How the Changing Consumer Drives Food Retailing Strategy and Structure

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Important Demographic Changes

- U.S. population to grow 49% to 420 mm by 2050 (87% from 1950 to 2000)
- Non-Hispanic white population will drop from 69% in 2000 to 50% in 2050 (90% in 1950)
  - Ethnic minorities will account for 90% of population growth
- By 2030, 20% will be 65+ compared with 12% in 2000
  - Between 2003 and 2010, the 55-64 group will grow by 19 million, while the 25-34 segment will drop by 1 million
  - Life expectancy up; we are living longer and want to experience those years in good health

This is America Today

Key Socioeconomic Trends

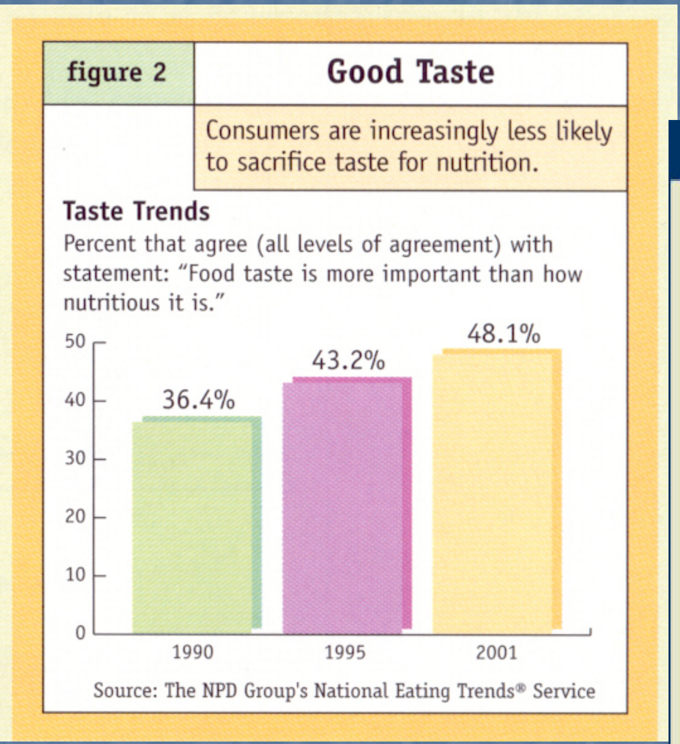
Growth of Smaller Households
Size of households (by age)

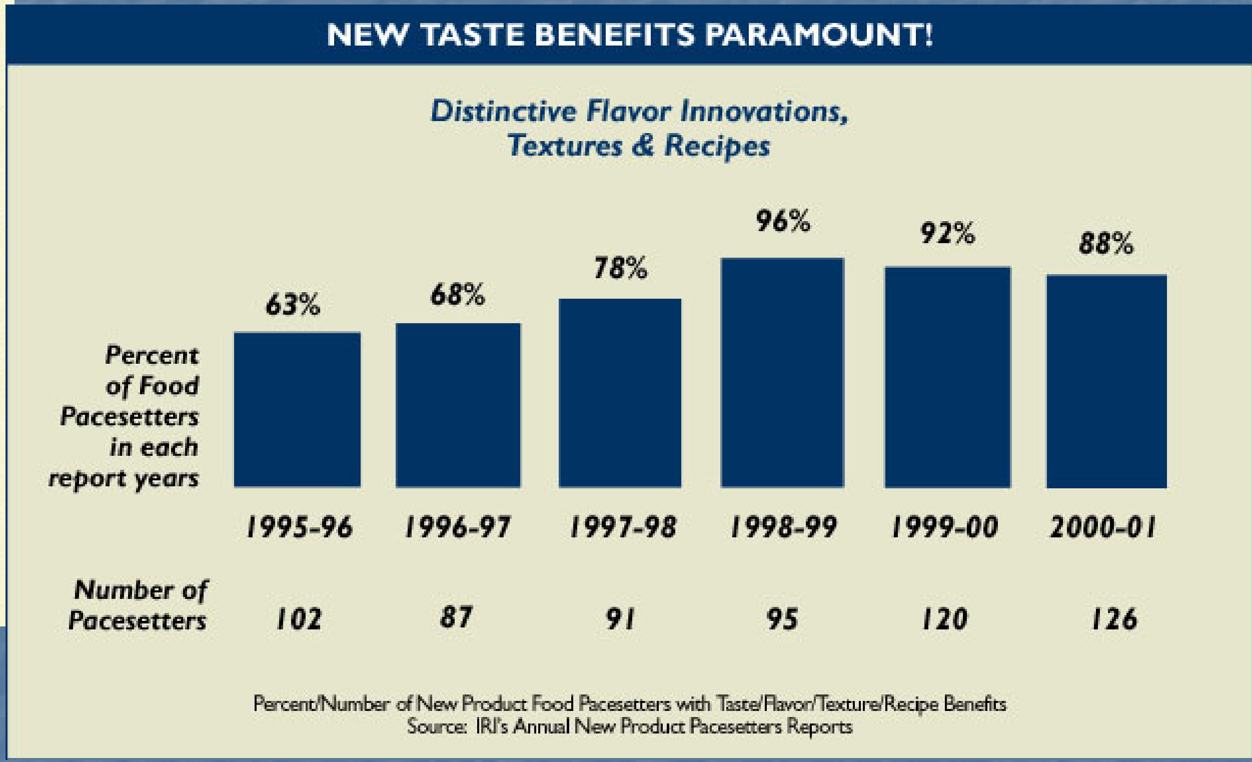
	<33	33-52	52+	Total
Live alone	4.2%	6.6%	11.6%	22.4%
Married/no children	3.0%	9.0%	20.4%	32.4%
Married w/children	8.4%	15.9%	1.1%	25.4%
Other families	4.5%	6.8%	4.1%	15.4%
Other households	2.1%	1.5%	0.8%	4.4%

20+ million additional people over age 50

- Changing household structure and roles
  - Smaller households
  - Working moms, single moms, etc., etc.
    - Single moms (1970 – 3 million; 2000 – 10 million)
- Demographic and lifestyle changes
  - Ethnicity: from the melting pot to a stir fry
    - New foods, new ingredients, and higher taste profiles
    - Emerging segments and opportunity areas
  - More aging boomers and more kids
    - Emerging needs for health
    - Boy those kids are different!
    - Individualization: I want it my way!
- Income polarization: haves and have-nots

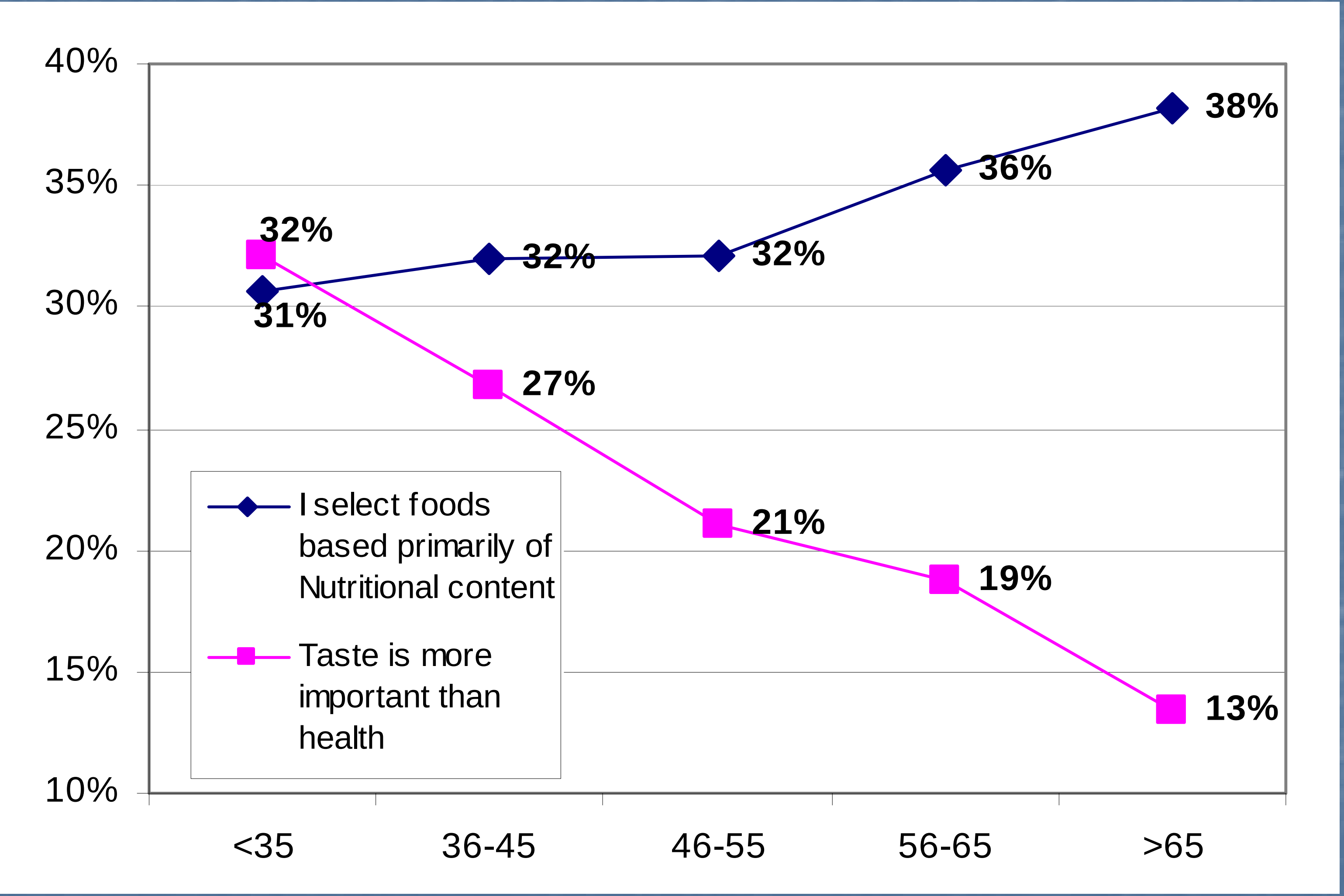
Taste is first; everything else is second!





Our Aging Population

Changing Purchase Factors



- NMI 2002 HWTR

Food Preparation and Consumption Trends

- Bottom line:
  American households moving from “cooking” meals to “assembling” meals
  - According to Gallup’s 2002 Study, when asked to describe how they prepared “yesterday’s main meal”…
    - 38% at home from scratch
    - 33% at home using convenience foods (21% in 1998)
    - 10% take-out from restaurant or supermarket
    - 18% ate at a restaurant
  - Fewer menu items, dishes, appliances
  - More occasions, choices, alternatives

Major Trend: Convenience

- Anytime, Anyplace, Minimal Prep
  - Convenience claims up
  - More prepared foods
  - Portability in both product form and package structure
- 91% of consumers buy convenience foods, up 22% from 1993 (Parade)
- Snacking occasions increasing
- We are willing to pay a significant premium for convenience

Fig. 2—Ready-to-cook, individually frozen meats

The New Family Dinner!

What do we know about value drivers for consumers?

- Anomoly: we are cooking illiterate but cuisine literate: broad and sophisticated flavor palate
- Research presented by Yankelovich –
  - Consumers now value
    - Quality over quantity
    - Intangibles over tangibles
    - Time over money
      - 76% are looking for more ways to simplify their lives.
      - 81% say they have less free time than they did 5 years ago.
  - From the exuberant lifestyle of the ’90s to one seeking more satisfying experiences
  - Looking for meaning, not just “stuff”

Serving the “LOHAS” Market

“Lifestyles of health and sustainability”

- $227 billion dollar market
- Customers interested in
  - Natural, organic, nutritional products
  - Renewable energy
  - Socially responsible investing
  - Alternative medicine
  - Recycled and ecological products

“Slow Foods” Gain Momentum

- Backlash against processed, mass-produced and fast food, and their negative impact
- Movement back to traditional ways of preparing and eating; emphasize passion for food
- Emphasis on ingredients of integrity such as artisan cheeses and olive oil
- Increasing role of the Downtown Farmer’s Market and organic foods

Popularity of Ethnic Grows

Table 1—Ethnic foods popular in household. From MSI (2002a)

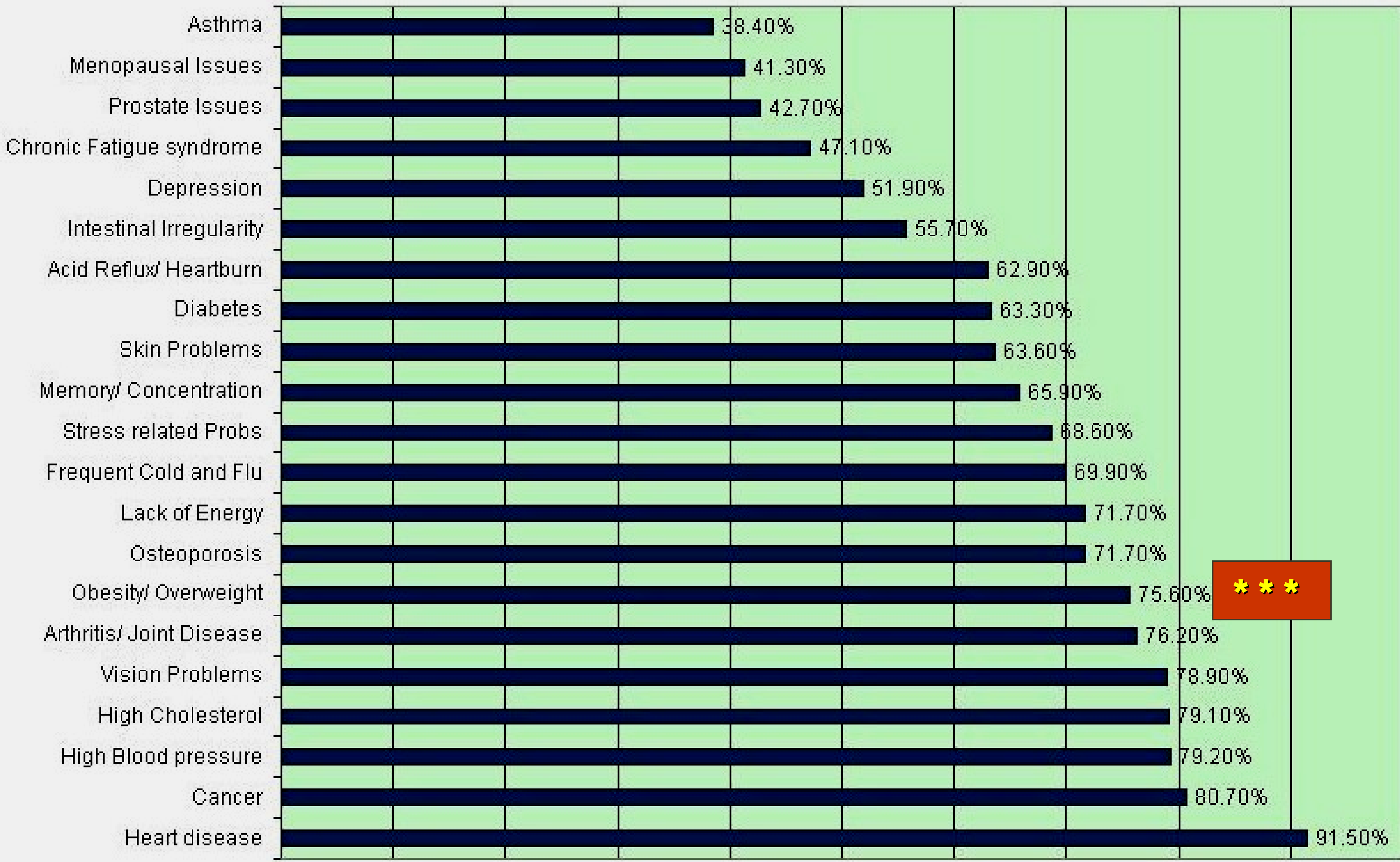
Type of ethnic food	% in 2001	% in 2002	Difference (%)
Italian	73	81	8
Mexican	65	72	7
Chinese	67	67	0
Japanese	16	20	4
German	16	18	3
Greek	14	16	2
Thai	12	16	4
Indian	8	11	3
Middle Eastern	6	8	2

By the year 2025, 40% of the U.S. population will be made up of ethnic minorities.

Health Is A Driving Force

- The Opportunity
  - 94% of consumers aged 50+ understand there is a link between diet and health
  - 81% say they have become more conscious of what they eat
  - 66% sat they worry more about their health as they grow older
    - Source: Dairy-Deli Assn.
  - 6 in 10 adults say they can reduce the risk of disease by eating healthfully
  - 58% say that health greatly affects supermarket purchases
    - Source: Liz Sloane, *Food Technology*

% Households Concerned With Preventing Specific Health Conditions



Source: NMI, 2003

Eating for Health

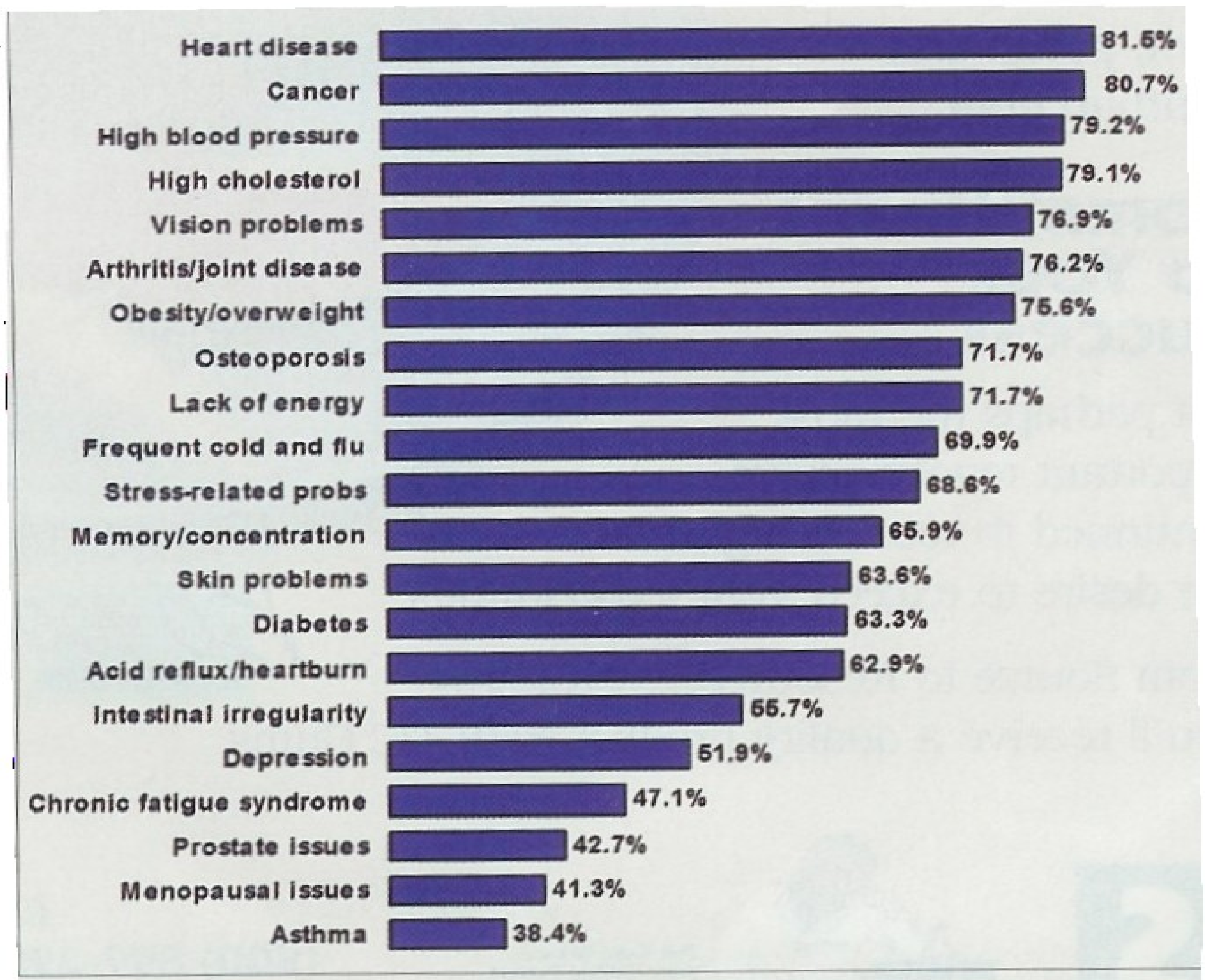
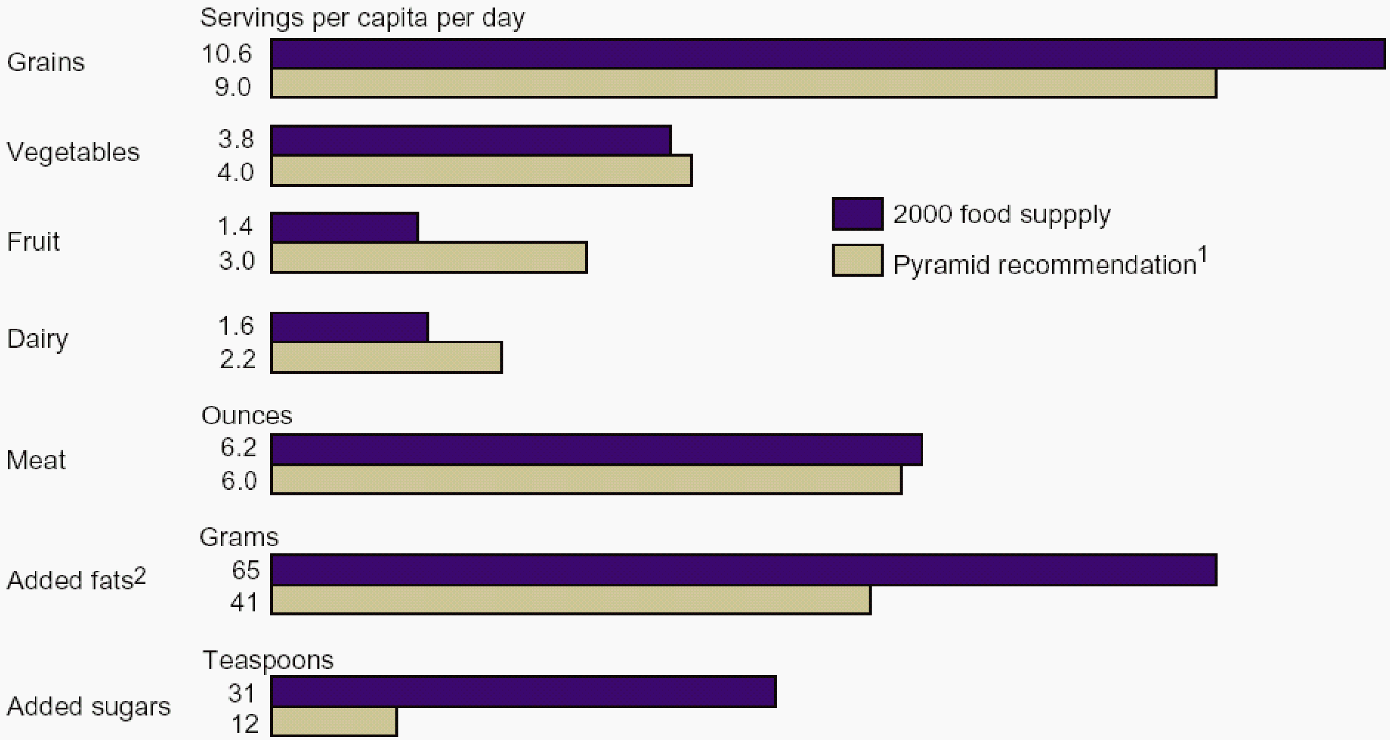


Fig. 13—Eight out of ten shoppers are trying to prevent a condition with food purchases; heart disease tops the list. From NMI (2003).

Are We Eating Right? NO!

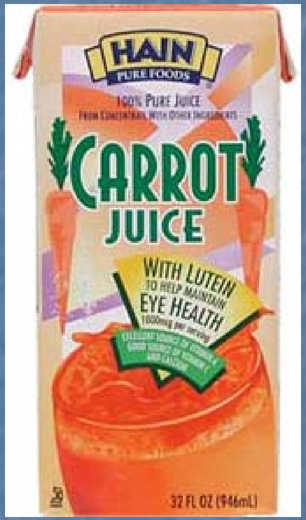
Figure 2—2000 Food Supply Servings Compared With Food Guide Pyramid Recommendations

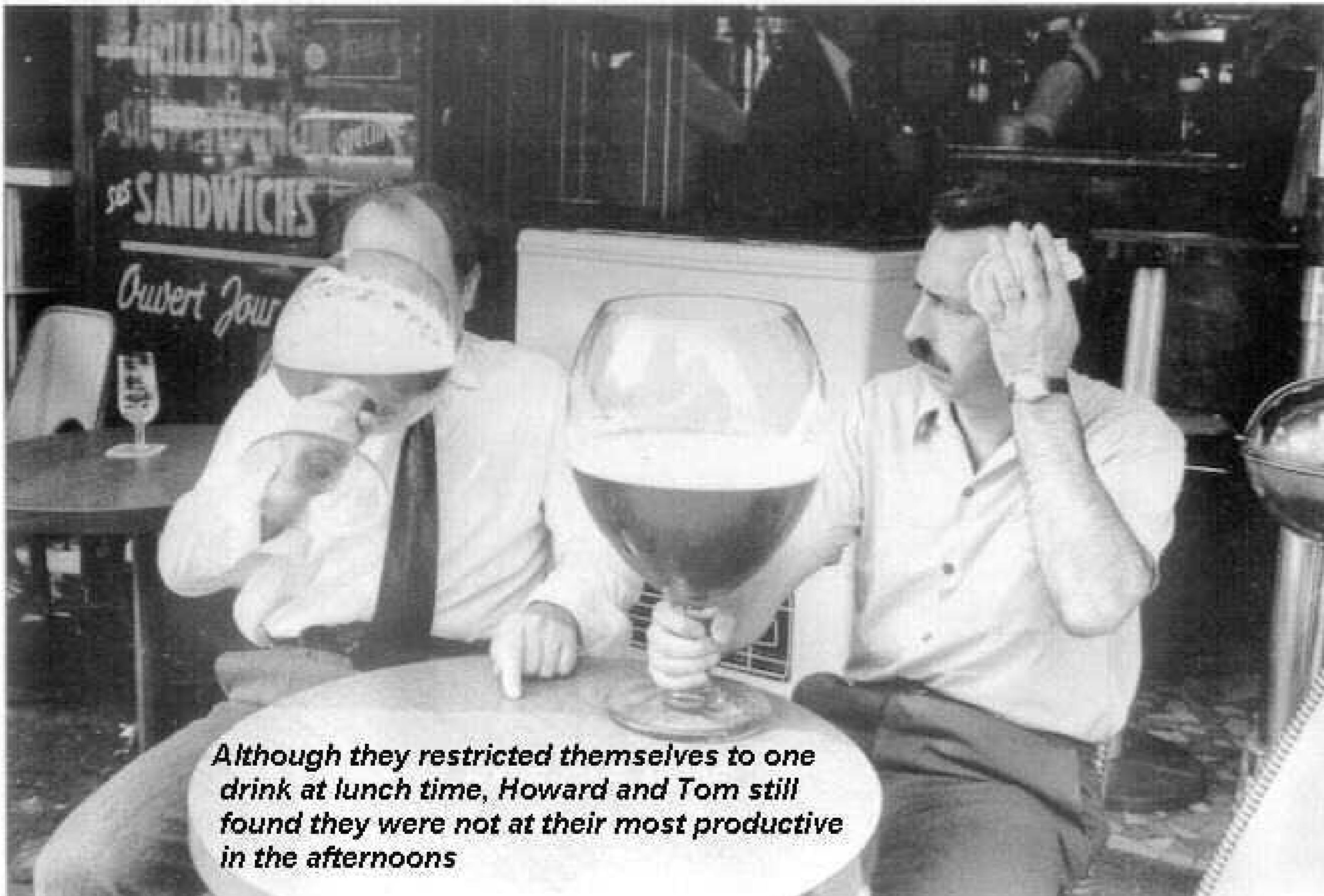


[1] Pyramid recommendation based on a sample diet of 2,200 calories.
[2] The Food Guide Pyramid does not make a recommendation for added fats and oils. This recommendation is implied by the 56-percent share of total fats accounted for by added fats and oils in the food supply in 2000 and an upper limit on total fat consumption of 73 grams for a 2,200-calorie diet.
Source: USDA's Economic Research Service.

Challenges and Opportunities

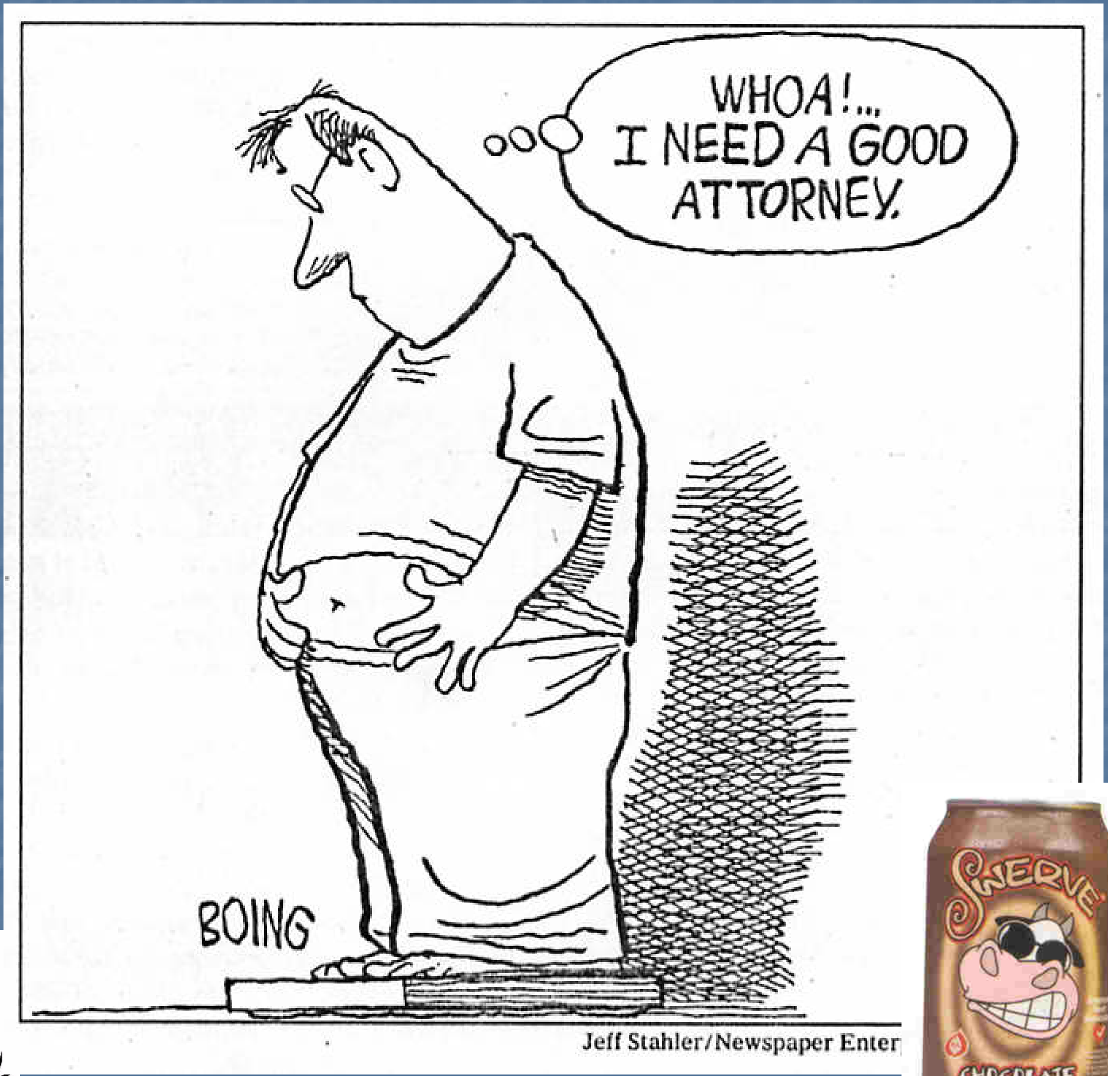
- *USA Today* stated: “Consumers' increased health concerns have put the entire packaged-food industry under pressure to change quickly.”
- Interest increasing in:
  - Fewer carbs; complex carbs
  - Smaller portions
  - Whole grains
  - Antioxidants
  - Eliminate trans fats
  - Omega-3 and Omega-6 fatty acids
  - Nutritional information
  - Vegetarianism
  - Cholesterol reduction
  - Diabetic-friendly products
  - Self-medication





Although they restricted themselves to one drink at lunch time, Howard and Tom still found they were not at their most productive in the afternoons

There are, of course, different ways to respond…

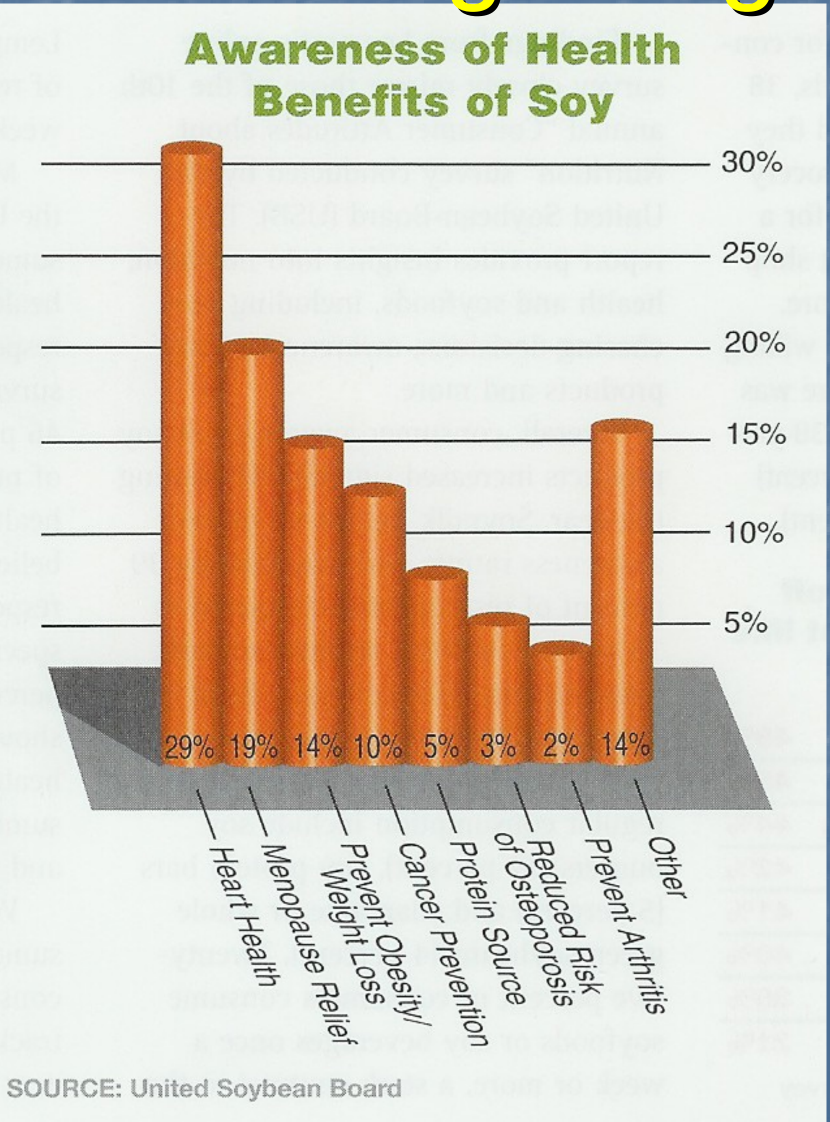


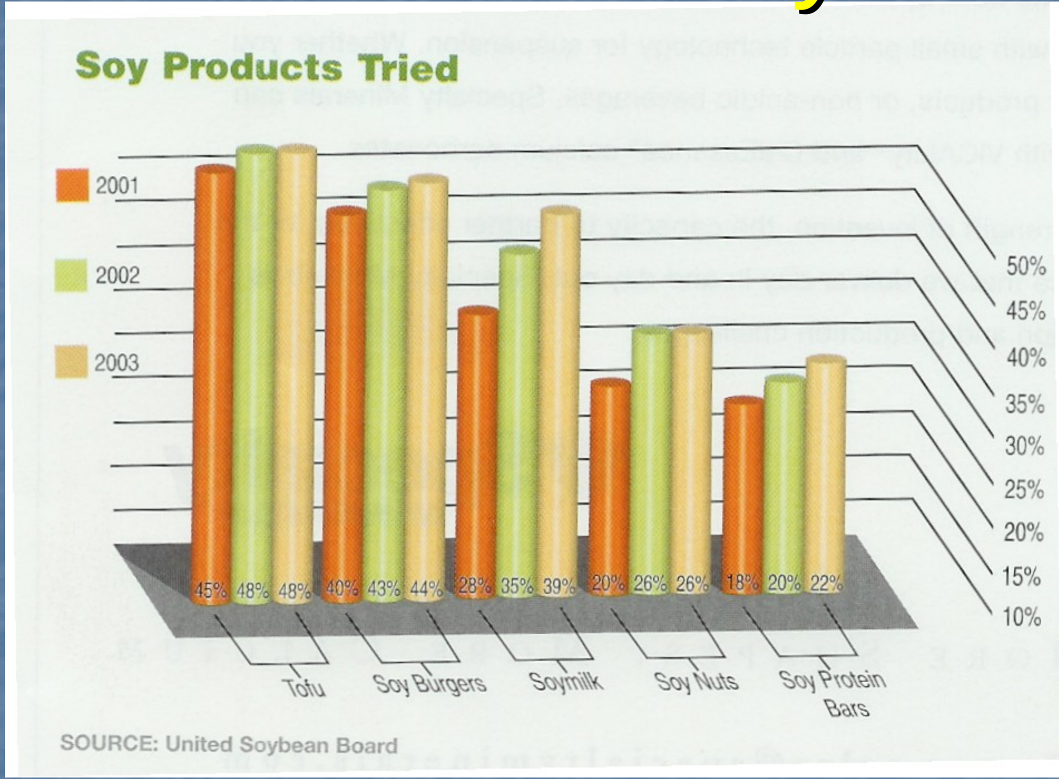
Organics Increasingly “Mainstream”

- Consumers may not know exactly what organic is, but the term “resonates wellness”
- The growth in organics has been prompted by a consumer backlash to hormone use, genetic engineering and irradiated foods
- USDA’ s federal regulations now define organic, which will validate this segment for mainstream consumers.

Large multinational corporations such as Mars Inc.'s Masterfoods USA division (Hackettstown, N.J.), which purchased Seeds of Change in 1997, have entered the organic foods market.

Consumers Increasingly Recognizing the Benefits of Soy

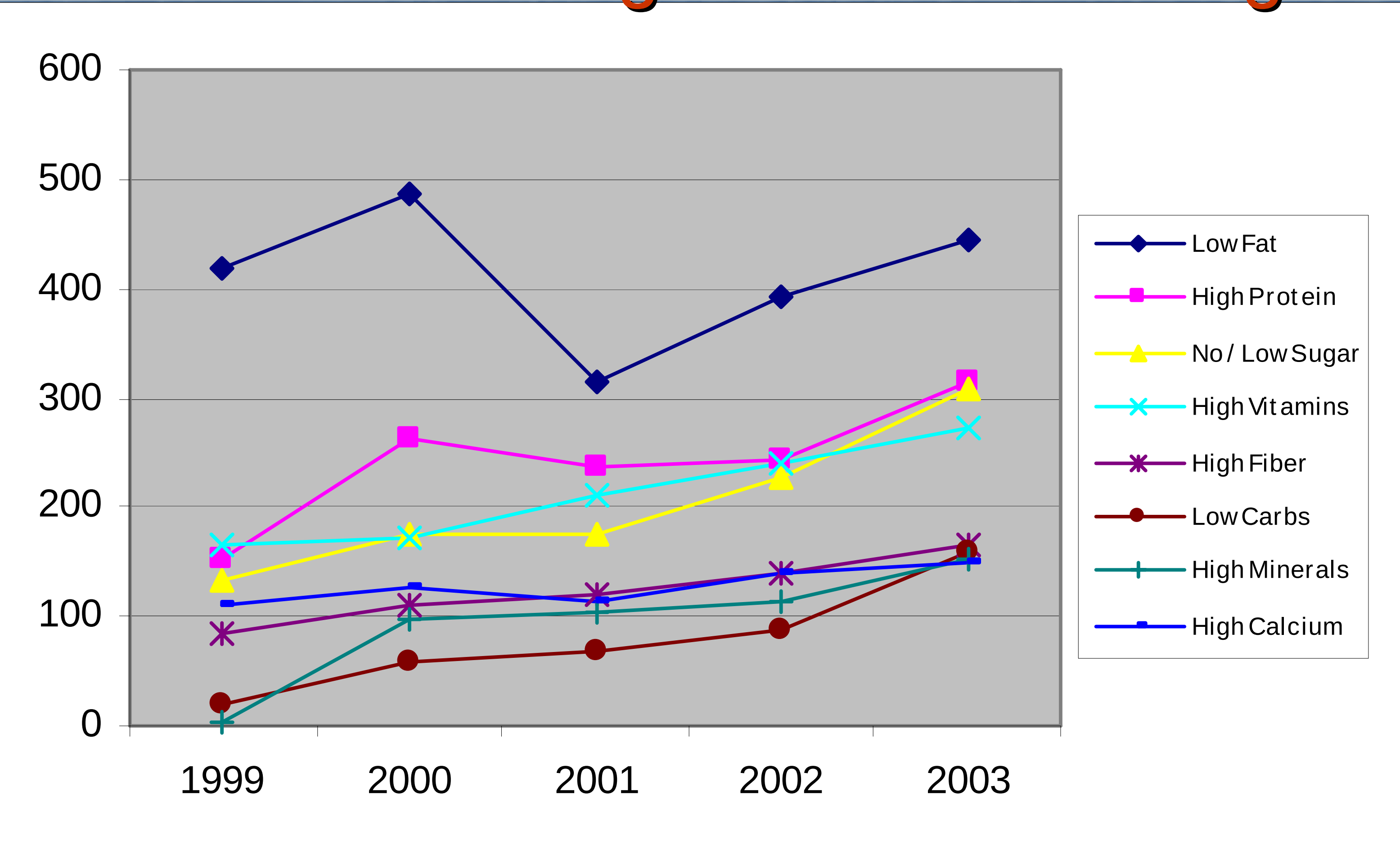




28% of Americans consumed soy foods or beverages once a week or more (Soybean Board, 2003)

Industry Response

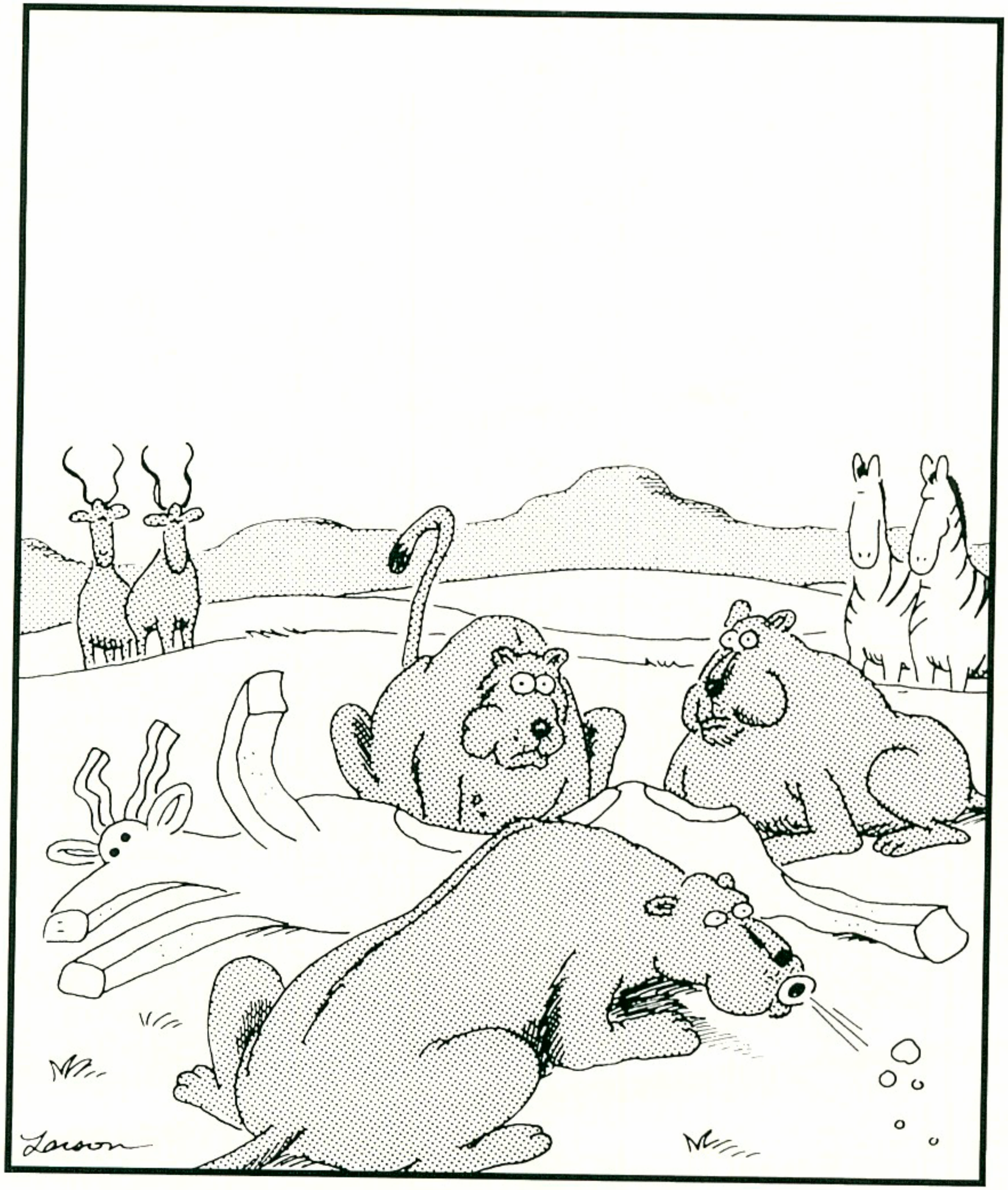
Fastest Growing Food Product Tags



1999 – 2003 New Product Introductions – ProductScan® Online Marketing Intelligence

Wisdom from "The Far Side"

There is one key issue with healthy foods



In sudden disgust, the three lionesses realized they had killed a tofudebeest—one of the Serengeti's obnoxious health antelopes.

Top Consumer Trends

- Eating better
- Counting carbs
- Healthier Kids
- Eating for change
  - Reducing cholesterol, trans fat
- Looking for functional ingredients that provide positive healthful benefits
- Buying beverages to address better health
- Energy drinks are the fastest growing supermarket segment
- Looking for healthy alternatives from restaurants
- Seeking organic, natural, clean, sustaining

Source: Food Technology

From One of My Favorite Food Industry Folks…

- ..What I've really caught onto lately is how much shoppers.. are focusing on labels to define the products they are thinking about buying. And I occasionally catch them talking to each other about these products. *"Have you tried it?" "Is it good?" "How many carbs … calories … sugar … salt…?"* This is why I believe retailers and manufacturers are in the throes of a significant sea change, where the ***label*** will be king in determining what consumers will and will not purchase. It is happening right now in the supermarket, but such ***attention to label information is going to greatly intensify in the years to come.***

Bob Messenger’s Morning Cup, 2/23/04

Defending the Food Supply

- Until now, our primary interest was on preventing contamination due to poor sanitation or bad food handling practices
- However, we now are focused on food security, which consists of:
  - Prevention
    - Threat analysis
    - Vulnerability assessments
    - Preparedness
      - Security measures, procedures, controls
      - Information and traceability
      - Monitoring programs
      - HACCP methodology
      - Emergency response systems

The New World of Food

- Competition comes from everywhere
  - New retail formats
  - Many new options for outsourcing our meal preparation
    - Supermarket foodservice
    - Gourmet and specialty markets
    - Commercial foodservice operators
    - Home delivery services
    - "Bring a chef to your home"
- The key is to provide a value proposition that appeals to someone and cannot be easily duplicated

Increasing Emphasis on "Economizing Behavior"

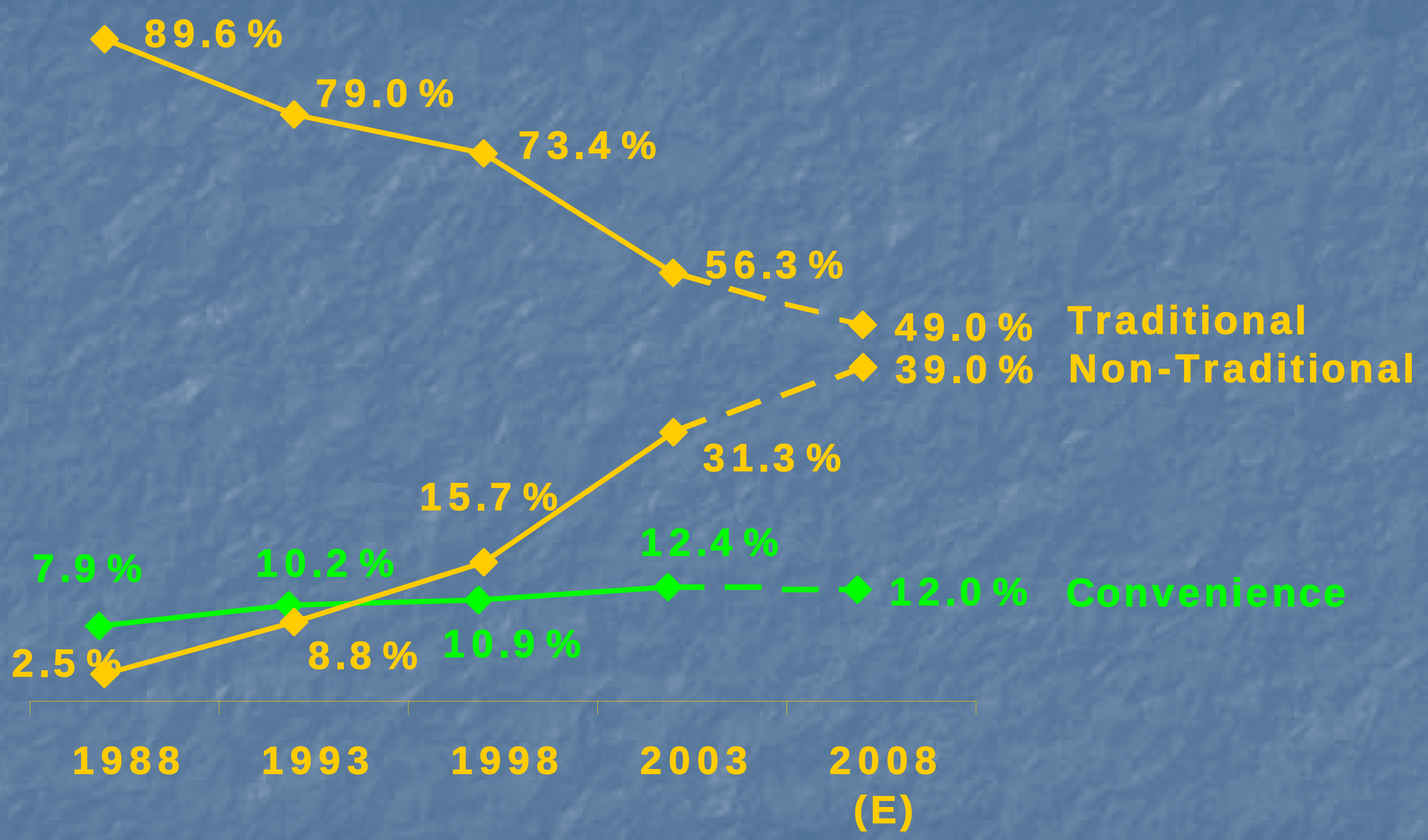
- Plan shopping; use lists
- Look for specials
- Compare prices
- Redeem coupons
- Buy store brands: store brands up; being emphasized as a source of competitive advantage by retailers
- Stock up when product is on deal

Store Formats - Definitions

Store formats consist of three major groups:

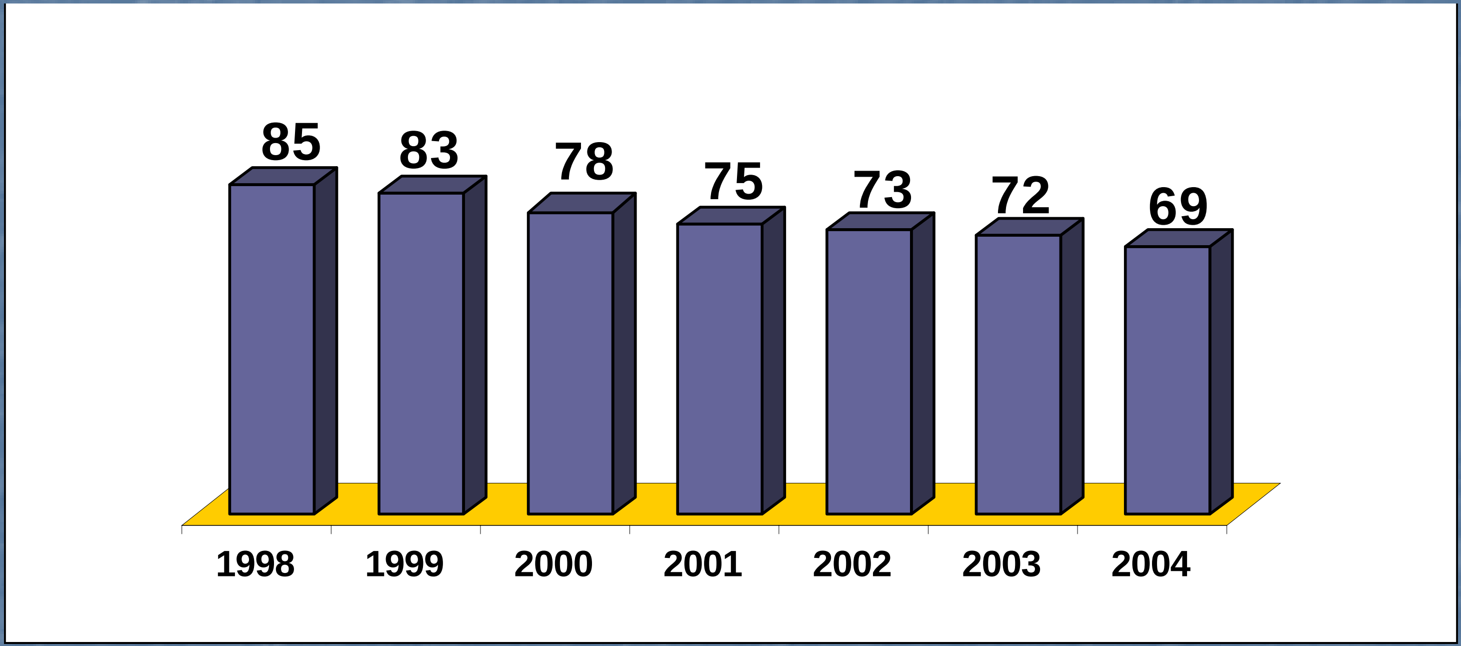
- Traditional – At least 65% of sales from grocery and consumables
  - Conventional
  - Superstore
  - Food/Drug Combo
  - Limited Assortment
  - Super Warehouse
  - Other (Small Grocery)
- Non-Traditional – Less than 65% of sales from grocery and consumables
  - Wholesale Clubs
  - Dollar Stores
  - Mass Merch
  - Supercenters
  - Drug Stores
  - Military
- Convenience – Small, high-margin stores selling primarily major brand grocery and consumables, developed DSD categories

Share of Grocery and Consumables



Supermarkets Are Struggling

Supermarket Trips
(Per Household, Per Year)



Source: ACNielsen, "Channel Blurring."

Winn-Dixie is the latest is a series of bankruptcy filings

Food Retail Landscape Evolves

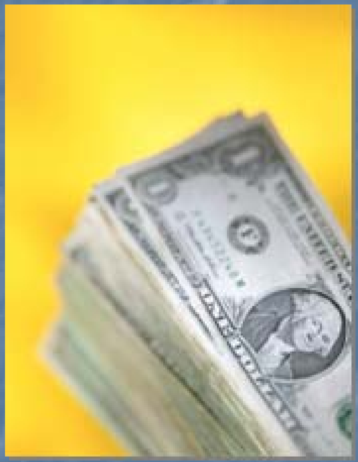
- Traditional grocery store formats will account for less than 50% of the grocery and consumables market by 2008, losing share to non-traditional formats.
- Supercenters to grow 6 share points by 2008 representing 17% of the total market resulting from their strong price advantage over traditional formats.
- Dollar stores are projected to double their share of grocery and consumables through aggressive store openings, increased customer penetration and a growing emphasis on food SKU's.

Food Retail Landscape Evolves

- Drug stores benefiting from an aging population and an emphasis on driving front end sales.
- Clubs continue to grow
- Two bright spots exist within traditional grocery formats: Limited-Assortment stores and a growing subset within the Conventional format have carved out their own unique niche and are growing.

Lifestyle Needs Impacting Grocery Shopping

- Supermarkets must focus more attention on shopper needs and less on comparisons with competition.



Money **Time** **Self Care** **Care for Family**

Source: Willard Bishop Consulting

Consumer Pressures are Forcing Shopper Needs to Evolve

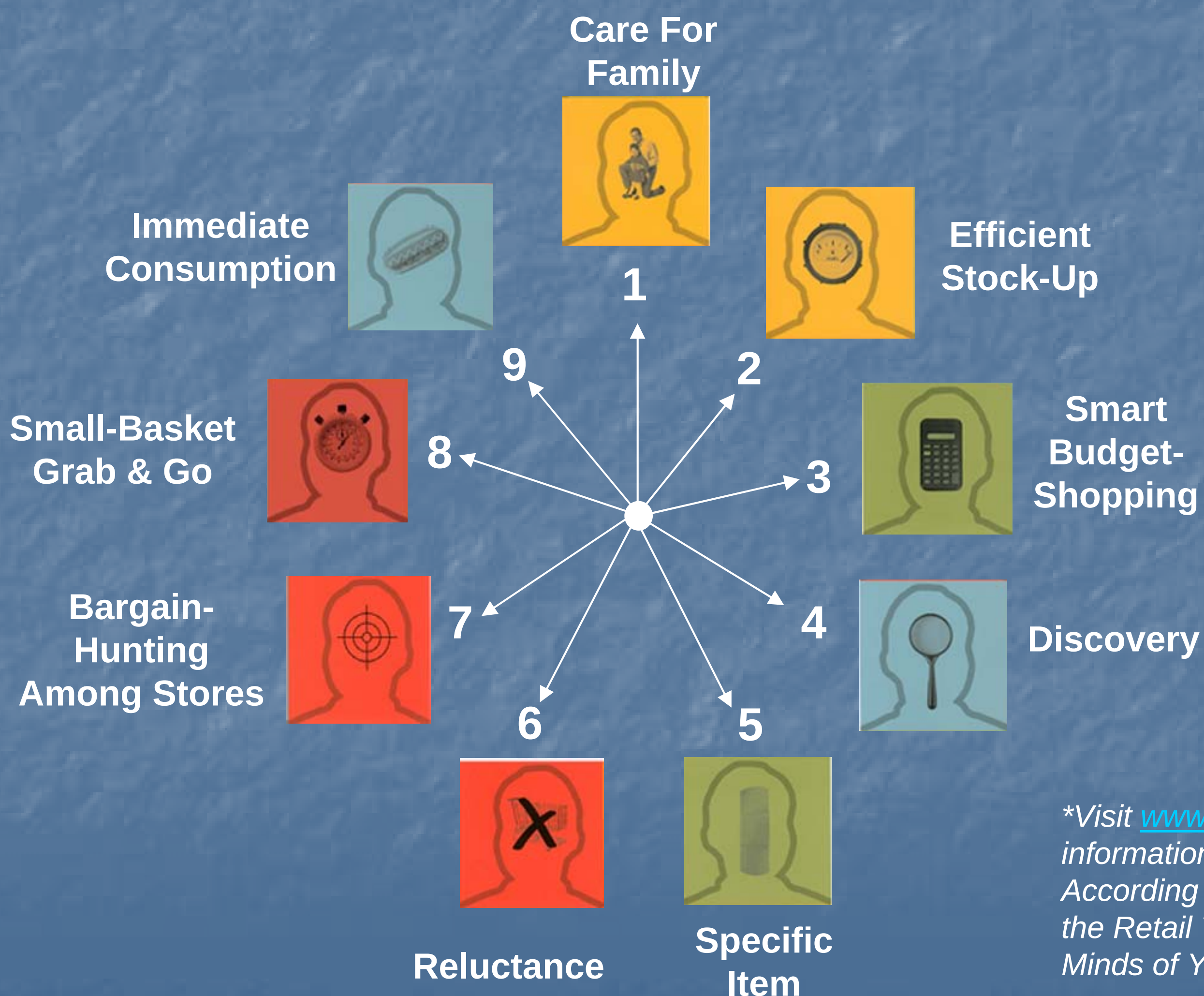
Trends Driving Shopping Patterns Among Consumers

- Money
- Time
- Personal
- Family

Traditional Shopping Occasions	New Shopping Occasions	% of Grocery Spend
Stock-Up	Care for Family	27%
	Smart Budget-Shopping	18%
	Efficient Stock-up	16%
	Discovery	9%
Fill-In	Bargain-Hunting	10%
	Specific Item	9%
	Reluctance	4%
Quick Mission	Grab & Go	5%
	Immediate Consumption	2%

Nine Shopping Occasions and Channel Choice

The New Focus on Shopping Occasions



**Visit www.ccrrc.org for more information on "The World According to Shoppers" study and the Retail Tool, "Getting Inside the Minds of Your Shopper"*

How Have Food Retailers Responded?

- Cleanliness is still the number one factor in choosing a supermarket!
- Understand what drives value (Don't get "Stuck in the Middle")
- Store brands and brand the store
- Rebuild the center of the store: merchandising, in-store promotions
- Make shopping an enjoyable experience
- "Think global, act local" with fresh food, emphasis on the local agricultural community; markets for the "neighborhood"
- Be a solutions provider

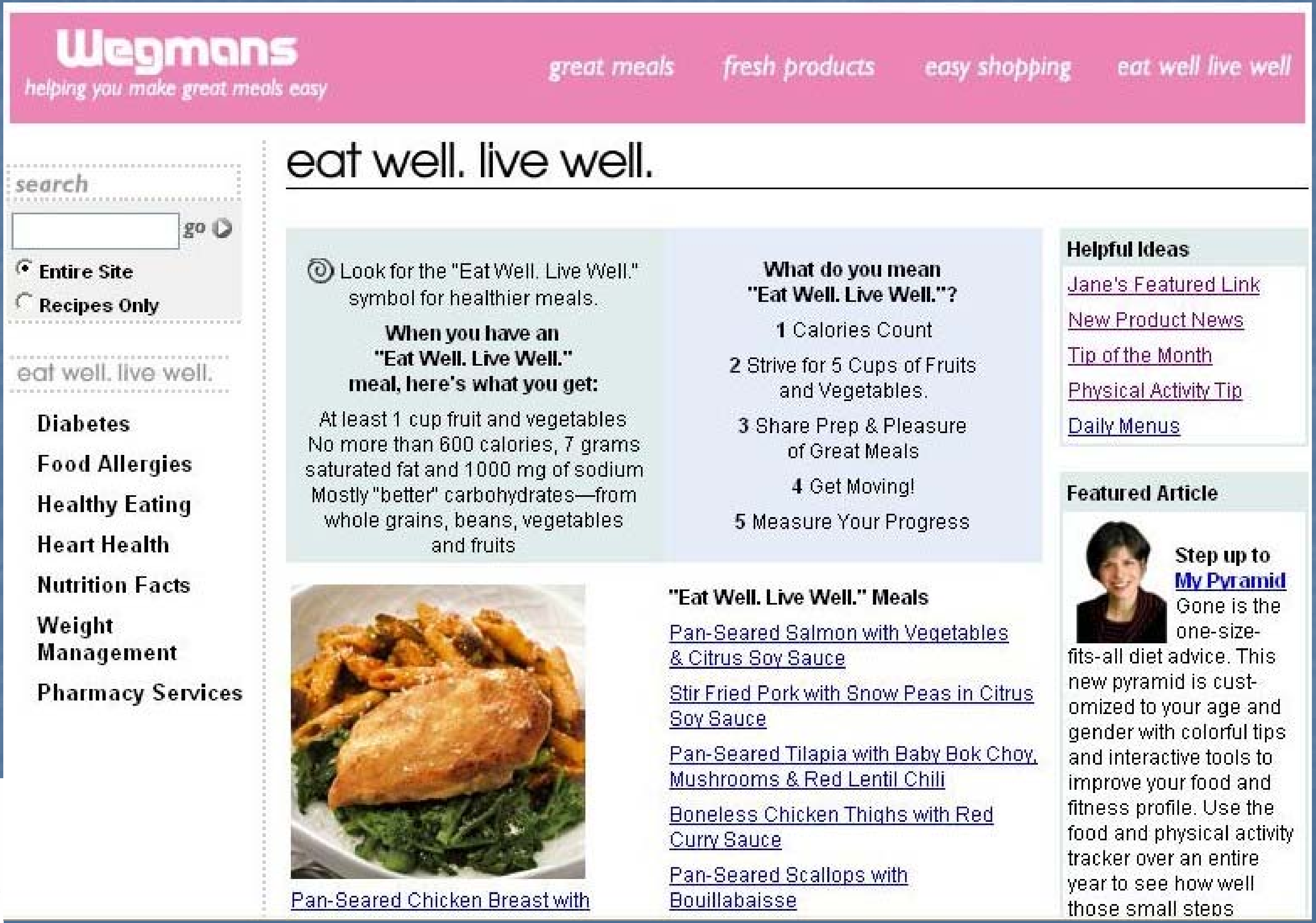
Be a Solutions Provider

Be a Solutions Provider

Kroger publishes

"Optimum Wellness," which features natural and organic products, and nutritional supplements

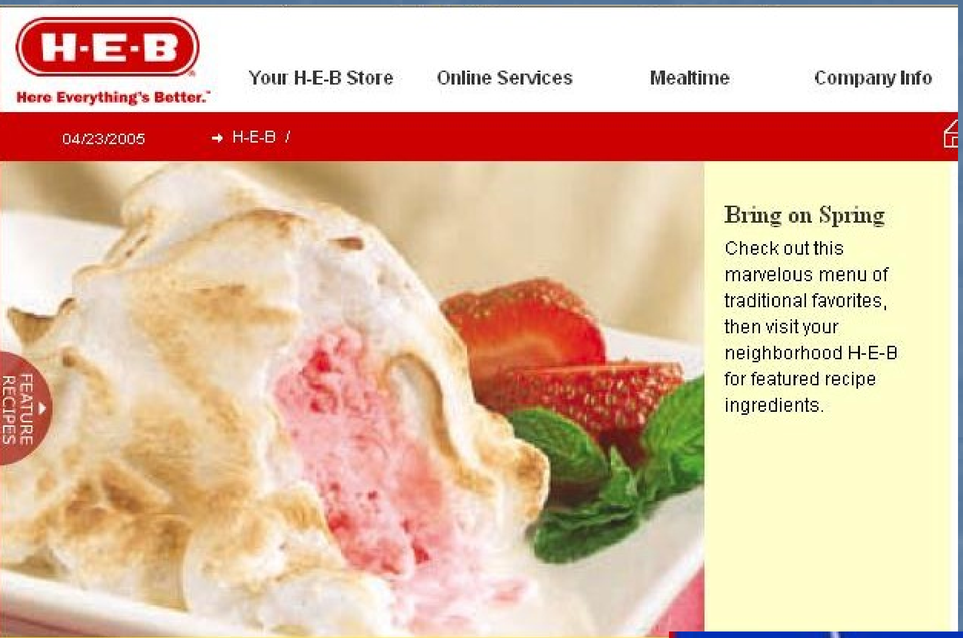
Wegman's


Wegmans
helping you make great meals easy
great meals
fresh products
easy shopping
eat well live well
search
go
Entire Site
Recipes Only
eat well. live well.
Diabetes
Food Allergies
Healthy Eating
Heart Health
Nutrition Facts
Weight Management
Pharmacy Services
eat well. live well.
Look for the "Eat Well. Live Well." symbol for healthier meals.
When you have an "Eat Well. Live Well." meal, here's what you get:
At least 1 cup fruit and vegetables
No more than 600 calories, 7 grams saturated fat and 1000 mg of sodium
Mostly "better" carbohydrates—from whole grains, beans, vegetables and fruits
What do you mean "Eat Well. Live Well."?
1 Calories Count
2 Strive for 5 Cups of Fruits and Vegetables.
3 Share Prep & Pleasure of Great Meals
4 Get Moving!
5 Measure Your Progress
Helpful Ideas
Jane's Featured Link
New Product News
Tip of the Month
Physical Activity Tip
Daily Menus
Featured Article
Step up to My Pyramid
Gone is the one-size-fits-all diet advice. This new pyramid is customized to your age and gender with colorful tips and interactive tools to improve your food and fitness profile. Use the food and physical activity tracker over an entire year to see how well those small steps
"Eat Well. Live Well." Meals
Pan-Seared Salmon with Vegetables & Citrus Soy Sauce
Stir Fried Pork with Snow Peas in Citrus Soy Sauce
Pan-Seared Tilapia with Baby Bok Choy, Mushrooms & Red Lentil Chili
Boneless Chicken Thighs with Red Curry Sauce
Pan-Seared Scallops with Bouillabaisse
Pan-Seared Chicken Breast with

Wegman's

- Operates 27 W-Kids Fun Centers
  - Kids 3-8 can make arts and crafts, read, and cook in a toy kitchen while parents shop
- Makes its own line of kids' foods such as fish-shaped pasta and animal crackers
- Offers cake decorating on Mother's and Father's Day, and breakfast with Santa Clause and the Easter Bunny
- Participates in community service programs such as Toys for Tots and Kids' Cafes which feeds needy children

H-E-B in Texas: “We’re the Local Guy”



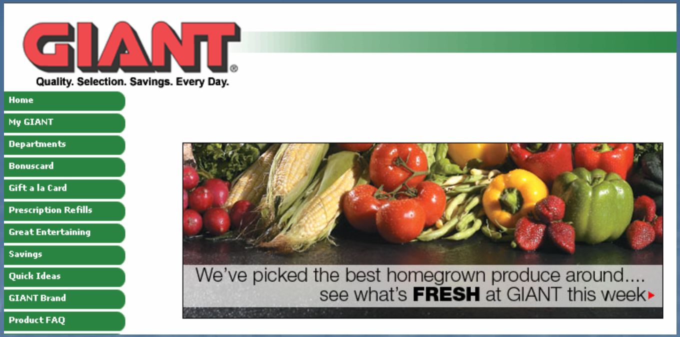
Strong appeal to the Hispanic shopper: “Their brands and perishables”

H-E-B’s Central Market:

A gourmet store that appeals to “foodies”

Branded products include rubbing alcohol with moisturizers

Giant Carlisle



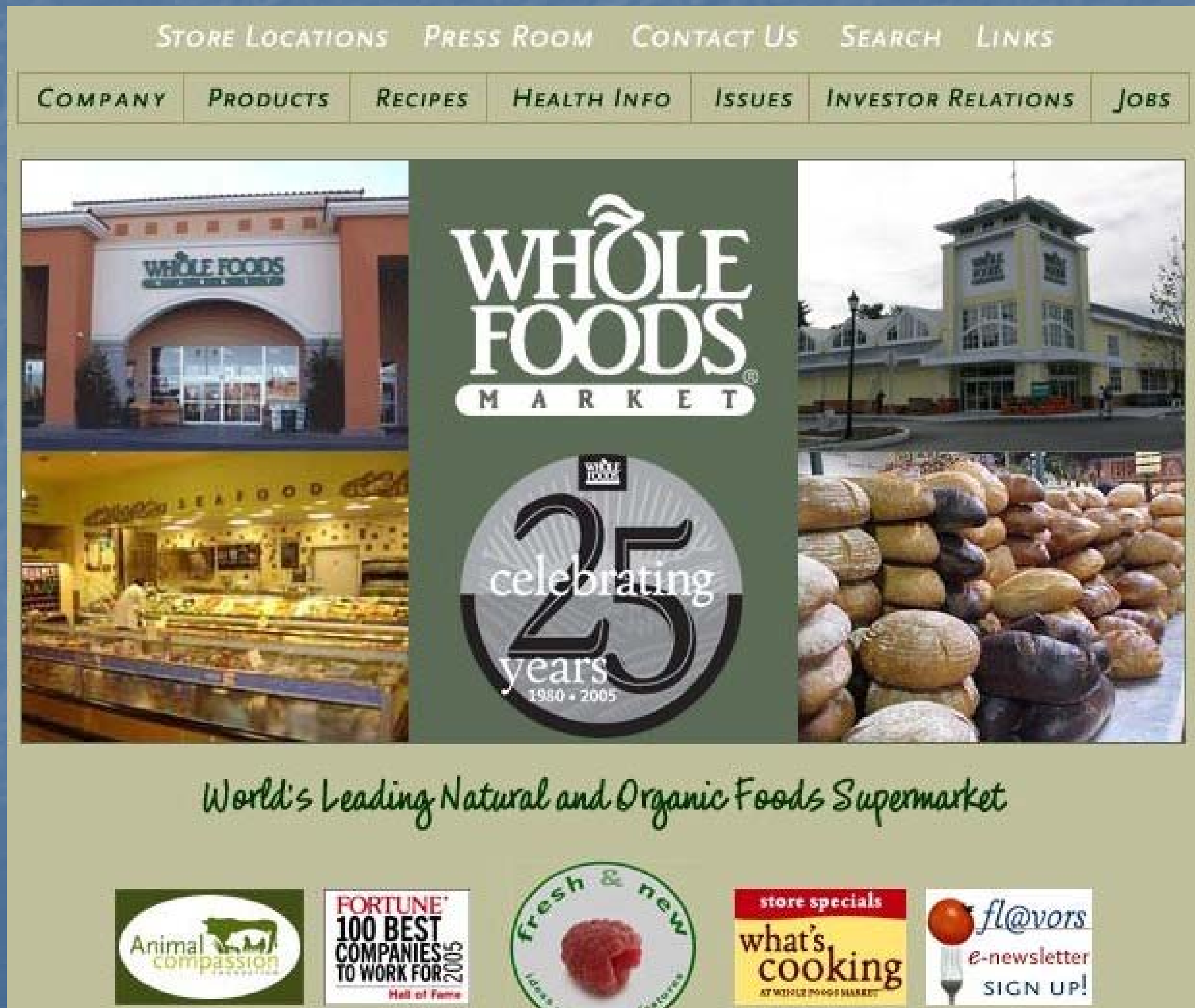
- "Our theory is to really get the customers' visual attention on the way in."

  Tony Schiano, president.

- Major emphasis on fresh and organic
  - Walter, the fictitious produce expert

    When people ask where Walter is, we say "he's out in the fields getting the best product."
- Design, décor and food

Natural and Organic

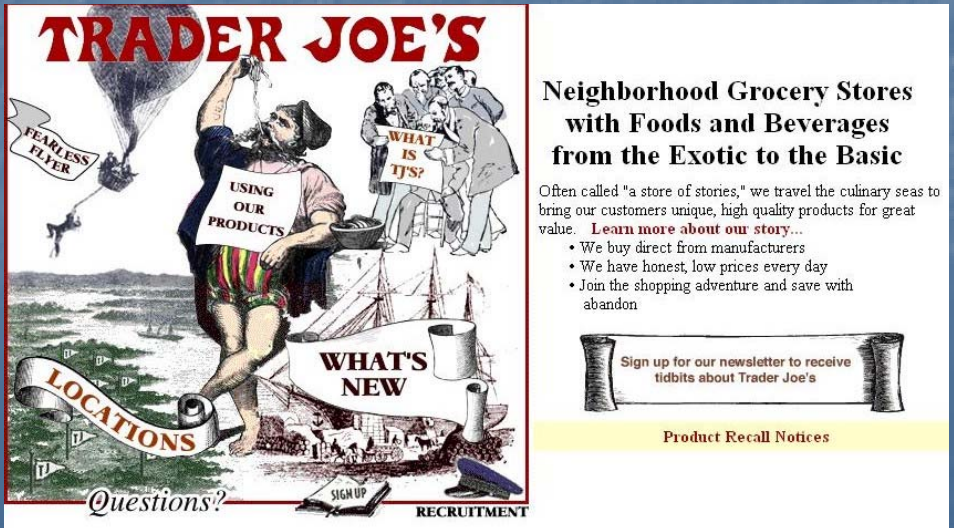


Safeway’s New Positioning

- “Ingredients for Life”
  - Highest quality produce and other fresh items
    - “Sweetest of the Season” guaranteed sweet produce; “Rancher’s Reserve tender beef
  - Proprietary store brands
  - Prepared meals
    - Signature soups and sandwiches
  - Superior customer service
  - “Lifestyle” format store: inviting décor with warm ambiance
    - Natural and organic foods, floral design centers, sushi bars

Trader Joe's

- Small footprint, limited inventory
- Demographic focus; connect with customers
- Shopping experience… "cache"
- Healthy, gourmet, specialty foods
- Lots of private label
- Work with smaller processors, no slotting fees
- Tight cost controls yield competitive prices



Limited Assortment Stores

Home Delivery

- Operators such as Albertson's and Safeway have moved to a "Clicks and Bricks" model featuring on-line ordering, selection in-store and home delivery.
- Ahold purchased Peapod which is growing in the Boston Market for Stop & Shop and other areas in the U.S.

Thanks for your attention!

Any Questions?

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