BIZCOMMUNITY

Are we experiencing 'greedflation' or inflation?

By Nevo Hadas

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Inflation has been rampant globally. Consumers are expected to pay ever increasing prices due to supply chain shocks and excess demand - but are these really the reasons?

There has been a spate of articles in across financial press platforms where the spotlight was cast on the growing phenomenon of 'greedflation'. While inflation is a natural economic occurrence, greedflation is akin to price gouging.

Nevo Hadas is a partner at dY/dX. Image supplied

What is greedflation?

Greedflation is the phenomenon where businesses, capitalising on the rise in demand and limited supply during a crisis, keep their prices high even after the crisis abates. Or as is the current case in the markets, increasing their prices even when there is no supply chain cost pressure to do so.

In theory, the market should punish higher prices with lower sales and a switch to competitors, but it hasn't until now, especially in affluent countries. This appears to be due to four trends.

- Post covid consumers have more savings and are willing to pay more, though this is rapidly depleting.
- An increasing amount of what consumers purchase is controlled by a smaller number of companies and retail outlets. This isn't a Q style conspiracy; it can be seen playing out in the economy even with the competition commission's enquiry into food prices.
- Shrinkflation, or the reduction of pack sizes and contents even though the prices have remained the same occurs across the board.
- Premiumisation, the preference of suppliers/manufacturers to sell higher priced items targeting more affluent purchasers that carry higher margins and reduce the number of low-priced options available.

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Put simply, companies would rather sell less for more money and are willing to reduce the number of low-priced items available. While there have been some cost increases, the companies still report inflation beating growth, and most of the price shocks have exited the system.

In a Reuters article, Barclays analyst Warren Ackerman said although food commodity prices on average were down 20% from March peaks, it will take time for this to reflect in companies' costs. As there are an effectively small number of companies that control many brands that consumers have access to, this impact is felt more acutely by consumers.

Photo by Jack Sparrow via www.pexels.com

The premiumisation paradox

As greedflation takes hold, premiumisation - the practice of enhancing products with premium features to justify higher prices - has emerged as a parallel trend. Although premiumisation can provide value to consumers through improved quality or innovative features, it also contributes to the erosion of affordable options and further widens the wealth gap.

The automotive industry offers a compelling case study in this case. According to Cars.co.za, six years ago there were 42 entry-level cars in the market under R200,000. Today there are only eight. This is echoed by the US market where the availability of low-cost cars has reduced so much that in 2017 there were 36 models under $25,000 and in 2022 there were only 10.

While cars are a single example, this is being seen everywhere as a recurring theme - even for basic goods.

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Do we need ethical pricing?

As greedflation and premiumisation continue to reshape consumer markets, the need for ethical pricing practices becomes increasingly more intriguing. The challenge is that higher prices of premium products become anchors for mass-market products, pushing up prices. The higher margins afforded to companies who have “premiumised” their products often lead to lower investment in low-cost/lower-margin products as they provide lower ROI.

Beyond the impact on each of us as consumers facing these higher prices, is there a greater responsibility that we face for society at large to resist these kinds of pricing practices, rather than celebrating them for maximising profitability for shareholders?

ABOUT THE AUTHOR

Nevo Hadas is a partner at dY/dX, a digital transformation practice that helps businesses keep pace with digital change by delivering solutions that create new revenue opportunities and/or improve internal operating models. Together with his clients, Hadas works to understand the nuances of what change the client desires and how to get there using human-centred design.