

Sep 10, 2019, 02:09pm

## Food and Beverage Cos Play the Price is Right



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The Price is Right is TV's longest running game show for reasons going beyond the charisma of its host. The show's producers figured out a way to turn the store and even the supermarket into a game. But food and beverage companies from Hershey to Mondelez lately have been playing their own version of The Price is Right. Faced with a strong economy and growing costs, many companies are hiking prices in a process that's bigger than any game show.

Hershey has been pushing up prices for a wide range of products, while Mondelez International hiked prices on Fig Newtons, Wheat Thins, Triscuits and other items. Nestlé, Unilever, and Coca Cola all announced the need to raise prices due to rising costs. Meanwhile, restaurant prices climbed faster than inflation. The Consumer Price Index in July was up 1.8 percent over last year, but restaurant prices were up 3.2 percent. After price cuts, Amazon raised and then cut prices again at Whole Foods. Food and beverage companies know getting the price right is almost as important as getting the product right. But how are they doing it, and is it working or driving consumers to competitors?

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Let's take a look at Hershey, where CEO Michelle Buck talks about "price realization" as a "strategic focus." Back on June 30, she said price increases announced last summer are "on track" with more set for Halloween. She announced hikes representing one third of overall sales. Buck prepared retailers and customers and didn't hit them with sudden price tag shock. Pricing is

an ongoing and not a fixed thing, and increases are being done gradually as the company grows revenues (in part through acquisitions) and fattens margins.

Why are companies like Hershey hiking prices now? They think they can and need to, because of a strong economy and increased costs. There are serious increases for many companies in trucking costs and drivers' salaries, because of the shortage of drivers. Prices of ingredients often are going up because of different market conditions, such as scarcity, drought, and fuel costs. Companies face conditions that make it difficult to maintain margin. Raising prices sometimes is a way to pass on rising costs, although there are big risks.

While a good economy may soften impacts, customers are price sensitive, regardless of the economic situation. Studies show most consumers opt for a lower price over variety and selection. With brand loyalty on the decline, consumers are more likely to jump ship. Many restaurants and other eating and drinking facilities are offering loyalty programs to retain customers. These draw the customer back through price reductions. "If you buy ten cups of coffee, the next one is free." These loyalty programs impact prices by effectively creating discounts.

Raising prices also can be riskier with private labeling on the increase. People went to the brand, selecting products based on name and reputation. Now they may look at private label as retailers step up in the pricing game.

Manufacturers these days may face higher costs due to tariffs, which increase pricing pressure. But some retailers are taking charge. Target told suppliers it won't allow them to pass on tariffs. It was a pre-emptive move by a retailer concerned about a wave of increases. Clamp down and find savings rather than pushing up prices. They reminded suppliers that stores can be the host in this game of The Price is Right. They want power when it comes to pricing. If you want to play on their stage, you play by their rules.

We typically focus on unit "price," but that's only part of the story and strategy. While companies may increase prices, many give it back to the consumer or retailer through incentives. They raise the price on a product and then offer free product through "bogus" (buy-one-get-one-free) and retailer rebates. Hershey, in some cases, offered bigger candy bars. If people focus on the fact that they're getting more, they may not pay as much attention to the fact that they're also paying more. It's a sort of sleight of hand and pricing strategy: The more you give, the more you charge.

There's one immediate benefit to companies raising prices, beyond more revenue per unit. They may boost unit sales as retailers stock up. Hershey CFO **Steven Voskuil** said his company "increased internal inventory levels" because of "more demand from our retailers... as we transition to the new prices." The candy company has been hiking Halloween candy prices. People will wish each other a happy Halloween this year as usual, but Hershey is also hoping the holiday will be a little bit happier for the company. For trick-or-treaters, the price won't change: The candy will be free to them at the door. We'll see how Hershey does and whether they walk off a winner from a move where the stakes are much higher than on any game show.



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