BRINGING TO LIFE: TOP TRENDS in FRESH FOODS

Transparency & Social Strategy and Cultural Alignment
Webinar 2 of 5

Sally Lyons Wyatt
Executive Vice President and Practice Leader, IRI

Chris DuBois
SVP, Strategic Accounts
FMI is the trade association that serves as the voice of food retail. We assist food retailers in their role of feeding families and enriching lives.
The Association:

Our members are food retailers, wholesales and suppliers of all types and sizes.

FMI provides comprehensive programs, resources and advocacy for the food, pharmacy and grocery retail industry.
Fresh @ FMI

FMI is committed to the growth and success of fresh companies and their partners. FMI provides resources and networks that support the interests of member companies throughout the global, fresh produce supply chain, including family-owned, private and publicly traded businesses as well as regional, national and international companies.

Emphasis on fresh
- Produce
- Meat
- Seafood
- Deli/In-store, fresh prepared foods and assortments
- Bakery
- Floral

Rick Stein
Vice President, Fresh Foods
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Research and Education
In-depth information, trends and insights to foster innovation, take advantage of new opportunities and help develop winning strategies

Networking
Share ideas, explore best practices and develop business relations

Advocacy
Understand what is going on in Washington and make your voice heard
FMI Fresh Executive Committee (FEC)

John Ruane (Chair)
Ahold USA

Rick Steigerwald (Co-Chair)
Lund Food Holdings, Inc.

Tom DeVries
Giant Eagle, Inc.

John Beretta
Albertsons, LLC

Dave Bornmann
Publix Super Markets, Inc.

Scott Bradley
Target Corporation

Jerry Chadwick
Lancaster Foods, LLC

Alex Corbishley
Target Corporation

Buddy Jones
MDI Distributors

Dan Koch
Associated Wholesale Grocers, Inc.

Brett Bremser
Hy-Vee

John Haggerty
Burris Logistics

Mark Hilton
Harris Teeter LLC

Geoff Wexler
Wakefern Food Corporation

Mark Doiron
Fresh Thyme

Jim Lemke
CH Robinson Fresh

Steve Howard
Bristol Farms/Lazy Acres

Emily Coborn
Coborns

Jerry Goldsmith
Spartan Nash

Mike Papaleo
C&S Wholesalers

Pat Brown
Albertsons LLC

Jerry Suter
Meijer, Inc.

Geoff Waldau
Food Lion

Scott Evans
Price Chopper/Mkt 32

Pat Pessotto
Longo Brothers Fruit Markets Inc.

Nick Carlino
MDI Distributors

Jerry Suter
Meijer, Inc.

John Grimes
Weis Markets

Richard Cashion
Healthy Home Market

Shana DeSmit
Walmart

Nicole Wegman*
Wegmans Food Markets, Inc.

* Silent members

The FEC is...

Comprised of FMI Member companies, Retailers and Wholesalers
FMI Fresh Foods Leadership Council

John Ruane (Co-Chair)
Ahold USA

Rick Steigerwald (Co-Chair)
Lund Food Holdings, Inc.

All- FEC Members
FMI Fresh Executive Council

Chris Dubois
IRI

Michael Eardley
International Dairy-Deli-Bakery Assoc.

Bridget Wasser
National Cattleman's Beef Association

Sarah Schmansky
Nielsen Perishables Group

Paul Mastronardi
Mastronardi Produce

David Sherrod
SE Produce Council

Jeff Oberman
United Fresh Produce Assoc.

Janet Riley
North American Meat Institute

Galit Feinreich
Ready Pac Foods, Inc.

Tom Super
National Chicken Council

Patrick Fleming
National Pork Board

Joe Watson
Produce Marketing Assoc.

Joe Weber
Smithfield Foods Inc.

Art Yerecic
Yerecic Label

Brad Roche
Hill Phoenix

Greg Livelli
Hussmann

Robb MacKie
American Bakers Assoc.

Jim Huston
Johnsonville

Chad Gregory
United Egg Producers

Joe DePetrillo
Earthbound/White Wave

Shawna Lemke
Monsanto

John Knorr
Phillips Seafood

Mike Celani
Wonderful

Chandra Macleod
Aqua Star Seafood

Jeff Thompson
Trident Seafood

Emily Blair
Miliken

John Dunne
Acosta

Scott Aakre
Hormel Foods

Sally Lyons Wyatt
IRI

Wendy Reinhardt Kapsak
 Produce for Better Health (PBH)

Michael Lang
Invatron

Tom Daniel
Sterilox/Chemstar

Randy Evins
SAP

Tom Windish
Cargill
TODAY’S DISCUSSION

Progression of our study
Trend Overviews
2018 Education Series Rollout
Our study focused on the shopper and consumer trends 2016 & 2017 relevance & evolution with consumers primary & secondary research
“Fresh”en Up @...
IRI Worldwide.com/insights or fmi.org/TopTrendsInFresh
Perimeter Findings...More than Half of F&B Growth

From 2013’s 29.0% ($116Billion)

To 2017’s 30.5% ($140Billion)

F&B 2017

$426.8B

Source: IRI FreshLook POS data, Multi-Outlet, 52 weeks ending 12/31/2017
Perimeter outpacing other F&B departments over last 4 years, but slowing growth

Nearly double F&B

- PERIMETER: 2.9%
- SEAFOOD: 1.5%
- MEAT: 1.8%
- PRODUCE: 2.3%
- BAKERY: 1.2%
- GENERAL FOOD: 1.2%
- FROZEN: 0.8%
- REFRIERATED: 1.2%
- BEVERAGES: 2.3%

4-YEAR CAGR DOLLAR GROWTH
But…Momentum Slows in 2017

$1.5 billion
+1.1%
Vol 0.0%

SOURCE: IRI FreshLook POS data, Multi-Outlet, 52 weeks ending 12/31/2017
With volume declines impacting key segments

- Meat: -0.3%
- Seafood: 0.9
- Deli Prep: 1.7
- Produce: 1.6
- Bakery: 0.0
- Deli Cheese: 0.7%
- Deli Meat: 0.5%

Source: IRI FreshLook POS data, Multi-Outlet, 52 weeks ending 12/31/2017
Fresh foods are top-of-mind for consumers

Understanding generational differences is important for reaching key shoppers

Short & long-term growth can be realized through a variety of activation opportunities
TRENDS are still RELEVANT but there is a lot of WORK TO DO.
Let’s dive into 2 trends

FOOD TRANSPARENCY

SOCIAL AND CULTURAL ALIGNMENT
These macro trends have several similarities

What's in my food?

Where did my food come from?

How was it farmed?

Did they avoid harsh chemicals?

Were the animals and people treated fairly?

Was the planet taken care of?
FOOD TRANSPARENCY
The consumer desire to know how and where food was grown or made.

The consumer expectation for clarity, accuracy and usefulness of food related information from the companies that produce and sell it.
Transparency is important to the vast majority of fresh food shoppers

Nearly ½ of those shoppers define healthy food by the “absence of the bad stuff”

82% Health & Wellness (net)
1 Free of growth hormones
2 Free of antibiotics
3 No GMO or bio-engineered
4 Grown without pesticides or fertilizers
5 Non-irradiated foods

Source: 2017 Fresh Food Shopping Trends Survey
Primary claims are still very relevant to consumers with strong growth

- **Organic Produce**: $4.5B, +13% sales
- **Deli NAE Meat**: $5.7B, +8% sales
- **Deli Organic Cheese**: +17% 5 yr CAGR, +40% 5 yr CAGR
- **NAE Meat**: $2.9B, +23% sales
- **Organic Meat**: $582M, +32% sales
- **Food Transparency**: Source: IRI FreshLook POS data, MULO, 52 weeks ending 12/31/2017

**Source:** IRI FreshLook POS data, MULO, 52 weeks ending 12/31/2017
Antibiotic-free chicken has more than doubled in the past couple years

Source: IRI FreshLook POS data, MULO, 52 weeks ending 12/31/2017
Although Organic Produce can now be found in more categories, the price compression has limited the dollar share but still driving growth.

**Sales growth**

<table>
<thead>
<tr>
<th>Year</th>
<th># of categories &gt; 10% sales share</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>9</td>
</tr>
<tr>
<td>2017</td>
<td>17</td>
</tr>
</tbody>
</table>

**Organic**

- 8% of sales
- +13%
- 2015
- 2017

**POS data, MULO, 52 weeks ending 12/31/2017**

Source: IRI FreshLook POS data, MULO, 52 weeks ending 12/31/2017
These primary claims have contributed to meat and produce growth where available

- **Organic chicken** contribution to total chicken $ sales growth: 13%
- **Organic produce** contribution to total produce $ sales growth: 20%
- **NAE and Organic deli meat** contribution to total deli $ sales growth: 3%

Source: IRI FreshLook POS data, MULO, 52 weeks ending 12/31/2017
2 in 3 fresh food shoppers report that H&W/transparency has become a more motivating factor for them than it was in the past.

1 in 3 mentioned the “absence of the bad stuff” being much more important now than a few years ago.

Source: 2017 Fresh Food Shopping Trends Survey
Consumers are putting more emphasis on certain transparency factors.

**FACTORS THAT HAVE INCREASED IN IMPORTANCE: (ARE MUCH MORE PREVALENT NOW VS. A FEW YEARS AGO)**

<table>
<thead>
<tr>
<th>Factor</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health &amp; Wellness (Net)</td>
<td>65%</td>
</tr>
<tr>
<td>Antibiotic free</td>
<td>32%</td>
</tr>
<tr>
<td>Free of growth hormones</td>
<td>33%</td>
</tr>
<tr>
<td>Free of pesticides or fertilizers</td>
<td>31%</td>
</tr>
<tr>
<td>No-GMOs ingredients</td>
<td>30%</td>
</tr>
<tr>
<td>Non-irradiated foods</td>
<td>15%</td>
</tr>
</tbody>
</table>

Source: 2017 Fresh Food Shopping Trends Survey
Consumers online conversations are increasingly discussing food production.

Social media mentions rising steadily since 2012 with spikes tied to news media.

**FOOD PRODUCTION & SUSTAINABILITY SOCIAL MEDIA MENTIONS 5-YEAR TRENDS**

*Source: IRI Social Advantage Monitoring and Analysis (>40MM sites) Jan 2012-Mar 2018, normalized*

*Animal Welfare claims includes No Antibiotics Ever, All Veg Diet, No Animal Bi-Products, Free-Range/Cage Free and Grass Fed*
Consumer interest in GMOs is also increasing

GMO chatter has been on the rise since 2012, peaking exponentially in 2017

At 5.1MM, GMO post volume is roughly \(rac{1}{2}\) as many mentions as Coca-Cola and 2X more than Gatorade

Source: IRI Social Advantage Monitoring and Analysis, Jan 2012-Mar 2018, normalized
What consumers are saying about GMOs can provide personalization messaging

Specific key-words mentioned together (size indicates number of mentions)

- products
- Water
- Ingredients

Source: IRI Social Advantage Monitoring and Analysis, Jan 2012-Mar 2018, normalized, demos indexed to social media engagement

FOOD TRANSPARENCY EVOLUTION
...and look who's talking

% of GMO Social Media Mentions by Age

54% of GMO chatter from 25-44 year olds, most likely raising the next generation

Source: IRI Social Advantage Monitoring and Analysis, Jan 2012-Mar 2018, normalized, demos indexed to social media engagement

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Food can claims impact perception & sales

When, how and where programs are implemented matters to generating success

In addition to sustaining positive social mentions, First Mover brand saw **+5.3% higher dollar sales** in test markets vs. control

Source: IRI Social Advantage, 52 weeks ending 12/30/2017 & IRI Test/Control POS Sales Analysis
Adoption over the past 2 years has been significant in the northeast and in Florida – NAE reaching 10% U.S. $ share and Organic Produce up 1.2 points to 8.7% $ share
Seattle still outpaces the U.S.

### Organic Produce
- **US Average Share:** 7.5%
- **Seattle Share:** 14.2%

### NAE Meat
- **US Average Share:** 5.9%
- **Seattle Share:** 11.6%

Source: IRI/Spins NaturalLink segmentation; IRI Consumer panel
IRI FreshLook POS data; MULO, 52 weeks ending 11/29/2015, IRI analysis

Source: IRI FreshLook POS data; MULO, 52 weeks ending 12/31/17 ranked based on combined score of both attributes
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Norfolk is keeping up with the U.S. averages

**From 2015 to 2017**

**Organic Produce**
- **US Average Share**: 7.5%
- **Norfolk Share**: 7.0%

**US Average Share**: 7.5%
- **Norfolk Share**: 7.0%

**NAE Meat**
- **US Average Share**: 5.9%
- **Norfolk Share**: 4.9%

**US Average Share**: 10%
- **Norfolk Share**: 10%

Source: IRI/Spins NaturalLink segmentation; IRI Consumer panel
IRI FreshLook POS data; MULO, 52 weeks ending 11/29/2015, IRI analysis
IRI FreshLook POS data; MULO, 52 weeks ending 12/31/17 ranked based on combined score of both attributes
Seattle has a strong base that continues to grow and Norfolk is not showing signs of slowing down – similar to other cities across the U.S.

Seattle:
- +3.6% units/store
- +6.8% sales

Organic Produce TOTAL US MULO:
- +7.3% units/store
- +8.0% sales

Norfolk:
- +15% units/store
- +14.5% sales

Source: IRI FreshLook POS data; MULO, 52 weeks ending 12/31/2017, IRI analysis
Higher than average concentration of Farmers Markets influence retail organic produce purchasing – for example – Seattle:

L.A., San Francisco, New York and Seattle boast a disproportionally higher market share of top Farmers Markets AND a higher than national average share of Organic Produce.

91 within 50 miles of downtown Seattle vs 29 in the same radius as Norfolk.

Source: IRI FreshLook POS data; MULO, 52 weeks ending 12/31/2017, USDA; Daily Meal
Food transparency can drive department growth

Halo Effect

Organic Produce
- Grow Total Produce 22% faster than total US

NAE Meat
- Grow Total Meat 166% faster than total US and 1 % point more

Source: IRI FreshLook POS data, MULO, 52 weeks ending 12/31/2017 based on Retailer Market Area-level analysis
Information & expertise is influencing the shopping outlet preferences when buying fresh

<table>
<thead>
<tr>
<th></th>
<th>MILLENNIALS</th>
<th>BABY BOOMERS</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mass Merchandise Store</td>
<td>63%</td>
<td>43%</td>
<td>50%</td>
</tr>
<tr>
<td>Farmers Market</td>
<td>35%</td>
<td>19%</td>
<td>24%</td>
</tr>
<tr>
<td>Specialty Grocery Store</td>
<td>34%</td>
<td>23%</td>
<td>27%</td>
</tr>
</tbody>
</table>

Source: 2017 Fresh Food Shopping Trends Survey

FOOD TRANSPARENCY EVOLUTION
Mobile applications are allowing consumers to gain more information about their foods and presents an opportunity to connect with “the connected”
SOCIAL STRATEGY & CULTURAL ALIGNMENT
A company’s ability to grow sales by integrating the underlying consumer motivations and values that ultimately impact sales
During our 2017 webinar, we identified these five top social sentiment drivers of consumer purchase and consumption:
Strong sustainability programs are continuing to sell more seafood

**FIN FISH**

- **Strong/Average Program**
  - +4.4% YOY DOLLAR SALES
- **Weak Program**
  - +2.2% YOY DOLLAR SALES

**SHELLFISH**

- **Strong/Average Program**
  - +0.6% YOY DOLLAR SALES
- **Weak Program**
  - -2.6% YOY DOLLAR SALES
Cage Free eggs are proving to be a viable segment for growth and premiumization – We have seen an increase in cage-free eggs flocks and more coming.

Sources: American Egg Board, cagefreefuture.com

15.9% of US flocks in Oct. 2017

119 pledges from companies

10% of TTL fresh eggs

18 point spread vs. rest of fresh eggs

Industry wide pledges to go cage-free by 2025 or sooner including top QSR, food service, retailers and producers

Massive cost increases and industry consolidation

Demand may not be met

Sources: American Egg Board, cagefreefuture.com

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Antibiotic-free meat availability continues to rise and welcomed by consumers

- **10%** of total meat retail sales
- **28%** of 2017 chicken sales
- **3.7%** of 2017 pork & beef sales
- **50%** of chicken by 2022, faster than expected

Exploding food service commitment
Future ABF change less than chicken
New USDA rules in 2017
Retailers who merchandise antibiotic-free meat grew faster than average.

Top 25% of ABF/Organic Retailer RMAs grew pounds 166% faster across Total Fresh Meat

1.6% sales growth vs. 0.6% Total 2017 US growth
No-Antibiotic Meat/Poultry creates strong basket growth

- **Origanic Claims**
  - HH Buying: 9.5%
  - 3.2 trips/buyer
  - $30.05 Per buyer

- **No Antibiotics Claims**
  - HH Buying: 58.6%
  - 5.2 trips/buyer
  - $46.30 Per buyer

**Average Basket**
- $47.47
- $104.99
- $105.04

Source: IRI Consumer & Shopper Advantage, 52 weeks ending 2-25-18
57% of consumers are motivated by social & cultural factors – specifically:

- 27% Less packaging
- 26% Sustainability produced/grown
- 22% Organic
- 18% Animal welfare certified
- 14% Ecological/biodegradable packaging

Source: 2017 Fresh Food Shopping Trends Survey
44% of consumers have stated that social and cultural factors have gained in importance over the past few years.

Source: 2017 Fresh Food Shopping Trends Survey
Responsibly sourced/humane attribute growing in importance

1 in 4 find it much more important now vs. past

Source: 2017 Fresh Food Shopping Trends Survey
Millennials are more likely to...

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Behavior Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>67%</td>
<td>seek out locally sourced foods</td>
</tr>
<tr>
<td>68%</td>
<td>care about the social and cultural aspect of their fresh food</td>
</tr>
<tr>
<td>32%</td>
<td>care about less packaging</td>
</tr>
<tr>
<td>27%</td>
<td>purchase animal welfare certified</td>
</tr>
<tr>
<td>33%</td>
<td>purchase organic</td>
</tr>
<tr>
<td>18%</td>
<td>seek ecological options</td>
</tr>
</tbody>
</table>

Source: 2017 Fresh Food Shopping Trends Survey
Generational differences in values exist regarding sustainably produced, organic, ecological (less packaging) factors

Source: 2017 Fresh Food Shopping Trends Survey

55%

43%

39%
Importance of ‘Local’ when shopping for Fresh Food: (Very important/primary reason I shop outlet)

- Locally sourced fruits/vegetables: 30%
- Locally farmed meat/poultry: 21%

Local is a contributing factor for where consumers shop to purchase produce and meat.

Source: 2017 Fresh Food Shopping Trends Survey
Having access to the locally sourced produce and meat makes shoppers feel like the outlet cares about the local community and the overall welfare of the community.

<table>
<thead>
<tr>
<th>Perception</th>
<th>Locally sourced fruits/vegetables</th>
<th>Locally farmed meat/poultry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Makes me feel like store cares about overall welfare of others (me/my family)</td>
<td>47%</td>
<td>40%</td>
</tr>
<tr>
<td>Makes me feel the store cares about local community</td>
<td>54%</td>
<td>53%</td>
</tr>
<tr>
<td>Makes me feel like the store lives up to my values/expectations</td>
<td>40%</td>
<td>35%</td>
</tr>
<tr>
<td>Makes me feel like the store understands my values/preferences</td>
<td>38%</td>
<td>33%</td>
</tr>
</tbody>
</table>

Source: 2017 Fresh Food Shopping Trends Survey
Consumers engage online and their conversations influence their purchasing
Social media chatter about food transparency claims are continuing to increase

**NON-GMO**

- 5.9M mentions in 2017
- +123% vs. last year
- +306% vs. 2012

**ANIMAL WELFARE & FEED**

- 4.4M mentions in 2017
- +231% vs. last year
- +338% vs. 2012

**FAIR FOOD & WAGE**

- 4.0M mentions in 2017
- +83% vs. last year
- +201% vs. 2012

Source: IRI Social Advantage, total social mention volume, 2012-2017

Animal Welfare includes grass fed, free range, cage free, sustainable seafood, no antibiotics ever, certified humane, all veg diet, no animal by-products
Not only has social chatter increased, it’s become more detailed

How we treat and feed our food supply has seen the most notable increase in the past 24 months

GRASS FED
2M mentions in 2017
+222% vs. YAGO

FREE RANGE/CAGE FREE
1.9M mentions in 2017
+227% vs. YAGO

SEAFOOD SUSTAINABILITY
401K mentions in 2017
+353% vs. YAGO

NO ANTIBIOTICS EVER
57K mentions in 2017
+226% vs. YAGO

Source: IRI Social Advantage, total social mention volume, 2012-2017

Animal Welfare includes grass fed, free range, cage free, sustainable seafood, no antibiotics ever, certified humane, all veg diet, no animal by-products
We see fair wage/trade driving partnerships and online chatter

Retailer/grower partnerships:
- Worker conditions
- Pay/Wage agreements
- Formal governance
- Structure
- Education commitments

Source: IRI Social Advantage, 2017
Unfortunately, America leads the world in food waste

133 billion lbs of waste globally

40% of food is wasted totaling $161B in U.S.

21% of municipal landfill use

Food waste is 16% of methane emissions

A 15% reduction in US food waste could feed 25 million people

Source: USDA
More and more consumers are talking about food waste online, which will lead to solution adoption.

1.8M mentions in 2017

+123% vs. last year

+306% vs. 2012

Source: IRI Social Advantage, total social mention volume, 2012-2017

Animal Welfare includes grass fed, free range, cage free, sustainable seafood, no antibiotics ever, certified humane, all veg diet, no animal by-products
Embrace consumers by...

Leveraging omni-channel communications

Ensuring pre-packaged meats and meals clearly communicate ingredients

Making it easier for consumers to find the social and cultural symbols
Retailer priorities to consider

Amplify the Integrity of Fresh
Increase focus on social and cultural needs that are relevant to key targets

Own the Consumer Connection
Retailers are highly trusted by consumers for accurate information

Be Consistent Across Departments
Consumers see the total store – Transparency and Social/Cultural transcend categories

Get Full Credit from Consumers
Tout relationships with food banks; Preventable waste programs; Food integrity programs
Manufacturers may consider

First Mover vs. Fast Follower Strategies
In the full spectrum of possibilities, not all elements require first-mover investments but you need to engage

- The Pace Will Accelerate
  Current pace is accelerating as fresh supply chains improve and adopt new capabilities - ensure you are too!

- Issues May Not Matter Until They Matter…
  But then it will matter…Consumer focus will shift and fragment, but some topics will amplify quickly.

- Variety Counts
  Consumers have an increased focus on right size portions and packaging, so leverage your assortment
2018 Trend Launches & Educational Plan

- Feb 22: Holistic Health
  - Convenience
- APR 25: Food Transparency
  - Social & Cultural Alignment
- JUN 20: Customization to the New Consumerism
  - Prepared Foods & Specialty
- SEP 13: Atomization of Personalization
  - Connected Consumer
- OCT 2: Hyper Localization
  - New Supply Chains
BRINGING TO LIFE: TOP TRENDS in FRESH FOODS

Transparency & Social Strategy and Cultural Alignment
Webinar 2 of 5

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