

Make Informed Decisions

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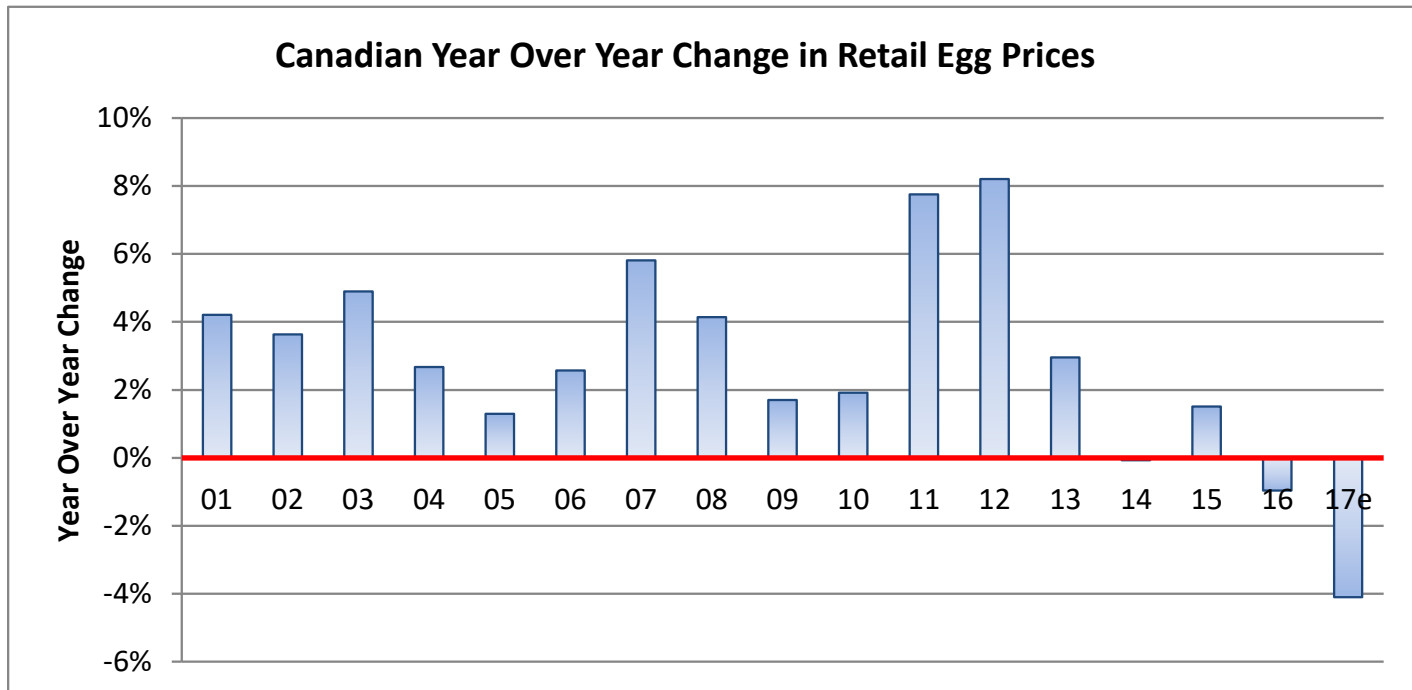
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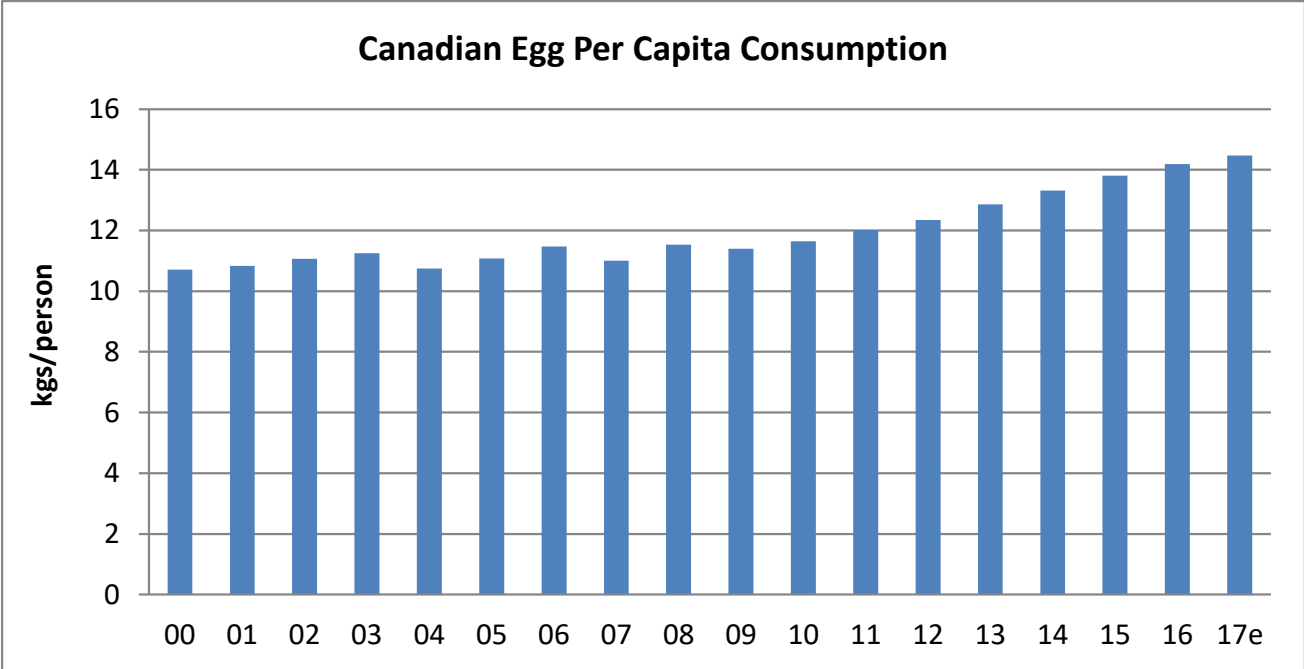
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## Grocers Scramble Egg Prices

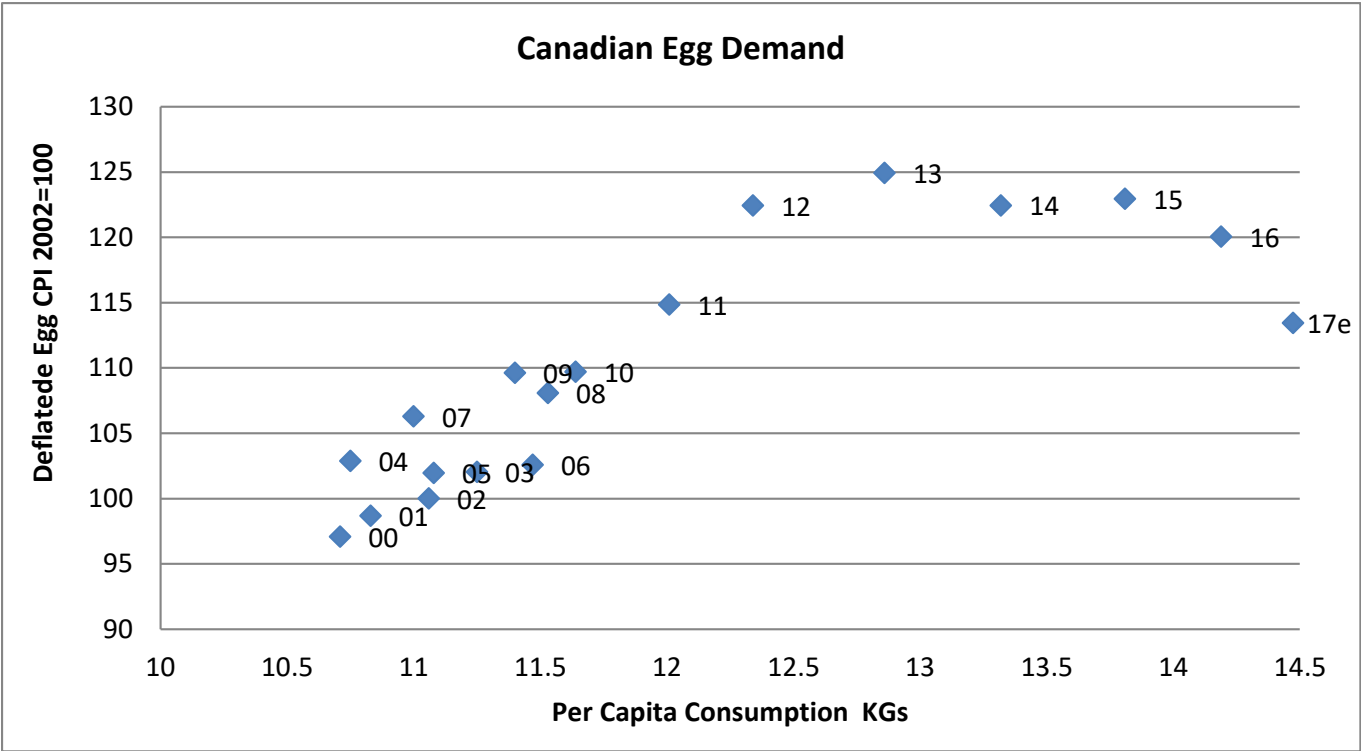
During most of 2017 egg prices in Canada have been an ongoing contributor to lower food prices in Canada. While food prices are finally starting to increase in Canada at the end of 2017, egg prices remain the exception. That is a very interesting phenomenon given the nature of eggs as a food product. Further to that, it is worth noting that increases in Canadian egg prices are or were the norm over the past decade or more. It has only been in the last couple of years that egg prices have begun to decline on a year over year basis according to the StatsCan *Consumer Price Index*.



Another point of note is that despite the generally increasing prices of eggs, Canadian consumption of eggs has been increasing, at least over the past eight years or so.



When price and consumption are combined, it can provide a perspective on demand. That is, demand is more than just consumption; it is consumption relative to price. The graph below shows per capita consumption of eggs combined with the deflated consumer price of eggs. That combination is egg demand. Each point on the graph shows the demand status for any given year from 2000-2017.



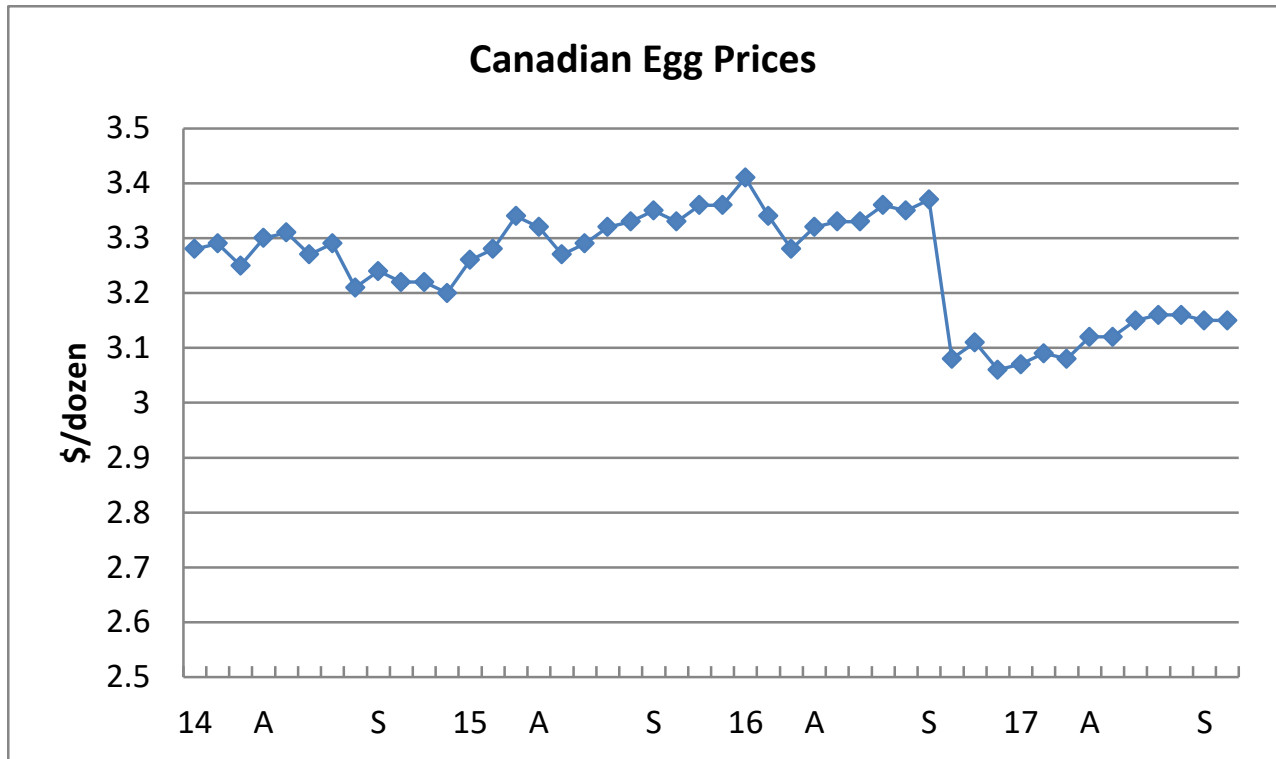
A normal demand curve shows that the higher the price the less consumed and vice versa. The egg demand chart appears to show the exact opposite over 2000-2017. Canadians have been consuming more each year despite higher prices. Generally speaking, when prices are up and consumption is also up, that is an indication of increasing demand. During the 2012 to 2016 period, deflated egg prices were mostly steady while consumption continued higher, which still resulted in increased demand. In 2017, consumption increased again, but prices declined enough to result in the first year in the last ten that did not see increased demand. While egg demand did not increase in 2017, it is still the third strongest demand year in history. In other words, egg demand remains robust.

That is simply a long way of pointing out that eggs should be an item in which grocers could be increasing prices and still selling more. Egg household penetration is nearly 100%. Nearly all grocery shoppers are going to be buying eggs over the course of a month. Lowering prices on a high demand, high penetration item is counter intuitive. That is unless the competitive environment is such that grocers calculate a need to keep eggs priced low. Unlike the past when grocers took advantage of strong demand to raise prices, now they are using eggs to demonstrate their low priced image or position.

Further to that point, prior to mid-2016, eggs were not featured frequently. One or two banners might put a feature on once in a while to attract attention but it was not common. The exception to that rule was Shoppers, at least before the Loblaw acquisition. Shoppers would frequently feature or price eggs at exceptionally low prices. They sold milk cheap and eggs cheap to build their food business. Since food was not a huge part of their business it did not hurt and it brought customers to the store. That strategy has eased off since the Loblaw purchase.

Regardless of that, one of the reasons why eggs have been featured more and priced lower beginning in mid-2016 is Walmart. Walmart made eggs a competitive focus. At that time Walmart began to price eggs regularly at \$1.97 per dozen for grade A Large. At that time, regular pricing for generic eggs might have been commonly \$2.59 at the lowest. In response, many other retail banners just matched that Walmart price. Walmart was likely underdeveloped in eggs relative to other grocers. A pricing move such as that probably did not hurt them much compared to what it would have done to other retailers.

In addition to the price matching of Walmart, the frequency and intensity of egg featuring increased dramatically. Sharp egg features are a loss for retailers. Sharp features might build traffic or create a low price image but they are a negative for margins. As seen on the graph below, the change was dramatic in terms of the pricing landscape in Canada. While the intensity of the pricing competition has been easing back later this year, it is still sharp relative to history. This pricing regime appears to be mostly an Eastern Canadian focus with little similar effort in the west.



At a basic level, the featuring has increased egg sales. The features entice purchases and they induce individuals to purchase greater quantities at a given time. Consumption increases due to featuring. At the same time, however, the featuring and lower prices might be having a negative impact on the egg market. As seen on the demand graph above, from 2013-2017, the demand for eggs appears to be taking on a more normal shape. That is the higher the price the less consumed and the lower the price the more consumed. That was not the case prior to that period when consumers simply bought more eggs almost regardless of price. It is too early to say for sure but perhaps the grocer's actions have trained consumers to be price sensitive to eggs. In other words the competitive action might have turned a cash generator into a zero margin loser.

**Why it Matters**

The main point is that if grocers are using eggs as a competitive tool, that is not a sign of an easing competitive situation. Eggs are a staple and more importantly they are seeing very strong demand. That is not a product that should see price cuts unless there was a need to make a competitive statement. The competitive statement might have come at a very high cost if it has sensitized consumers to look for \$1.99 eggs.

*A version of this note first appeared in the November 2017 edition of Grocery Trade Report. If you would like a free trial to that report, email [Kevin@kevingrier.com](mailto:Kevin@kevingrier.com)*