tastewise

3 ways brands should rethink their approach to inflation

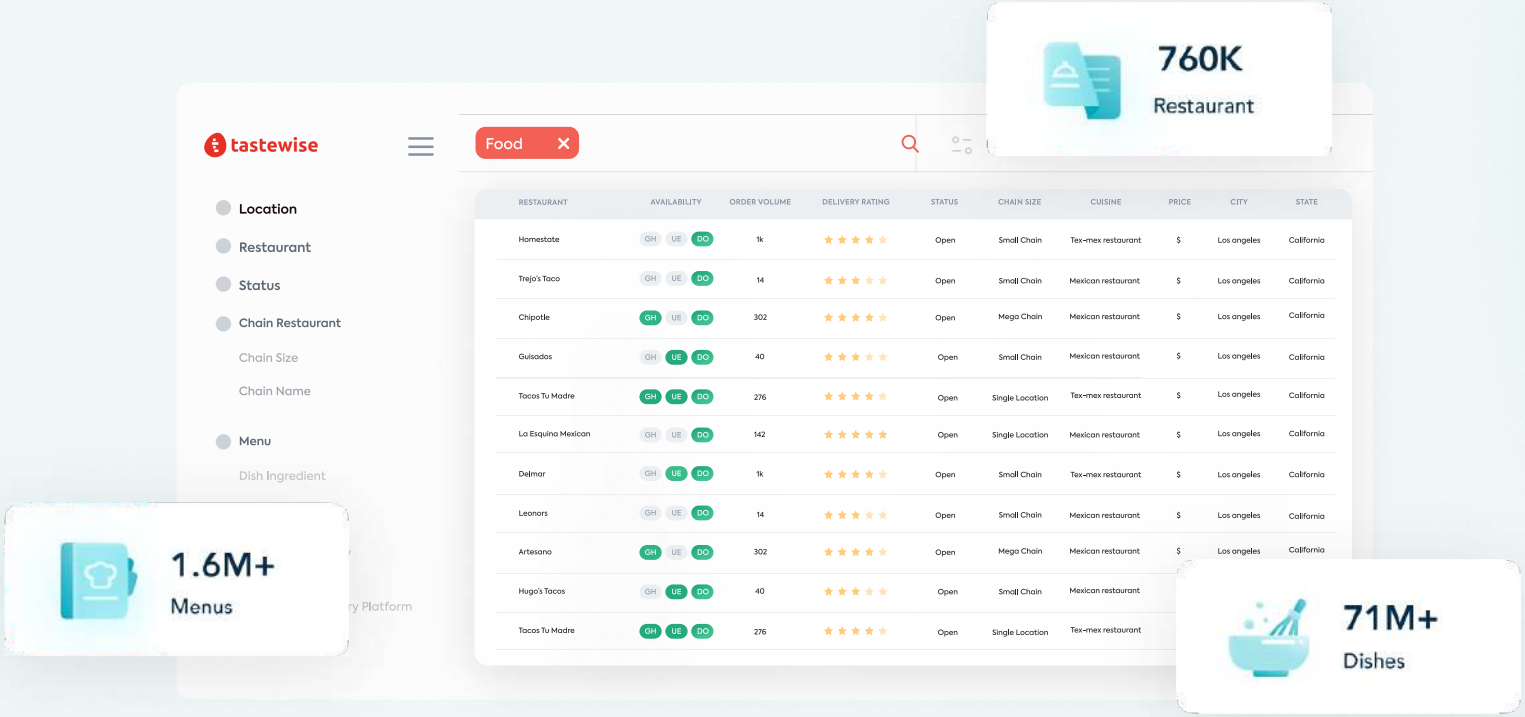
Gas, chicken, electricity, flight tickets, rent: sky-high prices at the hands of inflation are impacting consumers across the board.

Retail data abounds on how inflation is impacting food and beverage — but what's happening in foodservice, and how can brands provide for their customers while staying competitive in a quickly changing market?

What we're covering in this ebook:

OUR METHODOLOGY

The insights in this eBook are sourced from the Tastewise food service dataset, the largest real-time dataset in the industry. Across 7 markets, we track:



The insights here are based on US data only. For more information on our methodology, please reach out.

WHAT'S GOING ON?

If you're in the US, turn on the news; you're likely to hear the latest on whether or not we're heading into a recession.

Despite inflation cooling slightly to **8.3% in the last month**, Americans are still feeling the impact of high prices on their wallets and day-to-day lives. The average cost of food in the US is up at **least +10%** since last summer, and top food categories are seeing increases even as high as **33%**. For context, the entirety of the three years prior only saw an **11% increase**.

That's a huge difference.

Thanks to global instability, the war in Ukraine, supply chain issues, strong consumer demand, the pandemic, and a host of other issues, we're dealing with inflation in a big way.

You've probably felt that in your own purchasing behavior as a consumer, and in your professional life as both your distributors and competitors raise prices. You likely know that your customers are paying more for your products when they end up on the plate than they were a year ago - this is true across both retail and restaurants.

Here's a great read from the New York Times on how restaurants are handling inflation price surges.

Source: Bureau of Labor Statistics, CPI Report, August

THE PROBLEM

Most brands don't actually know how much people ultimately pay for their product when it ends up on the plate. Restaurants have the ultimate control over pricing once they purchase an item, and it's up to their discretion to charge whatever they want as it aligns with their strategy; distributors are often left in the dark about these changes, as restaurants are under no obligation to update their partners.

Why should distributors care what happens to their product once it leaves the warehouse and arrives safely at its destination?

When distributors don't have a clear picture of how much customers are ultimately paying for their products, they also don't have a clear picture of how much they should be charging their restaurant partners for their products.

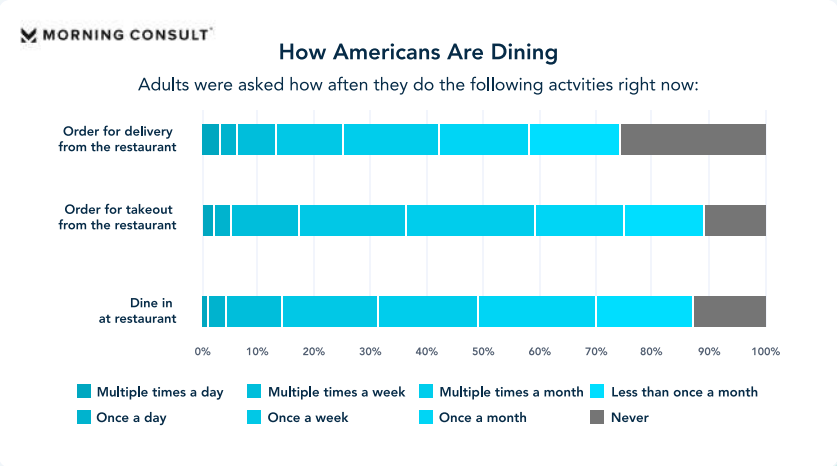
Pricing strategy is a delicate dance; if it's guided by guesswork or inefficient data sources (more on that, later), it's like accidentally dancing the robot instead of the waltz at a royal ball: Not great.

And to make matters more complicated, missing out on how much customers are ultimately paying for a product closes the door on an important conversation between distributors and their restaurant partners: why?

THE MILLION DOLLAR QUESTION:

The big question distributors need to ask themselves: What do you need to do in order to understand what's going on with your product pricing in restaurants? And how can you leverage that knowledge to stay competitive and agile as the industry (and the economy) continues to change?

The answer lies in how you understand your consumers' behavior. Retail data, often the focus of reports and analysis across the industry, doesn't tell the full story. ~50% of Americans eat out at restaurants at least multiple times a month, and they're spending significant money at restaurants; **retail data can't capture those occasions.**



Survey conducted June 16-20, 2022, among a representative sample of 2,210 U.S. adults with an unweighted margin of error of plus or minus 2 percentage points. Source: Morning Consult

If brands are solely using resources like the July CPI report from the US Bureau of Labor Statistics to understand what's happening to their product, they're missing an important piece of the puzzle.

We've seen brand after brand rely on this kind of syndicated data across both retail and foodservice accounts, and it's just not a one size fits all solution. The monthly CPI report does offer an "away from home" food pricing measurement, but it's an aggregate number that means little for understanding your specific category and product pricing.

> "The index for food away from home rose 7.6 percent over the last year. The index for full service meals rose 8.9 percent over the last 12 months, and the index for limited service meals rose 7.2 percent over the last year."
>
> - CPI Index for "away from home" food pricing, July 2022

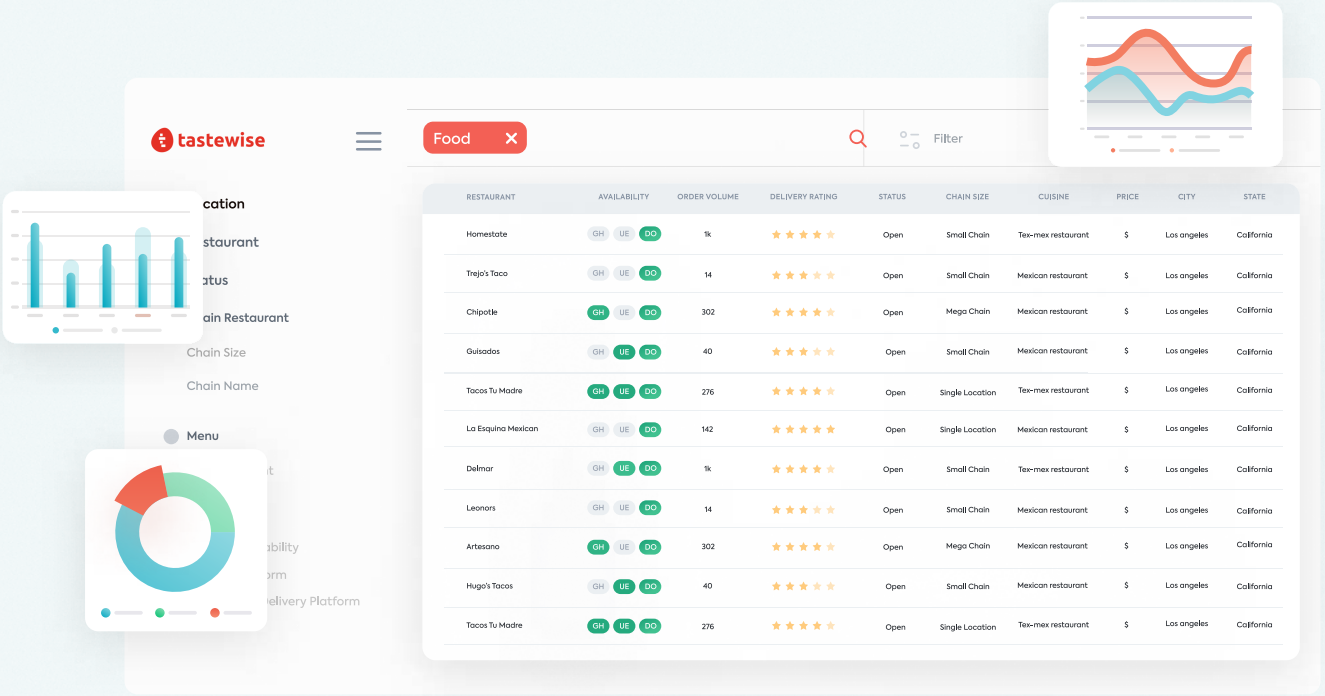
THE BOTTOM LINE

Foodservice needs a **dynamic** solution that can keep up with the changes of the industry at the granular level that are relevant for distributors.

With access to food-service-specific data, distributors can have important conversations with their restaurant consumers about why they price the way they do.

Have operating costs gone up? Are other ingredients used in the dish with your product extra expensive right now? Did they just lose a contract with another vendor, or take on a new one?

These are all crucial pieces of information necessary to a precise sales understanding - and will increase trust and open communication with partners.



HOW TASTEWISE ADDRESSES THE PROBLEM

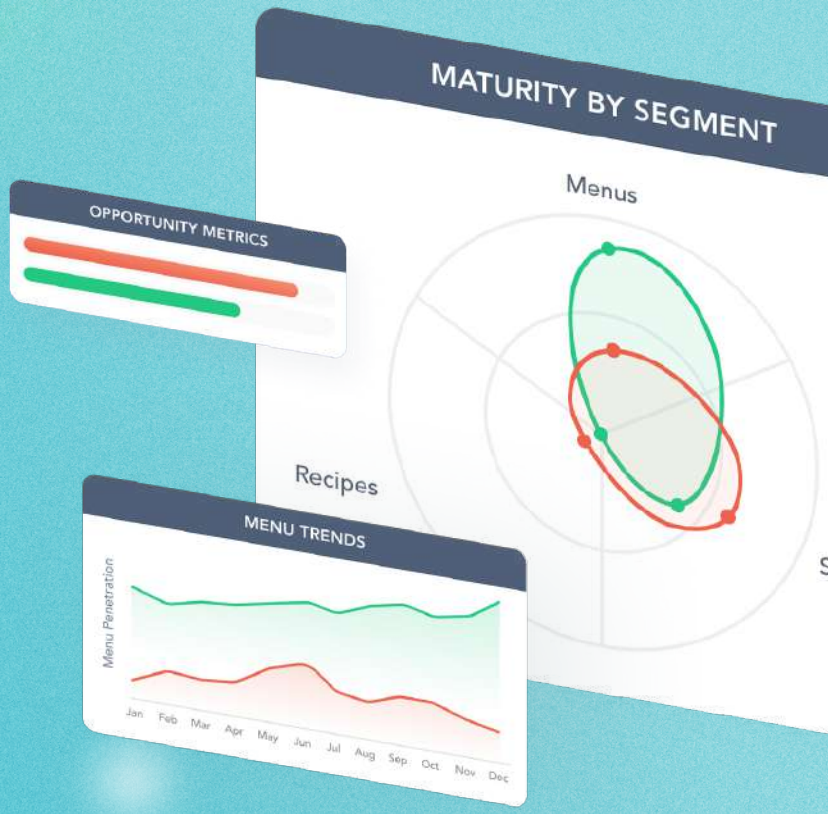
At Tastewise, we know the impact multi-source analyses have on innovation. Successful brands don't create products for consumers who eat in more contexts than ever before by relying on a single source of information; it follows that retail data isn't a 1:1 match for restaurants.

We take this multi-source approach in our Insights and Analytics solution for new product and marketing campaign development by analyzing menus, consumer behavior, and recipes, and we apply the same principle to our Food Service solution.

Tastewise is the only resource in the food and beverage industry that can track pricing changes holistically. We measure in-house and delivery menus across the country (and not just the US! We also currently track 6 other international markets with more on the way) to give brands a clear view of the market and their place in it.

RETHINKING YOUR BRAND'S STRATEGIC APPROACH TO INFLATION?

Here are three ways to use foodservice data to navigate inflation intelligently:



1 Use data to avoid getting squeezed in the middle.

When ingredient and commodity prices go up, manufacturers and distributors may squeeze their margins -- without actually knowing if and how restaurants were able to increase menu prices. Tastewise not only allows distributors direct visibility into their partners' menu pricing over time, but gives them the context they need to make smart, adaptive recommendations to their customers during uncertain times.

Let's take the example of Pepsi vs. Coke.

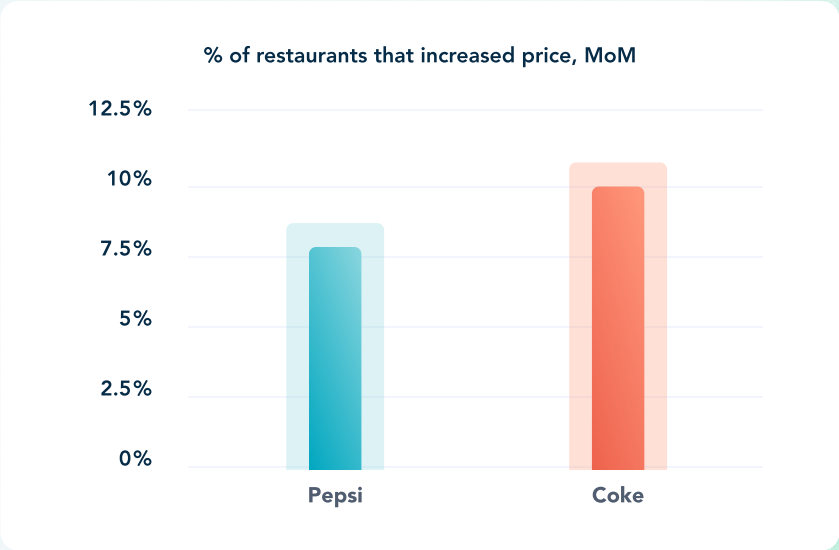
The Tastewise food service solution shows us that:

- 3x more single location restaurants have raised prices of Pepsi than single restaurant locations serving Coke (ie. more single location restaurants are changing pricing of Pepsi than they are Coke nationwide).

Why it matters:

Despite having a larger market distribution of locations selling their product than Pepsi, Coke has experienced increased pricing in fewer locations compared to Pepsi - only 1% of their locations increased pricing compared to 3% selling Pepsi.

If you find yourself in a similar position, you'll want to drill down to specific geographic locations to understand where (and why!) restaurants are making these pricing decisions, and use this information to guide your own pricing strategy.



Source: Tastewise, August 2022

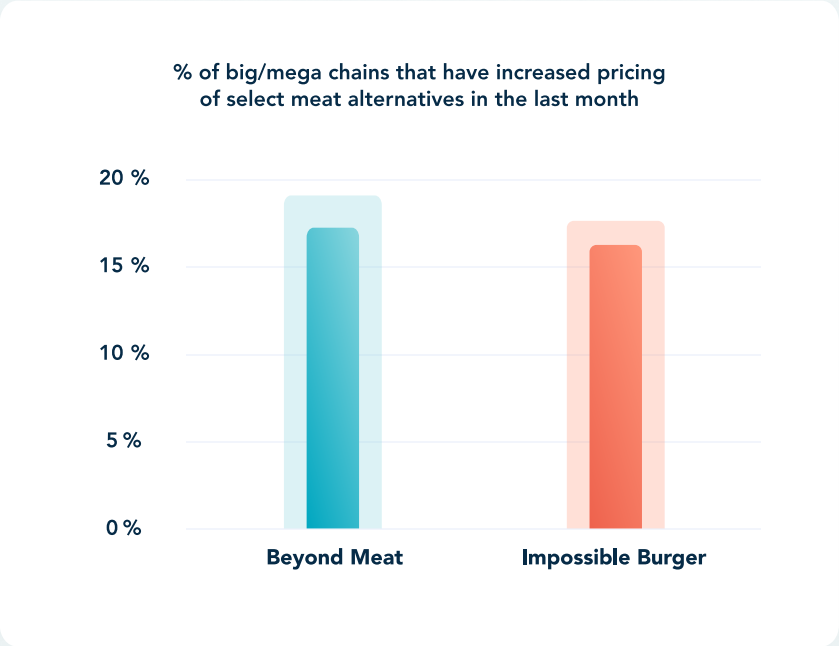
Check out Comparative Brand View, the Tastewise tool that lets brands dive deeper into how they stack up against their primary competitors in food service.

Request a demo >>

This holds true across categories.

For example, if we look at Beyond Meat vs. Impossible Meat in big/mega chains, we see that:

- 18% of chains serving Beyond Meat have increased pricing of dishes involving their products in the last month.
- Only 16% of chains serving Impossible have increased pricing of dishes using Impossible meat in the last month.
- In other words, that's 13% more big and mega chains that have raised prices of Beyond Meat than Impossible Meat in the last month, yet 20% more chains sell Impossible Foods than Beyond Meat.



Source: Tastewise, August 2022

Why it matters:

Big and mega chains are increasing Beyond Meat prices on their menus more than Impossible Meat, despite more chains selling Impossible Meat. That means more large chains are making a calculus to raise Beyond Meat prices, despite selling more Impossible Meat.

These brands would want to use this information as a conversation starter with large chain partners - what's behind this calculus? And how can things be shifted to favor the brand?

2 Guide your teams in the right (and most lucrative) direction.

When you're looking to build new customer relationships for your product - or navigate relationships with your existing clients - pricing plays a big role. Give your sales teams the right tools to use in these conversations; if they know that pricing has gone up for certain dishes in certain types of restaurants, they'll be able to adjust accordingly.

Let's look at how coffee plays in chains right now:

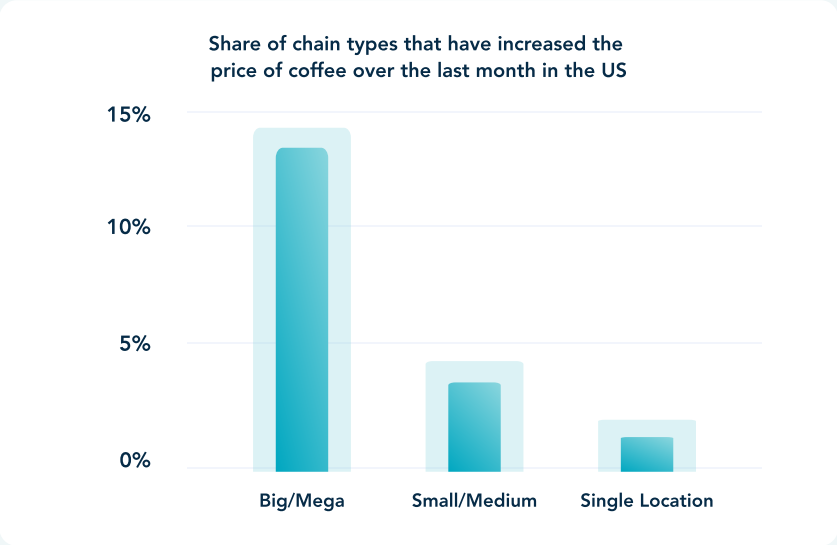
- 14% of big and mega chains increased their coffee prices in the last month.
- However, only 4% of small/medium-sized chains increased their coffee prices, while only 2% of single location restaurants changed coffee prices.

Why it matters:

Big and mega chains that aren't focused only on coffee are changing prices rapidly for the beverage. Small/medium chains, single locations, and coffee-specific chains are not changing their prices in even remotely similar ways.

This signals that big chains are willing to take the risk on coffee when it isn't their primary offering, while specialty chains, small and medium chains, and single locations aren't willing to rock the boat.

By equipping your sales teams with this information, they can use their time in sales meetings to better understand why their partners are making these decisions, and how to create pricing strategies or new product ideas that provide a boost.



Source: Tastewise, August 2022

Meanwhile, at Dunkin':

- Dunkin' currently relies on changing prices of seasonal drinks instead of their staple menu items - their inflation strategy appears to target speciality drinks and increase prices for "newer" menu items. 50% of the coffee drinks that have seen the biggest increase in pricing in the last month at the chain are cold speciality drinks.

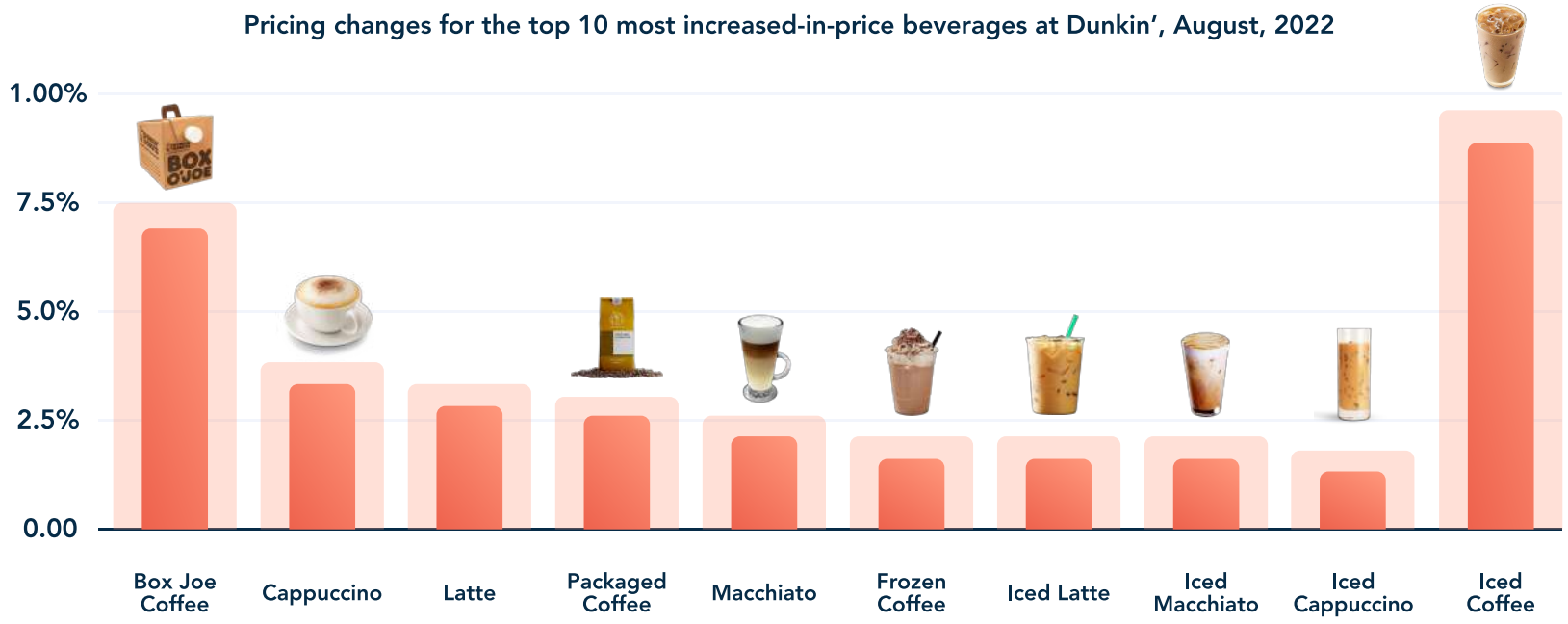
  Why is this interesting? Non-comparative products like seasonal LTOs and specialty drinks/products allow for higher margins in big chains during stretches of inflationary squeeze.

Remember, you'll need to tailor your strategies to different geographies.

Your product's behavior isn't one-size-fits-all, and different restaurants in different places are going to engage differently. Small and medium chains in Richmond, VA, for example, are going to price dishes differently than their counterparts in Chicago, IL.

You may know that instinctually, but you won't be able to know what is actually going on without regional food service data - and how you can plug into the regional changes to your benefit.

Pricing changes for the top 10 most increased-in-price beverages at Dunkin', August, 2022



Source: Tastewise, August 2022

3 Recapture lost business by becoming an expert in their menus

During the first few years of the pandemic, we saw foodservice locations drop brands in favor of more expensive competitors in order to attract consumer interest; however, when inflation hit, restaurants re-evaluated those decisions.

In a similar situation? Evaluate how much your product is being priced at similar locations to the foodservice partner you're trying to win back - and how much your competitor is currently selling for.

You might find some pricing discrepancies that work in your favor now that cost-saving is again top-of-mind.

The bottom line:

No matter your category, relying solely on retail data to understand your product in foodservice is the wrong move. Incorporating foodservice data into your decision-making strategy allows you to build stronger relationships with existing and new business, based on an intimate understanding of the challenges restaurants are facing.

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Ready to learn what's going on with your brand in food service? Talk to one of our inflation experts.

Set up a call

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