



THE CALCULATING CONSUMER

**Inflation & fresh produce:
How are retailers and restaurants — and consumers — responding?**

BY CAROL M. BAREUTHER, RD

It's complicated. That's the only way to describe the U.S. consumer's current relationship with food and inflation, be it shopping at retail or dining in restaurants.

"Consumers tell us they are very price-conscious and inflation is on their mind, then in the next survey, they say they buy value-added products like fresh-cut fruit and bagged salads, and they go out to a fine dining restaurant once a week," says Rick Stein, vice president of fresh foods for the Arlington, VA based The Food Industry Association (FMI), quoting findings from the organization's *U.S. Grocery Shopper Trends 2022* reports.

"The latter behaviors are counterintuitive to the inflationary environment we're in. But today, consumers' desire for convenience or pent-up demand for dining out after two years

of dining at home, are leading to different behaviors than we've seen in other economic downturns. This is making it complicated, and more complex, for our members to figure out how to react," says Stein.

"I think the take-home message is that you can't necessarily stereotype what consumers will do in the face of higher food prices, especially in an environment that comes after a pandemic."

ECONOMY & FOOD PRICES IN A NUTSHELL

The current economic state, while still up for debate under the technical definition of a 'recession,' is still very much uncharted territory for the entire world, says Craig Stauffer, chief executive of the Vanguard International Group, headquartered in Issaquah, WA.

"Sporadic lockdowns, followed by excessive stimulus and rock-bottom interest rates, have created financial circumstances that have never been seen before by economists," Stauffer explains. "Governments are pressing the brakes on economies through rate hikes, but elevated savings levels from the pre-mentioned lockdowns are creating metaphorical smoke from governments' screeching tires."

This scenario differs from the 2008 recession, Stauffer adds. That was brought on by one major factor — subprime mortgages. What is happening now is the result of complex factors, starting with a once-in-a-lifetime global pandemic, a supply chain breakdown and now, rising inflation.

The rate of inflation slowed in late summer due to decreasing gas prices. However, food prices rose 11.4% from August 2021 to

August 2022, according to the U.S. Department of Labor, Bureau of Labor Statistics, Consumer Price Index report for August, released Sept. 13, 2022.

“Food is the biggest factor affecting household budget stress today,” says Jayson Lusk, distinguished professor of agricultural economics at Purdue University, in West Lafayette, IN, and head of the university’s Center for Food Demand Analysis and Sustainability, quoting the center’s September *Consumer Food Insights Report*.

“A year ago, people had money because they didn’t spend it during the pandemic, and employment was low. So, they didn’t significantly change their buying habits. We had too many dollars chasing too few goods due to supply chain challenges and food prices increased. It’s the classic definition of inflation. Now, when we look at our survey data, we’re starting to see some signs that consumers are starting to tighten their belts.”

To put a number on this stress level, nearly all (94%) of consumers are concerned about food inflation, according to the *U.S. Market Watch Produce Report* for August 2022, produced by the International Fresh Produce Association (IFPA) with 210 Analytics and IRI.

However, that high level of concern isn’t the real story, according to Jonna Parker, principal, Fresh Center of Excellence for Chicago, IL-headquartered IRI, Inc. “What is, is that while everyone perceives food prices as high, there is not a majority of consumers who are combating it the same way.”

There’s a similar scenario in foodservice. Eighty-eight percent of operators say their total food and beverages costs are higher now



Pent-up demand will keep foodservice demand strong — for now.

than in 2019, according to the Washington, DC-headquartered National Restaurant Association’s (NRA) *Restaurant Business Conditions Survey*, published in August 2022.

“For many, these increased costs are coming on the heels of nearly two years of shutdowns, service limiting regulations, and significantly increased debt incurred during the pandemic,” says Vanessa Sink, director of media relations. “Supply chain challenges have increased over the last year and the wholesale food costs have increased more than 13%, forcing nearly 2 in 3 operators to change or limit menu offerings and contributing to the 8% rise in menu prices in the last 12 months.”

Consumers are still dining out, but doing so differently. Fifty-two percent of Gen Xers say they aren’t eating on restaurant premises as much as they’d like, and this figure is 48% for baby boomers. Off-premises, 39% of Gen Xers say they are not ordering take-out or delivery from restaurants as frequently as they might want. And, according to the Sept. 15, 2022-released report from the NRA, real restaurant sales remained dampened in August.

CHANGING CONSUMER SHOPPING & DINING HABITS

Since consumers and their spending habits are in the driver’s seat, retailers and restaurateurs have astutely adapted and come up with creative ways to maintain and grow fresh produce sales.

HELP WITH HIGH PRICE CONCERNS. “The biggest customer concern now is some of the higher pricing throughout the department,” says John Savidan, senior director of produce and floral for Gelson’s Markets, a 27-store grocery chain based in Encino, CA.

However, he adds, “we’re fortunate to have a loyal, high-end customer base that knows and wants quality. Although there is recessionary activity, it doesn’t seem to hit them as hard. Our customers are still buying lots of fresh produce and we haven’t seen much trading down at all. Even with some higher retails, we are still seeing several categories performing higher from a unit’s standpoint, which is a nice trend to have.”

Produce prices are indeed higher than last year. Specifically, total fresh produce price per pound was up \$1.80 or 10.6% in August 2022,



PHOTO COURTESY MEIJER

Total fresh produce price per pound was up more than 10% in August 2022, compared to a year ago, according to the IFPA’s latest U.S. Market Watch Produce Report. As a result, some shoppers are becoming more deliberate with their produce purchasing.

compared to 52 weeks prior, according to the IFPA's latest U.S. Market Watch Produce Report. Each category echoed this individually, with a 10.8% rise for fruits and a 10.4% increase for vegetables, compared to August 2021.

As a result, some shoppers are becoming more deliberate with their purchasing.

"While our sales have remained steady, there are definite differences in the way customers are shopping these days," says Mark Hendricks Sr., produce director at Pyramid Foods, a Rogersville, MO-headquartered nearly 50-store retailer whose banners include Price Cutter, Save-A-Lot, and Country Mart.

"Trading down seems to be in vogue, and margins seem to be a little harder to come by, as the items shift around and some items are incurring more shrink because of less movement, as other items pick up."

Hendricks adds, "I feel like innovations such as the 'Ugly Fruit and Vegetable' format some grower-shippers have adopted is a good start in allowing product that has gone to processing or waste find a spot in the marketplace. It offers the grower an outlet and the consumer a price break on things they are buying anyway."

Sticking to a budget has always been top of mind for many customers, but budget consciousness dials up in inflationary times, says Megan Callahan, MS, RD, LD, corporate registered dietitian for Hy-Vee Inc., a West Des Moines, IA-based retailer operating 280-plus stores across eight Midwestern states.

"One trend we see is online grocery ordering is here to stay," Callahan says. "Customers can easily review all ads and pricing online, which helps them stick to a budget and be more conscious of their spending."

Hy-Vee, through its registered dietitians, offers several ways to help shoppers eat healthfully and economically, including buying fresh fruits and vegetables. One is the Eating Better on a Budget Store Tour, available virtually on demand, which teaches meal-planning strategies and shopping tips. The Healthy Habits Menu Program helps to make mealtime easier by teaching shoppers about balanced meal and snack options. Freezer Meal Prep Workshops, held in both English and Spanish with menus that change monthly, are virtual classes that take customers through preparing five healthful, budget-friendly freezer meals that can feed a family.

Education by registered dietitians on how shoppers can stretch their food dollar is also strong at Big Y, a Springfield, MA-based retailer with 77 locations.

"These include virtual nutrition presentations on Fighting Inflation at the Checkout



PHOTO COURTESY KROGER CO.

Online grocery ordering is here to stay. During the pandemic, shoppers did it out of necessity; now, they're doing it out of convenience and habit.



PHOTO COURTESY ROBERT FRESH MARKET AND LAKEVIEW GROCERY

Despite recent higher gas prices, 15% of shoppers have switched some of their grocery shopping to a low-cost retailer, or visited several stores to find the best deals.

and How to Eat More Fruits and Vegetables, to written articles centered around topics such as limiting food waste by utilizing the fresh produce you purchase, to savvy tips on how to select more affordable options in the produce department,” explains Andrea Luttrell, RDN, LDN, Big Y registered dietitian with the retailer’s Living Well Eating Smart Program. “For example, including seasonal fruits and vegetables; bulk options; or nutritious selections that tend to be most affordable — such as bananas, apples, watermelon, potatoes, carrots, and cabbage.”

ASSURING AN ASSORTMENT. Customers are sticking to basic commodities, says Terry Esteve, produce director at Robert Fresh Market and Lakeview Grocery, a six-store chain based in New Orleans, LA.

“Most value-added, pre-packed name brands have slowed way up in sales, with customers trading down to stretch their funds. For example, for us, bagged salad sales have dropped to less than half of what they were. Fresh Express has had five cost increases, with the retail going from \$3.99 to \$4.99, in a year.

Iceberg lettuce and three-pack romaine heart sales have increased almost five-fold in sales. Add \$4.99 for romaine hearts and \$1.99 for iceberg lettuce and for \$7 you have the equivalent of three to four bags of salads,” Esteve points out.

“Similarly, bulk apple sales have slowed by probably 25%, and bagged apple sales have increased close to 30%. Same scenario. The choice of \$2.49 per pound for a Honeycrisp apple or \$5.99 for a 3-pound bag of apples. However, we do see customers splurge on higher-priced value-added items like in-store cut and chunked melons.”

Hendricks at Pyramid Foods also continues to see a good market for traditionally higher-priced produce. “Customers are still cooking and using added ingredients to make their meals less monotonous. Organic is still synonymous with healthy eating, so we are still experiencing brisk sales in that category also. Packaged items still do well because of the ‘untouchable’ preference from the pandemic.”

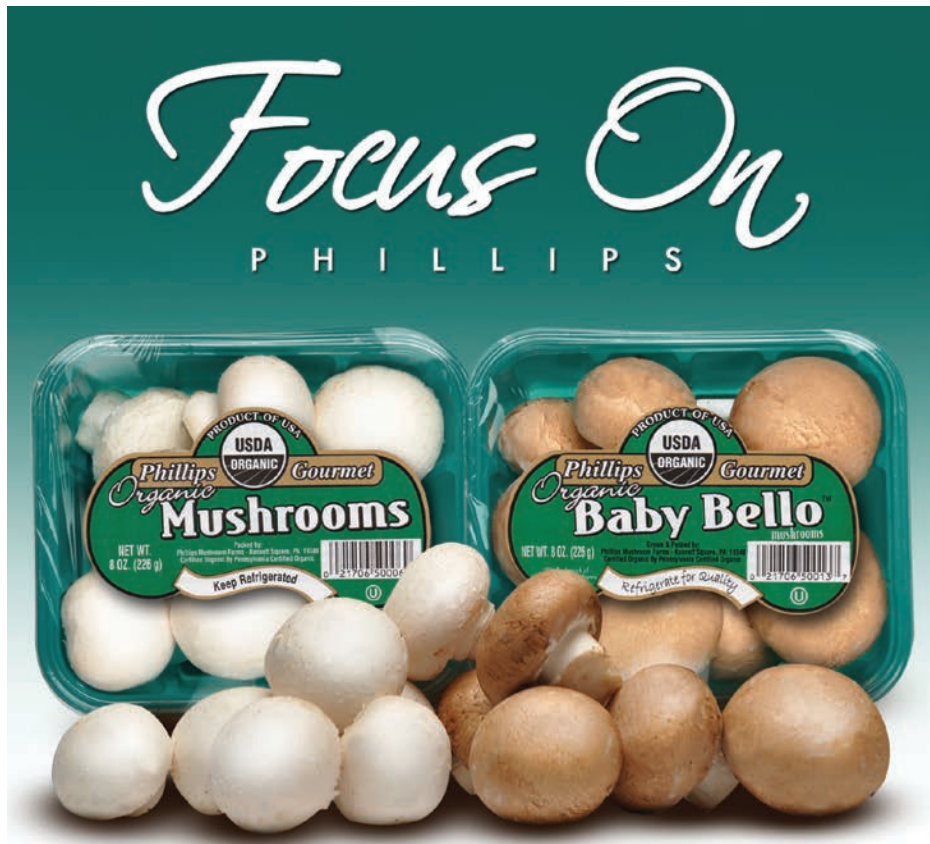
Scaling back package size to help keep retails around the same price is a trend in produce, too, Hendricks says. “Hardware items like jars, packages and bags are being offered in smaller sizes to offset sticker shock and it seems to be OK with most customers. They are seeing it everywhere (in the store).”

The reason for this dichotomy in shopping behavior is consumers’ different definitions of what is essential, according to IRI’s Parker. “Since the last recession in 2008, Americans’ taste palates have changed astronomically. In COVID, they brought new appliances and tried recipes that brought new skills and ingredients into their homes. Now, everyone is going back out to work and school and convenience items, like cut-fruit platters, have value.”

Parker adds millennial shoppers purchase differently than baby boomers. “Boomers will buy the 10-pound bag of potatoes to keep in the pantry. For millennials, if they see a persimmon or dragon fruit used in a recipe on the Food Network, they’re going to buy it. For someone under the age of 40, food can be an escape, an excitement, a badge of honor and fresh produce is a big part of that.”

The assortment is back to a pre-pandemic selection at Tops Friendly Markets, says Jeff Cady, director of produce and floral for the 157-store retailer headquartered in Williamsville, NY.

“Comfort foods like potatoes are selling well. Retails are up, but volumes are too,” says Cady. “We also have an audience for pricier items like dragon fruit. I think the shopper that we turned onto dragon fruit pre-pandemic is still willing to spend that money.



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So, there isn't a decline; it's more that we may not see growth in that item at this time. The biggest growth now is in smaller, convenient package sizes."

Gelson's Savidan agrees and adds, "Our mix has been very similar across all categories, which includes the basic items as well as specialty. We are seeing a lot of growth in areas like prepackaged, grab and go, and organic categories."

GETTING REAL ON DEALS. Forty-nine percent of shoppers are looking for deals to save money in these inflationary times, while 41% are buying more store brands, according to FMI's 2022 *U.S. Grocery Shopper Trends* report.

"Our teams are working closely to offer as much value as we can without compromising quality through all areas of our stores. We have been very consistent in offering our customers a good number of promotional activities," says Gelson's Savidan. "Another great example would be our rewards program, which is very popular and gives great value to those who shop more frequently with us."

Strong relationships with grower and supply partners and maximizing buying opportunities is a focus for Keasbey, NJ-headquartered Wakefern Food Corp., the nation's largest retailer-owned cooperative with member companies operating under ShopRite, Price Rite Marketplace, Gourmet Garage, and Fairway Market banners, says Marianne Santo, category manager for produce. "We are known as a low-price leader. Our weekly sales and promotions throughout the store are designed to help customers save money."

Esteve at Robert Market relies on local farmers and a couple of local suppliers to provide deals. A good example happened in mid-September.

"A local wholesaler called me and said if I could take two pallets of extra-large 36-ct. avocados, he'd sell them to me for \$15.50. I advertised the price as 2/\$1. Sure, they cost me 43 cents each, but it's a good pricing strategy because hopefully customers will buy the lettuces, salad kits, or onions and peppers for fajitas and all the other fixings."

The grocer uses social media to blast these types of savings, which it calls "Inflation Busters." "We get a price today for a product coming in tomorrow and we can't advertise these in a circular because we work two weeks out on those ads," Esteve explains. "Also, we build big displays with big signage to draw shoppers' attention. It's kind of a 'look over here, not over there' strategy. In other words, they'll remember 2 for \$1 on the avocados and not the fact that we have to charge \$4.99 for romaine hearts."

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PHOTO COURTESY HY-VEE INC.

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PHOTO COURTESY GIANT FOOD

Nearly all consumers (94%) are concerned about food inflation, according to the U.S. Market Watch Produce Report for August 2022, produced by the International Fresh Produce Association (IFPA).

shoppers have switched some of their grocery shopping to a low-cost retailer, or visited several stores to find the best deals, according to the August 2022 *U.S. Market Watch Produce Report*.

“Recessions tend to make customers want the biggest bang for their buck, so they might travel slightly farther and cherry-pick retailers,” says Pyramid Foods’ Hendricks. “Our company offers two distinct formats, a conventional grocery store with all the bells and whistles and a cost-plus format, where items start at a lower margin throughout the

store, and then a 10% surcharge is added to the ticket total. These stores usually stock larger club-type items that utilize different grades of produce and special bundling pricing to make buying in larger quantities easier to help customers get larger savings.”

MORE PRODUCE ON THE MENU.

Consumers are dining out again compared to not at all during the pandemic. As a result, 47% of foodservice operators surveyed said they had higher traffic than pre-COVID, 14% said the same, and 39% lower, according to the One Table 2022 report, *The State of the Oper-*

ator and the Road Ahead, by Chicago, IL-headquartered Datassential.

Still, like retail, it’s more expensive. In fact, according to the NRA, if a restaurant that ran on a pre-pandemic margin of 5% of sales returned to its 2019 sales levels, with today’s higher input costs, it would be running up a 12.3% loss. Said another way, based on IRI data, the gap between a home-cooked versus a restaurant-made meal is \$6 per person.

“I think, in the phase we are now, that high-end dining is affected the least. That’s because the consumer who has money feels they’ve missed out for the last two years and want to dine out again,” says Larry Reinstein, chief executive officer and founder of LJR Hospitality Ventures, in Dallas, TX.

“Even so, you’ll see changes,” he adds. “For example, someone might dine out two times rather than three a week, or cut out the appetizer or dessert. I think what is affected the most is casual dining because so much of this caters to the value-oriented customer.”

The good news is that most operators plan to maintain fresh produce on the menu. Plus, operators intending to grow key areas of their menu such as salads, vegetables, and fruit dishes are up 15%, compared with 58% that will keep offerings the same. In terms of rebalancing products, 82% plan to leave or extend fresh fruit on the menu, and 87% plan to do the same with fresh vegetables, according to Datassential’s One Table 2022 report.

“Many foodservice operators don’t have, or can’t afford, staff who are procurement specialists. Produce companies have an opportunity to communicate more frequently with operators and educate them on cost-saving techniques, especially for those who can be flexible with their menus,” says Reinstein.

“These tips include buying what’s in season, what fruit or vegetable specs are best for a specific menu application, or the cost-benefit of whole versus fresh cut when it comes to labor and waste.”

Pent-up demand will keep foodservice demand strong — for now, according to Datassential’s 2023 Industry Forecast. However, this traffic is forecast to slow in 2023, as purchasing and the overall economy slow. This is especially true among restaurants, with retail foodservice faring better.

“Our industry gets high marks for having more affordable foodservice and also healthier foodservice,” says FMI’s Stein. “What it’s not is on everybody’s radar. People don’t think about the supermarket’s deli-prepared foods when they think about going out for lunch or dinner or even breakfast. So, I think this is something our members are going to double down on in the future. They’ll increase

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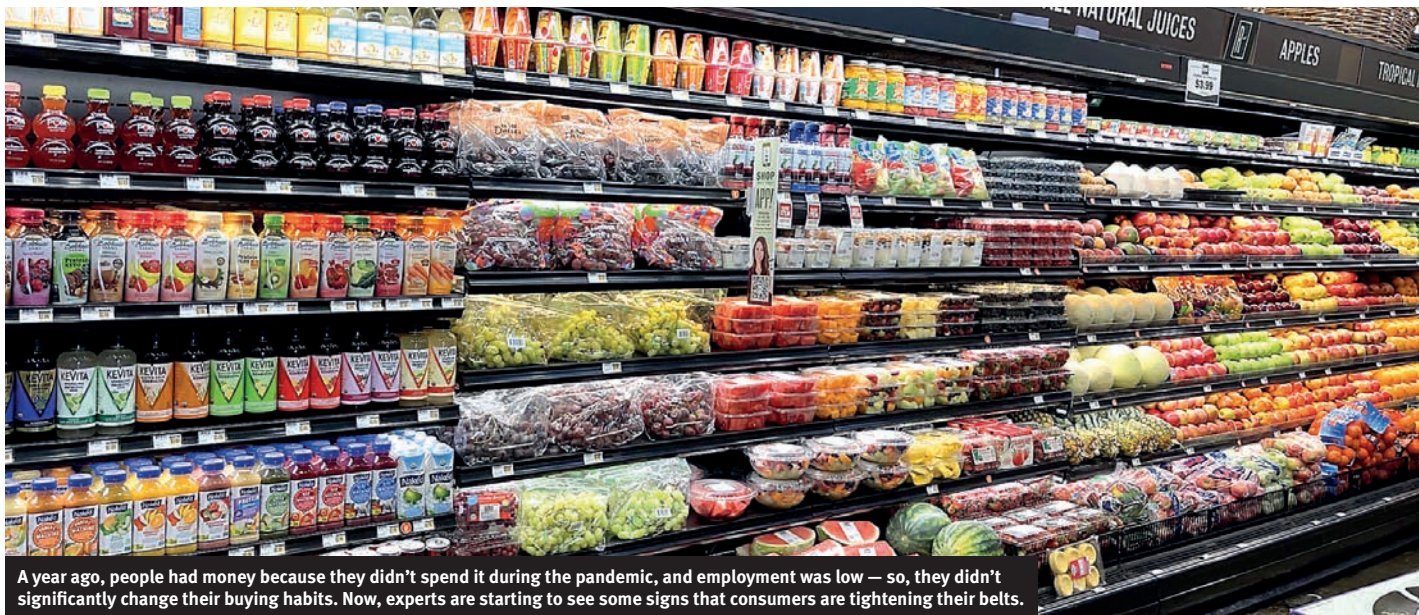
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A year ago, people had money because they didn't spend it during the pandemic, and employment was low — so, they didn't significantly change their buying habits. Now, experts are starting to see some signs that consumers are tightening their belts.

PHOTO COURTESY ROBERT FRESH MARKET AND LAKEVIEW GROCERY

communications with consumers and hire corporate chefs, for example. Because of the vital role fresh produce plays today, not just in side dishes, but across the menu and international cuisines, I think we could see more fresh produce being sold this way in the future at retail.”

PLAN NOW FOR RECOVERY

When will the U.S. economy, and hence produce sales at retail and restaurants, return to “normal?”

“That is the million-dollar question,” says Vanguard International’s Stauffer. “Optimists will say sooner. Looking at the supply chain issues, reports show that returning to ‘normal’ happens in the second quarter of 2024. We are already seeing some positivity around supply chain normalization in North America. Ports are becoming less congested. Ocean freight rates are flattening and declining in some cases. Trucking is still an issue and the availability of labor within the supply chain will continue to be challenging.

“However, we also are seeing a surge in technological advances in the produce industry,” Stauffer adds. “From robotics to agriculture technology, these advances will better protect the industry from labor shortages in the years and decades ahead.”

Finally, plan for recovery, says FMI’s Stein. “Ira Kalish, chief global economist for Deloitte spoke at our Fresh Forward event in August. He underscored that, like every recession in the past, there will be a recovery. Eventually, we’ll see a flattening of inflation. It won’t mean going back to the old prices. It just means prices stop increasing. By the time this happens, there will be certain patterns that consumers have formed and will continue. So, going forward, it’s all about moving the needle on the way retailers connect with their consumers.”

He expects digital websites will continue to get more robust, and consumers will continue to emphasize convenience.

“It’s important to start thinking about and planning for that recovery now.” **pb**



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