Newsletter

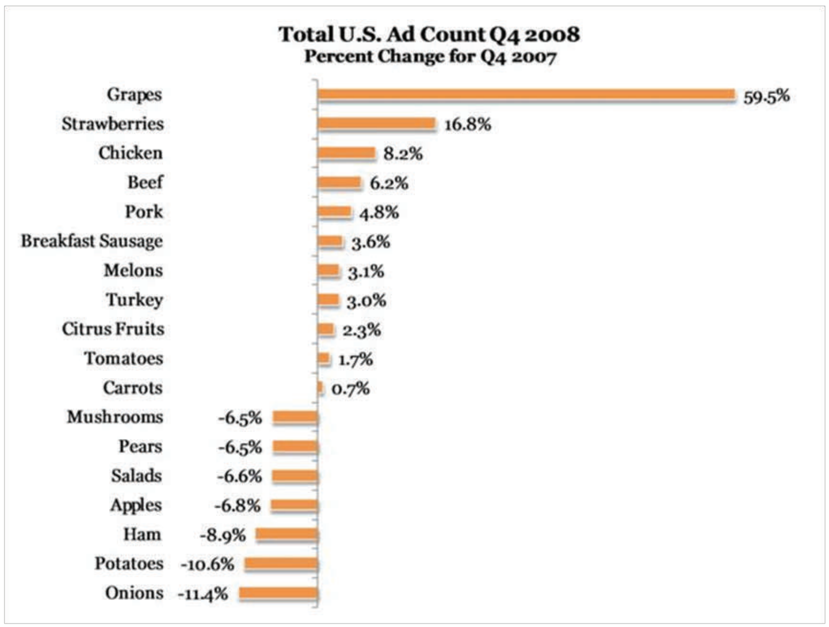
The Fresh Perspective

Using consumer understanding to guide strategies at retail

Current economic conditions have created a ripple effect on food sales. In the last issue of *The Fresh Perspective*, the Perishables Group examined rising prices across the five fresh departments. In this newsletter, we examine how consumers and retailers are reacting to the growing pressure on their budgets.

It is a common assumption that consumers are trading down to less expensive options as a result of the poor economy. Retailers may be responding to this assumption by appealing to consumers with more circular ads. According to Promodata's Ad Activity Group, in the fourth quarter of 2008, retailers ran more circular ads for the top six categories of fruit and meat, with 2.7% and 3.9% increases respectively in promotion frequency from Q4 2007.

At the same time, ad growth varied by category. Grapes and strawberries drove fruit ad frequency with 59.5% and 16.8% respective increases over Q4 2007. Apple and pear ads dropped by 6.8% and 6.5%. There were 6.3% fewer ads for vegetables. Promodata reported decreased circular ad frequency for salads, potatoes, onions and mushrooms. Tomatoes (+1.7%) and carrots (+ 0.7%) were the only vegetables to see increased promotions.



While consumers are clearly watching discretionary spending, one cannot assume shoppers will simply buy what is cheapest or what is promoted. Consumers react differently to price discounts depending on whether the item is a planned or impulse purchase, or a center plate or side dish item.

Understanding the role of price promotions on consumer purchase decisions within fresh food purchases is critical to suppliers and retailers, especially during a time of economic stress. The Perishables Group is currently studying the role of pricing on consumer purchases within the fresh space. In conjunction with commodity boards, non-competitive suppliers and key retailer partners, PG is using POS scan data, customer loyalty card data and in-store intercepts to analyze how consumer behavior changes due to price increases. The study seeks to reveal how consumer purchase decisions are made and the types of product substitutes buyers make in response to the tight economic conditions.

We recently had the opportunity to examine loyalty card data from one retailer in one market. The initial analysis of this select group supports the hypothesis that consumers are trading down, but perhaps in different ways than one would expect. The data shows consumers are actively shifting purchases within many fresh food categories from higher-priced to lower-priced items, even if the actual shelf prices on more expensive products have not increased as much as on similar lower-priced items.

For example, in the citrus category the average everyday retail price per pound for grapefruit is the lowest of all citrus fruits, and it appears consumers are trading down to this subcategory. Loyalty card data shows grapefruit increased in purchase frequency, dollars and volume per trip in Q4 2008 compared to Q4 2007 despite a price increase of 5.9%. Tangerines' everyday price per pound is the highest in the citrus category. The average retail tangerine price fell by 12.8%, and volume sold on promotion leapt by 35.3%. Despite this, tangerine purchase frequency, dollars and volume per trip decreased, as consumers apparently gravitated towards higher-value items.

Which scenario would best enable the FDA to better monitor food safety?

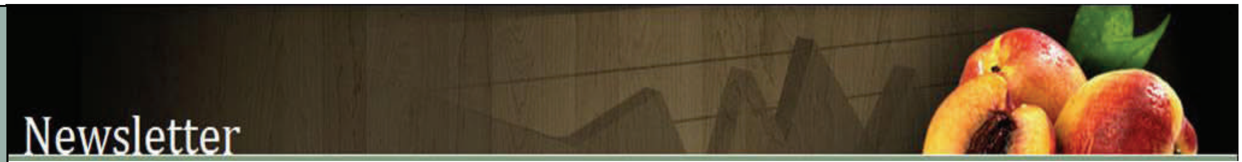
Additional funding

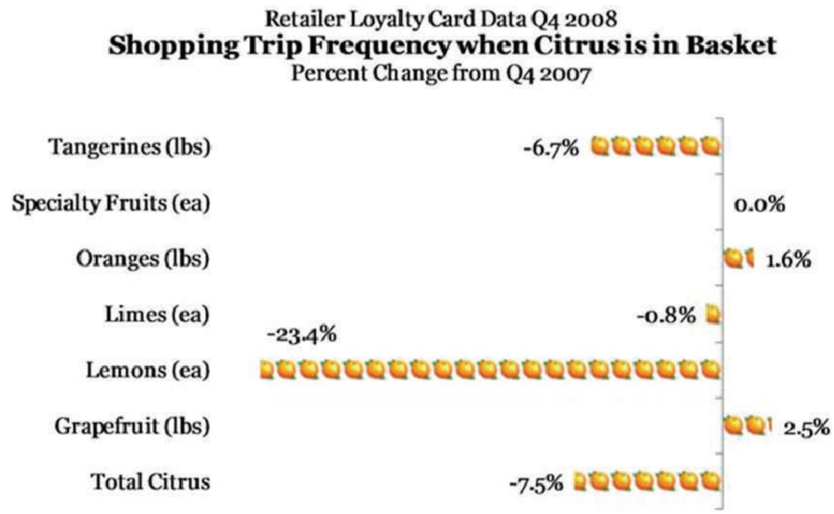
Split into two divisions (food and drug)

Become a private entity rather than a government program

Nothing; the current state of the FDA is ideal

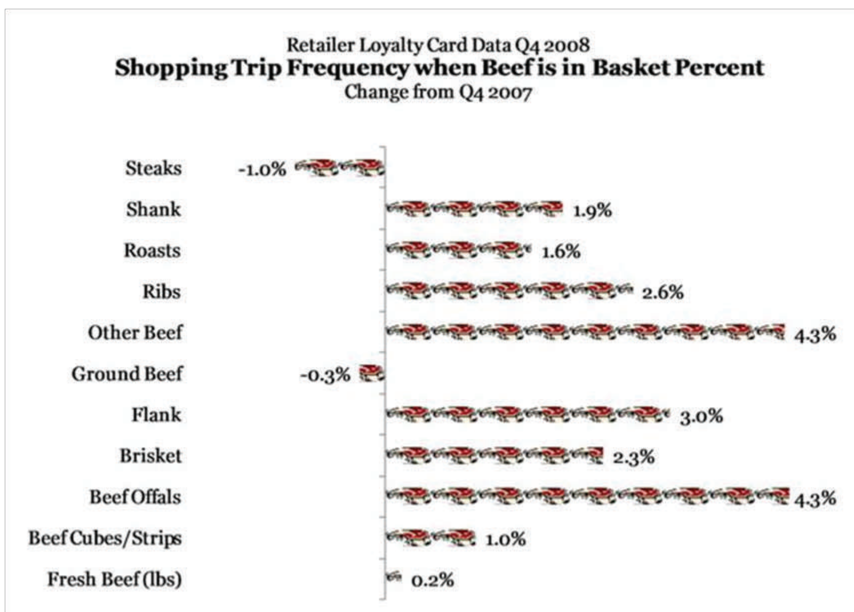
To answer our industry poll question, click here.





Source: Perishables Group Pricing Consumer Research Project 2009

In ground beef, consumer purchase frequency declined slightly in Q4 2008, but transaction size increased. More importantly, ground beef volume sold on promotion increased a dramatic 254.9% from the previous year. Consumers appear to be waiting for sales on ground beef, and then purchasing more, perhaps freezing leftovers.



Source: Perishables Group Pricing Consumer Research Project 2009

Consumers may also respond to economic stress by continuing to purchase favored items but reducing volume. Flank and steaks are the highest-priced subcategories in beef, averaging $6.97 and $6.17 per pound respectively. A sample of loyalty card data shows that consumers buying these items in Q4 2008 ultimately bought less volume per purchase than during the same period last year. Meanwhile, mid-priced beef items such as brisket and ribs gained sales and volume.

Consumers also appear to be moving to chicken breasts and ground chicken, possibly trading down from beef items that are often priced higher. While chicken breast is the highest-priced subcategory in chicken (averaging $4.12 per pound everyday, up 9% versus the previous year), the shelf price is comparable to mid-priced beef items such as brisket and ground beef. Loyalty card data shows consumers purchased chicken breasts more frequently in Q4 2008 than last year (1.7 times per quarter), and they bought more volume per trip (1.6 pounds). The trend is consistent for ground chicken which is also priced at the high end of the chicken spectrum (averaging $3.11 per pound). At the low-priced end of the chicken category, whole chicken volume dropped from 5.2 pounds to 4.8 pounds per trip. Consumers may be purchasing smaller whole birds or substituting other chicken items. Chicken legs/drumsticks and chicken thighs registered increases in volume per trip (2.6 pounds per trip and 2.5 pounds per trip respectively), indicating value-seeking consumers could be trading down from whole chickens.

Overall, the scan and loyalty card data indicate consumers trade down in different ways depending on the category. In March, *The Fresh Perspective* will evaluate ow these shopper trends vary by consumer demographic group.