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Depriceflation: Fast Food Giants And Retailers Respond To Pressure

Louis Biscotti Contributor 

*National Leader, Food & Beverage Services Group,
Marcum*

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Facing consumer pressure due to ongoing food and beverage inflation, companies like Wendy's and ...

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Food and beverage inflation hit just about every product earlier this year. So when Wendy's CEO Kirk Tanner said he would test "dynamic pricing," it did more than raise a few eyebrows.

Some interpreted that to mean Wendy's could go the Uber route with "surge pricing," charging more for burgers during peak demand. Tanner tried to put Wendy's worries to rest, saying they weren't eyeing Uber's pricing. He said Wendy's hopes to tap AI and roll out more digital menus that could offer more discounts, possibly at slower times. While others worried he would hike prices, he said this could help lower them, and the reality is, right now, many F&B companies are rolling out deals not by the dozens but by the thousands.

After favoring margin, some companies are thinking more about market share – and sometimes it's working.

Following seemingly inevitable sticker shock, discounts, deals, and private label prices are proliferating. About 63% of shoppers said they look for deals, choosing products and brands to control costs, according to FMI, the Food Industry Association. FMI President Leslie G. Sarasin said consumers are "taking advantage of deals, promotions or shopping around."




Retail giants are fiercely competing with price cuts and value deals. The battle for market share is ... [+] NURPHOTO VIA GETTY IMAGES

After an inflation race to hike prices, price wars, or at least battles, are breaking out. In May, Target said it cut prices on 5,000 items, including bread, soda, and pet food. McDonald's launched a (temporary) \$5 value meal that Wendy's countered with a \$3 breakfast sandwich with potatoes. In early summer, Aldi said it would lower prices on 250 items, resulting in \$100 million in consumer savings.

Private label is becoming the weapon of choice in price wars. Back in April, Giant said it would lower prices on private label F&B such as bread, water, bacon, and

frozen vegetables. Target debuted a private label called Dealworthy with most of its 400 items under \$10 and added 215 products to its Good & Gather and Favorite Day labels.

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Walmart weighed in with its biggest private label launch, making a big play, not for margin, but market share.

As backlash kicks in, retailers are trying to help consumers get bang for their buck and build market share. This comes with inflation, if it isn't exactly in the rear mirror, shrinking. According to the USDA, the Consumer Price Index rose 0.1 percent from June to July 2024 and 2.9 percent from July 2023. What about food? The food CPI rose 0.3 percent from June to July 2024 and 2.2 percent from a year ago, below the overall index.

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Predictably, prices for food prepared at home rose less than restaurants this year. The food-at-home CPI for grocery store or supermarket food rose 0.3 percent from June to July 2024 and 1.1 percent over a year. Food-away-from-home (restaurant purchases) increased 0.2 percent in July but 4.1 percent (more than the overall rate) from a year ago.

However you calculate prices, consumers are fed up with food inflation. Not that each item is so high, but there are so many small cuts (although cuts may not be the right word). The biggest rises occurred a few years ago – and are still included in prices. Food prices in 2022 soared 9.9 percent, faster than in any year since 1979, or nearly 50 years. Restaurants weren't the prime reason. Food-at-home prices surged 11.4 percent, while food-away-from-home prices increased 7.7 percent.



Inflation has heightened cost-consciousness among shoppers, spurring interest in private labels and ... [+] GETTY

Inflation has made shoppers more cost-conscious, fueling private label interest and leading companies to downsize portions (Shrinkflation) and offer deals. The worst may be behind us, but mindsets have changed. The USDA anticipates food-at-home prices will rise about 1% this year and 0.7% in 2025. Some food prices are dropping. Prices were actually lower in July 2024 than in July 2023 for fish and seafood, fresh fruits, dairy products, and other meats. Retail egg prices rose by 5.7 percent in July 2024 after falling for three months. Fresh vegetable prices increased by 1.2 percent in July 2024, up 0.4 percent from a year ago.

Wendy's may have defused the issue of "dynamic pricing" at supermarkets and restaurants due to digital menus for a bit. However, in August, Senators Elizabeth Warren (D-Mass.) and Robert P. Casey, Jr. (D-Pa.) wrote to Kroger about concerns regarding electronic shelf labels and that debate may not be over.

They said digital signage could allow "large grocery stores to squeeze consumers to increase profits," while Kroger replied that this could make it more flexible and offer discounts. "Customers are shopping more with Kroger now than ever because we are fighting inflation and providing great value," the company told Progressive Grocer.

Even discounters like Dollar General are getting more aggressive with discounts as inflation chips away at spending power. CBS News quoted Dollar General CEO Todd Vasos regarding its increased promotions, which he said pressured "both sales and gross margin."

"We're stepping up that promotional activity to re-engage even further that consumable side of the business," Vasos told CBS, noting same-store grocery sales are rising.

In August, Vice President Kamala Harris discussed possible food price gauging legislation, while others called for cheaper swipe fees and less regulation. With or without legislation, inflation is at least slowing, and some who cut costs are raising projections.

Target raised its 2024 profit forecast "as price cuts draw shoppers," per a Reuters headline. Target's second-quarter comparable sales rose 2% in the quarter ended Aug. 3, the first such rise in over a year. So, price cuts can attract consumers, rewarding companies who take risks if they do so wisely. As to digital menus, allowing more flexible prices, we'll soon find out how they are used. You can bet that consumers will be watching. And so, probably, will Congress. Although everything goes in cycles, we have not

seen the end of depriceflation, and smart companies will price products carefully or lose market share.

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Louis Biscotti

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