How Perishables Consumers are Adapting to Inflation

Prepared for:

INTERNATIONAL DAIRY DELI BAKERY ASSOCIATION

December 2021

Overview

Background

Consumers are hearing increasing buzz with respect to product shortages and retail grocery price inflation. Traditional media, politicians, investment advisors, just to name a few, are all discussing what is happening. Getting far less attention, but perhaps far more consequential, is the conversation around how deli/dairy/bakery consumers are adjusting their shopping behaviors in anticipation of, or reaction to, price increases.

Approach

Category Partners conducted a 2,000 respondent consumer survey in November. This webinar hosted by IDDBA and conducted by Category Partners will look at what this research uncovered.

Covering topics like how long consumers anticipate the trend to last, consumer switching across package sizes, deal seeking, private label purchases, channel/retailer switching and other elements important to them.

Goals

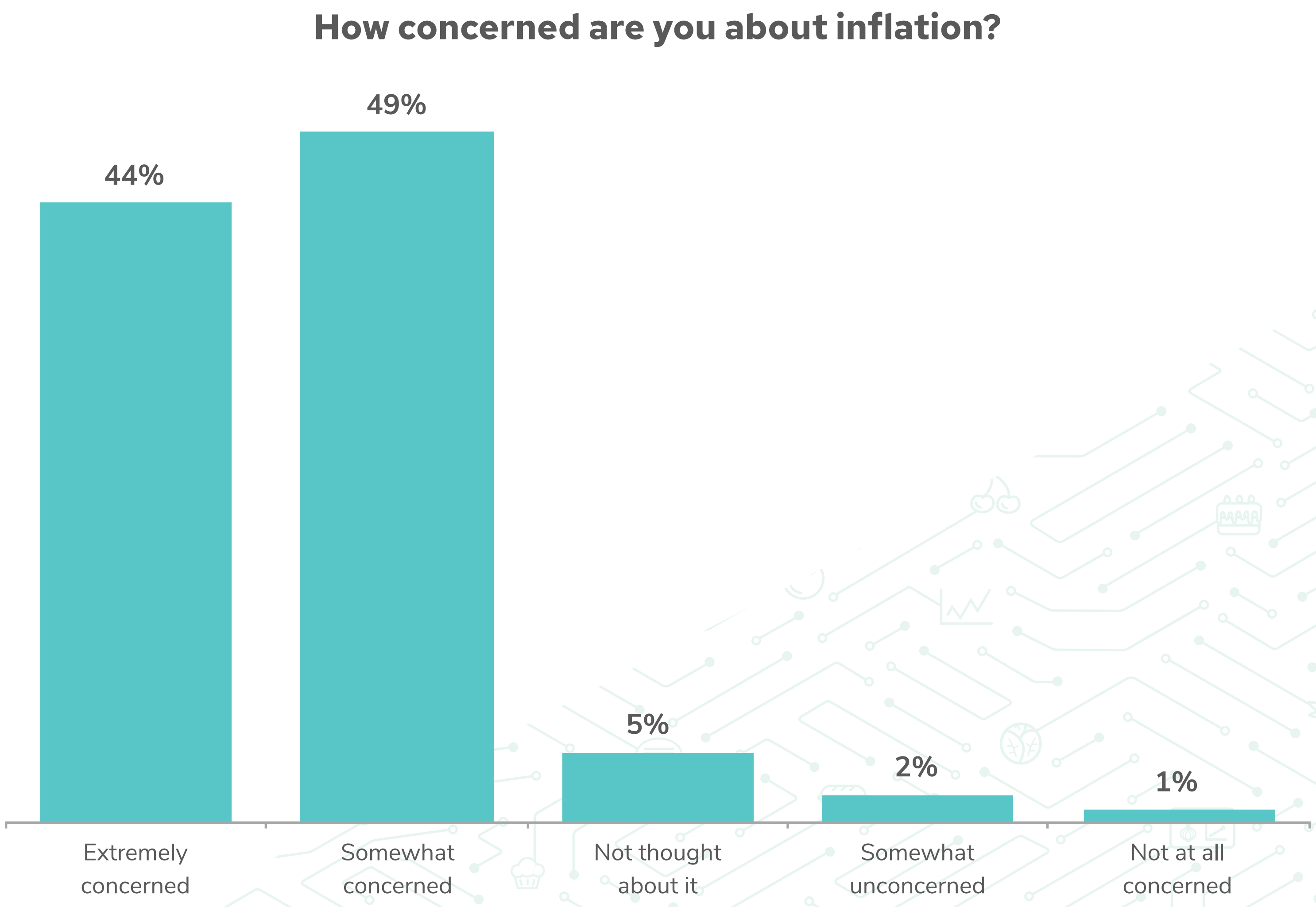
- Present dispassionate facts regarding the mindset and actions of the deli, dairy and bakery consumers in the retail grocery channel.
- Facts that producers and retailers can utilize as a jumping off point for deeper exploration, analysis and planning.

Agenda

Getting Noticed

Level of Concern

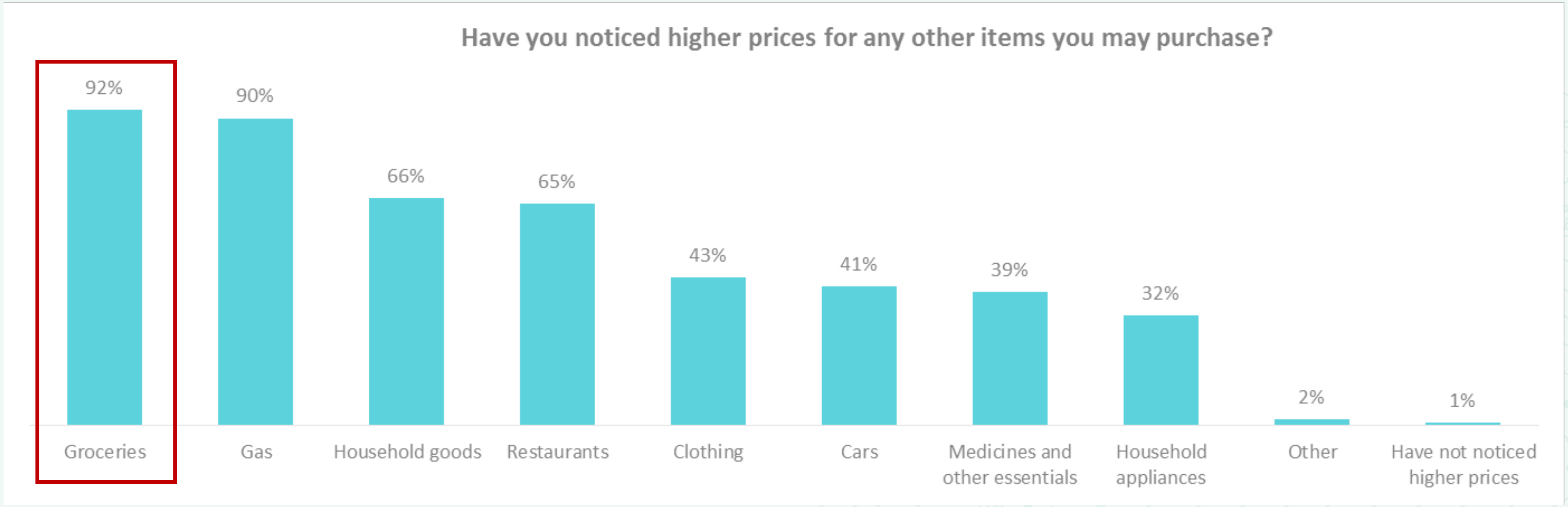
- Consumers' concerns are "amped up". Virtually all consumers (93%) are expressing at least some concern about inflation.



Category Partners Consumer Survey, November 2021

Higher Prices by Market Segment

- Consumers are acutely aware of price changes in grocery. Groceries and gas (#1 and #2) outpaced the third place segment by 26 and 24 points, respectively, in consumer notice of increases.

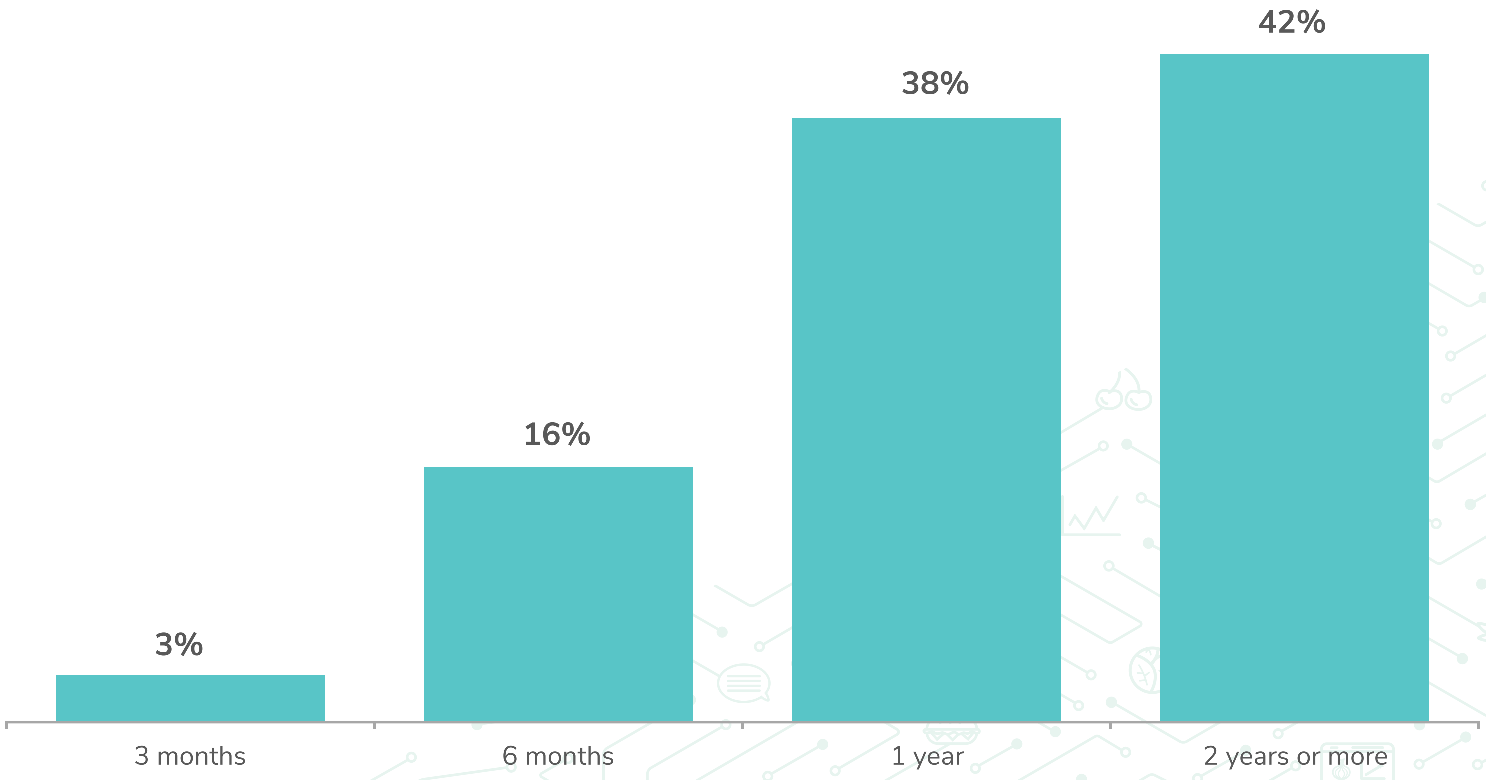


Category Partners Consumer Survey, November 2021

Length of Time

- Consumers are buckling up for the long haul; 80% of consumers believe inflation will be a reality in the grocery aisle for at least the next year.
  - A full 42% of consumers believe this will continue for 2 years or even longer.

How long do you think inflation will affect prices at the grocery store?



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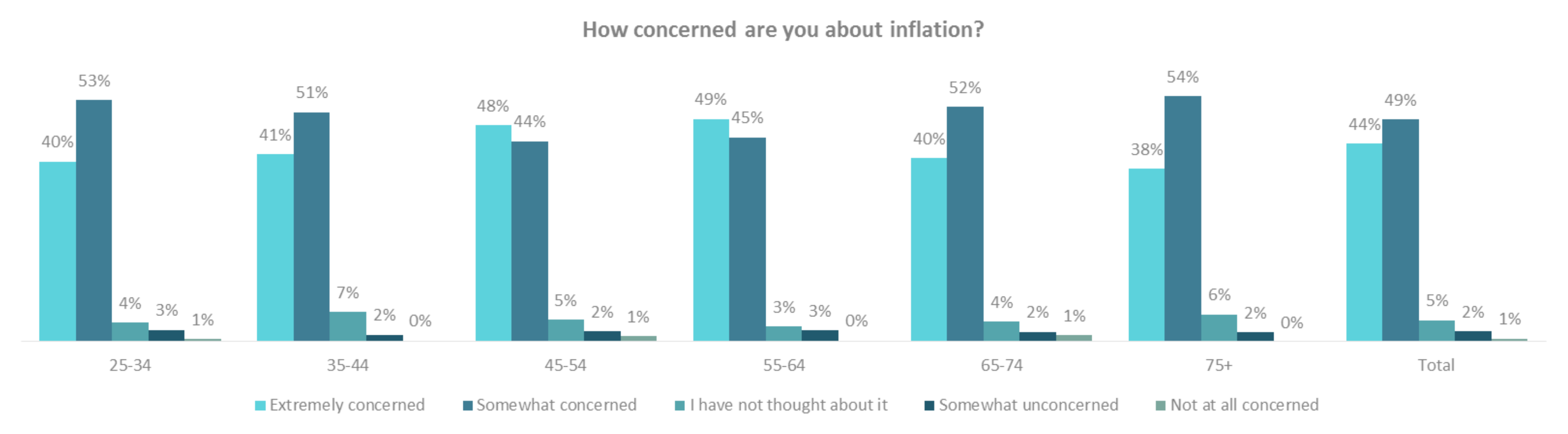
Getting Noticed – Drilling Down

Level of Concern by Age

- While not wildly divergent from the mean, middle aged consumers (45 to 64) exhibit the highest proportion of 'extremely concerned' about inflation.



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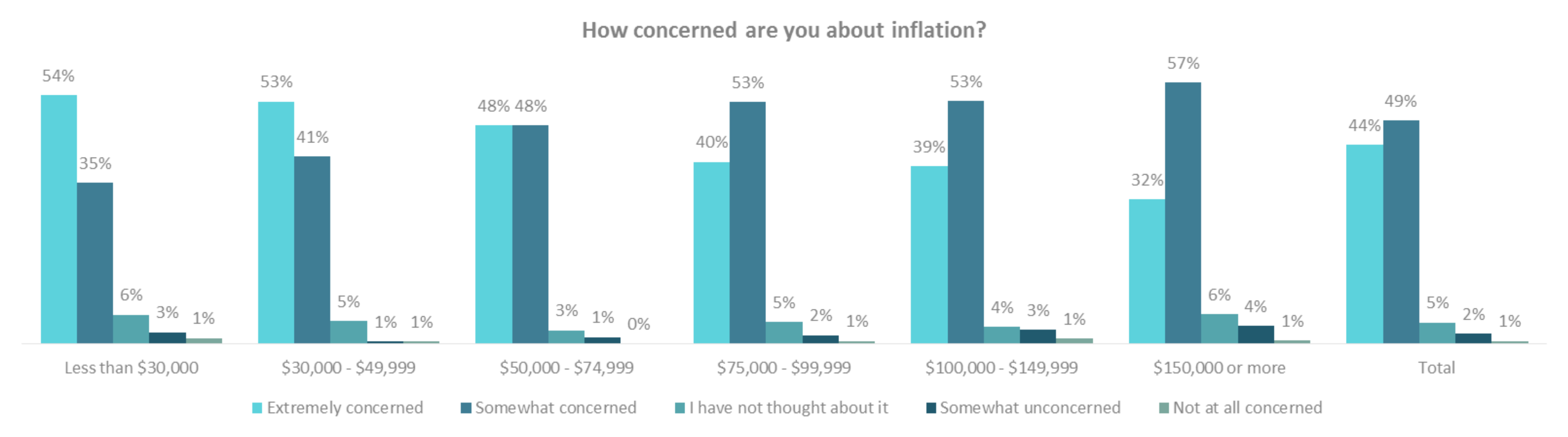
Level of Concern by Income

- Roughly the same proportion of consumers, at all income levels, express at least some level of concern about rising grocery inflation.
  - Consumers at lower income levels are much more likely to be extremely concerned versus higher earners who are somewhat concerned.



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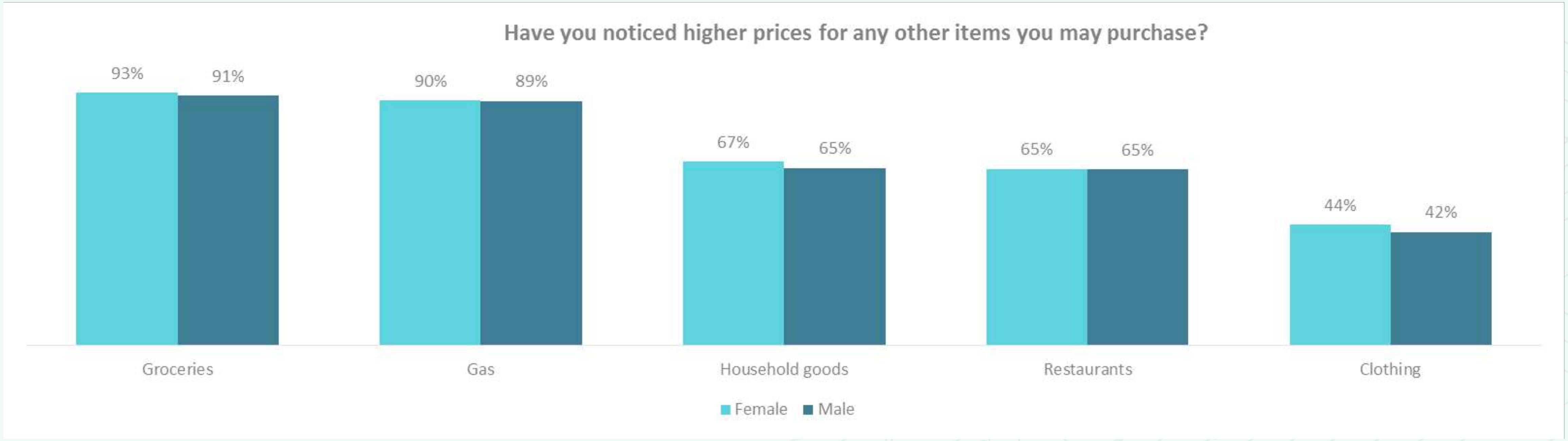
Higher Prices by Market Segment/Gender

- Women and men responded, essentially, in identical proportions when asked about their awareness (notice) of price increases.



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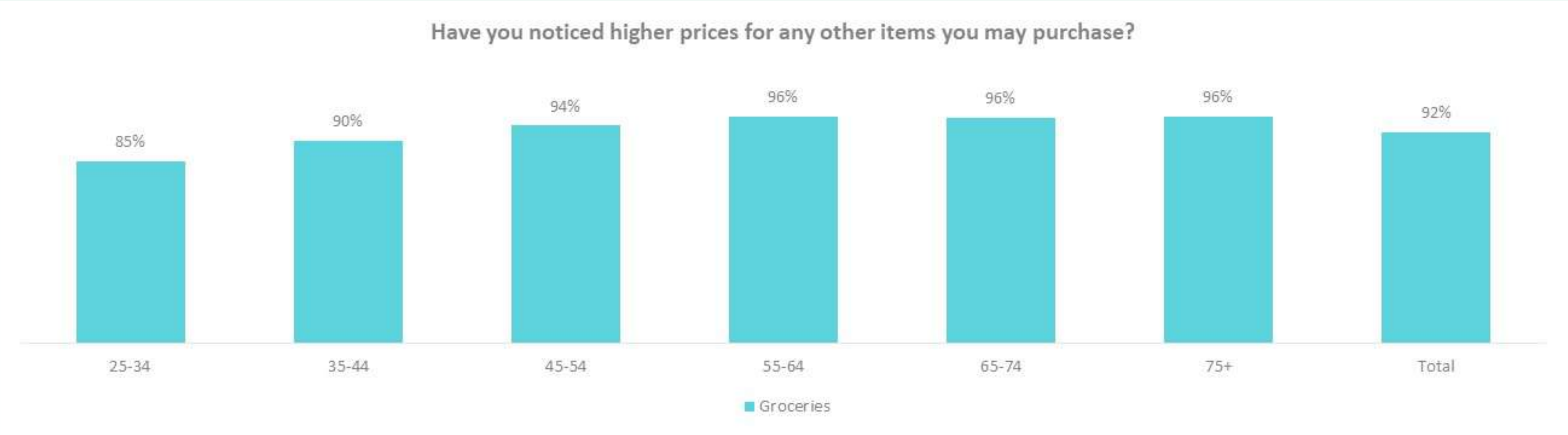
Higher Prices by Grocery & Age

- Consumers 44 and younger indicated a slightly lower awareness (notice of) grocery price inflation.



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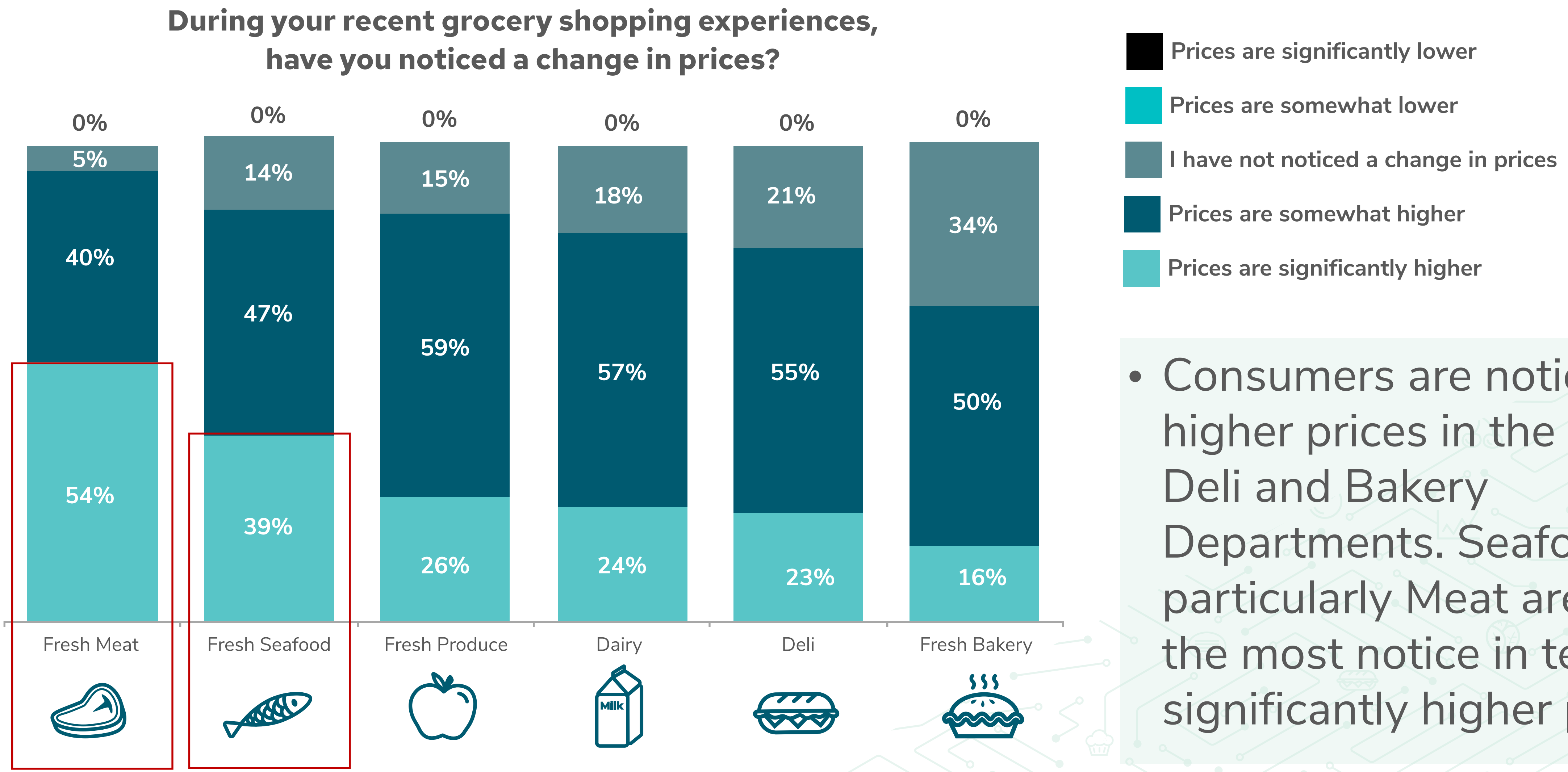
Price Changes by Department



- Consumers are noticing higher prices in the Dairy, Deli and Bakery Departments. Seafood and particularly Meat are getting the most notice in terms of significantly higher prices.

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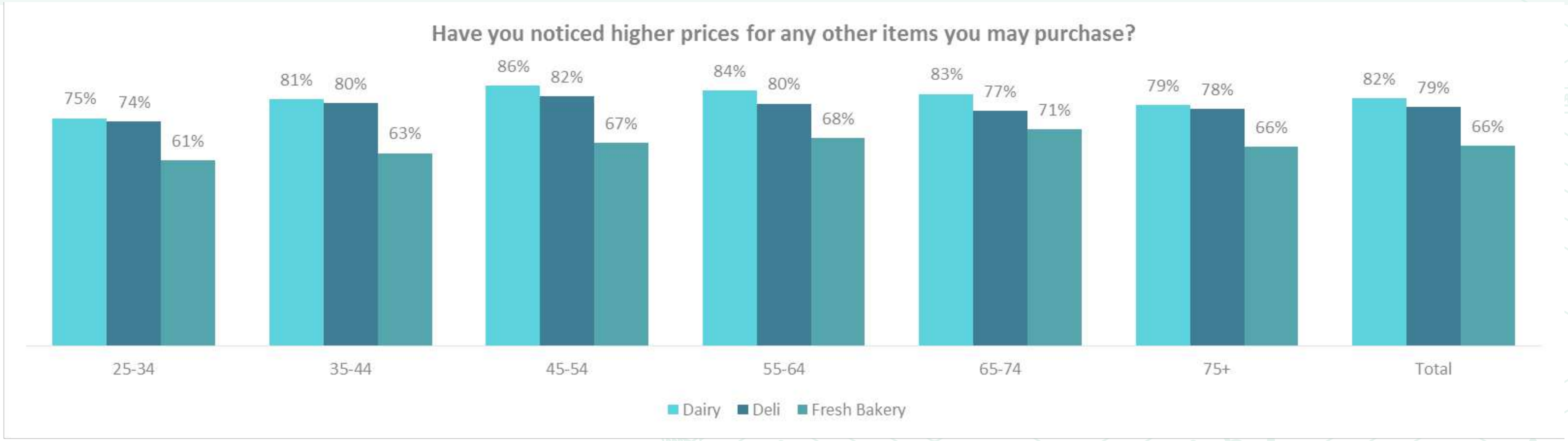
Higher Prices by Age and Dept.

- Deli, Dairy and Bakery generally exhibit a lower rate of inflation observations.
  - Across all age cohorts, the Dairy Department is getting the most notice of price increases…averaging about -10 points below total grocery.
  - Bakery is getting the lowest mention of price increases, however, about two-thirds of consumers have observed price increases.
- By comparison 94% of consumers report Meat Department price inflation.



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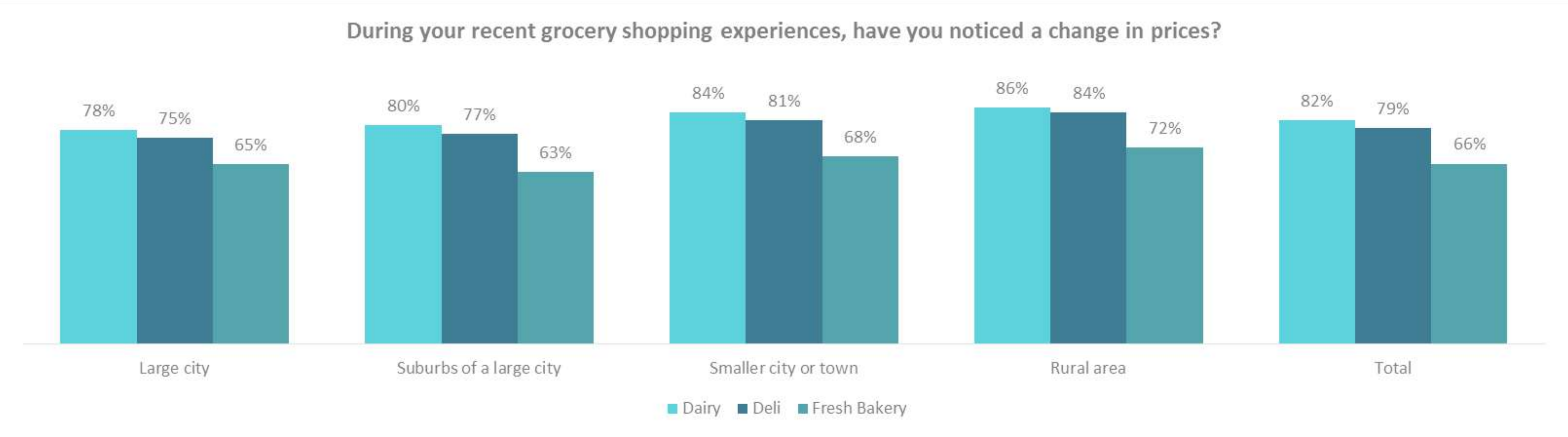
Price Changes by Department – Urban/Rural

- People living in less densely populated areas notice inflation in greater proportion.
  - Somewhat fewer consumers living in more densely populated areas reported observing inflations as compared to small town and rural shoppers



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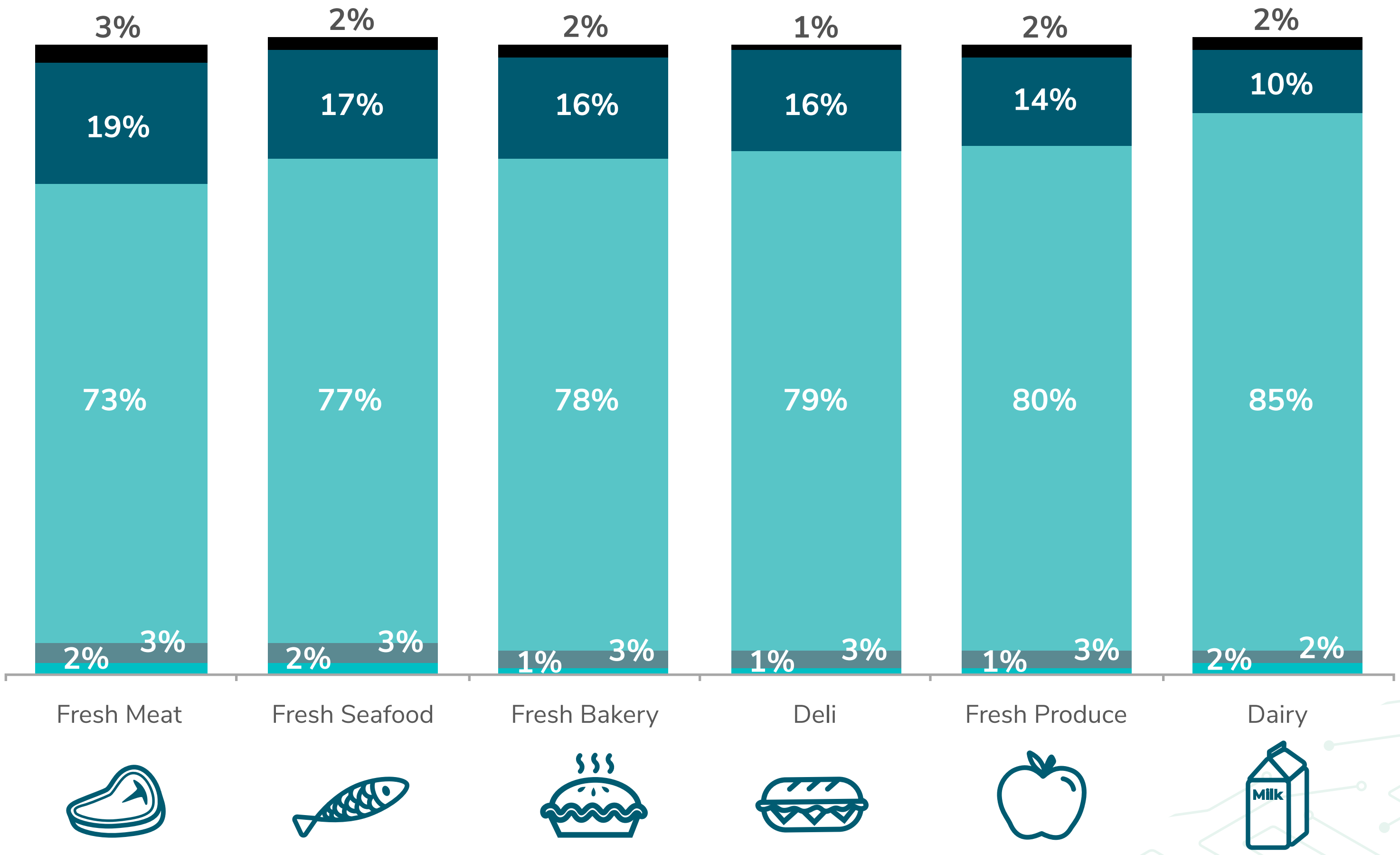
Pack Size Changes by Dept.

Have you noticed a change in the package size of some of the grocery items you buy?



- We asked consumers if they have noticed any evidence of “shrink-flation” with smaller pack size as a proxy.
  - Fewer than 20% of consumers have reported seeing a general reduction in pack sizes across the perishables departments.

Category Partners Consumer Survey, November 2021

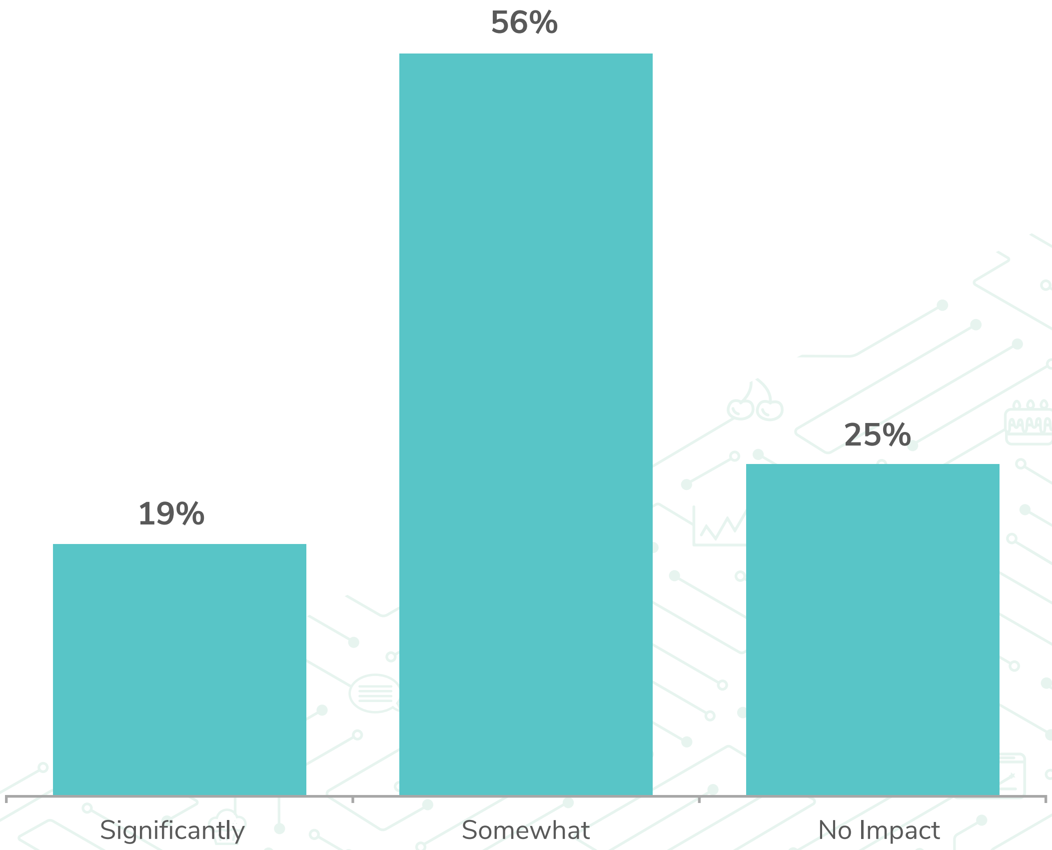
CATEGORY PARTNERS

Impact & Reactions

Impact on HH Budget

- While consumers are very attuned to (and concerned about) inflation, its existence in grocery, the prospect of additional inflation, and the prospect of extended duration; 81% report feeling their household budget is being somewhat impacted or not impacted by inflation to-date.
- That said, consumers have made/are making choices in response to current impacts or concerns about impending impacts.

How much or little inflation has impacted your overall household budget?



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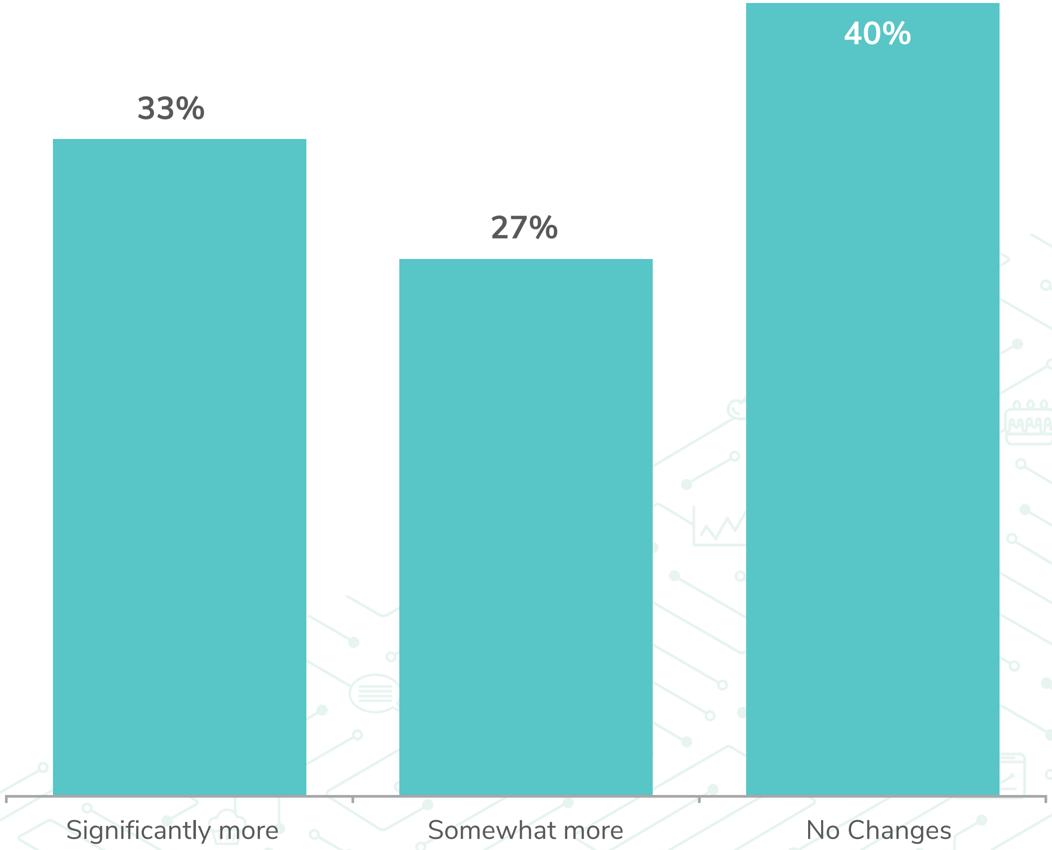
Cooking at Home

- Twenty-one months ago, consumers moved en mass to cooking and eating at home. That was not necessarily a voluntary move as we are all aware. And much of that share of stomach has since retrenched at more typical levels.
- Today, consumers are making conscious, voluntary decisions to eat at home. Sixty percent indicate they are increasing their at-home eating.

In response to inflation, are you cooking and eating at home any more or less than you would normally?



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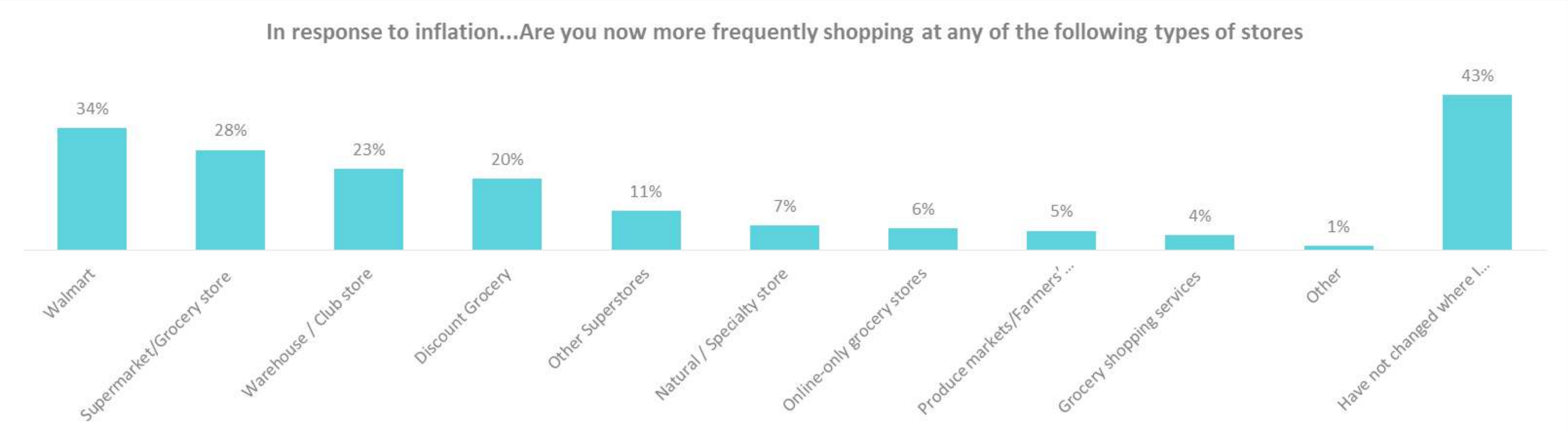
Retailer Format Changes

- Retailers are positioned to benefit.
- While consumers report all retail formats are currently gaining trips; Walmart, traditional grocery, warehouse/club and discount retailers are benefiting the most.



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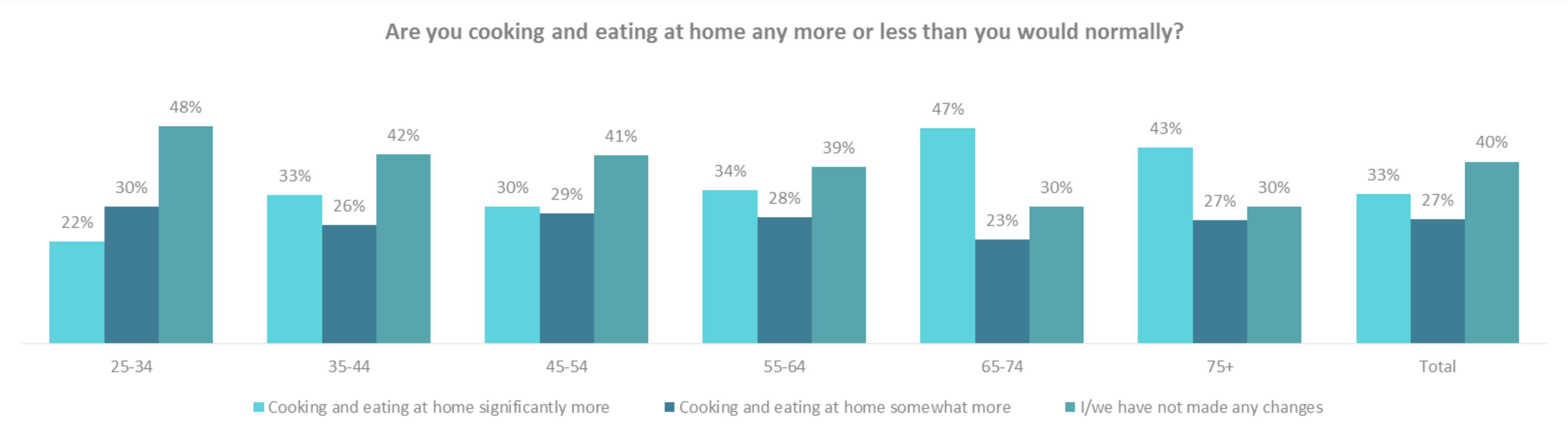
Impact & Reactions – Drilling Down

Cooking at Home by Age

- Consistently across all cohorts, as consumers age, they report a higher percentage of eating at home thanks to concerns/pressures of inflation.



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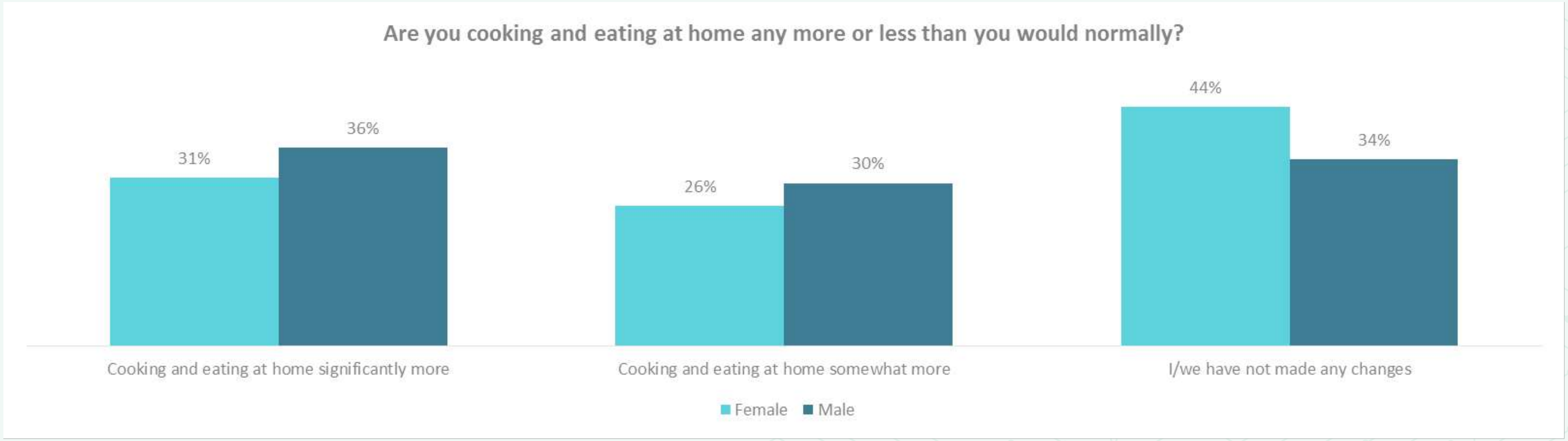
Cooking at Home by Gender

- More than 55% of women and two-thirds of men are adjusting by eating at home more.
- By a full 10 points over females, males are making the move back to in home eating.



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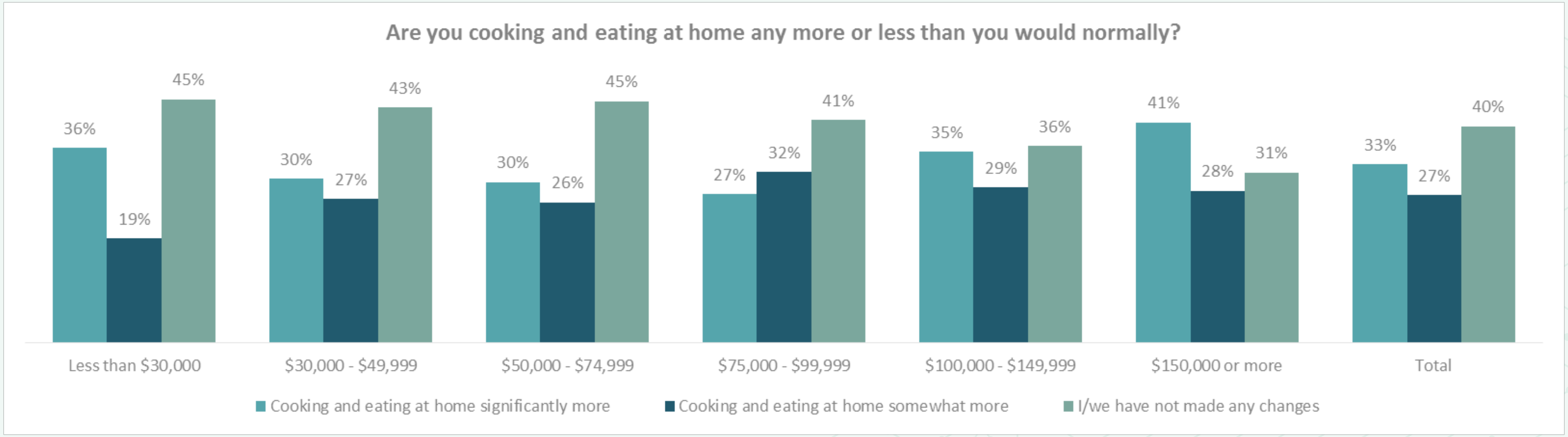
Cooking at Home by Income

- Higher income consumers (earning $100,000+) report a higher likelihood to make the behavioral adjustment to cooking and eating at home.



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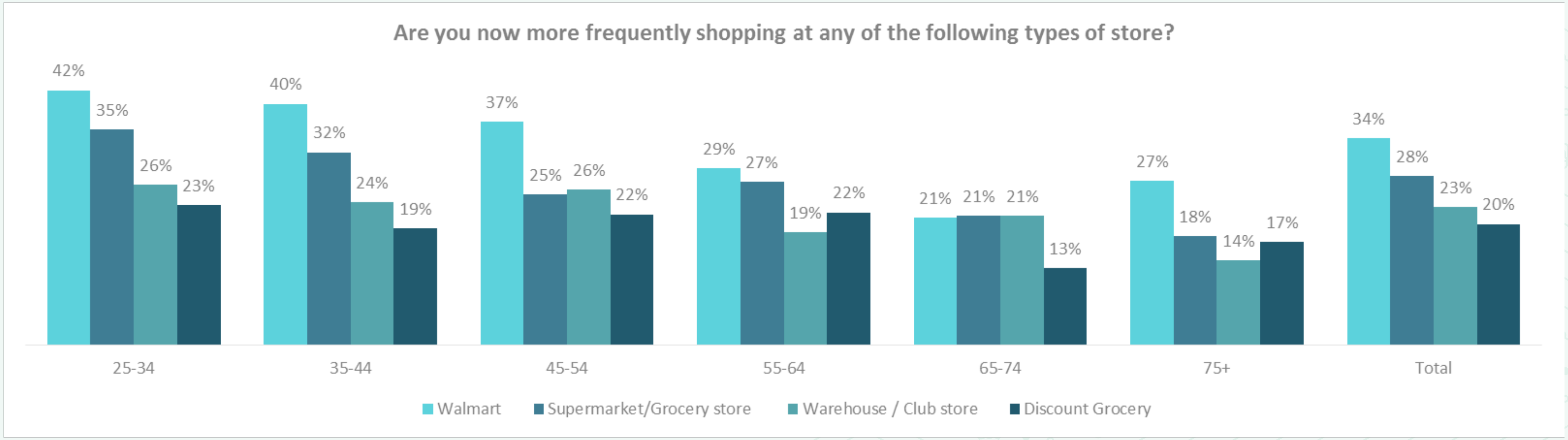
Retailer Format Changes by Age

- All age groups are increasing trips to various retail formats.
- Notably, consumers under 44 years of age are making the largest uptick in trips to Walmart and Traditional Supermarkets.
  - 45 to 54 year olds are above average in their Walmart trips as well.



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Retailer Format Changes by Gender

- Males and females are generally adjusting to retail formats in similar proportions; however, there are slightly higher levels of shopping by females at Walmart and Discount Grocery.

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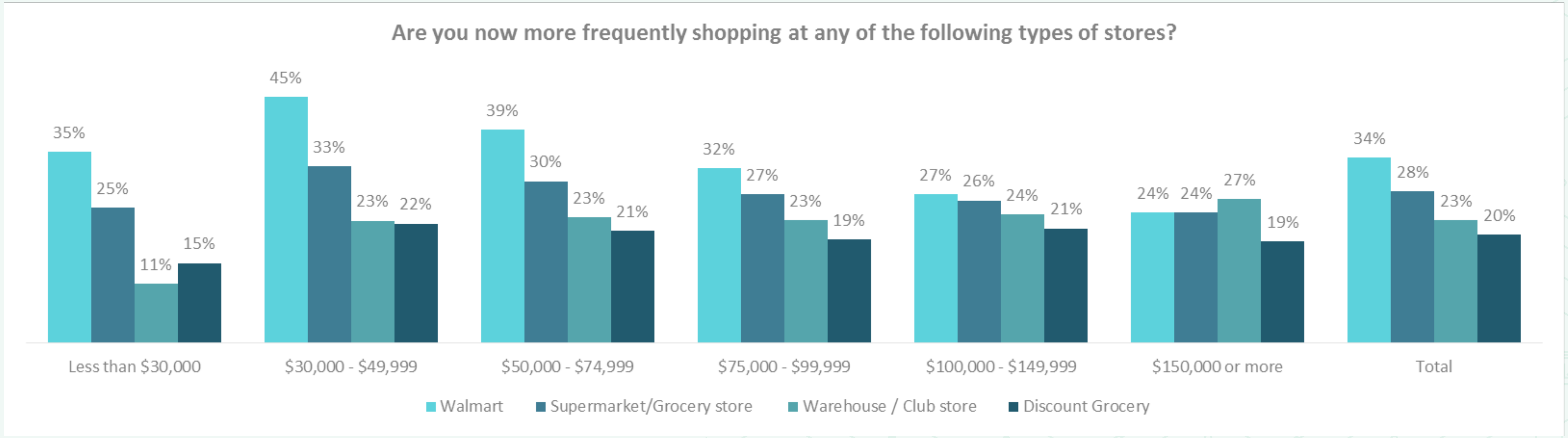
Retailer Format Changes by Income

- Amongst consumers earning less than $75,000, Walmart is an outlet gaining more than its fair share of traction. Walmart falls to the average at the $75,000+ earning level.
- Consumers earning $150,000 or more report higher than average switching to Warehouse/Club stores.



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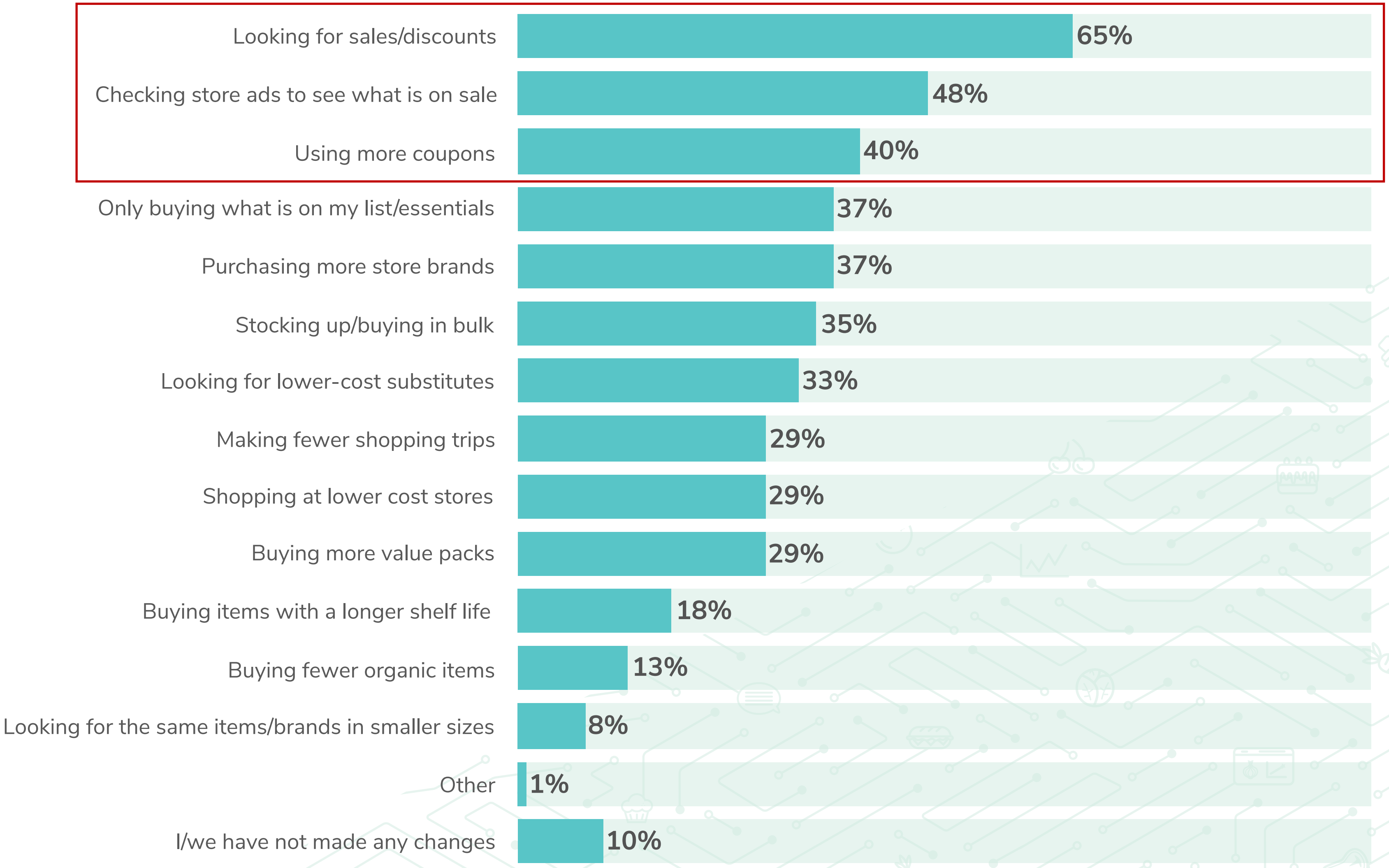
CATEGORY PARTNERS

Making Adjustments

Responses When Shopping

- Consumers are looking for deals in response to inflation.



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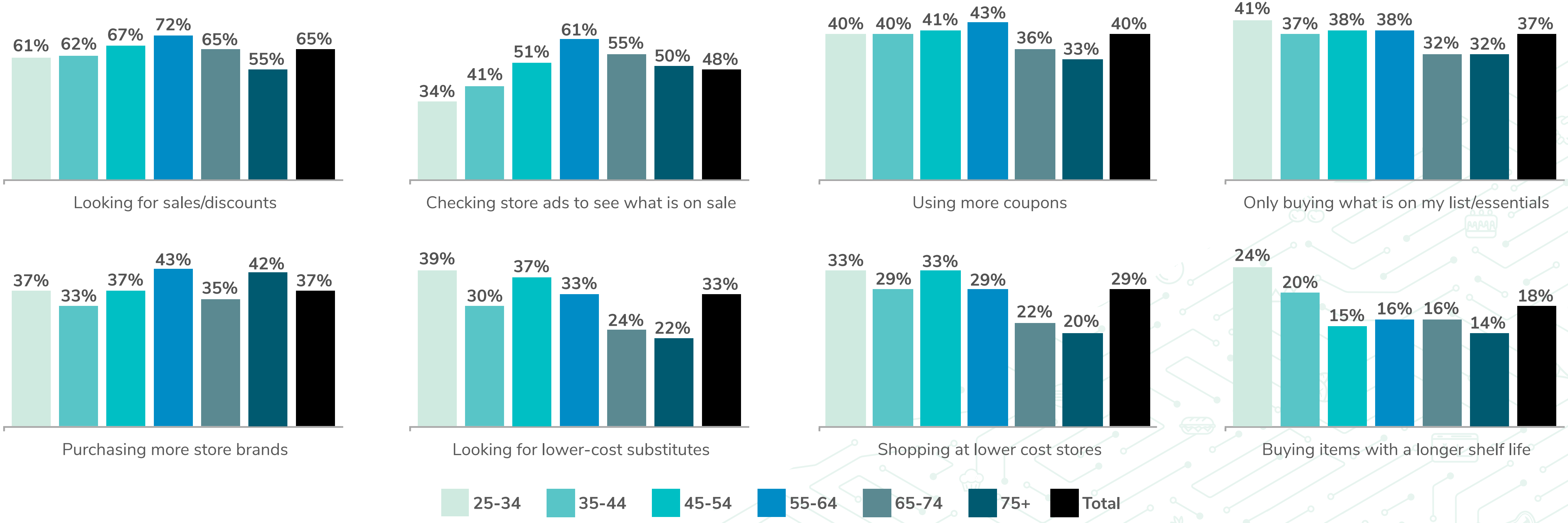
Responses When Shopping by Age

- 55-64 year olds report deal seeking activities at rates higher than the other age cohorts.

Thinking about grocery shopping in general, what, if anything, are you doing in response to inflation?



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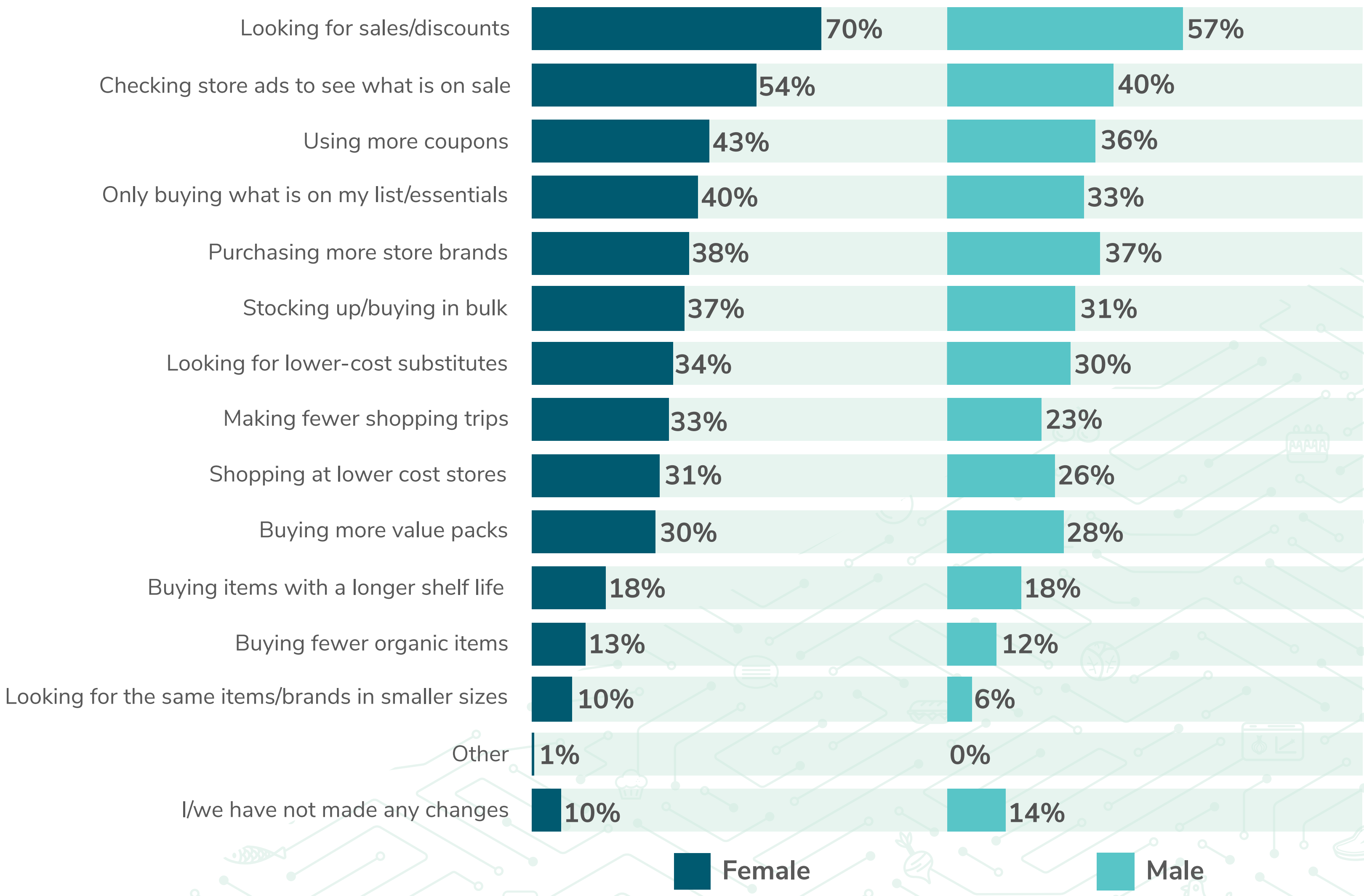
Responses When Shopping by Gender

- A greater proportion of women are looking for deals than men.
  - Perhaps men feel that buying retail (transitioning from food service to retail) is giving them the financial savings they seek.
  - Whereas women, who historically shop more often in the retail channel, are pursuing their savings strategies by shopping deals in the retail channel.

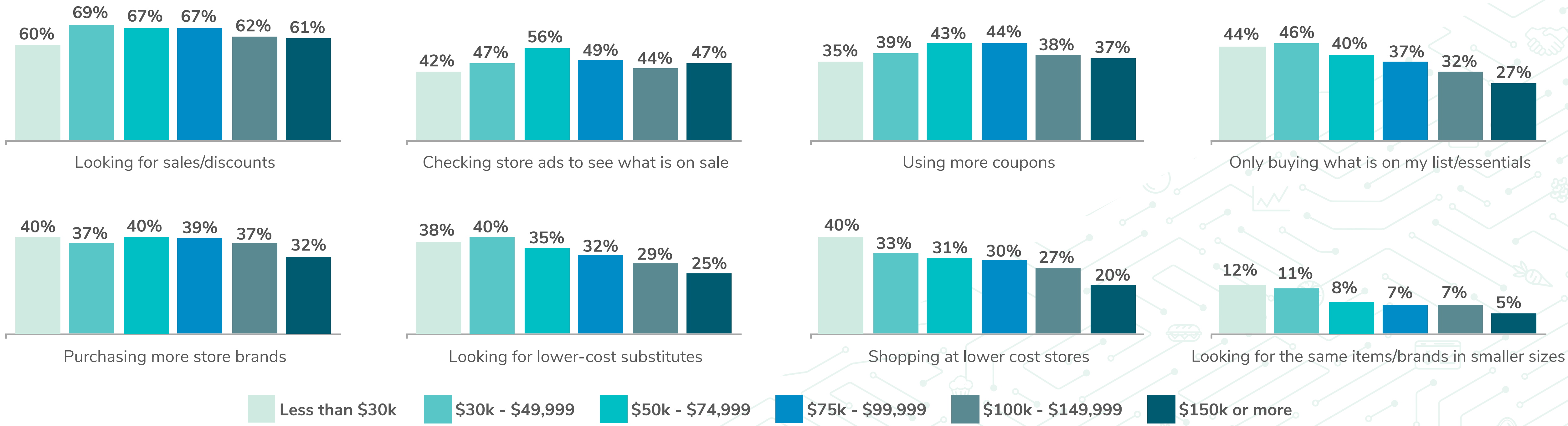
Thinking about grocery shopping in general, what, if anything, are you doing in response to inflation?



Responses When Shopping by Income

- All consumers are looking for deals, but not all are willing to make the effort to coupon for example.
- Higher-income earners are making changes but do report being more likely to buy on impulse and more retailer/format loyal.

Thinking about grocery shopping in general, what, if anything, are you doing in response to inflation?



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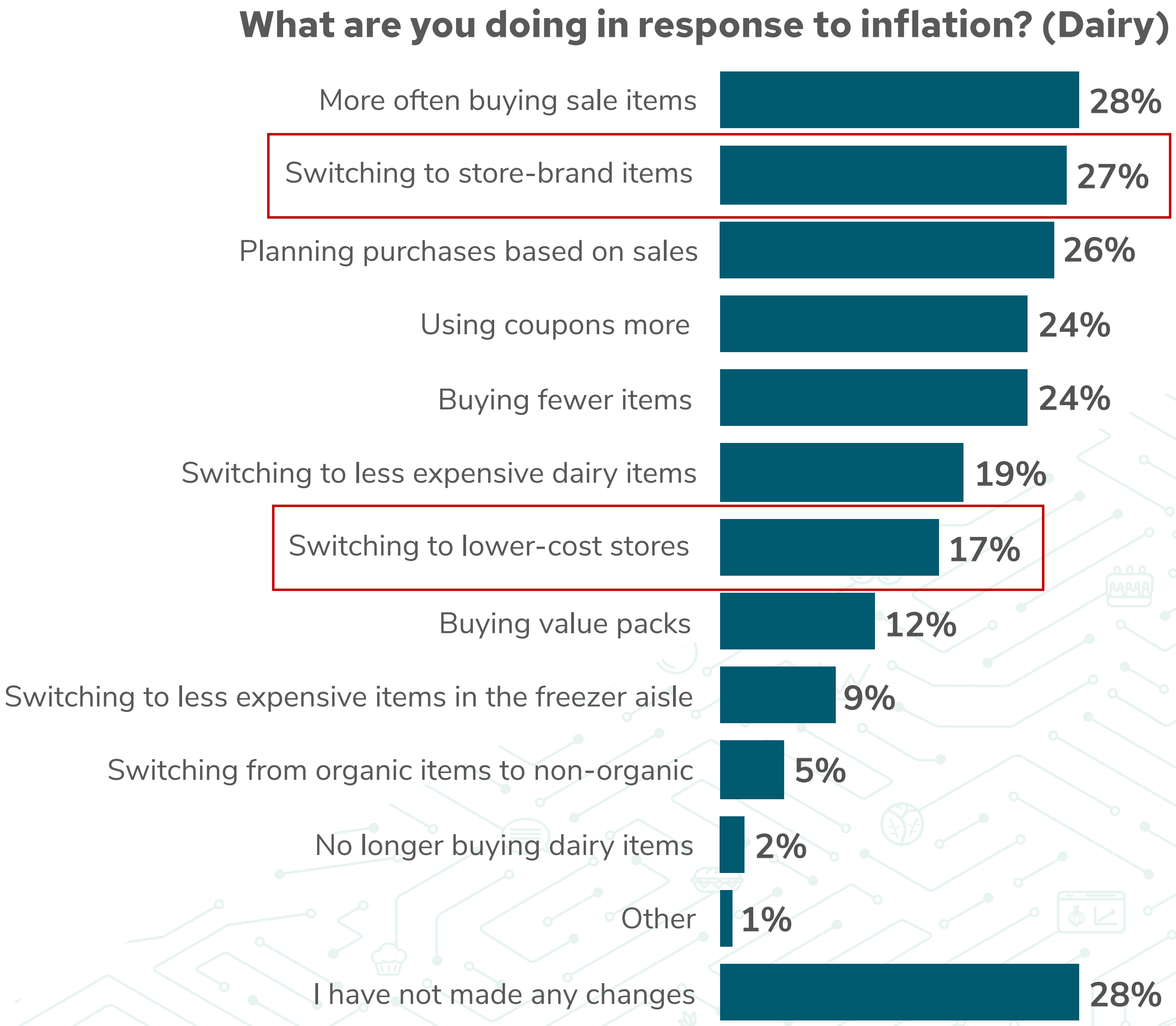
Making Adjustments - Dairy

Dairy – Responses When Shopping

- Across all variable measured, Dairy consumers are less likely to engage in the specific inflation induced activities/ strategies.
- However, there are specific and substantial vulnerabilities for producers/brands and retailers… consumers switching to other retailers perceived as lower cost.



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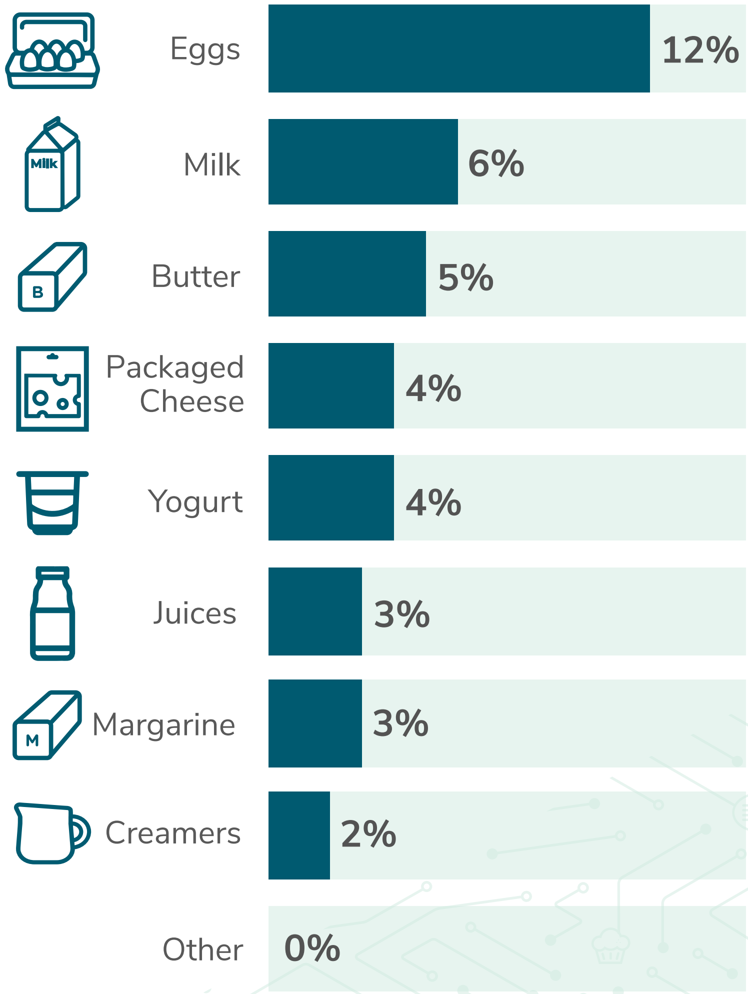
Dairy – Buying More/Less

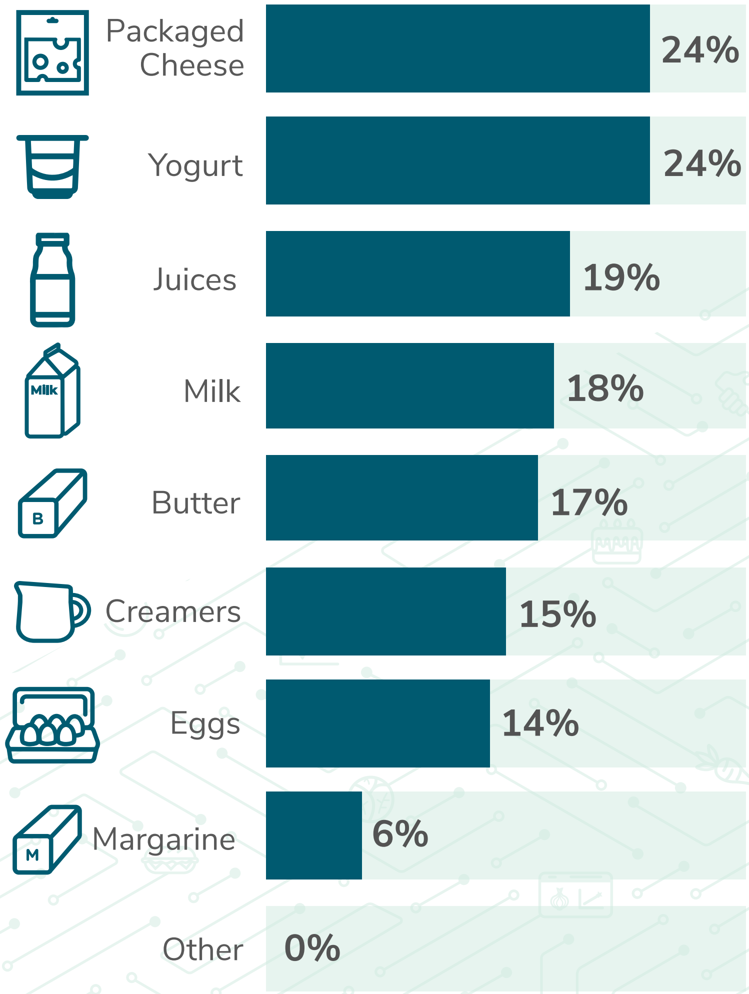
- Volumetric measurement was not asked, however, every category measured exhibited a ‘net loss’ in terms of the proportion of consumers who said they are dialing back their purchases compared with those buying more.
  - Eggs and Margarine faired best by posting single digit net losses.
  - This survey did not track source or destination of consumer purchases.

Category	Net Gain/Loss
Other	0%
Eggs	-2%
Margarine	-4%
Butter	-12%
Milk	-12%
Creamers	-13%
Juices	-16%
Yogurt	-20%
Packaged cheese	-20%

Due to higher prices, are you buying more of any of the following items?



Due to higher prices, are you buying fewer of any of the following items?



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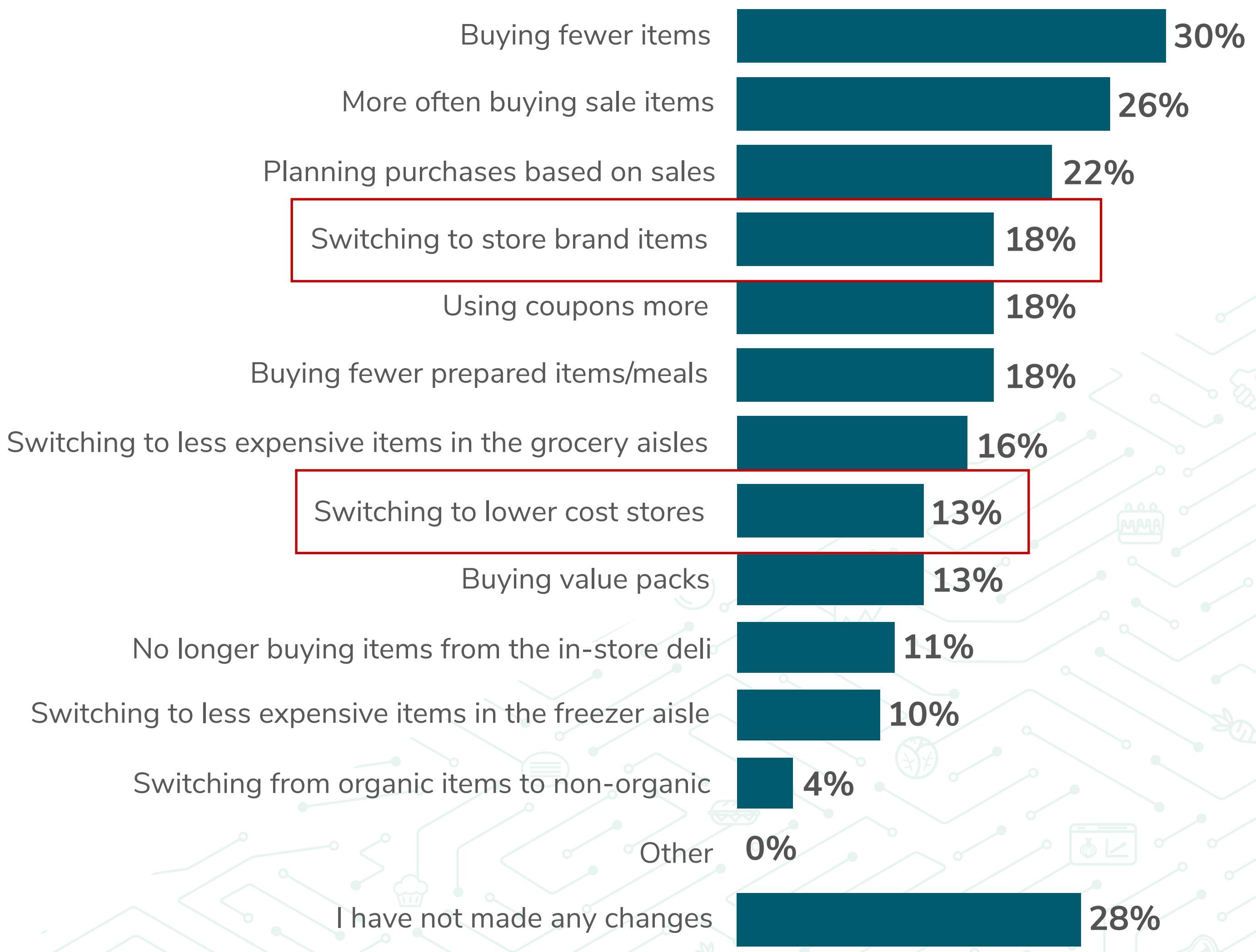
Making Adjustments – Deli

Deli – Responses When Shopping

- Consumers report buying less in Deli and when they do buy they are looking for deals, alternative items or store brands.
- Of concern to retailers, consumers are looking to lower cost retailers.

What are you doing in response to inflation? (Deli)



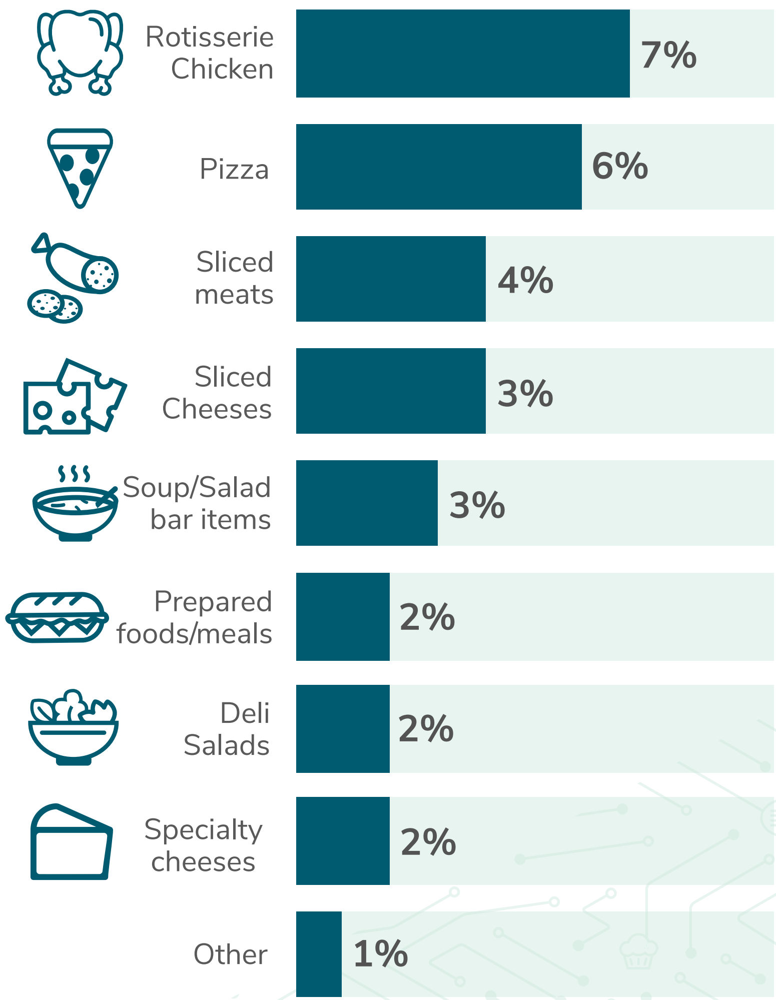
Category Partners Consumer Survey, November 2021

Deli – Buying More/Less

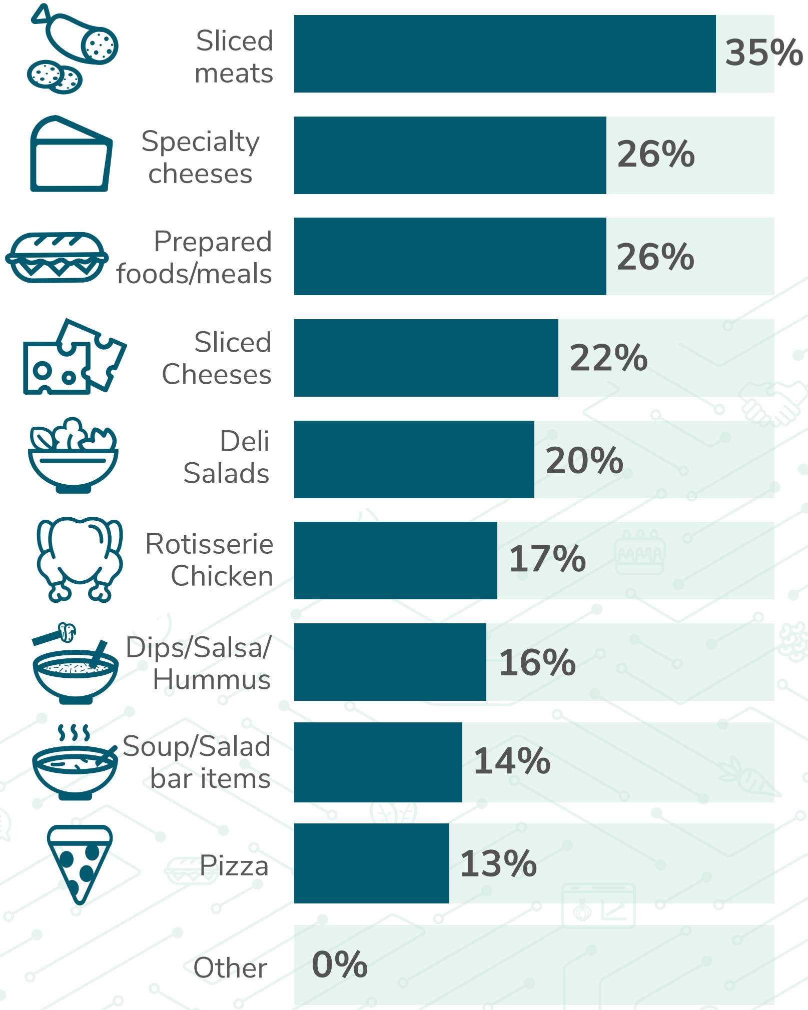
- Volumetric measurement was not asked, however, every category measured exhibited a ‘net loss’ in terms of the proportion of consumers who said they are dialing back their purchases compared with those buying more.
    - Pizza faired best by posting single digit net losses
    - This survey did not track source or destination of consumer purchases.

Category	Net Gain/Loss
Other	1%
Pizza	-7%
Rotisserie Chicken	-10%
Soup/Salad bar ite	-11%
Dips/Salsa/Humm	-14%
Deli Salads	-18%
Sliced cheeses	-18%
Prepared foods/m	-23%
Specialty cheeses	-24%
Sliced meats	-30%

Due to higher prices, are you buying more of any of the following items?



Due to higher prices, are you buying fewer of any of the following items?



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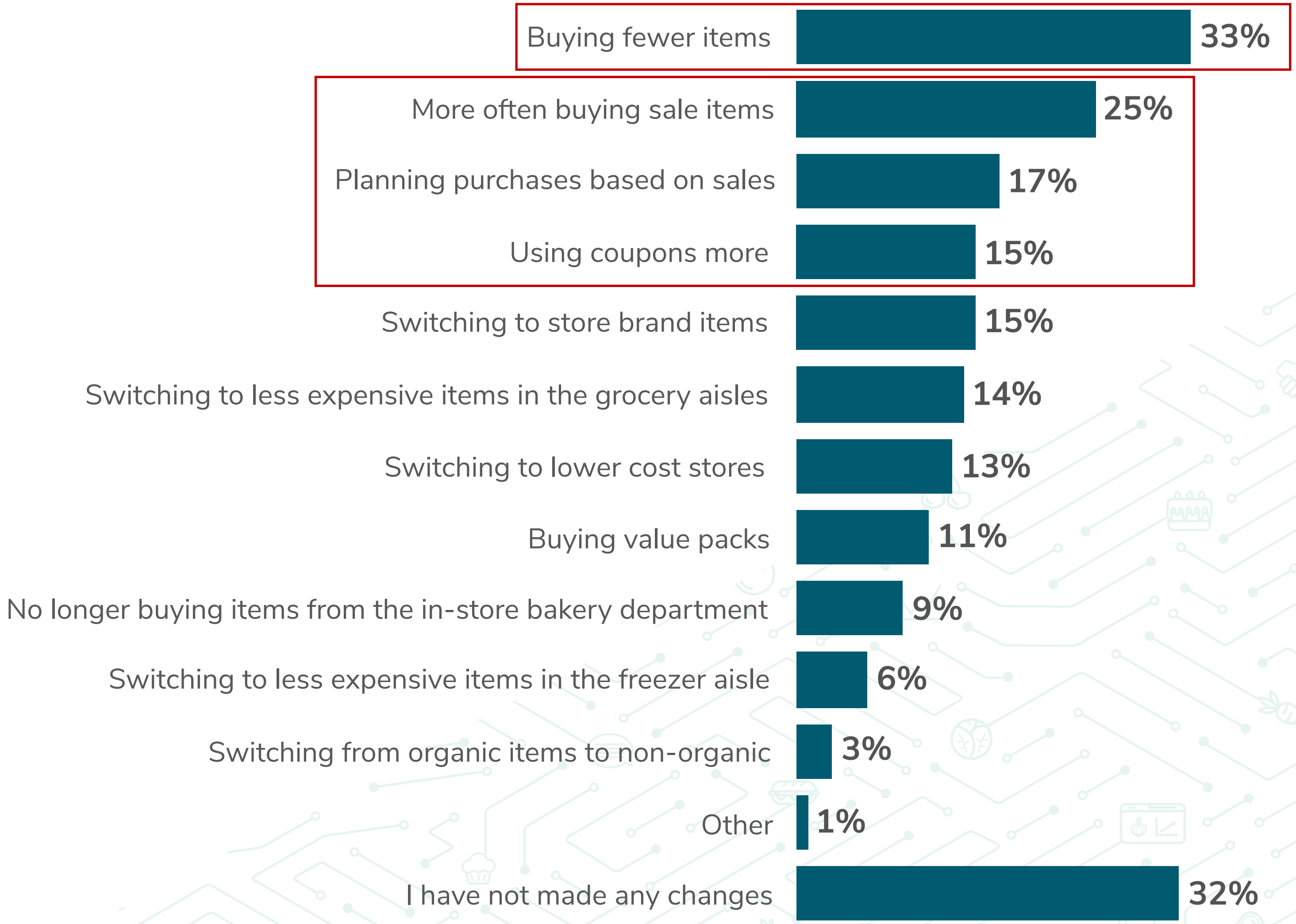
Making Adjustments - Bakery

Bakery – Responses When Shopping

- Bakery consumers report reducing purchases as their number one response to inflation.
- Deal seeking is less pronounced compared to other departments but remained a highly ranked inflation strategy.

What are you doing in response to inflation? (Bakery)



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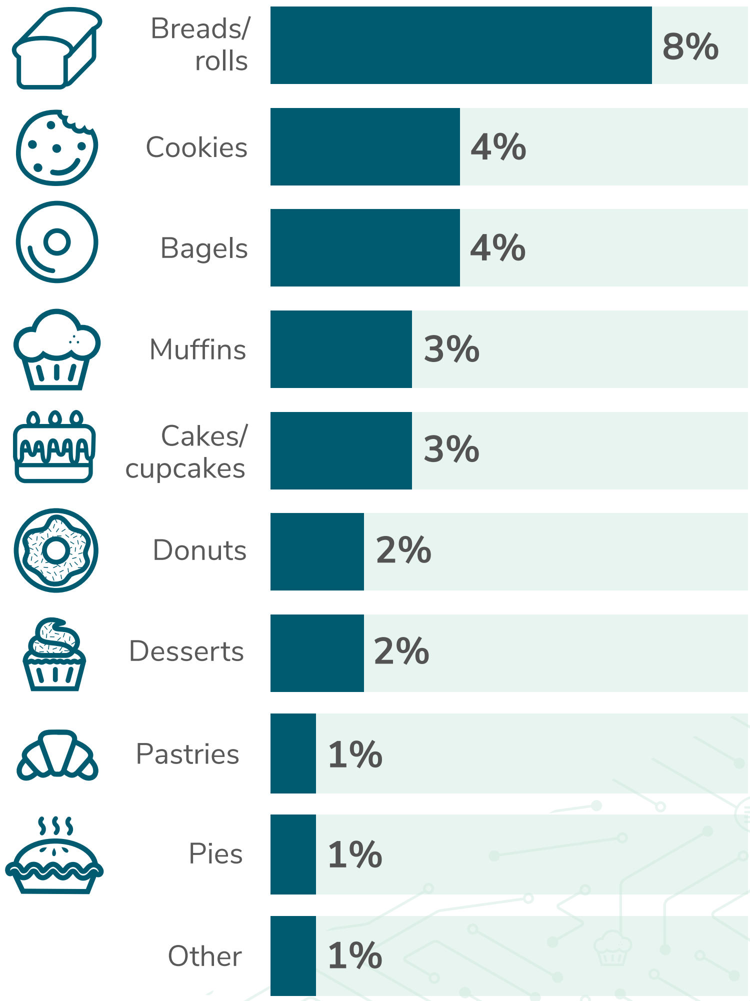
Bakery – Buying More/Less

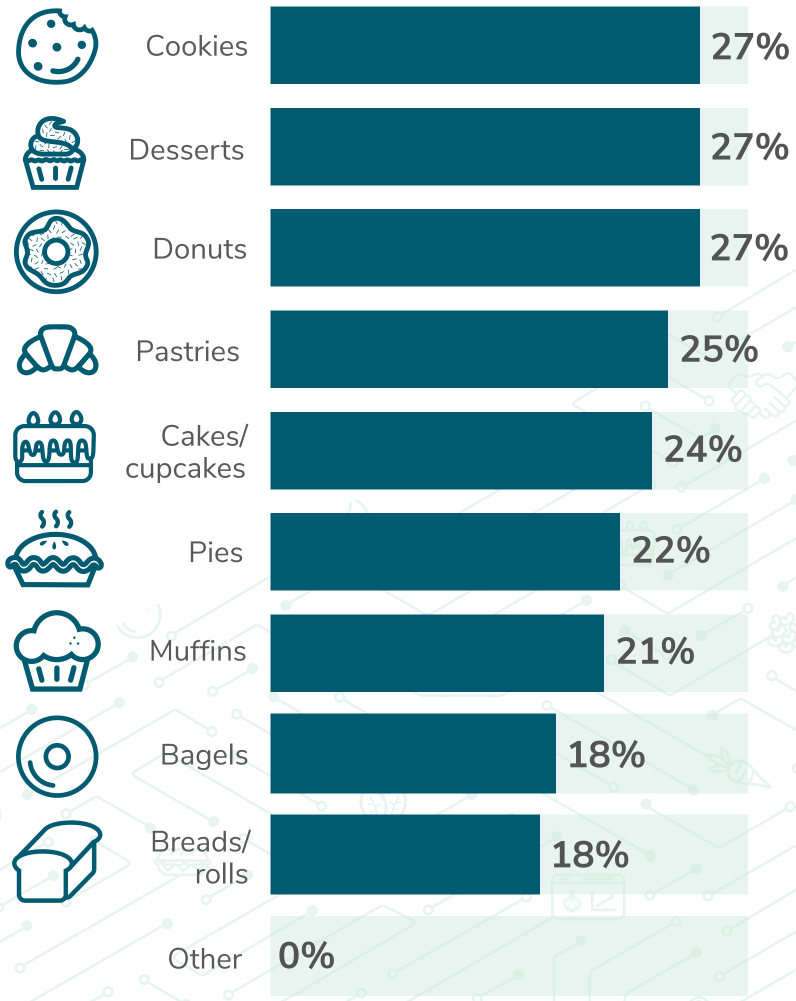
- Every category measured exhibited a ‘net loss’ in terms of the proportion of consumers who said they are dialing back their purchases compared with those buying more.
  - Breads/rolls faired best by posting single digit net losses (barely).
  - Bakery, in general, was hardest hit (compared to Dairy, Deli) on this measure.

Category	Net Gain/Loss
Other	1%
Breads/rolls	-9%
Bagels	-15%
Muffins	-18%
Pies	-20%
Cakes/cupcakes	-22%
Cookies	-23%
Pastries	-24%
Donuts	-25%
Desserts	-25%

Due to higher prices, are you buying more of any of the following items?



Due to higher prices, are you buying fewer of any of the following items?



Category Partners Consumer Survey, November 2021

Recap

TLDL/Recap

Inflation Concerns:
Somewhat: **49%**
Extremely: **44%**

How Long Will It Last:
One year: **38%**
Two years or longer: **42%**

<$50,000

Consumers earning $50,000 tend to be 'extremely concerned' about inflation

Age 45+

Consumers age 45 and above report a greater proportion noticing price increases

$100,000+

Higher earning consumers report higher likelihood to cook at home

Men

+10 points higher shift than women toward cooking at home

Where They Shop

29% of consumers report shopping at lower cost stores

For questions, contact:

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