

**U.S.
GROCERY
SHOPPER**

TRENDS

2012

**EXECUTIVE
SUMMARY**

FMI



™

THE VOICE OF FOOD RETAIL 

This executive summary was developed by FMI based on research and analysis conducted by Booz and Company and in partnership with key industry data providers, Nielsen, Symphony IRI Group, Intelligent Clearing Network, and VideoMining.

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booz&co.



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Food Marketing Institute

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Food Marketing Institute (FMI) conducts programs in public affairs, food safety, research, education and industry relations on behalf of its nearly 1,250 food retail and wholesale member companies in the United States and around the world. FMI's U.S. members operate more than 25,000 retail food stores and almost 22,000 pharmacies with a combined annual sales volume of nearly \$650 billion. FMI's retail membership is composed of large multi-store chains, regional firms and independent operators. Its international membership includes 126 companies from more than 65 countries. FMI's nearly 330 associate members include the supplier partners of its retail and wholesale members.

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Introduction



Since 1974, FMI has conducted the *Trends* study to track grocery shopper behavior. Consumers are a key driver of the market economy and the center of the grocery business. This year, perhaps more so than at any time in the past 35 years, knowledgeable consumers are looking for value, quality and convenience, and are driving the industry to become more innovative and competitive in all ways. This year's research reveals how emerging consumer attitudes, driven by the economy, technology, and new store formats are providing new challenges, options and opportunities for the retail grocery industry. In particular, consumer opinions about value and the role of technology have the capacity to greatly change the way retailers interact with and attract their customers.

Other long-term consumer trends such as grocery expenditures, trips per week, factors affecting primary store selection and consumer attitudes toward health and wellness, sustainability, and food safety were also explored and illustrate on-going patterns and new opportunities.

A New Approach

For over 35 years, FMI has produced a *Trends* study that has presented a snapshot of consumer trends at the current time. While this has proven very helpful to retailers over the years, the challenges of today's food retail industry call for something a bit more accelerated and future facing; something grounded in current realities, but pointing to what's next. The 2012 *Trends* study conducted by FMI and a team of research partners, headed by Booz and Company and with input from data partners that span the breadth of the industry, presents a truly industry-wide perspective that presents not only current consumer trends but also describes the opportunities and challenges that can be expected in the near future.

The study combines data from several industry sources. Primary customer research was conducted by Booz & Company and consisted of a survey of over 1650 shoppers with deep dives into small format shoppers and online shoppers. Partnerships with key industry data providers, Nielsen, Symphony IRI Group, Intelligent Clearing Network, and VideoMining provided additional data. Interviews with key industry executives including Booz and Company retail experts across several geographies and interviews with nine C-level retail executives added important context and perspectives. The "Views from the C-Suite" sidebars below reflect the results of these interviews.

Key Trends

This report highlights four hugely significant and interrelated trends for the grocery industry. They are not necessarily “new” for the grocery industry but they are taking on a larger and more impactful significance that will continue to shape the retailer/customer relationship.

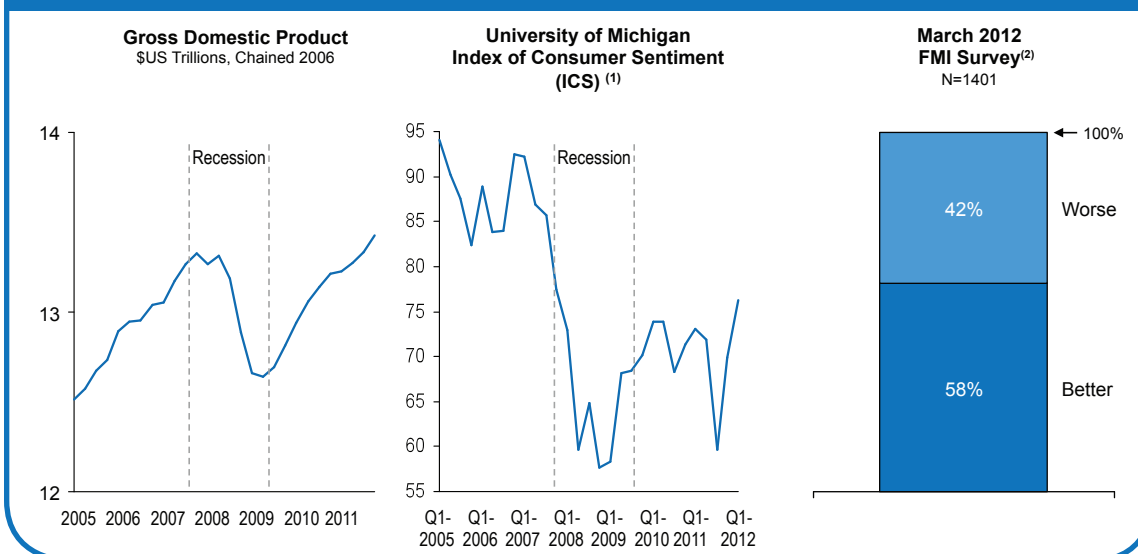
- The Economy's Effect on Long Term Consumer Behavior: the Shift to Value-seeking
- Technology Enhanced Shopping: the Future is Here
- The Growing Impact of E-Commerce
- Format Innovation: Small Formats Take Hold

The data provided by this year's study can be used both as a tool for benchmarking consumer attitudes over time and, perhaps more importantly, as a springboard to enable innovation that supports improved competitive position in the marketplace. There are a number of things on which retailers can focus to enhance their conversations with consumers.

The Economy's Effect on Long Term Consumer Behavior: the Shift to Value-Seeking

There is no doubt that the Great Recession (December 2007-June 2009) impacted retailers and consumers alike and indicators point to it continuing for years to come. Consumers in every demographic category, even those whose financial status was not significantly affected by the downturn, made changes in their spending and displayed behaviors demonstrating a new economic sensitivity and awareness. Even now in 2012 when the economy is steadily improving, 42% of consumers remain convinced that it is getting worse.

The economy appears to be improving steadily though a substantial proportion of consumers remain unconvinced



Notes:

(1) The University of Michigan Thompson Reuters Index of Consumer Sentiment Index is calculated monthly based on at least 500 telephone-survey responses to five questions. Full information is available at <http://www.sca.isr.umich.edu>

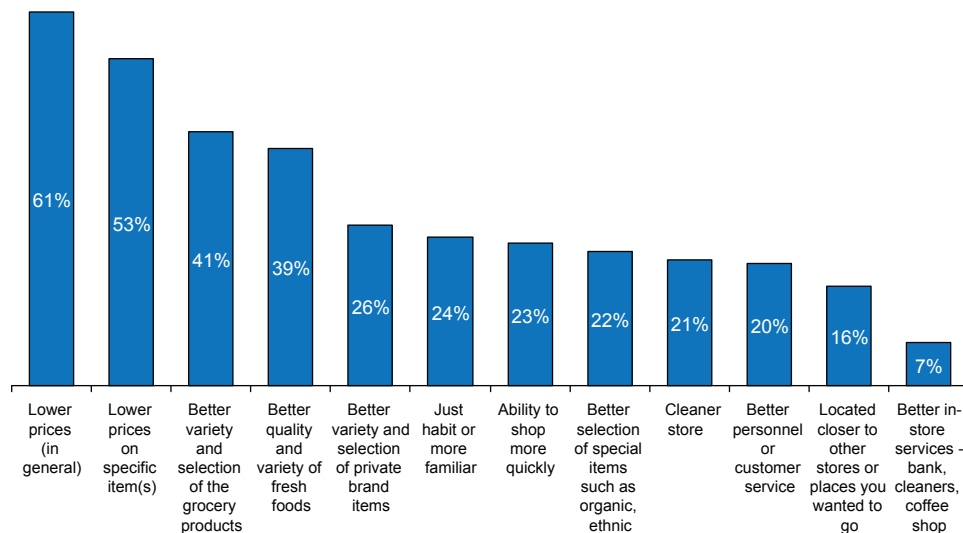
(2) Question: "Do you think the economy is getting better or worse?"

Sources: National Bureau of Economic Research (start and end dates for the recession, December 2007 and June 2009); University of Michigan/Thompson Reuters; Booz & Company analysis

There are many indicators that shoppers are now more focused on value than at any time in the recent past. For example, when considering what matters most to them in a primary store besides a convenient location, the top two reasons consumers gave were lower prices in general (61%) and lower prices on specific items (53%). By comparison, fewer said that better variety and selection (41%) or better quality and variety of fresh foods (39%) were the major reasons to shop at their primary store.

Shoppers are willing to travel farther for lower prices and better assortment

Store Selection Criteria: Beyond Convenience ⁽¹⁾
 % of Shoppers Whose Primary Store is Not the Closest to Home, N = 847



Note: (1) Question: For which reasons do you shop at your primary store instead of the one that is most convenient?

Source: Booz & Company analysis

Other value-seeking habits include seeking discounts, buying private label brands, and acceptance of living with less. Not only are higher proportions of consumers currently reporting these behaviors, but many report they plan to continue them permanently. For example, 61% of consumers report that they have always sought discounts. An additional 28% reported that they began this behavior during the recession. While 11% plan to revert back to their original habits, 17% said they will continue to seek discounts often, a significant change which equates to an increase in 19 million households adopting this “new normal” behavior.

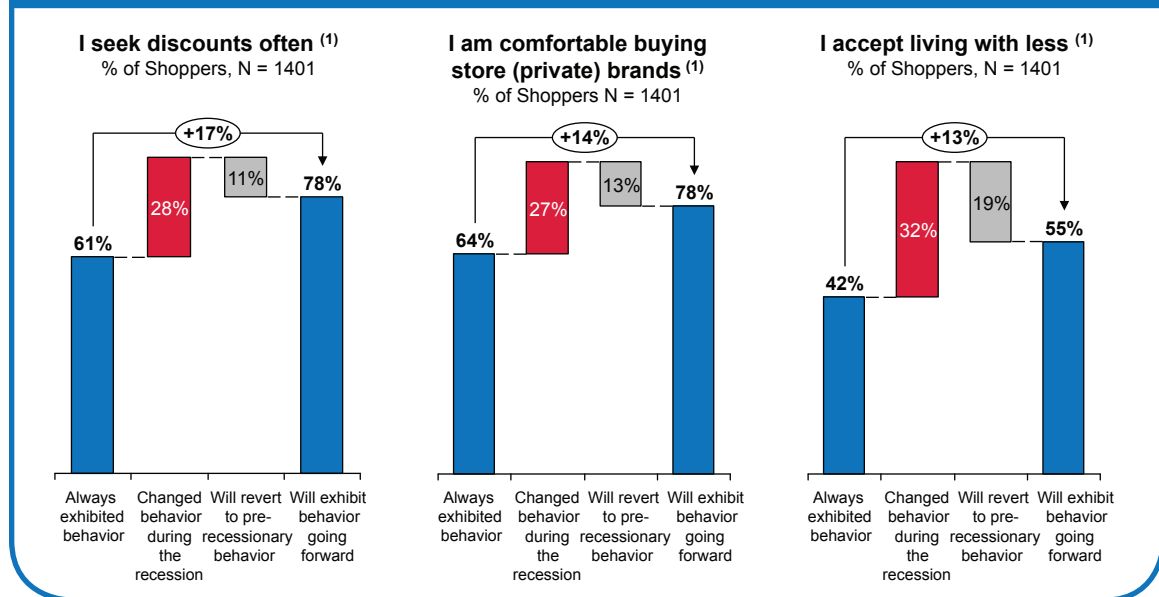
Consumers are also now more willing to accept living with less. While 42% say they have always exhibited this behavior, an additional 32% (37 million households) adopted this behavior during the recession. Post-recession, 13% or 15 million households plan to continue living with less.

VIEW FROM THE C-SUITE

“The customer has changed forever and I think our business has. Because of the economy, shoppers have really started looking for value and they are going to keep doing that.”

Households whose finances were more impacted by the recession were more likely to report that they will continue value-seeking behaviors once the economy improves.

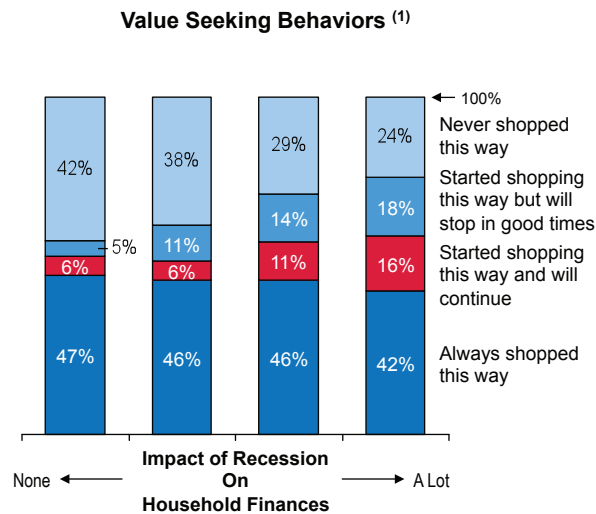
Shoppers adopted new “value seeking” habits during the recession, many of which they plan to maintain permanently



Note: (1) Question: Which of the following statements best describes how the uncertain economic environment of the last few years has affected how you shop? Respondents indicated one of the following statements for each of behaviors listed: a) I have always shopped this way and still do, b) I started shopping more this way than before in last few years and expect to continue shopping this way even after times get better, c) I started shopping more this way in the last few years than before but expect to stop shopping this way when times get better, d) I don't shop this way now. I never did. Highlighted red bar represents % of shoppers reporting b) or c)

Source: Booz & Company analysis

This behavior is most prevalent in households most impacted by the recession – both today and going forward



Note: (1) Aggregation of responses to question: Which of the following statements best describes how the uncertain economic environment of the last few years has affected how you shop? Respondents indicated one of the following statements for each of 18 value-seeking behaviors: a) I have always shopped this way and still do, b) I started shopping more this way than before in last few years and expect to continue shopping this way even after times get better, c) I started shopping more this way in the last few years than before but expect to stop shopping this way when times get better, d) I don't shop this way now. I never did. Not all bars sum to 100% due to rounding.

Source: Booz & Company analysis

VIEW FROM THE C-SUITE

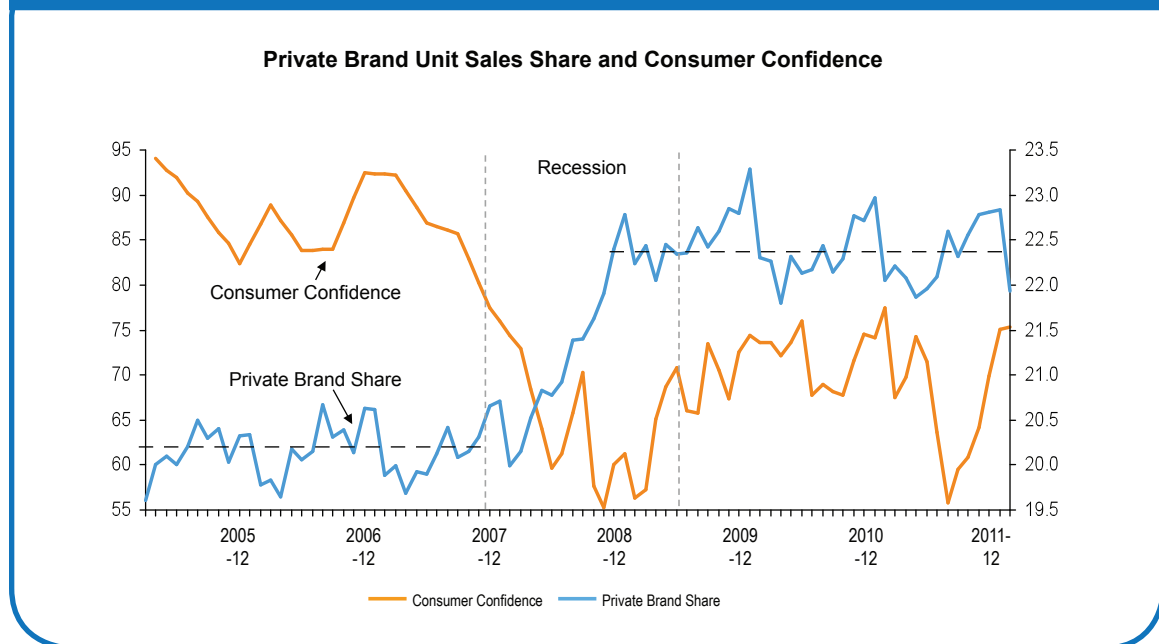
"I've got two customers out there. I got the well paid customer, well educated, that got real conservative in the fall of 2008 and stayed conservative for a while, and only began to return to old habits in 2011...Our other customers lost a job or are at a lower paying job now and are saving money every way they can."

Private Label Brand Use

For retailers, one of the most significant shifts in value-seeking behaviors is how customers changed their approach to private label or store brands during the recession. Nearly two-thirds of consumers (64%) indicated that they had always been comfortable buying private label or store brands. During the recession, an additional 27%, representing 31 million households, said that they were comfortable with these brands. More importantly, 14% plan to continue their private label behavior post-recession, representing an additional bump up of 16 million households that plan to continue purchasing private label brands in the future.

This data is further supported by an analysis conducted by the University of Michigan examining consumer confidence and private label brand share. As consumer confidence fell throughout 2007, private brand market share rose sharply. Private label share has remained consistently high despite the partial rebound in consumer confidence.

Private label sales rose sharply in 2008 – apparently driven by falling consumer confidence – and have stabilized at a new high



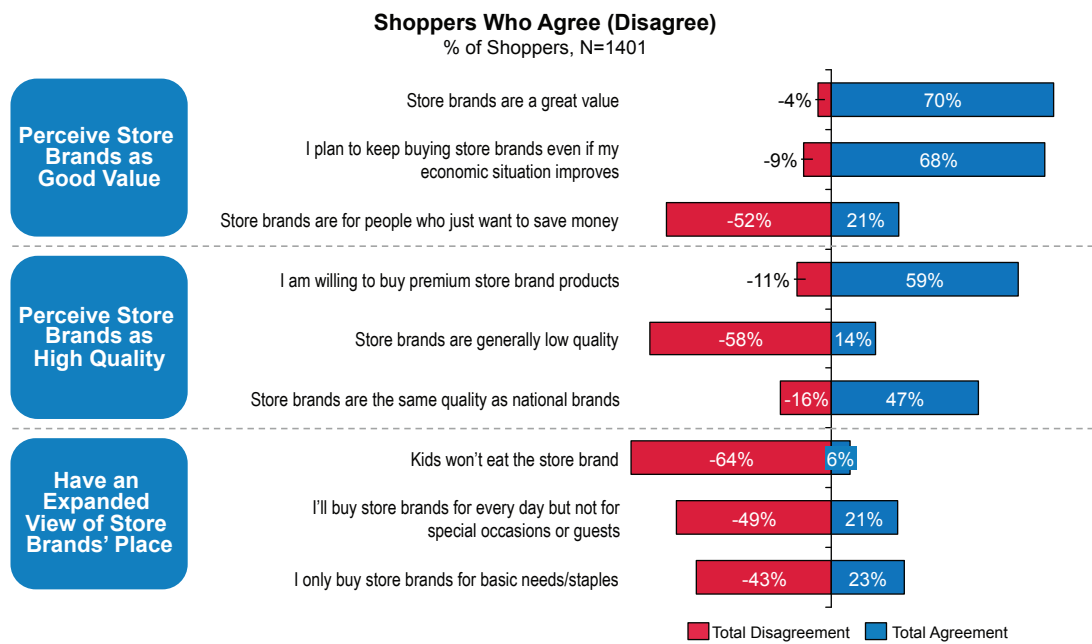
Source: Nielsen, University of Michigan/Thompson Reuters Consumer Sentiment Index: 9/2011 Table 1. The Index of Consumer Sentiment, <http://www.sca.isr.umich.edu>

How customers use private label brands also reflects changes in their view of their value and quality. In the past, private label brands were deemed as “okay for everyday” but not for “special occasions or guests.” Now, nearly half (49%) of consumers disagree with this concept. In addition, more than two-thirds (70%) believe that store brands are a great value while an additional 68% plan to keep buying these brands after their economic situation improves. Nearly half (47%) of consumers currently believe that store brands have the same quality as national brands.

VIEW FROM THE
C-SUITE

**“More shoppers,
out of necessity
and because of
increasing quality
of product are
more comfortable
purchasing private
brands”**

Shoppers appreciate store brands' value and quality and see store brands' place as less limited now than in the past



Source: Booz & Company analysis

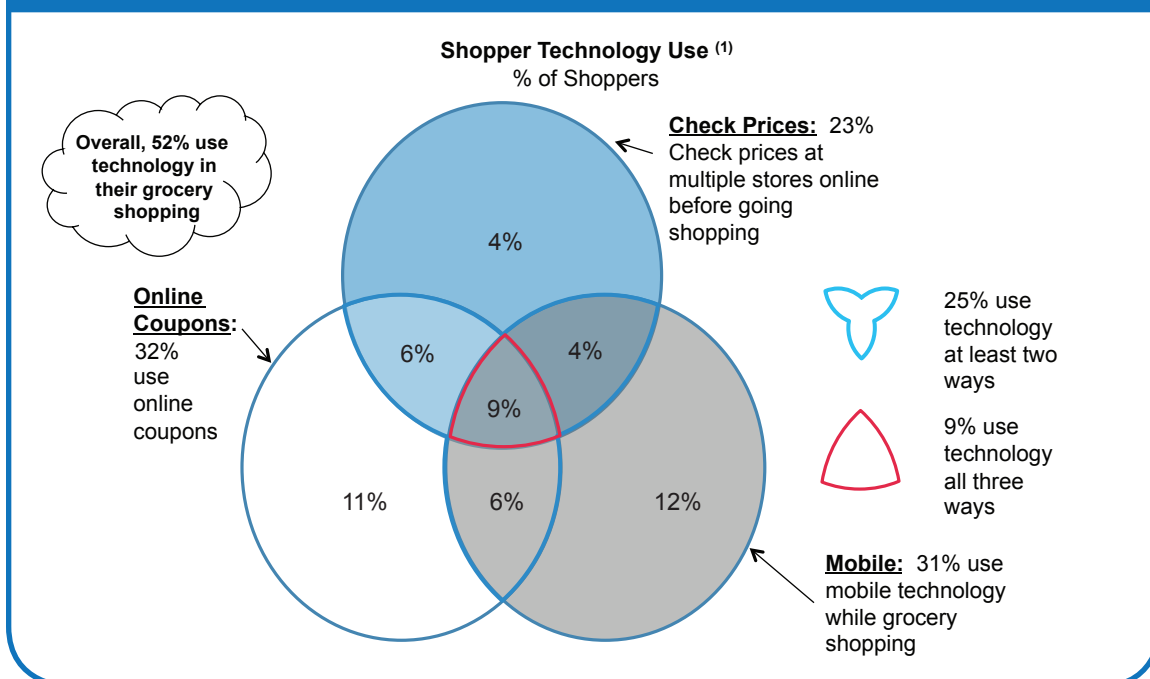
Technology Enhanced Shopping: The Future is Here



There is no question that technology is changing the way consumers shop for groceries. According to Nielsen, half (49.7%) of consumers in the U.S. own a smart phone with numbers rising exponentially. Predictions by Forrester Research are that by 2016, 383 million U.S. consumers will have mobile access to the Internet either by smart phone or a tablet device.

Overall, 52% of consumers use technology in their grocery shopping. Nearly a third (32%) are using online coupons while a nearly equal amount (31%) are using mobile technology when grocery shopping for tasks such as making shopping lists, finding recipes, or researching products. Almost one in four shoppers (23%) are checking prices at multiple stores online before they go grocery shopping. One-quarter of shoppers (25%) use technology in at least two ways when grocery shopping, with one out of ten shoppers (9%) using it in three ways.

Technology is changing how people shop for groceries



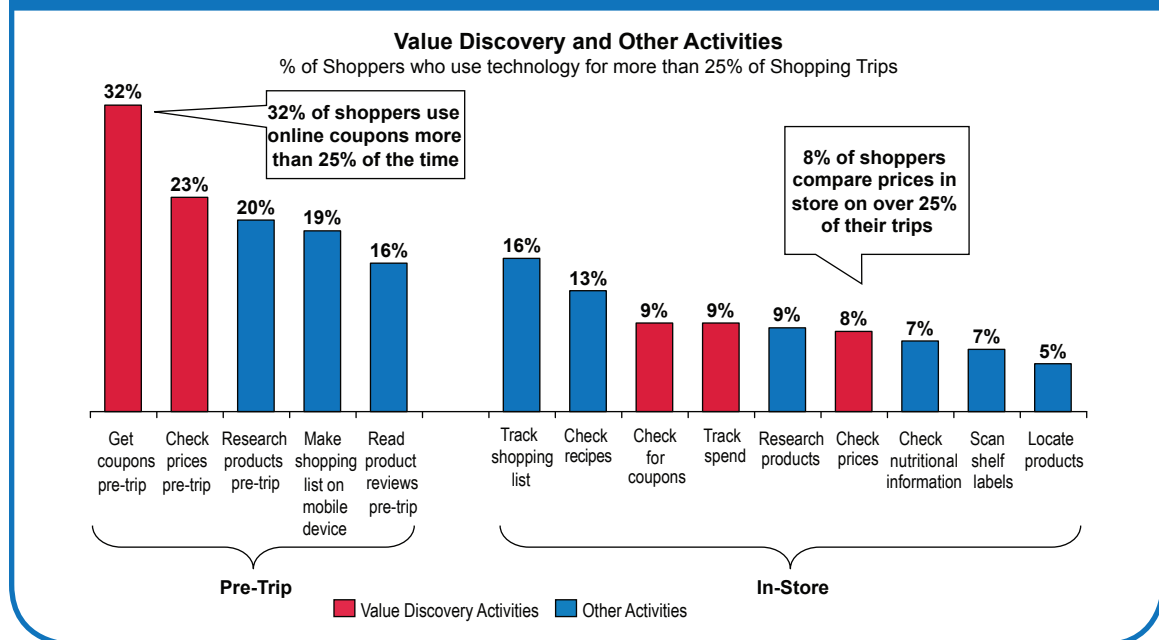
Note: (1) % Shoppers using technology for 25% of shopping trips or more

Source: Booz & Company analysis

Consumer Technology Use: Value Discovery vs. Other Activities

Consumers use technology in various ways before they grocery shop and during their time in the store. Prior to grocery shopping, 32% of shoppers search for online coupons and do this more than 25% of the time. Before arriving at the store, shoppers are likely to use technology or mobile devices to check prices (23%), research products (20%), make shopping lists (19%), or read product reviews (16%). Once in the store, shoppers use their mobile technology to track their lists (16%), and check recipes (13%). Nearly one in 10 customers checks coupons (9%), tracks their spending (9%), researches products (9%) or checks prices (8%) while shopping. Still others look for nutritional information (7%), scan shelf labels (7%), or use technology to locate products within the store (5%).

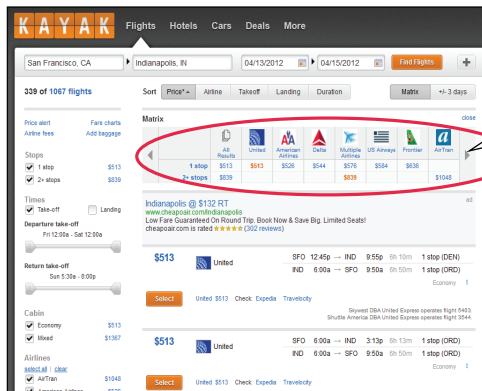
Shoppers use technology most often to obtain lower prices, as well as to research products and make lists



Source: Booz & Company analysis

Just as websites such as Priceline.com or PriceGrabber.com make it easy to compare travel costs or the costs of items, technology is making value-seeking behavior for grocery store items easier for consumers to exhibit. Sites such as Southern Savers and GroceryGuide.com or Pricible.com make comparing prices across grocery stores and other formats easy. In addition, many of these sites offer discount coupons. The result is that grocery shoppers will eventually have the same complete price transparency across different online and offline retailers.

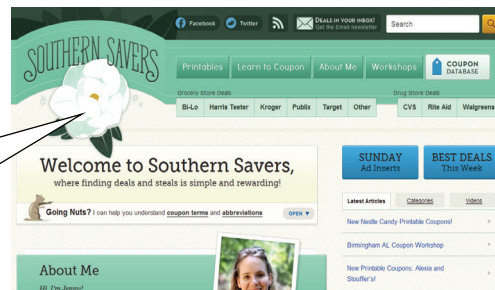
As in other sectors, technology makes value seeking in grocery easier—so value seeking behavior is likely to increase



For several years, digital technology has allowed for instant price comparison in the travel industry

As technology improves, grocery shoppers will have greater price transparency across different online and offline retailers

Southern Savers (southernsavers.com) already identifies the lowest prices for key items across multiple stores



The Growing Impact of E-Commerce



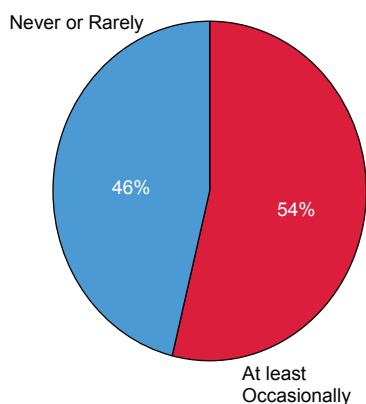
According to Nielsen, online consumer packaged goods (CPGs) sales more than doubled between 2006 (\$5 billion) and 2010 when they reached \$12 billion dollars or about 2% of CPG sales. As the tech savvy generation comes of age and forms households, online sales of CPGs are projected to reach \$25 billion, a 500% increase from 2006 (Source: Nielsen Wire, <http://blog.nielsen.com/nielsenwire/consumer/five-things-to-know-about-online-grocery-shopping/>, accessed May 25, 2012).

Online Grocery Shopping

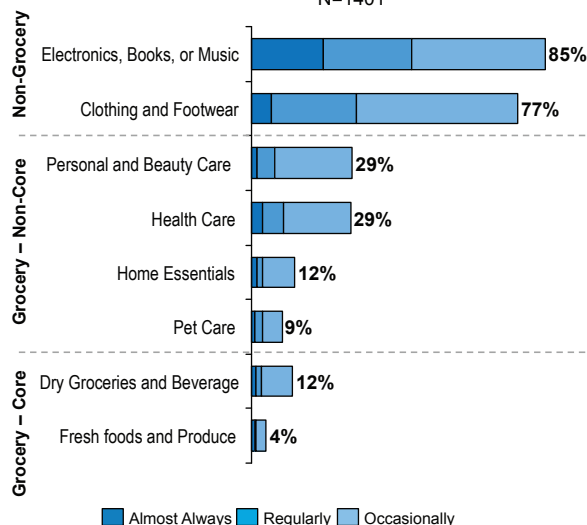
Currently, 46% of shoppers report that they never or rarely purchase groceries online but 54% say they occasionally do. The vast majority of these online purchases are for non-grocery items such as electronics, books and music (85%) or clothing and footwear (77%). Online purchases of grocery items typically include non-core items such as health and beauty products, health care items, home essentials, or pet products. Among those who say they occasionally purchase groceries online, dry groceries (including beverages) and fresh foods/produce are made by very few shoppers.

More than half of consumers purchase groceries online at least occasionally – mostly in specific, non-food categories

Shoppers Who Purchase Grocery Categories Online
% of Shoppers, N=1401



Percent of Shoppers who Make Purchases Online by Category
N=1401



Source: Booz & Company analysis

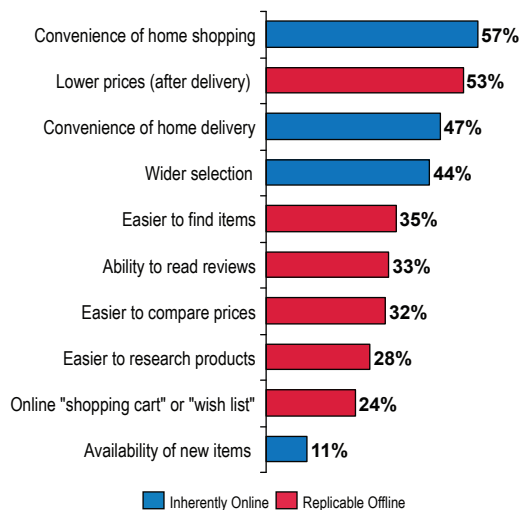
Those consumers who are buying groceries online do so for several reasons; convenience of home shopping (57%) and home delivery (47%) being among the top three reasons. Value or lower prices (53%) is another primary driver for online shopping. In a word, online shopping makes certain aspects of grocery shopping “easier.” Consumers report that it’s “easier” to find items (35%), read reviews (33%), compare prices (32%), and research products (28%).

VIEW FROM THE C-SUITE

“[Our scariest competitors include] Amazon, Soap.com, and Diapers.com because there are so many things in the assortment that are conducive to online shopping.

Consumers buy groceries online for several reasons, some of which traditional stores may be able to address

Why do you prefer shopping online? ⁽¹⁾
N=900



Note: (1) Among respondents who indicated that they had purchased or intended to purchase an item from a grocery category online
Source: Booz & Company analysis

VIEW FROM THE C-SUITE

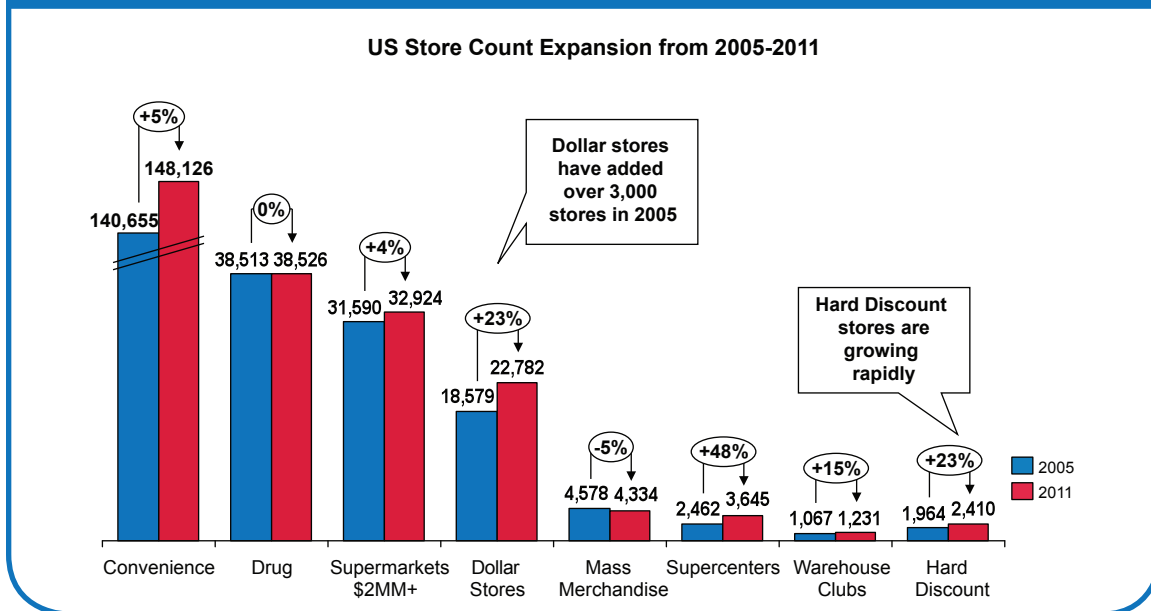
“We would best describe the online experience as simpler, with better pricing, and broader and more relevant assortment.”

Format Innovation: Small Formats Take Hold



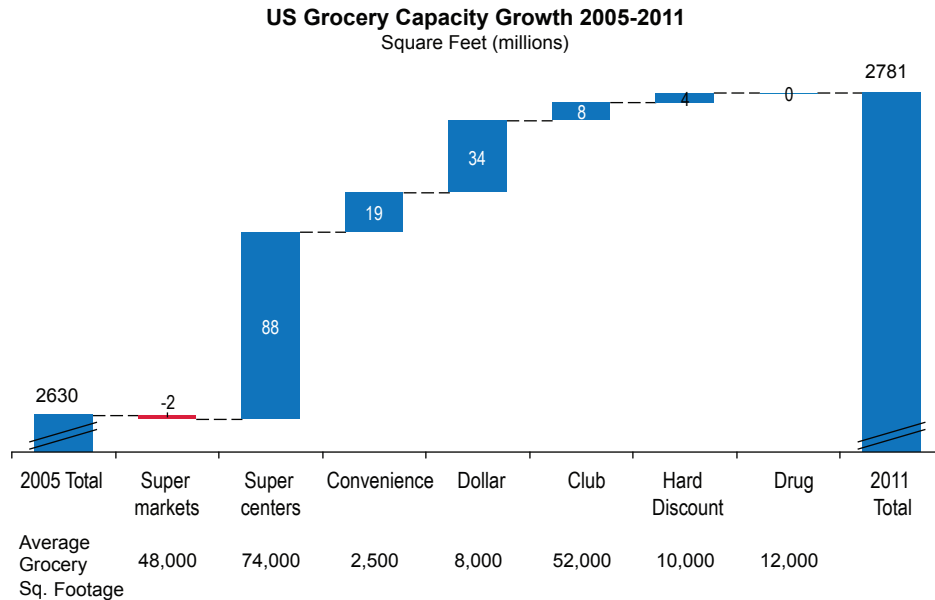
The interlocking effects of the economy, enhanced technology shopping and the rise of e-commerce are having a significant impact on store format innovation. In pre-recession years, retailer growth was accomplished by adding square footage. However, since 2005, traditional grocery stores have not been growing in terms of square footage. This stagnation has occurred while other formats, including convenience stores, supercenters, and dollar stores, have expanded rapidly and added roughly 150 million square feet of grocery category space to their facilities. Since 2005, the number of dollar stores and hard discount stores both grew by 23% and supercenters by 48%, while supermarket numbers only grew by 4%.

New small format stores – particularly Dollar and Hard Discount stores – are expanding rapidly



Source: Nielsen US Retail Trends, March 2, 2012

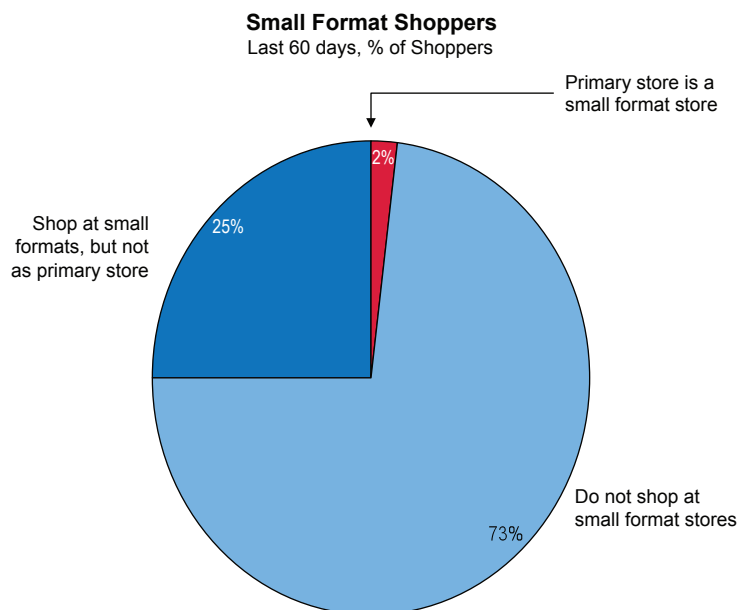
While supermarkets have not grown, other formats have added roughly 150M square feet of grocery category space since 2005



Source: Nielsen US Retail Trends, March 2, 2012, Nielsen TDLinX Data set (store counts). Various sources for average square footage per store.

Approximately 25% of consumers shop at small format stores but very few (2%) consider it to be their primary store. While only 1 in 10 shoppers of small format stores list it as their primary store, about a third of consumers visit smaller formats for the quick trip, fill-in function. While the number of small format stores has grown faster than traditional grocery stores, a significant majority (75%) of consumers report that they never shop at small format stores.

About a quarter of shoppers visit small formats – though not generally as a primary store

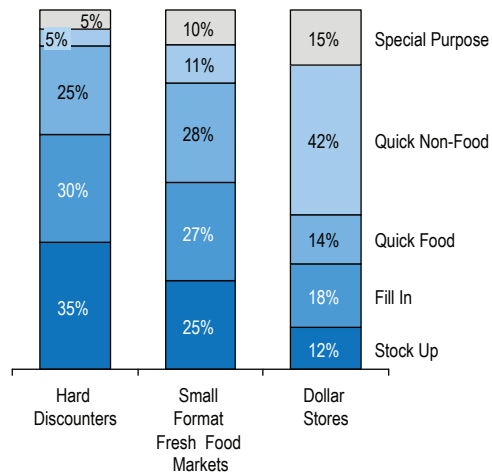


Source: Booz & Company analysis

The types of trip visits that shoppers make to small format stores vary significantly from format to format. For example, hard discounters are visited 35% of the time for stock up trips, while 12% of dollar store visits are for this purpose. Similarly, small format fresh food markets are used only 11% of the time for quick non-food items, but dollar stores receive 42% of their traffic for these trip types.

Shoppers frequent most small formats for quick and fill in trips; hard discounters are the exception

Distribution of Small Format Trips by Trip Type



Note: Shoppers included in pie chart analysis are all survey respondents who reported shopping at any one of five small-format banners—including supermarkets and dollar stores but excluding convenience and drug stores—in the past 60 days.

Source: Booz & Company analysis

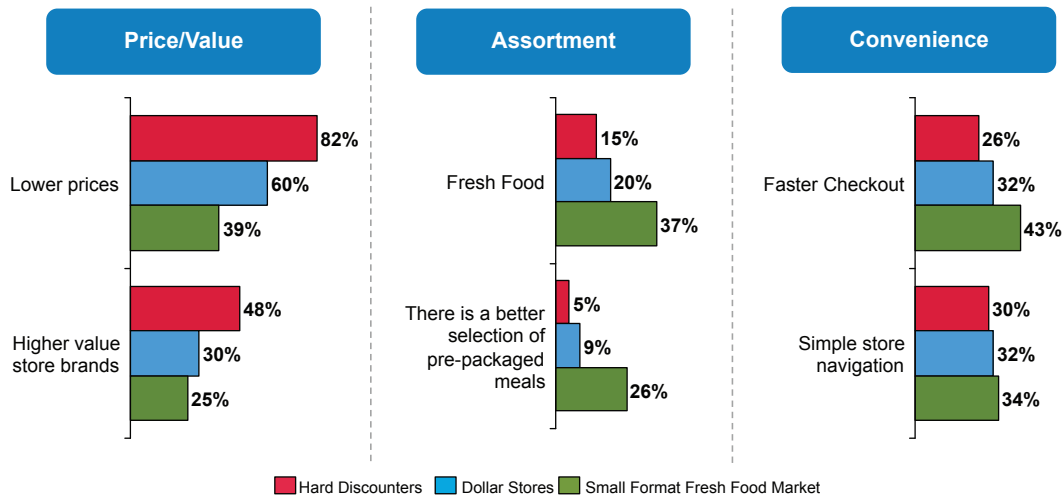
TRIP TYPE DEFINITIONS

- Stock Up—** A weekly trip to stock up on items you will use over the next week or more
- Fill In—** A “fill-in” trip to purchase more of something you have run low on between stock ups
- Special Purpose—** A trip for a special purpose such as a party, as opposed to your household’s everyday needs
- Quick Food—** A quick trip to purchase a few food items (milk, eggs)
- Quick Non Food—** A quick trip to purchase a few non- food items (trash bags, dish soap)

Shoppers go to small format stores instead of more traditional stores for three primary reasons: price or value, assortment, and convenience. Within each of these areas, each format has its strengths and weaknesses. Differentiation is a significant factor among small format stores, the most successful ones are those hitting two of those primary areas. For example, consumers visit hard discounters and dollar stores because of their lower prices, but not as much for their fresh foods. Similarly, consumers who need to check out faster are more likely to select the convenience of a fresh food market that may also be simple to navigate.

Different small formats compete with very different value propositions

Why Shoppers Go to Small Format Stores Instead of More Traditional Stores
(% of Shoppers who shop at a particular store and rated category as an important reason why)



Source: Booz & Company analysis

VIEW FROM THE C-SUITE

“Small format stores have to offer something more than being small and convenient to be successful.”

“Comparisons between the US and Europe on small formats could not be more stark, most of the small format stores launched in the US in the last few years have not been successful, and are not profitable.”

“We operate smaller stores about the same way we operate larger stores, which may be why we aren’t successful with them.”

Other Key Trends



Merchandising Innovation

While consumers adopt new behaviors to take advantage of the various attractions of small format offerings, retailers are adopting traditional store innovations designed to keep shoppers returning. Retailers are turning categories into departments, designing total merchandise solutions, developing affinity displays, and generally re-thinking assortments and shelves. Examples include turning the pet food aisle into a holistic pet care/thirst center, creating spring cleaning or health and wellness sections that bring together multiple categories around a common theme, and linking items that represent a shopper needs state into solution sections, like cough and cold or well-baby.

It is clear that retailers are using multiple techniques to change the in-store experience at an increasingly rapid pace

68%	<i>Implementing some level of “affinity based/driven” merchandising programs</i>
56%	<i>Integrating “private brands” in key merchandising platform solutions</i>
51%	<i>Rethinking a more efficient and effective approach/process to execute better in-store</i>
46%	<i>Challenging the merchandising organization to simplify the shopping experience</i>
42%	<i>Redesigning assortments to better meet shopper needs, usage states and occasions</i>

Note: Based on interviews with several chief merchants and/or senior merchandising executives, January 2012.

Source: Interviews conducted by Thom Blischok; Booz & Company Analysis

Some initial reviews are showing that consumers are responding to these types of merchandising innovations and that they can help boost sales. Retailers are recognizing the opportunities available through merchandising innovation.

Early measures of merchandising innovations in three new-format stores demonstrate that they can boost sales

Department Revenue Growth
In Stores that Implemented Platform Merchandising

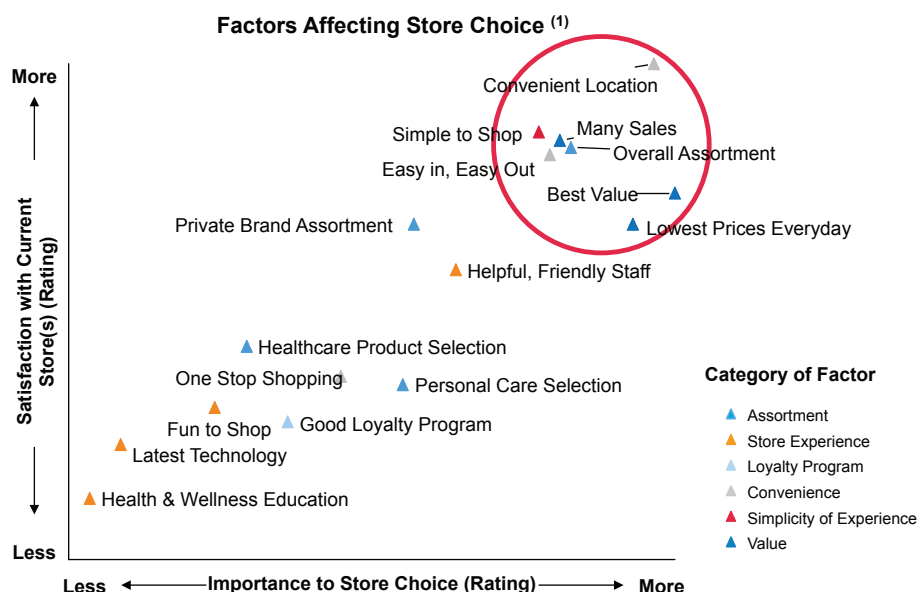
Positioning	Category to Department Re-design	Store 1 (Western Region)	Store 2 (South Central Region)	Store 3 (Northeast Region)
On Me	Personal Care/Beauty	60%	33%	11%
	Baby Care	57%	7%	2%
In Me	Food and Beverage	40%	28%	10%
	Health Care	62%	33%	14%
Around Me	Auto Care	77%	24%	-41%
	Household Care	46%	27%	8%
	Pet Care	47%	30%	13%
Total Store		41%	28%	10%

Note: Time Period: Opening date to 1/23/2011 vs. YAGO- Store Format Redesign

Source: SIG Retailer Innovation Case Studies

But while merchandising innovations focused around solutions and sections are making an impact, simplicity of the shopping experience remains a key factor affecting the shopper's choice of stores.

Simplicity of shopping experience is among the strongest factors affecting shoppers' choice of stores



Note: (1) Question: What factors are most important to you when you are selecting a store?

Source: SymphonyIRI Brand and Retailer Marketing Innovation Survey 2011, n = 1000

VIEW FROM THE C-SUITE

“We believe that changing the in-store experience is critical to our long-term success. We are focusing our merchandising organization to help us differentiate through delivering needs- and wants-based platforms”

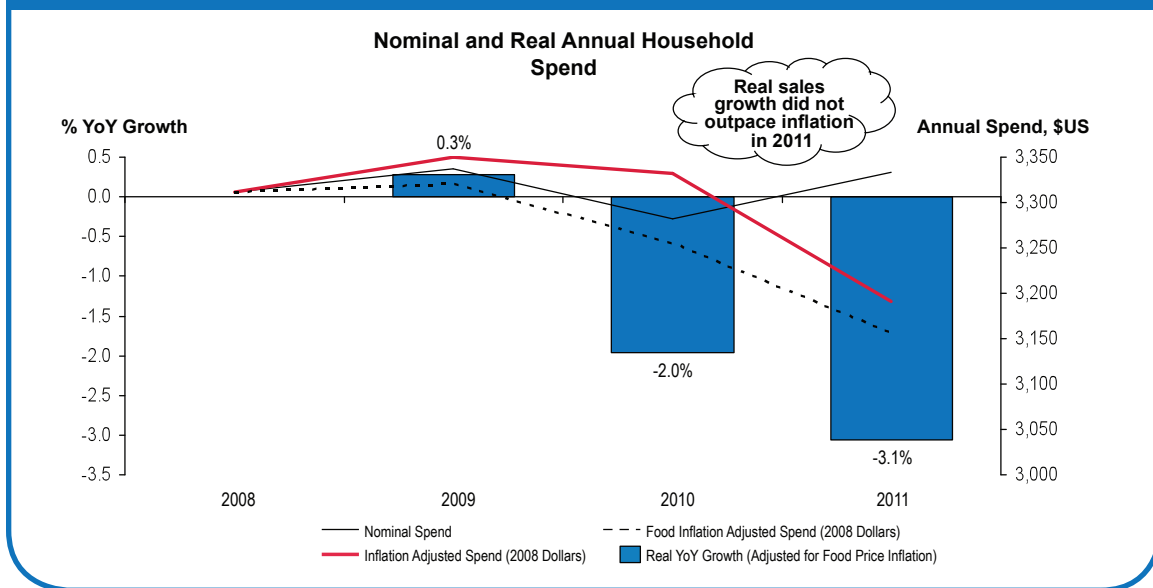
“We can’t just keep putting more in the store. We must both display it better as well as help simplify the overall in-store experience.”

“We have to rethink merchandising from items to ideas. Historically we sold our shoppers merchandise to fill their pantries. They are now asking us for help in understanding how to live better lives.”

Grocery Expenditures

Although nominal expenditures on groceries went up slightly in 2011, when adjusted for inflation, consumer households spent 3.1% less on groceries in 2011 than in 2008.

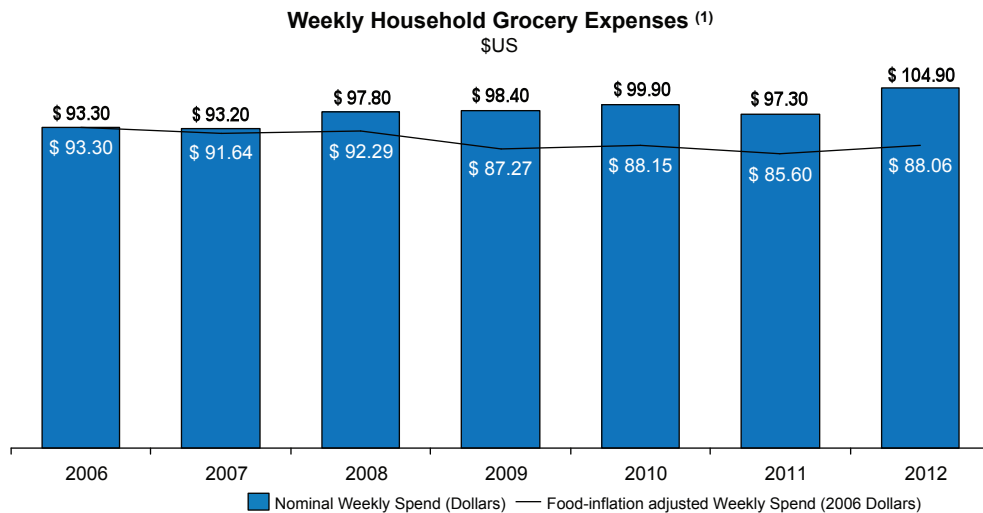
Per household growth in grocery spend has been anemic—significantly below inflation



Sources: Symphony IRI (nominal grocery spend); USDA Consumer Price Index for Food at Home <http://www.ers.usda.gov/Briefing/CPIFoodAndExpenditures/Data/cpiforecasts.htm>; Booz & Company analysis

In 2012, the average weekly household grocery spend in nominal dollars rose to \$105, but in actuality the overall adjusted trend has been downward since 2006. The spend per trip averaged \$48, somewhat lower than last year (\$57) but continues an upward trend that began in 2006.

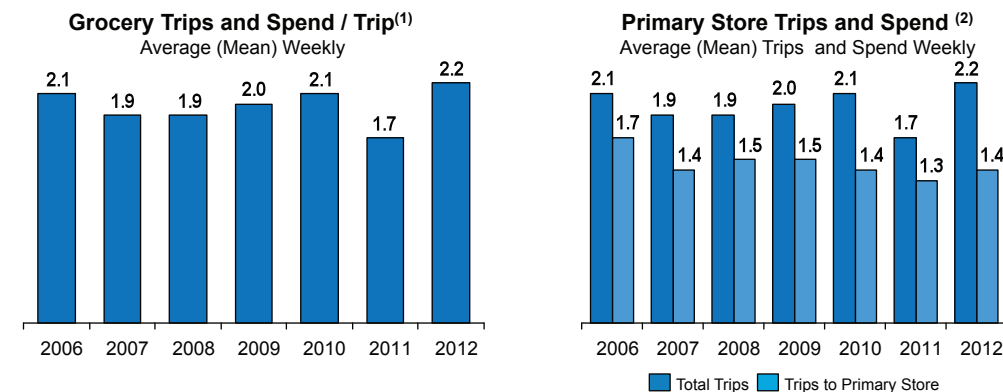
In 2012, average weekly household spend rose slightly – in real terms the trend has been downward over the last several years



Note: (1) Survey question, presented in February or March of each year: Approximately how much do you spend each week on groceries for your family?

Source: FMI U.S. Grocery Shopper Trends 2011, 20; USDA Consumer Price Index for Food at Home <http://www.ers.usda.gov/Briefing/CPIFoodAndExpenditures/Data/cpiforecasts.htm>; Booz & Company analysis

Average weekly trips also rose while primary store share of wallet declined



	2006	2007	2008	2009	2010	2011	2012
Spend	\$93.30	\$93.20	\$97.80	\$98.40	\$99.90	\$97.30	\$104.90
Spend / Trip	\$44.43	\$49.05	\$51.47	\$49.20	\$47.57	\$57.24	\$47.68

	2006	2007	2008	2009	2010	2011	2012
Primary Store Spend	\$72.21	\$70.70	\$75.80	\$75.40	\$75.28	\$74.70	\$72.86
Primary Store Share	77%	76%	78%	77%	75%	77%	69%

Notes:

1 Question: About how many visits do you make to a supermarket or grocery store in an average week? Please include going to the same store more than once, as well as going to different stores. Your best estimate is fine.

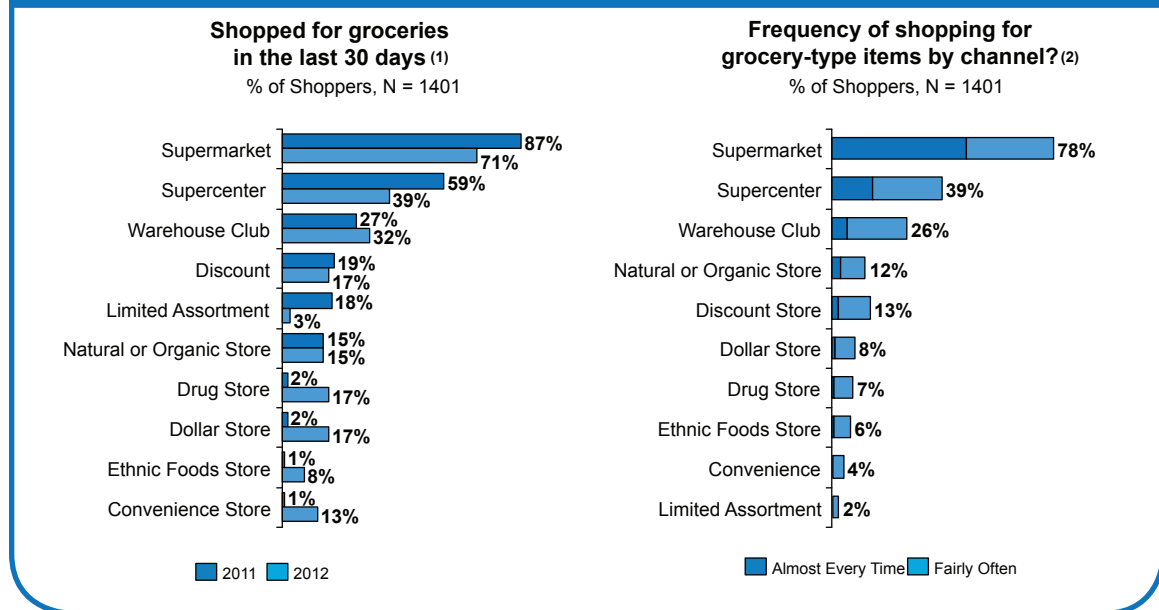
2 Questions: Of these visits, how many are to [your primary store]? Of the [amount] you spend in an average week for groceries, how much is spent at [your primary store]?

Source: Booz & Company analysis

Trips per Week

After a six year low in 2011 of 1.7 grocery trips per week, consumers reported a rise in weekly visits to 2.2. However, primary stores lost share of weekly spend since they accounted for only 69% of weekly trips. The remaining 31% of store trips went to other types of stores and formats. Warehouse clubs, drug stores, dollar stores, ethnic foods stores and convenience stores all saw increases in patronage while traditional supermarkets, supercenters, discount stores, and limited assortment stores saw decreases in visits.

Club, dollar, and drug stores seem to have gained trips at the expense of larger-assortment supermarkets and supercenters



Notes:

(1) Question: Please indicate the stores where you've purchased grocery type items in the past 30 days. Please select all that apply (from list of store formats, not individual stores, provided).

(2) Question: When you need grocery-type items, how often do you shop at the following...?

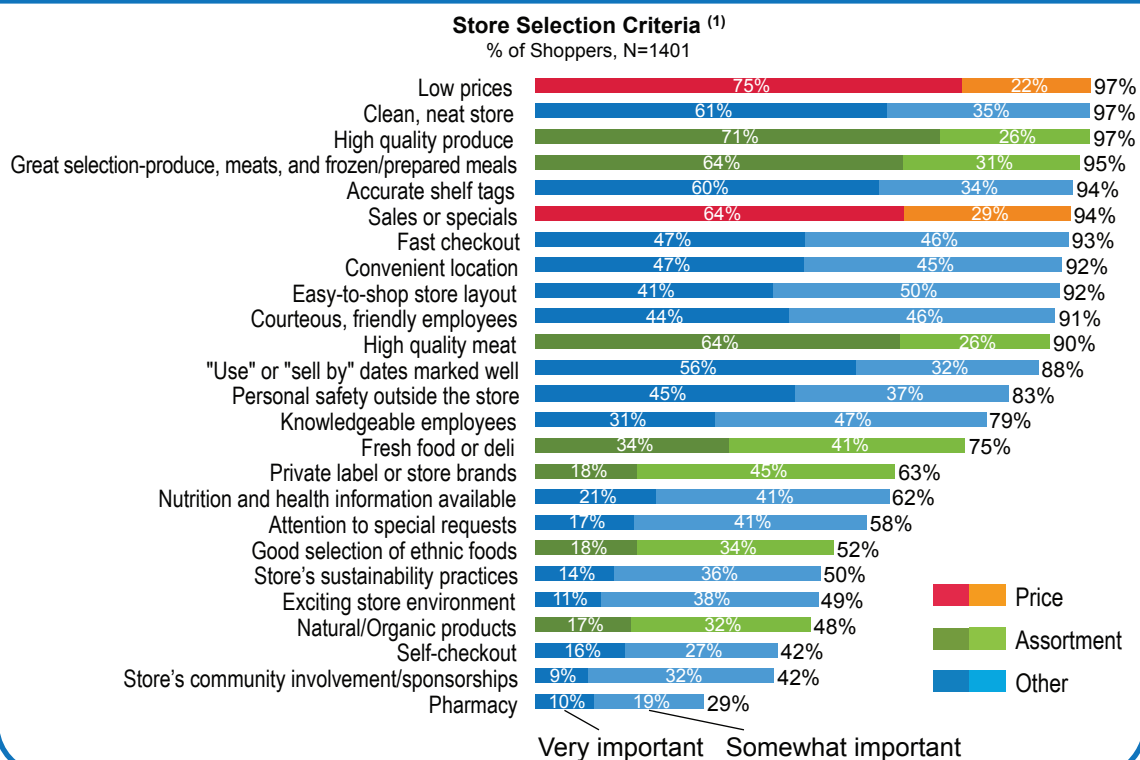
Source: Booz & Company analysis

Factors Affecting Primary Store Selection

In 2012, the top four factors that consumers reported to be somewhat or very important in their selection of a primary store were price (97%), cleanliness (97%), high quality produce (97%), and a great selection of items (especially produce, meats, and frozen/prepared items) (95%).

Additionally, other top factors that consumers rated as very important in their choice of a primary store included sales or specials (64%), high quality meat (64%), accurate shelf tags (60%), and easy to find “use” or “sell by” dates (56%).

Price, assortment, cleanliness, and convenience are the most important factors affecting primary store selection



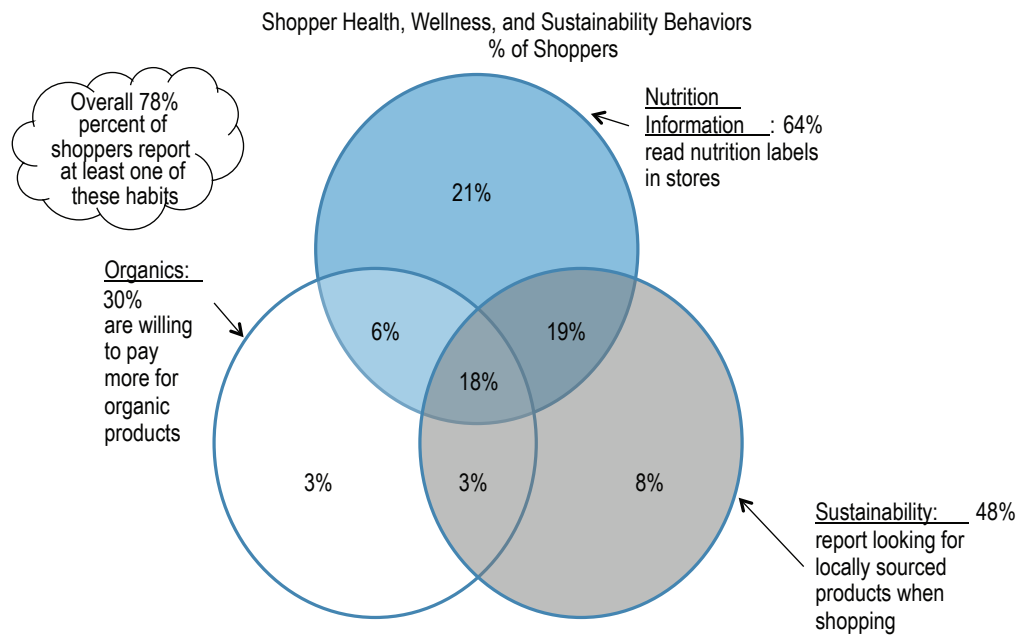
Note: (1) Question: Please indicate how important each of the following is to you when you select a primary store.

Source: Booz & Company analysis

Shoppers' Interest in Health, Wellness and Sustainability

While shoppers may be spending fewer real dollars at the grocery store, and are more interested in value than ever before, their interest in health and wellness and sustainability has rebounded tremendously, outpacing traditional product categories. For example, 78% of shoppers report interest in reading nutrition labels, paying more for organic products, or looking for locally sourced products.

Some element of health and wellness is important to more than three quarters of shoppers



Source: Booz & Company analysis

Over 40% of consumers feel that health and wellness products are “worth spending a little more on” and organics sales have outpaced overall sales growth since September of 2009.

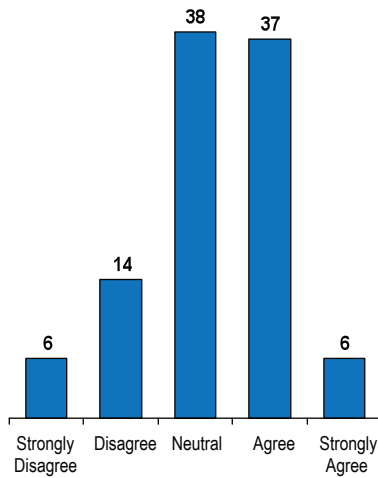
VIEW FROM THE C-SUITE

“We see double digit growth in organic even in some of the poorest neighborhoods we serve.”

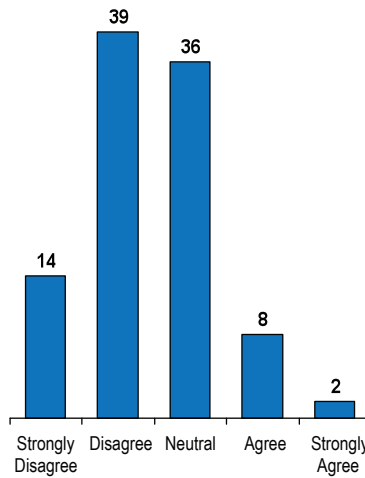
“Health and wellness is an enabler now. It’s the price of admission.”

Many consumers continue to demand premium health and wellness products

"Health and Wellness products are worth spending a little more on"
% of Shoppers



"I care less about Health and Wellness now than I did before the recession"
% of Shoppers



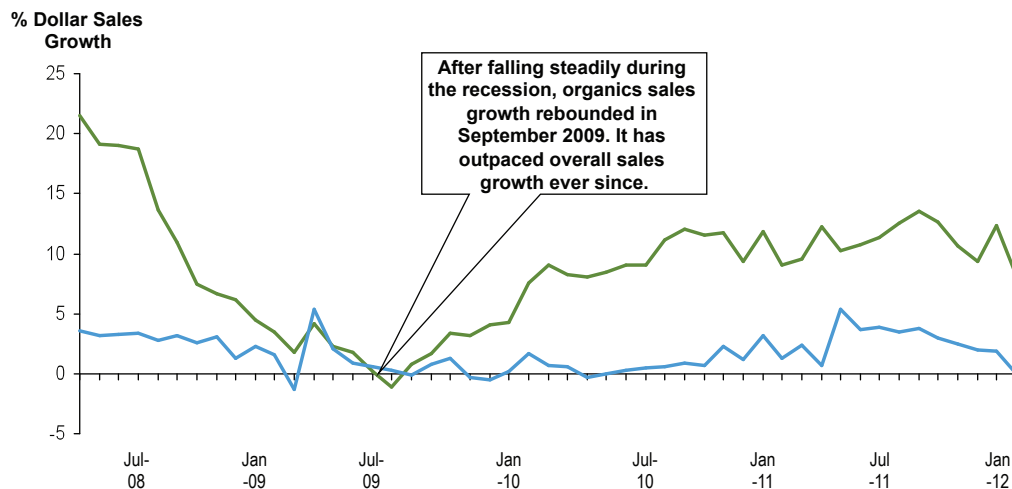
Health and Wellness Products

- Perishable foods that are inherently healthy (e.g. broccoli)
- Packaged foods with health claims
- Household products with health claims on their labels

Source: Booz & Company analysis

Organics seem to be making a post-recession comeback

Organic vs. Overall Sales Growth Over Time



Source: Nielsen

Environmental sustainability has also made inroads with consumers in terms of both product choice and retailer choice. Almost one-third of shoppers report that products' environmental sustainability impacts their shopping decisions and just over one-fifth of shoppers consider retailers' corporate sustainability practices when deciding whether to purchase from them.

Confidence in Food Safety

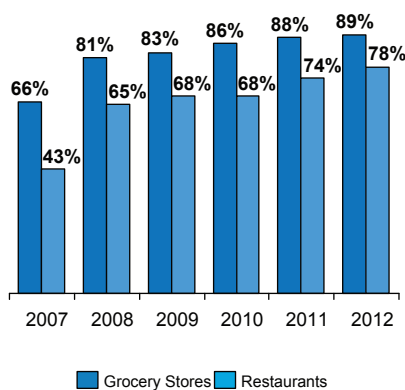
In 2012, confidence in food safety remains steady and strong with 89% of consumers reporting that they are mostly or completely confident that the foods available in grocery stores are safe. In comparison, 78% of consumers are mostly or completely confident in the safety of restaurant foods. Confidence in the food safety at grocery stores has grown steadily from 2007 when it was at a low of 67%.

When asked about specific categories of food items, consumers are moderately confident in the safety of produce (53%) and meat and poultry items (49%) but these numbers have taken a slight dip from 2011. In addition, consumers are significantly more confident in 2012 about the safety of prepared foods but overall, fewer than half (43%) of consumers feel that these foods are safe.

Confidence in grocery store food safety remains steady and strong—though restaurants seem to be closing the gap

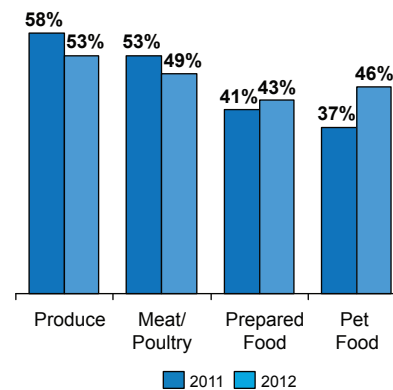
Grocery Store vs. Restaurants ⁽¹⁾

% of Shoppers who are
"Mostly" or "Completely" Confident
N = 1401



Category by Category ⁽²⁾

% of Shoppers who "Strongly Agree"
N = 1401



Notes:

(1) Questions: How confident are you that the food in your grocery store is safe? How confident are you that restaurant food is safe?

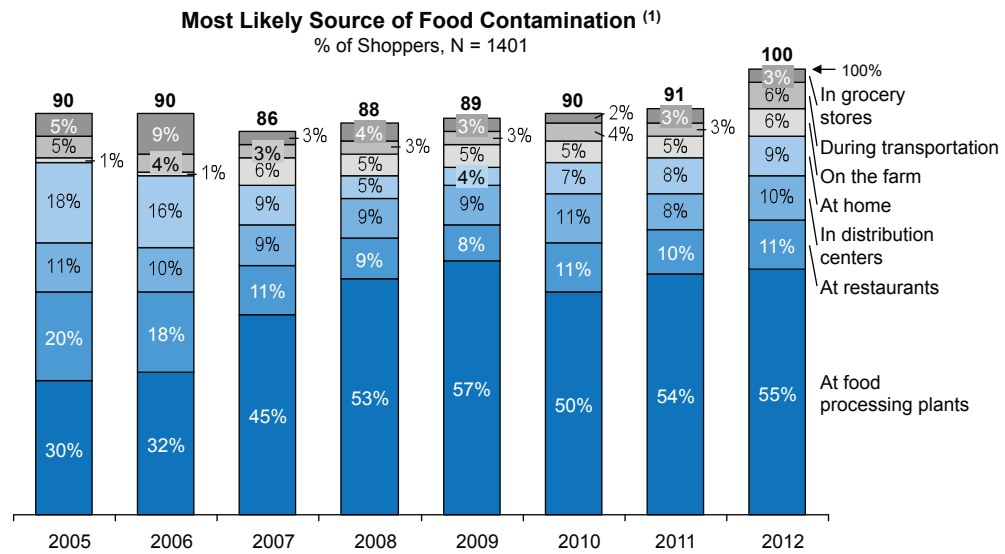
(2) Question: I trust the [category] my grocery store sells.

Source: FMI U.S. Grocery Shopper Trends 2011; Booz & Company analysis

In general shoppers continue to trust domestic food over international food with food produced and/or grown in the United States (97%) and Canada (93%) most trusted and Africa (34%) and China (33%) least.

Continuing a trend that has held steady since 2007, consumers see grocery stores as the least likely place for food safety problems to originate.

Shoppers continue to trust grocery stores – only 3% think stores are the most likely place for food safety problems to originate



Note: (1) Question: Where do you think food safety problems are most likely to occur?

Source: FMI U.S. Grocery Shopper Trends 2011; Booz & Company analysis

Most consumers (36%) recognize their individual responsibility in ensuring that the products they buy are safe and recognize the risk (75%) of food contamination at home.

Conclusions



This year's research indicates that consumers are increasingly focused on value and value-seeking behaviors, and that more are using technology as well as online shopping as tools when they grocery shop. In addition, their loyalty to private labels, although still new, is a trend that can be advantageous to retailers.

As consumers continue to adopt technology and seek value when they grocery shop, retailers will continue to provide the services and programs that customers want. For example, retailers can continue to explore:

- Online shopping/ social media experiences for customers;
- Private label promotion programs for customers using recipes, demos, and merchandising displays;
- Approaches that target value-seeking behaviors to attract and then keep customers such as having weekly online specials or loyalty programs for online shoppers;
- Value-added services. Since packaged goods can be bought in a variety of locations, what will distinguish retailers from other formats are the availability of perishables (meat, produce and bakery) and programs that enhance the shopping experience (e.g., health and wellness programs, cooking demonstrations, innovative ways to make shopping more convenient).

Methodology



The Data for *Trends* 2012 were collected through a custom survey using an internet methodology. The surveys focused on online shopping behaviors and small format use and were conducted in January 2012 among a nationally representative sample of 1,650 U.S. shoppers. The 2012 study includes interviews with about a dozen grocery CEOs and senior executives (as well as Booz & Company experts from around the world). Additionally, FMI and Booz and Co. collaborated with leading data providers the Nielsen Company, SymphonyIRI Group, VideoMining, and Intelligent Clearing Network (ICN) to gauge the current state of food retailing in the U.S. market.

Sample Selection

The surveys were collected through Research Now's online database, comprised of several million respondents who have agreed to participate in survey research. Interviews took place using a self-administered, online questionnaire.

The respondents must have the following requirements to participate in the survey:

- A minimum of 18 years of age.
- Having primary or equally-shared responsibility for food shopping.
- Have shopped for groceries in the past two weeks.

The sample was controlled to match the census profile by income, ethnicity and age. The resulting distributions were close matches for most categories. The exception was respondents with incomes lower than \$25,000. The sample is short on this lowest-income group

Additional Reading



Additional information about some of the trends highlighted above is available from a variety of industry sources. These include:

“The Coherence Premium.” Leinwand, Paul and Mainardi, Cesare. June 2010.
http://www.booz.com/global/home/what_we_think/cds_home/hbr_article

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“Stop Blaming Your Culture: How to Use Your Organisation’s Culture to Accelerate Change.” Katzenbach, Jon and Harshak, Ashley. Spring 2011. <http://www.strategy-business.com/article/11108?gko=f4e8d>

“Study Shows Shopper Behavior” *Supermarket News*. January 30, 2012. <http://supermarketnews.com/consumer-trends/study-shows-shopper-behavior>

“Three Reasons Why Studying Shopper Behavior Is Important.” *Shopper Tech Update*. Volume 3, Issue 8. April 23, 2012. <http://www.shoppertech.org/sm042312.html>

“Trouble in Aisle 5.” Mushkin, Scott et al. Jefferies. June 2012. http://www.jefco.com/pdfs/TroubleinAisle5_062712.pdf

“Validation and Electronic Clearing of Paper Coupons at POS Solves the Problems of Mis/Malredemption and Fraud for the Coupon Industry...” Thibedeau, Rich. Intelligent Clearing Network. July 2012. <http://icn-net.com/docs/ICN%20White%20Paper%20on%20Paper%20Clearing%204-10b.pdf>



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