

Pulse Report: F&B Pricing

Under pressure from higher commodity costs, food manufacturers and retailers are weighing whether to hike prices to preserve margins or hold the line with hopes of maintaining strong volume.

New analysis from Symphony Consulting, a consulting unit of SymphonyIRI Group, shows that CPGs can have price hikes and volume too, if they plan strategically using tactics such as promotions, adjusting pack-price architecture and mix, and creating retailer-specific price roll-out plans that take advantage of competitive pricing opportunities.



While some smaller firms are losing share to larger competitors that are better able to absorb the higher costs, by offering promotions they can drive incremental traffic to stave off volume declines, according to Krishnakumar "KK" Davey, managing director of Symphony Consulting.

Many store brands have found they could successfully raise prices and maintain their value position.

—Krishnakumar "KK" Davey, managing director, Symphony Consulting

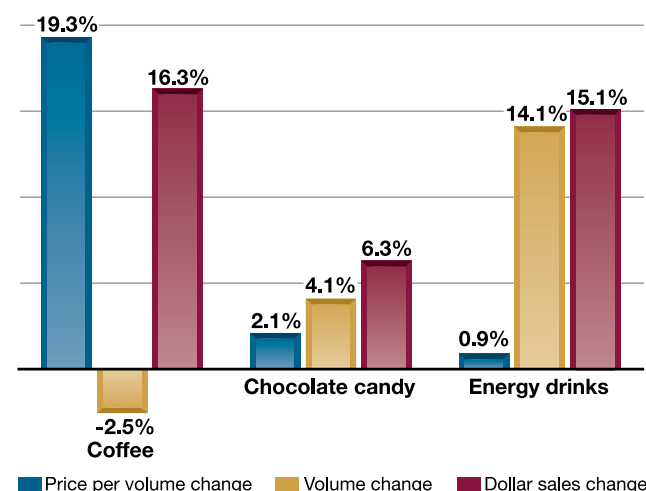
In general, branded CPGs issued smaller price hikes than private labels during the year-to-date period ended June 12, 2011. Many store brands have found they could successfully raise prices and maintain their value position.

Among major brands, marketing programs that offset pricing were effective at drawing penny-pinching consumers, says Davey. Some shoppers showed they would trade up to premium products offered at a discount if the perceived value warranted it.

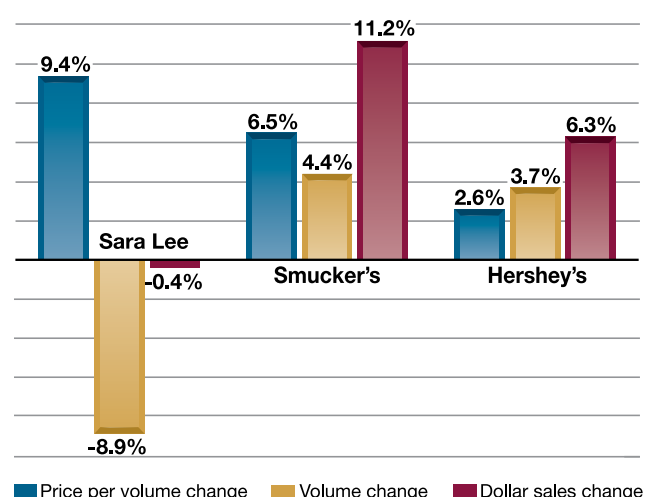
By designing value-oriented promotions and adjusting pack prices, most food and beverage manufacturers were able to keep volume high despite a turbulent economic environment. Even among commodity-oriented products, dollar sales were strong. Among the Top 10 food and beverage categories, coffee topped the price-hike list, with a 19 percent increase in pricing for the year-to-date period ended June 12, 2011, while dollar sales climbed 16 percent from the prior-year period after a 2.5 percent decline in sales volume.

As several brands have found, a tough pricing environment can be an opportunity to gain market share by strategic marketing.

Price Trends for Selected Top Categories



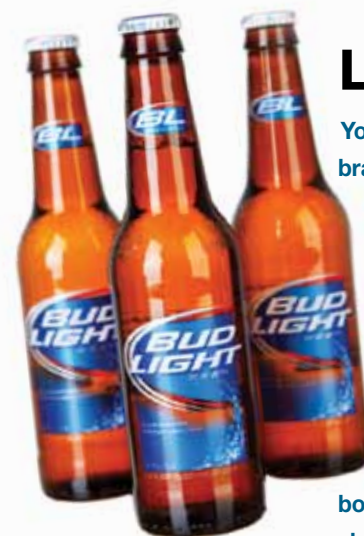
Top Manufacturer Pricing Trends



Price increases at FDMxC; results for year-to-date period ending 6/12/2011 vs. year-ago period

2.7%

Dollar sales weighted average change across all food and beverage categories for year to date ending June 12, 2011



Large Brands Less Aggressive on Pricing

You wouldn't know commodity costs were soaring by comparing the prices of major beverage brands this summer against those of last summer. Among the Top 10 beverage brands identified by Symphony Consulting, half either held or cut pricing from a year ago as they opted to maintain volume amid a competitive environment, according to Krishnakumar "KK" Davey, managing director of Symphony Consulting.

Most leading beverage brands were less aggressive than the category, with price increases that were lower or price decreases that were greater. Bud Light topped the list with sales of \$5.78 billion for the 52 weeks ended June 12, 2011, on a price increase of 1.5 percent less than the category. The brand's volume share climbed 0.4 percent on the price cut, according to the Symphony data. And Coke Classic dropped prices 0.3 percent while the category boosted prices 0.6 percent for a price differential of 0.9 percent, which contributed to a volume share gain of 0.2 percent. CSDs were expected to raise prices in late summer.

STRATEGY

Coffee Leaders Bank on Different Price/Promotion Strategies

Overall, coffee brands saw prices per volume climb **19.3 percent** on average for the year-to-date period ending June 12, 2011, from a year ago, reports Symphony Consulting. But in the competitive coffee category, a promotional adjustment here or there can be enough to steal market share:

Folgers' strategy

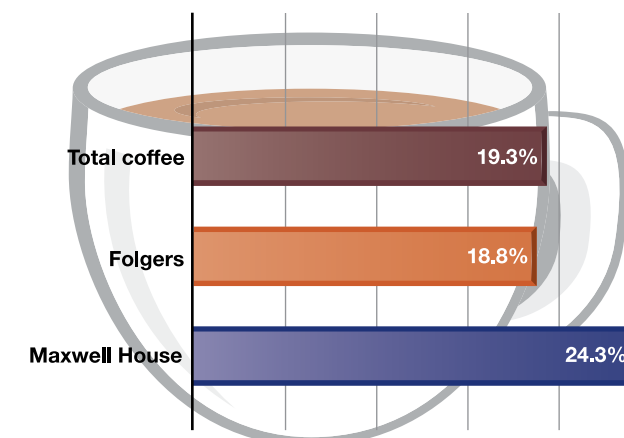
- undercut competitors by hiking prices **18.8 percent**
- reduce discounting by **4.2 percent**
- increase promotion frequency **6.6 percent**

RESULT: a **3.5 percent** increase in total sales on a **15.4 percent** boost in incremental sales while volume climbed **1.8 percent**

Maxwell House's strategy

- pass on more of the commodity cost increase to consumers by hiking prices **24.3 percent**
 - reduce discounting by **2.4 percent**
 - decrease promotion frequency **2.3 percent**
- RESULT:** a **5.5 percent** decline in total sales on a **17.6 percent** drop in incremental sales while volume dipped **0.6 percent**

Top Coffee Brand Average Pricing Trends



Price increases at FDMxC; results for year-to-date period ending 6/12/2011 vs. year-ago period

THE FUTURE OF PRICE INCREASES

As food and beverage manufacturers consider further price hikes, effective strategies for keeping volumes high include:

- Designing promotions
- Adjusting pack-price architecture and mix
- Creating retailer-specific price roll-out plans that take advantage of competitive pricing opportunities

TIPS: Migrating shoppers to *premium products* can effectively lead to overall price increases.

Data & Insight Provided By

