



SPENDING AND SAVING MONEY

Stable Food Spending Reflects Low Food Inflation and Cost-Consciousness

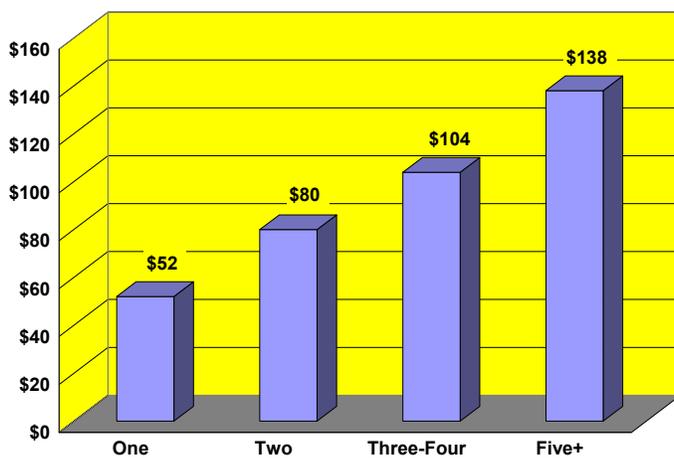
The weekly grocery bill has remained stable over the past five years, increasing to \$91 per household in 2003 — only \$4 more than spending in 1998.¹ This trend reflects cost-consciousness among consumers and low food inflation, averaging 2.5 percent annually from 1994-2003.

Household grocery bills vary significantly by region. In 2003, Easterners averaged the most (\$100 per week), followed by shoppers in the West (\$95), South (\$88) and Midwest (\$85).³

Price remains a high priority for consumers when selecting a store: 83 percent regard low prices as “very important” when deciding where to shop. And 79 percent say their primary store does an “excellent” or “good” job providing low prices.²

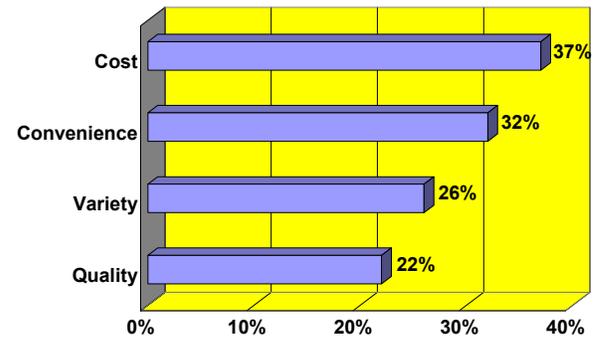
There was a slight decline in the grocery dollars consumers spent at their primary store, from 84 percent in 2002 to 82 percent.⁴ This decline may reflect growing competition from alternative food retail channels such as supercenters and warehouse club stores.

Figure 1. Weekly Grocery Bill by Household Size



Source: FMI, *Trends in the United States — Consumer Attitudes & the Supermarket, 2003*

Figure 2. Why Consumers Shop at Stores Other Than Their Primary One



Source: FMI, *Trends in the United States — Consumer Attitudes & the Supermarket, 2003*

Shift Toward Value Erodes Market Share For Traditional Supermarkets

Concern over jobs, health care costs, terrorism and the war in Iraq continue to challenge consumer confidence even as many economic indicators begin to point upward. A significant implication for food retailers is the ongoing consumer spending shift toward value retailers — not only for monthly stock-up shopping, but also for routine trips. In *Competing in a Value-Driven World*, analysts at McKinsey’s Global Institute write that a majority of consumers shop at a value retailer every week. As a result, whole categories throughout the business of retailing have “gone to value,” with low-cost retailers nearly doubling their share of all U.S. retailing over the past 10 years — from 10.2 percent in 1992 to 17.4 percent in 2001.⁵

In 2002, sales at warehouse clubs and supercenters jumped 16.7 percent, to \$192 billion in food and nonfood sales. Traditional supermarkets still attract the lion’s share of consumer food dollars — \$431.9 billion in 2002 — but their sales increased only 1.5 percent that year.⁷

In FMI’s 2003 survey of consumers, 79 percent named a traditional supermarket as their primary food retailer, while 18 percent named a discount store or supercenter.⁸ “Low prices,” in fact, were the third most-important factor in where consumers shopped (83 percent rated them very important), behind only “clean, neat store” and “high-quality fruits and vegetables.”⁹ In addition, notes the McKinsey report, consumers now view the value players as having ‘caught up’ on ‘highest quality fresh foods’ and ‘good store brands.’¹⁰

Figure 3. How Consumers Economize

(Measures taken "pretty much every time you shop")

Look in newspapers for grocery specials	36%
Participate in supermarket frequent shopper or savings club programs	30%
Stock up on an item when you find a bargain	27%
Use cents-off coupons from mailers/newspapers/magazines	21%
Compare grocery prices at different stores	21%
Buy store brands or lower-priced brands instead of national brands	18%
Use in store, cents-off coupons, such as off the shelf, at the checkout or at a kiosk	15%
Buy products on special even if you hadn't planned to buy them that day	15%
Buy only what's on your list	14%
Buy in larger package sizes	11%
Go to stores other than your primary one to buy advertised specials	8%
Use mail-in rebates for cash refunds	5%

Source: FMI, *Trends in the United States — Consumer Attitudes & the Supermarket, 2003*

Of the reasons consumers sometimes shop at stores other than their primary one convenience and price have dueled for primacy since 1996; in 2003, price edged out convenience 37 percent to 32 percent (see Figure 2).¹¹

Consumers Embrace Supermarket Savings Clubs and Store Brands

Consumers are also economizing at their primary grocery stores. Almost two-thirds (65 percent) of shoppers with access to frequent shopper programs use them at least once a week. The vast majority (84 percent) use the programs at least once a month. More than half (54 percent) of shoppers whose stores offer private-label products purchase those products weekly. Shoppers who are loyal to their supermarket are far more likely to buy private-label products. More than a third (34 percent) strongly agree with the statement, "I trust their brand to be high quality."¹²

Other popular economizing behaviors including looking in newspapers for grocery specials (36 percent of shoppers did this "pretty much every time" they shopped in 2003, up from 30 percent in 2000), and stocking up on bargain items (27 percent in 2003 vs. 22 percent in 2000).¹³

Coupon use appears to be on the wane. Just 21 percent of shoppers used coupons from the mail or periodi-

als every time they shopped in 2003. That rate has remained fairly stagnant in recent years, peaking at 27 percent in 1996. A more dramatic decline involved coupons received in the store. In 2003, only 15 percent of shoppers used these every time they shopped, down from 24 percent in 1996.¹⁴

Spending and Saving Patterns Vary by Age, Gender and Household Size

The trend toward value shopping cuts across virtually all demographic lines, but there are distinct differences in the ways consumers of different ages, genders and household sizes spend and save on food.

The youngest (aged 15 to 24) and oldest (65-plus) shoppers, for instance, are most likely to consider private labels or store brands very important. Those aged 25 to 39 place more value on low prices than other age groups.¹⁵

Women are more likely than men to ascribe high importance to sales and specials, low prices and frequent shopper programs. Shoppers in the East are significantly more likely than those elsewhere to rate frequent shopper programs as very important.¹⁶

Households with five or more people are much more likely than smaller ones to stock up on items on special, use cents-off coupons, compare grocery prices at different stores, buy store brands or lower-priced brands, buy in larger package sizes and go to stores other than their primary store for advertised specials.¹⁷ ■

¹ FMI, *Trends in the United States — Consumer Attitudes & the Supermarket, 2003*, p. 52

² *Ibid.*, p. 52

³ *Ibid.*, p. 46

⁴ *Ibid.*, p. 51.

⁵ McKinsey & Company, *Competing in a Value-Driven World — North American Retail Practice, 2003*, pp. 1-2.

⁶ FMI, *Speaks 2003 — The State of the Food Retail Industry*, p. 9.

⁷ *Ibid.*, p. 9.

⁸ FMI, *Trends*, *op. cit.*, p. 26.

⁹ *Ibid.*, p. 7.

¹⁰ McKinsey & Company, *op. cit.*, p. 2.

¹¹ FMI, *Trends*, *op. cit.*, p. 63.

¹² *Ibid.*, pp. 17-22.

¹³ *Ibid.*, p. 64.

¹⁴ *Ibid.*, p. 64.

¹⁵ *Ibid.*, pp. 65.

¹⁶ *Ibid.*, pp. 65.

¹⁷ *Ibid.*, pp. 66.



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