What Does Your Diet have to do with Food Prices?

February 16, 2012 - Just call this a sweet lesson in inflation that couldn't be passed up.
Ask yourself this question. How are your diet and inflation related to each other? If you're like me, all you have to do is look down and you may answer by saying, "The more I eat, the more I inflate." But that's not the type of inflation I'm talking about. I'm talking about increases in prices. There is usually no way to sugar coat the effects of monetary inflation but, M & M Mars may have come up with a way to increase their candy prices and make you feel good about it.

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Today, M & M Mars announced that its candy is going on a diet. They are going to be eliminating those super-sized candy bars that we've literally grown to loveâ€¦ most of that growing taking place right around the middle. By the end of 2013, we can kiss those huge Snickers and Milky Way bars goodbye. Say "adios" to that grocery sized bag of M & M's. And of course, say "sayonara" to that mega sized Twix.

No, they are not doing this to torture the general public. They're embracing a philosophy of "responsible snacking". (Oh please. If we were responsible snackers, we wouldn't want a Snickers. We'd be munching our hearts out one unsweetened granola and mangos. But I digress.) And using that philosophy, the company will not be selling any candy or snacks that have more than 250 calories per serving.

But it will not just be the supersized candy that the company makes changes to. Regular sized Milky Way bars are 270 calories. Regular sized Snickers have 280 calories. That means that the company is likely to reduce the size of their regular sized candy bars and snacks in order to meet their new guidelines. When was the last time you saw anyone reduce the size of their products and reduce their price at the same time? The cynic in me tells me that the move is more about increasing prices than it is about reducing obesity. But the way they are positioning it with consumers is absolutely

brilliant.

The change really isn't that surprising when you consider what has happened to the price of sugar though.

Sugar prices have more than doubled over the past three years. In fact, in January of 2009, sugar prices were just over 10 cents per pound. Today, they are just under 25 cents per pound. That works out to an average inflation rate of 35% for sugar alone. Simple economics tell you that they the company has to do something to maintain their profits. That means reducing size, increasing prices or both.

We've seen similar increased in other commodities as well. Over the same period of time, gasoline prices have jumped from $1.15 per gallon to $2.83. Again, that amounts to an average inflation rate of 35%. And over Just the last 18 months, wheat prices have increased at a 43% rate of inflation. Of course, the federal government doesn't count these commodities in its inflation rate, but that doesn't alter the fact that we all feel these price increases every time we buy groceries or gas up. And there is no way to shield a company like M & M mars from them. They use a lot of sugar in their products. I'm sure they use wheat in some of them, and they definitely use a lot of fuel shipping them around the country.

Frankly, the company's move is ingenious from a marketing perspective. There is growing pressureâ€¦ much of it coming from the federal governmentâ€¦ to make foods more nutritious and to reduce calories. Much of that pressure involves reducing the intake of fats and sugars. So M & M Mars has found a way to seize on this. Even if you are not happy with the increase in price, you'll probably not feel too bad about the fact that your snack has fewer calories in it. Of course, all of that will fly right out the window when people start buying two or everything and eating them in one sitting. And that's what I expect will be the ultimate outcome of this announcement.

Still, even if that does happen, M & M Mars comes out looking like a good guy in all of this. And maybe they are. They have found a way to deal with two serious issues in a way that positively positions their company with consumers. No sugar coating required. That is no small task.

byJim Malmberg
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