

6 Companies That Raised Prices This Year

By Seth Fiegerman
October 25, 2011

The Danger of Raising Prices

When times get tough, businesses generally have two options to improve their balance sheets: raise prices or cut costs.

Throughout the recession and since, companies have tended toward the latter by trimming payrolls, freezing pay and making their operations as lean as possible, while staying away from significant price increases for fear of alienating customers. More recently though, many businesses – including some big-name retailers – have resorted to hiking prices as well.

One survey released in August by Barlow Research Associates found that the majority of businesses (53%) with annual sales from \$50 million to \$500 million had raised prices during the previous 12 months, driven by the increasing costs of primary goods and services. Indeed, some very big-name retailers have hiked their prices to varying degrees, but in the process each risks alienating their customer base in the tough economy.

“When households are faced with financial stress, loyalty to products diminishes and customers will do whatever is necessary to maintain their standard of living in a way that is financially responsible,” says **Bernard Baumohl, chief economist at The Economic Outlook Group**. “They will be willing to substitute, negotiate, see what competitors offer and postpone purchases on items.”

Companies generally have an easier time raising prices if that increase is for essential products like food and shelter that consumers urgently need to buy, price notwithstanding, but according to **Baumohl**, jacking the price of non-essentials like flat-screen TVs and vacations comes with a greater risk that the consumer might simply choose not to shop.

Even so, some companies feel this step is necessary to boost their profit margins. MainStreet picked out six major retailers that raised prices this year – and in some cases did so multiple times.

Costco

Costco (Stock Quote: COST) announced that it would raise the cost of its membership by 10% starting next month, meaning customers will be asked to fork over \$5-\$10 extra this coming year depending on which plan they have. This might seem like the kiss of death for a company that has built its success on affordability, but **Baumohl** expects it won't impact business too much.

“I don't think that raising fees at Costco will result in declines in membership simply because there is a perception that Costco is a place you go to purchase a broad array of goods at a discounted price,” he says.

Raising the price might frustrate some, but it won't change their perception that the store has some of the best deals so the customers will keep coming.

Smuckers

Smuckers (Stock Quote: SJM) has implemented some of the steepest price increases of the year, though it did so on products that typically only cost a few dollars to begin with.

The company raised prices on its coffee products – which include popular brands like Folgers and Dunkin Donuts - four separate times in the past year, including a steep 11% increase in May this year. The company pinned these increases on the rising cost of coffee beans, due both to rising demand and a poor harvest.

For some, coffee may well qualify as an essential that warrants the extra cost, but at the end of the summer, Smuckers announced that it would lower the price of its coffee products by an average of 6%, perhaps hinting that it had reached the limit of how much it could charge consumers, at least for now.

Smuckers isn't the only food company raising prices. It was revealed this summer that Coca-Cola (Stock Quote: KO) would implement a 3%-5% price increase on its sodas to compensate for the higher cost of transportation as well as the corn and plastic used to make their products. It might be tough to argue that Coca-Cola's sodas are really an essential, but as MainStreet reported at the time, the price increase came during the summer at a time when beverages of any sort are in high demand.

Coca Cola

Smuckers isn't the only food company raising prices. It was revealed this summer that Coca-Cola (Stock Quote: KO) would implement a 3%-5% price increase on its sodas to compensate for the higher cost of transportation as well as the corn and plastic used to make their products. It might be tough to argue that Coca-Cola's sodas are really an

essential, but as MainStreet reported at the time, the price increase came during the summer at a time when beverages of any sort are in high demand.

Netflix

Netflix (Stock Quote: NFLX) is the classic example of how not to go about raising prices. The company nearly doubled what it cost to stream movies and rent DVDs in July by separating the two features into two services that now cost at least \$16 to bundle together, compared to \$10 before.

At the time, analysts said that the price hike was intended to put more of a premium on its streaming services and indeed, a few months later the company announced plans to split in two, effectively annexing itself from the DVD side of its business by placing it under a sister company with a different name. Needless to say, the changes did not go over well with customers.

“Netflix tried to raise prices and you immediately saw the blowback that followed,” **Baumohl** says. “Consumers were furious about it.”

Eventually, the company decided not to split, but the price changes remained in effect. As a result, estimates are that Netflix lost nearly a million subscribers in the third quarter alone.

Delta

When it comes to price hikes, the airlines play by different rules altogether. At first blush, one might assume that the airlines wouldn't risk alienating cash-strapped consumers with steep price increases, yet every year the airlines introduce new fees and boost ticket costs, and 2011 was no different.

Earlier this month, Delta (Stock Quote: DAL) announced that it would raise ticket prices by \$4-\$10 each way just in time for the holidays, causing other major airlines like Southwest (Stock Quote: LUV) and United Continental to follow suit. This comes after Delta and other airlines raised baggage fees and introduced new ones like an extra charge for seats with more legroom.

How do they get away with it? It all comes down to supply and demand – and in this case, mostly supply.

“If you have to travel, there aren't that many choices, and airlines have cut back capacity over the years, so it's tough to get a seat,” **Baumohl** says. “That's why airlines have been more successful in raising prices over the years and making them stick.”

Disneyworld

Pretty soon you'll need a treasure of your own to afford a ticket to the Magic Kingdom.

Disneyworld (Stock Quote: DIS) has increased the cost of a single adult ticket earlier this year from \$82 to \$85 after having raised it the previous year from \$79 to \$82.

Unfortunately, there is only one real Disneyworld so families that want to experience it first-hand have little choice but to fork over the extra dough.