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FMI THE VOICE OF FOOD RETAIL Feeding Families Enriching Lives

U.S. Grocery Shopping Trends 2014 Overview

Introduction

In 2014, FMI supplemented its year-over-year survey research perspective with a cultural lens, interviewing Americans in their homes and while shopping, and drawing upon an accumulation of ethnographic research into US food consumption and consumers.

The aim was to better understand why individual food shoppers make the decisions they do, and how their attitudes and piecemeal behaviors translate into large-scale shifts that affect supermarket revenues and growth. Analysis this year therefore examined a more **food-relevant context**, and introduced some new angles for understanding **retail industry dynamics**.

Methodology

Qualitative:

- 5 in-depth, one-on-one interviews with 5 consumers in the Seattle area, with 3-hour tours of home kitchens, eating and food-storage areas, and shop-along interviews in frequented food retail locations
- Group interview with 5 participants
- 10 additional consumers from around the US, who completed journaling and photo-collage homework exercises prior to debriefing
- 2013-2014 Hartman Group ethnographic research into eating and shopping.

Quantitative:

- Survey fielded to n=2,116 US primary shoppers, 18-74 years old
- 25-minute online questionnaire, with sample obtained via Harris Online research panel
- Split sample to cover wider range of topics, with each sub-sample n>1,050
- Additional analysis was conducted of previous FMI survey data, US Census and USDA data sets on consumer spending, health and eating, and of Hartman Group 2013 Compass data.

INTRODUCING A MORE FOOD-RELEVANT CONTEXT

From Macro Trends to Eating and Food Shopping Today

The current state of the food retailing sector is a reflection of long-term fundamental changes in the way Americans eat and procure food.

- Today's eating and shopping behaviors are inexorably linked and exist within the context of modern food culture
- Modern food culture, which influences and prioritizes when, where, what, and (with) who(m) we eat and drink, in turn is a reflection of long-term economic, social, and cultural forces shaping America

INTRODUCING A MORE FOOD-RELEVANT CONTEXT

Macro Trends Affecting Food Culture Today

- Consumers are becoming more engaged and more powerful in the world of food than ever before
- Social media has changed consumer food behavior
- Consumers will be expecting more from their food, and from the companies providing it
- Consumers will increasingly shed the constraints of traditional foods and old loyalties
- As consumers become more involved with the food they're eating, they'll become less involved in cooking it
- Consumer households are becoming more democratic when it comes to decisions regarding food

Source: Hartman Group Trends Research, 2014.

INTRODUCING A MORE FOOD-RELEVANT CONTEXT

Modern Food Culture Today

Traditional Culture

clear societal roles | hierarchy | class-based identity | focus on basic needs | production-driven economy | uniformity

Traditional Eating Culture

product = predictable

cooking = chore

brand interaction = transactional

engagement = low

Modern Culture

social networks | values in flux | malleable identity | creation | co-design | customization | self-expression | design

Modern Eating Culture

product = distinct

cooking = discovery

brand interaction = playful

engagement = YOU CHOOSE

Source: Hartman Group Trends Research, 2014.

INTRODUCING A MORE FOOD-RELEVANT CONTEXT

The Fragmentation of Food Culture

Who is present at the proverbial table is up for grabs

We eat on the fly and eat fluidly – based on whims and cravings

There are fewer rules about what to eat and drink

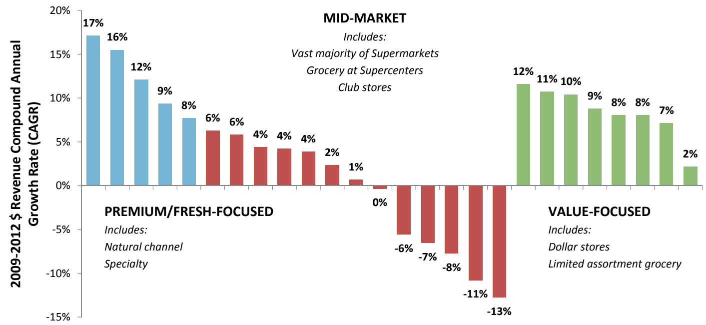
Eating is happening anywhere and everywhere

We still "assemble" meals, but we outsource much of our cooking

Source: Hartman Group Modern Eating Report, 2013.

INTRODUCING A NEW ANGLE ON INDUSTRY DYNAMICS

Mainstream Grocery Retailers Face Strong Competitive Pressures From More Specialized Stores



Premium/fresh-focused retailers: Positioned strongly around natural or other fresh-as-quality distinctions. Have tended to attract shoppers with college degrees and higher income (above $100k/year), deterring shoppers with less education and low incomes (<$35k/year).

Mid-market retailers:
Tend to have achieved scale by addressing mass needs, rather than wholly positioned around low prices or premium-fresh distinctions. Attract relatively diverse shopper base rather than indexing strongly and consistently towards/against low/high income or education.

Value-focused food retailers:
Positioned almost entirely around low prices. Have tended to attract (index high for) shoppers with lower education, lower income (below $35k/year), and deter (low index for) shoppers $100k+ with college degree.

Source: Profile of past-30-day shoppers from FMI U.S. Grocery Shopper Trends 2014. U.S. Sales data from Stores.org's "Annual Top 100 Retailers"; 2013 8-and 10K reports (for two upmarket companies); calculations and analysis by The Hartman Group.

VIDEO

Key Findings, 2014

This year’s study has illuminated several important shifts in the consumer universe:

1) A diversification of the “**primary store**” as a touchstone of shopper behavior
2) A fragmentation of the “**primary shopper**” role within households
3) A generational transformation in what “**planning**” means to food shoppers
4) A re-orientation of consumer attitudes around **wellness**, with fresh taking a center stage
5) An opening for food retailers as shoppers seek **trusted** allies to help them navigate food and wellness

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01

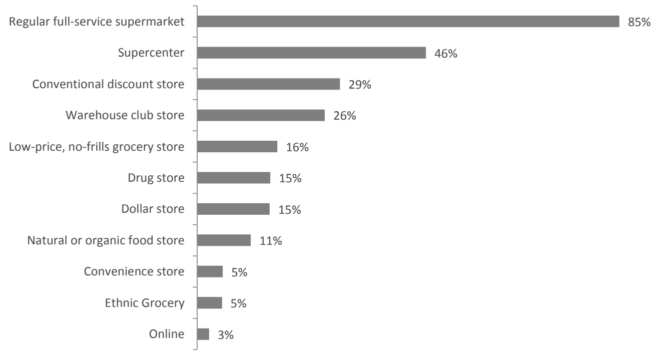
Diversification of the Primary Store

1 – DIVERSIFICATION OF PRIMARY STORE

Shoppers Take Advantage Of A Diverse Food Retail Landscape To Meet Their Eating Needs

While traditional supermarkets remain the most frequented food retail location, consumers are taking full advantage of the multitude of specialized options available for food purchases.

Channels Used Regularly



Beyond even the diverse array of store banners, shoppers on average report using around **2.5** different channels at least fairly often

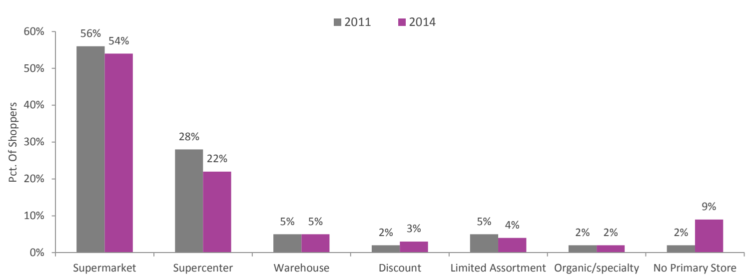
Source: FMI U.S. Grocery Shopper Trends, 2014. Regularly = at least "fairly often" n=2116.

1 – DIVERSIFICATION OF PRIMARY STORE

Loyalty To A Single "Primary Store" Is Giving Way To A Diversity Of Stores

As of 2014 the Supercenter channel has given up much of the slow gains it had made in the previous decade as the shopper's choice of primary store. This drop in Supercenter as primary store has not played out as a gain for Supermarkets, or for other channels for that matter.

Channel of Primary Store



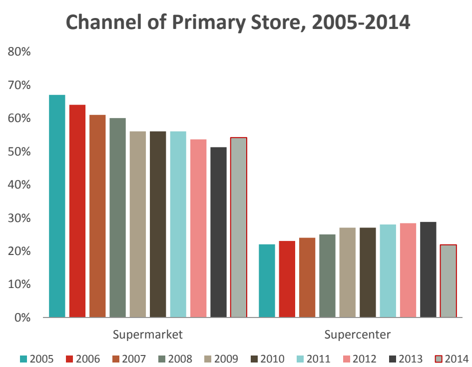
Shoppers this past year have been more likely to withdraw from the idea and practice of a primary store altogether.

Source: FMI U.S. Grocery Shopper Trends, 2005-2014. 2014 n=2116.

1 – DIVERSIFICATION OF PRIMARY STORE

For Years, Shoppers Have Migrated Their Loyalty To Channels Better Aligned With Their Specific Needs

A steady climb in shopper satisfaction with their primary store was likely a reflection of a "sorting effect": With more retail formats available, shoppers moved to the retailers that best fit their specific needs, not necessarily stores that tended to get higher ratings from other shoppers.



The slight decline in overall satisfaction over the last few years is a reflection of how consumers are now increasingly dividing their spending across retailers.

Source: FMI U.S. Grocery Shopper Trends, 2005-2014, 2012 estimated via interpolation. At right, rating of primary grocery store Scale 1-10, where 10 is best ("Excellent")

Polling Question #1

Across 16 grocery categories, which type of retailer saw the greatest numbers of increases in shoppers using the retailer as the preferred destination for category purchase?

1) Mid-market retailers
2) Up-market retailers
3) Down-market retailers

1 – DIVERSIFICATION OF PRIMARY STORE

Consumers Are Dividing Their Spending Across Retailers, Choosing Different Favorites In Each Grocery Category

Compared to 2011, in 2014 mid-market stores are *less likely* to be named as the primary purchasing venue in all of the 16 grocery categories tracked by FMI. Up-market retailers have *increased* their share of consumer loyalty across every category while down-market focused food retailers are more likely to be named as the go-to vendor in eight categories.

79% of shoppers say they usually get their frozen food from a mid-market retailer, down 7% since 2011 (86%)

10% of shoppers now say they usually buy their snacks from an up-market store, 4% more than in 2011 (6%)

Gains/Losses in Share of Shopper Preference by Store Category

Category	Mid-Market Retailers	Up-Market Retailers	Down-Market Retailers
Frozen food	↓	↑	↑
Breakfast cereals	↓	↑	↑
Natural or organic foods	↓	↑	↓
Fresh Produce	↓	↑	↑
Beverages	↓	↑	↑
Paper products	↓	↑	↓
Non-prescription drugs	↓	↑	↑
Household cleaning	↓	↑	↓
Snacks (chips, crackers, etc.)	↓	↑	↑
Pasta & Rice	↓	↑	↑
Canned goods	↓	↑	↑
Meat or poultry	↓	↑	↓
Health & beauty products	↓	↑	↓
Pet products	↓	↑	↓

Source: FMI U.S. Grocery Shopper Trends, 2011-2014. 2014 n varies depending on category =340-2030.

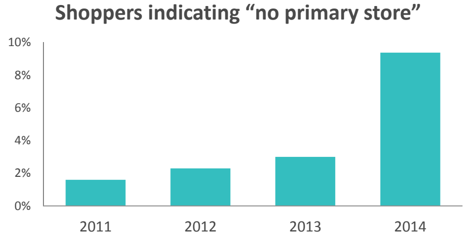
1 – DIVERSIFICATION OF PRIMARY STORE

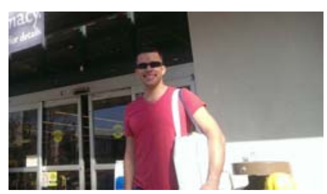
This Year, 9% Of Shoppers Indicate That They Have No One Primary Store - Triple That Of The Past Few Years

What appears to be driving these shifts is the dynamic of diversification -- shoppers are becoming less likely to choose any one store to satisfy all their needs. Shoppers are optimizing their satisfaction store by store and by department.

Media reports that shoppers have been “firing” their grocery stores miss the bigger story: *shoppers are now less likely to fire or hire whole stores at all*.

Shoppers indicating “no primary store”





“I like to be a savvy shopper, and since I live in an area with a lot of places spread out in a small area, I can go to a lot of places. Sometimes I’m just picking up food for that night or the next day. But I don’t do a whole excursion as much as I do smaller trips. I go to different places for different needs.” (Male, 42)

Source: FMI U.S. Grocery Shopper Trends, 2005-2014, 2012 estimated via interpolation.

02

Fragmentation of the Primary Shopper

2 – FRAGMENTATION OF THE PRIMARY SHOPPER

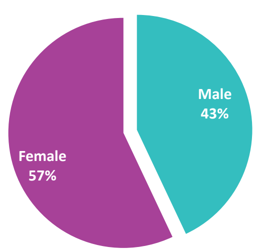
A Shared Role Of "Primary Shopper" Within Households Is Replacing A Singular Focus Of Food Purchases

For decades, the fact that women largely served as the primary shopper meant that retailers and producers had a relatively well-defined target around which to build product and services attributes. How times have changed….

Primary Food Shoppers by Gender

Female Primary Shoppers
76% claim to have all or most of grocery shopping responsibility

24 % claim to share at least 50% of responsibility



Male Primary Shoppers
57% claim to have all or most of grocery shopping responsibility

43% claim to share at least 50% of responsibility

Narrowing attention only to those adults with full responsibility for shopping would yield a primary-shopper base more aligned with conventional ideas of the female shopper, but would also entirely exclude a great many households and their new ways of shopping.

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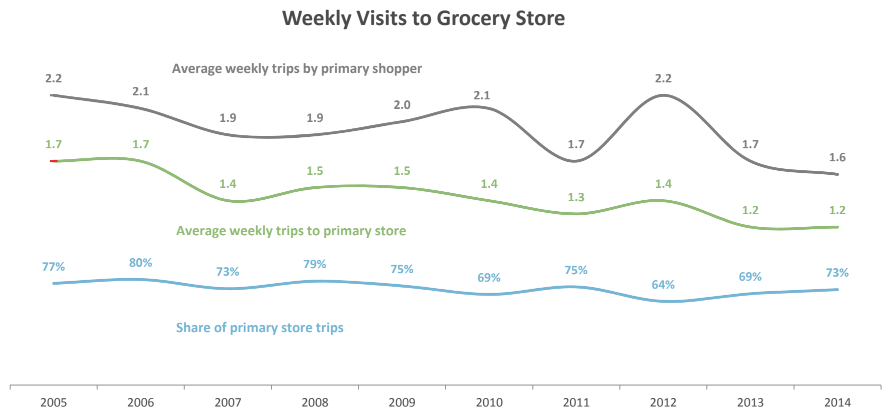
Source: FMI U.S. Grocery Shopper Trends, 2014 n=2116.

2 – FRAGMENTATION OF THE PRIMARY SHOPPER

More Diversity In Household Shoppers Leads To Fewer Trips For Any Single Shopper

While grocery visits by primary shoppers may be down, this likely reflects the diversification of shopping among household members, rather than a consolidation of purchases within visits.

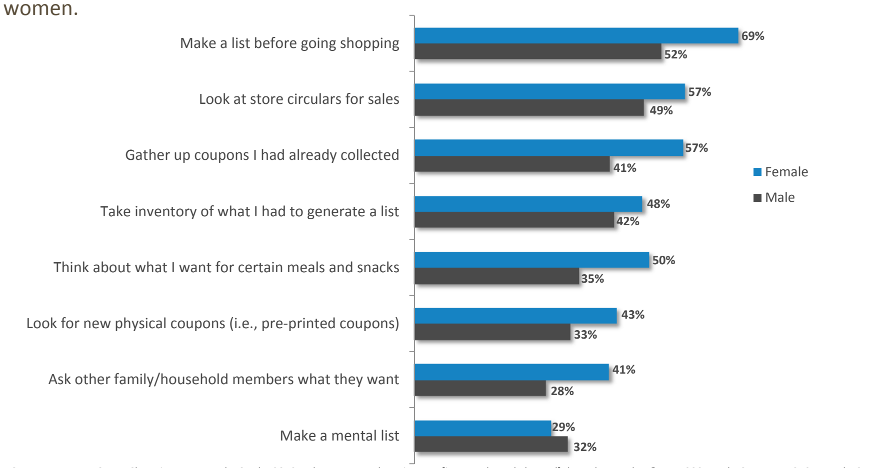


Source: FMI U.S. Grocery Shopper Trends, 2005-2014. n=2116-2014; n=1548-2013; n=1401-2012; n=2046-2011; n=2003-2010.

2 – FRAGMENTATION OF THE PRIMARY SHOPPER

Shared Shopping Roles Means Any One Shopper Understands Less About The Household's Total Shopping

The increasing number of men who qualify as shoppers - with their tendency to share, rather than wholly fulfill grocery-shopping responsibilities - means that primary shoppers themselves, if asked to report their own behaviors, each report on a smaller share of all household visits to grocery. Additionally, consideration needs to be given to the fact that men shop differently than women.



Source: Hartman Group Shopping Topography Study, 2012: When you are shopping at a [insert selected channel], how do you shop? N=1,900;; Male Grocery n=379; Female Grocery n=589

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August 7th @ 2pm EDT

Health and Wellness
August 12th @ 2pm EDT

The Millennial Shopper
August 19th @ 2pm EDT

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03

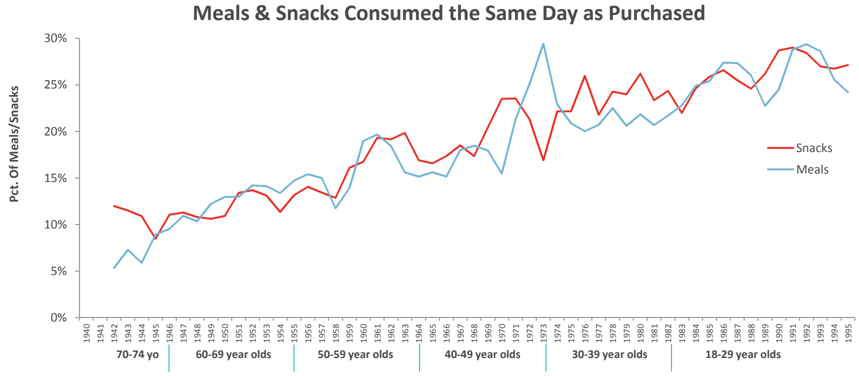
A Generational Transformation in Planning

3 – TRANSFORMATION OF "PLANNING"

Eating Is Spontaneous

Planned eating has made way for immediate and same-day consumption. Consumers want whatever food they want to be available whenever they want it, and shifts in the retail landscape mean these expectations are increasingly being met. Immediate consumption (consuming a product within an hour of purchase) is no longer relegated to snacks and planned restaurant meals, it's now a normal part of food management.

- More than one-fourth of all meals consumed by 20-somethings include items purchased earlier in the day.



Source: Hartman Compass, 2013, adult n=57,409 occasions

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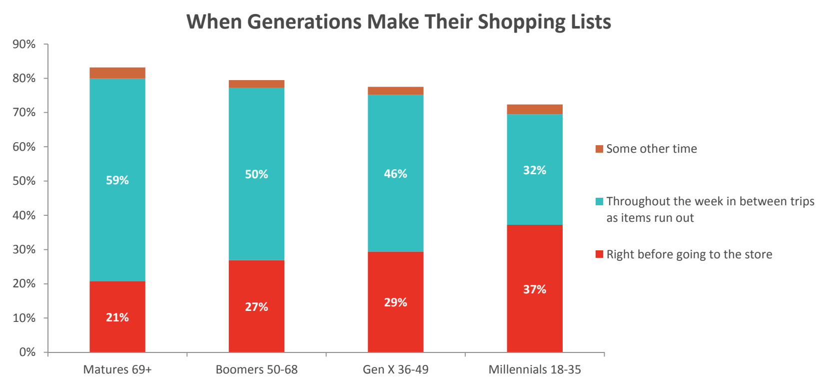
3 – TRANSFORMATION OF "PLANNING"

Young Adults Plan Less, But They Do Plan

Most shoppers build lists, but young adult shoppers wait until the last minute. How consumers plan for shopping occasions varies significantly by age group and has shifted along with macro-changes effecting eating culture.

- Shoppers aged 50 and over primarily build their lists throughout the week, monitoring what they have enough of and what's running low
- Although Millennials plan using lists, most create their lists right before going to the store



Source: FMI U.S. Grocery Shopper Trends, 2014. n=2116-Total; n=222-Matures 1945 and earlier; n=826-Baby Boomers 1946-1964.

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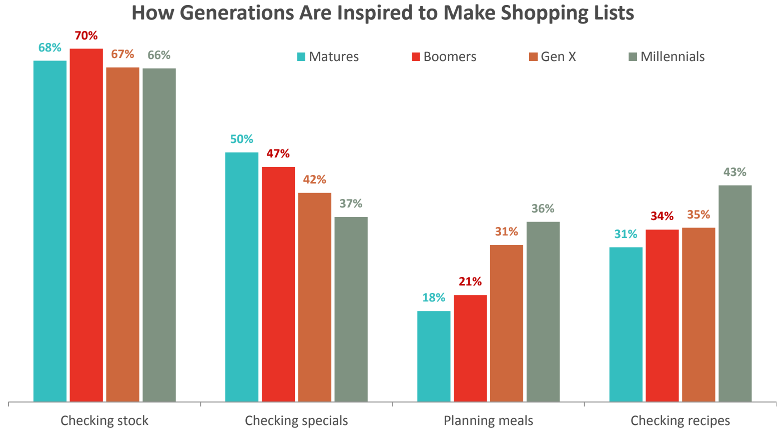
3 – TRANSFORMATION OF "PLANNING"

Millennials Plan Backwards From What They Want To Eat, Not What They Want To Keep In Stock At Home

For younger generations in particular, planning for a shopping trip is much more likely to be about building a meal or other eating occasion rather than stocking up the pantry with a list of basics and trusted items that a meal can be built from later.

How Generations Are Inspired to Make Shopping Lists



Source: FMI U.S. Grocery Shopper Trends, 2005-2014. 2014 n=2116.

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04

A Re-orientation of Consumer Attitudes around Wellness

Polling Question #2

Is your company emphasizing consumer wellness and family health as a competitive strategy?

1.) Yes

2.) No

3.) Don’t know

4 – REORIENTATION OF CONSUMER ATTITUDES AROUND WELLNESS

Culture Has Shifted from a Reactive to a Proactive Wellness Paradigm

Then…

REACTIVE HEALTH

"Do as I say!"

Condition management • Externally measured • Authoritative • Compliance • Crisis • Quick fixes • Control • Asceticism

Now…

PROACTIVE WELLNESS

"Know thyself"

Preventative • Internally validated • Self-assessed • Common sense • Holistic • Integrated • Balanced energy • Fun and enjoyment

29 Source: The Hartman Group Health + Wellness Reports, 2007-2013 n=2551-2013.

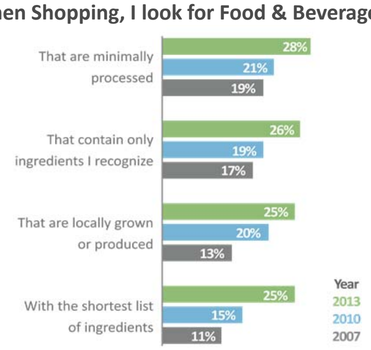
4 – REORIENTATION OF CONSUMER ATTITUDES AROUND WELLNESS

Wellness Is About A Higher Quality Of Life, Not Just Health And Nutrition As Conventionally Understood

Today, health and wellness has become a tacit part of modern food culture. No longer an alternative movement, health and wellness today is about a higher quality of life, for longer.

- Wellness culture – especially among young adults – has shifted away from disciplined regimes and towards flexible, less intentional activities
- Alongside conventional health/nutrition, consumers value "fresh," less processed as a primary marker of quality and wellness

When Shopping, I look for Food & Beverages…



Stacy, a single mom with two daughters, is trying to make changes in the way she and her family eat.

The family has been buying more fresh foods, including vegetables and fruits, ever since they brought their new blender home. With the blender, convenience has been the pathway to healthier (and more flavorful) eating.

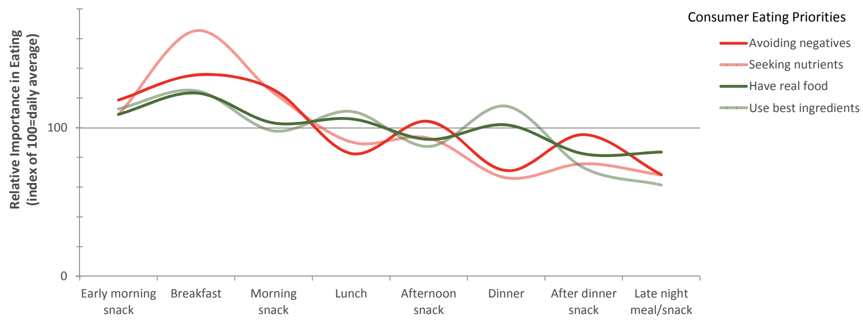
30 Source: The Hartman Group Health + Wellness Reports, 2007-2013 n=2551-2013; n=2744-2010; n=2978-2007.

4 – REORIENTATION OF CONSUMER ATTITUDES AROUND WELLNESS

Specific Wellness Priorities Vary Throughout The Day

The degree to which eaters incorporate their array of wellness-related priorities varies across the day.

Wellness-relevant dietary goals throughout the day



Lunch-time presents an interesting middle-ground, where conventional health and nutrition maintain their relevance – eaters still attend to their do's and don'ts – but might be satisfied through assurances of fresh and minimally processed

Source: Hartman Compass, 2012-2013, adults n=41,363 occasions. Vertical axis: Portion of each daypart in which priority is important, relative to all occasions throughout the day (index of 100 = average across day).

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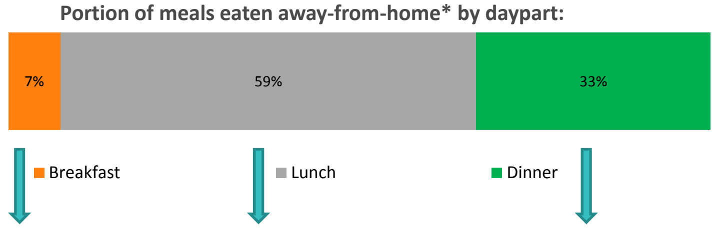
4 – REORIENTATION OF CONSUMER ATTITUDES AROUND WELLNESS

Away-from-home Meals Are Typically Sourced From Food Service, Even At Lunchtime Where Retail Is Best Positioned

Lunchtime is a clear area of opportunity for grocery stores – beyond simply the "packed lunch" crowd. Lunch accounts for more than half of all away-from-home meals, and if convenience priorities can be satisfied (e.g. speed, and away-from-home meal-prep), retailers are well-situated to address the midday mix of wellness needs.

Portion of meals eaten away-from-home* by daypart:



49% AFH breakfast sourced from foodservice

63% AFH lunch sourced from foodservice

90% AFH dinner from foodservice

Source: FMI U.S. Grocery Shopper Trends, 2014 *Away-from-home meals include those sourced from home, from foodservice and grocery, but eaten elsewhere

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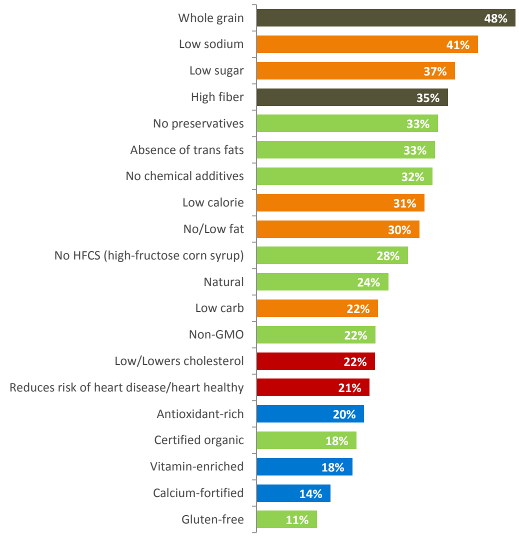
4 – REORIENTATION OF CONSUMER ATTITUDES AROUND WELLNESS

Shoppers Focus Their Attention on Front-of-Package Claims First, Then Flip Over for Detail

Shoppers tend to have sets of claims they seek in tandem, corresponding with underlying interests and values. Those who seek high fiber, for example, tend to be among those who seek whole grain. Those who seek low calories tend to among those who seek low sugar on the one hand and low carb on the other.

Seeking "Non-GMO" is the single strongest indicator of an underlying interest in minimal processing, cued by an array of alternative claims such as "Certified organic" or "No preservatives."

Claims sought by shoppers



Claim patterns identified via factor analysis*

- Good fiber
- Avoid negative ingredients
- Signs of minimal processing
- Heart health
- Positive nutrition

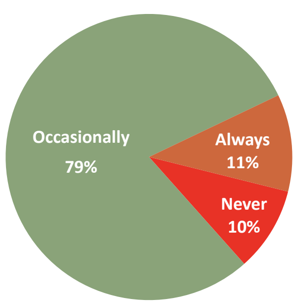
Source: FMI U.S. Grocery Shopper Trends, 2014. *Principal-axis factor analysis, Varimax rotation. N=1,081.

4 – REORIENTATION OF CONSUMER ATTITUDES AROUND WELLNESS

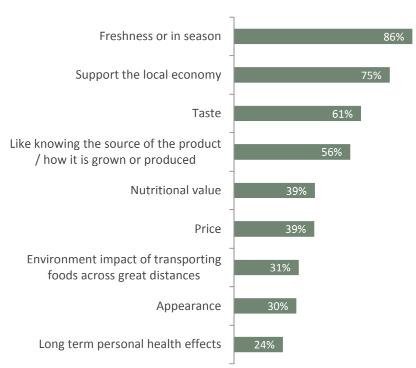
Locally sourced signals freshness and quality

The vast majority of consumers say they purchase locally grown products at least occasionally (90%). Consumers exhibit a level of inherent trust in the quality they associate with local products.

Frequency purchasing locally grown products



Reasons for buying locally grown at retail



Source: FMI U.S. Grocery Shopper Trends 2014, n=2116.

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05

Building Trust

5 – BUILDING TRUST

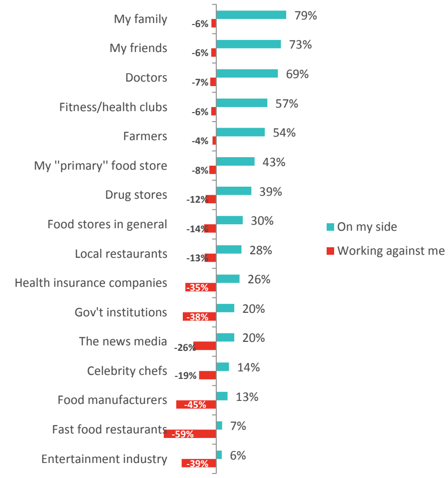
Food Retailers are Better Positioned than Government and Other Industry Players to Win and Leverage Consumer Trust Around Health & Wellness

The retailer relationship with consumers rests broadly on a foundation of assurance, or trust. This trust is that the retailer not only shares consumers' values, but advocates for them.

Food retailers are better positioned than other industry players to win and leverage consumer trust around Health & Wellness. Food retail is far more often considered by shoppers to be a Health and Wellness ally, especially their primary store.

"I think grocery stores should advocate for manufacturers to put things on labels, and for more information. And the stores should do it themselves, too." (Female, 39)

Which help you stay healthy, which make it more difficulty for you?

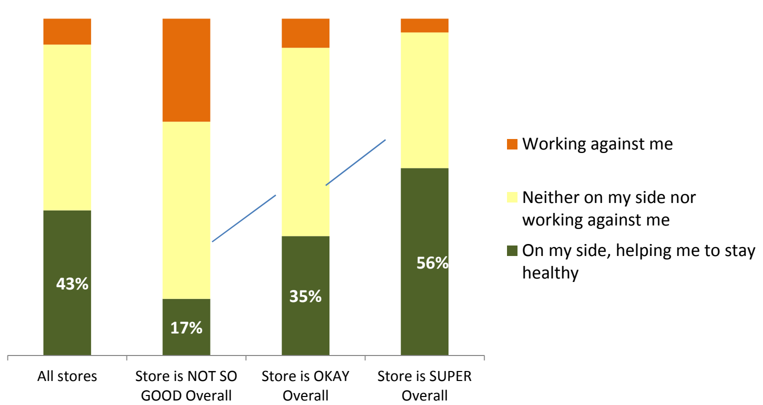


Source: FMI U.S. Grocery Shopper Trends, 2014, n=1059.

5 – BUILDING TRUST

Shopper Trust Around Wellness Hinders Or Amplifies The Effects Of Other Store Benefits

Poorly regarded stores don't become acceptable through trying to be the shopper's health or wellness partner. But shoppers credit already acceptable stores they perceive truly to be their ally or curator, elevating them from good to great.

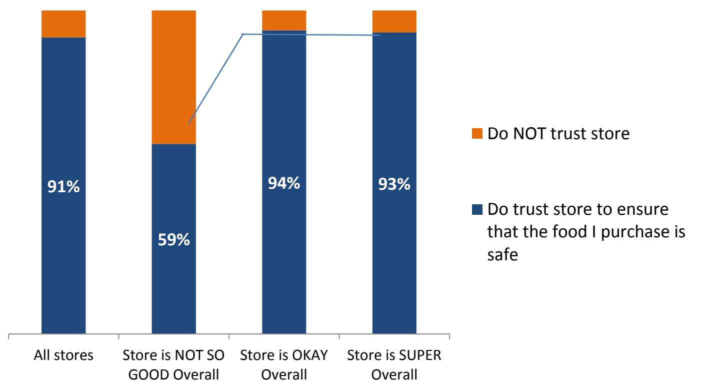


Source: FMI U.S. Grocery Shopper Trends, 2014. N=1059. Q. *"When it comes to helping you stay healthy, which of these people and institutions would you say tend to be on your side (helping you), and which tend to be working against you (making it more difficult to stay healthy)?" Base: Those who selected my "primary" food store*

5 – BUILDING TRUST

Shopper Trust Around Food Safety is a Must Have, But Not an Amplifier

Perceptions of food safety are must-haves. Other benefits fail to gain traction without a baseline trust in safety, though after this baseline is crossed, enhanced safety doesn't yield further gains in overall ratings.



Source: FMI U.S. Grocery Shopper Trends, 2014. N=1059. Q. *"I trust my grocery store to ensure that the food I purchase is safe." Somewhat/Strongly disagree="Do not trust," Somewhat/Strongly agree="Do trust…"*

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5 – BUILDING TRUST

Shoppers Generally Trust Food Retailers To Provide Safe Food

Overall, there is relatively high confidence in the food supply found at grocers. This level of basic confidence has remained consistent over the past ten years.

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Source: FMI U.S. Grocery Shopper Trends, 2014. H33 Top-2 Box Agree n=1059 Source: FMI U.S. Grocery Shopper Trends, 2014. n=1059-2014; n=772-2013; n=1026-2011; n=1001-2010.

Questions?

Please type any questions you have into the “Q&A box” of the webinar system

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Thank you

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