Dynamic pricing practices could increase food prices

By Lillie Lyon

Grocery stores are raising new antitrust concerns. Chains nationwide are replacing paper price tags with digital ones, opening the door to pricing practices that could increase food prices in Minnesota and across the country.

Switching to digital tags makes it easier for stores to use "dynamic pricing," changing products' prices up to thousands of times per day based on factors like shifts in demand and competitors' prices. Consumers and members of Congress worry that stores will use the technology to spike prices when there's high demand and illegally collaborate to fix higher prices.

Some experts, however, believe dynamic pricing benefits stores and shoppers by enabling stores to discount food about to expire, ultimately selling more products for less. Robert Sanders, a professor at the University of California, San Diego, has noted that dynamic pricing will likely create "net good" in a "really competitive market." But if a market isn't competitive, stores could increase prices to maximize profits.

Two trends—supermarket consolidation and misuse of dynamic pricing across industries to raise prices—indicate this could soon happen in the grocery industry.

First, supermarkets have been consolidating for decades. In 2022, Kroger and Albertsons, two of the largest remaining chains, proposed a merger. Antitrust regulators, who work to keep markets competitive by reviewing mergers and enforcing laws against anticompetitive actions, sued to stop it, arguing decreased competition would increase shoppers' costs.

If the merger succeeds, the combined company will dominate the industry alongside Walmart, which has 68 stores in Minnesota, and Costco, which has 14. Consolidation like this particularly threatens Minnesota's rural grocery stores, 68% of whom consider competition with large chain grocery stores a major challenge. Dynamic pricing's potential to help big companies raise prices increases the stakes of this type of consolidation for shoppers in rural communities.

Second, dynamic pricing creates potential for companies to decrease competition by increasing opportunities for them to collude to raise prices. Companies could accomplish this through third-party pricing algorithms, which analyze public information and confidential data the companies provide to suggest prices that will maximize profits for companies that once competed.

Companies in industries including agriculture, housing, and health care already use pricing algorithms.[1] The federal government has challenged the way they are used in the apartment rental market, arguing it amounts to illegal collusion to increase rents under federal antitrust law. It's unclear whether courts will agree. This means that other industries, including the grocery industry, could use similar software—and implement recommended prices in real time through dynamic pricing.

State and federal governments can help address the issue through legislation and some are actively considering it. In February, Senator Klobuchar proposed a bill to explicitly outlaw collusion through pricing algorithms. Strengthening antitrust laws could also give regulators additional tools to keep markets competitive so developments like digital price tags in grocery stores don't harm consumers.

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