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Managing in an inflationary world

"Inflation is like sin; every government denounces it and every government practices it."

So said Frederick Leith-Ross who, as a wartime economic adviser to the Government, presumably knew what he was talking about.

Last week, Mark Price of Waitrose added his name to a long list of retailers who express bafflement about BRC or Government inflation numbers.

Inflation is not, as often assumed, a general rise in all prices. Not every price goes up by the same amount. In any inflationary period, some prices go down, but this is more than counterbalanced by other prices going up.

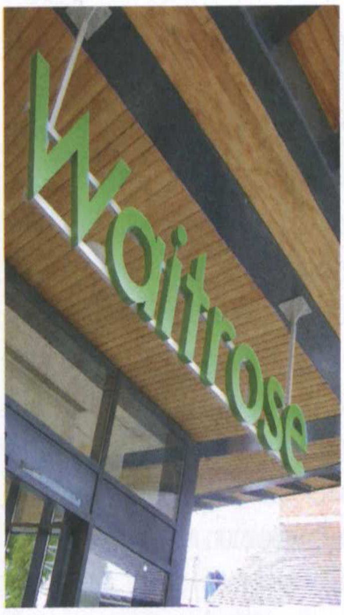
Some go up by more than others, especially, for example, at the moment those suffering from commodity price inflation – be it cotton, copper or oil.

Part of the problem is that different bodies calculate inflation differently. Since different products are inflating at different rates, what weight you give to each is very important.

Do you average out all individual prices, or weight each to reflect an 'average shopping basket'? Do you take account of promotions?

If an extra 10% of sales this year is being promoted down by 20%, that would reduce inflation by 2% alone.

Are the products this year the same as last year? An apparently identical line could have been reformulated or have had its weight or size reduced, and so distort comparisons.



Waitrose is the latest retailer to express its concerns over the BRC and Government inflation numbers

"I OFTEN WONDER WHO DOES MORE TO KEEP INFLATION IN CHECK: THE BANK OF ENGLAND OR RETAILERS?"

Do you use this year's product weightings or last year's? This can make a big difference, as people shift their purchasing from items that are rising rapidly in price to those becoming relatively cheaper.

So using this year's product weighting gives a lower inflation rate than using last year's.

Do retailers complain too much? After all, it's a rare shopkeeper who doesn't see an opportunity when a supplier ups a price to buy in a little extra just before the price goes up and then selling that stock on at a higher retail price, pocketing a little 'forward buying' profit.

If a supplier increases its price by 5%, a retailer may try to increase its (higher) retail price also by 5%, thus increasing gross profit. He who is without sin, may cast the first stone.

On the other hand, look at the ease with which energy suppliers seem able to pass on cost increases as higher retail prices. Can you imagine how much lower energy prices would be if they had to first agree increases with a Tesco or B&Q buyer?

In fact, arguably, multiple buyers are too effective in suppressing manufacturer inflation. Premier Foods is only the latest of many suppliers whose profits have taken a severe beating from being unable to persuade retailers to accept cost increases.

Not that retailers ever get credit from the Government for suppressing inflation. In fact, I often wonder who does more to keep inflation in check: the Bank of England or retailers?