

How to measure and manage material inflation



Gross Material Inflation (GMI)

Material inflation is increase in prices compared to previous period material cost.

For example, if your last year's material cost per ton was € 2.1 and this year's material cost is € 2.3, there is an inflation of material cost. And which is 9.5%.

GMI is the total material cost to P&L, if no savings would have been provided. So, when savings is added with NMI, we get GMI.



Cost Savings

Savings can be either from buying the material or from formulation change. Buying savings can be changing the vendor or changing the route of shipment, negotiation and renegotiation. Formulation change can be bottle resize or reshape, material ratio change and localization of imported items.

If any format of these initiatives generate cost reduction, then we call that as savings of that respective year.



Net Material Inflation

NMI is the net material cost impact to the P&L.

we deflate the material cost to neutralize and to do apple to apple comparison. Deflated cost is the cost of current year's volume at last year's rate.

NMI at different level is calculated to know where the cost pressure from material and to identify savings or pricing is requirement.