect effects of COVID-19. Inflation on a magnitude not seen in decades is hitting the U.S. economy as supply chains continue to be constrained in the wake of the pandemic's restrictions and as consumer demand rises. By most accounts, these inflationary pressures will last **at least into 2022**, which means that business-as-usual approaches to handling cost and retail changes are not adequate at this time.

This is especially true for food, drug, mass, and club retailers, who have been hit especially hard by the rising costs of food and other consumables. One large, national food and general merchandise retailer, which saw significant growth during the first year of the pandemic like much of the sector, has identified a potential EBITDA risk of over \$100 million due to these pressures. As the economy began to reopen over the last few months, this retailer was coping with the resulting demand and supply fluctuations of normalization. However, in recent weeks, there have been additional and compounding cost increases from suppliers across all categories. The retailer determined that these challenges could not be quickly and effectively addressed with a business-as-usual approach. Instead, it decided to set up what an inflation 'war room' to coordinate an accelerated and organized response that works across the entire supplier base and all categories.

This is the only right approach at a time when there is still much uncertainty around COVID-19, its variants, and ensuing effects on consumers, suppliers, and the economy writ large.

While grocery retailers have well-established frameworks and processes for evaluating cost changes and adjusting accordingly, these approaches are not suitable for the current challenge. In fact, the way most grocers are structured will actively prevent them from addressing these problems quickly. This is because most organizations are siloed when it comes to decision-making, with each desk or category tasked with dealing with its own cost and pricing decisions. Traditional grocery retailers can also be slow to respond at a time like this when speed is of the essence. Finally, the way incentives are structured for individual teams are not appropriate for this type of challenge – seeking to maintain status quo in margin rates can be a huge mistake.

So, what is an inflation 'war room', and how does it function? Put simply, it is a central locus of effort for the entire organization that brings together representation from merchandising, finance, store operations, and marketing, among others. Among its most critical functions is raising visibility of the most critical issues to the executive team and allowing a coordinated response. An inflation 'war room' would focus on the following:

- Track commodity and input costs and leverage private brand cost information
- Understand moves by major suppliers *across the enterprise*, not desk-by-desk or category-by-category
- Sharpen competitive pricing intelligence, including assessing how key competitors are responding and how this could influence your own leeway to pricing adjustments
- Recognize the different competitive battles as leading grocery retailers take different approaches, including treating individual markets differently
- Facilitate managing gross margin at an enterprise level rather than letting individual buyers and category managers make separate decisions. This could include price movements in areas where there is no inflation in order to mix out overall business performance
- Create a forecast-led, forward-looking approach that is continuously updated
- Finally, and critically, build a plan for communicating with consumers and store associates to manage perception

While the economy is growing again, demand and supply forces are not expected to stabilize anytime soon. At such a time, grocery retailers need to be agile and adapt to changing market conditions quickly. Being slow or uncoordinated is risky. A proactive approach such as the inflation 'war room' described above is the best way to prepare for these disruptions.

**FOR A DEEPER DISCUSSION ABOUT THIS TOPIC, CONTACT:**

**Matt Hamory**  
Managing Director  
[mhamory@alixpartners.com](mailto:mhamory@alixpartners.com)

**Joel Rampoldt**  
Managing Director  
[jrampoldt@alixpartners.com](mailto:jrampoldt@alixpartners.com)

**CONTACT THE AUTHORS:**

**Adam Goodliss**  
Director  
[agoodliss@alixpartners.com](mailto:agoodliss@alixpartners.com)

**John Kacedan**  
Director  
[jkacedan@alixpartners.com](mailto:jkacedan@alixpartners.com)

## ABOUT US

For nearly forty years, AlixPartners has helped businesses around the world respond quickly and decisively to their most critical challenges – circumstances as diverse as urgent performance improvement, accelerated transformation, complex restructuring and risk mitigation.

These are the moments when everything is on the line – a sudden shift in the market, an unexpected performance decline, a time-sensitive deal, a fork-in-the-road decision. But it's not what we do that makes a difference, it's how we do it.

Tackling situations when time is of the essence is part of our DNA – so we adopt an action-oriented approach at all times. We work in small, highly qualified teams with specific industry and functional expertise, and we operate at pace, moving quickly from analysis to implementation. We stand shoulder to shoulder with our clients until the job is done, and only measure our success in terms of the results we deliver.

Our approach enables us to help our clients confront and overcome truly future-defining challenges. We partner with you to make the right decisions and take the right actions. And we are right by your side. When it really matters.

The opinions expressed are those of the authors and do not necessarily reflect the views of AlixPartners, LLP, its affiliates, or any of its or their respective other professionals or clients. This article regarding *Hit hard by inflation, grocery retailers must get proactive* ("Article") was prepared by AlixPartners, LLP ("AlixPartners") for general information and distribution on a strictly confidential and non-reliance basis. No one in possession of this Article may rely on any portion of this Article. This Article may be based, in whole or in part, on projections or forecasts of future events. A forecast, by its nature, is speculative and includes estimates and assumptions which may prove to be wrong. Actual results may, and frequently do, differ from those projected or forecast. The information in this Article reflects conditions and our views as of this date, all of which are subject to change. We undertake no obligation to update or provide any revisions to the Article. This article is the property of AlixPartners, and neither the article nor any of its contents may be copied, used, or distributed to any third party without the prior written consent of AlixPartners.

©2021 AlixPartners, LLP