

Grocery Retail Pricing FAQ – May 2020

Last month, the price of food at home and the percentage of income spent on food increased due to supply chain challenges caused by the pandemic. These challenges continue to impact availability and pricing of grocery products. As stated recently in *The Wall Street Journal*, “The price index for food at home posted its largest monthly increase since February 1974. Americans stocked up at the pandemic’s outset. Since then, outbreaks have forced meat-processing plants to close and otherwise snarled supply chains. The April price index for meats, poultry, fish and eggs increased 4.3% from a month earlier” [[WSJ](#)].

This frequently asked questions document is meant to shed light on how food prices are determined in grocery and the role environmental factors play in determining food prices.

Is there a difference between cost and price?

“*Cost* is typically the expense incurred for creating a product or service being sold by a company. The costs involved in manufacturing might include the raw materials used in making the product. The amount of cost it takes to produce a product can have a direct impact on both the price of the product and the profit earned from its sale.” [Citation: [Investopedia](#)]

“*Price* is the amount a customer is willing to pay for a product or service. The difference between the price paid and the costs incurred is the profit. If a customer paid \$10 for an item that cost \$6 to produce and sell, the company earned \$4 in profit.” [Citation: [Investopedia](#)]

How do grocery stores determine food prices?

Many variables go into establishing the price of foods in grocery stores, including costs to the grower, the processor, the manufacturer, the distributor and lastly, the retailer. Some factors, such as the cost of energy, get multiplied because they must be calculated into the costs experienced by each link in the food chain.

How are food price increases determined?

Increases in food prices are driven by dozens – if not hundreds – of different factors operating as a complex algorithm that can be difficult to fully understand. Due to COVID-19, for example, in order to maintain social distancing practices many manufacturing lines have had to increase the spacing of personnel working the production, packaging and warehousing functions. This generally results in lower





production rates per employee, and longer production timeframes to produce the same amount of product as supplied pre-pandemic. Increased demand and reduced supply from hard-hit regions have also reduced the ability of manufacturers to get necessary materials, such as packaging, and has resulted in sourcing of higher cost materials and less opportunity for bulk buying. These examples are a few to help contextualize environmental factors that influence food prices.

Do price increases during this pandemic influence grocers' profits?

Grocery shoppers can rest assured that a cost increase is not directly related to increased profits, and instead due to a spike in costs due to labor, lower capacity production, cleaning and sanitation protocols and even transportation demands. The grocery industry maintains a net 1-2% profit margin, which has been consistent for [more than two decades](#).

How can I address consumer perceptions on price fluctuations?

In addition to the numerous factors increasing costs of certain items temporarily, we also note that certain factors have led to consumer misconceptions even where prices have remained the same. For example:

- In order to increase output as much as possible many manufacturers have limited the number of SKUs on the production line to promote continuous running of lines. Often, these are limited to larger quantity SKUs so where a customer might be used to purchasing smaller quantities of an item, availability might be temporarily limited to those that are double the quantity but also a higher price.
- Many stores are also limiting promotions to help reduce the risk of the virus spread through coupons, the passing of phone applications to be scanned, etc., so customers regularly utilizing weekly deals are currently more limited in the ability to do so.
- Finally, with an increase in demand, lower cost brands such as store private label brands often sell out quickly temporarily leaving only higher priced brands. Although the prices of many of these products remain the same, the perception is often that prices have increased.

What is COVID-19's Impact on Food Away from Home v. Food at Home?

Pre-COVID-19, \$0.54 of every dollar was spent on food away from home. Now, most of that food dollar is being spent at home, effectively flipping the equation on household food spending. [\[CPI\]](#)

What are the best sources on food prices?





[USDA ERS Consumer Price Index \(CPI\)](#) - The Consumer Price Index (CPI) for food is a component of the all-items CPI. The all-items CPI measures price changes for all consumer goods and services, including food, whereas the CPI for food measures the changes in the retail prices of food items only. CPI is updated monthly.

[USDA Disaster and Drought](#) – USDA monitors daily droughts and disasters across the country. This page has the latest updates and resources.

[USDA Economic Research Service](#) –The ERS mission is to inform and enhance public and private decision making on economic and policy issues related to agriculture, food, the environment, and rural development.

