How the Changing Consumer Drives Food Retailing Strategy and Structure

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Philadelphia
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

- Changing household structure and roles
  - Smaller households
  - Working moms, single moms, etc., etc.

- 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

Growth of Smaller Households

<table>
<thead>
<tr>
<th>Size of households (by age)</th>
<th>&lt;33</th>
<th>33-52</th>
<th>52+</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Live alone</td>
<td>4.2%</td>
<td>6.6%</td>
<td>11.6%</td>
<td>22.4%</td>
</tr>
<tr>
<td>Married/no children</td>
<td>3.0%</td>
<td>9.0%</td>
<td>20.4%</td>
<td>32.4%</td>
</tr>
<tr>
<td>Married w/children</td>
<td>8.4%</td>
<td>15.9%</td>
<td>1.1%</td>
<td>25.4%</td>
</tr>
<tr>
<td>Other families</td>
<td>4.5%</td>
<td>6.8%</td>
<td>4.1%</td>
<td>15.4%</td>
</tr>
<tr>
<td>Other households</td>
<td>2.1%</td>
<td>1.5%</td>
<td>0.8%</td>
<td>4.4%</td>
</tr>
</tbody>
</table>

20+ million additional people over age 50
Taste is first; everything else is second!

**NEW TASTE BENEFITS PARAMOUNT!**

**Distinctive Flavor Innovations, Textures & Recipes**

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>1995-96</td>
<td>63%</td>
<td>68%</td>
<td>78%</td>
<td>96%</td>
<td>92%</td>
<td>88%</td>
</tr>
<tr>
<td>Number of Pacesetters</td>
<td>102</td>
<td>87</td>
<td>91</td>
<td>95</td>
<td>120</td>
<td>126</td>
</tr>
</tbody>
</table>

Percent/Number of New Product Food Pacesetters with Taste/Flavor/Texture/Recipe Benefits
Source: IRI’s Annual New Product Pacesetters Reports
I select foods based primarily of Nutritional content. Taste is more important than health.

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

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

<table>
<thead>
<tr>
<th>Type of ethnic food</th>
<th>% in 2001</th>
<th>% in 2002</th>
<th>Difference (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Italian</td>
<td>73</td>
<td>81</td>
<td>8</td>
</tr>
<tr>
<td>Mexican</td>
<td>65</td>
<td>72</td>
<td>7</td>
</tr>
<tr>
<td>Chinese</td>
<td>67</td>
<td>67</td>
<td>0</td>
</tr>
<tr>
<td>Japanese</td>
<td>16</td>
<td>20</td>
<td>4</td>
</tr>
<tr>
<td>German</td>
<td>16</td>
<td>18</td>
<td>3</td>
</tr>
<tr>
<td>Greek</td>
<td>14</td>
<td>16</td>
<td>2</td>
</tr>
<tr>
<td>Thai</td>
<td>12</td>
<td>16</td>
<td>4</td>
</tr>
<tr>
<td>Indian</td>
<td>8</td>
<td>11</td>
<td>3</td>
</tr>
<tr>
<td>Middle Eastern</td>
<td>6</td>
<td>8</td>
<td>2</td>
</tr>
</tbody>
</table>
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% say 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

- Asthma: 38.40%
- Menopausal Issues: 41.30%
- Prostate Issues: 42.70%
- Chronic Fatigue Syndrome: 47.10%
- Depression: 51.90%
- Intestinal Irregularity: 55.70%
- Acid Reflux/Heartburn: 62.90%
- Diabetes: 63.30%
- Skin Problems: 63.60%
- Memory/Concentration: 65.90%
- Stress Related Problems: 68.60%
- Frequent Cold and Flu: 69.90%
- Lack of Energy: 71.70%
- Osteoporosis: 71.70%
- Obesity/Overweight: 75.60%
- Arthritis/Joint Disease: 76.20%
- Vision Problems: 78.90%
- High Cholesterol: 79.10%
- High Blood Pressure: 79.20%
- Cancer: 80.70%
- Heart Disease: 91.50%

Source: NMI, 2003
### Eating for Health

<table>
<thead>
<tr>
<th>Condition</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Heart disease</td>
<td>81.6%</td>
</tr>
<tr>
<td>Cancer</td>
<td>80.7%</td>
</tr>
<tr>
<td>High blood pressure</td>
<td>79.2%</td>
</tr>
<tr>
<td>High cholesterol</td>
<td>78.1%</td>
</tr>
<tr>
<td>Vision problems</td>
<td>76.9%</td>
</tr>
<tr>
<td>Arthritis/joint disease</td>
<td>76.2%</td>
</tr>
<tr>
<td>Obesity/overweight</td>
<td>76.6%</td>
</tr>
<tr>
<td>Osteoporosis</td>
<td>71.7%</td>
</tr>
<tr>
<td>Lack of energy</td>
<td>71.7%</td>
</tr>
<tr>
<td>Frequent cold and flu</td>
<td>69.9%</td>
</tr>
<tr>
<td>Stress-related probs</td>
<td>68.6%</td>
</tr>
<tr>
<td>Memory/concentration</td>
<td>65.9%</td>
</tr>
<tr>
<td>Skin problems</td>
<td>63.6%</td>
</tr>
<tr>
<td>Diabetes</td>
<td>63.3%</td>
</tr>
<tr>
<td>Acid reflux/heartburn</td>
<td>62.9%</td>
</tr>
<tr>
<td>Intestinal irregularity</td>
<td>56.7%</td>
</tr>
<tr>
<td>Depression</td>
<td>51.9%</td>
</tr>
<tr>
<td>Chronic fatigue syndrome</td>
<td>47.1%</td>
</tr>
<tr>
<td>Prostate issues</td>
<td>42.7%</td>
</tr>
<tr>
<td>Menopausal issues</td>
<td>41.3%</td>
</tr>
<tr>
<td>Asthma</td>
<td>38.4%</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Category</th>
<th>Servings per capita per day</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grains</td>
<td>10.6</td>
</tr>
<tr>
<td></td>
<td>9.0</td>
</tr>
<tr>
<td>Vegetables</td>
<td>3.8</td>
</tr>
<tr>
<td></td>
<td>4.0</td>
</tr>
<tr>
<td>Fruit</td>
<td>1.4</td>
</tr>
<tr>
<td></td>
<td>3.0</td>
</tr>
<tr>
<td>Dairy</td>
<td>1.6</td>
</tr>
<tr>
<td></td>
<td>2.2</td>
</tr>
<tr>
<td>Ounces</td>
<td>6.2</td>
</tr>
<tr>
<td></td>
<td>6.0</td>
</tr>
<tr>
<td>Meat</td>
<td>65</td>
</tr>
<tr>
<td></td>
<td>41</td>
</tr>
<tr>
<td>Added fats(^2)</td>
<td>31</td>
</tr>
<tr>
<td></td>
<td>12</td>
</tr>
<tr>
<td>Added sugars</td>
<td>31</td>
</tr>
<tr>
<td></td>
<td>12</td>
</tr>
</tbody>
</table>

\(^1\)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 58-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)
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
- **Non-Traditional** – Less than 65% of sales from grocery and consumables
  - Wholesale Clubs
  - Dollar Stores
  - Mass Merch
- **Convenience** – Small, high-margin stores selling primarily major brand grocery and consumables, developed DSD categories
  - Limited Assortment
  - Super Warehouse
  - Other (Small Grocery)
  - Supercenters
  - Drug Stores
  - Military
Supermarkets Are Struggling

Supermarket Trips
(Per Household, Per Year)

Source: ACNielsen, “Channel Blurring.”

Winn-Dixie is the latest in 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 are projected 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

- Stock-Up
- Fill-In
- Quick Mission

New Shopping Occasions

- Care for Family: 27%
- Smart Budget-Shopping: 18%
- Efficient Stock-up: 16%
- Discovery: 9%
- Bargain-Hunting: 10%
- Specific Item: 9%
- Reluctance: 4%
- Grab & Go: 5%
- Immediate Consumption: 2%

% of Grocery Spend
Nine Shopping Occasions and Channel Choice

The New Focus on Shopping Occasions

1. Care For Family
2. Efficient Stock-Up
3. Smart Budget-Shopping
4. Discovery
5. Specific Item
6. Reluctance
7. Bargain-Hunting Among Stores
8. Small-Basket Grab & Go
9. Immediate Consumption

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
Kroger publishes “Optimum Wellness,” which features natural and organic products, and nutritional supplements.
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

"Eat Well. Live Well." Meals

- Pan-Seared Salmon with Vegetables & Citrus Soy Sauce
- Stir Fry 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

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...
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

Nature’s Harvest is good health, new ideas, nutritious foods, natural products and a wealth of information all in one convenient location.

Available at select H-E-B stores, Nature’s Harvest is the easiest way to bring balance into your life.

From sumptuous soaps and body care products, to organic cereal and homeopathic remedies, you’ll find new and exciting products around every corner with Nature’s Harvest.

Nature’s Harvest Store Locations
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

World's Leading Natural and Organic Foods Supermarket
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
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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