

DELI

W H I T E P A P E R



Merging Data Tools with Consumer Insights

PART 3 OF 3

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A Letter From Tyson

Reduced to its most basic form, deli category management is about how we as an industry construct business solutions that meet consumer meal needs.

What are those needs? Consumers are starved for time. They do not have the time to cook and lack the skills and knowledge, or even the desire to cook. As a result, the number of meals prepared for dinner every year has declined, as has the definition changed of what constitutes “cooking.” When Hamburger Helper was introduced in the early 1970s, this is what the consumer used instead of cooking. Today, Hamburger Helper is cooking. Applying heat is cooking. Dirtying a skillet is *definitely* cooking.

Consumers don’t want to eat out more often; they are dining out fewer times per year than in 1985. Foodservice has gained share of the food dollar by creating carry-out meals that are consumed in the home in place of a home-cooked meal.

How will supermarket retailers and their suppliers respond? To date, the industry has been effective at making *cooking* easier – and we at Tyson are proud of the products we have created, such as meal kits that bring convenience to the meal preparation process. And yet, making meal preparation easier does not increase the retail industry’s share of dinner meals. In effect, convenience meal preparation may shift dollars from one retailer to another, but it does not represent net increase in food dollar share to the retail industry.

How will retailers provide convenient meal solutions that deliver quality, freshness, and value to the consumer? The answer must be that suppliers and retailers will partner to create viable, sustainable business solutions that fill that consumer need. The tools of category management will assist in informing retailers and suppliers how to accomplish this task.

And solving consumer needs creates real value for the consumer. When we provide convenience meal solutions that deliver quality, freshness, and value, we allow the consumer to care for herself and her family with a little less stress. Providing that value is not just something we can feel good about, but it is something that has real economic value – it translates to increased shopper loyalty and increased store visitation. And it can lead to an increase in the retail industry’s share of the food dollar, which is a benefit to us all.

Sincerely,

Eric Le Blanc
Director of Marketing
Tyson Foods, Inc.

Merging Data Tools with Consumer Insights to Manage the Deli Department

Traditional grocery delis are struggling to compete against other channels. Supercenters and club stores offer competitive price points on deli products and are showing significant growth in the deli department. Quick-service restaurants are also stealing traditional deli sales through their convenient sandwich offerings.

The Perishables Group partnered with Tyson Foods to present insights into how consumers shop the deli department and strategies for increasing sales. In the first article, we provided an overview of the deli business as well as an innovative and realistic approach to a consumer segmentation strategy. The second piece highlighted the opera-

tional challenges that must be addressed in order to grow department sales. This third and final article will offer a viable solution for applying category management techniques to the deli department.

In the past, category management has been difficult to put into practice in the perishables space and particularly in the deli department. Retail scan data was unavailable until the Perishables Group allied with the Nielsen Company (formerly ACNielsen) to integrate random weight with standard UPC data for fresh foods. Consumer insights were limited to demographic and ethnic profiles, and target deli shoppers were limited to women between 25 and 34 with children.

Consumer Types by Shopping Behavior

- Fun-Loving Foodies**
 - Enjoys good food and sharing meals with others
 - Food is important enough to make time for
 - Loves cooking and eating out at new places
- Pragmatists**
 - No time to cook from scratch
 - Looks for quality convenience foods to serve at home
 - Knows how to quickly put together a good meal
- Culinary Chaotics**
 - Believes real meal is home made
 - Frustrated by lack of time to cook from scratch
- Dissatisfied Diners**
 - Cooking is hard work
 - Uses convenience foods due to busy schedule
 - Looks for new ideas and inspiration
- Labor of Love**
 - Values and enjoys cooking for family
 - Makes time to cook meals from scratch
- Out and About Eaters**
 - Always on the go with no time to cook
 - Often eats out because it's easy and fits lifestyle
- All About Me**
 - Wants best quality and willing to pay
 - Tends to buy on impulse
 - Indulges in new and special things

Source: Tyson Deli

Updating the category management toolbox

Tyson recently questioned whether the traditional consumer segmentation model needed to be refined and updated. To that end, Tyson conducted extensive consumer research that included thousands of in-depth interviews, workshops, picture creation, in-home visits, shop-alongs and meal creation. Through its research Tyson was able to identify critical forces shaping consumer behavior today and project those forces into the future.

Tyson used its findings to define seven consumer segments that categorize consumers by their attitudes and behaviors toward food. The new model provides suppliers and retailers with a more realistic way to understand what drives shopping behavior across channels.

To apply its new model to the grocery channel, Tyson then worked with an independent research firm to observe and evaluate consumer responses to store-level conditions in the deli department. The researchers found that deli buying behavior is routine and that point-of-sale signage is noticeably lacking in the department. Operational inefficien-



cies, such as wait times and confusing ordering systems, created tension and frustration and often turned shoppers away from the deli. Consumers tend to be overwhelmed by the deli assortment and question the freshness of deli products, though freshness is the number-one purchase driver across the perishables space.

Bringing deli shoppers back

To win back sales from increased competition in other channels, grocery retailers need to make the deli a true shopping destination. The first step to reinventing the deli is to use syndicated scan data to track performance and identify opportunities. Retailers and their supplier partners can then create specific, actionable goals and develop effective tactics to achieve those objectives.

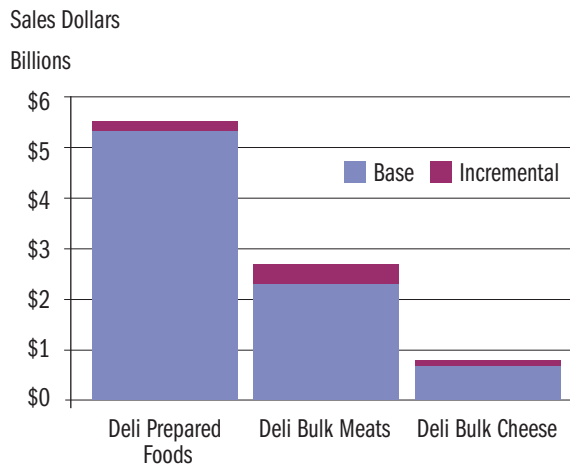
Nationally, the prepared foods super category contributes the largest share of deli department sales and is the only super category showing consistent year-over-year growth between 2004 and 2006. Deli meats are the second largest super category, accounting for 30 percent of total department dollars; however, sales of deli meat are declining.

Nearly 13 percent of deli meat dollars come from incremental sales, compared to 9 percent for cheese and just 2 percent for prepared foods. Incremental sales constitute an even larger share of total

dollar sales in the Central and East regions of the country at 20 percent and 16 percent, respectively. This indicates that there is a large group of deli meat consumers that can be influenced to buy on impulse in these regions.

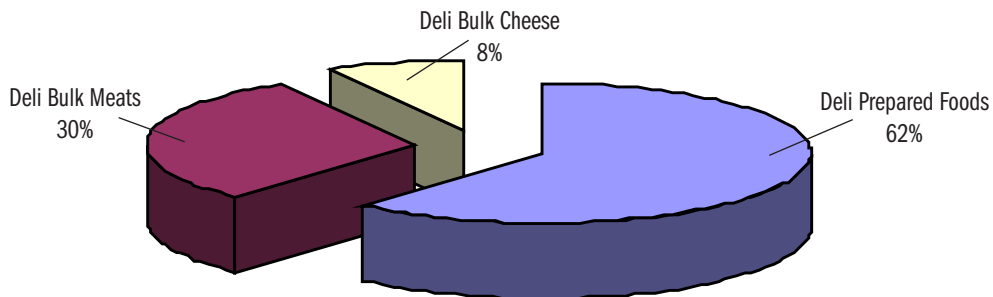
Retailers and deli meat suppliers can apply the new consumer segmentation model and in-store research to capture this opportunity. By coupling scan data with insights about consumer purchase drivers, retailers can avoid relying on heavy pro-

Deli Dollars by Super Category 2006



*Note: Data represents 65.5 percent of total grocery ACV
Source: Perishables Group FreshFacts® Powered by The Nielsen Company*

Deli Department Breakdown 2006



*Note: Data represents 65.5 percent of total grocery ACV
Source: Perishables Group FreshFacts® Powered by The Nielsen Company*

motional activity and instead make targeted store-level adjustments to produce immediate sales gains that will last into the long term.

Effectively targeting consumer groups

Deli meat dollar sales decreased nearly 4 percent between 2005 and 2006. Chicken is the only protein showing year-over-year growth, largely due to innovation in flavor profiles. Deli cheese is also showing significant declines across the pre-sliced, service and specialty cheese categories, with growth coming from imported or exotic varieties such as sheep's milk, flavored cheddar, goat and parmesan.

The key to reversing the downward trend is to jolt consumers out of their everyday routines while minimizing any confusion or frustration that may drive them away from the deli department. Tyson's research segmented consumers by their shopping behavior. Pragmatists, for example, need quick and easy meal solutions but still value quality. Pragmatists are put off by operational barriers such as long lines, so this segment can be targeted by improving overall



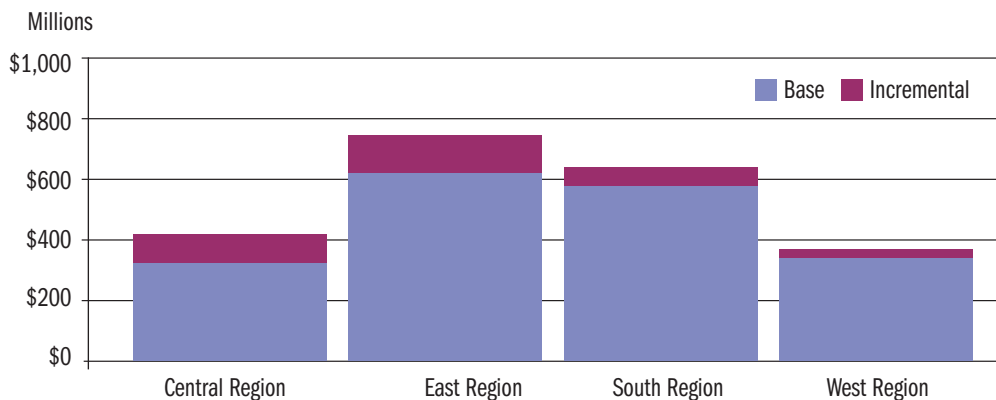
Grocery retailers need to make the deli a true shopping destination

deli efficiency and/or providing call-in or Internet ordering with curbside service.

Another group, fun-loving foodies, wants to be stimulated by exciting flavors and enjoy "treasure-hunting" while shopping. To entice these consumers into the department, offer samples of interesting deli meats and cheeses and merchandise upscale gourmet products such as truffle oil near the deli case.

Labor of love consumers shop for fresh, whole-

Deli Meats Sales by Region 2006



Note: Data represents 65.5 percent of total grocery ACV
Source: Perishables Group FreshFacts® Powered by The Nielsen Company



some and nutritious ingredients to prepare home-cooked meals and are deterred by the perceived lack of freshness in the deli offering. These consumers respond well to signage that depicts families sharing meals or that provides traditional recipe ideas using deli products. Positioning fresh produce near the deli can also attract the labor of love segment to the deli department.

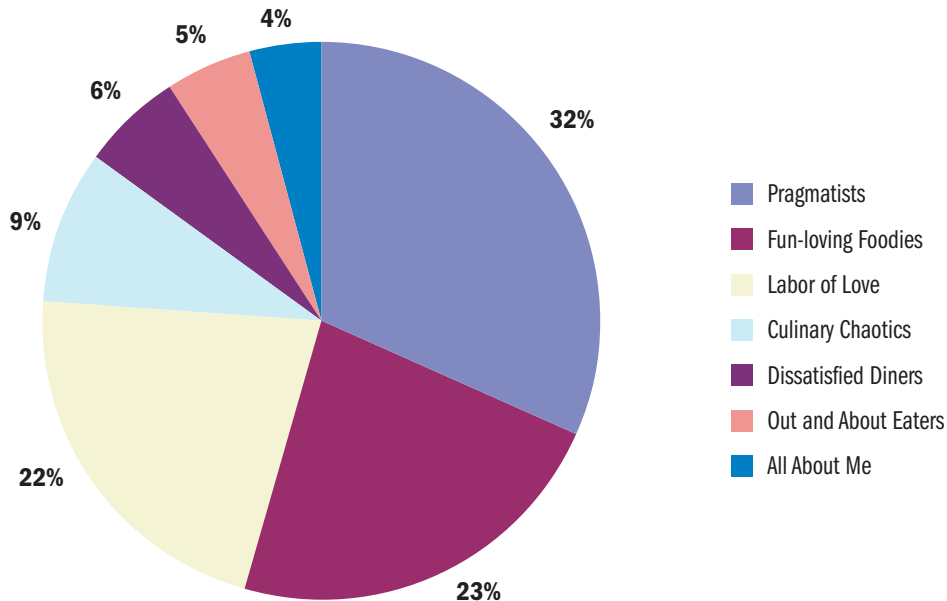


Grocery shopping is a source of frustration for two other consumer segments, the culinary chaotics and dissatisfied diners. Both groups want to provide their families with quality meals at home but lack the time, inspiration or expertise necessary to prepare them. They look for help when shopping and appreciate store-to-table meal solutions that look and taste more like a home-cooked dinner than convenience food. Providing informational signage along with easy-to-understand packaging can create a successful shopping experience for these consumers.

Provide shopping solutions rather than deep discounts to build customer loyalty.

Retailers and their supplier partners can engage a wider base of shoppers by implementing strategies at the store level to improve the deli offering. Pinpointing the forces driving purchase behavior, rather than generalizing by household demographics or ethnicity, makes it easier to offer consumers practical solutions that meet their needs.

Consumer Segments at One Retailer (offered as an example)



Source: Tyson Deli Consumer Research

Strategies that provide consumers with shopping solutions rather than deep discounts on popular products help retailers and their suppliers build customer loyalty and decrease price sensitivity. All consumer segments have indicated that when retailers meet their needs, they are willing to pay more.

Making category management work in the deli

Developing and executing new tactics in the deli department can help retailers capture opportunities, but measuring results is equally important. Point-of-sale scan data helps retailers and their supplier partners measure on how well tactics were implemented and how effective they were.

For example, to build excitement around deli meats, try expanding the assortment to offer interesting flavors such as peppered and buffalo. Place signage highlighting the new flavors where waiting customers can view it, and offer samples to customers to generate interest. Also try cross-merchandising the new deli meats with convenient sandwich components such as condiments and pre-sliced breads and rolls to help shoppers save time both in the store and at home.

In order to know if this approach is worth the investment, we would have to answer several questions.

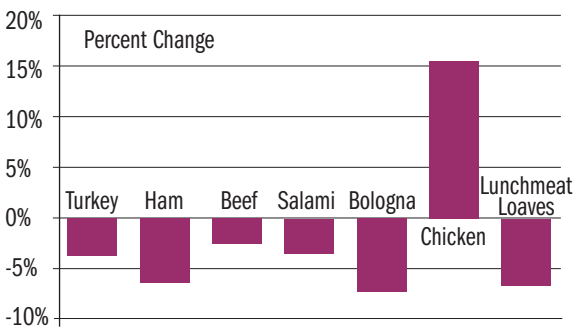
Expand assortment to offer interesting flavors that are highlighted with signage.



Did consumers purchase the new flavors? Did the new flavors help grow the total category, or did they cannibalize sales from less popular varieties? How did placing complementary products nearby affect total deli meat sales? Is this a viable long-term solution, or did it only provide a quick fix?

Integrating qualitative consumer research and store-level observations with quantitative tracking tools allows retailers and suppliers to identify opportunities, develop customized strategies and fine-tune their tactics based on measurable results. When tools utilized are relevant to the current competitive environment, category management can be applied effectively to the deli department.

Deli Meats Growth 2005-2006



Source: Tyson Deli Consumer Research

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.



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