2017 Top Trends in Fresh Foods

Customization to the New Consumerism
Thank you to IRI and Burris Logistics for making this webinar possible
FMI is the trade association that serves as the **voice of food retail.** We assist food retailers in their role of **feeding families and enriching lives.**
The Association:

Our members are food retailers, wholesales and suppliers of all types and sizes

FMI provides comprehensive programs, resources and advocacy for the food, pharmacy and grocery retail industry.
Fresh @ FMI

FMI is committed to the growth and success of fresh companies and their partners. FMI provides resources and networks that support the interests of member companies throughout the global, fresh produce supply chain, including family-owned, private and publicly traded businesses as well as regional, national and international companies.

Emphasis on fresh

• Produce
• Meat
• Seafood
• Deli/In-store, fresh prepared foods and assortments

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Healthy Markets

Mike Papaleo  
C & S Wholesalers

Blaine Brinthurst*  
Price Chopper Supermarkets

Nicole Wegman*  
Wegmans Food Markets, Inc.

The FEC seeks to
• identify areas of collaboration across all fresh foods departments
• promote understanding and cooperation throughout the industry and with sister fresh associations
• maximize common learning’s between fresh categories and to create a vision of leadership for the entire fresh category

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**FMI Fresh Foods**

**Research and Education**
In-depth information, trends and insights to foster innovation, take advantage of new opportunities and help develop winning strategies

**Networking**
Share ideas, explore best practices and develop business relations

**Advocacy**
Understand what is going on in Washington and make your voice heard
Our study focused on finding the keys to high performance

Objective

Define major trends driving Fresh sales outperformance and directly impacting long-term success of retailers and suppliers over next 3-5 years

Inputs

- industry interviews
- primary data analysis
- secondary research
Fresh Perimeter has grown over twice as fast as Total F&B, but growth is slowing down during last 18 months

5 Year Compound Annual Growth Rate

Source: IRI FreshLook POS data, MULO, 52 weeks ending 05/14/17
Fresh Department Sales Performance (latest 52 weeks)

- $6.5B (+0.3% VS. YAGO)
- $6.4B (+2.6% VS. YAGO)
- $2.8B (+3.1% VS. YAGO)
- $63.4B (+3.3% VS. YAGO)
- $11.5B (+4.1% VS. YAGO)
- $4.8B (+2.5% VS. YAGO)
- $48.7B (-1.2% VS. YAGO)

Source: IRI FreshLook POS data, MULO, 52 weeks ending 05/14/17
# 2017 Fresh Trends Education Webinar Series

<table>
<thead>
<tr>
<th>Date</th>
<th>Topic</th>
<th>Presenter(s)</th>
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<tbody>
<tr>
<td>Feb 23</td>
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<tr>
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</tr>
<tr>
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**Introduction:**

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- **June 1:** Hyper Localization Webinar by Chris DuBois
- **July 13:** Customization to New Consumerism Webinar by Steve Ramsey

**Additional Resources:**

- Integrated White Paper
- Summary Presentation

**Presenters:**

- Sally Lyons Wyatt
- Chris DuBois
- Sally Lyons Wyatt
- Chris DuBois
- Steve Ramsey
Customization to New Consumerism
Today’s Discussion

Fresh Trends – Customization to New Consumerism

• Convenience and Solutions
• e-Commerce
• Store Format Innovation

Implications and Outlook
Then

Now
Several factors are driving this change

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<tr>
<th></th>
<th>Evolving Consumer and Shopper Behaviors</th>
<th>Technology as an Enabler</th>
<th>Changing Retail Business Fundamentals and Brick &amp; Mortar Response</th>
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We can distill the new landscape by examining these trends.
Convenience and Solutions

Value Added Products • Meal Kits • Fresh Prepared
Cooking Styles Changing

82% of meals are sourced in home

In-home meals often hybrid of meal prep states including VA & foodservice

New offers and technology have blurred lines where we source food

Increasing focus on recipes vs. ingredients

Source: IRI Convenient Cooking Omnibus
Value Added Defined:
Items in the fresh perimeter that have at least one step removed from preparation such as cut fruit or marinated pork.
Question 1: Value Added Products

Which of these value added products do you purchase regularly (2 or more times a month)? Please select all that apply.

a) VA Meat  
b) VA Produce  
c) VA Seafood
Value Added (VA) products continue to drive perimeter department growth

<table>
<thead>
<tr>
<th>Category</th>
<th>Latest 52 Dollar Sales Increase</th>
<th>Of Total Dollar Sales</th>
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<tbody>
<tr>
<td>VA PRODUCE</td>
<td>4.4%</td>
<td>13.5%</td>
</tr>
<tr>
<td>VA MEAT</td>
<td>4.0%</td>
<td>6.9%</td>
</tr>
<tr>
<td>VA SEAFOOD</td>
<td>4.8%</td>
<td>20.9%</td>
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Source: IRI FreshLook POS data, MULO, 52 weeks ending 5/14/17
Retailers are finding innovative ways to provide fresh, healthy and convenient value added seafood

Fresh Seafood Cook-in-Bag Dinner

1. Choose seafood
2. Choose seasoning
3. Put sealed bag in oven for complete meal ready in 15-20 minutes
Value Added
Fresh perimeter products are high growth and have additional headroom
Meal Kits address many previously underserved consumer needs

**HEALTH & WELLNESS**
Consumers want all natural, fresh produce and meat

**CONVENIENCE**
Consumers seeking easy ways to shop, cook and clean up

**GOURMET MEALS**
Consumers want more adventurous meals including ethnic foods and specialty cuisines

**INVolvEMENT IN FOOD PRODUCTION**
Food should be locally sourced, farm-fresh and naturally raised

**FOODSERVICE BECOMING EXPENSIVE**
Foodservice prices are increasing and consumers are unwilling to pay for expensive take-out
Question 2: Meal Kits

Which describes your use of meal kits?

A) I use them regularly. Love the concept
B) Tried them for a while, but have stopped purchasing
C) I have not tried meal kits.
Meal Kits market size to grow to $3B – $5B by 2022

MEAL KITS MARKET PROJECTED SIZE
Projected in $M

<table>
<thead>
<tr>
<th>Year</th>
<th>Conservative</th>
<th>Stretch</th>
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<tbody>
<tr>
<td>2015 (Est)</td>
<td>$725</td>
<td>$1,500</td>
</tr>
<tr>
<td>2017 (Est)</td>
<td>$1,200</td>
<td>$2,800</td>
</tr>
<tr>
<td>2020 (Proj.)</td>
<td>$2,000</td>
<td>$3,350</td>
</tr>
<tr>
<td>2022 (Proj.)</td>
<td>$5,350</td>
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Source: IRI Consulting Analysis, Package Facts, Blue Apron SEC Filing
Meal Kit subscription delivery services are expanding quickly

Blue Apron grew from $78 million (’14) to $795 million (‘16)

Losses in same time period nearly doubled from $31M to $55M

...is it sustainable?
Meal Kit providers having difficult time retaining subscribers

Easy to try, but…

- Lack of time to cook
- Too complicated
- Late delivery
- Change in plans

BOTTOM LINE:
It requires a behavior change, which provides an opportunity for grocers

Source: Second Measure

* Median customer retention for all cohorts from March 2015 - March 2017. A customer is retained for the period if they transacted in that period or the period prior.
Meal Kits offer an attractive growth pocket, drawing both manufacturers and retailers to experiment
Fresh Prepared
Leaders leverage Fresh Prepared to:

Compete with restaurants and specialty channels for meal occasions

Capture growth related to new consumers’ demand for convenience

Create stronger emotional linkages with customers

Create dominant franchises and separation from competitors

Photo Courtesy: Ravings by Rae
A good Fresh Prepared department can bring in new, loyal shoppers

31% Of Fresh Prepared buyers have a different primary chain for Fresh Prepared than Total Grocery

76% Shoppers spend 76% of their Fresh Prepared dollars at their primary Fresh Prepared chain
Fresh Prepared continues to be a key driver perimeter performance.

Fresh Prepared Annual Sales Trends

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue $B</th>
<th>$/lb</th>
<th>Growth %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>$8.5</td>
<td>$4.88</td>
<td>6.7%</td>
</tr>
<tr>
<td>2013</td>
<td>$9.1</td>
<td>$4.95</td>
<td>7.4%</td>
</tr>
<tr>
<td>2014</td>
<td>$9.9</td>
<td>$5.05</td>
<td>8.0%</td>
</tr>
<tr>
<td>2015</td>
<td>$10.8</td>
<td>$5.13</td>
<td>9.8%</td>
</tr>
<tr>
<td>2016</td>
<td>$11.4</td>
<td>$5.20</td>
<td>5.6%</td>
</tr>
</tbody>
</table>

Source: IRI FreshLook POS data, MULO, 52 weeks ending 12/25/16

7.5% 4-Year CAGR
Fresh Prepared has several strong pockets of category growth

Total Fresh Prepared
$11.5B

% Dollar Change
4.1%

Entrees
$4.2B
+3.1%

Salads
$2.0B
+3.7%

Appetizers
$1.7B
+8.0%

Sides
$420M
+6.0%

Dips & Sauces
$266M
+11.1%

Source: IRI FreshLook POS data, MULO, 52 weeks ending 5/14/17
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Within categories, there are many examples of rapid growth

- Salsa: +21%
- Chef Salad: +35%
- Holiday Meals: +44%
- Meatballs: +25%
- Quiches: +49%
- Lasagna: +40%
- Tacos: +78%

Source: IRI FreshLook POS data, MULO, 52 weeks ending 5/14/17
Leading practices typically include a portfolio of concepts that can be tailored to individual stores’ needs.
Fresh Prepared trips create additional sales in the store

$47
Other Items Avg.

$7
Average Prepared Foods

% of Baskets and $ Value

28% $40-$100

12% $100+

23% $20-$40

21% $0-$10

16% $10-$20

When Fresh Prepared foods are in the basket, what’s the value of the other items purchased?
Key Points: Convenience & Solutions

• Convenience and ease of preparation continue to grow in importance for shoppers

• Shoppers extending search for innovative, healthy food options across Fresh departments

• Meal Kits are in their infancy, expect concept to grow rapidly and evolve through increased manufacturer and retailer participation

• Fresh Prepared outperforms other Fresh departments and leads to shopper loyalty and differentiation
e-Commerce and Personalization
e-Commerce In the News

Amazon unveils fleet of 40

The company has launched several initiatives to offer one-hour delivery and convenience prizes and free groceries.

AUSTIN, Texas (Sept. 26, 2019) - Whole Foods Market has launched a new delivery service that will bring groceries to your doorstep in one hour.

Whole Foods Market to offer one-hour delivery and convenience prizes and free groceries.

It's unclear what Unilever's purchase of Seventh Generation means for a potential acquisition by the company.
Question 3: e-Commerce

What percent of Fresh Perimeter consumers do not purchase Fresh on-line today?

A) 66%
B) 86%
C) 96%
We are at the center of a consumer buying revolution

This year, digital will influence 77% of all retail sales.

76% of all shopping trips begin online.

71% of all product searches begin on retail sites (55% on Amazon).

50% of CPG category market growth will be online by 2018.
50% Half of CPG category market growth will be driven online by 2018

Projected CPG Growth
U.S. CPG SALES ($ BILLION)

Source: IRI Growth Consulting Analysis; Note: Numbers may not add to 100 percent due to rounding.
Online buying for Fresh is in its infancy -- Protein, Produce and Dairy are at the leading edge of its emergence

<table>
<thead>
<tr>
<th>Category</th>
<th>Online</th>
<th>In-Store</th>
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<tbody>
<tr>
<td>Fresh Meat/Poultry/Fish</td>
<td>65%</td>
<td></td>
</tr>
<tr>
<td>Fresh Produce (Fruits, vegetables)</td>
<td>60%</td>
<td></td>
</tr>
<tr>
<td>Dairy Products (Packaged Cheese, Yogurt, Milk, Eggs, Butter)</td>
<td>59%</td>
<td></td>
</tr>
<tr>
<td>Fresh Bread/Bakery (either in main bread aisle or from in-store bakery)</td>
<td>27%</td>
<td></td>
</tr>
<tr>
<td>Fresh Deli Meats / Deli Cheeses / Deli-Prepared Salads</td>
<td>20%</td>
<td></td>
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% PURCHASING ONLINE VS. B&M

- Bought Fresh Online P6M
- Bought Fresh But Not Online In P6M

SOURCE: IRI Perimeter eCommerce Survey, April, 2017
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For those who don’t buy Fresh online, freshness/quality concerns and a lack of awareness/experience get in the way.

96% OF FRESH CONSUMERS DO NOT PURCHASE FRESH PRODUCTS ONLINE

49% Can’t be sure how fresh it is

48% It’s not something I think about buying online

46% I can’t check the quality

45% I’ve never ordered this online before

38% I can’t touch the product

SOURCE: IRI Perimeter eCommerce Survey, April, 2017
Amazon’s acquisition of Whole Foods could radically change game

Perishables long thought to be the hardest part of online Grocery

Purchase of Whole Foods solves for:

- **FRESH PERIMETER**
  - Click and Collect

- **SCALABILITY**
  - Whole foods has 431 locations nationally

- **DEMOGRAPHICS**
  - Whole Foods customers likely to purchase online and less price sensitive
Amazon challenges today’s business fundamentals

Sales per Square Foot¹

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales per Square Foot</th>
</tr>
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<tbody>
<tr>
<td>2014</td>
<td>3,643</td>
</tr>
<tr>
<td>2015</td>
<td>3,541</td>
</tr>
</tbody>
</table>

Return on Invested Capital²

- Retailer Average: 40%
- eTailer: 13%
- Brick & Mortar: 6.2%

Labor Costs³

- eTailer: 9.1%
- Brick & Mortar: 6.2%

Source: ¹ IRI, ² PWC, ³ Mazzone & Associates, calculated as a percent of sales
Retailers taking steps to reduce costs and add services to stay competitive

<table>
<thead>
<tr>
<th>MERGERS TO ACHIEVE SCALE</th>
<th>REDUCING LABOR COSTS</th>
<th>CLICK &amp; COLLECT PROGRAMS</th>
</tr>
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<tbody>
<tr>
<td>Albertsons</td>
<td></td>
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<tr>
<td>SAFEWAY</td>
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<tr>
<td>Ahold</td>
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<tr>
<td>DELHAIZE</td>
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1/3 of Shoppers Used Click & Collect in 2016
Brick & Mortar retailers investing heavily to compete with Amazon

<table>
<thead>
<tr>
<th>INVESTING HEAVILY IN ECOMMERCE CAPABILITIES</th>
<th>ACQUIRING/PARTNERING TO BUILD ECOMMERCE CAPABILITIES</th>
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<tr>
<td><strong>Walmart</strong></td>
<td>Amazon purchase of Whole Foods opens upon the potential for speed and scalability for Amazon to capture more of Fresh and Shelf Stable grocery</td>
</tr>
<tr>
<td><a href="https://www.jet.com">Jet.com</a></td>
<td><strong>Whole Foods Market</strong></td>
</tr>
<tr>
<td>Walmart plans to spend $3.3 billion on e-commerce start-up Jet.com; acquire their Software, leadership &amp; traffic</td>
<td><strong>Delhaize</strong></td>
</tr>
<tr>
<td><a href="https://www.mywebgrocer.com">MyWebGrocer</a></td>
<td>Delhaize recently merged with Peapod owner Ahold, providing delivery service access to low cost distribution centers</td>
</tr>
<tr>
<td>Albertsons partners with MyWebGrocer to offer click-and-collect and delivery options for online groceries</td>
<td><strong>Whole Foods Market</strong></td>
</tr>
<tr>
<td><a href="https://www.kroger.com">Kroger ClickList</a></td>
<td>Whole Foods and Instacart signed a 5 year delivery partnership, and Whole Foods invested an additional $36 million in September 2016</td>
</tr>
<tr>
<td>Kroger ClickList online order and customer pickup service reaches availability in 500th store</td>
<td>Instacart</td>
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Source: Secondary Research, IRI Consulting Analysis.

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Retailers’ early efforts with personalization are helping them develop relationships with individual consumers

Testing Interactive Shelf Technology

- Senses shopping habits and accesses lists through shoppers’ mobile phones
- Flashes products on display screens at front edge of shelves
- Provides targeted discounts and pricing

Source: Wall Street Journal
Key Points: e-Commerce and Personalization

• e-Commerce continues dramatic expansion and dominate CPG growth

• e-Commerce requires its own focus, wholly different from B&M plans

• Fresh perimeter e-Commerce is small, but expected to become more important fueled by rapid expansion of ‘click and collect’

• Personalization here to stay, creating more efficient and effective marketing opportunities in-store and online
Industry median store size has been shrinking for over a decade as a result of small format store expansion.

Format innovation is alive and well to address consumer needs

Fresh Focused Formats

- New format experiments
- Limited Assortment
- Fresh and prepared foods focus
- Increased shopper engagement
Adding organic and antibiotic free products to low price heritage

- 1600 stores to 2000 by 2018
- 2500 total by 2020
- 10,000 sq. ft. average

Not the “old” Aldi

- 1500 items/100 fresh
- Increasing healthy/organic
- Adding upscale items
Globally, Aldi Project Fresh expands fresh foods and upgrades ambiance

- Expansion of fresh foods by 40%
- Relocating produce to front of stores
- Testing in-store bakeries

- Aesthetic makeover with better lighting
- Addition of food-to-go and organics
- Upgrades across Europe and Australia
Lidl launching into US with 100 stores next 12 months

Limited assortment focused on higher quality with lower prices using Private Label products

• 20 stores by end of July
• 100 total within year
• 20,000 sq. ft. average

• Limited selection – 2,000 items vs 60,000 supercenter
• Mainly Private Label (90%)
• Fresh assortment
• Low labor costs
Specialty and Ethnic formats addressing multi-cultural needs

- Hispanic-focused format
- Focus on Fresh and fresh prepared foods

- Unique Assortments
- Targeted at the upmarket and affluent
Technology is being used to drive Amazon Go differentiation.

Source: https://www.amazon.com/b?node=16008589011
Coop Italia combining physical and digital for engaging and immersive shopping experience

- 6,000 items on interactive, smart tables
- Information displayed on digital displays above displays

- Hand movement near product displays:
  - Origin
  - Nutritional facts
  - Promotions
  - Correlated products
Super U in France delivers transparency, freshness and storytelling

- Consumers find Snapcode labels at fish counter
- Journey collected with SnapChat glasses
Key Points: Store Format Innovation

• Expect continued and accelerated small format innovation to address varied needs
  – low price, fresh/healthy, ethnic, etc.

• Center store likely to contract further allowing more space for perimeter convenience options

• Technology to play a larger role in shaping in-store experience and engaging tech savvy shoppers
Implications and Outlook
Outlook 3-5 Years

• Solutions focused on convenience and ease of preparation will continue to fuel category growth and Fresh outperformance

• e-Commerce becomes dominant source of growth and redefines customer experience through greater personalization – both online and in-store

• Small, fresh oriented formats will gain share of fresh perimeter from traditional grocery
2017 Individual Trend Launches + Education

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Thank you to IRI and Burris Logistics for making this webinar possible
Thank you!

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