A "Fresh" Perspective on the Importance of Fresh at Retail

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acosta group

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Why Are We Here Today?

To share with you our hot-off-the-press insights from recent 2023 shopper survey research

Shopper research conducted through Acosta Group's proprietary Shopper Community

Fresh Foods Survey April 11-13, 2023
N = 1112 Fresh Food Shoppers

Dairy Department Survey April 24-27, 2023
N = 799 U.S. Dairy Shoppers

~40K participants

10K growth per year

18+ age

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Goal for today is to help you understand:

- how the overall Fresh Foods market is trending, as shoppers continue to exhibit recessionary behaviors in 2023.
- the importance of Fresh Foods at retail and in the shopper's household
- the key drivers of fresh product perceptions and preferences along their purchase journey.
- key insights for ***dairy, freshly prepared deli, and bakery departments*** to help brands and retailers better understand how to connect with today's consumers.

To help you grow your business!

Agenda

- The Importance of Fresh at Retail
- Fresh Foods Shopper Attitudes and Behaviors
  Key Implications / Recommendations
- Dairy Department Shoppers
  Key Implications / Recommendations
- Deli / Freshly Prepared Foods Shoppers
  Key Implications / Recommendations
- Bakery Department Shoppers
  Key Implications / Recommendations

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The Importance of Fresh at Retail

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Fresh foods and dairy products contribute considerable dollars at retail

$92B

Dairy

$80B

Fresh Produce

$60B

Fresh Meat

$18B

Bakery

$52B

Deli

$19B

Prepared Foods

$7B

Seafood

$7B

Floral

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Source: NielsenIQ 52 weeks ending 5/13/23

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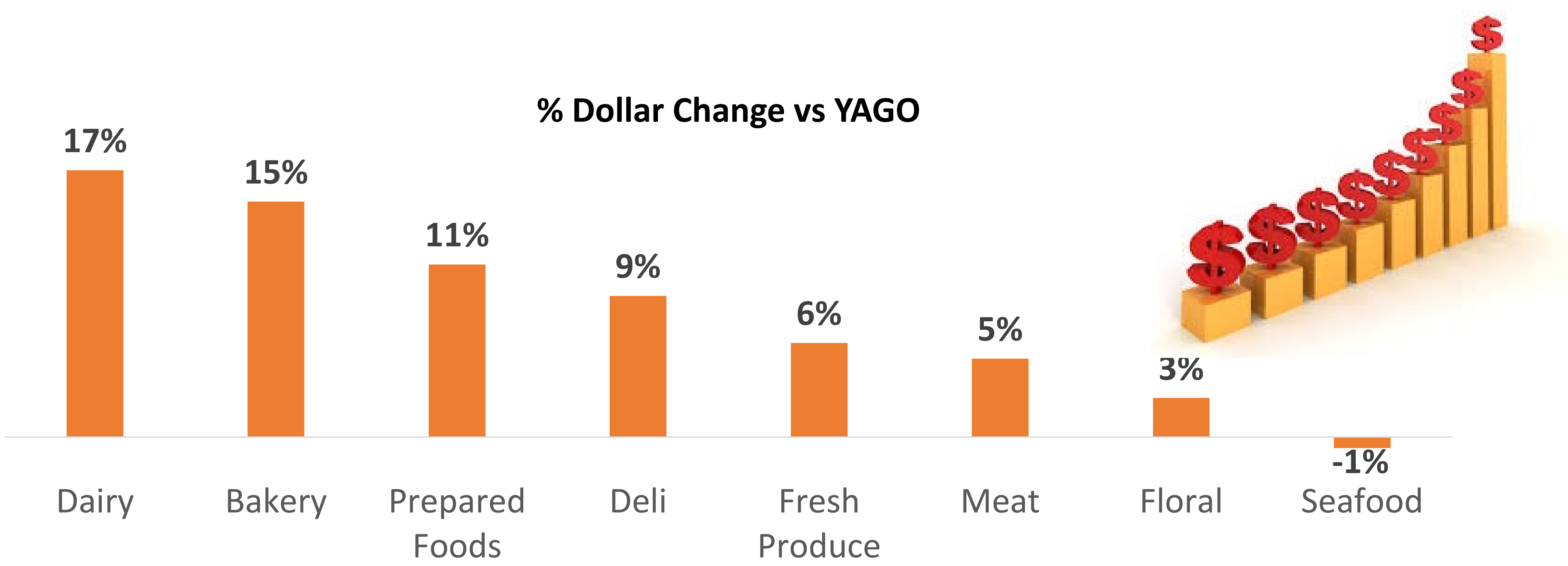
The fresh and dairy departments are driving sales growth



Source: Nielsen IQ 52 weeks ending 5/6/23 2023 vs yago

Shoppers are greatly influenced by inflation and buying less across the store

The average price of
Fresh Foods and **Dairy** is up

15%

Over the past year

Shopper Reactions to Higher Prices

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Source: Acosta Group Shopper Community Survey January 2023

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Fresh and Low Prices are often at conflict with each other

3-in-4
are prioritizing **Low Prices** when shopping

48%
are **eating less Fresh Meat** because of inflation

37%
Are **eating less Fresh Produce** because of inflation

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Source: Acosta Group Shopper Community Survey January 2023

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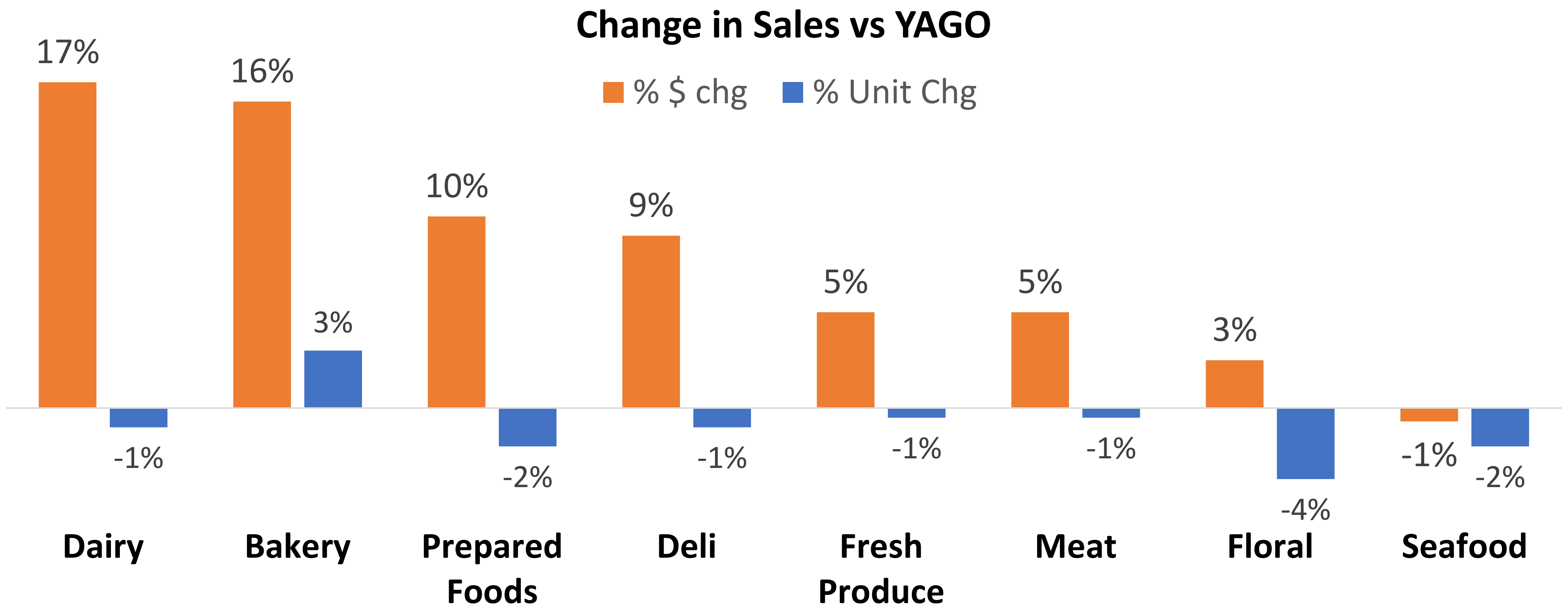
Subsequently, unit sales reflect a very different picture across the store



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Source: Nielsen IQ 52 weeks ending 5/6/23 2023 vs yago

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Hence, it's more critical than ever to understand the Fresh foods shoppers and meet their needs to maximize your sales growth!

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Source: Nielsen IQ 52 weeks ending 5/6/23 2023 vs yago

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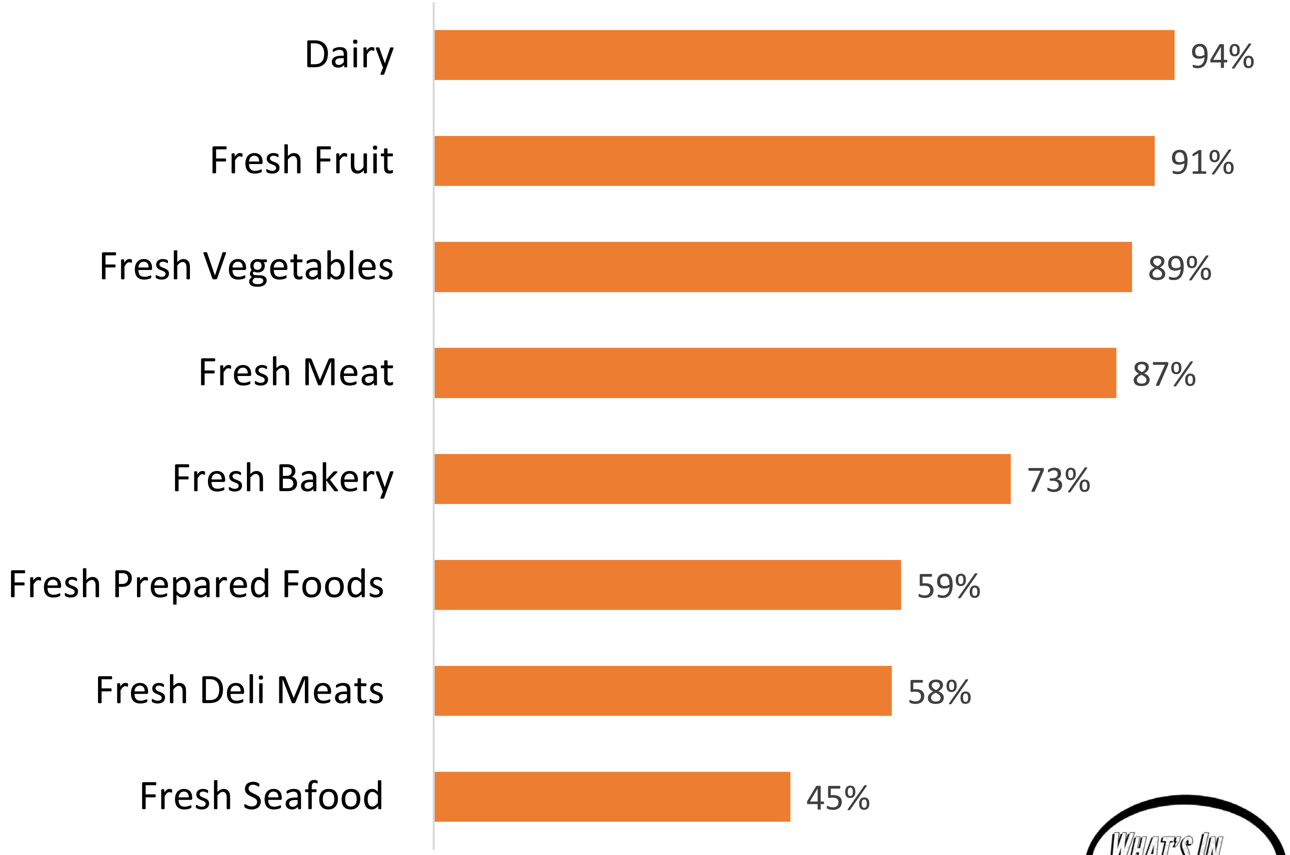
Fresh Foods Shopper Attitudes & Behaviors

Nearly everyone buys dairy and fresh foods

% of Shoppers Purchasing Past 3 Months



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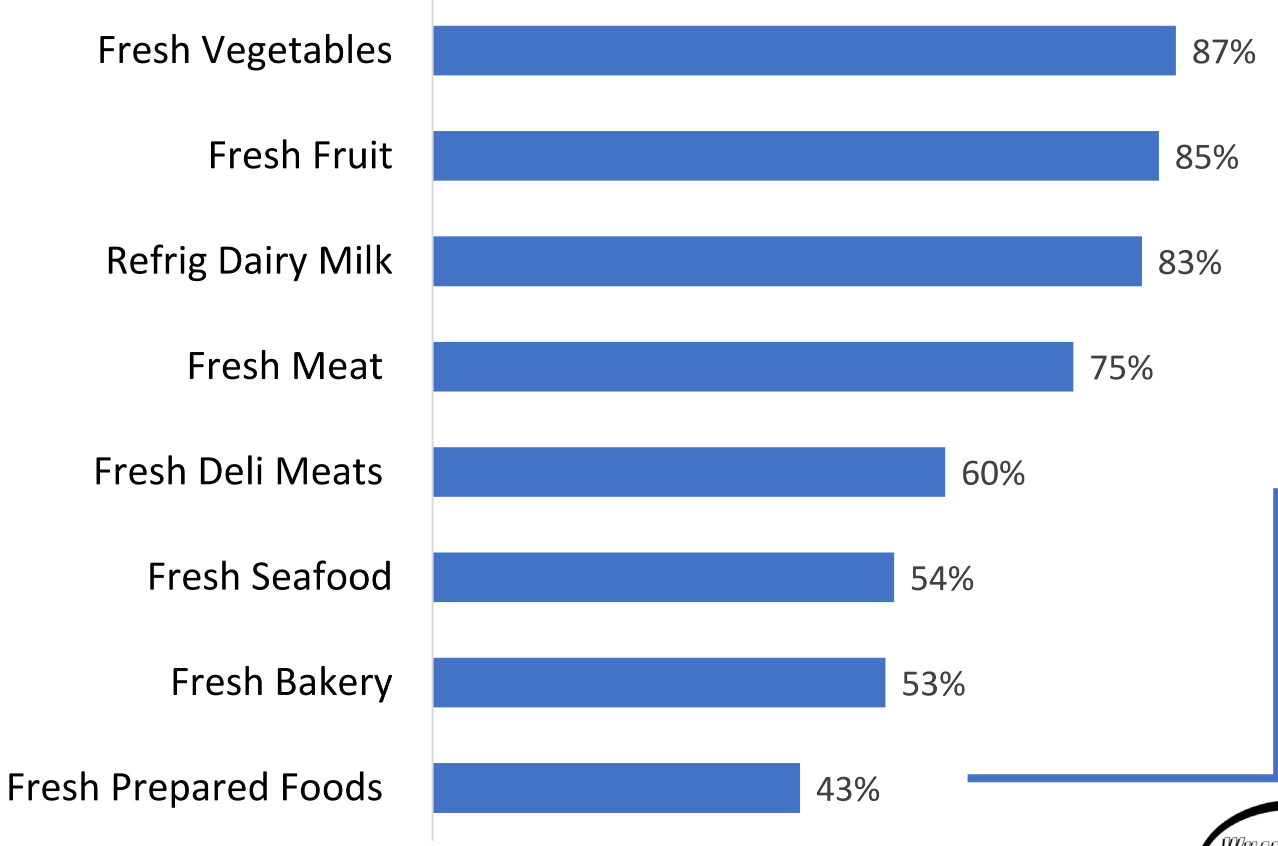
Source: Acosta Group Shopper Community Survey April 2023

Fresh and dairy products are frequency drivers for retailers

% Buying on All or Most Shopping Trips



60% of Millennials and 57% of Gen Z shoppers pick up fresh prepared foods on all or most trips (vs 25% of Boomers)

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Source: Acosta Group Shopper Community Survey April 2023

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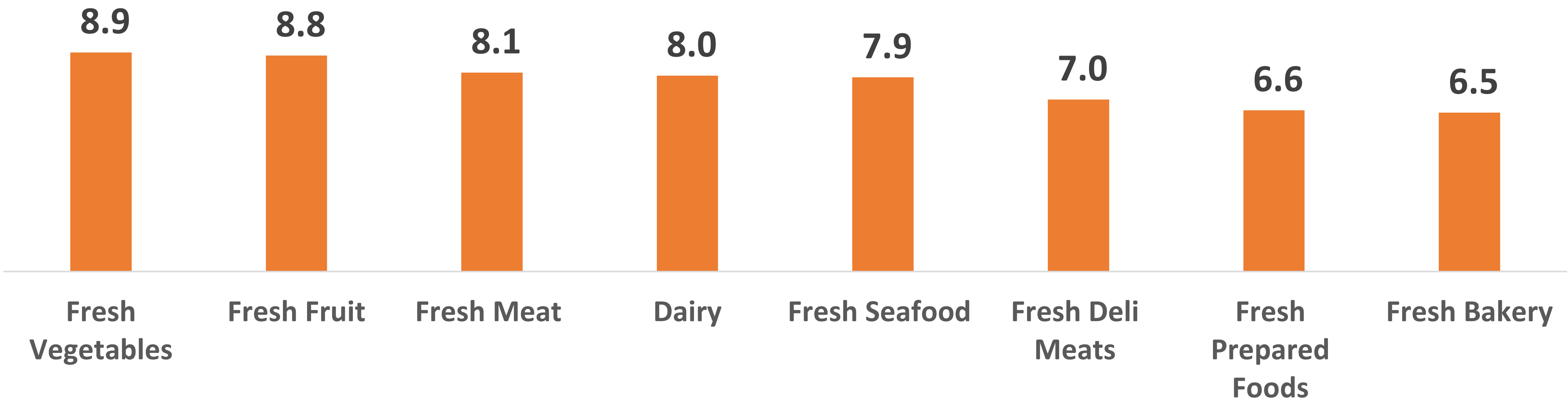
Fresh foods and dairy are keenly important to the consumer, playing a big role in their overall diet and eating habits

Importance of Fresh Foods in Overall Diet/Eating Habits

Scale of 0 - 10



	Fresh Vegetables	Fresh Fruit	Fresh Meat	Dairy	Fresh Seafood	Fresh Deli Meats	Fresh Prepared Foods	Fresh Bakery
% Highest Importance (8 – 10)	85%	84%	71%	67%	66%	49%	42%	42%

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Source: Acosta Group Shopper Community Survey April 2023

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Fresh foods are a key influencer of retail choice

% of shoppers who say that the appearance, quality and selection of these fresh foods **influences where they shop**

Fresh Meat	Fresh Produce	Bakery	Prepared Foods
94%	90%	90%	85%




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Source: Acosta Group Shopper Community Survey April 2023

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Fresh foods get high marks for selection, quality and even value

Satisfaction with at Preferred Retailer

(Scale of 0-10 where 10 = Extremely Satisfied)

	SELECTION	QUALITY	VALUE
PRODUCE	8.1	8.2	7.5
MEAT	8.0	8.2	7.3
BAKERY	7.9	8.1	7.3
PREPARED FOODS	7.8	8.0	7.4

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Source: Acosta Group Shopper Community Survey April 2023

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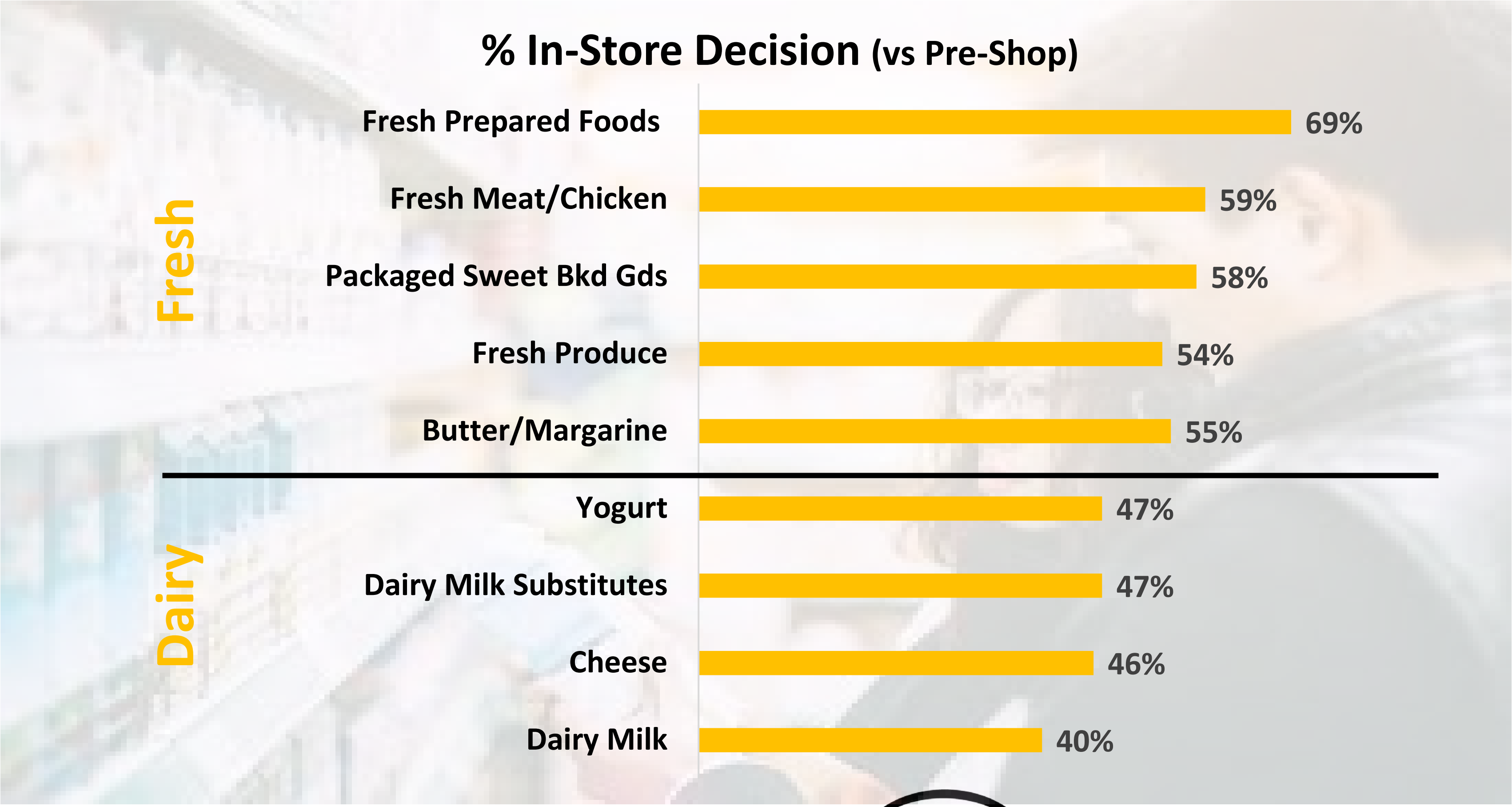
Fresh and dairy have high walk rates, implying a big need for product availability and wide selection

Walk Rate: Go to another store/Buy online/Wait til next trip

Source: Acosta Group Shopper Community Survey Nov 2022

**Walk Rate: Go to another store/Buy online/Wait til next trip*

Retailers have a big opportunity to sway the purchase decision for fresh and dairy once shoppers are in the store



The WHY? Behind the BUY powered by acosta group

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Source: Acosta Group Shopper Community Survey Nov 2022

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Implications for Fresh Foods

- Value is key and goes beyond price with the entire value proposition
  - Transparent, simple price/value communication (don't make them do the math)
  - Offer value and convenience for various occasions and household sizes
  - Convey food quality, product/brand story, or point of difference
- Maximize "high quality" appearance and communication
- Seamless omnichannel experience is critical, given pre-shopping behavior
- Optimize the Fresh Foods in-store experience for shoppers craving a more engaging, enjoyable shopping experience, which also drives retailer loyalty

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Dairy Sales Trends & Shopper Insights

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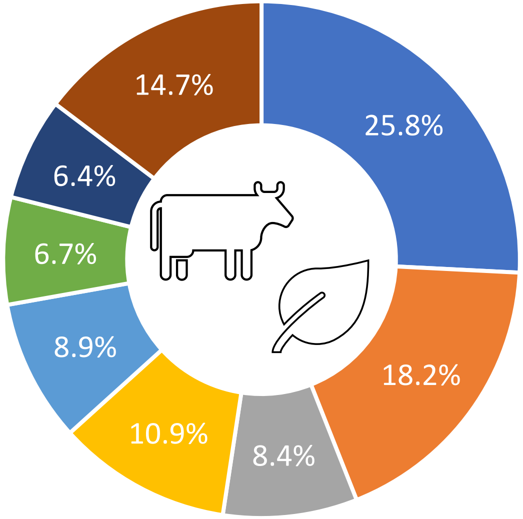
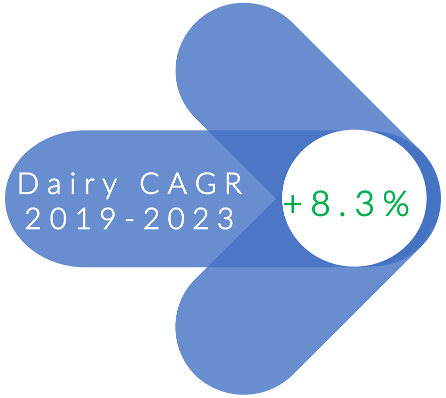
Dairy sales have grown by $25B since 2019

Eggs grew +3.3 in dollar share points during this time

Dairy 2019

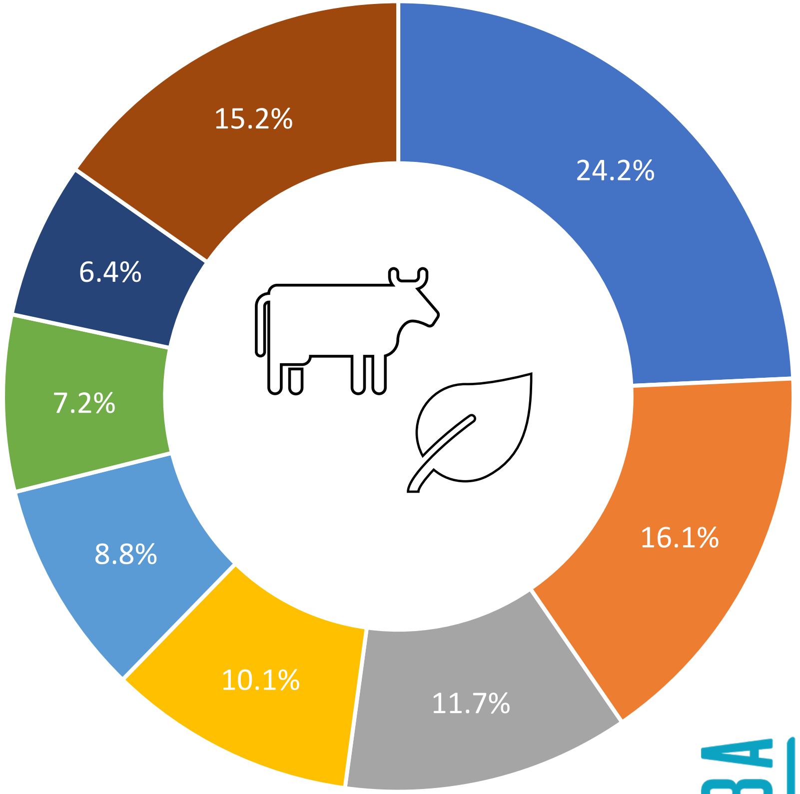
Total Spend = $67B





Dairy 2023

Total Spend = $92B



- Cheese
- Eggs
- Dairy Bevs
- Butter & Spreads
- Rfg Milk
- Yogurt
- Creamers
- Other

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Source: Nielsen AOD L52 WE 05/13/23; FY 2019

Dairy units are flat or declining

Yogurt, Dairy Beverages & Dough Batter accounted for the largest share of unit loss

Total Dairy
$92.5B
25B Units

$ % Chg +17.1%
U % Chg (-1.3%)

Cheese
$22.4B
5.6B Units

$ % Chg +11.2
U % Chg +0.0%

Milk
$14.9B
4.3B Units

$ % Chg +10.4%
U % Chg (-0.5%)

Eggs
$10.8B
2.2B Units

$ % Chg +57%
U % Chg +0.1%

Yogurt
$9.3B
3.7B Units

$ % Chg 14.5%
U % Chg (-4.3%)

Dairy Beverages
$8.1B
2.4B Units

$ % Chg +8.6%
U % Chg =2.1%

Creamers
$6.7B
1.6B Units

$ % Chg 18.6%
U % Chg +0.3%

Butter
$5.9B
1.3B Units

$ % Chg +26.8%
U % Chg (-0.2%)

Prepared
$4.0B
785MM Units

$ % Chg 10.4%
U % Chg (-1.8%)

Dough & Batter
$2.9B
905MM Units

$ % Chg +24.8%
U % Chg (-3.6%)

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Source: Nielsen AOD L52 WE 05/13/23 vs yago

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Shoppers spend an average of $469 on dairy products each year, on about 3.5 trips per month

$469

average annual dairy spend per household

+11% vs yago

42

Average annual shopping trips for dairy

$11

average spend on dairy per trip

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Source: NielsenIQ Homescan 52 wks ending 4/22/23

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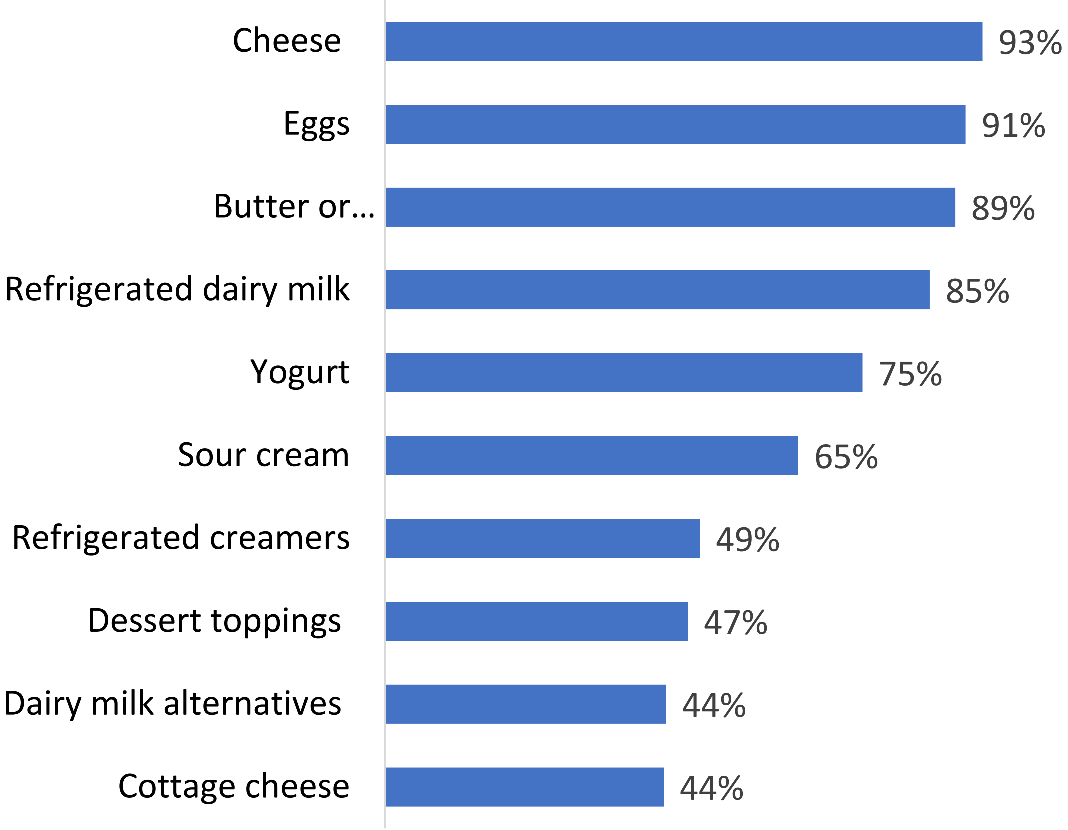
Dairy products are found in nearly every home

% of Shoppers Purchasing Past 3 Months



Households with kids purchase more broadly across dairy items

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Source: Acosta Group Shopper Community Survey April 2023

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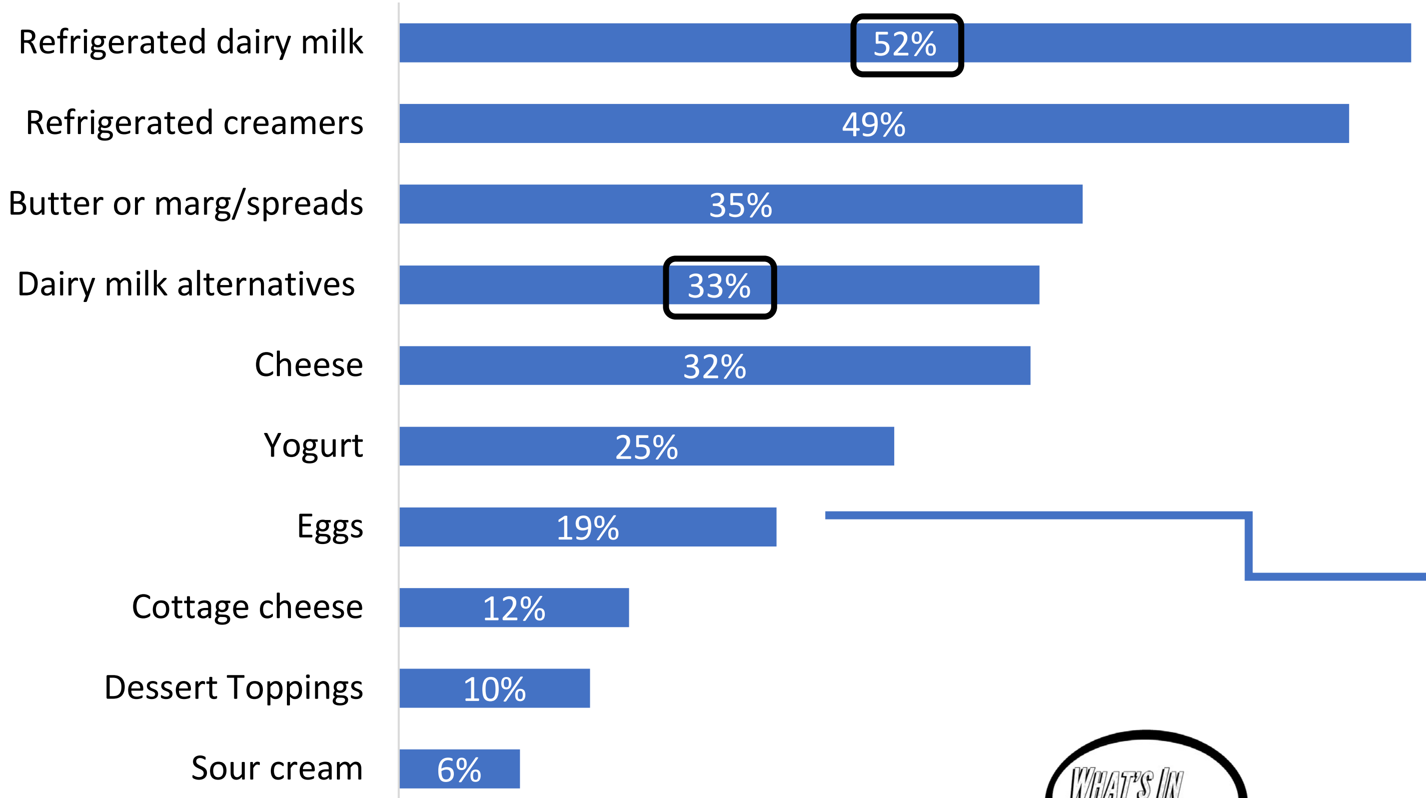
Dairy milk is consumed daily by half of those who buy it, while dairy alternative milk is consumed daily by just 1-in-3 buyers

DAILY Consumption Frequency



26% of **Gen Z** eat eggs daily

24% of **Males** eat eggs daily

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Source: Acosta Group Shopper Community Survey April 2023

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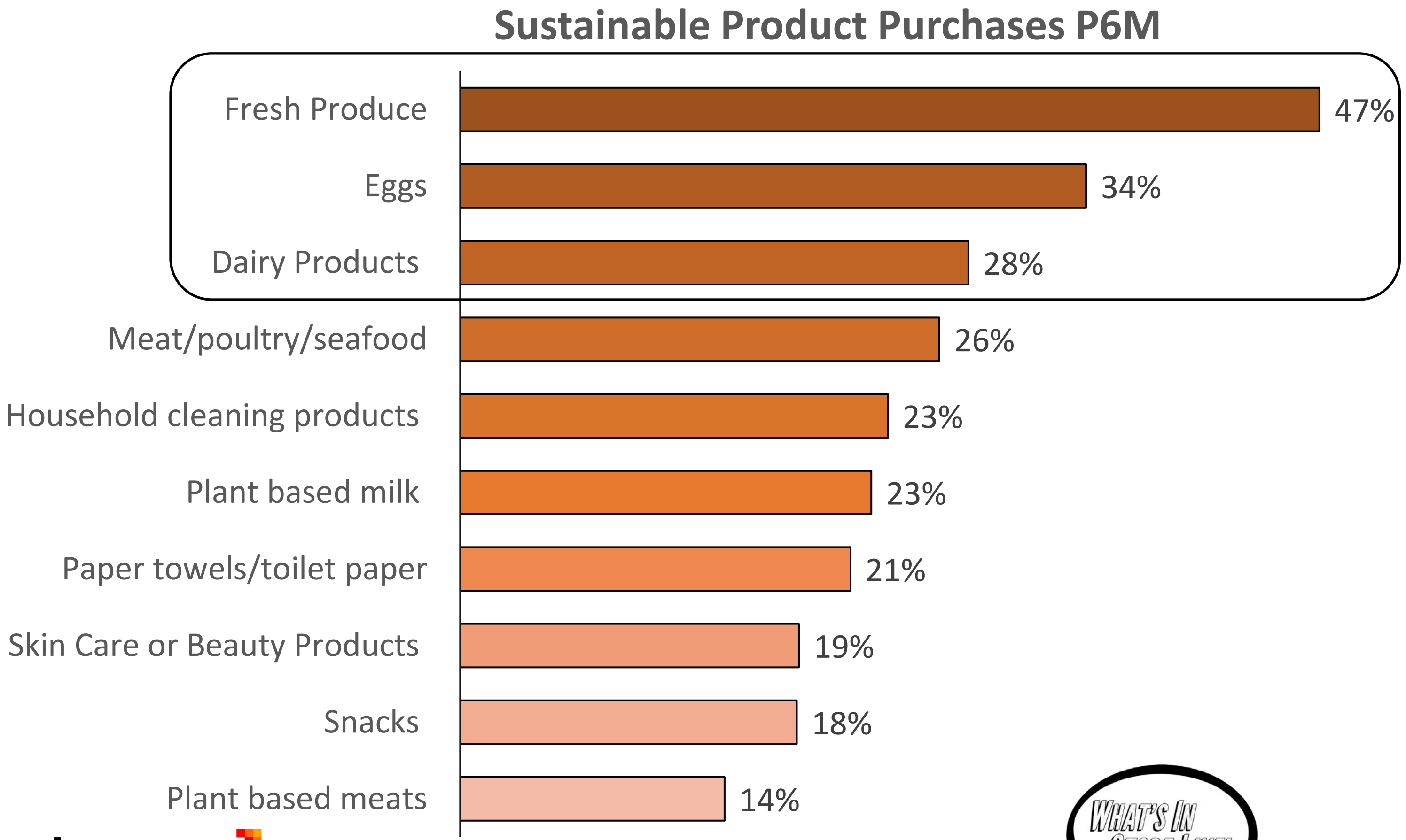
Fresh and dairy products are often considered ‘green’ – and high on the list when it comes to sustainable product purchases



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Source: Acosta Group Shopper Community Survey March 2023

Implications for Dairy

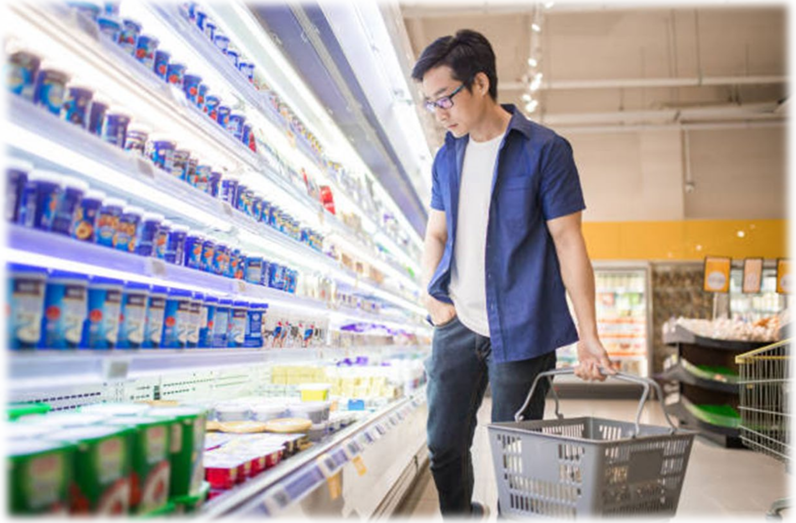
- Consider cross-promotions to increase dairy spend (given *extremely* important role dairy plays in vast majority of households and trips)

- Day part eating occasion expansion

- Solutions for shoppers with varying diet and health goals

- Promote/display on-trend indulgent assortment and innovation (ie., cookie dough, premium pudding)

- Talk broader health & wellness related to sustainability, farmers, or brand story
  - Nutritional value
  - Pure and natural, no antibiotics
  - Humane treatment of animals



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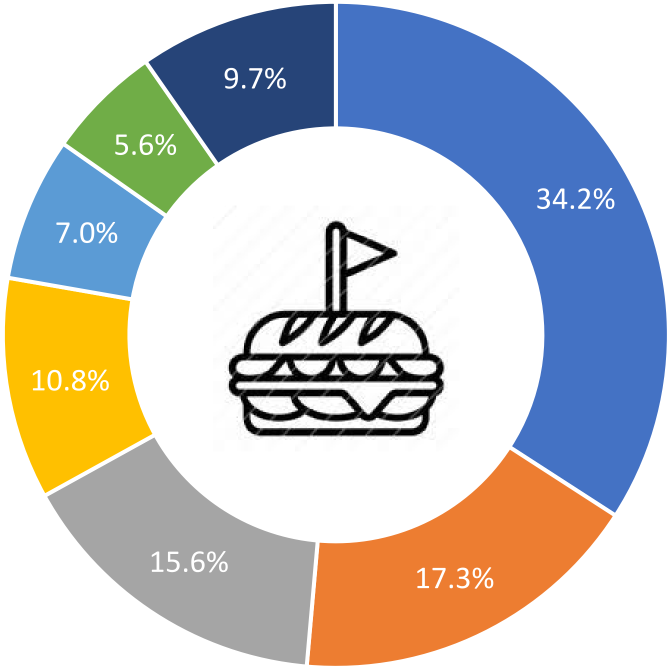
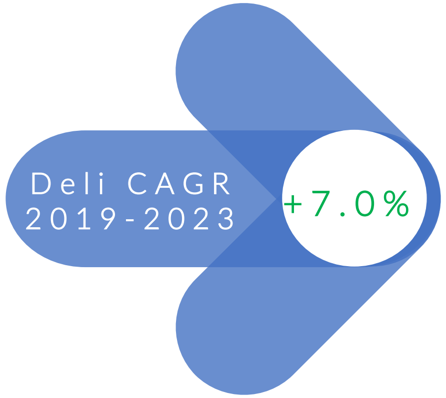
Deli Freshly Prepared Foods Trends & Shopper Insights

Deli sales have increased by $12B <u>since 2019</u>

Deli 2019 | Deli 2023

Total Spend = $40B

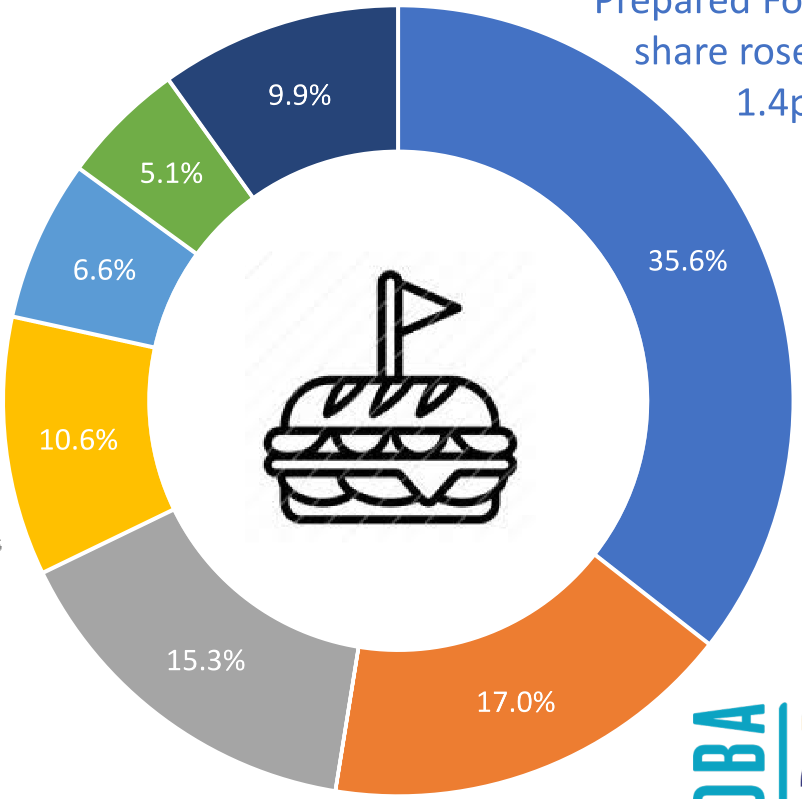




Prepared Foods | Fully Cooked Meat | Lunchmeat | Deli Cheese | Dips/Spreads | Meal Combos | Other

Total Spend = $52B

Prepared Foods share rose by 1.4ppts



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Source: Nielsen AOD L52 WE 05/13/23; FY 2019

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Prepared Foods and Fully Cooked Meat contribute over 50% of Deli sales – and both are seeing accelerated unit sales

Total Deli
$52.2B
9.4B Units

$ % Chg +8.6%
U % Chg (-1.4%)

Prepared Foods
$18.9B
3.3B Units

$ % Chg +10.1
U % Chg +0.5%

Fully Cooked Meat
$8.9B
1.3B Units

$ % Chg +10.1%
U % Chg +0.8%

Lunchmeat
$8.0B
938M Units

$ % Chg +6.7%
U % Chg (-4.4)%

Deli Cheese
$5.5B
830M Units

$ % Chg +7.1%
U % Chg =+0.4%

Dips/Spreads
$6.7B
780M Units

$ % Chg 7.7%
U % Chg (-1.5%)

Meal Combos
$2.7B
1.1B Units

$ % Chg +4.2%
U % Chg (-6.7%)

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Source: Nielsen AOD L52 WE 05/13/23 vs yago

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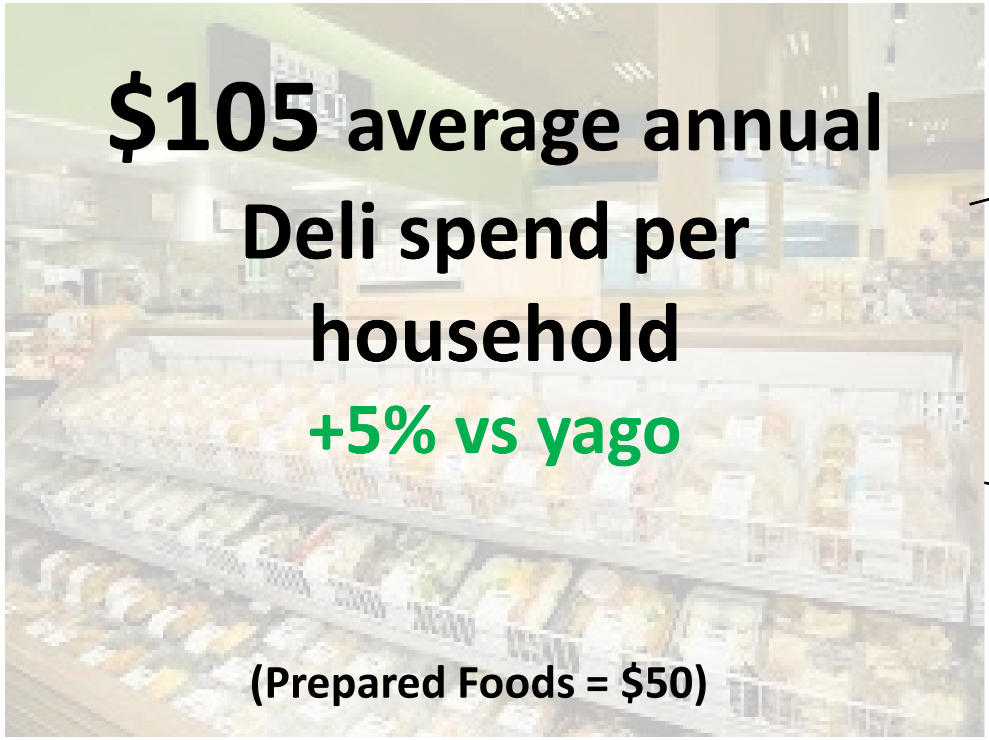
Shoppers spend over $100 on deli foods each year, averaging just over one trip per month



$105 average annual Deli spend per household

+5% vs yago

(Prepared Foods = $50)

14

average annual shopping trips for Deli

(Prepared Foods = 7)

$8

average spend on deli per trip

(Prepared Foods = $7)

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Source: NielsenIQ Homescan 52 wks ending 4/22/23

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Fresh prepared foods are most popular among younger shoppers

45% buy fresh prepared foods on all or most shopping trips → *60% of Millennials and 57% of Gen Z!*

(vs 25% of Boomers)

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Source: Acosta Group Shopper Community Survey April 2023

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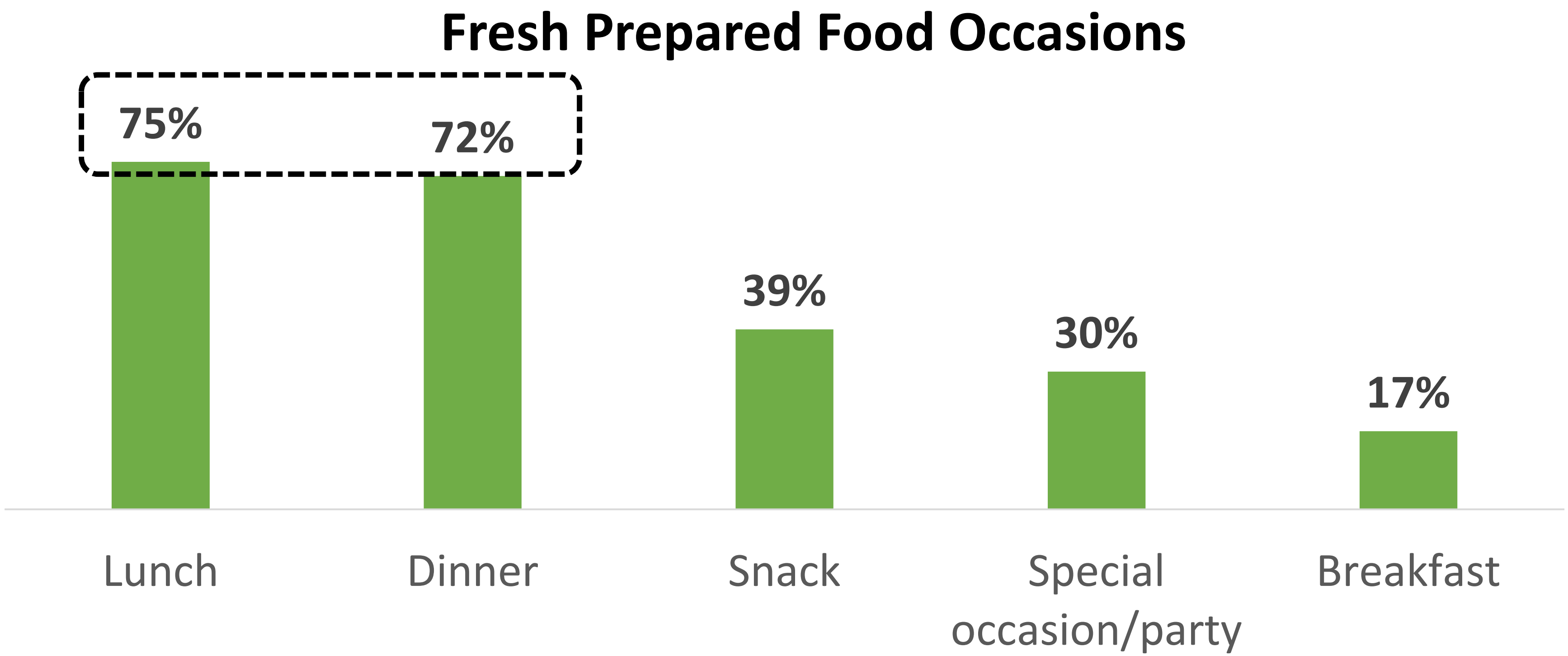
Freshly prepared foods are eaten throughout the day, with many picking up after work or school



43% of prepared foods purchases are on **impulse**

Half pick up prepared foods **after work or school**
(ages 18 – 59)

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Source: Acosta Group Shopper Community Survey April 2023

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Prepared foods are enjoyed for their convenience, variety, and taste, at a better value than restaurant meals

Why Eat Freshly Prepared Foods

*"As freshly prepared food, stores often offer a wide **variety of options**, from different cuisines to unique dishes, that may not be available at home or at a restaurant."* - Millennial

*"Easy to just **grab and go**, no need to think."* – Gen Z

*"I like the idea of having food **ready to eat** when I have had a busy day and don't have the energy or patience to cook."* - Boomer

*"It's a **good compromise between price and effort**. Maybe a bit more of a hassle than ordering food, but a bit cheaper."* – Gen Z

*"At Whole Foods and Raleys, the **food was better than some restaurants**, and I was there getting groceries, so it was super convenient, and you don't have to tip."* - Boomer

*"Because it was **convenient** for when I am running behind schedule. Also, my family likes to have variety."* - Millennial

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Source: Acosta Group Shopper Community Survey April 2023

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The perceived quality of prepared foods has improved in recent years, especially at Convenience Stores

Grocery Stores

42% say that freshly prepared food **quality is up to par with restaurants**

33% say that freshly prepared food **quality has increased** in recent years

C-Stores

32% say that freshly prepared food **quality is up to par with restaurants**

41% say that freshly prepared food **quality has increased** in recent years

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Source: Acosta Group Shopper Community Survey April 2023

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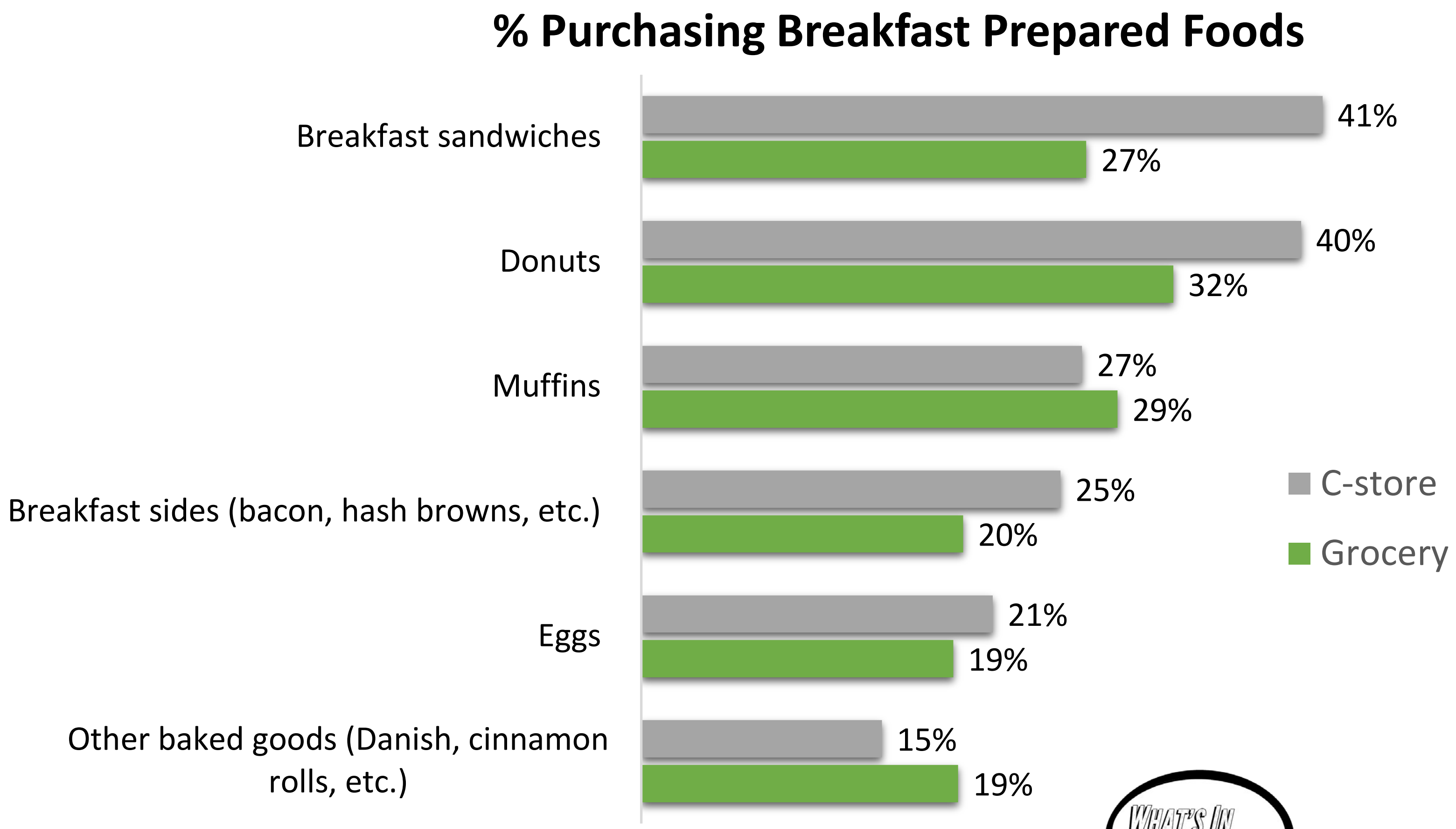
Breakfast is a popular occasion for prepared foods consumption, particularly at C-stores



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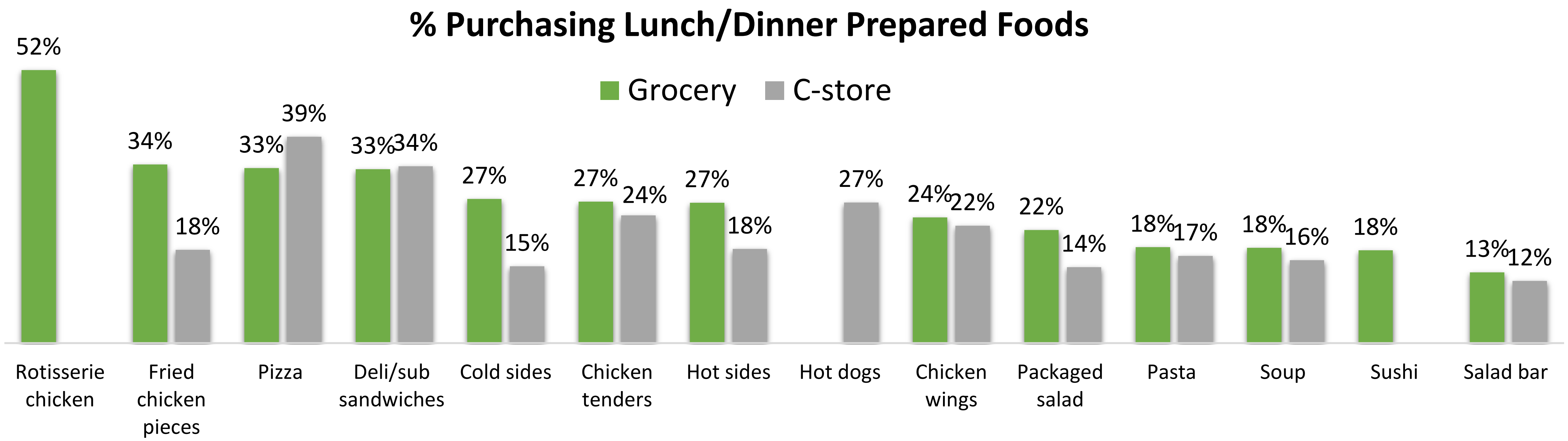
Source: Acosta Group Shopper Community Survey April 2023

Rotisserie chicken is the most popular prepared food for lunch or dinner, followed by fried chicken, pizza, sandwiches



COSTCO WHOLESALE *sold 117MM rotisserie chickens at $4.99 in 2022 (+10% vs. YA)*

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Source: Acosta Group Shopper Community Survey April 2023

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Implications for Deli/Freshly Prepared Foods

- Compete against all outlets vs. channel specific
  - Freshness
  - Restaurant quality
  - Plan for impulse purchases
- Convenience
  - Consistent simplicity across the endless aisle
  - Ready to heat, ready to eat, prepare at home
  - Recipes, occasion recommendations, co-promotions
- Variety
  - Health & wellness offerings
  - Total meal solutions
  - New Flavors / Ethnic offerings
- Value
  - Assortment and pricing

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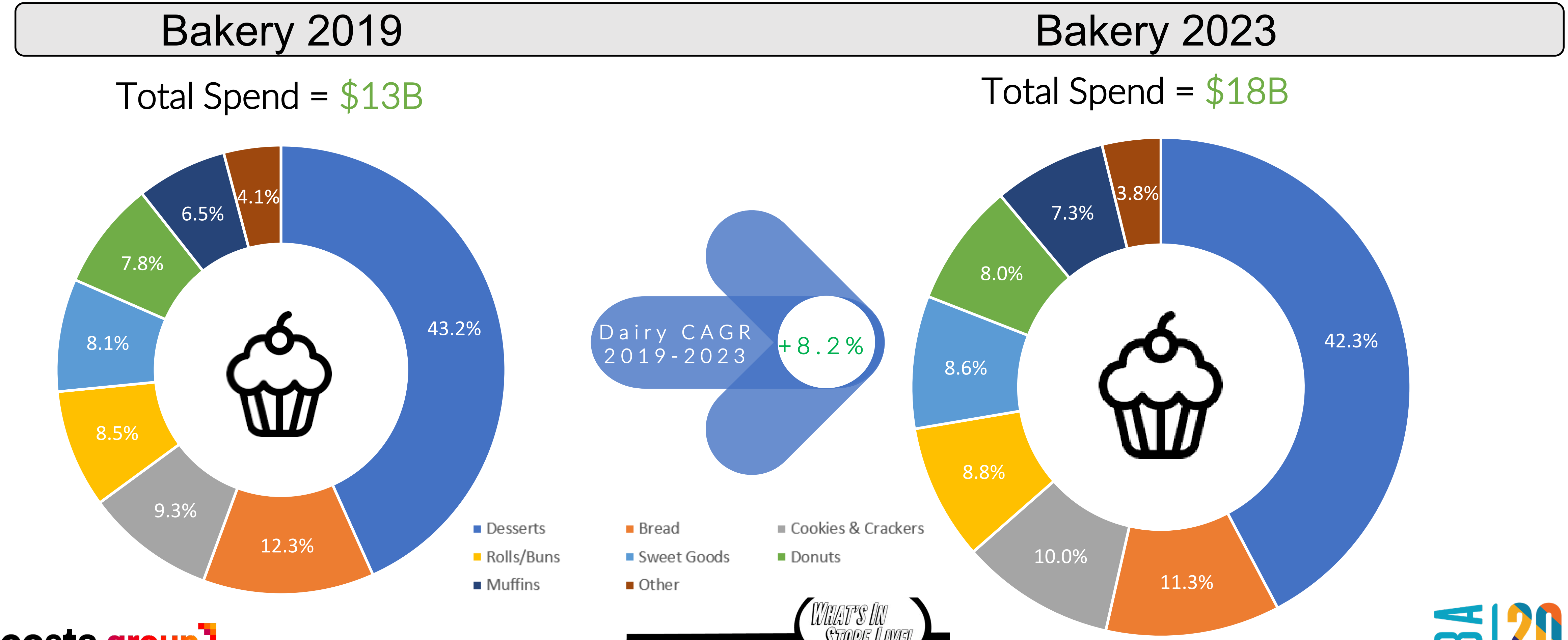
Bakery Department Trends & Shopper Insights

Bakery sales have grown by $5B since 2019

$ Volume share has shifted from Desserts to Cookies & Crackers during this time



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Source: Nielsen IQ 52 WE 05/13/2023 – Total US xAOC

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Despite higher prices, bakery unit sales are rebounding

Total Bakery
$18.5B
4.7B Units

$ % Chg +16.3%
U % Chg +2.7%

Desserts
$7.8B
1.3B Units

$ % Chg +10.6
U % Chg (-5.5%)

Bread
$2.1B
754M Units

$ % Chg +18.9%
U % Chg +1.1%

Cookies & Crackers
$1.8B
354M Units

$ % Chg +24.0%
U % Chg +8.8%

Rolls & Buns
$1.6B
666M Units

$ % Chg +19.8%
U % Chg =+6.5%

Sweet Goods
$1.6B
452M Units

$ % Chg +14.2%
U % Chg +8.2%

Donuts
$1.5B
618M Units

$ % Chg +29.3%
U % Chg +9.3%

Muffins
$1.3B
316M Units

$ % Chg +20.3%
U % Chg +2.3%

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Source: Nielsen IQ 52 WE 05/13/2023 vs yago xAOC

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A fresh bakery department is key to retailer choice for shoppers across all generations

56%

Of shoppers say that the appearance, quality and selection of **fresh bakery** items has **A LOT of INFLUENCE** on where they shop for groceries

*Interestingly, this sentiment **holds true across generations***

58%	60%	51%	57%
Gen Z	**Millennials**	**Gen X**	**Boomers**

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Source: Acosta Group Shopper Community Survey April 2023

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The bakery department is a big impulse driver at retail

42% of

bakery items

are bought on

impulse

(women more likely than men)

50%

Of all shoppers admit they **will splurge on certain items to treat themselves or their family** despite high prices

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Source: Acosta Group Shopper Community Survey Jan & April 2023; Byerly's photos

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Bread actually surpasses sweets as the bakery favorite

Favorite Bakery Item to Buy

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Source: Acosta Group Shopper Community Survey April 2023

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Implications for Bakery

- Freshness as lead
- In-store execution influences retailer choice
  - Appearance, quality, and selection
- Solutions to meet shopper impulse purchase needs
  - Day part expansion
  - Indulgence-seeking displays - encourage the “splurge”
  - Cross merchandising
  - Single-serve is emerging trend

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What comes to mind after hearing these insights?

What questions do you have?

THANK YOU!

Let’s Connect:

To schedule time please email **jdubois@acosta.com**

John DuBois

VP, Acosta Group Fresh Foods U.S.

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