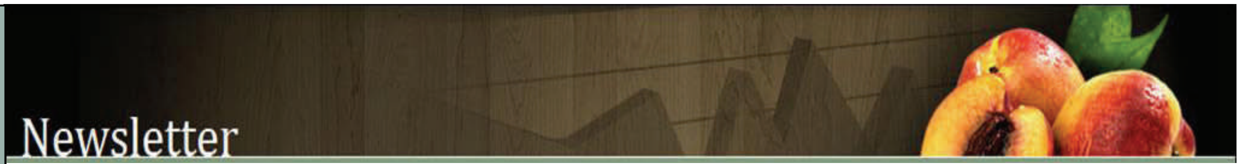


The Fresh Perspective

Retailer pricing strategies: Reacting to consumer trade down or fueling it?

Despite the economic recession, the fresh departments are faring relatively well as consumers buy more meal staples to prepare in-home. Consumers appear to be trading down for lower priced items in some areas; but all fresh departments except seafood grew in dollar sales and volume in the second, third and fourth quarters of last year.

A common assumption in the grocery industry is that consumers are trading down their food purchases to less expensive items due to strains on their budgets. However, this may be a chicken-and-egg scenario. Perhaps some consumers are trading down not because they prefer to buy the least expensive items in a department, but because those are the items for which retailers are placing the most emphasis on price, promotions, merchandising, position-in-department or shelf space.

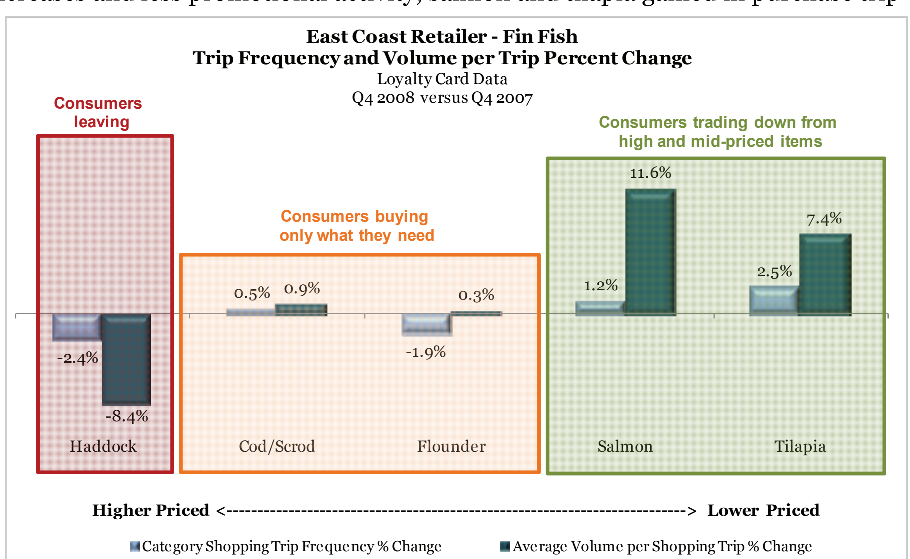
There is clear evidence to suggest shoppers are seeking value rather than just savings in their food purchases. They want to get the most for their money. However, certain retailer practices, such as promoting the least expensive items in the category, may be driving extreme consumer trade-down behavior. Focusing too much on the lower end of the category can result in lost sales from higher-end items consumers might also have purchased if provided an incentive.

The Perishables Group recently had the opportunity to examine loyalty card data from two markets in two different retailers as part of the 2009 consumer research project examining how the economy affects consumer purchase choices and shopping decisions. The initial analysis supports observations that consumers are trading down, but perhaps in different ways than one would expect.
The research analysis shows consumers are actively shifting purchases within many fresh food categories from high-priced to low-priced items, even if the actual shelf prices on more expensive products have not increased as much as on lower-priced items.

However, we also see examples of consumers trading up the scale to pricier items if they perceive them to be a better value.

Seafood, the one fresh department whose sales growth suffered in 2008, illustrates opposite consumer purchase behavior in the two retailers. Looking at loyalty card data for an East Coast retailer, consumers appear to be trading down their fin fish purchases to the lowest priced items, despite promotional activity on high priced fin fish items. In Q4 of 2008, high-end haddock sold at an average everyday price of $9.45 per pound, down 1.3% from Q4 2007, and the volume sold on promotion was nearly 200% more than the previous year. Despite the price decrease and increase in promotional volume, consumers purchased haddock less frequently and bought less volume per trip in Q4 2008 than in Q4 2007.

Notwithstanding price increases and less promotional activity, salmon and tilapia gained in purchase trip frequency and volume per trip, perhaps due to their lower everyday retail prices. Haddock was lower priced in two market competitors to the East Coast retailer, while salmon and tilapia prices were more closely aligned. By retaining a higher price than the market for haddock, the retailer is forcing consumer trade down within fin fish and perhaps trade out to competitors.



Source: Perishables Group Pricing Consumer Research Project 2009

What is the biggest opportunity to create incremental sales in fresh?

Lower everyday pricing

More aggressive/ creative promotions

Improved merchandising (layout, signage, etc.)

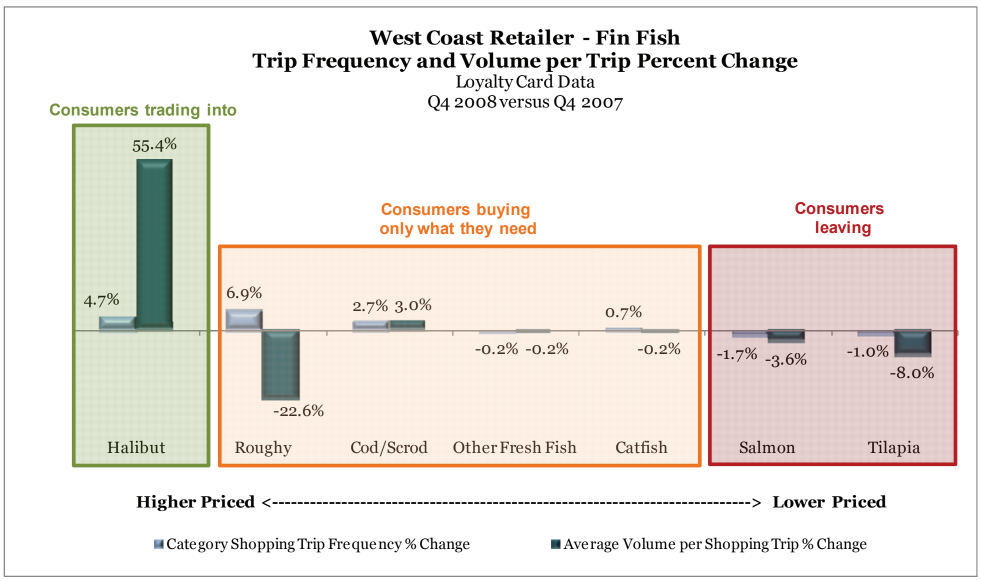
Introduction of new products

To answer our industry poll question, [click here](#).

A similar situation played out in a West Coast retailer's loyalty card data, however to the opposite effect, with consumers trading up to the high-end items in fin fish. In Q4 of 2008, halibut's average everyday price was down 30.3% from the same period of the prior year. Responding to the price slash driven by retailer oversupply, consumers purchased halibut more frequently and bought more volume per trip in Q4 2008 than in Q4 2007. Despite offering everyday prices much lower than halibut, salmon and tilapia both fell in purchase trip frequency and volume per trip.

This West Coast retailer was also priced well below the two market competitors in salmon, tilapia and halibut during Q4 2008, sending a message to consumers that this retailer provides a value in seafood. It also demonstrates that if consumers perceive a value in a department, they may purchase high-end items and not necessarily trade down to the lowest priced items in the category.

Another consumer strategy to create value in their food purchases is to buy certain items more frequently than before, but purchase less volume, thus reducing waste. We see consumers purchasing roughy in this manner in the West Coast retailer. A relatively high-end fish, roughy is priced in line with its competitors at $9.54 per pound in the West Coast retailer. It appears consumers do not want to trade out of roughy entirely, and are therefore purchasing the fish on a need basis – more frequently, but less each time.



Taking an example from the West Coast retailer, retailers may be able to boost their lagging sales by implementing different pricing strategies to emphasize value and pull consumers to high-end products rather than the least expensive options.

In April, *The Fresh Perspective* will continue examining insights from the Perishables Group's 2009 consumer research project exploring consumer reaction to pricing. We will break down purchase behavior differences within various demographic groups to more closely target strategies to grow sales.

Source: Perishables Group Pricing Consumer Research Project 2009