Retailer Responses to Consumer Perceptions about Food

Annual National Workshop for Dairy Economists and Policy Analysts: May 3, 2016

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The Food Industry has LOTS of ISSUES!!

- Obesity
- Gluten free
- Allergies
- Organic/Biodynamic
- GMOs
- Hormones
- Natural
- Local
- Sustainability
- antibiotics
- Animal rights
- Human rights
- Immigration
- Fair Trade
- Food Deserts
- Food Waste
- Vegetarian/Vegan
- Food safety
- Food security "A"
- Food security "B"

A partial list, in no particular order

SOCIETAL CONTEXT

- Pervasive internet and social media usage (receiving and sending)
- Multi-media coverage of food and food industry
- Rising awareness of food related issues
- Rising concern about food sources & practices
- Levels of awareness and concern higher than level of understanding of issues
- Information and misinformation abound
- Confusion conflates issues for many consumers
- Aging Baby Boomers and rising Millennials
- Stagnation and polarization of household income

FOOD AS DESIGNER DRUG?

Source: New York Times Magazine, Feb 24, 2013

MAJOR ENVIRONMENTAL ISSUES AND ORGANIZATIONS

- Sustainability
- Pesticides, herbicides
- Hormones, antibiotics
- GMOs
- Air quality
- Water quality
- Fisheries viability
- Food Waste

MAJOR HUMAN RIGHTS CONCERNS & ORGANIZATIONS

- Livable wages
- Child labor
- Slave labor
- Working conditions
- Immigration reform

AMNESTY INTERNATIONAL

HUMAN RIGHTS WATCH

JUSTICIA MIGRANTE
MIGRANT JUSTICE

UNITED NATIONS HUMAN RIGHTS

STUDENT/ FARMWORKER ALLIANCE

CIW Coalition of Immokalee Workers

MAJOR ANIMAL RIGHTS ISSUES & ORGANIZATIONS

- Gestation crates for pigs
- Battery cages for chickens
- "Factory farms"
- Antibiotics
- Hormones
- Testing

NOT TESTED ON ANIMALS

THE HUMANE SOCIETY OF THE UNITED STATES

ASPCA
THE AMERICAN SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS

PETA
PEOPLE FOR THE ETHICAL TREATMENT OF ANIMALS

crueltyfree

FARM

What is natural? First wave of comments are in (and hint at the challenge facing the FDA)

By Elaine Watson+, 01-Dec-2015

"…grown without pesticides, herbicides, chemical fertilizers, growth hormones, and above all GMOs."

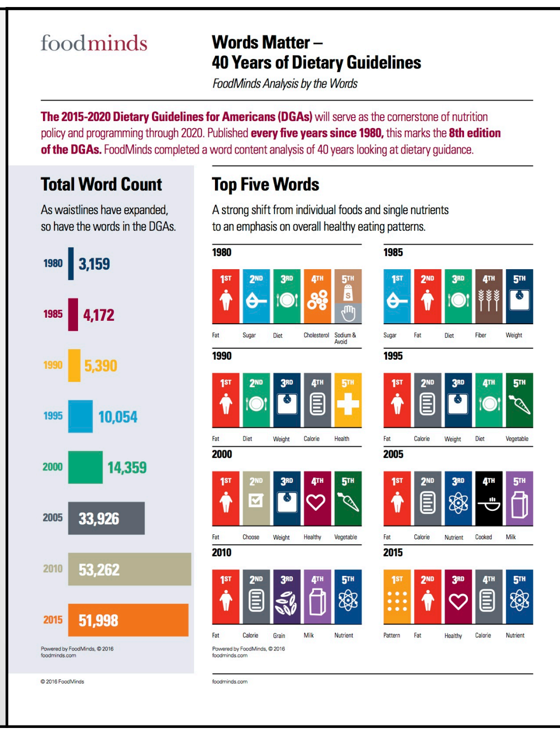
"…natural should only refer to the ingredients, not the way the product is processed…."

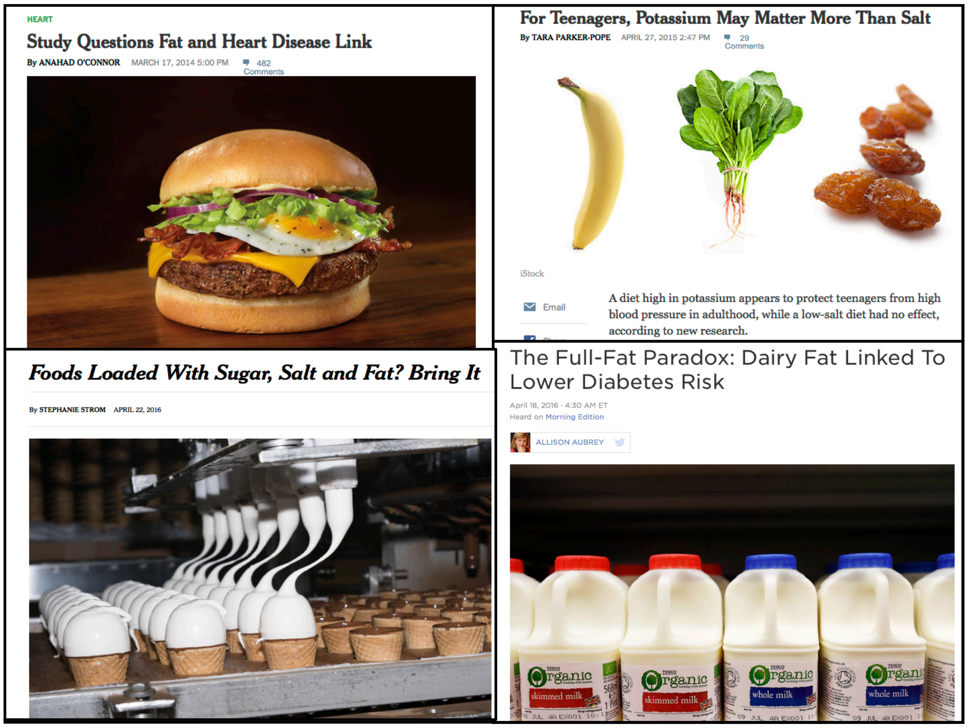
"Food made by God is natural. Food made by a chemical company in the lab is not natural."

"If the human food product comes in a box or packet and any of the ingredients have been processed, the term "natural" should never be allowed."

"…It provides a halo for food producers without providing any actual protection or valuable information to consumers. To this extent, it is often downright misleading…"

Source: Food-navigator.com




HEART
Study Questions Fat and Heart Disease Link
By ANAHAD O'CONNOR MARCH 17, 2014 5:00 PM 482 Comments
For Teenagers, Potassium May Matter More Than Salt
By TARA PARKER-POPE APRIL 27, 2015 2:47 PM 29 Comments
iStock
Email
A diet high in potassium appears to protect teenagers from high blood pressure in adulthood, while a low-salt diet had no effect, according to new research.
Foods Loaded With Sugar, Salt and Fat? Bring It
By STEPHANIE STROM APRIL 22, 2016
The Full-Fat Paradox: Dairy Fat Linked To Lower Diabetes Risk
April 18, 2016 · 4:30 AM ET
Heard on Morning Edition
ALLISON AUBREY
Organic
skimmed milk
whole milk


DARK CHOCOLATE NUTS & SEA SALT
ONLY 5g SUGAR
KIND
NUTS & SPICES
7g FIBER / 6g PROTEIN
ALL NATURAL / NON GMO
GLUTEN FREE
Size: 40g
Calories: 200
Fat Calories: 140
Total Fat: 15g
Size: 44g
Calories: 215
Fat Calories: 100
Total Fat: 11g

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What's better? Organic or Non-GMO?

Organic vs. Non-GMO Food Makers … e Off

By Jacob Bunge
And Annie Gasparro

Natural-foods makers have spent years going after the industry establishment. Now, they are taking on each other.

Surging sales of foods marketed as made without genetically modified crops are outpacing sales of food labeled organic in U.S. grocery stores. That is frustrating some organic companies and farmers, who invest significant sums to meet government organic standards and to get their foods certified.

The organic industry i… sponding with marke… paigns touting t… in additio… withou…

"Organic is non-GMO," said

Campbell to label GMO ingredients, supports GMO disclosure legislation

Roger Yu, USA TODAY 1:40 p.m. EST January 8, 2016

Source: Wall Street Journal, December 9, 2015

Confusion!

HALF OF THOSE POLLED BELIEVE IT IS EASIER TO DO THEIR TAXES THAN TO FIGURE OUT HOW TO EAT HEALTHFULLLY

THE BREAKDOWN:

52%* OF THOSE POLLED
Think it is harder to figure out **what you should and shouldn't eat to be healthier.**

VS.

48% OF THOSE POLLED
Think it is harder to figure out **how to do your own taxes.**

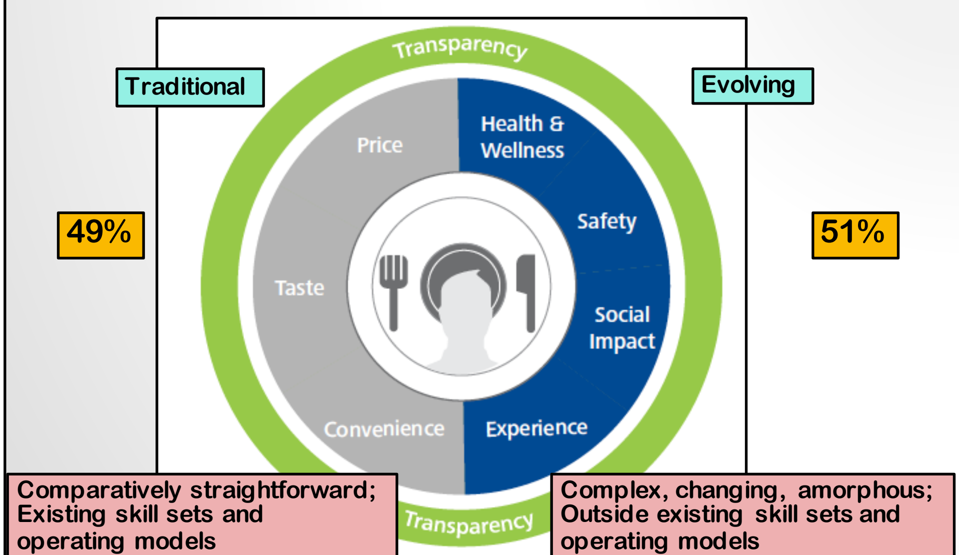
Those most in need of learning how to eat healthfully, those with high BMI, heart disease or cholesterol issues, or high blood pressure - **ARE MORE APT TO FIND IT DIFFICULT.**

GROUPS MORE LIKELY TO SAY FIGURING OUT WHAT TO EAT IS HARDER:

- **MEN (55%)** vs. 48% of WOMEN
- **NO COLLEGE DEGREE (56%)** vs. 40% of COLLEGE GRADS
- **BMI in the OBESE (60%) or OVERWEIGHT (54%) range** vs. 42% low BMI
- **HEART DISEASE (59%) or HIGH CHOLESTEROL (54%) and HIGH BLOOD PRESSURE (57%)** vs. 48% NO HEALTH CONDITIONS

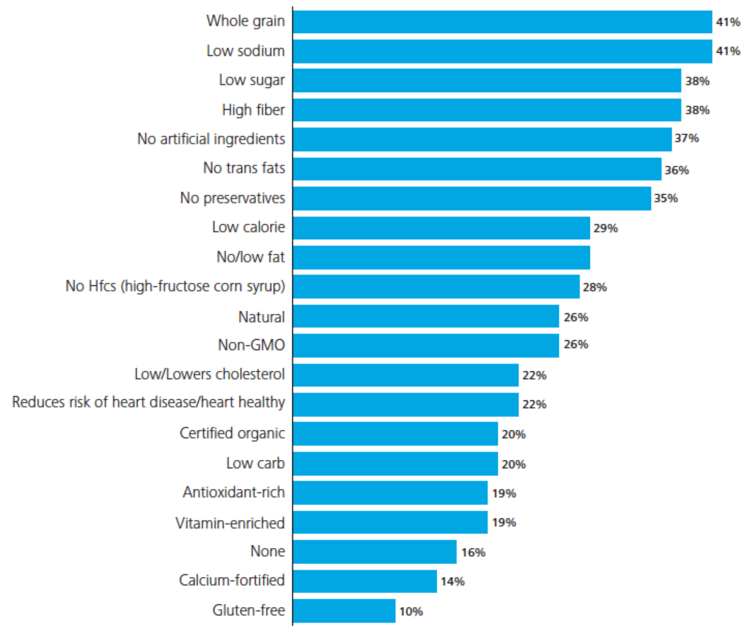
International Food Information Council Federation

Consumer Value Drivers



Source: Deloitte Food Value Equation Survey 2015, Deloitte Analysis

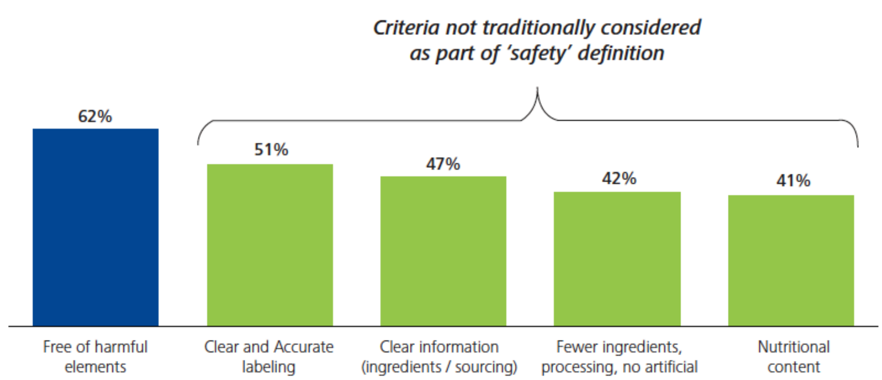
Figure 13: The average consumer looks for many pieces of information related to Health & Wellness
Percentage of surveyed consumers seeking each claim when looking at package front



Source: FMI U.S. Grocery Shopper Trends, 2015

Expanded View of Food Safety – Longer-Term and Blurring with Health and Wellness

Figure 17: Many new attributes are now part of consumers' definition of Safety
Based on survey question: When you think about safe food and beverages, do you consider any of the following? Please select all that apply.
Percentage of surveyed consumers ranking an attribute as an important measure of safety (showing top five attributes only)

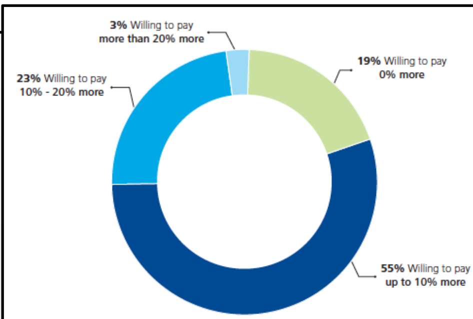


Source: Deloitte consumer food value equation survey, 2015

How much do you trust large, national food or beverage brands to provide food and beverages that…	Traditional drivers	Evolving drivers	% difference
Are safe in the short-term	2.16	2.41	11%
Are safe in the long-term	2.49	2.82	13%
Are clear about what's in the product, and how and where it was made	2.55	2.79	9%
Provide value for money spent	2.58	2.77	7%
Are nutritious	2.67	2.86	7%
Contribute to Health and Wellness	2.81	3.01	7%
Are produced in a socially and/or environmentally responsible way	2.83	3.06	8%

Note: Q40 How much do you trust large, national food or beverage brands to provide food and beverages that (are)…? (n=5001) (Average values shown, where: No trust = 5, Very little trust = 4, Some trust = 3, Good deal of trust = 2, Full trust = 1) Source: Deloitte Consumer Food Value Equation Survey, 2015, Weighted Respondent Dataset

Consumers who favor evolving drivers express less trust and are willing to pay more….



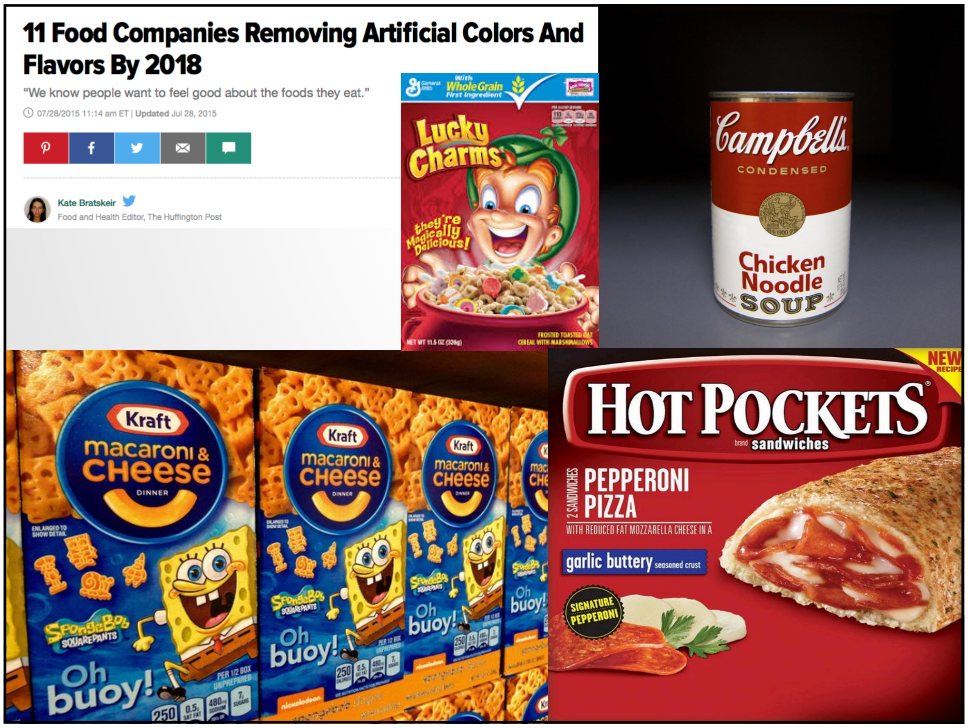
Source: Deloitte American Pantry Study, 2015

FOOD INDUSTRY CONTEXT

- The supermarket industry is a 1.5% business
- Most retailers perceive themselves as buying agents for consumers, but the definition is changing
- Food retailing is polarizing: Discounters and Differentiators
- Shifting balance of power toward consumers
- Intensifying retail competition, too much square footage
- Online shopping rising rapidly from a small base
- Supply chain visibility and traceability is improving
- Food safety concerns dominate
- Large food manufacturers losing share but reacting

- "Big" has become bad
- Traditional, large food
- companies losing share
- Consumers want less – simplicity, fewer ingredients and less processing – a new definition of healthiness
- Can large, established food companies provide "authentic and genuine" food experiences?

Emerging, rapidly growing "Better For You" brands are capturing market share



Yogurt Buyers Send Dannon Back to the Farm

By STEPHANIE STROM APRIL 26, 2016
New York Times

New Direct Supply Relationship with jointly agreed upon:

- animal welfare standards
- soil and water conservation practices
- traceability
- GMO-free feed by 2018
- price guarantees

The food retailer with the highest total sales of organic products in 2015 was?

Organic Sales in 2015: $4 billion BMO Capital Markets

Food Retailing in the U.S.

- Trillion $ market
- Low-No growth
- Fragmented
- Traditional formats losing share

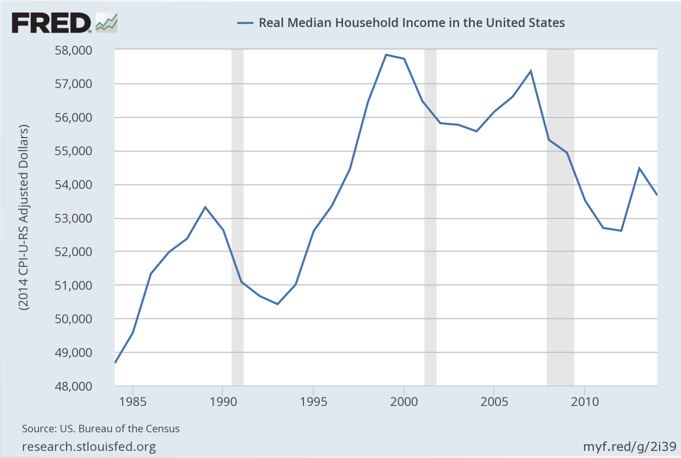

Supermarkets as Buying Agents for Consumers, Providing:

- Choice – broad and deep assortments – 50,000+ SKUs
- Choice – multiple strata of price and quality
- Information
- Services
- Quality and safety assurance

Stimulating demand through merchandising, promotion, and services, but avoiding controversy and the debates about healthfulness, upstream production practices, etc… in favor of consumer free will.

The Buying Agent Role Of Supermarkets is Rapidly Changing

Excess square footage, stagnant growth and demand for low prices are fueling low price competition and format differentiation.



Discount formats account for approximately 40% of retail food sales…and the proportion is growing

Price transparency is not far off….

Aldi: 200+ stores per year
Dollar General: 1000+ stores per year
Lidl: 200 stores by YE 2018

2. Capturing Growth Opportunities

Significant Store Growth Opportunities

- Open Stores
- Opportunities

Number of Open Stores **12,483**

Number of Remaining Opportunities **~13,000**

DOLLAR GENERAL Invest FOR GROWTH

Note: Open stores as of 1/29/2016 and identified remaining opportunities as of March 10, 2016

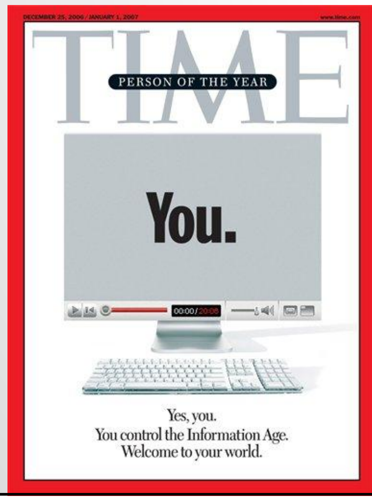
Business | Tue Mar 22, 2016 7:44pm EDT

Wal-Mart jumps into milk processing, hits Dean Foods' stock

A new Walmart dairy facility, one of the biggest in the US, will be built in Fort Wayne, Indiana. It will create more than 200 jobs, and be operational by 2017.

The Buying Agent Role Of Supermarkets is Rapidly Changing

The balance of power in the food value chain is shifting downstream from manufacturers to retailers to consumers



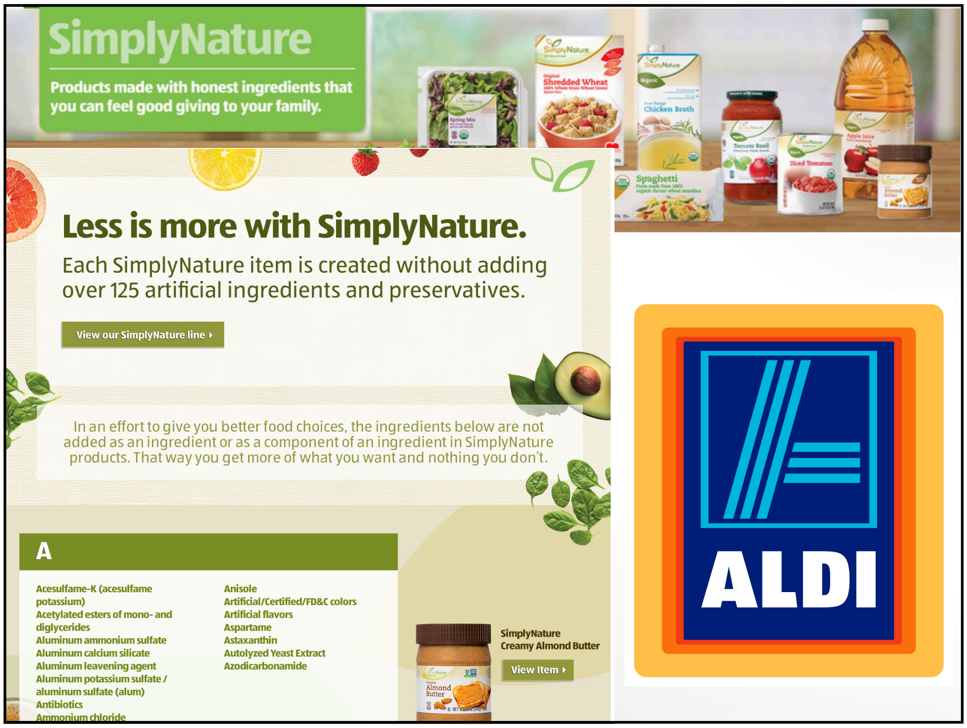
Demand is exploding for healthier products that are produced in more sustainable ways

Consumers want information and transparency

Perception is reality

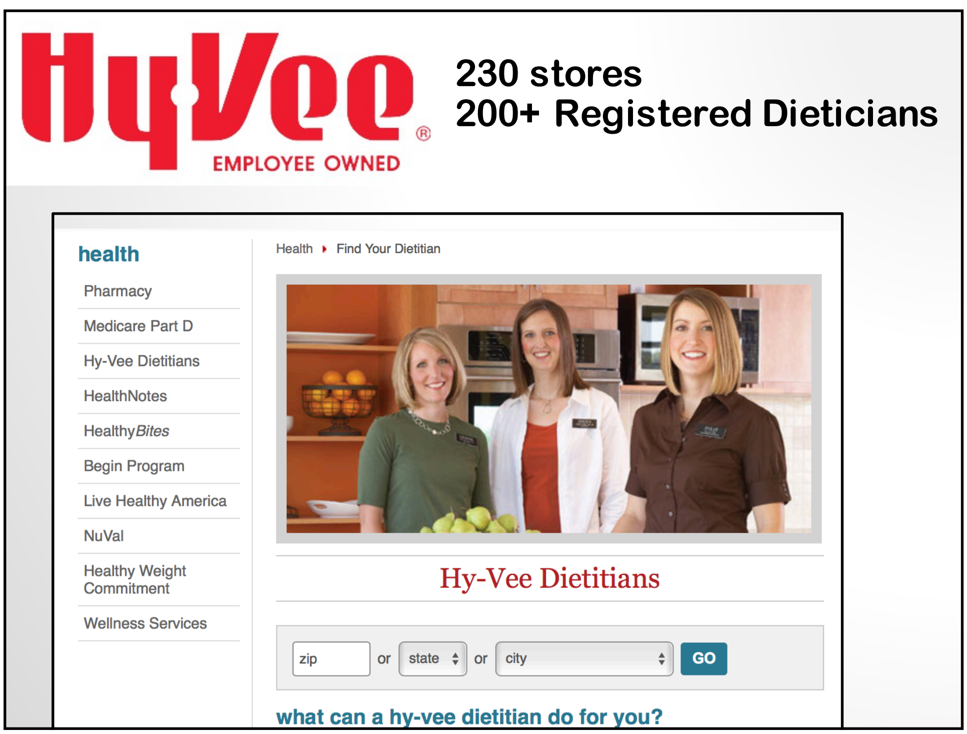
Retailer as Curator

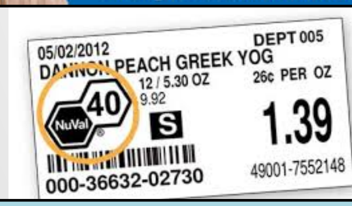
- Limited Assortment formats
- Natural Specialist formats
- SKU rationalization
- Rising private label penetration
- Expanded assortments of organic, natural, simple products
- Premiumization



The Natural "Specialist" Formats


Wegmans
Private Labels
Over 3000 organic items throughout the store!
Why are we so committed to organics?
Because they are produced more sustainably, contain nothing artificial and taste great. They're also the simplest way to avoid GMOs because USDA organic standards prohibit their use. Our customers share this passion too, as we've seen demand skyrocket over the past few years. To meet your needs, we offer over 3000 organic items, with many more on the way.
Wegmans Organic Farm
We started our Organic Farm in 2007 to help develop and share best practices with our customers & partner-growers.
Learn More About How We Partner Together
eat well live well
Food You Feel Good About
Many stores are jumping on the natural foods bandwagon these days, but our Food You Feel Good About line has been around for over a decade.
Food You Feel Good About products taste great—naturally! The easy-to-spot bright yellow banner on the package signals a great-tasting item that is also part of a natural lifestyle.
Specifically, Food You Feel Good About means:
free of artificial colors, flavors or preservatives
free of trans fats from partially hydrogenated oils
fresh meats are from animals not given antibiotics, hormones or animal by-products
no high fructose corn syrup
And in some cases, we push even further to include certified organic selections in our Food You Feel Good About lineup.
Food You Feel Good About
Welcome to Simple Truth®!
Here, you'll learn all about our Organic, Natural and Free from 101+ foods and ingredients.
Simple Truth® and Simple Truth Organic® make it easy to eat better with a full line of honest, easy to understand and affordable choices…available exclusively at the Kroger Co. Family of Stores.
Kroger
Product selection may vary by store.


HyVee
EMPLOYEE OWNED
230 stores
200+ Registered Dieticians
health
Pharmacy
Medicare Part D
Hy-Vee Dietitians
HealthNotes
HealthyBites
Begin Program
Live Healthy America
NuVal
Healthy Weight Commitment
Wellness Services
Health ▸ Find Your Dietitian
Hy-Vee Dietitians
zip or state or city GO
what can a hy-vee dietitian do for you?



Milk	
Chug Milk Shake Vanilla	22
Nonfat Skim Milk	100
2% Milk	84
1% Milk	89
Silk Chocolate Light Soymilk	47
Silk Soymilk	91

HowGood

- Environmental Impact
- Social Responsibility
- Product Integrity

HowGood — Sustainability Ratings

Indicators: How We Rate Every Product

Sourcing					Production			Organization			
Growing	**Procurement**	**Labor**	**Livestock**	**Distribution**	**Ingredients**	**Workforce**	**Processing**	**Management**	**Community**	**Employment**	**Environment**
Pesticide Practices	Grower Type	Geographic Profile	Feed Analysis	Ingredients Sourcing	Ingredient Impact	Geographic Profile	Mechanical Processing Profile	Policy Impact Index	Community Engagement	Risk Profile	Emissions History
Fertilizer Practices	Grower Size	Source Sensitivity	Animal Welfare	Geographic Distribution	Manufacturing Needs	Manufacturing Sensitivity	Chemical Processing	Corporate Structure	Legal Disputes	Historic Labor Relations	Industry Profile
Grower Type	Industry Profile	Labor Accountability	Pasture Use	Method of Transport	Safety Record	Workforce Benefits	Heat Processing	Discrimination Record	Reputation Index	Geographic Profile	Clean Energy Profile
Grower Record	Ingredient Impact	Current Labor Relations	Pesticide Practices	Carbon Analysis	Geographic Impact	Current Labor Relations	Pasteurization Type	Accounting Record	Competitive Practices	Employment Conditions	Clean Water Act
Greenhouse Gas Profile	Grower Relationships	Labor Conditions	Fertilizer Practices	Refrigeration Needs	Preservatives	Workforce Conditions	Ingredient Degradation	Regulatory Infractions	Greenwashing	Discrimination Record	Chemical Spills
Livestock Index	Grower Impact		Waste Management	Packaging	Stabilizers			Disclosure Records	Policy Impact		Waste Management
			Historic Record		Flavor Enhancers						

NO TAG **Standards not met** *(or product not yet rated)*

GOOD FOR THE WORLD **Better than 75%** *of all food produced in the U.S.*

GREAT FOR THE WORLD **Better than 85%** *of all food produced in the U.S.*

BEST FOR THE WORLD **The best 5%** *of all food produced in the U.S.*

HowGood's Product Rating Indicators

Growing	
Pesticide Practices	Greenhouse Gas Profile
Fertilizer Practices	Habitat Risk
Grower Type	Site Diversity
Grower Record	Livestock Index

Organization

Growing	Procurement	Labor	Livestock
Pesticide Practices	Grower Type	Geographic Profile	Feed Analysis
Fertilizer Practices	Grower Size	Labor Accountability	Animal Welfare
Grower Type	Industry Profile	Current Labor Relations	Pasture Use
Grower Record	Ingredient Impact	Current Labor Conditions	Pesticide Practices
GreenHouse Gas Profile	Grower Reltionships	Labor Regulations	Fertilizer Practices
Habitat Risk	Grower Conditions		Antibiotic & Hormone
Site Diversity			Waste Management
Livestock Index			Historic Record

Distribution — Ingredients — Workforce — Processing — Management — Community — Employment — Environment

Livestock	
Feed Analysis	Fertilizer Practices
Animal Welfare	Antibiotics & Hormones
Pasture Use	Waste Management
Pesticide Practices	Historic Record

Distribution	Ingredients	Workforce	Processing	Management	Community	Employment	Environment
Packaging	Stabilizers	Workforce Regulations	Ingredient Degradation	Disclosure Records	Historic Policy Impact		Waste Management
	Flavor Enhancers			Corporate Structure			

Source: howgood.co

Premiumization

Price of +25% to mainstream item

Distinguishing attribute(s) such as quality of ingredients, manufacturing or production processes, point of origin, or other unique characteristics consumers are willing to pay for

Premiumization in Dairy

PRICE-TIER TRENDS IN TOP 10 F&B CATEGORIES

YTD 2015, MULO+C

Category	% share of premium tier	Ppts. Share Chg. vs. YA		
		Value	Mainstream	Premium
Beer/Ale/Alcoholic Cider	20.1%	-0.7	-0.2	+1.0
Salty Snacks	12.7%	-0.6	+0.5	+0.1
Bottled Water	44.4%	-0.2	-0.1	+0.3
Natural Cheese	13.8%	+0.1	-0.6	+0.4
Chocolate Candy	20.1%	-0.1	-1.2	+1.2
Energy Drinks	38.3%	+0.0	-0.9	+0.8
Wine	48.9%	-1.5	-1.3	+2.8
Coffee	22.2%	+0.7	-0.9	+0.2
Yogurt	38.3%	-1.5	-1.0	+2.4
Breakfast Meats	8.3%	-0.1	+0.0	+0.1
Top 10 average	**25.2%**	**-0.4**	**-0.4**	**+0.9**

IRI: 2016

Takeaways

- Consumer awareness, interest and concern is high and will continue to grow
- Understanding lags – consumers seek information and assistance in making healthy and sustainable food choices
- Traditional food retailers are losing share – future growth will be concentrated in the discount segment
- Retailers are curating assortments to differentiate, appeal to consumer demand and become more productive
- Retailers are providing more information while attempting to avoid bias and controversy
- Manufacturers and retailers, while steering clear of controversy, are altering policies and practices when and where consumer sentiment is "clear"
- Premiumization is an opportunity