Going **Up?**

Understanding the impact of inflation on corporate reputation

Remember when toilet paper prices surged as a result of COVID "pandemic pricing?"[1] Or the time that President Biden and the Cookie Monster teamed up to complain about the "shrinkflation" afflicting America's grocery stores?[2]

Since early 2021, prices for everyday essentials have increased by around 20%.[3] Although year-over-year inflation has now returned to pre-pandemic levels,[4] consumers are still grappling with elevated prices. Exit polling from the 2024 US presidential election suggests that two-thirds of voters remain dissatisfied with the economy—and that anger over perceived high prices likely played a key role in Donald Trump's return to the Oval Office.[5]

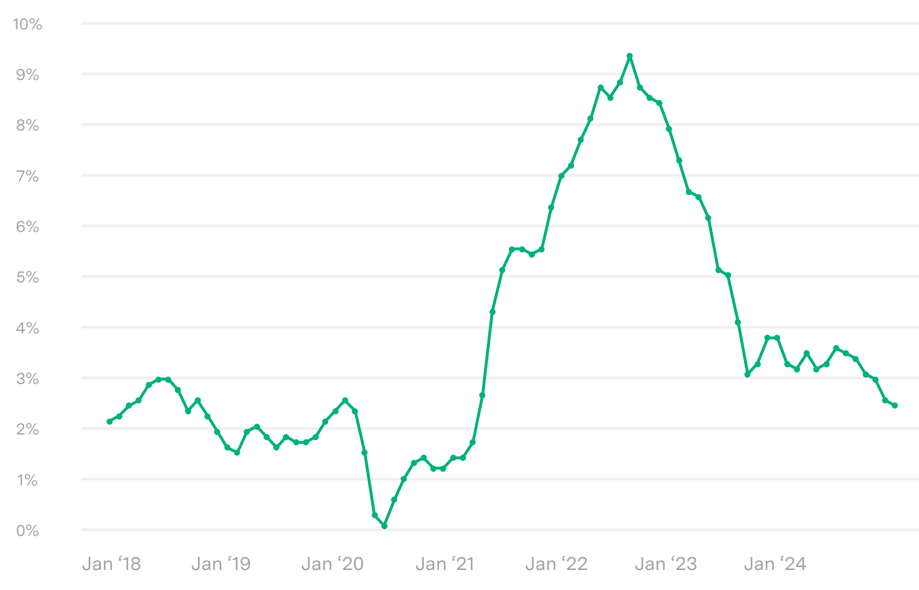
A scroll through any social media app reveals countless posts of consumers venting about their favorite products falling victim to inflation or its cousin, "shrinkflation." Beneath the memes, however, lies a challenging reality that many companies have failed to acknowledge and appreciate: the price a company sets isn't just a financial choice, it's a reflection of their corporate values. Price increases, therefore, can have a profound effect on how customers perceive those values.

Companies that overlook the emotional impact of inflation often find themselves facing consumer backlash. When the CEO of Kellogg's suggested that people could save money by eating cereal for dinner, it sparked outrage on TikTok.[6] Influencers quickly pointed to Kellogg's price hikes in recent years, leading to a three-month boycott to "send a message" to executives.

These incidents highlight a growing expectation that brands should align their values with those of their customers. Failing to meet this expectation can have serious and lasting reputational consequences for any consumer-facing brand.

NRG set out to explore how large companies can respond to consumers' concerns around inflation, price gouging, and corporate greed. In this report, we unpack the reputational challenges created by price increases, discuss the role of reputation managers in pricing decisions, and share key lessons from recent years to help companies prepare for the future.

12-month percentage change, Consumer Price Index (all items)



METHODOLOGY
Unless otherwise specified, data in this report comes from a study of 1,003 US consumers, ages 14 and up, conducted in March 2024. Participants for this study were selected and weighted to be representative of national demographics in terms of age, gender, and ethnicity.

1. Bryan Lufkin, "Coronavirus: The psychology of panic buying," BBC Worklife, March 4th, 2020
2. David K. Li and Tara Prindiville, "President Joe Biden and Cookie Monster are both sick and tired of 'shrinkflation'," NBC News, March 5th, 2024
3. Ben Werschkul, "Biden's big inflation problem: Prices are now up nearly 20% since he took office," Yahoo! Finance, May 16th, 2024
4. Natalie Sherman, "US inflation falls to lowest in over three years," BBC News, September 11th, 2024
5. Max Zahn, "Why inflation helped tip the election toward Trump, according to experts," ABC News, November 8th, 2024
6. Zoe Hahn, "Kellogg's 'cereal for dinner' controversy and price increases spur calls for a boycott," MarketWatch, March 1st, 2024

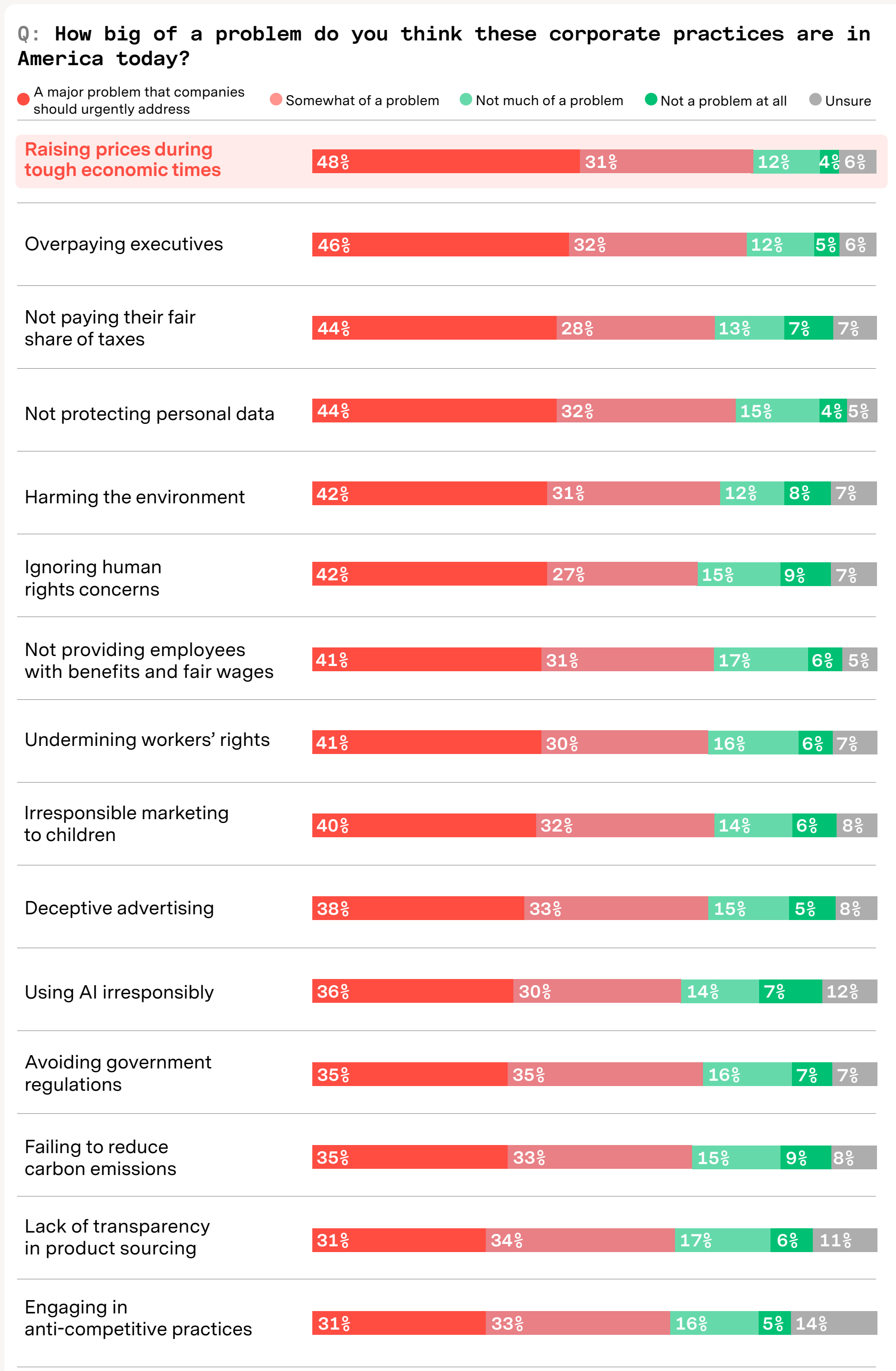
Inflation and executive greed are Americans' greatest source of discontent with large corporations

Even in a world facing increasing anxiety around unchecked climate change[7] and the misuse of technologies like AI,[8] it's bread-and-butter issues of inflation that play the biggest role in shaping public perception of large corporations.

Around 8 in 10 Americans believe that we have an issue with companies raising prices during tough economic times. And almost half feel that this is an issue that ought to be urgently addressed. Price hikes, in other words, are some of the most harmful corporate practices taking place today—in the eyes of consumers, at least.

Almost as many consumers believe that companies are generally overpaying their executives—an issue that creates its own set of reputational challenges. Taken together, this data paints a picture of a populace who are increasingly skeptical of the pricing decisions made by large corporations. In the eyes of many ordinary Americans, price increases are not an unfortunate but often necessary response to upstream inflation within the supply chain; they're a cynical move designed to line the pockets of executives at the expense of hard-working families.

As consumers continue to feel the financial squeeze, they're becoming more vocal about their expectations for companies to take an ethical and responsible approach toward pricing their products and services. **Pricing decisions are under greater public scrutiny than ever before—and it's becoming harder and harder for corporations to convince the public that these decisions are being made with the end customer's interests in mind.**



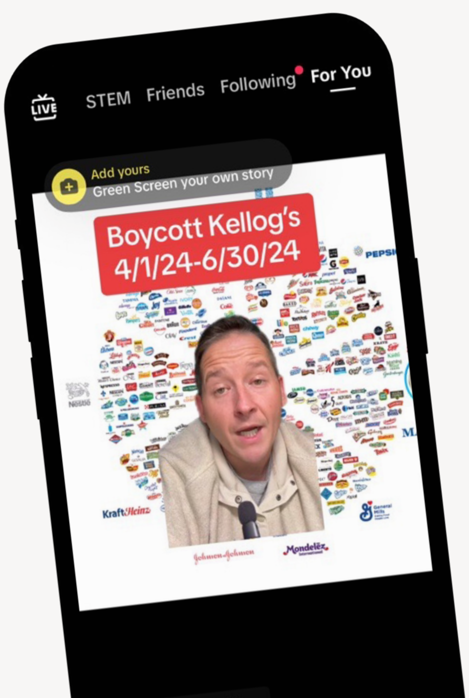
[7] "A strategy for leveraging the emerging subcultures of sustainability," NRG, September 29th, 2023
[8] "A guide for developing your organization's AI strategy," NRG, September 12th, 2023

The record corporate profits of recent years have come at the cost of consumers' trust

Ever since the pandemic, we've been in uncharted waters. The rules of the global economy have been in flux, and many long-standing heuristics have had to be reevaluated. The standard pricing patterns Americans had become accustomed to no longer seem to apply—and this disruption may be exacerbating the distrust that many consumers now feel towards large corporations.

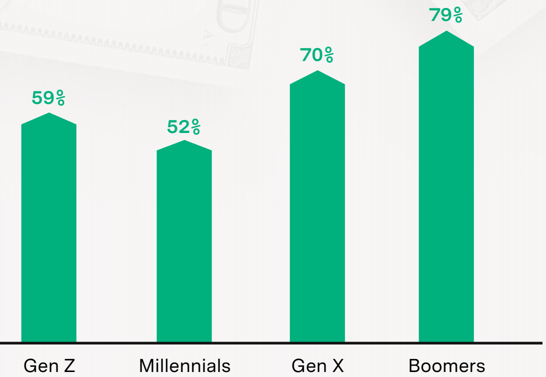
Inflation aside, the economy has generally been in a healthy state over the past few years. US stocks rallied quickly following the pandemic-induced crash of 2020,[9] and GDP growth has remained strong, consistently outpacing forecasts.[10] Annualized corporate profits, meanwhile, have hit new all-time highs—rising to $3.4 trillion in the final quarter of 2023, off the back of healthy and expanding profit margins across a wide variety of sectors.[11]

For consumers—especially those who don't own stocks or other investment assets—something isn't adding up about all of this. They're watching corporate profits soar and the wealth of the billionaire class continue to grow,[12] and wondering why they're still having to make tough spending decisions and closely monitor their day-to-day outgoings.



64%

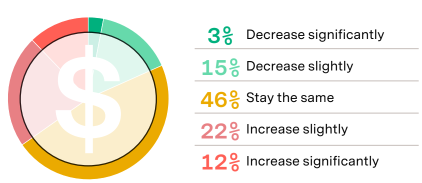
of consumers believe that large companies are raising prices by more than is necessary to cover the cost of inflation



The conclusion that many of them have come to is that corporations are benefiting at the expense of the consumers who buy their products and services. Almost two-thirds of Americans believe that large companies have been increasing their prices by more than necessary to cover the costs of inflation, pocketing the excess as additional profit. This attitude is particularly common among older Americans, many of whom are highly exposed to the negative consequences of inflation.[13]

There is, in other words, little sympathy for the argument advanced by many companies that they've had no choice but to raise prices to cover higher upstream costs. Indeed, reporting from some media outlets has also helped to cast doubt on this narrative. Analysis conducted by The Guardian found that, from 2020 to 2022, corporate profits among top US companies grew by an average of 49%—while median wages increased by only 1.6% over the same period.[14]

Q: With inflation easing, how do you expect the prices of products and services to change?



Accurate or not, these perceptions have had serious reputational consequences for many businesses—in some cases, even metastasizing into organized social media boycotts.[15] There's a broad sense among consumers that companies have failed to fully embed their claimed social values into their pricing strategies. Moreover, this issue isn't going away any time soon. Over a third of consumers expect that we'll continue to see noticeable increases in the prices of everyday goods in the immediate future, while only 18% anticipate recent price increases being rolled back.

All of this suggests that it's time for businesses to rethink the way they justify their pricing decisions to customers and how they communicate the value of their products and services. While brand and marketing teams have historically tended to be viewed as key stakeholders for pricing strategies, it's now clear that reputation strategists need to be brought into the process as well—and that senior leaders need to learn how to evaluate pricing decisions through a reputational lens.

[9] John Rekenthaler, "US Stocks Beat Predictions Over the Past Decade. Can They Do it Again?" Morningstar, June 19th, 2024
[10] Steve Benen, "As elections near, economic growth exceeds expectations (again)," MSNBC, September 27th, 2024
[11] Ben Werschkul, "Corporate profits are booming. Biden wants that to be a campaign issue." Yahoo! Finance, March 29th, 2024
[12] "Global billionaire wealth grows by $2 trillion in past year," High Pay Centre, August 4th, 2024
[13] Lorie Konish, "High inflation harms older households — and two factors determine who is most at risk, research finds," CNBC, May 15th, 2024
[14] Tom Perkins, "Revealed: top US corporations raising prices on Americans even as profits surge," The Guardian, April 27th, 2022
[15] Natalie Sherman, "Price hikes and boycotts: Is trouble brewing at Starbucks?" BBC News, June 9th, 2024

Higher prices create reputational risks with a wide range of stakeholders

If price increases continue to outpace wage growth, companies will struggle to manage relationships with consumers, employees, partners, and governments. Giving a greater voice to reputation strategists, therefore, will be critical if businesses want to understand the impact of pricing decisions on their stakeholder ecosystems.

Of these stakeholders, consumers are certainly the ones most directly impacted by price hikes. In the most extreme cases, dissatisfaction with price increases can lead to organized boycotts; but even outside of these cases, inflation can have significant impacts on consumers' lifestyles and discretionary spending. This year, for example, saw a significant drop-off in 4th of July fireworks usage, as many Americans felt forced to reign in their planned festivities to save money.[16]

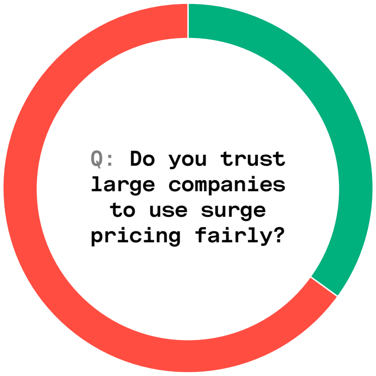
Beyond the immediate sales impact, a fractured relationship with consumers can complicate future pricing and marketing plans. Some companies have attempted to leverage the dynamic pricing or "surge pricing" model pioneered by Uber and similar gig economy platforms as a way of mitigating these issues[17]—offering customers discounted prices during periods of lower demand. But this approach comes with its own set of risks.

Around two-thirds of Americans do not trust large companies to use surge pricing fairly; they see it as a tool for facilitating further price gouging, rather than a way for companies to offer discounts and to more effectively line up demand and supply. Earlier this year, Wendy's narrowly averted a self-inflicted reputational crisis when they announced, and almost immediately retracted, their plans to introduce dynamic pricing—demonstrating just how quickly a company can lose their license to operate when consumer skepticism builds and their reputation becomes compromised.[18]

But consumers are far from the only group of stakeholders that companies need to keep in mind when crafting their pricing strategies. **Higher prices can also draw the attention of governance stakeholders—prompting them to more aggressively hold corporations to account or even to consider implementing price controls or passing new oversight measures into law.**

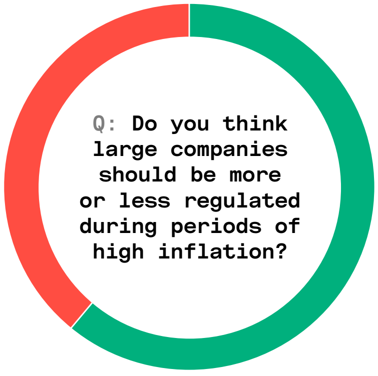
Sixty-one percent of Americans would like to see the government do more to regulate the ability of corporations to set prices during periods of high inflation. And more than two-thirds believe that there's a need for regulators to do more to encourage transparency in how businesses make their pricing decisions. Support for such measures is particularly high among more liberal consumers.

We've already seen plenty of examples of prominent politicians picking fights with individual companies over their pricing decisions to demonstrate to constituents that they're willing to stand up for their interests. Elizabeth Warren, for example, has been highly critical of the pricing decisions of both DoorDash and Uber Eats—accusing them of a lack of transparency and of concealing price increases behind layers of hidden fees.[19]



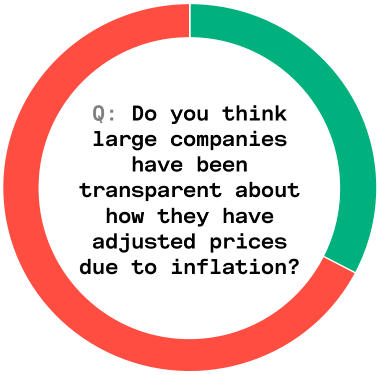
35% Yes, large companies use surge pricing to provide better deals during periods of lower demand

65% No, large companies use surge pricing to price gouge customers



61% Large companies should be more regulated to restrict how much they can increase prices

39% Large companies should be less regulated to give them the freedom to find ways of cutting costs and reducing prices



32% Yes, large companies have been transparent about their price increases

68% No, large companies need to provide more information about why they've increased their prices

[16] Jay L. Zagorsky, "Fireworks sales have fallen back to Earth after years of explosive growth — here's why," The Conversation, June 27th, 2024
[17] Whizy Kim, "Uber-style pricing is coming for everything," Vox, May 19th, 2024
[18] Sheryl Estrada, "Wendy's says 'dynamic pricing' is different from 'surge pricing,' but whatever it's called may still alienate customers," Fortune, February 29th, 2024
[19] Joe Guszkowski, "Senators question DoorDash and Uber East over 'hidden fees' for consumers," Restaurant Business Online, April 18th, 2024

As governments search for ways to make it more difficult for companies to charge higher prices, it's also possible that regulators will begin to look towards unions as a mechanism for providing increased oversight and greater transparency in pricing decisions.

Public support for labor unions has been steadily increasing over the past decade[20]—and it seems likely that dissatisfaction with high prices will help to further that trend. Despite concerns in the press that strike actions—such as the recent dockworkers' strike—could lead to further price increases,[21] a slim majority of consumers believe that unions are ultimately a force for good when it comes to combating rising costs and inflation.[22]

Yet another challenge presented by perceptions of corporate greed is the risk of damaged relationships with commercial partners. Earlier this year, Carrefour removed a number of PepsiCo products from shelves in supermarkets in France, Italy, Spain, Belgium, and Poland, following a months-long row with the company over shrinkflation.

Examples like this serve as a reminder that price increases not only come with the risk of cannibalizing consumer trust but can also burn through goodwill with corporate customers and damage relationships with partners across the business ecosystem.

53% of consumers believe that unions help combat rising costs of inflation

[20] Justin McCarthy, "U.S. Approval of Labor Unions at Highest Point Since 1965," Gallup, August 30th, 2022

[21] Max Zahn, "Dockworkers hit picket lines in historic US port strike that could impact prices," ABC News, October 2nd, 2024

[22] Ryan Hogg, "A supermarket chain pulled PepsiCo products over 'shrinkflation'—now its biggest rival says Pepsi, Cheetos and Doritos are going nowhere," Fortune, January 8th, 2024

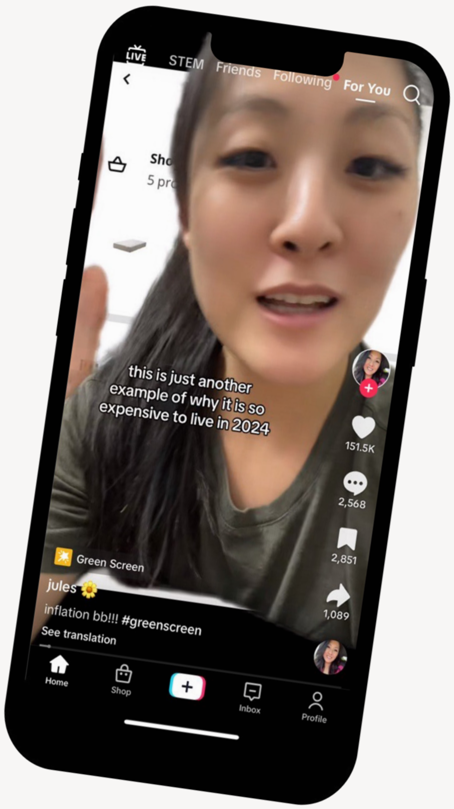
To mitigate these risks, pricing needs to be informed by values-driven principles

Simply put, price increases that are confusing, unnecessary, and unexplainable open the door to perceptions of corporate greed and price gouging. Managing consumer backlash to inflation won't be achieved by hiding the real unit price behind shrinking product sizes or hidden fees; instead, it will require a commitment to transparency and a genuine respect for the end customer. **Companies, in other words, need to start living their corporate values—and ought to be embedding those values right at the heart of their approach to pricing.**

The most obvious way to demonstrate values-driven pricing is to consistently keep prices low despite inflationary pressures. Of course, this is rarely financially feasible—but companies can find a compromise solution by keeping certain "fan favorite" products on sale at very low margins, making up the difference elsewhere within their product portfolio. Costco, for example, has received praise for keeping the price of its hot dogs steady at $1.50 for nearly four decades,[23] one of many factors that has helped the company maintain its consistently strong public reputation.

And when companies do need to increase prices, they can limit the reputational downsides by taking an honest and proactive approach to customer communication. IKEA is another example of a brand with a long-standing reputation for keeping prices consistently low without compromising on quality. In the aftermath of the pandemic, they faced significant pushback from consumers over their decision to increase prices on many of their most popular products.[24]

However, the company was able to limit reputational blowback by being transparent with customers about the material and transport costs that had forced them to make that decision—and, eventually, by launching their "New Lower Price" initiative, signaling an intention to return many of those products closer to their pre-pandemic prices once it was feasible to do so.[25] Consumers are often willing to give companies the benefit of the doubt—but only if they see real evidence that they're making a good faith effort to live their values through their pricing decisions.



[23] Rachel Treisman, "Costco hot dogs have cost $1.50 since the 1980s. Here's why prices aren't changing," NPR, June 4th, 2024

[24] Rob Davies and Hilary Osborne, "Ikea hoists its prices and blames Covid supply pressures," The Guardian, December 30th, 2021

[25] Alex Vuocolo, "Ikea CEO says prices are coming down. But pre-pandemic levels are still a long way off," Retail Brew, December 20th, 2023

Through the right behaviors and communications, companies can preserve their reputations in inflationary times

Periods of high inflation create an undeniable challenge for companies that care about their reputation with consumers—but not an insurmountable one. We are, after all, all in the same boat; companies that rise to this challenge and demonstrate a values-driven approach to pricing may even find themselves in a position to set themselves apart from the competition and build long-term reputation capital with key stakeholders.

But what does this look like in practice? Strategically, we need to recognize that rising prices and perceptions of corporate greed are problems that will require agility and careful execution to solve. Reassuring consumers that their fears are being addressed will require a consistent commitment to listening to diverse stakeholders and acting with their best interests at heart.

More immediately, however, there are several steps that reputation strategists and values-driven communicators can take to minimize the potential reputational risks associated with pricing increases—from more proactively measuring stakeholder sentiment to being more transparent in how pricing decisions are justified and communicated.

Fundamentally, there's a need for a paradigm shift in how companies think about their pricing strategies. Pricing decisions can no longer be viewed in isolation from their reputational impacts; instead, reputation strategists need to have a seat at the table when it comes to making and communicating those decisions. Companies that embrace this shift will be better equipped to maintain the goodwill of their customers—and will find themselves at a distinct advantage next time inflation rates start to skyrocket.

SHORT-TERM

Tactical steps for minimizing reputational risks

Be transparent about pricing decisions

Transparency about the pricing process can go a long way toward building rapport and counteracting skepticism. Detailed explanations on publicly available corporate communication channels help consumers, business partners, and governing bodies to understand pricing rationale.

Assess reputation risk

Businesses need to continuously gauge public and governmental sentiment around pricing and perceptions of corporate greed. When trends reveal threats to corporate reputation, reputation and comms teams need to be empowered to shape visible communications and corporate behaviors that can help mitigate these risks.

Listen to reputation stakeholders

Consumers, employees, partners, and governing bodies all need to be listened to when it comes to setting prices. Proactive engagement with these stakeholders can help in making informed, transparent, and balanced pricing decisions that reflect the interests of all parties involved.

Prepare for oversight

Businesses can get ahead of the regulatory curve by preparing documentation that summarizes factors influencing pricing decisions. Maintaining documentation that demonstrates a commitment to fair pricing practices may help avert regulatory scrutiny and pushback.

LONG-TERM

Pillars for ethical pricing strategies

Highlight corporate values in pricing decisions

Pricing strategies need to reflect the company's values. Honest and proactive—rather than reactive—communication about pricing decisions can help to mitigate perceptions of manipulation and greed.

Focus on consistency and reliability

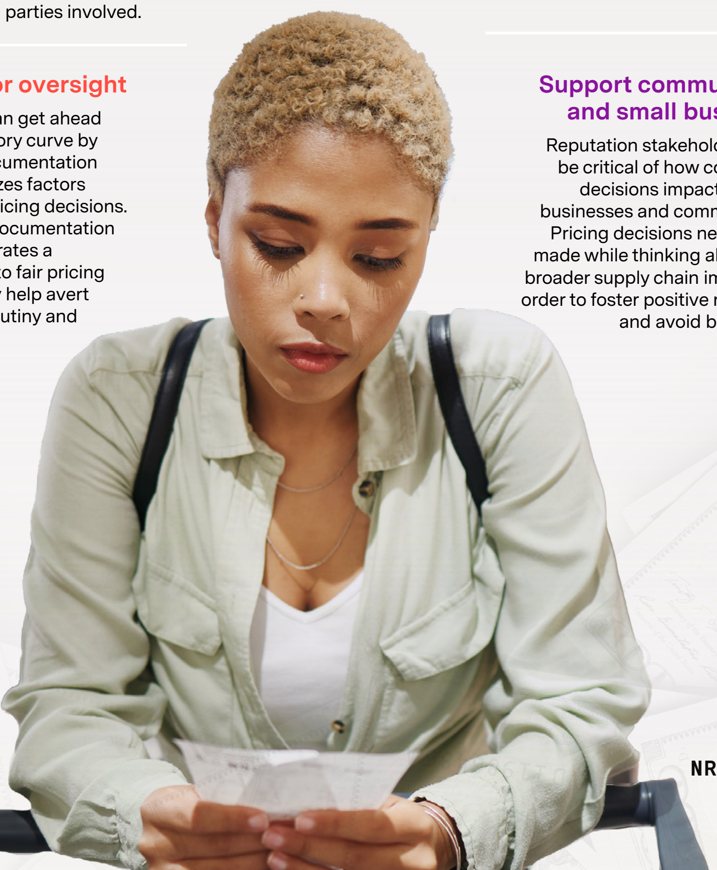
Reputation is earned through years of consistent behavior and communications. By holding the prices for select "fan favorite" products steady, even in tough times, companies can limit the reputational impact of price increases elsewhere in their product portfolios.

Ensure performance, behaviors, and communications are aligned

Increasing prices, soaring profits, surging stock performance, and excessive executive compensation opens the door to scrutiny and backlash. If you're communicating one message while undercutting it elsewhere, you run the risk of stoking perceptions of corporate greed.

Support communities and small business

Reputation stakeholders can be critical of how corporate decisions impact smaller businesses and communities. Pricing decisions need to be made while thinking about the broader supply chain impact, in order to foster positive relations and avoid backlash.



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WORDS AND ANALYSIS BY

DESIGN BY

Roy Persson

Natalie Lacey

Nicole Clouser

Fergus Navaratnam–Blair

Nick Crofoot

Victoria Lutz

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