The rising cost of living is eroding brand loyalty as consumers seek more cost-effective alternatives

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Credit: AI-generated image (disclaimer)

As Canadians grapple with the rising cost of living, many consumers are reevaluating their daily choices and purchase habits. The cost of groceries is forcing many households to make difficult decisions, like having to choose between food quality and affordability.

Amid these economic pressures, the concept of brand loyalty—the preference consumers have for a particular brand over others—is undergoing a significant shift. Brand loyalty is the result of a mix of factors, including trust, habit and the perceived value of goods.

Brand loyalty significantly benefits retailers by boosting sales. Not only do existing customers spend more money than new customers, but brand loyalty also reduces the amount brands need to spend on advertising. Effective loyalty programs increase customer retention and result in positive word-of-mouth, meaning companies can spend less on marketing.

Losing loyalty, on the other hand, can result in a competitive disadvantage for retailers. It can lead to revenue loss, increased marketing and customer acquisition costs and negative word-of-mouth.

Once a cornerstone for many food retailers, brand loyalty is eroding as consumers prioritize immediate cost savings over long-term brand relationships.

Adapting to rising food costs

Inflation is impacting a wide range of income groups: 81% of lower-income, 50% of middle-income and 35% of high-income earners in Canada are impacted by inflation, spending less on clothing, beauty products and big-ticket items.

Consumers have been adopting various strategies to manage their budgets. Three-quarters of Canadians say they dine out less often because of the rising cost of living, and 70% say inflation has shifted the way they cook.

Despite rising grocery prices, eating at home is still more budgetfriendly than eating out and allows for better control over the cost of ingredients.

Some Canadians are also modifying their eating habits by altering portion sizes, cutting back on pricier food items and focusing on more affordable staple foods. While these changes help consumers deal with rising costs, they also come at the expense of brand loyalty.

The digital landscape is also playing a key role in this shift. Consumers are increasingly turning to digital platforms to find economical food options. The convenience of online marketplaces and food delivery services exposes them to a wide array of product choices and competitive pricing.

Consumers also use online tools like coupons and price comparison options to seek discounts. Loyalty programs lose their appeal when consumers prioritize immediate savings.

This transparency and the ease of comparing prices online encourage consumers to explore various brands, making it more challenging for traditional food brands to sustain customer loyalty.

Changing consumer priorities

As prices rise and budgets tighten, consumers are more inclined to seek out more cost-effective options, which often means abandoning favorite brands in pursuit of better value.

One report found that 42% of consumers now seek sales or shop clearance, 40% adhere to a budget, 28% buy less overall and 25% prefer bulk stores or warehouse retailers.

In pursuit of cheaper alternatives, consumers become more open to trying private-label or store-brand products, discounted brands and generic or unbranded options. These alternatives provide shoppers with a practical way to cope with rising prices, allowing them to manage their expenses while maintaining a satisfactory level of product quality.

Inflation also leads to changes in spending habits in a phenomenon known as consumption smoothing. This often involves delaying the purchase of durable goods, prioritizing the purchase of necessities and opting for store-brand products.

In essence, consumers shift their priorities toward cost management, which in turn reduces their loyalty to specific brands. Food companies need to adapt to these changing consumer needs by recognizing affordability and value take precedence in an inflationary market.

What can retailers do?

The shift away from brand loyalty can pose challenges for business owners and retailers who depend on consumer spending. Aside from the most obvious solution to the issue—lowering prices—there are other things retailers can do to win back customers.

First, retailers can use dynamic pricing, allowing them to adjust prices based on factors like supply and demand, inventory and competition. This approach enables them to offer competitive prices and discounts while also minimizing food waste.

Second, retailers can also introduce loyalty programs that go beyond conventional point-based systems. By using personalized data from consumers, retailers can tailor rewards and incentives to match individual shopping habits, experiences and preferences. Retailers can also collaborate with other businesses and incorporate gamification elements to further enhance loyalty.

Lastly, retailers should consider using a value-oriented marketing approach to elevate consumer experiences. Retailers should communicate the value of their products, emphasizing quality, nutritional benefits and unique features to justify their price points.

Simultaneously, investing in exceptional customer experience, both in-store and online, can foster strong emotional connections between retailers and consumers. When consumers feel valued by brands, they are more likely to stay committed to that brand's products. By assuring customers of their commitment to value, retailers can play a crucial role in guiding consumers through these challenging times.

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