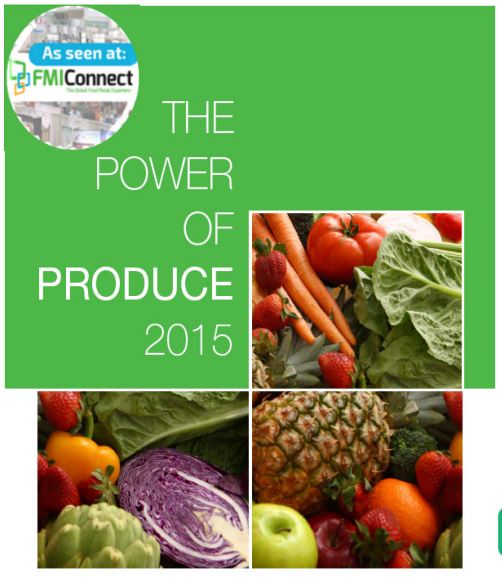
THE POWER OF **PRODUCE** 2015



An in-depth look at the produce department
through the shoppers' eyes

Presented by:
Anne-Marie Roerink | 210 Analytics

Made possible by:

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FMI
THE VOICE OF FOOD RETAIL

210analytics

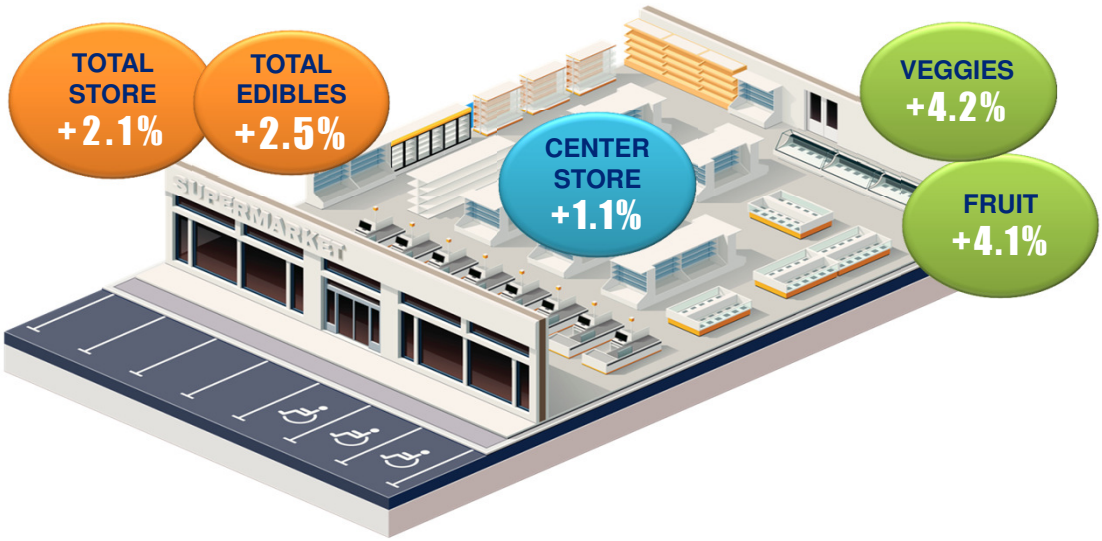
THE POWER OF **PRODUCE** 2015

The big business of produce

- **Differentiation**
  Focus on fresh is the most used & effective tactic
- **Big**
  99% household penetration
  45 trips annually | $327 spend per year
  $60 B business
- **Profitable**
  Highest sales per labor hour | Lowest perishable shrink
- **Growing**
  In conventional, organic and value added

Sources: FMI *Speaks 2015* | IRi, 2014 MULO, $ growth | Nielsen, 52 wk panel data

THE POWER OF **PRODUCE** 2015



Source: IRi 52 weeks ending 2014 in MULO; $ growth

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Today's agenda

MEGA TRENDS	PRE-TRIP PLANNING	PURCHASING DECISION	CHANNEL CHOICE
CONSUMPTION & PREPARATION	MILLENNIAL OPPORTUNITY	PARENT OPPORTUNITY	IMPROVING THE PRODUCE DPT

Local

Organic

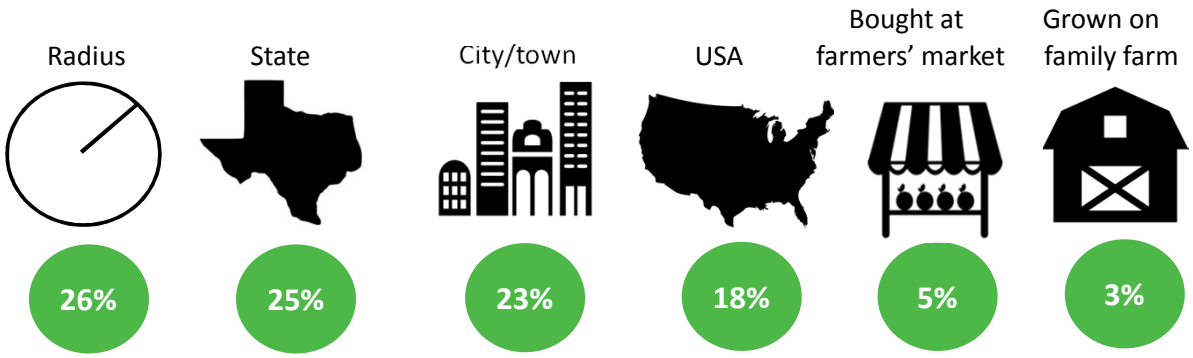
MEGA TRENDS —
THEY INFLUENCE ALL OF US

Local is a game winner

- **48%** buy food items *specifically* for being local
- **Top requested items**: fruit and vegetables
- **Key buying reasons**:
  - Freshness
  - Support of the local economy/farmers
- **58%** are very interested in more local produce items

 48%: Source: Retail Feedback Group

So… what is locally-sourced produce?



Opportunity to self-define based on area/store philosophy

Hyper local

State level

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How about local versus organic?

Choice if equal quality; **no price differential**

	8%	**66%**	**26%**
Farmers market shoppers	3%	81%	17%
Organic shoppers	3%	57%	40%

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How about local versus organic?

Choice if equal quality; **with price differential**

	$1.99 **31%**	$2.39 **51%**	$2.99 **18%**
Farmers market shoppers	18%	65%	17%
Organic shoppers	20%	51%	29%

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Organic produce $ growth outpacing conventional

$ sales growth	Conventional	Organic
	+3.4%	+20.7%
	+3.0%	+19.1%

FMI | The Power of Produce© 2015

Source: IRi 52 weeks ending 2014 in MULO; $ growth

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Along with real volume growth

lbs sales growth	Conventional	Organic
	0.0%	+12.7%
	+0.1%	+22.0%

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Source: IRi 52 weeks ending 2014 in MULO; lbs growth

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Organic produce household penetration surpasses 50%

52%
Purchased in past 3 months

Up from 1/3 in 2009

36%
Don't buy organic produce

- **67%** Too expensive
- **36%** No added benefits
- **15%** No info on benefits
- **13%** Not available
- **11%** Lesser taste

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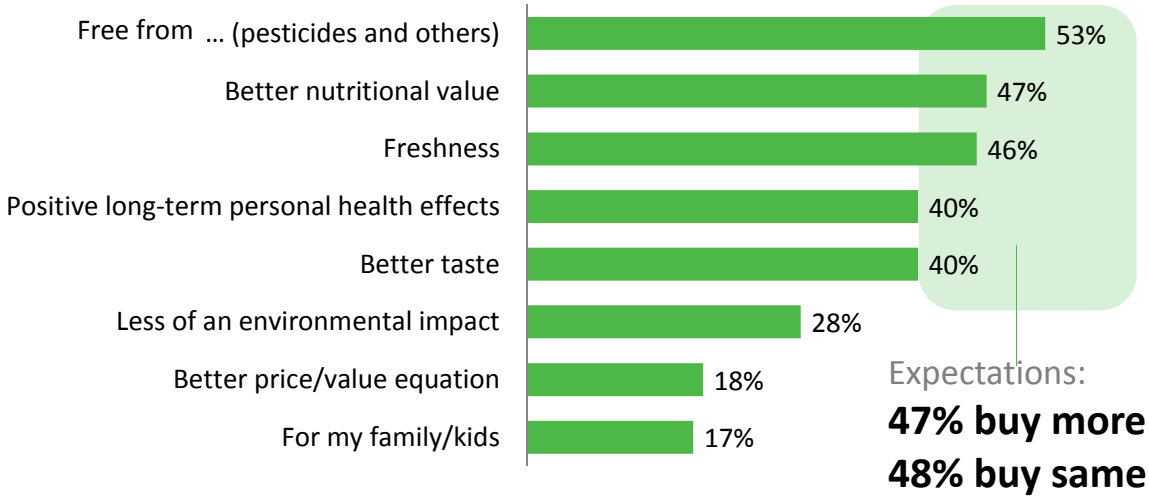
Reasons for purchasing organic produce



Expectations:
47% buy more
48% buy same

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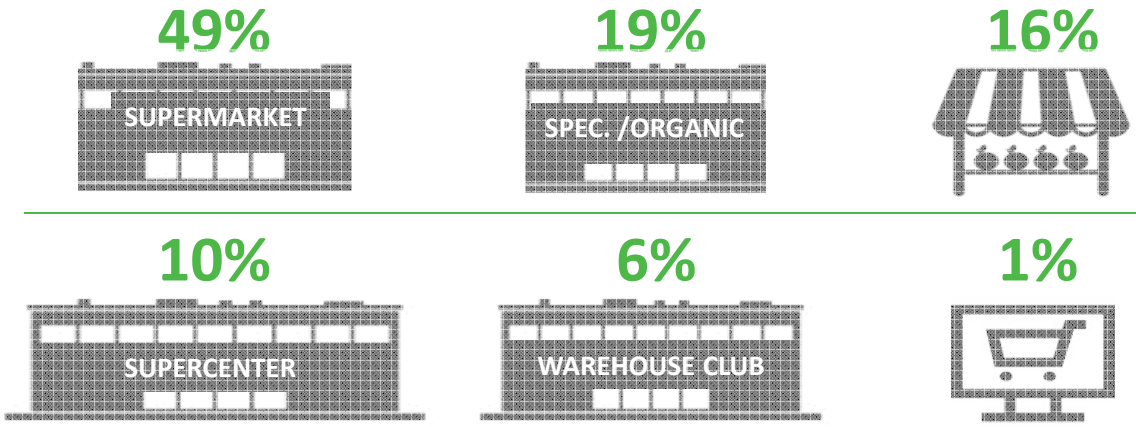
Organic produce purchase is fragmented

Primary channel for organic produce



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Reaching a tipping point

- Continued organic growth very likely
  - Growing household penetration
  - Growing baskets among current buyers
  - Growth rates have compounded 17%+ for 5+ years
- Retailer decisions
  - Rationalizing conventional and organic items
  - Locking long-term supply
  - Understanding the relation between local and organic

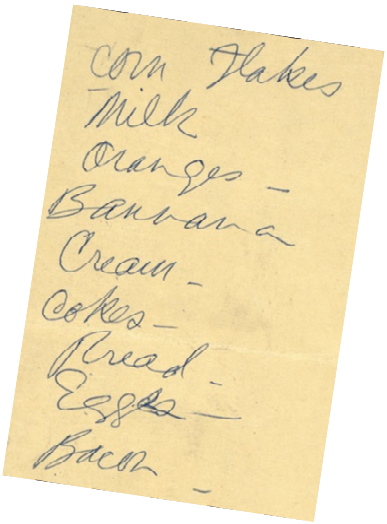
List preparation
Promotional research
Circular trends
Impulse opportunity

PRE-TRIP PLANNING—
WELL-RESEARCHED LIST ITEMS

A well-researched list item

>7 in 10 shoppers list produce

- Shoppers are 2x as likely to list specific items vs. generic need for fruit and/or vegetables
- 6 in 10 shoppers compare promotions across stores



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Paper circular has staying power

Use when researching produce promotions

Paper circular at home	73%
Paper circular at the store	42%
Electronic circular on website	28%
Email specials	17%
Website specials	13%
Store app	12%
Social media specials	7%

FMI | The Power of Produce© 2015

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In addition to planned list purchase, produce offers ample opportunity for impulse

Frequency of buying unplanned produce items

23%	34%	34%	6%
Almost always	Frequently	Occasionally	Hardly ever/ Never (stick to list)

57% impulse opportunity, especially among Millennials (64%)

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Pictures by Yerecic @ Giant Eagle and Publix

THE POWER OF **PRODUCE** 2015

Pictures by Yerecic @ ShopNSave, Giant Eagle and Walmart

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Purchasing decision tree
Understanding the importance of price
Department experience
Out-of-stocks
New item introductions
How-to service

PURCHASING DECISION—
FRESHNESS > PRICE

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Appearance > price in produce

Purchasing decision

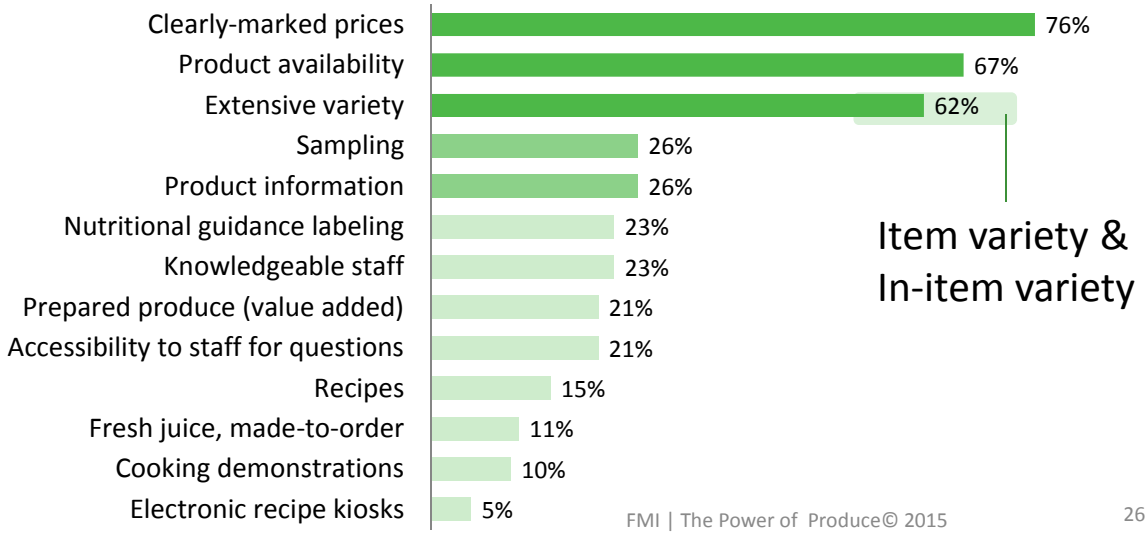
1. Product appearance
2. Ripeness
3. Price
4. Habit
5. Seasonality
6. Spoilage time
7. Nutritional content
8. Information/recipe ideas
9. Brands

1. Product appearance
2. Price
3. Spoilage time
4. Habit
5. Seasonality
6. Nutritional content
7. Preparation time required
8. Information/recipe ideas
9. Brands

Relevance on price is key, but not the primary factor when buying

- Price helps shoppers decide on items and stores
  - Once in-store, the impact of price lessens
  - Especially among those who list specific items
  - Emphasis on quality, freshness, ripeness, variety and in-stock
- Yet, 6 in 10 every time/frequently compare prices between items
- **Best prices without execution may result in lost customers**

Providing a good experience



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Out-of-stocks may cost you dearly

	Substitute	Wait	Visit different store	Buy canned/frozen
	55%	26%	18%	1%
	48%	28%	19%	5%

Lost purchase

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The role of new items

Importance of frequently introducing new produce items

24% Very important

- Ages 29-39
- Organic shoppers
- Working full time
- Shoppers w/ kids

44% Somewhat important

28% Not too important

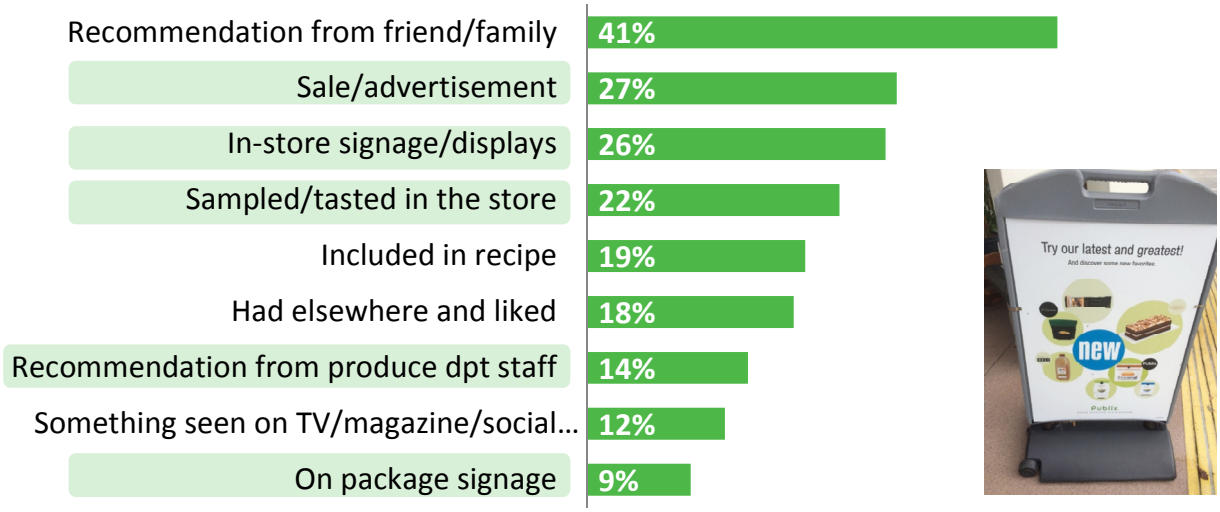
5% Not at all important

Example of new item incrementality

2010 sales: $36M
2014 sales: $204M
$ growth: $168M

2010 sales: $1.4B
2014 sales: $1.5B
$ growth: $70 million

Prompting new item trial



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Produce department not among top sources for preparation advice

Source for information when trying a new vegetable?

	All	18-28	65+
Digital recipe (QR code, app, website,...	33%	38%	28%
Mom/family/friend	25%	31%	9%
Cook book/paper recipe	16%	10%	26%
Would just try based on my knowledge	9%	4%	15%
TV/social media	6%	10%	2%
Associate in the produce dpt	6%	7%	3%
Product packaging info	4%	4%	8%

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Bring on the recipes, ideas and how tos!

Likelihood of using retailer provided recipes, ideas, and how to instructions

41% Would absolutely use

- Shoppers w/kids
- Organic shoppers
- Millennials and X-ers
- Working full time

49% Maybe

10% Wouldn't use it

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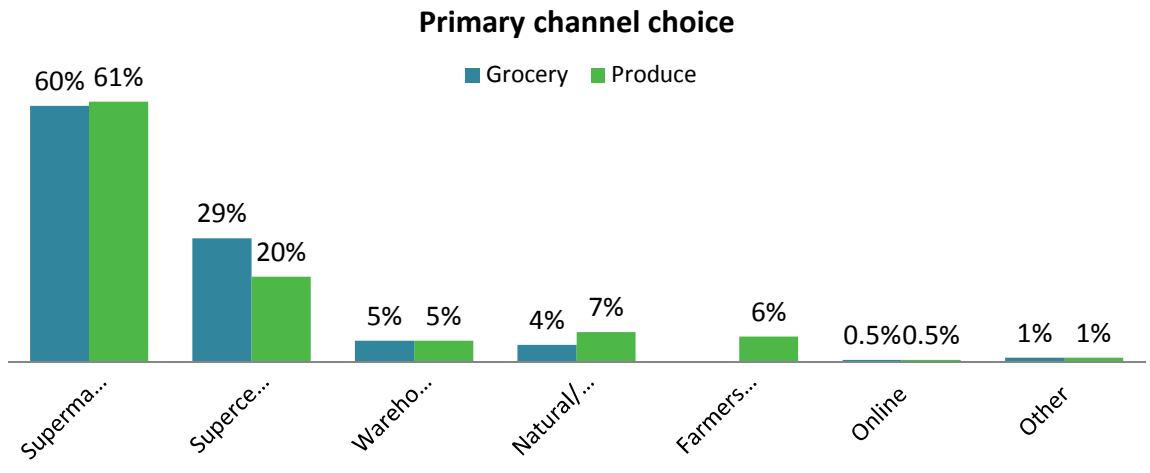
Primary channel
Channel switching
Occasional purchase
Alternative channels
Farmers' markets

THE CHANNEL CHOICE—
TRADITIONAL POWERHOUSES & ALTERNATIVE CHOICES

Produce is a supermarket stronghold



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One-quarter switch channels for fresh produce

25%

Of shoppers switch channels when buying produce

- Supermarkets: 12%
- Supercenters: 37%

If switch, where to?

41% Supermarkets

26% Famers' markets/produce stands

13% Specialty/organic stores

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Channel switching

Reasons for switching

1. Better quality (55%)
2. Better freshness (52%)
3. Better variety in general (36%)
4. Lower prices in general (31%)
5. Lower prices on promotions (25%)

Picture by Yerecic @ Giant Eagle

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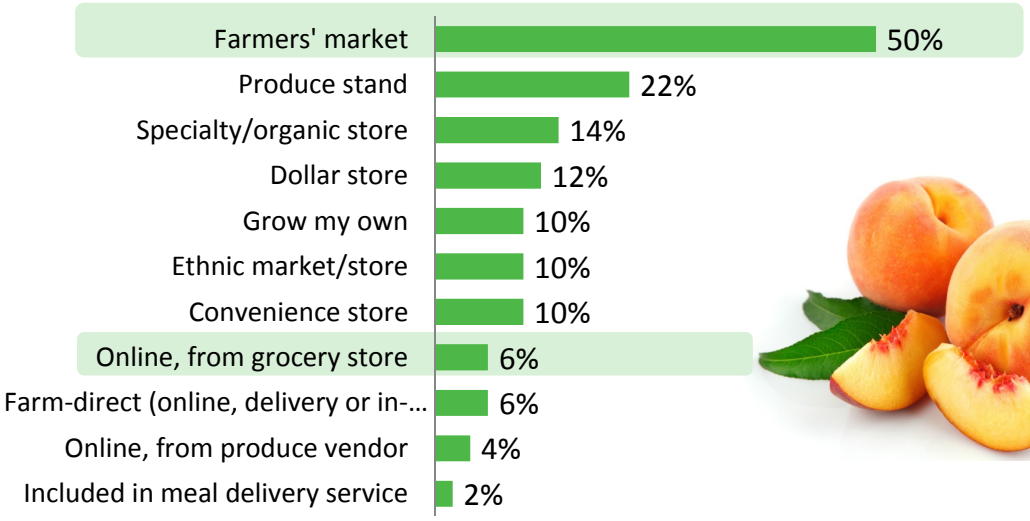
Farmers' markets greatest source of the occasional purchase



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The online produce shopper

The online trip is about "fresh" as well as stock up

13% growth rate

63% of carts include either bananas or apples

	% of orders with category in the cart
Dairy	93%
Produce	*87%*
Beverages	78%
Frozen	78%
Snacks & Candy	77%
Canned & Packaged	68%
Bakery	64%

	% of online sales
Dairy	15%
Beverages	11%
Frozen	10%
Produce	*9%*
Snacks & Candy	6%

Source: MWG ecommerce sales 2014

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Farmers' markets

0% Primary store
6% Primary produce destination
26% Secondary produce outlet
50% Occasional produce purchase
16% Primary outlet organic produce

8,300 and growing!

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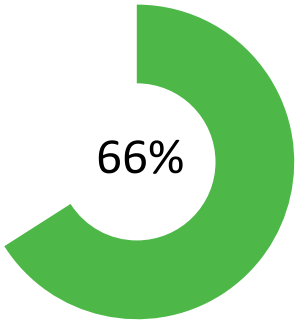
Trip mission

Trip mission for farmers' market visits = buying produce



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Why the extra trip?

Reasons for purchasing produce at farmers' markets

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Bringing a farmers' market feel

- Explain "fresh"
- Leverage local
- Bring the fun!
- Tell the item's story
- Share the facts

Picture by Yerecic @ Giant Eagle

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Bringing the farmers' market to the store

Pictures by Yerecic @ ShopNSave and Lowes Food

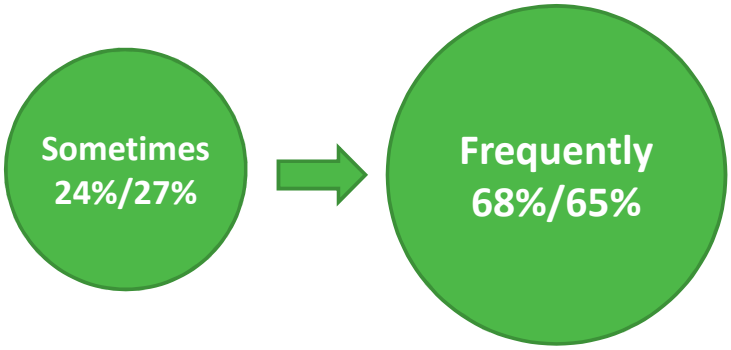
Bringing the farmers' market to the store

Consumption frequency
Meal occasion trends
Value-added produce
Prompting new item trial

MEAL CONSUMPTION & PREPARATION

98% Household penetration, but ample opportunity to grow produce basket

Frequency of consuming fresh fruit/vegetables



Lower-than-average consumption

- Men
- Lower income
- Millennials

The dinner occasion

4.0 home-cooked dinners with fresh produce/week

4.8 Higher income
4.9 Specialty store shoppers
4.4 Buy organic produce
4.3 Households with kids 0-6
4.2 Shoppers ages 29-39

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Produce snacking sees healthy growth

38% snack on produce more often than 2 years ago

Households snacking:

- Vegetables: 29%
- Fruit: 67%

5-year CAGR snack size:

+17%

+9%

FMI | The Power of Produce© 2015 Source CAGR: IRI US MULO 2010-2014 51

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Smoothies & juicing are hip

Current **33%**

Organic shoppers
Families with kids
Millennials
Women

More often vs. 2 yrs ago

28%

Current **13%**

Organic shoppers
Families with kids
X-ers
Women

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Value-added growing rapidly

Chopped | Cut | Halved | Hearts | Microwave-ready | Snack packs

+13% growth in $ sales vs. 3% for unprepared

Buy?

46% Sometimes/regularly

8% Only when in a time crunch

6% Only for special occasions

38% Hardly ever/never

- 17% Cost
- 15% Prefer to do it myself
- 8% Other

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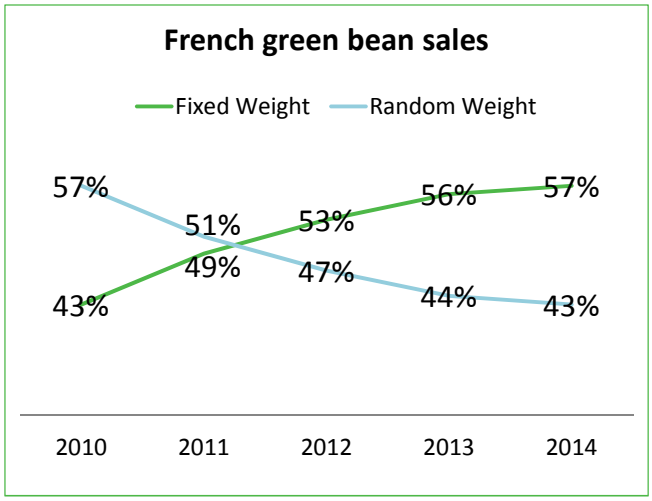
Packaging innovation



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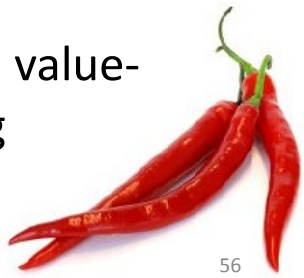
THE MILLENNIAL OPPORTUNITY

Millennials approach produce differently

- Research: more likely to use digital sources
- In-store: more susceptible to impulse & new items
- Decision: Less about appearance and variety, but more about price, habit and prep time
- Purchases: Driving new growth in organic, value-added, juice/juicing and produce snacking



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Millennials' take on a good experience

What drives a good produce department experience?

63%	Product availability	78%
62%	Extensive variety	70%
34%	Product information	20%
31%	Sampling	18%
28%	Accessibility to staff to ask questions	19%
25%	Recipes	9%
13%	Cooking demonstrations	5%
8%	Recipe kiosks	1%

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Juicing/smoothie ideas

Cooking classes

Meal stations

Product info

How to videos

Value added

Cooking demonstrations

Recipes

Meal ideas

Sampling

Nutrition info

THE (NEW) PARENT OPPORTUNITY

The healthy eating challenge

Many parents struggle with having their kids…

	Big	Somewhat of a challenge
Eat a healthy diet in general	33%	38%
Eat sufficient fruit/vegetables	26%	41%
Learn to make healthy food choices	25%	39%
Get as much exercise as they should	24%	38%

Parents see produce as the healthy shortcut

- Above-average interest in:
  - Fruit/vegetable recipes
  - New produce items
  - How tos
  - Produce snacking
  - Smoothies/Juicing
  - Convenience

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Pictures by Verecic @ GetGo & Giant Eagle

Department score card

Shopper suggestions on improvements

IMPROVING THE PRODUCE DEPARTMENT

THE POWER OF **PRODUCE** 2015

	SUPERMARKET	SUPERCENTER
Produce share	62%	22%
Average score	4.5	4.1
% Very satisfied	49%	41%

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Our report card

Strengths
- Quality
- Freshness
- Cleanliness
- Value for money

Average
- Promotional pricing
- Variety (in general)
- In-stock performance
- Everyday pricing

Weaknesses
- Helpful/knowledgeable associates
- Variety (specialty items)
- Helpful information

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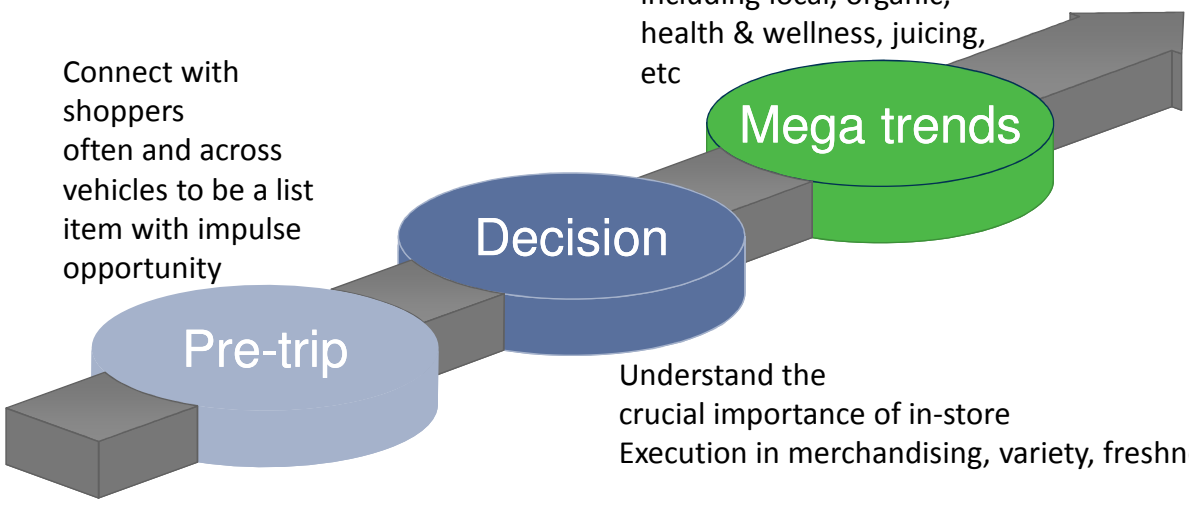
Conclusions

Address growth areas, including local, organic, health & wellness, juicing, etc

Connect with shoppers often and across vehicles to be a list item with impulse opportunity

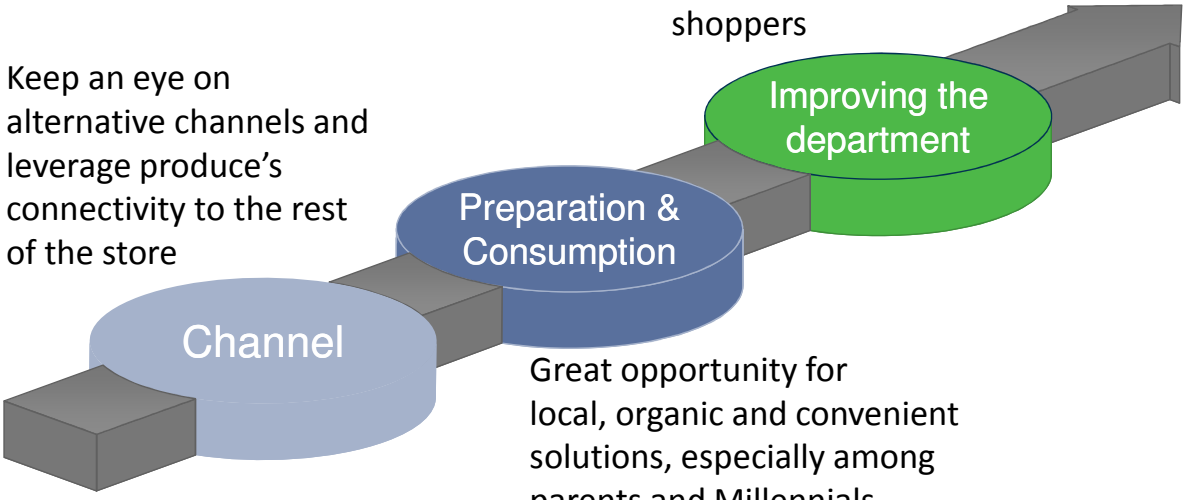


Understand the crucial importance of in-store Execution in merchandising, variety, freshness

Conclusions

Understand what's important to your shoppers

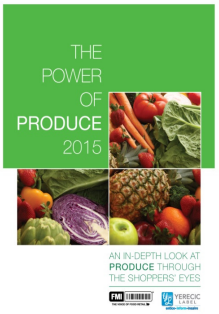
Keep an eye on alternative channels and leverage produce's connectivity to the rest of the store



Great opportunity for local, organic and convenient solutions, especially among parents and Millennials

Get the Report

- www.fmi.org/store



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thank you!