POINT OF VIEW

SNAP Reductions

Another Wave of Financial Pressure for Many

March 12, 2014

SNAP Reductions: Another Wave of Financial Pressure for Many

IRI's recent Point of View report, A Percussion of Conservativism as the New Year Bells Chime, painted the image of a challenging year for consumers and, in turn, CPG marketers. For U.S. households that rely on the government's Supplemental Nutrition Assistance Program (SNAP), the word "challenging" may be an understatement.

Cost of Living Rising Like the Tides

All U.S. consumers will deal with general inflationary trends in 2014. Moody's predicts that inflation will escalate slightly in 2014, ending the year at about 1.7 percent, versus 1.5 percent in 2013. Gas prices, which have fluctuated sharply during the past several years, are more than 10 percent higher than they were at the start of The Great Recession. While prices are currently lower than they were a year ago, they are expected to rise, at least through the spring, due to seasonal refinery maintenance. And, many regions in the country have been dealing with exceptionally cold conditions, putting additional upward pressure on home heating bills.

The more than 22 million American households that rely on SNAP to meet their weekly grocery obligations entered 2014 facing these financial hurdles while simultaneously dealing with the powerful impacts of significant reductions to stop-gap SNAP funding.

SNAP is a government-sponsored food assistance program that was introduced several decades ago to provide nutritional support for lower-income families. In 2013, federal spending on SNAP reached $76 billion, an increase of more than 150 percent versus 2007. This increase was driven by broad scale need that emerged during The Great Recession and the subsequent roll out of the American Recovery and Reinvestment Act of 2009 (ARRA), which was enacted to ease recession-driven hardships and stimulate economic growth.

On Oct. 31, 2013, the provisions of ARRA for SNAP program support expired, resulting in an average reduction of benefits of 5.4 percent per SNAP household.

$76 billion spent on SNAP in 2013—150% increase versus 2007

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SNAP Program Reductions Driving Cuts in Grocery Spending

SNAP benefits can be used to purchase "any food or food product for home consumption, including seeds and plants which produce food for consumption by SNAP households."[1] Benefits cannot be used to purchase alcoholic beverages, tobacco products, hot food or food for on-premise consumption, or non-food items.

About 20 percent of U.S. households rely on government assistance to put food on the table. The average household benefit for SNAP is $284. Four in 10 recipients receive the maximum allowable benefit for their family size. Across the United States, SNAP purchases accounted for an estimated 10 percent of grocery spending.

SNAP program reductions are dealing a sizable blow to consumers that are already struggling to make ends meet. For a family of four, the 5.4 percent reduction in benefits will translate to 21 fewer meals during the course of a single month. Repercussions of a similar magnitude will be felt across a majority of SNAP households.

All Cuts Not Equal in the CPG Arena

In the retail marketplace, meanwhile, the magnitude of the impact of SNAP cuts will vary rather drastically. Though SNAP applies specifically to food and beverage purchases, the cuts will almost certainly drive SNAP households to completely over-haul their budgets. Purchases in durable goods, such as clothing or electronics, will be re-evaluated and adjusted. Importantly for CPG marketers, non-food CPG aisles will also feel the sting of cuts as SNAP households prioritize across-the-board to reduce and eliminate "less important" purchases in order to save money.

SNAP Cuts by Household Size Beginning November 2013				
Household Size	Max Benefits Through Oct. 2013	Max Benefits Beginning Nov. 2013	Monthly Cut	Total Cut FY 2014
1	$200	$189	-$11	-$121
2	$367	$347	-$20	-$220
3	$526	$497	-$29	-$319
4	$668	$632	-$36	-$396

Source: U.S. Department of Agriculture, "SNAP – Fiscal Year 2014 Cost-of-Living Adjustments and ARRA Sunset Impact on Allotments," August 1, 2013.

SNAP cuts will significantly reduce benefits for households of all sizes.

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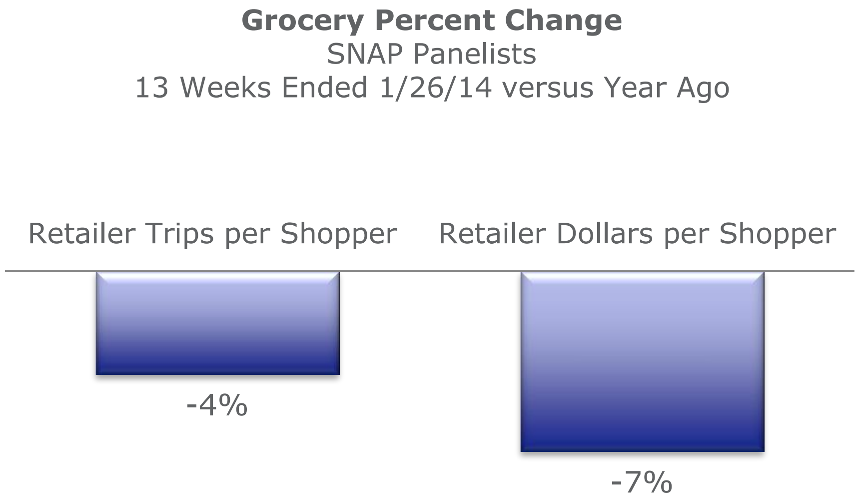

Source: IRI Consumer Network™ 13 weeks ending 1/26/14 & same period prior year

Retailers should determine their risk profile by evaluating exposure to SNAP households

Grocery retailers felt the brunt of SNAP household cutbacks immediately following SNAP benefits expirations.

There is clear indication that some channels are much more exposed to the impacts of SNAP changes than others.

The grocery channel, in particular, felt the brunt of SNAP household cutbacks in the quarter immediately following the benefits expiration. These households shifted their spending to value channels, including dollar, mass merchandise and supercenter channels, as they sought to find maximum value for their limited resources. These changes may have been just a "knee-jerk" reaction, or they may be shifts that become more engrained in the months ahead.

It will certainly be critical for retailers and manufacturers to monitor spending in the coming weeks and months to ensure they remain in lock-step with consumer behaviors.

Inside the store, dynamics illustrate that spending cuts will play out very differently across grocery aisles, and they will be dependent upon the most pressing needs and wants at a granular level. Purchase dynamics of SNAP households allow CPG marketers to anticipate which categories will be most heavily impacted and quantify the degree of impact. In turn, marketers can develop proactive marketing strategies aimed at lessening the impact of cuts, while also supporting brand equity and shopper loyalty.

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Change in Spending by Department
SNAP Panelists and Income Groups
2013

	SNAP	Lower Income	Middle Income	Upper Income
Total Edible	-2.8%	-0.9%	-0.6%	-1.0%
Beverage	-4.3%	-1.6%	-2.0%	-1.4%
Frozen	-2.3%	-0.6%	-1.0%	-1.4%
General Food	-2.5%	-1.1%	-0.8%	-1.3%
Liquor	-12.2%	-1.1%	2.1%	4.5%
Refrigerated	-1.3%	-0.6%	0.4%	-0.6%

Source: IRI Consumer Network™, 52 weeks ending 12/29/13; Non-NBD adjusted

SNAP households spend more than average in beverage and frozen foods departments; however, their annual spend is declining faster than other income groups.

SNAP household spending on edibles does not differ significantly from wealthier shopping segments. Their spending, however, is falling at a faster rate than even that witnessed across lower-income shoppers. In 2013, SNAP food spending fell an average 2.8 percent.

Cuts are being made across edibles departments, but some departments are seeing deeper cuts than others. The most sizable cuts are being made to spending on liquor, where SNAP households fell more than 12 percent last year. The beverage department also saw sharper-than-average cuts, at 4.3 percent. The refrigerated foods department saw the least drastic cuts, at an estimated 1.3 percent for the year.

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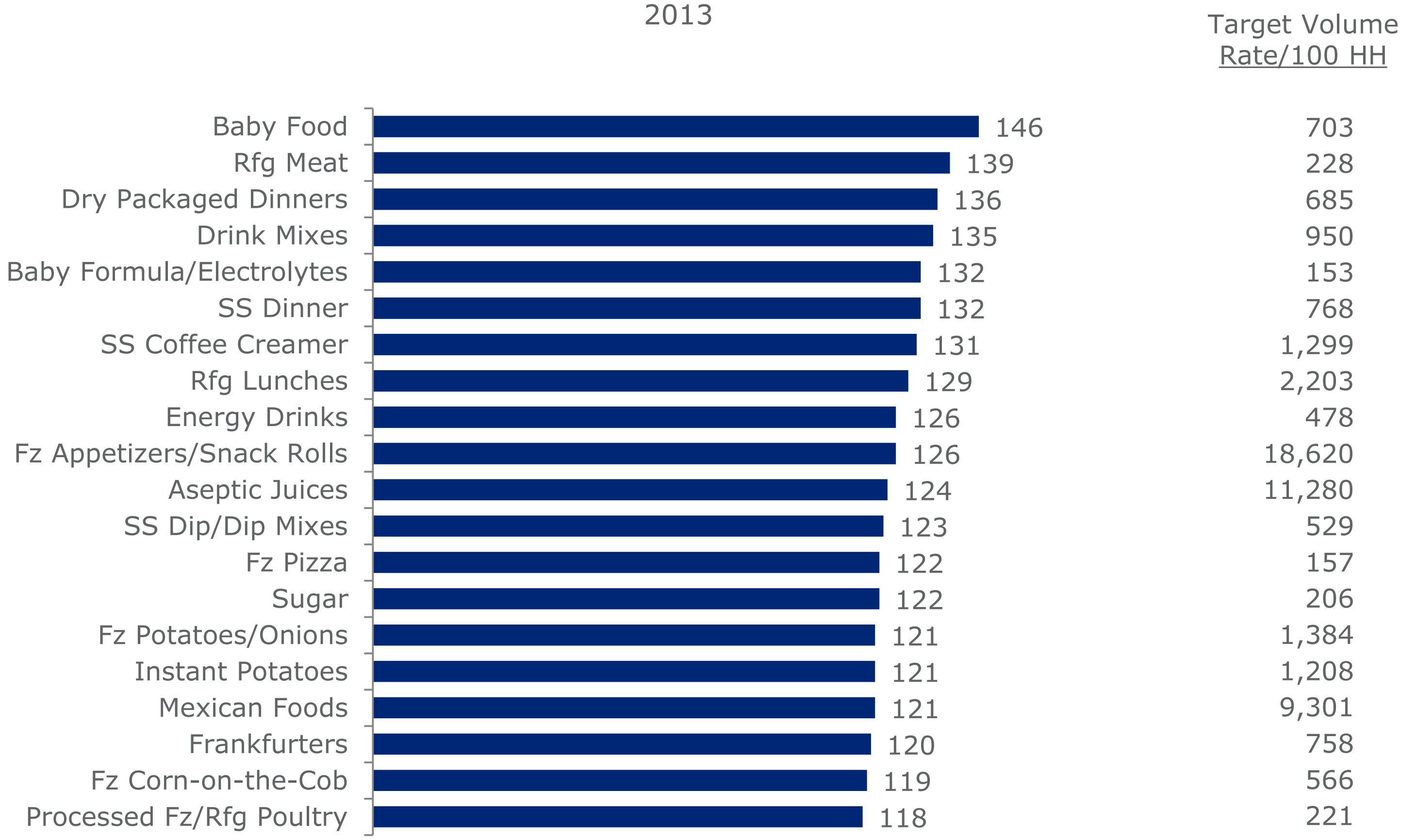
SNAP: Top 20 Categories
Based on Volume Rate Index versus Total Households (Average = 100)
2013



Source: ShopperSights Version 5.5 IRI Consumer Network™ Panel

High-volume SNAP categories are more exposed to cuts in SNAP funding.

The 20 categories that skew most heavily to SNAP households are illustrated in the chart at the top of this page. These categories are much more likely to be purchased by SNAP households overall, so they may be more exposed to cuts in SNAP funding. Alternatively, SNAP households may prioritize these categories, thereby choosing to continue to spend here and make cuts elsewhere.

CPG Marketers Must Facilitate the Adjustment to a New Reality for SNAP Consumers

On top of all of the other financial pressures facing consumers today, SNAP households have been dealt a sizable blow to their grocery budgets in the form of SNAP benefit reductions. CPG marketers most exposed to these shoppers must take a proactive approach to softening the blow in order to protect and grow share of this large and vulnerable consumer segment.

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To understand the magnitude and impact of exposure and develop marketing strategies to drive growth among SNAP households, retailers and manufacturers must consider a number of strategic issues:

- What is the degree of dependency on SNAP households across my business and that of my retailer/manufacturer partners?
- How are SNAP households planning to react to the lower benefits? Are actual purchase behaviors in line with expectations?
- Which stores and markets are most at risk?
- What is the best way to get ahead of potential SNAP reduction impacts on lower-income household spending?
- What targeted programs and merchandising will reduce volume risk/drive incremental growth?
- What are the most effective programs for ongoing tracking and monitoring against SNAP households?

Footnotes:

[1]U.S. Department of Agriculture, Food& Nutrition Service

[2]U.S. Food Policy, May 18, 2012; USDA

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About the Author

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