



THE VOICE OF FOOD RETAIL

Feeding Families  Enriching Lives

**United States House of Representatives
Committee on Agriculture
Subcommittee on Nutrition**

**Hearing on
“Focus on the Farm Economy:
Food Prices and the Consumer”
Thursday, April 28, 2016**

**Testimony of
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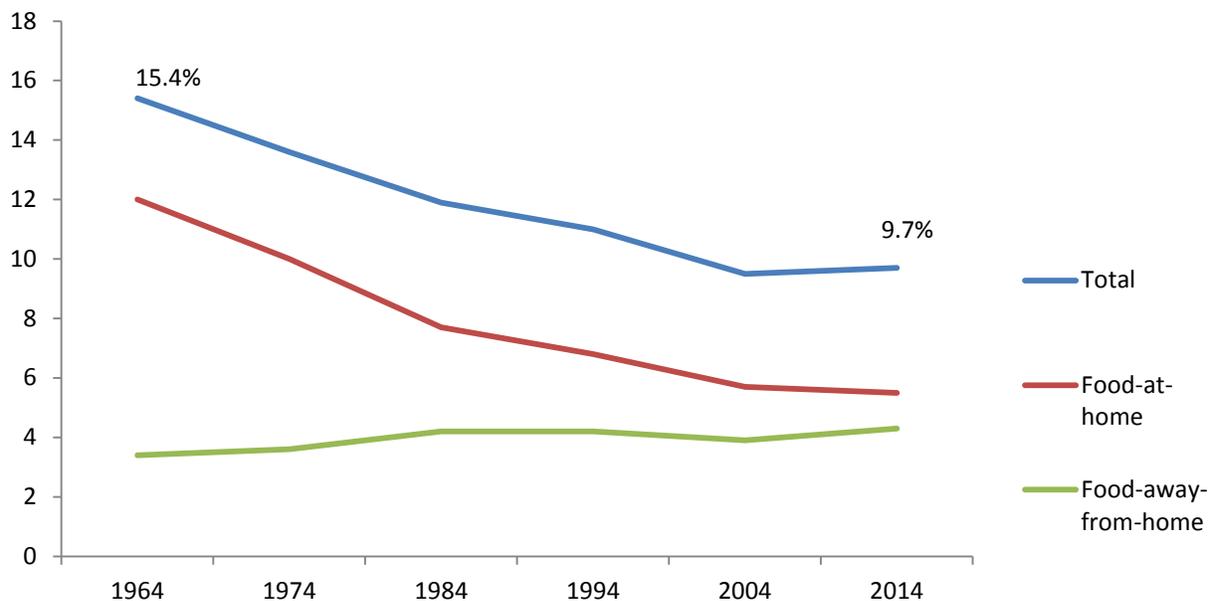
Chairwoman Walorski, Ranking Member McGovern, and distinguished members of the Subcommittee –

Thank you for the opportunity to testify before the Subcommittee on Nutrition on the issue of food prices and the consumer. My name is Andrew Harig and I am Senior Director for Sustainability, Tax and Trade at the Food Marketing Institute, which represents food wholesalers and retailers in each congressional district in the U.S.¹

The Role of Price in Food Retailing

Over the past fifty years, one of the great – and often unheralded - success stories of the United States’ economy has been that Americans devote less of their income to feeding their families today than they have at any other point in our history. In 1964, families and individuals spent over 15 percent of their disposable income on food; by 2014, this number had dropped to under 10 percent (see chart below). This decrease has been a boon for the overall economy, since it freed up disposable income to be diverted into new and productive areas.

Percentage of Disposable Income Spent on Food in the United States, 1964-2014²



¹ Food Marketing Institute proudly advocates on behalf of the food retail industry. FMI’s U.S. members operate nearly 40,000 retail food stores and 25,000 pharmacies, representing a combined annual sales volume of almost \$770 billion. Through programs in public affairs, food safety, research, education and industry relations, FMI offers resources and provides valuable benefits to more than 1,225 food retail and wholesale member companies in the United States and around the world. FMI membership covers the spectrum of diverse venues where food is sold, including single owner grocery stores, large multi-store supermarket chains and mixed retail stores. For more information, visit www.fmi.org and for information regarding the FMI foundation, visit www.fmifoundation.org.

² Source: USDA’s Economic Research Service, Data Series: “Food expenditures by families and individuals as a share of disposable personal income”.

Despite this long downward trend, however, consumers continue to be intensely price conscious in making decisions about the food they purchase. For example, three-quarters of all consumers take price into consideration when deciding whether to purchase a product for the first time.

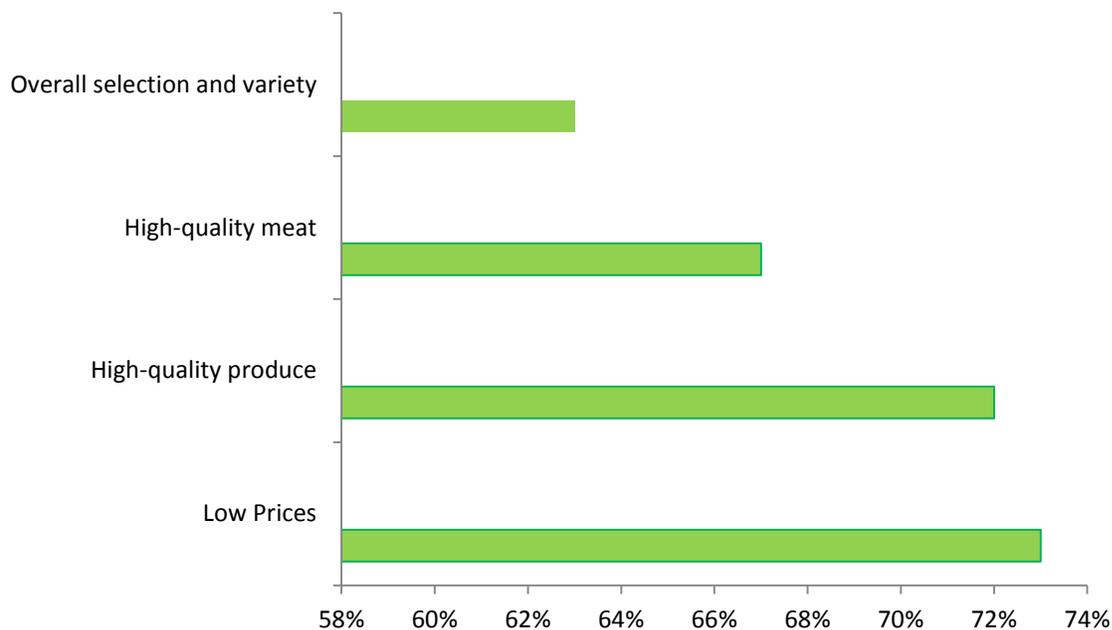
Decision Factors Contributing to the Purchase of New Products³

	Never	Hardly Ever	Sometimes	Almost Always
Price	1%	3%	21%	75%
Nutrition Label	5%	10%	38%	46%
Brand Name	3%	14%	50%	33%
Health Claims	13%	20%	47%	21%
Organic Claims	22%	27%	34%	17%

Once the decision to purchase a product is made, and the consumer integrates it into their shopping, they become more flexible on price. But sudden changes to the price remain a factor of concern even for products for which a consumer expresses a deep loyalty.

Similarly, “low prices” remains the single most important attribute that consumers seek in deciding at which store to shop.

Top Store Attributes Rated as “Very Important” to Consumers⁴



³ Food Marketing Institute, *U.S. Grocery Shopper Trends 2015*.

⁴ Food Marketing Institute, *U.S. Grocery Shopper Trends 2015*.

The recession that began in 2008 certainly drove many consumers to focus more on what they were paying for groceries, but these impacts persist even in 2016. This is true for people at all income levels, not just lower-earning households. Overall more than half of all consumers maintained that they paid about the same for groceries in 2015 than they did in 2014, and most are looking to continue holding that line.

Changes to Spending Behavior in 2015⁵

	Total	Income under \$35K	Income of \$35,000 - \$99,999	Income over \$100k
I am spending about the same on groceries	52%	50%	54%	52%
I am spending more on groceries	31%	31%	31%	36%
I am spending less on groceries	16%	19%	15%	12%

Food retailing is an intensely competitive industry which averages about a one percent profit margin annually. In an industry of our size and scope, successful companies cannot afford to ignore even a single factor that brings consumers into the store. While FMI’s members compete on service, quality and selection, the role of prices in driving consumer decision making plays a dominant role in the way the industry operates. Put simply, we focus so intensely on food prices because our consumers demand that we do.

Communicating the Factors that Make-up Food Prices

As the final link in the supply chain, food retail plays a crucial role in connecting consumers with farmers and ranchers. FMI and our industry feel a strong sense of responsibility to create a better understanding of the role that agricultural policy and the health of the farm sector play in making sure that the United States has the safest, most wholesome and most affordable food supply in the world. A number of our members have launched initiatives over the past few years to make this link explicit; these programs range from “Meet your farmer” sessions at the store level to expanding local agriculture programs.

Despite this, we believe the link between farm-level issues and their impact on food prices are not always clear to consumers. In large part, this disconnect can probably be traced to the sheer complexity of the pricing model in our industry. As the other witnesses have made clear, there are often dozens – if not hundreds – of factors that go into the price of a product by the time it makes it to FMI members’ retail shelves. When you consider that the average store carries about 40,000 unique items, the number of different variables shaping retail prices blend into an extremely complex algorithm.

Admittedly, certain occurrences - including drought and crises like avian influenza - tend to have a direct and obvious link to the cost of food that most people understand. Other changes can be

⁵ Food Marketing Institute, *U.S. Grocery Shopper Trends 2015*.

more confusing, however. For example, when huge energy cost increases drove up the price of food in 2007 and 2008, many consumers were not necessarily focused on just how energy intensive farming, manufacturing and retailing food can be. During this period, our members received many more calls asking about the reasons behind price increases than we have received about the California drought.

The disconnect between what is going on at the farm-level and how it translates into price increases raises long-term concerns that the entire supply chain needs to address. For example, as the demands placed on U.S. agriculture to feed an ever-expanding population increase, it is important that consumers understand these changes so that they can continue to make the best use of their food dollar. But it is just as important that farmers and ranchers understand the changing face of the American consumer so that they can begin planning for the changes that are going to be asked of them.

The Understanding of Why Costs Increase May Be Imperfect, But Consumers are Becoming Increasingly Expert at Responding to Them

As previously noted, the factors underlying cost increases for individual commodities or products may not be completely understood at the consumer level at certain times. However, many consumers tend to take a more holistic approach to how they view food prices. These shoppers tend to focus less on the cost of any one component of their store visit, and more on the total cost of building and preparing a meal.

As a result, consumers have become particularly adept over the past decade at addressing price increases through both scaling back the purchase of expensive items and substituting in less expensive alternate foods. This has been especially true of proteins, a number of which have faced significant challenges in recent years that have led to price changes. Drought, avian influenza, PED and a number of other factors have all contributed to large and unexpected changes in price to which consumers have had to adapt. We have seen that as these changes occur, consumers make adjustments to their own purchases to make sure that the overall quality of their diets is not impacted.

For instance, over 40 percent of consumers surveyed in FMI's and the North American Meat Institute's 2015 *Power of Meat Survey* admitted that price increases changed the way they bought meat and poultry. But the strategies they used to address these price increases were extremely broad:

<i>Buy the same kinds of meat, but less of it</i>	33%
<i>Buy what's on promotion</i>	19%
<i>Buy less expensive items</i>	16%
<i>Volume-based discounts</i>	13%
<i>Change stores</i>	5%
<i>Buy premium; eat-out less</i>	3%⁶

⁶ Food Marketing Institute & the North American Meat Institute, *Power of Meat 2015*.

Retailers have adopted a number of strategies to aid consumers in their efforts to address changes in food prices. A number of FMI's members have limited the cost increases they pass along to consumers on an extensive list of staple products. The last few years have also seen a much broader use of private label brands that are often lower-priced than national brands.

The flexibility and resilience shown by American consumers should be heartening to everyone in the food supply chain. Despite sometimes sharp (and unexpected) changes to prices in a number of different sectors over the past few years, they have continued to adapt their purchasing strategies.

A Quick Word on Regulatory Impacts

When we talk about food prices, it is also important to acknowledge the role that regulatory changes play in driving costs paid by consumers. The industry is currently in the process of implementing the Food Safety Modernization Act (FSMA), the most significant change to food safety laws in over thirty years. FMI supported many of the changes proposed in FSMA, but the sheer scope of the law is almost certainly going to impact consumers. Each of the new FDA rules facing retailers are more than 275 pages long, so retailers and wholesalers are working hard to understand, interpret and implement all the changes. Similarly, the FDA's chain restaurant menu labeling regulation could have broad impacts on supermarket "buy local" programs, food waste and the cost of prepared foods at store level, forcing retailers to move from local and produce department sourcing to a more standardized food service sourcing – similar to restaurants. Even state level laws, such as Vermont's GMO labeling requirement, can expand to have national implications that impact consumer prices. For example, if companies attempt to reformulate to non-GMO ingredients due to consumer concern resulting from a lack of information, we are anticipating a 25% increase in cost in the reformulated private brand product (not including labeling and distribution costs) – with an almost certain impact on low income customers and local farmers.

Each of these new regulatory requirements is going to impose costs on the system, and with a 1% retail margin, these added costs will impact consumer prices. Before Congress considers legislation or an agency moves to finalize a regulation, we would urge you to consider the broad implications of any new proposal – not only its impact on farmers, ranchers, manufacturers and retailers, but also its impact on consumers.

Conclusion

Despite the best efforts of many on this committee, the challenges of the past decade have forced Americans to become incredibly creative in how they feed their families and spend their food dollars. This is going to have long-term impacts on how Americans shop for food. However, FMI's research shows that a new consumer is emerging – one who is going to demand both value and broader engagement on the part of food companies at every level of the supply chain. This is going to mean not only a commitment to greater transparency, but also the forging of new partnerships focused on health and wellness. As we begin to prepare for the next Farm Bill, FMI looks forward to continuing to work with the Committee to share our research and work to keep the U.S. food supply the safest, healthiest, and most affordable in the world.

Thank you.