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Food And Beverage Inflation, Antici-Flation, Shrink-Flation: Who's Winning And Losing?

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Inflation has returned, and not just at the gas pump. While raising consumer prices is always risky, many F&B companies have had to take that chance as freight and material costs have skyrocketed. Some are finding that hiking prices hasn't hampered demand much, at least for now. Campbell Soup Co., Kellogg's, and Kraft Heinz all raised their annual sales forecasts in June, after raising prices.

A closer look at the F&B industry amid inflation shows changing company and consumer behaviors, new ingredients that stretch products further, supply chain shifts, different strategies, and new ways to handle higher costs and prices. Who are the winners now and who are they likely to be in the future?

The Inflation Equation

When it comes to inflation, unfortunately, you can believe what you hear. Supply chain struggles, labor shortages, and a consumer cash influx from Covid relief are fueling price hikes. According to the U.S. Bureau of Labor Statistics, food prices shot up 10.1% year over year as of May. And prices for groceries rose 11.9%, far outpacing the 7.4% at restaurants and take out. The cost to make a toast these days could drive you to drink.

Problems in China, Ukraine, and Russia are pushing up F&B prices in the United States. Measures to battle Covid in China closed factories. Russia's invasion of Ukraine reduced the supply of grains and other commodities in both nations. Meanwhile, containers piled up at ports, delaying delivery, amid shortages of workers and truckers facing their own high gas prices. People afraid of shortages began hoarding, to judge from the empty baby food shelves.

Still, F&B companies have been somewhat shielded, at least in part, from major downturns in demand. Consumers tend to "prioritize food essentials over discretionary goods amid surging inflation," Reuters reported on June 8.

Inflation, however, has influenced purchasing and saving behaviors. In a poll by the Washington Post and George Mason University's Schar School of Policy and Government, 59 percent said they reduced what they're setting aside for savings, and 77 percent decreased spending on entertainment and eating out in recent months. Restaurants took it on the chin. On the most basic level, if people feel good, they spend more. If they're worried, they delay purchases, such as restaurant meals.

Two-thirds of Americans expect inflation to get worse over the next year, the poll found. Thirty percent expect inflation to get much worse. Call it *antici*-flation or whatever you like: people's behavior reflects their outlook. Anticipating things will get worse, they spend less.

Changing Habits

Amid inflation, consumers have been shifting their spending habits in ways that produce F&B winners and losers. Store brands have been stronger, as consumers seek to save. Edible unit sales for national brands dropped 2.5% compared to 2.1% for store brands in the 52 weeks ending May 29, according to IRI. Companies such as Costco and Amazon as well as e-commerce discounters have been going strong. Ironically, dollar

stores haven't been doing as well as you might expect. Gravy Analytics told the Food Institute that dollar stores are great "options for those looking to stretch their budgets," but foot traffic declined at Dollar General, Dollar Tree and Family Dollar. Why? It suggests that even "dollar stores are being impacted by the rising cost of living." It doesn't take much to produce sticker shock when the sticker is set at a buck.

More for Less

Some companies have been seeking to boost margins by offering less. Restaurants trimmed portions, and companies shrank products as "shrinkflation" became a buzzword. Nestle in the United Kingdom shrank its coffees from 100 grams to 90, while Folgers slimmed from 51 ounces to 43.5. Folgers reportedly claimed it was becoming more efficient, saying you could still make 400 cups per container due to lighter beans. Frito's "Party Size" went from 18 ounces to 15.5 ounces, while Chobani Flips yogurts shrank from 5.3 ounces to 4.5. Domino's Pizza is shifting from 10-piece chicken wing to-go orders to eight for the same $7.99. Meanwhile, some companies are seeking to design their way out of difficulty, if not disguise diminished volume. Gatorade is going from 32-ounce bottles to 28, thanks to a slimmer middle. They note that gives the bottles a grip, making them easier to hold.

While price growth for goods sold online in the United States slowed in May, grocery prices were up 11.7 percent from the prior year, according to Adobe. Some companies such as Coca-Cola have warned that continuing price hikes could hurt demand, according to Reuters. Regarding more room to raise prices, Campbell Soup Co. CEO Mark Clouse said in an earnings call, "I don't think that's particularly accurate or realistic."

Rising revenues, rising risks

Campbell projects fiscal 2022 organic net sales to rise 1% - 2%, compared to an earlier projection of a 1% drop to a 1% gain. It's not a huge hike, but things are looking up,

according to Clouse. He said, “The operating environment remains challenging and we continue to expect significant inflation” as well as “ongoing inflation-driven margin pressure.”

So F&B companies expect to continue to pay more to manufacture their products than in the past. In addition, many retailers and others are increasing compensation, boosting administrative costs.

Will consumers follow if prices continue to climb? Campbell said inflation-driven pricing helped boost revenues by more than 11%, far offsetting a 3% volume decline. Energy hikes have been hitting F&B and other industries hard, including fuel surcharges. The energy index rose 34.6 percent year over year as of May, the largest 12-month increase since September 2005.

F&B companies must balance increased costs with the ability to manage inflation. Prices may continue to rise for some companies’ products, but so may the risk, especially after the Fed’s recent decision to hike rates. Yes, inflation is a rocket, and while some companies are better able to manage the ride, consumers are paying for the fuel.