Prices of F&B goods on the rise amid cost pressure

KUALA LUMPUR (May 27): Food and beverages companies have been hard-pressed into elevating their product prices as they faced rising production costs in an inflationary environment.

Despite cost optimisation efforts, food manufacturers and distributors lamented that higher input costs from logistics, raw materials and labour had left them with little choice but to raise prices.

Dutch Lady Milk Industries Berhad (DLIM) said a price hike for its products had been carried out. Mondelēz Malaysia Sales Sdn Bhd, manufacturer of several goods such as Cadbury Dairy Milk chocolate and Oreo biscuits, said repricing has been effected for some of its products, while other goods are under consideration.

"With higher input costs, a price increase of our products has been deemed unavoidable and therefore has already been executed. We shall continue to closely review our pricing policies, while focusing on revenue growth management and cost optimisation throughout our business," DLIM managing director Ramjeet Kaur Virik told The Edge.

She said that DLIM had looked carefully at market conditions, competition activities and what consumers are willing to pay.

"Due to our underlying commitment to continue increasing the penetration of milk to improve the health status of Malaysians, we need to find a right balance between pricing, economic conditions, growing consumption whilst managing the interest of our shareholders," Ramjeet said.

Mondelēz International, which just raised prices of some of its products by 7% to 10% in March, said pricing adjustments is just one of its options to mitigate increased costs, while the company strives to maintain product affordability for its customers.

"We are working diligently to provide a pricing mix that will allow us to continue delivering value for our customers and consumers," a spokesperson from Mondelēz told The Edge.

"Repricing is only one tool in our toolbox. We engage in different methods to manage costs while still offering good value, including optimising size of packs and optimising promotional spend, so that our consumers can still experience price benefits.

"Other considerations include building on existing distribution and expanding in high-growth channels to minimise costing effects and ensure our products remain affordable to our consumers."

Mondelēz echoed the sentiment felt by many companies on the steep cost increase seen across the value chain, particularly in commodities, logistics and packaging.

"As borders reopen and supply chain pressure hopefully lessens, we hope the situation will improve throughout the year and we can further maintain our product availability and affordability," it said.

At the same time, Mondelēz added that it had invested in new product development and product innovation, sustainable packaging and investments in renewable energies.

"For example, here in Malaysia, we recently transitioned to solar panels for both our manufacturing facilities in Prai, Penang and Shah Alam, Selangor," the fast-moving consumer goods maker said.

A long-time egg distributor The Edge spoke to on condition of anonymity said that the company has been absorbing the rise in costs because of the capped prices set by the Ministry of Domestic Trade and Consumer Affairs from Feb 5 to June 5. The government fixed the maximum chicken eggs retail price at 43 sen per unit (Grade A), 41 sen (Grade B) and 39 sen (Grade C).

"The whole world is facing a shortage of commodity items like corn and soy — both items are the main source of food for chickens. Prices of raw materials are definitely going up, but sadly, the price of eggs is controlled by the government. Of course, it is a good thing for consumers but for producers, it is very difficult to sustain," the spokesperson said.

According to the spokesperson, it is difficult to say whether a potential price hike is in store for eggs until the government decides on the next step after June 5.

Currently, the Malaysian Competition Commission — responsible for safeguarding the process of free and fair competition in commercial markets — is investigating the chicken and egg supply shortages, and is expected to submit a report in June.

The egg distributor staff also said it is difficult to determine the extent of increase in cost production, as conditions have not been stabilised for weeks.

"Everyday, we are facing different challenges, the delivery cost is higher, the maintenance of vehicles is higher by more than 40% compared to last year, adding the RM1,500 minimum wage effective May 1, 2022 and more.

"Every week, the costs are different and these will never be stable until the prices of raw materials like chicken feed, petrol and worldwide logistics stabilise," the spokesperson said.

In such challenging business climate, group chief executive officer of Berjaya Food Bhd and managing director of Starbucks Malaysia and Brunei, Datuk Sydney Quays, however told The Edge that Starbucks has no plans to raise the prices of its beverages.

"We have contingency plans in place for this. Being in the industry for almost a quarter of a century now, the fluctuation in commodity prices is something to be expected. As we have done during the Covid-19 pandemic, we prioritise our people and our customers, and manage through cost optimisation and using our resources more efficiently," Quays said.

He stated that the last major price hike that Starbucks undertook was in 2017, by an average of 5% increase on its products.

<u>How high is Malaysia's domestic and food inflation?</u>

On May 25, the **Department of Statistics Malaysia (DOSM)** announced that Malaysia's April 2022 year-on-year (y-o-y) inflation, as measured by the consumer price index (CPI), increased 2.3%.

DOSM chief statistician Datuk Seri Dr Mohd Uzir Mahidin said the main contributor was food inflation, with the food and non-alcoholic beverages group registering an increase of 4.1% y-o-y, as 89.1% of items in the group recorded an increase.

On that same day, MIDF Amanah Investment Bank said in an economic brief that Malaysia's food inflation's increase to 4.1% y-o-y is the highest since January 2018.

"Price growth of food at home recorded 4.1% y-o-y (as compared to 4.3% increase y-o-y in March), while food away from home surged to a 32-month high at 4.4% y-o-y. Among the food items, meat inflation rose at 6.2% y-o-y (as compared to 7.6% increase y-o-y in March), and poultry inflation climbed at 7.2% y-o-y, more than a decade high," it said.

"As a net-food importer, Malaysia is highly exposed and affected by the strong rise in global food inflation, a 29.8% increase y-o-y in April, marking it the 16th straight month of double-digit rate."

The research house kept its average CPI forecast at 2.5% growth for 2022. With the elevated global commodity prices, MIDF also opined Malaysia's inflationary pressure will be affected indirectly, especially via higher food inflation at 3.5% (initial projection is an increase of 2.3%).

Last year, inflation came in at 2.5%. Bank Negara Malaysia has projected inflation to average between 2.2% and 3.2% this year.

In its monetary policy statement on May 11 — it increased the overnight policy rate by 25 basis points to 2% — the central bank said that it sees core inflation to trend higher to average between 2%-3% due to improvement in economic activity amid lingering cost pressures.

"Nevertheless, upward pressure on prices would be partly contained by existing price controls and the continued spare capacity in the economy. The inflation outlook continues to be subject to global commodity price developments, arising mainly from the ongoing military conflict in Ukraine and prolonged supply-related disruptions, as well as domestic policy measures on administered prices," it noted.

Russia's invasion of Ukraine has caused global trade disruption and sent commodity prices higher.

In the first five months this year, crude oil price has risen 58%, while wheat rose 47.22%, crude palm oil went up 53.8% and milk climbed 25.7%.

Ukraine is a key exporter of wheat and sunflower seed oil, while Russia is also a key supplier of wheat, as well as oil, natural gas and coal. Global sanctions against Russian commodities and disrupted trade flows due to the war have caused shortages leading to higher prices.

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