SmartFood Choices 2018

Exploring Consumer Demand for Better-for-You Food

Presented by:
Anne-Marie Roerink, 210 Analytics

SmartFood EXPO

UNITED FRESH PRODUCE ASSOCIATION

Natural, specialty and wellness are driving growth

20.6%

Of total store edibles $ sales have natural, specialty or wellness positioning

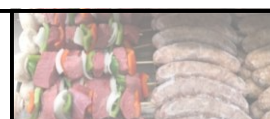
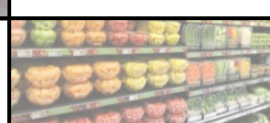
	3-year growth	2017 growth
Holistically natural items	+31.8%	+7.3%
Specialty & wellness items	+13.6%	+2.3%
Conventional	-1.0%	0.0%

Introducing the first annual….

SmartFood Choices 2018

- Survey with 1,500 shoppers in May 2018
- Real-life purchasing and consumption data overlay
- The interpretation, importance and execution of BFY from the consumers' perspective
- Help the food retailing industry optimize SmartFood marketing, merchandising, advertising and branding decisions
- Download the full report!

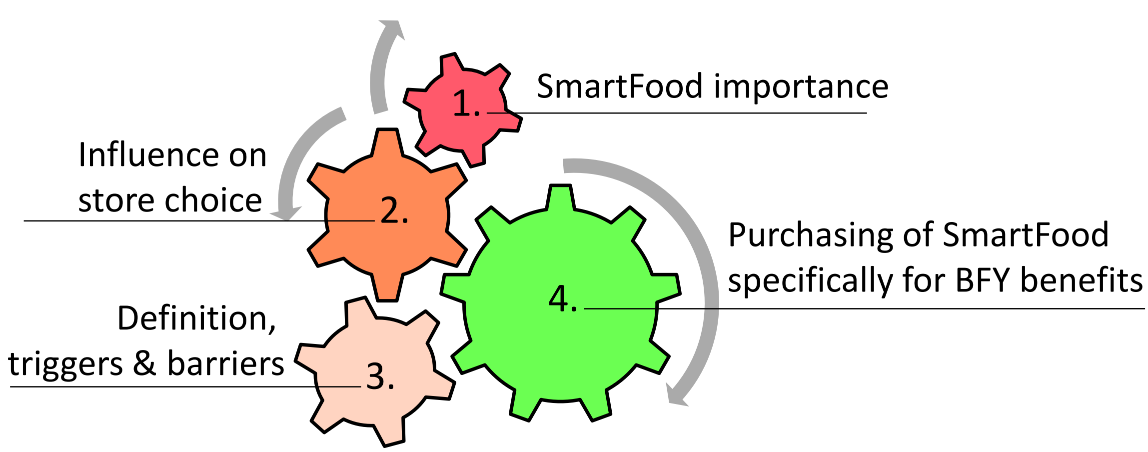
Today's agenda

Shopper segmentation		**Definition, barriers and triggers**	
	**SmartFood and store choices**		**Research and purchasing behavior**
Breakfast, lunch and dinner		**Beverages**	
	**Snacks**		**Opportunities for growth**

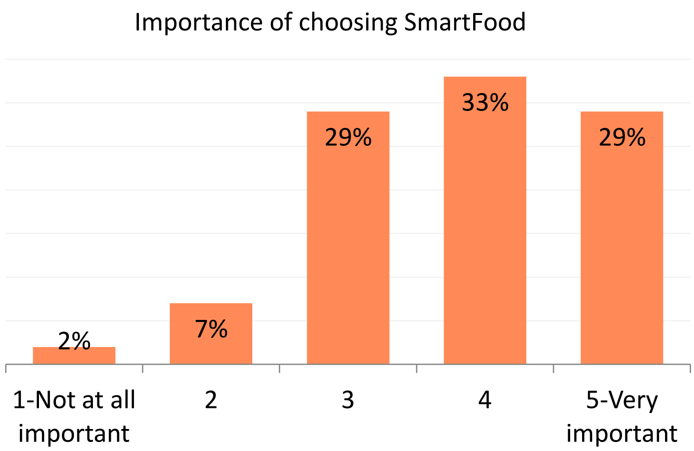
Food attitudes and behaviors are growing increasingly diverse, and SmartFood is no exception. While some shoppers are devoted to a BFY lifestyle, others show little to no involvement. To optimize marketing, merchandising and branding efforts, the study provide insight into key target customers.

SHOPPER SEGMENTATION

Not all shoppers are equally engaged



Choosing SmartFood is important

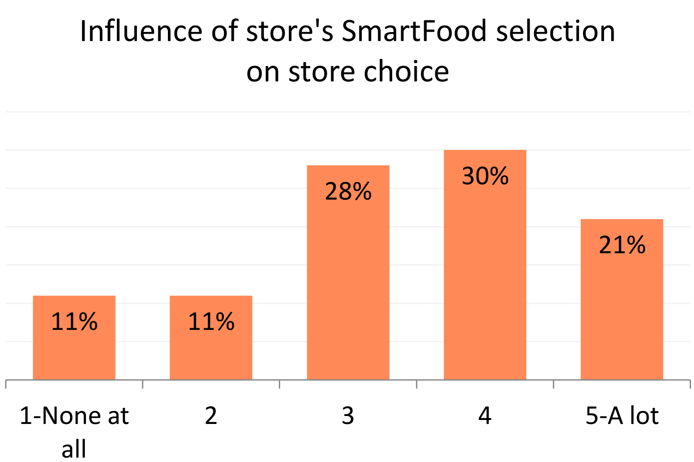


But what does that mean relative to:
- purchasing?
- driving store choice?

SmartFood Choices 2018©

7

Impact on store choice is softer, yet significant



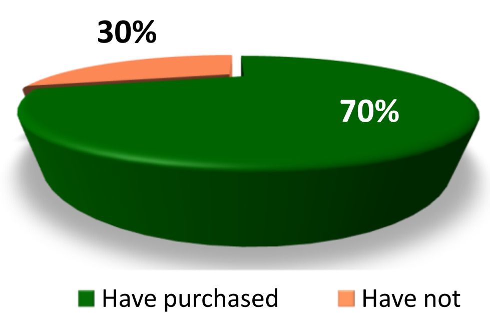
The more important the role of SmartFood, the greater the influence on store choice:

91%
Of shoppers who rate SmartFood very important say it influences their store choice

SmartFood Choices 2018©

8

7 in 10 shoppers have purchased an item specifically for its BFY attributes



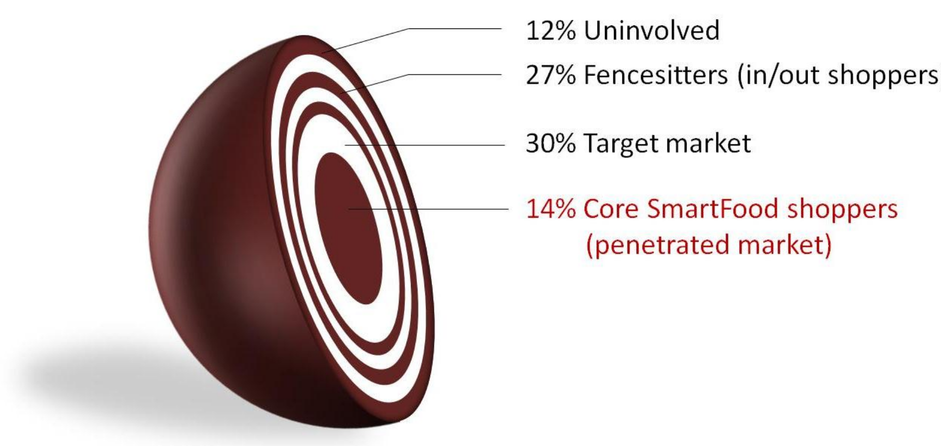
The more important
the role of SmartFood,
the greater the likelihood of having
purposely purchased a BFY item:

88%

Of shoppers who rate
SmartFood very important
have purchased at least 1 item

SmartFood Choices 2018© 9

Various pieces of the puzzle drive 4 distinct segments



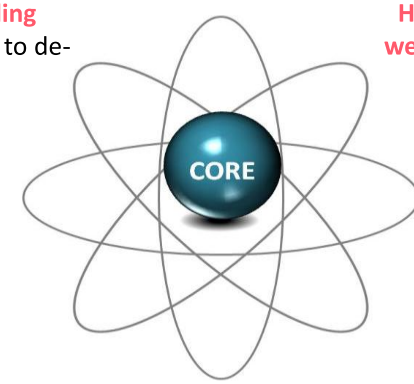
SmartFood Choices 2018© | Note: segments do not add to 100% due to the removal of respondents with inconsistent patterns 10

Core shoppers are devoted

Less devoted: age rises, income drops, more rural/small town, fewer trips, less spending

High-income, high-spending shoppers who are willing to de-emphasize price

Holistic health (emotional wellness & physical health) drives SmartFood sales



Actively research BFY and are **list-making planners**

Older Millennials, particularly in **Urban** areas

Shop for food much **more frequently**

The **coastal areas** have much higher engagement

Kids are an important point-of-entry, particularly pre-teens

Food science and retail measurement have their own definitions of SmartFood, but consumers often have a very personal definition based on age, culture, income, etc. Likewise, barriers and triggers differ among shopper segments, but provide important clues for growing engagement.

DEFINITION, TRIGGERS & BARRIERS

What defines SmartFood, according to shoppers

9 in 10	8 in 10	7 in 10	6 in 10
Healthier preparation	Clean label alternatives	Environmental sustainability	Fair treatment of workers
Higher nutritional value		Fair treatment of animals	Small brands (5 in 10)
		Organic items	

* Clean label was defined as fewer ingredients and no artificial colors, chemicals and preservatives.

Core shoppers are much more inclusive

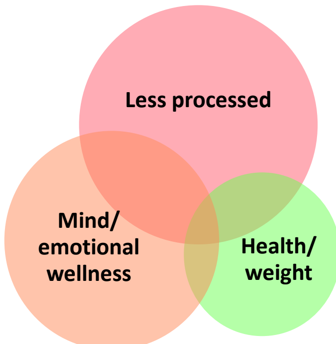
Fence-sitters		Core
88%	Healthier preparation	94%
83%	Higher nutritional value	96%
77%	Clean label alternatives	92%
61%	Environmental sustainability	86%
59%	Fair treatment of animals	87%
57%	Organic items	86%
48%	Fair treatment of workers	76%
56%	Produced by smaller brands	71%

Echoing shoppers' views on SmartFood in-store

Specifically tying to the SmartFood interpretation

Drivers include much more than health

Holistic health



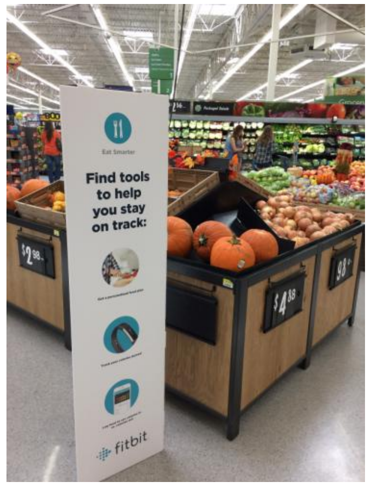
% Major reason

- **63%** Choosing fresher/less processed ingredients
- **49%** Part of overall emotional/physical wellness
- **49%** Feeling good about buying for me/my family
- **47%** Loose/maintain a healthy weight
- **42%** Manage/prevent/treat health condition
- **37%** Better treatment of planet, people, animal

Core shoppers have a much wider range of triggers

Fence-sitters		Core
49%	Choose fresher/less processed ingredients	80%
27%	As part of overall emotional and physical wellness	75%
29%	Feel good about buying BFY for me/my family	72%
29%	Manage, prevent, or treat a specific health condition	61%
42%	Lose weight or maintain a healthy weight	60%
22%	Better treatment of the planet, people and animals	60%

Many retail initiatives in holistic health



SmartFood Choices 2018© 19

Connecting dots… from health insurance companies to Time magazine

SmartFood Choices 2018© | Pictures: 210 Analytics 20

The right claim can drive significant growth

$14.1B **+9.1%** Organic	**$2.2B** **+8.0%** Fair-trade
$919M **+1.5%** Humanely raised	**$138.5M** **+88.2%** Paleo-diet

IRi

SmartFood Choices 2018© | IRI with SPINS attribution, MULO, 52 weeks ending 5/20/2018

21

But barriers are very real, led by cost

% Major reason

- **38%** Cost too much
- **26%** More time/effort
- **20%** Not convenient
- **19%** Too hard to change eating habits
- **19%** Too much conflicting information
- **17%** Doesn't taste good
- **17%** No good choices at my main store

The list of barriers grows as SmartFood involvement declines

- Particularly cost and effort

Cost is also the highest barrier among Core shoppers

SmartFood Choices 2018©

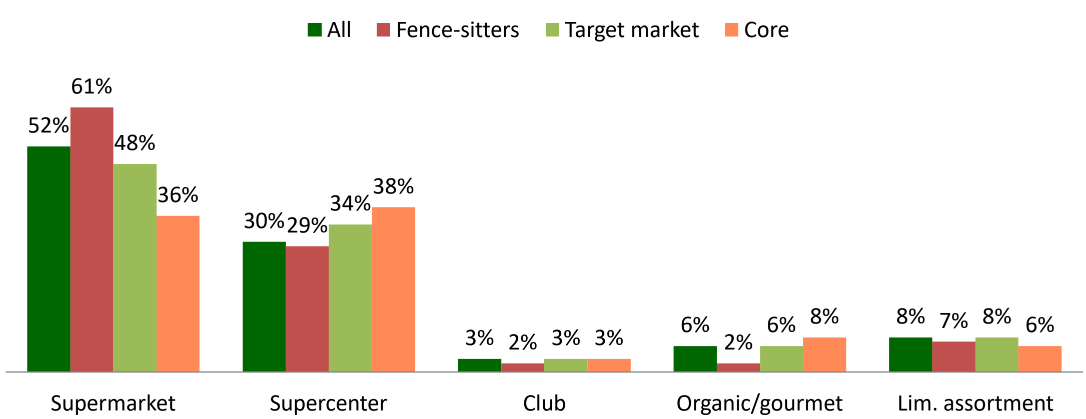
22

Shoppers have many options for buying food, from traditional grocery stores to online — each with distinctively different opportunities in the SmartFood arena.

SMARTFOOD AND STORE CHOICE

Supermarkets are dominant, but lag in SmartFood shoppers

Main store for food purchases



A store's SmartFood assortment matters

51%

Of shoppers say a store's SmartFood assortment influences where they shop "a lot" (21%) or "some" (30%)

10% Fence-sitters
63% Target market
87% Core shoppers

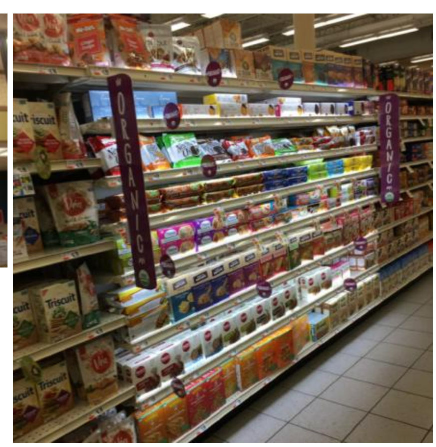
So…

- A basic SmartFood assortment is a competitive must
- An expanded, but highly targeted selection can drive competitive advantages

Make sure shoppers realize your assortment

Point out item counts

Light up organic/specialty sections



But today's food dollar is scattered across channels

Purchased food in the last 30 days at:

79% Super market	69% Super center	40% Club stores	37% Organic stores	31% Dollar stores
30% Farmers' markets	17% Specialty stores	16% Local/corner store	16% Online	16% Convenience stores

Core SmartFood consumers shop much more often

Purchased food in the last 30 days at:

72% Super market	70% Super center	42% Club stores	52% Organic stores	29% Dollar stores
37% Farmers' markets	23% Specialty stores	22% Local/corner store	22% Online	20% Convenience stores

Higher Same Lower

Today's shoppers have a lot of information at their fingertips. Core SmartFood shoppers are active researchers and planners

RESEARCH AND PURCHASING

Trip planning is important among Core shoppers

60%

Of shoppers frequently or always create shopping lists pre-trip (electronically or paper)

By segment:

- 69% Core shoppers
- 60% Target Market
- 57% Fence-sitters
- 40% Uninvolved

→ Making branding and top-of-mind awareness crucially important

Average of 4 sources; Core shoppers research actively

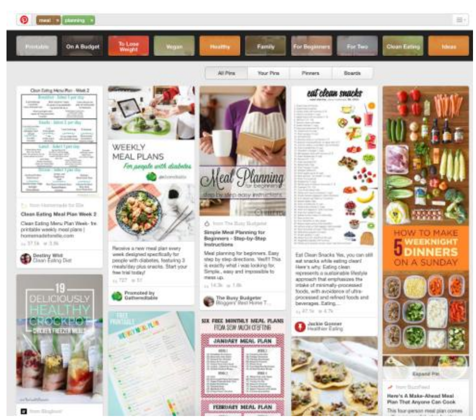
Sources to learn about making BFY choices:

5 in 10	4 in 10	3 in 10	2 in 10
Ingredient list	Friends/family	Package callouts	Online food reviews
Nutrition facts panel		Online recipe/ Nutrition info	Magazines
Own knowledge/ experience		In-store signage	Cooking demos/samples
			Medical advice
			Specific diet
			Social media

Strong connection between actively researching and purchasing

70%

Of shoppers say a store's SmartFood assortment influences where they shop "a lot"



Take an active role in education and meal planning

Snacks, dinner and breakfast are the most common

Meal occasion among the 70% who have bought food specifically for BFY properties

Breakfast	Lunch	Dinner	Dessert	Snack	Beverage
43%	39%	49%	16%	53%	38%

Core shoppers overindex across meal occasions

Fence-sitters focus on the traditional breakfast, lunch, dinner occasions

Word-of-mouth is the most powerful in driving trial

Factors that prompted the purchase of 1 or more SmartFood items:

4 in 10	3 in 10	2 in 10	1 in 10
Friends/family recommendation	On sale Specifically addresses health/ wellness issue Fits my diet	Package callouts were intriguing A brand I like Saw a commercial	Saw an ad for it Saw it in a TV show (not a commercial

Shoppers have many options for buying food, from traditional grocery stores to online — each with distinctively different opportunities in the SmartFood arena.

BREAKFAST, LUNCH AND DINNER

BFY breakfast is a key way for better start of the day

35%

Of shoppers put "a lot" of effort into making BFY breakfast choices

65% of Core shoppers

7 in 10 BFY alternatives in breakfast staples

6 in 10 Less processed items

BFY breakfast strategies are driving strong $ growth

Natural/specialty/wellness items

+34.1% Pancake mixes
+8.1% Toaster pastries
+4.1% Fresh eggs
+1.3% Yogurt
+1.1% Hot cereal
-3.4% Cold cereal

Conventional items

+3.0% Hot cereal
-0.8% Pancake mixes
-4.6% Cold cereal
-5.5% Toaster pastries
-7.9% Yogurt

IRi

 Source: IRI with SPINS attribution, MULO, 52 weeks ending 5/20/2018 37

In breakfast, fresh is high on the shopper radar

Top 3

51% Fresh fruit/vegetables
46% High protein
42% Lower/no/no added sugar

Other top BFY areas

More whole/multi-grains
More fiber
Less salt/sodium
No artificial sweeteners
Fewer calories

Core shoppers

Avoid artificial ingredients
Seek out organic and non-GMO

 38

Lunch and dinner have growth opportunities all around

Shoppers putting “a lot” of effort:

40% Lunch

46% Dinner

Inherent opportunities

- **80%** believe home-made meals are healthier than restaurant meals
- **9 in 10** Try to eat more fresh produce
- **8 in 10** Look for produce with specific nutritional benefits
- **8 in 10** Aim to eat salads for lunch/ dinner more often

Fresh is growing dollars through BFY positioning

+1.0%

Increase in trips containing fresh, with the highest growth for fresh vegetables

+1.6%

$ growth in fresh ahead of vitamin/supplement growth of +1.1%

Foods delivering on specific health benefits drive $ growth

Heart health
+10.3% Avocados
+7.9% Broccoli
+5.6% Asparagus

Immune system
+16.7% Cherries
+14.7% Tangerines
+10.7% Limes

Cancer
+13.7% Brussels sprouts
+14.5% Turmeric
+9.3% Flax seeds

From reducing sugary beverages and drinking more water to specifically targeting certain nutrients, BFY beverages have enormous opportunity to drive sales growth

BEVERAGES

Beverage is a key area of focus

41%

Of shoppers put "a lot" of effort into making BFY beverage choices

57% of Core shoppers

- **89%** Drink water more often
- **80%** Fewer sugary beverages
- **46%** Flavored/sparkling water
- **45%** Make own fruit/veggie smoothies
- **41%** Drink bottled smoothies
- **36%** Drink kombucha/other green teas

In beverages, sugar is high on the shopper radar

Top 3

48% No/less sugar

47% No added sugar

37% No artificial sweeteners

Other top BFY areas

No/fewer calories

No artificial colors/flavors

Vitamins/minerals

Lower/less caffeine

High protein

Core shoppers

Avoid added sugar and artificial sweeteners/colors/flavors

Seek out organic, vitamins/minerals, antioxidants, protein and fiber

Trends that allow for great creativity at retail

Opportunity to prominently describing benefits

Beverage strategies are driving strong $ growth

Natural/specialty/wellness items

+13.6% Water
+8.4% Refrigerated beverages
+4.4% Carbonated soft drinks
+3.5% All beverages
+3.1% Coffee/tea
+2.1% Juices

Conventional items

+2.9% Water
+0.1% Coffee/tea
+0.0% All beverages
-0.4% Carbonated soft drinks
-2.8% Refrigerated beverages
-2.9% Juices

IRi

 Source: IRI with SPINS attribution, MULO, 52 weeks ending 5/20/2018

From reducing sugary beverages and drinking more water to specifically targeting certain nutrients, BFY beverages have enormous opportunity to drive sales growth

SNACKS
MORNING, AFTERNOON & EVENING

BFY efforts are highest in the afternoon

Shoppers putting "a lot" of effort into making BFY snacking

23% Morning

28% Afternoon

24% Evening

Snacking sees a lot of variation

- Greater % who puts "some effort"
- Much less engagement beyond Core
- Core shoppers emphasize BFY snacking in the evening
- Balance between indulgence and BFY | "All foods fit"

Snack strategies provide important clues

Balancing indulgence and BFY snack choices

8 in 10	Switch to a BFY snack alternative
7 in 10	Buy less processed (clean label) snacks
7 in 10	Pay more attention to portion sizes
3 in 10	Stopped buying less healthy snacks altogether

Fruit and veggies play big role in BFY snacking

Snacks shoppers are trying to eat more frequently:

8 in 10	7 in 10	6 in 10	5 in 10
Fresh fruit snacks (whole or cut fruit)	Vegetable snacks	Protein snacks	Alternative chips
	Dried fruit/nuts/ seeds	Salad bowls	
		Limited portion size	
		Cheese/crackers	
		Granola bars	

Encouraging BFY snacking in-store and on-pack

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

Examples at retail

In snacks, protein is king while avoiding sugar

Top 3

54% High-protein

53% No/less sugar

46% Fewer calories

Other top BFY areas

More fiber

Less salt/sodium

Lower/no fat

Organic

Fewer carbs

No artificial color/flavors

No artificial sweeteners

Core shoppers

Avoidance of artificial ingredients

Organic, non-GMO, gluten-free

SmartFood is already driving new dollars and has enormous growth opportunity in years to come as increasingly food demands are moving from need-based to want-driven

GROWTH OPPORTUNITIES

Opportunities for growth

Live <u>your</u> brand story

Shopper education to widen purchase triggers while tackling barriers

Be active in planning and researching

Key attributes and benefits

Millennials/Gen X geared but also innovations to retain **Boomers**' spending power

Retail innovation in brick-and-mortar and online

Optimize on-pack real estate

Target distribution

Holistic health

Shopper segmentation

Adapt strategies based on the key target

Core

- Retailers run the risk of losing out on valuable trips if understocked in SmartFood
- Added risk of trading down on dollars shoppers were willing to spend
- Key target for line-extensions and new, core SmartFood items

Target market

- Shopper education for added incentive to purchase SmartFood
- Sales promotions and private brand offerings to address price sensitivity
- Opportunity across meal occasions

Fence-sitters

- Start with low-barrier substitutions in breakfast, lunch and dinner, such as lower sodium, vitamin-fortification, etc.

Download your report copy today!

https://www.unitedfresh.org/resources/search-publications-library/

Code: SMART2018

For questions or comments:

- Miriam Wolk | mwolk@unitedfresh.org
- Anne-Marie Roerink | aroerink@210analytics.com

Insights partners:

- Jonna Parker | jonna.parker@iriworldwide.com
- Darren Seifer | darren.seifer@npd.com