



Exploring **Price Management Strategies** restaurant chains and food e-commerce are using, in Belgium, to currently address **inflation and rising Costs**

Pricing Pact



How are companies coping with the current inflationary situation?

We interviewed **C-level members** from a variety of companies, ranging from SMEs with a few points of sale in Belgium to large chains with up to 80 or more locations worldwide, operating from 5 years to nearly 30 years, some with franchisees and a strong desire to grow, and others with less ambitious goals but, most of them with their founders still at the helm.

In any case, each of these companies brought **their own perspective and insights**, which we have compiled into **seven key findings**.

For some months now, restaurant chains and food e-commerce companies have been facing an **unprecedented economic situation, with high inflation and rising costs.**

With the food industry being so competitive, companies need to find ways to **maintain profitability while providing high quality experiences to their customers.** Effective price management is one possibility...



In this white paper, we therefore **explore the pricing strategies** that food firms in Belgium are using to **address inflation and increased expenses.** We will discuss **seven key findings** that are implemented in this industry.

The crisis has not spared anyone

In 2022, all food companies have suffered - and the term "suffered" has been carefully chosen - the negative consequences of the current crisis and have seen their purchase prices soar on all cost items (raw materials, rents, energy, wages, etc.).

However, **some companies are faring better than others!** This is often due to the fact that some of them had previously negotiated favourable contracts with their suppliers guaranteeing them fixed prices on certain cost items such as energy or raw materials.

As a result, all companies were left **powerless** in the face of this unprecedented situation and **all were forced to review their prices**, although for some a price change had not been on the agenda for several years.

For others, it was necessary to be **flexible** and find other **ways to reduce costs**, for example by switching to cheaper suppliers or renegotiating rents. Some have even decided to change and optimize their recipes by using less expensive ingredients, for example, or have chosen to target new segments (B2B, premium, etc.) in order to generate new streams of revenue.

However, all this requires good coordination between the different stakeholders involved, especially between the procurement and product departments, as well as good value communication.



Reaction rather than prevention

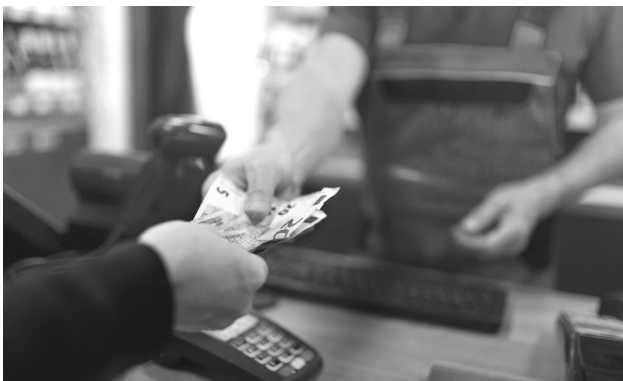
As mentioned above, companies are not coping with this crisis in the same way. Companies can in fact be classified into **two broad categories** according to the timing of their price changes.

On the one hand, there are companies that make price changes in a **pre-emptive manner** before costs rise, and on the other, those that **delay the decision** to raise prices as long as possible.

The former are **more cautious**, have dedicated budgets and have chosen to **increase their prices** without delay from the beginning of 2022 in order to **anticipate future cost increases as much as possible**.

The latter are **more reluctant to raise prices** and prefer to gain operational efficiencies and focus on **cost reduction strategies** first. However, this kind of tactics has its limits and a crisis such as the current one has forced those companies to raise their prices in the end. In fact, for a large majority of firms, prices rose so fast and so high that they did not have the opportunity to anticipate these increases, which **greatly reduced their profit margin**.

Many companies seem to have a reactive rather than a preventive approach. The fact that several of them **have been forced to increase their prices several times this year is evidence of their reactive and unanticipatory behaviour**.



Companies were forced to rethink their practices

Although pricing is a real challenge for almost every company, they have had no choice but to review their prices this year. The crisis has been in a way **the catalyst for a maturity in pricing**. The need to adapt has prompted organisations to challenge the status quo and review their current pricing strategies, organisational structure and approaches, and to consider adjusting their prices while taking into account the potential effects.

Therefore, in addition to traditional cost reduction strategies (review of purchasing policies, new suppliers, renegotiation of contracts, etc.), companies have developed **different pricing strategies** for 2022.

➤ Some have chosen to **increase the price of all their products**, but to different extents depending on the product category.

➤ Others have instead decided **not to increase the price on all products**. They kept the prices of their flagship products stable and have rather raised the prices of other products for which there is some margin for profit improvement.

➤ Others have chosen to **charge high prices for differentiated products while keeping prices below certain psychological price thresholds** for low differentiated products where consumers can easily compare them with the competition.

➤ Finally, for companies that change their menu 3-4 times a year, this is an ideal opportunity for them to introduce price changes on a selection of products only (often 25%) in order to **avoid any backlash** and to be able to estimate the impact of these price changes by observing demand variations.



Pricing mostly remains a CEO matter

When it comes to who is in charge of pricing in companies, there are two main modus operandi. Either the responsibility for developing the pricing strategy lies with **one person and in most cases this is the CEO**, or it is a **more collegial approach** involving stakeholders from different departments. Only larger companies seem to actively involve several people in addition to the CEO in the pricing process, such as the heads of the finance, product or purchasing departments.

It was observed that companies that apply the first approach are, however, **aware of the risk** of assigning responsibility for pricing to one person.



*It would indeed be more **relevant and beneficial** to establish some sort of **pricing committee** within companies to take **such strategic decisions**.*

Value-based pricing remains misunderstood

Almost all of the companies surveyed use only a **combination of cost-based and competition-based pricing**.

Yet, even the **competition analysis** often seems to be **rather approximate**. Some companies merely monitor whether their main competitors are raising prices, if so then they do the same.

Others simply **adjust their prices according to a major market leader** in chain restaurants, namely McDonald's, which they perceive as a fairly good reflection of the market reality and of what can be accepted in terms of pricing. In fact, benchmarking against the competition is a way for companies to reassure themselves about their pricing decisions.

In reality, it has to be admitted that the **people in charge of pricing simply do not have enough knowledge for this**. Pricing is still more a matter of **managers' gut feeling** rather than a more scientific approach. In any case, many CEOs agree that the current situation should encourage them to work on pricing with a perceived value approach, although **this requires more time and work**.

In addition, **companies are not yet truly implementing value-based pricing**.

Some companies recognise **the importance of customer perceived value** and even claim to be partly value-based when in fact they are not. They just carry out market research or focus groups to probe new tastes for example, assess value for money, sound out feedback on social networks, etc. None of them have ever carried out a **price sensitivity analysis**. Some have not even asked themselves this question, while others claim that they do not need to.

In addition, companies (wrongly) argue that value-based pricing is too complex, time-consuming, costly, not feasible in practice because it requires large customer databases, their product catalogue is too large, etc.



It should be noted that companies in the **events sector**, unlike those in the food sector, seem to have **already implemented the premises of VBP**. They have for most of them already **segmented their clientele on the basis of their price sensitivity** (standard ticket vs. VIP), sometimes propose different prices depending on the day and already think well in terms of **perceived value in relation to the experience they offer to festival-goers each year**.



Consumer behaviour began to change

Some companies have seen **their turnover fall sharply in recent months**, mainly due to a reduction in sales in the so-called non-essential product categories. Indeed, the current situation is exerting significant pressure on the purchasing power of consumers, who are being forced to review their consumption habits, notably by reducing the proportion of their non-essential expenditure.

Consumers are also turning to **cheaper alternatives** for their daily purchases, with people switching from organic to conventional products, for instance.

However, some types of businesses seem to **fare better** because what they sell is strongly and more directly related to **people's affect**. Consumers therefore seem **less sensitive to price changes** in such circumstances.

Furthermore, it can be observed that **consumers' behavioural changes** are not the same depending on the positioning of the company. Those positioned at the entry level of the market have a more price-sensitive clientele for whom price is a key factor in the purchasing decision, and sometimes even the number one determining factor.

Price increases were well received

All the companies interviewed had to change their prices at least once in 2022, even those that had not changed their prices for 4 or 5 years. To their great surprise, **they did not (or hardly) lose any customers and had few negative comments after the price increases**.

Several company executives are confident enough to **increase their prices by another 10% or so without this affecting volume significantly**. Indeed, they are convinced that consumers are aware of and accept the current situation and if not, they will simply lose the most price sensitive consumers to more premium customers.

On the other hand, some managers are more cautious. Having no real view on the price sensitivity of their customers, they are rather wary of raising their prices. Even if the increase is only a few cents, if it causes the price to exceed a certain psychological threshold, it could lead to a **radical change in consumer behaviour**.

It should be noted that **the positioning of the company seems to condition the reaction of consumers**. Entry-level companies find it more difficult to pass on their cost increases to prices, as **price is often a key factor in the purchase decision** of this market segment and is usually the differentiating aspect between competitors. While companies targeting the high-end segments do not seem to witness much price sensitivity on the part of their customers.



In conclusion, **no company has been spared from the current inflationary situation.**

Some companies have nonetheless been able to weather the crisis better than others thanks to favorable fixed contracts with suppliers and/or by optimising their costs. However, all companies have sooner or later **been forced to adapt and review their pricing strategies** in order to remain financially viable, and many have had to increase their prices multiple times.

To the surprise of business managers and although consumer behaviour has started to change, **the price increases have been well received.** Either way, the crisis has therefore prompted companies to rethink their pricing practices as well as to consider more effective pricing strategies.

Overall, **the crisis has been a catalyst for a maturity in pricing and has forced companies to adapt in order to survive.**



5 useful tips to adjust and adapt quickly!

Involve a **pricing expertise** or at least multiple stakeholders in the pricing process **to ensure that all relevant factors are considered when making pricing decisions.**

01

Take a **proactive approach** to pricing by establishing a **pricing calendar.**

02

Anticipate and be disciplined in your price increases, i.e. communicate them in advance and transparently to your customers, consider the timing and monitor the impact.

03

Consider implementing **value-based pricing** and talk to your customers to **elicit their perceived value.**

04

Consider conducting a **price sensitivity analysis** to determine how changes to your pricing will impact demand for your products.

05

