



How retailers can beat the inflation heat

Inflation Nation: How Retailers Are Reacting

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Like most Americans, retailers have been struggling with the rising cost of fuel. It now costs retailers substantially more to buy goods from manufacturers whose own costs are rising, and it costs more for retailers to ship merchandise from distribution centers to stores.

But retail companies would prefer not to push those costs increases down the chain to customers. To avoid price hikes, many retailers have rolled out proven anti-inflation strategies:

- Streamlining operations
- Cutting back on inventories
- Reducing part-time staff hours
- Conserving energy
- Buying more local goods to save on transportation
- Offering incentives to keep customers engaged

When warranted, retailers will even take a hit to their own profit margins before raising the price of merchandise on shelves. All of these these strategies have worked for retailers of goods like clothing, furniture, and electronics, as evidenced by the fact that inflation in these categories is virtually zero. But grocers and restaurateurs have been hit with a double whammy: In addition to rising transportation and manufacturing costs they're facing a declining food supply, as many traditional commodities are now being used for fuel. (Drought conditions and poor crop yields in some regions have exacerbated the effect.)

Basic foods like corn, rice, wheat, eggs, dairy and soy have reached record prices, leaving merchants with little choice but to pass some of the burden on to the customer. Of course, many prepared and processed foods rely on these staples and thus prices for egg-, corn-, and wheat-based products are increasing as well. In 2007, the all-food price index increased by more than 4.5 percent, the largest jump since 1990. Estimates for the current year are even higher with expectations for another five percent increase.

Goods like food (and gas) are not discretionary; consumers have to buy them. Understandably customers become frustrated by inflation and retailers often become their sounding board, bearing the brunt of Americans' unhappiness when prices rise. Retailers may want to start a two-pronged effort to off-set ill will consumers may associate with their brands because of prices.

1. **Educate their employees.** Front-line retail workers typically face the brunt of consumer frustration. But many of these workers probably don't understand the complexities of price increases themselves. Few of us do. Giving a cashier some baseline knowledge that they can pass on to the consumer who's raging about how much the store charges for a gallon of milk can only help.
2. **Educate their customers.** Companies should consider committing resources to advertising and signage aimed squarely at consumers. It should explain both how the retailer is trying to keep prices down and why some prices are out of their control

It should be noted that while these strategies may be executed differently in different industries, they're management ideas with universal appeal. Employees who connect with customers always benefit from being able to give reasoned explanations to uninformed or misinformed customers. And customers benefit from being given knowledge so they don't have to ask for help in the first place.

Grocers have also implemented other industry-specific strategies. For the short-term, some grocers have adopted incentive initiatives that allow customers to cash their tax rebate checks for free, or convert them into store coupons with an additional 10 percent off.

Long-term, retailers are looking to Washington to help alleviate the price pressures. Retailers have become increasingly concerned about federal biofuel mandates, specifically corn ethanol and soybean oil, which are partly responsible for the dramatic increase in food prices. And while other factors such as rising demand from developing countries and international export restrictions play a part, biofuel mandates are the one factor over which U.S. policymakers have direct control. If slowed or removed, retailers and restaurants believe biofuel mandates could have an immediate impact on food inflation.

Inflation, particularly in food and fuel, is a very real concern to most retailers and restaurants. Once the temporary buffer of rebates is gone, consumers will have no cushion to offset these higher prices and retailers will continue to feel the pinch.

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