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Price increases wallop retailers as consumer behavior shifts

Article

The trend: Prices increased by **7.5%** over the past 12 months, the highest growth rate since 1982, per the latest Consumer Price Index (CPI).

- Inflation was a common complaint in companies' earnings calls, with **Coca-Cola, Kellogg Company, Unilever,** and many others citing high rates as a reason for decreased profits.

- Food prices alone rose 0.9% in January, more than every category but energy. Meanwhile, online prices grew 2.7% year over year (YoY) last month, according to Adobe's Digital Price Index.

How retailers have responded: Retailers have multiple strategies to mitigate the effects of inflation on their business. They can:

- Keep prices low to keep customers loyal, like **Walmart** and **Target** have done
- Raise prices in line with the rate of inflation, which leads to higher revenues but not higher profits
- Hike prices above the rate of inflation to increase profits but risk having price-conscious consumers jump ship

More than half (**56%**) of retailers have raised prices beyond inflation to boost profits, while **55%** have increased their prices by 20% or more, per a November 2021 survey from Digital.com.

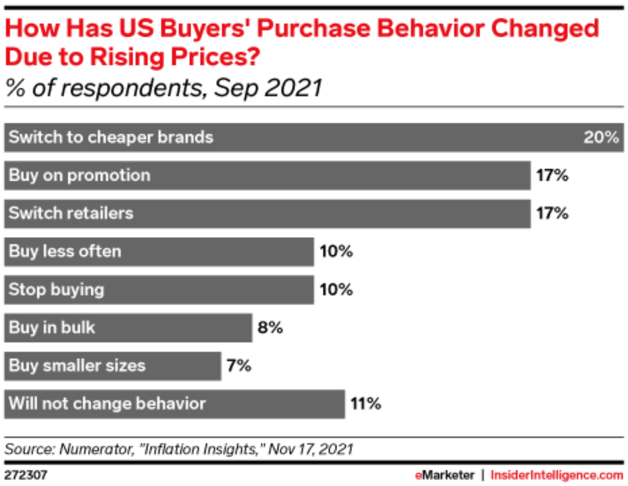
- Of course, this tactic only works if enough people are willing and able to stomach higher costs. Wages may be growing, but they're not keeping up with inflation, meaning that many shoppers will have less purchasing power than before.
- For some companies, price hikes haven't affected customer loyalty at all: **Chipotle** saw "very little resistance" despite raising prices by around 10% over the course of last year. In fact, the fast-food company reported 15% YoY growth in Q4 for its restaurant sales.
- "From a customer experience viewpoint, over 80% of consumers are willing to pay up to 15% more for products and services when the organization gets the customer experience right," said **Patty Soltis**, eMarketer principal analyst at Insider Intelligence. "Customer experience has become more important than price in most cases now."

Grocers run into problems: However, when it comes to groceries, consumers are exhibiting more price-conscious behavior, thanks to higher prices for everything from eggs to meat.

- Food at home prices rose by **7.4%** in 2021, per CPI, while online grocery prices have gone up for 24 consecutive months.
- With shoppers feeling the pinch, grocers are doing everything in their power, including promoting their private-label brands and keeping prices low for staple goods, to prevent customers from fleeing to other retailers. However, many shoppers are switching to cheaper

retailers, such as **Dollar General** or **Aldi**; cutting back or trading down on certain items; and even reducing the number of trips to the grocery store as they attempt to cut costs.

- Discount retailers are in a prime position to take market share away from competitors. Aldi plans to add **150 new stores** to its US footprint this year, which would make it the third-largest grocery retailer by store count. However, these retailers are subject to the same inflationary and supply chain pressures as other grocers—so, while they may be able to pick up market share, profits may not follow.



The big takeaway: While companies have been vocal about the impact of inflation on their business, the reality is that most have still been able to record profits. For example, Coca-Cola reported **17%** revenue growth for 2021, as well as a **15%** increase in operating income. This means there's room for retailers and manufacturers to negotiate prices downward or at least keep them steady, thus relieving some of the pressures on consumers.