POINT OF VIEW

# 2017 Top Trends in Fresh Foods

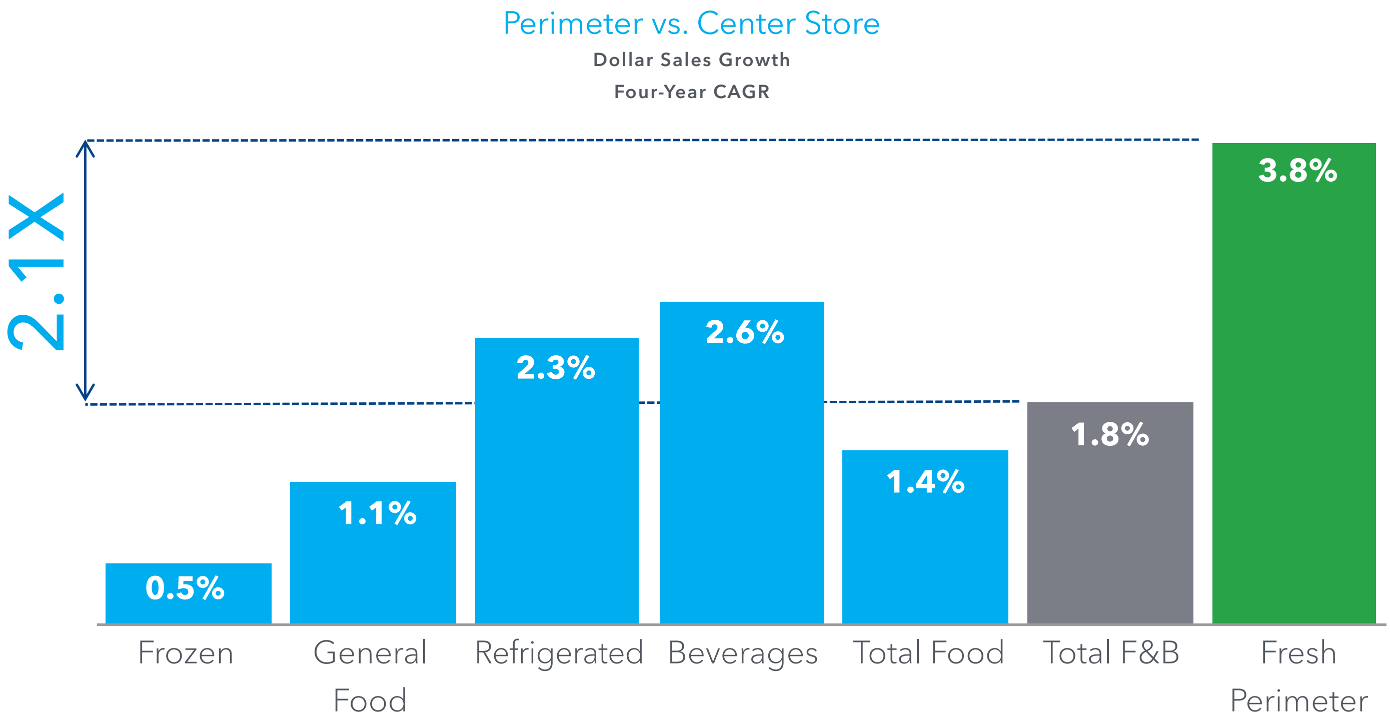
SEPTEMBER 2017

IRi
Growth delivered.

The perimeter continues to make a huge impact—outpacing other food and beverage departments for the past four years. Dollar growth in the perimeter is 2.1 times greater than other areas of the store (see exhibit 1)!

As a result, the perimeter continues to earn greater importance. The magnitude of its impact at retail increases exponentially as shoppers more fully embrace health and wellness, invest in perimeter purchases and establish new shopping journeys.

EXHIBIT 1




Source: IRI FreshLook POS data, MULO, 52 weeks ending 10/30/2016

### IRI presents this year's Top Trends in Fresh:

- Holistic Health
- Atomization of Personalization
- Social and Cultural Alignment
- Hyper-Localization
- Customization to New Consumerism

These key trends emerged from a study focused on discovering what major trends are driving perimeter sales outperformance and how they will directly impact long-term success of retailers and suppliers over the next three to five years. Insight comprises industry interviews, primary data analysis and secondary research.

# Part 1: Holistic Health

## Consumer-based Definitions of Health and Wellness Drive Growth

Today's consumers have adopted a holistic health and self-care approach, which involves a 360-degree consideration of what contributes to their overall health and wellness. Holistic health means something different to everyone but typically encompasses diet, exercise and all of the support—technology, equipment, services—that combine to give people tools to live well.

However, from premium costs for health care through to the cost of fresh foods in the grocery store, consumers face tremendous choices—and pressure—in how they spend their money on health and wellness efforts. Fortunately, trends indicate consumers will spend on tools, foods and beverages that support health because lifestyles are an important part of their holistic-health approach in day-to-day life.

A broad series of empowerment activities has emerged to ensure that consumers can stay well or return to wellness, as they integrate their lifestyle and food choices. Devices and apps, diet and exercise platforms and other resources combine to provide consumers with tools for approaching all aspects of their lives with health at the forefront. Consumers' desires to manage or prevent disease have driven growth not only in personalized medicine, but also in personalized nutrition.

## Categorical Evidence

Activating on lifestyle and spending trends focused on health will help retailers and manufacturers drive sales and set a foundation for future growth. Fortunately, shopper data and category growth trends indicate that shoppers say they want to live healthy lifestyles incorporating diet and exercise, and that they actually work toward that. Their actions back up their intentions!

Consumers are leveraging different systems to manage their diets—personalized nutrition, which encompasses everything from DNA testing to calorie-counting apps and devices that allow people to develop healthy lifestyle approaches that fit their individual needs and goals. And, of course, personalized nutrition focused on health requires a commitment to eating fresh, whole foods.

**43%**

**of Americans rely on diets rich in fruit and vegetables regularly to stay healthy.**

Of that population, a high percentage indicate this is a new focus for them, and, among these individuals, more than a third say they are relying on fresh food to maintain their health.

**Large growth in several fresh categories proves consumers are making choices that align with their intentions:**

| Total Fruits | Total Vegetables |
|---|---|
| ▲ **3.8%** in dollars | ▲ **5.7%** in dollars |

Source: IRI FreshLook POS data, MULO, 52 weeks ending Oct. 30, 2016

## Wellness

Consumers search for foods that can prevent and manage disease states.

**Heart Health**

Garlic +11.8%

Broccoli and Asparagus +9.8%

Kale/Other Leafy Green Vegetables +9.7%

**Cancer**

Turmeric +14.5%

Flax Seeds +9.3%

**Diabetes**

Citrus Fruits +9.4%

Beans +8.5%

## Nutritional Benefits

**Meats** for iron, zinc and selenium

Beef +5.8%

## Protein

**Foods** that deliver positive nutrition

All Meat +2.8% to $14.7 billion

Home devices also have grown, up 6.8 percent, according to a custom IRI panel survey, which is especially notable as technology companies have collaborated to enable personalization of exercise, diet and lifestyle routines. Innovation in technology and collaboration have contributed to helping consumers truly live their lives with a holistic approach to their physical and mental well-being.

Further exploration of food category trends proves fresh delivers against multiple consumer needs and thus carries great value.

Seafood, in particular, has solid research supporting the health benefits of moderate consumption, and consumers have figuratively and literally bought into the category (see exhibit 2). Total seafood sales have grown 3.8 percent in dollar, and 5.3 percent in pound, as research emerges touting the numerous health benefits of seafood. Salmon has a great reputation and captures a valued title as a "superfood," known to help in the prevention and management of many conditions.

EXHIBIT 2

### 2016 Major Perimeter Highlights


Source: IRI FreshLook POS data, MULO, 52 weeks ending 10/30/2016

## Consider Consumers' Confusion; Educate Appropriately

Education and communication are the keys to delivering on a holistic-health strategy. Research shows that shoppers gravitate toward protein options with positive health claims: antibiotic free (ABF), organic and grass-fed. These claims deliver on shoppers' desires, provide transparency and support sustainability.

Though many retailers are actively engaging shoppers with messaging via signage and labeling, there is ample opportunity to activate more shoppers. Programs should be expanded and adopted more broadly.

Beyond traditional messaging in-store, best practices have to include education and assistance in reaching goals all along the journey. Ceiling signs, shelf-talkers, events and guides in-store will educate shoppers and help them make health-minded choices. This level of engagement on such a personal topic also drives loyalty and builds trust and the desire to come to the physical store.

Some innovative retailers have approached holistic health with omnichannel tactics – in-store, online and television – to relay the message that they're there to help and connect with oft-confused, but willing and hopeful, consumers.

For manufacturers, packaging plays a huge role with such valuable real estate – right there on the package, on the shelf, communicating with shoppers. As the holistic health trend extends its reach across markets and demographics, manufacturers can use health-focused programs to connect at more touchpoints on the shopper journey. Potentially, perimeters could house benefits-focused sections, with new categorization of products that typically don't shelve together but share benefits.

Projection

**By 2025, more than 50% of Americans will be living holistic lifestyles.**

## Take Action

The time to act is now! It's not easy, but it's critical. There are traditional tactics that will work well, but there are even more tactics for manufacturers and retailers to explore. The holistic health journey is complex and anything but static. It will evolve quickly and grow even faster.

Early adopters at retail find that programs communicate well at point-of-sale (POS). Over the next few years, more POS will emerge and greater website presence will connect to consumers and show them how to navigate health in the perimeter.

Explore these opportunities today:

- Develop, refine and enhance the strategy you have to focus on holistic health goals.
- Establish a program if you have not already – it's not too late!
- Continue transparency efforts – needs and claims that resonate all tie to transparency.
- Expand product groups to capture more share – there is more distribution to be had, while hyper-local efforts will deliver the right pockets of growth.
- Engage in and out of the store – integrated platforms address this complex journey and engage with consumers while they're on the path to decisions and purchases.

Shoppers continue to trust retailers and look to them for information and products to support their lifestyles. Holistic health is the next influencer at retail, bolstering the perimeter and building the importance of fresh foods and beverages. There are tremendous growth opportunities in the short and long terms as health- and wellness-focused products will play increasingly important roles in stores.

Partnerships between manufacturers and retailers will be very collaborative to help consumers meet their goals, as innovative ideas and solutions address specific shoppers in specific markets. Tried-and-true tactics will work, complemented by expanded programs with resources, nutritionists, online tools and an overall holistic approach.

# Part 2: Social Strategy and Cultural Alignment

## Socially Conscious Consumers Demand Products That Align with Their Values

Consumers care. They care a lot. They want innovation, value, positive attributes and quality, and they're becoming more and more adept at identifying what quality means to them. For many, quality goes beyond ingredient lists and high-end packaging. Shoppers today have become familiar with food labels such as "organic," "non-GMO" and "antibiotic free," and, based on the fast-growing sales over the past five years, these attributes are very important to shopping decisions.

For the past few years, high-quality product attributes indicating purity and healthfulness have driven growth in the food industry. IRI research shows that the next wave of growth will concentrate on how companies can go above and beyond product attributes—taking quality and health to new levels. Overall business strategies will have to integrate important, emerging cultural values into business operations—and they will have to abide by intensifying expectations from both consumers and the industry overall.

The **Social Strategy and Cultural Alignment** trend focuses on how companies are aligning consumer and social values to their business operations to accelerate sales and profit growth.

EXHIBIT 3

Each day, every minute on average…

**722,389** FACEBOOK LOGINS

**972,222** SWIPES

**150 MILLION** EMAILS SENT

**$233,596** IN SALES

**2.98 MILLION** VIDEO VIEWS

**527,760** SNAPCHAT STORIES

**20.8 MILLION+** MESSAGES

**76,194** INSTAGRAM PHOTOS

## Exceptional Exposure

Why is this important? People are more than just connected to each other today. They're connected to companies large and small, local and international. People want transparency from the brands and companies they choose to support; they seek information and validation of their choices; and often this leads to emotional connections in very powerful ways. Certainly technology has inspired these connections, and it continues to catalyze them as people engage more and more often and on more and more platforms.

In particular, socially conscious consumers have an appetite for real and live video, evidenced by both positive and negative mentions on the 40 million internet sites monitored by IRI. Live content brings to life what happens in the farms, fields and factories in countries around the world. Socially conscious consumers are typically tech-savvy—consuming information from multiple sources and social media platforms and on all things important to them. Food origin has become more relevant than ever to a growing portion of the population.

Further, these consumers are sharing, spurring trends and making a big impact as they consume and disseminate their thoughts and opinions. Many are self-proclaimed authorities with tremendous impact and following. One of the most imposing factors of social media today is that reaction time is short—"experts" spout their experiences (good and bad), and brand health and equity can erode very quickly. Critical mass happens very fast.

## Top Social Sentiment Drivers

Understanding what is important to consumers will allow businesses to build socially and culturally aligned strategies. Research shows which topics consumers are engaged in – and are growing the fastest – and thus has defined the top social sentiment drivers today (see exhibit 4).

## Seafood Sustainability

Consumers are starting to wonder about a question that activists have been asking for years: Are there really enough fish in the sea? Conversations used to focus on restaurants, but now the grocery focus is growing. This goes well beyond niche activists as consumer concern about environmental and personal health becomes more mainstream and widespread. Manufacturers and retailers alike must pay attention to sustainability and make it part of everyday business concerns.

Fortunately, looking at how seafood sustainability impacts business points to significant growth. Seafood growth is outpacing food and beverage overall. And strong sustainability programs sell more seafood.

Retailers with top-rated sustainability programs sell more fish and grow sales two times faster than low-rated retailers.* Best practices point to focused communication at the seafood counter, transparency with sources and experiences that establish trust and strong loyalty.

**EXHIBIT 4**

### Top Social Sentiment Drivers in 2016

Growth in mentions during the past year


**Total Fin Fish (+3.9%)** ▲
strong/average sustainability program:
**+7.9%**
in YOY dollar sales

**Total Shellfish (+2.6%)** ▲
strong/average sustainability program:
**+4.8%**
in YOY dollar sales

*Based on a Greenpeace study.

## Animal Welfare

In less than a decade, there has been tremendous change in the consideration of animal welfare practices and in consumer demands and expectations pertaining to them.

As the trend of people treating pets as humans continues, so does the related issue of animal welfare. Videos, social media and other platforms all make people aware of how animals are treated, and people's first reference points for animal treatment are their pets. As a result, people are increasingly raising their standards for how all animals are treated. This consumer demand, intensified by activist pressure, steamrolled to make an indelible change on the food industry.

### CAGE-FREE EGGS

- Industrywide retailer and manufacturer pledges by 2025
- **12.5%** of U.S. flocks in January 2017

### GESTATION CRATE-FREE PORK

- Major pledges from contract and company farms planned/implemented
- **15%** of sales in 2015
  ▲ **50%** of sales in 2022

### ANTIBIOTIC-FREE MEAT

- ABF meat driving strong basket growth
- **15%** of sales in 2015
  ▲ **40%** by 2022

Source: IRI Projections and Analysis

There are huge challenges for manufacturers to meet retailer pledges and this has created a ripple effect in the industry with consolidation and buyouts; but this movement is not a trend. It's a movement, and it has established itself firmly. Businesses that want to grow need to embrace the consideration of animal welfare.

## Meat Certification Claims

Animal welfare practices and meat certification claims are a powerful combination. Right now, there are various guidelines, standards and groups that certify practices, but consolidation is expected in the near future as processors and retailers sharpen their demands and their communications with consumers. These certifications are influencing change and affecting the supply chain from start to finish. But challenges with meat certification claims, in particular, lie in the fact that there is a lack of standards and thus no clear universal adoption. At least not yet.

Consumer support will drive the establishment of guidelines and procedures.

**Support is evident:**


say extremely important/ important for purchase

say they are willing to pay a premium

Source: IRI Custom Consumer Surveys

## Food Waste

Food waste is one of the leading social sentiment drivers today (see exhibit 5). It's a worldwide issue that, if rectified, could address another worldwide issue: hunger.

Industry goals are lofty but motivational, as shoppers indicate that the social impact of retailers matters in their decision-making processes. Already, Europe has been a trailblazer, increasing food donations by 15 percent, an equivalent to 10 million more meals in a year. U.S. goals are set at 50 percent food-waste reduction by 2030, with retailers already showing commitment with 10 times the number of food bank donations today compared with 2006, according to FMI. As preventing food waste becomes an issue integrated into business practices, the industry and food banks will have to foster even stronger relationships. Also, a bigger effort in preventing waste will be imperative, and can be accomplished, in part, by focusing on properly sizing portions and packaging.

## Fair Food/Fair Wage

Fair Food/Fair Wage is another social sentiment driver infiltrating the industry as consumers care more and more about holistic worker issues:

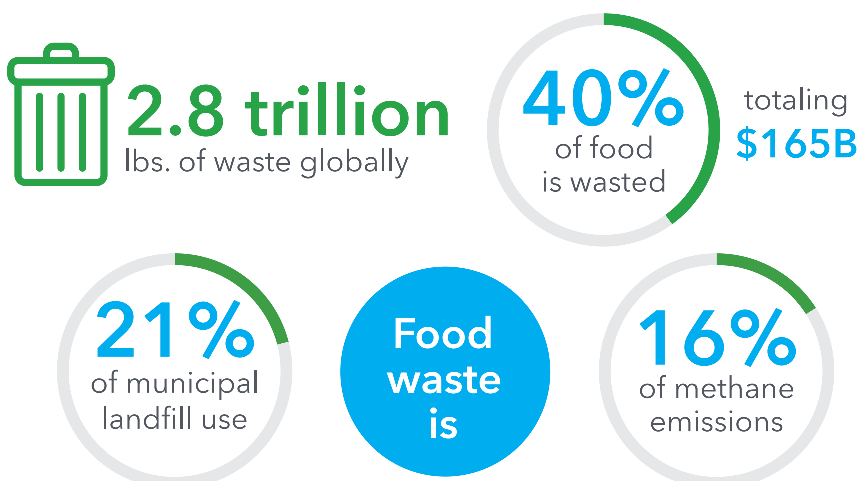
- Worker conditions
- Wage levels
- Workforce development
- Immigration

Retailers and growers will have to nurture and establish partnerships, creating agreements and commitments to bettering worker issues. And then they'll need to communicate them to shoppers who have, again, indicated that they care and respond to both positive and negative impressions of business practices behind the brands and companies they support.

Retailers need to build overall good sourcing programs and establish high standards, but they also have to evolve with ever-changing practices and standards across the supply chain.

EXHIBIT 5

Food waste is a worldwide issue.




A 15% reduction in U.S. food waste could feed 25 million people.

Source: IRI Analysis

## Take Action

Supporting all aspects of business with humanitarian and social action efforts is becoming a business imperative. Having once been a passion-driven trend sought after by niche groups, it has now become mainstream, and shoppers today care and can make an impact on brand health and sales. Much of these social-impact efforts will be the basis for perimeter growth and change during the next five to 10 years.

The key is to understand the impact that all of the social and cultural alignment efforts have on brand health and brand equity.

- Listen to what consumers say, and recognize issues on the horizon that need an action plan.
- Integrate listening and monitoring capabilities into core marketing processes.
- Activate in the media platforms consumers engage with—think like consumers who care, and connect with them in their social spheres.

Develop a strategic three- to five-year view on how drivers and category trends will evolve and how that will influence product requirements and sales. Consumers say they are willing to pay more for products that align with their personal beliefs, so retailers should stock products that support these strategic socially and culturally aligned priorities.

Retailers and processors that see the right priorities, align their operations appropriately and drive awareness; and their sales are growing faster than average, so they will earn loyalty and report growth for years to come.

# Part 3: Atomization of Personalization

## The New Consumer Buying Revolution Demands Personalization

Shoppers' journeys are more complex than ever. Technology has changed the way we do almost everything, and it has impacted shoppers by empowering them with information and access essentially anywhere and anytime. Digital technology influences decision-making, inspires and motivates sales and speaks to consumers by connecting them to each other, to retailers and to near-infinite options of goods and services.

Further, the time people spend consuming content continues to grow, up more than two additional hours from 2013 to 10 hours and 39 minutes in 2016. With so much time spent consuming goods-related information, we are at the center of a consumer-buying revolution, which has a new set of complex demands. One of the most influential and powerful demands from shoppers today is personalization. No one consumer is the same, thus no one's shopping journey is, either.

The kaleidoscope of demographic changes and income bifurcation, combined with technology advances, have driven the atomization of American lives. The ways in which people plan for and consume goods and services have changed. Personalization and customization across the spectrum, from product development to marketing, are critical to connecting with today's consumers, in particular in the high-growth perimeter and fresh areas of retail outlets.

**Atomization of Personalization,** as the third trend, focuses on how demographic changes and the impact of technology are driving the need for personalization in CPG development and at retail.

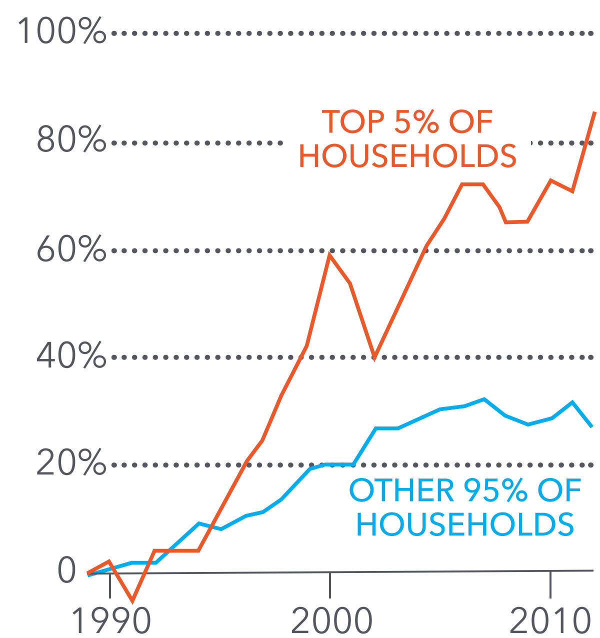
## Changing Faces of the Nation

Demographic shifts have changed the face of the nation, with even more change expected in the coming decades. Minority groups will form the majority of the population by 2060, with a projected total U.S. population of 420 million.

Non-white U.S. Population Growth
**37%** 2012 ▲ **57%** 2060

The influence of cultures across the population has inspired changing flavor profiles and product demands, as well as the need for retailers to deliver appropriate, customized experiences. These personalized experiences must be available online and in-store to fully deliver to a broad market of consumers.

Income bifurcation in the U.S. also has changed the face of the nation and of retail.




Change in average U.S. HH Consumer Spending; Adjusted for inflation; since 1989.

Source: Barry Cynamon, Federal Reserve Bank of St. Louis; Steven Fazzari, Washington University in St. Louis; The Wall Street Journal

Watching—and responding to—income, lifestyle and life stage trends is key for retailers looking to attract and retain a diverse community. This huge change in our landscape must be reflected at retail and through product innovation from manufacturers. The experience for each shopper must be personalized across the entire path to purchase.

- Know what key and targeted shoppers are looking for.
- Engage shoppers when, where and how it matters most to them.
- Deliver against needs and wants at the right time, through the right channels and at the right prices.

Retailers who adopt a customer-management perspective will capture increased share of spending and maximize customer lifetime value.

## How to Personalize and Activate

Technology touches all elements of marketing and allows personalized messages to be even more precise, with highly targeted ad exposures. With the explosion of ad exposures coming from multimedia platforms, advertising experiences need to match true consumer needs and preferences. One-to-one, data-driven relationships with consumers can help establish the intense customization of messaging, especially in the digital marketplace. In-store, unique assortments and specialty departments will help shoppers feel comfortable and identify their best purchase/consumption path.

Real-time personalization is key to consistent customer activation. Fortunately, there are a number of ways to approach this, making it imperative to identify the most appropriate approach and combination for a particular consumer, market or outlet.

Personalization Options:

- Assortment and Activation
- Drive Awareness and Increase Sales
- Improved Innovation Effectiveness

**Assortment and Activation:** The key here is to know what particular shoppers seek. Then engage with them and deliver. Strategically drive consumer-activation practices and in-store assortment execution, thus creating specific targets. Insights are valuable to retailers as they plan assortment and shelving tactics. Further, consumer-activation practices in-store can get more depth by executing on consumer profiles and shopping propensities. Once a strategic assortment is in place, align marketing on media platforms consumed by strategic groups, and the return on investment will be evident.

**Drive Awareness and Increase Sales:** Purchase-based targeting works. CPG marketers who shift media objectives from maximum exposure to maximum impact improve media efficiency and effectiveness. As consumers go through their days, they often experience information overload. Awareness is critical, but to make exposure translate to sales, targeting for maximum impact is imperative.

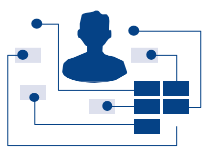
**Improved Innovation Effectiveness:** With purchase-based targeting, brands can achieve up to four times incremental campaign uplift compared to demographic targets. Loyalty data will tell a story here, about who tried a product and made a repeat purchase. This can drive expanded distribution and provide a deep understanding of the consumer purchasing the item to also drive personalization opportunities.

### Take Action

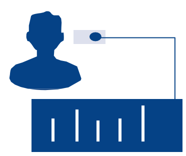
Real-time personalization is key to consistent customer activation. The industry provides ample tools and resources to bolster these efforts, including state-of-art platforms and services from IRI. Those who win in this complex and competitive retail world will have the focus necessary to leverage key elements on the path to purchase.

Leverage these three resources:

Ad Addressability



Data Integration



Measurement

Also, ask questions:

- Did personalization efforts impact consumer behavior?
- Did the efforts result in a sale?
- Did they (efforts) drive any trips?

Many leading retailers have embraced personalization, but the question moving into the near future concerns consistency: Are programs personalized across food and beverage?

Similarly, it's important to home in on the right time, the right store and the right price, making refinements that can deliver on the needs and wants of consumers today – and also into the future as needs evolve.

To achieve the best levels of personalization, collaborate! Collaboration between retailers and suppliers will provide a 360-degree understanding of consumers and point to opportunities for meaningful growth. Aligned goals and efforts will allow for connection to consumers along the entire shopper journey, which continues to become more and more complex.

Connect with consumers with personalized offers, selection and in-store and online experiences. The result will be meaningful, long-term relationships with high-lifetime-value shoppers.

# Part 4: Hyper-Localization

## Consumers Are Shopping with a New Mindset and Seeking Connections

The perimeter has experienced cataclysmic shifts in recent years, transforming perimeter items from simple commodities to emotional shopping experiences. This isn't exclusive to the perimeter and fresh departments, but in these areas of the store there is a depth of connections that many consumer packaged goods can't achieve. Consumers want to feel connected to those faces and farms behind fresh and perimeter solutions – giving their shopping experiences new dimension.

Historically, food has been about specifications and price, with most of the perimeter driven by commodities. Retailers could showcase produce and fresh food artistically and with the magic and art of lighting and presentation, but only in the past decade has the perimeter become a real differentiator. Today, for consumers, food reflects their personalities and their efforts to support health and wellness. And with the right attention from retailers, fresh departments can drive brand loyalty, help build a community of shoppers and deliver the hyper-local experience so many of today's consumers desire.

The fourth trend, **Hyper-Localization**, focuses on how today's consumers shop with a new mindset. This mindset revolves around connections to the land, the producers and the food itself.

## The Impact of Local: BIG Results!

Hyper-localization requires retailers to source products closer to stores. Retailers need to deliver products that come from local farmers and come with stories, transparency and added value for today's information-hungry shoppers.

Given that less than 1 percent of the population lives or works on farms – even tiny farms – most of the population does not have any direct connection to the production of food. But a much larger percentage wants to connect back to farmers in a meaningful way. This population wants to know how food is grown, how animals are fed and what happens to the products they buy – from farm to plate.

There has been a massive increase in the number of people who describe the importance of eating better to living better – more than 40 percent say they are changing their lifestyles to live better. About a third of consumers have indicated they believe food is as powerful as medicine.

And they have proven they're willing to pay for it. The sales impact is big!


Source: IRI MULO POS Data, 2016; retailer interviews and IRI estimates

## The Reasons Why

The growth of organic and the popularity of products that are "free from" ingredients consumers look to avoid are evidence that more and more people are using food to live healthier lives and protect themselves and their families from risk. And they perceive local foods to be healthier, less processed and better choices overall.

### Why Consumers Shop Locally

- 86% Product Freshness
- 80% Purchase Satisfaction
- 62% Quality
- 75% Economic Impact

Source: 2016 IRI Reports; 2015 Power of Produce, 210Analytics

Beyond the attributes that specially define the product – freshness, quality – there is social consumption contributing to the impact of hyper-localization.

The entire shopping experience is different, for one thing. People like to be at – and be seen at – a farmer's market interacting with producers and having that corner store experience. People care more about how their choices reflect on them and their images among their peers and within their communities. And the knowledge gained from shopping locally has value to them.

Also, the economic impact on their own communities matters to consumers today. This has been a persistent theme in recent years. Local food carries a halo that is growing and becoming even more relevant than natural or organic.

## New Rules of the Road

With hyper-localization comes a shift in process, logistics and expectations overall. An entire subset of the industry has developed to help supply-chain efficiencies and costs. Farmers used to be faceless in the supply-chain, but now more and more producers are going directly to consumers, and there is business with the farmers.

This represents a cataclysmic shift in how the retail business plays out in fresh. The traditional rule of scale doesn't apply any longer – big companies don't always dominate. Now companies with scale and size can support and help build infrastructure for local companies that can now grow bigger and faster. Small companies have new capabilities and support for fast growth – something new to today's marketplace.

Technology also has made a big impact. Instead of a few crop cycles, farmers can yield far more cycles and products. Further, farms don't always look like the traditional storybook image – now farms can be built indoors, deep in urban environments, and certainly much closer to where products get consumed. The infrastructure investment in controlled-environment farming is going to be more than $30 billion in the next three years – huge dollars are being invested in this business and are making a huge impact on what is coined "local." Hyper-localization of actual production is a reality and is changing the definition of local.

According to the USDA, local is defined as 400 miles from a store. But when you ask consumers, the definition is different. Consumers tend to say about two hours or 100 miles, though that varies by region of the country and metro versus suburban areas. Retailers need to thoughtfully consider what local means to their market demographics and deliver on those expectations.

Retailers also need to consider that local goes beyond products. Consumers consider these purchases a reflection on themselves and thus brand-building overall must be local. Promoting and sponsoring local sports teams adds value in consumers' perceptions, and hiring local employees does, too. Hyper-localization allows brands and retailers to connect to a community and build relationships.

This ongoing hyper-localization trend will continue to have an impact on the look, feel and operations at retail, but it will continue to offer added value and dollar growth, too. Local foods are moving from niche to critical mass, reflecting billions of dollars in growth and opportunity.

# Part 5: The New Consumerism

## Consumers' desires for greater assortment and convenience in fresh catalyze shifts at retail.

As consumers' desires and demands have changed, retail stores have changed. In fact, they've changed a lot. In addition to tremendous innovation with products on the shelf, layout of stores and overall offerings, changes have come from outside the industry, too. With the nearly universal adoption of mobile technology becoming a reality, technology has affected the look and feel of retail in nearly every aspect.

In fresh, though, the goal is unchanging – deliver consumers healthy, convenient, fresh food that satisfies their desires to satiate, explore cuisine and provide for friends and family. With this long-standing goal at the center of retail strategy, retailers who succeed in the fresh space acknowledge the changes that characterize today's market:

- **Evolving Consumer and Shopper Behaviors:** With millennials – the largest and most educated generation in our history – dramatically influencing change, their unique buying behaviors have impacted retail choice, assortment and expectation of experiences. Also making a big impact is the influx of multicultural households, as well as the shift in how consumers expect shopping to fit into their lifestyles, which are busy, fast-changing and focused on holistic efforts to eat, shop and live healthfully.
- **Technology as An Enabler:** Connected lives set the expectation of fast, easy and accessible – this new normal spans CPG, including fresh perimeters. Further, across the industry, e-commerce is a major driver of personalization efforts and has heavily influenced how people shop and what they expect from retailers.
- **Changing Retail Business Fundamentals:** Most households utilize a hybrid of fresh-prepared, home cooking from scratch, value-added products and foodservice to fulfill meal requirements, thus blurring the lines on where food is sourced. Consumers have great expectations of retailers, relying on them for far more than just a food source. A great focus on recipes, ingredients and convenience is imperative, and thus retailers have had to dig deep and change long-standing practices both in-store and online.

Market leaders recognizing these influences, taking bold action and effecting change in the industry have made an impact and addressed the new consumerism. And as the revolution of fresh departments has happened and made fresh a relevant and prevalent part of all shoppers' experiences at retail, some aspects of these key trends have defined the new landscape and will continue to influence it today and for years to come.

## Convenience and Solutions

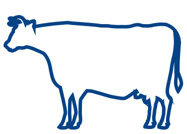
Today's families look, act and eat differently than those of generations past, with a significant shift in home-cooking practices. Research shows that 82 percent of meals are sourced at home, but they're often a hybrid of meal preparation states, including value-added (VA) products and foodservice. Industry data indicate that total spend away from home is roughly equal to total spend on food purchased through traditional channels and consumed at home.

There are three main drivers of how convenience and solutions are influencing the new consumerism:

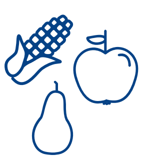
- Valued-added products
- Meal kits
- Fresh-prepared solutions

By definition, value-added items in the fresh perimeter have at least one step removed from the preparation—they come washed, sliced, chopped, marinated or with ready-to-cook ingredients, sides or entrees. Given that consumers are busier than ever, value-added products have great appeal and are driving perimeter department growth.

### Out-Proportioned Influence



**VA MEAT**
▲ **+6.9%** sales,
**12.6%** of total pound growth



**VA PRODUCE**
▲ **13.5%** sales,
**21.3%** of total dollar growth

**VA SEAFOOD**
▲ **20.9%** sales,
**41.4%** of total dollar growth

Source: IRI FreshLook POS data, MULO, 52 weeks ending May 14, 2017

Value-added fresh perimeter products are high-growth and have additional headroom as retailers seek ways to address portion control, flavor experimentation and further convenience. As distribution expands, value-added protein can continue to be a boon at retail. (Value-added meat faces price pressure from deflation, but overall there has been significant increase in volume.)

Meal kits also address a number of consumer needs—healthy eating, convenience and ready-to-cook are a few key factors—but particularly unique to meal kits is the low-risk opportunity for consumers to explore new cuisine.

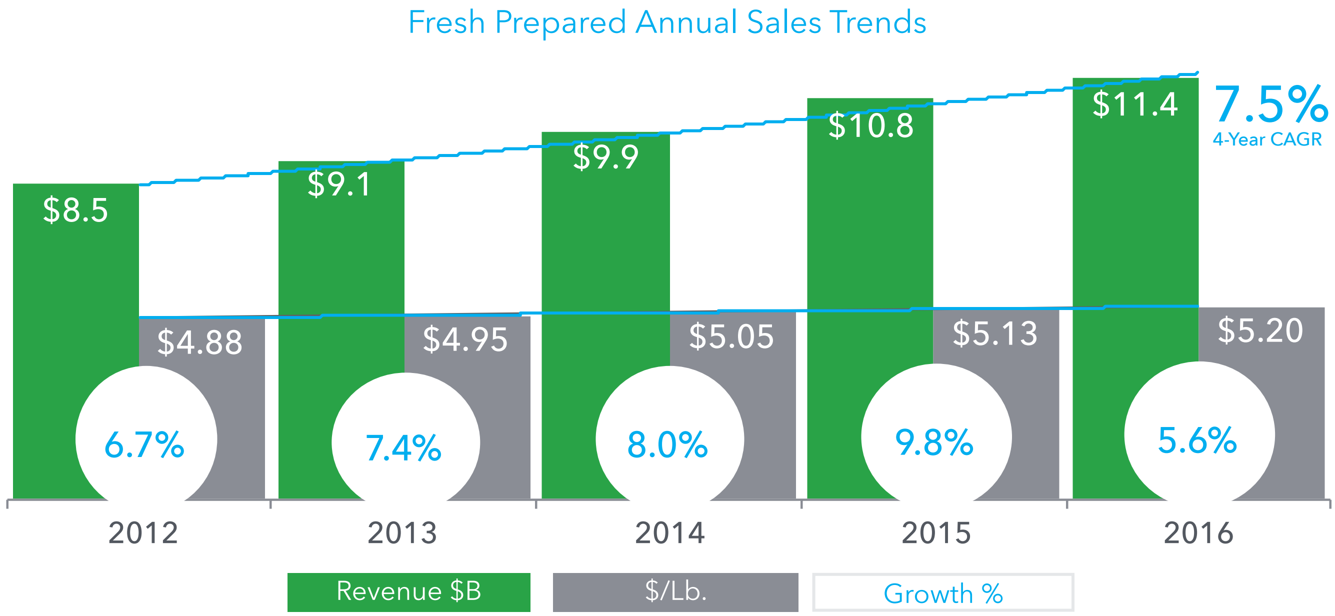
Meal kits bring restaurant-quality, gourmet-type foods to retail outlets and inspire experiential cooking at home, something especially intriguing for a powerful demographic between 25 and 44 years old, with higher household incomes and living in primarily urban environments.

Growth in meal kits is projected to take the category to between $3 billion and $5 billion by 2022, offering great opportunity to fresh departments that get it right. Innovation and creativity are important in this space at retail as subscription services, such as Blue Apron, Plated and others, continue trying to find a profitable model.

Already a success story for many retailers, fresh prepared continues to capture meal occasions and share from traditional restaurants by offering greater convenience and a high level of connection between retail stores and consumers. It also allows for competitive retailers to provide a great differentiator and drive loyalty.

EXHIBIT 6

## Industry averages tell a great story!




Source: IRI FreshLook POS data, MULO, 52 weeks ending 12/25/16

Fresh prepared is a growth engine with ample opportunities for retailers to think across the entire portfolio and tailor an offering specific to stores and markets. A customized, local approach fits into the new consumerism perfectly, and it will deliver results.

The capture of meal occasion by retail is growing, with estimates as high as 13 percent share for retail stores for the meal occasion as retailers encroach on restaurant traffic. The retail store can be convenient and faster than a restaurant environment, and the fresh prepared section has proven to be a key decision criteria for retail selection. And fresh prepared delivers the dollars, too, as it spurs additional trips to the fresh perimeter, as well as additional sales across the store.

## E-commerce and Personalization

Today we are at the center of a consumer buying revolution – the digital influence and e-commerce are not going anywhere, and they influence nearly 80 percent of all retail sales.

**76%** of all shopping trips begin online

**50%** of CPG category market growth will be online by 2020

E-commerce will take the greatest percentage of growth in the next three to five years and further depress retailers who are not playing in this space. Click-and-collect models have proven extremely relevant to opening the e-commerce opportunity to the fresh perimeter, though online buying for fresh is still in its infancy.

Protein, produce and dairy are at the leading edge, and indications are that Amazon's acquisition of Whole Foods Market will dramatically alter the fresh aspect of e-commerce. Already, leading retailers are investing heavily to compete with Amazon, as e-commerce forces change upon the industry by shaking business fundamentals to the core.

Personalization efforts help to develop relationships with consumers both in-store and online, and technology has allowed retailers to highly target messaging at the shelf with product offerings and unique pricing structures.

Retailers must find pockets of growth available to them, delivering the Amazon-like experience consumers have grown to expect. This moment of retail disruption demands interactive technology, product recommendations and in-depth, well-articulated content. Customers want convenience and value both in-store and online, and the fresh perimeter can be home to experiences for them that cater to their personal needs.

96 percent of fresh perimeter consumers do not purchase fresh online.

## Store Format Innovation

As a result of small-format store expansion, the industry median store size has been shrinking for more than a decade. However, especially in fresh, store format innovation is active and successfully addressing consumer needs. Innovation today touches on:

- New format experiments
- Limited assortment
- Fresh- and prepared-foods focus
- Increased shopper engagement

Since e-commerce has had such a big impact on center-store staples, leading retailers must find formats with unique assortment and a focus on fresh to engage shoppers and create loyalty and connection. As the center store continues to contract, there will be more space for perimeter convenience options and innovation that meet specific needs, including low price, fresh, healthy or ethnic. Limited-assortment format stores from Europe have embarked on aggressive U.S. expansion plans that will pressure traditional grocers. These limited assortment formats will offer expanded fresh and prepared foods footage to address changing consumer preferences, along with their efficient, low-cost delivered promise.

Much of store format innovation poses challenges in that it should be market-specific; however, there are many opportunities to tailor to unique consumer sets and reap great benefits.

## Take Action

Overall, these trends remain in early-to-middle stages of their growth cycles—offering opportunity to both retailers and manufacturers for outperformance. However, the time to act is now or else the opportunity will be lost to competitors that are more responsive.

- Solutions focused on convenience and ease of preparation will continue to fuel category growth and fresh perimeter outperformance.
- E-commerce will prevail as the dominant source of growth and in the process, redefine customer experience through greater personalization in-store and online.
- Small, fresh-oriented formats will gain share and continue delivering to customers, who are just as unique and demanding as the fresh departments themselves.

**About IRI**

IRI is a leading provider of big data, predictive analytics and forward-looking insights that help CPG, OTC health care organizations, retailers and media companies to grow their businesses. With the largest repository of purchase, media, social, causal and loyalty data, all integrated on an on-demand cloud-based technology platform, IRI helps to guide its more than 5,000 clients around the world in their quests to remain relentlessly relevant, capture market share, connect with consumers and deliver market-leading growth. A confluence of major external events—a revolution in consumer buying, big data coming into its own, advanced analytics and automated consumer activation—is leading to a seismic shift in drivers of success in all industries. Ensure your business can leverage data at www.iriworldwide.com.

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