



The Fresh Perspective

September 2009

Consumers faced with expanding options for fresh food purchases; Supermarkets remain competitive

Among the various shifts in consumer shopping habits such as searching for the best values, purchasing healthier options and dining at home more frequently, there also have been shifts in retailer practices.

Supermarkets have historically been the primary location where consumers could purchase their fresh food items. While convenience stores and big box stores usually offered an assortment of packaged, non-perishables items; their selection of meats, produce, baked goods and other fresh items were, at best, secluded in small kiosks with limited selection and quality.

Now there are ever-expanding options for fresh food purchases. From Walmart to Walgreens, retailers are looking to impose upon the monopoly of fresh food sales by supermarkets.

Walmart is likely the most notable channel conquering share of perishables sales. The company recently reported that grocery sales, including improvements in the perishables offering, showed gains during the second quarter. Target is making efforts to remain competitive with the retail giant. Target's new store layout, P-fresh, contains extra space devoted to fresh produce, meat and bakery items. Target has opened 40 P-fresh stores in the Minneapolis area and, as reported by *Supermarket News*, will introduce 30 more in the next few months in and around Philadelphia.

Outrageous gas prices a year ago caused many consumers to consolidate their shopping trips in an effort to save money, contributing to the success of these big box stores that offer groceries. Yet now, some consumers are choosing convenience over cost savings. Convenience stores are increasing their share of shoppers, reports *Convenience Store News*. Although items at convenience stores are often priced slightly higher than at supermarkets, consumers buy only what they need, therefore spending less and saving time. A study conducted by The Integer Group and M/A/R/C revealed an 8% rise in consumers who are willing to spend more money at convenience stores if it makes their lives easier.

Drug stores, while newer to the fresh food scene than convenience stores, are beginning to gain ground and establish themselves as one-stop-shops for consumers. Nielsen reports that the percent of U.S. households shopping in drug stores decreased from 89% to 81% in the past decade; yet eight of the 11 categories with the strongest growth are food categories. Further evidence, drug store giant Walgreens hired a new vice president of format development at the end of last year. According to a Walgreens press release, the former Tesco Fresh & Easy executive will focus efforts primarily on food and other consumables.

Carrying fresh food offerings has even stretched as far as dollar stores and kid-focused retailers. Beginning last May, Family Dollar Stores expanded space allotted for food and consumer products, while Toys "R" Us re-merchandised some stores to include beverages, snacks and cereals.

Retailers may have reason to be concerned by competition from other channels, but they are not going down without a fight. They are lowering everyday prices to entice consumers to remain loyal and buy more. Additionally, supermarkets have become a popular outlet for grab-and-go meal options, a role traditionally filled only by quickserve restaurants.

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Which retail channel do you think poses the most competition to supermarkets for sales of fresh foods?

Supercenters
54%

Small-format
grocery stores
20%

Drug stores
2%

Convenience stores
18%

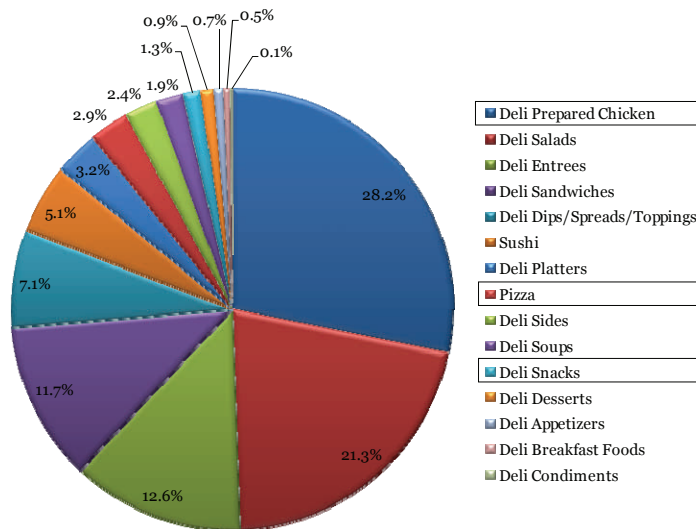
Wholesale clubs
7%



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Pizza and chicken are two categories that are widely available in restaurants, but many consumers are instead choosing these options from the supermarket deli. When examining supermarket sales over the latest 52 weeks ending June 27, deli pizza stands out as a favorite with consumers, increasing sales by 15.3% compared to the prior year. Deli prepared chicken, which comprises nearly 30% of the deli prepared foods category or supermarkets across the U.S., rose 4.3% in dollar sales.

**Total U.S. Supermarket Deli Prepared Foods
Dollar Share by Category
52 Weeks Ending 6/27/09**



Total U.S. Deli-Prepared Dollar Sales 52 Weeks Ending 6/27/09	
Product	Percent Change versus Year Ago
Deli Prepared Chicken	4.3%
Deli Salads	1.3%
Deli Sandwiches	2.1%
Deli Entrees	0.2%
Deli Dips/Spreads/Toppings	9.8%
Sushi	8.1%
Deli Platters	-11.6%
Pizza	15.3%
Deli Sides	-0.7%
Deli Soups	3.8%
Deli Snacks	31.4%
Deli Desserts	5.3%
Deli Appetizers	-3.5%
Deli Breakfast Foods	5.0%
Deli Condiments	-1.1%

Source: Perishables Group FreshFacts® Powered by Nielsen

Many convenience stores cannot compete with the quality and variety of prepared foods now offered in supermarket delis. Deli snacks, whose sales are usually owned by convenience stores or center-store aisles, grew the most of any deli-prepared category over the past year, up 31.4%.

While supercenters pose a bigger threat, often offering large selections and lower prices, supermarkets can still claim an advantage for those consumers who want to save time with a quick grocery run or want access to a complete line of fresh products.

The key to supermarkets maintaining their status as the go-to location for fresh food purchases will be to know their consumers, and to use that knowledge to offer the items their consumers want or may not be able to get elsewhere at the optimal price or level quality.