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A Better Way

Room for improvement in how retailers, suppliers approach food price hikes

By Abbie Westra

CHICAGO -- The next few years are not particularly bright for food retailers and manufacturers. Many are headed down a path of eroding sales and share as they raise prices in order to fight food-price inflation and employment stagnation. But there are ways companies can change course and better react than passing costs on to consumers. Such guidance was laid out in yesterday's The Future of Food Retailing webinar, presented by Willard Bishop and The Food Institute.

Speakers Jim Hertel, managing partner at Willard Bishop, and Craig Rosenblum, partner at Willard Bishop, forecasted that food-price inflation will be significant for the next three to five years, driven by rebounding commodity costs.

It might fluctuate from month to month, Hertel said, but the long-term trend is up. And although the Producer Price Index dropped in the past month, Willard Bishop still sees ethanol conversions, bad weather around the globe and growing populations as significant factors driving food prices up.


Jim Hertel and Craig Rosenblum

Meanwhile, employment--or lack thereof--will continue to affect consumer spending. Today's environment parallels that of 2008, and similar trading down is expected. With costs going up, wages staying stagnant and fuel prices increasing, "change is afoot" for consumer spending, Hertel warned.

So while food prices ramp up, many retailers and manufacturers have taken the opportunity to expand margins or penny profits by "passing through" the cost to the consumer--an action Hertel and Rosenblum warned could have bad long-term consequences.

They offered three ways for retailers to better approach price increases:

- **Get more creative negotiating prices with manufacturers and trading partners.** Understand their own cost structures; look to take costs out of the company's account P&L; and leverage vendor resources such as consumer research and personnel to drive a mutual return on investment.
- **Take advantage of all "price image" enhancement levers.** Do not just slash prices; look at indirect ways to improve price image such as merchandising, assortment, highlighting per-unit prices and making it easy for shoppers to "learn your system."
- **Optimize private-label branded product portfolio.** Enhance price image by leveraging the "value tier" in each category; increase margin by managing price gaps and per-unit penny profits; and build loyalty and differentiation by creating "premium tier" private-label items only you offer.

Hertel and Rosenblum also presented ways manufacturers could better approach these price increases:

- Understand how retailers' price image is developed, and how your categories impact it.
- Make pricing suggestions in the context of enhancing retailers' price image; focus on helping with the non-price elements.
- Develop merchandising plans and POS materials such that they help enhance retailers' price image too.