The Power of Produce 2017

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

Presented by:

Rick Stein | FMI

&

Anne-Marie Roerink | 210 Analytics

Made possible by:

FMI

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Feeding Families Enriching Lives

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.

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The Association:

<u>Our members</u> are food retailers, wholesales and suppliers of all types and sizes

<u>FMI provides</u> comprehensive programs, resources and advocacy for the food, pharmacy and grocery retail industry

- ASSET PROTECTION
- CENTER STORE
- COMMUNICATION
- CONSUMER & COMMUNITY AFFAIRS
- EDUCATION
- FOOD SAFETY & DEFENSE
- FRESH FOODS
- GOVERNMENT RELATIONS
- HEALTH & WELLNESS
- INDEPENDENT OPERATOR
- INFORMATION SERVICE
- PRIVATE BRANDS
- RESEARCH
- SUPPLY CHAIN
- SUSTAINABILITY
- TECHNOLOGY
- WHOLESALER

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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

Rick Stein
Vice President, Fresh Foods
Food Marketing Institute
rstein@fmi.org
202.220.0700

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Coborns

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Spartan Nash

Mike Papaleo
C&S Wholesalers

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Blaine Bringhurst*
Price Chopper Supermarkets

Nicole Wegman*
Wegmans Food Markets, Inc.

*** Silent members**

Fresh Foods

The FEC seeks to

- identify areas of collaboration across all fresh foods departments
- promote understanding and cooperation throughout the industry and with sister fresh associations
- maximize common learning's between fresh categories and to create a vision of leadership for the entire fresh category

FMI Fresh Foods

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

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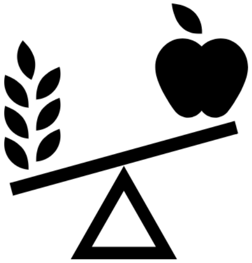
Big, profitable and growing

- Big: $63B
  2nd largest fresh dpt at 33% of total fresh sales
- Lucrative: a basket builder
  Produce basket +44% over average ring
- Growing: outpacing total store
  Dollars +3.4%
  Volume +2.2%
  Units +0.1%

The Power of Produce 2017

- Shopper insights combined with market reality
  - Consumer survey among 1,700 shoppers
  - Third year
  - Blending trends and new
- Study input by all partners in the produce supply chain

Insights through the lens of growth



DRIVING CONSUMPTION—

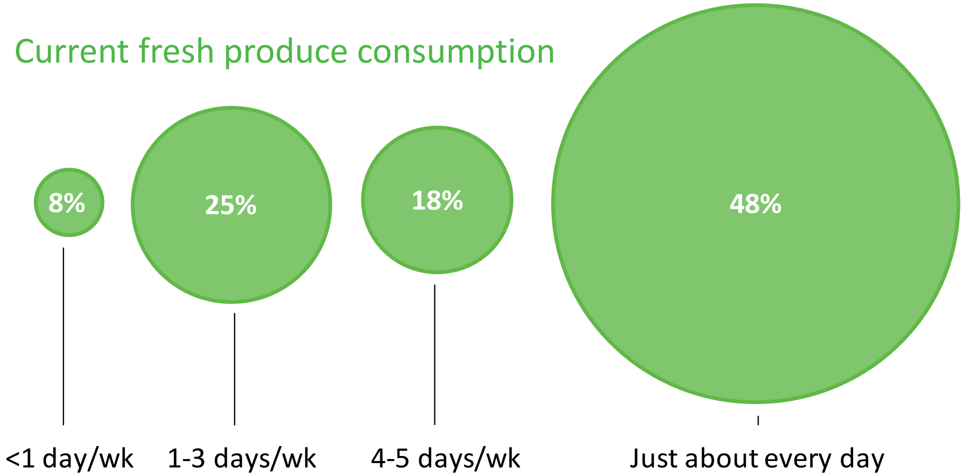
LEVERAGING NEW OCCASIONS AND NUTRITION

Room for growth in consumption occasions

Household penetration

99.7%

But… room to increase consumption occasions containing fresh produce



Breaking through the habitual purchase

Shoppers are creatures of habit but welcome suggestions

17%
Buy the same set and don't like to try anything new/different

33%
Buy the same set but would welcome tips to try new/different items

50%
Have my favorites, but always on the lookout for new/different items

50%
Creatures of habit

83%
Welcome ideas

Shoppers agree: bring on the produce!

Trying to eat more fresh fruit/vegetables…

	Don't try to consume more	With breakfast	With lunch	With dinner	As a snack	In smoothies/ freshly-squeezed juice
All	**6%**	**36%**	**42%**	**44%**	**56%**	**23%**
Millennials		35%	39%	44%	57%	30% !
Boomers		40% !	44% !	47%	59%	20%

Create reminders and points of interruption

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Drive fresh produce convenience beyond the department silo in other fresh areas

Consider bringing produce into the rest of the store

Spaghetti dinner end cap

Bananas in cereal aisle

Avocados in snack aisle

Veggies in meat case

Lemons near seafood case

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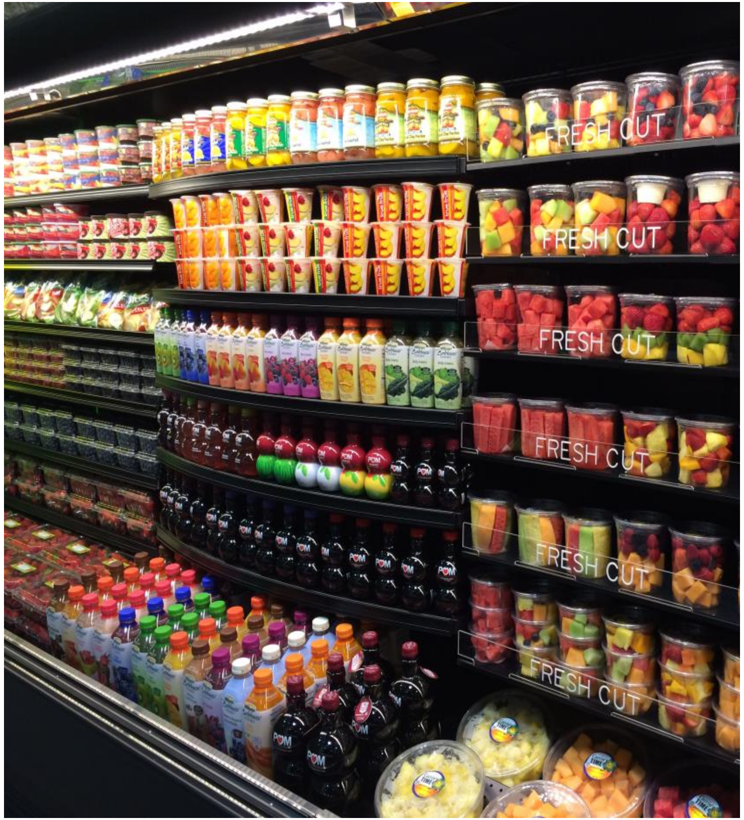
Solutions for healthy snacking/smoothies/juices/waters



Connect with parents and kids

But…fruit & veggies are going nuts in center store too

Snack packs/bars combining fruits, veggies and nuts answer the health & convenience call of the consumer

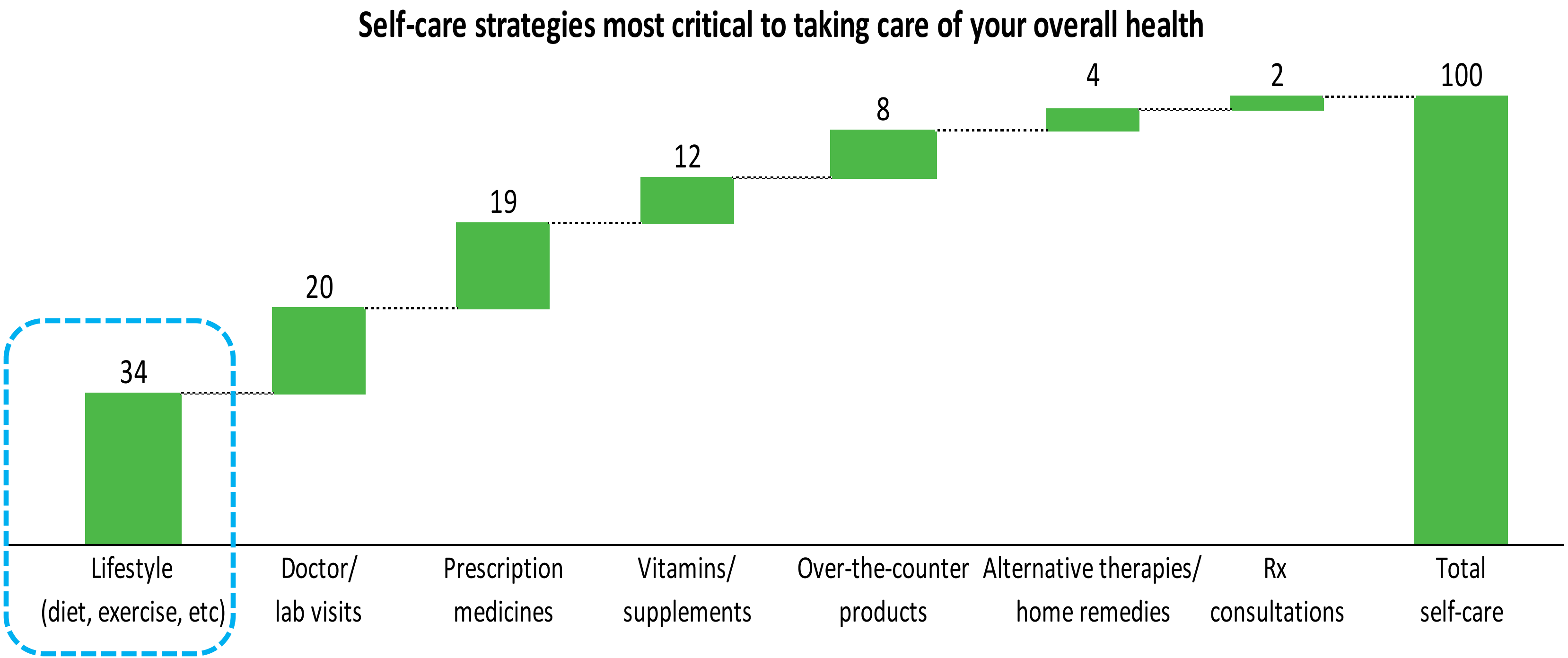
$ sales

+4% to +71%

 Source: IRI MULO+C - 52 Weeks ending 12/26/16

And QSRs, LSRs, convenience and drug joining in

Lifestyle, including diet, plays a critical role in self-care



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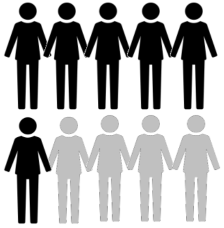
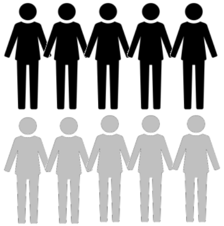
Going beyond the produce health halo

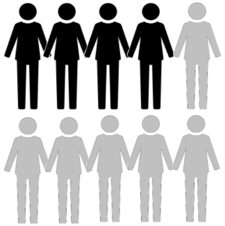
Benefits associated with the consumption of fresh fruit/vegetables…



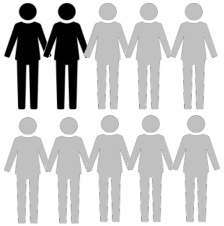
Balanced diet
Digestive health



Heart health
Healthy weight
Essential nutrients



Avoiding empty cal.
Providing energy
Building immunity
Mind health/happiness



Fighting ailment/ health condition
Building physical strength
Building bone density

Communicating benefits is winning with consumers

Retail dietitians can play a key role

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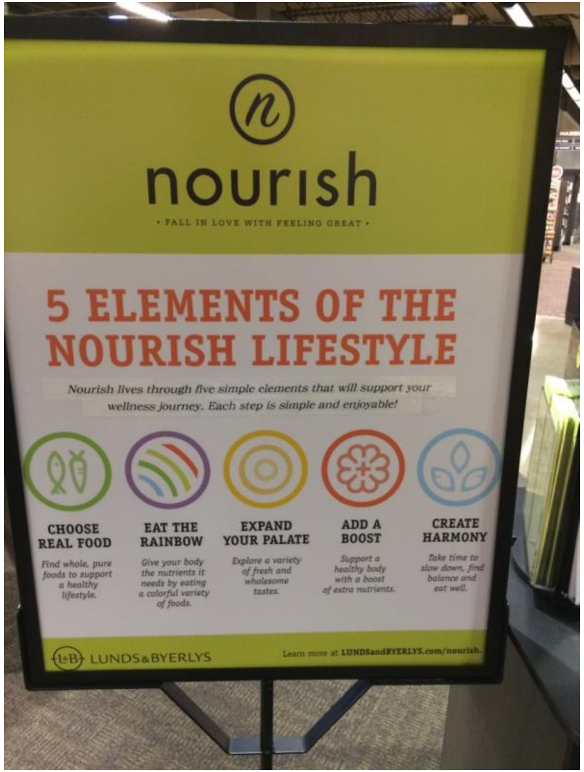
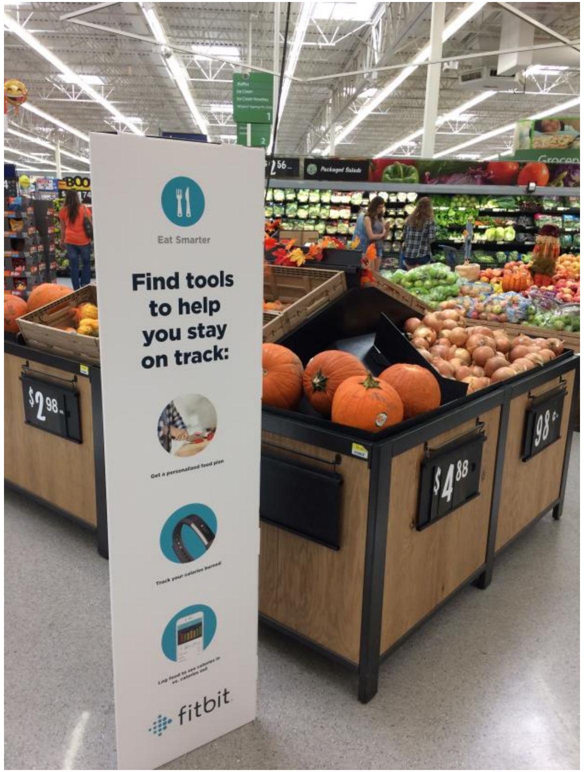
Preparation methods also help expand knowledge

Do you feel enough information is available about…	The recommended daily amount of produce	The nutritional profile of individual produce items	Different preparation methods that may be healthier than others
Yes	62%	54%	42%
No	21%	30%	36%
Don't pay attention to this	18%	16%	22%

Messaging about a balanced diet and portions





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Alternative cooking methods/ideas

DRIVING TRIPS AND DESTINATION—

OPTIMIZING PROMOTIONAL OUTREACH, IMPULSE, CONVERSION AND LIMITING THE IMPACT OF ALTERNATIVE CHANNELS

Produce as a trip and basket driver

89 annual trips (MULO)

+0.8% 52 wks 3-19-17

72 Millennial annual trips

40 annual trips

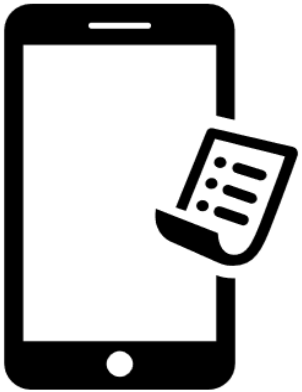
+2.1% 52 wks 3-19-17

33 Millennial annual trips

Higher chance of buying
Faster trip growth: +5%
Bigger basket +28%

Makes for a valuable growth customer

A well-researched purchase indeed



74%

of shoppers plan produce purchases pre-trip

- 51% list specific produce items
- 24% generically list fruit/vegetables
- 26% don’t make lists/list produce

50%

of shoppers decide on produce in-store

The promotional funnel is changing

Increased attention should be paid to in-store and apps

74%

Refer to 1+
promo platforms to
check produce
promotions
pre or during the visit

56% Circular at home	**46%** In-store promotions	**32%** Circular in-store
22% Digital circular	**18%** Email specials	**15%** Store app
6% Smartphone research	**3%** Social media	**3%** Text specials

Year-over-year: Decline Growth No change

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Embracing the Millennial way

Older Millennials 25-36		Boomers
67%	**Tend to do research**	**79%**
43%	Paper circular pre-trip	69%
49%	In-store promotional signage	47%
33%	Paper circular in store	35%
26%	Electronic circular	27%
23%	Store app	11%
16%	Produce promotion email	12%
11%	Smartphone research	2%
8%	Social media deals	2%
7%	Text specials	1%

However…The eyes decide

48% rank appearance 1st when selecting fresh produce

	Appearance	Price	Nutrition	Knowledge
Avg rank score	3.1	2.7	1.4	0.9

In other words…

1. Best prices without execution may not seal the deal
2. While excellence in execution may prompt impulse purchases

Produce can drive impulse in many ways

86%

Purchase unplanned produce items on occasion

25% Almost every time

33% Frequently

35% Occasionally

Drivers of impulse

58% Eye-catching displays

37% A great promotion

31% Sampling

28% Recipe/serving ideas

27% Nutrition callouts

16% Product information (origin, history…)

6% Grower/brand

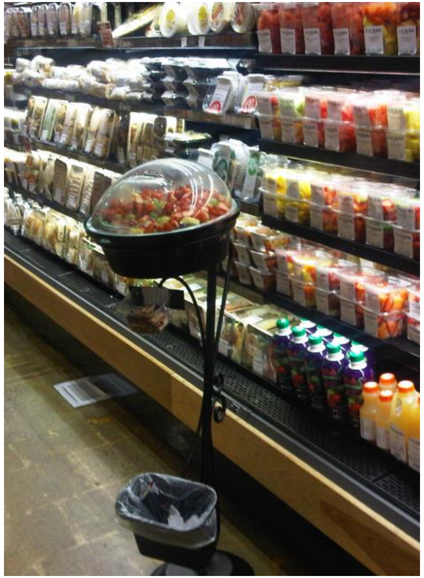
Eye-catching displays have universal appeal

	All	Millennials	Gen. X	Boomers	Matures
Eye catching displays	58%	55%	58%	59%	62%

Hot promotions catch the eyes of Millennials

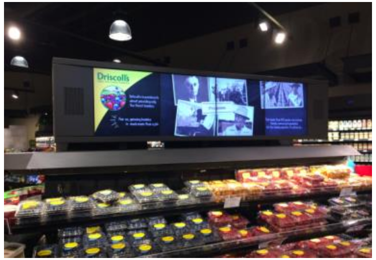
	All	Millennials	Gen. X	Boomers	Matures
Great promotion	37%	42%	38%	33%	19%

Sampling… the one thing online can't do



	All	Millennials	Gen. X	Boomers	Matures
Sampling	31%	34%	30%	29%	33%

Information helps drive Millennial purchase



	All	Millennials	Gen. X	Boomers	Matures
Recipe/serving ideas	31%	34%	30%	29%	33%
Nutrition callouts	27%	32%	23%	28%	16%

Primary grocery vs. produce channel

Channel switching

Alternative channels

Safety and quality

CHANNEL CHOICE

Produce is a supermarket stronghold

But Millennials overindex for supercenters, organic stores & alternative channels

	Supermarkets	Supercenters	Club stores	Organic stores	Other
Primary store groceries	63%	21%	7%	8%	2%
Primary store produce	64%	16%	5%	9%	6%
Change vs. 2016	↑	↑		↑	

Reasons for switching highlight points of differentiation

21%

Switch

31% Supercenters

12% Supermarkets

Top 8 reasons for channel switching:	Overall	To a supermarket
Better quality/freshness of produce	50%	**67%**
Better variety of produce in general	29%	**36%**
Lower produce prices in general	27%	33%
Better location/more convenient	19%	**28%**
Better selection of organic produce	19%	23%
Better selection of local produce	19%	**26%**
Better promotional produce prices	17%	**28%**
A cleaner produce department	10%	13%

Alternative channels pick at produce dollar

Shopped for produce in the last 30 days

	Farmers' markets	Roadside produce stand	Online order	Organic specialty store	Ethnic specialty store	Meal kit delivery
All	37%	16%	3%	17%	9%	3%
Millennials	35%	15%	6%	20%	9%	5%
Boomers	39%	19%	2%	16%	10%	2%

DRIVING A PREMIUM BASKET—

LEVERAGING GROWTH AREAS: ORGANIC, LOCAL, VALUE-ADDED, BRANDS AND OTHERS

Growth

Reasons for buying

Shopper segments

Future predictions

ORGANIC

Organic is one of the key growth drivers

8% of all fresh produce dollars but reflecting 30% of all produce growth

USDA ORGANIC

Market size $1.8B

$ growth +19.6%

Vol. growth +16.5%

Change retail price +3.1%

USDA ORGANIC

Market size $3.1B

$ growth +5.9%

Vol. growth +7.9%

Change retail price -2.0%

Organic produce category engagement continues to grow

62%

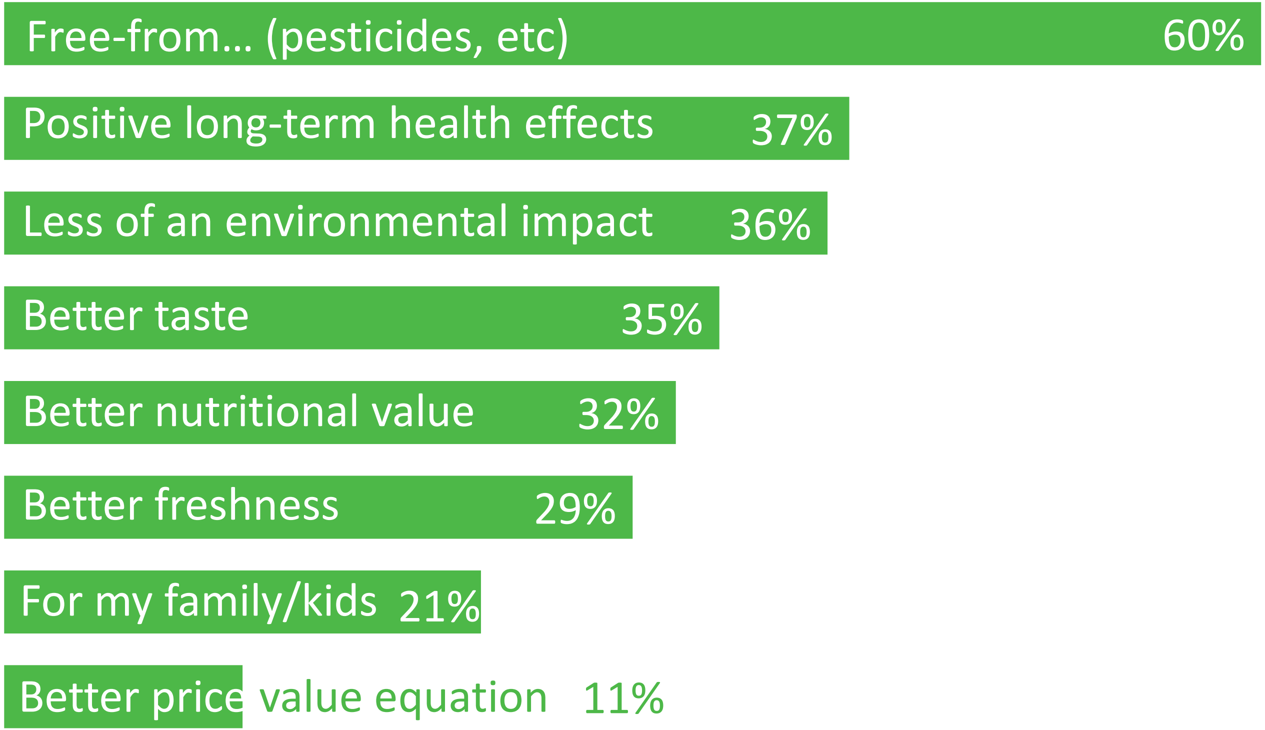
Purchased in past 3 months

60% in 2016

52% in 2015

Penetration for most individual categories ~20%

Organic purchase drivers



Shoppers predict further growth

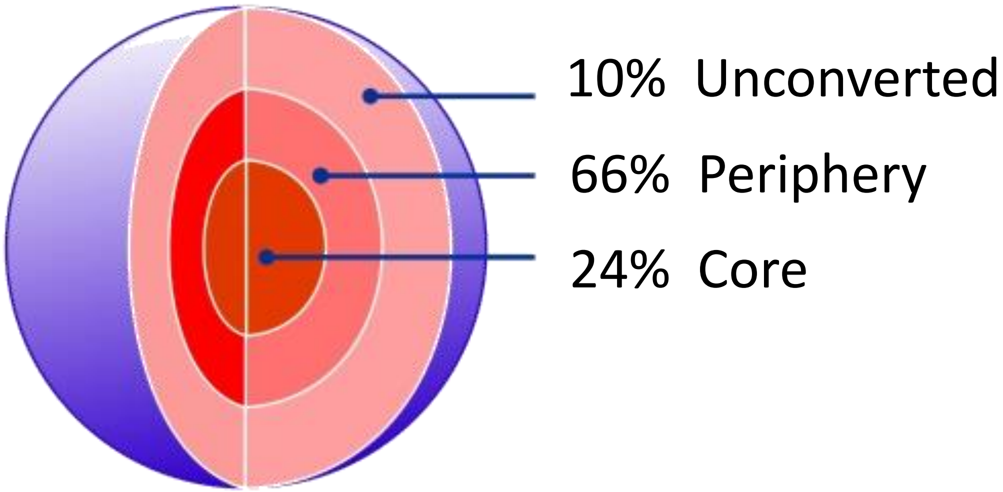
But not all organic buyers are equal

Purchase projections 2017	2016	2015
More 26%	31%	47%
Same 69%	63%	48%
Less 5%	6%	5%

But as penetration grows, the organic shopper is changing

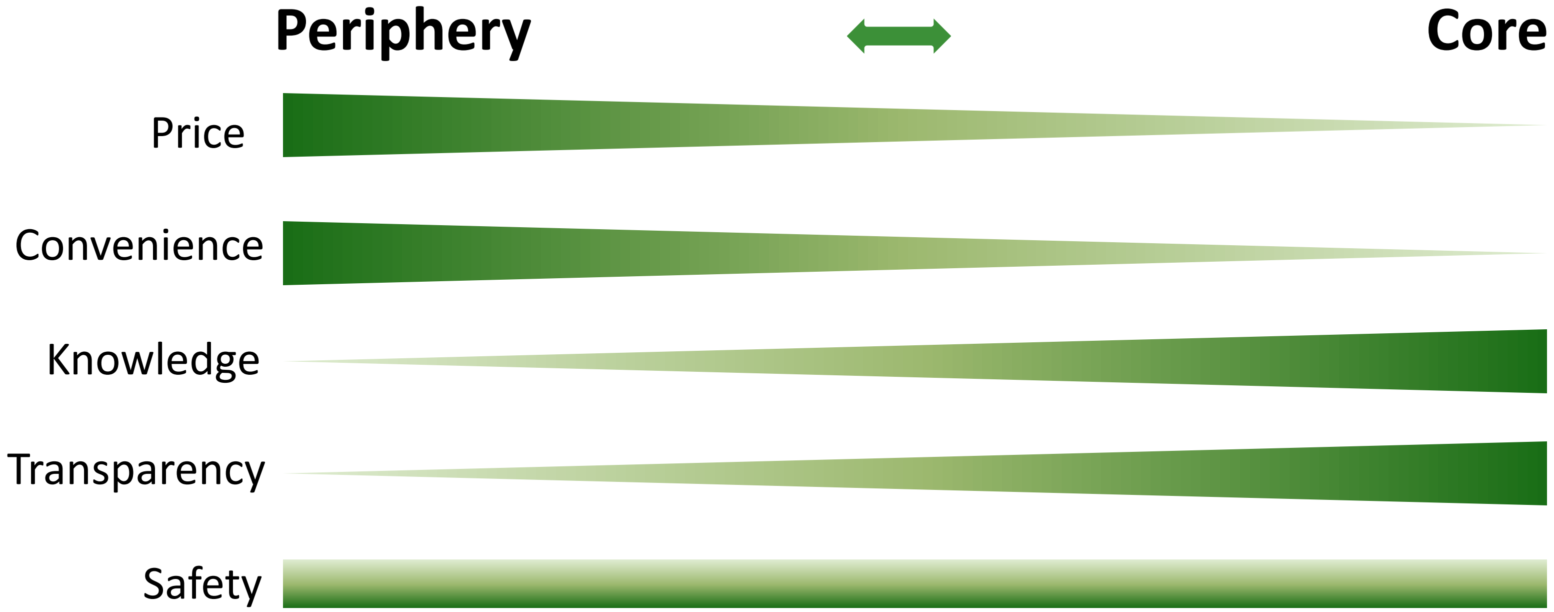
Moving from mostly dedicated **"want organic produce any time, any place"** core organic buyers to many more **"pick & choose"** periphery organic produce buyers

Among shoppers who have purchased organic produce in the past 30 days



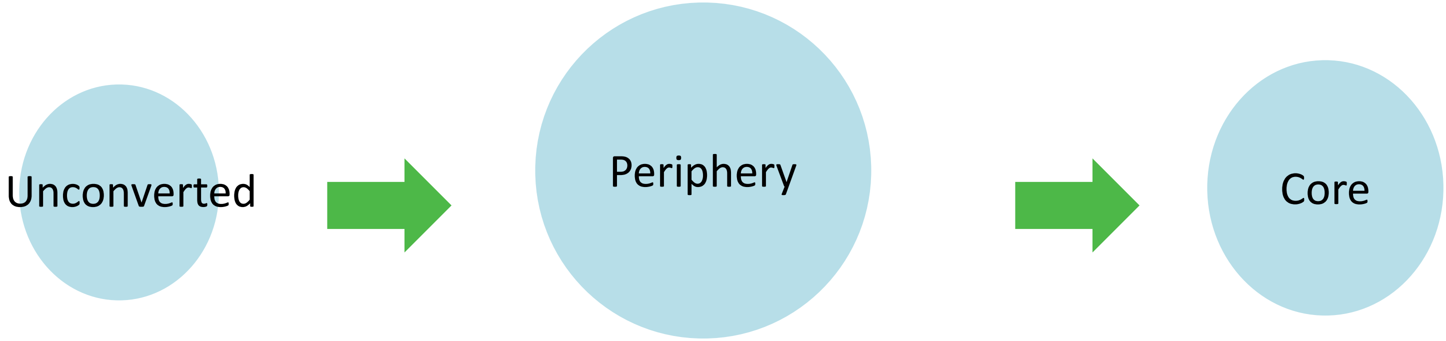
Source: The Power of Produce 2017

This means needs are diversifying as are priorities on purchase criteria



Source: The Power of Produce 2017

Much can be gained by moving shoppers “up”



For instance, % expect to purchase more organic produce:

8% **22%** **45%**

New item trial
New consumption occasions
Greater consumption frequency

Source: The Power of Produce 2017

Overcome price and perception barriers

28%

Have not bought organic produce in past 3 months

Why not?

- **73%** Too expensive
- **50%** Don't believe there are added benefits
- **28%** Don't think it will taste any differently
- **11%** Goes bad faster
- **10%** Not readily available
- **8%** Doesn't look as good
- **7%** Don't think it will taste as good

Organic vs. local

Definition

Reasons for buying

Implications

LOCALLY-GROWN

In comparative test, local dominates organic

But organic gained 6 percentage points

Choice if equal quality and no price differential			
2017	**7%**	**60%**	**32%**
2015	8%	66%	26%
Organic segments			
Core	0.5%	30%	69%
Periphery	3%	58%	39%
Unconverted	10%	78%	12%

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Local maintains edge with price differential in place

Choice if equal quality, but price differential		Locally Grown	USDA ORGANIC
	$1.99	**$2.39**	**$2.99**
2017	**29%**	**49%**	**22%**
2015	31%	51%	18%
Organic segments			
Core	5%	34%	62%
Periphery	23%	54%	23%
Unconverted	36%	61%	3%

Local remains hot; definition of local produce solidifies

54% Want expanded local assortment

Radius	State	City/town	USA	Bought at farmers' market	Grown on family farm
36%	27%	17%	8%	5%	5%

And hyper-localization/"grow it yourself" popping up

Local: Keeping the $ in the community + freshness

	Support local economy/ farmer	Better freshness	Know where grown	Lesser environ-mental impact	Unique local/ regional item	Know farm/story behind item
ALL	80%	73%	44%	41%	27%	24%
Change	↑	↔	↔	↑	↑	↔
Millennials	76%	70%	46%	48%	30%	24%
Boomers	84%	76%	42%	35%	24%	24%

Market trends

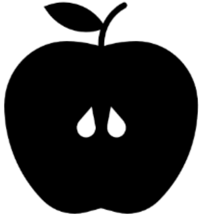
Drivers of increased purchases

Shopper segmentation

VALUE-ADDED

Value-added delivers solution for time-starved shoppers

Colliding themes of health & wellness and convenience

	Market share 4.8%	HH penetration 82%	$ growth +8.3%	Vol. growth +3.0%	Change retail price +5.2%
	Market share 3.7%	HH penetration 48%	$ growth +8.7%	Vol. growth +6.5%	Change retail price +2.1%

Value-added is poised for growth

Expected purchases in the next year

ALL	**23%**	**71%**	**6%**
Unconverted	16%	74%	9%
Periphery	24%	71%	5%
Core	33%	66%	1%

Price and lack of info barriers to wider adoption

85%

Of shoppers could be prompted to **buy/buy more** value-added produce

How?

54% Better prices

34% If it were to last longer

25% If I knew it was prepared safely

24% Had insight into the freshness of item used

24% Greater assortment

20% Insight into *when* it was prepared

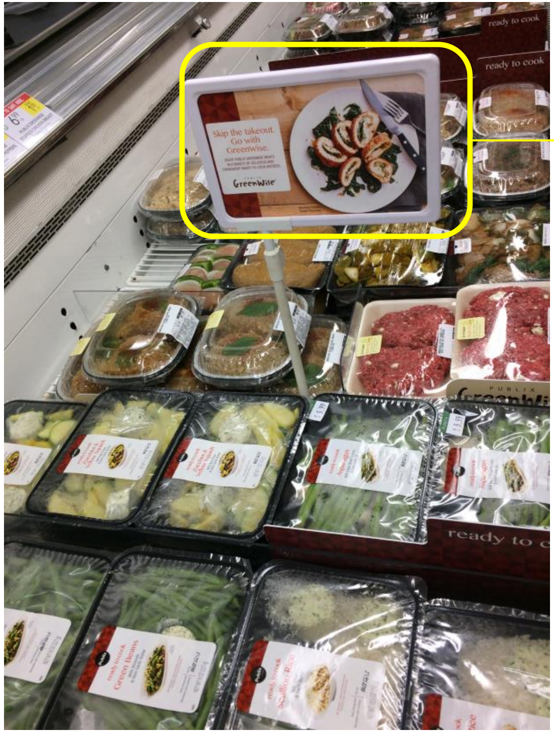
18% Insight into the quality of the item used

Addressing perception issues

Providing optimal view of the product

Highlight FRESH and cut for YOU

Highlight benefits; consider organic in core markets



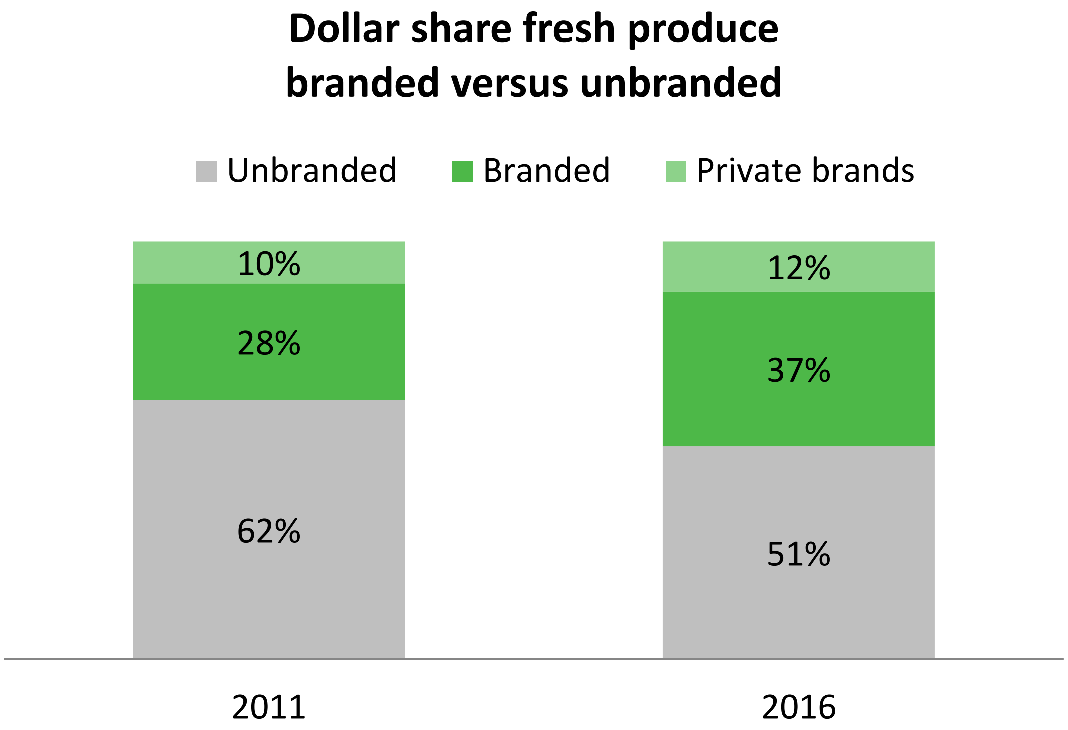
Market growth

Shopper preferences

Reasons for preference

BRANDING

Produce is embracing brands



+8%

5-year $ CAGR for private-brands in produce

12%

$ share private brands

+12%

5-year $ CAGR for grower branded items in produce

37%

$ Share packer brands

Source: Nielsen,
5-year CAGR 2011-2016

Differentiate through a unique mix of brands

Brand preference among consumers	Processed	Unprocessed
Brand doesn't play a role	54%	52%
Brand plays a role		
Prefer national manufacturer brand	19%	9%
Prefer small/regional brand	15%	30%
Prefer private label/store brand	12%	8%

General preference for brands carries through in produce

48%

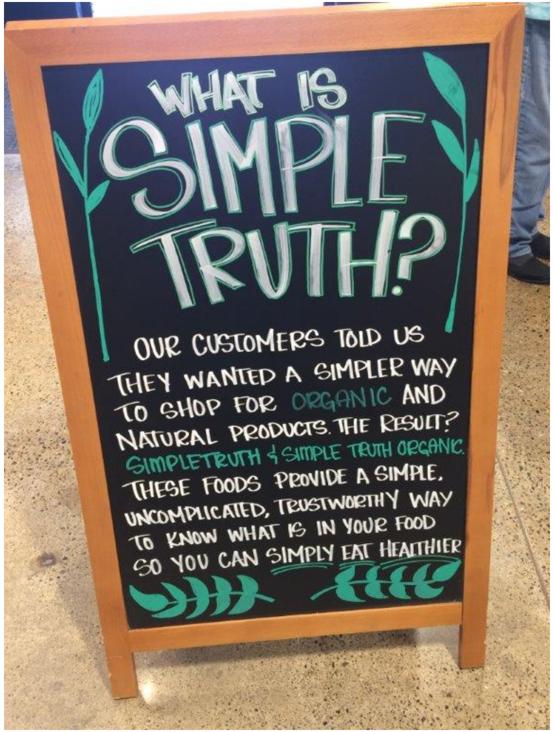
Of shoppers have a brand preference (national, regional or private label)

Why purchase branded produce?

- **49%** I generally look for brands that I'm familiar with
- **24%** Confident they are safe to eat
- **22%** Looks fresher and is of better quality
- **19%** More consistent purchase to purchase
- **15%** They last longer after purchase

Opportunity to leverage established brands from center store and unprocessed produce

Explain brands; leverage store brand tiers/equity



Seasonal items

Sustainably grown

Non-GMO

Fair or living wage

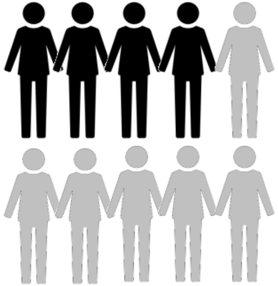
Ethnic items

Packaging

OTHER STRATEGIES

Seasonal items

Want more seasonal items (40%) at my primary produce department

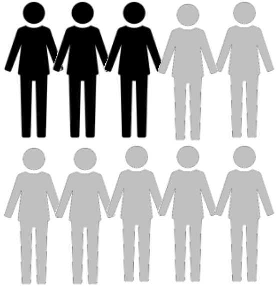


High interest among:

- Organic shoppers
- West and Midwest
- Emphasize variety

Sustainably-grown, fair wage & non-GMO

Want more sustainably-grown (33%); fair wage (28%); non-GMO (27%) items at my primary produce department



High interest among:

- Organic shoppers
- West & Northeast
- Millennials
- Emphasize environment in local and organic

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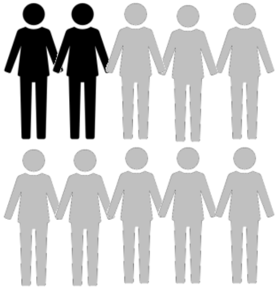
Opportunity for cross-over appeal

Ethnic item selection

Want more ethnic items (20%) at my primary produce department

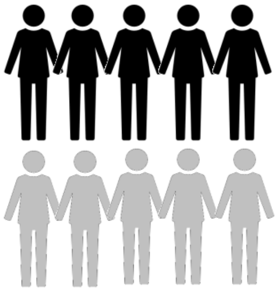


High interest among:

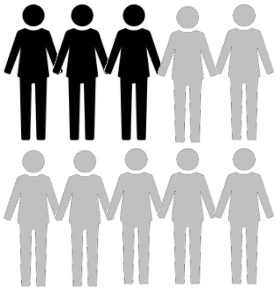
- Organic shoppers
- Asian shoppers
- West & Northeast
- Hispanic shoppers

Packaging offers opportunity as well

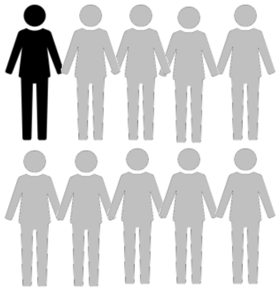
Shoppers interested in their primary store offering produce package innovations



Environmentally friendly (52%)
Resealable (49%)
Reduces food waste (47%)



Reusable (30%)
Packages featuring recipe & meal solutions ideas (29%)



Microwaveable (15%)
Kit with all items for a meal (i.e. pasta and tomatoes meal kit) (12%)

Core organic shoppers overindex

Core value-added shoppers overindex

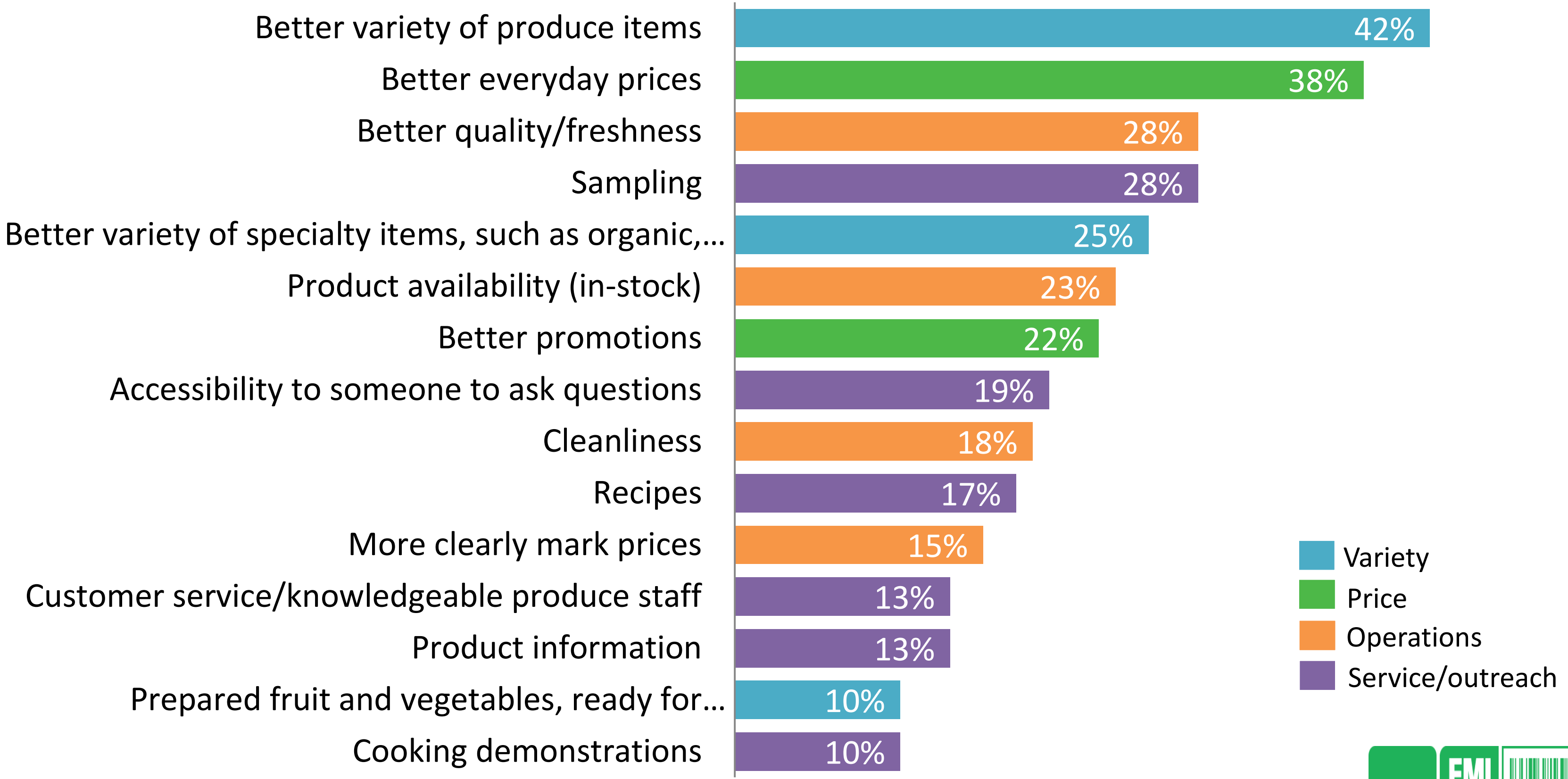
Department score card

Shopper suggestions on improvements

IMPROVING THE PRODUCE DPT.

A CORE STRENGTH WITH AREAS FOR IMPROVEMENT

Areas of improvement in the eyes of the shopper



THE VOICE OF FOOD RETAIL
Feeding Families Enriching Lives

Variety is top area of improvement

42% Greater variety in general	25% Special attributes	10% Value-added

- Greater item relevancy vs. more items
- Seasonal/in-and-out items
- Expanded shopper knowledge to shop more of the current assortment
- Influence of out-of-stock/low stock

Better prices and promotions

38%
Better everyday prices

22%
Better promotions

No winning on price alone
Low prices do not drive loyalty

- Talk value rather than low prices
- Beat price sensitivity with quality, freshness, service and relevant variety

Improved department operations

28% Better quality and freshness	23% Better in-stock	18% Better cleanliness	15% Clearly marked prices

- In produce, the eyes decide, making operational execution a base necessity
- But operational excellence can also drive impulse
- In stock is of great importance to avoid lost sales and optimize trip satisfaction

Customer service and outreach

28% Sampling	19% Someone to answer questions	17% Recipes	13% Knowledgeable staff	13% Product info	10% Cooking demos

- Increased interest for all versus 2016 study
- Opportunities for differentiated offering
- Way to connect with Millennials

In summary… driving growth:

- Connect pre/post trip to be on the list, educate and drive trips
- The eyes decide: optimize execution for maximized spending
- Grow sales through higher buying/consumption frequency
  - Inspire trial/expand knowledge to break through habit
  - Improve frequency through new consumption occasions
  - Drive specific health and wellness messaging
  - Educate with friendly, knowledgeable and available staff

In summary… driving growth:

- Drive a higher value basket through local, brands, value-added and organic
- Be transparent on information and sourcing
- Drive confidence in food safety through transparency
- Be a produce destination and optimize conversion/cross-merchandising
- Steal some of the thunder of alternative channels

Full report available!

- www.fmi.org/store/
- For questions or additional information
  - rstein@fmi.org
  - aroerink@210analytics.com

thank you!