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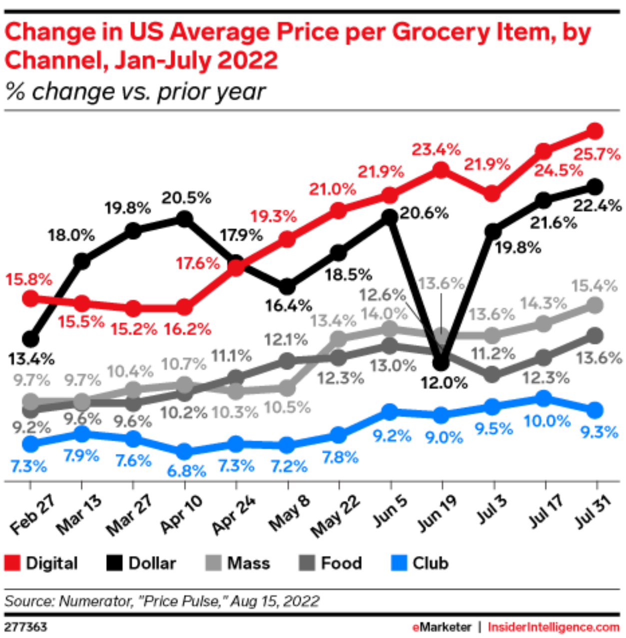
Price hikes help CPG brands post strong profits despite mediocre volume growth

Article

The trend: Price hikes, shrinkflation, and other moves are helping a number of consumer packaged goods (CPG) brands deliver solid financial results despite a slowdown in sales volume.

- **Kraft Heinz** pushed prices up 15.4% year-over-year in Q3. That aggressive push helped the company's revenues rise 2.9% in Q3 despite a decline in sales volume.
- While **Conagra Brands,** the parent company of **Duncan Hines**, **Vlasic**, and **Slim Jim** meat snacks, saw its food sales decline 4.6%, its revenues rose 9.7%.
- **Procter & Gamble** overcame a 3% decline in sales volume thanks to its prices rising 9%. That enabled the company to generate a 1.3% revenue increase.
- A shift to smaller packaging formats, along with price increases, helped **Coca-Cola**'s Q3 revenues grow 10.2%. That far outpaced a 4% increase in its sales volume.

Despite rising prices, a sizable share of consumers have yet to make changes in their purchasing behaviors, said **Andre Schulten**, P&G's chief financial officer, during the company's earnings call. "We are very encouraged by how many of our consumers continue to look for the upper end of our portfolio."



Many consumers are trading down: CPG brands' mediocre sales volume results reflect many people's uneasiness about the economic climate. For example, 79% of consumers 55 to 74 years old are extremely concerned about inflation, per a survey by **Kroger**-owned **84.51°**.

- That's reflected in the data. For example, 50% of respondents to the survey said they'd be willing to switch to lower-priced brands in shelf-stable, household cleaning, and paper products.
- Consumers also don't like paying more (or the same) for less. Forty-five percent of shoppers will buy a different brand that hasn't reduced its size or quantity if they notice shrinkflation, 42% will only buy the item if they have a coupon, and 17% won't buy the item at all, per 84.51°.
- That's forcing CPG brands to be mindful of consumer sentiment as they adjust their pricing strategies. "The name of the game is to optimize our revenue equation over the next 12 to 18 months," said **John Murphy**, Coca-Cola's president and chief financial officer, during the company's earnings call. "That's going to be a combination of smart pricing, understanding the mix, both from a channel and package perspective, and being able to utilize the many levers that we have."

The big takeaway: While price hikes and shrinkflation have helped CPG brands paper over declining sales, there are limits to how long those tactics will last before they push too many consumers to trade down to other brands.

- That helps explain why fewer than 40% of CPG brands plan to increase list prices in the first half of 2023, and 25% expect to keep prices consistent, per a recent Advantage Solutions survey.

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