# DELI
WHITE PAPER

# Category Management and the Consumer

**PART 1 OF 3**

Sponsored by

# A Letter From Tyson

Supermarket retailing is more challenging today than it has ever been. Intense pressure on margins throughout the store, scarcity of quality labor, and the need for differentiation drives merchants to seek every advantage possible in building shopper loyalty and driving financial performance. The perimeter of the store and Deli in particular, has been identified by a number of retailers to achieve that end.

How can retailers bring category management disciplines to their deli departments to create an optimal shopping experience for their consumers? At Tyson Foods we believe that growth in the deli is going to be driven by deeper understanding of the consumer: what needs does she have? What solutions can the supermarket deli offer her and how do we communicate those solutions to her?

In this series of articles we plan to bring you insights into the state of the deli business today and point to solutions which will drive real world business solutions. In this series of three articles we will discuss consumer insights, shopper insights, and category management tools. In this installment, we focus on consumer segmentation as a key tool in understanding consumer need states and how consumers' attitudes and behaviors are shaped by the segment to which they belong.

Tyson Foods is proud to bring this series on deli category management to the readers of InStore Buyer as part of our commitment to supporting the business growth of our retail partners. We hope you find it of value in meeting your business objectives.

Sincerely,

Lori Simco
Vice President of Marketing
Tyson Foods Deli Division

# Deli Category Management and the Consumer

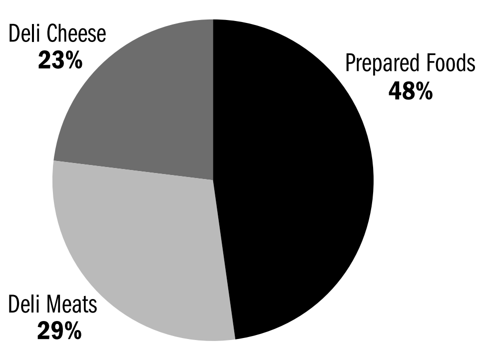
Supermarket delis are facing increasing competition from other channels, especially supercenter and club stores, which are growing and offer a multitude of deli products. Quick-serve restaurants are also stealing away supermarket deli sales. In 2005, five of the top ten restaurants showing growth were sandwich-type restaurants.

Increased competition is coming from items inside of the store as well. New pre-sliced/pre-packaged deli meats and cheeses have been added as an alternative to the traditional deli counter, and some time-crunched shoppers are turning away from the long wait time for service. Other unique challenges have hampered evolution in the deli, including: heavy competition among suppliers, focus on price-based decision making, lack of consumer research and lack of syndicated data use.

Until now, the category management process has been challenging to apply to the instore deli department because there has been a void in the tools used to measure performance:

- random weight performance tracking data (POS) captured by retail chains
- standardized codes and hierarchy for instore deli items
- dedication to data analysis and consumer research in the space

**Deli Department Makeup 2005**

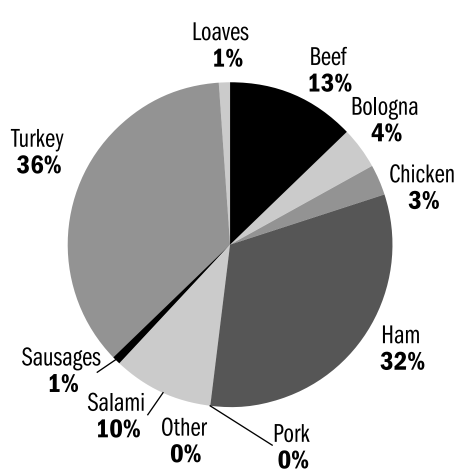



*Source: Perishables Group FreshFacts®*

A business alliance between the Perishables Group, Inc., and ACNielsen has opened up new possibilities for this situation. ACNielsen captures POS scan data from retail supermarkets across the United States and Canada. The Perishables Group uses its proprietary FreshFacts® software to clean and categorize ACNielsen's POS data for standard UPC and random weight deli products, enabling analysis of distribution, movement, market share, price, promotion, assortment and other market information about deli performance.

The principles of category management can now

**Deli Meats Category Breakdown**




*Source: Perishables Group FreshFacts®*

be applied to the instore deli using more sophisticated tools to find out what consumers want. Using retail scan data, it is possible to identify and improve category management tactics including optimal assortment, appropriate promotion frequency and efficient allocation of the display space. If retailers can be more successful in selecting the right products, charging the right price and merchandising the space, consumer satisfaction and loyalty will increase and overall department performance will improve.

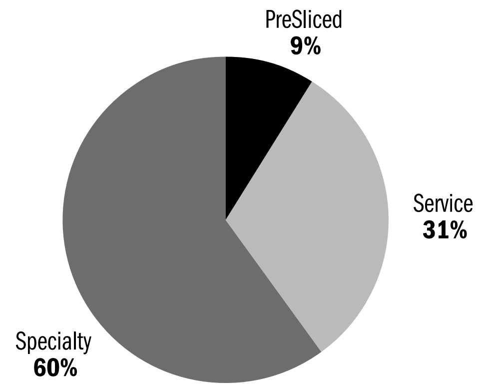
This white paper contains an overview of instore deli performance as well as the groundwork for defining a consumer segmentation strategy that works in the deli and ultimately leads to a consumer-centric retail environment.

## Deli Department is Growing

Overall, the deli department grew in 2005 compared to last year. The growth is coming from baseline dollars, while incremental purchases are slightly declining. This could indicate an increase in everyday purchases in the deli and price-sensitive, seasonal or impulse purchases may be declining. It also could indicate a reduction in overall promotion activity by the industry.

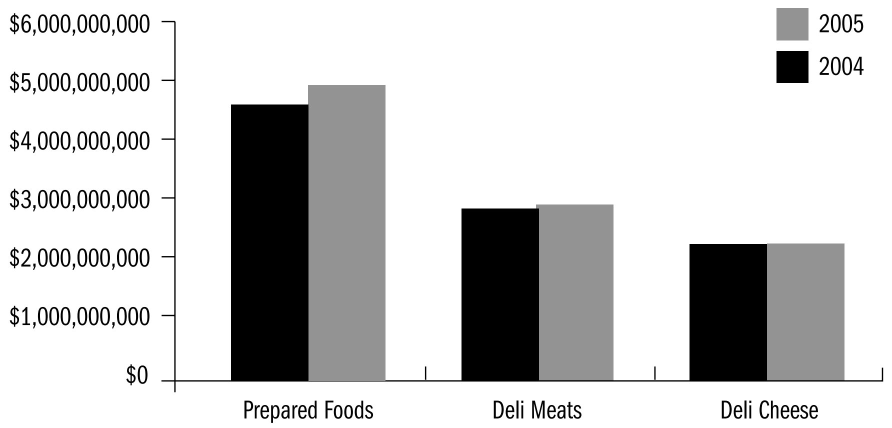
The deli department data contained in this report is Perishables Group FreshFacts® data powered by ACNielsen. The point-of-sale syndicated data set includes U.S. food stores with more than $2 million in annual sales from Jan. 1, 2004 through Dec. 31, 2005. The data encompasses 60 percent All Commodity Volume (ACV) of retail supermarket sales in the in-store deli department including UPC, PLU and system 2 coded items. Key areas of focus include: category dollar share, sales trends, category contribution and other insights.

**Deli Cheese Category Breakdown**




*Source: Perishables Group FreshFacts®*

**Deli Super-Category Sales**




** Dollar sales are projected to 100 percent All Commodity Volume (ACV)*
*Source: Perishables Group FreshFacts®*

To help define and manage categories, the in store deli department sales are broken down into three super categories: deli meats, deli cheeses and prepared foods. Under each super-category are categories that further define the data as follows:

- Deli Meats: pre-sliced and bulk are the categories with subcategories providing insights into proteins
- Deli Cheeses: categories are pre-sliced, service (bulk) and specialty with subcategories providing insights to flavor/type of cheese
- Prepared Foods: categories are based upon meal occasions such as entrees, chicken, sides, salads, etc.

**Share of Prepared Food Sales**

| | SHARED OF TOTAL PREPARED FOODS | % CHANGE VS. YEAR AGO |
|---|---|---|
| Chicken | 22.5% | 2.5 |
| Side Salads | 16.4% | 17.7 |
| Sandwiches | 13.9% | 9.3 |
| Entrees | 12.5% | 10.7 |
| Appetizers | 6.3% | 5.2 |

*Source: Perishables Group FreshFacts®*

Overall, deli department sales growth is driven by prepared foods, while deli meats and deli cheeses showed only slight increases in sales. Prepared foods contributed 48 percent of the 2005 instore deli sales, making it the largest contributor of the total department dollars. The prepared foods super category was up one percent in category dollar share from the prior year taking away share from deli meats.

Deli meats overall grew slightly over last year with bulk meat sales contributing 90 percent and experiencing a one percent increase over last years sales. Pre-sliced deli meat sales contributed 10 percent of total deli meats with a three percent increase compared to year ago. Turkey retains the largest share of the category with 36 percent share followed by ham at 32 percent and beef at 13 percent.

Specialty cheese, the largest category in the deli cheese super-category with 60 percent share of the category, grew 4.2 percent compared to year ago. Other deli cheese category break downs are service and pre-sliced cheese with 31 percent and 9 percent share, respectively. Both service and pre-sliced categories also grew compared to year ago, but the growth was far less than the specialty category.

In prepared foods, chicken was the largest contributor with 22 percent of dollar share, however, side salads, the second largest contributor, saw the largest growth up 17.7 percent over last year. Entrees also experienced significant, double-digit growth over last year with a 12.5 percent contribution.

According to Tyson Foods, Inc.'s "Activating Consumer Brands in Foodservice Deli," there are three important criteria to follow when deciding when to activate a brand.
1. The brand increases velocity.
2. The brand decreases price sensitivity.
3. The brand increases consumer confidence in the quality of the product.

Tyson research, for example, finds that 98 percent of consumers "like the Tyson brand" and deli shoppers indicate they will increase purchasing frequency of deli prepared foods by 24 percent if endorsed by the Tyson brand.

## Consumer Segmentation Beyond Demographics

There are a number of forces that impact consumer behavior beyond their demographic profile. In some cases demographics can be too broad, especially when identifying the key consumer target as female, 25-34 with kids. A consumers' relationship with food and with increasing pressures on their lives is more complex than that and often driven by a number of factors.

To that end, Tyson Foods sought to establish a consumer segmentation model for the deli that took into account all of those factors and had enduring relevance today and in the future. Tyson worked with Faith Popcorn's Brain Reserve to identify and project the critical forces pressing on people's lives today and into the future. From thousands of in-depth interviews, seven consumer segments were identified that delineated consumer attitudes and behaviors to food and tied them back to four fundamental pressures consumers are facing.

There are seven segments that tell us a lot more about consumers than demographics, but identifying those segments was not enough. It was also important to put it in context around the retail environment in the deli and answer questions including:

- How do they behave in our channel?
- Why do they behave in these ways?
- What messages and situations create tension for them?
- Which produce satisfaction? Fulfillment?

Additional research conducted included an ethnographic component to gain a deeper understanding with work shops designed to discover hidden responses through story telling, picture creation, in-home visits, shop-alongs and meal creation.

Here is what was learned about each of the seven consumer segments:

PRAGMATISTS
- Food is fuel, necessary but something to be gotten out of the way
- A successful meal is out of the way quickly with minimum preparation and cleanup
- Although I want convenience, I may not be willing to compromise on nutrition or product quality
- Shopping is a race—I win when I "beat the system"

FUN-LOVING FOODIES
- Food as connection—preparing and serving meals is a social occasion
- Thrive on new sensory experiences
- Successful meals are an adventure—even if no one likes them!
- Very environmentally aware while they shop—treasure hunt

LABOR OF LOVE
- Food as caring: show their love for family in preparation of meals
- Need to feel they participated in the preparation of a meal

- A meal is only a success if every person at the table feels (and expresses!) satisfaction with the meal
- Shopping is about getting foods that meet wholesomeness, freshness, and nutritional standards

DISSATISFIED DINERS
- Food is just one more part of their lives that feels out of control
- Not comfortable with cooking skills, not satisfied with eating out
- A successful meal hardly exists
- Shopping is tiring, confusing, and frustrating
- Help me make a decision

OUT AND ABOUT EATERS
- Make it fast and portable

CULINARY CHAOTICS
- Help me!

ALL ABOUT ME
- Make me feel special

## Creating a Consumer-Centric Retail Environment

The goal is to apply that consumer knowledge to create a retail environment that revolves around the consumer segmentation profile. How to do that? Take for instance the fun-loving foodies, these consumers need excitement and want products that appeal to their palette, try a marinade that is on the leading edge of the trend, like ginger. In addition, fun-loving foodies tend to have a more sophisticated design aesthetic so look at creating packaging and merchandising that is high-end and visually appealing.

Why should this be done? Programs that are targeted to a specific segment with customized communication tailored to meet the needs and motivations of that group can result in a number of wins including:

- building store loyalty: studies show that shopper visitation can increase as much as 62%
- decreasing price sensitivity: help solve my most pressing issues in a way that is consistent with my deeply held values and I am willing to pay
- building purchase frequency: answer my needs and I will return to use that solution again and again

Through category management and consumer segmentation, suppliers can bring consumer-oriented solutions to retailers that in turn will provide consumers with a more rewarding, enriching shopping experience.

Everybody wins when loyalty is built on the basis of the shopping experience, not just the price.

---

*The Perishables Group is an independent consulting firm focused on innovation and creating value for clients in the fresh food industry. Expertise includes category development, supply chain management, activity based costing, research and marketing services. Bruce Axtman is the president and CEO of the Perishables Group and is widely recognized as the industry leader in applying category development processes to the perishables food space.*

*When was the last time you made someone drool?*

*Now's your chance.*

*Introducing award-winning Deli Specialties™ entrees.*

*Get a taste of excellence*

*by calling 1-800-24-TYSON, ext. 686 today.*

**Powered by** Tyson®

Trademarks and registered trademarks are owned by Tyson Foods, Inc. or its subsidiaries. ©2004 Tyson Foods, Inc.