

**SUSTAINING THE FESTIVE MOMENTUM**

# Cos to Hike Price of Discretionary Items by 8-10%

Move to offset rising raw material, supply chain costs; likely to impact demand

**Sagar Malviya & Writankar Mukherjee**

**Mumbai | Kolkata:** Companies and retailers selling discretionary products such as apparel, electronics, liquor and cosmetics said they will increase prices by 8-10% to offset rising raw material and supply chain costs although it could impact demand for some products.

Companies across grocery essentials, personal care products, packaged food, and dining had already raised prices and will make another round of hikes in the new year. The cost challenge comes at a time when retailers across segments breached the pre-pandemic sales mark during the festive season and are trying to sustain the momentum in the next few quarters.

"When the organic, material-wise cost inflation hits you, we will have no choice but to take price increases at this point of time," Ashish Dikshit, managing director, Aditya Birla Fashion & Retail, told analysts.

Wholesale inflation, an indicator of input costs for businesses, has been in double digits for over six months now, while retail inflation has declined in recent months to a five-month low of 4.35% in September. This divergence confirms high input cost inflation that has not yet been passed to consumers.

Prices of key inputs such as

## Input Costs Taking a Toll

Double-digit wholesale inflation for over 6 months

Cotton yarn prices up over 60% YoY to decade high



Logjams at ports, warehouses driving up logistics costs

Sept wholesale fuel, power inflation at 24.8%



Prices of refrigerators, washing machines, ACs, microwave ovens to go up 5-6%



Prices of apparel, lifestyle products may rise 8-10%



glass, cotton, steel, copper, chips, and chemicals among others have risen sharply, impacting margins.

Cotton yarn prices have surged over 60% year on year to a decade high, hurting the garments sector. Retailers said they tried to offset price increases by reducing margins over the past few months but with raw materials climbing consistently, they have run out of other cost-saving options. "We have never seen this kind of input price rise and it is increasing month-on-month," said Devarajan Iyer, chief executive officer at Lifestyle International.

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## The Cost Burden

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"We tried to absorb it earlier but this is unprecedented but we have to keep a fine balance. If you keep on increasing prices, then there could be a demand shortfall." Lifestyle is in negotiations with vendors to minimise the cost burden.

Fuel and freight have added to costs - wholesale fuel and power inflation was 24.8% in September. The Crisil pan-India freight index hit its highest since February. "The current dynamics of the industry are an interesting conundrum, with inflation, rising cotton prices, an increase in freight costs on one hand, and strong underlying demand on the other," said Sanjay Jain, chief executive officer of PDS Multinational Fashions, a contract development and manufacturing firm to brands and retailers.

Retailers said logjams at ports and warehouses are also driving up logistics costs for products across lifestyle categories.

"Price increase is inevitable as there are disruptions in supply chain and global manufacturing. We see one country opening up but another country, cities or ports not opening," said Tushar Ved, president of Major Brands, which sells Aldo and Bath & Body Works products.

Even prices of refrigerators, washing machines, ACs and microwa-

ve ovens are set to go up 5-6% as early as next week and there could be another round of increase next year with prices of commodities, components and freight at an all-time high. The total impact on input costs is 8-10% but most companies had postponed the hike during the festive season.

The industry says a price increase is inevitable. "There could be an impact on demand, but manufacturers have no option to pass on the increase in input cost as margins are squeezed right now. The hike could be in phases," said Eric Braganza, president of Haier and head of the Consumer Electronics and Appliances Manufacturers Association (CEAMA).

The liquor industry is faced with higher costs of glass bottles and extra neutral alcohol - a principal ingredient - while packaging material prices have increased 5-17% on average. With state governments controlling pricing, companies are demanding higher price-tags through the industry body, Confederation of Indian Alcoholic Beverage Companies (CIABC), which represents top Indian alcohol beverage makers.

"Overall, the commodity markets in many areas, whether you talk about oil, energy, or other input costs like some of the glass input materials or things like cartons, we see very high cost at the moment, which is actually a challenge for many companies," Berend Odink, chief financial officer at United Breweries, told investors.

